Triangles Of Vulnerability

Emerging Market Sovereigns' Fiscal And External Positions

S&P Global
Ratings

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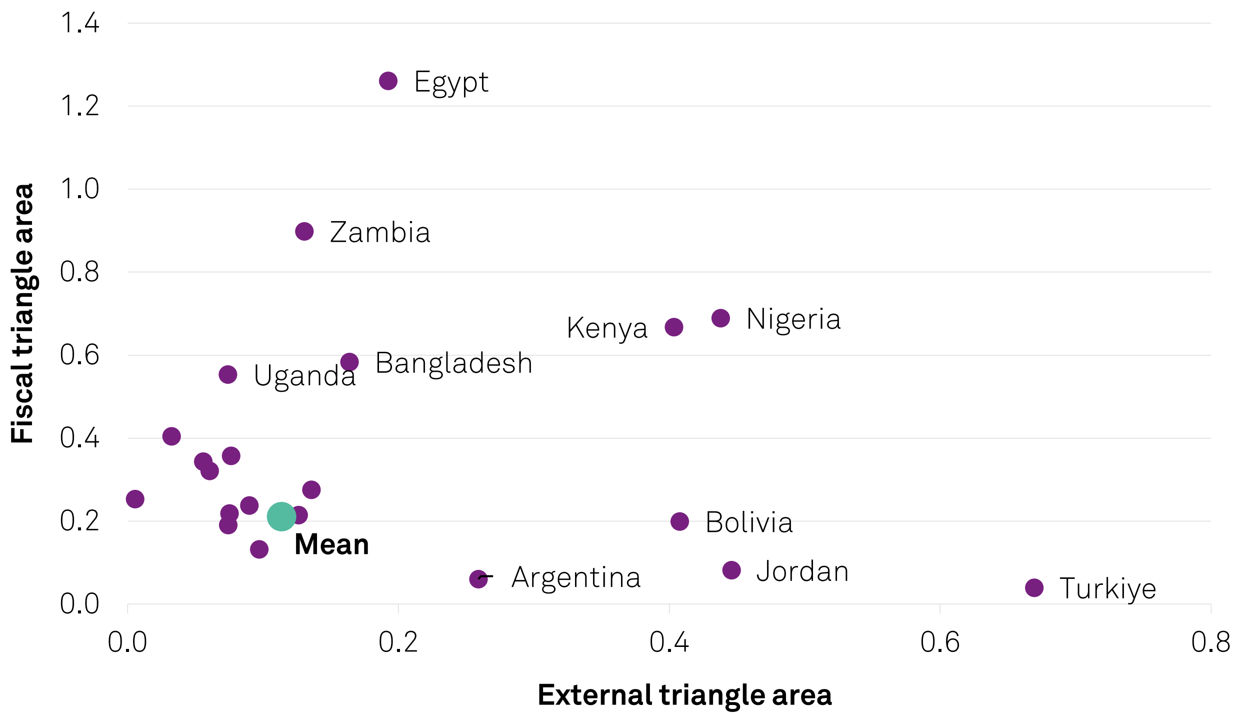
This report does not constitute a rating action

Key Takeaways

S&P Global Ratings' Triangles of Vulnerability for rated emerging market sovereigns map three fiscal and three external metrics in the form of intersecting triangles. This report examines 36 sovereigns rated 'BB+' or lower. The results are relative, so they would change if sovereigns are added or removed from the sample.

- Fiscal and external imbalances influence each other in low-income economies with limited domestic savings.
- In contrast, in middle-income economies with higher savings and larger banking sectors, such as Brazil, Colombia, and South Africa, fiscal imbalances often don't spill into external ones.
- Where external imbalances are wide and fiscal imbalances narrow, subsequent balance-of-payments shocks often morph into banking and fiscal difficulties.
- Differences in the sovereigns' capacity to tax GDP affects fiscal sustainability. Revenue to GDP exceeds 30% in Montenegro, Serbia, Jordan, Uzbekistan, Morocco, Brazil, and Argentina, but is below 15% in Nigeria, Guatemala, Uganda, Madagascar, and the Dominican Republic.
- All data reflects published estimates for 2024 from "Sovereign Risk Indicators," published Dec. 11, 2023.

Relative fiscal and external vulnerabilities



Source: S&P Global Ratings.

Data Sample: 36 Sovereigns Already Operating With External Deficits

- On average, the 36 emerging market (EM) sovereigns in the sample have weak fiscal and external profiles, as per our rating methodology. The median external score for the sample of 36 sovereigns is 5 and the median fiscal scores are 5 and 5 (on a scale of 1-6, where 6 is the weakest assessment).
- The outcomes are not comparable across all 136 sovereigns we rate. This is because this study compares the relative strengths and weaknesses of the sovereigns within this lower rated peer group.
- Our study focuses only on external and fiscal metrics. It does not directly reflect monetary or institutional arrangements, which influence sovereign creditworthiness. We have excluded EM sovereigns that export foreign direct investment (FDI) in net terms (such as Angola) or operate with recurrent current account surpluses (such as Azerbaijan, Papua New Guinea, Congo-Brazzaville, and Iraq).
- Many speculative-grade sovereigns (rated 'BB+' or lower) are still coping with depreciated currencies, elevated inflation, capital outflows, and depleted reserves. This is despite easing U.S. interest rates and a softer dollar at the start of 2024. These pressures have filtered through to many governments' fiscal positions, not least due to the rising cost of refinancing commercial debt denominated in foreign currency.
- Positively, over the last month, we have a seen a rise in Eurobond issuance by EM sovereigns at interest rates lower than 10%. Such issuers include Benin, Cote D'Ivoire, Kenya (via a buyback), and Turkiye's Sovereign Wealth Fund.
- More than anything else, lingering pressures on central banks to finance budgetary deficits have exacerbated currency and balance-of-payments problems in countries with low domestic savings and weak monetary frameworks.
- In some countries, official and informal exchange rates have diverged, undermining already weak confidence in domestic currencies, with second-round effects on the cost of financing, fiscal stability, and external metrics as net capital outflows continue.

The Six Sovereign Metrics

We translated the following three fiscal metrics and three external metrics into a scale of 0 (best) to 1.0 (worst) and mapped them on top of an equilateral triangle with an area of 1.33.

Fiscal metrics

- General government budgetary position as a percentage of GDP, which forms the apex of the fiscal triangle. Values range from a surplus of 0.6% for Jamaica (normalized to 0.0) to a deficit of 6.8% of GDP for Egypt (normalized to 1.0).
- Gross general government debt/general government revenue. The range starts at 107.6% for Turkey (normalized to 0.0) to 522.8% for Zambia (normalized to 1.0).
- Interest expenditure/government revenue, ranging from 2.8% for Uzbekistan (normalized at 0.0) to 44.9% for Egypt (normalized to 1.0).

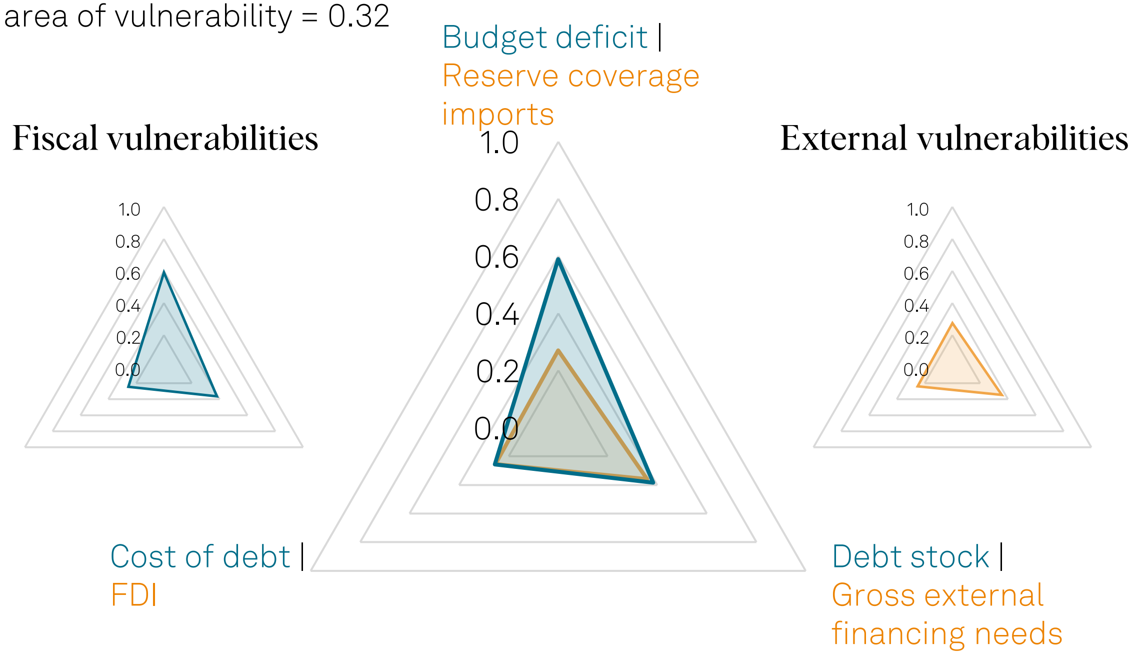
External metrics

- Reserve coverage of imports (months) = reserves excluding foreign currency (FX) borrowed from residents/current account payments. The range starts at 8.9 months for Togo (normalized to 0.0) to 0.98 months for Turkiye (normalized to 1.0).
- Gross External Financing Needs/Current Account Receipts plus Useable Reserves. The range starts at 72.2% for Tajikistan (normalized to 0.0) to 181% for Kenya (normalized to 1.0).
- Net FDI/GDP. The higher net FDI inflows, the lower the score based on the view that this makes an economy less reliant on debt capital financing. The range starts with Mongolia at 13.0% of GDP (normalized to 0.0) to Nigeria at 0.44% of GDP in 2024 (normalized to 1.0).

How We Mapped The Six Sovereign Metric Projections

Mean fiscal and external vulnerability

Fiscal triangle area = 0.21
External triangle area = 0.11
Total area of vulnerability = 0.32



Data normalized on a 0 to 1 scale. Data reflects S&P Global Ratings forecasts.

- The three fiscal and three external metrics are normalized on a scale of 0 (best) to 1.0 (worst), and then charted as a pair of triangles across an equilateral grid. Each vertex of each triangle measures one of the 6 metrics described on slide 4.
- The larger a triangle's area, the greater the sovereign's relative fiscal or external vulnerabilities.
- On the left, we chart the two triangles using the data calculated as the arithmetic mean for the 36 sovereigns in the sample.
- The maximum possible area for each triangle is 1.33, meaning a total maximum vulnerability assessment of 2.66 (see the chart in the middle, which shows how we derived the two triangles for the arithmetic mean of the 36 sovereigns, as an example).
- Among the 36 sovereigns, the lowest combined area was for Tajikistan (0.03), the highest for Egypt (1.45).

Order Of Triangles: Most Vulnerable To Least Vulnerable

- Our sovereign credit ratings reflect many other considerations beyond fiscal and external assessments. These include our opinions on institutional effectiveness, monetary arrangements, economic diversification, and growth prospects.
- No two sovereigns are alike, and our assessments of sovereign creditworthiness ultimately reflect our opinion not only on the capacity to service debt, but the willingness to prioritize debt service over other spending pressures.

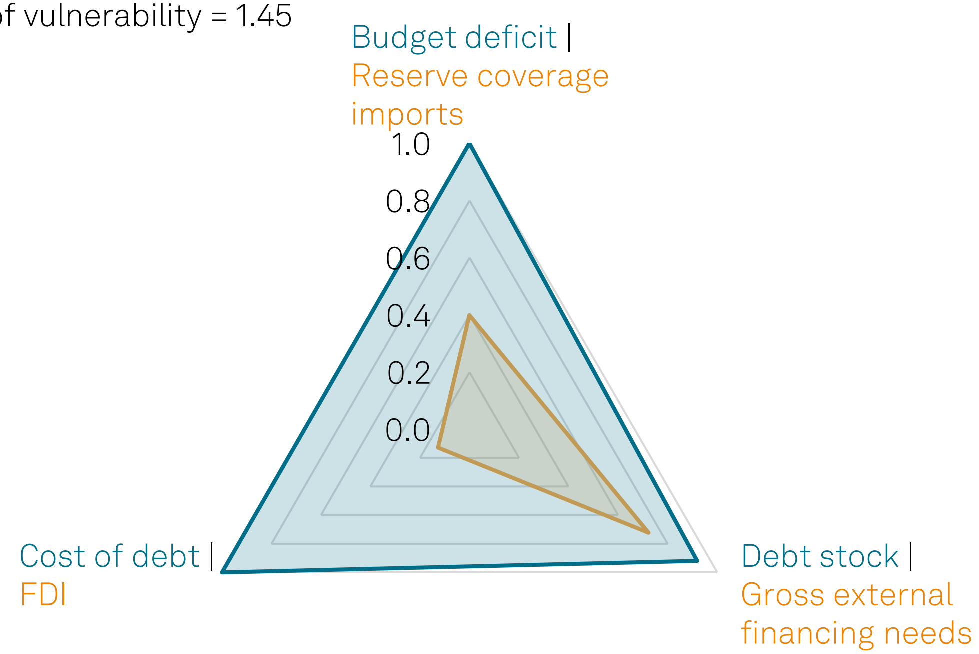
Most vulnerable (slides 7 to 18)	**(slides 19 to 30)**	**(slides 31 to 42)**
Egypt	South Africa	Vietnam
Nigeria	Cote d'Ivoire	Guatemala
Kenya	Rwanda	Albania
Zambia	Senegal	Cameroon
Bangladesh	Argentina	Paraguay
Turkiye	Madagascar	Mongolia
Uganda	Brazil	Montenegro
Bolivia	Armenia	Jamaica
Jordan	Costa Rica	Nicaragua
Dominican Republic	Colombia	Serbia
Togo	Honduras	Uzbekistan
Benin	Morocco	Tajikistan

Least vulnerable

Egypt | B-/Stable

Fiscal scores: 6 and 6 | External score: 6

Fiscal triangle area = 1.26
External triangle area = 0.19
Total area of vulnerability = 1.45

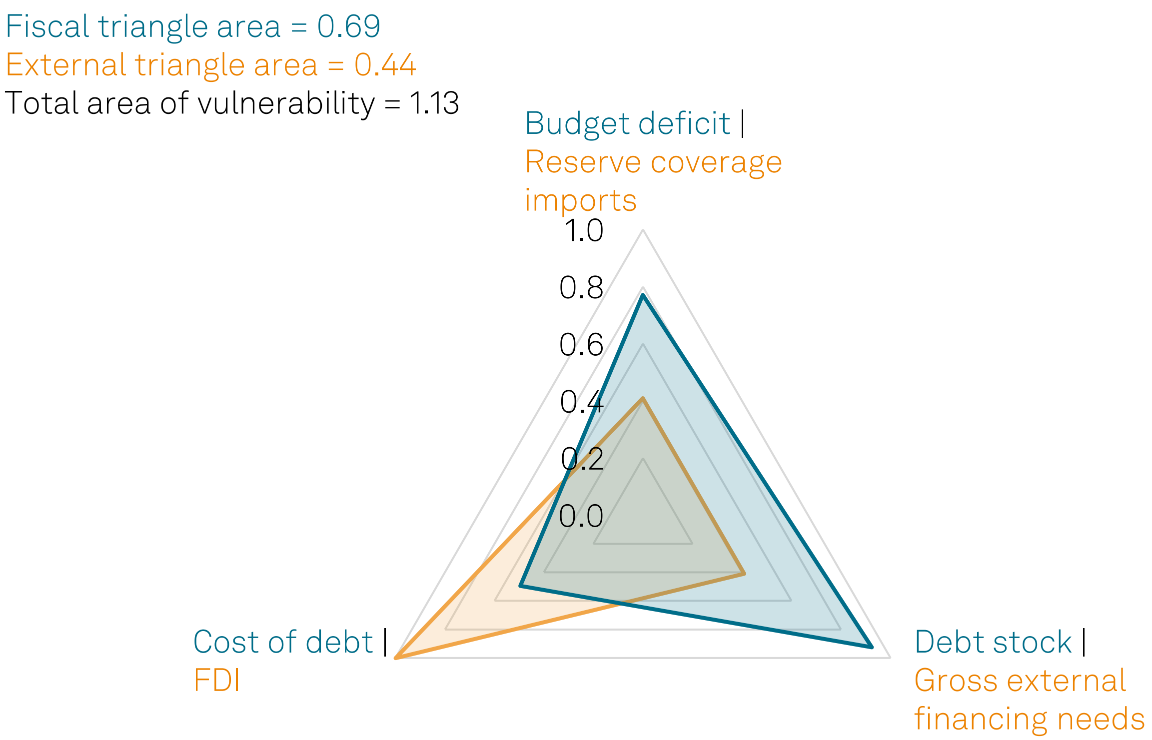


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Egypt's fiscal metrics--the elevated level and cost of government debt--make it the most vulnerable of all sovereigns in the sample.
- Nevertheless, Egypt's external metrics indicate that despite low reserve coverage of short-term external debt, reliance on debt for net financing, and reserve coverage of current account payments are in line with or better than the EM average.
- A large portion of Egypt's short-term external debt pertains to foreign currency deposits with the Central Bank of Egypt from GCC nations. We expect these official foreign currency lines to be rolled over for the foreseeable future.
- We expect an exchange rate adjustment and a substantial increase in funding from the IMF to support the Egyptian authority's reform program.

Nigeria | B-/Stable

Fiscal scores: 6 and 5 | External score: 6



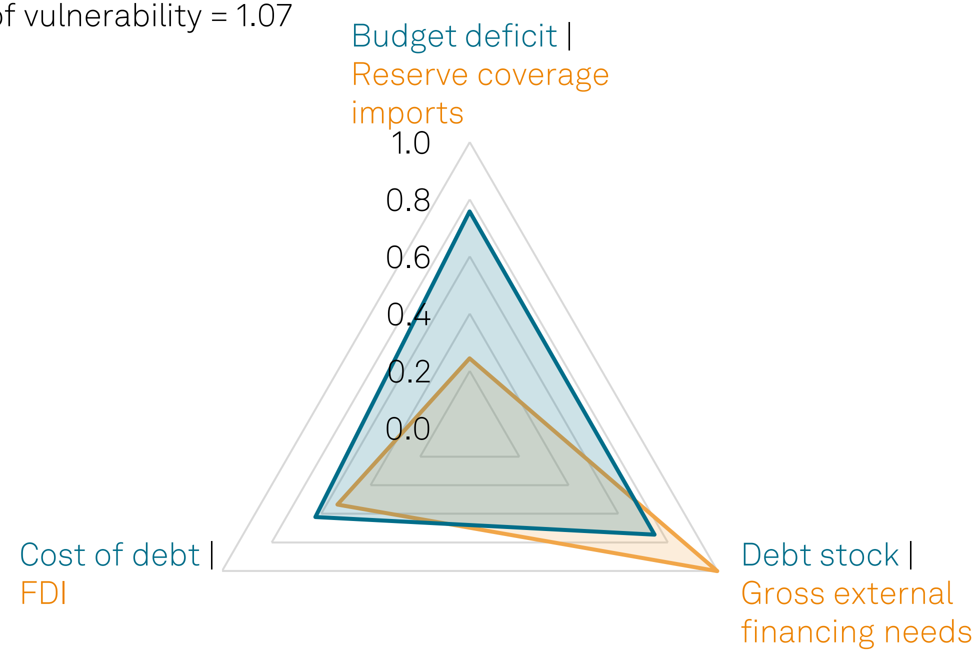
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Nigeria's fiscal and external profiles are weak. In particular, large recurrent budgetary deficits, and high debt in relation to very low tax collection (9.3% of GDP), explain the large area of the fiscal triangle.
- Most funding comes from the local market and at negative real rates. This has enabled the government to keep debt-service costs lower than peers', albeit it has contributed to currency pressures.
- The key external weakness is a poor track record of attracting non-debt capital inflows, despite Nigeria's hydrocarbon wealth and huge domestic consumer market.
- The government's plans to simplify the tax regime and prioritize federal taxes could reduce fiscal vulnerabilities, if implemented.

Kenya | B/Negative

Fiscal scores: 6 and 6 | External score: 6

Fiscal triangle area = 0.67
External triangle area = 0.40
Total area of vulnerability = 1.07



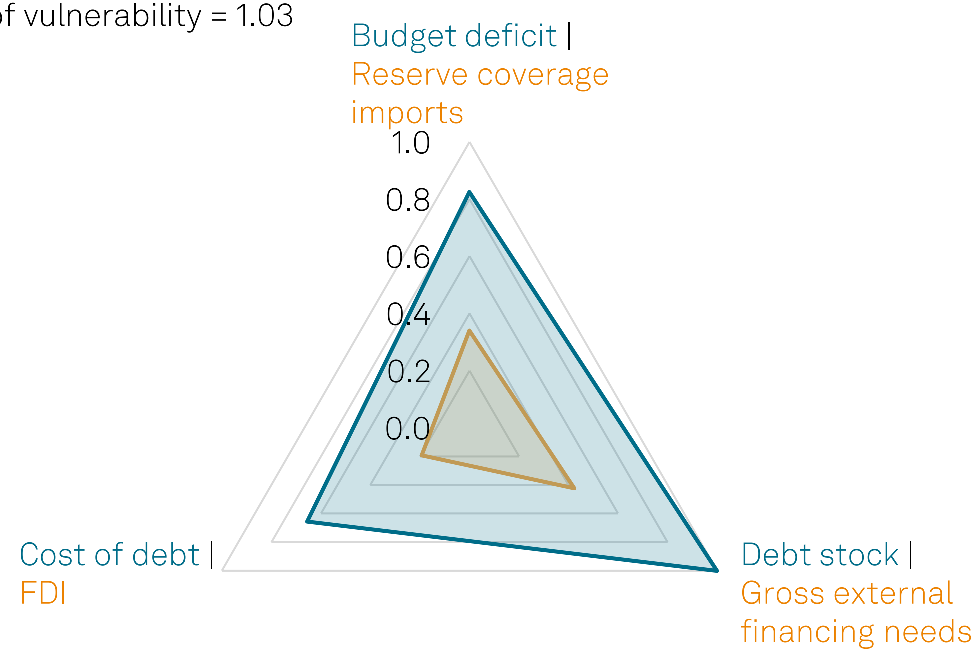
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Kenya's high cost and debt relative to revenue, and large budgetary deficits, explain the extensive perimeter of its fiscal triangle of vulnerability.
- External imbalances are also larger than the mean for the 36 sovereigns in our sample. However, equity and foreign direct investment (FDI) inflows are close to the EM average.

Zambia | SD

Fiscal scores: 6 and 6 | External score: 6

Fiscal triangle area = 0.90
External triangle area = 0.13
Total area of vulnerability = 1.03



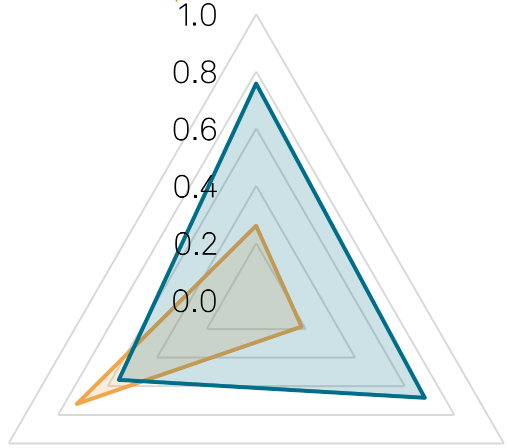
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Zambia defaulted on its external commercial debt in October 2020 after years of sizable fiscal deficits and public debt accumulation. Fiscal deficits remain large but are narrowing.
- An agreement between the government and commercial creditors on restructuring Zambia's Eurobonds, which includes haircuts and maturity extensions, has been rejected by the official creditors on comparability of treatment concerns.
- Suspension of external payments, a rise in copper prices, and reduced imports led to a current account surplus for 2020, 2021, and 2022. This enabled Zambia to rebuild its net reserves toward those of other frontier sovereigns. Net FDI inflows remain considerably higher than for the other EM sovereigns in our sample.

Bangladesh | BB-/Negative

Fiscal scores: 6 and 5 | External score: 3

Fiscal triangle area = 0.58
External triangle area = 0.16
Total area of vulnerability = 0.74



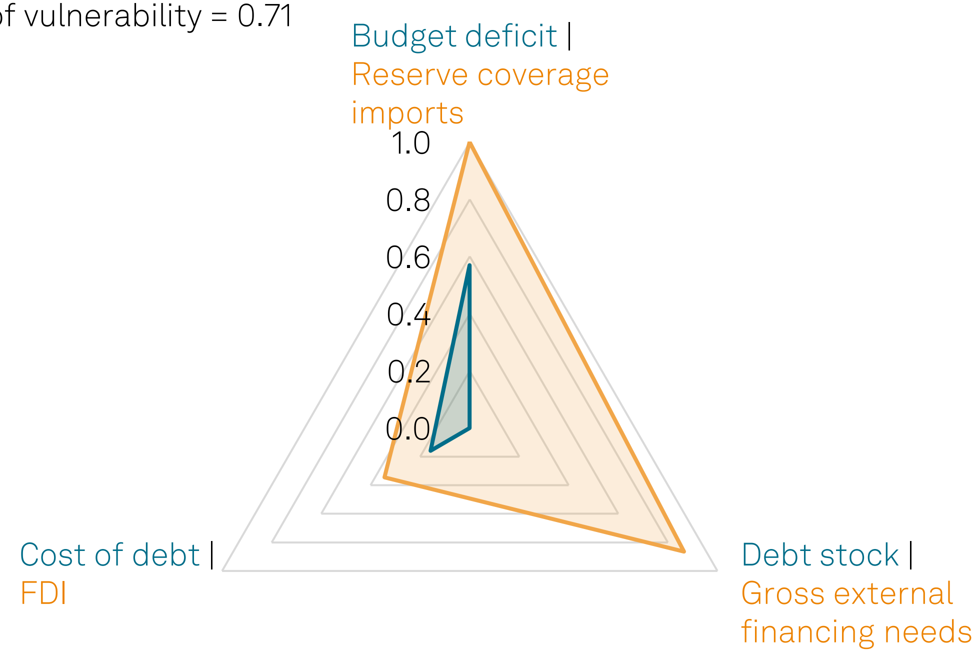
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- At 9.3% of GDP tax and other general government revenues as a % of GDP are among the lowest of all rated sovereigns. This is the main reason for the large perimeter of the fiscal triangle of vulnerability. Bangladesh has posted uninterrupted budgetary deficits since 1998.
- The key weakness, in an otherwise solid external profile, is a poor track record of attracting non-debt capital inflows through the financial account. Reserve coverage of imports and other current account payments has deteriorated notably since 2022 due to higher energy and wheat prices.
- Since 2023, Bangladesh's financial account has seen outflows for the first time in over a decade.

Turkiye | B/Positive

Fiscal scores: 5 and 5 | External score: 6

Fiscal triangle area = 0.04
External triangle area = 0.67
Total area of vulnerability = 0.71



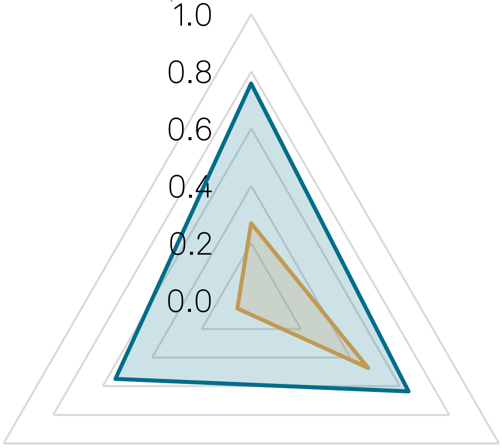
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Non-debt capital inflows have been disappointing since 2008, although since end-June 2023, we have seen a recovery of portfolio inflows into Turkish domestic markets, and some modest rebuilding of FX reserves.
- Debt levels and costs are modest.
- We expect an increase in average general government deficits over the next two years, as earthquake spending picks up, and elections in March are likely to lead to one-off expenditure increases.
- The trend toward dollarization, redoubled by the central bank's adoption of a so called "lira-ization" strategy in December 2021 (since reversed), has also affected public finances. This is because just under 65% of central government debt is now denominated in foreign currency. Hence the transmission channel from external to fiscal risks remains considerable.

Uganda | B-/Stable

Fiscal scores: 6 and 6 | External score: 6

Fiscal triangle area = 0.55
External triangle area = 0.07
Total area of vulnerability = 0.61



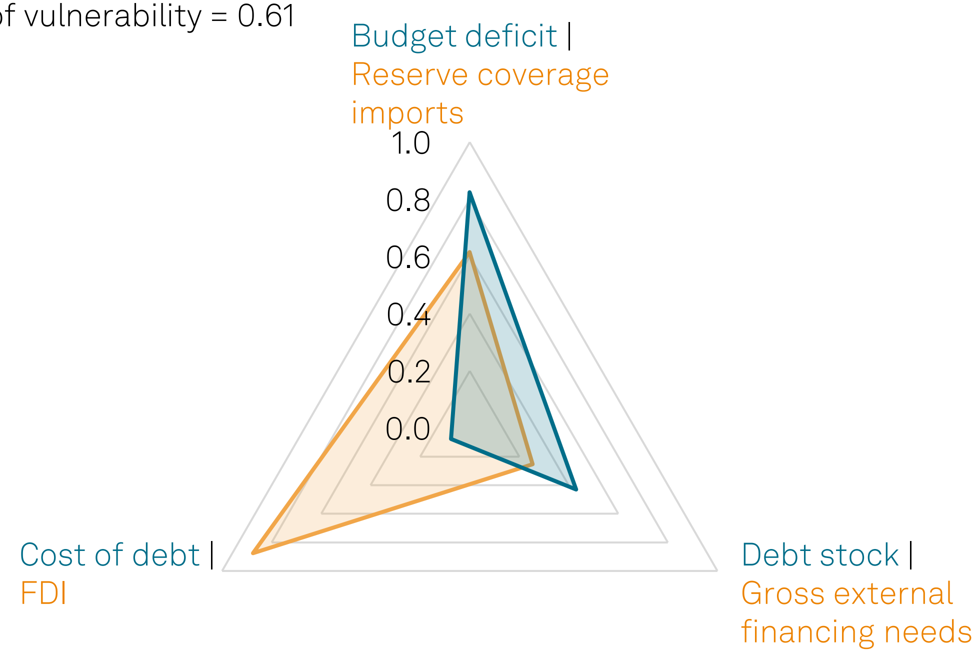
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Low domestic savings, weak tax collection, and large domestic spending requirements explain why Uganda's fiscal triangle is as extensive as it is.
- Uganda's external profile is in flux.
- Large imports of capital machinery for oil investments are financed principally by very significant net FDI inflows (projected at 5% of GDP for 2024).
- Reserve coverage of current account payments remain adequate.

Bolivia | CCC+/Negative

Fiscal scores: 6 and 5 | External score: 6

Fiscal triangle area = 0.20
External triangle area = 0.41
Total area of vulnerability = 0.61

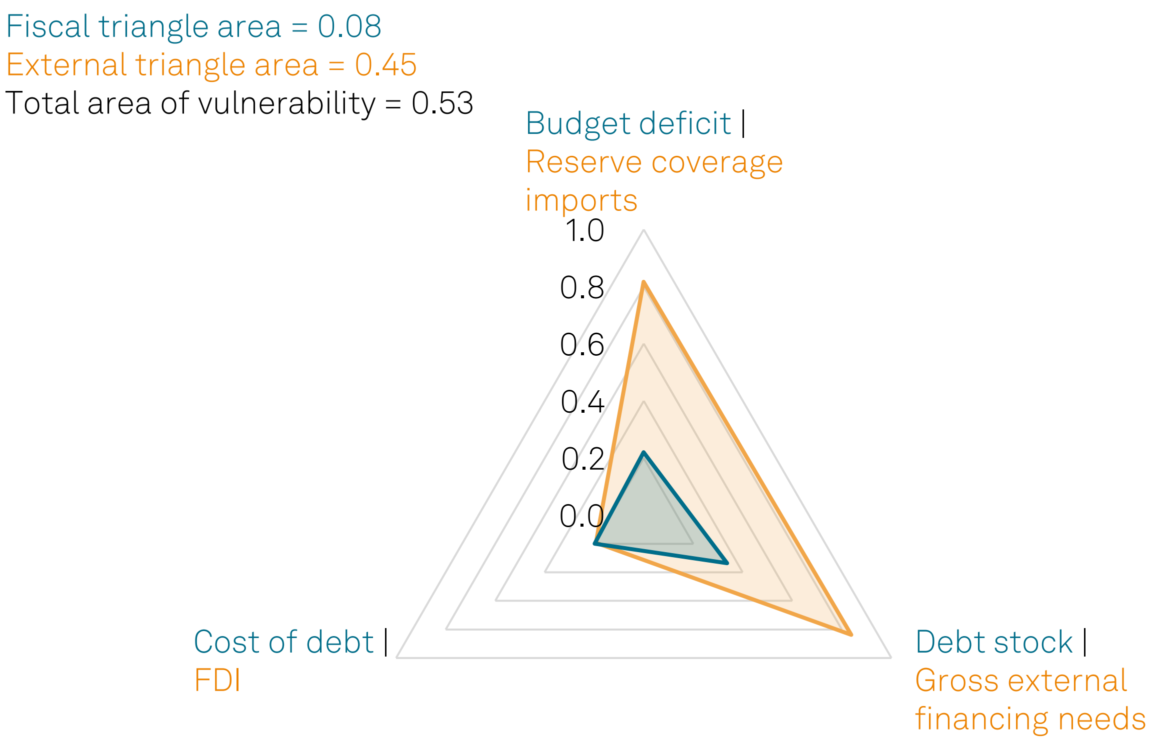


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Bolivia's declining exports, limited liquid international reserves, and poor transparency of the central bank's assets are increasing risks to debt servicing.
- Risks to creditworthiness over the next 12 months stem from potential further weakening of external liquidity that impairs the government's capacity to make timely debt-service payments.
- Fiscal deficits are elevated, albeit the amount and cost of debt relative to revenue are close to the mean for the sample.

Jordan | B+/Stable

Fiscal scores: 3 and 6 | External score: 6



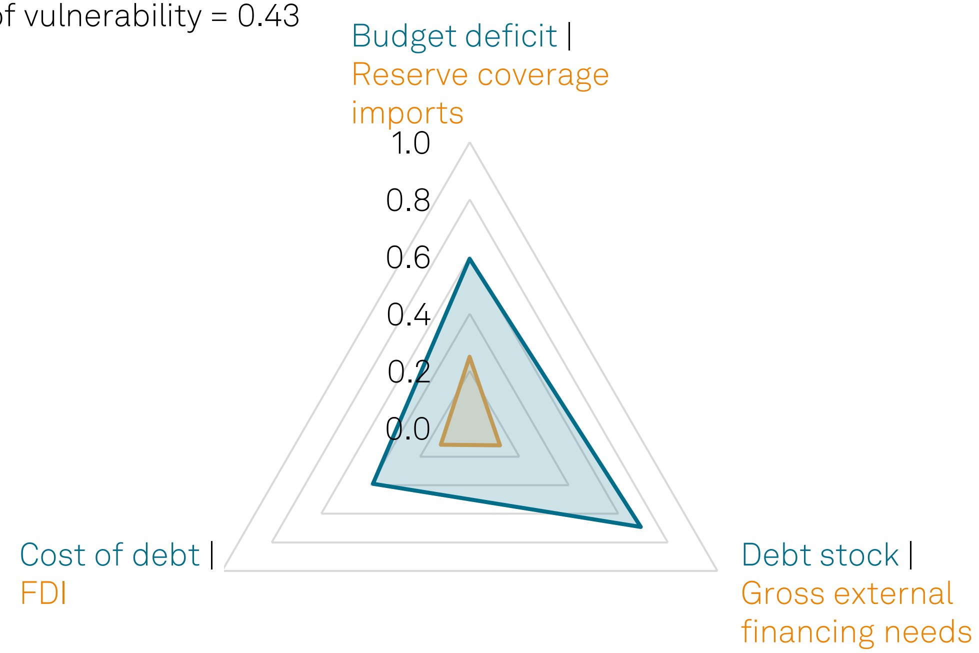
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- The large size of Jordan's external triangle reflects challenged reserve adequacy once gross reserves are adjusted downward to reflect the central bank's backing of the fixed exchange rate regime (via the deduction of the monetary base).
- Despite an elevated debt-to-GDP ratio, overall fiscal metrics compare well with those of other frontier sovereigns, also reflecting strong results on tax administration. General government revenue is estimated at 37% of GDP, the second highest of the 36 sovereigns in the sample.
- Net FDI financing into Jordan's financial and tourism sector was set to top 3% of GDP this year, albeit the conflict between Israel and Gaza has hit the tourism sector and is likely to delay inflows.

Dominican Republic | BB/Stable

Fiscal scores: 5 and 5 | External score: 4

Fiscal triangle area = 0.40
External triangle area = 0.03
Total area of vulnerability = 0.43

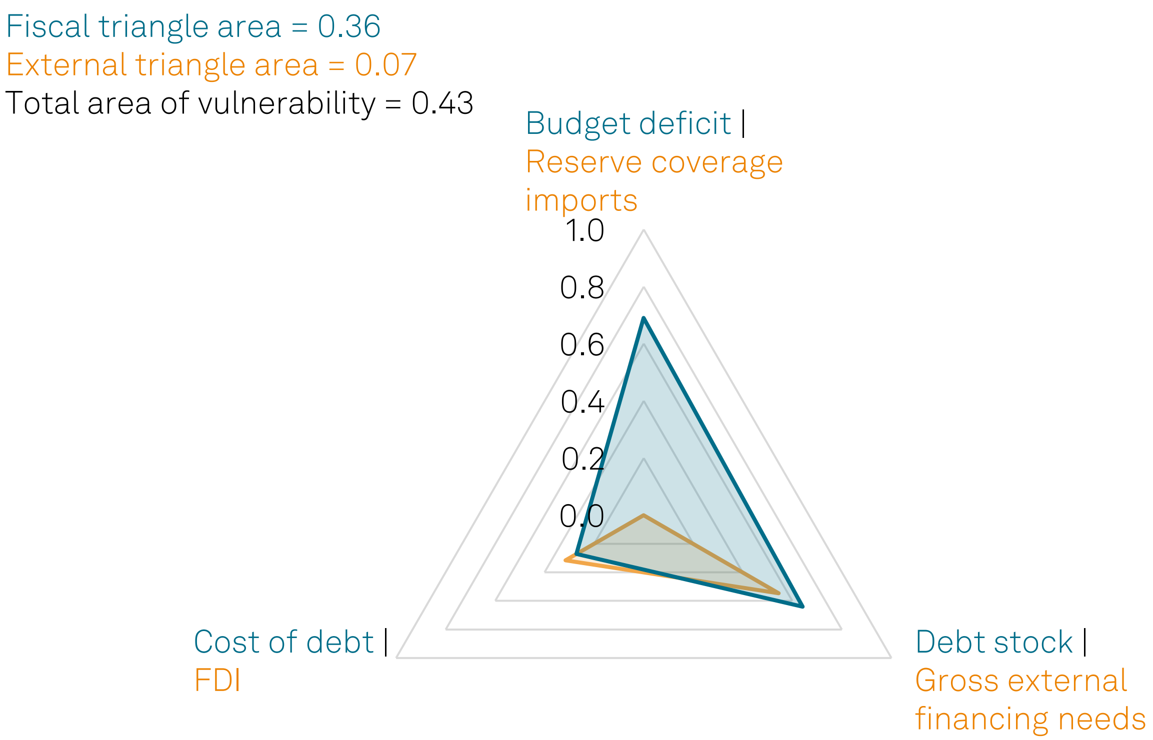


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- The Dominican Republic's fiscal vulnerabilities exceed its external ones.
- Budgetary rigidities and a high interest burden are weighing on the government's fiscal flexibility.
- External liquidity remains relatively strong since the central bank's foreign-exchange reserves currently exceed 13% of GDP.
- External outflows will be entirely financed by foreign direct investment, projected at 3% of GDP in 2023-2026.

Togo | B/Stable

Fiscal scores: 4 and 4 | External score: 6



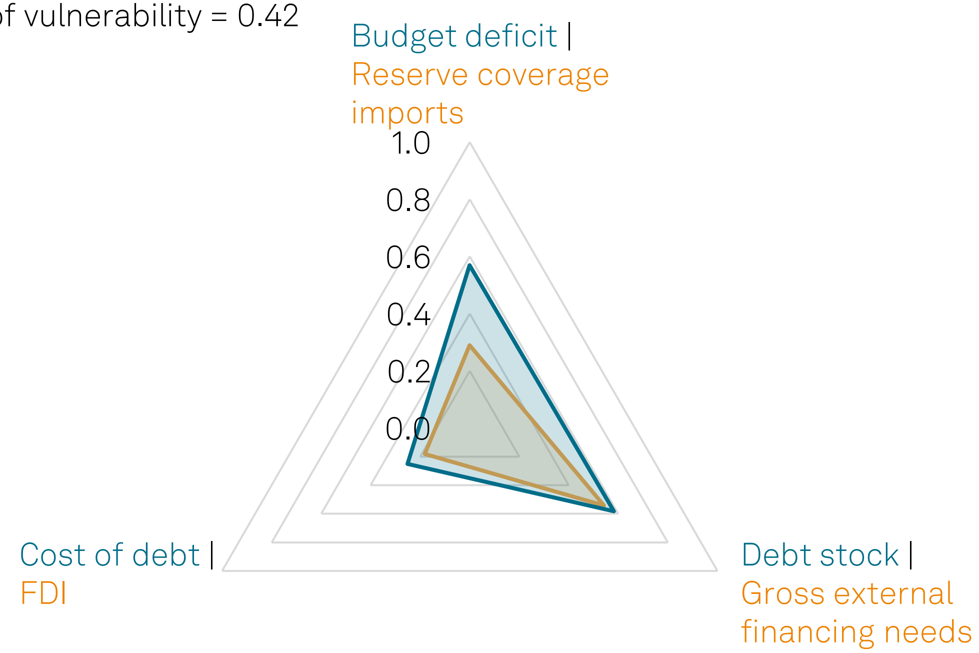
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Togo has increasingly financed its budgetary deficits with commercial debt in recent years, leading to an increase in interest payments that has exceeded 10% of government revenue since 2019.
- We forecast net general government debt will remain above 50% of GDP in the coming years.
- Most of Togo's external debt remains concessional. Foreign-currency-denominated debt makes up about one-third of government debt.
- WAEMU membership provides a policy anchor and significant external buffers, especially for small economies in the region, such as Togo.

Benin | B+/Positive

Fiscal scores: 3 and 5 | External score: 5

Fiscal triangle area = 0.28
External triangle area = 0.14
Total area of vulnerability = 0.42



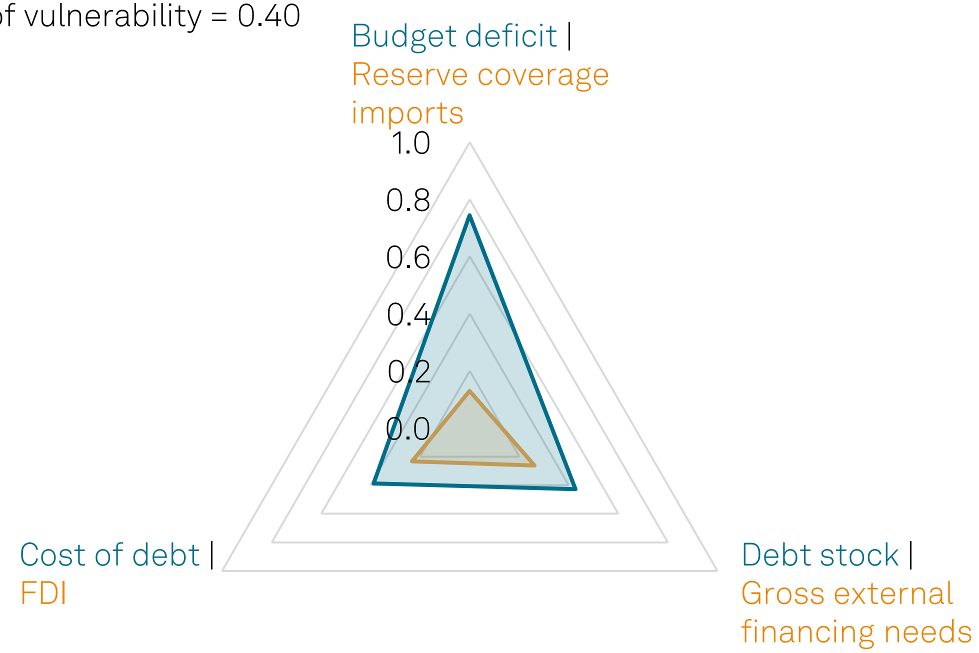
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Security-related expenditure in the north, a higher wage bill, and remaining support measures against inflation, will continue to pressure the budget despite improving revenue collection. Nevertheless, at slightly over 14% of GDP in 2022, government revenue remains low.
- Short-term risks to the country's high external leverage remain high, with cotton prices having declined from their 2022 peak.
- WAEMU membership provides a policy anchor and significant external buffers, especially for small economies in the region, such as Benin.

South Africa | BB-/Stable

Fiscal scores: 6 and 6 | External score: 2

Fiscal triangle area = 0.34
External triangle area = 0.06
Total area of vulnerability = 0.40



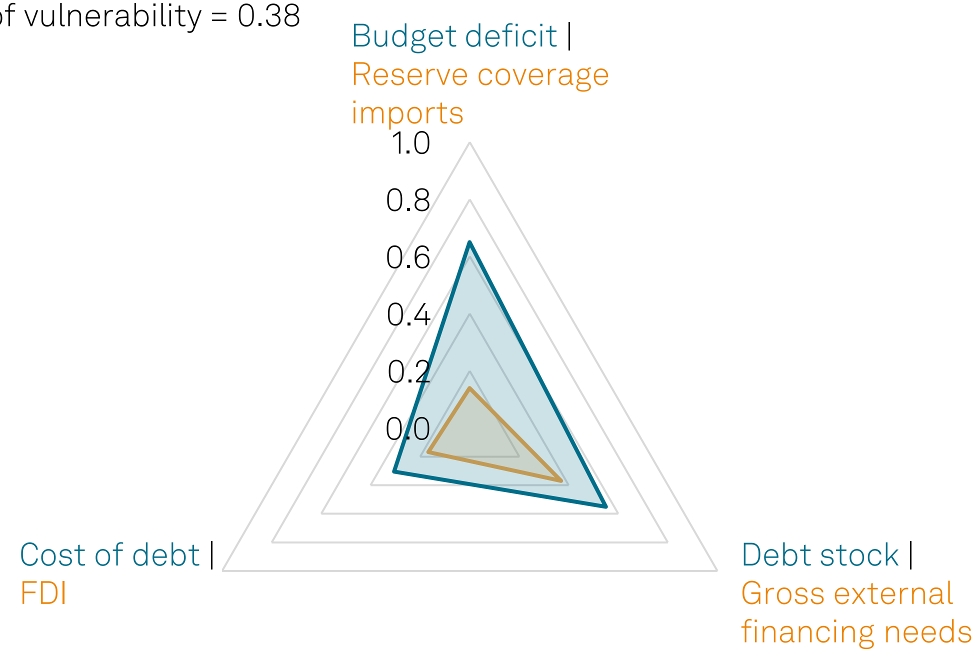
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We forecast that the fiscal deficit will average 4.6% of GDP over 2023-2026, higher than our previous estimate of 4%.
- Given revenue underperformance, higher-than-planned expenditure, and the partial transfer of utilities company Eskom's debt to the government, we expect the pace of debt accumulation to be faster than we previously forecast.
- Debt affordability is among the weakest in the 'BB' rating category, but deep capital markets mitigate refinancing risk.
- South Africa's overall net external creditor position and moderate gross external debt provide a buffer against rising global headwinds.

Cote d’Ivoire | BB-/Stable

Fiscal scores: 4 and 6 | External score: 4

Fiscal triangle area = 0.32
External triangle area = 0.06
Total area of vulnerability = 0.38



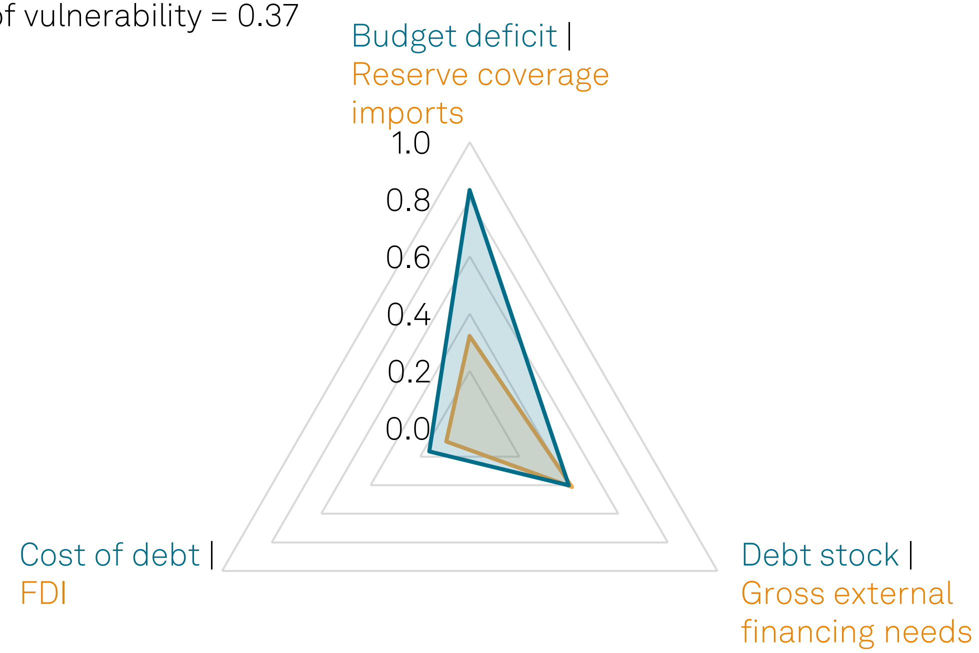
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We forecast that Cote d'Ivoire's budget deficit will fall to 4.2% of GDP in 2024, from an estimated 5.2% in 2023. Although the country has made progress in strengthening the tax administration's capacity, government revenue collection has underperformed in the past and remains low.
- Moreover, net general government debt has been rapidly increasing to finance the government's development spending.
- Pressure on international reserves should subside as the large current account deficit declines and donor financing supports the country's external position. The January 2024 issuance of a $2.6 billion dual-maturity Eurobond will buoy foreign exchange (FX) reserves over the near term.
- WAEMU membership provides a policy anchor, and an exchange rate anchor, which underpin greater predictability of policy compared to other emerging markets with independently floating FX regimes.

Rwanda | B+/Stable

Fiscal scores: 6 and 4 | External score: 5

Fiscal triangle area = 0.28
External triangle area = 0.09
Total area of vulnerability = 0.37



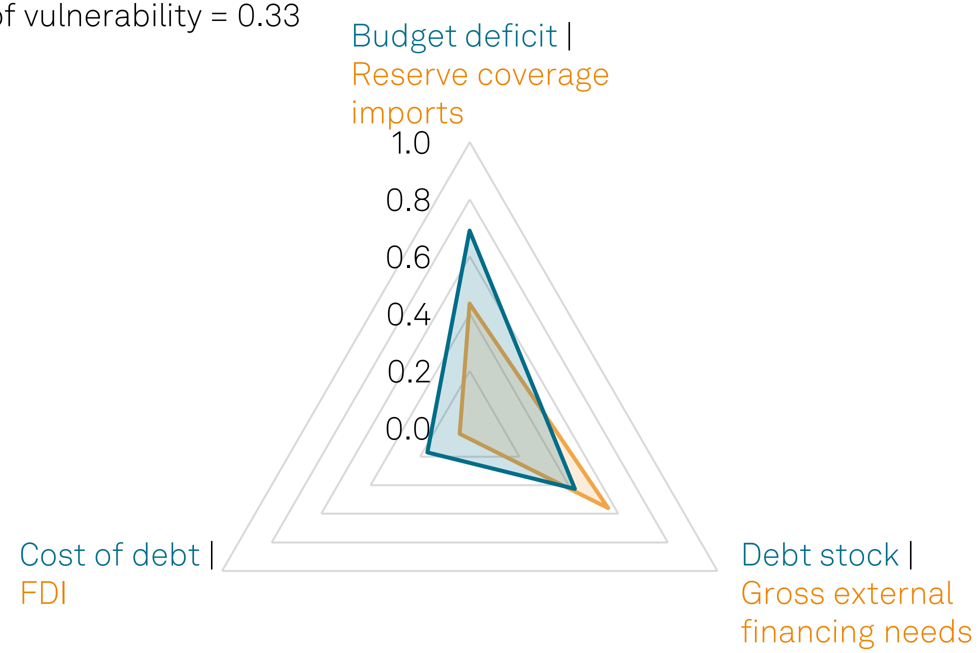
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We forecast the general government deficit to average 4.2% of GDP in 2024-2027; and debt servicing costs are likely to remain elevated. We project general government revenue at 26% of GDP in 2025, the second highest in Sub Saharan Africa after South Africa (albeit very close to the mean for the sovereigns in this sample).
- Debt-servicing costs will rise but remain modest due to significant concessional financing.
- We estimate foreign-currency reserves will drop to an average of 2.9 months of current account payments in 2024-2027, from a peak of 4.9 months at year-end 2021.
- However, we expect continued multilateral and bilateral support for Rwanda, including the $319 million allocation under the IMF RSF and a $268 million stand-by facility, will help the country sustain its external liquidity and foreign-exchange reserves and limit the need to draw further on reserves.

Senegal | B+/Stable

Fiscal scores: 5 and 5 | External score: 5

Fiscal triangle area = 0.21
External triangle area = 0.13
Total area of vulnerability = 0.33



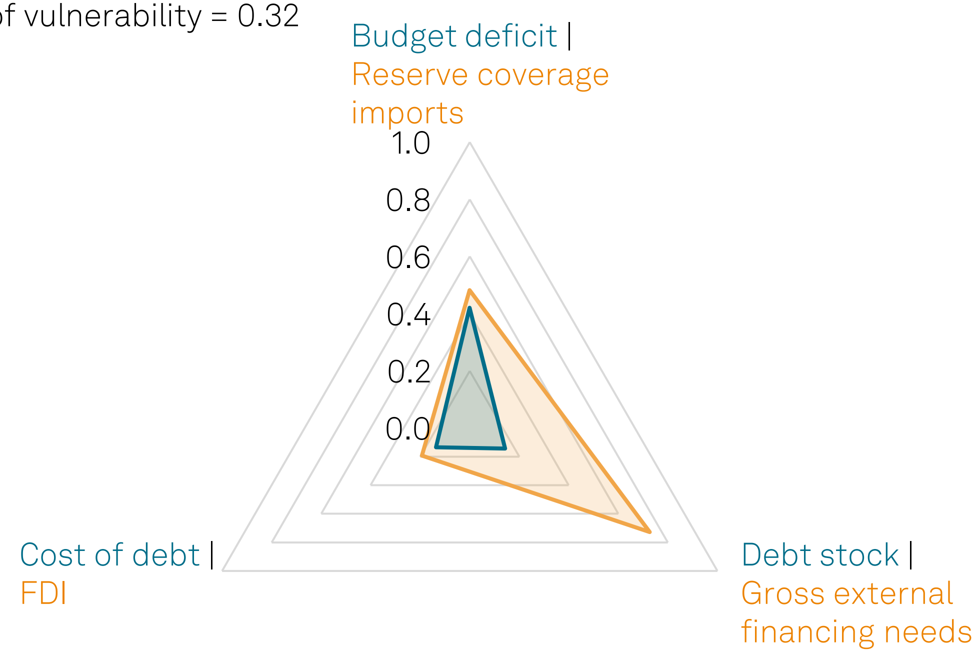
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Delays in hydrocarbon production, still-significant external pressure (with a current account deficit forecast to exceed 15% of GDP this year), high budgetary deficits, and a rise in public debt by over 20 percentage points (ppts) since 2017 limit Senegal's ability to absorb external shocks.
- The 2024 budgetary deficit is set to narrow to a still elevated 5% of GDP, albeit rising political uncertainty may delay consolidation. Energy subsidies will continue to weigh heavily on expenditure.
- We expect general government debt to GDP, which peaked at almost 70% in 2022, will decline progressively, thanks notably to nominal GDP growth.
- By 2026, as hydrocarbon exports come online, the current account deficit should narrow by almost 10ppts of GDP to just under 6% of GDP.
- Membership of WAEMU (where reserves are pooled) provides a policy anchor for Senegal.

Argentina | CCC-/Negative

Fiscal scores: 6 and 5 | External score: 6

Fiscal triangle area = 0.06
External triangle area = 0.26
Total area of vulnerability = 0.32



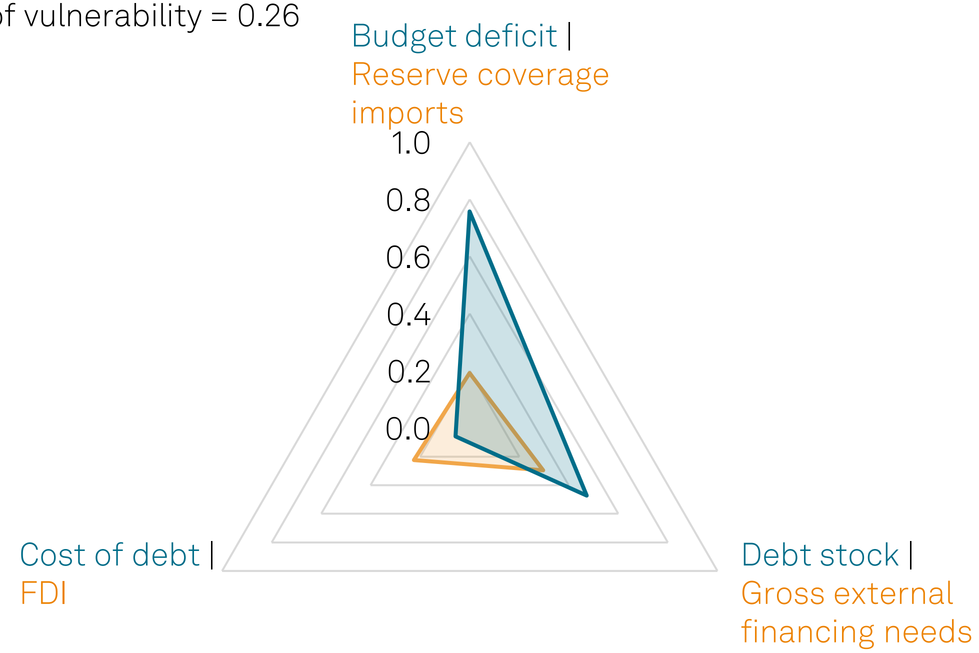
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We lowered our local currency ratings to 'SD' (selective default) on three separate occasions during 2023 related to several distressed exchange transactions.
- Debt write-downs and relatively high tax pressure compared to other emerging markets explain why the area of Argentina's fiscal triangle is modest compared to that of many peers.
- Argentina's external triangle of vulnerability is larger than the mean. Gross external financing needs are elevated as a percentage of net reserves and current account receipts. Argentina has a small domestic capital market, amid extensive foreign exchange restrictions.

Madagascar | B-/Stable

Fiscal scores: 6 and 3 | External score: 5

Fiscal triangle area = 0.19
External triangle area = 0.07
Total area of vulnerability = 0.26



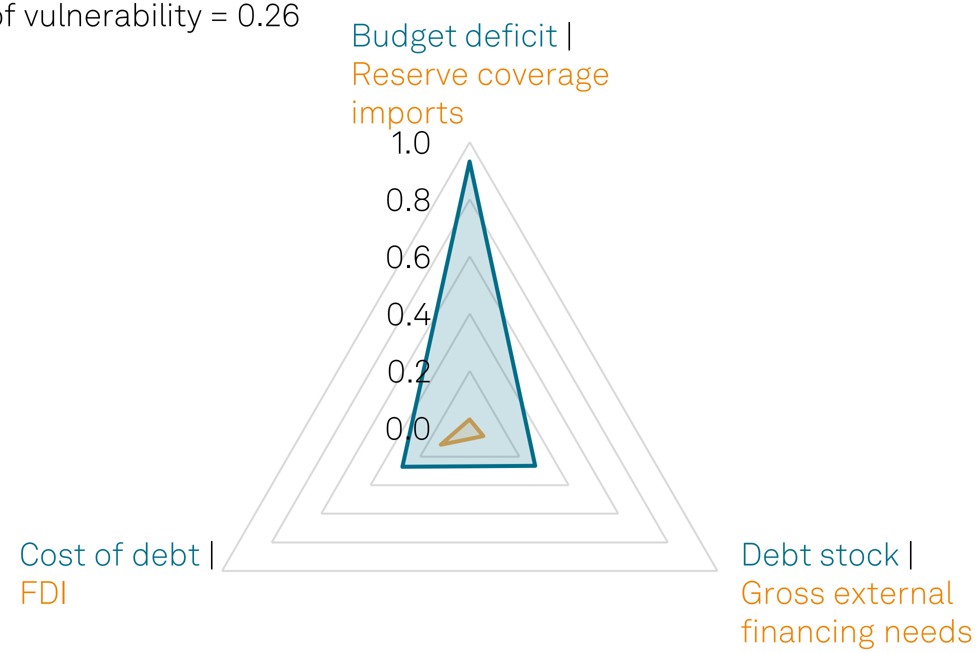
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Madagascar benefits from a favorable government debt profile and modest cost of debt, given its strong access to concessional financing and grants to fund most of the budget deficit.
- The average tenor of public debt is almost 12 years.

Brazil | BB/Stable

Fiscal scores: 6 and 6 | External score: 2

Fiscal triangle area = 0.25
External triangle area = 0.01
Total area of vulnerability = 0.26



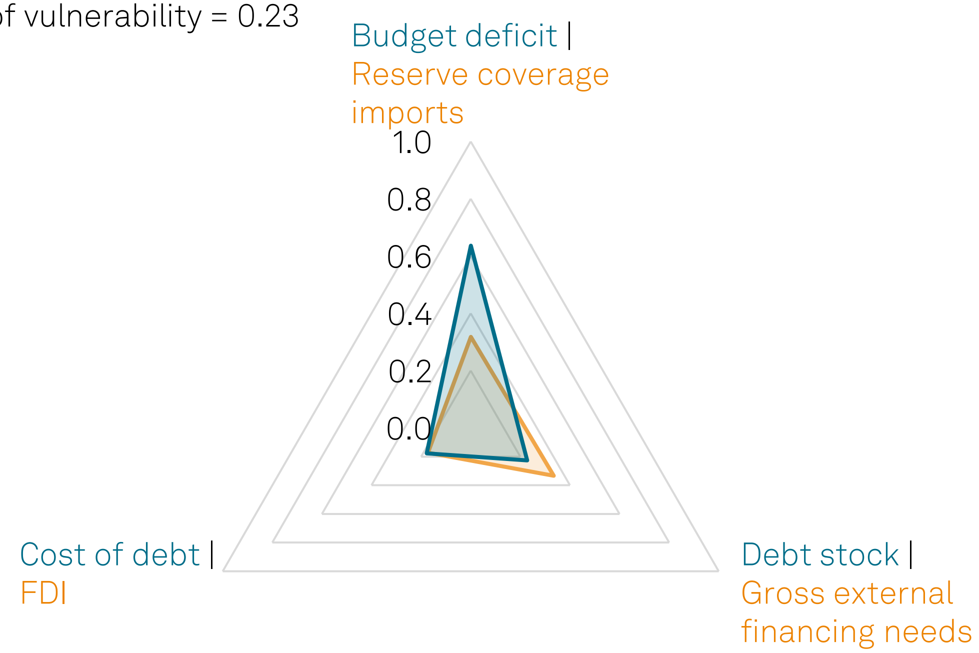
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- The area of Brazil's fiscal perimeter is larger than the mean for the 36 emerging market sovereigns in this sample.
- We expect general government deficits to average 6.2% of GDP over 2023-2026, reflecting the challenges of fulfilling campaign promises, high interest costs, a low discretionary spending, and only gradual success on tax measures.
- Tax pressure (with general government revenue at 36% of GDP) is the fourth highest in the sample and recently passed tax reform should help tackle some of the complexities of Brazil's fiscal code.
- Brazil's external position is strong, supported by increasing current account receipts and low external debt.

Armenia | BB-/Stable

Fiscal scores: 3 and 4 | External score: 4

Fiscal triangle area = 0.13
External triangle area = 0.10
Total area of vulnerability = 0.23



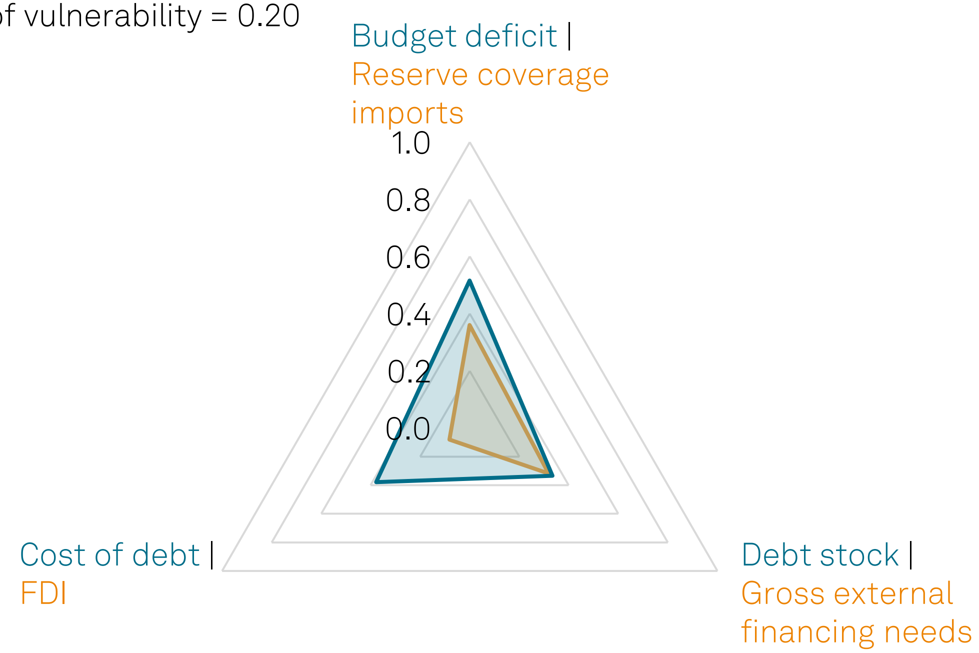
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- The size and cost of government debt remain quite manageable, with the Treasury gradually substituting domestic currency for foreign currency debt, while fiscal outcomes have been volatile.
- Partly reflecting the immigration of ethnic Armenians from Nagorno-Karabakh, the budgetary deficit for 2024 is projected to widen to 4.1% of GDP.
- Between 2022 and 2021, useable reserves doubled, improving Armenia's net external position as the current account deficit narrowed, albeit deposit inflows from Russia are a potential flight risk.

Costa Rica | BB-/Stable

Fiscal scores: 5 and 6 | External score: 4

Fiscal triangle area = 0.22
External triangle area = 0.08
Total area of vulnerability = 0.20



FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Net general government debt around 60% of GDP and a heavy interest burden underscore the importance of fiscal consolidation and restrained spending in line with the 2018 Law on the Strengthening of Public Finances.
- External indebtedness has declined amid solid exports, steady FDI inflows that mostly finance the current account deficit, and accumulation of liquidity.
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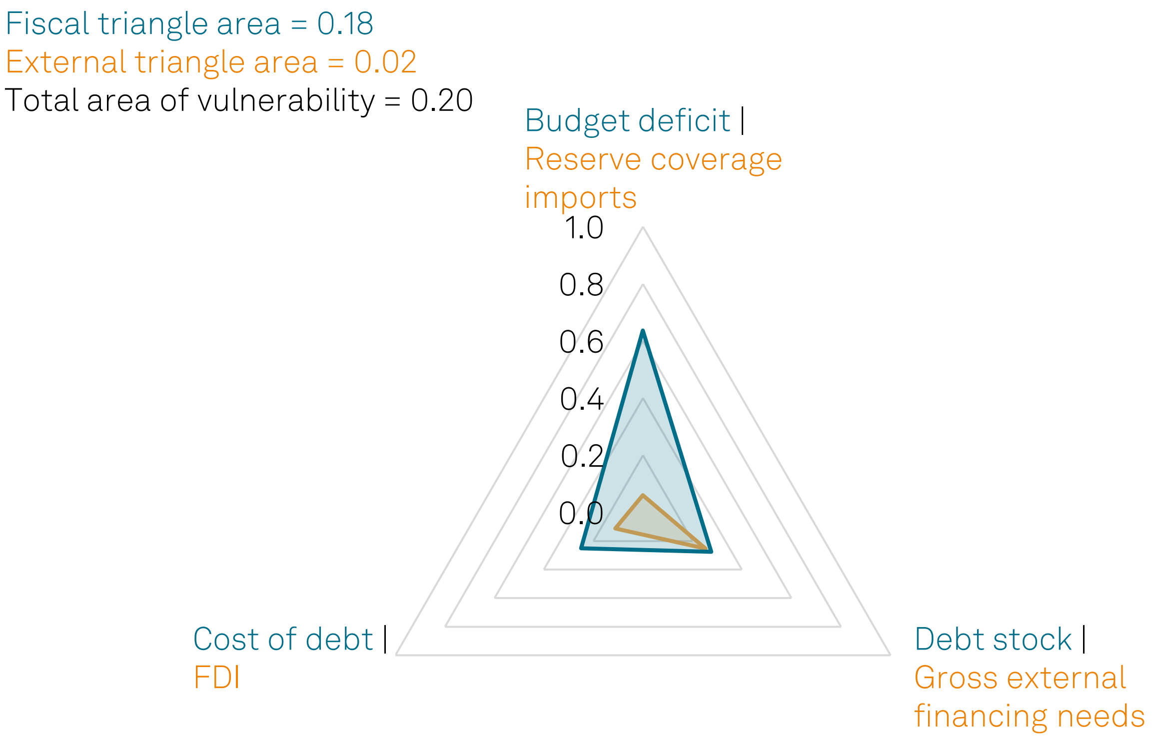
Colombia | BB+/Negative

Fiscal scores: 4 and 4 | External score: 5



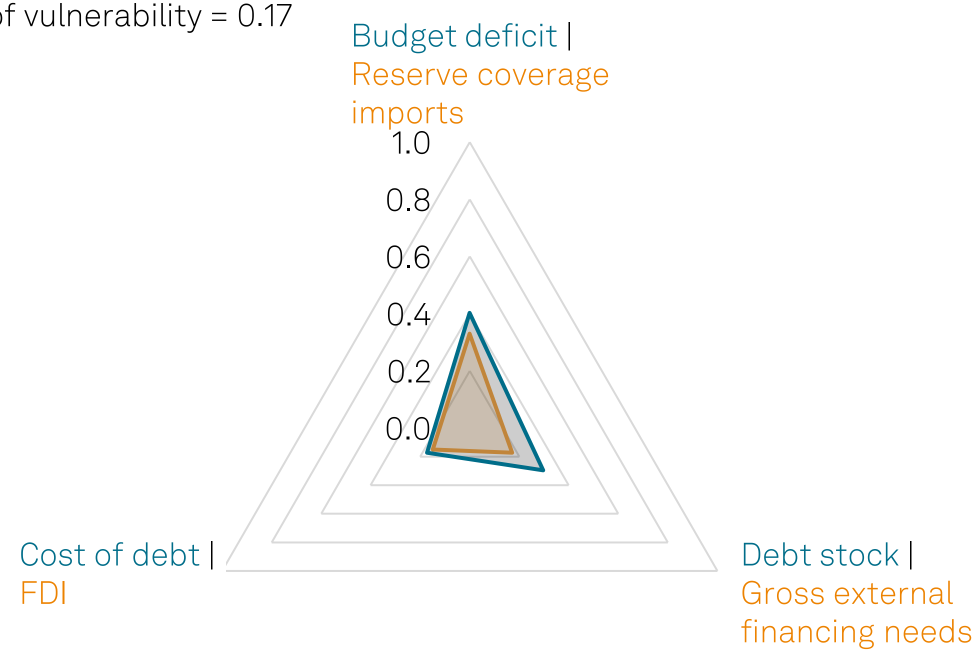
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Colombia's public finances could suffer from potential shortfalls in revenue from lower commodity prices. The 2022 tax reform targets about 1.3% of GDP in added revenue but could yield less money if collections from commodity sectors decline.
- We forecast Colombia's narrow net external debt to remain at 110%-120% of current account receipts (CARs) and its gross external financing needs just below 100% of CARs and usable reserves during 2024-2026.
- The availability of a US$9.8 billion flexible credit line from the IMF, which will begin to amortize in 2024, supports Colombia's external liquidity.

Honduras | BB-/Stable

Fiscal scores: 5 and 4 | External score: 2

Fiscal triangle area = 0.11
External triangle area = 0.06
Total area of vulnerability = 0.17



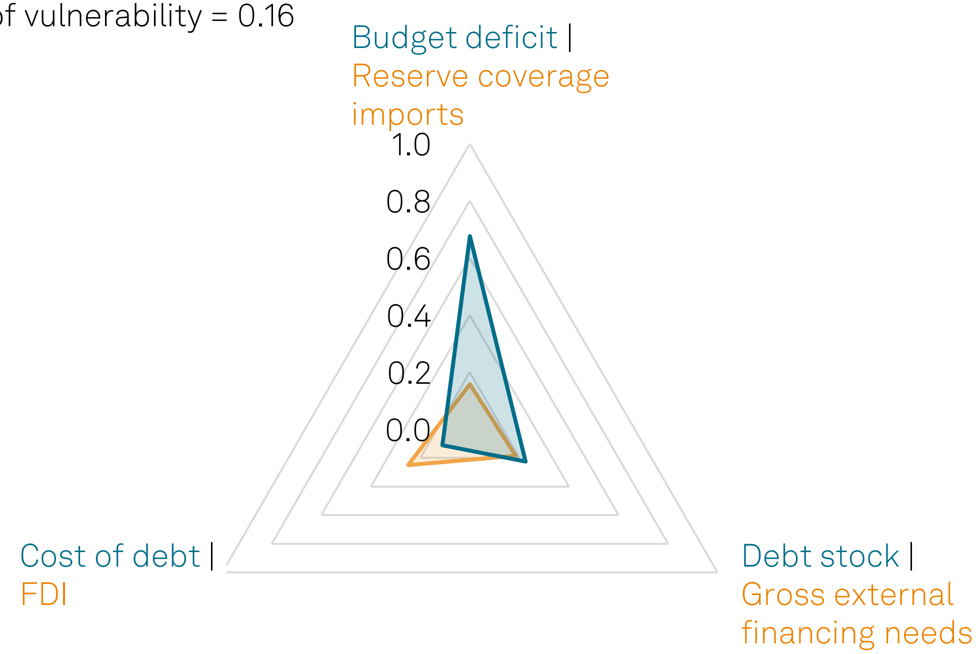
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Honduras' public finances are likely to remain largely stable in the coming two years despite political polarization and a divided Congress.
- The general government fiscal deficit declined to near balance in 2022, in contrast with our earlier expectations of a large deficit. The fiscal outcome stemmed mainly from lower-than-expected spending, partly due to the elimination of trust funds and the restructuring of ministries that constrained the government's ability to spend.
- We expect Honduras' external indicators to remain solid.

Morocco | BB+/Stable

Fiscal scores: 4 and 4 | External score: 2

Fiscal triangle area = 0.11
External triangle area = 0.05
Total area of vulnerability = 0.16



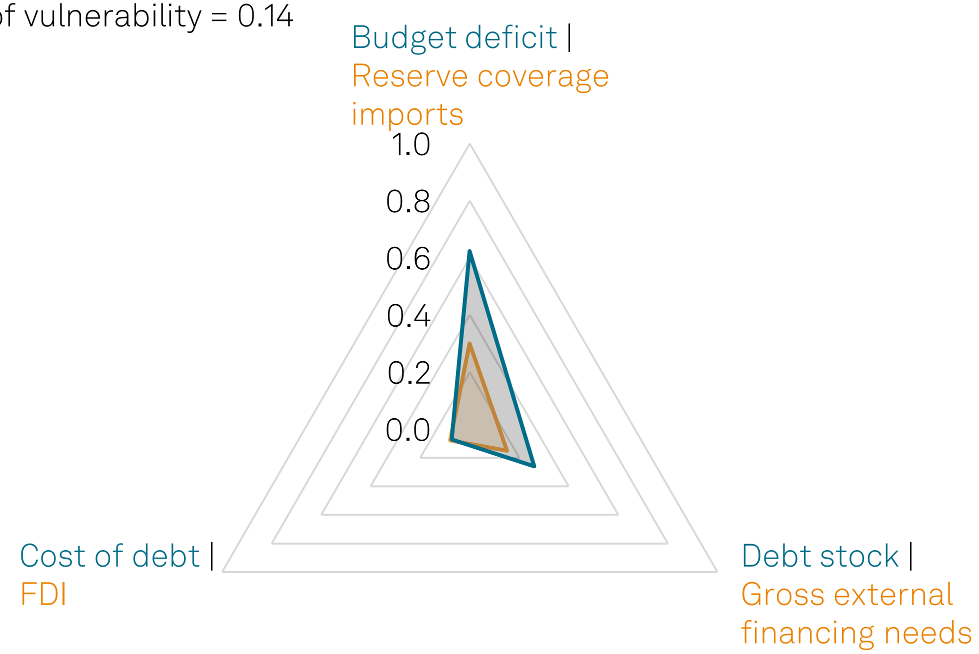
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We expect Morocco's budget deficit to narrow gradually to 4.4% of GDP in 2024 and to 3.5% by 2026. Rising revenue in key sectors such as tourism and phosphates will benefit public finances. The authorities aim to eliminate remaining subsidies on butane gas, wheat, and sugar by 2025.
- Morocco's central government debt had an average maturity of about seven years and an estimated average cost of 3.4% for the domestic debt and 2.4% for the external debt.
- Morocco finances most of its modest current account deficits (forecast at 2.5% of GDP for 2024) through FDI inflows and external borrowing. Morocco benefits from both a flexible credit line from the IMF, and a Resilience and Sustainability Facility, which aims to help the country address climate vulnerabilities and strengthen its resilience to climate change.

Vietnam | BB+/Stable

Fiscal scores: 4 and 4 | External score: 3

Fiscal triangle area = 0.10
External triangle area = 0.04
Total area of vulnerability = 0.14



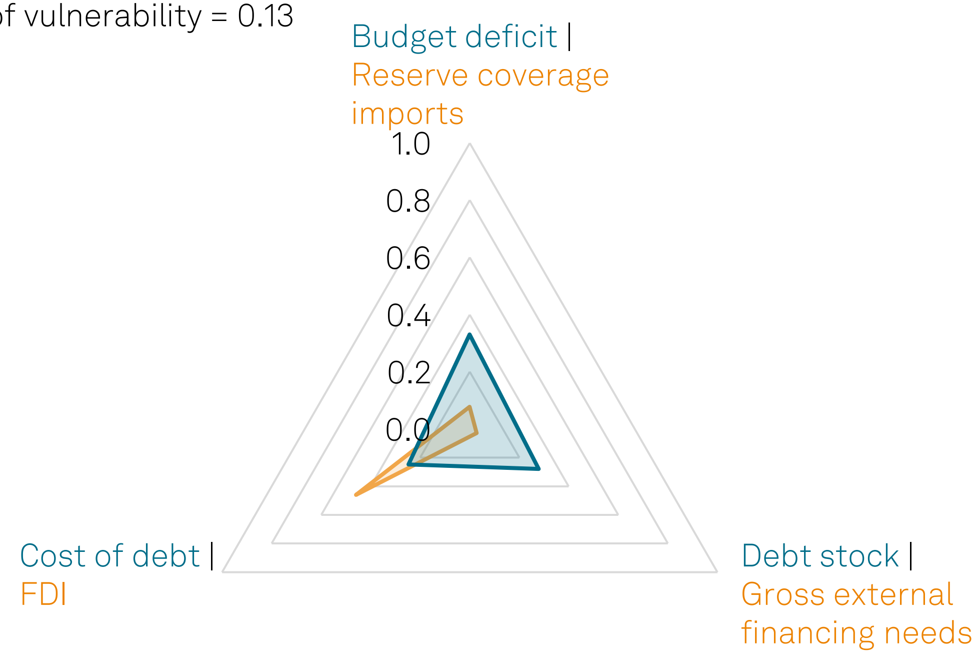
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We expect fiscal deficits to remain wider than 4% of GDP as the government increases capital spending and temporary tax reductions curb revenue growth.
- At 19%, government revenue to GDP is below the 25% average for the 36 emerging market sovereigns in the sample.
- Vietnam's external debt position continues to improve. Lack of an official international investment position series impedes a more comprehensive assessment of the country's external position.

Guatemala | BB/Stable

Fiscal scores: 4 and 4 | External score: 2

Fiscal triangle area = 0.11
External triangle area = 0.02
Total area of vulnerability = 0.13

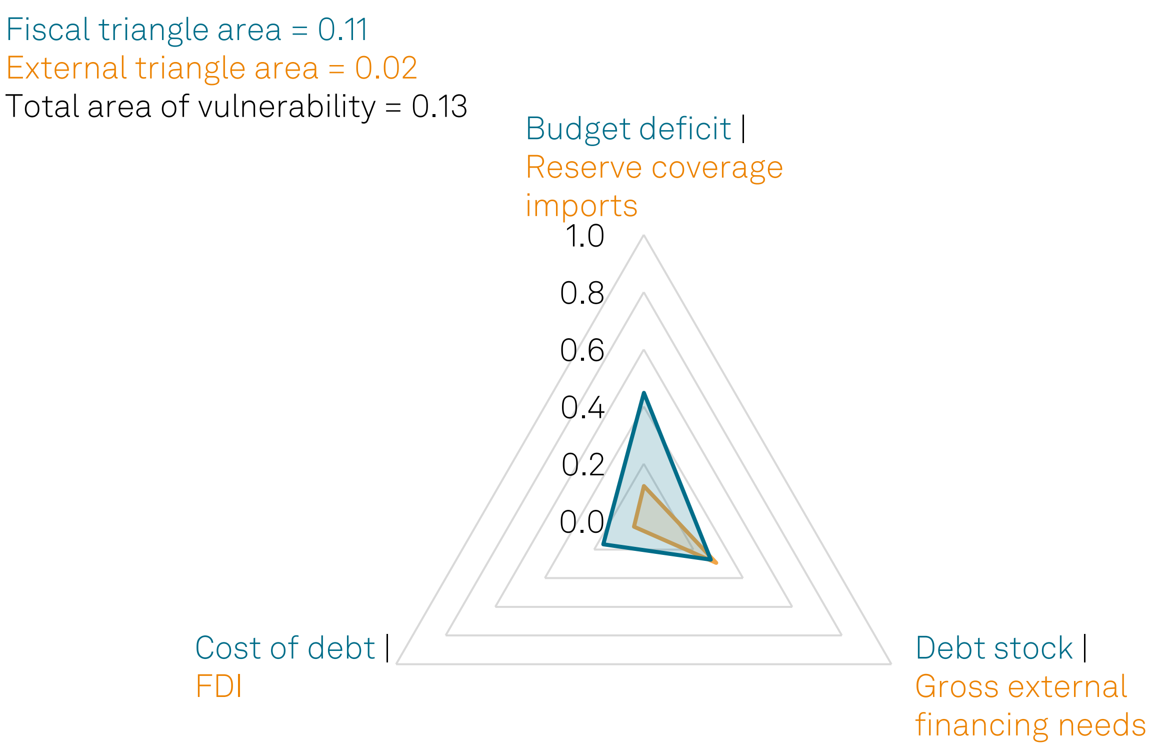


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Guatemala's fiscal deficits will remain low and debt levels steady. Tax collection has reinforced its performance over the last two years and increased to 12.1% of GDP in 2022 from 10.7% in 2019, before the pandemic.
- Nevertheless, the sovereign's ability to sustainably increase its revenue, which we expect will stay at about 12% of GDP, remains limited.
- Guatemala's external position should remain a rating strength over the coming years. The Guatemalan quetzal has remained stable on resilient remittance inflows, healthy foreign reserves, and a sustained current account surplus.

Albania | B+/Positive

Fiscal scores: 4 and 4 | External score: 4

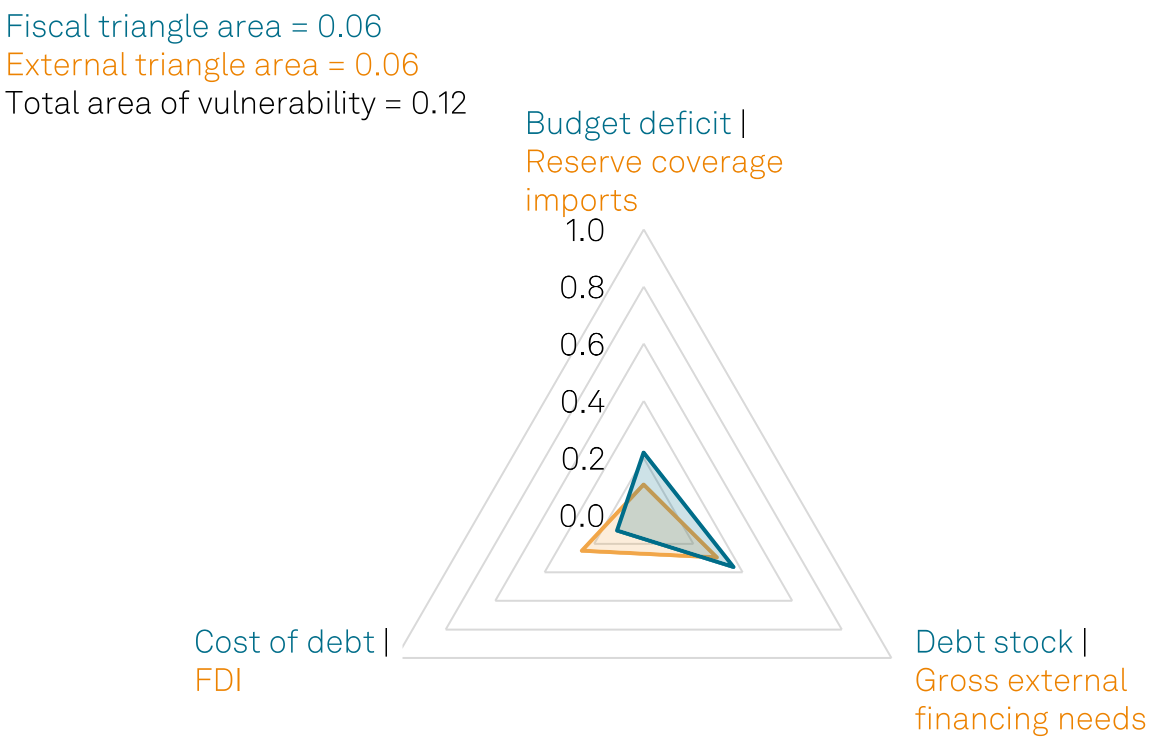


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- We still expect Albania's fiscal metrics will improve beyond our base case over the next 12 months, through government's efforts to consolidate public finances. In contrast to most emerging market sovereigns, debt to GDP is already below pre-pandemic levels.
- Net external debt is modest, while net FDI inflows remain among the most elevated among rated emerging market sovereigns.
- Even so, the amount of short-term debt is significant as a percentage of reserves. The Albanian lek is neither a reserve nor an actively traded currency, constraining external flexibility.

Cameroon | CCC+/Stable

Fiscal scores: 4 and 3 | External score: 5



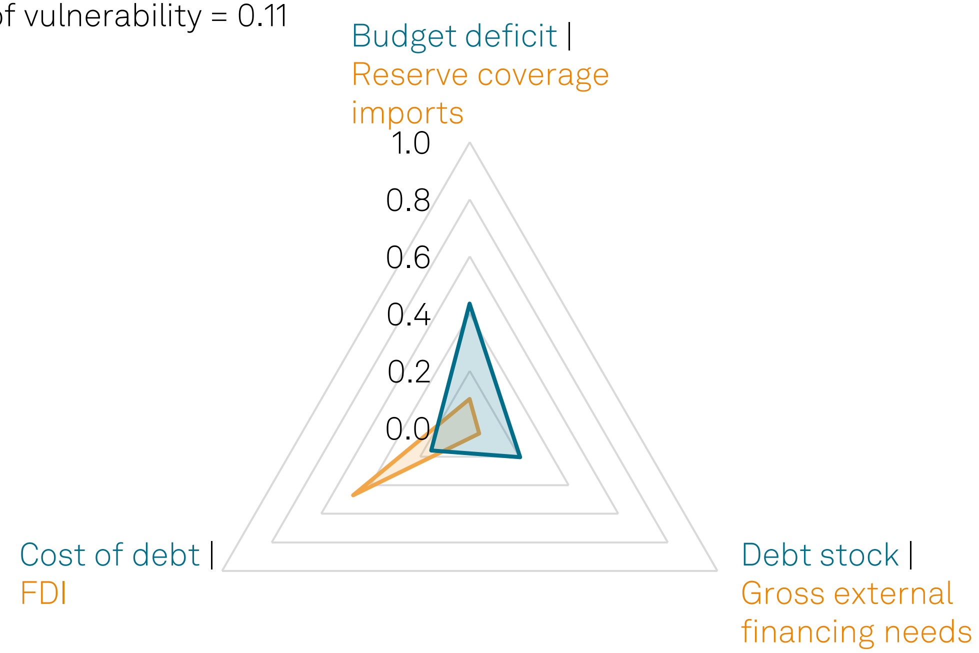
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Cameroon made late payments on long-term foreign currency commercial debt in 2022.
- We expect the government can contain budgetary deficits at 1% of GDP over 2023-2026, thanks to its commitment to reducing fuel and gas subsidies, and broadly resilient economic growth.
- The country's interest expenditure will remain lower as a share of government revenue than that of many regional peers, reflecting the prominence of concessional or semi-concessional loans in its debt structure.
- Cameroon has access to the CEMAC zone's entire pooled stock of international reserves, which limits country-specific balance-of-payment risks.

Paraguay | BB+/Stable

Fiscal scores: 3 and 3 | External score: 2

Fiscal triangle area = 0.08
External triangle area = 0.03
Total area of vulnerability = 0.11



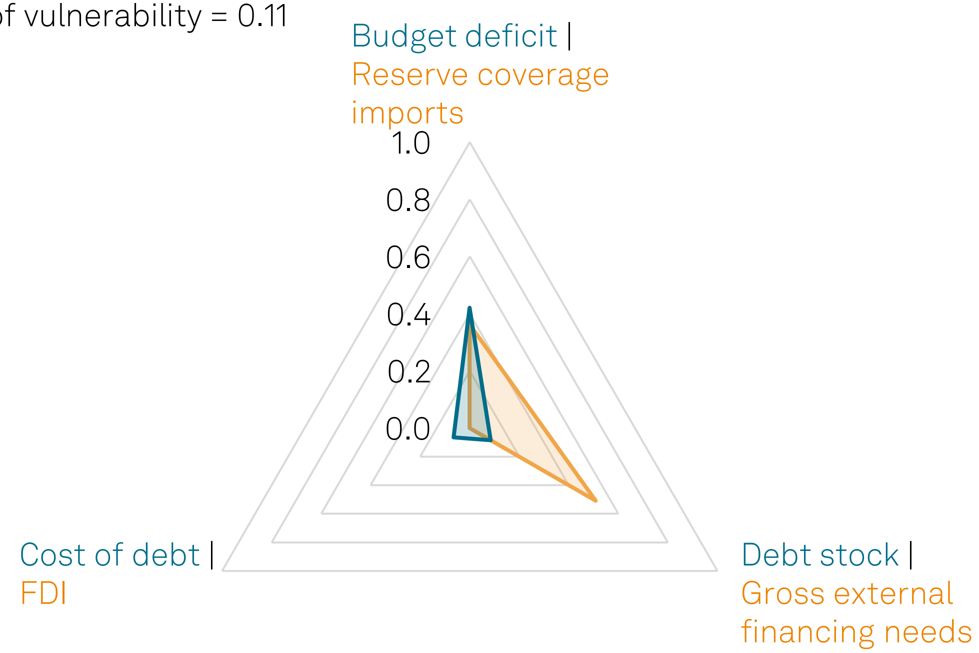
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Limited fiscal and external imbalances support creditworthiness.
- We expect the new administration to continue to build on Paraguay's track record of prudent macroeconomic policies, focusing on achieving a structural deficit target over the medium term as part of the Fiscal Responsibility Law, as well as on widening economic diversification.
- The current account is swinging back toward a surplus, thanks to strong soy exports. The external profile remains a key rating strength.

Mongolia | B/Stable

Fiscal scores: 4 and 4 | External score: 6

Fiscal triangle area = 0.03
External triangle area = 0.08
Total area of vulnerability = 0.11



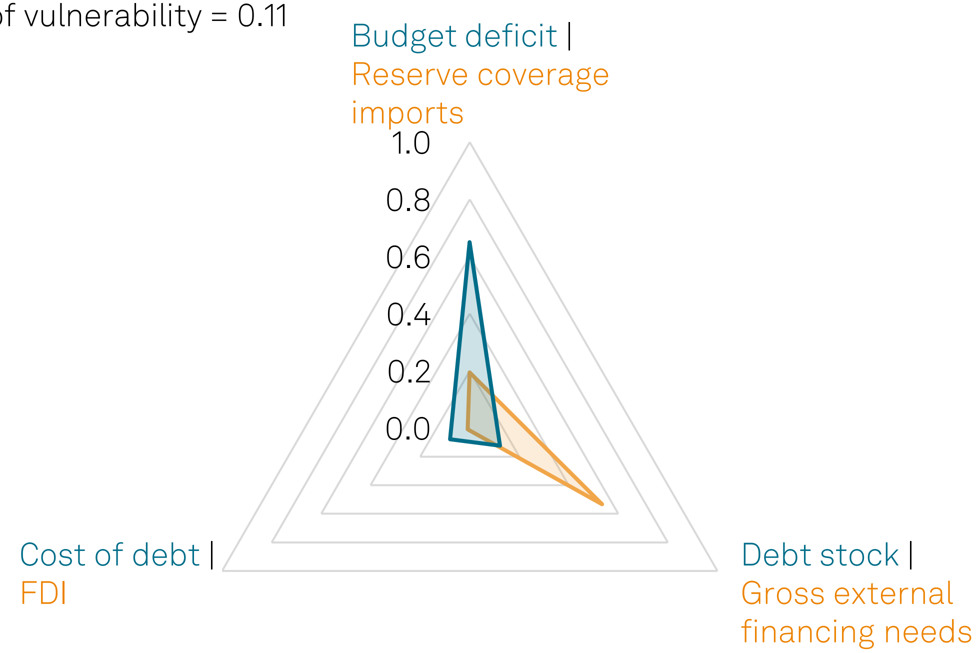
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Robust revenue over the past two years has enabled Mongolia to considerably reduce its cost of public debt, as measured by the ratio of interest to revenue.
- Nevertheless, Mongolia's economy is highly vulnerable to exogenous shocks due to its heavy dependence on commodity exports to China. Acute shifts in commodity cycles could also heighten volatility of economic and fiscal outcomes.
- Debt dynamics can, at times, be disconnected from budget performance because the bulk of government debt is denominated in foreign currencies.
- Mongolia's external position should benefit from strong growth of exports over the next few years as production from the underground phase of the Oyu Tolgoi mine expands and China's economic growth accelerates. During last year, gross foreign currency reserves recovered, reaching US$4.8 billion as of the end of 2023.

Montenegro | B/Stable

Fiscal scores: 4 and 6 | External score: 6

Fiscal triangle area = 0.06
External triangle area = 0.05
Total area of vulnerability = 0.11



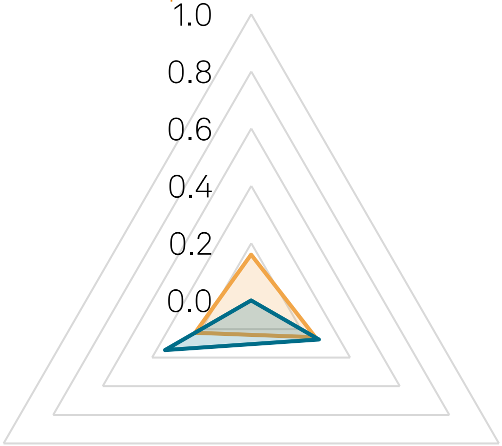
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- At 43%, Montenegro's government revenue as a percentage of GDP exceeds those of the other sovereigns in our sample. Nevertheless, a track record of rising public deficits and debt have weighed on our fiscal assessment.
- For 2024, we expect the general government deficit will narrow to 3.2% of GDP in 2023 from 5.2% of GDP in 2022 thanks to strong revenue growth.
- Recurrent current account deficits, coupled with a large net external liability position, and the absence of a credible lender of last resort (given Montenegro's unilateral adoption of the euro) exposes Montenegro to balance-of-payments risks.
- FDI levels remain robust, and we project that FDI will average about 10% of GDP annually in 2023-2026, broadly in line with historical trends and fueling rising imports.

Jamaica | BB-/Stable

Fiscal scores: 1 and 5 | External score: 4

Fiscal triangle area = 0.04
External triangle area = 0.06
Total area of vulnerability = 0.10



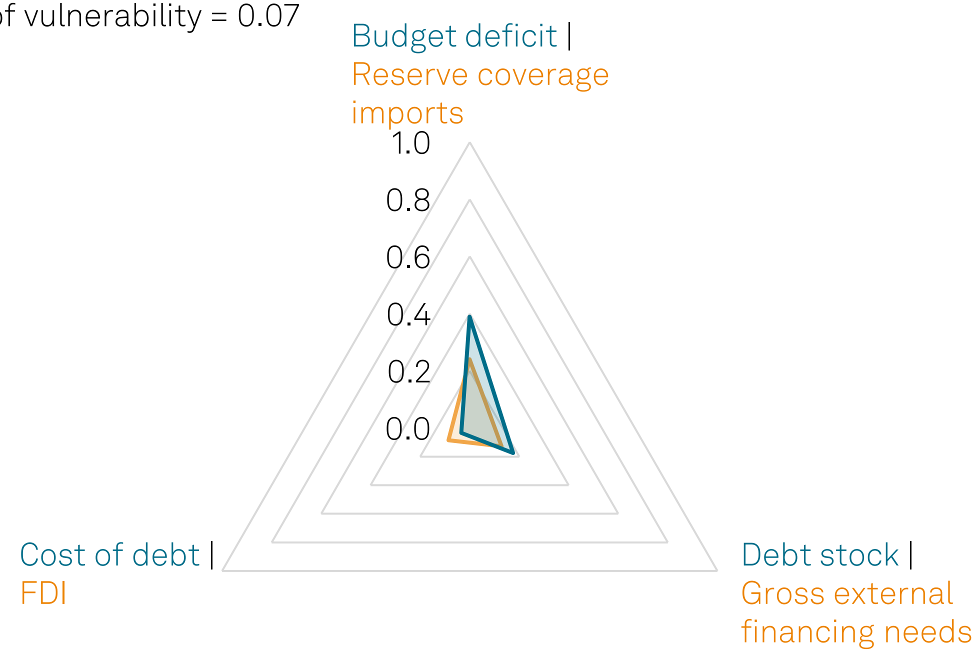
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Jamaica has weathered the pandemic and related downturn. It has also maintained its commitment to prudent public-sector finances and debt reduction, while continuing to implement key reforms like the recent central bank modernization.
- We expect the average annual change in net government debt will be 0.8% over the next three-to-four years, reflecting future surpluses as well as the negative effect of a likely depreciating Jamaican dollar on the value of the country's large external debt.
- An expanding economy (including continued strength in tourism) will support external balances and foreign exchange, and current account deficits will average about 0.9% of GDP over the next four years.

Nicaragua | B/Stable

Fiscal scores: 4 and 2 | External score: 5

Fiscal triangle area = 0.04
External triangle area = 0.03
Total area of vulnerability = 0.07

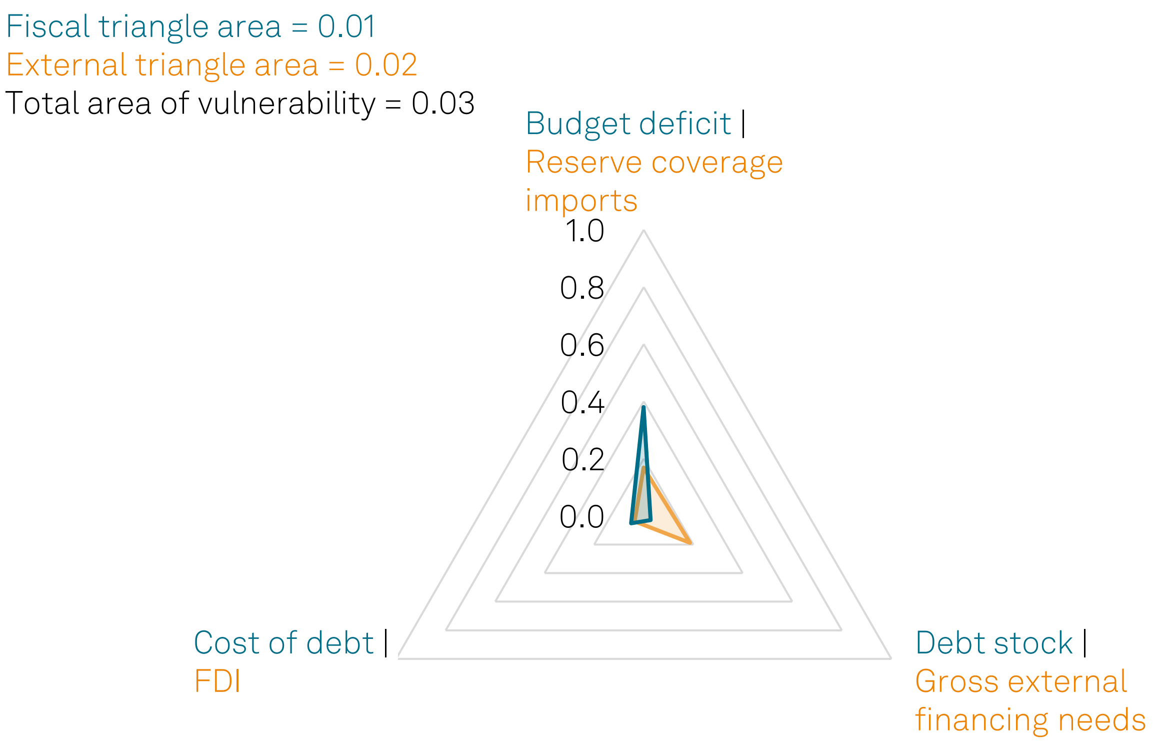


FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Nicaragua's fiscal deficits will remain low and debt levels steady as the government continues to prioritize sound macroeconomic policies.
- Strong dollar inflows, mainly from remittances, are reducing the country's external vulnerabilities and allowing for a slower pace of exchange rate depreciation.

Serbia | BB+/Stable

Fiscal scores: 3 and 2 | External score: 4



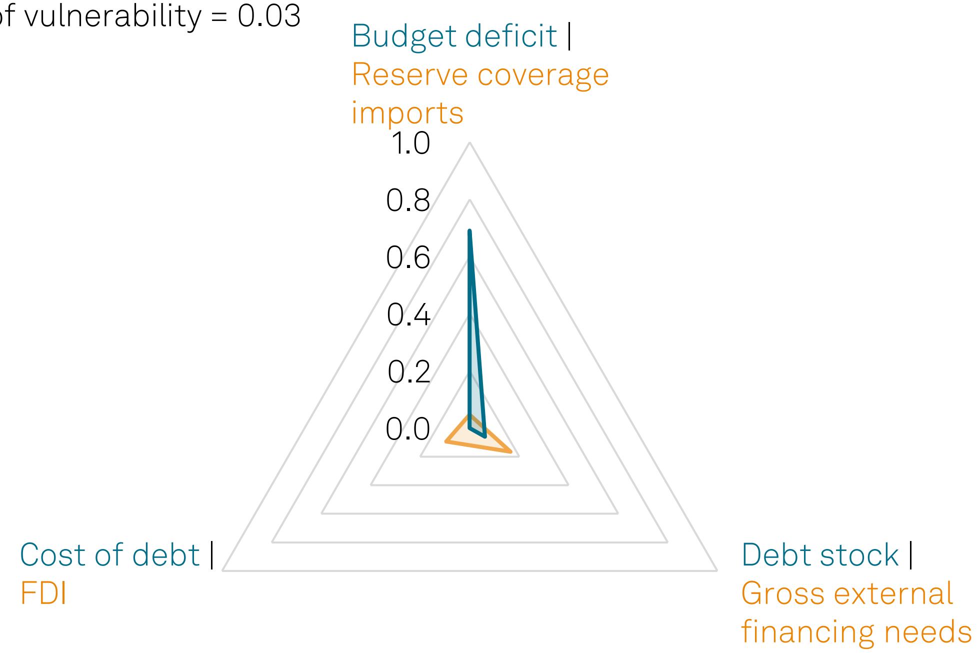
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Serbia's fiscal and current account deficits are set to narrow substantially, owing to lower energy prices and budgetary tightening.
- At over 42% of GDP, general government revenue is the second highest among all 36 emerging market sovereigns in our sample.
- Net FDI flows overfund the current account deficit, bolstering the central bank's foreign exchange reserve position. But euro-ization of the financial sector remains elevated.

Uzbekistan | BB-/Stable

Fiscal scores: 6 and 2 | External score: 3

Fiscal triangle area = 0.02
External triangle area = 0.01
Total area of vulnerability = 0.03



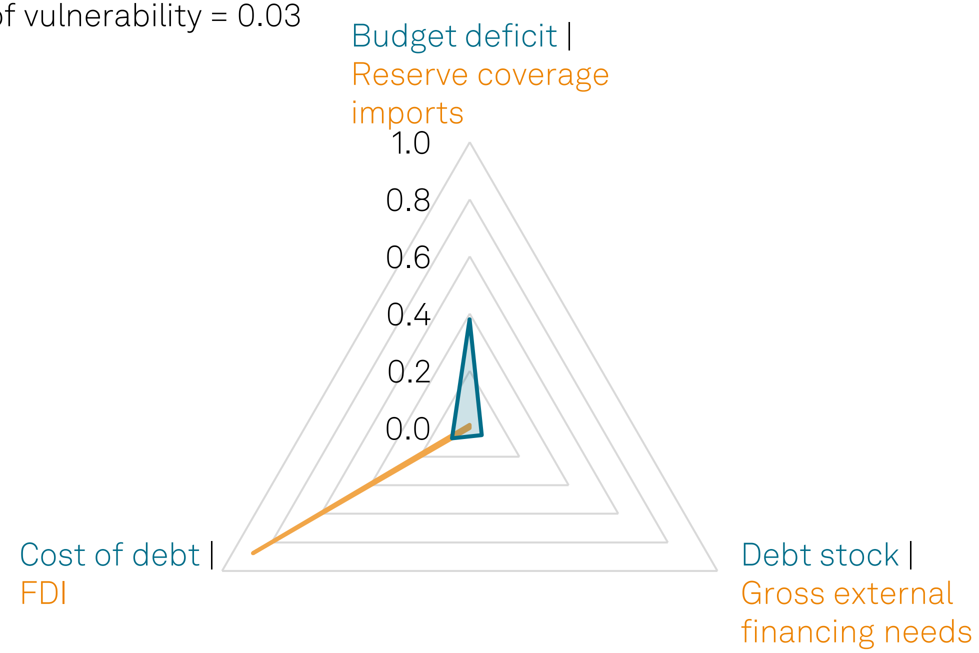
FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Uzbekistan's favorable fiscal metrics reflect moderate net government debt of less than 30% of GDP and low funding costs, given the high proportion of concessional debt from international financing institutions.
- However, we see an increasing trend in net debt due to high social spending and mounting reliance on more expensive domestic debt. Uncertainty regarding government-related entity debt and their management also remain.
- Uzbekistan remains in a net external asset position vis-à-vis the rest of the world. However, the country's gross external debt has been rising in recent years, particularly within the public and financial sectors.

Tajikistan | B-/Stable

Fiscal scores: 6 and 5 | External score: 4

Fiscal triangle area = 0.02
External triangle area = 0.00
Total area of vulnerability = 0.03



FDI--Net foreign direct investment. Source: S&P Global Ratings.

- Tajikistan's external position remains susceptible to global shocks, reflecting the country's narrow export base, high dependence on imports, and strong reliance on workers' remittances, largely from Russia (comprising about 90% of remittances).
- Projected net FDI inflows into Tajikistan are among the lowest of all emerging market economies (alongside Bolivia).
- We forecast a modest rise in net debt to GDP to 28% by 2027, partly reflecting recent weakness of the Tajikistani somoni due to diminishing financial inflows and a depreciating Russian ruble.
- In our view, despite modest central government debt, high debt at loss-making state-owned enterprises--especially in the energy, communications, transport, and financial sectors--pose sizable fiscal risks to public finances.

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