

Global banking outlook 2025

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Part 1:

Clarity in uncertainty

If one theme represented 2024, it was uncertainty. Geopolitical uncertainty, as more than half the world's population went to the polls; regulatory uncertainty, driven by fragmentation, exemplified by late adaptations to Basel finalization in the US; economic uncertainty, as central banks made progress in fighting inflation, but GDP growth has remained subdued; technological uncertainty as institutions grapple with making the right investments in emerging technology. Despite this, banks have proven their resilience with strong results supported by a keen focus on profitability and consistently low loan losses.

We expect uncertainty to be the watchword of 2025 too, but we expect industry leaders to have the capacity to be able to navigate it successfully, with sector profitability (returns on equity) likely to remain in the double digits.

For a sector already balancing numerous competing priorities, sustaining profitability will be critical to

unlocking the capacity it needs to invest in strategic decisions around geographic footprint, technology, customers, staff, and societal purpose that will support future growth.

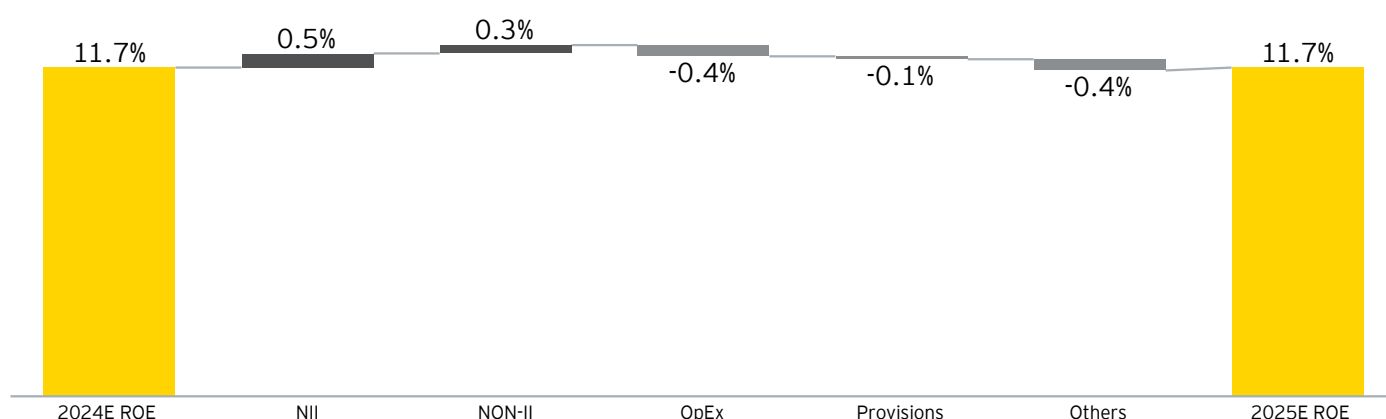
Shifting drivers of income

Average global banking returns on equity (ROE) in 2024 are expected to be slightly shy of 12%. This is about one percentage point below the 2023 outturn (the post-financial crisis peak). Nevertheless, it is a better outcome than many might have expected at the start of this year, given both anticipated interest rate pathways and expectations around asset quality.

Looking to 2025, we expect profitability to remain flat, but the drivers of banking profitability will be different and further gains will increasingly depend on banks' ability to transform their business models.

Fig. 1: Profitability stability

Forecast breakdown of changes in global banks' ROE, 2024-25



Source: EY Insights analysis, LSEG workspace

From margin expansion to loan growth

As we head into 2025, market forecasts are for central banks to reduce interest rates by around 70bps over the course of the year. However, there remains intense debate about the pace of the declines, where interest rates will eventually settle, and the shape of the yield curve.

In anticipation of margin pressures, banks have strategically increased the proportion of assets that lock in the current high interest rates for several years. In markets such as the UK, these bond portfolios account for up to a third of banks' net interest income, a share that is likely to increase. Despite these actions, margin gains will become a less important driver.

Instead, loan growth is expected to pick up as declining interest rates stimulate loan demand, previously suppressed by rising rates. Globally, current forecasts are for loan growth of 6% in 2025 (vs. 2% in 2024), which will allow net interest income to resume growth in 2025 (3% vs. no growth in 2024). In Europe, where economic growth overall is expected to remain muted, the EY European Bank Lending Economic Forecast forecasts bank loan growth across Germany, France, Spain and Italy of 3.1% in 2025, up from 0.2% this year. Growth is expected to pick up consistently across mortgages, consumer credit and business lending.

Loan losses will remain manageable

A persistent source of surprise to quarterly earnings over the last couple of years has been the low levels of loan losses. Slowing economic growth and pressures on

consumers' disposable incomes have not translated into distress in banks' loan books. We expect this pattern to continue through 2025.

Loan impairment rates were 50bps in 2024, below the long-term average of 64bps between 2010 and 2019. These benign trends reflect the structural change in the regulatory regime imposed following the 2007-08 global financial crisis and the related improvements in banks' risk management.

Even in the most affected sectors, such as commercial real estate which has seen a material drop in demand as work and shopping behaviours have changed, losses have remained manageable. Banks have been proactive in identifying and resolving any deterioration in credit quality.

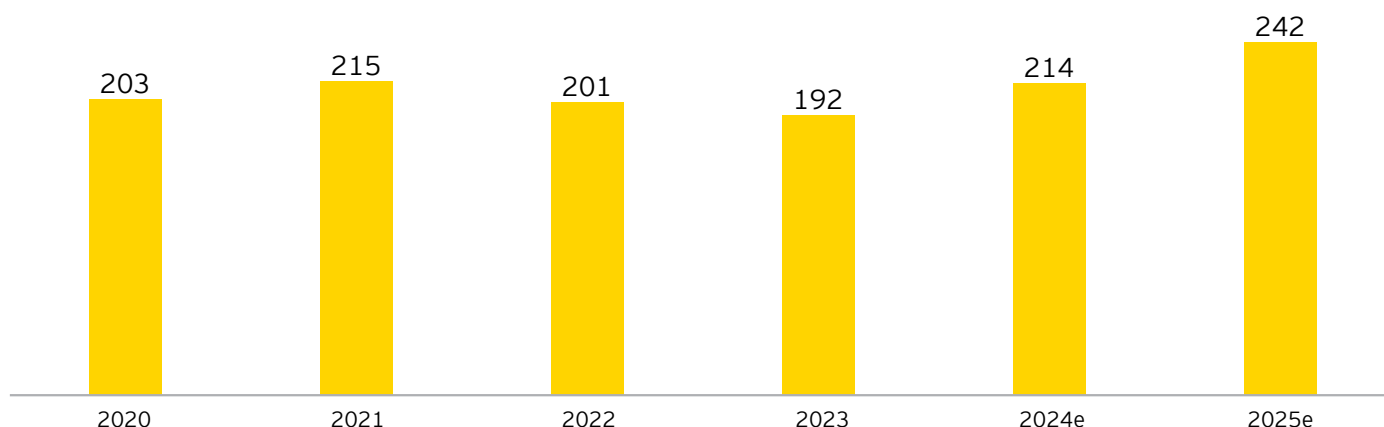
Falling rates will offer further relief to borrowers and we expect loan impairment rates in 2025 to remain near their current levels.

Continued recovery in fee income

EY analysis shows investment banking fees saw a strong rebound in 2024, growing by 11% and reversing the decline of 5% seen in 2023. More clarity over the direction of interest rates drove equity market trading revenues and deal-making activity, which reached a two-year high in the second quarter of 2024, while third quarter revenues were at their highest in 15 years. Based on EY forecasts, these trends are expected to continue, and investment banking revenues to grow by 13% in 2025, led by a strong recovery in merger and acquisitions and debt and equity issuance.

Fig. 2: Fee based recovery

Historic and forecast revenues for major global investment banks' 2020-25e
(US\$ billion)



Source: EY Insights analysis, company accounts

Wealth management fees also witnessed a recovery this year. Banks saw strong inflows as they channelled deposits into asset management products and benefited from a rise in stock markets which lifted their asset bases. We expect falling rates will continue to provide a tailwind to these dynamics, prompting clients to shift their deposits into investment products.

Payments also represents an opportunity for banks, driven by the rapid digitization of business-to-business payments and cross-border transactions, as well as innovations in the consumer payments space with real-time account-to-action payments, and a rise in e-commerce activities. Global payments revenues currently seeing a cumulative annual growth rate of around 9.5%.

Containing costs, enabling growth

Over the last couple of years, banks have faced pressures on their cost bases due to inflation. This impact was felt most acutely in 2023, as operating expenses rose by 6%. Banks reacted and balanced these inflationary pressures with efficiency measures, containing cost growth to a modest 1% in 2024.

While inflation rates have now largely been brought under control, other challenges will take center stage. In 2024, regulatory mandates forced banks to divert technology budgets toward “run the business” spend, coming at the expense of transformational “change the business” investments – a pattern likely to continue into 2025.

While mandatory spend to strengthen operational resilience will remain elevated in 2025, banks will also face a growing urgency to work through the backlog of “change the business” projects. As these competing demands intensify, costs are expected to grow by around

3% next year. The challenge for banks is how they contain, or reduce, costs in a way that enables transformation and growth rather than inhibits it.

Stability as a platform for future growth

Global banking returns on equity are estimated to reach 11.7% in 2024, well above the historical average of 9.4% between 2010 and 2019. Looking ahead to 2025, we expect profitability overall to remain stable although the underlying dynamics driving profitability will shift significantly. This is a clear opportunity for banks to be more forward looking. Delivering another year of stable profitability, especially without the recent interest rate tailwinds, will allow banks to demonstrate real value to the market. It will open the door to greater transactions activity within the sector, especially as banks seek greater domestic scale, or rationalize their international footprints. It will also allow banking leaders to spend more time focusing on addressing the strategic risks and opportunities the new year will bring.



Part 2: Five priorities for banks

Looking ahead, improved stability will allow leadership teams to focus on addressing wider structural opportunities and risks. We have outlined five of these below, and the key questions banks will therefore need to address:

- **Managing geopolitical risk:** As the year of elections ends, how can banks support clients in a fragmented global political landscape?
- **Unlocking value from technology investment:** How can banks maximize the value delivered from innovation budgets as the balance of spend shifts to mandatory change initiatives?
- **Adapting to changed customer and colleague expectations:** As behaviours have changed, have banks changed sufficiently in response?
- **Redefining purpose:** How do banks ensure they play a positive role in society, including shaping the transition to a low-carbon world and championing positive social action?
- **Finding a path to sustainable profitability:** Cost transformation is en vogue, but can banks also find new paths for growth that will deliver higher returns more easily?

We expand on each of these priorities below.

Managing geopolitical risk

The end of the “year of democracy”, when more than four billion people went to the polls, could have alleviated the geopolitical concerns that have been at the top of bank boards’ agendas in the past year. However, the clarity of election results has been complicated by the prospect of diverging and protectionist policies, further fragmenting the regulatory landscape for international banks.

Banks now confront complex and costly challenges in ensuring compliance that extends beyond traditional risk management to emerging domains like artificial intelligence (AI) and data privacy. They also face challenging business and operational decisions around location strategies. Increased focus on operational resiliency means banks need to factor in not just the political operating environment, but also international talent pools, infrastructure, and the use of data across their organization. Banks are proactively developing scenario planning capabilities to assess potential risks and opportunities, including through divestments or acquisitions.

The geopolitical complexity is most pronounced in the real economy, where global supply chains are simultaneously transforming. This volatile environment presents a strategic opportunity for banks to differentiate themselves as expert risk management partners to their clients, transforming geopolitical uncertainty into a competitive advantage.

Unlocking value from technology investment

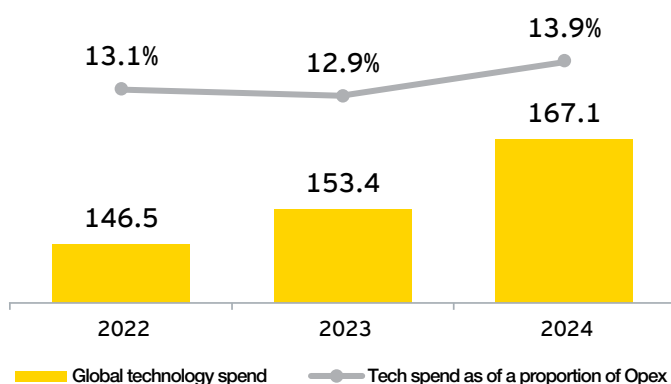
Stafford Beer, an early management scientist, said, “The way in which computers were used in the 1970s was as if companies had recruited the greatest geniuses of humanity, before setting them to work memorizing the phone book to save a few seconds turning pages.”¹

In 2025, global banks are expected to spend US\$176b on IT, up from US\$167b in 2024 and US\$147b in 2022. However, only 39% of this is expected to be allocated to change-the-business initiatives such as customer service improvements and new product development. This reverses the trend of recent years where the balance of run-the-business and change-the-business spend had moved toward greater parity.

With so much money on the line, how do banks make sure they aren’t just “memorizing the phone book” and demonstrate tangible return on investments? One explicit area of focus for banks to achieve this will be getting their data AI-ready, in anticipation of accelerated AI deployment in 2026 and beyond. Without understanding what data is needed, ensuring it is clean and standardized, appropriately structured and secure, it will be near impossible for banks to unlock the full value of AI in their organization.

Fig.3: How to spend it?

Global banking technology spend (US\$ billion)



Source: EY Insights analysis, IDC

The broader challenge banks face in releasing value from technology investment lies in multiple interconnected factors: rigid budgeting cycles; business cases that focus on self-funding and short pay-back periods; a lack of accountability between business units and tech teams; misaligned IT and business strategies; and difficulties in justifying multiyear transformation projects. Most critically, banks often fail to consider both hard data and soft signals (for example, qualitative customer and colleague feedback) when assessing return on investment (ROI).

Unlocking the value from these investments offers compelling rewards. Cloud adoption highlights this. Using cloud for storage and computing may save costs, but leveraging cloud with AI for advanced data analytics can allow banks to offer personalization at scale, amplifying the overall ROI.

To succeed, banks must fundamentally transform their approach to technology investment and implementation. This means cultivating a culture of continuous learning, prioritizing the value of new technologies over their costs, actively capturing client and colleague feedback, and reimagining work processes during technological implementation.

Adapting to changed customer and colleague expectations

Customer behaviours have fundamentally changed with the digital revolution. Both retail and corporate banking customers now expect seamless, round-the-clock service across multiple channels and devices. Personalization is a key differentiator, accelerated by the shift from open banking to open finance. However, most banks struggle to deliver truly personalized offers due to their inability to generate and understand detailed customer journey data. Many continue to invest significant resources in resolving data quality issues rather than generating actionable, monetizable customer insights.

Colleague expectations have evolved equally. The 2024 [EY Work Reimagined Survey](#) reveals that 65% of employees prefer working from home three to five days a week, with millennials and Gen Z driving this demand. This is backed up by talent health (a measure of employee likelihood to recommend their employer) being significantly lower in organizations mandating full office returns. The challenge for banks is how they set and maintain a corporate culture when, even where staff are in the office, less than one-third say they have an assigned desk.

Banks need to maximize culture for onsite workers and space for knowledge-worker collaboration while addressing compliance risks of working from anywhere. The positive news for financial firms is they have clearly made decent progress adapting to a new cohort of workers, with reported talent health the most positive for millennials, followed by Gen Z, with Gen X and baby boomers lagging.

¹ Dan Davies, *The Unaccountability Machine*, Profile Books Ltd, 2024

Redefining purpose

There have been suggestions of slowing environmental, social and governance (ESG) momentum, and there is an increasing probability that many banks will reassess their interim net-zero targets due to inconsistent global climate policy. Data – what ESG data you should capture and report, how you capture it and the transparency of it – continues to be a challenge.

That said, the urgent need to address climate change presents a significant opportunity for banks. The International Energy Agency estimates that while US\$1.8t was invested in clean energy in 2023, US\$4.5t needs to be invested annually until 2030 to limit global warming to 1.5°C. Many banks have already made significant commitments to the transition; the 10 largest banks in the Americas and Europe have committed US\$8.2t and US\$3.0t respectively. EY analysis also shows that global sustainability-linked loans saw 36% growth from 2021 to 2023.

Further, the EY Sustainable Finance Index reveals a steady rise in environmental scores across 800 banks globally, reflecting cumulative efforts to address climate change. While the pace of improvement has slowed and some measures like emission intensity (GHG emissions in tonnes per dollar of assets) appear to be going in the wrong direction, this is likely due to increased scrutiny and improved reporting standards rather than reduced commitment.

The Sustainable Finance Index 'Social and Governance' parameters also show the industry is making steady progress on diversity. The latest data shows broad gender balance between staff. There is more to do at senior management and board level, where women make up 37% and 25% of those cohorts respectively, but there has been steady improvement over recent years that we expect to continue in the year ahead. We also expect banks to continue to build diversity in skills both at board and senior management level. The data from [EY's European Boardroom Monitor](#) demonstrates how seriously banks are trying to address challenging issues around technology, sustainability geopolitics but recruiting expertise at board level. This should be seen as banks reaffirming their purpose in society and be reassuring to staff and customers alike.

Finding a path to sustainable profitability

Sluggish growth is pushing banks toward cost transformation, but the challenge is daunting. EY estimates suggest a single percentage point increase

in return on equity (ROE) requires a 6% reduction in the sector's cost base – a seemingly unrealistic goal for an industry that has seen continuous cost increases since the COVID-19 pandemic.

If banks were to achieve a percentage point improvement in ROE through growth alone, they would need to grow just 3%. Are there opportunities for growth? In part 1, we highlighted multiple growth opportunities: Investment banking shows promise, and wealth management continues to attract investment. Similarly, the global embedded finance market is estimated to reach US\$606b in 2025, more than double its 2021 size. Inorganic growth avenues also present themselves. Although banks in Europe would like to see substantially more progress on the banking and capital markets union, before embarking on cross-border mergers.

The critical insight is that neither cost reduction nor growth alone will guarantee sustainable returns. Banks must find a balanced approach that simultaneously controls costs and drives expansion, requiring a fundamental reimagining of their business models and growth strategies.

Can banks seize the opportunity?

As ever, banking leadership teams will be busy in 2025, managing a host of business-as-usual risks and adapting to a new geopolitical environment. But the early indicators are that the operating environment should be sufficiently benign to allow leadership teams to tackle some of the wider risks and opportunities.

The key question is whether new approaches to tackling these issues can be found. Technology offers a wealth of opportunity to find solutions, but will banks be bold enough to completely re-engineer processes and ways of working end-to-end?

We believe they will. The banking sector has proven its resilience time and again through recent volatility. As we look ahead, we see an exciting opportunity for banks to unlock the investment capacity that enables them to manage their existing priorities while seizing the to transform their businesses for future growth and be a force for good.

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