

Cross-Country Comparison of Banking Sector in The Leading Global Economies

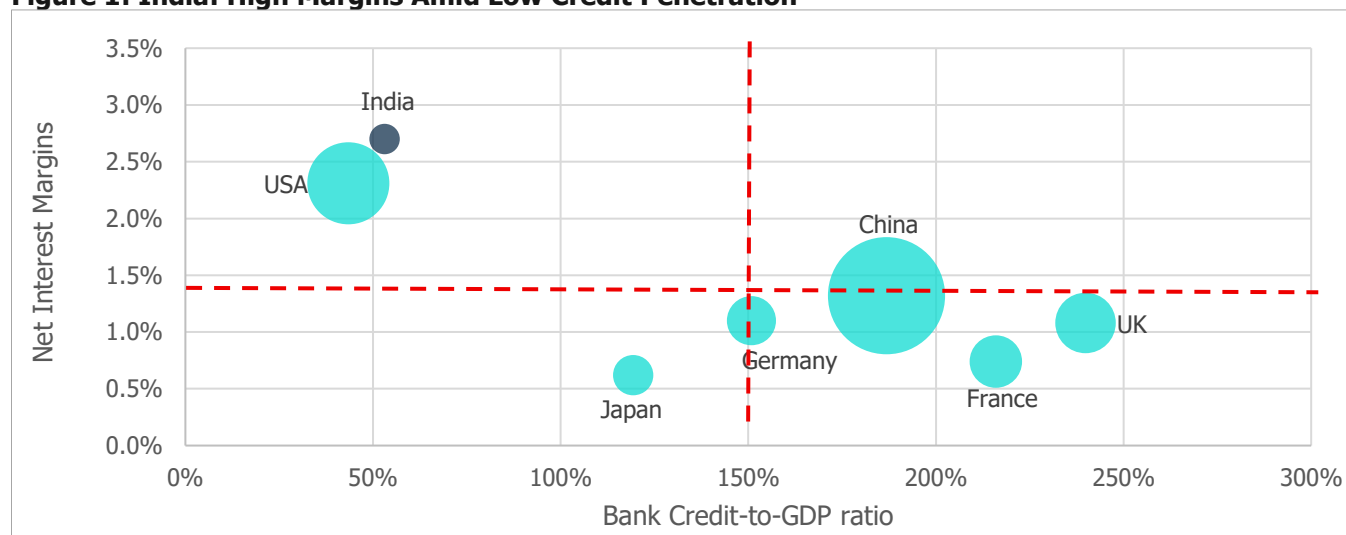
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Synopsis

- India, where banking margins remain relatively high despite a low bank credit-to-GDP ratio, indicating substantial headroom for credit expansion. In contrast, developed economies exhibit significantly higher credit penetration but operate with compressed margins, reflecting mature and competitive banking systems. This structural advantage strengthens India's attractiveness as a growth market. It supports the case for foreign banks to expand operations and establish regional centres to capture long-term credit growth opportunities.
- Despite historically higher Gross Non-Performing Assets (GNPA) levels, Indian banks now operate with GNPA and Net Non-Performing Assets (NNPA) ratios at multi-year lows, reflecting a substantial clean-up of legacy stress. This improvement, combined with adequate capital buffers, positions the banking system favourably to absorb incremental credit risk while continuing to support sustained loan growth.
- With our assessment of risk-adjusted profitability, India's positioning in the high-return, low-leverage quadrant indicates superior risk-adjusted profitability. Unlike several developed peers that rely on higher leverage to generate returns, Indian banks achieve stronger ROE with moderate gearing, underscoring efficient capital utilisation and structural growth potential.
- China's banking system is approximately 15–17x larger than India's in balance-sheet terms, underscoring significantly deeper financial intermediation and higher credit intensity. The U.S. banking sector remains 6–7 times larger. Meanwhile, Germany's banking system is only 2–3x larger than India's but operates with materially higher leverage and credit penetration.

India's Banks Show Improving Strength in a Global Setting¹

Figure 1: India: High Margins Amid Low Credit Penetration

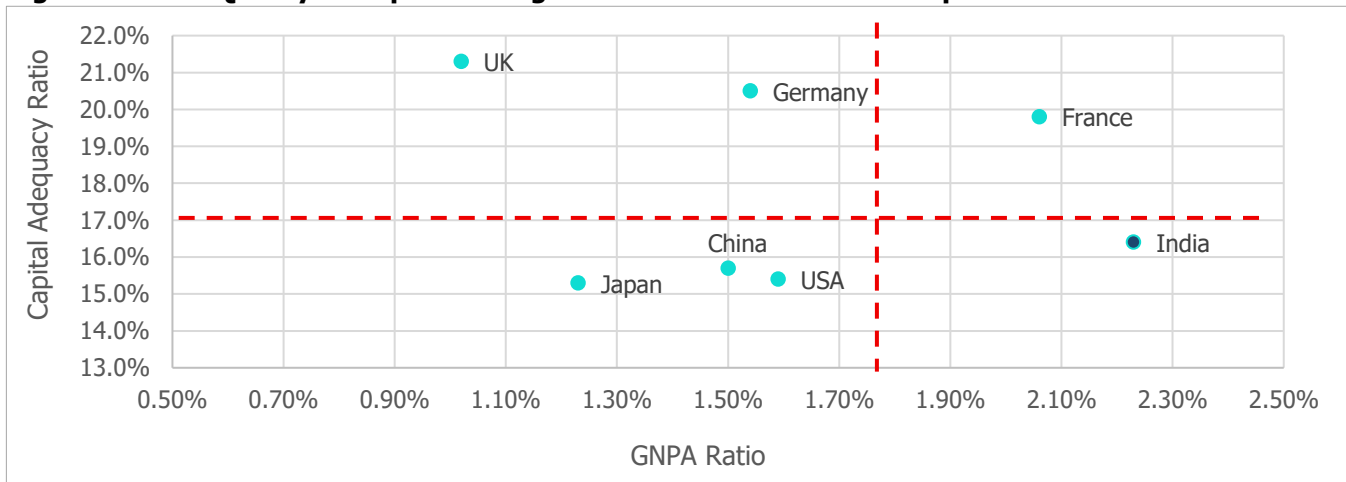


Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations. Note: Bubble indicates Total Assets

¹ All banking and macroeconomic data used in this report pertain to calendar year 2024 or the latest available fiscal year ending, based on each country's respective financial year conventions. Figures have been compiled using country-specific annual reporting periods and aligned for comparative analysis across economies.

- The above figure highlights a clear divergence between banking systems with high credit penetration and those with stronger profitability. Advanced economies such as the UK, China, and France exhibit elevated Credit-to-GDP ratios but operate with compressed net interest margins (NIMs), reflecting intense competition. In contrast, India stands out with relatively low credit penetration alongside the highest margins, underscoring a structurally favourable opportunity for profitable banking expansion. This positioning suggests significant headroom for growth in India without the leverage-driven risks evident in more mature banking systems. This structural advantage strengthens India's attractiveness as a growth market. It supports the case for foreign banks to expand operations and establish regional centres to capture long-term credit growth opportunities.

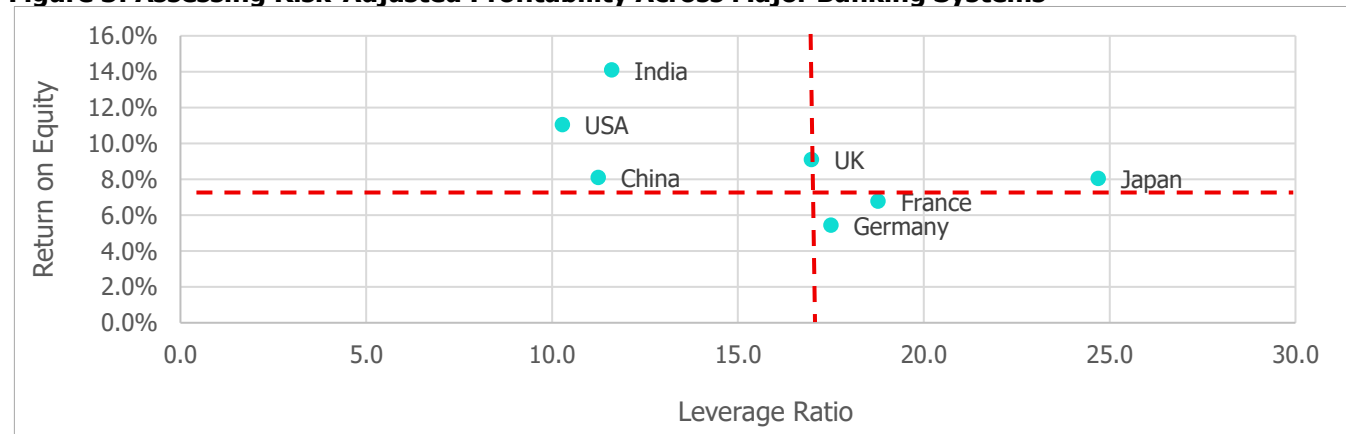
Figure 2: Asset Quality vs Capital Strength: India's Transition from Repair to Growth Readiness



Source: CEIC; Latest respective fiscal year-end figures, CareEdge Calculations

- India is positioned in the high-capital, moderate-to-declining NPA quadrant, highlighting a banking system that has largely worked through its legacy stress. GNPA and NNPA ratios are now at multi-year lows, reflecting sustained improvements in underwriting standards and sustained recoveries. European banks, particularly in the UK, Germany, and France, continue to maintain strong capital adequacy despite moderate asset-quality pressures, underscoring conservative balance sheets. Meanwhile, the US and Japan exhibit lower GNPA ratios but operate with comparatively thinner capital buffers.

Figure 3: Assessing Risk-Adjusted Profitability Across Major Banking Systems

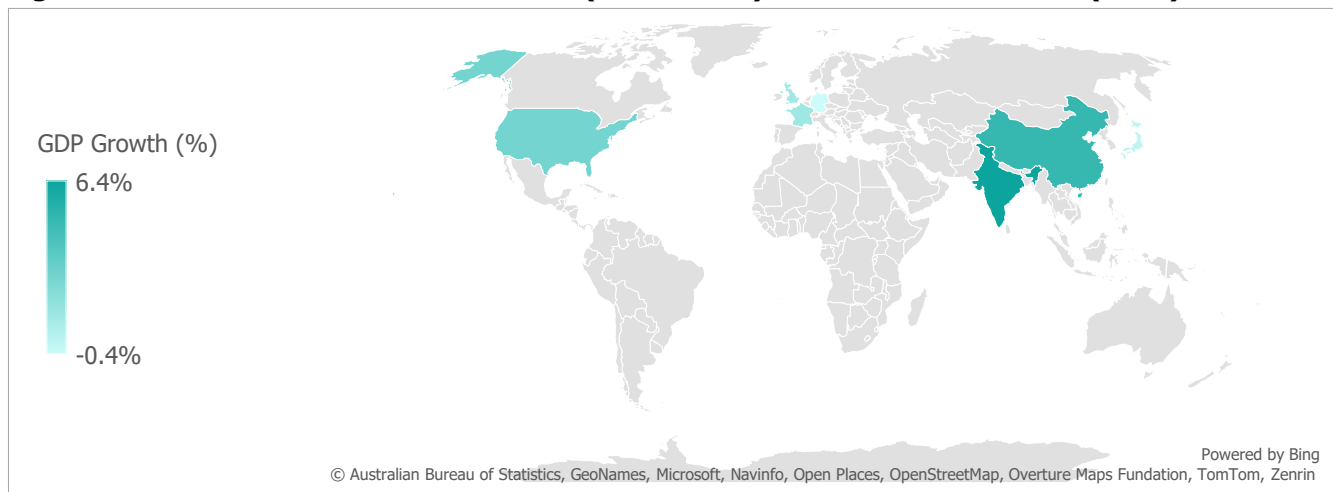


Source: CEIC; Latest respective fiscal year-end figures, CareEdge Calculations

- India's banking system, with an average gearing ratio of 11.6x, is materially lower than that of European peers and Japan. Meanwhile, the chart clearly supports this assessment by placing India in the upper-left quadrant, where lower leverage is associated with higher returns, in contrast to developed markets that cluster at higher gearing levels with comparatively weaker profitability. This visual evidence underscores India's ability to generate superior returns without relying on excessive leverage, reflecting efficient capital utilisation. Furthermore, when viewed alongside low credit penetration, the chart highlights meaningful headroom for balance-sheet expansion without a commensurate rise in systemic risk, strengthening India's attractiveness as a long-term banking growth market.

Monetary Policy Remains Supportive of Stable NIM and Steady GDP Growth Across Countries

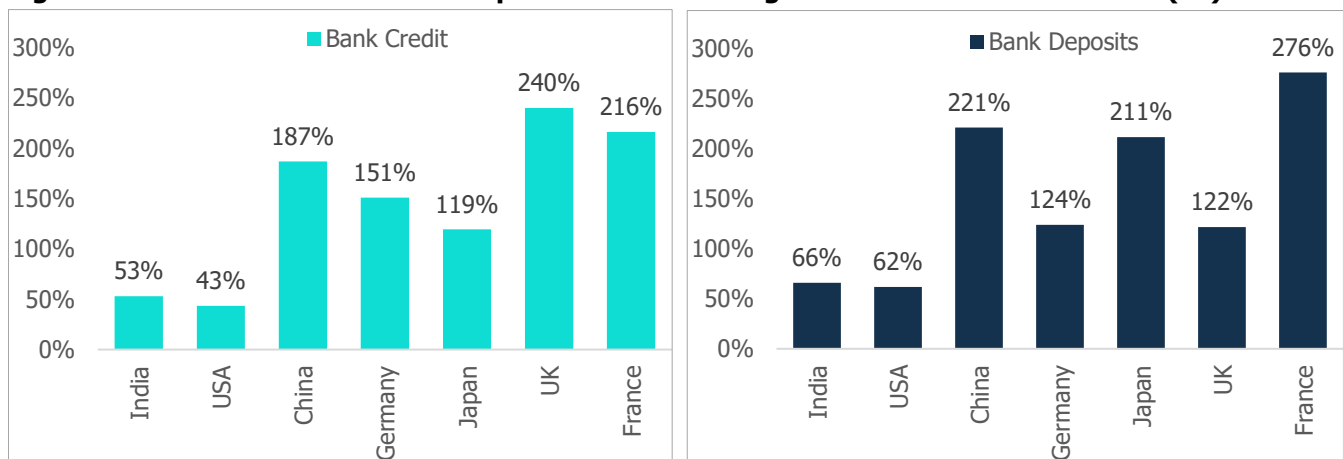
Figure 4: Nominal Gross Domestic Product (USD Trillion) and GDP Growth Rates (In %)



Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

- Recent monetary easing by global central banks has played a supportive role in sustaining growth by improving liquidity conditions and lowering borrowing costs, particularly in economies facing slowing demand. In India, rate cuts and liquidity injections have reinforced domestic demand and credit growth, thereby supporting GDP growth. In contrast, the more cautious stance adopted by European central banks has led to a gradual, measured recovery in growth.

Figure 5: Overall Bank Credit and Deposits as a Percentage of Gross Domestic Product (%)



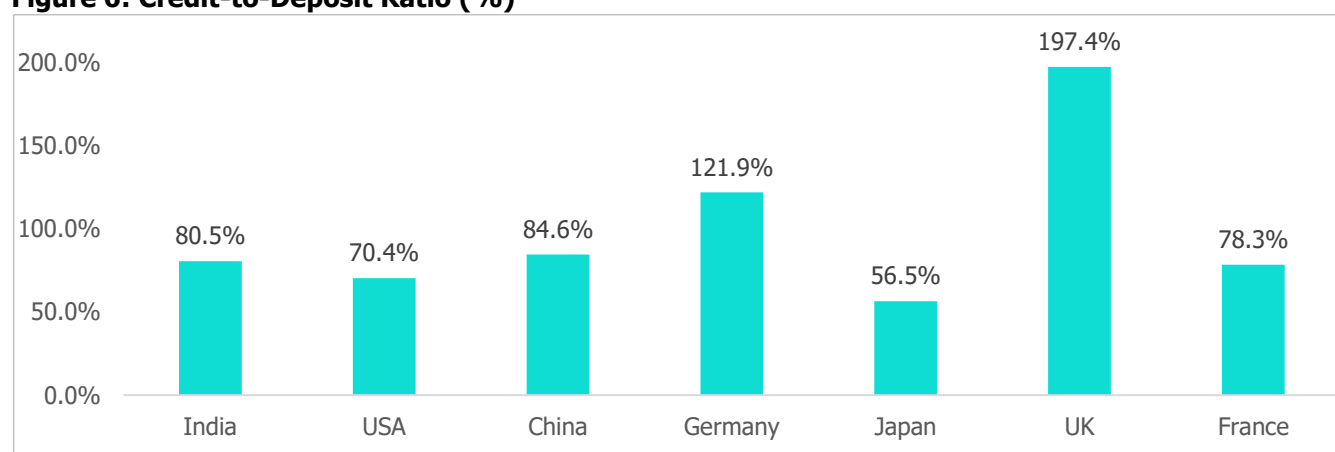
Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

The UK, France, and China report high bank credit-to-GDP ratios, underscoring extensive corporate, household, and cross-border lending. Germany and Japan also display elevated credit penetration, consistent with bank-centric financial systems. Conversely, the US maintains a relatively low credit-to-GDP ratio due to the dominant role of bond markets, securitisation, and non-bank financial intermediaries. Meanwhile, India's moderate ratio (53%) indicates that formal credit is improving but remains underpenetrated relative to economic size.

Bank deposits-to-GDP ratios are highest in France, China, and Japan, supported by high household savings and the presence of large international banking operations. The UK's comparatively lower deposit ratio, despite very high credit penetration, highlights greater dependence on wholesale and market-based funding. The US and India show balanced deposit mobilisation relative to GDP, consistent with stable household savings but diversified funding ecosystems.

Credit–Deposit Ratios Reflect Divergent Funding Structures Across Economies

Figure 6: Credit-to-Deposit Ratio (%)



Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

Advanced economies such as Germany and the United Kingdom (UK) operate with structurally higher CD ratios due to greater reliance on wholesale funding and overseas lending. In contrast, India, China, France, and the US maintain lower ratios, supported by strong deposit bases and diversified financing channels. In contrast, Japan lags significantly, with a ratio of just under 60%, against the backdrop of the Global financial crisis of the 1990s, which deepened risk aversion among both banks and borrowers and led to conservative borrowing behaviour. Meanwhile, banks continue to accumulate deposits, especially from an ageing population with limited investment alternatives. As a result, the excess deposit base outpaces credit offtake, keeping the CD ratio structurally low for Japan.

Profitability Metrics

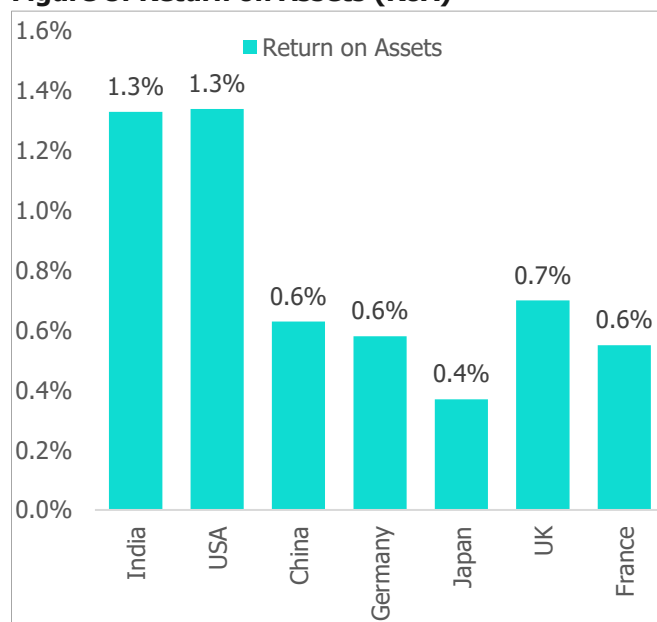
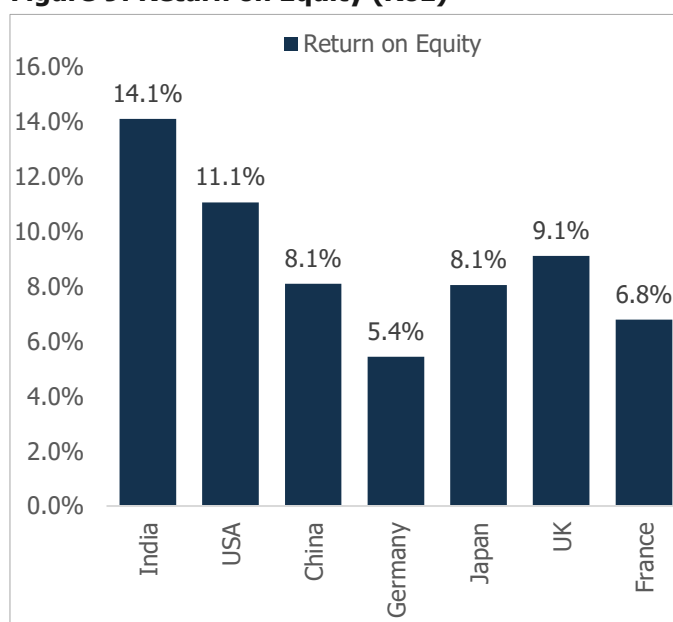
Figure 7: Profit After Taxes (PAT) and Total Assets (USD Trillion)

Countries	India	USA	China	Germany	Japan	UK	France
Total Assets	3.45	25.07	51.10	8.98	6.04	13.63	10.24
PAT	0.04	0.27	0.32	0.04	0.03	0.07	0.04

Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

The USA and China lead in global banking, with total assets of USD 25.0 trillion and USD 51.1 trillion, respectively, which translates into the highest absolute profitability, with PAT of USD 0.27 trillion for the USA and USD 0.32 trillion for China. The UK, despite a smaller asset base than the USA and China, delivers relatively stronger

profitability (PAT of USD 0.07 trillion), reflecting efficient balance-sheet utilisation and diversified income streams. Germany, Japan, India, and France operate with materially smaller asset bases and report broadly similar absolute profits, underscoring differences in scale rather than profitability potential.

Figure 8: Return on Assets (RoA)

Figure 9: Return on Equity (RoE)


Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

The US and India exhibit strong profitability, with healthy returns, reflecting a diversified banking system. Its efficient use of capital and non-interest income base supports this performance. China, while reporting the highest PAT, shows relatively moderate returns. This indicates that, although Chinese banks operate at a large scale, their asset efficiency is somewhat diluted, likely due to the dominance of state-owned banks and policy constraints. In contrast, Japan continues to struggle with profitability, constrained by a low-interest-rate environment following the burst of the asset price bubble in the early 1990s, compressed margins, and sluggish domestic credit demand. In contrast, India, despite its smaller size, stands out with the highest RoA, driven by strong capital efficiency, relatively higher margins, and the benefits of ongoing digital and policy reforms that enhance operational leverage. The UK maintains a balanced mix of profitability, supported by its universal banking model. However, global market volatility and regulatory costs appear to weigh on overall returns. France shows moderate profitability, supported by a stable retail and corporate banking base.

Banking Asset Quality Shows Broad Stability Across Major Economies

Figure 10: Gross Non-Performing Assets Ratio (GNPA)

Countries	India	USA	China	Germany	Japan	UK	France
GNPA (%)	2.23	1.59	1.50	1.54	1.23	1.02	2.06

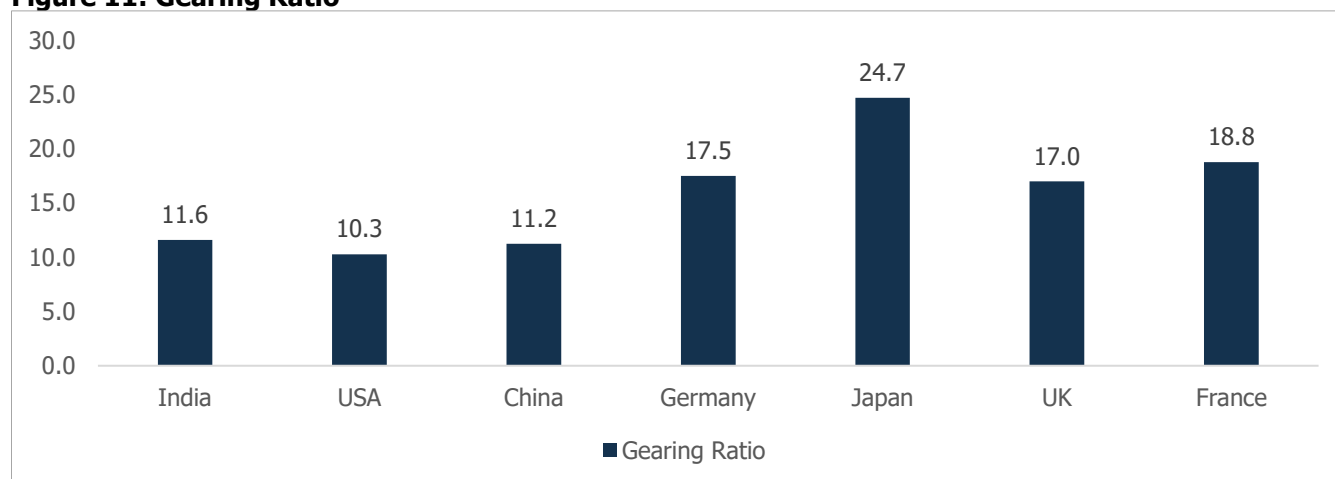
Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations

Across major global economies, asset quality remains stable, mainly with GNPA ratios for most banking systems clustered in a narrow range of ~1.0–2.2% despite wide variation in loan book sizes. This reflects post-GFC regulatory strengthening, conservative underwriting standards, and sustained policy support. Advanced economies such as the UK, Japan, and the US continue to report low GNPA ratios, supported by conservative underwriting

standards, strong regulatory oversight, diversified loan portfolios, and effective resolution mechanisms. India stands out with a relatively higher GNPA ratio; however, this does not reflect fresh deterioration. The sustained improvement in India's asset quality underscores the effectiveness of structural reforms, notably the Insolvency and Bankruptcy Code, stronger recovery frameworks, and enhanced risk management practices.

Leverage and Capital Structure Analysis of Banks Across Countries

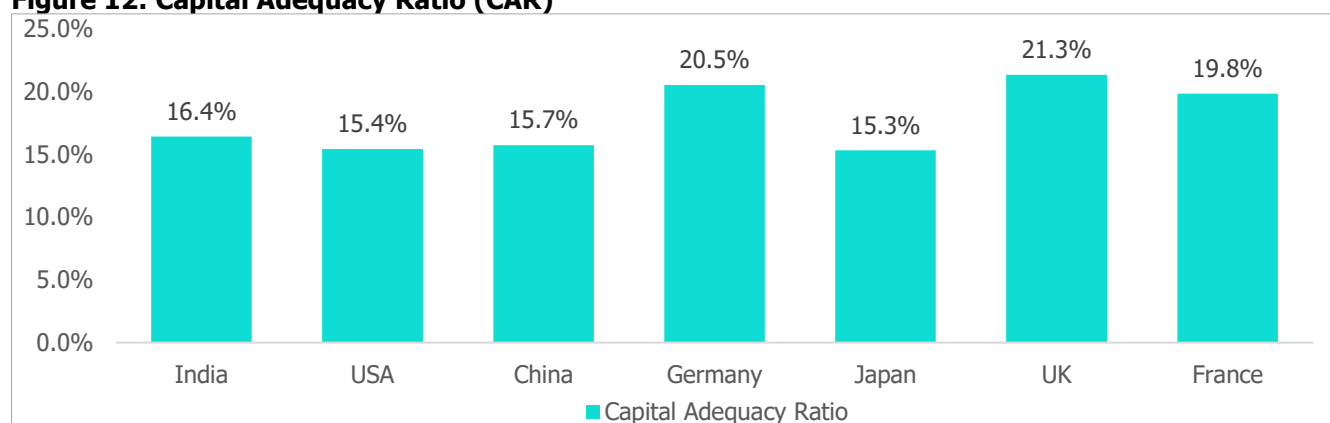
Figure 11: Gearing Ratio



Source: CEIC; Latest respective Fiscal year-end figures, CareEdge Calculations, Gearing Ratio = Total Liabilities / Total Shareholders' Equity

Japan and European banks operate with higher gearing ratios, driven by large balance sheets, prolonged low interest rates, and greater reliance on wholesale funding, while maintaining stability through strong capital and regulatory backstops. In contrast, US and Indian banks exhibit lower leverage, supported by diversified funding channels, stronger margins, and deposit-led balance sheets. China combines high absolute debt with moderate gearing, underpinned by policy support and robust deposit mobilisation.

Figure 12: Capital Adequacy Ratio (CAR)



Source: CEIC; Fiscal year-end 2024-25 figures, CareEdge Calculations

Global banks across major economies exhibit robust capital adequacy, reflecting strengthened regulatory frameworks following the global financial crisis and prudent risk management. The CAR is highest in the UK at 21.3%, followed closely by Germany, France, and China, indicating strong overall capital buffers to absorb potential losses. India also reports a healthy CAR of 16.4%, well above the Basel III minimum requirements, reflecting

sustained capital infusion and regulatory oversight, particularly in public-sector banks. The US and Japan have the lowest CAR among peers at 15.4%, maintaining a solid cushion well above global norms. In terms of CET-1 capital, which represents the highest-quality core capital, the UK again leads with 16.9%, driven by a large share of loan books comprising prime residential mortgages, which carry relatively lower risk weights under Basel norms. Japan, France, and India follow.

Conclusion

The comparative analysis clearly indicates that the Indian banking sector still has a long way to go. Credit depth remains significantly below that of advanced economies, asset quality, while improving, continues to lag global peers, and absolute profitability remains modest due to the smaller scale of the system. These gaps highlight the need for sustained balance-sheet expansion, deeper financial intermediation, and further strengthening of underwriting and recovery frameworks. However, India's banking system stands out for relatively high margins despite low credit penetration, adequate capital buffers despite higher legacy asset-quality stress, and superior risk-adjusted profitability achieved through moderate leverage rather than balance-sheet expansion.

Looking ahead, India's banking sector is well positioned to benefit from the formalisation of the economy, rising credit demand from the retail and MSME segments, and continued improvements in asset quality, supported by regulatory reforms and digital adoption. However, sustaining this trajectory will require disciplined risk management, prudent capital allocation, and continued focus on efficiency and governance. Over the medium to long term, successful execution on these fronts could allow Indian banks to progressively narrow the gap with global peers while preserving their structural strengths.

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