S&P Global
Ratings

Credit Conditions Asia-Pacific Q3 2023

China Grapples With An Uneven Recovery

Jun. 27, 2023

This report does not constitute a rating action

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

Key Takeaways

- **Evolving risks.** A desynchronized global economy in terms of growth, inflation and policy interest rate trends is complicating the region's credit outlook. The key export market of the U.S. seems headed for a soft economic landing, while the eurozone economy is in the grip of stagflation. Meanwhile, China--the region's growth engine--is struggling with an uneven post-lockdown recovery. The region's net rating outlook bias has slightly improved to negative 2% in May 2023 from negative 3% in February.
- **High rates.** With interest rates and inflation set to stay high for longer (except China), borrowers and customers are increasingly accustomed to higher financing costs and prices. We therefore see risk around access to financing as high and unchanged. However, if such conditions persist, asset values and risk pricing may recalibrate. Financial markets could stay volatile for longer.
- **Slower exports.** We assess the risk of a hard landing for the global economy as high and unchanged. While weaker global demand will slow export and manufacturing activities, the resumption of social mobility and consumption across the region will offset the drag. We've lowered Asia-Pacific's growth marginally to 4.5% in 2023 and 2024.
- **China dims.** China's recovery momentum post-COVID is ebbing, waylaid by weak business and household confidence. High youth unemployment and lingering property weakness further sour sentiment. The introduction of policy stimulus could limit the slowdown in growth. Consequently, we see the China recovery risk as high and improving. Meanwhile, terse ties with the U.S. could see global firms re-evaluating their expansion into China.

High rates for longer. Stickier inflation is causing central banks to continue monetary tightening, despite the outlook for slowing economic growth. For export-centric Asia-Pacific, this translates into pain from multiple fronts. Weakening global demand and souring household sentiment will curtail export activities and consumption, hitting corporate revenues. Meanwhile, high interest rates point to costlier financing. Lenders (both banks and investors) could turn risk averse, which would hit refinancing activities for lower-rated and highly leveraged borrowers. In the face of prolonged liquidity squeezes, defaults could spike. Concurrently, property developers relying on short-term debt could see higher financial risks as sales contract (see "Indonesia And Vietnam Developers Face Steeper Path To Growth", Jun. 8, 2023).

Regional Credit Conditions Chair

Eunice Tan
Singapore
eunice.tan@spglobal.com
+65-6530-6418

Asia-Pacific Credit Research

Terence Chan, CFA
Melbourne
terry.chan@spglobal.com
+61-3-9631-2174

Christine Ip
Hong Kong
christine.ip@spglobal.com
+852-2532-8097

Contents

Top Asia-Pacific Risks 4
Macroeconomic Outlook 7
Financing Conditions 9
Sector Trends 11
Nonfinancial Corporate 13
Financial Institutions 15
Insurance 16
Public Finance 17
Sovereign 18
Structured Finance 19
Related Research 20
Appendix 1: Ratings Trends 21
Appendix 2: Economic Data and Forecast Summaries 22

Some win, some lose. The divergent recovery track (post pandemic) is set to widen further across the region's borrowers. With the relaxation of COVID-restriction measures, mobility and travel have picked up. Sectors hit hard by the pandemic, such as gaming and transportation cyclical, now see faster-than-anticipated recovery (see "Macao Gaming: Post-Pandemic Recovery", May 25, 2023). However, strains persist for the real estate sector. Properties face revaluation risk in the face of high mortgage rates and oversupply. Meanwhile, office REITS are facing a squeeze from both structural and cyclical strains, which will affect cash flow and asset valuation over the next few years (see "Asia-Pacific Office REITs: Rising Stress Is Manageable For Most", Jun. 15, 2023).

Dimming China recovery. China's slower-than-expected economic recovery post-COVID is a hurdle for the region. Weak business and household confidence, coupled with high youth unemployment, have knocked China's growth momentum. While we anticipate that Chinese authorities will undertake some policy stimulus to support growth, a slower global macro-economic backdrop will constrain the uplift. Consequently, we have lowered our growth forecast for China to 5.2% in 2023 (previously 5.5%), and slightly reduced our outlook for 2024 to 4.7%.

Meanwhile, we anticipate the Chinese policy stimulus to move away from unproductive debt-fueled growth, albeit gradually. In a bid to actively manage debt risk, we expect China's local and regional governments will continue to cut ties with state-owned enterprises (SOEs). Weak SOEs, especially in highly indebted lower-tier governments, could see more defaults (see "China Local Governments: Balancing Growth And Risk", Jun. 5, 2023).

Climate pressures, geopolitical strains add to inflation. Diplomatic relations between China and the U.S. remain terse, hampering business confidence. This may affect investment, trade, and supply flows. U.S. efforts to curtail China's tech ambitions have caused global hardware firms to reduce their dependency on China (see "Global Tech's Moves From China Will Be Costly...And Unavoidable", Apr. 20, 2023). Such moves are financially and operationally challenging. Supply chains face the risk of disruption, hindering efforts to curtail inflation. Globally, energy and food security concerns are complicating geopolitical relationships. We view the Russia-Ukraine war as one of attrition. Meanwhile, the recent Wagner incident muddles the situation further. Recent extreme weather (high temperatures across major Asian cities, and floods) threaten agriculture production and energy supply, raising the specter of another round of global inflation.

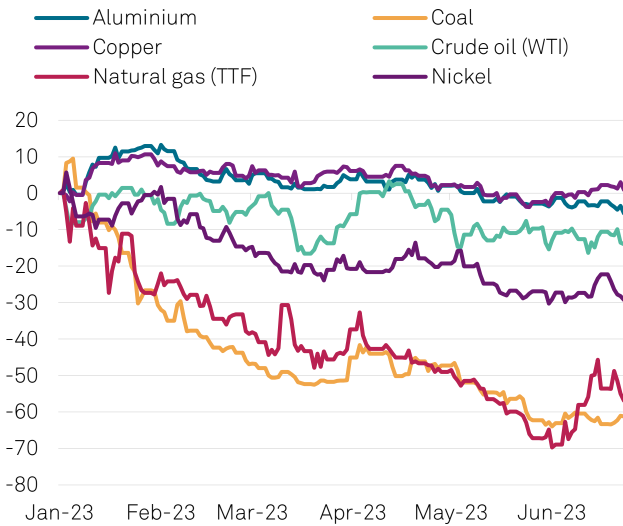
Japan's interest rates to stay near zero. Japan is persevering with its near-zero interest rate policy, despite high inflation, to boost economic growth. The Bank of Japan's (BOJ) sizable purchases of Japanese government debt have helped keep government borrowing costs low despite the heavy debt burden (the central bank holds close to 45% of Japanese government bonds outstanding). However, a sudden jump in real interest rates would severely strain the government's debt dynamics. Meanwhile, Japanese corporates could withstand higher interest rates and persistent inflation (see "Japan Corporates Can Tolerate Higher Rates And Inflation", Apr. 11, 2023). Concurrently, if the BOJ embarks on a more aggressive monetary-easing policy, Japanese investors could realign their portfolios. Capital could flow back into Japan as the yen carry trade reverses.

Capital expenditure and consumption may slip. Fears of a global hard landing could see business and consumer sentiment falter, curbing capital expenditure (capex) and consumption. The delayed effects of revenue pressures, and inability to fully pass on costs to customers, will dent margins and the credit quality of corporates. Meanwhile, the net rating outlook bias has slightly improved to negative 2% as of end-May 2023 (compared with negative 3% at end-February) following negative rating actions taken on some of our rated entities. However, pressure is mounting.

Chart 1

Energy and commodity prices weaken on demand woes

Percentage change in prices from Jan. 1 (%)

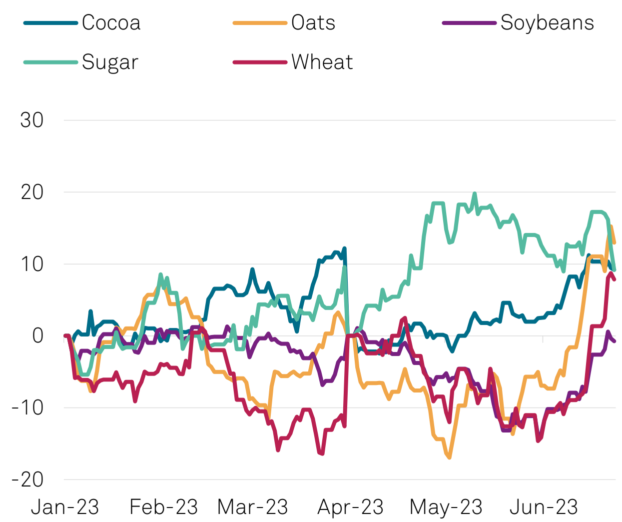


Data as of Jun. 23, 2023. Data source: S&P Global Market Intelligence. Source: S&P Global Ratings.

Chart 2

Extreme weather could complicate food supply chains

Percentage change in prices from Jan. 1 (%)

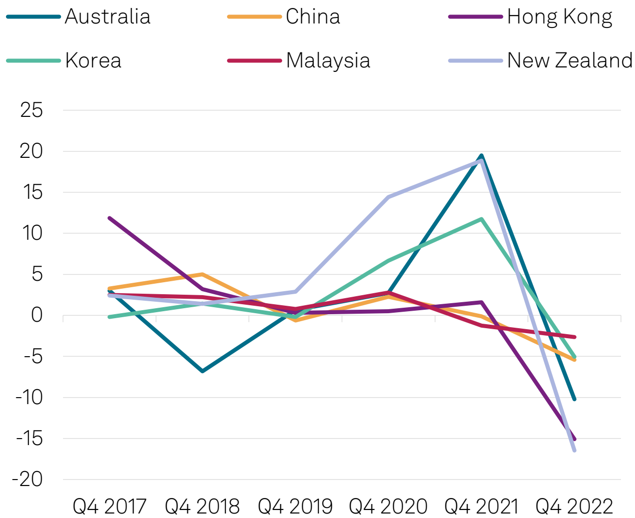


Data as of Jun. 23, 2023. Data source: S&P Global Market Intelligence. Source: S&P Global Ratings.

Chart 3

House prices across the region take a dip

Real residential property prices, y-o-y change (%)

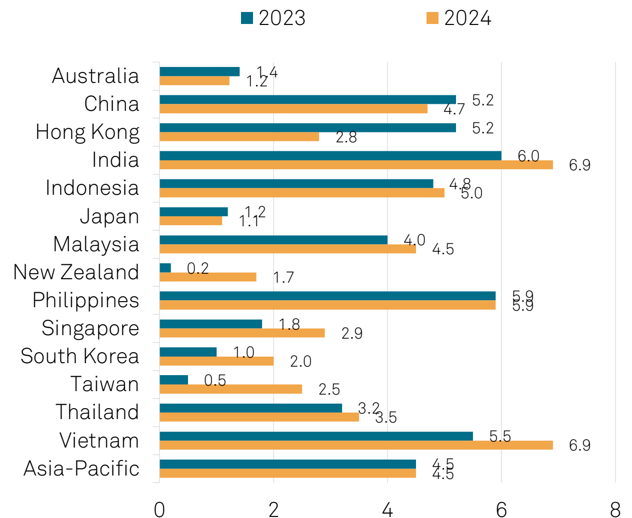


Y-o-y--Year over year. Data as of December 2022. Data source: Bank for International Settlements. Source: S&P Global Ratings.

Chart 4

Asia-Pacific: Growth forecasts

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



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

Top Asia-Pacific Risks

Financing: Tightening funding access and steepening borrowing costs would worsen prospects of lower credit issuers

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

While financing access appears stabilized, lower-rated issuers remain susceptible to higher borrowing costs and liquidity squeezes. Slowing regional economies and high input prices could further weaken credit quality of borrowers. Selective appetite by lenders could see credit lines contract or higher interest demands. Concurrently, rising borrower failures and defaults could prompt investors to limit their exposures to speculative-grade issuers. While borrowers may turn toward domestic funding, the financing access could be uneven. For lower-rated and highly leveraged borrowers with impending refinancing needs (mounting maturity walls), such liquidity strains could spike defaults.

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

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

Rapid rate hikes by the U.S. Federal Reserve and the ECB to slow inflation, U.S. banking turmoil, and the Russia-Ukraine war have slowed global economic growth. Risk of more conservative household consumption and corporate investment activity could exacerbate the slowdown in Western economies and affect China's post-COVID economic rebound. Asia-Pacific is an export-centric region so tepid global demands will hit exports and manufacturing activities, and weaken domestic consumption. Amid weaker business and household confidence, capital outflows and currency depreciation could worsen for some economies, compounding recessionary obstacles and external deficits.

Inflation: Inflation does not ease sufficiently, or even resurges, increasing costs pressures currently faced by borrowers

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

With customers becoming more accustomed to high prices, businesses have been slowly passing through input costs, alleviating margin and cash flow pressure. However, the trend is uneven. Pass-through prospects appear easier in domestic-focused sectors (retailing, restaurants, hospitality) or those with captive customers (nondiscretionary spending, infrastructure, and airlines). Manufacturers with exposure to slowing markets in Europe and the U.S. face more challenges in raising prices given risk to demand. Risk of high imported inflation remains, in face of weakness in domestic currencies for some countries (Japan and Malaysia). Meanwhile, the undoing of energy price controls implemented by some governments could result in higher inputs costs for households and corporates.

China's economy: China's recovery momentum falters substantially in the wake of prolonged weakness in business and household confidence

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

China's economic recovery post COVID exit is under way. However, prolonged weak business and household confidence could significantly derail the recovery momentum. Weak manufacturing activities due to slower global demand, high youth unemployment, and a subdued property sector have dimmed business and household sentiment. Concurrently, slower domestic consumption could exacerbate the already uneven economic recovery across China's cities where growth in smaller cities remain muted. China's weaker economic recovery could affect other Asia-Pacific countries. Persistent challenges in the property sector (low property sale transactions and prices) could affect banks' mortgage loan books. Meanwhile, lower land sale revenues and fiscal constraints could limit some local governments' ability to support the financing needs of state-owned enterprises (SOEs). Beijing's continued policy tightening to rein in leverage risk, while aimed at a few sectors, could hit highly indebted borrowers, such as local government financing vehicles (LGFVs) and some small and midsize enterprises.

Geopolitics: Geopolitical tensions heighten, worsening trade and investment conditions and reinvigorating inflationary pressures

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

If the U.S.-China friction worsens, the Russia-Ukraine war spills over into other areas, or domestic political disruptions occur within major emerging market countries, global trade and investment flows could suffer. This in turn could reignite inflation. The U.S.'s recent restrictions on the export of high-end chips to China reflect an effort to curtail the latter's tech ambitions. Also, closer political and trade ties between China and Russia complicate China's relationship with the West. A partial decoupling of China from the West would reshape supply chains, and financial and investment flows. This would involve an economic cost. China and the U.S. may co-operate in some areas (e.g., climate change).

Japan's monetary policy: Bank of Japan embarks on more aggressive monetary tightening, triggering short-term volatility in global capital flows

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

Japan persists with its near-zero interest rate policy and yield curve control, contributing to yen weakness and inflation. If investors perceive that the Bank of Japan could embark on significant monetary policy normalization, it could trigger abrupt portfolio adjustments. Capital could flow back

into Japan as international investment positions reverse. The resulting interest rate and exchange rate volatility could create financial instability, hampering financing and economic conditions.

Contagion: Further manifestation of contagion risk, following U.S. regional bank failures, hitting global market confidence and liquidity

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

The failure of First Republic Bank in May 2023 reminded investors and depositors that stresses facing U.S. banking may not have been resolved. If the crisis widens among more U.S. regional banks, investors may react more intensely. Such a reaction could spill into global financial markets and tighten broad financial liquidity.

Real estate revaluation: Sharp devaluation of residential and commercial property collateral would hit exposed sectors and investors as economies slow and mortgage rates stay high for longer

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

A slow economic outlook and high mortgage interest rates pose increasing risks for a real estate revaluation, implicating exposed segments, including banks, real estate investment trusts, and structured finance markets. Concurrently, the global commercial real estate (CRE) sector has not fully recovered from COVID. A protracted economic slowdown (affecting unemployment and tenants' income) and higher interest rates are squeezing net cash flows. In particular, if CREs are not viable, investors (such as private debt) face the likelihood of substantial write-downs.

Structural risks

ESG: Climate change and non-linear energy transition threaten food and energy supply, fanning inflation and social unrest

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

While countries are managing to cope with more extreme weather and adjusting to the costs of climate change policies, the physical and financial effect of these developments could worsen. This threat is more acute for the less financially strong emerging markets and so-called brown industries. A rapid phase-out of fossil fuels could be disruptive for many industries, and strain credit quality. Sovereigns that depend on hydrocarbon export revenues or economies centered on energy-intensive industries could also face pressures. Meanwhile, the increasing frequency of extreme weather events poses risks to agriculture and energy supply and could fan inflation. Particularly, crop disruptions raise the risk of higher food inflation and increased social unrest.

Technology: Accelerating technological advancement and mounting cyber attacks to disrupt business models, undermining credit profiles

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

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

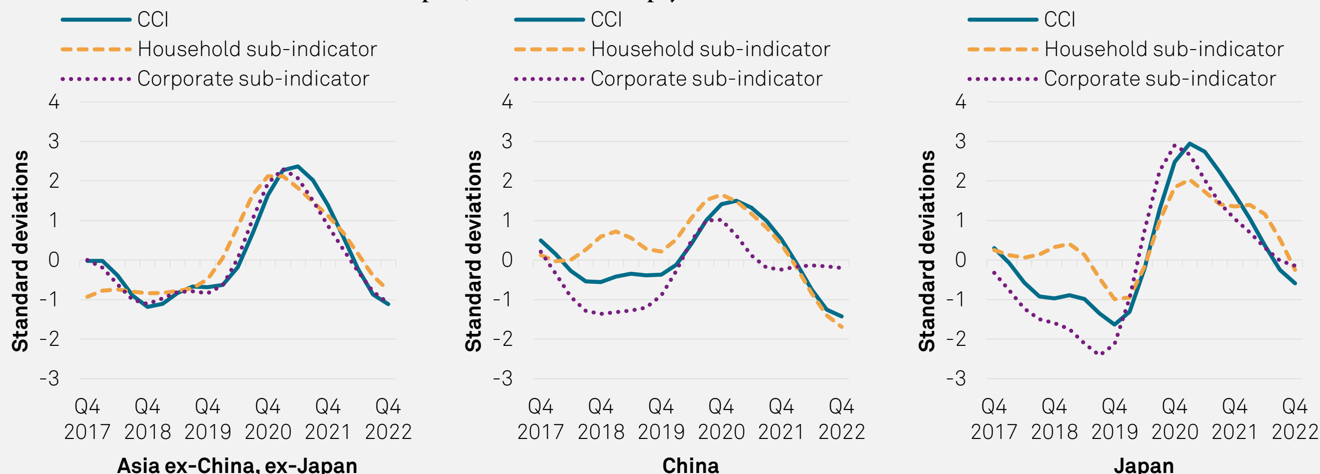
Source: S&P Global Ratings.
Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions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

Credit Cycle Indicator

Credit slowdown continues as lenders and borrowers hunker down for soft economic outlooks and volatile markets

Chart 5

The credit correction continues to deepen, but not as sharply



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

Asia-Pacific. Since the introduction of the Asia ex-China, ex-Japan Credit Cycle Indicator (CCI) in June 2022, we had signaled the risk of heightened credit stress occurring in late 2022 or early 2023. The CCI has been trending downward since its peak in the first quarter of 2021, reflecting ongoing credit correction. That said, the credit slowdown is easing for some countries. Overall, borrowers are still susceptible to funding selectiveness from lenders seeking to differentiate credit, amid weakness and volatility in the macro and financial environment. Meanwhile, the house price correction continues across markets such as Hong Kong, New Zealand, and Australia. However, Australian house prices have regained some territory. A sharp correction, if combined with a pickup in unemployment, could weaken household balance sheets further and strain banks' asset quality. For more details about our proprietary CCI, see "White Paper: Introducing Our Credit Cycle Indicator," Jun. 27, 2022.

China. After reaching a peak of 1.5 standard deviations in the first quarter of 2021, the China CCI has been trending downward. This decline, driven by the household sub-indicator, underlines weak household confidence. This is reflected in subdued household borrowing and still weak property prices. Meanwhile, slowing corporate borrowings reflect soft business confidence. In the face of a slower economic outlook (global and domestically), China's corporates could hold back on capex investment given weak exports and domestic demand. Meanwhile, the property sector looks to remain soft for another year, with upper-tier and lower-tier cities diverging in performance.

China's nonfinancial corporate debt-to-GDP remains elevated. The low productivity and high indebtedness of SOEs are pockets of risk not to be ignored (see "Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap," Sep. 20, 2022). The central government intends to strike a balance between supporting growth and containing leverage risk, but more fiscal stimulative programs could be launched if growth momentum weakens further (see "China Local Governments: Balancing Growth And Risk", Jun. 5, 2023). This could prop up the corporate sub-indicator, which has been flattening over three quarters since Q1 2022. Thus, China's corporate sector may buck the trend of credit slowdown as seen elsewhere in the region.

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

Japan's gross nonfinancial corporate debt has been rising as global economic conditions deteriorate, and corporates seek more debt to prefinance maturing debt and build cash positions amid prospects of rising interest rates (see "Banking Industry Country Risk Assessment: Japan", Jun. 15, 2023). That said, the pace of corporate debt build-up has been modest compared with the sharp uptick in 2020, corresponding to the onset of COVID. While a continuous buildup of cash holdings has helped lower the ratio of net debt to GDP in the corporate sector, this cash distribution could be uneven. We expect the Bank of Japan to begin hiking its policy rate this year (see "Economic Outlook Asia-Pacific Q3 2023: Domestic Demand, Inflation Relief Support Asia's Outlook", Jun. 26, 2023), leading to a heavier interest rate burden of corporates. Credit obstacles could mount for Japan's corporates, particularly those that have been unable to prefinance debt coming in due, and those with weaker cash build. This typically includes heavily indebted small to midsize enterprises (mostly unrated).

Macroeconomic Outlook

Domestic demand, inflation relief support Asia's outlook

- China's recovery should continue but will remain uneven much of this year, with industry lagging. We have reduced our 2023 GDP growth forecast to 5.2%, from 5.5%.
- Other Asia-Pacific economies are on track to slow due to the global slowdown and interest rate hikes. Still, domestic resilience should generally keep growth significant.
- With sequential core inflation mostly modest, the need for policy interest rate increases has receded, barring a few exceptions. However, rate cuts will be slow to materialize, in part because of U.S. rates remaining high for longer.

Primary contact

Louis Kuijs
Hong Kong
louis.kuijs@spglobal.com
+852-9319-7500

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

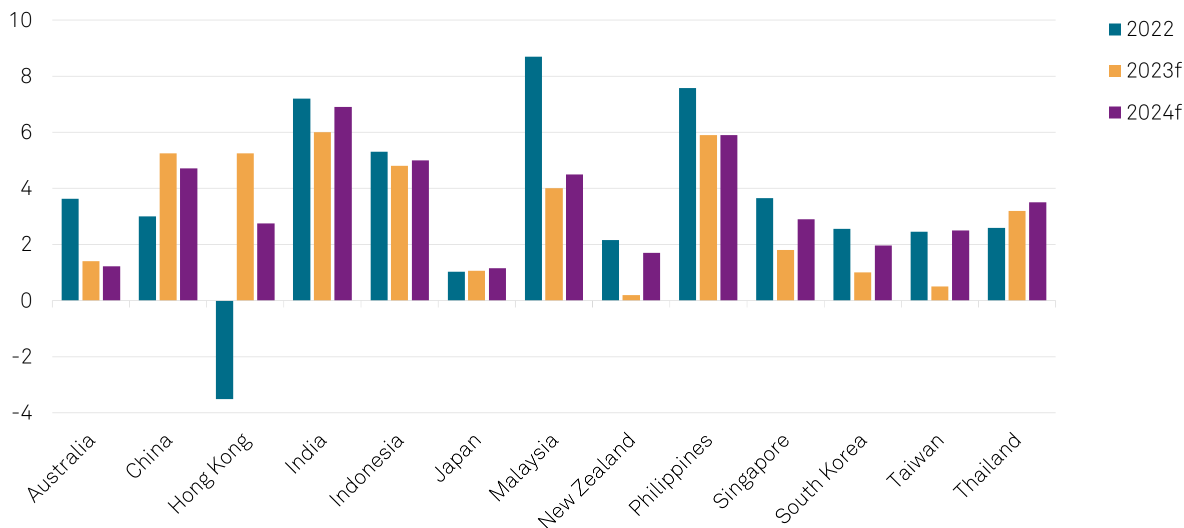
Low growth and elevated interest rates ahead in the U.S. and Europe. We have raised our whole-year 2023 forecasts for GDP growth in the U.S. and the eurozone, because of the better-than-expected outcome in the first quarter. However, we expect little sequential growth in the second half of 2023 in both economies, and a modest recovery in 2024.

Amid low unemployment and hefty wage growth, core consumer inflation in the U.S. is likely to decrease only gradually. As a result, we expect U.S. policy rates to increase and see them starting to come down only in 2024, thus maintaining pressure on Asia-Pacific currencies for the rest of 2023.

Chart 6

Growth to slow but not stall in 2023

GDP growth, y-o-y (%)



f--Forecast. Source: CEIC and S&P Global Ratings Economics.

China's recovery is uneven but should continue. China's consumption and services-led recovery has continued in recent months, and we expect consumption to expand further in the second half. But, amid continued weakness in the property sector and subdued exports, industrial production has slowed in recent months and consumer confidence is recovering only slowly.

While policy stimulus should remain contained, some measures to support growth are likely and should effectively put a floor under growth. Still, following the weak recent data and sentiment we have revised down sequential growth in the rest of the year, especially in the sector quarter.

We now forecast 5.2% growth in 2023, from 5.5% before, and slightly reduce our outlook for 2024 to 4.7%. Both down and upside risks to China's growth are limited by the likely policy response.

The rest of Asia-Pacific will slow but not stumble. We broadly maintain our outlook for a slowdown in Asia-Pacific excluding China to a still significant 3.8% from 4.7% in 2022 (see chart 6), with a more pronounced deceleration in economies heavily exposed to slowing global trade and interest rate headwinds. In the second half of the year, rising spillover from China's recovery should broadly offset the effect of weaker growth in the U.S. and Europe.

The improved inflation outlook relieves pressure on monetary policy. Unlike in the U.S. and Europe, core inflation has generally either stayed at or eased to a modest pace, in sequential terms, in recent months, including in Southeast Asian emerging markets and India. This means that, with a few exceptions, the domestic pressure to raise policy rates has receded, even if it takes a while before policy rates are cut.

In Japan, while we doubt inflation can sustainably move to the BOJ's 2% target in coming years, we forecast an increase in trend inflation. This should provide some room for modest steps towards normalizing the monetary policy stance.

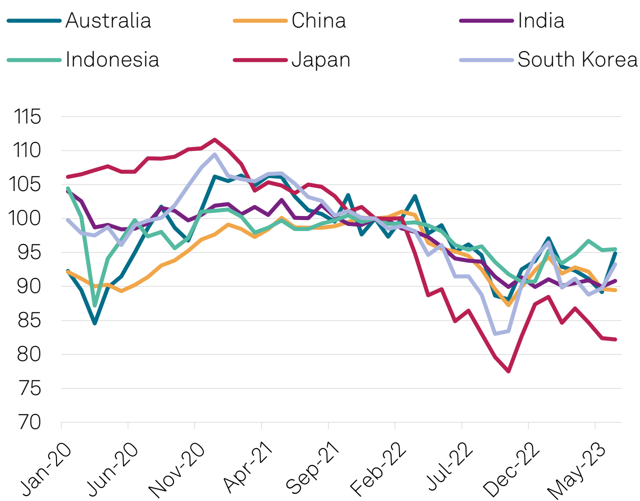
The improvement of external deficits dampens external pressure from high U.S. rates. Under our forecast of U.S. rates likely to remain higher for longer, in many Asia-Pacific economies interest differentials with the U.S. will remain challenging for quite some time, maintaining pressure on currencies (see chart 7). Notwithstanding this interest rate challenge, external deficits have eased in India, New Zealand, the Philippines and Thailand (see chart 8). This helps reduce external vulnerability and pressure on the currency. In South Korea the external balance is still declining amid export weakness.

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

Chart 7

Exchange rate paths have been mixed recently

US-dollar exchange rate (index, end-2021 = 100)

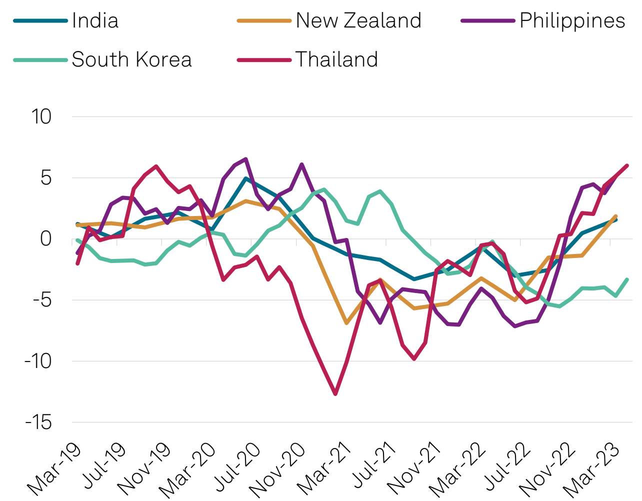


Source: CEIC.

Chart 8

External deficits are coming down

Current account balances (% of GDP, 3MMA)



3MMA--3-month moving average. Source: CEIC.

Financing Conditions

Stable financing overall, but risks are uneven

- Asia-Pacific offshore financing conditions have been relatively stable, but sharp upward pressure on funding costs remains a key risk.
- Benchmark rates for offshore bonds are slowly adjusting upward as markets reprice the terminal rate upward for major developed market central banks, which are more likely than before to keep rates higher for longer.
- Offshore market access and pricing challenges for speculative-grade issuers remain. Investment-grade borrowers have been able to issue bonds easily and at low spreads. Speculative-grade issuance has been extremely sparse, and spreads continue to rise.
- Local currency borrowing continues to be relatively cheap and available. Local bond yields have been stable relative to offshore rates, and banks are generally still able and willing to lend. But even here, there are signs of lender selectivity.

Primary contact

Vince Conti
Singapore
vincent.conti@spglobal.com
+65-9336-3785

Patrick Drury Byrne
Dublin
patrick.drurybyrne@spglobal.com
+353-1-568-0605

Financing conditions have been broadly stable, but further funding cost increases remain a key risk. Contagion from the pressure on regional U.S. banks has so far been contained, and financial markets continue to see relative calm as a result. For the region, this has meant steady or appreciating currencies (with only a few exceptions) as capital has generally been flowing in on a net basis. Bond market yields have increased slightly (see below) but remain well below the recent peak in November 2022. However, financing conditions are far from even across different regions, markets, and credit ratings. The risks of higher funding costs and tighter market access would affect all, but most acutely affected would be lower rated borrowers and certain segments.

Offshore markets are gradually repricing rates upward. Many major developed economies have experienced more resilient growth and labor markets than expected, leading to stickier inflation than markets expected. This has led markets to re-price upward their expectations for major central banks' terminal policy rates, and the timing of when they might begin their easing cycles. This has been especially true for the Fed, and it has translated to an increase of more than 60 bps in 5-year U.S. Treasury yields since late March, when markets most recently anticipated a potential Fed pivot. This re-pricing of Fed expectations and benchmark yields for Asian U.S.-dollar bonds has so far been gradual, but it is likely far from over. Markets are now considering the possibility of two more U.S. rate hikes this year, a big shift from the cuts that had been priced in.

Asian U.S.-dollar bond investors continue to show selectivity and risk aversion. Despite the gradual nature of benchmark rate adjustment so far, Asian U.S.-dollar bond spreads are showing increasing divergence between the high and low ends of the credit spectrum. Investment-grade borrowers in offshore bond markets continue to see high demand, pushing option-adjusted spreads down 25 bps year-to-date. In contrast, speculative-grade bond spreads have continued to trend up since February and are now up by more than 60 bps since end-2022. This has appeared in primary market trends as well. There has been no speculative-grade issuance in most months of this year, whereas investment-grade issuance remains close to the record levels seen in 2021 and 2022. This poses dollar refinancing risks for the former if the lack of access persists late this year and into the next, when refinancing needs will begin to increase.

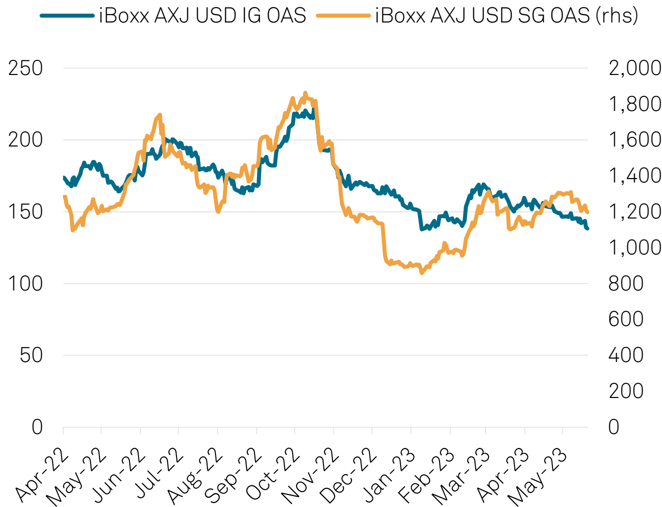
Local currency financing is cheaper but is also uneven. In the big domestic bond markets, bond yields remain low (except in Australia and the Philippines), especially relative to the magnitude of increases in the U.S. Borrowers with less immediate need for dollar financing have been able to issue in local Asian markets, where year-to-date volumes are also close to the record levels of

2022. Across the region, banks are still generally able and willing to lend. But loan demand has been easing, in part due to the effect of central bank tightening on lending rates, as well as slowdowns in the property sectors in a few regions. On top of these, banks in some countries are becoming relatively more selective. The net effect has been uneven lending growth (e.g., in China, less lending for lower-tier local governments; in Korea, declining loan growth to households).

Chart 9

Asia ex-Japan U.S.-dollar bonds option-adjusted spreads

Basis points (bps)

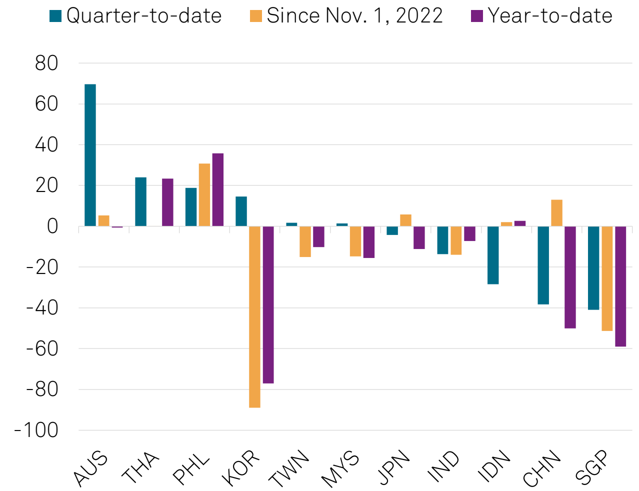


Data as of Jun. 14, 2023. rhs--right hand scale. Source: S&P Global Market Intelligence.

Chart 10

Asia-Pacific currency movements

Change in L.C. corporate bond index YTM (bps)



L.C.--Local currency. YTM--Yield to maturity. AUS--Australia, THA--Thailand, PHL--Philippines, KOR--Korea, TWN--Taiwan, MYS--Malaysia, JPN--Japan, IND--India, IDN--Indonesia, CHN--China, SGP--Singapore. Data as of Jun. 13, 2023. Source: S&P Global Market Intelligence and S&P Global Ratings Credit Research and Insights.

Sector Trends

Risks still tilted to the downside amid few bright spots

- **Not out of the woods.** Cross-border and domestic financing availability appear to have stabilized in Asia-Pacific. However, lenders could turn increasingly selective or demand higher premia amid increasing wariness of the fragile macro and financial conditions. Domestic funding options remain open, such as banks, which constitute a large part of region's funding channels. That said, they, too, could turn risk averse.
- **Outlook stabilizing, but unevenness remains.** Some sectors--including gaming--could see greater upside as earnings rebound stronger than expected. While the net rating outlook bias has slightly improved to negative 2% as of end-May 2023, a soft economic outlook and declining confidence pose downside risks and limit ratings headroom.
- **China's slower recovery.** China's economic recovery, following its exit from COVID earlier this year, is under way. However, it has been hindered by weak household and business confidence. Meanwhile, a global economy slowdown will affect demand and export activities. For the region's manufacturers, this may curb growth and profits.

Primary contact

Eunice Tan
Singapore
eunice.tan@spglobal.com
+65-6530-6418

What's changed?

China's recovery momentum slows. China's post-COVID exit recovery is ongoing, but momentum has slowed because of weak household and business confidence and deteriorating external conditions. Meanwhile, the property sector remains soft. We believe government support will be selective and targeted, given objectives to actively manage debt risk (see "Spending Sprees Will Subside As China Refines Infrastructure Investment", published May 29, 2023). While we view China's contained usage of debt-fueled growth stimulus as reducing high-leverage risk, it also implies the government's acceptance of a slower recovery. Consequently, we have lowered our forecast for China's real GDP growth this year to 5.2%.

Key risks

Costlier borrowing and more selectivity. Refinancing costs could be kept high from rising interest rates and demands of higher risk premia from lenders. Meanwhile, financiers could turn even more cautious amid prospects of weaker macro and financial conditions. Issuers with higher indebtedness and weaker earnings or cash positions could struggle to tap into refinancing channels, thereby straining liquidity.

Economic drags intensify. Weak economies and persistent inflation outside of Asia-Pacific dampen consumers' purchasing power, accelerating the consumption slowdown and thus hitting the export-centric region. Meanwhile, if China's economic recovery stalls, or export demand weakens further, sectors dependent on mobility and consumption, or those exposed to foreign demand would suffer most. These sectors include auto, chemicals, retail, and technology.

Higher costs, and harder pass-through. Although cost pressures are mostly easing, some producers are still finding cost pass-through tough. If demand further softens and dissuades producers from raising selling prices, especially in sectors where price competition is intense (e.g., retail), it will squeeze margins and credit quality. Meanwhile, wage inflation is biting in the building materials, metals and mining, and transportation cyclical sectors. Should such labor costs intensify, it could hamper the earnings recovery of these sectors.

Key assumptions

Global recession risk pushed out to 2024. Major economies, including the U.S., will not slip into recession this year. That said, a shallower but more protracted slowdown could ensue.

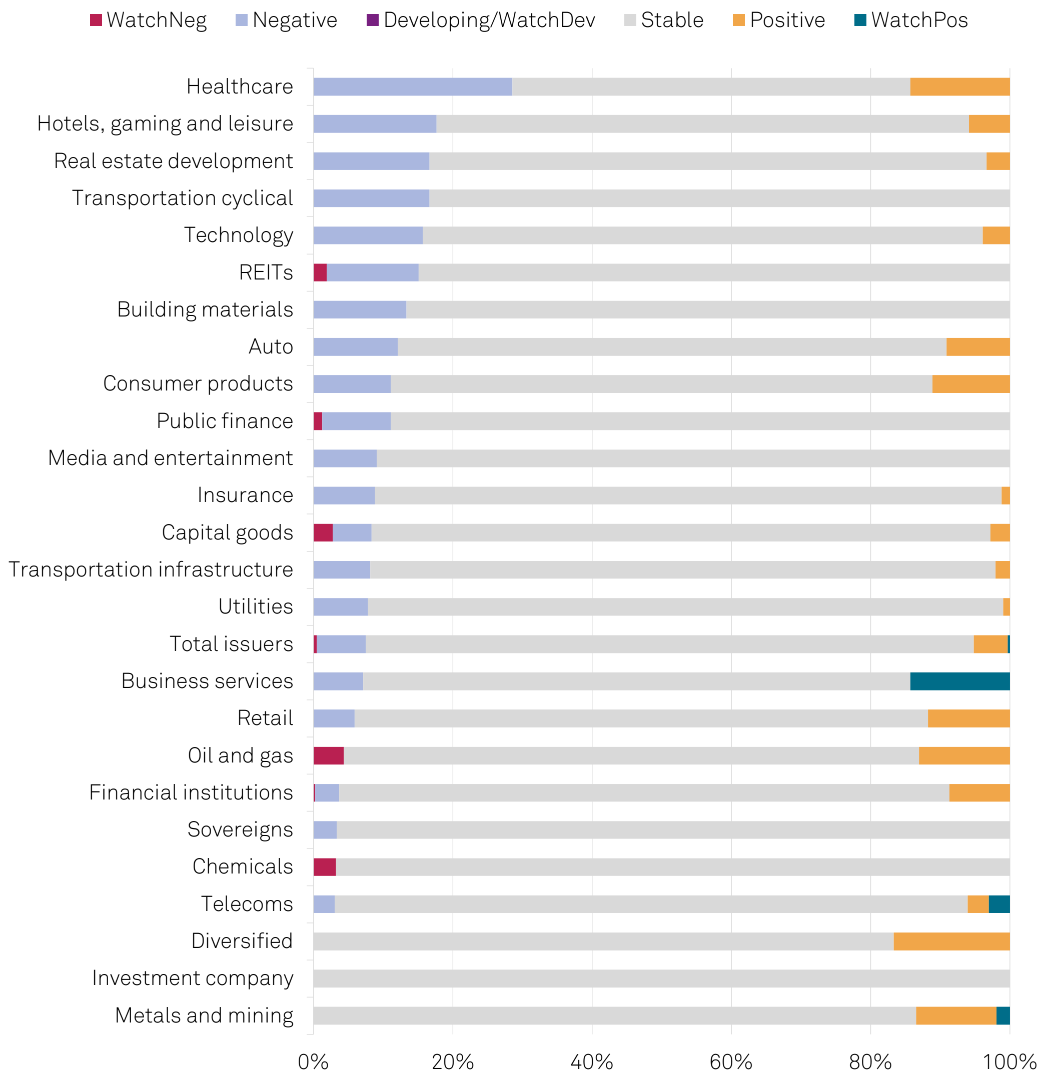
An L-shaped recovery for China property. The Chinese property sector will continue to navigate an L-shaped recovery, on the back of weak sales in lower-tier cities for the rest of 2023 (see "China Property Watch: Peripheral Pain", published May 22, 2023).

What to look for

Waning business and household confidence. Waning business and household confidence could intensify economic agents' selectivity in consumption and spending. For instance, consumers may avoid big-ticket items or higher-end products in the retail, technology and telecommunications sectors. At the same time, if inflation resurges without a rise in real wages, it could cripple household finances and further prompt conservative spending behaviour--creating an even tougher operating environment for the region's issuers.

Chart 11

Outlook distribution of Asia-Pacific issuers by sector, May 31, 2023



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

Nonfinancial Corporate

Stabilizing margins and improving domestic funding but cooler mood for regional exporters

- Corporate credit conditions are showing signs of stabilization. The bulk of the margin compression from higher input prices seems to have taken place, while domestic capital providers offer a credible funding alternative, given still largely closed capital markets.
- A wedge is likely to persist through 2023 between regional exporters exposed to cooling demand in Western markets and domestic-focused firms benefiting from normalizing conditions post-COVID.

Primary contact

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

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

What's changed?

Ratings are stabilizing at lower levels. The downside rating and outlook bias--a prevailing credit feature of 2022--has lessened since the beginning of the year. About 8.5% of rated Asia-Pacific corporate issuers had a negative outlook as of May 31, 2023, versus almost 15% a year ago. The number of rating or outlook changes year-to-date (85) is about one-quarter of last year's figure, with a roughly equal share of upside and downside transitions. The margin compression of the past three quarters appears to be slowly decreasing; a higher share of companies in the consumer manufacturing sectors appear able to gradually pass-through higher costs to customers. Domestic bank funding across the region, while still selective, appears more widely available than a few quarters ago. This offers a more credible funding venue for borrowers as foreign capital markets remain largely closed to weaker issuers.

More pronounced wedge between domestic-focused firms and exporters. The operating recovery continues in domestic-focused sectors--physical retail, hospitality, tourism, telecoms, transport, and certain categories of consumer products. However, it is occurring at a slower pace, given most of the earnings recovery has already taken place. Export-focused manufacturers with exposure to the U.S. and Europe likely face more difficult volume and pricing conditions for the rest of the year. In China, these industries include heavy-duty trucks, construction machinery, and consumer electronics; in Vietnam, electronics, machinery and textile manufacturers; and in Malaysia, electronics and component producers.

Key assumptions

Reducing market compression. Companies are slowly passing on higher prices to customers. We believe further material downside risk to profit margins is easing in the second half of the year as companies gradually pass on higher prices to end customers. Price hikes for manufacturers exposed to Western export markets remain challenging.

Key risks

A more pronounced slowdown in Western economies. The risk of a more pronounced than expected global slowdown would affect export-oriented sectors (capital goods, machinery, autos, electronics, textile) and could hit upstream commodity producers that have, so far, withstood cooling global growth well.

A sharp reversal in domestic funding availability. Steadier domestic funding has so far limited a more widespread regional liquidity crisis. As such a sharp change in domestic credit conditions (e.g., because of high profile borrowers' default) could indiscriminately weaken creditor confidence and affect funding availability for whole sectors.

What to look for

All eyes on Western European markets. Slower demand in export markets and margin erosion from inflation have squeezed regional exporters. A bottoming of GDP growth and the pace of the recovery in Europe and the U.S. are the main watch points for this sector.

Resuming capital market activity. Foreign currency capital markets remain largely closed for weaker issuers in Asia-Pacific. A gradual pick-up in issuance, possibly by year end, would go a long way to further stabilizing credit profiles, especially for weaker entities.

Financial Institutions

Banking sector is steady heading into the second half

- Most Asia-Pacific banks can absorb stresses associated with funding and property at current rating levels unless risks intensify meaningfully.
- Much weaker growth and higher interest rates outside our base case will test rating outlooks, as will much weaker-than-anticipated asset quality.
- Most rating outlooks are stable, and we expect this scenario to persist throughout 2023, noting that risks generally remain on the downside.

Primary contact

Gavin Gunning
Melbourne
gavin.gunning@spglobal.com
+61-3-9631-2092

What's changed?

Stress affecting U.S. and European bank names is moderating. Asia-Pacific banks can absorb funding and other contagion effects unless risks re-intensify meaningfully.

Economic strains are manageable. Asia-Pacific banks can contend with weak global economic growth, high interest rates, and tight financial conditions at current rating levels.

Increasing spotlight on property. Higher interest rates against a backdrop of high private sector debt and a weaker property sector will keep the pressure on banks' asset quality.

Key risks

Economic downside risks intensify. Banks' net interest margins benefit from higher interest rates, but materially weaker economic prospects or higher-for-longer interest rates will eventually hurt banks' asset quality. A much weaker economic outlook could strain Asia-Pacific financial institutions. This is especially the case amid highly leveraged corporate, household, and government sectors, and a property market experiencing pockets of stress.

Weaker confidence. A recurrence of recent global banking turmoil--while not our base case--could side-swipe otherwise sound Asia-Pacific banks.

Greater credit differentiation. Potentially more vulnerable are Asia-Pacific financial institutions with high direct exposures to weak counterparties or sectors, or those that are inherently weaker and non-systemically important, such as some nonbank financial institutions.

Key assumptions

Our current economic base case will hold. A material deterioration outside our base case outlook for economic conditions will test banks.

Asia-Pacific governments will remain supportive. Extraordinary government support will be extended to many systemically important banks in the unlikely event it was required.

Banking sector risks ex-region do not intensify. Spillover into Asia-Pacific, if risks ex-region are worse than anticipated, could change our base case for relative ratings stability.

What to look for

Severity and timing. A more severe or prolonged economic downturn, much higher-than-forecast credit losses, or unexpected contagion effects transmitted from outside the Asia Pacific region may accelerate the onset of negative ratings momentum.

Insurance

Market hurdles could hinder recovery of capital buffers

- Credit trends remain stable, though persistent market strains could squeeze buffers.
- Capital market fluctuations and rising forex hedging costs strain earnings.
- Insurance margins could narrow as weather-related claims and reinsurance costs rise.

Primary contact

WenWen Chen
Hong Kong
wenwen.chen@spglobal.com
+852-2533-3559

What's changed?

Market obstacles hinder investment return. Market swings (such as second-order effects from other regions' risk events) and slowing global growth could weigh on investment return. This is despite increase in recurring yield due to rate rises (except China). Insurers with a large portion of overseas investment will be more susceptible to such market turmoil.

Change in financial statement position. Markets that implemented the new accounting framework have seen change in insurers' financial statement positions to various degrees. New accounting standards provide a more economic view of the financial statements, and could prompt insurers to revisit business strategy and key performance indicators.

Key risks

Volatile capital market to stay. Sharp and persistent market swings further impair insurers' capital and earnings.

Compressed profitability. Climate change and rapid urbanization across emerging Asia could result in higher catastrophe-related losses. Further, rising reinsurance costs could hinder their risk mitigation plan, particularly if they are unable to effectively pass this expense to customers. Slowing economic growth could depress commercial insurance as trade activity slips.

Key assumptions

Market volatility could dent capital and earnings. Challenging capital market and hike in foreign-exchange hedging cost could hit earnings. Still-high interest rate differentials (for example, the gap between U.S. rates and those of Japan and Taiwan) will keep hedging costly. Except for China, rate hikes across the region could dent asset valuations and result in unrealized losses. While pressure for higher reserve provisioning may ease from higher interest rates (except China), prolonged equity market volatility could dilute capital buffers. We anticipate that the higher rates will help with asset-liability management for insurers with legacy high guarantees (such as Taiwan, Korea, and Thailand).

What to look for

Regulatory and accounting framework updates. These signify prospective changes in business and investment strategies. Insurers also face rising operational costs in implementation.

Public Finance

Fiscal divergence amid persistent external tests

- Inflation and rate hikes will weigh on local and regional governments (LRGs) and their associated enterprises.
- We expect China to maintain high capital spending to ensure its recovery in 2023, following its reopening after COVID restrictions.
- Local governments in Australia and New Zealand continue to spend on large infrastructure pipelines, resulting in growing debt levels; this is reducing headroom for current ratings, particularly in New Zealand.

Primary contact

Susan Chu
Hong Kong
susan.chu@spglobal.com
+852-2912-3055

What's changed?

China policies aim to restore market confidence. The country has continued its stimulus to support local recovery, following recent slower-than-expected economic activities.

Key risks

Economic shock. Persistent inflation, higher interest rates, and downside risks to the global economy, could further affect the region's consumption, supply chains, and economic growth. In China, any further deterioration in its slow property sector will delay local recovery and sap market confidence, while geopolitical disputes will constrain the recovery and stymie trade flows within global supply chains.

Delayed fiscal recovery. To counter the GDP slowdown and restore confidence, some LRGs may push forward aggressive fiscal stimulus, which would disrupt their fiscal recovery and lift debt.

Key assumptions

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

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

What to look for

Policy shifts. Any aggressive LRG fiscal expansion, either to sustain growth or to maintain social stability, could erode credit quality. Chinese LRGs may add to leverage if they let their SOEs use debt to stimulate local economic growth, while also committing to support the entities in a stress scenario. China's increased tolerance of SOE defaults, meanwhile, may stymie or otherwise disrupt local economies. The Three Waters Reform in New Zealand may alter the country's public finance system depending on the central government election in late 2023.

Sovereign

External uncertainties remain elevated

- Risks related to the war in Ukraine and persistent inflation add to global uncertainties even as the region shakes off most pandemic effects.
- The recovery from COVID should continue against this backdrop.

Primary contact

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

What's changed?

Uncertain interest rate outlook. While expectations of further monetary policy tightening have eased recently, the financing conditions of some emerging market sovereigns may yet worsen if inflationary pressures are not contained in advanced markets or if geopolitical tensions escalate further.

Travel activities are rebounding. Border controls have continued to normalize and tourism and business travel is increasing. Rebounding activity and reduced pandemic-related spending have eased fiscal burdens on governments.

Key risks

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

Growth and fiscal recoveries seriously interrupted. Rebounding energy prices, weaker demand, and increased uncertainty arising from geopolitical risks and worsening financing conditions may slow the economic and fiscal recoveries much more than we expect.

Key assumptions

Global economic activity and financing conditions weaken, but not so sharply that it creates financial volatility in Asia-Pacific.

Current account balances in most economies should improve, especially if energy prices fall further with global economic uncertainties.

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

What to look for

Widening geopolitical tensions that affect Asia-Pacific more materially. If the war in Europe expands or tensions in Asia-Pacific intensify, it would seriously damage investor sentiment and stoke price increases. Knocks on economies and financial markets in Asia-Pacific may worsen significantly.

How well central banks in the major advanced economies contain inflationary pressures will affect Asia-Pacific credit conditions. Financing conditions could remain unconducive if inflation in the advanced economies remains high, triggering tighter monetary policy actions and capital outflows from emerging markets.

Structured Finance

Squeeze on household balance sheets; low unemployment supports stable outlook

- Unemployment remains at low levels and stable across most markets, supporting our broadly stable outlook for consumer asset classes.
- Mixed outlooks in the region in relation to interest rates, and inflation, as well as the impact of China's post-pandemic recovery.

Primary contact

Narelle Coneybeare
Sydney
narelle.coneybeare@spglobal.com
+61-2-9255-9838

What's changed?

Risks remain in China's housing market. We expect property sales and home prices to face challenging conditions as homebuyer confidence remains fragile and the reopening recovery proceeds modestly.

Interest rate moves in Australia, New Zealand, and Korea. Monetary policy has continued to tighten in these countries in recent months. We anticipate a cooling of the housing markets to continue, and consumer confidence is being tested.

Key risks

Effect of interest rates, inflation, and slower growth on consumers. High and stable employment across most markets in the region are supporting households. Inflation dynamics are mixed across markets. Price pressures in higher-inflation markets are starting affect households and purchase decisions, and early signs suggest some pullback in discretionary spending. Interest rates have increased in some markets across the region, and we expect housing markets to further cool in those markets.

Inflation is not as high in Japan as it is in many other regions. However, the effect of inflation is also growing in Japan given the global situation. If wage growth remains limited, this could pressure mortgage- and consumer-loan performance.

Key assumptions

Structural supports. We expect ratings to remain stable, with low numbers of speculative-grade ratings and structural supports to cushion some deterioration. Broadly stable employment trends support debt serviceability on residential mortgage-backed securities.

What to look for

Prepayment rates and consumer asset delinquencies. Delinquencies are staring to increase in Australia and New Zealand RMBS as interest rate rises start to take effect. We expect this continue in the second half of the year. Prepayment rates and consumer asset-backed securities delinquencies may give early insight into household resilience.

Activity in China. We expect that there may be modest growth in issuance in structured finance instruments as the market continues its post-pandemic recovery.

Related Research

- 2022 Annual Asia Corporate Default And Rating Transition Study, Jun. 27, 2023
- Economic Outlook Asia-Pacific Q3 2023: Domestic Demand, Inflation Relief Support Asia's Outlook, Jun. 26, 2023
- Banking Industry Country Risk Assessment: Japan, Jun. 15, 2023
- Asia-Pacific Office REITs: Rising Stress Is Manageable For Most, Jun. 15, 2023
- Japan's Megabanks: After A Robust 2022, Risks Loom, Jun. 14, 2023
- Indonesia And Vietnam Developers Face Steeper Path To Growth, Jun. 8, 2023
- China Local Governments: Balancing Growth And Risk, Jun. 5, 2023
- Spending Sprees Will Subside As China Refines Infrastructure Investment, May 29, 2023
- Macao Gaming: Post-Pandemic Recovery, May 25, 2023
- China Property Watch: Peripheral Pain, May 22, 2023
- Economic Research: Changing Composition of China's Exports, May 12, 2023
- Global Tech's Moves From China Will Be Costly...And Unavoidable, Apr. 20, 2023
- Japan Corporates Can Tolerate Higher Rates And Inflation, Apr. 11, 2023
- Global Debt Leverage: China's SOEs Are Stuck In A Debt Trap, Sep. 20, 2022
- White Paper: Introducing Our Credit Cycle Indicator, Jun. 27, 2022

Editor

Lex Hall

Digital design

Evy Cheung

This report does not constitute a rating action.

The views expressed in the Macroeconomic Outlook section (pages 7-8) are the independent opinions of S&P Global Ratings' economics group, which is separate from but provides forecasts and other input to S&P Global Ratings' analysts. S&P Global Ratings' analysts use these views in determining and assigning credit ratings in ratings committees, which exercise analytical judgment in accordance with S&P Global Ratings' publicly available methodologies.

Appendix 1: Ratings Trends

Table 1

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

	May 2022	Aug 2022	Oct 2022	Feb 2023	May 31, 2023	No. of entities	Notional average rating
Auto OEM and suppliers	-3%	0%	0%	-6%	-3%	33	BBB
Building materials	-14%	-8%	-7%	-7%	-13%	15	BBB-
Business services	-17%	-15%	-8%	-8%	7%	14	BB+
Capital goods	-19%	-11%	-11%	-8%	-6%	36	BBB
Chemicals	0%	3%	0%	0%	-3%	31	BBB
Consumer products	-11%	-4%	-3%	7%	0%	27	BBB
Diversified	0%	0%	0%	6%	17%	18	A-
Healthcare	-22%	-13%	-29%	-14%	-14%	7	BB
Hotels, gaming, and leisure	-24%	-15%	-20%	-22%	-12%	17	BB
Investment company	0%	0%	0%	0%	0%	7	A
Media and entertainment	-20%	-22%	-11%	-9%	-9%	11	BBB
Metals and mining	9%	11%	12%	15%	13%	52	BBB-
Oil and gas	-17%	-9%	-4%	0%	9%	23	BBB+
Real estate development	-39%	-32%	-28%	-23%	-13%	30	BBB-
Real estate investment trusts	-13%	-13%	-13%	-10%	-15%	53	BBB+
Retail	-19%	-6%	-6%	6%	6%	17	BBB
Technology	-2%	0%	-5%	-10%	-12%	51	BBB
Telecommunications	-10%	-10%	0%	0%	3%	33	BBB
Transportation cyclical	-17%	-17%	-17%	-17%	-17%	18	BBB
Transportation infrastructure	-10%	-3%	-4%	-6%	-6%	49	A-
Utilities	-5%	-6%	-6%	-8%	-7%	102	BBB+
Total corporates	**-10%**	**-7%**	**-6%**	**-5%**	**-4%**	**644**	**BBB**
Financial institutions	-1%	3%	6%	5%	5%	381	BBB+
Insurance	-2%	-11%	-11%	-9%	-8%	170	A
Public finance	-13%	-12%	-9%	-14%	-11%	81	AA-
Sovereign	-7%	-7%	-7%	-3%	-3%	30	BBB+
Total issuers	**-7%**	**-5%**	**-3%**	**-3%**	**-2%**	**1,306**	**BBB+**

Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa. OEM--Original equipment manufacturer.

Teal colored cells indicate improvement from prior period, red, deterioration.

Source: S&P Global Ratings.

Appendix 2: Economic Data and Forecast Summaries

Table A1

Australia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.7	1.4	1.2	2.5	2.3
Inflation %	6.6	6.0	3.8	3.0	2.4
Unemployment rate %	3.7	3.9	4.6	4.5	4.5
Policy rate % (EOP)	3.10	4.60	4.10	3.35	3.10
Exchange rate (US$ per A$)	0.66	0.67	0.69	0.71	0.72

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. A$--Australian dollar.

Source: S&P Global Ratings Economics.

Table A2

China--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.0	5.2	4.7	4.7	4.5
Inflation %	2.0	1.2	2.8	2.1	2.2
Unemployment rate %	5.6	5.2	5.0	4.9	4.9
Policy rate % (EOP)	2.75	2.65	2.75	2.85	2.85
Exchange rate (US$)	7.12	7.07	6.86	6.69	6.56

Inflation and unemployment rate shown are the period average.

For China's policy rate, the one-year medium-term lending facility rate is shown. f--Forecast.

Source: S&P Global Ratings Economics.

Table A3

Hong Kong--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	-3.5	5.2	2.8	2.7	2.3
Inflation %	1.9	2.5	2.5	2.1	2.1
Unemployment rate %	4.3	3.0	2.8	2.8	2.8
Exchange rate (US$)	7.82	7.82	7.78	7.75	7.75

Inflation and unemployment rate shown are the period average. f--Forecast.

Source: S&P Global Ratings Economics.

Table A4

India--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.2	6.0	6.9	6.9	7.1
Inflation %	6.7	5.0	4.5	4.5	4.8
Policy rate % (EOP)	6.50	6.25	5.25	5.00	5.00
Exchange rate (US$)	82.3	83.0	83.5	85.0	86.5

Inflation rate shown is the period average. f--Forecast. EOP--End of period.

For India, 2022 means fiscal 2022/2023 (year ending March 31, 2023); 2023 means fiscal 2023/2024 (year ending March 31, 2024); and so forth.

Source: S&P Global Ratings Economics.

Table A5

Indonesia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	5.3	4.8	5.0	5.1	5.1
Inflation %	4.2	3.9	3.5	3.4	3.2
Unemployment rate %	5.8	5.4	5.3	5.3	5.2
Policy rate % (EOP)	5.50	5.75	4.75	4.50	4.50
Exchange rate (US$)	15,569	15,000	15,100	15,200	15,200

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A6

Japan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	1.0	1.2	1.1	1.0	0.9
Inflation %	2.5	2.8	1.5	1.5	1.4
Unemployment rate %	2.6	2.6	2.6	2.6	2.6
Policy rate % (EOP)	-0.07	0.10	0.20	0.25	0.25
Exchange rate (US$)	143.3	129.0	124.4	120.6	117.8

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A7

Malaysia--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	8.7	4.0	4.5	4.5	4.4
Inflation %	3.4	2.8	2.4	2.4	2.2
Unemployment rate %	3.8	5.3	4.9	4.7	4.7
Policy rate % (EOP)	2.75	3.00	2.75	2.75	2.75
Exchange rate (US$)	4.41	4.60	4.40	4.31	4.21

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A8

New Zealand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.3	0.2	1.7	2.5	2.6
Inflation %	7.1	5.7	3.4	2.6	2.5
Unemployment rate %	3.3	4.0	4.7	4.5	4.5
Policy rate % (EOP)	4.25	5.50	5.00	4.00	3.50
Exchange rate (US$ per NZ$)	0.63	0.61	0.62	0.63	0.64

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. NZ$--New Zealand dollar.

Source: S&P Global Ratings Economics.

Table A9

Philippines--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	7.6	5.9	5.9	6.6	6.3
Inflation %	5.8	5.9	3.1	3.3	2.9
Unemployment rate %	5.4	4.6	4.5	4.1	4.2
Policy rate % (EOP)	5.50	6.50	5.25	4.00	4.00
Exchange rate (US$)	57.4	54.8	54.0	52.2	51.0

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A10

Singapore--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	3.6	1.8	2.9	2.7	2.6
Inflation %	6.1	5.0	3.0	2.4	2.3
Unemployment rate %	2.1	2.1	2.1	2.0	2.0
Exchange rate (US$)	1.34	1.34	1.33	1.32	1.31

Inflation and unemployment rate shown are the period average. f--Forecast.

Source: S&P Global Ratings Economics.

Table A11

South Korea--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	1.0	2.0	2.3	2.0
Inflation %	5.1	3.6	2.6	2.1	2.0
Unemployment rate %	2.9	2.9	3.0	3.0	3.0
Policy rate % (EOP)	3.25	3.50	2.75	2.50	2.50
Exchange rate (US$)	1,365	1,285	1,228	1,182	1,147

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A12

Taiwan--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.4	0.5	2.5	2.6	2.6
Inflation %	2.9	2.3	1.1	0.9	0.7
Unemployment rate %	3.7	3.6	3.5	3.5	3.5
Policy rate % (EOP)	1.75	1.88	1.63	1.38	1.13
Exchange rate (US$)	31.4	30.8	30.4	30.0	29.6

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A13

Thailand--S&P Global Ratings Economic Outlook

	2022	2023f	2024f	2025f	2026f
Real GDP %	2.6	3.2	3.5	3.3	3.2
Inflation %	6.1	1.9	1.1	0.7	0.6
Unemployment rate %	1.2	1.0	0.8	0.8	0.8
Policy rate % (EOP)	1.25	2.00	1.50	1.25	1.00
Exchange rate (US$)	36.4	34.9	34.4	34.0	33.6

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.

Source: S&P Global Ratings Economics.

Table A14

Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2022	2023f	2024f	2025f	2026f
Asia-Pacific	3.9	4.5	4.5	4.6	4.5
Eurozone	3.6	0.6	0.9	1.6	1.6
EM-LatAm	3.7	1.1	1.5	2.1	2.2
U.S.	2.1	1.7	1.3	1.5	1.8

Asia-Pacific GDP growth numbers are based on current purchasing power parity GDP weights.

EM-LatAm includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Aggregates are weighted by PPP GDP (2017-2021 average) share of total. f--Forecast.

Source: S&P Global Ratings Economics.

Copyright 2023 © by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&Ps opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.