

# Enduring Risks

March 28, 2023

*This report does not constitute a rating action*

## Key Takeaways

**Overall: Credit conditions in emerging markets (EMs) will remain under pressure through 2023, despite some positive factors.**

Slower economic activity along with stubborn inflation and rising financing costs will undermine corporates' and households' payment capacity. EM sovereigns are also withdrawing support measures linked to the pandemic to pursue fiscal consolidation. Finding the right balance will be challenging, with social demands on the rise as households remain in a fragile position amid continuously high prices.

On a positive note, supply chains continue normalizing, which should help ease logistics costs. China's reopening may also support some EMs, and S&P Global's Purchasing Managers' Index (PMIs) continues to improve.

**Risks: The balance of risks for EMs remains on the downside.**

Despite recent financial stability issues surfacing after the collapse of Silicon Valley Bank (SVB), we expect the U.S. Federal Reserve Bank (the Fed) will remain focused on its key objective of curbing inflation, which will likely be reflected in tighter financing conditions in 2023.

Inflation also remains above central bank targets in most key EMs, and although we expect it to reduce during the year, high prices will likely linger. A sustained rise in interest rates, coupled with cost pressure and potential liquidity shortfalls, will continue weighing on EM issuers' fundamentals.

**Credit: Rating trends show that EM issuers have not fully recovered from the shocks** stemming from the pandemic and the war in Ukraine. Current conditions will likely be reflected in further weakening of credit quality across key EMs.

Editor's Note: We updated this report on March 30, 2023, to clarify on page 10 that Turkiye's central bank lowered its policy rate to 8.5% and not to 8.0% as previously stated. 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 rating impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Emerging Market committee on March 22, 2023.

## Regional Credit Conditions Chair

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## Top EM Risks

### Financing conditions progressively tighten as rates stay higher for longer

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

The Fed could tighten further if U.S. inflation remains high. Despite recent financial stability issues after SVB's collapse, we expect the Fed will remain focused on curbing inflation. We now expect the Fed funds rate to peak at 5.25% and stay there through 2023, albeit there is increasing uncertainty about how Fed rates will evolve. Further contagion from the turmoil in financial systems might prompt a pause in the hiking cycle and earlier monetary easing. Lack of clear policy direction or continually high interest rates could make financing conditions tougher for EM issuers, restricting market access and pushing up financing costs. Yet early easing of U.S. monetary policy could also signify a hard landing, and a deep recession in the U.S. could have a relevant impact on economic activity across EMs, particularly those with close trade links with the U.S.

### Stubborn inflation and rising labor costs squeeze corporate margins

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

Inflation remains above central bank targets in most key EMs. We expect it to reduce during the year, but high prices will likely linger. Certain factors could result in stubborn inflation over the coming quarters, including steep wage hikes and its effect on services prices, and a rise in food prices. Furthermore, the Fed's monetary tightening could weaken EM currencies, which could amplify inflationary pressures. Corporates' capacity to pass through higher costs to customers is ebbing, due to households' decreasing purchasing power. If this continues, corporate margins could shrink further, households' credit quality will weaken, pressure on sovereigns will build, and ultimately banks' asset quality indicators would suffer. For many EM sovereigns, financing costs could rise and political pressure to stem commodity and energy prices will likely diminish their fiscal leeway.

### A sharper-than-expected downturn in advanced economies weighs on global trade

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

Sharply rising interest rates have caused global jitters, and sustained inflation and tight financing conditions are undermining issuers. A sustained rise in interest rates, coupled with cost pressure and potential liquidity shortfalls, will continue weighing on issuers. That could lead to bankruptcies, layoffs, and ultimately slower activity, although we currently expect a mild recession in many advanced economies. A deeper-than-expected recession could hurt key EM exporters by reducing trade, portfolio flows, and foreign direct investment. Slower economic activity could imperil their corporate sectors' fundamentals and banks' asset quality. Unemployment could rise, hitting households already burdened by inflation.

### Increasing geopolitical tensions and difficult domestic socio-political conditions erode credit fundamentals

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

The Russia-Ukraine conflict will likely continue this year. Russia is running out of leverage as Europe has significantly reduced its reliance on Russian gas and other exports, although it has retained some of its oil export revenue. Ukraine will find it difficult to keep up with the conflict if aid from allies wanes. Both countries' role in key commodity markets will keep energy and food prices under pressure, which could undermine confidence and growth in EMs. This could also fuel tensions and trigger social unrest, particularly for EMs with limited fiscal space or high debt, such as in the Middle East and Africa.

### China's recovery: 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 its recovery in 2023. Subdued domestic consumption could dampen the services sector, while still fragile confidence could constrain property sales, prolonging the pain in the real estate sector. Meanwhile, Beijing's continued policy tightening to rein in leverage risk could hit highly indebted borrowers, such as local government financing vehicles and small and midsize enterprises. These developments will affect EM countries reliant on China for tourism, exports, imports (product components), finance, or the supply chain.

## Secular risks

### Climate change and rising adaptation costs

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

Larger, more frequent natural disasters increase physical risks for public- and private-sector entities and threaten to disrupt supply chains such as for agriculture and food in some EMs. EMs near the equator are particularly exposed to heatwaves and droughts as global warming increases, while island states are set to face more frequent storms and exposure to higher sea levels. At the same time, stepping up adaptation to climate change may represent an additional fiscal burden for the most vulnerable countries and higher costs for private-sector entities.

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.

## Regional Credit Conditions

### EM credit conditions remain under pressure

**Credit conditions will remain tight across EMs through 2023, despite some positive factors.**

The circumstances that helped corporates, households, and banks face inflationary pressures in 2022 are quickly fading. Slower economic activity along with stubborn inflation and rising financing costs will undermine corporates' and households' payment capacity. Sovereigns are also withdrawing support measures linked to the pandemic to pursue fiscal consolidation. At the same time, social demands are increasing as households remain in a fragile position with high prices lingering. Sovereigns will tread carefully to avoid social unrest; hence we expect fiscal consolidation will be gradual, at the risk of weakening credit quality. EM rating trends are already showing a higher number of downgrades. On a positive note, supply chains continue normalizing which should help ease logistics costs. China's reopening may also support some EMs, and PMIs continue improving. Still, these factors are not sufficient to offset risks at this point.

### Contagion from recent bank turmoil remains limited across EMs

**EM banks' direct exposure to recently failed financial institutions is low although the confidence shock is unwelcome.**

Large, systemic EM banks have sound liquidity and capitalization metrics. What's more, their funding structures are generally composed of retail deposits, which are usually more stable under stressful circumstances. However, the indirect effects of recent turmoil in the U.S. banking sector could add to ongoing challenges, especially for small banks and nonbank financial institutions. Foreseeable secondary effects could include increasing risk aversion by investors, which could ultimately result in higher funding costs or other negative consequences.

### Small banks and nonbank financial institutions face rising hurdles

**A sustained increase in interest rates--our current baseline--could erode the profits and asset quality of small banks and nonbank financial institutions.**

Ultimately, this could lead to a credit crunch, since many sectors rely on loans from these institutions; further tightening financing conditions for EM issuers and households. Under current conditions, small banks' funding costs are likely rising rapidly as they need to compete with more attractive alternatives that offer higher returns on savings. Any confidence shock could trigger a flight to quality, making small banks' deposit bases potentially more volatile and costly. On the asset side, liquid assets are likely losing value, depending on the type of instruments being held. Long-dated instruments are the ones depreciating the most as interest rates rise. At the same time, small banks will be rushing to reprice their loan portfolios, increasing interest rates and likely being more conservative on underwriting standards. On balance, unlike for big banks, the rapid rise in interest rates might not necessarily help small institutions' net interest margins. Furthermore, under current conditions (see top risks) credit portfolios are probably weakening, which overall leads to weaker profits. For nonbank financial institutions, the landscape is even more difficult since their funding depends mainly on access to capital markets and, to a certain degree, on bank lines, which tend to come from small, midsize, and specialized banks. All of these funding sources display very tight financing conditions.

### Corporates are running out of buffers

**Ongoing inflation has begun to erode corporate entities' margins.** While some costs are beginning to ease, like energy or freight, others, like wages, are rising fast. Corporates continue raising prices to bolster profit margins. But slower economic activity and inflation are reducing households' purchasing power, leaving limited room to pass through cost increases, as happened in 2022. At the same time, interest rates keep rising and financing conditions remain tight. Many corporates we rate have low leverage and manageable debt maturities, but for those that need to refinance their debt or rely on bank loans for working capital, debt service is quickly rising.

Furthermore, speculative-grade corporates are finding it difficult to access the markets and we have seen rising defaults and distressed debt exchanges.

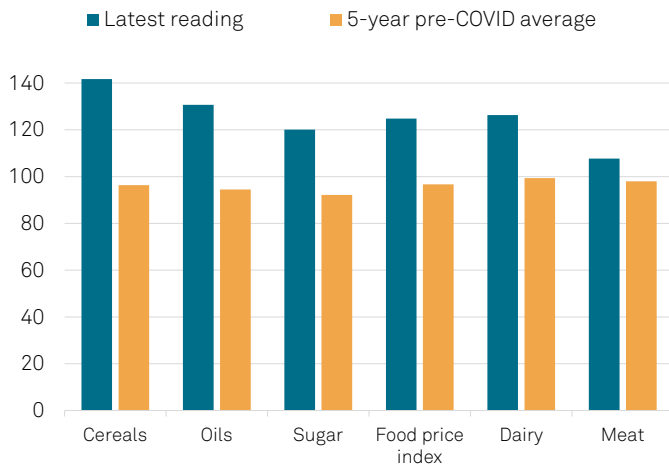
## EM sovereigns will continue borrowing despite higher interest rates

**We expect sovereign borrowings in 2023 will stay well above pre-pandemic levels, a dynamic that will weigh on sovereign credit quality.** Even if inflation appears to have peaked in EMs or will do so soon, it will remain above target, keeping monetary policy rates high. Coupled with elevated commodity prices and geopolitical uncertainty, including about the evolution of the Russia-Ukraine war, these macroeconomic conditions create a difficult backdrop for governments' fiscal policies. If anything, sovereigns face another challenging fiscal year, further complicated by a more polarized social and political environment.

Chart 1

### Inflation is easing, but food prices remain high

Food price index and key components

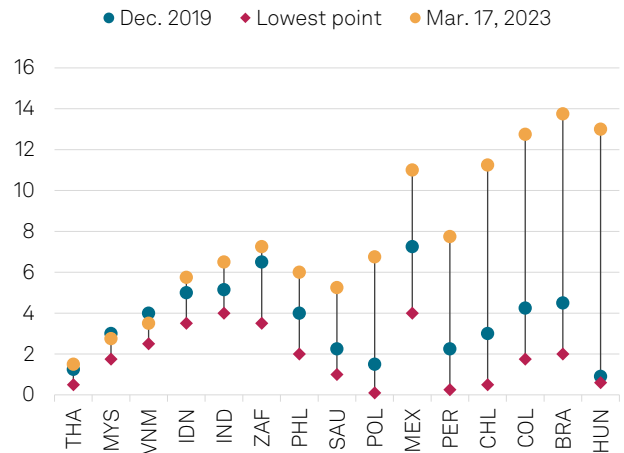


Source: United Nations Food and Agriculture Organization. (2014-2016=100).

Chart 2

### EM central banks have tightened monetary policy

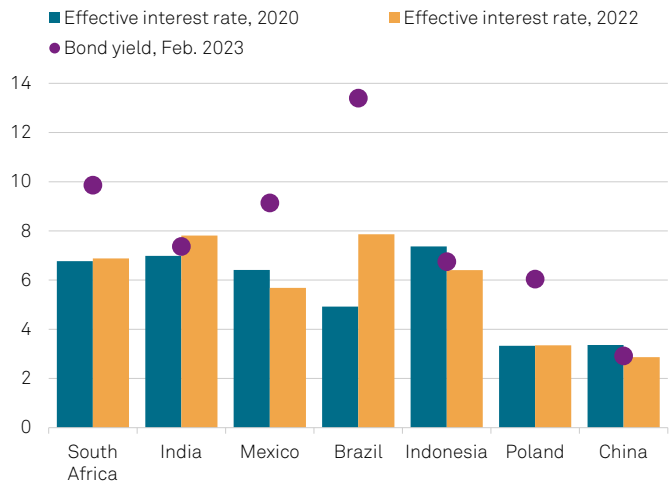
Rates (%)



Source: S&P Global Ratings Economists.

Chart 3

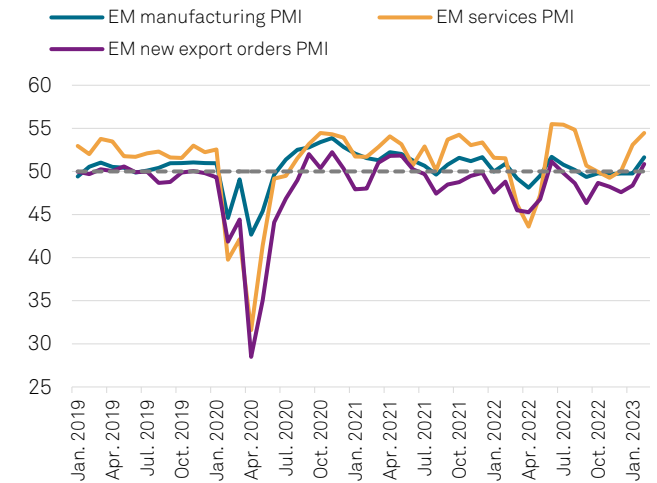
### EM debt service will increase further (%)



Note: Effective interest rate = central government interest expenditure divided by outstanding debt. Source: S&P Global Ratings.

Chart 4

### On a positive note, EM PMIs are improving



Source: S&P Global's Purchasing Manager's Index (PMI).

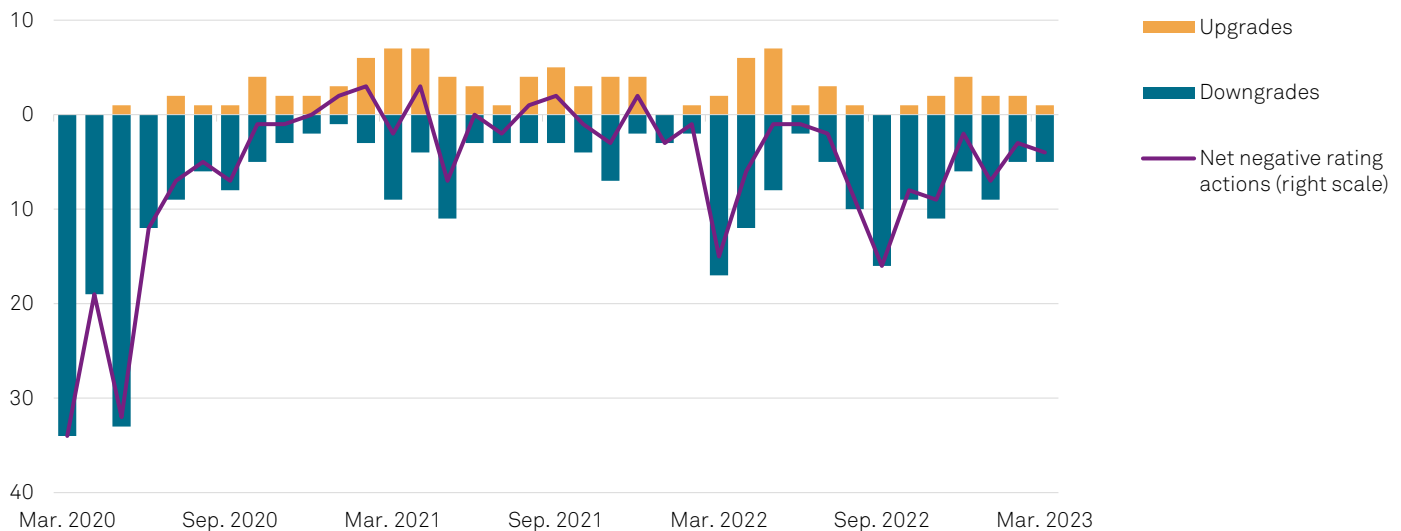
## EM credit quality will remain under pressure

**Rating trends show that EM issuers have not fully recovered from the shocks stemming from the pandemic and the war in Ukraine.** Downgrades have outpaced upgrades since December 2021 (see chart 5), even though, at the start of 2023, several economic indicators pointed to improving economic conditions, easing inflation, and the tapering of monetary tightening. Positive momentum has faded as inflation proved more persistent than anticipated, and we now expect high interest rates to linger potentially through the first quarter of 2024. The combination of slower economic activity, stubborn inflation, and rising financing costs will undermine corporates' and households' payment capacity, likely translating into further weakening of credit quality across key EMs.

Chart 5

### EM downgrades will likely accelerate

Number of rating actions in key EMs



Data as of March 14, 2023, financial and nonfinancial corporates, including sovereigns Argentina, Brazil, Chile, Colombia, Mexico, Peru, India, Indonesia, Malaysia, Thailand, Philippines, Vietnam, Hungary, Poland, Saudi Arabia, South Africa, Turkiye, and Greater China. Source: S&P Global Ratings Research & Insights.

## Macroeconomic Conditions

Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.

- **Scrutiny of global banking sectors joins existing macro crosscurrents.** The Russia-Ukraine conflict (and the proxy economic war with the West) continues with no end in sight. Governments face a tricky trade-off between public debt management and macroeconomic stability. Major global central banks (excluding Japan and China) remain steadfast in raising monetary policy rates to address above-target inflation.
- **We expect real GDP growth to slow sharply this year in most EMs** (with China and Thailand notable exceptions) as the post-pandemic rebound fades and higher interest rates bite. Growth will be below trend this year, before returning to respective potential growth rates in 2024-2025. Stronger growth in China is positive for EMs but is unlikely to offset the impact of slower growth in the U.S. and Europe.
- **Inflation is poised to decelerate through the year, easing pressure on EM central banks to continue hiking rates.** Still, we don't anticipate most to ease in 2023 before the Fed clearly signals its intent to do so. We have penciled in another 25 basis points (bps) hike for the Fed's benchmark rate, which could reach 5.00%-5.25% by midyear, and pause through the rest of 2023. We expect EM central banks to lower rates gradually from 2024.
- **The long shadow of the Russia-Ukraine conflict and even sharper tightening of global financial conditions remain key risks for EMs.** Financial stress has risen more than we had envisioned at this point in the U.S. monetary cycle, thus realizing some risks that our past outlook publications had identified. At the very least, the events of the last two weeks are a timely reminder that not only does tighter monetary policy work with a considerable lag, but the effects do not always feed through gradually and smoothly. Bank lending will become more selective at the margin.

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### Growth in most EMs will slow sharply

Common reasons for slowing growth in 2023 are:

- Subsiding momentum from the post-pandemic economic recovery,
- Weakened demand from key major trading partners,
- Still-elevated prices eating into disposable income growth, and
- The lag from policy rate hikes, in the form of higher interest rates globally and locally, holding back consumption and investments.

Although our projections, on aggregate, are more-or-less unchanged from our November forecast update, there are differences across regions and countries, particularly within Europe, the Middle East, and Africa (EMEA).

Table 1  
Summary of GDP growth forecasts

	2020	2021	2022	2023f	2024f	2025f	2026f
Argentina	(9.9)	10.4	5.2	0.0	1.7	1.8	2.1
Brazil	(3.6)	5.3	3.0	0.8	1.7	2.0	2.0
Chile	(6.2)	11.9	2.5	(0.4)	2.6	2.8	2.8
Colombia	(7.3)	11.0	7.5	1.1	2.6	3.0	3.0
Mexico	(8.2)	4.9	3.1	1.3	1.7	2.1	2.1
Peru	(11.1)	13.8	2.7	2.0	2.8	2.9	3.0
China	2.2	8.5	3.0	5.5	5.0	4.7	4.5
India	(5.8)	9.1	7.0	6.0	6.9	6.9	7.1
Indonesia	(2.1)	3.7	5.3	4.9	5.0	5.1	5.1
Malaysia	(5.5)	3.1	8.7	3.2	4.7	4.5	4.3
Philippines	(9.5)	5.7	7.6	5.8	5.8	6.5	6.4
Thailand	(6.1)	1.5	2.6	3.2	3.5	3.3	3.2
Vietnam	2.9	2.6	8.0	6.0	6.9	6.7	6.6
Hungary	(4.8)	7.1	4.9	0.3	3.2	2.9	2.9
Poland	(2.0)	6.7	4.9	0.9	3.4	2.8	2.8
Turkiye	1.8	11.6	5.4	2.1	2.8	3.4	3.2
Saudi Arabia	(4.3)	3.9	8.7	3.2	2.6	2.5	2.0
South Africa	(6.3)	4.9	2.0	0.8	2.1	1.7	2.2
EM-18	(1.8)	7.7	4.5	4.3	4.5	4.5	4.4
EM-17 (excludes China)	(4.6)	7.1	5.5	3.4	4.2	4.3	4.3
Latin America	(6.3)	6.9	3.6	0.9	1.9	2.2	2.2
EM Southeast Asia	(3.7)	3.4	5.9	4.6	5.0	5.1	5.0
EM EMEA	(1.4)	8.1	5.6	1.9	2.8	2.9	2.7

f--Forecast. Source: S&amp;P Global Ratings economists.

## EM Asia growth remains above peers', despite expected slowdown

**In EM Asia (excluding China), our revised growth forecasts are slightly lower, but in the same ballpark as our previous forecast round.** China's quicker-than-expected reopening will provide some tailwind to the region in 2023. Returning Chinese tourists will provide an additional boost to the tourism sector in South-East Asia, especially in Thailand, which is set for a strong year after more than two years of weakness during the pandemic. However, China's reopening will not be enough to offset the impact of lower external demand from slower U.S. and Europe growth (see "[Asia-Pacific In 2023: China Rebound Cannot Offset Western Slowdown](#)," published Feb. 23, 2023). EM Asia still relies heavily on demand from end customers in these large global economies. Compared with China, Vietnam, India, the Philippines, and Thailand have more of their value added exposed to end-customer demand in the U.S. and Europe. Malaysia and Indonesia have about even exposure to China and the West.

**In Latin America, we now see growth at 0.9% in 2023, sharply lower than 3.7% in 2022.** This forecast is up slightly for this year and followed by a lower growth path in 2024-2025 compared to our November forecast. This is primarily owing to the region's two biggest economies, Brazil and Mexico, following an upward revision of the 2022 outcome. The somewhat slower rebound in the

next two years is partly due to changes in the timing for the U.S. slowdown (later in 2023 than previously anticipated) and the Fed's policy rate path, which has raised interest rate profiles across most of the region. With growth well below potential, we expect unemployment rates to rise this year. Amid low economic growth, lack of visibility about the fiscal response could generate investor uncertainty (posing a risk to baseline growth), especially in economies that have had recent changes in government, such as Brazil and Colombia.

**In EM EMEA, dynamics in the energy market play a key role, and our baseline forecasts are therefore more uncertain than for other regions.** Some improvements in the external environment with regards to the energy outlook and economic growth in the Eurozone prompted us to revise up slightly our GDP projections for **Hungary** in 2023 and **Poland** in 2024. We continue to expect household consumption to recover in 2024, and investment in both Hungary and to benefit from increased foreign direct investment into manufacturing (especially in Hungary) and public defense (in Poland).

As for **Saudi Arabia**, after strong real GDP growth of 8.7% in 2022 (the highest among the G-20 nations), economic growth will moderate but remain resilient, averaging 2.6% in 2023-2026. The country's cautious approach to oil production means the contribution from the oil sector will take a backseat to the non-oil sector in our growth forecast. Our view remains supported by the country's improved non-oil sectors.

By contrast, prospects for **South Africa** have dimmed in the near term since the country faces severe electricity shortages. The economy contracted by 1.3% in fourth-quarter 2022 versus the previous quarter after electricity cuts spiked. We now anticipate severe electricity disruptions during the first half of 2023, bringing the economy to a near standstill. The government has introduced measures to encourage private sector and renewable electricity generation, but it will take time for additional power supply to materially improve the availability of electricity for the wider economy. Uncertainty regarding electricity remains high.

In **Turkiye**, our 2023 GDP growth forecast is 0.3 percentage points lower than we projected in November, mainly reflecting the impact of the earthquake that hit the country early in February, partly offset by an improved outlook for energy prices. We anticipate a drop in household consumption, goods exports (mainly agriculture), and services exports (tourism). At the same time, reconstruction efforts should support investment in the second half of 2023 and in 2024. There is high uncertainty regarding the impact of the earthquake on Turkiye's overall macroeconomic outlook. Another area of uncertainty relates to policy settings after the parliamentary and presidential elections, scheduled for May this year, and ongoing structural and social reforms.

## Inflation remains elevated and above central bank targets for most

We see little change in our inflation forecasts and risks that could affect them. Headline inflation has peaked in most EMs and is poised to moderate this year; inflation remains elevated and above central banks' targets for most. Headline inflation for the median EMs was 6.9% (year on year) in January-February on average, compared to 7.7% on average at its peak at midyear 2022. It remains a touch higher than we anticipated so far this year, for varying reasons across individual countries.

In Latin America, despite a deceleration, inflation was slightly higher than expected. This was due to greater-than-expected wage increases, as well as a rise in the cost of some regulated services, such as urban transportation. Barring Latin America, headline inflation edged up in other regions at the start of this year, primarily led by an uptick in core inflation but also in some cases governments reversal of certain price-curbing measures, such as fuel price caps in Hungary and decreased value-added tax (VAT) rates on fuel in Poland. In EM Asia, inflation is moderating in Indonesia, Malaysia, and Thailand; increasing in the Philippines; and stabilizing somewhat in India and Vietnam. Core price pressures appear stable generally in EM Asia. Across most EMs, energy price inflation is subsiding while food inflation remains elevated but is not accelerating.



## Credit Conditions EM Q2 2023: Enduring Risks

While we believe China's reopening will increase price pressures domestically and globally, consumer inflation in China should rise much less than it did in the U.S. and Europe in 2022. The impact on global energy and commodity markets won't match that of the reopening of the rest of the world and the Russian invasion of Ukraine last year. Domestically, most goods markets in China face oversupply and excess savings are weaker than they were in the U.S. and Europe.

We expect inflation to decline further in the coming months, given its sharply higher base and the expected decline of core prices as global goods shortages ease and growth slows. We forecast the annual average consumer price index (CPI) for a median EM to reach 5.6% this year, down from 7.4% last year, with inflation in EM Asia (excluding the Philippines) and South Africa within their respective central banks' target ranges in 2023, and other EMs (excluding Turkiye and Argentina) returning to their central banks' target ranges by the end of 2024. Nevertheless, we see greater potential for inflation to rise rather than fall versus our forecast, owing to uncertainty regarding energy prices and likely persistence of elevated core prices (especially in Central and Eastern Europe).

Table 2

### CPI inflation % (yearly average)

	2020	2021	2022f	2023f	2024f	2025f	2026f	Central bank inflation target
Argentina	42.0	48.4	72.5	97.9	85.0	65.0	47.5	No target
Brazil <sup>^</sup>	3.2	8.3	9.3	4.8	4.5	3.6	3.5	3.5% +/- 1.5%
Chile	3.0	4.5	11.6	7.9	4.1	3.1	3.0	3.0% +/- 1.0%
Colombia	2.5	3.5	10.2	11.0	4.3	3.4	3.0	3.0% +/- 1.0%
Mexico	3.4	5.7	7.9	6.4	4.1	3.2	3.0	3.0% +/- 1.0%
Peru	1.8	4.0	7.9	5.8	3.0	2.3	2.0	1.0% - 3.0%
China	2.5	0.9	2.0	2.3	2.7	2.2	2.2	3%
India	6.2	5.5	6.8	5.0	4.3	4.4	4.7	4.0 +/- 2.0%
Indonesia	2.0	1.6	4.2	4.1	3.6	3.5	3.5	3.5% +/- 1.0%
Malaysia	(1.1)	2.5	3.4	2.8	2.4	2.4	2.2	No Target
Philippines	2.4	3.9	5.8	6.2	3.2	3.3	2.9	3.0% +/- 1.0%
Thailand	(0.8)	1.2	6.1	3.1	1.1	0.7	0.6	2.5% +/- 1.5%
Vietnam	3.1	1.8	3.2	3.2	3.1	3.0	3.0	0.04
Hungary*	3.4	5.2	15.3	18.5	5.5	4.4	4.2	3.0% +/- 1.0%
Poland*	3.7	5.2	13.3	11.8	6.2	3.1	3.0	2.5% +/- 1.0%
Saudi Arabia	3.3	4.6	6.9	5.5	4.1	4.4	4.5	No Target
South Africa	3.5	3.1	2.5	2.9	2.2	2.0	1.8	3.0% - 6.0%
Turkiye	12.3	19.6	72.3	44.6	22.4	12.0	10.1	5.0% +/- 2.0%
Median	3.2	4.3	7.4	5.6	4.1	3.3	3.0	--
(November forecast median)	3.2	4.3	7.3	5.0	3.7	3.1	--	--

f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence. \*Poland and Hungary are reflective of HICP measure of inflation. <sup>^</sup>Brazil's inflation target for 2023 is 3.25% +/- 1.5%; for 2024 and 2025, it is 3% +/- 1.5%. HICP--Harmonized Index of Consumer Prices.

## EM central banks are likely to be in a holding pattern for now

As forward-looking disinflationary expectations build, several EM central banks have signaled an end to their rate hike cycles, including Brazil, Chile, Poland, and Hungary. Yet, if the Fed continues to raise interest rates, capital outflow pressures in EMs will likely continue. Central banks--in part to protect capital flows and value of the local currency--are unlikely to go beyond pausing rate hikes for now, since the Fed has yet to definitively signal an end to more tightening. Since we no longer expect the Fed to start cutting interest rates toward the end of 2023 but rather in 2024, we don't think many central banks in Latin America will cut interest rates this year. Two notable exceptions are Chile and Brazil, where we still foresee rate cuts by year-end 2023 (later than we previously assumed), due to a faster drop in inflation and economic deterioration.

In EM Asia, there is some leeway for further monetary policy tightening, albeit gradually, given remaining inflationary pressures and a risk of Fed-induced capital outflow pressures. Similarly in EM EMEA, considering high inflation and pressured exchange rates, we don't expect South Africa, Hungary, or Poland to start lowering interest rates in 2023. However, we expect Hungary to drop some emergency measures introduced last October. Turkiye, meanwhile, after a pause over December-January, resumed interest rates cuts in February following the earthquake, lowering the policy rate by 50 basis points (bps) to 8.5%. The central bank has indicated it would prioritize supportive financial conditions following the earthquake. We expect an additional 50 bps rate cut before the elections, which means real interest rates will remain deeply negative in the coming months.

Table 3

### Policy rates

End of period (%)

	2020	2021	2022	2023f	2024f	2025f	2026f
Argentina	38.00	38.00	75.00	80.00	70.00	50.00	40.00
Brazil	2.00	9.25	13.75	12.50	9.00	8.50	8.50
Chile	0.50	4.00	11.25	9.00	6.50	5.00	5.00
Colombia	1.75	3.00	12.00	13.25	9.00	7.00	7.00
Mexico	4.25	5.50	10.50	11.50	8.50	7.00	7.00
Peru	0.25	2.50	7.50	7.25	5.00	3.50	3.50
India	4.00	4.00	6.50	6.25	5.25	5.00	5.00
Indonesia	3.70	3.50	5.50	5.75	5.25	5.00	5.00
Malaysia	1.70	1.75	2.75	3.00	2.75	2.75	2.75
Philippines	2.00	2.00	5.50	6.50	4.75	4.00	4.00
Thailand	0.50	0.50	1.25	2.25	2.00	2.00	2.00
Hungary	0.60	2.40	13.00	12.00	8.00	3.00	3.00
Poland	0.10	1.75	6.75	6.75	5.25	3.50	3.00
Saudi Arabia	1.00	1.00	5.00	5.75	4.50	3.25	3.25
South Africa	3.50	3.75	7.00	7.50	6.75	6.00	6.00
Turkiye	17.00	14.00	9.00	8.00	8.00	8.00	8.00

f--S&amp;P Global Ratings forecast. Source: S&amp;P Global Market Intelligence.

## Some positive factors, but risks still dominate

The COVID-19 pandemic is now a neutral factor in our risk assessment. In fact, China's rapid and earlier-than-expected exit from its zero COVID-19 policy has increased optimism for the country's GDP growth this year. For now, we expect EM Asia to benefit the most from the reopening of China's economy, mainly through a revival in the number of Chinese tourists visiting those countries. However, if the reactivation of China's economy were accompanied by a strong recovery of infrastructure spending that increases demand for industrial metals, then several exporters of those commodities would also benefit--including Brazil, Chile, Peru, and South Africa. Those countries could therefore potentially see a higher growth impetus than currently in our baseline.

A few other notable factors could bring upside to our growth forecasts. The first relates to more resilient-than-expected U.S. and Eurozone economies, which have kept demand for several exports stronger than expected. Second, increasing prospects of nearshoring, driven by supply-chain diversification away from China, could benefit Latin America, especially Mexico. That said, several obstacles could prevent Mexico from fully reaping the benefits of nearshoring, such as, issues regarding water and energy supply for new manufacturing operations, and security.

Still, the long shadow of the Russia-Ukraine conflict and a further sharp tightening of global credit remain key risks for EMs. And EMs' heightened sensitivity to dynamics in the banking sector in a high-interest-rate environment since SVB's collapse clearly tip the overall balance of risks to the downside. In a worst-case scenario, borrowing and lending sentiment could weaken significantly. As shown during the height of the pandemic, central banks in EMs also have tools to counter contagion risks (via liquidity provision, or broadening deposit insurance). Nonetheless, developments of the past few days highlight that we are in for a bumpy ride.

## Financing Conditions

- Financing conditions will likely tighten further, with issuers in Latin America and EM EMEA more vulnerable than in other regions.
- While investment-grade debt accounts for 81% of financial and nonfinancial corporate maturities through 2024, the speculative-grade component is largely composed of Latin American issuers and companies within the oil and gas and financial services sectors.
- Rating performance metrics point to downward pressure, mainly in Latin America, with liquidity risk the primary trigger of rating actions.

**We expect financing conditions to tighten further in the second quarter of 2023, with Latin America and EMEA more vulnerable.** A solid start to the year is slowly being undone by persistent inflation and, more recently, turmoil in the U.S. banking sector. Resilient U.S. data has recently driven EM yields upward and 10-year benchmarks remain elevated. A hawkish Fed stance would continue to push yields higher, while a more accommodative stance--triggered by deteriorating economic conditions--could be offset by a rising risk premium. In contrast, future capital flows to EMs, exchange rate stability, and future financing costs will hinge on the Fed's forward guidance. The banking market upheaval initially led to a sharp drop in 10-year U.S. treasury yields, stemming from demand for safe-haven assets and doubts about whether the Fed can afford to keep on tightening amid current market volatility. However, our view remains that recent inflation trends will lead the Fed to continue raising rates and keep rates higher for longer. Thus, the recent decline in U.S. benchmark yields may be only temporary.

**Benchmark yields currently exhibit significant divergence across EM regions.** Latin America's benchmarks are on average 420 bps higher than before the pandemic (see chart 5) and EMEA's are 325 bps higher, while in EM Asia they show an increase of only 80 bps. This is primarily the result of more significant policy rate hikes across Latin America and EMEA to counter persistent inflation. While inflation has stabilized and even fallen in some regions, it has not yet reduced sufficiently to allow for meaningful rate reductions by EM central banks, and we also expect Fed rates to stay high to combat persistent inflation in the U.S.

**Geopolitical risk remains and will continue to influence financing conditions,** both within EMs (for instance, social unrest in Peru) and from external sources (Russia-Ukraine conflict and U.S.-China tensions). Credit default swap spreads are also widening, signaling an increasing risk premium with the CDX-EM Index reaching 266 bps as of March 20, 2023, which is well below recent peaks but off the one-year low of 213 bps at the start of February.

**In a scenario of higher-for-longer interest rates and tighter financing conditions, near term refinancing risk will increase,** particularly for Latin American issuers and corporates rated in speculative grade categories. Financing costs have decreased from their 2022 peaks, but corporate speculative-grade effective yields recently reached 10.4%, while investment-grade effective yields remain elevated at around 5%. As of Jan. 1, this year, issuers are relatively insulated from current market turmoil since investment-grade debt accounts for 81% of financial and nonfinancial corporate maturities through 2024. However, refinancing risk remains most acute for lower-rated issuers. And while speculative-grade maturities do not peak until 2026, a material amount (about 19%) is due to mature through 2024, mostly from issuers in Latin America and primarily in the oil and gas and financial institutions sectors.

**Renewed dollar appreciation could also complicate refinancing risk.** This is because roughly 80% of EM corporate debt (with a global scale rating from S&P Global Ratings) that matures through 2024 is denominated in U.S. dollars. A stronger dollar could lead to more expensive debt repayment costs for issuers that are not adequately hedged from exchange rate risk. Furthermore, the current banking turmoil and future risks of higher costs of capital across the banking sector may lead banks to tighten lending standards, by reducing their risk appetite or adding more onerous terms and conditions, which may squeeze liquidity and exacerbate refinancing risk for some lower-rated issuers.

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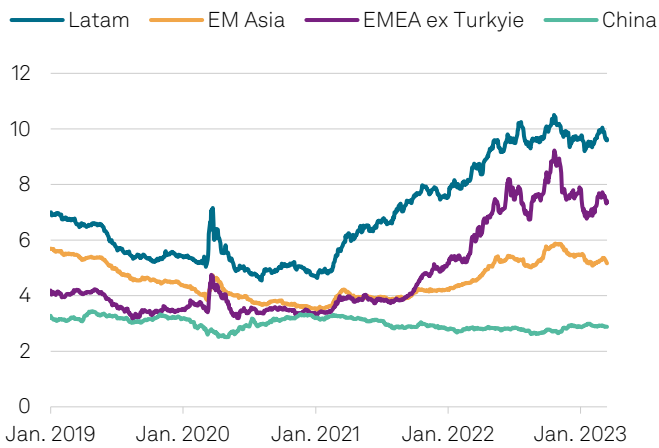
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**Liquidity risks are increasingly influencing credit quality and rating actions.** While defaults have been lower so far this year than in 2022, downgrades are accelerating, with 14 as of Feb. 28, 2023, versus five as of February 2022. Financial institutions and transportation were the most affected sectors, and strained liquidity the most common trigger. Latin America remains the most challenged region, with most downgrades in Mexico and Brazil and all corporate defaults so far this year being in that region. The net rating outlook bias--as an indicator of future rating trends--reads negative for the property sector and consumer products in Greater China and financial institutions in Latin America. We expect that liquidity, sovereign, and recession risks will likely continue to drive EM rating performance in 2023.

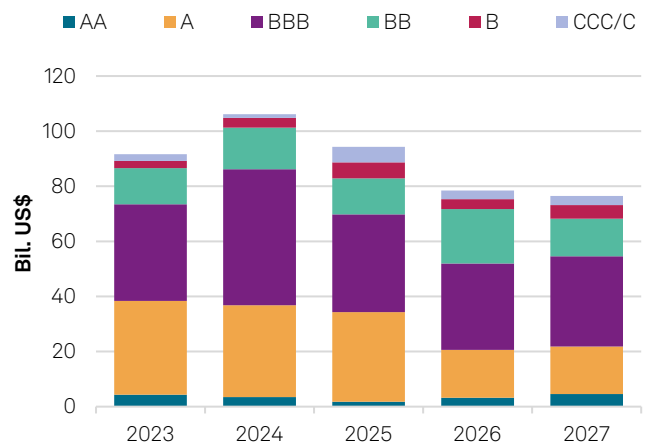
Note: Benchmark yields, maturities, and rating performance data refer to our EM-18 classification. Latin America: Argentina, Brazil, Chile, Colombia, Peru, and Mexico. EM Asia: India, Indonesia, Malaysia, Thailand, Philippines, and Vietnam. EM EMEA: Hungary, Poland, Saudi Arabia, South Africa, and Turkiye. Greater China: China, Hong Kong, Macau, Taiwan, and red chip companies (issuers headquartered in Greater China but incorporated elsewhere).

Chart 6  
Divergence in EM 10-year government yields (%)



Source: Refinitiv, S&P Global Ratings Research.

Chart 7  
EM corporate debt maturities by rating category



Data as of Jan. 1, 2023. Near term maturities could be lower due to recent refinancing and data reporting lags. Includes bonds, loans, and revolving credit facilities that are denominated in U.S. dollars and rated by S&P Global Ratings (with a global scale rating) from financial and nonfinancial issuers. Source: S&P Global Ratings Research.

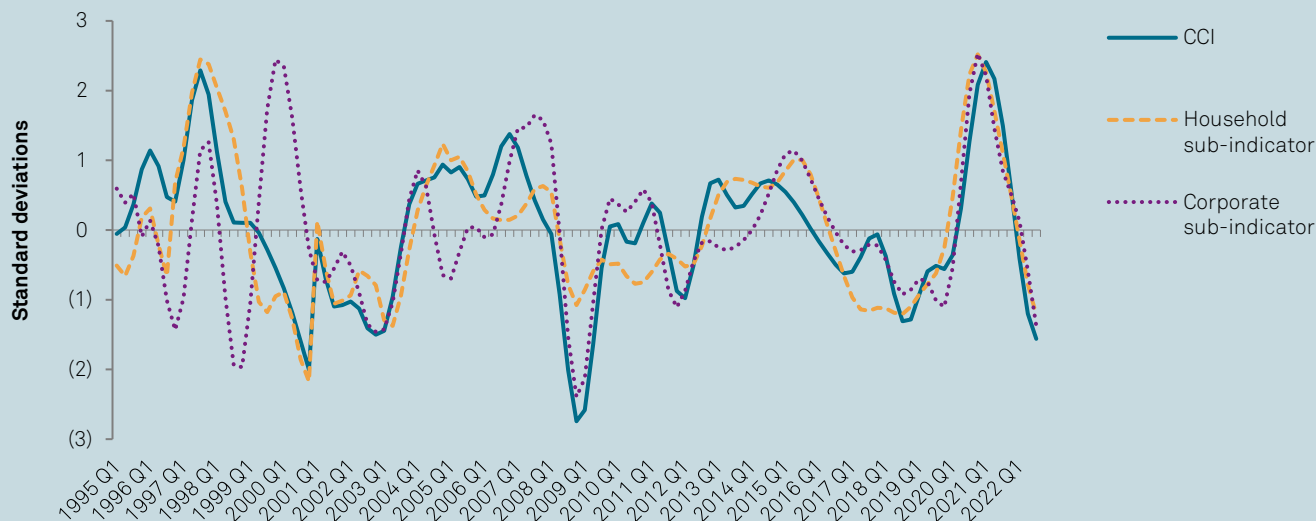
## Credit Cycle Indicator

### Signs of heightened credit stress in early 2023

Over four quarters since Q1 2020, the EM ex-China Credit Cycle Indicator (CCI) trended upward and reached a peak of 2.4 standard deviations in Q1 2021. This suggests potentially greater credit stress from late 2022 through 2023 (see chart 8). The aggregate indicator seems near an Inflection point, as some countries such as Chile and South Africa appear to have reached their CCI trough, while for others, credit conditions are expected to ease further in the next six to 10 quarters (Colombia, Malaysia, and Poland). For more details about our proprietary CCI, see "[White Paper: Introducing Our Credit Cycle Indicator](#)," published on June 27, 2022.

Chart 8

### Recent peak in the EM (excluding China) CCI suggests heightened credit stress in early 2023



Note: We view the CCI as a leading indicator for potential credit stress outcomes. The CCI period ends in 2022 Q1. Household and corporate sub-indicators were created by taking the weights in the overall CCI and rescaling such that the sub-components' weights in the sub-indicator sum to 1. Emerging Markets geographies included in the EM ex-China CCI: Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Poland, South Africa, Thailand, and Turkiye. Source: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

**Corporates.** The corporate sub-indicator is trending down as corporate debt stalls, mirroring high funding costs in international and domestic markets, especially for companies at the lower end of the rated spectrum. Equity prices keep on declining (particularly in Colombia, Mexico, Malaysia, Poland, and South Africa) as credit risk pressures mount, with persistent inflation leading to lower demand and margin compression. Slow economic activity and excess capacity in some cases keep corporate credit demand low, since investment needs are limited.

**Households.** The decline in the household sub-indicator moderated, given slowing household borrowing (except for Brazil) amid a weaker economic environment that is slowly eroding purchasing power and property prices, which haven't moved consistently so far (with the exception of Turkiye), but may face a correction in the future with interest rates higher for longer.

## Sector Trends

Chart 9  
EM rating actions by sector since March 2020

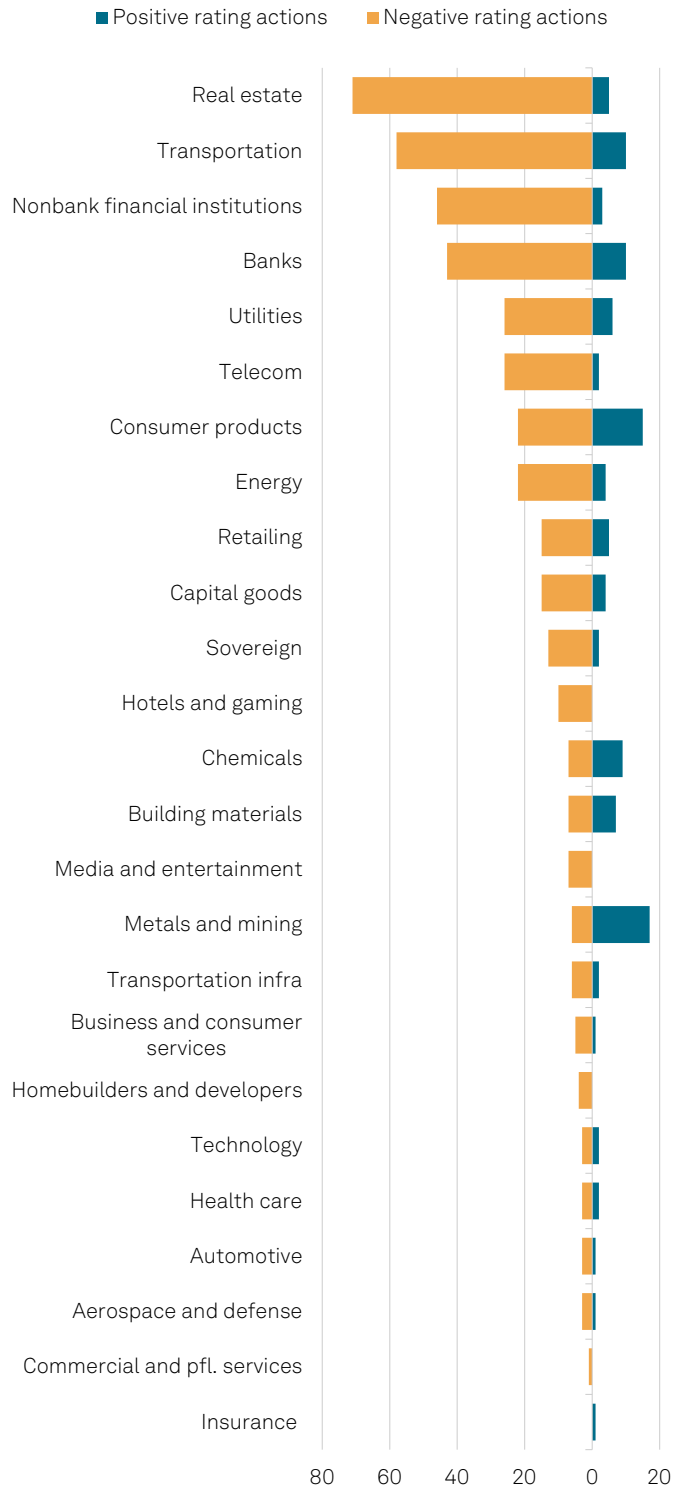
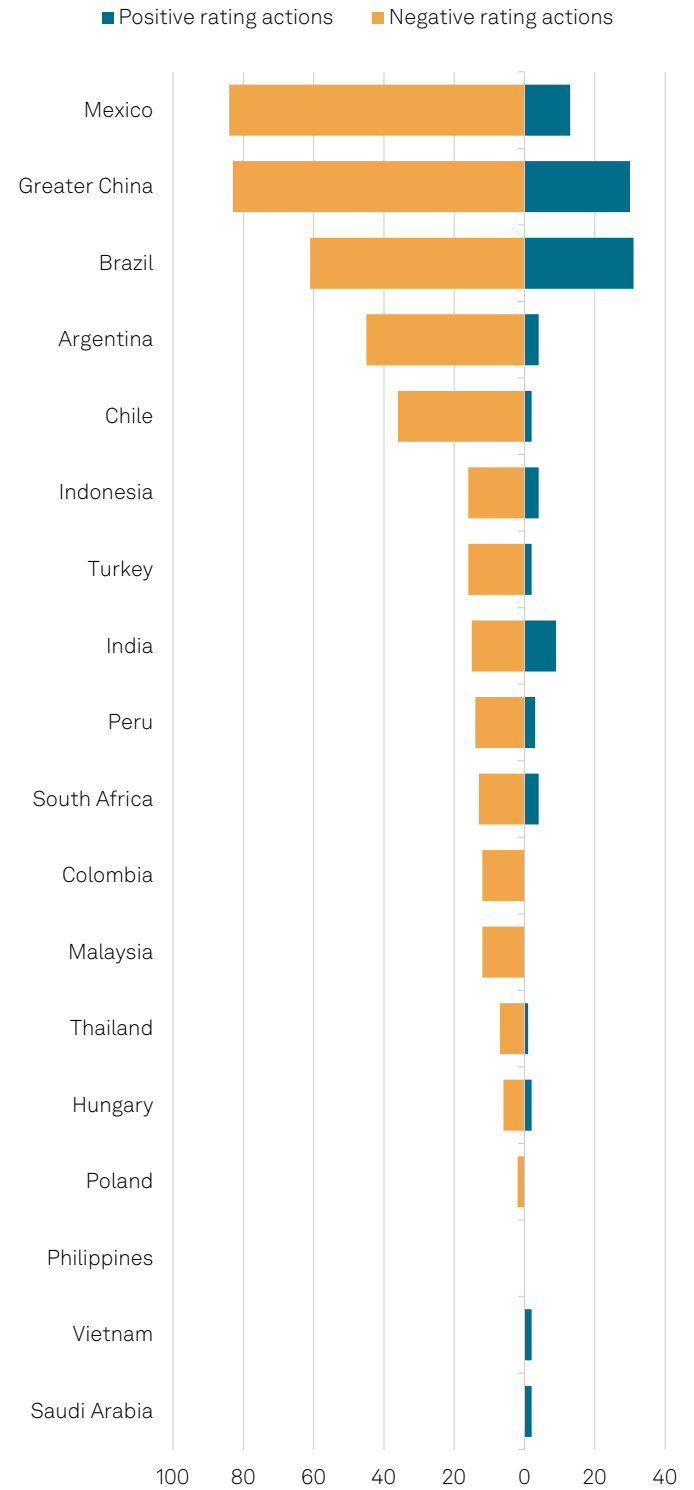


Chart 10  
EM rating actions by country since March 2020



Source: S&P Global Ratings Research & Insights.

## Sovereigns

### EM Asia: External uncertainties are increasing

The region faces a clouded interest rate outlook. While expectations of further monetary policy tightening have eased recently, risk aversion may worsen the financing conditions of some EM sovereigns if financial instability is not contained in advanced markets.

COVID-19 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.

**Sudden capital swings and potential for a serious interruption of growth and fiscal recoveries, remain key risks.** 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. 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.

### What we're watching

**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.

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

### EM EMEA: The macro and geopolitical backdrop remains choppy

Cautiousness about G-20 banks prevails after a series of financial sector events, starting with the closure of SVB (Silicon Valley Bank). The bigger story may be which class of financial assets are most at risk due to the rapid rise in G-7 interest rates. Meanwhile, the war persists, as do inflationary pressures, albeit oil prices are down about one-third from March 2022 levels; and balance of payments and currency pressures are easing for energy-intensive hydrocarbon importers, including Hungary, Poland, Romania, and Serbia. For the present, banking fears seem to be concentrated in developed markets.

Nevertheless, uncertainty about financial stability in developed markets has helped cut short what had been a strong 2023 reopening of EM sovereign primary bond markets. More immediately, the loss of confidence in G-20 banks has seen a return of risk aversion and further tightening of credit conditions, with clear implications for global growth and EM assets. At a minimum, the idea that a soft landing is a real possibility in developed markets has lost a lot of ground over the last two weeks, while the future path of monetary policy at the world's most important central banks is far from linear.

The rating outlook bias on EM EMEA sovereigns remains negative (four negative outlooks, and a single positive outlook). Sovereigns in the Gulf Cooperation Council have benefited from the last 12 months of higher oil prices, accumulating monetary and fiscal reserves, albeit rising questions about the future path of global growth have been a drag on energy prices so far this year.

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## What we're watching

**Fiscal imbalances remain notable in key EM EMEA sovereigns in pre-election mode, particularly in Poland and Turkiye.** External deficits are still elevated in Hungary, Romania, and Turkiye. Pressure on EM currencies may also start building again, since a weakening of portfolio inflows and risk of an appreciation of the U.S. dollar suggest another round of currency depreciation, particularly where inflation remains high (such as in Egypt and Turkiye).

**We are coming off a strong period for EM EMEA export performance, not least in Eastern Europe.** In Serbia, in particular, exports were up 63% in euro terms year on year in 2022, and in Macedonia they were up 37% for the same period, again in euro terms. We see a similar situation in Turkiye, although some of this is no doubt due to re-exports, mainly exports rediverted to Russia.

**Challenges remain for Nigeria on the way to enhance its tax collection.** Financial market volatility in connection with the failure of SVB may have contributed to the decision by the incoming presidential administration to delay the devaluation of the naira, while the recent softening of oil prices and currency reform delays partly explain the widening of spreads on Nigeria's dollar Eurobonds. The objective of modernizing Nigeria's payment system would clearly bring considerable fiscal benefits by improving tax revenue (with general government revenue at about 8% of GDP), given that Nigeria's formal economy remains the least taxed globally. However, the execution of policy changes--including multiple delays on the redenomination of the Naira--have created uncertainty and spurred demand for foreign currency, leading to drawings on foreign currency reserves.

**The May election will delineate Turkiye's future policies.** The May presidential and parliamentary elections will determine Turkiye's policy response to some of the less sustainable features of its current policy mix: high consumption, elevated prices, wage inflation, lackluster investment spending, and an expansionist pre-election fiscal stance. Judging from the net debt-to-GDP ratio of around 32%, the sovereign still retains some fiscal flexibility. However, off-balance-sheet liabilities are increasing. We estimate the foreign currency deposit scheme (extended to year-end 2023) will have cost the treasury around 1.5% of GDP in 2022, while the overall public deficit last year (including losses at energy utility Botas) exceeded 6% of GDP.

More critically, Turkiye's large and externally indebted banking system appears to be even more vulnerable to a currency or interest rate shock than it was this time last year. Also, currency stability isn't guaranteed in the run-up to the elections as Turkish households explore higher-yielding alternatives to the foreign-exchange-protected deposit scheme, and the current account deficit remains sizable. That said, deposit and errors and omissions inflows continue, partly reflecting the preservation of official relations between Turkiye and Russia. Lack of clarity between now and May 14 remains our base case, but we also anticipate periods of political and international tension, intensifying pressure on the Turkish lira, and persistently high inflation. After May, some sort of policy reset appears to us to be unavoidable, even without a change in leadership. But the policy reset is as likely to imply an intensification of financial repression, policy intervention, and exchange rate volatility as it is to signal a return to more orthodox monetary and economic policy.

**The Russia-Ukraine war weighs on Poland's economy.** It has transmitted multiple shocks to Poland's economy, including a rapid widening of fiscal and external deficits, amid an inflow of over 8 million refugees from Ukraine and rising inflation. S&P Global Ratings projects that the economy will avoid shifting into recession this year, but GDP growth will decelerate to just under 1%. Nevertheless, the recent decline in gas futures prices could provide some relief to the Polish industrial sector, although the recent hike in VAT on petrol means that household consumption will likely remain under pressure.

Given these external challenges, the disbursement of EU funds--including €35 billion in recovery funds--is critical for Poland's economic performance between 2023 and 2027. The standoff with the EU over the rule of law has been straining Polish-EU relations since 2015. Although the European Commission finally signed Poland's post-COVID-19 recovery plan in early June, more

hurdles must be overcome before the country can access the funds, which remain stalled. Polish parliamentary elections scheduled for the fall could see a shift toward a pro-EU coalition more inclined to address EU concerns about judicial reforms and unblock EU funds, which could exceed 4% of GDP per year between now and 2027. Regardless of the election outcome, we would expect a move toward a tighter fiscal position after the elections and an only gradual recovery in growth, though the underlying fundamentals of the Polish economy (modest public debt and flexible labor and product markets) remain a credit strength.

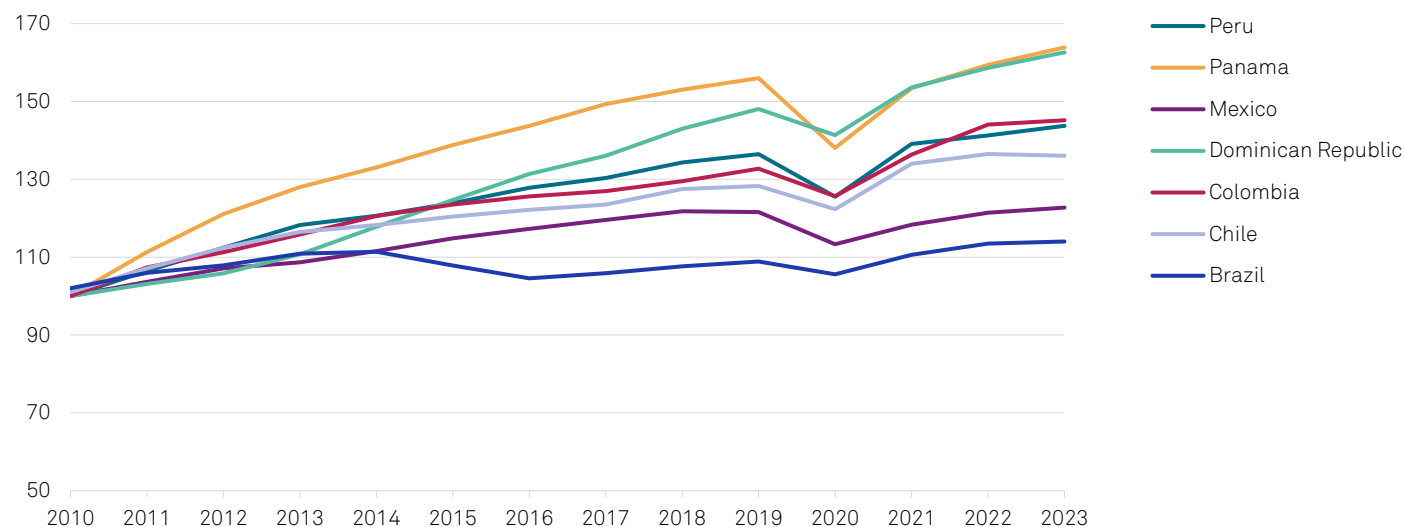
### Latin America: Low GDP growth is still dragging down the region

The economic panorama in the region reflects low and uncertain GDP growth prospects, persistent inflation, rising interest rates, and political factors that limit governments' ability to react forcefully to such challenges. All sovereigns in the region now carry a higher debt burden than before the pandemic. The combination of higher interest rates and larger debt constrains fiscal policy, while inflation forces central banks to tighten monetary policy.

Latin American economies have expanded beyond their pre-pandemic peak GDP but Brazil and Mexico, the two largest, have shown comparatively poor growth (see chart 11), which is reflected in our credit ratings. The somber macroeconomic panorama raises the importance of pursuing microeconomic policies that boost competitiveness and encourage private investment to mitigate the expected slowdown across the region.

Chart 11

#### Real GDP growth Index (2010 = 100)



Source: S&P Global Ratings.

Recent financial market instability in the U.S. and Europe is likely to have a bigger indirect impact than direct effects on the region. It could delay interest rate increases by central banks in advanced countries but is also likely to tighten financial conditions for countries in Latin America. Uncertainty about monetary policy in advanced countries will reverberate in Latin America, given the region's higher dependence on external financing than much of Asia. At same time, inflation remains high, especially in Brazil and Colombia, contributing to high domestic interest rates.

Central banks face a difficult trade off: they can depress GDP growth in the near term by acting forcefully to cap inflation (anchoring expectations of future inflation) and sustain long-term stability; or loosen monetary policy to prevent high interest rates from curbing economic growth and increasing the sovereign's debt service bill, but run the risk of higher, more persistent inflation rates.

## What we're watching

**There is already political pressure on central banks to pursue a less restrictive monetary policy, as recently seen in Brazil.** Moreover, President Lula's administration has sought to raise spending, by amending a cap imposed by the constitution, as well as revenue, to meet near-term political and economic goals. However, a sustainable increase in the country's low economic growth (which constrains the rating) depends on encouraging investment, potentially through the introduction of tax reform proposals.

**In Mexico, controversy over recent changes in the law governing the National Electoral Institute (INE)** reflects tensions in a country that remains polarized between supporters and opponents of President Andres Manuel Lopez Obrador, whose term will end late next year. The new law, which reduces INE's staff and budget, and changes the composition of its leadership, has sparked public protests and court challenges. Political debate is increasingly focusing on national elections due in mid-2024. While the economy is likely to remain stable, GDP growth is likely to stay low (below 2%). Economic data, including on foreign investment, indicate signs of private companies shifting production to Mexico in response to concerns about global supply chains, but the macroeconomic impact of such developments has not been significant thus far.

**Political factors remain key drivers of our analysis of Andean sovereigns.** We recently placed our 'B' long-term sovereign credit ratings on Bolivia on CreditWatch with negative implications due to heightened fiscal and external vulnerabilities. A political impasse within the governing political party and between the government and the opposition has raised doubts about the capacity of Bolivian authorities to implement timely corrective policies to restore public confidence. In Ecuador, a recent attempt by Congress to impeach the president contributes to continued uncertainty and weak policymaking. We expect instability to persist whether the impeachment attempt succeeds or fails, although high oil prices have provided some financial cushion to the government during this turmoil.

**In Peru, the unpopularity of both the president and the Congress, amid public demands for early national elections, sustains uncertainty.** The leadership of the central bank and finance ministry has been able to maintain economic stability, limiting the negative spillover of political developments on the economy and public finances thus far, helped in part by favorable prices for Peru's commodity exports. However, persistent lack of confidence due to political factors raises the risk of a sudden deterioration of economic performance and public finances.

**Colombia's President Gustavo Petro has introduced the main planks of his reformist agenda to Congress.** These include health, pension, and labor reforms, after securing approval of tax reform last year. The proposed laws would raise government spending, highlighting the challenge of advancing with reforms while keeping the fiscal budget within the parameters of Colombia's fiscal rule. The long-term trajectory of public finances will depend on the country's GDP growth rate beyond this year; two prior tax reforms and high oil prices should provide ample revenue in 2023. That, in turn, depends in large part on the government's ability to encourage private and foreign investment, and reduce investor uncertainty. Local elections later this year will provide important political feedback to Petro and his coalition partners, affecting the pace of change.

**Political developments have become more prominent in Chile, which enjoys more institutional and political stability than its Andean neighbors.** The government suffered a setback recently when Congress failed to approve an ambitious tax reform designed to raise funds for more social spending. The country will vote in late 2023 on a new constitution to be drafted by delegates in the coming months, following the rejection of a previous constitution in a referendum last year.

## Corporates

### EM Asia: Uneven funding access, rising borrowing costs, and slowing export markets are hampering credit prospects

**Liquidity and refinancing remain major themes for the trajectory of credit in EM Asia in 2023,** like they were in 2022. On that front, trends remain similar to 2022, namely: uneven market access, volatile investor sentiment for foreign currency funding, short fund-raising windows, lengthy refinancing initiatives for large maturities, selective domestic banking channels, and widespread increases in borrowing costs.

**We expect weaker issuers to be largely shut out of U.S. dollar capital markets in the first half of 2023.** The current uncertainty about U.S. and European banking sectors and the path of U.S. rates outweighs news on China's improving macroeconomic situation and the reduced frequency of negative headlines on China's real estate sector. Average funding costs in U.S. dollars seem to have stabilized for investment-grade issuers, but proposed coupons of a few high yield issuers have exceeded double digits even for short tenors. This can limit the economic momentum amid still sluggish operating conditions. Funding for stronger issuers is likely to be easier; some can often afford to wait for more attractive windows, which are occurring less frequently despite a normalization of spreads over the past few weeks.

**Domestic bank credit remains available in most countries in the region.** Our bank analysts expect loan growth averaging one to two times GDP growth (between 5% and 10% in most countries), though it could be faster in countries such as Vietnam, where the central bank increased its 14% cap on credit growth for 2023. But here too, lenders are staying selective, with a focus on shorter-term working capital funding rather than on refinancing large debt maturities. Domestic funding channels are also sensitive to event risk and contagion from larger borrowers running into difficulties, as the recent stress in Vietnam's real estate sector showed.

**Revenue and profit growth prospects diverge between domestic and export-oriented sectors.** Operating prospects were largely country specific in 2022, given the prevalence of different COVID-19 restrictions. Now that those restrictions have been lifted in all major EM Asia countries, these economies tend to depend more on the share of exports rather than on domestic sales in the services and manufacturing sectors.

**In China, operating conditions are on average marginally better than they were in 2022.** The real estate sector is likely to stabilize at the lower levels seen in 2022 after the sharp contraction that year. We forecast 5.8% retail sales growth (excluding petroleum) for China in 2023, driven by stronger economic momentum and increased mobility. Some subsectors such as food retailing will likely benefit more than discretionary sectors such as apparel or consumer electronics. Export-oriented manufacturing, such as heavy trucks, construction machineries, and consumer electronics may see headwinds given weaker demand prospects in Europe and the U.S.

**In Indonesia, revenue and profit growth are likely to decelerate to low single-digit percentages.** This is because most of the COVID-19-related recovery took place in the first half of 2022 for consumer sectors. Lingering inflation is likely to curb spending power, reducing volume growth compared with last year. We project most commodity prices to be off their 2022 highs. Real estate developers face another sluggish year because of higher mortgage interest rates and expiry of the VAT discount scheme in 2022. And ahead of Indonesia's election in February 2024, consumers may also limit spending on big-ticket items such as autos and real estate, or discretionary goods.

**In Vietnam, the main credit highlight is the ongoing stress in the real estate sector,** which, after years of debt-funded growth, sharply decelerated in the second half of 2022. We expect stress in the sector to continue through 2023, with lower sales amid weakened consumer confidence. Export-oriented sectors, such as electronics, machinery, and textile, are also dependent on export markets in the U.S. and Europe and will be affected by slowing growth prospects there.

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**The growth momentum remains solid in India.** Our economists forecast continued positive growth in India for fiscal year 2023, with India's economy showing the fastest expansion in EM Asia. In our forecasts, rated companies in India are generating revenue and profit increases in 2023 more rapidly than in 2022 amid steady domestic consumption, normalizing power demand, and a rebound in mobility for transportation infrastructure.

**Inflation continues to bite into corporate margins.** Recent financial statements from rated companies in EM Asia show persisting signs of margin compression. Raw materials, energy, transportation, and, increasingly, labor costs continue to rise, despite the decline in commodity prices. We are observing more significant margin compression in the light manufacturing, agribusiness, retail, merchant power, infrastructure, transportation cyclical, capital goods, chemicals, and auto sectors.

## EM EMEA: Diverging trends, building pressures

**Saudi Arabia: Corporate growth prospects remain strong given the Vision 2030 projects.** In

Saudi Arabia, corporate activity across all the key sectors remains elevated on the back of continued infrastructure investments by the Saudi government and its entities (see "[Saudi Arabia's Vision 2030: Some Likely Winners](#)," published Dec. 5, 2022). We also expect further recovery in the tourism and hotel sectors, particularly given the lifting of restrictions on Hajj and Umrah visitor numbers. Saudi Arabia aims to attract 100 million visitors per year by 2030, about half of which will go to Riyadh.

We expect the acceleration of Vision 2030 projects to continue this year, creating additional activity for sectors such as infrastructure and contracting sectors, while real estate investments and construction activity remain elevated across most key segments. We foresee sustained property market growth in Saudi Arabia, fueled by Vision 2030 and the Iskan program, with \$1 trillion slated for real estate and infrastructure projects. The authorities target Riyadh's population to exceed 15 million by 2030 from around 8 million estimated in 2018. Such population growth should support demand for residential properties over the longer term, with rising interest in lifestyle-oriented developments and smaller more affordable units fueled by the expanding expat population and local households' changing preferences.

Given the level of funding requirements under the Vision 2030 program, Saudi Arabia's equity capital markets remain very active. We have seen many IPOs in the country in recent years, further boosting the trading values and market capitalization of Tadawul, the Saudi Stock Exchange, while the IPO pipeline for 2023 remains robust. On March 22, we took positive rating actions on three Saudi companies (see "[Three Saudi Corporates Upgraded To 'A' From 'A-' After Similar Rating Action On Sovereign; Outlooks Stable](#)," published March 22, 2023).

**Turkiye: Macroeconomic risks and uncertainties persist.** The disastrous earthquake in the southeast of Turkiye created major economic damage that will require substantial investment in infrastructure and residential buildings over several years. It will also result in a period of production disruption for companies based in the region. In the meantime, rebuilding would also translate into accelerated activity for sectors involved, particularly construction, real estate, and building materials, among others.

While the Turkish lira has been stable over the past several months, inflation remains a key challenge for companies catering to the local economy. This is because not all business operators have the same ability to fully pass through the impact of cost inflation to their end customers. In the meantime, the strong lira is also causing pricing issues for some exporters, who have seen their cost bases increase substantially due to local inflation, while their export prices remained largely unchanged.

Given the macroeconomic uncertainties in Turkiye, we expect corporates to remain more focused on managing their cash and cost bases, while new investments will remain a low priority.

On the upside, tourism registered a very strong year, with foreign visitor numbers increasing from 24.7 million in 2021 to 44.6 million in 2022. In 2023, the visitor number was around 2 million for

January, almost 60% higher than in January the previous year. We expect another very strong year of recovery for Türkiye's tourism sector, and we have seen similar growth in the aviation sector as well.

**South Africa: Financial buffers protect against infrastructure and inflation pressures for now.**

Infrastructure constraints and inflation are starting to weigh on the financial resilience of rated South African corporates. Shortfalls in power supply (at least six hours per day, on average) and transportation infrastructure are the stand-out operational challenges and increase corporates' costs because infrastructure failures require companies to use expensive alternative power and transport solutions.

Recent results highlight the negative impact on corporate operations; and planning and back-up solutions are proving insufficient to facilitate business as usual. Self-generation and work stoppages are pushing up cash costs in mining. Telecoms note poor network availability and higher costs for diesel used for backup power generation. Other domestic-focused businesses, such as retail and health care, are exposed to higher power self-generation costs and pressure on consumer spending and affordability. As inflation erodes real disposable incomes, higher operating costs cannot always be passed on.

These effects are feeding through to the broader economy and resulted in our revision of our rating outlook to stable from positive (see "[South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth: 'BB-/B' FC Ratings Affirmed](#)," published March 8, 2023). Outlooks on sovereign-constrained government-related entities (GREs) were similarly affected.

At present, we see generally low leverage and solid operational efficiency across rated private-sector corporates; there is comfortable financial headroom at current rating levels, which provides a cushion against the challenging operating environment. Cost-containment strategies and geographic diversification also partly protect some issuers from power supply, inflation, and currency risks. Elevated commodity prices are supportive for commodity exporters. Domestic-focused companies tend to be less exposed than exporters to excess power supply and transportation costs.

For the largest GREs--power company Eskom and transportation infrastructure provider Transnet--there has been some relief from liquidity stress in recent months. Transnet refinanced a \$1 billion loan in February 2023 and received South African rand (ZAR) 5.8 billion in government support. The National Treasury also announced a ZAR254 billion debt relief package for Eskom, which--if implemented as planned--will reduce liquidity risk for the time being and support deleveraging. These measures provide breathing room for Eskom and Transnet to focus on improving their poor operational performance. However, the aging infrastructure, sub-optimal maintenance and investment, inflationary pressures, vandalism, and slow pace of sector reforms continue to constrain recovery.

## EM Latin America: Economic headwinds persist

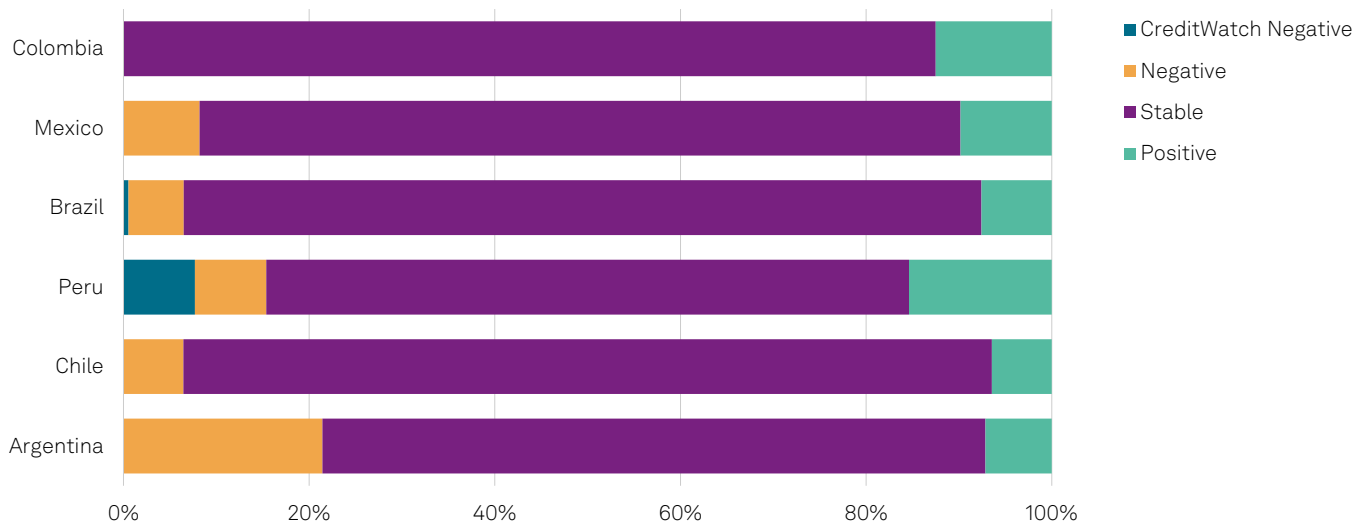
**Non-financial corporations in Latin America are feeling the persistent economic headwinds and could be further strained by market volatility.**

Credit conditions for non-financial corporations in Latin America remain difficult due to continued inflationary pressures and a generally dim economic outlook. Meanwhile, unanticipated regional and global events could exacerbate the damage to financing conditions and investor confidence.

**Rating performance in the region is still withstanding such difficult business conditions**, with our net rating outlook bias nearly at zero, indicating an even number of issuers with positive and negative outlooks. This is very much in line with the rating bias in the last 12 months, and certainly much stronger than the negative bias of 33% from a couple of years ago. Absent the constraints stemming from sovereign rating caps, companies generally have some headroom to cope with short-term risks in 2023, although almost 80% of entities carry speculative-grade ratings ('BB+' and lower) and could face restrictive conditions in an already tight financing environment.

Chart 12

Outlook distribution--Rated corporates in Latin America



Source: S&P Global Ratings.

**Commodity prices have been a supportive credit factor for exporters in the region.** For 2023, we expect this positive price trend to hold, due to supply shortages owing to the Russia-Ukraine conflict and, more recently, China’s lifting of its zero-COVID policy, which will boost global demand for certain sectors like oil and gas, metals, and agricultural products.

**Yet, cost inflation is systematically undermining profitability for a wide group of industries.**

This is because consumer spending continues to deteriorate, and companies are facing more limited flexibility to pass through cost increments. We consider that, under a scenario of long-lasting inflation, where end consumers are unable to absorb higher prices, we could see demand plummet, leading to a reduction of sales volumes. In our view, the sectors facing greater near-term risks are energy-intensive manufacturers, retail and non-essential consumption, real estate, and construction-related businesses.

**In our opinion, recent turbulence in the U.S. and European banking sectors would have limited consequences on credit conditions for non-financial corporations in Latin America.**

However, we could see an indirect effect in the form of increasing risk aversion from institutional investors that triggers higher funding costs or scarce funding for issuers at the lower end of our rating scale. We’re also closely monitoring whether a stress scenario to the financial system in the region could restrict some issuers' access to bank facilities.

**In Brazil, refinancing risk has soared after Americanas (D/--) reported inconsistencies in its financial statements**

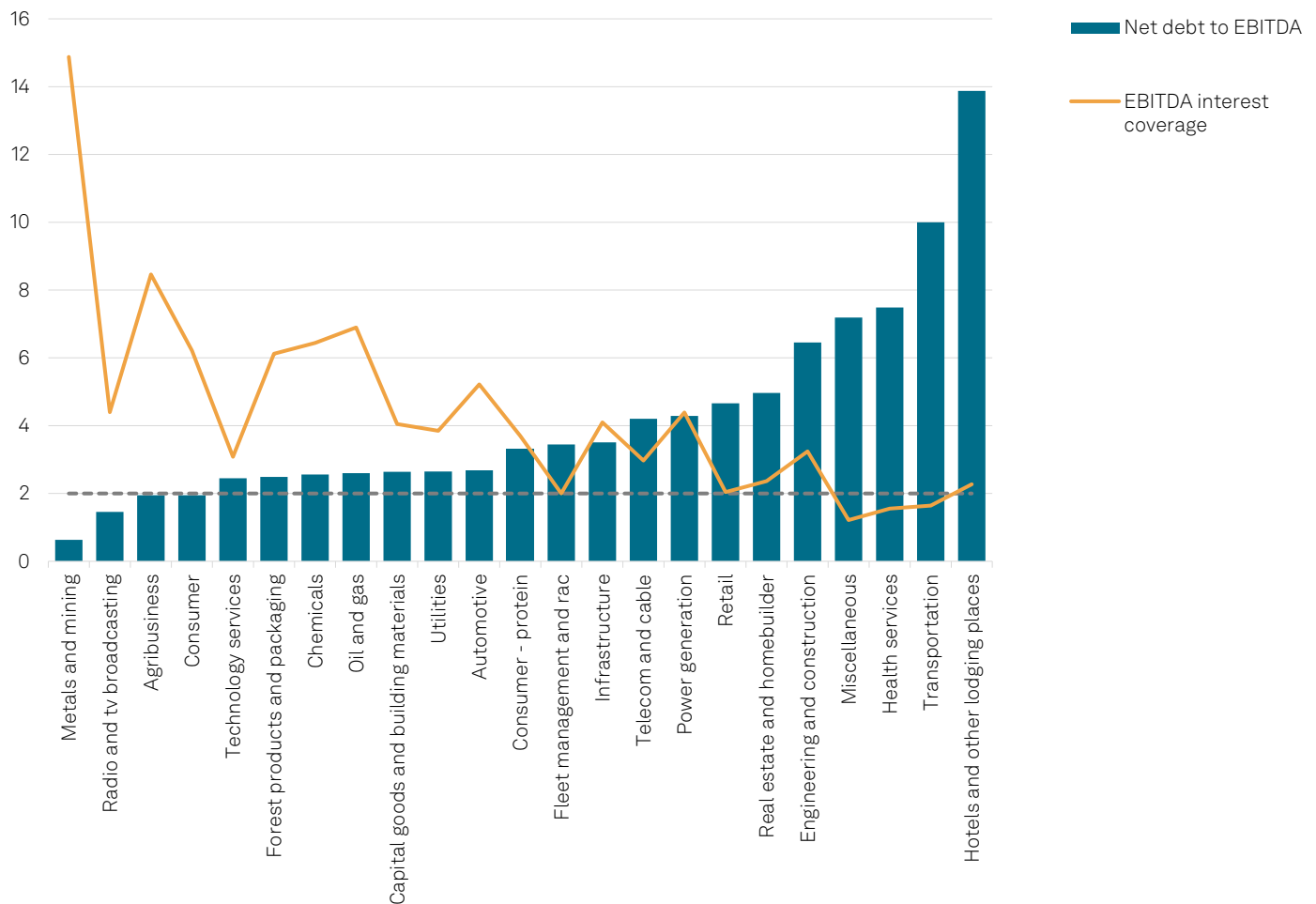
for nearly R\$20 billion in early January 2023, arising from supplier financing operations that apparently weren't properly disclosed. The announcement prompted debt-payment acceleration claims from banks, forcing the company to file for a judicial reorganization. This has raised scrutiny over suppliers' financing across the sector and may curtail access to capital markets.

**Consumer spending in Mexico has been as strong as in any other country in the region,** on the back of a record-breaking trend in remittances that could well exceed \$50 billion in 2023. Also, a recent wave of foreign relocation and nearshoring investments will bring positive momentum to the country’s industrial real estate sector and to the export manufacturing grid. Yet, expensive borrowing costs and inflation rates well above policy targets could abruptly shift consumption patterns. Also, Mexico’s competitive edge as a nearshoring destination depends on infrastructure investments that provide full certainty about the availability of industrial services, including energy sources, water supply, logistics and connectivity, as well as the development of human capital.

**In our view, liquidity risk for Latin American corporations should be largely contained for the rest of the year** because debt maturities will still be relatively low until 2024. However, interest rates pose a relevant risk from a credit perspective. Borrowing costs for the vast majority of sectors are on the rise and will increasingly inhibit the ability to generate free cash flows. While companies remain reasonably leveraged (60% of sectors with net debt-to-EBITDA ratios below 4x), interest coverage ratios are shrinking and the trend is likely to get worse in 2023, as a greater number of instruments and loans reset at higher rates, particularly in Brazil.

Chart 13

**Leverage for key Latin American corporate sectors (x)**



Source: S&P Global Ratings.

**We expect non-financial corporations to generally remain financially disciplined on leverage,** although this kind of credit buffer is increasingly exposed to an extended period of slow economic activity and market volatility.



## Financial Institutions

### EM Asia: A regulatory overhaul to enhance banks' resilience

The leading banks in EM Asia are expected to weather the collapse of SVB due to their negligible direct exposure. However, potential secondary effects could still have an impact and combine with other stresses in the sector, creating a confluence of negative developments that may test the sector's buffers. These secondary effects may include investors' increasing risk aversion, resulting in higher funding costs. Funding and liquidity have traditionally been considered relative strengths of banks in this region, though finance companies could be more vulnerable to confidence sensitivity. Regulators in various EM Asia countries have been tightening rules to improve transparency and strengthen the banking sector.

**China will implement stricter asset classification and capital rules.** Its banking sector is undergoing a major transparency overhaul, with new asset classification rules aimed at improving transparency and reducing opportunities for regulatory arbitrage. Notable changes include the classification of all non-loan credit assets, the classification of an entire borrower's exposure as nonperforming if more than 10% of the exposure has defaulted, and the classification of an entire borrower's outstanding debt as nonperforming if more than 20% of its obligations across the entire banking sector are overdue for more than 90 days.

The updated rules will apply to new business from July 1, 2023, and existing exposures have until the end of 2025 to meet regulatory standards. Although the stricter rules are expected to improve asset-quality indicators and reflect macroeconomic trends and corporate health, weaker banks may take several years to catch up in information quality. Additionally, the stress in the property sector and local government financing vehicles may take time to be fully reflected in banks' reported numbers, especially for the aggressive regional banks. Despite the challenges, the new measures are expected to address questionable practices, reduce banks' flexibility to classify overdue credits, and improve transparency in China's banking sector.

The regulators have also issued draft capital rules that focus on emerging risks, with potentially higher regulatory capital charges for certain types of exposure, such as high-risk counterparty banks, lending to entities with mismatched currencies on their debt and income, lending to property developers not meeting regulators' prudential requirements, lending to government financing vehicles that have high risk, and exposure to subordinated debt issued by financial institutions, though they have reduced capital charges for credit cards and small and midsize enterprises. Higher capital charges will bite banks with aggressive risk appetites, particularly when combined with new asset classification requirements.

**The Reserve Bank of India (RBI) is set to implement IFRS 9 after a significant delay.** The RBI will soon release guidance on International Financial Reporting Standard 9 (IFRS 9), which will enhance credit loss provisioning, increase transparency, and align the country's financial reporting with global standards. While some banks may face challenges during the transition, most rated banks in India are expected to smoothly adopt the new approach to provisioning, which is more forward looking and will improve the timeliness of loan-loss provisions. This move is expected to facilitate regulatory oversight, mitigate disclosure complexities, and boost confidence in the banking sector's financial reporting.

**Thailand's central bank intends to introduce responsible lending rules to address high household debt.** With its planned measures, the Bank of Thailand also aims boost the competitiveness of small and midsize enterprises. The measures include responsible lending guidelines to strengthen loan origination, differentiated pricing based on the risk profile of borrowers, and targeted assistance for vulnerable groups to alleviate financial distress. However, these policy measures will take time to have an impact and bring about a structural shift.

Thailand currently has one of the region's highest household debt, which totaled 87% of GDP as of Sept. 30, 2022. This figure is actually higher when certain obligations, such as student loan funds, are included. With the shift toward digital channels, obtaining credit from the informal

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sector, such as online gambling platforms, lenders on social media, and loan apps, has become easier. Borrowers without a credit history or employment status typically turn to these channels, which further adds to the overall debt burden.

We believe unsecured personal and credit card loans are particularly vulnerable, especially those that rely on minimum payment for debt rollover. Although the economic benefits from China's reopening will flow to Thailand's banks and improve the quality of loans under comprehensive debt restructuring, we still expect the sector's average NPL ratio to rise, due to high household indebtedness and vulnerable small and midsize businesses. Moreover, high interest rates and a slowdown in other major economies could offset some of the benefits from China's reopening.

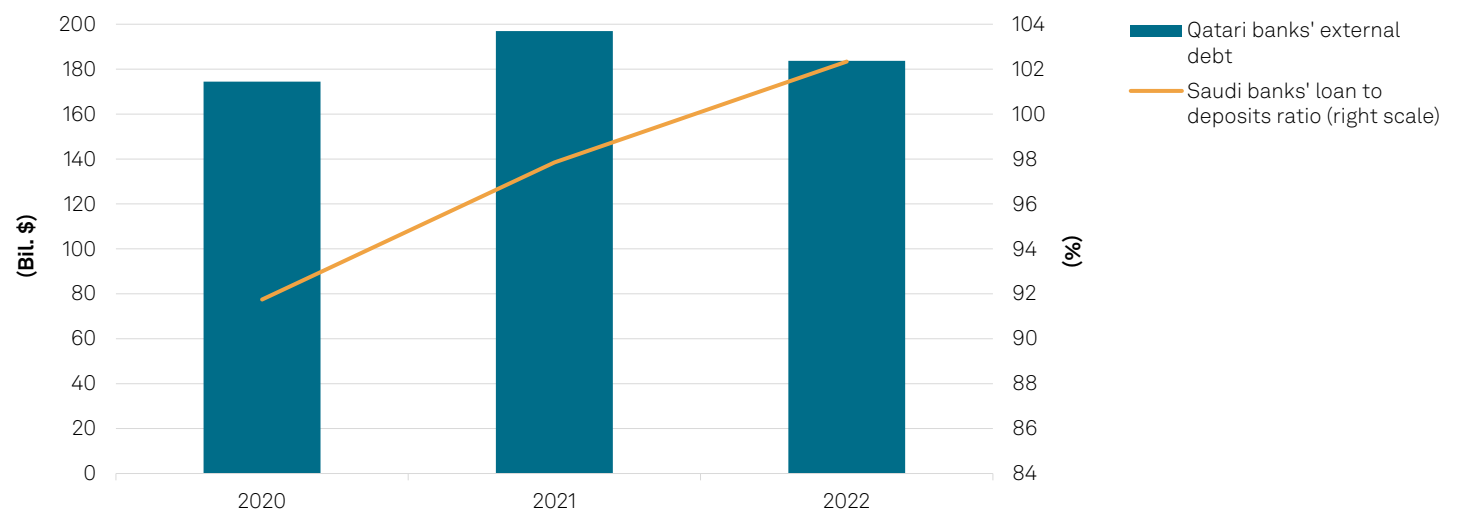
## EM EMEA: Mixed trends with some pockets of risks

**We expect Gulf Cooperation Council (GCC) economies to slow in 2023 because of lower oil production and prices, and higher interest rates affecting the non-oil sector.** As a result, lending growth is likely to decelerate in most countries. In Saudi Arabia, we still see some relative upside from the implementation of Vision 2030, with higher corporate lending growth alongside still increasing mortgage loans, although at a moderating pace. We expect banks' asset quality indicators to deteriorate only slightly because of slowing economic growth and higher interest rates. In our view, banks have already absorbed the impact of the pandemic and continue to build provisions for potential difficult times. What's more, profitability has recovered to pre-pandemic levels in most GCC countries, thanks to higher interest rates and stable cost of risk. In addition, strong capitalization, and potential extraordinary government support, in case of need, continue to support banks' creditworthiness.

**Banks face some headwinds when it comes to funding and liquidity,** particularly in Saudi Arabia, where lending growth has outpaced that of deposits, and in Qatar where funding to net external debt is shrinking (see chart 14). For the latter, we think the pressure could be resolved by attracting higher deposits from the sovereign or the private sector; divesting some assets particularly mortgage loans, through the issuance of residential mortgage-backed securities or sale to Saudi Real Estate Refinance Co.; or tapping the central bank for more liquidity support. For Qatar, the drop in external debt is likely to continue, in our view, as a new investment cycle is yet to begin and loan demand remains muted. In case of pressure, we expect government support to be forthcoming. Besides these risks, we think some GCC banks' exposure to Turkiye and Egypt is likely to weigh on their creditworthiness through unrealized losses due to local currency depreciation.

Chart 14

### Saudi and Qatari banks face some funding headwinds



Source: S&P Global Ratings.

**Turkish banks remain significantly exposed to the risk of an unwinding of economic**

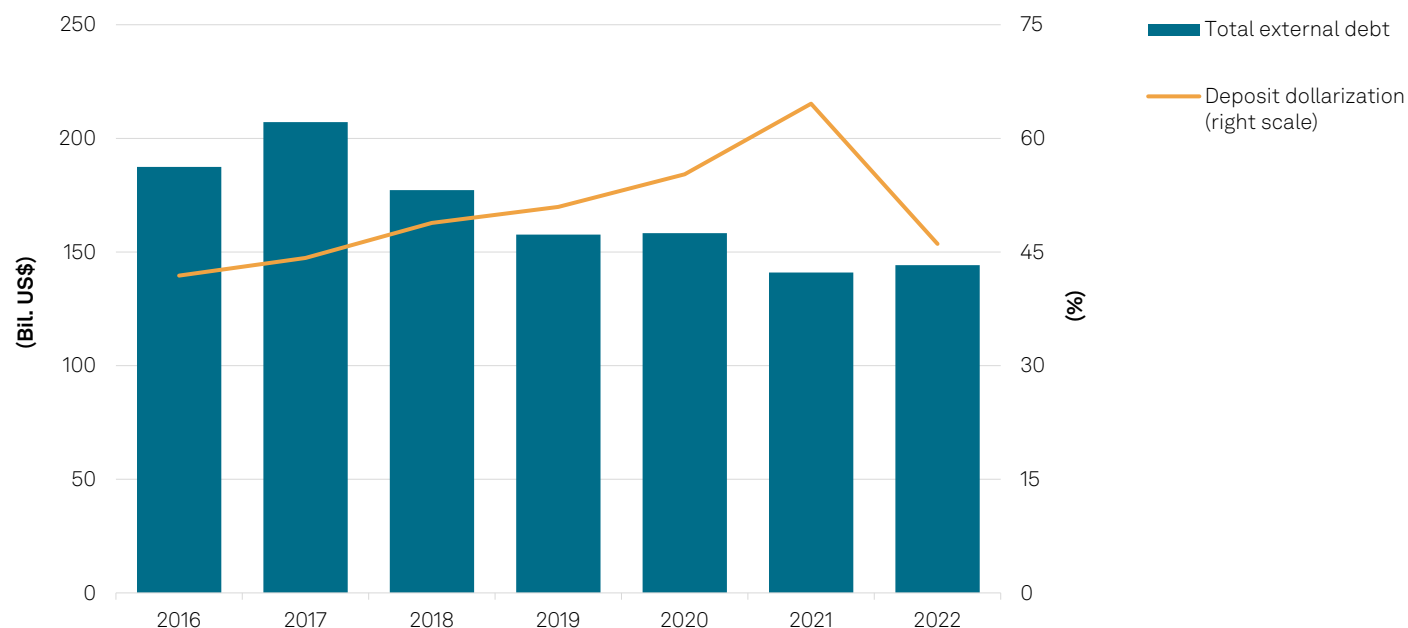
**imbalances** accumulated in previous years, including from a surge in real estate prices and highly accommodative monetary policy in a hyperinflationary environment. Additionally, credit growth in the country has been extremely high for the past few years. While the rise in house prices has helped banks' asset quality by increasing the valuation of real estate assets held as collateral, we think the risk of a sharp correction is increasing. In our view, if house prices were to drop steeply, that could eventually result in substantial credit losses for the banking system. We expect the Turkish lira to remain weak amid higher interest rates in developed markets and local challenges. This is also eroding the creditworthiness of Turkiye's corporates, which are still highly indebted in foreign currencies.

We currently expect banks' credit losses to increase to about 3.2% in 2023 compared with 2.8% in 2022, and NPLs to remain contained at 4%-5% in 2023 after a low 2.2% as of year-end 2022. That said, we acknowledge that NPL ratios in Turkiye are also influenced by a large number of restructured loans not being recognized as delinquent, as well as rapid credit expansion inflating the ratio's denominator. We see significant risks to our projections, particularly in the event of a monetary policy reset, significant depreciation of the lira, or the impact of the recent natural disasters that hit the country.

Under our base-case scenario, we still expect Turkish banks to be able to access external funding, and external debt to reduce gradually over the next few years if the government can contain balance-of-payment risks. However, banks remain highly vulnerable to negative market sentiment and risk aversion, due to their still high external debt (estimated at \$144.2 billion at year-end 2022, assuming all the repo transactions in foreign currency are with external counterparties; see chart 15). For this reason, we consider that lower, more expensive global liquidity heightens refinancing risks. Although Turkish banks have sufficient foreign currency liquidity to handle lower roll-over rates, most of it is either with the central bank or placed in government securities, which could reduce its availability in a highly stressed scenario. In addition, we see a risk that depositors might lose confidence in the banking system. We note that deposit dollarization dropped as of year-end 2022 due to the protected local currency deposit scheme and to the regulator forcing banks to convert some of their deposits into local currency at the risk of incurring significant costs.

Chart 15

**Turkish banks remain vulnerable to external funding risk**



Source: S&P Global Ratings.

**For banks in South Africa, the lingering energy crisis poses risks to short- and medium-term growth prospects.** We expect real GDP growth to weaken to 1% in 2023 and average 1.7% for 2024-2026. The increasing incidence of electricity shortages is weighing on small and midsize enterprises. Larger corporates in the industrial sectors, owing to power load curtailments, will likely see their output and costs affected, which in turn will lead to a loss of productivity. That said, many corporates have implemented alternative power solutions. Their exposures to small businesses through their value chains pose a residual transmission risk. We expect these additional costs will be transferred to end customers.

Positively, risks associated with the commercial real estate sector are manageable, in our view, because of the diversified nature of banks' exposures and the collateral held, where the average loan-to-value ratio is moderate. Overall, we expect muted private-sector credit growth of 5% over the next two years. Banks will continue to extend credit to the renewable energy sector, although implementation of previous projects has faced delays because of capacity constraints.

Despite moderating inflation, households' disposable income will come under pressure because of higher interest rates and the cost associated with the implementation of alternative power solutions. The South African Reserve Bank has been tightening its monetary policy stance and raised its repo rate by 25 bps in January 2023 to 7.25%. We expect household leverage (defined as household debt to disposable income) will increase slightly to around 68% through 2024. We also expect credit losses for the sector will remain somewhat higher than the historical low point of 75 bps and average 1% through 2024. Similarly, the banking sector's ratio of NPLs to total loans will likely rise to 3.5%-4.0%. At the same time, higher interest rates will support growth of investment income and net interest margins. Against this backdrop, we expect the sector will maintain an adequate risk-adjusted return of 15%-16% on average. This will in turn support banks' internal capital generation over our forecast horizon.

## EM Latin America: Weakening prospects will weigh on asset quality

**Weak economic performance and higher for longer interest rates will take a toll on asset quality.** We expect persistent inflation, higher financing costs, and limits on transferring those higher costs to prices to represent a significant challenge for corporates' future performance. As a result, we expect the asset quality of banks in EM Latin America to deteriorate. Moreover, this economic scenario is squeezing consumers' disposable income, which will further pressure banks' asset quality performance. On the other hand, we think banks are entering this new cycle with robust balance sheets, including high provisioning levels.

Credit growth will likely moderate amid sluggish economic growth, a protracted period of high interest rates, private banks' tighter underwriting practices, and uncertainty regarding the economic policies the new and current governments will implement. Banks will likely focus on lower-risk products to protect their balance sheets.

Profitability will likely weaken, but from sound levels, because of pressures on net interest margins and deteriorating asset quality that will require banks to continue strengthening their provisions. Latin American banks are used to operating in difficult operating conditions and have sound regulatory capital, which we expect will help them navigate the tougher environment.

## Appendix: Economic Data And Forecast Summaries

Table 4  
Real GDP (%)

	2022	2023f	2024f	2025f
Argentina	5.2	0.0	1.7	1.8
Brazil	3.0	0.8	1.7	2.0
Chile	2.5	(0.4)	2.6	2.8
Colombia	7.5	1.1	2.6	3.0
Mexico	3.1	1.3	1.7	2.1
Peru	2.7	2.0	2.8	2.9
China	3.0	5.5	5.0	4.7
India	7.0	6.0	6.9	6.9
Indonesia	5.3	4.9	5.0	5.1
Malaysia	8.7	3.2	4.7	4.5
Philippines	7.6	5.8	5.8	6.5
Thailand	2.6	3.2	3.5	3.3
Vietnam	8.0	6.0	6.9	6.7
Hungary	4.9	0.3	3.2	2.9
Poland	4.9	0.9	3.4	2.8
Saudi Arabia	8.7	3.2	2.6	2.5
South Africa	2.0	0.8	2.1	1.7
Turkiye	5.4	2.1	2.8	3.4

f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence.

Table 5

**CPI inflation**

Year average (%)

	2022	2023f	2024f	2025f
Argentina	72.5	97.9	85.0	65.0
Brazil	9.3	4.8	4.5	3.6
Chile	11.6	7.9	4.1	3.1
Colombia	10.2	11.0	4.3	3.4
Mexico	7.9	6.4	4.1	3.2
Peru	7.9	5.8	3.0	2.3
China	2.0	2.3	2.7	2.2
India	6.8	5.0	4.3	4.4
Indonesia	4.2	4.1	3.6	3.5
Malaysia	3.4	2.8	2.4	2.4
Philippines	5.8	6.2	3.2	3.3
Thailand	6.1	3.1	1.1	0.7
Vietnam	3.2	3.2	3.1	3.0
Hungary*	15.3	18.5	5.5	4.4
Poland*	13.3	11.8	6.2	3.1
Saudi Arabia	3.1	2.5	2.9	2.0
South Africa	2.5	2.9	2.2	2.0
Turkiye	72.3	44.6	22.4	12.0

\*Poland and Hungary are reflective of HICP measure of inflation. f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence.

Table 6

**Policy rates**

End of period (%)

	2022	2023f	2024f	2025f
Argentina	75.00	80.00	70.00	50.00
Brazil	13.75	12.50	9.00	8.50
Chile	11.25	9.00	6.50	5.00
Colombia	12.00	13.25	9.00	7.00
Mexico	10.50	11.50	8.50	7.00
Peru	7.50	7.25	5.00	3.50
India	6.50	6.25	5.25	5.00
Indonesia	5.50	5.75	5.25	5.00
Malaysia	2.75	3.00	2.75	2.75
Philippines	5.50	6.50	4.75	4.00
Thailand	1.25	2.25	2.00	2.00
Hungary	13.00	12.00	8.00	3.00
Poland	6.75	6.75	5.25	3.50
Saudi Arabia	5.00	5.75	4.50	3.25
South Africa	7.00	7.50	6.75	6.00
Turkiye	9.00	8.00	8.00	8.00

f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence.

Table 7

**Exchange rates vs. US\$**

Year average

	2022f	2023f	2024f	2025f
Argentina	130.90	248.00	465.00	775.45
Brazil	5.18	5.19	5.23	5.28
Chile	873.67	822.00	863.00	888.00
Colombia	4,254.84	4,755.00	4,775.00	4,825.00
Mexico	20.12	18.90	19.75	20.25
Peru	3.83	3.82	3.88	3.93
China	6.73	7.02	6.91	6.73
India	80.70	82.63	83.28	84.48
Indonesia	14,852.71	15,522.50	15,537.50	15,437.50
Malaysia	4.36	4.40	4.36	4.21
Philippines	54.51	54.52	53.37	51.68
Thailand	35.08	34.65	34.45	34.05
Hungary	372.59	366.67	363.89	361.40
Poland	4.49	4.50	4.71	4.73
Saudi Arabia	3.75	3.75	3.75	3.75
South Africa	16.38	17.71	17.90	18.05
Turkiye	16.44	21.60	24.00	27.63

f--S&amp;P Global Ratings forecast. Source: S&amp;P Global Market Intelligence.

Table 8

**Unemployment**

Year average (%)

	2022	2023f	2024f	2025f
Argentina	7.4	9.8	9.4	8.8
Brazil	9.6	9.6	9.4	9.0
Chile	7.8	8.6	8.0	7.5
Colombia	11.2	11.5	11.1	10.5
Mexico	3.3	3.5	3.8	3.7
Peru	4.2	4.5	4.6	4.4
China	5.5	5.4	5.2	5.1
Indonesia	5.8	5.4	5.3	5.3
Malaysia	3.8	3.6	3.4	3.3
Philippines	5.4	4.6	4.6	4.2
Thailand	1.3	1.2	1.1	1.0
Hungary	3.7	4.0	3.9	3.8
Poland	3.2	3.1	2.9	2.8
Saudi Arabia	5.9	5.5	5.3	5.2
South Africa	33.7	32.3	31.6	31.1
Turkiye	11.1	11.5	10.4	10.2

f--S&amp;P Global Ratings forecast. Source: S&amp;P Global Market Intelligence.

## Related Research

- [Credit Conditions Asia-Pacific Q2 2023: Still Steady, Banking Turmoil Risk Here Is Moderate](#), Mar. 28, 2023
- [Credit Conditions Europe Q2 2023: Costs Rising To Cure Inflation](#), Mar. 28, 2023
- [Credit Conditions North America Q2 2023: Coalescing Stresses](#), Mar. 28, 2023
- [Economic Outlook Emerging Markets Q2 2023: Global Crosscurrents Make For A Bumpy Deceleration](#), Mar. 27, 2023
- [Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise](#), Mar. 27, 2023
- [Economic Outlook Eurozone Q2 2023: Rate Rises Weigh On Return To Growth](#), Mar. 27, 2023
- [Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth](#), Mar. 27, 2023
- [Credit Stress Looms In Latin America As Financing Costs Surge](#), Mar. 22, 2023
- [Emerging Markets Monthly Highlights: Diverging Trends Are Underway](#), Mar. 15, 2023
- [Economic Research: Emerging Markets Real-Time Data: Activity Picked Up In Early 2023 Amid Global Macro Crosscurrents](#), Mar. 10, 2023
- [Sovereign Debt 2023: Borrowing Will Stay Elevated Despite Rising Cost Of Debt](#), Mar. 9, 2023
- [South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth: 'BB-/B' FC Ratings Affirmed](#), March 8, 2023
- [Asia-Pacific In 2023: China Rebound Cannot Offset Western Slowdown](#), Feb. 23, 2023
- [Saudi Arabia's Vision 2030: Some Likely Winners](#), Dec. 5, 2022

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