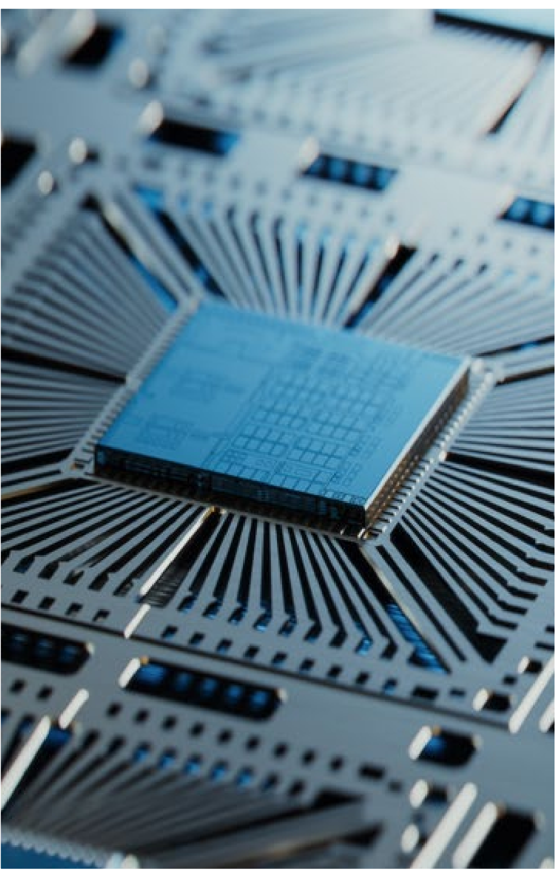
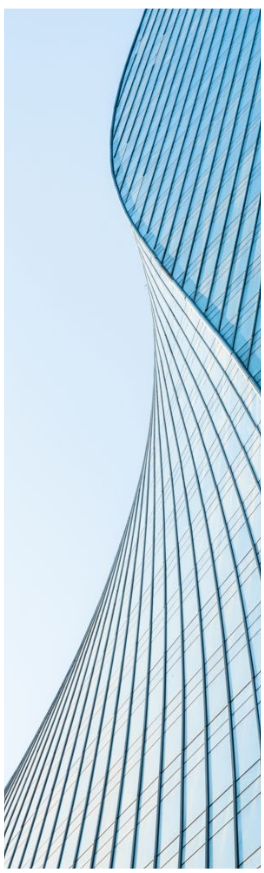
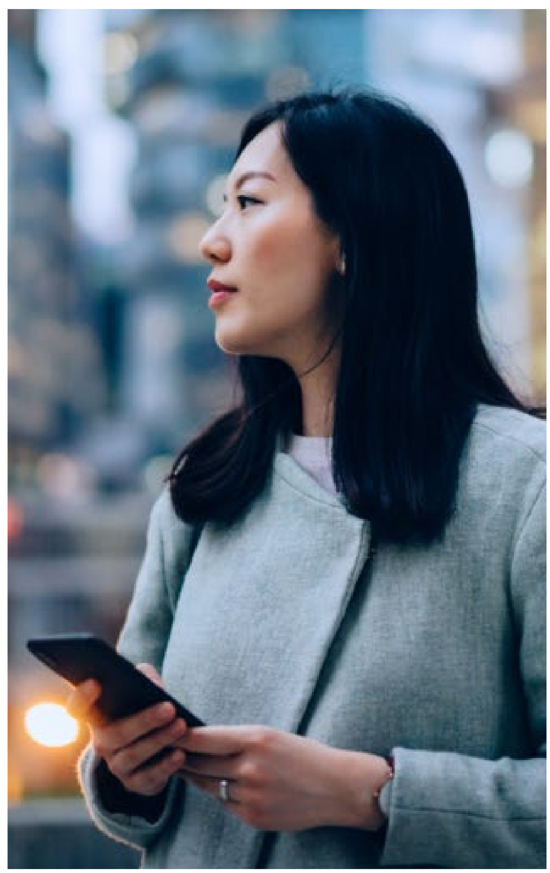
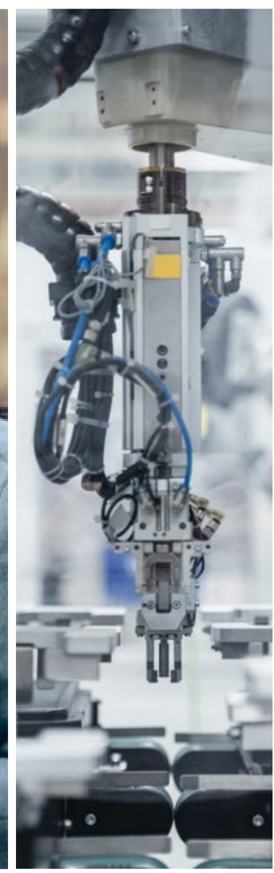
Global Banks Country-By-Country Outlook 2025

Cautiously Confident

November 14, 2024

This report does not constitute a rating action.

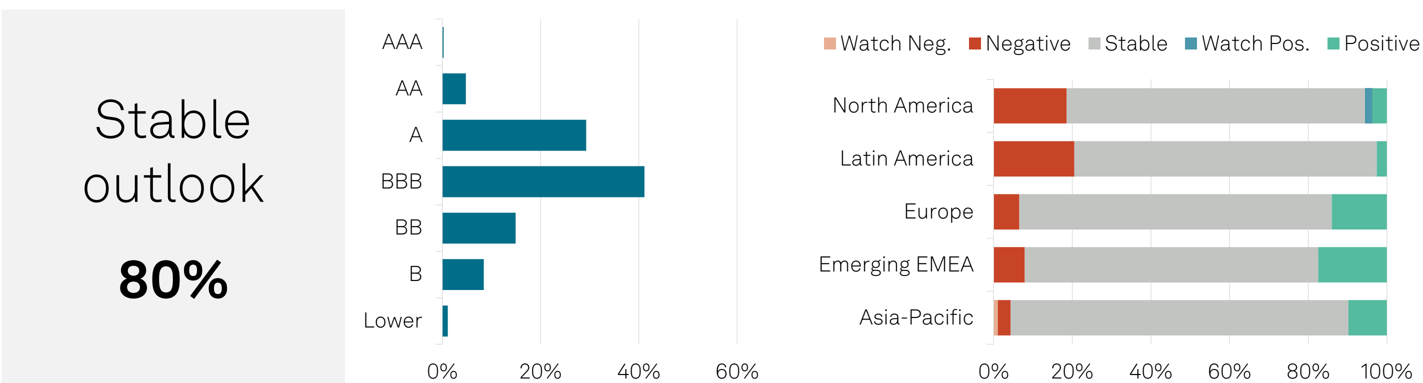
S&P Global Ratings

Key takeaways

- Our base case is for relative ratings stability in 2025. Currently, about 80% of banking groups globally have stable rating outlooks and we envisage this trend continuing in 2025.
- We see four key downside risks to bank ratings:
  1. A global economic slowdown outside our base case;
  2. A worse-than-expected property sector deterioration;
  3. Still-high interest rates superimposed upon high government and corporate sector leverage; and
  4. Evolving risks including new technologies (such as AI), climate change and cyber that could widen credit differentiation, given that adaption to such changes could prove positive or negative.
- Positive rating movements will more likely be driven by idiosyncratic country and bank-specific factors. We don't envisage macro tailwinds that would be sufficient to strengthen the credit standing of banks.
- We expect the rated sector could generally adjust well to any second-order impacts from higher global trade tariffs or other changes post the U.S. elections.
- We forecast global credit losses will increase by about 7% to US$850 billion in 2025. Higher credit losses are within our base case at current rating levels for most banks.

Chart 1

Stable outlook trends should persist in 2025



Data as of Oct. 31, 2024.
Source: S&P Global Ratings.

With the interest rate cycle already on the turn in numerous banking jurisdictions, some relief is finally within sight for bank borrowers. Banks' asset quality will eventually benefit although the transmission effect will take time and will vary across geographies.

The transition to lower interest rates gives us confidence that current stable rating trends across the global banking sector will endure throughout 2025. About 80% of bank ratings globally are on stable outlook (see chart 1). Of the remainder, the percentage of negative and positive outlooks is about the same although the balance differs by region.

Further fueling our optimism for continuing rating stability is that banks have, overall, satisfactorily contended with stressful operating conditions and events over the past five years. This gives us confidence that rating resilience is more likely should a downside scenario emerge.

Not the least among these recent stress events was the COVID-19 pandemic. This resilience is not due just to governments providing relief to the real economy that afforded a cushion for banks. In our view, it also reflects progressively better risk management since the global financial crisis (GFC).

More recently, banking turmoil in the U.S. regional bank sector and the Swiss government engineered acquisition of Credit Suisse by UBS did not manifest more broadly into meaningful or long-lasting stress elsewhere. Risk management improvements driven by banking regulators since the GFC are steadily improving robustness across the industry.

Continuing Ratings Stability Hinges on Four Key Risks

Our confidence for continuing rating stability across the banking industry is tempered by a variety of downside risks outside our base case. We identify four key risks that are most likely to cause our rating outlook to become more negative. A worsening of one or more of these four key risk factors (see chart 2) could cause a downside scenario to emerge which in turn could drive negative ratings momentum.

Conversely, positive rating movements will more likely be driven by idiosyncratic country-and bank-specific factors. We currently don't envisage an alternative scenario of macro factors strengthening enough to benefit the general credit standing of banks.

Chart 2

Four key risks could hit bank ratings

A global economic slowdown outside our base case
Our base case for a soft landing does not eventuate and a hard landing ensues hitting bank borrowers and in turn banks' asset quality.

Worse than expected property sector deterioration
Acceleration of weakness in CRE markets hurting banks' asset quality more than expected. These risks remain greatest within the U.S. office and Chinese property developer sectors.

High corporate and government-sector leverage
Global leverage is at near all-time highs. This could exacerbate corporate insolvencies and trigger lower government support for the real economy and banks.

Digitalization, AI, climate change, and cyber
These evolving risks will challenge business models and risk management for some banks and offer opportunities for others. We eventually expect increasing credit divergence.

Risk 1 - A Global Economic Slowdown Outside Our Base

Banks are a window on the economy and if our base case does not eventuate and a hard landing ensues this will hit bank borrowers and in turn bank asset quality. While resilient economies have reduced recession odds in recent months, we expect many countries to see slower growth in 2025. Still-elevated interest rates and the lingering impact of permanently higher prices pose headwinds globally for the real economy and in turn banks.

Labor market resilience will remain a key obstacle to any slowdown, but the state of the global consumer is showing some cracks, with increased delinquencies in the U.S. and still low consumer confidence in China. (For our current economic forecasts see chart 3 and table 1 ; see also "Global Credit Conditions Q4 2024: Policy Rates Easing, Conflicts Simmering").

Furthermore, the trajectory of the interest rate descent may be weaker than our current economic forecasts indicate. This would cause some fraying at the edges concerning our base case for continuing rating stability for banks. The pace of interest rate cuts in 2025 will vary by jurisdiction. Previous rises in interest rates were sharp and largely in unison as central banks fought rising inflation; in contrast, the trajectory of their descent will be slower and more variable across jurisdictions. Moreover, the recent U.S. election results could tilt inflation risks upward (see "How Could A Second Trump Term Affect U.S. Credit?" Nov. 7, 2024.).

Table 1

GDP growth forecasts

Annual percentage change (%)

	GDP growth forecast					Change from previous forecast				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
U.S.	2.5	2.7	1.8	1.9	1.8	0.0	0.2	0.1	0.1	(0.1)
Eurozone	0.5	0.8	1.3	1.4	1.3	(0.1)	0.1	(0.1)	0.0	0.0
Germany	(0.1)	0.2	1.1	1.3	1.1	(0.1)	(0.1)	(0.1)	0.1	0.0
France	1.1	1.1	1.2	1.4	1.3	0.0	0.2	(0.2)	0.1	0.0
Italy	1.0	0.9	1.1	1.1	1.0	0.0	0.0	(0.1)	0.1	0.0
Spain	2.5	2.7	2.1	2.0	2.0	0.0	0.5	0.2	0.0	0.0
U.K.	0.1	1.0	1.3	1.6	1.7	0.0	0.4	0.1	(0.1)	0.0
Asia-Pacific										
China	5.2	4.6	4.3	4.5	4.5	0.0	(0.2)	(0.3)	(0.1)	0.1
Japan	1.7	0.0	1.3	0.9	0.9	(0.1)	(0.7)	0.2	0.0	0.0
India*	8.2	6.8	6.9	7.0	7.0	0.0	0.0	0.0	0.0	0.0
Emerging economies										
Mexico	3.2	1.6	1.5	2.2	2.2	0.0	(0.6)	(0.2)	0.1	0.0
Brazil	2.9	2.8	1.8	2.1	2.2	0.0	0.8	(0.2)	0.0	0.0
South Africa	0.7	0.9	1.5	1.3	1.3	0.1	0.0	0.1	0.0	0.1
World§	**3.4**	**3.2**	**3.1**	**3.3**	**3.3**	**0.0**	**(0.1)**	**(0.1)**	**0.0**	**0.0**

World GDP is in purchasing power parity terms, based on sample of 33 countries we cover. Data as of Sept. 18, 2024 (provisional).
*Fiscal year, beginning April 1 of the reference calendar year. Sources: S&P Global Market Intelligence, S&P Global Ratings.

Chart 3

Still resilient, with gradual rate cuts ahead

Data as of September 2024. Policy rates as of December 2023 and forecasts are for year-end values.
*Simple average. †Median for EM 18 countries. ‡Weighted average based on purchasing power parity. §Refi rate. f--Forecast.
Source: S&P Global Ratings.

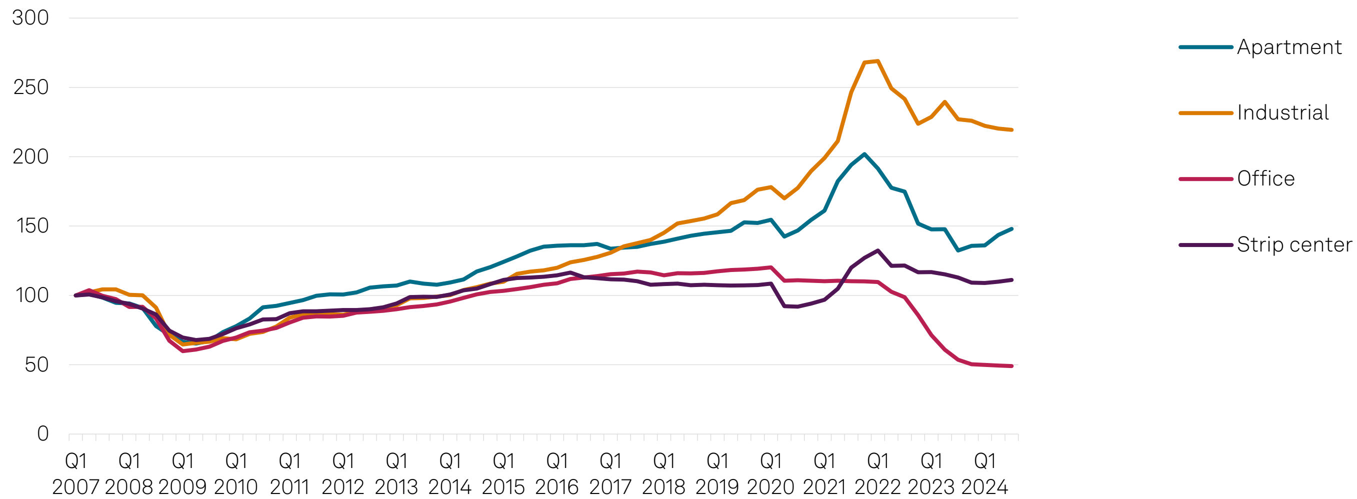
Risk 2 – A Worse-Than-Expected Property Sector Deterioration

An acceleration of weakness in commercial real estate (CRE) markets could hurt banks' asset quality more than we expect. This, in our view, is a key risk to bank ratings, though the impact varies across jurisdictions. Some banking jurisdictions have ridden the wave of higher interest rates cycle remarkably well with less fallout for nonperforming loans than we envisaged. We are cautious, however, that market valuations may not yet have bottomed out, particularly in the office CRE sector (see chart 4).

Chart 4

How office valuations will evolve

Green Street commercial property price index by property type in the U.S.



Source: Green Street and S&P Global Ratings' calculations. Index, Q1 2017 level = 100.

U.S. and China are among the more vulnerable to CRE and related property risks. Office CRE is a key risk for U.S. regional banks and the CRE finance company sector, much less so for major U.S. banks. In China, property developers continue to face uncertainty although at this stage we see most rated Chinese banks as contending satisfactorily at current rating levels. The low stand-alone credit profile of Chinese banks means that many banks can accommodate higher property risks without immediate deterioration in issuer credit ratings.

In the U.S., our view is that interest rate cuts will assist a real estate sector recovery. Fundamentals for CRE remain under pressure due to slowing economic growth and consumer spending. The sector is still adjusting to the sharp rise in rates and more limited access to capital for some borrowers. Rent growth has slowed and occupancy ticked lower, particularly in markets with higher supply such as multifamily housing. For CRE finance companies, the combined exposure to office and multifamily made up a significant 55%-70% of the portfolio as of June 30, 2024 (see "Real Estate Monitor: Rate Cuts Could Spur Sector Recovery" Sept. 11, 2024).

Risk 3 - High Rates Superimposed On High Leverage

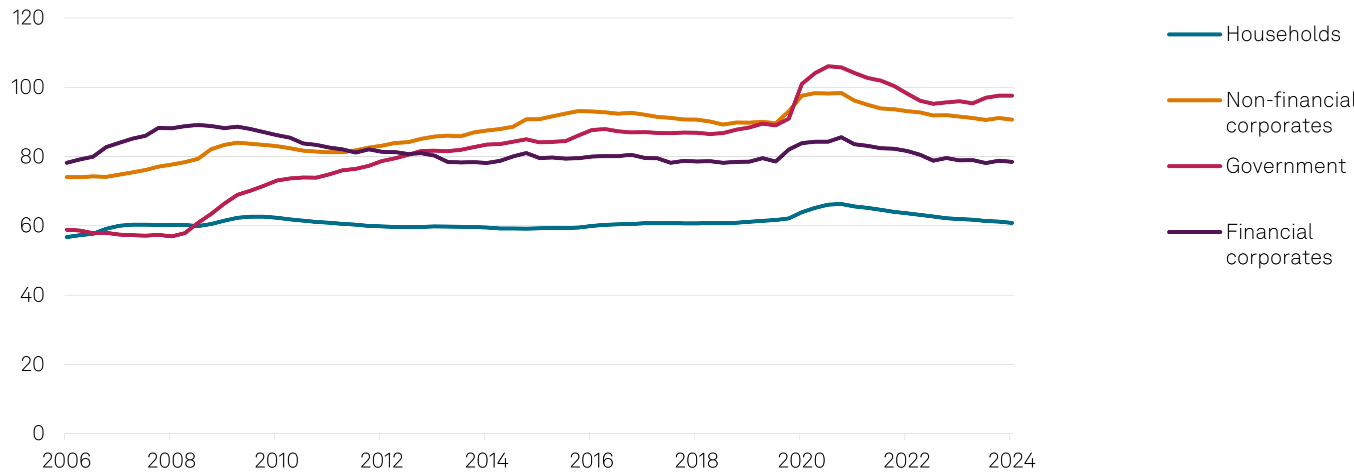
High leverage globally in tandem with the still-high interest rates environment is a key risk for banks. Leverage across the nonfinancial corporate and government sectors is at near-record highs (see chart 5). Leverage spiked during the pandemic as governments and corporates borrowed heavily.

High corporate leverage could lead to more insolvencies, thereby hurting banks ' asset quality. High government leverage could diminish the capacity of some sovereigns to provide ongoing support to real economies and thereby bank borrowers. It could also limit the capacity of some sovereigns to provide extraordinary support to certain banking jurisdictions (if extraordinary support were ever required).

Chart 5

Global leverage is higher than the pre-GFC and pre-COVID-19 level

Debt-to-GDP leverage of global sectors



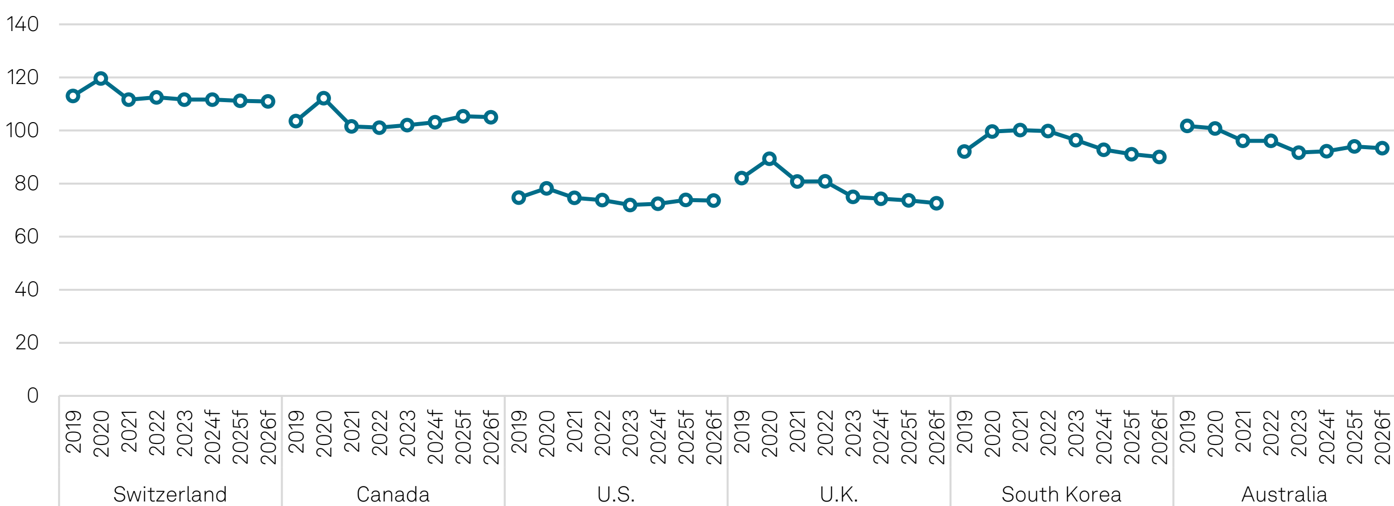
GFC--Global financial crisis. Source: Institute of International Finance.

Growth in financial corporates and household sector leverage is constrained by comparison. Growth in financial corporate sector leverage is muted by tighter regulations reigning in banks in the post-GFC environment. Noted also are that alternate financial services providers have been much more active since the GFC. The exposure of economies and banking systems to household sector leverage varies quite markedly across banking jurisdictions. Household sector leverage is high in some advanced economies (see chart 6). However, offsetting this factor are cyclically low unemployment levels which assists repayment capacity, and generally strong institutional frameworks and regulatory standards.

Chart 6

Higher interest rates will test indebted households

Household debt as a percentage of GDP, selected jurisdictions (%)



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

Risk 4 - Evolving Risks (And Opportunities) Will Shape The Sector

The embrace of new technologies by banks will, over time, have more impact on rating assessments. Generative AI will increasingly reshape banks ' business processes and models. Meanwhile, digitalization will progressively affect more goods and services; distributed ledger technology is powering decentralized finance; and virtual banks heighten the competitive landscape for traditional banks. Such changes bring significant opportunities for banks as well as risks.

The net impact of technological change could vary materially across the sector. We anticipate that new technologies and other evolving risks and opportunities will gradually bring about greater credit differentiation. How banks can manage the risks and harness the benefits are likely to be deciding factors.

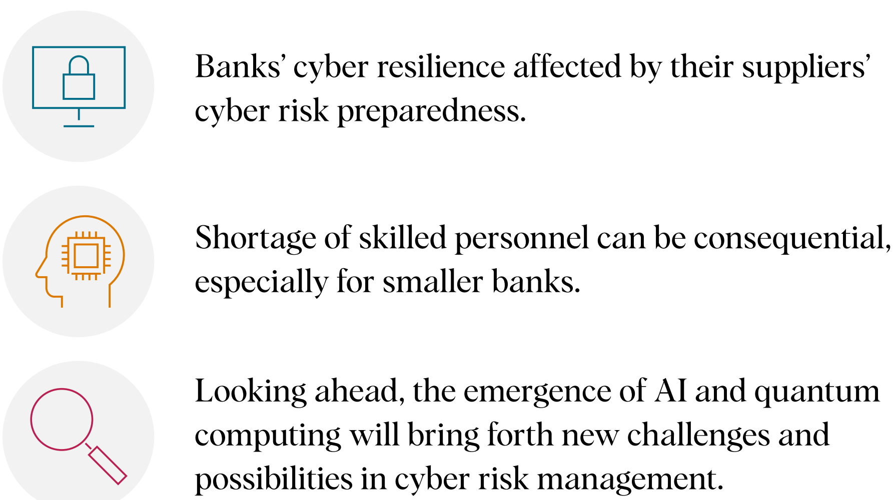
Banks are at the center of financing the climate transition across many industries. While climate change should have limited direct impact on banks in the near term, banks' regulatory stress-testing, prudential frameworks, and disclosure standards increasingly factor in our assessment of climate-related risks (see "Bank Regulation And Disclosure To Foster Climate-Related Risk Analysis" Oct. 4, 2022).

Cyber risk also has greater potential to be a ratings differentiator between banks. Cyber risk is a systemic threat, given the financial sector's interconnectedness and heavy reliance on technology. It also can hit individual institutions (see chart 7). Industry data shows cyber-attacks are frequent and numerous but that most banks have strong defenses to counter these threats. Over the next few years, we anticipate that banks will continue to incur high ongoing costs to counter the increasing sophistication of cyber-attacks.

Chart 7

Skills shortage intensifies supply chain risks

Artificial intelligence is poised to transform the landscape



Source: S&P Global Ratings.

Credit Losses Will Keep Rising

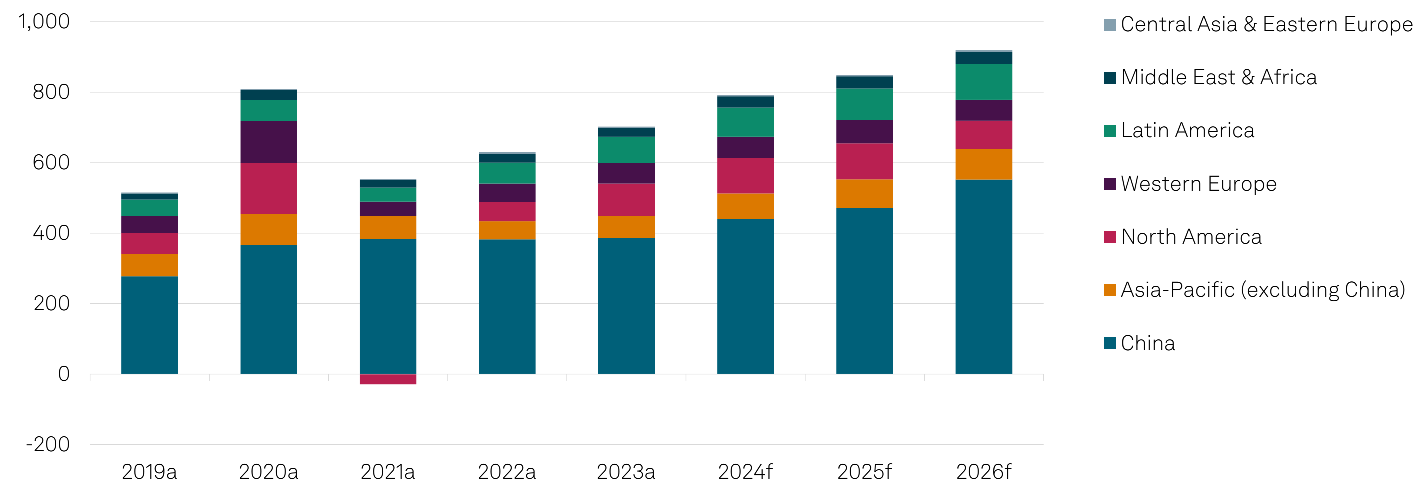
We forecast that global banks' credit losses will rise by about 7% to about US$850 billion in 2025 (see chart 8). The rate-cutting cycle is still in its initial stages. Interest rates will still be high in 2025 and it takes time for the previous hikes to take effect. Our estimates on credit losses also reflect our view that the economic growth outlook remains muted even if a hard landing/recession scenario is avoided.

Furthermore, the full effect of lower CRE valuations will take time to play through bank credit losses. As previously highlighted, a key risk is that the trajectory of the interest rate descent may be weaker than our current economic forecasts indicate.

Chart 8

Credit losses continue to rise

Domestic credit losses by region, 2019a-2026f (bil. US$)



Data shown on a constant currency basis, based on 2023 year-end exchange rates. Data for China relates to commercial banks. a--Actual. f--Forecast. Source: S&P Global Ratings.

Private Credit Is In The Spotlight

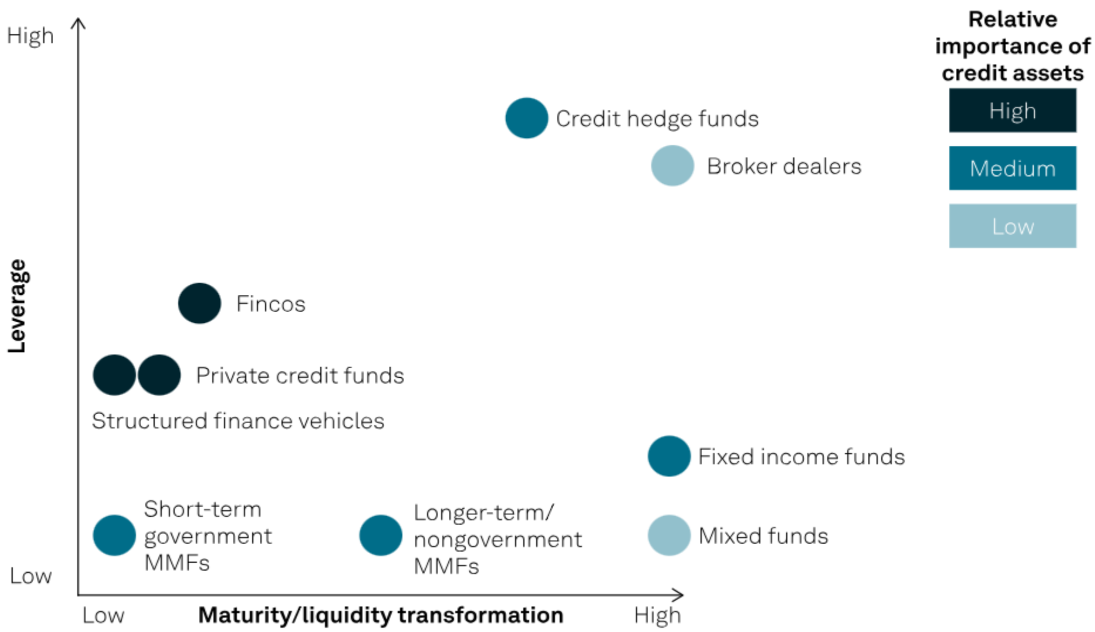
The growth of private markets could increase the number of sponsor-owned corporates, and they tend to be highly levered. The trend is creating new opportunities for private capital funds and banks. Several large banks have announced partnerships with private credit (PC) funds--either to source deals from private market platforms to use PC funds ' balance sheet or to provide PC funds access to their distribution platform.

Several global and regional regulatory authorities have called for more transparency on bank exposure to PC funds. Questions also arise about PC funds ' origination standards--the performance of their portfolios remains to be tested. The exposure of banks to PC funds and more generally other elements of the shadow banking industry will be an area of continuing focus in 2025. For PC funds, certain banks are exposed via lending to equity-backed companies and to private credit funds through net asset value loans and subscription lines.

We estimate that PC funds manage around US$1.6 trillion of assets, two-thirds of which are in the U.S. This is small in comparison to the global banking sector (US$183 trillion of assets at end-2022). But PC funds have become competitors in niche segments, such as the speculative-grade corporate debt in the U.S., and increasingly so in parts of Europe (see chart 9).

Chart 9

Private credit funds have seen leverage increasing lately



Source: S&P Global Ratings.

Prudent Funding and Liquidity - A Precursor For Ratings Stability

Certain U.S. regional bank failures and the Swiss government-engineered acquisition of Credit Suisse by UBS in 2023 underscore the importance of funding and liquidity considerations. While contagion risks around these events did not spread widely, they nonetheless highlight the inherent confidence-sensitivity of banks; the asymmetrical nature of their "long" asset "short" liability balance sheets; and the importance of appropriate risk governance.

Overall, we expect most banks ' funding and liquidity profiles will remain stable in 2025. Monetary policy easing in 2025 will support banks' funding conditions. Banks with the strongest funding franchises will benefit most from lower funding costs associated with interest rate cuts. One outlier is Bank of Japan, which will keep slowly lifting rates. In the U.S., deposit levels at banks remain in the spotlight. Deposits shifted to higher-yield accounts as well as into U.S. money market funds in the high interest rate environment. As interest rates decrease, we will assess if and how much this cyclical trend's reversal is enduring.

The potential impact of volatile financial and funding markets on banks will be a key focus in 2025. Equity and credit market volatility has been particularly acute in Japan and some other markets in recent months. Absent a step change well outside our base case, we anticipate that ratings on systemically important banks globally will be resilient in 2025. Market volatility does, however, add a troublesome layer of complexity for financial institutions already challenged across a variety of risk factors.

Emerging Markets--Geopolitics And Interest Rates Will Mainly Set The Scene

While we do not expect a full-scale regional war in the Middle East, escalation could derail the macroeconomic story and in turn have more serious spillover effects on banks. The key transmission channels are energy prices, supply-chain disruptions, financial market volatility, and potential resumption of inflationary pressures. Policy-rate and exchange-rate trajectories across numerous emerging markets are closely connected to the decisions of the U.S. Federal Reserve.

External debt dependence remains a key risk for some banking systems in emerging markets. We expect external debt to continue to build for Saudi Arabia, whereas in Qatar it should stabilize in the absence of major government investments. Refinancing risk is stabilizing for Turkish banks, with a high rollover of debt, thanks to a continued policy shift. We revised the trend on our economic risk assessment for Turkiye to positive from stable in May 2024. Further, we revised our rating outlooks on certain Indian banks to positive from stable, driven by improving sovereign creditworthiness.

Bank Buffers Add Resilience

Progressively stronger buffers since the GFC will help buttress banks against economic cycles and assist rating stability. Most banks are much better capitalized (see chart 10) and have markedly better asset quality (see chart 11). Risk management has progressively improved following global regulatory reforms led by the Basel Committee on Banking Supervision.

Buffers are further assisted by certain structuring techniques now embraced widely across the global banking sector. Significant risk transfer (SRT) securitizations are a case in point. We believe that SRT issuance will increase and become broader based as banks look to manage their credit portfolios more proactively through implementation of the final Basel III standards.

Chart 10

Stronger capital post-GFC adds to banks' buffers

Tier 1 ratios by region, group 1 banks (%)

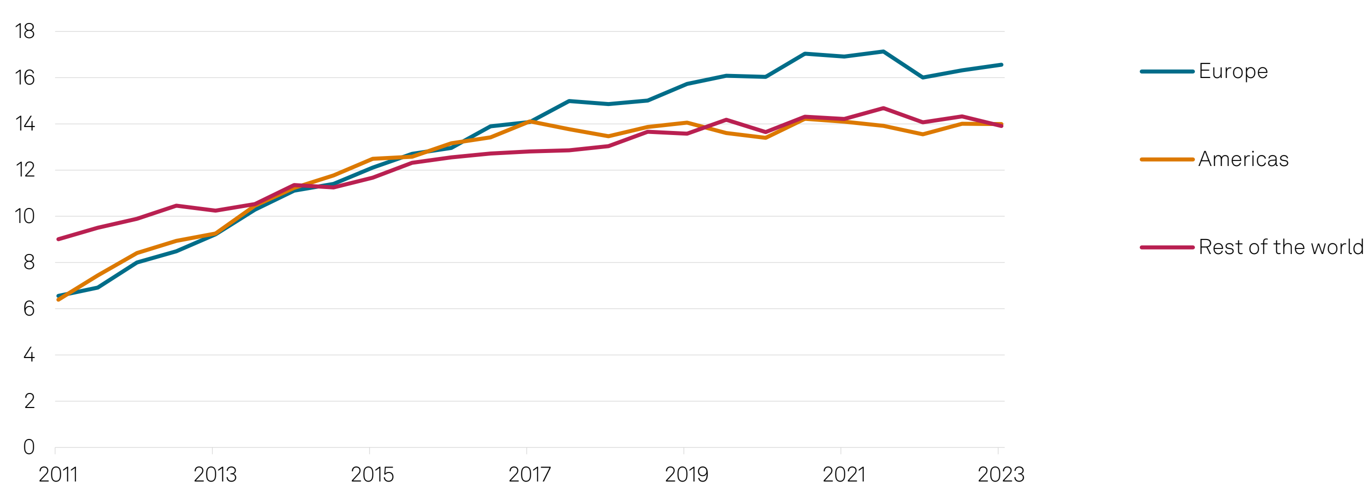
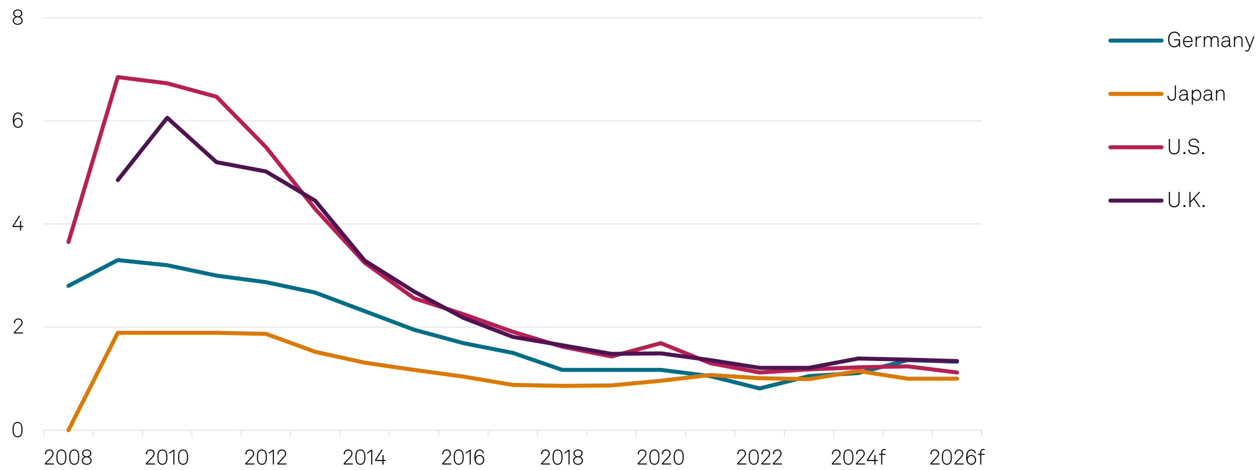


Chart shows the fully phased-in initial Basel III framework for the data points up to and including the end of 2018 and the actual framework in place at the reporting date for all data points thereafter. GFC--Global financial crisis, 2007-2008.
Source: Basel Committee on Banking Supervision.

Chart 11

NPAs are sound but would increase in an economic downside

Nonperforming assets as a percentage of systemwide loans, selected G20 jurisdictions (%)



NPA--Nonperforming assets. f--Forecast. Source: S&P Global Ratings.

Regulation and Supervision – A Work-In-Progress

Regulators ' efforts to strengthen the industry will continue unabated in 2025 in most banking jurisdictions. Volatility in the U.S. and Europe in 2023 will lead to stronger standards, in our view. We see an emerging two-phase reaction: local enhancements to regulation, supervision, and crisis management; and, over a longer timeframe, some modest changes to global standards (see "2023 Banking Turmoil: Global Regulators Reflect And React" June 26, 2024.

Further, we anticipate greater regulatory clarity on the role of additional tier one (AT1) instruments and how they can absorb losses on a going-concern basis (see "The Role Of Bank AT1 Hybrid Capital One Year On From The 2023 Banking Turmoil" June 26, 2024).

For the U.S., President-elect Trump 's win and the likelihood of a majority in both the Senate and the House meaningfully lower the odds of regulatory tightening in the banking sector and may revive debate around loosening some aspects of bank regulation.

Although it's still too early to foreshadow specific policy effects, we think material changes to prudential bank regulation are unlikely. That said, the supervisory approach could vary as could the enforcement of certain initiatives--including the Basel III endgame, and those involving liquidity standards and resolution.

We believe credit ratings are unlikely to be affected as most banks' balance sheets are starting from a position of strength. Our view could change if regulation is significantly eased, which is not in our base case.

Banking Industry Country Risk Assessments (BICRA)

The strengths and weaknesses of an economy and its banking industry are critical factors that underpin the creditworthiness of a country 's financial institutions. We distill this analysis into a Banking Industry Country Risk Assessment (BICRA). The BICRA is designed to evaluate and compare global banking systems. BICRAs are grouped on a scale from '1' to'10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10').

A BICRA analysis for a country covers all rated and unrated financial institutions that take deposits, extend credit, or engage in both activities. The analysis considers the relationship of the banking industry to the financial system, and furthermore to its sovereign. The BICRA methodology has two main analytical components: economic risk and industry risk.

Notes On The Country Outlooks

- Every country outlook one-pager contains a link to the BICRA report or the general media release of the latest BICRA action at the top right corner.
- The data in the right columns of the one-pagers are rounded to one decimal place.
- NPA ratio: The nonperforming asset ratio reflects nonperforming assets as a percentage of system-wide loans. NPAs include the sum of problematic exposures (including loans and foreclosed assets) due by private and public borrowers to a country's financial institutions. The definition of problematic exposures varies by country. The general standard is that exposures past due for more than 90 days are classified as nonperforming.
- In some jurisdictions this also includes exposures that are up to date in their payment obligations but that run the risk of becoming delinquent. For some countries in Europe, we use nonperforming exposure, based on the definition of the European Banking Authority. For several countries, nonperforming assets are not available. In such cases, we therefore use nonperforming loans.

Interactive dashboard

Access the Global Banks Outlook 2025 Interactive Dashboard

The dashboard includes our in-house sector insights and trends, latest global, regional and country-specific risk indicators.

Explore the dashboard to compare a banking system with its peers according to geographic region or BICRA group.

Click here

Global Banks Outlook 2025 Interactive Dashboard

Country outlooks

Note: 86 countries are included in the report. Countries are listed in alphabetical order by region.

North America

Bermuda | BICRA group: 5

Declining Interest Rates Should Improve Affordability

Key takeaways

- Bermuda's economy is on track to grow about 3% in 2024, before slowing to 1%.
- We expect pressure on credit quality metrics to ease as declining interest rates provide some relief to borrowers.
- We expect the banking industry, which is dominated by Bank of Butterfield and HSBC Bermuda, to maintain very strong capitalization, sound liquidity, and limited loan growth.

Key credit drivers

Interest rates and asset quality. We expect credit losses and the nonperforming asset (NPA) ratio to improve as declining interest rates improve affordability. NPAs have been high and credit losses low for years due to the long cure period in Bermuda. These trends also reflect the high proportion of residential mortgages--which have historically had low credit losses--on banks' loan books.

Real estate prices. Tight supply and increased demand for residential rental properties--and housing in general--could drive up real estate prices.

Key assumptions

Economic activity will slow after this year but remain positive. Bermuda's economy is on track to grow about 3% in 2024, before slowing to 1%, following estimated increases of 4% in 2023 and 6.4% in 2022. The growth reflects continued strength in the international business sector, where Bermuda is a global leader in insurance and reinsurance. In addition, tourism continues to rebound from the height of the pandemic. Bermuda is also implementing a corporate income tax to meet its commitment to the international global minimum corporate tax initiative.

Liquidity and capitalization ratios will remain solid. We expect Bermudian banks will maintain ample liquidity (the average loan-to-deposit ratio is less than 40%) and sound capitalization. The sector's aggregate common equity Tier 1 ratio was over 20% at June 30, 2024.

Loan growth will be flat or down. Loans have, in general, been declining in Bermuda over the past few years. Butterfield has been growing loans outside of Bermuda as part of its strategy to diversify. We expect industrywide Bermuda-based loan growth to continue to decline and loan growth outside of the country to be limited.

What to look for over the next year

Bermuda will remain a global leader in insurance and reinsurance. The international business sector continues to support the economy. We expect the tax changes that Bermuda implements will seek to ensure that its economy--and this sector in particular--remain competitive.

Tourism will likely improve further. Tourism has been improving since the pandemic-related downturn. We expect further improvement to help diversify the economy and support growth.

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Loan growth

Sector-average growth in loans.

0.0% 2025 forecast

-3.0% 2024 estimate

-5.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.5% 2025 forecast

6.0% 2024 estimate

5.4% 2023 actual

RoAA

Sector-average return on average assets.

1.9% 2025 forecast

2.0% 2024 estimate

2.4% 2023 actual

Figures as of fiscal year ending December.

Canada | BICRA group: 2

Weak Credit Conditions Pressure Operating Performance

Key takeaways

- A soft economy is straining banks' asset quality, which will likely keep provisions for loan losses and net charge-offs elevated through 2024 and early 2025.
- Loan growth has moderated as high interest rates have dampened demand, but recent interest rate cuts could accelerate loan growth next year.
- The capital and earnings of domestic systemically important banks (D-SIBs) remain solid.

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Read latest report

Key credit drivers

Falling interest rates should provide relief to borrowers. The slowing Canadian economy has prompted the Bank of Canada (BoC) to cut its policy interest rate by 125 basis points (bps) since June 2024, providing some relief to highly indebted Canadians. Still, more rate cuts are likely needed for credit conditions to fully recover and to bring rates within BoC's neutral range. S&P Global economists forecast the Canadian economy will grow below potential in 2024 before rebounding in 2025 and 2026.

Banks will maintain adequate capital ratios. Conservative capital management leaves banks well-positioned to withstand a slowing economy. We believe D-SIBs will maintain current capital levels and their S&P Global Ratings risk-adjusted capital ratios will remain in our adequate range of 7%-10%. Large Canadian banks are well-diversified, and internal earnings generation remains robust. Revised Basel III rules haven't had a significant impact on capital, and the recent announcement of a one-year extension to the output floor increase should provide some capital relief.

Key assumptions

Credit quality will continue to deteriorate but remain manageable. We anticipate elevated interest rates, a slowing Canadian economy, and a rise in unemployment will hamper borrowers' ability to service their debt. We expect provisions for loan losses and net charge-offs to remain elevated into 2025. We also expect credit pressures will remain manageable, particularly following recent rate cuts and as banks hold more capital amid economic uncertainty.

Loan growth should pick up in 2025. Elevated interest rates have reduced demand for loans and while rates remain relatively restrictive, further rate cuts should spur loan growth in 2025. S&P Global Ratings economists expect the BoC will continue to cut rates into 2025, which will accelerate GDP growth. Lower rates would also alleviate some funding cost pressures on Canadian banks.

What to look for over the next year

The impact of maturing residential mortgages. Canadian D-SIBs have about a quarter of their mortgage portfolios coming due in 2025. Although we expect higher mortgage payments will be manageable for most borrowers, higher payments and lower savings could dampen the economy.

Canadian banks look to address nonfinancial risks. Anti-money laundering is in the spotlight as Canadian banks contend with fines on their Canadian and U.S. operations. We expect Canadian banks will continue to invest heavily in anti-money laundering as regulatory scrutiny increases.

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

2.8% 2024 estimate

6.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.8% 2025 forecast

0.7% 2024 estimate

0.6% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.6% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

U.S. | BICRA group: 3

Banks Performing Well Amid Economic And Regulatory Changes

Key takeaways

- The U.S. banking industry has been performing well in the almost two years since some large failures and should generate relatively good earnings in 2025.
- Still, commercial real estate, a growing nonbank financial institution sector, and a slowing economy could present challenges.
- Regulators are working on potential changes to capital, liquidity, and resolution rules, but efforts could change depending on the Trump administration's regulatory appointments.

Key credit drivers

The performance of the economy and inflation. The U.S. economy will likely grow below-trend growth in 2025 and 2026, at 1.8% and 1.9%, respectively. However, recession risk remains elevated.

Short- and long-term interest rates. Lower inflation should allow the Federal Reserve to lower its policy rate to 3.00%-3.25% by the end of 2025, down from the current 4.75%-5.00%. However, the Trump administration's policies could affect how short- and long-term rates change.

Asset quality, funding, and liquidity conditions. An economic soft landing and lower rates would ease pressures on asset quality, funding, and liquidity, but risks remain to the downside.

Key assumptions

Profitability will be reasonably strong in 2025. Falling rates and limited loan growth may weigh modestly on banks' net interest income, and provisions may rise incrementally. Still, we expect banks to generate a return on common equity of 10%-11% in 2025.

Banks will manage their balance sheets cautiously. Since the failures of 2023, many banks have added contingent liquidity, built capital, and grown slowly. We expect them to remain cautious, particularly until there is clarity on the economy and changes to key regulatory rules.

Asset quality will incrementally worsen but remain manageable. Many asset quality measures have deteriorated, particularly in commercial real estate (CRE) and credit cards. While they may weaken further, we believe banks' preprovision earnings are more than adequate to absorb credit losses.

What to look for over the next year

Updates to regulation and the effect of the elections. Regulators may repropose the Basel III endgame rules for capital, finalize a resolution proposal, and update liquidity rules. Regulatory appointments made by the Trump administration may lower the odds of material tightening.

CRE deterioration. CRE, especially office loans, will remain a challenge. While we believe rated banks can withstand the risk, maturing loans may add to asset quality and confidence-sensitivity risks.

The growth of nonbank financial institutions (NBFIs). NBFIs are growing quickly and becoming an increasingly important part of the financial system. Banks are helping facilitate that growth by lending to NBFIs--usually on a collateralized basis with well-managed risk.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

2.0% 2024 estimate

1.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.2% 2025 forecast

1.1% 2024 estimate

1.1% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.1% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Latin America

Argentina | BICRA group: 9

Gradually Shifting To Normal Despite Still Significant Challenges In The Economy

Key takeaways

- Significant challenges at the sovereign level still hamper Argentina's banking industry, limiting our ratings on financial entities. The current administration is working to tackle economic imbalances and clean up the central bank's balance sheet, but improvements will take time to materialize.
- Profitability will continue to heavily rely on government securities, but loan origination is gaining dynamism in a context of lower inflation and interest rates.
- Despite dividend distributions and a change in the asset mix, regulatory capitalization buffers remain high with room for further growth in credit.
- Asset quality metrics remain manageable, given lenders' focus on less risky segments and satisfactory provisioning levels.

Key credit drivers

The sovereign's weak fundamentals still constrain the ratings on financial institutions. The current administration has made initial progress in reducing its fiscal deficit and inflation, narrowing the gap between the official and blue-chip exchange rate, and cleaning up the central bank's balance sheet, which has shifted banks' asset composition, replacing central bank repurchase agreements (repos) with government bonds (including treasury bonds).

Banks keep good liquidity and regulatory solvency. Despite dividend distributions, and lending growth in detriment of liquid assets, banks' liquidity and regulatory capital metrics remain good, helped by continued earnings generation. Liquidity in the system could benefit from the tax amnesty taking place in the country, keeping part of the deposits in foreign currency.

Key assumptions

Banks continue to generate profitability in real terms. For 2024, we expect the industry to keep posting good results in real terms. The decline in reference interest rates is mitigated by the removal of minimum interest rates for time deposits, lower inflation, and high yields of government bonds.

Asset quality metrics will stay manageable. Asset quality metrics improved early this year with the charge-off of corporate cases at government-owned banks (which still have lower credit quality compared with private banks). Although we expect higher unemployment rates and a contraction in economic activity, the system's overall credit losses will stay manageable given banks' focus on less risky segments and clients and adequate provisions.

What to look for over the next year

Economic and political developments. We expect the government's ability to sustain its economic policies will depend on strengthening political support for the reform agenda. Our Banking Industry Country Risk Assessment of Argentina has a negative industry risk trend, incorporating the potential impact that adverse developments at the sovereign level could have on the financial system's funding and credit profile.

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Read latest report

Loan growth

Sector-average growth in loans.

95.0% 2025 forecast

225.0% 2024 estimate

153.0% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.2% 2025 forecast

1.9% 2024 estimate

3.7% 2023 actual

RoAA

Sector-average return on average assets.

4.0% 2025 forecast

5.0% 2024 estimate

5.3% 2023 actual

Figures as of fiscal year ending December. Loans on nominal basis. RoAA in real terms.

Brazil | BICRA group: 6

Persistently High Interest Rates Will Pressure Asset Quality Metrics

Key takeaways

- Higher-for-longer interest rates are likely to strain borrowers in Brazil, potentially weakening asset quality. We expect this to raise the debt burden on individual and commercial borrowers, which will have to cope with higher financing costs for longer.
- We expect real GDP to moderate in 2025 due to the absence of fiscal stimulus, which supported consumption during 2024.
- Operating performance will likely stay solid thanks to banks' good provisioning coverage, business diversification, and high margins.

Key credit drivers

We expect nonperforming loans to weaken during the remainder of 2024 due to persistently high interest rates and into 2025 because of the weaker economy. We believe banks will focus more on secured lending, such as auto and payroll deductible loans and mortgages, rather than credit cards and personal loans.

Profitability has been resilient and continues to benefit from banks' diversification, including through insurance and asset management. Although provisions have picked up, pressuring operating performance this year and next year, we believe profitability will remain sound compared with international peers thanks to banks' high margins.

Key assumptions

Uncertainty over fiscal, economic, and institutional policies and higher-than-expected inflation in the domestic market have increased market volatility, leading the central bank to increase its policy rate. We now expect rates in Brazil to remain higher for longer. We expect interest rates to continue to rise into early 2025 until inflation expectations turn back toward the central bank's 3% target.

Lending growth will likely remain moderate, compared with historical levels, because of the persistently high interest rates. Credit demand from the corporate sector has been soft due to high financing costs. With this scenario of interest rates, we expect this trend to continue.

What to look for over the next year

An inadequate policy framework and poor implementation could limit economic activity and investment decisions, further squeezing banks' asset quality and lending growth. Ineffective policy signaling could also affect foreign direct investment inflows and, as a result, weaken Brazil's strong net external position.

Starting in January 2025, financial institutions in Brazil will be required to implement various regulatory changes. These include adopting: a new loan loss provisioning methodology, a revised calculation for operational risk in regulatory capital adequacy, and new tax accounting rules aiming to reduce deferred tax assets. We believe the changes will help banks align their reporting with international standards, but banks will need to navigate the complex new requirements to comply with the guidelines.

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Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

9.5% 2024 estimate

8.6% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.5% 2025 forecast

3.7% 2024 estimate

3.2% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.3% 2024 estimate

1.4% 2023 actual

Figures as of fiscal year ending December.

Chile | BICRA group: 3

Solid Institutions Have Helped Navigate Political Challenges

Key takeaways

- Thanks to its conservative underwriting practices, high margins, and conservative regulation, the Chilean banking system has remained resilient to the social unrest and ongoing political impasses that have dented the country's economic performance.
- We expect asset quality metrics to stabilize due to the gradual recovery in credit growth and economic performance, while interest rates will continue decreasing.
- Banks are well prepared for the gradual implementation of the new banking law that aligns local regulation to international standards, given their sound internal capital generation and their access to the international capital markets to issue AT1 instruments.

Key credit drivers

On Oct. 28, 2024, S&P Global Ratings revised its outlook to stable from negative and affirmed its ratings on 12 financial institutions. Thanks to its conservative underwriting practices, healthy margins, and prudent regulation, the Chilean banking system has remained resilient to the social unrest and ongoing political impasses that have dented the country's economic performance. As a result, we now regard the economic risk trend of Chile's banking system as stable.

On Oct. 15, 2024, we revised our long-term rating outlook on Chile to stable from negative. Chile's debt burden should stabilize because of the continued commitment to fiscal consolidation and recently approved fiscal responsibility law.

Key assumptions

Asset quality indicators have deteriorated but remain manageable. Nonperforming loans were at 2.3% as of August 2024. We expect asset quality metrics to start moderating in 2025, supported by the gradual recovery in credit and economic growth and decreasing interest rates.

We expect banks' profitability to slightly weaken in the next two years. It has been sound in the past two years because of low provisioning needs and improved margins that benefit from higher inflation, given banks tend to have long positions in inflation-adjusted assets. However, lower margins will weigh on profitability.

What to look for over the next year

The implementation of the new banking law to align to the Basel III framework is still in progress. It began in 2020 and will be completed in 2025.

The normalization of electricity tariffs starting in July 2024 (following the freeze since 2019 under the tariff stabilization program) will boost inflation in the short term. However, we expect moderate domestic demand in the longer term will continue to allow the central bank to cut interest rates.

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Loan growth

Sector-average growth in loans.

7.0% 2025 forecast

4.0% 2024 estimate

3.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.3% 2025 forecast

2.4% 2024 estimate

2.1% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Colombia | BICRA group: 6

Banks Struggle To Improve Asset Quality, Profitability, And Growth

Key takeaways

- Colombia's economic growth is picking up but remains below-trend and will curtail credit expansion in 2025.
- High household debt, weakening purchasing power, tepid labor market dynamics, and high interest rates undermine banks' operating performance.
- Investment will remain weak due to uncertainty over the government's fiscal path and reforms.

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Read latest report

Key credit drivers

The flagging quality of unsecured consumer loans weaken asset quality. High interest rates and inflation are eroding households' purchasing power and pressuring banks' asset quality. If the recent nonbinding agreement between the government and banks spurs credit growth, metrics could improve in 2025 and 2026.

Substantial provisions and high funding costs will keep profitability below trend. Weak asset quality will require banks to continue increasing provisions. However, we think banks will maintain credit loss reserves higher than nonperforming assets, which could temper the erosion in profitability. The central bank is cutting rates, and we expect the policy rate to drop to 7.50% by the end of 2025 from 13.00% in 2023. This will ease banks' funding costs during the following quarters.

Large banks' expansion to Central America. This widens business diversification but pressures capitalization. Given the relevance of revenues (in U.S. dollars), fluctuations in the exchange rate could bring volatility to banks' revenues.

Key assumptions

We expect Colombia's economy to keep growing below trend during the following quarters. We expect growth to improve this year to 1.7% from 0.6% in 2023. However, the pace will remain weak until investment recovers more markedly. We expect the economy to grow about 2.5% in 2025.

Credit supply will contract in real terms in 2024 and could recover in 2025. Lower interest rates and joint efforts between the public and private sectors could improve the business climate and boost lending in 2025 and 2026.

What to look for over the next year

Political uncertainty over the government's reforms. This impairs business conditions and limits credit growth.

The government recently announced an agreement with banks to increase lending. But we do not expect banks to modify their lending policies.

Loan growth

Sector-average growth in loans.

10.0% 2025 forecast

1.0% 2024 estimate

1.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.4% 2025 forecast

3.8% 2024 estimate

3.6% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

0.8% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

Costa Rica | BICRA group: 8

Asset Quality And Growth Momentum Balance Limited Profitability

Key takeaways

- In our view, a lack of profitability continues to be one of the main weaknesses of Costa Rica's banking industry.
- Asset quality is manageable amid easing credit conditions in the country.
- Bank clients' debt payment capacity is improving, driven by Costa Rica's economic momentum.

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Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

2.0% 2024 estimate

0.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.9% 2025 forecast

2.9% 2024 estimate

3.0% 2023 actual

RoAA

Sector-average return on average assets.

0.5% 2025 forecast

0.5% 2024 estimate

0.5% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

Distorted competitive dynamics continue to drag down profitability. Two of the largest banks in Costa Rica are state-owned and hold about 33% market share of loans, which causes market distortions and depresses profitability because these banks don't have profit-driven strategies. For the past five years, return on average equity was 3.9% and return on average assets was 0.6%, levels below other banking systems in the region.

Customer payment capacity will improve, and asset quality will hold firm. The country's favorable economic conditions will increase GDP per capita in the next few years, strengthening the private sector's debt servicing capacity compared with previous years. Moreover, we project the current asset quality metrics will represent the new norm during this economic cycle, consistent with our economic risk assessment of Costa Rica and with the economic risk of regional peers.

Key assumptions

Economic conditions remain sound. The country's business climate, active tourism, growing high-end export-oriented manufacturing (such as medical devices), nearshoring opportunities, and a continued rise in exports will sustain growth, though at slower rates. We expect real GDP growth to average 3.7% in 2024-2025, following the 5.1% growth in 2023. Moreover, stronger external buffers, alongside narrower current account deficits and solid foreign direct investment, should reduce possible balance-of-payments risks and improve the country's external position. We think the favorable economic conditions will boost lending growth between 2.0%-3.0% in the next two years.

Economic imbalances abate, reflecting controlled asset quality. The country's unemployment rate remains relatively steady while investor sentiment is improving, reflected in stable foreign direct investments (FDI) in the free-trade zones that support GDP growth. In addition, the banking system has controlled its credit losses even during adverse conditions such as the pandemic-induced economic crisis and a prolonged recent period of global economic headwinds.

What to look for over the next year

Credit will gradually increase after years of subdued growth. The banking system's lending demand will benefit from recent economic developments in the country in the next few years. The consistent FDI flow into free-trade zones will lead to easing credit conditions for the domestic economy and the banking sector. If credit growth recovers while nonperforming assets and credit losses remain manageable, we could revise our assessment of Costa Rica's economic imbalances and, consequently, our BICRA economic risk score to a stronger category.

El Salvador | BICRA group: 9

Weak Business Climate To Restrain Retail Lending Growth

Key takeaways

- Salvadoran banks' exposure to government debt didn't increase during the last 12 months. This provided banks higher flexibility to fund major economic sectors.
- We expect credit growth to continue expanding at a higher pace than in previous years, while asset quality metrics will remain stable and manageable in the next 12 months.
- However, remittances to El Salvador, which have slowed recently, represent an important funding source for banks as customer deposits. In our opinion, a scenario of unexpected headwinds to deposits would pose a risk for the system's performance.

Key credit drivers

Stable exposure to sovereign risk provides banks wider flexibility. Exposure to short-term government bonds has remained stable since the second half of 2023, which we estimate at about 10% of banks' total assets. This and the recurrent increase of remittances have enabled banks to extend credit to dynamically strong sectors in the country such as construction and energy. We estimate the banking sector will grow in the next two years, above its five-year average of 5.2%.

Persistent risks stemming from El Salvador's weak external position. The government's capacity to access additional funding sources could become strained if the lack of investor confidence persists. We think this could pose risks for El Salvador to service its medium- and long-term debt owed to domestic banks.

Key assumptions

Weak economy and legal banking liquidity requirements restrain the profitability's recovery. Even though we forecast higher credit growth rate than in previous years, we anticipate still low foreign investment and limited productivity. These factors, coupled with the legal banking liquidity requirements (that banks set aside in the central bank and are low remunerated), curtail profitability metrics for the banking system.

High credit risk in the economy. We expect banks' asset quality metrics to remain manageable in the next 12 months. However, we anticipate the modest economic growth, low foreign investment, and the country's economic and social challenges will remain risks for the banking system.

What to look for over the next year

Heavy dependence on remittances. Remittances represent about 25% of the country's GDP and are an important funding source for the banking system. In our view, the absence of constraints on banks' deposit base and liquidity will continue to fuel credit growth at a higher rate than in the last few years.

Limited government funding options. Even though the government will decrease its financing needs for the next 12 months after its market issuance of $1 billion in April, it still faces pronounced macroeconomic vulnerabilities. In our view, it has a narrow range of financing options and a high volume of short-term obligations.

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Read latest report

Loan growth

Sector-average growth in loans.

7.2% 2025 forecast

8.5% 2024 estimate

3.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.1% 2024 estimate

2.0% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.3% 2024 estimate

1.4% 2023 actual

Figures as of fiscal year ending December.

Guatemala | BICRA group: 7

Operating And Market Challenges Could Limit Credit Growth

Key takeaways

- Cautious fiscal and monetary policies have supported Guatemala's continued GDP growth, but the stabilized economy remains low income, and its large informal sector could limit banks' growth.
- We forecast asset quality indicators will deteriorate but remain manageable amid strong consumer loan growth at the largest banks.
- Guatemala's banking system has a historically stable core customer deposit base and access to wholesale funding, though underdeveloped domestic capital markets limit funding diversification.

Key credit drivers

Strong consumer lending growth might strain Guatemalan banks' asset quality in 2024-2025. This is because retail loans tend to have higher delinquencies than corporate and commercial loans. We therefore forecast nonperforming assets (NPAs) will increase to 2.4% of total assets in 2024 and stabilize at 2.2% in 2025, while provisions will continue to cover 100% of NPAs. Despite the expected deterioration, we think asset quality will remain manageable.

Guatemala's banking system maintains a significant amount of foreign currency lending, which poses risks. We estimate that foreign currency loans will be about 30% of the total loan book and 43% of these loans will be to nonforeign currency generators during the next two years.

Key assumptions

We expect cautious macroeconomic management will prevail following the presidential transition this year--notwithstanding challenging global economic conditions. We expect moderate economic growth in Guatemala of about 3.5% annually, in line with 2023 and given its position as one of the largest central American economies.

We expect credit growth to slow slightly to an 8.0% real average for 2024-2025. Despite the country's positive macroeconomic prospects, we think structural market issues--the low-income economy, high poverty, the large informal sector, and high immigration--continue to limit growth prospects in the banking industry.

What to look for over the next year

The U.S. elections' outcome and new government policies in Guatemala will inform economic growth. They will also be crucial to credit expansion in Guatemala in 2024-2025.

The Guatemalan government plans to increase private and public infrastructure investments. These will be key to boosting the country's economy and credit growth in the next few years.

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Loan growth

Sector-average growth in loans.

8.0% 2025 forecast

8.0% 2024 estimate

16.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.4% 2024 estimate

2.2% 2023 actual

RoAA

Sector-average return on average assets.

1.7% 2025 forecast

1.7% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Honduras | BICRA group: 8

Steady Credit Growth Despite Economic Strains

Key takeaways

- We believe Honduras' monetary policy and limited exchange-rate flexibility could weaken the business climate further and lower the country's economic growth prospects.
- On the other hand, we expect the banking sector's operating performance to remain resilient to the economic headwinds and political uncertainty, and banks will continue to expand their loan portfolios while preserving stable asset quality.
- The large banks' stable and diversified retail deposit bases support their liquidity.

Key credit drivers

Recurrent credit growth rates above GDP expansion. Even though monetary rigidities could stress the operating conditions for the country's banks, we expect that credit will continue to expand at a solid pace: 8.5%-10.5% the next 12-24 months. This would be higher than our expectations of the 3.0% GDP growth in 2024 and 3.6% in 2025.

Honduras' consumption trends rely heavily on remittances from the U.S. The latter represents about 25% of the country's GDP. The slowing pace of remittance growth could slacken growth of consumer loan portfolios in the next two years.

Key assumptions

Credit expansion supported by the commercial lending segment. We expect lending to corporations will continue fueling Honduran banks' credit growth during 2024 and 2025 despite persistent uncertainties. Even though we forecast strong momentum of some retail lending sectors such as mortgages, we think the country's small low-income economy limits the private sector's debt-bearing capacity.

Asset quality metrics will remain manageable and in line with those of the regional banking systems. In our opinion, large banks will keep nonperforming assets relatively stable because they mostly lend to large corporations. Additionally, Honduran banks have a conservative approach toward consumer lending, which reduces the level of nonperforming assets and credit losses despite tough economic conditions.

What to look for over the next year

The lack of predictability in policymaking poses risks for lenders. Monetary policy and limited exchange-rate flexibility could further weaken investor sentiment as well as households' and companies' payment capacity. We will monitor if one of these risks worsens in the short term and translates into higher credit losses or lower liquidity for banks.

Low per capita GDP, high poverty, and a large informal economy. Honduras has a high poverty level, and its per capita income growth remains subdued because of low investment and weak competition. We think these factors will keep constraining retail loan growth.

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Read latest report

Loan growth

Sector-average growth in loans.

8.5% 2025 forecast

10.5% 2024 estimate

18.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.4% 2025 forecast

2.3% 2024 estimate

2.3% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

1.0% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Jamaica | BICRA group: 8

Growth To Contract In 2024, But Fundamentals Keep Consolidating

Key takeaways

- Hurricane Beryl, which passed close to the island in early July and caused damage mainly in the southwest of the country, will hamper Jamaica's economic growth in 2024.
- Although we expect some deterioration in asset quality, losses should remain manageable, supported by financial institutions' active credit management, profitability driven by the pass-through of higher rates to loans, and good provisioning.

Key credit drivers

The policy framework is strengthening. We recently revised the outlook on the sovereign rating of Jamaica to positive, reflecting the possibility of an upgrade if continued strengthening of the policy framework raises the likelihood of more sustainable public finances and balanced economic growth over the long term.

However, the industry continues to face structural issues. Our view of Jamaica's economic risk reflects the country's small economy, reliance on highly cyclical sectors, and low income per capita (about $7,000). Although the government continues to pursue economic reforms, growth is constrained by high security costs, perceived corruption, low productivity and business competition, and vulnerability to external shocks--including weather-related ones.

Key assumptions

Economic growth to contract in 2024 before normalizing. We expect GDP to contract by about 1.5% in 2024, as the country recovers from Hurricane Beryl, and gain dynamism in 2025. We then expect growth will return to 1%-2% annually by 2026 and 2027. Following this pattern, we expect credit growth in the financial system to average 9%-11% in 2024-2025, then decelerate somewhat as economic growth normalizes.

Manageable asset quality. We expect credit quality to somewhat worsen, especially in the retail segment, due to lending growth in previous years. Also, we will monitor the agricultural segment, which was the most relevant sector hit by the hurricane. Good provision coverage and continued profitability should help banks absorb potential credit losses. Developments in the U.S., given Jamaica's growing loan exposure to overseas residents and Jamaicans' high reliance on remittances, will continue to influence asset quality.

What to look for over the next year

Stronger regulations. We expect regulatory bodies to continue taking steps to develop the financial industry, which could attract foreign investors in the next few years.

Initiatives for centralized oversight amid mergers and acquisitions. Caribbean conglomerates have been undertaking mergers and acquisitions, which could introduce spillover risks in times of stress because of increased cross-border business links in the region. In our view, it will be crucial for acquisitions to move in parallel with enhancements in systemic risk management.

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Read latest report

Loan growth

Sector-average growth in loans.

11.0% 2025 forecast

11.0% 2024 estimate

11.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.8% 2025 forecast

2.7% 2024 estimate

2.5% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2025 forecast

1.8% 2024 estimate

2.0% 2023 actual

Figures as of fiscal year ending December.

Mexico | BICRA group: 5

Slowing Economy, Political Uncertainty To Slow Credit Demand

Key takeaways

- Given solid credit fundamentals, banks are well positioned to navigate the headwinds.
- The slowing economy and persistently high interest rates will pressure banks' growth, asset quality, and profitability.
- We expect broad policy continuity under the new government. But if checks and balances weaken, investor confidence could take a hit, potentially denting economic growth.

Key credit drivers

Banks' asset quality will slip, but conservative lending practices will cushion the impact. A slowing economy in 2024 and 2025 and high interest rates will weaken banking customers' ability to pay their debts. However, we expect asset quality metrics to remain at adequate levels.

Higher provisions for credit losses will pressure profitability. However, sound margins, cost-containment efforts, and conservative underwriting policies will allow banks to maintain solid profitability. We expect return on assets to average 2.0% in 2024 and 2025, while returns on equity will be about 18.0%.

Key assumptions

We do not expect significant changes in the banking system following under the new administration. We expect commercial banks to continue to account for 45%-50% of total lending, and we believe these entities' loans will expand at 4%-5% in real terms in 2024 and 2025.

Credit demand will moderate as the economy slows and investor confidence weakens. As long as the domestic debt market remains calm, banks can provide funding to large and midsize companies with adequate credit quality. Loans to individuals will mostly consist of credit cards and secured consumer products.

What to look for over the next year

We expect broad policy continuity under the new administration. Potential measures that weaken checks and balances--including in the judiciary and monetary authority--could undermine investor confidence. This could hurt growth and sovereign creditworthiness.

Nearshoring could increase credit demand, but it's advancing slowly. We still see considerable obstacles, including inadequate supplies of clean energy and water, and the availability of specialized labor, among others. Banks' credit exposure to nearshoring remains moderate.

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Read latest report

Loan growth

Sector-average growth in loans.

8.0% 2025 forecast

9.0% 2024 estimate

8.7% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.5% 2025 forecast

2.4% 2024 estimate

2.3% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2025 forecast

2.1% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Panama | BICRA group: 5

Weakened Asset Quality In 2025-2026

Key takeaways

- There will continue to be pressure on Panamanian banks' asset quality over the next two years as the delayed impact of pandemic-related relief programs materializes.
- Profitability will remain stable, but strains on asset quality could increase loan loss provisions, which would hurt banks' bottom lines over the next 12 months.
- Although Panama doesn't have a lender of last resort, the government has successfully used Banco Nacional de Panama as a vehicle to provide liquidity to the banking system.

Key credit drivers

We think Panamanian banks' asset quality will continue to be historically weak for the next two years. Strains on borrowers' payment capacity and deterioration in corporate loans to specific customers will likely keep nonperforming assets (NPAs) above historical levels. NPAs were close to 2.8% as of June 30, 2024, up from 2.0% in 2019. This deterioration reflects the end of pandemic relief programs, high unemployment, and an expansion of the country's informal economy since the pandemic began. Adverse economic conditions could also undermine asset quality.

Panama lacks a lender of last resort. The country also doesn't have a central bank or an effective deposit insurance system to support distressed financial institutions. However, the government has used the publicly owned Banco Nacional de Panama to provide liquidity to the financial sector, corporations, and small and midsize enterprises.

Key assumptions

Economic conditions in Panama, which are still difficult, could test the banking system's growth and asset quality. The risk of damage to investor confidence and future private investment stemming from last year's closure of a large copper mining project could make things more difficult for the country's banking system.

Panama’s slow short-term economic growth--2.5% in 2024--will translate into sluggish revenue growth. That adds to the country's ongoing fiscal challenges, such as low tax collection rates and the loss of fiscal revenue from the copper mining project's closure.

In our view, this could hamper business and household confidence, pressuring banks' business growth and operating conditions. That would keep NPAs elevated.

What to look for over the next year

Profitability should be stable, but the risk of higher loss provisions remains. Weakened asset quality could increase banks' loan loss provisions, limiting the system's bottom-line results.

Efforts are underway to strengthen the regulatory framework. Financial system regulation continues to improve in Panama. The gap with international regulation is shrinking, although Panama's framework lags those of its regional peers.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

7.0% 2024 estimate

5.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.7% 2025 forecast

2.8% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

1.7% 2025 forecast

1.7% 2024 estimate

1.7% 2023 actual

Figures as of fiscal year ending December.

Paraguay | BICRA group: 7

Solid Profits Sustained By Economy Dynamism And Ample Margins

Key takeaways

- Investment projects should sustain Paraguay's economic growth at about 3.5% during 2024-2025. Meanwhile, we expect the country to continue to diversify its economic activity and improve resiliency against weather shocks.
- Nonperforming assets (NPAs) have been improving this year, and we expect 2025 to be stable. This, coupled with double-digit credit growth and higher margins, should sustain sound profitability metrics in the banking system this year and next.
- We recently revised the Banking Industry Country Risk Assessment (BICRA) to group '7' from group '8', and we revised upward our anchor (the starting point for assigning an issuer credit rating) for banks operating primarily in Paraguay to 'bb' from 'bb-'.

Key credit drivers

Asset quality metrics gradually easing due to a more benign scenario, but stock of restructured loans remains sizeable. We think asset quality metrics should continue improving this year, benefiting from solid economic activity. Moreover, we predict they will be stable in 2025. Still, the stock of restructured loans remains significant, at about 15%.

Paraguayan banks have extended their track record of resilient profitability and adequate risk appetite. The banking system's net interest margins should remain sound amid cheap funding costs, keeping return on average equity at about 18% in 2024 and 2025.

Dollarization remains high, and the banking system is still exposed to cyclical sectors. Foreign currency lending in Paraguay's banking system was 47% of total loans in August 2024, in line with the five-year average of 45%. Moreover, cyclical sectors like agriculture and cattle continued to account for close to 30% of total loans, despite a gradual reduction trend.

Key assumptions

We expect Paraguay's GDP growth to remain strong in 2025, but to slow down compared with 2024. We expect economic diversification to continue over the next three years and gradually lessen the volatility of economic performance, helped by a large pulp mill project (Paracel) likely to materialize between 2025 and 2026.

What to look for over the next year

Economic activity. Despite solid GDP growth and the system's profitability, we'll continue to monitor Paraguay's economy, especially after shocks in recent years that have weakened agents' payment capacity. Although the economy has grown more diverse over the last decade, growth is still vulnerable to weather-related risks and commodity prices, because the soy and hydroelectric industries contribute about 7% of GDP.

Asset quality. Non-performing assets (NPA) have improved recently. However, the significant stock of restructured loans, coupled with the economy's cyclicality, could potentially result in credit losses during stress periods, possibly hurting the financial system's profitability and capitalization, and limit credit growth. We will continue monitoring how nonperforming loans and restructured loans evolve.

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Read latest report

Loan growth

Sector-average growth in loans.

10.0% 2025 forecast

14.0% 2024 estimate

12.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.7% 2025 forecast

3.7% 2024 estimate

4.2% 2023 actual

RoAA

Sector-average return on average assets.

2.2% 2025 forecast

2.2% 2024 estimate

2.2% 2023 actual

Figures as of fiscal year ending December.

Peru | BICRA group: 5

Profitability Still Dampened By Last Year's Events

Key takeaways

- Political and sovereign developments are relevant for the industry given the impact on short- to medium-term economic growth, private investment, and consumption.
- Peruvian banks maintain solid capitalization and liquidity, but profitability remains dampened by high provisioning needs related to last year's social disturbances and weather events, which caused the economy to contract.

Key credit drivers

The economic risk trend in our Banking Industry Country Risk Assessment (BICRA) on Peru remains negative. This mainly reflects the prolonged political impasse in the country, which limits growth prospects. If the economic risk worsens, it likely wouldn't affect our anchor for banks operating in the country, but the risk weights we apply to calculate banks' capital would increase. This could prompt us to revise downward the stand-alone credit profile of a few entities, but not our ratings, which the sovereign rating limits.

Rated entities have good credit fundamentals, with satisfactory capitalization (considering the implementation of the Basel III framework through 2026), profitability, and liquidity. These metrics should allow banks to manage credit losses, which remain above historical levels because of reprogrammed loans granted during social unrest and weather events last year. In our view, banks generally have appropriate levels of provisions.

Key assumptions

We expect lending to remain moderate for 2024-2025. We project GDP to grow at about 2.7% in 2024, considering higher copper prices and moderate recoveries in consumption and investment (with more traction from the public sector in 2024, and a recovery in private investment in 2025). We therefore expect loan portfolio growth of about 3% in 2024 (including the government's Impulso MyPeru program), before gradually increasing.

Profitability remains satisfactory despite still high provisioning needs. Margins remain resilient given banks' ability to pass through higher rates to ultimate borrowers and the change in their loan portfolio mix, with the amortization of Reactiva government program loans and more retail lending. This has helped banks handle higher provisions.

What to look for over the next year

Dissipating political issues and economic recovery will determine the financial industry's path. Although receding, governability risks linger, given the fragmentation in Congress and the historical tensions between the executive and legislative branches. We will continue monitoring the impact of political volatility and external factors on Peru's economic prospects and its financial industry in the next year.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

3.0% 2024 estimate

-0.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.7% 2025 forecast

3.9% 2024 estimate

3.7% 2023 actual

RoAA

Sector-average return on average assets.

1.8% 2025 forecast

1.7% 2024 estimate

1.8% 2023 actual

Figures as of fiscal year ending December.

Trinidad and Tobago | BICRA group: 6

Banks Benefit From Healthy Intrinsic Creditworthiness Amid Volatile Economic Conditions

Key takeaways

- We expect economic growth will remain weak in Trinidad and Tobago (T&T) due to declining production in the hydrocarbon sector. In addition, T&T's economy will continue to fluctuate with global energy prices in the next few years.
- T&T's recent economic contraction still weighs somewhat on banks' asset quality. However, we forecast profits will continue recovering in 2025 as credit grows healthily, net interest margins remain high, and provision requirements decrease amid lower credit risks.
- Solid loss reserves, capital, and liquidity helped banks absorb the economic shocks from the last downturn.

Key credit drivers

Economy remains energy dependent. Oil, gas, and hydrocarbons have historically accounted for over a quarter of government revenue and real GDP and nearly 80% of exports. However, banks aren't heavily exposed to the energy sector (about 4% of total loans).

Banks keep good creditworthiness. We think banks benefit from their conservative provisioning policies and good capital and liquidity amid the volatile economic backdrop. The pandemic and the domestic energy sector's downturn caused GDP to contract nearly 10% in 2019-2021. Although the economy has been recovering since 2022, largely due to stronger energy sector performance and internal demand, unemployment remains somewhat high and pressures debt capacity.

Key assumptions

Flat real economic growth in 2024-2025. We also expect the unemployment rate will remain roughly 5.2%--above the 4.0% before the pandemic.

Manageable credit losses. Banks have contained the damage to asset quality stemming from the recent recession. However, asset quality could be worse than we expect, considering unemployment remains high and some borrowers in the corporate sector are still being affected by past recessions.

What to look for over the next year

Stable administration. We expect T&T's parliamentary democracy and social cohesion will anchor its political stability and predictability.

Still-high unemployment. In our view, unemployment is a key indicator for deeper credit stress in the financial system. Household debt service has risen consistently in the past few years and could be a source of vulnerability if the labor market remains soft for a prolonged period.

Exchange rate. The country's heavily managed exchange rate has resulted in U.S. dollar shortages in the last few years. The shortages have constrained economic activity, weakening local businesses' ability to pay suppliers and obtain key imports. The banking system maintains a long position in dollars.

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Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

6.0% 2024 estimate

7.5% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.7% 2025 forecast

2.8% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

2.9% 2025 forecast

2.8% 2024 estimate

2.8% 2023 actual

Figures as of fiscal year ending December.

Uruguay | BICRA group: 5

Good Performance Will Continue In 2025

Key takeaways

- GDP will grow 2.6% on average in 2024-2026, driven by consumption, private investment, and exports.
- Banks will continue to perform well, with manageable asset quality metrics, high liquidity, stable deposit bases, and adequate solvency.
- Banks' profitability will continue benefiting from strong margins, mainly supported by still high international interest rates, expected loan portfolio growth, and low funding costs.

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Read latest report

Loan growth

Sector-average growth in loans.

14.0% 2025 forecast

12.0% 2024 estimate

12.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.1% 2025 forecast

2.0% 2024 estimate

1.7% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2025 forecast

2.5% 2024 estimate

2.5% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

Credit to the private sector will continue to rise, reaching 31%-33% of GDP in the next 12-24 months, from 30% in 2023. We forecast 12%-14% nominal credit growth, driven by lower interest rates and higher credit demand as investment projects materialize, the agricultural and related sectors recover from last year's severe drought, and real wages and employment recover and support higher consumption.

We think asset quality metrics will remain manageable in the next 12-24 months. Nonperforming loans (60 days past due) will slightly worsen, reaching around 2.0%, from 1.7% in 2023.

Banks' profitability will remain sound but will decrease as high interest rates ease. Return on average equity will lower to 18%-20% in the next 24 months, from a record high of 23% in 2023, as interest rates decline and cost of risk climbs--though it will stay manageable--as credit expands. Liquidity is high and allocated to low-risk instruments, mainly U.S. Treasury securities and government securities. Expected loan portfolio growth, low funding costs, and depreciation of the Uruguayan peso (due to banks' highly dollarized financial statements), will help boost results.

Key assumptions

We expect 3.0% real GDP growth in 2024. and an average of 2.5% in 2025-2027. This year UPM's new pulp plant is fully operating and bolstering the country's exports. The economy is recovering from the effects of last year's drought and high relative price distortions with Argentina which dampened domestic consumption and boosted imported goods into Uruguay from Argentina.

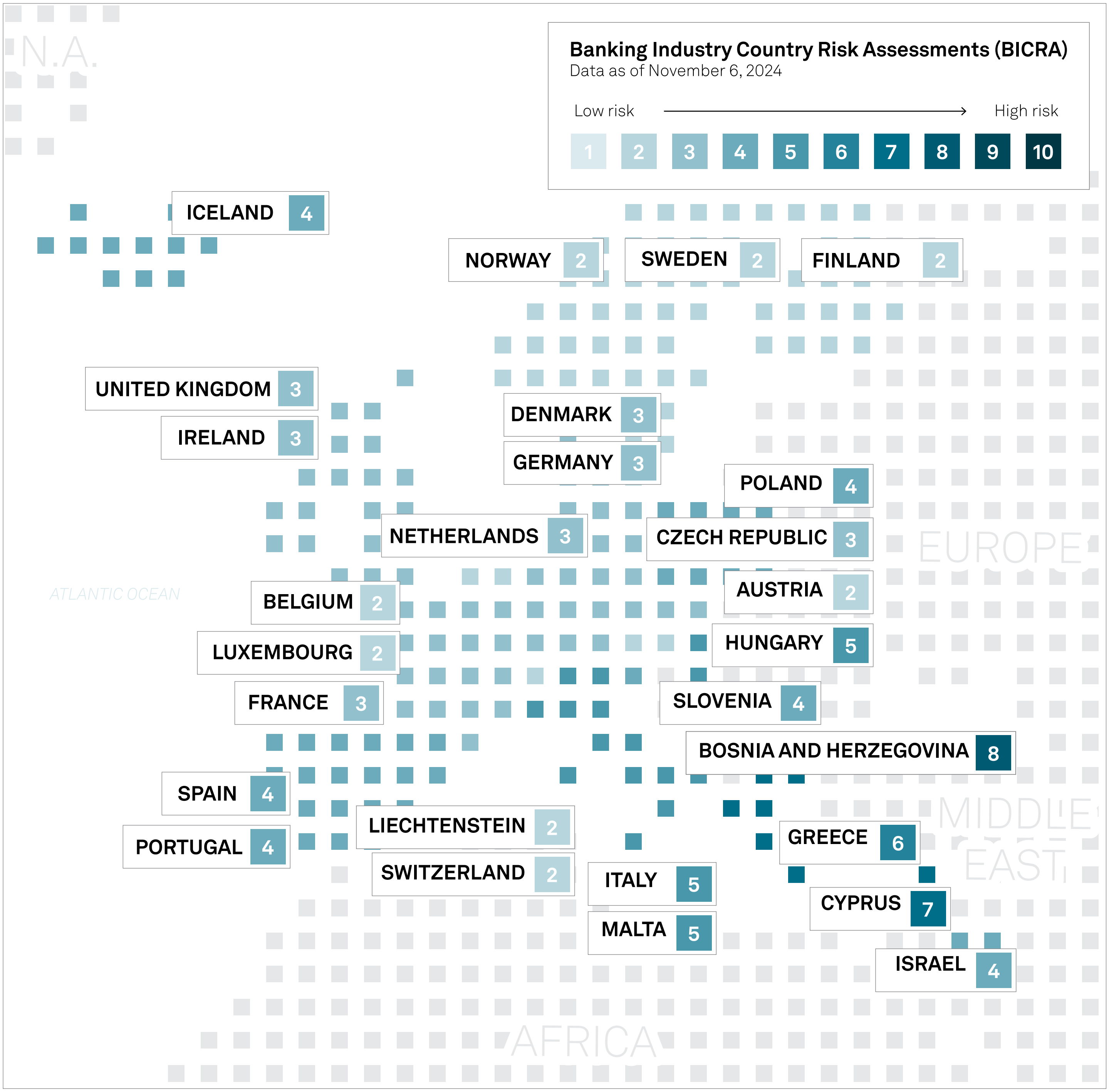
The banking system is mainly funded with stable deposits, although sight deposits represent 80%-85% of total deposits. Confidence in the financial system and the enhanced financial supervision and regulation have consistently reduced the risk of deposit volatility. We expect the system's deposit base to remain stable in the next 18 months, amid tax amnesty in Argentina.

What to look for over the next year

We expect broad continuity in economic policy following the legislative elections in October and presidential ballotage in November 2024. Uruguay's broad political consensus, along with its stable and well-established institutions, will continue to anchor its economic stability.

Limited monetary flexibility. Many years of elevated inflation and still high dollarization continue to limit Uruguay's monetary policy flexibility. Over half of resident loans and more than 70% of resident deposits are in dollars.

Europe


Banking Industry Country Risk Assessments (BICRA)
Data as of November 6, 2024
Low risk
High risk
1 2 3 4 5 6 7 8 9 10
N.A.
EUROPE
MIDDLE EAST
AFRICA
ATLANTIC OCEAN
ICELAND 4
NORWAY 2
SWEDEN 2
FINLAND 2
UNITED KINGDOM 3
IRELAND 3
DENMARK 3
GERMANY 3
POLAND 4
NETHERLANDS 3
CZECH REPUBLIC 3
AUSTRIA 2
BELGIUM 2
LUXEMBOURG 2
HUNGARY 5
FRANCE 3
SLOVENIA 4
BOSNIA AND HERZEGOVINA 8
SPAIN 4
PORTUGAL 4
LIECHTENSTEIN 2
GREECE 6
SWITZERLAND 2
ITALY 5
CYPRUS 7
MALTA 5
ISRAEL 4

Austria | BICRA group: 2

A Well Buffered Banking System Amid Persistent Structural Issues

Key takeaways

- Austrian banks have greatly benefited from higher interest rates, reflecting their high share of variable-interest-rate lending, which enabled quick repricing when rates rose and a doubling of their return-on-assets ratio.
- Austria has the highest recent nonperforming loan (NPL) increase in the EU: It relates mainly to commercial real estate (CRE) loans, particularly to the CRE company Signa and affects only selected banks.

Key credit drivers

Austrian banks' consolidated profitability is likely to decrease but remain high in 2024. This will continue to provide banks with earnings buffers to mitigate the increase in risk and refinancing costs. While pockets of risk threaten the credit quality of weaker or indebted borrowers, these cases are limited, reflecting the relatively low share of higher-risk loans. High wealth levels, low household indebtedness, and low unemployment contribute to the resilience of the retail loan portfolio.

Capitalization remains robust. Increased profitability strengthened the systemwide regulatory Tier 1 capital ratio to 18.5% at March 30, 2024, which we deem adequate and expect to continue. Austria has been long lagging most peers on capitalization but has closed the gap over the recent years.

Key assumptions

The economy will stagnate in 2024, but rebound thereafter. Austria's recovery is lagging most peers'. We project a return to average real GDP growth of 1.4% over 2025-2027, after the estimated 0.4% stagnation this year. At the same time, we forecast inflation will fall more strongly than expected: reaching 3% in 2024, 2.9% in 2025, and 2.6% in 2026.

Profitability will be sound. We expect the sector's return on average assets (RoAA) to moderately decline to about 1.0% in the next couple of years. In our view, efficiency will be near 65%, which does not stand out among peers but supports profitability through the cycle. At end-2023, the system reported 1.2% RoAA, which we deem as not sustainable, and a one-time positive result of the sharp interest rate increases. A dense branch network, legacy IT systems, and complex institutional structures continue to hinder sustainable improvements in efficiency and profitability over the cycle.

What to look for over the next year

Economic developments. Weak economic conditions or indirect effects from geopolitical tensions, particularly on global energy prices, sanctions, and trade flows, could challenge banks in Austria due to the country's export-oriented economy.

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Read latest report

Loan growth

Sector-average growth in loans.

1.5% 2025 forecast

0.5% 2024 estimate

-0.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.5% 2025 forecast

2.5% 2024 estimate

2.5% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.1% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Belgium | BICRA group: 2

Resilient Asset Quality And Lending Growth

Key takeaways

- The economy will grow modestly in 2025 with real GDP growth expected at 1.3%, but unemployment will remain contained at around 5.5%.
- Banks will likely see nonperforming assets remaining broadly stable at below 2% of total loans thanks to the overall robust real estate market.
- Belgian banks' healthy capital levels and digitally advanced, bank-insurance business models will continue to help them navigate the economic slowdown.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2025 forecast

4.0% 2024 estimate

2.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.8% 2025 forecast

1.9% 2024 estimate

1.8% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.7% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

Credit demand is expected to improve in 2025. We project that the increase in private sector borrowing will outpace nominal GDP growth in 2025 for the first time since 2020 on the back of lower interest rates and declining inflation. We also expect credit demand from the corporate sector, which has been subdued in the past few years with a compound annual growth rate of 1.16% over 2023-2019, to pick up. We therefore expect credit growth to stabilize at about 4% per year, which is nonetheless below the above 5% recorded during 2016-2022.

Healthy capital and bank-insurance business models support Belgian banks' prospects. Pressure on the private sector will persist in 2025 within some sectors like commercial real estate. However, pressure will be less than in other banking sectors, as Belgium's real estate sector remained relatively resilient against significant headwinds. Overall, we expect nonperforming loans to settle at around 1.8% of total loans and credit costs at around 25 basis points (bps) by 2025. We expect banks to continue showing strong profitability metrics, with return on average assets remaining at 60-70 bps, while their focus will shift from cost-efficiency toward growth on lending, as well as on insurance, private banking, and asset management activities.

Key assumptions

Belgium's annual real economic growth will average 1.3% in 2024-2026 on the back of robust consumption and investment activity, declining inflation, and faster European economic growth from 2025. The labor market is expected to hold up, with a stable unemployment rate of 5.5%.

The residential housing price correction is coming to an end. We anticipate a mild recovery of housing price in real terms in 2025, after a moderate correction in 2024. Real house price growth in 2025 is expected to be underpinned by higher real estate demand and receding inflation.

What to look for over the next year

Competition on mortgage lending and deposit rates. We expect competition, particularly on mortgage lending, to remain elevated as banks push to defend or expand their market shares. Competition on deposits in the Belgian banking system should moderate as the European Central Bank has begun to lower its interest rates. We think Belgian deposits competition peaked in September 2024 with attractive savings and term accounts offered to attract the €22 billion repayment of 2023's Belgian state bond issuance.

Bosnia and Herzegovina | BICRA group: 8

An Improved Institutional Framework But Politics Remain Volatile

Key takeaways

- Banks in Bosnia and Herzegovina (BiH) have benefited from higher interest rates since 2022. Return on equity (RoE) increased to 18.4% in June 2024 from 12% at year-end 2022. Over the next two to three years, we expect average RoE to stabilize at slightly over 10%.
- Despite improved asset quality, we continue to view banks in BiH as highly exposed to credit risk due to structural factors such as low income levels, high unemployment, and more prevalent corruption.

Key credit drivers

Loan books are skewed heavily toward riskier consumer loans. These are typically unsecured and accounted for about 70% of total loans to households as of August 2024. Still, asset quality has improved materially over the past decade, with the nonperforming loan (NPL) ratio decreasing to 3.5% as of June 2024 from about 15% in 2013.

Robust capitalization provides a buffer against credit losses. As of June 2024, the systemwide common equity Tier 1 ratio stood at 18.5% and the leverage ratio at 10.7%. In June 2024, regulators introduced a systemic risk buffer that ranges from 0% to 2% depending on the bank's NPL ratio and coverage level. This will further bolster capitalization, especially for banks with weaker asset quality and lower coverage levels.

The Central Bank of Bosnia and Herzegovina cannot act as a lender of last resort. This increases banks' funding and liquidity risk and explains why BiH banks typically maintain high levels of liquidity, with liquid assets representing about 30% of total assets.

Key assumptions

BiH's GDP per capita of about €7,700 puts it in Europe's bottom quartile. After a modest expansion in 2023, we expect real economic growth will solidify at about 3% per year over 2024-2027. Unemployment will remain a weak spot, although we project it will fall to 12% by 2026 from 14% at year-end 2023.

Real house prices in BiH increased about 10% in real terms in 2023. This is contrary to the broader trend in many European countries. Still, we expect real house price growth to moderate to below 5% over the next two years. In addition, we project headline inflation will fall to 2.4% in 2024 compared with 6.1% in 2023, in line with developments in the eurozone.

What to look for over the next year

Political tensions. BiH's institutional and governance arrangements are arguably among the most complex in the world. Frequent internal political blockades and confrontations could pose a risk to economic stability and ultimately the banking sector.

Progress on a financial stability fund. We understand authorities are discussing the introduction of a financial stability fund that could provide liquidity in exceptional cases and facilitate bank resolution. However, no agreement has been reached on whether this fund should be at the state level or at that of the two entities that make up BiH.

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Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

9.0% 2024 estimate

6.7% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.9% 2025 forecast

3.7% 2024 estimate

3.8% 2023 actual

RoAA

Sector-average return on average assets.

1.6% 2025 forecast

2.0% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Cyprus | BICRA group: 7

Lower Impairments And Better Efficiency Will Support Profitability

Key takeaways

- Cypriot banks have cleaned up a large portion of their legacy nonperforming exposures (NPEs), although these remain among the highest in Europe.
- Lower cost of risk and higher efficiency will help banks preserve adequate profitability.
- Banks' funding profiles improved due to rapid deleveraging. Reliance on nonresident deposits drastically reduced, but remains material.

Key credit drivers

Cypriot banks have cleaned up a large portion of their legacy NPEs. At 6.9% of gross loans as of June 30, 2024 and forecast at 6.0% at year-end 2025, Cypriot banks' NPE ratios remain among the highest in Europe. Still, most are with the smallest banks--the three largest banks, representing about 90% of the market, had an average ratio of about 2.6% (excluding NPEs covered by the asset-protection scheme) at end-June 2024.

Profitability prospects balance expected rate declines with lower cost of risk, efficiency gains, and a return to lending growth. Rising interest rates have bolstered net interest income, with banks' return on equity peaking at 23.3% in 2023 from 4.7% in 2022. We expect return on equity will fall to 17%-19% in 2024 and 12%-13% by 2025 as rates come down. Partly offsetting the impact of lower rates on net interest margin, banks' streamlined cost structures and lower cost of risk--at 55-65 basis points--will allow them to sustain profitability well above that of 2011-2022.

Banks' funding risk has eased, but nonresident deposits remain a source of volatility. Loans-to-domestic core customer deposits declined to a low 64% on June 30, 2024, well below the 185% peak in 2013. Although still material, the risk related to nonresident deposits--less than 15% of the total--is declining, in our view, thanks to banks' efforts to improve anti-money-laundering practices.

Key assumptions

Cyprus' economic growth should outpace the EU average. After a 2.5% increase in 2023, we forecast 3% average growth over 2024-2027, compared with the eurozone's 1.2% average over 2024-2027.

After years of deleveraging, banks' net credit should return to positive territory. We forecast net credit growth will range from 2% to 3% over 2024-2026.

What to look for over the next year

New NPE inflows remaining limited. Given Cyprus' solid growth prospects and improved underwriting standards, we think it is less likely that significant asset quality issues will resume.

Access to funding markets and pricing trends. Even if modestly, the two largest banks will need to tap markets to fill their minimum requirement for own funds and eligible liabilities buckets by 2025, while nonresident deposits will continue to gradually decline.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

2.0% 2024 estimate

-6.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

6.0% 2025 forecast

6.9% 2024 estimate

7.9% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.7% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Czech Republic | BICRA group: 3

The Country's Economic Recovery Benefits Banks

Key takeaways

- Czech banks' profitability remains among the highest in Europe, thanks to high interest margins, sound cost efficiency, and low cost of risk.
- We expect nonperforming assets and credit losses to rise slightly over the next 12-24 months, returning to cyclically normal levels.
- Further reductions of interest rates by the Czech National Bank will reduce banks' net interest margins, although a reduction of funding costs will limit the impact.

Key credit drivers

The resilient economy supports bank operations. The country's low unemployment and high financial buffers of households and corporates reduce credit risk in the banking sector. The Czech Republic continues to have the lowest banking system risks in Central and Eastern Europe, but the high reliance on Western European value chains, particularly those in Germany, is a risk considering the current weakness of the neighboring trade partner.

Banks have sound earnings, strong capital, and liquidity buffers. Their high earnings capacity and solid portfolio quality, despite challenging operating conditions over the past two years, indicate structural strengths. Intense competition in the country has led to fast repricing of loans and deposits, and higher funding costs than other European banking sectors.

Key assumptions

The economy will continue to recover in 2025. We project economic activity will return to positive territory in 2024, with real GDP growth of 1.0%, followed by 2.5% in 2025. The ongoing monetary easing and moderate inflation will contribute to higher household consumption and recovery of corporate investments.

Banks will benefit from robust earnings, supported by a pickup of loan demand, particularly mortgages. Repricing of existing mortgage contracts from renegotiated interest rates will help many banks' net interest income, in our view. The reduced funding costs will also help. Operating costs should move in tandem with revenue thanks to management teams' efforts to control costs.

What to look for over the next year

Residential real estate prices. The price correction in the residential real estate market has ended in 2024. Although loan demand remained low to start 2024, we expect a broad-based recovery into 2025 with ensuing real estate prices expansion.

Moderate asset quality deterioration. Czech banks have been reporting strong asset quality indicators in the first half of 2024, outperforming our projections. We expect a slight uptick of the nonperforming loan ratio to 2.1% at the end of 2024, because of the delayed impact of higher interest rates on portfolios, and a slight improvement in 2025 toward 1.9%. A significant deterioration is unlikely, although we will monitor relevant indicators and assess banks' risk appetite considering recent relaxation of macroprudential policies.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

4.0% 2024 estimate

6.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.9% 2025 forecast

2.1% 2024 estimate

1.9% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Denmark | BICRA group: 3

Robust Economy And Sound Asset Quality Help Profits

Key takeaways

- Tailwinds from higher interest rates, along with cost-efficient covered bonds funding and relatively low credit costs, have boosted Danish banks' profitability. This will underpin the sector's improved resilience and continued investment capacity.
- Favorable economic growth prospects, low unemployment and recovering house prices will keep credit losses contained over 2024-2025.
- Banks rely substantially on wholesale funding, but the depth of the stable domestic covered bond market operating under Denmark's Balance Principle bolsters stability.

Key credit drivers

Banks' improved profitability supports their robust capitalization, while the covered bond market provides a stable funding source. Higher interest rates, cost-efficient stable funding through covered bonds, and relatively low credit cost continue to uphold Danish banks' profitability. We forecast solid 11% return on equity (ROE) for Danish banks in 2025, facilitating further capital buildup from earnings retention and typically moderate shareholder distributions.

Credit losses remain relatively low and manageable in the European context. We anticipate that Denmark's solid economy, sustained corporate and household resilience, and a sound agricultural sector performance (albeit cyclical) will contain risk from a difficult global operating environment.

Key assumptions

Denmark's resilient economy supports banks' low economic risk environment. We forecast real GDP growth in Denmark of 2.0% in 2024 and 1.8% in 2025, helped by a strong pharmaceutical sector, countering lower consumer sentiment and performance in other sectors.

House prices continue to recover. We anticipate the mortgage sector will continue to recover under waning pressures from inflation, and decreasing mortgage interest rates. This follows material temporary house price decreases of 4.8% and 9.3% in 2022 and 2023 that offset a house price surge of a similar size over 2020-2021.

What to look for over the next year

Asset quality trends. We forecast the resilient economy and high employment will contain nonperforming loans at 1.4% of domestic loans by 2025 and translate into moderate credit losses at 0.1% in 2024-2025. This is underpinned by banks' balance sheet strengthening in recent years and ongoing tailwinds from the robust economy, particularly the pharmaceutical sector.

Development in house prices and private sector indebtedness. Ongoing stabilization of property prices and high employment are paramount to asset quality, considering that Danish private sector debt remains very high in the EU, despite material improvements since 2021.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

2.0% 2024 estimate

3.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.4% 2025 forecast

1.4% 2024 estimate

1.4% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Finland | BICRA group: 2

Banks Will Sustain Strong Earnings Through 2025

Key takeaways

- The Finnish banking sector will continue to benefit from the high-interest-rate environment, and we anticipate continuously strong profitability in 2024-2025.
- Credit growth should pick up over the next year, given the economic rebound, falling interest rates, and households' strengthened disposable incomes.
- Despite vulnerabilities in certain sectors, we expect asset quality to remain intact, and housing market activity to pick up in 2025.

Key credit drivers

Strong earnings continue to bolster banks' operating efficiency and capitalization. Even though net interest income has started to decline, profitability remained strong in first-half 2024, and we expect the sector will deliver a still-high return on equity of 12%-13% in 2024-2025. This will support continued capital buildup and further investments in digitalization and automation.

Asset quality will remain resilient and deteriorate only moderately. Overall, we forecast domestic nonperforming assets will remain above cyclical lows, but below 2% of gross loans through 2025, compared with 1.7% in 2023. Similarly, we project credit losses will remain somewhat elevated at 20-25 basis points (bps) in 2024-2025, compared with 26 bps in 2023.

Key assumptions

Following stagnation, we forecast GDP growth of 1.4% in 2025. Finland's economic performance will be weak in 2024 (-0.25%) before recovering in 2025 as consumption and investment improves on lower inflation and financing costs. Although moderate, the expected average economic growth of 1.2% between 2025 and 2027 is in line with growth rates for wealthy economies.

A slowly recovering housing market after the sharp correction in 2023. Transaction volumes and new residential construction starts have started to show early signs of reinvigoration in second-half 2024, following a nominal market price correction of 6.5% in 2023. We anticipate market activity will pick up from 2025, particularly in Helsinki and other growth cities, and drive nominal price growth of 2%-3% over 2025-2026.

What to look for over the next year

The influence of external factors. Finland's small, open economy depends on trade with eurozone members, so economic developments in key European trading partners and geopolitical tensions will be key over the next years.

Deterioration of asset quality beyond our base-case scenario. Distress in certain sectors, especially real estate and construction, as well as high interest rates squeezing households' disposable income, continue to pose risks to asset quality.

Market consolidation. We expect the number of banks and branches will continue to decrease through mergers within amalgamations. This will support the sustained improvement in operating efficiency.

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Loan growth

Sector-average growth in loans.

1.5% 2025 forecast

-1.0% 2024 estimate

-0.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.7% 2025 forecast

1.8% 2024 estimate

1.6% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.8% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

France | BICRA group: 3

Diversified Business Models Cushion Asset-Quality Deterioration

Key takeaways

- The recovery of net interest income in France is slower that we initially anticipated, with slow repricing of assets as new credit origination volume is sluggish and competition fierce among banks, while deposit costs have increased.
- We expect limited asset-quality deterioration, but profitability is still a significant challenge for the industry, while cost inefficiencies remain.
- Still, French banks' fundamentals remain sound, with diversified banking and insurance activities and robust balance sheets supporting the sector's creditworthiness.

Key credit drivers

Banks are diversified beyond retail and commercial banking. In particular, they are active in insurance, asset management, investment banking, and specialist finance. French banks benefit from their universal business models, a lower share of interest-sensitive activities than other markets, and high domestic market concentration. This typically yields stable and recurring earnings.

Interest rate rises haven't boosted net interest margins as much as for European peers. This is because French banks' liabilities reprice more quickly than their assets, such as fixed-rate mortgages. The repricing of assets will have a more favorable effect in 2025, as sluggish new credit origination slowed asset repricing in 2024. French banks have a more stable cost of risk than other European banks, and credit costs will normalize rather than spike.

Key assumptions

Economic growth will remain moderate and budgetary pressure increase. We forecast 1.2% GDP growth for France in 2025, close to 2024. Unemployment will stay below 2019 levels, at 7.6% in 2025, and inflation will decline to 1.9% in 2025 from 5.7% in 2023.

Credit growth will revert to 2.5%-3.0% per year from 2025 and asset-quality deterioration will be contained. Asset quality is structurally supported in France by fixed-rate mortgages, and proved resilient amid the interest rates rise. Defaults should increase in the coming year mainly for corporates and small and midsize enterprises, as well as consumer lending. We project domestic nonperforming assets will increase to 2.8% of domestic loans by year-end 2025.

What to look for over the next year

Political challenges, if they add risks to the economic growth outlook and to addressing France's budgetary imbalances. Low economic growth and funding conditions are risks to banks' asset quality and business prospects. A material downward revision of our economic forecasts or our credit loss projections could affect our ratings in the sector.

Banks' business-model strength and capacity to adapt to stretched operating conditions. Both tight margins and cost inefficiencies typically undermine profitability. We will look at discipline in asset margin management which should normalize after two years of intense pressure. Moreover, we will track efficiency improvements, which will be key to banks maintaining profitability.

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Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

1.5% 2024 estimate

1.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.8% 2025 forecast

2.7% 2024 estimate

2.3% 2023 actual

RoAA

Sector-average return on average assets.

0.4% 2025 forecast

0.3% 2024 estimate

0.3% 2023 actual

Figures as of fiscal year ending December.

Germany | BICRA group: 3

Resilience Despite Economic Underperformance

Key takeaways

- We expect cyclical interest rate support to peak in 2024 and German banks' profitability to decline from 2025 and remain structurally below peers'.
- We slightly revised up our 2025 forecast for domestic credit losses, but expect German households and companies to remain resilient, despite a modest economic outlook.
- We see German banks' sizable exposure to the commercial real estate sector (CRE) as remaining manageable and primarily a risk to banks' profitability, but not to their capital buffers. We note first signs of declining price pressure in German CRE, while falling asset values and cash flows in the U.S. will continue to affect German banks active in that market.

Key credit drivers

Profitability remains a relative weakness. Inefficient cost bases, overcapacity, and intense competition put a structural strain on margins. The relatively lower profitability also reflects the banking system's structure, with strong market shares of savings and cooperative sectors that focus less on maximizing profits. We expect profitability to decrease again in line with policy rates, and forecast a return on equity below 6% from 2025, compared with an expected 6.5% in 2024.

Asset quality is robust. Germany's economic model is facing structural challenges and remains materially exposed to geopolitical risk. Due to a persistent modest economic outlook, we slightly revised upward our expectation of domestic credit losses for 2025 to 25 basis points (bps), up from 20 bps previously, and compared with 20 bps for 2024. Overall, we expect German households and companies to remain resilient, based on their proven track record of adapting to challenges.

Key assumptions

The German economy will return to growth from 2025. We forecast that the economy will expand marginally by 0.2% in 2024, then achieve GDP growth of 1.1% in 2025 and 1.3% in 2026.

We expect a robust labor market and stabilization of German house prices. A severe deterioration of these elements would pose a material risk to our credit loss forecast. We anticipate declining pressure on CRE prices, but transaction volumes remain low while price discovery continues.

What to look for over the next year

Trends in revenue and deposits costs. Banks are trying to increase fee income to offset pressure on interest income. The use of structural hedges and the evolution of deposit costs will drive net interest income. At the same time, improving economic prospects and lower interest rates could lead to higher credit growth, helping to defend the revenue base.

UniCredit's investment in Commerzbank. While it is too early to say whether a full takeover attempt will happen, in such a scenario the ratings on Commerzbank, which benefit from its sizable buffer of bail-inable debt, could come under pressure.

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Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

2.0% 2024 estimate

1.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.4% 2025 forecast

1.1% 2024 estimate

1.1% 2023 actual

RoAA

Sector-average return on average assets.

0.3% 2025 forecast

0.3% 2024 estimate

0.3% 2023 actual

Figures as of fiscal year ending December.

Greece | BICRA group: 6

Improved Resilience In The Greek Banking System

Key takeaways

- The European Central Bank's (ECB)'s decision to approve Greek banks' resuming dividend payments, and the Hellenic Financial Stability Facility's disposal of remaining stakes in Greek domestic systemically important banks evidence the effective balance sheet transformation in recent years.
- Leaner cost structures, normalizing cost of risk, and lending growth will support banks' bottom line as the rates environment becomes less supportive and earnings weaken.
- Greek banks' funding and liquidity profiles continued to improve, despite repayment of most targeted longer-term refinancing operations funding from the ECB.

Key credit drivers

The active balance sheet cleanup is ending, with most asset quality issues remaining with smaller banks. This trend, alongside new lending to healthier businesses, leads us to project the system's domestic nonperforming asset (NPA) ratio will decrease to about 5% by end-2025, through sales and organic recoveries. Still, we expect cost of risk to remain near 80 basis points for most banks in the next 12-18 months, well above that of European peers.

Capital quality is still weak, and prospects for improvement remain low, restraining bank ratings. Deferred tax credits constitute over 50% of banks' equity base and are amortized in small amounts.

Banks' earnings capacity improved but lower rates will test profitability resiliency. Lower cost of risk, strong fee and commission income, resumption of credit demand, and improved operational efficiency will only partly compensate for the loss in net interest income from lower margins. We expect return on average equity to decline to 11.0% in 2025 from 13.7% in 2023, but remain solid.

Key assumptions

We project Greece's real GDP to rise by 2.4% on average over 2024-2027, outperforming its peers. This will mainly reflect the tangible pickup in investment activity driven by NextGeneration EU projects, as well as the fact that Greece's economy is still 22% smaller than its pre-debt crisis peak.

We expect Greek banks' asset quality to be resilient with limited new NPA inflows. The positive outlook in domestic property markets, improved underwriting standards, and increased recovery prospects due to judicial reforms in the past decade will support this.

The ongoing absorption of the EU's support funds will bolster demand for new corporate loans. We expect banks' loan books to expand by 3%-4%.

What to look for over the next year

Net interest income evolution as rates decline. With a high share of variable rates loans, all banks will be focused on locking in their recent strong gains.

Banks' capital allocation going forward. After over a decade, banks have resumed dividends in 2024. Some have also conducted mergers and acquisitions, such as Eurobank S.A. taking a majority stake in Hellenic Bank Public Company Ltd.

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Loan growth

Sector-average growth in loans.

3.5% 2025 forecast

3.5% 2024 estimate

2.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.0% 2025 forecast

5.5% 2024 estimate

6.6% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

1.1% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Hungary | BICRA group: 5

Modest Economic Recovery And Sound Profitability

Key takeaways

- We expect Hungarian banks to fare well in the second half of 2024 and 2025, owing to sound profitability and robust lending margins.
- However, renewed discussion about additional banking taxes and extraordinary items might take their toll as the government continues to intervene in the financial sector and siphon off extra profits.

Key credit drivers

Inflation is back to target levels. Inflation decreased to 3.0% in September, falling in line with the central bank's target for the first time since January 2021. Therefore, interest rate cuts have been halted by the central bank recently. Banks experienced a normalization of market rates and higher loan volumes, leading to sound returns.

Impairment losses in the retail and small and midsize enterprise sector are contained. Despite the economic slowdown, we do not observe a material worsening of credit quality, since households' creditworthiness remains resilient and the stabilization in asset quality was supported by the reclassification of transactions previously falling under the payment moratorium.

Key assumptions

Economic growth remains lower than in the recent past. We anticipate GDP growth of 1.6% in 2024 and a rebound to around 3% in 2025, bolstered by rebounding domestic demand, progressively picking up over the second half of the year as interest rates fell sharply and real wage growth gathers pace. Nevertheless, Hungary's recovery faces headwinds from an accentuated weakness in external demand, in particular from Germany, despite price growth falling below expectations at the start of the year.

Housing prices will stabilize. Residential property prices in Hungary rose by 2.7% in the first quarter of 2024 but unevenly, up 3.6% in Budapest and down 0.6% in smaller municipalities. As the economic situation settles, we expect improving credit conditions and a further stabilization of prices in contrast to recent years. We do not consider commercial real estate exposure to be a potential risk due to that sector's limited size and sound underwriting standards.

What to look for over the next year

Pressure on the institutional framework. The central bank’s independence has come under increased scrutiny from the government, since proposed laws would grant its supervisory board additional rights. A loss of independence for the central bank would put at risk past successes on withstanding interventionist government measures and hamper the establishment of a sound monetary policy framework, which could also impact bank ratings.

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Loan growth

Sector-average growth in loans.

7.4% 2025 forecast

6.0% 2024 estimate

4.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.9% 2025 forecast

2.8% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.5% 2024 estimate

2.1% 2023 actual

Figures as of fiscal year ending December.

Iceland | BICRA group: 4

Banks Are Well-Positioned Amid Ongoing Economic Cooling

Key takeaways

- Iceland's economy has slowed as a result of weaker exports and high interest rates, but growth prospects remain comparatively benign.
- While returns are edging down on tightening margins and rising expenses, including cost of risk, banks remain profitable and well-capitalized with robust loss-absorption capacity.
- Economic imbalances remain contained for now, despite the recent surge in house prices, supported by historically low private sector leverage.

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Key credit drivers

Resilient credit growth and high operating efficiency will continue to support incumbent banks' profitability. We expect return on average equity of 9%-11% over the next two years, despite a tightening net interest margin and rising operating expenses, including cost of risk.

We project the nonperforming assets ratio will rise moderately to 2.0%-2.2% over 2024-2026. Downside pressure from lingering inflation and tight policy rates is balanced by historically low private sector indebtedness, which we expect will remain at 145%-150% of GDP, from 148% at year-end 2023.

A stronger-than-expected rebound in residential property prices will keep valuations above underlying fundamentals. The effect of government measures to support households affected by the volcanic activity has been stronger than anticipated but should eventually taper off. We forecast real house price growth of about 5% in 2024 and 3%-4% in 2025-2026.

Key assumptions

We project GDP growth will average 2.4% over 2024-2026. Alongside tourism, domestic demand will be key to growth, partly due to population growth and the expansion of new economic sectors, such as biotechnology and sea- and land-based fish farming.

Inflation-linked loan books will continue to drive credit growth. Persistent inflation, at 5.4% in September 2024, will continue to boost loan growth, given incumbent banks' high share of lending linked to the consumer price index (CPI), accounting for 57% of total mortgage loans and 41% of corporate loans as of July 31, 2024.

What to look for over the next year

Growth dynamics and external demand. Economic output contracted by close to 2% year on year in first-half 2024 on weaker performance in key export sectors and muted private consumption. Weaker-than-anticipated economic growth would likely have a negative impact on Icelandic banks' credit quality and earnings.

Policy rates and inflation. While widespread CPI-linked lending practices constrain policy rate effectiveness, the tight monetary stance has clearly tamed domestic demand. Falling inflation and subsequently rising real interest rates could increasingly weigh on consumer sentiment and debt serviceability.

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

7.0% 2024 estimate

5.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.0% 2024 estimate

1.7% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.4% 2024 estimate

1.7% 2023 actual

Figures as of fiscal year ending December.

Ireland | BICRA group: 3

Banks Continue To Benefit From A Benign Environment

Key takeaways

- Interest rate declines will put pressure on margins, but Irish banks' profitability will remain solid in 2025 thanks to larger scale, a focus on fee growth, and structural hedges.
- Anticipated economic growth and a resilient labor market will hold asset-quality metrics near target levels.
- We expect Irish banks' robust capitalization and sound funding profiles will underpin their resilience.

Key credit drivers

Profitability prospects remain solid despite a gradual fall in interest rates. The larger scale that market consolidation over past few years brought, an expected growth in fee income, and structural hedges will support banks' earnings while funding costs will likely remain contained thanks to a large share of cheap deposits. We forecast the sector's domestic return on equity to be above 12% in 2024 (down from above 14% in 2023) and about 12% in 2025.

Systemwide problem loans will hover near 3% over the next year. While there are limited signs of asset quality weakness, we anticipate additional problem loans, mostly among small and midsize enterprises. We expect the deterioration to be manageable, with credit costs limited to within the through-the-cycle level of 20-30 basis points of average loans.

Key assumptions

The economy will continue to outperform peers. We expect growth in Ireland's gross national income, a measure of underlying economic activity, to average 2.1% in 2024-2025 and remain above eurozone GDP growth of about 1.0%. The labor market will remain tight, with unemployment at about 4.4% in 2024-2025.

We expect the shift in monetary policy to be smooth. We expect the European Central Bank to cut rates 25 basis points each quarter until the deposit rate reaches 2.5%.

What to look for over the next year

Revenue diversification efforts. Domestic banks are focusing on more stable income sources, not vulnerable to interest rate changes, through increased asset management propositions, brokerage businesses, and partnership with insurance companies, although they still lag banks elsewhere.

Structural efficiency improvements. Despite Irish banks' focus on efficiency, expense in absolute terms grew significantly over the past two years, owing to staff increases to onboard clients transferring from exiting banks, the introduction of health benefits and variable pay to employees, and investment in IT systems and automation. Enhancing cost efficiencies through optimization of operating structures is critical for Irish banks to sustain robust profitability, especially as interest rates return to normal levels.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

3.5% 2024 estimate

5.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.1% 2025 forecast

3.0% 2024 estimate

3.2% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.0% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Israel | BICRA group: 4

Risks Are Rising Amid Conflict And Related Uncertainty

Key takeaways

- Escalating geopolitical risk could hurt the economy and banking sector.
- Israeli banks will face increasing risks with sound credit fundamentals.
- Structural challenges remain, including banks' sizable exposure to the real estate sector.

Key credit drivers

Banks face higher risks amid increased geopolitical conflicts and economic slowdown. The length of the Israel-Hamas war and increased hostility with Hezbollah pose rising risk for Israeli banks. Banks might face a protracted deterioration of economic prospects and credit conditions, with a decline in revenue and substantial increase in credit losses. We expect government-sponsored measures to somewhat mitigate the effect on asset quality.

Real estate-related lending remains a key source of risk. Banks' exposure to real estate lending has increased materially since 2020. The war has directly affected construction, representing about 12% of the sector's loans, due to worker shortages, among other aspects. A drop in sales and higher-for-longer interest rates could stress developers and construction companies with limited financial flexibility, despite banks' conservative underwriting standards and moderate loan-to-value ratios (averaging 53% in March 2024). Structurally high demand for residential housing continues mitigating risks. Conversely, risk of office oversupply remains high, due to pressure on valuation from higher interest rates and the potential decline in demand amid a protracted economic slowdown.

Key assumptions

Conflict will affect growth. In our base case we expect GDP to stagnate in 2024 and grow just 2.2% in 2025 as the war directly affects many sectors of the economy, and security threats dampen consumer and investor confidence. If the conflict widens materially, Israel's economic growth, fiscal position, and balance of payments could deteriorate significantly.

Resilient profitability and good capitalization help banks cushion the effect of the war, but downside risks to asset quality and profitability are high. In our view, Israeli banks are facing this conflict with healthy asset quality metrics, ample liquidity, and earnings buffers, coupled with stable, largely domestic deposit bases, and strong profitability and capitalization. In our base-case scenario, higher-for-longer interest rates and exposure to assets linked to the consumer price index will support revenues, but we expect asset quality to deteriorate and credit losses to increase to 30-35 basis points over 2024-2026.

What to look for over the next year

The conflict's duration, possible escalation, and potential spread. The impact on Israel's economy and business confidence would have negative consequences for banks' creditworthiness.

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Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

5.0% 2024 estimate

6.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.6% 2025 forecast

1.2% 2024 estimate

1.2% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.9% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Italy | BICRA group: 5

Profitability Will Persist

Key takeaways

- Falling interest rates will only gradually hit Italian banks' sound profitability.
- Credit losses are likely to remain manageable for most banks.
- Differences among banks will become increasingly apparent.

Key credit drivers

Economic conditions are likely to stabilize. We anticipate GDP to expand by 1% in 2025 with private consumption picking up and net exports remaining strong. However, the Italian government's high debt and fiscal deficit weigh on its capacity to further support the economy.

Profitability to remain sound despite falling rates. We expect average return on equity for Italian banks will continue to exceed 10% next year. Returns will remain above the cost of capital for most banks, although gradually decreasing from the highs of 2023 and 2024.

Asset quality has proved more resilient than expected. Absent economic shocks, new inflows of nonperforming exposures are likely to only moderately increase, although they will remain close to the historical lows. This results from a structurally better risk management framework and relatively supportive economic conditions. Banks can still rely on government guarantees on over €200 billion of loans to enterprise, in particular small and midsize enterprises, providing a buffer against a sudden deterioration of their creditworthiness. Still, the effect will be manageable for most banks; we project credit losses will increase to an average of 60 basis points (bps) in 2024 and 2025 (from 45 bps in 2023),

Key assumptions

The interconnection with sovereign risk has declined but remains high. Italian banks' recent strong market performance has been highly linked to their enhanced profitability, but their cost of equity remains higher than peers' because of the sovereign rating. The latter can make the price of Italian bank bonds and market access more volatile than for most European peers.

Next Generation EU funds will play a key part of future growth. Given the sheer size of the recovery plan, using even a portion of these EU facilities would meaningfully boost economic growth. Still, we think that delays to future disbursements could dent the country's economic performance.

What to look for over the next year

Further consolidation in the banking sector. The UniCredit-Commerzbank saga is likely to continue to attract the most attention. It could also spur further reaction from domestic peers, given the government is finalizing the exit from Monte dei Paschi di Siena.

Stability of banks' funding profiles following the end of European Central Bank's targeted longer-term refinancing operations. All banks have paid back these funds while maintaining adequate liquidity and net stable funding ratios. Most largely replaced the funds through other sources, predominantly collateralized funding.

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Loan growth

Sector-average growth in loans.

1.0% 2025 forecast

-2.0% 2024 estimate

-3.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.4% 2025 forecast

3.9% 2024 estimate

3.2% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.8% 2024 estimate

0.9% 2023 actual

Figures as of fiscal year ending December.

Liechtenstein | BICRA group: 2

A Resilient Banking Sector

Key takeaways

- The entry into the IMF will give banks a liquidity buffer on top of the Swiss National Bank's (SNB's) and improve statistical transparency, including for the real estate market.
- Liechtenstein's banking sector is less susceptible than its European peers to economic swings but remains sensitive to reputational risk, global wealth levels, capital market valuations, and international competition in private banking.
- Banks will stay resilient and report low credit losses, although extreme market volatility could lead to margin calls and losses on Lombard lending, despite generally conservative risk management.

Key credit drivers

Domestic banks face strong competition and profitability pressure in their international activities. We expect the positive effect of higher rates on interest margins to fade from 2024, while higher spending will persist. Competition in global private banking remains high and requires improvements in value propositions and operating efficiency.

Banks remain vulnerable to reputational risk. Missteps in implementing the international sanction regime against Russia or a major outflow of funds from legal developments in other jurisdictions could lead to reputational or financial damage for domestic banks.

Key assumptions

Economic risk for Liechtenstein's banking sector remains relatively low in a global comparison because of its industries' high adaptability. We estimate real GDP will grow by 1.5% in 2025 from an estimated 0.8% in 2024. Inflation will continue decelerating and remain relatively low in an international comparison. We project inflation will reach 1.4% this year then decline to 1.1% by 2027.

Conservative lending standards and high wealth levels should support low credit risk. We project minor credit losses because of adequate risk management along with relatively high collateralization and low-risk lending to wealthy customers. A real estate market correction represents a minor risk, because of high income and wealth levels by homeowners, as well as limited transactions in Liechtenstein’s residential property market amid low supply.

What to look for over the next year

Setbacks in financial markets and global wealth levels. Lower assets under management and increased competitive pressure could reduce profitability and limit the capacity to invest in digital competencies and operational automation.

Banks' appetite for external growth amid very limited opportunities in the small domestic market. Large acquisitions or asset transactions could temporarily decrease capitalization, in our view. Consolidation efforts among private European banks will prevail as smaller players might not be able to cope with increasing investment needs and onerous regulatory requirements. We think economic volatility or uncertainty might delay (but not stop) consolidation.

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Read latest report

Loan growth

Sector-average growth in loans.

3.3% 2025 forecast

3.0% 2024 estimate

4.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.4% 2025 forecast

1.3% 2024 estimate

1.4% 2023 actual

RoAA

Sector-average return on average assets.

0.5% 2025 forecast

0.5% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Luxembourg | BICRA group: 2

High Interest Revenue Amid Lackluster House Market And Lending

Key takeaways

- Luxembourg's GDP per capita is among the highest in the world, with expected annual growth of 1.4%-1.8% in 2024-2026, low government debt, and low unemployment.
- Banks are generating strong interest income from high rates, something we expect to fade away from 2025. Nonperforming assets (NPA) are increasing--especially loans to real estate professionals--but we expect contained cost-of-credit risk, and some pickup in mortgage lending from 2025.
- Complicating supervision are the large nonbank financial sector and many banks being subsidiaries of foreign groups. Generally, financial institutions remain vulnerable to regulatory and reputation risks.

Key credit drivers

Luxembourg's real estate market is a main factor. The housing sector is a significant driver of the economy, and housing loans represent the largest part of banks' portfolios.

Private-sector credit growth is low. While domestic credit growth outpaced GDP until 2020, volumes of new mortgage loans have been subdued since 2023 following the housing market's slowdown.

Key assumptions

The housing market will bottom out in 2024. We expect a less than 5% decline in nominal house prices in 2024, following the nearly 10% drop in 2023. We see this as a market normalization after an increase of 50% in 2018-2021. We expect house prices to increase in 2025, although moderately, supported by Luxembourg's economic growth, demographics, and limited real estate availability.

Loan growth will remain below historical levels. Amid still-high interest rates, and with inflation of 2% or above, we foresee only limited increase in domestic mortgage portfolios in 2025.

Earnings will be resilient. Interest revenue was elevated in 2023, supported by high interest rates, but it started to erode in 2024 due to the migration from nonremunerated to term deposits and limited new lending. Pressure will likely continue in 2025. Banks have kept prudent underwriting, but NPAs are on the rise because of the depressed real estate market. We expect cost-of-credit risk to increase but remain below 0.5% of customers loans in 2024 and 2025, owing to high collateralization.

What to look for over the next year

House prices and net interest margins. After several years of rapid increases, the slowdown of the real estate market since the end of 2022 led to a normalization of nominal house prices, which we expect to finish by 2025. The combined effect of asset repricing and the changes in funding costs, notably from customer deposits, will determine the pace of normalization of banks' interest revenue.

Fiscal and regulatory risks. Inherent to its financial center position, Luxembourg is vulnerable to fiscal changes and the banking sector to regulatory and reputational risks. Its tax regime depends on international initiatives, like the implementation of the OECD minimum tax rate in 2024. However, the country's 17% headline corporate tax rate is adequate by international standards.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

0.0% 2024 estimate

-1.0%) 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.3% 2025 forecast

2.2% 2024 estimate

2.1% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Malta | BICRA group: 5

Growth Will Remain Solid

Key takeaways

- We expect the Maltese economy to continue to grow faster than the EU average in 2025 and 2026.
- Although we are watching the evolution of property prices, sound fundamentals mitigate the risk of a sharp correction in the real estate market.
- We think reputation risks for domestic banks will gradually abate.

Key credit drivers

Economic conditions will remain supportive for banks in Malta. S&P Global Ratings expects that, from 2025-2027, Malta will display stronger GDP growth than regional peers. This also reflects the government's decision to subsidize energy prices and a more limited pass-through of policy rate hikes in Malta than in other eurozone peers.

Credit losses and higher operational costs will weigh on profitability, despite rising net interest income. We assume credit losses will increase to 50-55 basis points over the next two years, which is still manageable for the banking sector.

Funding and liquidity profiles will remain solid. The banking system operates with a sizable deposit surplus compared with loans, and barely any net external debt. While we remain cautious on the deposits' stability compared with those in other larger EU economies, we consider funding and liquidity key strengths for Malta's banking sector.

Key assumptions

Fundamentals support high house prices. The real estate market benefits from citizens' preference for owning homes, interest from residents of other countries, and government incentives. Still, the potential buildup of imbalances is a risk to monitor, given that 60% of bank loans relate to real estate.

Reducing reputation risks requires work. We view positively authorities' progress in strengthening supervisory and enforcement effectiveness. But Malta still needs to show progress in identifying risks in banking regulation and supervision to be on par with other eurozone countries.

What to look for over the next year

The correlation with the global economy. The country's small and open economy is vulnerable to external shocks. In particular, disruption in global trade and tourism, amid escalation of the war in the Middle East, alongside elevated energy prices, could hit Malta hard.

The real estate market's performance. The regulator has enacted measures to reduce the risk of imbalances, including increasing risk weights for residential mortgage loans and stricter lending requirements at origination, in the form of limits on loan to value and debt service to income.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

5.0% 2024 estimate

8.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.8% 2025 forecast

3.8% 2024 estimate

3.8% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.7% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

Norway | BICRA group: 2

Banks Are Well-Positioned To Navigate Challenges

Key takeaways

- Norwegian banks continue to have strong capital and liquidity buffers that, on top of a dynamic economy and the sovereign wealth fund's ample reserves, underpin the sector.
- Similarly, public demand has buffered Norway's growth despite softer private consumption against a backdrop of higher-for-longer financing costs.
- Asset quality will remain contained, aided by high employment and nonmainland investment supporting the credit cycle over the next two years.

Key credit drivers

Inflation has proven sticky. Although Norway has navigated the past 18 months from a position of strength, the Norwegian krone has remained relatively weak, increasing input and labor costs.

Households have absorbed rising interest costs. A supportive labor market and amassed savings have cushioned households against higher interest rates and living costs. We expect real estate price growth will be stable over the next two years.

Banks are capital-rich and digitally advanced, with efficiency supporting earnings. The sector is well-positioned to remain resilient, with both capital and liquidity levels appearing sound. Asset quality has been stable despite some sectors, such as manufacturing and construction, facing headwinds.

Key assumptions

Real GDP growth will remain steady, near 1.0%-1.6% per year over 2025-2027. Currently the economy is on course to recover, with 2024 acting as a transition year from the softer dynamics seen in 2023 that were affected by higher interest rates. Growth factors include stable household consumption and capital expenditure related to the energy transition.

The cost of risk will stay manageable despite lingering pressure. We expect credit losses will remain at 0.1%-0.2% over 2024-2026 as the credit cycle normalizes. This is reinforced by nonperforming assets remaining below pandemic levels.

What to look for over the next year

Inflationary pressures are lingering. Inflation has been slower to correct than elsewhere, so the Norges Bank has been more hawkish than neighboring central banks. If financing conditions start to ease, demand may take a firmer hold over 2025-2026, which could lead to a faster pace of residential house price growth.

The path of medium-term investment. Hydrocarbon-related investment and the related growth drivers will be telling for Norway's outlook. Commercial real estate remains a focus given banks' relatively high exposure, and transaction volumes remain subdued. Also, while the weak krone has helped competitiveness, soft foreign demand could affect exports and thus corporate credit demand.

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Read latest report

Loan growth

Sector-average growth in loans.

2.8% 2025 forecast

2.9% 2024 estimate

3.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.8% 2025 forecast

0.8% 2024 estimate

0.8% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.1% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending June.

Poland | BICRA group: 4

Economic Growth And Lower Legal Costs Will Boost Profitability

Key takeaways

- Economic growth will continue providing a favorable operating environment for Polish banks.
- Asset quality should gradually improve and core profitability remain strong.
- Legal costs related to Swiss franc (CHF)-denominated mortgage loans should materially decrease.

Key credit drivers

Poland's economic rebound is set to continue in 2025, providing a favorable operating environment for banks. The country's growth outlook is underpinned by the inflow of EU funds, a robust labor market, and rising real wage growth, which we think will support private consumption.

Given longer workout processes and a less established secondary market for nonperforming loans (NPLs), we expect asset quality metrics to remain structurally weaker than peers'. Still, NPL ratios should decline given the economic rebound and active workout of legacy NPLs. Furthermore, the debt capacity of Polish households and private sector leverage remain solid.

After years of heavy provisioning charges by affected Polish banks, we expect costs related to CHF-denominated mortgages will materially fall in the next one to two years. One risk remains: a material increase in the proportion of borrowers with already-repaid CHF-denominated mortgage loans filing a lawsuit. Should that happen, we think affected banks would have the capacity to absorb the additional costs, but this would delay the expected normalization of profitability.

Key assumptions

We expect loan growth to accelerate over 2024-2025. Given improving economic conditions and our expectation of easing financing conditions next year, we project loan growth will pick up to about 5% in 2024 and 6% in 2025. We similarly project house price growth will return to positive territory in real terms over 2024-2025, after falling for the past two years.

Core profitability is set to remain strong. This is given our expectation that policy rates will be stable this year, before cuts of 75 basis points (bps) and 200 bps in 2025 and 2026, respectively. Furthermore, large excess deposits in the banking sector reduce deposit competition, supporting net interest margins. Overall, we expect the sector's return on equity to remain above 15% in 2024 and 2025.

What to look for over the next year

The new government's approach toward banks. High government intervention might be easing, which could support banks' profitability, investor confidence, and banks' access to international capital markets.

The regulator's new long-term funding requirement. It compels banks to cover 40% of their mortgage loans with funding that has maturities over one year. Given supportive market conditions, banks have been increasingly active in capital markets this year and will likely remain so.

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Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

5.0% 2024 estimate

-0.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.8% 2025 forecast

4.9% 2024 estimate

5.1% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.4% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Portugal | BICRA group: 4

Sound Profits And Efficiency, With Solid Funding Profiles

Key takeaways

- Portugal's economy will expand above the eurozone average and its labor market will remain resilient, while house price growth will continue but at a slower pace.
- Banks' profitability will prove solid despite lower interest rates, supported by above-peer efficiency, thanks to streamlined operating structures, and contained credit losses.
- Some manageable asset quality deterioration is likely, while banks will maintain sound funding profiles and benefit from easier access to the capital markets if needed.

Key credit drivers

Despite lower interest rates ahead, banks will maintain sound profitability. While net interest margins are set to decline, banks should benefit from streamlined operating structures and contained credit losses. Portuguese banks will continue to post solid profitability and efficiency in 2025, with domestic return on equity standing at about 10%, and cost to income at close to 40%.

Asset quality deterioration will be manageable. Despite no significant deterioration in the first half of 2024, problematic assets will likely increase somewhat in 2025--primarily among small and midsize enterprises and unsecured consumer loans--given the lag effect of inflation and high financing costs. The deterioration should be manageable, however, as economic growth will continue supporting employment and debt levels are more aligned with borrowers' repayment capacity. We forecast credit losses will stand at 57 basis points (bps) in 2025, in line with those of 2024.

Banks will remain mostly deposit-funded. Deposits will continue to be banks' main funding source, exceeding their loan books (with a loan-to-deposit ratio below 80%), supporting their ample liquidity. Decreasing economic risks and stronger sovereign and bank financials will provide Portuguese banks with easier access to foreign capital markets if needed.

Key assumptions

Economic growth will exceed the eurozone average. Portugal's real GDP is set to expand by 2% over 2025-2027 and the labor market to remain robust (6.5% unemployment rate over 2025-2027). Despite political fragmentation, Portugal's public debt reduction will continue. The housing market will remain dynamic, but nominal prices will grow at lower nominal rates than in recent years (3.5% in 2025 versus an average 10% in 2017-2022). Furthermore, banks are only financing about 46% of housing transactions.

What to look for over the next year

Banks' net interest margin (NIM) resilience. Gradually declining interest rates and the higher share of time versus demand deposits than other countries will test Portuguese banks' NIMs.

Potential for a sovereign upgrade. Diminishing external imbalances could translate into easing economic risks and ratings upside for two banks.

Asset quality trends. Worse-than-anticipated economic growth or housing market dynamics could result in higher credit costs and weigh on profitability and asset quality.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

0.5% 2024 estimate

-1.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.7% 2025 forecast

4.3% 2024 estimate

4.0% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

0.9% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending December.

Slovenia | BICRA group: 4

A Small Sector With Sound Asset Quality And Solid Profitability

Key takeaways

- The significant corporate deleveraging over the past 10 years has reduced credit risks substantially in the financial system.
- Slovenian banks will maintain solid profitability, sound capital, and high liquidity buffers, which will help them absorb potential pressure on asset quality.
- Banks benefit from high asset margins and low pass-through of interest rates to depositors, but we expect net interest margins to decline in the next two years.

Key credit drivers

Slovenian banks maintain robust financial performances, supported by a resilient economy. Their substantial de-risking efforts in recent years and improved cost efficiency have strengthened the sector's competitive standing. Sector consolidation continued with OTP Bank's acquisition of the second-largest bank in the country. The largest bank, NLB, is also showing a keen interest to expand internationally in its core markets, particularly Croatia and Serbia.

The private sector's low indebtedness limits credit risk. Leverage ratios in Slovenia are lower than in most other European economies, mainly because companies have strongly deleveraged and possess limited appetite for loans. The lagged effects of higher interest rates will likely exacerbate credit risk and lead to contained asset quality deterioration in the next 12 months.

Key assumptions

The Slovenian economy will expand robustly in 2025. We forecast GDP growth at 2.3% in 2025, up from 1.6% in 2024. We think unemployment will remain low in 2025, at 3.6%, while inflation continues to drop to a projected 2.5% in 2026. The country, however, relies heavily on energy-intensive sectors and exports to larger EU countries because it is closely integrated in Western European supply chains, which expose it to risks in those countries.

Sound profitability and resilient balance sheets will continue. We anticipate the banking sector's profitability to remain sound, mainly thanks to the revenue boost from higher interest rates. We project operating revenues to decrease in 2025, bringing the sector-wide return on equity ratio to 13.0% in 2025 from an estimated 15.0% in 2024.

What to look for over the next year

The effects from lower interest rates. Banks in Slovenia are mainly funded with customer deposits, of which a large proportion comes from households and consists of overnight deposits. The country has one of the largest gaps between loan and deposit rates in the eurozone. The pass-through has been moderate so far despite interest rate adjustments. We expect net interest margins to decrease over the next 12-24 months because lower policy rates will affect new loans.

Real estate price developments. Inflation-adjusted residential real estate prices decreased 3.0% in 2023, a substantial cooling-off from increases of 13.7% in 2021 and 2.0% in 2022. We think real estate prices will rise an average of 4.5% in the next two years because mortgage interest rates will fall.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

3.0% 2024 estimate

-3.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.1% 2025 forecast

2.4% 2024 estimate

2.1% 2023 actual

RoAA

Sector-average return on average assets.

1.5% 2025 forecast

1.7% 2024 estimate

2.1% 2023 actual

Figures as of fiscal year ending December.

Spain | BICRA group: 4

Profitability Should Prove Resilient

Key takeaways

- Banks' profitability will likely remain robust in 2025, as active hedging and the return of volume growth contains the negative impact of the gradual decline of interest rates on revenues, and banks preserve their solid efficiency.
- Resilient labor markets, dynamic economic growth, easing monetary policy, and contained private sector leverage will help keep asset quality under control, with credit costs remaining fairly stable at around 55-60 basis points.
- Banks will continue to benefit from sound funding profiles and adequate capitalization.

Key credit drivers

Supportive economic growth in Spain. We forecast that Spanish real GDP will expand by over 2.0% on average in 2024-2027, twice the eurozone average. This is thanks to the deployment of NextGeneration EU funds, strong tourism performance, and resilient private consumption as unemployment continues to decline. However, the complex political landscape will continue limiting the government's policy action, and the country remains burdened by high public sector debt.

Profitability will remain solid despite declining interest rates. Banks have undertaken hedging strategies to minimize the hit of interest rate declines to their margins. Meanwhile, the return of lending growth after more than a decade of deleveraging and an increased focus on fees will also underpin revenue generation. We therefore forecast the banking system's domestic return on equity will decline only moderately to 10.5% in 2025. Banks will also maintain their efficiency advantage, after having significantly downsized their operating structures over the past decade. Solid profitability will particularly benefit midsize players, bolstering their ability to invest in digitalization and build up capital. Several of these banks are therefore currently on a positive outlook.

Asset quality will remain resilient. While we cannot disregard some problem loans emerging, they should be minor, considering the supportive economic environment, gradually declining financing costs, and manageable debt levels of banks' borrowers. Credit costs, therefore, should remain unchanged in 2025, at about 55-60 basis points of average loans.

Key assumptions

Heightened global geopolitical risks do not derail the European economic recovery.

The European Central Bank will cut interest rates by 25 basis points every quarter until the deposit rate reaches 2.5%.

What to look for over the next year

Quarterly evolution of banks' results. In particular, we will monitor the impact of the asset repricing to lower rates, growth in new lending, and competitive price dynamics in the market.

Whether BBVA succeeds in its voluntary tender offer to Sabadell's shareholders and a larger player emerges. The deal has the potential to boost BBVA's efficiency and returns, although entails execution risks.

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Read latest report

Loan growth

Sector-average growth in loans.

1.5% 2025 forecast

0.0% 2024 estimate

-3.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.1% 2025 forecast

4.9% 2024 estimate

4.6% 2023 actual

RoAA

Sector-average return on average assets.

0.8% 2025 forecast

0.9% 2024 estimate

0.9% 2023 actual

Figures as of fiscal year ending December.

Sweden | BICRA group: 2

Challenging Conditions Are Subsiding

Key takeaways

- While credit growth has been tepid, the Riksbank's more dovish monetary policy stance should help ease credit conditions, stimulating demand as Sweden heads into 2025.
- Results are expected to remain solid for Swedish banks over the coming quarters, with non-interest income bolstering earnings as net interest income declines.
- Asset quality has remained intact, despite the challenging environment, indicating that larger scale degradation of the banking system is unlikely.

Key credit drivers

Higher interest rates have suppressed real estate transactions. Despite tentative signs that real estate markets are starting to thaw, demand for overvalued properties has been muted. Prices have dropped from the high levels seen following the pandemic, while apartment prices have fallen less steeply. Property management companies continue to work on restructuring and adapting their balance sheets, but refinancings are no longer in the fore.

Banks carry significant exposure to real estate. Lending to the real estate sector accounted for about 46% of banks' total loans as of second-quarter 2024. Property management refinancing related volumes dissipated in the first half of 2024 and credit growth has been declining as some have chosen to amortize, given high financing costs. Bank losses relating to real estate have remained low, implying asset quality has remained robust due in part to prudent underwriting, despite rising interest rates and living costs.

Key assumptions

The labor market will finish adapting to the softer operating climate. We forecast unemployment will peak at 8.5% in 2024, but high employment, in addition to strong social safety nets, have underpinned households' repayment capacity over the past several quarters. Economic sentiment figures have provisionally stabilized, boding well for the coming quarters.

Cost of risk is expected to remain contained. We forecast credit losses of 10-15 basis points over 2024-2026, but were they to increase, we view banks as well placed to absorb them, given that record returns have bolstered the strong capital position of Swedish banks. This will ensure they will capably manage the potential effects of the upcoming Basel IV implementation.

What to look for over the next year

Investment plans to cement private-sector consumption. We forecast Sweden's real GDP will rebound to 2.3%-2.5% growth over 2025-2026, following the expected 0.8% in 2024, driven mainly by private consumption. Fiscal stimulus underpins this view, and how it affects the economy, in conjunction with global demand, will determine growth drivers in the medium term.

Revenue drivers given lower interest rates. As interest rates decline, net interest income is set to ease. While lending volumes are expected to pick up, which will partially offset declining rates, the path for lending margins remains unclear. And although fees and commissions are anticipated to improve, bottom-lines will be softer given the different macro dynamics.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

0.5% 2024 estimate

1.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.5% 2025 forecast

0.6% 2024 estimate

0.6% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.7% 2024 estimate

0.9% 2023 actual

Figures as of fiscal year ending December.

Switzerland | BICRA group: 2

Extraordinary Resilience Against External Shocks

Key takeaways

- We expect narrower net interest margins this year and a stabilization in 2025 following interest rate cuts by the Swiss National Bank (SNB), but we also expect robust profitability, backed by strong cost discipline and lower credit losses than Western European peers.
- We expect Swiss banks' safety-conscious business models, their sound underwriting standards, and the country's economic resilience to continue underpinning our very low economic risk assessment of the banking sector, which is the strongest globally.
- We don't expect that initiatives aimed at overhauling Switzerland's regulatory framework or changes already implemented by the SNB to affect our bank ratings, but some benefits to capital and liquidity in the system are likely.

Key credit drivers

Domestic banks' asset quality continues to be strong. Nonperforming loans and credit losses will likely remain close to cyclical lows, backing our view of the private sector's superior resilience due to high wealth levels. Despite shocks, corporate insolvencies have not increased, and we consider the sector very flexible and competitive. We therefore forecast minimal domestic credit losses of about 10 basis points for Swiss banks in 2025 and expect asset quality will continue to outperform that of peers.

We do not consider the commercial real estate market a significant source of risk for rated banks. In our view, the most vulnerable exposures are sufficiently collateralized or already provisioned.

Key assumptions

Moderate economic growth in Switzerland. We expect Swiss GDP will rise 1.3% in 2024 and 1.5% in 2025. Tense geopolitics and the adverse implications for international trade, inflation, and monetary conditions are constraining growth.

We deem the private sector flexible, competitive, and well positioned to withstand a persistently strong Swiss franc. This differentiates Switzerland from peers such as Germany, Austria, Norway, and Finland, and leads to the best economic risk assessment globally.

What to look for over the next year

The Federal Council's proposals to align Swiss bank regulations more closely with peers'. Revised regulations aim to reduce the likelihood that a Swiss systemically important bank will experience another crisis, strengthening corporate governance, supervision, capital, and liquidity requirements. In addition, new management tools should improve resolution planning and crisis cooperation among authorities. Further improvements, such as the implementation of the public liquidity backstop and liquidity against mortgage collateral could support financial stability in the long term.

Competition from nondomestic banks increases. We also observe increasing market shares of foreign banks in corporate lending and asset management following the integration of Credit Suisse into UBS, albeit from a very low base.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

2.0% 2024 estimate

3.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.7% 2025 forecast

0.7% 2024 estimate

0.7% 2023 actual

RoAA

Sector-average return on average assets.

0.5% 2025 forecast

0.4% 2024 estimate

0.5% 2023 actual

Figures as of fiscal year ending December.

The Netherlands | BICRA group: 3

Solid Fundamentals Help Banks Surmount Economic Challenges

Key takeaways

- After a record 2023 owing to fast-rising interest rates, we expect net interest income to remain strong in 2024 and 2025 but somewhat below 2023 levels.
- We foresee marginal deterioration in asset quality on the back of low GDP growth and higher rates than in the past decade, but expect banks will be able to manage this.
- Dutch banks' fundamentals--healthy capital levels, ample liquidity, digitally advanced business models, and relatively efficient cost bases--should help them cope with further economic issues.

Key credit drivers

We foresee marginal deterioration in asset quality metrics as economic and credit growth will remain low, but banks will find this manageable. Asset quality is structurally supported by fixed-rate long-term mortgages representing the largest part of Dutch banks' loan portfolios. We anticipate a slight increase in domestic nonperforming loans in 2024-2025 to 2.2%, mostly from lending to corporates and small and midsize enterprises. We expect Dutch banks will maintain prudent provisioning and anticipate credit impairment charges will slightly increase at a through-the-cycle level of 25-30 basis points.

Despite lower demand for new lending, we expect Dutch banks to continue benefitting from higher interest rates and report a strong overall performance in the next two years even if somewhat lower than in 2023. Loan books largely constitute long-term, fixed-rate mortgages, but there is ample liquidity in the system. Banks have therefore increased savings' interest rates relatively slowly compared to the market interest rate rise. We expect net interest income will remain strong in 2024-2026 but somewhat below 2023 levels as we believe net interest margins should normalize on further client deposit pass-through rates, lower income on minimum reserves, and interest rate cuts.

Key assumptions

Economic growth is set to accelerate next year. We forecast GDP growth will average 1.5% over 2025-2026 after 0.6% expected in 2024. The labor market remains tight, and we expect unemployment to stay below 4%. Inflation, after peaking at 11.6% in 2022, fell to 4.1% in 2023 and we expect it to continue falling toward 2% by 2026.

House prices to continue rising after a small correction in 2023. This is because borrowing capacity is recovering (due to rising wages and lower interest rates) while housing supply remains very limited.

What to look for over the next year

Credit demand and net interest margins. If credit demand remains subdued, competition for volume growth could intensify, putting additional pressure on banks' margins and net interest income. Competition for deposits will likely remain moderate, however, given ample system liquidity.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

2.5% 2024 estimate

3.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.2% 2024 estimate

2.0% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

United Kingdom | BICRA group: 3

Calmer Waters For U.K. Banks

Key takeaways

- The U.K. economy appears to have entered a calmer phase, characterized by modest growth and diminishing inflation.
- Earnings resilience, stable asset quality, and solid funding and capitalization underpin U.K. banks' credit profiles.
- As the economy turns a corner and the banking system continues on the road back to normality, U.K. banks are on a stable footing.

Key credit drivers

U.K. banks have navigated a mild short-term economic outlook. GDP growth remains at a trickle and inflation has fallen steadily this year, although services inflation has still been sticky in 2024, holding up interest rates.

Conditions are firming up. As inflation has cooled, a persistently tight labor market has restored consumer buying power, and consumer confidence has risen alongside this. In sum, the medium-term outlook for the U.K. has improved, with 2025 growth widening to 1.3% under our base case.

We expect the U.K.'s banking sector to be robust. Cautious funding and liquidity management, comfortable regulatory capital, and healthy earnings enable the major players to navigate comfortably through the economic cycle. This resilience and flexibility is central to the stability of our Banking Industry Country Risk Assessment (BICRA) for U.K. banks.

Key assumptions

Industry profitability is on course to strengthen further. Net interest margin compression appears to have halted in the second quarter of the year, with banks reaping the benefits of rising gross yields on structural hedges. We see this as likely to drive net interest income upward for most rated banks in 2025 and 2026. Tempered impairment guidance and cost control provide extra support to major U.K. banks' strong earnings outlook.

Asset quality is slowly returning to normal. Despite periods of acute stress on households and corporates in the past 24 months, asset quality has been strong. Underlying asset quality trends through 2024 imply a steady and manageable flow of lending into arrears and nonperformance. With this in mind, we expect asset quality to normalize manageably in the next 12 to 18 months.

What to look for over the next year

A supportive economic outlook and controlled credit risk could improve our view of economic risk. After a turbulent period, the U.K. economy has entered calmer waters. This comes alongside a persistent deleveraging among the system's households and corporates. Together, these could potentially support an improvement in our view of the system's economic risk over the short-to-medium term if conditions fall in line with our base case for the U.K. economy.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

1.5% 2024 estimate

3.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.5% 2025 forecast

1.4% 2024 estimate

1.2% 2023 actual

RoAA

Sector-average return on average assets.

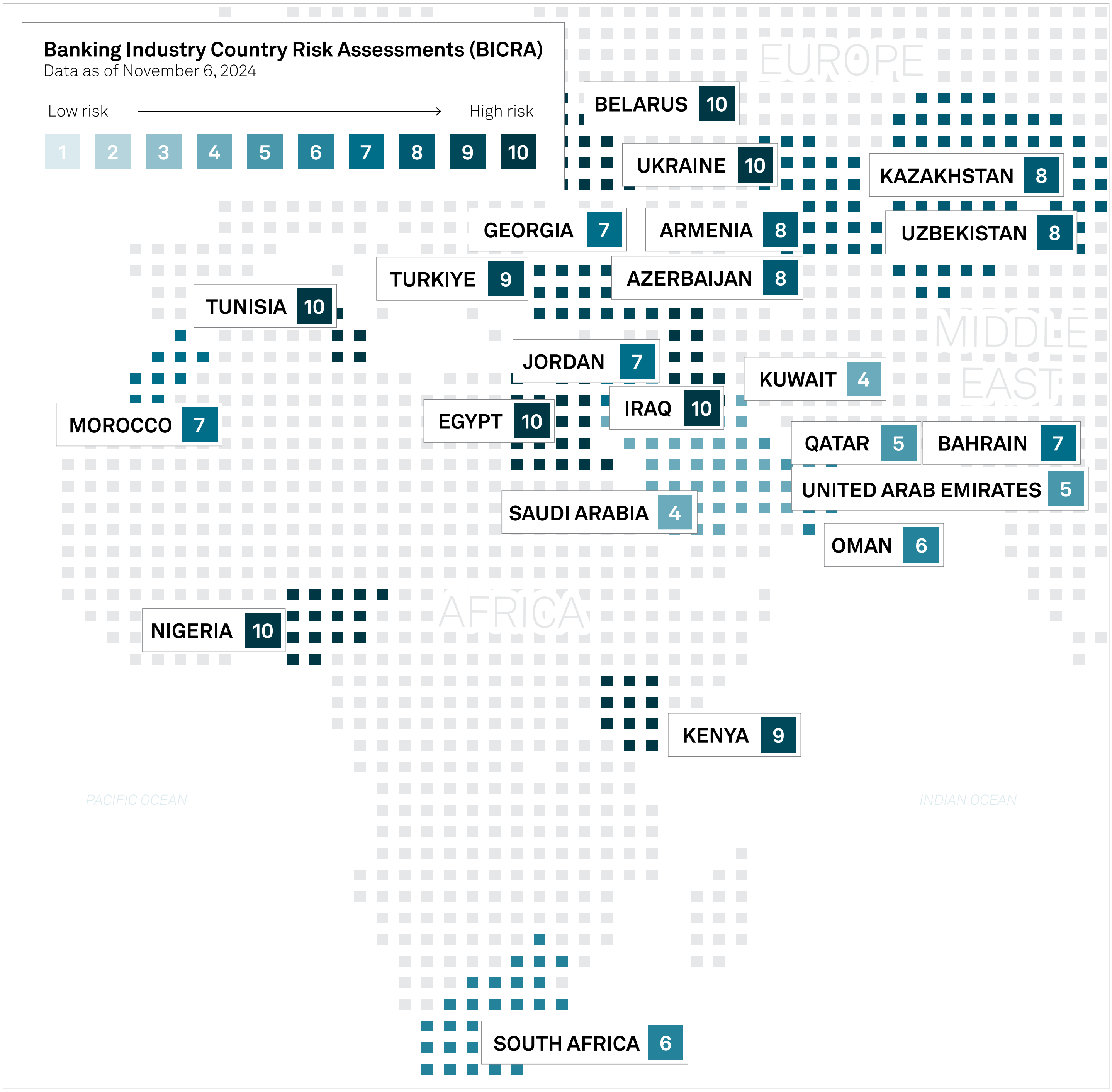
0.7% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Emerging EMEA



Armenia | BICRA group: 8

Lower Contingency Risk, Higher Credit Growth

Key takeaways

- We expect Armenia's economy to continue expanding, with GDP growth at 5.0% or higher over the next two years.
- The banking sector's profitability should remain strong, with the return on assets staying above 2.0% in 2024-2025.
- Credit growth will surpass 15.0% over the next two years, posing some medium-term risks.

Key credit drivers

Wealth is still moderate but economic growth remains strong. Over the past few years, Armenia has benefitted from a strong increase in trade and capital inflows, along with higher migration. As a result, its GDP per capita increased by 73% in U.S. dollars between 2021 and 2023, and we expect real GDP growth to stay strong at 6.2% in 2024 and 5.2% in 2025. Positive economic momentum will continue helping banks resolve legacy problem loans and create revenue growth.

Exceptionally strong profitability helped banks clean up their balance sheets, but it will fade. Return on assets in the banking sector will likely remain strong in 2024 supported by still-high currency conversion revenues and absent high provisioning and one-off losses of 2022 and 2023. Lower currency revenues and lower margins on liquidity placements in foreign currency will likely put pressure on the returns in 2025, pushing return on assets toward 2.0% from about 2.9% expected for 2024.

Key assumptions

We expect credit growth to stay in the 15%-20% range over the next few years. Private sector debt to GDP will revert to trend at about 65% in 2024 (after dropping to 56% in 2022). In our view, lending growth will likely stem mainly from retail clients and small and midsize enterprises as the uptake of financial services increases.

House prices are on the rise, but growth will eventually slow. House price growth accelerated to 12%-15% year on year in the capital city, Yerevan, and--to a lesser extent--in other regions, despite lower transaction volumes. However, we expect lower affordability, a decline in unmet demand, and the phase-out of mortgage credit will lead prices to plateau over the next few years.

What to look for over the next year

Geopolitical and security risks. Developments related to Armenia's prospective peace treaty with Azerbaijan, which requires resolution of several complex issues, along with its complicated political relationship with Russia, its primary trade partner, will continue dominating the news flow and political agenda.

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Read latest report

Loan growth

Sector-average growth in loans.

16.0% 2025 forecast

21.0% 2024 estimate

16.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.0% 2025 forecast

5.0% 2024 estimate

5.3% 2023 actual

RoAA

Sector-average return on average assets.

2.1% 2025 forecast

2.9% 2024 estimate

2.7% 2023 actual

Figures as of fiscal year ending December.

Azerbaijan | BICRA group: 8

Strong Lending Growth Despite Muted Economic Prospects

Key takeaways

- We expect about 13%-15% growth in loans and deposits over the next 12 months despite our forecast that Azerbaijan's economic growth over 2024-2025 will be the lowest in the region.
- The banking system has a stable funding profile, with limited risk related to potential volatility of nonresident deposits compared with regional peers.

Key credit drivers

Azerbaijan's economic growth prospects for 2024-2025 are weaker than most regional peers'. Pressure on economic growth relates mainly to a long-term gradual decline in oil output. We forecast real GDP growth in 2024-2025 at 2.0%-3.0% annually. However, we expect about 15% growth in the banking sector in 2024, largely supported by consumer lending growth.

The banking system's funding profile has strengthened in the past few years. We have seen no material outflow of retail or corporate deposits since 2016. We think core customer deposits will fund loans over the next few years, eliminating the need for external funding. Deposit dollarization has fallen to regional peers’ levels. Also, volatile nonresident deposits, at 5%, are much lower than peers'.

Key assumptions

The banking system is recovering after a protracted correction. Favorable commodity price dynamics have stimulated credit demand. We expect the system will continue recovering, supported by strong growth in lending while credit costs will likely stabilize below their historical cyclical levels.

Regulation is evolving, but governance and transparency remain weak. The institutional framework in Azerbaijan remains relatively weak by global standards but comparable with regional peers'. Regulatory initiatives introduced in 2023-2024 could improve corporate governance and risk management in the sector.

The positive impact from the inflow of migrants and capital is less pronounced than for regional peers. Azerbaijan has kept its land borders closed since 2020, so the country has not experienced the large influx of migrants, remittances, and nonresident deposits that materially benefited the banking sectors of Georgia, Armenia, Kazakhstan, and Uzbekistan in 2022-2023.

What to look for over the next year

Moderately deteriorating asset quality. We expect nonperforming loans could increase to 3.2%-3.5% over the next 24 months from 2.7% at end-August 2024, as loans season in a low-growth environment and banks are likely to face additional provisioning needs. Credit losses in 2024-2025 will likely remain at 1.0%-1.2% of average loan books.

Stable profitability. We forecast 2024 profitability in line with 2023 levels, supported by new lending growth with a focus on retail products, a normalizing cost of risk, and control over operating expense.

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Read latest report

Loan growth

Sector-average growth in loans.

13.0% 2025 forecast

15.0% 2024 estimate

18.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.2% 2025 forecast

3.0% 2024 estimate

2.6% 2023 actual

RoAA

Sector-average return on average assets.

2.1% 2025 forecast

2.1% 2024 estimate

2.2% 2023 actual

Figures as of fiscal year ending December.

Bahrain | BICRA group: 7

A Slight Deterioration In Profitability From Sound Levels

Key takeaways

- We expect banks' profitability to weaken slightly from its currently sound level due to modest lending growth and declining interest rates.
- Despite high exposure to cyclical sectors, expected rate cuts and Bahrain's relatively diverse economic base will contain the deterioration in banks' asset-quality indicators.
- External debt is likely to continue increasing due to private and public sector funding needs, but external funding is predominantly from the Gulf Cooperation Council (GCC) region, which somewhat mitigates risks.

Key credit drivers

External debt is rising. Strong funding needs from the private and the public sector are putting pressure on Bahraini retail banks' funding profiles, with a rapid accumulation of external debt over the past five years. Retail banks' net external debt reached about 33% of systemwide domestic loans on July 31, 2024, compared with 14% in 2021. However, a large portion of this debt comes from GCC countries and is likely to remain stable, including during episodes of market volatility.

Banks' sizable exposure to the real estate sector weighs on asset quality. The real estate sector makes up approximately 37% of the loan book, including real estate, construction, and residential mortgages. Oversupply in the market will keep pressure on banks' asset quality. Rate cuts and lending expansion, in less risky segments, are likely to offer some help.

Key assumptions

Subsidized housing financing will drive credit growth. We expect systemwide credit growth of about 4%-5% in 2024-2025, supported primarily by government-subsidized mortgage lending. At the same time, higher non-oil growth is likely to result in some opportunities in corporate lending. However, we expect leverage in the economy will remain below 75% of GDP for the next couple of years.

Asset quality deterioration should be manageable. We expect nonperforming loans to slightly moderate in 2025 from an average of 5% in 2023-2024, aided by interest rate cuts, a small uptick in real estate transactions, and improving performance of the hospitality sector.

What to look for over the next year

Escalating geopolitical risk. We assess the current regional stress level as moderate but with elements of high stress potentially emerging, which could have potential adverse implications for investor confidence and external funding flows.

Consolidation of the banking system. This is likely to support banks with weak capitalization and reduce overcapacity in the system, ultimately supporting profitability in the medium term.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

4.4% 2024 estimate

3.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.8% 2025 forecast

5.3% 2024 estimate

4.8% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Belarus | BICRA group: 10

A Difficult Economic And Political Environment Persists

Key takeaways

- Persisting financial stability and external risks, due to a significant increase in geopolitical risks and severe economic stress from sanctions on Belarus and its key trading partner, Russia, result in continuous strain on the country's economy and banking sector.
- Extended political volatility and international sanctions will continue impairing investor confidence and the performance of corporate borrowers.
- The financial system's stability remains under pressure, and the government's ability to provide support in the event of stress is weak.

Key credit drivers

Belarus' economic outlook remains fragile amid a protracted internal political crisis. The country faces high economic, balance-of-payments, and financial stability risks related to international sanctions. This means that considerable pressure on the banking sector will continue and borrowers' performance will remain weak, squeezing banks' earnings, asset quality, funding, and liquidity.

Key assumptions

The economy has remained somewhat resilient to the uncertain geopolitical environment and heavy sanctions. Demand from both domestic and Russian markets is supporting industrial growth. The 3.9% real GDP increase in 2023 came from private consumption and capital investment, but also reflects the low 2022 levels. We expect the economy will expand 2.5% in 2024 and 1.9% in 2025. Medium-term growth prospects remain bleak because of a weak demographic profile, the state's pervasive role in the economy, limited prospects for foreign direct investment, and logistical and financial constraints from sanctions. Belarus' weak growth prospects induce continued strain on the banking sector, with persisting pressure on asset quality.

The debt-servicing capacity of companies and households will be stretched. The difficult operating environment, local currency volatility, and potential for a protracted period of geopolitical tension will result in continued pressure on the banking sector. We expect nonperforming assets will be high, at 13%-14%, and credit costs will be elevated, at 3.0%-3.5% in 2024-2025.

What to look for over the next year

The evolution of asset quality. Issues from severe economic stress, including sanctions, will continue pressuring the banking sector's performance. Furthermore, the government has limited scope to support the sector, in our view.

The stability of customer deposits. Pronounced deposit volatility and diminishing investor confidence could destabilize the banking sector, particularly given the extremely limited sources of liquidity support that banks can rely on, especially in foreign currency.

Note: S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. As the situation evolves, we will update our assumptions and estimates accordingly.

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Read latest report

Loan growth

Sector-average growth in loans.

14.0% 2025 forecast

12.0% 2024 estimate

18.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

14.0% 2025 forecast

13.0% 2024 estimate

12.8% 2023 actual

RoAA

Sector-average return on average assets.

1.9% 2025 forecast

2.4 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Egypt | BICRA group: 10

Reform Momentum Should Benefit Banks

Key takeaways

- Banks' exposure to the sovereign remains substantial and a key risk for the sector.
- Exposure to risky small and midsize enterprises (SMEs) weighs on asset quality indicators although public sector guarantees partially mitigate the risks.
- Exchange-rate flexibility could ease pressure on banks' foreign currency liquidity.

Key credit drivers

The banking sector's creditworthiness is strongly linked to that of the Egyptian government. As of May 2024, the sector's gross exposure to the sovereign, through securities and loans, stood at about 56% of assets, or 8.3x equity. We expect banks' sovereign exposure to remain elevated and sensitive to geopolitical risk and currency performance. Even if these investments bolster banks' profitability, they heighten the link between banks' and the sovereign's creditworthiness.

Asset quality indicators are likely to see a manageable deterioration. Higher interest rates--after an 800-basis-point (bps) cumulative hike since January 2024--strong currency depreciation, and slower growth is weighing on borrowers' credit quality, particularly SMEs. A significant share of publicly guaranteed lending and a natural hedge for customers with foreign currency-denominated debts will cushion the impact. Nevertheless, we expect credit losses to peak at about 170 bps in 2024 and gradually decline in 2025-2026.

Banks' external position has improved. Exchange-rate liberalization has eased the strain on foreign-currency liquidity. Banks quickly accumulated external assets, which returned the system to a net external asset position, at US$2.7 billion as of June 2024. We anticipate the improvement will be sustained over the next two years.

Key assumptions

Macroeconomic indicators to strengthen. After the foreign currency crunch led to a slowdown in the fiscal year ending in June 2024, we estimate GDP growth to improve to 3.8% by June 2025 and then reach 4.4%, on average, for 2026 and 2027. However, this depends on the broad-based reform agenda being implemented as planned. The government's commitment to flexible exchange rates is crucial to support banks' competitiveness and business confidence. While remaining relatively weak, Egypt's fiscal and external positions should slowly strengthen, and inflation should gradually decline to about 23.6%, on average, in 2025 from an average of 33.7% in 2024.

What to look for over the next year

Progress in reforms. A setback in reform implementation, including relating to exchange-rate flexibility, might revive the pressure on banks' external leverage and erode their asset quality.

Banking sector profitability. Banks' margins largely benefited from higher interest rates, as investments in government bonds repriced quickly and the passthrough of higher rates on deposits was contained. We expect profitability will peak in 2024 before gradually declining due to the expected reduction in interest rates.

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Read latest report

Loan growth

Sector-average growth in loans.

22.0% 2025 forecast

29.0% 2024 estimate

23.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.1% 2025 forecast

2.8% 2024 estimate

3.3% 2023 actual

RoAA

Sector-average return on average assets.

1.6% 2025 forecast

2.2% 2024 estimate

2.0% 2023 actual

Figures as of fiscal year ending June.

Georgia | BICRA group: 7

Good GDP Growth Prospects Drive Lending Expansion

Key takeaways

- A broadly favorable economic setting will continue to support banking sector expansion.
- The sector's prudential regulation is largely consistent with international standards, but the latest amendments to the central bank law introduced in 2023 could undermine the independence of the National Bank of Georgia (NBG).

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Read latest report

Key credit drivers

Banks in Georgia face fewer economic risks than regional peers. We expect GDP growth to moderate to about 6.6% in 2024 and average 5% through 2027 from over 9% on average over the past three years. This still represents a favorable operating environment for Georgian banks.

The household debt burden is modest. Despite a rapid private debt buildup, household debt-service ratios in Georgia compare favorably with those of peers. This reflects a higher-than-peer-average share of mortgages and responsible lending standards promoted by the NBG.

Key assumptions

Increased domestic political and policy volatility presents a risk to our macroeconomic projections. There are some signs of reform momentum slowing, undermined checks and balances between institutions, and weakened policy predictability. The political situation remains volatile as opposition parties dispute the results of the recent parliamentary election won by the ruling Georgian Dream party.

Reduction of the refinancing rate will be limited. We think the NBG is unlikely to greatly reduce its rate over the next 12 months after a reduction to 8% in May 2024, from a peak of 11% in 2023.

Growth in loans and deposits will remain robust in 2025. We expect growth of about 15% in the next 12 months, adjusted for exchange rate impact and reflecting reduced inflation below 3%.

What to look for over the next year

Whether democratic backsliding affects banking sector regulation. In 2023, the NBG introduced somewhat controversial procedures for implementing international sanctions. Some changes were also introduced to the governing structure of the NBG that may weaken its independence.

Further reduction in loan dollarization rates. From Jan. 1, 2024, the NBG introduced a minimum limit on retail loans in foreign currency of Georgian lari (GEL) 300,000 (about $107,000). It has plans to increase this to a minimum of GEL1 million to limit consumer lending in foreign currency to unhedged individuals. As a result, loan dollarization might decrease further, from 45% as of mid-2024.

Risk appetite of Georgian banks. Georgian banks have a higher risk appetite than peers, demonstrated by rapid asset growth over the past few years, lending to risky small businesses, and looking to expand abroad (for example Bank of Georgia's acquisition of Ameriabank in Armenia in 2024).

Loan growth

Sector-average growth in loans.

15.0% 2025 forecast

16.0% 2024 estimate

17.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.0% 2025 forecast

3.0% 2024 estimate

2.7% 2023 actual

RoAA

Sector-average return on average assets.

3.5% 2025 forecast

3.8% 2024 estimate

4.1% 2023 actual

Figures as of fiscal year ending December.

Iraq | BICRA group: 10

A Weak Operating Environment

Key takeaways

- The Iraqi economy is highly sensitive to changes in oil markets.
- We expect strong lending growth to continue, albeit from a low base, given the central bank's push to formalize the economy.
- We forecast asset quality indicators will weaken further as economic growth moderates.

Key credit drivers

The Iraqi economy depends deeply on oil, and political volatility limits policy predictability. Oil contributes more than 40% of GDP, 90% of government revenue, and 95% of the country's goods export receipts. Successive governments have used the country's resources to boost spending, which has created high ongoing spending pressure and weak governance. Recent attacks by Iraqi Shia militias on U.S. military bases have heightened regional tensions and fractured U.S.-Iraqi bilateral relations. We assume limited disruption to oil exports since most Iraqi oil is exported to Asia.

The system is overbanked, fragmented, and dominated by state-owned banks. Iraq's 77 banks cater to a population of just 40 million. State-owned banks typically hold about three-quarters of total assets, which distorts the market. The average profitability of private banks is low, and many banks remain niche players.

Key assumptions

The government's capacity to support the banking system is limited. We think the Iraqi government's capacity and willingness to support failing domestic banks during a crisis is limited and uncertain. For example, the two largest state-owned banks are, reportedly, undercapitalized and have not been restructured in the past 20 years.

Credit risk remains extremely high. Iraq's GDP per capita, estimated at about $5,800 in 2024, is lower than that of Gulf peers. This, combined with its weak institutional framework, increases risks for the banking sector. That also explains why nonperforming loans in the system are high at 14.5% of gross loans on March 31, 2024 and their coverage ratio is relatively low (54.1% on the same date).

What to look for over the next year

Continued strong growth momentum. We expect the banking system to report strong credit growth, as the Central Bank of Iraq accelerates financial sector reform to improve access to credit.

The banking sector remaining in a net external asset position. More than 55% of total deposits were through government and public institutions at year-end 2023, and external funding requirements are negligible. Long-term funding is also almost nonexistent, resulting in significant maturity mismatches. Most deposits are short term and tend to fluctuate in line with oil revenue. The Iraqi economy is also predominantly cash-based and the local capital market remains very narrow.

Geopolitical risk. We understand that ongoing conflict is undermining social stability and the security situation for Iraq and, with the recent escalations, we think that the conflict will likely persist well into 2025. However, we assume a protracted, direct Israel/U.S.-Iran conflict will not emerge.

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Read latest report

Loan growth

Sector-average growth in loans.

15.0% 2025 forecast

16.0% 2024 estimate

14.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

18.0% 2025 forecast

16.0% 2024 estimate

14.7% 2023 actual

RoAA

Sector-average return on average assets.

1.4% 2025 forecast

1.4% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending June.

Jordan | BICRA group: 7

Expected Resilience Amid Regional Tensions

Key takeaways

- Jordan's economy has shown resilience amid persistent regional stress.
- We expect banks' lending activity to pick up in 2025 as financing conditions gradually ease.
- Asset quality, profitability, and capital remain dependent on a more benign economic environment.

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Read latest report

Loan growth

Sector-average growth in loans.

4.7% 2025 forecast

3.0% 2024 estimate

1.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.3% 2025 forecast

5.5% 2024 estimate

5.0% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.1% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

Jordan's economic activity will slow in 2024 then gradually recover from 2025 if geopolitical risk recedes. We expect GDP growth will moderate to 2.3% this year from 2.7% in 2023 as the economy feels the indirect impacts of the increase in regional tensions before rebounding to about 3% in 2026-2027. Our expectations factor in continued external support from donors and multilateral partners.

Lending activity will likely revive as monetary policy becomes gradually more accommodating. We expect more-dynamic lending volumes, with annual growth of 4%-5% in 2025, given our forecast that interest rates will decrease following the U.S. Federal Reserve's rate cuts.

Key assumptions

Recovering economic prospects will ultimately benefit asset quality at Jordanian banks. At present, elevated regional tensions are weighing on tourism and investment flows. This, combined with still-tight domestic monetary conditions, is likely to hit borrowers' creditworthiness in the short term. That said, activity has shown some resilience, and structural reforms implemented in recent years have improved the business environment in our view, implying an improving structural growth trend. Combined with our expectation of further easing of monetary conditions, we predict that credit losses will remain high but decline to about 110 basis points (bps) of total loans in 2024 from 150 bps in 2023, and go below 100 bps in 2025 and 2026. Similarly, we estimate that nonperforming loans (NPLs) will peak at about 5.4% at year-end 2024, before gradually declining to below 5%. Banks' low direct exposure to the tourism sector (about 2% of total loans) supports asset quality resilience.

Jordanian banks' profitability and capital should gradually improve. We project that Jordanian banks' return on equity (ROE) will stabilize at about 9% in 2024. We foresee an increase thereafter, supported by more-dynamic business volumes and lower cost of funding. Tight control over operating costs will also support Jordanian banks' profitability.

What to look for over the next year

External risks. A significant escalation of regional tensions might slow the reform momentum, affecting both economic growth and economic and financing conditions.

Kazakhstan | BICRA group: 8

Risks Are Under Control As The Recovery Continues

Key takeaways

- In our view, the Kazakhstani banking sector has been relatively resilient to economic challenges in recent years, amid exacerbated geopolitical risks in the region.
- The system's asset quality metrics and financial performance have significantly rebounded from a protracted correction, and we expect the recovery will continue supporting solid banking sector performance through 2024-2025.
- We consider banks' credit risk under control, although risks to our base-case scenario include weaker regional economic growth than expected, a steep rise in geopolitical risks, and rapid credit growth in weaker segments, with stretched borrower repayment capacity.

Key credit drivers

Kazakhstani banks benefit from solid margins and have demonstrated their earnings capacity. This could help protect against risks in an external operating environment that remains volatile. For January to July 2024, the sector reported a net profit of Kazakhstani tenge (KZT) 1.4 trillion (about $2.9 billion), which is 12% higher than in 2023. We expect the sector will demonstrate solid earnings in 2024.

Banking regulators have taken steps to strengthen supervision. These include a systemwide asset quality review in 2019, shifting to supervisory review and evaluation process practices, and introducing measures to limit banks' risk appetites. These actions should mitigate the risk of banks repeating mistakes that have led to failures and serious systemwide asset quality problems.

Key assumptions

The sovereign's gross external financing needs will stabilize, while fiscal and external balance sheets buffer against external shocks. We forecast average GDP growth in Kazakhstan of about 4% on average in 2024-2025. At the same time, the continuing uncertain external environment and lower oil prices are raising Kazakhstan's gross external financing needs and fiscal deficits.

Credit risks will be under control. We anticipate the growth in retail loans will slow to 18%-20% from 30% on average over 2021-2023. This would support banks' risk profiles, as rapidly increasing indebtedness among those on lower incomes could raise their credit costs during a credit cycle downturn.

What to look for over the next year

Banks' ability to continue reducing nonperforming loans (NPLs). We expect systemwide NPLs--defined as stage 3 under International Financial Reporting Standards--to reach 7.0%-7.5% of total loans in 2024, versus about 18% in 2020. We forecast credit costs for Kazakh banks of 1.3%-1.5%.

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Read latest report

Loan growth

Sector-average growth in loans.

13.0% 2025 forecast

15.0% 2024 estimate

15.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

7.0% 2025 forecast

7.5% 2024 estimate

8.5% 2023 actual

RoAA

Sector-average return on average assets.

3.8% 2025 forecast

4.0% 2024 estimate

4.7% 2023 actual

Figures as of fiscal year ending December.

Kenya | BICRA group: 9

Easing External Pressure Could Help Stabilize Asset Quality

Key takeaways

- Although interest rates have started declining, banks' asset quality metrics will remain weak because of a large share of legacy nonperforming loans (NPLs).
- External financing vulnerabilities have eased on the Kenyan shilling (KES) appreciation, but risks remain significant.
- Banks' high exposure to the sovereign remains a risk in a context of high general government debt service.

Key credit drivers

Macroeconomic indicators are improving. The Central Bank of Kenya (CBK) has lowered its benchmark rate by a cumulative 100 basis points to 12.0% since August 2024 following a decrease in inflation. This is likely to support consumer spending; loans to households account for about one-third of systemwide loans, and micro, small, and midsize enterprises 20%.

We expect credit impairments to remain broadly stable in 2025. We forecast cost of risk to remain close to 2% of systemwide loans in 2025, with the NPL ratio declining on loan growth. Legacy NPLs stem notably from the government's arrears to the private sector. Despite strong profitability, coverage of NPLs by provisions remains moderate and could pose a risk to banks solvency.

High exposure to sovereign local currency debt. Sovereign exposures represented about 25% of banks' assets at year-end 2023, resulting in a high correlation between the sovereign's creditworthiness and that of banks.

Key assumptions

We forecast GDP growth will remain robust, averaging 5.5% over 2024-2026. Kenya's GDP growth is supported by the country's services-led private sector and agricultural sector. However, Kenya's recent repeal of its 2024-2025 Finance Bill will likely slow the government's fiscal consolidation.

Credit growth and profitability are set to remain resilient. We expect lending growth to be in line with nominal GDP headline growth in 2025, supporting broadly stable credit intermediation in the economy. We also anticipate the banking sector's profitability will stay resilient, with the return on equity averaging 20% through 2025.

What to look for over the next year

A potential increase in the regulatory capital. Kenya's Treasury recently proposed raising banks' minimum core capital requirement to KES10 billion from KES1 billion. This is unlikely to affect top-tier banks whose core capital is already well above the new threshold.

External financing vulnerabilities are easing following the appreciation of the shilling in 2024. U.S. dollar-denominated loans have declined below 30%, in line with foreign currency denominated liabilities, as their value in local currency decreased with the appreciation of the shilling, and inflows of U.S. dollars increased. Yet a resurgence of external pressure could lead to tight supply of foreign currency in the system, resulting in pressure on asset quality and solvency.

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Read latest report

Loan growth

Sector-average growth in loans.

12.0% 2025 forecast

10.0% 2024 estimate

15.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

15.1% 2025 forecast

16.3% 2024 estimate

15.3% 2023 actual

RoAA

Sector-average return on average assets.

2.5% 2025 forecast

2.7% 2024 estimate

2.9% 2023 actual

Figures as of fiscal year ending June.

Kuwait | BICRA group: 4

Asset Quality Is Improving

Key takeaways

- Recent political changes could improve the pace of reform and growth prospects.
- Lower interest rates are likely to boost lending growth but weaken profitability.
- A soft real estate sector and volatile geopolitical environment could pose downside risks.

Key credit drivers

We expect Kuwait's economy to rebound in 2025. After expected GDP contraction of about 2.3% in 2024, we forecast a mild rebound to an average of 2.4% growth over 2025-2027 as OPEC+ oil production restrictions are eased and project implementation improves.

We expect banks' asset quality indicators to stabilize. We believe that the banking sector's credit losses and nonperforming loans (NPLs) are approaching cyclical low points and expect cost of risk for Kuwait's banks will remain at 40 basis points (bps) to 50 bps in 2024-2025, compared with about 30 bps in the first half of 2024. In addition, aided by strong provision buffers, we expect banks will resort to write-offs to limit the increase in the NPL ratio. Downside risks to asset quality remain, however, given Kuwaiti banks' significant exposure to the real estate sector.

Key assumptions

A comfortable funding and liquidity position. We expect the sector's funding profile to continue to benefit from a strong local deposit base and a net external asset position. Concentration, particularly on deposits from government-related entities, is a risk but it is mitigated by the stability of these deposits.

The government is willing and able to provide financial support. We expect Kuwait's institutional and administrative framework would allow for a timely and coordinated response to a systemic financial problem. We also believe that the government has sufficient resources to support the financial system in case of need.

What to look for over the next year

Lending growth to improve, but profitability will decline as interest rates start declining. Banks' lending books rebounded to an annualized 5.8% until July 2024, from 2.1% growth in 2023. We expect lower interest rates will lead to stronger demand from corporate and retail borrowers in 2025-2026. In addition, recent political changes are likely to improve the pace of reforms and implementation of awarded infrastructure projects, leading to higher growth prospects. Lower rates are likely to reduce banks' profitability, though. This could be partially compensated by a migration of deposits back to non-remunerated instruments and cost of risk approaching cyclical lows.

The geopolitical environment could pose downside risks. We assume that a protracted, direct Israel/U.S.-Iran conflict will not emerge. However, with the recent escalations, we think that the conflict will likely persist well into 2025. We believe that, at this stage, the impact on economic growth, energy prices, and key trade routes are manageable and temporary, with limited impact on the sovereign and the banking system.

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Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

5.0% 2024 estimate

2.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.5% 2025 forecast

1.6% 2024 estimate

1.4% 2023 actual

RoAA

Sector-average return on average assets.

1.5% 2025 forecast

1.7% 2024 estimate

1.5% 2023 actual

Figures as of fiscal year ending December.

Morocco | BICRA group: 7

Profitability Slowly Recovering To Pre-Pandemic Levels

Key takeaways

- We forecast that Morocco's GDP will rise by 3.4% in 2024-2025, bolstered by economic reforms and resilient demand from eurozone trade partners. However, the economy's dependence on agriculture is a key vulnerability.
- We expect Moroccan banks' profitability will gradually recover to pre-pandemic levels by 2026.
- A significant presence in riskier African countries weighs on the credit profiles of the largest banking groups in Morocco.

Key credit drivers

Growth will improve but remains vulnerable to weather patterns. Morocco's GDP is projected to rise by 3.4% on average in 2024-2026--bolstered by robust performance within the tourism, automotive, phosphates, derivatives, and aerospace sectors. However, the agricultural sector represents roughly 10% of GDP and 30% of employment, leaving the economy vulnerable to weather and rainfall patterns.

The largest banks' exposure to Africa is a source of risk. In recent decades, large Moroccan banks have expanded rapidly into sub-Saharan Africa. The higher risks in most of these jurisdictions compared with Morocco weigh on these banks' credit profiles.

The nonperforming loan (NPL) ratio remains elevated owing to large legacy problems. A weak payment culture and lack of a secondary bad-loan market or a government-led solution for these loans are delaying banks cleaning up their balance sheets. We expect the NPL ratio to gradually decline below 8% by 2026 (from 8.5% in 2023) amid improving economic conditions.

Key assumptions

Stable credit growth. We expect loan growth of about 4% in 2024-2026, balancing economic growth prospects and still-high interest rates. Some large infrastructure investments will also bolster loan growth.

Profitability should gradually recover to its pre-pandemic level. We expect return on equity to increase to 9.5% by 2026 (from 8% in 2023) amid volume growth and resilient margin, reducing operating costs and credit losses. We anticipate cost of risk from domestic exposure to average 80 basis points (bps) in the next few years, versus the pandemic peak of 130 bps in 2020.

What to look for over the next year

Transition to a more-flexible exchange rate regime. After the second phase launched in 2020 by widening the fluctuation band for the dirham to plus or minus 5.0%, authorities' long-term goal envisages a floating exchange rate and inflation targeting. If implemented, this would represent a significant change for the banking sector.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2025 forecast

3.0% 2024 estimate

2.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

8.2% 2025 forecast

8.5% 2024 estimate

8.5% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

0.8% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Nigeria | BICRA group: 10

Currency Depreciation Has Eroded Banks' Capitalization

Key takeaways

- The naira depreciated sharply over the past 12 months, leading to a jump in inflation and increased economic instability.
- A high share of foreign currency loans poses additional risks to banks' asset quality and capitalization.
- Inflation, high interest rates, and tight U.S. dollar supply will intensify credit risks.

Key credit drivers

The falling naira continues to exacerbate economic instability. Nigeria's removal of oil subsidies and exchange rate liberalization in 2023 pushed up inflation and prompted the CBN to raise its benchmark rate to 27.25% in 2024. The Central Bank of Nigeria (CBN) has also settled a significant amount of the backlog of foreign currency transactions, which helped stabilize the naira at NGN1,600-NGN1,700 to $1 in September 2024.

Ongoing U.S. dollar shortages constrain lending and capitalization. We see some growth in the oil and gas sector as refining capacity increases. We expect foreign currency-denominated lending to stay high at close to 50% of total loans in 2025. The depreciating naira has also reduced banks' capitalization because of high risk-weighted assets. We estimate the capital shortfall of rated banks at about NGN2.5 trillion ($1.6 billion).

Key assumptions

Leverage will remain modest. We expect overall credit to the private sector will remain below 20% of nominal GDP, amid moderate economic growth and extremely high inflation and interest rates.

Asset quality indicators do not tell the whole story. We forecast the credit loss ratio at about 2.5%-3% in 2024-2025. Although nonperforming loans (NPLs) will likely increase, the NPL ratio will decline to less than 4% by year-end 2025 as gross loans increase, because of the depreciation of the naira.

Profitability should stay resilient, due to strong net interest margins. We forecast the return on equity to normalize to about 20% in 2025 after about 30% in 2024. Banks' portfolios benefit from loan repricing and high government yields.

What to look for over the next year

An increase in banks' capitalization. We anticipate most banks will complete their capital raising in 2025 after the CBN increased its capital requirements for an international banking license to NGN500 billion (about $300 million). The deadline to comply is March 31, 2026. We foresee potential mergers, acquisitions, or changes in business models for lower-tier banks as a result.

A surge in portfolio flows helped reduce the naira's volatility and inflation. A slight deceleration of inflation in July 2024 could signal an end to the CBN's rate hikes and provide some relief to consumers. Salary assignments continue to back most consumer loans, but some corporate borrowers struggling to source U.S. dollars could be under pressure.

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Loan growth

Sector-average growth in loans.

28.8% 2025 forecast

58.0% 2024 estimate

51.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.8% 2025 forecast

4.3% 2024 estimate

4.2% 2023 actual

RoAA

Sector-average return on average assets.

4.2% 2025 forecast

4.5% 2024 estimate

3.3% 2023 actual

Figures as of fiscal year ending December.

Oman | BICRA group: 6

Economic Fundamentals Are Improving

Key takeaways

- We expect a progressive buildup in leverage over the next couple of years.
- Structural reforms have helped improve the financial position of the Omani government and its related entities and laid the foundation for stronger economic resilience.
- We expect Omani banks' credit losses to stabilize amid reducing economic imbalances and a more supportive operating environment.

Key credit drivers

We expect a progressive buildup in leverage. In the absence of any unforeseen shock, we forecast real GDP will expand on average about 2% per year over 2024-2027. We also anticipate a progressive rebuilding of leverage in the economy, exceeding 75% of GDP by year-end 2025.

Structural reforms have helped improve the government's and its related entities' financial position. Simultaneously, the recovery in key economic sectors over the past three years has helped banks display stronger asset quality indicators, with stage 2 loans reducing to 16.4% in 2023 from 20.2% at year-end 2020. Nonperforming loan (NPL) ratios have also stabilized at about 4.5% as of June 30, 2024, and we do not expect any material NPL buildup in the next 12-24 months.

Key assumptions

Banks continue to rely heavily on public-sector deposits. Omani banks are funded by domestic customer deposits, one-third of which come from the government and government-related entities. The stability of these deposits mitigates this concentration. Moreover, banks' recourse to external funding remains limited and they remain in a net external asset position.

We expect Omani banks' credit losses to stabilize amid declining economic imbalances and a more supportive operating environment. We expect credit losses to hover at about 55-65 basis points (bps) in 2024-2026, which is close to Oman's cyclical low points. While geopolitical risk could create some downside implications, we view positively Omani banks' diversified lending book and the fact that commercial real estate, construction, and hospitality sectors accounted collectively for about 10%-15% of total loans as of Dec. 31, 2023.

What to look for over the next year

Continuing market consolidation. In our view, the Omani banking sector remains overbanked, with over 20 banks serving a population of less than 5 million. We expect consolidation among banks to continue, particularly at the tail end of the system.

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Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

5.0% 2024 estimate

5.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.5% 2025 forecast

4.5% 2024 estimate

4.5% 2023 actual

RoAA

Sector-average return on average assets.

1.4% 2025 forecast

1.3% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Qatar | BICRA group: 5

Stabilizing But High External Debt

Key takeaways

- Escalation of geopolitical risks could trigger significant capital outflows, given the banking system's high external debt. However, in our view, the risk is mitigated by the Qatari government's highly supportive stance toward its banking sector.
- We expect a modest pickup in credit growth in 2025, supported by ongoing public sector projects and interest rate cuts.
- Asset quality will modestly weaken on account of high exposure to the struggling real estate sector but will remain within banks' risk absorption capacity.

Key credit drivers

A spike in geopolitical risk could trigger capital outflows. The banking system's external debt remains high at about one-third of domestic credit. It declined by about 13% between year-end 2021 and August 2024, but we note its upward trend in the first half of 2024. The risk of outflows, in case of escalation of geopolitical risk, is mitigated by the government's highly supportive stance toward its banking sector.

We expect credit growth will average about 5% in 2024-2025. Real GDP is forecast to expand by 2% on average in 2024-2025. Lower growth and completion of many infrastructure projects mean lower funding needs for the government and the private sector. We therefore forecast systemwide credit growth (including loans to nonresidents) will decelerate in 2024-2025 compared with the average 8% during 2019-2022 when lending was fueled by infrastructure investments. We think that GDP and credit growth could accelerate from 2026 in line with the expected expansion of the country's liquefied natural gas (LNG) sector.

Key assumptions

Local funding sources will fund credit expansion in 2024-2025. We do not foresee a major expansion of external funding. About 90% of domestic deposit growth over the first eight months of 2024 came from public-sector sources. Also, in nominal terms, new local private deposits have been able to fund domestic credit expansion.

Stable asset quality indicators. Persistently high interest rates and slower growth will contribute to a modest rise in nonperforming loans (NPLs) in 2024, particularly from the real estate sector, where overcapacity remains significant. Interest rate cuts should offer some breathing space in 2025. For exposed players, immediate risks from subsidiaries in Turkiye and Egypt appear to have subsided.

What to look for over the next year

Escalating geopolitical risk. We assess the current regional stress level as moderate but with elements of high stress potentially emerging, which could have potential adverse implications for investor confidence and external funding flows.

Asset quality trends. Continued pressure on real estate prices could accelerate the migration of stage 2 loans to NPLs at some midsize banks. However, public-sector initiatives and interest rate cuts will continue to prevent a more severe deterioration in asset quality.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

4.4% 2024 estimate

2.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.1% 2025 forecast

4.2% 2024 estimate

3.9% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.4% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending December.

Saudi Arabia | BICRA group: 4

Significant Funding Is Needed To Support Lending Growth

Key takeaways

- Non-oil sector growth will benefit from the implementation of Vision 2030 projects.
- Although slowing a bit, lending growth will remain high and primarily driven by corporate clients.
- We expect banks to increasingly use external debt to finance this growth.

Key credit drivers

We expect credit growth will taper off slightly. We expect growth of 9% over 2024-2026, down from 10% in 2023, with corporate lending remaining a chief contributor to loan growth. We foresee higher mortgage lending growth once interest rates come down.

The economy will continue expanding. We expect to see a pickup in construction for Vision 2030 projects and the services sector, supported by consumer demand and an expanding workforce. We project stronger GDP growth, averaging 4.3% over 2025-2027.

Key assumptions

Banks continue to display strong asset-quality indicators. We anticipate an increase in nonperforming loans (NPLs) to about 2.1% of systemwide loans by the end of 2024 from 1.5% at year-end 2023. The expected lack of write-offs in 2024 is also likely to contribute to the increase of NPLs and NPL ratios. We expect highly leveraged and small corporates to be the chief contributor to NPL growth.

Recourse to external debt will increase. Banks' ratio of net external assets to total loans dropped to 1% in August 2024 from 2% in 2023. In view of ongoing financing needs for Vision 2030, we expect banks to resort to alternative sources of financing, including external funding. This introduces some exposure to changes in investor sentiment and capital flows.

What to look for over the next year

Escalating geopolitical risk. We assess the current regional stress as moderate but with elements of high stress potentially emerging. This could have potential adverse implications for investor confidence and external funding flows.

Structurally higher private-sector leverage could create imbalances. For now, the banking system remains in relatively good shape, with strong asset-quality indicators and capitalization overall. We expect banks' sound profitability and conservative dividend payouts to continue supporting their capitalization over the next one to two years.

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Read latest report

Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

9.0% 2024 estimate

10.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.3% 2025 forecast

2.1% 2024 estimate

1.5% 2023 actual

RoAA

Sector-average return on average assets.

2.2% 2025 forecast

2.2% 2024 estimate

2.2% 2023 actual

Figures as of fiscal year ending December.

South Africa | BICRA group: 6

Stronger Business Confidence Could Expand Banks' Credit Books

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Key takeaways

- Credit conditions are set to ease gradually through 2025 amid moderating inflation, which will support household consumption.
- We expect credit losses to normalize below 1%, closer to historical trends, in 2025.
- The banking sector's profitability will remain resilient thanks to robust net interest margins.

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Key credit drivers

Demand for credit could firm up in 2025. Improving business confidence and lower interest rates could spur growth in private-sector credit of 8%-9% in 2025, which is above nominal GDP growth. We expect further lending to support investments in electricity transmission projects. While the South African Reserve Bank (SARB) lowered its repurchase rate by 25 basis points (bps) to 8% in September 2024, the rate cut cycle could last until end-2025.

Credit losses will normalize closer to historical levels. We estimate impairments at around 100 bps in 2024 and 90 bps in 2025, trending toward the historical average of 80 bps. Similarly, we expect nonperforming assets to decrease toward 4.4% in 2025 after reaching 4.9% in 2023.

Top-line growth will underpin robust financial performance. Despite a tighter net interest margin because of the lower interest rate, we anticipate adequate risk-adjusted returns averaging 16% in 2025. This will be supported by banks' diversified business models, consistent share of non-interest income, and higher lending growth supporting the overall interest income. We expect banks to remain well capitalized and start building additional loss absorbing capacity (ALAC) in 2025.

Key assumptions

Macroeconomic conditions are slowly improving. Despite persisting infrastructure bottlenecks, we expect real GDP growth will accelerate to 1.5% in 2025 after a moderate pick up to 0.9% in 2024. We expect the SARB will cut its key policy rate by another 125 bps by end-2025 if inflation remains in the middle of its 3%-6% target range.

Investor confidence is improving thanks to the formation of the Government of National Unity. The South African rand strengthened markedly thanks to the government's market-friendly policy stance and reform momentum that aims to address infrastructure deficiencies and service delivery. The country's prolonged stay on the Financial Action Task Force's gray list did not affect foreign investors' holdings of local-currency sovereign debt, which stayed at about 25% in 2023.

What to look for over the next year

Regulatory actions. The resolution framework was introduced in South Africa in June 2023 with the SARB as the sole resolution authority. The deposit insurance scheme has been operational since April 2024. We expect details on the calibration of ALAC instruments issued by domestic systemically important banks to be clarified before banks start issuing in 2025.

Loan growth

Sector-average growth in loans.

7.7% 2025 forecast

7.3% 2024 estimate

3.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.3% 2025 forecast

4.7% 2024 estimate

4.9% 2023 actual

RoAA

Sector-average return on average assets.

1.4% 2025 forecast

1.4% 2024 estimate

1.5% 2023 actual

Figures as of fiscal year ending December.

Tunisia | BICRA group: 10

Reform Implementation Will Be Key For The Future

Key takeaways

- We think Tunisia will continue to honor its commercial external debt, as it has done amid constrained financing options and economic adversity in the past 24 months.
- Politically sensitive reforms will be difficult to implement for the reelected president, given difficult socioeconomic conditions, which could leave elevated financing needs and muted economic performance unresolved.
- We therefore expect continued pressure on Tunisian banks' asset quality and profitability, straining their already-weak capitalization.

Key credit drivers

Economic and government financing risks remain high. Incumbent president Kais Saied won a second term in the October 2024 elections. Although this could signal easier reform implementation, reforms are politically sensitive and might be difficult to implement in a tense political, economic, and social environment. Hence, we remain cautious of the government's ability to tackle the rebalancing of public and external accounts as well as achieve stronger and more inclusive growth.

The Tunisian banking system suffers from weak fundamentals. Tunisian banks' profitability remains weak and plagued by weak asset quality, low efficiency, and intense competition. The system continues to depend on central bank funding.

Key assumptions

Absent major reforms, we forecast real GDP growth will remain muted in 2025-2027. This is because of low public and private investment; persisting external pressures particularly from Europe, Tunisia's main trading partner; and very limited fiscal space.

Refinancing risk for the government remains significant. Tunisia has large twin deficits and significant external and domestic debt. Given the current relationship with the IMF, official creditor funding remains sporadic. However, the country has repaid its external maturities on time and we expect this to continue, absent any additional shocks.

Credit demand will continue to be low and asset quality deteriorating due to high rates. We expect muted lending growth due to the weak economy and uncertainty over reform implementation. We also forecast nonperforming loans to remain close to 16% over the next 12-24 months, due to expected write-offs, and the cost of risk to stay elevated at about 160 basis points.

What to look for over the next year

Visibility on reform implementation and mobilization of external funding. Now that the presidential election is over, the country could benefit from a clear program of reform that would help negotiations with creditors and return debt to sustainable levels.

Adoption of International Financial Reporting Standards (IFRS). The banking system is transitioning toward IFRS and more stringent capital adequacy requirements. We expect a significant impact, albeit spread out over several years.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

2.0% 2024 estimate

2.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

16.1% 2025 forecast

16.0% 2024 estimate

16.0% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Turkiye | BICRA group: 9

The Economy Is Gradually Rebalancing

Key takeaways

- Persistent monetary tightening is contributing to the rebalancing of the economy.
- Controlling inflation will be key to regain the confidence of domestic residents and sustainably reduce the risk of increasing dollarization.
- Banks will suffer from weaker business activity and asset quality erosion, but these will be manageable.

Key credit drivers

Refinancing risks are decreasing. The consistency of monetary tightening since June 2023 has improved market sentiment, resulting in a record high external debt rollover rate for banks. Assuming policy consistency continues, we expect banks will refinance most of the short-term debt, which amounted to $109.6 billion as of Aug. 31, 2024. The continuous increase in foreign currency liquidity, which was estimated at $160.6 billion as of Aug. 31, 2024, offers a buffer against unexpected declines in rollover rates. That said, a portion of this liquidity is held at the central bank and may not be fully accessible. Attempts to unwind the foreign exchange-protected deposit scheme (8.3% of deposits as of mid-October 2024) and to increase the attractiveness of the Turkish lira (TRY)-denominated deposits have finally reversed the dollarization of the financial sector.

Asset quality will deteriorate amid economic readjustments. Slowing economic activity, tighter financing conditions, and a weaker lira will likely erode borrowers' creditworthiness. Yet the increasing usage of restructured loans will prevent a more significant effect on the headline nonperforming loan ratio. Provisioning efforts over the past two years and strengthened capital buffers should help banks absorb the costs.

Key assumptions

Domestic demand will decline amid tightening credit conditions. We expect Turkiye's GDP growth will slow notably, to 3.1% in 2024 and 2.3% in 2025, from 5.1% in 2023. Real estate prices will continue to adjust gradually as a high share of self-financed operations and gradually declining interest rates over 2025 will continue to support the market moderately. We also expect rising portfolio inflows and a narrowing current account deficit over the next two years. We expect the lira will reach about TRY35/$1 by the end of this year and moderately depreciate to about TRY42/$1 by the end of 2025.

What to look for over the next year

Success of disinflation efforts. We expect the consumer price index will remain elevated this year, averaging 57.1%, before gradually declining to 27.6% in 2025. An unexpected increase in inflation could erode both investors' and residents' confidence, straining the lira, banks' funding, and ultimately the central bank's foreign currency reserves.

Banks' profitability. Despite the expected decline in inflation, still-high profitability implies a significant distortion in Turkish banks' financials. If International Accounting Standard 29 is applied, banks' reported profitability could reduce significantly.

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Read latest report

Loan growth

Sector-average growth in loans.

20.0% 2025 forecast

35.0% 2024 estimate

52.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.5% 2025 forecast

1.8% 2024 estimate

1.6% 2023 actual

RoAA

Sector-average return on average assets.

2.8% 2025 forecast

3.0% 2024 estimate

3.8% 2023 actual

Figures as of fiscal year ending December.

Ukraine | BICRA group: 10

Banks Remain Resilient To The Stresses Of A War Economy

Key takeaways

- Economic conditions in 2023 and so far in 2024 have been slightly more supportive for Ukrainian banks than in 2022.
- Regulatory support has helped banks to demonstrate resilient business and financial profiles, and we expect their 2024 key financial indicators will remain close to 2023 levels.
- Banks were not negatively affected by the sovereign eurobond restructuring.

Key credit drivers

The war's duration and effects are difficult to estimate. We expect prolonged economic instability, largely due to the Russia-Ukraine war, which is hitting the economy and banking sector hard.

We believe additional pressure on banks' capitalization will be manageable. Nonperforming loans (NPLs; loans over 90 days overdue) fell to 35% at end-June 2024 from a peak of 39% at mid-2023 due to retail NPL write-offs. NPLs could further increase over the next 24 months, but not above 40%.

Key assumptions

The banking system will likely remain resilient, given improved economic conditions, despite the war. We expect GDP growth will average 4%-5% in the medium term, inflation will remain below 10%, following the key policy rate decrease to 13% in June 2024, and eased currency controls.

Lending outside state support programs will underpin lending growth over the next 12 months. Cards and mortgages arranged under the government's eOselia program have spurred growth in retail loans denominated in Ukrainian hryvnia. Loans in hryvnia for small and midsize enterprises are also rising faster than foreign currency-denominated loans for big corporates.

What to look for over the next year

Performance of sovereign debt. We think that the debt restructuring of some foreign currency sovereign eurobonds in August 2024, which we view as selective default, did not negatively affect the banking system stability because Ukrainian banks hold government debt in local currency. In view of this, we think that the government is unlikely to restructure its local currency debt.

Lower profitability over the next 12 months compared with 2023. This is due to a tightening net interest margin, falling income from government securities, and declining fees from foreign exchange transactions, combined with growth in operating expenses and still-high provisioning needs.

We expect deposits and dollarization levels to remain stable. These will be supported by payments to the military and government employees, despite a decrease in the key policy rate. Corporate deposits increased by 8% and retail deposits by 6% in the first eight months of 2024.

Note: S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. As the situation evolves, we will update our assumptions and estimates accordingly.

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Read latest report

Loan growth

Sector-average growth in loans.

10.0% 2025 forecast

7.0% 2024 estimate

0.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

40.0% 2025 forecast

38.0% 2024 estimate

37.0% 2023 actual

RoAA

Sector-average return on average assets.

3.2% 2025 forecast

3.2% 2024 estimate

3.4% 2023 actual

Figures as of fiscal year ending December.

United Arab Emirates | BICRA group: 5

Asset Quality Is Stabilizing

Key takeaways

- We expect lending growth to remain strong in 2025.
- Asset quality indicators are likely to remain stable thanks to the supportive economic environment.
- Banks' profitability will decline slightly as the monetary policy easing cycle starts.

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Read latest report

Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

10.0% 2024 estimate

8.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.2% 2025 forecast

4.3% 2024 estimate

4.5% 2023 actual

RoAA

Sector-average return on average assets.

2.2% 2025 forecast

2.3% 2024 estimate

2.2% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

Continued strong growth momentum. We expect UAE banks to report strong credit growth thanks to the supportive economic environment, particularly driven by the trade sector and personal loans.

Profitability to decline slightly. After a strong performance in 2023, we expect the banking sector's profitability to decrease slightly as we enter the monetary policy easing cycle. We anticipate the U.S Federal Reserve will deliver a total of 225 basis points (bps) of rate cuts by the end of 2025, and that the UAE's central bank will mirror these movements. Coupled with a broadly stable cost of risk, UAE banks are likely to remain strongly profitable this year, but their profitability will start declining from 2025.

Asset quality expected to remain stable. We believe the solid performance of non-oil sectors, expected rate cuts, and banks' precautionary provisioning will help maintain the stability of stage 3 loans at 4.0%-4.5% in 2024-2025 compared with 4.2% as of June 30, 2024, and keep cost of risk at low levels of about 50-60 bps in 2024-2025, versus 33 bps in first-half 2024.

Key assumptions

We expect the government will continue supporting the banking system. Because the banking system is regulated and supervised at the federal level, we anticipate that, if needed, extraordinary support would come from the federal authorities, directly or indirectly.

The geopolitical environment could pose downside risks. We assume that a protracted, direct Israel/U.S.-Iran conflict will not emerge. However, with the recent escalations, we think the conflict will likely persist well into 2025. Nevertheless, the banking system remains in a very strong net asset position and therefore we expect banks to remain resilient in case of external capital outflows.

What to look for over the next year

We expect price stabilization in the real estate sector. A large supply of pre-sold properties is set to be delivered over the next 12-24 months, which could create some risk of oversupply. Nevertheless, we believe the risk for banks is contained since most off-plan property transactions are in cash--and only about 30%-40% of secondary sales are funded using a mortgage. Developers have shown solid growth over the past three years with record revenue backlogs and solid cash flow generation.

A strong local deposit franchise will continue to support funding. Banks have accumulated local deposits over the past three years. We expect strong deposit growth will continue through 2025 as the economy remains supportive, leading to stronger cash flow generation by corporates.

Uzbekistan | BICRA group: 8

The Banking Sector Will Continue Performing Well

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Key takeaways

- The banking sector is well positioned for strong performance over the next two years, bolstered by solid economic growth, while aggressive retail lending growth should slow.
- We expect asset quality will continue to gradually improve, backed by positive economic momentum.
- The operating environment for banks remains challenging, reflecting intensifying competition, evolving risk management, and modest wealth levels.

Key credit drivers

Strong economic growth will underpin robust banking sector performance. We expect Uzbekistan to post solid GDP growth of more than 5% on average through 2027, underlined by economic modernization agenda and reforms, with a renewed push for more market-friendly policies, domestic demand, and public and private investment. We expect positive economic momentum will continue supporting the banking sector's new business growth and performance.

Asset quality will continue improving in line with new lending growth. Credit costs will likely continue to normalize to 1.8%-2.0% and nonperforming assets under International Financial Reporting Standards will decrease to 6.5%-7.0% in 2024-2025, balancing Uzbekistan's sound economic growth against banks' relatively high risk appetite, and still-weak underwriting standards.

Key assumptions

Lending growth will slow to 16%-18% in 2024-2025, reflecting a supportive economy and the regulator's measures to limit retail lending growth. Moderate exposure to vulnerable sectors, substantial mortgage lending under government support programs, and still-tight government controls mitigate the risk of asset bubbles, in our view. Banks will continue benefiting from still-strong retail lending growth of about 22%-24% and further growth in small and midsize enterprise business.

The government's dominant positions in the banking sector and economy will decrease gradually. We consider that a traditionally strong share of lending to state-owned enterprises and lending under government programs will diminish only gradually, reflecting the still-strong share of the government sector in the economy and continued growth of commercial lending.

What to look for over the next year

The government will continue implementing its wide-ranging reform agenda. This includes the planned privatization of some state-owned enterprises including some banks. However, this will take time as state-owned banks will need to transform to improve their profitability and performance indicators to become attractive for investors.

The entry of foreign players, like Hungarian OTP Group's recent acquisition of Ipoteka Bank, will likely intensify competition. But we expect the banking sector landscape will remain fairly stable over the next few years. Early adopters of digitalization among banks and fintechs will further strengthen their market positions and widen the gap with digital laggers.

Loan growth

Sector-average growth in loans.

18.0% 2025 forecast

16.0% 2024 estimate

20.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

6.8% 2025 forecast

6.8% 2024 estimate

7.2% 2023 actual

RoAA

Sector-average return on average assets.

1.9% 2025 forecast

1.8% 2024 estimate

1.8% 2023 actual

Figures as of fiscal year ending December.

Asia-Pacific

Australia | BICRA group: 2

Low Unemployment Should Shield Against Credit Losses

Key takeaways

- We forecast banks' credit losses will remain low over the next two years.
- Affordability constraints, a modest rise in unemployment, and elevated interest rates should moderate an increase in house prices over the next two years.
- Sticky inflation, high interest rates, soft business and consumer confidence, and an uncertain global economic outlook pose risks to the economy.

Key credit drivers

Credit losses should remain low over the next two years--at about pre-pandemic levels of 15 basis points. We believe that relatively low unemployment, modest economic growth, and a change in spending patterns will shield borrowers against a high interest burden.

We consider the risk of regulatory lapses to be low. The strengthening of institutional and governance standards in the Australian banking sector have lessened industrywide risks. Simplified business models and advances in risk management have also contributed to this improvement. We assess the institutional framework for the banking industry in Australia at the lowest risk level on our scale, in line with that in Canada, Hong Kong, and Singapore.

Key assumptions

Affordability constraints, a modest rise in unemployment, and elevated interest rates should moderate an increase in house prices over the next year or two. But beyond that, interest-rate cuts and the persistent disparity between housing demand and supply are likely to keep growth in house prices above the inflation rate.

Lending standards remain conservative. We believe underwriting standards will remain conservative and banks will continue to price rationally for risks, affording the sector some buffer for unexpected situations. The earnings of Australian banks should stay strong relative to global peers.

What to look for over the next year

Economic uncertainties pose risks. Australian banks are exposed to risks from sticky inflation and high interest rates, soft business and consumer confidence, and an uncertain global economic outlook. Given the large increase in interest rates and prices in the past two years, we consider that some households and businesses will struggle to service their debt. Particularly vulnerable will be individuals who lose their employment or income, are highly leveraged, and borrowed when house prices were near their peak. Nevertheless, we consider such borrowers form a small part of the banks' loan books.

Technology risks are on the rise. Cyber threats continue to present a risk for Australian banks. Accelerated digitalization has increased such risks, especially those stemming from third parties, and could lead to more severe cyberattacks that trigger higher losses.

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Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

4.7% 2024 estimate

5.6% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

1.2% 2025 forecast

1.2% 2024 estimate

0.9% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending June.

Bangladesh | BICRA group: 9

External Sector Volatility Presents Significant Risk

Key takeaways

- Slowdown in credit growth should somewhat ease the tight liquidity situation for the banking industry.
- Availability of U.S. dollars remains constrained. Although monthly wage remittances have shown resilience, subdued interbank market, and delays in servicing export orders due to textile sector disruptions will continue to exert pressure on U.S. dollar supply.
- Structural challenges persist for the banking system.

Key credit drivers

Currency volatility and high inflation stalk the economy. The Bangladesh economy is weathering a period of heightened external pressure due to currency depreciation, elevated commodity prices, and dwindling foreign exchange reserves.

Structural challenges remain. Bangladesh's banking industry will face structural challenges from high credit risks, the fragmented nature of the system, weak governance at some banks, weak liquidity, particularly at some Islamic banks, and low capitalization of state-owned banks. Bangladesh Bank's liquidity support to the struggling banks by guaranteeing their interbank borrowings provided some confidence amid uncertainty.

Key assumptions

Weak profitability to continue. As the central bank tries to tame inflation, interest rates are anticipated to stay high in 2025, potentially slowing loan growth. In May 2024, banks transitioned to a full-fledged market-based interest rate system allowing greater flexibility to price risk appropriately and benefit from higher lending rates. However, this will be largely offset by the rising funding cost and an increase in credit cost amid challenging macroeconomic conditions.

Asset quality to deteriorate. Bangladesh's banking industry faces structural asset-quality challenges from weak lending standards and foreclosure laws. State-owned banks continue to hold substantial amounts of weak assets. The expiry of forbearance measures in September 2024 is prompting banks to recognize overdue loans at 90 days past due, versus 270 days previously. In our view, this will pose short-term pain, but it will improve transparency in line with international norms. We project reported NPL ratio for the banking system to increase to about 14% in 2025.

What to look for over the next year

Reform agenda on track. Bangladesh's Prompt Corrective Action framework, which takes effect on March 31, 2025, will compel banks to enhance focus on capital adequacy, stressed assets, and weak corporate governance. The proposed merger of five banks will somewhat help address the problem of overcapacity in the sector. But a sluggish capital market could make it difficult to keep banks sufficiently capitalized to back these reforms.

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Loan growth

Sector-average growth in loans.

10.0% 2025 forecast

9.3% 2024 estimate

9.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

14.0% 2025 forecast

13.5% 2024 estimate

9.0% 2023 actual

RoAA

Sector-average return on average assets.

0.4% 2025 forecast

0.5% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

Brunei | BICRA group: 6

Profitability To Normalize But Remain Sound

Key takeaways

- Bank earnings will normalize in line with U.S. Federal Reserve easing started in 2024.
- Loan growth will be driven predominantly by external lending.
- Banks are likely to maintain strong balance sheets.

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Loan growth

Sector-average growth in loans.

7.0% 2025 forecast

9.0% 2024 estimate

11.5% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.8% 2025 forecast

2.7% 2024 estimate

2.7% 2023 actual

RoAA

Sector-average return on average assets.

1.6% 2025 forecast

1.8% 2024 estimate

2.1% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

External lending to drive growth. Brunei's banks will continue to seek geographic diversification, with such lending more than doubling to 19% of the loan book in June 2024 from pre-pandemic levels. Domestic interest rates are expected to be steady, and credit will likely grow 3%-4%, driven by the government's diversification initiatives. A saturated market and regulations on the total debt service ratio would constrain retail demand.

Profitability has peaked, overall financial profile to remain sound. We believe Brunei banks' investment yields have peaked in 2024, after benefiting from high interest rates. We expect additional Fed rate cuts of 200 basis points (bps) by 2025 to pressure yields, primarily international investments. Net interest margins will moderate and return on assets will stabilize at about 1.5% in 2026. The banking sector will maintain its very strong capital buffers, with Tier-1 capital ratio of 20.6% as of June 2024.

Key assumptions

High-income economy will remain intertwined with developments in the energy market and domestic oil and gas output. Several production facilities in the country are mature and require periodic maintenance and rejuvenation. The economy benefits from infrastructure investment, which boosts output, returns on investments in the oil and gas sector, and spurs growth in downstream industries. The government's strong net fiscal asset position and oil wealth will buffer against energy-related shocks.

Brunei's banks to have stable asset quality. Large exposure to government-linked companies and customers, extensive social welfare schemes, and stable lending rates will continue to support banks' asset quality. Credit risks associated with the rapidly increasing footprint of banks abroad are counterbalanced by their focus on matured and stable markets such as Singapore. Growth will moderate after a sharp spike in 2023 as banks will maintain a balance between capital preservation and expansion. We therefore expect the nonperforming loan ratio to remain stable at 2.5%-3.0% in 2024-2026.

What to look for over the next year

Deposit outflows to Singapore will stabilize. The loan-to-deposit ratio of Brunei banks is under pressure because of strong external lending and contraction in deposits, partly driven by outflows to Singapore, which offers high-yielding deposits. We believe outflow momentum would recede in tandem with rate cuts.

Cambodia | BICRA group: 9

Asset Quality Repair Will Need Time To Fix

Key takeaways

- Uneven economic recovery will prolong asset-quality pain for Cambodian banks.
- Profitability to stay low due to high credit costs; lower funding costs should ease the pain.
- Private sector leverage will remain high relative to income.

Key credit drivers

Uneven economic recovery. Cambodian banks will need time to recover as economic recovery remains uneven and stress in tourism-related and property markets persists in 2025. Banks have the heaviest exposure to these sectors, which the pandemic hit hardest. We expect nonperforming loans (NPLs) to keep rising for the next few years and touch 7.5%-8% by 2026, and credit losses will stay elevated.

High leverage. High private-sector leverage at over 130% of GDP, particularly in the context of modest income levels, exposes banks to weaknesses in debt serviceability.

Strong funding from parents. Cambodian banks have elevated loan-to-deposit ratios. But they will continue to benefit from the backing of foreign parents, tempering funding pressure.

Key assumptions

Supply overhang and funding woes will continue to haunt the real estate sector. The banking system has large direct exposure to the pandemic-stressed construction and real estate sector, at one-fifth of loans. Banks are also affected by rising delinquencies via spillover effects to other real estate dependent industries e.g., cement, glass, and paint. We expect strains on property prices and sales will persist, given a mismatch between supply and demand.

Credit growth will remain low as banks turn cautious. Funding dynamics have eased slightly with the lowering of the reserve requirement. However, we expect banks to remain cautious in lending owing to elevated NPLs and credit losses.

What to look for over the next year

Lower credit demand and Fed rate cuts will ease funding strain, but recent covenant breaches pose risk. We expect the funding cost to ease due to multiple factors, including fed rates cuts, delay in reserve requirement, and low credit demand. Recent covenant breaches could, however, affect the availability and cost of funding for Cambodian banks. In our view, the large banks we rate will ride this out, but if the current tolerance for covenant waivers abates, it could hurt smaller and weaker banks.

Uptake of restructuring. National Bank of Cambodia recently extended the regulatory forbearance for banks to restructure loans without classifying them as problem loans until December 2025. The scope also has been extended beyond tourism. As such, we expect some pick-up in the restructured loans over 2024-2025, given stress in the economy remains high.

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Loan growth

Sector-average growth in loans.

9.1% 2025 forecast

3.0% 2024 estimate

4.4% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

7.4% 2025 forecast

7.0% 2024 estimate

5.5% 2023 actual

RoAA

Sector-average return on average assets.

0.3% 2025 forecast

0.3% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

China | BICRA group: 6

Earnings Pressure Piling On Chinese Banks

Key takeaways

- China's stimulus is pressuring banks' net interest margin (NIM) and profitability. Banks would need to replenish capital or slow asset growth to sustain their capitalization.
- Discretionary forbearance policy pushes back asset quality strains. Weak home sales are hurting surviving developers and causing more restructuring in property and local government finance vehicle (LGFV) debts.
- Information quality could take longer to improve despite new asset classification rules due to extended forbearance policies, especially for banks with less capital buffer.

Key credit drivers

Stimulus will weigh on profitability. Lower loan yields are likely to continue, eating into the NIM of banks that are unable to neutralize this through lower funding cost. Asset quality strains from pockets of risks in loans to developers and LGFVs could also lift credit costs for the Chinese commercial banking sector when the forbearance policies end.

Smaller regional banks face bigger challenges. Banks with a weaker deposit franchise may be unable to lower funding cost and those with less capital buffer could slow asset growth. The property market downturn is most dire in lower-tier cities, and more LGFV debt could be restructured in highly indebted regions. The burden on megabanks may be alleviated by the government's capital injection.

Key assumptions

Softer growth outlook amid low confidence. We estimate China's annual GDP growth will average 4.5% over 2024-2026. Loan growth is likely to be about 9% as banks with strained profitability moderate asset growth to preserve capital. Slower economic growth and a persistent property downturn will pressure asset quality, but forbearance policies keep headline ratios in check.

Nonperforming assets (NPAs) to fluctuate mildly. The NPA ratio is our broader measure of asset quality that includes nonperforming, special-mention and our estimates of problem loans. We forecast this ratio to be 5.5%-5.9% over 2024-2026, compared with our estimate of 5.6% at end-2023. Credit costs will increase slightly to 1.22% of average loans over this period from our estimate of 1.16% in 2023.

What to look for over the next year

Banks' funding cost management will be tested. We estimate the government's stimulus measures announced in September 2024 could reduce banks' NIM by about 20 basis points (bps) on a static basis. Chinese lenders would need to reduce the average deposit rate by about 25 bps to neutralize the impact.

Forbearance policies will maintain financial stability at the expense of information quality. Banks have a grace period until end-2025 to meet stricter asset classification rules for exposures prior to July 1, 2023. Furthermore, loan extension to LGFVs, property developers and midsized, small, and micro enterprises with temporary financial difficulties is allowed through 2026-2027, and that could increase information risk for weaker banks.

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Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

10.0% 2024 estimate

10.8% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

5.5% 2025 forecast

5.9% 2024 estimate

5.6% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Hong Kong SAR | BICRA group: 2

Major Hong Kong Banks Can Manage Commercial Real Estate Risk

Key takeaways

- Profitability to decline in 2025 due to a visible dip in net interest margins (NIM).
- We expect any potential negative impact on asset quality from Hong Kong and China commercial real estate (CRE) to be manageable.
- Banks have adequate underwriting standards, controlled risk appetite and tight regulatory oversight.

Key credit drivers

Strains in the Hong Kong and China CRE sectors will remain manageable, especially for large banks. Hong Kong major banks' exposure to the domestic CRE sector is mainly collateralized. We estimate 60%-70% of loan books remain secured for the major banks at the end of June 2024, with a healthy average loan-to-value (LTV) ratio of 45%-55%, which provides some buffer against a plunge in property prices. Ongoing revaluations could, however, lead to some rise in the average LTV. We also expect the credit quality of unsecured Hong Kong CRE loans to remain healthy. These borrowers are mainly large conglomerates with strong balance sheets and diversified cash flow. Small and midsize Hong Kong banks with concentrated CRE exposures could face more pressure on asset quality and financial performance.

Hong Kong banks have been lowering China-related property exposures and building additional provisions during the past two to three years. Hong Kong banks' credit losses will remain broadly stable at 0.45%-0.50% of total loans in 2024 and 2025, compared with 0.50% in 2023.

Strong fundamentals. Solid bank capitalization owing to controlled lending, regulatory additional Tier-1 capital issuances, sufficient internal capital generation, and, in some cases, asset disposals give Hong Kong banks additional buffers to absorb losses. Banks also benefit from stable customer deposits and a limited reliance on short-term wholesale funding.

Key assumptions

Economic growth to moderate. We project Hong Kong's economy to slow down to 2.7% in 2025 from about 3.3% in 2024. Any setback to China's economy due to the property crisis, material weakness in external demand, and intensifying geopolitical frictions could weigh on Hong Kong banks.

NIMs to decline in 2025. Interest rates in Hong Kong will likely begin to notably decline during the fourth quarter in 2024, mirroring the trend of the U.S. Federal Reserve's funds rate. Hong Kong banks' NIM will dip by about 10 bps in 2025 compared with about 5 bps in 2024. This will be largely balanced by the ongoing growth in fee income and broadly stable credit costs.

Residential prices are likely to remain flattish in 2025. Amid abundant supply of housing units in 2025, a notable decline in interest rates should support stabilization of property prices.

What to look for over the next year

Downside risk to China's growth. A significant slowdown in mainland China due to a worsening property market poses risks to our base case.

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Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

-3.0% 2024 estimate

-3.6% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.0% 2025 forecast

2.2% 2024 estimate

1.6% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.8% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

India | BICRA group: 5

Structural Improvements, Solid GDP Enhance System Resilience

Key takeaways

- Structural improvements and good economic prospects will support the resilience of India's financial institutions.
- Higher demand coupled with stronger bank capitalization should boost bank loan growth, but deposit growth will lag.
- The RBI's regulatory clampdown will strengthen the financial system in the medium term.

Key credit drivers

Economic growth momentum to continue. India's infrastructure spending and private consumption will support robust economic growth. We forecast GDP will expand 6.5%-7.0% annually in fiscal years 2025-2027 (year ending March 31). India's good economic growth prospects will continue to support banks' asset quality. All the banks we rate are on positive outlook, largely reflecting the outlook on the sovereign and idiosyncratic bank factors.

Asset quality to stabilize. We project the banking sector's weak loans will decline to about 3.0% of gross loans by March 31, 2025, from our estimate of 3.5% as of March 31, 2024. This is on the back of healthy corporate balance sheets, tighter underwriting standards, and improved risk-management practices. We believe underwriting standards for retail loans in India are healthy, and delinquencies in this segment remain manageable. However, unsecured personal loans have grown rapidly and could contribute to incremental nonperforming loans.

Key assumptions

Credit losses to normalize from decade-low levels. Credit costs were at 0.8% in fiscal 2024, below the long-term average of 1.5%. This supports good profitability. We expect credit costs to rise marginally to 0.8%-0.9%. Normalization of credit costs and a possible dip in margins could lower the return on average assets to about 1.2% in fiscal 2025, but it would still be comparable with peers'.

What to look for over the next year

Good credit momentum; deposit growth to lag. We expect loan growth to be slightly higher than nominal GDP, with retail loans expanding the fastest. Corporate borrowing has gained momentum, but uncertain external conditions may delay capital expenditure-related growth. Deposits may struggle to keep pace, which would weaken credit-to-deposit ratios. Despite this, banks' overall funding profiles should remain sound. Competition for deposits and a shift to higher interest-bearing term deposits will squeeze net interest margins to 3% in fiscal 2025 from 3.2% in fiscal 2024.

Actions by the Reserve Bank of India and its commitment to strengthen the financial sector. The central bank is becoming more vocal and imposing heavy penalties. It is heavily focusing on technology, compliance, customer complaints, data privacy, governance, and know-your-customer issues. We believe increased transparency will enhance compliance and governance practices and curtail lenders' overexuberance, but compliance costs will rise. Investors in the financial sector may seek a higher premium for the increased regulatory risk stemming from the potential for tighter penalties, such as business embargoes, which can dent a company's earnings and reputation.

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Loan growth

Sector-average growth in loans.

14.0% 2025 forecast

16.0% 2024 estimate

12.0% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.0% 2025 forecast

3.5% 2024 estimate

5.1% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.3% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending March.

Indonesia | BICRA group: 6

Good Economic Growth Prospects Have Bolstered Banks

Key takeaways

- Banks' profitability to benefit from Indonesia's buoyant economic growth.
- Expiry of forbearance around loans restructured during the pandemic has been generally orderly, with some manageable pockets of stress in vulnerable micro and SME loans.
- Controlled credit costs and high net interest margins will support overall profitability.

Key credit drivers

Solid economic growth. We see good prospects for Indonesia's economy over the next few years. We forecast real GDP growth of 5.0% in 2024 and 2025. The country's banks have good profitability owing to high margins and receding credit costs.

Orderly expiry of restructured loans. Indonesia's restructuring scheme for pandemic-hit loans expired in March 2024. The banking sector has seen a consistent downtrend of these weak loans, thanks to buoyant economic conditions. The restructured loans, which peaked at about 18% of total loans in 2020, fell to about 3% upon expiry of forbearance. Micro, small, and midsize enterprises (MSMEs) were the main recipients of the forbearance, accounting for 75% of some 6.7 million debtors that required aid.

Some pockets of vulnerability. We believe pockets of vulnerable MSME borrowers will continue to grapple with residual weaknesses. In our opinion, they could add 0.3-0.5 percentage point to the NPL ratio over the coming six months, suggesting that NPLs could peak at 2.5% in 2025. We believe this level of NPLs is manageable relative to banks' provisioning and capital buffers.

Key assumptions

Moderate loan growth, controlled credit costs. The combination of post-election pent-up demand and interest rate cuts will spur loans growth. The central bank had already cut rates by 25 basis points (bps) in September 2024; we forecast another 50-bps cut in 2024 and 2025. We project loan growth will pick up to 10%-12% in 2024 and 2025. At the same time, credit costs will remain contained at 100-120 bps, significantly below their COVID peak of 270 bps in 2020.

Strong capital buffers and good earnings underpin ratings. Indonesia banks are among the best capitalized in the region, and we believe they will maintain Tier-1 capital ratio of 22%-25% over the next one to two years. We expect profitability, as measured by a return on assets, to sustain near multi-year highs of about 2.5%, supported by lower credit costs. The banking system ranks among the most profitable in the region by a considerable margin.

What to look for over the next year

Interest-margin dynamics. Bank margins peaked at almost 4.9% in 2023, before declining 30 bps to 4.6% in mid-2024. Indonesia banks flagged rising funding costs from rising deposit rates in the first half of 2024, while facing difficulty in passing through the costs to the large corporates. Pressure on funding costs have since eased, and we expect net interest margins compression to ease, and overall margins to sustain at about 4.5% in 2025. Profitability will decline slightly.

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Loan growth

Sector-average growth in loans.

12.0% 2025 forecast

11.0% 2024 estimate

10.4% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.5% 2025 forecast

2.3% 2024 estimate

2.2% 2023 actual

RoAA

Sector-average return on average assets.

2.5% 2025 forecast

2.6% 2024 estimate

2.7% 2023 actual

Figures as of fiscal year ending December.

Japan | BICRA group: 3

Pace Of Momentum Will Vary By Bank

Key takeaways

- Japan's banks will benefit from a gradual rise in policy rates under low but consistent economic growth.
- Benefits from higher interest rates will offset negative effects such as increasing unrealized losses on bondholdings and a rise in credit costs.
- The strength of tailwinds will be felt differently by banks: Larger banks are better positioned to enjoy it because of strong loan demand from large corporates and consistent deposit growth.

Key credit drivers

A gradual rise in domestic interest rates will help manage downside risk. Higher base lending rates and well controlled interest rates on deposits are enabling banks to seek higher net interest incomes. Continuing demand for lending by corporates will also help banks restore their profitability, albeit slowly and with divergence among banks. In facing higher interest rates, banks have curbed their bondholdings to minimize the increase of valuation losses. Rises in borrowing rates have also been gradual. Bankruptcies and defaults are rising among smaller enterprises. Credit costs and nonperforming loans remain stable for the banking sector.

Systemwide funding remains a key strength of Japan's banking industry. Japan-based banks typically benefit from high and stable deposit bases, reflecting corporate and household net financial positions that are in surplus, and the confidence of Japanese in bank deposits. Elevated equity prices and a rising yield curve will likely prompt depositors to shift money from deposits to investments. The shifts, however, are unlikely to be material enough to disrupt system stability.

Key assumptions

Rate hikes will remain gradual, while vulnerable consumer sentiment is a risk to economic growth. Recovery of consumption will improve the sustainability of economic growth and wage increases are likely to continue. This positive cycle will enable the central bank to raise rates further.

The decline of Japan's growth in the ratio of private sector debt to GDP will be slow, as loan demand remains high among large corporates to improve shareholder value. Strong GDP recovery outpaced growth of private sector debt in 2023 to reduce leverage. We expect increased borrowing demand from the corporate sector to continue for working capital, fixed asset investments, and merger and acquisition activity. Sustained loan growth will decelerate the speed of deleveraging.

What to look for over the next year

Benefits from higher interest rates and economic growth will be felt differently by banks. Larger banks face stronger loan demand from large corporates and have buffers to compete in lending rates such as in prime residential mortgages and are able to set interest rates on deposits low. On the other hand, larger corporates seeking higher shareholder value through inorganic growth strategies and share buybacks may potentially become causes of unexpected credit costs. Normalization of the operating environment will expose strengths and weaknesses among banks.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

3.0% 2024 estimate

3.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.0% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

RoAA

Sector-average return on average assets.

0.3% 2025 forecast

0.3%.2024 estimate

0.2% 2023 actual

Figures as of fiscal year ending March.

Korea | BICRA group: 3

Banks To Remain Focused On Risk Control

Key takeaways

- We anticipate that banks will continue to prioritize risk management and maintain moderate asset growth, which will support their adequate capitalization.
- Headwinds in real estate project financing should be manageable for banks because their exposure is small compared to their assets, and the projects are generally good quality.
- We see higher credit risks at nonbank deposit-taking institutions, especially mutual savings banks and mutual credit cooperatives, but contagion risk is not high, in our view.

Key credit drivers

Adequate credit risk management. Banks' prudent underwriting standards will likely contain asset quality pressure. These standards include the banks' low loan-to-value ratio for mortgage loans (40%-50% at current value); tightened debt-servicing-to-income ratio requirements for household borrowers; and high collaterals for loans to small and midsize enterprises. The banks' build-up of additional provisioning will also cushion the impact. The average loan loss reserve coverage against regulatory nonperforming loans was about 188% at end-June 2024 versus 112% at end-2019.

Risk of real estate project financing is low, in our view. This considers the banks' modest exposure to real estate projects relative to their assets, better project quality, mostly focusing on residential projects in Seoul and surrounding areas, and sizable guarantees from government agencies. Risky exposures based on the regulators' strict assessment criteria recently turned out to be limited.

Key assumptions

Steady economic growth. Korea is a resilient and diverse economy. We forecast real GDP will grow at 2% annually over the next two years. We expect the central bank to lower the policy rate to 2.5% by end-2025, from the current 3.25%, which will support domestic demand.

Polarization in property market. We are yet to see a material rebound in the nationwide property market, although it is improving. Housing prices and transaction volumes in Seoul and surrounding areas picked up notably in recent months, but the property conditions in other areas remain lackluster.

What to look for over the next year

Moderate asset growth to support adequate capitalization. Banks will continue to focus on risk management. Household credit growth will likely stay modest, considering the government's efforts to lower the high household leverage and tighter underwriting requirements. Lower credit losses could offset contraction of net interest margins to some degree.

Contagion risk from weak mutual savings banks and credit cooperatives will be low. These nonbank deposit-taking institutions have high risk appetite and exposure to real estate project financing. That said, mutual savings banks are small (about 3% of total loans in the banking system), and credit cooperatives could use financial resources available at their own federations, a de-facto central bank for them, and benefit from government support, if needed. In addition, these institutions primarily rely on their own deposit funding from customers.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2025 forecast

3.5% 2024 estimate

2.1% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

1.7% 2025 forecast

1.8% 2024 estimate

1.6% 2023 actual

RoAA

Sector-average return on average assets.

0.5% 2025 forecast

0.5% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

Macao | BICRA group: 5

Ongoing Asset Quality Pressure Amid Uneven Economic Recovery

Key takeaways

- Macao's recovery from the COVID-19 pandemic has been uneven across different sectors, in our view.
- Credit losses are likely to remain elevated due to the banks' sizable exposures to mainland China's property market and small and midsize enterprises (SMEs) in Macao.
- The banking sector's profitability will stay subdued in 2024 and increase slightly in 2025.

Key credit drivers

Asset quality pressure is likely to persist. We expect nonperforming asset ratios to stay elevated as borrowers struggle with still-high interest burdens. In addition, the prolonged slump in mainland China's property sector continues to weigh on the asset quality and profitability of banks in Macao. Although China's central government has come up with various stimulus measures recently, these will likely offer no quick fix for developer confidence.

Potential funding support from parents. Branches and subsidiaries of Chinese banks dominate Macao's banking system. We estimate that they accounted for more than 70% of total system assets as of end-June 2024. Sizable customer deposits and potential support from the parents, when needed, will support Macao's systemic funding, in our opinion.

Key assumptions

Macao is a small and wealthy economy exposed to external shocks. The high per capita GDP (about US$81,000 in 2025) overstates the strength of the economy, in our view. Income inequality is high. Macao's heavy reliance on gaming and tourism could constrain its economic resilience.

Macao's property market also remains lackluster. Transaction volumes will likely remain low. Residential property prices in Macao have moderately contracted on a real-term basis since 2019.

Net interest margins will slightly improve in 2025. We expect the credit demand in both domestic and external markets to turn to growth in 2025, outpacing deposit growth. This could partially offset some pressure from a lower lending yield and potential interest rate cuts.

What to look for over the next year

Profitability will remain subdued. This mainly considers still-high credit costs, measured by provision charges as a percentage of gross loans of about 1%. We estimate the sector's return on average assets will stay at approximately 0.3% over the next two years. This is much lower than an average of about 0.8% during 2019-2022.

Forbearance measures to weigh on banks' asset quality. Macao authorities extended the repayment period of interest-free financial assistance provided to local SMEs and young entrepreneurs to 10 years from eight, effective from June 15, 2024. We believe governance and transparency are relatively weak, as reflected in limited disclosure on banks' forborne loans.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

-3.0% 2024 estimate

-10.0% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

5.3% 2025 forecast

5.3% 2024 estimate

3.9% 2023 actual

RoAA

Sector-average return on average assets.

0.3% 2025 forecast

0.2% 2024 estimate

0.3% 2023 actual

Figures as of fiscal year ending June.

Malaysia | BICRA group: 4

Loan Demand To Tick Up

Key takeaways

- Credit demand could improve with higher economic growth.
- Deterioration in asset quality should be manageable because corporate and household balance sheets remain robust on high household savings rate.
- Profitability to stay rangebound with limited upside.

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Key credit drivers

Loan growth. We forecast credit growth will improve to 6% in 2025, benefitting from higher economic growth and an increase in corporate demand led by key infrastructure projects. Our estimates put Malaysia's GDP growth at 4.8% in 2025. In our base case, we forecast policy rates to decline to 2.75% in 2025, from the existing 3.0%.

Asset-quality pressures. Cost pressures stemming from fuel subsidy rationalization could increase financial strain for low-income households and small to midsize enterprises. However, this is not our base case, because we think vulnerable segments would get financial assistance. Meanwhile the solid capitalization (14.8% common equity Tier-1 ratio as of end-June 2024) and provisioning buffers (1.6% of total loans) will help banks to absorb a moderate rise in credit stress.

Key assumptions

Deterioration in asset quality to be manageable. The industry's nonperforming loan ratio could rise by 20-25 basis points (bps) by end-2025 from 1.6% as of end-June 2024. This could come from restructured loans, especially to low-income households and small to midsize enterprises. Any further rollbacks in fuel subsidies would have further impact on these two vulnerable groups. The level of restructured loans has diminished steadily and stood at about 2% at end-June 2024. Credit costs should stay at 15-20 bps, similar to the pre-pandemic average, given adequate provisioning.

Earnings will stay rangebound. Banks' net interest margins could decline by 3-5 bps due to intense competition for both loans and deposits. Over the next two years, we forecast return on assets to stay at 1.2%-1.3%. Upside potential to profitability could come from lower credit costs if large banks choose to write back pandemic-related provisions.

What to look for over the next year

Household leverage and labor market conditions. Malaysian banks' asset quality is closely correlated to employment levels, given a large share of household loans. High household leverage poses some risk, in our opinion. However, stable employment and adequate household financial assets are mitigating factors.

Property market disruptions. Banks have material exposure to real estate development and construction, at about 8% of total loans. Oversupply in the commercial real estate market and elevated office vacancy rates remain structural challenges. Banks have been cautious in lending to this sector and have gradually reduced exposure.

Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

6.0% 2024 estimate

5.4% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

1.9% 2025 forecast

1.9% 2024 estimate

1.6% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.2% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Mongolia | BICRA group: 9

Banks Benefit From Good Economic Momentum

Key takeaways

- Operating conditions will likely stay favorable for Mongolian banks as a boom in mineral exports is driving robust economic expansion.
- Improving regulatory supervision of banks could also underpin their better asset quality and profits than in the past.
- Rapid credit growth will test the banks' ability to manage credit risks.

Key credit drivers

Mongolia's increased economic resilience should improve operating conditions for banks. Robust credit demand along with economic expansion and reduced volatility in banks' asset quality underpin our view. We expect the systemwide regulatory nonperforming loan ratio to continue to be on an improving trajectory over the next 12-18 months.

The industry risk trend of the banking sector is also improving. This is in view of Mongolia's evolving institutional framework, although the banking regulations in the country are relaxed compared with international standards. Banks' enhanced asset quality and ability to generate good profits in a sustainable manner would indicate lower industry risk.

Mongolia is still highly vulnerable to exogenous shocks. The country's heavy dependence on commodities could pose downside risks to the growth trajectory. The risks include a significant slowdown in global demand, fluctuations in commodity prices, and dependence on China. Banks are exposed to inherently high credit risks due to sizable exposures such as mining and construction.

Key assumptions

Mongolia has a promising economic outlook. We forecast its real GDP growth will average about 6% annually through 2027, backed by robust exports of commodities such as coal and copper. Moderating inflation and higher public sector wages have also increased household consumption.

Sound profitability despite some moderation. Credit costs will likely increase moderately as the temporary benefit of large recoveries and net reversals on corporate exposures in recent years fade. Banks' net interest margins are also likely to contract amid the policy rate cuts and intense competition in the banking system. We forecast the sector's return on average assets (ROAA) at about 2.3% in 2025, which is much higher than the average ROAA of about 0.6% during 2017-2021.

What to look for over the next year

High credit growth will test banks' ability to manage credit risks. We believe banks' strengthened capital buffer, rebalancing of asset portfolios in favor of more loans over lower-yielding fixed-income securities, and digitalization contribute to high credit growth amid favorable economic conditions. Such growth, however, could result in higher credit losses when the loan book seasons over time. Banks will likely focus on securing some buffer against the regulatory capital requirements, and the pace of loan growth will moderate in 2025.

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Read latest report

Loan growth

Sector-average growth in loans.

20.0% 2025 forecast

30.0% 2024 estimate

19.2% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

8.5% 2025 forecast

9.0% 2024 estimate

11.3% 2023 actual

RoAA

Sector-average return on average assets.

2.3% 2025 forecast

2.8% 2024 estimate

2.5% 2023 actual

Figures as of fiscal year ending December.

New Zealand | BICRA group: 4

Economic Imbalances Remain Elevated

Key takeaways

- Major banks remain highly likely to receive timely financial support from their parents.
- Downside risks remain as property prices resume their decline.
- Low unemployment should limit credit losses.

Key credit drivers

Economic imbalances remain elevated. Following a decline of about 10% in fiscal 2023 (ended June 30), house prices finished fiscal 2024 flat. Falling interest rates and ongoing immigration inflows will support modest house price growth over the next two years, in our view. This is notwithstanding falls in property prices in recent months following a recovery in early 2024.

New Zealand major banks remain highly likely to receive timely financial support from their Australian parents, if needed. We envisage no change in the strategic importance of the four major New Zealand bank subsidiaries to their Australian parents. This will support the credit quality of the New Zealand major banks, which account for more than 90% of New Zealand banking assets.

Key assumptions

Credit losses to remain low. New Zealand banks' credit losses will likely remain low over the next two years. We estimate they will rise to about 15 basis points (bps) in fiscal 2025, before falling to the long-term average of 10 bps in fiscal 2026. Most borrowers should be able to absorb the pressures from high, albeit falling, interest rates and a sluggish economy with low unemployment.

Banks to maintain profitability despite slowing credit growth. New Zealand banks should be able to maintain their return on equity at 11%-12% over the next two years without any need to take undue risk, including aggressive pricing. This is off the back of lower growth and net interest margins and higher credit costs. We project private sector credit growth to increase slightly over the next two years reaching 4.0% in fiscal 2026, up from 2.8% in fiscal 2024 as interest rates continue to fall.

What to look for over the next year

House prices should continue to rise slowly. Under our base case, we project house prices will increase by 3%-4% in fiscal 2025. Ongoing easing of interest rates, high net migration, continuing supply shortages, and a slight loosening of macroprudential lending restrictions should support property price growth in New Zealand.

Economic growth to recover in 2025. After finishing fiscal 2024 at -0.2% growth, real GDP growth will increase to 1.7% in fiscal 2025 and 2.5% in fiscal 2026, according to our forecasts. We expect inflation to fall to within the Reserve Bank of New Zealand's 1%-3% target band in fiscal 2025 where it will remain for the next two years. While unemployment rose to 4.6% in the quarter ended June 30, 2024, we expect it to increase modestly through fiscal 2025 but remain below 5.0%. Annual population growth of 1.0%-1.5% will further support economic growth.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2026 forecast

3.0% 2025 estimate

2.6% 2024 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

0.6% 2026 forecast

0.6% 2025 estimate

0.7% 2024 actual

RoAA

Sector-average return on average assets.

1.0% 2026 forecast

1.0% 2025 estimate

1.0% 2024 actual

Figures as of fiscal year ending June.

Philippines | BICRA group: 5

Interest Rate Cuts To Boost Loan Growth, Compress Yields

Key takeaways

- Credit growth could increase on lower inflation and further rate cuts.
- Banks' profitability could decline as margin expansion dissipates.
- Asset-quality deterioration should be marginal, with large corporates staying resilient.

Key credit drivers

Credit growth could improve. Higher economic growth, along with lower inflation and interest rates, will support credit demand. We forecast credit growth of 10%-12% in 2024 and 2025, compared with 8% in 2023. We expect the Philippines' GDP to grow about 5.7% in 2024 and 6.2% in 2025, compared with 5.5% in 2023.

Banks maintain good buffers. Philippine banks are well positioned for growth with a sound capital position (15.7% Tier-1 ratio). They have also maintained adequate provisioning, although we believe some write-back of pandemic-related provisions is likely amid a buoyant economic backdrop.

Key assumptions

Credit losses will stay flattish. We expect the sector's credit costs to stay at 0.5%-0.6% of gross loans over next two years. The rising share of higher-risk (and higher-yielding) consumer loans is likely to lead to a manageable deterioration in the nonperforming loan ratio. Large corporates, which form the bulk of the sector's loan portfolio, should remain resilient. Banks with higher exposure to unsecured loans could see elevated credit costs as the portfolio matures.

Earnings could moderate over next two years. The sector's return on average assets could normalize to the long-term average of 1.2%-1.4% over the next two years, after peaking at about 1.5% in 2023. This is because net interest margins will decline in line with policy rates. A moderating cost-to-income ratio and increasing share of retail loans could push profitability above our forecast.

What to look for over the next year

Normalizing interest rates. We forecast policy rates could decrease to 5.5% in 2024 and 4.25% in 2025 as inflation stays moderate. This should also help contain asset quality risks emanating from a higher share of consumer lending.

Property market disruptions. A sharp correction in asset prices would hurt asset quality given banks' sizable exposure to the residential and commercial real estate markets. Real estate loans form about 21% of sector loans; two-thirds are commercial real estate loans.

Notably, office vacancy rates have stayed sustainably elevated in metro Manila. While a fallout in the property sector is not our base case, it is a key downside risk amid higher interest rates and challenging global credit conditions.

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Read latest report

Loan growth

Sector-average growth in loans.

12.0% 2025 forecast

10.0% 2024 estimate

7.7% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.6% 2025 forecast

3.5% 2024 estimate

3.2% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.5% 2024 estimate

1.5% 2023 actual

Figures as of fiscal year ending December.

Singapore | BICRA group: 2

Rate Cuts Will Shift The Dynamics For Singapore Banks

Key takeaways

- Net interest margins (NIMs) likely peaked in 2024.
- Loan growth should pick up in 2025 as lending rates continue to trend down in Singapore.
- Rates cuts will have a dampening effect on profit growth, but are supportive of asset quality.

Key credit drivers

NIMs peaked in 2024. We believe NIMs peaked at 2.0%-2.2%. Lending rates in Singapore correlate with the U.S. Fed rate. We anticipate the Federal Reserve will cut rates by 25 basis points (bps) at each of the two remaining policy meetings in 2024; with a total of 225 bps of rate cuts by the end of 2025. While NIMs for Singapore banks have been strong so far in 2024, they could moderate by about 10 bps-15 bps a year over 2025-2026.

Gradual pick up in loan growth. Borrowing appetite in Singapore could be reignited as interest rates decline. Our base case assumes loan growth of 3%-5% over the next 18-24 months.

Dampening of profit growth, resilient asset quality. Singapore banks' profitability is more sensitive to margins rather than loan growth. The pickup in volumes can mitigate, but likely not offset, the slowdown in profit growth. Lower interest rates are, however, supportive of asset quality. We forecast the NPL ratio will remain below 2%, and credit costs will stay controlled at 15 bps-20bps. Banks have also set aside significant management overlays for general provisions to buffer against any potential deterioration in asset quality.

Key assumptions

Singapore's economic growth to remain steady. We project the economy will grow at a steady clip of 2.5% in 2025 and 2.6% in 2026. An improvement in exports has lifted Singapore's economic momentum, given the small and open economy.

What to look for over the next year

Active capital management in play post-Basel reforms. The final implementation of Basel III reforms saw capital uplift to the tune of 1.5%-2% on "day one," July 1, 2024. We believe the uplift will gradually erode as the capital output floors are phased in over five years, resulting in no net uplift to regulatory capital adequacy ratios by 2029. Meanwhile, some stakeholders could pressure Singapore banks to deploy or more actively manage excess capital. We believe management of the banks will continue to exercise good judgment in both capital and risk management, and tailor decisions according to credit conditions.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

3.0% 2024 estimate

0.5% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

1.3% 2025 forecast

1.3% 2024 estimate

1.2% 2023 actual

RoAA

Sector-average return on average assets.

1.1% 2025 forecast

1.2% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending December.

Taiwan | BICRA group: 4

Solid Capitalization Will Be A Buffer Against Volatility

Key takeaways

- Taiwan banks' capitalization offers a solid cushion against potential economic volatility.
- Interest and fee income growth to support steady profitability in 2025.
- Asset quality remains satisfactory compared with regional peers.

Key credit drivers

A solid capital buffer underpins stable credit metrics. We forecast the sector will maintain solid capitalization in 2025, supported by banks' prudent capital policies. As of June 30, 2024, banks' average common equity Tier-1 capital ratio stood at 12.7%, which should provide a sufficient buffer against unexpected market volatility.

A well-diversified retail deposit base supports banks' generally stable funding resilience. A high ratio of household deposits (about 67%) to total system deposits underpins banks' funding stability. The sector's liquidity ratio also remains healthy, with an average loan-to-deposit ratio of 70%.

Key assumptions

Modest economic growth. We forecast domestic GDP growth to slow in 2025-2026 from a higher base in 2024 driven by AI-led exports. Banks will report modest loan growth as domestic consumption will remain moderate but foreign currency lending is likely to rebound amid interest rate cuts in the U.S.

What to look for over the next year

Banks' core profitability is likely to remain low but stable compared with regional peers'. Banks look set to maintain their net interest margins and fee income growth momentum over the next few quarters, while swap gains will decline compared with previous years amid a narrowing interest rate gap between the U.S. dollar and the Taiwanese dollar. We expect the banking sector's nonperforming assets ratio to remain low at about 0.2% in 2025 under prudent underwriting controls and against the country's stable economic outlook.

House prices to stabilize. Under our base case, we project house prices will grow only marginally in 2025-2026, after a temporary surge driven by government-led preferential housing loans for first-time home buyers.

Ongoing selective credit controls by the Central Bank of the Republic of China (Taiwan) and tightened lending terms by banks should help ease property prices over the next few quarters.

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Read latest report

Loan growth

Sector-average growth in loans.

5.5% 2025 forecast

6.5% 2024 estimate

4.2% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

0.2% 2025 forecast

0.2% 2024 estimate

0.2% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2025 forecast

0.7% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

Thailand | BICRA group: 7

Uneven Economic Recovery Weighs On Thai Banks' Asset Quality

Key takeaways

- Economic risks remain high, given structural constraints from high household leverage and a slow and uneven recovery.
- Credit costs should stay elevated. But spikes in NPLs are unlikely due to aggressive NPL management. Banks have been selling off or writing off bad loans.
- Strong capitalization and high provisioning coverage provide downside protection.

Key credit drivers

Credit risk remains heightened due to structural issues. These include high household and corporate debt as well as pre-existing weaknesses in the small and midsize enterprise (SME) segment.

The Thai government is taking steps to repair household balance sheets and boost SMEs' competitiveness. Household leverage, at 90%, is one of the highest among emerging markets and has reached unsustainable levels. In addition, an influx of Chinese goods is affecting the competitiveness of the manufacturing sector, especially SMEs, which were already struggling. Policy measures, however, require time to crystallize and effect a structural shift.

Slow and uneven economic recovery hurts consumer and business confidence. We believe real GDP growth will get support from increased government spending, including cash handouts, alongside further normalization in the tourism sector. Elevated household leverage will weigh on debt-servicing capability. But we expect interest rates to moderate, mitigating downside risks.

Key assumptions

Our base case assumes an orderly unwinding of imbalances. Banking credit costs should remain elevated at 1.5% for the next two years at least (based on the credit costs of the top six banks, which form 80% of the total). Banks have aggressively managed bad loans by selling them off or writing them down. That and stabilizing economic trends should help prevent a post-forbearance jump in NPL ratios, which may inch up to 3.5% of total loans by 2025, from 2.9% as of March 31, 2024.

Good capital and provisioning levels offer some cushion. Thai banks generally have good credit buffers relative to peers, with high capital adequacy ratios at 19.9% and provision coverage at about 172%, as of June 30, 2024. Banks' adequate earnings also aided these buffers.

What to look for over the next year

Performance of weak loans. With forbearance behind us, we expect the stage two loans to be a better lead indicator of stress in the system. The proportion of stage-two loans is Thailand remains a steep 6.5%, reflecting high credit risk in the system. We assume 15%-20% of these loans will require additional support and, in the absence of support, could slip into NPLs over next 24 months. This proportion is higher than our expectation in other countries as in our view, risks are greater.

At the same time, provisions for stage-two loans at about 30% is also higher than regional peers'. We believe the Thai banks we rate can absorb the blow from deteriorating asset quality.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

1.0% 2024 estimate

-0.3% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.5% 2025 forecast

3.1% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Vietnam | BICRA group: 9

On A Gradual Path To Recovery

Key takeaways

- A recovery of the domestic property sector and global economy will likely support Vietnam's economic performance.
- The NPL ratio will improve moderately as economic conditions pick up; this will be partly offset by loans slipping into nonperforming when restructuring policies end.
- Structural challenges persist.

Key credit drivers

Credit growth. Credit growth in Vietnam is likely to be 12%-15% over the next 12-18 months, with downside risks. The ongoing anti-corruption campaign may slow administrative and approval procedures, spilling over to loan disbursement. While most state-owned banks are capital constrained, several mid-tier private-sector banks are likely to expand briskly.

The NPL ratio will improve gradually. But it will remain elevated over 2025 due to the end of restructuring policies. We expect GDP growth to accelerate to 6.8%, and this will help the recovery of weak loans. Credit costs will likely remain high as banks set aside additional provisions to rebuild their buffers.

Risks remain despite accommodative policies. Recoveries of property and bond markets are likely to gain momentum in 2025 as various real estate-related laws come into effect. Vietnam is, however, characterized by periods of volatile growth in credit and asset prices, which increases risks in its banking system.

Key assumptions

Vietnam's economy is likely to see improvements in 2025. Vietnam's growth is likely to increase further to 6.8% in 2025 from our estimate of 6.2% for 2024. This is due to an improvement in the global economy and expectations that domestic monetary policy will remain accommodative. The medium-term outlook is benign--the economy is increasingly diversified, with a booming manufacturing sector, largely funded by foreign direct investment (FDI). This, together with a young and increasingly educated and competitive workforce, should help to keep long-term development intact.

What to look for over the next year

Capital management. Capital buffers at several Vietnamese banks remain thin, and some state-owned banks need help to improve capitalization. We believe Basel III implementation, which is not mandatory in Vietnam, will remain inconsistent. Stronger banks will be the front-runners, while banks grappling for capital will lag behind global standards.

Structural challenges remain. Structural challenges include high and increasing leverage in the economy; and weak transparency and asset quality recognition. Following a major bank fraud, the authorities amended a law governing credit institutions with an objective to improve corporate governance and transparency, though its efficacy is yet to be seen.

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Read latest report

Loan growth

Sector-average growth in loans.

13.0% 2025 forecast

12.0% 2024 estimate

13.8% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.5% 2025 forecast

3.9% 2024 estimate

4.5% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.1% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Appendix

Table 1

BICRA summary table

Risk level

Extremely high | Very high | High | Intermediate | Low | Very low

Country	BICRA group	Economic risk trend	Industry risk trend	Economic risk: Economic resilience	Economic risk: Economic imbalances	Economic risk: Credit risk in the economy	Industry risk: Institutional framework	Industry risk: Competitive dynamics	Industry risk: Systemwide funding
Argentina	9	Stable	Negative	EH	VH	EH	H	H	VH
Armenia	8	Stable	Stable	H	H	VH	VH	H	VH
Australia	2	Stable	Stable	VL	H	L	VL	L	I
Austria	2	Stable	Stable	VL	L	I	I	I	L
Azerbaijan	8	Stable	Stable	VH	H	VH	EH	H	H
Bahrain	7	Stable	Stable	H	H	VH	I	H	H
Bangladesh	9	Stable	Negative	VH	I	EH	EH	EH	I
Belarus	10	Negative	Stable	EH	H	VH	EH	VH	EH
Belgium	2	Stable	Stable	L	L	L	I	I	VL
Bermuda	5	Stable	Stable	I	H	H	I	L	I
Bosnia and Herzegovina	8	Stable	Stable	VH	H	VH	H	H	VH
Brazil	6	Stable	Stable	VH	I	H	I	H	I
Brunei Darussalam	6	Stable	Stable	I	L	H	EH	I	L
Cambodia	9	Stable	Stable	VH	H	EH	EH	H	VH
Canada	2	Stable	Stable	VL	I	I	VL	L	L
Chile	3	Stable	Stable	H	L	I	I	L	L
China	6	Stable	Stable	I	H	VH	H	H	VL
Colombia	6	Stable	Stable	H	H	H	I	I	H
Costa Rica	8	Positive	Stable	H	H	H	H	EH	H
Cyprus	7	Stable	Positive	I	I	VH	H	H	H
Czech Republic	3	Stable	Stable	I	L	I	I	I	I
Denmark	3	Stable	Stable	VL	L	I	I	I	I
Egypt	10	Positive	Stable	EH	VH	VH	EH	H	H
El Salvador	9	Stable	Stable	EH	I	EH	H	I	EH
Finland	2	Stable	Stable	VL	I	L	I	L	I
France	3	Stable	Stable	L	I	L	I	H	L
Georgia	7	Stable	Stable	H	I	VH	I	H	VH
Germany	3	Stable	Stable	VL	L	L	I	H	VL
Greece	6	Stable	Stable	H	I	H	H	H	I
Guatemala	7	Stable	Stable	EH	I	VH	H	I	I
Honduras	8	Stable	Stable	VH	I	EH	VH	I	H
Hong Kong	2	Stable	Stable	L	I	I	VL	L	VL
Hungary	5	Stable	Stable	I	H	I	I	H	I

BICRA summary table (cont'd)

Country	BICRA group	Economic risk trend	Industry risk trend	Economic risk			Industry risk		
				Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	Systemwide funding
Iceland	4	Stable	Stable	I	I	I	I	I	H
India	5	Stable	Stable	H	L	VH	H	H	L
Indonesia	6	Stable	Stable	H	L	VH	H	H	I
Iraq	10	Stable	Stable	EH	H	EH	EH	VH	VH
Ireland	3	Stable	Positive	L	I	I	I	H	L
Israel	4	Negative	Stable	H	I	L	I	H	L
Italy	5	Stable	Positive	I	I	H	I	H	I
Jamaica	8	Stable	Stable	EH	I	VH	H	VH	VH
Japan	3	Stable	Stable	L	VL	I	I	H	VL
Jordan	7	Stable	Stable	VH	I	VH	H	H	H
Kazakhstan	8	Stable	Positive	H	H	VH	EH	H	H
Kenya	9	Negative	Negative	VH	H	EH	EH	VH	H
Korea	3	Stable	Stable	L	L	I	I	I	L
Kuwait	4	Stable	Stable	H	I	I	H	I	L
Liechtenstein	2	Stable	Stable	L	L	L	I	I	L
Luxembourg	2	Stable	Stable	VL	I	L	I	I	VL
Macao	5	Stable	Stable	I	H	H	VH	I	L
Malaysia	4	Stable	Stable	H	L	H	I	I	L
Malta	5	Stable	Stable	I	L	H	H	H	I
Mexico	5	Stable	Stable	VH	I	I	I	I	L
Mongolia	9	Stable	Positive	H	H	EH	EH	H	VH
Morocco	7	Stable	Stable	VH	L	VH	I	H	H
Netherlands	3	Stable	Stable	VL	I	I	I	I	L
New Zealand	4	Stable	Stable	VL	H	I	I	L	H
Nigeria	10	Stable	Stable	EH	H	EH	EH	H	VH
Norway	2	Stable	Stable	VL	I	L	L	L	I
Oman	6	Stable	Stable	H	I	H	I	H	H
Panama	5	Stable	Stable	I	H	H	I	L	VH
Paraguay	7	Stable	Stable	H	I	VH	VH	H	H
Peru	5	Negative	Stable	H	L	VH	L	I	I
Philippines	5	Stable	Stable	VH	L	H	H	I	I
Poland	4	Stable	Stable	H	L	I	H	H	L
Portugal	4	Positive	Stable	I	H	I	I	H	L
Qatar	5	Stable	Stable	L	H	H	I	I	VH
Saudi Arabia	4	Stable	Stable	H	I	I	I	I	I
Singapore	2	Stable	Stable	VL	I	I	VL	L	L
Slovenia	4	Stable	Stable	I	I	I	I	I	I
South Africa	6	Stable	Stable	VH	I	H	I	I	H
Spain	4	Stable	Positive	I	I	I	I	H	L

BICRA summary table (cont'd)

Country	BICRA group	Economic risk trend	Industry risk trend	Economic risk: Economic resilience	Economic risk: Economic imbalances	Economic risk: Credit risk in the economy	Industry risk: Institutional framework	Industry risk: Competitive dynamics	Industry risk: Systemwide funding
Sweden	2	Stable	Stable	VL	I	L	I	L	I
Switzerland	2	Stable	Stable	VL	VL	L	I	L	L
Taiwan	4	Stable	Stable	L	L	I	I	VH	VL
Thailand	7	Stable	Stable	H	H	VH	VH	H	L
Trinidad and Tobago	6	Stable	Stable	VH	I	VH	H	H	L
Tunisia	10	Stable	Stable	EH	H	EH	EH	H	VH
Turkey	9	Positive	Stable	VH	VH	VH	VH	VH	VH
Ukraine	10	Stable	Stable	EH	EH	EH	VH	VH	VH
United Arab Emirates	5	Stable	Stable	L	H	VH	I	H	I
United Kingdom	3	Stable	Stable	I	I	I	L	I	L
United States	3	Stable	Stable	L	I	I	I	I	VL
Uruguay	5	Stable	Positive	H	L	H	H	H	I
Uzbekistan	8	Stable	Stable	VH	I	VH	EH	H	VH
Vietnam	9	Stable	Stable	VH	H	EH	EH	VH	I

Data as of Nov. 6, 2024. BICRA--Banking Industry Country Risk Assessment.
Source: S&P Global Ratings.

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