Semi-Annual Credit Summary

S2/2021 Volume 3, No 1

Credit Research Initiative
National University of Singapore

NUS National University of Singapore | Asian Institute of Digital Finance

Introduction

The Semi-Annual Credit Summary (SACS) is a summary of credit outlooks across regions, economies and sectors. This analysis incorporates probabilities of default (PD) generated by National University of Singapore - Credit Research Initiative's (NUS-CRI) default forecast model. The SACS provides insights on trends in credit outlooks to credit professionals, investors and researchers.

SACS Volume 3, Issue 1 covers the second half of 2021. We discuss the general credit outlook for a selection of economies from around the world, based on relevant indicators, and relate this discussion to forecasts provided by NUS-CRI's PD model.

While the PD system output default forecasts at horizons ranging from one month to five years, the SACS reports only 1-year PDs in order to allow the reader to make consistent comparisons. The commentary in the SACS is based on median PD of exchange-listed firms within economies and industry sectors. Classification into economies is based on each firm's country of domicile, and classification into industry sectors is based on each firm's Level I Bloomberg Industry Classification. The only exception is the banking sector, where firms are included based on the Level II Bloomberg Industry Classifications. The daily frequency PD graphs in the written commentary are aggregates of firms that have a PD in both the first ten days and last ten days of the quarter. This prevents, for example, drops in the aggregate PD when high PD firms default and leave the sample.

The economies that are considered in each region are based on a selection of 8 economies covered by NUS-CRI's default forecast model. The developed economies of Asia-Pacific include: Australia and Singapore. The emerging economies of Asia-Pacific include: China, India, Indonesia and Malaysia. Western Europe includes: Italy and the UK.

Credit Research Initiative

The SACS is a companion publication to the Weekly Credit Brief, with both publications produced as part of the Credit Research Initiative undertaken by CRI.

These publications supplement NUS-CRI's operational Probability of Default (PD) model. The model takes financial statements and market data from a database of more than 80,000 listed firms and estimates a PD for each firm, effectively transforming big data into smart data. The outputs from the NUS-CRI PD model are available free for all users at:

www.nuscri.org

As of Oct 2021, the PD system covers 130 economies in Africa, Asia-Pacific, Latin America, North America, the Middle East and Europe. The probabilities of default include historical data for firms that are now delisted from exchanges or firms that have defaulted. PDs aggregated at the region, economy and sector level are also available. The full list of firms is freely available to users who can give evidence of their professional qualifications to ensure that they will not misuse the data. General users who do not request global access are restricted to a list of 5,000 firms. The PD system operates in a transparent manner, and a detailed description of our model is provided in a Technical Report available on our website.

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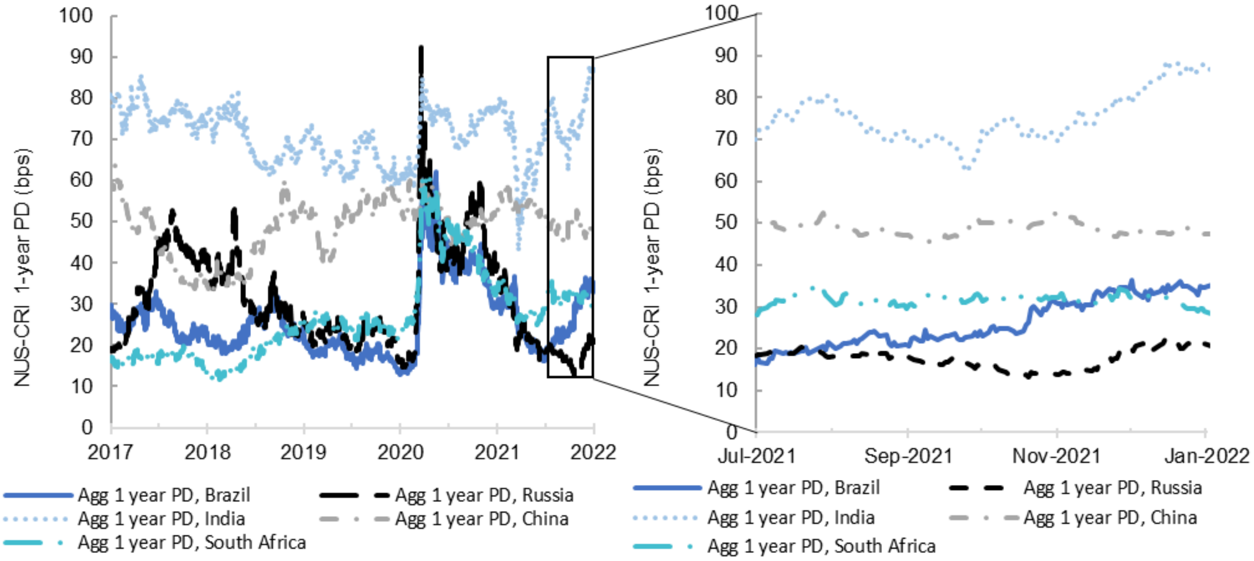
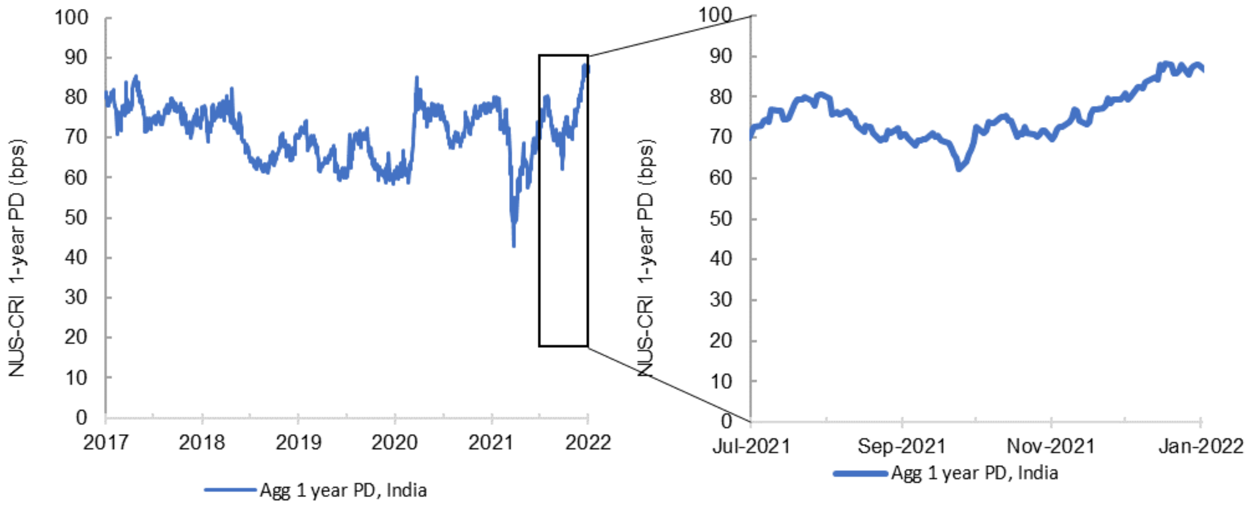
BRICS

In the second half of 2021, listed companies in BRICS had a relatively stable credit profile in the process of economic recovery from the pandemic amidst growing fears of inflation resulting from rising commodity prices and supply chain disruptions, as well as concerns surrounding the new COVID-19 variant, Omicron. The NUS-CRI Aggregate 1-year PDs (Agg PD) for domiciled companies in India and Brazil experienced moderate increases in Q4 as their local currencies depreciated against the US dollar, while the Agg PD of domiciled public firms in China, Russia and South Africa showed a steady trend, fluctuating around 50bps, 20bps and 30bps respectively. However, tensions flared between Russia and Ukraine in December 2021, which might be reflected in the slight increase in the Agg PD of Russian companies.



Indian Companies

The NUS-CRI Aggregate 1-year PD for Indian companies decreased in the third quarter of 2021 as the economy recovered due to an increase in demand and government stimulus, and then increased to around 90bps at the end of the year. The agriculture and services sectors also benefitted from favourable monsoon rains and the gradual resumption of normal economic activities. Inflation remained elevated, however, due to supply chain disruptions and surging commodity prices.[1]



Economy

- The Indian economy grew by 5.4% YoY in Q4 2021, which was below the market expectations of 6%. This is followed by an 8.5% YoY growth witnessed in Q3 2021, attributed to an increase in consumer demand during the festive season, government support and a reduction in COVID-19 cases. On the production side, construction grew by 2.8%, manufacturing by 0.2%, trade, hotels, transport and communication increased by 6.1%, mining 8.8%; utilities 3.7%; the farm sector 2.6%; and the financial and real estate sector 4.6%.[2]
- India's manufacturing sector continued to recover in Q4 2021, benefiting from stronger demand. The increased demand resulted in a strong increase in buying levels by companies. However, inflation also surged simultaneously, with Indian manufacturers reporting increased costs. The IHS Markit India Manufacturing PMI fell to 55.5 in December, lower than 57.6 in November, though still higher than the 50-benchmark indicating overall production expansion. This reflects the supply constraints and the adverse impact of the surge in prices which hampered business confidence in December.[3]
- The annual rate of inflation, based on the Wholesale Price Index (WPI), stood at 13.56% in Dec 2021 (over Dec 2020), as compared to 14.23% in November. The increase is primarily driven by higher cost of fuel, power, primary articles and food.[4]
- India's current account balance (CAB) deficit was USD 23bn (2.7% of GDP) in Q4 2021, as compared to a deficit of USD 9.9bn (1.3 percent of GDP) in Q3 2021; and a deficit of USD 2.2bn (0.3 percent of GDP) in the same period last year. The deficit in CAB was on account of a higher trade deficit. Net services receipts increased on the back of a rise in net earnings from computer and business services on a YoY basis. Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to USD 23.4bn, up by 13.1% as compared to the previous year. Portfolio investment saw an outflow of USD 5.8bn against a inflow of USD 21.2bn a year ago. In Q4 2021, there was an accretion of USD 0.5bn to the foreign exchange reserves (on a BoP basis).[5]

Monetary

- According to the bi-monthly monetary policy statement on December 22, 2021, the RBI kept the policy rate (repo rate) under the liquidity adjustment facility (LAF) unchanged at 4 %. The reverse repo rate under the liquidity adjustment facility remained unchanged at 3.35%. Similarly, the Bank Rate remained at 4.25%.[6]

- Overall liquidity in the system remains in large surplus. Reserve money increased by 7.9% YoY as of Dec 2021, driven by a surge in currency demand. Money Supply (M3) grew by 9.5%. India's foreign reserves increased by around USD 58.9bn and were at USD 635.9bn as of December 2021.[7]
- Headline CPI inflation increased to 4.5% in October from 4.3% in September 2021, driven by an increase in vegetable prices caused by crop damage and fuel inflation. CPI excluding food and fuel, remained at the heightened level of 5.9% due to increasing price pressures in clothing and footwear, health, and transportation and communication sub-groups. Going forward inflation expectations will be shaped by various factors such as supply chain disruptions and rising international commodity prices.[8]

Funding and Liquidity

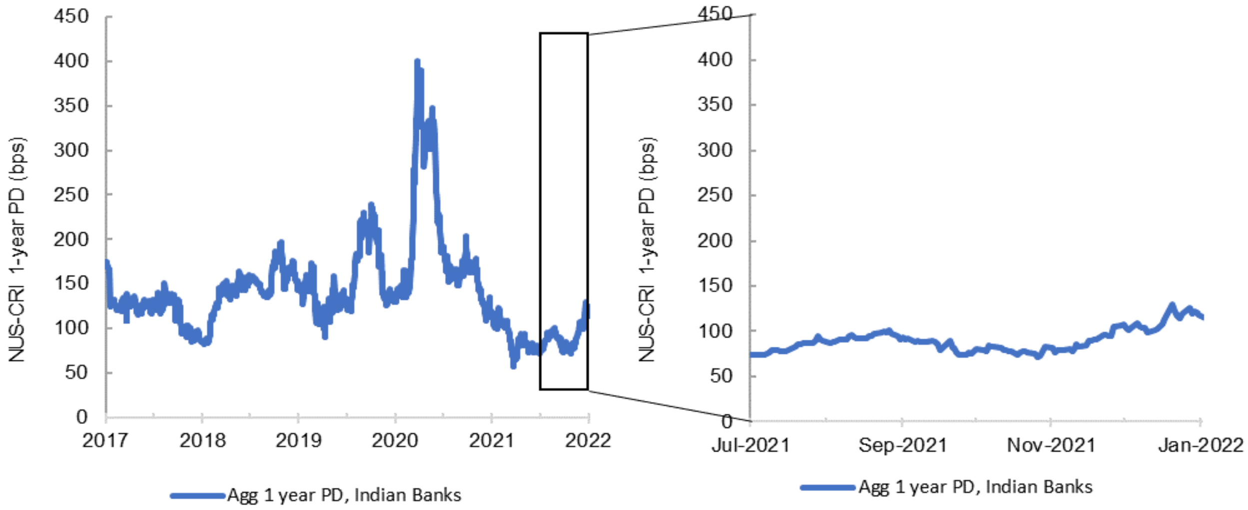
- Yields on India's 10-year government sovereign bonds fluctuated in Q3 and Q4 2021. Yields were at the semi-annual peak of 6.44% at the end of Q4 2021, ranging between 6.07% and 6.44% over the two quarters. [9]
- In December, RBI committed to maintaining an accommodative approach in order to support a robust recovery in economic growth. However, at the same time, it reiterated that it will continue monitoring inflation and also aim to keep inflation within its target band.[10]

Sovereign Credit Ratings

- Standard & Poor's credit rating for India stands at BBB- with a stable outlook. Moody's credit rating for India was last set at Baa3 with a stable outlook. Fitch's credit rating for India was last reported at BBB- with a negative outlook. DBRS's credit rating for India is BBB with a stable outlook. [11]

Indian Banks

The NUS-CRI Aggregate 1-year PD for Indian Banks was stable at around 120bps. On one hand, banks showed signs of recovery as the Indian economy rebounded from the COVID-19 pandemic and non-performing assets (NPAs) improved. On the other hand, the banking sector faced challenges such as elevated provisions for bad loans that contributed to further earnings and margin pressure. The government and the central bank took various measures to support the banking sector, including infusing capital into public sector banks and implementing loan restructuring schemes to help borrowers affected by the pandemic. These efforts helped to improve the overall financial health of the sector, but there were also reports of rising frauds and scams in the banking industry.



Profitability

- India's private sector banks saw a decrease in their credit to deposit ratio from 72.5% in Q4 2020 to 71.6% in Q4 2021. Aggregate deposits growth in Q3 2021 decreased marginally from 11% YoY to 10.1%. Simultaneously, credit growth on an annual basis marginally increased from 4.6% in Q3 2021 to 6.4% in Q4 2021.[12]
- Banks in India will have to tackle the ballooning non-performing assets (NPA). Thousands of crores worth of loans have gone sour due to non-payment by borrowers and the amount of NPAs is likely to increase further. Even though performance in the 2021 beat expectations, it may be attributed to government policies surrounding loan moratoriums, write-offs and Supreme Court rulings. [13]

Funding & Liquidity

- The weighted-average call money rate, the interest rate on short-term finance repayable on demand, increased from 3.24% as of June 25, 2020 to 3.42% as of December 24, 2021. The call money rates were generally lower than the repo rate during Q3 and Q4 in 2021, indicating a stable banking system. Savings Deposit rates generally remained stable in Q3 and Q4 2021.[14]
- The Scheduled commercial banks (SCBs) continued to increase their capital through a combination of internal earnings and capital raising efforts, such as the issuance of Tier I and II bonds. This led to an increase in the capital to risk-weighted assets ratio (CRAR), reaching a new high of 16.6 percent in Sep 2021. The system-level Tier-I leverage ratio was 7.5 percent in Sep 2021.[15]

Asset Quality

- The gross nonperforming asset ratio of commercial banks may rise to 8.7% by September 2022 as per the Reserve Bank of India's stress tests. These may be heightened to 9.5% under a severe stress scenario. The capital to risk-weighted asset ratio (CRAR) for commercial banks improved to 16.6% in September 2021 from 15.8% in September 2020, while the provision coverage ratio (PCR) improved from 67.6% to 68.1% from March 2021 to September 2021. [16]

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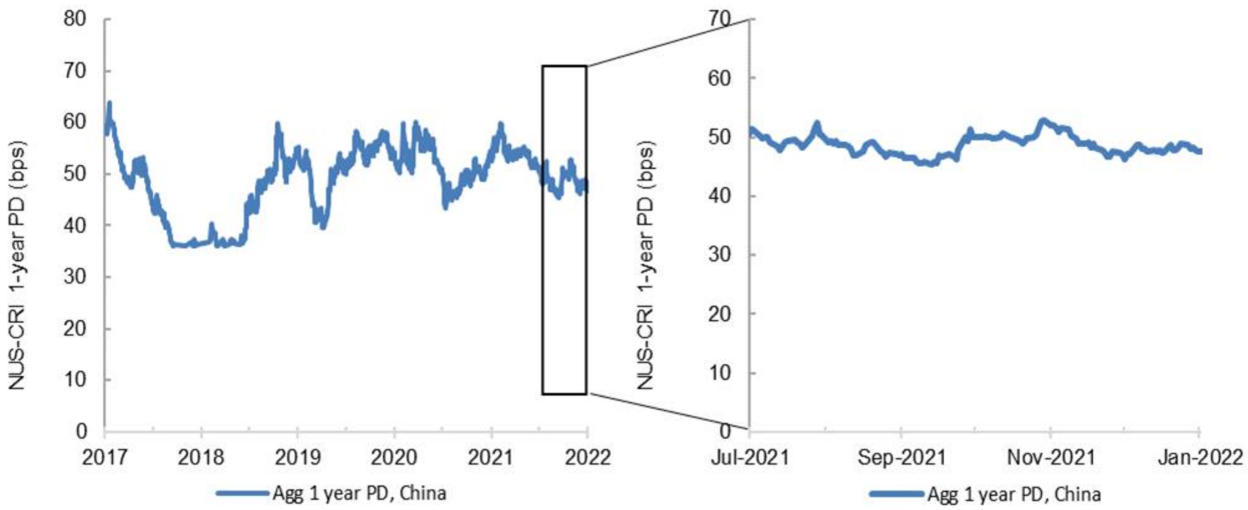
Chinese Companies

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) demonstrates the stable credit profile for China-domiciled companies in the second half of 2021, fluctuating around 50bps. Although the economic recovery in China was slow in H2 2021 amidst property downturn, supply chain issues, and subsequent COVID-19 outbreaks, liquidity provided by the PBOC potentially mitigated some downside risk to the country's aggregate credit health. The Chinese economy expanded by a seasonally adjusted 1.6% QoQ in Q4 2021, after a revised 0.7% QoQ growth in Q3 2021.[1]



Economy

- The Chinese economy expanded 4.0% YoY in Q4 2021, dropping from 4.9% in Q3 but still exceeding the market expected 3.6%. The property downturn, supply chain issues, and outbreaks of the new variant of COVID-19 in some regions slowed down the country's economic recovery. However, for the whole year 2021, China has achieved economic growth of 8.1%, exceeding the economic growth target of 6% set by the government. [2]
- The annual inflation rate in China was 1.5% YoY in December 2021, falling from the 10-month high of 2.3% in November. Among them, the prices of food prices experience a sharp decline of 1.2 %, and non-food prices increased by 2.1%. However, both the prices of consumer goods and services rose by 1.5%. In December, consumer prices fell by 0.3% MoM. The CPI grew 0.9% in 2021, much lower than the 2.5% in 2020, However, China's producer prices increased by 10.3% YoY, slightly lower than the highest increase of 13.5% in October. On a MoM basis, China's producer prices decreased by 1.2% in December, the first month of decrease in factory gate prices in 2021. [3] [4]
- The unemployment rate in China reached 5.1% in December 2021, up from 4.9% in September and October 2021, but 0.5% lower than the same period in 2020. The targeted urban surveyed unemployment rate for 2021, which is 5.5%, has been over-fulfilled on the back of economic development and the country's pro-employment policy. [5]
- The Caixin China General Manufacturing PMI increased from 49.9 in November to 50.9 in December, signalling an improvement in the health of the sector. Similarly, Caixin China Services PMI also see improvement in December, standing at 53.1 at the end of 2021. The overall solid output rises in 2021 benefit from improved market conditions, new product releases, and higher sales.[6]
- China's investment in fixed assets (excluding rural households) rose by 0.22% MoM in December. For the whole year 2021, the country's fixed-asset investment was CNY 54.45tn, increasing 4.9% compared to the previous year. Among them, investment in manufacturing increased by 13.5% YoY to CNY 14.8tn. [7]
- China's trade surplus increased to USD 94.46bn in December 2021, up from USD 71.75bn in November. In December 2021, exports rose by 20.9% YoY amid continued global demand and imports soared 19.5% amid strong consumer spending following an acceleration in vaccinations. For the whole year 2021, China's trade surplus reached a record high of USD 676.4bn, with exports and imports increasing by 29.9% and 30.1% respectively. China's trade surplus with the US grew 25% from 2020 to USD 396.58bn at the end of 2021. [8]

Monetary Policy

- The People's Bank of China (PBOC) pledges prudent monetary policies, refrains from engaging in flood-style irrigation, and contains default risk among property developers. PBOC aims to keep a flexible, targeted, and reasonably moderate monetary policy. Meanwhile, to deal with the record-high production prices, PBOC will utilize various policy tools, maintaining liquidity at an ample level and reducing market fluctuations. [9]
- Cash Reserve Ratio in China decreased from 12.5% in Q2 2021 to 12% in Q3 2021, reaching 11.5% in December.[10]
- China Money Supply M0, the most liquid measure of the money supply including coins and notes in circulation and other assets that are easily convertible into cash, was CNY 9.1tn in December 2021, which increased slightly when compared with CNY 8.4tn in June 2020. Money Supply M1 in China reached a new high of CNY 64.7tn in December 2021, up from CNY 63.8tn in June 2021. Broad M2 money supply in China, measuring the money supply that covers cash in circulation and all deposits, expanded to CNY 238.29tn in December 2021, slightly higher than CNY 231.78tn in December 2021.[11] [12] [13]
- The 10-year government bond yield declined to 2.78% at the end of 2021, from 3.08% at the end of June 2021. The 1-year government bond yield also decreased, from 2.32% at the end of December 2020 to 2.19% at the end of December 2021. [14] [15]
- The foreign exchange reserves of China increased to USD 3.25tn in December of 2021 from USD 3.21tn in June. Meanwhile, the value of gold reserves increased to USD 113.1bn in December from USD 110.45bn in June.[16]

Fiscal Policy

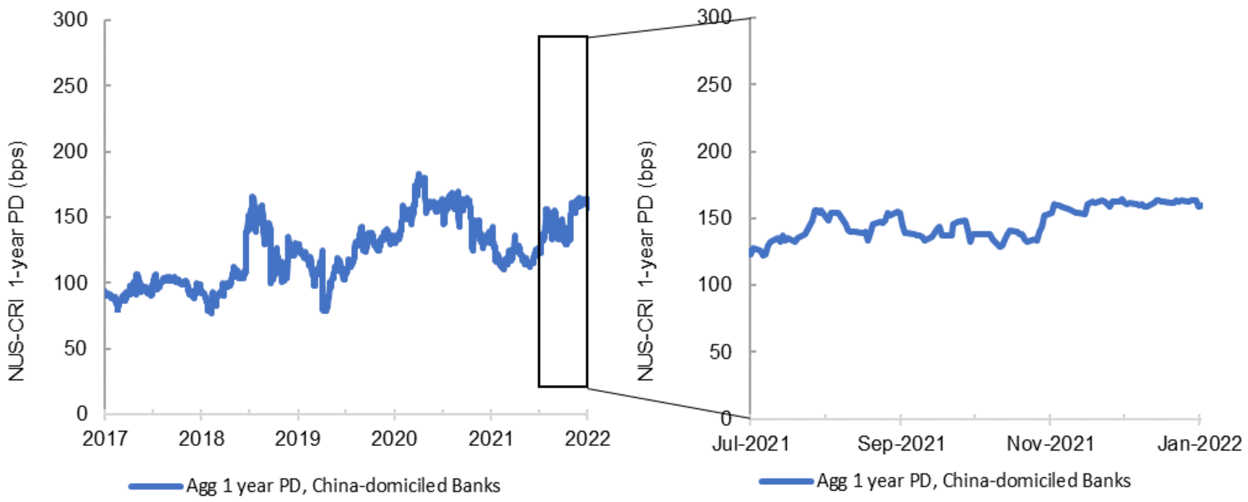
- China's fiscal revenues increased by CNY 8.54tn in H2 2021, hitting a 10.7% YoY growth rate for the whole year of 2021. The high growth is due to the recovery of economic growth and higher producer prices, bringing significant revenue to upstream enterprises and driving the growth of fiscal revenue. Fiscal expenditure rose by 0.3% in 2021 to CNY 24.63tn, compared to last year.[17]

Sovereign Credit Ratings

- S&P and Fitch both give their A+ long-term rating for China, with a stable outlook. Moody's also maintained its A1 rating with a stable outlook on China. [18]

Chinese Banks

Amidst the slow economic recovery in Q2 2021, China domiciled banks witness their credit risk rise gradually. The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) for Chinese banks showed an upward trend in the second half of 2021 on the back of deterioration in the quality of real estate loans, which amount to close to 27% of the industry's total lending operations.



Profitability

- In 2021, the net profit of Chinese domestic banks attributed to their parent company's shareholders amounted to RMB 1,568.5 billion, a YoY increase of 14.25% overall. All domestic banks experienced double-digit growth and sustained improvement in profitability, with state-owned banks exhibiting an average growth rate of over 10% and joint-stock banks showing a growth rate of more than 26%. [19] [20]

Funding & Liquidity

- Chinese banks extended CNY1.13tn in new yuan loans in December 2021, lower than CNY 1.27tn in November 2021, although lending for the full year 2021 set a record. [21]
- The People's Bank of China (PBOC) has rolled over CNY 500bn in the one-year medium-term lending facility (MLF) in December 2021 to boost liquidity, with the interest rate unchanged at 2.95%, helping to offset some of the CYN 950bn worth of MLF loans due to mature in December. It also cut the reserve requirement ratio (RRR) for major commercial banks by 50 bps, effective from Dec 15, freeing up CNY 1.2tn worth of long-term liquidity into the interbank system to bolster slowing economic growth.[22]

Asset Quality

- The NPL ratio of most Chinese banks decreased slightly in the second half of 2021. For commercial banks, the average NPL ratio was at 1.73% with a 0.02 percentage points decline QoQ, and the NPL balance was CNY 2.847tn with an increase of 13.5bn QoQ at the end of 2021. The six state-owned banks also saw improvements in their asset quality in the second half of 2021. The NPL ratio of property loans reached 5.5% by the end of 2021 from 2.5% last quarter.[23] [24]

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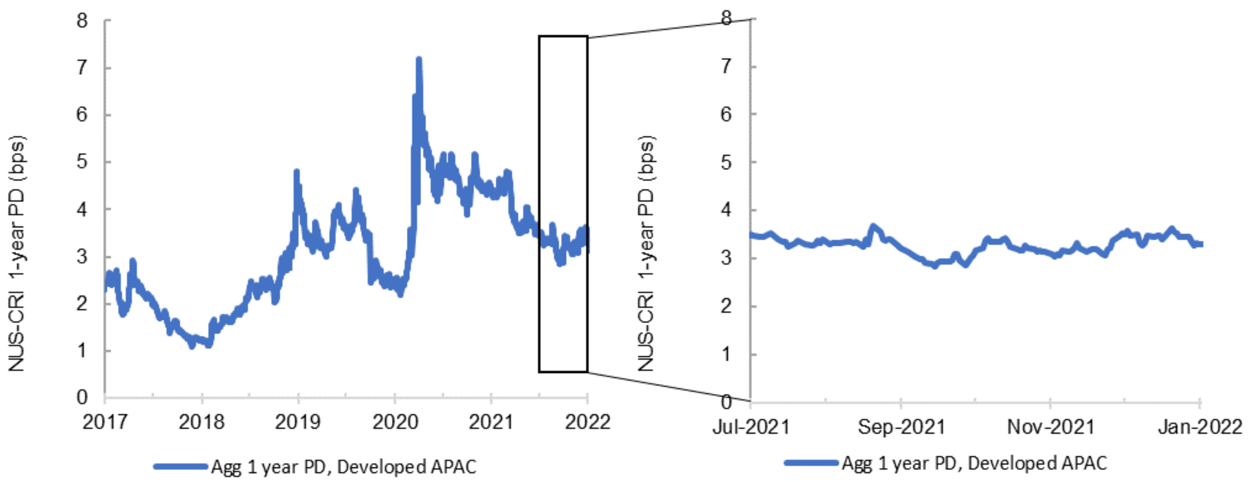
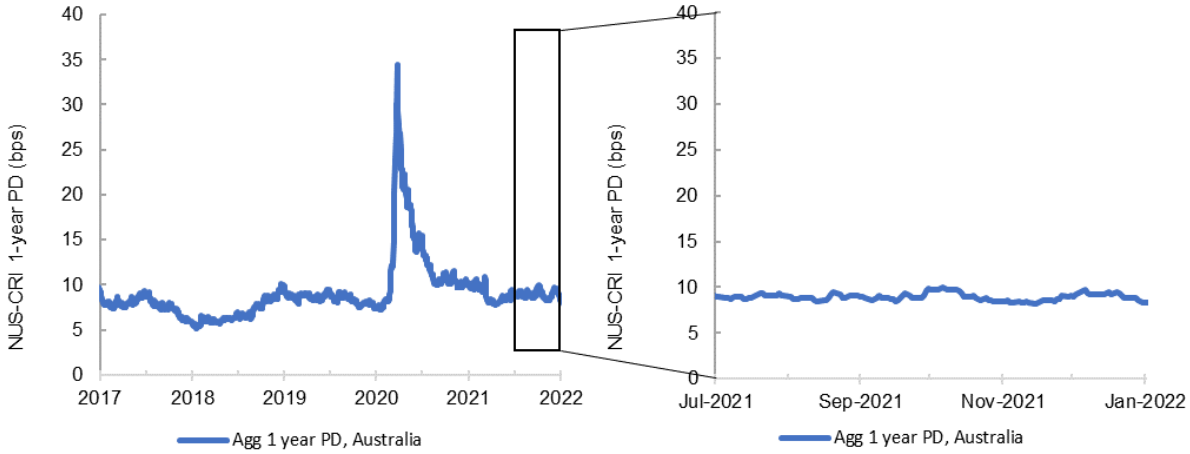
Asia-Pacific - Developed economies

The NUS-CRI Aggregate 1-year PD for listed companies in the Developed Asia Pacific region remained relatively stable at around 4.5bps in the latter half of 2021. Since Feb 2021, APAC nations have started rolling out vaccinations in a bid to reopen the economy, with Singapore, Hong Kong, and Japan among the nations with the fastest vaccination rates. Because of the increased confidence brought about by the successful vaccine rollout, APAC developed economies has started paring down restrictions and gradually easing border controls. All developed nations in the APAC region ended 2021 with positive GDP growth on a YoY basis, with Singapore leading the group at 7.2% YoY growth, from -5.4% contraction in 2020, followed by Taiwan at 4.9%, Hong Kong at 4.8%, and Australia and South Korea at 4.2%. This expansion was driven by strong exports, accommodative financial policies, and increased levels of consumer spending. By the end of 2021, the PD levels were slightly raised due to reinstatement of mobility restrictions caused by the highly transmissible COVID-19 Delta and Omicron variants, but the economic impact of the extended restrictions on corporate credit health was possibly countered by the relatively high vaccinated population.



Australian Companies

The NUS-CRI Aggregate 1-year PD for Australian companies decreased marginally, settling at 7.8bps by end of 2021. The Reserve Bank of Australia (RBA) maintained its accommodative monetary policies to support economic recovery and push for higher wage growth, including a record-low cash rate and large bond purchase programs. Australia's trade surplus surged sharply compared to 2020, driven by increase in global demand for commodities.



Economy

- The Australian economy contracted by 1.9% in Q3 2021 and rebounded to net positive 3.4% in Q4 2021. These figures are collectively weaker than the previous growth in Q1 and Q2 2021, where the economy grew by 1.9% and 0.8% respectively, but a slight improvement on a year-on-year basis. Overall, the economy beat market expectations of a 3.0% growth in Q4 2021.[1]
- Public investment increased, with government spending increasing to AUD 114.96bn in Q4 2021 from AUD 114.78bn in Q3 2021. However, private investment decreased, with gross fixed formation declining by 1.5% QoQ in Q4 2021. Household consumption rose by 6.3% in the fourth quarter of 2021. [2 3 4]
- The Reserve Bank of Australia (RBA) decided to keep the cash rate unchanged at 0.10%, amid highly accommodative financial conditions and strong recovery in the labour market. The RBA will continue to purchase government securities at the rate of USD 4bn a week until at least mid-Feb 2022, to provide support to the economy as concerns about the Omicron variant persists. Australia's economic recovery is driven by supportive fiscal and monetary policies. Inflation has increased but, in underlying terms, is still low at 2.1%. The RBA forecasts the underlying inflation to reach 2.5% by 2023. The RBA will not increase the cash rate until the labour market is tight enough to generate wage growth that is materially higher than the current level and when inflation is sustainably within the target band of 2 to 3%.[5]
- The unemployment rate declined from the 7.4% peak in Jul 2021 to 4.2% in Dec 2021. The labour participation rate recovered to 66.1% after the dip in September 2021.[6]
- As reported by The Australian Industry Group, The Australian Performance of Manufacturing Index (PMI) fell by 6.4 points to 48.4 over Dec 2021 and Jan 2022. This was the result of further disruptions to supply chains and limited staff availability constraining business outputs. The Australian Performance of Services Index (PSI) rose by 6.6 points to 56.2 in Dec, indicating improvement in economic conditions for services sector. Even with the rise in employment, businesses were met with instances of staff unavailability because of the impact of the Omicron COVID-19 wave. The Australian Performance of Construction Index (PCI) contracted to 45.90 points in Dec 2021 and Jan 2022, indicating a reversal of November's recovery, with the largest drop in apartment building segment. [7 8 9]
- Key export prices rose 3.5% in Q4 2021 and are up 38.3% through the year. Coal, coke and briquettes are the main contributors of the rise in exports, which was driven by surging demand for thermal and coking coals. Import prices rose 5.8% in Q4 2021 and are up 13.8% through the year. The main contributor to the rise in the quarter was strong global demand for petroleum, petroleum products and related materials which outpace global supply. Australia's trade surplus dropped to AUD 8.82bn in Dec 2021 from AUD 13.31bn in Jul 2021, as imports rose more than exports. For the whole year, the nation's trade surplus rose sharply to AUD 122.04bn compared to AUD 73.59bn in 2020.[10 11]

Monetary Policy

- In a statement released on 7 Dec 2021, the RBA committed to maintaining the cash rate target yield at 0.10% and the interest rate on Exchange Settlement balances at 0%. It had also decided to continue the purchase of government securities at the rate of USD 4bn a week until at least mid Feb 2022. [12]
- The RBA commits to maintain its highly supportive monetary policy stance until inflation rates are sustainably within the 2-3% target range. This condition would require the labour market wage growth to increase at materially higher pace. However, the RBA acknowledges that such condition would take some time before being reflected in the real economy.[13]

Funding & Liquidity

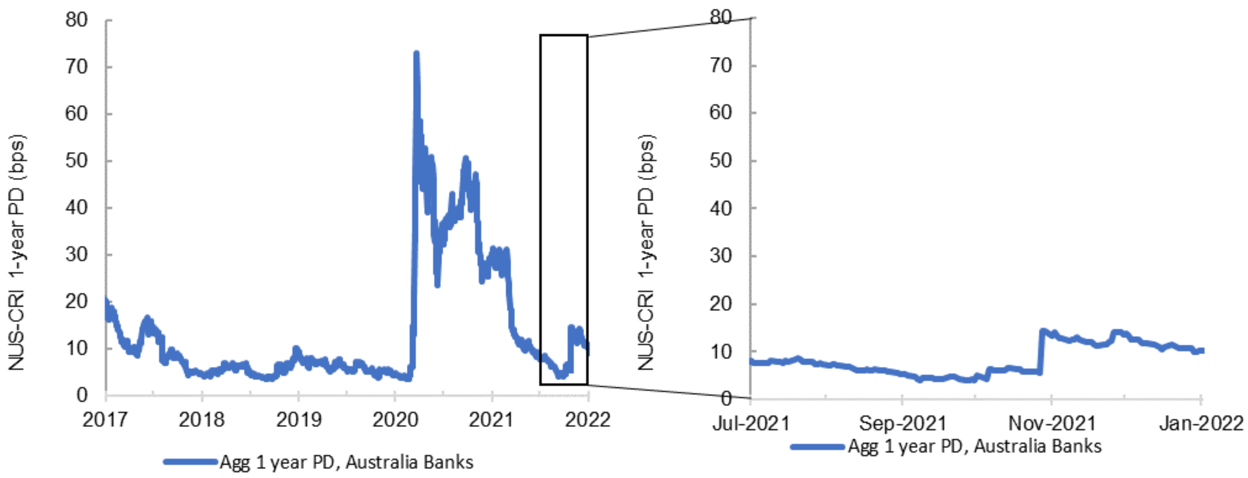
- Yields on 10-year Australian government bonds started the second half of the year at 1.25% in Jul 2021, then dropped to 1.12% in Aug 2021 before steadily increasing to a high of 1.81% in Nov 2021 before settling at 1.61% by the end of the year.[14]
- The variable lending rate to small businesses stayed constant at 4.75% throughout Sep 2021 to Dec 2021, after decreasing to 5.03% in the first half of the year. The lending rates for owner-occupied housing loans also remained unchanged at 4.52% in Q3 and Q4.[15]
- During the second half of 2021, the average lending to the Government fell by AUD 25.5bn to AUD 313.8bn in Dec 2021. Both loans to individuals and commercial lending increased by AUD 62.1bn and AUD 34.9bn respectively, in the second half of 2021, while commercial lending to financial intermediaries saw a decrease of AUD 7.0bn.[16]

Sovereign Credit Ratings

- Standard and Poor's and Fitch Ratings maintained their AAA rating on Australia, while Moody's maintained their Aaa rating as well. Fitch Ratings maintained their negative outlook on Australia, while Moody's and S&P maintained its stable outlook on the country.[17]

Australian Banks

The NUS-CRI Aggregate 1-year PD slightly increased for Australian banks in the latter half of 2021. The PD for Australian banks increased from 6.84 bps to 11.45 bps throughout Q3 and Q4 2021 and remains elevated compared to pre-pandemic levels. Nevertheless, the Major Banks maintained good capital positions and liquidity measures throughout the year, and substantially improved compared to 2020. Australian banks have also started writing back provisions charged in 2020 suggesting an improvement in operational performance.



Profitability

- For all of 2021, aggregate cash profit after tax increased significantly YoY by 54.7% to AUD 26.8bn. The significant rise in profit could be attributed to economic recovery allowing banks to lower the amount of anticipated loan losses, prompting the write-back of a significant portion of provisions raised in response to the pandemic. Average ROE of major Australian banks for 2021 showed a massive improvement of 323bps to 9.9% compared to the previous period.[18]

Funding & Liquidity

- Australian major banks continued to maintain a strong Common Equity Tier 1 ratio, which rose 131 bps to 12.7% driven by increase in earnings, and lower risk weighted assets. The Majors have continued to maintain their strong capital positions, with capital levels significantly above APRA's requirements. [19]
- The Liquidity Coverage Ratio (LCR) of Australian banks remained well above its 100% minimum, though it dropped 16 percentage points to 131% in 2021. This is mainly driven by the phased system-wide reduction in APRA's Committed Liquidity Facility (CLF) prompting authorized deposit-taking institutions to lessen their reliance in the facility. [20] APRA's move was made in response to the stable level of High Quality Liquid Assets held by the Majors which is deemed sufficient to satisfy LCR requirements. Meanwhile, the average leverage ratio for major banks grew by 11bps to 5.8%, higher than the currently agreed minimum requirement of 3.5%.[21]

Asset Quality

- Asset quality recovered as the Australian economy began to re-open, which saw an average decline of 6bps in the ratio of impaired loans to GLA compared to the previous period. Major banks saw a significant decrease in collective and specific impairment charges in 2021 by AUD 10.4bn and 1.6bn, respectively. The decrease highlights the success of government's support in moderating the impact of the pandemic, combined with the impact of the low interest rate environment. [22]

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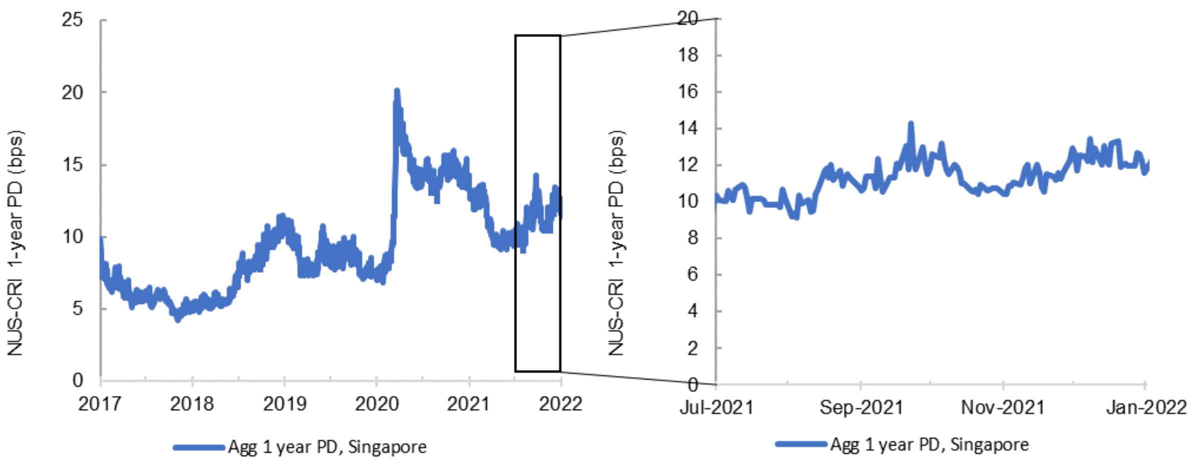
Singapore Companies

The NUS-CRI Aggregate 1-year PD for Singapore companies remained relatively stable at around 10bps at the start of Jul 2021 to 12bps at the end of 2021. Singapore's economy continued its expansion of 7.5% YoY in Q3 and 6.1% in Q4 2021, albeit slower compared to Q1 and Q2. The improvement in GDP growth was mainly a result of a rebounding local economic environment as the Covid-19 situation subsides. The sectors that saw the largest growth were Construction, and Transportation and Storage industries. The Singapore government expects the overall economy to grow by 2% to 3% in 2022, up from the previous forecast of between 1% to 2%.



Economy

- On a YoY basis, the Singapore economy expanded by 7.5% and 6.1% in Q3 and Q4 2021 respectively. This relatively strong year-on-year economic growth was mainly due across-the-board expansion of all sectors, except the accommodation, and food & beverage services. However, on a seasonally adjusted basis, the economy growth came in at 2.3% from Oct 2021 to Dec 2021, higher than the 1.5% growth in the third quarter.[1]
- The Construction sector was the best performer in terms of GDP growth rates for 2021, growing by 20.1% overall, reversing the 38.4% contraction in 2020. This is despite the slower YoY growth of 2.9% in Q4 after the strong 69.9% surge in Q3. The growth is mainly driven by the expansion of both public residential and infrastructure projects, as well as private commercial, industrial and residential projects. The Transportation & Storage sector also faced a similar turnaround, growing by 5.0% overall in 2021, with 7.5% YoY growth in Q4 alone, after contracting -20.1% in 2020. Moreover, the Finance and Insurance sector further expanded by 7.4%, faster than the 6.9% growth in 2020, after growing by 5.6% YoY in Q4 2021.[2]
- The number of retrenchments in Q4 2021 decreased to 1,300 retrenched employees compared to 1,900 in the quarter prior. For the full year 2021, total retrenchments moderated significantly to 7,820 from 26,110 in 2020, with the fall registered across the services, manufacturing, and construction sectors. Total employment increased by 54,100 in Q4 2021, more than offsetting the declines in the previous quarters. The main driver of the rebound in employment is the services sector. The seasonally-adjusted unemployment rate further eased to 2.4% in Q4 2021 from 2.6% in the previous quarter. For the full year 2021, annual average unemployment rate declined at an overall level (from 3.0% in 2020 to 2.6%).[3]
- The CPI-All Items further increased on a year-on-year basis, rising by 3.7% in Q4 from 2.5% in the quarter prior. For the whole 2021, CPI-All Items increased by 2.3%, reversing the previous year's 0.2% decline. One of the major contributing factors to rising inflation for 2021 is the 8.8% increase in transport costs, driven by the increase in car and petrol, as well as airfare prices.[4]

Monetary

- In its latest announcement published on 25 Jan 2022, the Monetary Authority of Singapore (MAS) further adjusted its monetary stance upwards after shifting the S$NEER policy band to a gradual appreciation path in its Oct 2021 statement.[5]
- MAS slightly raised the rate of appreciation of the policy band, while the width and the level at which it is centred will remain unchanged. The move builds on the pre-emptive shift to an appreciating

stance in Oct 2021. Core inflation is predicted to be moderate in the second half of 2022 from the elevated levels in the first half as supply constraints ease, but risks remain skewed upside. As such, the MAS is revising its core inflation forecast for 2022 to 2.0%-3.0% from the 1.0%-2.0% expected in October. Nevertheless, the 3-month SIBOR remain unchanged at 0.4%, while the 3-month SORA edged up slightly to 0.2% in January.[6]

- The MAS core inflation increased over October to December 2021 and is expected to pick up further in the near term, reaching 3% by the middle of 2022. The factors driving the global and regional inflation higher are the ongoing external supply constraints, elevating energy and food prices. The external pressures are expected to ease in the second half of 2022 although there is risk of further supply shocks. The CPI-All Items inflation is forecasted to be at 2.5% to 3.5% in 2022, an increase from the earlier forecast range of 1.5% to 2.5%.[7]

Funding & Liquidity

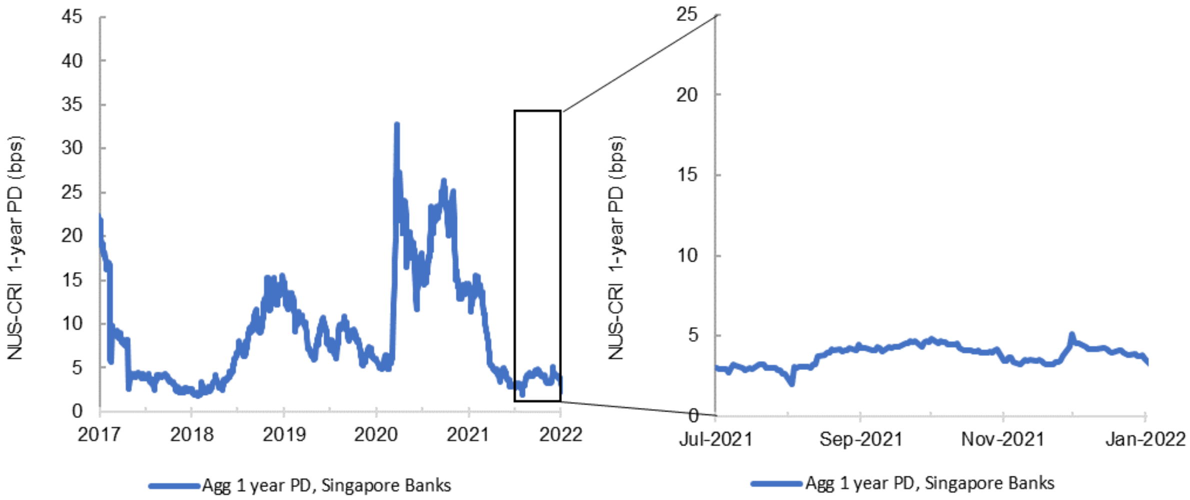
- Yields on 10-year Singapore government bonds rose to 1.67% at the end of Dec 2021 from 1.30% in Jul 2021.[8]
- Total lending to non-bank customers grew slightly from SGD 788.5bn in Q3 2021 to SGD 810.7bn in Q4 2021. Total loans to businesses rose from SGD 487.2bn in Jul 2021 to SGD 499.5bn in Dec 2021 while consumer loans increased from SGD 301.3bn in Jul 2021 to SGD 311.2bn in Dec 2021.[9]
- The prime lending rate remained constant at 5.25% since Q2 2021.[10]

Sovereign Credit Ratings

- Standard & Poor's and Fitch Ratings maintained their AAA ratings on Singapore, while Moody's maintained their Aaa rating. All three rating agencies maintained stable outlooks on the government's credit.[11]

Singapore Banks

The NUS-CRI Aggregate 1-year PD across Singapore banks (DBS, OCBC and UOB) remained relatively flat below 5bps in the second half of 2021 The Monetary Authority of Singapore (MAS) reported that the financial services sector grew by 7.4% for the whole of 2021. As the global economy begins to recover and business sentiment turns positive, the three main banks saw a significant increase in their profit margins compared to a year earlier. Singaporean banks continue to be well capitalized, with the MAS capping the dividends of local banks to 60% since Jul 2020 to ensure that banks have sufficient capital to prioritize lending and provide support to individuals and businesses.



Profitability

- For 2021, the three listed banks in Singapore, UOB, OCBC and DBS recorded SGD 4.09bn, SGD 4.86bn and SGD 6.80bn in net profits respectively, up 40%, 35%, 44% respectively from 2020. This strong performance is mainly driven by robust business growth and significantly lower credit allowances. The ROE for UOB, OCBC and DBS were 10.2%, 9.6% and 12.5% respectively.[12] [13] [14]

Funding & Liquidity

- Total deposits in Singapore banks increased by SGD 16.0bn in 2021. Local currency deposits increased by SGD 7.7bn while foreign currency deposits increased by SGD 8.3bn, reflecting a 33.3% increase since Jun 2021.[15]

Capital Levels & Regulations

- All three Singapore banks kept their Common Equity Tier 1 Capital (CET1) and Total Capital Adequacy Ratios (CAR) to be well above the recommended Basel III guidelines and well above the regulatory minimum specified by MAS, making them some of the more well-capitalized banks in the world. For 2021, OCBC has the highest CET1 ratio at 15.5%, while UOB and DBS came in at 13.5% and 14.4% respectively. With this, the banks have ample liquidity support, and they look well-positioned to navigate the uncertainties ahead. [16] [17] [18]

Asset Quality

- Average NPL ratio of all three of Singapore's largest banks is at 1.5% in 2021. The allowance coverage for OCBC, UOB, and DBS was 90%, 96%, and 116% respectively by the end 2021. OCBC shifted its Regulatory Loss Allowance Reserve to retained earnings, causing its coverage ratio to fall to 90% in 2021. Likewise, OCBC's total allowances were substantially lower compared to 2020 where the bank set aside additional cushion against uncertain operating outlook. [19] [20] [21]

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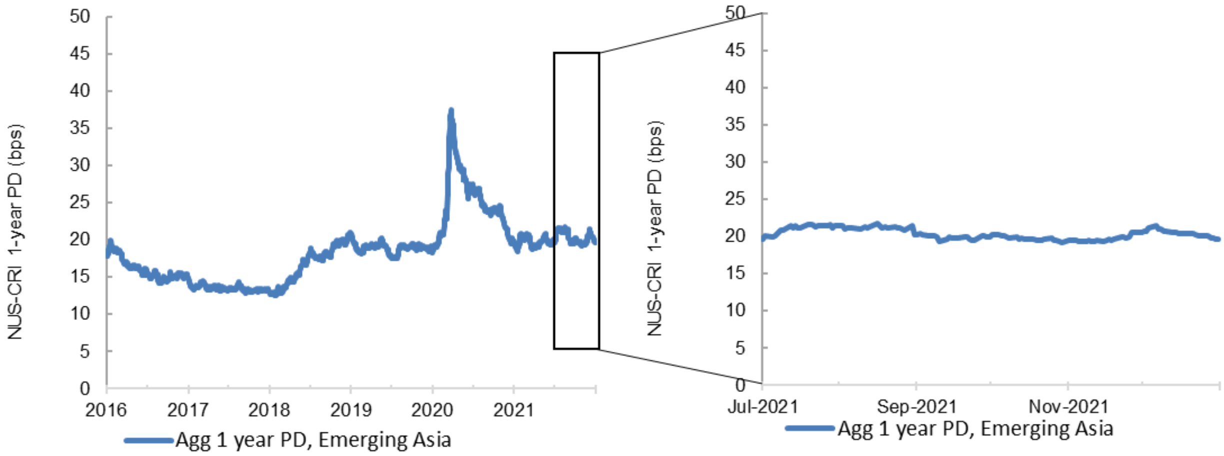
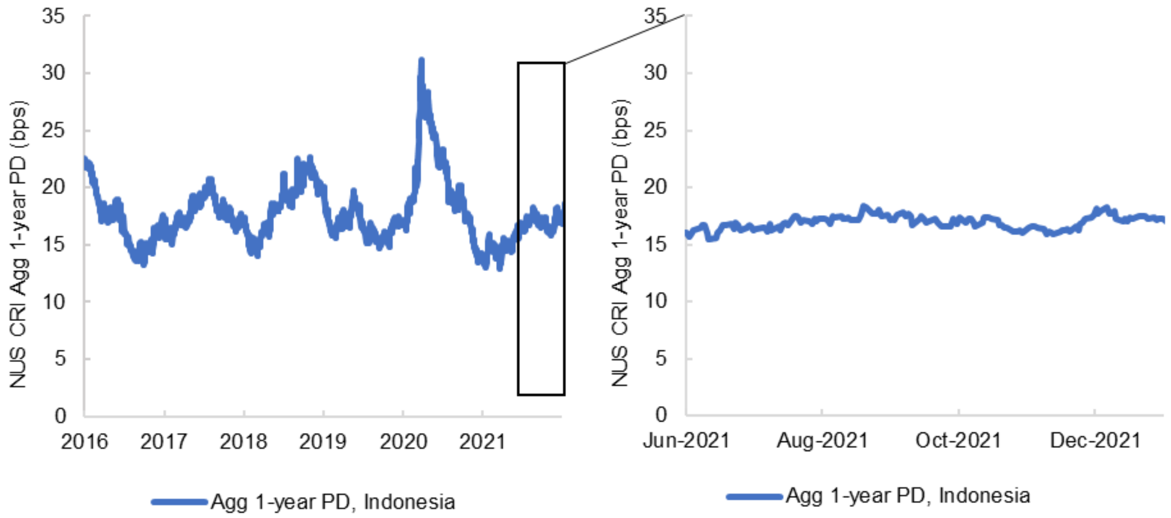
Asia-Pacific - Emerging economies

The NUS-CRI Aggregate 1-year PD for listed corporations in emerging Asia, excluding India and China, ended H1 2021 at 21.4bps. By the end of December 2021, the Agg PD remains at around 20bps. On the back of a further easing of COVID-19 curbs and rising vaccinations, Indonesia's GDP growth rate reached 5.02% YoY in Q4 2021, accelerating from a 3.51% growth in Q3 and surpassing the market consensus of a 4.9% rise. Similarly, Malaysia's economic recovery has improved, with the GDP growing by 3.6% in Q4 2021. The recovery momentum of 2.6% monthly GDP growth rate in December after an encouraging growth of 5.4% in November and 2.7% in October 2021 also reflects strong economic recovery momentum for Malaysia. The GDP growth rate of the Philippines also beats the target with the economy up 7.7% in Q4 2021 and 5.6% in the whole of 2021 as loosened pandemic-related restrictions encouraged business activity. Thailand's Economy in Q4 2021 expanded by 1.9 % YoY, recovering from a contraction of 0.2% in Q3 2021. However, for the whole of 2021, Thailand's economy expanded slowly, with a 1.6% YoY growth rate which was one of the slowest in Southeast Asia. Vietnam’s GDP rebounds sharply in Q4 2021, with a 5.22% YoY in Q4 2021, reversing the 6.02% contraction in July-September, on the back of the industry and construction segment growth.



Indonesian Companies

The NUS-CRI Aggregate 1-year PD for Indonesian companies increased marginally from 16bps at the end of Jun 2021 to 17.3bps at the end of H2 2021. Indonesia's economy expanded 5.02% in Q4 2021 up from 3.51% in Q3 2021. As of Dec 2021, Indonesia recorded a 1.87% inflation rate and USD 1.42bn of current account surplus.



Economy

- The Indonesian economic growth rate changed by 3.51% in Q3 2021 before further growing by 5.02% in Q4 2021. Benefitting from easing COVID-19 restrictions and higher vaccination rate, the country was able to grow faster than market expectations. Moving forward, the economy is expected to experience continued growth of 5% in the next quarter.[1]
- The Consumer Price Index (CPI) of Indonesia stood at 1.87% (YoY) as of end Dec 2021. Respectively, the inflation of volatile food reached 3.20% (YoY), core inflation at 1.56% (YoY), and inflation of administered prices at 1.79% (YoY). Going forward, the inflation is to be maintained at around 3.00% throughout 2022. It is thus essential for the government and Central Bank to coordinate to keep inflation in check to promote greater economic growth. [2]
- Indonesia's Balance of Payments had a minor USD 0.8bn deficit in Q4 2021 owing to a current account surplus, and a deficit in their capital and financial accounts.[3]
- The IHS Markit Indonesia Manufacturing PMI (PMI) reflects Indonesia's improving manufacturing conditions as of end of Dec 2021. For the fourth month in a row, the index exhibited growth in manufacturing activity. In Nov 2021, the pace of expansion in the Indonesian manufacturing sector set the PMI to 53.9, down from a record high of 57.2 in October. Business conditions showed signs of a slowdown after four consecutive months of expansion. However, input cost inflation accelerated at a faster pace driven by higher cost of raw material and higher freight costs.[4]

Monetary

- The Bank Indonesia (BI) chose to keep the BI 7-Day repo rate at 3.50%, while keeping the deposit facility rates at 2.75% and the lending facility rates at 4.25%. The move is in line with low inflation forecasts and efforts to keep the Rupiah exchange rate stable while stimulating the economy. Through the following policy measures, Bank Indonesia continues to optimize the accommodating monetary and Macroprudential policy mix and expedite payment system digitisation in Indonesia to assist the national economic recovery.[5]

Funding & Liquidity

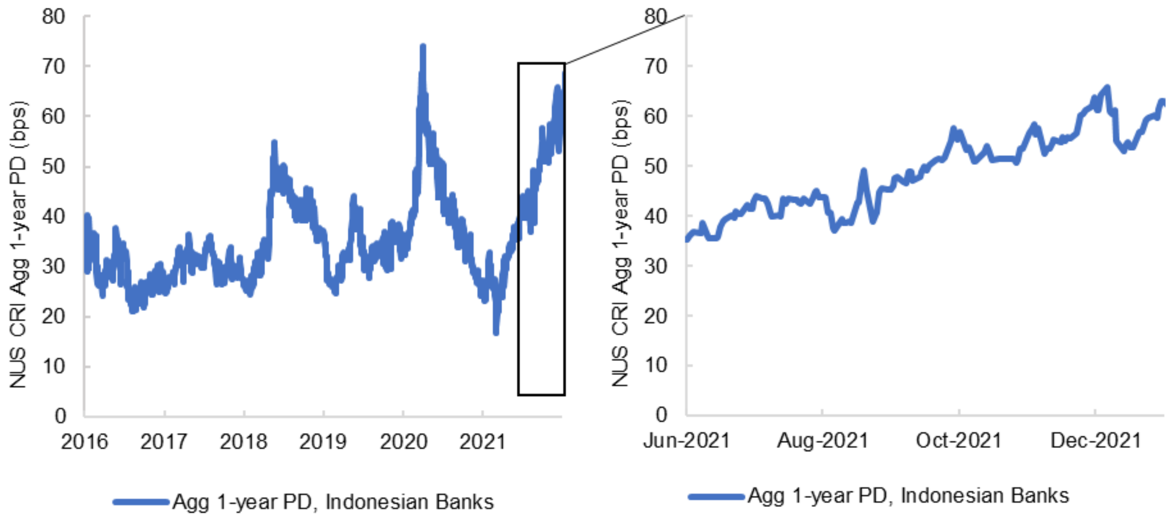
- The yield of Indonesia's 5-year bond fell from 5.429% at the end of Jun 2021 to 5.10% at the end of Dec 2021. Similarly, Indonesia's 10-year government bond yield increased from 6.63% to 7.29% during the same time period. [6] [7]
- As of the end of Dec 2021, Indonesia's official reserve assets totalled USD 144.9bn, from USD 145.9bn at the end of Nov 2021. The official reserve assets position is enough to finance 8 months of imports or 7.8 months of imports while also servicing the government's external debt. The decrease in official reserve assets in Dec 2021 was driven by government's external debt payment. Bank Indonesia believes that the official reserve assets will continue to be enough in the future, and will become an essential factor in the national economy's external resilience.[8]
- External debt was down 2% QoQ from USD 424.0bn in Q3 2021 to USD 415.1bn at the end of Q4 2021. Indonesia's external debt remains sustainable in Q4 2021, with external debt to Gross Domestic Product (GDP) ratio at 35%, down from 37.0% in the previous quarter. External debt growth slowed from 3.8% YoY in the previous quarter to 0.4% YoY in Q4 2021. Indonesia's external debt structure remained sound, due to the prevalence of long-term debt, which accounted for 88.3% of total external debt. [9]

Sovereign Credit Ratings

- S&P, Moody's, and Fitch kept their ratings on the local currency long term bonds of Indonesia at BBB, Baa2, and BBB respectively. S&P reaffirmed its rating with a negative outlook, whilst Moody's and Fitch reaffirmed their ratings with a stable outlook. [10]

Indonesian Banks

The NUS-CRI Aggregate 1-year PD for Indonesian banks increased to 63.10bps in Dec 2021 from 41.6bps in Jun 2021. Loans extended by Indonesian banks across all categories exhibited growth. Meanwhile, non-performing loans (NPL) stood at 3.2%. [11,12]



Profitability

- The three largest majority state-owned Indonesian banks, Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia reported increases in net operational income of 30%, 67%, and 11.9% in the second half of 2021.[13, 14, 15]

Funding & Liquidity

- The liquid asset to bank deposit ratio of Indonesian banks stood at 32.24% as of Dec 2021.[16]
- The Jakarta 3-month interbank rate decreased from 4.05% at the end of 2020 to 3.75% by the end of Q4 2021. Similarly, the 1-month interbank rate stayed stable at 3.55% from the end of Q3 2021 to the end of Q4 2021. [17]

Asset Quality

- According to Bank Indonesia, the financial system remained stable. Capital adequacy ratio and liquidity of Indonesian banks, as of Oct 2021, stood at 25.3% and 34.24% respectively, while non-performing loans (NPL) stood at 3.2% (gross) or 1.0% (net). Bank Indonesia recorded a credit growth of 5.38% YoY in working capital loans, 4.30% YoY in investment loans, and 4.11% YoY in consumer loans in Dec 2021. In order to stimulate economic growth, Bank Indonesia would increase policy coordination with the government and other relevant agencies, including monetary-fiscal policy coordination, export stimulation, and economic and financial inclusion.[18 19]

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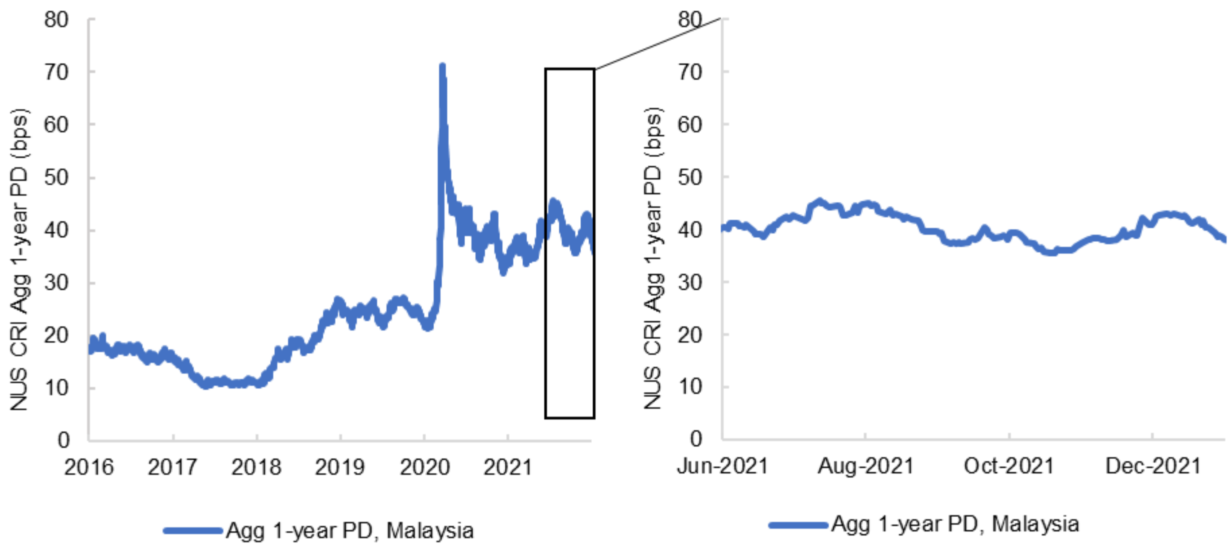
Malaysian Companies

The NUS-CRI Aggregate 1-year PD for Malaysian companies remained relatively stable around 40bps in H2 2021. The economy rebounded sharply as a result of the resumption of economic activities. However, inflation surged, and unemployment rate decreased to 4.2%.



Economy

- Malaysia's Gross Domestic Product (GDP) expanded 3.6% YoY by the end of Dec 2021, rebounding from a 4.5% contraction in the previous quarter. Household consumption increased to 3.7% from a contraction of 4.2% in Q3 2021 and fixed investment contracted at 3.3% compared to a contraction of 10.8% in Q3 2021. Furthermore, net exports boosted GDP with exports increasing 14.6% in Q4 2021.[1]
- Headline inflation marginally eased from 3.3% in Nov 2021 to 3.2% in Dec 2021. Consumer Price Index (CPI) increased to 124.5 at the end of Q4 2021 from 120.6 at the end of Q4 2020. Core consumer prices increased 1.1% in Dec 2021. Inflation rose overall, owing primarily to the base effect of low fuel prices.[2] [3]
- Unemployment rate decreased to 4.2% in Dec 2021 from 4.8% in Dec 2020, because of the economic revival post-pandemic. [4]
- The trade surplus widened to RM 76.2bn from RM 61.3bn in Q3 2021. This was a result of exports increasing at a quicker rate of 29.0% (Q3 2021: 15.8%) amid strong external demand. Meanwhile, gross imports increased by 29.6% (21.0% in Q3 2021), driven by the expansion in intermediate imports. During the quarter, the current account surplus of the balance of payments increased to RM 15.2bn or 3.6% of GDP (Q3 2021: RM11.6bn, or 3.1% of GDP).[5]

Monetary and foreign exchange landscape

- The Monetary Policy Committee (MPC) of Bank Negara Malaysia chose to keep the Overnight Policy Rate (OPR) at 1.75%. Economic activity rebounded in Q4 2021 in line with relaxation of containment measures, and is expected to continue its momentum in 2022. Average headline inflation for 2022 is likely to remain moderate as the base effect from the fuel inflation dissipates. On the other hand, underlying component inflation is likely to gradually increase as economic activity resumes amid high input costs. However, the forecast is dependent on price movements of global commodities and other supply-related disruptions. [6,7]
- The ringgit appreciated marginally against the USD at 0.3% given positive sentiments amid reopening of the domestic economy. [8]

Funding & Liquidity

- At both the institutional and system-wide levels, banking system liquidity remained sufficient to facilitate financial intermediation activity. The amount of surplus liquidity held by the central bank was higher in Q4 2021 amidst increased liquidity injection to meet precautionary demand for liquidity buffers.[9]
- Malaysia's external debt increased by RM 13.3bn to RM1,070.3bn or 69.3% of GDP at the end of the year. The increase reflects the higher holdings of government securities and deposits by non-residents, as well as trade credits and intragroup loans. Nonetheless, Malaysia's external debt remains manageable given its favourable currency and maturity profiles. Ringgit-denominated external debt accounted for 34.8% of total external debt. Of the remaining external debt denominated in foreign currency, 53.2% are held by the corporate sector and are mainly subject to BNM's prudential and hedging requirements.[10]
- Net financing increased by 4.7% annually as of end 2021, mainly due to higher outstanding loan growth of 4.4% (Q3 2021: 2.9%), whereas outstanding corporate bond growth moderated to 5.5%. (Q3 2021: 6.5%). Outstanding business loans increased to 4.8% annually as of end 2021 (Q3 2021: 2.4%), driven by higher working capital loans to bridge payment gaps and finance operations. Outstanding loans for households also grew by 4.2% (Q3 2021: 3.2%) across most loan purposes.[11]

Regulations and Policies

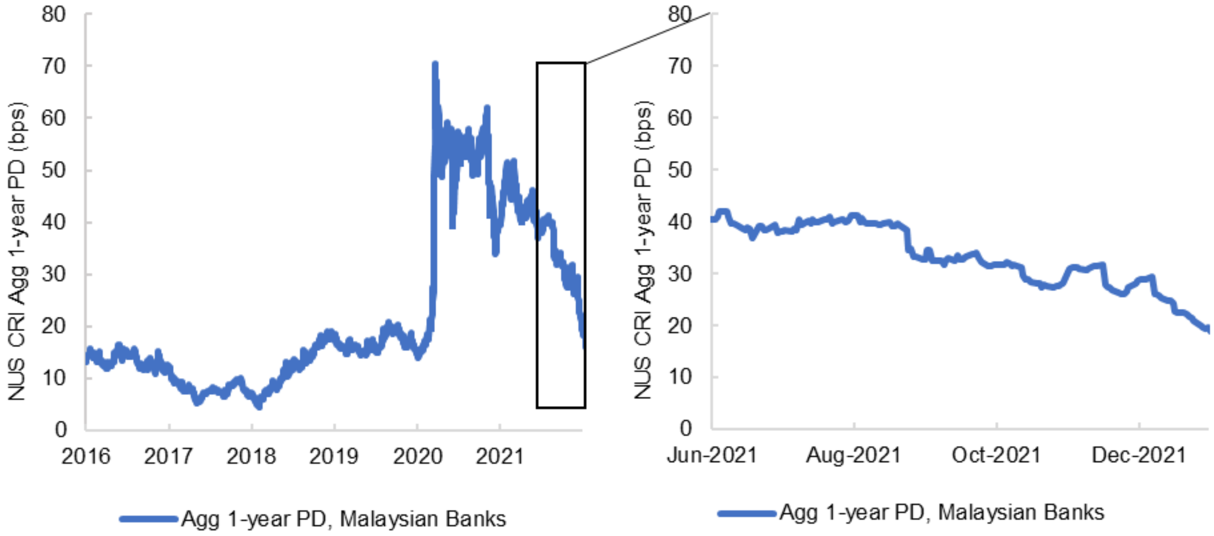
- Despite the re-imposition of Movement Control Orders and the National Recovery Plan due to the resurgence of COVID-19 cases, businesses were allowed to operate, aiding the recovery of the economy. The severity of containment measures was smaller compared to 2020 as businesses and households had adapted better. Greater adoption of technology and digitalisation likewise mitigated further losses from the lockdowns. Meanwhile, the effective rollout of the nationwide vaccination program and the phased lifting of restrictions supported a safe economic reopening towards the end of the year.[12]

Sovereign Credit Ratings

- Moody's maintained its A3 rating with a stable outlook for Malaysia. Meanwhile, S&P changed the country's outlook from stable to negative while keeping its A- credit rating. On the other hand, Fitch maintained its credit rating of BBB+, which was downgraded from A- in 2020, with stable outlook.[13]

Malaysian Banks

The NUS-CRI Aggregate 1-year PD for Malaysian banks further decreased from 36.14bps to 13.03bps from Jun 2021 to Dec 2021. Asset quality remains satisfactory amidst increasing loan growth fuelled by the gradual resumption of economic activity.



Lending

- Nominal interbank interest rates were sustained. The 3-month Interbank rate stood at 2.0% as of Dec 2021.[14]
- Banks are required to comply with the statutory reserve requirement ratio of 2.0%. However, banks are afforded flexibility to use Malaysian government securities and Malaysian government investment issue bonds to meet the requirement until Dec 2022%.[15]
- Gross impaired loans ratio remained low at 1.4% of total loans due to the regularisation of loan repayments by large businesses and individual borrowers, and the write-offs during the second half of 2021. The proportion of loans classified as Stage 2 increased to 11.2% in Dec 2021, from 9.8% in June, due to the increase in the volume of loans enrolled under the repayment assistance as well as an offshoot of the technical refinements of the expected credit loss models.[16]

Funding & Liquidity

- Malaysia's total deposits stand at USD 532bn as of Dec 2021. Bank deposits increased at a faster pace in the second half of 2021 after a dip in July, with annual growth pegged at 6.3% as of Dec 2021, compared to 3.9% in Jun 2021. The accelerated growth was driven by the reopening of the economy.[17]
- The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at an adequate rate of 1.75%. Moreover, current stance of the monetary policy is considered appropriate and accommodative as fiscal and financial policies continue to cushion impact on businesses and households, and provide support for economic activity.[18]
- In the short term, the impaired loans ratio is projected to stay relatively constant as banks continue providing repayment assistance to borrowers adversely affected by the pandemic. Banks continue to set aside additional provisions for anticipated credit losses, which presently account for 1.9% of all loans in the banking system.[19]

Capital Levels & Regulations

- Malaysian banks maintained strong capitalisation levels, with surplus capital buffers remaining stable at RM 135.4bn at the end of 2021, allowing them to withstand possible stress and maintain credit intermediation in the economy. The total capital and CET1 ratios presently 18.9% and 15.2%, which are similar to 2020 level.[20]

Asset Quality

- Net financing grew by 4.7% annually as the end of 2021 from 3.9% in 3Q 2021 driven by higher outstanding loan growth from the households and businesses as economic activity picked up. Credit risk remain manageable, supported by recovering economic conditions resulting in overall improvement in financial performance. Asset quality continues to be underpinned by sound lending standards. Nevertheless, Malaysian banks continue to build-up provisions, setting provisions-to-total loans ratio at 1.9% by end of 2021, from 1.8% in Jun 2021. Loan loss coverage ratio has also increased to 143% from 129% in Jun 2021. On-going assistance measures for borrowers affected by the pandemic also support asset quality by averting premature materialisation of defaults. Consequently, the Malaysian banks' gross impaired loans ratio remain low at 1.4% of total loans.[21]

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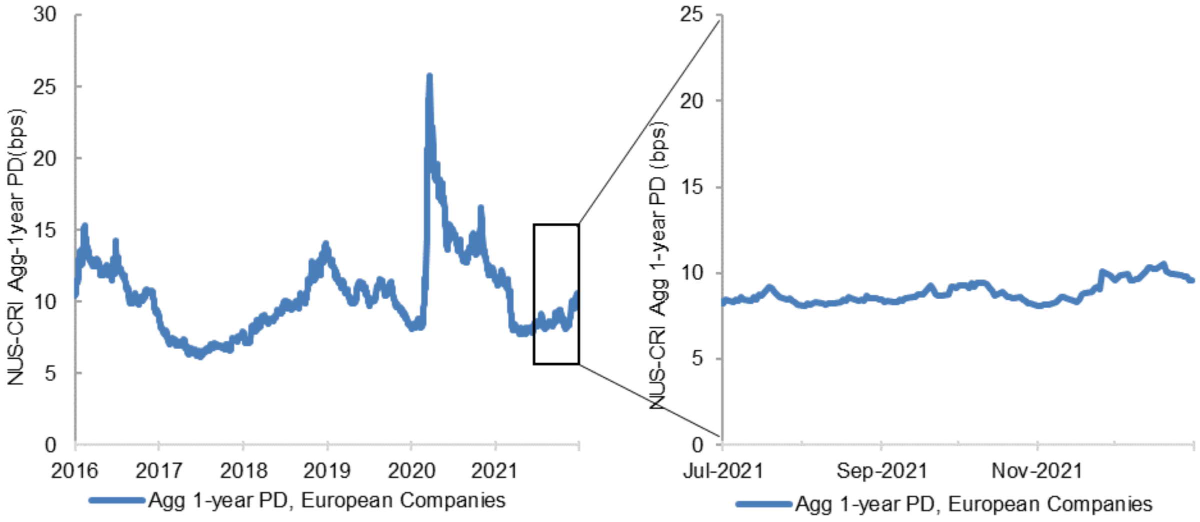
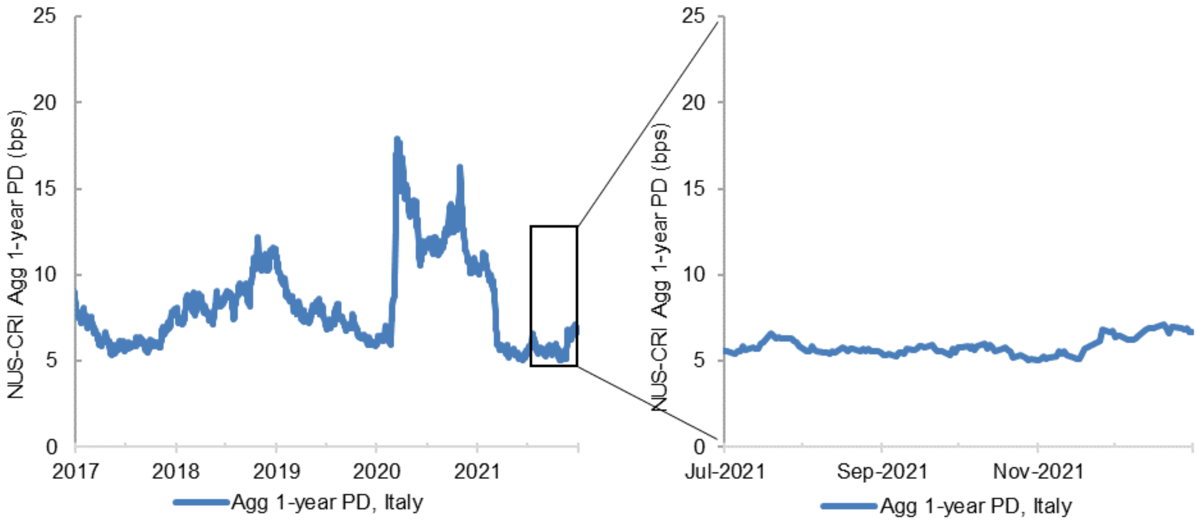
Europe

European companies saw a slight deterioration in their credit quality during the second half of 2021, as showcased by the NUS-CRI Aggregate 1-year Probability of Default (Agg PD) rising to 9.58bps at the end of December 2021 from 8.73bps at the end of Jun-2021. The GDP growth rate in European Union slower down from 2.2%(QoQ) in Q3 to 0.4% (QoQ) in Q4 2021 as Germany, the largest economy in the EU, record a contraction in Q4, with GDP falling 0.3%.



Italian Companies

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) demonstrates stable credit quality for Italy-domiciled companies, with PD remaining at about 5 to 6bps in the second half of 2021. Recovering from the pandemic, the Italian economy ended with three consecutive quarters of growth in 2021, with GDP growing 2.6% and 0.6% QoQ in Q3 and Q4 respectively.



Economy

- The GDP of Italy increased by 2.6% in Q3 2021 and slowed to 0.6% QoQ in Q4 2021. On a YoY basis, it expanded by 9.8% in Q3 2021 and expanded 6.2% in Q4 2021. Draghi's government began easing restrictions in April, enabling business operation and internal movement.[1] [2]
- Italy's unemployment rate fell to 9% in December from a downwardly revised 9.2% in November, below the market consensus of 9.1%, reaching the lowest level since May 2020.The number of employed people was stable at 22.7mn and the number of unemployed people dropped by 29 thousand, while the labor participation was at 64.9%. [3]
- The IHS Markit Italy Manufacturing PMI came at 62 in Dec 2021, slightly below 62.8 in Nov and above market forecasts of 61.5. While output and new work continued to increase at a rapid pace. The manufacturing industry continued to face intense pressure on their capacity as supply chain issues intensified. [4]
- The IHS Markit Italy Services PMI decreased to 53 in Dec from 55.9 in Nov, indicative of a slowdown in services output. The rate of increase in new jobs was the slowest since May and inflationary headwinds remained persistent. [5]
- The consumer confidence index in Dec 2021 went up marginally from 117.5 to 117.7. Confidence on economic climate also declined marginally from 139.8 to 139.6, the current one remained mostly stable as it changed from 115.2 to 115.6, the personal one from 110.0 to 110.4 and the future one from 121.0 to 120.8. The confidence index in manufacturing declined from 115.9 to 115.2. However, the confidence index in construction improved marginally from 157.4 to 159.1. The market services confidence index increased from 111.3 to 110.2. Meanwhile, the retail trade confidence index progressed upwards from 106.8 to 107.4. [6]

Funding & Liquidity

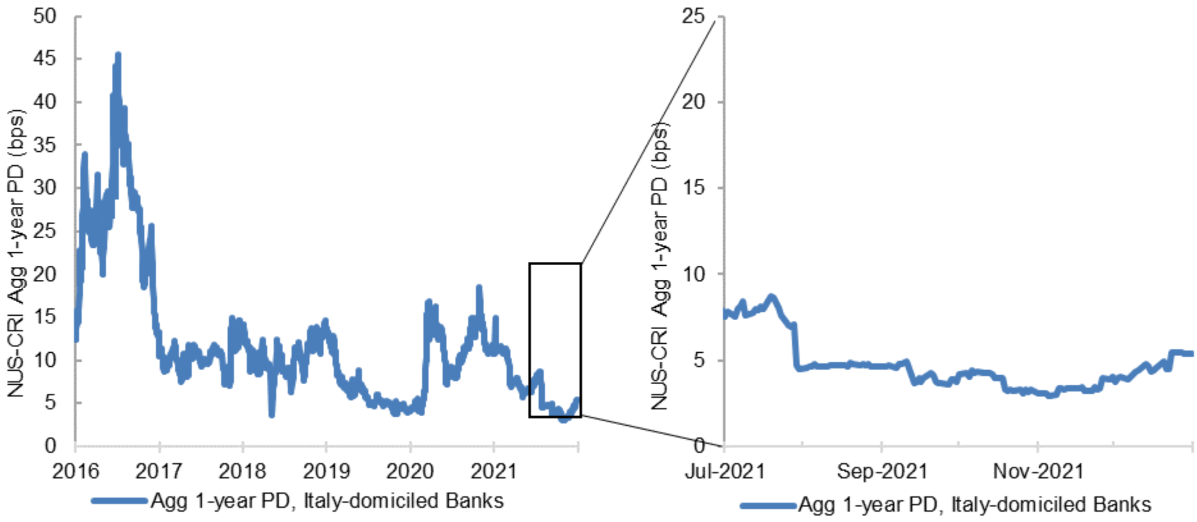
- Yield on Italy's 10-year government bond increased to 4.53% at the end of Q4 2021 from 4.5% at the end of Q3 2021. [7]
- Interest rates on loans (other than bank overdrafts) to non-financial corporations fell to 1.62% in Dec 2021, from 1.71% in Jun 2021. Bank interest rates (including revolving loans, overdrafts, and extended credit card credit) to corporations decreased from 2.38% to 2.1% in the same period. Loans for house purchases slightly decreased from 1.42% to 1.40% in the second half of 2021. [8] [9] [10]
- Preliminary estimates for outstanding loans to non-financial institutions was EUR 677.6bn at the end of June 2021, which has decreased to EUR 675.1bn at the end of December 2021. [11]

Sovereign Credit Ratings

- Moody's, S&P and Fitch maintained their ratings at Baa3, BBB and BBB- with a stable outlook respectively on Italy. [12]

Italian Banks

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) demonstrated an improvement in Italy-domiciled banks' credit profile in the second half of 2021. Italy-domiciled banks' improved their profitability for all of 2021 compared to a year earlier, due to the low base effect and the country's economic recovery. Their asset quality remained stable as net NPL ratio decreased slightly to 1.4% since the end of H1 2021.



Profitability

- Intesa Sanpaolo, Italy's largest bank, saw its net income achieving EUR 4.2bn in the whole 2021, of which EUR 1.7bn in Q4 2021. The net income of UniCredit, Italy's second-largest bank, reached EUR 3.9bn in full 2021, well above the market estimates of EUR 3.7bn. [13] [14]

Funding & Liquidity

- The long-term interest rate increased to 1.05% in Dec 2021, from 0.88% in Jun 2021. [15]
- The 12-month percentage change in deposits of funds by Italian residents was 5.3% at the end of Nov, while for the total deposits of non-residents, it was -5.0%.[16]
- Interest charged on loans to firms were 1.1% in Nov 2021, unchanged from Aug 2021. Interest rates of loans to households increased to 1.4%, from 1.5% in Aug 2021. [17]
- Italian bank liabilities towards the Euro system decreased to EUR 449bn in Nov 2021, from EUR 463bn in Aug 2021. Capital and reserves decreased slightly to EUR 348bn in Nov 2021 from EUR 350 in Aug 2021.[18]
- According to the latest bank lending survey referring to Q4 2021, Italian banks reported that credit standards for new loans to businesses suggested a slight tightening, due to perceptions for risks. Credit standards for house purchase loans, however, remained unchanged. [19]

Asset Quality

- According to the Bank of Italy, in Q4 2021, the flow of non-performing loans remained at a seasonally adjusted 3.1% on an annualized basis. The net NPL ratio was slightly lower at 1.4% in Dec 2021 from 1.7% in Sep 2021. The coverage ratio of Italian banks increased from 53.9% in Sep 2021 to 55% in Dec 2021.[20]

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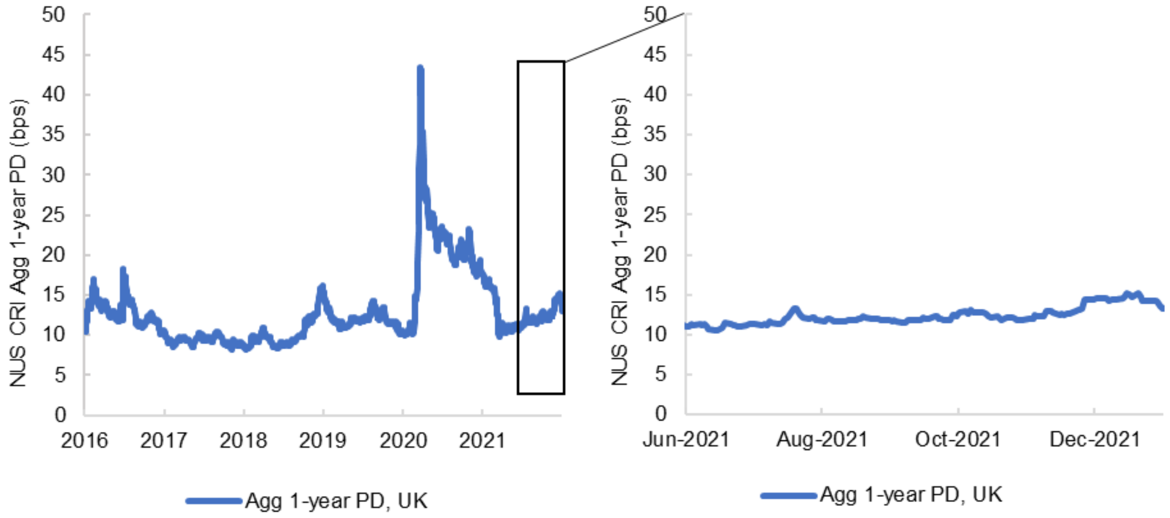
UK Companies

NUS-CRI Aggregate 1-year PD for companies domiciled in the UK remained relatively stable in the second half of the year, ranging between 10 and 15bps. Though the economy grew relatively steadily in the second quarter, threats of rising inflation in hand with ongoing political crises may provide headwinds to growth moving forward. Economic growth was driven by a combination of an increase in household consumption, government spending and the country's net exports.



Economy

- The UK economy grew in the last quarter of H2 2021 with QoQ GDP increasing at 1% in Q4 2021, slightly lower than the 1.1% in Q3 2021.Household consumption increased by 1.2%, government spending increased by 1.9%, exports increased by 4.9% whereas imports declined by 1.5%.
- Unemployment rates in the UK stood at 4.1% in Q4 2021, which is the lowest level since Q2 2020 and met market expectations. As pandemic restrictions eased, total hours worked increased in Q4 2021, but remain below pre-pandemic levels. The number of people in the labor market fell by 39,000. [1] [2]
- The total trade deficit in the UK decreased from GBP 22.8bn in Q4 2020 to GBP 10.3bn in Q4 2021. [3] [4]
- UK Manufacturing PMI fell to 57.6 in Dec 2021 from 58.1 in Nov 2021, which was in line with market expectations. Manufacturing production increased possibly driven by efforts to clear backlogs and process unfinished orders. Exports were a major cause for concern as new orders continued their fall for the fourth consecutive month.[5]
- UK construction companies recorded a decrease in business activity during Dec 2021. The IHS Markit/CIPS UK Construction PMI declined to 54.3 in Dec 2021 from 55.5 in Nov 2021.The decline may be led by a slowdown in commercial building growth which was at the lowest level in 3 months. On the contrary, residential construction activity exhibited stronger growth.[6]

Monetary

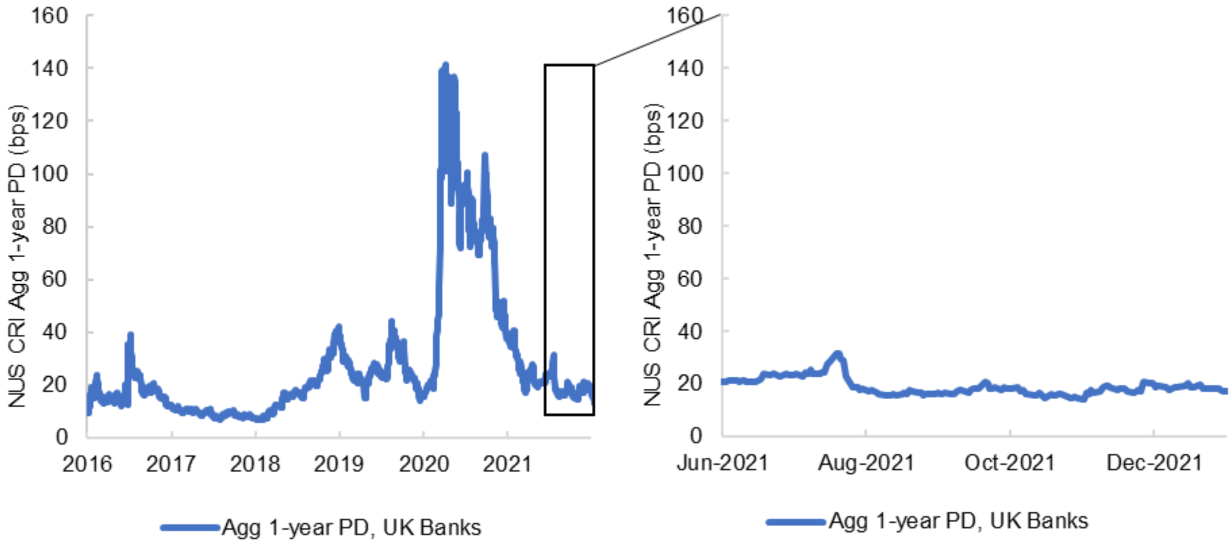
- The Monetary Policy Committee (MPC) voted to increase the bank rate to 0.25% during their meeting on 15 Dec 2021. The Bank of England also decided to maintain the stock of sterling non-financial investment-grade corporate bond purchases at GDP 20bn, financed by the issuance of central bank reserves. The committee also decided to continue with its existing UK government bond purchases and maintained the target stock of government bonds at GBP 875bn. MPC sets monetary policy to meet the 2% inflation target, in a way that helps to sustain growth and employment. [7]
- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 4.8% in Dec 2021, up from 4.6% in Nov 2021. The largest contribution to the CPIH 12-month inflation rate in Dec 2021 came from food and non-alcoholic beverages, restaurants and hotels, furniture and household goods, and clothing and footwear. [8]

Sovereign Credit Ratings

- Fitch affirmed UK's rating at AA- with a stable outlook. The outlook reflects the resiliency in the UK economy and finances in the face of the pandemic. Higher adaptability of businesses, resilience in private consumption and investment contributed to the change in outlook. [9]

UK Banks

The NUS-CRI Aggregate 1-year PD for banks in the United Kingdom remained stable in the second half of the year. We see the PD hovering between 17 and 37bps in H2 2021. Simultaneously, the FTSE 350 Banks Index also reach 3047 by the end of the year.



Profitability

- Lloyds Banking Group's net interest margin (NIM) in Q4 2021 was 2.57%, marginally higher than Q3 2021 NIM value of 2.55%. Lloyds closed Q4 2021 with a net interest income of GBP 2,893mn GBP 41mn higher than that in Q3 2021. This is driven primarily by strength in the bank's mortgage business and high quality growth in deposits reducing other funding needs.[10]
- NatWest Group reported an Q4 2021 operating profit before tax of GBP 2,505mn, higher than operating loss of GBP 770mn in Q4 2020. Improved economic conditions have prompted to release of GBP 869mn of expected credit loss reserves.[11]
- Standard Chartered's underlying profit before tax increased 61% YoY in 2021 to USD 3.9bn. Its income in 2021 was driven by low loan impairments.[12]

Funding and Liquidity

- According to the Bank Liabilities Survey produced by the Bank of England, UK banks and building societies reported that total funding volumes increased in the three months to end of Nov 2021 (Q4). Total funding volumes were expected to decrease in the three months to end-Feb 2022 (Q3). [13]
- Lenders reported that the internal price charged to business units to fund the flow of new loans – sometimes referred to as the 'transfer price'– increased in Q4 and was expected to remain unchanged in Q1 2022.[14]

Asset Quality

- The total write-offs of sterling-denominated loans decreased from GBP 958mn on 30 Jun 2021 to GBP 902mn on 31 Dec 2021, due to write-offs to private non-financial corporates, which increased from GBP 212mn to GBP 356mn. Non-financial loan write-offs to individuals decreased marginally from GBP 707mn to GBP 497mn. [15]
- The total write-offs of sterling-denominated loans increased from GBP 75mn on 30 Jun 2021 to GBP 127mn on 31 Dec 2021, driven by write-offs to private non-financial corporates, which increased from GBP 2mn to GBP 25mn. Non-financial loan write-offs to individuals decreased marginally from GBP 73mn to GBP 75mn.[16]

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About The Credit Research Initiative

The Credit Research Initiative (CRI) was launched by Professor Jin-Chuan Duan in July 2009 at the Risk Management Institute of the National University of Singapore. Aiming at ”Transforming Big Data into Smart Data”, the CRI covers over 80,000 public firms and produces daily updated Probabilities of Default (1-month to 5-year horizon), Actuarial Spreads (1-year to 5-year contract) and Probability of Default implied Ratings on over 38,000 currently active, exchange-listed firms in over a 130 economies. The CRI also distributes historical time series of over 34,000 inactive firms due to bankruptcy, corporate consolidation or delisting for other reasons. In addition, the CRI produces and maintains Corporate Vulnerability Indices (CVI), which can be viewed as stress indicators, measuring credit risk in economies, regions and special portfolios.

As a further step, the CRI converts smart data to actionable data to meet the customized demands of its users and offers bespoke credit risk solutions leveraging on its expertise in credit risk analytics. A concrete example is our development of the BuDA (Bottom-up Default Analysis) toolkit in collaboration with the IMF. BuDA is an automated analytic tool based on the CRI PD system, enabling IMF economists to conduct scenarios analyses for the macro-financial linkage.

The CRI publishes Weekly Credit Brief and Semi-Annual Credit Summary, highlighting key credit related events, offering insights based on the CRI PD of the entities involved, and providing useful statistics on credit risk of economies and sectors.

For more information about the CRI project, please visit our main site at http://nuscri.org

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