
Semi-Annual Credit Summary

S1/2022

Volume 3, No 2

Introduction

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

SACS Volume 3, Issue 2 covers the first half of 2022. We discuss the general credit outlook for a selection of economies from around the world, based on relevant indicators, and relate this discussion to forecasts provided by NUS-CRI's PD model.

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

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

Credit Research Initiative

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

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

www.nuscri.org

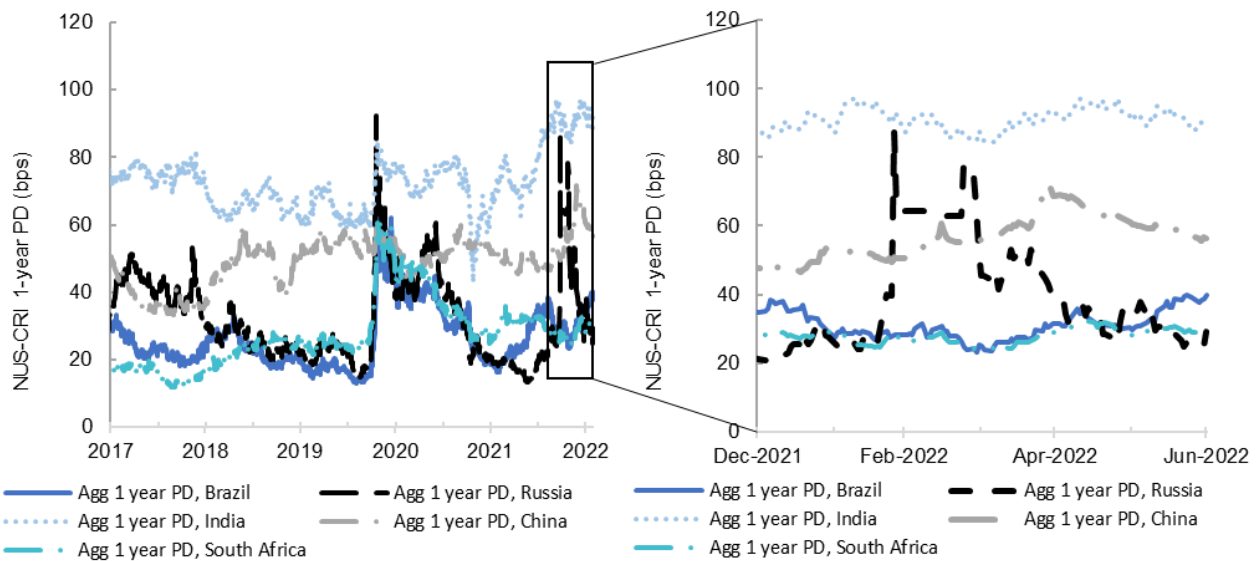
As of Oct 2021, the PD system covers 130 economies in Africa, Asia-Pacific, Latin America, North America, the Middle East and Europe. The probabilities of default include historical data for firms that are now delisted from exchanges or firms that have defaulted. PDs aggregated at the region, economy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

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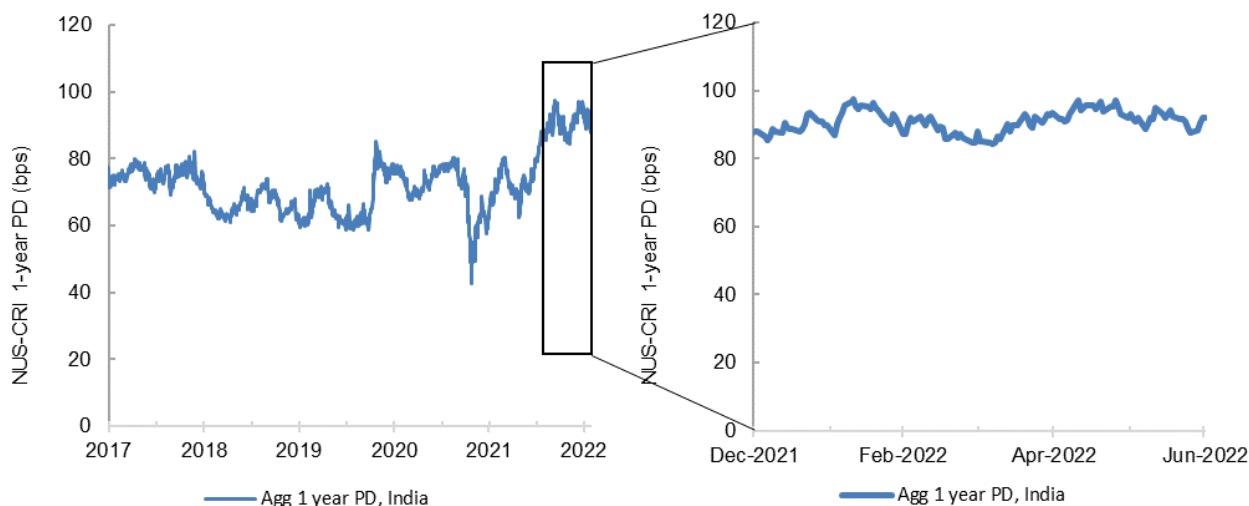
BRICS

In the first half of 2022, all the other BRICS members had relatively stable credit profiles compared to Russia. The outbreak of Russia-Ukraine war on 24th Feb directly led to a drastic increase of approximate 60bps in the NUS-CRI Aggregate 1-year PDs (Agg PD) of Russian companies. To cope with the sanctions from the western world, Russia's government has come up with different policies to support the domestic economy which has been reflected in the gradually declining Agg PD back to the pre-war level despite that its GDP shrank by 4.1% in Q2. The infectious Omicron posed tremendous challenges to the Zero COVID policy of Beijing, causing sequential lockdowns in China with only 0.4% GDP growth in Q2. The Agg PD of Chinese companies gradually accumulated and peaked in April to around 70bps when Shanghai, one of the most important economic hubs in the world, was wholly locked down. Brazil saw positive GDP growth of 1.3% in Q1 and 1% in Q2 with Agg PD of domiciled public companies fluctuating between 20 and 40bps. Though South Africa's GDP shrank by 0.7% in Q2, the domiciled public companies still show stable credit quality with Agg PD at about 30bps. Only India has gained a significant 2-digit GDP growth of 13.5% in Q2 which contributed to a flat Agg PD of the domiciled public firms.



Indian Companies

The NUS-CRI Aggregate 1-year PD for Indian listed companies stayed relatively flat in H1 2022 at around 90bps. Despite geopolitical risks, volatile financial conditions and surging commodity prices, the Indian economy has been showing signs of gradual recovery during the first half of the year. Indicators such as corporate sales and profitability increased; however, capital expenditure cycle is yet to gain momentum across sectors. Bank lending grew at a steady pace and banks have strengthened their capital and liquidity positions, as well as improved their asset quality. Non-banking financial companies were well-capitalized. However, market risks increased due to foreign portfolio investment outflows and the rapid appreciation of the US dollar as the Fed started its hiking cycle, causing periods of volatility in financial markets.



Economy

- The Indian economy grew by 13.5% YoY in Q2 2022, which was below market expectations of 15%. This is followed by an 4.1% YoY growth witnessed in Q1 2022, attributed to release of pent-up demand after the end of the Omicron wave Q1. On the production side, construction grew by 16.77%, manufacturing by 4.8%, mining 6.46%; utilities 14.67%; the agriculture 4.46%.¹
- The Indian corporate sector saw a strong increase in sales in H1 2022, reflecting the sustained recovery of demand in the manufacturing sector. The rise in sales for manufacturing companies was partially due to price increases, but real sales also showed robust and sequential YoY growth. Information technology (IT) companies proved to be resilient to the pandemic-induced slowdown and maintained strong growth, while non-IT service companies showed signs of recovery. The increased cost of raw materials resulted in a 35% increase in expenses for manufacturing companies, who then passed on these costs through to their selling prices, as shown in their healthy operating profit margins. Despite a rise in staff costs by 23% and 16% for IT and non-IT service sector companies respectively, they were still able to maintain their operating profit margins.
- The rising inflation had been pushing the prices up in the first half of 2022 with a 5-year high Consumer Price Index of 7.79 in April and a 30-year high Wholesale Price Index (WPI) of 15.9 in May. The increase was primarily driven by fuel, manufacturing, and food.^{2 3}
- As the recovery of domestic economic activity gained momentum, import demand also increased, resulting in a shift from a current account surplus of 0.9% of GDP in 2020-21 to a deficit of (-)1.2% in 2021-22 due to the expansion of the trade deficit. Despite robust export performance, the trade deficit was impacted by rising commodity prices, particularly crude oil, which added to the pressure from domestic demand. Both the oil and non-oil trade accounts recorded higher deficits.⁴

Monetary

- To control inflation, the government of India has taken supply side measures, including introducing a standing deposit facility in April 2022 as its floor at a rate 40 basis points higher than the fixed rate reverse repo, and raising the cash reserve ratio requirement of 50bps in May, to bend down the future trajectory of inflation.⁵

- According to the bi-monthly monetary policy statement on June 22, 2021, the RBI decided to increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.90% with immediate effect. Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65% and the marginal standing facility (MSF) rate and the Bank Rate to 5.15%.⁶
- The Monetary Policy Committee (MPC) has decided to stay focused on unwinding stimulus measures to maintain inflation within the target range and support economic growth. These actions align with the goal of reaching the medium-term target of 4% Consumer Price Index (CPI) inflation, within a +/- 2% margin, while promoting growth.⁷

Funding and Liquidity

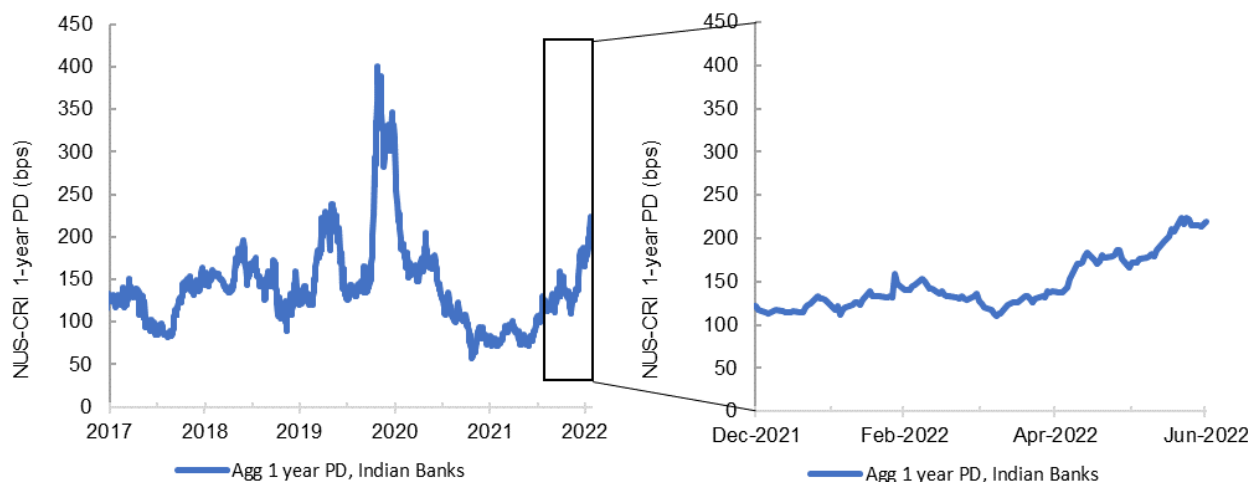
- Yields on India's 10-year government sovereign bonds increased in Q1 and Q2 2022 showcasing an upward trend overall. Yields were at 7.43% at the end of Q2 2022, rising from 6.45% at the start of the year.⁸

Sovereign Credit Ratings

- Standard & Poor's credit rating for India stands at BBB- with a stable outlook. Moody's credit rating for India was last set at Baa3 with a stable outlook. Fitch's credit rating for India was last reported at BBB- with a negative outlook. DBRS's credit rating for India is BBB with a stable outlook.⁹

Indian Banks

The NUS-CRI Aggregate 1-year PD for Indian Banks saw a gradual uptrend in H1 2022, increasing from 113 bps at the start of Q1 to 218bps at the end of Q2 2022. In the first half of 2022, Indian banks saw credit growth and interest margin increase but also accumulated more credit risk in Q2 when the monetary policy tightened with higher cash reserve ratio requirement, and the banks have loaded more risky loan assets on their balance sheets in a worsening macroeconomic environment.



Profitability

- The net interest margin (NIM) of scheduled commercial banks (SCBs) slightly increased during the 2021-2022 period and reached 3.4% in March. In 2022, the NIMs of all bank groups increased, although they remained lower for public sector banks (PSBs) compared to private sector banks (PVBs). Despite this, PSBs experienced high growth in profit after tax (PAT).¹⁰
- Both the return on assets (RoA) and return on equity (RoE) ratios improved in 2022. Private sector banks (PVBs), which have generally had higher profitability compared to public sector banks (PSBs), saw an improvement from the moderation they experienced in the first half of the year.¹¹

Funding & Liquidity

- As the economy continued to recover, bank lending increased during the latter half of FY 2021-2022 and reached 11.5% in March 2022, further rising to 12.9% as of June 3, 2022. Both public sector banks (PSBs) and private sector banks (PVBs) increased their lending. Lending in the agriculture sector saw a slight decline, while industrial credit continued to grow, driven by strong lending by PVBs and foreign banks (FBs).¹²
- Growth in personal loans remained steady during 2021-2022 and made up over 30% of the incremental lending by PSBs and PVBs. In the personal loan sector, housing loans, credit card receivables, and vehicle/auto loans experienced double-digit growth.¹³
- The capital to risk-weighted assets ratio (CRAR) has been increasing since March 2020, reaching 16.7% in March 2022. The Tier-1 leverage ratio for the entire banking system has also been rising since March 2020 and reached 7.1% in March 2022.¹⁴

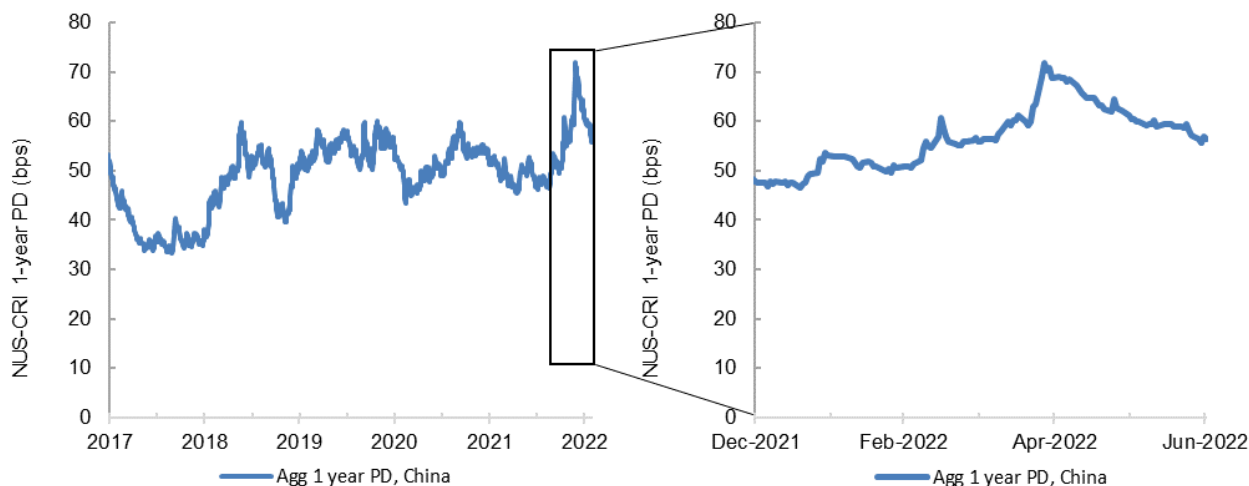
Asset Quality

- The quality of banks' assets continued to improve in 2022, with the gross non-performing assets (GNPA) ratio decreasing from 7.4% in March 2021 to 5.9% in March 2022, a six-year low. The net non-performing assets (NNPA) ratio also decreased by 70 basis points during FY 2021-2022 and stood at 1.7% in March. The provisioning coverage ratio (PCR) improved to 70.9% in March, up from 67.6% YoY. The slippage ratio, which measures the amount of new non-performing assets as a percentage of standard advances at the beginning of the period, declined across all bank groups during the FY 2021-2022. The write-off ratio declined for the second consecutive year to 20.0%.¹⁵

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Chinese Companies

The Chinese economy has seen an expansion of a seasonally adjusted 1.6% QoQ in Q1 2022, partly due to the country hosting the Winter Olympic. However, the rapidly spreading Omicron led to sequential lockdowns, with the aim to achieve the government's zero-COVID target, thereby hampering economic growth. The GDP growth of China dropped to a record low after COVID outbreak to -2.7% QoQ in Q2 2022. The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) of Chinese public firms peaked to a 5-year high of 71.82bps in April during lockdowns in Shanghai, which severely impacted the country's wider economy, and even China's position in the global supply chain.¹



Economy

- The Chinese economy expanded only 0.4% YoY in Q2 2022, dropping from 1.4% YoY growth in Q1. The outbreaks of the new variant of COVID-19, large-scale travel restrictions, and supply chain issues continued to slow down the country's economic recovery.²
- The annual inflation rate in China was 2.5% YoY in June 2022, the highest since Aug 2020. Among them, YoY food inflation increased from 2.3% in May to 2.9% in June. The YoY food inflation turned to be positive in April because the sudden large-scale lockdown cut the supply chains leading to food shortage in a short run. On a monthly basis, the consumer prices fell 0.2% in May and saw little changes in June due to the slow economic recovery.^{3 4}
- The unemployment rate in China climbed from the beginning of the year, peaking in April 2022 to 6.1%. Subsequently, the unemployment rate declined in the following two months, standing at 5.5% in June. The sequential lockdowns led to business cutting costs to improve their profitability, which directly led to store and business closures, and lay-offs.⁵
- The Caixin China General Composite Output Index, commonly referred to as the Caixin General Composite PMI, saw a significant increase in June, rising from 42.2 in May to 55.3. This indicated a resurgence in overall business activity in China. Both manufacturers and service providers experienced robust growth in output, thanks to the easing of pandemic restrictions and resuming operations. However, foreign demand decreased for six months straight, but at a slower pace in June. Despite the upturn, businesses continued to downsize and still had concerns about the lingering effects of the pandemic on their operations and customer demand.⁶
- China's investment on fixed assets (excluding rural households) rose by 0.95% MoM in June. For the first half of 2022, the country's fixed asset investment was CNY 27.14tn, increasing 6.1% YoY, with an increase of 4% in the primary industry, an increase of 10.9% in the secondary industry and 4% in the tertiary industry.⁷
- China's trade surplus saw a rise to USD 97.11bn in June 2022, up from the revised figure of USD 49.44bn in the same month of the previous year. This was due to a substantial YoY increase in exports of 17.12% and relatively unchanged imports.⁸

Monetary Policy

- Cash Reserve Ratio in China decreased from 11.5% in Q1 2022 to 11.25% in Q2 2022 and remained unchanged to June 2022.⁹
- China Money Supply M0, the most liquid measure of the money supply including coins and notes in circulation and other assets that are easily convertible into cash, was CNY 9.6tn in June 2022,

which increased slightly when compared with CNY 8.43tn in June 2021. Money Supply M1 in China reached a new high of CNY 67.4tn in June 2022, up from CNY 63.8tn in June 2021. Broad M2 money supply in China, measuring the money supply that covers cash in circulation and all deposits, expanded to CNY 258.15tn in June 2022, slightly higher than CNY 231.78tn in June 2021.^{10 11 12}

- The 10-year government bond yield stood at 2.82% at the end of June 2022, rising from 2.78% at the end of 2021. But the 1-year government bond yield decreased, from 2.19% at the end of December 2021 to 1.91% at the end of June 2022.^{13 14}
- The foreign exchange reserves of China dropped to USD 3.13tn in June 2022 from USD 3.22tn in December 2021.¹⁵

Fiscal Policy

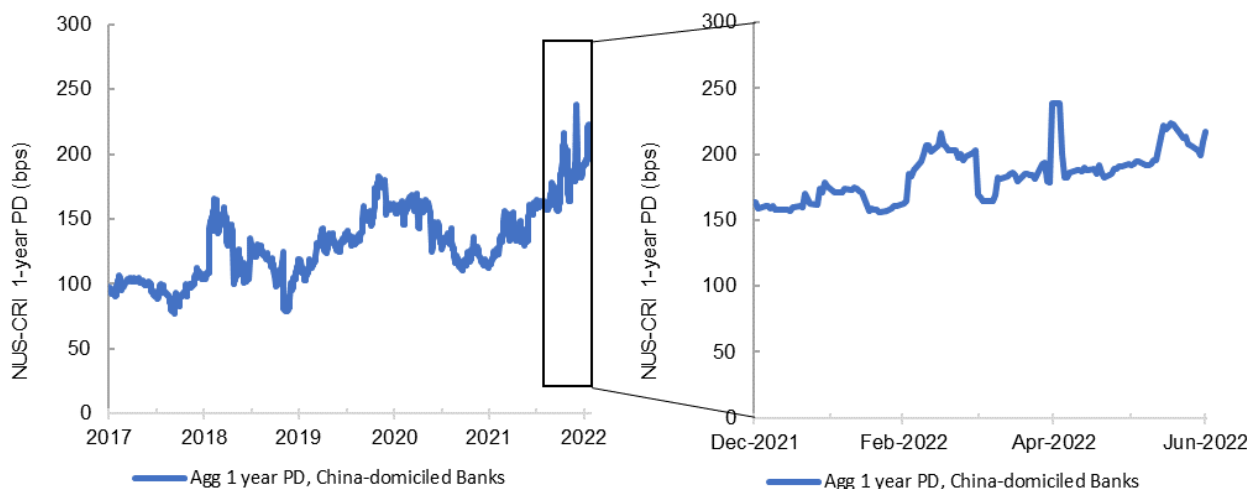
- China's fiscal revenue decreased by 9.2% YoY in the first seven months of 2022. However, when removing the impact of value-added tax credit refunds, the fiscal revenue increased by 3.2% compared to the previous year. The central government recorded a decrease in fiscal revenue of 11.2%, amounting to CNY 5.74tn, while the local governments recorded a drop of 7.6%, reaching CNY 6.75tn. The tax revenue during the January-July period was around CNY 10.27tn, which represented a 13.8% YoY decrease. The fiscal spending rose by 6.4% YoY to reach 14.68 trillion yuan during this period.¹⁶

Sovereign Credit Ratings

- S&P and Fitch both give their A+ long-term rating for China, with a stable outlook. Moody's also maintained its A1 rating with a stable outlook on China.¹⁷

Chinese Banks

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) for Chinese banks showed an upward trend in the first half of 2022, jumping in April due to the sudden lockdown in Shanghai. Due to factors such as the influence of dividends in the second quarter, the expansion of risk-weighted assets to support the real economy and cooperation with expansionary fiscal policies, there was a decrease in the Chinese banks' Capital Adequacy Ratios. Although the disposal of non-performing assets remains at a relatively high level, the growth rate of bad loans remains high as large amounts of assets, accumulated during the pandemic, turned sour, compounded by the impact of the real estate industry slowdown. The upward trajectory of Agg PD of Chinese banks could be attributed to the increase in credit investment by the banking industry, their exposure to the battered real estate sector, and the continuous increase in the disposal of bad assets.¹⁸



Profitability

- In the first half of 2022, the total net profit attributable to the parent company's shareholders of domestic banks in China was CNY 8.42tn, increasing by 7.58% YoY. The first half of 2022 saw impressive profit growth for China's big six state-owned banks, as the country's regulators encouraged increased lending to support the economy. The six banks - Agricultural Bank of China (ABC), Bank of China (BOC), Bank of Communications (BOCOM), China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC), and Postal Savings Bank of China (PSBC) - collectively recorded net profits of CNY 673.17bn, representing a 6.03% YoY growth.^{19 20}

Funding & Liquidity

- The Chinese new yuan loans continued to hit highs in the first half of 2022. Chinese banks had extended CNY 13.69tn in new yuan loans in total in the first half. Chinese authorities have been boosting lending, injecting money into the financial system and lowering borrowing rates and reserve ratios in an attempt to help offset the economic impact of the pandemic, as well as the initial slowdown caused by the real estate crisis.²¹
- The core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio, and capital adequacy ratio of six state-owned banks and four joint-stock banks met regulatory requirements and showed a trend of decline compared to the end of 2021. The average values of the core tier 1 capital, tier 1 capital, and capital adequacy ratio of the above 10 banks were 10.74%, 12.61%, and 15.66%, respectively, decreasing by 0.27%, 0.28%, and 0.19% respectively compared to the end of 2021. At the same time, the capital adequacy level of overseas banks compared to domestic banks showed a more significant decrease.²²

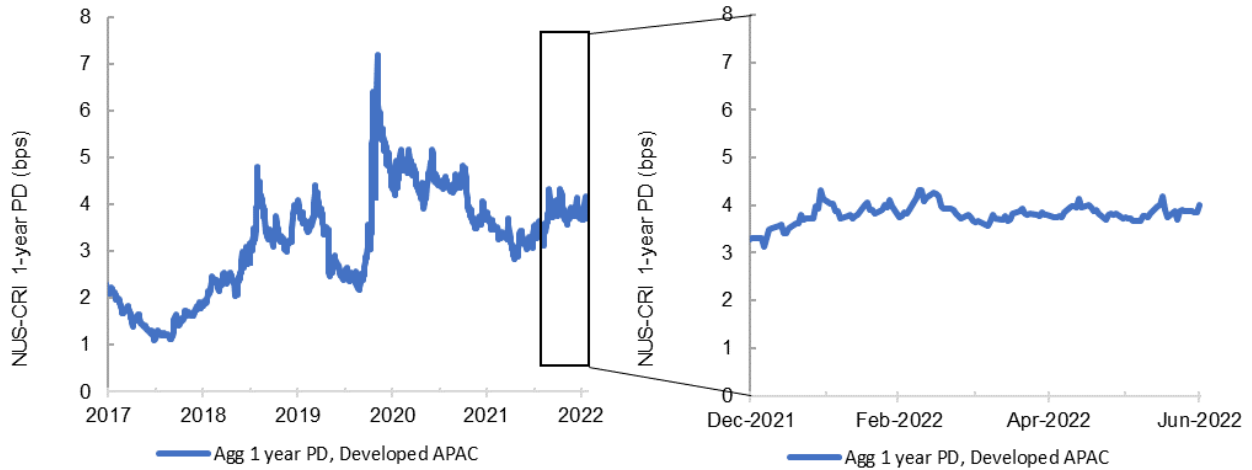
Asset Quality

- In the first half of 2022, the asset quality of domestic banks was affected to a certain extent by the repeated epidemic and the economic downturn, especially the banks' risk exposure to the real estate industry. As of June 30, 2022, the balance of non-performing loans of domestic banks was CNY 1.46tn, an increase of 7.38% compared with the end of the previous year. Among them, Industrial Bank saw the largest increase of 12.94%.²³

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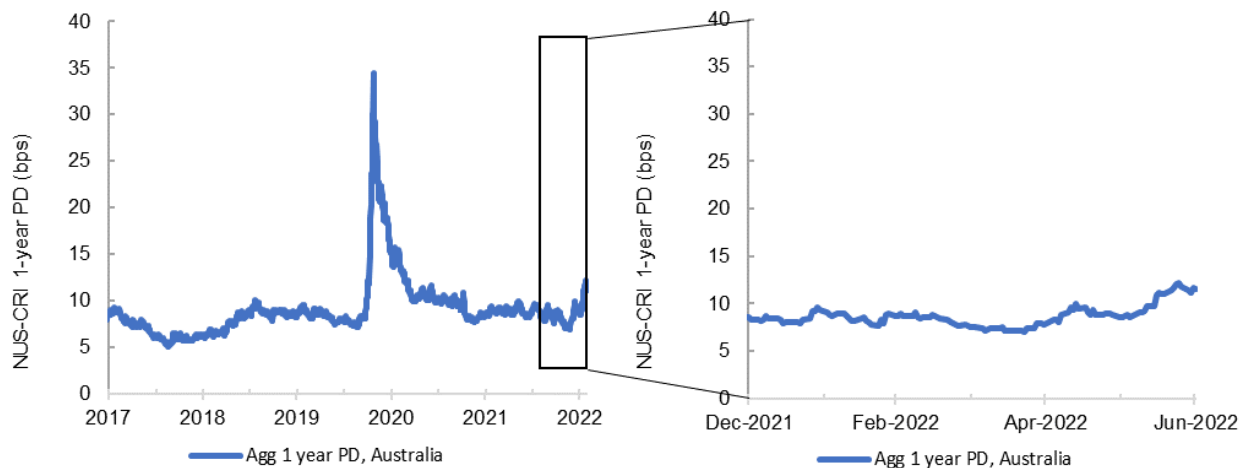
Asia-Pacific - Developed economies

The NUS-CRI Aggregate 1-year PD for listed companies in the Developed Asia Pacific region remained relatively stable at around 4bps in the first half of 2022. The developed economies in Asia-Pacific reopened in succession with regular vaccine rollouts contributing to economic rebounds. All developed regions in APAC, except for Hong Kong, ended June 2022 with positive GDP growth on a YoY basis, with Singapore leading the group at 4.5% YoY growth in Q2, followed by Australia at 3.4%, Taiwan at 3.0%, South Korea at 2.9%, and Japan at 1.6%. This expansion was driven by strong exports, accommodative financial policies, and increased levels of consumer spending. Hong Kong saw a GDP contraction in the first two quarters of 2022 on a yearly basis with a weak performance in exports.



Australian Companies

The NUS-CRI Aggregate 1-year PD for Australian companies stayed flat, settling at 11.48bps by end of June 2022. Compared to most developed nations, Australia has bounced back quicker and returned to its pre-COVID economic level. The growth in H1 2022 was 3.4% YoY, despite challenges like the Omicron strain, floods in eastern Australia, and external obstacles like China's economic slowdown and global uncertainty due to the Russia-Ukraine conflict.



Economy

- The first two quarters have seen moderate growth in Australia's GDP, with the first quarter expanded by 0.7% and the second of 0.9%. These figures are collectively weaker than the previous quarter growth, where the economy grew by 3.9%.¹
- Inflation in Australia had been the highest since the early 1990s, with Consumer Price Index reaching 126.1 and inflation rate reaching 6.1% in Q2. Food inflation rose to a record high of 5.9% in Q2 and import prices for Australia are also climbing due to the supply chain disruptions globally. Housing prices peaked to AUD 944 thousand in Q1 and then started to decrease in Q2.^{2 3 4}
- Increased inflation and interest rates were putting stress on household finances. Consumer confidence decreased and housing prices declined in some areas after substantial growth in recent years. On the other hand, employment opportunities were increasing and people are working more hours. Additionally, many households have accumulated substantial savings, though the saving ratio has been decreasing since the second half of 2021, it remains higher than pre-pandemic levels.⁵
- The labor market continues to be tighter than it has been in a long time, with the unemployment rate falling to 3.5% in June, the lowest in almost 50 years. There are high levels of job vacancies and job advertisements, and further decreases in unemployment are anticipated in the coming months, although some increase is expected as economic growth slows.⁶
- As reported by The Australian Industry Group, The Australian Performance of Manufacturing Index (PMI) rose by 1.6 points to 54.0 points in June 2022, which indicates moderate growth in this sector. This index has been showing expansion since February 2022. Performance of Services Index (PSI) decreased by 0.4 points to 48.8 points, indicating a contraction in the services sector, among which personal, recreation & other services showed the most significant decrease of 13.6 points. The Australian Performance of Construction Index (PCI) declined by 4.2 points to 46.2 points in June, indicating a contraction in the construction industry, with lower numbers indicating a more significant decrease in activity.^{7 8 9}
- Key export prices rose 10.1% in Q2 2022 and are up 38.7% through the year. Coal, coke and briquettes are the main contributors of the rise in exports, which was driven by disruptions in supply linked to both the Russia-Ukraine conflict and adverse weather conditions. Import prices rose 4.3% this quarter and 22.1% through the year. The main contributor to the rise in the quarter was strong global demand for refined petroleum with higher crude oil prices and limited refining capacity. Australia's trade surplus climbed to AUD 16.87bn in June 2022 from AUD 7.38bn in Feb 2022, as imports rose more than exports.^{10 11}

Monetary Policy

- The RBA called a halt on bond purchases in February given the resilient performance of Australia's bond market, and the progress towards the goals of full employment and target-consistent inflation.¹²
- The RBA decided to withdraw extraordinary monetary support that was provided to the Australian economy during the pandemic in May and begin to normalize monetary conditions. In line with this, the RBA claimed no intention to reinvest the funds from maturing government bonds and anticipated a significant decrease in the Bank's balance sheet as the Term Funding Facility came to a conclusion.¹³
- In a statement released on 2 Aug 2022, the Reserve Bank of Australia (RBA) decided to increase the cash rate target to 1.85% amidst complex and changing international environment. The Board considered it important to bring inflation back to the 2–3% range in the long run, while maintaining stability in the economy.¹⁴

Funding & Liquidity

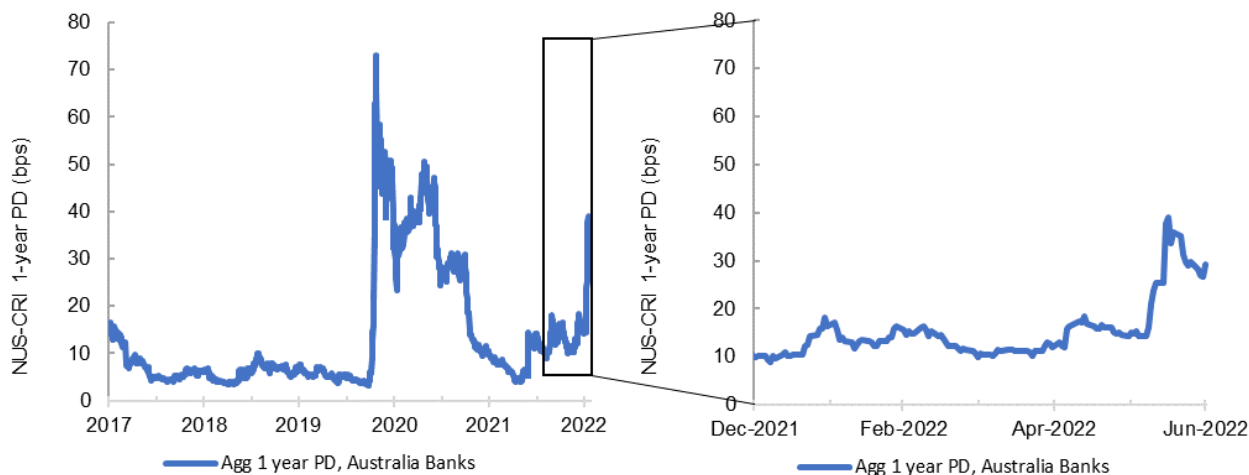
- Yields on 10-year Australian government bonds surged in the first half of 2022, from around 1.3% in Jan to above 3.6% at the end of June 2022. It peaked to an eight year high of 4.09% on June 14th mainly due to the expectations of rate hikes and sell-off of bonds in an optimistic sentiment towards economic recovery.¹⁵
- The variable lending rate to small businesses increased from 4.75% to 5% in May 2022. The lending rates for owner-occupied housing loans also increased, from 4.52% to 4.77% in May 2022.¹⁶
- During the first half of 2022, the total lending to the Government increased by AUD 14bn, from AUD 307.1bn to AUD 321.7bn. The total lending to individuals increased from AUD 2012.9bn to AUD 2069.0bn. The commercial lending also expanded from AUD 1088.5bn to AUD 1161.3bn.¹⁷

Sovereign Credit Ratings

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

Australian Banks

The NUS-CRI Aggregate 1-year PD of the Australian banks fluctuated, but eventually increased near the end of H1 2022, due in part to the banks' narrower net interest margin. The banks have effectively managed their costs through various cost-saving initiatives, but expenses are still elevated due to ongoing regulatory and technology programs, increased demand for loans, and efforts to combat financial crime and cyber threats. As the economy has improved, the quality of the banks' assets has generally followed suit. The Major Banks maintained good capital positions and liquidity measures throughout the first half of 2022.



Profitability

- Narrower net interest margin (NIM) is reported by all the banks due to increased competition and a high proportion of fixed-rate loans with lower margins that were originated over the past two years. But the major banks in Australia still showed resilience with their cash earnings rising by 10.77% to AUD 14.4bn compared to H2 2021 to a level common in the years before the pandemic.^{19 20}

Funding & Liquidity

- The Common Equity Tier 1 (CET1) ratio of Australian major banks dropped to 11.8%, a decline of 90 basis points, marking the first substantial decrease since the implementation of Basel 3. Despite the decrease, CET1 still remains significantly above the expectations for being considered "unquestionably strong," due to the strong return on equity (ROE) which has risen to 10.6% from 10.4% in 2021. Despite the narrowing interest margin, household savings and mortgage and business lending remained strong and are gaining volume.^{21 22}
- The liquidity ratios of the major banks remain strong, with the average Liquidity Coverage Ratio (LCR) rising by 375 basis points to 134.25%. This increase was mainly due to a higher holding of High-Quality Liquid Assets (HQLA). Despite the Australian Prudential Regulation Authority's (APRA) plans to gradually decrease reliance on the Committed Liquidity Facility (CLF) across the industry, this has had little impact on the LCR of the major banks.²³

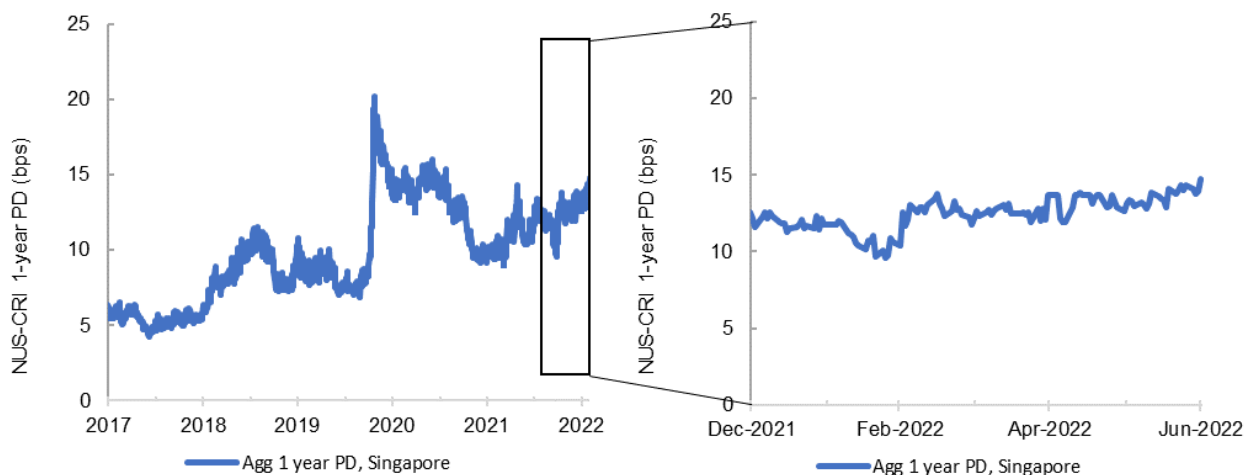
Asset Quality

- The quality of assets has generally improved as the economy has picked up. The risk of impairment has diminished as businesses have resumed operations and restrictions on movement have been lifted. Although there has been a rise in high debt-to-income lending, households are generally in good financial condition, with many having built up substantial savings on their mortgage payments during the pandemic. As a result, the median borrower is now two years ahead on their mortgage payments.^{24 25}

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Singapore Companies

The NUS-CRI Aggregate 1-year PD for Singapore companies fluctuated between 9bps and 15bps, keeping a relatively stable profile during the first half of 2022, with both external and domestic demand expanding. Despite the economic disruptions caused by the new variant of COVID, Singapore has continued to attract strong foreign direct investment inflows, notably into electronics and pharmaceuticals manufacturing. In line with higher activity, the PMI showed order book volumes increasing at the second-fastest rate in the survey's history in June, with export orders up sharply.



Economy

- The economy of Singapore achieved a YoY growth of 4.4% in Q2, a better performance compared to the 3.8% growth seen in the preceding quarter, driven by growth in the manufacturing, other services and information & communications sectors. However, on a seasonally adjusted QoQ basis, there was a slight decline of 0.2%, a change from the previous quarter's growth of 0.8%.¹
- The manufacturing industry saw a 5.7% increase YoY in Q2, slightly surpassing the 5.5% growth seen in Q1. The growth was driven by expanded output in the transport engineering, general manufacturing, electronics, and precision engineering sectors, effectively counterbalancing the decreased output in the biomedical manufacturing and chemicals sectors.²
- In June 2022, the seasonally adjusted unemployment rates declined at the overall level and for both residents and citizens when compared to March 2022. The overall rate decreased from 2.2% to 2.1%, while the rates for residents and citizens decreased from 3.0% and 3.2% to 2.9% and 3.1%, respectively. As of June 2022, all three unemployment rates were slightly lower than their levels prior to the pandemic. The number of retrenchments decreased to an all-time low of 1,004 in Q2, compared to 1,320 in Q1. During this quarter, retrenchments decreased in the services sector (from 730 to 700) and manufacturing sector (from 510 to 200) but increased in the construction sector (from 60 to 100).³
- The inflation rate in Singapore increased to 6.7% in June 2022 with its Consumer Price Index (CPI) climbing to a new high. Food prices increased by 4.7% due to higher costs of food services like hawker food and restaurant meals, as well as non-cooked food items such as meat, seafood, and milk. Clothing & footwear prices rose by 2.8% because of more expensive ready-made garments. Housing & utilities costs increased by 5.1% due to a rise in accommodation and electricity costs. The cost of transportation rose by 16.6% because of higher costs for cars, petrol, and point-to-point transport services.^{4 5 6}

Monetary

- MAS slightly raised the rate of appreciation of the S\$NEER policy band at the beginning of the year due to the core inflation forecasted to be higher. The width of the policy band and the level at which it was centred remained unchanged. This move built on the pre-emptive shift to an appreciating stance in October 2021 and was appropriate for ensuring medium-term price stability.⁷

- In April 2022, the MAS decided to tighten its monetary policy because the spikes in global commodity prices and disruptions in supply chains exacerbated domestic cost pressures and resulted in MAS Core Inflation being significantly higher than its historical average. Thus the MAS re-centred the mid-point of the exchange rate policy band at the prevailing level of S\$NEER, and increased the rate of appreciation of the policy band.⁸

Funding & Liquidity

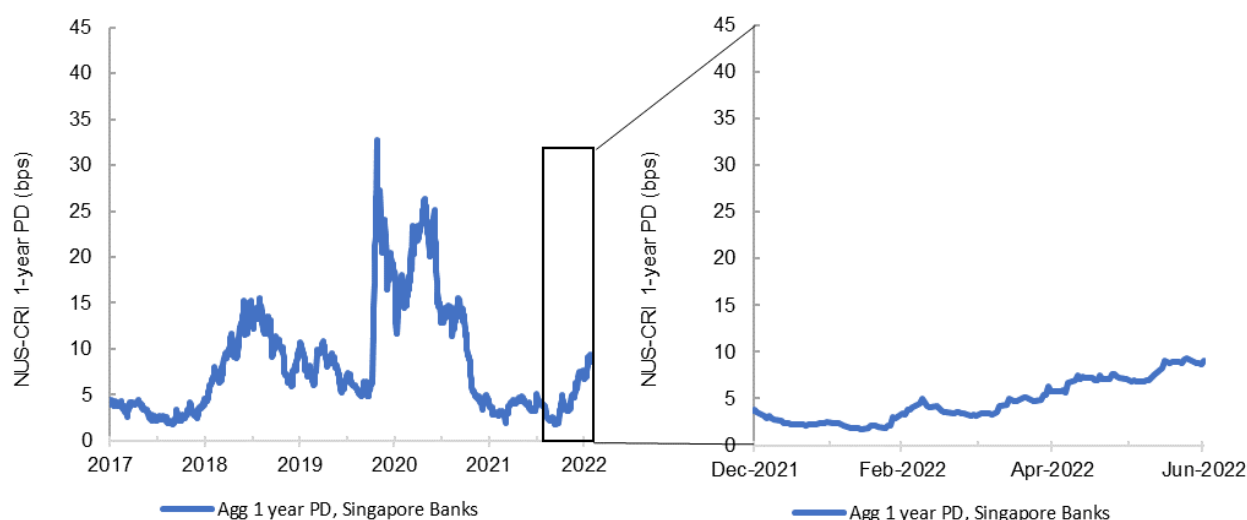
- Yields on 10-year Singapore government bonds has been climbing since the start of the year and reached beyond 3% in June 2022, which is a 10 year high.⁹
- Total lending to residents grew from SGD 822.7bn in January 2022 to SGD 841.5bn in June 2022. Among them, total loans to businesses rose from SGD 510.5bn in Jan 2022 to SGD 525.8bn in Jun 2022 while consumer loans increased from SGD 312.2bn in Jan 2022 to SGD 315.7bn in Jun 2022.¹⁰
- Total lending to non-residents decreased from SGD 507.8bn in Jan 2022 to SGD 503.9bn in June 2022. Among them, total loans to businesses almost stayed the same, while consumer loans decreased by 5.27% to SGD 67.2bn in June 2022.¹¹

Sovereign Credit Ratings

- Standard & Poor's and Fitch Ratings maintained their AAA ratings on Singapore, and Moody's maintained their Aaa rating. All three rating agencies maintained stable outlooks on the government's credit.¹²

Singapore Banks

The NUS-CRI Aggregate 1-year PD across Singapore banks (DBS, OCBC and UOB) showed a relatively stable profile with mild increasing trend in Q2. The challenging market conditions made it more difficult to gain in investments for banks, but they could still benefit from wider increase in net interest margins. Singaporean banks continue to be well capitalized to ensure that banks have sufficient capital to prioritize lending and provide support to individuals and businesses.



Profitability

- For the first half of 2022, the three listed banks in Singapore had mixed financial performances. On the one hand, the net interest margin has widened and there was increased volume of loans; on the other hand, this growth was partially offset by reduced gains from wealth management fees, investment securities and trading income due to the challenging market conditions. UOB and OCBC recorded SGD 2.01bn and SGD 2.84bn in net profits respectively, up 0.34% and 7% from H1 2021. However, DBS reported a net profit of SGD 3.62bn, which was 3% lower than H1 2021.^{13 14 15}

Funding & Liquidity

- Total deposits in Singapore banks increased by SGD 95.32bn or 6% in the first half of 2022. Local currency deposits increased by SGD 26.37bn while foreign currency deposits increased by SGD 68.95bn.¹⁶
- Both DBS and OCBC have improvements in their liquidity coverage ratios (All-currency) in H1 2022, standing at 140% and 148% respectively, while UOB kept this number unchanged.^{17 18 19}

Capital Levels & Regulations

- Though in the first half of 2022, the Common Equity Tier 1 Capital (CET1), Tier 1 and Total Capital Adequacy Ratios (CAR) of the three listed banks have decreased compared to the previous year, the ratios were still above the recommended Basel III guidelines and above the regulatory minimum specified by MAS. For H1 2022, OCBC has the highest CET1 ratio at 14.9%, while UOB and DBS came in at 13.1% and 14.2% respectively. With this, the banks have ample liquidity support, and they look well-positioned to navigate the uncertainties ahead.^{20 21 22}

Asset Quality

- The NPL ratio of UOB increased slightly to 1.7% as of 30 June 2022, while OCBC's had a lower NPL ratio compared to Q1 2022 and all of 2021 of 1.3%. DBS had a rather stable NPL ratio at 1.3%

during H1 2022. DBS had a non-performing assets (NPA) coverage over 100% while OCBC and UOB had a coverage ratio (without collaterals) of 99% and 91% respectively.^{23 24 25}

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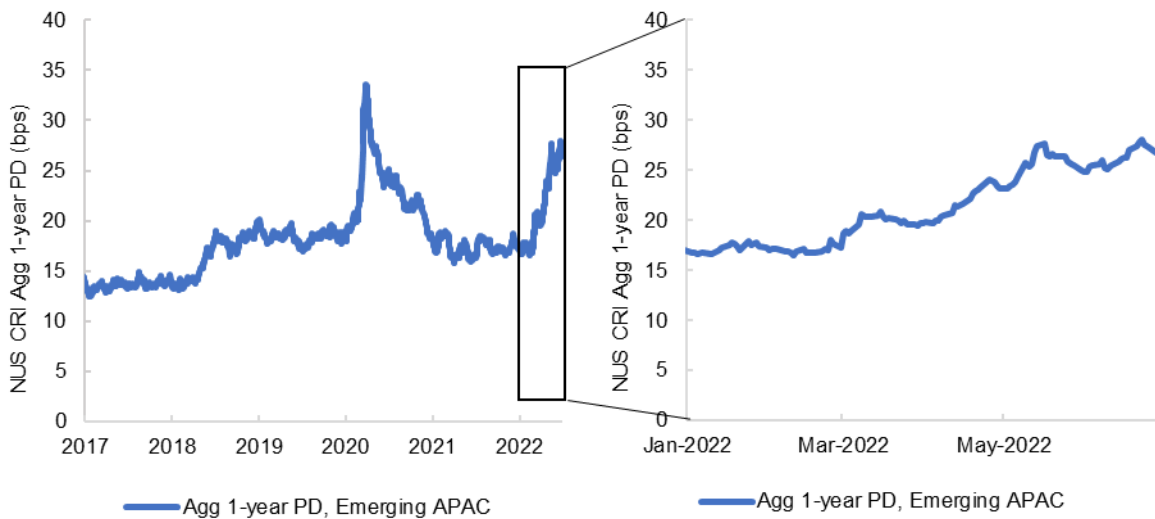
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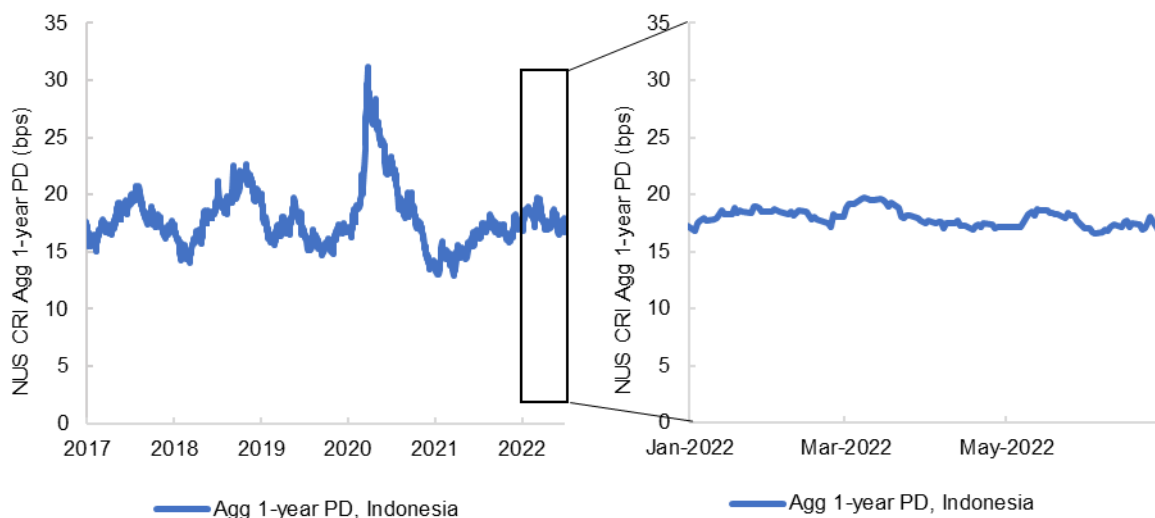
Asia-Pacific - Emerging economies

The NUS-CRI Aggregate 1-year PD for listed corporations in emerging Asia, excluding India and China, ended the first half of 2022 at 26.71bps. By the end of Dec 2021, the Agg PD stood at 16.8bps in light of the post pandemic recovery as COVID-19 restrictions were lifted and economic activity was revived. In terms of economic growth, Indonesia’s GDP ended Q2 2022 with QoQ GDP growth at 5.44%. This growth was driven by increased consumption and higher commodity prices which benefitted exports. Malaysia’s economy also expanded at 8.9% QoQ in Q2 2022 after it experienced a growth of 5% in the previous quarter, due to a surge in domestic demand. Thailand’s economy experienced an expansion for the third consecutive quarter, with the economy growing by 2.5% QoQ driven by a jump in private spending and relaxation of pandemic restrictions. The general increase in the Aggregate 1-year PD is possibly due to high inflation expectation in domestic markets, while they simultaneously battle with a sell-off due to capital outflows into US markets where the introduction of Fed’s rate hiking cycle attracts higher yielding assets.



Indonesian Companies

The NUS-CRI Aggregate 1-year PD for Indonesian companies remained stable at 17bps end of H1 2022 as compared to 17.3 bps seen in Dec 2021. Indonesia's economy expanded 5.44% in Q2 2022, slower than the 7.07% expansion in Q4 2021. As of Jun 2022, Indonesia recorded a 4.35% inflation rate and USD 3.85bn of current account surplus.



Economy

- The Indonesian economic growth rate increased by 5.01% in Q1 2022 before accelerating to 5.44% in Q2 2022. On the back of six consecutive expansion quarters, the country experienced a further expansion in Q2 2022 as it recovered from pandemic era restrictions. Moving forward, the economy is expected to experience growth in the next quarter.¹
- The Consumer Price Index (CPI) of Indonesia stood at 4.35% (YoY) as of end Jun 2022, higher than market expectations of 4.17%. As consumption returned to normal post-pandemic, food prices surged 6.23%, the biggest increase since Nov-2016.²
- Indonesia's Balance of Payments had a USD 2.4bn surplus in Q2 2022 owing to a large current account surplus, and a smaller deficit in their capital and financial accounts.³
- The S&P Global Indonesia Manufacturing PMI (PMI) reflects Indonesia's softening manufacturing conditions as of end of Jun-2022. Although the index registered a positive sentiment for the tenth month in a row, growth also fell to the lowest level since Aug-2021 owing to inflationary headwinds and an increase in VAT. Output recorded an expansion and buying activity registered its sharpest increase in 10 months. On the other hand, raw materials were in short-supply and vendor performance remained impacted by supply chain disruptions giving rise to a further increase in costs.⁴

Monetary

- The Bank Indonesia (BI) chose to keep the BI 7-Day reverse repo rate at 3.50%, while keeping the deposit facility rates at 2.75% and the lending facility rates at 4.25%. The move is in line with the bank's requirement to keep inflation under control and keep exchange rates stable. Through the following policy measures, Bank Indonesia continues to optimize the accommodating monetary and macroprudential policy mix and expedite payment system digitisation in Indonesia to assist the national economic recovery.⁵

Funding & Liquidity

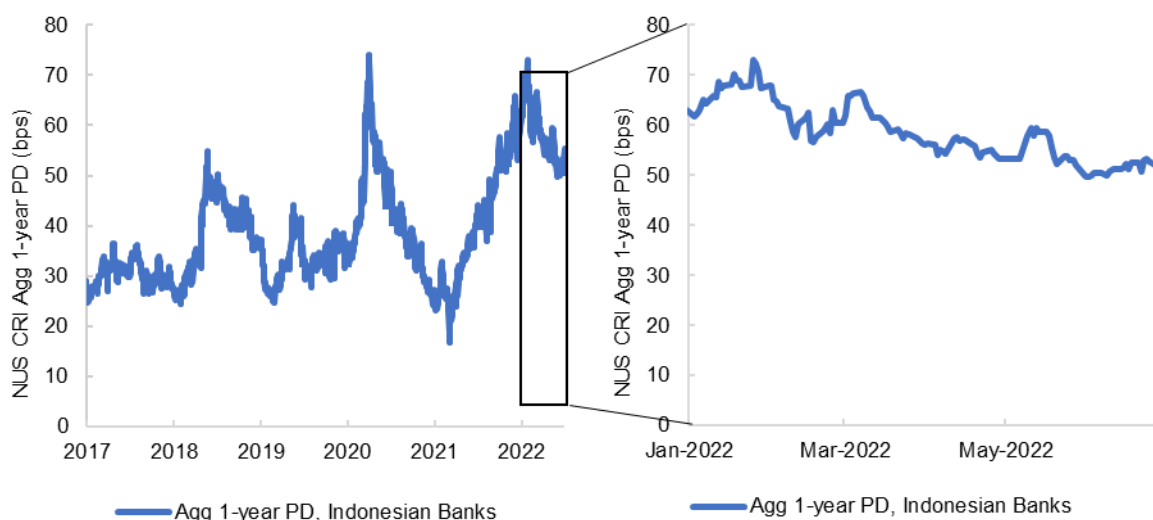
- The yield of Indonesia's 5-year bond rose from 5.10% at the end of Dec 2021 to 6.20% at the end of Jun 2022. Similarly, Indonesia's 10-year government bond yield increased from 6.37% to 6.6% during the same time period.^{6,7}
- As of the end of June 2022, Indonesia's official reserve assets totalled USD 136.4bn, up from USD 135.6bn at the end of May 2022. The official reserve assets position is enough to finance 6.6 months of imports or 6.4 months of imports while also servicing the government's external debt. The Government's Global Sukuk (Sovereign Islamic Bond) issuance, as well as tax and service receipts, influenced the increase in official reserve assets in Jun-2022. Bank Indonesia believes that the official reserve assets will continue to be enough in the future and will become an essential factor in the national economy's external resilience.⁸
- External debt was down 2% QoQ from USD 412.6bn in Q1 2022 to USD 403bn at the end of Q2 2022. Indonesia's external debt remains sustainable in Q2 2022, with external debt to Gross Domestic Product (GDP) ratio at 31.8%, down from 33.8% in the previous quarter. External debt showed a higher contraction in Q2 2022 to 8.6% YoY in Q2 2022 from 3.4% YoY in the previous quarter. Indonesia's external debt structure remained sound, due to the prevalence of long-term debt, which accounted for 99.7% of total external debt.⁹

Sovereign Credit Ratings

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

Indonesian Banks

The NUS-CRI Aggregate 1-year PD for Indonesian banks decreased from 63.10bps in Dec 2021 to 55.49bps in Jun 2022. Loans extended by Indonesian banks across all categories exhibited growth with credit growth at 9.03%. Meanwhile, non-performing loans (NPL) stood at 3%.^{11,12}



Profitability

- The three largest majority state-owned Indonesian banks, Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia reported increases in net profit of 30% and 21.1%, and 67.9% in the first half of 2022.^{13, 14, 15}

Funding & Liquidity

- The liquid asset to bank deposit ratio of Indonesian banks stood at 30.8% as of Jun 2022.¹⁶
- The Jakarta 3-month interbank rate remained stable at 3.75% from the end of 2021 to the end of Q2 2022. Similarly, the 1-month interbank rate also remained largely stable at 3.54% by the end of Q2 2022.¹⁷

Asset Quality

- According to Bank Indonesia, the financial system remained stable. Capital adequacy ratio and liquidity of Indonesian banks, as of Apr 2022, stood at 24.28% and 30.8% respectively, while non-performing loans (NPL) stood at 3% (gross) or 0.8% (net). Bank Indonesia recorded a credit growth of 9.03% in May 2022.^{18 19}

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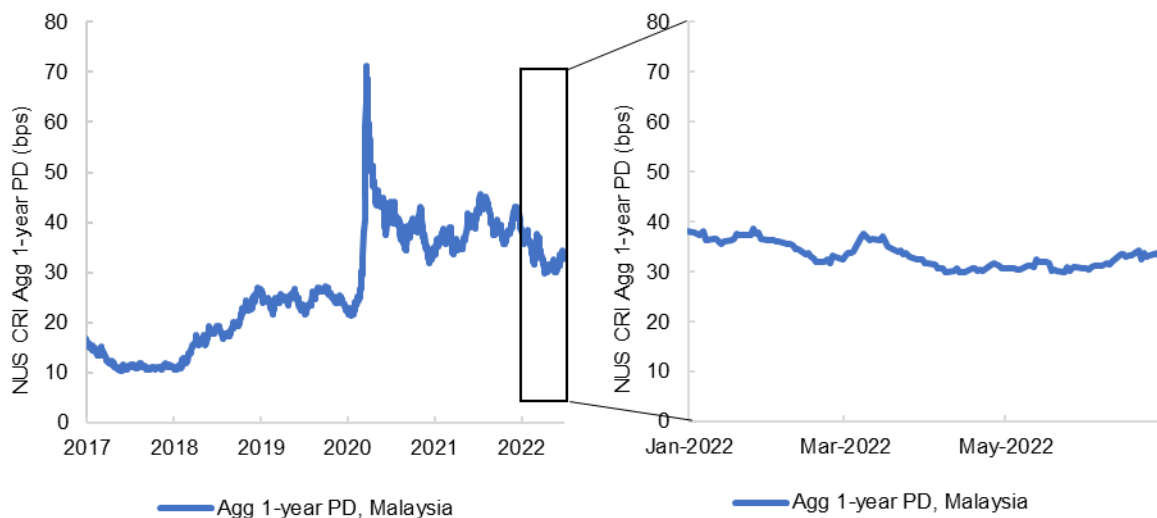
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Malaysian Companies

The NUS-CRI Aggregate 1-year PD for Malaysian companies decreased from 39.7bps at the end of Dec 2021 to 33.84bps at the end of Q2 2022. The economy rebounded sharply as a result of the resumption of economic activities. However, inflation surged to a 12-month high of 3.4%.



Economy

- Malaysia's Gross Domestic Product (GDP) expanded 8.9% YoY by the end of June 2022, surging from a 5.0% growth in the previous quarter. As a result of the reopening of more economic operations and an increase in domestic demand, this was the quickest rise in the economy since Q2 2021. Household consumption increased to 18.3% from 5.5% in Q1 2022 and fixed investment rebounded to 5.8% compared to 0.2% in Q1 2022. Furthermore, net exports boosted GDP with exports and imports increasing 10.4% and 14% respectively.¹
- Headline inflation surged from 2.8% in May 2022 to 3.4% in Jun 2022. Consumer Price Index (CPI) increased to 127.4 at the end of Q2 2022 from 123.2 at the end of Q2 2021. Core consumer prices increased 3.0% in Jun 2022. Inflation rose overall, owing primarily to higher increase in food away from home, restaurant and café and personal transport expenditure.^{2 3}
- Unemployment rate decreased to 3.8% in Jun 2022, from 4.8% in Jun 2021, because of the increased Enhanced Movement Control Order implemented across regions.⁴
- The trade surplus fell to MYR 21.9bn, narrowly shrinking from the RM 22.3bn in Q2 2021. This was a result of imports increasing as domestic consumption increased following relaxation of pandemic restrictions. The good export performance was widespread across products and markets and was bolstered by rising external demand. Meanwhile, gross imports increased by 49.3%, owing mostly to a faster expansion across all categories.⁵

Monetary and foreign exchange landscape

- The Monetary Policy Committee (MPC) of Bank Negara Malaysia chose to keep the Overnight Policy Rate (OPR) at 2.00%. Inflationary pressures have surged driven by an increase in commodity prices, the ongoing supply chain crisis, and a surge in domestic demand. Overall, headline inflation is expected to be in the projection range (2.2% and 3.2%) in 2022. The upward trending inflation may be partially contained by price controls and spare capacity in the economy. However, the forecast is dependent on price movements of global commodities.⁶
- The ringgit depreciated 4.6% against the USD as the monetary policy tightening in the United States fuelled an appreciation of the dollar.⁷

Funding & Liquidity

- At both the institutional and systemic levels, banking system liquidity was sufficient to allow financial intermediation activity. The amount of outstanding liquidity held by the central bank declined in Q2 2022, owing in part to higher currency in circulation.⁸
- Malaysia's external debt was RM 1128.3bn, or 67.7% of GDP, at the end of Jun 2022 compared to RMB 1111.2bn at the end of Mar 2021. The increase is a result of net interbank borrowings, trade credits, and exchange rate valuation impacts due to the higher ringgit against selected major and regional foreign currencies over the period. Foreign currency debt amounted to RM 750.6bn, accounting for 66.5% of total external debt.⁹
- Net financing increased by 4.9% annually as of end Q2 2022. Meanwhile, outstanding loan growth was higher at 5.4% (Q1 2022: 4.4%), whereas outstanding corporate bond growth slowed to 3.4%. (Q1 2022: 4.6%). Outstanding business loans increased to 5.5% annually as of end Q2 2022 (Q1 2022: 4.3%), as working capital loan disbursements to SME and non-SME segments increased. Outstanding loan growth for households increased to 5.7% (Q1 2022: 4.8%).¹⁰

Regulations and Policies

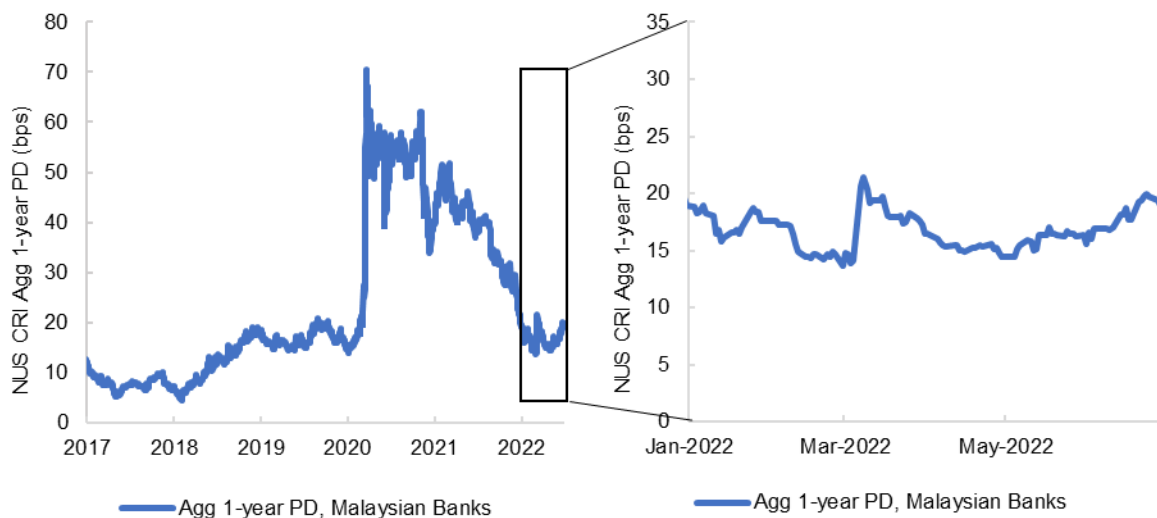
- The overall economic outlook suggests that the economy will continue to grow in 2022. However, as price pressures continue to pose a threat to economic growth and may derail recovery. Policies enacted to contain negative impact of inflation such the current price control measures and fuel subsidies may provide support to the economy.¹¹

Sovereign Credit Ratings

- Moody's maintained its A3 rating with a stable outlook for Malaysia. Meanwhile, S&P changed the country's outlook from negative to stable while keeping its A- credit rating. On the other hand, Fitch maintained its credit rating for Malaysia at BBB+ with stable outlook.¹²

Malaysian Banks

The NUS-CRI Aggregate 1-year PD for Malaysian banks increased from 18.95bps to 19.64bps from Dec 2021 to Jun 2022. Asset quality poses slight challenges amidst declining loan growth, falling bank deposits and rising non-performing loans.



Lending

- Nominal interbank interest rates were sustained. The 3-month Interbank rate stood at 2.29% as of Jun 2022.¹³
- Banks face a reserve requirement ratio of 2.0%.¹⁴
- Malaysian banks face non-performing loans ratio of 1.62% in Jun 2021 which is a marginal deterioration from the ratio of 1.56% in Dec 2020.¹⁵

Funding & Liquidity

- Total bank deposits stand at USD 513bn in Jun 2021. This is a marginal fall from the USD 520bn at Dec 2020.¹⁶
- The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at an adequate rate of 2%. On top of this, fiscal and financial policies will support economic activity.¹⁷
- In the short term, the impaired loans ratio is projected to stay relatively constant as banks continue providing repayment help to borrowers experiencing financial difficulties. Banks continue to set aside additional provisions for anticipated credit losses, which presently account for 1.8% of all loans in the banking system.¹⁸

Capital Levels & Regulations

- Despite a small drop in capital ratios, banks' surplus capital buffers remained stable at RM122.9bn as of Q1 2022, allowing them to withstand possible stress and maintain credit intermediation in the economy. The aggregate liquidity coverage ratio stood at 148.4%.¹⁹

Asset Quality

- The banks recorded a decline in outstanding loan growth as they ended Jun 2022 with 5.6%. Both internal and global influences impacted the financial markets in Malaysia. Investor confidence was impacted by the uncertainties brought upon by tightening global financial conditions.²⁰

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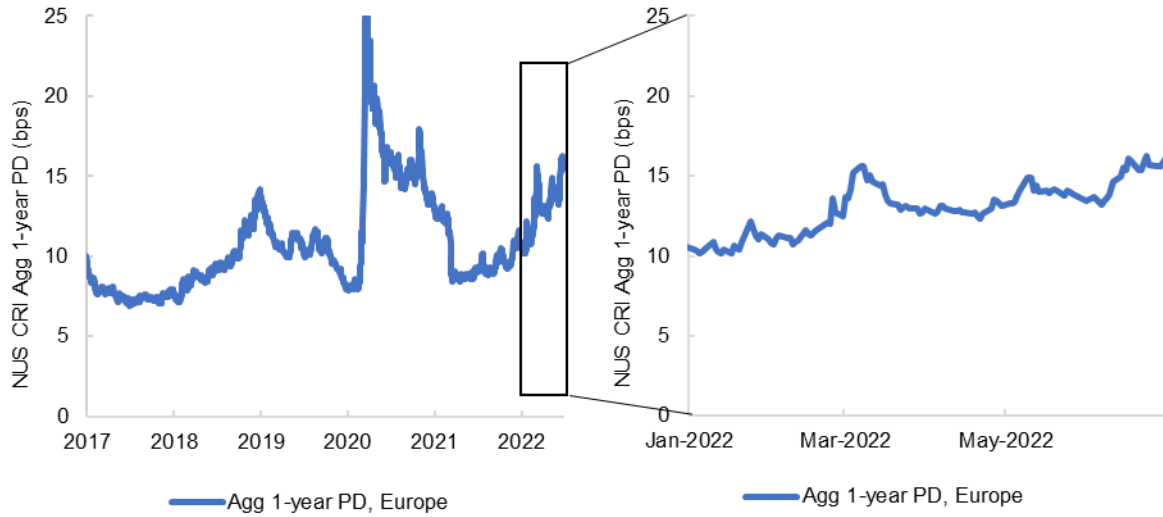
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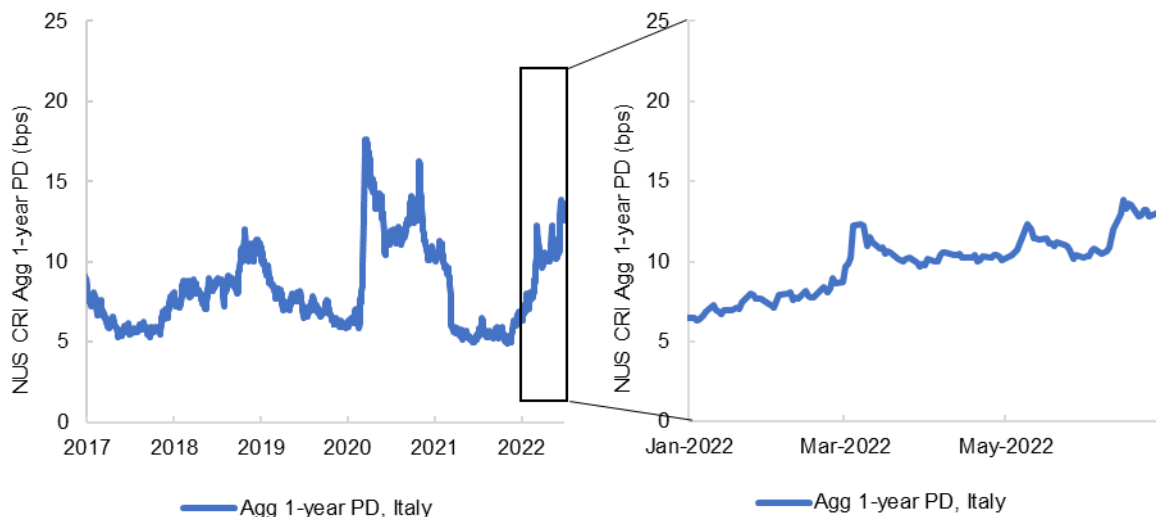
Europe

European companies saw a marginal deterioration in their credit quality especially at the end of Q2 2022, as showcased by the NUS-CRI Aggregate 1-year Probability of Default (Agg PD) with PD rising to 16bps at the end of June in 2022 from 10.60bps at the end of last year. The GDP of euro area has expanded 0.6% in Q1 2022 and increased by 0.8% in Q2 2022. The growth in GDP was mainly driven by an increase in household spending. Household spending surged as lockdown restrictions eased and summer tourism resumed. Export grew by 1.3% whereas imports grew by 1.8%.



Italian Companies

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) demonstrates the deteriorating credit quality for Italy-domiciled companies, with PD increasing from around 6.33bps at the beginning of this year to 13.66bps at the end of Jun-2022. In 2022, the Italian economy saw consecutive declines in economic growth during the first two quarters in 2022, with GDP declining to 6.4% and 5% QoQ in Q1 and Q2 respectively.¹



Economy

- The GDP of Italy increased on a QoQ basis by 0.1% in Q1 2022 and 1% in Q2 2022. On a YoY basis, it grew by 6.2% in Q1 2022 and expanded further by 4.6% in Q2 2022. The QoQ change was driven by lower growth in agriculture, forestry and fishing. On the demand side, there was also a negative impact on GDP due to a slowdown in the net export component.^{2 3}
- Italy's unemployment rate fell to 8.1% in June from an upwardly revised 8.2% in May, as per market expectations. This was the lowest unemployment rate seen in the economy since Apr 2020. 86 thousand jobs were added, and the number of unemployed people dropped by 4 thousand. Simultaneously, the labor force participation rose to 65.5%.⁴
- The S&P Global Italy Manufacturing PMI stood at 50.9 in Jun 2022, from 51.9 in May and beat market expectations. Although production levels showed growth, the demand for new work continued to drop as inflation and economic slowdown weighed on demand. Inflationary headwinds driven by a surge in energy and food costs continued to push prices higher.⁵
- The S&P Global Italy Services PMI decreased to 51.6 in June from 53.7 in May, indicating the consecutive decrease in services output. This is the lowest reading since Jan 2022 and was broadly close to market analyst estimates. The sub-index for new business also declined to 52.3 in June as compared to 54.8 in May. The slowdown may be attributable to the increased inflationary pressures brought on by surging costs of energy and food.⁶
- The consumer confidence index in Jun 2022 went down from 102.7 to 98.3 with declines seen across the board. Confidence on economic climate declined from 103.6 to 93.9, the current one from 104.6 to 97.9, the personal one from 102.4 to 99.8 and the future one from 99.8 to 98.8. The confidence index in manufacturing rose from 109.4 to 110.0. However, the confidence index in construction dropped marginally from 158.7 to 159.7. The market services confidence index increased from 103.8 to 109.1. Meanwhile, the retail trade confidence index progressed upwards from 105.8 to 107.2.⁷

Funding & Liquidity

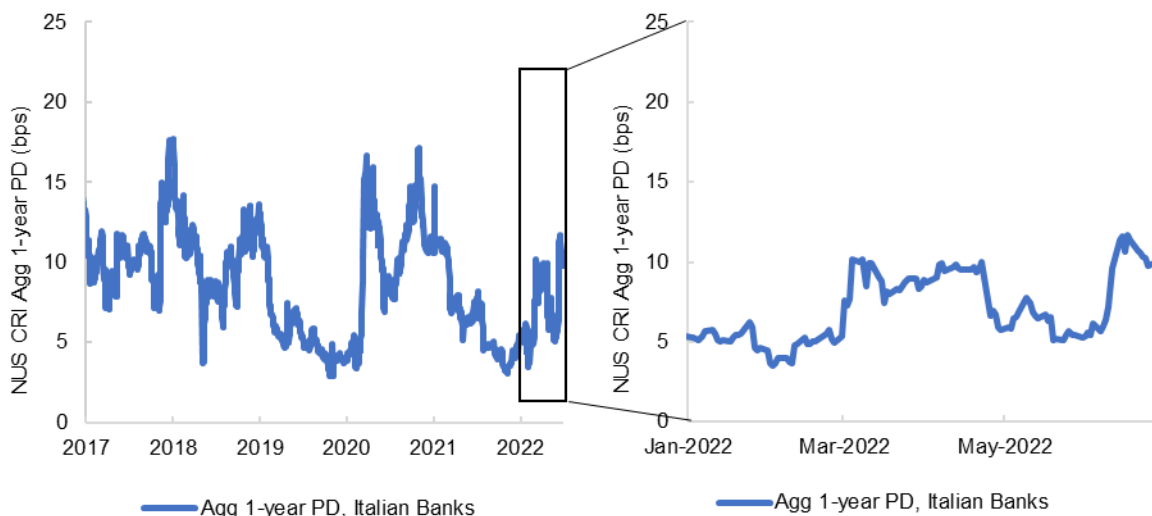
- Yield on Italy's 10-year government bond decreased to 3.09% at the end of Q2 2022 from 4.53% at the end of Q4 2021.⁸
- Interest rates on loans (other than bank overdrafts) to non-financial corporations fell to 1.74% in Jun 2022, from 1.62% in Dec 2021. Bank interest rates (including revolving loans, overdrafts, and extended credit card credit) to corporations marginally increased from 2.10% to 2.19% in the same period. Loans for house purchases increased from 1.40% to 2.17% in the first half of 2022.^{9 10 11}
- Preliminary estimates for outstanding loans to non-financial institutions was EUR 682.3bn at the end of Jun 2022, from EUR 675.1bn at the end of Dec 2021.¹²

Sovereign Credit Ratings

- Moody's, S&P and Fitch maintained their ratings at Baa3, BBB and BBB- with a stable outlook respectively on Italy. ¹³

Italian Banks

The NUS-CRI Aggregate 1-year Probability of Default (Agg PD) demonstrated a deterioration in Italy-domiciled banks' credit profile in the first half of 2022. Italy-domiciled banks' improved their profitability in H1 2022 compared with the same period one year earlier, due to the lower credit costs and the economic recovery. Their asset quality remained stable as net NPL ratio remained at 1.9% at the end of Jun-2022.



Profitability

- Intesa Sanpaolo, Italy's largest bank, saw its net income increased by 8.4% to EUR 3.28bn in the first half of 2022 from EUR 3.02bn over the same period one year earlier. Net income of UniCredit, Italy's second-largest bank, rose to EUR 4.4bn in Q2 2022, a YoY increase of 12.5%.^{14 15}

Funding & Liquidity

- The long-term interest rate increased to 3.63% in Jun 2022, from 1.05% in Dec 2021.¹⁶
- The 12-month percentage change in deposits of funds by Italian residents was 4.4% at the end of May, while for the total deposits of non-residents, it was 5.1%.¹⁷
- Interest charged on loans to firms were 1.4% in May 2022, unchanged from Feb 2022. Interest rates of loans to households increased to 1.9%, from 1.5% in Feb 2021.¹⁸
- The Bank of Italy's liabilities towards Euro-area financial counterparties remained stable at EUR 453bn in Feb 2022 and May 2022.¹⁹
- Italian bank liabilities towards the Euro system remained the same at EUR 453bn from Feb 2022 to May 2022. Capital and reserves decreased slightly to EUR 340bn in May 2022 from EUR 342 in Feb 2022.²⁰
- According to the latest bank lending survey referring to Q2 2022, Italian banks reported that credit standards for new loans to businesses suggested a significant tightening, due to greater perceptions for risks as concerns about the economic outlook heightened. Credit standards for house purchase loans also reported a considerable tightening.²¹

Asset Quality

- According to the Bank of Italy, in Q2 2022, the flow of new non-performing loans stood at a seasonally adjusted 2.6% on an annualized basis. The net NPL ratio was slightly lower at 1.2% in Jun 2022 from 1.4% in Mar 2022. The coverage ratio of Italian banks also decreased from 55.1% in Mar 2022 to 52.7% in Jun 2022.²²

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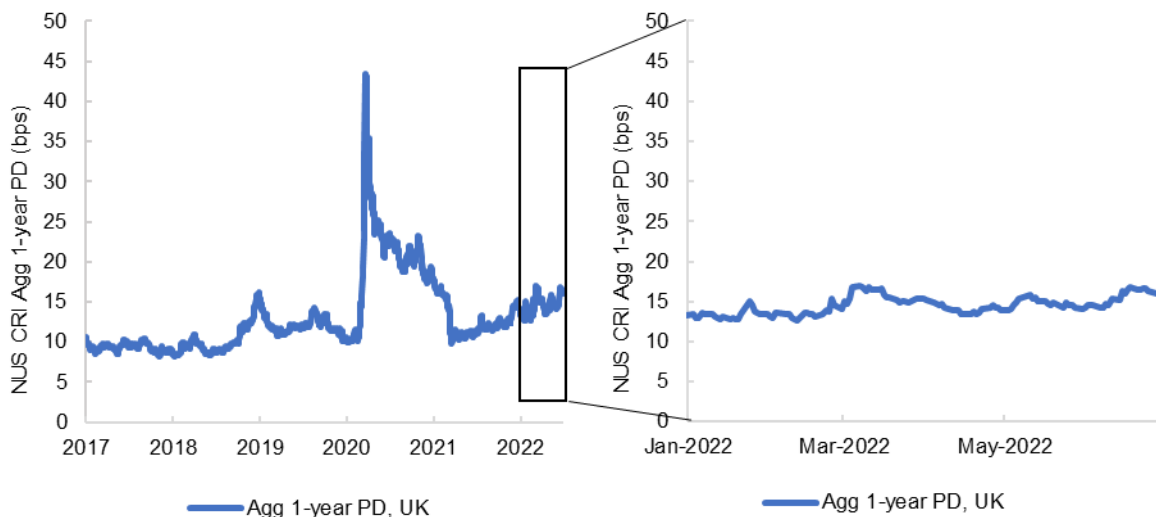
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UK Companies

NUS-CRI Aggregate 1-year PD for companies domiciled in the UK increased marginally in H1 2022. Though UK domiciled companies' saw a marginal increase from 12.13bps to 15.4bps in H1 2022, this is in line with the decline in the quarterly GDP growth rate which showcased a growth of 0.8% in Q1 2022 followed by 0.2% in Q2 2022. Household consumption grew by 0.1% in Q2 2022, after increasing in Q1 by 0.6%. Services also showed marginal growth in Q2 2022, while production showed a contraction of 0.2%.



Economy

- The UK economy contracted in the second quarter of H1 2022 with QoQ GDP decreasing by 0.1% in Q2 2022 as compared to an expansion of 0.8% in Q1 2022. The largest impact was seen on services which declined by 0.4%. Household spending also tracked downward, registering a 0.2% decline as the cost-of-living crisis pressured incomes.
- Unemployment rates in the UK in Q2 2022 stood at 3.8% which was 0.1 percentage points higher than Q1 2022. The number of employed people went up by 160,000 which was still lower than market expectations of 256,000. Although layoffs remained low, the rate of growth in the number of vacancies showed a slowdown.^{1 2}
- The total trade deficit in the UK increased dramatically from GBP 0.9bn in Q2 2021 to GBP 25.0 bn in Q2 2022.^{3 4}
- UK Manufacturing PMI fell to 52.8 in Jun 2022 from 54.6 in May 2022. Output growth stalled and a contraction was seen in new orders for the first time in 17 months. Inflationary pressures continued to persist driven by strained supply chains, raw material and labor shortages. Business optimism was at the lowest level since May 2020⁵
- UK construction companies recorded a decrease in business activity during Jun 2022. The S&P Global/CIPS UK Construction PMI declined to 52.6 in June 2022 from 56.4 in May 2022. The numbers indicate that growth slowdown to the lowest level since Sep 2021 driven by a weakening in house building.⁶

Monetary

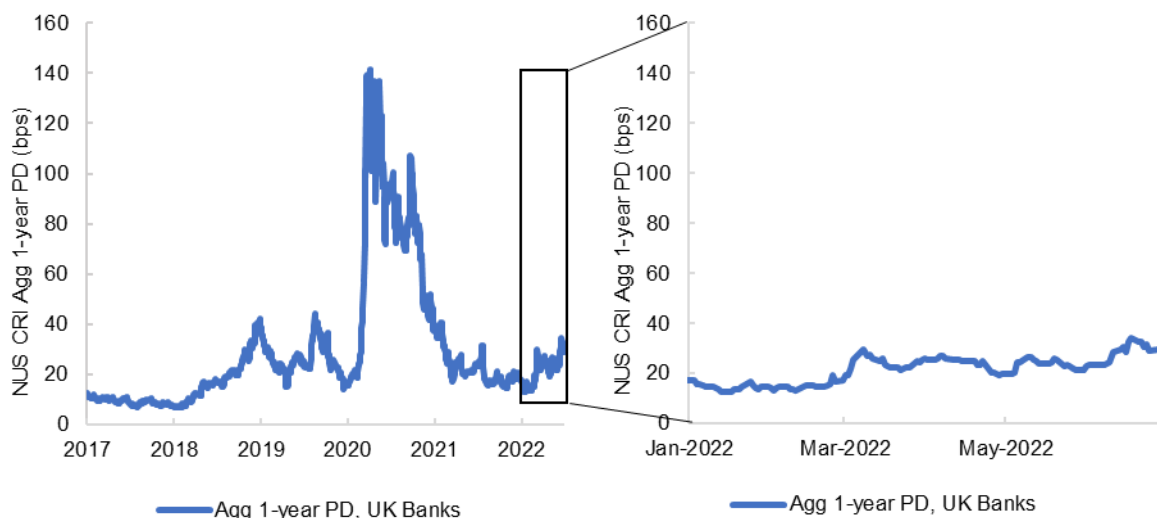
- The Monetary Policy Committee (MPC) voted to increase the bank rate to 1.25% during their meeting on 15 June 2022. The committee also decided in Feb 2022 to reduce its existing UK government bond purchases by not reinvesting maturing assets. MPC sets monetary policy to meet the 2% inflation target, 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 8.2% in Jun 2022, up from 7.9% in May 2022. The largest contribution to the CPIH 12-month inflation rate in Jun 2022 came from housing and household services (principally from electricity, gas and other fuels, and owner occupiers' housing costs) and transport.⁸

Sovereign Credit Ratings

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

UK Banks

The NUS-CRI Aggregate 1-year PD for banks in the United Kingdom increased in the first half of the year amidst inflationary pressures and geopolitical turmoil which led to a 4.8% YoY decline in the profits of large banks. Simultaneously, the FTSE 350 Banks Index also reached 3228.



Profitability

- Lloyds Banking Group's net interest margin (NIM) in Q2 2022 was 2.87%, marginally higher than Q1 2022 NIM value of 2.68%. Lloyds closed Q2 2022 with a net interest income of GBP 3190mn, GBP 245mn higher than that in Q1 2022. This is driven primarily by rising interest rates and the post-pandemic economic recovery.¹⁰
- NatWest Group reported an H1 2022 operating profit before tax of GBP 2,299mn, slightly higher than operating profit of GBP 2295mn in H1 2021. Improved economic conditions and rising interest rates have been the main drivers of profit.¹¹
- Standard Chartered's underlying profit before tax increased 7% YoY in 2022 to USD 2.8bn. Its income in 2022 was driven by improvement in economic activity.¹²

Funding and Liquidity

- According to the Bank Liabilities Survey produced by the Bank of England, UK banks and building societies reported that total funding volumes increased in the three months to end of May 2021 (Q2). Total funding volumes were expected to decrease in the three months to end-August 2021 (Q3).¹³
- Lenders reported that although the supply of deposits remained stable in Q2 2022, a decrease may be expected in the following quarter. The supply of wholesale market funding was also unchanged in Q2 2022¹⁴

Asset Quality

- The total write-offs of sterling-denominated loans decreased from GBP 773mn on 31 March 2022 to GBP 601mn on 30 June 2022, due to write-offs to private non-financial corporates, which decreased from GBP 224mn to GBP 114mn. Non-financial loan write-offs to individuals also decreased marginally from GBP 546mn to GBP 478mn.¹⁵
- Write-offs on loans denominated in foreign currency decreased from GBP 127mn in Q4 2021 to GBP 83mn in Q2 2022, 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 75mn in Q4 2021 to GBP 56mn in Q2 2022¹⁶

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About The Credit Research Initiative

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

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

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

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

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