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Belgian Export Credit Agency Credendo ECA

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Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:

- Critical role in supporting Belgium's trade policy
- Integral link with the Belgian government, which provides a legally binding guarantee for Credendo ECA's obligations

Weaknesses:

- Sensitivity to political risks and global economic cycles as experienced during the COVID-19 pandemic

Outlook

The stable outlook mirrors that on Belgium. Because we equalize our long-term rating on Delcredere/Ducroire (Credendo ECA) with that on Belgium, any rating action on Belgium would result in a similar action on Credendo ECA.

Downside scenario

We would reassess our view on state support of Credendo ECA if we saw weaker links, or reduced importance of its activities, with the government, or if its financials deteriorated materially, reflecting the potentially reduced importance of its financial standing within the government. This could result in a one-notch downgrade of Credendo ECA. However, we view such scenarios as unlikely.

Upside scenario

We would raise our ratings on Credendo ECA if we upgraded Belgium.

Rationale

The ratings on Credendo ECA mirror those on Belgium (unsolicited; AA/Stable/A-1+), because, in our opinion, there is an almost certain likelihood that the government of Belgium will provide timely and sufficient extraordinary support to Credendo ECA if the company experiences financial distress.

We base our view of an almost certain likelihood of government support on our assessment of Credendo ECA's:

- Critical role in supporting Belgium's trade policy regarding countries with significant political, economic, and credit risk; and
- Integral link with the Belgian government, which fully owns the company, has representatives on its boards,

appoints its CEO, and supervises its operations, while also providing a legally binding guarantee for Credendo ECA's obligations.

We believe the likelihood of government support will remain the same. The current context further highlights the importance of the role of Credendo ECA for the authorities. Indeed, amid the pandemic the government has given new mandates to Credendo ECA as part of its strategy to support the Belgian economy. Moreover, given the Belgian government's low contingent liabilities, we believe it has the capacity and willingness to support Credendo ECA in a timely manner if needed. More generally, we do not consider the Belgian government's propensity to support government-related entities to be in doubt.

The Belgian government established Credendo ECA in 1935 with a mandate to support exports and investments abroad. The Belgian government fully owns the company, and we expect this ownership structure will remain so, in particular because it complies with EU competition rules on state aid. The government has a track record of providing financial support to the company, mainly through capital increases in the 1980s and 1990s following the sovereign debt crises in Africa, Latin America, and Asia.

In light of its status as a federal institution of public interest (class 'C' public institution), Credendo ECA is a not-for-profit company under the direct supervision of the Belgian government. The company acts either on behalf of the state (with a specific trustee mandate), or on its own account with the guarantee of the state. By law, the Minister of Finance must approve all decisions taken by Credendo ECA for the account of the state, and the Minister of the Economy has the power to veto decisions that carry a government guarantee. Owing to national and European regulations, this guarantee only applies to Credendo ECA, and not to its private subsidiaries. Although Credendo ECA is currently debt free, any future debt issuance would automatically carry a government guarantee according to the legal framework.

Belgium's economy relies heavily on exports of goods and services, which account for about 82% of GDP in 2019. While most of these exports are to European countries, Credendo ECA's activities in emerging markets rely on the risk coverage that private-sector insurers do not undertake, due for example to duration, country exposure, or guarantee size. By responding to this market gap, under the Organisation for Economic Cooperation and Development's export credit agency arrangements, Credendo ECA plays a strategic role for the Belgian economy and government.

Credendo ECA is the parent company of Credendo (the group; not rated). We do not believe that the company's strategy to diversify away from traditional export credit activities jeopardizes its role for, or link with, the government. The surpluses from the company's market window activities and the operations of its subsidiaries (including Credendo Single Risk; A-/Negative/--) are intended to contribute to the group's performance and its traditional export credit activities, thereby replacing support from the government's budget. In the context of long-lasting budgetary consolidation, we understand the Belgian government, which actively participates in designing the group's strategy and goals, fully supports this diversification strategy.

As an export credit agency, Credendo ECA does not have to abide by the Solvency II framework. Nevertheless, the company has an excellent level of capital adequacy. Its credit insurance activity is inherently volatile, given that sector's sensitivity to global economic cycles and political risks. The company's public mission means that its bottom-line results are less important, as shown by the fluctuations in its profitability. This further demonstrates that Credendo ECA carries out a strategic mission for the Belgian government that a private-sector entity could not readily undertake.

Credendo ECA posted a strong net income of €266 million for the financial year 2019. Credendo ECA's consolidated balance sheet totalled €3.39 billion, including €2.81 billion of equity, as of Dec. 31, 2019. In the current deteriorating macroeconomic environment, we anticipate a surge of defaults, especially of small and midsize firms. We anticipate this surge will affect directly and severely the profitability of Credendo ECA's activities. Nonetheless, given the level of capital in reserves, accumulated over the years, we think Credendo ECA will demonstrate high resilience to this adverse environment, especially with the guarantee of the Belgian state ultimately backing it up.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Insurance | Specialty: Trade Credit Insurance Capital Requirements Under S&P Global Ratings' Capital Adequacy Model, Dec. 6, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Belgium 'AA/A-1+' Ratings Affirmed; Outlook Stable, March 20, 2020
- Credendo - Single Risk Insurance Outlook Revised To Negative From Stable On Risks From Recession; 'A-' Rating Affirmed, June 17, 2020

Ratings Detail (As Of August 18, 2020)*	
Delcredere/Ducroire (Credendo ECA)	
Issuer Credit Rating	AA/Stable/A-1+
Holding Company	Delcredere/Ducroire (Credendo ECA)
Domicile	Belgium

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.