Fitch Takes Rating Actions on European Supranationals Ratings

19 Dec 2011 3:45 PM (EST)

Fitch Ratings-London-19 December 2011: Fitch Ratings has placed the Council of Europe Development Bank's (CEB) and the European Investment Bank's (EIB) Long-term Issuer Default Ratings (IDR) on Rating Watch Negative (RWN). The agency has also revised the International Finance Facility for Immunisation's (IFFIm) Outlook to Negative from Stable and affirmed the European Investment Fund's (EIF) IDR with a Stable Outlook. A full list of rating actions is at the end of this comment.

The RWN on CEB and EIB follows Fitch's placement of six eurozone countries' ratings on RWN: Belgium ('AA+'/'RWN), Spain ('AA-'/'F1+'/RWN), Slovenia ('AA-'/'F1+'/RWN), Italy ('A+'/'F1'/RWN), Ireland ('BBB+'/'F2'/RWN), and Cyprus ('BBB'/'F3'/RWN). This could lead to a downgrade between one and two notches for these countries, which are all shareholders of CEB and EIB. Fitch expects to complete its review of CEB and EIB within the next three months. If the review concludes that a downgrade is warranted, it is likely be limited to one or two notches.

Support from member countries is factored into CEB's ratings. While the downgrade of Italy, one of the bank's key shareholders with 16.6% of callable capital, to the 'A' category did not have a sufficient impact to trigger a review of the rating, the agency considers that a downgrade of Spain's Long-term IDR (10.9% of callable capital) below the 'AA-' threshold would have a material impact on CEB's Long-term IDR, as its callable capital would no longer be integrated in the computation of the capitalisation ratio used by the agency (see 'Rating Multilateral Development Banks and Other Supranationals', dated 12 August 2011 at www.fitchratings.com). In addition, CEB has significant exposure to Spanish and Italian local authorities and financial institutions (as of end-2010, total exposure to Spain and Italy accounted for 59.1% and 49.2% of equity, respectively), which could be affected by a downgrade of the sovereign. It also has direct sovereign exposure to Cyprus (31.1% of equity). Under a scenario involving a downgrade of these three countries, the agency anticipates a deterioration of the bank's asset quality.

EIB's ratings also rely on support from its member countries and consequently its Long-term IDR could also be materially impacted by a downgrade of the six eurozone countries placed on RWN. The downgrade of Spain, one of EIB's largest shareholders with 9.7% of callable capital, would have the strongest impact, as it would affect the bank's Fitch-defined capital ratio. A downgrade of Italy (16.2% of callable capital), albeit not further impacting this capital ratio, would contribute to weakening shareholders' support. In addition, EIB's total exposure to Spain is substantial, accounting for 160.9% of equity at end-2010, of which 88.2% is public institutions and the state and 51.5% banks. Loans to Italian financial institutions (64.7% of equity at end-2010) could also be a source of concern if Italy was downgraded.

The revision of IFFIm's Outlook to Negative was triggered by the revision of France's Outlook to Negative. IFFIm's ratings rely entirely on support from donors, which have committed to disburse grants over a period of up to 20 years. As the UK and France are the largest contributors of grants, with 47.8% and 27.6%, respectively, of the total at end-September 2011, Fitch has linked IFFIm's ratings to the sovereign ratings of these two countries. If France's sovereign rating is downgraded, IFFIm's rating will be reviewed.

EIF's rating is largely driven by support from its key shareholders, ie the EIB (61.2% of capital at end-2010) and the European Union (30.0%). If EIB's rating is downgraded following Fitch's review, it is expected to remain in the high investment grade category while the ratings of the EU are not affected. Furthermore, the EIF does not make loans to local authorities and financial institutions. Although it holds debt securities of eurozone countries placed under RWN in its treasury portfolio, Fitch does not consider this exposure to be large enough to warrant a RWN. EIF itself has no debt.

The agency has not reviewed the 'AAA' long-term rating assigned to the debt issues of the European Financial Stability Facility (EFSF). Although its debt is guaranteed by all eurozone countries, the rating is underpinned by the support from 'AAA' rated countries only. Although France's outlook has been revised to Negative, the 'AAA' sovereign rating of France has been affirmed. The agency does not assign outlooks to debt ratings; hence, the revision of rating outlooks is not reflected in the credit assessment of debt issues. EFSF has not been assigned an IDR.

The rating actions are as follows:
CEB:
Long-term IDR 'AAA' placed on RWN
Short-term IDR affirmed at 'F1+'

EIB:
Long-term IDR 'AAA' placed on RWN
Short-term IDR affirmed at F1+'

IFFIm:
Long-term IDR affirmed at 'AAA'; Outlook revised to Negative from Stable
Short-term IDR affirmed at 'F1+'

EIF:
Long-term IDR affirmed at 'AAA'; Stable Outlook
Short-term IDR affirmed at 'F1+'

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Rating Multilateral Development Banks and Other Supranationals', dated 12 August 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Rating Multilateral Development Banks and Other Supranationals