S&P Global
Ratings

Credit Conditions Emerging Markets Q2 2025

The Tariff Storm

March 26, 2025

This report does not constitute a rating action

Key Takeaways

Emerging markets' (EMs') resilient credit conditions are likely to be tested due to increasing trade protectionism in the U.S. The ensuing uncertainty has already impacted market sentiment. We anticipate that investment in key EMs will be subdued until there is greater clarity regarding the effects of protectionism on economic growth, inflation, and interest rates. Some damage has already occurred, and we expect slower economic activity to weigh on credit fundamentals and market sentiment.

Growing trade protectionism is a major risk for EMs. The announced and anticipated U.S. tariffs may provoke retaliatory measures from targeted countries, potentially leading to a trade war. In the short term, global trade disruptions could dent capital and investment flows, cause a significant economic slowdown, and reignite inflationary pressures. Long-standing U.S. tariffs and corresponding retaliatory actions from other nations may disrupt supply chains and accelerate relocation efforts. The trajectory of interest rates in this scenario is uncertain; while renewed inflationary pressures and a strong dollar could keep rates elevated, a sudden demand shock might necessitate monetary stimulus.

In our baseline, EM credit conditions will likely weaken over the coming quarters. Tariffs are expected to impair economic growth, investment, and market sentiment, decreasing demand for various goods and services. Financing conditions for EMs may deteriorate; although the interest-rate trajectory is uncertain, volatile market conditions are likely to increase borrowing costs and restrict market access for sectors affected by tariffs and for lower-rated issuers.

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 March 19, 2025.

Regional Credit Conditions Chair

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

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Top EM Risks

Increasing protectionism leads to a trade war

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

The Trump administration announced new tariffs on a broad spectrum of goods and countries, retaliatory measures from targeted countries are to be expected, which could lead to a full-blown trade war. The short-term impact of global trade disruption would be felt in capital and investment flows, a material economic slowdown, and potential for resumed inflationary pressures. Long-standing tariffs from the U.S. and respective retaliatory measures from other countries would likely result in supply-chain disruptions and accelerate relocation efforts. In such a scenario, EMs would probably search for new trade partners, which might prove effective over the medium term, but the short-term impact would be significant for many sectors and the overall economy.

U.S. unilateralism drives geopolitical fragmentation and undermines credit fundamentals

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

The Trump administration is taking a radical shift with respect to global cooperation and support for historical allies. The potential for a U.S. withdrawal from global bodies such as the UN and NATO could result in a substantial disruption for economic prospects and capital flows. A sudden suspension of U.S. aid to Ukraine would require a significant effort from Europe, demanding major resources to continue defending Ukraine's territory. The fallout could trigger risk aversion and a flight to quality; EMs would be the most vulnerable to a risk-off environment. The conflict in Gaza between Israel and Hamas has resumed, and risks for escalation are growing. The key factor would be if Iran steps in to support the Houthis or its other proxies, and if the U.S. decides to directly attack Iran.

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

New protectionist measures have the potential to boost inflation in the U.S. and halt the Fed's monetary easing, which could worsen financing conditions for EMs. The path for U.S. interest rates is not clear, since a sizeable demand shock could outweigh the effect of tariffs in prices and inflation, which could be supportive for additional monetary easing. A pause in, or slower, Fed monetary easing could shrink the room for EM central banks to continue monetary easing. Lingering high interest rates in the U.S. could also strengthen the dollar, which could trigger inflation in EMs. Such conditions could also undermine many sovereigns' fiscal consolidation plans, as borrowing costs remain high.

China's economy: Deepening deflationary spiral drags down the growth momentum as consumers and producers turn cautious

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

China's economic growth could sharply slow if U.S. trade tariffs increase. Weak domestic and foreign demand could worsen overcapacity and price pressures, lowering corporate revenues and prompting capital expenditure cuts by manufacturers. The increasing caution among households due to rising unemployment risks will dampen consumption further. A combination of slower exports, weak domestic consumption, and a persistent property crisis could trigger a hard landing for the economy. China's sluggish economic growth could spill over to the region's economies and EMs reliant on China for tourism, exports, and finance.

U.S. shifting stance towards development assistance

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

The Trump administration is reviewing and, in many cases, canceling funding allocated to EMs and frontier economies (FMs) for development and health programs through the USAID agency and other assistance initiatives. The administration is also reviewing its participation in Multilateral Lending Institutions (MLIs), which are key to funding development projects across EMs and FMs. Some countries may struggle to replace U.S. assistance, potentially putting pressure on their domestic finances.

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. Ongoing La Niña phenomenon, 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

Tariff Of Threat?

EM resilient credit conditions will likely be tested by U.S. radical policy shift and growing protectionism. Over the past few quarters, EMs have shown a favorable rating performance thanks to strong investor appetite for EM debt--albeit at high interest rates--and sound economic activity. U.S. policy decisions remain fluid, which results in a high degree of uncertainty to our baseline assumptions. That said, there are key aspects about President Trump's measures that we expect to linger during his term; specifically, tariffs on Chinese imports and other key trade partners, the renegotiation of key trade agreements such as the USMCA, and lower support for development initiatives in other countries. We expect these factors will likely undermine EM credit conditions through weaker economic prospects, volatile markets, and worsening financing conditions.

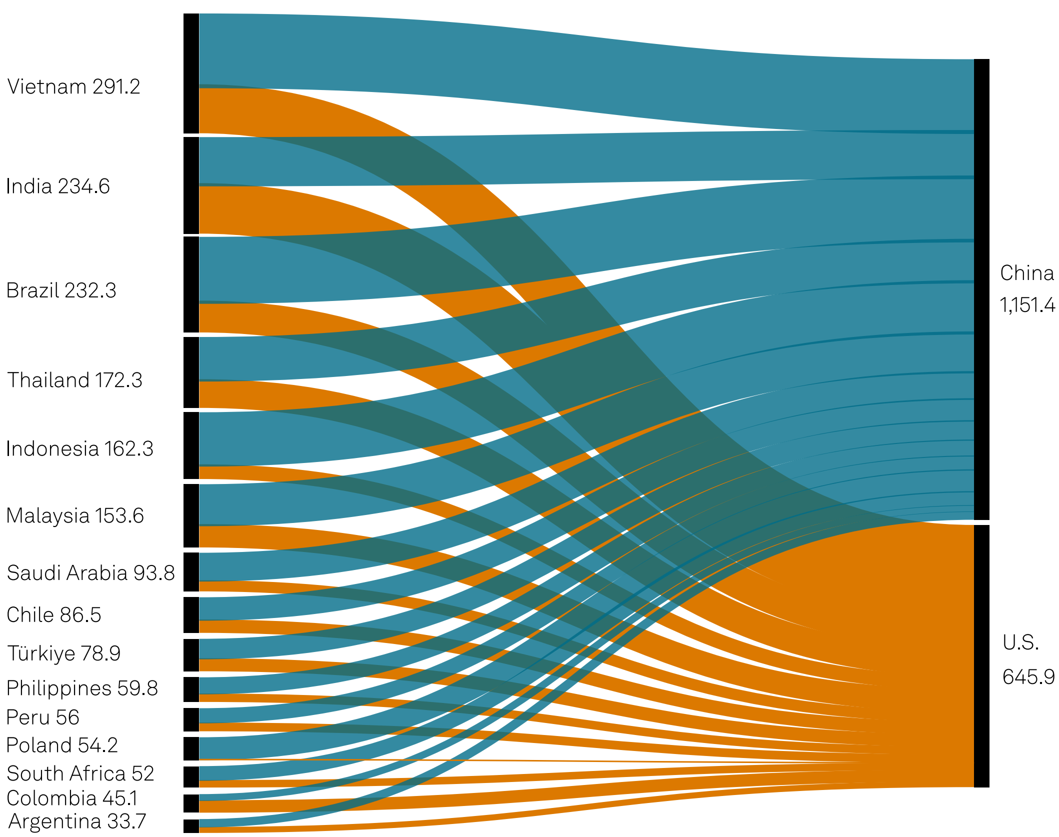
U.S. tariffs are here, will these lead to a trade war?

Global trade is a key economic driver for many EMs. Consequently, a full-fledge trade war causing supply-chain dislocation and trade flow disruption, could have a severe impact on many EMs' economic activity. To large degree, the U.S and China are the main epicenters of trade (chart 1), providing for the largest consumer markets given the size of their economies. But both countries are also key manufacturing hubs, while their supply chains are largely integrated with key EMs.

Chart 1

U.S and China are the main epicenters of EM trade

2023 total trade flows (exports plus imports in bil. $)*



*Excluding Mexico, since it has the largest trade relation with the U.S. totaling $682.5 billion and exchanges relevant trade flows with China totaling $118.2 billion. Source: S&P Global Market Intelligence.

Assessing the full impact of announced and expected U.S. tariffs on key EMs is currently difficult. This is due to President Trump's inconsistent implementation and uncertainty about how long the tariffs will remain in place. A major risk lies not only in the effects of the initial round of tariffs on economic activity and investor confidence, but also in the potential responses from targeted countries (see the infographic below).

Imposed and announced tariffs have primarily impacted the U.S.'s largest trade partners, China and Mexico, leading to significant economic spillovers. China has announced retaliatory measures and policy stimulus to mitigate the effects of tariffs. In contrast, Mexico is negotiating with the U.S., offering concessions on immigration, enhancing its fight against organized crime, and considering tariffs on Chinese imports. Meanwhile, other countries are bracing for reciprocal tariffs, which could be particularly harmful for some Asian economies (for more details, see the macroeconomic section below).

Global trade and multilateralism have driven economic activity for decades, from the General Agreement on Tariffs and Trade in 1947 to the establishment of the World Trade Organization in 1995. Many industries depend on these foundations, with global supply chains leveraging each country's competitive advantages. Growing protectionism undermines these foundations, and a full-scale trade war could disrupt the global economy, causing ripple effects on markets and capital flows.

The shifting global trade landscape creates uncertainties regarding potential winners. Over the medium term, we expect considerable changes in trade flows, and new commercial agreements. For example, China has diversified its export destinations over the past few years. Other countries have increased trade with the U.S. Nevertheless, we can't rule out additional protectionist measures from the U.S. to distance itself from Chinese goods, including tighter rules of origin to reduce Chinese components in final goods. At the same time, we can't exclude the possibility of other countries, including EMs, imposing tariffs on Chinese imports to protect domestic industries. Non-tariff retaliatory measures from China are also likely, especially in critical minerals and technological components, in which China dominates. All factors considered, it's highly uncertain which countries and sectors could benefit from a new global trade landscape.

Key tariff/trade actions since President Trump's second term

ACTION ● U.S. ○ Non-U.S.

JANUARY 2025

● **Jan. 20**
President Trump issues the "America First Trade Policy" Memorandum ordering several federal agencies to conduct a comprehensive review of U.S. trade and economic policies, with most recommendations due by April 1, 2025.

FEBRUARY 2025

● **Feb. 1**
Trump signs executive orders to levy:
1) 25% tariffs on imports from Canada (10% on Canadian oil and energy products)
2) 25% tariffs on imports from Mexico
3) 10% additional tariffs on imports from China.

○ **Feb. 1**
Canada announces 25% retaliatory tariffs on C$155 billion worth of U.S. goods.

Mexico also declares its intention to impose equivalent tariffs on U.S. goods.

● **Feb. 3**
The new tariffs on Canada and Mexico are suspended for one month.

● **Feb. 4**
The new tariffs on China become effective.

○ **Feb. 4**
China announces tariffs of 10% and 15% on select U.S. goods, effective Feb. 10, 2025. It also expands export controls on critical minerals, adds two U.S. companies to its Unreliable Entity List, and initiates an antitrust investigation into Google.

● **Feb. 11**
Trump signs executive orders to reinstate the full 25% tariff on steel imports, and increase tariffs on aluminum imports to 25%, effective March 12, 2025.

● **Feb. 13**
Trump issues a memorandum laying out the plan to impose reciprocal tariffs, calling on several federal agencies to assess within 180 days whether remedies are necessary to ensure reciprocal trade relations with each trading partner. He also suggests additional tariffs on cars, semiconductors and pharmaceuticals with limited implementation details.

○ **Feb. 13**
The European Commission says the EU will react firmly and immediately against unjustified barriers to free and fair trade.

● **Feb. 26**
Trump suggests 25% tariffs on imports from the EU without implementation details.

● **Feb. 27**
Trump announces additional 10% tariffs on imports from China.

MARCH 2025

● **March 4**
Trump suggests reciprocal tariffs will become effective on April 2, 2025 in his address to a joint session of Congress.

The new tariffs on Canada and Mexico, and the additional 10% tariffs on China become effective.

○ **March 4**
China announces tariffs of 10% and 15% on various U.S. agricultural products, effective March 10, 2025, adds 10 U.S. companies to its Unreliable Entity List, and adds 15 U.S. companies to its export control list.

Canada announces 25% tariffs on C$155 billion of U.S. goods. The tariffs on C$30 billion become effective March 4, 2025, and the tariffs on the remaining C$125 billion are due to become effective in 21 days.

● **March 5**
Trump grants automakers one-month tariff exemption.

● **March 6**
Trump suspends the tariffs on Canada and Mexico imports covered under USMCA until April 2, 2025.

○ **March 7**
Canada delays the retaliatory tariffs on C$125 billion worth of U.S. goods after the suspension by the U.S.

○ **March 10**
Ontario announces 25% surcharge on electricity exported to Michigan, Minnesota and New York, effective March 10, 2025.

○ **March 11**
Ontario suspends the electricity surcharge after Trump threats to double tariffs on steel and aluminum imports from Canada.

● **March 12**
The new tariffs on steel and aluminum products become effective.

○ **March 12**
To counter the steel and aluminum tariffs:
- Canada announces 25% tariffs on C$29.8 billion worth of U.S. goods, effective March 13, 2025.
- The European Commission announces counter tariffs on €26 billion worth of U.S. goods, effective April 2025.

● **March 13**
Trump threatens a 200% tariff on alcohol imports from the EU.

APRIL 2025

● **April 1**
Relevant federal agencies are due to deliver reports to Trump outlining recommendations per the "America First Trade Policy" Memorandum.

● **April 2**
The suspended tariffs on Canada and Mexico are due to become effective.

As of March 14, 2025. Source: S&P Global Ratings.

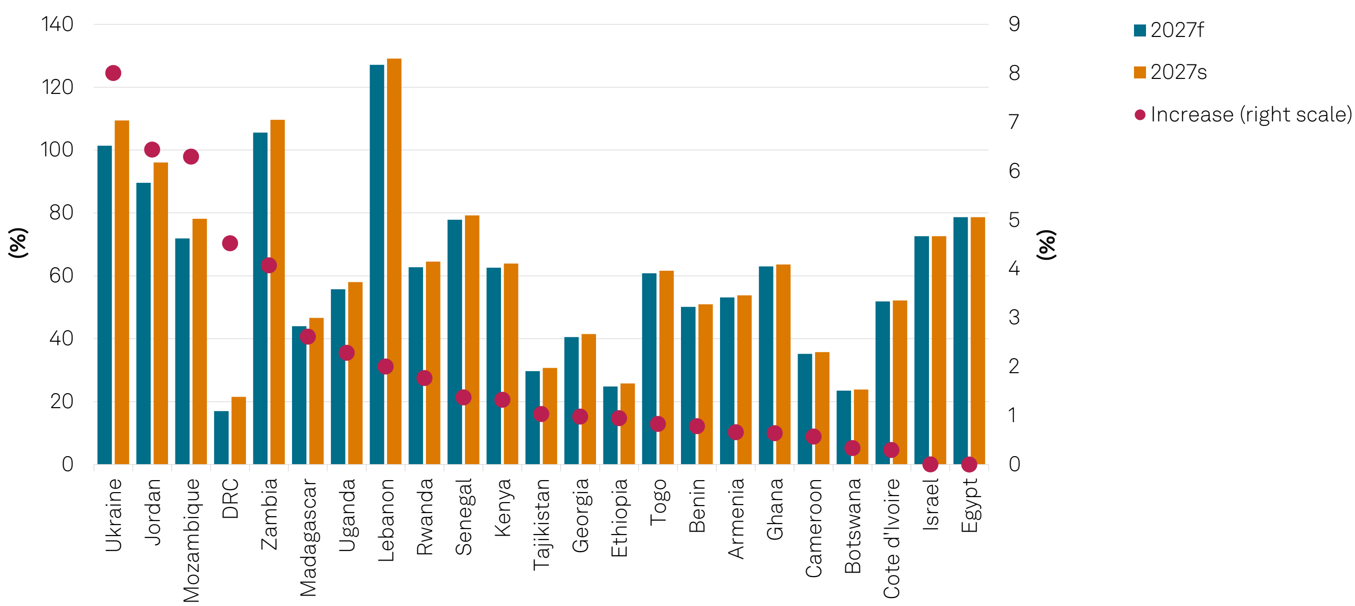
EMs In The Scope Of A Changing World Landscape

The impact from U.S. radical shift in foreign policies could spill over to EMs. Increasing protectionism is not the only change, the U.S. is rethinking its role in foreign affairs, especially with respect to military support for its allies and foreign aid for economic development. The guidance from President Trump is that U.S. foreign policy "shall champion core American interests and always put America and American citizens first". This has resulted in the U.S. questioning its current military alliances and its ongoing support to Ukraine. Furthermore, the U.S. is reviewing, canceling, or pausing all support and grants under the USAID agency; it will likely cancel the African Growth and Opportunity Act; and reconsider its support for MLIs. If the U.S. decides to fully cancel all its foreign aid assistance, the short-term shock for many EMs and FMs could be meaningful. A permanent halt to U.S. foreign assistance, assuming each recipient country makes up for the equivalent of promised 2024 US Foreign Assistance each year, would increase debt by 2% of GDP for the recipient nations, versus our current forecast (see chart 2).

Chart 2

U.S. assistance is meaningful for many EMs and FMs

Debt to GDP



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

A potential ceasefire and the resolution of the Russia-Ukraine war could certainly be a positive development, since these countries are large suppliers of key commodities and minerals. Initially, the conflict caused relevant pressures on grain, energy, fertilizers and other key metal prices. The conflict's resolution matters; for instance, the weakening of longstanding alliances could lead to future conflicts. Furthermore, current the state of affairs has already led Europe to boost its defense spending plans, which could result in fiscal pressures down the road and limit the ability of these countries to support EMs and FMs' development or curtail foreign direct investment to these countries.

In the Middle East, the ceasefire between Hamas and Israel has been broken and Israel has resumed hostilities in Gaza. The U.S. is clearly backing Israel and has recently launched attacks against the Houthis in Yemen. The risk for escalation has risen and the key factor would be if Iran steps in to support the Houthis or its other proxies, and if the U.S. decides to directly attack Iran. In our view, the main consequences of conflict escalation could be trade-route disruptions, market volatility, and higher energy prices.

President Trump's policy to curtail immigration, deport illegal migrants, and protect the country's borders could also have an impact on many EMs and FMs, especially across LatAm. Remittance flow to many countries in LatAm is significant relative to their GDPs or domestic consumption. Mass deportations and higher restrictions on migratory flows could dent these transfers, depressing domestic demand (see chart 15 in the sovereign section).

Uncertain Path For Policy Rates And Financing Conditions

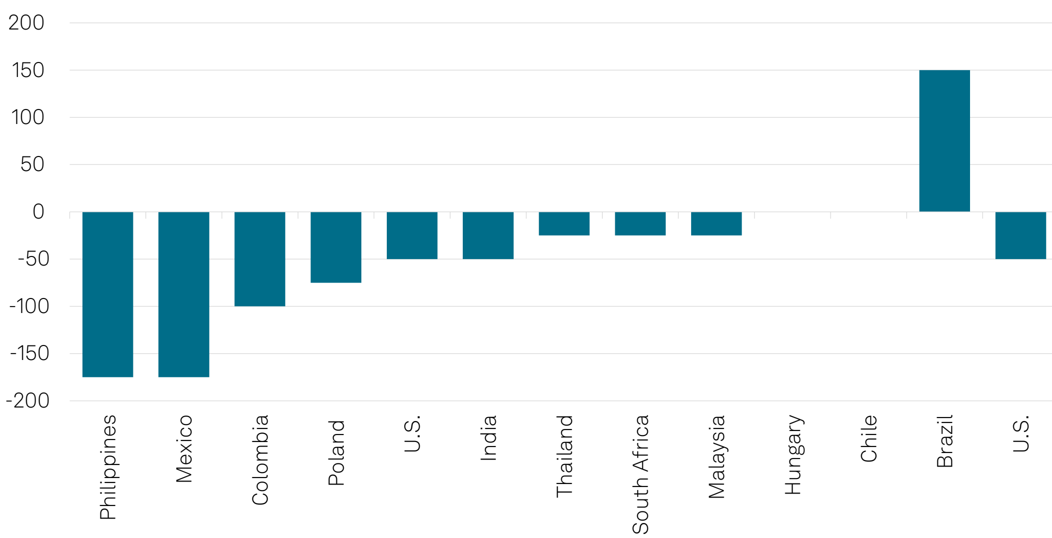
New protectionist measures and tighter immigration policies have the potential to boost inflation in the U.S. and halt the Fed's monetary easing, which could worsen financing conditions for EMs. The path for U.S. interest rates is not clear, since a sizeable demand shock could outweigh the effect of tariffs in prices and inflation, which could be supportive for additional monetary easing. Currently, concerns over rising inflationary pressure are dominating the Fed's posture, as seen in its latest decision to pause interest rate cuts.

EM central banks will exercise caution to preserve the interest-rate differential with the U.S., a key driver of capital flows, which in turn influence exchange rates and observed and expected inflation. Currently, the market's expectation of a median policy rate cut is 50 basis points (bps; chart 3). This will influence the future path of borrowing costs in emerging markets, which remain above long-term average in the investment grade spectrum, delaying their descent and eroding corporate margins.

Chart 3

A pause in the Fed's interest-rate cuts could mean less interest rate cuts for EMs

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



Data as of March 19, 2025. Sources: Haver Analytics and S&P Global Ratings.

China's Slower Growth Poses Risks For EMs

China continues to grapple with economic challenges despite the better-than-expected performance in 2024, aided by very strong export growth. China's domestic consumption and the employment outlook remain subdued, while continuing to deal with the sticky property crisis. With the risk of higher U.S. trade tariffs (Mr. Trump's election rhetoric points to 60%), Chinese exports could face greater curtailment and exacerbate overcapacity. The latter could further compound the deflation spiral, weighing on corporate earnings. Our baseline assumes the level of effective tariffs imposed on Chinese goods at 35%. We forecast China's GDP as 4.1% in 2025 and 3.8% in 2026. A slower Chinese economy could compound with other risks and would undermine economic growth for many EMs, for which China is a key destination for their exports (see table 2).

China's government is issuing more debt to drive various policy initiatives to revive economic confidence. At the recent Two Sessions meeting, the government announced an expansion of its fiscal debt. We project that China's net borrowings will increase by more than 50% in 2025, raising its long-term commercial borrowing to US$2.1 trillion from US$1.7 trillion in 2024. While the amount of new debt to be raised is significant and would worsen the country's fiscal deficit, the announced stimulus is somewhat restrained. This reflects China's fiscal oversight and buffer against more export restrictions by the U.S. and its allies. That said, China's rising indebtedness remains a factor to monitor.

Table 2

A slower Chinese economy could spill over to many key EMs

Exports to China (as % of GDP)

Lower → Higher

Exporting country	Raw material	Intermediate	Consumer goods	Capital goods	Total
Vietnam†	1.40	2.47	1.61	8.51	13.98
Chile§	6.77	4.29	0.08	0.01	11.15
Malaysia*	0.53	2.75	2.25	4.13	9.66
Peru§	7.60	0.90	0.14	0.00	8.64
Thailand*	1.93	2.48	0.73	1.52	6.66
Indonesia§	1.40	2.58	0.71	0.05	4.73
Brazil*	3.87	0.40	0.04	0.01	4.32
South Africa*	2.27	0.78	0.03	0.02	3.10
Philippines§	0.62	0.34	0.29	1.19	2.43
Hungary§	0.02	0.11	0.29	0.48	0.91
Argentina§	0.61	0.14	0.01	0.00	0.75
Saudi Arabia§	0.09	0.59	0.01	0.03	0.71
Colombia§	0.53	0.12	0.02	0.00	0.67
India§	0.16	0.17	0.08	0.05	0.46
Mexico§	0.26	0.01	0.02	0.12	0.42
Poland§	0.02	0.13	0.07	0.14	0.36
Turkiye*	0.14	0.03	0.03	0.02	0.22

*Data as of 2024. †Data is as of 2022. §Data as of 2023. Sources: WITS, Haver Analytics, and S&P Global Ratings.

Increasing Protectionism And Volatility Will Weigh On Rating Trends

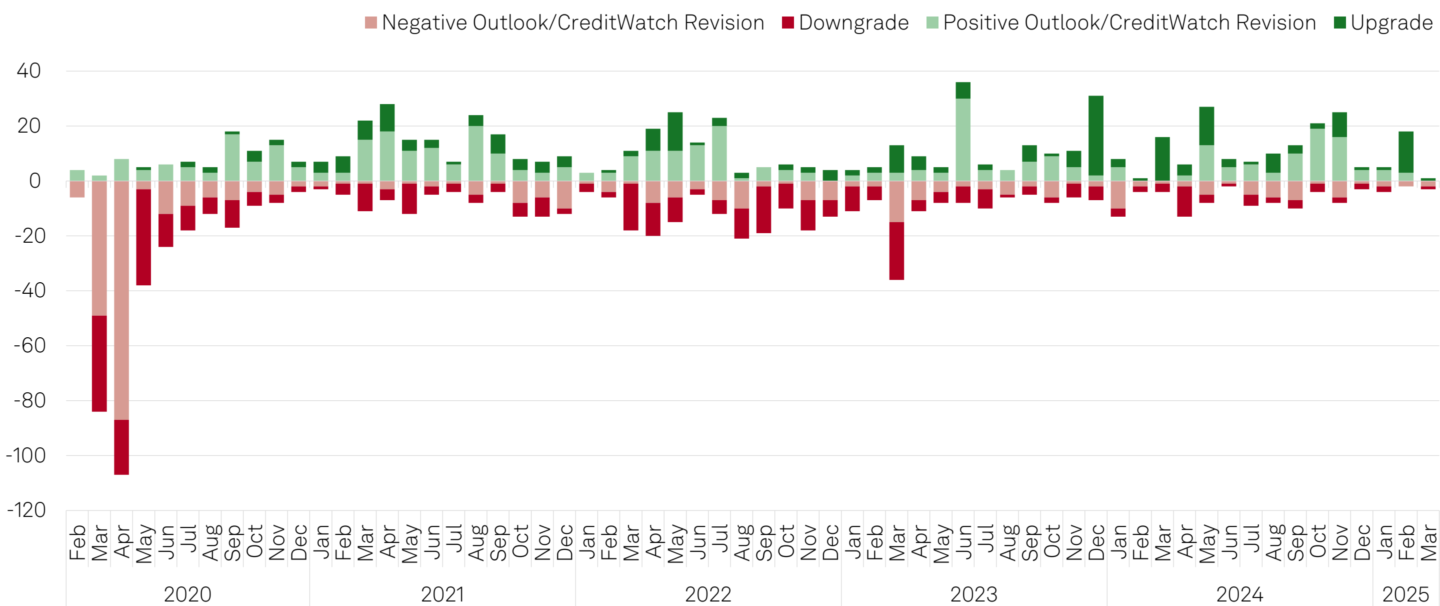
EMs' credit performance has been resilient so far, supported by favorable financing conditions and sound economic activity. This resilience will be tested by challenging conditions ahead. Three ongoing dynamics could be the main drivers of credit erosion:

- Growing protectionist measures could dent trade flows and economic activity, depending on the scope and the how long will tariffs stay in place.
- U.S. policies, including ongoing and recently announced tariffs, along with more restrictive immigration policies, could reignite inflation, leading to lingering high policy rates. These conditions could also lead to the dollar's prolonged strength. As a result, EM currencies could weaken, in some cases, inflationary pressures could rise, while undermining the ability of central banks to continue with monetary easing.
- The lack in predictability with respect to key U.S. policies such as the path of Fed's interest rates, tariffs, immigration, and foreign affairs, is resulting in volatile market conditions, which will likely weaken financing conditions and increase the risk-averse market sentiment. EM issuers could struggle to access the debt capital markets and will likely face high borrowing costs.

Chart 4

EMs' resilient credit performance will be tested

The number of rating actions in key EMs



Data as of March 15, 2025. 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

Primary contacts

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

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

Valerijs Rezvijs
London
valerijs.rezvijs
@spglobal.com

Harumi Hasegawa
New York
harumi.hasegawa
@spglobal.com

Uncertainty Will Take A Toll On Investment

- The lack of visibility over U.S. trade policy is likely to delay investment decisions, with adverse implications for GDP in most EMs this year.
- The direct impact of announced tariffs will be modest in most major EMs except for Mexico and in Asia. However, if tariffs lead to a deterioration in economic growth in the U.S., other major advanced economies, and China, the knock-on effects in EMs could be substantial.
- As we learn more about the specifics of U.S. trade policy, we will also better understand its impact on EMs. However, we believe that, on balance, the risks to our growth outlook are mostly to the downside.

(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 projections for EMs are subject to a higher-than-normal degree of uncertainty, primarily due to low levels of visibility regarding U.S. trade policy. We believe this uncertainty alone will depress economic growth in EMs, as investment decisions are delayed until there is more clarity in U.S. trade policy. The direct impact of tariffs will be modest in most major EMs, except for Mexico and in Asia. However, if tariffs cause growth to erode in the U.S., other major advanced economies, and China, the spillover effects on most EMs could be significant. We expect to learn more details about U.S. tariffs in the coming weeks and months, which could influence our growth expectations for EMs. However, on balance, we believe the risks to our growth outlook are mostly to the downside.

Our Assumptions For U.S. Trade Policy

U.S. trade policy is likely to remain highly unpredictable in the coming months. We will likely get more details as early as April 2, when reciprocal tariffs are expected to be announced under the U.S. administration's Fair and Reciprocal Plan. However, even after this announcement, more modifications to U.S. trade policy could take place, and the duration of tariffs could be subject to significant changes. Our baseline assumes the following:

- The 25% U.S. tariff on steel and aluminum to remain in place indefinitely.
- Reciprocal U.S. tariffs to be announced in April for all countries, regardless of their trade balance with the U.S. This announcement will also likely incorporate 10% tariffs on autos, pharmaceuticals, and semiconductors.
- The additional 20% U.S. tariff on goods imports from China remains effective indefinitely.
- The effective U.S. tariff on Mexico and Canada to be roughly 10%, and to remain in place throughout 2025. Despite the initial 25% tariff announcement, tariff exemptions on USMCA-covered goods is a sign that negotiations between U.S., Mexico, and Canada are progressing. We therefore think it is likely the actual tariff will end up being lower than the initial 25% announced.
- We expect USMCA to remain in place after the 2026 review, at which point we assume U.S. tariffs on Mexico and Canada will be removed. Some modifications on topics such as rules of origin seem likely. Despite those possible changes, we expect the reviewed USMCA to preserve the ongoing strong trade ties between the U.S., Canada, and Mexico.

What Our Assumptions On U.S. Trade Policy Mean For EMs

The direct impact of U.S. tariffs we assume in our baseline is modest for most major EMs, except for Mexico and in Asia. We outline the impact of specific tariffs below.

Tariffs On Steel, Iron, And Aluminum

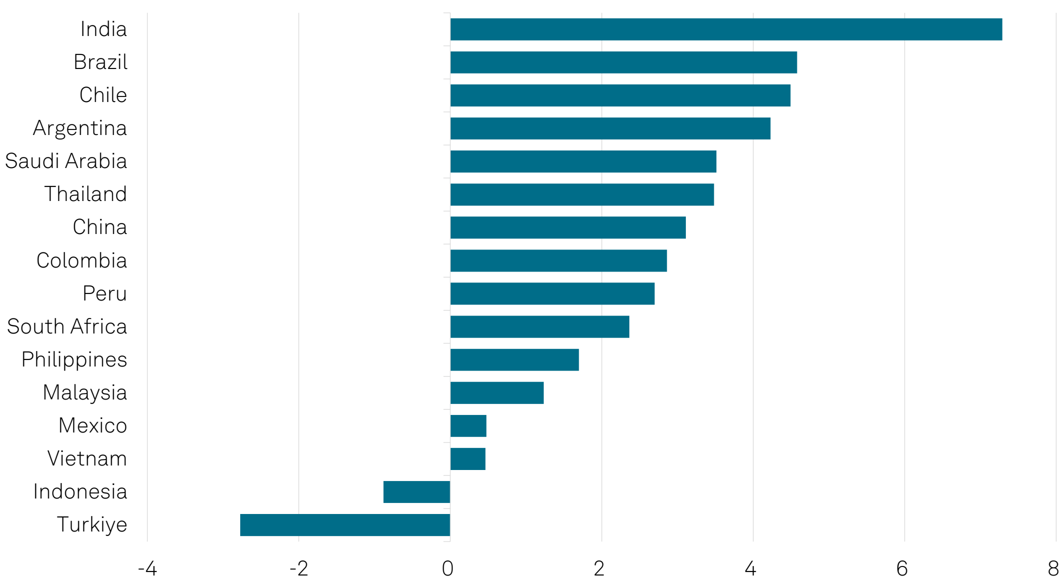
Major EMs' exports of these metals to the U.S., as a share of their GDP, is relatively small. It's the highest for Vietnam and Mexico. However, even in those countries, such exports account for just about 0.3% of GDP.

Reciprocal Tariffs

It is not clear how tariff differentials will be calculated by the U.S. administration to implement reciprocal tariffs, given the complexities of the trade classification system. U.S. officials have also said that non-tariff barriers, such as value-added taxes, would also be considered, which increases the intricacy of estimating the potential reciprocal tariffs. We made our own estimates of trade-weighted tariffs based on the HS code down to six-digits, to calculate tariff differentials between the EMs that we cover and the U.S. According to that methodology, India stands out as having the widest tariff differential with the U.S. at 7.3 percentage points (ppts; see chart 5). Brazil, Chile, and Argentina have roughly 4.5 ppts higher tariffs than the U.S. on them. For the rest of EMs, tariff differentials are 3.5 ppts or lower.

Chart 5

India stands out as having the widest tariff differential with the U.S. (ppts)



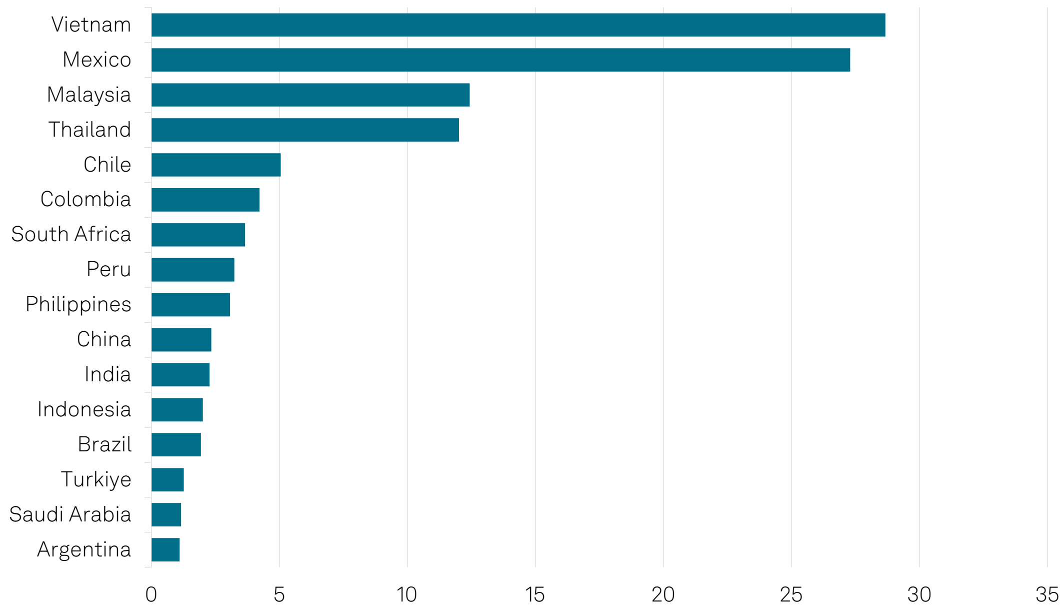
Note: Calculation is based on 2023 data to the six-digit HS code. Sources: WTO and S&P Global Ratings.

However, even in the EMs that have the widest tariff differentials with the U.S., their export exposure to the U.S. is relatively small (see chart 6). For example, India's goods exports to the U.S. accounted for 2.3% of its GDP in 2024. In Brazil, they account for about 2% of GDP, and Argentina's for 1% of GDP. Chile's export exposure is at 5% of GDP, but a 4.5% increase in tariffs on those exports, if tariffs are reciprocated, would still be manageable. In Vietnam, while we estimate the tariff differential with the U.S. is relatively small, given its large export exposure to the U.S. (more than 28% of GDP), a small increase in tariffs could have a deep impact on growth.

Chart 6

EMs with large tariff differential have limited exposure to the U.S.

Goods exports (% of GDP)



Sources: USITC, Haver Analytics, and S&P Global Ratings

Tariffs On China

Effective tariffs between China and the U.S. have increased sharply since the start of trade frictions in 2018. Including the latest tariff escalation, we estimate that U.S. weighted average tariff on imports from China is now about 35%, while China levies about 20% on U.S. imports. Because China relies significantly more on trade than the U.S., we expect the impact on GDP to be greater in China. This underpins our projection for GDP growth in China to slow to 4.1% in 2025 from 5% in 2024. We expect EMs with close trade ties to China to be more vulnerable to weaker demand. These are mostly in Southeast Asia and tend to have large shares of final goods exports that go to China (see table 2). Their supply chains are also closely integrated with China's, which means weakness in Chinese exports erode these countries' export performance as well.

Tariffs On Mexico

Our view is that Mexican officials will likely continue to be pragmatic in their negotiations with U.S. officials, to lessen the magnitude and duration of tariffs. The recent exemption of USMCA-covered goods from the 25% tariff the U.S. imposed on Mexico on March 4 is a sign, in our view, that negotiations between both countries is progressing and will continue to do so. As a result, we assume a 10% effective U.S. tariff on goods imports from Mexico starting in April and lasting throughout 2025. As we receive more details about tariffs specifics, we will adjust our assumptions for Mexico. Under our 10% effective tariffs scenario, we project GDP growth of 0.2% for Mexico in 2025. If tariffs end up being higher than 10%, our 25% tariff scenario in which we project a 0.5% contraction in GDP in 2025 can serve as guidance for revised assumptions (see "Growth Prospects Strained After The U.S. Takes The Tariff Plunge", published on March 5, 2025).

We anticipate only modest retaliatory measures from Mexico, as part of its their pragmatic approach to minimize U.S. tariffs. Retaliatory tariffs, such as those implemented in 2018, on about US$6 billion worth of U.S. goods, targeting specific Republican jurisdictions, seems the most likely scenario. We don't assume a major impact on Mexico's growth from retaliatory measures.

Another potential trade policy-related measure that has been discussed as part as a strategy to reinforce the U.S.–Mexico trade relationship is tariffs by Mexico on goods imports from China. Mexico's imports of Chinese goods have grown rapidly in recent years. They currently account for 7% of Mexico's GDP, up from less than 5% 10 years ago and less than 2% 20 years ago. Therefore, imposing tariffs on those goods could have significant implications for the Mexican economy. We can analyze the potential impact through two angles: competitiveness of the manufacturing sector and inflation.

- **The manufacturing sector's competitiveness**: Of 7% of GDP worth of imports from China, about 70% of which are either intermediate goods, raw materials, or capital goods, many of which end up in Mexico's manufacturing supply chain. Sixty five percent of these intermediate goods come from three broad HS code categories: transportation equipment, electronics, and mechanical appliances. Therefore, the impact on the manufacturing sector's competitiveness will depend on how quickly and cost-effectively firms can substitute those goods to other providers. Many of these goods are very niche, especially auto parts, and subject to safety parameters, so it can be timely and costly to switch to new suppliers. As a result, and in many cases, it's likely that firms would need to absorb the majority of the increase in the costs associated with the tariff, and pass them on to the consumer.
- **Inflation**: The impact of potential tariffs by Mexico on China is likely to be relatively small on inflation. This is because the imported final goods from China have a low incidence on the consumer basket. The two main consumer goods imports from China are smart phones and electric vehicles, and their combined share of the consumer basket is just below 3%. Furthermore, both smart phones and electric vehicles have many available substitutes, lowering their potential impact on inflation.

The important factor will be whether tariffs are a precursor to a substantial long-term change in the trade relationship between the U.S. and Mexico. The USMCA comes under review next year and may be subject to changes. We currently expect the USMCA to be reaffirmed, remaining a key anchor of the U.S.-Mexico trade relationship. If that is not the case, Mexico's long-term growth prospects will come under significant downside pressure.

Investment Likely To Remain Subdued Until Greater Clarity On Trade Policy

While in most major EMs--except for Mexico and those in Asia--the direct impact of announced tariffs is modest for now, the indirect impact through weaker investment could be significant. Fixed investment in the median EM represents 23% of GDP, much higher in EM Asia and lower in LatAm. The unpredictable and volatile nature of U.S. trade policy announcements so far is likely to at least delay some investment decisions until there is more clarity. Delay in investments could slow employment growth, especially in manufacturing-related sectors, which tend to be major employers in EMs. This could consequently lower consumption.

The Evolution Of The U.S. And Other Major Economies Will Matter For EMs

There's an increasing risk that supply-side shocks from tariffs, decelerating immigration growth trends, and curbs on the federal government workforce will create a lasting negative feedback loop that weakens aggregate demand in the U.S. The evolution of the hard data, by itself, points to low risk of a U.S. recession this year. However, given the rising risk of persistent supply shocks and negative sentiment, our subjective assessment is that there's a 25% probability of a U.S. recession starting in the next 12 months (see "U.S. Business Cycle Barometer: Increasing Likelihood Of A Slowdown," published on March 13). Our baseline view is for the U.S. economy to see a slowdown in growth, not a recession, in 2025. We project GDP growth in the U.S. to slow to 2.0% this year, from 2.7% in 2024 (see "Economic Outlook U.S. Q2 2025: Losing Steam Amid

Shifting Policies," published on March 25). However, if the U.S. economy weakens beyond our expectations, the knock-on effects to the rest of the world could be significant. A weaker U.S. economy could also erode growth in the EU and China, and reduce demand for exports across most EMs, dampening the investment outlook further.

Limited Fed Easing In 2025 Will Restrict Space For Rate Cuts In EMs

We expect tariffs to temporarily increase inflation in the U.S. Currency adjustment, product substitution, or cost absorption along the supply chain from the exporter to final consumer offers some price relief, but it will probably be limited. CPI inflation will likely stay close to 3% through 2025. Therefore, we suspect the Fed would likely err on the side of keeping inflation expectations anchored. As a result, we only expect one 25-bp rate cut in 2025. We expect the Fed to resume its downward path toward a neutral fed funds rate in 2026.

Central banks in many key EMs have been lowering their policy rates for more than a year. We still expect several EM central banks to continue lowering interest rates in the coming months. However, the pace of easing will be constrained by elevated U.S. interest rates. EM central banks will be cautious about cutting rates to prevent a rapid narrowing of their countries' interest-rate differentials with the U.S. The latter amid high risk aversion can trigger abrupt capital outflows, which can weaken exchange rates, and consequently increase inflation expectations.

Forecast Update

Our 2024 real GDP growth forecast for EMs (excluding China) is 10 bps lower for 2025, at 4.3%. We made the deepest downward revisions to our 2025 GDP growth projections to Mexico (100 bps), Hungary (60 bps), and Malaysia (40 bps). Our revision to Mexico's growth is driven by the impact of U.S. tariffs. The continued weakness in Germany and manufacturing continues to result in lower-than-expected GDP growth in Hungary. A weaker outlook on global trade is the main driver of slower growth in Malaysia.

We made the largest upward revision to our 2025 GDP growth projection to Argentina (up 100 bps) and Turkiye (up 70 bps). The revision for Argentina was due to better-than-expected inflation and economic activity in recent months, which we expect to continue in 2025. Turkiye's growth was also stronger than expected in the fourth quarter, driven by consumer demand. Nevertheless, the recent arrest and imprisonment of opposition politicians pose a risk to our inflation and exchange rate outlooks (see "Political Uncertainty In Turkiye A Risk To Reforms," March 24, 2025).

Risks To Baseline Growth

The risks to our growth forecasts are firmly to the downside, given the uncertainty surrounding U.S. trade policy. More trade policy announcements are expected on April 2, which could have an impact on our macroeconomic baseline. Under a scenario of aggressive trade protectionism, we would expect a large hit to global trade, and consequently, global demand. This would likely spill over to EMs due to lower demand for their exports. This could also increase risk premia, tightening financial conditions for EMs, especially for those with weaker macroeconomic fundamentals.

Table 3

Summary of GDP growth forecasts

	2022	2023	2024	2025f	2026f	2027f	2028f
Argentina	5.3	-1.6	-1.7	4.8	2.8	2.7	2.5
Brazil	3.1	3.2	2.9	1.9	2.0	2.1	2.2
Chile	2.2	0.5	2.6	2.2	2.3	2.4	2.5
Colombia	7.3	0.7	1.7	2.5	2.8	2.9	2.9
Mexico	3.7	3.3	1.2	0.2	1.7	2.2	2.3
Peru	2.8	-0.4	3.3	2.7	2.7	2.9	2.9
China	3.0	5.2	5.0	4.1	3.8	4.4	4.5
India	7.6	9.2	6.5	6.5	6.8	7.0	6.8
Indonesia	5.3	5.0	5.0	4.8	4.9	5.0	4.9
Malaysia	8.9	3.5	5.1	4.5	4.4	4.5	4.5
Philippines	7.6	5.5	5.6	6.0	6.1	6.6	6.5
Thailand	2.6	1.9	2.5	2.9	3.0	3.1	3.1
Vietnam	8.0	5.0	7.1	6.6	6.7	6.8	6.8
Hungary	4.6	-0.7	0.6	2.0	2.5	2.4	2.4
Poland	5.5	0.2	2.8	3.3	3.1	2.8	2.8
Turkiye	5.3	4.5	3.2	3.0	3.1	3.3	3.2
Saudi Arabia	8.7	-0.9	1.3	4.0	4.6	3.7	3.6
South Africa	1.9	0.7	0.6	1.6	1.5	1.4	1.4
EM-18	4.6	4.8	4.3	4.1	4.1	4.4	4.4
EM-17 (excludes China)	5.8	4.5	3.9	4.1	4.3	4.4	4.3
LatAm	3.9	2.0	1.6	1.9	2.1	2.3	2.4
EM Asia	6.0	4.4	4.9	4.8	4.9	5.0	5.0
EM EMEA	5.7	1.9	2.3	3.1	3.2	3.1	3.0

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

Financing Conditions

Primary contacts

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

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

Rating Resilience Amid Market Uncertainty

- Uncertainty over U.S. trade policy and monetary policy will persist, likely contributing to an increase in market volatility, and testing recent portfolio debt inflows and exchange-rate appreciations.
- The rating performance trends exhibit resilience, with upgrades outpacing downgrades, buoyed by sovereign-related actions. The net bias is stable, and defaults remain low.
- Strong corporate issuance, year to date, has been supported by tight spreads, although marked by regional differences, with EM EMEA more active than LatAm. Speculative-grade financing risk is mostly in Brazil.

Tariff threats and counterthreats trigger market volatility with the VXEEM (Cboe Emerging Markets Volatility Index) back at pre-U.S. election levels and equity markets recently selling off (chart 7). Related recent concerns about U.S. growth, and the consequent uncertainty regarding the Fed's monetary policy decisions for the rest of the year, may prompt EM central banks to be cautious about rate cut intentions, while amplifying uncertainty over EM capital flows, exchange-rate movements, and inflation expectations. While EMs have experienced a net $15 billion in portfolio equity outflows since October 2024 (lately mostly ex-China), they have benefited substantially from $60 billion in portfolio debt inflow over the same period, as local currency debt remains in high demand, given the high level of yields' offering, especially in LatAm. In addition, exchange rates have mostly appreciated against the dollar year to date, although not sufficiently to compensate for the sharp fall in 2024 (chart 8). Despite relative market stability currently, the uncertainty stemming from the economic and market implications of the Trump administration's stance on key policies is likely to persist, with EMs vulnerable to a protracted risk-off mode and a flight to quality.

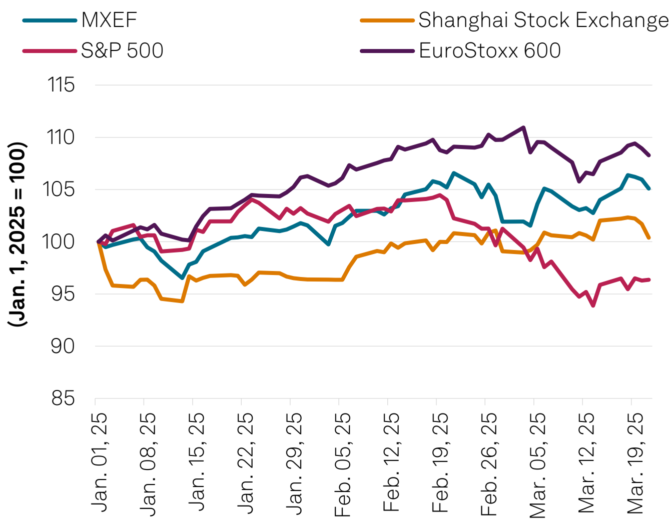
So far rating performance has been resilient. Net cumulative rating actions since January 2025 (subtracting all downgrades from the sum of upgrades) was +39 for EMs. Many recent upgrades were in Argentina, following the sovereign's upgrade as a result of the upward revision of the transfer and convertibility assessment of Argentina. The net bias--an indicator of future rating trends--was 3% as of mid-March, consistently above its five-year average of -10%, with metals, mining and steel as the only sector displaying a lower value with respect to its medium-term average. Moreover, the pace of defaults remains relatively low: the 12-month speculative-grade default rate was 1% as of January 2025, sharply below 4.7% in the U.S. and 4.1% in Europe.

Corporate issuance started the year on a strong note. This was because yields have tightened by about 20 bps across the rating categories, and spreads are close to historical low levels. However, investment-grade yields remain more than 100 bps higher than their 10-year average. Speculative-grade yields are currently at 7.6%, roughly 30 bps below their 10-year average. Outside Greater China, the corporate fixed-rate issuance in U.S. dollar year-to-date average coupon was 5.8% and with an average 7.1-year average tenor. International market activity is uneven, with EM EMEA more active than LatAm. The former was led by Saudi Arabia (financial and high tech), the latter was impacted by lower foreign-currency issuance in Brazil, which has exhibited a very active domestic market partly due to infrastructure debentures (chart 9).

Rated maturity wall (excluding China) will peak in 2027 but largely among investment-grade issuers. Investment-grade corporations account for 59% of near-term rated maturities through 2029, more than 80% of which is denominated in U.S. dollars. Speculative-grade maturities are set to peak in 2028 with $20 billion. Most of speculative-grade maturities are in Brazil (chart 10), where companies are more vulnerable to the interest-rate risk, as more than 80% of their debt coupon is floating and we expect interest rate to rise in the first half of 2025. The difficulty to generate free cash flow and service their debt may increase credit pressure. Sectors most at risk include banks, and oil and gas.

Chart 7

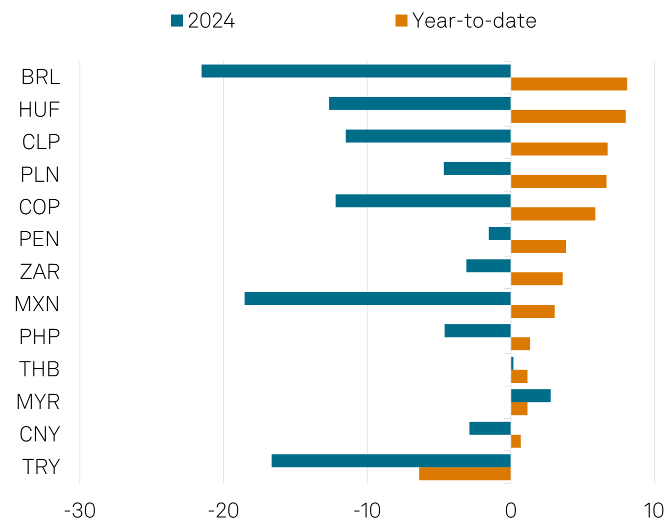
Equity markets reactive to threats and counterthreats



Data as of March 21, 2025. Sources: MSCI and S&P Market Intelligence.

Chart 8

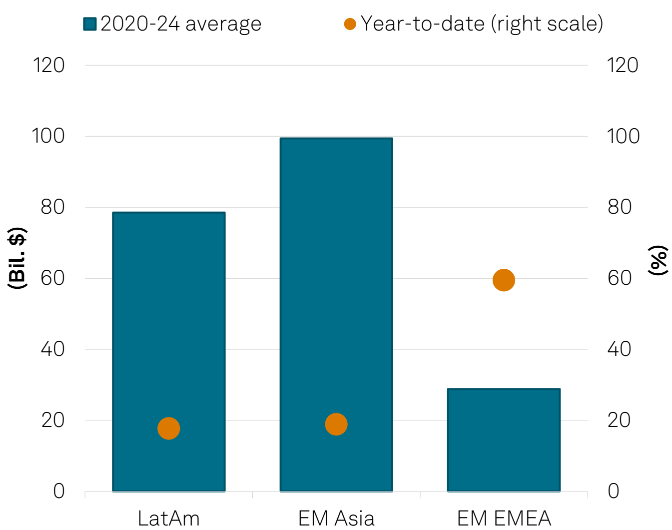
The dollar has been weakening against EM currencies



Data as of March 21, 2025. Note: Bars on the right mean currency appreciation, on the left, depreciation. Source: S&P Capital IQ Pro.

Chart 9

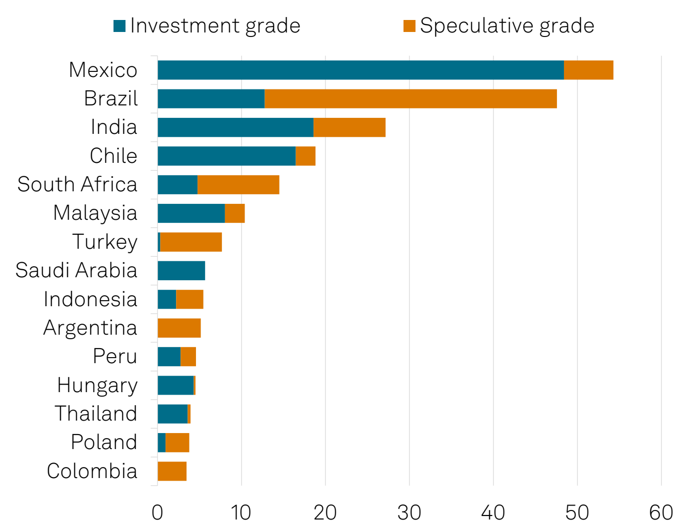
Corporate issuance: EM EMEA more active than LatAm



Data as of March 21, 2025. Data including not rated and both financial and non-financial entities. Sources: S&P Global Ratings Credit Research & Insights and Refinitiv.

Chart 10

73% of Brazilian rated maturities are speculative grade through 2029



Includes bonds, notes, loans, and revolving credit facilities rated by S&P Global Ratings that were outstanding as of Jan. 1, 2025. 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)

External risks could make credit recovery in 2025 short lived

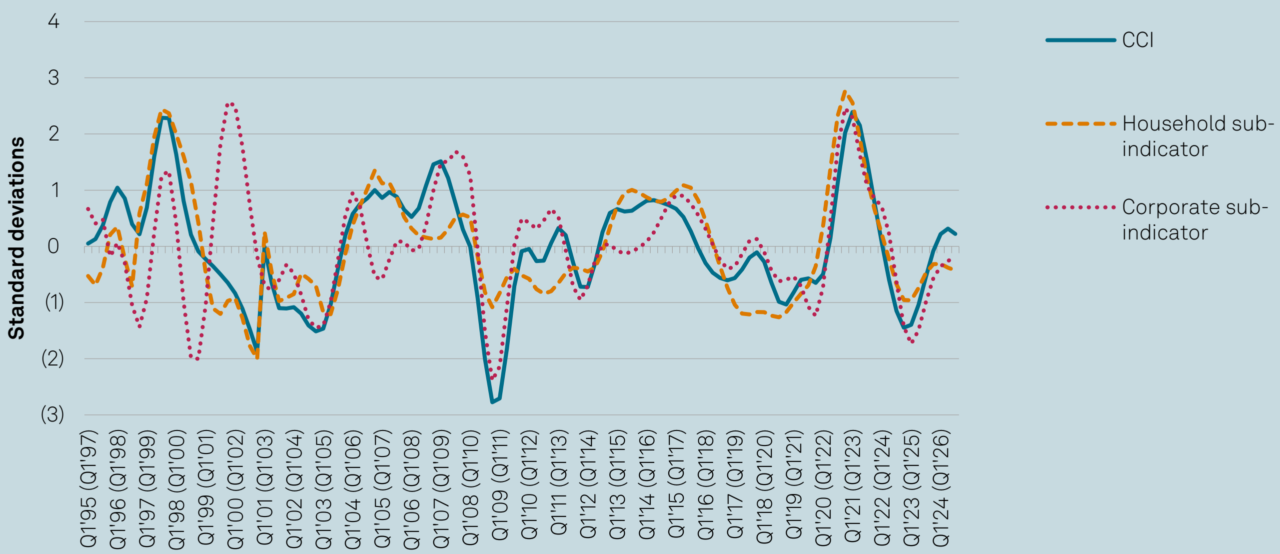
The CCI ticked down, but remained in the positive territory, to 0.2 standard deviations above its long-term trend, after six quarters of unabated ascent (see chart 11). Tighter financing conditions and a softening in the households' sub-indicator (lower debt to GDP and weaker house prices) drove the slight drop. Peaks and troughs in the CCI tend to lead credit stresses and recoveries by six to 10 quarters. While it's too soon to tell whether the latest peak in CCI reading will firm up in the coming quarters, the downward momentum may suggest the expected credit recovery for 2025 could be short lived, or with limited headroom.

The narrative becomes more complex when accounting for U.S. protectionism and policy uncertainty. While changes in government policies and uncertainty around them are not directly incorporated by the CCI, they will likely contribute to higher-for-longer borrowing costs, equity market volatility, and potential capital outflows from EMs. In fact, EMs (excluding China) have recently been experiencing a split between debt inflows and equity outflows. Tariffs may also have adverse impacts on specific sectors and jurisdictions. Examples include Indian steelmakers, risking a glut of imported steel (see "Indian Steelmakers Face Harsher Downside Scenarios On U.S.-Tariff Effect", published March 5, 2025), and Mexican auto suppliers, metals and mining, and oil and gas companies (see "How U.S. Tariffs Could Hit Rated Mexican Entities Across Sectors", published Feb. 27, 2025).

EM Asian countries mirrored the aggregate EM CCI behavior, Brazil and Mexico's CCIs kept on rising, and the one for EM EMEA was basically unchanged, with Turkiye continuing its downward trend that began in the fourth quarter of 2023.

Chart 11

The EM (excluding China) CCI



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

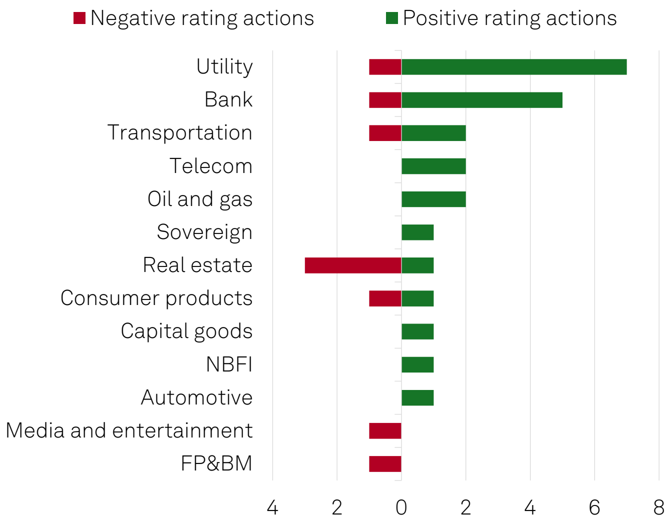
Corporations. The corporate sub-indicator hit its trough in first-quarter 2023 at -1.7 standard deviations below its long-term trend, and now reads -0.2, continuing its rise. Equity prices rose particularly in EM Asia, given China's announcement of stimulus measures, the very low default rate, and manageable debt. Equity prices in EM EMEA were lower. However, corporate debt to GDP decreased for 64% of the countries. Most EM companies opted to refinance debt in 2024, and borrowing costs remain above their five-year averages, especially for investment-grade rated entities.

Households. The household sub-indicator slipped to -0.4 standard deviations, lower than its corporate counterpart. The ascent of the sub-indicator plateaued in Q1 2024 (-0.3 standard deviations). Household debt to GDP was basically unchanged. Thailand and Colombia were the exceptions with a mild downward trend, as Thailand deployed stricter lending criteria for auto and home loans. Property prices displayed diverging dynamics: rising in LatAm following policy rate cuts by most local central banks, while falling in Turkiye, which is still grappling with the strict monetary policy to tame inflation.

Sector Trends

Chart 12

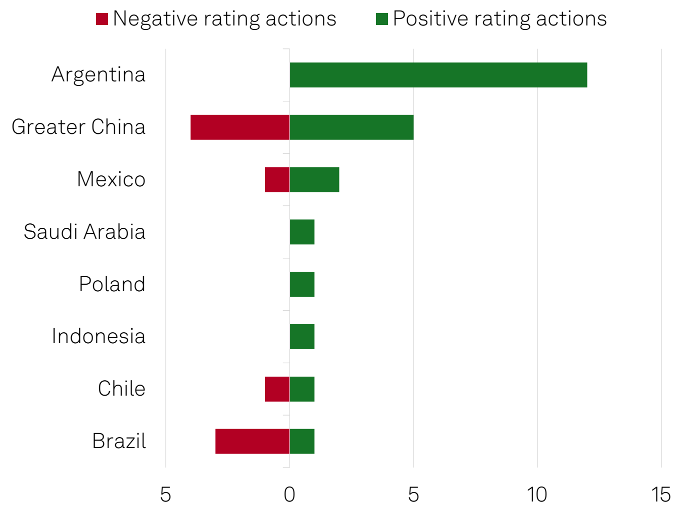
EM rating actions by sector year to date



Data as of March 15, 2025. FP&BM--forest products and building materials.
Source: S&P Global Ratings.

Chart 13

EM rating actions by country year to date



Data as of March 15, 2025. Source: S&P Global Ratings.

Sovereigns

Primary contacts

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

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

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

EM Asia: Geopolitical Risks Return To The Forefront

Global economic uncertainty has been accompanied by relatively stable financing conditions so far, as interest and inflation rates remain steady across most EM Asia. Current account balances and inflation in many economies should improve, with energy and commodity prices holding relatively stable. We still anticipate some governments will meaningfully narrow their fiscal deficits, although a return to pre-pandemic fiscal performances will take longer in many cases.

A key risk for EM Asia is the potential for a deeper-than-expected shock to global economic activity arising from U.S. policy shifts. A much more unpredictable global environment for international trade and investment could hit investor sentiment and lead to a significantly sharper-than-expected slowdown. Furthermore, unexpected escalations in geopolitical risks (in Europe or the Middle East) or significantly greater policy uncertainty among the largest economies could darken the outlook for the global economy and intensify the investor risk aversion. If sentiment toward EM Asia deteriorate sharply, capital outflows could intensify. A rebound in funding costs could weaken fiscal support and economic growth. Higher interest payments could erode our fiscal assessment and pressure the sovereign ratings, especially where government debt is high and nonresidents are important sources of funding.

EM EMEA: Favorable Momentum Faces Obstacles

This year was supposed to usher in a period of improving growth, declining inflation, and monetary easing. Instead, with the U.S. in the lead, we have seen a ratcheting up of policy risks, growth shocks, and stubborn inflation. In EMEA, two regional conflicts persist, as do U.S. tariff threats; financial markets remain volatile; and the only constant is constant change. Nevertheless, EMEA sovereign rating actions primarily reflect domestic fundamentals. In Turkiye, the imprisonment of key opposition leaders and advisers has driven protesters out to the streets, and lead both resident households and non-resident investors out of their local currency positions, with adverse implications for financial stability, growth, the exchange rate, and the disinflation program. Ahead of May presidential election, the Romanian government is finding it politically perilous to take baby steps toward reducing its elevated fiscal and external deficits. On the other hand, improved reform delivery underpin recent positive actions in Saudi Arabia and South Africa.

In the Middle East, the re-escalation of fighting highlights some of the implementation risks associated with a ceasefire agreement. The potential for continued conflict in the region appears to have increased, although active mediation efforts have offered some pathways for de-escalation. The possibility of retaliatory Houthi - or other Iran-backed activity - following US strikes on them in Yemen has the potential to once again raise broader regional risks, particularly if prolonged or more direct. We view the main transmission mechanisms for conflict to interfere with regional credit as energy prices, trade-route security, tourism revenue, remittances, and the potential for capital outflows.

For most sovereigns in Africa, the suspension of US foreign assistance, including through USAID, mostly takes the form of reduced health, food and NGO support, rather than direct budgetary assistance. We understand the reinstatement of related programs is currently under review and not assured, with the potential for covered expenditures to migrate to government balance sheets where space allows. Coupled with uncertainties over the renewal of AGOA and the potential for tariff-induced weaker external demand, regional governments could face a slower growth outlook and greater expenditure requirements with the potential to raise already high average debt servicing costs. The fiscal consequences on African public finances of the

COVID and great inflationary shocks still resonates in recent rating actions including the downgrade of Senegal, and Mozambique's recent domestic debt rescheduling.

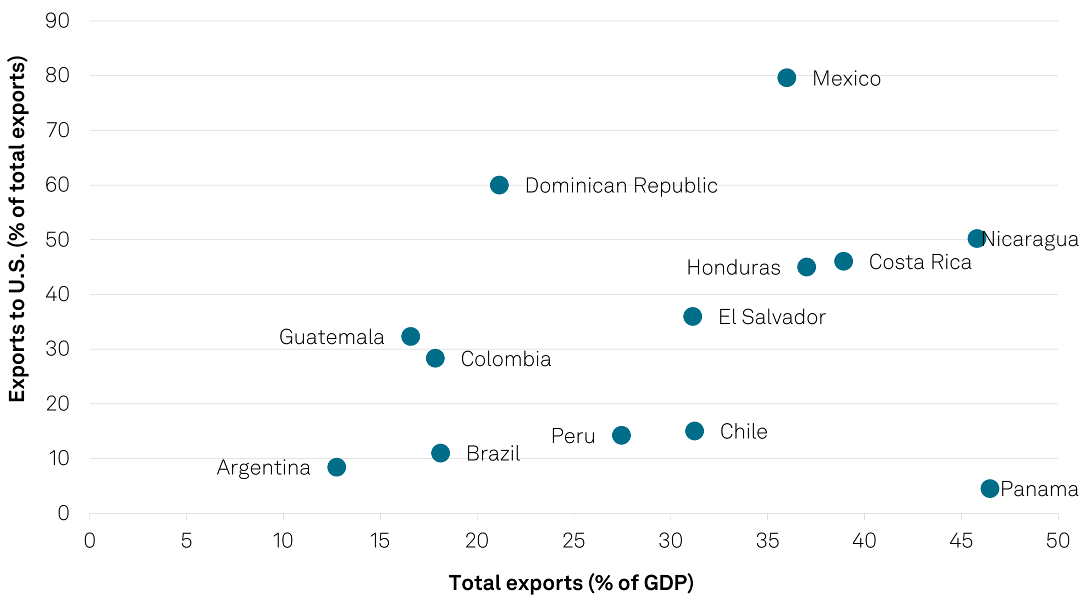
LatAm: U.S. Policies Have Created New Uncertainties

The rating bias in the Latin American and Caribbean region is balanced, given three negative outlooks (Bolivia, Ecuador, and Colombia) and three positive outlooks (Guatemala and the two small Caribbean islands of Aruba and Barbados). We have two sovereigns in the 'CCC' category (Suriname and Bolivia) and one in 'SD' on its local currency debt (Argentina).

The policies of the Trump administration have created new uncertainties for many countries in the region that have close economic ties with the U.S. The threat of import tariffs, targeted either at specific products (like steel and aluminum) or specific countries (such as Mexico) threatens to reduce exports from the region, as well as dampen investor confidence in general. That could result in lower GDP growth and weaker public finances, damaging creditworthiness. Chart 14 indicates that Mexico and Central American countries have the highest exposure to the U.S. market (Mexico is the largest single exporter to the U.S.), highlighting their potential vulnerability to trade measures. In contrast, South American countries, especially Argentina, Brazil, Peru, and Chile, have comparatively lower export exposure to the U.S.

Chart 14

Mexico and neighboring countries are most vulnerable to trade tariffs



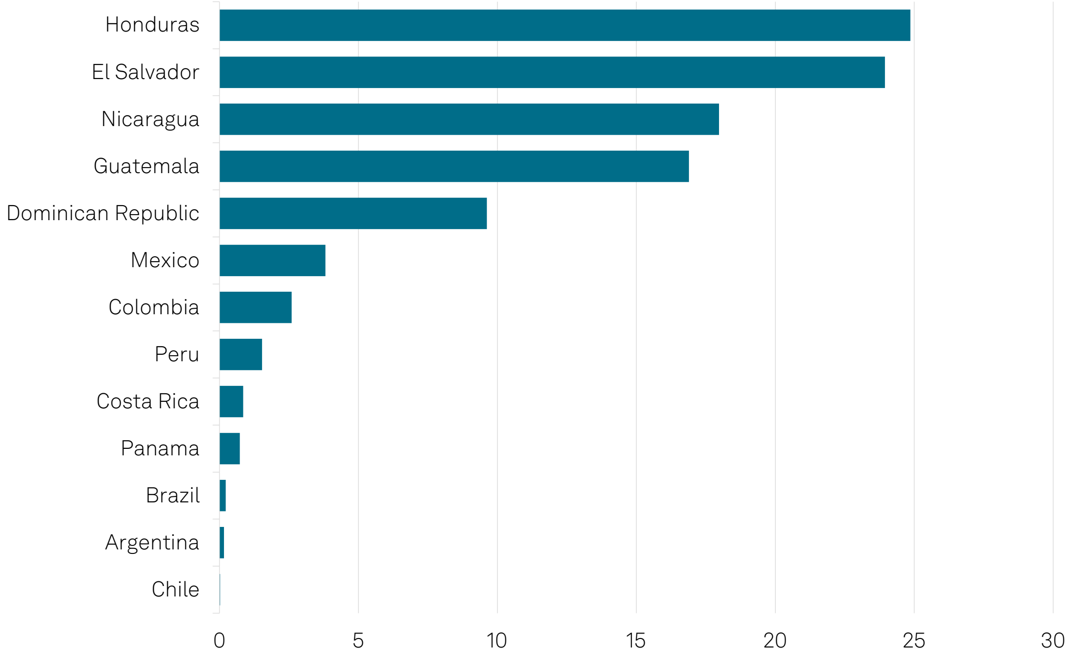
Source: S&P Global Ratings.

Central American countries also have a high exposure to the U.S. through their dependence on remittances, most of which come from that country. Recent steps to staunch the migration of people into the U.S. across the Mexican border, as well large-scale deportations of illegal immigrants, could lower remittances to the region. As Chart 15 shows, South American countries have less exposure to a potential drop in remittances than those in Central America.

Chart 15

Smaller economies remain dependent on remittances

Average personal remittances received for 2019-2023 (% of GDP)



Source: S&P Global Ratings.

Regional Highlights

The Argentine (foreign currency: CCC/Stable/C; local currency: SD/SD) government undertook a local currency debt exchange in late January 2025 and two such exchanges in February 2025, with investors tendering bonds worth around US$14.9 billion. In total, the government has exchanged a cumulative $78 billion of local currency debt since March 2024. Continued recourse to debt exchanges at such low rating levels has led us to deem such transactions as distressed and tantamount to default, owing to the government's limited market access.

We would consider the local currency default to be "cured," and raise our long-term local currency rating, likely to the 'CCC' category, if continued reduction in external vulnerabilities, containment of inflation, and better access to liquidity through voluntary market funding reduce the likelihood of future debt exchanges to manage the sovereign's liabilities.

The administration of President Javier Milei is seeking Congressional approval for a new 10-year loan agreement with the IMF (on top of its existing $44 billion loan from the Fund). We expect that Argentina will continue to pursue a pragmatic stabilization program. The monthly inflation rate has fallen toward 2% in early 2025 from 25.5% in December 2023, close to the programmed 1% monthly depreciation of the currency. The government is likely to keep the current system of a crawling peg until mid-term elections in October 2025, as it has negative net foreign exchange reserves and lacks access to international capital markets.

Brazil's (BB/Stable/B) headline inflation remains high, around 5% or just above the upper limit of the central bank's target, driven by rising food prices. The latter may threaten President Lula's popularity ahead of elections scheduled in 2026. Lula recently reshuffled his cabinet to build better alliances with other political parties ahead of the elections. Congress is likely to approve the 2025 budget and turn its attention to the new reform of income taxes designed to cut the tax burden for low-income taxpayers. The income tax reform may stimulate more consumption and thereby sustain GDP growth, but it threatens to widen fiscal deficit, absent corrective measures.

Economic growth prospects in Mexico (foreign currency: BBB/Stable/A-2; local currency: BBB+/Stable/A-2) have been hurt by recent policy uncertainties under the Trump administration, which has threatened to impose substantial import tariffs on Mexican exports. In response, President Claudia Sheinbaum has moved to reduce the flow of migrants into the U.S. from Mexico, as well as cracking down on narco-trafficking. We expect that the Mexican government will remain pragmatic in meeting U.S. demands, including on restrictions on activities of Chinese firms in Mexico, to maintain preferential access to the U.S. market. These external developments follow earlier reforms to expand social spending and make institutional changes that centralize political power (including a revamp of the judiciary and steps to weaken or abolish regulatory and autonomous bodies in the public sector). The uncertainties created by these steps, exacerbated by tensions with the U.S., could hurt investor confidence and economic growth.

Colombia's (foreign currency: BB+/Negative/B; local currency: BBB-/Negative/A-3) wide fiscal deficits are contributing to a rising government debt trajectory. The central government fiscal deficit was around 6.8% of GDP in 2024 and is officially projected to fall to around 5.0% of GDP in 2025. Persistently wide fiscal deficits have led the country's Fiscal Council, an autonomous body, to warn that the government might breach Colombia's Fiscal Rule. The sovereign rating could fall if the government is unable to narrow its fiscal deficit, resulting in net general government debt growing above 60% of GDP. Consistently low levels of investment could also depress growth for the forecast period, indirectly pressuring Colombia's fiscal deficit and debt burden.

The economic prospects of El Salvador (B-/Stable/B) could improve after the IMF's recent approval of a $1.4 billion loan. The IMF program targets an ambitious cut in the primary fiscal balance by 3.5% of GDP over three years, relying considerably on the government's payroll. The loan is expected to unleash much more funding from other multilateral lending organizations and set the stage for faster economic growth. The economy has expanded recently thanks to a substantial drop in crime and the rise in tourism and remittances. However, the administration of President Nayib Bukele faces many challenges, including a high debt burden and substantial payments due in coming years to the country's pension plan.

Corporations

EM Asia: Tariffs Will Cloud Credit Conditions For The Rest Of 2025

The corporate credit conditions are set to become even more differentiated across countries and sectors for the remainder of the year. The additional broad-based tariffs on China and the potential reciprocal tariffs on EMs with trade surplus against U.S., such as Vietnam and India, could erode corporations' already muted revenue growth and compressed margins. It will also reshape trade flows and supply-chain investments in the region.

China's growth slowdown still presents a key risk to the rated EM Asian corporations. The recently announced stimulus can't reverse this deceleration, we assume, with fresh U.S. tariffs weighing on the economy.

India's steady GDP growth remains conducive for solid domestic corporate credit conditions. But in the rest of EM Asia, credit conditions remain muted and skewed to the downside. The rated Thai and Indonesian corporations have the highest net negative outlook bias in the low-20% area as of the end of February 2025.

Common credit themes in EM Asia include soft consumer sentiment, sluggish domestic demand, increasingly uncertain export markets, volatile commodity prices, growing pockets of overproduction in certain sectors, and stalled deleveraging.

Credit conditions in China weighed down by slowing growth and higher tariffs. Our economic team projects that the Chinese economy will expand 4.1% in 2025, meaningfully slower than last year. The slowdown incorporates the tariffs that have been implemented in February and March and the slate of stimulus announced recently to buffer the tariff impact.

While China has the largest U.S. trade surplus in Asia-Pacific, its exports to the U.S. have fallen to 2.5% of GDP currently. That said, Chinese steelmakers could face a 15%-20% slump in exports, driven by tariffs. Furthermore, the risk of indirect effects from a global economic slowdown remains material to China's industrial, power, transport, property and consumer sectors. Government initiatives will support renewable power, transition fuels (gas), industrial metals, and metro rail, while housing sales will stabilize, especially in the upper-tier cities.

The net negative outlook bias of 6% as of the end of March 2025 is among the lowest in the region. In addition, over 84% of rated Chinese firms are investment grade. That said, economic slowdown and tariff risk may result in a growing tilt to the downside.

Credit conditions in India remain favorable despite emerging strains. Indian corporations continue to benefit from a growing economy, supported by strong infrastructure and consumer spending. Domestic funding liquidity and funding access are also resilient. Our economists expect GDP to expand by around 6.5% in fiscal 2025 (year ending March 2026), making India one of the fastest growing EMs. Improvements in operating and financial strengths over the past few years have provided Indian corporations more cushion to absorb any external pressures, including trade headwinds. These strengths, as well as the May 2024 revision of the sovereign rating outlook to positive, contributed to the positive outlook bias on about 30% of the rated Indian corporations.

The low direct exposure of the rated Indian corporations to the U.S. also reduces the emerging strains of U.S. tariffs. India's exports to the U.S. amount for only 2% of its GDP, a third of the average in Asia-Pacific. IT services, chemicals (including pharmaceuticals) have the most direct exposure to the U.S. market. As services are not subject to tariffs, the auto, chemical, steel sectors could be most impacted by either lower demand (autos) or excess inventory re-directed by other producing countries into India (the steel and chemicals sectors).

Primary contacts

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

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

Simon Wong
Singapore
simon.wong@spglobal.com
+65-6539-6336

Hina Shoeb
Riyadh
hina.shoeb@spglobal.com
+44-20-7176-3747

Nikolay Popov
Dublin
nikolay.popov@spglobal.com
+353-1-568-0607

Credit conditions in Indonesia remain subdued. We expect 2025 to be another year of muted revenue and profit growth for the Indonesian corporate sector, with anemic operating conditions and headwinds from export-oriented manufacturers. While Indonesia has nominal direct exposure to U.S. exports of around 2% of its GDP, its corporate sector is exposed to the indirect effects of tariffs on regional trading partners, particularly China, Japan, and South Korea, which could dent demand for Indonesian exports. Textile and apparel manufacturers, agricultural commodities, and tire manufacturing sectors are more exposed to U.S. tariffs.

GDP growth of 4.8% in 2025 inflation has eased, while the administration's broadly supportive economic policies are somewhat more conducive for domestic-focused sectors (consumer goods, retail, telecom, and light manufacturing). Domestic funding conditions remain favorable with loan growth expected to average 10-12% in 2025. Indonesian corporations can absorb a modest depreciation of the Indonesian rupiah without significant impact on margins, interest servicing, and investor sentiment.

Credit conditions in Vietnam have bottomed out, but U.S. tariff is a major threat to the economy. Solid GDP growth of 6.6% for 2025, accelerating public spending, robust domestic consumption, and a slowly recovering real estate market will provide more stable operating conditions for the corporate sector, especially for domestically-focused firms. That said, the credit quality of corporations with significant leverage and refinancing needs in 2025 could weaken.

Vietnam's corporate sector is among the most exposed in Asia-Pacific to rising trade tensions, given a large trade surplus with the U.S. The manufacturing sector--especially textile and apparel, electronics, and small capital goods--is the most exposed to direct tariff risk and slower demand from the U.S. market. But the indirect effect of trade tensions on the growth of Vietnam's regional trade partners such as China could also be significant. Vietnam exports a lot of electronics, textiles, and foodstuffs to the region. At the same time, the auto, discretionary consumer products, and real estate sectors will be affected if slower growth hits consumer confidence. Finally, the metals sector also has exposure to excess inventory re-directed from neighboring countries.

Leverage among large companies in Southeast Asia and the potential contagion risk remain watchpoints. Debt has climbed more rapidly among these entities than at smaller firms for the past five years. Large conglomerates in Vietnam, Thailand, and the Philippines have taken advantage of easier access to debt funding than their smaller peers to execute often debt-funded growth strategies.

While large firms tend to have a wider range of funding sources along with monetizable assets to weather potential funding disruptions, creditor confidence at one such large firm can rapidly erode at first signs of tightening liquidity or operating wobbles. This, in turn, could influence broader creditor sentiment toward domestic companies, given the sheer size of some of these national champions and large dependence on domestic funding sources.

EM EMEA: Rising Pressures Could Undermine Resilience

Recent political developments in Turkiye could affect our base-case scenario, depending on how the situation evolves.

Turkish non-financial corporations by and large remain resilient, with some diverging trends across sectors. Most sectors have reported growth in 2024 with the construction sector mostly benefiting from ongoing government-led reconstruction efforts in the southern part of the country from the earthquake in early 2023, as well as strategic infrastructure investments, notably in energy. From the consumer standpoint, durable goods manufacturers (white goods and autos) also remain broadly resilient with solid demand for appliances, air conditioners, and autos, despite rising competition and pricing pressures. Consumer food and beverage companies are starting to adopt similar strategies of rising promotional activity to stimulate demand and volumes after a divergence in strategy amid high inflation and weak consumer confidence in 2022-2023. We believe 2025 will likely see similar trend in the industry, given ongoing challenges and minimum wage increase of 30% from the beginning of 2025 that appears to match projected central bank inflation rate, leading to no real wage growth.

We expect many of the trends to remain pertinent in 2025. We believe the main downside risk is the falling, but still overall very high, inflation rate in Turkiye, which can weigh on domestic demand, absent appropriate stimulus measures by the government. This and decreasing--but still extremely high--borrowing costs continue to pressure overall credit metrics, particularly interest coverage and free cash flow among some issuers (notably durable goods and beverage producers) that exhibit cyclicality during the year and require intra-year funding. These factors could weaken the credit profiles of issuers in these sectors.

Another source of the downside risk stems from the external macroeconomic environment. While Turkish issuers are relatively shielded from direct impact from increased global trade frictions, they remain exposed through second-order effects on the global economy. Therefore, we continue to monitor closely the evolution of global policymaking very closely, and its implications on the global economy that could translate into pressures in Turkish economy.

Saudi Arabia's robust corporate activity is supported by strong capital markets activity. Given solid non-oil GDP growth and Vision 2030 related investment activity, we expect continued robust activity in most major non-oil sectors of the economy, including real estate, tourism, metals and mining, infrastructure projects, and retail, over the next several quarters.

Saudi authorities continue to implement new rules and regulations to further develop the Kingdom's capital markets. As a recent example, in January, the Capital Markets Authority announced that eligible foreign investors are now allowed to invest in listed Saudi companies that own real estate in the two holy cities of Mecca and Medina (ownership by individuals or legal entities can't exceed more than 49% of the company's shares or its convertible debt instruments). This comes as part of an effort to attract international investors to the Kingdom's equity markets and real estate sector. Given the Kingdom's plans to increase the capacity to accommodate pilgrims, there are several large-scale ongoing developments in both cities.

As we discussed in "Saudi Corporates Brief: Rated Companies Can Absorb Fuel Price Hike" (published on Jan. 9, 2025), on Jan. 1, 2025, Aramco announced that it is raising feedstock and fuel prices as of that date. And we believe the rise in fuel prices will lead to a marginal increase in production costs for the rated Saudi corporates. In our view, they can mitigate higher production costs by enhancing operational efficiencies and potentially via pass-through mechanisms.

Tourism, one of the key initiatives under the Vision 2030 strategy, continues to perform strongly. According to the Ministry of Tourism's statistics, the number of inbound tourists increased to 21.6 million in the first nine months of 2024, 7% higher than in the same period in 2023, while the inbound tourism spending was SAR123.3 billion (close to $33 billion), 10% higher than for the nine months 2023.

Similar to 2024, given the large funding requirements, we expect strong debt capital markets activity over the next several quarters. Saudi non-financial corporates issued $8 billion worth of bonds in the first two months of the year.

Corporate ratings in South Africa are little changed from late 2024. Limited power outages, stabilization of rail and port performance, and the resilience of corporations in managing challenging operating conditions have continued to support ratings. Notably, 20% of South African issuers have positive outlooks and 20% have negative outlooks. Positive outlooks are primarily linked to the positive outlook on South Africa, while negative outlooks reflect company-specific challenges, in some cases, due to unfavorable commodity price dynamics.

Most company results have now been announced and there has been a notable number of earnings declines. Chemical, platinum group metals (PGM), and diamond producers have been the hardest hit, in line with international trends. In contrast, record-high gold prices, largely linked to geopolitical uncertainties, are bolstering the credit metrics of gold producers. At the same time, the geopolitical disruptions have the potential to increase currency volatility and impede global logistics, and we remain cognizant of these risks. We have seen mixed results in domestically-focused companies such as retailers, and providers of telecoms, terrestrial logistics, and healthcare. These issuers have noted business challenges including weak economic growth, the rise in costs largely linked to still-elevated interest rates, and high utility and transport costs. Consumer stress is still evident, given sluggish demand and high unemployment, but it has not translated into severe earnings constraints so far.

Local and global logistics remain constraints. Company reports have pointed to the late delivery of imported stock as denting results, although port congestion appears to be clearing. Bulk commodity exports (including coal, paper/pulp, and chemicals), which are highly reliant on Transnet's rail and ports have tried to diversify export routes, including the use of non-South African ports and road transportation, increasing costs. The use of alternative ports (such as Maputo in Mozambique) also poses risks, as seen in border closures to Mozambique earlier in the year.

We expect first-order impacts on our rated issuers from potential U.S. tariffs to be moderate. Only three South African issuers have material operations in the US, and these are largely producing for sale in the US. That said, imposition of tariffs on South Africa could negatively impact already-low economic growth, and discourage US-based investors from holding corporate equity and debt instruments.

LatAm: Stability Across Sectors

With the net outlook bias of around -5%, credit conditions are fairly stable. Most of the countries in the region are set to grow in 2025, and the corporate portfolio reflects just that. While domestic growth is the main driver of corporate performance, exporters are among the largest corporate issuers. We expect some price softness to impact slightly oil and gas, metals, iron ore, and pulp companies.

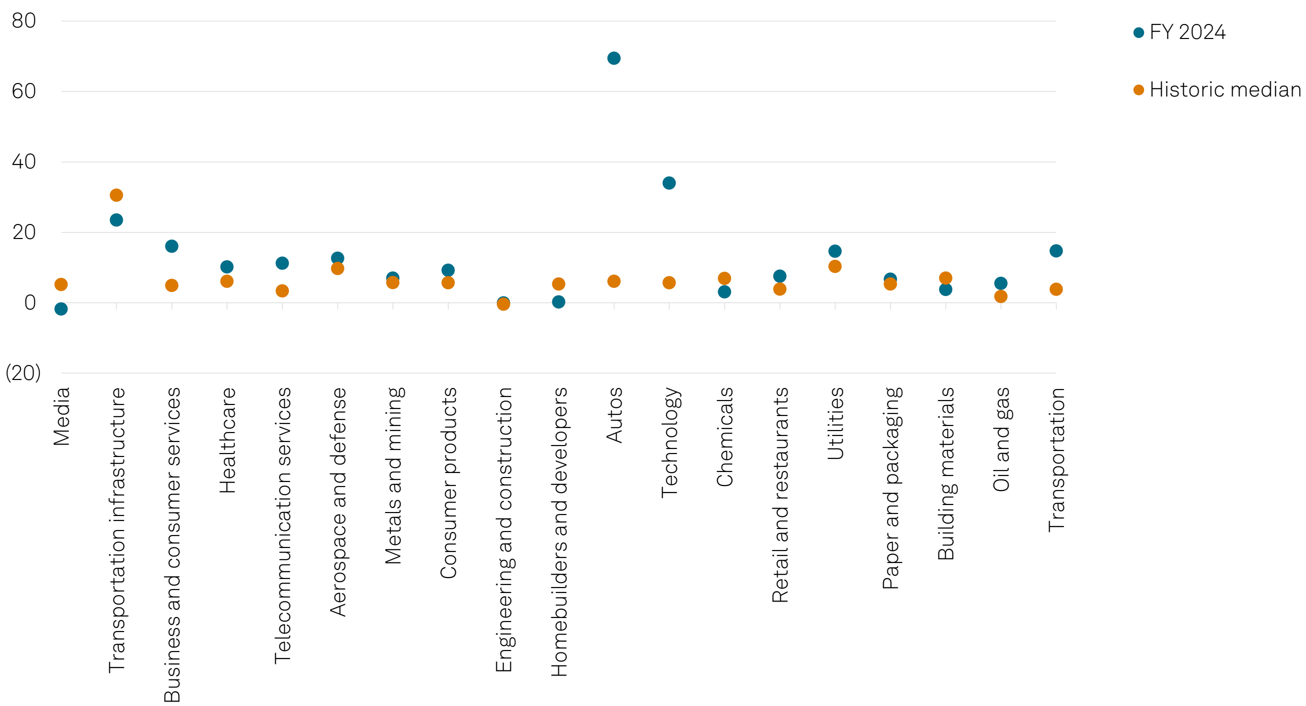
High interest rates in Brazil are haunting domestic companies again. Brazilian issuers are largely exposed to domestic rates and the steep raise of the policy rate (SELIC) that now stands at 13.25% is pressuring returns, cash flows, and credit profiles. Companies are investing cautiously and using cash reserves to reduce debt. The high rates also curtail market capitalization and bond issuances. We expect that trend to continue and possibly trigger credit stress among issuers with the weakest ratings.

Free cash flow generation remains healthy. Compared to historical medians, many corporate sectors in LatAm are stronger cash flow generators.

Chart 16

Corporations' free cash flow generation remains healthy

Free operating cash flow to revenue in 2024 versus historical levels (x)



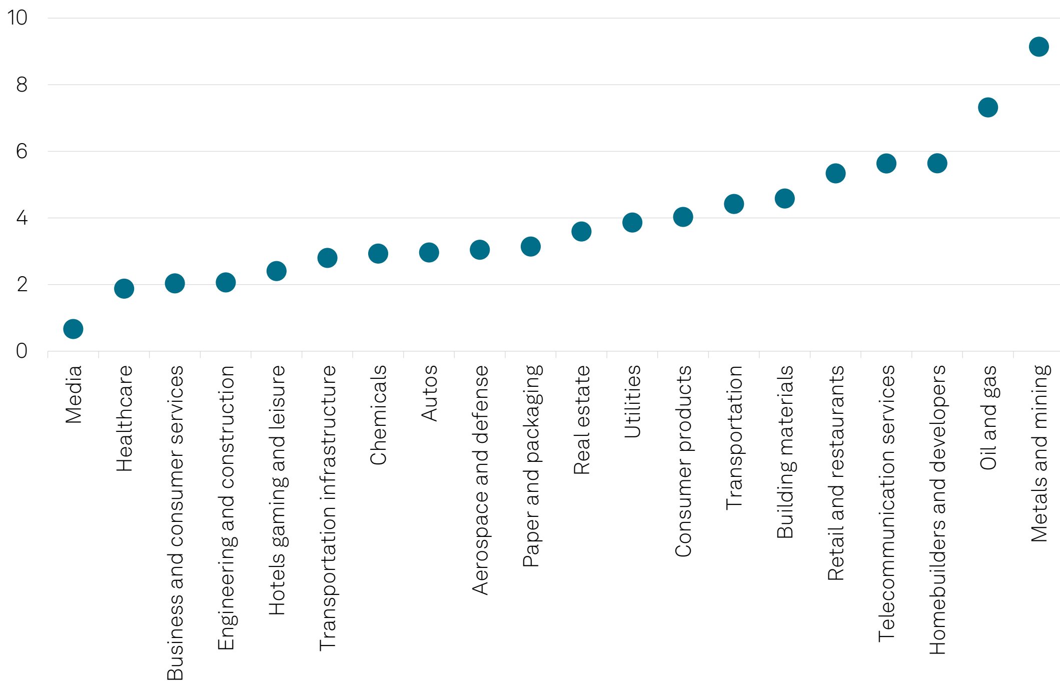
FOCF: Free operating cash flow=net income + D&A - capex + other non-cash items + change in working capital. Source: S&P Global Ratings.

Export-oriented sectors are among the stronger credit profiles. As seen by the breakdown of interest coverages, across corporate sectors, oil and gas, metals and mining, consumer products (including protein and sugar companies) as well as paper and packaging are among the issuers with the strongest credit profiles in the region.

Chart 17

Robust credit profiles among export-oriented sectors

Corporations' interest coverage (x)



Source: S&P Global Ratings.

Financial Institutions

EM Asia: Banks Won't Be Immune To The Volatility

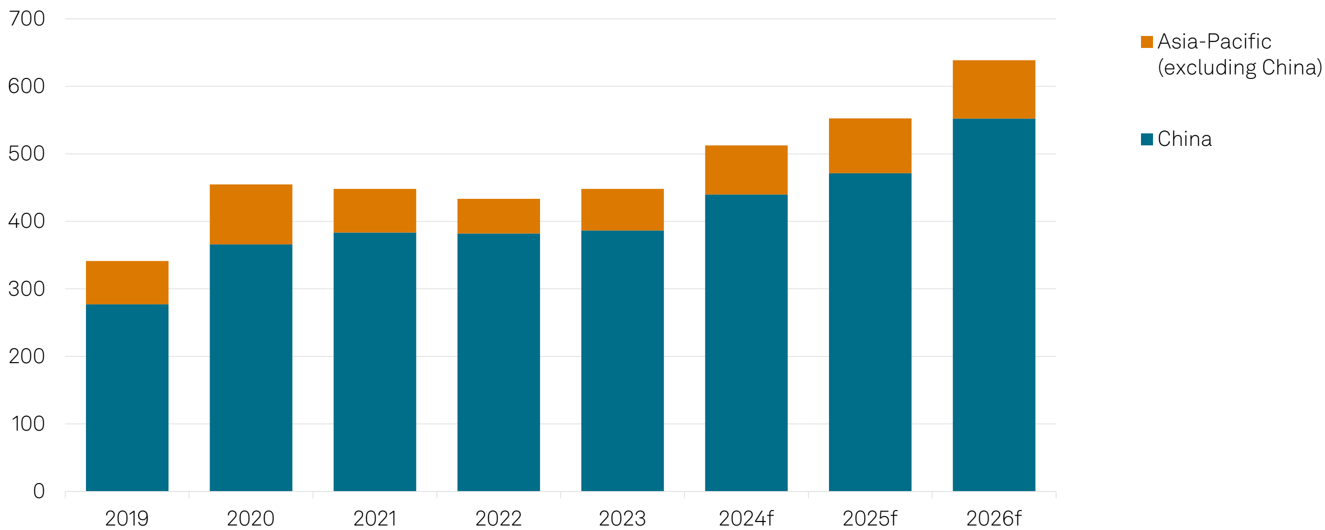
The specific transmission of impact on EM banks is uncertain. The Fed's pause or slower monetary easing could shrink the space for EM central banks to continue cutting interest rates. Additional tariffs may impact countries and sectors, in the form of currency depreciation or capital outflows or higher interest rates in some jurisdictions. Such developments may hurt borrowers, and eventually, banks' asset quality.

We expect credit losses across will increase in the next two years, but we expect them to be within our tolerance for most rated banks. This, along with highly supportive governments, underpin the overwhelming share of stable outlooks in EM Asian banks.

Chart 18

Credit losses will likely rise

Credit losses (bil. $)



Data shown on a constant currency basis, based on 2023 year-end exchange rates. Data for China relates to commercial banks. f--Forecast.
Source: S&P Global Ratings.

Largest rated Chinese banks can absorb the knock-on effects of trade and policy wars and market volatility. Furthermore, issuer credit ratings on these banks are likely to remain intact--assuming the China sovereign rating outlook remains stable. China is in the midst of a trade conflict with the U.S., while the four largest Chinese banks are also the four largest banks globally, by asset size.

China's RMB500 billion injection will enhance the megabanks' capital position to support economic growth. The capital injections will boost the availability of funds to support the country's growth amid tariff headwinds. Chinese megabanks play an important role in supporting the government's social and economic initiatives through lending to policy-promoted areas.

We believe the megabanks will continue to prioritize areas such as inclusive finance, advanced manufacturing, and green energy with the fresh capital. The capital also enhances the megabanks' loss-absorption buffer amid profitability strains.

Bank financing to play an important role in fueling Vietnam's growth. An increase in financing demand--led by manufacturing, construction, and real estate--may maintain robust credit growth of 15%-16% for the next two years, one of the highest in the region.

Primary contacts

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

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

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

According to our forecast, returns on assets for the banks will stay at 1.0%-1.2%. Net interest margins are likely to decline due to competition for deposits and concessionary lending rates, but should be manageable overall.

Capital is needed to support Vietnam's growth, and banks have taken to capital conservation strategies such as dividend payment via stocks--rather than cash--to meet the country's credit needs. We believe this would be sufficient to maintain capital levels, but not enough to raise them. Vietnamese banks have one of the region's lowest capital levels.

We expect India's upper-layer finance companies to propel credit growth, while microfinance companies should benefit from a rain check on growth plans. The Reserve Bank of India's stringent scale-based differentiated regulatory regime has strengthened the financial sector, in our view. The upper-layer finance companies are subject to stricter regulations and supervision, including prudent capital adequacy norms, exposure limits, provisioning requirements, and mandatory listing and consequent disclosure requirements. This has led to more sustainable and profitable growth of the largest finance companies, along with a focus on risk management, transparency, and compliance. We expect that the top-tier finance companies will continue to fuel credit growth and support economic growth.

India's smaller microfinance companies, which cater mainly to low-income borrowers, have on the other hand been saddled with very high credit losses. Tightening industry guardrails and stricter underwriting standards in Indian microfinance will rein in growth plans for lenders and defuse risk buildup. We expect credit costs to stay elevated at around 5% for fiscal 2026. We expect assets under management for Indian microfinance to grow at a mid- to high- single digit through fiscal 2026 (year ending March 2026) after the contraction of more than 10% in the first nine months of fiscal 2025.

EM EMEA: Some Pockets Of Risk

Nigeria: Weakening profitability as regulation tightens. We expect banks to maintain adequate ROE of 20%-25% in 2025 following the exceptional level of 30% in 2023 and 2024, supported by unrealized gains stemming from banks' positive net open positions. We do not expect banks to earn significant unrealized gains in 2025, as the regulator introduced stringent limits on net long positions. Nigerian banks tend to benefit in a high-interest rate environment, as their assets dynamically reprice, while they are largely funded by low-cost customer deposits. Profitability will also benefit from lower cost of risk of 2.5%-3.0%, compared with 3.0%-3.5% in 2024. The cost of risk will remain high, though, as 50% of banks' loans books are in foreign currency, and we expect the naira to remain weak. High interest rates also explain our forecasts as some corporations, particularly in non-essential consumer goods and import-dependent sectors, can't fully pass through the increase in their costs to their customers. The still challenging macroeconomic environment also underpins our forecasts. At the same time, we expect the NPL ratio to decline in 2025 as lending growth, because of the depreciation of the naira, compensates for the inflow of new NPLs. In 2024, the Central Bank of Nigeria raised banks' minimum paid-up capital to NGN500 billion (about $300 million) for an international banking license and to NGN200 billion for a national license, and gave the banking system until March 2026 to comply. We estimate the capital shortfall of the rated banks at about NGN2.5 trillion ($1.6 billion). While we believe that most rated banks will be able to reach their respective capital issuance requirements by the end of 2025, we do not exclude some merger and acquisitions or changes in business model because of the new requirements.

South Africa: Easing credit conditions. We expect this to occur through 2025 amid moderating inflation and interest-rate cuts. Despite disagreements within the ruling coalition, we expect efforts and reforms in addressing infrastructure deficiencies to continue. We expect lending to accelerate to 8%-9% in 2025, driven mainly by investments in infrastructure, including logistics and renewable projects. We also expect the banking sector's credit loss ratio to return to below 1%, closer to historical trends, in 2025 as pressure on households' disposable incomes eases because of lower inflation and interest rates. Overall, we anticipate that the sector will maintain strong average ROE of 15%-16%, despite lower interest rates, supported by higher credit growth, noninterest income, and lower provisioning. Thanks to the close rand system and the broad and deep domestic capital market, banks in South Africa are less exposed to external refinancing risks. We expect the sector will maintain strong regulatory capitalization and start to issue first loss after capital (Flac) instruments in 2026, which is a delay of one-year from the previously expected start date of 2025. Banks will have three years to ramp up issuance to achieve 60% of Flac requirements and six years to fully meet the requirements.

Egypt: Strong correlation with the sovereign creditworthiness. Egyptian banks are highly exposed to their sovereign, given total direct and indirect exposures of more than 50% of their assets as of September 2024. This exposure creates a direct link between sovereign creditworthiness and banks. It also underpins our view of their weaker capitalization than what is suggested by the domestic Tier 1 capital adequacy ratio, which stood at 15.8% at September 2024. With economic growth improving, inflation gradually abating, and expectations of rate cuts, we forecast credit losses to decline to about 100 bps in 2026 from 165 bps on average in 2022-2023 and the estimated 170 bps in 2024. While large corporations can generally pass through the impact of inflation and higher rates to their customers, banks' manageable exposure to SMEs, reliance on government-sponsored guarantees, and conservative provisioning among some explain our expectations. Retail deposits are the main funding source for the Egyptian banking system, and banks have benefited from the strong foreign-currency inflow that helped them shift temporarily to a net external asset position. We think that banks will shift back to a net external debt position in the next 12 months, but we take comfort from the fact that a large portion of external debt is made of multilateral financings and deposits from Egyptian nonresidents.

Turkiye: Banks Will Absorb The Cost Of The Economy's Rebalancing

Recent political developments in Turkiye could affect our base-case scenario, depending on how the situation evolves. We expect economic growth to slow further this year. We also expect lending activity to further decelerate—to about 20% in 2025 from an estimated 37% in 2024--and real estate price to continue adjusting. Overall, this would cause NPLs to rise to 2.4%-2.5% of total loans by the end of 2025 from 1.8% at the end of November 2024, excluding restructured loans, and elevated credit losses at 170-190 bps. Consistent monetary tightening by the authorities has improved investor confidence, exchange-rate stability, and de-dollarization of the deposit base. The roll-over rate for banks' external debt increased to slightly above 120% as of October 2024, and we expect it will remain high. Assuming monetary policy remains consistent, we expect that banks will refinance all their short-term external debt, which totaled $114.2 billion as of Oct. 31, 2024. At the same time, the increase in foreign-currency liquidity, which we estimate at $146.2 billion as of the same date, provides a buffer against unexpected declines in roll-over rates. Nevertheless, the central bank holds a portion of this liquidity; therefore, it may not be fully accessible. As of the end of 2024, foreign-currency and exchange-protected deposits accounted for 40.6% of total deposits, down from 58% at the end of 2023. Assuming the domestic savings rate remains attractive, and the authorities continue their initiative to dismantle the exchange-protected deposit scheme, the de-dollarization trend should continue, leading to further increases in the central bank's foreign-currency reserves.

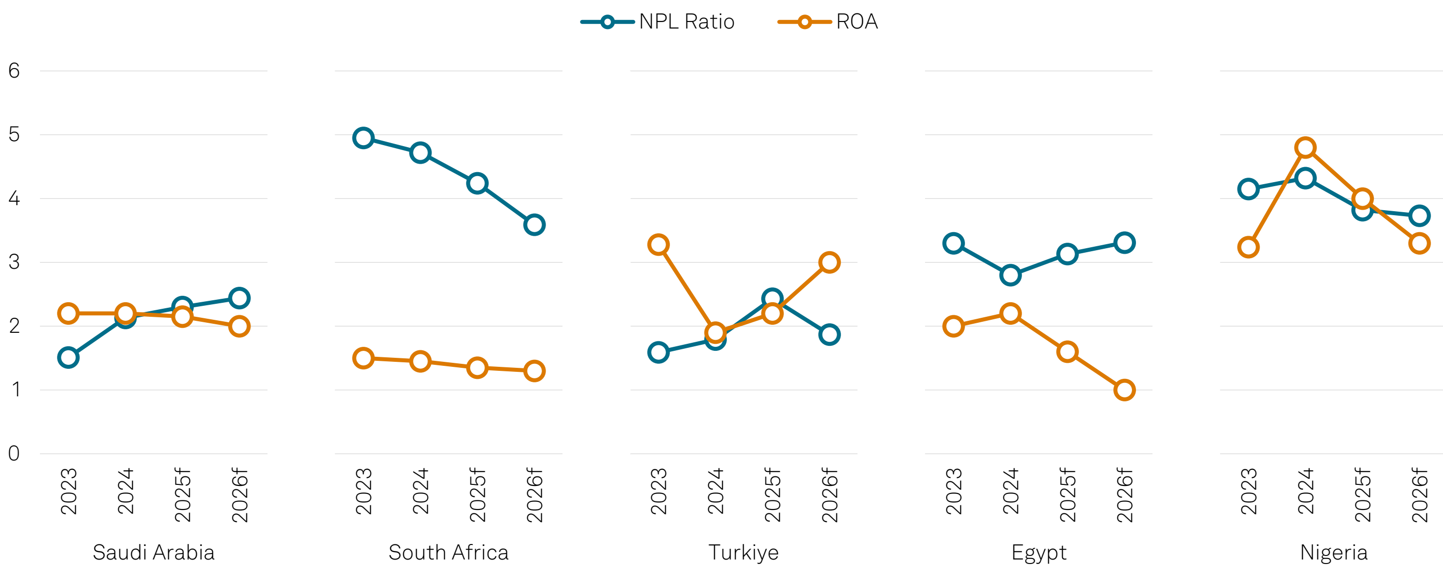
Saudi Arabia: Strong growth to continue. We project solid real GDP growth, as Saudi Arabia diversifies its economy beyond oil, with non-oil sectors gaining prominence. Growth will be increasingly driven by construction and the services sector as Vision 2030 projects ramp up. We expect bank lending to grow by around 10% in 2025 supported by a strong corporate project pipeline, while somewhat lower rates boost mortgage lending as the country strives to achieve its

70% real estate ownership target by 2030. We also expect banks' profitability to stabilize, as higher lending volume compensates for lower margins. We expect credit losses to remain at 50-60 bps, underpinned by a slight increase in NPLs and previously accumulated provisioning cushions. We project that Saudi banks' reliance on external funding will continue as banks mobilize external resources to fund their growth. Recent mortgage-backed securities initiatives could also help and create space on banks' balance sheets by freeing up liquidity to continue lending expansion. Saudi banks are well-capitalized, and we expect this will continue to support their creditworthiness.

Chart 19

Mixed performance for banks across EM EMEA

Nonperforming assets and return on assets in selected EM EMEA economies (%)

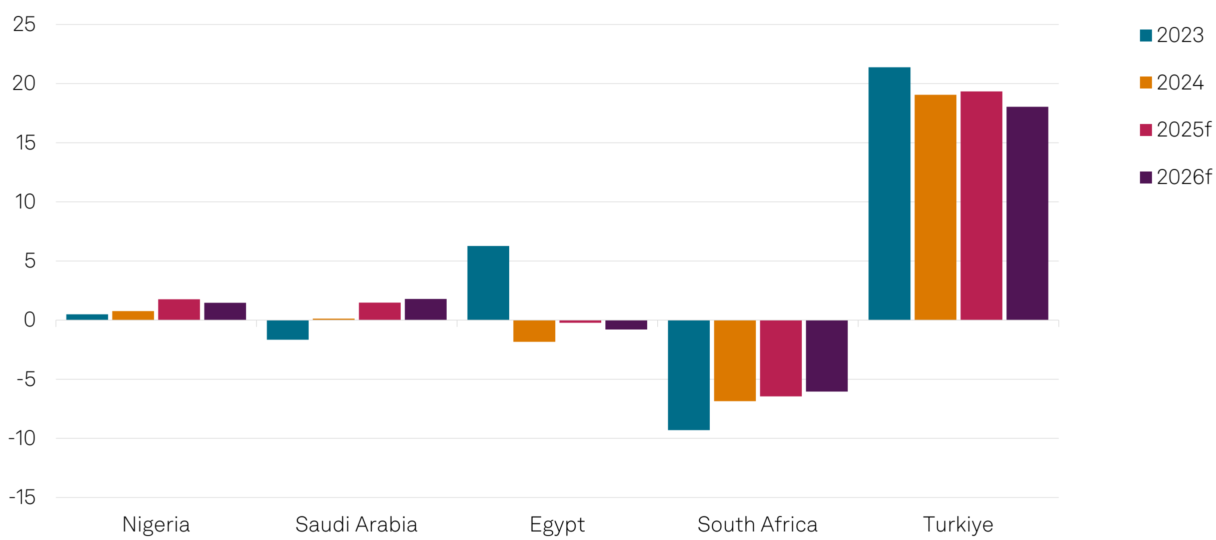


NPL--Nonperforming loans. ROA--Return on assets. f--forecast. Source: S&P Global Ratings.

Chart 20

Turkish banks have the highest dependence on external debt among their EM EMEA peers

Net external debt to domestic loans (%)



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

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

Mexican banks will likely maintain prudent growth strategies based on conservative underwriting practices due to uncertainties surrounding the imposition of U.S. tariffs on imported goods from Mexico. Even though the U.S. government has delayed the implementation of tariffs, we can perceive a decline in investment and consumer sentiment. Consequently, we expect credit expansion to moderate this year, while asset quality metrics could slip at manageable levels. However, we expect Mexican banks to maintain strong capital metrics and sound margins, offsetting pressures on asset quality and profitability.

We expect Brazil's persistently high interest rates to erode asset quality metrics. This impact may be mitigated by banks' conservative growth strategies and their focus on guaranteed, high-quality loans. We expect profitability to weaken due to intense competition for borrowers with stronger credits and a focus on safer products, which will pressure margins. Low credit growth will also squeeze the operating performance. Changes in provisioning calculations may further impact the operating performance of banks most affected by these changes. However, we expect the banking system, particularly larger banks, to remain resilient.

We anticipate that credit growth in Chile will remain low due to lower-than-expected demand from the corporate sector as the economy gradually recovers, compounded by uncertainties surrounding the presidential election. Margins are likely to come under pressure as interest rates continue to decline, while asset quality is likely to remain stable as low credit growth offsets improvements in asset quality. Changes in provisioning calculations for consumer loans may pressure the operating performance of some banks, although larger ones are likely to be less affected due to additional provisioning they raised during the pandemic. Profitability is likely to decrease from strong levels due to weaker asset quality and low credit growth.

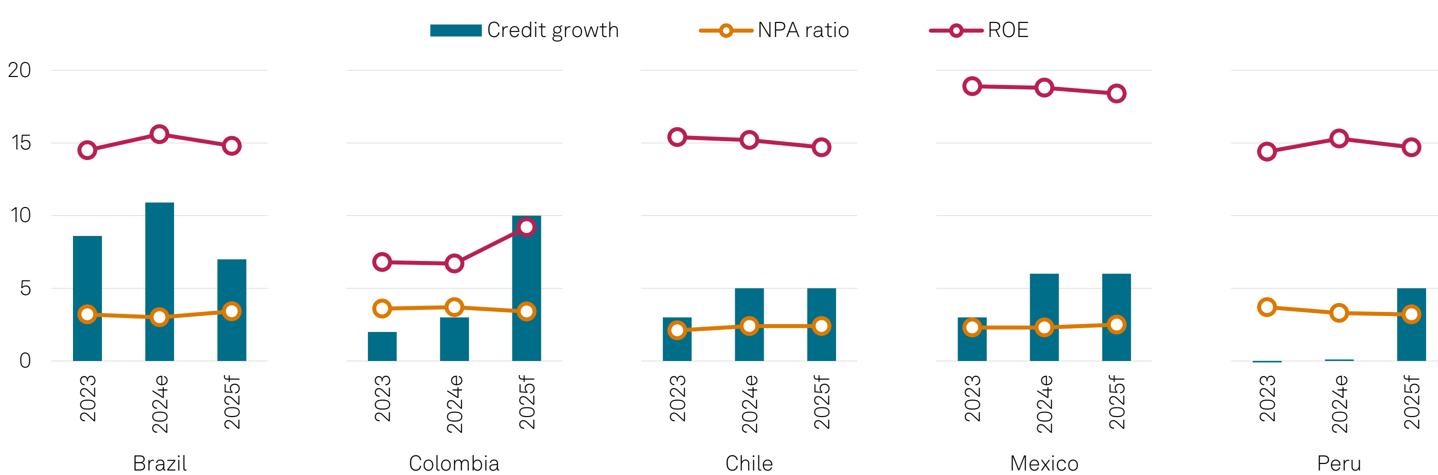
Demand for credit in Colombia is recovering at a very slow pace, leading us to expect sluggish credit growth and a slower-than-anticipated recovery in asset quality. Banks' profitability has been under pressure from persistently high interest rates, raising funding costs and weakening asset quality. We believe the recovery in banks' operating performance will be gradual.

Peru's complex political landscape is likely to persist as the country approaches presidential and congressional elections scheduled for April 2026. Nevertheless, conditions are gradually improving, supported by economic growth, decreasing inflation, and lower interest rates. We expect asset quality metrics and profitability to continue improving, while banks' capitalization remains sound.

Chart 21

LatAm banks' profitability remains robust

Return on assets, return on equity, and credit costs (%)



NPA--Nonperforming assets. ROE--Return on equity. e--estimate. F--forecast. Source: S&P Global Ratings.

Appendix: Economic Data And Forecast Summaries

Table 4

Real GDP

(%)

	2023	2024	2025F	2026f	2027f	2028f
Argentina	-1.6	-1.7	4.8	2.8	2.7	2.5
Brazil	3.2	2.9	1.9	2.0	2.1	2.2
Chile	0.5	2.6	2.2	2.3	2.4	2.5
Colombia	0.7	1.7	2.5	2.8	2.9	2.9
Mexico	3.3	1.2	0.2	1.7	2.2	2.3
Peru	-0.4	3.3	2.7	2.7	2.9	2.9
China	5.2	5.0	4.1	3.8	4.4	4.5
India	9.2	6.5	6.5	6.8	7.0	6.8
Indonesia	5.0	5.0	4.8	4.9	5.0	4.9
Malaysia	3.5	5.1	4.5	4.4	4.5	4.5
Philippines	5.5	5.6	6.0	6.1	6.6	6.5
Thailand	1.9	2.5	2.9	3.0	3.1	3.1
Vietnam	5.0	7.1	6.6	6.7	6.8	6.8
Hungary	-0.7	0.6	2.0	2.5	2.4	2.4
Poland	0.2	2.8	3.3	3.1	2.8	2.8
Turkiye	4.5	3.2	3.0	3.1	3.3	3.2
Saudi Arabia	-0.9	1.3	4.0	4.6	3.7	3.6
South Africa	0.7	0.6	1.6	1.5	1.4	1.4

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

Table 5

CPI inflation

Year average (%)

	2023	2024	2025f	2026f	2027f	2028f
Argentina	133.5	218.2	45.8	25.0	17.5	15.0
Brazil	4.6	4.4	5.2	4.7	3.8	3.3
Chile	7.6	4.3	4.5	3.4	3.0	3.0
Colombia	11.7	6.6	4.4	3.7	3.1	3.0
Mexico	5.5	4.7	3.9	3.4	3.1	3.0
Peru	6.3	2.4	2.2	2.5	2.5	2.5
China	0.2	0.2	0.3	0.6	1.0	2.0
India	5.4	4.7	4.4	4.5	4.2	4.5
Indonesia	3.7	2.3	1.5	2.6	2.6	2.7
Malaysia	2.5	1.8	2.2	2.1	2.1	2.0
Philippines	6.0	3.2	2.8	3.2	3.3	3.0
Thailand	1.2	0.4	1.6	1.1	1.1	1.0
Vietnam	3.3	3.6	3.2	3.4	3.5	3.5
Hungary*	17.3	3.7	4.9	3.4	3.1	2.9
Poland*	10.9	3.7	4.1	3.0	3.0	2.8
Turkiye	53.8	58.4	32.7	18.6	14.2	12.7
Saudi Arabia	2.5	1.7	1.9	1.8	1.8	1.9
South Africa	5.9	4.6	3.6	4.3	4.0	3.8

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

Table 6

Policy rates

End of period (%)

	2023	2024	2025f	2026f	2027f	2028f
Argentina	100.00	32.00	20.00	15.00	10.00	10.00
Brazil	11.75	12.25	14.75	12.50	9.00	8.00
Chile	8.25	5.00	4.75	4.75	4.75	4.75
Colombia	13.00	9.50	8.75	7.50	7.00	7.00
Mexico	11.25	10.00	8.50	7.50	7.00	6.50
Peru	6.75	5.00	4.50	4.50	4.50	4.50
China	2.50	2.00	1.80	1.50	1.50	1.50
India	6.50	6.25	5.50	5.25	5.25	5.25
Indonesia	6.00	6.00	5.00	4.75	4.75	4.75
Malaysia	3.00	3.00	3.00	2.75	2.75	2.75
Philippines	6.50	5.75	5.25	4.50	4.00	4.00
Thailand	2.50	2.25	1.75	1.75	1.75	1.75
Hungary	10.75	6.50	5.50	4.25	3.00	3.00
Poland	5.75	5.75	5.00	3.25	3.00	3.00
Turkiye	45.00	47.50	35.00	17.50	12.50	12.50
Saudi Arabia	6.00	5.00	4.75	4.00	3.75	3.75
South Africa	8.25	7.75	6.75	6.50	6.50	6.50

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 the U.S. dollar

Year average

	2023	2024	2025f	2026f	2027f	2028f
Argentina	297	906	1,125	1,550	1,950	2,250
Brazil	5.00	5.39	5.87	5.85	5.85	5.85
Chile	840	944	975	980	980	980
Colombia	4,327	4,072	4,200	4,275	4,325	4,350
Mexico	17.74	18.33	20.75	21.15	21.25	21.25
Peru	3.74	3.75	3.78	3.80	3.80	3.80
China	7.1	7.2	7.4	7.4	7.3	7.3
India	82.8	84.7	87.8	88.4	88.8	89.3
Indonesia	15,226	15,892	16,281	16,250	16,294	16,300
Malaysia	4.59	4.51	4.47	4.45	4.44	4.26
Philippines	55.6	57.3	58.0	57.3	55.7	53.4
Thailand	35.1	34.9	34.1	34.0	33.8	33.5
Hungary	353.09	350.71	394.88	395.39	377.19	379.54
Poland	4.20	3.98	4.18	4.05	4.04	4.01
Turkiye	24.73	32.84	39.20	44.03	50.15	54.13
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75
South Africa	18.5	18.34	18.35	18.51	18.78	18.93

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

Table 8

Unemployment

Year average (%)

	2023	2024	2025f	2026f	2027f	2028f
Argentina	6.1	8.0	8.4	7.9	7.8	7.7
Brazil	8.0	6.9	7.2	7.6	7.9	7.9
Chile	8.6	8.5	8.3	8.2	8.1	8.0
Colombia	10.2	10.2	10.1	9.9	9.7	9.6
Mexico	2.8	2.7	3.4	3.6	3.5	3.4
Peru	6.9	7.0	6.8	6.7	6.6	6.5
China	5.2	5.1	5.2	5.2	5.2	5.2
Indonesia	5.4	4.9	5.1	5.0	4.9	4.8
Malaysia	3.4	3.3	3.2	3.2	3.2	3.2
Philippines	4.4	3.8	3.9	3.8	3.5	3.4
Thailand	1.0	1.0	1.0	1.0	1.0	1.0
Hungary	4.0	4.4	4.2	3.9	3.6	3.5
Poland	2.8	3.0	2.9	2.8	2.7	2.6
Turkiye	9.8	9.7	10.2	10.0	9.8	9.7
Saudi Arabia	4.8	3.9	3.8	3.7	3.5	3.4
South Africa	32.5	33.4	32.0	31.0	30.8	30.2

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

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