S&P Global
Ratings

Credit Conditions Asia-Pacific Q4 2023

China Downside Risk Is High

Sep. 26, 2023

This report does not constitute a rating action

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Asia-Pacific committee on Sept. 19, 2023.

Key Takeaways

- **China's economy is unsteady.** A troubled property sector, uncertain local government finances, and softer exports are undermining the country's economic rebound from COVID lockdowns. Nor is substantial fiscal or monetary stimulus likely in the coming months, in our view. Consequently, we have cut our real GDP growth forecast for China to 4.8% in 2023 and 4.4% next year. With the propensity to spend remaining weak for business and consumers, we assess risks around China's economy as high.
- **Higher U.S. interest rates.** Inflation is still above the target rates of many central banks, including the U.S. Federal Reserve and the European Central Bank. As such, policy interest rates are unlikely to ease in coming months. Asia-Pacific's borrowers will face more costly servicing, particularly as loans and bonds roll over. A recalibration of asset values and risk repricing, especially in real estate, could hit banks, developers, and REITs. We thus see financing access risk as high.
- **Lingering profit margin pain.** Costs remain high despite inflation easing. Sellers' ability to fully pass on costs to customers is still hampered by weakened business and consumer confidence. Food export curbs and high energy prices are added complications. Nonetheless, while cost passthrough risk is high, we see the situation as improving because of the softening inflation outlook.
- **A U.S. soft landing.** We anticipate a U.S. and Europe soft economic landing is now more likely, which is incrementally positive for Asia-Pacific economies. We thus raise the growth forecast marginally for Asia-Pacific ex-China to 3.9% in 2023 and 4.4% next year.

China's property crisis deepens. China's real estate sector is taking another downward lurch. Residential property sales fell hard over the summer months, reversing a small revival earlier in the year on easing restrictions around mortgage and purchase limits. The situation is most dire in the lower-tier cities, but even tier-one cities saw a 29% decline year-on-year in property sales in August 2023. This is hitting property developers' cash flows and also hurting land sales, a key source of revenue for local and regional governments (LRGs). That diminishes the fiscal strength of these LRGs and their ability to support state-owned enterprises (SOEs). Meanwhile, easing measures are introduced to stem the decline in sales in the richest cities. While the top-down approach could be more effective in stabilizing the property market, it means lower-tier cities could see the recovery pushed out further (see "China Still Has More Policy Tools To Stabilize The Higher Tier Property Markets", Sept. 26, 2023).

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We anticipate declines in land-sales revenues and demand for land to persist through end-2023 (see chart 1). Rising default risk for SOEs (see "China Policy Patches Alone Won't Fix LGFVs' Fraying Liquidity", Sept. 7, 2023) could disrupt local credit-driven activities, hampering China's economic recovery. These drags contributed to our lowering of China's growth forecast, to 4.8% in 2023 and 4.4% in 2024.

Confidence dipping. Weak business and household confidence, coupled with high youth unemployment, are also dimming hopes for China's post-COVID recovery. Weaker GDP hits business turnover and curtails employment needs. Household spending is dampened by the wealth hit from falling house prices, combined with souring employment prospects. While muted policy stimulus means more pain in store for corporates and banks, it also shows China continues to move away from unproductive debt-fueled growth. This is a positive and should reduce moral hazard over the long term.

Bias to keep monetary policies tight. With the increased likelihood of a soft landing in the U.S. and Europe and the inflation risks from still-strong employment, major centrals banks will keep monetary policies tight. For export-centric Asia-Pacific, slowing global demand will subdue manufacturing activities and hit corporate revenues.

While inflationary concerns are lower for the region, rice export curbs by India and hikes in energy prices point to stickier prices. Amid rising interest rate differentials with the U.S., the region could see the risk of capital outflows, sparking domestic currency depreciation. For borrowers, "higher for longer" interest rates means costlier debt financing. In the event lenders (both banks and investors) turn risk adverse, lower-rated and highly leveraged borrowers would be especially vulnerable.

Recalibration of risk pricing. China is not the only market with property-related risks. With rates staying higher for longer, asset values could be revalued as lenders recalibrate risk pricing. This raises the possibility of price corrections in real estate reverberating through households and spilling over into the banking sector.

While property stress is higher in some markets, such as Vietnam and Korea, the region generally faces higher mortgage servicing rates. This will curtail household disposable spending and could reduce demand for new properties. As sales contract, developers dependent on short-term debt may face liquidity squeezes. Meanwhile, REITs and commercial real estate could see rent revenues contract. If liquidity squeezes are prolonged, defaults could spike. For banks, potential losses from property sector write-downs or non-payment from property development loans may arise (see "How The Property Downturn Is Hitting Asia-Pacific Banks", Aug. 31, 2023).

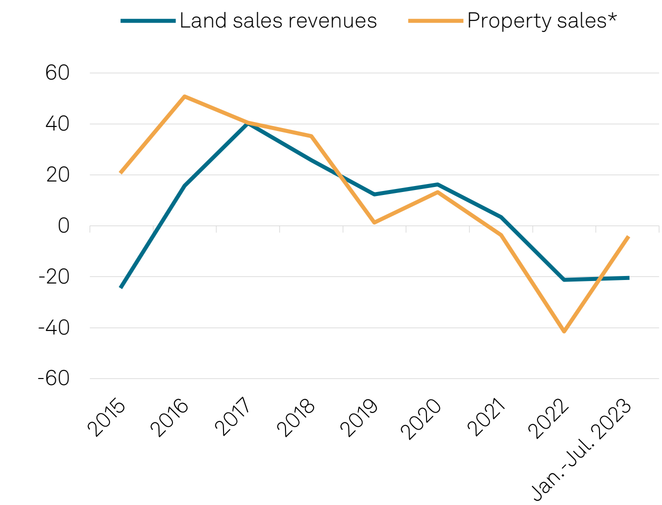
Geopolitical crosswinds. Ties are still fraying between China and the U.S. (and its partners). Signs include the U.S. Congress' proposed "Taiwan Conflict Deterrence Act of 2023" and tightened restrictions around U.S. investments in Chinese tech sectors. For businesses, an intensification of geopolitical tensions will affect investments, trade, and supply flows. In particular, the decoupling of manufacturing supply chains comes with significant cost and operational challenges. While the recent expansion of "BRICS" to bring in new rising countries will have limited immediate economic benefits (see "Broadening BRICS May Have Limited Economic Benefits", Sept. 5, 2023), the group's widening reach (about 30% of the world's GDP) provides an alternative to developed countries-dominated forums (such as the G7 or OECD). Globally, energy- and food-security concerns are complicating geopolitical relationships. Recent extreme weather events (such as high temperatures in Asia and floods) are threatening agriculture production and energy supply--raising the specter of another round of global inflation.

Downsides abound. Our net rating outlook bias remains steady at negative 2% as of end-August 2023 (same as at end-May 2023). However, the distribution underlines uneven credit conditions faced by sectors. Weak consumer sentiment hits more acutely on earnings of domestic-focused sectors (such as physical retail, hospitality, cyclical transport). Export-oriented sectors (including auto, electronics, light manufacturing, technology, and textiles) are sensitive to challenging operating conditions amid slower growth. Sectors that are export-reliant or face high price elasticity will be most vulnerable to falling revenues and compressed margins, weighing on their credit quality.

Chart 1

China's declining property sales hurt land sales revenues

Year-on-year change (%)

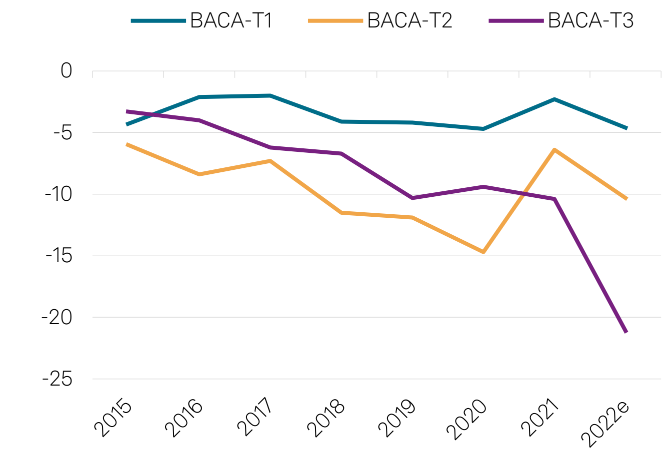


*Top 100 developers. Data source: China Real Estate Information Corp. (CRIC). Source: S&P Global Ratings.

Chart 2

China's tier-three LRGs have fastest growing deficits

Balance after capital account for three tiers of LRGs (%)

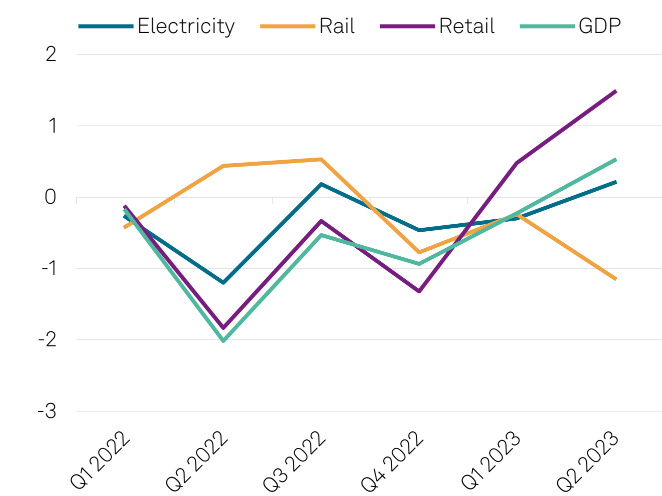


BACA %-- Adjusted total revenue subtracted by adjusted total expenditure, as a percentage of adjusted total revenues. LRG--Local and regional governments. T1--Tier-one government and so on for T2 and T3. e--Estimate. Source: S&P Global Ratings.

Chart 3

Mixed signals in China's economic growth

Standard deviations

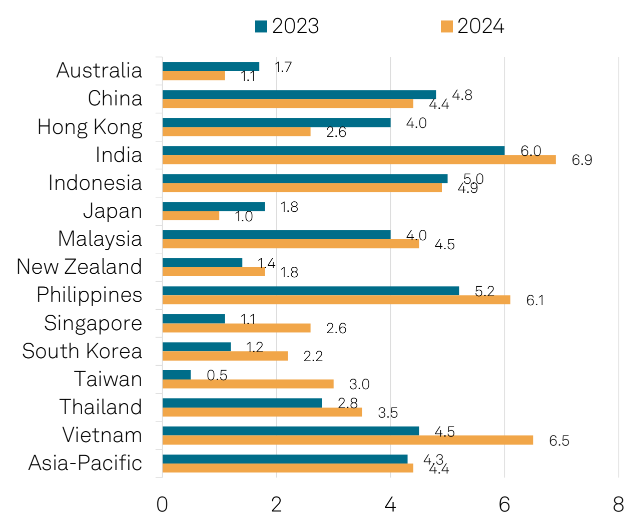


Series are detrended year-over-year growth rates, measured in normalized values. Source: Federal Reserve Bank of San Francisco.

Chart 4

Resilient growth amid China slowdown

Current real GDP forecast, y-o-y change (%)



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

Top Asia-Pacific Risks

China's economy: Prolonged property sector weakness, weak confidence, and high debt levels to weaken China's growth momentum

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

China's economic growth momentum had stalled amid tepid domestic household and business confidence, and subdued global demand. Weak property demand, especially in lower-tier cities, could squeeze liquidity for property developers and real-estate dependent sectors (such as engineering and construction). Slow property activities could intensify fiscal constraints of some local governments, limiting their ability to support the financing needs of state-owned enterprises (SOE) and some highly indebted local government financing vehicles (LGFVs) -- raising the specter of defaults. Concurrently, the way large corporate failures are handled may have unintended consequences, such as contagion fueled by falling confidence. Amid China's very high corporate leverage, economic growth could be further derailed should financiers curtail lending. Meanwhile, protracted periods of subdued consumer and business confidence could further exacerbate credit stresses, spilling into the banks' loan books and eroding their earnings buffers. For Asia-Pacific, China's weaker economic growth could adversely affect entities reliant on the country for exports.

Financing: "Higher rates for longer" to exacerbate interest burdens and worsen prospects of weaker credit issuers

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

The extended period of high rates reflect central banks' hawkish bias to contain inflation. This means rates could stay higher for longer despite slower economic growth. For borrowers, the high interest rates will exacerbate borrowing costs and strain liquidity. Meanwhile, slowing economies could hit revenue growth, margins, and borrowers' credit quality. Risk of selective appetite by lenders means credit lines could contract or demand for higher interest. While domestic financing access remains available across Asia-Pacific, it can be uneven. Concurrently, any renewed contagion fears about the U.S. banks would curtail credit availability. For those with impending refinancing needs, constrained cashflow could spike defaults. To cope, investors may limit exposures to speculative-grade and highly leveraged issuers and sectors, amid rising borrower failures and defaults.

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

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

The lagged effects of rapid rate hikes by the Fed and the ECB have slowed global economic growth. More conservative household consumption and corporate investment activity could exacerbate the demand slowdown from Western economies. For Asia-Pacific, tepid global trade will hit exports and manufacturing activities. Concurrently, growth headwinds from China risks souring business and households' propensity to consume. Capital outflows and currency depreciation risks for some economies could intensify, compounding recessionary obstacles and external deficits.

High prices: Inability to fully pass-through high prices could risk increasing costs pressures faced by borrowers

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

While inflation risks have eased, core inflation remains a concern given high food and fuel prices. Ongoing El Nino effects could hit agriculture and impact food supply chains. Meanwhile, Asia-Pacific's net energy importing status underlines its susceptibility to high fuel prices. While businesses have been slowly passing through these input costs to customers, the trend is uneven. Fears of slowing consumption could limit further efforts by businesses to raise prices. Specifically, exporters to China, Europe, and the U.S. could face more challenges in raising prices given risk to slowing demand. Meanwhile, risk of high imported inflation remains, given weakness in domestic currencies.

Japan's monetary policy: Bank of Japan's further monetary tightening triggers short-term volatility

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

Japan's continuation of near-zero interest rate policy and yield curve control, has contributed to yen weakness and inflation. If investors perceive that the Bank of Japan could embark on significant monetary policy normalization, it could trigger abrupt portfolio adjustments. Capital could flow back into Japan as international investment positions reverse. The resulting volatility in interest rate and exchange rate volatility could create financial instability, hampering financing and economic conditions.

Real estate: Cashflow challenges abound amid low new-sales volume and higher interest burdens

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

Higher mortgage rates in the region (excluding China) pose varying real-estate correction risk, implicating exposed segments (such as banks, real estate investment trusts, and structured finance markets). Tighter liquidity profiles, in tandem with slower economic outlook, will exacerbate credit stress for property developers amid sales contraction and higher interest burdens. Associated sectors (e.g., engineering & construction) could see spillover stresses. Concurrently, the global commercial real estate (CRE) sector has not fully recovered from COVID. A protracted economic slowdown (affecting unemployment and tenants' income) and higher interest rates are squeezing net cash flows. If CRE liquidity strains intensify, investors (such as private debt) face the likelihood of substantial write-downs.

Structural risks

Geopolitics: Intensification of geopolitical tensions could hit business confidence, worsen trade and investment conditions

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

Risks of intensifying U.S.-China diplomatic frictions or spillover of Russia-Ukraine war into other areas could constrain business confidence and spark investment outflows. Particularly, heightening disputes over the South China Sea could damage investment, trade and supply flows within and outside the area. The U.S.'s recent investment and export restrictions to China's advanced technology sector (high-end chips, quantum technology and artificial intelligence) reflect an effort to curtail the latter's tech ambitions. Businesses could face challenges and incur costs to reshore operations. A partial decoupling of China from the West would reshape supply chains, leading to hefty economic costs and undo policy efforts to curtail inflation.

ESG: Climate change and energy transition to threaten supply and costs

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

While countries are managing to cope with more extreme weather and adjusting to the costs of climate-change policies, the physical and financial effect of these developments could worsen. This threat is more acute for the less financially strong emerging markets and so-called brown industries. A rapid phase-out of fossil fuels could be disruptive for many industries, and strain credit quality. Sovereigns that depend on hydrocarbon export revenues or economies centered on energy-intensive industries could also suffer. Agriculture and energy supply could face disruptions, fanning inflation and social unrest. Insurance-model assumptions for catastrophe exposures could become outdated--posing need for more claims provisioning. In the case of flood-prone areas, property values may need to be recalibrated.

Technology: Accelerating technological advancement and mounting cyber-attacks to disrupt business operations

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

Technological advances, such as in artificial intelligence, could alter business landscapes, rendering technology laggards obsolete. While technology developments (beyond just information technology) could enhance productivity, operational efficiencies, and competitive positioning, such advances also create complexity in management, maintenance costs, and added regulation. Businesses may need to incur additional ongoing and rising costs to continually adopt and adapt to new technologies. Additionally, increasing interconnectedness of economic activity means expanding exposure of critical infrastructure and issuer operations to cyber-attacks. This could evolve into systemic threat and significant single-entity risk.

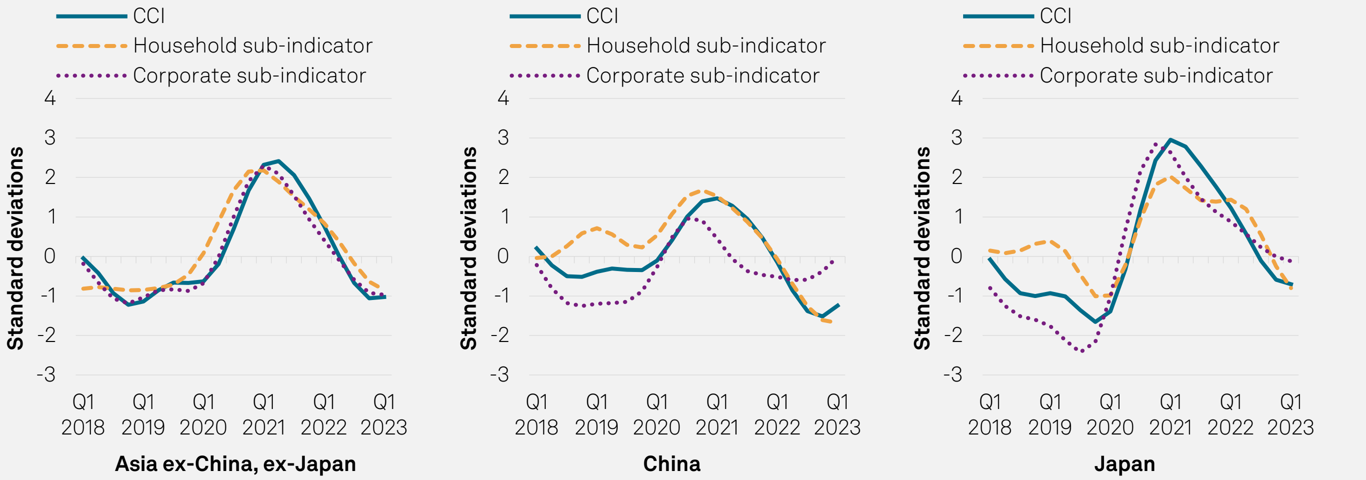
Source: S&P Global Ratings.
Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions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

Credit Cycle Indicator

Turning point: Asia-Pacific credit conditions could see an upturn in 2025

Chart 5

The credit correction is likely to continue into 2024 before an upturn plays out



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

Asia-Pacific. While our Credit Cycle Indicator (CCI) for Asia ex-China, ex-Japan is showing early signs of troughing, we expect an upturn only in 2025. Meanwhile, headwinds from a slower China and lagged effects of rapid rate hikes could prolong the ongoing credit correction into 2024. Concurrently, with interest rates poised to stay "higher for longer", borrowing costs look to remain elevated. There could be pockets of funding selectivity as lenders turn more cautious and differentiate credit. With mortgage rates staying high (outside China), an upturn could remain elusive amid still-weak market sentiment. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," June 27, 2022.

China. The China CCI is seeing a pronounced inflection, largely driven by a rise in the corporate sub-indicator. The country's corporate debt has increased upon its exit from COVID lockdowns. That said, credit demand may soften amid China's slower economic growth and subdued business confidence (see "Corporate China Hits A Turning Point On Leverage", June 26, 2023). Meanwhile, China's ongoing property crisis is dampening the propensity for households to spend, as reflected in the declining household sub-indicator. Recent credit events in the property sector are exacerbating the confidence crisis, spilling into weaker employment and constraining consumption.

Risks around China's corporate leverage remain pronounced, including the low productivity and high indebtedness of state-owned enterprises (SOEs) (see "Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap," Sept. 20, 2022). Systemic stability is a priority for the central government, even as authorities look to contain high leverage among local government-controlled nonfinancial SOEs (see "Credit FAQ: What Are China's Options To Resolve Local-Government SOE Debt Risk?", Aug. 3, 2023). We do not anticipate significant stimulus by the central government.

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

The pace of Japan's gross nonfinancial corporate debt build-up has slowed, following the sharp uptick seen during the onset of COVID. With global economic conditions softening and U.S. interest rates staying "higher for longer," corporates may seek more onshore debt (given prevailing interest rate differentials) to prefinance maturing debt and build cash positions. We expect the Bank of Japan to embark on a mild policy rate increase in 2024 (see "Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown", Sept. 25, 2023). The country's economic growth remains supportive, but domestic currency weakness could entail higher imported inflation, particularly around energy. For rated corporates, their revenue growth could cushion the impact of higher interest rates and persistent inflation (see "Global Debt Leverage: Japan Corporates Can Tolerate Higher Rates And Inflation", Apr. 11, 2023). However, rising interest rates and input costs would pose pain for small-to-midsized enterprises (mostly unrated) seeking to refinance.

Macroeconomic Outlook

Resilient growth amid China slowdown

- We expect China will continue to contain its macroeconomic stimulus following a property-driven downturn. We cut our 2023 growth forecast to 4.8%, from 5.2%, and that for 2024 to 4.4%, from 4.8%.
- While the rest of the region is slowing on weaker global trade and higher interest rates, we slightly raised our forecast for 2023 growth to 3.9% amid domestic resilience. Growth should expand to 4.4% in 2024 on better external demand and monetary policy easing.
- Rising food and oil prices bolster the case for central banks to take their time in lowering policy rates, despite progress in curbing core inflation.

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A 'soft landing' in the U.S. and Europe is possible but not certain. Recent developments suggest that the likelihood has risen that policymakers in the U.S. and Europe can bring down inflation without causing a substantial downturn. But risks remain.

Still, global interest rates are likely to remain high. The decline in U.S. inflation toward the Federal Reserve's 2% target will be gradual. We forecast another 25 basis points increase in its policy interest rate this year, with the first cut in the second quarter of 2024, implying that the strain on Asia-Pacific markets and currencies will likely persist through early 2024.

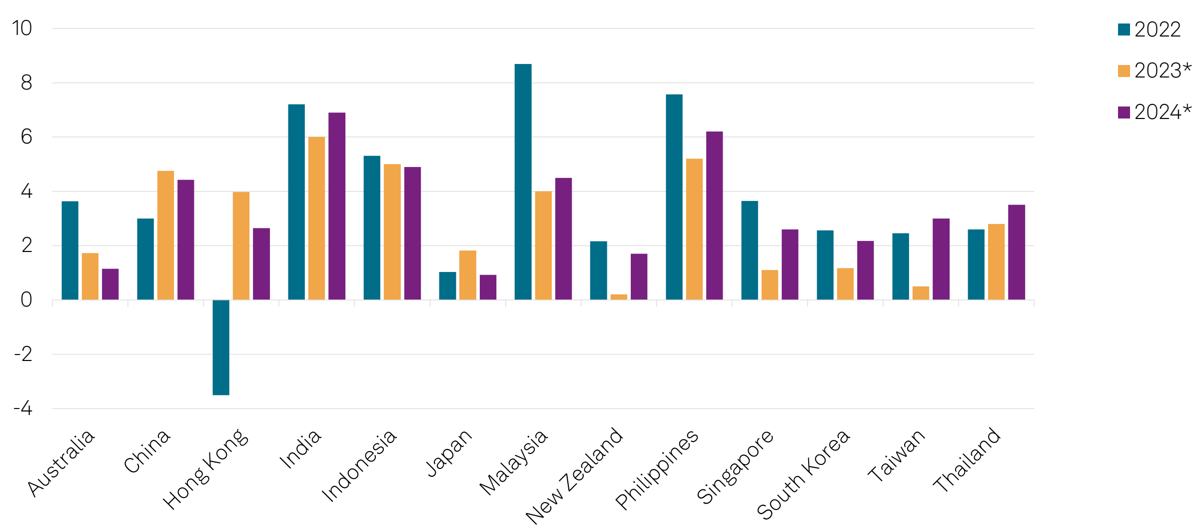
In China, amid renewed property weakness, the post-COVID recovery has lost steam. Industrial production growth has remained subdued. While consumer spending on catering, travel and other services has remained robust, goods consumption has slowed.

Policy support should dampen but not offset the weakness. The government has taken steps to support growth. Fiscal and monetary easing has remained limited, and we don't expect major macroeconomic stimulus, given policymakers' focus on containing financial risks. But the measures are starting to add up, especially in real estate, and we expect some further steps.

Chart 6

Growth to mostly be solid in 2023 but be lowest where exposure to trade or rate hikes is highest

GDP growth, %, y-o-y



*Indicates forecast. Sources: CEIC and S&P Global Ratings Economics.

We have cut our China growth projection. We now forecast 4.8% GDP growth in 2023, 0.4 ppt less than in June, and 4.4% in 2024, also a 0.4 ppt downgrade. There are risks of a worse outcome.

Asia-Pacific ex-China has shown resilience. Slowing global demand has weighed on exports. Yet, our estimates suggest that seasonally adjusted monthly export volumes have bottomed out in Japan, South Korea and, especially Taiwan. Meanwhile, domestic economies have generally shown resilience amid interest rate increases, supported by a resumption of a solid consumption trend in emerging markets and robust labor markets in developed economies.

While growth this year will be weaker than in 2022, our outlook remains broadly favorable. Notwithstanding the strong expansion in India in the June quarter, we maintain our forecast for fiscal 2024 (ending March 2024), given several headwinds. We have increased our forecasts for 2023 growth for Australia, Indonesia, South Korea and, especially, Japan. We have reduced them for Hong Kong, the Philippines, Singapore, Thailand and, notably, Vietnam.

Overall, we expect the region excluding China to grow by 3.9% in 2023, compared to 3.8% in June. We maintain our 2024 forecast at 4.4%, with the pick-up over 2023 due to a gradual improvement in external demand and monetary policy easing.

New price pressures challenge inflation reduction. In recent months, sequential core price increases have eased across the board, which is crucial for reducing headline year-on-year inflation. However, recent increases in international prices of oil and food have shown up in higher headline inflation. A fuller picture of the effect will emerge in coming months.

Elevated U.S. interest rates have kept the pressure up on regional currencies. So far this year, all Asia-Pacific exchange rates except for the Indonesian rupiah have weakened against the U.S. dollar.

So far, the recent rise in oil and food prices hasn't been large enough to undo the improvement in external deficit trends in the Asian economies that ran current account deficits in 2022: India, New Zealand, the Philippines, and Thailand.

While policy rates have been on hold in this setting, we don't expect policy interest rates to come down significantly soon. In addition to the remaining challenges on the inflation front, this is because we don't see U.S. interest rates coming down soon.

In Japan we have pushed out and scaled back our forecast for a mild policy rate increase. The Bank of Japan sees a sustained rise in inflation backed up solid demand and sustained wage growth as a condition for normalizing monetary policy. Sequential core inflation (according to the international definition, i.e., excluding food and energy) has moderated in recent months. This has made a sustained rise of headline inflation to 2% less likely. We are not anymore expecting a modest increase in the policy rate this year; we now expect a small rise to 0% in 2024. We think a further adjustment or removal of yield curve control will likely take place before a change in the policy rate.

Risks remain. Key risks to growth stem from possibly slower growth in the West and China. Significant further increases in global energy and commodity prices would stoke inflation and external deficits and possibly fuel renewed depreciation pressure on currencies amid elevated U.S. interest rates. Other risks center around monetary policy in Japan, Australia and New Zealand.

Financing Conditions

Tight financing conditions to return

- Asia-Pacific offshore financing is beginning to tighten once again as markets reprice for "higher for longer" rates from major developed market central banks. As a result, the region is seeing more outflows and weaker currencies.
- Expensive offshore financing costs have sharply slowed foreign currency-denominated primary bond market activity across the board, especially for high yield borrowers--further increasing refinancing risks for borrowers with foreign currency debt coming due.
- Local currency borrowing continues to be available in the region. Local bond yields have been stable relative to offshore rates, and banks are generally still able and willing to lend, albeit with less appetite to certain sectors.

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Financing conditions are beginning to tighten again. With stronger-than-expected economic activity and sticky inflation in the U.S. and Europe, markets are pricing in higher major central bank policy rates for longer than they previously figured. This not only impacts offshore borrowing costs directly, but also maintains the erosion of yield differentials between many Asian economies and the Western advanced economies. This is resulting in capital outflows, with the Institute of International Finance estimating net portfolio outflows from the region in August for the first time in five months. This is consistent region-wide, but led in magnitude by China, given its continued property sector woes. Almost all regional currencies weakened further since end-June (see chart 7).

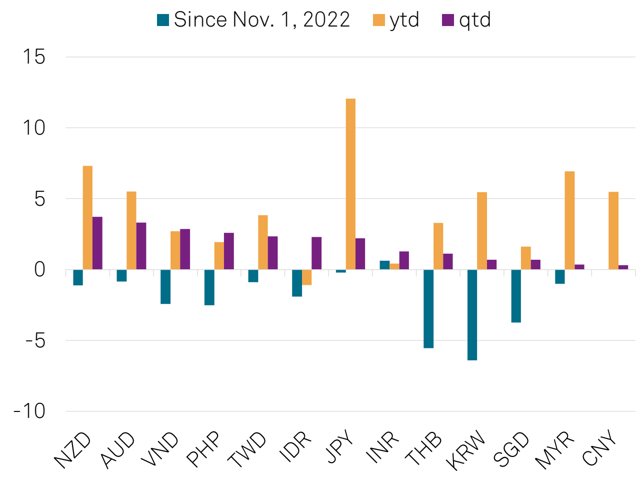
Offshore bond markets remain expensive and highly selective. With markets increasingly coming to terms with the prospect of higher for longer interest rates in the U.S and Europe, the gradual upward re-pricing of Asian dollar bonds continues, with further upward risks if the Fed hikes again towards year-end. Bond spreads remain below the recent November 2022 peak, but those for high yield issuers--which have risen 75bps year-to-date--have become more volatile (see chart 8), exacerbated by developments in the China property market. Due to the high cost of funding across the board, offshore bond issuance is down 24% year on year as of end-August 2023; and this is from a relatively low base, given 2022 volumes were weaker than in the five prior years (see chart 9). On top of this, poor investor sentiment has maintained the selectivity of primary markets--speculative grade offshore bond issuance activity is a mere 5% of the typical volumes in prior years (see chart 10). As the maturity wall for speculative grade rises in late 2025 onwards, the dollar refinancing risks will continue to be a key watchpoint for speculative-grade issuers.

Local currency financing is relatively cheaper but remains uneven. In the big domestic bond markets, bond yields remain low (except in Australia and the Philippines), especially relative to offshore movements. Across the region, banks are still generally able and willing to lend. But loan demand has been decreasing markedly, in part due to central bank tightening's impact on lending rates, slowdowns in the property sectors in a few geographies, and generally weaker second-half growth outlooks. On top of these, banks in some places are becoming relatively more selective. The net impact has been uneven lending growth (e.g., in China, less lending for lower-tier local governments; in Korea, declining loan growth to households).

Chart 7

Weaker currencies across APAC

% depreciation

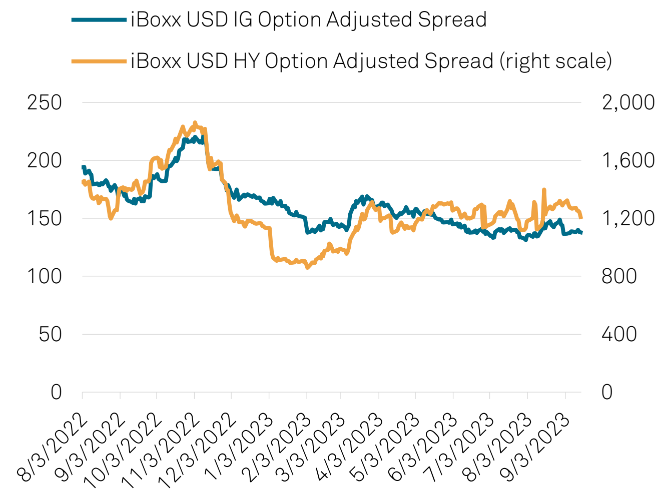


ytd--Year to date. qtd--Quarter to date. Data as of Sep. 15, 2023. Sources: S&P Global Market Intelligence and S&P Global Ratings Credit Research and Insights.

Chart 8

Higher volatility in HY Asia ex-Japan USD bond spreads

Basis points

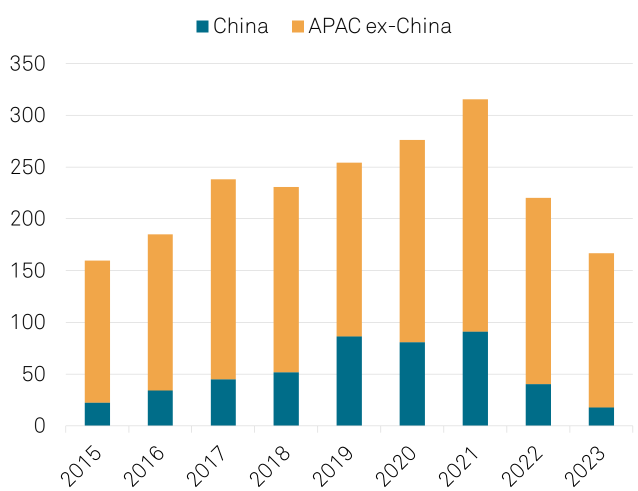


IG--Investment grade. HY--High yield. Data as of Sep. 15, 2023. Sources: S&P Global Market Intelligence and S&P Global Ratings Credit Research and Insights.

Chart 9

Shrinking APAC offshore bond issuance volumes

(Bil. US$)

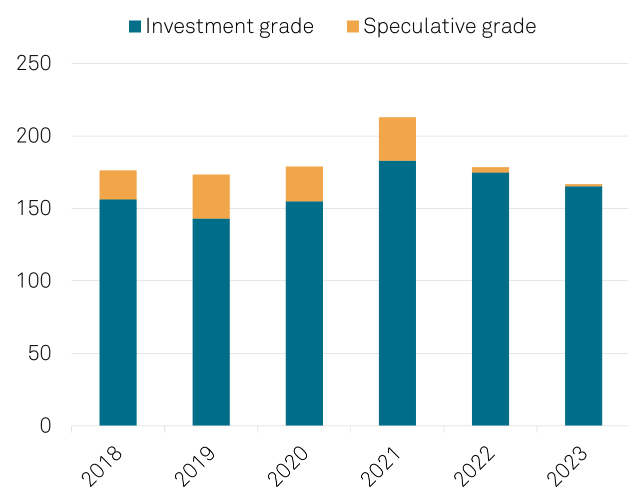


Data as of Sep. 15, 2023. Sources: Refinitiv and S&P Global Ratings Credit Research and Insights.

Chart 10

APAC S&P-rated bond issuance volumes

Jan-Aug (bil. US$)



Based on issue-level ratings. Data as of Sep. 15, 2023. Sources: Refinitiv and S&P Global Ratings Credit Research and Insights.

Sector Trends

Slowing China To Pose Pain

- **China's economy sputters.** China's post-COVID economic recovery is thwarted by ongoing stresses in the property sector--which are hurting already-weak household and business confidence, and could spill over to local governments, banks, and the economy. A weaker China could weigh on the region's business sentiment, pressuring credit headroom.
- **Financing still available, but selective and costly.** "Higher for longer" interest rates means no relief in sight for borrowing costs. Meanwhile, lenders could become more selective and demand higher risk premiums. The region's domestic funding channels are still available--such as banks, which are able and willing to lend. However, they too could turn risk averse, especially toward troubled segments such as China property.
- **Outlook stabilizing, but the distribution is uneven.** While our net rating outlook bias is steady at negative 2% as of end-August, some sectors are seeing gain, and others, pain. The post-pandemic earnings rebound for gaming operators is stronger than we expected, but sectors exposed to weaker demand (e.g., auto, capital goods, manufacturing, real estate) are facing credit strains.

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What we expect and our key assumptions over the next 12 months?

No significant China stimulus. In China, we do not anticipate any substantial fiscal or monetary stimulus by the central government in coming months.

Global economic slowdown pushed out to 2024. Major economies, including the U.S., will not slip into recession for the rest of 2023. Instead, a soft landing is likely over 2024.

Weaker domestic currencies. The Fed will persist with tight monetary policy to contain inflation. For Asia Pacific (ex-China), the constrained capacity of the region's central banks to hike rates would entail wider interest rate differentials with the U.S., weighing on domestic currencies.

What are the key risks around the baseline?

China's property sales to walk a "descending staircase". Should China's property slump worsen further or property sales deviate from our (diminishing) expectations of an "L-shaped" recovery, this could squeeze local governments' fiscal revenues and spark further loss of confidence. Weaker demand in the property sector could reverberate along the supply chain--hitting (smaller and unrated) construction contractors and building materials suppliers.

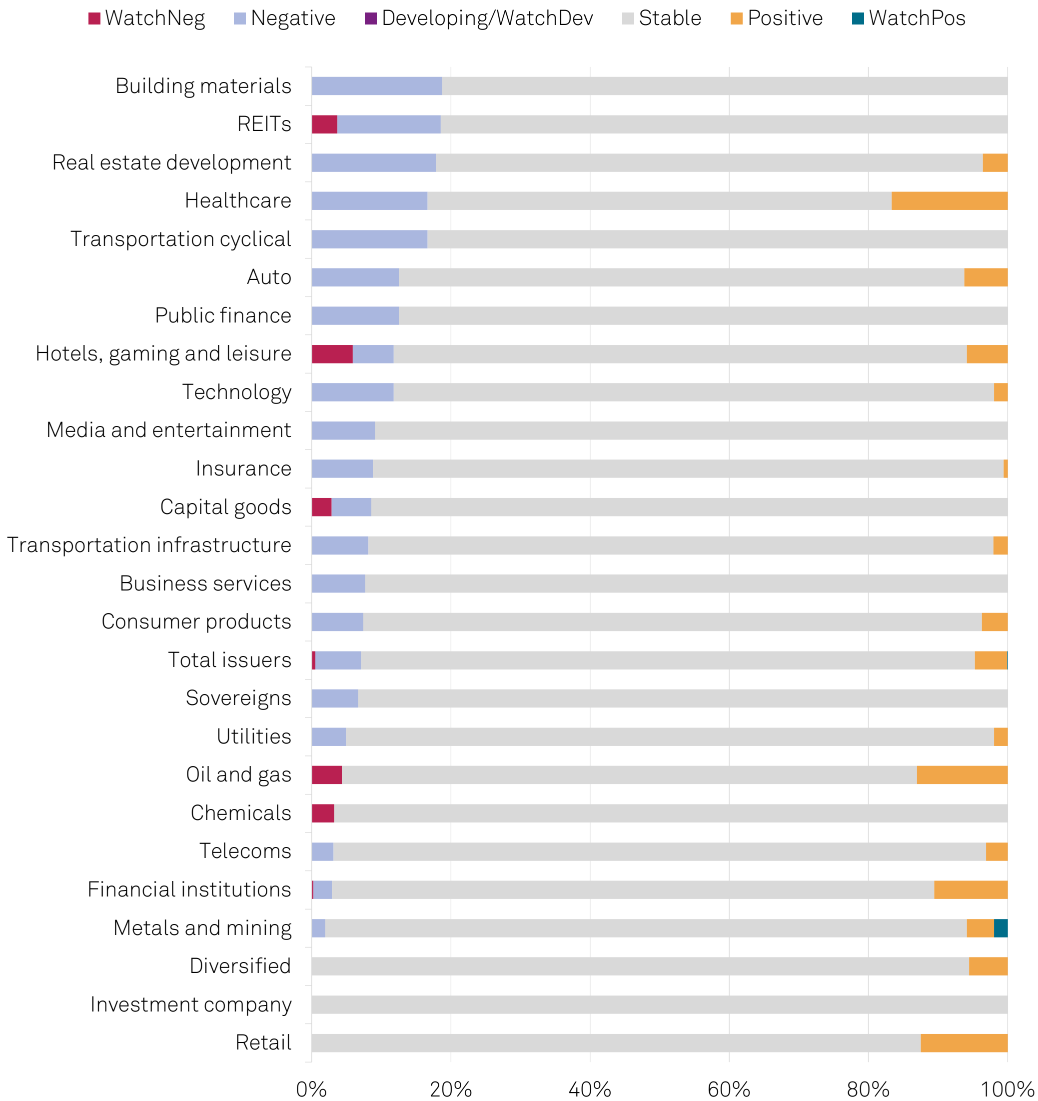
Costlier borrowing and more selectivity. Refinancing costs will stay high amid tight interest rates, and lenders could demand higher risk premiums--propping up borrowing costs. Should financers become more selective, lower quality borrowers (including those with weaker cash positions or high indebtedness) could face difficulties refinancing and see liquidity squeeze.

A global hard landing. A sharp or protracted slowdown in major economies outside of Asia-Pacific, including the U.S. and Europe, would put a lid on consumer spending, pressuring revenues of the region's sectors and manufacturers reliant on exports.

Squeezed profit margins. Although inflation is mostly easing, cost pass-through ability remains uneven across sectors. Should renewed bouts of inflation occur, this could undo the "margin catch-up" by corporates in sectors where cost pass-through has been relatively easier (including nondiscretionary spending, infrastructure, and airlines). For sectors that struggled to put through high prices, in fear of losing demand, profit margins could remain crimped (such as in capital goods, chemicals and discretionary retail).

Chart 11

Net outlook bias distribution of Asia-Pacific issuers by sector, Aug. 31, 2023



Data cut-off is of Aug. 31, 2023. Source: S&P Global Ratings.

Nonfinancial Corporate

More macro headwinds, less consumer confidence

- **Revenue and profit growth momentum is slowing heading into 2024.** That's amid a slowdown in global and regional growth, and subdued consumer sentiment. While Asia-Pacific inflation risk is less pronounced than at the beginning of 2023, we believe further meaningful price hikes will be difficult if inflation pressure revives.
- **The Chinese corporate sector is exposed to spillovers from the property sector and weaker exports.** The more entrenched weakness in China's property markets becomes, the more likely it is to weigh on business sentiment and household consumption over the medium term. Concurrently, slowing demand in key export markets will affect manufacturers.
- **Funding conditions are likely to stay polarized until the first half of 2024 at the earliest.** For weaker credits, financing windows will stay short, funding will be selective, expensive and largely shorter-dated. For those with impending maturities, higher borrowing cost will hit cashflows.

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What we expect and our key assumptions over the next 12 months?

Slowing growth momentum in China and Western economies will subdue operating conditions heading in 2024. We project flat to low single digit growth for revenues and a mid-single digit for profit across rated corporate entities in Asia Pacific in 2024. This is a sharp slowdown--over half the pace observed in the immediate post-COVID recovery. The growth slowdown is more pronounced for domestic-focused sectors--physical retail, tourism, telecoms, hospitality, cyclical transport, and certain categories of consumer products. We also believe the rest of 2023 and the first half of 2024 will remain tough for exporters to Western economies in sectors such as light manufacturing, technology and textiles. This is given sluggish growth forecasts over the period and increasing difficulties in passing higher prices to already stretched end-customers. Operating headwinds also appear more widely spread across sectors than earlier in 2023, as declining prices in energy, mineral and agribusiness commodities eat into the abnormally high profits made in 2022.

Chinese corporates vulnerable to property sector spillovers and weaker exports. China's property sector continues to weigh on its economic growth and the demand for some commodities. Despite recent guidance on allowing one-year loan extensions for developers, the government is unlikely to want to bail out the whole property sector. Recent missed payments on a few trust products pose limited systemic risks in our opinion, but default risk is rising for local-government SOEs. At the same time, weaker growth in the U.S. and Europe is likely to continue dragging China's exports in sectors such as automobile and electronics. China's demand recovery will be slow with manufacturing and property sectors likely to struggle for longer in the absence of more expansive economic policies.

Funding to stay selective and a key driver of defaults. We don't anticipate a major improvement in funding availability until the second half of 2024 at the earliest amid more challenging operating conditions and still elevated interest rates for most jurisdictions in the region. For weaker credits, we believe financing windows will continue to be short, funding will be selective, expensive and largely shorter-dated. Unlike foreign capital markets, lending growth from domestic banks has been resilient across the region. But as we have observed in Vietnam, Indonesia and China, funding availability from banks remains highly exposed to sector-specific credit stress, with even domestic banks quick to reduce funding, sometimes indiscriminately, to entire sectors. Higher interest rates are compounding slowing growth and inflation issues in working-capital intensive sectors (construction, real estate, retailing, light manufacturing, trading) and leveraged sectors or groups of issuers regionally (REITs, some conglomerates, and state-owned enterprises).

What are the key risks around the baseline?

A deeper slowdown in China's economy and the absence of a near-term recovery in China's property sector. These could have longer-lasting effects on confidence and consumer sentiment in China and percolate to the wider economy.

A more pronounced and entrenched slowdown in Western economies. This would affect export-oriented manufacturing sectors across the region.

A resumption of inflation and renewed margin compression. Further cost increases are likely to be more difficult to pass through to end customers than earlier in 2023 because of slowing growth.

Financial Institutions

Steady amidst strains

- Most rating outlooks are stable, and we expect this scenario to persist in 2024. However, an economic downside scenario (beyond our base case) would contribute to negative ratings momentum.
- High interest rates will continue to benefit banks' net interest margins though also contribute to higher credit losses.
- We anticipate greater credit differentiation. More vulnerable are institutions with higher direct exposures to weaker sectors, more concentrated business profiles, and those that are not systemically important--such as some nonbank financial institutions.

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What we expect and our key assumptions over the next 12 months?

Higher credit losses. Weaker growth and generally high interest rates will contribute to higher credit losses from lending for property and other sectors. We forecast that credit losses for Asia-Pacific banks will rise 9% in 2024 to US$528 billion, up from US$485 billion in 2023.

Ratings stability. Most financial institutions in the region will manage stresses associated with a weaker macro environment--as reflected in our economic base case--at current rating levels.

Governments remain supportive. A key assumption is that governments remain supportive to the household and corporate sectors; and that extraordinary support is available for certain banks in the unlikely event it was required.

What are the key risks around the baseline?

Economic downside risks intensify. Materially weaker economic prospects or higher-for-longer interest rates will eventually hurt banks' asset quality. This is especially the case amid already highly leveraged corporate, household, and government sectors, and the region's property market experiencing pockets of stress.

Weaker confidence. Contagion risks to banks' funding and liquidity in the wake of Credit Suisse and U.S. regional bank failures have moderated. Nonetheless, in the higher-rates, lower-growth environment, investor confidence could be easily shaken.

Structural risks. Climate change, cyber risks, and digitalization trends affecting the competitive landscape are structural risks that will increasingly test banks and their borrowers.

Insurance

High rates and market hurdles test capitalization

- **Stable credit trends prevail.** However, Asia-Pacific insurers are encountering rising asset risk and shifting reinsurance capacity.
- **Market swings and forex risk weigh on earnings.** This could lead to thinning capital buffers.
- **Strained underwriting results.** This reflects rising frequency of extreme weather events and reinsurance cost rise.

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What we expect and our key assumptions over the next 12 months?

Market swings stay. Equity market volatility weighs on insurers' investment returns, diluting their earnings and capital. Still-high interest rate differentials will keep hedging costly. Except for China, rate hikes across the region could dent asset valuations and result in unrealized losses, despite easing pressure for reserve provisioning.

Compressed insurance margin. Rising reinsurance costs could disrupt nonlife insurers' risk mitigation plans, dragging on nonlife insurers' profit margins. Further, some insurers may struggle to effectively pass this increased cost to customers. Global climate change, the impact of secondary perils, and rapid urbanization across emerging Asia could further push up catastrophe related insurance losses.

Updates in strategies along with changes in accounting and regulation. IFRS17 and updates in regulatory standards could result in changes to strategies and risk appetite. Insurers also face higher operational resource.

What are the key risks around the baseline?

Persistent capital-market obstacles. Sharp and prolonged market volatility and rising forex hedging cost could hit insurers' capital and earnings. This adds to spillover from other regions' risk events. Insurers with a large portion of overseas investment will be more vulnerable to such development. Insurers' chase for yield in the past could see rising credit risks.

Shifting reinsurance capacity. Changing risk appetite among global reinsurers could reduce aggregate reinsurance capacity. This leads to hikes in reinsurance costs. Together with a pick-up in insurance claims due to normalizing mobility and rising frequency of extreme weather events, insurers will face strained underwriting margin.

Moderating growth. Slowing economic growth could undermine business and consumer confidence, weighing on premium growth, particularly trade-related business lines.

Public Finance

Fiscal divergence amid persistent external tests

- Inflation and high rates in Asia-Pacific (except China) are weighing on local and regional governments (LRGs) and their associated enterprises.
- Local governments in China, Australia and New Zealand will continue to spend on large infrastructure pipelines resulting in growing debt levels.
- Tail risks include lower-tier Chinese LRGs failing to restore confidence amid the property slowdown; and inflation amplifying strains as New Zealand LRGs continue to spend.

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What we expect and our key assumptions over the next 12 months?

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

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

New Zealand local councils a notable exception. Inflation is weighing on operating margins while many LRGs keep increasing capex, driving deficits and debt higher.

What are the key risks around the baseline?

Economic slowdown. Persistent inflation, high interest rates, and downside risks to the global economy, could further squeeze the region's consumption, supply chains, and economic growth, leading to declining revenues or slower revenue growth for LRGs.

Property market correction. Most LRGs in the region are fiscally dependent on revenues tied to domestic property sales and prices. China's slow property sector, in case of a "descending staircase" correction, would delay local recovery and market confidence.

Policy shifts. To ameliorate the economic slowdown and restore confidence, select LRGs could roll out aggressive fiscal stimulus, including tax cuts and additional spending. Major water reforms in New Zealand may alter its public finance system depending on the central government election in October 2023.

Sovereign

Global uncertainties still the thing to watch

- **Sharp increase in funding costs could weaken fiscal support and economic growth.** Higher interest payments are negative for fiscal support to sovereign ratings, especially where government debt is high and non-residents are important sources of funding. If higher financing costs also significantly affect economic growth, it could exacerbate the negative impact on fiscal performance.
- **A further rebound of energy imports can damage external support for some Asia-Pacific sovereigns.** Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Additionally, this deterioration could worsen investor confidence to raise financing costs further. These deteriorations could damage credit support of some sovereigns.

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What we expect and our key assumptions over the next 12 months?

Global economic activity and financing conditions remain soft, but not so weak that they create financial volatility in Asia-Pacific.

Current account balances and inflation in most economies should improve, especially if energy prices reverse their recent gains.

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

What are the key risks around the baseline?

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

Even higher energy prices seriously undermine external and fiscal metrics. Amid the recent economic uncertainties, current account deficits could remain wide in some economies as exports fall and fuel prices remain elevated. This could be exacerbated by higher imports in places where governments subsidize energy consumption. A supply shock that raises energy prices sharply could still pose threats to external and fiscal support for ratings.

Structured Finance

Consumers are feeling the squeeze

- **Low and stable unemployment.** The outlook for employment across the region remains supportive for residential mortgages and consumer finance assets.
- **Consumers remain cautious.** Weak consumer confidence and cost of living pressures in some markets will translate to lower lending volumes.

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What we expect and our key assumptions over the next 12 months?

Unemployment to remain largely stable. Unemployment remains relatively low and stable across the region. For those markets where we expect some increase in unemployment, these are modest and low relative to historical levels.

Consumers remain cautious. While conditions are mixed in the region in relation to inflation and consumer confidence, borrowers remain disciplined in managing their budgets and debts--we expect this to continue. Additionally, lending standards remain steady.

Structural supports. We expect ratings to remain stable, with low numbers of speculative-grade ratings across the region and structural supports to cushion some deterioration.

What are the key risks around the baseline?

Employment conditions weaken rapidly. If employment conditions deteriorate beyond our forecasts, this could weigh on loan performance with unemployment being the key driver of default.

Unexpected shocks to residential property markets. Significant rapid declines in housing market conditions could weigh on mortgage markets generally and impact recovery values. Risks remain in China's housing market. We expect property sales and home prices to face challenging conditions as homebuyer confidence remains fragile.

Related Research

- China Still Has More Policy Tools To Stabilize The Higher Tier Property Markets, Sep. 26, 2023
- Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown, Sep. 25, 2023
- China's District And County Recovery Crimped By Property Slide And Debt Checks, Sep. 13, 2023
- China Policy Patches Alone Won't Fix LGFVs' Fraying Liquidity, Sep. 7, 2023
- Broadening BRICS May Have Limited Economic Benefits, Sep. 5, 2023
- Chinese Developers' Profitability Is Searching For A Trough, Sep. 4, 2023
- How The Property Downturn Is Hitting Asia-Pacific Banks, Aug. 31, 2023
- Credit FAQ: Will Country Garden's Woes Further Hobble China's Property Market?, Aug. 16, 2023
- Credit FAQ: What Are China's Options To Resolve Local-Government SOE Debt Risk?, Aug. 3, 2023
- Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap, Sep. 20, 2022
- White Paper: Introducing Our Credit Cycle Indicator, Jun. 27, 2022

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Appendix 1: Ratings Trends

Table 1

Net outlook bias of Asia-Pacific issuers by sector, Aug. 31, 2023

	Aug 2022	Oct 2022	Feb 2023	May 2023	Aug. 31, 2023	No. of entities	Notional average rating
Auto OEM and suppliers	0%	0%	-6%	-3%	-6%	32	BBB
Building materials	-8%	-7%	-7%	-13%	-19%	16	BBB-
Business services	-15%	-8%	-8%	7%	-8%	13	BBB-
Capital goods	-11%	-11%	-8%	-6%	-9%	35	BBB
Chemicals	3%	0%	0%	-3%	-3%	31	BBB
Consumer products	-4%	-3%	7%	0%	-4%	27	BBB
Diversified	0%	0%	6%	17%	6%	18	A-
Healthcare	-13%	-29%	-14%	-14%	0%	6	BB+
Hotels, gaming, and leisure	-15%	-20%	-22%	-12%	-6%	17	BB
Investment company	0%	0%	0%	0%	0%	7	A
Media and entertainment	-22%	-11%	-9%	-9%	-9%	11	BBB
Metals and mining	11%	12%	15%	13%	4%	51	BBB-
Oil and gas	-9%	-4%	0%	9%	9%	23	BBB+
Real estate development	-32%	-28%	-23%	-13%	-14%	28	BBB-
Real estate investment trusts	-13%	-13%	-10%	-15%	-19%	54	BBB+
Retail	-6%	-6%	6%	6%	13%	16	BBB+
Technology	0%	-5%	-10%	-12%	-10%	51	BBB-
Telecommunications	-10%	0%	0%	3%	0%	32	BBB
Transportation cyclical	-17%	-17%	-17%	-17%	-17%	18	BBB
Transportation infrastructure	-3%	-4%	-6%	-6%	-6%	49	A-
Utilities	-6%	-6%	-8%	-7%	-3%	101	BBB+
Total corporates	**-7%**	**-6%**	**-5%**	**-4%**	**-5%**	**636**	**BBB**
Financial institutions	3%	6%	5%	5%	8%	379	BBB+
Insurance	-11%	-11%	-9%	-8%	-8%	171	A
Public finance	-12%	-9%	-14%	-11%	-13%	80	AA-
Sovereign	-7%	-7%	-3%	-3%	-7%	30	BBB+
Total issuers	**-5%**	**-3%**	**-3%**	**-2%**	**-2%**	**1,296**	**BBB+**

Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa.
OEM--Original equipment manufacturer. Teal colored cells indicate improvement from prior period, red, deterioration.
Source: S&P Global Ratings.

Appendix 2: Economic Data and Forecast Summaries

Table A1

Australia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.7	1.7	1.1	2.3	2.3
Inflation %	6.6	5.7	3.7	3.1	2.4
Unemployment rate %	3.7	3.7	4.4	4.5	4.5
Policy rate % (EOP)	3.10	4.35	3.85	3.35	3.10
Exchange rate (US$ per A$)	0.66	0.65	0.68	0.70	0.73

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. A$--Australian dollar.
Source: S&P Global Ratings Economics.

Table A2

China--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.0	4.8	4.4	5.0	4.5
Inflation %	2.0	0.6	2.3	2.3	2.2
Unemployment rate %	5.6	5.4	5.3	5.2	5.2
Policy rate % (EOP)	2.75	2.40	2.40	2.40	2.40
Exchange rate (US$)	7.12	7.30	7.09	6.99	6.88

Inflation and unemployment rate shown are the period average. For China's policy rate, the one-year medium-term lending facility rate is shown. f--Forecast.
Source: S&P Global Ratings Economics.

Table A3

Hong Kong--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	-3.5	4.0	2.6	2.7	2.3
Inflation %	1.9	2.0	2.2	2.2	2.1
Unemployment rate %	4.3	2.9	2.8	2.8	2.8
Exchange rate (US$)	7.82	7.82	7.78	7.75	7.75

Inflation and unemployment rate shown are the period average. f--Forecast.
Source: S&P Global Ratings Economics.

Table A4

India--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.2	6.0	6.9	6.9	7.0
Inflation %	6.7	5.5	4.4	4.6	4.7
Policy rate % (EOP)	6.50	6.50	5.50	5.25	5.00
Exchange rate (US$)	82.3	83.0	83.5	85.0	86.5

Inflation rate shown is the period average. f--Forecast. EOP--End of period.
For India, 2022 means fiscal 2022/2023 (year ending March 31, 2023); 2023 means fiscal 2023/2024 (year ending March 31, 2024); and so forth.
Source: S&P Global Ratings Economics.

Table A5

Indonesia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	5.3	5.0	4.9	5.0	5.1
Inflation %	4.2	3.8	3.3	3.3	3.3
Unemployment rate %	5.8	5.4	5.3	5.3	5.2
Policy rate % (EOP)	5.50	5.75	4.75	4.50	4.50
Exchange rate (US$)	15,569	15,400	15,400	15,450	15,500

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A6

Japan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	1.0	1.8	1.0	1.0	0.9
Inflation %	2.5	3.2	2.0	1.6	1.3
Unemployment rate %	2.6	2.6	2.7	2.7	2.7
Policy rate % (EOP)	-0.07	-0.10	0.00	0.10	0.10
Exchange rate (US$)	143.3	140.0	130.0	123.0	117.0

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A7

Malaysia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	8.7	4.0	4.5	4.5	4.4
Inflation %	3.4	2.8	2.4	2.4	2.2
Unemployment rate %	3.8	3.3	3.2	3.2	3.2
Policy rate % (EOP)	2.75	3.00	2.75	2.75	2.75
Exchange rate (US$)	4.41	4.70	4.40	4.30	4.21

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A8

New Zealand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.3	1.4	1.8	2.5	2.6
Inflation %	7.1	5.7	3.4	2.6	2.5
Unemployment rate %	3.3	3.8	4.7	4.5	4.5
Policy rate % (EOP)	4.25	5.50	5.00	4.00	3.50
Exchange rate (US$ per NZ$)	0.63	0.60	0.61	0.62	0.63

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. NZ$--New Zealand dollar.
Source: S&P Global Ratings Economics.

Table A9

Philippines--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.6	5.2	6.1	6.2	6.4
Inflation %	5.8	5.8	3.2	3.2	3.0
Unemployment rate %	5.4	4.6	4.7	4.2	4.2
Policy rate % (EOP)	5.50	6.50	5.75	4.00	4.00
Exchange rate (US$)	57.4	57.0	54.4	52.8	51.7

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A10

Singapore--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.6	1.1	2.6	2.7	2.6
Inflation %	6.1	4.7	2.9	2.2	2.1
Unemployment rate %	2.1	2.1	2.1	2.0	2.0
Exchange rate (US$)	1.34	1.35	1.33	1.32	1.31

Inflation and unemployment rate shown are the period average. f--Forecast.
Source: S&P Global Ratings Economics.

Table A11

South Korea--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	1.2	2.2	2.4	2.0
Inflation %	5.1	3.6	2.5	2.1	2.0
Unemployment rate %	2.9	2.7	3.2	3.3	3.1
Policy rate % (EOP)	3.25	3.50	2.75	2.50	2.50
Exchange rate (US$)	1,365	1,327	1,247	1,206	1,167

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A12

Taiwan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.4	0.5	3.0	2.6	2.6
Inflation %	2.9	2.3	1.0	0.9	0.8
Unemployment rate %	3.7	3.5	3.5	3.5	3.5
Policy rate % (EOP)	1.75	1.88	1.63	1.38	1.13
Exchange rate (US$)	31.4	31.8	31.5	31.1	30.7

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A13

Thailand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	2.8	3.5	3.2	3.2
Inflation %	6.1	1.9	1.4	1.0	1.0
Unemployment rate %	1.2	1.0	0.8	0.8	0.8
Policy rate % (EOP)	1.25	2.50	2.00	1.75	1.75
Exchange rate (US$)	36.4	35.9	35.6	35.4	35.1

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A14

Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2022	2023f	2024f	2025f	2026f
Asia-Pacific	3.9	4.3	4.4	4.7	4.5
Eurozone	3.4	0.6	0.9	1.5	1.5
EM-LatAm	3.9	1.6	1.2	2.1	2.2
U.S.	2.1	2.3	1.3	1.4	1.8

Asia-Pacific GDP growth numbers are based on current purchasing power parity GDP weights. EM-LatAm includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Aggregates are weighted by PPP GDP (2017-2021 average) share of total.
f--Forecast. Source: S&P Global Ratings Economics.