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Announcement: Moody's: Weak loan performance and challenging liquidity conditions for Tunisian banks

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DIFC - Dubai, February 28, 2018 -- The high level of problem loans in Tunisia will continue to weigh on the credit profiles of the country's banks, according to a report from Moody's Investors Service. Liquidity conditions will also be challenging.

Moody's report, "Banking System Brief: Tunisia Weak loan performance and challenging liquidity conditions constrain banks' creditworthiness," is available on www.moodys.com. Moody's subscribers can access this report via the link provided at the end of this press release. The rating agency's report is an update to the markets and does not constitute a rating action.

Moody's says that credit growth in Tunisia will remain elevated at around 8%-10%, fueled by recovering economic growth of 2.8% compared with 2.3% in 2017, in a context of declining domestic savings. Foreign investment in Tunisia, recovery in sectors such as mining and agriculture, together with a number of reforms aiming to improve business climate should drive economic recovery.

"We expect reported nonperforming loans (NPLs) for Tunisian banks to stabilize but remain elevated at around 15% of gross loans as of the end of 2017," says Olivier Panis, Vice President and Senior Credit Officer at Moody's. "Stabilization will continue to be driven by sustained loan growth and the relaxation of write-off policies, in particular for public sector banks that have the highest level of NPLs at around 22%. "

A more material decline in the NPL ratio would be conditioned by a resolution of legacy NPLs and the current average ratio in the system underestimates risks on tourism assets that benefit from forbearance; NPL ratios would have been 80 basis points higher without.

While operating profits will remain stable this year, high provisioning requirements and continued loan growth are likely to continue to constrain internal capital generation.

"We estimate the sector-wide reported Tier 1 ratio at 8.2% as of September 2017 -- down from 9.3% in December 2015 -- which we consider low considering fast loan growth, high and sticky NPLs, and modest provisioning levels," explains Mr. Panis.

As banks' funding needs reached an historical high of TND11 billion in January 2018 compared with TND7 billion a year earlier, liquidity challenges are increasing for the system. Banks's reliance on central bank funding, which increased to 8.4% of total funding in 2017, will remain elevated in 2018, exposing banks to changes in monetary policy and funding cost pressures.

Subscribers can access the report at:

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1109436

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