

# Still Steady, Banking Turmoil Risk Is Moderate Here

March 28, 2023

*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 March 21, 2023.

## Key Takeaways

- **Steady as she goes.** We project that growth in annual real GDP in Asia-Pacific will average at the mid 4% level over the next few years, buoyed by a likely rebound in China's economy this year post lockdown. The net rating outlook bias remains steady at negative 3%, as it was last quarter. However, downside risks are worsening.
- **Banking turmoil risk.** We have yet to see any meaningful contagion for Asia-Pacific from the turmoil of U.S. regional banks and Credit Suisse. Asia-Pacific banks generally have more conventional asset and deposit profiles. We therefore see the contagion risk as moderate, albeit worsening.
- **Financing access risk.** We regard financing access risk as high and worsening. Volatile markets and uncertain economic outlooks are causing lenders and investors to be more defensive. Domestic funding is continuing, but it is selective. The cash flows and liquidity of lower-rated and highly leveraged borrowers are particularly exposed.
- **Economic recovery risk.** We assess the economic recovery risk as high and unchanged. Our base case is for China's economy to recover in 2023, and most other Asia-Pacific geographies in 2024. However, global central banks' continued fight against inflation and weakened business and consumer sentiment imply a high risk of a softer rebound.

**Still steady amid contagion fears.** A contagion spillover into Asia-Pacific is less likely, though not impossible, given the behavior of liability holders is difficult to predict. We believe the region's banks are shielded from the turmoil emanating from recent failures and the rescues of some global peers (see "[Credit Conditions Asia-Pacific Special Update: Why Asia-Pacific Banks Are Shielded From Current Turmoil](#)," published March 22, 2023).

Asia-Pacific banks' asset books tend to be conventional, broad-based lending across commercial and retail segments. The proportion of fixed-rate assets held by Asia-Pacific banks also tends to be much lower than in the U.S.

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## Contents

Top Asia-Pacific Risks	4
Macroeconomic Outlook	7
Financing Conditions	9
Sector Trends	11
Nonfinancial Corporate	13
Financial Institutions	115
Insurance	16
Public Finance	17
Sovereign	18
Structured Finance	19
Related Research	20
Appendix 1: Ratings Trends	21
Appendix 2: Economic Data and Forecast Summaries	22

**Funding access pressures.** Volatile global markets have resulted in Asia-Pacific offshore financing costs increasing since the start of the year. Lenders and investors' risk appetites could shrink further on the back of less-than-stable markets and uncertain economic outlooks--hitting funding access.

The current banking turmoil may yet tighten financing conditions, with uneven pressure across banks. In such an event, this will hit the domestic and offshore funding plans of highly leveraged issuers. Constrained liquidity, which comes on top of already high interest rates, may tip some entities into default.

**Risks of a throttled recovery.** China's economy is on track to expand 5.5% in 2023, following its exit from zero COVID policy. While its rebound will support the region's growth, this may not be sufficient to offset drags from the external front for some economies. These include the hit of slower growth in the U.S. and Europe, the fading impact of domestic re-opening post the pandemic, and higher interest rates (see "[Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth](#)", March 27, 2023).

We expect the growth in the region (excluding China) to slow to 3.8% in 2023 from 2022's 4.7%. A sharper economic slowdown would make debt loads more burdensome. Firms in Japan and some Asian emerging markets (including China) are typically already operating at high leverage levels (see "[Global Debt Leverage: Is A Great Reset Coming?](#)" March 20, 2023).

**Inflation fight continues.** We expect the Fed to keep rates high through 2023, to tame inflation. For Asia-Pacific, core inflation remains particularly high in Australia, the Philippines, and India. We anticipate that central banks will slow rate hikes, in the hope that the recessionary pressures will weaken demand and lower prices. For households, high inflation squeezes spending power. Concurrently, weak demand makes it difficult for corporates to pass on higher costs, denting margins (see "[Corporate Top Trends Update: Asia-Pacific Credit Outlook 2023: Sand In The Gearbox](#)," Feb. 21, 2023).

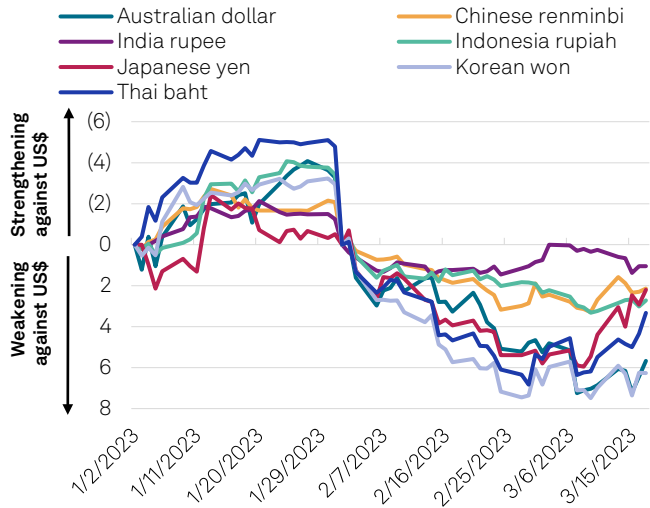
Persistent inflation regionally and in advanced economies remains a risk, in our view, and could prompt key central banks to resume rate hikes and markets to sharply reprice rate expectations, exacerbating market volatility.

**Geopolitical pains.** Diplomatic relations between China and the U.S. (and its allies) remain fraught. The strategic confrontation between the U.S. and China over the South China Sea would hit investment, trade, and supply flows within and outside the area as business confidence falters. This could lead to hefty economic costs and potentially cause further disruption to supply chains, undoing policy efforts to curtail inflation. The U.S.' recent restrictions on semiconductor technology also point to an effort to curtail China's tech ambitions, raising risks for regional tech majors. With respect to the Russia-Ukraine war, our base case is for a rise in intensity over summer but ending in a stalemate, followed by a fragile ceasefire by year-end.

**Net rating outlook bias.** The net rating outlook bias was steady at negative 3% as of end-February 2023. However, a confluence of headwinds arising from tepid global demand, capital outflows, currency depreciation, and uneven funding access could limit ratings headroom.

Chart 1

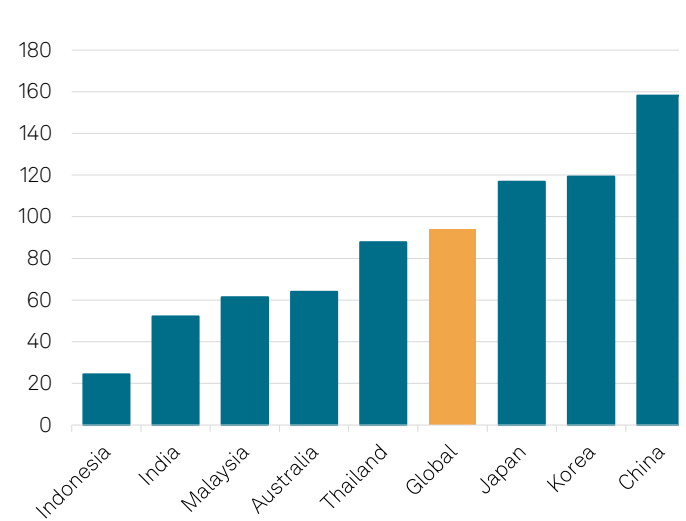
**Asia Currencies Still In The Midst Of Regaining Strength**  
Percentage change in Asia-Pacific currencies from Jan. 1 (%)



Data as of March 20, 2023. Data source: S&P Global Market Intelligence.

Chart 2

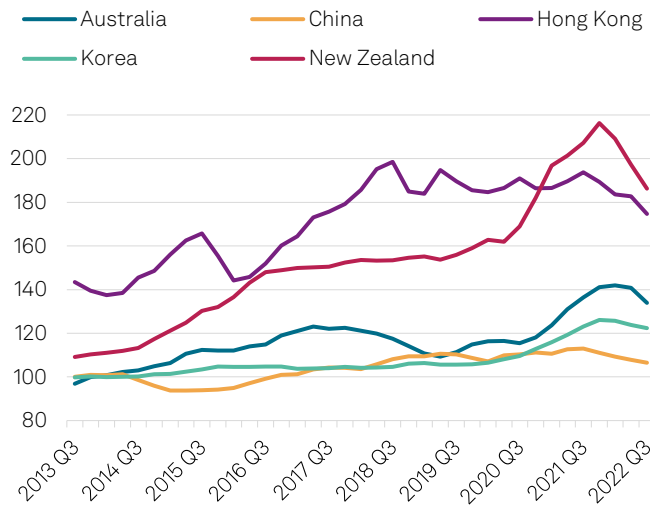
**Corporate Leverage Is High In East Asia**  
Nonfinancial corporate debt to GDP (%)



Data as of September 2022. Data source: Bank for International Settlements. Source: S&P Global Ratings.

Chart 3

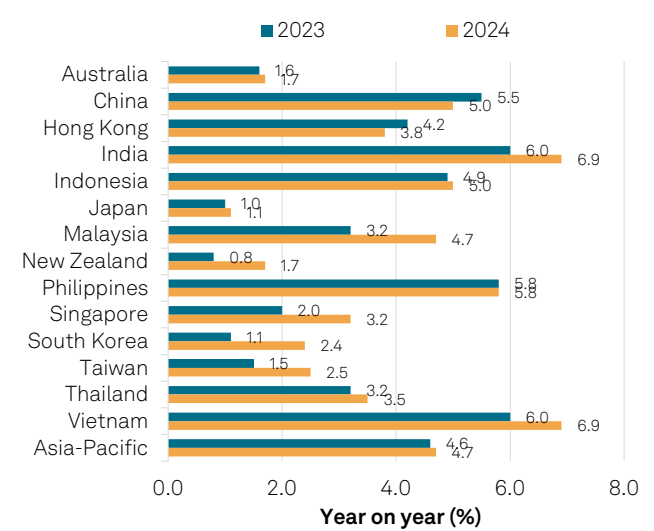
**House Prices Across The Region Take A Dip**  
House price index, 2010 = 100



Data as of September 2022. Data source: Bank for International Settlements. Source: S&P Global Ratings.

Chart 4

**Asia-Pacific: Growth Forecasts**  
Current real GDP forecast (%)



For India, 2023 = FY 2023 / 24, 2024 = FY 2024 / 25. Source: S&P Global Ratings.

## Top Asia-Pacific Risks

### Financing risks: Tightening funding access and steepening borrowing costs to hit business operations and debt serviceability

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

Volatile markets and uncertain economic outlooks could cause lenders and investors to turn more defensive. Fears of rising borrower failures and defaults could send investors seeking higher yields. While domestic funding is continuing, it is selective. Should economies slow sharply, banks may tighten credit. Unhedged debtors are exposed to foreign-exchange volatility. Tighter financing would hit cashflows and squeeze liquidity, particularly of lower-rated and highly leveraged borrowers.

### Economic downturn: The global economy risks a hard landing, further depressing aggregate demand and exports

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

The global macro environment could weaken because of policy missteps, deteriorating business and consumer sentiment, further supply chain disruption, or geopolitical, health and natural disaster shocks. The region is vulnerable to tepid global demand (affecting exports) and weak domestic consumption. Should the U.S. Fed rate hikes intensify, or investors turn more risk averse, capital outflows and currency depreciation could worsen for some economies, compounding recessionary headwinds and external deficits.

### Inflationary pressures: An inability to pass through persistently high prices weighs on already thin profit margins

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

The region is grappling with higher commodity, energy, and food prices, and shortages. Meanwhile, markets such as Australia, India, and the Philippines continue to register high inflation. As corporates (especially small and midsize enterprises [SMEs]) are not fully passing on high input costs due to weak consumer sentiment, a resurgence in inflation could occur. Stresses and defaults will rise if corporates remain unable to pass on costs. The undoing of energy price controls implemented by some governments could result in higher inputs costs for both households and corporates.

### China's recovery: China could face slower than expected growth momentum, and tighter financing risk

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

China's COVID-related challenges have faded with mobility resuming across major cities. However, muted business and household sentiment could slow China's recovery in 2023. Subdued domestic consumption could dampen the services sector, while still fragile confidence could keep property sales subdued--prolonging pain in the property sector. Meanwhile, Beijing's continued policy tightening to rein in leverage risk could hit highly indebted borrowers, such as local government financing vehicles (LGFVs) and some SMEs.

### Geopolitical risk: Increasing tension between China and the U.S. would squeeze the flow of trade, finance, and investment

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

Relations between China and the U.S. (and its allies) remain tense. The strategic confrontation between the U.S. and China over the South China Sea would be detrimental for investment, trade, and supply flows within and outside the area. The U.S.'s recent restrictions on the export of high-end chips to China point to an effort to curtail the latter's tech ambitions. Also, China-Russia's closer political and trade ties are complicating China's relationship with the West. Meanwhile, the U.S.' implementation of the Inflation Reduction Act risks driving a wedge among its allies with industries reshoring operations back to the U.S., hitting trade flows. A partial decoupling of China from the West would reshape supply chains, and financial and investment flows. This would involve an economic cost. China and the U.S. may co-operate in some areas (e.g., climate change).

### Contagion risk: A loss of market confidence from the banking turmoil may hit liquidity, disrupting banking flows and economies

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

Recent troubles for the U.S. regional bank sector and Credit Suisse have shaken confidence. While we have not seen any meaningful contagion spillover into Asia Pacific, second-order effects (tighter financing access and higher risk premia) could hit the region's credit markets and borrowers. Contagion fears may cause stakeholders (depositors, creditors, counterparties, and shareholders) to reduce their exposure to banks not deemed systematically important. The disruption of such banking flows would upset the goods-and-services payment systems and depress consumer spending. Slower global demand could weigh on the region's export-centric economies and borrowers' creditworthiness, weakening asset quality. These developments would increase the risk of hard economic landings or stymied economic recoveries.

## Structural risks

### Climate change: Natural disasters threaten energy and food supply, fanning inflation

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

The frequency of extreme weather events has increased. Droughts and floods threaten agriculture supply. Crop disruptions raise the risk of higher food inflation and increased social unrest. Increasing frequencies of droughts could hit hydroelectricity generation and reduce shipping activity. Within the energy sector, the redirection of funding away from fossil fuel-based power may limit power capacity, adding to energy costs.

### Technology: Digitalization to disrupt business models and rise costs; cyber attacks pose increasing threats

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

Increasing technological interconnectedness mean cyber risk is a systemic threat and significant single-entity risk. Businesses need to incur additional ongoing and rising costs to combat the threat. Businesses that are slow to adapt to current and emerging technologies could see their credit profiles decline. Increasing demand for key minerals, hardware, and software for use in technology could point to higher costs.

Source: S&P Global Ratings.

**Risk levels** may be classified as 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.

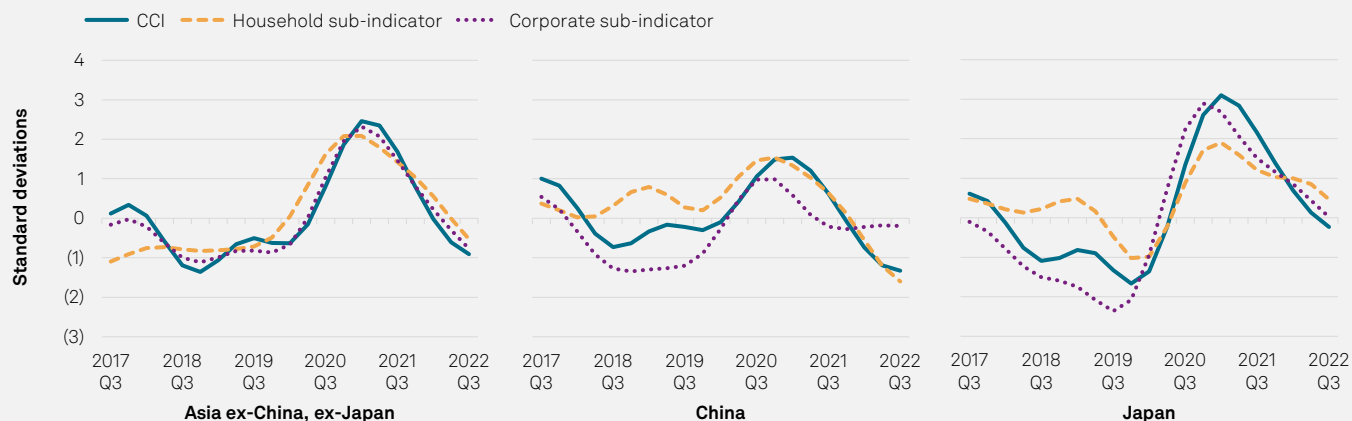
**Risk trend** reflects our current view about whether the risk level could increase or decrease over the next 12 months.

## Credit Cycle Indicator

### Banking Turmoil To Intensify Credit-Correction Effects

Chart 5

#### Slowing Credit To Exacerbate Current Credit Stresses



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.

**Asia-Pacific.** Since the introduction of the Asia ex-China, ex-Japan Credit Cycle Indicator (CCI) in June 2022, we had signaled the risk of heightened credit stress occurring in late 2022 or early 2023. The CCI has been trending downward since its peak in the first quarter of 2021, suggesting a period of credit correction is underway. In particular, the slowdown in credit availability will further exacerbate already-tight funding conditions for borrowers. Likewise, the potential impact of the buildup of nonperforming loans (NPLs) and defaults could linger even further. Outside Asia, property prices are correcting across markets such as Australia and New Zealand. If combined with a pickup in unemployment, this could hit banks' asset quality and households' balance sheets. For more details about our proprietary CCI, see "[White Paper: Introducing Our Credit Cycle Indicator](#)," June 27, 2022.

**China.** After reaching a peak of 1.5 standard deviations in the first quarter of 2021, the China CCI has been trending downward. This decline, driven by the household sub-indicator, reflects a slower pace of household borrowing. China's recent reopening could support the recovery for corporates, especially those dependent on mobility. That said, property sales remain weak--despite a slew of supportive policies--and household caution and subdued consumption may persist.

The recent downward trend in the corporate sub-indicator suggests a credit correction is underway. However, recent reports of late commercial bill payments and bank loan restructurings signal underlying distress (see "[Corporate Top Trends Update: Asia-Pacific Credit Outlook 2023: Sand In The Gearbox](#)," Feb. 21, 2023), and credit events may yet surface. Meanwhile, the Chinese Communist Party's emphasis on financial stability (see "[Credit FAQ: What The 'Two Sessions' Say About Chinese Government Finances](#)," March 20, 2023), suggests a strong stimulus-led recovery may be less likely. That said, China's corporate sector leverage remains a pain point given the low productivity of state-owned enterprises (SOEs; see "[Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap](#)," Sept. 20, 2022). This is a point to watch given the current flattening of the corporate sub-indicator.

**Japan.** The Japan CCI continues to decline from its peak of three standard deviations in first quarter of 2021, reflecting the broad downward trend in both the corporate and household sub-indicators.

Japan's gross nonfinancial corporate debt continues to rise as uncertainties over global economic conditions continue, but the pace has been modest compared with the sharp uptick in 2020 corresponding to the onset of COVID. While a continuous buildup of cash holdings has helped net debt to remain stable or even improve, this cash distribution could be uneven. We expect the Bank of Japan to begin hiking its policy rate this year (see "[Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth](#)," March 27, 2023). A sharp increase in interest rates would exacerbate interest rate burdens in the corporate sector, and squeeze businesses' profitability (see "[Japan's Credit Risks Could Rise With Costlier Financing If Growth Falters](#)," Feb. 23, 2023). Heavily indebted small to midsize enterprises (mostly unrated) are particularly vulnerable with less capacity for additional borrowing and weaker cash build, facing greater risk to creditworthiness.

# Macroeconomic Outlook

## China Rebound Supports Growth

- In China we expect a largely organic recovery this year, led by consumption and services, with growth of around 5.5% exceeding Beijing's unambitious target of "around 5%".
- Other Asia-Pacific economies should slow but not stumble on weaker global growth, the fading out of reopening effects, and higher interest rates.
- Inflation is mostly manageable, with some exceptions. Some central banks will be prodded to raise rates to normalize interest rate gaps with the U.S amid current account deficits.

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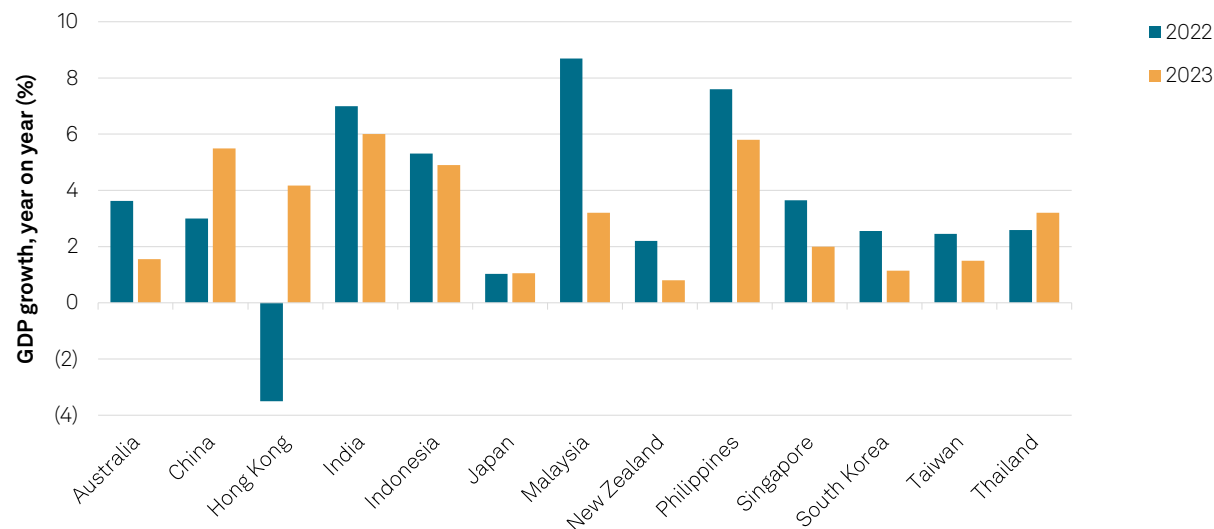
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**The global growth outlook remains subdued; U.S. interest rates will remain high in 2023.** Until recently, economic news and data in the U.S. and the eurozone had been favorable, on balance. But the recent turbulence in the banking sector is likely to weigh on confidence and tighten access to finance. In all, our current growth forecasts for the U.S. and the eurozone are slightly higher than the November ones.

With U.S. sequential core inflation picking up again, we expect policy rates there to increase by another 25 basis points to a peak of 5%-5.25%. This will only start to edge down in early 2024. Taking into account the risk of larger U.S. rate increases, we expect the depreciation pressure on Asia-Pacific currencies to remain for much of 2023.

**China's economy is on track for a growth rebound this year.** We expect the recovery to be largely organic, led by consumption and services and with a gradual improvement in housing activity. Infrastructure investment growth should ease this year as policymakers aim at containing local public debt. Weak export prospects and supply-chain adjustments will weigh on corporate investment. Nonetheless, following the initial bounce-back, growth should become more broad-based, with investment and industrial activity making a meaningful contribution.

Chart 6  
**Growth To Slow In 2023 But Not To Stall**



Source: CEIC, S&P Global Ratings.

**The rest of Asia-Pacific will slow in 2023.** China's recovery will dampen but not offset the impact of the slowdown in the U.S. and Europe on Asia-Pacific. Domestically, the boost to domestic demand from reopening economies eased toward the end of 2022. Also, still sizable inflation and higher interest rates have started to weigh on households' spending power in many economies (in real, price-adjusted terms and after debt servicing).

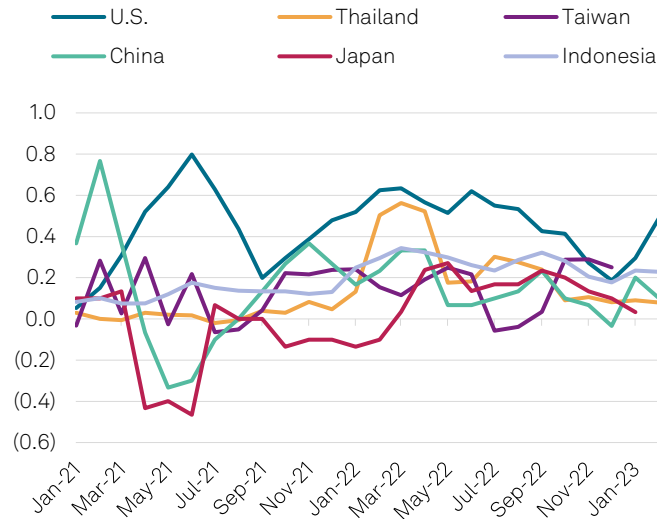
Overall, we maintain our outlook for a slowdown in Asia-Pacific excluding China to 3.8% from 4.7% in 2022, with the deceleration more pronounced in the economies most exposed to slowing global trade and interest rate headwinds (see chart 6).

**The inflation and interest outlook remains mixed.** Core inflation has generally been modest, in sequential terms, in recent months. This reduces the pressure on central banks to raise rates (see charts 7a and 7b). This includes the situation in China and Japan. However, Australia, India, New Zealand, and the Philippines are more prone to rate rises because of elevated core inflation. Underlying inflation also regained momentum in Singapore.

Chart 7a

**Core Inflation Is Generally Under Control...**

Core CPI, 3MMA (%)

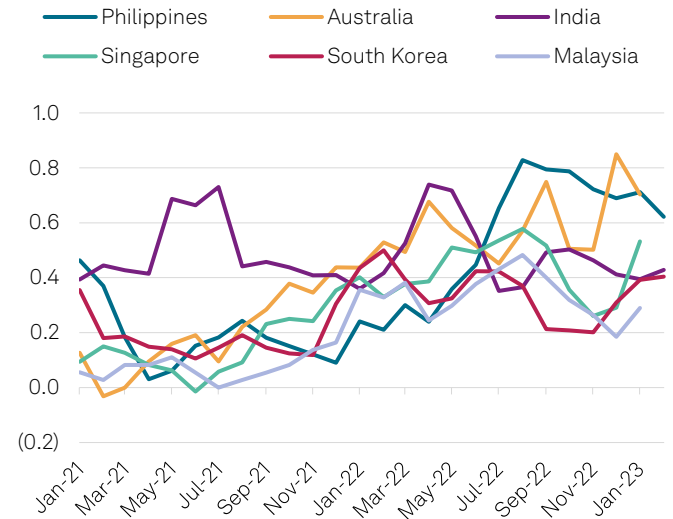


Note: 3MMA--3-month moving average. Source: CEIC, S&P Global Ratings.

Chart 7b

**...But Not Everywhere**

Core CPI, 3MMA (%)



Note: 3MMA--3-month moving average. Source: CEIC, S&P Global Ratings.

**Under our forecast of a further rise in U.S. interest rates, pressure on capital flows and currencies will remain for much of this year.** Several emerging market economies now run (largely moderate) current account deficits. With unfavorable interest differentials with the U.S., financing these deficits may prove challenging, particularly as U.S. interest rates rise. We expect some central banks in the region to raise policy rates to normalize the differentials.

**Key macroeconomic risks include slower global growth and major currency depreciation.** Growth levels that miss our expectations could surface in the U.S., Europe, or China. A notable potential cause would be significant spill-over onto the economy of the banking sector turmoil in the West, if that were to intensify. Severe depreciation could be due to U.S. Fed interest rates staying higher for longer or premature monetary easing in Asia-Pacific.



## Financing Conditions

### Risks Bubbling Underneath A Calm Surface

- Asia-Pacific offshore financing costs increased since the start of the year but remain far lower than they had been at the end of the third quarter of 2022.
- Onshore, local bond market pricing is stable and banks are generally willing to lend. However, loan demand is easing at the same time as risks are rising for banks, which may weigh on their capacity to lend, and capital markets are becoming more selective.
- Despite relative stability in financing costs, global uncertainty has led to slower issuance both offshore and locally, with market access for speculative-grade issuers still very low; spreads are widening.
- Further risk factors could hit market pricing and access, such as a sharp repricing in the market's Fed funds rate expectations, contagion risk from advanced economies or banking systems, or widespread defaults from issuers unable to refinance.

**Recent market turmoil has made the path for offshore financing costs more uncertain.** The collapse of Silicon Valley Bank (SVB) and ensuing pressure on other U.S. banks has triggered a sharp fall in 10-year US Treasury yields, which have dropped by 60 basis points (bps) since the start of March to current levels of around 3.3%. This has been triggered both by demand--as investors sought haven assets--and uncertainty as to whether the Fed can afford to keep rates high amid current market volatility. This drop in benchmark rates has mitigated some of the increase in spreads, keeping Asian dollar-bond yields relatively stable (see chart 8).

However, there is a risk that the decline in benchmark yields is temporary, given that our view remains that the Fed will not be cutting rates until 2024, as opposed to market pricing that suggests cuts as soon as the second half of 2023. Meanwhile, capital flows have so far been positive in the first two months of the year, and currencies have appreciated across the board since the third quarter of 2022 (see chart 9). But if demand for safe haven assets broadens much more, the currency trend could reverse.

**Beneath benign yields, credit spreads are rising and have given up all 2023 gains.** The current turmoil and fears of contagion--not fully evident yet in Asia-Pacific--has led to a risk-off tone across markets with a corresponding increase in credit spreads. Spread widening following the collapse of SVB--22bps for the iBoxx AXJ USD IG OAS and 226bps for the iBoxx ASJ USD SG OAS--has undone the steady tightening in early 2023. While spreads are still well below the recent peaks of 230bps and 1867bps reached in early November, the risks are to the downside if signs of contagion or more lasting damage to the macro outlook lead to further widening.

**While uncertainty hangs over offshore financing costs, local currency funding is still available.**

In the big domestic bond markets, bond yields are still fairly low in China and Japan and have even fallen since the third quarter of 2022, in Australia and Korea. Across the region, banks have generally been willing to lend. But loan demand has been easing, in part due to central bank tightening of lending rates, as well as slowdowns in the property sectors in a few geographies.

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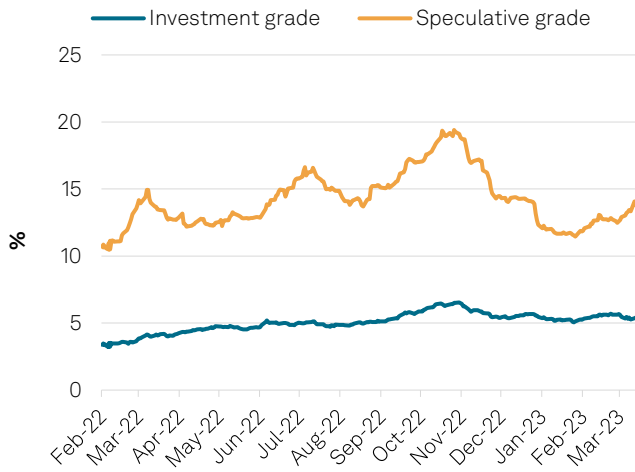
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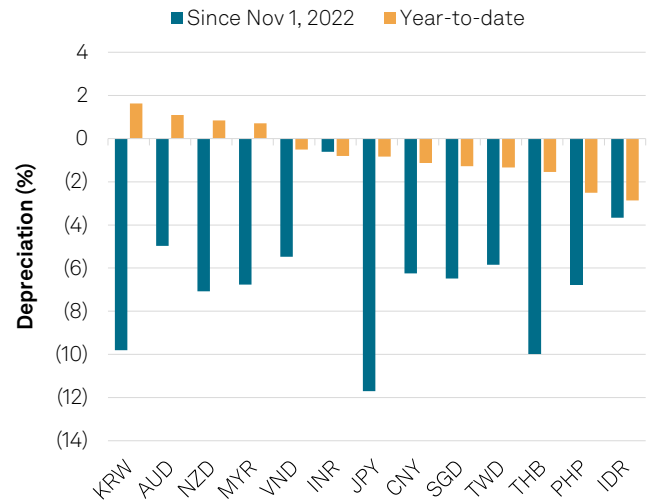
**Against an uncertain backdrop, issuance volumes are already under pressure.** Year-to-date, Asia-Pacific onshore and offshore issuance volumes are at their weakest in four years. Speculative-grade issuers' access to offshore borrowing remains largely shut. This poses dollar refinancing risks for that set of borrowers if the lack of access persists until late this year and into the next, when refinancing needs will increase. Financial institutions (FI) issuance--a significant component of investment-grade issuance--is also unlikely to pick up meaningfully while uncertainty hangs over the global banking sector. Against this challenging capital markets backdrop, the availability of bank funding remains a key mitigant. But financial and economic contagion risks from advanced economies could potentially lead to much more selectivity by banks as well.

Chart 8  
Asia Ex-Japan U.S.-Dollar Bonds' Yield To Maturity



Source: S&P Global Market Intelligence. Data as of March 23, 2023.

Chart 9  
Asia-Pacific Currency Movements



Source: S&P Global Market Intelligence and S&P Global Ratings Credit Research and Insights. Data as of March 23, 2023.

## Sector Trends

### Caught In Global Crosswinds

- **Bank turmoil shakes confidence.** Following the recent bank failures and rescues of some regional U.S. banks and Credit Suisse, we perceive that some investors and depositors have diminished confidence in banks' risk management and regulatory oversight. This is mainly in developed markets and has generally not spilled over into Asia-Pacific.
- **Financing conditions sour.** With the era of low interest rates and easy money coming to an end, borrowers could see funding access tighten sharply. While domestic financing remains available, it is increasingly selective. While the net rating outlook bias remains steady at negative 3% as of end-February 2023, a confluence of headwinds arising from tepid global demand and high input prices could limit ratings headroom.
- **China reopens.** The lifting of COVID restrictions in China earlier this year supports a general recovery across sectors. That said, subdued confidence and weak demand could put that recovery at risk.

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### What's changed?

**Regional U.S. bank failures reverberate globally.** The proximate causes of the recent troubles for U.S. regional banks and Credit Suisse have shaken confidence. A contagion spillover into Asia-Pacific is not impossible; the reaction of liability-holders is difficult to predict. However, in our view a similar occurrence is much less likely. The region's banks tend to be conventional, broad-based commercial and retail lenders, typically with diversified deposit bases and less exposure to complex business lines.

**China's recovery.** The abrupt removal of COVID restrictions have supported China's return to normality, including a pickup in mobility. However, the recovery path could be fragile amid subdued domestic consumption and weak external demand (see "[Economic Research: The Case For Cautious Optimism On China's Rebalancing And Openness](#)," March 13, 2023). Meanwhile, the recent Two Sessions signal continuing focus on financial system stability. Beijing's wish to rein in leverage risk could hit local government financing vehicles (LGFVs) as they seek to refinance existing debt (see "[China's Local Governments Are Shedding Their Ties To Struggling SOEs](#)," March 2, 2023).

### Key risks

**Funding access risks become tighter and more uneven.** Asia-Pacific could see more difficult funding access given the ongoing banking turmoil. With lenders, investors, and depositors turning risk averse, demand for higher-risk premiums could hit market liquidity, foreign-exchange rates, and capital flows. For borrowers, narrowing cross-border issuance is prompting a shift toward domestic funding channels (including bank loans). However, banks could turn selective and curtail lending amid heightened concerns of economic slowdown.

**Higher inflation for longer.** The region's inflation woes persist, particularly in Australia, India, and the Philippines. Despite cooling commodity and energy prices, still-prevalent domestic currency weaknesses are keeping imports costly. The undoing of energy price controls previously provided by some governments (to support households and businesses) could exacerbate consumer inflation, with the effects reverberating through the value chain. Waning global demand and weak consumption could limit corporates' ability to fully pass on higher prices to their customers. Coupled with costlier borrowings, some nonfinancial corporates could face default pressures (see "[Corporate Top Trends Update: Asia-Pacific Corporate Credit Outlook 2023](#)," Feb. 21, 2023).

## Key assumptions

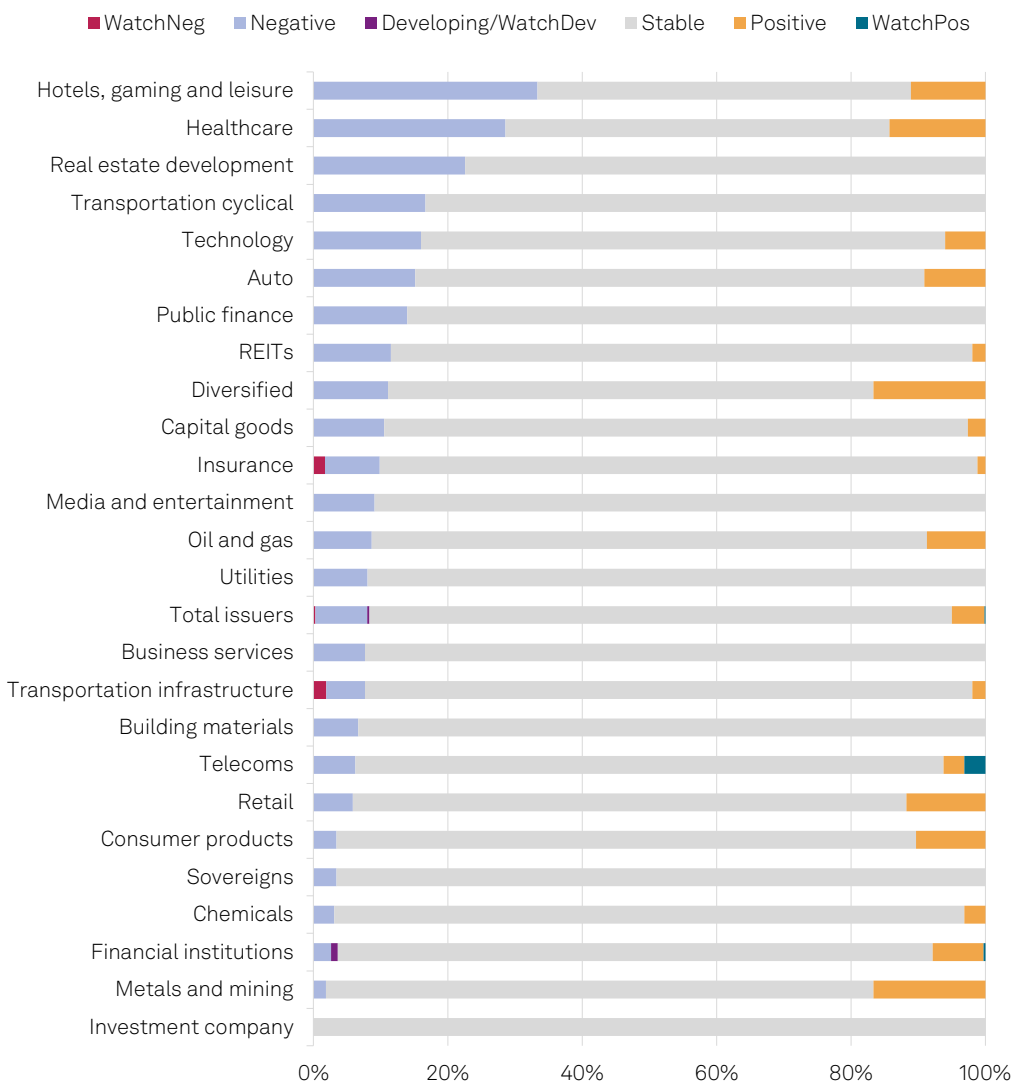
**Limited impact from current global banking confidence challenges.** A meaningful contagion spillover into Asia-Pacific from ongoing troubles for the U.S. regional bank sector and Credit Suisse is unlikely.

## What to look for

**Economic hard landing and contagion spillovers.** Caution is building up among the region's investors and lenders. Fears of sharp economic slowdown and spreading contagion may prompt credit contraction. Highly leveraged or lower-rated issuers could see liquidity and cashflow weaken. Faced with costlier borrowings, these credit stresses could morph into defaults.

Chart 10

Net Outlook Bias Distribution Of Asia-Pacific Issuers By Sector, Feb. 28, 2023



Data cut-off is at Feb. 28, 2023. Source: S&P Global Ratings.

## Nonfinancial Corporate

### Cooling Export Markets Offset Recovering Domestic Operations

- The wedge is growing between regional exporters exposed to cooling demand in Western markets and domestic-focused firms benefiting from normalizing conditions post-COVID, especially in China.
- The full-year effect of higher borrowing costs will be felt in 2023.
- While our base case assumes no sharp credit tightening or contagion from the banking turmoil, access to U.S.-dollar funding and domestic bank funding could turn uneven and selective throughout 2023.

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#### What's changed?

**Growing wedge between domestic-focused firms and exporters.** Domestic operating conditions are slowly normalizing now that COVID-19 measures have been lifted in all major Asian economies. Steady domestic consumption largely underpins our economists' 4.6% 2023 GDP growth forecast in Asia-Pacific as exports cool. We believe domestic-focused sectors that haven't fully recovered from pandemic restrictions--physical retail, hospitality, tourism, transport, and certain categories of consumer products--will continue to benefit modestly from these trends, especially in China. On the other hand, exporters in the manufacturing sector with high exposure to cooling demand in the U.S. and Europe are likely to experience more difficult volume and pricing conditions. In China, these include heavy-duty trucks, construction machinery, and consumer electronics; in Vietnam, electronics, machinery and textile manufacturers; and in Malaysia, electronics and component producers.

**Ratings are stabilizing at lower levels.** The downside rating and outlook bias--a prevailing credit feature of 2022--has lessened since the beginning of the year. The share of issuers rated 'B+' and below has steadily dropped to about 9% from nearly 15% a year ago following a wave of debt restructurings, and some rating withdrawals. Forward downside rating potential has also reduced. About 10% of rated Asia-Pacific corporate issuers had a negative outlook as of March 20, 2023, compared with over 15% a year ago. Japan has the highest proportion of negative rating outlooks in the region: almost 19%. The sectors with the highest share of negative outlooks are gaming and leisure, health care, and real estate.

#### Key risks

**A more pronounced slowdown in Western economies.** That risk is more relevant for export-oriented sectors (capital goods, machinery, autos, electronics, textile) and could yet hit upstream commodity producers that have, so far, withstood cooling global growth quite well. Persisting inflation could also compound the effect of weaker global growth.

**Sharp credit tightening.** Our current base case is that recent banking turmoil across the U.S. and Switzerland will not have a significant impact on the credit available to the Asia-Pacific corporate sector. Our base case also assumes that capital providers in the region will remain selective and continue to favor larger and more conservatively managed firms over smaller firms with weaker credit fundamentals. Yet, further negative headlines and signs of contagion to Asian capital providers will squeeze funding conditions. This would exacerbate already complicated refinancing strategies, especially for weaker borrowers.

## Key assumptions

**Lingering inflation.** Recent financial releases from rated companies in Asia are showing persistent signs of margin compression. Raw materials, energy, transportation, and, increasingly, labor costs continue to rise despite the moderation in commodity prices. We are likely to observe more significant margin compression in the light manufacturing, agribusiness, retail, merchant power, infrastructure, transportation cyclical, capital goods, and autos sectors.

## What to look for

**Funding availability and offshore issuance trends.** Especially potential contagion risk to Asia-Pacific capital providers and the impact of funding access and higher for longer borrowing costs and risk premia.

## Financial Institutions

### Banking Sector Volatility May Chart The Course

- Much weaker growth and higher rates outside our base case will test rating outlooks. A significant escalation of banking sector stress in the U.S. regional bank sector, or in Europe after the Credit Suisse takeover, could transmit to Asia-Pacific.
- Some Japanese banks, which have large holdings of U.S. government bonds, are among the most exposed to weakened market sentiment, but not to the extent where we anticipate any imminent negative rating changes.

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#### What's changed?

**Recent stress impacting U.S. and European bank names could spill over, though less likely.** We believe the direct exposures of Asia-Pacific banks to SVB, and Credit Suisse's additional Tier-1 Instruments are negligible. Most Asia-Pacific banks can absorb contagion effects from global banking stresses at current rating levels, unless risks intensify significantly.

**Economic pressures are building but are still manageable.** The weaker global economic growth outlook, high interest rates, and tight financial conditions would increasingly strain banks. Lenders in Asia-Pacific have shown resilience so far.

#### Key risks

**Economic downside risks intensify.** Banks' net interest margins benefit from higher interest rates, but materially weaker economic prospects or higher-for-longer interest rates will eventually hurt banks' asset quality. A much weaker economic outlook, superimposed upon already-highly leveraged corporate, household, and government sectors, and a property market experiencing pockets of stress, could manifest negatively for Asia-Pacific financial institutions.

**Weaker confidence.** A significant escalation of global banking turmoil, or greater contagion spillover, could side-swipe otherwise sound Asia-Pacific banks.

**Greater credit differentiation.** Asia-Pacific financial institutions with high direct exposures to weak counterparties or sectors, or that are inherently weaker and non-systemically important are more vulnerable. Greater credit divergence could result from worsening contagion.

#### Key assumptions

**Our current economic base case will hold.** A material deterioration outside our base case outlook for economic conditions will test banks.

**Asia-Pacific governments will remain supportive.** Extraordinary government support will be extended to many systemically important banks in the unlikely event it was required.

**Banking sector risks ex-region does not intensify.** Spillover into Asia-Pacific, if risks ex-region are worse than anticipated, could change our base case for relative ratings stability.

#### What to look for

**Severity and timing.** A significant escalation of banking sector stress or a more severe or prolonged downturn may accelerate the onset of negative ratings momentum.

## Insurance

### Restoring Revenue Amid Volatile Earnings

- Credit trends remain stable, though market strains could create volatility.
- Capital market and foreign-exchange swings could squeeze capital and earnings.
- A normalization in mobility after the lifting of COVID controls may facilitate growth.

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#### What's changed?

**Zero-COVID policies end.** The returning social mobility will aid premium recovery. For Hong Kong, China's exit from COVID restrictions could see a resurgence in cross-border insurance purchases. Meanwhile, the shift to regular premium policies by the life insurers could see dips in premiums, though temporarily.

**Earnings to dim.** For the non-life insurers, slowing economic growth could depress commercial insurance as trade activity slips. We anticipate a hike in reinsurance costs amid extreme weather could dent insurers' underwriting profits.

#### Key risks

**Contagion spillovers.** Second-order effects from the banking turmoil could result in greater market volatility, hitting insurers' investment portfolios. While direct exposure to the banking sectors of the U.S. and Switzerland is small, some insurers may have concentrated counterparty exposure.

**Narrowing insurance margin.** Rising reinsurance costs could weigh on non-life insurers' profit margins if they are unable to fully pass this expense to customers. Global climate change and rapid urbanization across emerging Asia could result in higher catastrophe losses.

#### Key assumptions

**Market volatility could dent capital and earnings.** Challenging capital market and rising foreign-exchange hedging cost could hit earnings. In particular, the still-high interest rate differentials (for example, the gap between U.S. rates and those of Japan and Taiwan) will keep hedging costly. Except for China, rate hikes across the region could dent asset valuations and result in unrealized losses. While pressure for higher reserve provisioning may ease from higher interest rates (except China), prolonged equity market volatility could dilute capital buffers. We anticipate that the higher rates will help with asset-liability management for insurers with legacy high guarantees (such as Taiwan, Korea, and Thailand).

#### What to look for

**Regulatory and accounting framework updates.** These signify prospective changes in business and investment strategies, resulting in rising operational costs. Insurers may increase debt to supplement capital, hiking leverage. These updates could also lead to significant change in financial positions.



## Public Finance

### Fiscal Divergence Amid Persistent External Challenges

- Inflation and rate hikes will weigh on local and regional governments (LRGs) and their associated enterprises.
- China will keep high capital spending to ensure its recovery in 2023, while gradually transitioning to a consumption-led recovery alongside fully reopened borders.
- Local governments in Australia and New Zealand are using large infrastructure projects to stimulate economies; the practice will persist until at least 2023.

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#### What's changed?

**China policies aim at restoring market confidence.** The country exited its stringent COVID controls in December 2022, while also easing funding measures for the property sector, which has been in a downturn.

#### Key risks

**Economic shock.** Persistent 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, an "L-shaped" property correction and geopolitical disputes will constrain its recovery and stymie trade flows within global supply chains.

**Delayed fiscal recovery.** To counter the GDP slowdown and restore confidence, some LRGs may push forward aggressive fiscal stimulus that would disrupt their fiscal recovery and lift debt.

#### Key assumptions

**Manageable inflation and rising rates in most regions.** This will allow most regions to gradually revive their fiscal performance.

**Chinese LRGs are balancing risks with growth.** China's growth will be largely linked to a gradual recovery of consumption and services, while retaining immediate large fiscal flexibility to ensure a smooth recovery. On the other hand, China will also fortify risk controls, involving a higher tolerance of local SOE defaults. This will serve as a signal to LRGs to shrink sizable SOE debt.

#### 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 may add to leverage if they let their SOEs use debt to stimulate local economic growth, while also committing to support the entities in a stress scenario. China's increased tolerance of SOE defaults, meanwhile, may stymie or otherwise disrupt local economies. The Three Waters Reform in New Zealand may alter its public finance system as details are disclosed in upcoming legislation. Delays to the legislation underpinning this reform may push back its launch date, now slated for July 2024.

## Sovereign External Uncertainties Increase

- Coming on top of the war in Ukraine, recent instability in the U.S. banking sector has added to global uncertainties even as the region shakes off most pandemic effects.
- The recovery from COVID should continue despite these problems.

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### What's changed?

**Uncertain interest rate outlook.** While expectations of further monetary policy tightening have eased recently, risk aversion may worsen the financing conditions of some emerging market sovereigns if financial instability is not contained in advanced markets.

**COVID restrictions are no longer an important impediment to growth.** Border controls have continued to normalize, allowing a return of tourism and business across the region. Rebounding activity and job market improvements have reduced fiscal burdens on governments.

### Key risks

**Sudden capital swings.** An unexpected deterioration of financial stability, geopolitical risks or interest rate expectations could see investors withdraw from emerging markets in Asia-Pacific, making financing conditions significantly more challenging for some.

**Growth and fiscal recoveries seriously interrupted.** Rebounding energy prices, 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 and financing conditions weaken, but not so sharply that it creates financial volatility in Asia-Pacific.** Uncertainties associated with the recent U.S. banking sector instability could weigh on investments.

**Current account balances in most economies should improve,** especially if energy prices fall further with global economic uncertainties.

**We still expect some governments to meaningfully lower fiscal deficits,** 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 price increases. Knocks on economies and financial markets in Asia-Pacific may worsen significantly.

**How well governments in the advanced economies contain potential sources of financial instability will affect Asia-Pacific credit conditions.** The task of stabilizing the affected financial systems could become more complicated if inflation remains high, triggering tighter monetary policy actions.

## Structured Finance

### Employment, Household Balance Sheets Support Stable Outlook

- Unemployment remains at low levels and stable across most markets, supporting our broadly stable outlook for consumer asset classes.
- Mixed outlooks in the region in relation to interest rates, and inflation, as well as the impact of China's removal of COVID restrictions.

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#### What's changed?

**Risks remain in China's housing market.** We expect property sales and home prices to face challenging conditions as homebuyer confidence is tested.

**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 to continue.

#### Key risks

**Effect of interest rates, inflation, and slower growth on consumers.** Households are well placed, with high and stable employment across most markets in the region. Inflation dynamics are mixed across markets. Price pressures in higher inflation markets are starting to be felt by households and purchase decisions and early signs suggest some pullback in discretionary spending. Interest rates have increased in some markets across the region, and we expect housing markets to further 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.

#### 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 residential mortgage-backed securities (RMBS).

#### What to look for

**Prepayment rates and consumer asset delinquencies.** We expect delinquencies to increase in Australia and New Zealand RMBS as interest rate rises start to take effect, although we expect this be more apparent in the second half of the year. Prepayment rates and consumer asset-backed securities (ABS) delinquencies may give some early insight into household resilience.

**Activity in China.** We expect that there may be modest growth in issuance in structured finance instruments following the rapid shift in COVID-19 related policies late last year.

## Related Research

- [Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth](#), March 27, 2023
- [Credit Conditions Asia-Pacific Special Update: Why Asia-Pacific Banks Are Shielded From Current Turmoil](#), March 22, 2023
- [Credit FAQ: What The "Two Sessions" Say About Chinese Government Finances](#), March 20, 2023
- [SVB Default And Asia-Pacific Banks: Secondary Effects Are The X-Factor](#), March 16, 2023
- [Economic Research: The Case For Cautious Optimism On China's Rebalancing And Openness](#), March 13, 2023
- [Sovereign Debt 2023: Asia-Pacific Central Government Borrowing To Fall Below US\\$4 Trillion](#), March 9, 2023
- [China's Local Governments Are Shedding Their Ties To Struggling SOEs](#), March 2, 2023
- [Japan's Credit Risks Could Rise With Costlier Financing If Growth Falter](#)s, Feb. 23, 2023
- [Corporate Top Trends Update: Asia-Pacific Credit Outlook 2023: Sand In The Gearbox](#), Feb. 21, 2023
- [White Paper: Introducing Our Credit Cycle Indicator](#), June 27, 2022

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## Appendix 1: Ratings Trends

Table 1  
Net Outlook Bias Of Asia-Pacific Issuers By Sector, Feb. 28, 2023

	Feb. 2022	May 2022	Aug. 31, 2022	Oct. 31, 2022	Feb. 28, 2023	No. of entities	Notional average rating
Auto OEM and suppliers	-3%	-3%	0%	0%	-6%	33	BBB
Building materials	-7%	-14%	-8%	-7%	-7%	15	BBB-
Business services	-23%	-17%	-15%	-8%	-8%	13	BB+
Capital goods	-29%	-19%	-11%	-11%	-8%	38	BBB
Chemicals	0%	0%	3%	0%	0%	32	BBB
Consumer products	-8%	-11%	-4%	-3%	7%	29	BBB
Diversified	20%	0%	0%	0%	6%	18	A-
Healthcare	-11%	-22%	-13%	-29%	-14%	7	BB
Hotels, gaming, and leisure	-19%	-24%	-15%	-20%	-22%	18	BB
Investment company	0%	0%	0%	0%	0%	7	A
Media and entertainment	-20%	-20%	-22%	-11%	-9%	11	BBB
Metals and mining	9%	9%	11%	12%	15%	54	BB+
Oil and gas	-26%	-17%	-9%	-4%	0%	23	BBB+
Real estate development	-32%	-39%	-32%	-28%	-23%	31	BB+
Real estate investment trusts	-12%	-13%	-13%	-13%	-10%	52	BBB+
Retail	-31%	-19%	-6%	-6%	6%	17	BBB
Technology	0%	-2%	0%	-5%	-10%	50	BBB
Telecommunications	-7%	-10%	-10%	0%	0%	32	BBB
Transportation cyclical	-11%	-17%	-17%	-17%	-17%	18	BBB
Transportation infrastructure	-7%	-10%	-3%	-4%	-6%	52	A-
Utilities	-4%	-5%	-6%	-6%	-8%	99	BBB+
<b>Total corporates</b>	<b>-9%</b>	<b>-10%</b>	<b>-7%</b>	<b>-6%</b>	<b>-5%</b>	<b>649</b>	<b>BBB</b>
Financial institutions	3%	-1%	3%	6%	5%	383	BBB+
Insurance	-3%	-2%	-11%	-11%	-9%	172	A
Public finance	-13%	-13%	-12%	-9%	-14%	86	AA-
Sovereign	-7%	-7%	-7%	-7%	-3%	29	BBB+
<b>Total issuers</b>	<b>-5%</b>	<b>-7%</b>	<b>-5%</b>	<b>-3%</b>	<b>-3%</b>	<b>1,319</b>	<b>BBB+</b>

Note: 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.

Teal colored cells indicate improvement from prior period, red, deterioration.

Source: S&P Global Ratings.

## Appendix 2: Economic Data and Forecast Summaries

Table A1

### Australia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.7	1.6	1.7	2.5	2.3
Inflation %	6.6	6.2	3.9	3.2	2.7
Unemployment rate %	3.7	4.0	4.3	4.3	4.3
Policy rate % (EOP)	3.10	3.85	3.35	2.85	2.60
Exchange rate (US\$ per A\$)	0.66	0.67	0.69	0.71	0.72

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

Source: S&P Global Ratings.

Table A2

### China--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.0	5.5	5.0	4.7	4.5
Inflation %	2.0	2.3	2.7	2.2	2.2
Unemployment rate %	5.5	5.4	5.2	5.1	5.1
Exchange rate (US\$)	7.12	6.86	6.65	6.49	6.36

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

Source: S&P Global Ratings.

Table A3

### Hong Kong--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	-3.5	4.2	3.8	2.7	2.3
Inflation %	1.9	2.5	2.6	2.1	2.1
Unemployment rate %	4.3	2.9	2.8	2.8	2.8
Exchange rate (US\$)	7.82	7.80	7.75	7.75	7.75

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

Source: S&P Global Ratings.

Table A4

India--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.0	6.0	6.9	6.9	7.1
Inflation %	6.8	5.0	4.3	4.4	4.7
Policy rate % (EOP)	6.50	6.25	5.25	5.00	5.00
Exchange rate (US\$)	82.00	83.00	83.50	85.00	86.50

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

For India, 2022 means fiscal 2022/2023 (year ending March 31, 2023); 2023 means fiscal 2023/2024 (year ending March 31, 2024); and so forth.

Source: S&P Global Ratings.

Table A5

Indonesia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	5.3	4.9	5.0	5.1	5.1
Inflation %	4.2	4.1	3.6	3.5	3.5
Unemployment rate %	5.8	5.4	5.3	5.3	5.2
Policy rate % (EOP)	5.50	5.75	5.25	5.00	5.00
Exchange rate (US\$)	15,569	15,600	15,500	15,400	15,400

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

Source: S&P Global Ratings.

Table A6

Japan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	1.1	1.0	1.1	1.1	1.0
Inflation %	2.5	2.8	1.8	1.5	1.2
Unemployment rate %	2.6	2.6	2.5	2.5	2.5
Policy rate % (EOP)	-0.07	0.10	0.20	0.25	0.25
Exchange rate (US\$)	143.30	130.80	123.10	117.00	112.40

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

Source: S&P Global Ratings.

## Credit Conditions Asia-Pacific Q2 2023: Still Steady, Banking Turmoil Risk Is Moderate Here

Table A7

### Malaysia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	8.7	3.2	4.7	4.5	4.3
Inflation %	3.4	2.8	2.4	2.4	2.2
Unemployment rate %	3.8	3.6	3.4	3.3	3.3
Policy rate % (EOP)	2.75	3.00	2.75	2.75	2.75
Exchange rate (US\$)	4.41	4.40	4.35	4.21	4.10

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

Source: S&P Global Ratings.

Table A8

### New Zealand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.2	0.8	1.7	2.5	2.6
Inflation %	7.1	6.0	3.4	2.6	2.5
Unemployment rate %	3.3	4.0	4.7	4.5	4.5
Policy rate % (EOP)	4.25	5.75	4.50	3.50	3.50
Exchange rate (US\$ per NZ\$)	0.60	0.61	0.62	0.63	0.65

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

Source: S&P Global Ratings.

Table A9

### Philippines--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.6	5.8	5.8	6.5	6.4
Inflation %	5.8	6.2	3.2	3.3	2.9
Unemployment rate %	5.4	4.6	4.6	4.2	4.1
Policy rate % (EOP)	5.50	6.50	4.75	4.00	4.00
Exchange rate (US\$)	57.40	54.10	52.80	51.20	50.80

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

Source: S&P Global Ratings.



Table A10

Singapore--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.6	2.0	3.2	3.0	3.0
Inflation %	6.1	5.0	3.0	2.4	2.3
Unemployment rate %	2.1	2.2	2.1	2.1	2.0
Exchange rate (US\$)	1.34	1.33	1.32	1.30	1.30

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

Source: S&P Global Ratings.

Table A11

South Korea--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	1.1	2.4	2.3	2.0
Inflation %	5.1	3.8	2.7	2.1	2.0
Unemployment rate %	2.9	3.1	3.0	3.0	3.0
Policy rate % (EOP)	3.25	3.50	2.75	2.50	2.50
Exchange rate (US\$)	1,366	1,291	1,215	1,155	1,109

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

Source: S&P Global Ratings.

Table A12

Taiwan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.5	1.5	2.5	2.6	2.6
Inflation %	2.9	2.6	1.1	0.8	0.5
Unemployment rate %	3.7	3.6	3.5	3.5	3.5
Policy rate % (EOP)	1.75	2.00	2.00	2.00	2.00
Exchange rate (US\$)	30.71	30.90	30.50	30.10	29.70

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

Source: S&P Global Ratings.

## Credit Conditions Asia-Pacific Q2 2023: Still Steady, Banking Turmoil Risk Is Moderate Here

Table A13

### Thailand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	3.2	3.5	3.3	3.2
Inflation %	6.1	3.1	1.1	0.7	0.6
Unemployment rate %	1.3	1.2	1.1	1.0	1.0
Policy rate % (EOP)	1.25	2.25	2.00	2.00	2.00
Exchange rate (US\$)	34.56	34.80	34.30	33.90	33.50

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

Source: S&P Global Ratings.

Table A14

### Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2022	2023f	2024f	2025f	2026f
Asia Pacific	3.9	4.6	4.7	4.6	4.5
Eurozone	3.5	0.3	1.0	1.7	1.6
EM-Latam	3.6	0.9	1.9	2.2	2.2
U.S.	2.1	0.7	1.2	1.8	2.0

Asia-Pacific GDP growth numbers are based on current purchasing power parity GDP weights.

EM-Latam includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Aggregates are weighted by PPP GDP (2017-2021 average) share of total. f--Forecast.

Source: S&P Global Ratings.

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