Benelux Banking Outlook 2025

A Story Of Resilience

S&P Global Ratings

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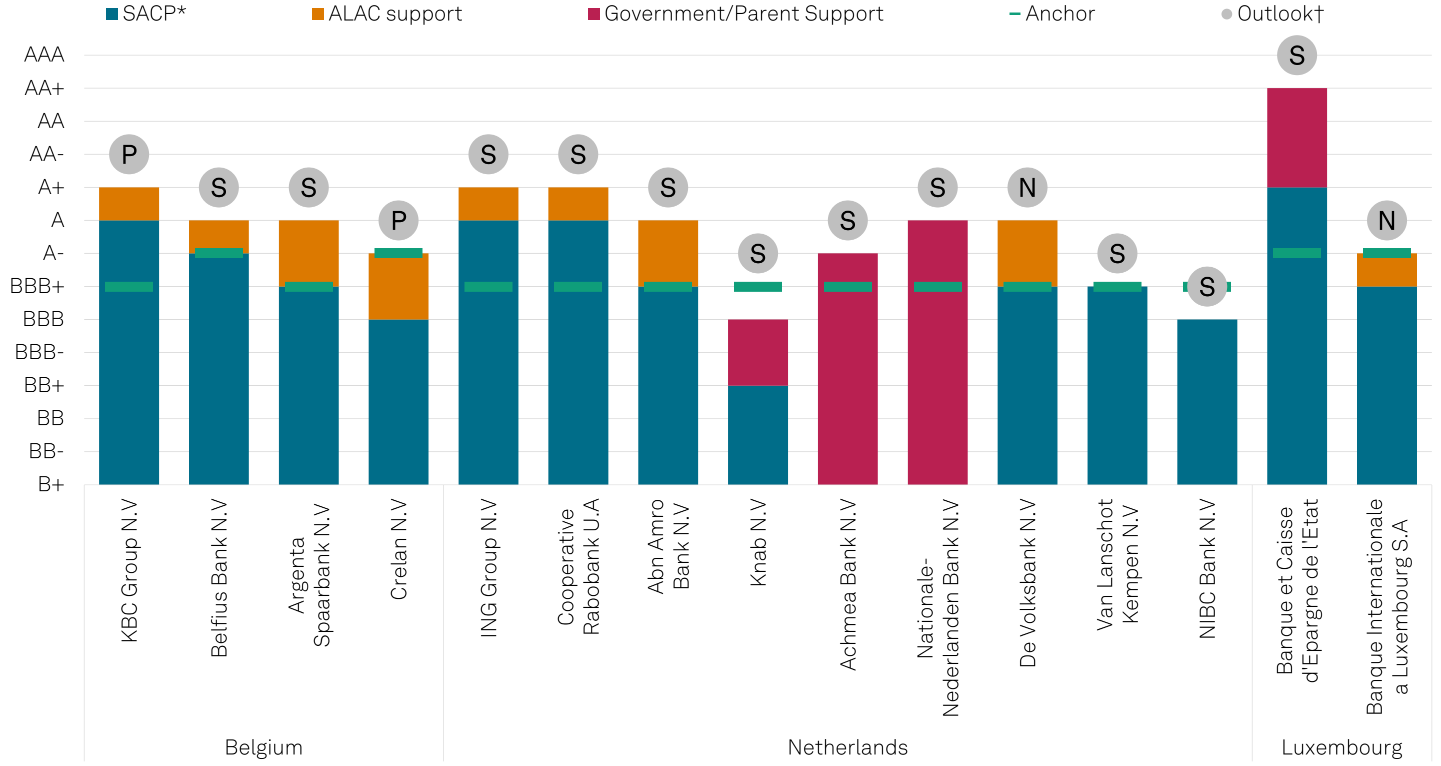
This report does not constitute a rating action

Key Takeaways

- Almost all ratings on banks in Belgium, the Netherlands, and Luxembourg (Benelux) carry a stable outlook, supported by GDP growth that will improve slightly in 2025 following decline in interest rates and receding inflation.
- Profitability will remain solid but decline slightly from 2024 as margins are affected by the faster repricing of assets at lower rates, while costs remain controlled. Efficiency remains an important focus as banks continue investing in IT and advanced digital agendas.
- In our base case, we expect no material increase in credit costs in 2025 because borrowers' debt service burdens should reduce gradually as interest rates and inflation decline and unemployment remains relatively low. While exposure to commercial real estate (CRE) is a pocket of risk for Luxembourg banks, this portfolio comprises a limited part the banks' total exposure.
- Solid returns will allow Benelux banks to maintain their robust capital positions and continue their payouts, including share buybacks or special dividends for some banks.
- Benelux banks' funding profiles will remain diversified, with customer deposits representing the largest portion. We expect a reduction in the further migration to term deposits following recent decreases in interest rates and likely further rate moderation in 2025.

Our Ratings On Benelux Banks Are Largely On Stable Outlooks

Benelux Bank Ratings



Note: Data reflects ratings and outlooks as of Jan. 21, 2025. *Stand-alone credit profile or Unsupported group credit profile for rated groups. †Outlook labels: P--Positive, S--Stable, N--Negative. ALAC--Additional Loss Absorbing Capacity. GRE--Government-related entity Source: S&P Global Ratings.

In 2024 we took a number of entity-specific rating actions on Benelux Banks:

KBC Group N.V.: Outlook revised to positive to reflect resilient performance and expectation that KBC could achieve results comparable to higher rated peers.

Crelan N.V.: Outlook revised to positive on expected synergies from completed merger with AXA Bank Belgium.

Knab: Downgraded on acquisition completion by BAWAG Group.

Banque International a Luxembourg: Outlook revised to negative on risk management concerns.

De Volksbank N.V.: Outlook revised to negative, reflecting execution risks related to bank's transformation and remediation plan.

2025 Forecast | Overall Performance Normalization

Worsening		Neutral		Improving

Revenues	NIMs might fall modestly in 2025 as asset yields are repriced faster than funding costs. We expect some uptick in credit growth as financing conditions improve supported by receding inflation and declining interest rates.
Expenses	Costs are expected to be under control as continued digital investments are partly offset by efficiency gains and receding inflationary pressures.
Profitability	Profitability should remain resilient but fall slightly below 2024 due to a decrease in margins.
Credit quality	Banks have maintained prudent underwriting, which will help manage exposure to riskier segments like small and midsize enterprises (SME) and CRE in some pockets. Nonperforming loan ratios will be low, and cost of risk will normalize around through-the-cycle levels.
Capital	Benelux banks have stronger capitalization levels when compared to global peers, supported by their strong earnings capacity.
Funding and liquidity	Banks will maintain largely stable funding and liquidity metrics in 2025. We also expect competition for deposits in Belgium to moderate following the decrease in rates.

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

Key Risks

Significant Escalation Of Geopolitical Risks

Potential for friction over trade tariffs, energy security, and defense expenditures has been increasing, especially following the U.S. elections, and there remains a risk of contagion given the openness of Benelux economies and high presence of subsidiaries of foreign banks in systems like Luxembourg.

Asset quality deterioration

Benelux banks have material exposures to some risker sectors like SMEs and lending to real estate professionals, where credit quality deterioration among borrowers could weigh on some banks' portfolios.

Housing market dynamics

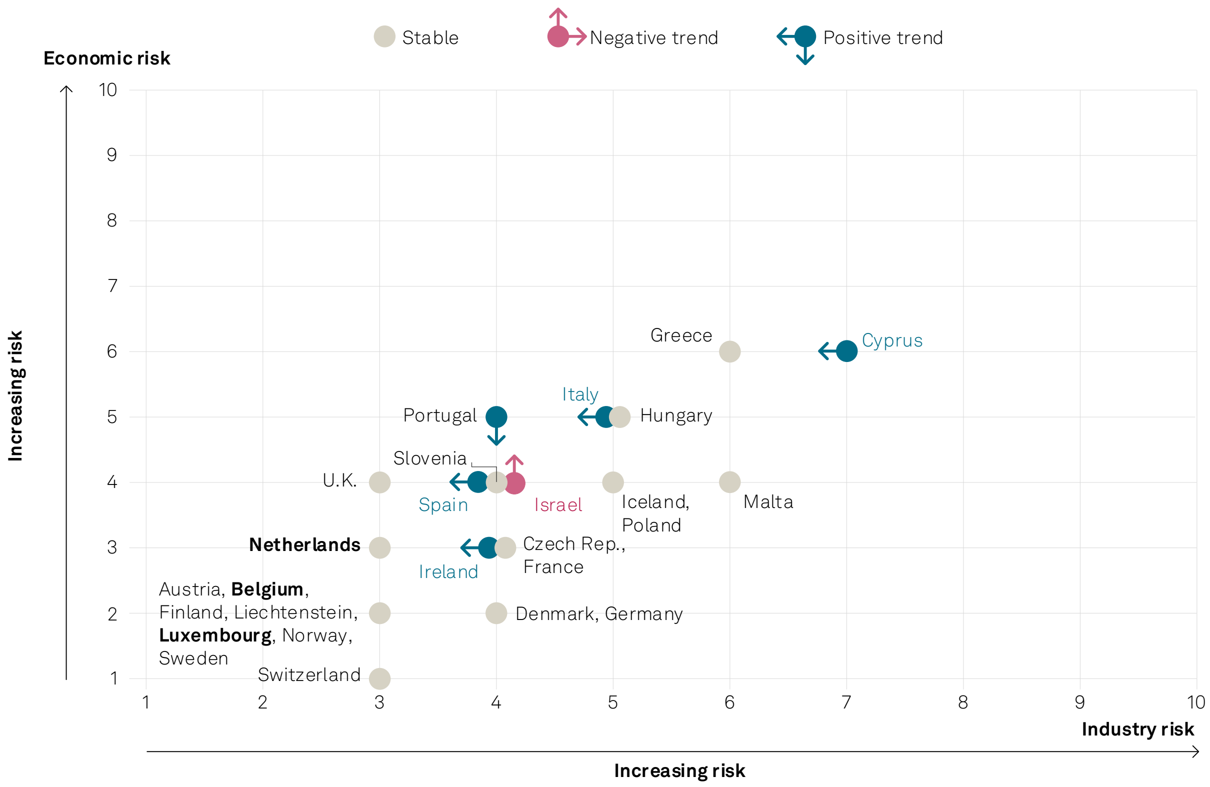
While not our base case, any material deterioration in property markets could substantially impact Benelux banks given that mortgage lending represents a significant part of the lending book and the relatively high levels of household and corporate debt in some regions like the Netherlands.

Digitalization, AI, and Cyber Security

Larger banks in the Netherlands and Belgium are among the front runners for digitalization in Europe. The rapidly evolving digital landscape and the increasing use of AI present a growing threat of cyber attacks.

Benelux Banks Operate In Low-Risk Banking Systems

BICRA scores, economic risk, and industry risk trends



Note: Data reflects sores and trends as of Jan. 21, 2025. Source: S&P Global Ratings.

Key credit drivers

- Wealthy economies with resilient fundamentals and ample liquidity in the system.
- Relatively low credit risk, as mortgages represent the largest part of Benelux banks' loan portfolios.
- Adherence to price discipline and largely diversified business models.

What to look out for

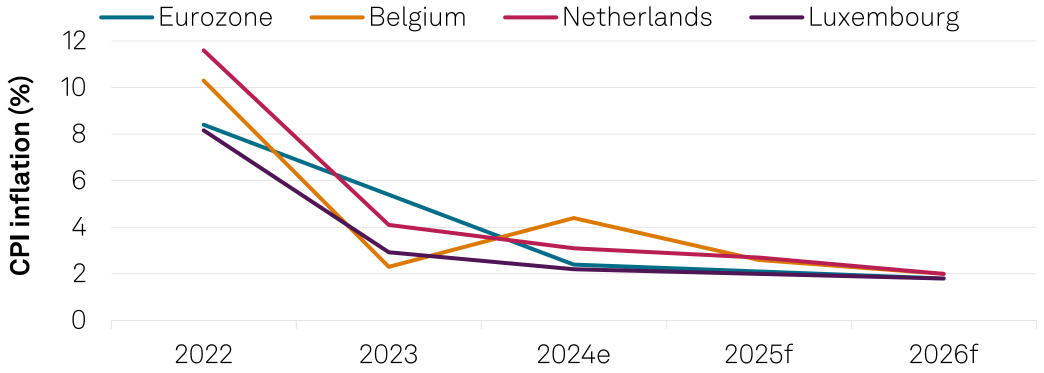
- Housing market dynamics.
- Interest rate and margins trajectory.
- Advancements in digitalization and operating efficiency.

Economic Growth Will Recover Amid Declining Interest Rates

GDP growth largely aligns with eurozone; labor markets stay resilient with unemployment below eurozone average

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

Continuous disinflation and wage indexation should support purchasing power and consumer spending...



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

... as well as a progressive reduction in interest rates at least in 2025

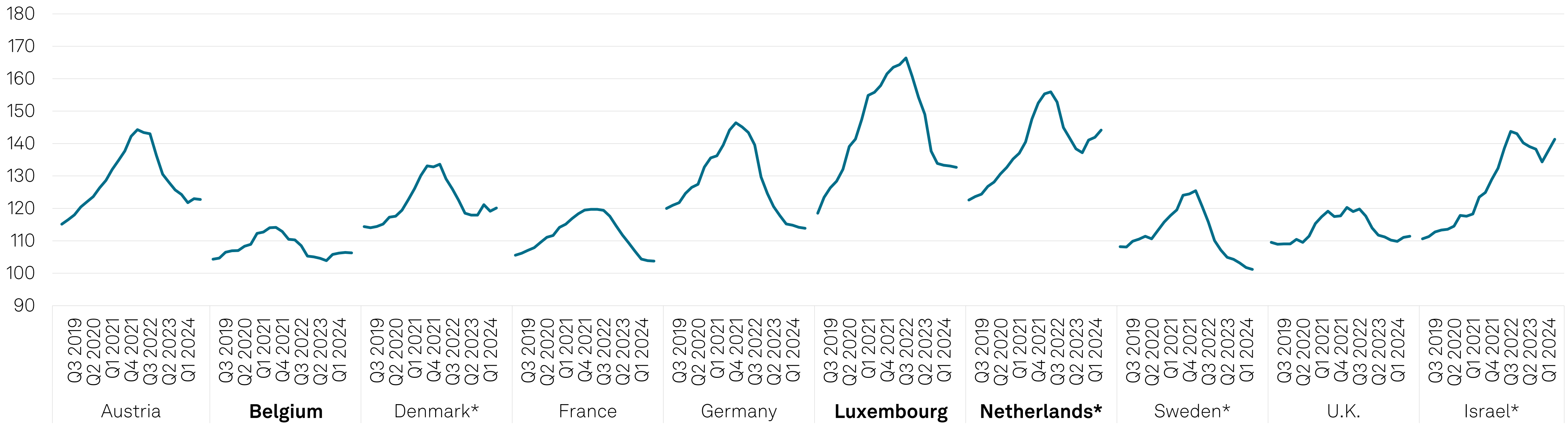
Policy rates (end of year)	2022	2023	2024	2025f	2026f	2027f
ECB - Deposit rate	2.0	4.0	3.0	2.5	2.5	2.5
ECB - Refi rate	2.5	4.5	3.2	2.7	2.7	2.7
BoE - Bank rate	3.3	5.3	4.8	3.8	3.8	3.5
SNB - Policy rate	1.0	1.8	0.8	0.5	0.5	0.5

ECB--European Central Bank. BoE--Bank Of England. SNB--Swiss National Bank. f--Forecast.
Source: S&P Global Ratings.

Housing Market: Benelux Markets Are Seeing Signs Of Recovery

After declining between 5% and 20% over the last two years (with Luxembourg seeing a larger peak-to-trough) house prices are recovering steadily in all the Benelux countries. For 2025, we expect prices will continue to increase modestly supported by steady economic growth, receding inflation, demographics, and limited real estate availability.

Real housing price index between first-quarter 2019 and third-quarter 2024

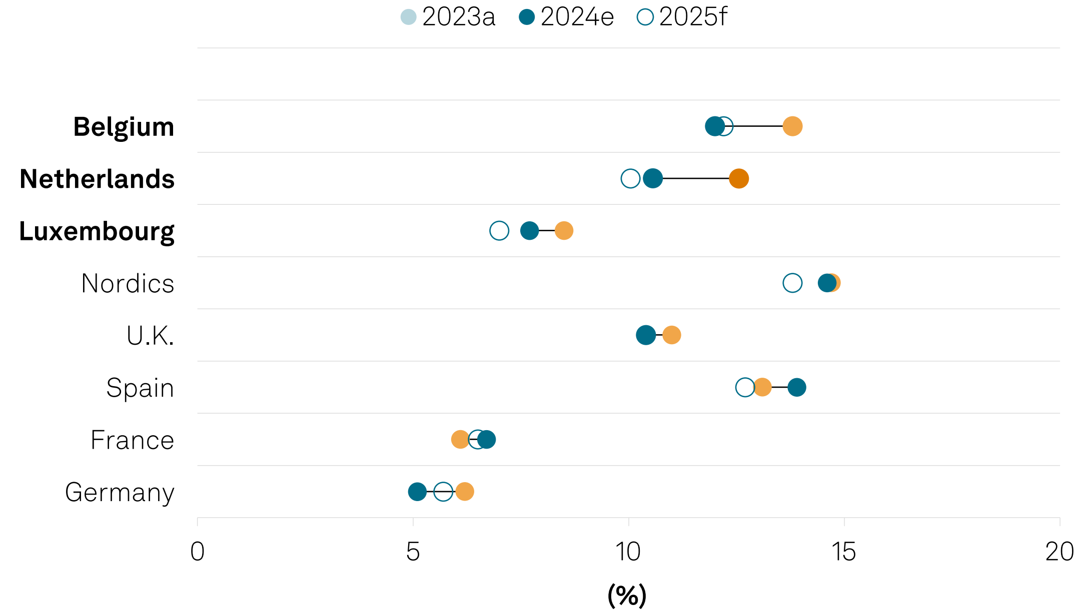


*Latest data is as of second-quarter 2024. Sources: OCED, S&P Global Ratings.

Banks' Results Will Remain Solid But Below The 2023 Peak

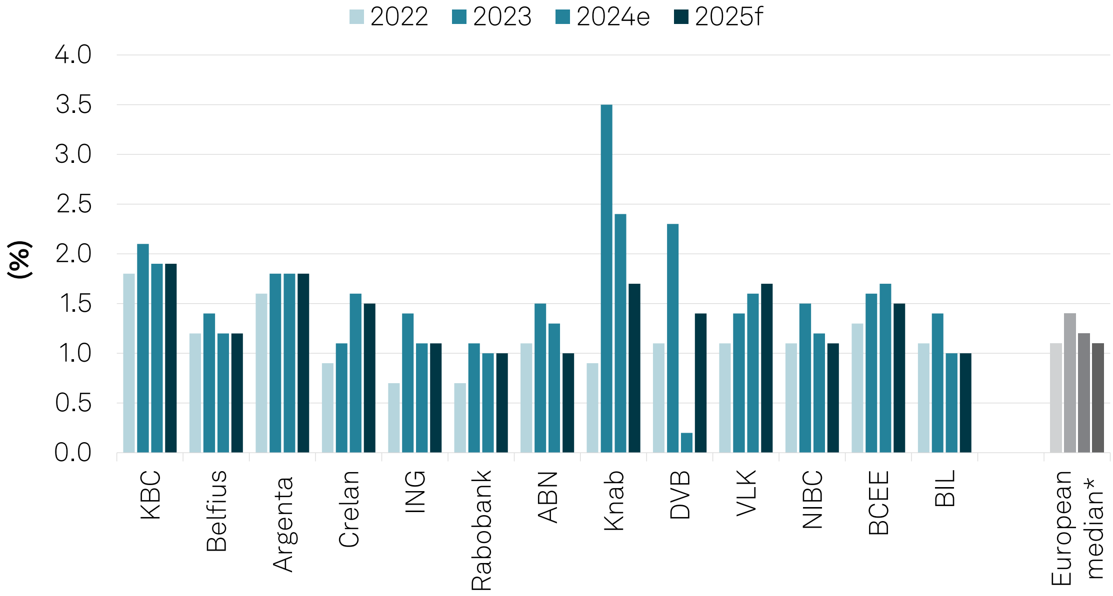
Net income will remain robust despite pressure on margins from lower rates. While we expect returns on average equity for Luxembourg banks to decline toward 7%, remaining below that of the Dutch and Belgium peers due to higher common equity at some Luxembourgish banks, risk-adjusted returns will stay in line with regional peers.

Benelux's systemwide return on average common equity compared with peers



Sample includes rated European banks for which we have data for all three periods (i.e. constant sample). Nordics represents banks in Norway, Denmark, Sweden, and Finland. Values are weighted by total assets. a--Actual. e—Estimate. f--Forecast. Source: S&P Global Ratings.

Risk-adjusted returns for rated banks in Benelux

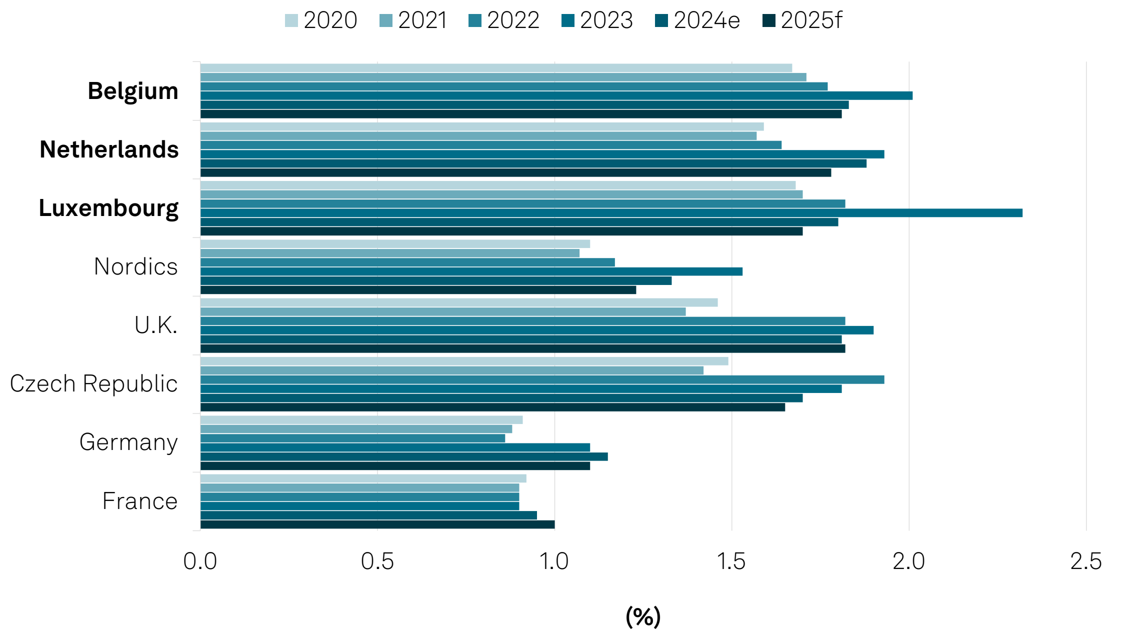


*Median of all S&P rated banks in Europe. Data represents net income to S&P Global Ratings' risk-weighted assets before diversification. e--Estimate. f--Forecast. Sources: Banks' reports, S&P Global Ratings.

Net Interest Margins To Decline Slightly But Credit Demand Should Improve

- In our view, Benelux banks' NIMs should decline slightly in 2025 reflecting the full-year effect of lower rates on yields and a moderation in the pace of rate cuts.
- We expect credit growth to pick up slightly in 2025 led by demand from the corporate sector as the economy gradually recovers.

Evolution of net interest margins at systems level (%)



Nordics represents average data for Norway, Denmark, Sweden, and Finland. e--Estimate. f--Forecast. Source: S&P Global Ratings.

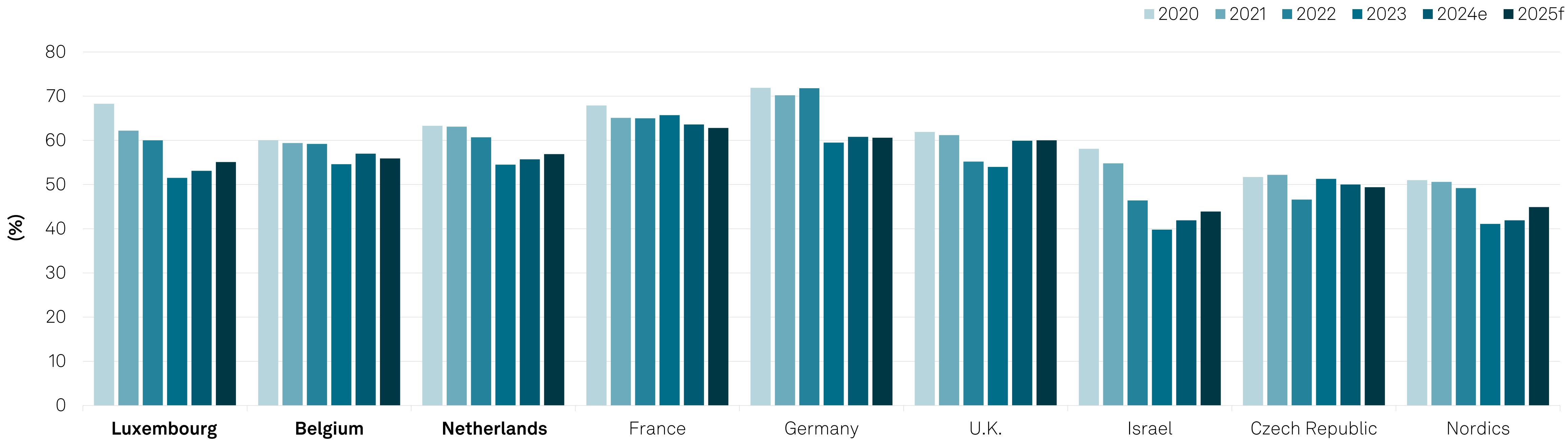
Systemwide growth in private sector debt

Nordics represents average data for Norway, Denmark, Sweden, and Finland. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Cost Controls Remain Important For Benelux Banks' Profitability

- Cost-to-income ratios of Benelux banks will remain around the same as in 2024, but below 2022 levels, as operating revenues are expected to be supported by credit growth despite a compression in margins.
- Costs to be under control as inflation has eased off from historic highs. We expect cost efficiencies to gradually improve over the medium term as banks remain focused on investments (largely in IT and advanced digital agendas).

Evolution of cost-to-income ratios at the systems level

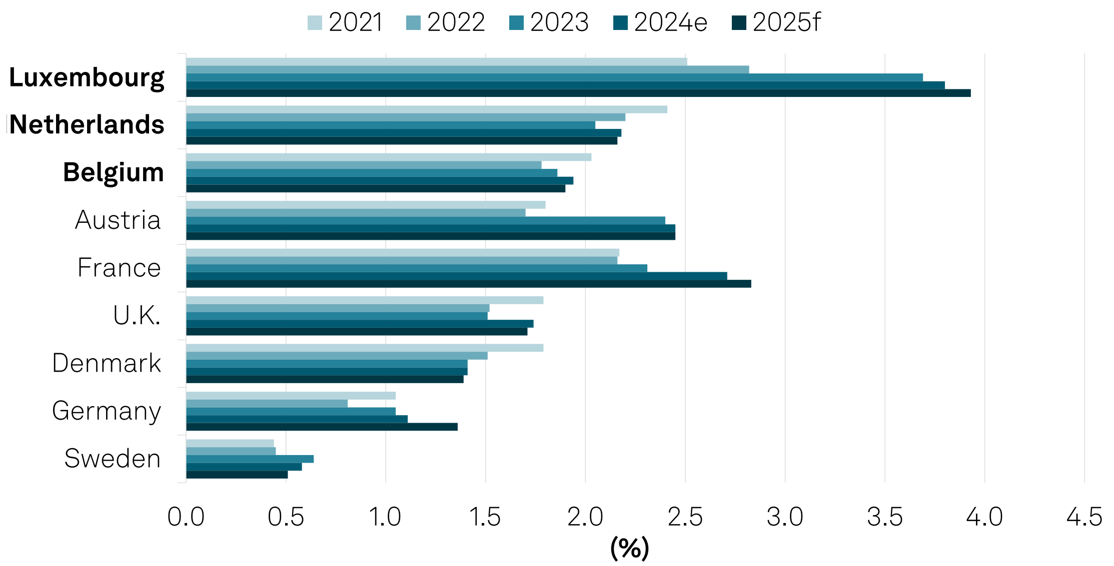


Data represents the weighted average cost to Income ratio of all the rated banks in the respective regions, for the period 2020 to 2025. e—Estimate. f—Forecast. Source: S&P Global Ratings.

Asset Quality Will Mostly Hold Under Our Base-Case Scenario...

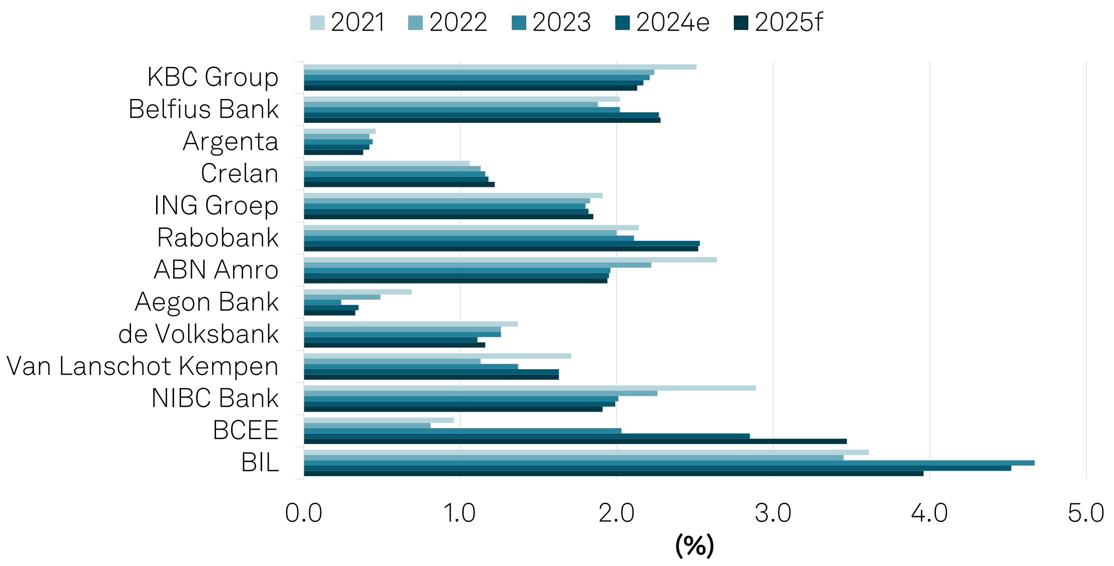
- Over the past few years, the Netherlands and Belgium have experienced low levels of nonperforming loans (NPLs) and banks in these countries are unlikely to face material asset quality deterioration as low-risk mortgages represent a significant portion of loan portfolios.
- Luxembourgish banks' NPLs increased a lot in 2023 and are expected to remain elevated over 2024-2025, notably for BIL, due to the depressed real estate market. We expect banks' moderate LTVs for lending to real estate professionals, as well as structural scarcity and high demand across the cycle, will partly cushion the final credit cost impact.

Systemwide NPL ratios of Benelux compared with peers



Data represents NPL ratio for systemwide domestic loans. e--Estimate. f--Forecast. Source: S&P Global Ratings.

NPL ratios of rated banks in Benelux (2021-2025f)

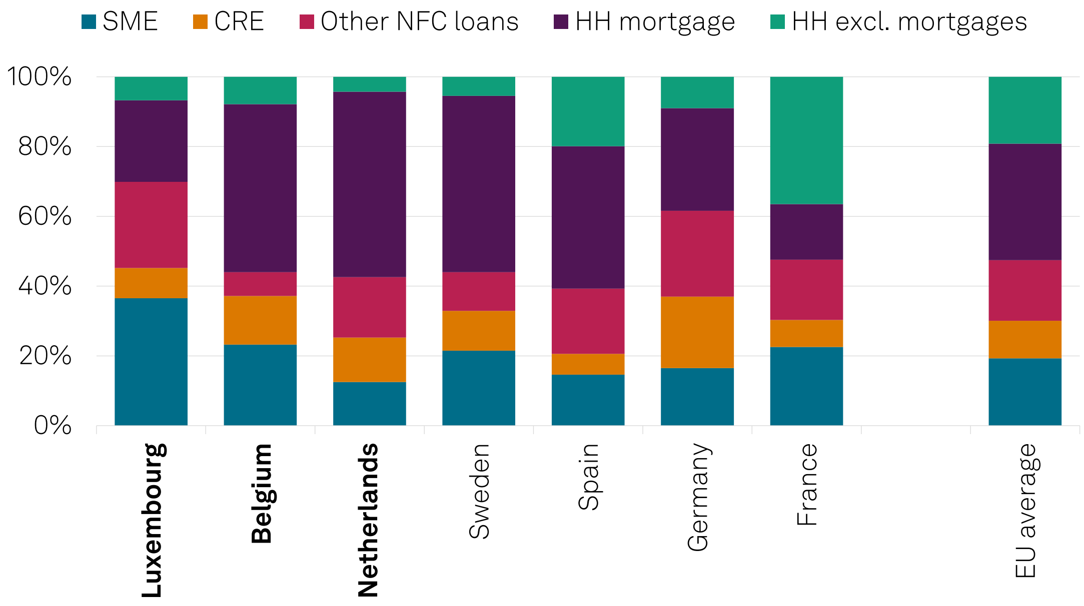


e--Estimate. f--Forecast. Source: S&P Global Ratings.

...However, SMEs And CREs Are Portfolios To Watch

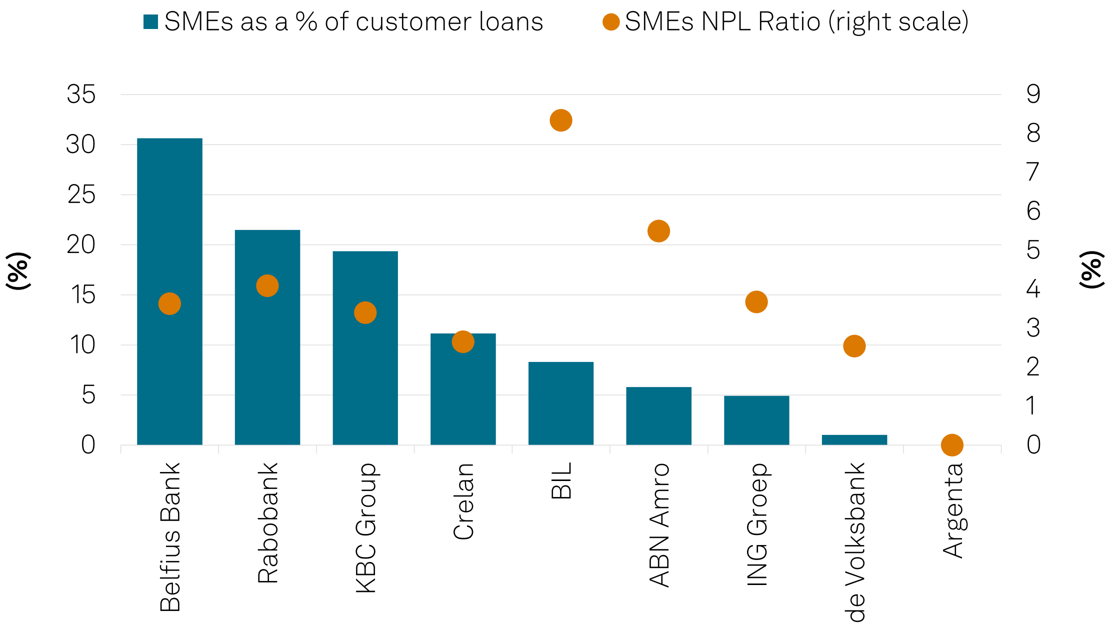
Benelux banks' broadly diversified loan portfolios and prudent underwriting should mitigate potential losses from portfolios we consider riskier, such as SMEs and pockets of the CRE portfolio. Based on disclosure from EBA, the average NPL ratio for the SME portfolio of banks in Benelux remains broadly in line with or below that of the average NPL ratio of banks' SME portfolios in the European Union.

SME exposures for large banks in Luxembourg and Belgium are slightly higher than EU average



Systemwide data for period ending September 2024. Sources: EBA, S&P Global Ratings.

SME exposures are relatively high for Belfius and Rabobank

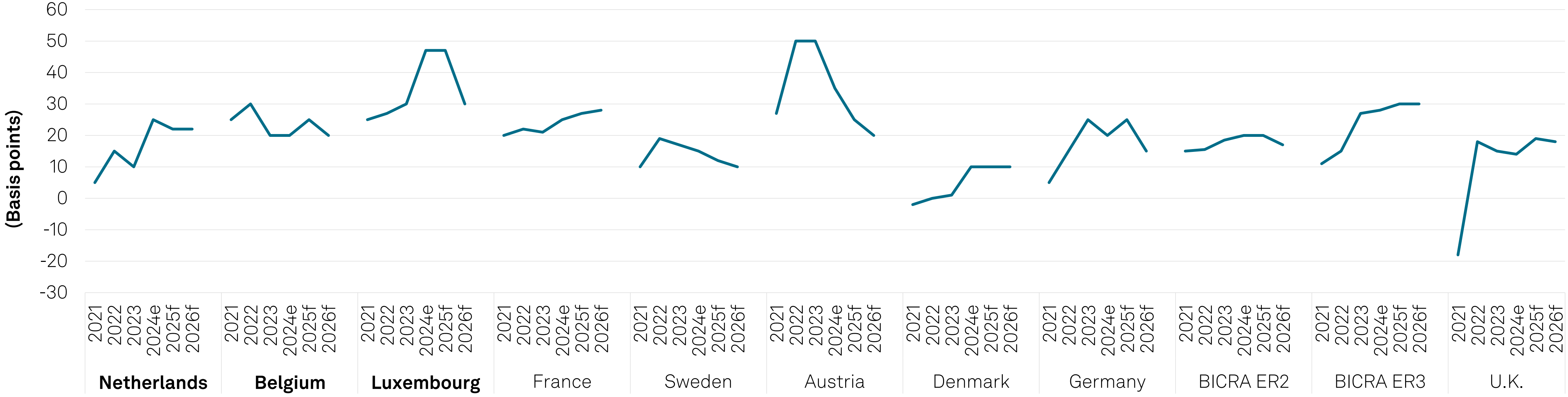


Data represents CRE loans relative to total customer loans, for large Benelux banks as of end-June 2024.
NPL--Non-performing loan. Sources: EBA, S&P Global Ratings.

Credit Costs Are Likely To Normalize To Through-The-Cycle Levels

- Total credit costs should remain controlled owing to the highly collateralized nature of lending for Benelux banks. Credit losses for mortgages, which represent a substantial part of loan portfolios for Benelux banks, will remain small (below 10 bps). This is based on our view that debt service burdens should reduce gradually as interest rates decline and unemployment remains relatively low.
- Credit costs for banks in Luxembourg are expected to remain high in 2025 at about 50 bps--driven by their higher exposure to SMEs and some pressures from lending to real estate professionals--before normalizing to 30 bps in 2026.

Cost of risk across different banking systems between 2020 and 2025f

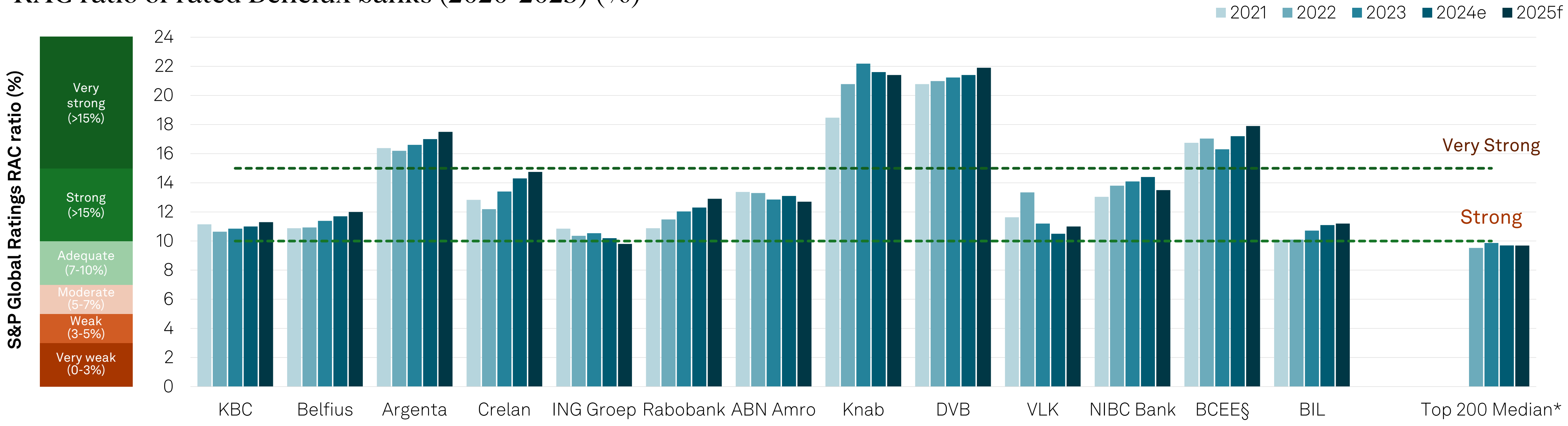


e--Estimate. f--Forecast. *For detailed list of countries with BICRA economic risk score of 2 and 3 see: Banking Industry Country Risk Assessment Update: December 2024. Sources: EBA, S&P Global Ratings.

Strong Capitalization Is A Rating Strength For Banks In Benelux

- S&P Global Ratings' risk-adjusted capital ratios for rated banks in Benelux consistently exceed the median of the top 200 global banks and have sufficient headroom to maintain their largely strong capital and earnings assessments.
- Further, in our view, Benelux banks' good earnings capacity should largely cover the banks' capital needs, and buffers above regulatory requirements remain solid, allowing banks to continue to distribute dividends and in some cases supplement with share buybacks or special dividends.

RAC ratio of rated Benelux banks (2020-2025) (%)

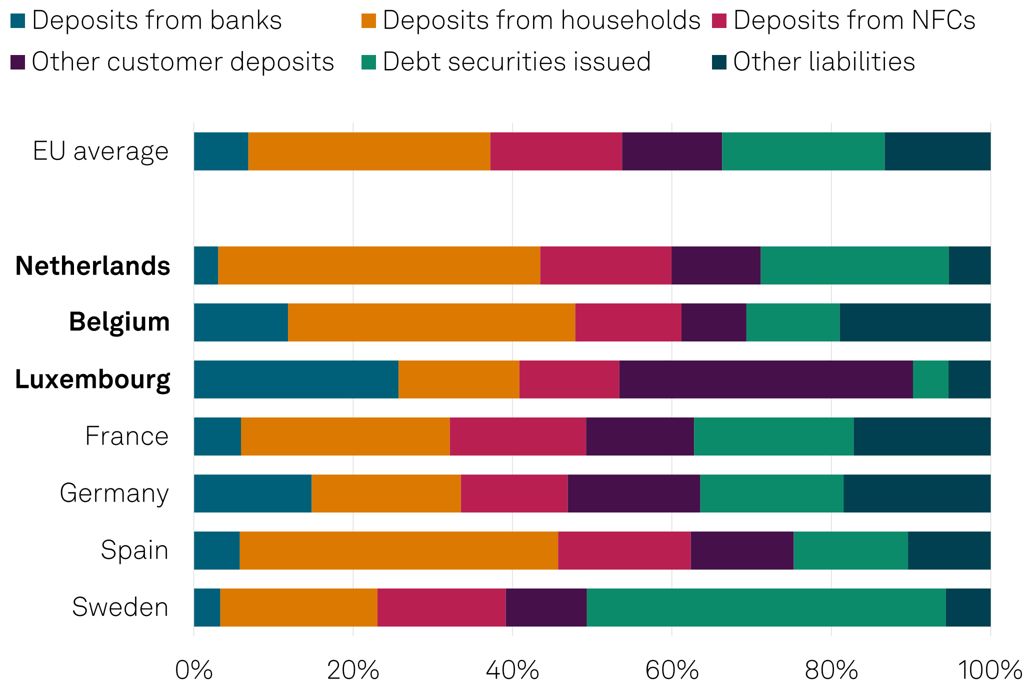


RAC--Risk-adjusted capital. e--Estimate. f--Forecast. *Median RAC Ratio of top 200 rated banks, see: Top 200 Rated Banks' Capital Ratios Are On A Stable Trend. §RAC ratio for BCEE is estimated on a consolidated basis. Source: S&P Global Ratings.

Benelux Banks Continue To Keep Solid Funding And Liquidity Positions

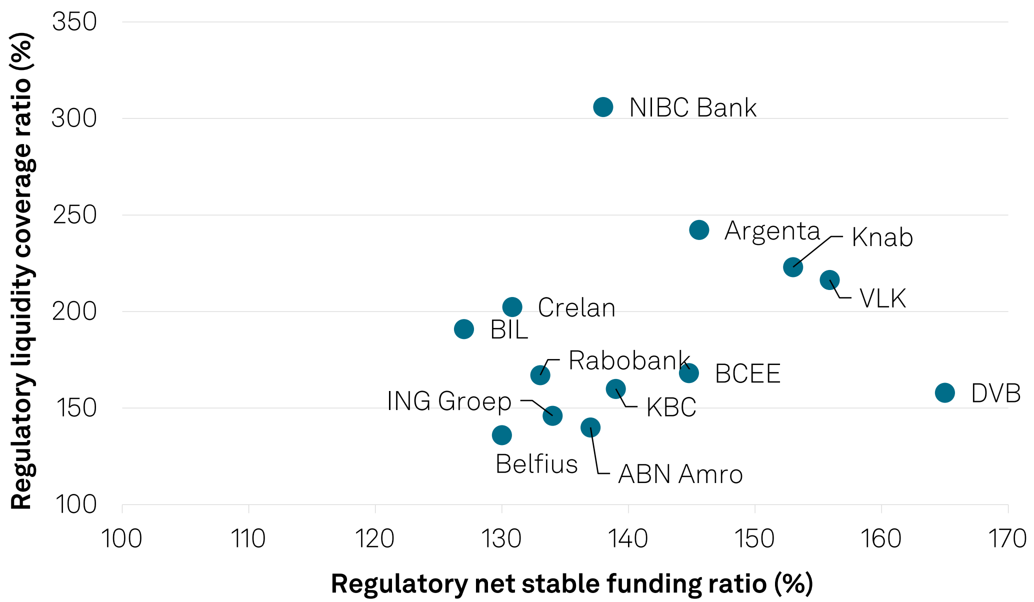
We believe Benelux banks will maintain strong liquidity buffers. Further, their funding profiles are dominated by customer deposits and funding costs should reduce amid the decreasing migration to term deposits as rates decline.

Benelux banks have diversified funding profiles



Data represents liabilities composition of large EU banks, as of September 2024. Sources: EBA, S&P Global Ratings.

Funding and liquidity ratios remain well above regulatory requirements



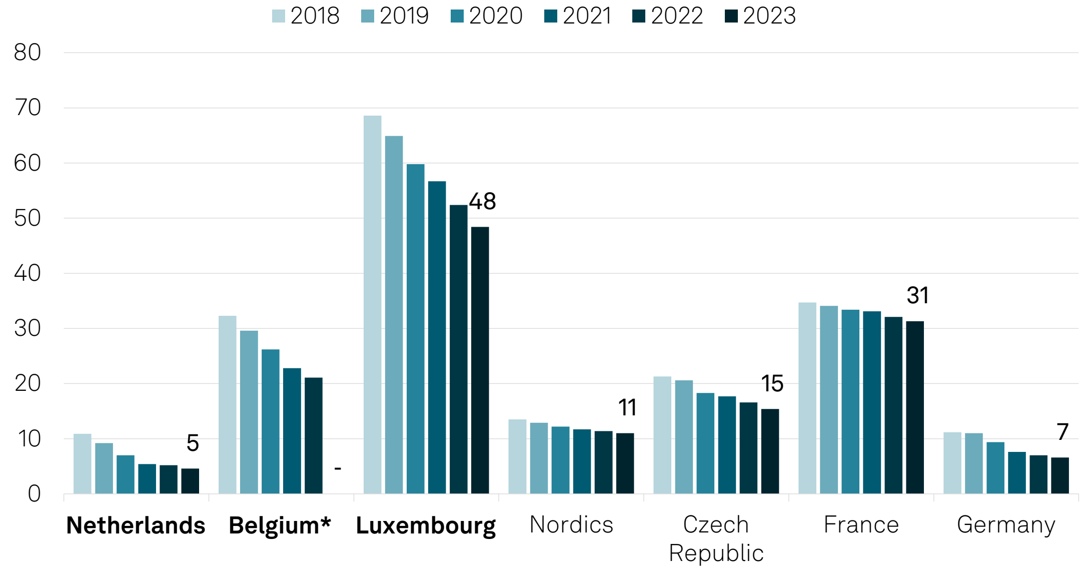
Latest data is as of December 2023. Sources: Banks' reports, S&P Global Ratings.

S&P Global Ratings

Netherlands Remains A Frontrunner In Digitalization In Europe

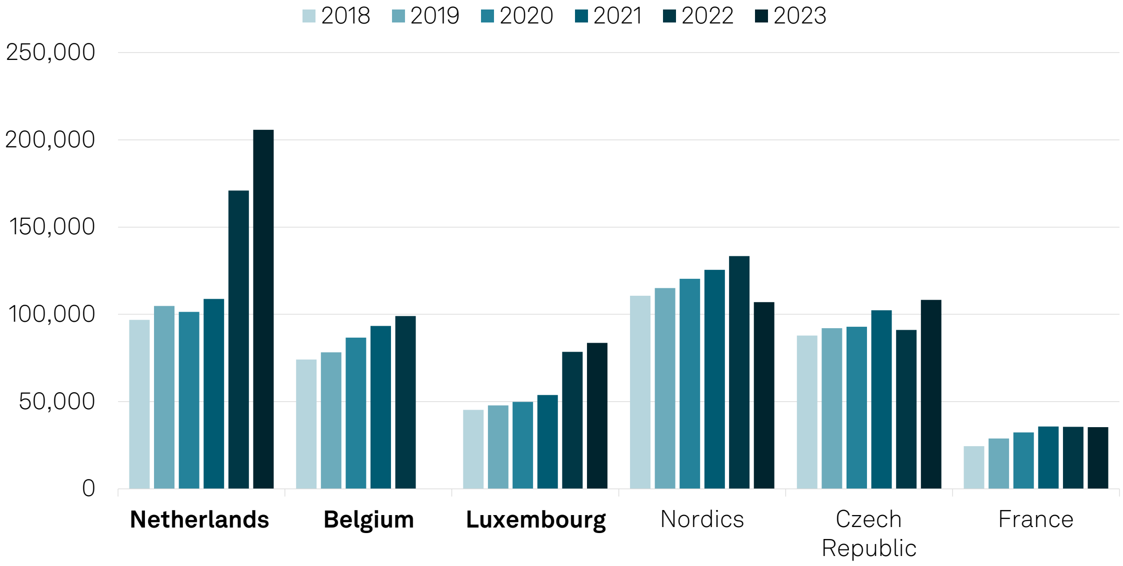
Some Dutch banks have materially digitalized their operations over the past few years, resulting in an increasing use of mobile and internet banking transactions in the country.

Commercial bank branches (per 100,000 adults)



*Latest data for Belgium is as of 2022. Nordics represents average data for Denmark, Sweden, and Finland. Similar disclosures were not available for Norway. Sources: IMF, S&P Global Ratings.

No. of mobile and internet banking transactions (per 1,000 adults)



*Latest data for Belgium and Sweden is as of 2022. Nordics represents average data for Norway, Denmark, Sweden, and Finland. Sources: IMF, S&P Global Ratings.

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