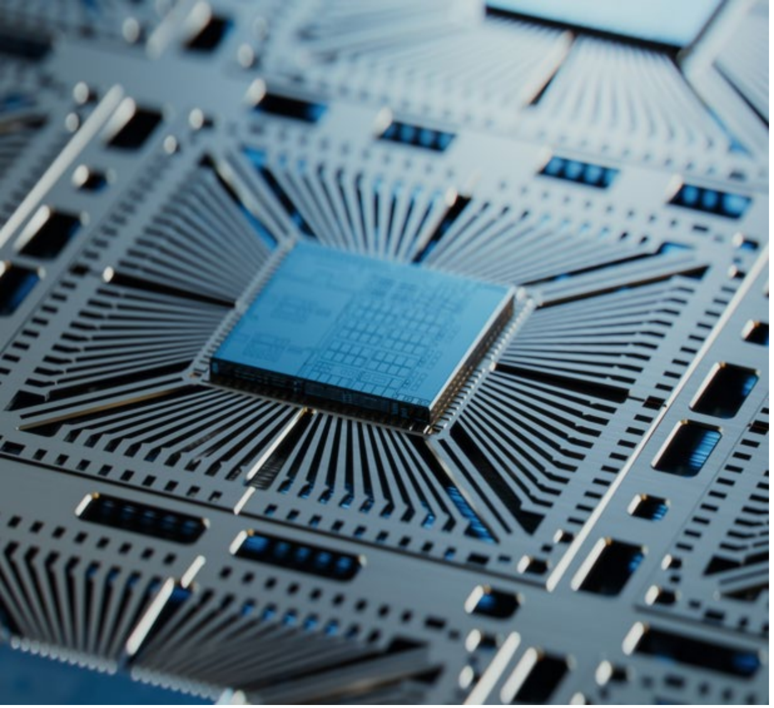



Global Banks Outlook 2025

Cautiously Confident

November 14, 2024

S&P Global Ratings

This report does not constitute a rating action

Contents

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 adaptation 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.

Key Risks

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.

BICRA Developments In 2024

January

Macao
Assigned BICRA Group '5', ER and IR scores of '5'

February

March

Kazakhstan
ER score to '7' from '8', and IR trend to positive from stable

Portugal
ER score to '5' from '6', IR trend to positive from stable

April

Armenia
ER score to '7' from '8', and ER trend to stable from positive

Australia
BICRA to Group '2' from Group '3', IR score to '2' from '3', and IR trend to stable from positive

Iceland
BICRA to Group '4' from Group '5', ER score to '4' from '5', and ER trend to stable from positive

Kenya
Assigned BICRA Group '9', ER and IR scores of '9'

Spain
IR trend to positive from stable

May

Israel
BICRA to Group '4' from Group '3', and ER score to '4' from '3'

Czech Republic
ER trend to stable from negative

Macao
ER score to '6' from '5'

Bosnia and Herzegovina
Assigned BICRA Group '8', ER score of '8' and IR score of '7'

Turkiye
ER trend to positive from stable

Costa Rica
ER trend to positive from stable

June

Italy
IR trend to positive from stable

Iraq
Assigned BICRA Group '10', ER and IR scores of '10'

Panama
ER score to '6' from '5', and ER trend to stable from negative

Cyprus
ER score to '6' from '7', ER and IR trends to stable and positive from stable

Saudi Arabia
IR score to '4' from '3'

July

Greece
BICRA to Group '6' from Group '7', and IR score to '6' from '7'. ER and IR trends to stable from positive

Ireland
IR trend to positive from stable

August

Tunisia
IR trend to stable from negative

September

Jordan
BICRA to Group '7' from Group '8', and ER score to '7' from '8'

Malaysia
IR score to '3' from '4'

October

Chile
ER trend to stable from negative

Egypt
IR score to '8' from '9', and ER trend to positive from stable

Mongolia
ER score to '8' from '9', and IR trend to positive from stable

Oman
BICRA to Group '6' from Group '7', and ER score to '6' from '7'. ER trend to stable from positive

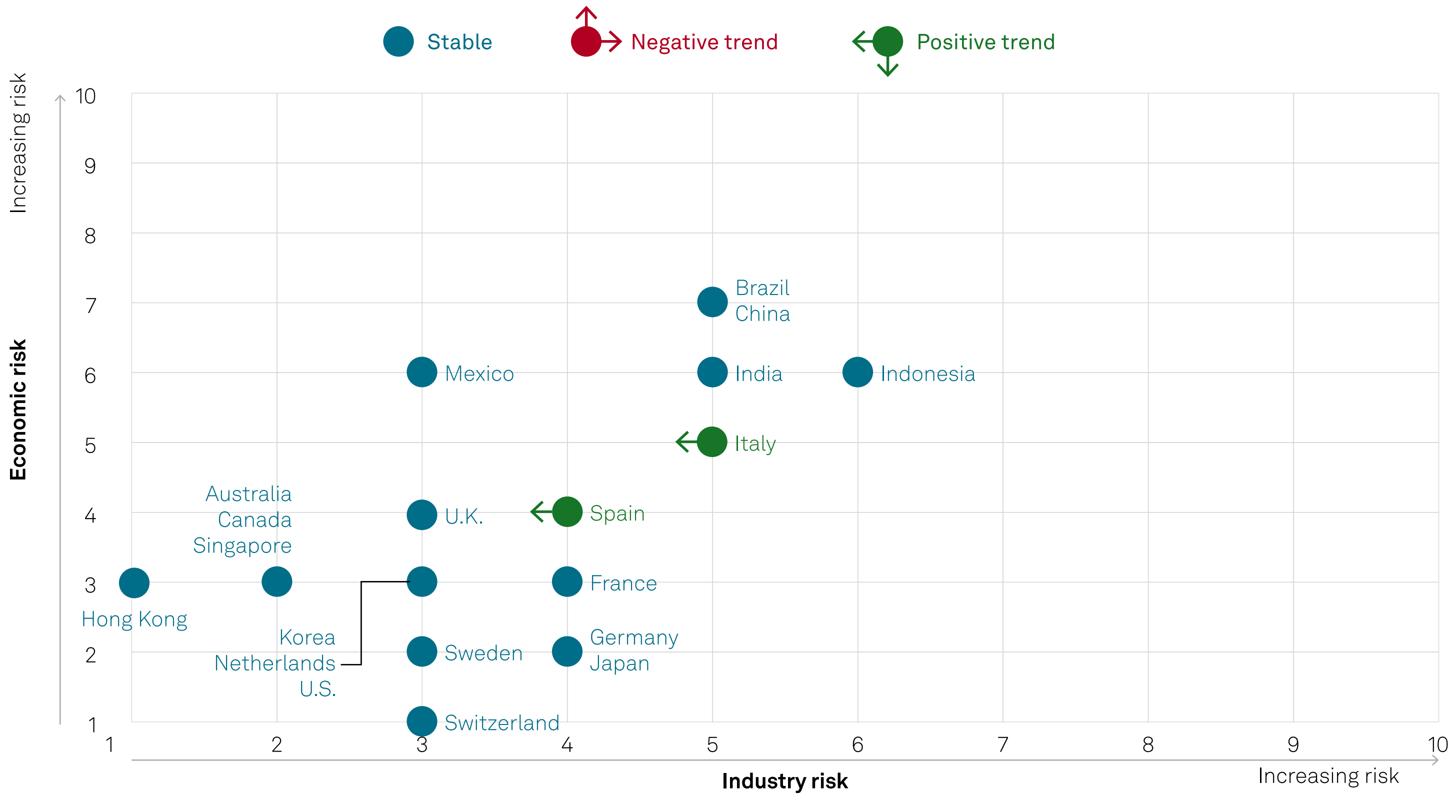
Portugal
BICRA to Group '4' from Group '5', and IR score to '4' from '5'. IR trend to stable from positive

Data as of Oct. 31, 2024. Chart includes changes in BICRA group, industry and economic risk trends and scores. BICRA--Banking Industry Country Risk Assessment. ER--Economic risk. IR--Industry risk. Source: S&P Global Ratings.
On Nov. 6, 2024, we revised our BICRA to group 7 from 8 for Paraguay.

BICRA | Stable Trends Dominate

BICRA scores and economic and industry risk trends

Top 20 banking markets



Data as of Oct. 31, 2024. A BICRA (Banking Industry Country Risk Assessment) is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group 1) to the highest-risk (group 10). Source: S&P Global Ratings.

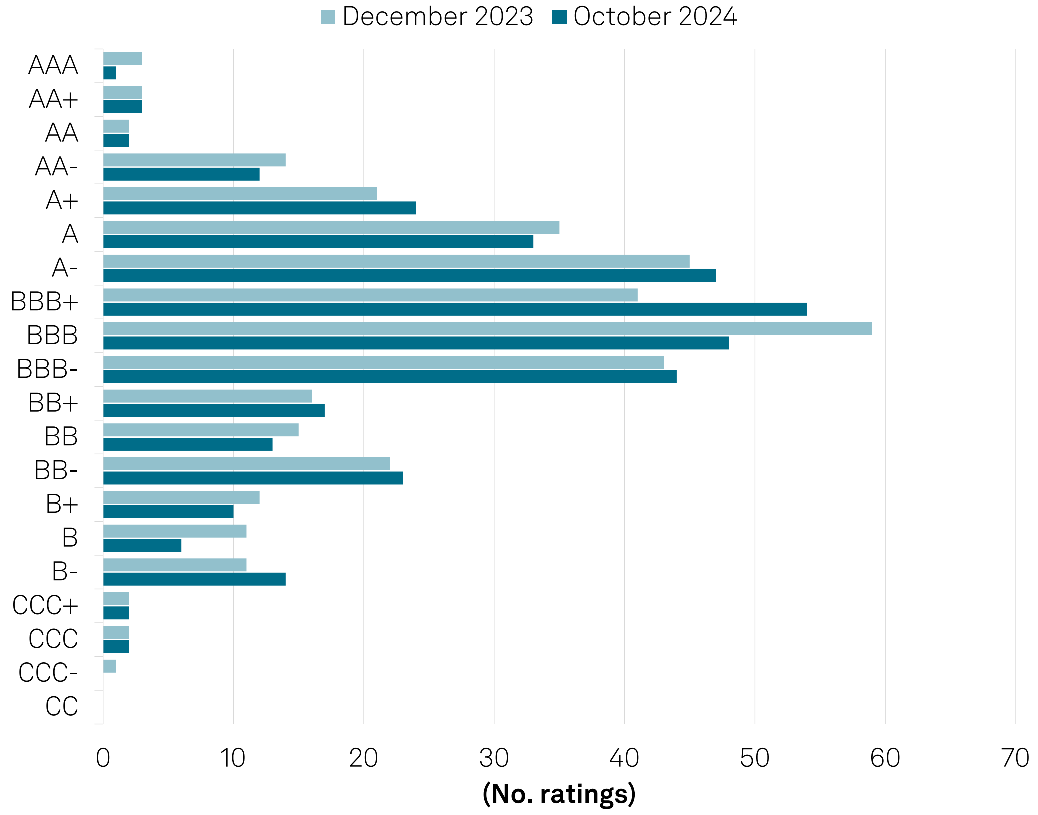
BICRA-related changes in the top 20 banking markets: 2024

- **Australia:** BICRA Group 2 from 3 (April)
- **Spain:** Industry risk trend to positive from stable (April)
- **Italy:** Industry risk trend to positive from stable (June)

Banks | Generally Stable Outlook

We expect bank ratings to be resilient

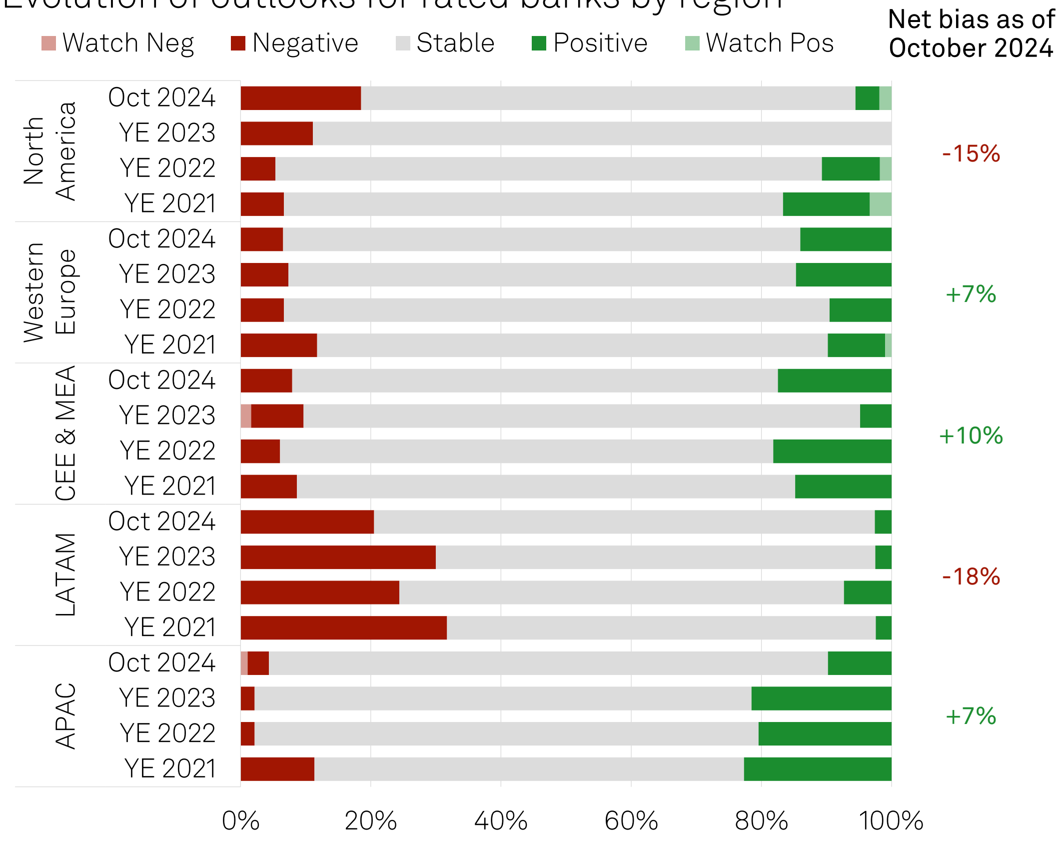
Evolution of ratings distribution for rated banks



Operating company issuer credit ratings. Source: S&P Global Ratings.

Negative net rating bias in the U.S. and LATAM

Evolution of outlooks for rated banks by region

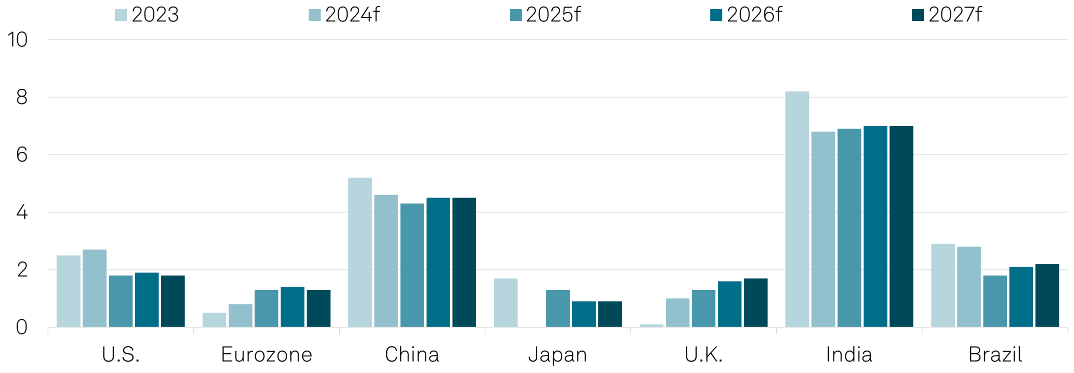


APAC--Asia-Pacific. CEE--Central and Eastern Europe. LATAM--Latin America. MEA--Middle East and Africa. CW--CreditWatch. Source: S&P Global Ratings.

What We Are Watching In 2025

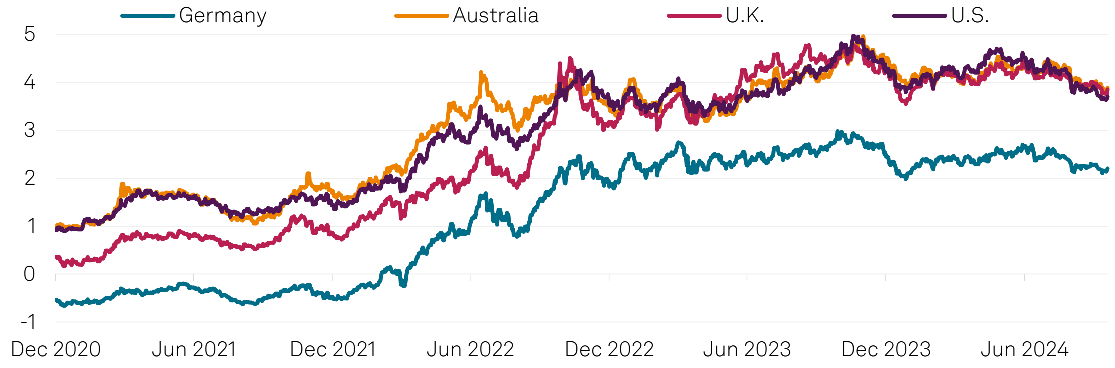
1. How economic growth will impact banks

GDP growth forecast by country (%)



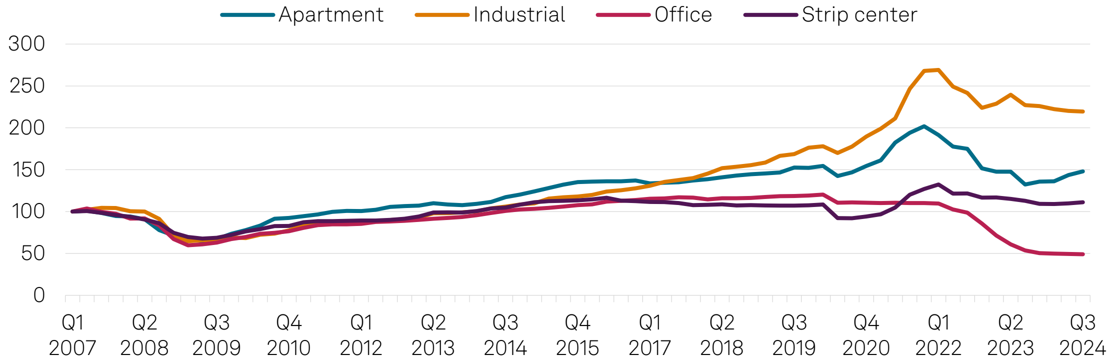
2. How fast interest rates will reduce

10-year government bond yields (%)



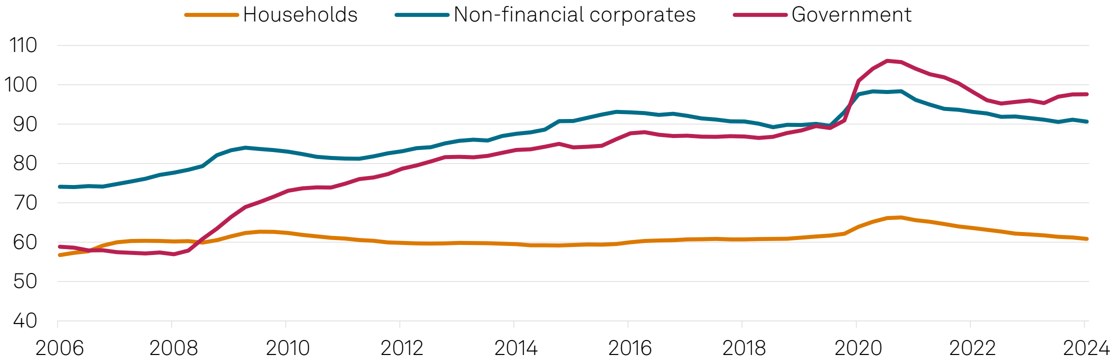
3. How office valuations will evolve

Green Street Commercial Property Price Index by property type in the U.S.



4. The impact of high debt leverage on bank borrowers

Global sectoral debt (as a % of GDP)



For India, fiscal year beginning April 1 in the reference calendar year. f--Forecast. Source: S&P Global Ratings. 2. Sources: S&P Global Market Intelligence and S&P Global Ratings Credit Research & Insights. 3. Source: Green Street and S&P Global Ratings' calculations. Index, Q1 2017 level = 100. 4. GFC--Global financial crisis. Data as of September 2024. Source: Institute of International Finance.

The Interest Rate Descent Could Disappoint

- We expect global economic growth to slow modestly in 2025 as the U.S. moderates, Europe's pace picks up, and China's slows further.
- The pace of interest rate cuts will vary between jurisdictions and will be slower than their rise. A key risk is that rates settle at higher terminal rates than financial markets expect. This could lead to bouts of market volatility and keep borrowing costs elevated.
- The still elevated interest rates and lingering impact of permanently higher prices pose headwinds globally. Savings buffers have been declining, and fiscal headwinds are building, with many countries having taken on increased debt through the pandemic. Labor market resilience will remain a key headwind to any slowdown.

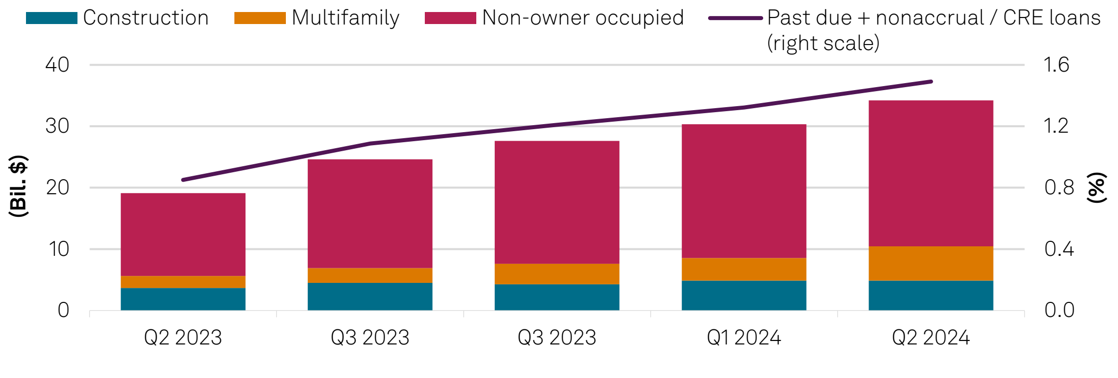
Policy interest rates and S&P Global Ratings' forecasts (%)

	U.S. (Fed)	Eurozone (ECB)		U.K. (BoE)	Switzerland (SNB)
Policy rates	**Federal funds rate**	**Deposit rate**	**Refi rate**	**Bank rate**	**Policy rate**
2023	5.0	4.00	4.50	5.25	1.75
2024f	5.1	3.25	3.40	4.71	0.75
2025f	3.5	2.50	2.65	3.33	0.75
2026f	3.1	2.50	2.65	3.00	0.75
2027f	3.1	2.50	2.65	3.00	0.75

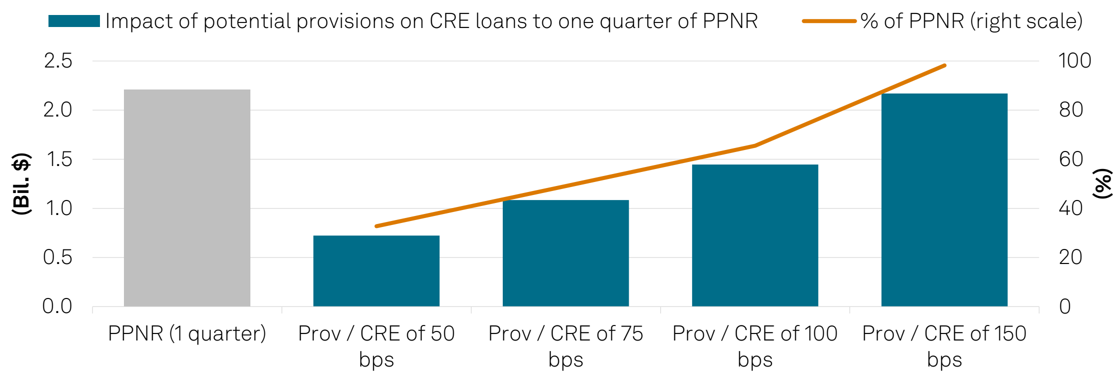
BoE--Bank of England. ECB--European Central Bank. f--S&P Global Ratings forecast. SNB--Swiss National Bank. Percentages are annual averages. Source: S&P Global Ratings Research.

CRE | Still A Rising Credit Risk, But Exposures Are Manageable For Most

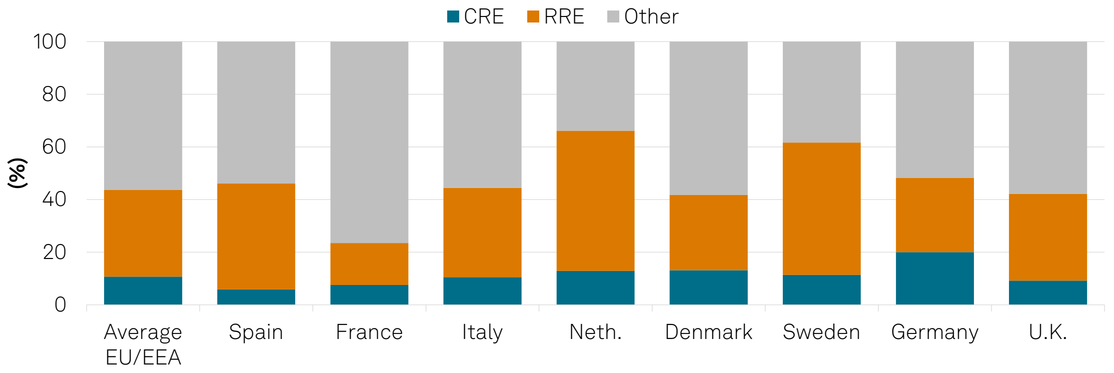
1. U.S. CRE delinquencies and nonaccruals are rising...



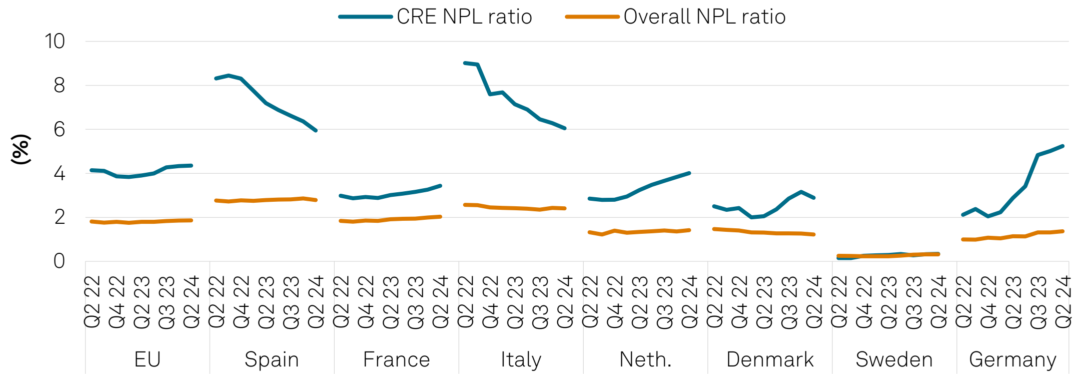
2. ...and could impact profitability of most exposed banks



3. In Europe, CRE amounts to around 10% of overall bank lending...



4. ...And default trends have not materially worsened, except in Germany

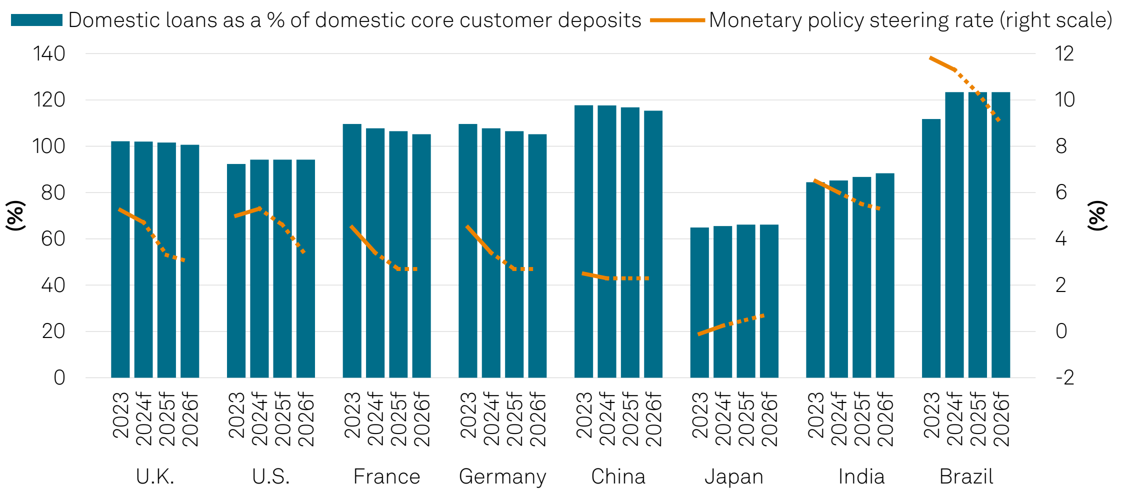


CRE--Commercial real estate. RRE--Residential real estate. PPNR--Pre-provision net revenue. 1: CRE past due and nonaccrual loans, all FDIC-insured banks. 2: Chart shows the impact of potential provisions on CRE loans to one quarter of PPNR for rated banks where CRE exposure is greater than 200% of Tier 1 capital as of June 30, 2024. 3: Data is as end-June 2024. 4: Evolution of NPL ratios, Q2-2022 to Q4-2024. Sources: U.S. regulatory filings, European Central Bank, S&P Global Ratings.

Monetary Policy Easing Supports Funding And Liquidity

- Ongoing monetary policy easing will support banks' funding conditions, although the exact pace and extent of rate cuts remain uncertain. Japan remains an outlier, with the Bank of Japan slowly lifting rates. Overall, we expect banks' funding and liquidity profiles will remain broadly stable.
- Liquidity levels appear broadly adequate in most jurisdictions. That said, banks will need to improve their liquidity management practices as central banks continue to drain liquidity from the systems. We also expect bank regulators will continue to challenge banks' contingency funding plans.

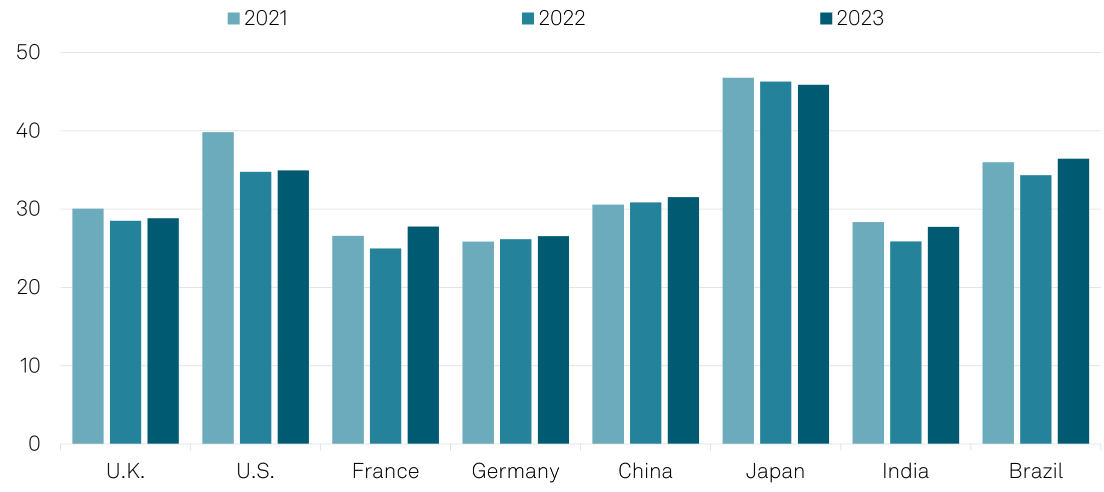
Expectations of lower policy rates support funding conditions--all eyes are now on central banks' actions



Monetary policy steering rates are annual averages. f--Forecast. Source: S&P Global Ratings.

Adequate liquidity provides some relief but is not a substitute for sound liquidity risk management

Broad liquid assets to total assets (%)



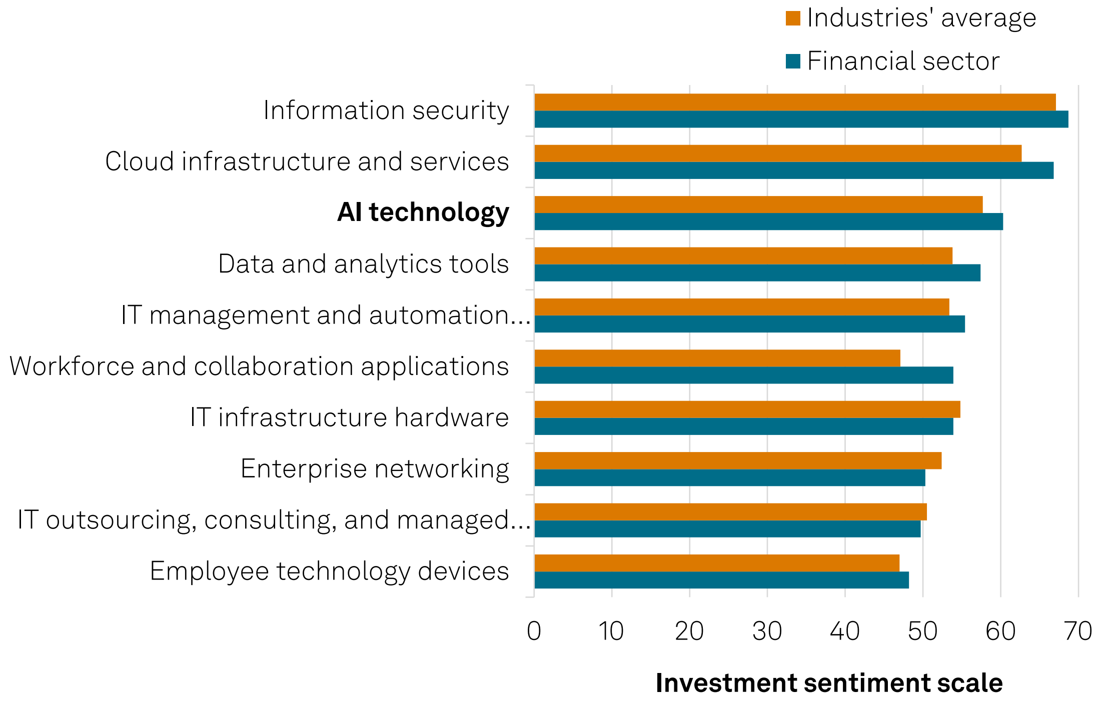
Data as of Dec. 31. Source: S&P Global Ratings.

Generative AI Will Reshape Banks' Business Models

We expect the impact to be gradual, incremental, and uneven

Read report here

Financial services' spending on AI will outpace other industries' (reflecting its status as a top priority)



Note: Sentiment scale values range from 0 (negative intent) to 100 (positive intent), but typically fall in the range from 40 (negative) to 60 (positive). Source: 451 Research Tech Demand Indicator Q3, 2024, U.S. market.

Key trends to watch over the next five years

- Internal talent reskilling and customer preferences
- Risk-based and human-centered approach to scaling AI
- Integrated digital operational resilience
- AI regulation enforcement
- AI strategy, development, and governance infrastructure

Source: S&P Global Ratings.

Cyber Risk | Skills Shortage Intensifies Supply Chain Risks

Artificial intelligence is poised to transform the landscape

Read report here

Banks' cyber resilience affected by their suppliers' cyber risk preparedness

Cyber incidents underscore the importance of strong third-party oversight in relation to risk management. With increased digitalization, the robustness of a bank's cyber risk management is increasingly determined by the quality of its third-party relationships. Recent cyber attacks have illustrated this. For this reason, banks are continuing to refine their partnerships with suppliers to ensure that their cyber risk management is aligned. The regulatory environment is also developing, strengthening banks' effective oversight of their supply chain partners.

Shortage of skilled personnel can be consequential, especially for smaller banks

Key industry reports indicate that substantial gaps exist between the number of skilled professionals needed versus the number available in the pool. This ultimately introduces lags and inefficiencies for banks executing their cyber risk management. In the time it takes for the supply of skilled professionals to correct, banks are exposed to the complexity created by the combination of old and new technology systems. Smaller and less resourced organizations could be exposed to heightened cyber risks, in our view.

Looking ahead, the emergence of AI and quantum computing will bring forth new challenges and possibilities in cyber risk management

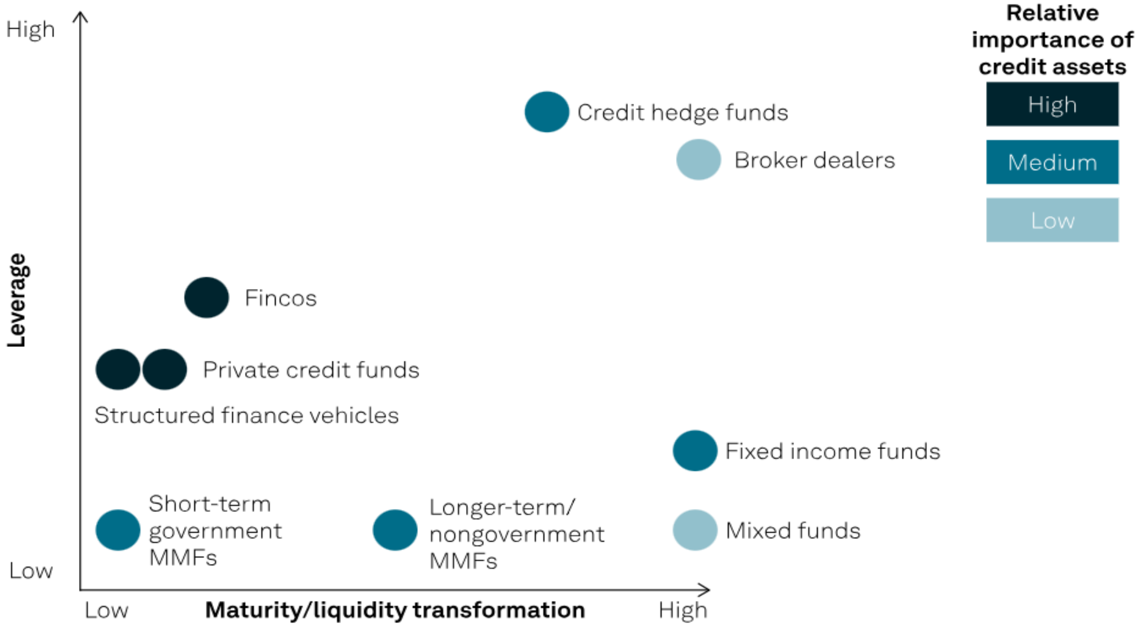
The use of Generative-AI-augmented processes increases the vulnerabilities that could be exploited by threat actors. Bank systems could become vulnerable to AI-initiated phishing lures, deepfakes, and malware and manipulations of data (data poisoning or backdoor attacks) used to train AI models, which could lead to adverse business outcomes and loss of proprietary data. AI also offers opportunities for developing better cyber defenses that could strengthen cyber risk management. Quantum computing poses cyber risks by potentially breaking widely-used encryption methods, rendering current data security practices obsolete.

Private Credit | Fast Growth Drives Banks' Interest and Regulators' Scrutiny

Partnerships between Private Credit (PC) funds and banks are multiplying and present both opportunities and risks. The performance of PC funds' portfolios remains to be tested.

- We estimate that PC funds manage around US$1.6 trillion of assets, two-thirds of which is 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.
- 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 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.

Private credit funds mainly take credit risks, but leverage levels have been increasing lately



Source: S&P Global Ratings.

Climate Change | Bank Strategies Are Evolving

Exclusion

Customer engagement

New products and services

Divestment

Finance green projects and technologies

Acquire and broaden expertise

- Assessing, managing, and ultimately reducing climate-related risks are key priorities for an increasing number of banks. Awareness and preparedness is gradually improving.
- More climate-related data is available, and methodologies/models are progressing. Regulatory climate stress tests are being developed rapidly across several countries.
- While exclusion and divestment policies have the potential to rapidly reduce banks' climate risk, customer engagement is gaining traction.
- Banks are also increasingly committing to finance green projects and technologies.
- The energy transition offers large business opportunities for banks. The suite of "green" products and services offered is broadening (e.g. green mortgages and electrical vehicle loans).

Emerging Markets | Geopolitics And Interest Rates Will Shape The Credit Story

A potential increase in geopolitical risk and interest rate cuts are the main credit factors for EMs

Geopolitical tensions can erode credit fundamentals

While we do not expect a full-scale regional war in the Middle East, significant military escalation could derail the economy. The key transmission channels we are watching are energy prices, supply chain disruptions, financial market volatility, external and local capital outflow, and resumption of inflation.

Interest rate cuts by the Fed, prospects for easing are helping EMs' financing conditions

While lower interest rates could be positive for systems depending on external funding, banks' bottom lines could be negatively affected by lower revenue that would not be offset by a similar trend on the cost of funding or the cost of risk.

There are a few bright spots

A few emerging markets (EMs) are relatively better placed, particularly India and the Gulf Cooperation Council (GCC) countries, where profitability and asset quality indicators remain healthy. An unexpected increase in geopolitical risk could derail this for GCC banks.

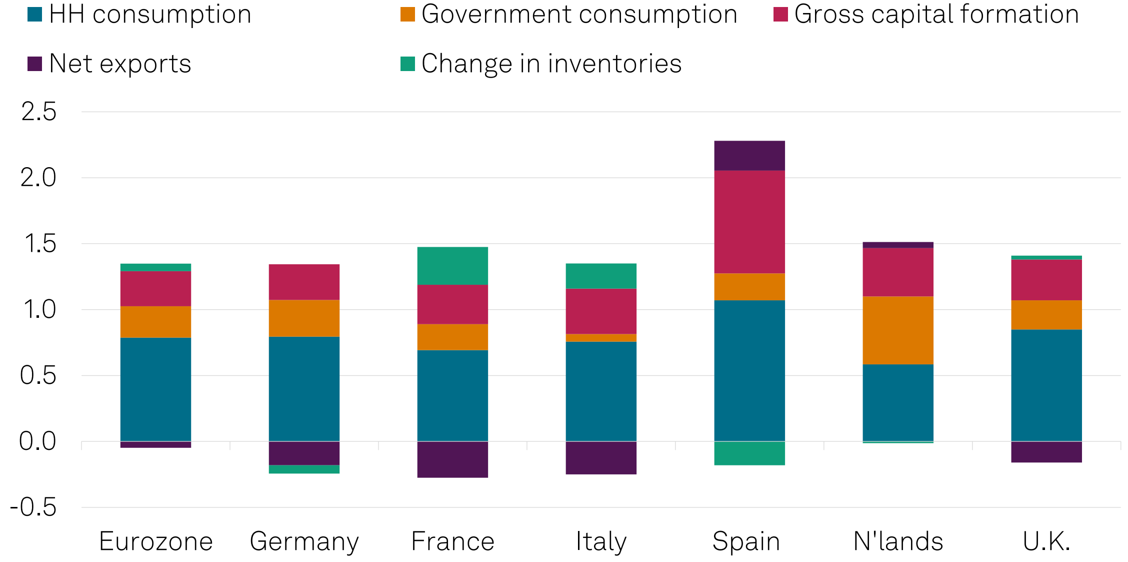
Europe & EMEA Emerging Markets

Credit Conditions: Europe

- Economic growth will pick up in 2025 as consumer spending strengthens, supported by real income growth and full employment. We forecast real GDP growth of 1.3% for the eurozone and the U.K.
- Disinflation will enable central banks to continue easing their monetary policy gradually, with the European Central Bank (ECB) deposit rate landing at 2.5% in third-quarter 2025 and the Bank of England (BoE) base rate at 3.0% by January 2026.
- The escalation of geopolitical tensions is a key risk.

Consumer spending and investment will drive GDP growth

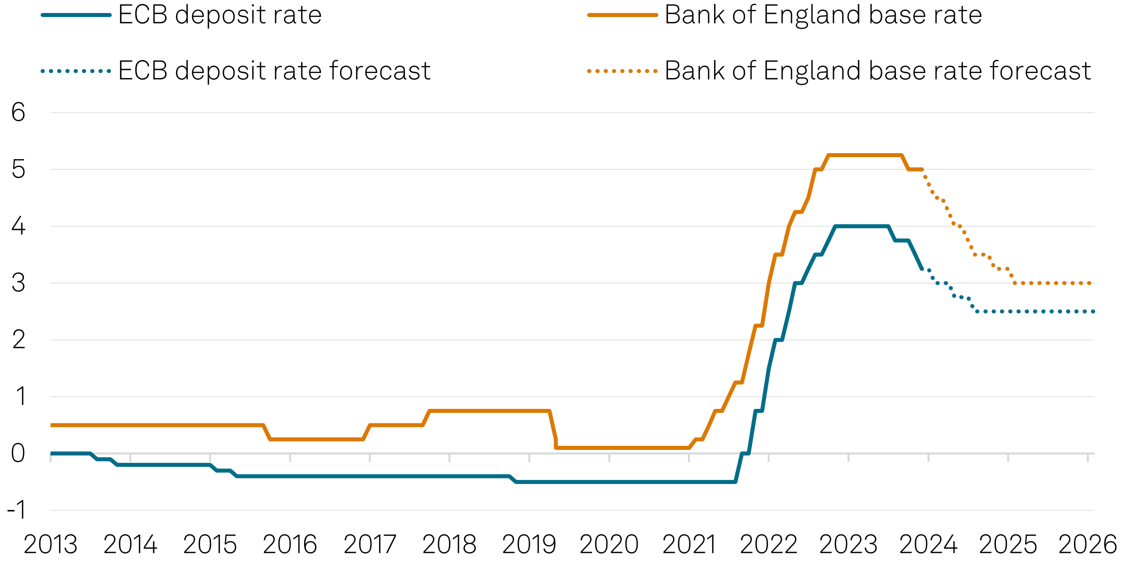
Contribution to 2025 GDP growth by component (%)



Source: S&P Global Ratings.

Monetary policies will become less restrictive

Evolution of ECB and BoE reference rates (%)



BoE--Bank of England. ECB--European Central Bank. Sources: ECB, BoE, S&P Global Ratings.

Credit Conditions: Europe

Downside risks...

- **Market turbulence** caused by adverse geopolitical events or unexpected monetary policy decisions.
- **Subdued economic growth**, leading to more corporate insolvencies and higher unemployment.
- **Increased risk-taking by some banks** as interest rates decline.
- **Insufficient resilience against increasing cyber and risks**.

..and what they mean for the sector

- Increased volatility and market turbulence could **destabilize financial institutions** with weaker funding structures, especially nonbank financial institutions with high refinancing needs, and **expose banks to higher counterparty credit risks**.
- Weak economic growth could undermine the financial health of corporates and households, particularly the more vulnerable ones, **weakening banks' asset quality** and clouding business prospects.
- As interest rates decline and banks face earnings pressure, some may be tempted to **undertake undue risks**.
- Failure to build resilience against cyber risk could **test the long-term viability of some institutions**.

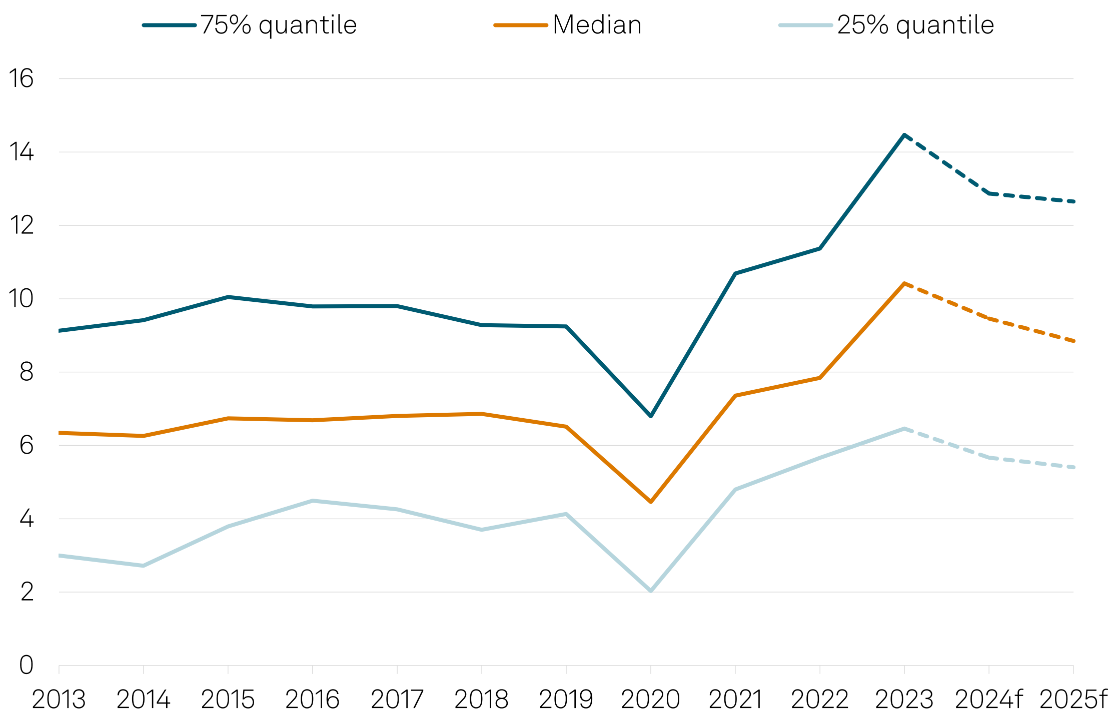
What we expect for next 12 months

- **European banks will remain solid,** with banks in Southern Europe showing some ratings upside.
- Banks' **active hedging strategies** and **increased focus on fee income and cost control** will help lessen the effect of declining interest rates, with banks posting sound returns in 2025.
- Signs of increased lending demand from households amid lower interest rates suggest **the return of loan growth in 2025.**
- **Credit costs will normalize** but remain affordable for banks, with commercial real estate (CRE) exposures still requiring higher provisions.
- Excess capital and better valuations could lead to **more M&As,** but **attractive distributions to shareholders** will continue.

Profitability Will Remain Solid

Profits will decline but remain solid in 2025

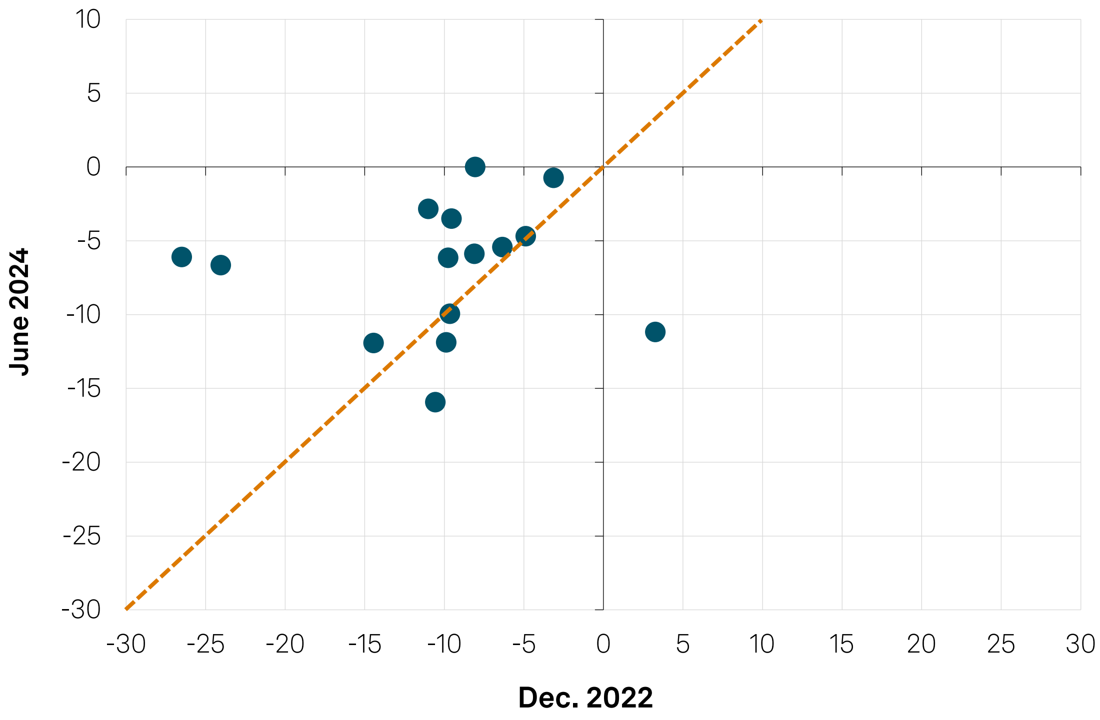
Evolution of return on average common equity (%)



Sample includes rated European banks with a stand-alone credit profile. f--Forecast. Source: S&P Global Ratings.

Banks are taking measures to limit revenue declines resulting from lower rates

Banks' net interest income sensitivity to lower rates (%)



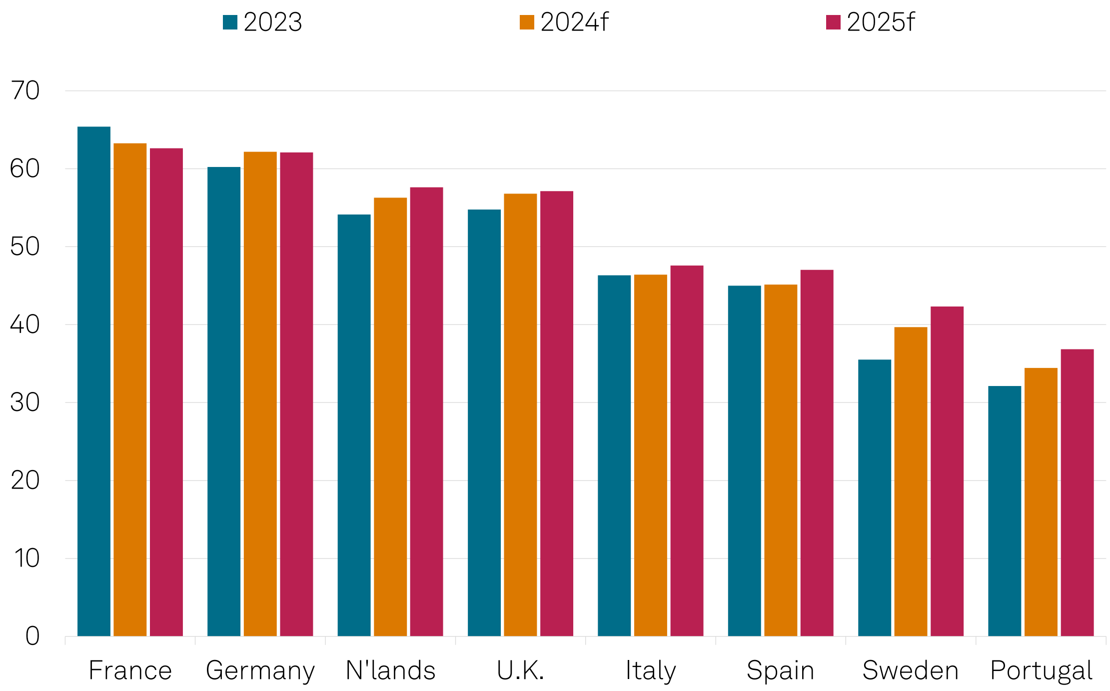
Reported impact on the net interest income of a 200-basis-point decline in interest rates at end 2022 and in June 2024. Sample includes 15 large European banks. Sources: Banks' Pillar 3 reports, S&P Global Ratings.

S&P Global Ratings

Controlling Costs And Generating More Fee Income Will Be Top Priorities

Efficiency will worsen and continue diverging meaningfully across geographies...

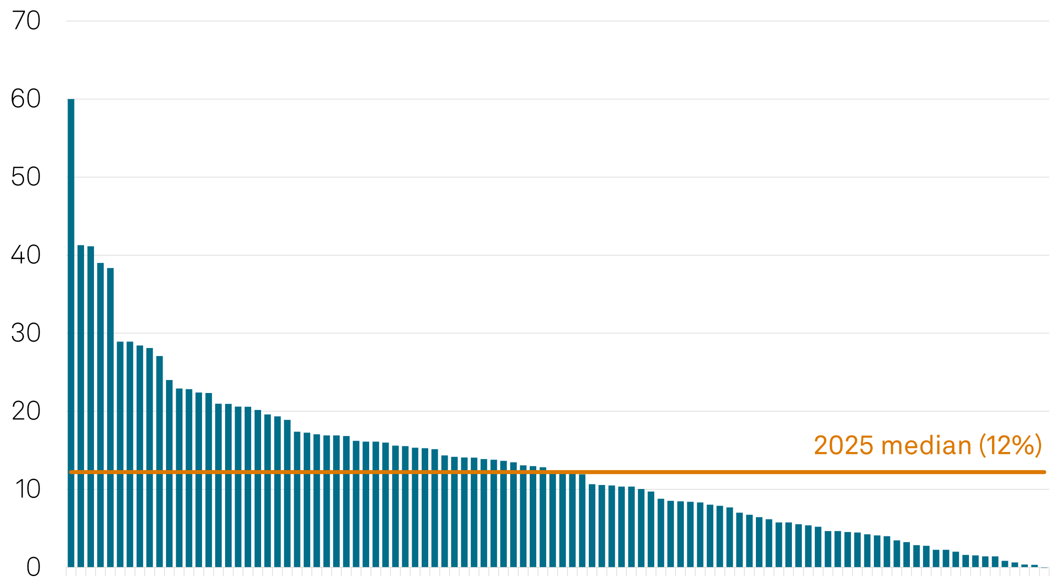
Rated European banks' cost-to-income ratios (%)



Values are weighted by total assets. Sample includes only banks that have data for all three periods (constant sample). f--Forecast. Source: S&P Global Ratings.

...but banks' capacity to absorb a normalized cost of risk will remain ample

Expected credit losses as a proportion of 2025 pre-provision earnings, top 100 European banks (%)



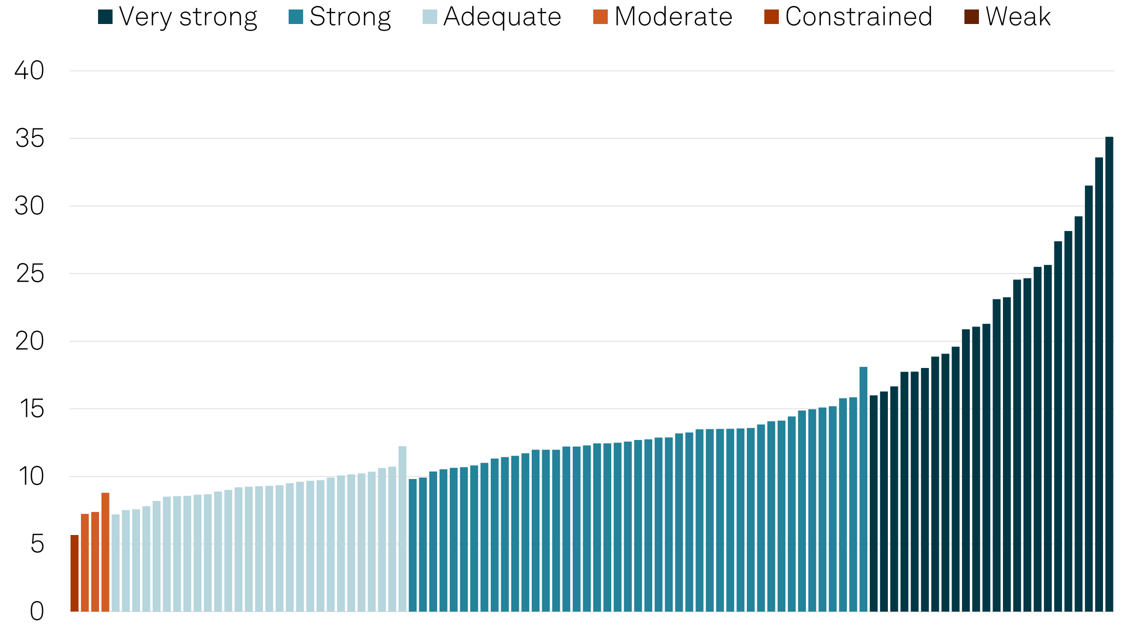
Source: S&P Global Ratings.

Capitalization Remains Solid

Sound profitability and increased use of risk-transfer techniques will support capitalization, despite ongoing shareholder distributions.

Most banks have ample capital headroom...

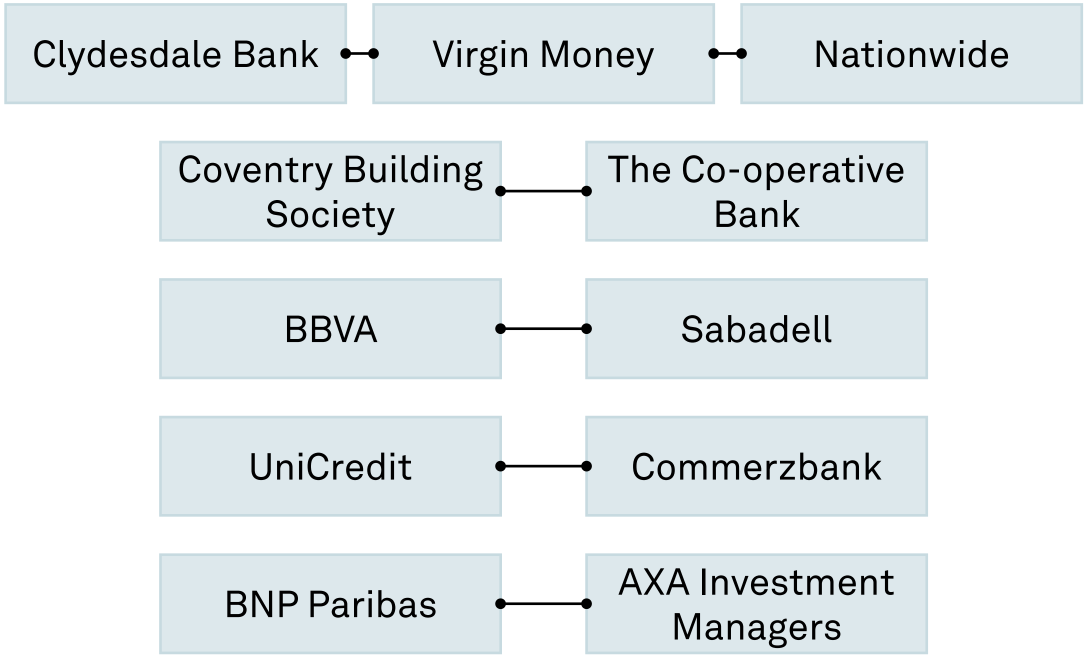
2025 RAC forecasts, top 100 rated European banks (%)



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

...and are increasingly considering deploying excess capital to reinforce their franchises

Potential M&A deals



Sources: S&P Capital IQ, S&P Global Ratings.

Key Risks For Banks In Emerging Market (EM) EMEA

We foresee three main risks for EM-EMEA banks in 2025.

External debt dependence

- We expect external debt to continue increasing for Bahrain and Saudi Arabia while stabilizing for Qatar in the absence of major government investments.
- With lower interest rates, the risk related to external debt could also recede for Tunisia, Turkiye, and Egypt.

Monetary policy evolution

- Following the latest Fed interest rate cut and expected further monetary easing in the U.S. and other advanced economies, emerging markets' central banks will have room to continue with monetary easing or begin cutting policy rates (with some exceptions). These conditions should support financing conditions if the soft landing in the U.S. economy continues.

Geopolitical risk and local policy choices

- Global geopolitical conditions remain very complex. The Israel-Hamas and Russia-Ukraine conflicts will likely linger into 2025, causing disruption in supply chains and the production of important commodities. For the conflict in the Middle East, the key risk remains it spreading, with significant repercussions that could extend globally.

GCC | Our Four Scenarios And How They Can Affect Banks

We have identified four pathways via which the Israel-Hamas-Hezbollah conflict could have a material credit impact on the rest of the region, and have stress tested banks' resilience in each scenario

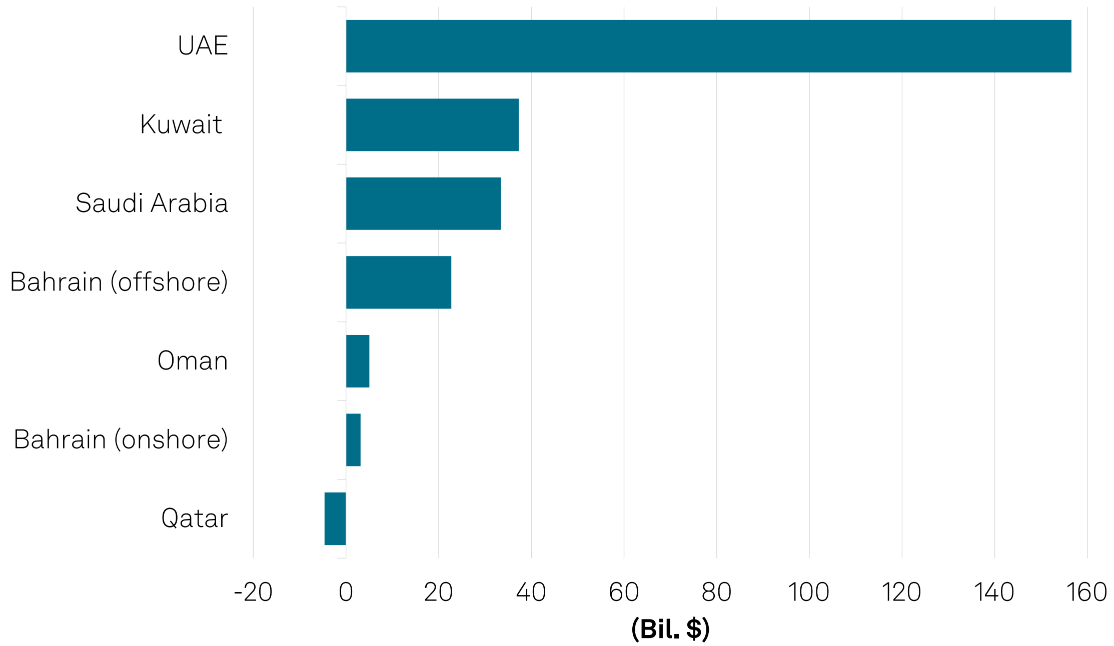
Scenario	Description	Impact on banks
Modest stress	**The intensification of direct, interstate hostilities between Iran and Israel would remain short** (less than three months). The ground invasion by Israel into Lebanon diminishes threats from Hezbollah. Attacks, including from proxy forces, on Israeli and allied regional assets are short-lived. The impact on credit metrics for the wider region is limited.	No impact beyond base-case scenario
Modest stress	**A series of escalatory attacks between Israel and Iran threaten wider regional security** but ultimately settle somewhat beyond the period of the modest stress scenario. Effects on economic growth, energy prices, and key trade routes are manageable and temporary, with limited impacts on fiscal and external credit metrics.	
High stress	**Persistent and intense cycles of attacks between Israel and Iran develop**, implying a material impact on economic stability for the wider region. This includes more prolonged blockages of trade routes, which could engender a response from nonregional actors; and greater stress on transmission channels such as energy prices, security expenditure, tourism flows, and capital outflows.	Outflow of external debt and moderate impact on asset quality
Severe stress	**Regional and nonregional allies, including Iran and its supported forces, the U.S., and Gulf allies, are drawn into the conflict.** This results in substantially higher energy prices and risks to export volume because of persistent threats to trade routes, lasting impacts on regional economic stability, and greater stresses on sovereigns' fiscal and external metrics.	Outflow of external debt and local private sector deposits; significant impact on asset quality

For details on the numerical assumptions used for these scenarios see: What Would An Escalation Of The War In The Middle East Mean For GCC Banks? Published on Oct 21, 2024

GCC | Our Four Scenarios And How They Can Affect Banks

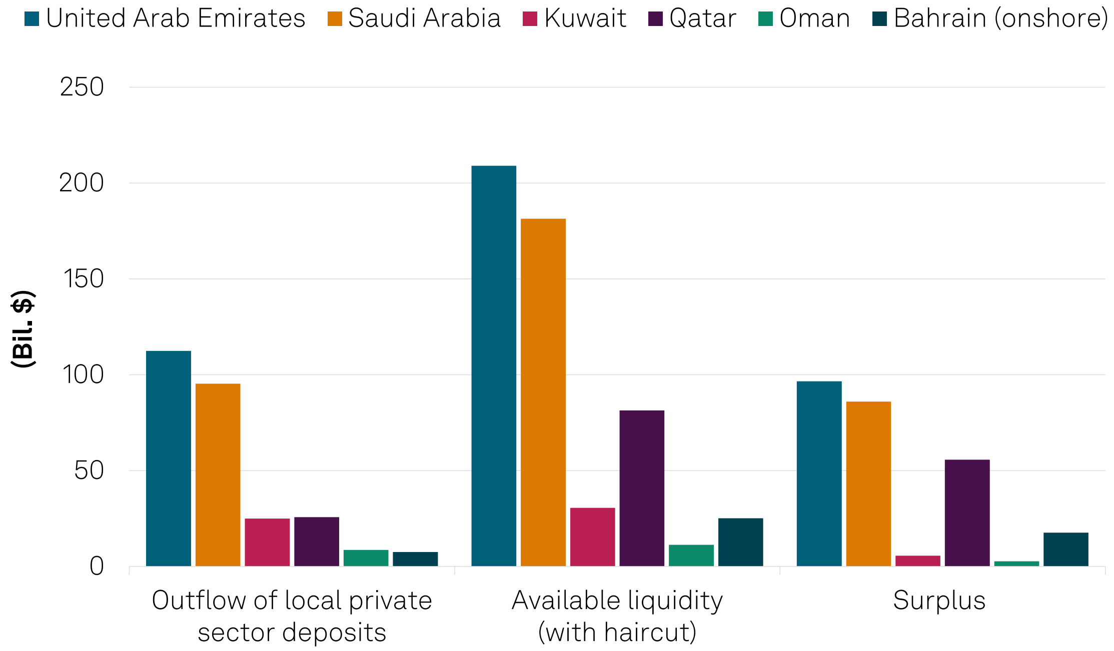
Despite banks' resilience, the impact on asset quality will likely push 13 of the top 45 banks to a cumulative $3.3 billion under the high stress scenario; and 25 of 45, for $24.6 billion in losses, under the severe stress scenario

Qatar is the only country with a negligible deficit



Note: Surpluses and deficits are calculated as external liquid assets with haircuts minus assumed capital outflows. Data as of June 30, 2024. Source: S&P Global Ratings' calculations.

Banks can cope with local private sector deposit outflows



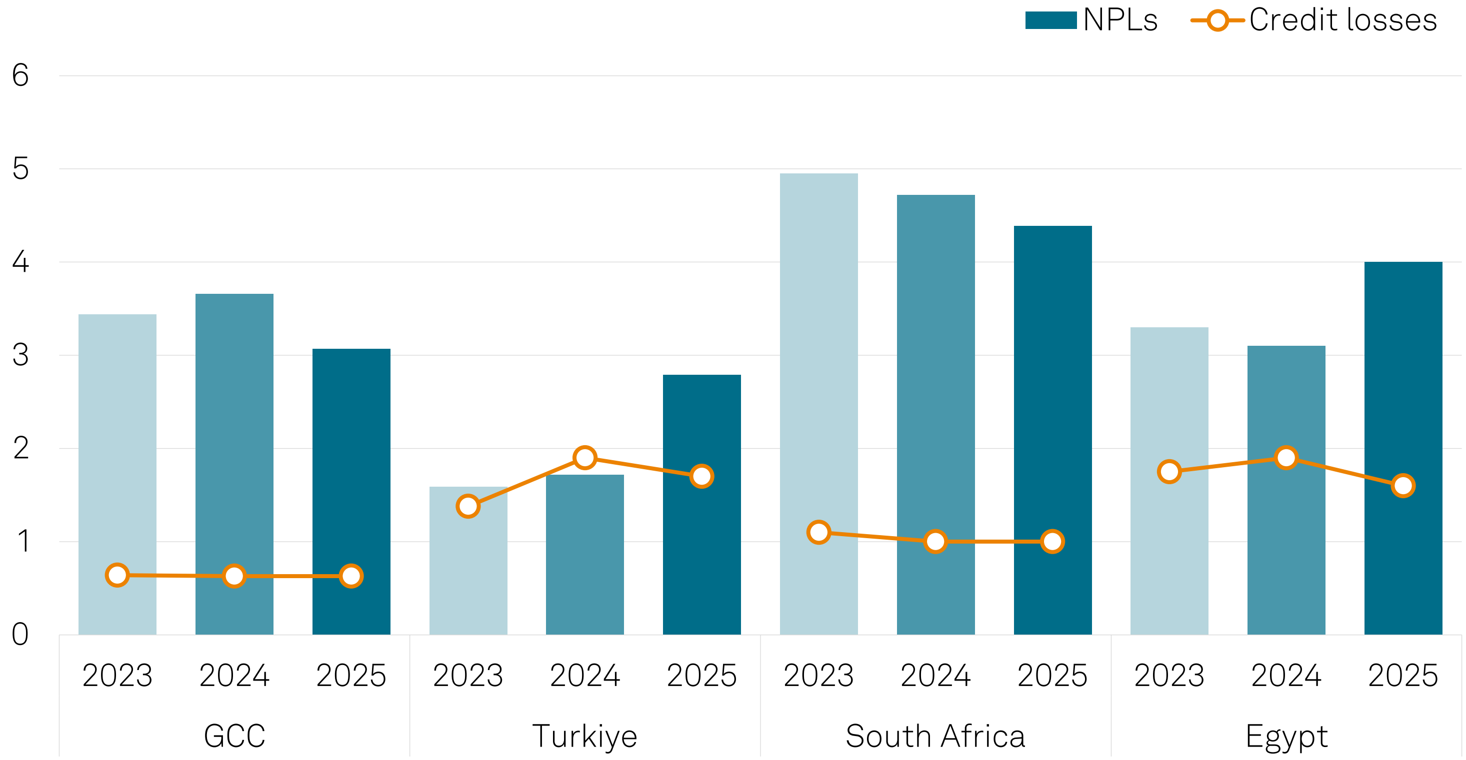
Data as of June 30, 2024. Source: S&P Global Ratings calculations.

S&P Global Ratings

Otherwise, The Story Is Relatively Unchanged

Manageable cost of risk

Asset quality indicators for selected EM and EMEA countries (%)



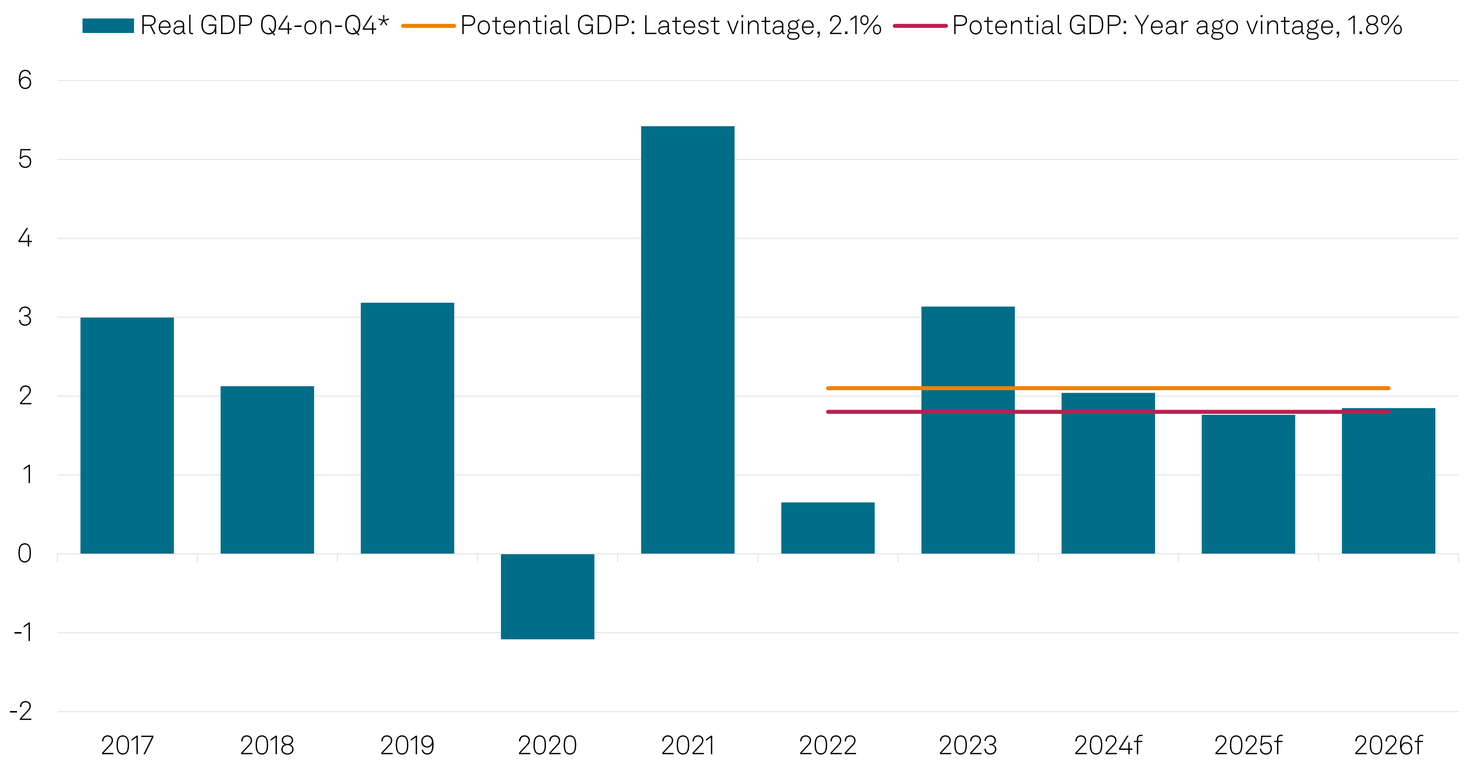
EM--Emerging markets. EMEA--Europe, the Middle East, and Africa. Source: S&P Global Ratings

- **GCC:** We expect asset quality indicators to improve when rates drop, thanks to higher lending growth and decreasing pressure on weaker borrowers.
- **Egypt:** Credit losses will likely peak in 2024 and reduce afterwards as economic growth recovers, and the Egyptian pound stabilizes.
- **Turkiye:** Unwinding economic imbalances, lower credit demand and a slowing economy will result in elevated-but-manageable credit losses, for banks.
- **South Africa:** Slowly improving macroeconomic conditions will progressively move credit losses closer to historical levels.

North America

Credit Conditions: North America

GDP growth likely to downshift below potential (%)



*As of September 2024. f--Forecast. Source: S&P Global Ratings.

- S&P Global Ratings expects the U.S. economy to slow to below trend, growing 1.8% in 2025 and 1.9% in 2026.
- Unemployment will rise somewhat, and inflation will fall further.
- Our base case expectation that the Fed will cut its target rate to 3.00%-3.25% could be affected by the Trump administration's economic policies.
- In Canada, we expect real GDP growth to accelerate to 2.0% in 2025 from an estimated 1.2% in 2024 with the Bank of Canada also cutting rates.

Credit Conditions: North America

Banks are performing well amid economic and regulatory changes

Downside risks...

- **A greater-than-expected economic slowdown.** S&P Global Ratings economists expect a soft landing, albeit with below-trend growth. However, a greater-than-expected slowdown, perhaps with stubborn inflation, would hurt banks.
- **Continued funding, liquidity, and rate pressures.** Deposits have stabilized recently for U.S. banks, and further rate cuts rates should ease pressure on funding, liquidity, and unrealized losses. Still, falling asset yields, stiff competition for deposits, and stubborn long-term rates may create some vulnerabilities for banks.
- **Real estate stress.** Deterioration in commercial real estate, particularly the office sector, has affected asset quality. This will remain a key challenge for many banks over the next year.

..and what they mean for the sector

- **Asset quality should worsen further but remain manageable.** Provisions and charge-offs will likely rise incrementally in 2025. Still, we believe most banks' preprovision earnings place them well to absorb credit losses.
- **Net interest income (NII) will fall modestly.** We expect asset yields to fall faster than funding costs and loan growth to remain modest. That should result in a small drop in NII.
- **Banks will continue to 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 careful, particularly until there is greater clarity on potential changes to key regulatory rules.

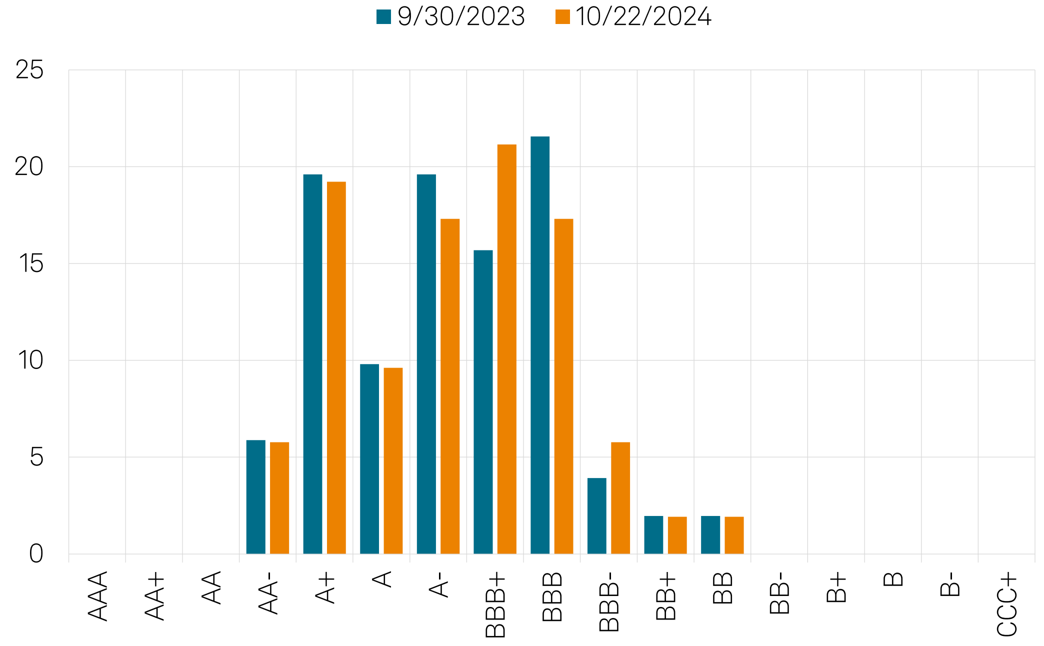
What we expect for next 12 months

- **Profitability will remain reasonably strong.** We expect U.S. banks to generate a return on common equity of 10%-11% in 2025.
- **Plans to tighten U.S. bank regulation could be affected by the Trump administration.** Regulators may repropose the Basel III Endgame rules for capital, finalize a resolution proposal, and update liquidity rules. Regulatory appointments by the Trump administration may lower the odds of material tightening.
- **Nonbank financial institutions (NBFIs) will continue to grow.** NBFIs, including in private credit, are quickly gaining importance in the financial system. Banks are helping facilitate that growth by lending to NBFIs—usually on a collateralized basis with well-managed risk.

Most U.S. Bank Outlooks Are Stable Despite Negative Uptick From CRE

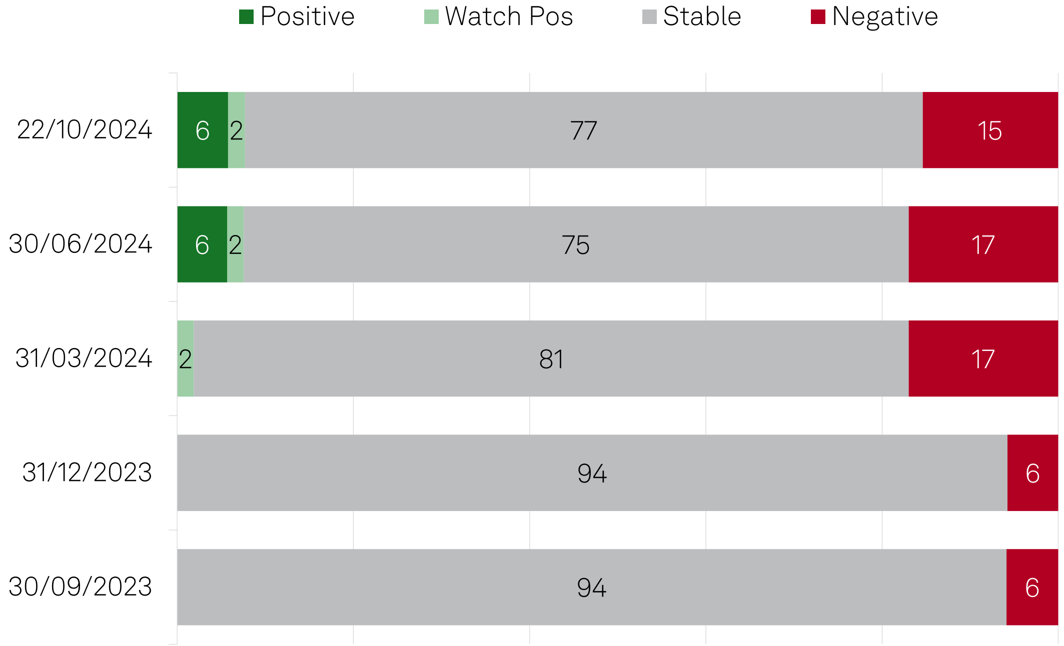
- While we maintain stable outlooks on most bank ratings, reflecting continued good performance, the proportion of negative outlooks has risen after five commercial real estate (CRE)-related outlook revisions in 2024 and several negative actions in 2023.
- This year, we also revised our rating outlooks on JPMorgan Chase, OFG Bancorp, and American Express to positive and placed our ratings on Discover on CreditWatch positive after it agreed to be acquired by Capital One.

Operating company rating distribution (%)



Data as of October 22, 2024. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

Outlook distribution (%)



Data as of October 22, 2024. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

U.S. Forecast: Earnings Remain Resilient Amid Continued Economic Growth

Worsening | | Neutral | | Improving

Revenues	NII may fall modestly in 2025 as asset yields drop more quickly than funding costs. Fee income growth may offset that, with lower rates supporting mortgage and investment banking along with wealth and asset management.
Expenses	Investments in technology and perhaps some increase in business activity may push expenses somewhat higher in 2025, notwithstanding the continued focus on cost controls.
Profitability	The banking industry should generate a return on common equity of 10%-11% in 2025, down only modestly from 2024, assuming an economic soft landing. A greater-than-expected slowdown could pull returns into the single digits.
Credit quality	Provisions and net charge-offs will likely incrementally worsen, driven especially by CRE, commercial and industrial, and credit cards. However, an economic soft landing, if achieved, should prevent a substantial decline in asset quality.
Capital	While some banks may increase capital ratios further, many others are unlikely to materially boost their ratios until regulators indicate how they will implement the Basel III Endgame. Lower rates may also lead to a drop in unrealized losses, relieving some pressure on adjusted capital ratios.
Funding and liquidity	Deposits have stabilized, and we expect limited growth in 2025 as the Fed eases monetary policy. That could also support liquidity. While banks have good contingent liquidity, many still have relatively low cash balances.

Note: Forecast for next 12 months. Source: S&P Global Ratings.

Canada Forecast: Profitability Remains Strong Despite Some Pressure

Worsening		Neutral		Improving

Revenues	NII growth may moderate now that rates have begun to decline, though loan growth may accelerate. Fee income is likely to remain robust, given improving equity and capital markets activity.
Expenses	Banks are managing expenses by reducing discretionary costs and headcount. However, they are also investing more heavily in systems, cyber security, anti-money-laundering programs, and other technologies.
Profitability	Profitability may benefit if lower rates ease asset quality pressure and allow for lower provisions for credit losses. Lower rates, however, will likely weaken banks' net interest margins. We expect an industry return on common equity of 12%-15% in 2025.
Credit quality	Delinquencies may continue to rise in the first half of 2025 or until pressure on borrowers eases. We expect asset quality to improve in the latter part of 2025 and net charge-offs to remain manageable.
Capital	The Office of the Superintendent of Financial Institutions in June 2024 kept the domestic stability buffer unchanged at 3.5%. The Basel III reform has been fully implemented in Canada with minimal negative impacts on domestic systemically important banks' common equity Tier 1 ratios. We expect banks to maintain adequate risk-adjusted capital ratios at 7%-10%.
Funding and liquidity	Funding remains well diversified even though high interest rates spurred growth in higher-yielding savings products. We expect growth in demand deposits will resume with lower rates. Liquidity metrics should remain relatively unchanged.

Note: Forecast for next 12 months. CET1--Common equity Tier 1 ratio. Source: S&P Global Ratings.

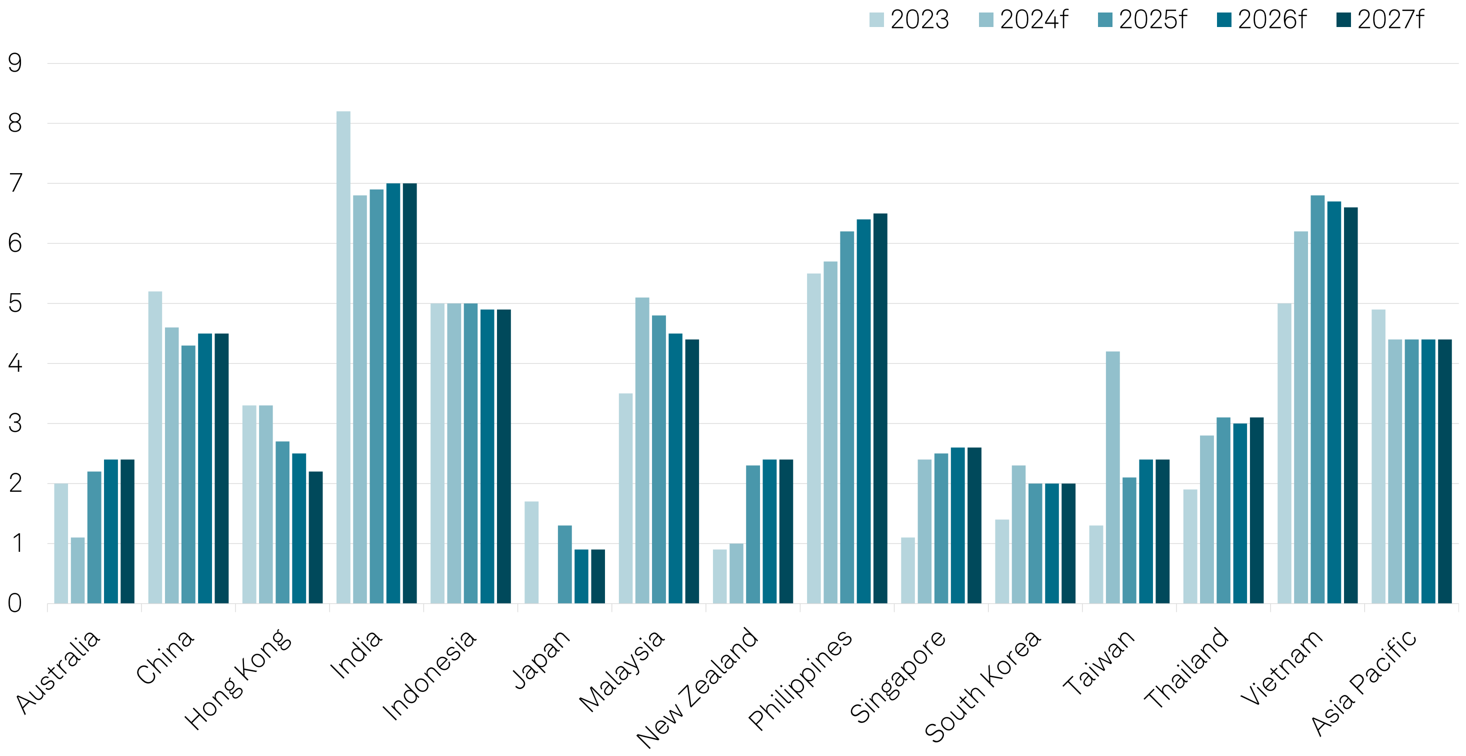
Asia-Pacific

Credit Conditions: Asia-Pacific

- **Between a rock and a hard place.** Pains from China's property crisis persist despite government stimulus. The outlook for households and businesses is somber. Consequently, we have lowered the country's GDP growth to 4.6% in 2024 and 4.3% in 2025.
- **Shifting gears.** While most Asia-Pacific central banks will gradually follow the U.S. Fed in cutting rates, domestic factors will vary the pace of monetary easing across the region.
- **Walking a fine line.** Still strong global demand and diversification of manufacturing to outside China generate growth opportunities for export-centric Asia-Pacific countries. With the U.S. and Europe poised for a soft landing, we expect Asia-Pacific's growth to stay at 4.4% over 2024-2025.
- **Volatility on the rise.** An unexpected global hard landing could spur risk-off sentiment and capital outflows, particularly in emerging Asia. Japan's exit from near-zero rates could risk the abrupt unwinding of carry trades and longer-term shifts in asset allocation.

Central Banks To Remain Cautious Despite U.S. Rate Relief

Real GDP growth, year over year (%)



Note: For India, 2023 = FY 2023 / 24, 2024 = FY 2024 / 25, 2025 = FY 2025 / 26, 2026 = FY 2026 / 27, 2027 = FY 2027 / 28. The fiscal year ends March 31.
Source: S&P Global Ratings Economics.

S&P Global Ratings

Credit Conditions: Asia-Pacific

Market Volatility Is Likely To Persist

Downside risks

- **A material economic downside emerges.** Policy missteps at the start of the rate easing cycle, or weaker-than-expected economic growth or employment trends outside our base case, will be a greater test for banks' borrowers and asset quality.
- **Property risks intensify.** A worsening of property risks across the regional systems that are under strain, most notably China's, will hit banks.
- **Structural risks.** Many risks due to climate change, cyber, and digitalization are a slower burn for banks but increasingly are anticipated to test banks' business models.

...and what they mean for the sector

- **Greater credit differentiation**. More vulnerable are financial institutions with concentrated business and funding profiles, and high direct exposures to weak counterparties or sectors. In addition, those that are not systemically important or don't benefit from strong, committed parent groups are similarly vulnerable.
- **Governments remain supportive.** A key assumption is that governments remain supportive, and that extraordinary support is available for most systemically important banks in the unlikely event it is required.

What we expect for next 12 months

- **Property exposures test asset quality.** Property risks are elevated in China, Hong Kong, and Vietnam. Furthermore, certain nonbank financial institutions (NBFIs) in Korea face challenges from real estate project financing.
- **Credit losses will be higher in 2024 but remain within our expectations at current rating levels.** Credit losses for Asia-Pacific banks will rise by about 8% in 2025 to about US$550 billion.

What Are We Monitoring: China

A soft growth outlook

- We currently forecast China's real GDP growth to be 4.6% in 2024 and 4.3% in 2025.
- Quarterly real GDP growth was 0.9% in the third quarter, with year-on-year growth easing to 4.6%, from 4.7% in Q2, amid the property downturn and weak confidence.
- The recent policy measures should help improve confidence and reduce downside risk. It remains to be seen whether the steps are large enough to significantly change the 2025 growth outlook.

Property NPLs will continue to increase

- We think China's property sales could stabilize toward the second half of 2025, depending on the government's continued support for funding conditions for developers and efforts to reduce inventories. During the first nine months of 2024, nationwide property sales were down 22.7% from the previous year, according to the National Bureau of Statistics.
- We project NPL ratios for property development will rise to 6.4% in 2025, before recovering to 5.2% in 2026.

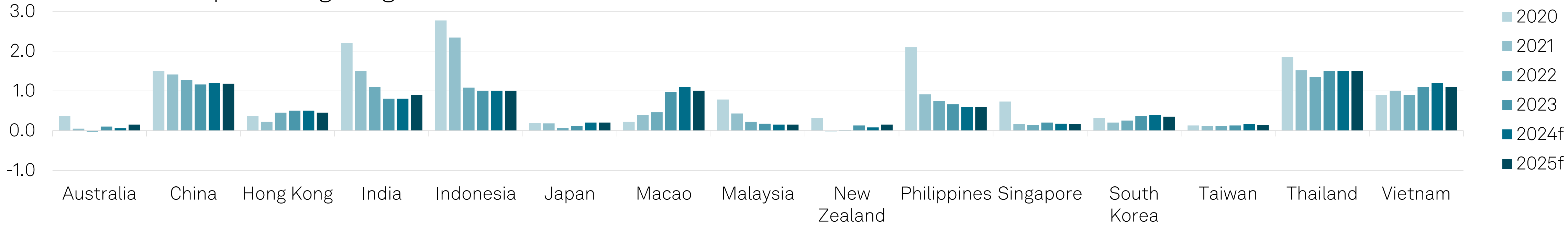
Local-government SOE debt risk

- Default risk is rising for the state-owned enterprises (SOEs). Delayed payments by SOEs could disrupt local credit-driven activities and hurt economic recovery.
- Our base case assumes any loan restructuring would be selective over time and on a case-by-case basis, because moral hazard considerations mean wholesale local government financing vehicle (LGFV) loan restructuring is unlikely.
- Lower interest rates and maturity extensions for such debt would weigh on the capital and earnings of some banks, particularly smaller institutions with LGFV concentration in weak regions.

Asset Quality Is Steady

Credit losses will increase marginally in 2024 and 2025 for most banking systems

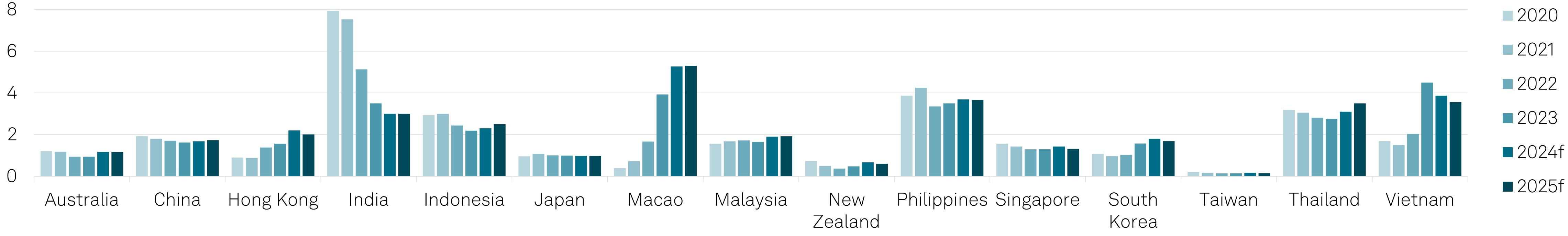
Credit losses as a percentage of gross customer loans (%)



For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. Source: S&P Global Ratings.

Nonperforming assets will remain elevated

Nonperforming assets as a percentage of systemwide loans, year-end (%)

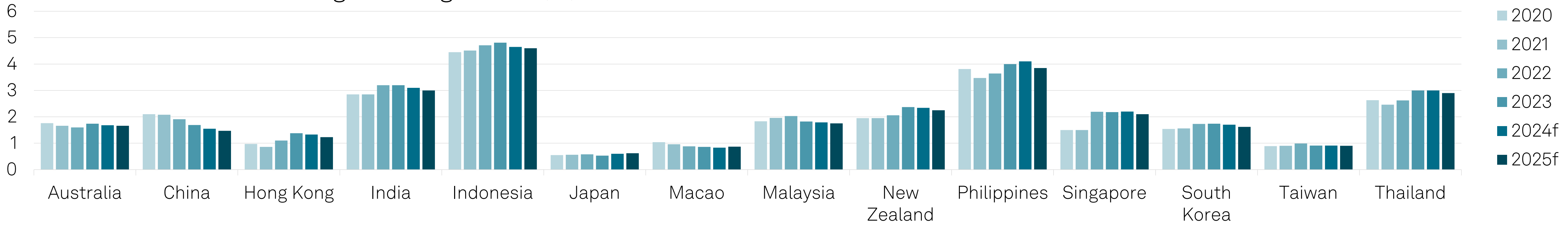


For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. Source: S&P Global Ratings.

Earnings Prospects Remain Sound

NIMs continue to benefit from higher rates

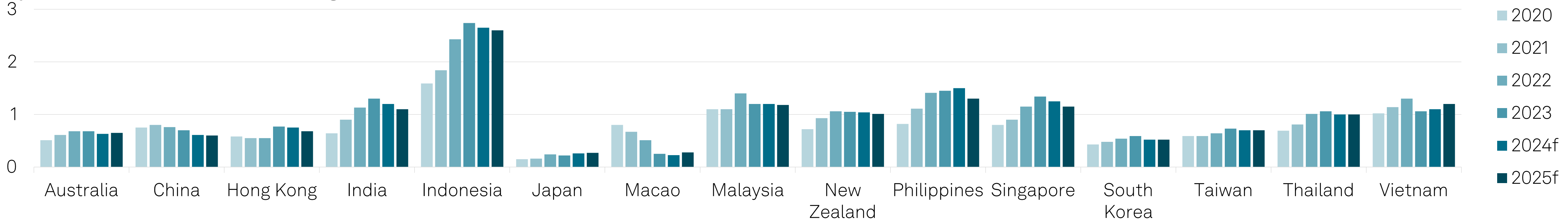
Net interest income to average earning assets (%)



For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. NIM--Net interest margin. Source: S&P Global Ratings.

RoAAs will remain sturdy despite higher credit losses

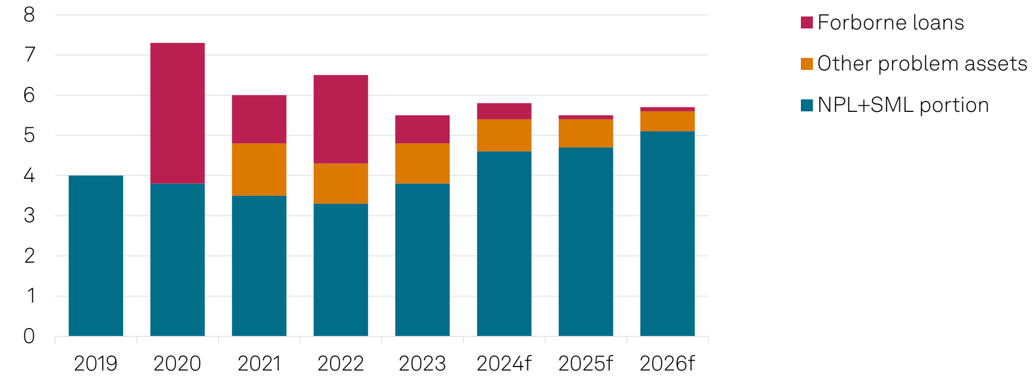
Systemwide return on average assets (%)



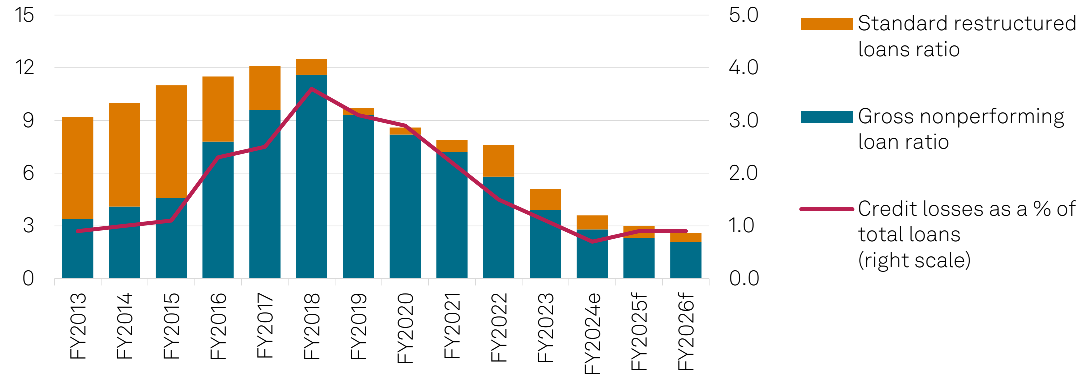
For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--Forecast. RoAA--Return on average assets. Source: S&P Global Ratings.

Asia-Pacific Banks

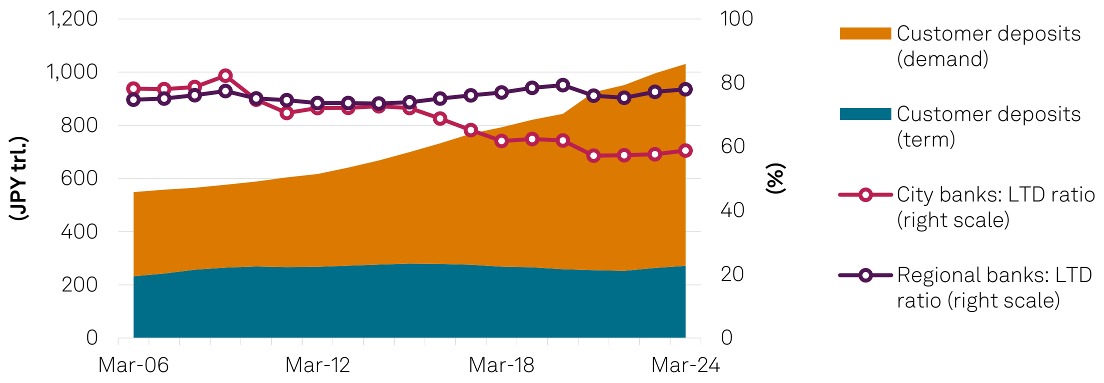
1. China: NPL and SML ratios likely to increase (%)



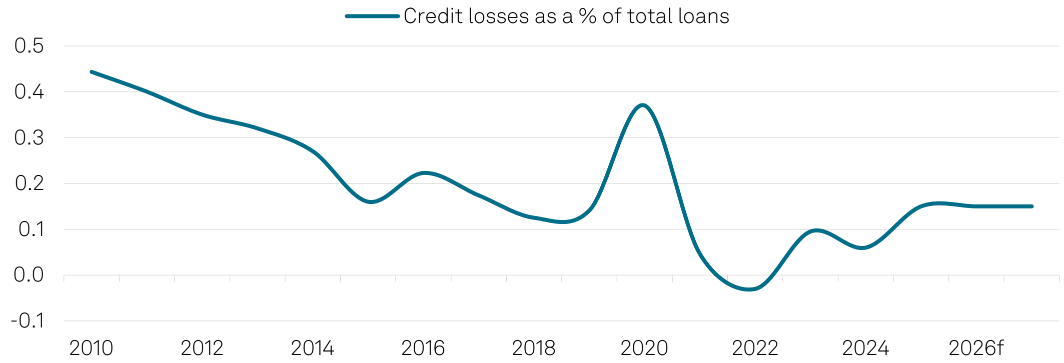
2. India: Banks' asset quality improvement to persist (%)



3. Japan: Large deposits will help cushion shocks



4. Australia: Credit losses should remain low (%)

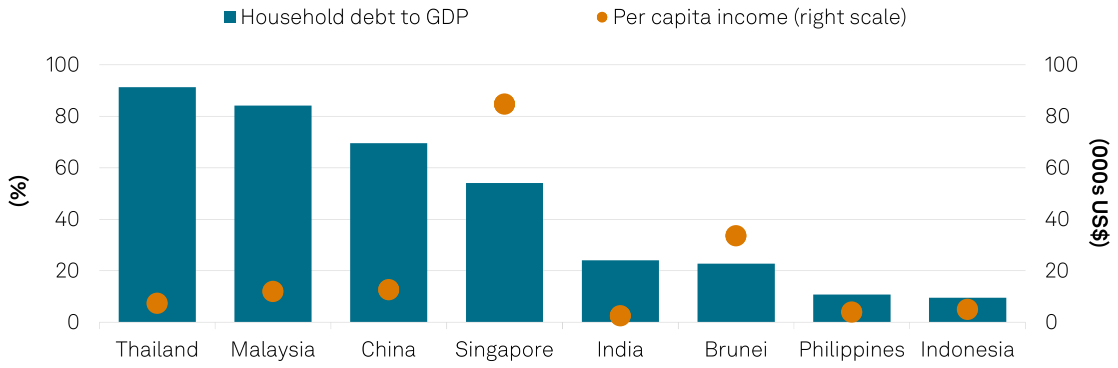


1. NPL--Nonperforming loan. SML--Special mention loan. 2. Data for fiscal years, all ended March 31. FY--Fiscal year. Sources: Reserve Bank of India. S&P Global Ratings calculation and estimates. 3. Source: S&P Global Ratings, Japan Banker's Association. LTD—loan to deposit ratio. 4. f--Forecast. Source: S&P Global Ratings.

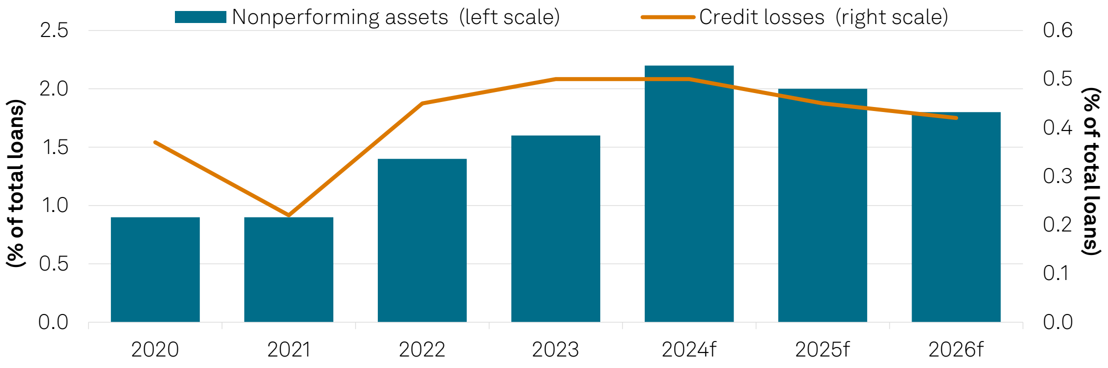
S&P Global Ratings

Asia-Pacific Banks

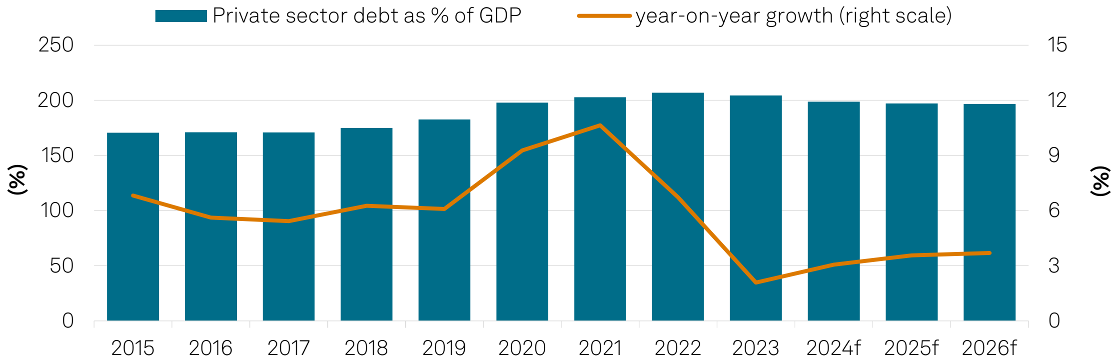
1. SSEA: Household leverage is high in Thailand and Malaysia



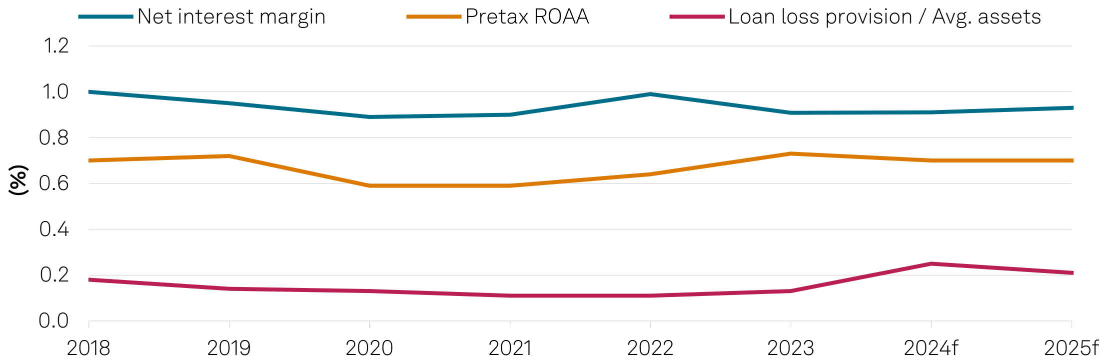
2. Hong Kong: Credit losses likely to remain contained



3. Korea: Moderate growth to support capitalization



4. Taiwan: Improved core earnings offsets rising credit costs



1. SSEA--South and Southeast Asia. Source: S&P Global Ratings. 2. HIBOR--Hong Kong Interbank Offered Rate. Source: HKMA. 3. Bank of Korea. 4. ROAA--Return on average assets. f--Forecasts. Sources: Financial Supervisory Commission, Taiwan Ratings Corp.

Latin America

Credit Conditions: Latin America

- We have recently revised up our 2024 real GDP growth forecast for the region by 20 basis points to 1.4% (or 2.3% excluding Argentina). However, we have also revised down our forecast for 2025 by the same magnitude to 2.0% (or 1.8% excluding Argentina). The main changes to our country-specific GDP growth forecasts are for Brazil, Colombia, and Mexico.
- In Brazil, we now expect GDP growth of 2.8% in 2024, and 1.8% in 2025. Fiscal stimulus, which is keeping household consumption high, partly explains this strong growth.
- In Mexico, we revised down our GDP growth forecasts to 1.6% in 2024 and 1.5% in 2025. The shift from above-trend to below-trend growth happened earlier than we expected this year--in the first half rather than the second half--due to softer manufacturing and services sector activity.

GDP growth forecasts (%)

	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Argentina	-2.0	-9.9	10.0	5.3	-1.6	-3.5	3.3	2.2	2.5
Brazil	1.2	-3.6	5.1	3.1	2.9	2.8	1.8	2.1	2.2
Chile	0.7	-6.4	12.0	2.1	0.3	2.4	2.2	2.5	2.5
Colombia	3.2	-7.2	11.0	7.3	0.6	1.7	2.5	2.8	2.9
Mexico	-0.3	-8.8	6.3	3.7	3.2	1.6	1.5	2.2	2.2
Peru	2.2	-11.1	14.0	2.7	-0.5	2.7	2.7	2.9	3.0

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

Credit Conditions: Latin America

Profitability will moderate from strong levels yet remain solid compared to international peers

Downside risks

- So far, authorities in advanced countries have steered their economies toward a soft landing, but risks could rise again. A **deeper-than-expected downturn** could depress exports from key emerging markets by reducing trade volumes, portfolio flows, and foreign direct investments. Slower economic activity could imperil corporate sectors' fundamentals and banks' asset quality.
- The **complex political landscape across Latin America** will likely result in market volatility over the next quarters. Investors are striving to understand new administrations' policies and the balance of powers that will drive the legislative agenda over the coming years.

...and what they mean for the sector

- Asset quality metrics have deteriorated across the region due to soft economic performance, low credit growth, and pressure on the consumer and small and midsize enterprise lending segments. **We expect asset quality metrics to stabilize by the end of 2024** and start improving in 2025.
- Provisions will likely remain high, **denting profitability**. However, operating performance should still be solid thanks to banks' higher margins than those in peer countries. Regional banks will continue to operate with solid capitalization and sound liquidity.

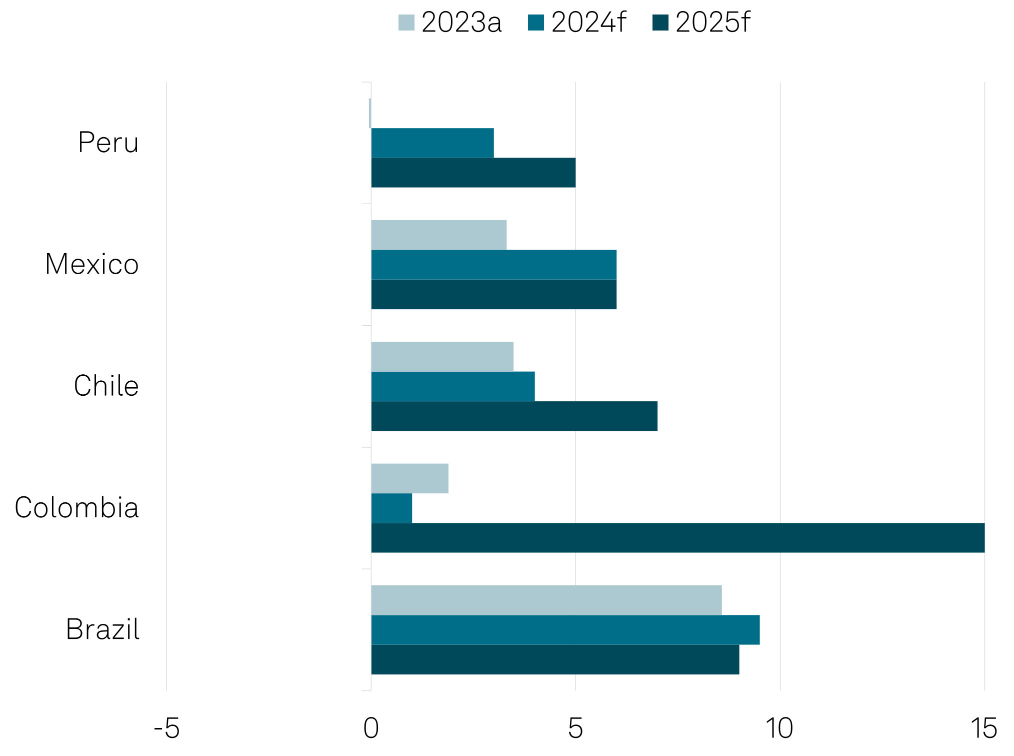
What we expect for next 12 months

- We expect **lending growth to remain in the single digits.** In our view, credit demand will pick up in the corporate sector once interest rates fall to more affordable levels. Nevertheless, banks will likely continue to pursue conservative underwriting practices, given the tepid pace of asset quality stabilization.
- Banks in Latin America are used to **challenging operating conditions,** and have solid regulatory capital and liquidity levels, which will help them navigate the tougher environment. Local regulation is typically stringent, given economic volatility, and implemented across all regulated entities.

Soft Economic Performance Will Limit Credit Demand

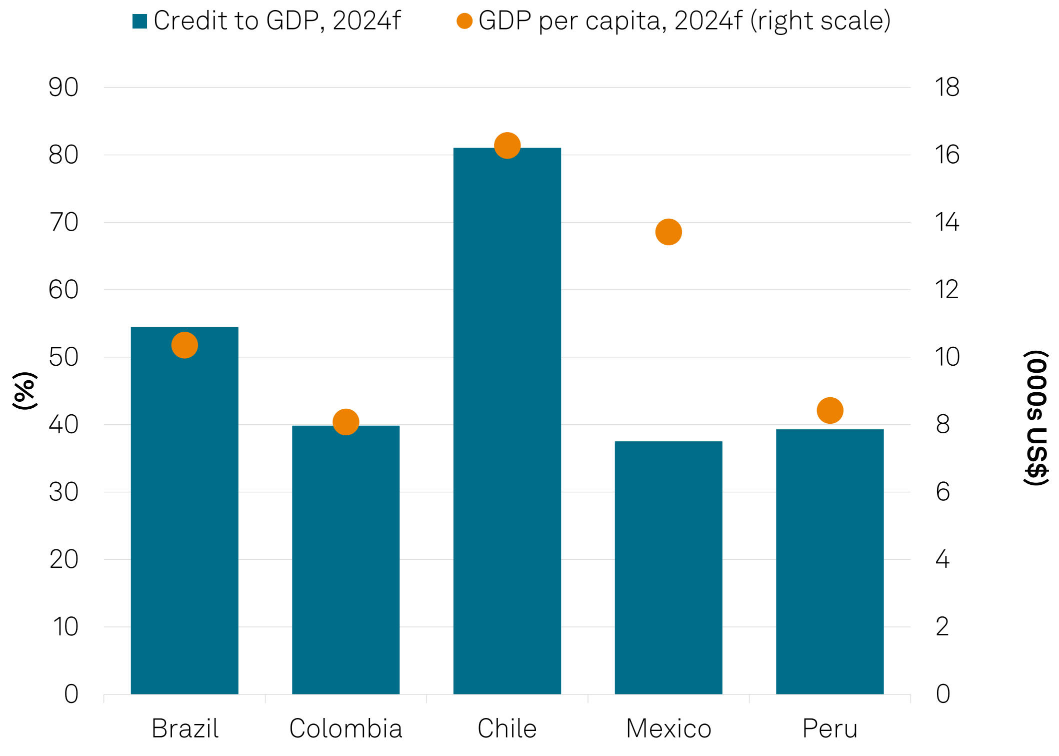
Credit growth should modestly rebound in 2025

Credit growth (%)



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

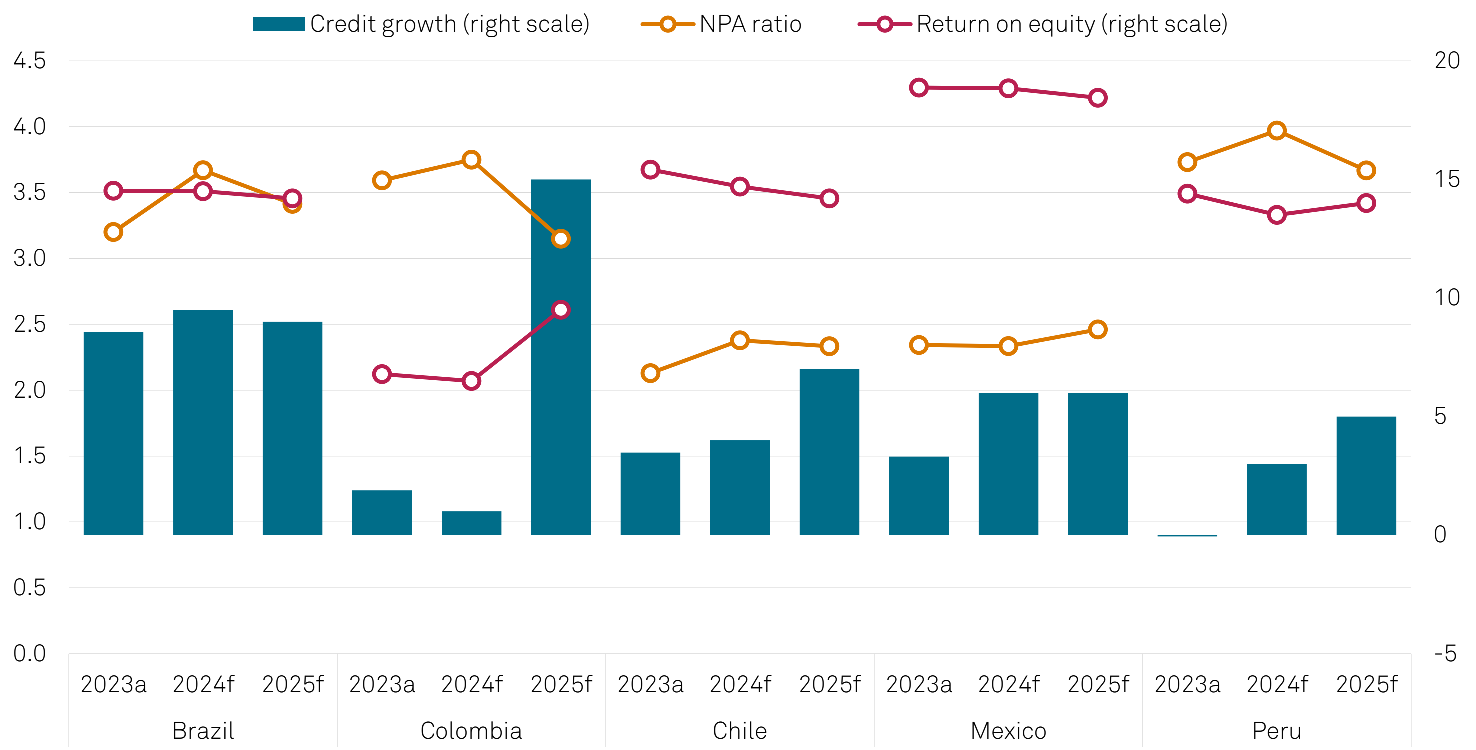
Access to credit remains limited (except for Chile)



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

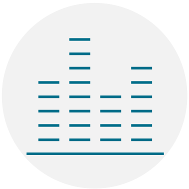
Pressure On Asset Quality, But Resilient Profitability

Profitability and asset quality metrics (%)



a--Actual. e--Estimate. f--Forecast. NPA--Nonperforming assets. Source: S&P Global Ratings.

Profitability will remain challenged by still-high credit costs but sound relative to that of global peers.



We expect asset quality metrics to remain under pressure due to persistently high interest rates and soft economic conditions, albeit partially mitigated by conservative growth strategies.

We expect lending growth to slowly pick up in 2025 but remain softer than historically. Banks will likely continue to pursue conservative underwriting practices, given the tepid pace of asset quality stabilization.

Interactive Dashboard

Access the Global Banks Outlook 2025 Interactive Dashboard

The dashboard includes our in-house sector insights and trends, latest global, regional banking statistics 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

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