FitchRatings

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Fitch: Coronavirus Leads to Rating Actions on Nine Nordic Banking Groups

Fitch Ratings-Warsaw/London-07 April 2020: Fitch Ratings took rating action on nine Nordic banking groups last week to reflect the downside risks to their credit profiles resulting from the economic and financial-market implications of the coronavirus outbreak. The ultimate implications of the pandemic for banks' credit profiles are unclear, but Fitch considers the risks to be skewed to the downside, which has driven the following rating actions.

Long-Term Issuer Default Rating (IDR) affirmed; Outlooks Revised to Negative from Stable:
- Nykredit Realkredit A/S (A/Negative)
- Landshypotek Bank AB (A/Negative)
- SpareBank 1 Nord-Norge (A/Negative)
- SpareBank 1 SR-Bank (A-/Negative)
- SpareBank 1 SMN (A-/Negative)

Long-Term IDRs placed on Rating Watch Negative (RWN):
- Svenska Handelsbanken AB (AA/RWN)
- Skandinaviska Enskilda Banken AB (publ) (AA-/RWN)
- Nordea Bank Abp (AA-/RWN)
- Danske Bank A/S (A/RWN)

The detailed description of rating actions listed above is outlined in our Rating Action Commentary published on 31 March 2020 ("Fitch Takes Actions on 9 Nordic Banking Groups On Coronavirus Uncertainties").

The banks for which we affirmed the Long-Term IDRs and revised the Outlooks to Negative have sufficient headroom to emerge from the crisis with their ratings intact. This mainly reflects their conservative risk appetites and sound financial metrics, which are comfortably within their current rating levels. The RWN indicates near-term pressure on the ratings as these banks enter the economic downturn with only moderate rating headroom.

The key triggers that could lead to a downgrade are a material deterioration we expect in asset quality, a sustained reduction of operating profitability driven by credit losses and subdued earnings, or eroded capitalisation which would be difficult to restore in a relatively short period of time.

We have revised our Outlooks for the four Nordic operating environments to Negative. We expect a significant deterioration in eurozone GDP growth and this is highly likely to be the case in the four Nordic markets as well. We revised our baseline eurozone GDP growth expectation for 2020 to a contraction of 4.2% in our latest forecast published on 2 April 2020 ("Global Economic Outlook - COVID-19 Crisis Update April 2 2020"). However, the uncertainties surrounding these forecasts are extremely high and a plausible downside scenario, including a second wave of infection and a longer lockdown period, would see an even larger decline in output in 2020 and a weaker recovery in 2021.

The four Nordic countries have a strong social safety net and effective automatic stabilisers. The strength of their public finances and sovereign ratings allow the governments to launch significant relief measures to help soften the negative impact on their economies from the coronavirus outbreak.

In Denmark, the government is covering 75% of employee salaries (90% for hourly workers) to avoid layoffs. The Norwegian government offers full pay for 20 days for temporarily laid-off staff and additional benefits for the unemployed. In Sweden, companies receive allowances if they reduce working hours, which translates into only a modest reduction of employee salaries and lower costs for employers. In addition, all four governments have announced support for domestic corporates via the provision of state-guaranteed credit facilities. Governments have also announced a temporary reduction in value-added tax (Norway), tax deferrals (Sweden) and temporary support by covering parts of corporates' fixed costs (Norway and Denmark).

The counter-cyclical buffers have been lowered to 0% in Denmark and Sweden and to 1.0% (from 2.5%) in Norway. In Finland, the counter-cyclical capital buffer rate was already zero, but the ECB released banks from having to observe capital conservation (2.5%) and bank-specific Pillar 2 Guidance buffers, and the Finnish regulator further reduced the buffer requirements of all credit institutions by 1%. Norway's central bank decided to lower the policy rate from 1.5% to 0.25%, which will support borrowers' debt service capacity.

Debt-relief measures (such as payment holidays for private individuals and moderate debt restructuring for viable companies) should partly mitigate pressure on banks' asset-quality metrics. The regulators allow banks to be much more flexible in impairment recognition under IFRS 9 to avoid an excessive impact on pro-cyclical profitability. Nevertheless, we expect asset quality to weaken relative to our previous expectations and for earnings challenges to intensify due to reduced business volumes and rising loan-impairment charges. Higher wholesale funding costs represent an additional downside risk.

Nordic banks are well capitalised and their capital surpluses over regulatory limits give them a sufficient cushion to absorb losses and the inflation of risk-weighted assets. We do not expect immediate pressure on Nordic banks' funding profiles, given their ample liquidity and limited use of short-term debt. Nordic banks rely strongly on secured long-term wholesale funding and we expect the covered bond market to remain liquid even in the case of turbulence in global financial markets. We consider Nordic banks' liquidity sufficient to service even intensified drawdowns of committed credit facilities by companies. The banks' liquidity profiles are underpinned by available central banks' funding facilities.

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Global Economic Outlook Datasheet - COVID-19 Crisis Update April 2 2020

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