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Weekly Credit Brief

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Story of the Week

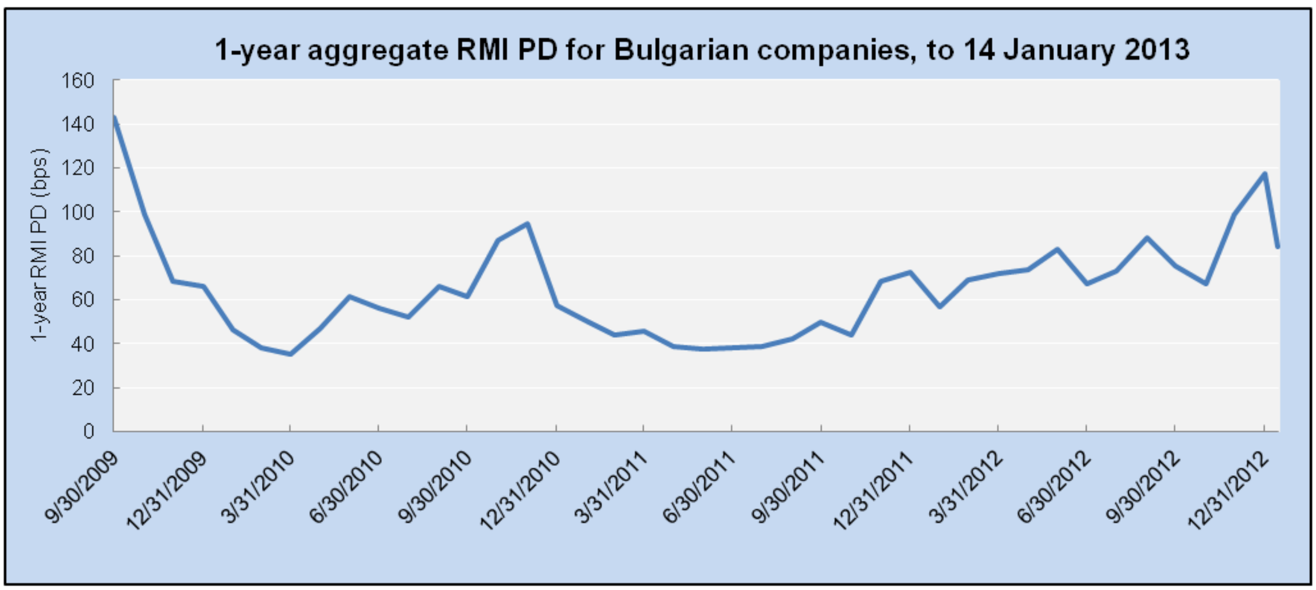
Default risk of Bulgarian firms remains high

By Dexter Tan Kian Beng

Last week, Kamen Kolev of the Bulgarian Industrial Association advised the Bulgarian state and regional governments to pay their dues owed to local businesses. He said that the government has yet to pay up on more than BGN 350mn (Bulgarian lev) in obligations, most of which are overdue contract payments from the nation's municipalities. Additionally, the deputy chairman said that the resolution of the debt would reduce the intercompany indebtedness within the corporate sector of several billion lev.

The announcement may have contributed to some moderation in the RMI 1-year aggregate probability of default (RMI PD) for Bulgarian companies. However, the aggregate RMI PD remains close to a three year high seen in December. This is in part due to a weak economy, links with the Greek economy and high amounts of bad loans.

As a result of the European debt crisis, Bulgaria registered anemic GDP growth of 0.5% in 2012 , following growth of 1.7% in 2011 and 0.4% in 2010. More than half of the country's exports go to Europe, making Bulgarian exporting firms vulnerable to exogenous shocks in the eurozone. The economy is struggling to survive after three years of stagnant growth.



Bulgarian companies encounter strong headwinds from its strong links with the Greek economy. The aggregate RMI PD for Bulgaria could increase further if Greece sinks deeper into recession. First, remittances would fall sharply and could lead to spillover effects in domestic spending, thereby affecting the credit profile of local Bulgarian companies. Over a million (out of the 7 million Bulgaria population) are believed to be working abroad in Spain and Greece and a dire recession in these countries would push the Bulgarian unemployment rate of 11.3% even higher if workers are forced to return home. Second, 10% of Bulgarian exports go to Greece and Greek banks hold 40% of all loans in Bulgaria, making the Greek crisis a particular cause of concern for Bulgarian firms as Greece plays a large role in the Bulgarian economy and financial sector.

A report by debt management company EOS mentioned that Bulgarian firms have incurred record high amounts of bad debt losses in 2012. Bulgarian companies have the second highest percentage of unpaid receivables in Europe, with banks reporting that 8.23% of outstanding loans have been classified as bad debt. The amount of bad loans could rise even further given that property prices in Bulgaria have fallen for the fourth consecutive year in 2012. A media report by imot.bg mentioned that real estate prices have dropped because of selling pressures and a decline in buyers' purchasing power. During the past year, sellers urgently needed to dispose of their property for cash while buyers were on tight budget constraints, causing residential prices to fall. Bulgarian banks would be indirectly affected by the falling prices as they would have to report lower mortgage revenues and possibly record write downs on mortgage portfolios.

Sources:
Bulgaria residential property prices down again in 2012 (Novinite)
Hungary, Bulgaria lead bank funding drop in EU's East (Bloomberg)
Corporate debts in Bulgaria soar by BGN 5bn (Standart News)
Bulgaria Industrial Association urges payment of state, municipal debt to businesses (Novinite)
Alarm raised over Bulgaria's stagnant economy years in row (Novinite)
In a rough region (Economist)
Bad debt losses reach all-time high (EOS)

In the News

Gulf bond yields lure funds from Asian sukuk

Jan 12. A rally in Asian government sukuk that drove 10-year yields to record lows is faltering as investors switch to Arabian Gulf sovereign notes that offer higher returns. Yields on Indonesian and Malaysian government bonds have risen by 10bps and 25bps this year from record lows seen in the last quarter of 2012. The two countries in are the only nations in Southeast Asia who have sold debt that complies with the ban on interest under Islamic Law. Analysts believe the sell-off will be short-lived, as there is a shortage of Islamic bonds in the region. (Bloomberg)

Gillard Law to Encourage Corporate Bond Market in Australia

Jan 11. Australia plans to ease disclosure requirements for companies selling bonds to individual investors, in an effort to direct more of the nation's AUD 1.4tr in pension savings into local debt. This may allow local banks and non-financial companies to decrease their reliance on off-shore funding markets. Australian superannuation, or pension, funds hold the highest proportion of equity investments among 29 nations tracked by the OECD, and the second lowest holdings of debt after South Korea. (Bloomberg)

Banks win 4-year delay as basel liquidity rule loosened

Jan 8. Global central bank chiefs gave banks four more years to meet international liquidity requirements. Banks not only won the delay to fulfill the liquidity coverage ratio (LCR), they will also be able to pick from a longer list of approved assets including equities and mortgage-backed securities to act as a liquidity buffer during a financial crisis. Banks which have built up large reserves of high-quality liquid assets will be among the biggest beneficiaries of the modified LCR. (Bloomberg)

Asia Syndicated loans slide to two-year low as club deals rise

Jan 8. Syndicated lending in Asia reached a two year low of 2012 as companies increasingly preferred bilateral or club deals. Lending volumes in the Asia-Pacific region outside of Japan fell by 17.6% to USD 376.4 billion last year from USD 456.8 billion in 2011. Higher-rated borrowers in Asia found club deals in the private market a more competitive source of funding. Amongst these borrowers who shifted are prominent Hong Kong listed companies such as Hutchison Telephone Co, Sun Hung Kai Properties Ltd and Henderson Land Development Co. It is hoped that as pricing stabilizes, loan volumes in the syndicated loan market will recover. (Bloomberg)

Japan to buy european debt with currency reserves to weaken JPY

Jan 8. Japan plans on using its extensive foreign exchange reserves to buy bonds issued by the European Stability Mechanism (ESM) and eurozone sovereigns. The plan should help weaken the JPY without increasing criticism from Japan's global trading partners, as it could be seen as sign of support for the struggling eurozone. (Bloomberg)

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