



GCC Banking Sector Outlook 2024

A Relative Bright Spot Among Emerging Markets

S&P Global
Ratings

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Financial Institutions Ratings, EMEA

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This report does not constitute a rating action

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Key Takeaways

- **We expect broad stability in key metrics across Gulf Cooperative Council (GCC) banks and banking systems in 2024.** We forecast that credit growth and profitability will remain strong for most, but anticipate a slight softening from 2023 levels. In general, the region's banks will continue to stand out as being well capitalized, profitable, well provisioned, and (for the most part) liquid.
- **The United Arab Emirates (UAE) and Saudi banking systems are poised to continue their growth above the rest of the region,** with strong credit demand led by a dynamic non-oil sector and economic diversification programs. We also expect credit growth in Oman to remain robust.
- **The key risks to the outlook that we see (but don't expect)** include the worsening geopolitical environment, exposure to higher-risk jurisdictions (including Egypt and Turkiye), oil price volatility, and real estate exposure.

Forecast Summary | GCC Macroeconomic Environment



Macro environment

Growth

- Headline real GDP growth expected to accelerate in all GCC countries in 2024 aside from Bahrain. Non-oil growth should remain particularly dynamic in Saudi Arabia and the UAE.

Inflation and interest rates

- We expect GCC interest rates will remain high but fall by 1% by the end of the year, in step with the U.S. Fed. Inflation will remain close to target and contained by price administration measures.

Oil prices and fiscal risk

- Notwithstanding volatile supply-demand dynamics, we expect oil prices to remain broadly stable over 2024, which we believe will support continued fiscal expenditure. Ongoing or worsening geopolitical tensions pose a risk to this assumption, but weaker-than-expected growth in China could pose downside risks to oil prices, dent sentiment, and lead to some fiscal strain in sovereigns with higher fiscal break-even prices.

Forecast Summary | We Expect Some Trends Will Weaken Slightly, But Banking Performance Will Remain Strong



Banking sector

Credit growth and profitability

- The economic environment will support credit demand and we anticipate only slightly slower credit growth overall (partly as a base effect but also as banks increase lending caution). This will support profitability, but margins will likely start to narrow by the end of the year, reflecting the lagged impact of anticipated interest rate and higher funding costs.

Asset quality

- We regard asset quality in the GCC as relatively strong and do not expect much deterioration, given high levels of precautionary provisioning. Leverage is contained but still-high rates will keep cost of risk elevated, particularly in banks with larger exposure to entities that do not depend on government cash flows.

Capitalization

- GCC banks' capitalization levels will continue to support their creditworthiness in 2024. We forecast our RAC ratios to strengthen slightly in all GCC countries aside from in Saudi Arabia, where we expect the fastest growth.

Funding and liquidity

- Banks are predominantly funded through strong local deposit franchises for countries like UAE, Kuwait, and Oman, although for Oman, one-third of customer deposits come from the government and their related entities. Liquidity strains could emerge in externally levered systems like Qatar and could rise where domestic funding is growing slower than credit.

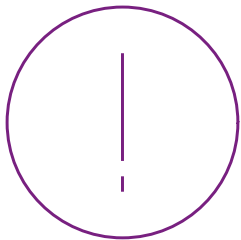
Key Risks



Heightened geopolitical risk: We view the regional--and global--geopolitical environment as complex and worsening. The geography of the Israel-Hamas conflict is widening and proxy conflicts, which have previously directly involved GCC states, pose a potential route for further escalation. These could impair sentiment, investment, and capital flows, but we do not expect an event that would test financial stability. GCC banking systems and regional governments generally have strong net external positions and can withstand or offset significant outflows of foreign funding.



Real estate: Generally, mortgage penetration levels in the region are low, but a correction in residential real estate prices--which we expect in Dubai--and high vacancies in the commercial real estate sector could portend a slowdown in growth and weakening of asset quality. Real estate exposure is conspicuous in many banks' Stage 2 and 3 loans. However, the sector endured substantial strain through the pandemic.



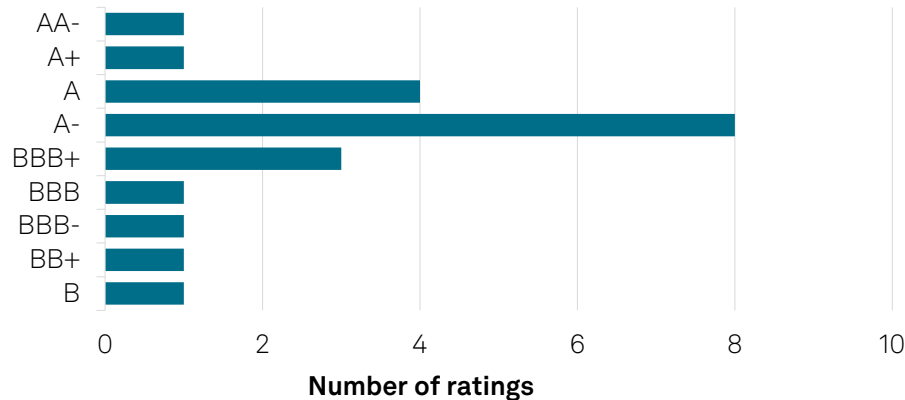
High-risk jurisdictions, particularly Turkiye and Egypt: Risks in the former appear to be abating and our loss scenario shows exposures are relatively contained at the system level. Still, recent expansion by individual GCC banks in both countries is material and exposures total around \$160 billion.

Outlooks Imply Widespread Rating Stability

We expect regional strengths to remain

Issuer credit ratings in the region are, on average, close to 'A-', compared with a global average in the 'BBB' category. The two main factors for this are robust capitalization and strong government support (86% and 76% of rated GCC banks receive positive adjustments for these factors, respectively, with the latter contributing up to four notches of uplift above the anchor). Risk exposure and loss experience are negative factors in about half the portfolio.

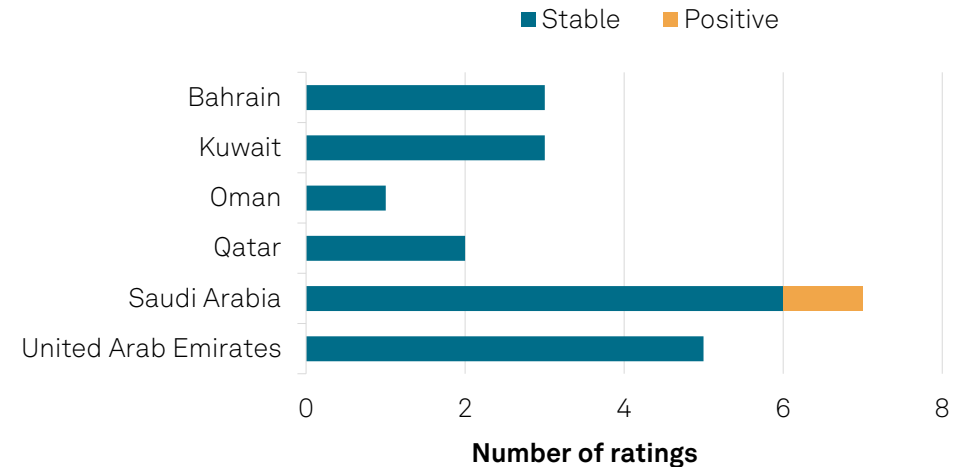
GCC financial institution rating distribution



Source: S&P Global Ratings.

Stable outlook trends

Outlook distribution



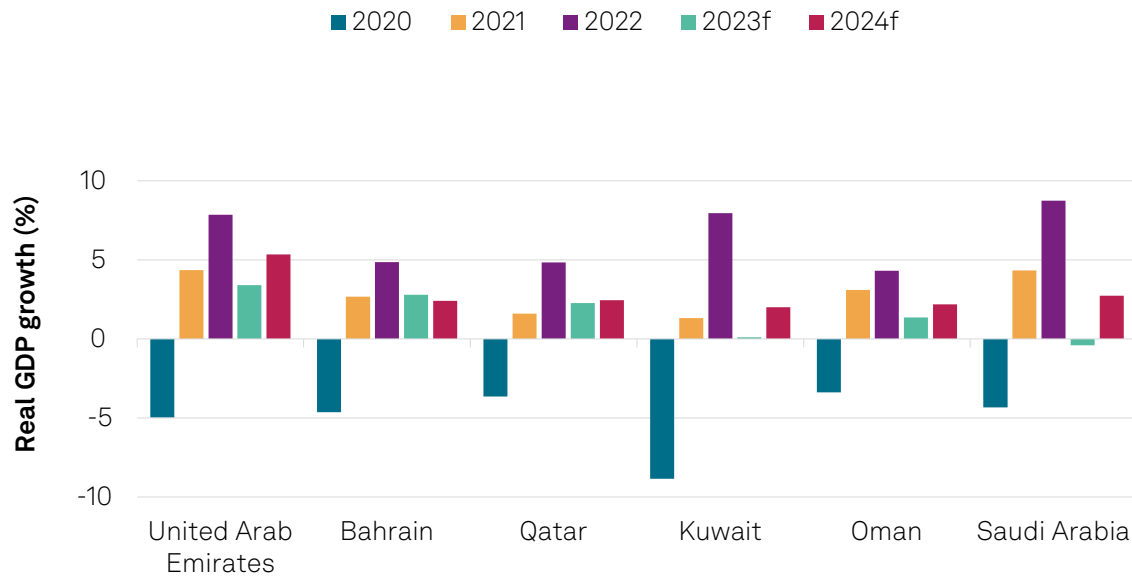
Source: S&P Global Ratings.

Only one bank in the GCC does not have a stable outlook: Saudi Investment Bank, which has a positive outlook for idiosyncratic reasons.

GCC: Credit Growth Generally Stable In 2024

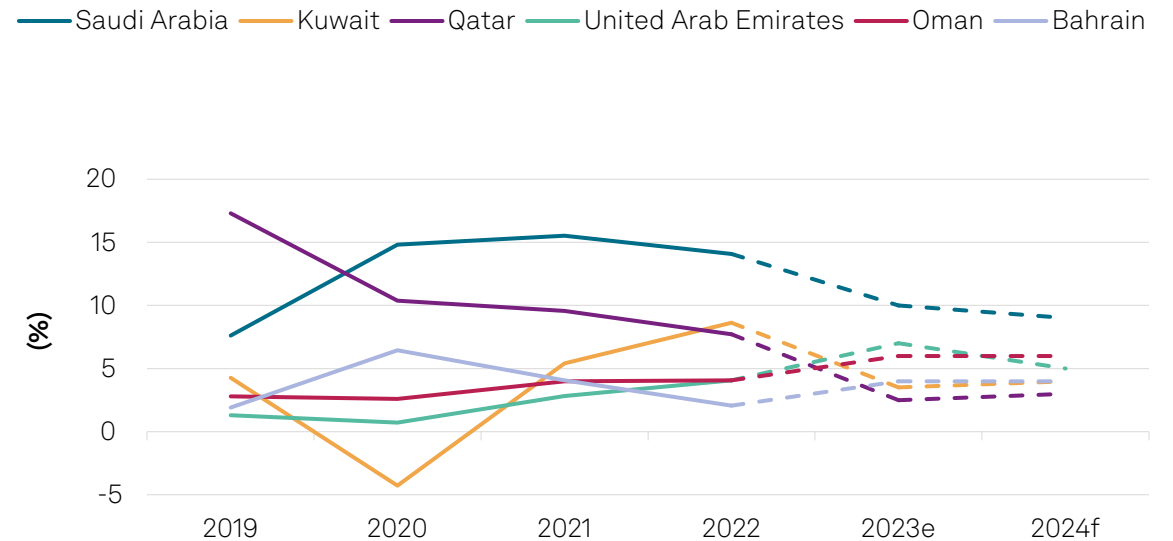
Broadly, the region’s credit growth is linked to public expenditure cycles, which are typically supported by hydrocarbon revenue and private sector activity influenced by sentiment related to the oil price outlook. For credit growth, this means that although a base-effect compounded by higher-for longer rates, increasing risk aversion, and uncertain external economic activity will weaken demand and increase lending caution, we still expect healthy lending for the year. We forecast continuing strong credit growth in Oman, bolstered by improving economic and fiscal conditions and subdued growth in Qatar, relating to slower government capital expenditure.

Most banks can expect faster real GDP growth



f--Forecast. Source: S&P Global Ratings.

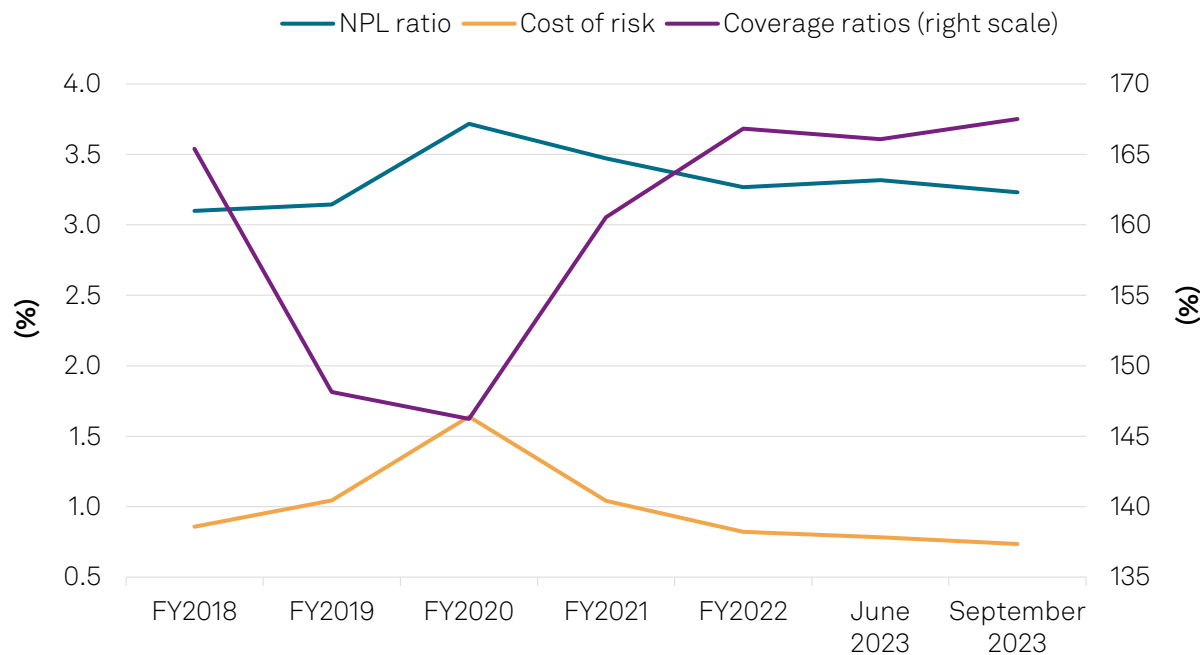
Credit growth should be broadly stable in 2024



e--Estimate. f--Forecast. Source: S&P Global Ratings.

Asset Quality And Credit Losses: Some Deterioration For Most Banking Systems Over 2024, But Coverage Levels Are Solid

The GCC's top 45 banks in 2023: High coverage ratios, stable asset quality, and falling loss ratios



FY--Fiscal year. NPL--Nonperforming loans. Source: S&P Global Ratings.

	GCC systemwide (BICRA) forecasts					
	NPL ratio		Cost of risk		Coverage ratio	
	(%)	2023e	2024f	2023e	2024f	2023e
UAE	5.1	5.2	0.8	0.8	104	108
KSA	1.8	2.1	0.4	0.5	175	149
Qatar	3.8	4.0	1.3	1.3	112	112
Bahrain	6.1	6.0	0.7	0.8	85	85
Oman	4.6	4.2	0.7	0.6	91	84
Kuwait	1.9	2.0	0.6	0.7	237	189

BICRA--Banking industry and country risk assessment. e--Estimate. f--Forecast.

Higher-for-longer rates will further stress more highly leveraged debtors and add slightly to problem loans in most systems.

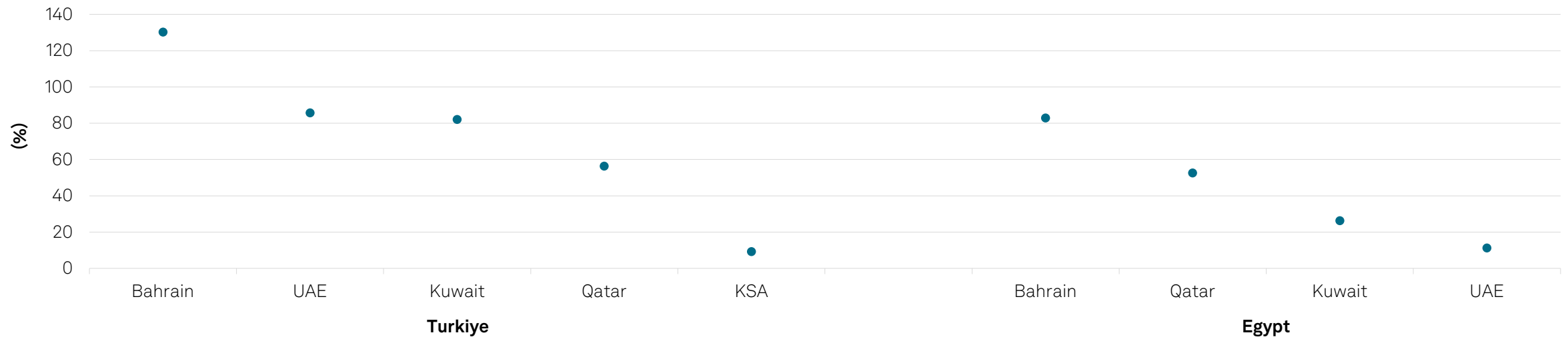
Real estate lending is prevalent through the region and an expected slowing of Dubai's market pose some risk to UAE banks.

By and large, we expect write-off ratios in line with long-term averages.

Turkiye And Egypt: We Estimate The Total Assets Of Subsidiaries In The Two Countries Amount To About \$160 Billion

We view GCC banks' exposures in these jurisdictions as high-risk. This estimated total is equivalent to about 7% of exposed group assets. GCC bank subsidiaries in Turkiye account for an estimated \$105 billion. In a scenario where subsidiaries failed--and no parental assistance was forthcoming--lost equity from Turkiye would wipe out about 50% of total exposed groups' net income and lost equity from Egyptian subsidiaries about 25% of exposed groups' net income, which would not pose a threat to capital. While combined figures obscure the risk to specific groups, they show the risks are highest in exposed Bahraini banks and lowest in Saudi Arabia.

Total subsidiaries' shareholders' equity/ aggregated group net income

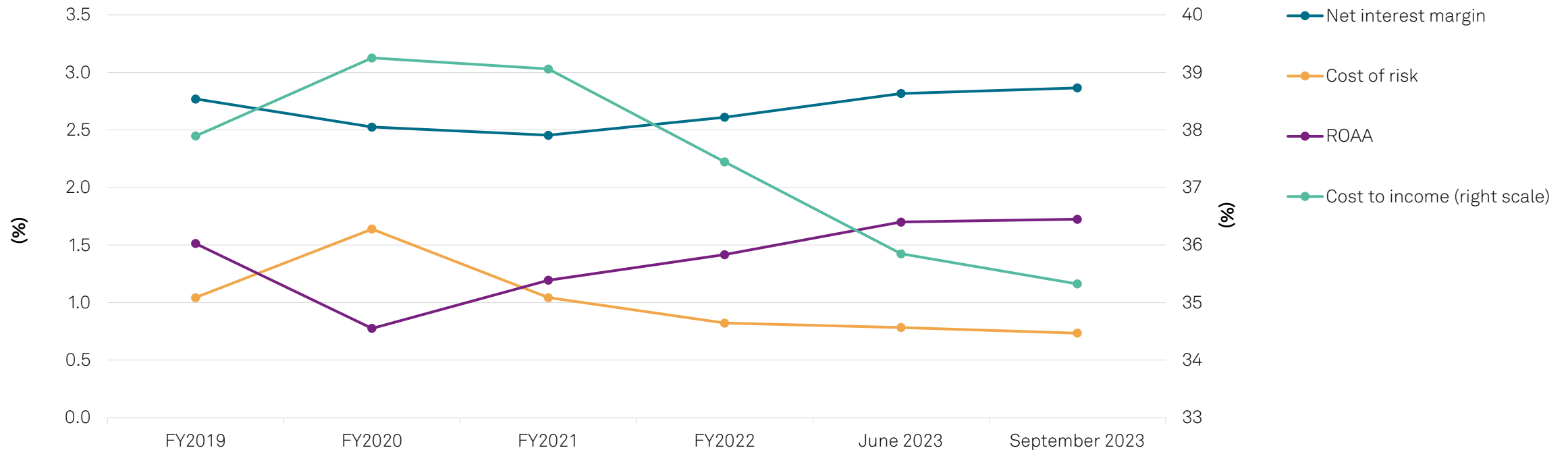


Source: S&P Global Market Intelligence.

Profitability: Overall, The Region Displays Strong Fundamentals

GCC banks continue to benefit from significant noninterest-bearing deposits, and despite some migration to time deposits, margins continued to strengthen over 2023.

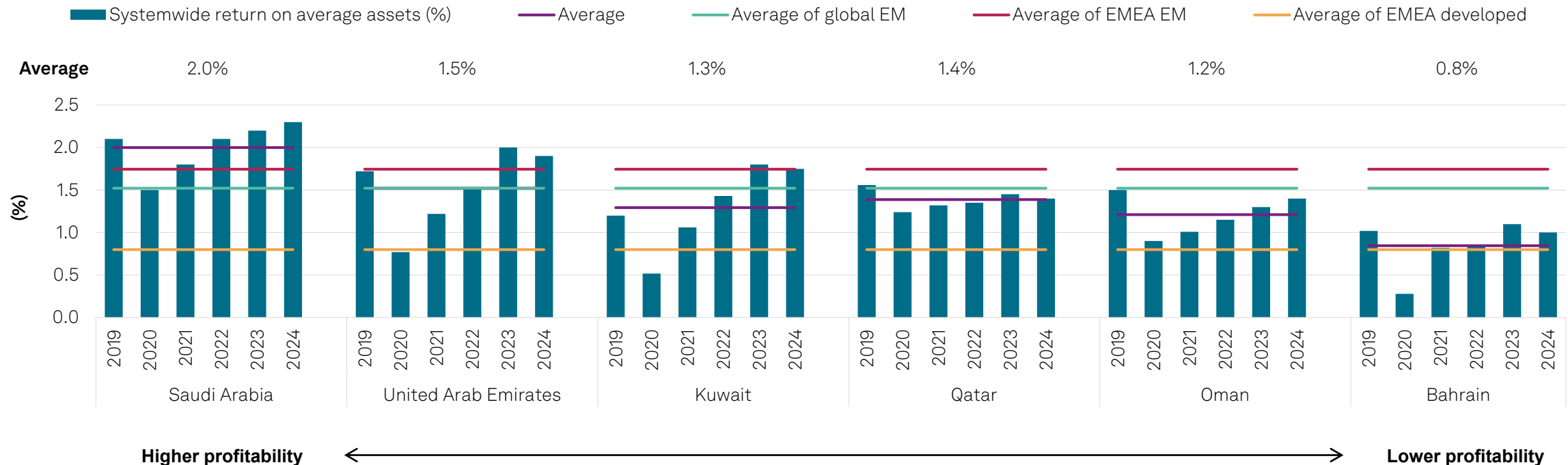
Profitability of the top 45 banks in the GCC



FY--Fiscal year. ROAA--Return on average assets. Source: S&P Global Ratings.

Profitability Expectations: Clear Variance Between GCC Countries, But RoA Will Remain Strong Throughout The Region

Saudi Arabia and the UAE have the strongest return on assets (RoA) forecasts and, when considering their high levels of capitalization, compare well with that of regional or global peer groups. For most systems, we expect profitability will fall slightly by year-end, mainly reflecting a slightly looser monetary stance than at the start of the year.

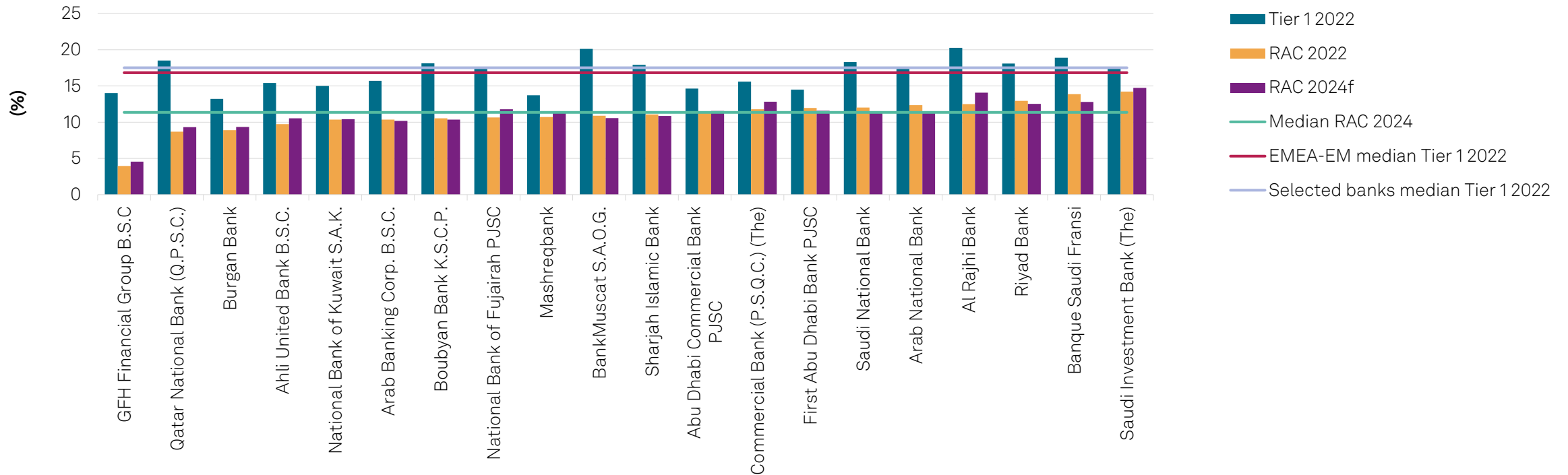


EM--Emerging markets.

Capitalization: We Expect Further Strengthening Over 2024

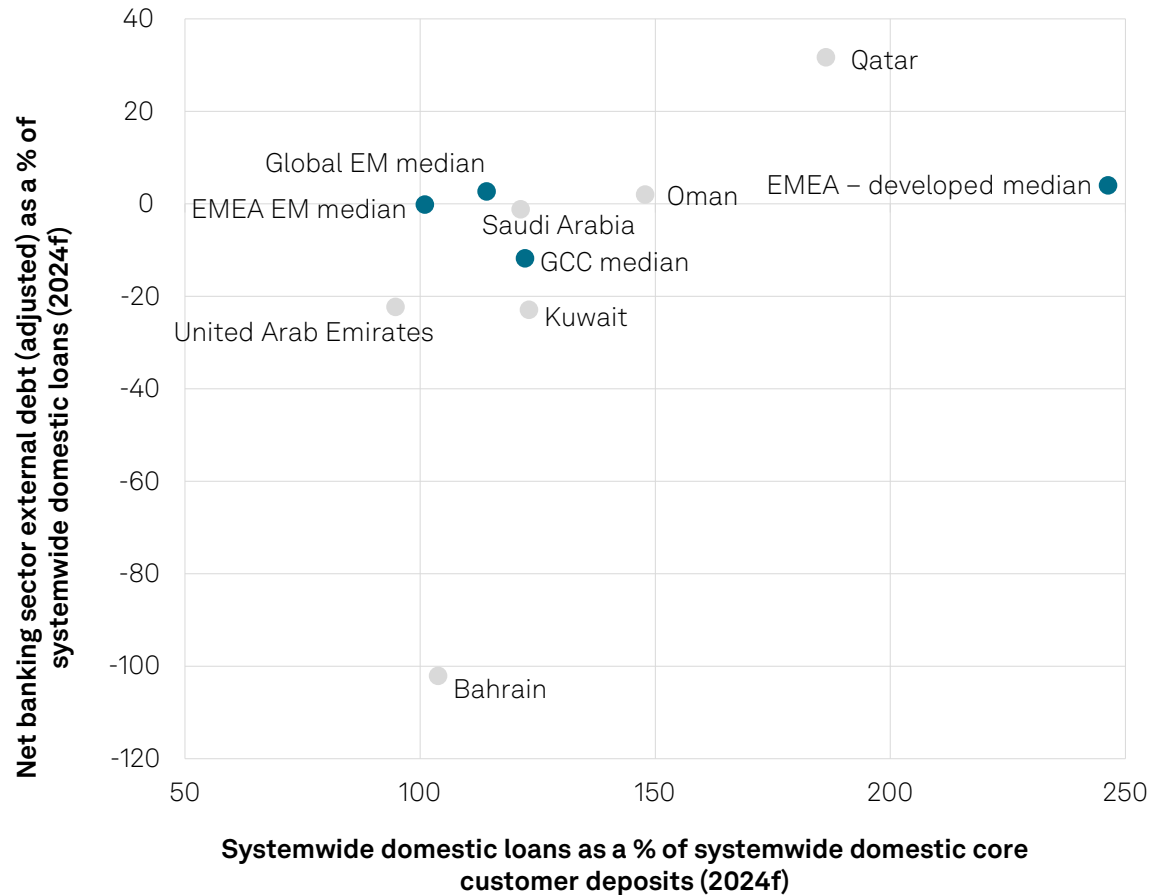
On a risk-adjusted basis, regional banks are well capitalized; with high levels of profitability, internal capital generation is expected to boost ratios for many banks. Common equity continues to dominate the quality of capital.

Capital is a positive rating factor



EM--Emerging markets. f--Forecast. RAC--Risk-adjusted capital, S&P Global Ratings' proprietary measure of bank capitalization. Source: S&P Global Ratings.

Funding Profile: Domestic Deposits Dominate



The region's banks are predominantly funded by strong and stable domestic deposits and display strong net external positions, aside from Qatar. Where high rates of domestic growth outpace deposit funding--which is visible in Saudi Arabia's increasing loan-to-deposit ratio--we anticipate that external funding will increase.

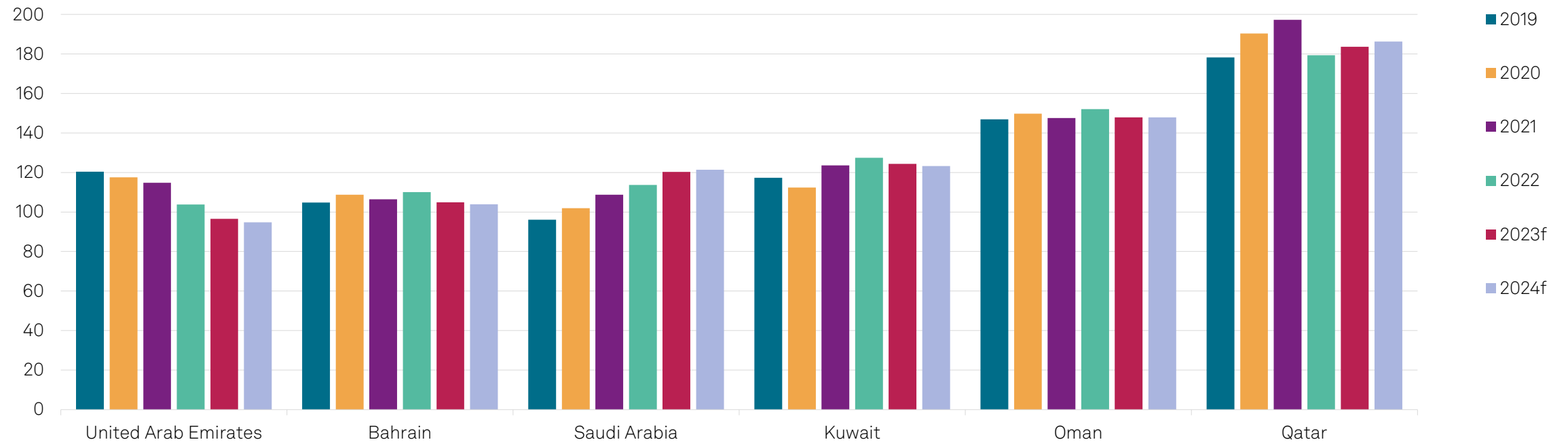
We typically view external funding as less stable but continue to think GCC banks are well protected from external outflows.

EM--Emerging markets. f--Forecast. Source: S&P Global Ratings.

Funding Profile: Core Deposits Are At The Forefront

Core deposits dominate GCC banks' funding profiles

Loan-to-deposit ratio (%)



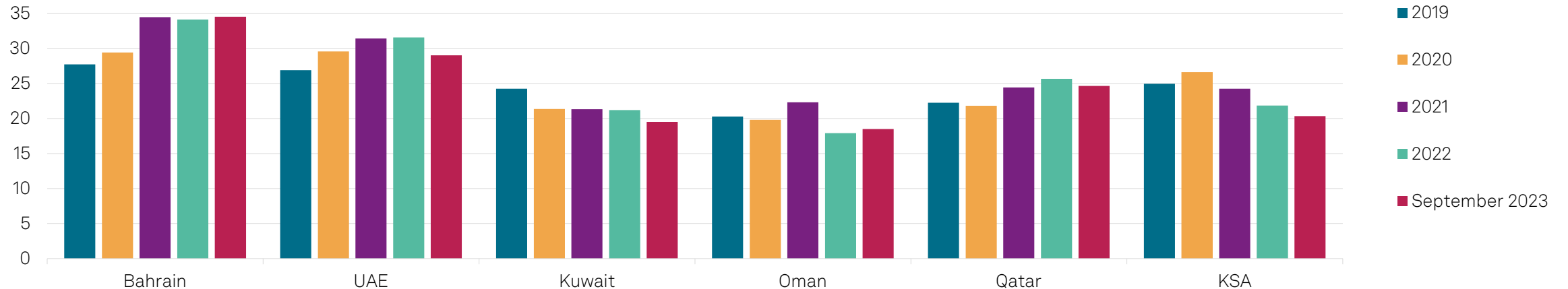
Core deposits: Stable domestic customer deposits, excludes banks. f--Forecast. Source: S&P Global Ratings.

Liquidity: Indicators Point To Diverging Levels

Some systems, in particular Kuwait and the UAE, have excess liquidity from public-sector oil-generated deposits and, in the UAE, strong business performance and increased population. Liquidity can be concentrated in some banks, typically the larger government-related entities, and hide tighter positions for smaller banks. However, short-term borrowing remains relatively limited in overall liabilities. Liquid assets in some Saudi Arabia banks have declined as a share of total assets over the past few years, which we expect will continue as growth remains brisk. Still, we expect monetary authorities would provide liquidity during tighter periods, particularly where banks are funding strategic projects, including projects aimed at economic diversification or sustainability-related schemes.

Rated banks, average by country

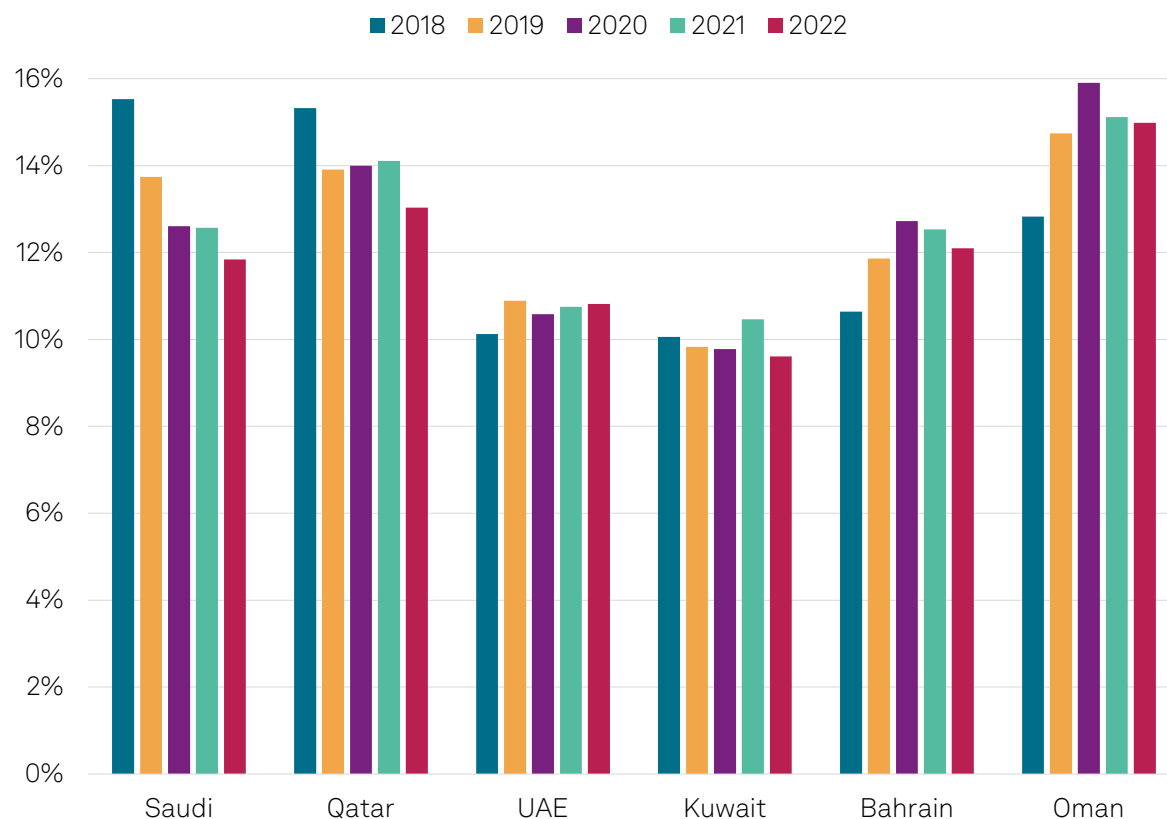
Liquid assets/assets (%)



Source: S&P Global Ratings.

GCC Banks: Limited Direct Exposure To Energy Transition Risk

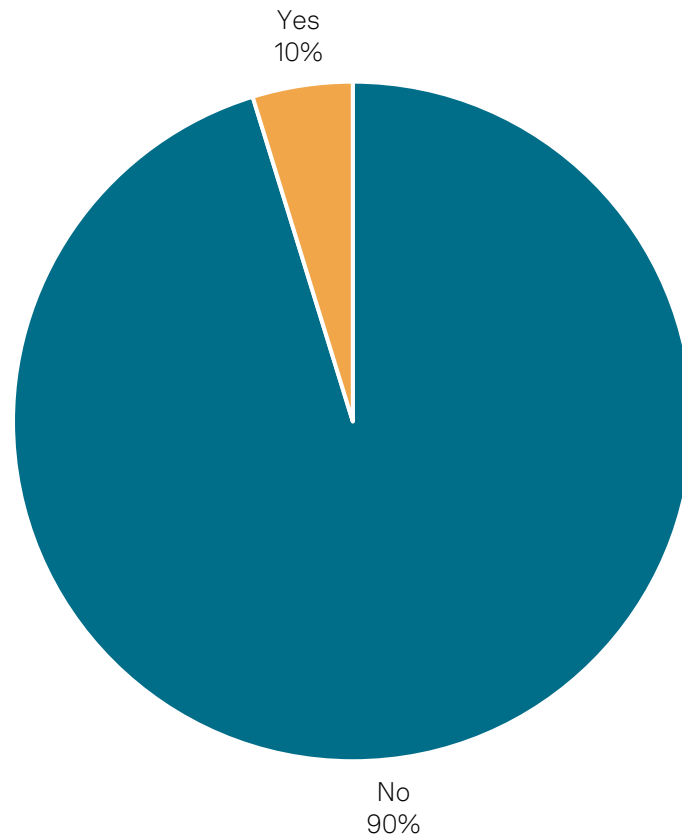
GCC banks' direct exposure to sectors subject to energy transition



- Sectors used in the data for this graph include oil and gas, mining and quarrying, manufacturing, power generation, and public-sector lending.
- How the energy transition affects oil and gas prices and investor and customer appetites for carbon-intensive sectors and markets will influence GCC banks' long-term creditworthiness. However, we still think some competitive advantages--such as low extraction costs and the ability to flexibly increase production capacity--position GCC economies well in the global energy transition.
- GCC banks are trying to advance their sustainability agendas by increasing their sustainable finance offerings to customers and contributing to government efforts to decarbonize economies. However, we are yet to see bolder regulatory action in the region, such as through the introduction of climate stress testing or other measures to encourage banks to accelerate their transition.

GCC Banks: Sustainability Agendas Are Works In Progress

Has the bank committed to a sustainable finance level?



Source: Rated banks' publications, S&P Global Ratings.

- Over the past three years, all banks that we rate have published their sustainability agenda and strategies.
- A few banks have been more ambitious than others, publicly committing to levels of sustainability-related financing or a percentage of their overall financing.
- Others have started to tap international capital markets using sustainable bonds and sukuk to remain on global investors' radars and raise funding to increase sustainable finance products for customers.
- Some banks in the region have launched green products and services, such as green mortgages (with preferential terms if the property meets certain environmental standards) and financing for renewable energy and electric vehicles.
- These products help incentivize individuals and companies to make more environmentally friendly decisions. Nevertheless, they are marginal in the overall lending book of GCC banks, although we expect their overall contribution to increase in the next few years.

Related Research

- [CreditWeek: How Will The Red Light In The Red Sea Affect Supply Chains And Inflation?](#) Jan. 18, 2024
- [Banking Industry Country Risk Assessment Quarterly Monitor: Q4 2023](#), Jan. 8, 2024
- [Sustainability Insights: GCC Sovereigns Can Manage Physical Climate Risks For Now](#), Dec. 11, 2023
- [Sovereigns: What Are The Credit Implications Of Intensifying Conflicts And Political Disruption?](#) Dec. 4, 2023
- [GCC Sovereign External Balance Sheets Remain Strong Despite Higher Banking Sector External Debt](#), Nov. 13, 2023
- [What A Regional Escalation Could Mean For MENA Banks' External Funding](#), Nov. 13, 2023
- [Dubai's Cashed-Up Developers Are Prepared For A Cycle Reversal](#), Nov. 13, 2023
- [The Energy Transition: GCC Banks On Stable Ground](#), March 13, 2023
- [Energy Transition: Competitive Advantages Shield GCC Sovereigns](#), March 8, 2023
- [Why GCC Banking Systems Are Resilient To Geopolitical Stress Scenarios](#), June 22, 2022

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