S&P Global
Ratings

Credit Conditions Emerging Markets Q3 2024

Policy Uncertainty May Hinder Resilience

June 25, 2024

This report does not constitute a rating action

Key Takeaways

Credit conditions across emerging markets (EMs) continue improving amid resilient economic activity, supported by solid domestic demand, and improving global trade and financing conditions. The second half of the year could be challenging, as political noise from U.S. elections could sour investors' appetite for EMs' debt.

Policy uncertainty could exacerbate existing risks. Policy uncertainty will be a key factor late in the year and into 2025 as U.S. elections play out and new administrations in key EMs begin to execute their plans. Political noise could dampen investor sentiment and cause episodes of liquidity shortfalls or capital outflows. High borrowing costs will remain a key risk, as the Federal Reserve has pushed forward its plans for rate cuts, slowing monetary easing in EMs.

Expected resilience in economic growth for the rest of the year should maintain rating stability in 2024. Nevertheless, the potential for volatile financing conditions during the second half of the year could turn rating trends toward the negative territory.

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, EMs, North America, and Europe). Discussions center on identifying credit risks and their potential rating impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the EM credit conditions committee on June 18, 2024.

Regional Credit Conditions Chair

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

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Top EM Risks

Higher interest rates linger amid refinancing risks

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

Continued strength in the U.S. economy has led to a longer horizon for interest-rate cuts by the Fed. We now expect the first rate cut this cycle coming in December 2024, roughly two quarters later than our previous forecast. A delayed start to rate cuts will likely affirm EM central banks' determination in anchoring inflation expectations--meaning the process of shifting monetary policy to neutral from restrictive will take longer than previously assumed. High interest rates will likely linger as several factors continue weighing on inflation trajectory, including political uncertainty and its effect on EM exchange rates, U.S. elections, fiscal policies, and erratic supply shocks. While financing conditions are improving as economic trends stabilize, financing costs will remain high for all EM issuers, especially for the lower-rated ones with refinancing needs in 2024 and 2025. Access to primary markets could also narrow if geopolitical risks were to continue rising. For many issuers, the new interest-rate dynamics could be unsustainable, leading to defaults and bankruptcies.

Geopolitical tensions and difficult socio-political conditions erode credit fundamentals

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

A complex political landscape across EMs is leading to unexpected election results, which will likely result in market volatility over the next few quarters as investors strive to understand the new administrations' policies and the balance of powers that will drive the legislative agenda over the coming years. The elections in India, Mexico, and South Africa are showing mixed results, which cloud the policy trajectory in these countries to certain degree. Policy predictability is a key factor to support investment and growth; therefore, a key risk is if these new administrations will be able to deal with fiscal challenges and support economic growth. The Israel-Hamas and Russia-Ukraine wars will likely continue through 2024, causing disruption in supply chains and the production of important commodities. For the conflict in the Middle East, the key risk remains of further escalation and spread more widely in the region with significant repercussions that could extend globally.

China's economy: Crippled property sector, tepid confidence, high debt levels, and trade war risk to weigh on growth

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

Chinese authorities have rolled out bolder stimulus to support the country's very weak real estate sales, but subdued confidence and high debt could contain the uplift. Fears of more trade tariffs on China's exports imposed by the West could drag down manufacturing activity, souring economic growth. Households and businesses' weaker propensity to consume and invest will hit demand, employment, and incomes. China's sluggish economic growth could spill over to the region's economies and EMs reliant on China for tourism, exports, imports (product components), finance, or supply chains.

Sovereigns under pressure as debt burdens and borrowing costs continue rising

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

Factors that have been supportive for EM sovereigns in facing multiple and successive shocks might be fading over the coming quarters. Highly accommodative financing conditions are gone, while most issuers have regained access to capital, high interest rates will likely linger during the rest of the year and will stay higher in 2025 than pre-pandemic levels. This will probably increase debt service for EM sovereigns as they gradually refinance their debt. EM sovereign debt remains higher than pre-pandemic levels, so there is less room to maneuver for these countries, and the need for fiscal consolidation is increasing. We expect economic growth to remain sluggish, which will continue weighing on EM sovereigns' fiscal accounts and will likely continue preventing consolidation. Unexpected electoral outcomes across key EMs have increased uncertainty about upcoming policy paths. The combination of these factors leaves EM sovereigns with limited fiscal flexibility to face any further shocks without compromising their credit fundamentals. Additional fiscal pressure could result in sovereign downgrades, which usually spill over to our corporate and financial institutions ratings.

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

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

Authorities in advanced economies have managed their economies to a soft-landing trajectory so far, mainly through sizable amounts of fiscal stimulus, which have supported labor markets. Recession risks could rise again if, for example, ongoing conflicts escalate, undermining business confidence and further disrupting supply chains, increasing unemployment. EM economies could also be further stressed if China's plans to stimulate its economy fail and its economic growth weakens beyond our expectations. Slower growth in advanced economies could become a drag on trade and would hurt EM exporters. A deeper-than-expected downturn could depress exports from key EMs by reducing trade volumes, portfolio flows, and foreign direct investment. Slower economic activity could imperil their corporate sectors' fundamentals and banks' asset quality. Unemployment could rise, hitting households already burdened by inflation.

Weaponization of supply-chain choke points drive up corporate costs and inflation

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

The Houthis' disruptive actions in the Red Sea have now taken enough global shipping capacity offline, resulting in lingering high shipping costs (see chart 3). As the conflict between Israel and Hamas continues and the presence of the Houthis in the Red Sea is not resolved, shipping bottlenecks will remain, and the likelihood that increasing shipping costs will pass to corporate costs or goods prices is increasing, as container lines are gaining pricing power. Increasing shipping costs could add to ongoing strains stemming from tight labor markets. Furthermore, we believe that the risk that the conflict escalates is meaningful, and other involved groups such as Hezbollah could target the Strait of Hormuz to exert pressure over its rivals. The latter could further lift shipping costs, but also cause a significant increase in hydrocarbon prices, given the relevance of this route for these commodities. High key commodity prices could increase further amid higher labor costs and borrowing rates, which could eat into corporate margins and lead to renewed inflationary pressures.

Structural risks

Climate change and more frequent natural disasters

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

Larger, more frequent natural disasters increase physical risks for public- and private-sector entities and threaten to disrupt supply chains such as for agriculture and food production in some EMs. El Niño phenomenon has taken its toll during the past quarters through droughts and severe floods across many key EMs. This year, El Niño phenomenon is expected to fade out, likely leading the way to La Niña phenomenon, which could be favorable for some regions hit by El Niño as these tend to get more rain. However, this phenomenon increases the possibility for tropical storms in the Atlantic.

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

Regional Credit Conditions

Policy Uncertainty Could Dampen Credit Conditions

Credit conditions continue improving amid resilient economic activity, supported by solid domestic demand, improving global trade and financing conditions. The second half of the year could be challenging, as political noise from U.S. elections could sour investors' appetite for EMs' debt.

High borrowing costs will remain a key risk, as the Fed has pushed forward its plans for rate cuts, slowing monetary easing in EMs (see chart 2). Furthermore, we expect economic activity to remain uneven across EMs in 2024, responding to idiosyncratic factors. Issuers have refinanced a large amount of outstanding maturities during the first half of the year, and the second half looks manageable. However, EM maturities will pile up in 2025, and we expect issuers will continue facing high borrowing costs.

Policy uncertainty will be a key factor late in the year and into 2025 as U.S. elections play out and new administrations in key EMs begin to execute their plans. Political noise could dampen investor sentiment and cause episodes of liquidity shortfalls or capital outflows.

Recent Election Results Raise Questions About Policy Predictability

Unexpected electoral outcomes across key EMs have increased uncertainty about upcoming policy paths. In South Africa and India, ruling parties underperformed polls and market expectations, increasing their reliance on alliances to govern and shape economic policy.

- In Mexico, the incumbent Morena party had a much stronger victory than most had expected, increasing uncertainty around several constitutional reforms promised during campaign, as well as over the government's fiscal trajectory. Measures that weaken checks and balances could dampen private-investor confidence, create perceptions of greater risk, potentially denting economic growth and sovereign creditworthiness.
- In South Africa, we don't expect the new government of national unity to cause a significant policy shift. The new coalition's nine-point agenda aims to prioritize structural reforms to address basic infrastructure and service delivery shortfalls and weak investment levels, while gradually narrowing fiscal deficits. The election outcome is broadly favorable for the economic and fiscal outlook, compared with the alternatives. Nevertheless, we expect the government will face an uphill battle to revive growth and maintain fiscal discipline, while navigating the new realities of coalition politics. Furthermore, significant ideological differences between the African National Congress (ANC) and the Democratic Alliance (DA) on issues such as affirmative action and foreign policy could destabilize the government.
- In India, Narendra Modi of the Bharatiya Janata Party (BJP) was sworn in as prime minister for a third consecutive term. The BJP came short of a simple majority and formed a coalition with the National Democratic Alliance (NDA) to support the new government. The main opposition, the Indian National Congress (INC)-led Indian National Developmental Inclusive Alliance (INDIA) coalition, currently holds 234 seats out of 543 seats. The stability of Modi's coalition will depend on its ability to retain support from its current constituent parties for seat-share support. Membership of the NDA and INDIA alliances is likely to remain fluid, with parties of both alliances previously having switched support between the BJP and the INC.

  The risk of resignations by members of parliament and the presentation of no-confidence motions will be elevated throughout the next parliamentary term. Continued support from existing coalition parties in the NDA--and negotiations for the inclusion of parties that are not currently in it--will likely depend on the BJP making repeated concessions, including cabinet reshuffles, and prioritizing investment into states that these parties represent.

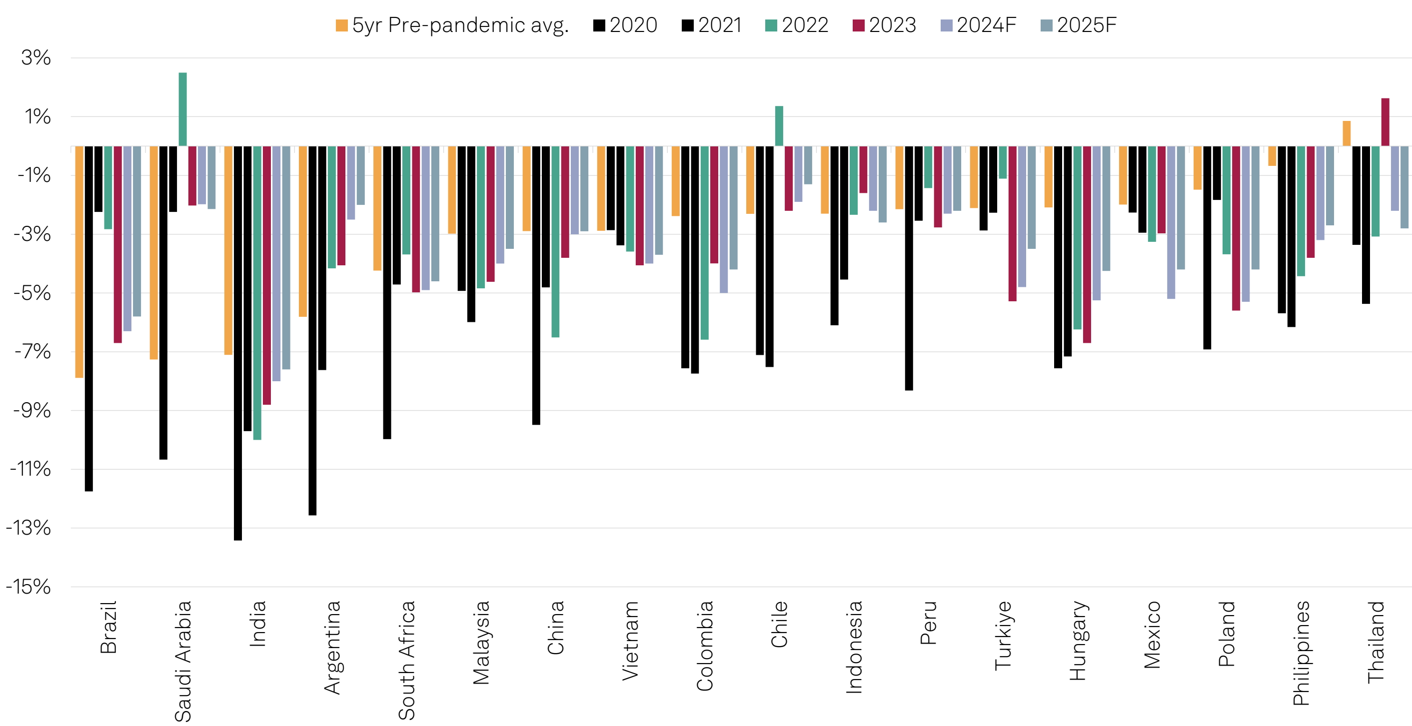
Increasing Challenges For Fiscal Consolidation

Pursuing fiscal consolidation after the pandemic has proven challenging for many EMs, economic growth rebound has certainly helped, but most EM sovereigns kept deficits higher than historical levels in their effort to cope with successive shocks and in dealing with the effects of high inflation on households (see chart 1). Fiscal consolidation will be crucial over the coming years as high interest rates will likely linger, and economic growth will remain sluggish. We expect lower general government deficits over the coming years, but many factors will come into play that could continue preventing improvements in both fiscal trajectories and economic growth. Once again, policy is at the center stage, current and new administrations will need to put in place relevant reforms to foster economic growth and strengthen their fiscal flexibility. Additional fiscal pressures could result in sovereign downgrades, which usually spill over to our corporate and financial institutions ratings.

Chart 1

Pursuing fiscal consolidation after the pandemic year has proven challenging for many EMs

General government balance (% of GDP)



F – forecast. Source: S&P Global Ratings.

Dollar Strength Could Spell Trouble For EMs

The U.S. economy remains relatively strong compared with those of other advanced economies, stemming from a combination of factors including resilient labor markets, improving productivity, and ongoing fiscal stimulus. The economic divergence among advanced economies is already resulting in unsynchronized monetary easing as rate cuts have begun in the eurozone and Canada. The latter will likely lead to further U.S. dollar strengthening, pressuring EM currencies during the year. Weaker EM currencies could keep inflation levels relatively high and delay EM central banks' monetary easing. If such factors were to combine with heightened policy uncertainty, we could expect capital outflows and volatile market conditions.

Rising Protectionism On The Horizon

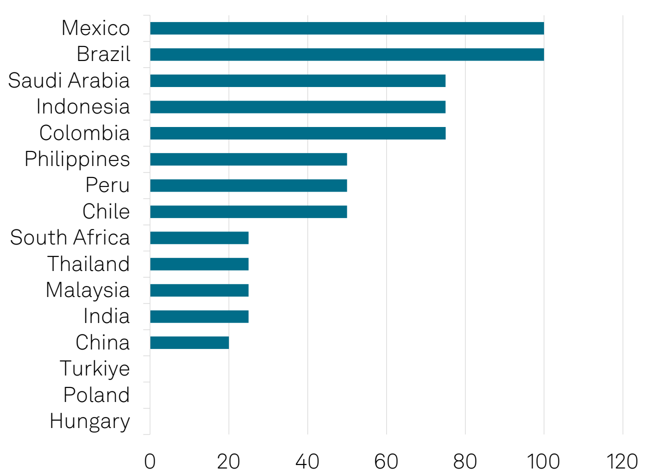
The U.S. has recently established new and hefty tariffs on Chinese imports, claiming "unfair trade practices concerning technology transfer, intellectual property, and innovation". The eurozone has followed by imposing tariffs on Chinese electronic vehicles, claiming unfair support for Chinese EV carmakers. China will likely follow with retaliatory measures, so the full effect of these new protectionist measures is yet to be seen.

Overall, we expect winners and losers among EMs as long-term consequences will likely lead to deepening the trend of supply-chain relocations and to the reconfiguration of trading partners. But in the short term, rising protectionism adds to policy uncertainty and weigh on investment decisions. Furthermore, while the full price effects of increasing tariffs are difficult to measure at this point, we expect some impact on economic activity.

Chart 2

The Fed's influence on EMs' monetary easing plans

2024 policy rate forecast change (March vs. June 2024 bps)

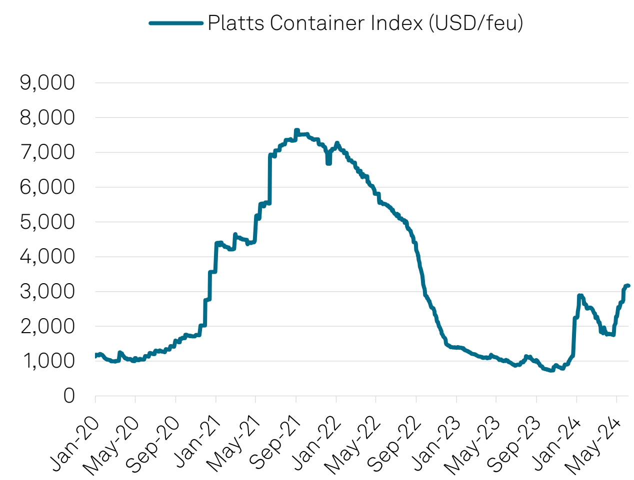


Changes in S&P Global Ratings' Policy Rate Forecast from March 2024. Source: S&P Global Ratings.

Chart 3

Red Sea disruptions impact on shipping rates

S&P Global Platts Container Index



Source: S&P Global Platts.

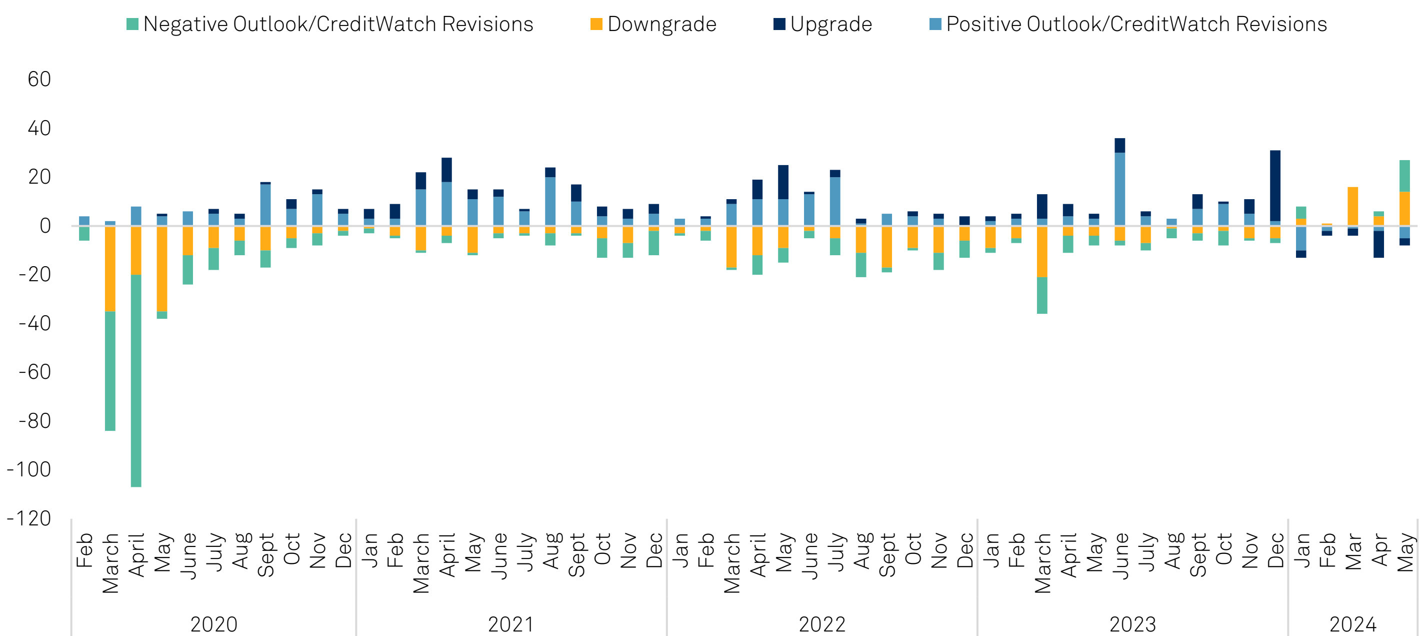
Rating Trends Leaning To Positive Territory

This year, rating actions have been heavily influenced by sovereign rating trends and are leaning toward positive territory. More specifically, upgrades have materialized for some of the sovereigns that have speculative-grade ratings such as Turkiye (recently upgraded to B+/Positive/B) and Argentina (recently upgraded to CCC/Stable/C). One exception is India (BBB-/Positive/A-3), the outlook on which we revised to positive, and it has an investment-grade rating. However, rating actions on investment-grade sovereigns have been largely negative, as we recently downgraded Peru to BBB-/Stable/A-2 and revised our outlook on Colombia (foreign currency: BB+/Negative/B; local currency: BBB-/Negative/A-3) to negative. Our baseline points to continued rating stability, although risks are relevant as we have pointed out in the previous section.

Chart 4

Rating actions have been heavily influenced by sovereign rating trends

Number of rating actions in key EMs



Data as of May 31, 2024, financial and nonfinancial corporates, including sovereigns--Argentina, Brazil, Chile, Colombia, Mexico, Peru, India, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Hungary Poland, Saudi Arabia, South Africa, Turkiye, and Greater China. Source: S&P Global Ratings Research & Insights.

Macroeconomic Conditions

Policy-Related Risks Have Risen

Primary contacts

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

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

Valerijs Rezvijs
London
valerijs.rezvijs@spglobal.com

- Our macroeconomic baseline for EMs remains broadly unchanged from the previous quarter. In most EMs, GDP growth will be moderately stronger in 2024 than in 2023.
- A later-than-expected start to the Fed's interest-rate cuts will slow the process of monetary policy normalization in most major EMs. That said, our view on terminal benchmark interest-rate levels remains unchanged.
- Policy-related risks have risen following electoral outcomes that generate uncertainty over reforms and fiscal trajectories in several EMs.

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

Our macroeconomic baseline for EMs remains broadly unchanged since the previous quarter. We continue to expect 2024 to be a year of significant growth divergence across EMs. Growth outperformers in 2023 (such as Brazil, Mexico, and India) will experience a moderate deceleration in growth rates in 2024, although they will remain relatively strong. Conversely, last year's growth underperformers (such as Colombia, Peru, Thailand, Hungary, Poland, and South Africa) will experience a modest acceleration in pace in 2024. That said, EMs will continue to face potential headwinds in the coming quarters, which include the lagged impact of high interest rates, and an expected deceleration in U.S. economic growth.

Most EMs will see stronger growth in 2024 than in 2023, mainly due to strength in domestic demand. In most EMs, unemployment rates remain near record lows, helped by the recovery from the pandemic, and in most cases, by fiscal support. This has driven consumption levels above pre-pandemic levels in all EMs.

Table 1
2024 GDP forecast versus 2023

Faster	Slower	Same
Chile	Argentina	Indonesia
Colombia	Brazil	
Peru	Mexico	
Malaysia	China	
Philippines	India	
Thailand	Turkiye	
Vietnam		
Hungary		
Poland		
Saudi Arabia		
South Africa		

Source: S&P Global Ratings economists.

Trade dynamics have also improved moderately, but remain highly vulnerable to setbacks. EMs with strong trade ties with the eurozone are benefiting from a modest recovery in manufacturing production. Manufacturing sectors in EM Asia are also recovering, as the global trade cycle seems to have bottomed out and is slowly improving. Continued strength in U.S. demand is resulting in positive spillovers to Latin America (LatAm). However, an expected deceleration in U.S. growth in the coming quarters, and the lagged impact of high interest rates in the eurozone, means that the speed and duration of the recent upturn in the trade cycle is far from assured.

Monetary policy normalization will be slow and influenced by the Fed's interest rate path. We recently revised our forecast for fed funds rate cuts, which we now expect will start in December this year and last into late 2026. As a result, we now expect a slower process of monetary policy normalization in most major EMs. Disinflation continues across EMs, although a recent increase in food prices and the strengthening U.S. dollar have tempered expectations toward further progress in lowering inflation. A delayed start to the Fed's rate cuts will likely affirm EM central banks' determination in anchoring inflation expectations. This means that the process of shifting monetary policy to neutral from restrictive will take longer than previously assumed. Our terminal interest rate projections remain unchanged.

Lesser policy predictability could dampen investment in several EMs. Unexpected electoral outcomes in South Africa, India, and Mexico have increased uncertainty over upcoming policy paths. In South Africa and India, ruling parties underperformed polls, which means they will have to increase their reliance on alliances to govern, potentially influencing economic policies. In Mexico, a resounding victory by the incumbent Morena party increases uncertainty over several potential constitutional reforms (see "Mexico's New Administration Faces Lagging Economic Growth And Weaknesses In Public Finances," published June 3, 2024).

Forecast Update

Our 2024 real GDP growth forecast for EM (excluding China) remains unchanged at 3.9%, following a 4.2% expansion in 2023. However, we made several adjustments to our 2024 GDP growth forecasts at the country-specific level. We made the largest upward revisions to Turkiye (up 50 basis points [bps]), and Chile (40 bps) due to a stronger-than-expected Q1 GDP reports. We lowered our growth projection the most for Saudi Arabia (down 70 bps), Thailand (50 bps), and South Africa (40 bps). In Saudi Arabia's case, the extension of oil production cuts this year explains lower GDP growth projections. In Thailand and South Africa, growth in the first quarter underperformed our expectations.

Table 2

Summary of GDP growth forecasts

	2021	2022	2023	2024f	2025f	2026f	2027f
Argentina	10.7	5.0	-1.6	-3.5	3.3	2.2	2.5
Brazil	5.1	3.1	2.9	2.0	2.0	2.1	2.2
Chile	11.6	2.1	0.3	2.4	2.6	2.6	2.7
Colombia	10.8	7.3	0.6	1.1	2.8	3.0	3.1
Mexico	6.3	3.7	3.2	2.2	1.7	2.1	2.2
Peru	13.6	2.7	-0.5	2.7	3.0	3.1	3.2
China	8.5	3.0	5.2	4.8	4.6	4.6	4.4
India	9.1	7.0	8.2	6.8	6.9	7.0	7.0
Indonesia	3.7	5.3	5.0	5.0	5.0	4.9	4.9
Malaysia	3.3	8.7	3.7	4.3	4.5	4.4	4.4

Philippines	5.7	7.6	5.5	5.8	6.1	6.5	6.4
Thailand	1.5	2.6	1.9	3.4	3.3	3.2	3.1
Vietnam	2.6	8.0	5.0	5.8	6.7	6.7	6.7
Hungary	7.2	4.6	-0.7	2.3	3.1	2.9	2.5
Poland	6.8	5.5	0.2	2.9	3.3	3.0	2.8
Turkiye	11.8	5.3	4.5	3.5	2.0	3.0	3.1
Saudi Arabia	3.9	8.7	-0.9	1.5	5.4	4.3	3.6
South Africa	4.7	1.9	0.6	0.9	1.4	1.3	1.2
EM-18	7.7	4.5	4.6	4.3	4.4	4.5	4.4
EM-17 (excludes China)	7.2	5.6	4.2	3.9	4.3	4.4	4.4
LatAm	7.5	3.9	1.8	1.2	2.3	2.3	2.4
EM Asia	3.4	5.9	4.4	4.8	5.0	5.0	4.9
EM EMEA	8.2	5.7	1.9	2.6	3.0	3.1	2.9

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

Regional Summaries

LatAm: Our 2024 real GDP growth for the region remains unchanged at 1.2% (or 2.0% excluding Argentina), although we made several country-specific revisions. We moderately increased our projections for Brazil and Chile. For Brazil, we now forecast 2.0% growth this year (compared to 1.8% previously) mainly due stronger-than-expected growth in the first quarter. We are waiting for economic data to come out that shows the impact of the devasting floods in Brazil's southern state of Rio Grande do Sul, between late April and early May, to better assess its impact on GDP growth. In Chile, we now project the economy to expand 2.4% in 2024 (compared to 2.0% in our previous projection) also due to stronger-than-expected growth in the first quarter. Exports, especially mining related, have had a strong performance so far this year, as copper output returns to growth after contracting for several years.

We lowered our 2024 growth projections for Mexico. We now forecast 2.2% growth this year (compared to 2.5% previously expected). This is mainly because of a softer-than-expected growth so far this year, as construction and manufacturing activity moderates from strong levels in 2023. The resounding electoral victory by Mexico’s incumber party, Morena, has increased concerns among investors over the future of several reforms, as well as over the path of fiscal policy, as reflected in a surge in volatility in Mexico’s exchange rate markets. For now, we assume broad policy continuity in Mexico’s fiscal, monetary, and trade policies under the incoming administration. That said, downside risks to that assumption have risen after the election.

Finally, we kept our growth projections unchanged for Argentina, Colombia, and Peru. In Argentina, the fiscal adjustment by President Milei’s administration will result in a 3.5% contraction in GDP growth this year. The decline in GDP will be more acute in the first half of 2024, before a gradual recovery starting in the second half. In Colombia, we continue to project 1.1% GDP growth this year, a moderate improvement from 0.6% in 2023. We expect investment dynamics to remain weak, due to uncertainty over several reforms proposed by President Petro, as well as over the government’s fiscal path. In Peru, after the economy contracted 0.5% in 2023, we expect growth to recover to 2.7%, helped by improvements in several sectors including fishing, mining, and construction. The overall investment profile for Peru is likely to remain subdued due to ongoing political uncertainties.

EM Europe, the Middle East, and Africa (EMEA): We increased our 2024 growth projection for Turkiye, lowered it for Saudi Arabia and South Africa, and kept it broadly unchanged for Hungary and Poland. In Turkiye, we now project 3.5% GDP growth this year (compared to 3.0% previously), after stronger-than-expected growth in Q1. Nevertheless, given the presence of the tight monetary stance and the government's commitment of not raising minimum wages this year, we expect the economy to weaken, especially in the second half of this year.

In Saudi Arabia, we now expect the economy to expand 1.5% this year (compared to 2.2% previously projected). Recent OPEC+ and government announcements with regards to oil production targets has caused us to revise oil output assumptions, with cuts now expected to stay until the end 2024. In South Africa, we now see growth of 0.9% this year (versus 1.3% previously), driven by a mild sequential contraction in GDP growth in the first quarter. Economic growth and exchange rate dynamics in the coming quarters will be influenced by political coalition negotiations.

In Hungary and Poland, Q1 GDP reports were in line with our expectations. Both economies will continue to recover from very weak growth in 2023, helped by improving growth in the eurozone. High-frequency indicators also suggest household consumption is continuing to strengthen, which we expect will be a key driver of growth this year. We project 2.3% GDP growth for Hungary and 2.9% for Poland this year.

EM Asia: No major changes to our 2024 growth in the region, with the exception of Thailand, where lower-than-expected Q1 GDP growth prompted us to lower projection to 3.5% from 3.9%. EM Asian economies are set for a moderate recovery this year on a gradual manufacturing upturn and steady domestic demand. The region saw weaker growth in 2023 as the global trade cycle softened, and we now see some bottoming out of the headwinds. We forecast growth for the region of 4.8% compared with 2023 growth of 4.4%.

Manufacturing activity is improving in the region this year as global trade and goods demand have stabilized. The region's manufacturing sectors are highly sensitive to global economic conditions. High-frequency readings, including PMIs and industrial production data, are improving. Manufacturing sector growth exceeded 2023 rates in the first quarter of 2024 in gross value added (GVA) terms.

Strength in the electronics sector will support manufacturing for the remainder of the year. Global demand for semiconductors is resilient, particularly for AI-related equipment. For now, high-income East Asian economies have seen the strongest electronics demand, but several EM Asian economies are plugged into global electronics supply chains and should gradually benefit.

Tighter monetary policy has not dampened domestic demand as much as feared. While there are still some lagged effects of tighter monetary policy in the pipeline, we now expect domestic activity to remain steady through the rest of the year. Domestic credit growth has stabilized, labor markets are still resilient, and high-frequency indicators such as retail sales and payments point to stable growth ahead.

Inflation is controlled in emerging Asia. Some economies are facing inflationary pressures arising from food prices, but core inflation is contained across the region. In addition, stable global oil and energy prices are helping to keep a lid on energy inflation. Overall, we expect inflation to ease further over the next two quarters.

Risks To Baseline Growth

A continuation and escalation of the conflict in the Middle East is a major risk to our growth outlook for EMs, due to its potential impact on shipping and energy prices. The risk of a weaker-than-expected U.S. economic growth is also an important downside risk. This would have significant negative implications for the global economy, with an outsized effect on EMs that share strong economic ties with the U.S., such as several LatAm countries. Alternatively, a stronger-than-expected U.S. economy, while a generally positive development for EMs, could in the short term increase pressure on interest rates and further strengthen the U.S. dollar (with negative implications for inflation through FX pass-through effects). Finally, the recent electoral outcomes in several EMs could take a toll on investment due to lack of policy visibility.

Financing Conditions

Steady Progress Amid Continued Uncertainty

- Corporate spreads tightening--at their lowest levels since 2007--may not be sustainable, given prevailing geopolitical risk and political uncertainty, along with higher-for-longer U.S interest rates.
- Sovereign and corporate issuance has slowed in Q2 following a strong momentum in Q1. Year-to-date market activity indicates geographical divergence, with EEMEA outpacing EM Asia.
- Refinancing has been the key reason for active primary markets, pushing out maturity walls but also increasing the relative cost of financing for EM corporations.
- Rating activity was net positive in Q2, but LatAm remains the region most at risk with respect to upcoming maturities and the outlook bias.

Primary contacts

Luca Rossi
Paris
luca.rossi
@spglobal.com
+353-1-568-0605

Patrick Drury Byrne
Dublin
patrick.drurybyrne
@spglobal.com
+33-6--2518-0958

Tight corporate spreads may not be sustainable. EM corporate spread have fallen to 188 bps (chart 5), the lowest level since July 2007, buoying bond issuance in Q2 2024. But it's questionable whether credit spreads should be this low. EM sovereign yields have increased by 35 bps since March 2024, and corporate yields have moderated only for 'B' and 'CCC' rated issuers. Borrowing costs remain elevated from an historical perspective with investment- and speculative-grade corporate yields remaining 160 bps and 30 bps higher than their 10-year averages, respectively. Furthermore, geopolitical risk, in the form of two ongoing conflicts, and political uncertainty (already a catalyst for recent exchange-rate volatility following somewhat unexpected election outcomes in South Africa, India, and Mexico, and with more elections ahead, particularly in the U.S.) create grounds for future market volatility. These risks and higher-for-longer U.S. interest rates could widen the credits spread in the medium term.

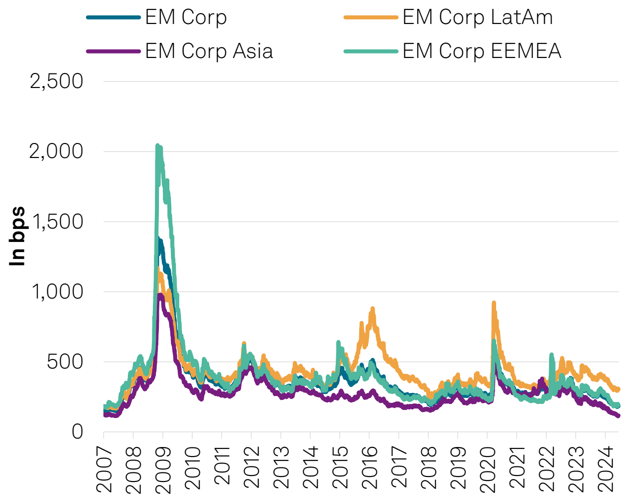
Sovereign and corporate issuance have slowed following the strong momentum of Q1 2024. Capital flows are still positive but sharply lower ($13.7 billion of net inflows in April-May versus $99 billion in January-March), mostly triggered by debt inflows, while equity posted mild outflows. It is a similar theme for corporate issuance, whose 2024 cumulative bond issuance (excluding China) is still better than for the last two years, tracking 2018-2021 levels, though falling in recent months. Issuance trends vary across geographies. As of May 2024, EEMEA has already issued 105% of its 2016-23 volume, followed by Greater China (57%), Latin America (51%), and EM Asia (36%; chart 6).

Rated maturity wall peaks in 2025 but largely among investment-grade issuers. Investment-grade corporations account for 82% of financial and nonfinancial corporate $147 billion maturities through 2025, of which over 80% are denominated in U.S. dollars. Speculative-grade maturities are set to peak in 2026, with $27 billion due to mature through within the next two years mostly among issuers in Brazil's financial sector. 2024 maturities fell by 30% in the first quarter of the year, as most of the recorded issuance covered refinancing needs (chart 7). This comes at a higher cost, however, increasing the interest burden for corporations.

Rating activity largely remains tied to sovereign dynamics. The rating action count has been net positive since April, following 18 upgrades, eight of which were triggered by the sovereign rating action on Türkiye, and 14 downgrades, six of which followed the downgrade of Peru. The pace of defaults in EMs remains relatively low: the 12-month trailing speculative grade default rate was 2% as of April 2024, compared with 4.9% for the U.S. and 4.1% for the eurozone (chart 8). LatAm remains the region most at risk from a credit perspective, responsible for all five defaults year to date (compared with eight in 2023), although three of the defaulters had already defaulted within the previous four years. The negative bias--an indicator of future negative rating trends--remains the highest in LatAm at 22%, slightly up from 21% in March, with the chemicals, packaging, and environmental services, real estate, and automotive sectors most at risk.

Chart 5

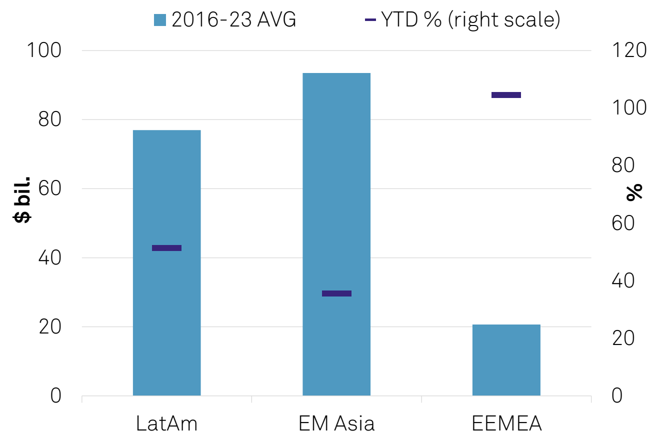
Corporate spreads at record lows (bps)



Data as of June 12, 2024. Sources: FRED and S&P Global Ratings Credit Research & Insights.

Chart 6

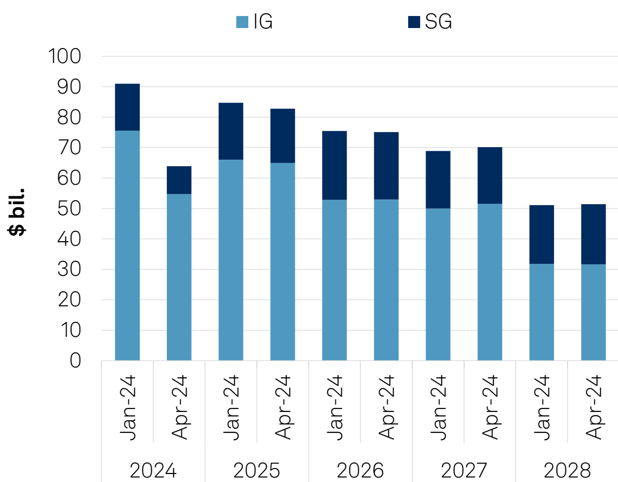
EEMEA issuance outperforming among EMs



Data as of May 31, 2024. Sources: Refinitiv and S&P Global Ratings Credit Research & Insights.

Chart 7

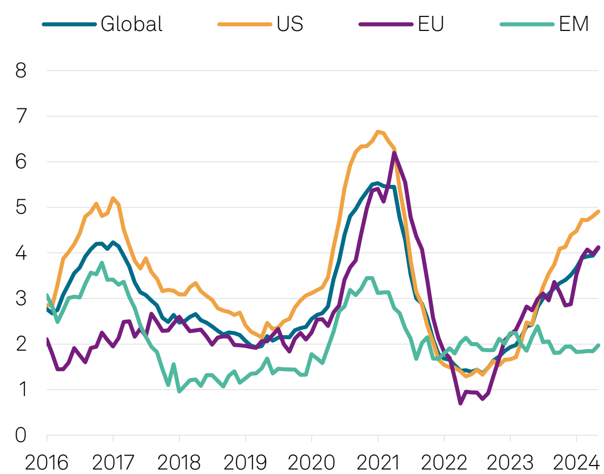
Debt outstanding dropped 30% in Q1 2024



Includes bonds, notes, loans, and revolving credit facilities rated by S&P Global Ratings that were outstanding as of April 1, 2024. Source: S&P Global Ratings Credit Research & Insights.

Chart 8

Default rate (%) lower than in the EU and U.S.



Trailing 12-month speculative-grade default rates. Includes countries beyond our EM18 classification. Data as of Apr. 30, 2024. Source: S&P Global Ratings Credit Research & Insights

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

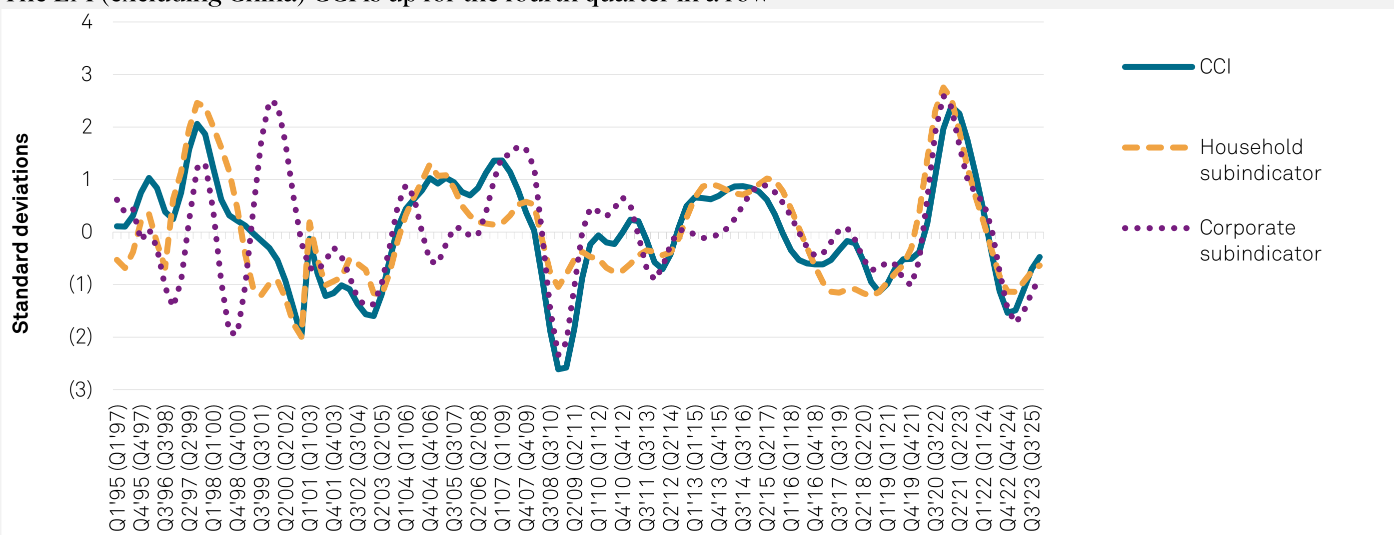
Credit Cycle Indicator

The CCI still points to a credit recovery in 2025

Our CCI for EMs (excluding China) forecasts improved household and corporate credit quality in 2025. The CCI now reads -0.5 standard deviations, after a descent to its trough of -1.5 standard deviations in the fourth quarter of 2022 (see chart 9). A potential credit recovery could take place next year. The narrowing of corporate spreads to historic lows has buoyed issuance year-to-date from a sovereign and corporate perspective. However, the drop in borrowing costs has halted over the last couple of months and remains high from an historical perspective and sensitive to geopolitical risks, election results, and the Fed's policy rate normalization, which is slowing in turn monetary easing among EM central banks. The latest data shows the indicator's trend is replicated across all EM economies, with the exception of South Africa and Turkiye, embarking on an easing trajectory. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," published on June 27, 2022.

Chart 9

The EM (excluding China) CCI is up for the fourth quarter in a row



Note: We view the CCI as a leading indicator for potential credit stress outcomes. The CCI period ends in Q4 2023. Household and corporate sub-indicators were created by taking the weights in the overall CCI and rescaling such that the sub-components' weights in the sub-indicator sum to 1. The following EMs are covered in the CCI: Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Poland, South Africa, Thailand, and Turkiye. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

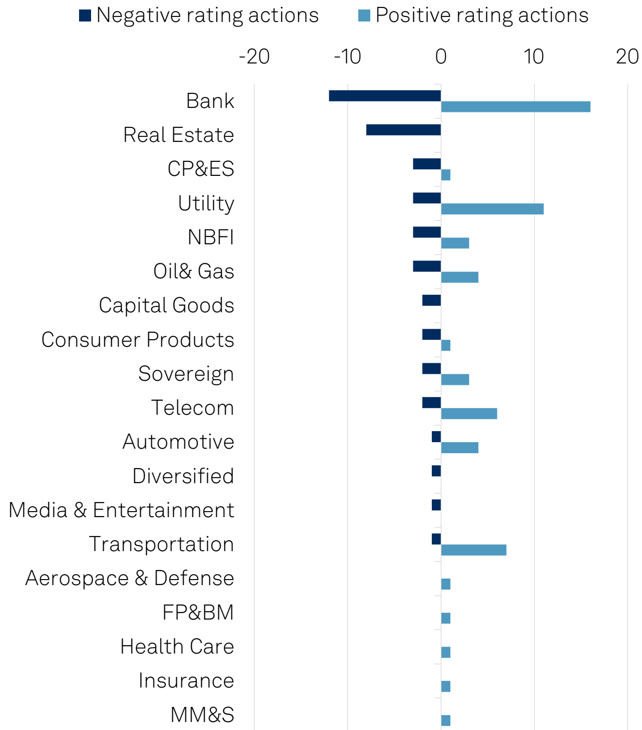
Corporations. The corporate sub-indicator hit a trough in the first quarter of 2023 at -1.7 standard deviations, and now reads -0.9 standard deviations. Corporate debt moved sideways in the fourth quarter of 2023, underpinned by the high cost of financing, while equity valuations were up strongly. Equity prices jumped across the regions, as a lower default rate than in advanced economies and a manageable debt maturity wall bolstered the credit resiliency of EM corporations. The latter, in most cases, have access to domestic financing options if the funding in hard currency become too expensive.

Households. The household sub-indicator increased to -0.6 standard deviations for the third consecutive month (-1.1 in the first quarter of 2023), increasing slower than its corporate counterpart. Household debt plateaued, while property prices rose in Chile, Mexico, India, Thailand, and Poland. The gains signal that high mortgage rates have not fully eroded demand for housing. On the other hand, property prices fell in South Africa, especially in the high-value segment, and in Turkiye because of tighter monetary policy since the second half of 2023.

Sector Trends

Chart 10

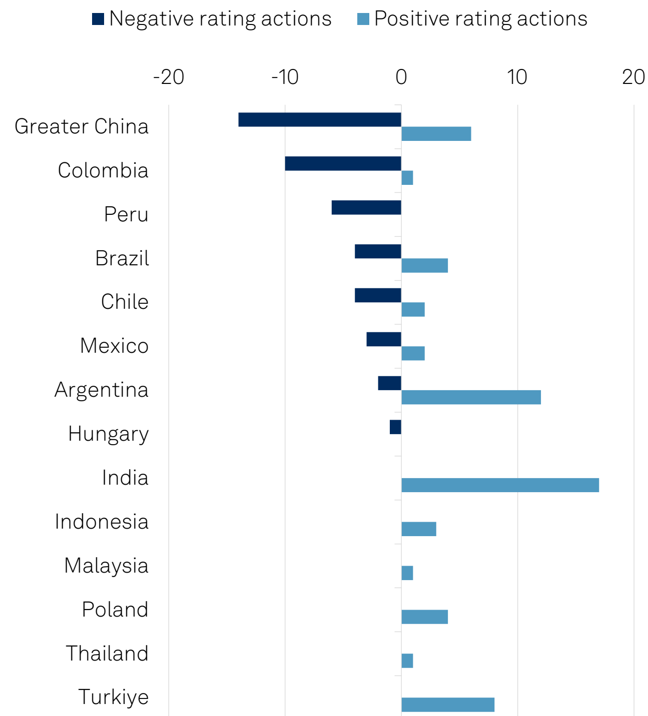
EM rating actions by sector year to date



Data as of June 14, 2024. FP&BM--forest products and building materials. CP&ES—chemicals, packaging, and environmental services. NBFI—nonbank financial institutions. MM&S—metals, mining, and steel. Sources: S&P Global Ratings Credit Research & Insights.

Chart 11

EM rating actions by country year to date



Data as of June 14, 2024. Source: S&P Global Ratings Credit Research & Insights

Sovereigns

EM Asia: Global Uncertainties Still The Factor To Monitor

Sharp increases in funding costs could weaken fiscal performance and economic growth. Higher interest payments are a negative factor for sovereign ratings, especially among highly indebted sovereigns and for which non-residents are important sources of funding. If steeper financing costs bite into economic growth, it could exacerbate the negative impact on fiscal performance.

A rebound of payments for energy imports can damage external positions of some EM Asia sovereigns. Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Additionally, such deterioration could impair investor confidence, raising financing costs further. These factors could undermine the credit quality of some sovereigns.

Key baseline assumptions for EM Asia rated sovereigns

Global economic activity and financing conditions remain soft, but not to the degree 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 slash fiscal deficits, although a return to pre-COVID fiscal performances will take longer in many cases.

Key risks for EM Asia rated sovereigns

Sudden capital swings. An unexpected deterioration of global financial stability, geopolitical risks, or expectations for high interest rates could prompt investors to withdraw from EM Asia, tightening financing conditions for some sovereigns.

Rebounding energy prices 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 energy imports for sovereigns that subsidize energy consumption. A supply shock that raises energy prices sharply could pose threats to sovereigns' external positions and fiscal performance.

EM EMEA: Increasing Challenges Ahead

Financial and economic conditions remain heterogenous. In general, more diversified middle-income EMs, such as Poland, South Africa, and Turkiye--benefiting from their deeper capital markets--have wide access to domestic and external financing at more acceptable rates. Meanwhile the majority of frontier markets (Angola, Cote D'Ivoire, Egypt, Ghana, Jordan, Kenya, Mozambique, Nigeria, Senegal, Uganda, and Ukraine) confront high external financing costs, and are front-loading fiscal and balance of payments adjustments under IMF programs.

The asset class as a whole is still grappling with the fallout from a series of global economic emergencies. The U.S. dollar remains strong, and U.S. interest rates are well above pre-pandemic levels. In frontier markets, dollar scarcity is still the norm, with Ghana and Nigeria experiencing a resurgence of currency pressure over the last few months, meaning another round of imported inflation. Deeper, more developed EM EMEA sovereigns are coping better. Nevertheless, rising geopolitical challenges and the potential for shifts in global financial markets in the aftermath of the U.S. elections will likely keep markets volatile. It is only a slight exaggeration to say that the growth outlook for the global economy rests primarily on the shoulders of the U.S. consumer. At just under $800 billion, the U.S. current account deficit—given a declining savings rate and a highly accommodative fiscal position--is benefiting economic outcomes across EMs, including in EMEA. Anything—including a more severe outburst of trade protectionism or a U.S. fiscal shock—that threatens U.S. households' high propensity to consume

Primary contacts

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

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

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

would present a challenge to still recovering EMEA economies. However, a slower U.S. economy might come with the silver lining of a more dovish Federal Reserve.

Improving Macro Fundamentals

For Egypt, Poland, South Africa, and Turkiye, elections are now behind them, and authorities are adjusting policy settings meaningfully, including considerable monetary (albeit far less fiscal) tightening. In these four economies, despite the challenges of still elevated inflation, and an assortment of structural challenges to competitiveness and growth, there are some grounds for optimism, as policymakers have liberalized exchange rates, tightened monetary policy, and taken steps to consolidate fiscal positions.

Egypt (B-/Positive/B)

With inflation receding, reserves rebuilding, the foreign currency overhang cleared, and exports excluding petroleum holding up (especially tourism), **the immediate external liquidity challenge for Egypt has abated—despite the Israel-Hamas conflict**. Indeed, by the end May, 2024, Egypt saw foreign direct investment (FDI) of $35 billion or over 10% of GDP from the UAE's purchase of a controlling stake in Ras el-Hikma, a resort development on Egypt's Mediterranean coast. This transaction included the write-off of $10 billion in short-term external debt (UAE deposits) on the central bank's balance sheet. Overall and despite the damage done to the Suez Canal earnings and hydrocarbon exports from the Israel-Hamas conflict, Egypt's balance of payments appears to have turned the corner (though Egyptian balance of payments data is released with a notably long lag; as we go to press, the last available data is the second half of 2023). What we can confirm is the recovery of net official reserves to $46 billion as of the end May 2024 from $35 billion at the end of 2023. In short, a greatly improved external position has provided the authorities with considerable breathing space to move ahead with medium-term efforts to boost potential growth, maintain primary budgetary surpluses, reduce the cost of debt, and extend maturities. Over the longer term, the key risk is that the exchange-rate regime reverts to a semi-fixed one, and external imbalances rebound. One way to hedge against this is for the government to continue to take steps to attract FDI into all sectors of Egypt's economy.

Poland (A-/Stable/A-2)

Poland's broad Civic Platform-led coalition has been in power for six months. Positively, **the economy is recovering, driven by solid export growth, buoyant consumer spending, and generous EU transfers**. Inflation, particularly services inflation, is likely to trend higher during the rest of 2024, as a tight labor market, and generous wage and pension policies punctuate very loose fiscal policy. On this score, Poland is running one of the highest primary budgetary deficits in the EU, at just under 3% of GDP, and we forecast an overall deficit of 5.1% of GDP this year (versus the 3% of GDP Treaty reference value), despite the recovery. On June 19, the European Commission said that it would recommend that the Council of the EU initiate an Excessive Deficit Procedure for Poland. Poland's stock of debt at an estimated 51% of GDP at the end of 2024, however, is well below the EU average. Moreover, for the present, Poland's accommodative fiscal policy and rapid wage growth (perpetuated by the government's decision to increase the minimum wage next year above the inflation target) has yet to translate into a worsening balance of payments position. Poland is still operating a modest current account surplus.

South Africa (BB-/Stable/B)

There are grounds for optimism that South Africa has a genuine mandate to move ahead with pro-growth reforms: To proceed with electric and port infrastructure clean-up, to consider a version of labor and wage setting reform, and to rebalance the composition of public spending away from workers' compensation and toward investment. The metrics to measure success will be whether real GDP growth can return to pre-2014 levels of 2.5% and above, will unemployment come down materially, and can the government put debt/GDP ratio on a downward path. The ANC and the DA together control over 60% of seats in the lower house of South Africa's parliament. They will have to reach consensus on reforms that labor unions and anti-capitalist parties will oppose. Given the many structural impediments in the labor and services market, progress on the passage of microeconomic reforms amid fiscal consolidation could boost confidence further. As in the past, South Africa benefits from deep local currency capital markets, a large well managed financial sector, and one of the most credible central banks among EMs.

Turkiye (B+/Positive/B)

Turkiye's very high one-week repo rate (50%) is having its intended effect on households' propensity to maintain their savings in hard currency, while drawing in portfolio inflows into the country's debt and equity markets. As of June 6, FX deposits made up 38% of the total versus 43% one year before, while FX-protected deposits have fallen to 20% in TL terms. Moreover, in March-May, portfolio inflows into Turkish equity and debt markets totaled $9.2 billion, the highest three-month rolling inflow since July 2017 (when inflation was in single digits, the one-week repo rate was at 16.5%, and Murat Çetinkaya was heading the central bank). These inflows have allowed the central bank to purchase dollars in the market; consequently, Turkiye's useable reserves (gross reserves excluding FX borrowed from residents) have increased to an estimated $85.8 billion, the highest level since before the global financial crisis. Nevertheless, one of the key drivers of the increase in reserves has been short-term external debt inflows. This means that gross reserve coverage of short-term external debt by remaining maturity is still just 62%, well below the IMF's 100% benchmark, and far below reserve coverage ratios in Hungary, Poland, and South Africa. Nonetheless, **the trends are very positive in Turkiye's external profile, including the far lower open FX position in the corporate sector.** Perhaps the biggest question will be how Turkiye's balance of payments position develops given an implicit decision to permit the real effective exchange rate to appreciate by using a stable nominal USD/TRY as a disinflationary anchor. There are many anecdotal indications that the lira is verging on overvaluation, though it is also true that tourism bookings are holding up well. The other consideration is what actions authorities will take on the minimum wage this summer and early next year. That will say a lot about the determination to bring down headline inflation from still elevated levels of 76%. **There are no elections scheduled until 2028, but disaffection with a combination of rising prices and lagging wages could undermine support for the current policy mix.**

LatAm: Deep-Rooted Fiscal And Debt Problems

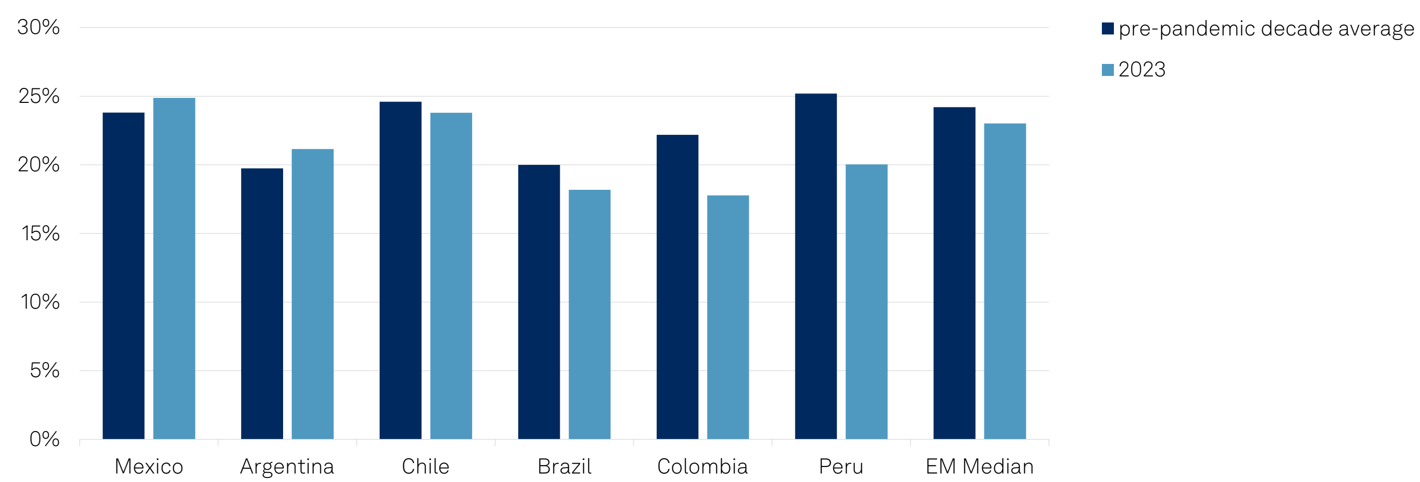
The rating outlook bias in the LatAm and Caribbean region is negative as we have five negative outlooks (including on Chile, Panama, and Colombia) and only four positive outlooks (Guatemala and the three small Caribbean islands of Aruba, Turks and Caicos, and Barbados). We have three sovereigns in the 'CCC' category (Argentina, Suriname, and Bolivia).

The region's rating trend reflects deep-rooted fiscal and debt problems and poor prospects for economic growth. Investment as a share of GDP is an important indicator of a country's long-term growth prospects, along with the efficiency of that investment. Recent data shows a worrisome drop in the investment rate in much of LatAm, comparing 2023 with the average of the pre-pandemic decade. Investment has fallen markedly in Colombia and Peru, likely due in large part to negative political developments, but it has also fallen in Chile and Brazil. Lower investment, combined with a recent spike in the general government debt burden in most of the region, augurs poorly for debt dynamics, absent corrective policies.

Chart 12

A worrisome drop in the investment rate in much of LatAm

Fixed investment % of GDP



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

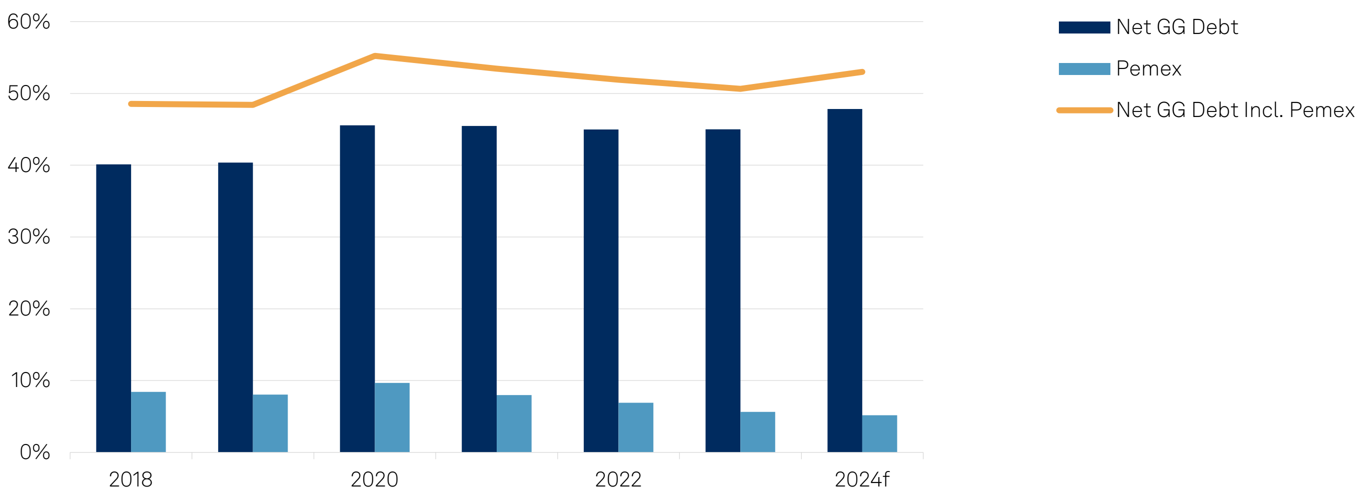
Recent elections in many countries after the shock of the pandemic have revealed increased political discontent and have typically led to a turnover in government. However, there have been two recent elections with a different outcome. The incumbent president and political party gained an overwhelming victory in elections in the Dominican Republic, heralding continuity in policies and leadership. The victory sets the stage for President Luis Abinader, from the Partido Revolucionario Moderno, to advance with announced reforms to improve the sovereign's fiscal and debt profile, potentially leading to lower fiscal deficits.

Moreover, the presidential candidate from the ruling party in Mexico, Claudia Sheinbaum, won an impressive victory. Her party, the incumbent center-left Morena party, founded by outgoing president Andres Manuel Lopez Obrador, gained near a two-thirds majority of seats in both chambers of Congress and further consolidated its control over state governments. The Sheinbaum administration faces a growing fiscal deficit and long-standing weaknesses in state-owned oil and gas company Petroleos Mexicanos (Pemex). We expect that the new administration will continue to support Pemex as have previous administrations of different political parties. However, assuming no improvement in Pemex's financial standing and continued almost certain likelihood of sovereign support, we would likely consider Pemex to pose a moderate contingent liability if the combined debt of the government and Pemex rise more pronouncedly. This would weaken our view of Mexico's fiscal profile and could pressure the sovereign rating.

Chart 13

The Sheinbaum administration faces a growing fiscal deficit and long-standing weaknesses in Pemex

Debt burden % of GDP



Source: S&P Global Ratings.

Brazil's Congress will continue to debate various fiscal laws that follow from the passage of a major consumption tax reform in 2023. Reform and simplification of Brazil's complex tax code will be gradual, but it could set the stage for better economic performance in the long term. A proposed reform of income taxes may be delayed into next year. Brazil's economy is likely to decelerate to around 2.0% in 2024 from 2.9% in 2023. Fiscal consolidation is proving to be difficult, with the central government likely to run a primary deficit of 0.6% of GDP (versus 0% targeted by the government). We expect that the net general government debt burden will climb to 69% of GDP by 2027 from 57.6% in 2023.

In Argentina, the administration of President Javier Milei continues to pursue monetary tightening and fiscal austerity, mainly by controlling spending, to stabilize the economy, while awaiting Congressional approval for its ambitious reform agenda. Inflation has declined in recent months (reaching a monthly rate of 11% in March from 25.5% in last December), and the government has been running a fiscal surplus and the exchange rate has shown more stability. But weak support from Congress for the administration's fiscal and other reforms raises uncertainty about the sustainability of Milei's economic policies. Congress is likely to approve a fiscal bill and an omnibus bill touching an array of fiscal and economic policies but will reduce their scope and impact. Milei had sought to create a common program with provincial governors by signing a 'Pacto de Mayo' in May but it has been delayed because of political disagreements.

Corporations

EM Asia: Differentiated Credit Conditions And Profit Outlook For The Second Half Of 2024

Overall credit conditions across the corporate sector in EM Asia are largely stable heading into the second half of the year, with considerable differences from country to country.

Indian firms continue to stand out thanks to robust growth, pricing power, moderate capital spending, deleveraging efforts since the pandemic, and the revision of the outlook on the sovereign rating to positive in May 2024. The positive rating bias has accentuated since the beginning of the year, with about one-third of rated firms having a positive outlook, compared with about 18% for the quarter ended March 31, 2024.

Except for the real estate sector, credit trends in China are largely stable despite a more muted profit outlook in the second half of the year. Consumer sentiment is likely to remain soft until the real estate sector has reached a bottom. Demand in export markets is softer across the board except in the technology sector. So far, recent tariffs such as those the eurozone imposed on the Chinese auto sector can be absorbed without affecting credit quality too significantly. Trade tensions between China, the eurozone, and the U.S. are likely to remain the center of our assessment for the second half of the year, especially in tariff-exposed sectors such as the technology, auto, steel, and food sectors.

The profit outlook and credit trends in Indonesia and Vietnam are modest. In Indonesia, the result of the April presidential elections has had so far very little impact on operating conditions or consumer sentiment. Our base-case scenario remains one of continuity of economic policies under the new administration. Like in China, Indonesia's consumer sentiment is likely to stay sluggish for the rest of the year given rising living costs, high interest rates, and limited near-term catalysts from the new administration.

Credit conditions in Vietnam remain mixed. More restructurings are likely in the real estate and construction sectors, which are still looking for a bottom following a sharp drop in activity and the default of high-profile developers. Meanwhile, retail sales have been picking up since January 2024, strengthening our base-case assumption of a near 6% GDP growth in 2024 after a relatively soft 2023. That would benefit mostly the consumer-related, light manufacturing, consumer products, and retailing segments.

Fund raising activity is picking up but remains mixed. Dollar-based issuances in capital markets have been steady among issuer with strong credit quality as spreads have reduced. Fund raising by speculative-grade companies is also slowly picking up, in contrast to the previous quarters where a risk-off sentiment prevailed. While some of this may be proactive fund-raising or refinancing ahead of the U.S. election in November 2024, investor sentiment toward the speculative-grade sector appears to be slightly more constructive. We haven't seen a reduction in funding despite the ongoing currency depreciation among some EM Asian economies against the U.S. dollar.

Transition-related capital spending (energy, commodities, autos) has been resuming across the corporate sector in EM Asia, most notably in Indonesia, India, Vietnam, the Philippines, and to a certain extent, Thailand. We believe this will stimulate issuances over the next few quarters, especially at large state-owned entities. Spending trends in China are different. We believe Chinese firms are likely to remain cautious under slowing growth and subdued domestic demand, and prioritize deleveraging over spending for the rest of the year.

We expect bank funding to remain selective. As in the previous quarters, we don't see an issue of liquidity, which is ample in China, India, Thailand, Indonesia, and the Philippines. But banks continue prioritizing lower-risk lending to larger private and state-owned firms with more solid financial standing or critical public policy roles, given the rise in nonperforming loans (NPLs). Lending remains uneven as well in Vietnam, though so far, we haven't observed a significant

Primary contacts

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

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

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

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

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

impact on the confidence, funding availability and cost following the failure of Saigon Commercial Bank (SCB). In our opinion, the central bank's fast actions contained the fallout and stemmed a run on the institution before it could escalate and undermine depositors' confidence in the banking sector and depress funding availability in the wider corporate sector.

EM EMEA: Diverging Trends, Intensifying Pressures

Saudi Arabia: Corporate activity remains strong with healthy earnings generation. This is thanks to the Vision 2030 related investment activity and growing consumer spending. We expect sound earnings performance across most companies as we have seen in the first quarter earnings of companies listed on the Tadawul Stock Exchange.

Real estate activity picked up at the start of 2024, and we expect the developers to continue to benefit from strong demand for properties, underpinned by residential property shortage, population growth, and home-ownership targets under the government's Vision 2030 program. We expect steady demand for housing and higher off-plan sales (before construction's been completed), amid the government's efforts to increase home ownership by Saudi nationals, and simplified ownership for foreigners, thereby boosting Saudi developers' revenue and profits. We expect listed real estate developers in Saudi Arabia to gradually diversify their funding sources, moving away from their current reliance on bank facilities, and increasingly tap into capital market funding (please see "Property Shortage And Government Push Will Fuel Growth For Saudi Developers", published on May 6, 2024).

We continue to see strong capital market activity and issuance volumes in the Kingdom year to date. We continue to expect both robust debt and equity issuance volumes over the next few years given the funding requirements to finance the key Vision 2030 projects. For example, on June 11, Saudi Arabian Oil Company (Saudi Aramco; unrated) announced that it completed a secondary market offering of its shares, raising around $11.2 billion. We expect healthy IPO activity through the remainder of the year.

Turkiye: Demand holds up so far for consumer-centric sectors, likely supported by policy actions in early 2024. Operating conditions remain broadly stable since our last publication in March despite ongoing inflationary pressures with an uptick in reported central bank figures lately. Inflation lately largely stems from increased labor costs following the 49% hike in minimum wage since early 2024. We believe this is providing at least a temporary reprieve to consumers despite ongoing tight domestic credit conditions. Domestic demand will likely remain supportive over the summer, based on current very high pre-booking levels reported by major airlines, with key sectors notably hospitality benefiting from this trend. Beyond the first half of 2024, we see potential pressures, as we believe that policy actions will determine the demand trajectory for most consumer-centric sectors. Outside these sectors, we note the reported slowdown with reported Turkish Purchasing Manager Index (PMI) level falling below 50 in recent months (49.3 in April and 48.4 in May), which likely reflects the fluid economic and geopolitical environment in the country and region.

Tighter domestic credit conditions continue to overall pressure credit metrics with median Turkish companies' EBITDA interest coverage now trending below 3x, and we expect that to continue for the remainder of 2024, given high borrowing costs. Given the largely restrictive policies by the central bank, and increasing appetite from both foreign and local investors in the domestic bond market, we anticipate bond issuances to remain a feature of non-financial corporations' funding toolkit to manage their liquidity position. Rates of new one- or two-year bonds issued domestically this year range between 43% and 48%, which is below the 52%-53% rate quoted on new Turkish lira loans by commercial banks. With regards to the impact from the inflationary accounting rules implemented by the Capital Markets Board in Turkiye in late 2023, we have so far not seen material effect on headline debt leverage levels of the rated companies. This is thanks to prudent hedging policies and a sizeable share of hard currency cash on their balance sheets.

As expected, debt issuance in international capital markets by rated Turkish corporations accelerated, as investor appetite for EM debt returns, while these entities extend maturity profiles and boost liquidity. Specifically, since our last publication in March, we saw two benchmark bond issuances of $500 million each by Ford Otomotiv Sanayi A.S. (BB/Stable) and Turk Telekom (BB-/Positive) in April and May and due in April 2029 and May 2029, respectively. Both issuances were oversubscribed with book orders of over $1.5 billion and $2.3 billion, respectively, which helped lower spreads considerably, attesting to increasing investor appetite for Turkish corporate debt. Among nonrated entities, we saw two other Turkish issuers accessing the bond market. In May, white and electronics goods manufacturer Vestel Elektronik issued $450 million (due in May 2029), while glass and chemicals manufacturer Sisecam issued $1.1 billion ($500 million due in April 2029 and $600 million due in April 2032) in new bonds. Among the rated entities, we continue to anticipate further issuances in the coming months, with a mix of opportunistic behavior and others refinancing-driven actions.

South Africa: The broad operating environment corporations has seen limited changes in recent months, with the exception of some relief from power interruptions. The country's below-trend economic growth, elevated interest rates, and anemic demand persist. Power and transportation infrastructure constraints continue to reduce efficiency and increase costs for most corporations. Geopolitical tensions and dislocations in global supply chains have raised shipping costs, taking a toll on South Africa’s bulk commodity exporters in particular.

A highlight has been the cessation of power interruptions for the past three months, which has provided some relief to corporates cost lines. A recent briefing by the new Eskom CEO, Dan Marokane, clarified that electricity supply and demand are largely balanced after a heavy maintenance schedule undertaken in summer. Another support to electricity supply is that independent power production continues to increase. According to Nersa, the power regulator, around 7,000 megawatts in new generation have been registered since 2018, with the figure continuing to climb. Rooftop solar installations have added to off-grid power generation. The upcoming cooler months could increase electricity demand and hence some power interruptions, but these are expected to be more benign than in 2023.

Transportation infrastructure (rail and port) performance seems to have stabilized. Eskom and Transnet should benefit from continued government support, which critically supports access to funding and improved maintenance.

We continue to expect fairly resilient margins and stable--to declining--leverage for domestically-focused companies and some state-owned companies. For commodity players in platinum group metals, diamonds, coal and chemicals, for example, the risks are on the downside if commodity prices and global demand do not start to recover in the second half of 2024, and cost pressures persist. Relatively low absolute debt levels and modest refinancing risk across most commodity-driven and domestically-focused companies, together with the comfortable rating headroom, are supporting most ratings for now, but persistence of poor operating conditions and volatile economic conditions and commodity prices elevates downside risks.

LatAm: Healthy Leverage Levels Support Rating Stability

Credit conditions remain stable among LatAm corporations. The net outlook bias is slightly negative (close to -7%) signaling mostly sectorial weaknesses rather than systemic issues.

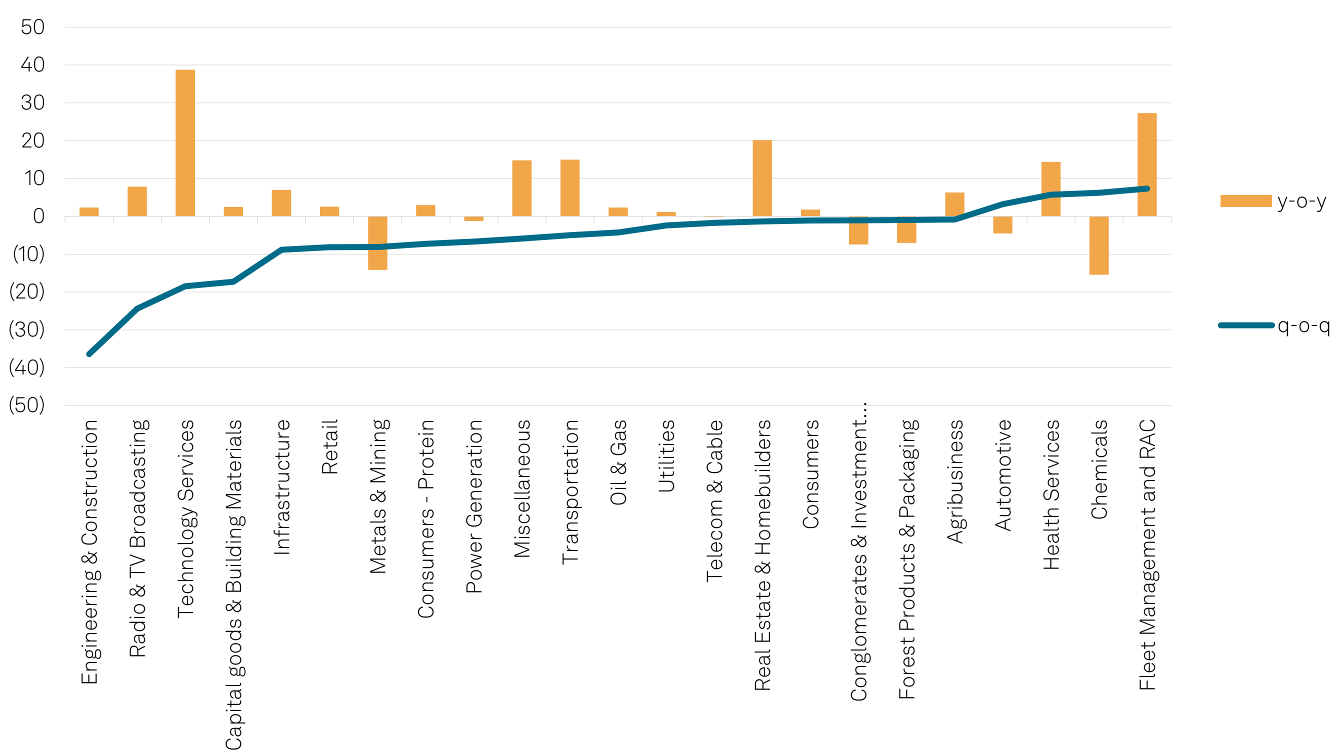
Growth across sectors was encouraging in the past 12 months ended March 31, 2024. As chart 14 shows, many sectors are showing healthy revenue levels, such as technology services, transportation, real estate and homebuilders, telecom and cable, agribusiness, health and fleet management, and rent-a-car. In contrast, a few sectors like chemical and metals and mining showed weaker trends for the same period, mostly owing to weaker prices. Some metals prices like copper recovered strongly in the second quarter 2024, so the trend should improve for that sector too.

Leverage patterns are fairly healthy, while coverage ratios are weaker. Median net debt to EBITDA ratios remained manageable with most of the sectors at or below 4x in the 12 months ended March 31, 2024. But coverage ratios are relatively weaker for those leverage levels, reflecting the still high cost of debt.

Investment has picked up, signaling better business fundamentals ahead. Capex intensity increased among sectors as chart 15 shows. Large, critical sectors such as forest products and packaging, oil and gas, utilities, metals and mining, and transportation are investing at above-historical levels. The trend has improved compared to 2023, and even though business conditions may not differ dramatically with those of last year, the expectation of more imminent interest-rate cuts is probably fostering investments.

Chart 14

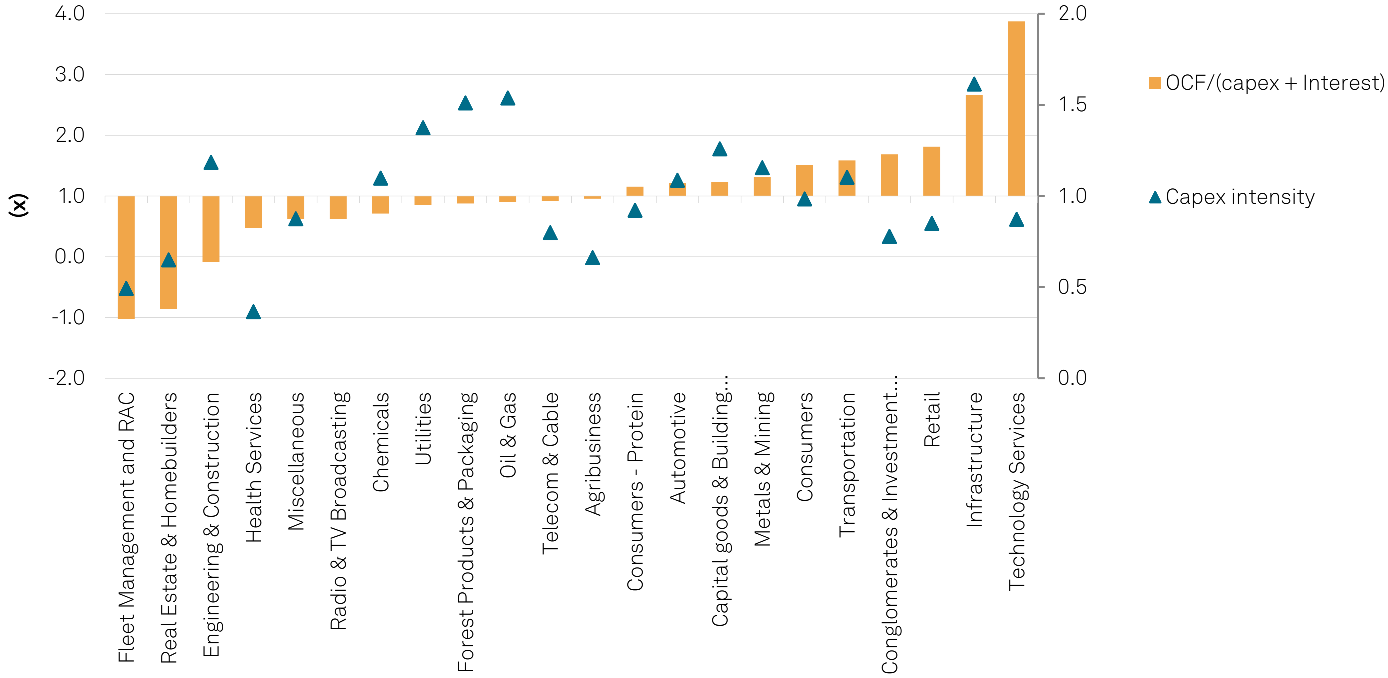
Improving revenue growth trends in 12 months ended March 2024



y-o-y--year over year. q-o-q--quarter over quarter. Source: S&P Global Ratings.

Chart 15

Operating cash generation and capex intensity



Note: Capex intensity is calculated by dividing last 12-month capex-to-assets/historic capex-to-assets. OCF--operating cash flow=net income + D&A + other noncash items + change in working capital. Source: S&P Global Ratings.

Financial Institutions

EM Asia: Shifting Regulatory Landscapes

China's support to the property sector: a double-edged sword for banks. The Chinese government is trying to revive the country's moribund property market by cutting the down payment requirement on mortgages for first-time homebuyers by five percentage points to 15% and removing floor on mortgage rates, opening the door to cutting banks' interest charges. The success of these measures hinges on bolstering homebuyer confidence, sustained policy support, and effective government coordination.

Greater demand for mortgages could strain banks primarily operating in lower-tier cities. S&P Global Ratings expects property prices to decline by about 14% in 2024 and 2025 in tier-three cities. This could exacerbate risks of negative equity for first-time homebuyers, triggering the default risk and the collateral value lower than the loans. The removal of the floor on mortgage rates will also give lenders less buffer to absorb potential losses when defaults do happen. Banks would have to incur additional costs to pursue defaulters' other assets to mitigate the losses in such cases.

Table 3

Banks exposed to tier-three cities are most exposed

Year on year change in property prices

(%)	2022	2023	2024e	2025e
Primary housing prices	-3	6	-6	-2
Tier 1			-2	0
Tier 2			-5	0
Tier 3			-9	-5
Secondary residential housing prices (70 cities)	-4	-4	-5	0
Area sold (primary housing)	-24	-18	-9	0

e--Estimated. Sources: S&P Global Ratings and National Bureau of Statistics of China.

We recently revised up our expectations on China banks' nonperforming asset (NPAs), our broader measure of loan performance. China's uneven economic recovery is hindering the improvement in asset quality. We project the sector's NPA ratio to fluctuate between 5.5% and 5.9% of total loans in 2024-2026.

We do not foresee immediate rating implications for the large banks we rate, as these banks primarily operate in tier-one and tier-two cities. However, we do believe the new measures could stress the health of banks operating in lower-tier cities, if they push hard into mortgages with a 15% down payment.

Strengthening Vietnam's banking sector: Proactive measures following the SCB fallout. The bank's collapse has laid bare systemic issues in the banking sector, revealing a concerning prevalence of corruption, fraud, and regulatory oversights. Media reports indicate that SCB's lending was largely marred by fraudulent activities, with over 90% NPLs. In response, the State Bank of Vietnam (SBV) swiftly intervened, extending US$24 billion (or 5.5.% of Vietnam's 2023 GDP) of special loans to the defunct SCB, underscoring the high level of support to maintain stability in the banking sector.

SBV's forthcoming amendments to banking laws signal a stride toward transparency and resilience. The law features wide-ranging enhancements, including early regulatory intervention in weak banks, reduced maximum shareholding of individuals and institutional entities, and a requirement to disclose all shareholders with a stake of 1% or more, along with their related

Primary contacts

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

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

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

parties. The measure should allow for better scrutiny of beneficial ownership structures to prevent any single individual from wielding unchecked control. Moreover, the phased reduction of lending limits between July 2024 and January 2029 will instill confidence, ensuring a more resilient banking system.

In Vietnam, we estimate NPLs will be roughly flat at 4%-5% of total loans in 2024.

The Reserve Bank of India's (RBI's) regulatory clampdown to improve the financial sector's growth. The RBI, India's financial system regulator, has increased risk weights on unsecured personal loans, credit cards, and lending to nonbank finance companies by 25 percentage points. The RBI's actions follow a rapid rise in unsecured personal loans and credit card debt in the last few years, including 26% growth in the 12 months ended September 2023. These actions led to higher lending rates, lowered credit growth, and increased the need for capital raising among weak lenders. S&P Global Ratings believes that higher risk weights will ultimately support asset quality by lowering excessive growth.

The RBI is also focusing on compliance, customer complaints, data privacy, governance, know-your-customer, and anti-money laundering issues. It recently restrained three medium-sized finance companies, ECL finance, IIFL Finance Ltd. and JM Financial Products Ltd., from undertaking any structured transactions in respect of their wholesale exposures, disbursing gold loans and loans against shares, respectively, and asked Paytm Payments Bank Ltd. to stop onboarding new customers. The RBI also announced on April 24, 2024, that Kotak Mahindra Bank will not be allowed to onboard new customers through online and mobile banking channels or issue new credit cards. This follows several outages of the bank's core banking systems as well as online and digital banking channels, and deficiencies identified through the RBI's IT examinations in 2022 and 2023.

The RBI has decided to publicly disclose the key issues that lead to suspensions or other strict actions against concerned entities. The RBI has also become more vocal in calling out conduct that it deems detrimental to the interests of customers and investors. It has cited perfunctory credit underwriting, overvaluation of collateral, and governance issues among some financial players. We believe that increased transparency will amplify pressure on the financial sector to enhance compliance and governance practices.

We believe such measures will curtail lenders' overexuberance, enhance compliance culture, and safeguard customers. Nevertheless, the higher risk weights and the RBI's increased focus on compliance, combined with tight liquidity, are likely to limit credit growth in fiscal 2025 (ending March 2025). We expect loan growth to decline to 13%-14% in fiscal 2025 from 16% in fiscal 2024.

EM EMEA: A Mixed Panorama

South Africa's muddling through. South Africa's structural economic issues and infrastructure gaps are undermining the country's short- and medium-term growth prospects. Coupled with tight lending conditions, we forecast that growth in credit to the private sector will remain subdued in line with nominal GDP growth at 5% in 2024. We expect banks to extend credit to the renewable energy sector because of electricity shortages. While leverage remains stable with private sector credit to GDP hovering 70%, households' disposable income will remain under pressure because of high interest rates and food prices. We expect that the banking sector's credit loss ratio will be above historical levels at 1% of total loans through 2024. Similarly, NPLs will likely remain elevated, at above 4% of systemwide loans in 2024. The performance of the commercial real estate sector will not help either as high vacancy rates pressure valuation in some city centers.

Banks' increasing exposure to the sovereign is also another factor to watch, with holdings of government securities reaching about 15% of the sector's total assets in 2023. On a positive note, major banks are less exposed to external refinancing risks, but the financial sector remains vulnerable to global investor sentiment and external financing conditions, which are tied to higher-for-longer U.S. interest rates. Also, South Africa has deep and liquid capital markets, which could prove helpful when banks start to issue additional loss-absorbing capacity debt after the finalization of regulatory calibration.

Despite the less supportive environment, we anticipate that the sector will maintain strong risk-adjusted returns of 16%, supported by net interest margins and transactional revenue. This, in turn, will support banks' internal capital generation. South African banks will continue to maintain robust capital buffers against the minimum requirements.

The Gulf Cooperation Council's (GCC) continued resilience. Despite the higher geopolitical risk, the GCC banks continued to display resilience thanks to supportive economies, particularly in Saudi Arabia and the UAE, and relatively low inflation. However, with higher-for-longer rates, we anticipate slightly slower credit growth and modestly higher credit losses. Higher rates will support profitability, though, before margins start to compress as the Fed cuts rates and most regional central banks to follow. Banks' capitalization levels is also a factor that is expected to continue supporting their creditworthiness.

Banks are predominantly funded through strong local deposit franchises in the UAE, Kuwait, and Oman. Liquidity strains could emerge in externally levered systems like that of Qatar and remain a topic of concern where domestic funding is growing at a slower pace than credit such as in Saudi Arabia, increasing the need for external funding.

Risks related to the exposure to Egypt and Turkiye are receding thanks to the progressive stabilization of these countries. The GCC banks' overall exposure to both countries remains manageable and is well reflected in their ratings.

Egypt's high imbalances. Egyptian banks' exposure to the sovereign reached about 64% of their assets as of Feb. 2024, or 9.5x the system's equity. Around two-thirds of this exposure consisted of government securities and the remainder in the form of lending. Therefore, there is a strong correlation between banks' creditworthiness and that of the sovereign.

We estimated that about 20% of assets were in foreign currency as of Feb. 2024. In our view, the depreciation of the Egyptian pound is likely to consume 300-400 bps of banks' total capital ratios, depending on their balance-sheet structure. In addition, we expect higher rates--following an 800 bps cumulative hike since January 2024--to quickly raise banks' cost of funding, as major banks have started offering high-yield certificates of deposit, which we expect to weigh on their net interest margins.

Credit losses will likely remain high over the next couple of years. Given the protracted poor economic performance, high inflation, tight monetary policy, and depreciating Egyptian pound, we expect domestic borrowers' creditworthiness will further erode over the next 12-18 months. We expect banks' credit losses to increase to about 1.8% in 2024 and 2025 and NPLs to increase to about 4% of total loans in 2025. We also do not expect a major improvement in the banking system's net external debt position, as most of the foreign currency inflows to the country are likely to be directed to the central bank's reserve.

Turkiye's unwinding imbalances. A prolonged period of monetary tightening, combined with better coordination between monetary, fiscal, and income policies, is expected to help gradually rebalance the economy. Since June 2023, the Central Bank of the Republic of Türkiye (CBRT) has adopted a host of measures to tighten credit conditions. Among them, the CBRT increased its one-week repo rate to 50% from 8.5% within just 11 months. Despite these changes, domestic consumption has remained robust, supported by frequent increases to the minimum wage and greater use of credit cards, which benefit from an interest-rate cap. We expect additional tightening of credit conditions and the continuation of policies aimed to tame inflation, which we project will remain elevated in 2024--averaging 57.2%, compared with 53.9% in 2023--before decreasing to 27.9% in 2025.

Our base-case scenario assumes economic imbalances to unwind, curbing demand for credit and slowing the economy, amid rising portfolio inflows and narrowing current account deficits. As a result, we anticipate Turkish banks will face elevated, but manageable, credit losses. We expect the Turkish lira will depreciate further to TRY40 to $1 by the end of 2025 and real estate prices to moderately contract in real terms. This would erode Turkish borrowers' disposable income and increase banks' impairment charges (net of provisions reversal) to 190 bps in 2024 from an estimated 140 bps in 2023. We also expect NPLs to rise to 2.7% of total loans by 2025 from the ultra-low level of 1.5% on April 18, 2024.

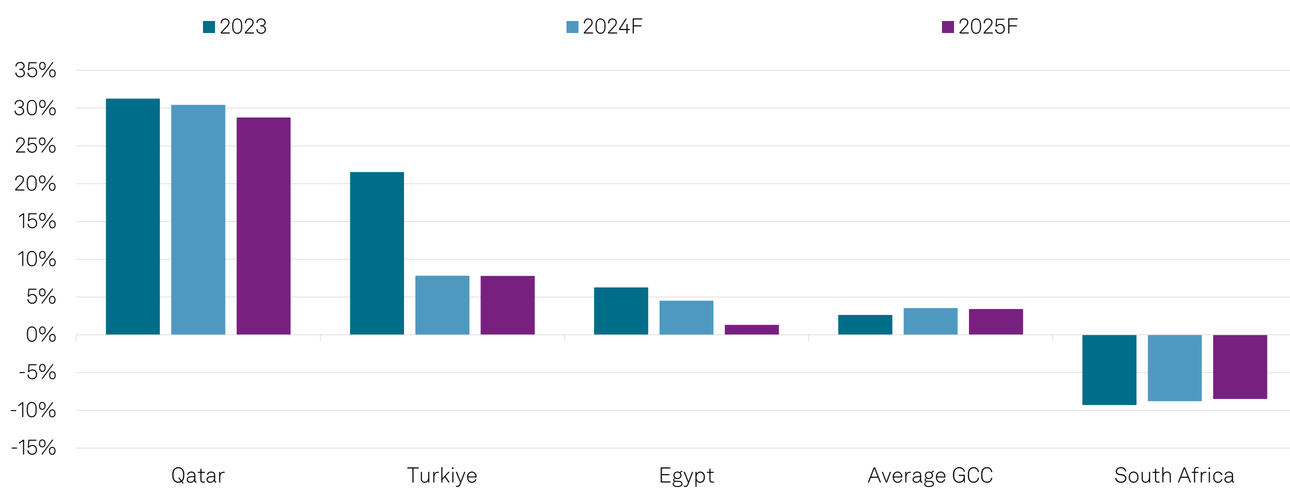
Refinancing risks for Turkish banks have somewhat stabilized, but their overall funding profiles remain fragile. Positive reaction from the market to the change in monetary policy resulted in banks' higher external debt rollover rate, which increased to over 100% and in lower costs. Assuming the authorities maintain their current approach, we expect Turkish banks to be able to refinance most of the $103.2 billion they held in short-term debt as of March 2024. Foreign currency (FC) liquidity--which we estimated at $148 billion as of March 2024--offers a cushion against any unexpected reduction in rollover rates. That said, a portion of this liquidity is held at CBRT and may not be fully accessible.

At the same time, depositors still show a preference for FC deposits. This exacerbates Turkish banks' currency mismatches and puts a strain on both the lira and CBRT's usable FC reserves. The issue was particularly evident during the run up to the March 2024 municipal elections, when we observed a slight jump in dollarization. Dollarization (including FC-protected deposits) is gradually declining, while remaining at 53% of total deposits as of May 16, 2024, down from 68% in mid-August 2023.

Chart 16

Next external debt is trending down

Net external debt % of domestic loans



F-Forecast. Source: S&P Global Ratings.

LatAm: Persistently High Interest Rates Continue To Take A Toll On Borrowers

Asset quality metrics have deteriorated across the region due to the soft economic performance, low credit growth, and pressure on the consumer and small and midsize enterprise (SME) lending segments. Interest rates have dropped in Brazil, Chile, and Peru, but they remain high, while those in other countries, such as Mexico, only dropped slightly. We expect asset quality metrics to stabilize by the end of this year and start improving in 2025 because of banks' more conservative approach towards lending--after expanding their consumer portfolios at a fast pace in 2021-2022--and as inflation and interest rates continue to fall, relieving pressure on individuals and companies' income capacity.

We expect the lending growth pace to remain at single digits. We expect a pick-up in credit demand in the corporate sector once interest rates fall to more affordable levels. But banks will likely continue to pursue conservative underwriting practices, given the tepid pace of asset quality stabilization. SMEs' credit quality is strained as internal demand remains modest, given the persistently inadequate flow of credit to these entities and high interest rates, as they typically are charged a higher cost of borrowing than that for large companies. And during periods of asset quality deterioration, the access to credit is further restricted.

Profitability will remain under pressure. Based on our expectations of subdued credit growth in 2024 and 2025, interest rates continue decreasing in 2025 and asset quality to stabilize by the end of the year, we believe profitability, in general, will remain under pressure and we expect to see a slight drop by the end of this year and to stabilize in 2025.

Appendix: Economic Data And Forecast Summaries

Table 4
Real GDP
(%)

	2022	2023	2024F	2025f	2026f	2027f
Argentina	5.0	-1.6	-3.5	3.3	2.2	2.5
Brazil	3.1	2.9	2.0	2.0	2.1	2.2
Chile	2.1	0.3	2.4	2.6	2.6	2.7
Colombia	7.3	0.6	1.1	2.8	3.0	3.1
Mexico	3.7	3.2	2.2	1.7	2.1	2.2
Peru	2.7	-0.5	2.7	3.0	3.1	3.2
China	3.0	5.2	4.8	4.6	4.6	4.4
India	7.0	8.2	6.8	6.9	7.0	7.0
Indonesia	5.3	5.0	5.0	5.0	4.9	4.9
Malaysia	8.7	3.7	4.3	4.5	4.4	4.4
Philippines	7.6	5.5	5.8	6.1	6.5	6.4
Thailand	2.6	1.9	3.4	3.3	3.2	3.1
Vietnam	8.0	5.0	5.8	6.7	6.7	6.7
Hungary	4.6	-0.7	2.3	3.1	2.9	2.5
Poland	5.5	0.2	2.9	3.3	3.0	2.8
Turkiye	5.3	4.5	3.5	2.0	3.0	3.1
Saudi Arabia	8.7	-0.9	1.5	5.4	4.3	3.6
South Africa	1.9	0.6	0.9	1.4	1.3	1.2

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

Table 5

CPI inflation

Year average (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	72.4	133.5	250.0	95.0	52.5	40.0
Brazil	9.3	4.6	4.2	3.8	3.5	3.5
Chile	11.6	7.6	3.7	3.2	3.0	3.0
Colombia	10.2	11.7	6.6	3.9	3.2	3.0
Mexico	7.9	5.5	4.6	3.7	3.2	3.0
Peru	7.9	6.3	2.3	2.3	2.1	2.0
China	2.0	0.2	0.5	1.5	1.9	2.1
India	6.7	5.4	4.5	4.6	4.6	4.1
Indonesia	4.2	3.7	2.8	3.0	3.1	3.0
Malaysia	3.4	2.5	2.8	2.6	2.5	2.4
Philippines	5.8	6.0	3.4	3.1	3.0	3.0
Thailand	6.1	1.2	1.1	1.6	1.1	1.1
Vietnam	3.2	3.3	3.8	3.2	3.3	3.4
Hungary	15.3	17.3	4.0	3.3	3.5	3.5
Poland	13.3	10.9	4.7	4.2	3.5	3.6
Turkiye	72.3	53.8	57.8	28.1	18.0	11.0
Saudi Arabia	2.5	2.5	2.1	2.0	1.8	1.8
South Africa	6.9	5.9	4.9	4.3	4.3	4.3

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

Table 6

Policy rates

End of period (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	75.00	100.00	40.00	30.00	25.00	25.00
Brazil	13.75	11.75	10.00	9.00	9.00	9.00
Chile	11.25	8.25	5.50	5.00	5.00	5.00
Colombia	12.00	13.00	9.75	7.50	7.00	7.00
Mexico	10.50	11.25	10.50	8.00	7.00	7.00
Peru	7.50	6.75	4.50	4.00	4.00	4.00
China	2.75	2.50	2.50	2.50	2.50	2.50
India	6.50	6.50	6.00	5.50	5.25	5.00
Indonesia	5.50	6.00	6.00	5.25	4.75	4.75
Malaysia	2.75	3.00	3.00	2.75	2.75	2.75
Philippines	5.50	6.50	6.25	5.00	4.00	4.00
Thailand	1.25	2.50	2.25	1.75	1.75	1.75
Hungary	13.00	10.50	6.00	3.00	3.00	3.00
Poland	7.50	5.75	5.75	4.75	3.00	3.00
Turkiye	9.00	45.00	45.00	30.00	15.00	10.00
Saudi Arabia	5.00	6.00	5.75	4.25	3.50	3.50
South Africa	7.00	8.25	7.75	6.75	6.00	6.00

Note: For China, the one-year medium-term lending facility (MLF) rate is shown. f--S&P Global Ratings forecast. Source: S&P Global Market Intelligence.

Table 7

Exchange rates versus US$

Year average

	2022	2023	2024f	2025f	2026f	2027f
Argentina	130.70	296.50	1,150.00	2,100.00	2,875.00	3,500.00
Brazil	5.16	5.00	5.10	5.18	5.23	5.25
Chile	873	840	930	935	960	975
Colombia	4,255	4,327	3,975	4,075	4,150	4,225
Mexico	20.12	17.74	17.60	18.35	18.75	19.25
Peru	3.83	3.74	3.75	3.80	3.90	4.00
China	6.70	7.10	7.20	7.10	6.90	6.80
India	80.00	82.80	83.60	84.60	85.90	87.50
Indonesia	14,853	15,237	16,018	15,938	15,925	15,975
Malaysia	4.40	4.59	4.69	4.61	4.53	4.47
Philippines	54.50	55.60	56.60	54.60	52.60	51.40
Thailand	35.10	35.10	36.80	36.90	36.70	36.40
Hungary	375.08	353.09	366.70	374.55	377.23	378.04
Poland	4.20	4.20	4.00	3.76	3.95	4.00
Turkiye	16.44	24.73	32.01	37.19	43.03	48.66
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75
South Africa	16.40	18.50	19.00	19.20	19.30	19.20

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

Table 8

Unemployment

Year average (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	6.8	6.1	9.5	8.8	8.0	7.9
Brazil	9.5	8.0	7.6	8.0	8.2	8.3
Chile	7.8	8.6	8.3	7.7	7.6	7.6
Colombia	11.2	10.2	10.7	10.4	10.0	9.9
Mexico	3.3	2.8	2.9	3.3	3.4	3.4
Peru	4.4	4.5	4.6	4.4	4.2	4.1
China	5.6	5.2	5.0	4.9	4.8	4.8
Indonesia	5.8	5.4	4.8	4.7	4.7	4.7
Malaysia	3.8	3.4	3.3	3.2	3.2	3.2
Philippines	5.4	4.4	4.2	4.0	3.9	3.8
Thailand	1.2	1.0	1.0	1.0	1.0	1.0
Hungary	3.7	4.0	3.8	3.7	3.6	3.5
Poland	3.2	2.8	2.6	2.5	2.5	2.4
Turkiye	11.2	9.8	11.0	11.1	11.2	10.5
Saudi Arabia	5.6	5.2	4.9	4.4	4.0	3.8
South Africa	33.5	32.5	31.7	31.0	30.9	30.8

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

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- Default, Transition, and Recovery: 2023 Annual Emerging And Frontier Markets Corporate Default And Rating Transition Study, May 28, 2024
- Credit Trends: Risky Credits: External Risks Overshadow Positive Developments In Emerging Markets, May 2, 2024

EMs are countries that have been, or are, transitioning toward middle income levels, with good access to global capital markets (including the sovereign, domestic corporations, and financial institutions), evolving domestic capital markets, and global economic relevance considering their economic size, population, and share in global trade.

S&P Global Ratings focuses on 18 key EMs, considering their size, market relevance, and where we can provide an opinion about sovereign, corporate, and bank ratings. These countries are Argentina, Brazil, Chile, Colombia, Mexico, and Peru in LatAm; Hungary, Poland, Saudi Arabia, South Africa, and Turkiye in EMEA; and China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam in Asia.

EM63 include: Angola, Argentina, Armenia, Azerbaijan, Barbados, Belize, Benin, Bolivia, Bosnia, Brazil, Bulgaria, Chile, China, Colombia, Congo, D.R., Costa Rica, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Georgia, Ghana, Guatemala, Honduras, Hungary, India, Indonesia, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lebanon, Lithuania, Malaysia, Mauritius, Mexico, Mongolia, Montenegro, Morocco, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Saudi Arabia, Slovakia, South Africa, Sri Lanka, Tajikistan, Thailand, Trinidad and Tobago, Turkiye, Uruguay, Uzbekistan, and Vietnam.