S&P Global Ratings

Credit Conditions Emerging Markets Q4 2024

Risks Loom Amid A Fragile Stability

September 25, 2024

This report does not constitute a rating action

Key Takeaways

Credit conditions will likely remain supportive for emerging markets (EM) issuers as long as a soft landing continues in the U.S. The Federal Reserve's interest rate cuts and the prospects for quicker monetary easing down the road will likely lead to continued improvement in financing conditions for EMs. Moreover, a moderate slowdown in the U.S. economy should support global trade volumes.

Nevertheless, several evolving trends could derail the favorable conditions. Increasing protectionism could disrupt global trade and interrupt monetary easing as inflationary pressures resume. Chinese economic growth could slow further upon continued real estate weakness and growing trade tensions. The Middle East conflict has escalated to a dangerous phase that could further disrupt supply chains and weigh on energy prices.

In our baseline, EM rated issuers should benefit from ongoing favorable financing conditions and economic activity, despite the expected slowdown. Overall, we expect rating activity to remain in positive territory and the default rate to fall.

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 September 19, 2024.

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Top EM Risks

A deepening property crisis, weak confidence, high debt levels, and trade tensions slow economic growth for China

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

China's property crisis remains in search of a bottom, despite authorities' efforts to stabilize the sector. Demand for new estates and home prices continue to fall. Weaker home values are denting household balance sheets, reducing individuals' propensity to consume. The risk of protracted declines in confidence could compound into much slower demand, intensifying recessionary obstacles and sparking fears of persistent deflation. For businesses, weak demand and overproduction will depress prices, straining margins and cash flows. These drags will result in pullback of future capital expenditure (capex), denting prospective growth. Meanwhile, intensifying West-imposed trade tariffs on China's exports could constrain the country's manufacturing growth engine. China's sluggish economic growth could spill over to the region's economies and EMs reliant on China for tourism, exports, and finance.

Geopolitical tensions and difficult sociopolitical conditions erode credit fundamentals

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

Global geopolitical conditions remain very complex. The Israel-Hamas and Russia-Ukraine conflicts will likely linger into 2025, causing disruption in supply chains and the production of important commodities. For the conflict in the Middle East, the key risk remains it escalating further and spreading more widely in the region with significant repercussions that could extend globally. On the other hand, EM politicians continue battling to meet increasing demands from the population, while keeping a balanced budget on limited capacity to raise taxes. Recent policy choices across many EM economies have raised investors' concerns about policy paths. Policy predictability is a key factor to support investment and growth; therefore, a key factor is how these new and ruling administrations are able to deal with growing fiscal challenges, while trying to meet mounting social demands.

Higher interest rates linger upon a sudden stop of monetary easing in the U.S.

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

Following the latest Fed interest rate cut and expected further monetary easing in the U.S. and other advanced economies, EMs central banks will have room to continue with monetary easing or begin cutting their policy rates (with some exceptions). These conditions should support financing conditions over the coming quarters, if the soft landing in the U.S. economy continues. Falling inflation and policy rates, along with anchored expectations for the medium term, should help bring down borrowing costs for EM issuers. Furthermore, if the U.S. economic slowdown is moderate and an EU economic recovery materializes, we could expect a strong appetite for EM debt. Although there is compelling evidence for this positive scenario to materialize, we expect episodes of heightened market volatility over the coming quarters as investors have become highly sensitive to U.S. economic data surprises. Furthermore, resuming inflationary pressures in the U.S.--triggered by added fiscal stimulus or increasing protectionist measures--could halt the Fed's monetary easing, which could quickly lead to worsening financing conditions.

Increasing protectionism disrupts global trade

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

Protectionist measures, which have been increasing since 2017, accelerated over the past few quarters as advanced economies strive to protect key domestic industries. Such measures will likely have unintended consequences that could be detrimental for global trade, but also for many emerging economies. Increasing tariffs on China could be disruptive for many key industries across EMs. While Chinese exports to advanced economies wane, considering increasing tariffs, China is expanding its global footprint, increasing its share of exports to EM trading partners. Domestically this could squeeze profit margins for companies competing against cheaper Chinese imports. A significant increase in tariffs on Chinese imports could undermine growth while boosting inflationary pressures in the U.S. In the medium term, the drive to reshore or relocate business operations may result in additional costs and operational challenges, hurting local economies, employees, and suppliers.

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 countries have managed their economies toward a soft landing so far, mainly through sizable fiscal stimulus, which has supported labor markets. Recession risks could rise again if, for example, ongoing conflicts escalate, undermining business confidence, further disrupting supply chains, and 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 high inflation.

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

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

Lingering disruptive actions by the Houthis in the Red Sea are now compounding with shipping issues such as port congestion, strikes, and container shortages. Such disruptions continue to hit shipping costs, which remain well above historical levels. 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 rising shipping costs will pass to corporate costs or goods prices increases while container lines gain pricing power. Increasing shipping costs could add to strains stemming from tight labor markets. Furthermore, the recent conflict escalation could result in other involved groups, such as Hezbollah, targeting the Strait of Hormuz to exert pressure over 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 fuel and shipping costs, 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 has taken its toll during the past quarters through droughts and severe floods across many key EMs. This year, El Niño is expected to fade, likely leading the way to La Niña, which could be favorable for some regions hit by El Niño because 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

A Soft Landing Will Support The Credit Landscape

Credit conditions will likely remain supportive for EM issuers as long as a soft landing continues in the U.S. The Federal Reserve's interest rate cuts and the prospects for quicker monetary easing down the road will likely lead to continued improvement in financing conditions for EMs--as we have seen this year. Moreover, a moderate slowdown in the U.S. economy should also help to keep global trade volumes at favorable levels. If recession in advanced economies is averted, lower oil prices should also be conducive for most EMs, as fuel prices fall along with inflationary pressures.

Together, these factors should give room for most EM central banks to continue cutting interest rates (see chart 1), which, along with anchored expectations for lower inflation, should bring down borrowing costs for EM issuers. One notable exception is Brazil, where observed and expected inflation has risen in the last few months, boosted by stronger-than-expected demand and uncertainty over the government's fiscal trajectory. The latter has led Brazil's central bank to hike its policy rate by 25 basis points (bps) in September, and more hikes are expected.

Chart 1

Fed cuts clear the path for more easing in EMs

Market-implied policy rate change in the next 12 months (bps)

Sources: Haver Analytics and S&P Global Ratings.

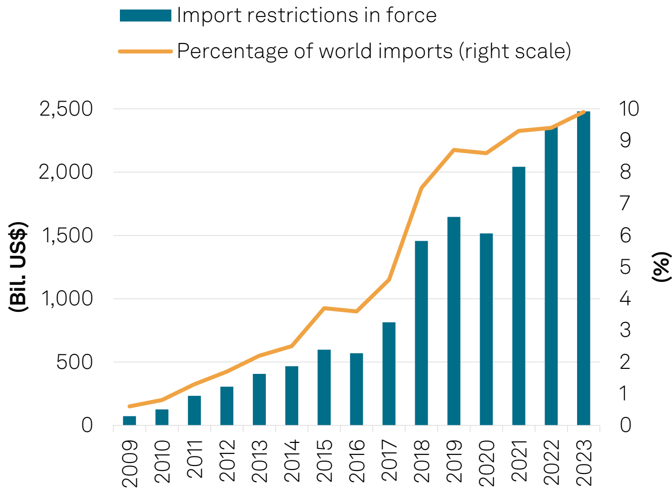
Rising Protectionism On The Horizon

U.S. and China trade tensions continue worsening, and we expect more protectionist measures over the coming months, regardless of the outcome of U.S. elections. Increasing U.S. tariffs on Chinese imports are already resulting in a falling share of imports to the U.S. (see chart 2). However, Chinese exports remain strong, which means they have diversified their exports destinations.

At the same time, other advanced economies, including Canada and the EU, had imposed tariffs to protect key domestic industries, especially carmakers. The magnitude and scope of new tariffs imposed on China will be critical to measure the potential impacts in both the U.S. and China. For example, a large increase in U.S. tariffs on all Chinese imports could have a meaningful impact on its economic growth, while boosting inflationary pressures in the U.S. Together, these factors could mean slower global growth and lingering high interest rates, both detrimental for emerging economies.

Chart 2

Protectionist measures have been increasing since 2017



Source: WTO end-of-year trade monitoring report 2023.

Chart 3

Chinese exports remain strong despite tariffs

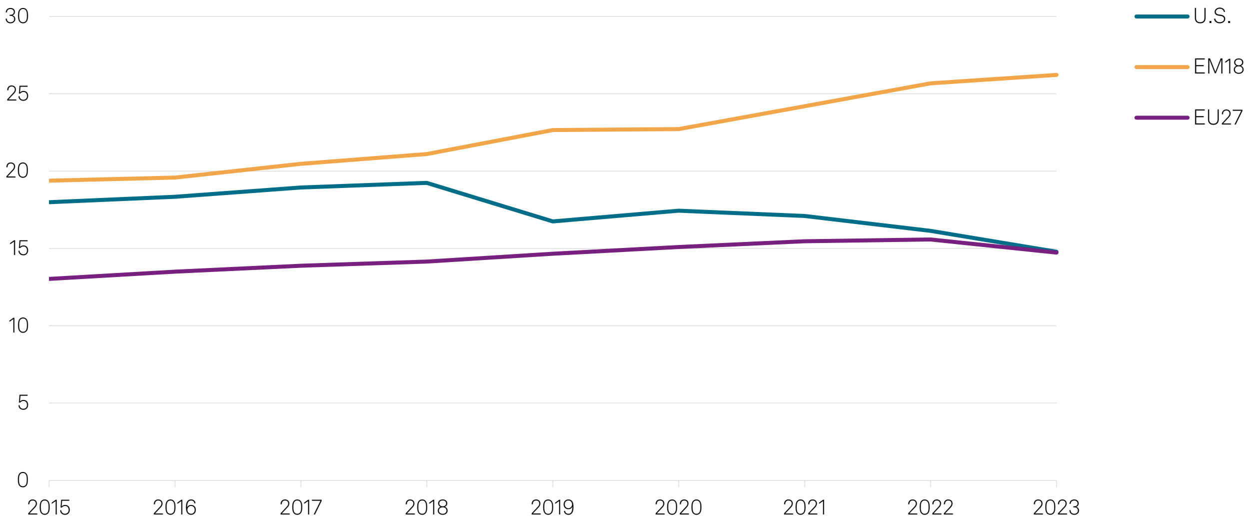
Sources: S&P Global Market Intelligence and World Bank.

In a scenario where the U.S. increases its tariffs on Chinese imports, we could expect China to take retaliatory measures, but also to continue diversifying its export destinations, as it has done since 2017 (see chart 4). In this regard, many EM corporate entities that are already struggling to compete with their Chinese peers could continue to face strained margins and lay off workers.

Chart 4

Chinese exports to key EMs have been increasing since 2017

Chinese key export destinations (% of total exports)



Source: S&P Global Market Intelligence.

A Slower Chinese Economy Could Spell Trouble For EMs

The Chinese economy continues showing the drag from its real estate sector, which, along with weak consumer confidence and spending, indicates bleak recovery prospects. Furthermore, the combination of soft consumption and robust manufacturing investment has led to excess capacity in several goods markets, which is increasing structural deflation risk.

Chinese economic growth is now mostly supported by it exports, which so far remain strong, despite imposed tariffs from advanced economies. An increase in the number of export destinations has somewhat stemmed the pressure from tariffs. Chinese authorities still have room and available tools to stimulate the economy, especially consumption and the services sector, though this might come with additional leverage that authorities are trying to prevent. Other structural challenges are also increasing for China, such as an aging population, lingering high leverage in many sectors, and a slow rebalancing from manufacturing to the services sector.

Increasing tariffs threaten to derail Chinese exports, which could hit China's GDP growth meaningfully. A slower Chinese economy is bad news for many EMs (see table 2), which have this country as a key destination for their exports. The potential impact will vary significantly depending on the degree of dependance on the Chinese economy; while some countries export a large amount of goods to China, these might be intermediate goods that do not necessarily depend on the Chinese economy. On the other hand, many emerging economies that have limited links to China or are driven by sound domestic demand will likely be resilient.

Table 2

A slower Chinese economy could spill over to many key EMs

2023 exports to China by type (% of GDP)

	Energy	Materials	Industrial goods	Consumer goods	Information technology	Other	Total
Malaysia	11.4%	3.2%	2.0%	1.2%	7.9%	0.1%	25.7%
Vietnam	0.0%	1.7%	2.6%	3.8%	12.0%	1.6%	21.6%
Chile	0.0%	11.4%	0.0%	1.4%	0.0%	0.0%	12.8%
Thailand	0.1%	2.8%	1.9%	3.3%	1.8%	0.1%	9.9%
Peru	0.1%	8.8%	0.0%	0.8%	0.0%	0.0%	9.6%
South Africa	0.1%	7.9%	0.0%	0.5%	0.0%	0.0%	8.4%
Saudi Arabia	5.1%	0.9%	0.0%	0.0%	0.0%	0.0%	6.0%
Brazil	1.1%	1.8%	0.0%	2.7%	0.0%	0.0%	5.6%
Indonesia	1.6%	2.8%	0.1%	0.9%	0.0%	0.0%	5.4%
Philippines	0.1%	1.0%	1.0%	0.4%	2.0%	0.0%	4.5%
Hungary	0.0%	0.1%	0.8%	0.6%	0.6%	0.1%	2.2%
Colombia	1.5%	0.2%	0.0%	0.0%	0.0%	0.0%	1.8%
Mexico	0.1%	0.3%	0.1%	0.2%	0.2%	0.1%	1.1%
Argentina	0.0%	0.1%	0.0%	0.9%	0.0%	0.0%	1.0%
Poland	0.0%	0.2%	0.2%	0.2%	0.0%	0.0%	0.6%
India	0.0%	0.3%	0.1%	0.2%	0.0%	0.0%	0.5%
Turkiye	0.0%	0.3%	0.0%	0.1%	0.0%	0.0%	0.4%

Source: S&P Global Market Intelligence.

A Dangerous Escalation Of The Israel-Hamas War

The Israel-Hamas war has dangerously escalated through recent attacks against Hezbollah key officials and facilities. Israel has also targeted key facilities in Lebanon, in an effort to secure its northern border and provide safe return to a large number of Israel residents who had been displaced over the past weeks. This new offensive by Israel could risk further involvement of Iran in the conflict. Iran has a much more sophisticated and powerful army, which could make a regional conflict more dangerous and disruptive.

From a credit perspective, we continue to monitor key transmission channels exposed to the conflict that would affect credit conditions. These include energy prices, supply-chain disruptions, financial market volatility, and resumption of inflationary pressures, all of which could worsen if the conflict reaches a tipping point. These factors could weigh on major central banks' monetary easing calculations, especially if financing conditions tighten. The ongoing decline in oil prices could halt, and prices could start rising, which would be particularly harmful for net energy importers.

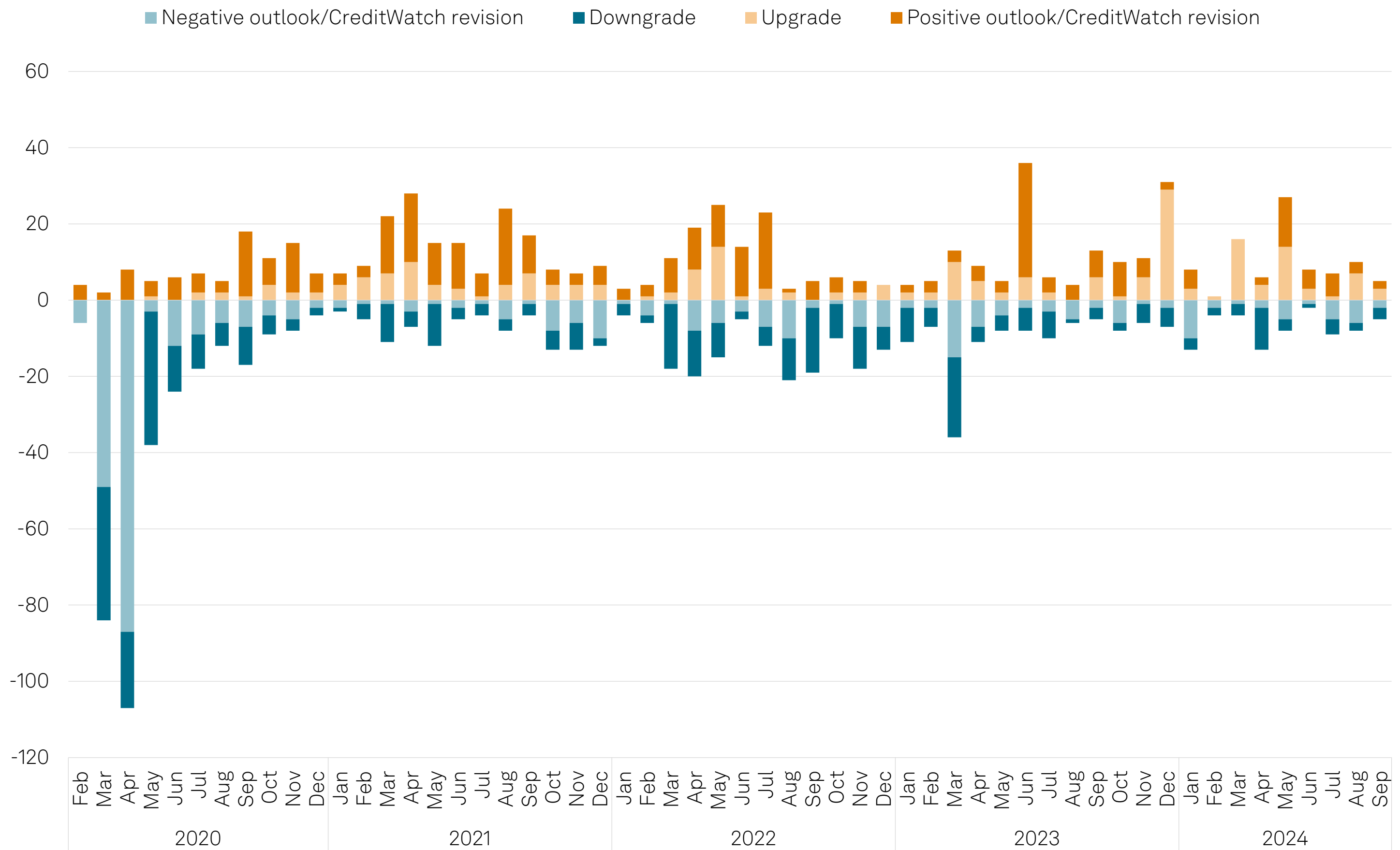
Rating Trends Will Likely Remain In Positive Territory

Improving financing conditions have been the key driver for net positive rating activity across key EMs over the past quarter. We expect this trend to continue as long as benchmark interest rates fall, inflation expectations remain anchored, and the U.S. economy continues its soft landing.

Chart 5

Rating activity has stabilized and is leaning positive

Number of rating actions in key EMs



Data as of Sep. 15, 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

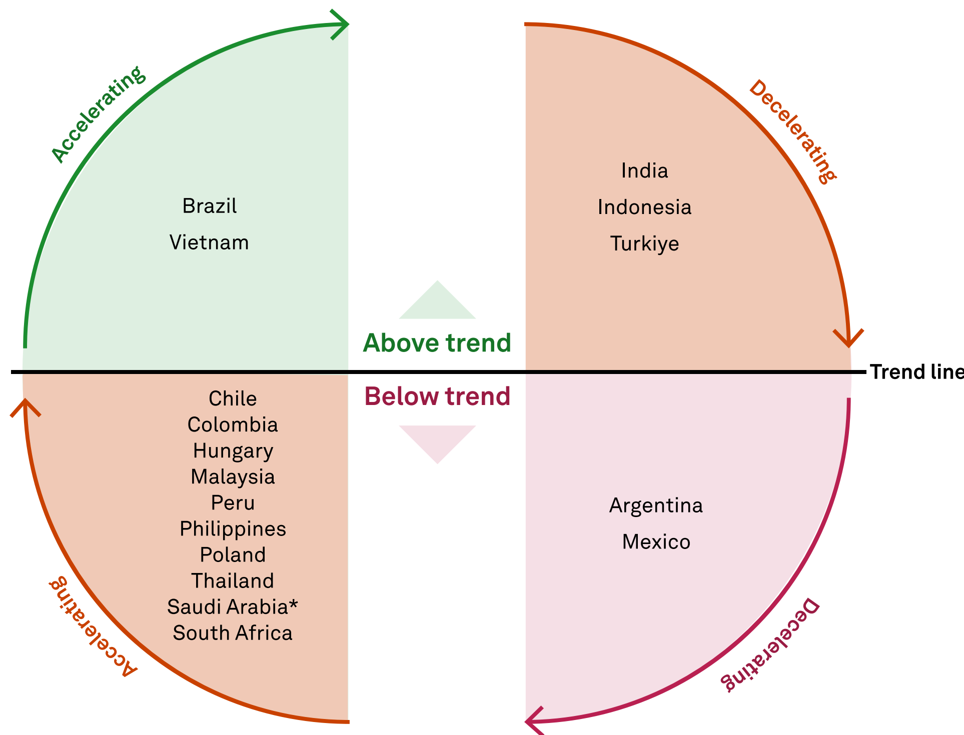
Lower Interest Rates Help, But Some Risks Are Rising

- Monetary policy normalization by the Fed, as long as it is accompanied by only a gradual softening of the U.S. economy, is a positive development for EMs with strong economic fundamentals, such as those in Southeast Asia.
- In several major EMs, particularly in Latin America, uncertainty surrounding the trajectory of an array of policies could increase risk premiums, which could reduce the capital flows to those economies versus what EMs typically attract during Fed easing cycles.
- The implications of the U.S. election on trade and fiscal policy, a more rapid-than-expected slowdown in the U.S., ongoing economic weakness in China, and persistent uncertainty over domestic policies in several EMs are key downside risks for our growth outlook.

(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 remains broadly unchanged since the previous quarter for most EM economies, though several downside risks have risen. Most of these rising risks stem from the uncertainty of domestic policies on economic growth, notably in Mexico. The start, and expected continuation, of interest rate reductions by the Fed is a positive development for EMs with strong growth fundamentals because they could attract greater capital flows. Considering all of these factors, we expect significant growth divergence across EMs in the coming quarters, although most of those in our sample (which includes 18 of the largest EMs) will see faster growth in 2025 than in 2024, according to our projections.

Current economic cycles in emerging markets



Note: We use an Hodrick-Prescott filter on seasonally-adjusted GDP levels to define above/below trend, and the average of the latest two quarters compared to the average of the previous two quarters to define accelerating/decelerating.
*Saudi Arabia's non-oil GDP is above-trend and accelerating. Sources: Haver Analytics and S&P Global Ratings.

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Table 3

2025 GDP forecast versus 2024

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

Source: S&P Global Ratings economists.

Lower interest rates in the U.S. will be positive especially for Southeast Asian EMs, which have strong growth fundamentals. Those EMs are well positioned to attract capital flows, anchoring external accounts and helping their central banks to lower their own benchmark interest rates to support domestic demand. For most Southeast Asian EM central banks, this will mark the beginning of their monetary policy normalization cycles.

However, lower U.S. interest rates alone will not increase capital flows to all EMs. The evolution of the U.S. economy will also be an important determinant of capital flows. If the U.S. economy slows more than expected, EMs with strong trade ties to the U.S., such as most of Latin America, would also see their own growth rates weaken, potentially discouraging capital flows despite lower interest rates. Furthermore, uncertainty over fiscal, economic, and institutional policies in several EMs, such as Brazil, Mexico, Colombia, Turkiye, and South Africa, could discourage capital flows, even if interest rate differentials with the U.S. move in their favor.

The recent decline in oil prices, if sustained, will be a net positive for most EMs. The price of Brent crude oil dropped below $75/barrel (bbl) in early September, compared with an average of nearly $85/bbl in the year through August. Most of the major EMs are net importers of energy, and therefore lower oil prices will help improve both their external accounts and inflation dynamics. The potential escalation of the conflict in the Middle East, however, could send oil prices back up in the coming months.

An upturn in electronics manufacturing continues to benefit several EMs in Asia. Economies more integrated into the global electronics sector, particularly Malaysia and Vietnam, are seeing positive economic effects from electronics exports as well as electronics-related foreign direct investment. The sector can be cyclical, however, and momentum may swing if global demand weakens.

Forecast Update

Our 2024 real GDP growth forecast for EMs 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 level. We made the largest upward revisions to Brazil (+80 bps), Malaysia (+80 bps), Colombia (+60 bps), and Vietnam (+40 bps), in most cases because of stronger-than-expected GDP in the second quarter and, in some cases, upward revisions to first-quarter GDP.

We lowered our growth projections the most for Mexico (-60 bps), Thailand (-60 bps), Hungary (-50 bps), and Turkiye (-40 bps). In Mexico's case, the revision was due to weaker-than-expected growth in the first half of the year and the initial negative impact on private-sector confidence of a series of reforms. In Thailand, fiscal spending has been weaker than we expected. In Turkiye, the economy is decelerating slightly faster than we expected, in part owing to a very large drag from inventories during the second quarter. Finally, in Hungary, the impact of a drought on agricultural production, combined with ongoing weakness in manufacturing activity, underpins our downward adjustment to GDP growth.

For 2025, our GDP growth projection for EMs excluding China remains unchanged at 4.3%, with marginal adjustments to growth for most countries.

Table 4

Summary of GDP growth forecasts

	2021	2022	2023	2024f	2025f	2026f	2027f
Argentina	10.4	5.3	-1.6	-3.5	3.3	2.2	2.5
Brazil	5.1	3.1	2.9	2.8	1.8	2.1	2.2
Chile	11.6	2.1	0.3	2.4	2.2	2.5	2.5
Colombia	10.8	7.3	0.6	1.7	2.5	2.8	2.9
Mexico	6.3	3.7	3.2	1.6	1.5	2.2	2.2
Peru	13.6	2.7	-0.5	2.7	2.7	2.9	3.0
China	8.5	3.0	5.2	4.6	4.3	4.5	4.5
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	8.9	3.5	5.1	4.8	4.5	4.4
Philippines	5.7	7.6	5.5	5.7	6.2	6.4	6.5
Thailand	1.5	2.6	1.9	2.8	3.1	3.0	3.1
Vietnam	2.6	8.0	5.0	6.2	6.8	6.7	6.6
Hungary	7.2	4.6	-0.7	1.8	3.0	2.7	2.5
Poland	6.8	5.5	0.2	3.0	3.4	2.9	2.8
Turkiye	11.8	5.3	4.5	3.1	2.3	2.9	3.0
Saudi Arabia	3.9	8.7	-0.9	1.4	5.3	4.0	3.6
South Africa	4.7	1.9	0.6	0.9	1.5	1.3	1.3
EM-18	7.7	4.5	4.6	4.2	4.3	4.4	4.4
EM-17 (excludes China)	7.2	5.6	4.2	3.9	4.3	4.3	4.3
LatAm	7.5	3.9	1.8	1.4	2.1	2.3	2.4
EM Asia	3.4	6.0	4.4	4.9	5.0	4.9	4.9
EM EMEA	8.2	5.7	1.9	2.4	3.1	3.0	2.9

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

Regional Summaries

Latin America (LatAm)

Our 2024 real GDP growth for the region increased by 20 basis points (bps) to 1.4% (or 2.3% excluding Argentina). However, we reduced our 2025 GDP projection by the same magnitude to 2.1% (or 1.8% excluding Argentina). The main changes to our country-specific GDP forecasts are for Brazil, Colombia, and Mexico.

In Brazil's case, growth was significantly stronger than what we expected in the second quarter (up 1.4% quarter over quarter), and the first quarter was revised up (to 1.0%). Some of the growth continues to be driven by fiscal stimulus, which is keeping household consumption high. This has kept a positive output gap by our estimates of about 1.5% of GDP, increasing inflation expectations and prompting the Brazilian central bank to restart interest rate hikes on Sept. 18. We expect interest rates to continue to rise into early 2025, until inflation expectations start to head back toward the central bank's 3% target. We now project GDP growth of 2.8% in 2024 and 1.8% in 2025.

In Mexico, the shift from above-trend to below-trend growth happened earlier than we previously expected (in the first half of 2024 rather than the second half) because of softer manufacturing and services sector activity. There is greater uncertainty about the potential impact of a series of policies, including judicial reform, on private fixed investment. There is also uncertainty about fiscal policy as we await the 2025 budget approval process, energy policy, and the impact of the U.S. election outcome on investor confidence in Mexico.

Until these issues are resolved, the uncertainty is likely to temper private fixed investment, at least in the short term. As a result, and combined with the weaker-than-expected GDP data, we lowered our growth projections to 1.6% in 2024 and 1.5% in 2025.

In Colombia, we increased our 2024 GDP growth projection to 1.7% (from 1.1%), but lowered it for 2025 to 2.5% (from 2.8%). The main reason for our upward revision for growth this year was stronger-than-expected consumption and net exports. While investment is starting to slowly recover, we expect it to remain relatively weak in the coming quarters owing to uncertainty about several reforms proposed by President Petro and about the government's fiscal path. Growth in Colombia is likely to remain relatively weak until investment recovers more markedly.

In Argentina, Chile, and Peru, we kept our 2024 growth forecasts unchanged. In Argentina, the fiscal adjustment that President Javier Milei's administration is implementing 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 and into 2025, when we project 3.3% growth.

In Chile, we kept our forecast of 2.4% growth for 2024, driven by a moderate recovery in consumption and exports. However, we anticipate weaker fixed investment, especially in non-mining sectors, which underpins our expectation for GDP to moderate to 2.2% in 2025.

In Peru, we continue to expect a recovery of 2.7% in 2024, primarily fueled by improvements in the fishing, agriculture, and construction sectors. However, private investment is likely to remain subdued due to ongoing political uncertainty, keeping projected growth at 2.7% in 2025.

EM Europe, the Middle East, and Africa (EMEA)

We lowered our 2024 growth projections for Hungary and Turkiye, and kept them broadly unchanged for Poland, Saudi Arabia, and South Africa (10 bps or less in forecast adjustments). In Turkiye, the second-quarter GDP reading confirmed growth is weakening, with fixed investment having the largest drag on GDP, in part because of high interest rates. Wage increases in the first quarter are helping household consumption stay strong, but we expect this effect to dissipate in the third quarter and likely drive a contraction in GDP. As a result, we now project 3.1% GDP growth this year (compared with 3.5% previously) and 2.3% in 2025.

In Hungary, we now project 1.8% GDP growth in 2024 (down from 2.3%) due to weaker-than-expected GDP in the second quarter. Exports and investment dropped more than we envisioned. A drought took a toll on agricultural exports, which we expect to be a one-off effect. Public investment weakened because of fiscal consolidation efforts, and private investment fell due to persistent weakness in Germany's manufacturing sector, which has strong supply chain ties to Hungary's. Household consumption is improving, and we expect a more noticeable recovery in 2025, when we project 3.0% growth.

In Poland, second-quarter GDP was in line with expectations, accelerating from the first quarter. We project 3.0% GDP growth in 2024 and 3.4% in 2025, following 0.2% in 2023. In Saudi Arabia, non-oil economic activity has advanced as expected, and we project growth of 1.4% this year, improving significantly to 5.3% next year. However, risks to our 2025 growth outlook are firmly to the downside, as OPEC could decide to prolong oil production cuts into next year, especially if oil prices decline further. Similarly, we made no major changes to our GDP forecast in South Africa--we expect growth to pick up to 0.9% in 2014 and 1.5% in 2025, from 0.6% in 2023. Electricity shortages continue to dissipate, though logistics bottlenecks remain a constraint to faster growth.

EM Asia

We see growth in the region averaging close to 5% in the next few years, up from 4.4% in 2023. Resilient domestic demand, which will benefit from gradual upcoming monetary policy easing, is helping Southeast Asian EMs. Tourism is recovering, and electronics exports continue to improve--albeit both of these dynamics are dependent on global growth remaining relatively strong.

We made a significant upward revision to growth in Malaysia (now 5.1% in 2024 and 4.8% in 2025), with construction and the electronics sector driving growth. We made a substantial downward revision to our growth forecast for Thailand (2.8% this year and 3.1% next), where a planned fiscal stimulus will likely be streamlined. Fiscal spending in Thailand has been subdued this year due to a delayed budget, leading to weak first-half growth. Public spending is now recovering, but the boost to growth will be less than our previous forecast.

The Philippines set the ball rolling for monetary policy easing in the region, with a 25-basis-point rate cut in August to 6.25% from 6.5%. We expect a further 75-basis-point cut this year. Bank Indonesia is also likely to cut interest rates--we expect 50-basis-point rate cuts to 5.50% by year-end from 6.00% currently. Malaysia and Thailand will have limited room for easing as interest rates are currently near central banks' neutral estimates.

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.

Some emerging Asia 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

The outcome of the U.S. election and its implications for trade and fiscal policy remain highly uncertain. A shift to more protectionist trade policies could result in lower trade volumes, higher inflation, and, by consequence, higher interest rates. A more expansive-than-expected U.S. fiscal policy could also increase inflation and long-term U.S. Treasury yields, potentially tightening financial conditions in EMs.

While we currently expect U.S. growth to moderate as the labor market softens, a faster deceleration in GDP than what we currently project is also an important downside risk to our growth outlook in EMs. Economies with strong trade ties with the U.S., such as most of Latin America, would see their exports to the U.S. weaken.

The high degree of uncertainty regarding the Chinese economy also poses downside risk to our growth outlook to several EMs, especially those in Asia.

In addition, an escalation in the Middle East conflict could increase energy and shipping costs and directly weigh on activity for EMs in that region.

Finally, domestic policy related risks in some countries have risen, most notably in Mexico, which, if unresolved, could result in lower private fixed investment than what we currently assume.

Financing Conditions

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Cautious Optimism

- The Fed's easing signals potential monetary easing across EMs, likely aiding capital inflows and further compression in corporate yields.
- Sovereign and corporate issuance remains robust, with markets open even at the lower end of the rating spectrum. Issuers are likely to opportunistically access markets to refinance while demand remains constructive.
- The pace of defaults is contained, and rating pressures are primarily in Latin America, which has the highest negative bias and upcoming speculative-grade debt maturities (mainly in Brazil).
- Mounting regional political and macroeconomic uncertainty, coupled with significant geopolitical risk, could translate into further bouts of market volatility, as transpired in August. Prolonged market volatility is the main downside risk to our cautious optimism.

Accelerated monetary policy easing by the Fed is positive for emerging markets in terms of potential capital inflows, rate cuts by domestic central banks, where needed, and further compression in government yields. Yields as of Sept. 23 were 70 bps lower than where they were in June. Spreads have remained tight, and corporate yields have fallen across rating categories (see chart 6)--especially speculative-grade (‘CCC’ yields were down 126 bps since June)--and are now 50 bps below their long-term average. In contrast, investment-grade yields remain around 90 bps higher than their long-term (10-year) average.

Sovereign and corporate issuers continue to take advantage of market demand. Excluding China, EMs experienced net debt inflows of $60.5 billion in July-August, signaling continuing strong investor demand.

2024 cumulative corporate bond issuance (excluding China) is close to the 2021 record (see chart 7), with strong international markets even for speculative-grade issuance. In mid-September speculative-grade issuance hit its highest monthly level since October 2021, with $3.7 billion issued, primarily in Latin America. Notably, this includes some issuance at the 'CCC' rating level.

Issuance has been primarily directed to refinance upcoming debt maturities, with a longer average tenor of 9 years in the third quarter, versus 6.4 years in the second quarter, and an average lower yield of 5.8% versus 6%.

EM rated maturities peak in 2025--largely investment-grade corporate entities. Specifically, of the $106 billion in financial and nonfinancial corporate maturities through 2025, 78% is investment-grade, of which over 80% is denominated in U.S. dollars. Speculative-grade maturities are set to peak in 2026, with $23 billion due to mature through 2025, mostly from issuers in Brazil and primarily in the oil and gas and financial sectors. If constructive primary markets continue, we can expect near-term refinancing risk to fall further.

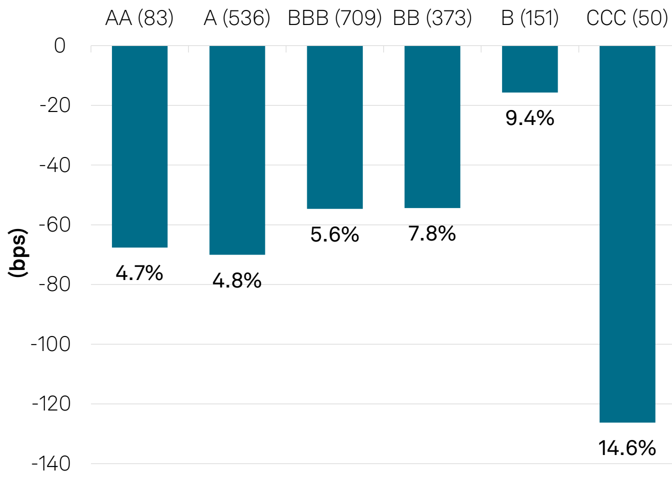
The number of defaults in EMs remains low. The 12-month-trailing speculative-grade default rate for EMs was 1.6% as of July 2024, compared with 4.6% for the U.S. and 4.4% for Europe (see chart 8). Latin America remains the region most at risk from a credit perspective, responsible for all eight defaults so far this year (and 10 defaults in 2023), although five of the companies had already defaulted in the previous four years. Negative bias--the proportion of ratings with negative outlooks or on CreditWatch negative--remains most elevated in Latin America at 22%, up slightly from 20% in July, with metals, mining, and steel; autos; real estate; and chemicals, packaging, and environmental services the sectors most at risk.

What could sour the mood? Global and EM markets remain highly sensitive to macroeconomic data surprises, as we saw in August when disappointing U.S. labor data combined with yen carry trade induced market turmoil that led to a 7% drop in the MXEF (see chart 9). EMs remain highly

connected to U.S. macro performance and monetary policy decisions. And with markets now expecting at least 200 bps of Fed cuts before the end of 2025, any disappointment could rekindle market volatility with related impacts on local market currencies, flows, and financing costs. Moreover, the open debate on the potential level of the terminal rate (new neutral rate) could add to uncertainties. Geopolitical risk also persists, in the form of two ongoing conflicts, while political and macroeconomic uncertainties exist in some EMs. Escalation or deterioration could trigger local market or regional volatility, a prolonged period of which would hurt access to and cost of financing, and potentially lead to a risk-off environment across many EMs.

Chart 6

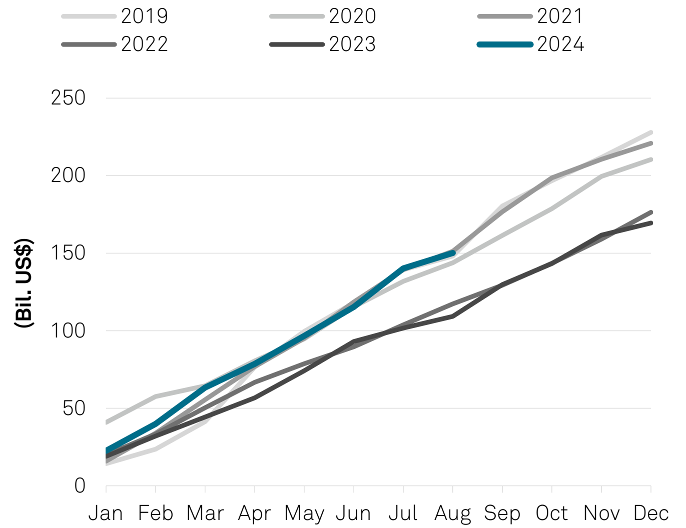
Corporate yields' Descent (Sep-24 vs Jun-24) across rating categories



Data as of Sep. 13, 2024. Note: The iBoxx USD Emerging Markets Corporates indices are designed to reflect the performance of USD denominated corporate debt issued by entities domiciled in the emerging markets. Number of instruments in parentheses. Data callouts represent the annual yields as of Sep. 13, 2024. Sources: S&P Global Credit Research & Insights.

Chart 7

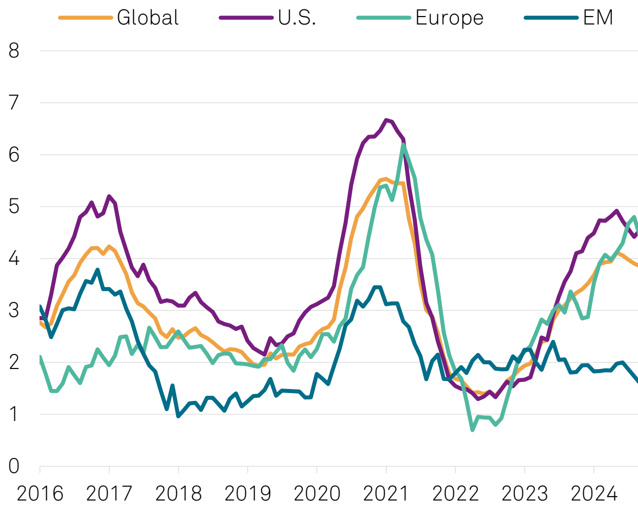
Cumulative corporate issuance (excluding China) is near all-time highs



Data as of Sep. 13, 2024. Data including NR (not rated) and both financial and nonfinancial entities. Sources: S&P Global Ratings Credit Research & Insights and Refinitiv.

Chart 8

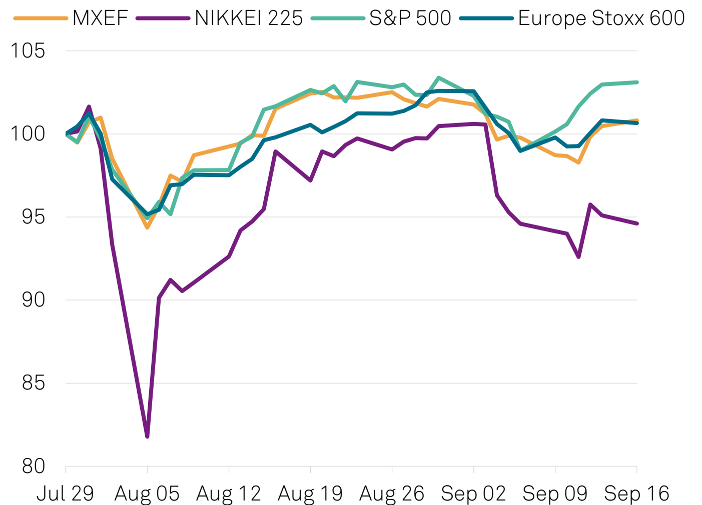
EM default rate stays lower than EU and U.S. (%)



Data as of Jul. 31, 2024. Trailing-12-month speculative-grade default rates. Includes countries beyond our EM18 classification.
Source: S&P Global Ratings Credit Research & Insights.

Chart 9

EM equity mirroring behavior of advanced economies amid August turmoil



Data as of Sep. 16, 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 (CCI)

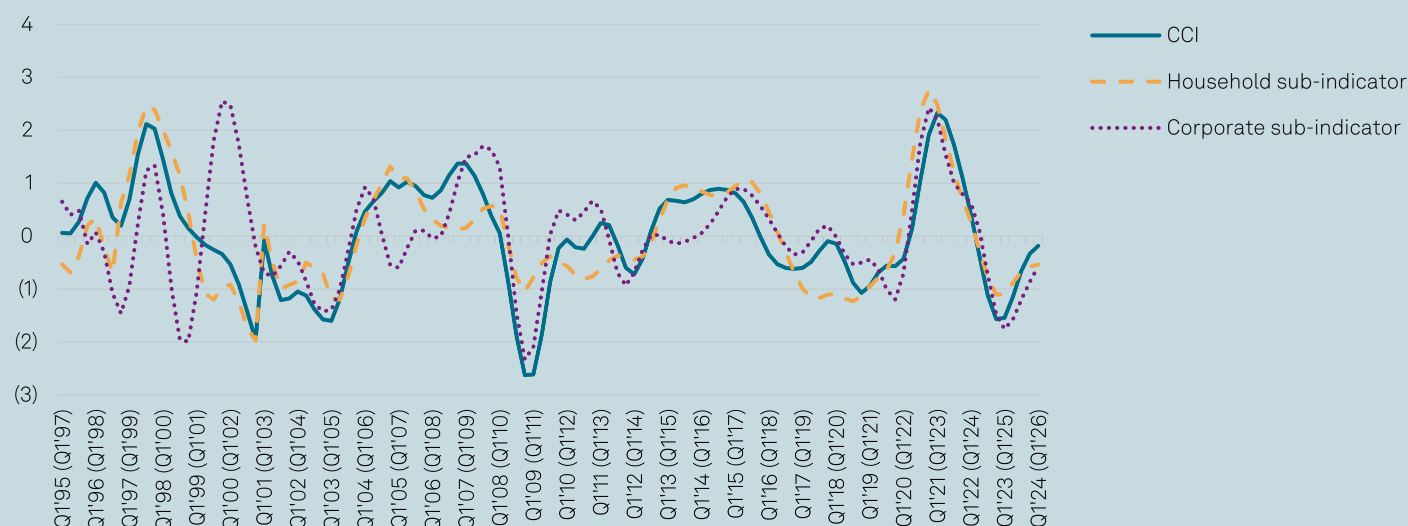
Our CCI still points to improved households and corporate credit quality in 2025

The CCI now reads -0.2 standard deviations below its long-term trend. The pace of its ascent--after hitting its trough at -1.6 standard deviations in fourth-quarter 2022--has eased, confirming a potential credit recovery could take place in 2025. Peaks and troughs in the CCI tend to lead credit stresses and recoveries by six to 10 quarters.

Tight corporate spreads and lower corporate yields have buoyed issuance for refinancing purposes year to date, both from a sovereign and corporate perspective. Recent Fed easing should lead monetary normalization across EMs, where needed, further easing borrowing costs and interest burdens. However, the high policy uncertainty and worsening geopolitical risk call for caution on potential heightened episodes of market volatility in the coming months. The latest data shows the indicator's trend is mimicked across all EMs, except for Malaysia and Thailand, which are taking a breather, and Turkiye, which is 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 10

The EM (excluding China) CCI is up for the fifth 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.

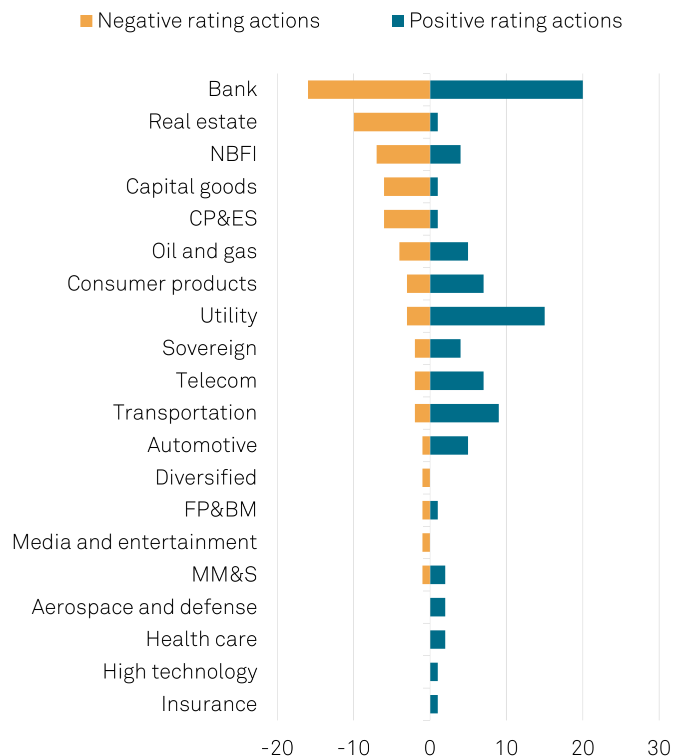
Corporations. The corporate sub-indicator hit its trough in first-quarter 2023 at -1.8 standard deviations below its long-term-trend, and now reads -0.6, as corporate debt (as a percent of GDP) slightly increased in first-quarter 2024, exploiting market demand, even at the domestic level. This was particularly true in Chile and South Africa. Equity prices remained solid, as a relatively low default rate compared with advanced economies and manageable debt maturities feed support the credit resilience of EM corporate entities. Capex intensity, however, is still lagging, particularly in Latin America.

Households. The household sub-indicator marginally increased to -0.5 standard deviations for the fourth consecutive month (-1.1 in first-quarter 2023), less than its corporate counterpart. Households' debt remained relatively constant, while property prices rose in Colombia, Mexico, India, and Poland. Price corrections were recorded in Malaysia, despite displaying solid property transactions, and Turkiye, which is dealing with restrictive monetary policy.

Sector Trends

Chart 11

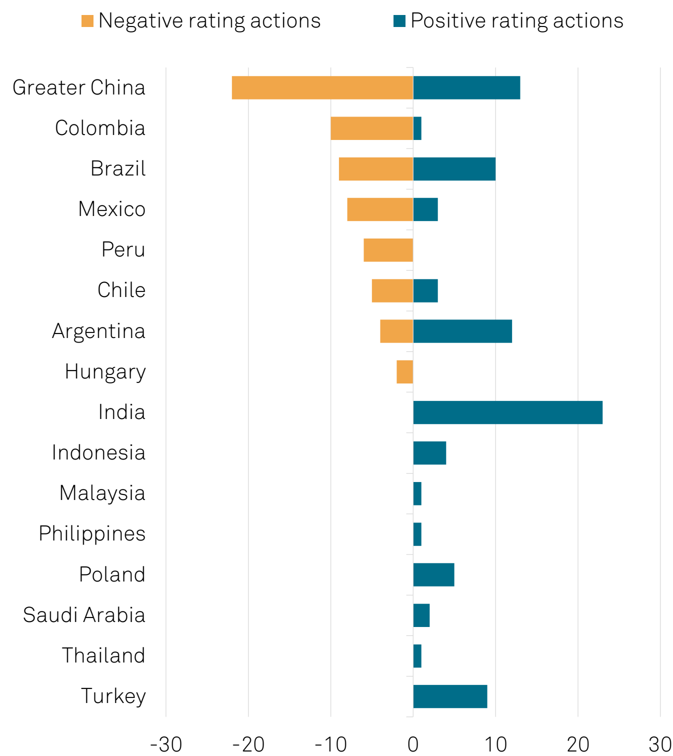
EM rating actions by sector year to date



Data as of Sep. 15, 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.
Source: S&P Global Ratings Credit Research & Insights.

Chart 12

EM rating actions by country year to date



Data as of Sep. 15, 2024. Source: S&P Global Ratings Credit Research & Insights.

Sovereigns

EM Asia: Global Uncertainties Are Still The Thing To Watch

Global economic activity and financing conditions remain stable as interest rates start to come down even as inflation in most major economies falls. Current account balances and inflation in most EM Asia economies should improve, especially if energy and other commodity prices remain broadly stable. We still anticipate some governments will meaningfully lower fiscal deficits, although a return to pre-COVID-19 fiscal performances will take longer in many cases.

An unexpected deterioration of global financial stability, an increase in geopolitical risks, or a shift in interest rate expectations could see investors withdraw from EMs in Asia-Pacific, making financing conditions much harder for some.

Rebounding energy prices seriously undermine external and fiscal metrics. Current account deficits could remain wide in some economies if exports fall and fuel prices remain elevated. This could be exacerbated by higher imports in places where governments subsidize energy consumption. A supply shock that sharply raises energy prices could still pose threats to external and fiscal support for ratings.

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EM EMEA: Monetary Easing Should Bring Some Relief

From a growth perspective, EMEA emerging markets have been on the back foot for over a year now, and this is affecting fiscal outcomes. Credit stories remain fluid. Downside risks include the rising probability of the escalation of two regional wars, which have already generated a variety of shocks, in the form of migration, supply chain disruptions, and increases in government spending. Softening demand in the two world's largest economies is dragging on goods and commodity exports (and at least in the very short term causing Brent oil prices to test $70). At the same time, domestic politics are making it increasingly difficult for policymakers to restore discipline to public finances.

The monetary cycle is, however, easing, and this should bring some relief. While we are projecting slower growth in the U.S., Europe is set for a mild recovery. Both the European Central Bank and the Fed have commenced their easing cycles, and this ought to usher in a period of a weaker dollar (except in the not improbable scenario of a deepening global trade war). Lower energy prices, if sustained, would represent a notable balance of payments benefit for net energy importers across Central Eastern European (CEE), Turkiye, and sub-Saharan Africa (though not the energy exporters including in GCC). But these are early days.

Hungary (BBB-/Stable/A-3)

CEE manufacturing hubs such as Hungary and Poland are coping with sticky services/wage inflation (not unconnected to weak demographics, particularly in Hungary) and a stagnating industrial sector in key European trading partners (the market for over 60% of exports). As a result, the outlook for growth and fiscal consolidation in Hungary is, at best, patchy.

Hungary saw negative GDP in the second quarter. Moreover, gradual disinflation is making it more challenging to improve fiscal results, which benefited greatly from the 2022-2023 inflation surge. Hungary's cash fiscal data over the summer suggested risks for underperformance on the revenue side in particular. We forecast a 2024 budgetary deficit of 5.25% of GDP versus the government's 4.5% target.

The larger question is whether Hungary's economic model--an open manufacturing export-driven economy integrated into the global FDI value chain--is coming up against tough international trends, namely deglobalization (the potential of U.S. tariffs) and a structural shift away from manufacturing. What has always separated Eastern European EU members such as Hungary and Poland is the scale of EU capital transfers. And, despite Hungary's frequent disagreements with Brussels, we still project the capital account to post an average surplus of 2%-3% of GDP over

the next three years (and for the economy as a whole to run small current account surpluses on the order of 1% of GDP).

Poland (A-/Stable/A-2)

With a population 4x that of Hungary and a more resilient domestic economy, Poland has historically posted higher and less volatile growth than its southern neighbor. The labor market remains tight, with real wage growth supporting consumption, albeit retail sales have tailed off somewhat since mid-summer. As in other CEE exporters, Poland also has weak exports and low investment, given the weakness of core European economies and the chill in global manufacturing.

Nevertheless, we are still projecting consumption-driven growth this year of 3.0%. Fiscal stimulus remains notable, and we expect no meaningful consolidation of Poland's large general government deficits (forecast at over 5% of GDP this year) until 2025. On the other hand, the external position should remain in a modest surplus, while stocks of fiscal and external debt are modest relative to European peers, with gross general government debt at just over 50% of GDP (albeit on an upward slope) and very low net external debt.

There are some long-term concerns around public finances. Poland's demographics are as challenging as Hungary's. Despite a step-up in immigration from Ukraine since Russia's 2022 invasion, population growth remains negative. Over the last two decades, Poland's population has declined by 4% (versus 5.3% in Hungary). While these figures are not as stark as those for Bulgaria, Romania, and Serbia, they are notably worse than in mature economies (including Germany and Italy).

Saudi Arabia (A/Positive/A-1)

The polar opposite on demographics is Saudi Arabia, where the population has increased by 25% over the last decade. There has also been notable progress in increasing female participation in the labor market (which is now above the 2030 Vision objective of 30%). In our view, the commitment to opening up the business environment and developing a competitive services sector is real.

Since last year, Saudi Arabia has been posting external services sector surpluses, as tourism receipts continue to boom (up 38% year over year last year and showing no signs of deceleration). Just by investing in domestic tourism capacity, authorities are also making a significant dent in tourism imports. We expect the ramp-up in 2030 Vision investments in the non-oil economy to carry headline GDP growth comfortably above 4%, on average, over the next three years--despite the likely drag on GDP from the oil economy, which continues to make up 30% of GDP.

As a result of the sustained reform momentum and encouraging growth outcomes, on Sept. 13, we revised our outlook on the 'A' long-term foreign currency rating on Saudi Arabia to positive. We note, however, that there are a few underlying trends to watch. For starters, the fiscal break-even price of oil is now over $95, or well above where it was before the 2030 Vision investment spending kicked in. Our projections also assume that Brent oil prices average $80 from 2025-2027, which is about 10% above current spot prices.

The Middle East remains embroiled in the Israel-Hamas conflict, which has spilled over into a potentially highly destabilizing conflict between Israel and Hezbollah--including recent statements from Iran that it will retaliate against Israeli strikes on Lebanese targets. The conflict could do further damage to transport links in the Middle East or, in extreme, lead to a supply shock that would support higher oil prices. At the same time, rising non-OPEC oil supply and softening U.S. and Chinese economies argue against higher prices.

South Africa (BB-/Stable/B)

Firmer second-quarter GDP data and current account narrowing (partly reflecting high gold prices) are helping to stabilize the near-term outlook for South Africa under the first coalition government since the end of apartheid. But while we are relatively optimistic on headline GDP growth (forecasting average GDP growth of 1.4% for 2025-2027) compared with the recent past, our forecast still implies per capita GDP growth of just 0.3%.

For the new government to put debt to GDP (currently set to end 2024 at 78%) on a permanent downward path, we think GDP growth of closer to 3% would be required. That would involve not just fixing Eskom (where we have seen no loadshedding for five consecutive months) or Transnet, but also solving all of the underlying issues (such as spatial inequality) while unemployment remains at just under 32%. In our view, that work would take many years.

As in the past, South Africa's strong external accounts, the credibility of the South African Reserve Bank and the rand, and the depth of domestic capital markets all continue to underlie our 'BB-' long-term foreign currency rating on South Africa.

Turkiye (B+/Positive/B)

What has changed in Turkiye since the end of last year is the external story. In short, the current account deficit is rapidly narrowing to end 2024 at 1-1.5% of GDP. This, and large inflows of short-term capital, pushed up usable reserves (gross reserves excluding foreign exchange borrowed from domestic banks) to around $105 billion at the end of August, or over twice where they were at the end of 2023. And the dollarization of the deposit base has declined moderately. Most of the current account narrowing and the reserve accumulation are an effect of the central bank keeping the policy rate at 50%.

All of the above supports the positive outlook on our 'B+' long-term foreign currency rating. However, the hard part--bringing inflation down from 52% currently to single-digit levels--has yet to come, and could take two to three more years of tight (and better coordinated) fiscal and monetary policy. Whether this extended time horizon suits policymakers in Turkiye's vibrant and raucous democracy is not yet clear.

LatAm: Violent Crimes Add To The Region's Dilemmas

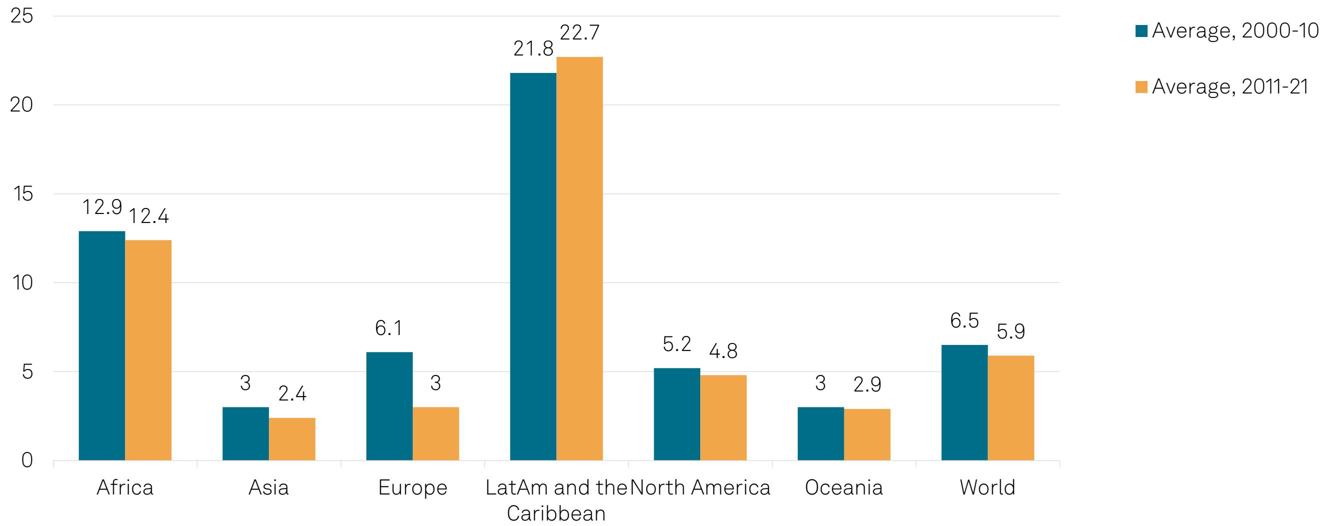
The rating outlook bias in Latin America and the Caribbean remains negative, with five negative outlooks (Bolivia, Ecuador, Chile, Panama, and Colombia) and four positive outlooks (Guatemala and the small Caribbean islands of Aruba, Turks and Caicos, and Barbados). We have three sovereigns in the 'CCC' category (Argentina, Suriname, and Bolivia).

Lack of physical security continues to plague much of the region, imposing a social and economic cost. The region is the most violent region in the world, accounting for about 9% of the world's population but one-third of its homicides. Armed conflicts between countries have been rare, compared with other regions, as the violence is internal. The average homicide rate for Latin America and the Caribbean is more than 4x higher than the world average and about twice as high as in Africa (see chart 13).

Chart 13

Latin America has become one of the most violent regions in the world

Intentional homicide rate per 100,000 habitants



Sources: World Bank, U.N. Office on Drugs and Crime (UNOC).

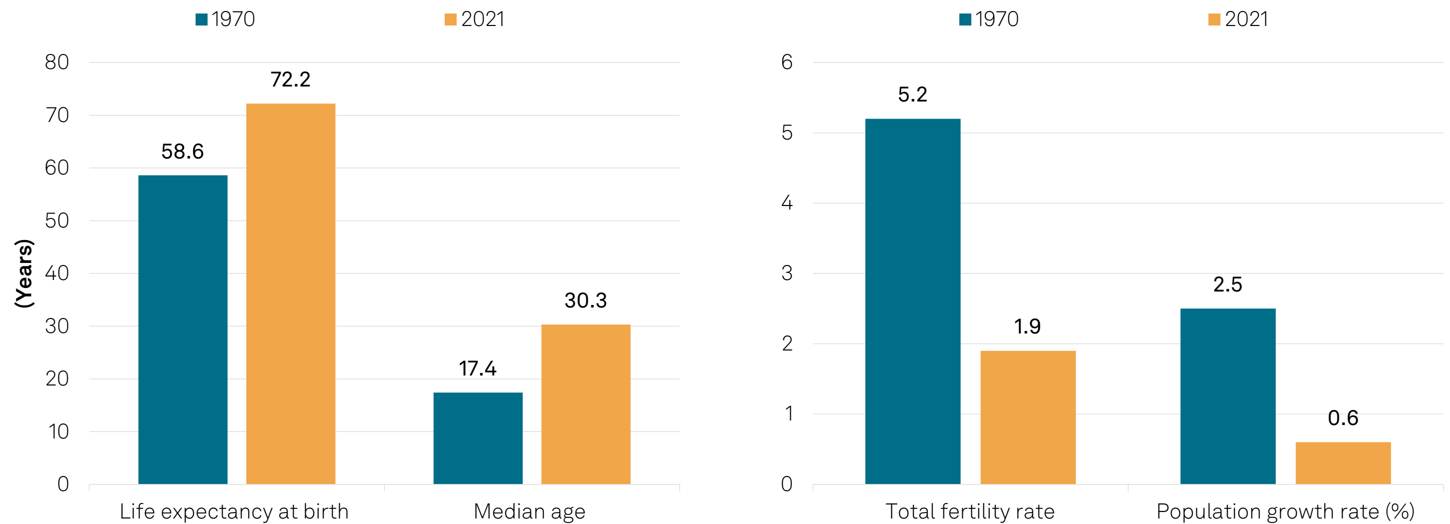
The region is also undergoing a rapid demographic change as its population ages in line with global trends. Although it is still younger on average than advanced countries, its median age has nearly doubled in the last five decades (see chart 14). Some countries, especially in Central America, have lost a substantial share of their young population due to emigration. Emigration does provide some economic relief through remittances, which are around 20% of GDP in Central America, 7% in the Caribbean, and just below 5% in Mexico (well exceeding the oil and gas external inflows).

However, many countries will soon face pressure to spend more on health and pensions while their labor force stops growing and eventually shrinks. The challenge is to improve the region's poor productivity to boost economic growth and compensate for fewer workers.

Chart 14

Population in LatAm is still young but demographic challenges are rapidly increasing

Latin America and the Caribbean demographic indicators



Note: Total fertility rate = live births per woman. Source: World Bank.

In Argentina (CCC/Stable/C), President Milei's forceful policies have brought inflation to 4% on a monthly basis from over 25% in December 2023. The government is on track to achieve a balanced or near-balanced budget this year, along with a primary surplus. Reduced inflation and a fiscal balance could set the stage for economic recovery, fiscal stability, and a better external position. In such a scenario, the government could gain better access to capital market funding, boosting its creditworthiness. However, the social costs of the austerity program, combined with weak support from Congress for President Milei's reforms, pose risks to its sustainability.

In Brazil (BB/Stable/B), recent data indicates that GDP growth exceeded expectations in the first half of the year. However, the government faces fiscal challenges, with net general government debt continuing to rise as a share of GDP (toward 69% of GDP by 2027) even if the government largely complies with its target of zero primary deficit. The government has sought to reach its targets through steps to contain spending and boost revenues, which may be difficult given the already high tax burden in the country. Congress is likely to make slow progress in writing laws that follow last year's approval of ambitious reforms to simplify Brazil's complex tax code. But, the combination of fiscal rigidities, a high tax burden, and low public-sector investment will constrain GDP growth prospects.

In Mexico (BBB/Stable/A-2), the upcoming inauguration of President Claudia Sheinbaum, whose center-left Morena party dominates the Congress and most state governments, sets the stage for expansion of social spending and for institutional changes that centralize political power. The outgoing administration of President Andres Manuel Lopez Obrador passed a constitutional reform to revamp the judiciary (introducing elections for judges). Other proposed reforms also weaken or abolish regulatory and autonomous bodies in the public sector, and legally entrench greater social spending commitments. The resulting uncertainties could hurt investor confidence and economic growth.

Panama's (BBB/Negative/A-2) newly elected President Raul Mulino started his administration by focusing on weaknesses in the pension and health systems, which have a direct fiscal implication. Panama faces the challenge of regaining growth momentum (including through timely investments to alleviate future water shortages that may afflict the population as well as the Panama Canal) and boosting foreign investor confidence after the closure of a large mining project last year following massive public protests.

We have negative outlooks on all the rated Andean sovereigns, except Peru, which we downgraded in April 2024. Political weaknesses and fragmentation, reflecting institutional shortcomings, have had a negative impact on all the Andean nations.

In Colombia (BB+/Negative/B), weak investor sentiment has contributed to prolonged low private-sector investment, limiting economic growth and leading to large fiscal deficits. Congress has blocked or diluted many reforms, especially in labor and health, proposed by center-left President Gustavo Petro. The administration announced plans for another tax reform to boost revenues, trying to keep the 2025 fiscal deficit within the limits prescribed the country's Fiscal Rule. However, sluggish economic recovery, political pressure to maintain costly subsidies on diesel, and strains between the administration and parts of the private sector could weaken public finances and lead to a lower rating.

A fragmented political system, with many political parties (and 16 presidential candidates) competing in national elections due in 2025, exacerbates fiscal and external challenges **in Ecuador (B-/Negative/B).** Institutional weaknesses make it difficult to form majorities to pass legislation and provide more effective government. This raises uncertainty about the next administration's ability to undertake timely reforms to gain access to market funding in 2025--which is key to meet rising debt service.

Poor management in Petroleos del Peru (B/Stable/--), the government-owned energy company that has had to rely on fiscal transfers and loan guarantees to remain in operation, reflects institutional shortcomings **in Peru (BBB-/Stable/A-3).** The company recently requested and received substantial financial support from the government, increasing the sovereign's own debt burden. Peru's weak and fragmented government makes it harder for the authorities to take

timely and forceful action to cap the company's losses and the contingent liabilities they pose for the sovereign.

The political leadership **in Chile (A/Negative/A-1)** has failed to find a middle ground to implement reforms to rebuild fiscal and external buffers, as well as to unlock stronger economic growth. The country has seen two failed attempts at constitutional reform in recent years and prolonged debate over proposed pension and tax reforms. Failure to enhance economic performance could result in weak growth, fiscal deterioration, and rising government debt. Although Chile has shown more effective institutional capacity in governance than its regional peers, recent years of poor economic performance (compared with Chile's past) indicate possible erosion of such strengths.

Corporations

EM Asia: Muted Profits And Credit Conditions Heading Into 2025, Except In India

The corporate credit landscape is set to remain highly differentiated across countries and sectors for the rest of the year. India's steady GDP growth remains conducive for solid domestic corporate credit conditions. But in the rest of emerging Asia, common credit themes are slightly more muted: soft consumer sentiment, sluggish domestic demand, increasingly uncertain export markets, volatile commodity prices, growing pockets of overproduction in certain sectors, and stalling deleveraging.

Credit conditions for rated entities in China have been resilient to eroding GDP growth so far, largely thanks to slowing capital spending. But leverage is likely to take years to return to pre-pandemic levels, as a slowing economy will limit profit growth. Weaker household confidence remains a drag on growth and consumption, constraining the profitability of businesses in the absence of pricing power. Consumer sentiment is likely to remain soft until the real estate sector has reached a bottom, which we expect to still be a few quarters away.

Overproduction risk is also showing in some sectors, such as auto, commodity chemicals, and electrical equipment, flagged by sliding utilization rates or contracting profit margins. These are sectors that are likely to remain most sensitive to the lingering trade tensions and a further round of tariffs.

Corporate credit conditions in India remain solid heading into 2025. Annual GDP growth has been exceeding 6.5% since the end of the pandemic, with constructive consumer sentiment, rising disposable income, and government spending stimulating domestic demand. We are observing signs of rising capex across sectors, but unlike in the rest of emerging Asian countries, medium and large companies have taken advantage of improving economic conditions to reduce debt.

The rated corporate sector in India accounted for about one-third of the positive rating actions we took in Asia-Pacific since the beginning of the year. The outlook momentum is staying positive for the rest of the year, in part due to the revision of the sovereign rating outlook to positive in May 2024, but also because of balance sheet consolidations and steady earnings.

In Indonesia, our credit focus is on the economic and social policies of the incoming Prabowo administration, whose cabinet is likely to be fully formed in the fourth quarter of this year. Our current base case is that economic policies will not be markedly different from those of the preceding Widodo administration, with emphasis on developing the downstream value chains across sectors and seeking to boost sluggish consumer sentiment and domestic demand.

Yet until then, operating conditions are set to stay largely muted as consumers and companies adopt a wait-and-see approach. Another question mark relates to the incoming administration's strategy and vision for its state-owned companies, especially the balance between investments and credit quality.

Credit conditions in Vietnam remain polarized. Domestic consumption and retail sales have been gaining steam since the beginning of the year after a soft 2023. Yet credit quality in the large corporate sector--a key component to Vietnam's economic fabric and to its domestic banks--remains polarized, with pockets of significant leverage and refinancing risk at large private and public conglomerates.

Funding availability in global markets is improving

Issuance in U.S. dollar capital markets has been steady for investment-grade credits as spreads tightened amid healthy demand and a positive rates outlook. Speculative-grade issuers have also returned more decisively to the market. Year-to-date issuance in this segment has exceeded last

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year's levels by more than two-thirds, making 2024 the first year of recovery after three years of decline.

Investor sentiment toward speculative-grade appears to be more constructive after the weakest issuers defaulted over the last two years. Although, this may be proactive fundraising or refinancing ahead of the U.S. election in November.

Funding in domestic bank markets remains selective, a common trend across emerging Asia since the pandemic. As in previous quarters, liquidity remains 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 rising nonperforming loans.

EM EMEA: Positive Momentum Is Building

Saudi Arabia's healthy business cycle continues, accompanied by vibrant capital markets activity. Given the solid non-oil GDP growth, we continue to see vibrant corporate activity across the major non-oil sectors in the Kingdom as well as sound earnings performance for most major companies listed on the Tadawul Stock Exchange in the first half of the year.

Tourism, one of the key strategic initiatives under the Vision 2030 strategy, continues to perform strongly, and we expect this to continue over the next several quarters. According to the Ministry of Tourism's statistics, the number of inbound tourists increased to 27.4 million in 2023, around 65% growth relative to 2022, while total spending by this segment was around $37.7 billion. Furthermore, according to the recent data, the total spending by visitors from abroad exceeded Saudi riyal (SAR) 45 billion ($12 billion) in first-quarter 2024, a 23% increase relative to the same period last year.

We saw strong activity in the real estate sector in the first half of 2024. According to Knight Frank, the Kingdom witnessed a 50% increase in the total value of real estate transactions in the first half of the year, while the residential real estate segment showed 48% growth in value relative to the first half last year.

Activity in the debt capital markets in the Kingdom has been strong, and we expect it to remain so over the next several quarters--given the funding requirements under Vision 2030--while IPO activity remains healthy. In July, Saudi Aramco raised $6 billion in three tranches of $2 billion each with maturities of 10, 30, and 40 years.

In Turkiye, nonfinancial corporate entities maintained their momentum in the first half of 2024. Durable goods manufacturers--notably white goods (large household appliances) and autos--benefited from pull-forward orders. In the more nondiscretionary sectors like food and beverage, we are seeing increasing importance of trade promotional strategies by industry players to maintain volume growth as consumers are feeling the pinch from eroded purchasing power. Government-driven reconstruction works following the earthquake in early 2023, as well as more strategic long-term infrastructure investment projects, drove growth in the domestic construction sector, a trend that we expect to continue for the rest of the year.

Thus far, there appears to be some disconnect between strong results from major airlines and anecdotes from the hospitality industry pointing toward a weaker summer, citing both external factors (Olympics in Paris and Euro football competition in Germany) and internal factors (high price increases). Both Turkish Airlines (B+/Positive/--) and low-cost carrier Pegasus Hava Tasimaciligi (B+/Stable/--) reported double-digit increases in domestic passengers year over year in the first half. Although, they signaled that this trend is likely to slightly moderate in the third quarter, which encompasses the important months of July and August.

Finally, although trade flow through Turkish ports has stabilized in recent months, volumes continue to be subdued. We now expect a rebound in 2025. The trade disruptions have not had a materially negative impact on rated issuers, which we attribute to likely resilient and diversified supply chains.

Demand for some consumer-centric sectors is normalizing in the second half of the year. Continued high borrowing costs seem to be trickling down to demand for more discretionary items, with pull-forward demand no longer driving growth for white goods and autos. Trade promotional efforts will continue to underpin volumes in the food and beverage segment as consumers seek more value-driven options. Headline inflation has been declining since May, reaching 51.97% in August from a 75.45% peak in May, but it remains high overall. The expectation for lower demand for many sectors is confirmed by the readings of the Turkish Purchasing Manager Index (PMI), which point to a trend of well below 50 (indicating subdued demand) for the past five months, despite a slight uptick from 47.2 to 47.8 in August.

International debt capital markets remain receptive for blue-chip companies in Turkiye, and we anticipate further issuance in the coming weeks, mainly driven by refinancing and still-supportive credit conditions. Since our last publication, two rated issuers accessed the bond markets: Ulker Biskuvi Sanayi A.S. (BB/Stable/--) issued new seven-year $550 million sustainability-linked notes in July, and in September airline group Pegasus issued seven-year $500 million notes. In addition, in July we saw two nonrated issuers, steel and cement manufacturers Eregli Demir ve Celik and Limak Cimento Sanayi ve Tic A.S., issue $750 million and $575 million five-year notes, respectively. All transactions were largely refinancing-linked.

The latest activity brought year-to-date total issuance to $4.875 billion. This total includes first-half issuance by a variety of issuers, notably Ford Otomotiv Sanayi A.S. (BB/Stable/--) and Turk Telekom (BB-/Positive/B), electronics goods manufacturer Vestel Elektronik (nonrated), and white glass and chemicals manufacturer Sisecam (nonrated).

South African corporates' operating conditions have remained largely stable in recent months, supported by a relatively smooth political transition post-elections and relief from Eskom power outages. These factors are counterbalanced by below-trend economic growth, elevated interest rates, muted consumer demand, and persistent local and global supply-chain challenges, which reduce efficiency and increase costs for most corporate entities. Notably, logistics inefficiencies and cost pressures remain top-of-mind for most companies in South Africa. On the ratings front, stability mainly reflects companies' managing existing challenges, not an improvement of operating conditions.

While local transportation infrastructure-provider Transnet seems to have halted the deterioration in its operations, port and rail services are far from delivering an adequate and efficient service. Notably some local and regional trade has shifted to neighboring countries due to poor port performance in South Africa. Furthermore, Transnet's 2025 recovery plan targets seem rather optimistic. The plan targets rail volumes of 170 million tons (mt) in Transnet's fiscal 2025 (ending March 31) versus an outcome of 151.7 mt in fiscal 2024.

Eskom and Transnet currently benefit from government support, which is bolstering their access to funding and providing liquidity for maintenance improvements. However, capital structure sustainability remains a key risk for the utilities.

We are seeing a moderate weakening of financial metrics in a number of (non-gold) miners, particularly those producing platinum group metals, diamonds, and coal mining. For mined and many other commodities, lower demand and commodity prices seem to be persisting. Furthermore, bulk commodities, such as coal, paper/pulp, and chemicals, continue to see elevated shipping costs from domestic and global logistics issues. Margin resilience is supporting leverage at most domestically focused companies. Relatively low absolute debt levels and modest refinancing risk, together with comfortable rating headroom, are supporting ratings for now.

LatAm: Stability Across Sectors

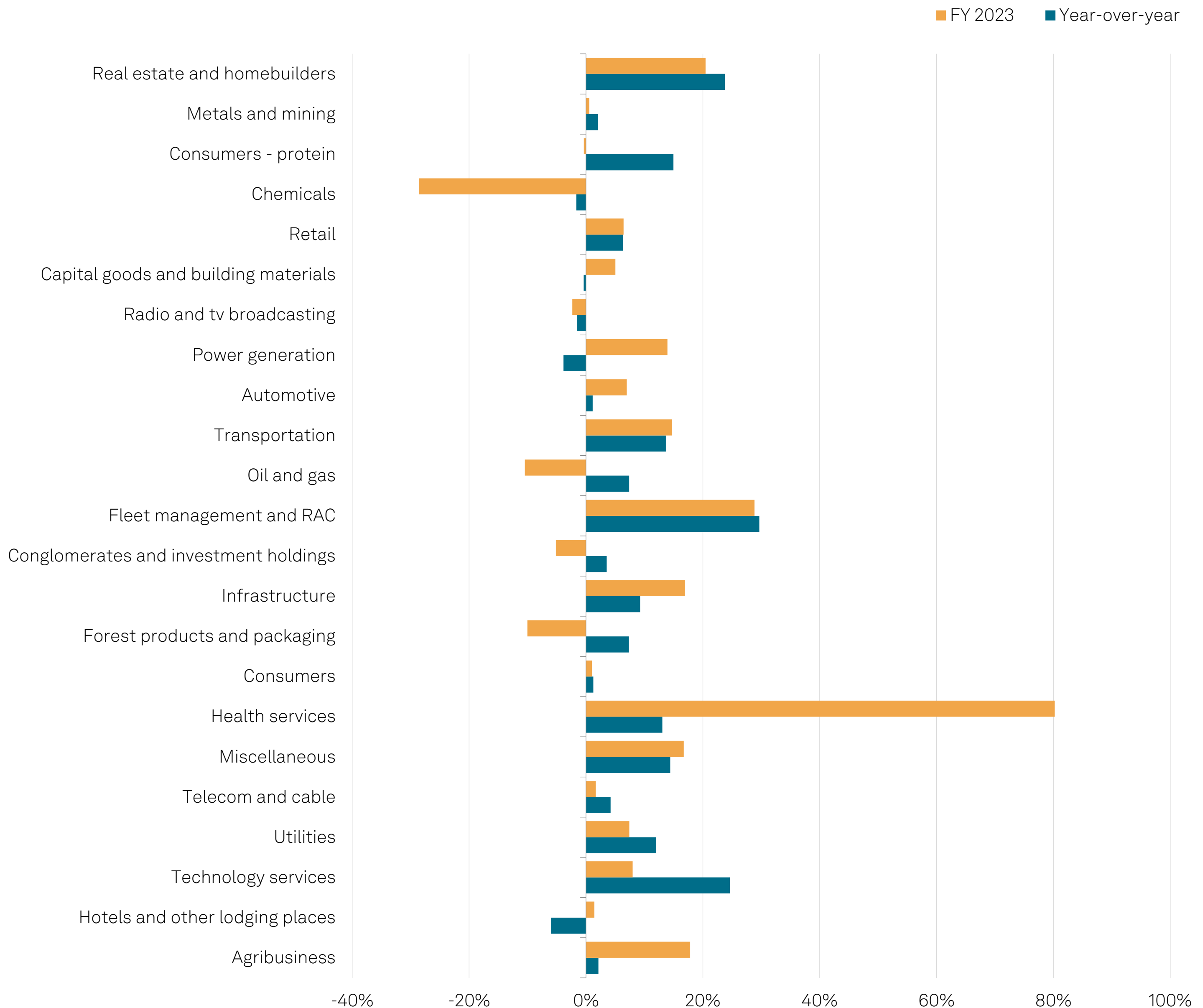
Credit conditions are still stable for Latin American corporations. Net outlook bias remains close to -7%, while rating activity was decisively positive in the first half of the year, with upgrades outpacing downgrades more than 50%.

Most sectors are posting healthy growth, and a few that contracted in 2023 are showing a turnaround. Of the sectors that showed positive year-over-year growth rates, growth was above inflation for most as of June 30, 2024, easing pressure on margins and credit quality (see chart 15). That wasn't the scenario a quarter ago--even though growth was prevalent, rates weren't higher than inflation in most cases.

Forest products, oil and gas producers, and protein companies showed contractions in 2023 and might be turning that around, judging by their revenue growth rates in second-quarter 2024. Still, that won't be the case for chemicals, capital goods, building materials, and a few others.

Chart 15

Corporates' revenue growth is turning around

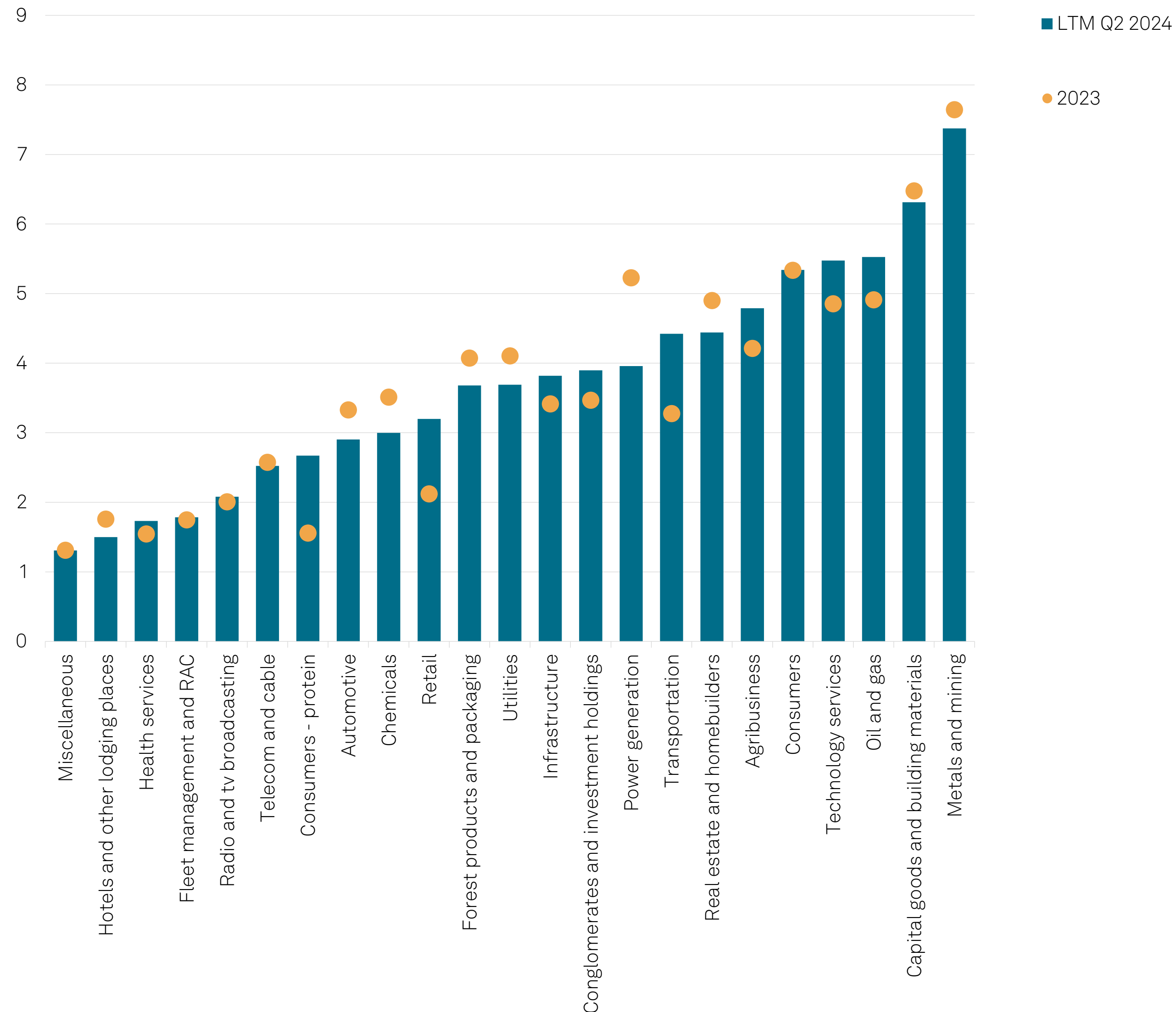


Source: S&P Global Ratings.

EBITDA interest coverages are improving slightly. This is most evident for protein companies, retailers, transportation, agribusiness, technology, and oil and gas companies (see chart 16).

Chart 16

Corporates' EBITDA interest coverage (x)



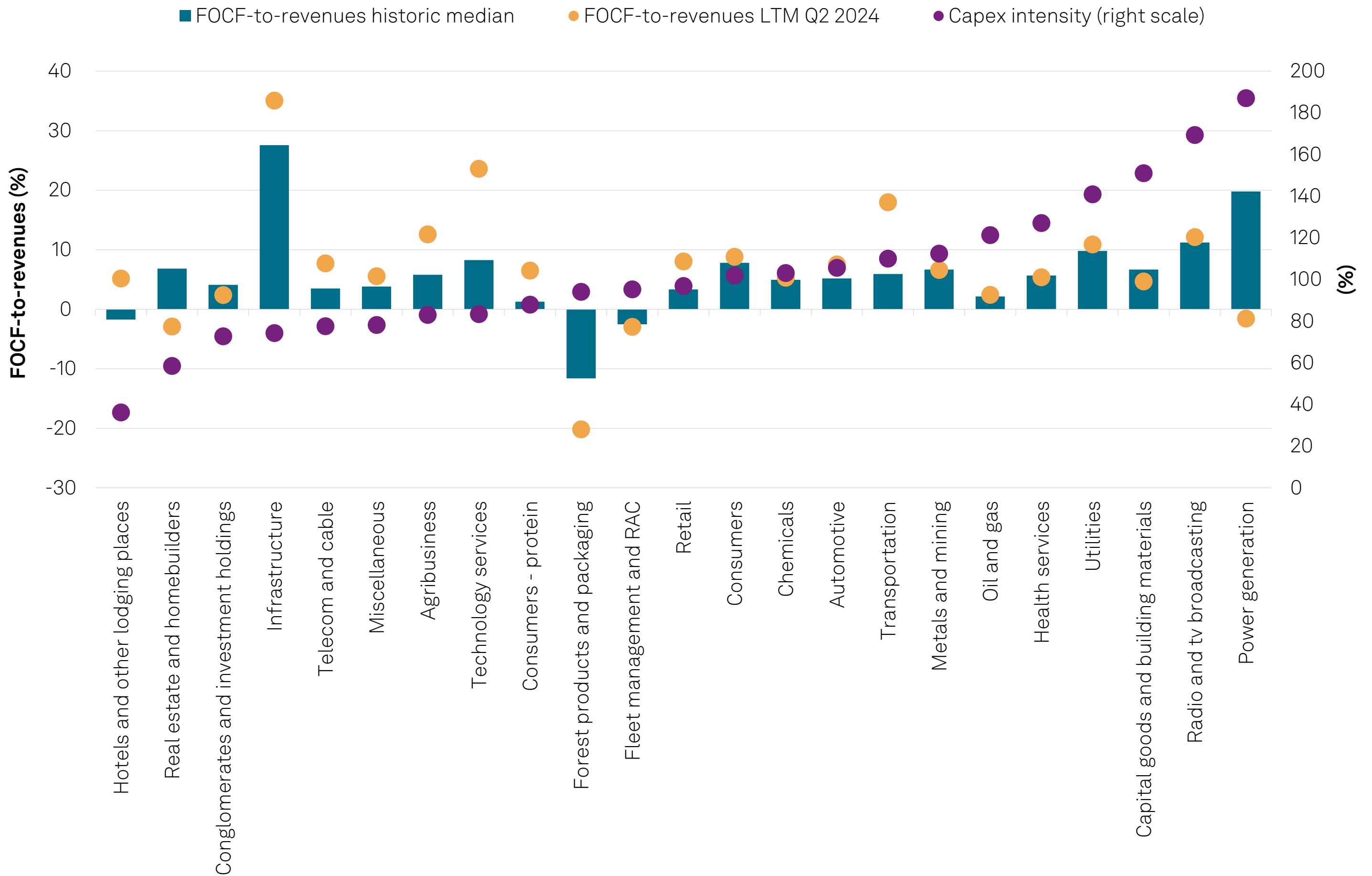
Note: Capex intensity is calculated by dividing last 12-month capex-to-assets/historic capex-to-assets.
LTM--Last twelve months. OCF--Operating cash flow=net income + D&A + other noncash items + change in working capital.
Source: S&P Global Ratings.

Cash generation is relatively good across sectors, but investment remains cautious. Most of the sectors have free operating cash flow-to-revenues ratios at or above historical levels (see chart 17), signaling it's a good time to consider investments. However, capex generally hasn't picked up accordingly. That's not the case for transportation, metals and mining, oil and gas, forest products, and other sectors, but it certainly is for sectors like agribusiness, telecom, and cable and real estate, which are facing volatile business dynamics.

Market access has improved in the past weeks, with several entities issuing cross-border debt. The trend is positive not only from a pure roll-over perspective but also because coupons are, in most cases, lower than previous transactions for the same issuers. We expect the trend to continue, though the pace of issuance may slow.

Chart 17

Operating cash generation and capex intensity



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

Financial Institutions

EM Asia: Tight Liquidity Shackles Some EM Asia Banks

Most emerging Asian banking sectors have sound deposits backed by large household savings, perceived safety of bank deposits due to highly supportive governments, and large branch networks to mobilize savings. However, slow deposit growth in markets like India, foreign currency liquidity challenges in Bangladesh, covenant breaches in Cambodia, and weak rural Chinese banking sector could hurt these sectors.

Slow deposit growth could dent Indian banks' growth and profitability

Liquidity is tightening for Indian banks. Slow deposit growth may compel banks to limit credit expansion, raise deposit rates, or seek wholesale funding. And the higher costs of such funding could strain margins and hurt profitability.

Indian banks' deposits growth is slow, with savings moving toward alternative avenues like mutual funds, equity investments, and real estate. Indian banks' loan-to-deposit ratio has crossed 80%, which is fairly high as banks are also required to hold 18% of liabilities in government securities and maintain 4.5% as cash reserves.

We believe slow deposit growth could constrain loan growth for many banks, and system-level credit growth could moderate to 14%-15% in fiscal 2025 (year ended March 2025), from about 16% in fiscal 2024. We believe that margins are set to fall to 3.1% in fiscal 2025, from 3.2% in fiscal 2024, due to deposit competition and policy rate cuts. Although if credit growth doesn't slow, and a period of deposit competition looms, bank margins could fall to 3%, and knock off 10 bps-15 bps from the banks' return on assets.

That said, the Indian banking sector is benefiting from strong economic growth of 6.5%-7% over the next three years. We expect that asset quality will continue to improve and weak loans will decline to 3% of total loans by March 2025, driven by healthy corporate balance sheets and tighter underwriting standards. Despite funding pressures and the gradual normalization of credit costs from their very low levels, we expect Indian banks' return on assets to be fairly healthy at over 1% in the next two years.

Bangladesh's political turmoil casts shadow on the banking sector liquidity

The political situation in Bangladesh has exacerbated the banking industry's frailties, including weak liquidity, thin capital buffers, and ailing asset quality.

Liquidity at several banks will, in our view, remain tight over the next 12 months. Last year, a shortage in foreign exchange availability hit hardest for some public-sector and Islamic banks, delaying payments on their U.S. dollar-denominated letters of credit. This situation had been improving before the riots started in June.

Remittance inflows could get volatile owing to the political uncertainty. Disruptions in economic activity and weak external demand should continue to squeeze exports. Interbank market activity will remain largely subdued.

Bangladesh's banking industry also faces structural asset-quality challenges from weak lending standards and foreclosure laws with state-owned banks holding substantial amounts of weak assets.

Funding remains a challenge for Malaysian Islamic banks too

The funding profiles of Malaysia's Islamic banks will likely stay weaker than their conventional peers, reflecting structural challenges in getting customers to switch from conventional banks for low-cost deposits. While promotional rates on term deposits can be effective, banks are likely to avoid offering a big premium to control the cost of funds. Islamic banks therefore end up negotiating slightly higher rates for wholesale deposits, which are more persistent because of a lengthier switchover process.

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The financing-to-deposit ratio of Malaysia's Islamic banks was 105% at the end of December 2023, and will continue to creep up as deposit growth lags financing growth. For large banks, we believe funding constraints could limit incremental growth To overcome this challenge, the sector has been gradually diversifying funding sources--for example, by increasing reliance on investment accounts.

Strengthening rural institutions could improve overall confidence in China's banking system.

China still has thousands of rural financial institutions, which make up 14% of the banking system's total assets. Individually, most of the rural financial institutions are insignificant and unlikely to pose a systemic risk to Chinese banking sector. Collectively, stress cases are more common for weak rural financial institutions. Frequent occurrences could weaken the public's confidence in Chinese financial system and may cause regional stress from time to time.

China is continuing its reforms for the country's 3,800 rural financial institutions. Liaoning Rural Commercial Bank will absorb 36 rural banks in Liaoning Province under a plan approved on June 20, 2024, by the National Financial Regulatory Administration.

The consolidation will take a long time but likely pay off. Many Chinese rural financial institutions are more susceptible to shock and deposits runs than larger peers, and improvement of the sector could reduce vulnerabilities in the financial system. We reckon that it would take four to five years to substantially clean up the high-risk rural financial institutions, and it would take another few years to reorganize these lenders and institutionalize changes in corporate governance, management structure, and risk culture.

EM EMEA: Sound Performance Despite Lingering Challenges

South Africa: Good performance amid still-tough operating environment

South Africa's structural economic issues and infrastructure gaps are undermining the country's growth prospects, but business sentiment is improving following the formation of the Government of National Unity. Coupled with tight lending conditions, credit growth remains subdued at 5% in 2024. While leverage remains stable, with private-sector credit to GDP hovering around 70%, high interest rates and elevated food prices will continue straining households' disposable income.

We, therefore, expect that the banking sector's credit loss ratio will average 1% of total loans through 2024--higher than the historical low of 0.75%. Similarly, nonperforming loans will likely remain elevated, above 4% of systemwide loans in 2024.

Nevertheless, we anticipate that the sector will maintain strong risk-adjusted returns of 15%-16%, on average, in 2024, supported by net interest margins and transactional revenue. This, in turn, will support banks' internal capital generation. South African banks will maintain robust capital buffers against the minimum requirements.

Finally, South African banks are less exposed to external refinancing risks than some other EMs, but the financial sector remains vulnerable to global investor sentiment and external financing conditions. Also, South Africa has deep liquid capital markets, which could prove helpful when banks start to issue additional loss-absorbing capacity debt after the finalization of regulatory calibration.

Turkiye: Gradual rebalancing

Slowing economic activity, tighter financing conditions, and a weaker lira are likely to erode borrowers' creditworthiness. We expect nonperforming loans to rise and banks' credit losses to increase to about 190 bps in 2024, from 140 bps in 2023. Provisioning efforts over the past two years and strengthened capital buffers should, however, help banks to absorb the costs.

The consistency of monetary tightening over the past year has improved market sentiment and increased the external debt rollover rate for banks. Assuming this continues, we expect banks to refinance most of the $107.3 billion in short-term debt as of June 30, 2024.

At the same time, external debt is building up again, leaving the sector highly exposed to market sentiment. Foreign currency liquidity (estimated at $150.1 billion as June 30, 2024) is a buffer against any unexpected reduction in rollover rates. That said, a portion of this liquidity is held at the central bank and may not be fully accessible. The unwinding of the foreign exchange-protected deposit scheme (9.1% of deposits at the end of August 2024) and the increasing attractiveness of the Turkish lira-denominated deposits are gradually reversing financial sector dollarization to 47.5% (including protected deposits and deposits in foreign currency) from about 68.2% a year ago.

Gulf Banks: Strong performance will continue in the absence of unexpected shocks

GCC banks had good performance in the first half of 2024 thanks to growing volumes, stable margins, and cost of risk, as well as strong efficiency. Lending growth was strong for the top 45 banks, mainly because of the good performance in Saudi Arabia and the United Arab Emirates. Nonperforming loans remained stable and coverage dropped slightly but is still at comfortable levels. Capitalization has also remained strong and supportive of banks' creditworthiness. We expect this performance to continue in the second half of the year.

A protracted, full-scale regional conflict remains outside our base case. GCC sovereigns and banks are relatively well positioned to navigate the adverse impacts of geopolitical risk, absent extreme scenarios such as the closure of key export routes or threats to domestic security. A sharp increase in uncertainty could trigger capital outflows or prompt sovereigns to liquidate external assets and provide support, as we saw in previous episodes of heightened geopolitical risk.

Although external debt has risen for Bahrain and Saudi Arabia, the risks are still in check. That's because the Saudi net external debt position remains small and thanks to significant regional deposits at Bahrain's banks, which we expect will remain stable in most scenarios. Qatar's external debt has stabilized, and we assume that any unexpected outflows will prompt government support, as occurred during the boycott in 2017.

Egypt: Banks' creditworthiness is closely linked to that of the sovereign

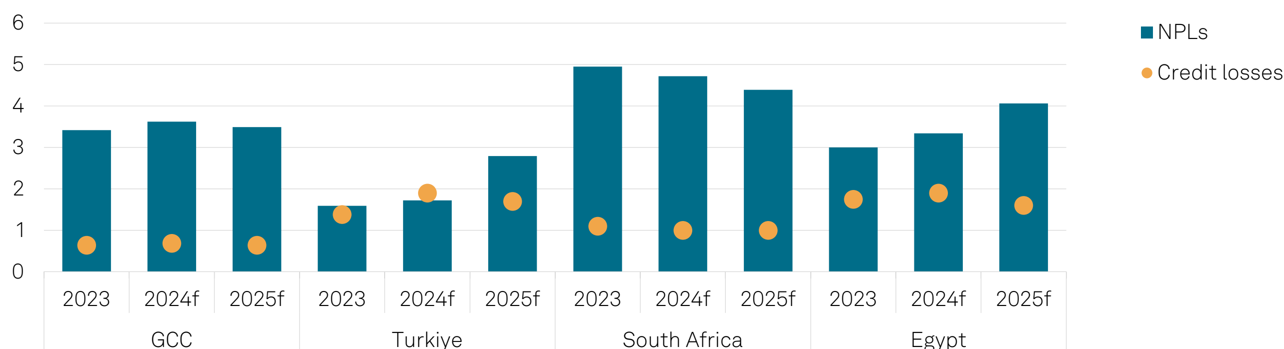
Banks are gradually releasing the restrictions to capital transfer that were introduced to manage the shortfall of foreign currency suffered since last year. Margins are better than expected thanks to high yields on government securities, which are offsetting a higher cost of funding. We expect a slight deterioration in asset quality owing to higher rates, depreciation of the pound, and SMEs exposures. However, we do not expect cost of risk to increase significantly.

Finally, reliance on external funding is easing thanks to the significant bilateral and multilateral support the sovereign received in the past few months. However, banks 'creditworthiness remains closely linked to the government as more than 50% of banks' assets, or 9x-10x their equity, is direct exposure to the government, through lending and holding of government bonds.

Chart 18

Asset quality metrics will likely weaken across the region

Nonperforming loans and credit losses (%)



f--Forecast. GCC--Gulf Cooperation Council. NPLs--Nonperforming loans. Source: S&P Global Ratings.

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

In Mexico, the increasing uncertainty about constitutional reforms and the government's fiscal trajectory could affect the business environment and present an obstacle to more dynamic credit expansion during the next 12-24 months. Measures that weaken checks and balances could dampen private-investor confidence and create perceptions of greater risk, potentially denting economic dynamics, credit growth, and asset quality. Moreover, the continued pressure on households' purchasing power and corporate margins--due to persistent inflation and high interest rates--will continue limiting banks' credit demand.

Colombia's internal demand is recovering, but slowly, so we expect credit growth to be marginal and the recovery in asset quality to be slower than expected. The persistently high interest rate has squeezed banks' profitability, weighing on funding costs and weakening asset quality. In our view, the recovery in banks' operating performance will take some time.

Brazil's credit growth has picked up, supported by the retail segment, and we expect credit growth of about 10%-12%. On the other hand, a higher interest rate in Brazil will likely pressure consumers and companies, leading to strains on asset quality metrics.

Low credit growth in Chile will likely persist due to low demand from corporates. We expect asset quality metrics to stabilize by the end of this year and start improving in 2025 as interest rates continue to fall, easing the strain on individuals and companies' income capacity.

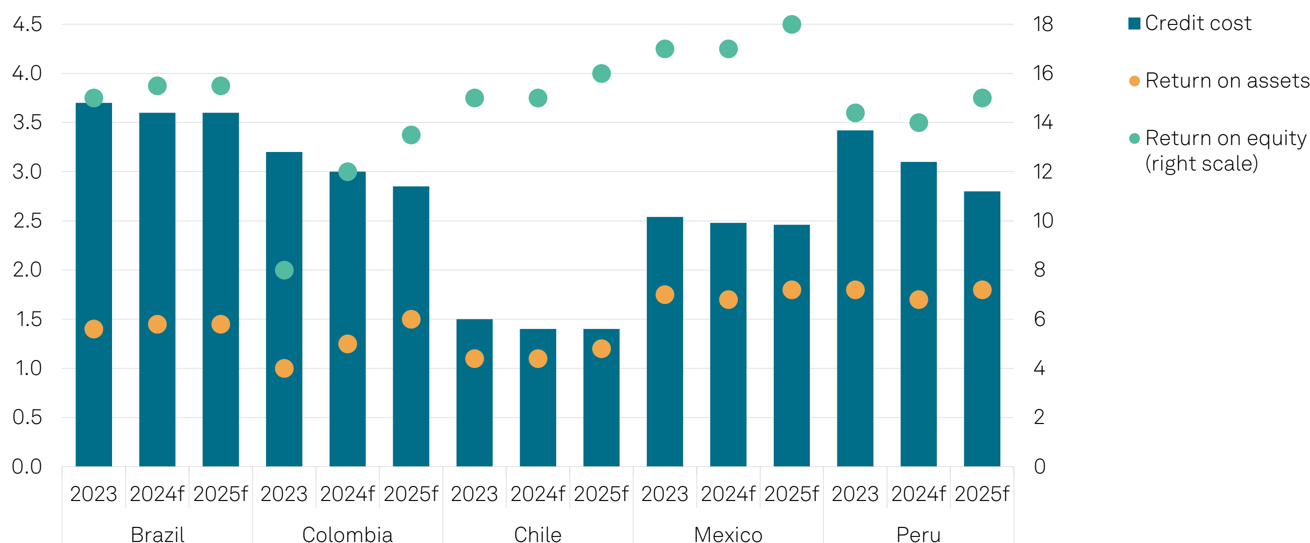
On the other hand, central banks in LatAm may have more room to ease rates after the 50-basis-point Federal Reserve rate cut in September, except for Brazil. A lower interest rate environment could be supportive of asset quality stabilization, but at the same time could narrow margins and profitability.

Policy uncertainty remains a key risk for banks in the region because it affects investor confidence and banks' operating performance. The impact of U.S. elections and China's slower economic growth may constrain economic growth for LatAm countries. Moreover, as new administrations in key Latin American counties begin to execute their plans, political uncertainty may emerge. Political noise could dampen investor sentiment and cause episodes of liquidity shortfalls or capital outflows. These risks may stress banks' asset quality metrics, but this effect could be mitigated by sound provisioning coverage and high regulatory capital buffers.

Chart 19

LatAm banks profitability remains robust

Credit cost, return on assets, and return on equity (%)



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

Appendix: Economic Data And Forecast Summaries

Table 4

Real GDP

(%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	5.3	-1.6	-3.5	3.3	2.2	2.5
Brazil	3.1	2.9	2.8	1.8	2.1	2.2
Chile	2.1	0.3	2.4	2.2	2.5	2.5
Colombia	7.3	0.6	1.7	2.5	2.8	2.9
Mexico	3.7	3.2	1.6	1.5	2.2	2.2
Peru	2.7	-0.5	2.7	2.7	2.9	3.0
China	3.0	5.2	4.6	4.3	4.5	4.5
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	8.9	3.5	5.1	4.8	4.5	4.4
Philippines	7.6	5.5	5.7	6.2	6.4	6.5
Thailand	2.6	1.9	2.8	3.1	3.0	3.1
Vietnam	8.0	5.0	6.2	6.8	6.7	6.6
Hungary	4.6	-0.7	1.8	3.0	2.7	2.5
Poland	5.5	0.2	3.0	3.4	2.9	2.8
Turkiye	5.3	4.5	3.1	2.3	2.9	3.0
Saudi Arabia	8.7	-0.9	1.4	5.3	4.0	3.6
South Africa	1.9	0.6	0.9	1.5	1.3	1.3

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	235.0	75.0	52.5	40.0
Brazil	9.3	4.6	4.3	3.8	3.5	3.5
Chile	11.6	7.6	4.2	3.9	3.3	3.0
Colombia	10.2	11.7	6.8	3.8	3.2	3.0
Mexico	7.9	5.5	4.8	3.9	3.2	3.0
Peru	7.9	6.3	2.4	2.1	2.1	2.0
China	2.0	0.2	0.5	1.0	1.2	1.6
India	6.7	5.4	4.5	4.6	4.6	4.1
Indonesia	4.2	3.7	2.4	2.6	3.0	3.0
Malaysia	3.4	2.5	2.4	2.5	2.4	2.3
Philippines	5.8	6.0	3.4	3.1	3.0	3.0
Thailand	6.1	1.2	0.8	1.2	1.1	1.1
Vietnam	3.2	3.3	3.6	3.1	3.4	3.5
Hungary	15.3	17.3	3.9	3.2	3.3	3.3
Poland	13.3	10.9	4.1	4.3	3.2	3.1
Turkiye	72.3	53.8	57.1	27.6	18.0	11.0
Saudi Arabia	2.5	2.5	1.8	1.6	1.5	1.5
South Africa	6.9	5.9	4.8	4.0	4.0	3.8

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	11.25	10.25	9.00	9.00
Chile	11.25	8.25	5.00	4.00	4.00	4.00
Colombia	12.00	13.00	9.50	7.50	7.00	7.00
Mexico	10.50	11.25	10.00	7.50	7.00	7.00
Peru	7.50	6.75	5.00	4.00	4.00	4.00
China	2.75	2.50	2.20	2.20	2.20	2.20
India	6.50	6.50	6.00	5.50	5.25	5.00
Indonesia	5.50	6.00	5.50	4.75	4.75	4.75
Malaysia	2.75	3.00	3.00	2.75	2.75	2.75
Philippines	5.50	6.50	5.50	4.25	4.00	4.00
Thailand	1.25	2.50	2.25	1.75	1.75	1.75
Hungary	13.00	10.50	6.25	4.25	3.00	3.00
Poland	7.50	5.75	5.75	5.00	3.00	3.00
Turkiye	9.00	45.00	50.00	35.00	20.00	15.00
Saudi Arabia	5.00	6.00	5.00	3.50	3.50	3.50
South Africa	7.00	8.25	7.50	6.50	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	131	297	930	1,450	2,150	2,750
Brazil	5.16	5.00	5.30	5.47	5.52	5.55
Chile	873	840	935	933	938	940
Colombia	4,255	4,327	4,010	4,218	4,238	4,250
Mexico	20.12	17.74	18.15	19.64	19.88	20.00
Peru	3.83	3.74	3.75	3.79	3.85	3.85
China	6.73	7.08	7.13	6.96	6.87	6.79
India	79.99	82.79	83.81	84.52	85.99	87.38
Indonesia	14,853	15,237	15,892	15,563	15,663	15,700
Malaysia	4.40	4.59	4.49	4.25	4.23	4.21
Philippines	54.48	55.64	56.61	54.66	53.09	51.54
Thailand	35.08	35.12	35.05	33.33	33.13	32.95
Hungary	375	353	358	347	346	348
Poland	4.20	4.20	3.92	3.72	3.75	3.75
Turkiye	16.44	24.73	32.95	38.13	42.88	48.19
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75
South Africa	16.38	18.45	18.24	17.25	17.66	18.00

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	9.4	8.8	8.0	7.9
Brazil	9.5	8.0	7.2	7.9	8.2	8.1
Chile	7.8	8.6	8.4	8.2	7.9	7.6
Colombia	11.2	10.2	10.5	10.4	10.0	9.9
Mexico	3.3	2.8	2.9	3.7	3.6	3.5
Peru	7.7	6.9	6.0	6.0	6.0	6.0
China	5.6	5.2	5.1	5.1	5.0	5.0
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	3.9	3.8	3.7	3.6
Thailand	1.2	1.0	1.0	1.0	1.0	1.0
Hungary	3.7	4.0	4.3	4.0	3.6	3.5
Poland	3.2	2.8	2.9	2.7	2.6	2.5
Turkiye	11.2	9.8	9.4	10.2	10.5	10.5
Saudi Arabia	5.6	5.2	4.7	4.4	4.0	3.8
South Africa	33.5	32.5	33.3	31.0	30.0	30.8

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

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