Semi-Annual Credit Summary

S2/2020 Volume 2, 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 2, Issue 1 covers the second half of 2020. 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 and Credit Brief on ASEAN SMEs, with all three publications produced by the Market Monitoring Team (MMT), a team within 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:

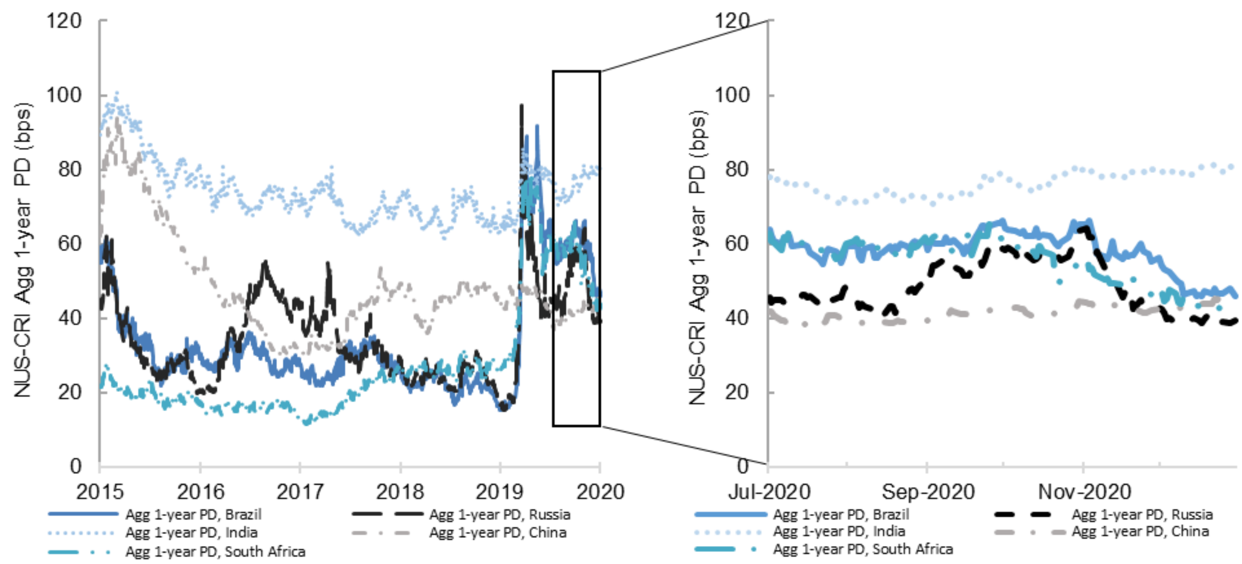
www.nuscri.org

As of Apr 2021, the PD system covers more than 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.

Table of Contents

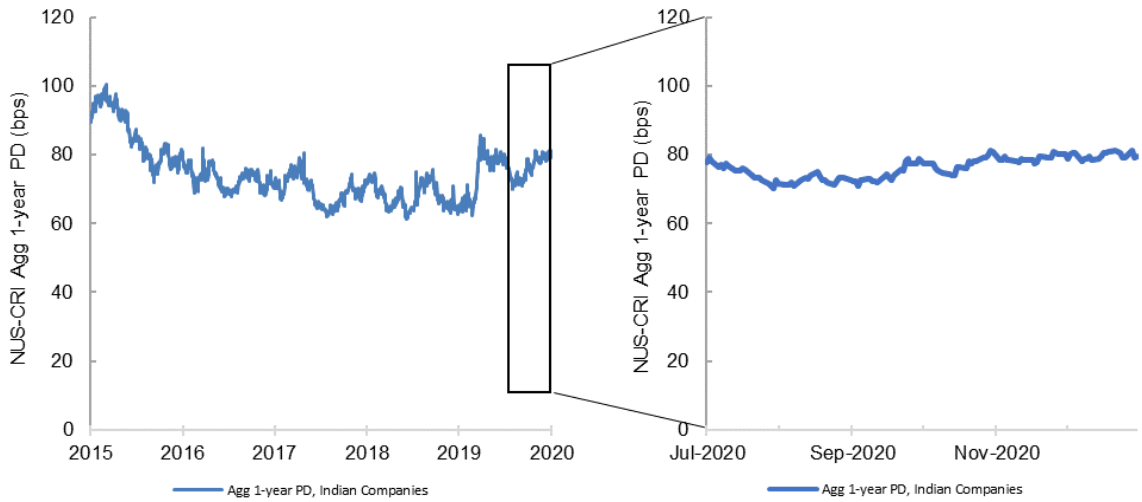
BRICS

In the second half of 2020, listed companies in BRICS experienced a relatively stable credit profile post the deterioration in credit quality in the first half of the year due to the COVID-19 induced economic fallout. The NUS-CRI Aggregate 1-year PDs (Agg PD) for Brazil, South Africa and Russia experienced improvement in the latter part of the semi-annual period, India and China's aggregate 1-year PDs remained relatively stable around 80bps and 40bps respectively. Brazil's GDP grew at 7.7% in Q3, compared to the shrinkage witnessed in Q2 2020 of 9.7%. However, this did not completely reflect in the country's Agg PD levels, which remained elevated for majority of the second half. A similar trend can be seen for South Africa (Q3 GDP growth at 67.3%) and China (Q3 GDP growth at 4.9%), which saw mild, if any, improvement in credit quality in the last 6 months of last year. India's GDP shrank by 7.3% in Q3 2020, in line with its relatively elevated Agg PD levels. Russia, in line with a GDP contraction of 3.4% in Q3, saw its Agg PD levels increase to 64bps; though recovering to 39bps by the end of the year.



Indian Companies

The NUS-CRI Aggregate 1-year PD for Indian companies has remained relatively stable at around 79 bps by the end of Q3 and Q4 2020. H2 2020 saw the Indian government and Reserve Bank of India (RBI) construct policies to mitigate the social and the economic cost of the pandemic induced economic slowdown. The country was directly impacted by supply bottlenecks and higher inflation. Indian manufacturing sector gained momentum in the second half of the year with the country's PMI reading hitting a decade high of 58.9 in October, though decreasing to a strong 56.4 by year end [1]. India benefitted from positive inflation figures in H2 2020, with inflation figures ranging between 0.41% and 2.29% on a MoM basis [2]. India recorded a current account deficit of USD 1.7bn in the last three months of 2020, equivalent to 0.2 % of GDP. It is the first gap after three consecutive quarter of surplus, mainly due to a wider merchandise goods gap and an increase in net investment income payments. [3]



Economy

- The Indian economy shrank by 7.5% YoY in Q3 2020, less severe than those expected in market forecasts. This is followed by a 0.4% YoY growth witnessed in Q4, marking the first quarter of growth since the onset of the pandemic. On the demand side, smaller decreases were recorded for private spending (-11.3% vs -26.7%); investment (-7.3% vs -47.1%), exports (-1.5% vs -19.8%) and imports (-17.2% vs -40.4%). On the production side, manufacturing (0.6% vs -39.3%) and utilities (4.4% vs -7%) rebounded and mining (-9.1% vs -23.3%); construction (-8.6% vs -50.3%); and trade, hotels (-15.6% vs -47%) fell less while finance, real estate and professional activities shrank faster (-8.1% vs -5.3%). [4]
- India's manufacturing sector continued to gain health in December, with manufacturers stepping up production and input buying amid efforts to rebuild their inventories following business closures earlier in the year. The IHS Markit India Manufacturing PMI rose marginally in December to 56.4, signifying the fifth straight month where PMI figures were above the 50 threshold. This reflects the loosening of COVID-19 restrictions, strengthening demand and improving market conditions. [5]
- The annual rate of inflation, based on monthly Wholesale Price Index (WPI), stood at 1.22% (provisional) for December, 2020 (over December, 2019) as compared to 2.76% during the corresponding month of the previous year. [6]
- India's current account balance (CAB) surplus moderated to USD 15.5bn (2.4% of GDP) in Q3 2020, decreasing substantially from Q2 2020 of USD 19.2bn (3.8% of GDP) in Q2 2020; and USD 7.6bn (1.1% of GDP) in the same time last year. The narrowing of CAB was on account of a rise in the merchandise trade deficit of USD 4.0bn to USD 14.8bn. Net services receipts increased on the back of a rise in net earnings from computer services on a year-on-year basis. Private transfer receipts, mainly representing remittances by Indians employed overseas, decreased to USD 20.4bn, up by 12% from their level a year ago. Foreign portfolio investment increased to USD 7.0bn against USD

2.5bn a year ago. In H2 of 2020-2021, there was an accretion of USD 31.6bn to the foreign exchange reserves (on a BoP basis).[7]

Monetary

- According to the bi-monthly monetary policy statement on December 04, 2020, 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%.[8]
- Overall liquidity in the system remains in large surplus. Reserve money increased by 15% YoY as of November 2020, driven by a surge in currency demand. Money Supply (M3) grew by only 12.5%. Corporate bond issuances stood at INR 4.4tn as of Q3 2020. India's foreign reserves increased by around USD 29bn and were at USD 574.8bn as of November 2020. Large inflows of deposits into the banking system was being predominantly deployed in SLR investment.[9]
- Headline CPI inflation rose sharply to 7.3%in September and further to 7.6% in October 2020. Food inflation surged to double digits in October across protein-rich items including pulses, edible oils, vegetables and spices on multiple supply shocks. CPI excluding food and fuel, also picked up from 5.4% in September to 5.8% in October. Inflation expectations on households have eased modestly in anticipation of easing of supply chain disruptions. [10]

Funding and Liquidity

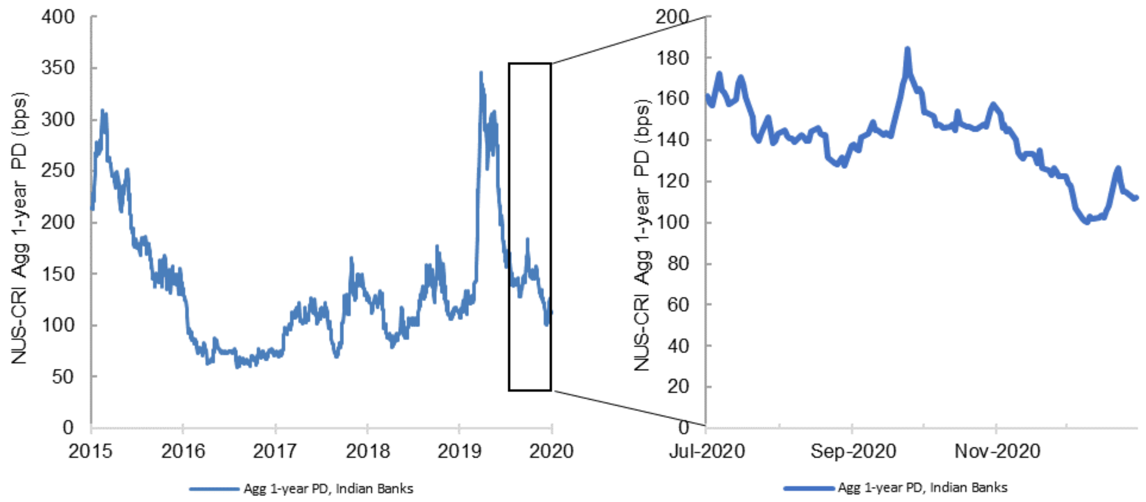
- Yields on India's 10-year government sovereign bonds fluctuated in Q3 and Q4 2020. Yields were at 5.89% at the end of Q4 2020, ranging between 5.75% and 6.22% over the two quarters. [11]
- Markets believe that RBI will have to start draining excess cash from the banking system, as abundant liquidity poses a risk of crashing short-term rates and threatens to further stoke inflation. As such, the spread between the 10-year yield and the secured overnight rates may gradually narrow. However, some market participants also believe that liquidity won't be taken back in a hurry, with liquidity withdrawal pushing up rates by 40-45bps. [12]

Sovereign Credit Ratings

- Standard & Poor's credit rating for India stands at BBB- with stable outlook. Moody's credit rating for India was last set at Baa3 with negative outlook. Fitch's credit rating for India was last reported at BBB- with negative outlook. DBRS's credit rating for India is BBB with negative outlook. [13]

Indian Banks

The NUS-CRI Aggregate 1-year PD for Indian Banks saw a gradual downtrend in H2 2020, decreasing from 161bps at the start of Q1 to 111bps at the end of the year. The Agg PD saw relatively high levels of volatility ranging from 184bps to 100bps. The second half of 2020 saw Indian banks preparing for the near-term fallout of the COVID-19 pandemic with the initial EMI loan moratorium expiring at the end of August. RBI expects gross NPA ratios for Indian banks to rise to 13.5% by September 2021 from 7.5% in September 2020, disproportionally affecting public banks (from 9.7% to 16.2%) when compared to those of private banks (from 4.6% to 7.9%) over the same period.



Profitability

- India's private sector banks saw a marginal increase in their credit to deposit ratio from 72% in Q3 2020 to 72.5% in Q4 2020. Aggregate deposits growth in Q3 2020 decreased from 11.5% YoY to 11% YoY but marginally increased again to 11.1% YoY by the end of Q4 2020. Simultaneously, credit growth on an annual basis reduced from 6.4% in Q2 2020 to 6.2% in Q4 2020.[14]
- 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 second half of 2020 beat expectations, it may be attributed to government policies surrounding loan moratoriums and Supreme Court rulings. [15]

Funding & Liquidity

- The weighted-average call money rate, the interest rate on short-term finance repayable on demand, decreased from 5.06% as of Dec 20, 2019 to 3.20 % as of Dec 18, 2020. The call money rates were generally lower than the repo rate during Q3 and Q4 in 2020, indicating a stable banking system. Savings Deposit rates generally remained stable in Q3 and Q4 2020.[16]
- The amount of cash in hand on the balance sheet of Indian banks increased from INR 845.1bn on June 5, 2020 to INR 854.4bn on December 4, 2020.[17]
- The Reserve Bank of India decided to extend their Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) to scheduled regional rural banks that meet the following criteria: Implemented Core Banking Solution (CBS); have a minimum CRAR of 9%; and are fully compliant with the terms and conditions for availing LAF and MSF issued by Financial Markets Operations Department (FMOD) of the central bank[18].

Asset Quality

- The gross nonperforming asset ratio of local commercial banks may rise to 13.5% by September 2021 as per the Reserve Bank of India's stress tests. These may be heightened to 14.8% under a severe stress scenario. The capital to risk-weighted asset ratio (CRAR) for commercial banks improved to 15.8% in September 2020 from 14.7% in March 2020, while provision coverage ratio (PCR) improved from 66.2% to 72.4% over the same period. [19]

[1] March 3, 2021,India Manufacturing PMI,Trading Economics ,https://tradingeconomics.com/india/manufacturing-pmi

[2] April 15, 2021 India Wholesale Price Index Change Trading Economics https://tradingeconomics.com/india/producer-prices-change

[3] March 31, 2021 India Current Account Trading Economics https://tradingeconomics.com/india/current-account#:~:text=Looking%20forward%2C%20we%20estimate%20Current,according%20to%20our%20econometric%20models.

[4] February 26, 2021 India GDP Annual Growth Rate Trading Economics https://tradingeconomics.com/india/gdp-growth-annual

[5] January 4, 2021 IHS Markit India Manufacturing PMI IHS Markit https://www.markiteconomics.com/Public/Home/PressRelease/0ff24827045e4cdb9db8b95c33faea31

[6] January 14, 2020 Index number of Wholesale Price in India for the month of December 2020 Department of Promotion of Industry and Internal Trade office of the economics advisor https://pib.gov.in/Pressreleaseshare.aspx?PRID=1688471

[7] December 30, 2020 Developments in India's Balance of Payments during the Second Quarter (July-September) of 2020-21 The Reserve Bank of India https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR8531713946561684EB3A0153A39DB219C57.PDF

[8] December 4, 2020 Monetary Policy Statement, 2020-21 Resolution of the Monetary Policy Committee (MPC) December 2-4, 2020 The Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50747

[9] December 4, 2020 Monetary Policy Statement, 2020-21 Resolution of the Monetary Policy Committee (MPC) December 2-4, 2020 The Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50747

[10] December 4, 2020 Monetary Policy Statement, 2020-21 Resolution of the Monetary Policy Committee (MPC) December 2-4, 2020 The Reserve Bank of India https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50747

[11] April 20, 2021 India Government Bond 10Y Trading Economics https://tradingeconomics.com/india/government-bond-yield

[12] December 30, 2020 Traders See Cash Tightening in India to Drive Bond Playbook Bloomberg https://www.bloomberg.com/news/articles/2020-12-30/traders-see-liquidity-tightening-in-india-to-drive-bond-playbook

[13] April 20, 2021 India- Credit Rating Trading Economics https://tradingeconomics.com/india/rating

[14] February 25, 2021 Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks (March 2004 to December 2020), Statement No 1: Commercial Banks at a Glance The Reserve Bank of India https://rbi.org.in/Scripts/QuarterlyPublications.aspx?head=Quarterly%20Statistics%20on%20Deposits%20and%20Credit%20of%20Scheduled%20Commercial%20Banks

[15] December 29, 2020 Why India's banks will face major NPA challenge in 2021 India Today https://www.indiatoday.in/business/story/explained-why-india-s-banks-will-face-major-npa-challenge-in-2021-1754119-2020-12-29

[16] December 25, 2020 Weekly Statistical Supplement: Ratio and Rates The Reserve Bank of India https://www.rbi.org.in/Scripts/WSSView.aspx?Id=24232

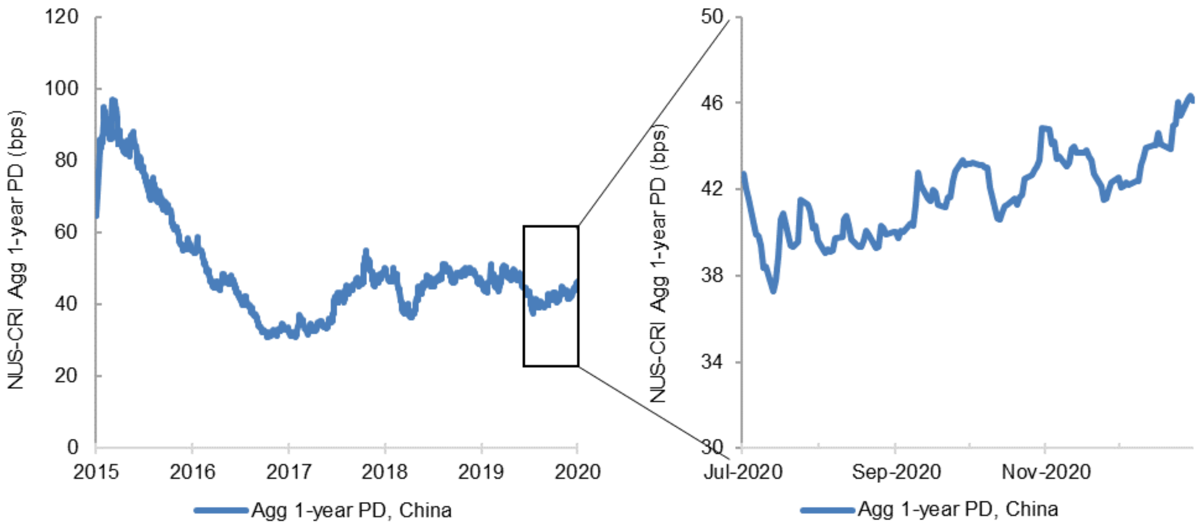
[17] December 25, 2020 Weekly Statistical Supplement: Scheduled Commercial Banks - Business in India The Reserve Bank of India https://www.rbi.org.in/Scripts/WSSView.aspx?Id=24231

[18] December 31, 2020 Monetary and Credit Information Review The Reserve Bank of India https://www.rbi.org.in/scripts/PublicationsView.aspx?id=20313

[19] January 11, 2021 Banks GNPA may rise to 14.8% by September 2021: RBI Financial Stability Report Business Standard https://www.business-standard.com/article/news-cm/banks-gnpa-may-rise-to-14-8-by-september-2021-rbi-financial-stability-report-121011101270_1.html

Chinese Companies

The Chinese economy expanded by a seasonally adjusted 2.6% quarter on quarter in Q4 2020, after a revised 3.0 % growth in Q3. This is the slowest growth recorded this year except for the contraction in Q1.[1] The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) for China-domiciled firms shows an upward trend in the second half, rising from 42.87bps to 46.11bps, indicating a slight increase in credit risk.



Economy

- The Chinese economy grew by 6.5% YoY in Q4 2020, following a 4.9% growth in Q3 and higher than the market consensus of 6.1%. Overall in 2020, the Chinese economy grew 2.3%, the weakest growth seen in over four decades. However, China is likely to be the only major economy to report growth following the shocks of COVID-19. The primary sector rose 3% while its industry advanced 2.6%. Lastly, the tertiary sector and real estate investment expanded 2.1% and 7% respectively. [2]
- The consumer price index increased by 0.2% YoY in December 2020, higher compared to the market expectation of 0.1%. Food prices rose by 1.2% after a 2.0% fall in November, driven by adverse weather and increasing demand before the Lunar New Year festival. The cost of health, education, and other goods and services also rose. Meanwhile, cost for transport, rent, fuel, and utilities fell. Consumer prices grew by 0.7% MoM, the highest since February 2020. Overall in 2020, consumer prices rose 2.5%. On the other hand, China's producer prices dropped 1.8% for full 2020. In December of 2020 it declined by 0.4% year-on-year, the smallest since February. This was the eleventh consecutive month that factory gate prices decreased against the background of economic recovery. [3] [4]
- Unemployment rate in China remained relatively low at 5.2% in both November and December of 2020, decreasing from previous high of 5.7% in the end of June. The unemployment rate decreased since April 2020 due to the economy gradually recovering from effect of the COVID-19 pandemic.[5]
- The Caixin China General Composite PMI in December 2020 was 55.8, falling from 57.5 in November as business activity growth slowed down. The rate of growth was the slowest seen in four months. Despite the softer increases in output, sharp growth were still recorded in both manufacturing and services. [6]
- China's investment in fixed assets (excluding rural households) increased by 2.32% on a monthly basis in December. In the whole year of 2020, the country's fixed asset investment was CNY 52.9tn, increasing 2.9% compared with that of 2019. Specifically, private investment in fixed assets increased 1.0% YoY to CNY 28.9tn. [7]
- China's trade surplus soared to USD 78.17bn in December 2020 from USD 47.25bn in the same month of previous year. This far exceeded the market expectations of USD 72.35bn surplus. Exports rose 18% YoY in December, the seventh consecutive month of increase. With global demand improving, imports expanded at a softer 6.5% for the fourth straight month in December. China's trade surplus with the US, however, experienced a decrease to USD 29.92bn in December from USD 37.42bn in November. [8]

Monetary Policy

- The main objectives of People's Bank of China (PBOC) will be to maintain currency stability and boost economic growth. Implementing a stable yet flexible monetary policy, PBOC will provide liquidity at a reasonably ample level. It will also keep the macro leverage ratio stable while adjusting the monetary policy's intensity, pace and focus considering changes in the economy.[9] [10]
- Cash Reserve Ratio in China remained unchanged at 12.5% in Q4 2020 from 12.5% in Q2 2020.[11]
- 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, rose to CNY 8.4tn in December 2020 from CNY 7.9tn in June 2020. Money Supply M1 in China increased to a record high of CNY 62.6tn in December 2020 from CNY 60.4tn in June 2020. Broad M2 money supply in China, measuring the money supply that covers cash in circulation and all deposits, expanded 10.7% YoY in December 2020, slightly higher than the market consensus of 10.5%.[12] [13] [14]
- The 10-year government bond yield increased from 2.90% at the end of June 2020 to 3.20% at the end of December 2020. Yield for the 10-year government bond was continuously rising since June 2020, before decreasing slightly in December. The 1-year government bond yield had the same trend, increasing from 2.16% in June of 2020 to 2.70% at the end of December 2020. [15] [16]
- The foreign reserves of China reached a 4-1/2-year high of USD 3.22tn in December of 2020 from USD 3.18tn in November, higher than the market consensus of 3.19tn amid falling dollar and rising global asset prices. Meanwhile, the value of gold reserves increased to USD 118.3bn in December from USD 110.4bn in November.[17]

Fiscal Policy

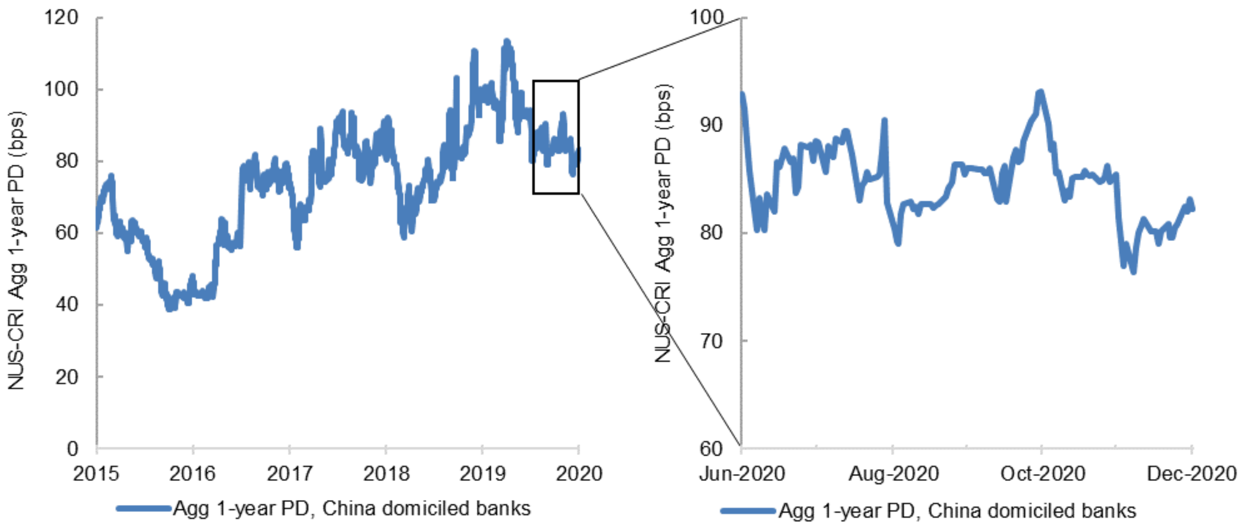
- China's fiscal revenues fell 3.9% YoY to around CNY 18.29tn in 2020. The central government saw a 7.3% YoY drop in its fiscal revenue to about CNY 8.28tn. On the other hand, local governments' fiscal revenue amounted to about CNY 10tn, down 0.9% year on year. Tax revenues fell 2.3% YoY to CNY 15.43tn. Revenue from domestic value-added tax in 2020 also fell 8.9% from the previous year. Meanwhile, China's fiscal spending rose to around CNY 24.56tn in 2020, rising 2.8% year on year.[18]

Sovereign Credit Ratings

- Both S&P and Fitch maintained their A+ rating with a stable outlook on China. Moody's also maintained its A1 rating with a stable outlook on China. [19]

Chinese Banks

China domiciled banks' risk in facing increase in bad debts subsided as the economy recovers from the pandemic-induced economic slowdown. While the banks in China generally saw their profits drop in 2020, the four largest lenders in the country registered profit growth. The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) for Chinese banks showed a downward trend from July to December.



Profitability

- Although China domiciled banks saw an overall 2.7% drop in profits, the country's four largest banks outperformed the market by reporting profit growths amid the COVID-19 pandemic-induced slowdown. China's largest bank, Industrial & Commercial Bank of China, registered a 1.4% increase in net income. Meanwhile, China Construction Bank posted a 1.6% growth in net income. Lastly, net income of Agricultural Bank of China and Bank of China increased 1.8% and 2.9% respectively. [20]

Funding & Liquidity

- Chinese banks extended CNY 1.26tn in new yuan loans in December 2020, below CNY 1.43tn in November 2020. For 2020, new bank lending rose to a record of CNY 19.63tn, 16.8% higher than the CNY 16.81tn recorded in 2019. [21]
- The People's Bank of China (PBOC) has injected CNY 200bn in one-year medium-term lending facility (MLF) operations and CNY 150bn in reverse repo in November 2020, at the rate of 2.95% and 2.20% respectively. It also made its biggest ever injection of medium term funds in December 2020 to shore up liquidity amidst the worsening investors' sentiment after several corporate bond defaults. [22] [23]

Asset Quality

- The NPL ratio of Chinese banks decreased to 1.92% at the end of 2020 from 1.98% at the start of 2020. The total amount of NPLs, however, increased by CNY 281.6bn to CNY 3.5tn. Furthermore, the banking sector in China also disposed CNY 3.02tn in non-performing assets in 2020. [24] [25]

---

[1] Mar 31, 2021, China GDP Growth Rate, Trading Economics, https://tradingeconomics.com/china/gdp-growth

[2] Mar 31, 2021, China GDP Annual Growth Rate, Trading Economics, https://tradingeconomics.com/china/gdp-growth-annual

[3] Mar 31, 2021, China Inflation Rate, Trading Economics, https://tradingeconomics.com/china/inflation-cpi

[4] Mar 31, 2021, China's Producer Price Index, Trading Economics, https://tradingeconomics.com/china/producer-prices-change

[5] Mar 31, 2021, China Unemployment Rate, Trading Economics, https://tradingeconomics.com/china/unemployment-rate

[6] Jan 12, 2021, Caixin China General Services PMI (December 2020), Caixin, https://www.caixinglobal.com/2021-01-12/caixin-china-general-services-pmi-december-2020-101649492.html

[7] Jan 19, 2021, Investment in Fixed Assets from January to December 2020, National Bureau of Statistics of China, http://www.stats.gov.cn/english/PressRelease/202101/t20210119_1812510.html

[8] Jan 19, 2021, China Balance of Trade, Trading Economics, https://tradingeconomics.com/china/balance-of-trade

[9] Feb 8, 2021, China's central bank reiterates stability in monetary policy, Xinhuanet, http://www.xinhuanet.com/english/2021-02/08/c_139730858.htm

[10] Jan 17, 2021, PBOC to focus on growth and yuan stability, China Daily, http://www.chinadaily.com.cn/a/202001/17/WS5e21071ba31012821727192e.html

[11] Mar 31, 2021, China Cash Reserve Ratio Big Banks, Trading Economics, https://tradingeconomics.com/china/cash-reserve-ratio

[12] Mar 31, 2021, China Money Supply M0, Trading Economics, https://tradingeconomics.com/china/money-supply-m0

[13] Mar 31, 2021, China Money Supply M1, Trading Economics, https://tradingeconomics.com/china/money-supply-m1

[14] Mar 31, 2021, China Money Supply M2, Trading Economics, https://tradingeconomics.com/china/money-supply-m2

[15] Mar 31, 2021, China 10-Year Bond Yield Historical Data, Investing, https://www.investing.com/rates-bonds/china-10-year-bond-yield-historical-data

[16] Mar 31, 2021, China 1-Year Bond Yield Historical Data, Investing, https://www.investing.com/rates-bonds/china-1-year-bond-yield-historical-data

[17] Mar 31, 2021, China Foreign Exchange Reserves, Trading Economics, https://tradingeconomics.com/china/foreign-exchange-reserves

[18] Jan 28, 2021, China's fiscal revenue down 3.9 pct in 2020 , Xinhuanet, http://www.xinhuanet.com/english/2021-01/28/c_139703850.htm

[19] Mar 31, 2021, Rating: China Credit Rating, Country Economy, https://countryeconomy.com/ratings/china

[20] Mar 31, 2021, China’s Big Four Banks Post Profit Growth, finews.asia, https://www.finews.asia/finance/34159-china-s-big-four-banks-post-profit-growth

[21] Mar 10, 2021, China New Yuan Loans, Trading Economics, https://tradingeconomics.com/china/banks-balance-sheet

[22] Nov 30, 2020, Chinese Central Bank Undertakes 200B Yuan in MLF, 150B Yuan in Reverse Repos on 30 November, China Banking News, https://www.chinabankingnews.com/2020/11/30/chinese-central-bank-undertakes-200b-yuan-in-mlf-150b-yuan-in-reverse-repos-on-30-november/

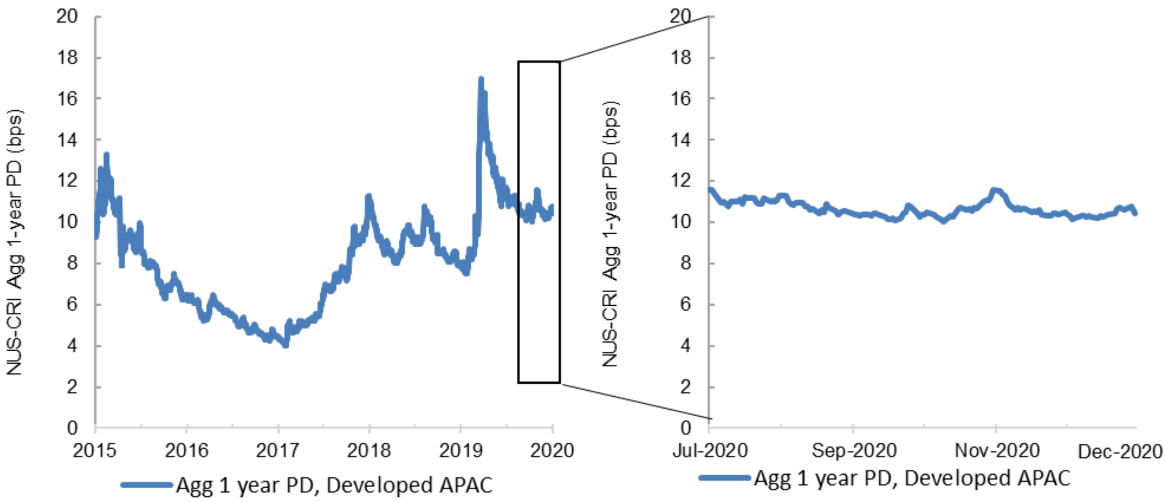
[23] Dec 15, 2020, UPDATE 1-China c.bank injects record 950 bln yuan of medium-term funds after bond defaults, Reuters, https://www.reuters.com/article/china-economy-mlf-idUSL1N2IV038

[24] Jan 22, 2021, China Banking Sector's NPL Ratio Fell to 1.92% at 2020’s End, Yicai Global, https://www.yicaiglobal.com/news/china-banking-sector-npl-ratio-fell-to-192-at-2020-end

[25] Jan 22, 2021, 2020: Chinese banks dispose $467b in non-performing assets, CGTN, https://news.cgtn.com/news/2021-01-22/2020-Chinese-banks-dispose-467-bln-in-non-performing-assets--XggBVOE492/index.html

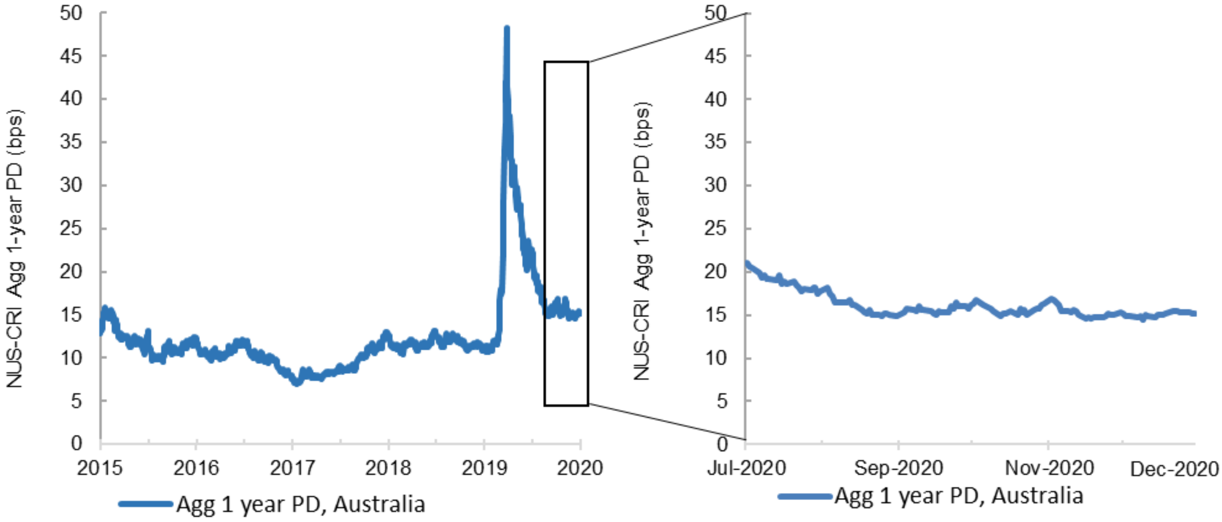
Asia-Pacific - Developed economies

The NUS-CRI Aggregate 1-year PD for listed companies in the Developed Asia Pacific region remained relatively flat in the second half of 2020, after falling from its peak in the first half of the year. Due to the quick response by APAC nations in response to the pandemic, the region experienced strong economic recovery, with major economies in the region slowly reopening. Countries such as Japan, Hong Kong, South Korea, Taiwan, and Singapore performed well as the governments quickly instituted mask mandates early in the pandemic, allowing the countries to control its spread in the first half of the year. This allowed the region to reach close to its pre-pandemic levels of economic health, while the PD of these countries levelled off. Although Australia suffered economically in the first half of 2020, it enjoyed a V-shaped recovery in the following half, in light of strong monetary and fiscal policies.



Australian Companies

The NUS-CRI Aggregate 1-year PD for Australian companies improved in the second half of the year since its spike in Q1 and Q2 2020. To allow business to stay afloat, the Reserve Bank of Australia (RBA) reduced interest rates to an all-time low and launched an "unlimited" bond buying programme while urging the government to boost fiscal support, which is expected to carry on going forward. As global economies reopen, the country's exports rose, followed by positive economic growth in the second half of the year. This is a positive sign for the country, as it picks itself up since its first recession in 3 decades.



Economy

- The Australian economy expanded by 3.3% in Q3 2020 and 3.1% in Q4 2020. The figures are an improvement of the previous quarters in 2020, with the sharpest contractions on record as the coronavirus pandemic hit the economy in the first half of 2020. Overall, the economy beat market expectations of a 2.5% growth rate in Q4 2020.[1]
- Public investment increased, with government spending increasing to AUD 104.61bn in Q4 2020. Private investment improved as well, with gross fixed capital formation rebounding from the Q3 to Q4 2020 by 3.55%. Household consumption rose 4.3% in the last quarter of 2020. [2] [3] [4]
- The RBA has decided to maintain the cash rate at 0.1% set in Nov 2020. The economy has also been supported by substantial, coordinated and unprecedented policy easing over the past year, which is likely to continue for economic conditions to improve. It will not increase the cash rate target until progress is made towards higher employment figures and when inflation will be sustainably within its 2-3% target band. [5] [6]
- The unemployment rate improved from July, when it increased to 7.5%, the highest it has been since 1998. The unemployment rate in Dec 2020 was at 6.6%, the lowest since Apr 2020. The labour participation rate remained at 66.2%, which is in line with forecasts. [7]
- As reported by The Australian Industry Group, The Australian Performance of Manufacturing Index (PMI) increased at year-end 2020 to 55.3. This could be attributed to manufacturing companies reporting stronger and more-broad based recovery. The Australian Performance of Services Index (PSI) improved in Dec 2020 and Jan 2021 to 54.3 points, which potentially indicates a turnaround for the services sector since the onset of the pandemic, especially since restrictions were eased in the country. The Australian Performance of Construction Index (PCI) rose 2.3 points to 57.6 in Nov 2020, which was the strongest monthly result since Jul 2017. The rise was a result of strong expansion in construction activity. [8] [9] [10]
- Key export prices rose 5.5% in Q4 2020 and is up 0.3% through the year. Metalliferous ores and metal scrap were the key drivers of the price shift, which was caused by increased demand for ore from China. Import prices fell 1.0% in Q4 2020, the main contributor to this fall was the inorganic materials sector with a decrease of 33.1%. Australia's trade surplus improved to AUD 6.8bn in Dec 2020 from AUD 4.6bn in Jul 2020 as improving global demand from a reopening economy led to increased exports. [11] [12]

Monetary Policy

- The RBA has committed to continuing its 3-year target yield of 0.1% set in Nov 2020, and has confirmed that it will continue to do so to support their policy measures. The bank has AUD 74bn in its bond purchase program and has made plans of at least AUD 200bn in purchases if necessary.[13]
- The RBA plans to maintain its accommodative monetary policy stance until inflation rates of 2-3% are achieved. However, it does not expect these conditions to be reached until 2024, contingent on wage levels rising as well as the labour market improving.[14]

Funding & Liquidity

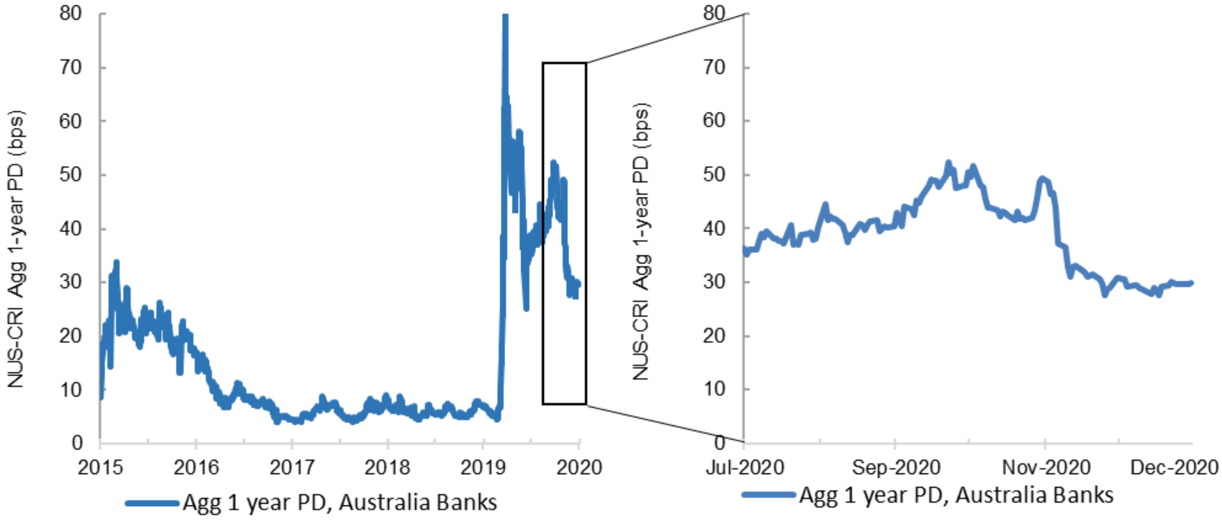
- Yields in the 10-year Australian government bonds started at 0.94% in Jul 2020, before slightly increasing to 0.97% in Dec 2020. It reached its lowest yield of 0.72% in Oct 2020.[15]
- The variable lending rate to small businesses stayed constant at 5.03% from Jul 2020 to Dec 2020. The lending rates for owner-occupied housing loans stayed constant at 4.52% in Q3 and Q4 2020. [16]
- Average lending to the Government during the second half-year of 2020 increased by AUD 16.9bn. Commercial lending to financial intermediaries saw a slight decrease from AUD 132.3bn in Jun 2020 to AUD 115.2bn in Dec 2020, while loans to individuals and corporations also increased slightly. [17]

Sovereign Credit Ratings

- Standard and Poor's and Fitch Ratings maintained their AAA rating. Moody's has maintained their Aaa rating, as well. Standard and Poor's and Fitch Ratings maintained their negative outlook on Australia, while Moody's has maintained its stable outlook on the country.[18]

Australian Banks

The NUS-CRI Aggregate 1-year PD slightly improved for Australian banks over the second half of 2020, after a significant spike in credit risk over the first half of the year, but is still elevated as compared to previous years. Australian banks have been in good credit health for the past few years due to stringent measures put in place by the government. The Major Banks have been able to maintain good capital positions as well as liquidity measures. Despite this, their credit health is set to decline along with the economy as profit from their operations is reduced and asset quality deteriorates during this recession.



Profitability

- For 2020, aggregate cash profit after tax decreased significantly by 36.6% from 2019 to AUD 17.4bn. The fall in profit could be attributed to large costs such as restructuring and remediation costs as well as rising loan impairment charges and credit provision in expectation of further deterioration of the economy. Similarly, average ROE decreased by 458bps to 6.7% in the second half of 2020.[19]

Funding & Liquidity

- Australian major banks continued to maintain a strong Common Equity Tier 1 capital position increased by 59bps to 11.4%. The Majors have continued to maintain their substantial capital positions, with capital levels at record levels above APRA's requirements.[20]
- The Liquidity Coverage Ratio of Australian banks remained well above its 100% minimum, with the major banks averaging 145.8%, mainly driven by increased customer deposits, increased money supply introduced into the financial system as well as larger holdings of High Quality Liquid Assets amongst the Majors. Meanwhile, the leverage ratio for major banks is running at an average of 5.7%, higher than the currently agreed minimum requirement of 3.5%.[21]

Asset Quality

- Asset quality deteriorated as reflected by an increase of AUD 6.9bn in collective impairment charges across Majors in 2020. The increase is a reflection of larger credit losses in the future as uncertainty still remains regarding the blowback from the COVID-19 pandemic, as well as the Commonwealth slowly starting to unwind economic support going forward into 2021.[22]

---

[1] Mar 30, 2021, Australia GDP Growth Rate, Trading Economics, https://tradingeconomics.com/australia/gdp-growth

[2] Mar 30, 2021, Australia GDP Growth Rate, Trading Economics, https://tradingeconomics.com/australia/gdp-growth

[3] Mar 30, 2021, Australia Government Spending, Trading Economics, https://tradingeconomics.com/australia/government-spending

[4] Mar 30, 2021, Australia Gross Fixed Capital Formation, Trading Economics, https://tradingeconomics.com/australia/gross-fixed-capital-formation

[5] Nov 03, 2020, Statement by Philip Lowe, Governor: Monetary Policy Decision, Reserve Bank of Australia, https://www.rba.gov.au/media-releases/2020/mr-20-28.html

[6] Mar 02, 2021, Statement by Philip Lowe, Governor: Monetary Policy Decision, Reserve Bank of Australia, https://www.rba.gov.au/media-releases/2021/mr-21-03.html

[7] Mar 30, 2021, Australia Unemployment Rate, Trading Economics, https://tradingeconomics.com/australia/unemployment-rate

[8] Feb 01, 2021, Australian PMI®: Manufacturing recovers over holiday period, The Australian Industry Group, https://www.aigroup.com.au/policy-and-research/mediacentre/releases/PMI-Dec-Jan-202/

[9] Feb 05, 2021, Australian PSI®: Sales boost services sectors over summer holiday period, The Australian Industry Group, https://www.aigroup.com.au/policy-and-research/mediacentre/releases/psi-dec-jan-2021/

[10] Feb 03, 2021, Australian PCI®: Construction industry recovery strengthens into 2021, The Australian Industry Group, https://www.aigroup.com.au/policy-and-research/mediacentre/releases/PCI-Dec-Jan-2021/

[11] Mar 30, 2021, International Trade Price Indexes, Australia, Dec 2020, Australian Bureau of Statistics, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/international-trade-price-indexes-australia/latest-release

[12] Mar 30, 2021, Australia Balance of Trade, Australian Bureau of Statistics, https://tradingeconomics.com/australia/balance-of-trade

[13] Nov 03, 2020, Statement by Philip Lowe, Governor: Monetary Policy Decision, Reserve Bank of Australia, https://www.rba.gov.au/media-releases/2020/mr-20-28.html

[14] Mar 02, 2021, Statement by Philip Lowe, Governor: Monetary Policy Decision, Reserve Bank of Australia, https://www.rba.gov.au/media-releases/2021/mr-21-03.html

[15] Mar 30, 2021, Capital Market Yields, Reserve Bank of Australia, https://www.rba.gov.au/statistics/tables/xls/f02d.xls?v=2021-03-30-02-58-45

[16] Mar 30, 2021, Indicator Lending Rates, Reserve Bank of Australia, https://www.rba.gov.au/statistics/tables/xls/f05hist.xls?v=2021-03-30-02-58-45

[17] Mar 30, 2021, Bank Lending Classified By Sector, Reserve Bank of Australia, https://www.rba.gov.au/statistics/tables/xls/d05hist.xls?v=2021-03-30-02-58-45

[18] Mar 29, 2021, Australia - Credit Rating, Trading Economics, https://tradingeconomics.com/australia/rating

[19] Nov 05, 2020, Australian Major Banks' Overview, https://home.kpmg/au/en/home/insights/2020/11/major-australian-banks-full-year-2020.html

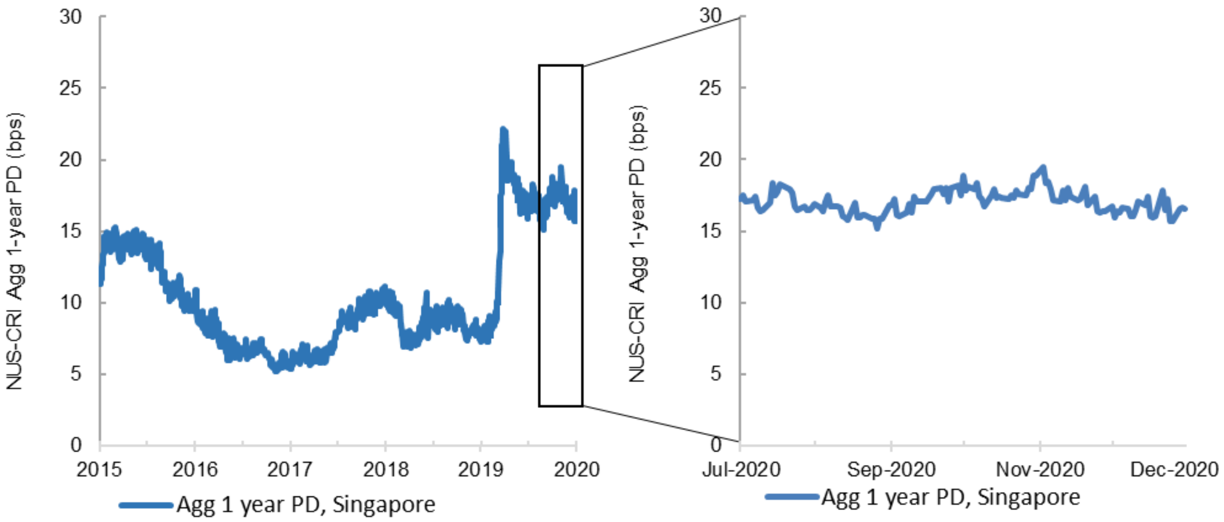
[20] Nov 05, 2020, Australian Major Banks' Overview, https://home.kpmg/au/en/home/insights/2020/11/major-australian-banks-full-year-2020.html

[21] Nov 05, 2020, Australian Major Banks' Overview, https://home.kpmg/au/en/home/insights/2020/11/major-australian-banks-full-year-2020.html

[22] Nov 05, 2020, Australian Major Banks' Overview, https://home.kpmg/au/en/home/insights/2020/11/major-australian-banks-full-year-2020.html

Singapore Companies

The NUS-CRI Aggregate 1-year PD for Singapore companies stayed relatively flat at around 17.12bps at the end of Jun 2020 to 16.55bps at the end of Dec 2020. Singapore's economy experienced a 3.8% YoY contraction in Q4 of 2020, as compared to a 13.4% YoY contraction in Q2 2020. The improvement in GDP contraction was partly due to the gradual reopening of the economy following the circuit breaker. The sectors that were hit the hardest were the Wholesale and Retail Trade, as well as the Transportation and Storage sectors. The Singapore government expects the economy to grow by between 4% and 6% in 2021, as a result of a potentially rebounding global and local economic environment.



Economy

- The Singapore economy is estimated to have contracted by 2.4% in Q4 2020, as opposed to a 5.8% contraction in Q3. On a seasonally adjusted basis, the economy grew by 3.8% in the fourth quarter, on top of 9.0% growth in the third quarter. This relative expansion could be attributed to the phasing out of the Circuit Breaker, and gradual resumption of activities.[1]
- GDP from the Construction sector is estimated to have contracted by -27.4% in Q4 from -46.6% in Q3. The Transportation & Storage sector contracted by -27.4% in Q4, an improvement of a contraction of -29.6% in Q3 2020. The Finance and Insurance sector expanded by 4.9% in Q4 2020. This was an improvement to its Q3 expansion of 3.2%. The Manufacturing sector was the best performer, with an expansion of 10.3% in Q4, compared to an expansion of 10.0% in Q3.[2] [3]
- The number of retrenchments in Q4 was lower than Q3 2020, with 5,640 retrenched employees as compared to the quarter prior, showing a decline after five consecutive quarters of increases. The employment rate improved to a contraction of -7.9% in Q4, as compared to a contraction of -29.1% in Q3 2020. The contraction was attributed to a fall in non-resident employment. The seasonally-adjusted unemployment rate kept relatively level in Dec 2020 at 3.3% as compared to Sep 2020 at 3.4%. The re-entry into employment improved from the previous half at 62%, but was still lower than 2019, which was at 64%.[4]
- In the MAS Survey of Professional Forecasters, the median CPI-All Items inflation for 2020 as a whole is forecast to be -0.3%, up from -0.4% in the September survey. Similarly, the forecast for MAS Core Inflation in 2019 has increased to -0.2%, from -0.3% previously. [5]

Monetary

- At its latest semi-annual review published on Oct 14, the Monetary Authority of Singapore (MAS) kept the rate of appreciation of the S$NEER policy band to the levels laid out in its March 30 statement.[6]
- MAS aims to maintain a zero percent per annum rate of appreciation of the policy band, while the width and the level at which it is centred will remain unchanged. With core inflation predicted to be low, it would be suitable for a dovish policy stance to be maintained going forward. The 3-month SIBOR fell from 1.0% at Mar 2020 to 0.4% in 0.4% in Oct 2020, in tandem with the fall in the US$ LIBOR.[7]

- While deflationary pressures were managed by the gradual reopening of the economy in June, falling oil and imported food prices led to a fall in costs. The MAS core inflation improved from the previous forecast to -0.5% to 0% in 2020. The CPI-All items inflation is also forecasted to be at -0.5% to 0%.[8]

Funding & Liquidity

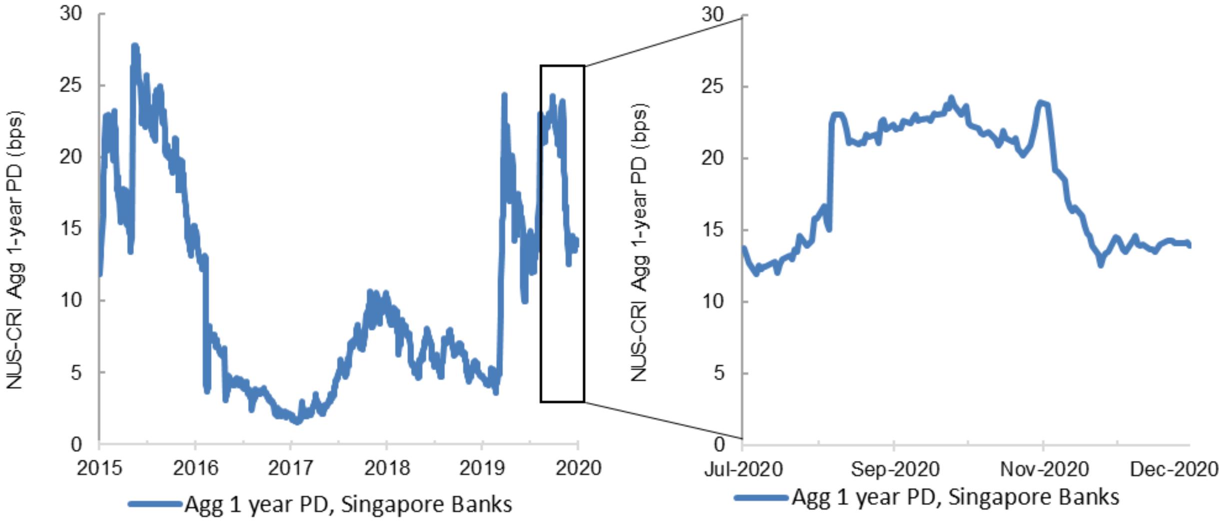
- Yields of 10-year Singapore government bonds fell to 0.84% at the end of Dec 2020 from 0.86% in Jul 2020.[9]
- Lending to non-bank customers rose slightly from SGD 677.4bn in Q3 2020 to SGD 678.7bn in Q4 2020. Total loans to businesses declined from SGD 424.2bn in Jul 2020 to SGD 419.1bn in Dec 2020 while loans to consumers rose marginally from SGD 254.5bn in Jul 2020 to SGD 259.6bn in Dec 2020.[10]
- The prime lending rate remained constant at 5.25% in Q3 and Q4 2020.[11]

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 had stable outlooks on the government's credit.[12]

Singapore Banks

The NUS-CRI Aggregate 1-year PD across Singapore banks (DBS, OCBC and UOB) was 13.72bps at the start of Jul 2020 and finished at 13.93bps at the end of Dec 2020. There has been an increased flow of capital into the Singapore's banking system amid global uncertainties — the COVID-19 pandemic has halted businesses and caused a recession, leading to investors seeking safer positions despite the low interest rates. Profit margins have been affected in the second half of 2020, with the three main banks showing weaker results then the prior half. However, increased optimism in the local economy post circuit-breaker as well as strong capital and liquidity positions are silver linings for Singapore's banking sector.



Profitability

- For the fourth quarter ended 31 December 2020, the three listed banks in Singapore, UOB, OCBC and DBS recorded SGD 688mn, SGD 1.13bn and SGD 1.01bn in net profits respectively. For the third quarter of 2020, UOB, OCBC and DBS recorded SGD 668mn, SGD 1.03bn and SGD 1.30bn in net profits respectively. All three banks underperformed as compared to Q4 2019, on account of COVID-19. The ROE for UOB, OCBC and DBS were 7.0%, 9.3% and 7.7% respectively.[13] [14] [15]

Funding & Liquidity

- Total deposits in Singapore banks increased by SGD 15.2bn in the second half of 2020. Local currency deposits increased by SGD 9.8bn while foreign currency deposits increased by SGD 5.4bn from Jul 2020 to Dec 2020, which is a 22.3% increase.[16]
- While banks' savings deposit rates have remained unchanged in the first half of 2020 at 0.16%, the deposit rate has fallen to 0.09% at Dec 2020. However, Singapore's fixed deposit rates have fallen for the 3-month, 6-month and 12-month deposits from Jun 2020. Fixed deposit rates were at 0.13%, 0.17% and 0.25% respectively at the end of Q4. The prime lending rate was however unchanged at 5.25% in Q3 and Q4.[17]

Capital Levels & Regulations

- All three Singapore banks kept their Common Equity Tier 1 Capital (CET1), Tier 1 and Total Capital Adequacy Ratios (CAR) to be well above the recommended Basel III guidelines and well above the regulatory minima specified by MAS, making them some of the more well-capitalized banks in the world. OCBC currently has the highest CET1 ratio at 15.2% while UOB and DBS came in at 14.7%, 13.9% respectively. With this, the banks have ample liquidity support and they look well-positioned to navigate the uncertainties ahead.

Asset Quality

- The NPL ratio for DBS and UOB in the 4th quarter was 1.6%, up from 1.5% at year-end 2019. The NPL ratio for OCBC was 1.5%, unchanged from the same time in 2019. For UOB, the total credit allowance of SGD 916mn for non-impaired assets was put aside, which brought the performing loan coverage ratio to 1.05% from 0.69% in 2019. The allowance coverage for OCBC, UOB and DBS was 115%, 107% and 110% in 2020.[18] [19] [20]

---

[1] Feb 15, 2021, Economic Survey of Singapore 2020, Ministry and Trade and Industry, https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-2020

[2] Feb 15, 2021, Economic Survey of Singapore 2020, Ministry and Trade and Industry, https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-2020

[3] Nov 23, 2020, Economic Survey of Singapore Third Quarter 2020, Ministry and Trade and Industry, https://www.mti.gov.sg/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Third-Quarter-2020

[4] Mar 16, 2021, Labour Market Report 2020, Ministry of Manpower, https://stats.mom.gov.sg/Pages/Labour-Market-Report-4Q-2020.aspx

[5] Dec, 2020, Survey of Professional Forecasters, Monetary Authority of Singapore, https://www.mas.gov.sg/-/media/MAS/EPG/SPF/2020/Survey-Writeup-Dec-2020-Web.pdf?la=en&hash=F4A9CEFFCBAD70CBC2EBBA04109ABA90BB26263D

[6] Oct 14, 2020, MAS Monetary Policy Statement, Monetary Authority of Singapore, https://www.mas.gov.sg/news/monetary-policy-statements/2020/mas-monetary-policy-statement-14oct20

[7] Oct 14, 2020, MAS Monetary Policy Statement, Monetary Authority of Singapore, https://www.mas.gov.sg/news/monetary-policy-statements/2020/mas-monetary-policy-statement-14oct20

[8] Oct 14, 2020, MAS Monetary Policy Statement, Monetary Authority of Singapore, https://www.mas.gov.sg/news/monetary-policy-statements/2020/mas-monetary-policy-statement-14oct20

[9] Mar 30, 2021, SGS Prices and Yields - Benchmark Issues, Monetary Authority of Singapore, https://eservices.mas.gov.sg/Statistics/fdanet/BenchmarkPricesAndYields.aspx

[10] Mar 30, 2021, Loans and Advances of DBUs to Non-Bank Customers by Industry, Monetary Authority of Singapore, https://eservices.mas.gov.sg/statistics/msb-xml/Report.aspx?tableSetID=I&tableID=I.5A

[11] Mar 30, 2021, Interest Rates of Banks and Finance Companies, Monetary Authority of Singapore, https://eservices.mas.gov.sg/Statistics/msb/InterestRatesOfBanksAndFinanceCompanies.aspx

[12] Mar 30, 2021, Singapore – Credit Rating, Trading Economics, https://tradingeconomics.com/singapore/rating

[13] Feb 25, 2021, UOB Group Financial Report, United Overseas Bank, https://www.uobgroup.com/investor-relations/assets/pdfs/investor/financial/2020/gp-financial-4q-2020.pdf

[14] Feb 24, 2021, OCBC 4Q Report, OCBC, https://www.ocbc.com/group/media/release/2021/ocbc_group_fy2020?

[15] Feb 10, 2021, DBS 4Q Report, DBS, https://www.dbs.com/iwov-resources/images/investors/quarterly-financials/2020/4Q20_performance_summary.pdf

[16] Mar 30, 2021, Deposits (excluding SGD NCDs) of DBUs by types of non-bank customers, Monetary Authority of Singapore, https://eservices.mas.gov.sg/statistics/msb-xml/Report.aspx?tableSetID=I&tableID=I.4

[17] Mar 30, 2021, Interest Rates of Banks and Finance Companies, Monetary Authority of Singapore, https://eservices.mas.gov.sg/Statistics/msb/InterestRatesOfBanksAndFinanceCompanies.aspx

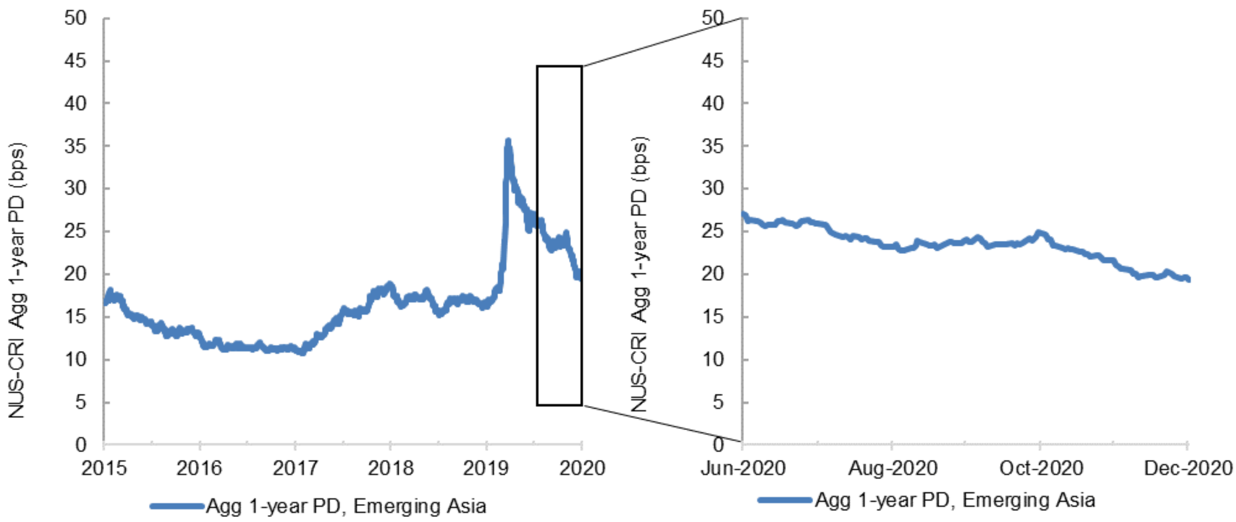
[18] Feb 25, 2021, UOB Group Financial Report, United Overseas Bank, https://www.uobgroup.com/investor-relations/assets/pdfs/investor/financial/2020/gp-financial-4q-2020.pdf

[19] Feb 24, 2021, OCBC 4Q Report, OCBC, https://www.ocbc.com/group/media/release/2021/ocbc_group_fy2020?

[20] Feb 10, 2021, DBS 4Q Report, DBS, https://www.dbs.com/iwov-resources/images/investors/quarterly-financials/2020/4Q20_performance_summary.pdf

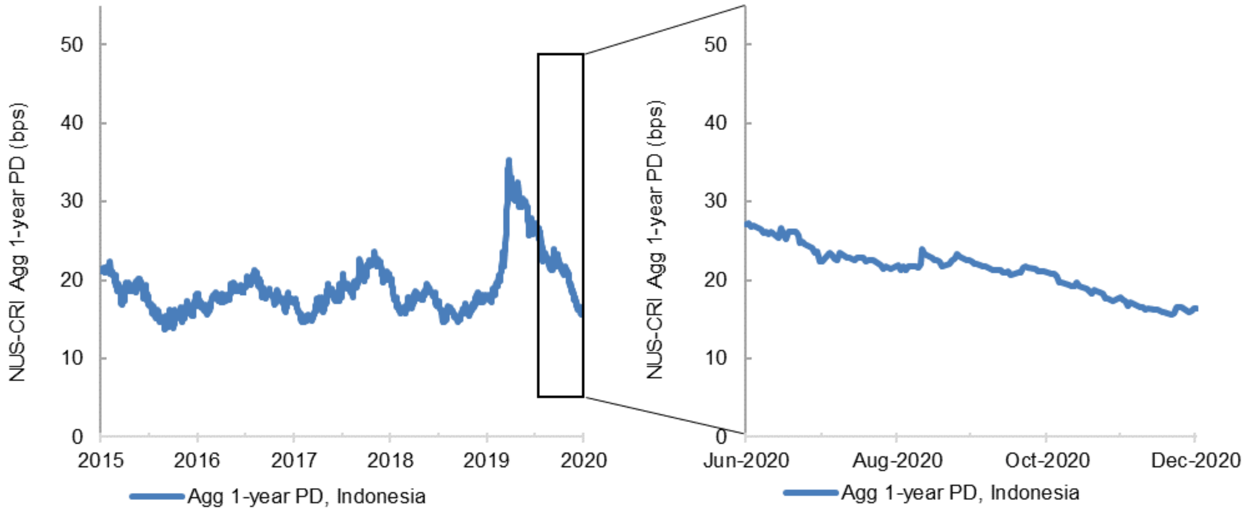
Asia-Pacific - Emerging economies

The NUS-CRI Aggregate 1-year PD for listed corporations in emerging Asia, excluding India and China, ended 2020 at 19.4bps. This tapered down from the initial a jump of 24.4bps in response to the Covid-19 pandemic during Q1 2020. Since the COVID-19 pandemic, central banks and governments have implemented an extensive range of accommodative monetary and fiscal policies to cope with the downturn. Indonesia's GDP growth rate increased from -5.3% in Q2 2020 to -2.1% in Q4 2020. Last quarter recorded the third straight quarter of contraction. However, the fall in consumption, investment and external demand is mitigated by the expansion in government spending. Malaysia saw a significant improvement in economic growth rate from -17.1% in Q2 2020 to -3.4% in Q4 2020. As with Indonesia, the fall in output is dampened by government spending. The same goes for Thailand's economy which has also contracted quarter on quarter. The GDP growth rates for Q2 2020 and Q4 2020 were -12.1% and -4.2% respectively. The smaller decline stems from the improvement in domestic and external demand.



Indonesian Companies

The NUS-CRI Aggregate 1-year PD for Indonesian companies decreased from 27.1bps at the end of Jun 2020 to 16.4bps at the end of 2020. Indonesia's economy experienced a contraction of 2.2% in Q4 2020 while Q2 2020's GDP growth recorded a -5.3%. As of Dec 2020, Indonesia recorded a 0.3% inflation rate and USD 0.8bn worth of current account surplus.



Economy

- The Indonesian economic growth rate changed by -3.5% in Q3 2020 and -2.2% in Q4 2020. Overall, the economy recorded the three consecutive contraction in the past year. Market forecast expects the economy to experience slight improvement with an expansion rate of 1.9% in the coming quarter. [1]
- The Consumer Price Index (CPI) of Indonesia stood at 0.26% at the end of Dec 2020. Respectively, the inflation of volatile food reached 2.82% (YoY), core inflation at 1.56% (YoY) and inflation of administered prices at 0.34% (YoY). Going forward, the inflation is to be maintained at around 3.00% throughout 2021. Anchoring inflation expectations is critical to promote economic recovery from the COVID-19 pandemic. Thus, it is important that the central, regional governments, and Bank Indonesia strengthen their coordination to keep inflation at check. [2]
- Indonesia's balance of payment recorded a USD 0.2bn deficit at Q4 2020. The low deficit is helped by the current account surplus and low financial account deficit. For 2020 as a whole, the BOP performance displayed resilience as the surplus stood at USD 2.6bn.[3]
- According to Nikkei Indonesia Manufacturing Purchasing Managers Index (PMI), Indonesia's manufacturing conditions improved. Its PMI rose to 51.3 in Dec 2020 from 39.1 in Jun 2020. The rise in manufacturing output went in tandem with easing disruptions from the COVID-19 pandemic. [4]

Monetary

- Moving forward from the first half of 2020, the Bank Indonesia (BI) agreed to hold the BI 7-day repo rate, deposit facility rate, and lending facility rate at 3.75%, 3.00%, and 4.50% respectively. The decision is consistent with Bank Indonesia's ongoing effort to maintain external stability and tackle the low inflationary environment. Bank Indonesia will focus on providing liquidity to support the dampened economic growth. [5]

Funding & Liquidity

- The yield of Indonesia's 5-year bond decreased from 6.5% at the end of Jun 2020 to 5.2% at the end of Dec 2020. Similarly, Indonesia's 10-year government bond yield decreased from 7.2% to 5.9% during the same time period. [6,7]
- Indonesia's official reserve assets position stood at USD 135.9bn as of Dec 2020, higher than the end of Jun 2020 level which registered at USD 131.7bn. The position is sufficient to finance at least

9.8 months of internal or external outflow. Bank Indonesia deemed the official reserve assets adequate and able to maintain macroeconomic stability. [8]

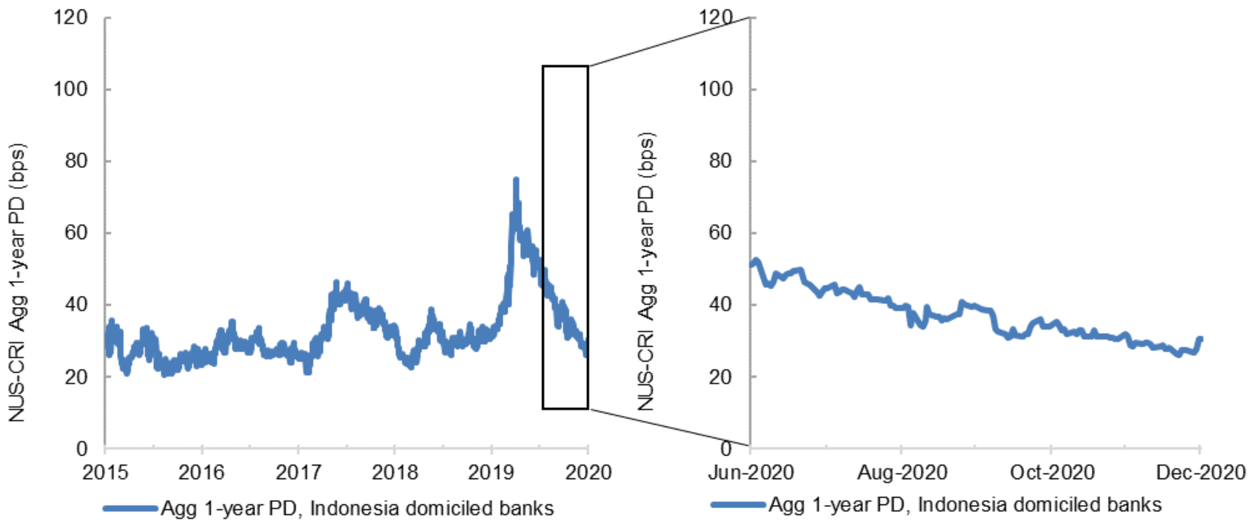
- External debt growth rate grew with a yearly rate of 3.9% YoY. Long term external debt remained dominant in Indonesia's external debt and stood at 89.3% of total external debt. External debt consisted of public sector external debt amounting to USD 206bn and private sector external debt amounting to USD 210bn. The ratio of external debt to GDP is stable at 39.1% at the end of Q4 2020. [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 ratings outlook at negative while Moody's and Fitch reaffirmed their ratings at stable. [10]

Indonesian Banks

The NUS-CRI Aggregate 1-year PD for Indonesian banks decreased from 51.3bps in Jun 2020 to 30.4bps in Dec 2020. Loans extended by Indonesian banks dropped to -2.4% in Dec 2020. Meanwhile, non-performing loans (NPL) stood at USD 11.9bn. [11,12]



Profitability

- The three largest majority state-owned Indonesian banks, Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia reported changes in net income of 30.0%, 123.6%, and 118.4% in the second half of 2020.[13,14,15]

Funding & Liquidity

- The liquid asset to bank deposit ratio of Indonesian banks stood at 31.7% in Dec 2020.[16]
- The Jakarta 3-month interbank rate decreased from 4.7% in Q2 2020 to 4.1% by the end of 2020. Similarly, the 1-month interbank rate decreased from 4.6% at Q2 2020 to 3.8% by the end of 2020. [17]

Asset Quality

- According to Bank Indonesia, the financial system remained stable. Capital adequacy ratio and liquidity of Indonesian banks, as of Nov 2020, stood at 24.1% and 31.7% respectively. Bank Indonesia recorded a credit contraction of 2.4% in Dec 2020. Moving forward, Bank Indonesia will maintain the financial system stability and support economic recovery by overcoming supply and demand constraints in terms of bank lending to priority sectors and strengthening coordination with other relevant authorities. [18]

---

[1] Dec 31, 2020, Indonesia GDP Annual Growth Rate, Trading Economics, https://tradingeconomics.com/indonesia/gdp-growth-annual

[2] Feb 01, 2021, Low Inflation in January 2021, Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/Low-Inflation-in-January2021-.aspx

[3] Feb 19, 2021, Indonesia's Balance of Payment (BOP) in Q4/2020 Remained Solid, External Resilience Maintained , Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/Indonesias-BOP-in-Q42020-Remained-Solid-External-Resilience-Maintained.aspx

[4] Jun 02, 2020, Global factory growth ends 2020 close to decade-highs, but supply worsens, Markit Economics, https://tradingeconomics.com/indonesia/manufacturing-pmi

[5] Jan 21, 2020, BI 7-Day Reverse Repo Rate Held at 3.75% : Synergy Building Economic Recovery Optimism, Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/BI-7DRR-Held-at-3.75-Synergy-Building-Economic-Recovery-Optimism.aspx

[6] Dec 31, 2020, Indonesia 5-Year Bond Yield, Investing, https://www.investing.com/rates-bonds/indonesia-5-year-bond-yield

[7] Dec 31, 2020, Indonesia 10-Year Bond Yield, Investing, https://www.investing.com/rates-bonds/indonesia-10-year-bond-yield

[8] Jan 08, 2021, Official Reserve Assets December 2020 Increased , Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/Official-Reserve-Assets-Dec2020-Increased-.aspx

[9] Jan 15, 2020, Indonesia's External Debt Recorded at USD416.6 billion , Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/Indonesia's-External-Debt-Recorded-at-USD416.6-billion-.aspx

[10] Dec 31, 2020, Indonesia - Credit Rating, Trading Economics, https://tradingeconomics.com/indonesia/rating

[11] Dec 31, 2020, Indonesia Loan Growth, Trading Economics, https://tradingeconomics.com/indonesia/loan-growth

[12] Dec 31, 2020, Indonesia Non-Performing Loans, CEIC Data, https://www.ceicdata.com/en/indicator/indonesia/nonperforming-loans

[13] Dec 31, 2020, Consolidated Financial Statements, Bank BRI, https://www.wsj.com/market-data/quotes/ID/XIDX/BBRI/financials/annual/income-statement

[14] Dec 31, 2020, Consolidated Financial Statements, PT Bank Mandiri (Persero), https://www.wsj.com/market-data/quotes/ID/XIDX/BMRI/financials/quarter/income-statement

[15]Jun 30, 2020, Consolidated Financial Statements, BANK NEGARA INDONESIA, https://www.wsj.com/market-data/quotes/ID/BBNI/financials/annual/income-statementn

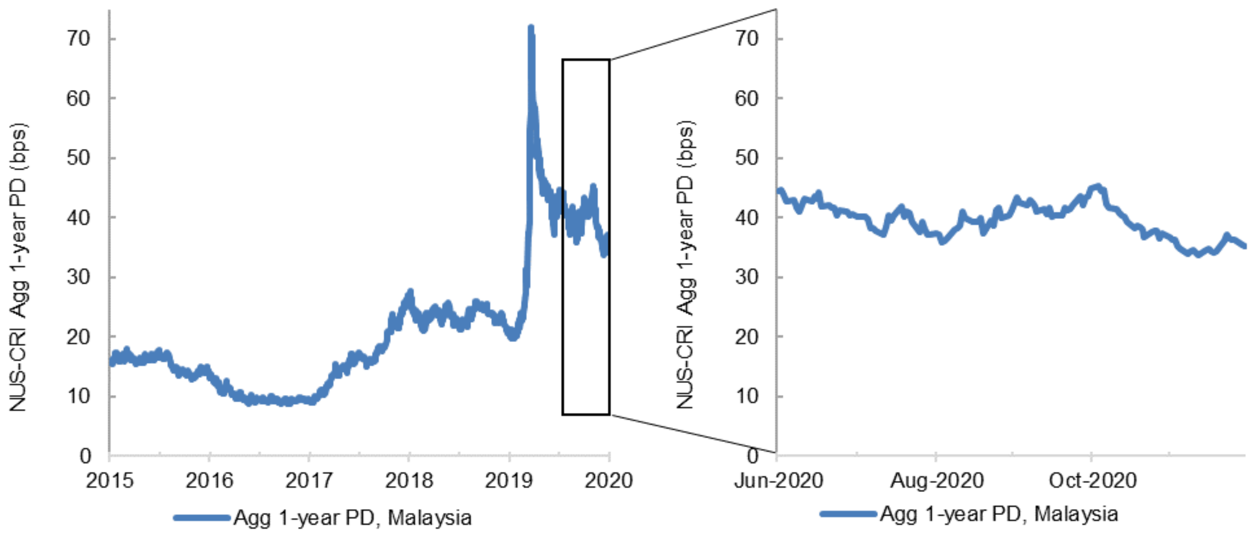
[16] Jan 21, 2020, BI 7-Day Reverse Repo Rate Held at 3.75% : Synergy Building Economic Recovery Optimism, Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/BI-7DRR-Held-at-3.75-Synergy-Building-Economic-Recovery-Optimism.aspx

[17] Jun 30, 2020, Jakarta Interbank Offered Rate (JIBOR), Bank Indonesia, https://www.bi.go.id/en/fungsi-utama/moneter/indonia-jibor/Default.aspx

[18] Jan 21, 2020, BI 7-Day Reverse Repo Rate Held at 3.75% : Synergy Building Economic Recovery Optimism, Bank Indonesia, https://www.bi.go.id/en/iru/highlight-news/Pages/BI-7DRR-Held-at-3.75-Synergy-Building-Economic-Recovery-Optimism.aspx

Malaysian Companies

The NUS-CRI Aggregate 1-year PD for Malaysian companies fell to 35.1bps by the end of Dec 2020 from 44.6bps at Q2 2020. Despite the slight economic contraction, the economic growth rate of Malaysia has increased substantially. Inflation averaged higher and unemployment rate increased. Unemployment rate maintained at 4.9% by the end of 2020.



Economy

- The Gross Domestic Product (GDP) in Malaysia contracted 2.7% YoY by the end of Sep 2020, following a growth of 5.0% in the previous quarter. Nominal GDP of Malaysia rose to an absolute value of USD 92.1bn in Jun 2020, and the recovery was driven by the extensive expansionary fiscal and monetary policies implemented in response to the Covid-19 pandemic. The demand and supply shocks following the prolonged lockdown resulted in a fall in expenditure across all national income accounting components. The GDP deflator also fell to 1.1% in Sep 2020. Gross Savings Rate was measured at 24.2% in the same period.[1]
- Headline inflation averaged lower at -1.5% in the fourth quarter (Q3 2020: -1.4%). Consumer Price Index (CPI) decreased from 119.1 at the end of Q2 2020 to 120.6 at the end of 2020. The lower inflation rates are mainly driven by the lower retail fuel prices and lower inflation for rental and communication services. [2] [3]
- During H2 2020, labor market conditions stagnated with unemployment rate unchanged at 4.9%. This stems from opposing forces of an improved labour market and the reimposition of movement restriction. [4] [5]
- In the fourth quarter of 2020, gross exports increased by 5.1% (Q3 2020: 4.4%), driven by the return of international trade and manufactured goods. The return of higher external demand allowed exports to record better growth relative to imports. This led to total trade recording at almost RM 2tn. Gross imports declined at a slower pace of 4.5% (Q3 2020: -6.3%). This is due to the contraction of intermediate imports. The strength of the semiconductors industry was backed by the demand for work from home tools and medical support. The decline in demand for crude oil led to a dip in commodities export.[6]

Monetary and foreign exchange landscape

- The Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to remain accommodative with a cumulative 125bps cut in the Overnight Policy Rate (OPR). For 2021, headline inflation is expected to edge upwards. This expectation is heavily influences by commodities prices. Nevertheless, inflation is expected to be mild as the economy is producing under capacity.[7]
- The ringgit appreciated by 3.6% against the USD in the fourth quarter, which resulted from an influx of foreign financial inflows as USD continues to weakens. [8]

Funding & Liquidity

- Currently, liquidity is adequate due to the recorded net inflows in Q4 2020. The surplus within the central bank increased by over RM 1.3bn. [9]
- For the government, the external debt amounts to RM 958bn. The rise in debt can be attributed to the increase in Government domestic debt securities and the increase in international corporate debt. Foreign currency debt accounts for 66% of the total external debt.[10] [11]
- Net financing continues to expand at a 4.4% rate annually. This can be accounted for by the increase in outstanding corporate debt. While household loans dipped by 5.4% (Q3 2020: 5.6%), business loans grew modestly by 0.9%% (Q3 2020: 2.9%).[12]

Regulations and Policies

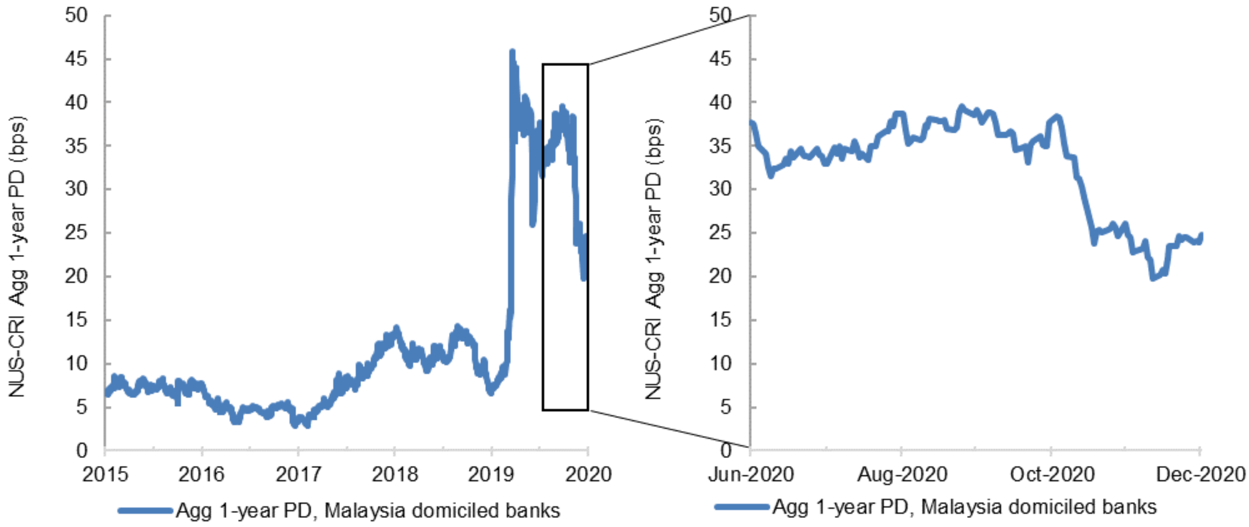
- In the coming second half, the government expects the recovery to be restrained by the reimposition of containment measures. [13]
- Continued support can be found from measures such as PENJANA, 2021 Budget and the vaccine rollout due Feb 2021.[14]

Sovereign Credit Ratings

- The Malaysian government maintained its Moody's A3 rating with a stable outlook. S&P kept its A- credit rating for Malaysia but changed the country's outlook from stable to negative. Meanwhile, Fitch downgraded its credit rating for Malaysia from A- to BBB+ with stable outlook. [15]

Malaysian Banks

The NUS-CRI Aggregate 1-year PD for Malaysian banks decreased from 37.6bps to 24.8bps from Jun 2020 to Dec 2020. Amidst rising yield, margin recovery came faster than expected. Revenue is supported as asset quality remains a worry.



Lending

- Nominal interbank interest rates were sustained. The 3-month Interbank rate remained below 2% by Dec 2020. [16]
- Banks face a reserve requirement ratio of 2% as of Jan 2021.[17]
- As of Dec 2020, the banks face a nonperforming loans ratio of 1.6% which is a slight deterioration from the Jun 2020 ratio of 1.4%.

Funding & Liquidity

- Total bank deposits stand at USD 520bn in Dec 2020. This is an increase relative to the USD 477bn at Jun 2020. [18]
- As the global economy continues to recover, the Monetary Policy Committee (MPC) considers the current monetary policy stance to be appropriate and accommodative. The MPC considers the cumulative 125bps reduction in the Overnight Policy Rate (OPR) this year will continue to provide support to the economy. [19]
- Despite higher provisions, support can be found from less strains on margin compressions. Revenue witnessed a 2% YoY growth. [20]

Capital Levels & Regulations

- The local banks remained prudent in capital regulation as many set aside higher provision in anticipation of rising nonperforming loans in the event of a prolonged economic slowdown. Capital buffers remained well above the regulatory standards. Currently, the CET1 ratio stands at 15.3% as of Dec 2020 which points to an increase from Jun 2020 ratio of 15.1%. [21] [22]

Asset Quality

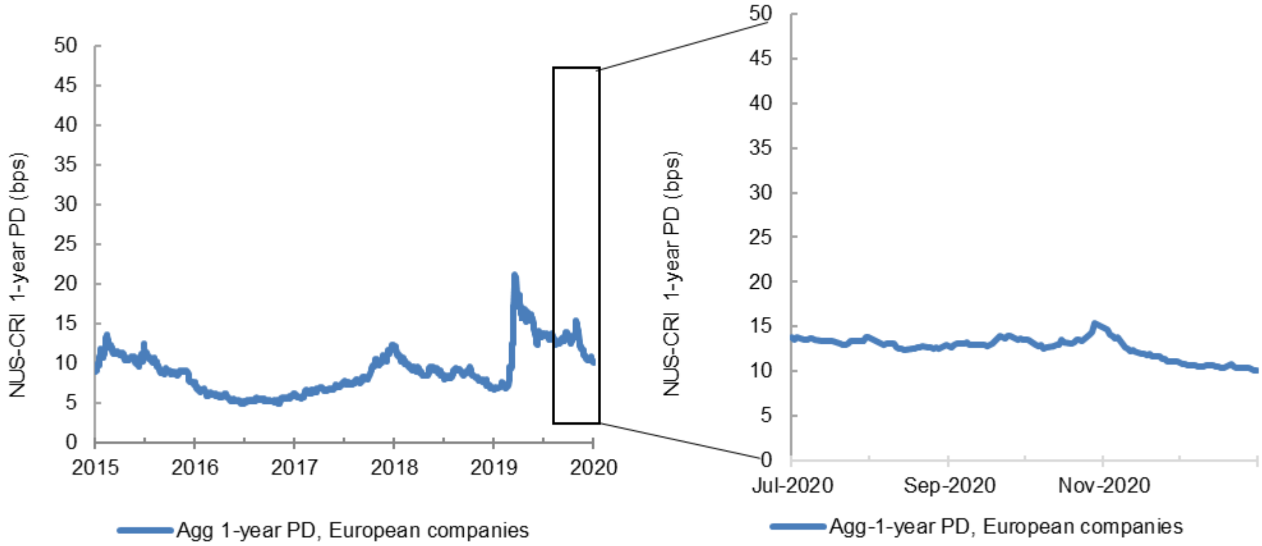
- Total outstanding loans recorded a 3.7% growth. [23]
- Support is to be expected from an accommodative moratorium for B40 and M40 debtors.

[1] Dec 31, 2020, Malaysia Nominal GDP Growth, CEIC data, https://www.ceicdata.com/en/indicator/malaysia/nominal-gdp
[2] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[3] Dec 31, 2020, Malaysia Consumer Price Index (CPI), Trading Economics, https://tradingeconomics.com/malaysia/consumer-price-index-cpi

[4] Dec 31, 2020, Malaysia Unemployment Rate, Trading Economics, https://tradingeconomics.com/malaysia/unemployment-rate
[5] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[6] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[7] Nov 03, 2020, Monetary Policy Statement, Bank Negara Malaysia, https://www.bnm.gov.my/-/monetary-policy-statement-03112020
[8] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[9] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[10] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[11] Dec 31, 2020, International Reserves and Foreign Currency Liquidity, Bank Negara Malaysia, https://www.bnm.gov.my/-/international-reserves-and-foreign-currency-liquidity-31-december-2020-
[12] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[13] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[14] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[15] Dec 31, 2020, Malaysia - Credit Rating, https://tradingeconomics.com/malaysia/rating
[16] Dec 31, 2020, Malaysia Three Month Interbank Rate, Trading Economics, https://tradingeconomics.com/malaysia/interbank-rate#:~:text=Interbank%20Rate%20in%20Malaysia%20averaged,percent%20in%20September%20of%202020.
[17] Dec 31, 2020, Malaysia Non Performing Loans Ratio, CEIC data, https://www.ceicdata.com/en/indicator/malaysia/non-performing-loans-ratio
[18] Jan 01, 2021, Malaysia Total Deposits, CEIC data, https://www.ceicdata.com/en/indicator/malaysia/total-deposits
[19] Nov 03, 2020, Monetary Policy Statement, Bank Negara Malaysia, https://www.bnm.gov.my/-/monetary-policy-statement-03112020
[20] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[21] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf
[22] Dec 31, 2020, Malaysia Banking System: Tier 1 Capital Ratio, CEIC data, https://www.ceicdata.com/en/malaysia/constituents-of-capital-basel-iii/banking-system-tier-1-capital-ratio
[23] Dec 31, 2020, Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2020, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/1067379/4Q2020_fullbook_en.pdf

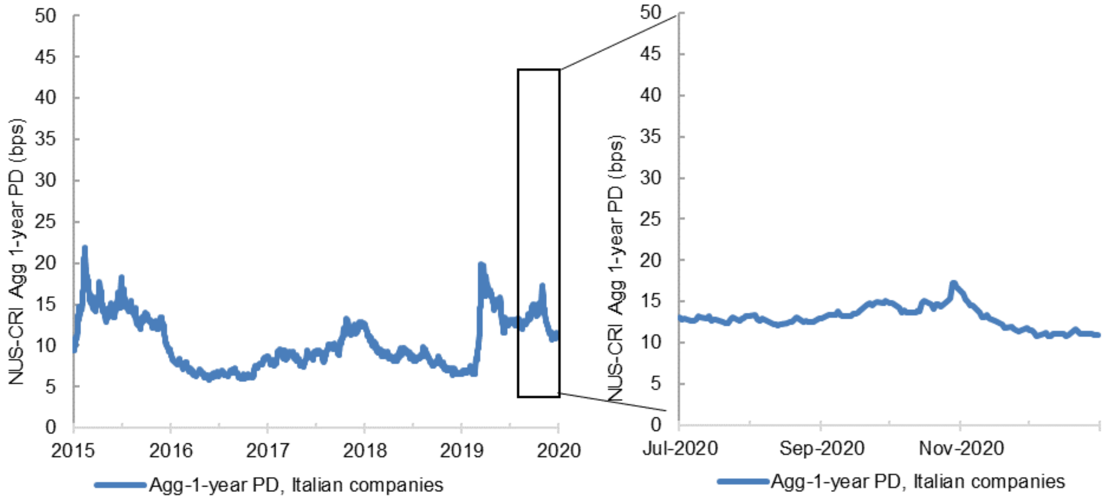
Europe

European firms' credit risk slightly declined as measured by the NUS-CRI Aggregate 1-year Probability of Default (Agg PD) from 13.82bps in Q2 2020 to 10.03bps in Q4 2020. Due to the COVID-19 outbreak, compared to the same quarter of the previous year, the GDP in the Euro Area in Q3 2020 and Q4 2020 decreased by 4.3% and 5.1% respectively while the GDP in EU dropped 4.2% and 4.8% during the same period. Some of the measures introduced by the European Central Bank (ECB) to help firms cope with the economic fallout from the pandemic induced economic slowdown include increasing the envelope of the pandemic emergency purchase programme (PEPP), recalibrating and adding favourable terms to the third series of targeted longer-term refinancing operations (TLTRO III), and extending collateral easing measures .



Italian Companies

The NUS-CRI Aggregate 1-year PD for Italian companies decreased from 13.07bps in the end of Jun 2020 to 10.97bps on Dec 2020. The improvement happened despite the country seeing its steepest economic contraction since World War II, with the overall 2020 GDP declining by 8.9%.[1]



Economy

The GDP of Italy increased by 15.9% in Q3 2020 and shrank by 1.9% in Q4 2020 compared to the previous quarter. Regarding the YoY GDP change, it decreased by 5.5% in Q3 2020 and 6.6% in Q4 2020. Overall, the economy contracted by 8.9% in 2020. While consumer spending declined 2.7%, government spending and investments rose 1.5% and 0.2% respectively.[2] [3]

- Italy's unemployment rate increased to 9.0% in Dec of 2020 from a downwardly revised 8.8% in the previous month and above market expectations of 8.8%, as the coronavirus pandemic continued to negative impact the labour market. The number of unemployed people increased to 2.257 million while employment fell to 22.839 million. The youth unemployment rate (aged 15-24), went up to 29.7% from 29.4% in Nov.[4]
- Italy's manufacturing Purchasing Managers' Index (PMI) – a single-figure measure of developments in overall business conditions increased to 52.8 in December of 2020 from 51.4 in the previous month. The reading pointed to the moderate improvement in the manufacturing sector as looser COVID-19 restrictions led to a surge in new demand. [5]
- Italy's services PMI increased to 39.7 in Dec of 2020 from 39.4 in the previous month, which is below market forecasts of 45.3. The reading pointed to a sharp contraction in services activity as the COVID-19 related measures continued to take their toll on the sector. Hopeful economic recovery amid the positive vaccine development, however, caused sentiment to climb to a three-month high. [6]
- The confidence climate in Dec 2020 went up from 98.4 to 102.4. All components except the retail trade improved: The current one from 97.4 to 99.2, the personal one from 104.7 to 108.0 and the future one from 99.3 to 106.6. The confidence index in manufacturing increased from 90.9 to 95.9. The market services confidence index increased from 74.8 to 78.2. Meanwhile, the retail trade confidence index decreased from 94.9 to 88.5.[7]

Funding & Liquidity

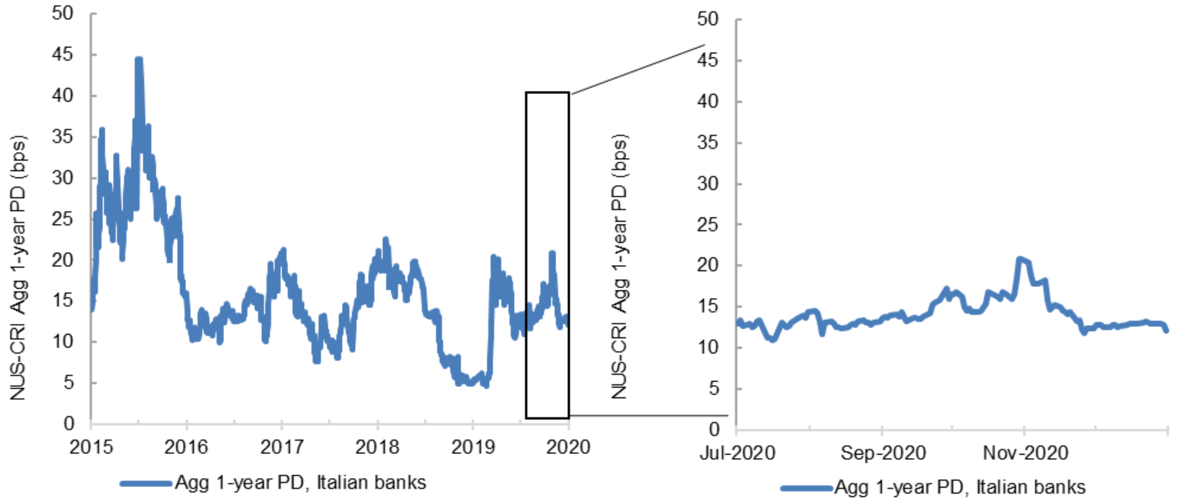
- Yield on 10-year Italian bonds decreased from 1.33% in Q2 2020 to 0.53% in Q4 2020.[8]
- Interest rates on loans (other than bank overdrafts) to non-financial corporations fell in the second half of 2020, from 1.89% in Q2 2020 to 1.79% in Q4 2020. Bank interest rates (including revolving loans, overdrafts, and extended credit card credit) to corporations decreased from 2.73% to 2.59% in the same period. Loans for house purchases decreased from 1.28% to 1.25% in the second half of 2020. [9] [10] [11]
- Preliminary estimates for outstanding loans to non-financial institutions stood at EUR 678.5bn. Total outstanding loans overall increased by 0.70% from the previous half-year. [12]

Sovereign Credit Ratings

- Moody's and Fitch maintained their ratings at Baa3 and BBB- with a stable outlook respectively. S&P maintained its ratings at BBB but revised its outlook to stable from negative. [13]

Italian Banks

The NUS-CRI Aggregate 1-year PD for Italian companies remained relatively stable from Q2 2020 to Q4 2020. Interest rates to firms and to households decreased slightly in Q1 2020. Meanwhile, asset quality at Italian banks was stable and remained unchanged.



Profitability

- Italy's biggest bank UniCredit posted a 12.6% decline for its year-on-year total revenues in Q4 2020. Underlying net profits of this quarter amounted to EUR 0.2bn. The group's CET1 ratio was 15.08%. [14]

Funding & Liquidity

- The long-term interest rate was reported at 0.58% in Dec 2020, lower than 1.46% in June 2020.[15]
- The 12-month percentage change in deposits of funds by Italian residents was 7.5%, while for the total deposits of non-domestic residents, it was -4.5%.[16]
- Interest charged on loans to firms were 1.3% in Nov 2020, higher than 1.2% in May 2020. Interest rates of loans to households remained unchanged at 1.3% in Nov 2020. [17]
- The Bank of Italy's liabilities to Euro-area financial counterparties decreased from EUR 138bn in May 2020 to EUR 98bn in Nov 2020. [18]
- Italian bank liabilities towards the Eurosystem increased to EUR 367bn in Nov 2020 from EUR 291bn in May 2020. Capital and reserves increased to EUR 362bn in Nov 2020 from EUR 355bn in May 2020. [19]
- According to the latest bank lending survey, Italian banks reported that in Q4 2020, credit standards for new loans to firms remained basically unchanged.[20]

Asset Quality

- According to the Bank of Italy, in Q4 2020, the flow of new non-performing loans stayed at low levels amid measures to support household income and firms' activities. The net NPL ratio decreased from 2.6% in Q3 2020 to 2.0% during Q4 2020. The coverage ratio of Italian banks also decreased from 53.8% in Q3 2020 to 53.5% in Q4 2020.[21]

---

[1] Mar 03, 2021, Italy GDP Annual Growth Rate, Trading Economics, https://tradingeconomics.com/italy/gdp-growth-annual
[2] Mar 03, 2021, Italy GDP Annual Growth Rate, Trading Economics, https://tradingeconomics.com/italy/gdp-growth-annual

[3] Mar 03, 2021, Italy GDP Growth Rate, Trading Economics, https://tradingeconomics.com/italy/gdp-growth

[4] Feb 01, 2021, Italy Unemployment Rate, Trading Economics, https://tradingeconomics.com/italy/unemployment-rate

[5] Jan 04, 2021, Italy Manufacturing PMI, Trading Economics, https://tradingeconomics.com/italy/manufacturing-pmi

[6] Jan 06, 2021, Italy Services PMI, Trading Economics, https://tradingeconomics.com/italy/services-pmi

[7] Dec 23, 2020, Consumer and Business Confidence, Italian National Institute of Statistics, https://www.istat.it/en/archivio/252014

[8] Dec 31, 2020, Italy Government Bond 10Y, Trading Economics, https://tradingeconomics.com/italy/government-bond-yield

[9] Dec 31, 2020, Italian MFIs: Interest per annum on new loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=124.MIR.M.IT.B.A20.A.R.A.2240.EUR.O

[10] Dec 31, 2020, Italian MFIs: Revolving loans & overdrafts, convenience & extended credit card credit to corporations, ECB, http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=124.MIR.M.IT.B.A2Z.A.R.A.2240.EUR.N

[11] Dec 31, 2020, Italian MFIs: Cost of borrowing for households for house purchase, ECB, http://sdw.ecb.europa.eu/reports.do?node=1000004935

[12] Dec 31, 2020, Italian MFIs: Total loans to non-financial corporations, ECB, http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=117.BSI.M.IT.N.A.A20.A.1.U2.2240.Z01.E

[13] Dec 31, 2020, Rating: Italy Credit Rating, Country Economy, https://countryeconomy.com/ratings/italy

[14] Feb 10, 2021, UniCredit: 4Q20 and FY20 Group Results, UniCredit, https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/investors/group-results/2020/4Q20/4Q20_Results.pdf

[15] Dec 31, 2020, Italy Long Term Interest Rate, YCharts, https://ycharts.com/indicators/italy_long_term_interest_rates#:~:text=Italy%20Long%20Term%20Interest%20Rate%20is%20at%200.70%25%2C%20compared%20to,long%20term%20average%20of%203.65%25.

[16] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

[17] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

[18] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

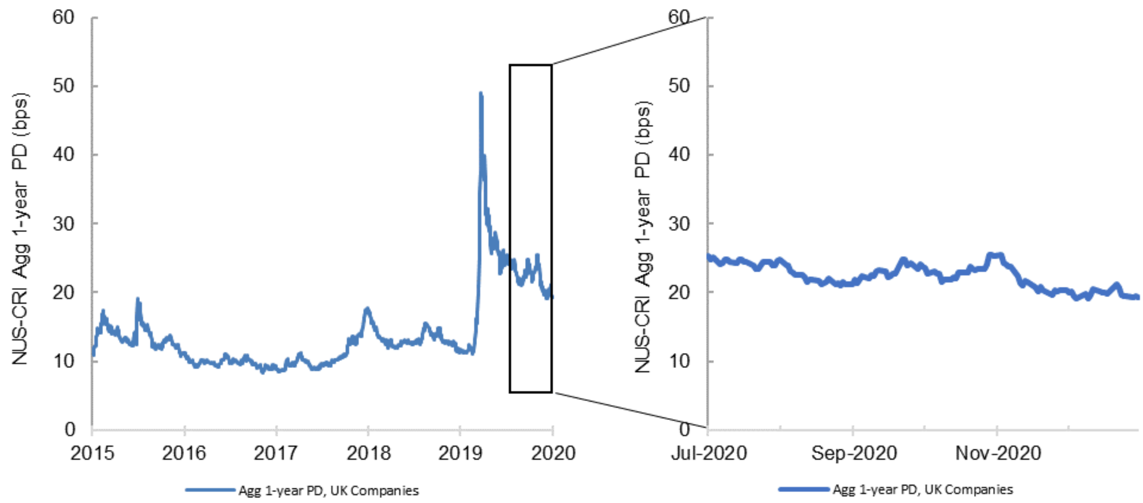
[19] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

[20] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

[21] Apr 16, 2021, Economic bulletin No.2 - 2021, Bank of Italy, https://www.bancaditalia.it/pubblicazioni/bollettino-economico/2021-2/en-boleco-2-2021.pdf?language_id=1

UK Companies

NUS-CRI Aggregate 1-year PD for companies domiciled in the UK decreased marginally in H2 2020. Though UK domiciled companies' Agg PD decreased from 49bps during the initial impact of the pandemic induced slowdown, H2 2020 saw a marginal decrease from 25bps to 19bps. This is in line with the quarterly GDP growth rates increasing by 16% and 1% in Q3 and Q4 of 2020 respectively. Household consumption decreased by 0.2% in Q4 2020, after increasing dramatically in Q3 by 18.3%. Companies are still facing exogenous threats to recovery posed by politically driven vaccine distributions affecting economic rebound.



Economy

- The UK economy grew drastically in the first quarter of H2 2020 with QoQ GDP growth at 16% in Q3 2020 and 1.3% in Q4 2020. These figures marked a bounce-back from those witnessed during the initial impact of the pandemic where Q1 and Q2 2020 growth rates were at -2.8% and -19.5% respectively.[1]
- Unemployment rates in the UK have marginally increased in Q3 and Q4 of 2020 from 4.8% to 5.1%. Compared to Q2 2020, where unemployment stood at 4.1%, the pandemic induced economic slowdowns and resultant lockdowns seem to have a lasting effect on unemployment rates. That being said, UK had implemented an extensive job protection programme that has potentially limited the severity of unemployment compared to other major developed economies.[2]
- The total trade balance in the UK decreased dramatically from GBP 1.62bn in Q2 2020 to GBP -6.20bn in Q4 2020. [3]
- UK Manufacturing PMI rose to 57.3 in December from 55.6 in November. It was significant improvement above the neutral 50.0 mark, indicating a rebound in operation conditions as new orders expanded since August and a temporary boost in purchasing ahead of Brexit. That being said, supply chain difficulties have restricted actual production values in December.[4,5]
- UK construction companies recorded a sustained rebound in business activity during December. The headline seasonally adjusted IHS Markit/CIPS UK Construction Total Activity Index remained relatively unchanged at 54.6 in December 2020 from 54.7 in November. This reading reflected the rise in house building during December, while civil engineering was the weakest-performing category.[6]

Monetary

- The monetary Policy Committee (MPC) voted to maintain the bank rate at 0.1% during their meeting on 16 December 2020. The Bank of England also decided to maintain the stock of sterling non-financial investment-grade corporate bond purchases at GDP 20bn, financed by issuance of central bank reserves. The committee also decided to continue with its GBP 100bn UK government bond purchases, on top of the previous GBP 150bn, to maintain 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 0.8% in December 2020, up from 0.6% in November 2020 and down from 1.4% in December

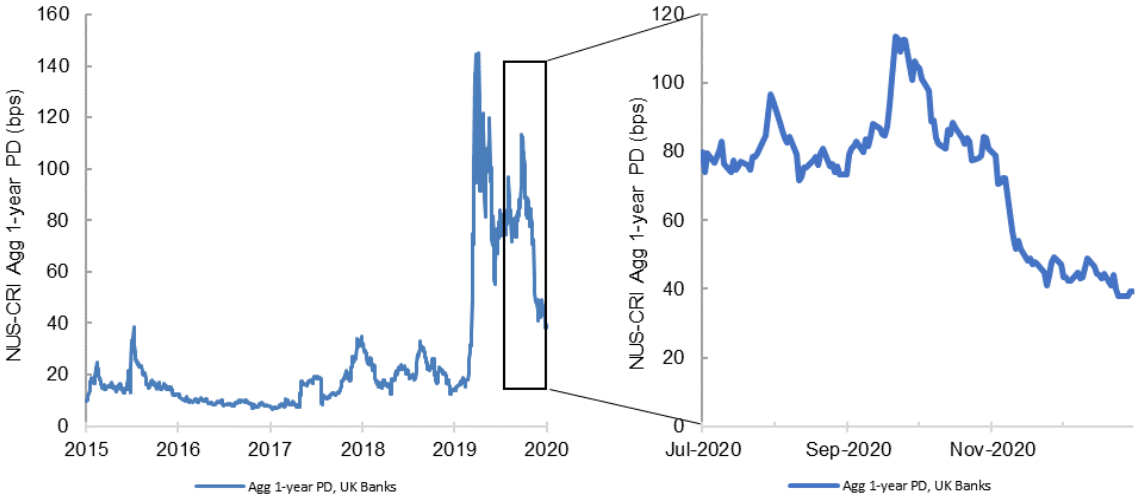
2019. The largest contribution to the CPIH 12-month inflation rate in Decembers 2020 came from recreation and culture. [8]

Sovereign Credit Ratings

- On 15 January 2021, Fitch affirmed UK's rating at AA- with a negative outlook. The downgrade reflects a balance of high income, diversified and advanced economy against the context of high and rising public sector indebtedness. The negative outlook is driven by the impact of the COVID-19 pandemic on the UK economy and the resultant deterioration of UK public finances. [9]

UK Banks

The NUS-CRI Aggregate 1-year PD for banks in the United Kingdom improved substantially in the second half of the year. We see the PD decreasing substantially from the high of 112bps in September 2020 to 39bps by the end of the year. Simultaneously, the FTSE 350 Banks Index also bounced back from historic lows caused by the pandemic, to reach 2527.



Profitability

- Lloyds Banking Group's net interest margin (NIM) in Q4 2020 was 2.46%, marginally higher than Q3 2020 NIM value of 2.42%. Lloyds closed 2020 with a net interest income of GBP 252mn, GBP 36mn lower than that at the end of 2019. This is driven primarily by strength in the bank's mortgage new business and high quality growth in deposits reducing other funding needs. [10]
- Natwest Group reported an operating loss before tax of GBP 0.3bn, far lower than the operating profit before tax of GBP 4.2bn witnessed in 2019. The company has also reported expected credit loss of GBP 3.2bn.[11]
- Standard Chartered's underlying profit before tax decreased 40% YoY in 2020 to USD 2.5bn. Its income in 2020 decreased by 11% at constant currency and ex-DVA driven primarily by a contraction of USD 182mn in transactional banking. [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-November 2020 (Q4). Total funding volumes were expected to increase in the three months to end-February 2021 (Q1). [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'– decreased in Q4 and was expected to remain unchanged in Q1[14]

Asset Quality

- The total write-offs of sterling denominated loans increased from GBP 851mn on 30 June 2020 to GBP 960mn on 31 December 2020, due to write-offs to private non-financial corporates, which increased from GBP 165mn to GBP 258mn. Non-financial loan write-offs to individuals also decreased marginally from GBP 666mn to GBP 659mn. [15]
- Write-offs on loans denominated in foreign currency increased from GBP 17mn in Q2 2020 to GBP 262mn in Q4 2020, driven by a decrease in the write-offs on loans to non-residents, which constituted the largest share of the total foreign currency write-offs from GBP 17mn to GBP 248mn in H2 2020.[16]

[1] March 31, 2021,United Kingdom GDP Growth Rate,Trading Economics,https://tradingeconomics.com/united-kingdom/gdp-growth

[2] March 23, 2021,Unemployment rate (aged 16 and over, seasonally adjusted),Office of National Statistics - UK ,https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms

[3] March 12, 2021,Total Trade (TT): WW: Balance: BOP: CP: SA,Office of National Statistics - UK ,https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/ikbj/mret#othertimeseries

[4] December 16, 2020,IHS Markit/ CIPS UK Manufacturing PMI ,IHS Markit ,https://www.markiteconomics.com/Public/Home/PressRelease/4bcc14f3db3845a7a5ab9aca65cedd4d

[5] December 16, 2020,IHS Markit/ CIPS UK Manufacturing PMI ,IHS Markit ,https://www.markiteconomics.com/Public/Home/PressRelease/4bcc14f3db3845a7a5ab9aca65cedd4d

[6] January 7, 2021,IHS MARKIT / CIPS UK CONSTRUCTION PMI,IHS Markit ,https://www.markiteconomics.com/Public/Home/PressRelease/e0804378d11a400bb5512c68a97e4a7b

[7] December 17, 2020,Monetary Policy Summary and minutes of the Monetary Policy Committee meeting,Bank of England ,https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/december-2020

[8] January 20, 2021,Consumer Price Inflation , UK: December 2020 Office of National Statistics - UK ,Office of National Statistics - UK ,https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2020#:~:text=Image%20.csv%20.xls-,The%20Consumer%20Prices%20Index%20including%20owner%20occupiers'%20housing%20costs%20(CPIH,up%20from%200.5%25%20in%20May.

[9] Jan 15, 2020 ,Fitch Affirms the UK at 'AA-'; Outlook Negative,Fitch Ratings,https://www.fitchratings.com/research/sovereigns/fitch-affirms-uk-at-aa-outlook-negative-15-01-2021

[10] February 24, 2021,2020 Results: Lloyds,Lloyds Banking Group ,https://www.lloydsbankinggroup.com/assets/pdfs/investors/financial-performance/lloyds-banking-group-plc/2020/full-year/2020-lbg-fy-results-presentation-v2.pdf

[11] February 19, 2021,2020 results: Natwest Group ,Natwest Group ,https://investors.natwestgroup.com/~/media/Files/R/RBS-IR-V2/results-center/19022021/natwest-group-annual-report-accounts-2020-v1.pdf

[12] February 25, 2021,FY'20 and 4Q'20 Results and investor update,Standard Chartered,https://av.sc.com/corp-en/content/docs/standard-chartered-plc-full-year-2020-presentation.pdf

[13] January 21, 2021,Bank Liabilities Survey - 2020 Q4,Bank of England ,https://www.bankofengland.co.uk/bank-liabilities-survey/2020/2020-q4

[14] January 21, 2021,Bank Liabilities Survey - 2020 Q4,Bank of England ,https://www.bankofengland.co.uk/bank-liabilities-survey/2020/2020-q4

[15] March 1, 2021,Bankstats (Monetary & Financial Statistics),,Bank of England ,https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2010&TD=31&TM=Dec&TY=2020&FNY=&CSVF=TT&html.x=47&html.y=41&C=5ID&C=71A&C=4ZO&Filter=N

[16] March 1, 2021,Bankstats (Monetary & Financial Statistics),,Bank of England ,https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2011&TD=7&TM=Apr&TY=2021&FNY=&CSVF=TT&html.x=170&html.y=47&C=4ZR&C=4ZS&C=4ZT&C=6ZF&C=4ZV&C=4ZW&Filter=N

About The Credit Research Initiative

The Credit Research Initiative (CRI) is a non-profit undertaking under the Asian Institute of Digital Finance (AIDF) 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 over 130 economies. The CRI also distributes historical time series of over 42,000 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

Usage, redistribution and publication of data
For more information please contact us:
Telephone: +65 6516 3380
Email: nuscri@nus.edu.sg

SACS Editor:
Anthony Prayugo

Contributors to this issue:
Lee Wei Qi
Raghav Chandra Mathur
Vivane Raj
Wang Anyi