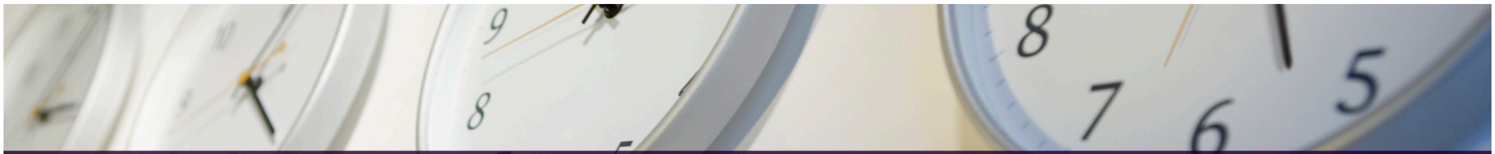

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21 October 2021

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SEC's approval of Bitcoin ETF is credit negative for Coinbase

Originally published on 19 October 2021

On 19 October, ProShares Trust launched the first Bitcoin exchange-traded fund (ETF). The fund will invest in front-month Bitcoin futures traded on the CME Group Inc. (CME, Aa3 stable) futures exchange. The launch followed the US Securities and Exchange Commission approval of futures-based ETFs tied to Bitcoin and sets the roadmap for other ETF manufacturers who expect to receive similar SEC approvals in the weeks to come.

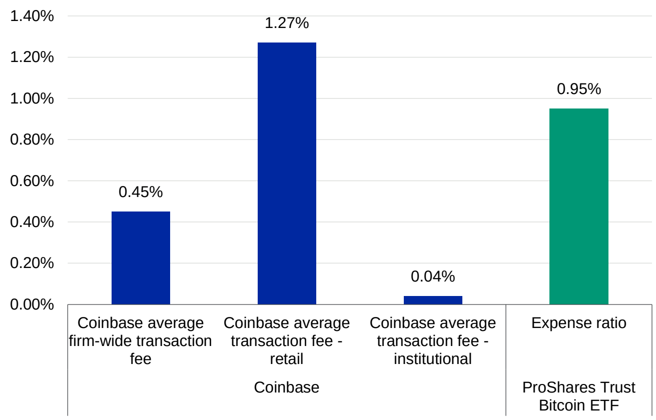
The launch is credit negative for digital asset trading platform Coinbase Global, Inc. (Ba2 stable) because active investors can buy and sell the bitcoin ETF at a cheaper fee from their brokerage accounts than through Coinbase. ProShares Bitcoin ETF will charge an annual 0.95% expense ratio earned on the value of client assets.

In comparison, we estimate that Coinbase earned around 1.27% on the dollar value of retail trades and 0.04% on institutional trades for the 12 months that ended June 2021, with a weighted average of around 0.45% (Exhibit 1). Given that Bitcoin ETF will be available to retail investors, the ProShares' ETF pricing will pressure Coinbase's pricing (Exhibits 2).

Exhibit 1

The new ETF's expense ratio is a more attractive option to active retail investors than Coinbase's volume-based transaction fees

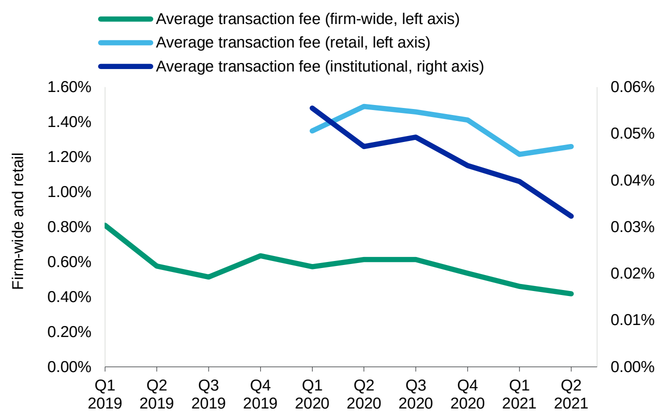
Coinbase fees for 12 months to 30 June 2021



Sources: Company filings and Moody's Investors Service

Exhibit 2

Putting further pressure on Coinbase's already declining average fees



Sources: Company filings and Moody's Investors Service

Despite increased competitive pressure, Coinbase will likely benefit from ProShares' Bitcoin ETF launch because of increased investor interest in Bitcoin ETF as an asset class, and customers who want access to a larger set of digital assets will still trade through digital platforms like those of Coinbase. In addition, trading via Coinbase instead of through an ETF that tracks the cash-settled futures contract allows investors custody of digital assets such as Bitcoin as well as the option to withdraw, spend or self-store the digital assets.

Coinbase derives 95% of net revenue from customer transactional activity. To address its reliance on transaction revenue, Coinbase is diversifying its tradable products and expanding its subscription-based revenue, but it will take time for this strategy to have a material effect. The CME Bitcoin futures contract is priced using CME's own Bitcoin price index, the Bitcoin Reference Rate, based on a methodology that calculates the volume-weighted price of trades that took place on five different digital asset exchanges: Bitstamp, Coinbase, Gemini, itBit and Kraken. The growth in Coinbase's market share, which custodies 11% of all crypto assets, and deep exchange liquidity with about $462 billion traded in the second quarter of 2021, make it one of the preferred data providers of digital asset prices and the proliferation of alternative Bitcoin trading instruments could result in a greater demand for its data.

In December 2017, CME launched the first Bitcoin futures contracts regulated by the Commodities Futures Trading Commission. The proliferation of financial instruments tracking the same asset class is a boon for market makers and liquidity providers that take advantage of price dislocations across these asset classes, especially with a highly volatile underlying asset such as Bitcoin. Greater volatility normally results in wider bid-ask spreads and potentially greater profitability for market makers, but also raising market and operational risk.

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Guidelines for managing climate-related risks are credit positive for Kenyan banks

Originally published on 20 October 2021

On 15 October, the Central Bank of Kenya (CBK) announced guidelines for managing the financial risks of climate change, one of the first regulators in Sub-Saharan Africa to do so. The guidelines are credit positive for Kenya's (B2 negative) commercial banks and mortgage finance companies because they will help them develop clear risk management and governance frameworks for climate-related risks.

We expect that the guidelines, which will be phased in over the next 18 months, will improve Kenyan banks' understanding of climate-related risks and help them integrate environmental considerations into business models by encouraging identification of material climate risks and assessing how they could affect their business.

While Kenya does not significantly contribute to greenhouse gas emissions, it is highly exposed to climate risks. Kenya's geographic location and the relatively unsophisticated agriculture sector make floods and droughts its main risks through lower agricultural output and higher food prices. Droughts also affect the availability and cost of electricity because hydropower accounts for around one third of total power generation.

Droughts have the greatest economic effect, according to the CBK, costing around 8% of GDP every five years. Banks are directly affected by lower economic growth, and indirectly affected by the knock-on negative effect on borrowers' loan repayment capacity in the agriculture sector and power-intensive industries such as manufacturing, as well as on consumer lending because of lower disposable incomes.

The CBK classifies climate financial risks as including the physical risk of climate-related events and progressive climate change; transition risk as countries adjust to a lower-carbon economy; and liability risk from emerging legal cases related to climate change. The guidelines set out regulatory expectations in terms of best practice for governance, oversight, strategy, risk management and disclosing climate-related risks, and are aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The guidelines encourage banks to incorporate climate-related risk factors in their risk management frameworks and establish effective risk management processes to identify, measure, monitor, report, control and mitigate climate-related risks. Banks are also asked to enhance control measures for sectors that do not align with their climate strategy or risk appetite, such as setting lending limits. Additionally, they need to establish appropriate internal reporting to their board and senior management to provide status updates on their identification, assessment and management of climate-related risks. Such reports should include aggregated risk data reflecting their exposures to climate-related and environmental risks, to enable the board to make informed decisions based on the bank's internal climate-related risk management strategy.

The gradual timeline for the guidelines' implementation and banks' ability to set their own internal climate-related risk management strategies should allow all Kenyan banks to be broadly in line with the guidance by 2023. Banks must start to educate their staff about climate-related risks by the first quarter of 2022 and boards will need to approve an implementation plan, to be submitted to the CBK, by June 2022. They must then submit a quarterly report to the CBK on their progress in implementing the plan within 10 days of the end of each quarter from the third quarter of next year, and adopt appropriate disclosures of climate-related information in line with the TCFD Framework by the first half of 2023.

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Pelican's leveraged buyout is credit negative

Originally published on 19 October 2021

On October 19, Pelican Products, Inc. (B3 negative) announced that it signed a definitive agreement to be acquired by Platinum Equity. The deal is credit negative for Pelican. Although financing details have not been disclosed, we expect that Pelican's leveraged buyout (LBO) will significantly increase its financial leverage. Management anticipates that the transaction will close during the fourth quarter this year.

Pelican is a global leader in the design and manufacture of high-performance protective cases, rugged gear for professionals and outdoor enthusiasts, and temperature-controlled supply chain solutions for the healthcare industry. Private equity firm Behrman Capital has owned Pelican since 2004.

There is no change to the company's ratings. Pelican's Moody's-adjusted debt-to-EBITDA ratio was high at approximately 5.5x at 30 June 2021. We will evaluate the proposed capital structure and downward rating pressure could exist if debt and leverage increase significantly.

Additionally, subsequent to the LBO, we expect the company's credit quality will remain constrained by a very modest scale with revenue of $483 million at 30 June 2021, an aggressive acquisition strategy and high financial leverage, particularly for the company's size. Pelican's debt burden is somewhat high for the company's business risk, given its exposure to cyclical industrial and consumer markets as well as competitive pressure. However, the company benefits from its leading position in its chosen markets, with strong brand recognition as a premium product, good EBITDA margin in the high-teens to low-20% range and expectations for adequate liquidity over the next 12-18 months.

Pelican Products based in Torrance, California designs, develops, manufactures and markets high-performance protective cases, temperature-controlled packaging solutions, portable lighting systems and rugged gear for use in a variety of end markets including life sciences, law enforcement, military, aerospace, entertainment, industrial and outdoor markets. Pelican operates in 26 countries with 24 international offices and seven manufacturing facilities.

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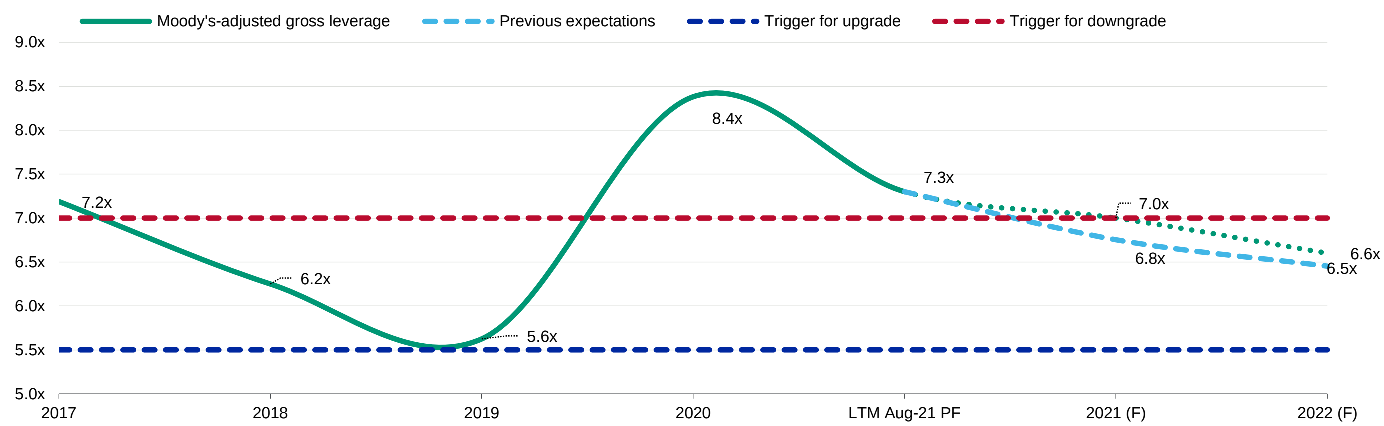
Solina Group's acquisitions will slow deleveraging

Originally published on 20 October 2021

On 20 October, Solina Group Holding (B2 stable), a France-based savory ingredients producer for the food industry, announced a €100 million add-on to its existing Term Loan B to fund two acquisitions. The transactions will result in slower leverage reduction than we previously expected and will add to three other acquisitions that were completed during 2020. The integration of these successive acquisitions will require significant management time and reduce visibility of the company's underlying operating performance. Solina's ratings are unaffected. We estimate Solina will generate around one-third of its EBITDA next year from assets acquired over the past 18-24 months.

When we assigned public ratings to Solina in May 2021 following its acquisition by funds managed by Astorg, the rating was weakly positioned in the B2 category because of the company's high financial leverage. At that time, we forecast Solina's leverage would decline toward 6.5x on a Moody's-adjusted gross debt/EBITDA basis over the following 12-18 months. We now expect leverage to be slightly higher than previously expected, as the exhibit shows.

Acquisitions will marginally slow the company's deleveraging path
Moody's-adjusted gross debt to EBITDA



The 2020 and last 12 months (LTM) data as of August are distorted by the timing of acquisitions and foreign-exchange movements. Adjusting for both ratios would result in 6.3x and 6.8x, respectively. (F) ratios are our forward view, not the view of the issuer and are pro forma for the 12 months EBITDA contribution of acquisitions.
Source: Moody's Financial Metrics

However, this difference is modest and we continue to forecast that the company's financial leverage on a pro forma basis will remain within the boundaries for the rating, that is, below 7.0x on a Moody's-adjusted debt to EBITDA basis. In addition, the improved geographic and product diversification resulting from these acquisitions, as well as the potential for future cost savings and synergies compensate for the slight increase in financial debt.

Frequent acquisitions complicate the monitoring of Solina's underlying performance, because we need to rely on pro forma accounts. They also create execution risks, because management will need to focus on integrating the various acquisitions and extracting synergies from their combination.

We expect the company to maintain a prudent approach to future transactions with multiples in line with past deals. In this context, Solina used a mixture of debt, existing cash and equity to finance the last two acquisitions, somewhat reducing the negative effect on its credit metrics.

Solina is spending around €139 million, including transaction fees, to acquire Food Compounds, a Netherlands-based potato-coating producer, and separately a US-based dry solution and blends manufacturer. It is funding €100 million of the total consideration with new debt. Solina expects the two companies to generate revenue of €60.9 million and EBITDA of €13.3 million in 2021, on a combined basis, giving a new debt/EBITDA multiple of approximately 7.5x, excluding synergies.

The acquisitions follow Solina's purchases last year of Produits Alimentaires Berthelet (Berthelet), a small Canadian producer of soup, sauce mixes, spices and seasonings, acquired in January 2020; Hagesüd, a small German producer of spices and meat, acquired in May 2020; and Bowman Ingredients Holdings Ltd., a UK-based producer of ingredients for major food manufacturers, acquired in October 2020.

With the latest transactions, the company will enter the important US market, which will offer significant cross-selling opportunities because Solina already operates with some global customers in Europe and might gain new contracts from them in the US. Following the acquisitions, the North American market, including Canada, will contribute 12% of the company's revenue, up from 5% in 2020. Additionally, the combined profitability of the two acquired companies is slightly above that of Solina on a standalone basis, which will improve the consolidated operating margin of the group.

Pro forma for the two transactions and based on 2020 data, Solina's annual revenue will grow to €590 million and its EBITDA to €101 million (excluding synergies), translating to a 17.1% EBITDA margin. This compares with revenue of €534 million and EBITDA of €89 million reported by Solina in 2020. The potential for modest cost savings from the integration should support further operating margin improvements over the next 12-18 months.

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Arabian Centres malls return to full capacity, a credit positive

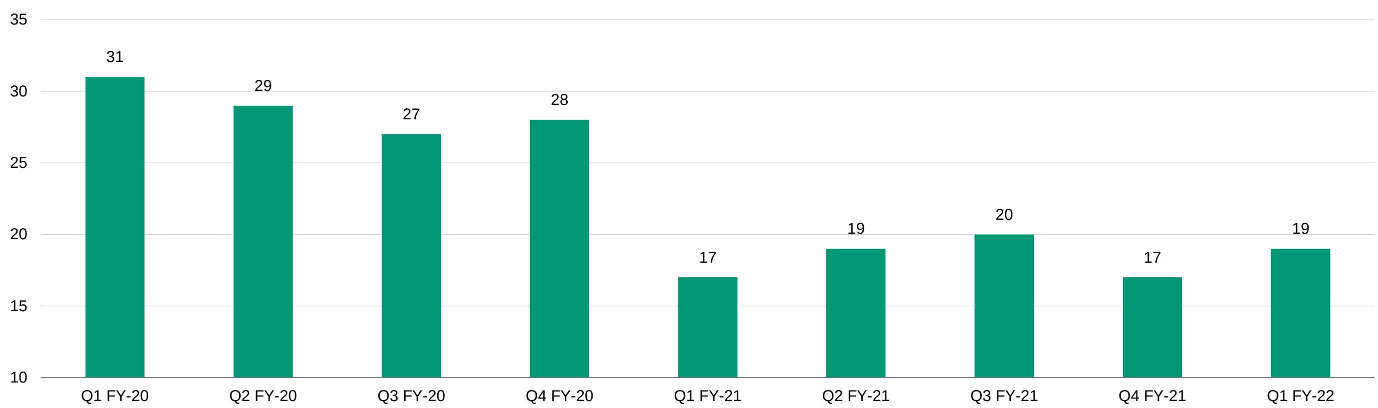
Originally published on 18 October 2021

On 17 October, Arabian Centres Company (ACC, Ba2 negative) announced that its malls would return to full operational capacity, effective immediately. The return is credit positive for Saudi Arabia-based ACC because it will increase footfall and average retail spend at its malls, which will improve occupancy rates and rental income. The return to full capacity will also benefit some of the segments hardest hit by the pandemic such as food and beverage and entertainment, which make a significant contribution to ACC's net rental income.

The malls' reopening followed a 15 October government directive easing the kingdom's COVID-19 curbs as of 17 October and lifting social distancing requirements that were in place since March 2020. ACC will follow the directive by allowing only vaccinated individuals into its malls.

The return to full operational status will improve footfall at ACC's malls, which has reduced significantly since the first quarter of the company's fiscal 2021 (the 12 months to 31 March 2021) and has yet to return to pre-pandemic levels (Exhibit 1). The return will help retailers increase their sales and reduce pressure on ACC to provide discounts, as it did during the partial and full closures of the malls. ACC will also benefit from an increase in variable rental income, which is based on tenants' sales.

Exhibit 1
ACC's footfall has yet to recover to pre-pandemic levels
Visitors per quarter, millions



Source: Company data

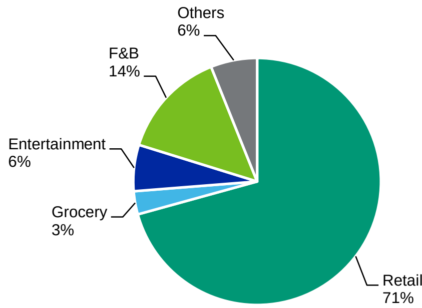
As well as the return to full capacity, we also expect footfall to increase as a result of an agreement between ACC and Alshaya, one of the region's leading brand franchisers, to open its brand stores in ACC malls in Saudi Arabia. Alshaya is the franchiser for a number of global brands including Starbucks and H&M.

We expect the entertainment and food and beverage segments to benefit the most from the return to full operational mode and from the lifting of social distancing, which were constraining the capacity of restaurants, cafes and cinemas in ACC's malls. Increased capacity at these outlets will increase footfall levels, in line with ACC's aim to become a leading leisure destination for tenants and customers. For the first quarter of ACC's fiscal 2022, the entertainment and food and beverage segments contributed around 20% of net rental income (Exhibit 2), and we expect this share to grow as ACC rolls out new cinemas in its malls. ACC has partnered with Muvi, a local cinema brand and a related group company, to roll out cinemas in most of its malls (20 out of 22), with 11 already completed and the remainder to be completed over the next 12 months.

Exhibit 2

Entertainment and food and beverage contribute 20% of ACC's net rental income

As of the first quarter of ACC's fiscal 2022



Source: Company data

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Taiwan Semiconductor plans chip manufacturing plant in Japan, a credit positive

Originally published on 19 October 2021

On 14 October, Taiwan Semiconductor Manufacturing Co Ltd (TSMC, Aa3 stable) announced that it plans to build a chipmaking factory in Japan for the production of 22-nanometer and 28-nanometer chips to support the strong demand from specialty technologies.

The investment is credit positive for TSMC because the plant will diversify its manufacturing base and support earnings growth. If TSMC's board of directors approves the plan, the company will begin the construction in 2022, with production targeted to begin in late 2024.

The plan is also credit positive for Japanese manufacturers, which are currently struggling to meet demand for their products because of the global shortage of semiconductor chips. Companies that use these types of chips include Sony Group Corporation (Baa1 positive). Japanese automakers Toyota Motor Corporation (A1 stable), Honda Motor Co., Ltd. (A3 stable) and Nissan Motor Co., Ltd (Baa3 negative) are also facing production delays because of the current chip shortage.

More semiconductor production in Japan will be credit positive for Japanese silicon makers such as Shin-Etsu Chemical Co., Ltd (Aa3 stable), the market share leader in semiconductor silicon production, and Japanese companies in general because of the government focus on improving economic security amid heightening global trade tensions.

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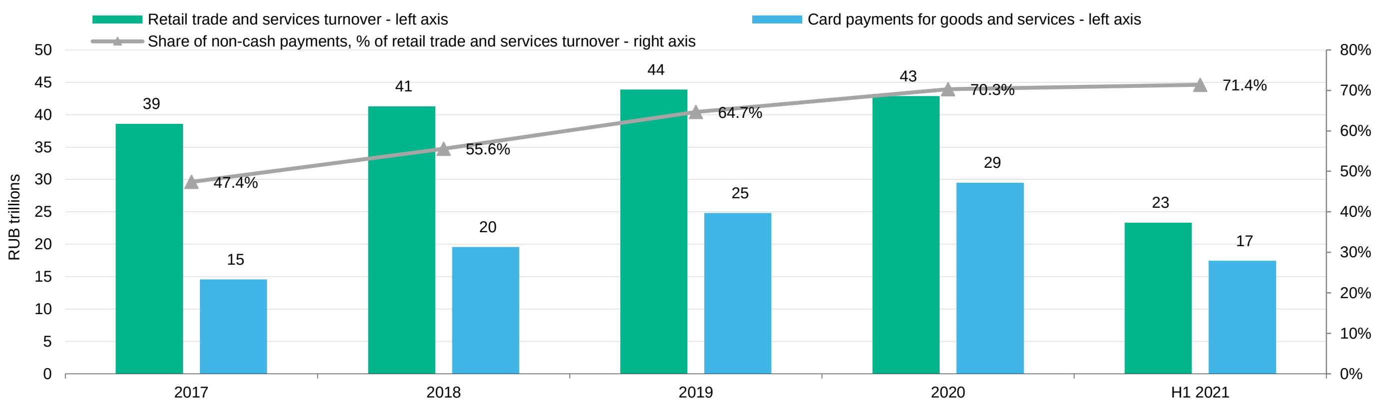
Russian banks benefit from increased card transactions during the first half of 2021

Originally [published](#) on 19 October 2021

On 14 October, the Central Bank of Russia released payment system statistics showing that noncash transactions as a percent of all retail trade and services turnover had grown to 71.4% in the first half of 2021, from 70.3% in full-year 2020 and 64.7% in full-year 2019 (see Exhibit 1). Driving the growth was predominantly card payments. The increase in card payment activity is credit positive for Russian banks because card transactions support banks' fee and commission income, a stable recurring revenue source. The rise reflects households' increasing preference to use cards as a more convenient and safe means of payment during the pandemic.

Exhibit 1
Russian households increasingly pay with cards instead of cash



Sources: Central Bank of Russia and Rosstat

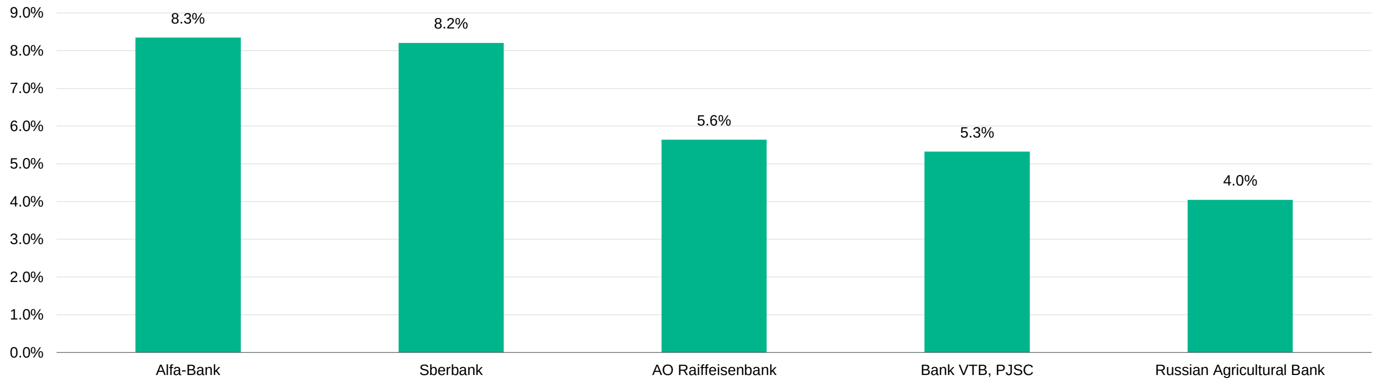
Last year during the coronavirus-related lockdown in Russia, households were forced or strongly encouraged to work, shop and socialise remotely, which accelerated changing customer behavior in favor of digital banking services and card payments over cash transactions. Since then, customers' payment preference for card transactions has strengthened, with the volume during first-half 2021 growing 36% year over year.

The banks that will benefit most from increased card payment activity are those with the largest number of active cards and higher contributions of card-related net fee and commission income to operational revenue (see Exhibit 2). These banks include Alfa-Bank (Ba1/Ba1 stable, ba2[1]), Sberbank (Baa3 stable, ba1), AO Raiffeisenbank (Baa3 stable, ba1), Bank VTB PJSC (Baa3/Baa3 stable, b1) and Russian Agricultural Bank (Ba1/Ba1 stable, b3).

Exhibit 2

Russia's largest banks' net fee and commission income from cards in 2020

% of net revenue



Alfa-Bank's data is sourced from IFRS of ABH Financial Limited, Alfa-Bank's holding company; Bank VTB PJSC's net fees and commission income includes results from trade finance operations.

Sources: Banks' IFRS reports

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

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National personal identification cards are credit positive for Ghana's banks

Originally published on 20 October 2021

On 14 October, Ghana's (B3 negative) national identification authority announced that its new verification platform will be fully operational by January 2022. The platform enables all financial institutions to accept the Ghana Card, the national identification card, to verify the identity of the cardholder for all banking transactions. Banks will need to build and onboard their systems and connect all their branches to the platform by year end.

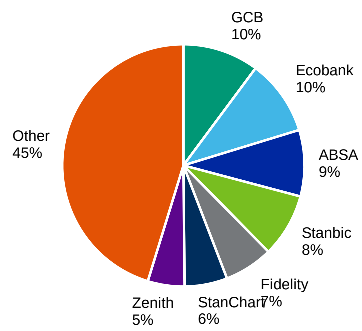
The single national ID card makes it easier for banks to confirm a potential customer's identity and will expand Ghana's bankable population – even to individuals who are underage or without a voter registration, driver's license or passport. The card will be available for all Ghanaian and foreign nationals who are legal and permanent residents in Ghana. Ghana Card will establish a biometric identity for verification and authentication of electronic and physical transactions, making it easy for an individual to prove identity or citizenship and enabling access to social and other services such as health, education, communications and financial in a safe, convenient and fast way.

A broader universe of bankable customers will support increased business volume and private-sector credit, which remains low at just 11% of GDP as of year-end 2020. Most Ghanaian bank loans are to large domestic corporate enterprises: only 21% of outstanding loans were to households as of 30 June. Ghana Card will ensure lower associated costs and risks for consumer lending, allowing banks to lower interest rates on consumer loans. Ghana's average lending rate was very high at 21% in June 2021.

The absence of a standardised ID is a major obstacle to onboarding customers in a cost-effective manner for a number of emerging markets' financial inclusion efforts. Banks in Ghana often have had difficulty identifying individuals to whom to offer loans. And if individuals change the bank where they receive their payroll deposits, or switch employers, it is costly for banks to track them down and seek repayment of loans, making household loans costly and risky.

Banks that could benefit most from the new national ID card are the largest commercial banks (see exhibit) because they have the largest capacity to increase lending and have the resources to develop digital consumer offerings to grow in a cost efficient way. These banks include Ghanaian-owned GCB Bank Limited (B3 negative, b3[1]), and the foreign-owned Ecobank (Ghana) Limited, Absa Bank Ghana Limited, Stanbic Bank Ghana Limited, Fidelity Bank Ghana Limited and Standard Chartered Bank Ghana Limited. Banks that are already active in consumer lending, like GCB Bank, which has around 27% of its loans to the retail segment, tend to target government employees because of their perceived lower risk. Overall, we expect a higher bankable population to benefit all the banks in the system and allow them to target an increasing percentage of private-sector employees.

Commercial banks' market shares by total assets (June 2021)



Note: Assets for Zenith Bank are as of March 2021, and for the overall system as of May 2021.
Source: Bank of Ghana, company reports

We expect Ghana Card to further increase Ghana's financial inclusion. According to the World Bank's Consultative Group to Assist the Poor, only 58% of Ghana's adult population had access to formal financial services in 2015, although Ghana is gradually approaching the target of 85% that it has set for 2023. Ghana's success in growing mobile banking is supporting financial inclusion, with approximately 14.5 million active mobile accounts among Ghana's roughly 19 million adults. Bank of Ghana Governor Dr. Ernest Addison recently also disclosed that the central bank is in the advanced stages of introducing a digital currency called the E-Cedi, which will also enhance efforts toward financial inclusion.

Endnotes

1 The ratings shown in this report are GCB Bank's deposit rating and Baseline Credit Assessment.

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Neoway acquisition expands B3's data product offering and diversifies revenue

Originally published on 20 October 2021

On 19 October, stock exchange operator B3 S.A. Brasil Bolsa Balcao (Ba1 stable) announced the acquisition of Neoway Tecnologia Integrada Assessoria e Negócios S.A. (Neoway), a technology company specialized in data analytics and artificial intelligence for companies operating in various sectors.

The acquired data and analytics company for capital markets and financial and non-financial companies enhance B3's product offerings and will increase its revenue and earnings diversification, supporting the firm's already strong pre-tax profitability and pre-tax margin of more than 60%.

The acquisition fits B3's strategy to develop product offering in business lines adjacent to its core business of equities and derivatives trading, clearing and settlement. Pro forma for the Neoway acquisition, we expect B3's technology, data and services division contribution to revenue will increase to 15% from 12% as of 30 June. B3 plans to invest BRL200 million in Neowway over the next five years, which will help to accelerate the development of a new data center. Given B3's dominant market position as Brazil's only vertically integrated exchange operator, it has proprietary access to a significant data trove for Neoway's analytics.

The acquisition's BRL1.8 billion enterprise value will be paid with cash on hand, which was BRL17.5 bilion as of June 2021, including using proceeds rasied in September 2021 with an cross-border debt issuance. Neither debt leverage nor interest coverage will be affected. As of September 2021 and including the issued notes, we estimate B3's debt leverage at 1.7x proforma EBITDA, and its EBITDA-to-interest-expense coverage at 16x. Although B3's cash liquidity will fall by 10% following the payment of Neoway, it will remain more than sufficient to cover residual risk related to its central clearing operations.

As with other large stock exchange operators, B3 is making efforts to diversify its revenue by increasing offerings apart from its core exchange business, including increasing data-related offerings. The London Stock Exchange Group plc (A3 stable) paid $27 billion to acquire Refinitiv which completed in 2021 and Nasdaq, Inc. (Baa2 stable) acquired Verafin for $2.8 billion in 2020. In July, B3 provided a BRL600 million capital increase to establish Dimensa S.A., in which it holds a 37.5% stake. Dimensa is a new entity effectively carved out from TOTVS S.A., (formerly TFS Solucoes em Software SA) that provides data and software solutions for the asset management industry. On 19 October, B3 also announced that it had contributed $10 miliion in a fundraising for a cloud based technology company that provides a processing platform for banks, payment companies and financial market infrastructure companies called Pismo Holdings.

Founded in 2002, Neoway is a leading Latin American-focussed data analytics and artificial intelligence company offering solutions for sales and marketing, credit, compliance and loss prevention, and legal analysis. Neoway operates in the finance, automotive and transport, consumer goods, collection and recovery, civil construction, oil and gas, health and technology sectors.The acquisition is subject to the approval of Brazil`s antitrust authority, Administrative Council for Economic Defense and the Securities Commission.

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US debt limit deal provides temporary fix as spending bill talks continue

Originally published on 20 October 2021

On 12 October, the House of Representatives voted to increase the US (Aaa stable) debt limit by $480 billion, following a deal between Senate Republicans and Democrats a week earlier. While the short-term extension buys lawmakers more time to come to a longer-term agreement, the political dynamics around the debt limit remain unchanged and renewed brinkmanship is likely. Congress will also need to fund the government past 3 December to avoid a government shutdown, further complicating negotiations between Republicans and Democrats.

Nonetheless, we expect the US to continue to meet its debt-service obligations on time and in full. Given Republicans' staunch opposition to voting for a long-term increase or suspension of the debt limit, we view it as most likely that Democrats will raise the debt limit using reconciliation, a budgetary process that allows the Senate to pass certain legislation with a simple majority. The debt limit could be lifted by attaching legislation to the Build Back Better spending bill or via a separate reconciliation bill.

In the meantime, Democrats continue to discuss the size and scope of the Build Back Better bill, which includes many of President Biden's key policy priorities that were excluded from the bipartisan infrastructure bill. The negotiations largely aim to balance the White House and Democratic leadership's expressed goals of passing a large package to tackle social inequities and climate change with other Democratic lawmakers' stated concerns about deficits.

Current negotiations suggest that the top-line spending number is likely to come out close to $2.0 trillion and will have a smaller impact on growth and near-term fiscal deficits than the initial $3.5 trillion (15% of 2021 GDP) budget framework. The initial framework called for a significant increase in federal spending on childcare, education, healthcare, infrastructure and clean energy over the next decade (see exhibit). It proposed raising taxes on corporations and high-income earners to offset part of the additional spending and allowed for up to $1.75 trillion in new borrowing over 10 years.

Build Back Better plan's initial framework included $3.5 trillion in new spending and a range of offsets

Proposed spending measures

- **Education, childcare & paid leave**
  - Expanded tax credits
  - Paid family and medical leave
  - Universal Pre-K
  - Childcare
  - Free community college
- **Healthcare**
  - Expanded Medicare benefits
  - Investments in long-term elder care
  - Expanded subsidies for ACA health plans
  - Expanded Medicaid
- **Climate**
  - Clean energy payment program for power sector
  - Tax incentives for clean energy and electric vehicles
  - Investments in climate resilience
  - Investments in smart agriculture
  - Rebates for electrification & weatherization of homes
  - Electrification of the federal fleet
- **Housing and workforce**
  - Investments in public housing, housing affordability
  - Workforce development and job training programs

Proposed revenue-raising measures

- **Increase taxes on high-income earners**
  - Raise top marginal tax rate to 39.6% from 37% for individuals making over $400,000 and married couples making over $450,000 a year
  - Raise top marginal long-term capital gains tax rate to 25% from 20%
- **Increase taxes on corporates**
  - Raise top corporate tax rate to 26.5% from 21% for businesses with income in excess of $5 million
- **Allow Medicare to negotiate drug prices and eliminate drug rebate rule**
- **Introduce new fees on carbon and methane emitters**

Sources: US Senate, Congressional Quarterly Roll Call

The contours of the final spending package will determine the extent to which the bill affects the structure of the economy and addresses growing social and environmental risks. Certain measures, such as tax credits, would boost the income of low- and middle-income households and would immediately address social inequities through increased government transfers. Proposed investments in workforce development and infrastructure would boost productivity and incomes over time, with positive effects on potential growth.

The composition of the bill will also play a large role in setting the pace of carbon transition in the US economy. The initial framework included a number of measures aimed at accelerating the transition to help meet the administration's goal of achieving a net-zero carbon economy by 2050. These measures would affect sectors such as utilities, manufacturing and automotive. Specific provisions include electric vehicle tax credits, investments in energy-efficient buildings and a Clean Energy Payment Program (CEPP) for electric utilities that would reward those that meet certain clean energy targets and fine those that do not. Recent press reports suggest that some lawmakers are considering a carbon tax as an alternative to the CEPP. Research and data point to carbon pricing as an effective tool to achieve greater carbon efficiency, when it is implemented as part of a broader policy tool kit.

The size and scope of the Build Back Better bill will depend on how much revenue Democrats agree to raise to offset the additional spending. Key revenue-raising measures in the initial framework included tax increases for corporations and high-income individuals, as well as measures to lower prescription drugs, which would negatively affect the profitability of pharmaceutical companies.

Ultimately, if lawmakers decide to focus on a few priorities, as the Democratic leadership has indicated it may do, the impact would likely be concentrated on a narrower range of sectors. If they were to spread the spending over numerous priorities, more sectors would likely be affected but there would be less of an impact on any one sector. Lawmakers could also decide to have a number of measures sunset to reduce costs, under the assumption that a future Congress would likely extend them. Nonetheless, the prospect of sudden drop in federal programs would create a fiscal cliff and uncertainty for the households and sectors reliant on them.

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Thailand will ease border controls, supporting tourism recovery and broader economic growth, a credit positive

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On 14 October, the Government of Thailand (Baa1 stable) approved the easing of border restrictions for vaccinated travelers from selected countries and the expansion of its tourism sandbox programme[1] to cover additional provinces, set to begin in November. The gradual reopening of borders is credit positive, supporting the recovery of Thailand's prominent tourism sector, which has been battered by global travel restrictions resulting from the coronavirus pandemic.

While we expect the reopening of Thailand's tourism sector to contribute positively to economic growth, the effect will be gradual and any significant boost to the economy will likely come only in the second half of 2022 as the country's vaccination rates increase, traveler hesitancy declines and airline passenger seat volumes and ticket prices begin to normalise.

This latest easing of border restrictions forms the second of Thailand's four-phase strategy to kick-start the tourism industry. Subsequent phases, set to be implemented in December and January will see reopenings extended to more provinces and quarantine requirements eased for a larger number of countries.

As the strategy stands, tourists from countries deemed to be low risk by the Thai authorities will be exempted from quarantine upon arrival starting from 1 November and will only be required to obtain a negative polymerase chain reaction test 72 hours prior to travel and another upon arrival. Proof of an insurance policy covering treatment for the coronavirus will also be required. These countries include the US (Aaa stable), the UK (Aa3 stable), China (A1 stable), Germany (Aaa stable) and Singapore (Aaa stable), which together accounted for nearly 40% of tourist arrivals in 2019.

Meanwhile, provinces under the sandbox programme — which began on the holiday island Phuket on 1 July and currently applies to other island destinations such as Koh Samui — are now open to all travelers, subject to varying quarantine requirements depending on country of origin and vaccination status. On 1 November, more provinces will be placed under the programme, including the capital Bangkok, Chiang Mai and Pattaya, all of which were popular tourist destinations prior to the pandemic.

Thailand's real economy is likely to remain very weak in 2021 because of a retightening of domestic movement restrictions from April that is delaying the normalisation of economic activity and constraining the momentum for a swifter economic recovery. Tourist arrivals in the country, while moderately higher since the introduction of the Phuket sandbox in July, remained low at around 15,000 in August compared with pre-pandemic levels of more than three million per month on average. Meanwhile, sporadic protests in Bangkok have picked up since late August and could undermine consumer and investor confidence, though the scale of the protests is much smaller compared with early 2020.

We now expect the economic rebound to be pushed out to 2022, with real GDP growth of around 6%, supported by base effects, further easing of domestic and border restrictions as vaccination rates increase, and a continued recovery in external demand. Risks arise from a resurgence in coronavirus cases that could drive a reintroduction of lockdown measures, especially as vaccination rates in Thailand remain relatively low, with around 36% of the population fully inoculated as of 15 October. The potential for improvement on this forecast would arise from a stronger recovery in tourist arrivals in 2022, which we view as unlikely to approach 2019 levels.

Endnotes

1 The sandbox programme allows fully vaccinated travelers to visit designated regions without quarantine. These vaccinated travelers will be allowed to travel elsewhere in the country after staying at their original destination for seven days (reduced from 14 days as of 1 October) and producing a negative polymerase chain reaction test prior to travel.

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Proliferation of cyberattacks prompts re-evaluation of cyber insurance risk

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High profile cyberattacks drive up demand for cyber insurance. In the wake of several large cyberattacks over the past year, companies' heightened risk awareness has increased demand for cyber insurance. Increased regulation, companies' concerns about reputational risks and requirements for insurance protection from supply-chain counterparties also contributed to the higher demand.

Surging losses prompt insurers to re-evaluate cyber insurance pricing and product features. The proliferation of ransomware attacks has driven up losses for cyber insurance policies, and losses will likely increase in 2021 for insurers. Although insurers had been gradually raising cyber insurance pricing, rate increases began to accelerate in 2021 in response to ransomware trends, with double-digit rate increases across the board for coverage. Insurers have also reduced policy limits, increased deductibles and tightened terms and conditions, including sublimits or coinsurance, to lower exposure to ransomware.

Insurers make progress on eliminating silent cyber insurance coverage. Insurers have reviewed policy language to address silent (or non affirmative) coverage, where cyber risk is neither explicitly stated nor excluded from policies. Insurers have made progress in addressing the risk by adding cyber exclusions or explicitly providing cyber coverage in traditional lines to avoid ambiguity that could result in large loss aggregations. Insurers have also been shifting cyber risk to standalone cyber policies.

(Re)insurers regularly monitor cyber aggregations. Although the Sunburst and Microsoft Exchange attacks did not result in large insured losses, they are reminders of the potential large aggregation risk that insurers face. Given the dynamic nature of cyber risk, it is difficult to model. Insurers are using a combination of limits management, deterministic models (that is, realistic disaster scenarios), and probabilistic models to dimension the risk.

War and attacks on critical infrastructure are beyond the industry's capacity to insure. Uninsurable events could involve critical infrastructure that causes business interruption and disrupts the economy or war. The insurance industry does not have the capital to insure these systemic events. In Europe, insurers and reinsurers have put forth proposals on a public/private partnership with a government backstop to cover widespread systemic cyber risk.

Click here for the full report.

China's common prosperity agenda will create transition risks, with longer-term benefits if well implemented

Originally published on 20 October 2021

China's authorities have reemphasized the need for the country to build "common prosperity," with the goal of lowering income inequality and improving the social safety net to achieve long-term economic sustainability. Policies to meet this objective will shape the country's growth path and have far-reaching effects for many types of debt issuers. In the short term, we expect increased credit risks resulting from a period of regulatory uncertainty. Longer term, two different scenarios could emerge: In the first, regulatory uncertainty would be prolonged and discretionary intervention would increase, with negative effects on the private sector, productivity and efficiency. In the second scenario, policy implementation would be more effective in addressing structural imbalances, a positive for productivity, the overall economy, and social stability.

» **Policy shifts focus on sustainable growth, reducing income inequality**. The goal of the common prosperity plan is to strengthen regulation, lift incomes, improve wealth distribution and enhance the social safety net.

» **In the near term, regulatory uncertainty is the key credit risk**. Transition risks could arise from lack of predictability and clear communication around policy implementation, which could deter foreign and private investment, and discourage big-ticket consumption.

» **Prolonged uncertainty could produce more negative outcomes.** Under this scenario, policy uncertainty would continue for longer, with negative effects on private investment, productivity, capital efficiency and growth relative to our forecasts.

» **In the medium to long term, effective implementation would be positive for sovereign credit quality.** Potential long-term benefits include higher consumption, lower excess savings and more sustainable growth. Changes that lead to a broader tax base could help provide the resources to fund a more extensive social safety net.

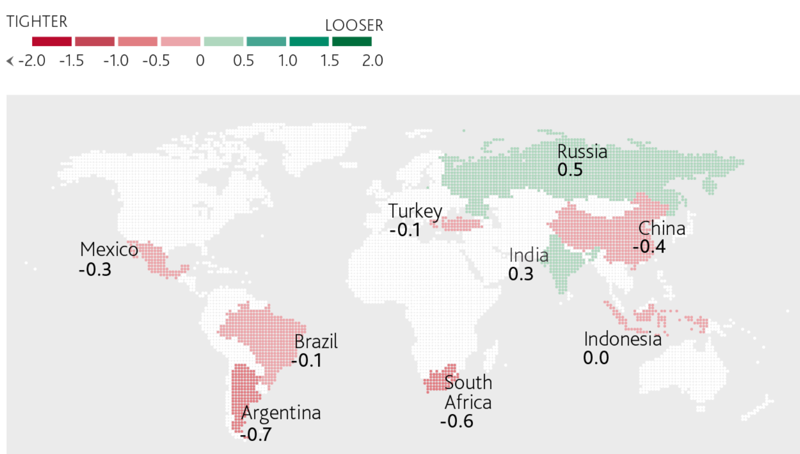
» **Longer term impact on companies depends on regulatory and social risk exposure and ability to adapt.** The policies could pose different risks and opportunities depending on the sector and individual company. It poses risks for luxury goods makers, high-end property developers and internet platforms that have benefited in the past from light regulation. But companies that cater to mass-market consumers will likely benefit as the population of lower- and middle-income earners grows, along with their purchasing power.

Click here for the full report.

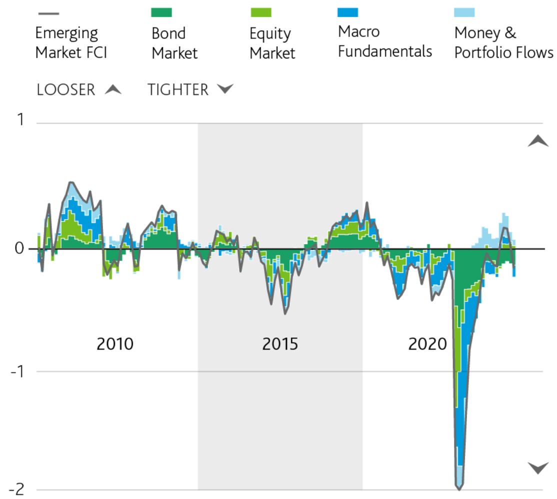
October 2021 Emerging Markets Financial Conditions Monitor

Financial conditions improved in September relative to August, but are still tighter than the long-term average. Macroeconomic conditions improved but not sufficiently to counter weaker equity market conditions in September and still-high borrowing costs in bond markets. Additionally, oil prices are adding to inflationary pressures at the pump, [Click here](#) for the full report.

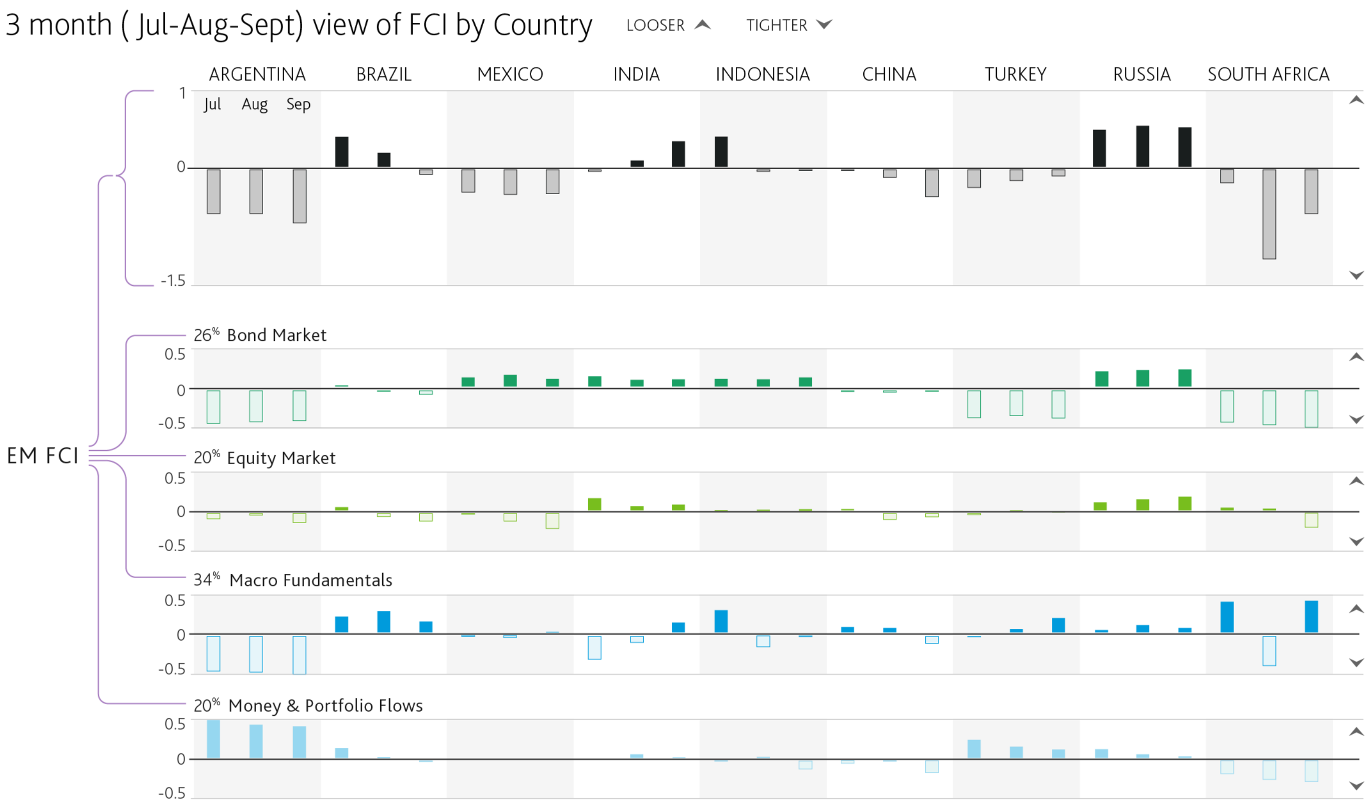
Emerging Market Financial Conditions in September



EM FCI trends – longer term view



3 month (Jul-Aug-Sept) view of FCI by Country



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