S&P Global Ratings

Credit Conditions Asia-Pacific Q4 2022

Brakes On Growth, Pain Down The Road

Sept. 27, 2022

This report does not constitute a rating action

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Asia-Pacific committee on Sept. 20, 2022.

Key Takeaways

- **Lower growth**. Asia-Pacific's economic growth is being hit by potential recessions in the U.S. and Europe, and China's lower growth rates. As the region is a net exporter, a global slowdown will hinder the recovery of corporate and government revenues, many of which aren't yet back to 2019 levels.
- **Higher cost of goods**. Although consumer price index (CPI) inflation in parts of Asia-Pacific is not as high as in Europe or the U.S., the higher prices of energy, commodities and other goods are hurting borrowers. Energy subsidies are squeezing government finances. Many corporates have yet to fully pass through the additional cost of goods, implying some persistency of CPI inflation.
- **Tighter financing**. Excepting China and Japan, official interest rates in the region are rising--in part to combat inflation, in part to defend domestic currencies against the strong U.S. dollar. Chinese authorities have lowered policy rates to boost the economy. Meanwhile, the Bank of Japan refuses to cave into market pressure. Regardless, investors and lenders are becoming more selective, particularly towards the lower end of the credit scale. This implies financing conditions may further tighten.
- **China slowing**. China's intermittent lockdowns have dented consumption and economic activities. And the property sector slump has undermined market confidence. With real estate accounting for nearly a third of the country's GDP, prolonged weakness will subdue economic growth. We have cut our GDP growth forecast for China by 60-70 basis points (bps) to 2.7% in 2022 and 4.7% in 2023.
- **Ratings**. The net rating outlook bias remains steady at negative 5% (August 2022). However, a deteriorating macroeconomic backdrop, high input prices and elevated borrowing costs pose significant rating downside for rated corporates and could lead to a spike in loan-loss provisions for banks.

Recession fears. Global macroeconomic conditions are deteriorating rapidly. Fears of a protracted recession in the U.S. and Europe, and weaker growth momentum in China are putting the brakes on business and consumer confidence. For Asia-Pacific companies, the pain comes from multiple fronts. Slower global demand will hit export activities and corporate revenues.

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Such weakness in global demand and consumption will make passing through higher input costs to consumers more challenging. Consumers could become more selective with discretionary spending, which will further weigh down economic growth. Meanwhile, borrowing costs could spike as financiers and investors seek higher yields. Collectively, these will take the wind out of Asia-Pacific corporates' sails.

Sticker shocks. Like the rest of the world, Asia-Pacific hasn't been able to shake off the effects of price shocks. Higher commodity, energy and food price inflation (driven by supply shortages and a strong U.S. dollar) are pressing on households and corporates. While it is likely a windfall for commodity and energy exporting countries and sectors, most corporates run the risk of reducing unit volume or profit margins if they are unable to adequately pass through input costs.

Business strain will limit the scope for wage increases, adding to household caution. Increasing food and energy prices are biting into households' discretionary spending, disproportionately hitting sectors such as leisure and retail. With corporates' credit headroom diluting, banks' credit loss provisioning could mount.

Funding narrows. Most Asia-Pacific central banks are raising rates (except in China and Japan), in tandem with the Fed's monetary tightening stance, to suppress inflation and avoid capital outflows. China is lowering rates because of slow economic growth, while Japan is keeping them flat. In the face of a stronger U.S. dollar, borrowers with significant foreign currency could see debt burden intensifying.

Risk aversion by investors and lenders towards highly leveraged borrowers may signal mounting liquidity stress. For Chinese issuers, financing access had narrowed as the offshore bond market for high-yield issuers and the longer-tenor onshore bond market for privately owned companies have shut. This condition could persist for at least two more quarters, further compounding the pains on Chinese property developers and local government financing vehicles given their looming maturities. We could see more defaults.

China slows. China's COVID lockdowns and real estate sector stresses have stalled its economic growth momentum, denting business activity, household confidence and employment. Consequently, we have revised down our growth expectations for China in 2022 to 2.7% from 3.3% and shaved 70 bps from our forecast growth in 2023 to 4.7% (see "Economic Outlook Asia-Pacific Q4 2022: Dealing With Higher Rates," Sept. 26, 2022).

The authorities' deployment of mass testing and containment measures to limit COVID outbreaks had drained the fiscal strength of local and regional governments. Mobility curbs have hit consumption, affecting the services sector and small and midsize enterprises (SMEs). Meanwhile, real estate woes still linger, reflecting low new-home sales volume and declining home prices. Against the backdrop of more stimulus, delivering unfinished homes by Chinese developers will be key to normalizing China's property sector (see "Only China's Government Can Revive Property Confidence," Sept. 15, 2022).

Geopolitics and weather pains. The ongoing Russia-Ukraine war and simmering China-U.S. tensions reflect the increasing geopolitical polarization of Russia and China versus the U.S., Europe and their allies. Disagreements involve trade, finance and investment, and geographic territorial rights (e.g., over Taiwan). Any of this could increase the likelihood of China moving down the decoupling route. Supply chains could be further disrupted, hampering efforts to curtail inflation, while trade and investments could dwindle as business confidence falters.

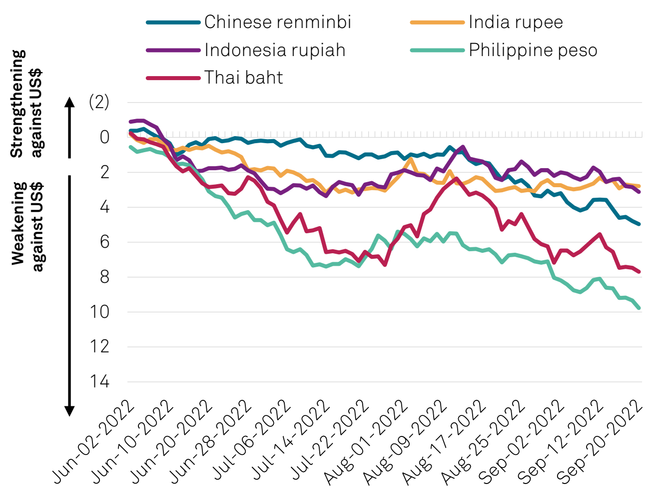
Globally, energy and food security concerns are complicating geopolitical relationships. Recent droughts and floods are threatening agriculture production and food supply, raising the specter of another round of global inflation. To cope with shortages, regional governments could implement export restrictions to protect their own interests. If segments of populations face constricted access to food, social unrest could occur.

Mounting downside. While the net rating outlook bias remains steady at negative 5% (as of end-August 2022), a deteriorating macroeconomic backdrop and high input prices point to significant downside strains on margins and revenues. Furthermore, costlier borrowing rates and more selective lending terms could exacerbate liquidity stresses for the region's corporates, narrowing rating headroom.

Chart 1a

Downward Pressures Abound For Asia EM Currencies...

Percentage change in Asia-Pacific currencies from June 1 (%)

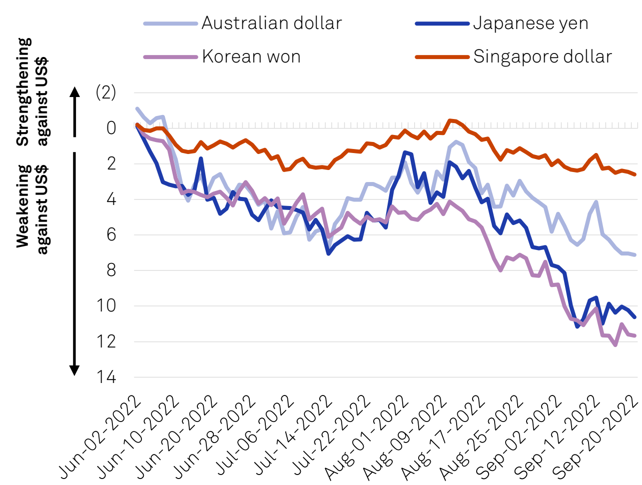


Data as of Sept. 20, 2022. EM--Emerging markets. Source: S&P Global Market Intelligence.

Chart 1b

...And Developed Market Currencies Are Not Spared

Percentage change in Asia-Pacific currencies from June 1 (%)

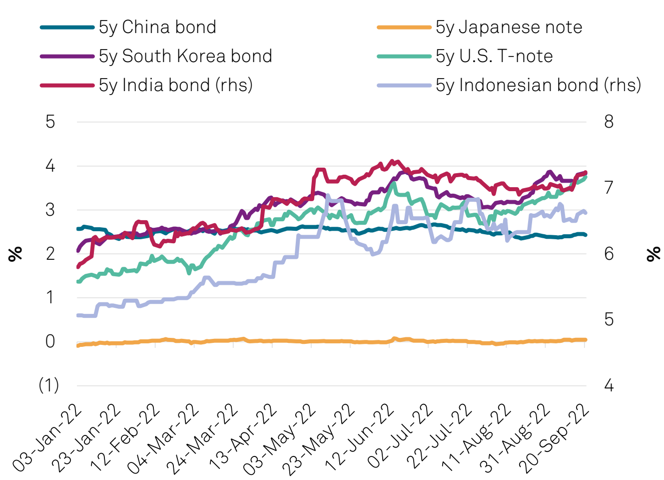


Data as of Sept. 20, 2022. Source: S&P Global Market Intelligence.

Chart 2

Bond Yields Have Been Ticking Up For Most

Movement in 5Y Asia-Pacific bond yields since January 1

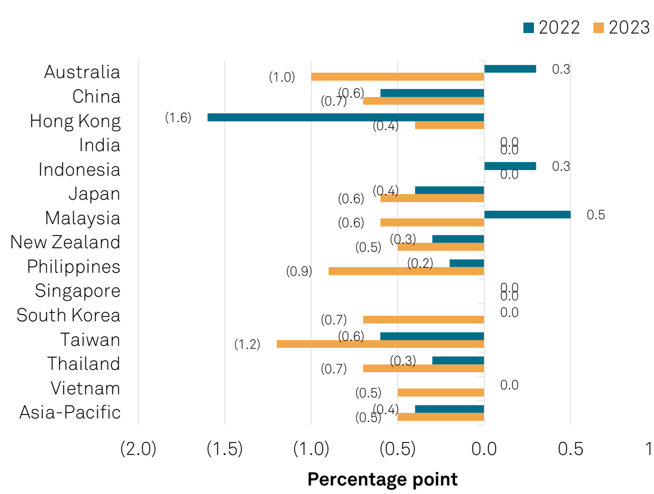


Data as of Sept. 20, 2022. 5Y--5-year. rhs--Right scale. Source: S&P Global Market Intelligence.

Chart 3

Asia-Pacific: Changes In Economic Forecast

Current real GDP forecast versus June 2022



For India, 2022 = FY 2022 / 23, 2023 = FY 2023 / 24. Source: S&P Global Economics.

Top Asia-Pacific Risks

Sharper-than-expected global economic slowdown, further depressing aggregate demand and exports

Risk level	Moderate	Elevated	**High**	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

Slower economic growth momentum in the U.S., Europe and China are apparent. These downturns could become worse (e.g., hard recession for the U.S. and Europe or further growth contraction in China) due to fiscal and monetary policy missteps, collapse in business and consumer sentiment, further supply chain disruption, or geopolitical, health and natural disaster shocks. As a net exporter, Asia-Pacific is susceptible to downturns in the rest of the world, hurting exports and revenues. Fears of recessions could exacerbate consumer caution and dent discretionary spend, hitting growth further. Furthermore, some economies relying on net capital inflows could be vulnerable to net outflows if their currencies weaken, other countries' policy interest rates rise more, and/or investors become more risk adverse.

Inability to pass through high input prices will drag on already thin profit margins

Risk level	Moderate	Elevated	**High**	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

The region, except China, is now grappling with higher commodity, energy and food prices and shortages. While CPI inflation is likely to peak soon, input prices could remain high. Meanwhile, weaker local currencies will add to import costs. Should a sharp economic slowdown ensue, stagflation-like conditions are possible. Amid still-weak consumer sentiment, many corporates have been unable over recent quarters to pass on the full increase of their input cost to customers. This mainly affects midstream and downstream industrial producers, particularly SMEs. (Admittedly, a minority of issuers have enjoyed windfall gains from inflation e.g., some commodity producers). Credit defaults could double in a scenario where many corporates are unable to increase prices without risking unit volume, reduce costs or overcome supply issues adequately over the next year or so. With corporates' credit headroom diluting, this could have spillover implications for banks' credit loss provisioning.

Higher borrowing costs or tighter financing-access to hit business operations and debt serviceability

Risk level	Moderate	Elevated	**High**	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

Asia-Pacific's policy interest rate trends are divergent. China has lowered rates because of slow economic growth, while Japan is keeping them flat. Others are raising them to suppress inflation and support local currencies. In the face of a stronger U.S. dollar and inflationary expectations, investors could demand greater real yields. While cross-border bond investors are now selective about speculative-grade issuers, domestic lenders continue to extend credit. This sentiment could change as regional economies slow and credit quality deteriorates. Lenders could elect to reduce credit lines or seek higher spreads, amplifying debt burdens for lower-rated and highly leveraged borrowers. Issuers with mounting maturity walls (such as Chinese property developers and local government financing vehicle (LGFV) sectors) could see further defaults as liquidity drains. Unhedged borrowers are also exposed to the stronger U.S. dollar.

China's soft economic recovery from adherence to prolonged zero-COVID policy or weak rebound in business and household confidence

Risk level	Moderate	Elevated	**High**	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

China's COVID lockdowns and a crackdown on the real estate sector have stalled its economic growth momentum, denting business activity, household confidence and employment. In particular, the crackdown in recent years on the overleveraged property sector has shaken this significant driver of the world's second-largest economy. Concurrently, the government's mobility restrictions to curb COVID case rises have hit consumption, intensifying credit pressures faced by services sector and SMEs. Even if the policy is lifted (possibly in 2023), China will be emerging into a much less conducive global environment (both economically and geopolitically). Economic losses sustained by corporate and household sectors in 2022 could undermine a rebound of activity in 2023. Additional government spending, if any, is unlikely to be an immediate panacea.

Geopolitical tensions to threaten goods and financial flows and heighten investment uncertainty

Risk level	Moderate	**Elevated**	High	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

Globally, energy and food security concerns are complicating geopolitical relationships. The Russia-Ukraine war and simmering China-U.S. tensions highlight the geopolitical polarization of Russia and China versus the U.S., Europe, and their allies. China has recently become the largest purchaser of Russian energy exports. Asian governments, seeking to cap energy cost inflation, are also considering purchasing discount-priced Russian oil and gas. These purchase relationships may upset the West. Meanwhile, strategic confrontations between China and the U.S. and regional neighbors continue to flare up. Disagreements include over trade, finance and investment, and geographic territorial rights. Tensions have increased the likelihood of China moving down the decoupling route. China remains the "factory of the world," which means any decoupling would affect supply chains, financial flows, and cross-border investments, threatening a substantial economic cost for the world.

Structural risks

Natural disasters threaten energy and food supplies, implicating supply chains and risking another wave of inflation

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Extreme weather events seem to be increasing whether because of cyclical or very long-term factors (e.g., climate change). Recent droughts and floods have been and are threatening agriculture production and food supply. In some countries, such as China, drought has affected hydroelectricity generation, which in turn has a flow-on effect on industry (including lithium and aluminum production) and reduced shipping activities. Disruptions to crop yields and other goods production raises the specter of another round of global inflation. To cope with shortages, regional governments could implement export restrictions to protect self/domestic interest. In extreme situations where segments of populations face constrained access to food, the social divide within populations could intensify--risking unrest. On the energy front, government and investor policies (e.g., ESG) to address climate change are redirecting funding away from investments deemed less climate friendly. This has begun to curtail the production capacity of both fossil fuel and fossil fuel-based power in recent years, adding to the impact of the current energy crisis.

Digitalization and cyberattacks disrupt business models, increasing costs

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

As products and services become more digitalized, the need for technology will increase. To cope, borrowers will have to continually adopt and adapt to new technologies to remain competitive (note: not just information technology). Digitalization of goods and services and decentralized finance are examples of evolving disruptions. Laggards will see their business and thus credit profiles decline. Meanwhile, demand for key minerals (e.g., rare earths), hardware components and even software for use in technology represents an elevated risk. Increasing technological dependency and global interconnectedness mean cyber risk is a systemic threat and significant single-entity risk. With cybercrimes increasing in number, such attacks threaten the economic capabilities of borrowers and countries (e.g., critical infrastructure). Corporates and governments need to incur additional ongoing and rising costs to combat the threat.

Source: S&P Global Ratings.
Risk levels may be classified as very low, moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions unless the risk level is very high.
Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

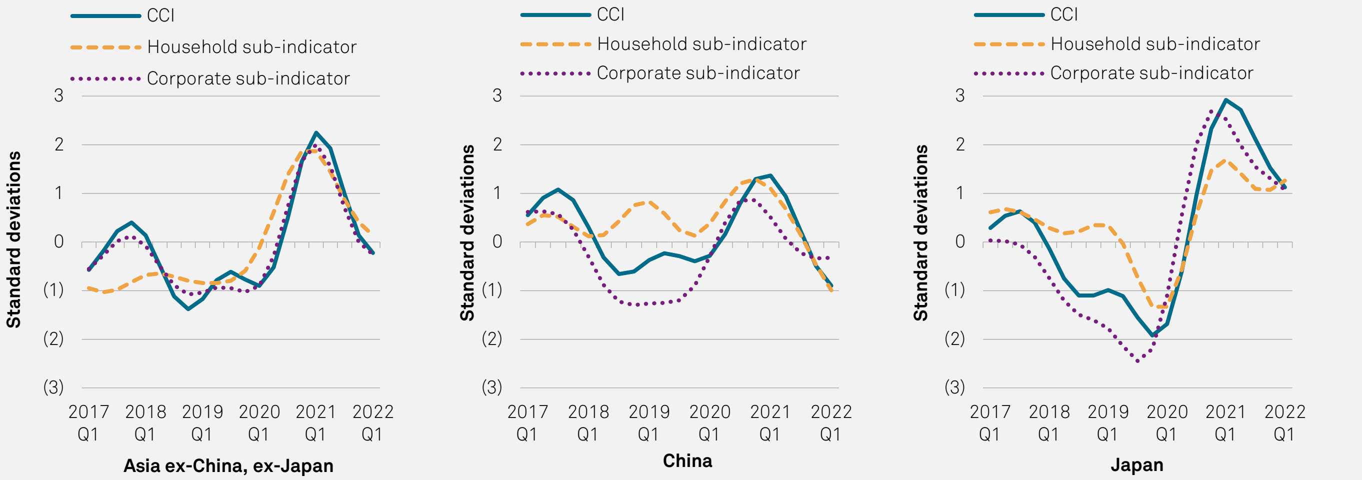
Credit Cycle Indicator

Credit Correction Is Underway As Credit Cycle Indicators Trend Down

The Asia ex-China, ex-Japan Credit Cycle Indicator (CCI) reached a peak of 2.2 standard deviations in Q1 2021. This suggests potential heightened credit stress in late 2022 or early 2023 (see chart 4). The CCI is trending downwards, indicating a credit correction is underway, but the potential impact of the buildup of nonperforming loans (NPLs) and defaults could linger beyond the stress period across late 2022 and early 2023. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," published on June 27, 2022.

Chart 4

Recent Peaks In Asia-Pacific CCIs Suggest Heightened Credit Stress In Late 2022 Or Early 2023



Note: Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. Source: Bank for International Settlements, Bloomberg, S&P Global Ratings.

China. Since reaching a peak of 1.4 standard deviations in Q1 2021, the China CCI has been trending downwards. This decline, driven by the household sub-indicator, reflects a slower pace of household borrowing. China's COVID-related lockdowns and the property sector's ongoing woes have exacerbated household caution and reduced consumption.

Meanwhile, the current flattening of the corporate sub-indicator hints at the possibility of rising corporate leverage, as corporates shore up borrowing to cope with COVID-related lockdowns, which have hit earnings particularly for consumer discretionary and mobility-dependent sectors. Corporates, particularly state-owned enterprises, may also borrow more to help stabilize investment and economic growth amid loosening domestic funding conditions. This could imply deleveraging efforts in China's corporate sector coming to a standstill. This is all the more sobering given China's corporate leverage ratio is significantly higher than the global average (see "Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap", Sept. 20, 2022).

Japan. Since reaching a peak of almost 3 standard deviations in Q1 2021, the Japan CCI has tipped downwards but remains at an elevated level. While the broad downward trend reflects declining household debt, a surge in Japanese house prices (mostly in prime areas) has led to an uptick in the household sub-indicator after a brief downtrend.

Japan's gross corporate debt is climbing up in recent quarters, supported by the country's deliberate efforts to keep interest rates flat--contrary to that of the Fed. While net debt has remained stable, thanks to a continuous build-up of cash holdings, this cash distribution could be uneven. If interest rates suddenly rise, heavily indebted SMEs (mostly unrated) could see their interest rate burdens intensify, posing a risk to creditworthiness.

To see how Japanese corporates would fare under higher interest rates and input cost inflation, our stress scenario examined the impact of such shocks on a global (mostly unrated) pool of corporates. The scenario outcomes for the Japan sample reveal the corporate loss-making ratio could jump by more than half to 19% by end-2023, from our base projection of 12% in 2022 (see "Global Debt Leverage: If Stagflation Strikes, China Corporates Are Most Vulnerable", July 12, 2022). In a separate stress test on our Japan rated corporates, the railways and electric utilities and gas sectors would feel more pressure, under a stress trifecta of higher interest rates, recession and yen depreciation (see "Japan's Corporations Are Equipped For The New Abnormal", Aug. 1, 2022).

Macroeconomic Outlook

Continuing To Grow In A Challenging Environment

- The external environment has turned less favorable as China's outlook remains subdued and growth prospects have worsened in the U.S. and Europe.
- Still, the outlook for Asia-Pacific outside of China remains constructive.

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China's outlook remains subdued

In China, restrictions imposed under the government's COVID stance and very poor real estate activity and sentiment remain a drag on growth. The government has lowered its growth ambitions as it prioritizes its COVID strategy for now. Its policy support has stepped up, but remains modest.

We expect a shallow sequential recovery in China in the second half of 2022 and 2.7% GDP growth for 2022 as a whole. The growth outlook for 2023 also remains subdued. We assume the government will start to adjust its overall COVID stance, more meaningfully lifting restrictions, in 2023, likely after the first quarter. While this should support domestic demand, the relaxation will most likely be quite gradual. Meanwhile, we don't expect the property sector to recover swiftly, and believe slower external demand momentum is a headwind.

In all, we now anticipate 4.7% GDP growth next year, from 5.4% three months ago, even as we lower our 2022 growth expectation. We have also nudged down our forecast for growth in 2024, to 4.8%. The risks to our forecast for 2022-2023 are broadly evenly balanced, in our view.

Asia-Pacific ex China--a slowdown in 2023 after robust growth in 2022

Growth generally remained robust in the second quarter. The likely slowdown in global demand is a key headwind for Asia-Pacific, but the recovery of domestic demand from the COVID impact should continue to support growth. Following a generally solid 2022, the slowdown in 2023 will likely vary across the region, depending on several factors (see chart 5).

Economies that are more oriented toward domestic demand are less exposed to the global slowdown. In some countries, domestic demand's recovery from COVID still has further to run. In some economies, the impact of higher interest rates on growth will be especially pronounced, either because of the large size of policy interest rate rises or because their effect is large.

Overall, we nudged down our GDP growth forecast for Asia-Pacific ex China in 2022 by 0.1 percentage point compared with our June outlook, to 4.8%. We expect growth outside of China to slow to 4.3% in 2023, compared with 4.6% in June. While this forecast incorporates the subdued growth outlook for the U.S., Europe and China, downside risks remain substantial, especially from the U.S. and Europe.

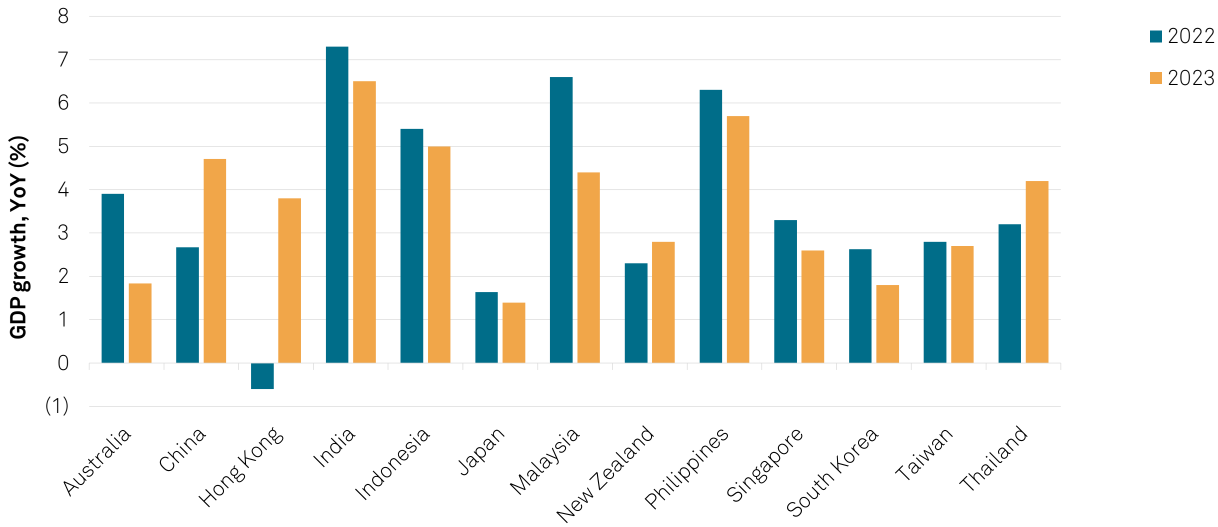
Dealing with inflation

Core inflation has risen especially fast in Australia, South Korea and New Zealand, and has remained high in India. On the other hand, it remains low in China and Japan. It has also remained relatively modest in Hong Kong, Indonesia, Malaysia, Taiwan, and Thailand (see chart 6).

How much central banks will need to raise policy rates to bring core inflation down in line with their targets depends on the current rate of core inflation, the amount of slack in the economy, and pressure from wage costs. On the latter, unit labor costs are rising in Hong Kong, New Zealand, Singapore, and South Korea, and labor markets in these economies could pressure consumer prices. They have risen less in other developed Asia-Pacific economies. We don't have visibility on higher frequency unit labor costs in several emerging markets.

Chart 5

Most Economies Likely To Slow Down In 2023



YoY--Year over year. Source: CEIC, S&P Global Economics.

In all, we expect elevated core inflation to drive up policy rates significantly further in Australia, India, New Zealand, the Philippines, and South Korea. In Indonesia we see substantial rate hikes alongside a sharp reduction in fuel subsidies. In other regional economies, we generally expect more moderate core inflation and policy rate increases.

The consequences of higher interest rates need to be monitored, notably in housing markets. While financial sector stability concerns remain largely manageable, rising interest rates will weigh on housing activity and spending more broadly, especially where housing debt is highest and where a large share of it is on variable terms. We consider Australia, New Zealand, and South Korea the most susceptible to this issue.

External pressure

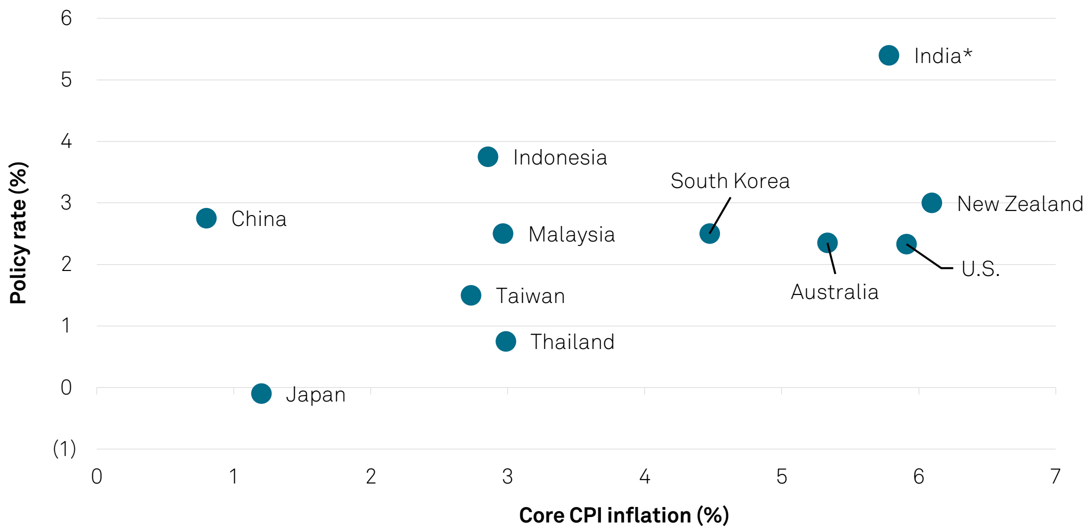
Rising global interest rates have triggered capital outflows and depreciation against the U.S. dollar. Net financial outflows have generally risen in 2022, especially in China and South Korea. Combined with the hit from higher energy and commodity prices on current accounts, the outflows have strained foreign exchange (forex) markets. Exchange rate depreciation has absorbed a significant part of this pressure, especially in Japan and South Korea. But foreign reserves have fallen in Asian emerging market economies, even after adjusting for large valuation changes.

With the U.S. Fed likely to continue to hike its policy rate to rein in inflation, pressure on Asia-Pacific's forex markets will persist. While we don't expect foreign reserves to decline to dangerously low levels any time soon, external pressure will remain, especially in regional economies where inflation remains relatively low and where central banks are keen to keep monetary policy accommodative, such as in China and Japan.

More generally, the responses of central banks and currency implications will vary. Some Asia-Pacific central banks will raise their policy rates to reduce the pressure on forex markets. Others will try to err on the side of tightening less if that is justified in terms of domestic inflation considerations. That could leave their forex markets exposed to the impact of additional U.S. Fed hikes. But some central banks may be willing to accept that for the sake of protecting growth at a time of a global slowdown.

Chart 6

Core Inflation And Policy Rates Vary Across The Region



*In India, fuel for vehicles is not stripped out when calculating core inflation. Source: CEIC, S&P Global Economics.

Financing Conditions

Tight Financing Conditions Price Out Speculative-Grade Issuers

- Aggressive global rate hikes on an absolute and relative basis to most Asia-Pacific central banks are exacerbating Asian dollar bond yield increases and currency depreciation.
- At the same time, Asia-Pacific central banks, except in China and Japan, are tightening local currency funding conditions at different speeds.
- Rapidly tightening financing conditions both onshore and offshore have all but closed bond markets to lower-rated issuers.

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Central bank actions globally have continued to drive up regional external financing costs. Market volatility has picked up as many major central banks (particularly the Fed and European Central Bank) accelerate rate hikes in their ongoing fight to tame inflation. Asia-Pacific central banks are generally hiking at a slower pace relative to the U.S., which signaled, at the most recent policy meeting, a terminal rate of 4.6% in 2023, and the intent to keep rates higher and for longer.

The resulting unfavorable yield differentials have contributed to a resumption of outflows and currency depreciation, with the Bank of Japan (BOJ) intervening in currency markets for the first time since 1998. Consequentially, external funding costs continue to rise, compounding the significant increases in Asian dollar bond yields, which have already occurred year to date--over 260 bps for investment-grade and over 500 bps for speculative-grade.

Local currency funding costs have not been spared. Five-year local currency benchmark yields across the region resumed their upward momentum in September. This threatens to increase rates further, even as they have already risen between 140 bps and 240 bps year to date across most of the region. This is driven not only by recent global developments but also by further expectations of policy rate hikes by Asia-Pacific central banks as they begin to see inflation pressures beyond energy and food prices. The notable exceptions could include the People's Bank of China, which is likely to retain an accommodative stance and the BOJ, one of the only major central banks which still retains negative rates.

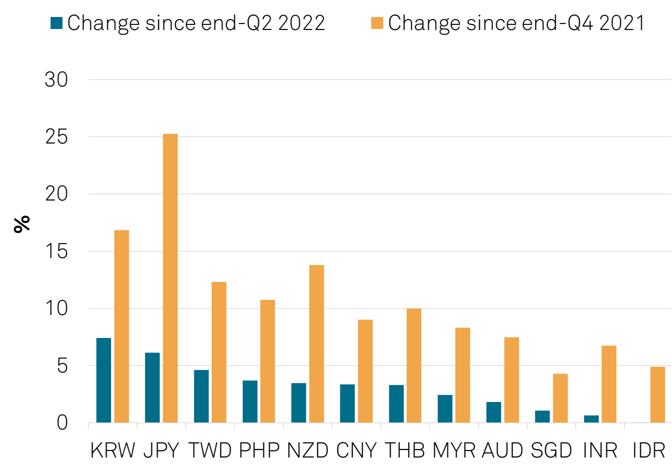
Rising funding costs and high investor uncertainty continue to translate to low market access for speculative-grade issuers. Total bond issuance for the year (including local and foreign currency deals) has been only slightly weaker than 2021's record volume. However, much of this is happening in large local markets where easy monetary policy has been the exception (China and Japan).

In offshore markets, the bulk of issuance has been by well-known and relatively higher-quality borrowers, which have taken advantage of periods of investor demand to push their deals through. Speculative-grade deals have been few and far between all year long. As such, continuation of tight financing conditions in this segment poses key refinancing risks, given that roughly half of speculative-grade bonds are coming due before the end of 2025.

Chart 7

Asia-Pacific Currencies Continue To Weaken

Asia-Pacific currency depreciation

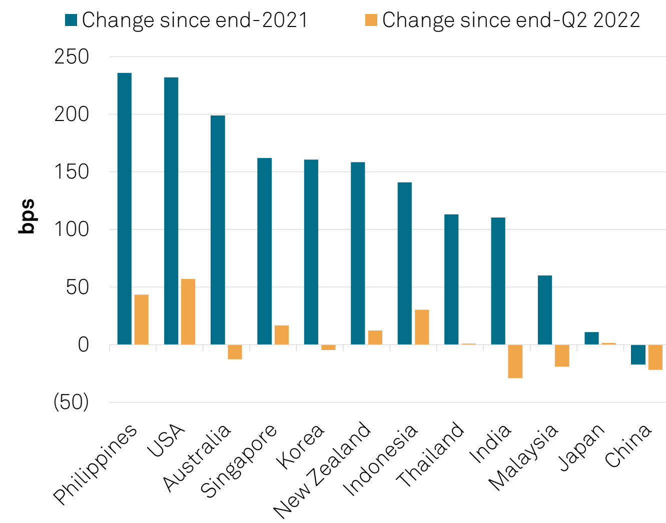


Data as of Sept. 13, 2022. Source: Datastream and S&P Capital IQ Pro.

Chart 8

External And Internal Financing Costs Rising

Change in local currency 5-year government bond yields



Data as of Sept. 13, 2022. Source: Datastream and S&P Capital IQ Pro.

Sector Trends

Global Recession Fears Mount Upon Inflation, Financing Pressures

- **Triple threat.** A global slowdown and deteriorating investor sentiment would hit external demand for the mostly net-exporting region and exacerbate the risk of capital outflows. Amid elevated commodity prices, food security concerns could bite further, especially for emerging markets (e.g., India). Meanwhile, China grapples with subdued growth amid its commitment to a strict zero COVID policy, a beleaguered property sector, and a weakening global environment.
- **Costs overhang.** Higher input prices are posing challenges to corporates. In tandem, investors' search for higher yields in a volatile and riskier economic environment could further prop up borrowing costs for firms. Meanwhile, given rising macro uncertainties and costs of living, consumers could further tighten discretionary spend.
- **Net rating outlook bias.** The net rating outlook bias remains steady at negative 5% as of end-August 2022. However, a deteriorating macroeconomic backdrop, high input prices and elevated borrowing costs pose significant rating downside for rated corporates and could lead to a spike in loan-loss provisions for banks.

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What's changed?

A faltering global environment. Investor concerns and prospects of a global slowdown across the U.S., Europe and China have materialized further. Asia-Pacific's producers and manufacturers would have to contend with weaker external demand as the global environment becomes more uncertain. For corporates where currency depreciation against the U.S. dollar has been particularly acute (such as in Japan and Korea), the subsequently more expensive import prices (in local currency terms) could pack another punch.

More selective financing. As risk aversion grows and market sentiment sours on the back of deteriorating global economic conditions, investors and lenders are becoming more selective--especially towards the riskier end of the credit spectrum. For Chinese real estate companies in particular, market access has been elusive, if not completely shut off.

Key risks

Funding access continues to deteriorate. Risk aversion among investors and lenders compromises funding access and threaten liquidity of some issuers. In the face of rising interest rates and mounting global headwinds, highly leveraged borrowers could face more credit uncertainties.

Cost pass-through becomes more challenging. Corporates are trapped between a rock and a hard place, should producer prices stay high. Recession fears could see consumers contracting their spending appetite, deterring companies from fully passing higher costs onto customers. Efforts to curb costs, and cut unit volumes, will point to contracting revenues.

Key assumptions

The global downturn is shallow. We do not expect the economic slowdowns in major economies of the U.S., Europe, and China to be prolonged nor deep. However, a substantial downside is prevalent.

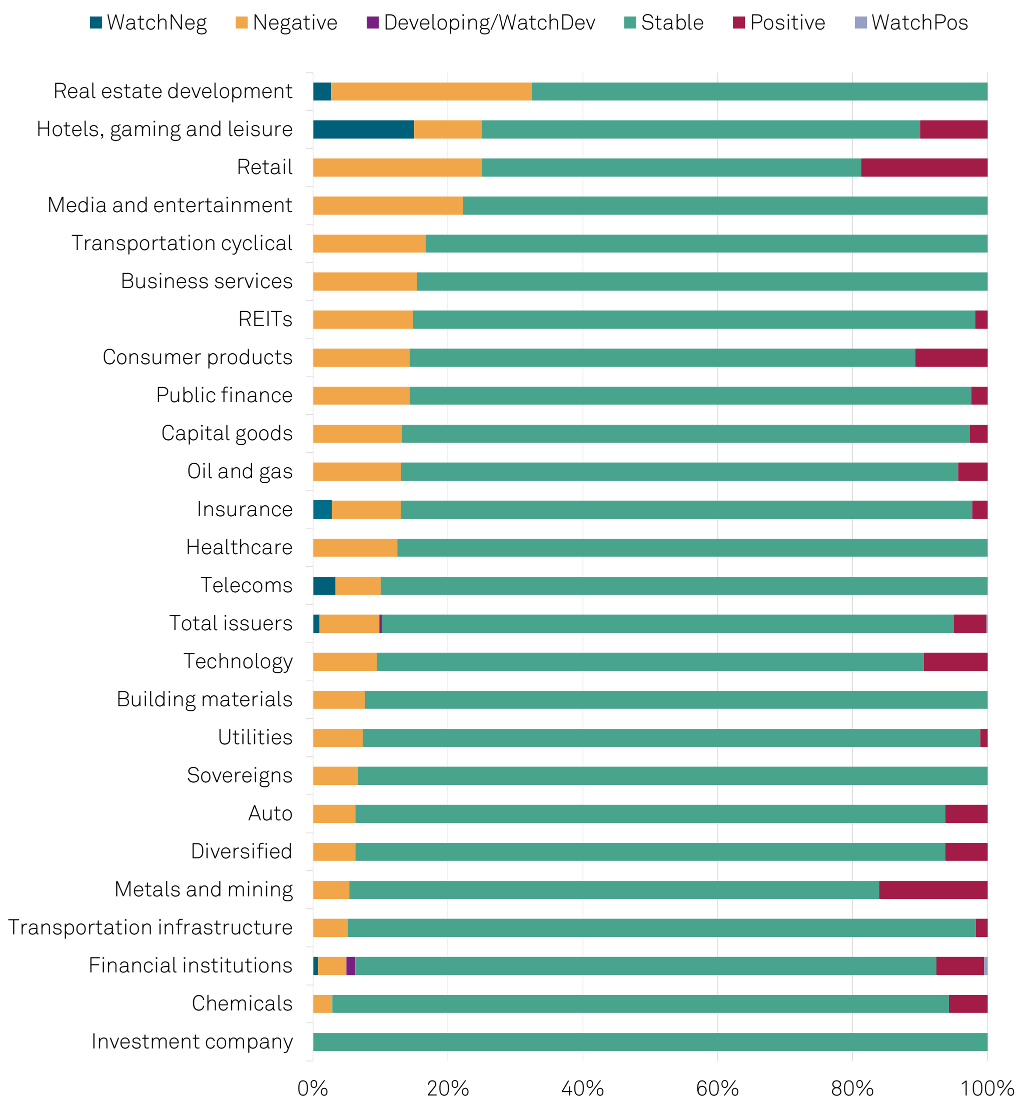
What to look for

Downsides abound. Downside risks to Asia-Pacific credits are lurking from many angles. Costlier borrowing terms and tighter financing access could see firms in dire straits. The troubles won't stop there as elevated input prices and cost pass-through challenges could knock more corporates off their feet. Households would also have to brace for higher costs. For the more vulnerable cohorts, their liquidity could become stressed. This in turn could implicate the region's banks and structured finance markets.

Weaker currencies. Except for China and Japan, the region's economies have embarked on rate hikes to match the Fed's profile, to stifle capital outflows and defend their currencies from depreciation. Even so, most Asia-Pacific currencies have tumbled against the U.S. dollar as of late, and this weakness could be set to exacerbate even further. The region's emerging markets would feel currency pains more acutely.

Chart 9

Net Outlook Bias Distribution Of Asia-Pacific Issuers By Sector, Aug. 31, 2022



Data cut-off is at Aug. 31, 2022. Source: S&P Global Ratings.

Nonfinancial Corporate

Downside Pressures Persist

- Slowing global GDP and domestic consumption in China are further reducing revenue and profit growth prospects for the corporate sector in Asia-Pacific, amid persisting inflation.
- We see further downside risk to the credit quality of rated companies heading into 2023, but believe the SME segment regionally is likely to be more affected by cost inflation and rising interest rates given their smaller size and lower ability to pass through higher costs.
- Liquidity and access to funding are likely to stay major differentiators of credit quality in Asia-Pacific, amid prevalent risk-off sentiment from investors and increasingly selective capital markets.

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What's changed?

The credit trajectory of rated companies in Asia-Pacific remains tilted to the downside. Downside rating actions have continued to outpace upside rating actions over the past three months. The share of rated companies on negative outlook remains at about 12% comparable to three months ago, despite further erosion in credit quality. This suggests credit stabilization is still a few quarters away.

Weakened liquidity and refinancing risk remain the main drivers of downward rating transitions, especially in the 'B' rating category. But we are increasingly observing slowing revenue growth, margin compression or persistent capital spending hitting the credit quality of higher rated companies across sectors and countries in the region.

Weakening growth outlook in China and export markets. Lower GDP growth forecasts in 2022 and 2023 for China and possibility of further lockdowns will weigh on revenues and profits of many Chinese corporates. That will compound downside risks stemming from the already-weak property market, weaker consumer confidence, supply chain issues, and the prospect of a recession in key export markets of the U.S. and Europe for the manufacturing sector.

Cost inflation poses headwinds for the corporate sector. Profit margins at rated companies have been contracting moderately across sectors since the beginning of the year. Margin compression is likely to remain a theme going into 2023, especially for firms and sectors with high material input cost structure, e.g., manufacturers, cyclical transportation, consumer products, building products and transportation cyclical.

Weakening Asia-Pacific currencies against the U.S. dollar are adding to inflationary pressures for firms relying on imported raw materials, especially in Japan, Korea, the Philippines, and Thailand. At the same time, slowing demand is likely to make price increases more challenging than in the previous quarter. We think margin compression is likely to be much more severe for the non-rated, SME segment given their smaller size and lower pricing power.

Key risks

Reduced funding availability. Access to funding remains selective across the region and is a major risk for the corporate sector. The inability to refinance debts sufficiently ahead of maturities has been the main driver of defaults observed across the rated corporate sector in Asia Pacific year-to-date. Bank loan growth has slowly resumed in most Asian markets (from contracted levels in 2021). But foreign currency capital markets, a key venue for refinancing lumpy maturities, have remained largely closed, or prohibitively expensive, for speculative grade companies. We believe volatile investor sentiment is likely to persist until investors have more visibility on the end of the rate tightening cycle by the Fed, and what a global slowdown means for Asian companies, which could take another six to nine months. Confidence-sensitive headlines around geopolitics and the energy crisis in Europe are also weighing on sentiment and are unlikely to be resolved until 2023.

Key assumptions

Revenue and profit growth will moderate in 2023. 2022 is likely to stay a year of widespread recovery for revenues and profits across most Asia-Pacific countries, as they benefit from the twin factors of improving mobility and, for commodity-linked companies, high prices. These two factors are unlikely to support a similar revenue and profit growth momentum in 2023. Slowing global growth will likely reduce growth prospects for exporters in China, Korea, Japan and Indonesia, especially in the manufacturing sector.

Our financial projections also factor in lower prices for almost all energy, minerals and agri-commodities in 2023 compared with 2022. As a result, median revenue and profit growth in 2023 will nearly halve to about 4% in our base case for the rated corporate sector in Asia-Pacific compared with our current projections for 2022.

What to look for

Funding availability. Any upside risk to funding availability. A few quarters from now, we would anticipate that the Fed's monetary policy will stabilize while the Chinese economy should gradually open up post-COVID--which we currently assume could take place in the second half of 2023. These factors could boost investor confidence, open up long closed funding channels, and consolidate growth prospects.

Financial Institutions

Economic Headwinds Will Challenge Banks

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- The weaker growth outlook and prospects for higher interest rates and borrowing costs in many jurisdictions will increasingly burden bank borrowers and in turn banks' asset quality.
- The stand-alone credit profiles of banks in Indonesia, Thailand, and New Zealand face greater challenges, even if the issuer credit ratings on banks in these countries are less likely to be affected.
- A further negative step-change affecting our outlook for economic and financing conditions may be a more broad-based test of ratings and outlooks for both banks and nonbank financial institutions.

What's changed?

Economic pressures are building. The weaker economic growth outlook, higher interest rates and tighter financial conditions across many jurisdictions will increasingly strain banks. Banks are showing some resilience thus far, indicated by most bank outlooks being stable. Should economic and financing conditions deteriorate materially, negative momentum affecting outlooks or ratings would seem inevitable.

Negative trends may become more broad-based. Negative economic trends affecting banks may spread beyond the three jurisdictions that we currently identify where banks' stand-alone credit profiles (if not issuer credit ratings) are most vulnerable (Indonesia, Thailand, and New Zealand). Further, greater credit differentiation across the region could occur between strong, systemically important banks versus non-systemically important banks and nonbank financial institutions.

Key risks

Economic downside risks intensify. Banks' net interest margins are currently benefiting from higher interest rates. Persistent or materially weaker economic prospects outside our base case could include much weaker growth and sharper or higher inflation and borrowing costs than we currently anticipate. All these would eventually hurt banks' asset quality. The higher risks are superimposed upon already highly leveraged corporate, household and government sectors in many jurisdictions, and some property markets already under stress, notably China.

Key assumptions

Revised economic base case holds. We expect many banking sectors to continue to show resilience. A material deterioration outside our base case outlook for economic conditions will test banks, however.

Highly supportive governments. In our view, extraordinary government support would be extended to many systemically important banks; in the unlikely event it was required.

What to look for

Severity and timing. A more severe or prolonged downturn is likely to be the key precursor for more broad-based negative ratings momentum across the sector.

Insurance

Earnings Volatility Goes Beyond Investment

- Drop in asset valuation and insurance margins will weigh on capital and earnings.
- Stable credit trends will largely prevail, but some markets will see growing negative outlook bias.
- Slowing economy will moderate premium growth momentum.

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What's changed?

Uneven growth, with rising claims. Slower economy in China amid strict COVID policies hinders new business momentum. Insurers' product and channel reform could drive slower interim growth. Meanwhile, rising claims from COVID-related policies and weather events could dampen insurers' underwriting profits and capitalization.

Lower asset valuation dilutes capital buffer. Further to capital market swings, rate hikes in many markets (except China and Japan) will dent asset valuation and incur unrealized losses. Those that previously increased their appetite for credit risk could be exposed to rising defaults. Shifting foreign exchange rates and higher interest rate differentials will hike hedging costs, and lead to earnings volatility from insurers' unhedged foreign exchange exposure. On the other hand, life insurers could see gradually easing demand on reserve provisions due to rate hikes.

Key risks

Prolonged market volatility. Market volatility could intensify because of forex volatility with a widening interest rate differential (particularly the U.S. dollar against the Japanese yen and New Taiwan dollar), geopolitical tensions and spillovers from slowing growth in the region's major economies. Sharp and prolonged market fluctuations and asset impairments could erode insurers' capital and earnings.

Increasing frequency of natural disasters. Climate change and rapid urbanization in emerging Asia calls for more regular updates on catastrophe models. Increasing reinsurance costs could weigh on non-life insurers' profit margins.

Key assumptions

Slowing economic growth. Economic slowdown could undermine insurers' premium growth, particularly trade-related business lines (marine cargo and trade credit insurance). However, rising risk awareness and still-low insurance penetration in the region should support the elasticity of insurance demand.

What to look for

Evolving developments in ESG initiatives, regulatory and accounting frameworks. These signify prospective changes in business and investment strategies, resulting in rising operational costs.

Public Finance

Fiscal Divergence Amid External Challenges

- Energy price shocks, inflation, and rate hikes will hit local and regional governments (LRGs) and their associated enterprises.
- China will face additional challenges amid property strains as well as extensive lockdown to contain COVID cases.
- Local governments in Australia, New Zealand, and China are using large infrastructure projects to stimulate economies, a practice that will persist until at least 2023.

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What's changed?

China's strict containment and mortgage strike are lifting market disputes. Ongoing lockdowns in major cities have weakened GDP growth, while mortgage strikes by homebuyers on delayed property projects have further tested market confidence.

New Zealand's "Three Waters Reform" is gaining pace. The government is considering legislation to shift water activities to independent entities from local councils. The reforms, due to commence on July 1, 2024, could have drastic implications for the sector's balance sheets.

Key risks

Economic shock. Persisting inflation and higher interest rates, and downside risks to the global economy, could further pressure the region's consumption, supply chains, and economic growth. In China, ongoing lockdowns and an "L-shaped" property slowdown will further depress local growth and global supply chains.

Delayed fiscal recovery. To stifle the economic slowdown and restore confidence, selective LRGs could push forward their aggressive fiscal stimulus that will disrupt fiscal recovery and lift debt burdens.

Key assumptions

Manageable inflation and rising rates in most regions. This will allow most regions to seek transition to a post-COVID world and gradually recover fiscal performance. While China's fiscal stance will likely stay expansionary, most LRGs can still rely on large cash transfers and new borrowings, subject to support from the central government.

Mortgage disputes not in Chinese LRG's fiscal costs. Mortgage strikes have pointed to the need for effective policy resolutions. In our view, LRGs will deepen policy execution through commercial measures, instead of coordinating bailouts.

What to look for

Policy shifts. Any aggressive LRG fiscal expansion, either to sustain growth or to maintain social stability, could erode credit quality. Chinese LRGs will see additional debt burden risks if they turn to leveraging their SOE investments to stimulate local economic growth, while concurrently providing support to their SOEs. The Three Waters Reform in New Zealand may alter its public finance system as details are disclosed in upcoming legislation.

Sovereign
Inflation Takes Center Stage

- The war in Ukraine has stoked inflation and increased risks to growth. These developments could slow the credit improvement among Asia-Pacific sovereigns.
- The recovery from the pandemic should continue despite these problems.

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What's changed?

Sanctions on Russia keep commodity and food prices elevated. Some governments have increased subsidies to cushion rising living costs, with a few imposing food export restrictions. These moves may curtail credit improvements if they become persistent.

Rising interest rate expectations. Expectations of monetary tightening in the U.S. and Europe have also pushed up interest rates in Asia-Pacific. Exchange rate volatility has increased, especially on the yen and won.

Outside China, COVID restrictions have continued to ease. Reduced border controls have allowed a return of tourism and business, relieving burdens on services industries across the region. Rebounding activity and job market improvements have reduced fiscal burdens on governments.

Key risks

Sudden capital swings. An unexpected deterioration of geopolitical risks or interest rate expectations could see investors withdraw from emerging markets in Asia-Pacific, making financing conditions significantly more challenging for some. Steep exchange rate depreciations could also worsen imported inflation.

Growth and fiscal recoveries seriously interrupted. Worsening inflation, weaker demand and increased uncertainty arising from geopolitical risks and worsening financing conditions may slow the economic and fiscal recoveries much more than expected.

Key assumptions

Global economic activity weakens, but not so sharply that it creates financial volatility. Economic conditions are weakened by higher inflation and uncertainties associated with the Russia-Ukraine conflict. Governments are still expected to lower fiscal deficits meaningfully although a return to pre-COVID fiscal performances will take longer.

What to look for

Widening geopolitical tensions that affect Asia-Pacific more materially. If the war in Europe expands or tensions in Asia-Pacific intensify, it would seriously damage investor sentiment and stoke further price increases. Knocks on economies and financial markets in Asia-Pacific may worsen significantly.

New variants that may prolong the pandemic. Although the pandemic has faded as a concern in most places late in 2022, the emergence of a more deadly strain of the COVID-19 virus remains a risk.

Structured Finance

Employment, Household Balance Sheets Support Stable Outlook

- Unemployment remains at low levels and stable across most markets, supporting our stable outlook for consumer asset classes.
- Mixed outlooks in the region in relation to interest rates, and inflation as well as COVID related disruptions.

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What's changed?

China's housing market outlook has weakened. We expect property sales to continue to fall and home prices to also decline moderately as home buyer confidence is tested. In our view, that will lead to lower residential mortgage-backed securities (RMBS) issuance for the remainder of the year.

Interest rate moves in Australia, New Zealand and Korea. Monetary policy tightening has accelerated in these countries in recent months. We anticipate a cooling of the housing markets will follow.

Key risks

Impact of interest rates, inflation on households. Households are well placed, with high and stable employment across most markets in the region. Inflation dynamics are mixed across markets; however, price pressures may start to undermine household balance sheets and purchase decisions. Interest rates have increased in some markets across the region, and we expect housing markets to cool in those markets.

Inflation is not as high in Japan as it is in many other regions. However, inflation concerns are also growing in Japan given the global situation. If wage growth remains limited, this could pressure mortgage and consumer loan performance.

Effect of COVID policies in China. The ongoing possibility of restrictions on mobility in China may directly and indirectly affect delinquency levels. These effects may vary given the scope of any lockdowns and different geographical distribution of the securitized pools. The indirect impacts of weak consumer activity and confidence will continue to drag on economic activity.

Key assumptions

Structural supports. We expect ratings to remain stable, with low numbers of speculative-grade ratings and structural supports to cushion some deterioration. Broadly stable employment trends support debt serviceability on RMBS.

What to look for

Prepayment rates and consumer asset delinquencies. In Australia the effect of interest rate rises may take some time to become apparent in RMBS. Prepayment rates and consumer asset asset-backed securities (ABS) delinquencies may give some early insight into household resilience.

Delinquencies in China. We expect to see more volatility in delinquencies in RMBS and ABS due to COVID-related disruptions.

Related Research

- Economic Outlook Asia-Pacific Q4 2022: Dealing With Higher Rates, Sept. 26, 2022
- China Trades Immediate Economic Growth For Uncertain Benefits, Sept. 20, 2022
- China's Zero-COVID Stance Poses A Bigger Threat To Firms Than Inflation, Sept. 20, 2022
- Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap, Sept. 20, 2022
- Only China's Government Can Revive Property Confidence, Sept. 15, 2022
- Asia-Pacific Reinsurers And Governments Fortify Natural Disaster Defenses, Sept. 13, 2022
- Economic Research: Why Japan's Consumer Inflation Will Drop Back Below 2%, Sept. 7, 2022
- Asia-Pacific's Nonbanks Brace For Funding Squeeze, Sept. 5, 2022
- A Primer On China's Consumer Loan Asset-Backed Securities Market, Sept. 2, 2022
- Economic Research: Wage Hikes Are An Inflationary Risk For Parts Of Asia-Pacific, Sept. 1, 2022
- China's Summer Struggle: Drought, Food Inflation, And Shortages, Aug. 31, 2022
- Credit FAQ: More Asia-Pacific Angels Risk Slipping Into Speculative Grade, Aug. 30, 2022
- China Securitization: Auto ABS And RMBS Tracker July 2022, Aug. 26, 2022
- Economic Research: Foreign Reserves In Asia's Emerging Markets Are Strained, Aug. 22, 2022
- Credit FAQ: Real Estate Funds, A First Aid To China's Property Slump, Aug. 18, 2022
- Tech Supply Chains Most Vulnerable As Cross-Strait Tensions Rise, Aug. 11, 2022
- China Securitization Performance Watch 2Q 2022: Tough Economic Conditions Weigh On Issuance And Asset Performance, Aug. 11, 2022
- China Slowdown Forces A Rethink For Local And Regional Governments, Aug. 9, 2022
- Asia-Pacific Financial Institutions Monitor 3Q 2022: Brace For Higher Credit Losses In 2023, Aug. 4, 2022
- China Developers To Investors: That Perpetual Bond May Be Meant To Last, Aug. 2, 2022
- Japan's Corporations Are Equipped For The New Abnormal, Aug. 1, 2022
- Asia-Pacific Sovereign Rating Trends Midyear 2022: Resilience Amid Turbulence, July 14, 2022
- Global Debt Leverage: If Stagflation Strikes, China Corporates Are Most Vulnerable, July 12, 2022
- White Paper: Introducing Our Credit Cycle Indicator, June 27, 2022

This report does not constitute a rating action.

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Appendix 1: Ratings Trends

Table 1

Net Outlook Bias Of Asia-Pacific Issuers By Sector, Aug. 31, 2022

	Aug 2021	Oct 2021	Feb 2022	May 2022	Aug 31, 2022	No. of entities	Notional average rating
Auto OEM and suppliers	-24%	-12%	-3%	-3%	0%	32	BBB
Building materials	-6%	-6%	-7%	-14%	-8%	13	BBB
Business services	-8%	-25%	-23%	-17%	-15%	13	BB+
Capital goods	-17%	-17%	-29%	-19%	-11%	38	BBB
Chemicals	-13%	-7%	0%	0%	3%	35	BBB
Consumer products	-4%	-4%	-8%	-11%	-4%	28	BBB
Diversified	13%	13%	20%	0%	0%	16	A-
Healthcare	-14%	-14%	-11%	-22%	-13%	8	BB+
Hotels, gaming, and leisure	-25%	-20%	-19%	-24%	-15%	20	BB+
Investment company	0%	0%	0%	0%	0%	8	A-
Media and entertainment	-20%	-20%	-20%	-20%	-22%	9	BBB+
Metals and mining	5%	11%	9%	9%	11%	56	BB+
Oil and gas	-21%	-21%	-26%	-17%	-9%	23	BBB+
Real estate development	-12%	-18%	-32%	-39%	-32%	37	BB+
Real estate investment trusts	-8%	-12%	-12%	-13%	-13%	54	BBB+
Retail	-29%	-29%	-31%	-19%	-6%	16	BBB
Technology	0%	0%	0%	-2%	0%	53	BBB-
Telecommunications	-24%	-21%	-7%	-10%	-10%	30	BBB
Transportation cyclical	-26%	-11%	-11%	-17%	-17%	18	BBB-
Transportation infrastructure	-10%	-8%	-7%	-10%	-3%	58	A-
Utilities	-4%	-5%	-4%	-5%	-6%	95	BBB+
Total corporates	**-10%**	**-9%**	**-9%**	**-10%**	**-7%**	**660**	**BBB**
Financial institutions	-1%	1%	3%	-1%	3%	383	BBB+
Insurance	-2%	-1%	-3%	-2%	-11%	177	A
Public finance	-16%	-14%	-13%	-13%	-12%	84	AA-
Sovereign	-10%	-7%	-7%	-7%	-7%	30	BBB+
Total issuers	**-7%**	**-5%**	**-5%**	**-7%**	**-5%**	**1,334**	**BBB+**

We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa. OEM--Original equipment manufacturer.

Light teal colored cells indicate improvement from prior period, dark teal, deterioration.

Appendix 2: Economic Data and Forecast Summaries

Table A1

Australia--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	4.7	3.9	1.8	2.0	2.2
Inflation %	2.8	6.5	5.7	3.4	2.5
Unemployment rate %	5.1	3.6	3.8	3.7	3.9
Policy rate % (EOP)	0.1	3.1	3.1	2.75	2.5
Exchange rate (US$ per A$)	0.73	0.66	0.68	0.69	0.71

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period. A$--Australian dollar.

Source: S&P Global Ratings.

Table A2

China--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	8.1	2.7	4.7	4.8	4.7
Inflation %	0.9	2.2	2.4	2.2	2.2
Unemployment rate %	5.2	5.5	5.2	5.2	5.2
Exchange rate (US$)	6.35	7.10	6.92	6.78	6.65

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast.

Source: S&P Global Ratings.

Table A3

Hong Kong--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	6.3	-0.6	3.8	2.7	2.0
Inflation %	1.6	2.1	2.5	2.3	2.0
Unemployment rate %	5.2	4.4	3.5	3.3	3.3
Exchange rate (US$)	7.80	7.85	7.80	7.80	7.80

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast.

Source: S&P Global Ratings.

Table A4

India--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	8.7	7.3	6.5	6.7	6.9
Inflation %	5.5	6.8	5.0	4.5	4.5
Policy rate % (EOP)	4	5.9	5.25	5	5
Exchange rate (US$)	76.5	79.0	80.5	82.0	83.0

Inflation rate shown is the period average. a--Actual. f--Forecast. EOP--End of period.

For India, 2021 means fiscal 2021/2022 (year ending March 31, 2022); 2022 means fiscal 2022/2023 (year ending March 31, 2023); and so forth.

Source: S&P Global Ratings.

Table A5

Indonesia--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	3.7	5.4	5.0	5.0	5.0
Inflation %	1.6	5.0	6.2	3.7	3.6
Unemployment rate %	6.4	5.9	5.6	5.5	5.5
Policy rate % (EOP)	3.5	4.5	5.5	5.5	5.5
Exchange rate (US$)	14,253	15,050	15,150	15,230	15,280

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A6

Japan--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	1.7	1.6	1.4	1.4	1.3
Inflation %	-0.2	2.2	1.6	1.0	1.0
Unemployment rate %	2.8	2.6	2.5	2.5	2.4
Policy rate % (EOP)	-0.1	-0.1	0	0.1	0.1
Exchange rate (US$)	115.0	145.8	138.6	133.2	127.9

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A7

Malaysia--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	3.2	6.6	4.4	4.6	4.5
Inflation %	2.5	3.2	2.6	2.4	2.4
Unemployment rate %	4.6	3.9	3.6	3.3	3.2
Policy rate % (EOP)	1.75	2.75	3.25	3.5	3.5
Exchange rate (US$)	4.18	4.60	4.50	4.40	4.30

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A8

New Zealand--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	5.0	2.3	2.8	2.4	2.5
Inflation %	3.9	6.6	3.5	2.7	2.4
Unemployment rate %	3.8	3.3	3.4	3.7	3.8
Policy rate % (EOP)	0.75	4	4.5	3.75	3.5
Exchange rate (US$ per NZ$)	0.68	0.60	0.62	0.64	0.66

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period. NZ$--New Zealand dollar.

Source: S&P Global Ratings.

Table A9

Philippines--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	5.7	6.3	5.7	6.4	6.3
Inflation %	3.9	5.3	4.1	2.8	2.8
Unemployment rate %	7.8	5.8	5.9	5.3	4.9
Policy rate % (EOP)	2	5	4.25	3.5	3.5
Exchange rate (US$)	50.5	56.6	55.4	53.7	53.5

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A10

Singapore--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	7.6	3.3	2.6	2.9	2.9
Inflation %	2.3	5.7	3.1	2.0	1.9
Unemployment rate %	2.7	2.2	2.2	2.1	2.0
Exchange rate (US$)	1.35	1.40	1.35	1.34	1.33

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast.

Source: S&P Global Ratings.

Table A11

South Korea--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	4.0	2.6	1.8	2.2	2.0
Inflation %	2.5	5.3	3.7	2.0	2.0
Unemployment rate %	3.6	2.9	3.3	3.3	3.3
Policy rate % (EOP)	1	3	2.75	2.5	2.5
Exchange rate (US$)	1,185	1,421	1,351	1,297	1,246

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A12

Taiwan--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	6.6	2.2	1.5	2.5	2.4
Inflation %	2.0	3.3	2.6	1.1	0.7
Unemployment rate %	4.0	3.7	3.6	3.5	3.5
Policy rate % (EOP)	1.13	1.75	1.88	2	2
Exchange rate (US$)	27.8	32.2	31.5	30.8	29.9

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A13

Thailand--S&P Global Ratings Economic Outlook

	2021a	2022f	2023f	2024f	2025f
Real GDP %	1.5	2.9	3.5	3.5	3.1
Inflation %	1.2	6.8	3.1	1.1	0.7
Unemployment rate %	1.9	1.8	1.6	1.4	1.2
Policy rate % (EOP)	0.5	1.5	3.25	2.25	2
Exchange rate (US$)	33.42	36.9	36	35.4	34

Inflation and unemployment rate shown are the period average. a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.

Table A14

Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2021a	2022f	2023f	2024f	2025f
Asia Pacific	6.6	3.8	4.5	4.6	4.6
Eurozone	4.96	3.1	0.3	1.8	1.7
Latin America 6	6.7	2.8	0.9	2.2	2.3
U.S.	5.7	1.6	0.2	1.6	1.9

Asia-Pacific and Latin America 6 aggregate GDP growth numbers are based on current purchasing power parity GDP weights.

a--Actual. f--Forecast. EOP--End of period.

Source: S&P Global Ratings.