Asia-Pacific Banking Country Snapshots

Property Exposures Will Test Ratings In 2024

S&P Global
Ratings

Primary analysts

Gavin Gunning

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Sharad Jain

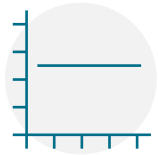**Research contributor**

Priyal Shah

Feb. 28, 2024

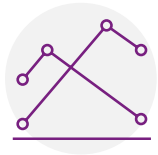*This report does not constitute a rating action*

Key Takeaways

We continue to monitor downside risks, particularly property-related, arising from China and Vietnam. Nonbanks in Korea could also face challenges from real estate project financing.

Our outlook for the Asia-Pacific banking sector remains steady with 83% of banks on stable outlook as of Jan. 24, 2024.

Buffers include generally sound profitability and capitalization prospects.

Key Risks

Property sector stress worsens

Economic downside risks intensify

High corporate and government sector leverage

Digitalization, climate change, and cyber to challenge banks' business models

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Property Is The Biggest Risk To Financial Institutions Ratings In 2024

Commercial property risks weigh on banks

- Downside commercial property risks could hurt banks' asset quality including in China and Vietnam.

- Commercial real estate in Hong Kong is under pressure with high vacancy rates.
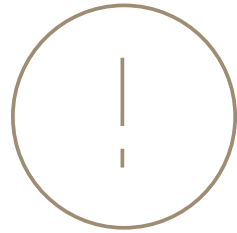
Some NBFIs are more highly exposed than banks

- China's state-owned AMCs face further impairment losses in 2024 but government support remains strong.

- Korean nonbanks are exposed to rising credit risks from real estate project financing.

Residential borrowers grapple with higher interest rates

- Household debt funding residential mortgages is high in Korea, Australia, and New Zealand.

- Banks' asset quality in these jurisdictions remains resilient.
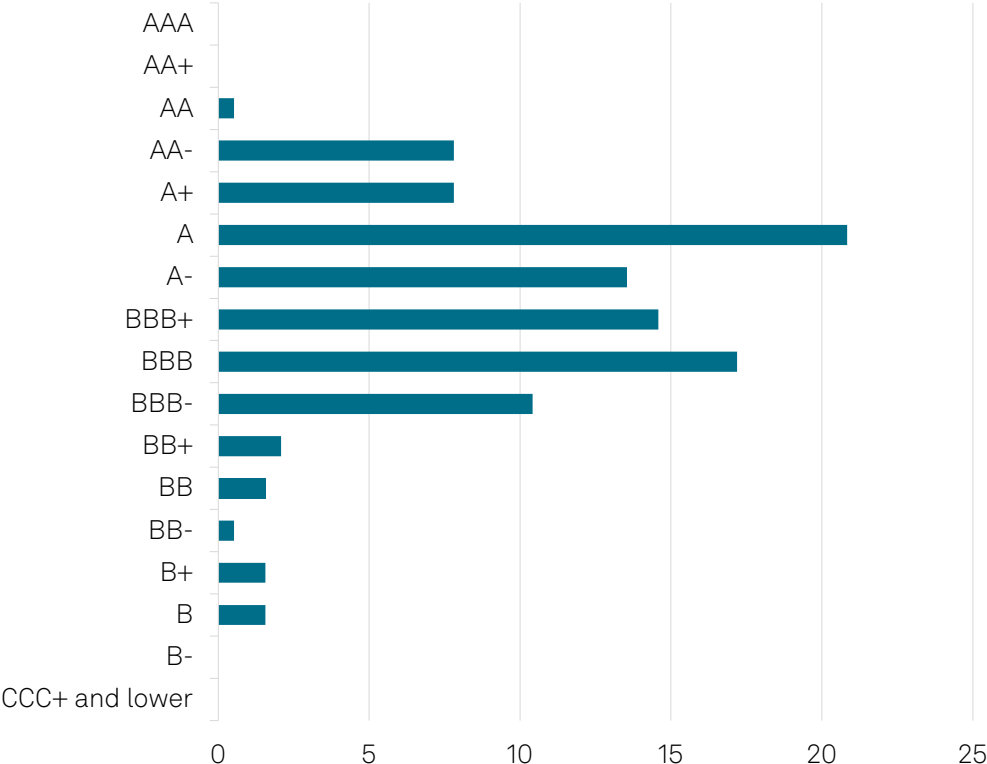
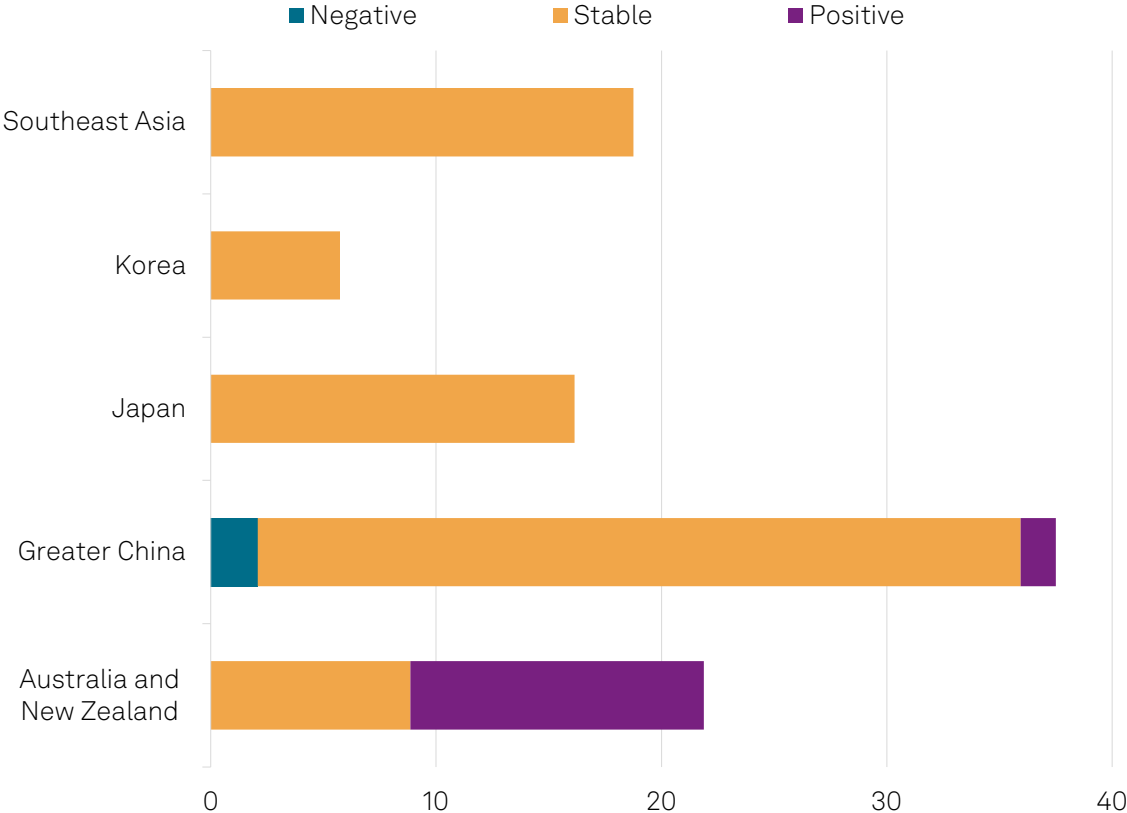## Buffers alleviate concerns

- Profitability and capitalization prospects remain sound for most institutions.

- A downside scenario hitting property outside our current base case would test rating outlooks.

Asia-Pacific Banks | Ratings And Outlook Distribution
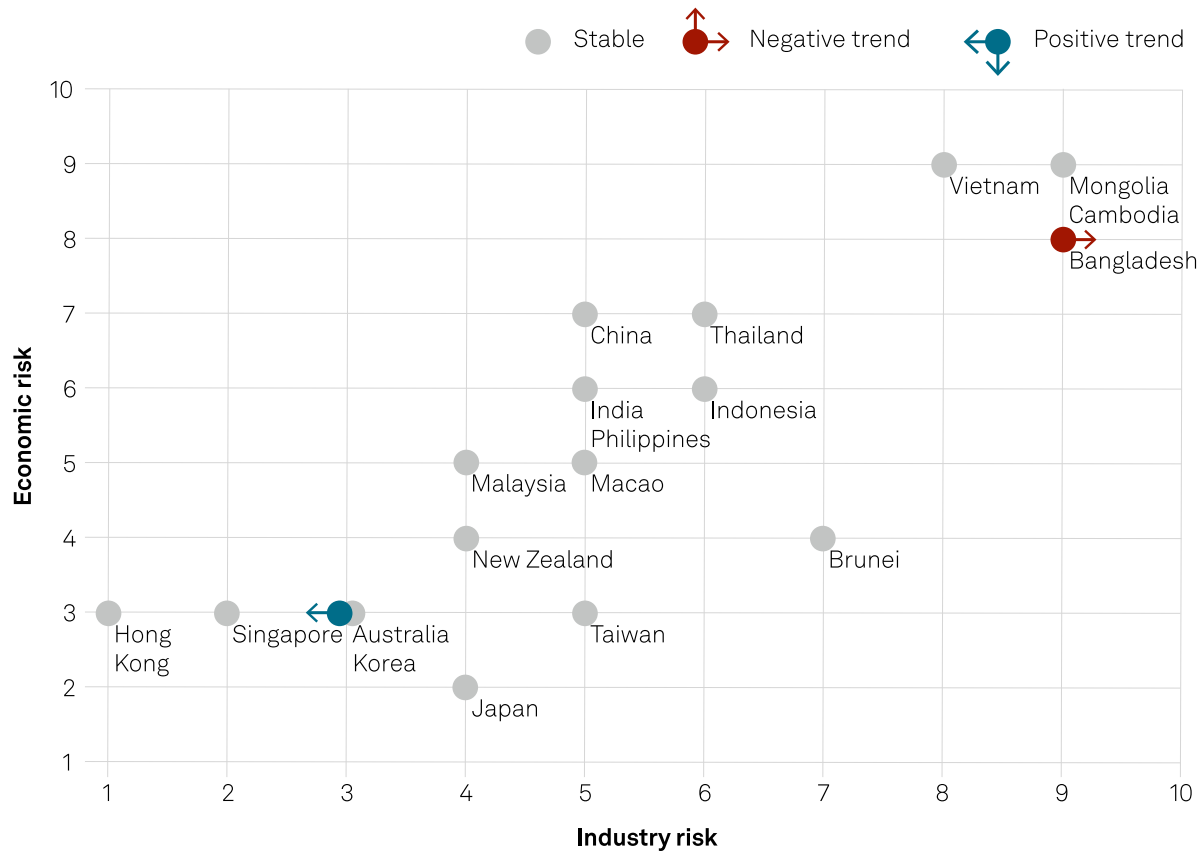
Bank ratings stay resilient (%)

Outlook is stable for the vast majority (%)

Data as of Jan. 24, 2024. Source: S&P Global Ratings.

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Stable Trends Prevail For Most Currently

Legend:
- ● Stable
- ● → Negative trend
- ← ● ↓ Positive trend

Scatter plot — Economic risk (y-axis, 1 to 10) vs Industry risk (x-axis, 1 to 10):

- Vietnam (8, 9) — Stable
- Mongolia / Cambodia (9, 9) — Stable
- Bangladesh (9, 8) — Negative trend
- China (5, 7) — Stable
- Thailand (6, 7) — Stable
- India / Philippines (5, 6) — Stable
- Indonesia (6, 6) — Stable
- Malaysia (4, 5) — Stable
- Macao (5, 5) — Stable
- New Zealand (4, 4) — Stable
- Brunei (7, 4) — Stable
- Hong Kong (1, 3) — Stable
- Singapore (2, 3) — Stable
- Australia / Korea (3, 3) — Positive trend
- Taiwan (5, 3) — Stable
- Japan (4, 2) — Stable

Banking Industry Country Risk Assessment (BICRA) changes in 2023:

Bangladesh: Industry risk trend to negative from stable.

India: BICRA to Group '5' from Group '6', and economic risk score to '6' from '7'.

New Zealand: Economic risk trend to stable from negative.

Economic risk and industry risk scores are on a scale from 1 to 10, with 1 representing the lowest-risk and 10 the highest-risk. Data as of Jan. 30, 2024. Source: S&P Global Ratings.

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Asia-Pacific | Banking Industry And Country Risks Comparison

Country	BICRA Group	Economic risk trend	Industry risk trend	Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	Systemwide funding
Australia	3	Stable	Positive	VL	H	L	L	L	I
Bangladesh	9	Stable	Negative	VH	I	EH	EH	EH	I
Brunei	6	Stable	Stable	I	L	H	EH	I	L
Cambodia	9	Stable	Stable	VH	H	EH	EH	H	VH
China	6	Stable	Stable	I	H	VH	H	H	VL
Hong Kong	2	Stable	Stable	L	I	I	VL	L	VL
India	5	Stable	Stable	H	L	VH	H	H	L
Indonesia	6	Stable	Stable	H	L	VH	H	H	I
Japan	3	Stable	Stable	L	VL	I	I	H	VL
Korea	3	Stable	Stable	L	L	I	I	I	L
Macao	5	Stable	Stable	I	I	H	VH	I	L
Malaysia	4	Stable	Stable	H	L	H	I	H	L
Mongolia	9	Stable	Stable	VH	H	EH	EH	H	VH
New Zealand	4	Stable	Stable	VL	H	I	I	L	H
Philippines	5	Stable	Stable	VH	L	H	H	I	I
Singapore	2	Stable	Stable	VL	I	I	VL	L	L
Taiwan	4	Stable	Stable	L	L	I	I	VH	VL
Thailand	7	Stable	Stable	H	H	VH	VH	H	L
Vietnam	9	Stable	Stable	VH	H	EH	EH	VH	I

Positive economic or industry risk trend	Stable economic or industry risk trend	Negative economic or industry risk trend

Very low risk (VL)	Low risk (L)	Intermediate risk (I)	High risk (H)	Very high risk (VH)	Extremely high risk (EH)

The table presents S&P Global Ratings' views about key risks and risk trends for banking sectors in Asia-Pacific countries where we rate banks.

For more detailed information, please refer to the latest Banking Industry Country Risks Assessment (BICRA) on a given country.

According to our methodology, BICRAs fall into groups from '1' to '10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10').

Data as of January 30, 2024.

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Asia-Pacific Banks | Higher Credit Losses

Domestic credit losses by region, 2019-2025 (bil. US$)
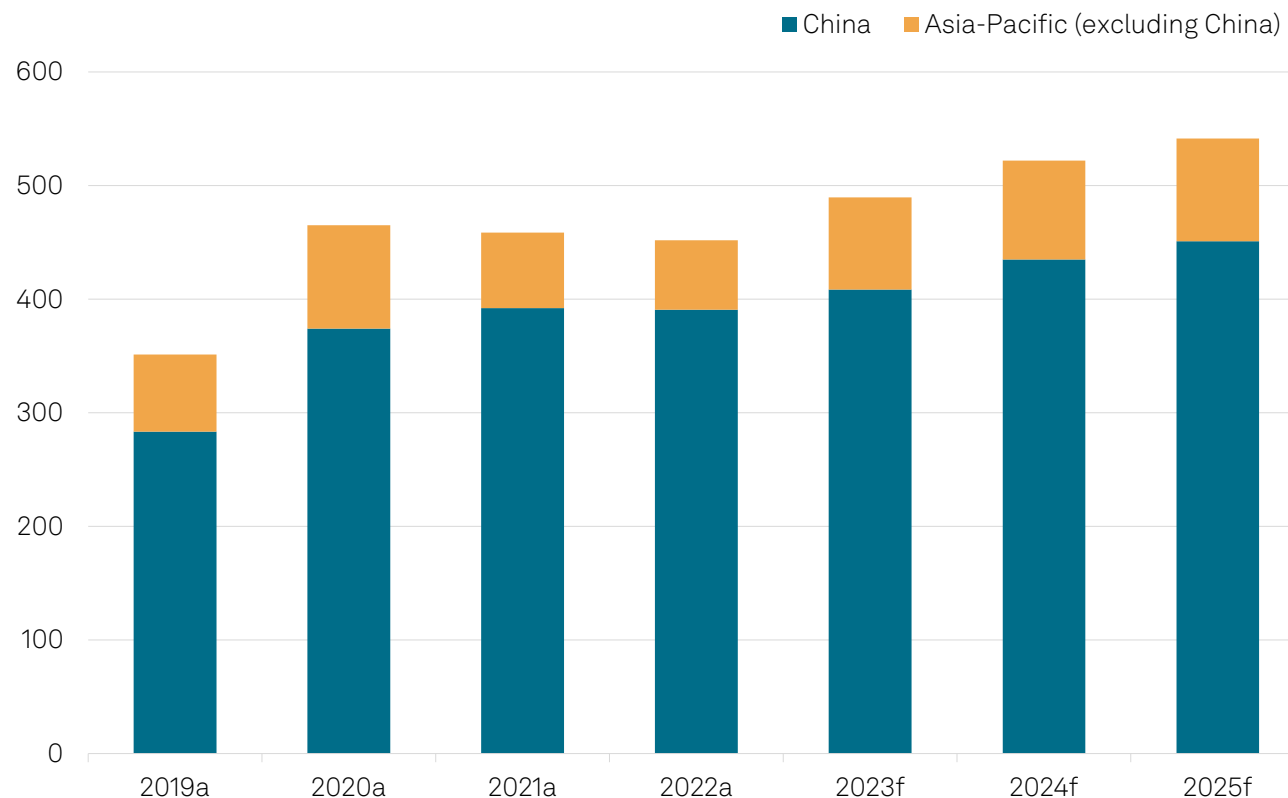
- For Chinese commercial banks, we forecast that credit losses will average about Chinese renminbi (RMB) 2.4 trillion a year over 2023-2025. We expect credit costs to decline steadily to 1.1% of average loans in 2025, from our estimate of 1.3% in 2022, as economic conditions improve.

- For Asia-Pacific excl. China, our outlook for credit losses for 2024 has neither deteriorated or improved materially over the past six months or so. We forecast credit losses of about US$81 billion for the Asia-Pacific region (excluding China) in 2023 and see that increasing by 7% to about US$87 billion in 2024. For 2025, we forecast they will increase by 4% to about US$90 billion.

- The impact of rate hikes and slower growth since second-quarter 2022 has caused the steep increase in credit losses in 2023 (US$81 billion), compared with 2022 (US$61 billion). While we expect credit losses to continue to increase until 2025, the magnitude and trajectory will be less acute.

Data shown on a constant currency basis, based on 2022 year-end exchange rates. Data for China relates to commercial banks. a--Actual. f--Forecast. Source: S&P Global Ratings.

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Country Snapshots

Select banking jurisdictions in the Asia-Pacific region

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Australia | Low Unemployment To Curb Credit Losses

Nico DeLange

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Economic growth to be modest

Real GDP growth (%)
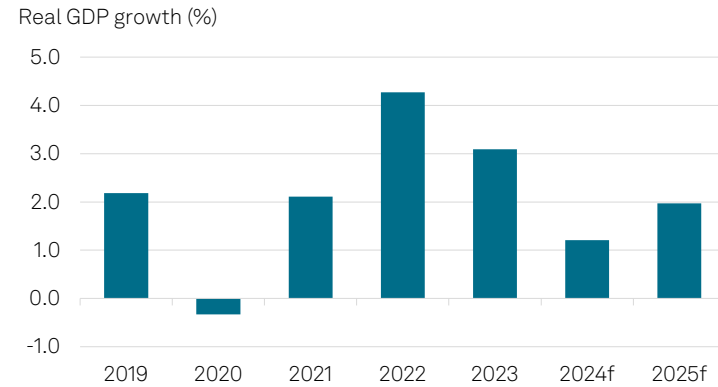
Banks' credit losses should remain low

Credit losses as a % of total loans
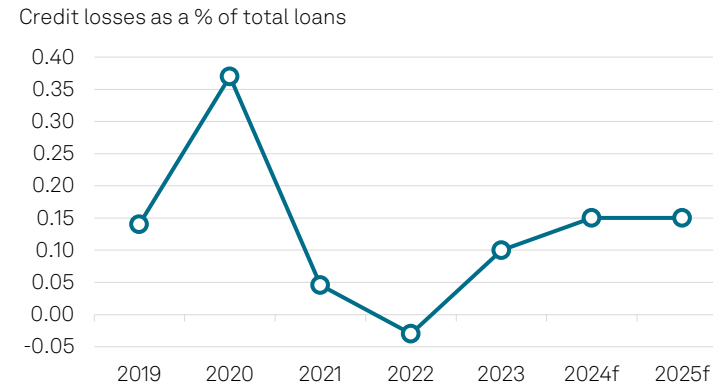
We expect earnings to remain strong

Return on average assets (%)
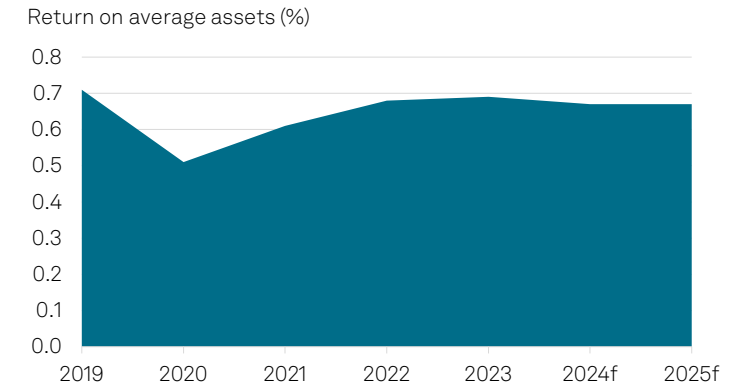
An orderly correction in house prices has curbed risk

Annual change in key index for national residential house prices (%)
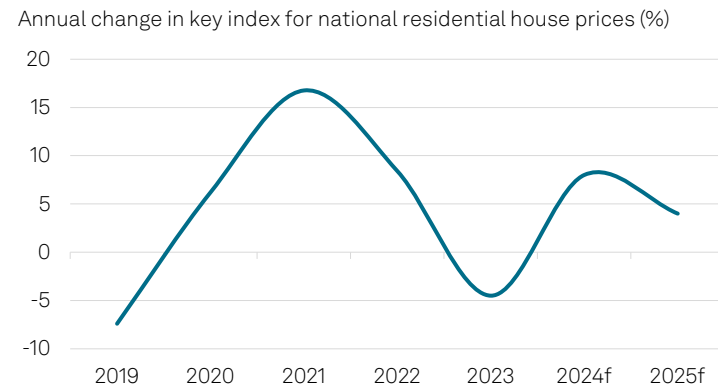
Private sector debt to remain relatively high

Total private sector debt as % of GDP
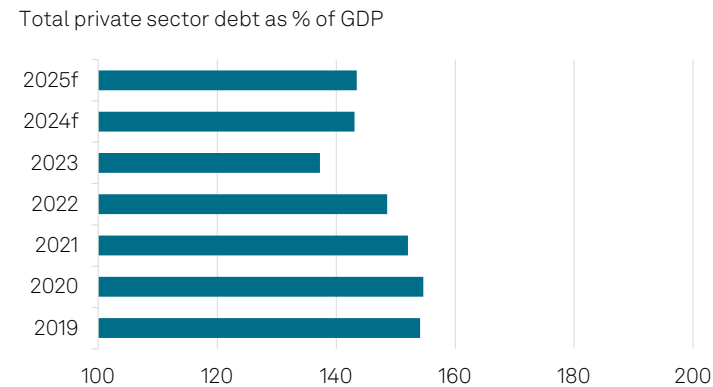
Reliance on net external borrowings is sizable

Net banking sector external debt as % of systemwide domestic loans
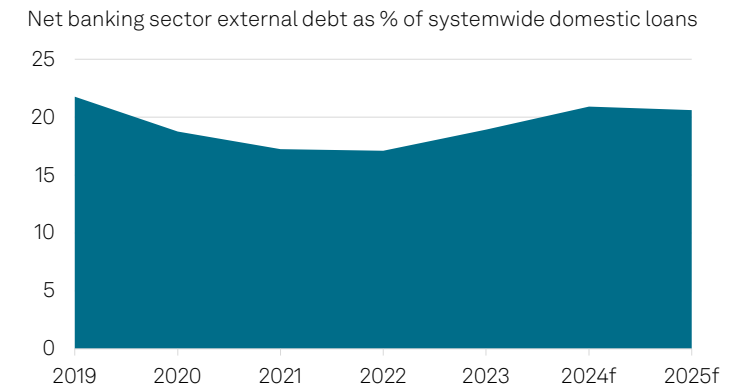
Figures as of fiscal year ending June. f--Forecast. Source: S&P Global Ratings.

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ming.tan@spglobal.com

Economic conditions to improve amid policy support
Real GDP growth (%)
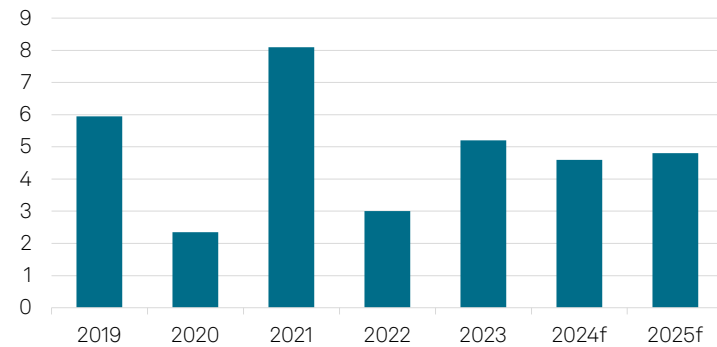
Commercial banks to see lower credit costs and write-offs
Credit costs as % of total loans
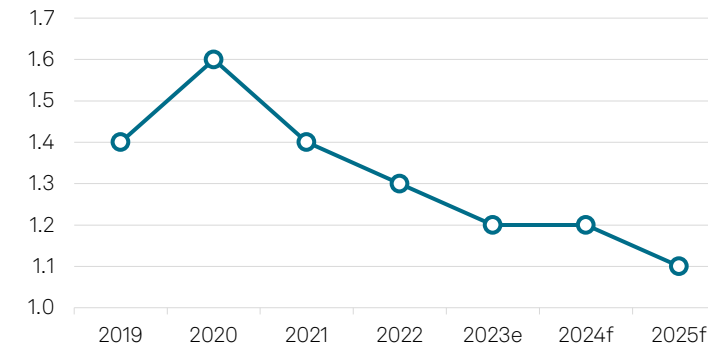
Policy and funding support smaller companies
Micro and small enterprises -- NPL ratio (%)
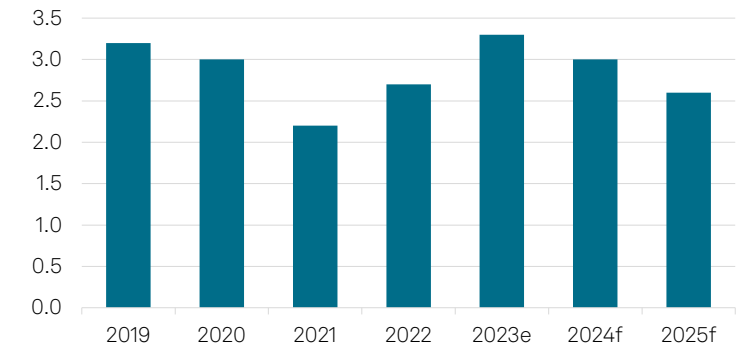
Delay in recovery in real estate loan quality
Property development loan growth (%)
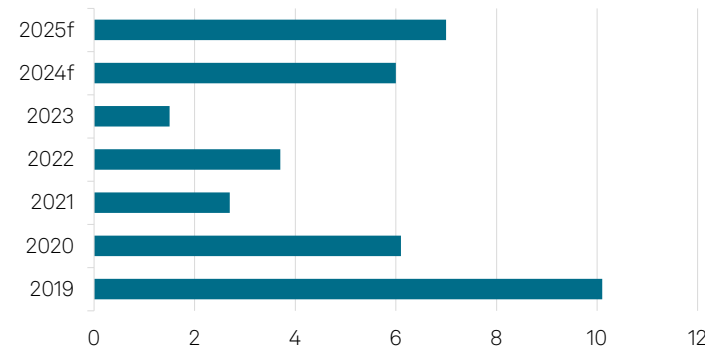
Profitability to remain pressured
Return on average assets (%)
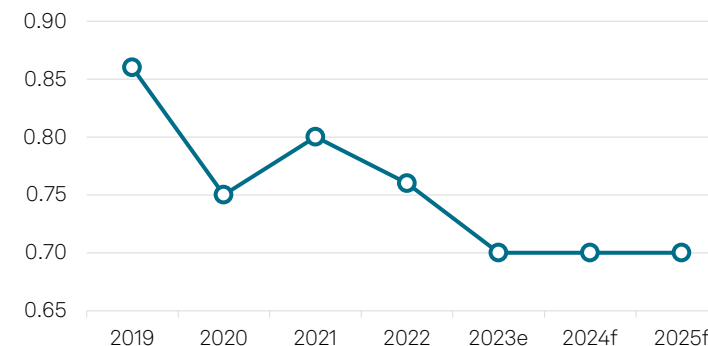
Strong customer deposit base
Domestic loans as a % of systemwide domestic core customer deposits
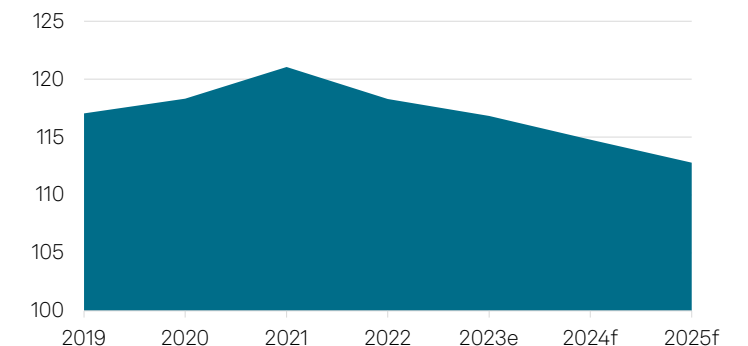
Data as of year ended December. e-Estimate. f--Forecast. NPL--Nonperforming loans. Source: S&P Global Ratings.

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Hong Kong SAR | Strong Fundamentals Provide Cushion Against Headwinds

Shinoy Varghese
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Economic growth to remain largely steady
Real GDP growth (%)
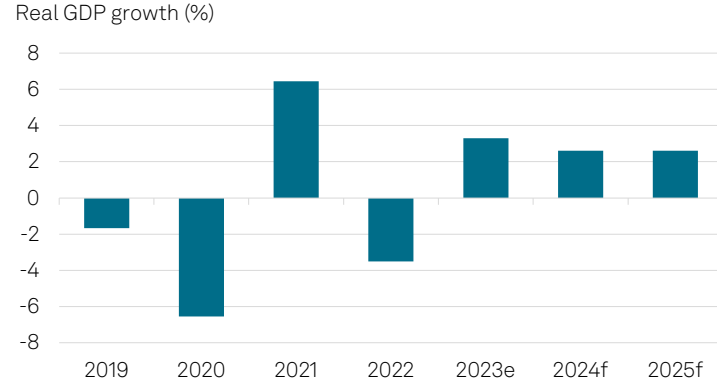
China CRE risk manageable, credit losses to gradually decline
Credit losses as a % of total loans
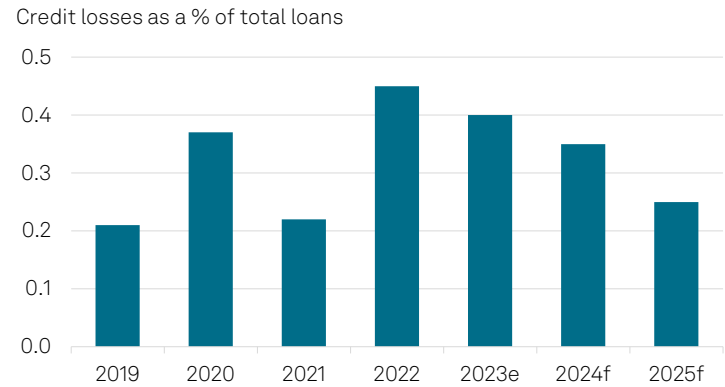
Profitability to be broadly stable
Return on average assets (%)
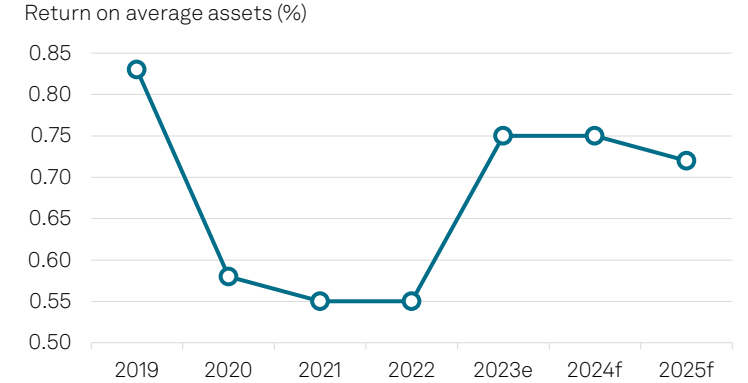
Residential housing prices to soften in 2024
Annual change in key index for national residential house prices (%)
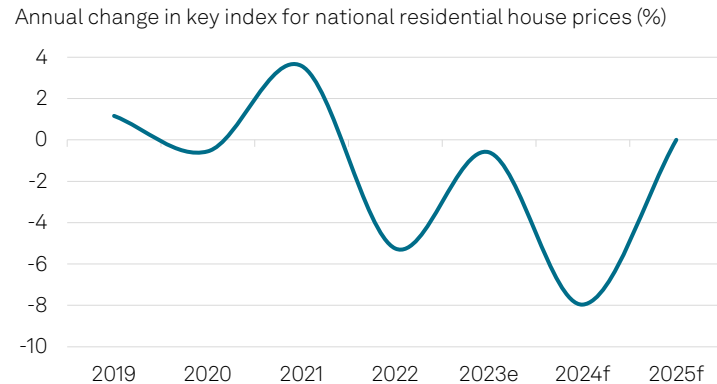
Strong capitalization through the cycles
Tier 1 capital ratio (%)
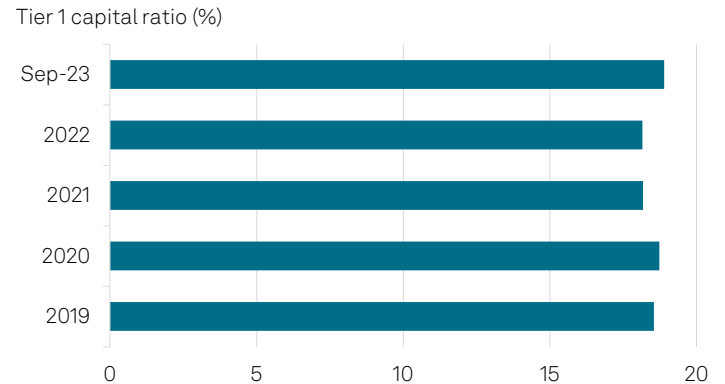
Solid customer deposits remain a key support
Systemwide loans as a % of systemwide core customer deposits
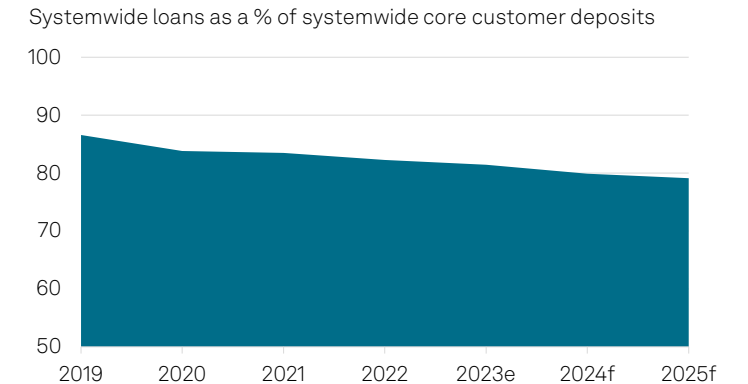
Data as of year ended December. CRE--Commercial real estate. e--Estimate. f--Forecast. Sources: HKMA, S&P Global Ratings.

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India | Structural Improvements And Sound Economic Prospects

Deepali V Seth Chhabria
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Economic growth momentum to continue
Real GDP growth (%)
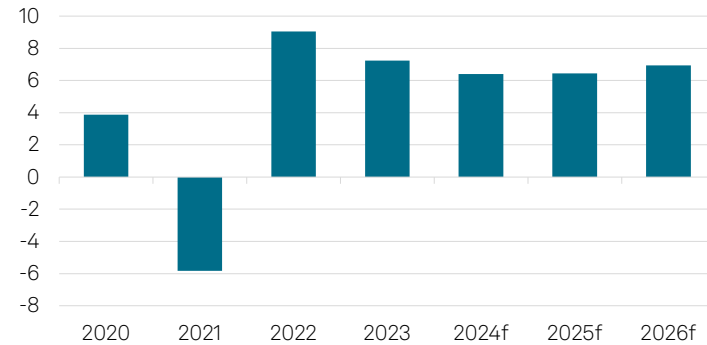
Sharp rise in LDR to cast shadow on future credit growth
Loans-to-deposits ratio (%)
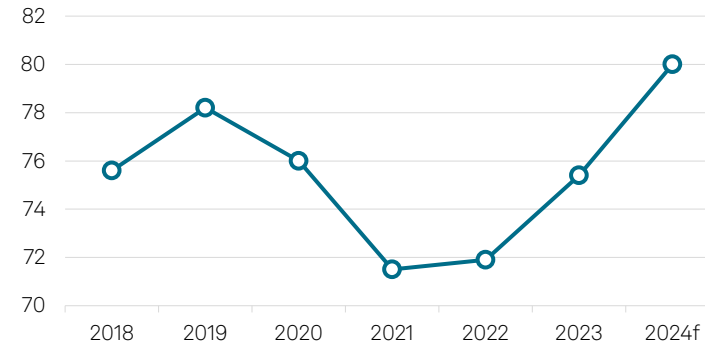
Credit losses to inch up slightly from cyclical low'
Credit losses as a % of total loans
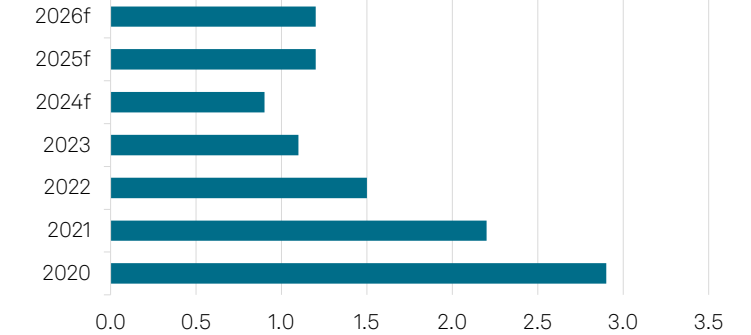
Asset quality to continue to improve
Nonperforming assets as a % of systemwide loans
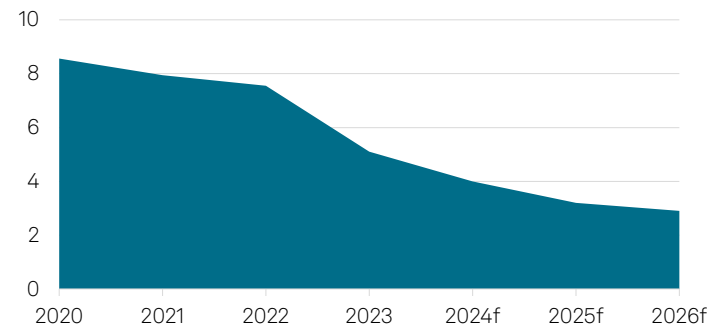
Delinquencies in the retail segment remain low
90+ days past due (%) – September 2023
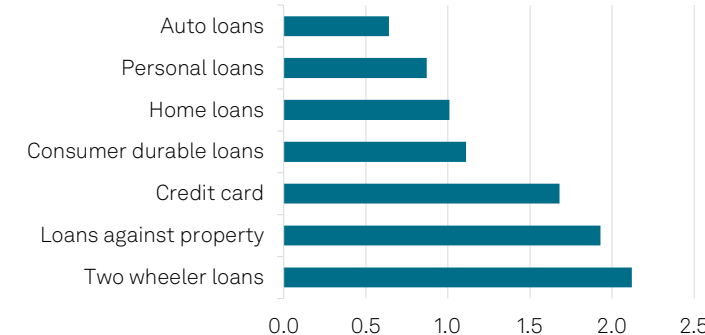
Returns have recovered and are comparable to peers
Return on average assets (%)
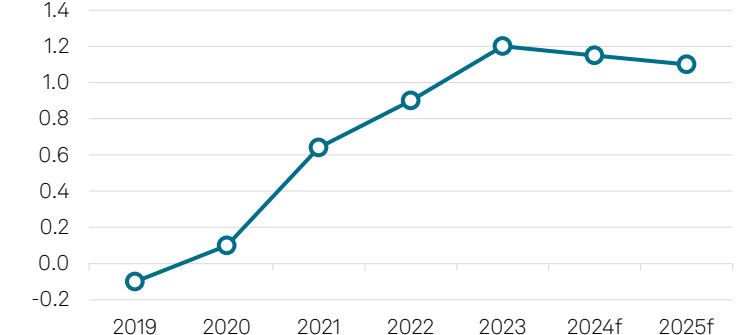
Figures as of fiscal year ending March. Nonperforming assets includes nonperforming loans (NPL) and standard restructured loans. Sources: Reserve Bank of India, company financials, TransUnion CIBIL, S&P Global Ratings estimates.

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Indonesia | Riding The Economy's Growth Momentum

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Economic growth is a boost
Real GDP growth (%)
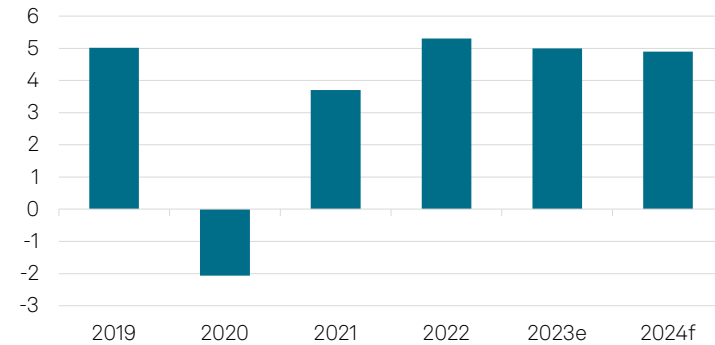
Credit costs should remain under control
Credit losses % of total loans
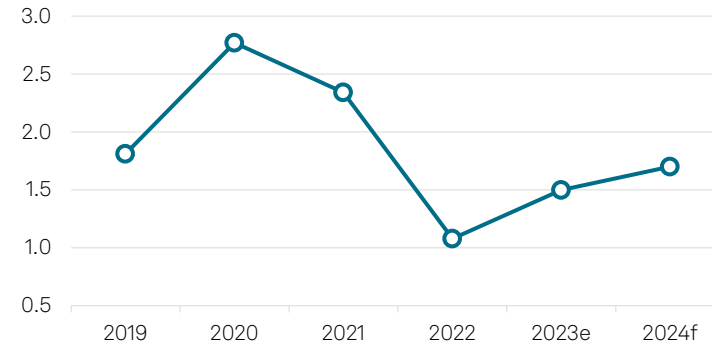
Higher NPLs expected as COVID restructuring scheme expires
Nonperforming assets as a % of systemwide loans
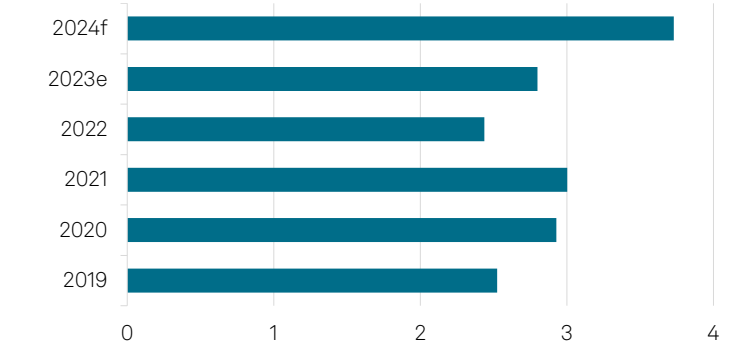
NIMs to compress but manageable
Net interest income to average earning assets (%)
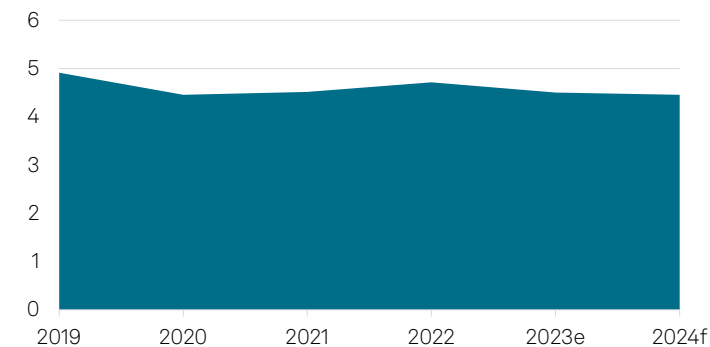
Strong capital buffers
Tier 1 capital ratio (%)
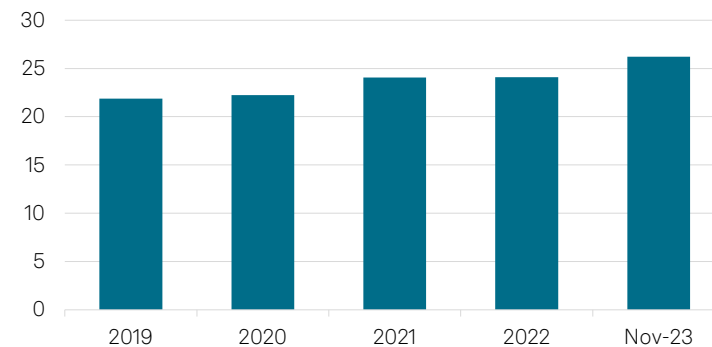
Strong funding support from customer deposits
Loans to deposits ratio (%)
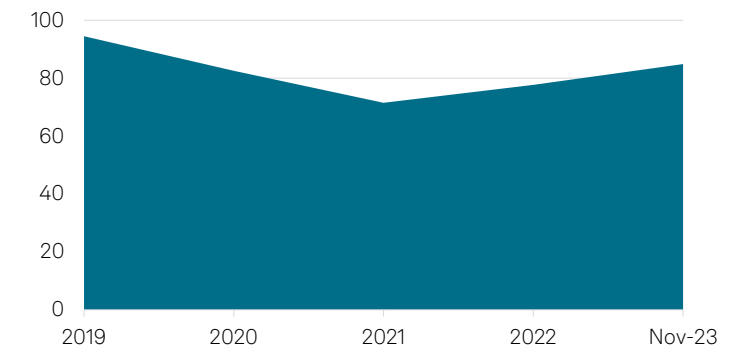
Data as of year ended December. e--Estimate. f--Forecast. Sources: OJK, S&P Global Ratings.

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Japan | Rate Hikes To Widen Disparity Among Banks

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Domestic-oriented economy will continue to grow
Real GDP growth (%)
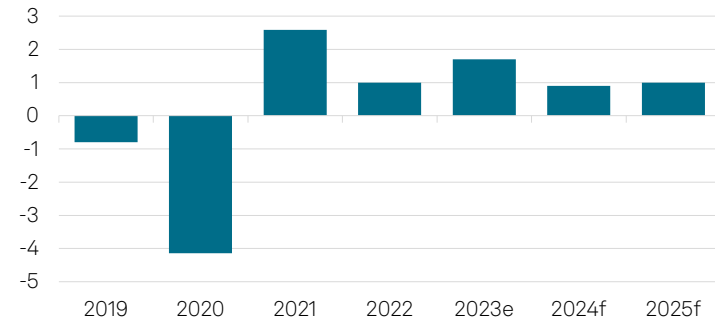
We expect policy interest rate will increase gradually in 2024
Policy rates (year-end) (%)
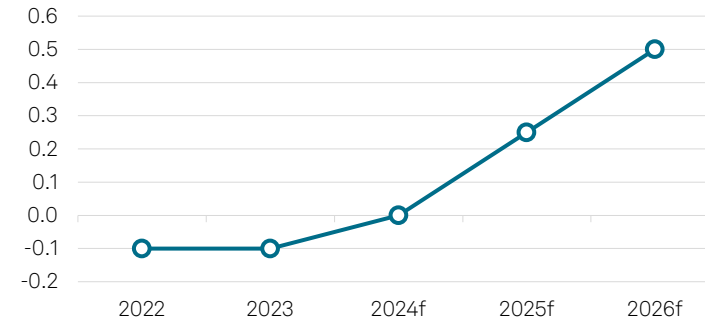
Widening differences in valuation of AFS securities
Change in valuation differences divided by net worth (%) by category (Sept-2023)
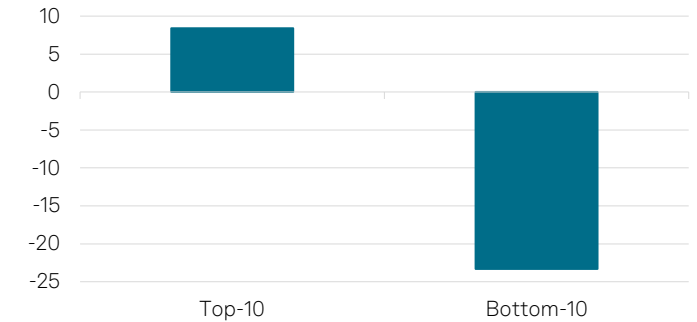
Valuation differences on AFS securities affect net income
Change in net income (to 1H FY2023 from 1H FY2022) by ranking of the size of valuation differences
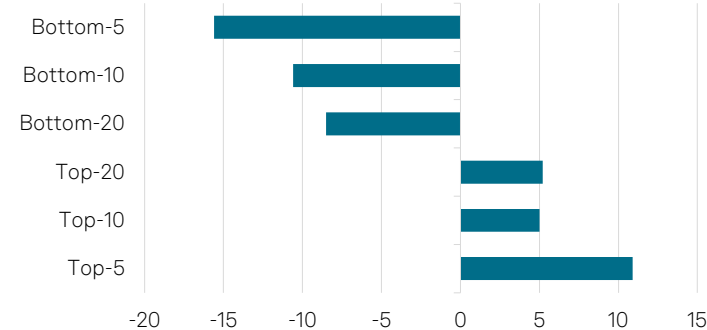
Investment oriented banks' unrealized losses on securities grow
Percentage change in valuation differences on available-for-sale securities to net worth
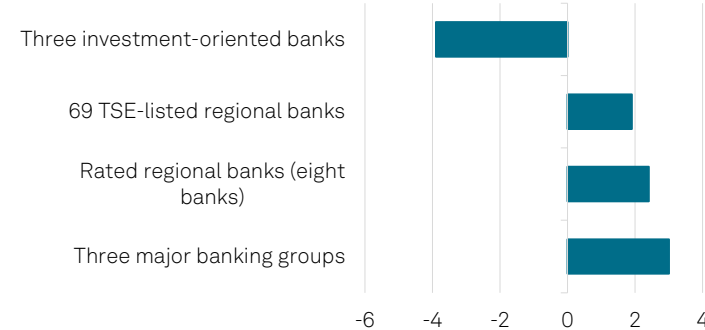
Stable deposit base a key strength for the banking system
Domestic loans as a % of systemwide domestic core customer deposits
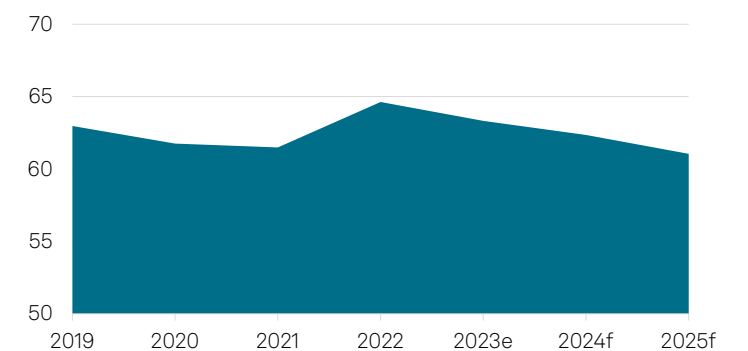
Data as of fiscal year ended March. Top-10 indicates top ten banks and so on for others. AFS--Available for sale. e--Estimate. f--Forecast. TSE--Tokyo Stock Exchange. Sources: Bank financial disclosures, S&P Global Ratings.

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Korea | Banks Can Ride Out Rough Operating Conditions

Daehyun Kim

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Some recovery in Korea's economy
Real GDP growth (%)
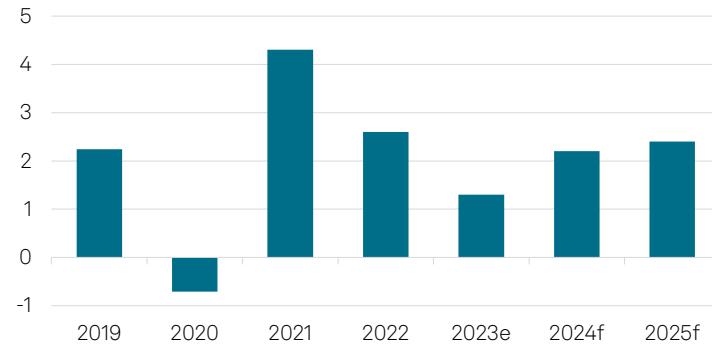
Loan growth to stay moderate
Loan growth (%)
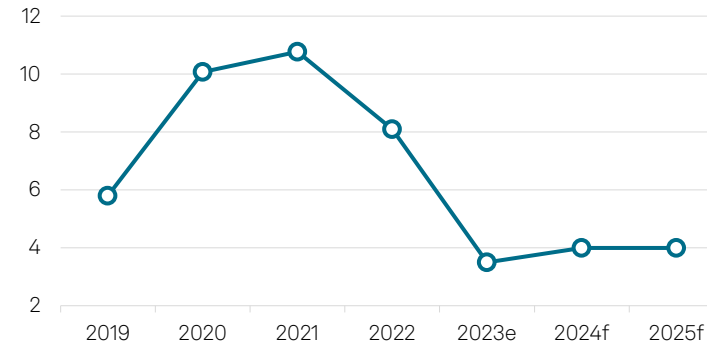
Private-sector leverage is high
Total private sector debt as a % of GDP
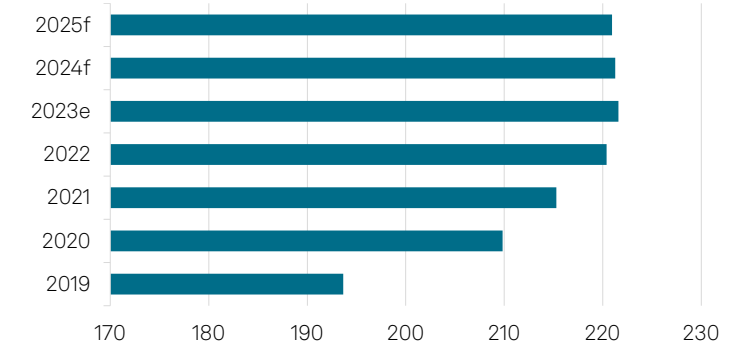
Deterioration in asset quality is manageable
Nonperforming assets as a % of systemwide loans (deposit-taking institutions)
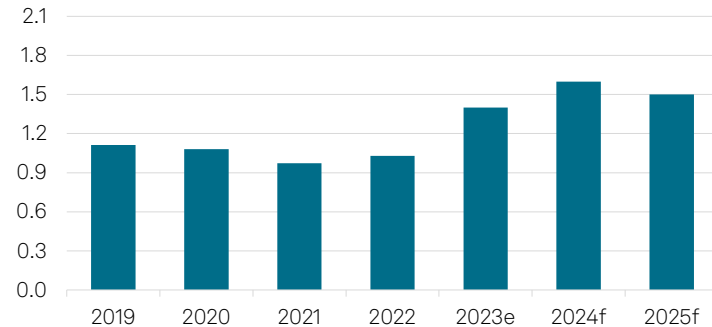
Profitability to weaken slightly in 2024
Return on average assets (%)
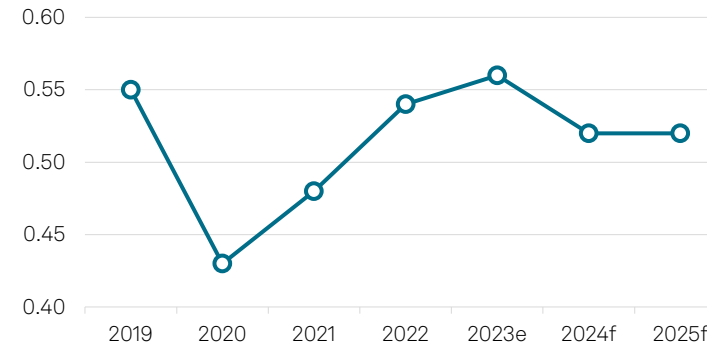
Stable funding backed by customer deposits
Domestic loans as a % of systemwide domestic core customer deposits
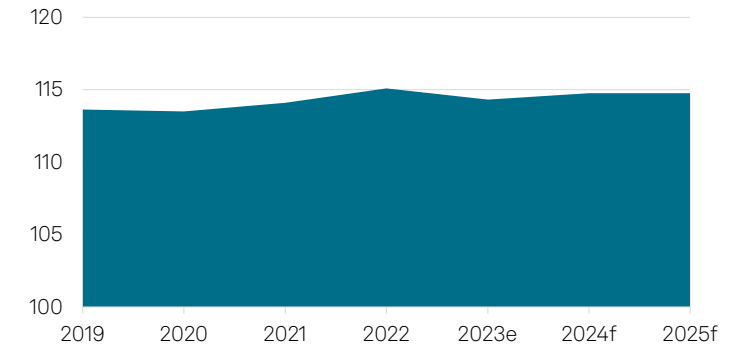
Data as of year ended December. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Malaysia | Profitability Could Hold Up Amid Margin Squeeze

Nikita Anand
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Economic conditions will improve
Real GDP growth (%)
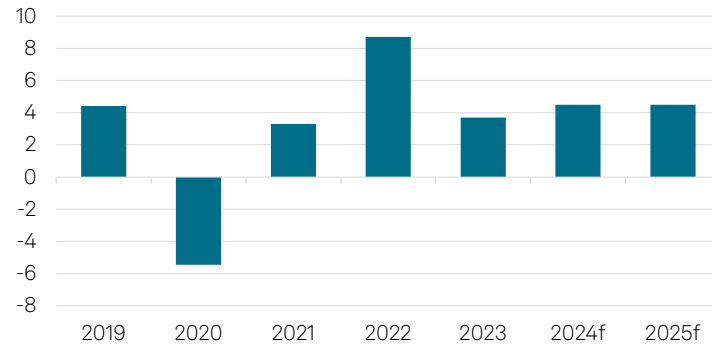
Credit growth will pick up
Loan growth (%)
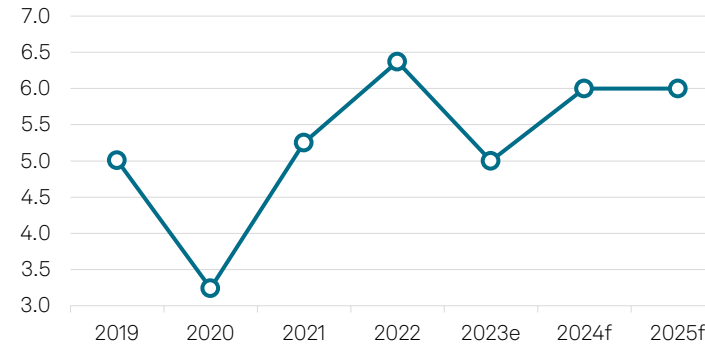
Asset quality deterioration manageable
Nonperforming assets as a % of systemwide loans
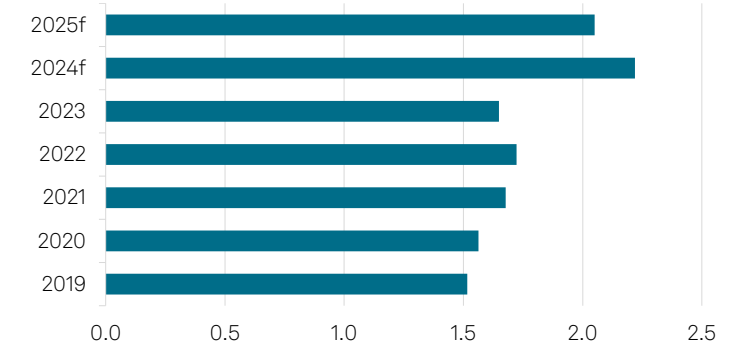
Solid capitalization could offset asset quality pressure
Tier 1 capital ratio (%)
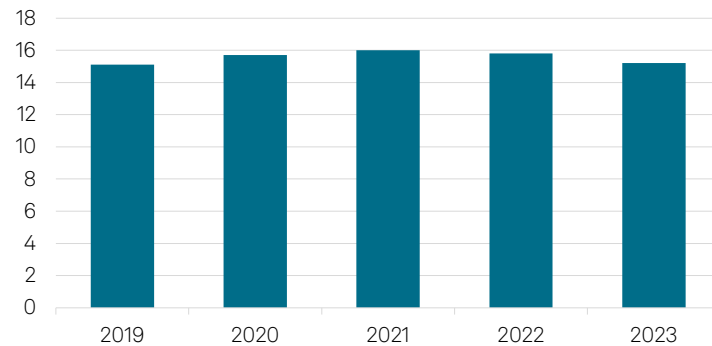
High household leverage poses risk
Household debt as % of GDP
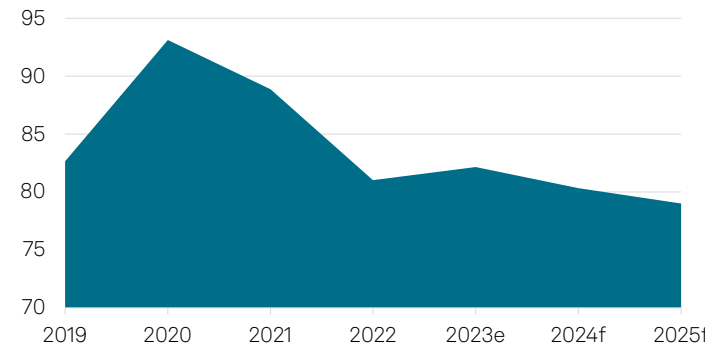
Earnings will stay flattish
Return on average assets (%)
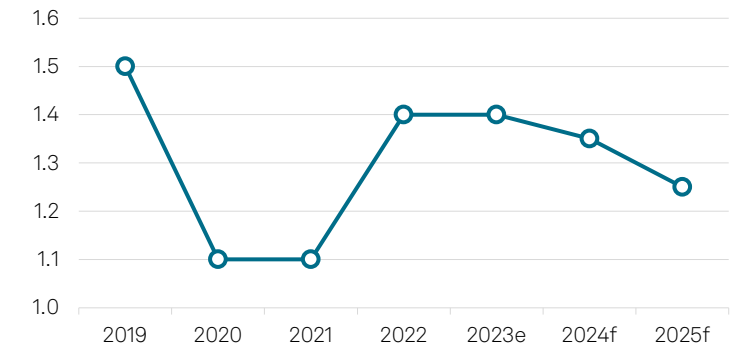
Data as of year ended December. e--Estimate. f--Forecast. Sources: BNM, S&P Global Ratings.

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New Zealand | Economic Imbalances Unwind

Lisa Barrett
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Economic growth weaker in 2024
Real GDP growth (%)
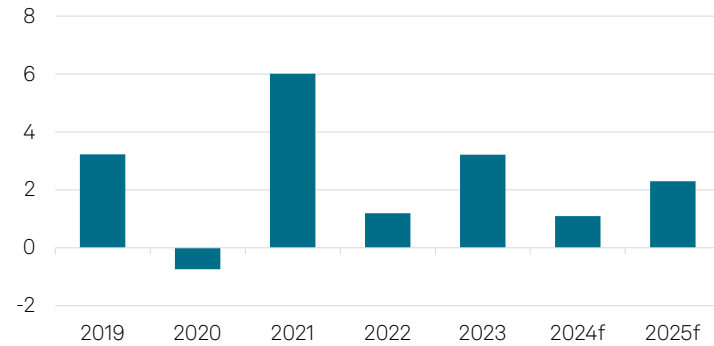
Banks maintain profitability
Return on average assets (%)
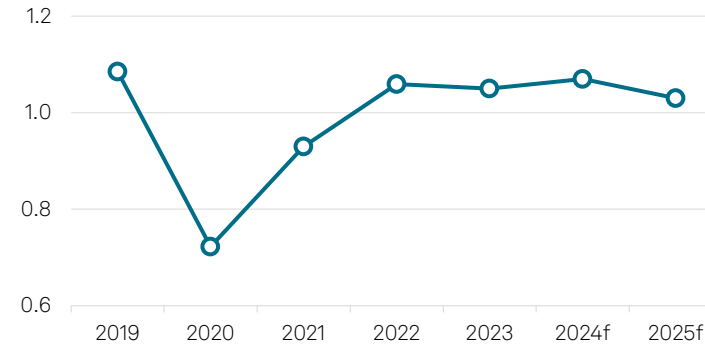
Credit losses to remain low
Credit losses as a % of total loans
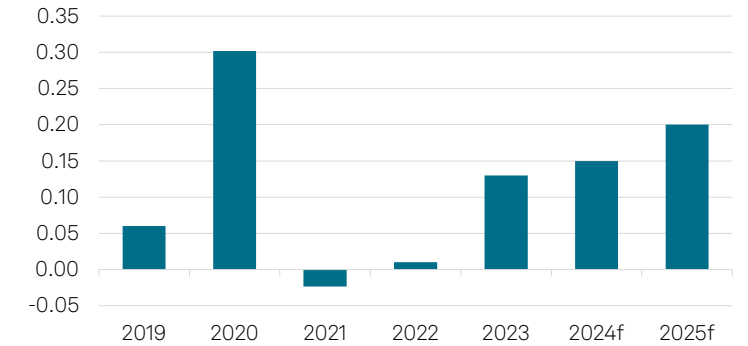
High household indebtedness
Household debt as % of GDP
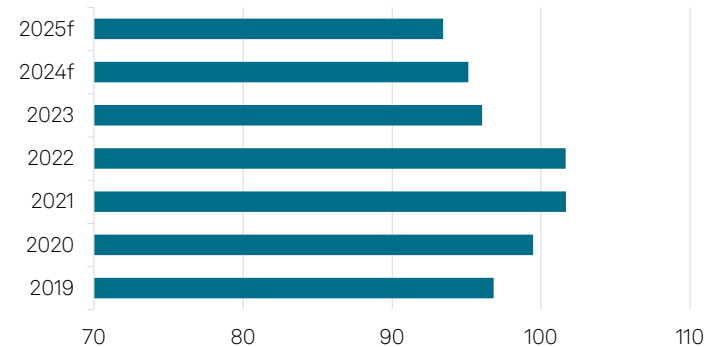
Recent house price increases reduce risk
Annual change in key index for national residential house prices (%)
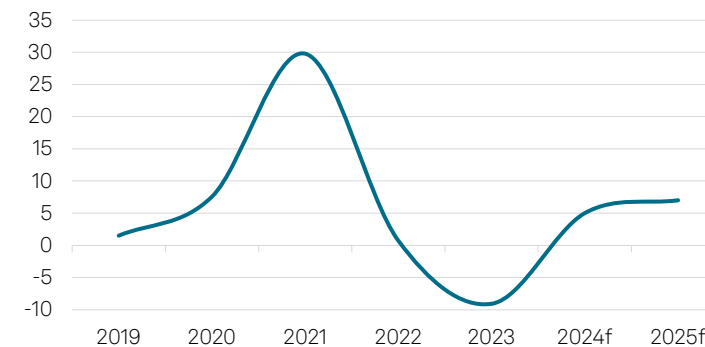
High net external borrowings and limited customer deposits
Net banking sector external debt as a % of systemwide domestic loans
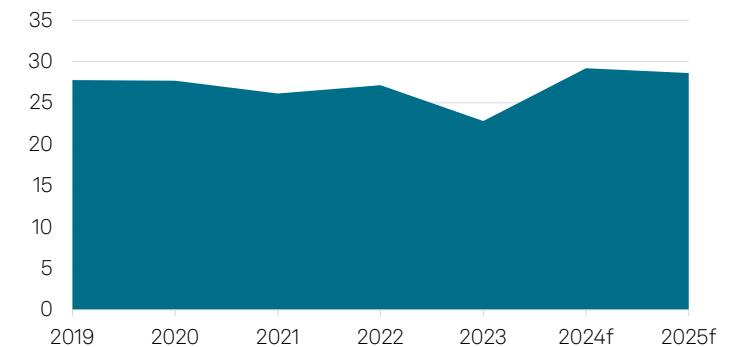
Data as of fiscal year ended June. f--Forecast. Source: S&P Global Ratings.

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Philippines | Better Economic Conditions Will Bolster Sector

Nikita Anand

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Economic growth will improve
Real GDP growth (%)
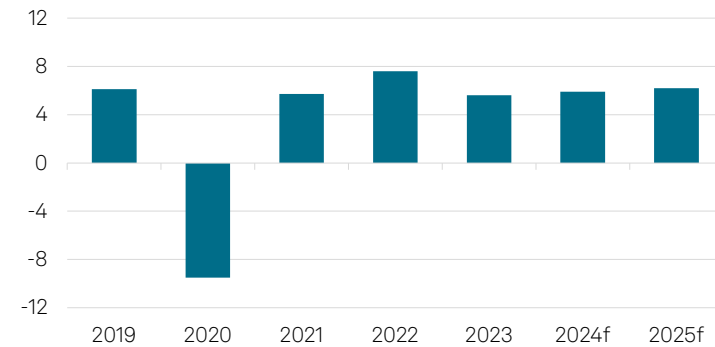
Credit losses will stay near pre-pandemic levels
Credit losses as % of total loans
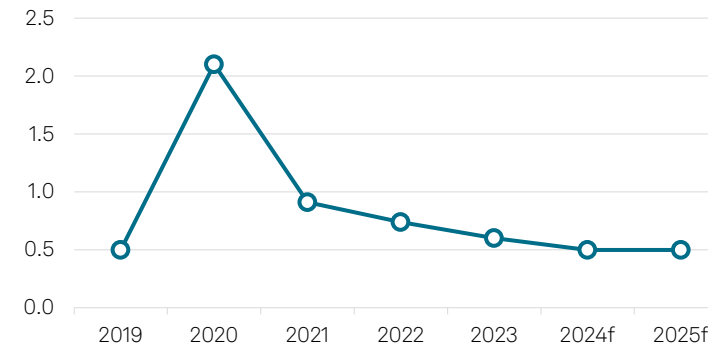
Return on assets has peaked and will gradually decline
Return on average assets (%)
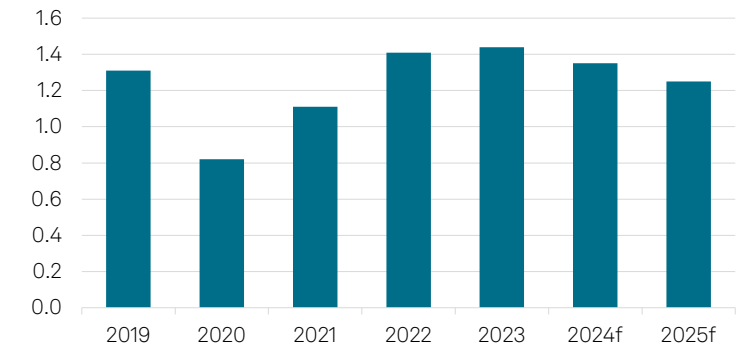
Banks maintain good capital buffers
Common equity tier 1 ratio (%)
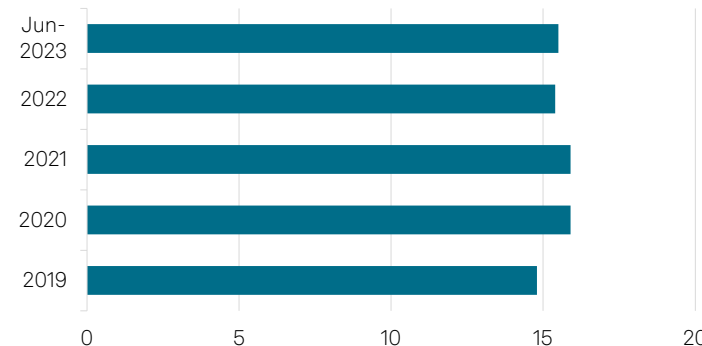
Downside risk of a fallout in property markets
Annual change in key index for national residential house prices (%)
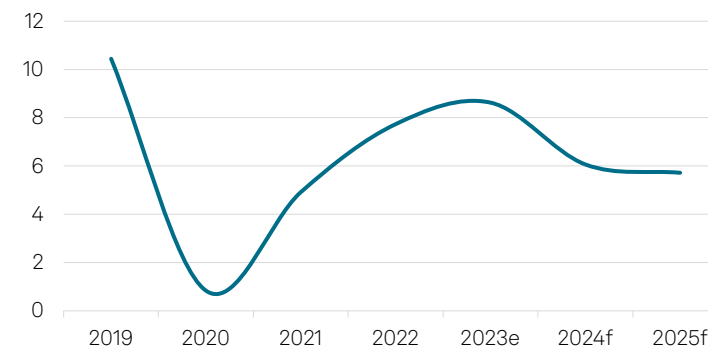
Strong deposit base supports funding profile
Loans to deposit ratio
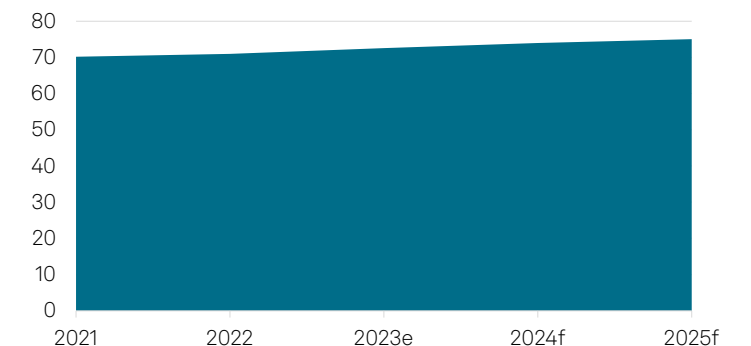
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Singapore | Moderation On The Horizon After Strong Start To 2024

Ivan Tan

ivan.tan@spglobal.com

Domestic market recovery will buffer against external stress
Real GDP growth (%)
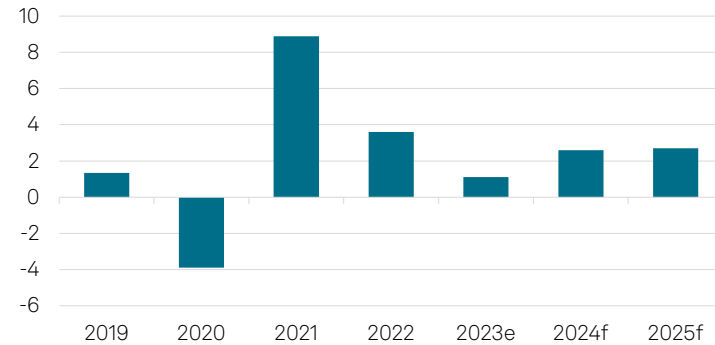
Loan growth will likely remain tepid
Loan growth (%)
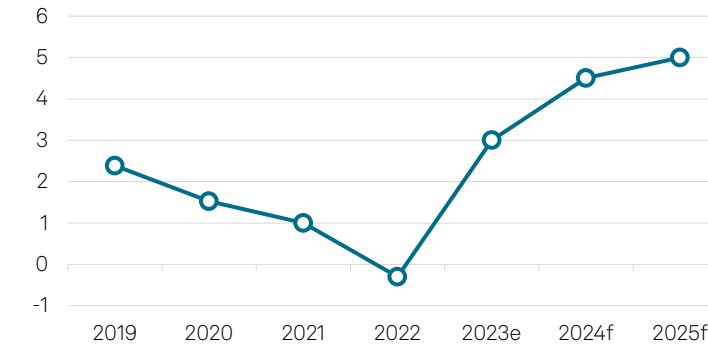
Net interest margins have peaked, some moderation expected
Net interest income to average earning assets (%)
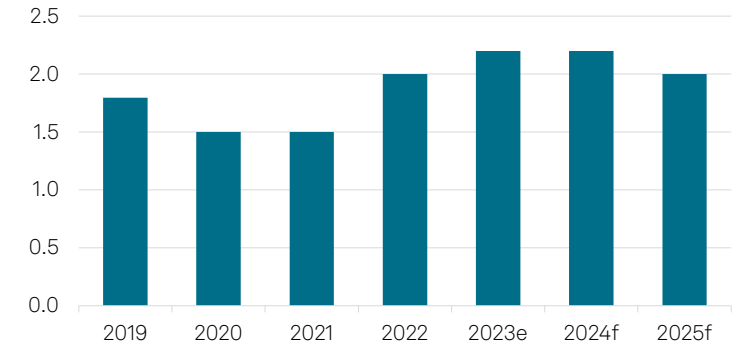
Asset quality should remain resilient
Nonperforming assets as a % of systemwide loans
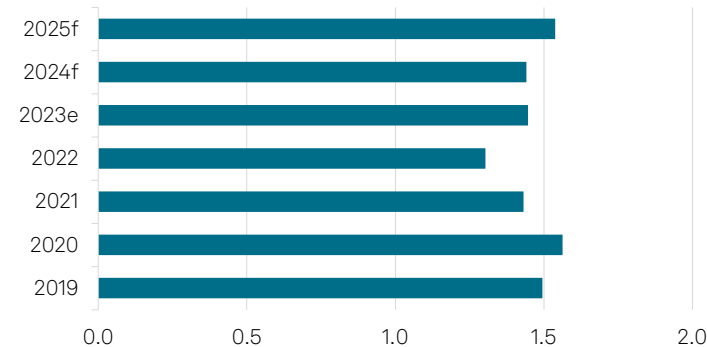
Credit costs to remain manageable
Credit losses as a % of total loans
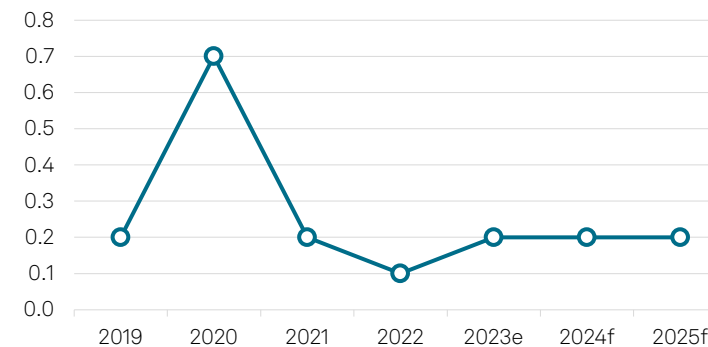
Stable customer deposits underpin funding
Domestic loans as a % of systemwide domestic core customer deposits
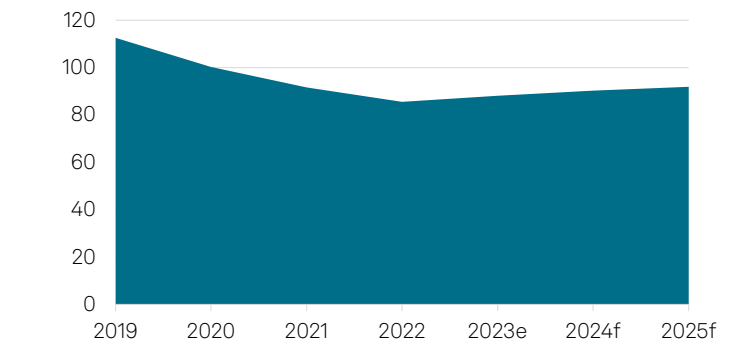
Data as of year ended December. Loan growth data for 2021 is based on our internal estimates and rated bank data. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Taiwan | Solid Capitalization Provides Buffer

Yuhan Lan

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Slowing global trade to dampen economic growth prospects
Real GDP growth (%)
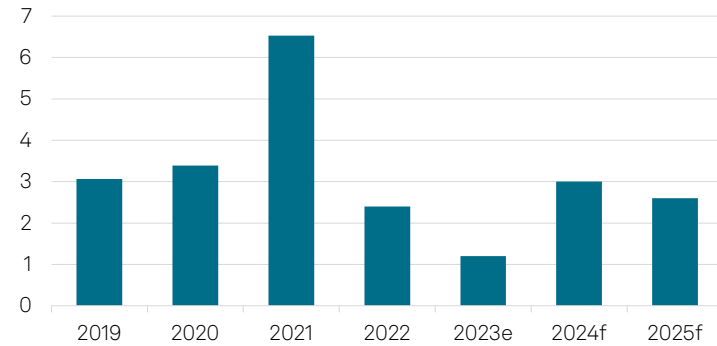
Credit costs to remain elevated
Credit losses as % of total loans
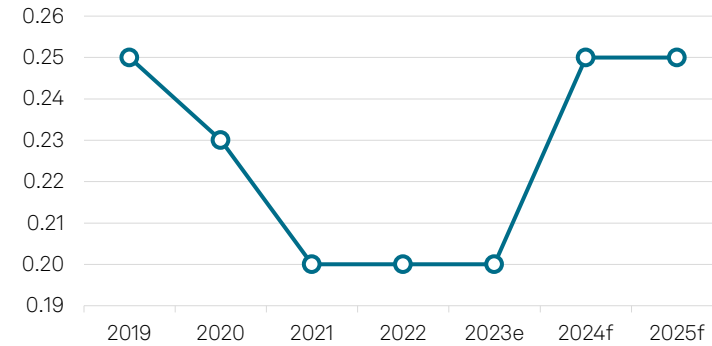
Loan moratorium expiration may push banks' NPA recognition
Nonperforming assets as a % of systemwide loans
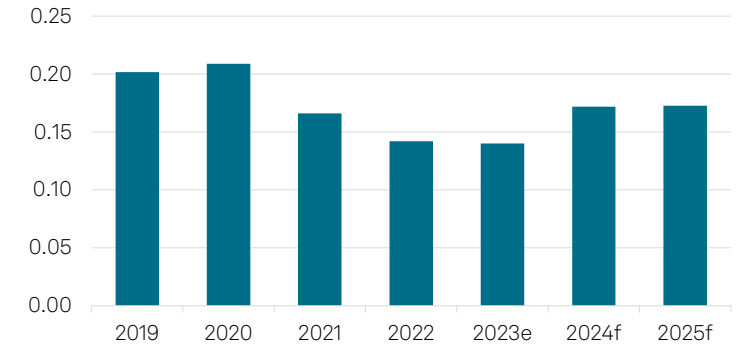
Real estate prices to stabilize in 2024
Annual change in key index for national residential house prices (%)
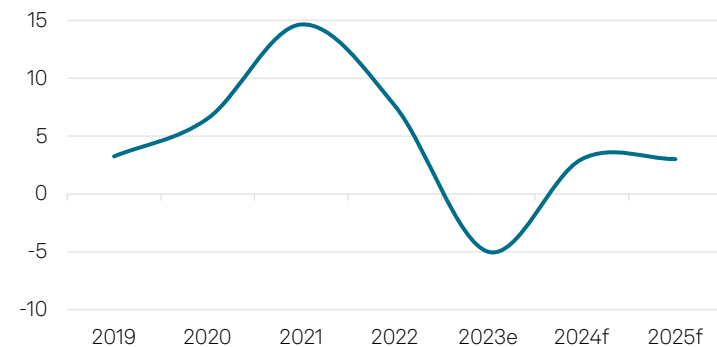
Banks' capitalization to remain solid
Tier 1 capital ratio (%)
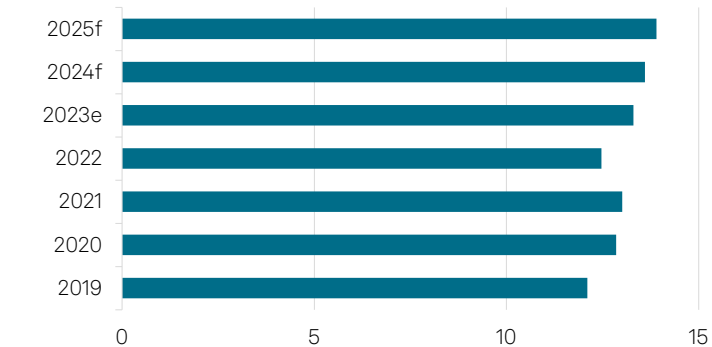
Household deposits predominantly fund deposit base
Household deposits as % of systemwide deposits
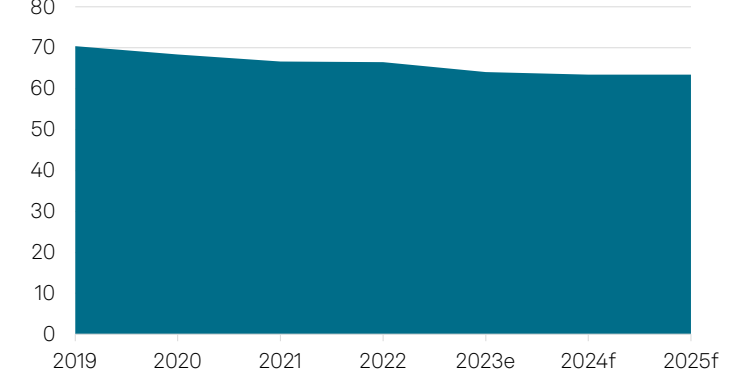
Data as of year ended December. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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Thailand | Sluggish Economy Is Weighing Down Banks

Deepali V Seth Chhabria

deepali.seth@spglobal.com

Economic recovery remains weak and uneven
Real GDP growth (%)
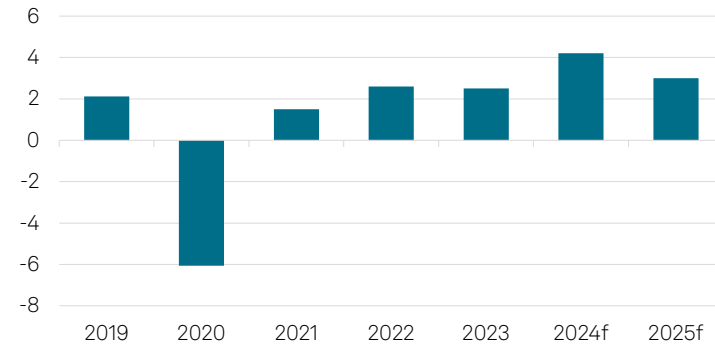
Tourist arrivals are recovering fast
Tourist arrivals ('000s)
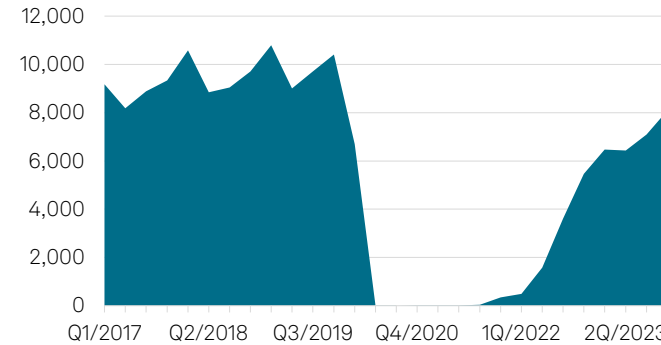
Restructured loans (~10%) to weigh on asset quality
Nonperforming loans as a % of systemwide loans
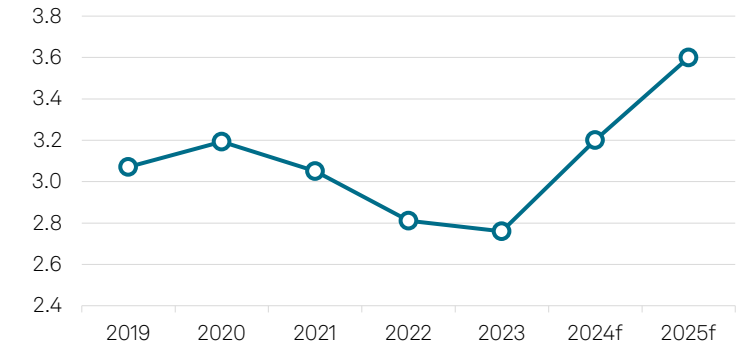
Households have high leverage
Household debt as % of GDP 2023
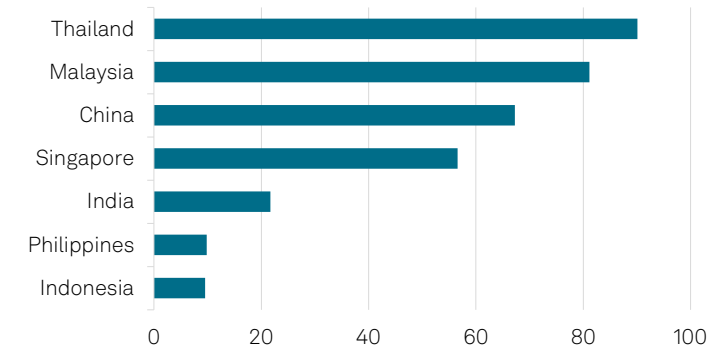
High provisioning coverage provides downside protection
Loan loss reserves / nonperforming loans (%)
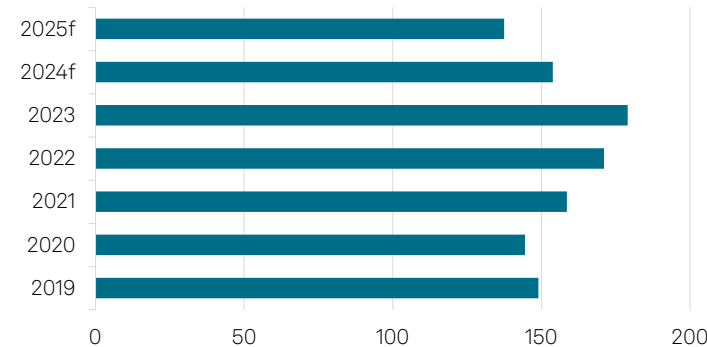
Strong capitalization offers some cushion
Total capital ratio (%)
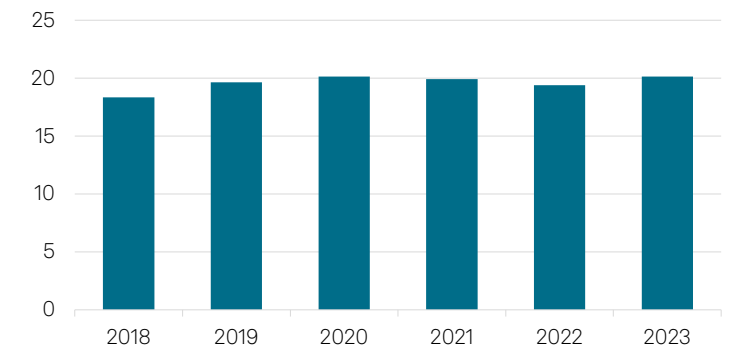
Data as of period ended December. f--Forecast. Source: S&P Global Ratings.

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Vietnam | On A Gradual Path To Recovery

Sue Ong
sue.ong@spglobal.com

FDI and recovering domestic demand to buttress GDP growth

Real GDP growth (%)
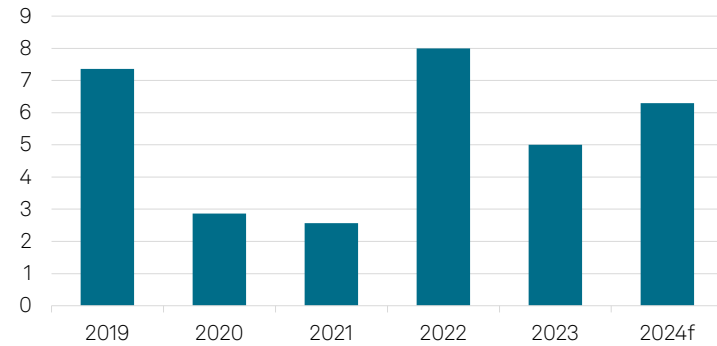
Rising indebtedness continues to pose a risk

Total private sector debt as % of GDP
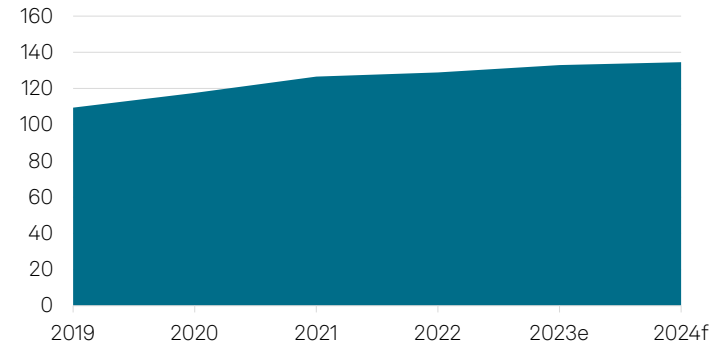
Asset quality pressure to ease on higher property sales

Aggregate Vietnam property pre-sales (tril. VND)
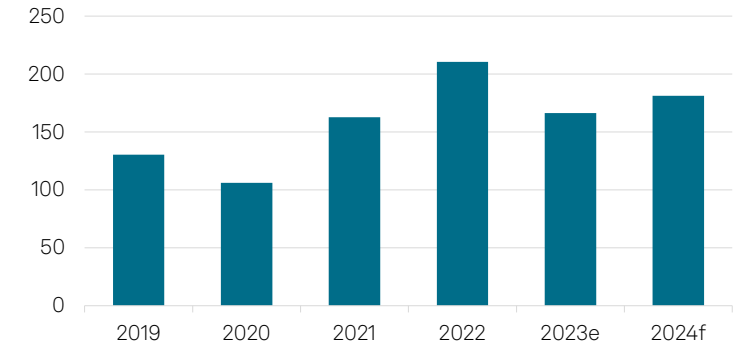
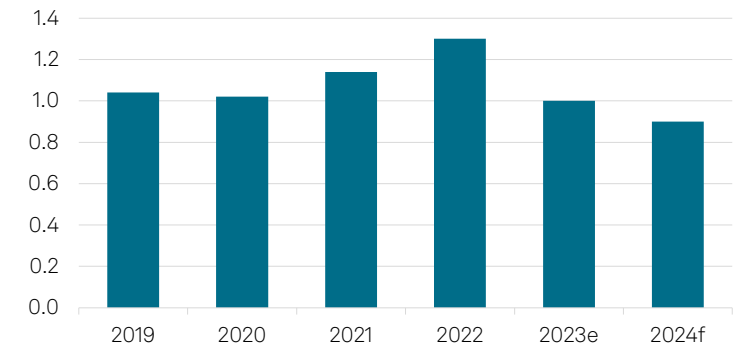## We expect credit costs to remain elevated

Credit losses as % of total loans
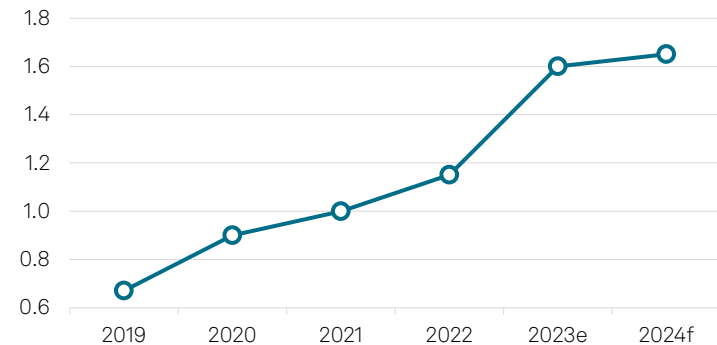
Nonperforming assets are likely to increase

Nonperforming assets as a % of systemwide loans
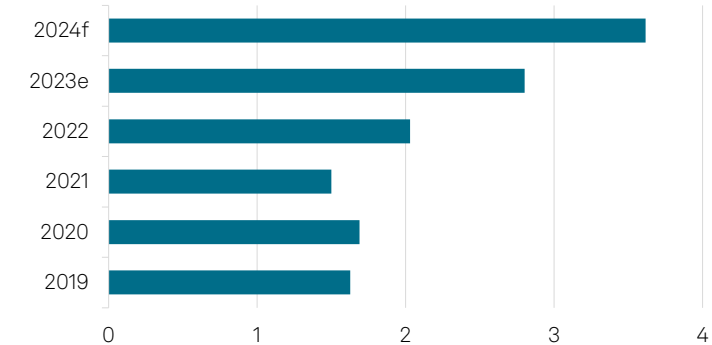
Returns on assets to decline moderately

Return on average assets (%)

Actual and forecast aggregate pre-sales cover two Vietnam developers, including Vinhomes Joint Stock Co. and No Va Land Investment Group Corp. FDI—foreign direct investment. e—Estimate. f--Forecast. VND--Vietnamese dong. Data as of year ended December. Sources: Company disclosures, S&P Global Ratings.

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The Global Banks Outlook 2024 Dashboard includes our in-house sector insights and trends, latest global and regional banking statistics and aggregate data.

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