North African And Eastern Mediterranean Banking Outlook 2025

A Mixed Bag

S&P Global Ratings

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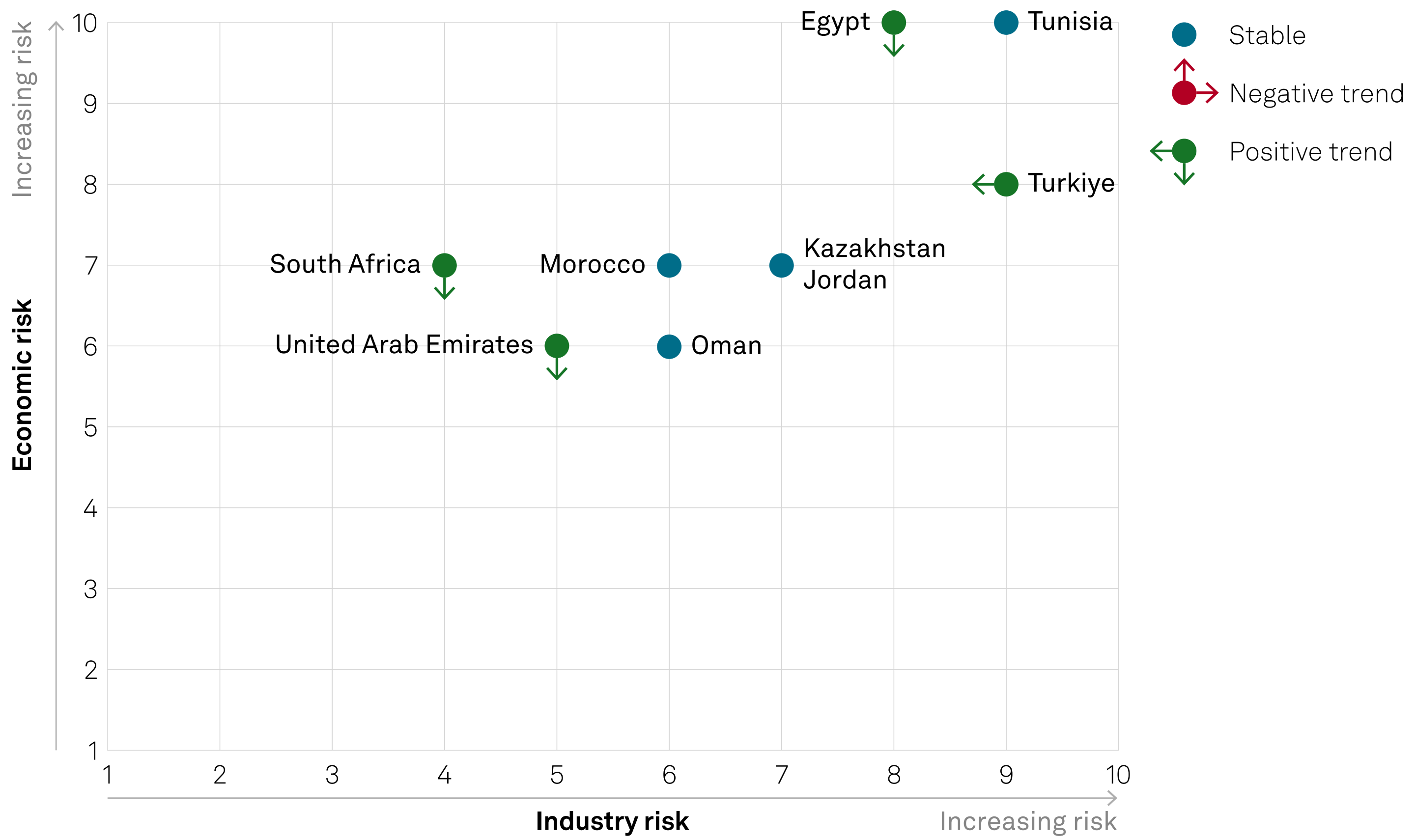
This report does not constitute a rating action

Key Takeaways

- Generally improving economic and operating conditions in North Africa and the Eastern Mediterranean resulted in several positive rating actions on banks in 2024. Some outlooks are positive.
- Banks' economic and operating environments remain vulnerable to ongoing reforms and external shocks, including U.S. protectionism, a sharper-than-expected downturn in advanced economies weighing on global trade, and higher-for-longer interest rates. In some cases, they are also vulnerable to a potential spillover from the intensification of regional tensions.
- Even though declining global and domestic interest rates will dent banks' net interest income, higher lending growth and improving asset quality will protect their bottom lines.
- We expect problem loans will continue to emerge over the next two years, with some banking sectors more affected than others. We forecast that past efforts to build up reserves, coupled with economic recovery, will limit credit impairments. We expect credit losses will range between 160 basis points (bps) in Tunisia and 80 bps in Morocco.
- Banks' large and stable deposit base will continue supporting lending across all geographies. Egyptian and Turkish banks continue to rely on the implementation of reforms to achieve sustainable disinflation and stable foreign-exchange rates.

Banks Benefit From Gradually Improving Economic and Operating Conditions

BICRA scores and trends



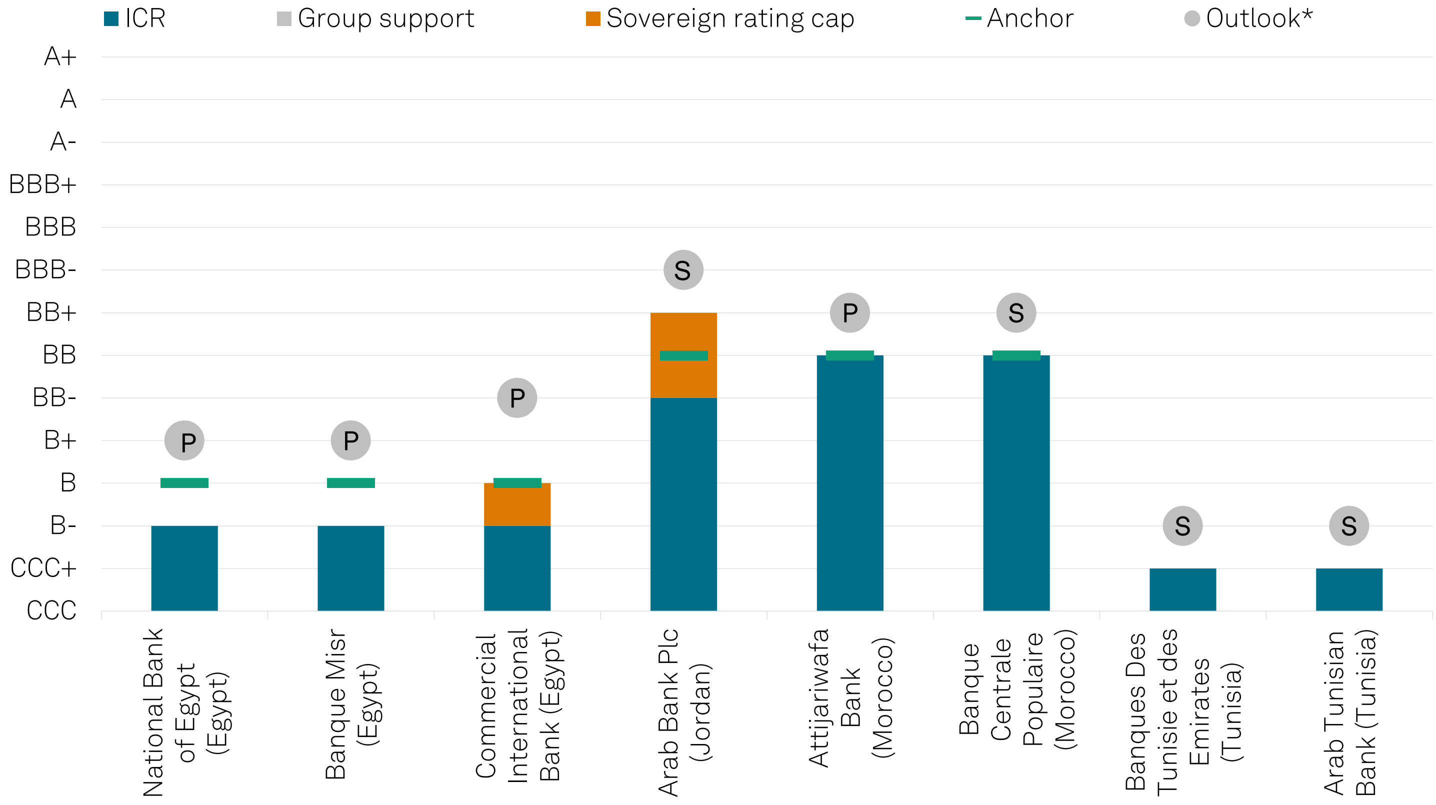
Data reflect sores and trends as of Dec. 19, 2024. Source: S&P Global Ratings.

Main rating actions in 2024:

- Jordan's economic risk improved to 7 from 8, reflecting expected economic resilience amid economic shocks.
- Turkiye's economic risk improved to 8 from 9, on the back of reducing imbalances in the economy.
- Turkiye's industry risk trend is positive, reflecting the resilience of the banking industry and the gradual simplification of operating conditions.
- Egypt's economic risk trend is positive, reflecting improving economic growth prospects and the country's ability to adjust to external shocks.
- Egypt's industry risk improved to 8 from 9 due to reduced pressure on banks' foreign currency liquidity.

50% Of Ratings Have A Positive Outlook

Ratings and outlook distribution



Data reflect ratings and outlooks as of Jan. 28, 2025, at the level of lead operating companies.
*N--Negative. P--Positive. S--Stable. ICR--Issuer credit rating. Source: S&P Global Ratings.

- Most of the banks are rated in line with our assessment of the system.
- In 2024, we mostly took systemic rating actions to reflect general declining risks.
- We upgraded Jordanian banks, following the upgrade of the sovereign and receding economic risks.
- We revised to positive the outlooks on all Egyptian banks, following a similar action on the sovereign ratings on Egypt.
- We upgraded Tunisian banks due to improving macroeconomic stability.
- We revised to positive the outlook on Attijariwafa Bank due to expected asset quality improvement.

2025 Forecast

Worsening | | Neutral | | Improving

Revenues	We expect mildly negative implications for most covered banking sectors as most of them will be able to compensate lower interest rates with higher lending volumes and lower funding costs. Egyptian banks are most vulnerable to a decline in rates, while Turkish banks are set to benefit from the repricing of their short-term funding.
Expenses	Still high inflation in Egypt and Turkiye and higher investments in digitalization will continue to put upside pressures on costs. We expect large banks in the region will remain efficient, while smaller banks will continue to struggle as they lack sufficient scale.
Credit quality	Due to recovering economic prospects and improving risk management, we expect a moderate decline in credit losses in all banking sectors but Tunisia, where we think a stabilization is more likely. Yet not all banking systems will improve at the same speed. Credit losses will remain high, particularly in Egypt, Tunisia, and Turkiye, where we expect them to continue exceeding 100 bps.
Capital	We think capital ratios will remain stable. Even though most rated banks in the region comply with minimum capital requirements, capitalization will remain a rating constraint for many as they face very high risks, in our opinion.
Funding and liquidity	Banking systems that are vulnerable to external funding--such as those in Turkiye and, to a lesser extent, Egypt--will benefit from global ongoing monetary easing as lower rates and higher global liquidity will reduce funding costs.

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

Key Risks

Escalation of geopolitical and political risks

The Israel-Hamas war remains unresolved. Indirect consequences might become particularly relevant for Egyptian and Jordanian banking sectors due to the effects on tourism and because of Jordanian banks' activity in Palestine. The political landscape remains complex in the entire region.

Implementation of reforms

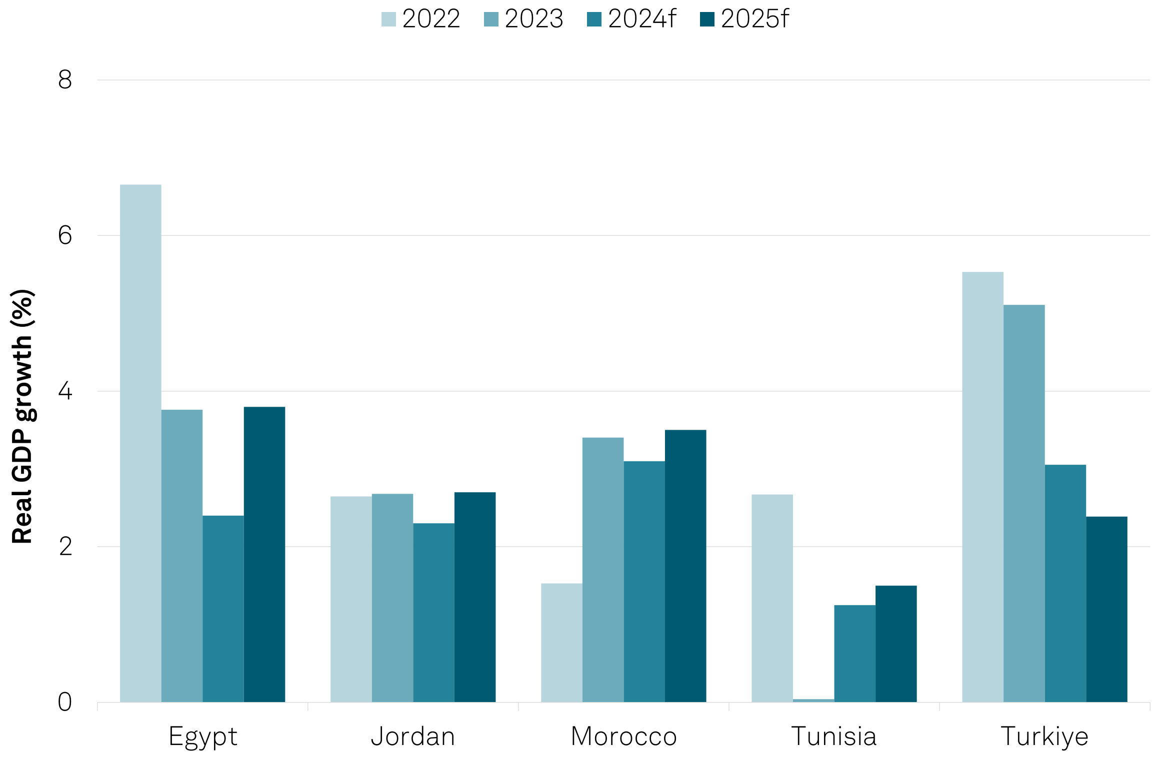
Reforms are very important for all banking sectors, particularly those in Egypt and Turkiye. A setback in the reform momentum might revive the pressure on banks' external leverage and erode asset quality in many banking sectors in the region. Additionally, an increase in tariffs could have ripple effects on global demand, inflation, interest rates, and currencies, which would be particularly relevant for Egyptian and Turkish banking sectors. In Tunisia, economic reforms to restore debt sustainability will determine the country's banking system.

Refinancing risk

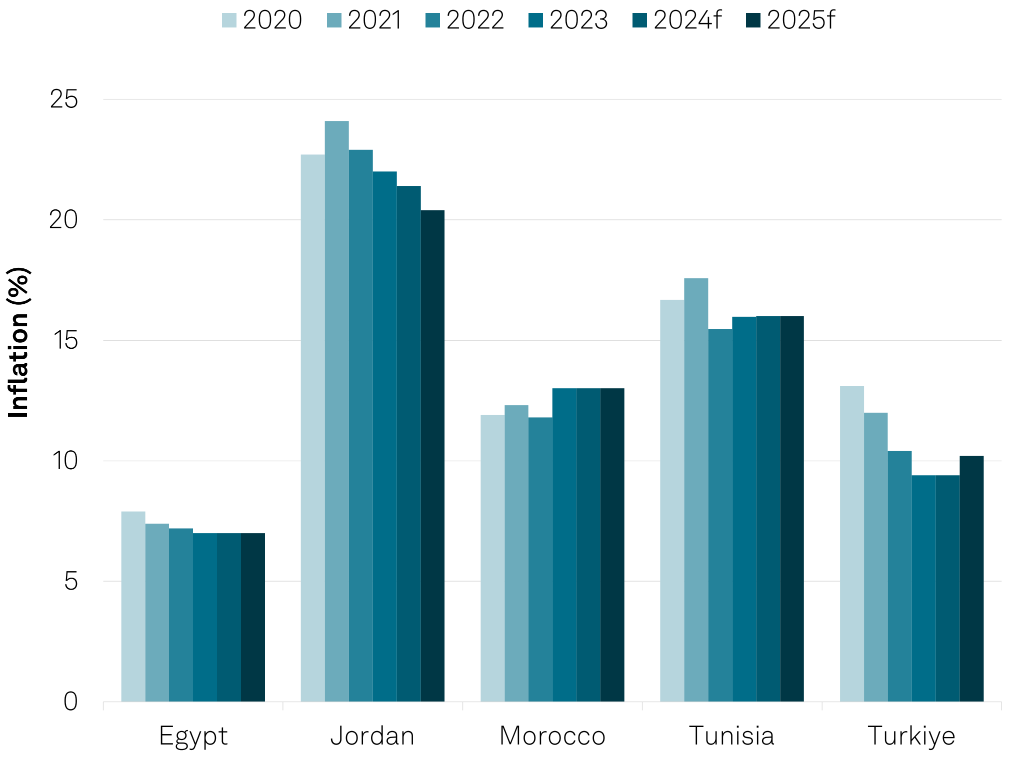
Egyptian and, to a lesser extent, Tunisian banks are particularly vulnerable to government refinancing risk due to their twin deficits and the large amount of debt to be refinanced. Turkish banks also remain exposed to market sentiment, which has improved but is vulnerable to the success of disinflation efforts.

Economic Prospects Are More Benign, Recovery Remains Fragile

Real GDP growth momentum should hold in all countries but Turkiye



We expect unemployment will stabilize in all countries but Turkiye, where we expect a small increase

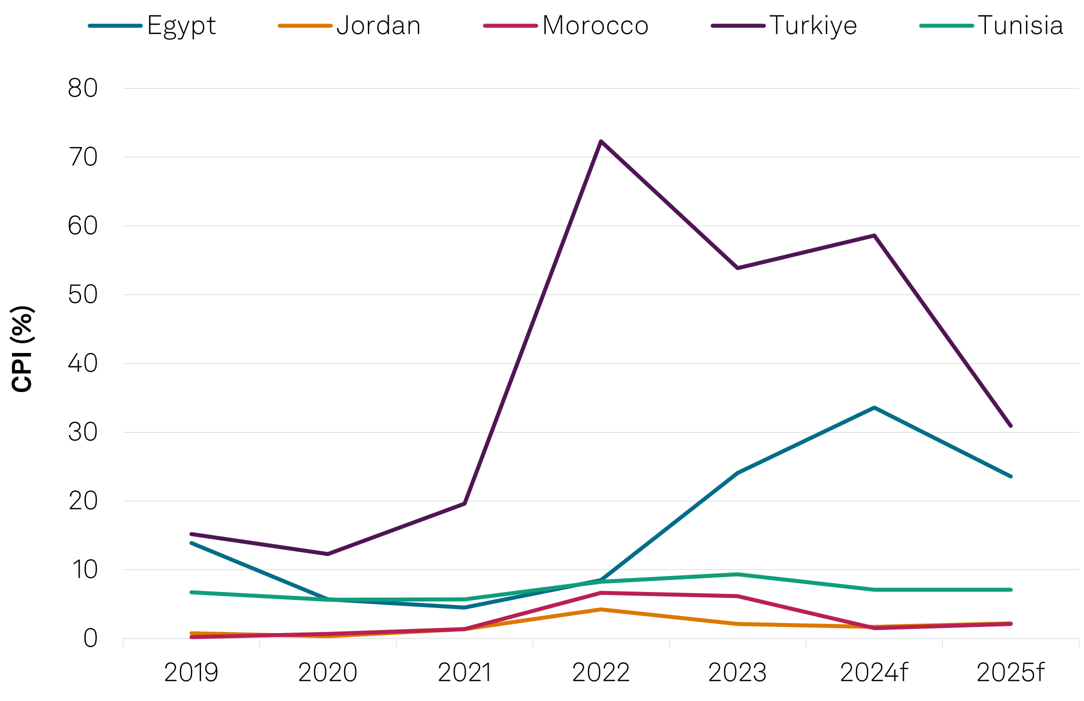


f--Forecast. Source: S&P Global Ratings.

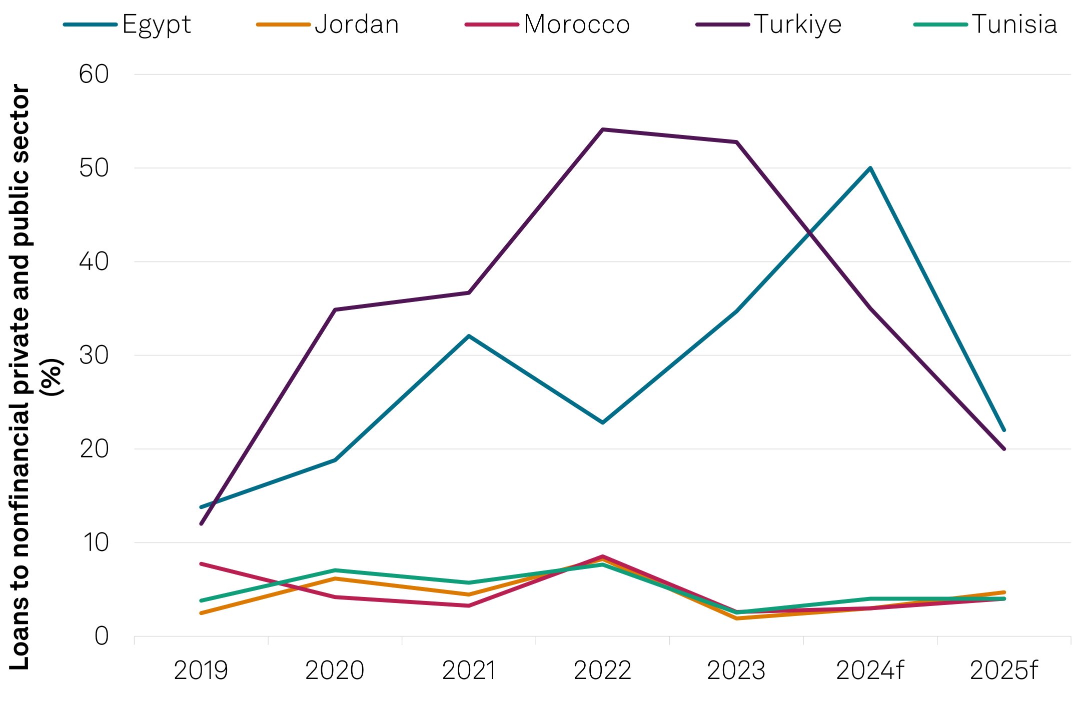
S&P Global Ratings

Monetary Policies Should Loosen And Revive Credit Demand

We expect inflation will decline in all economies, albeit at varying speeds



Credit demand will expand in all sectors but Egypt and Turkiye because of high inflation



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

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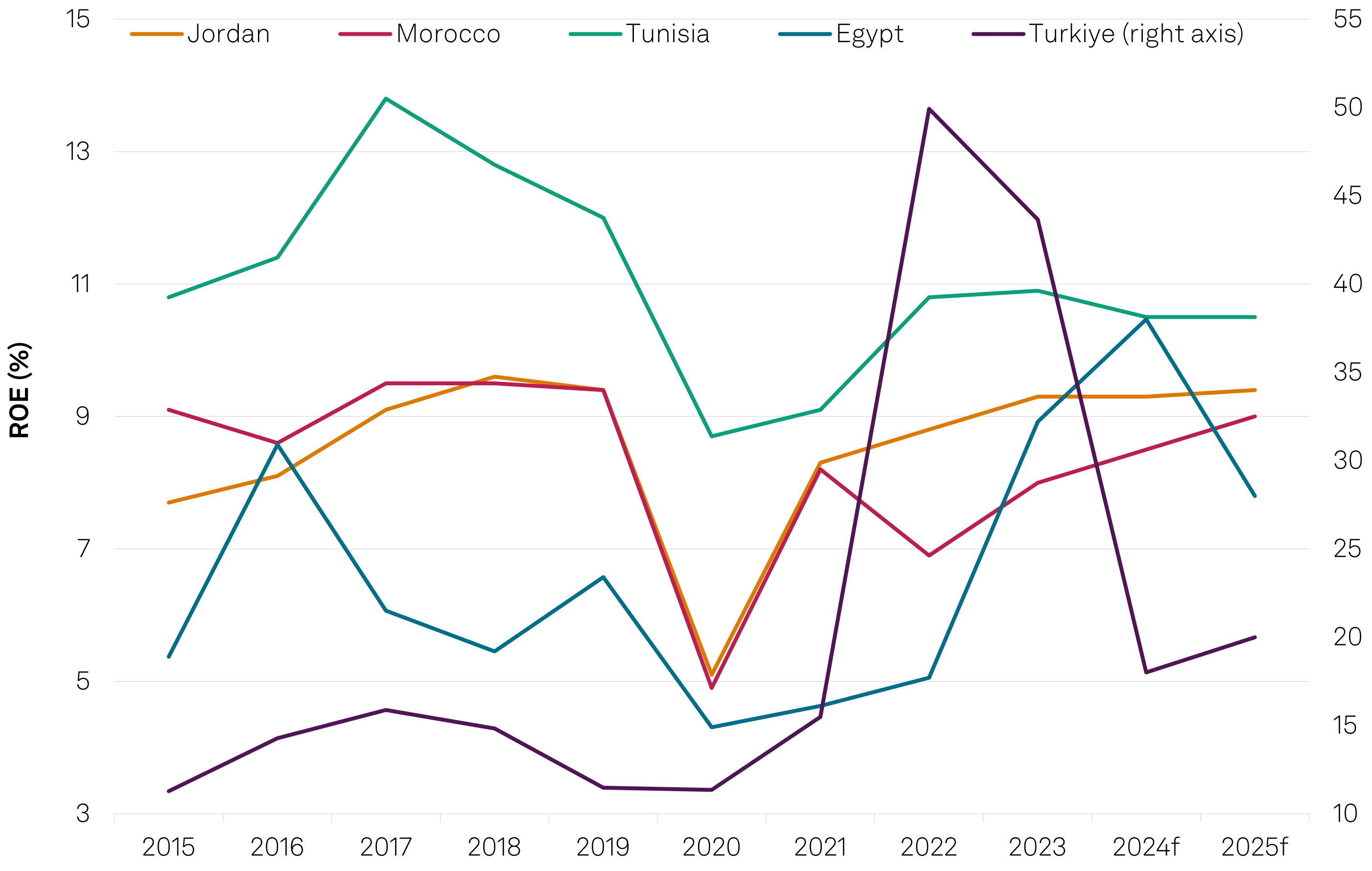
Profitability Trends Vary Significantly

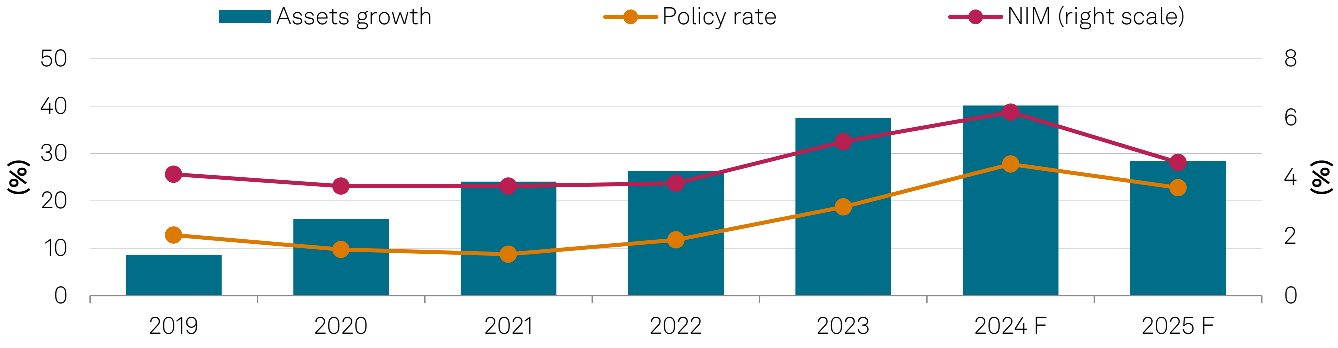


ROE--Return on equity. Source: S&P Global Ratings.

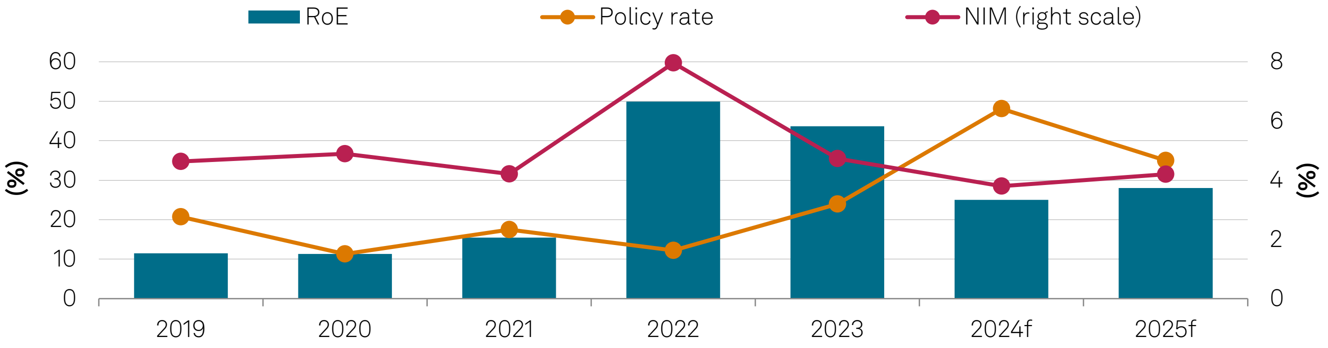
- Turkish and Egyptian banks will continue to display significantly higher returns. This also results from very high inflation, which distorts the figures, particularly for Turkish banks. Profitability would be significantly lower if Turkish banks applied International Accounting Standard 29 Financial Reporting in Hyperinflationary Economies and adjusted for hyperinflation.
- We expect Turkish banks will benefit from declining rates, while Egyptian banks will suffer from declining margins.
- Moroccan banks' domestic profitability will benefit from increasing demand, easing financing conditions, large structural investments projects, and gradually declining credit losses.
- Jordanian and Tunisian banks' profitability will stabilize. Yet geopolitical and political developments cloud our forecast.

Banks' Ability To Reprice Deposits Will Be Key To Support Net Interest Margins (NIM)

Egyptian banks' NIM remain high but will decline



Turkish banks' NIM are set to improve moderately

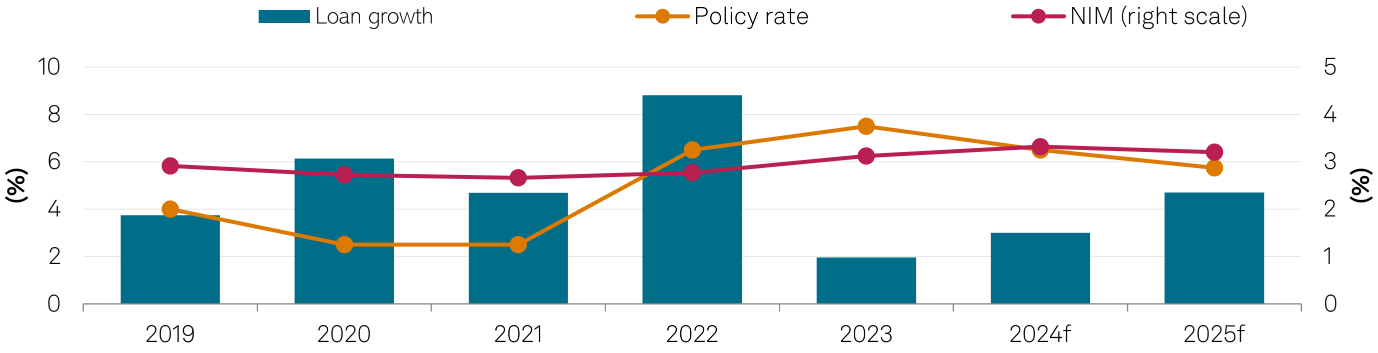


NIM: Net interest income to average earning assets. Policy rate: Monetary policy steering rate.
Egyptian banks' fiscal year ends in June. f--Forecast. Source: S&P Global Ratings.

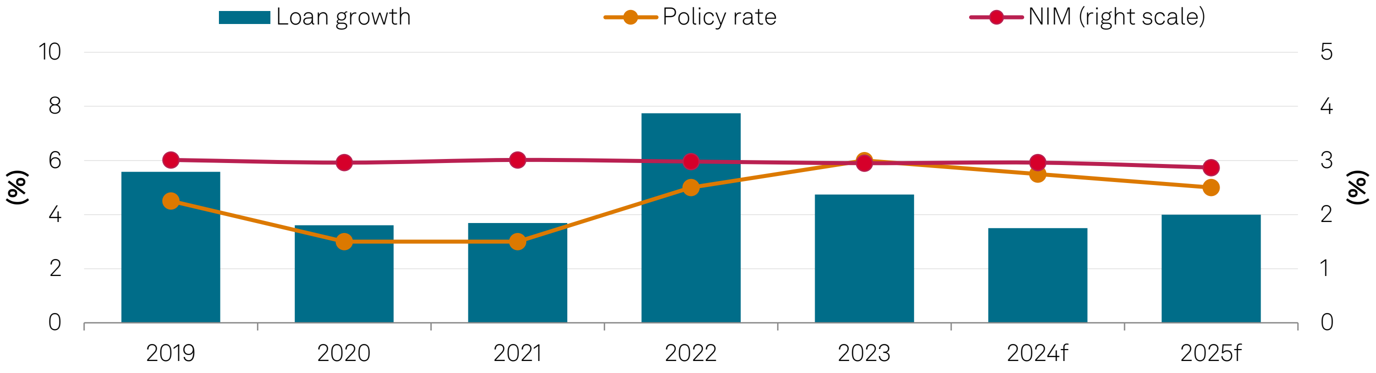
- The predominance of government bonds--26% of Egyptian banks' total assets--and the short-term nature of assets will put pressure on yields amid declining rates.
- Significant recourse to customer sight deposits will enable banks to reduce their cost of funding relatively quickly when rates start to decline.
- Inflation and the performance of the Egyptian pound (EGP) determine the development of interest rates in Egypt, but rate cuts by the Fed could reduce pressure on the EGP.
- Domestic interest rates in Turkiye depend on the success of disinflation and will only gradually decline.
- Lower rates will support banks' profitability as deposits--accounting for 72.3% of total funding--will reprice faster than assets. Lending growth will partially compensate for lower yields.
- Declining deposit dollarization comes at the cost of higher remunerations on Turkish lira deposits for banks but ultimately supports investor and depositors' confidence, reserves accumulation, and disinflation.

Jordanian And Moroccan Banks' NIM Benefit From Fixed-Term Loans And Customer Deposits

Jordan banks' NIM will gradually decline following rate cuts



Moroccan banks' NIM should remain stable

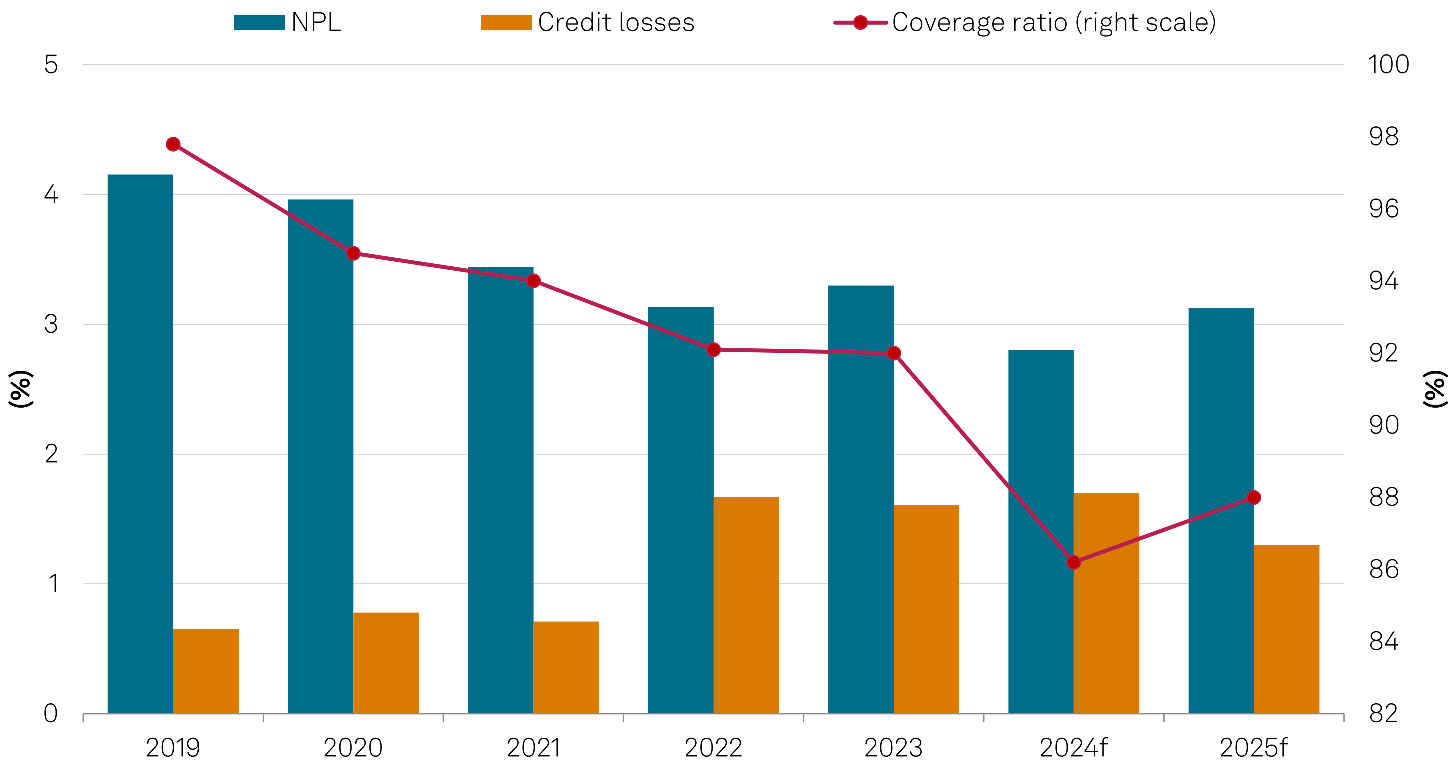


f--Forecast. Source: S&P Global Ratings.

- We expect domestic interest rates in Jordan will decrease, mirroring Fed rates, as the Jordanian dinar is pegged to the USD.
- We forecast that NIM volatility will remain low, on the back of the high share of fixed-term loans--above 60% of banks' portfolios--and the high recourse to deposits (65%-70% of the funding structure), with a predominance of term deposits.
- The increase in credit demand should support banks' net interest income.
- Domestic interest rates in Morocco will follow Fed and European Central Bank rates, but with a delay. This is due to global trade uncertainties and a potential increase in inflation because of a potential escalation of geopolitical risks in the Middle East.
- Interest rate sensitivity is low due to a significant recourse to noninterest-bearing deposits (about 70% of total deposits) and the high percentage of fixed-rate loans, which also stabilize profitability.
- Increasing lending demand can support net interest income.

Egyptian Banks' Asset Quality Suffers From High Interest Rates

After a significant increase over the past three years, credit losses will start to decline from 2025

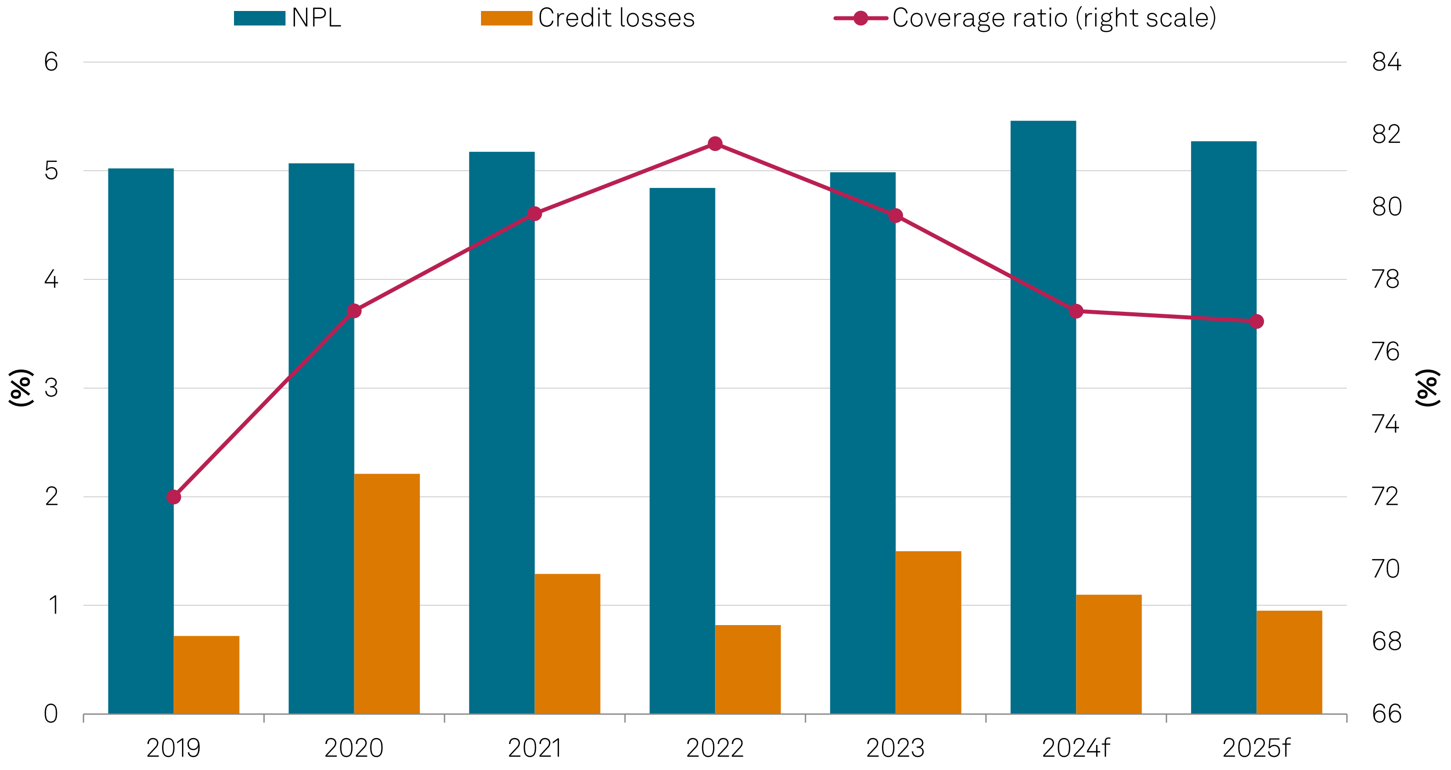


NPL: Nonperforming loans as a % of systemwide loans (year-end). Credit losses: Credit losses as a % of total loans. Coverage ratio: Loan loss reserves/gross nonperforming assets. f--Forecast. Source: S&P Global Ratings.

- Egypt's economy will rebound, with real GDP growth recovering from a low 2.4% in 2024. Disinflation will improve Egyptian banks' asset quality in 2025.
- Egyptian borrowers will benefit from declining rates, which will reduce pressure on companies' cash flows.
- Despite efforts to improve financial inclusion, inherently riskier small and midsize enterprises (SMEs) continue to account for only a small portion of total private loans. We therefore expect a potential deterioration in the SME sector will be manageable.
- Risks associated with high foreign currency lending as a percentage of total loans are mitigated by the large share of loans to exporters and the Egyptian government.

Jordan Banks' Asset Quality Will Benefit From Economic Recovery

Credit losses will likely remain high but start to decrease below 100 bps in 2025



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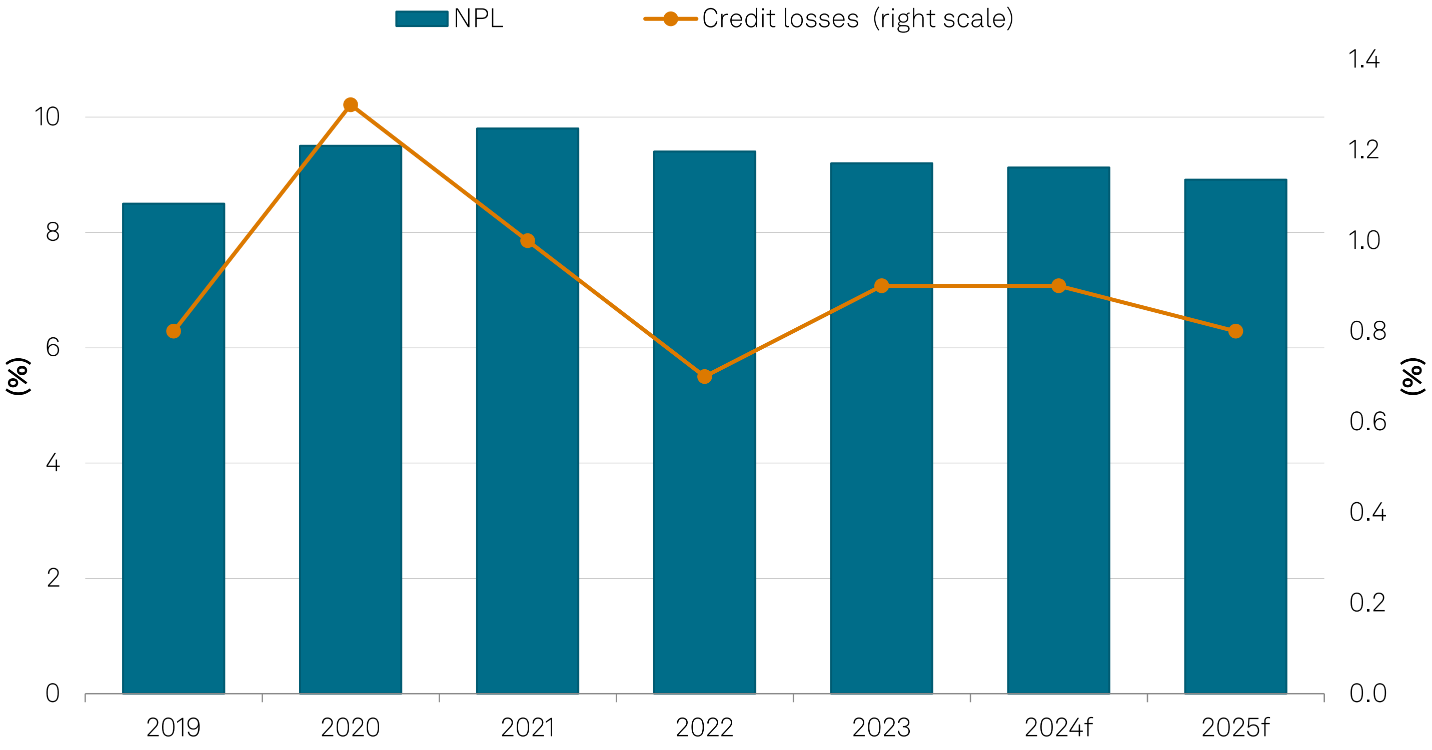
- Jordan's economy will gradually recover from 2025 if geopolitical risks recede.
- Interest rates should continue declining, following the Fed's interest rate cuts.
- The more benign economic framework and gradually improving monetary conditions in Jordan should support borrowers' creditworthiness.
- Therefore, we expect nonperforming loans (NPLs) will start to decline from the estimated 5.5% peak in December 2024.
- Jordan banks' low direct exposure to the tourism sector (2%) and their negligible exposure to Palestine will support asset quality.

Resilient Growth Will Help Normalize Moroccan Banks' Asset Quality Over 2025-2026

We expect NPL ratios will improve, despite the high amount of legacy loans



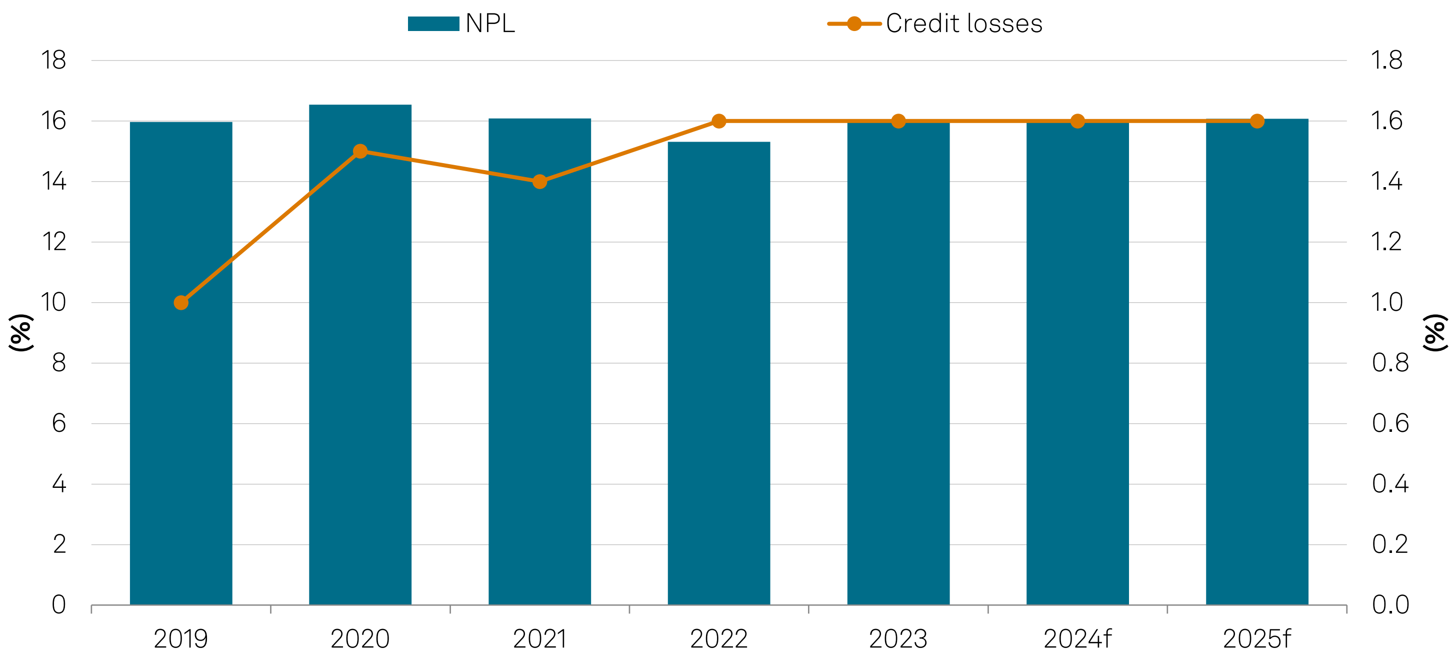
NPL: Nonperforming loans as a % of systemwide loans (year-end). Credit losses: Credit losses as a % of total loans.
f--Forecast. Source: S&P Global Ratings.

- Improving economic activity, higher loan volumes, and slightly better prospects for real estate prices will support Moroccan banks' asset quality metrics.
- The pace of new NPL formation remains muted, which should keep the cost of risk in check.
- Additionally, banks exhibit high levels of coverage through loan-loss reserves and benefit from collateralization.
- Even though Moroccan banks are reducing bad legacy loans, we do not expect the amount of these loans to decrease materially. This is due to the nonexistent secondary market for bad debt and the lack of incentives to write off legacy loans.

Tunisian Bank Will Continue Facing Low Credit Demand And Weak Asset Quality

An immediate risk of default for Tunisian banks does not exist due to increasing macroeconomic stability

NPLs will remain high over the next 12-24 months, despite expected write-offs



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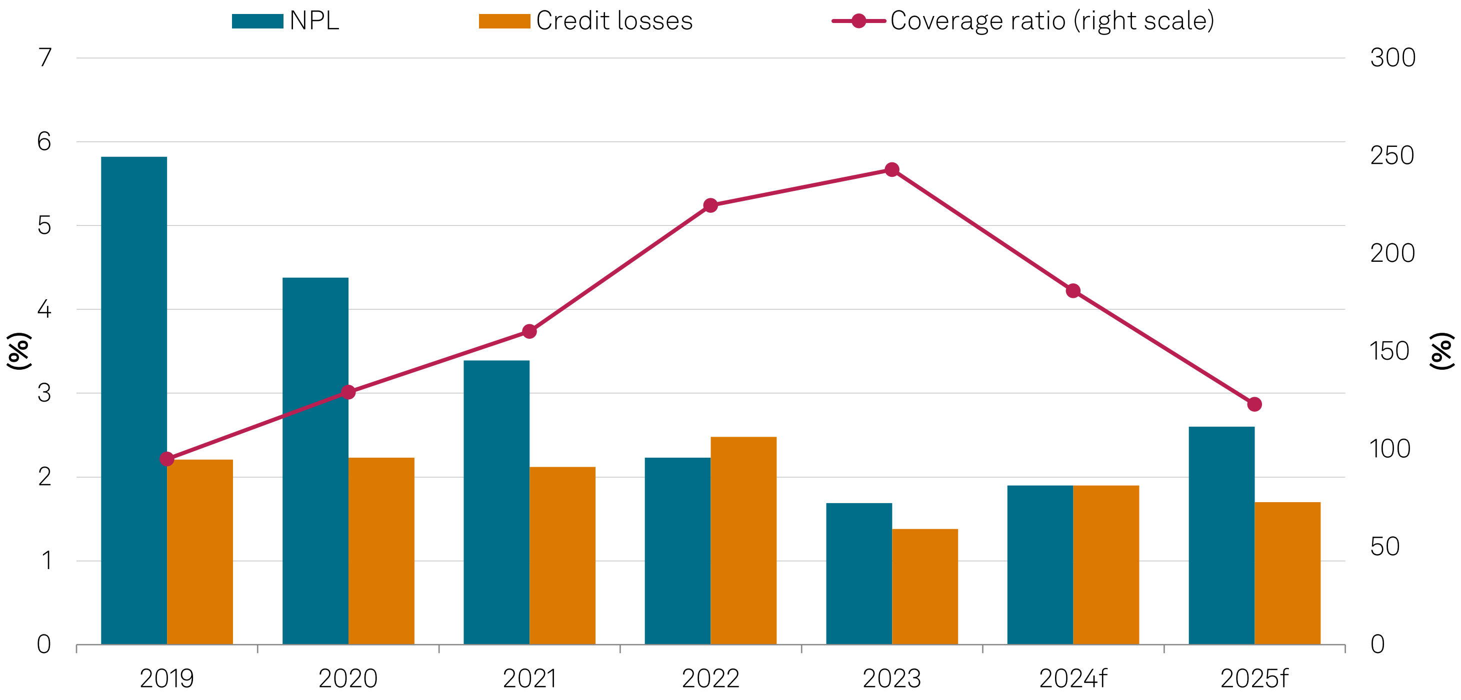
- We expect Tunisia's economic recovery will remain sluggish in 2025, with GDP growth of about 1%. This is because persistent inflation and high interest rates continue to impair private consumption and domestic investments. Hence, banks will continue to operate in a tough environment, further straining their already weak risk profiles.
- We expect NPL ratios will remain high, at close to 16% of total loans over 2024-2025. A high level of new provisioning will continue to weigh on banks' profitability. Many of these NPL loans are legacy loans, which banks could start to write off progressively.
- The adoption of International Financial Reporting Standards is set for 2025, after several delays.

The Rebalancing Of The Turkish Economy Implies High But Manageable Credit Losses

The unwinding of large imbalances, accumulated since 2018, will take time and consume banks' revenues

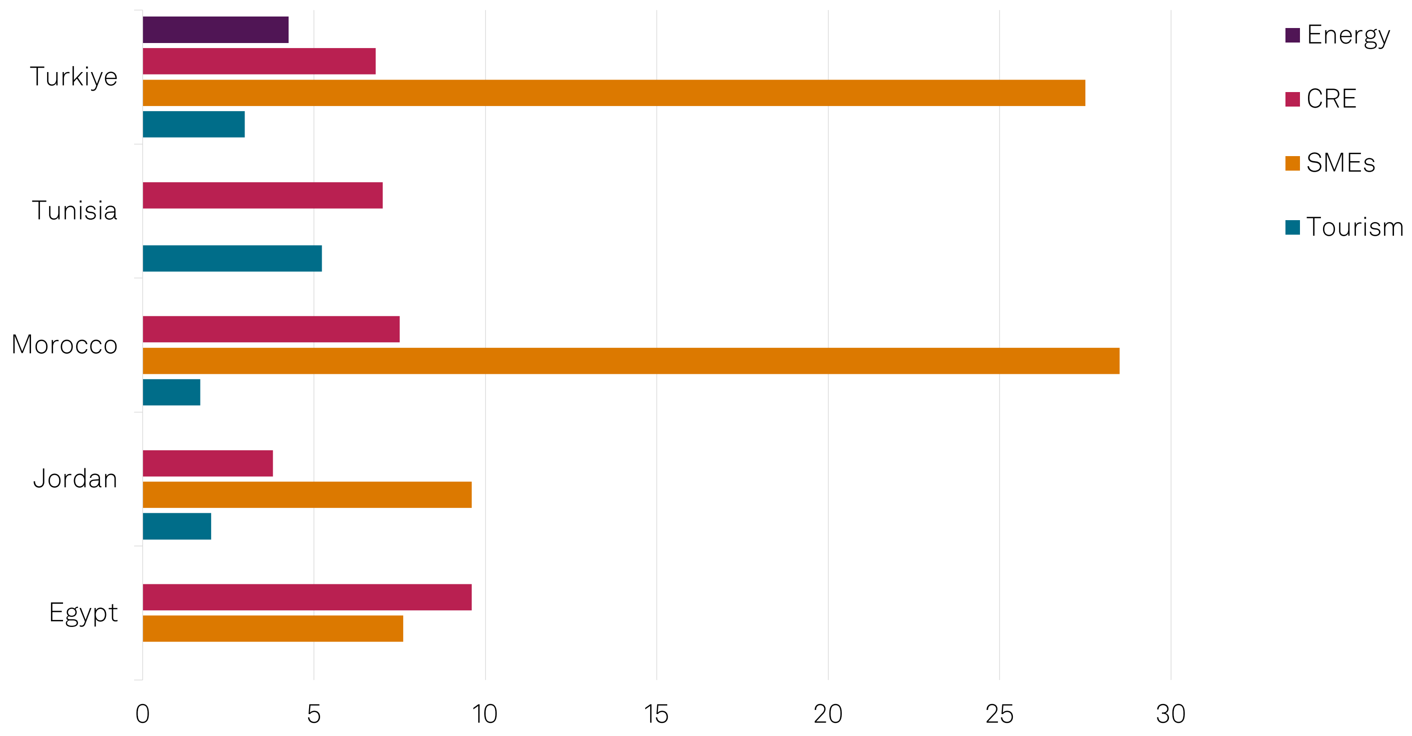


NPL: Nonperforming loans as a % of systemwide loans (year-end). Credit losses: Credit losses as a % of total loans.
Coverage ratio: Loan loss reserves/gross nonperforming assets. f--Forecast. Source: S&P Global Ratings.

- Slowing economic activity, declining but still elevated inflation, tight financing conditions, and eroding real wages will continue to weaken Turkish borrowers' creditworthiness in 2025.
- We expect higher gross NPL inflows over the next quarters. We forecast that credit losses will remain elevated but decline moderately due to already high coverages.
- Strong NPL sales and collections, elevated nominal loan growth, and the further use of restructured loans will prevent a more significant increase in the headline NPL ratio, especially in the context of an easier restructuring process.
- We estimate restructured loans--which are not recognized as delinquent--accounted for about 8% of the total loan book as of Oct. 31, 2024.

Banks' Asset Quality Benefits From Limited Exposure To Riskier Sectors

Loans distribution by sector (%)

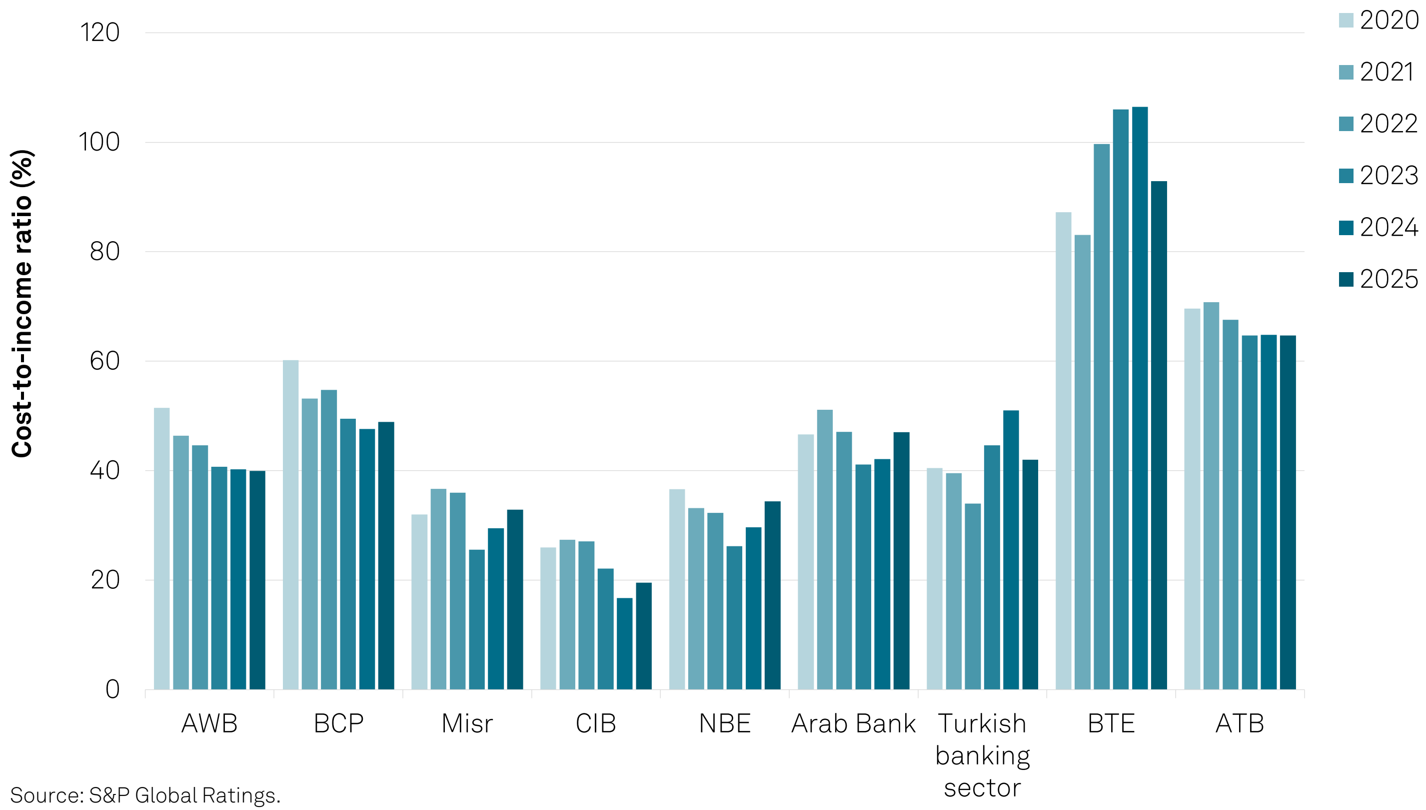


Loan breakdown by sector is not available at an aggregated level for all geographies. CRE--Commercial real estate. SME--Small and midsize enterprise. Source: S&P Global Ratings.

- Tourism, which is highly dependent on the credit cycle and vulnerable to geopolitical developments, represents a contained portion of banking sector loans in all countries but Tunisia, where it accounts for about 5% of total loans and represents a non-negligible share of legacy NPL.
- SMEs lending could suffer, especially in Egypt and Turkiye. Sectors with low value added, for example the textile industry, are particularly affected due to their declining competitive advantage on prices and lower financial flexibility.
- Commercial real estate lending is significant in many banking systems. Yet banks often finance residential projects--which carry lower risks due to resilient housing demand--or government-sponsored infrastructure projects.
- Energy companies account for a significant portion of Turkish banks' restructured loans and have caused credit losses since 2018.

Efficiency Will Continue Diverging Materially And Remains Volatile

While most banking systems' cost to income benefited from rising revenues over the past two years, Turkish banks suffered from margin compression

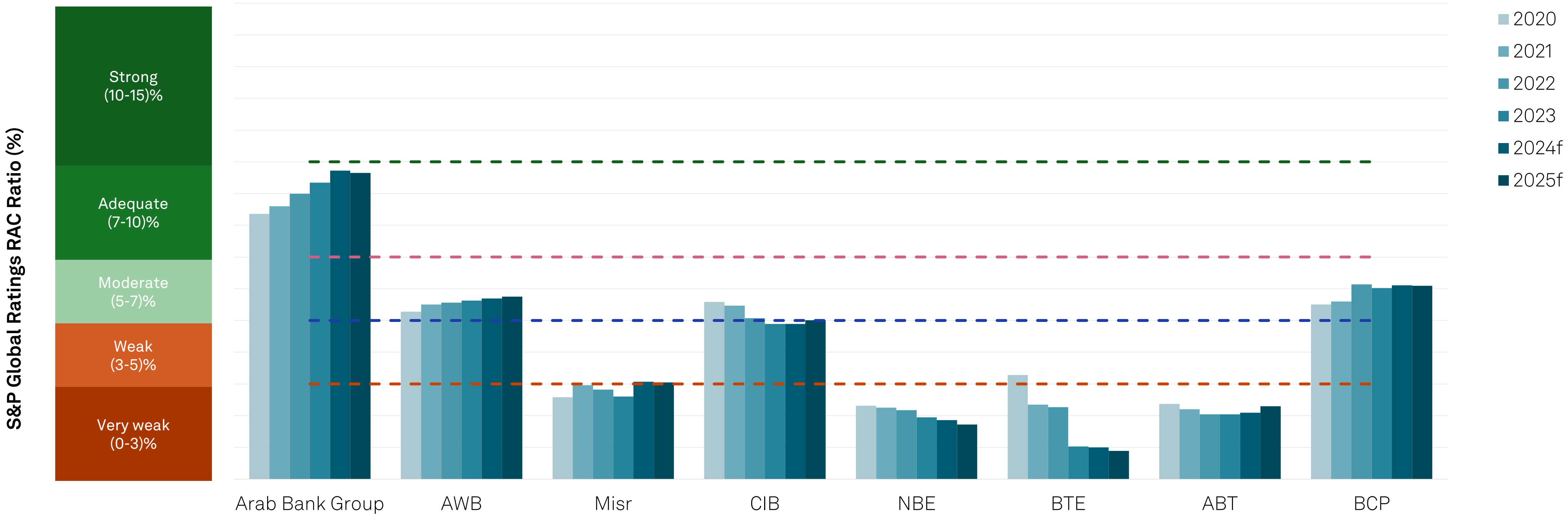


Source: S&P Global Ratings.

- Still high inflation in Egypt and Turkiye will continue to put upside pressure on wages and administrative costs. Yet we anticipate revenues will recover and inflation will decline, leading to improving efficiency for Turkish banks.
- Even though higher investments in digitalization will increase cost additionally, we expect large banks in the region will remain efficient.
- Smaller banks will continue to struggle as they lack sufficient scale. That said, we anticipate some improvements from cost containment efforts.

Most Banks Are Exposed To High Economic Risks

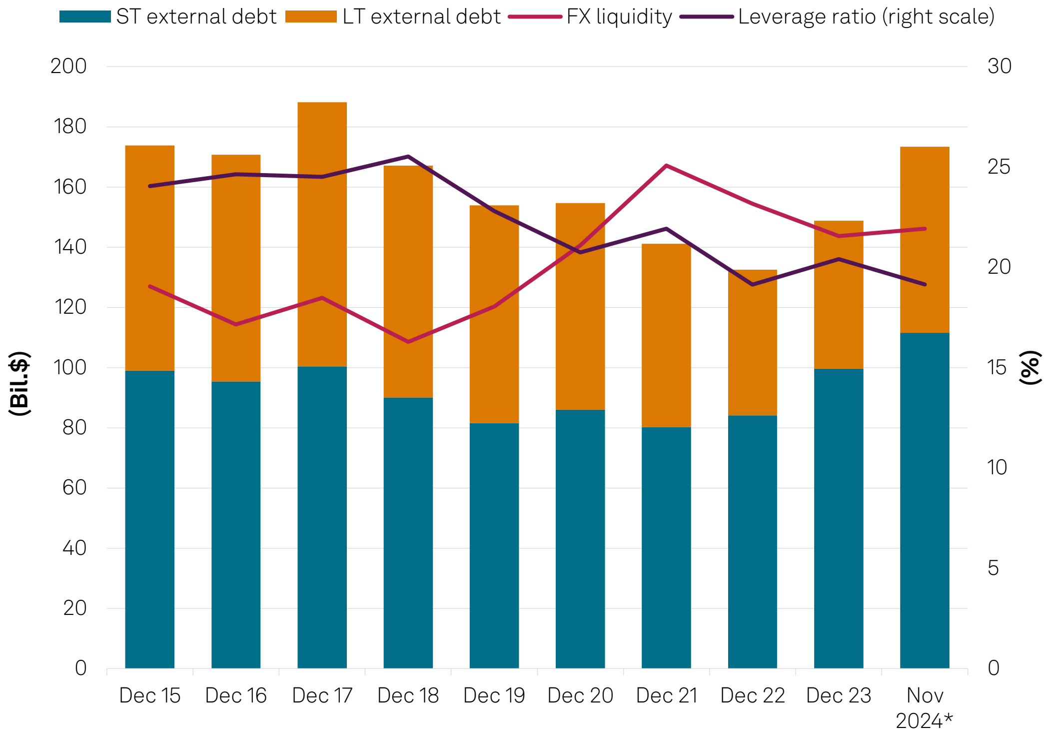
Even though most rated banks in the region comply with minimum capital requirements, capitalization remains a rating constraint, considering the very high risks banks face



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

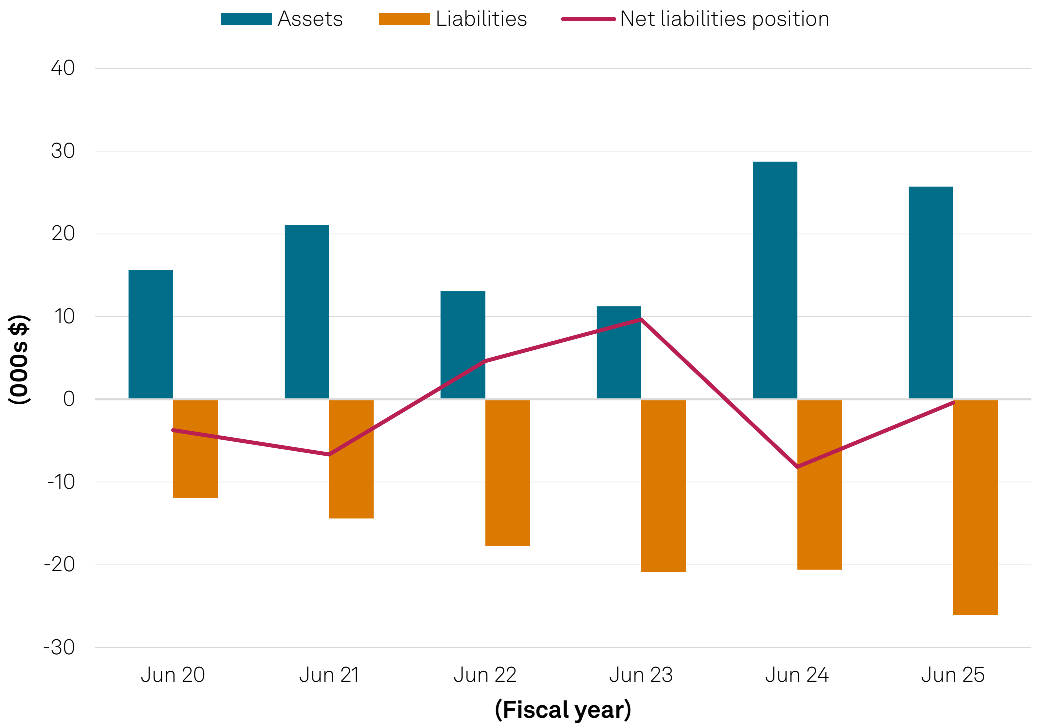
Egyptian And Turkish Banks Rely On Investor Confidence And Reforms

Turkish banks' leverage declined only moderately to about 20% of liabilities in 2024, from a 25.5% peak in 2018



*External debt as of Sept. 2024 FX--Foreign exchange. LT--Long-term. ST--Short-term.

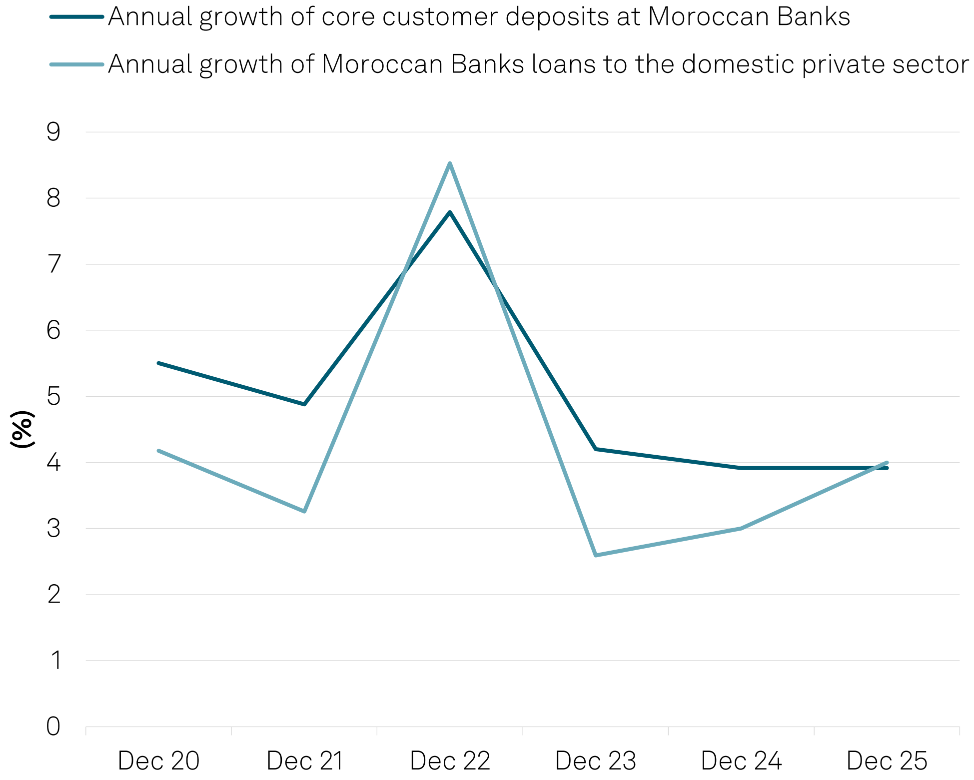
We do not expect Egyptian banks to keep a large net assets position because of strong foreign currency demand



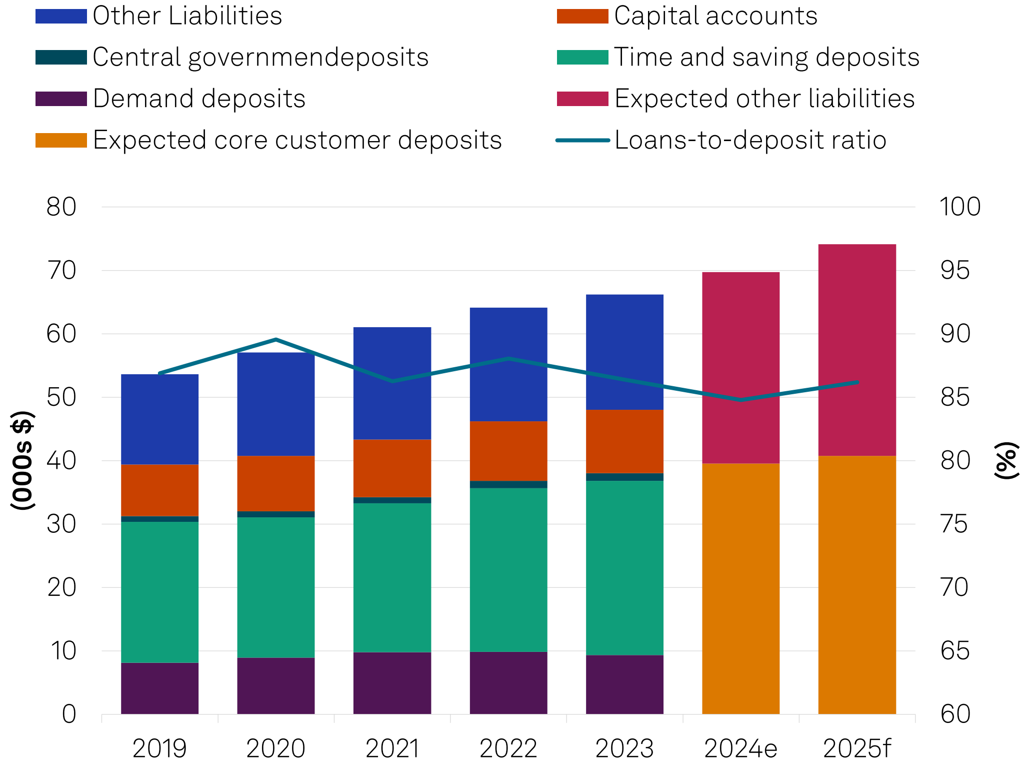
Source: S&P Global Ratings.

Deposits Remain The Backbone Of Moroccan And Jordanian Banks’ Funding

Moroccan banks’ deposit growth outpaced loan growth, but we expect the gap will close



We anticipate a pick-up in the loans-to-deposit ratio in Jordan as credit demand starts to recover gradually



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