S&P Global
Ratings

Credit Conditions Emerging Markets Q3 2023

Inflation Peaked, Risks Remain

June 27, 2023

This report does not constitute a rating action

Key Takeaways

Overall: Credit conditions in emerging markets (EMs) show some improvement as inflation cools down, but economic activity is weakening, and the lagged effects of tight monetary policy are surfacing. Banks and domestic capital markets have provided critical financing, somewhat offsetting the tight financing conditions abroad. Corporations remain resilient as cost pass-through continues. Challenges remain, as activity slows down and challenging financing access and high rates will linger longer than initially expected.

Risks: Risk trends for EMs have stabilized, though tight financing conditions continue clouding the outlook for EM issuers. Lower-rated entities continue to encounter difficulties in accessing capital markets, and recent refinancings show a steep increase in rates. We see two threats ahead: on the one hand, the Federal Reserve could further increase its rates if inflation doesn't cool down; on the other hand, we now expect that higher interest rates will linger for longer, which will be challenging for debt-laden businesses.

Credit: We expect that the lagged effect of the rapid and significant monetary tightening, along with enduring high prices, will continue influencing EM rating trends. Lower-rated entities will remain vulnerable to these conditions, and we expect negative rating actions to dominate.

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential 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 credit conditions committee on June 19, 2023.

Regional Credit Conditions Chair

Jose M Perez-Gorozpe
Madrid
jose.perez-gorozpe
@spglobal.com
+34-914-233-212

Contents

Top EM Risks

Lingering tight financing conditions amid higher interest rates

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

The rate-hiking cycle seems to have reached its peak across most EMs, while inflation readings and tight labor markets across advanced economies suggest central banks still have work to do. The latter will probably reflect in lingering volatile financing conditions and fragile investor sentiment towards EMs and speculative-grade issuers. Our expectation is that as inflation wanes, policy rates should gradually fall beginning in 2024; however, we don't expect them to go back to the low levels of the past years. While financing conditions may improve as economic trends stabilize, persistently high rates will probably keep funding costs high for all EM issuers, especially for the lower-rated ones. For many issuers, this new interest-rate environment could be unsustainable, leading to defaults and bankruptcies.

Weakening economy and lasting cost pressures squeeze corporate margins

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

Despite peaking, inflation's effects are still surfacing in EM issuers' financials. Labor costs, for example, have been gradually revised over the past few quarters and, in some cases, are eating into margins. Corporations continue to pass cost effects to their prices as much as possible, although economic activity so far has not been as strong as seen last year, and we expect the economy to continue weakening during 2023. We expect inflation to gradually slow, but it's going to be a bumpy ride. While weaker demand will be supportive of this trend, many factors could shock the supply side, including El Niño effect on food commodities, ongoing spillovers from the war in Ukraine, and foreign-exchange (FX) risks. In our view, continued erosion of households' purchasing power and corporate-margin pressure, as revenues ebb and costs remain high could hinder overall credit quality. The latter could be reflected in weakening asset quality for financial institutions. At the same time, EM sovereigns' financing costs are rising and there's limited room to increase taxes, while many face steep debt burdens.

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

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

A spike in interest rates has caused global jitters, and sustained inflation and tight financing conditions are already weakening economic activity. Ultimately, the central bank's objective is to cool down demand to rein in inflation, but monetary policy decisions are reflected in a lag in economic activity depending on the effectiveness of transmission channels, including credit availability, growth, and cost of credit itself. Given the very rapid monetary tightening and persistently high inflation in advanced economies, the risk for monetary overshooting and an economic hard landing is significant. Uneven economic activity is weighing on global trade and commodity prices, a problem for EM exporters. A deeper-than-expected recession could hurt key EM exporters by reducing trade volumes, portfolio flows, and foreign direct investment (FDI). Slower economic activity could imperil their corporate sectors' fundamentals and banks' asset quality. Unemployment could rise, hitting households already burdened by inflation.

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 remains unresolved and recent attacks on Ukraine's infrastructure could heighten risks for EMs. Ongoing hostilities, and both countries' large role in key commodity markets could renew pressures on energy and food prices, which could undermine confidence and growth in EMs. Sensitivities in Russia to the progress of the war have edged higher following the recent mutiny of the Wagner group, a private military company. Given the uncertainty and unpredictable nature of decision-making in Russia, tail risks remain high even if the macro credit impact has, so far, proven much less damaging than was feared last year. Russia's search for allies could raise tensions among some key EMs and the U.S., undermining their economic prospects. In addition, domestic political landscape across many EMs remains complicated. Overall fragile institutions, along with fragmentation and polarization at the legislative level, is making it difficult to carry out relevant reforms to support long-term growth. The disenchantment over politicians and democracy is growing, which could in the long run erode policy predictability and sovereigns' ability to deal with fiscal challenges and to support economic growth.

China's recovery momentum falters substantially in the wake of prolonged weakness in business and household confidence

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

China's post-pandemic economic recovery is underway. However, prolonged weak business and household confidence could derail the recovery momentum. Lackluster manufacturing activity due to slower global demand, high youth unemployment, and still subdued property sector have dimmed business and household sentiments. China's sluggish economic recovery could spill over to the region's economies and other emerging markets 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 production in some EMs. This year, El Niño phenomenon can increase risks across many EMs due to heightened likelihood of rainfall levels and floods in South America, while severe drought might hit countries in Southeast Asia, Africa's western and southern regions. Past occurrences of this phenomenon have caused food prices to jump and other supply shocks.

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 Show Some Improvement, Challenges Remain

Inflationary pressures are easing for EMs, as energy prices and food prices smooth, providing some relief to EM issuers. Risks, however, are still high and not to be underestimated. We expect financing conditions to remain tight over the coming quarters in the form of very limited access to funding for speculative-grade issuers and higher financing costs across the board. Banks and domestic capital markets have been a crucial alternative for those issuers in need of working capital and refinancing. However, such funding sources are costlier and have shorter maturities. Corporations continue passing through cost increases in prices--although margins have slipped, most sectors have remained resilient. There are exceptions, however, especially for durable nonessentials and other manufacturers depending on European and U.S. demand. We expect EM corporations will be tested by weakening global demand and higher financing costs, which will likely pinch their credit quality over the coming months. Households continue bearing the brunt of inflationary pressures through the erosion of their purchasing power and falling savings capacity. We expect sovereigns will also be facing rising strains as slower economic activity dents tax collection, financing costs grow, and room for very much needed fiscal consolidation narrows.

Fed Guidance Might Prevent EM Central Banks From Cutting Rates

Many EM central banks have enough cushion to begin easing their monetary policy; however, this is going to be challenging considering that central banks in advanced economies still have work to do to rein in inflation through additional monetary tightening. The U.S. economy remains on strong footing mainly thanks to the services sector and very resilient labor markets, the latter of which point toward further monetary tightening in the near future. At the same time, some sectors are cooling in both the U.S. and Europe, especially those related to manufacturing, reflecting in lower trade volumes. Overall, this is a dire combination for EMs since few would benefit from positive momentum of the services sectors in the U.S., but EM exporters will suffer from falling global demand and commodity prices. Moreover, higher interest rates in the U.S. and other advanced economies, including the eurozone, U.K., and potentially Japan, would intensify the pressure on financing conditions in EMs and will make it difficult for their central banks to ease monetary policy, fearing capital outflows and weaker currencies.

Inflationary Pressures Could Resurface

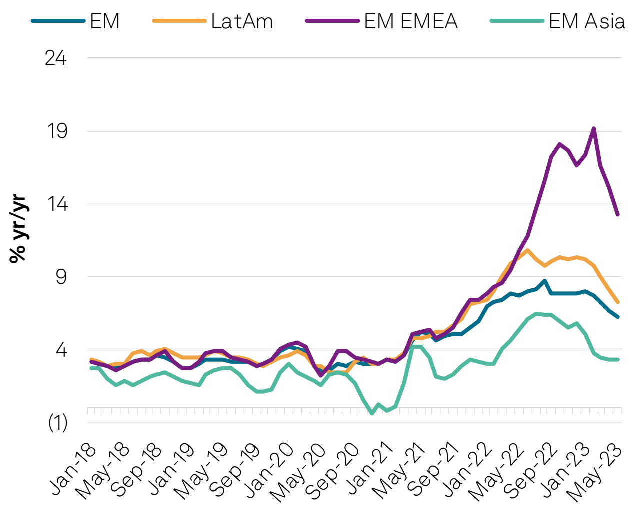
Many ongoing factors could result in renewed supply shocks, which could lift inflation. On the one hand, the war in Ukraine hasn't ended and recent attacks on critical infrastructure could depress the country's agricultural output, causing some key grain shortages. On the other hand, El Niño phenomenon will likely cause droughts in Southeast Asia and countries in West and Southern Africa, dragging down the production of food commodities, including rice, corn, and soybeans. In South America, the effects of El Niño are mixed with more rainfall in Peru and northeastern Brazil, but droughts in the southern part of the latter country; the impact varies in Colombia but it's significant for coffee production. This same phenomenon is often associated with lower fishing production. Last but not least, increasing rates in advanced economies could depress the value of EM currencies, which could result in inflationary pressures, especially for those countries importing food and fuels.

EM Asia's Economic Growth Continues To Outperform

The region's growth continues to outpace that of other EM regions despite headwinds. Domestic demand and re-opening kept EM Asia's economies resilient. Inflation in this region was moderate compared with other EMs; therefore, monetary policy tightening was also not as stringent and the need for additional hikes has receded. Key risks to growth stem from possibly slower growth in the West and China. Sharp increases in global energy and commodity prices would stoke inflation, external deficits, and renewed depreciation pressure on currencies amid elevated U.S. interest rates.

Chart 1

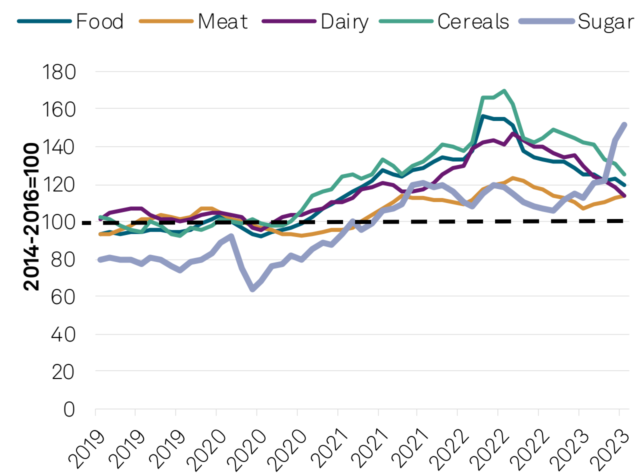
Inflation has peaked across most EMs



Median CPI, % Yr./Yr. Sources: S&P Global Rating and Haver Analytics.

Chart 2

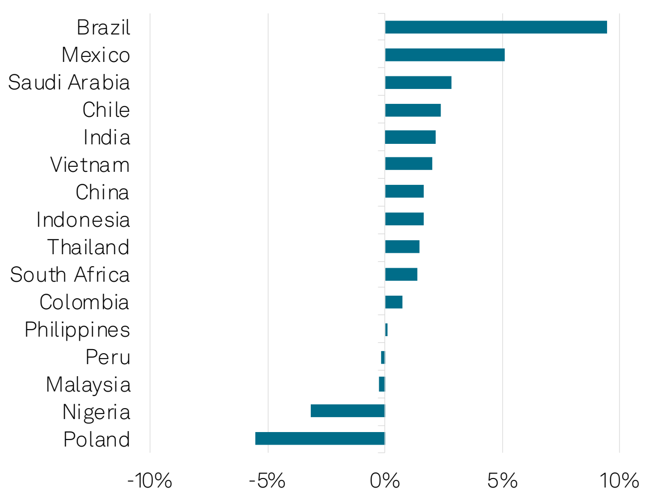
Food prices eased, but pressures could resurface



Food Price indexes. Source: Food and Agricultural Organization of the United Nations (FAO).

Chart 3

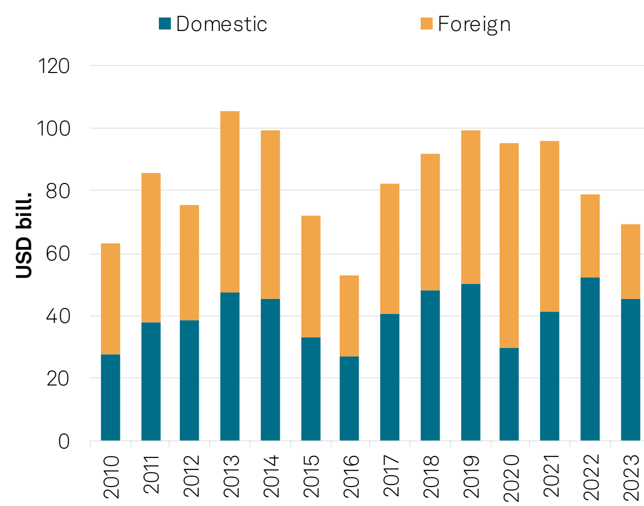
Hawkish Fed might prevent EM central banks' easing



Real rates calculated with the Fisher formula, policy rates, and the latest inflation data. Sources: S&P Global Ratings and domestic monetary authorities. Data as of June 16, 2023.

Chart 4

Domestic markets partially compensated for tight financing conditions abroad



Issuance from key EMs excluding China from January to May of each year. Data including not rated, and both financial and non-financial entities. Source: S&P Global Ratings Credit Research & Insights, Refinitiv.

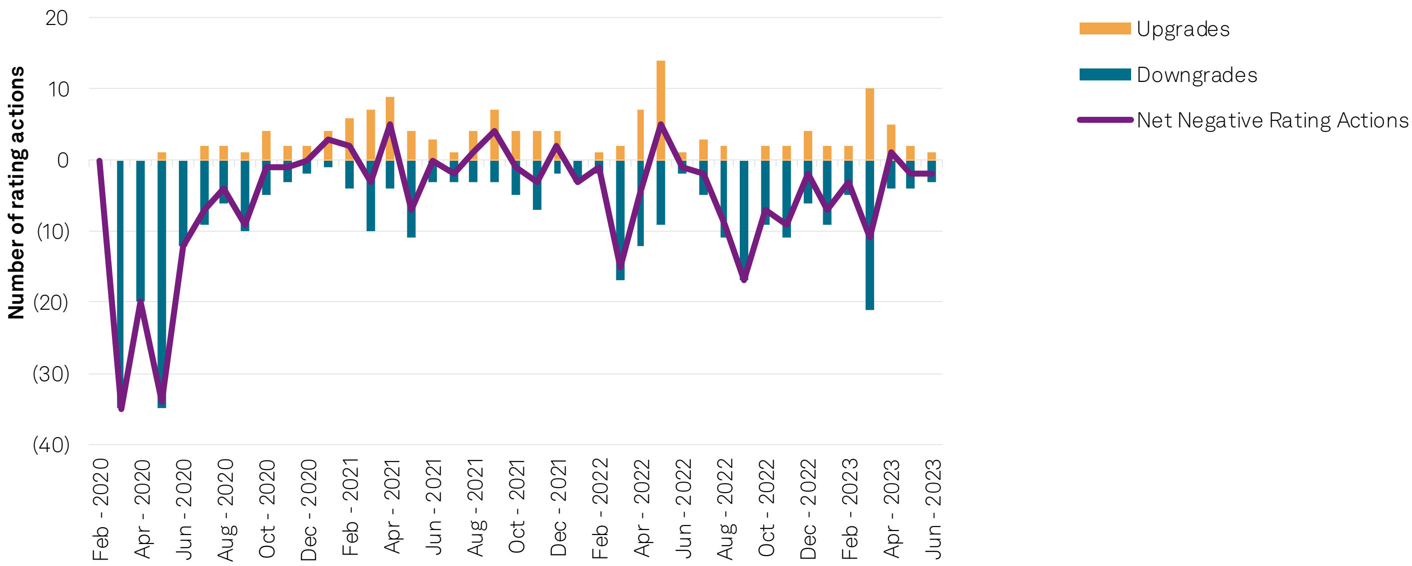
Ongoing Strains In EM Credit Quality

We expect that the lagged effect of the rapid and significant monetary tightening, along with enduring high prices will continue influencing EM rating trends. Lower-rated entities will remain vulnerable to these conditions, and we expect negative rating actions to dominate. Furthermore, we're closely monitoring those sectors whose margin compression is deeper, and some of which are also struggling with increasing financing costs.

Chart 5

We expect negative rating actions will continue dominating the mix

Number of rating actions in key EMs



Data as of June 9, 2023, financial and nonfinancial corporates, including sovereigns--Argentina, Brazil, Chile, Colombia, Mexico, Peru, India, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Hungary Poland, Saudi Arabia, South Africa, Turkiye, and Greater China. Source: S&P Global Ratings Research & Insights.

Macroeconomic Conditions

Beating Expectations, But For How Long?

Primary contacts

Satyam Panday
New York
satyam.panday
@spglobal.com
+1-212-438-6009

Elijah Oliveros
New York
elijah.oliveros
@spglobal.com
+1-212-438-2228

Vishrut Rana
Singapore
vishrut.rana@spglobal.com
+65-6216-1008

- Despite better-than-expected growth in the first quarter, we continue to forecast a sharp slowdown in 2023 for EMs, excluding China and Thailand, following strong growth in 2022.
- Headline EM inflation has dropped, but in EM EMEA and LatAm (excluding Brazil), it remains above central banks' targets.
- We forecast annual average inflation in EM Asia (excluding the Philippines) to come within central banks' targets in 2023, but for most other EMs, returning to their central bank targets by the end of 2024 will be a bumpy ride.
- Monetary tightening cycles are at or near the end in most EMs given moderating inflation, weakening growth, and lower long-term U.S. bond yields.

(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.)

Several developments have diminished uncertainty in global financial markets since our March publication. First, the U.S. government passed the Fiscal Responsibility Act aimed at raising the debt ceiling and thus avoiding a sovereign default, while the situation in the banking system has improved. Second, the war in Ukraine continues with no end in sight, yet geopolitical risk appears to have subsided somewhat from last year's peak, although the last weekend's events in Russia are a stark reminder that geopolitical risks, especially affecting commodity markets, could rise at any moment. Finally, the World Health Organization recently declared an end to the pandemic as a public health emergency after death rates plunged and the burden on once overwhelmed health systems eased. The moderating health trend has allowed most countries to return to pre-pandemic norms. Unfortunately, the taming of these risks is unlikely to result in faster economic growth in the second half of this year.

A common theme across advanced economies is that the post-pandemic core inflation surge has yet to abate and the labor market remains tight. Granted, headline consumer as well as producer inflation have come down faster as industrial metals prices have dropped considerably recently, supply-chain bottlenecks eased to pre-pandemic levels, food commodity prices continued to trend down, and oil remains at the low point of its recent price range of $70-$80 per barrel (bbl), which is down from about $115/bbl in June last year despite Saudi Arabia's efforts to prop it up. But, in our view, these developments are unlikely to prompt the central banks of advanced economies to change course in the short term. A pivot to a more accommodative monetary policy will only take place when core inflation will slow substantially, and this process could take several more quarters, even amid low economic growth.

Central banks will need to keep their monetary policy restrictive, acting as a drag – in the U.S. and the Eurozone, we see further rate hikes –. We expect the Fed to raise policy rate once more this summer and hold it steady at 5.25%-5.50% for the rest of 2023 and until mid-2024, keeping upward pressure on real rates while core inflation moderates. We revised growth forecasts for the U.S. and eurozone upward on the first-quarter strength, but both economies are poised to perform well below potential growth in the next 12-18 months.

Growth narrative for EMs remains generally unchanged from our last publication. We expect real GDP growth to slow sharply this year in most EMs after remarkably strong performance in 2022, with China and Thailand as notable exceptions (see table 1). We expect core EM countries in Europe, the Middle East, and Africa (EM EMEA), as well as in Latin America (LatAm), to grow well below longer-run trends the next 12 months, while India and countries in Southeast Asia will grow a tad under their respective trends. We nudged down our 2023 growth forecast for China, though it is still above the country's 5% official target. External environment, as we mentioned above, will be challenging. We expect growth across these EMs gradually returning to their respective potential growth rates in 2024 and 2025, as external conditions start to normalize, inflationary pressures recede, and central banks begin to ease their monetary policy.

Table 1

Summary of GDP growth forecasts

	2020	2021	2022	2023f	2024f	2025f	2026f
Argentina	(9.9)	10.4	5.2	-2.0	0.5	2.0	2.1
Brazil	(3.6)	5.3	3.0	1.7	1.5	1.8	1.9
Chile	(6.2)	11.9	2.5	0.3	2.4	2.8	2.9
Colombia	(7.3)	11.0	7.3	1.4	2.0	2.9	3.0
Mexico	(8.2)	4.9	3.0	1.8	1.5	2.1	2.1
Peru	(11.1)	13.5	2.7	1.8	2.6	2.8	3.0
China	2.2	8.5	3.0	5.2	4.7	4.7	4.5
India	(5.8)	9.1	7.2	6.0	6.9	6.9	7.1
Indonesia	(2.1)	3.7	5.3	4.8	5.0	5.1	5.1
Malaysia	(5.5)	3.3	8.7	4.0	4.5	4.5	4.4
Philippines	(9.5)	5.7	7.6	5.9	5.9	6.6	6.3
Thailand	(6.1)	1.5	2.6	3.2	3.5	3.3	3.2
Vietnam	2.9	2.6	8.0	5.5	6.9	6.8	6.7
Hungary	(4.8)	7.1	4.6	0.1	3.2	2.9	2.9
Poland	(2.0)	6.7	5.5	1.1	3.2	3.3	2.8
Turkiye	1.8	11.6	5.4	2.3	2.0	3.1	3.1
Saudi Arabia	(4.3)	3.9	8.7	0.2	3.6	3.4	3.3
South Africa	(6.3)	4.9	2.0	0.6	1.7	1.7	2.3
EM-18	(1.8)	7.7	4.5	4.1	4.3	4.5	4.4
EM-17 (excludes China)	(4.6)	7.1	5.5	3.3	4.0	4.3	4.4
LatAm	(6.3)	6.9	3.6	1.1	1.5	2.1	2.2
EM Southeast Asia	(3.7)	3.4	5.9	4.7	5.0	5.1	5.0
EM EMEA	1.6	8.1	5.6	1.3	2.6	3.0	3.0

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

S&P Global Ratings views China's GDP growth official target of "around 5%" for 2023 as relatively unambitious. Despite China's likely higher growth this year than 3% last year, our downwardly revised GDP growth forecast, now 5.2% for 2023, is low by historical standards. China’s economy rebounded in the first quarter of 2023, led by consumption and services, while consumer demand has continued to recover in recent months. But, amid subdued investment and exports, manufacturing momentum has weakened in recent months. Also, consumer confidence is recovering only slowly. As indicated at the National People's Congress meetings earlier this year, macroeconomic policy is likely to be supportive but not significantly expansionary. Yet, following recent steps such as the 10-basis-point (bp) cut in the policy rate this week, some further policy easing is likely, while any further setbacks to growth and confidence in coming months would trigger more measures. Although we expect policymakers to keep such support limited, it should effectively put a floor under growth.

We project LatAm's GDP growth to slow to 1.3% in 2023 from 3.6% in 2022, driven by a cyclical slowdown in domestic demand. We forecast growth edging up to 1.5% in 2024, although remaining below potential, which we estimate at 2.0%-2.5%. We revised the growth forecast slightly higher this year given better-than-expected first-quarter performance, but lowered the 2024 forecast. Strong first-quarter performance was driven mostly by higher net exports, which in turn was mostly a result of a decline in imports. Meanwhile, domestic demand continues to slacken in every major LatAm economy, except for Mexico, where strong remittances have propped up consumption. Sluggish growth among key partners, mainly the U.S., will keep exports subdued in the region next year even as domestic demand rebounds on lower inflation and looser monetary policy.

Inflation in the region has started to slow down more noticeably in recent months, driven by lower food prices. Encouragingly, core inflation has also waned. Weakness in domestic demand, lower commodity prices than last year, and stronger exchange rates will help inflation to continue to moderate in the coming months, which we expect will allow central banks to start lowering interest rates.

We expect central banks in Chile and Brazil (in that order) to be the first major monetary authorities in the region to cut interest rates, likely in the third quarter of this year. In both cases, real interest rates are more than 300 bps above what they were before the pandemic, and the outlook for domestic demand in the coming quarters is downbeat. We expect Colombia, Mexico, and Peru to start cutting interest rates in early 2024, closer to the start of the Fed's interest-rate cuts, which we forecast for mid-2024.

In EM EMEA, Saudi Arabia saw the largest downward growth revision. Growth will now likely be near stagnant (compared with 3.2% in our March forecast), with the Kingdom's decision to cut oil production weighing on the outlook in the near term. Since the cut of 1 million barrels per day (on top of the 500,000 barrels per day announced in April), equivalent to around 10% of Saudi oil output, will be maintained reportedly until the end of 2024, we have significantly lowered the oil sector's contribution to GDP growth for 2024 as well. While the oil sector (38% of the economy) will clearly be a drag this year, non-oil sectors will continue to shine at above 5% growth rates this year and the next. We believe that weak global growth hardly matters for the Saudi non-oil economy in the near term. The economy will continue to benefit from large investment projects as part of the country's Vision 2030 program, largely funded by the Public Investment Fund (the country's main sovereign wealth fund with a wide mandate to invest abroad and domestically) and the National Development Fund. Overall GDP growth should rebound to a healthy 3.5% average the next three years.

Turkiye's domestic demand appeared to be slightly better than our expectations due to wage increases, which prompted us to slightly raise our 2023 projections. However, we expect domestic demand to continue slowing owing to tightening financial conditions and a forthcoming rebalancing of the economy. Following recent appointments in the Ministry of Finance, the central bank, and other key institutions, as well as an interest rate hike (to 15% on June 22 from 8.5%), we expect a transition to tighter monetary conditions to continue with more rate hikes this year. Our baseline forecast includes significant tightening of financing conditions, continued currency depreciation (and an associated pick-up in inflation), and a slowdown in domestic demand--regarding both consumption and investment.

In South Africa, prospects are dim for the near term given the ongoing electricity and logistics crisis. The country is facing severe electricity shortages and transportation bottlenecks. The government has introduced measures to encourage private-sector and renewable electricity generation, but it will take time for additional power supply to bolster electricity availability for the wider economy. Uncertainty surrounding electricity dynamics remains high, handicapping the agriculture, mining, and manufacturing sectors. We assume conditions will improve once the winter in the southern hemisphere passes, as pent-up capacity improvements facilitate higher growth in 2024 and beyond. Still, next year's economic growth prospects are also limited by weak global demand and higher interest rates to fight inflation.

In Central and Eastern Europe, Poland beat our growth expectations and Hungary underperformed relative to our consumption growth expectations in the first quarter. Nearshoring, growth in exports of IT services, and military spending in Poland are all likely to support growth beyond 2023, particularly in terms of investments and exports. We expect Poland's inflation to reach the target range no earlier than in 2025. The Polish zloty has been appreciating earlier this year and given that inflation is likely decrease sharply this year, we now expect the central bank to start cutting its interest rates in late 2023. Similarly, we anticipate Hungary's central bank to take into consideration the improving exchange rate and inflation dynamics and remove the existing emergency measures by September-October and start base-rate cuts by December this year.

In Southeast Asia and India, we broadly maintain our outlook for a slowdown to a still respectable pace in 2023, with a more pronounced deceleration in economies heavily exposed to cooling global trade and interest-rate headwinds. In the second half of the year, rising positive spill-over from China's recovery should broadly offset the impact of weaker growth in the U.S. and Europe. We expect broadly resilient domestic demand this year; however, momentum is likely to ease over the year.

In India, we forecast growth of 6% in fiscal 2024 as reopening momentum gradually fades and tighter monetary policy restrains activity. Consumer demand is slowing against this backdrop, with urban consumers faring better than rural ones. Agriculture and construction activity has shown resilient growth, though the agriculture sector's performance in the coming fiscal year will be affected by El Niño conditions. Beyond this fiscal year, we expect growth close to 7.0% on strong investment and domestic consumer demand.

Under the assumption of normal monsoons, we expect headline consumer inflation to soften to 5% in fiscal 2024 (ending March 31, 2024) from 6.7% in the prior fiscal year. Softer crude prices and tempering of demand will bring down fuel and core inflation. The inflation and rate-hike cycles have peaked, in our opinion. We don't expect the Reserve Bank of India to cut rates until early 2024 since it first wants to see consumer inflation moving to 4%, the center of its target range.

In Southeast Asia, an increase in tourism has bolstered growth, with tourist arrivals recovering to 50%-60% of pre-COVID-19 levels. This recovery has improved activity and supported services inflows for the region. Pent-up demand from Chinese tourists should further drive growth throughout the year in Southeast Asia, especially in Thailand, where tourism is set for a strong year after more than two years of pandemic-driven doldrums. On the other hand, manufacturing activity has generally been softer. Trade flows have been moderating, and weaker external demand, in particular for electronics, is weighing on growth. We expect external demand for goods to remain soft this year while global growth is slowing. As we have stressed before, that is especially so given the consumption and domestic services-led nature of China's acceleration.

Central banks responded to rising inflationary pressures by raising policy rates gradually over the past year. Tighter monetary policy is having an economic impact in the region. System-wide credit growth has slowed. The restrictive monetary policy's effect will be felt more in the Philippines (high nominal rate) and Indonesia (high real rate) in the second half of the year. Inflationary pressures have eased, and sequential core inflation has slowed. We expect central banks to maintain current monetary policies through the year. Vietnam's central bank stands out, given that it's the only one in the region that has begun easing monetary policy sharply to counter slowing economic activity and demand.

Risks To Baseline Growth

We expect EMs gradually returning to their potential growth rates later in 2024 and 2025. But numerous risks could weigh on growth, including slowdowns in the U.S. and Europe, a setback in China's recovery, sharper global financial tightening, and the Russia-Ukraine conflict dealing another inflationary shock.

Financing Conditions

Primary contacts

Patrick Drury Byrne
Dublin
patrick.drurybyrne@spglobal.com+
35-31-568-0605

Luca Rossi
Paris
luca.rossi
@spglobal.com

Gregoire Rycx
Paris
gregoire.rycx
@spglobal.com

Persistently Tight Financing Conditions

- EM financing conditions will remain tight for the remainder of 2023 with regional differences stemming from inflation rates and aggregate demand.
- External conditions, such as further rate hikes by the Fed or China's disappointing growth, could accelerate capital outflows and depress exchange rates, which would be most acutely felt by offshore borrowers.
- All of EM defaults to date in 2023, most of Q2 downgrades, and the largest percentage of speculative-grade debt maturities through 2024 are in LatAm.

We expect financing conditions to stay tight in Q3 but with material divergence across regions. A slowdown in inflation across many EM countries was confirmed by latest readings. However, levels are still above central banks' targets in many EM countries, likely forcing monetary authorities to hold the line, or limit rate cuts. Nonetheless, regional discrepancies will materialize as EM EEMEA's benchmarks are on average 350 bps higher than pre-COVID levels, 320 bps higher in LatAm, while EM Asia only shows an increase of 40 bps. Moreover, quarterly GDP prints were varied, with domestic demand solid in EM Asia, while weakening in EM EEMEA and LatAm. Contrasting inflation and economic trends are likely to lead to diverging paths across regions and countries.

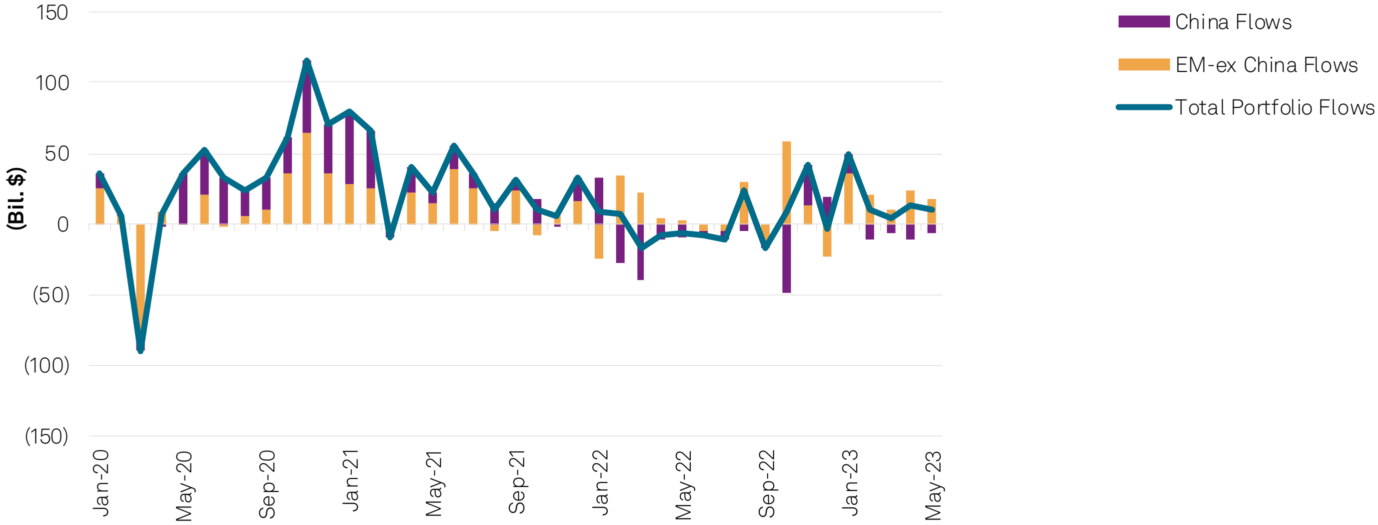
External surprises could complicate matters. Portfolio flows to EMs (excluding China) have been rising in 2023 for five consecutive months for the first time since mid-2021 (see chart 6). In addition, inflation of 4% in the U.S. in May marked the slowest monthly increase in two years. Nonetheless, inflation remains elevated and higher for longer rates, plus further Fed hikes are expected despite the pause in June. U.S. actions alongside any regional slowdown across EMs could complicate capital flows, particularly if some regional central banks start to cut rates, potentially contributing to exchange-rate volatility (chart 7). This risk is greater for EM corporate issuers in need of foreign funding, considering that 82% of rated debt that matures through 2027 is denominated in U.S. dollars.

The protracted scenario of higher interest rates and tighter financing conditions is felt most acutely by LatAm issuers. As of May 31, 2023, all of EM corporate defaults occurred among LatAm issuers, mostly because of distressed debt exchanges and missed payments. Furthermore, 9 out of 11 downgrades in April-June 2023 were in LatAm. Ratings performance by sector varies--downgrades concentrated among real estate and chemicals entities, mainly in Brazil, while the net bias--an indicator of future rating trends--is negative for transportation and chemicals issuers.

Issuers remain relatively insulated from immediate refinancing concerns, but primary markets remain muted and future risks are rising. While investment-grade debt accounts for around 80% of financial and nonfinancial corporate maturities through 2024 (chart 8), refinancing risk remains most acute for lower-rated issuers. Speculative-grade issuance volumes have been contracting through recent months due to costly funding, and while speculative-grade maturities don't peak until 2026, a not insignificant 16% level is due to refinance before the end of 2024, mostly among LatAm issuers, primarily in the oil and gas and financial institutions sectors.

Chart 6

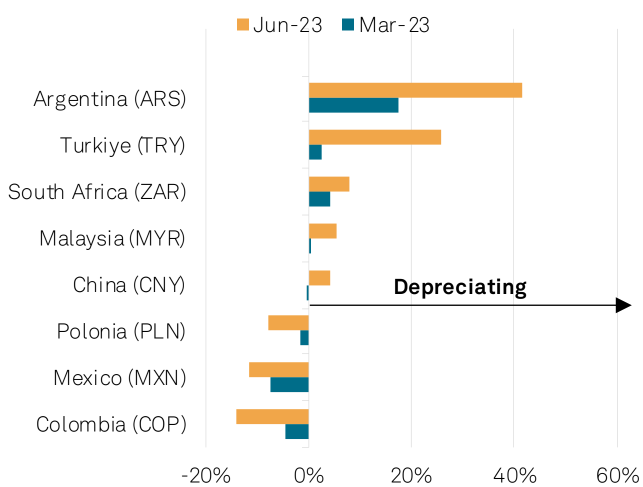
Portfolio flows to EMs (excluding China) have been rising in 2023



Data as of May 31, 2023. Sources: National Sources, Bloomberg, and IIF.

Chart 7

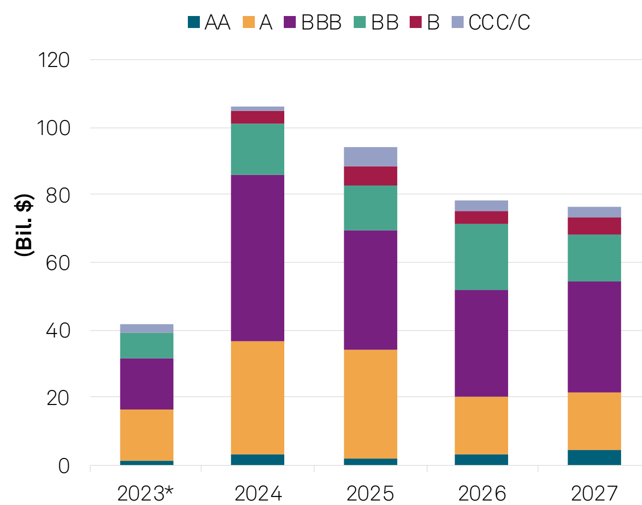
Fed could intensify currency pressures, beyond idiosyncratic factors



Year to date selected EMs currency percentage changes versus USD; positive values mean depreciation. Source: S&P Capital IQ Pro.

Chart 8

EM corporate 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 dollars and rated by S&P Global Ratings (with a global scale rating) from financial and nonfinancial issuers. *Refers to H2 2023. Source: S&P Global Ratings Research.

Note: Benchmark yields, maturities, and rating performance data refer to our EM-18 classification. LatAm: Argentina, Brazil, Chile, Colombia, Peru, and Mexico. EM Asia: India, Indonesia, Malaysia, Thailand, Philippines, and Vietnam. 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).

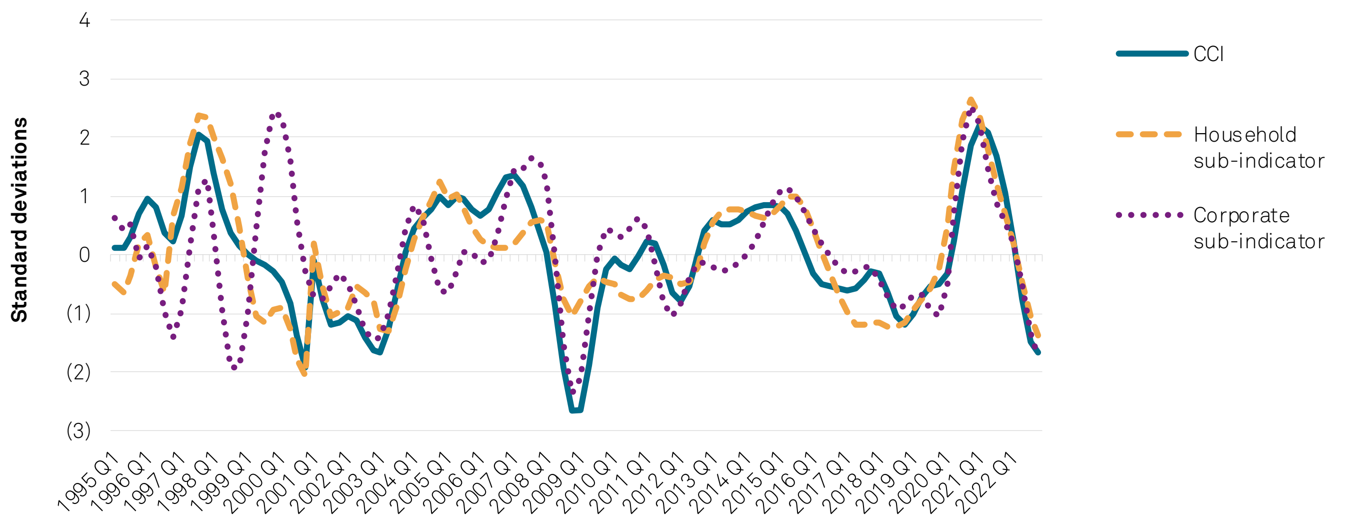
Credit Cycle Indicator

Signs of heightened credit stress in early 2023

The aggregate indicator seems near to an inflection point, as some countries such as Brazil, Chile, and South Africa appear to have reached their Credit Cycle Indicator (CCI) trough, while for others, credit conditions are expected to ease further in the next six to 10 quarters (Colombia, Malaysia, and Poland). Over four quarters since Q1 2020, the EM CCI (excluding China) trended upward and reached a peak of 2.4 standard deviations in Q1 2021. This suggests potentially greater credit stress from late 2022 through the entire 2023 (see chart 9). For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," published on June 27, 2022.

Chart 9

EM (excluding China) CCI may be close to its trough



Note: We view the CCI as a leading indicator for potential credit stress outcomes. The CCI period ends in Q1 2022. 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. EM geographies included: Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Poland, South Africa, Thailand, and Turkiye. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

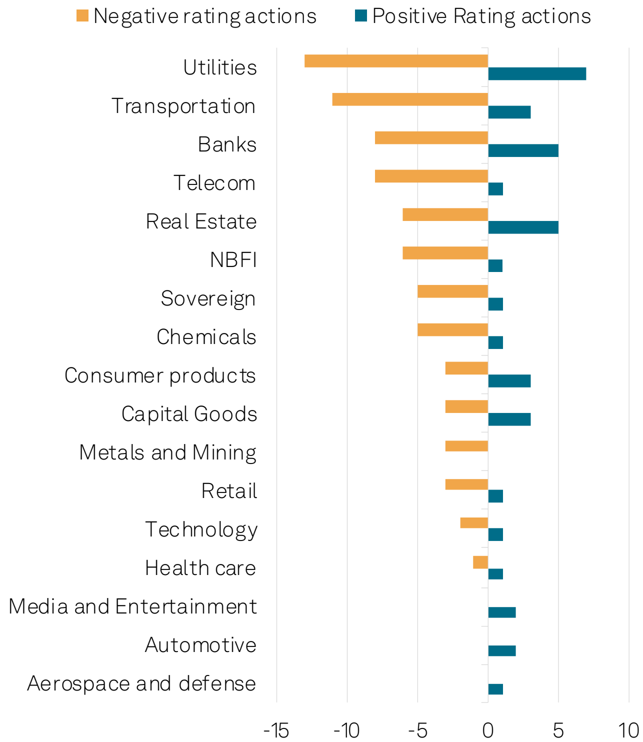
Corporations. The corporate sub-indicator is still trending down as corporate debt decreased in Q4 2022, given high funding costs especially in international markets, which became prohibitive for companies at the lower end of the rating spectrum. Interestingly, equity prices increased across the board (except for Brazil and Indonesia), signaling some resilience notwithstanding sticky inflation, curbing aggregate demand. Inflation has peaked in most EM countries, and we expect economic activity to weaken, which will likely keep corporate credit demand subdued.

Households. The decline in the household sub-indicator is less marked, as households' borrowing had not really moved from last quarter amid a weaker economic environment. Property prices started to display downward movements (particularly in LatAm), with lingering high interest rates straining real estate deals.

Sector Trends

Chart 10

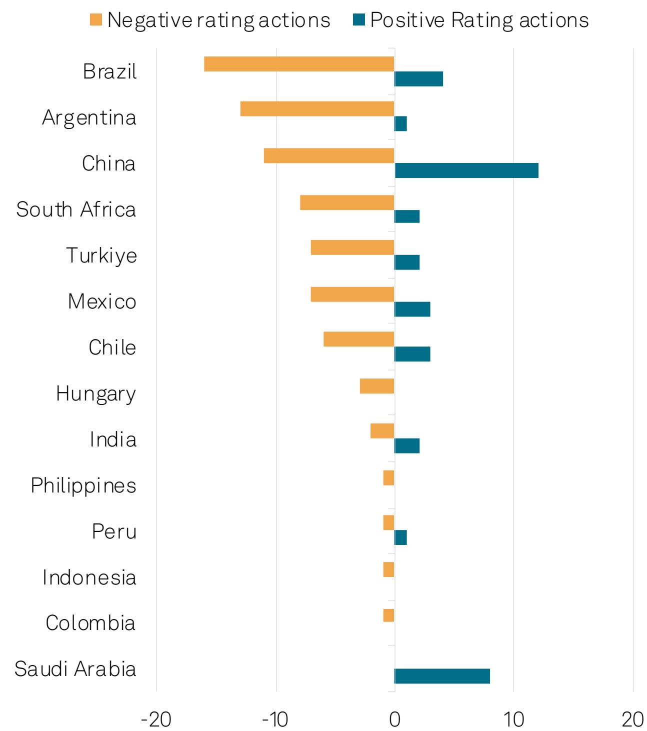
EM rating actions by sector year to date



Source: S&P Global Ratings Research & Insights.

Chart 11

EM rating actions by country year to date



Source: S&P Global Ratings Research & Insights.

Sovereigns

Primary contacts

Frank Gill
Madrid
frank.gill
@spglobal.com
+34-91-788-7213

Joydeep Mukherji
New York
joydeep.mukherji
@spglobal.com
+1-212-438-7351

KimEng Tan
Singapore
kimeng.tan
@spglobal.com
+65-6239-6350

EM Asia: Many Factors Still Restrain Fiscal Consolidation

Global economic activity and financing conditions weaken, but not so sharply that it creates financial volatility in EM Asia.

Current account balances and inflation in most economies should improve, especially if energy prices fall further amid global economic uncertainties.

We still expect some governments to slash fiscal deficits, although a return to pre-COVID fiscal performances will take longer in many cases.

Sudden capital swings. An unexpected deterioration of global financial stability, geopolitical risks, or higher interest-rate expectations could prompt investors to withdraw from EM Asia, making financing conditions significantly more challenging for some issuers.

High energy prices undermine external and fiscal metrics. Amid the recent economic uncertainties, current account deficits could remain wide in some economies as export volumes fall. This could be exacerbated by higher imports in countries that subsidize energy consumption. A supply shock that raises energy prices sharply could still pose threats to external and fiscal support for ratings.

What we're watching

A sharp increase in funding costs could weaken fiscal support and economic growth. Interest payments could rise to weaken fiscal scores for sovereign ratings, especially in countries where government debt is high and non-residents are important sources of funding. If higher financing costs also depress economic growth, it could impair sovereigns' fiscal performance.

High energy imports can damage external accounts for some EM Asia sovereigns. Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Additionally, this deterioration could erode investor confidence, raising financing costs further. These factors could damage credit quality of some sovereigns.

EM EMEA: Resilient Growth, Limited Fiscal Space

There are a few bright spots for EM EMEA sovereigns at mid-2023, at least compared with a year ago. A somewhat improved visibility on the Fed's tightening cycle, generally prudent monetary and fiscal policy settings in most of EM EMEA, and a reversal of the energy price shock are stabilizing credit trends in middle-income EM EMEA economies, such as Hungary, Poland, and Romania. In the aftermath of elections in Nigeria and Turkey, both governments are revising monetary policy, which in our view, could help them to rebuild FX reserve stocks.

In short, middle-income economies are posting resilient growth and the inflation dividend continues to buoy fiscal receipts. But the fiscal space is in short supply, and the cost of new debt remains notably higher than it was two years ago. Meanwhile, the war between Russia and Ukraine persists. Ukraine's counter-offensive is at an early stage; our baseline scenario is that the conflict continues into 2024 with the potential to generate renewed inflationary shocks. As recently as June 19, U.S. President Joe Biden characterized the risk of Russia using tactical nuclear weapons (which have been deployed in Belarus) as "real."

Of the 53 EM EMEA sovereigns rated by S&P Global Ratings, seven have a negative outlook and ratings at the 'B' level or below. Elevated inflation (except in Kenya), above-average debt burdens in relation to tax collection (except in Turkiye), alongside constrained net reserve coverage of external payments (most notably for Egypt, Ethiopia, and Turkiye) reflect both the legacy of the pandemic and the Russia-Ukraine war. Ghana is currently in default on its commercial foreign currency obligations, as is Belarus, Lebanon, and Zambia. Ethiopia is currently in debt restructuring talks with its principal creditors, Chinese financial institutions, as the return on investment of debt-financed mega projects has been disappointing. Authorities in Ethiopia haven't ruled out the restructuring of its Eurobond obligations. The three following EM EMEA sovereigns have a positive outlook, reflecting idiosyncratic credit stories--net inward migration into Armenia, the stabilizing macroeconomic conditions in Bosnia, and efforts at fiscal consolidation in Bahrain.

What we're watching

Egypt (B/Negative/B)

A key pillar of IMF's Extended Fund Facility for Egypt is an agreement by the country's central bank to float the pound. Delays to the currency adjustment reflect the concern that depreciation will quickly raise an already high inflation, currently at 33%, and make the June 2023 fiscal year budgetary targets unachievable. The delay in the adjustment is, however, the principal reason why foreign currency remittances from abroad are off 23% year on year, and probably also explain delays in state asset sales. The consequences also include a domestic FX shortage, which is contributing to the numerous bottlenecks in the Egyptian economy. Egypt's fiscal plans including operating large recurrent primary surpluses, but one wonders whether the debt sustainability challenge is ultimately more about balance of payments performance rather than budgetary outcomes. By EMEA standards, Egypt is not a particularly open economy, with exports of goods and services (including the Suez receipts and tourism) at 22% of GDP. Tax administration also remains a challenge with revenues to GDP at 19%, debt to revenues of 489%, and interest to revenues of just under 40%.

Nigeria (B-/Negative/B)

Like Egypt, Nigeria's parallel exchange rate regime, relatively closed economy, weak tax administration, and governance challenges (most notably in boosting hydrocarbon production) all explain our sovereign 'B-' rating. Nevertheless, on June 14, the incoming presidential administration of Bola Tinubu announced a series of steps to liberalize the currency regime. These come just a week after the new government scrapped subsidies on petrol. In our view, the adjustment in the currency last week and the simplification of convertibility into FX should boost capital inflows into domestic financial markets and the real economy.

Turkiye (B/Negative/B)

With parliamentary and presidential elections behind us, and a new economic team, including the Minister of the Treasury and Central Bank Governor, we expect that policymakers will move to gradually normalize monetary policy (notably the first step taken by raising the policy rate 650 bps on June 22), with the effect of cooling very hot consumption (which was up 17% year on year in 2022 according to Turkstat data). At the same time, yet another minimum-wage hike legislated last week is a strong indication that fiscal, monetary, and incomes policy is unlikely to be closely coordinated. While monetary policy looks set to tighten, the direction of fiscal policy is less clear cut. We project notable widening of the general government deficit this year, not least given the significant cost of the Treasury's guarantee against depositors' losses on FX-linked savings products. We continue to expect average inflation to remain elevated well into 2025, though we're more optimistic about how quickly the sovereign's 12-month rolling current account deficit (currently at 7% of GDP) will narrow. Does this mean that Turkiye is once again an investible market? We think the new economic team may try to re-launch the offshore swaps market and step up hard-currency bond sales. But macroeconomic uncertainty is likely to persist, as spring 2024 elections may curtail the transition to higher domestic policy rates, while the fiscal position will almost certainly deteriorate this year. What Turkiye does have in its favor is a resilient small- to mid-size enterprise (SME) sector and an export-driven economy, with membership in the EU single market. This could facilitate economy rebalancing, particularly as energy prices have dropped notably compared to this time in 2022.

Poland (A-/Stable/A-1)

With a diversified open economy, net reserves of just under $170 billion, a modest and improving current account fully covered by EU and FDI inflows, Poland appears reasonably well positioned to weather expansionary fiscal policy and considerable disruption in critical supply chains that connect it to the German economy, the largest in Europe. Underlying inflation remains persistently high, with labor shortages rife. The government's recent commitment to a 24% minimum-wage increase next year is unlikely to ease inflationary expectations. Over the medium term, the key credit factor is the timing of the Polish constitutional tribunal's ruling on the constitutionality of Supreme Court reforms, legislated in order to trigger the disbursement of about 5% of GDP in Next Generation EU Funds, and an additional envelope of EU Budgetary Cohesion Funds.

South Africa (BB/Stable/B)

South Africa's growth prospects continue to be mired in energy-sector and labor-market bottlenecks. On top of this, declining metals prices and China's softer commodity demand explain our 0.8% GDP projection for 2023, which is equivalent to a 0.6% contraction on a per capita basis. Low growth drives our projection that South Africa's gross general government debt to GDP will remain on an upward slope between 2023 and 2026, with the economy lacking fiscal space to respond to future economic shocks. We continue to view South Africa's deep local currency capital markets and prudent monetary policy settings as credit strengths.

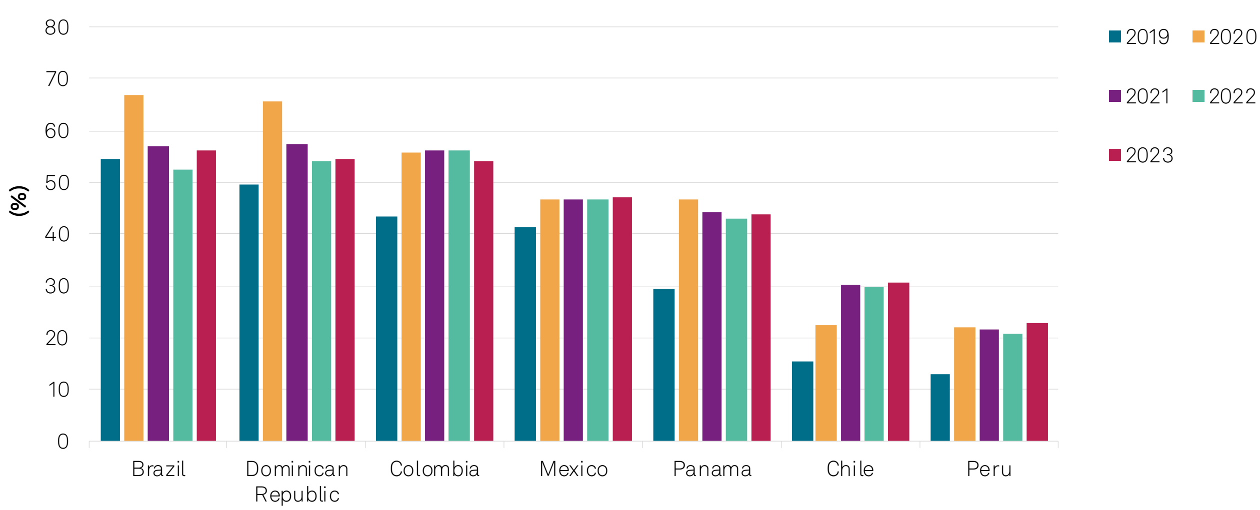
LatAm: Low GDP Growth Continues To Act As A drag

Economic performance in much of LatAm and the Caribbean has modestly exceeded our projections earlier this year, but it remains weak in comparison with those of other regions of the world. Much of LatAm has low GDP growth prospects, persistent but stabilizing inflation rates, and politically turbulent conditions that limit the room for policy maneuver for governments to address deeper economic and social challenges. Sovereigns in the region now carry a higher burden of government debt (see chart 12) compared with pre-pandemic years, but the burden has declined across most countries from the peak in 2020 (except in Chile and Peru).

Chart 12

Sovereign's debt burdens are higher than pre-pandemic levels

Net general government debt % of GDP



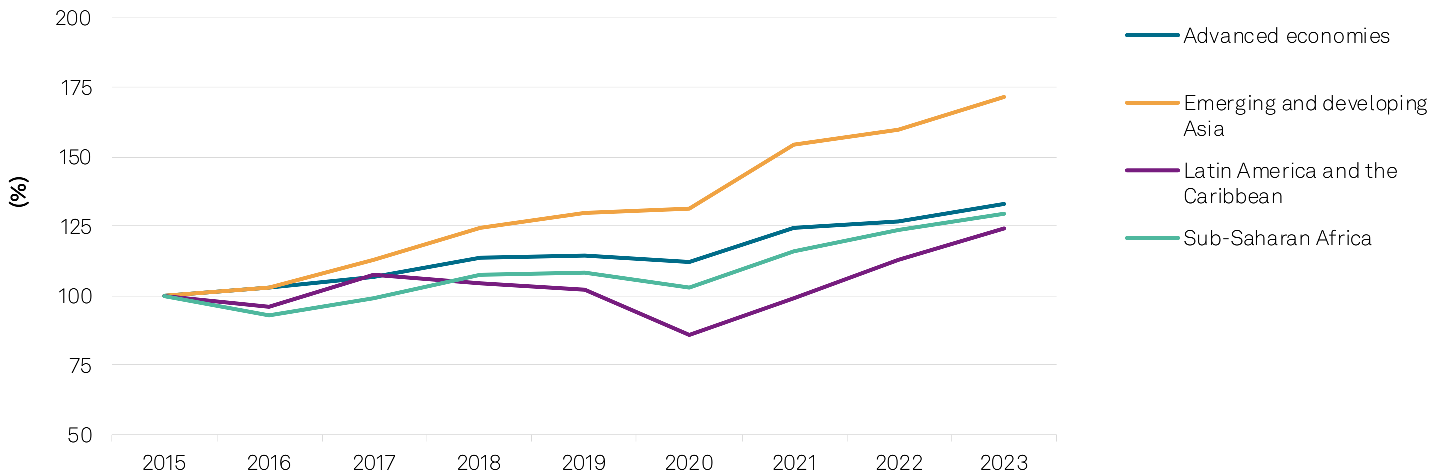
Source: S&P Global Ratings.

Higher interest rates and a larger debt burden constrain fiscal policy, while inflation has led central banks to tighten monetary policy, constraining economic growth. The LatAm and Caribbean region suffered greater economic contraction during the pandemic years and has shown a poorer long-term GDP growth rate than other EMs (see chart 13).

Chart 13

LatAm's economic growth is weaker than that of EM regions

GDP real growth (2015 = 100)



Source: S&P Global Ratings.

What we're watching

The region's weak economic performance in recent years has heightened public distrust of political institutions, parties, and leaders in many countries. Political factors remain key drivers of sovereign rating in the region, especially in Andean countries. Political stalemate in Ecuador led President Guillermo Lasso to invoke a constitution clause that triggers early national elections in August. Ecuador's weak governability, which reflects regional and political divisions, continues to weigh upon its credit quality. The current president received only 20% of the vote in the first round of the presidential elections in 2021, and his party gained 12 out of 137 seats in the legislature, weakening his ability to advance reforms. The risk remains that the next president might receive a weak mandate and face a divided legislature, perpetuating weak governance. We could lower our rating on Ecuador if worsening political conditions erode its fiscal stance and impair debt servicing.

Chile (A/Stable/A-1)

Chile enjoys more political stability than its Andean neighbors, but its government suffered a setback recently when Congress blocked an ambitious tax reform. President Gabriel Boric's limited support in Congress makes it likely that a new tax reform, if approved, will raise less money than originally envisaged, limiting the government's ability to boost spending on health care, education, and law enforcement. Chile recently elected delegates to a council to draft a new constitution, after the failure of such an effort in a referendum last year. The newly-elected council, which is more conservative than the previous one elected in 2022, will work with a new draft constitution prepared by a committee of experts as a point of reference for deliberations. The draft constitution produced by the council will be put to a referendum in December.

Peru (BBB/Negative/A-2)

Peruvian politics have stabilized modestly recently, despite the low popularity of both President Dina Boluarte and Congress. Peru's political leadership failed to agree on reforms to allow for early elections for the presidency and Congress following the removal of the former president, despite overwhelming public support for new polls. Our negative outlook on the rating reflects the risk that political impasse or further adverse developments reduce the predictability of policymaking or erode institutional stability, resulting in economically harmful policies.

Colombia (BB+/Stable/B)

Recent allegations of illegal financing of Colombian President Gustavo Petro's 2022 election campaign have made it harder for the administration to advance in Congress its ambitious reforms on pensions, health care, and labor laws. Facing resistance in Congress and inside his cabinet, Mr. Petro replaced several members of his cabinet in late April and regrouped his Congressional coalition to accelerate the passage of his agenda. We expect the fiscal deficit to decline this year, despite low GDP growth, in line with targets set in Colombia's fiscal rule. However, adverse political developments could dampen private investment and GDP growth, making it harder to meet fiscal targets and reduce the burden of government debt. Local elections later this year will provide important feedback to Mr. Petro and his coalition partners in Congress, potentially affecting the pace of change.

Bolivia (B-/Negative/B)

In April, we lowered our long-term foreign and local currency sovereign credit ratings on Bolivia to 'B-' from 'B' due to falling external liquidity, combined with political divisions that have limited the authorities' capacity to implement timely policies to reduce external vulnerabilities.

Brazil (BB-/Positive/B)

We recently changed the outlook on our 'BB-' rating on Brazil to positive based on signs of greater certainty about fiscal and monetary policy that could benefit its currently low GDP growth prospects. Continued GDP growth plus the emerging framework for fiscal policy could result in a smaller-than-expected government debt burden. Such developments would reinforce our view of the resilience of Brazil's institutional framework, with stable policymaking based on extensive checks and balances across the executive, legislative, and judicial branches of government. The center-left Lula administration is likely get approval of a new law to set the framework of fiscal policy from Congress, which has become more powerful in policymaking in recent years and is dominated by centrist parties. The administration is also promoting simplification of federal, state, and municipal taxes to generate more revenues to help comply with the fiscal rule.

Mexico (BBB/Stable/A-2)

The governing Morena political party of Mexican President Andres Manuel Lopez Obrador is well-positioned for national elections in 2024, facing a divided opposition. The administration recently expropriated a segment of a privately-owned railway to advance a project to build rail connection between the Gulf of Mexico and the Pacific Ocean. The government compensated the private firm for this action, but the incident reinforced the poor relationship between it and the domestic private sector. Parts of Mexico, especially in the north, have been benefiting from investments by firms wanting to produce in Mexico for the U.S. market. However, such investments are not enough to materially boost Mexico's real per capita GDP, which we expect will grow less than 1% this year and in 2024.

Corporations

EM Asia: Selective Access To Funding, Slowing Export Markets, But Inflation Appears Less Of An Issue

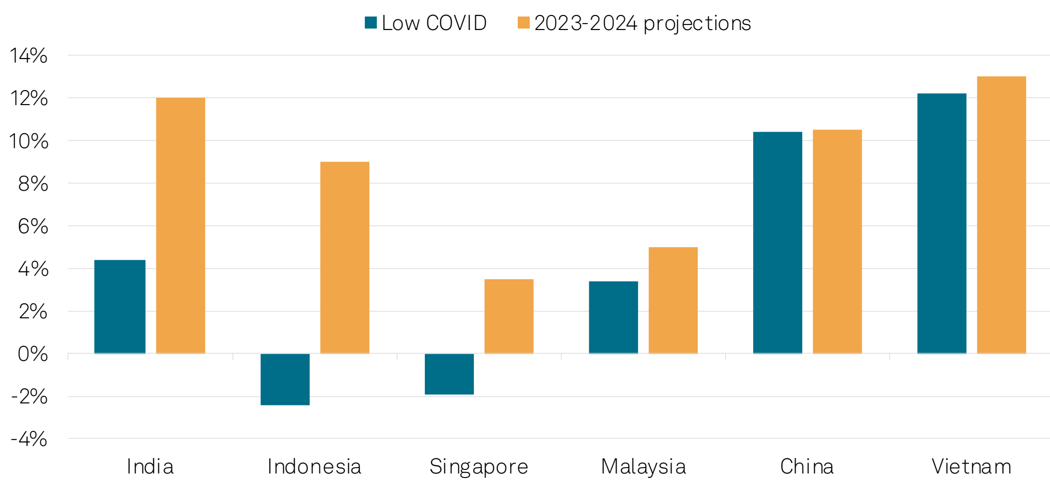
Uneven access to funding and rising borrowing costs are the main credit focus in 2023. While funding conditions have remained fairly similar to those of the past few quarters (i.e., selective and uneven), loan growth from domestic banks has been more supportive in most of EM Asia, especially for the weaker-rated or smaller companies. Banks are generally well-capitalized, largely funded with cheap deposits. Our bank analysts expect loan growth of 5%-15% in most countries (see chart 14) through 2024, though it could be faster in India and Vietnam. Funding costs have risen but are increasingly competitive with foreign currency capital market instruments. The main lingering issue with domestic funding channels is that they remain sensitive to event risk and contagion effects from larger borrowers running into difficulties, as the recent stress in Vietnam's real estate sector showed.

Foreign currency capital market trends are likely to remain challenging for weaker issuers in the second half of 2023. Investor sentiment remains volatile, fund-raising windows are short, and coupon rates are often in the low-double digits for three-year tenors. Demand in export markets remains sluggish, and there are signs of a more muted consumer sentiment in China. The combination of these factors is not conducive of a sharp improvement in investor sentiment in the next few months. We have been observing more capital-market activity for companies with stronger credit characteristics or those owned by regional or central governments. For these, average funding costs in dollars seem to have stabilized.

Chart 14

Domestic banks in EM Asia appear to be picking up some of the funding slack

Loan growth among selected EM Asia countries (%)



Source: S&P Global Ratings estimates for each banking system.

Earnings prospects continue to diverge between domestic- and export-oriented sectors. We forecast a mid-single digit revenue and EBITDA growth in 2023 over 2022 for the approximately 400 nonfinancial companies we rate in EM Asia. That number hides sector and country disparities. The operating recovery continues across domestic-focused sectors--physical retail, hospitality, tourism, telecoms, transport, and certain categories of consumer products--although at a slower pace given that most of the earnings recovery has already taken place in 2022. Export-focused manufacturers with exposure to the U.S. and Europe are likely to experience more difficult conditions for the rest of the year. In China, these include heavy-duty

Primary contacts

Diego Ocampo
Buenos Aires
diego.ocampo
@spglobal.com
+55-11-3039-9769

Luis Martinez
Mexico City
luis.martinez
@spglobal.com
+52-55-5081-4462

Xavier Jean
Singapore
xavier.jean
@spglobal.com
+65-6239-6346

Charles Chang
Hong Kong
charles.chang
@spglobal.com
+852-2533-3543

Timucin Engin
Dubai
timucin.engin
@spglobal.com
+90-530-681-7943

Omega Collocott
Johannesburg
omega.collocott
@spglobal.com
+27-11-214-4854

trucks, construction machinery, and consumer electronics; in Vietnam, electronics, machinery, and textile manufacturers; and in Malaysia, electronics, and component producers.

Inflation-induced margin compression to subside unevenly. While average margins are likely to be softer in 2023 than in 2022, most of the downside appears to have already materialized as customers are slowly getting used to higher prices. This is especially the case in domestic-focused sectors (retailing, restaurants, and hospitality) or those with captive customers (nondiscretionary spending, infrastructure, and airlines). On the other hand, manufacturers with exposure to slowing markets in Europe and the U.S. face more challenges in raising prices given demand headwinds. The risk of imported inflation observed over the past year remains, especially for Malaysia, the Philippines, Vietnam, and Indonesia to some extent given weaker domestic currencies. We also believe some of the COVID price controls in some countries may be gradually phased out, leading to higher input costs for both households and corporations.

EM EMEA: Diverging Trends, Intensifying Pressures

Saudi Arabia: Corporate activity remains elevated given the Vision 2030 projects.

Vision 2030 related projects continue to advance at a full pace, creating very healthy levels of activity. We also see continued announcements on strategic partnerships under Vision 2030. In May, Baosteel, a Chinese company and one of the leading steel conglomerates in the world, announced that it signed a shareholders' agreement with Aramco and the Public Investment Fund to establish an integrated steel manufacturing complex with an expected production capacity of 1.5 million tons per year. Similarly, the Saudi Geological Survey announced that it will partner with the Chinese Geological Survey to do further studies in the Arabian Shield region, as the Kingdom has important targets to develop its mining and mineral sectors.

There have been also announcements on financing arrangements to fund some of the key projects. In May, NEOM, a future city of tourism and trade and one of the Kingdom's megaprojects under its Vision 2030 strategy, secured SAR3 billion (about $800 million) to fund its Sindalah project. In addition, in June, NEOM reportedly secured approximately $5.6 billion from investors for one of its other projects. The Public Investment Fund, the country's sovereign wealth fund, remains active in a number of investments.

Given the level of funding requirements under the Vision 2030 program, we expect the Kingdom's equity and debt capital markets to remain active over the next few years (see "Saudi Arabia's Debt Market: Ready For Takeoff", published June 19, 2023). We also expect stable credit trends, given the supportive macroeconomic outlook.

There are media reports of a possible hike in feedstock prices in the Kingdom, potentially as early as of the fourth quarter of 2023. Ethane and propane--as key feedstocks--form the bulk of Saudi chemical producers' operating expenses, making them sensitive to price rises despite the entities' advantageous position over their global peers. However, as we discussed in our publication ("Saudi Chemical Producers' Credit Metrics Can Withstand A Possible Feedstock Price Hike," June 12, 2023), we believe that publicly-listed rated and unrated Saudi chemical producers would be able to weather a potential price hike.

Turkiye: Post-election monetary and fiscal policies will be important drivers of corporate performance in 2023.

We continue to expect that Turkish corporations will face a volatile operating and financial environment in 2023. Some of the key challenges Turkish companies facing are potential tightening of available credit in the system, increasing domestic interest rates and potential for continued weakness in Turkish lira. We have already seen visible depreciation of the currency over the past few weeks. Last week, the central bank hiked its key policy rate, and announced the start of its monetary tightening policies. A higher domestic interest rate environment also means higher cost of funding for the Turkish corporations.

Tighter credit conditions, particularly in consumer credit, can trigger a slowdown in domestic demand in certain sectors, while a weak lira means increased raw material costs for companies, particularly those operating in the importing sectors. Not all operators might be able to transfer the increased cost of imported inputs to their final products, narrowing margins, particularly in certain consumer sectors where potentially tighter consumer credit would also weaken demand. In addition, a potential further drop in lira's value could create pressures especially for companies whose investments and debt obligations are denominated in hard currencies while their cash flows are in local currency. A contraction of liquidity available in the system for corporations could eventually exacerbate the structural weaknesses of those companies whose liquidity positions typically rely on short-term uncommitted lines.

On the other hand, a weaker lira could generally increase the competitiveness of Turkish exports and provide support particularly to some of the export-oriented sectors where there are meaningful costs in local currency, such as the textile and apparels sector. Turkish tourism and its associated sectors have already been showing very strong recovery since 2022 and a weaker lira could provide some additional support.

Given this backdrop, we expect the Turkish companies to focus more on managing their cash flows and cost base, and keeping liquidity buffers, while new investments will potentially remain a low priority for most sectors, other than investments to rebuild the residential and industrial infrastructure that was damaged in the earthquake in February. Turkish non-financial corporations have been largely absent from the Eurobond markets for some time given the prohibitively high pricing levels, and we don't expect a change in this picture unless the global investors' perception of overall Turkish risks changes meaningfully.

South Africa: Intensifying Infrastructure Challenges Amplify Inflationary Risks

Inflation, infrastructure constraints, and currency weakness are the main (and intertwined) factors weighing on the financial resilience of rated South Africa-based corporations, although slower global growth and policy uncertainty could also amplify the effect. Some mining companies are also exposed to lower commodity prices.

We forecast generally low leverage and solid operational efficiency to remain across rated private-sector corporations for the next two years, with sufficient financial headroom at current rating levels (see "Sub-Saharan Africa's Fading Tailwinds And Missed Opportunities," published May 30, 2023). This should provide a cushion against the challenging operating environment and mounting inflationary pressures, assuming challenges begin to abate by the start of 2024. Cost-containment strategies and geographic diversification also partly protect some issuers from power supply, inflation, and currency risks.

Infrastructure constraints, which include rolling power outages by an integrated electricity provider Eskom, and severe capacity bottlenecks on some rail lines operated by South Africa's main transportation infrastructure provider, Transnet, have exacerbated the pain stemming from weak global demand and higher inflation on South Africa's economy. Recent corporate results have highlighted strains stemming from these issues, which are weighing on South Africa's economic performance, resulting in the outlook revision on the sovereign 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). We also revised outlooks on sovereign-constrained state-owned entities (SOEs). For the largest SOEs--Eskom and Transnet--some relief from perennial liquidity stress has arrived in recent months. However, the aging infrastructure, sub-optimal maintenance and investment, inflationary pressures, vandalism, and slow pace of sector reforms continue to constrain recovery.

Power costs are one of South Africa's key inflation drivers, with price rises linked to power-supply challenges and Eskom's poor performance. Transnet's subpar operational performance exacerbate these issues. Elevated use of road transport to get bulk commodities to export markets is burdening the road infrastructure, and we understand that it is around 10% more expensive than the rail equivalent. We're starting to see the effects of these strains on domestically-focused companies such as retailers, telecoms, and health care providers, and particularly those without geographic diversification. The rising cost of living is depressing consumer purchasing power. Corporations will find it increasingly difficult to pass on the additional costs. We will be watching for social unrest that could stem from elevated inflation and consumer pressures.

Currency weakness is likely to have an outsize impact on domestically-focused companies, especially those that import inventory for sale domestically and those with imported capital needs such as telecom providers and SOEs, Eskom and Transnet.

LatAm: Coping With The New Credit Cycle

We continue to view credit conditions in LatAm as broadly difficult, despite the improvement in the net rating bias, which has recently turned slightly positive and reflects a marginally higher number of issuers with positive than negative outlooks. This trend incorporates our outlook revision on 10 Brazilian issuers that followed the same action on the sovereign rating. A few of these revisions are on companies with stand-alone credit profiles that are higher than 'bb-', but are capped at the sovereign rating level due to their inherent exposure of operating in Brazil. Revisions occurred on other companies that are already rated above the sovereign rating and continue to benefit from credit buffers under a potential sovereign stress.

While the improvement in the net rating bias is substantial from the negative 33% a couple of years ago, this healthier indicator may not necessarily capture downside risks that could pressure credit quality. Such rating bias may be particularly misleading for the potential rating performance of issuers in the lower end of the rating spectrum.

Global headwinds stemming from slow global growth, still above-target inflation rates, expensive financing costs, and geopolitical risks in major economies continue to pose credit threats for non-financial corporations. Yet, country-specific factors across the region are becoming increasingly important in the trajectory of corporate credit quality.

In Mexico, the dynamism of trade activities with the U.S. and the wave of nearshoring investments are increasingly supportive of industrial growth prospects, while the continuous flow of remittances and moderating inflation are supporting domestic consumption trends. While business conditions in Mexico have largely recovered to pre-pandemic levels for most industries, the political environment is still an important credit risk. On the one hand, investment decisions will likely be influenced by presidential elections that will take place in less than 12 months. On the other hand, capital allocation could be sensitive to public policies that interact with business interests, particularly when the execution of a policy decision erodes investor sentiment or creates uncertainty about the business climate.

In Brazil, commodities is one of the best performing sectors due to a solid global demand since the outbreak of the pandemic and because of supply shortages that were exacerbated by the Russia-Ukraine conflict. However, persisting strains on domestic demand could undermine the growth prospects for consumer-related industries across the value chain, from industrial manufacturing to retail. Also, financing conditions are far from normalizing. Credit spreads are almost double those a year ago, raising the cost of debt for many Brazilian corporations that rely on variable-rate debt. The significant share of floating-rate debt on balance sheets is a risk for many corporations, and the median EBITDA interest coverage ratios have deteriorated with respect to those of peers in other countries in the region.

The Argentine corporate sector remains heavily exposed to sovereign risk and to our transfer and convertibility assessment. The restrictions to access or transfer funds abroad, coupled with difficult macroeconomic conditions, could prevent many companies from generating cash flow in domestic currency to service foreign-currency obligations.

Disciplined use of debt is still one of the region’s credit strengths, with average net debt-to-EBITDA ratios below 2.9x, lower than those of peers in other regions. However, high borrowing costs remain a significant risk that can dent growth and performance, as debt resets at higher interest rates. Sizeable debt maturities are not a major concern for the remainder of 2023, although starting in 2024, some Mexican issuers would require refinancing alternatives that could become somewhat worrisome if tight financing conditions prevail.

Financial Institutions

Primary contacts

Geeta Chugh
Mumbai
geeta.chugh
@spglobal.com
+91-992-0363-303

Cynthia Cohen Freue
Buenos Aires
cynthia.cohenfreue
@spglobal.com
+54-11-4891-2161

Mohamed Damak
Dubai
mohamed.damak
@spglobal.com
+971-4372-7153

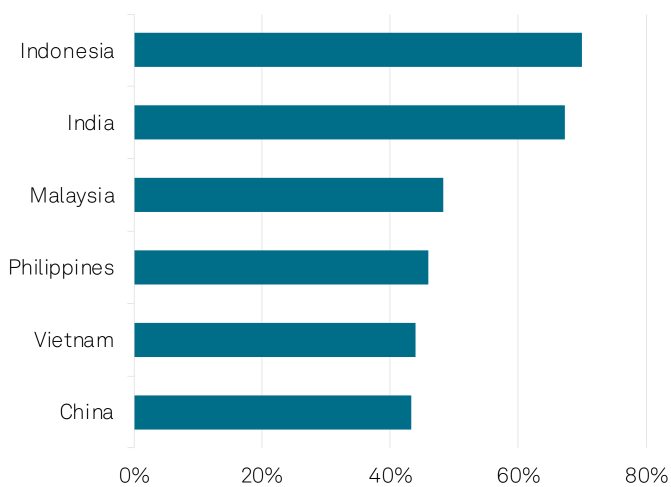
EM Asia: Contagion Risk Eased, Asset Quality Improves, Though Pockets Of Stress Persist

Most EM Asian banks can withstand contagion effects at their current rating levels, unless risks escalate significantly. The leading banks are funded primarily by domestic deposits, with a significant proportion coming from households. Additionally, they typically maintain a higher proportion of liquid assets, while stepping in to provide funding to corporate borrowers amid tightening funding conditions in the past few months.

A much weaker economic outlook, higher interest rates for a longer period, highly-leveraged corporate, household, and government sectors, and a property market experiencing pockets of stress could test EM Asian banks.

Chart 15

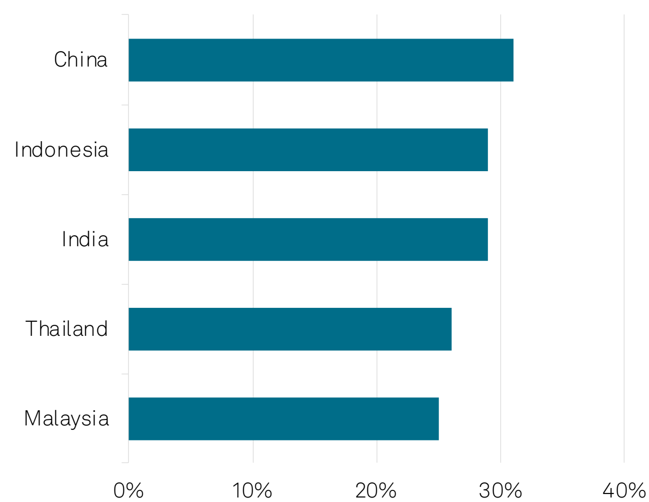
A high ratio of household deposits to systemwide deposits adds stability to Asian EM banks



Household deposits % of systemwide deposits. Source: S&P Global Ratings.

Chart 16

Liquidity ratios remain healthy across Asia EMs



Average level of broad liquid assets % of total assets. Source: S&P Global Ratings.

Chinese banks face asset quality risks from LGFVs and property market stress

Asset quality challenges pose risks to Chinese banks due to struggling local-government financing vehicles (LGFVs) and the property market. Although China's reopening will reduce the number of loans requiring moratoriums and aid the recovery of vulnerable sectors, pockets of banking stress will persist. Troubled property developers will face more persistent difficulties than small businesses, as they receive less policy and funding support. Moreover, the restructuring of LGFVs in weaker regions could burden smaller banks.

The property crisis in China has entered a new phase, with upper-tier cities showing signs of stabilization while lower-tier cities continue to experience weakness, leading to a decline in overall sales in 2023. We expect national developer sales to decrease by 3%-5% this year. The downturn in lower-tier markets will have a significant impact on the industry as a whole. If sales in tier-three or tier-four cities decline by 20%-30% (higher than our base-case projection of 10%), our analysis suggests that 40%-60% of rated developers could face downgrades. Our base-case scenario assumes that non-performing loan (NPL) ratios for property development will rise to 4.7% in 2023 and 2024, and improve to 4.0% in 2025.

Tourism revival reduces stress for Thai banks

Thai banks have seen a decline in restructured loans, which stood at approximately 10% as of December 2022, down from 17% in December 2020. Some loans, particularly those tied to the tourism sector were extended by 5-10 years during the height of the COVID-19 crisis, with reduced repayments in the initial years due to uncertain cash-flow recovery. These loans are considered weak and weigh on banks' financial profiles.

As the tourism industry shows signs of revival, the resolution of these loans could accelerate. The prospects for loan repayment are becoming more promising, and depending on the recovery of tourism volumes, banks may have the opportunity to scale back the size and duration of restructured debt.

Indonesian corporations remain exposed to capital outflow

Indonesian corporations remain vulnerable to rupiah's (IDR) volatility as well as the capital outflow risk, particularly in the event of the Fed's further and more aggressive tightening of monetary policy. As of December 2022, foreign currency debt, mainly denominated in U.S. dollars, constituted approximately 55% of total borrowing by Indonesian corporations, up from 53% in December 2019. These elevated levels are incorporated in our assessment of credit risk in the country.

According to our analysis, a sustained fall of the IDR to 16,000 against the U.S. dollar over at least six months could lead to difficulties for Indonesian corporations with weaker credit quality. To mitigate capital outflows, the central bank initiated a series of interest-rate hikes in August 2022, resulting in a cumulative increase of 225 bps to the current rate of 5.75%. We anticipate a robust GDP growth rate of about 5% for 2023 and 2024. That growth, combined with the rate hikes, has attracted foreign investors back to the country, and could help stabilize IDR's value.

Stress from restructured loans eases for Malaysian banks

Restructured loans for rated banks in Malaysia have been steadily decreasing; such loans comprise approximately 2% of loan portfolios as of the end of April 2023. This is a significant improvement from 4% at the end of October 2022. While low-income households and small businesses remain vulnerable to higher interest rates, Malaysia has implemented measured increases, and policy rates may have reached their peak at 3% for 2023, matching pre-pandemic levels.

From our perspective, any further deterioration in asset quality will be manageable for Malaysian banks. Stable employment conditions and sufficient household financial assets help mitigate risks associated with high household leverage.

Additionally, credit costs, which serve as an indicator of provisioning, are lower than anticipated. This can be attributed to low levels of new NPLs and significant provisioning buffers that banks have established in previous years.

Rising Household Leverage in India

Household leverage in India is currently experiencing a growth trajectory despite starting from a low level. Notably, unsecured personal loans and credit card debt jumped 26% last year, now constituting approximately 9.5% of total loans. This rise could cause NPLs to increase.

Although the delinquency rate of 90 days past due (90+dpd) has fallen across various retail segments, credit cards have witnessed a 25-bp increase in such delinquencies to 2.3%. However, it is important to highlight that the overall level of delinquencies in the credit card category remains within acceptable limits.

Approval rates for new-to-credit retail products have decreased to 24% from 32% during October-December 2022 compared with the same period the previous year, according to

TransUnion CIBIL. One of the contributing factors is the surge in inquiries and the maintenance of stringent underwriting standards.

Several indicators suggest an improvement in the creditworthiness of retail borrowers, including the rise in the number of prime and above-category borrowers, who now account for 52% of total loans. An upgrade in the "Near Prime" segment, with 39% of customers transitioning to higher-credit tiers. This segment constitutes 23% of total loans.

These factors collectively reflect the efforts made by lenders to uphold underwriting standards and enhance the credit quality of retail borrowers in India.

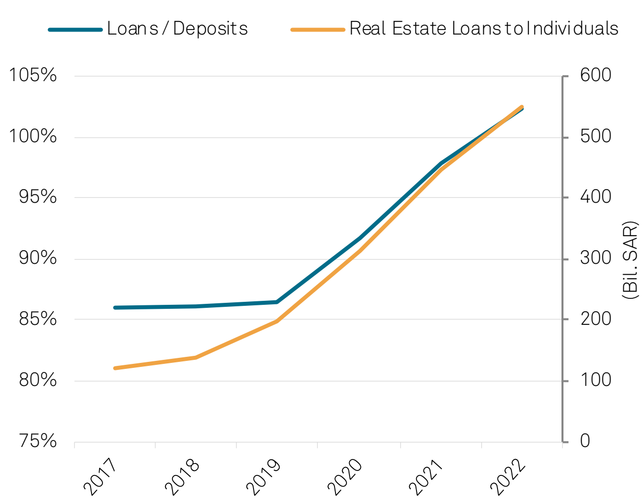
EM EMEA: Some Bright Spots With Relevant Pockets Of Risk

We expect lower lending growth in the Gulf Cooperation Council (GCC) countries as their economies slowdown in 2023 because of lower oil production and prices, and higher interest rates affecting the non-oil sector. In Saudi Arabia, we still see some relative upside from the implementation of Vision 2030 with higher corporate lending alongside still increasing mortgage volumes, although at a moderating pace. We expect banks' asset quality indicators to slip because of slowing economic growth and higher interest rates. On the other hand, profitability continues to improve 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 prop up 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 Qatar with falling net external funding (see charts 17 and 18). For Saudi banks, we think that the pressure could be resolved by attracting higher deposits from the sovereign or the private sector; or divesting from some assets particularly mortgages through the issuance of residential mortgage-backed securities or offloading them to the Saudi Real Estate Refinance Company; or tapping credit lines from the central bank. The drop in Qatar's 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 that some GCC banks' exposure to Turkiye and Egypt is likely to pinch their creditworthiness through unrealized losses due to local currency depreciation.

Chart 17

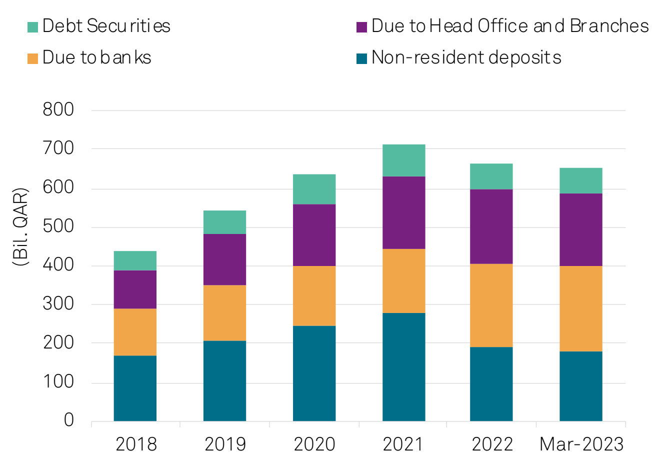
Saudi bank loans exceeded deposits in 2022



Sources: S&P Global Ratings and Saudi Arabia's Central Bank.

Chart 18

Qatari banks' external funding mix is changing



Sources: S&P Global Ratings and the Central Bank of Qatar.

Turkish banks remain significantly exposed to the risk of widening economic imbalances. The overall credit trajectory in Turkey will depend on the economic policy setting and the pace of tightening of monetary policy in the aftermath of the presidential and legislative elections that took place earlier this quarter. Our base-case scenario assumes a continued depreciation of the lira and two main vulnerabilities. The first one is the rollover of external debt. Our base-case scenario forecasts that Turkish banks can access external funding and their external debt to fall 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 ($132.5 billion if we use the international investment position data at the end of 2022). Therefore, we consider that lower, more expensive global liquidity heightens refinancing risks. Although Turkish banks have sufficient foreign currency liquidity to handle lower rollover rates, most is either with the central bank or placed in government securities, which could reduce its availability in a highly stressed scenario. Therefore, if the rollover rate of external debt were to plummet, liquidity risk may materialize. We also see a risk that depositors might lose confidence in the banking system. We note that deposit dollarization dropped to about 40% at mid-May 2023 due to the prolongation of the protected local currency deposit scheme and due to the regulator forcing banks to convert some of their deposits into local currency at the risk of incurring significant costs.

The second vulnerability is the risk of intensifying economic imbalances, accumulated in previous years, given 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. Although 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 drop steeply, it could eventually result in substantial credit losses for the banking system. We expect the lira to further weaken amid higher interest rates in developed markets and domestic economic challenges. This is also eroding the creditworthiness of Turkiye's corporations, which have high foreign currency debts. We currently expect banks' credit losses to increase to about 3.5% in 2023 from 3.2% in 2022, and NPLs to remain contained at 5%-6% of total loans in 2023 after a low of 2.2% at the end of 2022. Our estimates also factor in a preliminary impact from the recent earthquake. That said, we acknowledge that NPL ratios in Turkiye are also influenced by many 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, a sharp depreciation of the lira, or higher impacts from natural disasters.

South Africa's energy crisis and infrastructure gaps are undermining the country's short- and medium-term growth prospects. We forecast a sluggish GDP growth of 0.6% as well as a 5% growth in private-sector credit in 2023, after a rebound in 2022. However, we think that the renewables sector could provide a growth opportunity for the banking system.

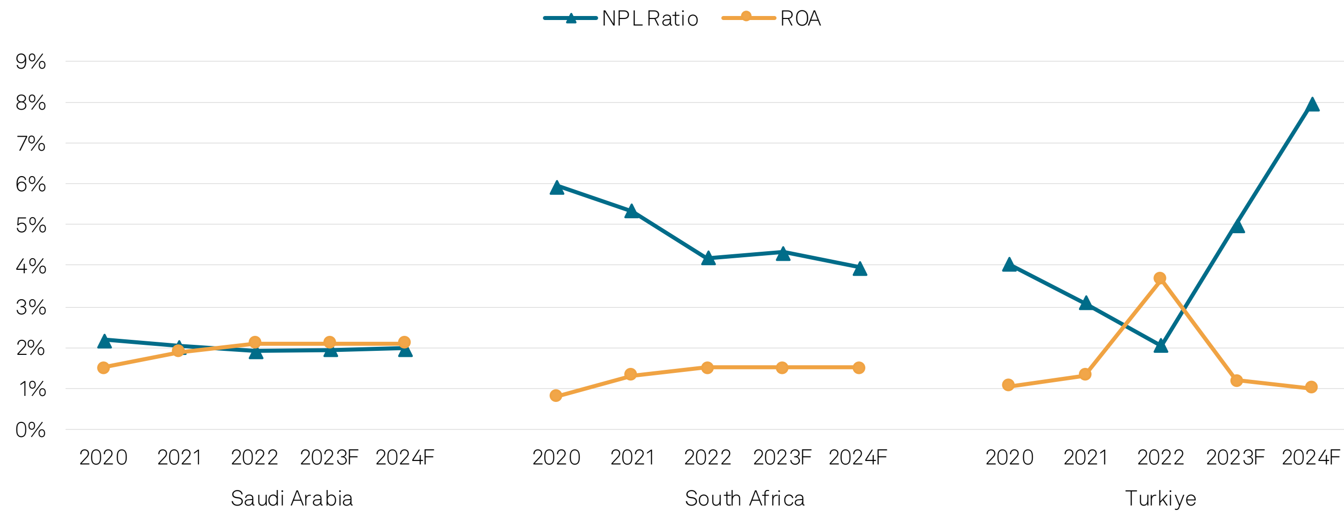
We believe households' disposable income will be pressured by the additional costs of securing alternative power solutions, and by higher interest rates. Prolonged electricity shortages will strain SMEs more than large corporations, which are likely to pass the costs on to customers. In terms of credit losses, we expect that the banking sector's cost of risk will remain slightly higher than the historically low of 0.75%, averaging 1.2% of total loans through 2024, and that NPLs will remain at about 4.3% of systemwide loans. Positively, banks' earnings have improved since the 2020 pandemic shock, supported by higher interest rates. We also forecast the sector will maintain more than adequate risk-adjusted returns of 15%-16%, which will support banks' internal capital generation.

South African banks also maintain robust buffers against the minimum capital adequacy requirements; about 390 bps for the common equity Tier 1 (CET1) ratio for top banks, for example. The central bank will also adopt a resolution regime, and we expect some clarity on the calibration of the additional loss-absorbing capacity instruments to be issued by domestic, systemically important banks by the end of 2023. Finally, South African banks operate in a closed rand system with limited exposure to external refinancing.

Chart 19

Sound performance in Saudi Arabia and South Africa, weakening asset quality in Turkiye

NPLs and return on assets



Source: S&P Global Ratings.

Tunisian banks are still navigating major uncertainty and significant macroeconomic pressure 12 years after the revolution. According to the IMF, the country's economic growth will be 1.3% in 2023, while its fiscal and external deficits will likely total a cumulative 11.3% of GDP. The country faces major hurdles to raise external funding, while political division has reportedly caused delays in mobilizing the necessary resources. We understand that the Tunisian authorities and the IMF are in talks to agree on a program that entails important reforms. A failure to mobilize the necessary financial resources could potentially lead to a sovereign default and take a toll on the banking system. Banks' exposure to the state remains significant at 14.7% of total assets at Feb. 28, 2023 (including direct lending to the public administration).

Egypt remains exposed to external pressures that could translate into higher inflation that eventually bites into economic growth, increases the cost of funding, impairing borrowers' credit quality and widening social inequalities. It is also notable that Egypt's banking system shifted to a net foreign liability position in the second half of 2022 from a long-maintained net foreign asset position. The liabilities remain negligible, at about 3% of total loans, and we expect they will gradually decrease over time. This is because Egyptian banks are primarily domestically funded, with their only foreign currency needs arising from their lending to importing companies.

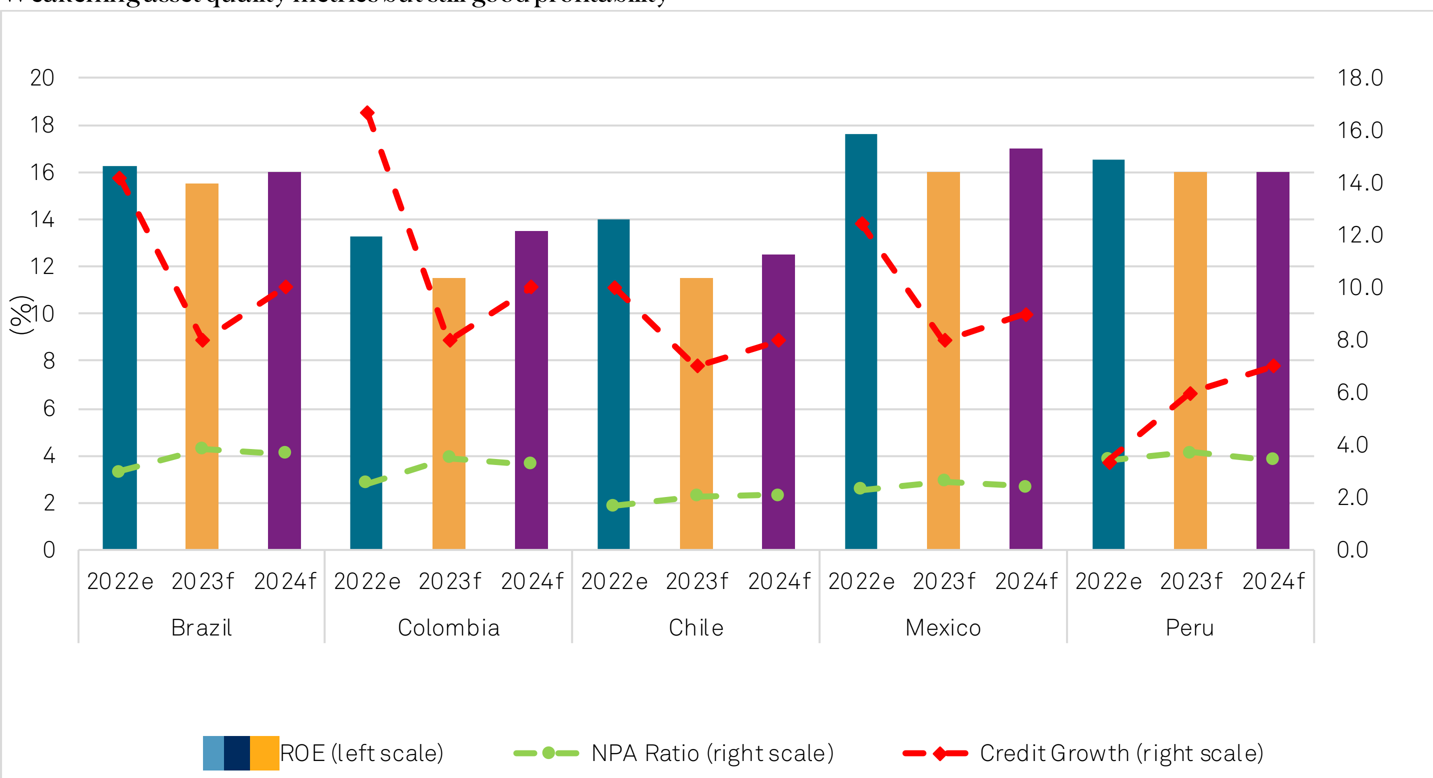
LatAm: Asset Quality Continues To Weaken Because Of Soft Economy and High Interest Rates

Although inflation is showing signs of moderation, household disposable income continues to be pressured by high interest rates, disappointing economic performance, and increased leverage. As a result, banks are tightening their underwriting standards, which is limiting credit growth and further pressuring asset quality. On the corporate side, banks are focusing on entities with stronger credit quality, such as large and midsize entities, while having less appetite for middle market, small companies, and microcredit. Overall, credit growth in this segment is also limited, and we continue to see asset quality weakening as a result. On the other hand, major banks' balance sheets remain robust with high provisioning buffers and adequate capitalization.

Profitability will continue to soften because of deteriorating asset quality that will require banks to continue strengthening their provision levels. LatAm banks are used to operating in challenging conditions and have sound regulatory capital and liquidity levels, which we expect will help them navigate the currently tough operating environment. Local regulators are typically stringent given the volatile economies and regulation is implemented similarly to all regulated entities.

Chart 20

Weakening asset quality metrics but still good profitability



e - estimate, f - forecast. Source: S&P Global Ratings.

Appendix: Economic Data And Forecast Summaries

Table 2

Real GDP

(%)

	2022	2023f	2024f	2025f
Argentina	5.2	-2.0	0.5	2.0
Brazil	3.0	1.7	1.5	1.8
Chile	2.5	0.3	2.4	2.8
Colombia	7.3	1.4	2.0	2.9
Mexico	3.0	1.8	1.5	2.1
Peru	2.7	1.8	2.6	2.8
China	3.0	5.2	4.7	4.7
India	7.2	6.0	6.9	6.9
Indonesia	5.3	4.8	5.0	5.1
Malaysia	8.7	4.0	4.5	4.5
Philippines	7.6	5.9	5.9	6.6
Thailand	2.6	3.2	3.5	3.3
Vietnam	8.0	5.5	6.9	6.8
Hungary	4.6	0.1	3.2	2.9
Poland	5.5	1.1	3.2	3.3
Saudi Arabia	8.7	0.2	3.6	3.4
South Africa	2.0	0.6	1.7	1.7
Turkiye	5.4	2.3	2.0	3.1

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

Table 3

CPI inflation

Year average (%)

	2022	2023f	2024f	2025f
Argentina	72.4	121.1	124.9	75.0
Brazil	9.3	5.2	4.2	3.8
Chile	11.6	7.9	3.7	3.3
Colombia	10.2	11.4	4.3	3.3
Mexico	7.9	5.7	4.2	3.2
Peru	7.9	6.6	2.9	2.3
China	2.0	1.2	2.8	2.1
India	6.7	5.0	4.5	4.5
Indonesia	4.2	3.9	3.5	3.4
Malaysia	3.4	2.8	2.4	2.4
Philippines	5.8	5.9	3.1	3.3
Thailand	6.1	1.9	1.1	0.7
Vietnam	3.2	3.0	3.4	3.5
Hungary*	15.3	18.1	5.1	3.7
Poland*	13.3	11.7	6.2	3.1
Saudi Arabia	2.5	2.9	2.2	2.0
South Africa	6.9	6.1	5.1	4.1
Turkiye	72.3	43.7	34.1	20.6

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

Table 4

Policy rates

End of period (%)

	2022	2023f	2024f	2025f
Argentina	75.00	97.00	80.00	50.00
Brazil	13.75	12.50	9.00	9.00
Chile	11.25	9.00	5.50	5.50
Colombia	12.00	13.25	9.00	7.00
Mexico	10.50	11.25	8.50	7.00
Peru	7.50	7.75	5.00	4.00
India	6.50	6.25	5.25	5.00
Indonesia	5.50	5.75	4.75	4.50
Malaysia	2.75	3.00	2.75	2.75
Philippines	5.50	6.50	5.25	4.00
Thailand	1.25	2.00	1.50	1.25
Hungary	13.00	11.50	7.00	3.00
Poland	6.75	6.50	5.25	3.50
Saudi Arabia	5.00	6.00	5.00	3.75
South Africa	7.00	8.50	7.25	6.50
Turkiye	9.00	30.00	25.00	15.00

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

Table 5

Exchange rates versus US$

Year average

	2022f	2023f	2024f	2025f
Argentina	130.75	275.0	605.0	1,025.0
Brazil	5.17	5.08	5.15	5.23
Chile	873.00	810	838	863
Colombia	4,254	4,445	4,425	4,550
Mexico	20.12	18.25	18.75	19.25
Peru	3.83	3.75	3.80	3.88
China	6.73	7.0	6.9	6.8
India	80.37	83.1	83.3	84.6
Indonesia	14,852.7	15,035.0	15,065.0	15,162.5
Malaysia	4.36	4.5	4.4	4.3
Philippines	54.46	55.0	54.4	52.9
Thailand	35.08	34.6	34.6	34.2
Hungary	375.08	353.5	351.1	355.4
Poland	4.20	4.2	4.1	4.0
Saudi Arabia	3.75	3.75	3.75	3.75
South Africa	16.38	18.1	18.0	18.5
Turkiye	16.44	23.2	27.8	30.9

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

Table 6

Unemployment

Year average (%)

	2022	2023f	2024f	2025f
Argentina	6.8	8.5	9.0	8.4
Brazil	9.5	9.4	9.0	9.0
Chile	7.8	8.5	8.0	7.5
Colombia	11.2	11.3	10.9	10.5
Mexico	3.3	3.0	3.7	3.5
Peru	4.4	4.5	4.5	4.3
China	5.6	5.2	5.0	4.9
Indonesia	5.8	5.4	5.3	5.3
Malaysia	3.8	3.5	3.4	3.3
Philippines	5.4	4.6	4.5	4.1
Thailand	1.2	1.0	0.8	0.8
Hungary	3.7	4.0	3.9	3.8
Poland	3.2	3.1	2.9	2.8
Saudi Arabia	5.6	5.2	4.9	4.4
South Africa	33.5	32.8	32.5	31.4
Turkiye	11.1	10.7	11.9	11.2

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

Related Research

- Credit Conditions Asia-Pacific Q3 2023: China Grapples With An Uneven Recovery, June 27, 2023
- Credit Conditions Europe Q3 2023: The Slow Burn of Rising (Real) Rates, June 27, 2023
- Credit Conditions North America Q3 2023: Risks vs. Resilience, June 27, 2023
- Economic Outlook Emerging Markets Q3 2023: A Slowdown Ahead After Beating Expectations, June 26, 2023
- Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer, June 26, 2023
- Economic Outlook Eurozone Q3 2023: Short-Term Pain, Medium-Term Gain, June 26, 2023
- Economic Outlook Asia-Pacific Q3 2023: Domestic Demand, Inflation Relief Support Asia's Outlook, June 26, 2023
- Saudi Arabia's Debt Market: Ready For Takeoff, June 19, 2023
- Emerging Markets Monthly Highlights: Resilience To Diverging External Trends, June 15, 2023
- Economic Research: Emerging Markets Real-Time Data: Economic Research: Emerging Markets Real-Time Data: Service Sector Resilience Buoys Economic Activity, June 12, 2023
- Sub-Saharan Africa's Fading Tailwinds And Missed Opportunities, May 30, 2023