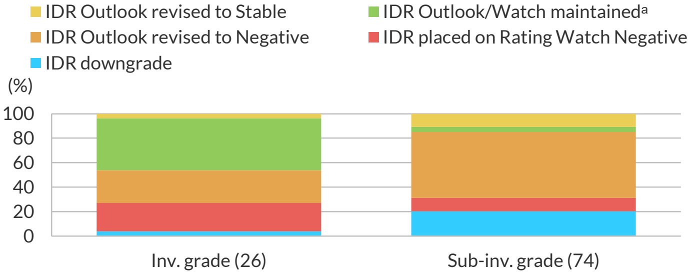
Coronavirus Rating Impact: EMEA Emerging Market Banks

Negative Actions Reflect Weaker Economies and Reductions in Potential Support

Eastern Europe and MEA Banks Recent Rating Actions

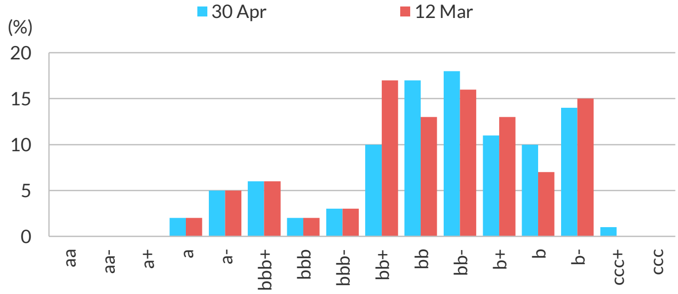
(Between 12 March 2020 and 30 April 2020)



[a] Including six Saudi banks and one bank in Egypt where we placed VRs on RWN
Source: Fitch Ratings

Eastern Europe and MEA Banks VR Rating Stock

(Rating distribution)



Source: Fitch Ratings

Related Research

Coronavirus Downside Scenario: Global Financial Institutions Risk Heat Map (May 2020)

Global Economic Outlook – Crisis Update (April 2020)

Coronavirus Scenarios: Baseline and Downside Cases (April 2020)

Fitch Sector Outlooks: March 2020 Update (March 2020)

Sovereign Data Comparator – March 2020 (April 2020)

Links to the latest commentary on individual countries can be found at the end of this report

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Fitch Ratings took multiple rating actions across its portfolio of European, Middle East & African (EMEA) emerging market (EM) banks between 12 March and 30 April.[1] These actions reflected the impact of the coronavirus and were driven by:

- The sharp deterioration in economic outlooks;
- Negative actions on sovereign ratings; and
- Negative actions on the ratings of bank owners.

Of the 100 bank IDRs reviewed, 86 were subject to negative rating actions. These included 16 downgrades, of which 15 were recorded in Middle East and Africa, primarily in Oman, South Africa and Nigeria.

Weaker Economies the Main Driver

Of the 86 negative actions, 68 were driven by our revised assessments of banks' stand-alone credit profiles, as reflected in their Viability Ratings (VRs). These in turn took into account the sharp downward revisions to economic forecasts across the region, where the impact of lockdowns has in some cases been compounded by the fall in the oil price.

Weaker economic activity will hit banks' asset quality and earnings and in some cases capital, although funding and liquidity will be stable at most banks. However, most ratings have been placed on Rating Watch Negative (RWN) or Negative Outlook (RON) rather than downgraded. This is because of expected economic recoveries from 3Q20, sound financial metrics going into the downturn and – in some cases – already low ratings.

Support Considerations a Secondary Factor

Negative actions on 18 banks were driven by revised assessments of potential support, either from domestic sovereigns or bank shareholders. Weaker sovereign support drove five actions, mostly in Ukraine. The other 13 banks were affected either by rating actions on parent institutions, or by increasing country risks which could affect subsidiaries' ability to utilise shareholder support. These were mostly recorded in Eastern Europe.

Rating Sensitivities and Downside Risks

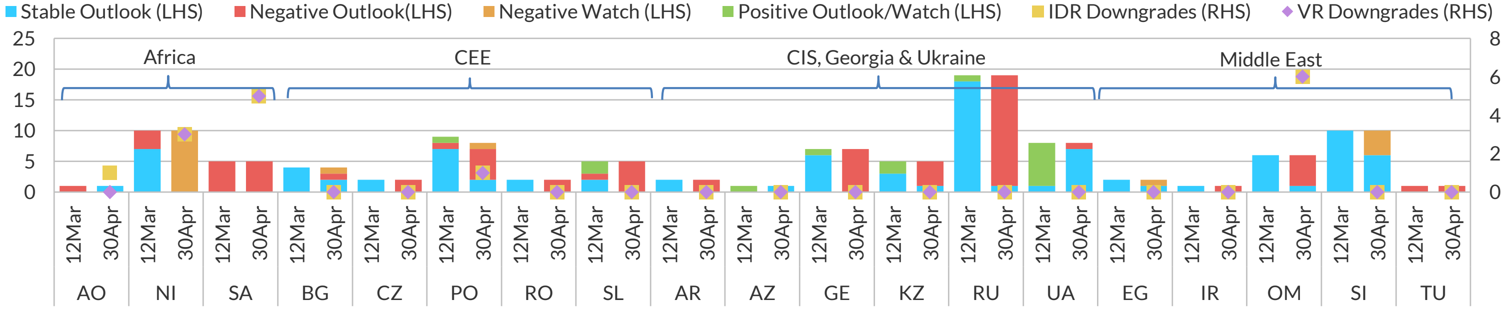
Ratings on RON could be downgraded if economic recoveries are delayed and the impact of the crisis on banks' financial metrics – or on domestic sovereigns and bank shareholders in the case of support-driven ratings – is greater than envisaged in our baseline scenario. The resolution of RWNs will to a large extent depend on the trend in oil prices and their impact on certain oil-producing economies.

[1] We include in this report the Czech Republic and Slovenia, which are part of the Eastern European region, but not classified as EMs by the IMF.

Snapshot – Rating Actions for Select EE/MEA Banking Jurisdictions

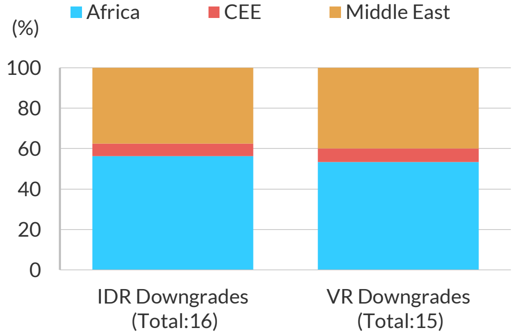
Eastern Europe and MEA Banks' IDR Outlooks and Recent Actions

(No. of banks: 100; actions, between 12 March 2020 and 30 April 2020)



Source: Fitch Ratings

Distribution of IDR/VR Downgrades



Source: Fitch Ratings

Aggregate Ratings Actions

	Angola	Nigeria	South Africa	Bulgaria	Czech Republic	Poland	Romania	Slovenia	Armenia	Azerbaijan	Georgia	Kazakhstan	Russian Federation	Ukraine	Egypt	Iraq	Oman	Saudi Arabia	Turkey	Total actions
IDR downgraded	1	3	5	0	0	1	0	0	0	0	0	0	0	0	0	0	6	0	0	16
IDR placed on Rating Watch Negative	0	7	0	1	0	1	0	0	0	0	0	0	0	0	1	0	0	4	0	14
IDR Outlook revised to Negative	0	0	0	1	2	5	2	4	2	0	7	4	18	1	0	1	0	0	0	47
IDR Outlook revised to Stable from Positive[a]	0	0	0	0	0	1	0	0	0	1	0	0	0	7	0	0	0	0	0	9
IDR Outlook/Watch maintained[b]	0	0	0	2	0	1	0	1	0	0	0	1	1	0	1	0	0	6	1	14
																				100

[a] From Positive Outlook/Watch
[b] Including six banks in Saudi Arabia and one bank in Egypt where VRs were placed on RWN
Source: Fitch Ratings

IG Only (Based on Status on 12 March 2020)

	Angola	Nigeria	South Africa	Bulgaria	Czech Republic	Poland	Romania	Slovenia	Armenia	Azerbaijan	Georgia	Kazakhstan	Russian Federation	Ukraine	Egypt	Iraq	Oman	Saudi Arabia	Turkey	Total actions
IDR downgraded	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
IDR placed on Rating Watch Negative	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	4	0	6
IDR Outlook revised to Negative	0	0	0	0	2	3	1	0	0	0	0	0	1	0	0	0	0	0	0	7
IDR Outlook revised to Stable from Positive[a]	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1
IDR Outlook/Watch maintained[b]	0	0	0	2	0	1	0	1	0	0	0	1	0	0	0	0	0	6	0	11

Source: Fitch Ratings

Non- IG Only (Based on Status on 12 March 2020)

	Angola	Nigeria	South Africa	Bulgaria	Czech Republic	Poland	Romania	Slovenia	Armenia	Azerbaijan	Georgia	Kazakhstan	Russian Federation	Ukraine	Egypt	Iraq	Oman	Saudi Arabia	Turkey	Total actions
IDR downgraded	1	3	5	0	0	1	0	0	0	0	0	0	0	0	0	0	5	0	0	15
IDR placed on Rating Watch Negative	0	7	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	8
IDR Outlook revised to Negative	0	0	0	1	0	2	1	4	2	0	7	4	17	1	0	1	0	0	0	40
IDR Outlook revised to Stable from Positive[a]	0	0	0	0	0	0	0	0	0	1	0	0	0	7	0	0	0	0	0	8
IDR Outlook/Watch maintained[b]	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0	1	3
																				74

[a] From Positive Outlook/Watch
[b] Including one bank in Egypt where VR was placed on RWN
Source: Fitch Ratings

Middle East: Oil Shock; Strong Support

Fitch downgraded all **Omani** banks' IDRs on 16 March. The downgrade reflected Fitch's view that the banks' standalone credit profile is closely correlated with that of the sovereign (which was downgraded on 12 March) and that the operating environment has become more challenging for banks. Omani banks are largely exposed to sovereign credit risk through sizeable holdings of sovereign/central bank assets.

The close links between the sovereign credit profile and the operating environment for banks include a large proportion of government and public sector deposits in the system, and a reliance on government spending to drive credit growth.

The operating environment in Oman is depressed (negative growth of 1.3% in 2019) and growth prospects for 2020-2021 are not much brighter if (as Fitch expects) fiscal policy remains restrictive and oil prices remain low. Opportunities to finance government-related projects will likely reduce and overall sector loan growth will remain muted in 2020. Omani banks' asset quality and performance will be pressured.

We placed all 10 **Saudi Arabian** banks' VRs on RWN on 16 March and this was mirrored on four banks' IDRs. The RWN reflects heightened risks of unexpected severe and prolonged deterioration in the domestic operating environment for Saudi banks following the sharp fall in oil prices and interest-rate cuts by the Saudi authorities. These interest-rate cuts followed the Fed rate cut.

The coronavirus pandemic has since added challenges to many large sectors of the economy. Building and construction, contracting, hospitality, retailers, and car dealers are likely to be particularly affected, which in turn will likely impair borrowers' ability to service their debt. Although the authorities have since announced measures to support the economy and injected liquidity in the banking system, large uncertainties about the length of a potential shock and its impact are prevailing in the banking system.

With one exception only, no actions have been taken on the IDRs of **Kuwaiti, Qatari and UAE** banks as these are driven by potential sovereign support.

The IDRs remain on Stable Outlooks, as Fitch does not expect any changes in the authorities' propensity or ability to provide timely support to their local banks if needed. Similarly, we have not taken action on **Jordanian** banks as we do not see immediate pressure on the banks' ratings emanating from the coronavirus crisis.

On the other hand, we changed the Outlook to Negative on the sole **Iraqi** bank we rate (100% owned by the state) on 20 April following a similar action on the sovereign rating on 16 April. This reflects the impact of the decline in oil prices on Iraq's fiscal and external finances, near-term uncertainty concerning the sovereign's financing plan and limitations on policymakers' ability to respond to the fiscal crisis. The bank's VR is constrained by the operating environment in Iraq, which is volatile and challenging.

We also have placed the VRs of **Egyptian** banks on RWN (which was mirrored on one bank's IDR) on 30 April. This reflected our expectations that Egyptian banks will face material pressure from a weaker operating environment and tightening of foreign currency liquidity as a result of the coronavirus pandemic. Global financial markets volatility triggered USD14 billion of investment portfolio outflows in March from the local currency debt market, pressuring foreign currency reserves and liquidity in the banking sector.

Foreign currency reserves dropped by USD5 billion in one month to USD40 billion at end-March and we believe the banks used net foreign assets (NFA – USD7.9 billion at end-February) to partially cover these outflows. Foreign currency liquidity is expected to be further constrained by lower tourism receipts, the impact on Suez Canal revenues from the global trade slowdown, weaker FDI inflows and reduced remittances from Egyptian expatriates.

Fitch has not taken rating actions on most **Turkish** banks during the last two months. This reflects the unchanged Stable Outlook on the sovereign rating, as the majority of bank ratings are driven by sovereign support or by foreign shareholder support (and therefore, in the latter case, indirectly linked to the sovereign rating). It also reflects the fact that IDRs driven by banks' standalone profiles are all in the 'B' category and almost all already on Negative Outlook, and that many banks have significant capital buffers.

Africa: Weakening Operating Environment

We downgraded all five **South African** banks to 'BB' Negative Outlook on 31 March. This reflected the expected negative impact from the coronavirus outbreak on the banks' operating environment and key financial metrics, notwithstanding uncertainty on the full economic and financial market implications.

We believe the South African operating environment is particularly exposed to the pandemic. This is because of its highly dense and vulnerable communities, and heightened macro-economic risk from falling commodity prices, disruption to tourism, mining activity and manufacturing, as well as pressure on the country's public finances.

Fitch expects South African banks to face multiple challenges in the near team, including a decline in client activity, pressure on margins due to lower interest rates, and rising credit losses.

The first-order effect on banks' asset quality will mainly come from households and businesses with more exposure to industries and asset classes affected by the coronavirus. The second-order effect will come from both households and SMEs due to the weaker growth outlook, and will largely depend on the duration and severity of the crisis. We expect prime corporates to have adequate buffers to absorb shocks, at least into 2021.

On 26 March we downgraded the three-highest rated banks in **Nigeria** and placed the IDRs of all 10 rated Nigerian banks on RWN. This reflected our expectations that Nigerian banks will face material pressures from a weaker operating environment over the next few months. This is in the context of the oil price crash, the potential further devaluation of the Nigerian naira, and the impact of the COVID-19 pandemic on individuals and businesses.

We expect the current oil price shock to adversely impact the oil and gas sector, which accounts for around 30% of the banking sector's gross loans. A large proportion of these loans were restructured during the previous crisis. Our stress tests show that asset-quality risks arising from deterioration of the banks' oil and gas exposures are the biggest threat to their ratings.

Additionally, we expect the non-oil segment to be affected by the slower economy, but also due to the coronavirus crisis, which could severely affect communities and industries. It will particularly test the quality of consumer and SME loans. Lower oil revenues also raise the prospect of a naira devaluation, which would put pressure on the banks' regulatory capital ratios.

In **Angola** we downgraded the sole bank we rate to 'B-' Negative Outlook from 'B' on 12 March following a similar rating action on the sovereign on 6 March 2020. The downgrade reflected reduced sovereign ability to provide support, in particular in foreign currency. Our expectation is that in a stress scenario the government may prioritise its debt servicing or other policy objectives over bank support.

The sovereign's financial flexibility has weakened recently as steep kwanza depreciation against the US dollar forced government debt up to above 100% of GDP at end-2019 and debt servicing costs are steep at around 37% of the country's external revenues. Gross foreign currency reserves were around USD17.2 billion at end-2019, and the authorities' ability to sustain them looks increasingly difficult given oil price weaknesses and large upcoming external debt maturities in 2020.

We have not taken action on **Moroccan** banks and **Tunisian** banks as we do not see immediate pressure on the banks' ratings emanating from the coronavirus crisis. Most banks' ratings in these countries are based on potential support and the probability of support has remained unchanged.

CIS+: Weaker Economies; Bank Buffers

Rating actions on banks in Russia and neighbouring markets – Kazakhstan, Ukraine, Armenia, Azerbaijan and Georgia – have overwhelmingly been Outlook revisions. Fitch has not yet downgraded, or placed on RWN, any banks in the region, which reflects the significant buffers most have as they enter the downturn, as well as their relatively low rating levels (primarily BB and B categories). It also reflects the absence of any sovereign downgrades to date.

In Russia, Kazakhstan, Georgia, Armenia and Ukraine, Outlooks on banks whose IDRs are driven by their VRs have in most cases been revised to Negative from Stable. In Azerbaijan and Uzbekistan, Outlooks on VR-driven banks remain Stable due to their specific balance sheet structures and business models (Azerbaijan), expected positive economic growth in 2020 (Uzbekistan), and low rating levels (B category in both markets). We do not rate any banks in Belarus based on standalone profiles.

The revision of seven bank Outlooks to Stable from Positive in Ukraine was driven by a similar action on the sovereign. The Negative Outlook on Georgia was reflected in a similar action on one bank in the market, but Negative Outlooks on the Armenian and Azerbaijan sovereigns had no direct implications for bank ratings. There have been no changes to the sovereign ratings of Russia, Kazakhstan, Uzbekistan and Belarus, which remain on Stable Outlook and drive the majority of Stable Outlooks on banks in the region.

Fitch's updated baseline is for Russian GDP to contract 3.3% this year, before returning to 2.5% growth in 2021. However, the rapidly evolving impact of the pandemic and additional containment measures, such as the recently announced extension of the 'non-working' regime to May 12, will further constrain economic activity.

Consequently we have revised to RON 16 **Russian** banks whose IDRs are driven by their standalone VR. The Outlook changes reflect the pressure on banks' financial profiles from the coronavirus outbreak, lower oil prices and the resulting economic downturn.

Fitch has not downgraded or placed on RWN any of the reviewed Russian banks as they are generally entering the downturn with reasonable capital buffers and comfortable liquidity, and without large stocks of unreserved problem loans. Their financial profiles, and therefore ratings, could probably tolerate a short-lived, sharp economic contraction in 2Q20 if this is followed by stabilisation in 2H20. However, an extended period of suppressed economic activity would be more likely to result in rating downgrades.

The Outlooks on two Russian banks – Almazergienbank and JSC OTP Bank – were revised to Negative on the potentially weaker ability of owners to provide support.

The Outlooks on **Kazakhstan**-based banks were revised in April to Negative following the revision of the sector outlook for Kazakh banks to negative as a result of the coronavirus disruption and the fall in the oil price.

The rating actions captured the emerging pressures from the coronavirus outbreak, the slump in oil prices, the 18% depreciation of the Kazakh tenge in March 2020 and a projected slowdown in GDP growth. According to Fitch's baseline forecast, Kazakhstan's GDP will contract by 1.5% in real terms this year (a negative 530bp swing from our December 2019 forecast), before recovering in 2021. We believe that asset quality (which has historically been the most important rating driver for Kazakh banks) will materially weaken over the Outlook horizon (12-18 months).

We have revised the Outlooks on **Georgian** banks to Negative from Stable, while affirming their IDRs, primarily reflecting the downside risks to their credit profiles resulting from the economic implications of the coronavirus pandemic.

Fitch expects a sharp economic slowdown in Georgia in 2020 (GDP contraction of 4.8%, compared to growth of 5.2% in 2019), before a recovery in 2021. However, there are significant downside risks to these forecasts. We expect that weaker economic activity (especially in tourism-related sectors), exchange-rate pressures and weaker household incomes (reflecting higher unemployment, salary reductions and decreasing remittances) will result in deterioration in Georgian banks' asset quality, earnings and capitalisation.

In **Armenia** we have revised the Outlooks on two banks to Negative from Stable, reflecting the significant deterioration in the outlook for Armenia's economy. We believe Armenian banks generally have limited flexibility to cope with the current economic challenges given vulnerable asset quality, limited earnings resilience and moderate regulatory capital buffers.

We have revised the Outlook on International Bank of **Azerbaijan'**s IDR to Stable from Positive and affirmed the IDR at 'B-' on coronavirus uncertainties and lower oil prices, and in particular given the bank's large short FX position.

The revision of the **Ukraine** Sovereign Outlook to Stable from Positive resulted in a similar action on seven banks, including four with ratings driven by sovereign support and three with IDRs driven by support from foreign shareholders. In addition, the rating on one bank was revised to Negative from Stable in line with the outlook for the sector.

CEE: Economic Downturns, Weaker Owners

Across central and eastern Europe (CEE), rating actions have primarily involved revisions of Outlooks to Negative from Stable, with just one downgrade to date, in Poland. Rating actions on banks in Slovenia and the Czech Republic have been driven primarily by their standalone profiles, in Romania and Bulgaria by potential shareholder support, and in Poland by a combination of the two. Fitch has revised sector outlooks across the region to negative, reflecting pressures on banks' asset quality and profitability.

In **Hungary**, Fitch has not changed any bank ratings as these are linked to that of the sovereign, which remains on Stable Outlook.

Under Fitch's updated baseline, **Polish** GDP is projected to contract by 1.7% this year, before returning to 4.3% growth in 2021. This has led to the revision of Outlooks on four Polish banks to Negative, although two banks were affirmed with Stable Outlooks, reflecting their more robust financial metrics for their rating levels. Three Polish banks have been placed on RWN and RON, primarily reflecting similar actions on their parent institutions. In addition, Fitch has downgraded Getin Noble Bank to 'CCC+' from 'B-', reflecting a capital requirement breach, persistent losses, and uncertainty about the bank's capacity to strengthen its capital given the economic fallout from the coronavirus outbreak.

Polish authorities have taken monetary and fiscal measures to support the private sector, which should be positive for the banks. Nonetheless, we expect asset quality to weaken compared with previous expectations. We also expect earnings to come under pressure from lower business volumes, higher loan impairment charges, and pressure on net interest margins resulting from two 50bp cuts in the policy rate.

Fitch has revised the Outlooks on four **Slovenian** banks to Negative, notwithstanding their significant capital buffers and relatively low ratings in the 'BB' category. This reflects the expected very sharp contraction in the economy (by 6.4% in 2020), and the 12-month loan repayment moratorium available to all borrowers.

We have affirmed two large **Czech** banks' ratings with Negative Outlooks, reflecting our view that the weaker economic outlook represents a medium-term risk to their ratings.

This in turn is driven by their sizeable capital buffers, sound asset quality and strong funding and liquidity profiles going into the slowdown, and their leading domestic universal banking franchises.

We have revised the Outlooks on two **Romanian** banks to Negative following a similar action on the sovereign and reflecting the potential for the Country Ceiling to be lowered. In **Bulgaria**, we have placed one bank on RON and one on RWN, reflecting our revised assessments of potential support from parent institutions.

Links to latest RACs and NRACs

Saudi Arabia	Fitch Places Saudi Arabian Banks on Rating Watch Negative (March 2020) Fed Rate Cuts Add Pressure on Saudi Banks (March 2020)
Kuwait	Kuwaiti Banks More Resilient Than Most GCC Peers in Current Crisis (March 2020)
Qatar	Coronavirus Intensifies Pressure on Qatari Banks (March 2020)
UAE	Coronavirus Fallout Will Pressure UAE Banks' Credit Profiles (March 2020)
Jordan	Coronavirus Poses Downside Risks to Jordanian Banks (April 2020)
Iraq	Fitch Takes Action on 5 EMEA Trade Finance Banks on Coronavirus Disruption (April 2020)
Egypt	Fitch Places CIB's IDR and NBE's VR on Rating Watch Negative (April 2020)
Turkey	Coronavirus Affects Turkey via Funding Conditions, Bank Metrics (March 2020)
South Africa	Fitch Downgrades South African Banks to 'BB', Negative Outlook on Coronavirus Impact (March 2020)
Nigeria	Fitch Downgrades 3 Nigerian Banks to 'B', Places All 10 Banks on Negative Watch (March 2020)
Angola	Fitch Downgrades Banco Angolano de Investimentos to 'B-'/Stable on Sovereign Downgrade (March 2020)
Morocco	Moroccan Banks Affected by Coronavirus, but Risk Manageable (March 2020)
Tunisia	CBT Measures Have Mixed Impact on Tunisian Financial Sector (March 2020)
Russia	Fitch Revises 15 Russian Banks' Outlooks to Negative on Coronavirus Disruption and Oil Price Slump (April 2020) Russian and CIS Banks Pressured by Coronavirus and Oil Price Slump (March 2020)
Kazakhstan	Fitch Revises Outlooks on 4 Kazakh Banks to Negative on Coronavirus Disruption (April 2020)
Georgia	Fitch Revises Outlooks on 5 Georgian Banks to Negative (April 2020)
Armenia	Fitch Revises Outlook on ACBA-Credit Agricole and Ardshinbank to Negative; Affirms at 'B+' (April 2020)
Azerbaijan	Fitch Revised Outlook on International Bank of Azerbaijan to Stable on Coronavirus Disruption (April 2020)
Ukraine	Fitch Revises Outlooks on 7 Ukrainian Banks to Stable on Sovereign Rating Action, Negative on FUIB (April 2020)
Poland	Fitch Takes Rating Action on Polish Banks (April 2020)
Slovenia	Fitch Revises Nova Ljubljanska banka d.d.'s Outlook to Negative on Coronavirus Pressures (April 2020) Fitch Revises Outlooks on NKBM and Abanka to Negative; Affirms at 'BB+' (April 2020)
Czech Republic	Fitch Revises Outlook on Ceska and Komercni to Negative on Coronavirus Uncertainties (April 2020)
Romania	Fitch Revises Outlooks on Romanian BCR and BRD to Negative; Affirms at 'BBB+' (April 2020)
Bulgaria	Fitch Places Bulgarian Raiffeisenbank on RWN on Parent Pressures (April 2020) Fitch Revises Outlooks on Bulgarian Expressbank and OTP Lease to Negative (April 2020)