

# NPL Watch Asia

## 2026 Edition

Analysis of NPL trends, machine-learning based NPL ratio forecasting,  
and cooperation pathways across the IPAF network

HyeJin Lee  
International Cooperation Department of KAMCO

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# 01

The 2026 edition significantly broadens the scope of NPL Watch Asia to 25 economies, further enhances the NPL ratio forecasting model, and reinforces its role as a regional platform for analysis, and IPAF-led cooperation on NPL risks across Asia.

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## Introduction

# Why NPL management remains important to Asian financial stability

## Cyclical pressure

### Prolonged high-rate environment

Borrowing costs above pre-pandemic norms weigh on highly leveraged households and SMEs.

## Structural risk

### Real estate, households and SMEs

Rather than broad macro shocks, NPL risks are increasingly shaped by sector-specific weakness.

## Key takeaway

Strengthening analytical instruments and regional cooperation for monitoring and managing NPL risks is increasingly essential across Asia.

## NPL Watch Asia as Regional Monitoring and Knowledge Platform

Regional monitoring

Cross-country Comparison

Knowledge Sharing

Regional Cooperation

# What's New in the 2026 Edition: Wider coverage, deeper analysis

## Wider Coverage

20 → **25**  
Asian economies

## Special focus

**8** IPAF member countries

## Methodology

### A two-track analytical framework

#### Quantitative

### Publicly available macro-financial & banking data

NPL ratios, asset-quality indicators, and financial-stability metrics from national supervisory statistics and international databases.

#### Qualitative

### Mapping Institutional Perspective and market context

Legal frameworks, market infrastructure, institutional capacity, and policy developments — drawn from publicly available materials on IPAF members.

# 02

Although overall NPL ratio in Asia remained relatively stable in 2025, NPL volumes continued to increase.

In addition, our sub-regional analysis shows that the nature and level of risks vary considerably across different parts of Asia.

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## **NPL in Asia: 2025 Overview**

# A more complex macro-financial and geopolitical landscape

ADB

**4.8%**

IMF

**4.5%**

Still fastest-growing region

Policy Stance

**More expansionary monetary policy, but borrowing costs remain higher than pre-pandemic levels**

## Macro-Financial Conditions

### Lagged effect on credit risk among households and SMEs

Even though policy interest rates has been stabilized, financial markets still experienced volatility amid concerns slowing global growth and uncertainty.

Historically, NPL ratios react with a lag — borrower stress accumulates over time before reaching bank balance sheets.

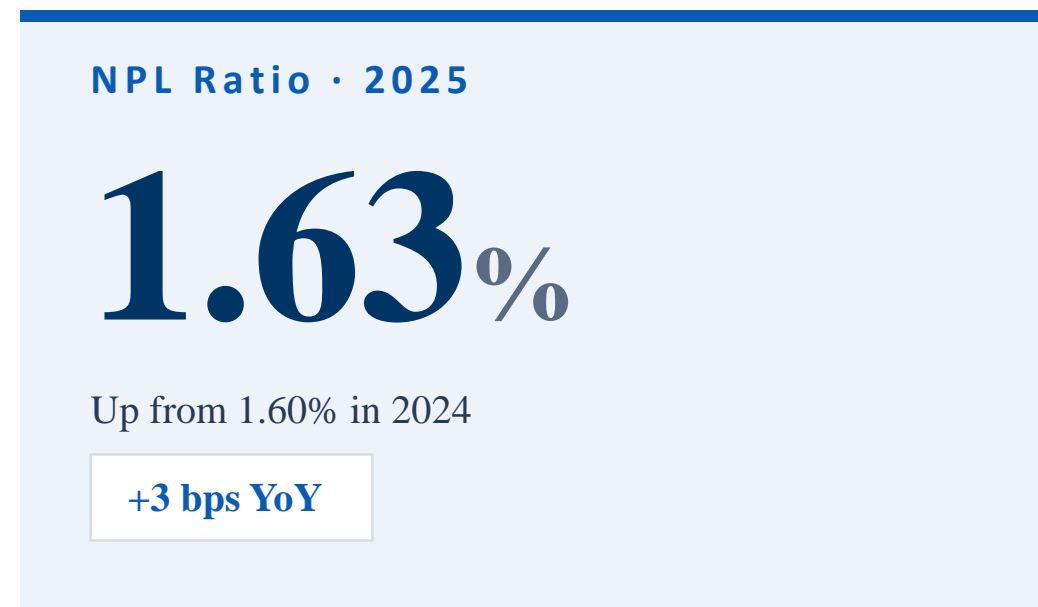
## Geopolitical & Geoeconomic Context

### Trade fragmentation and Protectionist measures

Higher tariffs and strategic trade restrictions reconfigure global supply chain, as well as weaken export-oriented sectors.

Commodity exporters, including resource-intensive economies such as Mongolia and Kazakhstan, remain exposed to oil, coal and metals price fluctuations.

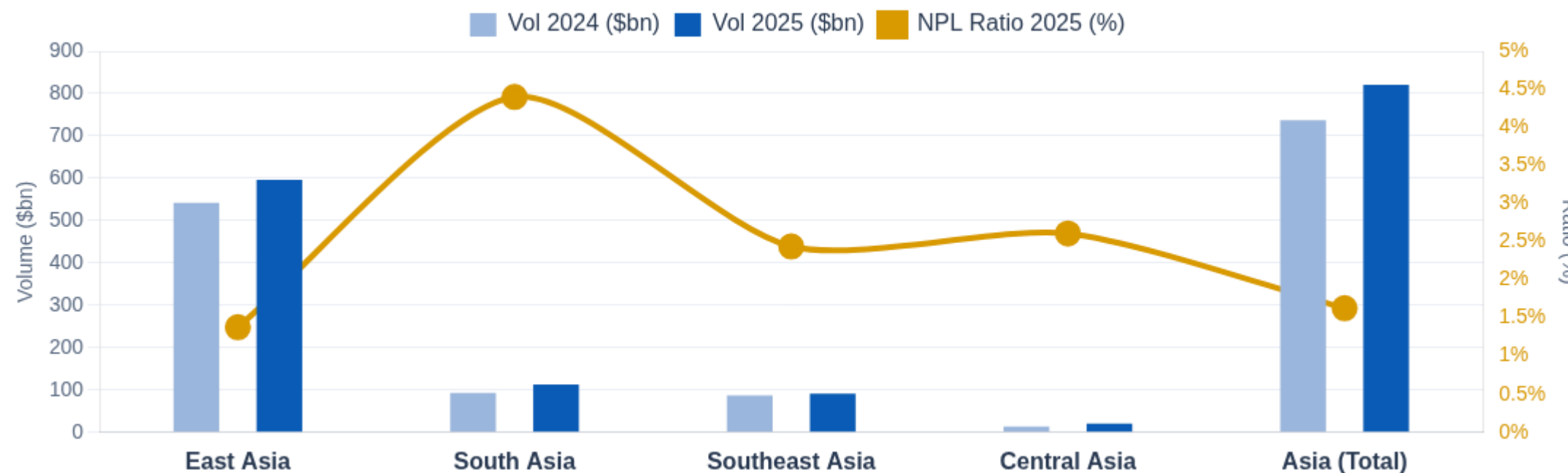
# Stable ratios, rising volumes - Asia's 2025 NPL Trend



### Interpretation

**Volume growth driven by expansion of bank credit**  
**- Not a broad asset-quality deterioration**

NPL Volume vs. Ratio · 2024 → 2025



### Interpretation of sub-regional level

**Sub-regional trends varied significantly**

**South Asia** most significant increase in both indicators  
**East Asia** stayed stable;  
**Southeast Asia** relatively stable;  
**Central Asia** elevated volatility.

# Four subregions, four different patterns

SUBREGION	VOL 2024 (\$BN)	VOL 2025 (\$BN)	RATIO 2024	RATIO 2025	INTERPRETATION
East Asia	542	596	1.37%	1.38%	Credit Expansion
South Asia	93	113	3.62%	4.40%	Asset-quality deterioration
Southeast Asia	88	91	2.55%	2.44%	Normalization
Central Asia	14	21	2.10%	2.61%	Volatility
Asia · Total	737	821	1.60%	1.63%	Stable Ratio, Rising Volume

# Loss-absorption capacity remains broadly adequate

Banking system stability depends on the bank's capacity to absorb credit losses through loan-loss provisions and capital buffers. Two complementary indicators are newly introduced to 2026 edition.

## Indicator 1

### The Ratio of Provision to NPLs

Measures how much of expected credit loss has already been recognized on bank balance sheets. Higher coverage helps banks cushion the impact of rising NPL volumes

Generally adequate in Asia

**Provisioning levels of loans are generally adequate throughout Asian banking systems**

Variation across sub-regions

**Provision levels varies, reflecting supervisory frameworks**

## Indicator 2

### The Ratio of NPLs net of provisions to capital

Measures residual credit risk that remains after provisioning. Lower values indicate stronger bank soundness and resilience to risk.

**Provisioning and capital ratios remain strong, reflecting regulatory frameworks**

# 03

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## **Machine-Learning Based NPL Ratio Forecasting Model**

The 2026 edition introduces key methodological enhancements and forecasts NPL ratios for the next four quarters across 16 economies, including 8 IPAF member countries. The report also identifies and analyzes the major determinants behind the forecasts to implications and insights.

# Major Improvements in the 2026 Edition: More variables, Broader coverage, Longer time-series

## Axis 1 · Variables

### Three layered groups + newly added indicators

<b>CEIC</b>	<b>Country-level variables:</b> GDP, consumption, investment, trade, debt, CPI/PPI, unemployment, exchange rate, CAR, market cap
<b>Bloomberg</b>	<b>Global economy variables:</b> Global GDP growth, world unemployment, industrial production, USD index, WTI oil
<b>IMF FSI</b>	<b>Banking-sector Indicators:</b> customer deposits to total loans, interest margin, provisions to NPL

**NEW · 2026**

**Newly added indicators**

### Reinforcing the variables to assess bank's financial soundness

The 2026 edition adds variables for measuring banking-sector financial resilience to better capture buffer capacity and credit-risk:

- **Customer deposits to total loans**
- **Interest margin to gross income**
- **Provisions to NPL**
- **Tier 1 capital to assets**

### Variable selection

Applied algorithms to identify key determinants; less significant variables excluded, **up to 7 optimised variables** retained per country.

## Axis 2 · Scale expansion

### Wider country & longer time series

#### Country coverage

**Beyond IPAF members — region-wide**

8 IPAF members → **25** Asian economies

Scope expanded from the 2025 edition's 8 IPAF member countries to **25 Asian economies in 2026**, broadening the empirical reach across East, South, Southeast and Central Asia.

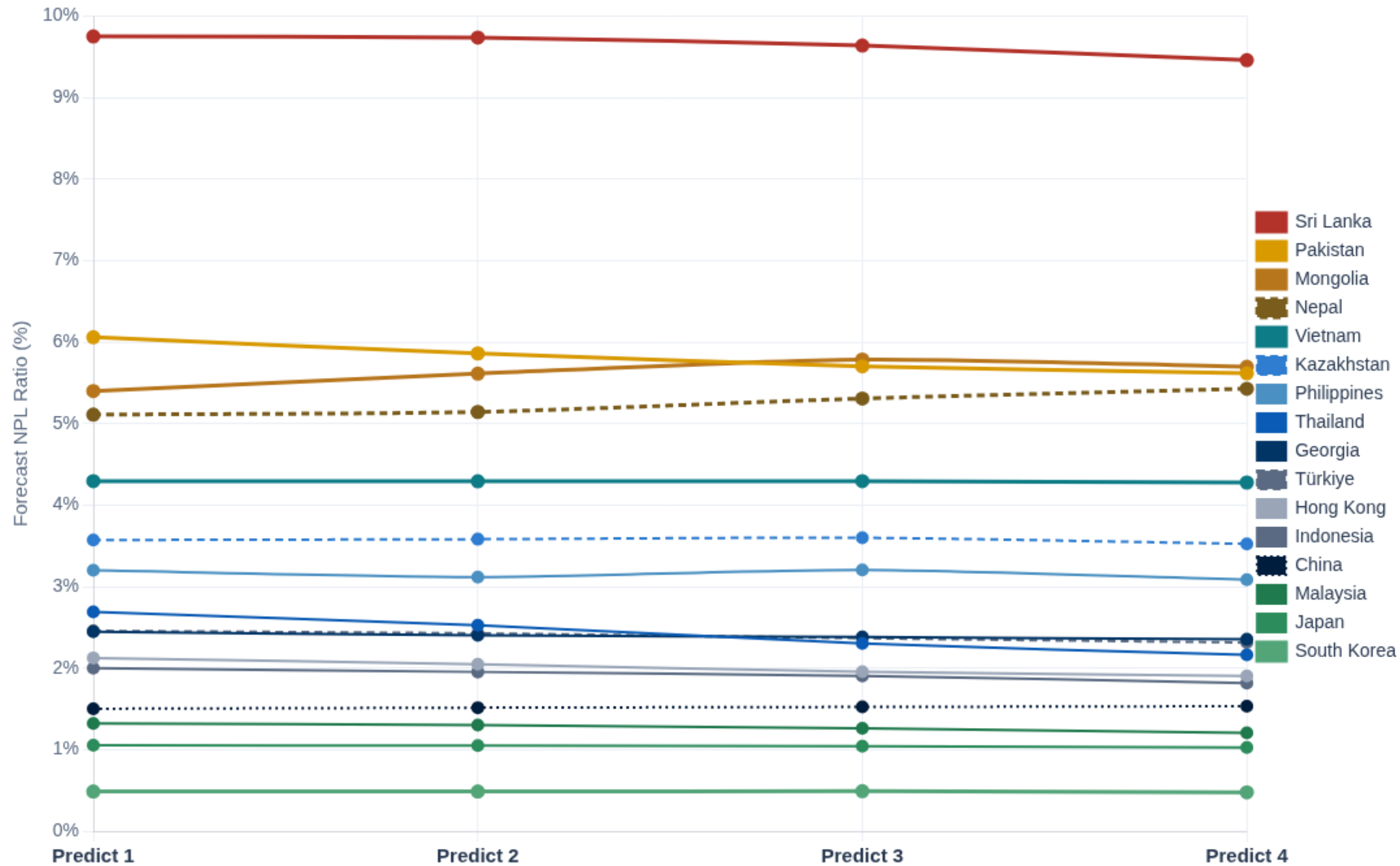
#### Time-series expansion

**Longer history for higher predictive power**

### Extended time-series

Variable time series were materially extended to **strengthen model training data and predictive accuracy**, allowing deep-learning architectures to capture longer-term dependencies and cyclical patterns more reliably.

# Four-quarter NPL ratio forecasts across 16 economies



### Highest-projected ratios

Expected to remain at relatively high levels

Sri Lanka	9.46 — 9.75%
Pakistan	5.62 — 6.06%
Mongolia	5.40 — 5.79%
Nepal	5.11 — 5.43%
Vietnam	4.28 — 4.30%

### Lowest-projected ratios

Expected to maintain stable asset quality

South Korea	0.48 — 0.49%
Japan	1.02 — 1.05%
Malaysia	1.21 — 1.32%
China	1.50 — 1.53%
Indonesia	1.82 — 2.00%

# Key Determinant to Forecast NPL ratios in each economy

SHAP analysis identified the dominant factors of NPL ratio forecasts across economies, revealing five thematic clusters.

## Cluster 1

### Corporate & Household Debt

**China** — Corporate Debt

Türkiye — Corporate Debt

Thailand — Household Mortgage

## Cluster 2

### Capital Adequacy & Liquidity

Philippines — Capacity Adequacy Ratio

Sri Lanka — Capacity Adequacy Ratio

Pakistan — Reserve Requirement Ratio

## Cluster 3

### Global & External Channels

Japan — Global GDP Growth

Georgia — Dollarization and Foreign Capital

**Indonesia** — Market Capitalization

## Cluster 4

### Fiscal & Real-Economy Capacity

Nepal — Tax revenue

**Vietnam** — Tax revenue

Hong Kong — Unemployment rate

Kazakhstan — Business Confidence

## Cluster 5

### Past NPL Ratio Dominates

**South Korea** — Structural and mature system

Malaysia — Advanced financial system

**Mongolia** — Continuity from the past rather than macroeconomic shock

# 04

Institutional, legal and market-infrastructure drivers shape NPL resolution outcomes — and motivate the IPAF online NPL trading platform initiative.

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## Qualitative Determinants & Online Trading Platform

# Four structural dimensions shape resolution outcomes

DIMENSION	KEY DRIVERS	TYPICAL CONSTRAINTS	IMPLICATIONS
<b>Legal &amp; Regulatory Frameworks</b>	Insolvency procedures · predictable collateral enforcement	Lengthy court procedures, weak enforcement of creditor rights	Delayed restructuring; lower recovery values
<b>Market Infrastructure</b>	Secondary NPL markets · Private investor participation	Limited distressed-debt investors; shallow secondary markets	Reduced liquidity; slower balance-sheet cleanup
<b>Institutional Capacity</b>	Public AMCs · loan servicing · restructuring expertise	Limited restructuring experience; weak servicing capacity	Slower resolution; limited recovery efficiency
<b>Data Transparency</b>	Standardized data valuation · transparency	Incomplete disclosure; valuation uncertainty	Information asymmetry; weaker investor participation

**Building on the 2024 findings, this report highlights how each economy has advanced its NPL resolution framework in 2025 across these four structural dimensions**

**Example**

**Legal Framework · Viet Nam** — enacted the amended **Law on Credit Institutions** in 2025, expected to accelerate collateral-enforcement procedures and accelerate NPL resolution speed and efficiency.

# 05

Three IPAF members illustrate distinct NPL agenda, corporate debt, household debt and private foreign investor

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## Country Case Studies

# Korea, Mongolia, Thailand - Three Paradigms

## CASE 1 · KOREA

# Korea

The question

**Public AMC  
moving beyond  
NPLs**

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KAMCO →

**Corporate restructuring:  
From NPL Resolution to Sustainable  
Support for Distressed Firm**

## CASE 2 · MONGOLIA

# Mongolia

The pressure point

**Household debt  
is a key driver of  
NPL ratio and financial  
stability**

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Households and SMEs →

**Consumer leverage as  
the systemic stress test.**

## CASE 3 · THAILAND

# Thailand

The channel

**Private capital  
matters  
in NPL resolution**

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Hybrid AMC →

**The Role of Foreign investors in  
NPL resolution**

Closing · Next Steps

# Toward NPL Watch Asia 2026 final edition

The interim report focuses on the analytical foundation.

Remaining work focuses on the country case-study interview and detailed analysis on the NPL ratio forecasting model through end-2026.

## Workstream 01

### Analytical completion

Draft Executive Summary · Refine relevance among quantitative and qualitative analysis

TARGET  
Q2 2026

## Workstream 02

### Country case studies

Field interviews with KAMCO (corporate restructuring), MAMCO (household-debt), SAM/BAM (foreign-investment-led resolution).

TARGET  
Q2 2026

## Workstream 03

### Detailed Analysis on Forecasting Model

Qualitative Analysis of Key Determinants Affecting NPL Ratios by Country Based on SHAP Results

TARGET  
Q2 2026

IPAF NETWORK · 2026

**18 institutions**

FROM

**8 countries**

CHAIR · 2025–2026

**MAMCO · Mongolia**

NEXT CHAIR

**FPL · Kazakhstan**