

## Global Banks Outlook 2026

# Resilience Amid Uncertainty

November 12, 2025

**S&P Global**  
Ratings

*This report does not constitute a rating action*

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# Key Takeaways

- Our outlook for global banks remains steady with broad ratings stability anticipated in 2026. As of Oct. 31, 2025, 85% of our outlooks on bank ratings were stable. While we expect the banking sector to adjust well to any second-order impacts from higher global trade tariffs and regional conflicts, the risks to our baseline remain on the downside.
- We see four key downside risks to bank ratings:
  1. An escalation of the geopolitical situation, including the Russia-Ukraine war and Middle East conflict;
  2. A stronger-than-anticipated spillover from the tariff shock to the real economy and financial markets;
  3. A weakening of banks' regulatory environment that would limit the effectiveness of supervisory action or weaker global coordination in times of stress; or risks continuing to migrate out of the banking system to nonbank actors; and
  4. Evolving risks including new technologies (such as generative AI), digitalization, cyber, and climate change that could widen credit differentiation, given that adaptation to such changes could be positive or negative.
- Banks are operating in volatile times, when significant policy decisions and regional conflicts could disrupt financial markets and rapidly change the economic environment.

# Key Risks



## Escalation of geopolitical risks

The resolution of the Russia–Ukraine war remains uncertain, and the conflicts in the Middle East could re-emerge and lead to a wider impact in the region.



## A spillover from the tariff shock to the real economy

There is still a high degree of unpredictability around policy implementation by the U.S. administration (specifically about tariffs), the possible responses, and the potential effect on economies, credit conditions, and market volatility.



## Weaker global financial system infrastructure

The mounting call for simplifying regulation and supervision (especially in the U.S.) could lead to a weakening of the regulatory environment or limit the effectiveness of supervisory action.



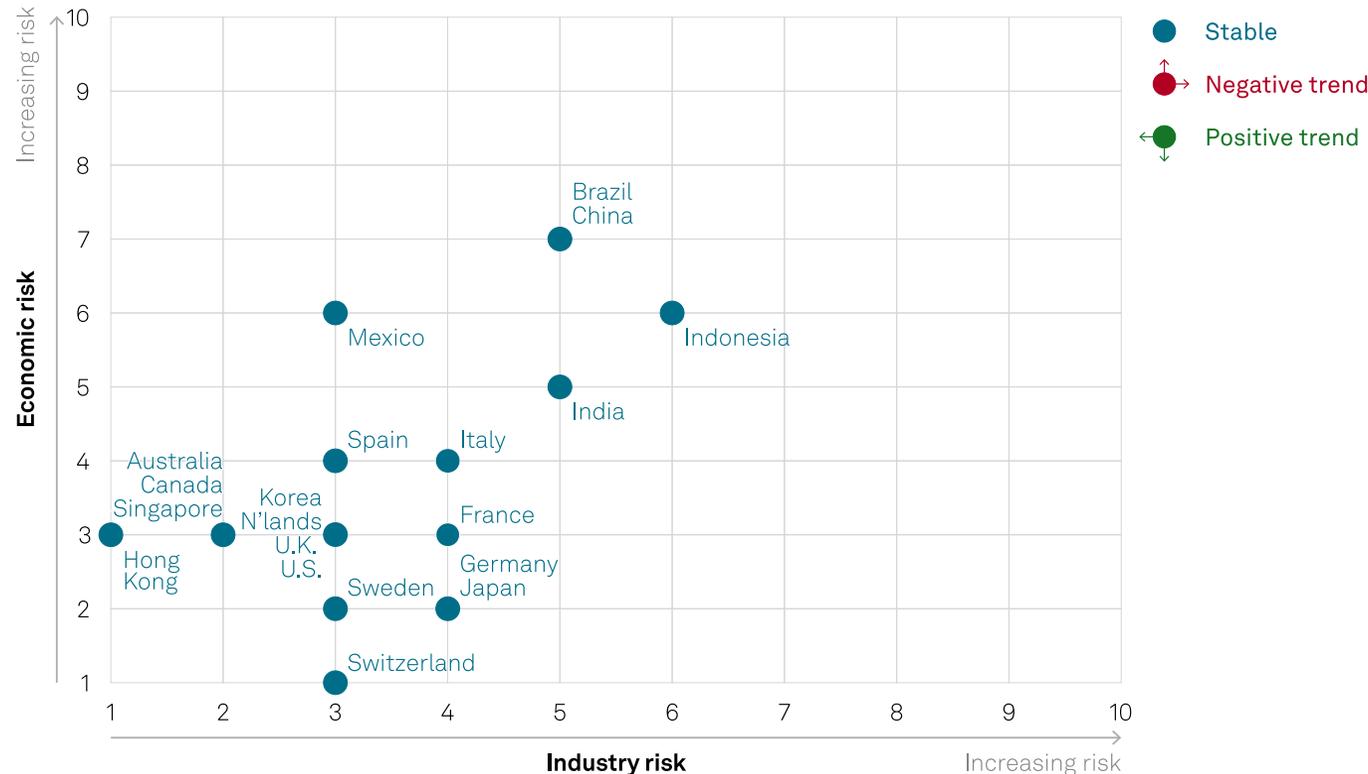
## Digitalization, AI, climate change, and cyber

These evolving risks will challenge business models and risk management for some banks and offer opportunities for others. We eventually expect increasing credit divergence.

# BICRA | Top 20 Banking Markets Have Stable Trends

BICRA scores and economic and industry risk trends

## Top 20 banking markets



Data as of Oct. 31, 2025. A BICRA (Banking Industry Country Risk Assessment) is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group 1) to the highest-risk (group 10). N'lands--Netherlands. Source: S&P Global Ratings.

## BICRA-related changes in the top 20 banking markets

### Spain

BICRA group '3' from '4' (March)

### Italy

BICRA group '4' from '5' (April)

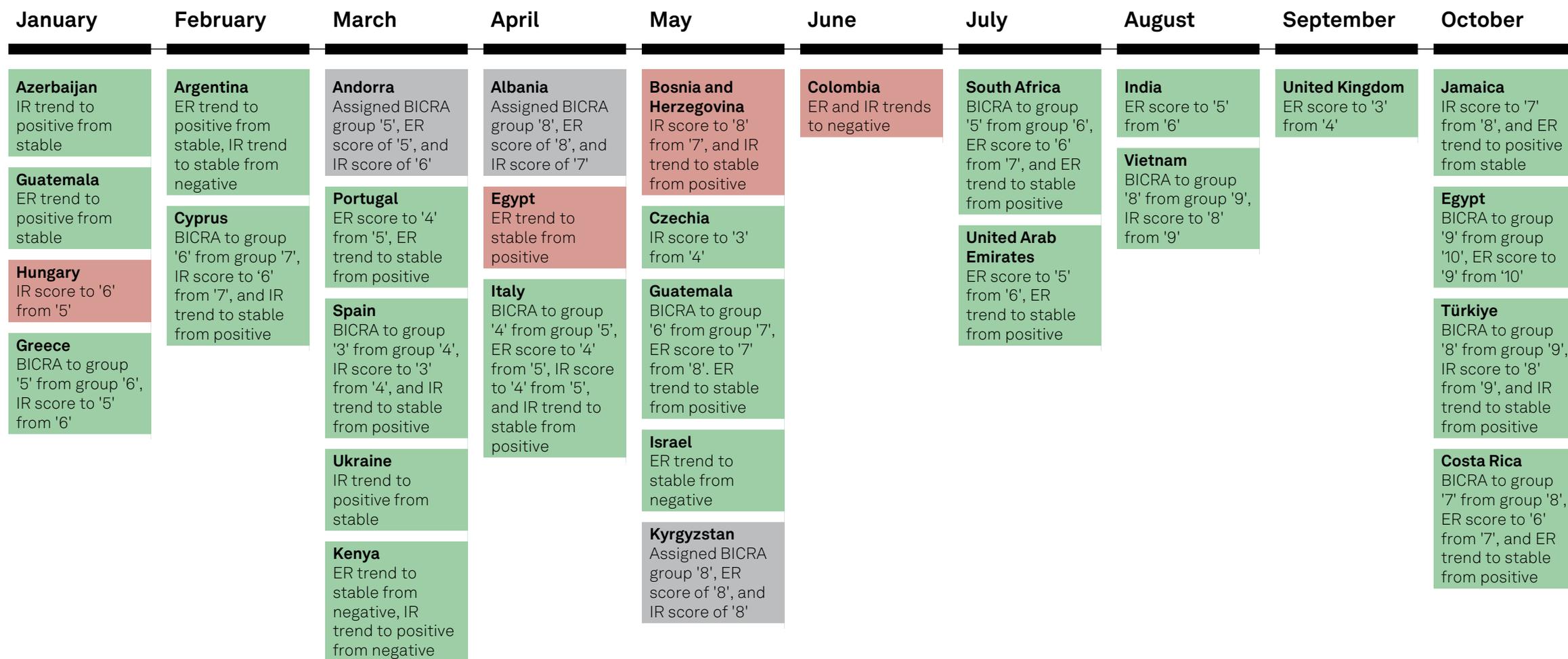
### India

Economic risk score to '5' from '6' (August)

### United Kingdom

Economic risk score to '3' from '4' (September)

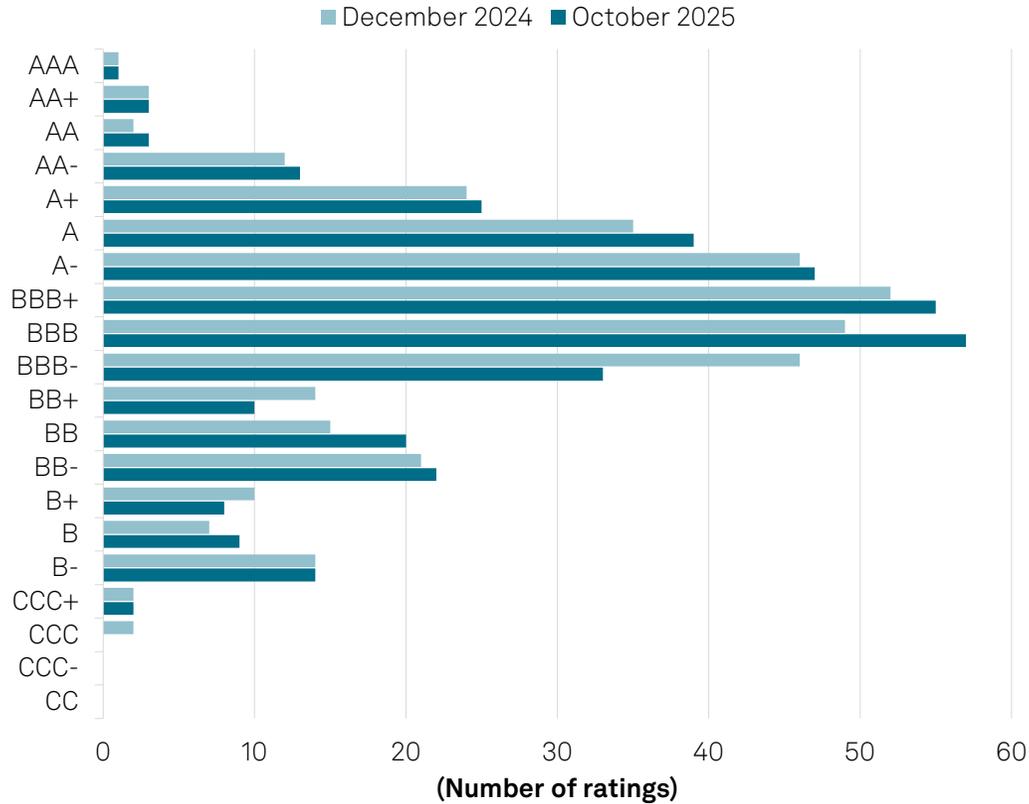
# BICRA | Positive Actions Have Dominated Changes In 2025



Data as of Oct. 31, 2025. Chart includes changes in BICRA group, industry and economic risk trends and scores. BICRA--Banking Industry Country Risk Assessment. ER--Economic risk. IR--Industry risk. Source: S&P Global Ratings.

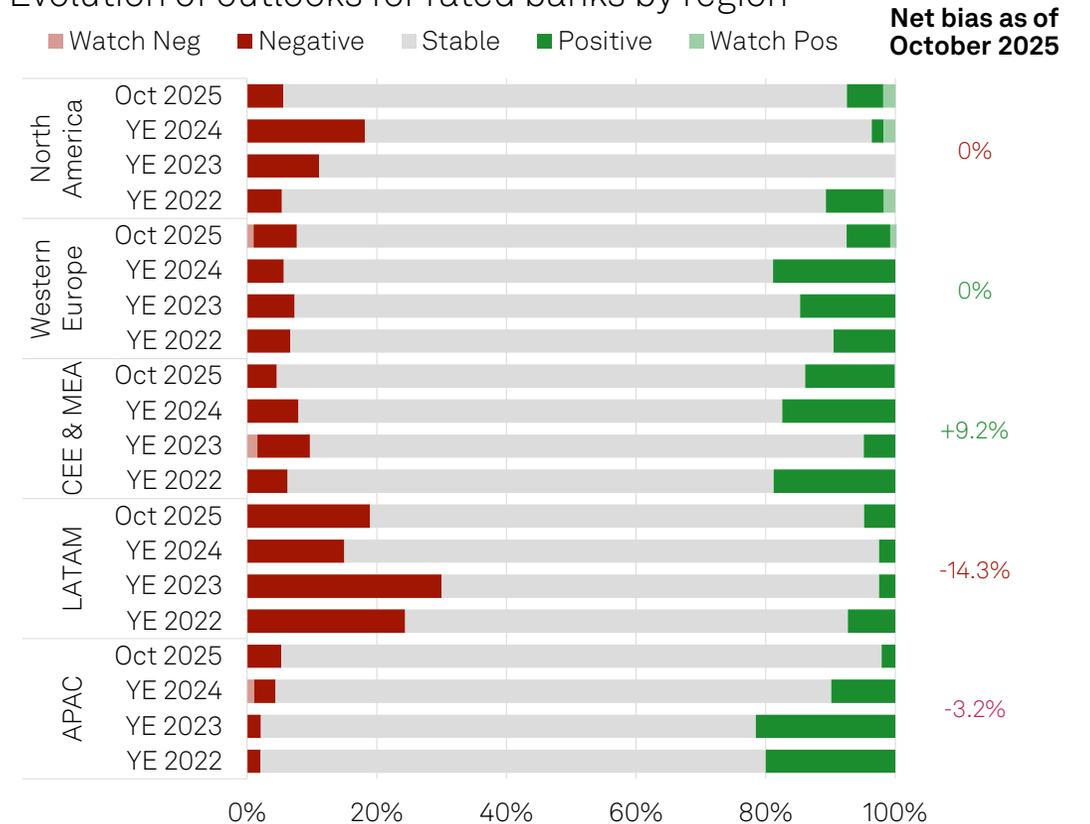
# Banks | Generally Stable Outlook

We expect ratings on banks to be resilient  
Evolution of ratings distribution for rated banks



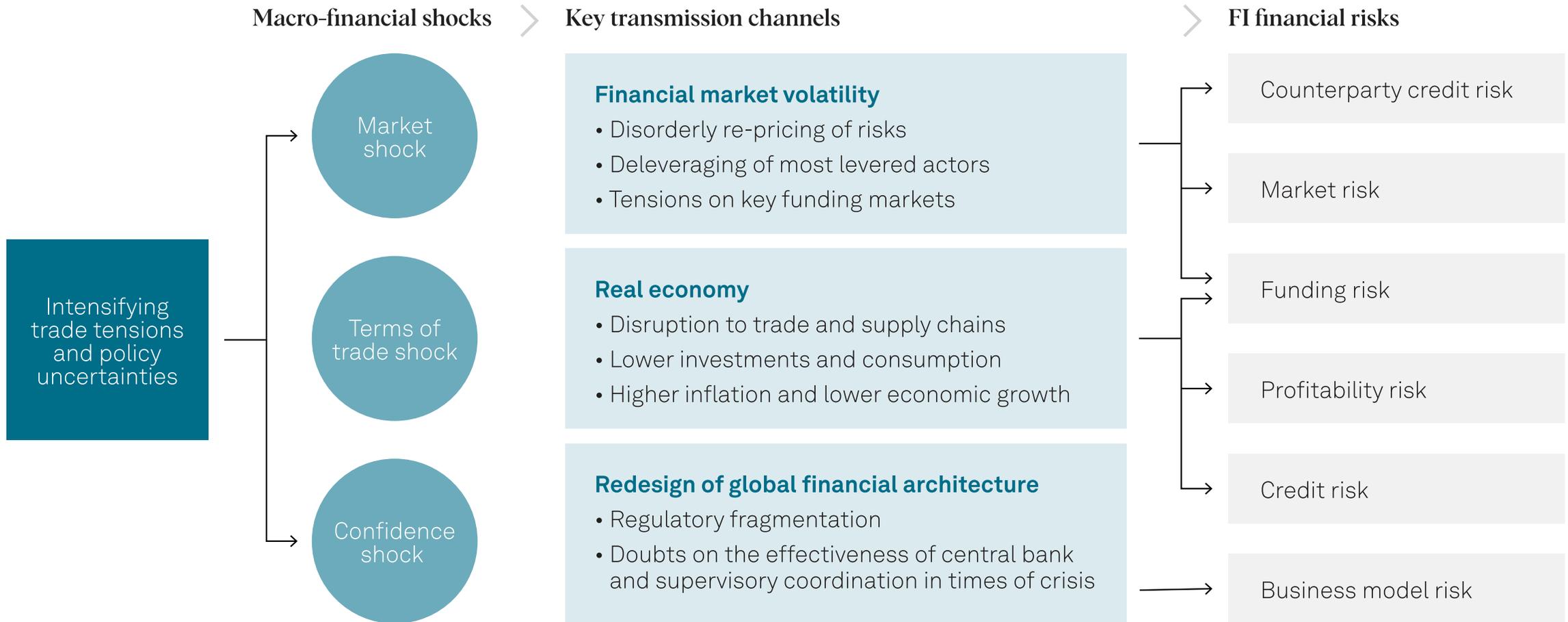
Operating company issuer credit ratings. Source: S&P Global Ratings.

Negative net rating bias of 1% at global level  
Evolution of outlooks for rated banks by region



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

# Tariffs | U.S. Stance May Trigger Financial Shocks, Which Could Transfer To Banks



FI--Financial institutions. Source: S&P Global Ratings.

# Tariffs | Credit Hits From Any Shocks Would Be Uneven And Felt Over Time

High impact Medium impact Low impact

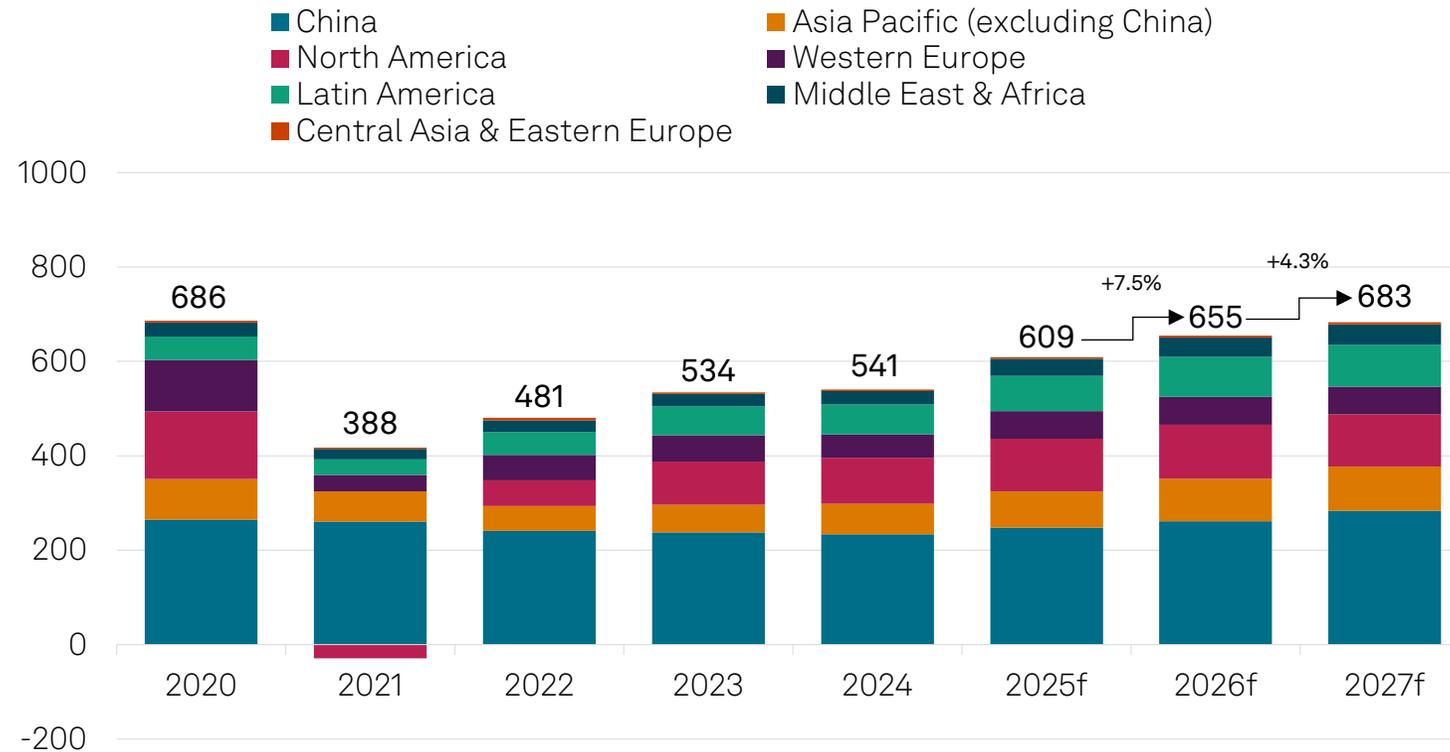
	Financial market volatility		Real economy		Redesign of global financial architecture →	
	Counterparty credit risk	Market risk	Funding and liquidity risk	Profitability risk	Credit risk	Business model risk
Globally active banks	High impact	High impact	Medium impact	Medium impact	Medium impact	Medium impact
Regional banks – Developed market	Low impact	Medium impact	Medium impact	Medium impact	Medium impact	Low impact
Regional banks – Emerging market	Low impact	Medium impact	Medium impact	Medium impact	Medium impact	Low impact
Securities firms	High impact	High impact	High impact	Medium impact	Low impact	Medium impact
Fincos	Low impact	Low impact	High impact	High impact	High impact	Low impact
AIFs	Low impact	Medium impact	Medium impact	Medium impact	Medium impact	Low impact
FMI	High impact	Low impact	Low impact	Low impact	Low impact	Low impact

AIFs--Alternative investment funds. FMI--Financial market infrastructure. Source: S&P Global Ratings.

# Credit Losses | Manageable Despite Tariff-Related Uncertainties

We anticipate credit losses will increase by 7.5% in 2026

Domestic credit losses by region, 2020-2027 (bil. \$)



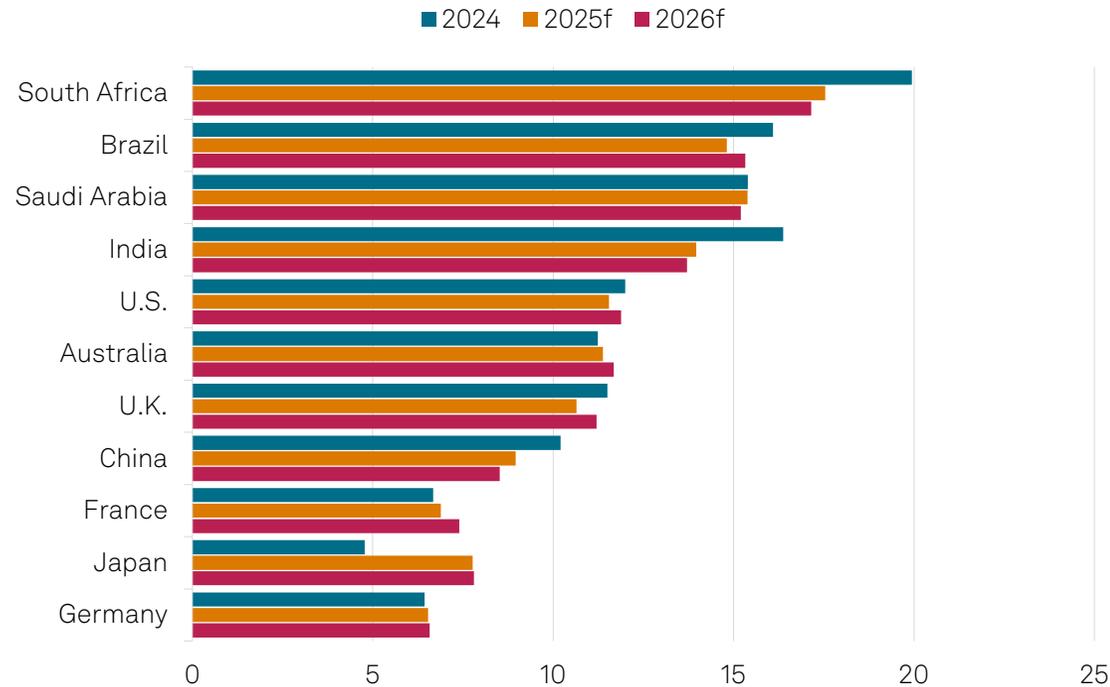
Data shown on a constant currency basis, based on 2024 year-end exchange rates. China credit losses are for commercial banking sector estimated under new approach. f--Forecast. Source: S&P Global Ratings.

- We forecast global banks' credit losses will increase by about \$46 billion in 2026 before slowing down in 2027. This results in credit losses of \$655 billion in 2026 from \$609 billion in 2025 (a rise of 7.5%) and \$683 billion in 2027 (a rise of 4.3%).
- The bulk of this increase comes from Asia-Pacific. Driven, in large part, by the impact of tariff-related uncertainties on lending to China's micro and small enterprises and its unsecured consumer credit segment.
- We see these losses as manageable for banks, thanks to generally solid profitability and strengthened prudential rules implemented over past years.

# Profitability Remains Solid Despite Slight Cyclical Declines

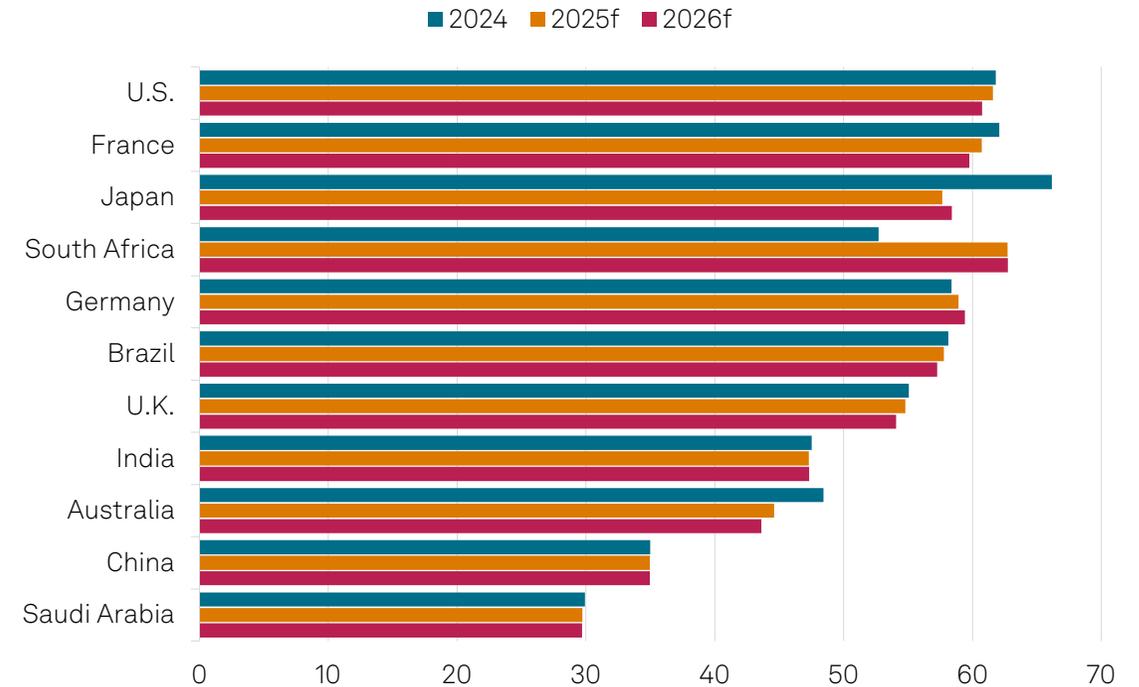
Lower rates will weigh on results in many jurisdictions, Japan being a notable exception. Differences in cost efficiencies persist, with major emerging markets recording more favorable results.

Return on average common equity (%)



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

Cost-to-income ratio (%)

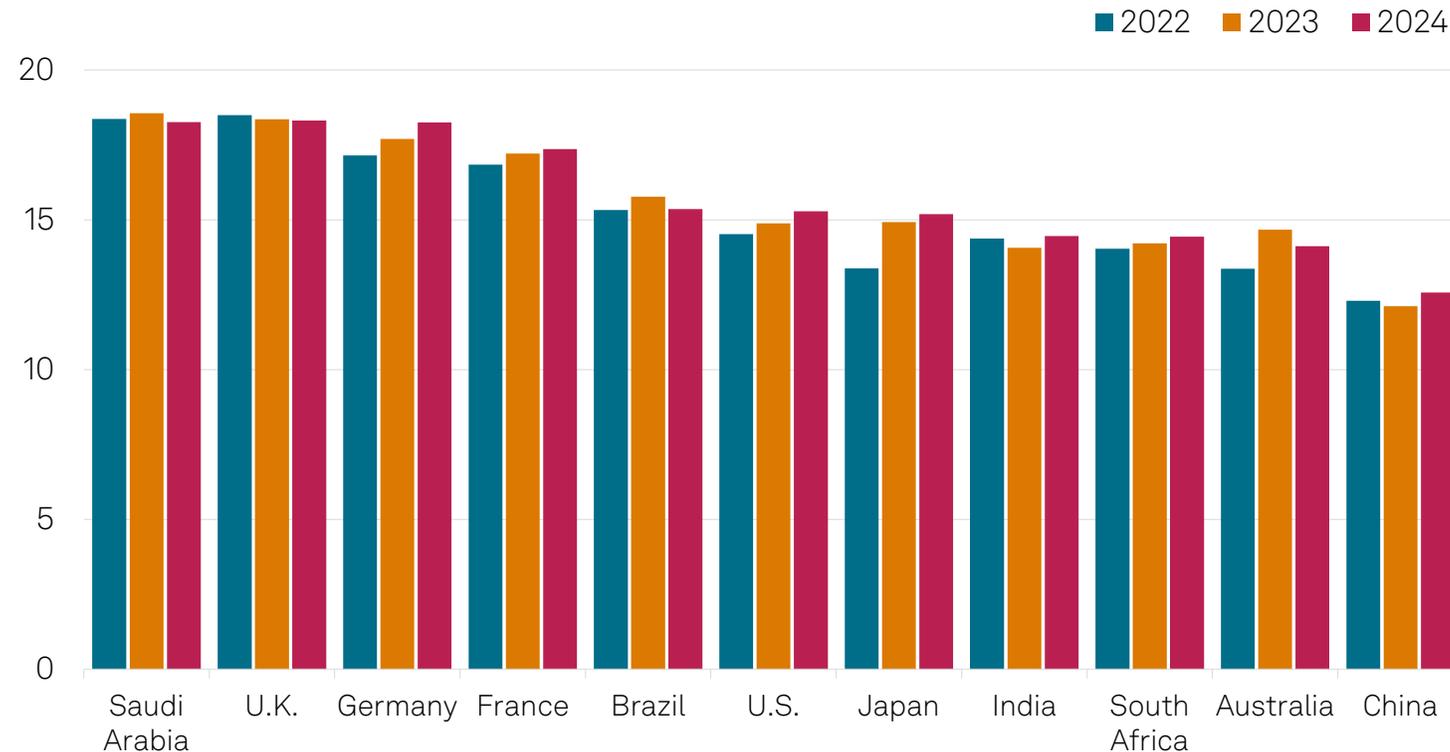


f--Forecast. Source: S&P Global Ratings.

# Sound And Stable Capitalization Levels Protect Against Downside Risks

## Tier 1 capital ratios

For rated banks (%)



Source: S&P Global Ratings.

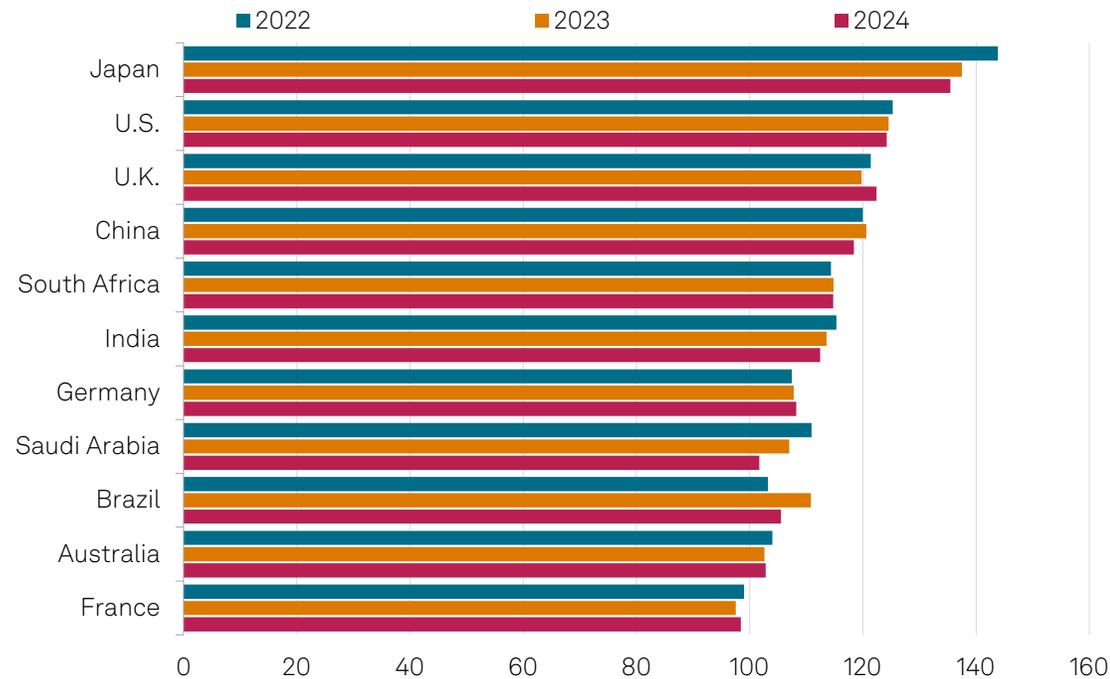
- Banks have improved their capitalization levels in most jurisdictions in the past three years.
- This was despite generous shareholder distributions, showing banks' capacity to generate internal capital.
- Reported regulatory ratios are not fully comparable given different implementation of Basel standards, and further delays and divergences are on the horizon.

# Diversified Funding And Ample Liquidity Support Credit Profiles

Differences in reported metrics partly reflect business models. Japan is a positive outlier on liquidity.

## Stable funding ratio

For rated banks (%)



Source: S&P Global Ratings.

## Broad liquid assets/total assets

For rated banks (%)



Source: S&P Global Ratings.

# Regulation And Supervision | Change Is Coming But Details Remain Unclear

Simplification would not necessarily weigh on ratings if key guard rails remain. Appetites for regulatory change may be different across jurisdictions, but competitive pressures could force some (re)alignments.



The call for the simplification of rules, as well as a sense of regulatory saturation, seem inevitable.

In the U.S., authorities have called for wide ranging changes, but details remain limited. Other jurisdictions might follow suit.



In our base case, we do not expect changes to result in a sharp weakening in oversight, particularly on the largest banks.

We expect efforts to simplify supervisory procedures and tailoring rules for small banks.



A broader regulatory rollback, including material deviations from the Basel Framework and a global race to the regulatory bottom, are clear downside risks for global bank ratings.

A material weakening of financial supervision could also have ratings implications.

## Global Regulatory change

### What's happening

- Delays to part of Basel III implementation (U.S., U.K., and EU)
- Removing G-SIB capital rules stricter than Basel (e.g., eSLR in the U.S.) and AT1 capital (Australia)
- Streamlining supervisory processes and enforcement actions (U.S.)
- Tailoring of rules for small banks (U.K.)

### What's discussed

- Broader review of capital, liquidity regulations, and interest rate risk regulations (U.S.)
- Simplifying capital buffers (EU, and U.K.) and reporting requirements (EU)
- Reviewing the ring-fencing regime (U.K.)
- Tailoring rules on community banks (U.S.) and small banks (EU)

# Deposit Growth And Favorable Market Conditions Are Consistent Tailwinds

Monetary and fiscal policies vary across countries. With markets priced to near perfection, funding conditions could deteriorate if investor perceptions are challenged by more negative economic news.

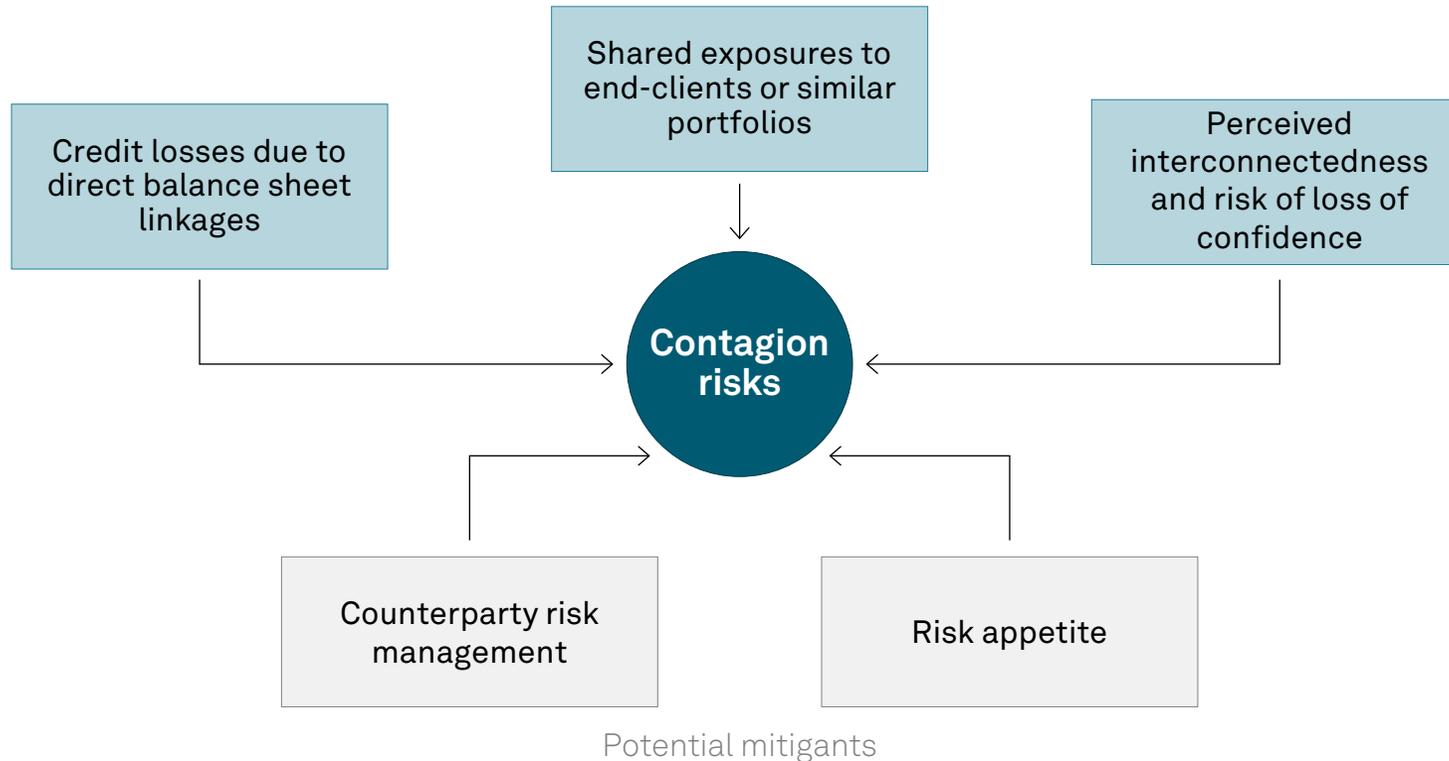
## Key drivers of global banks' funding and liquidity conditions

	U.S.	Eurozone	U.K.	China	Japan	Australia
<b>Monetary policy</b>	Moderate tailwind	Moderate headwind	Moderate tailwind	Tailwind	Moderate headwind	Moderate tailwind
<b>Fiscal policy</b>	Moderate tailwind	Moderate tailwind	Moderate headwind	Moderate tailwind	Moderate headwind	Moderate tailwind
<b>Market funding</b>	Tailwind	Tailwind	Tailwind	Tailwind	Tailwind	Tailwind
<b>Deposit growth</b>	Moderate tailwind	Tailwind	Tailwind	Tailwind	Moderate tailwind	Moderate tailwind
<b>Credit demand</b>	Moderate headwind	Moderate tailwind	Moderate tailwind	Tailwind	Moderate headwind	Moderate headwind
<b>Key expectations</b>	<ul style="list-style-type: none"> <li>• Monetary policy is likely to ease further in late 2025 and 2026.</li> <li>• Market funding access is very strong.</li> <li>• Demand for credit could accelerate, notwithstanding the slow economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Declining bank reserves and stable policy rates are moderate headwinds for liquidity.</li> <li>• Credit demand should rise but remain below historical trends.</li> <li>• Access to deposit and market funding remain a key strength.</li> </ul>	<ul style="list-style-type: none"> <li>• Rising structural hedge yields offset falling rates.</li> <li>• Solid growth in corporate loans and retail deposits.</li> <li>• Smooth transition towards demand-led, repo-based central bank reserves.</li> </ul>	<ul style="list-style-type: none"> <li>• Monetary and fiscal policies are loose to support growth, ensuring ample money supply and market liquidity.</li> <li>• Economic uncertainties curb credit demand.</li> </ul>	<ul style="list-style-type: none"> <li>• Monetary policy remains on a tightening trend.</li> <li>• Fiscal policies may loosen to support cost of living.</li> <li>• Speed of credit growth may outpace that of deposits, amid a stable funding market.</li> </ul>	<ul style="list-style-type: none"> <li>• Monetary policy is gradually easing.</li> <li>• Fiscal restraint is slightly loosening.</li> <li>• Deposit growth to remain strong on the back of high competition.</li> <li>• Credit demand to remain strong driven by housing credit.</li> </ul>

# Nonbank Lenders | Contagion Risks Exist

Interconnectedness among nonbank lenders and between nonbank lenders and banks can lead to risk propagation

Contagion risks could materialize in multiple ways



Source: S&P Global Ratings.

External and internal shocks can test the resilience of banks and nonbanks, including private credit funds. These shocks include:

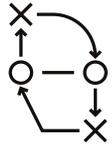
- Geopolitical events, economic shocks, and market fragilities; and
- Idiosyncratic underperformance of direct exposures.

Banks' risk management is central. Their decision-making must rely on transparency, effective monitoring, risk-based pricing, prudent assumptions on valuations and secondary liquidity, risk diversification, and scenario analyses.

# How AI Adoption Could Impact Banks' Credit Quality

[Read report here](#)

## Macro/external factors



Technology/  
fintech  
ecosystem



Sovereign,  
regulatory, and  
systemic  
implications



Cyber risk/  
malicious agents  
Third-party  
supply chain risk

## Key risk drivers

### Business landscape

- New AI-enabled entrants gaining market share
- AI adoption as a determinant of competitive advantage among banks

### Financial performance

- Capital expenditure and running costs of AI solutions
- Delivery of efficiency gains over time
- Increased revenue through enhanced brand and client loyalty supported by AI solutions

### Risk management practices

- New technical risks from deploying AI technologies
- Reliance on third-party vendors
- Use of AI to improve risk identification, monitoring, and pricing

## Impact on bank credit quality

Competitive landscape

Business model

Profitability

Reputational risk

Operational risk

Credit and market risk

# Climate Risks | What To Watch Out For?

Banks' climate commitments might increasingly diverge across regions

## SO FAR

- ✓ Reducing climate risks has become a priority for an increasing number of banks. We observed material progress in banks' awareness and preparedness.
- ✓ Regulatory initiatives, including stress tests and scenario analyses, have fostered banks' analysis and disclosure of climate risks across several jurisdictions.

Climate risks have had a limited credit impact on banks thanks to:

- ✓ Banks' diversified exposures by sector and geography, helping to contain credit losses.
- ✓ Governments and insurance companies generally taking most of the cost burden related to climate-related physical events (e.g., floods in Spain; wildfires in Los Angeles; and floods in the United Arab Emirates).

## FUTURE

Banks' climate actions might be subject to a potential setback in the near term, given:

- ✓ Evolving priorities, particularly in the U.S.
- ✓ The Net-Zero Banking Alliance's decision to move from a membership-based alliance to a guidance-based model.
- ✓ The EU parliament's decision to delay the implementation of the Corporate Sustainability Reporting Directive (CSRD).

We expect the credit impact of climate risks on banks to increase over time, since:

- ✓ Weaker climate policy and legislation in some jurisdictions could translate into incremental transition risks.
- ✓ Late climate policies might exacerbate the frequency and severity of climate-related physical events and increase their impacts for banks operating in most vulnerable geographies.

At the same time, many banks will continue to adapt their strategy to mitigate the impact of climate hazards, in our view.

# Emerging Markets | What Will Shape The Credit Story?



## Geopolitical risk remains high

Ongoing tensions in the Middle East and the Russia-Ukraine conflict underscore the fragility of security and political stability, and heightened event risk. Hostilities in the Middle East could erupt again and affect regional credit fundamentals through energy disruption, price volatility, and capital flight (although this was not observed during previous episodes).



## Uncertain market conditions

Emerging market (EM) funding conditions continue to be supported by the strength of domestic currencies against a weaker U.S. dollar. Moreover, additional rate cuts from the Federal Reserve (Fed) will provide room for further easing by some EMs. While overall funding conditions are favorable, the outlook for U.S. monetary easing beyond 2025 is clouded by upside inflation risk.



## Trade tariffs, policy uncertainty, China's slower growth cloud the economic outlook

While visibility on the U.S. tariffs is improving, potential sector-specific tariffs and ad hoc tariff rate changes maintain significant policy uncertainty. At the same time, a slower Chinese economy poses substantial risks for EMs, particularly those reliant on Chinese demand for commodities and services. Commodity prices and lower global demand could affect economic outcomes for EMs.

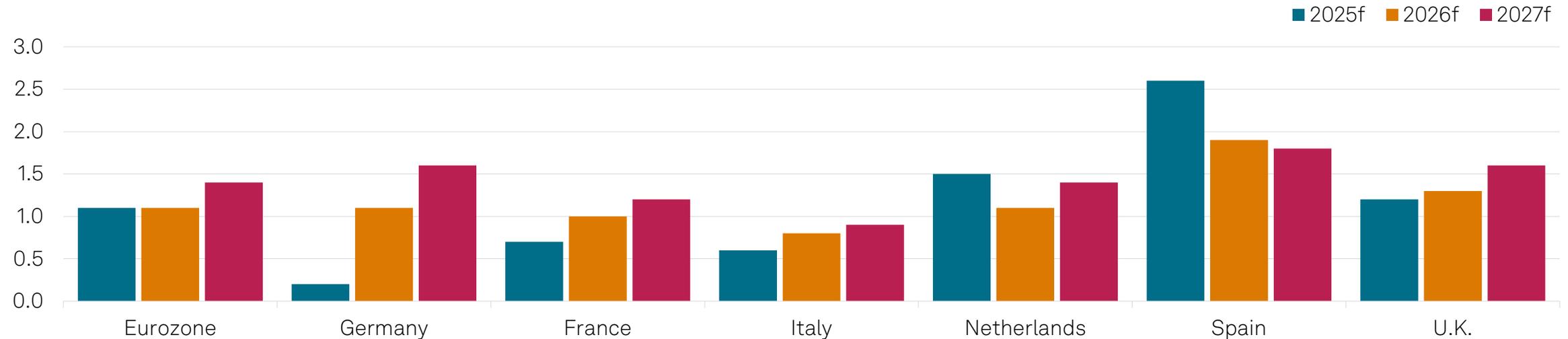
# Europe

# Credit Conditions: Europe

- GDP growth in the EU will be stable in 2026 at 1.1% and accelerate to 1.4% in 2027, supported by fiscal policy, low interest rates, and strong private-sector balance sheets. In the U.K., we expect a slight improvement, with GDP growth rising to 1.3% in 2026 and 1.6% in 2027.
- The European Central Bank’s deposit rate has bottomed out at 2% and we don’t expect any further cuts. In the U.K., we expect the Bank of England to resume rate cuts in the first quarter of 2026, with the base rate reaching its neutral level of 3.5% in the second quarter.
- The main risks to our baseline macroeconomic scenario are trade frictions, geopolitical tensions, and low confidence in several European countries.

## The economic outlook improves for most countries in 2026

S&P Global Ratings’ real GDP growth forecasts (%)



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

# Credit Conditions: Europe

## Risks...

- Adverse geopolitical developments and trade protectionism, which could affect **Europe's economic outlook**.
- **Market turbulence** and a disorderly repricing of risk.
- **Weak fiscal and public debt dynamics**.
- **Insufficient resilience to increasing cyber and IT risks**.

## ..and what they mean for the sector

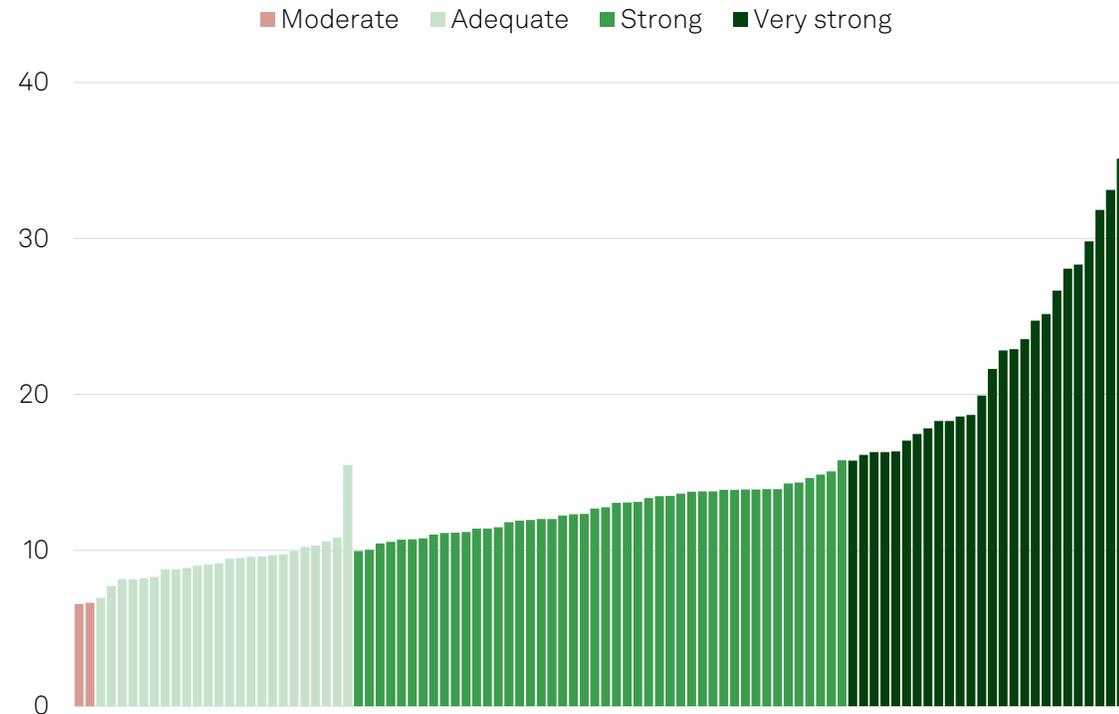
- Weak economic growth could impair the financial health of corporates and households, particularly those that are more vulnerable. **This could weaken banks' asset quality and cloud their business prospects**.
- Increased price volatility and market turbulence could **destabilize financial institutions with weaker funding structures** (especially nonbanks), **put pressure on their liquidity**, and lead to the materialization of market tail risks and **counterparty defaults**.
- Faced with fiscal challenges, **governments would have limited ability to support the economy** if needed, making the operating environment for banks riskier.
- Failure to build resilience to cyber risk could **put the long-term viability of some financial institutions at risk**.

## What we expect in the next 12 months

- **European banks will preserve strong balance sheets**, with ample capital and liquidity and resilient asset quality.
- **Banks' profitability will remain solid**, as the effects of declining interest rates ease, lending resumes, the cost of risk and operating expenses remain contained, and fee income increases.
- The gradual economic recovery and lower financing costs should support banks' asset quality and **keep their credit costs affordable**.
- Excess capital and better valuations will **encourage mergers and acquisitions (M&A)**.
- **Regulators will make progress** in their simplification agenda.

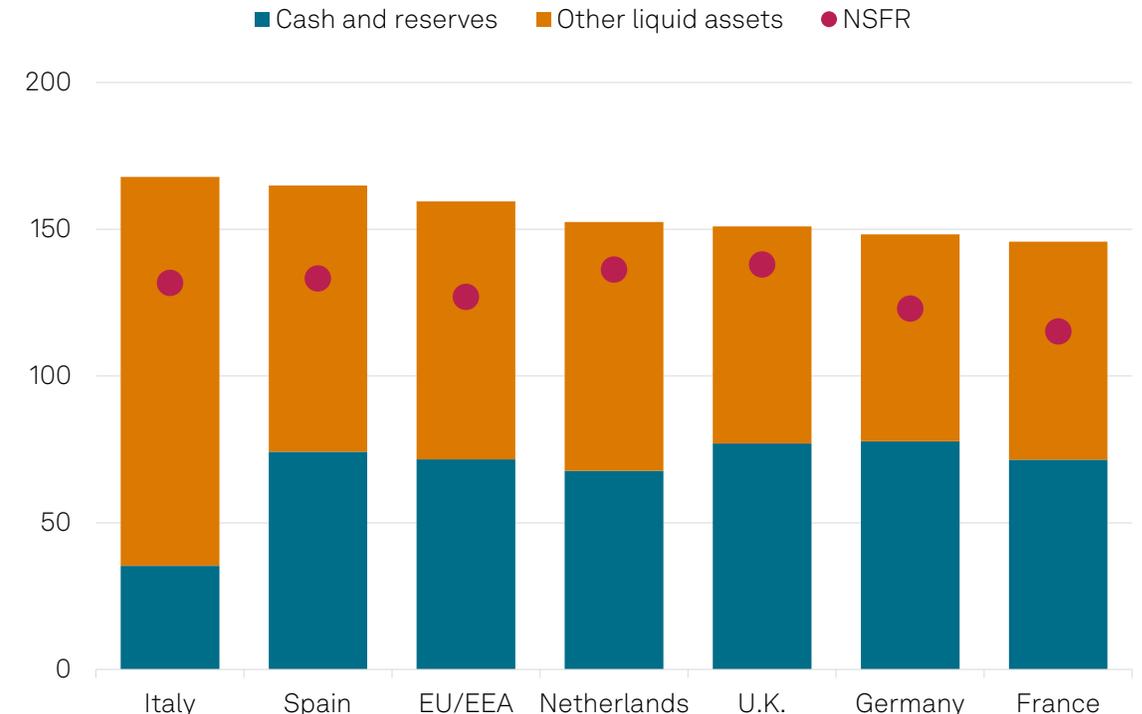
# Banks Will Continue To Benefit From Elevated Capitalization And Liquidity

Capital headroom will remain ample despite ongoing distributions to shareholders  
 2026 RAC forecasts for the top 100 rated European banks (%)



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

Banks' liquidity buffers remain high  
 Large European banks' NSFR and LCR ratios, June 2025 (%)

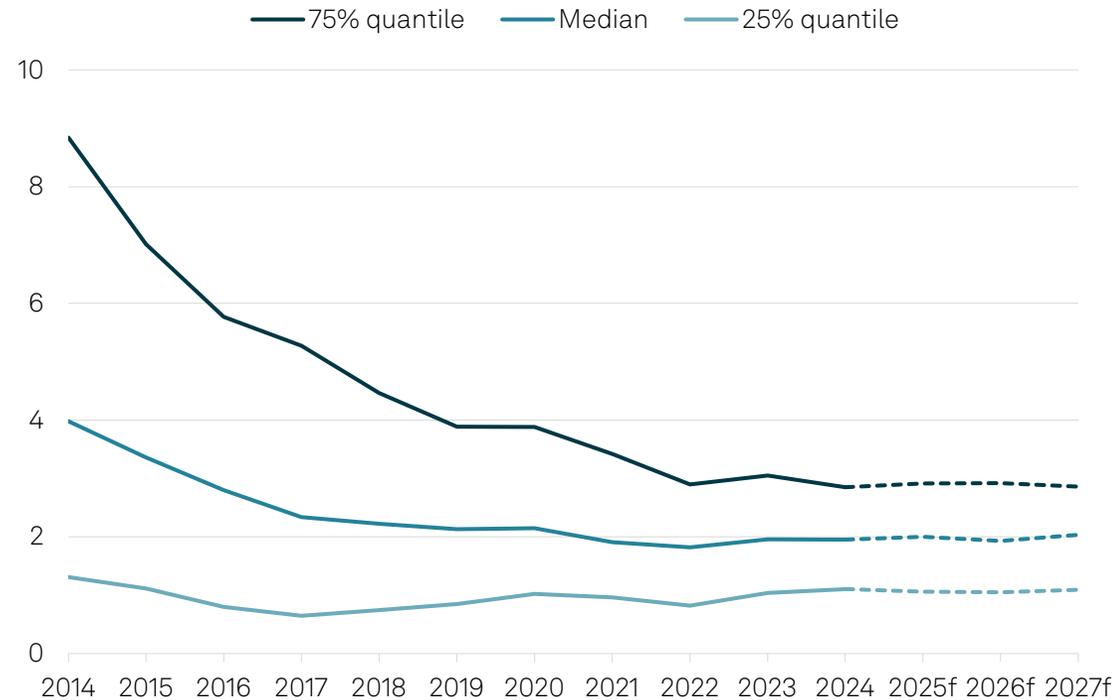


NSFR--Net stable funding ratio. LCR--Liquidity coverage ratio. Sources: EBA Risk Dashboard, S&P Global Ratings.

# The Outlook For Asset Quality Looks Benign

## Economic growth and lower rates will keep NPLs contained

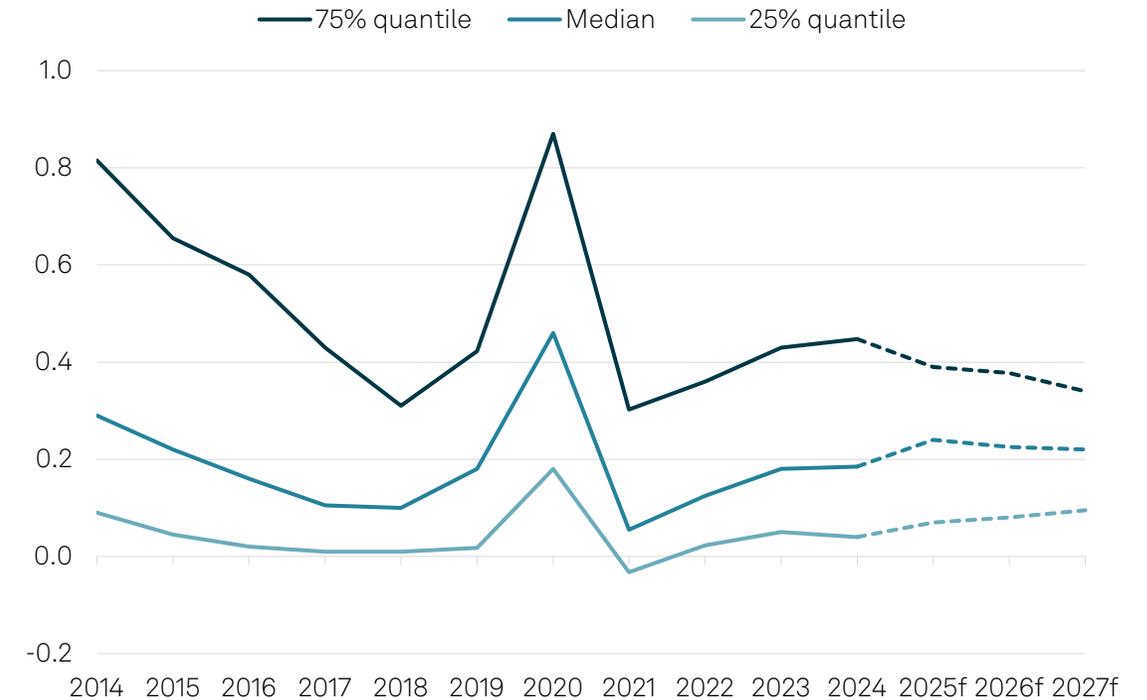
Evolution of rated European banks' NPL ratios (%)



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

## Credit costs will stabilize after normalizing in 2025

Evolution of rated European banks' new loan loss provisions to average loans (%)



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

# Profitability Will Level Off

The impact of asset repricing will ease, and banks will continue to focus on reducing funding costs, diversifying revenues, and containing operational expenses.

## Banks will preserve the profitability and efficiency gains of previous years

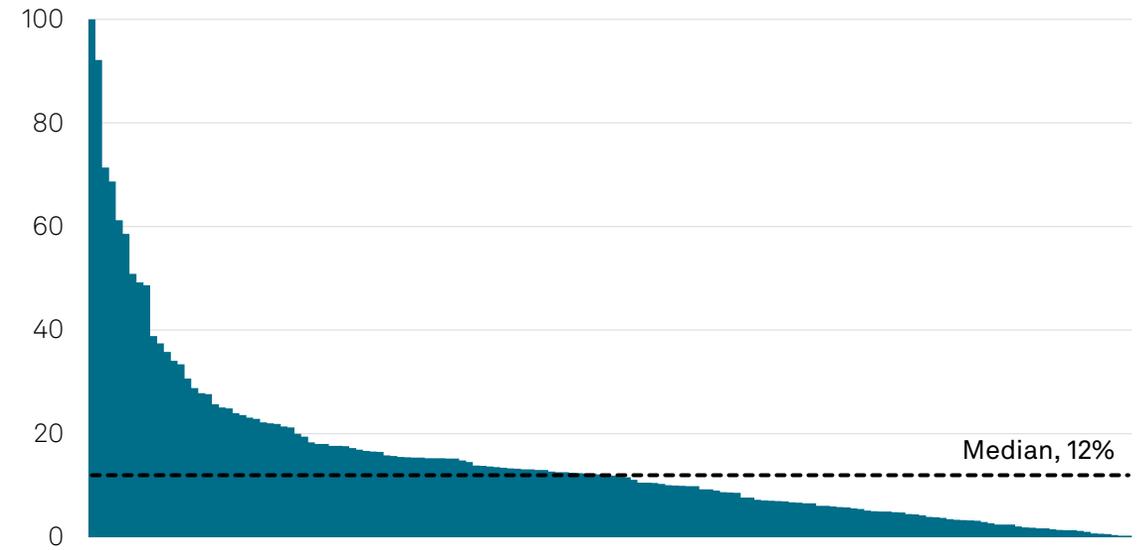
Evolution of cost-to-income and return on average common equity (%)



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

## Banks have ample capacity to absorb higher credit costs with earnings

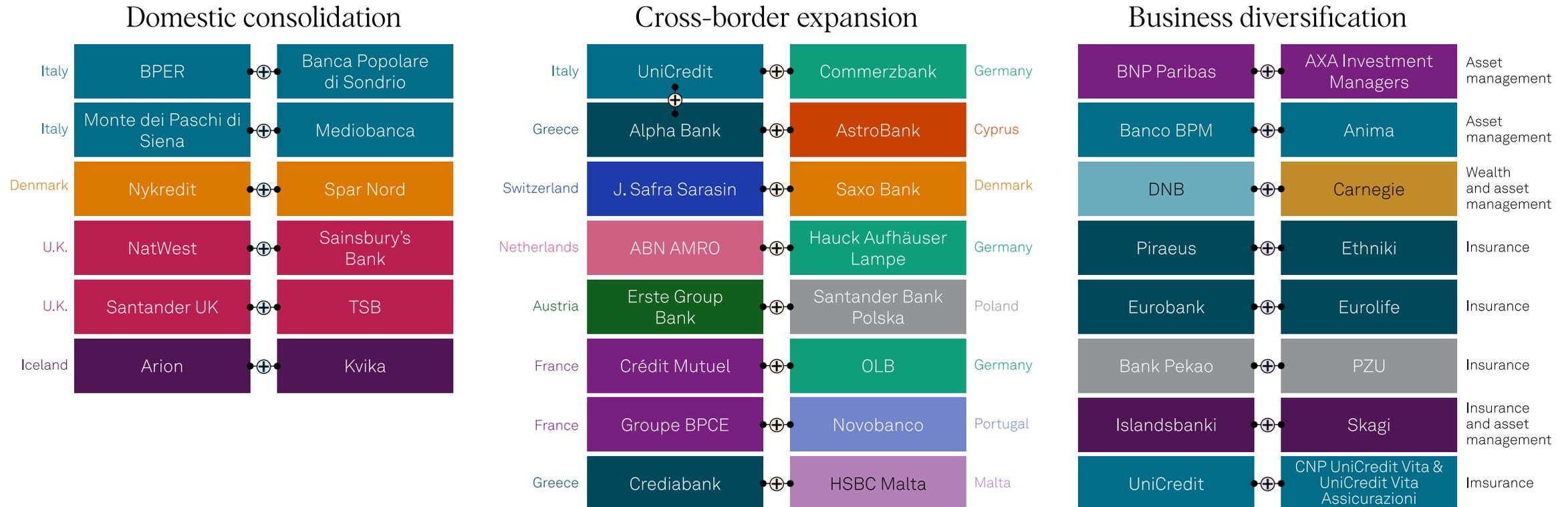
Expected credit provisions as a proportion of 2026 pre-provision earnings (%)



Source: S&P Global Ratings.

# M&A Will Continue To Rank High On Banks' Agendas

Banks still have an appetite for inorganic growth and are looking to participate in the consolidation waves in their home markets, expand abroad, or deepen their capital-light, fee-generating business franchises.



Other recently closed domestic acquisitions in the U.K. include Nationwide-Virgin Money, Coventry Building Society-Co-op Bank, and Barclays-Tesco Bank. Other recently closed cross-border acquisitions include OTP Bank (Hungary)-NOVA KBM (Slovenia)-Ipoteka Bank (Uzbekistan). Source: S&P Global Ratings.

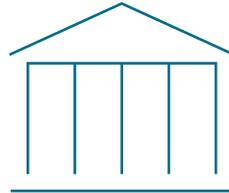
# EMs In EMEA (Europe, The Middle East, And Africa)

# Key Risks For Banks In 2026



## Geopolitical risk

- Russia-Ukraine and Middle East conflicts may continue to cause disruption in energy prices and supply chains, financial market volatility, and a resumption of inflationary pressures.
- Our base case scenario excludes a full-scale regional war in the Middle East, which could derail the region's economic performance.



## Monetary policy evolution

- Tariffs did not have a significant impact on EMs in EMEA due to their limited trade links with the U.S. and the nature of their exports, with some commodities exempt from tariffs.
- Second-round effects from the impact on global growth and inflation should not be underestimated as they could affect the Fed's and local central banks' monetary policies in 2026, which could weigh on credit conditions.



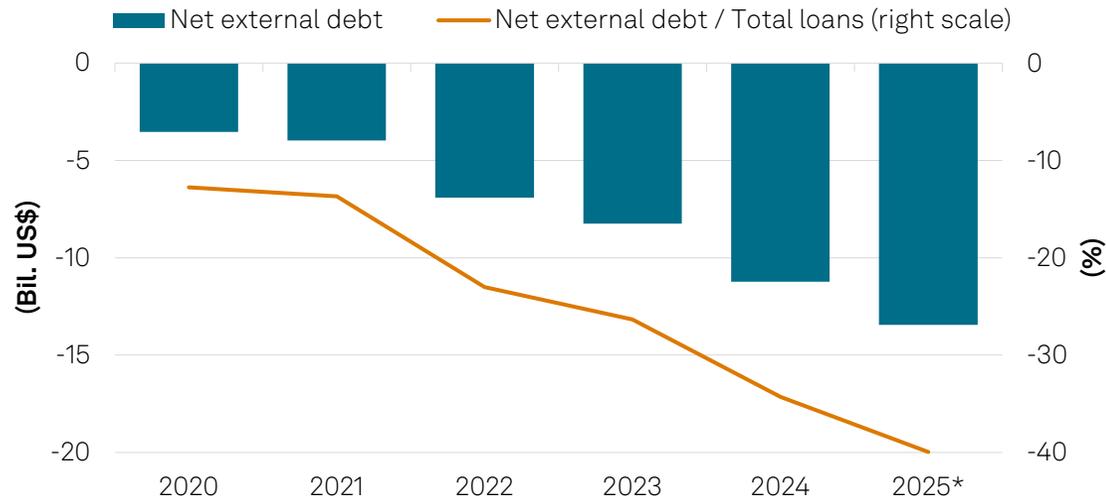
## External debt dependence

- Turkish, Bahraini, and Qatari banks--albeit to a much lesser extent, thanks to a wealthy and supportive sovereign--are vulnerable to a material shift in global credit conditions that could affect their capacity to roll over existing external debt.
- Saudi banks continue to issue on the international capital markets to attract external funding and expand their lending book.

# External Debt Continues To Increase In The GCC

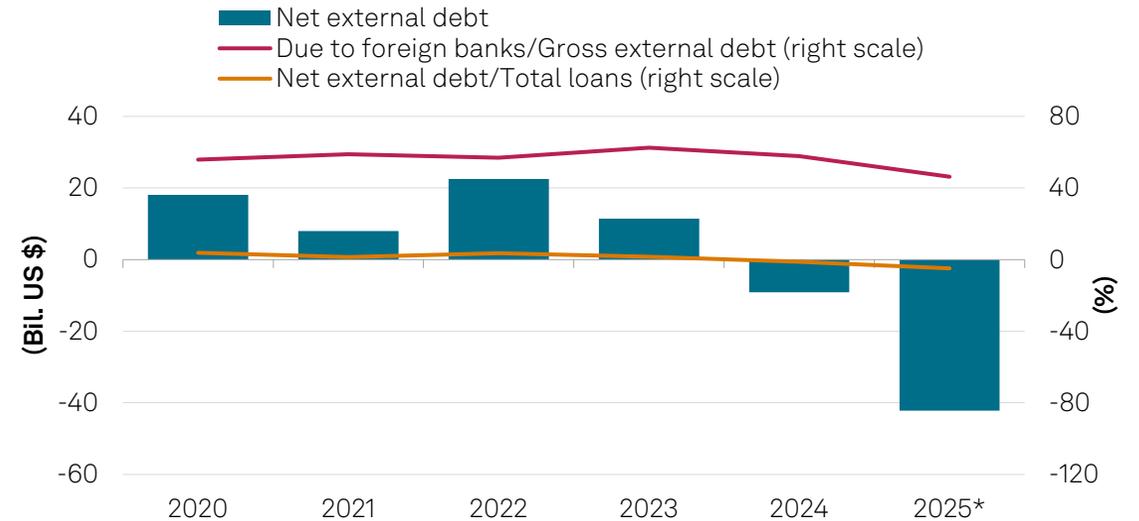
- Over the past five years, Bahraini banks' external debt tripled. The bulk of this debt is recycled into government bonds and placements with the central bank. The risk is mitigated by the fact that a large portion of this debt comes from within the Gulf region and is expected to remain stable during episodes of heightened geopolitical risk, as shown by the recent track record.
- Saudi banks continued to increase their external funding to finance the significant needs created by the implementation of Vision 2030. A significant portion of this consists of interbank instruments, which can be more volatile in the event of a shock. Banks' liquidity and government support in case of need largely mitigate the risk for now.

## Rapid rise in Bahraini banks' external debt



\*As of end-August. Source: S&P Global Ratings.

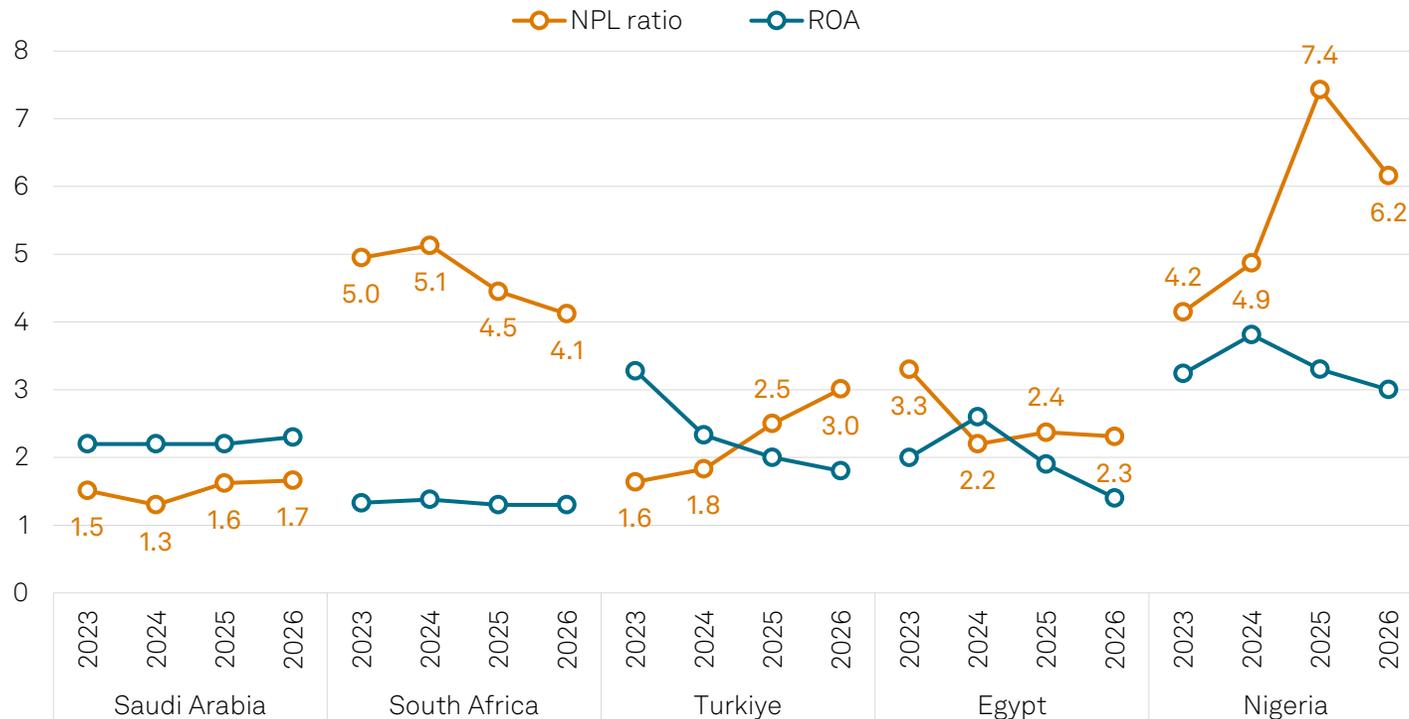
## Saudi banks are also attracting external funding



\*As of end-August. Source: S&P Global Ratings.

# Banks Remain Resilient Over A Clouded Horizon

Asset quality and profitability in selected EMs in EMEA (%)



NPL--Nonperforming loan. ROA--Return on assets. Source: S&P Global Ratings.

- **Saudi Arabia:** Economic growth, Vision 2030, and good access to external funding will continue to support Saudi banks' profitability. Oil prices and external funding conditions are two factors to monitor.
- **Egypt:** Correlation with the sovereign is the key risk. External debt remains manageable, thanks to strong foreign direct investment and remittances, while credit losses remain high.
- **Türkiye:** Rebalancing continues, and banks continue to access markets to roll over their external debt. We expect decelerating lending growth in nominal term, stabilization of real estate prices in real terms, and credit losses to remain elevated.
- **South Africa:** Credit conditions continue to ease. We expect credit losses to decline.
- **Nigeria:** Removal of regulatory forbearance will affect some banks.

# North America

# Credit Conditions | North America

## U.S. real GDP growth (%)



Sources: Federal Reserve Bank of Richmond, S&P Global Ratings Economics.

- S&P Global Ratings expects below-trend U.S. real GDP growth of 1.8% in 2026, with headwinds from lower net immigration.
- We anticipate the Federal Reserve will ease interest rates by 50 basis points (bps) late in 2025 and another 50 bps in 2026.
- In Canada, we also expect below-potential growth with real GDP expanding 1.4% in 2026. We forecast the Bank of Canada to cut rates by another 25 bps in 2025 and then hold its policy rate at 2.25% in 2026.

# Credit Conditions | North America

Bank performance should remain strong, but economic and regulatory uncertainty is elevated

## Downside risks...

- **Below-trend growth in the economy.** Weak growth could threaten asset quality and weigh on business activity.
- **Regulatory and supervisory easing.** It is unclear how changes the Trump administration and regulators are pursuing will balance efficiency and effectiveness versus less stringent oversight.
- **Exposures to nonbank financial institutions (NBFIs).** While we don't expect these loans to cause major problems for banks, recent defaults could portend greater-than-expected losses.
- **Asset price volatility.** Elevated asset prices have boosted fees and trading. An unexpected correction could weigh on revenue and add to counterparty risk.

## ...and what they mean for the sector

- **Asset growth will likely remain moderate.** We expect the industry to grow loans by about 3% in 2026.
- **Bank mergers will accelerate.** A change in regulators' approach to reviewing deals has already led to an increase in consolidation.
- **Banks will adjust their financial management based on regulatory changes.** Once regulators update capital and other financial requirements, most banks will respond by adjusting their buffers over the updated requirements.

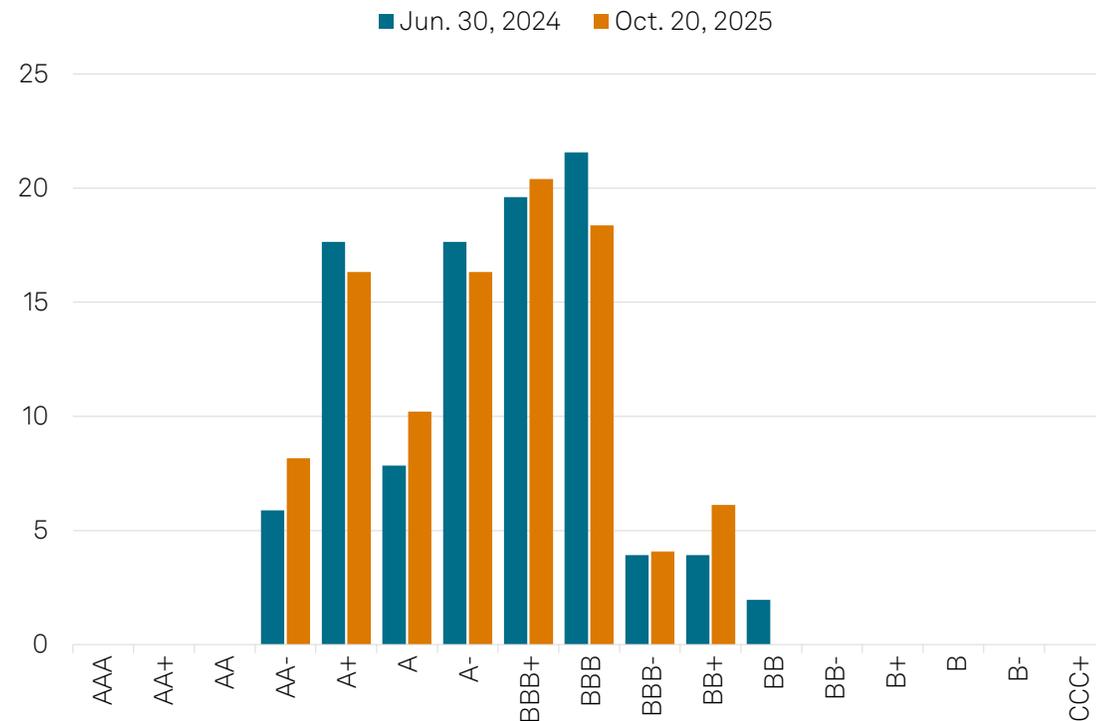
## What we expect for next 12 months

- **Profitability will remain reasonably strong.** We expect U.S. banks to generate a return on common equity of 10.5%-11.5% in 2026.
- **Regulators will make several proposals.** Updates to capital requirements will be among the most important. Regulators may also propose or implement changes to liquidity, resolution, stress testing, tailoring, supervision, and other areas.
- **Growth of private credit will remain robust.** Private credit providers continue to see strong fundraising and have significant capital to deploy.

# U.S. Bank Outlooks Are Predominantly Stable Despite Economic Uncertainty

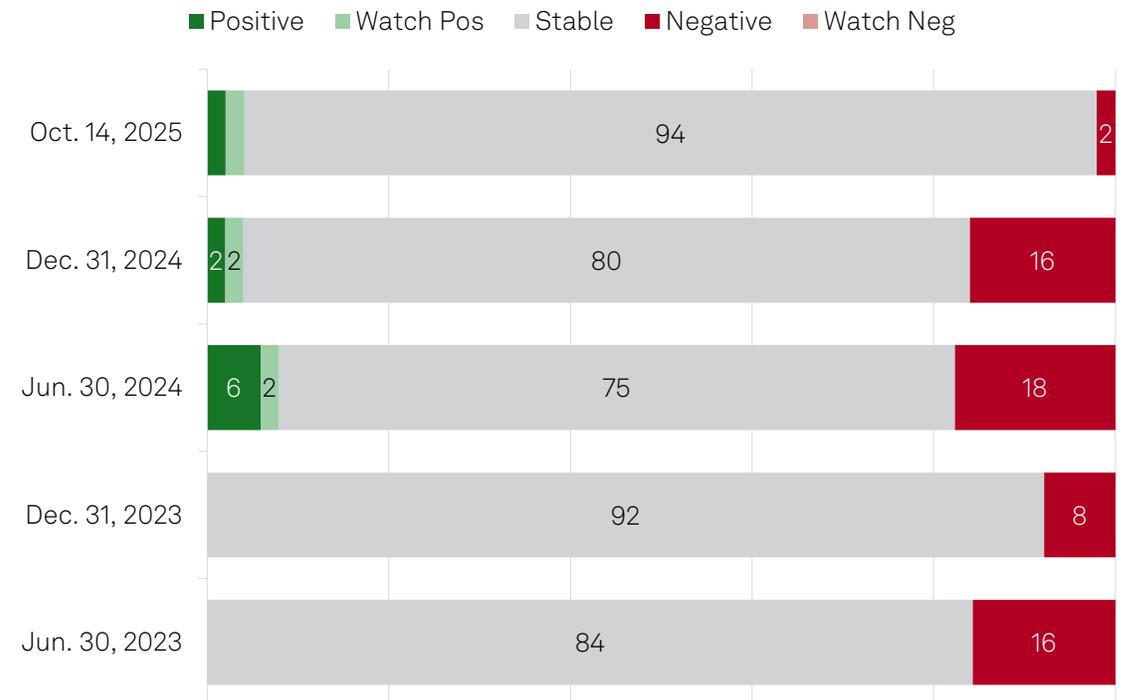
We expect relatively good performance and balance-sheet stability.

### Operating company rating distribution (%)



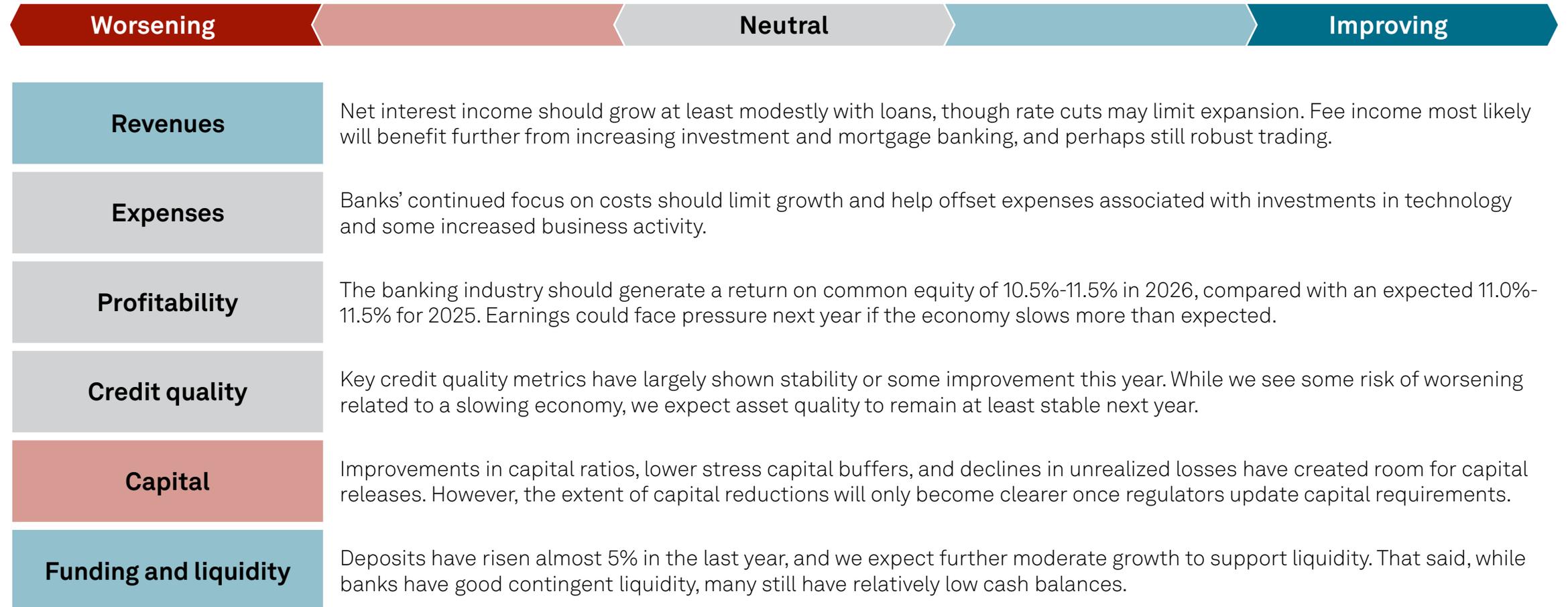
Data as of June 25, 2025. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

### Outlook distribution (%)



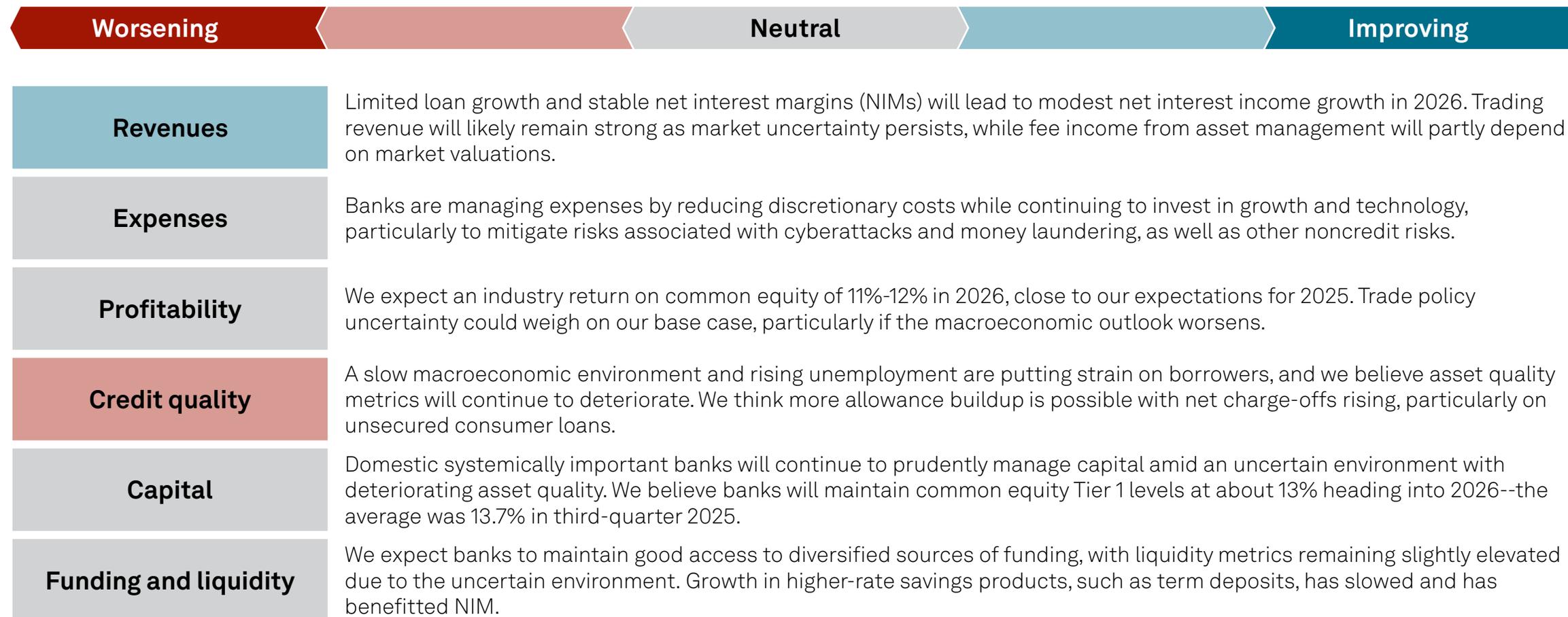
Data as June 26, 2025. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

# U.S. Forecast | Banks Generate Solid Profitability Even In A Slow Economy



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

# Canada Forecast | Trade Policy Uncertainty Could Limit Profitability



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

# Asia-Pacific

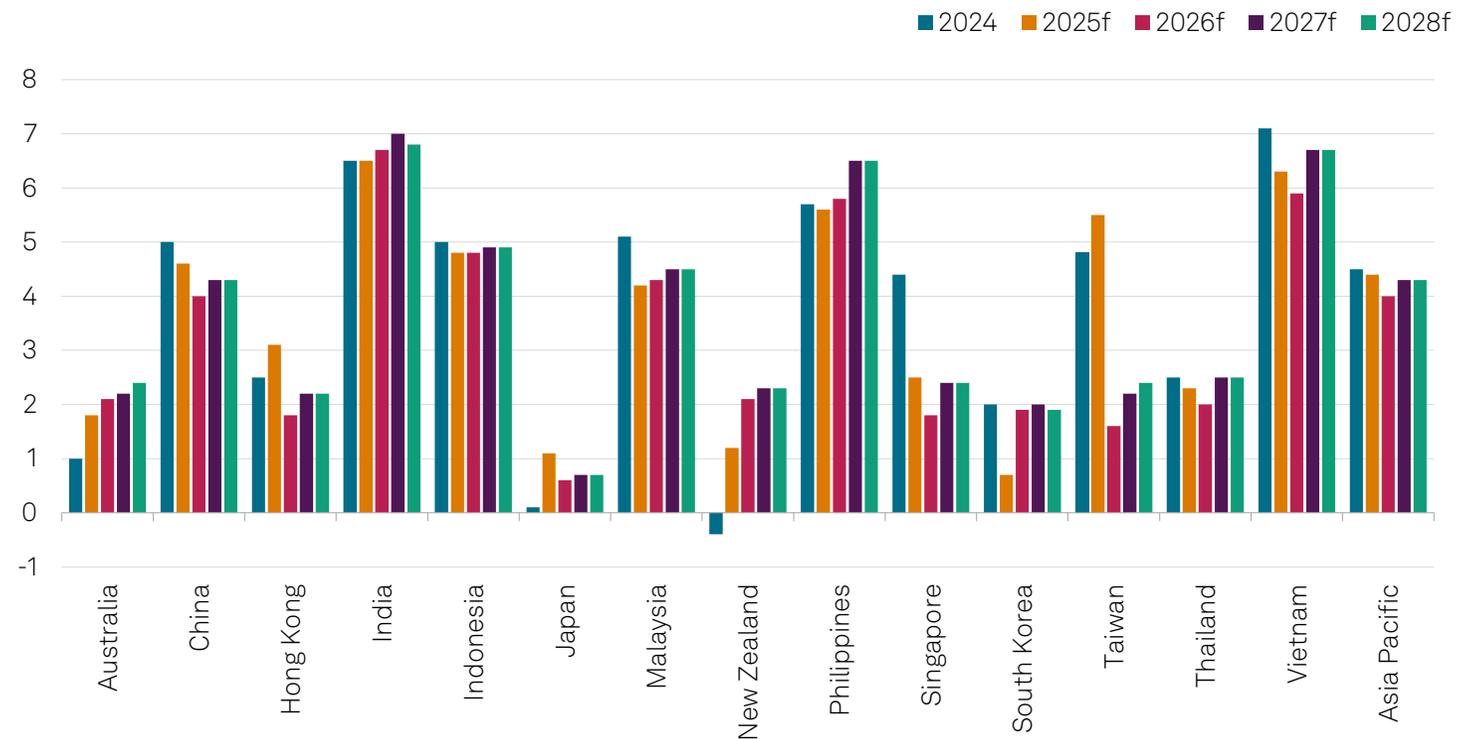
# Credit Conditions | Asia-Pacific

## On A Jagged Course

- Tariff pains emerge:** The "frontloading" of exports and resilient domestic consumption supported the region's growth in 2025. However, slower trade will start materializing in fourth-quarter 2025 as effects of tariffs start to unfold. Consequently, we expect Asia-Pacific's growth to slow to 4.4% in 2025 and 4.0% in 2026.
- Growth recession:** China's growth is squeezed on both fronts. Externally, high U.S. tariffs on Chinese goods will limit export competitiveness. Domestically, the sticky property crisis and "involution" hit households and businesses. More stimulus may be needed to restore confidence.
- Easy access for now:** The more dovish Federal Reserve tone on interest rates and Asia-Pacific's disinflationary backdrop will prompt the region's central banks to maintain monetary easing. Constructive market access enables early refinancing. Yet, a sharper economic slowdown and rising geopolitical risks could undo benign credit conditions. Interest spreads could well rise despite low policy rates, should investor sentiment sour.

## Growth to ease on external strain

Real GDP growth (%)



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

# Credit Conditions | Asia-Pacific

## Markets Cheer, Risks Persist For Banks

### Downside risks...

- **A spillover from the tariff shock to the real economy.** There is a high degree of unpredictability around U.S. policy implementation and possible responses--specifically about tariffs--and the potential effect on economies, supply chains, and credit conditions.
- **Property risks exacerbate.** A worsening of property risks across markets that are under strain--most notably China and Hong Kong--would hit banks.
- **Structural risks are on the radar.** Financial stability risks for nonbanks--including private credit--vary across the region. Climate change, cyber, AI, and digitalization will challenge business models and risk management for some banks and offer opportunities for others.

### ...and what they mean for the sector

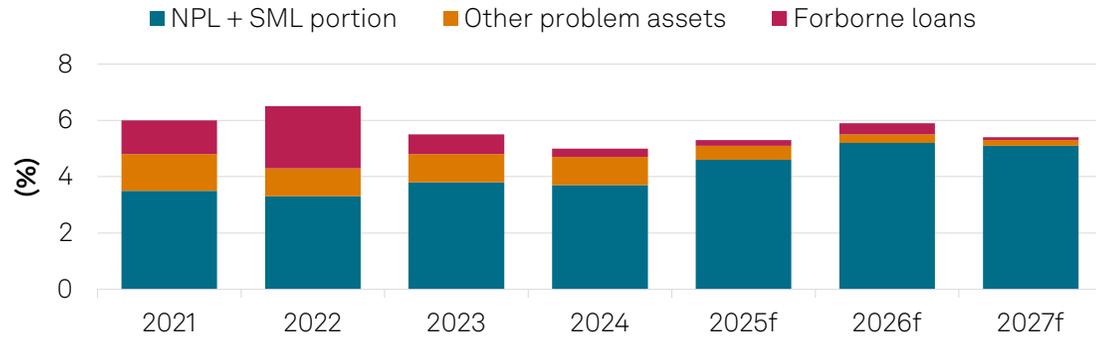
- **Greater credit divergence.** Outlook changes are more likely for nonbank financial institutions than systemically important banks, reflecting their more-concentrated business and funding profiles. Nonetheless, the ratings on many systemically important banks in Asia-Pacific remain "joined at the hip" to the ratings on the sovereign in their countries of domicile.

### What we expect for next 12 months

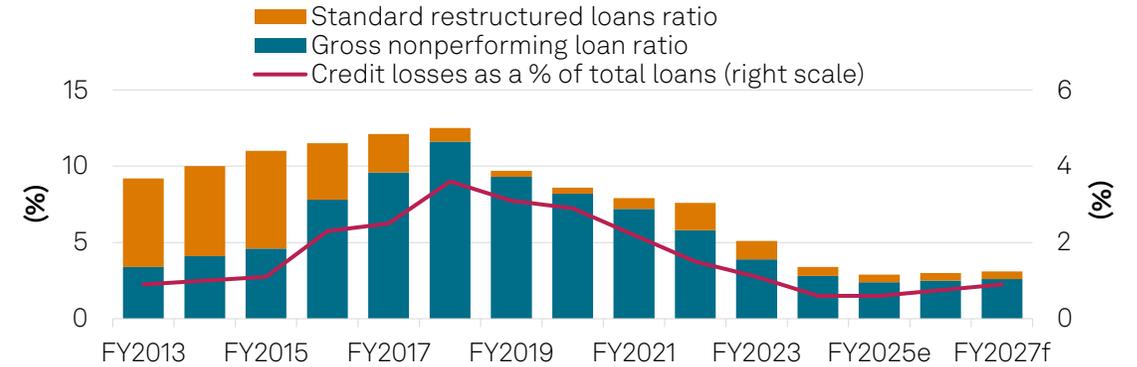
- **Status quo to persist:** Our base case is most Asia-Pacific banks will absorb U.S. policy volatility. We have stable outlooks on most bank ratings.
- **Credit losses will increase by about 11% in 2025.** We forecast that banks' credit losses will increase by about 11% in 2025, to about US\$460 billion, **and by about 10% in 2026**, to about US\$510 billion. The anticipated increase is within tolerances at current rating levels for most banks in the context of capitalization, earnings, provisions, and other buffers.

# Asia-Pacific Banks

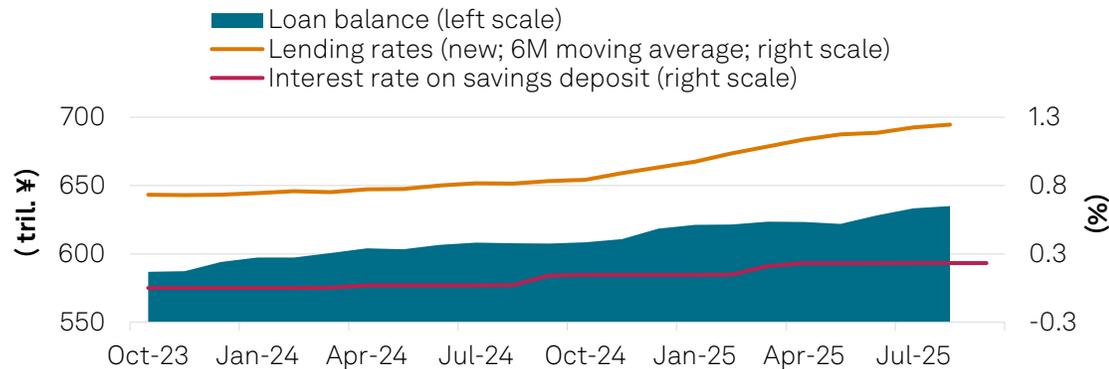
## China: More recognition likely to raise NPL, SML ratios



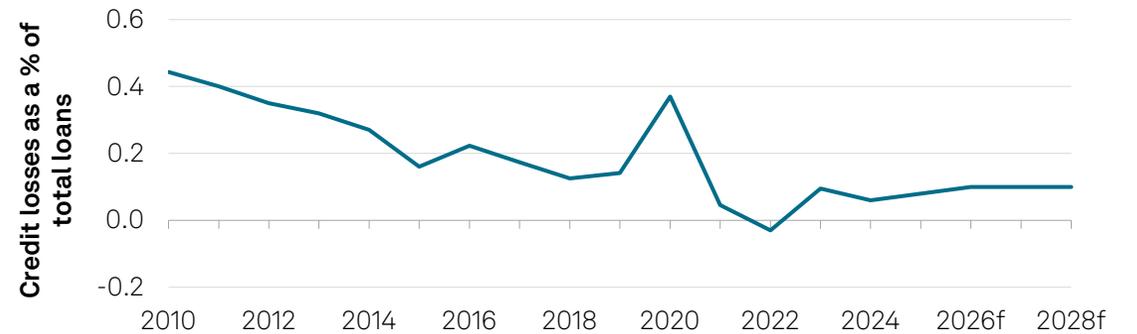
## India: Better asset quality ratios will persist



## Japan: Improvement in net interest income is expected



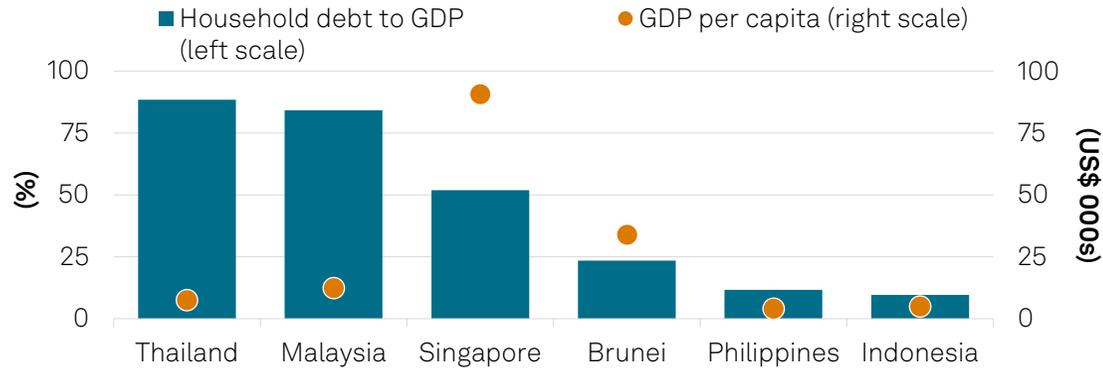
## Australia: Credit losses should remain low



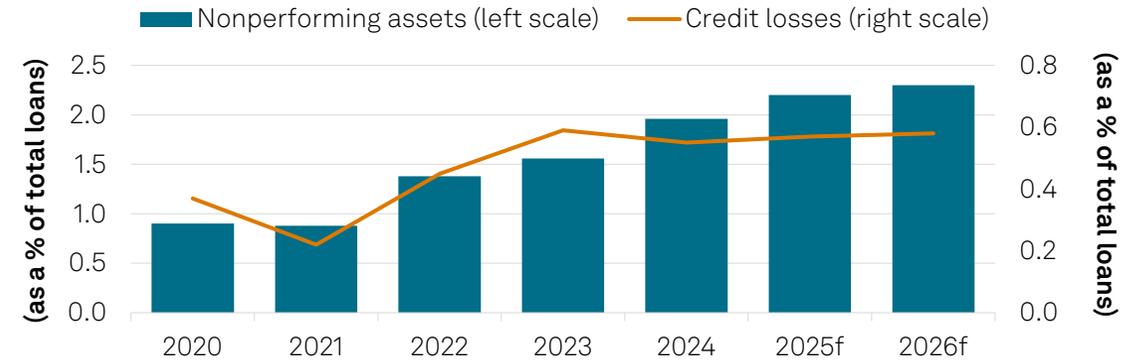
India data for fiscal years, all ended March 31. NPL--Nonperforming loans. SML--Special-mention loans. f--Forecast. FY--Fiscal year. Sources: Bank of Japan, National Financial Regulatory Administration, Reserve Bank of India, S&P Global Ratings.

# Asia-Pacific Banks

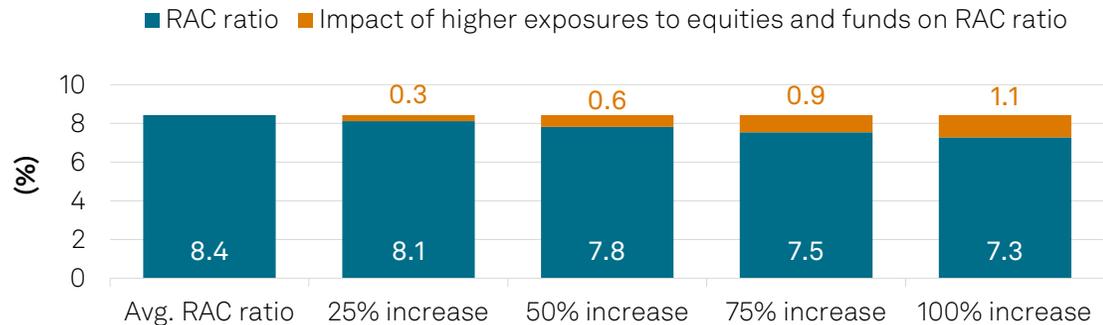
## SSEA: Household leverage is high in Thailand and Malaysia



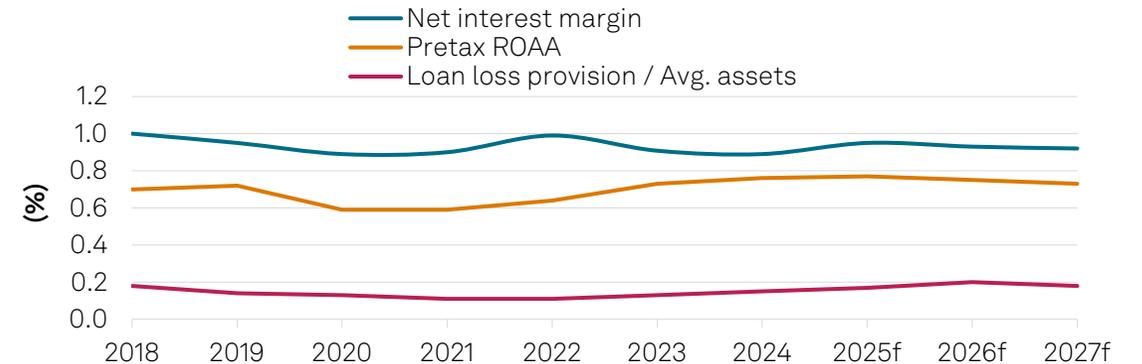
## Hong Kong: Modest increase in credit losses



## Korea: Expansion of equity and fund will weaken RAC ratios



## Taiwan: Stable core earnings help absorb credit costs



SSEA--South and Southeast Asia. ROAA--Return on average assets. f--Forecasts. Sources: Hong Kong Monetary Authority, Bank of Korea, Financial Supervisory Commission, Taiwan Ratings Corp., S&P Global Ratings. For Korea chart. RAC ratio as of end-2024. Major banks include Kookmin, Shinhan, KEB Hana, Woori, Nonghyup, Industrial Bank of Korea, Suhyup, Busan and iM Bank. Sources: Company data, S&P Global Ratings.

# Latin America

# Credit Conditions | Latin America

- Latin America’s annual growth will likely be just over 2% in the coming years, trailing behind those of other emerging markets. Escalating trade tensions may undermine business and consumer confidence, reducing corporate investment and credit demand.
- Like in other emerging markets, the impact of rising U.S. tariffs on Latin America's GDP growth has remained modest so far. However, tension over trade with the U.S. continues to loom large, and a weaker-than-expected U.S. economy is a key downside risk.
- We revised our 2025 GDP growth projection for Mexico to 0.5% from 0% and expect 1.4% in 2026. We assume that regardless of the changes made to the USMCA, Mexico will maintain a strong trade and investment relationship with the U.S. We forecast Brazil's growth of 2.3% in 2025 and 1.7% in 2026. We expect domestic demand to continue to soften, which will encourage the central bank to start lowering interest rates in the first quarter of 2026.

## Real GDP growth forecasts (%)

Country	2019	2020	2021	2022	2023	2024	2025e	2026f	2027f
Argentina	-2.0	-9.9	10.4	6.0	-1.9	-1.3	4.7	3.0	2.7
Brazil	1.2	-3.6	5.1	3.1	3.2	3.0	2.3	1.7	2.1
Chile	0.5	-6.4	11.5	2.2	0.6	2.4	2.5	2.3	2.2
Colombia	3.2	-7.2	10.8	7.3	0.7	1.7	2.5	2.8	2.9
Mexico	-0.4	-8.6	6.3	3.7	3.4	1.2	0.5	1.4	2.1
Peru	2.2	-10.9	13.4	2.8	-0.4	3.3	3.0	2.8	2.7

f--S&P Global Ratings forecasts. Source: S&P Global Market Intelligence.

# Credit Conditions | Latin America

Profitability will moderate from strong levels but remain solid compared with those of international peers

## Downside risks

- Latin American financial institutions are facing new macro-financial shocks due to **continued trade tensions**, although they demonstrate solid credit fundamentals.
- The primary risks include **market volatility, economic downturns**, and potential shifts in the global financial system's architecture.
- A scenario of a **weakening economy in 2026** could lead to increased inflation and interest rates, as well as a deterioration of labor markets and local currencies.

## ...and what they mean for the sector

- The economic impact of trade tensions may dampen business and consumer confidence, affecting corporate investment and credit demand, while **banks may need to raise credit-loss provisions**.
- Banks may experience **a rise in nonperforming assets**, while insurers could face higher claims costs, denting their operating performance.
- Market volatility has increased the counterparty risk, particularly for banks with trading operations. Sustained **volatility could expose vulnerabilities in the financial system**, leading to liquidity stress and potential asset fire sales.

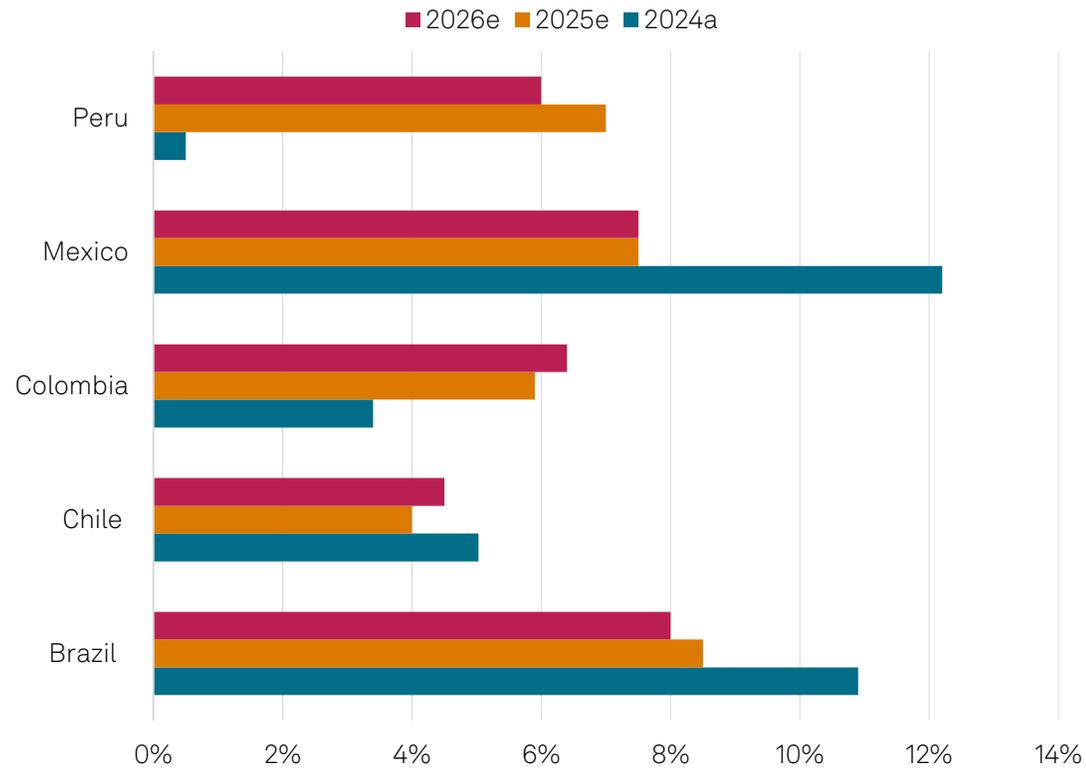
## What we expect for next 12 months

- **We anticipate stability in ratings through 2026**, despite various uncertainties.
- However, trade tensions may continue to undermine business and consumer confidence, reducing corporate investment, credit demand--and potentially--banks' profits. There will be also general elections in several countries in the region.
- **We expect credit expansion to be in low single digits in 2026**. Asset quality metrics could slip but should remain manageable.

# Soft Economic Performance Will Curtail Credit Demand

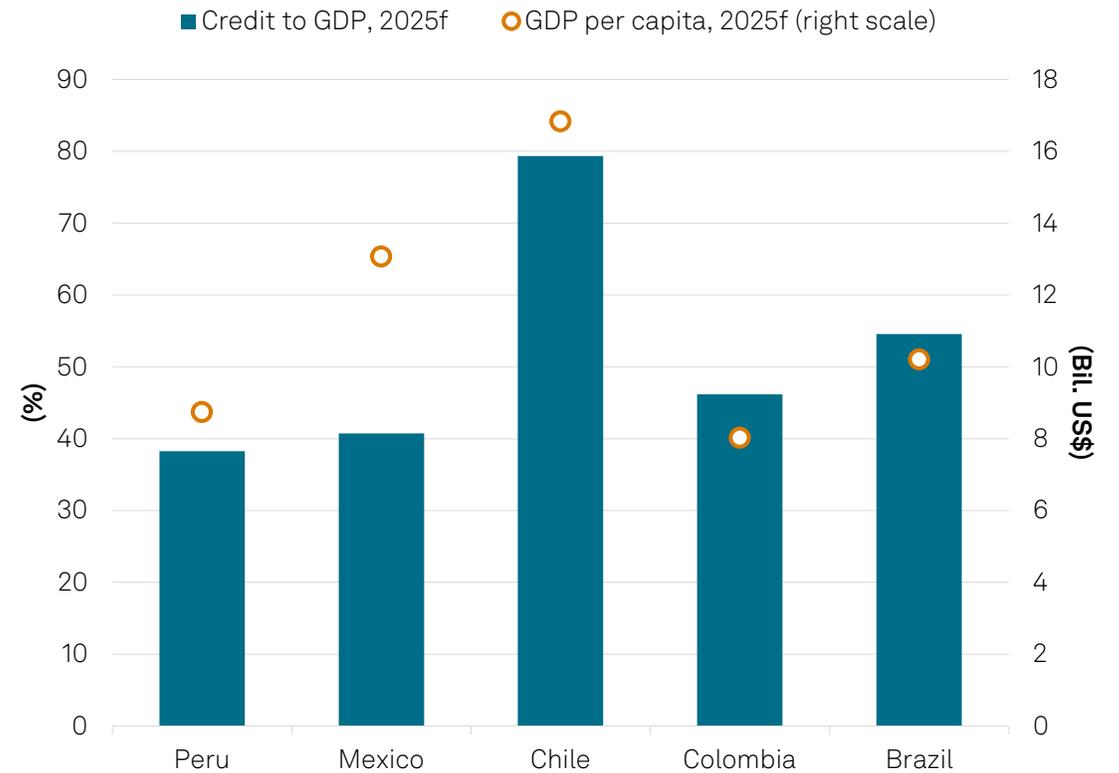
Credit growth should modestly rebound in 2025

Credit growth (%)



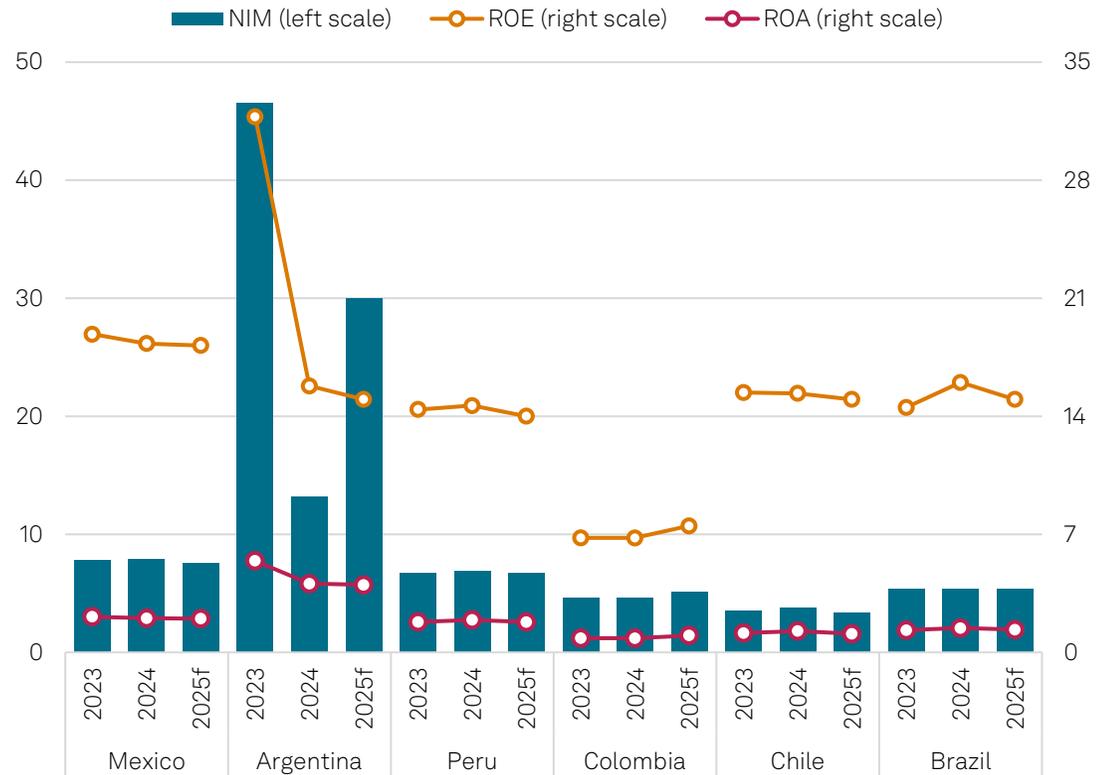
f--Forecast. Source: S&P Global Ratings.

Access to credit remains limited (except for Chile)

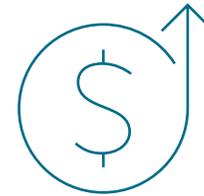


# Pressure On Asset Quality, But Resilient Profitability

## Profitability and asset quality metrics (%)



f --Forecast. ROE--Return on equity. NIM--Net interest margin. ROA--Return on assets.  
Source: S&P Global Ratings.



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



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



We anticipate that lending growth will be limited in 2026, primarily due to a challenging macroeconomic environment and continued trade tensions.

# Monthly Interactive Dashboard

## Access the monthly BICRA interactive dashboard

The monthly dashboard includes our in-house sector insights and trends, latest global BICRA scores, banking statistics and country-specific risk indicators.

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

**Click here**

Monthly BICRA  
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Dashboard

## Related Research

- [Global Banks Country-By-Country Outlook 2026: Resilience Amid Uncertainty](#), Nov. 12, 2025
- [Tariffs, Slow Growth, And Uncertainty Amplify Risks For Private Credit](#), Oct. 31, 2025
- [Banking Risk Indicators: October 2025 Update](#), Oct. 31, 2025
- [Banking Industry Country Risk Assessment Update: October 2025](#), Oct. 29, 2025
- [AI and banking: Leaders will soon pull away from the pack](#), Oct. 28, 2025
- [European Banks Search For The Next Growth Story](#), Oct. 17, 2025
- [EU Banking Brief: Regulatory Streamlining Alone Can't Solve Complexity](#), Oct. 14, 2025
- [Ratings Component Scores For The Top 200 Banks Globally](#), Oct. 9, 2025
- [Top 200 Rated Banks' Capital Ratios: In A Consolidating Phase](#), Oct. 1, 2025
- [Global Credit Conditions Q4 2025: Down But Not Out--Trade Tensions Remain](#), Sept. 30, 2025
- [Global Economic Outlook Q4 2025: Global Resilience Battles U.S. Policy Unpredictability](#), Sept. 25, 2025
- [The Hot-Topic Factors That Will Push And Pull Asia-Pacific Banks](#), Sept. 24, 2025
- [European Banking Brief: Simpler Rules for Smaller Banks In Focus Again](#), Sept. 10, 2025
- [U.S. Large Banks Q2 2025 Update: Stable Performance And Readiness For Evolving Challenges](#), Sept. 3, 2025
- [What Regulatory And Supervisory Reform Could Mean For U.S. Bank Ratings](#), May 22, 2025

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