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Weekly Credit Brief
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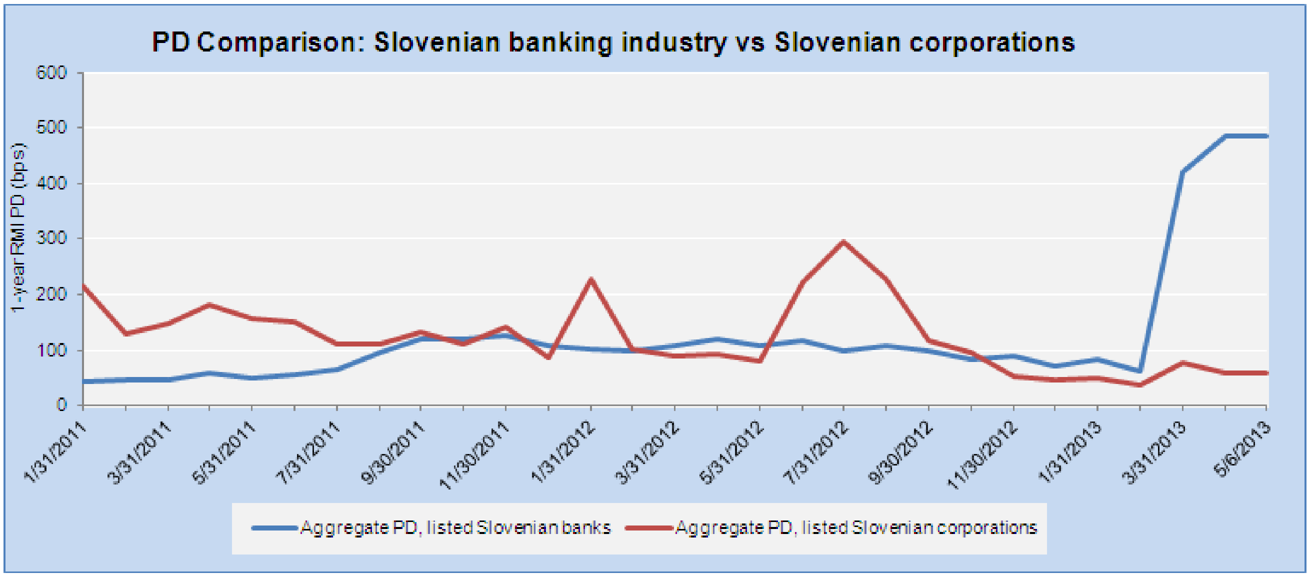
Story of the Week

Moody's downgraded Slovenia's credit rating to junk

By Iao Chi Wa



The 1-year RMI probability of default (PD) for the Slovenian banking industry has climbed remarkably relative to the aggregate PD of the country's corporations in recent months, as staggering outstanding nonperforming loans and a slowing economy threaten the industry's viability. Last week, Moody's deprived the Adriatic nation of its investment grade rating by downgrading it to Ba1 from Baa2, citing "turmoil" in the banking system as the main rating rationale. S&P and Fitch both currently rate Slovenia A-, four notches higher than Moody's.

Moody's cited the ongoing turmoil in Slovenia's banking system, which may require support from the sovereign, as a primary reason for the downgrade. Moody's downgraded the largest Slovenian banks in the latter part of Q1. As the graph suggests, RMI's PD model may exhibit better responsiveness to underlying credit dynamics, as the RMI PD for the Slovenian banking industry has signaled a rapidly deteriorating credit outlook since the end of February.

Slovenia has relied heavily on bank lending to boost the economy. Unfortunately the quality of loans has been compromised by weak risk governance. Nonperforming loans accumulated to EUR 6.8bn, about one-fifth of the national economy. Moreover, the bad loan problem is exacerbated by Slovenia's export-driven economy and the ongoing economic recession in eurozone, which is the main exporting destination for Slovenia. Similar with the measures implemented in Spain, the Slovenian government will probably establish a "bad bank" to take over nonperforming loans.

Banks in Slovenia also suffer from insufficient capital reserves. In June 2012, the government extended a EUR 320mn bailout to the country's largest bank Nova Ljubljanska Banka (NLB), to ensure it achieved 9% Core Tier 1 capital ratio. Nova Kreditna Banka Maribor, which recorded a EUR 205mn loss in 2012, failed to meet the capital requirements the same year. If the country ends up unable to solve its financial problems, it will require a bailout in the range of EUR 6bn to EUR 8bn, according to analysts from Bank of America Merrill Lynch.

Slovenian Credit Cut to Junk by Moody's as Bond Sale Delayed (Bloomberg)
Slovenia Falls From Economic Grace, Struggling to Avert a Bailout (The New York Times)
Slovenia Companies Avoid Banks in Test of Investor Debt Appetite (Bloomberg)
Slovenia Facing a Banking Crisis, Report Warns (The New York Times)
Slovenia Bailout Signaled by Worsening Debt Swaps (Bloomberg)

In the News

ECB cuts interest rates, open to further action

May 02. The European Central Bank lowered its main rate by a quarter percentage point to a record low 0.2%, in the first interest rate cut for ten months. ECB maintained the possibility of further policy measures to support the recession-mired eurozone economy, including having a negative deposit rate, which means banks have to pay for holding cash reserves at the ECB. ECB also promised to provide prime eurozone banks with as much as liquidity as they need until July 2014 and boost lending to small-and medium-sized enterprises. (Reuters)

Standard & Poor's raises Philippines' credit rating to investment grade

May 02. Standard & Poor's lifted Philippines' sovereign rating to investment grade last week, to BBB- from BB+, in the second such rating upgrade this year. According to S&P, the country's improved foreign exchange reserves, stable inflation and decreasing dependence on foreign debt have served to strengthen the country's risk profile. In March, Fitch's assigned the Philippines its first investment grade rating on record. (Washington Post)

Citigroup sees dim sum loans topping USD 16bn

May 03. The amount of CNY-denominated loans originated in Hong Kong will reach CNY 100bn this year, after Hong Kong Monetary Authority (HKMA) relaxed capital rules for the Chinese currency, according to Citigroup Inc. The HKMA on April 25 abolished the limit on lenders' net open positions for Yuan and a requirement they maintain a certain level of liquid assets denominated in CNY. The changes will likely increase the availability of CNY in Hong Kong and subsequently lower the yields for Dim Sum bonds. CNY-denominated deposits in Hong Kong reached a record-high of CNY 668bn in March. (Bloomberg)

Malaysia - Still upbeat on loan growth

May 03. Several major research houses in Malaysia remain cautiously optimistic about overall loan growth in 2013, despite the 13th general election and several guidelines announced by Bank Negara Malaysia (BNM) to curb lending to the consumer segment and in the housing market. The research houses have projected total loan growth in a range of 7% to 11% for the whole year. According to RHB, March system loan growth declined due to a slowdown in business lending, but the figures for loan application and approval have improved, especially for the business segment. (The Edge Malaysia)

Pilgrim funds give Indonesia banks booster shot

May 02. Indonesia's Ministry of Religious Affairs will be shifting pilgrim savings from non-Islamic banks to Shariah-compliant lenders. The plan will move USD 1.1bn, or 7.3% of the IDR 150.8tn in savings at Islamic lenders, which is less than a sixth of Malaysia's USD 102bn, according to central bank data. The Indonesian government wants to narrow the market share gap of Shariah banking assets with its neighbor, as it looks towards growth in Islamic banking to spur demand for Islamic bonds. (Bloomberg)

Microsoft, AT&T cross Atlantic for euro rates

May 04. Microsoft Corp and AT&T Inc are among US borrowers selling the most bonds in Europe since the start of 2008, as the average yield on investment-grade euro corporate bonds fell to an unprecedented 1.75%, or 89 bps below comparable dollar notes. American issuers raised EUR 17.2bn from bond sales this year, nine times the amount for the same period in 2012, according to data compiled by Bloomberg. AT&T and Microsoft raised EUR 1.8bn from bond sales in March and April, respectively, with favorable yields. The 2.625% yield on Microsoft's 20-year EUR-denominated bonds is the lowest coupon offered in Europe for similar-maturity, non-financial corporate notes. (Bloomberg)

Philippines to stick to debt plan despite ratings upgrade (Reuters)

Moody's backs stable outlook on India's rating (WSJ)

UAE agency to start credit data surveillance (Gulf News)

Oman may issue dollar bond (Arab News)

Inflation spikes as Qatar gears up for spending spree (Arab News)

Lenders eye USD 1.02bn credit line for Sharp (Fox Business)

China Steel credit rating cut due to high-risk profile (Taipei Times)

Japan monetary boost was needed to exit deflation, Nakao says (Bloomberg)

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