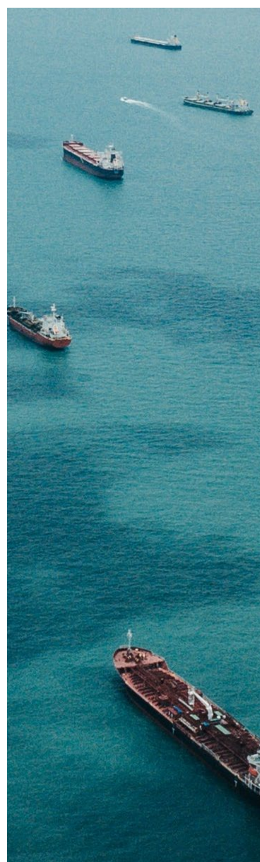
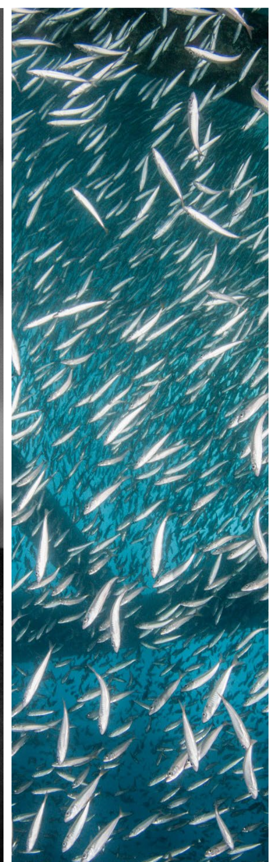
Global Banks Country-By-Country Midyear Outlook 2024

Searching For Calmer Waters

July 17, 2024

This report does not constitute a rating action.





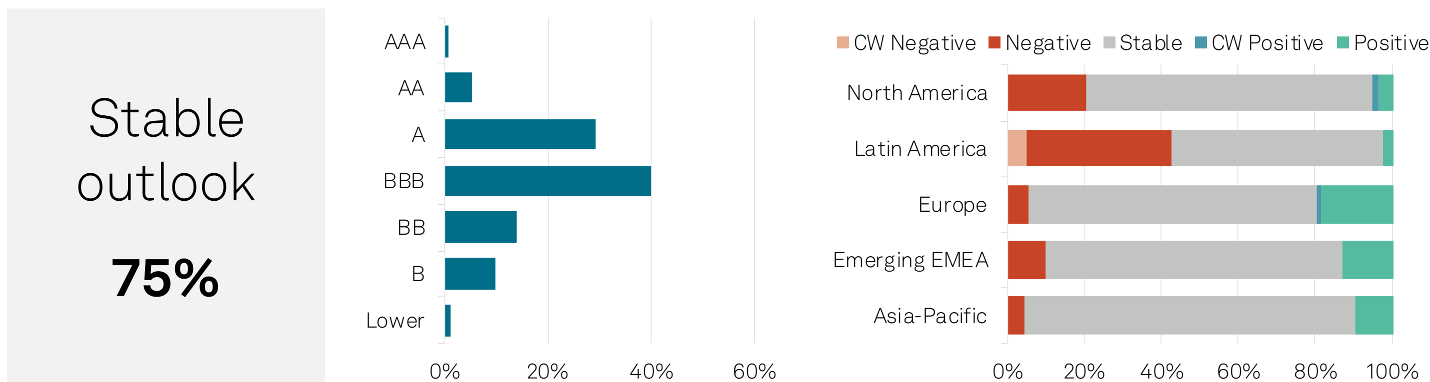
S&P Global
Ratings

Key takeaways

- Our outlook for global banks remains steady. As of June 30, 2024, about 75% of bank rating outlooks were stable. This resilience stems from solid capitalization, improved profitability, and still sound asset quality.
- The expected economic slowdown in the year's second half, while interest rates remain elevated, will test business volumes, asset quality, and financing conditions.
- A multitude of general elections in 2024, and the Russia-Ukraine and Israel-Hamas wars bring spillover risks, including market volatility. Positively, most banks' earnings continue to benefit from high interest rates and limited credit losses.
- Commercial real estate (CRE) markets are still waning in some jurisdictions, especially in the U.S., China, and a few European countries. Related credit losses are increasing but should be manageable for most.
- Credit divergence will continue. Pressure will remain more pronounced for nonbank financial institutions and entities with weak funding profiles or more exposure to geopolitical, political, or CRE risks.

Chart 1

Stable outlook trends persist but risks remain on the downside



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

Our base case is for continuing ratings stability for the global banking sector over the next one to two years. About 75% 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. The balance differs by region, however. Across the Americas, for example, there are materially more banks on negative outlook than positive outlook.

Our view on economic and industry risk trends supports the base case for ratings stability. Across the 86 jurisdictions where we rate banks, we see economic risk trends affecting banking sector creditworthiness as stable in 77 jurisdictions. Furthermore, we see industry risk trends as stable in 76 jurisdictions (see "Banking Industry Country Risk Assessment Update: June 2024," published on Ratings Direct, June 28, 2024).

Our outlook for global credit conditions embraces a soft-landing narrative. This increases our confidence that our base case for ratings stability across most of the global banking universe will persist (see "Global Credit Conditions Q3 2024: Soft Landing, Fragmenting Trajectories," July 1, 2024; and chart 2).

Chart 2

Still Resilient, With Gradual Rate Cuts Ahead

Inflation data as of June 2024. Policy rates including forecasts are for year-end values.
*Simple average. †Median for EM 18 countries. §Refi rate. f--Forecast.
Source: S&P Global Ratings.

A worsening of one or more of four key risk factors (see chart 3) could cause a downside scenario to emerge outside our base case. This in turn could drive negative ratings momentum. While the rate easing cycle has begun in some advanced economies, the U.S. Federal Reserve remains on hold for now, and some emerging markets are scaling back their monetary easing as a result. Furthermore, market borrowing costs remain high and sticky (see chart 4) as banks head toward 2025.

Chart 3

Four key risks could hit bank ratings

Deviation from our economic base case

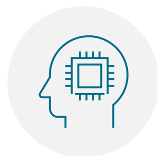
The risks around our baseline include a sharp reduction in labor demand and spillovers from a strong U.S. dollar, as well as geopolitics, that could lead to a hard landing.

Greater property sector deterioration

Acceleration of weakness in CRE markets, ultimately hurting banks' asset quality more than expected. These risks remain greatest within the U.S. office sector.

High corporate and government-sector leverage

This could exacerbate corporate insolvencies and trigger lower government support for the real economy.



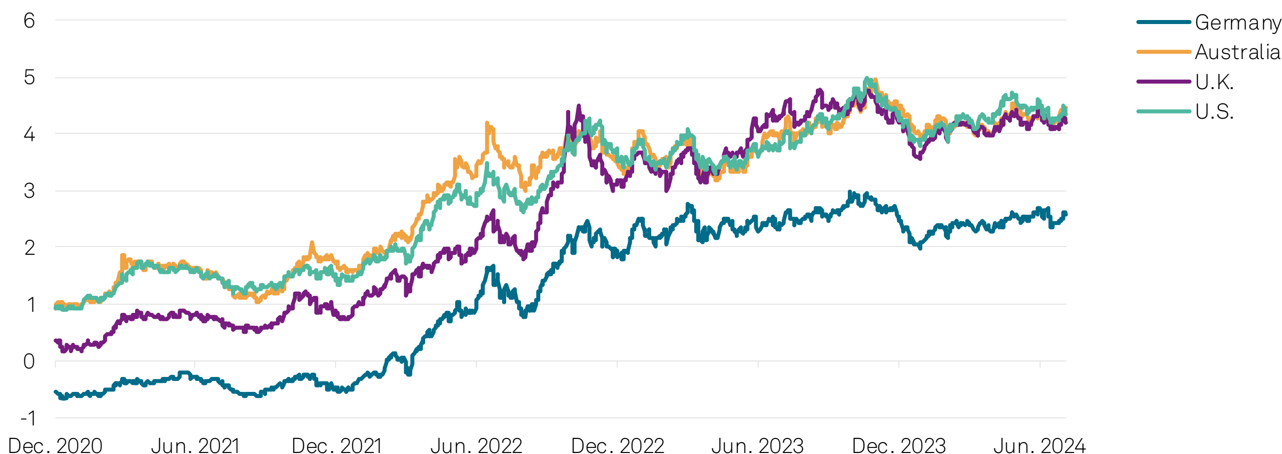
Digitalization, Generative AI, climate change, and cyber to challenge business models and risk management

Nontraditional risks increasingly add to the usual credit, market, funding, and operational risks.

Chart 4

Borrowing costs will remain high

10-year government bond yield (%)



Data as of July 4, 2024. Chart shows corporate 10-year yields.
Sources: Refinitiv, S&P Global Market Intelligence, S&P Global Ratings Credit Research & Insights.

Still-High Interest Rates And Muted Growth Prospects Will Challenge Banks

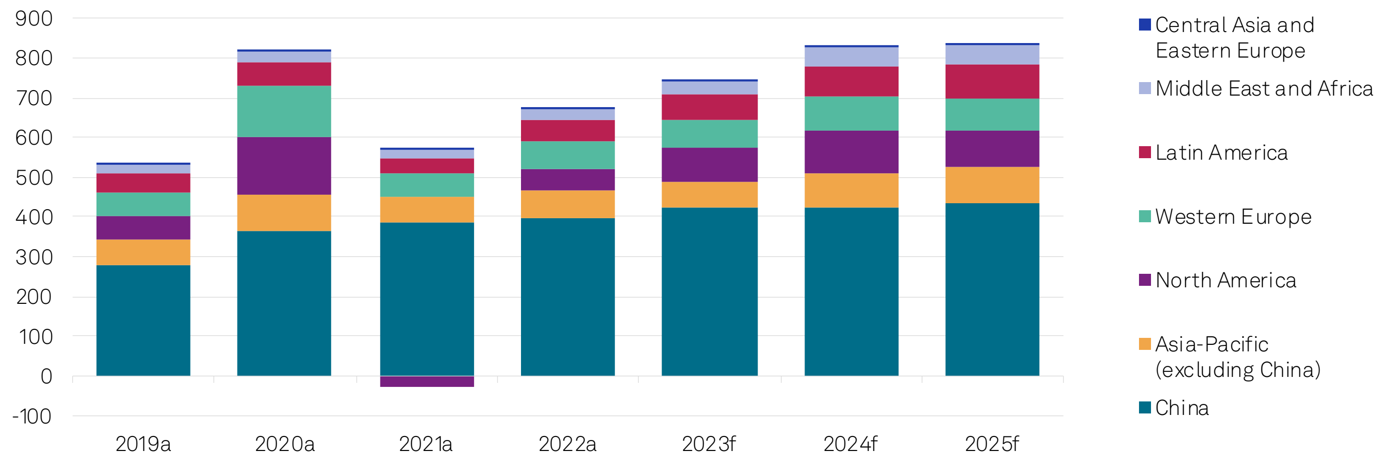
The pace at which banks pass on lower rates to borrowers will be gradual. In the meanwhile, borrowers face high interest rates and borrowing costs. We anticipate that not all borrowers may be able to stay the distance. This is a key factor driving our forecast for moderate upward momentum in banks' credit losses out to year end fiscal 2025 (see chart 5). We forecast that

global banks' credit losses will increase by about 11% to about US$830 billion in 2024, and not stray far above that level in 2025.

Chart 5

Credit losses continue to rise

Domestic credit losses by region, 2019a-2025f (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.

The economic recovery is under way in some regions--most notably Europe--albeit slowly. The economic growth outlook in general remains muted compared with pre-COVID 19 levels and highly variable across major economies (see chart 6). This will contribute to a differential impact across banking jurisdictions.

Chart 6

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	2.5	1.7	1.8	1.9	0.0	0.0	0.2	0.1	0.0
Eurozone	0.6	0.7	1.4	1.4	1.3	0.0	0.1	0.1	0.1	0.0
Germany	0.0	0.3	1.2	1.2	1.1	0.1	0.0	0.0	0.1	0.1
France	1.1	0.9	1.4	1.4	1.3	0.3	0.1	0.0	0.0	0.0
Italy	1.0	0.6	1.1	1.1	1.0	0.0	0.0	0.0	0.0	0.0
Spain	2.5	2.2	1.9	2.0	2.0	0.0	0.4	0.0	0.0	(0.1)
U.K.	0.1	0.6	1.2	1.7	1.7	0.0	0.3	(0.2)	0.0	0.0
Asia-Pacific										
China	5.2	4.8	4.6	4.6	4.4	0.0	0.2	(0.2)	0.0	0.0
Japan	1.8	0.7	1.1	0.9	0.9	0.0	(0.1)	0.0	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	2.2	1.7	2.1	2.2	0.0	(0.3)	(0.1)	(0.1)	0.0
Brazil	2.9	2.0	2.0	2.1	2.2	0.0	0.2	0.0	0.0	0.0
South Africa	0.7	0.9	1.4	1.3	1.2	0.1	(0.4)	(0.1)	(0.1)	(0.2)
World§	**3.4**	**3.3**	**3.2**	**3.3**	**3.3**	**0.0**	**0.0**	**(0.1)**	**0.0**	**0.0**

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

The speed and intensity at which central banks ease monetary policy will vary greatly across banking jurisdictions. This could cause increasing credit divergence among banks. Central banks that are slow to cut rates are more likely to win the fight against inflation but hurt borrowers in the process. Those that cut fast, before policy settings are within reach, risk supporting an underclass of marginal borrowers that may not be commercially bankable through normal economic cycles. At the same time, this approach could reignite asset prices.

Following COVID-19, credit has primarily diverged between banks and nonbank financial institutions (NBFIs). The latter has (unsurprisingly) not fared as well, with a small number of defaults among mostly low-rated NBFIs, including from the U.S. and Mexico. Apart from the notable exceptions of China and Japan, central banks have moved by-and-large in lockstep both to slash policy rates to assist borrowers during the pandemic, then to aggressively tighten policy rates to fight inflation. The current easing cycle will be much more nuanced as will the credit impact on banks, in our view.

Intensifying geopolitical risks could cause our base case for banks to deviate. Such risks can have sudden and profound spillover effects on banks. In addition, there are more than 70 elections in about 40 countries in 2024. This introduces an unusually high element of political risk for banks into 2025. Changes in macroeconomic settings or bank regulations that create investor uncertainty or have negative spillover effects on our understanding of economic and industry risk trends could have negative rating consequences.

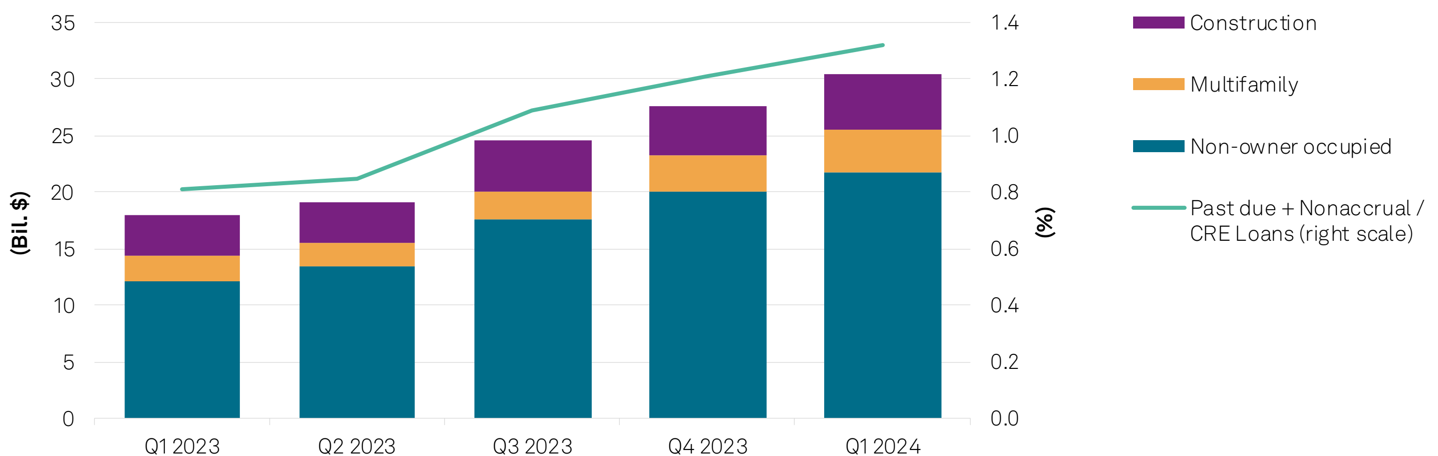
The Property Cycle: Banks Are Not Out of the Woods

The property cycle will continue to be a key risk for banks over the next six to 18 months. The two major banking jurisdictions where property risks are most prominent for banks are the U.S. (among developed banking jurisdictions); and China (among emerging banking jurisdictions).

In the U.S., the office CRE sector remains under significant valuation pressure. Some U.S. regional banks have elevated CRE exposures (by contrast with U.S. major banks, and most banks outside the U.S.). While the deterioration in asset quality so far appears manageable across the U.S. banking sector overall (see chart 7), we've taken negative rating actions on several banks in part because of CRE exposures. Some regional U.S. banks appear more vulnerable to the onset of a material downside scenario affecting property outside our base case.

Chart 7

Asset quality so far is manageable for U.S. banks



CRE--Commercial real estate. Bars represent past due loans (defined as any loan at least 30 days past due), and nonaccrual loans. Sources: Regulatory filings, S&P Global Ratings.

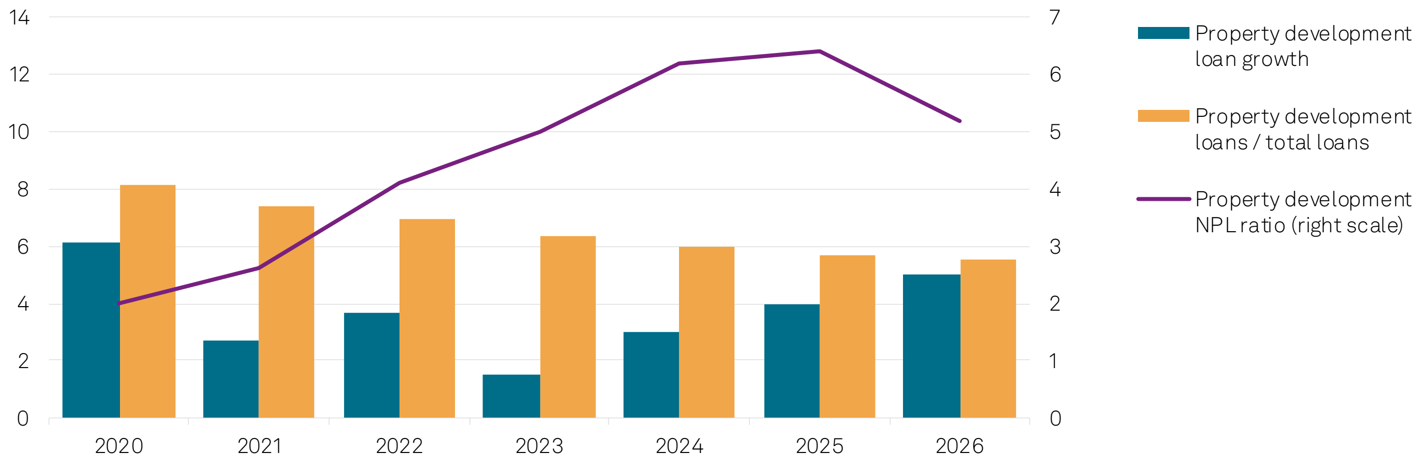
In China, we anticipate the uneven recovery will push up the commercial banking sector's nonperforming asset (NPA) ratio over 2024-2026. We project the NPA ratio will rise to 5.75% in 2026 from our estimate of 5.55% in 2023. This broadly mirrors a slowdown in China's real GDP growth over this period.

Property developers are at the epicenter of the sector malaise in China (see chart 8). Rated banks have generally coped with heightened property sector risks at current rating levels. But the economic risk environment in China is high compared with all developed banking jurisdictions. Consequently, Chinese banks have much weaker (typically noninvestment grade) stand-alone credit profiles. Property risks will play out unevenly across China. The large cohort of small unrated banks is likely to bear a disproportionately high portion of credit losses relative to size.

Chart 8

Chinese banks' exposure to property developers likely to fall as banks remain cautious

Nonperforming loan growth (%)

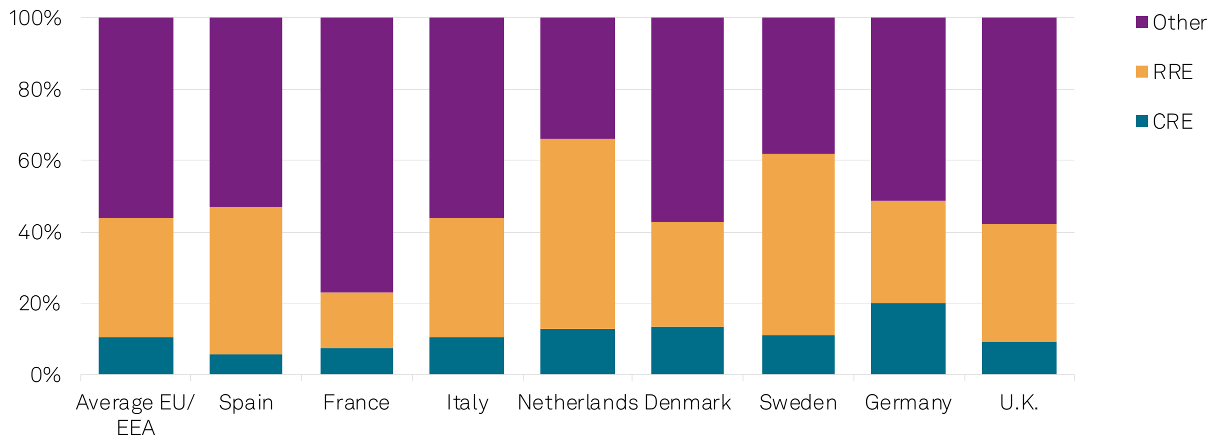


NPL--Nonperforming loan. f--forecast. Source: S&P Global Ratings.

Amid high interest rates banks have been quite resilient during the property downturn. But the cycle is not over, and tests remain. That said, in Europe, CRE exposures--a generally riskier asset class--amount to only about 10% of bank lending (see chart 9). And for major banks in advanced Asia-Pacific economies, we estimate they can comfortably absorb a hypothetical additional 200 basis points in credit losses on CRE exposures. This is in addition to credit losses across their entire loan portfolios that we expect in our current base case (including CRE) (see chart 10).

Chart 9

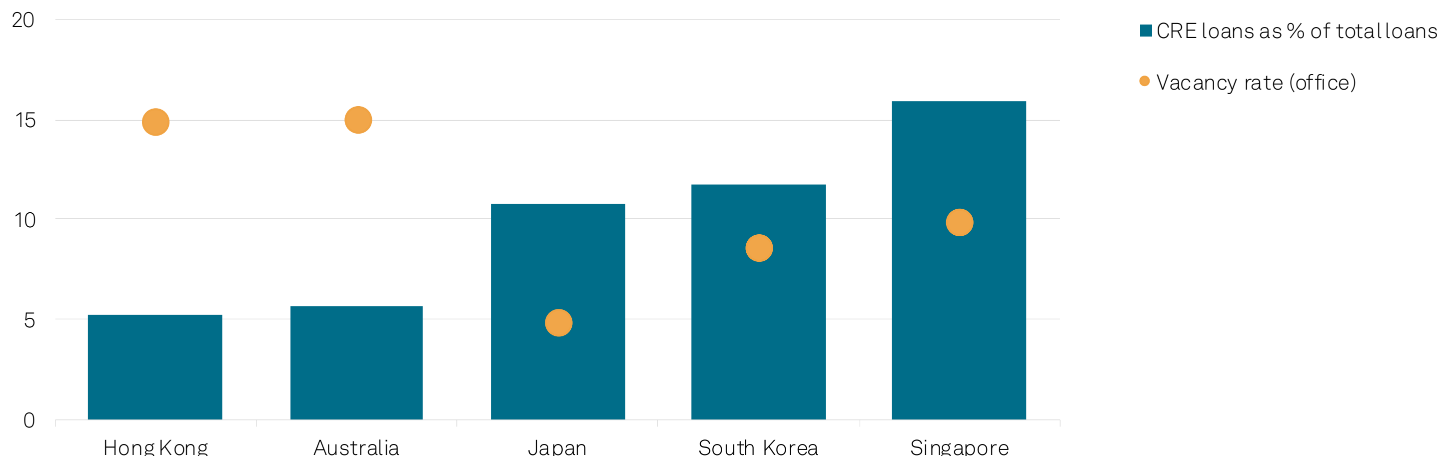
In Europe, CRE amounts to around 10% of bank lending



Data is as of end-December 2023.
CRE--Commercial real estate. EEA--European Economic Area.
Sources: EBA, S&P Global Ratings estimates.

Chart 10

Asia-Pacific: Most banks have manageable CRE exposures



Data is for 2023 actuals.
Commercial property includes income-producing commercial real estate and excludes construction. The chart includes systemically-important banks for each country as a proxy for system data.
CRE--Commercial real estate.
Source: S&P Global Ratings.

Liabilities As Well As Assets Remain On The Radar

Funding and liquidity remain integral to our rating assessments on banks and their operating conditions. Certain U.S. regional bank failures and the Swiss government-engineered acquisition of Credit Suisse by UBS, both in March 2023, underscore the importance of funding and liquidity considerations. Contagion risks around these events receded, but they highlight several factors: the inherent confidence-sensitivity of banks; the asymmetrical nature of their "long" asset "short" liability balance sheets; and the importance of appropriate risk governance.

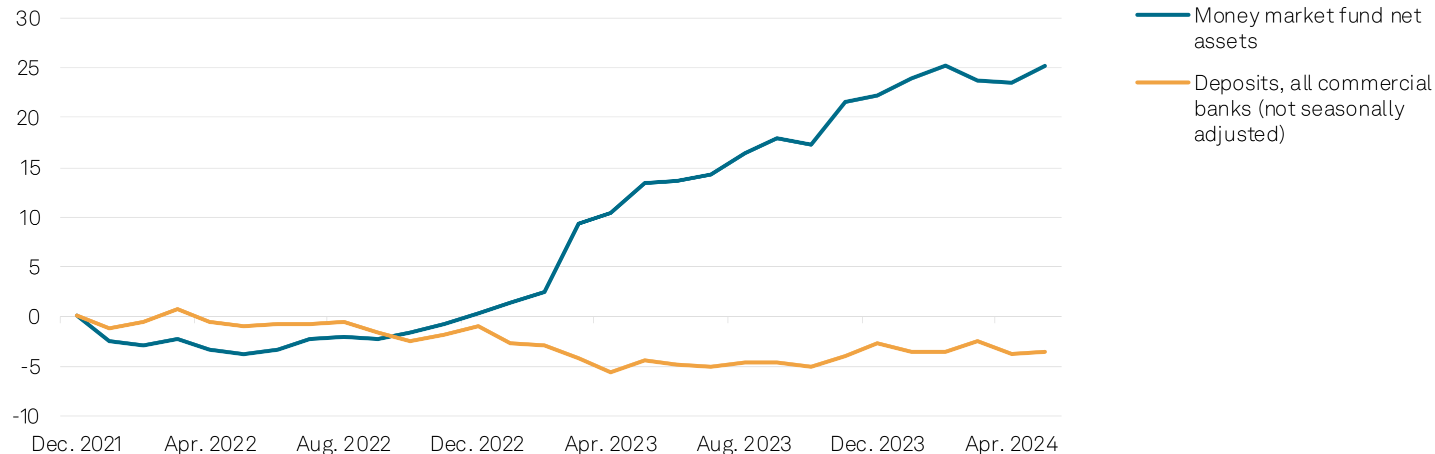
As 2025 approaches, our ratings liabilities focus will most likely remain on domestic issues. Each banking jurisdiction reflects idiosyncratic factors that we must consider. In the U.S., deposit levels at U.S. banks remain in the spotlight, with the U.S. Federal Reserve continuing quantitative tightening policies. Deposits have shifted to higher-yield accounts as well as into U.S. money market funds in the high interest rates environment (see chart 11). Positively, deposits rose modestly in the fourth quarter of last year and the first quarter this year.

Emerging market banks face a range of challenges. External debt dependence or build-up remains a key risk for some 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 also stabilizing for Turkish banks, with high rollover of debt, thanks to a continued policy shift. Conversely, the challenge for banks in India is to ensure deposit growth keeps pace with rapid credit growth in the buoyant economic environment.

Chart 11

U.S. bank deposits face stiff competition from money market funds

Percentage change from baseline values at December 2021 (%)



Sources: U.S. Securities and Exchange Commission, U.S. Federal Reserve, S&P Global Ratings.

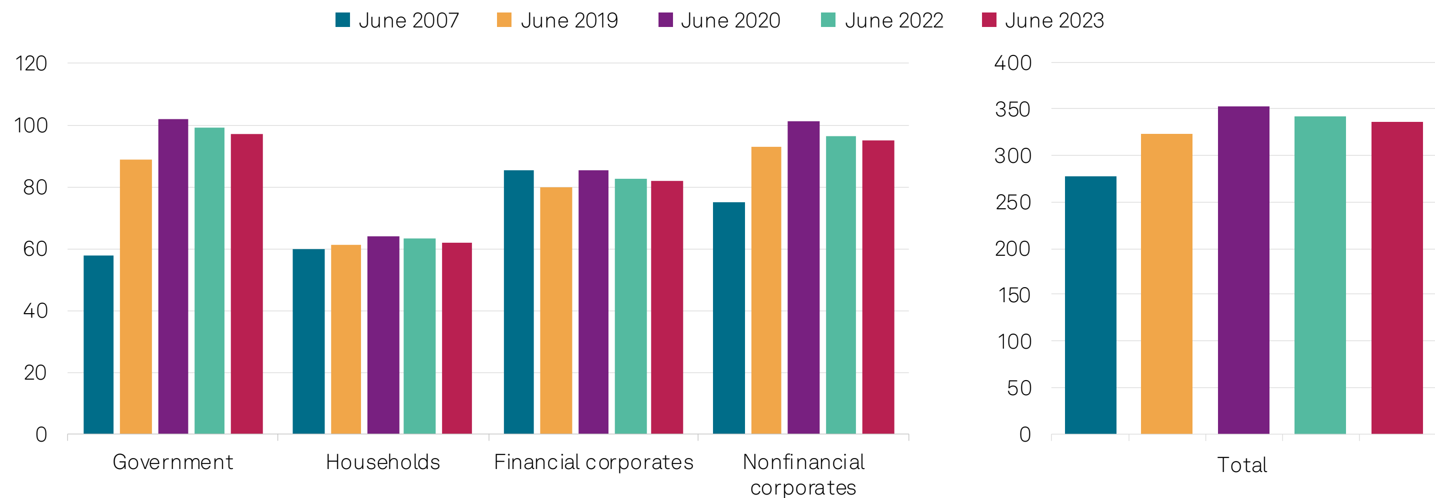
High Leverage Is A Risky Backdrop

High leverage as well as high interest rates form a key risk for banks. Leverage across the nonfinancial corporate and government sectors is at near record highs (see chart 12; and "Global Debt Leverage: A 1% Financing Contraction Could Push Cashflow Negative Corporates To 13%," Oct. 16, 2023). Leverage spiked during the COVID-19 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 12

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

Debt-to-GDP leverage of global sectors (%)



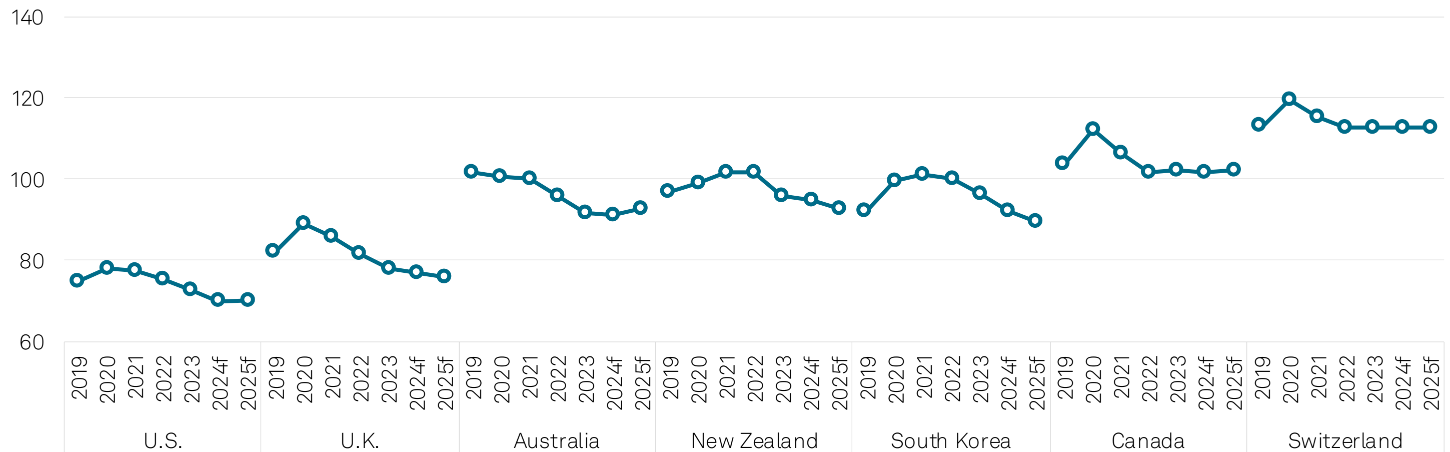
GFC--Global financial crisis, 2007-2008. Source: Institute of International Finance.

Growth in global household sector leverage is constrained compared with corporate and government sector leverage. The exposure of economies and banking systems to household sector leverage varies, however. Household sector leverage is high in some advanced economies (see chart 13). However, offsetting this factor are low unemployment levels, and generally strong institutional frameworks and regulatory standards.

Chart 13

Higher interest rates will test indebted households

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



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

Structural Risks Are Less Immediate

We base our outlook on how we think typical cyclical risks will affect the industry in the future. These cyclical risks include interest rates, funding conditions, economic and credit growth, employment trends, and property and corporate sector trends. Increasingly, we expect certain structural risks such as new technology, climate change and cyber risk will make a greater impression on the credit standing of banks.

New technology is increasingly likely to affect ratings. The potential for step changes in technology could have a profound impact on banks. We anticipate generative AI could eventually reshape banks' business models. This impact, however, is likely to be gradual, incremental, and uneven. Digitalization could progressively affect more goods and services; distributed ledger technology is powering decentralized finance; and virtual banks could equally transform banks' business models. Such changes bring significant opportunities for banks as well as risks. The net impact could vary materially across the sector.

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).

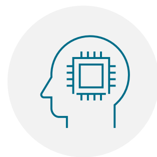
Cyber risk is a more immediate structural risk for banks. Cyber risk is a systemic threat, given the financial sector's interconnectedness and heavy reliance on technology. It also has the potential to hit individual institutions (see chart 14). Industry data shows cyberattacks are frequent and numerous. But most banks have strong defenses to counter such threats. Over the next six months to two years, we anticipate that banks will continue to incur very high ongoing costs to counter the increasing sophistication of cyber risks.

Chart 14

Cyber risk: Supply chain risks exacerbated by skills shortage

The rise of artificial intelligence will transform the landscape

Banks' cyber resilience impacted by their suppliers' cyber risk preparedness.



The emergence of AI and quantum computing will bring forth new challenges and possibilities in cyber risk management.

Shortage of skilled personnel can be consequential for smaller banks.

Source: S&P Global Ratings.

Bank Buffers--Now And Then

Stronger buffers since the GFC will help buttress banks against economic cycles and help ensure ratings stability. Most banks are much better capitalized (see chart 15) and have markedly better asset quality (see chart 16). Risk management has also improved following global regulatory reforms led by the Basel Committee on Banking Supervision.

Chart 15

Stronger capital post-GFC adds to banks' buffers

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

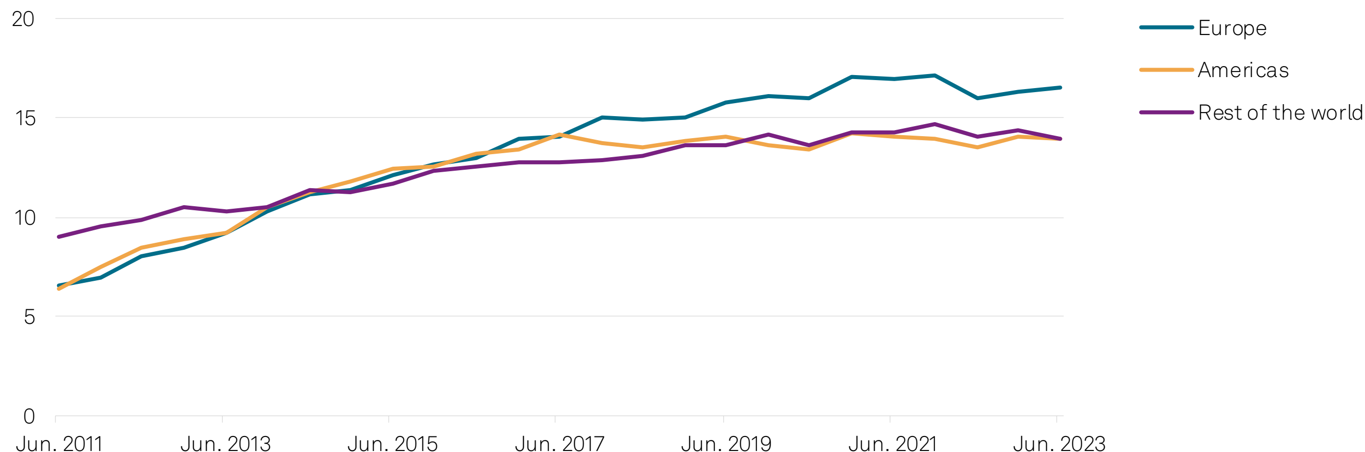
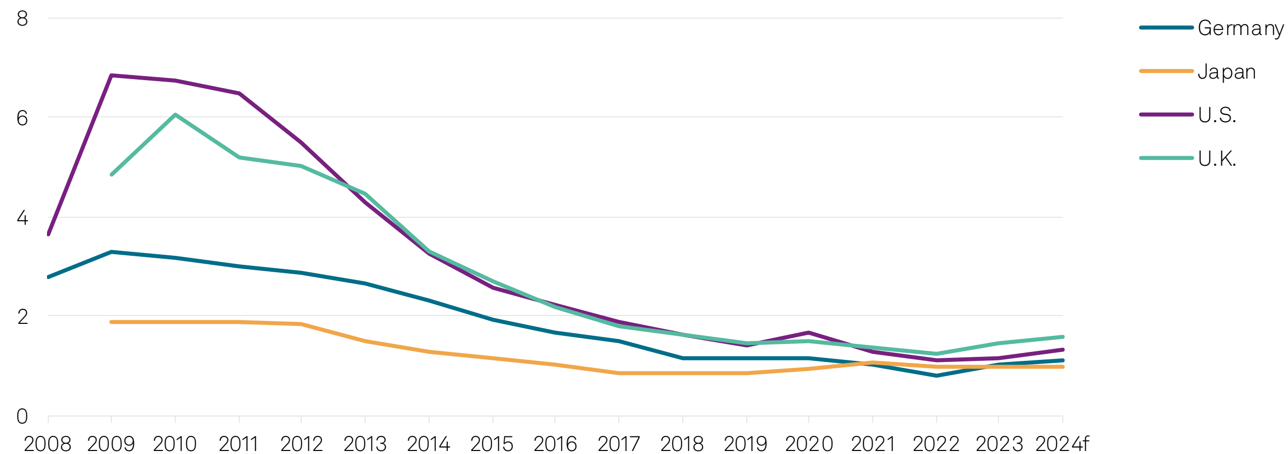


Chart shows the fully phased-in initial Basel III framework for the data points up to and including the end of 2018 and the actual framework in place at the reporting date for all data points thereafter.
GFC--Global financial crisis, 2007-2008.
Source: Basel Committee on Banking Supervision.

Chart 16

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.

Stronger Regulation – A Never-Ending Work-In-Progress

Despite regulatory reform over the past 15 years, events of 2023 showed banks are not bullet proof. We expect regulators' efforts to strengthen the industry will continue into 2025 and beyond. Banks are highly regulated but also more highly leveraged than corporates. This is even considering the strong increases by banks in issuances of loss-absorbing capital, and other capital instruments, in recent years.

Volatility in the U.S. and Europe in 2023 will lead to stronger standards. We see an emerging two-phase reaction: local enhancements to regulation, supervision, and crisis management, mainly in the U.S. and Switzerland, and, over a longer timeframe, some likely modest changes to global standards (see "2023 Banking Turmoil: Global Regulators Reflect And React," June 26, 2024.).

We expect scrutiny of the role of banks' additional Tier 1 (AT1) hybrid capital instruments. We anticipate a greater regulatory focus on clarifying how AT1 instruments can absorb losses on a going-concern basis and on enhancing disclosure of instrument features. (see "The Role Of Bank AT1 Hybrid Capital One Year On From The 2023 Banking Turmoil," June 26, 2024).

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 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.

Country outlooks

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

North America 16

Latin America 20

Europe 36

Emerging EMEA 64

Asia-Pacific 87

North America

Bermuda | BICRA group: 5

High Rates Will Lead To Modestly Higher Loan Losses

Key takeaways

- Bermuda's economy is on track to grow about 3% in 2024 before slowing to 1% thereafter.
- We expect losses to rise modestly in banks' loan portfolios partly because high rates have worsened affordability.
- We expect banks will keep operating with very strong capitalization and sound liquidity.

Key credit drivers

Asset quality will deteriorate. We expect credit losses and the nonperforming asset ratio to increase modestly as borrowers struggle with higher rates.

Real estate prices could go up. There appears to be increased demand for housing, including for both residential and rental properties. However, supply remains tight.

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% thereafter. Solid growth reflects continued strength in the international business sector where Bermuda is a global leader in the insurance and reinsurance sector. In addition, tourism continues to rebound following the pandemic-related slowdown. Bermuda is implementing a corporate income tax to meet the territory's commitment to the international global minimum corporate tax initiative.

Liquidity and capitalization ratios will remain solid. Bermudian banks will keep operating with 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 more than 20% at year-end 2023.

Loan growth will be flat or down. Loans in general have been declining in Bermuda in recent years and causing some banks to seek growth opportunities abroad. We expect Bermuda-based loan growth to continue declining and loan growth outside of the country to be limited.

What to look for over the next year

Bermuda should maintain its appeal as an international financial center. The international business sector continues to support the economy. We expect that the tax changes Bermuda implements will seek to ensure that its economy--and this sector in particular--remain competitive.

Tourism should improve further. Tourism has been improving after the pandemic-related downturn. We expect further improvement to provide additional diversity to the economy and support growth.

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Loan growth

Sector-average growth in loans.

-3.0% 2024 estimate

-5.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

6.0% 2024 estimate

5.4% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2024 estimate

2.4% 2023 actual

Figures as of fiscal year ending December.

Canada | BICRA group: 2

Weakening Credit Conditions May Pressure Operating Performance

Key takeaways

- High interest rates continue to strain banks' asset quality, which will lead to increased provisions for loan losses and net charge-offs through 2024 and 2025.
- Loan growth continues to moderate as high interest rates have dampened demand, but further interest rate cuts could spur some acceleration next year.
- Domestic systemically important banks' (D-SIBs) capital and earnings remain robust.

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Key credit drivers

Interest rates are likely to further decline, and the economy will moderately rebound. The Bank of Canada lowered its policy rate to 4.75% in June 2024, providing some relief to highly indebted Canadians. S&P Global economists forecast the Canadian economy will grow below potential in 2024 before rebounding in 2025 and 2026. Despite rates peaking, we expect that the elevated rate environment will continue to pressure credit quality as clients renew at higher rates than originated.

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%. The large Canadian banks are well diversified, and internal earnings generation remains robust. The implementation of the revised Basel III rules has not had a significant impact on capital.

Key assumptions

Credit quality will continue to deteriorate but remain manageable. We expect elevated interest rates, a slowing Canadian economy, and some rise in unemployment this year to affect borrowers' ability to service their debt. Provisions for loan losses and net charge-offs are rising in 2024 and likely to continue into 2025. At the same time, we expect credit pressures will remain manageable, particularly as banks continue to hold more capital amid economic uncertainty.

Loan growth should pick up in 2025. Elevated interest rates have decreased demand for loans, particularly in the Canadian mortgage market. While most banks this year expect low-single-digit mortgage growth and mid-single-digit commercial loan growth, loan growth may pick up in 2025 if rates are cut further, as we expect. Lower rates would also alleviate some funding cost pressures. Canadian banks will also look to limit expense growth through employee reductions and operational efficiencies.

What to look for over the next year

The impact of maturing residential mortgages. Canadian D-SIBs are expecting about a quarter of their mortgage portfolio will come due in 2025. Although we expect higher mortgage payments will be manageable for most borrowers, higher payments and lower savings could slow the economy further.

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

Loan growth

Sector-average growth in loans.

2.6% 2024 estimate

5.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.7% 2024 estimate

0.5% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2024 estimate

0.6% 2023 actual

Figures as of fiscal year ending December.

U.S. | BICRA group: 3

Most Banks Performing Well More Than A Year Since Key Failures

Key takeaways

- More than a year since some sizeable bank failures, the U.S. banking industry has been operating with stability and should generate relatively good earnings this year.
- Still, high rates, commercial real estate (CRE), unrealized losses on securities, and funding pressure remain key risks and have contributed to a rise in negative outlooks.
- Regulators are working on important changes to capital and resolution requirements and will likely call for further updates to supervision and regulation.

Key credit drivers

The performance of the economy and inflation. S&P Global economists expect the U.S. economy to expand 2.5% in 2024 and 1.7% in 2025 with inflation cooling in the coming months. A period of below-potential growth should lead unemployment to drift higher in the next couple of years.

Short- and long-term interest rates. A decline in inflation should allow the Fed to begin cutting rates in December 2024 and continue next year. We also expect long-term rates to gradually drop.

Funding and liquidity in the banking system. After falling for several quarters, deposits rose modestly in fourth-quarter 2023 and first-quarter 2024. Further growth could ease funding and liquidity pressures on banks.

Key assumptions

Profitability will dip in 2024 but remain reasonably strong. A decline in net interest income, related to a rise in funding costs in the first half of the year, is likely to pressure profitability in 2024. Still, we expect banks to generate a return on common equity of 10%-11% in 2024.

Banks will continue to improve liquidity and grow loans slowly. Banks have added significant contingent liquidity in the last year, and we expect them to add more on-balance-sheet liquidity as deposits rise. Slow loan growth has also helped them preserve liquidity.

Asset quality pressure will increase but remain manageable. Many asset quality measures have been deteriorating, particularly in CRE and credit cards. While they may weaken further, we believe banks' preprovision earnings place them well to absorb credit losses.

What to look for over the next year

Updates to supervision and regulations. Regulators said they will alter the Basel III endgame proposal they made last year pertaining to capital requirements for large banks. They also may finalize a resolution proposal for large banks and make proposals on liquidity and other topics.

CRE deterioration. CRE, especially office loans, will remain a key challenge for some banks. While most rated banks are positioned to handle the risk, loans maturing in 2024-2026 may add to asset quality and confidence-sensitivity risks.

The path of unrealized losses. Unrealized losses on securities on bank balance sheets have fallen from their peaks but are still high. They will amortize down gradually over time. However, they could fall more rapidly if long-term rates drop next year, as our economists expect.

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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.

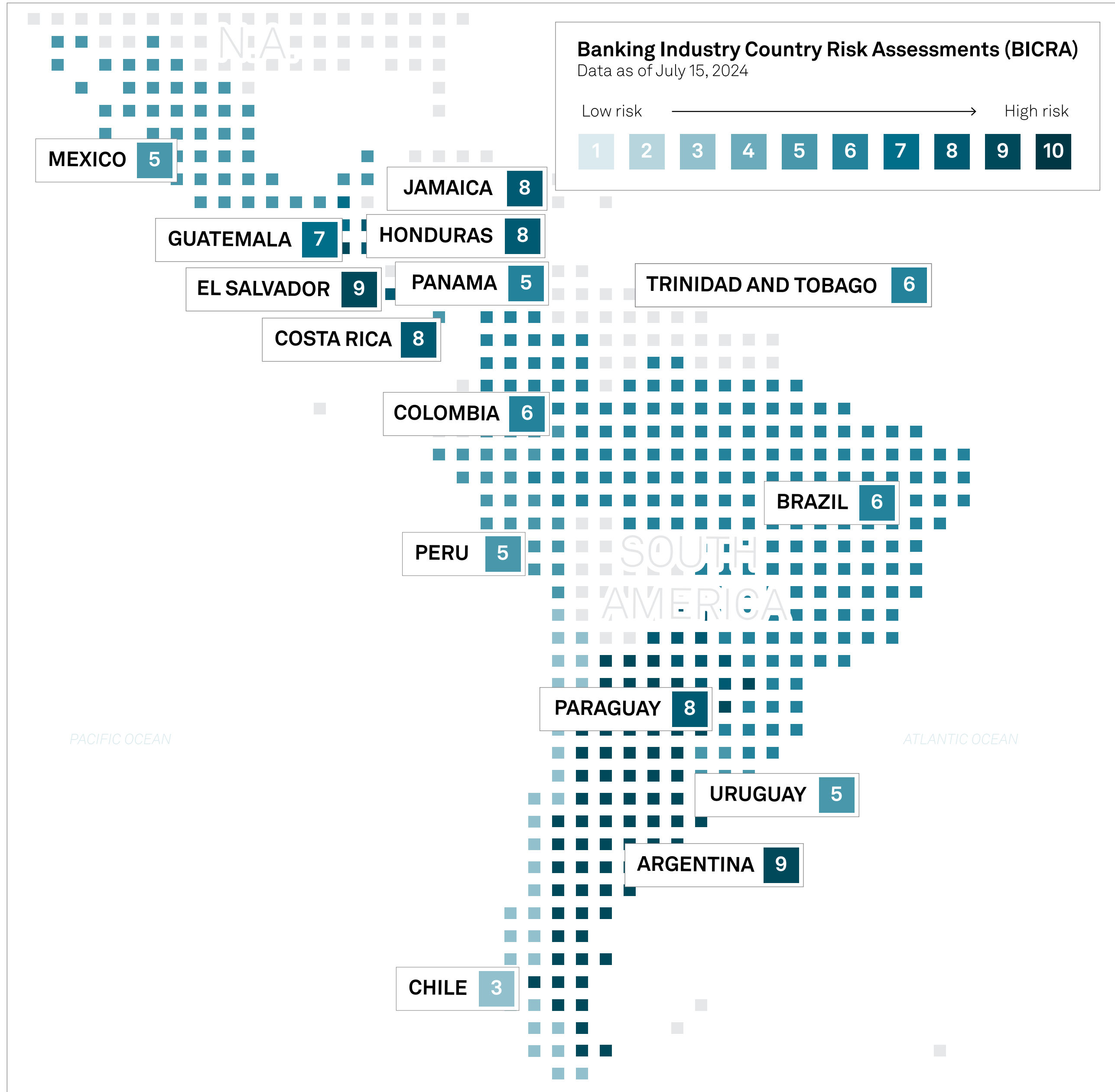
1.1% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Latin America



Argentina | BICRA group: 9

Still Significant Challenges Stemming From Sovereign Conditions

Key takeaways

- Significant challenges at the sovereign level 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 remain heavily reliant on government securities and monetary regulation instruments amid sluggish loan originations, at least in the first part of this year.
- 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 accumulating foreign exchange reserves. It's also cleaning up the central bank's balance sheet, which has shifted banks' asset composition, replacing a large portion of central bank repurchase agreements (repos) with government bonds (including treasury bonds). More recently, the government announced that it will replace central bank instruments with monetary regulation instruments issued by the Treasury. This action aims to clean up the central bank balance sheet and to better determine monetary policy rate.

Banks keep high liquidity and regulatory solvency to cope with volatility. Banks maintain high regulatory capital metrics amid the greater weight of liquid assets, as well as manageable dividend distributions given continued earnings generation. The implementation of these instruments should not affect liquidity availability of the system.

Key assumptions

Banks continue to generate profitability in real terms, but at somewhat lower levels than in 2023. For 2024, we expect lower profitability as reference interest rates decline, somewhat mitigated by the removal of minimum interest rates for time deposits, lower inflation, and higher yields of government bonds versus repos with the central bank.

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 to 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

210.0% 2024 estimate

153.0% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

2.4% 2025 forecast

2.3% 2024 estimate

3.7% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2025 forecast

3.3% 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

Resilient Operating Performance Given High Provisioning Coverage

Key takeaways

- Credit growth is starting to pick up, but asset quality--especially in the consumer segment--remains under pressure.
- Operating performance will likely stay solid thanks to banks' good provisioning coverage, business diversification, and high margins.
- It's too early to assess the consequences of floods in Brazil's southern state of Rio Grande do Sul for regional banks and local cooperatives.

Key credit drivers

We expect nonperforming loans to continue weakening in 2024 and start improving next year. We expect the consumer unsecured segment to drive this deterioration, but credit losses should remain manageable thanks to good provisioning coverage. Interest rates have come down but remain high, limiting corporate credit demand.

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

We project GDP growth of 2.0% in 2024, following the 2.9% expansion in 2023. Lower domestic interest rates will likely help investment to recover. The main reason we expect weaker growth in 2024 is that we don't expect 2023's large increase in agricultural output, boosted by a good harvest, to be repeated.

Lending growth is starting to recover. Credit demand from the corporate sector should remain modest, but banks are boosting retail unsecured lending.

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.

We believe the damage from the flooding in Rio Grande do Sul will be material and could hurt the asset quality of Brazilian banks. We expect agricultural loans will likely be renegotiated. We anticipate payroll-deductible loans offered to government employees and pensioners will continue to perform well, but risks exist for consumer unsecured loans and those to small and midsize enterprises.

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Read latest report

Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

9.0% 2024 estimate

8.1% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.2% 2025 forecast

3.4% 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

Weak Political Consensus Pressures Economic Prospects

Key takeaways

- The outlook on Chile is negative due to the weaker political consensus on key parameters of the country's political and economic agenda, which over time will strain Chile's growth and potentially weaken its credit quality.
- The trend for economic risk in Chile's Banking Industry Country Risk Assessment is negative, reflecting challenges to pass meaningful legislation that could strengthen economic prospects and investment.
- We expect asset quality to start recovering next year, profitability to weaken but remain sound, and lending growth to remain modest.

Key credit drivers

Asset quality indicators will likely keep deteriorating but remain manageable. Nonperforming loans were at 2.3% as of April 2024. We expect metrics to remain under pressure as economic conditions are modestly recovering and interest rates, though decreasing, remain high.

We expect banks' profitability to weaken this year. It has been sound in the past two years because of low provisioning needs and improved margins that benefit from higher inflation, given that banks tend to have long positions in inflation-adjusted assets. However, we think weaker asset quality will lead banks to raise provisions, which will weigh on profitability, while at the same time margins are narrowing.

Key assumptions

Credit growth will likely remain modest amid sluggish economic growth and weak investor confidence. Chilean banks' risk appetite remains restricted as they protect their balance sheets while low investment is leading to lower demand from the corporate sector.

We forecast GDP growth to recover to 2.4% in 2024, after 0.3% in 2023. Both consumption and investment declined in 2023, and we expect that to be reversed this year. The high degree of political fragmentation is likely to keep the rebound in investment subdued.

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

What to look for over the next year

Political impasses may persist, preventing agreement on meaningful legislation to strengthen economic prospects and investment. Weaker economic prospects could further pressure asset quality metrics and banks' operating performance.

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Read latest report

Loan growth

Sector-average growth in loans.

8.0% 2025 forecast

6.0% 2024 estimate

3.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.3% 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

Following A Weak Performance, Banks Are Challenged To Stabilize Asset Quality And Profits, While Accelerating The Recovery

Key takeaways

- Colombia's economic growth will remain very low in 2024 due to the steep investment decline causing credit to continue contracting.
- High household debt and weakening purchasing power, still weak labor market dynamics, and high rates will continue pressuring asset quality and profitability levels.
- We expect macro policy continuity as the government seeks to implement social reforms.

Key credit drivers

Banks' weaker asset quality is due to the performance of unsecured consumer loans. High interest rates and elevated inflation are weakening households' purchasing power. The latter--along with still weak credit demand in 2024-2025--will keep pressuring banks' asset quality.

Still high provisions and elevated funding costs will keep profitability levels below trend. Weak asset quality will require banks to continue to build more provisions. However, we think banks will maintain credit loss reserves in excess of nonperforming assets, which could somehow cushion the effect on profitability. The banking authority postponed fully implementing the net stable funding ratio. This is releasing pressure on interest expenses.

Large banks are expanding to Central America. Expanding supports business diversification but pressures capitalization. Given the relevance of revenues (in U.S. dollars), movements in the exchange rate could bring volatility to their income statements.

Key assumptions

Economic conditions will remain weak as the economy continues growing below trend. We expect growth to mildly improve this year to 1.1% from 0.6% in 2023. Fixed investment will contract again, and inflation is still above 7% year over year. For 2025, the economy would grow about 2.8%.

Credit will contract in real terms in 2024 and will be modest in 2025. Uncertainty over the government's economic policies is weakening business confidence and affecting credit demand for banks. We expect total loans to grow about 4.0% in nominal terms this year and about 6.0% in 2025, following an economic recovery and lower rates.

What to look for over the next year

A pension reform was approved and would take effect in July 2025. However, there is a possibility that it might face Colombia's Constitutional Court. We'll analyze the potential impact on banks' systemwide funding through the domestic capital markets.

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Read latest report

Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

4.0% 2024 estimate

1.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.6% 2025 forecast

3.8% 2024 estimate

3.6% 2023 actual

RoAA

Sector-average return on average assets.

1.1% 2025 forecast

1.0% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

Costa Rica | BICRA group: 8

Struggling Profitability Counterbalanced By Improving Economic Imbalances

Key takeaways

- In our view, a lack of profitability systemwide 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.

Key credit drivers

Distorted competitive dynamics continue to drag down profitability. The two largest banks are state-owned and hold about 35% 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%, below other banking systems in the region.

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

Key assumptions

Economic conditions remain sound. We expect real GDP growth to average 3.2% in 2024-2025, following the 5.1% growth in 2023. This growth remains above those of regional peers--mainly due to the expected boost to the domestic economy from the recent growth in the external sector.

Improved customer payment capacity and contained asset quality. 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 to 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.

What to look for over the next year

Credit to gradually increase after years of subdued growth. The banking system's lending demand will benefit from the recent economic developments in the country in the next few years. The consistent FDI flow into the 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.

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Read latest report

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.

El Salvador | BICRA group: 9

Narrow Liquidity Levels Dent The Banking System's Performance

Key takeaways

- Salvadoran banks' exposure to government debt remains relatively high, and we don't expect them to reduce it drastically in the next 12 months. This exposure limits banks' flexibility to fund productive economic sectors.
- Remittances in El Salvador, which have slowed recently, represent an important funding source for banks as customer deposits. In our opinion, if banks face unexpected headwinds to a rise in their deposits, that would pose a risk for the system's performance.
- Nonetheless, we expect higher credit growth than in previous years while asset quality metrics remain stable and manageable in the next 12 months.

Key credit drivers

Systemwide liquidity constraints due to banks' exposure to sovereign debt. We estimate that banks' exposure to short-term government bonds is about 10% of their total assets. In 2023, the Salvadoran government accepted private banks' proposal to extend the tenor of the government's short-term debt and swap it to medium- and long-term debt. Nonetheless, we don't expect this to reduce sharply the banking industry's exposure to government debt during the next two years.

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

Key assumptions

Challenging economic conditions and tight liquidity, limiting sharper credit growth and profitability recovery. Even though we forecast higher credit growth rates 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), limit higher credit growth to productive sectors, which could dent banks' profitability metrics.

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

Remittances and legal banking liquidity requirements. Remittances represent about 25% of the country's GDP and are an important funding source for the banking system in the way banks' deposits fund their operations. In our view, the absence of any constraints to banks' deposit base and liquidity will be key to credit growth.

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

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Read latest report

Loan growth

Sector-average growth in loans.

6.6% 2025 forecast

7.2% 2024 estimate

3.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.3% 2025 forecast

2.3% 2024 estimate

2.2% 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

Despite Encouraging Economic Prospects, Challenging Operating And Market Conditions Could Limit Credit Growth

Key takeaways

- Cautious fiscal and monetary policies have stabilized Guatemala's economy and supported continued GDP growth. On the other hand, we think banks face operating challenges: The country's economy is still a low-income economy, and its large informal sector could limit banks' growth.
- We forecast that asset quality indicators will deteriorate amid strong consumer loan growth at the largest banks. But we also think they'll remain manageable and consistent with our overall view of credit risk in the economy.
- Guatemala's banking system has a historically stable core customer deposit base and access to wholesale funding. However, underdeveloped domestic capital markets limit funding diversification.

Key credit drivers

Strong consumer lending growth might strain Guatemalan banks' asset quality in 2024-2025. Nonperforming loans, which represent less than 3% of total loans, should increase but remain manageable. This is because of strong consumer lending over the past 12 months and persistently high inflation that might weigh on companies' revenues and households' disposable income--and therefore, their payment capacity.

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

Key assumptions

We expect that cautious macroeconomic management will prevail in these months following the presidential transition--notwithstanding the challenges that global economic conditions will pose. Despite the increased political uncertainty last year, we expect moderate economic growth in Guatemala (about 3.5% annually, in line with its medium-term historical growth).

After strong credit growth last year, we expect the pace of growth to slow slightly--to an average rate of 6.5%, in real terms, for 2024-2025. Despite the country's positive macroeconomic prospects, we think structural market issues--a low-income economy, high poverty levels, a large informal sector, and high immigration levels--continue to limit growth prospects in the banking industry.

What to look for over the next year

U.S. economic performance, and the implementation of new government policies in Guatemala. Both will be crucial to economic growth and credit expansion in Guatemala in 2024-2025.

The Guatemalan government's plans to increase infrastructure investments. Public investment and the growth of infrastructure programs will be key to boosting the country's economy and credit growth in the next few years.

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Read latest report

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.

2.5% 2025 forecast

2.3% 2024 estimate

1.8% 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

Narrow Retail Customer Base Constrains Banks' Margins

Key takeaways

- Low real incomes and stubbornly high inflation will continue hampering household consumption, limiting banks' ability to boost net interest margins.
- On the other hand, we believe segments such as commerce, construction, manufacturing, and services will support Honduran banks' growth the next 12 months.
- The largest banks' stable and diversified retail deposit bases bolster liquidity.

Key credit drivers

High poverty levels and a large informal economy act as a drag on banks' retail business expansion. We believe weak incomes and still relatively high inflation will continue to curtail household consumption, undermining the expansion of banks' retail customer base. This, along with high competition in the commercial lending segment, will continue weighing on banks' net interest margins, and consequently, profitability.

Honduras' consumption relies heavily on remittances from the U.S. Remittances represent 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

Steady credit growth at double digits. We believe overall lending will expand by 11%-12% in the next two years due to the steady performance of diverse commercial sectors in the country. We expect growth mainly in the corporate segment in the next 12-24 months, which remains an engine of growth for Honduras' main banks.

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, and we don't expect this to change in the coming years. On the other hand, the weak economy and low GDP per capita could cause banks with higher shares of consumer loans to experience sharper dips in asset quality.

What to look for over the next year

Still low per capita GDP, high poverty, and a large informal sector. 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.

The energy sector and government spending. The government-owned electricity company, Empresa Nacional de Energía Eléctrica (ENEE), continues to pose a major fiscal weakness. We expect the government's commitment to make ENEE's finances more sustainable will lead it to offer transfers to compensate for ENEE's losses. Focusing on reducing ENEE's losses leaves the government with little room to expand basic services, which require long-term expenditures.

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Read latest report

Loan growth

Sector-average growth in loans.

11.4% 2025 forecast

12.2% 2024 estimate

18.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.3% 2025 forecast

2.2% 2024 estimate

2.0% 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.

Jamaica | BICRA group: 8

Good Performance, But Economic Growth Decelerating To Historical Levels

Key takeaways

- The Jamaican economy has recovered well after the height of the pandemic, reflected in the sovereign upgrade in the last quarter of 2023.
- We expect credit growth at an average of 9%-10% in 2024-2025, decelerating somewhat as economic growth normalizes.
- Although we expect some deterioration in asset quality metrics, 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

Lower risks in the domestic economy. Jamaica's economy has recovered well following the pandemic-related lockdowns, and we expect it will continue to grow, albeit at a slower pace, in the next few years. In this context, we expect loans to continue growing close to 9% in nominal terms.

However, the industry continues facing structural issues. Our view of Jamaica's economic risk reflects that it's a small economy relying on highly cyclical sectors, as well as its 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, low business competition, and vulnerability to external shocks, including weather-related ones.

Key assumptions

Economic growth will return to historical levels. We expect real GDP growth of 1.6% in 2024 and slightly lower in the following years, which is in line with pre-pandemic levels.

Manageable asset quality. We expect credit quality to somewhat worsen, especially in the retail segment, due to lending growth in previous years. 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 to take steps for a more developed 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 of systemic risk management.

Powerful Hurricane Beryl hit Jamaica on July 3, 2024, with heavy winds and rain, damaging buildings and felling trees. It is too early to assess the impact on the economy and financial system. To address the country's vulnerabilities to weather-related events, the government has created a disaster risk policy framework to build resiliency and respond faster in the aftermath of events.

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Read latest report

Loan growth

Sector-average growth in loans.

9.0% 2025 forecast

9.0% 2024 estimate

11.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.6% 2025 forecast

2.7% 2024 estimate

2.5% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 2025 forecast

2.0% 2024 estimate

2.0% 2023 actual

Figures as of fiscal year ending December.

Mexico | BICRA group: 5

Credit Growth To Moderate As Economy Slows

Key takeaways

- We believe banks are well positioned to navigate the upcoming government transition given their solid credit fundamentals.
- While we expect banks to remain healthy, the slowing economy and persistently high interest rates will pressure their growth, asset quality, and profitability.
- We expect broad policy continuity under the next government. But if checks and balances weaken, investor confidence could fall.

Key credit drivers

Banks' asset quality will slightly deteriorate--from healthy levels--toward the end of the year and throughout 2025. A slowing economy and high rates will weaken individuals' and companies' ability to pay their debt. However, banks' long-standing conservative lending practices will cushion the impact.

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 returns on assets to hover around 1.8% while returns on equity will be about 16.5%-17.0% in 2024-2025.

Key assumptions

We do not expect significant changes in the banking system once the new administration takes office. We expect commercial banks to continue to provide much of the credit in the country (45%-50% of total lending), and we believe these entities' loans will expand at about 4% in real terms in 2024-2025.

Credit demand will moderate as the economy slows and consumer and business confidence weaken. We expect growth will slow noticeably in the second half of 2024, once public investment slows and U.S. demand moderates. As long as the local debt market remains calm, banks can support the financing needs of large and midsize companies with adequate credit quality. Loans to individuals will be concentrated in credit cards, payroll loans, and mortgages.

What to look for over the next year

The new government will take office on Oct. 1, 2024. We expect broad policy continuity--fiscal, monetary, and trade--under the next government. Potential measures that weaken checks and balances--including the judiciary and monetary authority--could weaken 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 reliable supplies of clean energy and water and the availability of specialized labor, among others.

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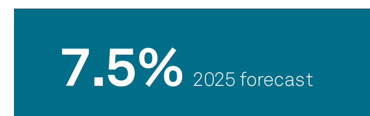
Loan growth

Sector-average growth in loans.

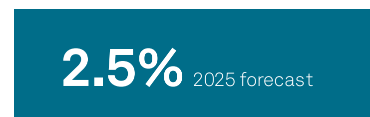


8.5% 2024 estimate

8.9% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.



2.4% 2024 estimate

2.4% 2023 actual

RoAA

Sector-average return on average assets.

1.8% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Panama | BICRA group: 5

Weakened Asset Quality And Modest Credit Growth In 2025

Key takeaways

- Panamanian banks' asset quality will remain pressured for the next two years as the delayed impact of pandemic-related relief programs materializes.
- Profitability will remain stable, but the pressure on asset quality could increase loan loss provisions, hampering banks' bottom-line results for 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 expect banks' asset quality to remain weaker than historically for the next two years. Borrowers' pressured payment capacity in Panama and deteriorated corporate loans to specific customers will likely keep banks' nonperforming assets (NPAs) above historical levels. As of March 31, 2024, NPAs were close to 2.8%, up from 2.0% in 2019. This deterioration reflects the end of pandemic relief programs, high unemployment, and an expanding informal economic sector 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 bank Banco Nacional de Panama to provide liquidity to the financial sector, corporations, and small and midsize enterprises.

Key assumptions

Slower short-term economic expansion could pressure the banking system's growth. We forecast the Panamanian economy to grow about 2.7% in 2024, down from 7.3% in 2023. As growth decelerates, fiscal issues will become more pressing. In our view, Panama's slower short-term economic growth could hamper this year's fiscal performance, adding to fiscal challenges for President-elect José Raúl Mulino's government--on top of slower revenue growth, low tax collection, and the loss of expected fiscal revenue after the shutdown of the Minera Panama mine.

These economic challenges could constrain credit growth. They could also hamper business and household confidence, pressuring banks' business and operating conditions and keeping NPAs elevated.

What to look for over the next year

Profitability should be stable, but risks of higher loss provisions remain. 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, reducing the gap with international regulation, although it lags the frameworks of regional peers.

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Read latest report

Loan growth

Sector-average growth in loans.

3.0% 2024 estimate

5.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.8% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

1.6% 2024 estimate

1.7% 2023 actual

Figures as of fiscal year ending December.

Paraguay | BICRA group: 8

Economic Growth And Higher Margins Bolster Profits

Key takeaways

- Investment projects should power Paraguay's economic growth at about 3% during 2024-2027. Meanwhile, we expect the country to continue to diversify its economic activity and to have more resiliency against adverse weather events.
- Nonperforming asset (NPA) metrics could slightly improve this year. This, coupled with double-digit credit growth and higher margins, should keep the banking system's profitability metrics solid.
- Still, the banking system continues to be highly exposed to cyclical sectors and to dollarization. Also, although improving, regulations still lag international standards.

Key credit drivers

Asset quality metrics are gradually improving, but the stock of restructured loans remains sizeable. We believe that asset quality metrics could slightly improve this year owing to solid economic activity. Still, the volume of restructured, renewed, and refinanced loans remains significant, at about 16% of total loans.

Sound profitability metrics due to wide margins and manageable asset quality. The banking system's net interest margins should remain healthy amid cheap funding costs, keeping the return on average equity above 17%.

Dollarization remains high, and the banking system is still exposed to cyclical sectors. Foreign currency lending in Paraguay's banking system accounted for 47% of total loans in April 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.

Key assumptions

We expect Paraguay's GDP growth to slow in 2024 but to remain strong. We expect economic diversification to continue over the next three years and gradually reduce the volatility of economic performance, helped by the completion of a large pulp mill project (Paracel) between the end of 2024 and early 2025.

What to look for over the next year

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

Asset quality. NPAs have been fairly stable recently. However, the significant amount of restructured loans, coupled with the economy's cyclicality, could result in credit losses in stress periods, which could hurt the financial system's profitability and capitalization and limit credit growth. We will continue monitoring the trajectory of nonperforming loans and restructured loans.

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Read latest report

Loan growth

Sector-average growth in loans.

10.0% 2025 forecast

10.0% 2024 estimate

12.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.9% 2025 forecast

4.1% 2024 estimate

4.2% 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.

Peru | BICRA group: 5

Moderate Economic And Financial System Growth

Key takeaways

- The evolution of sovereign fundamentals--including short- to medium-term economic growth--are relevant factors for the industry.
- Peruvian banks have good credit fundamentals, with solid capitalization and liquidity metrics, and good profitability given higher margins.
- These factors should allow banks to weather still higher-than-historical credit losses related to political protests last year and residual effects of pandemic-related lockdowns.

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Key credit drivers

The economic risk trend in our Banking Industry Country Risk Assessment on Peru remains negative. The negative trend mainly reflects the prolonged political impasse in the country, which limits growth prospects. If the economic risk worsens, it would likely not 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 (in light of the implementation of the Basel III framework through 2026), profitability, and liquidity metrics. These metrics should allow banks to manage credit losses that are still above historical levels, which relate to 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 recovery in consumption and investment (with more traction from the public sector). In this context, we expect loan portfolio growth of about 3% in 2024, gradually increasing afterward.

Profitability remains satisfactory despite still-high provision 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 government program loans and more retail lending. This has helped banks handle higher provisions because the protests last year and the residual impact of the pandemic continue to weigh on asset quality.

What to look for over the next year

Dissipating political issues and the economic recovery will determine the financial industry's path. Although receding, governability risks are still present, 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 on its financial industry in the next year. Asset quality metrics and credit losses, which remain above historical levels, could also be a risk over the next few quarters.

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

High Oil Prices Spur Economic Recovery

Key takeaways

- The economy of Trinidad and Tobago (T&T) continues to benefit from fairly strong oil prices. However, T&T's economy will continue to fluctuate with global energy prices in the next few years.
- T&T's economic contraction in 2019-2021 still weighs somewhat on banks' asset quality. However, we forecast profits to continue recovering in 2024 as credit growth resumes, net interest margins recover, and provision requirements decrease amid lower credit risks.
- Banks entered the past economic crisis--caused by COVID-19 and the weak energy sector--with solid loss reserves, capital, and liquidity, which have helped them absorb the economic shock.

Key credit drivers

Energy dependence. Although banks aren't heavily exposed to the energy sector (about 4% of total loans), T&T's economy heavily depends on oil, gas, and petrochemicals. These have historically accounted for over a quarter of government revenue and real GDP and nearly 80% of exports.

Banks are well prepared to withstand stress scenarios. The pandemic and the domestic energy sector's downturn in recent years caused GDP to contract nearly 10% in 2019-2021. Although the economy has been recovering since 2022, largely due to the energy sector's strong performance and the reactivation of internal demand, unemployment remains somewhat high and pressures debt capacity. However, we think the situation is manageable thanks to banks' conservative provisioning policies and good capital and liquidity.

Key assumptions

Economic growth. We estimate annual real GDP growth of 1.7% in 2024-2025, but the unemployment rate will remain 5.2%-5.4%--above the 4.0% before the pandemic.

Manageable credit losses. Banks have been able to contain the damage to asset quality stemming from the recession in past years. However, asset quality could be worse than we expect considering unemployment remains high and some companies are still being affected by the past recessions.

What to look for over the next year

Stable administration. We expect that 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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Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

6.0% 2024 estimate

10.0% 2023 actual

NPA ratio

Nonperforming assets as a % of systemwide loans.

3.1% 2025 forecast

3.1% 2024 estimate

3.3% 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

Solid Performance Will Continue In 2024

Key takeaways

- GDP will grow 3.0% in 2024, from 0.4% in 2023, rebounding from the hit to the agricultural and related sectors from last year's severe drought.
- Banks' profitability will keep benefiting from strong margins, mainly supported by still-high international interest rates, expected loan portfolio growth, and low funding costs.
- Banks will continue to perform well, with manageable asset quality metrics, high liquidity, stable deposit bases, and adequate solvency.

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 and 27% in 2022. We forecast 12%-14% nominal credit growth, supported 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.

Despite high credit growth, we think asset quality metrics will remain manageable in the next 12-24 months. Nonperforming loans (60 days past due) will only slightly worsen, reaching around 2.0% from 1.7% in 2023, because we don't expect significant deterioration of the credit portfolio.

Banks' profitability will remain solid 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 come down 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. Results will benefit from expected loan portfolio growth, low funding costs, and depreciation of the Uruguayan peso (due to banks' highly dollarized financial statements).

Key assumptions

We expect 3.0% real GDP growth in 2024 and an average of 2.5% in 2025-2027, supported by consumption, private investment, and exports. The economy should recover in 2024 from both the effects of last year's drought and from high relative price distortions with Argentina that dampened domestic consumption and boosted imports of goods into Uruguay from Argentina. This year will be the first full operating one for UPM's new pulp plant, which will boost export volumes.

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 enhancement of 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.

What to look for over the next year

Macroeconomic consensus and institutional stability support growth. We don't expect shifts in the economy or financial system following this year's national election on Oct. 27.

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.

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Loan growth

Sector-average growth in loans.

12.0% 2024 estimate

12.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.0% 2024 estimate

1.7% 2023 actual

RoAA

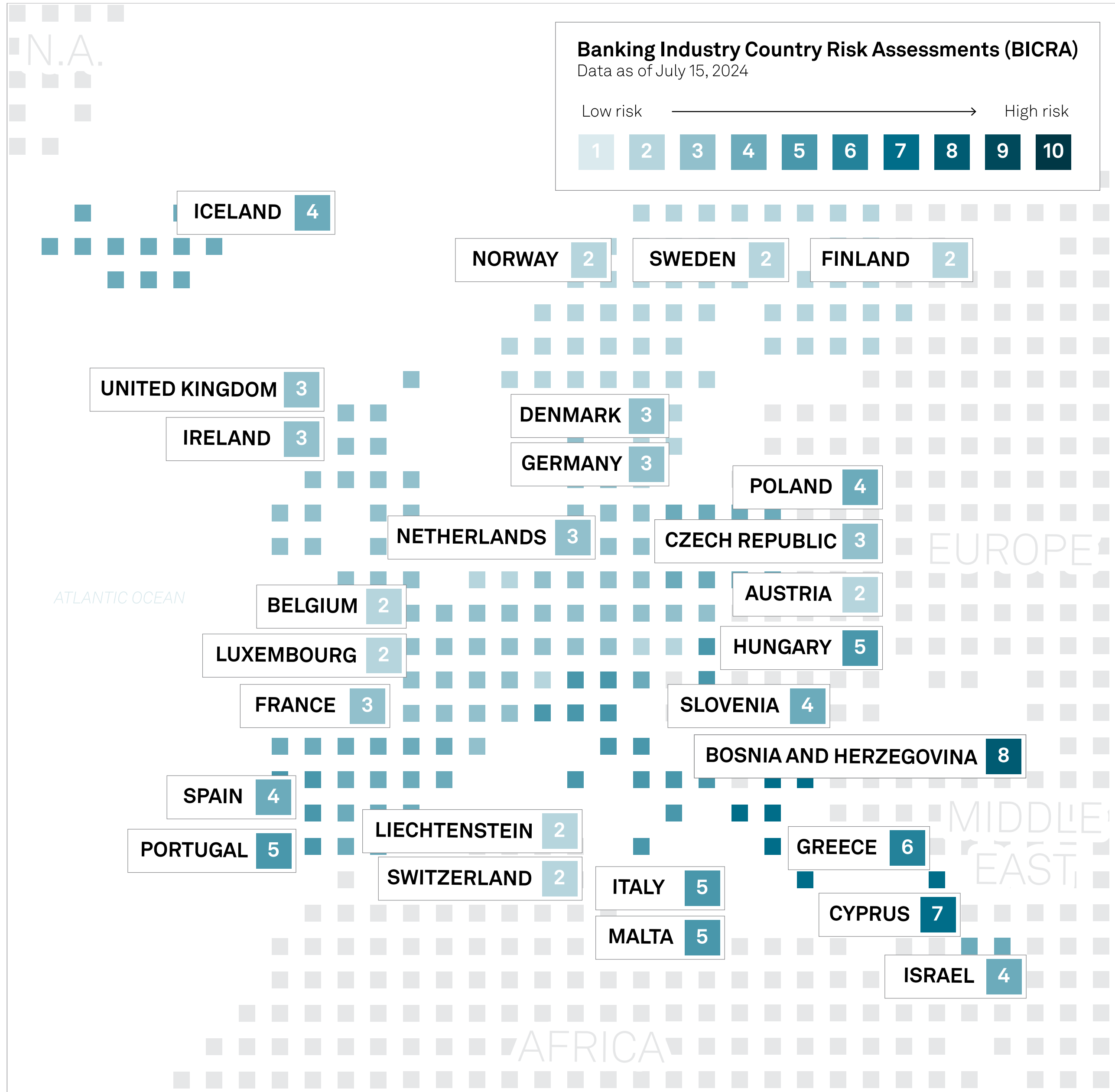
Sector-average return on average assets.

2.5% 2024 estimate

2.5% 2023 actual

Figures as of fiscal year ending December.

Europe



Austria | BICRA group: 2

Well Buffered Amid Persistent Structural Issues

Key takeaways

- Austrian banks are among the largest beneficiaries of higher interest rates, reflecting their high share of variable interest rate lending, which enabled quick repricing and a doubling of returns on assets since the European Central Bank started increasing interest rates.
- A material deterioration of asset quality metrics is not our base-case scenario, despite the nonperforming asset ratio increasing in 2023. However, risks persist amid economic uncertainty and tightening financial conditions.

Key credit drivers

Austrian banks' consolidated profitability will decrease but remain high in 2024. This will continue to provide banks earnings buffers to sufficiently mitigate the increase in risk and refinancing costs. While pockets of risk threaten the credit quality of weaker or indebted borrowers, this is limited for Austria, reflecting the relatively low share of higher-risk loans.

Capitalization remains robust. Increased profitability strengthened the systemwide regulatory Tier 1 capital ratio to 18.1% at end-2023, which we deem adequate and expect to continue.

Key assumptions

Economic growth will rebound. After 2023's contraction, we anticipate real GDP growth of 0.7% in 2024, 1.7% in 2025, and 1.4% in 2026. While inflation--projected to be 4.1% in 2024, 3.2% in 2025, and 2.6% in 2026--and elevated interest rates could threaten growth, we think the impact on banks' asset quality will be limited. This is because of Austria's high wealth levels, low household indebtedness, and low unemployment, which we expect to remain at or below 5%.

Profitability will be sound. We expect the Austrian banking sector's return on average assets (RoAA) to converge 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 banks' 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.

Commercial real estate (CRE). The nonperforming loan ratio in the CRE portfolios increased to 4.6% at year-end 2023 from 3.4% the year before, primarily driven by the insolvency of Signa, one of the largest real estate investment companies in Austria. Tightening financial conditions could hinder CRE borrowers' debt repayment capacity and increase risk costs further. Still, we expect the overall effect on banks to be manageable, given that the CRE portfolio we consider high risk is well below 10% of total customer loans for most banks.

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Read latest report

Loan growth

Sector-average growth in loans.

0.5% 2024 estimate

-0.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.5% 2024 estimate

2.5% 2023 actual

RoAA

Sector-average return on average assets.

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

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Key takeaways

- Economic slowdown persists, with expected GDP growth of 1.4% in 2024, down from 3.0% in 2022. However, Belgium's medium-term economic prospects remain resilient.
- Banks will likely see nonperforming assets remaining broadly stable below 2% thanks to the 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.

Read latest report

Key credit drivers

Credit demand expected to improve in 2024 but remain below historical levels. The rise in private sector borrowing has outpaced real GDP growth in recent years (except 2021) as households have taken advantage of the low interest rates. Rising rates slowed the annual growth of credit to the domestic private sector from the second half of 2022, with this trend accelerating in 2023. We expect credit growth to stabilize at about 4% per year as lending demand will be supported by expected lower interest rates, however it will remain below the levels recorded during 2016-2022 of above 5%.

Healthy capital and bank-insurance business models support Belgian banks' prospects. Pressure on the private sector will persist in 2024 within some sectors like commercial real estate, but less so than in other banking sectors, as Belgium's real estate sector remained relatively resilient against significant headwinds in 2023. Overall, we expect nonperforming loans to settle at around 1.7% of total loans and credit costs at 30 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 of lending, as well as of insurance, private banking, and asse t 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%.

Correction in residential prices should continue in the next two years. We anticipate a moderate house price correction in real terms in 2024 and 2025, followed by mild recovery in 2026. This is because we anticipate higher inflation than nominal house price growth.

What to look for over the next year

Competition on banking products and deposit rates. We expect competition, particularly on mortgage lending, to heighten such that banks can achieve growth targets without becoming less disciplined in the management of their asset margins. Competition on deposits in the Belgian banking system should remain moderate as the European Central Bank has begun to lower its interest rates. However, it remains to be seen how Belgian banks will reprice their deposits costs, most likely mainly through lower savings and term account rates.

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.

1.7% 2025 forecast

1.8% 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.

Bosnia and Herzegovina | BICRA group: 8

An Improved Institutional Framework But Politics Remain Volatile

Key takeaways

- Banks in Bosnia and Herzegovina (BiH) have benefitted from higher interest rates since 2022. Return on equity (RoE) increased to 15% in 2023 from 12% the year before. Over the next two to three years, we expect RoE to stabilize at slightly over 10%.
- Despite improvement in asset quality, we continue to view banks in BiH as highly exposed to credit risk due to structural factors such as low income levels, a high unemployment rate, and higher prevalence of 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 at year-end 2023. That said, we recognize that asse t quality has improved materially over the past decade with the nonperforming loan (NPL) ratio decreasing to 3.8% at year-end 2023, from about 15% in 2013.

Robust capitalization provides a buffer against credit losses. As of first-quarter 2024, the systemwide common equity Tier 1 ratio stood at 18.6% and the leverage ratio at 10.2%. In June 2024, the 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 is a small country whose GDP per capita of about €7,700 puts it in Europe's bottom quartile. After a modest expansion in 2023, we expect BiH's real economic growth will solidify at about 3% per year over 2024-2027. The high unemployment rate will remain a weak spot, even though we project it will fall to 12% by 2026, from 14% at year-end 2023.

We estimate that house prices in BiH increased by about 10% in real terms in 2023. This is contrary to the broader trend in many European countries. That said, we expect real house price growth to moderate to below 5% over the next two years. In addition, we project headline inflation to remain at 3% in 2024 before gradually falling back to 2%, 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 also the banking sector.

Progress on a financial stability fund. We understand that the 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 such a fund should be established at the state level or at the level of the two entities that make up BiH.

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Read latest report

Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

5.0% 2024 estimate

6.7% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.0% 2025 forecast

3.9% 2024 estimate

3.8% 2023 actual

RoAA

Sector-average return on average assets.

1.5% 2025 forecast

1.7% 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

- Banks have made significant progress in reducing their stocks of 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 will maintain their rebalanced funding profiles, but the still-high share of nonresident deposits creates funding volatility risk.

Key credit drivers

Cypriot banks have cleaned up a large portion of their legacy NPEs. At 7.3% of gross loans as of March 31, 2024, Cypriot banks' NPE ratios remain among the highest in Europe. Still, most are with the smallest banks--the four largest banks, representing about 90% of the market, had an average ratio of about 3.3% (excluding NPEs covered by the asset-protection scheme) at year-end 2023.

Profitability prospects balance expected rate declines with lower cost of risk, efficiency gains, and lending growth resuming. 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 16%-18% in 2024 and 10%-12% by 2026 as rates come down. Partly offsetting the impact of lower rates on banks' net interest margin, streamlined banks' cost structures and lower cost-of-risk--at 55-65 basis points--will allow banks to sustain profitability well above that from 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 52% on March 31, 2024. Although still material, we think the risk related to nonresident deposits--less than 15% of the total--is declining.

Key assumptions

Cyprus' economic growth should outpace the EU average. Despite decelerating to 2.5% in 2023 due to the lagged impact of sanctions on Russia, economic growth should average 3% 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 asset quality issues will significantly 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. Containing the cost of funding will be important for profitability.

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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.

6.8% 2025 forecast

7.3% 2024 estimate

7.9% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2025 forecast

1.5% 2024 estimate

1.9% 2023 actual

Figures as of fiscal year ending December.

Czech Republic | BICRA group: 3

The Economic Recovery In 2024 Will Benefit Banks

Key takeaways

- Czech banks' profitability remains among the best in Europe, thanks to high interest margins, sound cost efficiency, and surprisingly low cost of risk.
- We expect nonperforming assets and credit losses to rise slightly over the next 12-24 months in our base-case scenario, returning to cyclically normal levels.
- We believe lower interest rates amid further rate cuts by the Czech National Bank will reduce net interest margins, although they will reduce elevated funding costs.

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 risk in Central and Eastern Europe, but we note the high reliance on Western European value chains, particularly Germany, which could lead to negative effects in adverse scenarios.

Banks have sound earnings, strong capital, and liquidity buffers. Their high earnings capacity and solid portfolio quality, despite challenging operating conditions over the past 18 months, are proof of 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 recover in 2024. We project economic activity will return to positive territory in 2024, with real GDP growth of 1.3%. The disinflation and ongoing monetary easing will likely contribute to higher household consumption and corporate investments. This improving economy will boost banks, in our view.

Banks will benefit from robust earnings supported by pent-up demand for loans. We expect that the sector's return on equity will move toward 15.0% in 2026 after having reached 16.4% in 2023. A gradual reduction of funding costs will help banks' net interest income, in our view, although lower interest rates will reduce margins in the next 12-24 months. Operating costs should move in tandem with revenue thanks to management teams' efforts to control costs.

What to look for over the next year

Prices in the residential real estate market. We expect the price correction in the residential real estate market to end in 2024. Although loan demand remained low to start 2024, we expect a broad-based recovery throughout the year. Demand for housing loans, for example, has started to recover as interest rates decreased.

Moderate asset quality deterioration. Czech banks have been reporting strong asset quality indicators in 2023, outperforming our projections. We expect a slight uptick of the nonperforming loan ratio to 2.1% in 2024 because of the delayed impact of higher interest rates on portfolios. A significant deterioration is unlikely, although we will monitor relevant indicators and assess banks' risk appetite considering recent relaxations 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 Boost Profits

Key takeaways

- Higher interest rates cyclically enhanced Danish banks' profitability but intense competition, muted growth prospects, and higher investments in compliance and digitalization explain the sector's somewhat lagging earnings compared with peers.
- Denmark's wealth and the government's track record of fiscal support should help banks absorb moderately increasing credit losses resulting from somewhat muted economic prospects in 2024-2025.
- Banks rely substantially on wholesale funding, but stability is bolstered by the depth of the stable domestic covered bond market operating under Denmark's Balance Principle.

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 boosted Danish banks' profitability in 2023. We forecast that Danish banks' sound return on equity (ROE) will improve to 9% in 2025, from 7.9% in 2022, facilitating capital buildup after moderate shareholder distributions.

Credit losses remain relatively low and manageable in the European context. We anticipate that Denmark's improved economic, corporate, and household resilience, and a relatively robust agricultural sector performance contain risk from a difficult global operating environment.

Key assumptions

Denmark's resilient economy supports Danish banks' low economic risk environment. We forecast real GDP growth in Denmark of 1.3% in 2024 and 1.5% in 2025, spurred by the pharmaceutical sector, which offsets weaker consumer sentiment and performance in other sectors.

House prices will slowly rebound. We forecast the mortgage sector will continue to recover under waning pressures from inflation, difficult markets, and increased mortgage interest rates. This follows material temporary house price decreases of 9.0%-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 1.3% of domestic loans by 2025 and translate into moderate credit losses at 0.1% by 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 is 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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Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

2.0% 2024 estimate

1.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.3% 2025 forecast

1.3% 2024 estimate

1.4% 2023 actual

RoAA

Sector-average return on average assets.

0.6% 2025 forecast

0.7% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

Finland | BICRA group: 2

Banks Will Sustain Strong Earnings Momentum In 2024

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 if the economy starts recovering in the second half of 2024.
- Despite vulnerabilities in certain sectors, we expect asset quality to remain intact due to Finland's tight labor market and strong social safety net, and banks' sound underwriting standards.

Key credit drivers

High interest rates will continue to boost profitability. Despite the start of monetary easing in the eurozone, we expect banks' profitability to recede only slightly in 2024, since interest rates are likely to remain elevated and deposit margins have adjusted moderately. Overall, we project a return on equity of about 13% for 2024 and 12% for 2025, after 13.8% in 2023.

We believe credit growth will pick up slowly. Easing inflation and falling financing costs should lead to higher corporate investments and household borrowings later this year. We expect only a gradual recovery in the sluggish housing market, where prices were down 4% in April versus one year ago.

Capitalization provides a strong cushion against asset quality weakening. The banking sector demonstrates robust capitalization, with the Tier 1 capital ratio at 19.7% in 2023.

Key assumptions

Following stagnation, we forecast GDP growth at 1.6% in 2025. Finland's economic performance will be weak in 2024 (-0.3%) before recovering in 2025 as decreasing inflation and reduced financing costs support higher consumption and investment. Yet, momentum could be slowed by structural constraints, including lackluster productivity growth amid a shrinking employment pool.

Improved returns will allow continued IT investments. Although Finnish banks are already at the forefront of digitization, we believe their continuously strong income will allow them to invest further in digital services and automation. We expect this will fuel a sustained improvement in operating efficiency from the average cost-to-income ratio of 49.3% over last three years.

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 across Europe and the impact of geopolitical tensions will be key over the next years.

Market consolidation. We expect the number of banks and branches will continue to decrease through mergers within amalgamations. The acquisition by two midsize banks of Handelsbanken's retail and small and midsize enterprise operations will close in the second half of 2024.

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, pose risks to asset quality.

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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.

1.8% 2025 forecast

2.0% 2024 estimate

1.7% 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

- Our one-notch downgrade of France to 'AA-' on May 31, 2024, did not immediately affect our view of the French banking system.
- We expect limited asset-quality deterioration, but profitability is still a significant challenge for the industry. The positive impact of higher interest rates is materializing more slowly than elsewhere, 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.

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Read latest report

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. Higher rates will have a more favorable effect by midyear 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 slow and budgetary pressure increase. We forecast 0.9% GDP growth for France in 2024 and 1.4% in 2025. Unemployment will stay below 2019 levels, at 7.6% in 2024 and 7.7% in 2025, and inflation decline to 2.6% in 2024 from 5.7% in 2023.

Credit growth is slowing but remaining at 2.5%-3% per year, with contained asset-quality deterioration. Asset quality is structurally supported in France by fixed-rate mortgages, so it won't deteriorate significantly when interest rates rise. Defaults should increase in the coming two years, 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 addressing budgetary imbalances. Lower economic growth and increasing 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 as liability costs rise. Moreover, we will track efficiency improvements, which will be key in banks maintaining profitability.

Loan growth

Sector-average growth in loans.

3.0% 2025 forecast

2.5% 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

- German banks substantially benefited from higher interest rates, but we expect cyclical interest rate support to peak in 2024 and profitability levels to decline from 2025 and remain structurally below peers'.
- Despite a modest economic outlook for the country and the economy's higher sensitivity to geopolitical risk, we expect German households and companies to remain resilient, forecasting only a modest increase in domestic credit losses from low levels.
- German banks' sizable exposure to the commercial real estate (CRE) sector represents a risk to the asset quality and profitability of some German banks, but likely not to their capital buffers, and it also doesn't pose a systemic risk to the sector.

Key credit drivers

Profitability remains a relative sector weakness. The sector's profitability improved significantly with higher interest rates, but the gap with some peer markets has further increased slightly. Inefficient cost bases, overcapacity, and intense competition put a structural strain on margins. We expect profitability to decrease after 2024 as policy rates start to fall, and forecast a return of equity of below 6% from 2025, compared with an expected 6.5% in 2024.

Asset quality will prove resilient. Germany's economic model is facing structural challenges and remains materially exposed to geopolitical risk. However, despite the country's economic underperformance, we expect German households and companies to remain resilient, based on their proven track record of adapting to challenges. We forecast a modest increase in domestic credit losses to 20 basis points (bps) in 2024 and 2025 annually from 15 bps in 2023.

Key assumptions

The German economy will grow materially only from 2025. We forecast that, after zero GDP growth in 2023, the economy will expand moderately by 0.3% in 2024 and achieve GDP growth of 1.2% in 2025.

We expect a robust labor market and signs of stabilization in German house and CRE prices. A severe deterioration would pose a material risk to our credit loss forecast.

What to look for over the next year

Trends in revenues and deposit costs. Banks are looking for new sources of recurring fee income to sustainably increase profitability. Better economic prospects and lower interest rates could mean that credit growth will become more meaningful, helping maintain interest income. Competition for deposits and the evolution of deposit pricing will continue to affect profitability.

Higher-than-anticipated credit losses exceeding our base-case scenario. A significant increase in unemployment could imply strong pressure on house prices and the asset quality of mortgage and consumer finance portfolios. Further risks arise from banks' significant exposure to CRE and the corporate sector's possible inability to adapt to structural challenges.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

1.5% 2024 estimate

1.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.2% 2025 forecast

1.2% 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

Economic Risks Have Further Diminished

Key takeaways

- The European Central Bank's (ECB)'s decision to approve Greek banks' resuming dividend payments, after 16 years, is another sign of their effective balance sheet transformation in recent years.
- The ratio for the legacy stock of nonperforming exposures (NPEs) will further decrease in 2024 and 2025.
- Funding risks have diminished as banks smoothly repaid most of their borrowings under targeted longer-term refinancing operations.

Key credit drivers

Banks continue to dispose of many NPEs, thanks to the strong interest from foreign bad debt servicers. This trend, alongside new lending from healthier businesses, leads us to project the system's domestic NPE ratio will decrease to about 5% by end-2025, through sales and organic recoveries. We expect the organic cost of risk to remain near 80 basis points for most banks in the next 12-18 months.

Capital quality is still weak, and prospects for improvement remain low, restraining bank ratings. Deferred tax credits constitute over 65% of banks' equity base and are amortized in small amounts.

Banks' earning capacity is improving. Lower cost of risk, higher interest margins, strong fee and commission income, resumption of credit demand, and improved operational efficiency are bolstering gains. Greek banks have streamlined their operations through cost-efficiency measures and sales of noncore assets, helping to improve cost-to-income ratios to 40% or below, on average. Banks' interest margins benefit from elevated rates.

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.

High demand from distressed asset managers for bad Greek loans will persist. The positive outlook in domestic property markets 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%, though the potential for underperformance remains high due to economic risks.

What to look for over the next year

Net interest income evolution as rates decline. All banks will be focused on locking in their recent strong gains.

The Hellenic Financial Stability Fund is phasing out its backing of large Greek banks. After recent disposals, the fund holds just 18.4% of National Bank of Greece.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2025 forecast

4.0% 2024 estimate

0.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.0% 2025 forecast

5.5% 2024 estimate

6.4% 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.

Hungary | BICRA group: 5

Easing Pressure As Inflation Declines

Key takeaways

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

Key credit drivers

Banks continue to cut rates as inflationary pressure has subsided. Inflation remains elevated, at about 5% in early 2024, but has fallen from extraordinarily high levels due to the central bank's prudent monetary policy. While banks' interest margins are decreasing as a result of the interest rate cuts, they remain elevated compared with peers.

Impairment losses in the retail and small and midsize enterprise (SME) sector are contained. Government measures to support the private sector have reduced banks' revenues, but also limited the adverse impact on asset quality.

Key assumptions

Economic growth remains lower than in the recent past. We anticipate GDP growth of 2.2% in 2024, bolstered by rebounding domestic demand, progressively picking up over the second half of the year as interest rates fall 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. In contrast to declining real housing prices in past quarters, we expect new momentum in 2024, driven by strong real wage growth and subdued supply. All in all, the risk of overvaluation remains contained compared with the past. We do not consider commercial real estate exposure as a potential risk due to its limited size and sound underwriting standards.

What to look for over the next year

Pressure on the institutional framework. The central bank may come under increased government control as proposed laws would grant its supervisory board additional rights. The parliamentary discussion has been postponed, but 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.

A phase-out of several government support measures. While we expect a continuation of the mortgage support program, we no longer see large parts of the loan market to be solely driven by government measures, such as SME loan markets in 2023. The termination of the Home Purchase Subsidy Scheme in cities and more stringent eligibility conditions for the prenatal baby support loan will also likely affect loan demand.

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Read latest report

Loan growth

Sector-average growth in loans.

7.8% 2025 forecast

6.0% 2024 estimate

4.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.9% 2025 forecast

2.7% 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

Sound Profitability But Operating Conditions Have Tightened

Key takeaways

- We forecast Icelandic banks will continue to post sound earnings, but profitability is edging down because of tightening margins and rising expenses, including cost of risk.
- Iceland's economic activity has slowed as a result of high interest rates and recent volcanic activity, but near-term growth prospects remain comparatively benign.
- Stabilization of housing prices and reduced private sector leverage have, in our view, reduced the economic risks facing Icelandic banks.

Key credit drivers

Sound earnings prospects for incumbent banks. Although prospects have softened, we still expect credit growth and sound operating efficiency will support return on equity of 9%-10% over the next two years, despite rising operating expenses, including cost of risk, and a gradually declining net interest margin.

We forecast balanced house price growth ahead. Property price growth has rebounded since late 2023, in part due to government measures to support residents affected by the earthquakes and volcanic activity. However, we expect these effects will fade and we forecast relatively balanced real housing price growth of 2%-4% over the next two years.

Reduced private-sector leverage supports debt serviceability. We project private-sector debt will stabilize at about 145% of GDP over the next two years, from 147% in 2023 and significantly below the pre-pandemic level of 158%.

Key assumptions

We project GDP growth of 2.3%-2.5% over the next two years. Alongside tourism, domestic demand will be key to growth from 2024, 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 support credit growth. Persistent inflation, at 6.2% in May 2024, will continue to boost loan growth, given incumbent banks' high share of lending linked to the consumer price index (CPI), accounting for 52% of total mortgage loans and 34% of corporate loans on Dec. 31, 2023.

What to look for over the next year

Growth dynamics and external demand. The Icelandic economy has lost steam, with restrictive monetary policy constraining domestic demand and the recent volcanic activity having seemingly reduced tourism numbers. 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.

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Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

6.0% 2024 estimate

6.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.2% 2025 forecast

2.0% 2024 estimate

1.8% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.3% 2024 estimate

1.7% 2023 actual

Figures as of fiscal year ending December.

Ireland | BICRA group: 3

Irish Banks Continue To Benefit From A Favorable Environment

Key takeaways

- Irish banks' profitability, still supported by higher interest rates, will remain solid in 2024 even as lending growth stays modest and margins start to decrease gradually.
- Asset-quality metrics are likely to hold up near target levels, despite the potential for new problem loans.
- We expect Irish banks' robust capitalization and sound funding profiles will underpin their resilience.

Key credit drivers

Profitability prospects remain solid despite an expected gradual fall in interest rates. Continuous repricing of the loan books and larger economies of scale following market consolidation over the past two years support revenue. At the same time, a large share of non-interest-bearing customer accounts and limited pass- through of higher interest rates to deposits help contain funding costs. We forecast the sector's domestic return on equity to be below the extraordinary level of 2023 (more than 14%) but remain robust, at above 12%, in 2024.

Systemwide problem loans will hover near 3% over the next year. While there are limited signs of asset quality weakness, we anticipate the emergence of additional problem loans, mostly among small and midsize enterprises. We expect the deterioration to be manageable because the inflow of new nonperforming assets (NPA) will largely match the outflow of cured NPA and volume of NPA portfolio sales. We expect credit costs will be 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 of Ireland's gross national income, a measure of underlying economic activity, to improve to about 2.1% in 2024 from 1.2% in 2023 and remain above eurozone GDP growth of 0.7%. The labor market will remain tight, with unemployment at about 4.0% 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 bottoms out at 2.5% in third-quarter 2025.

What to look for over the next year

Structural efficiency improvements. Business momentum and significant growth in revenue should underpin domestic banks' digital agendas and support further investment in systems and automation aimed at improving long-term cost efficiency, key in maintaining solid profitability.

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Loan growth

Sector-average growth in loans.

2.3% 2025 forecast

2.5% 2024 estimate

4.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.1% 2025 forecast

3.05% 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 face the increasing risks with sound credit fundamentals.
- Structural challenges remain, including banks' sizable exposure to the real estate sector.

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Read latest report

Loan growth

Sector-average growth in loans.

7.0% 2025 forecast

3.0% 2024 estimate

6.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.5% 2025 forecast

1.9% 2024 estimate

1.2% 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.

Key credit drivers

Banks face higher risks amid increased geopolitical conflicts and economic slowdown. The length of the Israel-Hamas war and growing hostility with Hezbollah pose additional 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 impact on asset quality.

Real estate-related lending remains a key source of risk. Banks' exposure to real estate lending has increased materially since 2020. Construction, representing about 12% of the sector's loans, has been directly affected by the war, due to worker shortages, among other things. A potential drop in sales could stress developers and construction companies with limited financial flexibility, despite conservative underwriting standards and moderate loan-to-value ratios (averaging 53% at March 2024). Structurally high demand for residential 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 if the economy does not rebound promptly.

Key assumptions

Growth will improve gradually, assuming the conflict doesn't widen. Our base-case forecast is GDP growth of 0.5% in 2024, accelerating to 5% in 2025 as key sectors return to full capacity and consumption and investments pickup, then followed by 3.5% on average over 2026-2027. We see a high degree of uncertainty, however, about the extent and duration of hostilities. If the conflict widens materially, Israel's economic growth, fiscal position, and balance of payments could deteriorate significantly.

Strong profitability and good capitalization help banks cushion the impact from these risks. 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 interest rates and exposure to assets linked to the consumer price index will fuel nominal revenue growth but could test the banking system's asset quality if economic growth falters or hostilities are prolonged.

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.

Italy | BICRA group: 5

Structural Profitability Progress

Key takeaways

- Positive interest rates, lower fragmentation, and structurally better asset quality will support Italian banks' earning capacity in 2024 and 2025.
- Credit losses will only moderately increase from historical low levels.
- Differences among banks will become increasingly apparent.

Key credit drivers

Banks are facing sluggish, though still-positive, economic conditions. We expect Italy to skip a recession, with forecast GDP growth of 0.9% in 2024. The Italian government's high debt and fiscal deficit are weighing on the capacity to further support the economy as it did during the pandemic.

Profitability will remain strong in 2024. Albeit edging down slightly from 2023, net interest income will remain 50%-55% higher on average than during the pandemic, given that the effects of passing through rates to depositors will be gradual. Some pickup in operating expenses and credit losses will erode earnings from the 2023 peak. Overall, return on equity will remain above banks' cost of capital, likely averaging 12%-13% for rated Italian banks in 2024 before gradually decreasing.

Asset quality to moderately deteriorate. The stock of nonperforming exposures (NPEs) hit historical lows in 2023, at just above 3% of customer loans, gross of provisions. We expect the flow of new NPEs to increase in 2024 as a result of less supportive economic conditions and higher financing costs. Still, the effect will be manageable for most banks; we project credit losses will increase to an average of 70 basis points (bps) in 2024 and 2025 (from 45 bps in 2023), a level that we consider the norm for Italian banks.

Key assumptions

The interconnection with sovereign risk has declined but remains high. Compared with a decade ago, Italian banks operate with a larger funding surplus, since deposits exceed loans and reliance on wholesale funding sources is quite contained. Still, the banking system remains more exposed to market volatility than peers, primarily because of weaker sovereign creditworthiness.

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

The economic slowdown will test banks' resilience. Most institutions are in a position of strength, with healthy buffers. The differences among banks might become increasingly evident in terms of asset quality metrics, operating efficiency, and cost of funding after years of cheap access for all.

The end of the ECB's TLTRO III funding. Most banks have paid back these funds while maintaining adequate liquidity and net stable funding ratios. Most plan to partly replace the funds through other sources, predominantly collateralized funding. Some banks might struggle to raise medium- or long-term funding and could suffer if market conditions worsen.

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Read latest report

Loan growth

Sector-average growth in loans.

0.0% 2025 forecast

-1.0% 2024 estimate

-3.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.5% 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

- Liechtenstein's banking sector is less susceptible than its European peers to swings in its domestic economy, but sensitive to global wealth levels and capital market valuations as well as international competition in private banking.
- We expect banks will stay resilient and report low credit losses, although extreme market volatility could lead to margin calls and, possibly, losses on Lombard lending despite generally conservative risk management.
- Banks remain sensitive to reputation risk, due to their focus on wealth management.

Key credit drivers

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

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

Key assumptions

A sound economic growth trajectory because of high adaptability to economic volatility. We project real GDP growth will recover to 1.2% in 2024 from an estimated 0.2% in 2023, before reaching an average of 1.4% over 2025-2027. Inflation will continue its decelerating trend and remain relatively low in an international comparison. We project inflation will reach 1.5% this year, already aligning with the Swiss National Bank's inflation target, before declining 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. Domestic real estate loan exposure represents a minor risk, because of high income and wealth levels, and limited transactions in Liechtenstein's residential property market amid low supply.

What to look for over the next year

Material setbacks in financial markets and global wealth levels, which could lower assets under management and increase competitive pressure. This would 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 reduce 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 expect economic volatility or uncertainties might delay (but not stop) consolidation.

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Read latest report

Loan growth

Sector-average growth in loans.

2.2% 2025 forecast

2.0% 2024 estimate

1.3% 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.

0.5% 2025 forecast

0.5% 2024 estimate

0.4% 2023 actual

Figures as of fiscal year ending December.

Luxembourg | BICRA group: 2

High Interest Revenue But Lackluster Housing 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 2024 with the repricing of customer deposits. Following the real estate market's slowdown since 2022, we expect some increase in nonperforming assets (NPA) but contained cost of credit risk, and a pickup in mortgage lending from 2025.
- Complicating supervision are many banks being subsidiaries of foreign groups and the large nonbank financial sector; 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 at a low level. While domestic credit growth outpaced GDP until 2020, volumes of new mortgage loans dropped sharply in 2023 with the housing market's slowdown.

Key assumptions

The housing market will bottom out by 2025. We expect a 5%-10% decline in nominal house prices in 2024, following a nearly 10% drop in 2023. We see this as a market normalization after a compound increase of about 50% in 2018-2021. We expect a positive trend in nominal house prices from 2025, 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 do not foresee material increases in domestic mortgage portfolios before 2025.

Earnings will be resilient. We expect interest income to start eroding in 2024, on low credit demand, and higher costs of funding following the migration from nonremunerated to term deposits. Banks have kept prudent underwriting, but we expect NPAs to increase amid the depressed real estate market. Owing to high collateralization, cost of credit risk will remain below 0.5% of customers loans.

What to look for over the next year

House prices and net interest margins. We think the normalization of nominal house prices will continue in 2024 alongside with the real estate market's slowdown, which followed several years of rapid increases until the peak in second-half 2022. The respective paces of increase in funding costs and asset repricing, and resulting trends in terms of net interest margin, will determine how benefits from high interest rates for bank revenue will recede from 2024.

Fiscal and regulatory risks. Inherent to its financial center position, Luxembourg is vulnerable to fiscal and regulatory changes. Its tax regime depends on international initiatives, like the implementation of the Organization for Economic Cooperation and Development minimum tax rate in 2024, but the country's headline corporate tax rate of 17% is adequate by international standards. More broadly, the banking sector remains vulnerable to regulatory and reputation risks.

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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.

1.0% 2025 forecast

0.9% 2024 estimate

0.7% 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 Is Solid, Albeit Slowing

Key takeaways

- We expect the Maltese economy to prove resilient to external challenges and continue to expand in 2024 and 2025.
- Although the evolution of property prices is something we are watching, 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 growth in Malta will continue supporting the banking sector. Although most eurozone economies suffered a significant slowdown in 2023, Malta fared exceptionally well, on immigration and large tourism inflows. S&P Global Ratings expects that, from 2024 to 2027, Malta will display stronger GDP growth than regional peers. This also reflects the government's decision to subsidize energy prices and a limited pass-through of policy rate hikes in Malta compared with 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 relatively 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 Maltese citizens' preference for owning homes, interest from residents of other countries, and government incentives. Still, the potential buildup of imbalances is a risk, given that 60% of bank loans relate to real estate.

Reducing reputation risks requires work. We view as positive 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 weakening global economy. The country's small and open economy is vulnerable to an increasingly likely external shock. In particular, disruption in global trade and tourism, alongside elevated energy prices, could hit this economy 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.

2.0% 2025 forecast

4.0% 2024 estimate

8.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.5% 2025 forecast

4.0% 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.

The Netherlands | BICRA group: 3

Solid Fundamentals Help Banks Surmount Economic Challenges

Key takeaways

- We foresee some deterioration in asset quality as the operating environment remains challenging but expect this will be manageable for banks.
- After a small house price correction in the first half of 2023, prices are now increasing and we expect this will continue in 2024 and 2025.
- Dutch banks' fundamentals--healthy capital levels, ample liquidity, digitally advanced business models, and relatively efficient cost bases--should help them to cope with economic challenges.

Key credit drivers

We foresee some 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 marginal increase in nonperforming loans to 2.3%, coming mostly from lending to corporates and small and midsize enterprises. We expect Dutch banks will maintain prudent provisioning and we anticipate credit impairment charges will remain stable at a through-the-cycle level of 25-30 basis points.

Despite lower demand for new lending, Dutch banks have benefited significantly from fast-rising interest rates in 2023 and reported strong overall performance. Loan books largely comprise longer-term, fixed-rate mortgages, but there is ample liquidity in the system. Banks have therefore increased savings interest rates relatively slowly compared with the market interest rate rise. We expect net interest income will remain strong in 2024 and 2025 but somewhat below the 2023 level. This is because we believe net interest margins should normalize due to further client deposit pass-through rates, lower income on minimum reserves, and interest rate cuts.

Key assumptions

Slow economic growth over the next 18 months. We expect 0.5% GDP growth in the Netherlands in 2024 and 1.5% in 2025. The labor market remains tight, and we expect unemployment to stay below 4%. Inflation, after peaking at 11.6% in 2022, declined to 4.1% in 2023 and we expect it to slow to 2.8% in 2024 and fall toward 2% in the following years.

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

What to look for over the next year

Credit demand and net interest margin. If credit demand remains subdued, competition among banks 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 liquidity in the system.

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Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

2.0% 2024 estimate

2.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.1% 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.

Norway | BICRA group: 2

A Pickup In Domestic Demand Is Around The Corner

Key takeaways

- Norwegian banks continue to have strong capital and liquidity buffers, which, on top of a dynamic economy and the sovereign wealth fund's ample reserves, underpin the sector.
- Similarly, much of Norway's growth has been supported by public demand, where private consumption has been hit by real wage contraction and higher financing costs.
- Asset quality will remain stronger than European peers', aided by high employment and non-mainland investment, with domestic growth expected to pick up in 2025.

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Read latest report

Key credit drivers

Consumption and GDP growth have slowed. Norway navigated the past 18 months from a strong position, with both inflation and tight monetary policy undermining consumption. The Norwegian krone (NOK) has also remained relatively weak, increasing both 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 supportive of earnings. The sector is well-positioned to manage challenges, with strong returns in 2023 and both capital and liquidity levels appearing sound. Asset quality has been stable, despite some sectors facing headwinds.

Key assumptions

Real GDP growth will improve to 1.6% a year over 2025-2027. The recent 2023 trough of 0.5% came from high inflation and interest rates eroding household purchasing power. Growth factors include improved household consumption, and capital expenditure related to the energy transition.

The cost of risk will stay manageable despite lingering pressures. Impairment losses increased to 0.2% in 2023, below pandemic-peak levels but broadly in line with pre-pandemic figures. We expect credit losses will remain at about 0.2% over 2024-2026, from 0.05% at year-end 2022, as the credit cycle is set to normalize.

What to look for over the next year

Possibly persistent high inflation. With inflation abating more slowly than elsewhere, the Norges Bank has been more hawkish than neighboring central banks. Wage agreements could continue to pressure costs, and financing conditions might be less favorable than for Nordic peers.

The path of medium-term investment. Hydrocarbon-related investment could abate heading into 2025 and the related growth drivers will be telling for Norway's outlook. Commercial real estate remains a focus, given banks' relatively high exposure, and although refinancing risk has subsided, transaction volumes remain depressed. Also, the weak NOK has helped competitiveness, but soft foreign demand could affect exports.

Loan growth

Sector-average growth in loans.

1.8% 2024 estimate

2.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.7% 2024 estimate

0.7% 2023 actual

RoAA

Sector-average return on average assets.

1.1% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending June.

Poland | BICRA group: 4

High Rates Underpin Banks' Strong Profitability

Key takeaways

- We project the Polish economy will rebound thanks to inflows of EU funds and stronger private consumption.
- We expect ongoing provisioning needs will recede for those banks affected by legal risks related to legacy Swiss franc-denominated mortgages.

Key credit drivers

High central bank rates support very strong profitability that will only gradually normalize. A high amount of excess deposits in the banking sector reduces deposit competition and supports relatively resilient net interest margins. However, with likely rate cuts starting in 2025, we expect banking sector profitability to decrease to more normal levels of about 10% return on equity.

Given higher nonperforming loan (NPL) ratios, longer workout processes, and a less established secondary market for NPLs, we expect asset quality metrics will remain structurally weaker than peers'. However, we still anticipate reductions in credit losses over the short to medium term, given the general economic rebound and the active workout of legacy NPLs. Furthermore, the debt capacity of Polish households and private sector leverage remain solid, in our view.

Key assumptions

We expect real GDP growth to pick up to 2.8% in 2024, providing a favorable operating environment for banks. Despite downside risks from low growth prospects in key European trading partners, Poland's domestic growth outlook is underpinned by the inflow of EU funds as well as a robust labor market and rising real wage growth, which we think will support private consumption.

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 to pick up to about 8% by 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.

What to look for over the next year

The new government's approach toward banks. After years of high government intervention, there is potential for a reduction, which could be supportive for banks' profitability as well as investor confidence and ultimately improve domestic banks' access to international capital markets.

Legal actions from borrowers with already repaid Swiss-franc-mortgages. Affected banks' profit and loss accounts are still sensitive to legal risk, should existing provisions regarding borrowers with already repaid loans be too low.

Legal risks from cash loans. Recently, some clients alleged violations of the Consumer Credit Act and claimed back cash loan costs from certain banks. Even though the number and value of the claims are not material for now, they could become costly should this issue gain further traction among consumers.

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Loan growth

Sector-average growth in loans.

8.4% 2025 forecast

2.6% 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.

0.9% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Portugal | BICRA group: 5

Sound Profits And Efficiency, With Large Retail Deposit Bases

Key takeaways

- Portugal's economy will grow above the eurozone average and its labor market will remain resilient, while housing prices will continue the declines that started in 2023.
- Banks' profitability and efficiency will be solid, aided by streamlined operating structures and contained credit losses, despite the impact from gradually lower interest rates.
- Some asset quality deterioration is likely, but within manageable levels, while banks will continue being mostly deposit-funded and maintain ample liquidity.

Key credit drivers

Banks will maintain sound profitability and efficiency. While below the peaks of 2023, Portuguese banks will continue to post solid profitability and efficiency, with domestic return on equity standing at about 9.5% in 2024 and 2025, and cost-to-income at close to 40%. Their net interest margins are set to decline amid lower interest rates and higher funding costs, but they should benefit from streamlined operating structures and contained credit losses. In addition, previous wide differences in performance among peers will continue narrowing.

Asset quality deterioration will be manageable. After further problem loans cleared throughout 2023, we anticipate some increase of problematic assets on higher costs of living and still-tight financing conditions. The deterioration should be controllable, however, as economic growth will continue supporting employment and the cost of debt for borrowers remains overall affordable. We forecast credit losses will stand at about 60 basis points (bps) in 2024 and 55 bps in 2025.

Banks will remain mostly deposit-funded. Deposits will remain banks' main funding source, exceeding their loan books (loan-to-deposit ratio below 80%), while they will maintain ample liquidity. Banks will continue to tap foreign capital markets occasionally and mostly to build up their minimum requirement for own funds and eligible liabilities requirements, while the sovereign's credit improvement should support investors' appetite for Portuguese risk, including for banks, in our view.

Key assumptions

Economic growth will decelerate but exceed the eurozone average. We expect Portugal's real GDP to expand 1.4% in 2024 and 1.8% in 2025. Growth will mostly derive from higher public investments and reforms backed by Next Generation EU funds, while the labor market will remain robust.

Housing prices are set to decelerate. After rising about 10% on average from 2016-2022, property prices will likely continue the declines that began in 2023, portending diminishing imbalances.

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.

Asset quality trends. Worse-than-anticipated economic growth or unemployment 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.

1.5% 2025 forecast

0.2% 2024 estimate

-1.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.9% 2025 forecast

4.5% 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

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

Key credit drivers

We expect Slovenian banks to remain robust, supported by economic improvement. Banks' substantial de-risking efforts in recent years and improved cost efficiency have strengthened the sector's competitive standing. Sector consolidation continues 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.

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

Key assumptions

We expect the Slovenian economy will expand robustly in 2024. We forecast GDP growth at about 2.3% in 2024 and 2.5% in 2025. The country 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 tail risks in adverse scenarios. We think unemployment will remain low in 2024, at 3.7%, while inflation continues to drop to a projected 2.5% in 2026.

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, which continued during first-half 2024. Nonperforming assets and credit losses stayed surprisingly low despite the severe flooding in August 2023. We expect both to normalize in 2024.

What to look for over the next year

The effect of 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 some 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 by 3.0% in 2023, a substantial cool-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 borrowing costs 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

Positive Momentum

Key takeaways

- Banks' profitability will remain solid in 2024, with the gradual decline of interest rates expected to depress revenues more in 2025, and strong efficiency will be preserved.
- Some problem loans could emerge, primarily from small and midsize enterprises (SMEs) and unsecured consumer loans, but credit costs will remain contained and easily absorbed by revenues.
- Banks will continue to benefit from sound funding profiles and adequate capitalization.

Key credit drivers

Economic growth in Spain will outpace the eurozone average. We forecast real GDP growth of 2.0% over 2024-2027, versus 1.2% for the eurozone. The deployment of NextGenerationEU funds, strong tourism performance, greater resilience to the energy shock, and Spain's services-led economy all contribute to the country's relative strength. However, the complex political landscape limits policy action, and the country remains burdened by high public sector debt.

Profitability prospects will remain solid. We forecast the banking system's domestic return on equity at 10.2% in 2024. The rapid increase of interest rates has boosted earnings, given banks' largely floating-rate assets and cheap deposit funding. However, banks also benefit from their lean operating structures, which have been significantly downsized over the past decade. The return of more solid profits will particularly benefit midsize players, bolstering their ability to invest in digitalization and build up capital. As a result, several of these banks are currently on a positive outlook.

Asset quality deterioration will be contained. While there are limited signs of asset quality weakness, some problem loans could emerge in 2024, particularly among SMEs and unsecured consumer loans. We expect credit costs will be limited, however, at about 60 basis points of average loans.

Key assumptions

The labor market will remain resilient, supporting asset quality. Unemployment will reduce to 11.6% in 2024 but will subsequently fall only modestly.

The shift in monetary policy will be smooth, carefully managed by the European Central Bank.

What to look for over the next year

To what extent declining interest rates affect banks' net interest income. We believe banks have implemented hedging strategies to contain the fall of revenues and should be able to offset part of the effect with higher volumes and fees, but we will have more visibility in the upcoming quarters.

Whether lending growth resumes, after more than a decade of continual deleveraging.

The outcome of BBVA's voluntary tender offer to Sabadell's shareholders. If it goes ahead, this would be transformational for BBVA, as it would gain scale in its home market and potentially further boost efficiency and returns.

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Loan growth

Sector-average growth in loans.

0.0% 2024 estimate

-3.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.9% 2024 estimate

4.6% 2023 actual

RoAA

Sector-average return on average assets.

0.8% 2024 estimate

0.9% 2023 actual

Figures as of fiscal year ending December.

Sweden | BICRA group: 2

Credit Conditions Are Set To Thaw

Key takeaways

- We expect robust results for Swedish banks in 2024, and although net interest income may have peaked, the Riksbank's rate cuts will likely be gradual to keep a lid on inflation.
- Credit growth will likely pick up in the second half of this year, amid signs of a housing market recovery, alongside decent demand from corporate sector.
- Sweden's private sector continues to grapple with elevated funding costs, but we believe potential asset quality deterioration will remain manageable.

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Read latest report

Key credit drivers

The repatriation of real-estate management funding has supported credit growth. Over the past 18 months, many large Swedish property managers have sought refinancing support from banks given volatile wholesale funding markets. This has partially offset tepid residential mortgage loan growth.

Banks carry significant exposure to real estate. Real estate lending accounted for about 48% of banks' total loans as of fourth-quarter 2024, up from about 45% in 2022. Real-estate-related lending volumes have slowed in the wake of tighter monetary policy, as higher financing costs have led some to amortize more, while others to delay plans. Also, losses related to real estate exposures have remained low for banks, implying asset quality has remained robust despite rising interest and living costs.

Key assumptions

Banks' earnings and capital have strengthened further. Rapid interest rate increases have boosted banks' net interest income and led to record returns. The cost of risk remains contained, but should it increase, banks are well positioned, in our view, to absorb an increase in losses, as well as the potential effects of the upcoming Basel IV implementation.

The labor market is expected to remain intact. We expect unemployment to peak at 8.3% in 2024, whereas generally high employment has supported households' repayment capacity during the recent downturn. Savings buffers built during the pandemic have also helped, although the savings rate has declined. As pressures ease, the picture for Swedish households is expected to improve.

What to look for over the next year

An uptick in private-sector consumption. We forecast Sweden's real GDP growth at 0.3% over 2024, with a further rebound to 2.0% in 2025, driven mainly by private consumption. We also expect stimulus from defense spending, which is set to increase, but housing construction remains uncertain for the medium term. Similarly, with the country's position as a net exporter, global demand could affect Sweden's GDP growth over 2025-2026.

Geopolitical risks may loom larger over the coming quarters. Sweden's accession to NATO and certain domestic security concerns may have a bearing on how the country formulates its fiscal policy agenda. Households and corporates will enter 2025 well-equipped, which supports our view that Sweden is well placed to manage potential challenges if they arise.

Loan growth

Sector-average growth in loans.

2.5% 2024 estimate

1.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.6% 2024 estimate

0.5% 2023 actual

RoAA

Sector-average return on average assets.

0.7% 2024 estimate

0.8% 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 following interest rate cuts by the Swiss National Bank (SNB), but we also expect robust profitability, supported by strong cost discipline and lower risk costs than Western European peers.
- We expect Swiss banks' safety-conscious business models, their sound underwriting standards, and the country's economic resilience to continue supporting our very low 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 for Swiss banks 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

Similar to other European countries, Switzerland's growth is set to slow. We expect Swiss GDP will rise 1.2% 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 score 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, bank supervision, capital, and liquidity requirements. In addition, new management tools should improve resolution planning and crisis cooperation among authorities. These rules would also require a cultural change on regulation and we have yet to see how the Swiss Financial Market Supervisory Authority would apply its new powers.

Receding risks to the financial system from Credit Suisse. UBS has made considerable progress toward integrating Credit Suisse. At the same time, the latter's absence can be felt in the corporate lending market, leading to more unfavorable interest offerings. We also observe increasing market shares of foreign banks, albeit from a very low base.

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Read latest report

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

2.1% 2024 estimate

3.1% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.6% 2025 forecast

0.6% 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.

United Kingdom | BICRA group: 3

The Road Is Opening Up For U.K. Banks

Key takeaways

- The U.K.'s economy remains meek, but it is slowly turning a corner as inflation has fallen and consumption has returned.
- Earnings resilience, stable asset quality, and solid funding and capitalization underpin U.K. banks' credit profiles.
- As the banking system embarks on a long road back to normality, with deposit mix stabilizing and rates tapering slowly, U.K. banks are on a stable footing.

Key credit drivers

U.K. banks face a tepid short-term economic outlook. GDP growth in 2023 was a trickle, at 0.1% , and 2024 remains depressed. Inflation remained sticky in early 2024 and, combined with elevated interest rates, economic growth looks set to remain muted this year.

Conditions are firming up. Sustained low unemployment is an essential underpinning to the U.K.'s economy. As inflation has cooled, this tight labor market has seen consumer purchasing power tentatively pick up. In sum, with green shoots in the supply side of the economy, the medium-term outlook for the U.K. is slowly firming up.

We expect the U.K.'s banking sector to remain robust. Our ratings on U.K. banks have been solid in the past 18 months. Cautious funding and liquidity management, comfortable regulatory capital, and healthy earnings enable the major players to navigate an uneven U.K. economic backdrop. This flexibility is central to the stability of our Banking Industry Country Risk Assessment (BICRA) for U.K. banks.

Key assumptions

Strong industry profitability despite receding interest income in 2024. Elevated interest rates will support banks' income over the next 24 months, even if net interest margins look set to fall this year. Net interest income should still be solid in 2024 though, and will be propelled upward in 2025 by rising income coming from banks' structural hedges. Combined with cost discipline and contained asset impairment, earnings remain strong under our base case for 2024 and 2025.

Asset quality should gradually return to normal. We expect asse t quality to show pockets of weakness this year as lingering inflation and elevated interest expense pressure the most vulnerable borrowers. Even if nonperforming loans are slow to appear in 2024, we expect banks will look to keep their stock of loan provisions in place.

What to look for over the next year

The U.K. mortgage market is adapting to higher interest rates. High interest rates and cost of living have yet to spill into the housing market, with prices falling only modestly by 1.3% in 2023, and our outlook for 2024 seeing growth of 1.0%. Even so, mortgage borrowers are facing up to significantly higher borrowing costs as medium-term rate expectations have remained high--forcing them to extend their borrowing term to preserve affordability. This increased debt-servicing burden and the still high cost of living could yet reduce the demand for housing transactions.

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Loan growth

Sector-average growth in loans.

1.0% 2025 forecast

0.0% 2024 estimate

3.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.7% 2025 forecast

1.6% 2024 estimate

1.5% 2023 actual

RoAA

Sector-average return on average assets.

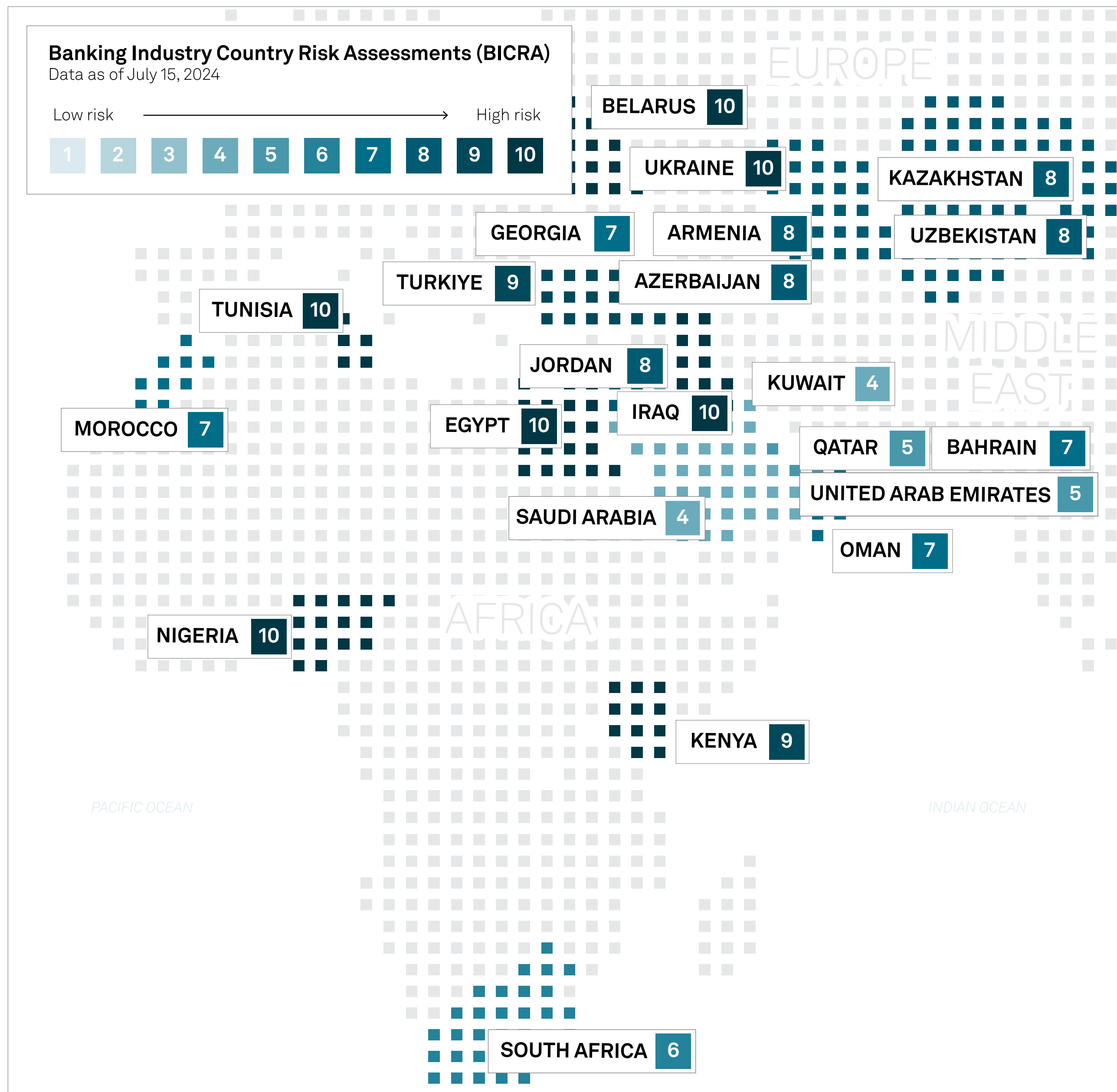
0.6% 2025 forecast

0.6% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

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.

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Key credit drivers

A higher share of local currency-denominated lending reduces credit risk linked to exchange rate changes. Bank loans in foreign currency declined to about 32% of systemwide loans as of April 30, 2024 (from 55% in 2018), comparing well with the banking systems in Georgia and similar small, highly dollarized economies. We expect this will continue, despite a projected depreciation of the Armenian dram.

Wealth is still moderate but economic growth has picked up. 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 6.4% in 2024 and 5.0% in 2025. Positive economic momentum will continue helping banks resolve legacy problem loans and create revenue growth for the sector.

Contingency risk has reduced after a swap of bonds of the former unrecognized Nagorno-Karabakh Republic. The Armenian government forced banks to write-off 30% of these exposures in late 2023. We believe this also reduced uncertainty regarding these exposures, which previously accounted for 3%-4% of systemwide loans, and much more for several banks.

Key assumptions

The banking system will continue closing the credit gap. We expect credit growth to stay in the 15%-20% range over the next few years, with private sector debt to GDP reverting 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.

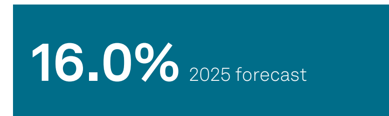
House prices are on the rise, but will eventually slow down. House price growth accelerated to 12%-15% year on year in capital city Yerevan, and other regions, despite lower transaction volumes. However, we expect lower affordability, a decline in unmet demand, and the phase-out of mortgage credit will 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 peace treaty with Azerbaijan, along with its complicated relationship with Russia, will dominate the news flow and political agenda despite the absence of any major elections in the next two years.

Loan growth

Sector-average growth in loans.



21.0% 2024 estimate

16.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.0% 2024 estimate

5.3% 2023 actual

RoAA

Sector-average return on average assets.

2.9% 2024 estimate

2.7% 2023 actual

Figures as of fiscal year ending December.

Azerbaijan | BICRA group: 8

Lending Growth Despite Muted Economic Growth Prospects

Key takeaways

- We expect about 10%-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 about 1.5% annually. However, we expect 10%-15% growth in the banking sector in 2024, to a large extent supported by consumer lending growth.

The banking system's funding profile has strengthened. We have seen no material outflows 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 declined to regional peers' levels. Also, volatile nonresident deposits, at 5%, are much lower than regional peers'.

Key assumptions

The banking system is recovering after a protracted correction. Favorable commodity price dynamics have stimulated credit demand and resulted in improved asset quality. We expect the system will continue recovering, supported by strong growth in lending in 2021-2023.

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 may improve corporate governance, including amended requirements for independent board directors and changes to risk management requirements.

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

What to look for over the next year

A moderate deterioration of asset quality. We expect nonperforming loans could increase to 3.5% over the next 24 months from 2.7% at end-April 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, normalizing cost of risk, and control over operating expenses.

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Read latest report

Loan growth

Sector-average growth in loans.

13.0% 2025 forecast

13.0% 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

Moderate Lending Growth But Relatively Steady Profitability

Key takeaways

- We expect lending growth of about 3% in 2024-2025, primarily fueled by the retail sector.
- Private and public sector funding needs are likely to result in higher recourse to external debt, although we expect a large portion to come from Gulf Cooperation Council (GCC) countries, which is likely to remain stable.
- Despite higher-for-longer interest rates and high exposure to cyclical sectors, we believe Bahrain's relatively diverse economic base will contain the deterioration in banks' asset-quality indicators.

Key credit drivers

External vulnerabilities persist. Strong funding needs from the private and the public sector are putting pressure on the funding profiles of Bahraini retail banks, leading to a rapid accumulation of external debt over the past five years. As a result, retail banks' net external debt reached about 30% of systemwide domestic loans on March 31, 2024, compared with 14% in 2021. However, a large portion of this debt is coming from GCC countries and is likely to remain stable, including during episodes of market volatility, which reduces the risk associated with this external debt.

Bahrain's economic growth will average 2.4% over 2024-2025. We expect the government's strategic investments in the non-oil sector will drive overall growth. At the same time, we expect weak oil sector performance and weakness in the real estate market to continue in the short term.

Key assumptions

Asset quality deterioration should be manageable. We expect nonperforming loans to increase to about 5.2% in 2024 compared with 4.8% in 2023 and cost of risk to slightly pick up to 70 basis points. As an interest-rate decline starts in December 2024 and continues through 2025, we expect lending growth to pick up and asset quality to modestly improve.

Subsidized housing financing will drive credit growth. We expect credit growth of about 2%-4% 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. Overall, we expect leverage in the economy will remain below 75% of GDP for the next couple of years.

The government's capacity to support the banking system is limited. We expect the Bahraini government would have limited capacity to support the banking system in the event of distress, owing to fiscal constraints.

What to look for over the next year

Consolidation of the banking system. Bahraini authorities have been increasingly encouraging consolidation across the sector. A few transactions have already taken place, and some are being contemplated, which should support the banks with weak capitalization and reduce the overcapacity in the system. Although we expect profit margins to modestly decline next year, in line with expected interest rate cuts, the trend of consolidation should support stronger profitability in the medium term.

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Loan growth

Sector-average growth in loans.

3.5% 2025 forecast

2.3% 2024 estimate

1.7% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.9% 2025 forecast

5.2% 2024 estimate

4.8% 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.

Belarus | BICRA group: 10

The Economic And Political Environment Remains Difficult

Key takeaways

- Persisting financial stability and external risks, due to severe economic stress caused by 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 likely further impair 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. The full extent of the economic damage is difficult to estimate at this time, but we expect it will be substantial. The tough economy means that considerable pressure on the banking sector will continue, squeezing banks' earnings, asset quality, funding, and liquidity.

Key assumptions

Economic growth will likely decelerate this year as the post-2022 shock recovery fades. In addition, 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, as well as logistical and financial constraints from international sanctions. Belarus' weak growth prospects induce continued strain on the banking sector, with a limited ability for healthy new business and 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 3.5%-4.0% in 2024-2025.

What to look for over the next year

How asset quality evolves. Issues from severe economic stress, including international sanctions, will continue pressuring Belarus' banking sector's performance. Furthermore, the government has limited scope to support the sector's stability, 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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Loan growth

Sector-average growth in loans.

19.0% 2025 forecast

19.0% 2024 estimate

17.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

14.0% 2025 forecast

13.0% 2024 estimate

12.5% 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.

Egypt | BICRA group: 10

Banks' Creditworthiness Is Linked To That Of The Sovereign

Key takeaways

- Material foreign direct investment (FDI) and donor support alleviates pressure on banks.
- Banks' exposure to the sovereign remains substantial and heightens the sector's risk.
- Exposure to risky small and midsize enterprises (SMEs) is key in asset quality development.

Key credit drivers

Banks have a strong link with the government's creditworthiness. As of February 2024, the sector's gross exposure to the sovereign, through securities and loans, rose to about 64% of assets, or 9.5x equity, from 60% in June 2023, because of a lack of appetite from foreign investors. We expect sovereign exposure to remain elevated and sensitive to currency performance. Even if these investments strongly support banks' profitability, they heighten the link between banks' and the sovereign's creditworthiness.

Banks' asset quality will suffer. Higher interest rates--after an 800-basis-point (bps) cumulative hike since January 2024--strong currency depreciation, and slower growth will weigh on borrowers' credit quality, particularly SME borrowers (about 25% of the lending book). A significant share of publicly guaranteed lending and a natural hedge for customers indebted in foreign currency will cushion the impact, but we expect credit losses to increase to about 180 bps in 2024-2025.

Banks' reliance on external funding will decline. Improved foreign-currency liquidity in the economy will also help banks' net external liabilities. Banks' net external debt declined to about Egyptian pound (EGP)138.3 billion, as of April 2024, from a peak of EGP543 billion in January 2024. We expect it to continue gradually declining amid liberalization of the exchange rate in March 2024, as the increased external leverage mostly resulted from a foreign currency shortage in the country.

Key assumptions

Macroeconomic indicators to improve slowly. Due to the foreign currency crunch, we estimate slowing GDP growth to 3% as of June 2024 and gradual recovery afterward if the broad-based reform agenda is implemented as planned. Commitment to flexible exchange rates should help address the foreign currency shortages and support competitiveness. We expect Egypt's fiscal and external positions to slowly improve, but remain weak, and inflation to gradually decline to about 22% on average in fiscal year ending June 30, 2025, from an estimated average of 32% in 2024.

What to look for over the next year

Sensitivity to foreign currency exposure. The exchange rate liberalization will directly affect banks' capital ratios because about 20% of assets were in foreign currency as of February 2024, by our estimate.

Foreign currency liquidity. Sustainable improvement of the exchange rate regime might alleviate the foreign currency shortage and support economic growth over time, creating a more supportive environment for the banking sector.

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Loan growth

Sector-average growth in loans.

29.7% 2024 estimate

23.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.3% 2024 estimate

3.2% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2024 estimate

1.3% 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 supporting the Georgian banking sector's 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).

Key credit drivers

Banks in Georgia face fewer economic risks than regional peers. We expect GDP growth to moderate to about 5% in 2024-2025 from over 9% on average over the past three years. Still, this 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

While geopolitical risk remains elevated, we expect a limited impact on the economy in the short term. The internal political situation remains tense, with parliament approving a "foreign agents" bill despite significant opposition and massive protests. Parliamentary elections in October this year might exacerbate the country's political polarization and challenge relations with Western parties, potentially changing the direction the country is taking in the long run.

Limited further reduction of the refinancing rate. We think the NBG is unlikely to reduce the refinancing rate materially over the next 12 months after a 3% reduction to 8% on May 22, 2024, from the peak of 11% a year ago.

We foresee growth in loans and deposits will moderate in 2024. We expect growth of about 15%-16% 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 the banking sector regulation. In 2023, the NBG changed procedures for implementing international sanctions, which required a decision by a Georgian court before applying to Georgian citizens. Also, some changes were introduced to the governing structure of the NBG that may weaken its independence. We will continue monitoring the risk of potential weakening banking regulation.

Further reduction in loan dollarization rates. From the beginning of 2024, the NBG introduced a limit on retail loans in foreign currency of minimum Georgian lari (GEL)300,000 (about $107,000), with plans to increase it to a minimum of GEL1 million to limit consumer lending in foreign currency to unhedged individuals. This might lead to further reduction of loan dollarization from 55% as of March 31, 2024.

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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 banks are exposed to significant institutional weaknesses. 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 spend freely, which has created high ongoing spending stress. In our view, Iraq's political and economic development is hampered by widespread corruption and the threat of domestic and external conflict, which have increased since the start of the Israel-Hamas war.

The system is overbanked, fragmented, and dominated by state-owned banks. Iraq's 77 banks cater to a population of just 40 million Iraqis. State-owned banks typically hold about three-quarters of total assets, which distorts the market further. 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 $7,000 in 2024, is lower than that of Gulf peers. This, combined with its weak institutional framework, increases the risks to which the sector is exposed.

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 came through government and public institutions at year-end 2023, and external funding requirements are negligible. Still, long-term funding is almost nonexistent, which results 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.

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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: 8

Resilience Despite Regional Headwinds

Key takeaways

- Regional tensions, still-tight financing conditions and the government's ongoing fiscal consolidation efforts will weigh on domestic demand.
- We expect banks' lending activity to recover only in 2025--assuming geopolitical risk abates--and weakening borrowers' creditworthiness.
- Limited imbalances in the system and banks' solid fundamentals will keep the deterioration of asset quality contained, however.

Key credit drivers

Jordan's economic activity will remain subdued in 2024 and gradually recover from 2025 if geopolitical risk recedes. Lasting tight monetary conditions together with the government's fiscal consolidation will limit domestic demand. We also expect the Israel-Hamas war will continue to deter tourism, which is the country's main export and the key source of private sector employment. We therefore expect GDP growth to slow to 2.1% this year and gradually improve to 2.5% in 2025, from 2.6% in 2023.

Private sector leverage will stabilize but remain elevated at around 81% of GDP in 2024-2025. The Central Bank of Jordan has increased its main policy rate by a cumulative 500 basis points (bps) since March 2022, in line with the U.S Federal Reserve moves. This has been effective in reducing inflation and, to some extent, private sector leverage. In our view, lending activity will remain muted this year, given that we do not foresee easing credit conditions in the near term and expect precautionary savings to increase amid rising regional tensions.

Key assumptions

Manageable asset quality erosion. Banks will face asset quality pressures over the next few quarters amid slowing economic activity, persistently high real interest rates, and the gradual scaling back of subsidized lending schemes. Their low direct exposure to the tourism sector (around 2% of total loans) together with limited imbalances in the economy should contain the deterioration. Credit losses will remain elevated at around 110-130 basis points in 2024-2025 before converging to their normalized level by 2026. In our view, banks would have sufficient capital buffers to absorb higher-than-anticipated credit losses, though this is not our base case.

Profitability will stabilize. Jordanian banks' profitability has fully recovered from the pandemic, reaching 9.3% return on equity in 2023. We project their profitability will stabilize somewhat over the next quarters as a slightly declining margin amid an upcoming rates cut will be compensated by volume growth.

What to look for over the next year

External risks. Persisting regional tensions and higher-for-longer interest rates could further disrupt Jordan's economy and potentially erode banking sector profitability and asset quality.

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Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

2.3% 2024 estimate

1.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.4% 2025 forecast

5.7% 2024 estimate

5.0% 2023 actual

RoAA

Sector-average return on average assets.

1.2% 2025 forecast

1.0% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending December.

Kazakhstan | BICRA group: 8

Risks Are Under Control As The Recovery Continues

Key takeaways

- We believe 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 recovered from a protracted correction, and we expect the recovery to continue supporting solid banking sector performance through 2024-2025.
- We consider banks' credit risk under control for now, 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 buffer against risks in an external operating environment that remains volatile. For 2023, the sector reported a net profit of Kazakhstani tenge (KZT) 2.2 trillion (about $4.9 billion), almost 50% higher than in 2022. We expect the sector will demonstrate similar 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. This should mitigate the risk of repeating mistakes that have led to bank 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. An anticipated slowdown of growth in retail loans to 18%-20% from 30% on average over 2021-2023 would support banks' risk profiles, as rapidly increasing indebtedness among those on lower incomes could raise banks' 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 7.5%-8.0% 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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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.

7.5% 2025 forecast

8.0% 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

High Interest Rates Will Constrain Asset Quality And Capitalization

Key takeaways

- Economic imbalances stemming from Kenya's external financing vulnerabilities, high inflation, and interest rates will continue to constrain banks' asset quality metrics.
- Revaluation losses and banks' high exposure to the sovereign are negative for capitalization.
- Persisting external financing vulnerabilities could hurt banks' asset quality, since foreign currency-denominated loans accounted for one-third of total loans at year-end 2023.

Key credit drivers

We expect credit impairments to remain elevated. Micro, small, and midsize enterprises, as well as households, are vulnerable to the current high interest rates and inflation in Kenya, which are likely to hamper loan performance and recovery prospects. Furthermore, concentration risks stemming from banks' exposures to the construction and real estate sectors could lead to payment delays and add to structurally elevated nonperforming loans (NPLs). We therefore expect credit losses to remain high at about 2% of systemwide loans in 2024.

Revaluation losses and high exposure to the sovereign could erode capitalization. Further interest rate hikes would increase the revaluation losses on banks' fixed-income portfolios, undermining capital. Also, banks' sovereign exposures represented about one-third of their 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 and fiscal position are expected to improve, supported by the country's dynamic services-led private sector and expanding agricultural sector. However, wealth levels on a GDP per capita basis are low and expected to average $1,800 over that period.

Credit growth and profitability are set to remain strong. However, the private-sector debt-to-GDP ratio remains relatively low (below 30%) and in line with that of frontier markets. We also anticipate the banking sector's profitability will stay resilient, with the return on equity averaging 26% through 2025, supported by higher net interest margins.

What to look for over the next year

Regulatory response to potential stress in the banking sector. According to the central bank, 10 banks would likely require a combined capital injection of $346.5 million if interest rates rose by 300 basis points and the NPL ratio to 17.4%. In this regard, Kenya's Treasury recently proposed an increase of banks' minimum core capital requirement to Kenyan shilling (KES) 10 billion from KES1 billion.

External financing vulnerabilities. If they persist, they could lead to tight supply of foreign currency in the system. The sector foreign currency loans reached 35% following a 25% depreciation of the local currency in 2023.

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Loan growth

Sector-average growth in loans.

13.1% 2024 estimate

13.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

16.3% 2024 estimate

14.8% 2023 actual

RoAA

Sector-average return on average assets.

3.5% 2024 estimate

3.5% 2023 actual

Figures as of fiscal year ending June.

Kuwait | BICRA group: 4

Credit Demand To Remain Weak

Key takeaways

- Economic activity is likely to contract because of lower oil production and weaker non-oil activity.
- We expect that subdued demand in the real estate sector and exposure to riskier geographies will generate new nonperforming loans (NPLs) for Kuwaiti banks.
- The sector's funding profile is supported by a strong local deposit base.

Key credit drivers

We expect Kuwait's economy to contract in 2024. After 1.8% in 2023, we forecast a contraction of 2.3% in 2024, given OPEC+ oil production restrictions. Over 2025-2027, we expect a rebound to an average of 2.4% growth over 2025-2027 as OPEC+ oil production restrictions are eased slightly and project implementation improves.

Banks' asset quality is likely to weaken. Rising borrowing costs and a weaker rental market have weighed on the investment property market (primarily rental homes for expats). The commercial real estate sector also continues to suffer from lackluster demand and excess supply. Overall, we expect these to lead to some new NPLs for banks. We forecast cost of risk will increase and normalize at about 60-70 basis points (bps) in 2024, from 35 bps in 2023. Given their strong provision buffers, banks are likely to use write-offs to limit the increase in the NPL ratio.

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 source of risk but 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 remain subdued. Banks' lending books expanded by an annualized 1% in the first quarter of 2024. We expect higher-for-longer interest rates will lead to lower demand from corporate and retail borrowers, which will translate into 3% loan growth for the banking sector in 2024-2025. Nevertheless, we see upside potential if the recently announced constitutional review speeds up the passage of long-impeded structural and fiscal reforms, and implementation of large government investment projects accelerates.

Banks will continue to display solid profitability. Kuwait's banking sector is well positioned to benefit from higher-for-longer interest rates. Migration of deposits to remunerated instruments and higher cost of risk will reduce the positive impact to some extent.

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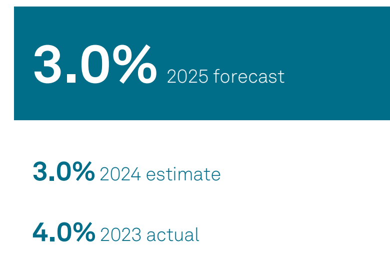
Loan growth

Sector-average growth in loans.

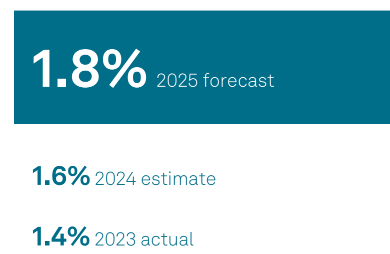


3.0% 2024 estimate

4.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

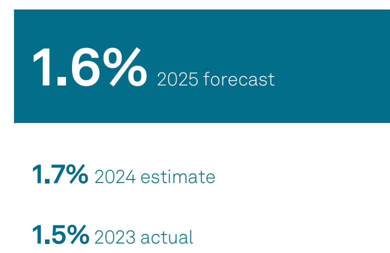


1.6% 2024 estimate

1.4% 2023 actual

RoAA

Sector-average return on average assets.



1.7% 2024 estimate

1.5% 2023 actual

Figures as of fiscal year ending December.

Morocco | BICRA group: 7

Economic Growth Helps Profitability

Key takeaways

- We forecast that Morocco's GDP will rise by 3.4% in 2024 and 2025, bolstered by economic reforms and resilient demand from eurozone trade partners. The economy's dependence on agriculture is a key vulnerability.
- We expect Moroccan banks' profitability to stabilize at the pre-pandemic level.
- A significant presence in Africa and increased political and economic instability are weighing on the credit profiles of the largest banking groups in Morocco.

Key credit drivers

Stable credit growth. We expect loan growth of about 5%-6% in 2024-2025, balancing economic growth prospects and still-high interest rates, weighing on households' loan demand and corporate investments. Some infrastructure investments will also help.

Profitability is improving also thanks to better operational efficiency. We expect the return on average assets to stabilize at pre-pandemic levels as the positive impact of higher rates and solid fee income is accompanied by contained expansion of costs. We estimate the cost-to-income ratio declined below 50% in 2023. Resilient trading gains have also helped during the past two years.

Nonperforming loans (NPLs) are increasing moderately. We expect the domestic NPL ratio to increase moderately to about 8.7% by year-end 2024, as we don't foresee major impacts of higher interest rates on the creditworthiness of corporate and retail borrowers. We anticipate cost of risk from domestic exposure to average 70-75 basis points (bps) in the next few years, versus the pandemic peak of 130 bps in 2020. A weak payment culture and the lack of a secondary bad-loan market or a government-led solution for these loans are preventing banks from a speedier balance-sheet cleanup.

Key assumptions

Growth will improve but remains exposed to cyclical sectors. We forecast that Morocco's GDP will rise by 3.4% on average in 2024-2025--bolstered by robust performance within the tourism, automotive, and aerospace sectors. However, the agricultural sector represents roughly 10% of GDP and 30% of employment, making the economy particularly vulnerable to weather and rainfall patterns.

What to look for over the next year

The largest banks' exposure to Africa is a source of risk. In recent decades, large Moroccan banks have expanded rapidly into sub-Saharan Africa. While the credit risks from lending remain under control, the deteriorating political and economic environment for some of these sovereigns is forcing banks to allocate additional provisions.

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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Loan growth

Sector-average growth in loans.

6.0% 2025 forecast

5.0% 2024 estimate

5.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

8.5% 2025 forecast

8.7% 2024 estimate

8.4% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

1.0% 2024 estimate

0.9% 2023 actual

Figures as of fiscal year ending December.

Nigeria | BICRA group: 10

Banks Face The Impact Of Lingering Naira Depreciation

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' capitalization if the naira depreciates further.
- Inflation, high interest rates, and U.S. dollar scarcity will keep exacerbating credit risks.

Key credit drivers

The weakened naira increases economic instability. Nigeria's removal of oil subsidies and exchange rate liberalization in June 2023 pushed up inflation, which surpassed 30% in March 2024. The Central Bank of Nigeria (CBN) has settled $4.8 billion of the $7 billion backlog of foreign currency transactions as of Feb. 28, 2024. This helped stabilize the naira, with the exchange rate at about NGN1,500 to $1 in June 2024. The CBN again raised its benchmark rate in 2024 to 26.25% to tame rising food prices.

Ongoing U.S. dollar shortages constrain lending and capitalization. We expect the supply of dollars to remain tight in 2024, constraining banks' lending capacity. We see some growth in the oil and gas sector, thanks to increased refining capacity. Elevated prices and interest rates will continue to constrain household spending. Overall, we expect foreign currency-denominated lending to account for about 50% of total loans in 2024. The depreciating naira has also reduced banks' capitalization because of high risk-weighted assets, which offset banks' exceptional revaluation gains in 2023.

Key assumptions

Leverage will likely remain modest. We expect overall credit to the private sector will remain below 20% of nominal GDP, amid tight conditions, U.S. dollar scarcity, and moderate economic growth.

Asset quality pressures will persist amid tough economic conditions. We estimate impairment charges of about 4% of loans in 2023 after banks used their exceptional earnings to boost provisions. We forecast the credit loss ratio at about 2% in 2024. Although the amount of nonperforming loans (NPLs) is likely to increase, the NPL ratio will likely decline to about 5% by year-end 2025, as gross loans increase as a result of the depreciation of the naira.

Profitability should stay resilient, due to strong net interest margins. We expect return on equity will normalize in 2024 at about 20% after averaging about 30% in 2023.

What to look for over the next year

An increase in banks' capitalization. The CBN has raised banks' minimum paid-up capital 20x to NGN500 billion (about $380 million) for an international banking license. The deadline to comply is March 2026. We foresee potential mergers, acquisitions, or changes in business models as a result.

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Loan growth

Sector-average growth in loans.

25.0% 2025 forecast

25.0% 2024 estimate

52.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

5.0% 2025 forecast

5.4% 2024 estimate

5.5% 2023 actual

RoAA

Sector-average return on average assets.

3.0% 2025 forecast

3.5% 2024 estimate

3.3% 2023 actual

Figures as of fiscal year ending December.

Oman | BICRA group: 7

Economic Fundamentals Are Improving

Key takeaways

- We expect favorable oil sector dynamics, coupled with higher nonhydrocarbon-sector output, to sustain real economic growth in Oman for 2024-2026.
- We anticipate limited impact on banks' asset quality from protracted poor performance in the real estate sector and high GRE exposure.
- Banks are likely to continue relying heavily on public sector deposits.

Key credit drivers

We expect economic growth to improve credit conditions. This will support the performance of key sectors such as tourism, transportation (mainly shipping), and utilities. We expect the government's fiscal and economic reform momentum will continue over 2024-2027. We forecast real GDP will expand about 2% per year on average over 2024-2027. In addition, the reorganization of government-related entities (GREs) is improving their operational efficiency and strengthening their financial profiles. As a result, we expect the drop in stage 2 loans for Omani banks to continue from an estimated 17% at year-end 2023 and 17.6% at year-end 2022.

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 GREs. The stability of these deposits largely mitigates this concentration. Moreover, banks' recourse to external funding remains limited.

While still under pressure, the real estate sector is unlikely to cause a drift in asset quality indicators. Residential real estate prices started to recover in 2022 and are likely to benefit from stronger economic and population growth. The market is still imbalanced, with supply exceeding demand both for residential and commercial segments. However, we expect the overall impact on asset quality to remain contained because a well-diversified portfolio balances the risks.

What to look for over the next year

Continuing market consolidation. In our view, the Omani banking sector remains overbanked, with more than 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% 2024 estimate

4.0% 2022 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.6% 2024 estimate

4.8% 2023 actual

RoAA

Sector-average return on average assets.

1.3% 2024 estimate

1.2% 2023 actual

Figures as of fiscal year ending December.

Qatar | BICRA group: 5

Modest Credit Growth And Stable But High External Debt

Key takeaways

- We anticipate lending growth will remain muted in 2024 before picking up in 2025.
- We expect Qatar's external liabilities to remain high, with some minor changes in their composition.
- In our view, the Qatari government will maintain a highly supportive stance toward the banking sector.

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Loan growth

Sector-average growth in loans.

5.0% 2025 forecast

4.0% 2024 estimate

4.1% 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.

1.3% 2025 forecast

1.4% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending December.

Key credit drivers

We expect benign growth to continue through 2024. We forecast real GDP growth at 1.8% this year. Hydrocarbon prices are high but private-sector activity is modest. Despite limited funding needs from the domestic private sector, we still forecast related credit growth to expand slightly faster than GDP, given ongoing public-sector-related initiatives. But we consider the overall picture to be relatively subdued following the completion of credit-growth-spurring infrastructure projects. Although riskier sector concentrations exist, Qatar is wealthy, and we expect its economy to remain stable. We expect GDP and credit growth to accelerate from 2025 in line with anticipated projects emanating from the country's liquified natural gas sector.

External vulnerabilities remain high, at similar levels for nearly two years. This implies that a new balance between external and domestic funding sources has been reached in a lower-growth environment. Over the past 12 months, potentially less stable external interbank funding has reduced slightly, partly offset by typically more stable intragroup funding. Still, we assume the banking system will retain its sizable net external debt position, equivalent to one-third of domestic credit, which despite appearing stable, could represent a potential vulnerability.

Key assumptions

Banks are unlikely to need an increase in external funding. About 80% of domestic deposit growth over the first quarter of 2024 was from public-sector sources. But, in nominal terms, new local private deposits have been able to fund domestic credit expansion. We do not expect credit demand to accelerate in the near term to such an extent that external funding again begins to rise rapidly.

Asset quality should remain stable in 2024-2025. Continued higher rates and slower growth will contribute to a rise in nonperforming loans, particularly from segments of the real estate sector. But immediate risks from subsidiaries in Turkiye and Egypt appear to have subsided.

What to look for over the next year

Changing funding dynamics. Weaker-than-expected domestic deposit performance--including from the public sector--could imply higher liquidity risk for banks and strain profitability, or result in increasing external vulnerabilities.

Significant growth in weaker sectors or abroad. Further growth in real estate lending could hamper banks' asset quality, considering ongoing house price weakness and low commercial occupancy levels. Risks could rise if exposures to riskier jurisdictions increase in lieu of domestic opportunities.

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.
- Lending growth will remain high, primarily from corporate clients.
- Tight liquidity and still-significant lending expansion will push banks to issue more external debt.

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Key credit drivers

We expect credit growth will taper off slightly. We expect growth of 8%-9% over 2024-2026, down from 10% in 2023. Fewer mortgage lending opportunities, given high interest rates and the implementation of Vision 2030 projects, explain this trend. We expect corporate lending to be a chief contributor to loan growth.

Accelerated non-oil sector investment and robust consumption increases will keep growth relatively strong. We expect GDP to rise by 3.3%, on average, annually over 2024-2027 and non-oil sector to contribute about 60% of GDP. We also forecast deficits averaging nearly 2% over the next four years. Finally, given rising imports, Saudi Arabia will run smaller current account surpluses of about 1.1% of GDP through 2027.

Key assumptions

Saudi banks' earnings growth will stabilize at best in 2024. This is primarily because of a slight dip in margins and higher impairment charges. As interest rates remain high, the margin reduction in 2024 will likely be minimal and chiefly driven by the continued shift of deposits from noninterest bearing instruments to remunerated ones. Also, we expect high interest rates to affect highly leveraged companies or those with thin margins. Finally, the recovery of 2023 is unlikely to repeat. Therefore, we expect to see a marginal increase in nonperforming loans in the system and higher impairment charges from 2023 levels.

What to look for over the next year

The banking system will shift into a net external debt position. The government and related entities continue to inject deposits into the system to help banks finance their growth. However, given the high financing needs and slow private sector deposit growth, we expect Saudi banks to further tap into external funding sources, resulting in banks shifting to a net external debt position. While we expect this position to remain moderate, it signals a structural shift that introduces exposure to changes in investor sentiment and capital flows.

Loan growth

Sector-average growth in loans.

8.0% 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

Strong Balance Sheets Protect Banks From A Faltering Economy

Key takeaways

- Credit conditions remain tight amid elevated inflation and interest rates.
- We expect credit losses to remain above historical trends in 2024.
- The banking sector's profitability will remain resilient due to robust net interest margins.

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Key credit drivers

Demand for credit will remain muted. Credit conditions will remain tight in 2024, with private-sector lending increasing in line with nominal GDP growth at about 5.2%, after less than 4% in 2023. We expect further lending to the renewable energy sector because of electricity shortages. The South African Reserve Bank's (SARB's) repurchase rate remains a high 8.25% as of May 2024. Higher interest rates and inflation will restrict households' disposable income and small and midsize enterprises' financial performance.

Credit losses will stabilize. We estimate impairments at 1.0% in 2024 after 1.1% in 2023, but still higher than the historical average of 0.8%. Similarly, we expect nonperforming assets to decrease toward 4.4% in 2025 after reaching 4.9% in 2023.

Banks' financial performance will remain robust. We anticipate adequate risk-adjusted returns averaging 16% in 2024, supported by banks' diversified business models, consistent share of non-interest income, and high interest rates. We expect banks to remain well capitalized and start building additional loss absorbing capacity (ALAC) in 2025. Top-tier banks hold an average of 400 basis points (bps) of excess capital above their minimum common equity tier 1 ratio.

Key assumptions

Macroeconomic conditions remain tough. Infrastructure gaps, electricity shortages, and low investor sentiment continue to hamper South Africa's economy. We estimate real GDP growth at 0.9% in 2024 after 0.6% in 2023. Interest rates remain 200 bps higher than before the pandemic, but the SARB will likely cut its key policy rate in 2025 if inflation returns to the middle of its 3%-6% target range.

Portfolio flows are vulnerable to global investor sentiment. The South African rand remains weak despite monetary policy tightening. Foreign investors have reduced their holdings of local-currency sovereign debt to about 25% in 2023 from about 40% in 2017. Banks can increase their exposure to sovereign debt thanks to their liquid balance sheets and positive yields in real terms. Their holdings of government debt have already increased, reaching 15% of the sector's total assets in 2023.

What to look for over the next year

Regulatory actions. The resolution framework became effective in South Africa in June 2023 with the SARB as the sole resolution authority. The deposit insurance scheme has been operational since April 2024. Details on the calibration of ALAC instruments issued by domestic systemically important banks are expected to be clarified before year-end 2024.

Loan growth

Sector-average growth in loans.

5.9% 2025 forecast

5.2% 2024 estimate

3.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.4% 2025 forecast

4.7% 2024 estimate

4.9% 2023 actual

RoAA

Sector-average return on average assets.

1.4% 2025 forecast

1.5% 2024 estimate

1.5% 2023 actual

Figures as of fiscal year ending December.

Tunisia | BICRA group: 10

The Risk Of A Near-Term Macroeconomic Shock Has Receded

Key takeaways

- In the past 18 months, Tunisia has repaid its commercial external debt amid constrained financing options and an adverse macroeconomic environment, pointing to lower external liquidity risk.
- Refinancing risk remains nonetheless significant owing to large twin deficits and persistently scarce funding options.
- Coupled with muted economic growth, we expect continued pressure on Tunisian banks' asset quality and profitability, straining their already-weak capitalization.

Key credit drivers

Risk remains high in the absence of decisive macroeconomic reforms. A decade of instability and low growth has weakened banks' operating environment. Reform implementation is weak, preventing stronger macroeconomic performance and rebalancing of public and external accounts.

Tunisian banks' profitability is weakened by a hostile and highly competitive environment. The system remains fragmented but also dependent on central bank funding, hindering growth and earnings prospects.

Key assumptions

We forecast real GDP growth to remain muted in 2024-2027. This is because of low public and private investment; persisting external pressures given the uncertain global environment, especially in Europe, Tunisia's main trade partner; and still tight funding conditions, although we are witnessing an easing of monetary policy in the eurozone.

Refinancing risk for the government remains significant. Tunisia has large twin deficits and significant external and domestic debt. Given the strained relationship with the International Monetary Fund, official creditor funding remains scarce. However, the country has honored its external debt repayments and we expect this to continue, absent any additional shocks.

Low credit demand and deteriorating asset quality due to high rates. We expect muted lending growth due to the weak economy and uncertainty over upcoming elections. We also forecast nonperforming loans to remain close to 14% over the next 18 months, due to expected write-offs, and the cost of risk to stay elevated, averaging 140-160 basis points.

What to look for over the next year

Visibility on reform implementation and mobilization of external funding. A clear program of reform could help the country in its negotiations with official creditors and return Tunisia's debt to sustainable levels. This would also open the door for private sector financing.

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 on the banking system, although it is likely to be phased in over several years.

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Loan growth

Sector-average growth in loans.

4.0% 2025 forecast

4.0% 2024 estimate

7.1% 2022 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

14.2% 2025 forecast

14.4% 2024 estimate

15.3% 2023 actual

RoAA

Sector-average return on average assets.

0.9% 2025 forecast

0.9% 2024 estimate

0.8% 2023 actual

Figures as of fiscal year ending December.

Turkiye | BICRA group: 9

Economy Gradually Rebalances

Key takeaways

- Persistent monetary tightening--combined with better coordination between monetary, fiscal, and income policies--should help to rebalance the economy.
- Banks will suffer from weaker business activity and asset quality erosion but these will be manageable.
- Regaining the confidence of domestic residents will be key to reducing the risk of high dollarization.

Key credit drivers

Asset quality will deteriorate amid economic readjustment. Slowing economic activity, tighter financing conditions, and a weaker lira are likely to erode borrowers' creditworthiness. We expect rising inflows of nonperforming loans and forecast banks' credit losses to increase to about 190 basis point (bp) in 2024, from 140 bps in 2023. Provisioning efforts over the past two years and strengthened capital buffers should, however, help banks to absorb the costs.

Refinancing risks are stabilizing. The consistency of monetary tightening over the past year has improved market sentiment and increased the external debt rollover rate for banks. Assuming this continues, we expect banks to refinance most of the $103.2 billion short-term debt, as of March 31, 2024. Foreign currency liquidity (estimated at $148 billion at the same date) offers a buffer against any unexpected reduction in rollover rates. That said, a portion of this liquidity is held at the central bank and may not be fully accessible. Moves to unwind the foreign exchange-protected deposit scheme (13.3% of deposits as end-May 2024) and increase the attractiveness of the Turkish lira (TRY)-denominated deposits are gradually reversing the financial sector dollarization.

Key assumptions

Domestic demand will decline amid strengthened credit tightening measures. We therefore expect Turkiye's economy to slow notably, with GDP growth decelerating to 3% in 2024-2025. Real estate prices will continue adjusting gradually as negative real interest rates and a high share of self-financed operations will continue to moderately support the market. We also expect rising portfolio inflows and a narrowing current account deficit over the next two years. We expect the lira to slightly depreciate to about TRY40/US$ by the end of 2024 and to TRY42/US$ by 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 55.8%, before gradually declining to 27.3% 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, we may see banks' reported profitability significantly reduced.

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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.

2.8% 2025 forecast

1.7% 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

- So far, economic conditions in 2023 and 2024 are 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 to remain close to 2023 levels.

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) declined to 36% at end-March 2024 from the peak of 39% at mid-2023 due to retail NPL write-offs. We view a further increase as possible over the next 24 months, but not above 40%. The National Bank of Ukraine encourages banks to proactively provision problem loans.

Key assumptions

The banking system will likely remain resilient given improved economic conditions, despite the war. We expect average 4%-5% GDP growth in the medium term, reduced inflation to below 10%, a decrease in the key policy rate to 13.5% in late April 2024, and easing of currency controls to support the sector's resilience.

Lending outside state support programs will underpin lending growth over the next 12 months. Cards and mortgages arranged under the eOselia program have spurred growth in retail loans denominated in 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

New regulatory initiatives. New requirements for capital structure and capital adequacy ratios will come into effect in August 2024. The next resilience assessment of the top banks will take place in 2025.

Lower profitability in 2024 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 32% and retail deposits by 15% year on year as of end-March 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.

7.0% 2025 forecast

3.0% 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.

3.0% 2025 forecast

3.0% 2024 estimate

3.4% 2023 actual

Figures as of fiscal year ending December.

United Arab Emirates | BICRA group: 5

Ample Liquidity Will Support Strong Lending Growth

Key takeaways

- We expect lending growth to remain strong in 2024-2025.
- Asset quality indicators are likely to stabilize thanks to the supportive economic environment.
- Banks' profitability will continue to benefit from higher-for-longer interest rates.

Key credit drivers

Profitability to remain high. We expect higher-for-longer interest rates will continue supporting UAE banks' profitability, although the effect may be slightly diluted by the continued migration of deposits from non-interest-bearing instruments to remunerated ones.

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

Asset quality expected to stabilize. We anticipate that stage 3 loans will stabilize at about 4.0%-4.5% in 2024-2025 compared with 4.2% as of March 31, 2024. We see potential pressure on asset quality from leveraged corporates and small to midsize enterprises, due to higher interest rates. However, we believe the solid performance of non-oil sectors and banks' precautionary provisioning will help maintain cost of risk at about 70-80 basis points (bps) in 2024-2025, versus 74 bps in 2023.

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.

Geopolitical risks will remain contained. The Israel-Hamas war currently poses limited downside for the UAE banking system. However, a sharp escalation involving direct conflict between key regional actors could change the picture. The banking system remains in a very strong net asset position and therefore we expect banks to remain resilient in case of outflows.

What to look for over the next year

Risk are looming for the growing real estate sector. Since the end of 2020, demand for residential real estate in Dubai has rebounded strongly. We anticipate a gradual market slowdown as the pipeline of recent project launches approaches completion over 2025-2026, raising oversupply risks. We therefore think that price increases will gradually decelerate and potentially slightly reverse as the next cyclical correction arrives. Nevertheless, we believe the risk for banks is contained since most property transactions are in cash--more than 80% in 2023. Meanwhile, developers have strengthened their liquidity buffers in preparation for the next cyclical trough as they continue to report healthy pre-sales and cash flow generation.

A strong local deposit franchise will continue to support funding. Banks have accumulated local deposits over the past two years. We expect strong deposit growth will continue through 2024 as the economy remains supportive, leading to stronger cash flow generation from corporates.

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Read latest report

Loan growth

Sector-average growth in loans.

8.5% 2025 forecast

8.0% 2024 estimate

8.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

4.3% 2025 forecast

4.4% 2024 estimate

4.5% 2023 actual

RoAA

Sector-average return on average assets.

2.2% 2025 forecast

2.4% 2024 estimate

2.2% 2023 actual

Figures as of fiscal year ending December.

Uzbekistan | BICRA group: 8

Economic Growth Supports The Banking Sector's Performance

Key takeaways

- The banking sector is well positioned to continue performing well in 2024-2025, supported by solid economic growth, new business growth, and strong deposit dynamics.
- We expect asset quality will continue gradually improving, backed by the positive economic momentum.
- Despite strong growth, the operating environment remains challenging, reflecting modest wealth levels, evolving risk management, and intensifying competition.

Key credit drivers

Strong economic growth will underpin good banking sector performance. We expect solid GDP growth of about 5% over 2024-2026, supported by domestic demand and investment. This reflects Uzbekistan's gradual success in implementing its reform and economic modernization agenda. The economy continues to weather reasonably well the spillover effects from the Russia-Ukraine war, despite normalizing remittance inflows and money transfers from Russia after the highs of 2022. 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 normalizing toward 1.8%-2.0% in 2024-2025. We expect nonperforming assets under IFRS of 6.0%-6.5% in 2024-2025, reflecting the balance of Uzbekistan's good economic growth prospects against banks' lending growth, relatively high risk appetite, and still-weak underwriting standards.

Key assumptions

Lending growth will likely remain high at 23%-25% in 2024-2025, thanks to a supportive economy and strong retail lending demand. Moderate exposure to vulnerable sectors and still-tight government control mitigate the risk of asset bubbles. Uzbek banks will continue benefitting from active growth of retail banking business. At the same time, we expect a slowing of aggressive growth in auto lending, reflecting the regulatory measures aimed at limiting excessive retail lending growth.

Government dominance in the banking sector and the economy will decrease gradually. We consider that a traditionally strong share of lending to state-owned enterprises and lending under government programs will gradually diminish, reflecting continued growth of commercial lending by state-owned banks and private banks.

What to look for over the next year

Government to push ahead with its wide-ranging reform agenda. This includes the privatization of some state-owned enterprises, after the acquisition of Ipoteka Bank by OTP group. Nonetheless, decision-making remains centralized and government influence still undermines effective bank supervision. State-owned banks will have to undergo a transformation to improve their profitability and performance indicators and prepare for the planned privatization over the next few years.

Entry of foreign players will likely intensify competition, but we consider the banking sector landscape will remain fairly stable over the next few years.

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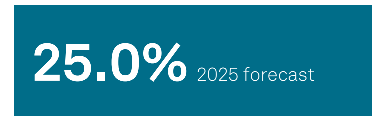
Loan growth

Sector-average growth in loans.



23.0% 2024 estimate

20.9% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

6.5% 2024 estimate

7.2% 2023 actual

RoAA

Sector-average return on average assets.

2.0% 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.
- Rising consumer prices, high interest rates, fragile 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 rising interest burden.

Australian banks face reduced industry risks. Continued strengthening of institutional and governance standards in the Australian banking sector have reduced industrywide risks. Simplified business models and advances in risk management have also contributed to this improvement. We consider the risk of regulatory lapses to be low. 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 rising consumer prices, high interest rates, fragile 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 on the rise. Cyber threats continue to present a risk for Australian banks. Accelerated digitalization has increased such risks and could lead to more severe cyberattacks that trigger higher losses.

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Read latest report

Loan growth

Sector-average growth in loans.

4.0% 2024 estimate

5.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.9% 2024 estimate

0.9% 2023 actual

RoAA

Sector-average return on average assets.

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

- Liquidity is likely to remain tight for Bangladesh banks. Volatile remittances, frozen interbank market, and weak external demand will continue to limit the availability of U.S. dollars for servicing obligations, particularly foreign currency letters of credit.
- Banks will benefit from the full interest rate deregulation. However, overall profitability is likely to remain modest, given limited pricing power for large corporate lending and rising funding cost.
- 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 declining 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 of some Islamic banks, and low capitalization of state-owned banks.

Key assumptions

Weak profitability to continue. We expect credit growth of 11%-13% in the system. Banks are likely to see some improvement in their net interest margins (NIM) from the transition to a full-fledged market-based interest rate system. In May 2024, Bangladesh Bank withdrew the six-month moving average treasury rates (SMART)-based benchmark lending rate, in which loans could be priced 3.5 percentage points above the benchmark. In our view, a market-based system would allow banks more flexibility to price risk appropriately. However, given banks' loan books are predominantly corporate oriented, the transition can get dragged out and the benefits to NIM may be delayed. Meanwhile, the rise in the cost of funds as the central bank tries to tame high inflation should also temper these benefits.

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 will push banks to recognize overdue loans 90 days past due, versus the current 270 days. This will strain the sector's reported NPL ratio, which we project will increase to 11.5% in 2025. In our view, this will pose short-term pain, but will improve transparency in line with international norms.

What to look for over the next year

Reform agenda. Bangladesh's Prompt Corrective Action framework, which takes effect on March 31, 2025, will compel banks to enhance their 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.

12.0% 2025 forecast

12.0% 2024 estimate

12.2% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

11.5% 2025 forecast

10.5% 2024 estimate

8.2% 2023 actual

RoAA

Sector-average return on average assets.

0.3% 2025 forecast

0.3% 2024 estimate

0.4% 2023 actual

Figures as of fiscal year ending December.

Brunei | BICRA group: 6

Profitability To Remain Sound

Key takeaways

- Bank earnings will continue to benefit from higher interest rates in 2024.
- Loan growth will be driven predominantly by external lending.
- Banks are likely to maintain strong balance sheets.

Key credit drivers

External lending to drive growth. Brunei's banks will continue to seek geographic diversification. External lending will remain the source of system loan growth. Such lending doubled to 18% of the loan book in 2023 from pre-pandemic levels. Domestic credit will likely grow 3%-4%, driven by Brunei's foreign direct investment pipeline and the government's diversification initiatives. The shift in bank lending toward productive sectors will continue. A saturated market and regulations on the total debt service ratio would constrain retail demand.

Sound financial performance to continue. A high U.S. Fed rate in 2024 will continue to benefit Brunei banks' investment yields. The spread between lending and deposit rates also remains large even as deposit costs are set to rise. Asset quality of Brunei banks has been improving despite the end of pandemic-related restructuring. The banking sector has very strong capital buffers, with Tier-1 capital ratio of 20.6% as of March 2024. Banks have robust liquidity, given the strong surpluses at the country's government and related enterprises, and limited opportunities for domestic lending.

Key assumptions

High-income economy will remain intertwined with developments in the energy market. Brunei's economic performance is tied to global energy prices and domestic oil and gas output. Several production facilities in the country are mature and require periodic maintenance and rejuvenation. The government's strong net fiscal asset position and oil wealth will buffer against energy-related shocks. The economy will also benefit from increased oil output, higher returns on investments in the gas segment, and continued growth in downstream industries.

Brunei's banks to have stable asset quality. The nation's economic growth is likely to pick up to 3% over 2024. Brunei banks' large exposure to government-linked companies and customers, Brunei's extensive social welfare schemes, and stable lending rates in the country will continue to support asset quality. We therefore expect the NPL ratio to remain stable at 2.5%-3.0% in 2024-2026.

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. We believe deposits will rise when the Fed starts tapering, likely in fourth-quarter 2024.

What to look for over the next year

Financial sector reforms. Brunei's regulatory and supervisory standards are evolving. For example, the central bank is implementing some aspects of Basel III, such as liquidity coverage ratio. It has also concluded the first round of consultations on the design of a recovery and resolution framework for regulated financial institutions.

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Read latest report

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 system wide loans.

2.8% 2025 forecast

2.7% 2024 estimate

2.7% 2023 actual

RoAA

Sector-average return on average assets.

1.7% 2025 forecast

2.0% 2024 estimate

2.1% 2023 actual

Figures as of fiscal year ending December.

Cambodia | BICRA group: 9

Asset Quality Seeing Side Effects Of A Long Pandemic

Key takeaways

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

Key credit drivers

Pressure on asset quality. Cambodian banks will need time to recover from a pandemic-related hit to tourism and souring property markets. Restructuring of loans related to tourism signals residual pain even as growth is strong. Spending by tourists will take longer to recover, in our view.

High leverage. Private credit will remain high for the crowded banking system with insufficient buffers and low-income levels. This is because the track record of low credit growth is short.

Strong funding from parents. Cambodian banks have elevated loan-to-deposit ratios, but they will continue to benefit from the backing of foreign parents. This will partly mitigate 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. Cambodia's property oversupply will continue. The bulk of the projects are financed with foreign money. But local developers are also affected, especially in the landed house segment. These projects mostly rely on local financing via bank loans. Banks will remain cautious in lending, which will further squeeze the local developers.

Lower reserve requirement, and a likely Fed rate cut will ease funding strain. The Cambodian banking system has been dealing with rising funding costs because of a strong U.S. dollar and related capital outflows. Deposit rates have come off since the central bank lowered the reserve requirements till the end of 2024. A hike in reserve requirements could be delayed further as the central bank may wait for asset quality to stabilize before proceeding.

Credit growth will remain low as banks turn cautious. Funding dynamics have eased slightly with lowering of reserve requirement. However, we expect banks to remain cautious in lending owing to elevated nonperforming loans and credit losses. The recovery in pandemic-stressed sectors is likely to remain weak in 2024 and 2025.

What to look for over the next year

Recovery of tourist spending and uptake of restructuring. Banks have until the end of 2024 to classify Siem Reap tourism-related loans as problem loans. While tourist arrivals will soon recover to the pre-pandemic levels, spending will continue to lag. Therefore, many loans will turn nonperforming.

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Loan growth

Sector-average growth in loans.

8.0% 2025 forecast

5.0% 2024 estimate

4.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

7.5% 2025 forecast

6.5 % 2024 estimate

5.4% 2023 actual

RoAA

Sector-average return on average assets.

1.0% 2025 forecast

0.9% 2024 estimate

0.7% 2023 actual

Figures as of fiscal year ending December.

China | BICRA group: 6

Uneven Recovery Pressures Chinese Banks

Key takeaways

- Declining net interest margin (NIM) is pressuring sector profitability. An uneven economic recovery also poses modest strains on asset quality and credit costs for some banks.
- Weak home sales are hurting surviving developers and causing more debt restructuring in lower-tier cities. Property loan exposure is manageable at about 6% of total loans.
- New asset classification rules will improve information quality. Big strides will take several years for banks with less capital buffer to recognize more bad loans.

Key credit drivers

Uneven recovery weighs on profitability. Lower loan rates and policy-driven concessions to support economic recovery are eating into margins. Modest asset quality strains from pockets of risks in loans to developers and local government financing vehicles (LGFVs) could also lift credit costs for the Chinese commercial banking sector over 2024-2026.

Smaller regional banks face bigger challenges. The property market downturn is most dire in lower-tier cities, posing risks to local banks with concentrated exposure in these regions. Highly indebted city governments might be forced to cut ties to weak state-owned enterprises. More LGFV debt restructuring will pressure the capital and earnings of local banks in these debt-laden regions.

Key assumptions

Policy measures to support growth and confidence. We estimate China's annual GDP growth will average 4.7% over 2024-2026. Loan growth is likely to average around 9%. Banks with strained capital buffer could slow asset growth. Policies that favor lending to small companies will keep their bad debt manageable. Weak property sales will delay the recovery of developers' loan quality.

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 from our estimate of 1.16% in 2023.

What to look for over the next year

Slower loan growth. Policymakers continue to control macro leverage and financial risk while household demand remains weak. We project overall loan growth to fall to about 9% in 2025 from about 10% in 2024.

Tighter regulations and LGFV debt restructuring to hit aggressive banks. Stricter asset classification rules now cover all non-loan credit assets on- and off-balance sheet (though business prior to July 1, 2023, have a grace period till end-2025 to meet these standards). Meanwhile, new capital rules flag potentially higher charges on more categories of risks and LGFV concentration from Jan. 1, 2024.

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Read latest report

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 system wide 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

Strong Fundamentals Provide Cushion Against Risks

Key takeaways

- Profitability will likely be stable in 2024 and modestly decline in 2025.
- Prudent underwriting standards, strong capital, and robust funding and liquidity buffer against downside risks, such as further property weakness in Hong Kong or mainland China.

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Read latest report

Key credit drivers

Hits from the strained China and Hong Kong property sector will likely be manageable. Hong Kong banks have been lowering exposures and building up provisions against their China property loans. This will likely limit any significant impact on asset quality from the property woes in the mainland.

We also believe banks can manage credit risks arising from Hong Kong's commercial real estate. Exposures are mainly collateralized with the average loan-to-value ratio approximately 50% for major banks, which provides some buffer against a significant drop in property valuations. We expect nonperforming asset ratio for Hong Kong banks to slowly decline in the coming years. In addition, credit costs will remain at about 50 basis points (bps) for the sector in 2024, similar to the 2023 level, before a gradual decline to about 45 bps in 2025.

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 will remain largely steady. We project Hong Kong's economy will rise 3.3% in 2024 and 2.9% in 2025. However, any major setback to China's economy due to the property crisis, weak external demand, and intensifying geopolitical frictions could weigh on Hong Kong banks.

NIMs will be broadly stable in 2024 and moderately decline in 2025. We believe interest rates will begin to fall toward end of 2024. The average NIM should dip by a modest 5 bps in 2024 and about 10 bps in 2025 from about 1.4% in 2023. Fee and commission income could see some growth as wealth management and bancassurance activity gradually gains pace in 2024 and 2025.

Residential prices are likely to soften in 2024 and stabilize in 2025. This is mainly driven by our expectation of interest rates staying higher for longer and the supply glut in the property market.

What to look for over the next year

Downside risk to China's economic growth. A deeper knock to property sector sales than we expect could stall China's economic recovery. This could have a potential contagion impact on Hong Kong's banking sector as well.

Loan growth

Sector-average growth in loans.

2.0% 2025 forecast

1.0% 2024 estimate

-3.6% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.4% 2025 forecast

1.5% 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.
- Stronger balance sheets and higher demand should boost bank loan growth, but deposit growth will lag.
- RBI's regulatory clampdown will create a robust and transparent financial system.

Key credit drivers

Economic growth momentum to continue. India's economic growth prospects should remain strong over the medium term, with GDP expanding 6.5%-7.0% annually in fiscal years 2025-2027.

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 is supporting good profitability. We expect credit cost to rise marginally to 0.8%-0.9%. Normalization of credit costs and a possible dip in margins could lower 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 but deposit growth to lag. We expect loan growth to be in line with nominal GDP, with retail loans expanding the fastest. Corporate borrowing is gaining momentum, but the uncertain external environment may delay capital expenditure-related growth. Deposits may find it hard to keep pace, thus weakening 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 NIMs to 3.1% in fiscal 2025 from 3.2% in fiscal 2024.

RBI actions and its commitment to strengthen the financial sector. Governance and transparency are key weaknesses for the Indian financial sector. The Reserve Bank of India is heavily focusing on technology, compliance, customer complaints, data privacy, governance, and know-your-customer issues and becoming more vocal and imposing heavy penalties. We believe that increased transparency will create additional pressure on the financial sector to enhance compliance and governance practices. Such measures will curtail lenders' overexuberance, enhance compliance culture, and safeguard customers, albeit technology and 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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Read latest report

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 system wide 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 to be orderly.
- Controlled credit costs and high net interest margins will support overall profitability.

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Read latest report

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. We are seeing 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 3.5% as of Jan. 31, 2024. In our opinion, one-eighth to one-fifth of these loans are at risk of turning into nonperforming loans (NPLs). They could add up to about 1 percentage point to the NPL ratio over the coming six months, suggesting that NPLs could peak at 3% in 2024. We believe this level of NPLs is manageable.

Key assumptions

Moderate loan growth, controlled credit costs. We believe Indonesian banks have high liquidity and are well placed to expand their loan books. But higher-for-longer interest rates could crimp demand. The central bank hiked rates by 25 basis points (bps) in April to shore up the rupiah. We forecast loan growth will be 8%-10% in 2024, and pick up to 10%-12% in 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 above 23% over the next one to two years. We expect the sector's profitability, as measured by a return on assets (ROA), 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. Indonesia banks have flagged rising funding costs from higher interest rates. Deposits have also repriced upward, but banks are having difficulty in passing through higher rates to the large corporates. Margins therefore declined about 20 bps to 4.6% for the quarter ended March 2024, from a peak of 4.8% in 2023. We expect net interest margins to compress by another 10-15 bps in 2024. This will place downward pressure on profitability. However, we believe the impact will be largely manageable, resulting in just a modest decline from very high levels.

Loan growth

Sector-average growth in loans.

11.0% 2025 forecast

9.0% 2024 estimate

10.4% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

2.8% 2025 forecast

3.0% 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

Gradual Transition Toward Normalization

Key takeaways

- Japan's banks should remain resilient to uncertainties in domestic and global economies.
- We foresee the receding growth of domestic private sector's gross debt will be mostly offset by steady GDP growth in the next two years.
- The gradual rise of domestic interest rates will bring net positive effects of improving profitability outweighing negative effects such as increasing unrealized losses on bond holdings and rise in credit costs.

Key credit drivers

Systemwide funding remains a key strength of Japan's banking industry. Japan-based banks typically benefit from high and stable deposit bases. This reflects corporate and household net financial positions that are in surplus, as well as Japanese individuals' strong preference for savings. High coverage rates for deposit insurance (about 70% of the sector's total deposit balance) and virtually no competition on interest rates between deposits and money market funds or money reserve funds are factors that work positively to maintain customers' confidence in bank deposits.

A gradual rate hike will help manage volatility. Banks' higher interest incomes over the past two years were supported by lending growth. Gradual rise in policy rates will enhance banks' profitability improvement, albeit slowly and with divergence among banks. In facing higher interest rates, banks have curbed their bond holdings to minimize the increase of valuation losses. However, such losses need careful monitoring because they may exceed our expectations, especially for securities investment-oriented banks and smaller banks with weaker earnings capacity.

Key assumptions

Challenges remain, but economic growth will continue. Although slower global growth and external demand will weigh on economic activity, we expect a relatively limited effect on Japan's growth, given a more domestic-oriented economy and continuing inflation of 2%-3%. Continued wage increases, which lift consumer sentiment, and a strengthening of the yen (thus lowering input costs) will become key factors for consistent economic growth.

Japan's growth in private sector debt level to GDP will slowly decline. Strong GDP recovery outpaced growth of private sector debt in 2023 to lower leverage. We expect increased borrowing demand from the corporate sector to continue for working capital, fixed asset investments, and M&As. The sustained loan growth will decelerate the speed of deleveraging.

What to look for over the next year

Uncertainties over domestic consumption, higher inflation, and yen weakness may come all at once. Higher inflation and slower global economic growth are risk factors for banks' profitability. Weaker exchange rates have helped lift profits of exporters, but higher input costs continue to weigh on importers and consumers. Consumer sentiment hurt by persistent inflation may hurt companies' ability to further pass on costs to customers and continue with wage increase. These factors will weaken economic prospects and turn into challenges for banks.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2025 forecast

2.5% 2024 estimate

2.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.0% 2025 forecast

1.0% 2024 estimate

1.0% 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 Can Contain Property Market Risks

Key takeaways

- Adequate underwriting standards, risk management and build-up of additional provisioning will help the banks contain property-related risks.
- Headwinds in real estate project financing are not much of a concern for banks, given their modest exposure and generally good quality of the projects.
- We see higher credit risks at nonbank deposit-taking institutions, especially mutual savings banks and MG Community Credit Cooperatives (MGCCC), but contagion risk is not high.

Key credit drivers

Asset quality deterioration to be manageable. Elevated domestic interest rates and a sluggish property market will likely lead to some weakening of banks' asset quality. This deterioration won't likely be material, however, given adequate underwriting standards and risk management. The banks' build-up of additional provisioning would also cushion the impact. The average loan loss reserve coverage against regulatory nonperforming loans was about 203% at end-March 2024, versus 112% at end-2019.

Commercial real estate exposures are not likely to add significant strain. This considers the value of collateral and regulatory requirements on the ratio of rental income-to-interest expense to ensure borrowers' loan qualification and payment capabilities. Within property exposures, real estate project financing should remain a key concern in the financial system. In our view, banks are at low risk because of their modest exposure to real estate projects, better project quality focusing on residential projects in major cities, and sizable guarantees from government agencies.

Key assumptions

Recovery of economic growth. Korea is a resilient and diverse economy with steady economic growth prospects. We forecast real GDP will increase 2.6% in 2024 and 2.4% in 2025, compared with 1.4% in 2023, mainly led by stronger export growth.

Some decline in bank profitability in 2024. This is mainly due to narrowing net interest margins and increasing credit losses. Compensation expenses related to potential mis-selling of equity-linked securities products also added burden this year. From 2025, we expect profitability to be broadly stable as lower credit losses offset contraction of net interest margin. This reflects a downward trend in domestic interest rates and the banks' provisioning buffers to absorb losses.

What to look for over the next year

Higher credit risks at mutual savings banks and MGCCC. This considers their aggressive loan growth in the past several years and significant exposure to construction and real estate industries. That said, we do not anticipate a material contagion risk to the banking sector because mutual savings banks are small (about 3% of total loans in the banking system), and MGCCC could use financial resources available at Korean Federation of Community Credit Cooperatives, 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 system wide 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

Economic Recovery Will Take Time To Transmit To Bank Earnings

Key takeaways

- Increasing visitors and normalization of gaming activities should support Macao's economic recovery.
- Rising nonperforming loans (NPLs) will keep credit losses high. NPLs are rising due to the sector's sizable exposures to mainland China's property market and small and midsize enterprises (SMEs) in Macao.
- Earnings are likely to remain subdued in the next two years due to elevated credit losses.

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Key credit drivers

Credit risk will likely remain high. Macao's large exposure to cyclical industries such as gaming, tourism, and the property market can heighten credit risks, in our view. We believe China's patchy economic recovery and ongoing property woes will exacerbate the asset quality of banks in Macao. Many SMEs in Macao are grappling with high interest burdens. Local SMEs also face increased competition in Macao from the mainland companies, including e-commerce giants. As such, the system's NPL ratio materially increased to 3.8% as of end of 2023, from 1.7% as of end-2022.

Macao's banking regulations lag international standards. Governance and transparency are also relatively weak as reflected in limited disclosure on banks' special mention loans or forborne loans. Macao only adopted the Basel II capital framework and IFRS 9 in 2022.

Key assumptions

Macao is a small and wealthy economy exposed to external shocks. We anticipate the real GDP to expand by about 12% in 2024, after a strong rebound of 80.5% in 2023. Nonetheless, the recovery will be uneven across different sectors, with many SMEs struggling to service high interest rates. Macao's heavy reliance on gaming and tourism constrains its economic resilience, in our view.

Constrained credit demand in both domestic and external markets. This is mainly due to high interest burdens on borrowers as well as weakness in property markets in Macao and mainland China. Assets in mainland China accounted for about 23% of the Macao banking sector's total assets as of end-2023, and we believe a significant portion of this is related to China's property sector. Loan balance of Macao banking system has been shrinking over the past few years.

What to look for over the next year

The banking sector's profitability will likely remain subdued over the next two years. This mainly considers an elevated credit cost, measured by provision charges as a percentage of gross loans, of around 1%. We estimate the sector's return on average assets will stay at 0.2%-0.3% over the next two years, similar to 2023, but much lower than an average of 0.8% during 2019-2022.

The structure of the Macao banking sector will likely be stable. The banking system has 34 banks. Branches and subsidiaries of Chinese megabanks dominate the system; we estimate they accounted for more than 70% of total system assets as of end-2023. The introduction of a framework for restricted license banks in November 2023 is unlikely to materially change the competitive landscape.

Loan growth

Sector-average growth in loans.

-3.0% 2024 estimate

-10.1% 2023 actual

NPA ratio

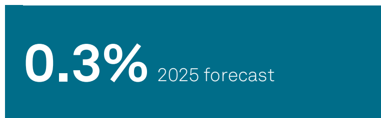
Nonperforming assets as a % of system wide loans.

5.3% 2024 estimate

3.8% 2023 actual

RoAA

Sector-average return on average assets.



0.2% 2024 estimate

0.3% 2023 actual

Figures as of fiscal year ending December.

Malaysia | BICRA group: 4

Banks Likely To Stand Firm Against Headwinds

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.
- Profitability to stay rangebound with limited upside.

Key credit drivers

Loan growth. We forecast credit growth will improve to 5%-6% in 2024, benefitting from higher economic growth and an increase in corporate demand, led by key infrastructure projects. We project Malaysia's GDP to grow about 4.3% in 2024, 4.5% in 2025, better than 3.5% in 2023. In our base case, we forecast policy rates in the country have peaked.

Asset-quality pressures. Higher-for-longer rates and cost pressures could increase financial strain for low-income households and small to midsize enterprises. However, this is not our base case. Meanwhile the solid capitalization (14.9% common equity Tier-1 ratio as of end-2023) and provisioning buffers (1.5% 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-2024 from 1.6% as of end-April 2024. This could come from restructured loans, especially to low-income households and small to midsize enterprises. Sustained currency depreciation could affect import-reliant sectors (manufacturing, construction, and agriculture). The level of restructured loans has diminished steadily and stood at about 2% at end-2023. 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.

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Loan growth

Sector-average growth in loans.

5.5% 2025 forecast

5.5% 2024 estimate

5.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

1.9% 2025 forecast

1.9% 2024 estimate

1.7% 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 On A Stable Footing Amid Favorable Economic Conditions

Key takeaways

- Mongolia's healthy economic prospects will continue to drive credit demand and a gradual improvement in bank asset quality.
- Mongolian banks, however, are exposed to inherently high credit risk due to sizable corporate exposures such as mining, construction, and real estate.
- We believe the major banks have capital buffers to support strong credit growth.

Key credit drivers

Inherent credit risk from corporate exposures. Banks' loan exposure to cyclical sectors such as mining, construction, and real estate, is significant at about 25% of the total loans at end-March 2024. In our view, the lending and underwriting standards in Mongolia are generally aggressive, compared with the developed banking jurisdictions. The banking sector's nonperforming asset ratio will be high at about 10% over the next 12-18 months, despite our expectation of some improvements amid the continuing economic growth momentum.

Mongolia is highly vulnerable to exogenous shocks. The country's heavy dependence on commodities could pose downside risks to the growth trajectory, in our view. The risks include a significant slowdown in global demand, fluctuation in commodity prices, and dependence on China as its major trading partner, which could heighten volatility of the economy.

Key assumptions

Healthy economic growth prospect in the next 12-18 months. Mongolia's economy will continue to expand, fueled by increase in exports to China. Strong foreign direct investments in mining projects over the next two to three years will be also supportive of the economy.

Property prices to appreciate moderately. We expect steady demand for home purchases. The central bank's policy rate cuts will gradually ease financial burden on borrowers. The government demonstrated its commitment to the affordable housing finance program by its recent announcement on new funding worth Mongolian tugrik 1.2 trillion from the National Treasury Fund.

What to look for over the next year

High credit growth will test the banks' ability to manage credit risks. Credit demand should remain strong, benefitting from favorable economic conditions, along with policy rate cuts. We believe the major banks have capital buffer to support high credit growth over the next two years. That said, such growth could result in higher credit losses when loan book seasons over time.

Sound profitability despite some moderation. We expect credit costs to increase moderately as the temporary benefit of large recoveries and net reversals on corporate exposures in recent years fade. Banks' net interest margins are likely to contract amid the rate cuts and intense competition in the banking system. We forecast the sector's return on average assets (RoAA) at 1.8%-2.0% over the next two years. The average RoAA during 2017-2021 was about 0.6%.

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Loan growth

Sector-average growth in loans.

18.0% 2025 forecast

18.0% 2024 estimate

19.0% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

10.1% 2025 forecast

10.4% 2024 estimate

11.3% 2023 actual

RoAA

Sector-average return on average assets.

1.8% 2025 forecast

2.0% 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.
- A mild recovery in property prices has reduced some of the downside risk.
- Low unemployment should limit credit losses.

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Key credit drivers

Economic imbalances remain elevated notwithstanding a mild recovery in property prices in recent months. Following a decline of about 10% in fiscal 2023 (ended June 30), house prices have appreciated by about 1% in the 11 months to May 31, 2024. High net migration should continue to support the recovery in property prices in New Zealand.

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 over 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 in fiscal 2024, then stabilize over the next two years. Most borrowers should be able to absorb the pressures from high interest rates, rising consumer prices, and a slowing economy with ongoing low unemployment.

Banks 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 slow to 1.5% in fiscal 2024 before recovering slightly to 3% in fiscal 2025, below its 5% long-term average.

What to look for over the next year

House prices should continue to rise slowly. Under our base case, house prices will continue their mid-single digit recovery over the next two years. Ongoing supply shortages, high net migration, an expected easing of interest rates and a slight loosening of macroprudential lending restrictions should continue to support the recovery in property prices in New Zealand.

Economic growth to recover in 2025. We forecast real GDP growth will stagnate at near zero in fiscal 2024 and recover to around 2.4% per year over subsequent years. We expect inflation to gradually fall to within the RBNZ's 1%-3% target band over the next two years. The domestic labor market is performing soundly with an unemployment rate at 4%, roughly at the same level as in 2019. Strong annual population growth of 2.8% will further support economic growth.

Loan growth

Sector-average growth in loans.

1.5% 2024 estimate

2.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

0.7% 2024 estimate

0.5% 2023 actual

RoAA

Sector-average return on average assets.

1.1% 2024 estimate

1.1% 2023 actual

Figures as of fiscal year ending June.

Philippines | BICRA group: 5

Sustained High Interest Rates Are A Key Downside Risk

Key takeaways

- Credit growth could increase on lower inflation and potential 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, compared with 8% in 2023. We expect the Philippines GDP to grow about 5.8% in 2024 and 6.1% in 2025, compared with 5.5% in 2023.

Banks maintain good buffers. Elevated inflation and interest rates could erode household savings, straining low-income households and small to midsize enterprises. The sector's good capital position (15.7% Tier-1 ratio) and provisioning will cushion against any moderate rise in credit stress.

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 the next two years. A manageable deterioration in the nonperforming loan ratio is likely. Large corporates, which form the bulk of the sector's loan portfolio, should be able to absorb higher input and financing costs. Banks with higher exposure to unsecured loans could see elevated credit costs as the portfolio matures.

Earnings could moderate over the 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 by a total of 150 basis points in 2024 and 2025 as inflation stays moderate. This should also help contain asset quality risks. However, if inflation and rates remain high, default risks for some leveraged and low-income borrowers could increase.

Property market disruptions. A sharp correction in asset prices would hurt asset quality given banks' sizable exposures to the residential and commercial real estate markets. Real estate loans form about 21% of sector loans; two-thirds are commercial real estate loans. We note that office vacancy rates have stayed sustainably elevated in metro Manila. While its 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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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 system wide 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

The Fed Pivot Will Change Dynamics For The Country's Banks

Key takeaways

- Net interest margin (NIM) likely peaked earlier this year.
- Loan growth should pick up as lending rates trend down from end-2024.
- Asset quality should stay resilient, though an uptick in nonperforming assets is possible, given higher-for-longer interest rates.

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Key credit drivers

NIMs peaked in 2024. NIMs reached 2.0%-2.2% earlier this year. Lending rates in Singapore are correlated with the U.S. Fed rate. We anticipate the Fed will make its first rate cut in the fourth quarter of 2024. We also forecast cumulative rate cuts of 250 basis points (bps) by the second half of 2026. While NIMs for Singapore banks have been strong so far in 2024, they could moderate by about 10 bps a year over 2024-2026.

Resilient asset quality. The realities of higher-for-longer interest rates could result in some backsliding in nonperforming loan (NPL) ratios for Singapore's banks. Asset quality has been holding up, thanks to a robust job market with very low unemployment and corporates' strong financial buffers. Any deterioration in asset quality should be manageable, with the NPL ratio remaining below 2%. Meanwhile, banks have set aside significant management overlays for general provisions to buffer against this potential deterioration.

Key assumptions

Gradual pick up in loan growth, controlled credit costs. We believe 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, with credit costs in the pre-pandemic range of 15-20 bps.

Singapore's economic growth to remain steady. We project the economy will grow at a steady clip of 2.2% in 2024 and 2.5% in 2025, compared with 1.1% in 2023. An improvement in exports has lifted Singapore's economic momentum, given the small and open economy.

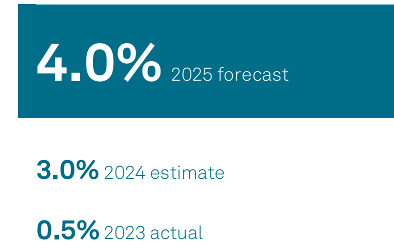
Singapore government is highly supportive of banks. We believe it will provide timely financial support to ensure the stability of the financial system, if needed. This in turn supports the financial profile of banks in the country.

What to look for over the next year

Active capital management in play post Basel reforms. The final implementation of Basel III reforms will see a 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 bank managements will continue to exercise good judgment in both capital and risk management, and tailor decisions according to credit conditions.

Loan growth

Sector-average growth in loans.

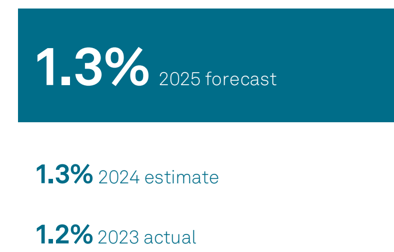


3.0% 2024 estimate

0.5% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

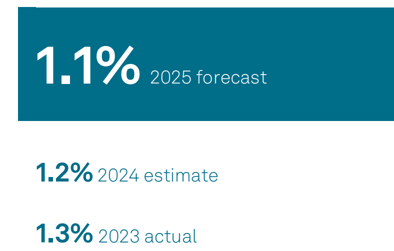


1.3% 2024 estimate

1.2% 2023 actual

RoAA

Sector-average return on average assets.



1.2% 2024 estimate

1.3% 2023 actual

Figures as of fiscal year ending December.

Taiwan | BICRA group: 4

Solid Capitalization Can Absorb Volatility

Key takeaways

- Taiwan banks' capitalization offers a good cushion against potential global economic volatility.
- Sustainable interest income and recovering fee revenue support steady profitability.
- Asset quality and provision buffers to remain satisfactory compared with regional peers.

Key credit drivers

Solid capital buffer underpins stable credit metrics. We forecast the sector will maintain solid capitalization in 2024, supported by prudent capital policies. As of March 31, 2024, banks' average common equity Tier-1 capital ratio stood at 13.24%, 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 66%) 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

Taiwan's economic recovery supports stronger business momentum. We forecast banks will report mid to high single-digit loan growth in 2024-2025, along with better domestic GDP growth and recovering corporate demand. Wealth management business should also post growth, given favorable capital market conditions in recent quarters.

Stable profitability with manageable credit costs. Banks look set to maintain their net interest margins the next few quarters, supported by still-high interest rates. The sector reported strong fee income growth in first-quarter 2024, which could continue throughout the year amid warming wealth management business and higher credit card payments. Credit costs could rise slightly following the end of the government's loan moratorium program, but core earnings can absorb this rise.

What to look for over the next year

Stable asset quality with manageable nonperforming assets. Banks' asset quality and loss provisions are satisfactory compared with their regional peers. The sector's nonperforming assets ratio looks set to remain low at about 0.2% in 2024 amid Taiwan's stable economic outlook. Banks' prudent risk controls and low loan-to-value ratio on property-related lending should support stable asset quality against potential market volatility.

Banks' business strategies increasingly reflect environmental, social, and governance goals. Taiwan's decision to enshrine in law its target of net-zero emissions by 2050 will underpin a gradual evolution in banks' business strategies. This will include an expansion of their lending portfolios for green energy related sectors. In addition, larger banks have begun to collaborate with clients to transform their businesses to meet low carbon emission requirements.

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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

Elevated Credit Costs To Continue Weighing On Thai Banks

Key takeaways

- Economic risk remains high, given structural constraints from high household leverage and a slow and uneven recovery.
- Credit costs to 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 debt and corporate debt as well as pre-existing weaknesses in the small to midsize enterprise (SME) segment.

The Thai government is taking steps to repair household balance sheets and boost SMEs' competitiveness. Thailand's household leverage, at 90%, is one of the highest among emerging markets and has reached unsustainable levels. Many SMEs remain vulnerable too due to their inability to fully pass on a rise in production and borrowing costs, further squeezing their profits. Policy measures, however, require time to crystallize and effect a structural shift.

Stabilization in economic activity. We expect real GDP growth to get support from increased exports in 2024 alongside further normalization in the tourism sector. Growth may also get a temporary fillip from the government's plan to grant cash handouts to boost consumption. Elevated household leverage would weigh on debt-servicing capability. Nevertheless, interest rates are expected to moderate from this year, mitigating downside risks.

Key assumptions

Orderly unwinding of imbalances. Our base case projects an orderly unwinding of imbalances. Banks' credit costs for the system (as measured by credit costs of the top six banks, which form 80% of the banking system) should remain elevated at 1.5% for the next two years at least. Banks have aggressively managed bad loans by selling them off, or writing them down. That and stabilizing economic trends will 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 20.1% and provision coverage at about 176%, as of March 31, 2024. Banks' improving earnings also aided these buffers. We believe the Thai banks we rate can absorb the blow from deteriorating asset quality.

What to look for over the next year

Performance of restructured loans. NPLs haven't spiked, given ongoing relief measures. But at 10%, the high proportion of the banks' loan books under relief measures points to incipient problems in the system. We assume 15%-20% of restructured loans will require additional support and, in the absence of support, could miss payments, increasing slippages in 2024-2025. This can change, depending on the pace of economic revival.

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Read latest report

Loan growth

Sector-average growth in loans.

2.5% 2024 estimate

-0.3% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.3% 2024 estimate

2.8% 2023 actual

RoAA

Sector-average return on average assets.

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 gradual recovery of the property sector and global economy will likely support Vietnam's economic performance.
- The nonperforming loans ratio will improve moderately as economic conditions pick up along with a further extension of a loan restructuring policy.
- 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.

Nonperforming loans (NPL) ratio will improve gradually. The NPL ratio is likely to have peaked in 2023, and remain elevated over 2024 and 2025, following slower economic growth and fallout from a bank fraud. We expect GDP growth to pick up in 2024, and this will relieve pressure on the sector's asset quality. The authorities have also further extended their loan restructuring policy to end of 2024, which will help keep NPL ratios in check. Credit costs will likely remain elevated as banks deal with remnants of property sector stress and lagged effect of 2023's slowdown.

Risks remain despite accommodative policies. Vietnam has experienced brisk credit growth in recent years, with overheated real estate and corporate bond markets, which eventually cooled in 2023. The property and bond markets are likely to recover slowly in 2024 and gain momentum going into 2025 as authorities introduce various measures to support the economy. The authorities amended its law governing credit institutions with an objective to improve corporate governance and transparency, though its efficacy is yet to be seen.

Key assumptions

Vietnam's economy is likely to see improvements in 2024 and 2025. Vietnam's growth is likely to increase to 5.8% in 2024 and 6.7% in 2025 after slowing in 2023. Drivers include the global economy and trade pick-ups and our expectation 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). The country's attractiveness as a destination for FDI in Southeast Asia, combined 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.

Structural challenges remain. Structural challenges include high and increasing leverage in the economy, thin capitalization, and weak transparency and asset quality recognition.

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Read latest report

Loan growth

Sector-average growth in loans.

12.0% 2024 estimate

13.8% 2023 actual

NPA ratio

Nonperforming assets as a % of system wide loans.

3.9% 2024 estimate

4.5% 2023 actual

RoAA

Sector-average return on average assets.

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			Industry risk		
				Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	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	Negative	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	Stable	Stable	EH	VH	VH	EH	H	VH
El Salvador	9	Stable	Stable	EH	I	EH	H	I	EH
Finland	2	Stable	Stable	VL	L	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: 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
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	Stable	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	8	Stable	Stable	EH	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	H	L
Malta	5	Stable	Stable	I	L	H	H	H	I
Mexico	5	Stable	Stable	VH	I	I	I	I	L
Mongolia	9	Stable	Stable	VH	H	EH	EH	H	VH
Morocco	7	Stable	Stable	VH	I	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	7	Positive	Stable	H	H	H	I	H	H
Panama	5	Stable	Stable	I	H	H	I	L	VH
Paraguay	8	Stable	Stable	VH	I	EH	VH	VH	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	5	Positive	Positive	I	H	I	I	H	I
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			Industry risk		
				Economic resilience	Economic imbalances	Credit risk in the economy	Institutional framework	Competitive dynamics	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	Negative	EH	H	EH	EH	H	VH
Turkiye	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
U.K.	3	Stable	Stable	I	I	I	L	I	L
U.S.	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 July 15, 2024.
Source: S&P Global Ratings.

Interactive dashboard

How to access the Global Banks Midyear Outlook 2024 Dashboard

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

Using the link, compare a banking system with its peers according to geographic region or BICRA group.

Click here

Global Banks Midyear Outlook 2024 Dashboard

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