

Research Announcement: Moody's changes banking system outlooks to stable in Argentina, Paraguay and Panama; outlooks remain stable in Uruguay and negative in Colombia, Central America and the Caribbean

Buenos Aires City, April 15, 2021 --

- » Outlook change to stable from negative was prompted by improving operating conditions in Paraguay and Panama, and an expectation of supportive bank fundamentals in Argentina
- » Unchanged stable outlook for Uruguay, reflecting recovering profitability and high reserves and capital; negative outlook maintained for Colombia, Central America and the Caribbean, reflecting linkages between the creditworthiness of the government and banks

Moody's Investors Service has changed its outlook on the Paraguay and Panama banking systems to stable from negative in light of stable-to-improving operating environments over the next 12-18 months. The outlook of Argentina's banking system was also changed to stable from negative driven by banks' relatively strong fundamentals, despite increasingly challenging operating conditions. At the same time, it has maintained its stable outlook on Uruguay and negative outlook on Colombia, Central America and the Caribbean.

"The outlook changes to stable from negative for the Paraguayan and Panamanian banking systems follow Moody's expectation of recovering economies that will support operating environments and the banking business in 2021-22," says Marcelo De Gruttola, a Moody's Vice President." In Argentina, banks creditworthiness will likely remain stable in the outlook horizon, although downside risks arise from persistent macroeconomic imbalances. The stable outlook for Uruguay highlights the benefit that a recovering economy in 2021-2022 will have on asset quality and profitability of local banks, while the negative outlook for Colombia, Central America and the Caribbean reflects deteriorating government support due to challenging fiscal conditions, coupled with still significant asset risk pressures."

In Argentina, although banks remain exposed to challenging operating conditions, their creditworthiness will likely remain stable over the next 12-18 months. Banks' limited credit growth in the last three years, coupled with the increase in loan loss reserves, will partially mitigate the impact of higher delinquencies in 2021 as relief and forbearance measures come to an end. Moody's adds that banks' local and foreign currency funding remain exposed to policy changes and shifts in market confidence.

In Paraguay, banks' focus on agricultural lending, high commodity prices and the expected rebound in economic growth will combine to improve business conditions and promote loan growth, prompting a stable outlook. For 2021, Moody's expects asset risk to be high and profitability and capitalization to be stable. Deposit dynamics remain supportive, liquidity is high and government support assumptions are unchanged.

The Panamanian banking system's relatively high capitalization levels, stable domestic funding, highly liquid assets, all combined with a recovering economy, support Moody's stable outlook. Still, the rating agency notes its expectation of an increase in problem loans during the second half of 2021 and limited profitability due to lower business volumes in general and further loan loss

provisions. Regulators have helped banks during the pandemic, but the lack of a central bank limits the government's capacity to provide support.

In Uruguay, the stable outlook reflects the benefit that a recovering economy in 2021-2022 will have on asset quality and profitability of local banks, despite high inflation and unemployment. Moody's continues to assess the willingness of government support for the two state-controlled banks as high. However, the rating agency continues to expect that support would only be forthcoming to government-backed institutions because of the high level of dollarization in the country, which limits the central bank's role as a lender of last resort.

In Colombia, the negative outlook reflects asset risk pressures and the linkages between the creditworthiness of the government and banks, in light of weakening government support. Moody's expects asset risk to materialize in 2021, but high loan loss reserves built throughout 2020 will partially offset the impact. Funding and liquidity will remain supportive of the banking system's creditworthiness, while capital will likely stabilize as profitability gradually recovers after the hit in 2020.

The negative outlook on the banking systems in Central America and the Caribbean considers deteriorating government support and Moody's expectation that banks' nonperforming loans will rise in the region in the next 12 months. Regional economies will recover, but growth will be slower than South American peers. Banks' profitability will benefit from stronger business volume, but earnings origination will likely be capped by the persistently high volume of loan loss provisions, resulting in more modest growth than before the pandemic.

To see the complete banking sector outlook reports, click the weblink for each country:

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