S&P Global Ratings

Credit Conditions Emerging Markets Q2 2024

Unmet Expectations Could Heighten Risks

March 27, 2024

This report does not constitute a rating action

Key Takeaways

Expected soft landing of advanced economies will continue supporting credit conditions in emerging markets (EMs), risks are receding to a certain degree, but the long-term outlook remains challenging. Our baseline assumptions point to sustained economic growth of both advanced economies and EMs, albeit diverging paths for the latter. Continued disinflationary trajectory and expected monetary easing should continue improving financing conditions, stabilizing credit conditions. Nevertheless, high borrowing costs will continue pressuring lower-rated issuers.

Risk trends for EMs have eased as major economies follow a soft-landing trajectory and financing conditions improve. We see the following threats ahead if current expectations with respect to our baseline assumptions are not met. On the one hand, the Federal Reserve could delay monetary easing if the U.S. economy and labor markets remain strong, which will keep borrowing costs high. On the other hand, geopolitical risks continue causing supply-chain disruptions that could lead to renewed inflationary pressure; furthermore, we can't rule out heightened trade protectionism down the road. Finally, China is still struggling with domestic factors that could weigh on its economic growth, which could spill over to the region's economies and EMs reliant on China.

We expect that the soft-landing economic trajectory, along with market optimism, will continue to stabilize rating trends across EMs. Defaults will likely occur mostly among lower-rated entities that continue struggling accessing debt markets and facing very high borrowing costs.

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 21, 2024.

Regional Credit Conditions Chair

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Top EM Risks

Higher interest rates linger amid refinancing risks

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

Advanced economies are on track for a soft landing, with resilient economic growth and strong labor markets, but these factors have contributed to sticky inflation and could prevent interest rates from dropping as expected. Central banks in advanced economies might consider delaying monetary easing and, in the extreme, avoid cutting interest rates during the year. Lingering high interest rates in advanced economies will likely undermine the ability of EM central banks to further ease their monetary policy. Furthermore, current conditions, including expected economic growth, strong labor markets, and supply-chain issues, will likely keep terminal rates higher than the past decades' average. Financing conditions are improving as economic trends stabilize; however, financing costs will remain high for all EM issuers, especially for the lower-rated ones with refinancing needs in 2024 and 2025. Access to primary markets could also narrow if geopolitical risks were to continue rising. For many issuers, the new interest-rate dynamics could be unsustainable, leading to defaults and bankruptcies.

Geopolitical tensions and difficult socio-political conditions erode credit fundamentals

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

The Israel-Hamas and Russia-Ukraine wars will likely continue through 2024, causing disruption in supply chains and the production of important commodities. For the conflict in the Middle East, the key risk remains of further escalation and spread more widely in the region with significant repercussions that could extend globally. In addition, the political landscape across many EMs remains complicated amid a heavy electoral year. Overall fragile institutions, along with fragmentation and polarization at the legislative level, are making it difficult to carry out relevant reforms to support long-term growth. The disenchantment with politicians and democracy is growing, which could in the long run erode policy predictability and sovereigns' ability to deal with fiscal challenges and to support economic growth.

Persistent property weakness, tepid confidence, and high debt levels to weaken China's growth momentum

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

China's troubled real estate sector, subdued household and business confidence, high debt, and weak exports are stalling the country's economic growth momentum. Contagion risk from low confidence could extend into the real estate and consumption-related sectors. China's sluggish economic growth could spill over to the region's economies and EMs reliant on China for tourism, exports, imports (product components), finance, or supply chains.

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

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

The latest war between Israel and Hamas has resulted in a steep rise of spot shipping costs as the Houthis are targeting vessels traveling through the Red Sea; the latter has resulted in longer trips and higher costs. So far, increasing shipping costs haven't been passed to corporate costs or goods prices, as established contracts locked in shipping costs for a determined period. Consequently, the short-term impact is limited to maritime companies. However, if the conflict continues, shipping costs will certainly rise and slowly trickle down to overall corporate costs, and ultimately, to consumer prices. This will add to ongoing strains stemming from tight labor markets. Furthermore, we believe that the risk that the conflict escalates is meaningful, and other involved groups such as Hezbollah could target the Strait of Hormuz to exert pressure over its rivals. The latter could further lift shipping costs, but also cause a significant increase in hydrocarbon prices, given the relevance of this route for these commodities. High key commodity prices could increase further amid higher labor costs and borrowing rates, which could eat into corporate margins and lead to renewed inflationary pressures.

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

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

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

Sovereigns under pressure as debt burdens and borrowing costs continue rising

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

Most EM sovereigns' debt levels peaked during the pandemic. Our expectations were that EM economies would be able to resume growth afterward, and implement fiscal consolidation, which would allow them to reduce their debt burdens. Most EM economies have recovered following the pandemic, but the perseverance of shocks over the past years not only has prevented a deeper fiscal consolidation and, in many cases, borrowings continue rising at a rapid pace. Current conditions point to a softer economic growth, although interest rates will likely remain high. Slower growth will continue weighing on EM sovereigns' fiscal accounts and will likely continue preventing consolidation. In addition, a large share of the debt issued during the pandemic will be maturing in the next 24 months, increasing EM sovereigns' debt service. Furthermore, 2024 has a heavy election calendar, during which fiscal slippage is usually characteristic. The combination of these factors leaves EM sovereigns with limited fiscal flexibility to face any further shocks without compromising their credit fundamentals. Additional fiscal pressure could result in sovereign downgrades, which usually spillover to our corporate and financial institutions ratings.

Structural risks

Climate change and rising adaptation costs

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. This year, El Niño phenomenon can increase risks across many EMs due to the heightened likelihood of heavy rainfall and floods in South America, while a severe drought might hit countries in Southeast Asia and Africa's western and southern regions. Past occurrences of this phenomenon have caused food prices to jump and other supply shocks.

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

EM Credit Conditions Continue Improving, Political Risks Cloud The Horizon

EM credit conditions continue mending amid resilient economic growth, falling inflation, and sound labor dynamics. So far, high interest rates have had a limited impact on EM economies (see chart 1) and credit performance. Key factors have been the manageable debt maturity schedule and relative strength of the corporate sector, along with substantial fiscal stimulus across the board. The soft-landing trajectory of advanced economies has been critical for EM performance, reflected in a relative stability of trade and sustained portfolio flows and remittances. Resilient economies and the downward trajectory of inflation have lifted real incomes gradually and improved financing conditions, thanks to growing expectations of monetary easing in advanced economies. These conditions have reduced risks, although the factors listed in our top EM risks table could dampen the momentum. Notably, our focus is on lingering high interest rates, resurging inflationary pressures driven by supply-chain disruptions, China's struggling economy, and rising geopolitical tensions.

Borrowing Costs To Remain High

Growth in advanced economies is good news for EMs; however, sound economic and labor dynamics, especially in the U.S., could delay monetary easing. Our baseline points to three rate cuts by the Fed in 2024; we expect that the European Central Bank (ECB) will follow a similar trajectory. Recent data shows continued strength in the U.S. economy and labor market, which along with ongoing supply-chain issues, could result in sticky inflation, delaying expected interest-rate cuts in EMs (see chart 2). Terminal rates are also relevant for EMs, and will influence the pace of domestic monetary policy developments. The risk is for interest rates to remain high and above market expectations. This could dampen investments and maintain high borrowing costs, which would erode corporate and sovereign fundamentals. Delayed interest-rate cuts in the U.S. could also strengthen the U.S. dollar, which could amplify inflationary pressures for some EMs and weaken financing conditions.

Geopolitical Tensions Causing Risks To Materialize

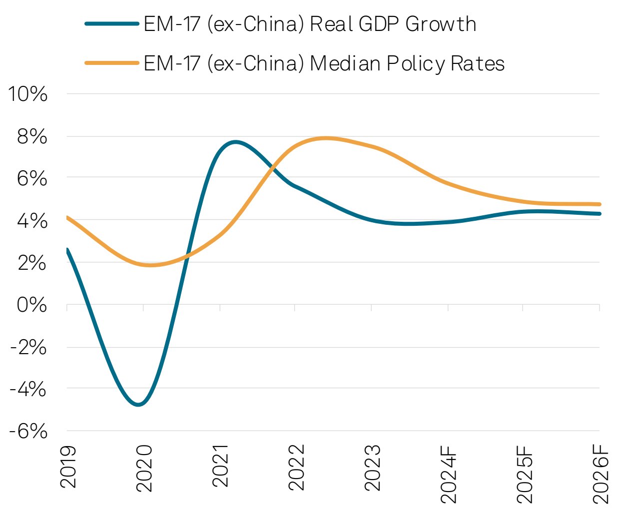
The latest Israeli-Hamas war is already taking a toll on supply chains, as traffic through the Red Sea has plummeted in an effort to avoid Houthi attacks (see chart 3). The alternative route through the Cape of Good Hope is viable, but requires at least 10 additional days of transit, which also lifts costs. The disruption also comes at a bad time as shipping through the Suez Canal was a good alternative for traffic that required shipping through the Panama Canal, which is suffering from lower transit volumes because of the drought. The effects so far have been limited because shipping contracts lock in fees for a period of time. However, if the conflict continues, rising shipping costs will likely seep into corporate costs, and ultimately, into consumer goods. Furthermore, we believe that the risk that the conflict escalates is meaningful, and other involved groups such as Hezbollah could target the Strait of Hormuz to exert pressure over its rivals. The latter could further ratchet up shipping costs and hydrocarbon prices, given the relevance of this route for these commodities. Continued supply-chain disruptions, resulting from geopolitical tensions, also fuel the trend to relocate supply chains, which in the long term could mean increasing production costs.

Sovereigns' Rising Strains

Successive shocks will likely drive EM sovereigns' debt levels to new highs, beyond those seen in the pandemic. So far, EM countries have been able to manage through a combination of resilient economic activity in advanced economies, expansive fiscal policies, and a highly restrictive monetary stance to fight inflation. These factors have been effective in fostering economic resilience in EMs, but rising debt and interest burden will weigh on sovereigns' fundamentals for years to come. Current conditions will likely amplify pressures on sovereigns, while slower growth and high interest rates will continue weakening fiscal accounts. Furthermore, necessary fiscal consolidation will likely be postponed during elections in many countries, and slippage will likely exacerbate already high debt burdens in many EMs. These factors leave EM sovereigns with a limited fiscal room to face any further shocks without compromising their credit fundamentals.

Chart 1

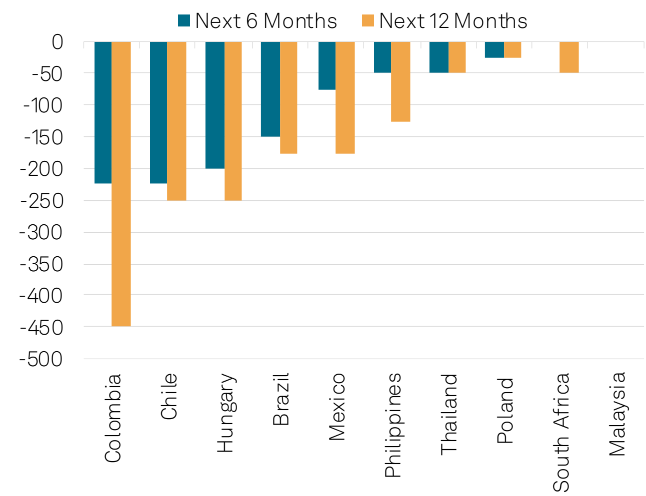
EMs' resilience despite significant monetary tightening and inflation



Aggregates are weighted by PPP GDP (2019-2021 average) share of total. F--S&P Global Ratings forecasts. Source: S&P Global Market Intelligence.

Chart 2

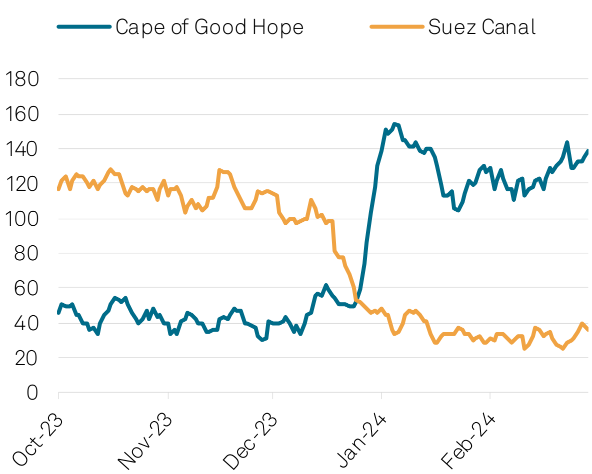
Strength in advanced economies could delay EMs' monetary easing



Market-implied policy interest rate cumulative changes. Note: implied interest rate changes are based on interest rate swaps as of March 19, 2024. Sources: Haver Analytics and S&P Global Ratings.

Chart 3

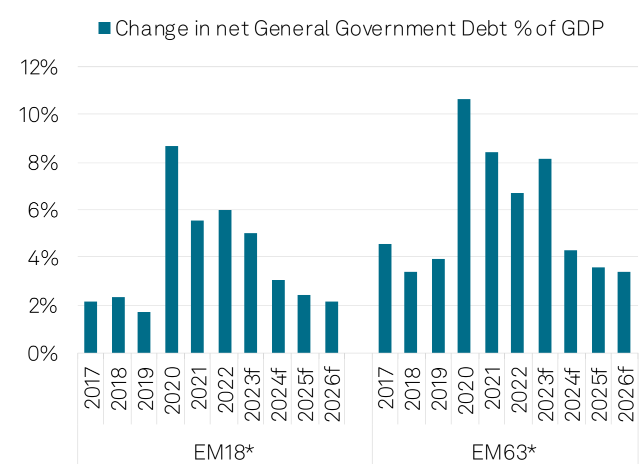
Shipping routes disrupted by the Israeli-Hamas war



Data compiled March 7, 2024. Vessel crossings, east- and west-bound combined, seven-day trailing total. Source: S&P Global Market Intelligence.

Chart 4

Successive shocks will likely drive EM sovereigns' debt levels to new highs



Average for each year. *EM list of countries on page 37. f-forecast. Source: S&P Global Ratings.

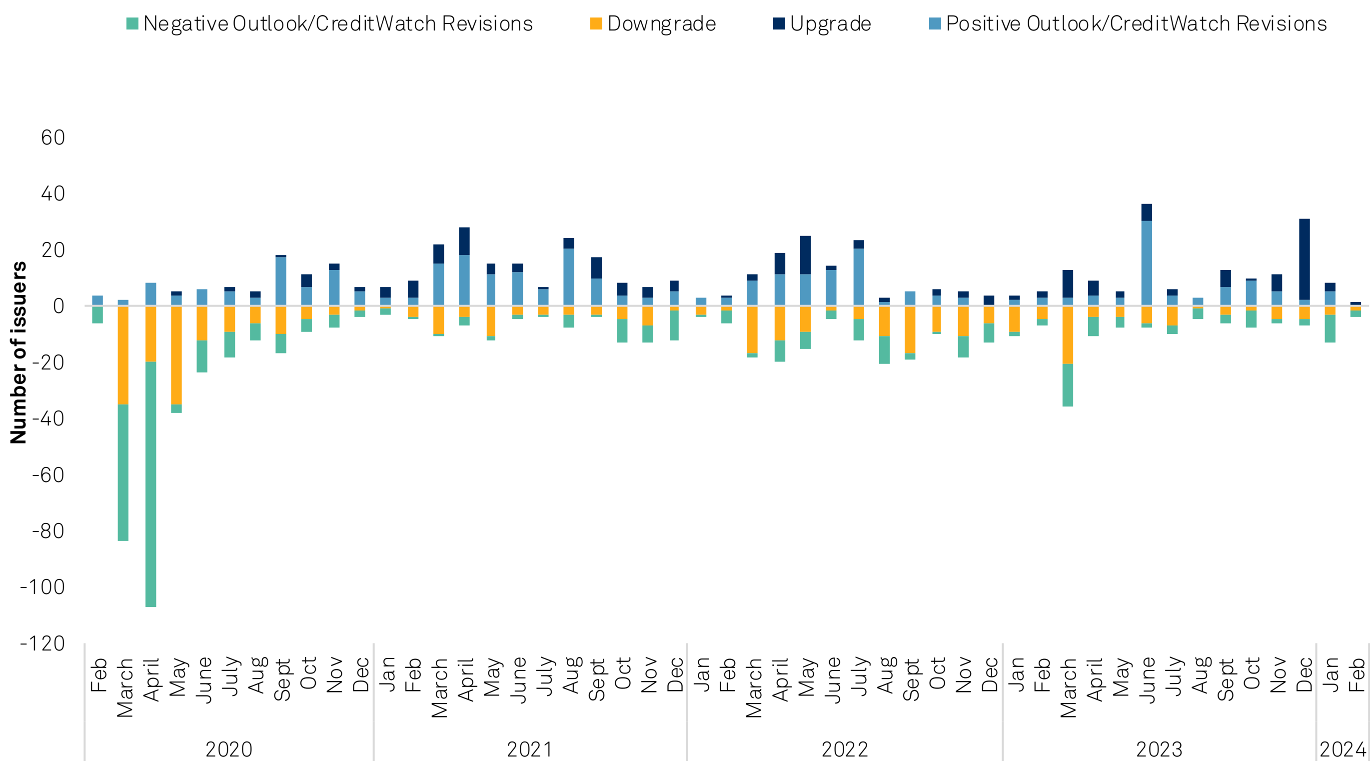
Stabilizing Rating Trends

Resilient EM economies and improving financing conditions have stabilized rating trends. According to our baseline, the rating stability will continue, granted a soft-landing in advanced economies and expected monetary easing. Furthermore, continued disinflation should support an improvement in households' purchasing power, which should prop up domestic demand. Overall, these factors should support corporate revenues, despite expected sluggish economic growth. That said, average ratings are lower than pre-pandemic levels, consequently the materializing risks could quickly erode the credit rating performance.

Chart 5

Soft landing economic trajectory will remain supportive for EM ratings

Number of rating actions in key EMs



Data as of Feb 29, 2024, financial and nonfinancial corporates, including sovereigns--Argentina, Brazil, Chile, Colombia, Mexico, Peru, India, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Hungary Poland, Saudi Arabia, South Africa, Turkiye, and Greater China. Source: S&P Global Ratings Research & Insights.

Macroeconomic Conditions

A Period Of Growth Divergence Ahead

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- On balance, macroeconomic conditions for EMs in 2024 have improved marginally since the previous quarter, due to better-than-expected global economic growth, especially in the U.S., and a loosening in financial conditions.
- Nevertheless, EMs will face significant headwinds in 2024: the lagged effects of high interest rates and the impact of an eventual shift to below-trend growth in the U.S., which we expect in the second half of 2024.
- Growth in EMs will diverge significantly in 2024. Growth outperformers in 2023 (such as Brazil, Mexico, and India) will experience more moderate rates in 2024. Conversely, last year's growth underperformers (Colombia, Peru, Thailand, Hungary, Poland, and South Africa) will experience modestly faster growth in 2024.

(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.)

On balance, macroeconomic conditions for EMs in 2024 have improved slightly since the previous quarter. This is mainly due to continued resilience in economic growth around the world, especially in the U.S. A modest strengthening in financial conditions also helped, as we shift from peak interest rates toward an expected gradual loosening in monetary policy in both the U.S. and the eurozone this year. Therefore, we expect a wide growth divergence across EMs. Strong performers in 2023 (such as Brazil, Mexico, and India) will experience a moderate deceleration in 2024, although growth will still remain relatively strong. The opposite will occur among last year's weaker performers (Colombia, Peru, Thailand, Hungary, Poland, and South Africa). But in most cases, activity will remain subdued. However, EMs will still face significant headwinds this year. These include the lagged effects of high interest rates and a drag from an eventual slowdown in U.S. growth, which we expect will be more noticeable in the second half of 2024. This will keep economic trajectories highly vulnerable to setbacks this year.

Table 1

Summary of GDP growth forecasts

	2021	2022	2023	2024f	2025f	2026f	2027f
Argentina	10.7	5.0	-1.6	-3.5	3.3	2.2	2.5
Brazil	5.1	3.1	2.9	1.8	2.0	2.1	2.2
Chile	11.9	2.5	0.2	2.0	2.7	2.9	3.0
Colombia	10.8	7.3	0.6	1.1	2.8	3.0	3.1
Mexico	6.0	3.9	3.2	2.5	1.8	2.2	2.3
Peru	13.6	2.7	-0.6	2.7	3.0	3.1	3.2
China	8.5	3.0	5.2	4.6	4.8	4.6	4.4
India	9.1	7.0	7.6	6.8	6.9	7.0	7.0
Indonesia	3.7	5.3	5.0	4.9	5.0	5.0	4.9
Malaysia	3.3	8.7	3.7	4.3	4.5	4.6	4.6
Philippines	5.7	7.6	5.6	5.9	6.2	6.5	6.4

Thailand	1.5	2.6	1.9	3.9	3.0	3.2	3.1
Vietnam	2.6	8.0	5.0	6.1	6.7	6.7	6.7
Hungary	7.2	4.6	-0.7	2.2	3.0	2.8	2.5
Poland	6.8	5.5	0.2	2.8	3.1	2.9	2.8
Turkiye	11.8	5.3	4.5	3.0	3.0	2.8	2.8
Saudi Arabia	3.9	8.7	-0.9	2.2	5.0	3.1	3.0
South Africa	4.7	1.9	0.6	1.3	1.5	1.4	1.4
EM-18	7.7	4.5	4.5	4.2	4.6	4.4	4.4
EM-17 (excludes China)	7.2	5.6	4.0	3.9	4.4	4.3	4.3
LatAm	7.4	3.9	1.8	1.2	2.3	2.3	2.4
EM Southeast Asia	3.4	5.9	4.4	4.9	5.0	5.1	5.0
EM EMEA	8.2	5.7	1.9	2.6	3.3	2.7	2.7

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

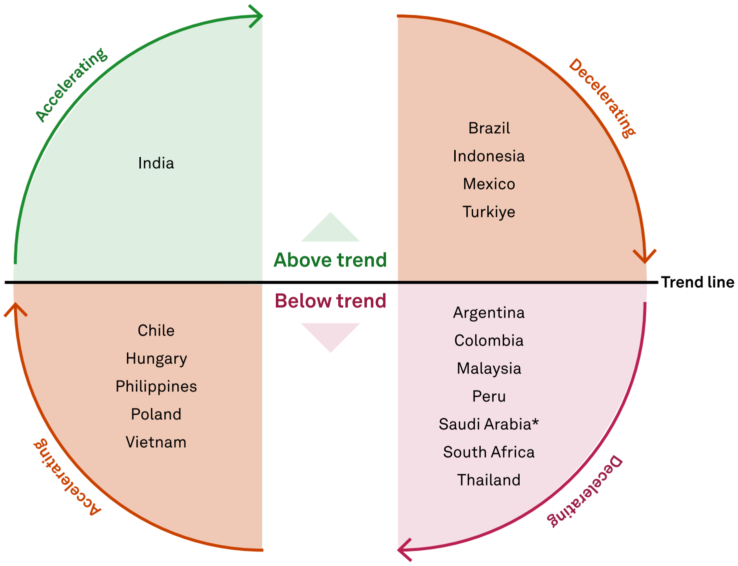
Resilient global GDP growth will have positive spillovers to EMs. Our growth outlook for the U.S. has improved modestly since the previous quarter, due in part to ongoing strength of the labor market. We now expect GDP growth of 2.5% in 2024 for the U.S. (compared to 1.5% last quarter), after expanding also 2.5% last year (see "Economic Outlook U.S. Q2 2024: Heading For An Encore", published March 26, 2024). This means a stronger spur from the U.S. economy to EMs than we previously anticipated, especially during the first half of 2024. Survey trends suggest manufacturing may have found a floor in the U.S. for now, and will start adding to growth, boosting manufacturing activity in other EMs that are linked to the U.S. economy. Our outlook for the eurozone remains broadly unchanged, and we still anticipate the manufacturing recession in Germany to be largely behind us (see "Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom", published March 26, 2024). In China, our growth assumptions of near 4.6% growth in 2024 also remain unchanged (see "Economic Outlook Asia-Pacific Q2 2024: APAC Bides Its Time On Monetary Policy Easing", published March 25, 2024).

The shift away from peak interest rates toward the beginning of interest-rate cuts is loosening financial conditions in EMs. While inflation dynamics remain uncertain, given sticky services prices and volatility in goods prices, we expect both the Fed and ECB to start reducing interest rates toward the middle of this year. Market expectations, especially for Fed action, have moved significantly over the last few months, but they are now pricing in three 25 basis point (bp) cuts this year, in line with our own expectations. We expect EM central banks that have already cut rates (mostly those in Latin America [LatAm]) to continue doing so in the coming months, and those that haven't done so yet (mostly in EM Asia) to start later this year. In this context, long-term interest rates have fallen (both U.S. and domestic), and issuance activity has picked up, although so far mostly among investment-grade issuers.

Growth paths across EMs will diverge significantly in 2024. Across the 18 major EMs that we cover, we expect GDP growth in just half of them will accelerate in 2024 and to slow among the rest. As a comparison, GDP growth accelerated only in China and India during 2023. Stronger growth in the U.S. than in the eurozone was an important factor in growth divergence in EMs last year. Those exposed to the U.S. did better than those to the eurozone. EMs with close economic ties with China had a mixed performance. We generally expect this trend to continue in 2024. However, idiosyncratic factors, such as adverse weather events, social unrest, high levels of political uncertainty, and varying degrees of fiscal stimulus, also played an important role in explaining the wide variance in growth trajectories last year, and will continue doing so in 2024.

Chart 6

Current economic cycles in emerging markets



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

Because of such trends last year, EMs are coming into 2024 at different stages of their economic cycle (see the chart above). Numerically, this means that GDP growth in economies that were expanding above trend in 2023 will decelerate modestly in 2024, and the opposite will occur among those that grew below trend last year. However, in most cases, GDP growth will remain below trend in 2024.

Several headwinds will pose risks to EMs' economic performance. These include the lagged effects of high interest rates, which will mean a higher cost of servicing debt, as well as greater financing costs for new investments. Furthermore, we expect the U.S. economy to eventually shift to lower growth, more noticeably in the second half of 2024. The recovery in the eurozone will remain fragile, and subdued confidence and property-sector woes will continue to generate uncertainty about Chinese economy. Furthermore, a heavy electoral agenda could keep policy predictability lower than normal, which is likely to restrain investments in some cases.

Forecast Update

The growth forecasts for EMs have improved marginally compared to our last previous economic outlook in November. Our 2024 real GDP growth forecast for EMs (excluding China) is 3.9%, a minor upward revision from 3.8% previously, and broadly unchanged from the 4.0% growth in 2023. We made the largest upward revisions to Mexico (up 70 bps), Turkiye (60 bps), Peru (50 bps), and India (40 bps). We lowered our growth projection the most for Argentina (down 200 bps), Saudi Arabia (50 bps), Hungary (40 bps), Poland (30 bps), and Thailand (30 bps). Our 2025 growth projections remained broadly unchanged--we forecast EMs (excluding China) to grow 4.4% that year.

Regional Summaries

LatAm: Our 2024 real GDP growth for the region remains unchanged at 1.2% (or 2.0% excluding Argentina), although we made several country-specific revisions. The main upward growth revisions are for Brazil and Mexico. We now expect Brazil's economy to expand 1.8% this year compared to 1.5% previously, thanks to continued--albeit diminishing--fiscal support. Lower domestic interest rates will encourage a recovery in investments, especially toward the second half of 2024. In Mexico, we now expect a 2.5% growth this year (from 1.8% previously), in line with the recent comparable upward revision to U.S. GDP growth. Growth in Mexico continues to be boosted by a sharp uptick in public nonresidential investment, which will likely continue in the run-up to the June general election. We expect growth will slow more noticeably in the second half of 2024, once public investments slow and the U.S. demand moderates. We anticipate broad policy continuity under the next government. We also increased our 2024 projection for Peru to 2.7% from 2.2%, but mostly due to an expected rebound from a 0.6% GDP decline in 2023. The outlook for investment in Peru remains weak due to ongoing political uncertainty.

Our 2024 growth projections for Chile and Colombia remain broadly unchanged. Following a weak performance in 2023, we expect a subdued recovery this year in both countries, following a sharp drop in investments last year, most notably in Colombia. Investments in Colombia will likely remain tepid this year due to uncertainty over reforms proposed by the administration. Finally, we revised our 2024 projection for Argentina, GDP of which we now expect to decline 3.5% this year; we previously anticipated a 1.5% contraction. This is due to the over 54% devaluation of the Argentine peso in December and a deep reduction in fiscal expenditures, both as part of a series of adjustments implemented by the Milei administration.

EM Europe, the Middle East, and Africa (EMEA): Soft growth in Western Europe prompted slightly downward 2024 GDP growth revisions for Hungary (to 2.2% from 2.6% previously) and Poland (to 2.8% from 3.1%). Both economies showed signs of a recovery in domestic demand in the second half of last year, although they appear to have lost steam at the beginning of this year. We also lowered our 2024 GDP growth projection for Saudi Arabia to 2.2% from 2.7% previously, mainly due to longer-than-expected oil production cuts. We currently expect oil production cuts to last at least until Q4 2024. That said, growth in the nonoil sector is expected to remain robust. Our projections for South Africa are broadly unchanged, expecting growth to improve to 1.3% in 2024 from 0.6% last year. Logistics, infrastructure, and electricity supply issues remain the biggest obstacles, and the general election in May could generate some uncertainty among investors, although we expect broad policy continuity under the next government.

In Turkiye, there were signs of deceleration in the second half of 2023, but following a nearly 50% minimum wage hike in January. We increased our GDP growth projection. We now expect the economy to grow 3.0% this year, compared to our previous 2.4% projection. The recent higher-than-expected readings in inflation also increased the likelihood that the central bank will start raising interest rates again in the coming months.

EM Asia: We made 20-30 bps downward revisions to our 2024 GDP growth for most economies in the region, but mainly as a result of weaker growth at the end of 2023. Overall, we expect growth for 2024 in EM Asia to improve from 2023. While the lagged effects of tighter monetary policy will lower domestic demand growth this year, a modest trade and manufacturing recovery is underway, and we expect it will continue for the rest of the year.

We increased our India GDP growth forecast for the fiscal year ending March 2025 to 6.8% (from 6.4% previously), reflecting stronger momentum in the economy. We expect public and private investment activity and urban consumption to remain resilient in 2024, although we anticipate some moderation, as tighter monetary policy slows demand. India's economic growth was durable over the last quarter of calendar 2023, with strong growth in services and manufacturing, partly offset by the agriculture sector's weak growth.

We expect gradual rate cuts in the region in the second half of the year, as inflationary pressures remain low and U.S. monetary policy begins to ease. Among the central banks on hold, the Bank of Thailand may see pressure to ease policy first as inflation is below zero. In Malaysia, we expect only one cut later this year as the policy interest rate is close to the central bank's neutral estimate. Vietnam is an exception because its central bank eased monetary policy in 2023 to alleviate pressures from weak economic conditions. The economy is now seeing rising inflation on the accommodative monetary policy settings and the improvement in domestic demand following weak activity in 2023. If inflationary pressures continue to rise, the interest rate could increase this year.

Risks To Baseline Growth

A continuation and escalation of the conflict in the Middle East is a major risk to our growth outlook for EMs, due to its potential impact on shipping and energy prices. The risk that the U.S. economy goes from our current baseline of a “soft-landing” to an outright recession is also meaningful. This would have significant adverse implications for the global economy, with an outsized effect for EMs with strong economic ties with the U.S., such as several LatAm countries. Alternatively, a stronger-than-expected U.S. economy, while generally favorable for EMs, could prompt a rise in interest rates in the short term and strengthen the U.S. dollar (with negative implications for inflation through foreign-exchange [FX] pass-through effects). Finally, a heavy and divisive electoral agenda this year and next in several EMs could take a toll on investments due to lack of policy visibility.

Financing Conditions

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Improving Financing Conditions, High Borrowing Costs

- Financing conditions have improved. EM corporate yields have tightened consistently, but remain high from a historical perspective, rendering refinancing options costly for lower-rated issuers.
- We expect funding costs to continue falling gradually, spurring issuance growth, provided external risks and U.S. dollar movements remain contained.
- Rating performance displays credit resilience across regions, with LatAm remaining as most at risk with respect to upcoming maturities and the outlook bias.

Corporate spreads keep narrowing, but yields remain elevated. The expected moderation in global interest rates, optimism that the global economy will achieve a soft landing, and ongoing monetary policy normalization by several central banks (especially in LatAm) have caused EM corporate spreads to drop to 197 bps (see chart 7), the lowest level since January 2018. Economic resilience in many EM countries and attractive returns have triggered portfolio inflows totaling $124.5 billion since Nov. 23. However, average investment- and speculative-grade corporate yields remain 100 bps higher than their 10-year averages, which is still impacting speculative-grade issuance in particular and limiting refinancing options at the lower-end of the rated spectrum.

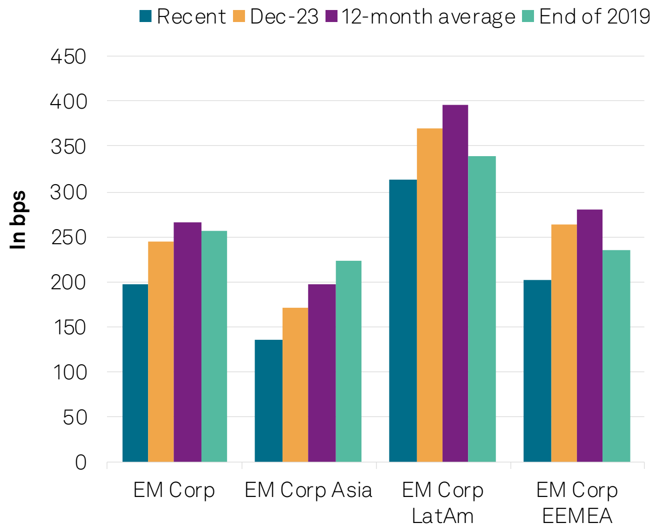
Record sovereign issuance and renewed market appetite for investment-grade debt. Sovereigns issued a record volume of $99 billion in the first two months of the year (excluding China). Most active countries were Saudi Arabia, India, and Mexico. Several sovereigns that need to refinance their debt took advantage of the rising market appetite and the relatively low volatility to tap debt markets. On the corporate side, the 2024 cumulative bond issuance (excluding China) is higher than any year since 2020, led by investment-grade companies (chart 8). Corporations have exploited the current window of opportunity to issue at relatively lower yields with a longer tenor (average coupon in January-February 2024 at 6.1% with 8.4-year tenor versus 7.2% and 6.6-year in September-November 2023). Moreover, hard-currency issuance is back on track outside China, with 55% denominated in U.S. dollars in the past two months (versus 29% in September-November 2023). This trend is likely to continue in the next quarter, provided external risks remain contained.

Speculative grade maturities peak in 2026. Investment-grade corporations account for the majority of near-term maturities, namely 81% of financial and nonfinancial corporate $176 billion in maturities through 2025 (see chart 9), of which 80% is denominated in U.S. dollars. Refinancing risk remains most acute for lower-rated issuers. While speculative-grade maturities are set to peak in 2026, a meaningful 19% ($34 billion) will mature through 2025, mostly among issuers in Brazil and primarily in the oil and gas sector.

Recent rating performance calls for credit resilience. The pace of defaults has slowed in EMs since the second half of 2023. The 12-month trailing speculative-grade default rate was 1.8% as of Feb. 2024, compared with 4.7% for the U.S. and 4.1% for Europe. The solid performance of EM corporations is confirmed by equity indicators, with the MSCI EM Index on a steady ascending trend (up 9% in the past two months). LatAm remains the region most at risk from a credit perspective, comprising all three defaults year to date, although the companies in question had already defaulted within the previous four years. While defaults have slowed, the negative bias--an indicator of future negative rating trends--remains elevated in LatAm at 26%, with chemical, packaging, and environmental services, and oil and gas as the sectors most at risk.

Chart 7

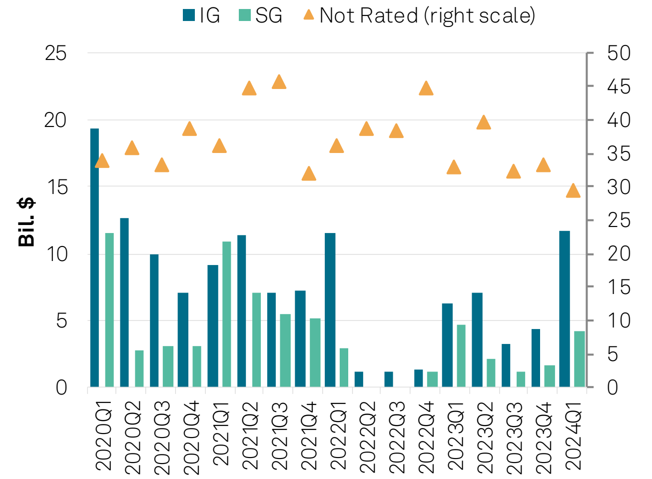
Corporate spreads down across regions



Data as of March 25, 2024. Sources: Price Viewer, S&P Global Ratings Credit Research & Insights.

Chart 8

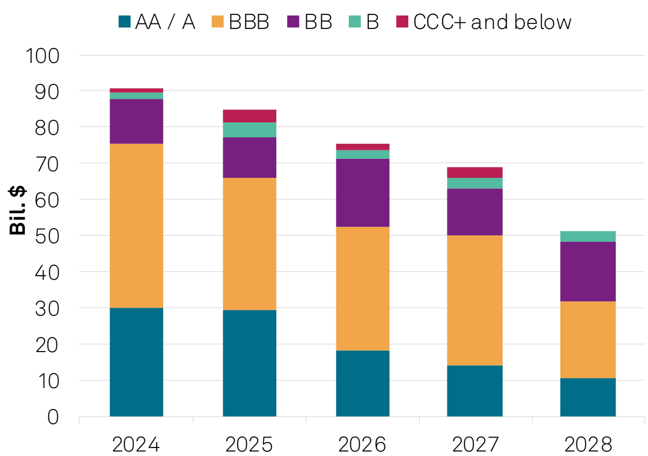
The rise of investment-grade issuance year to date



Data as of Feb. 29, 2024. Excludes Greater China. Sources: S&P Global Ratings Credit Research & Insights.

Chart 9

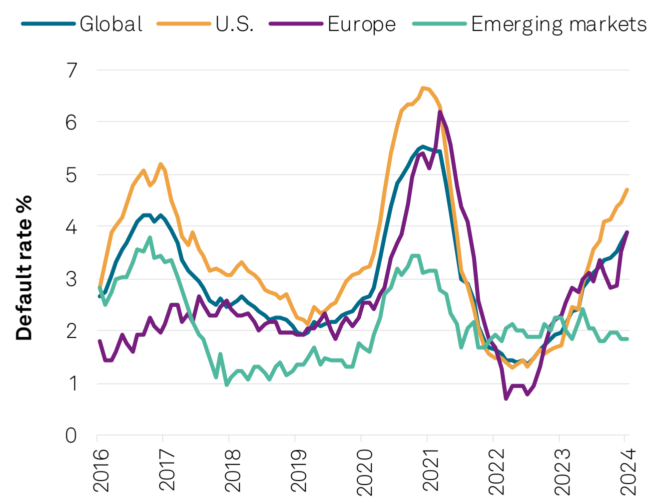
Rated maturity wall peaks in 2024



Includes bonds, notes, loans, and revolving credit facilities rated by S&P Global Ratings that were outstanding as of Jan. 1, 2024. Foreign currencies are converted to U.S. dollars at the exchange rate on July 1, 2023. Excludes Hong Kong, Macau and Taiwan. Source: S&P Global Ratings Credit Research & Insights.

Chart 10

Default rate lower than for the EU and U.S.



Trailing 12-month speculative-grade default rates. Includes countries beyond our EM-18 classification. Data as of Jan. 31, 2024. Source: S&P Global Ratings Credit Research & Insights.

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

Credit Cycle Indicator

The CCI keeps pointing to a credit recovery in 2025

Credit conditions have improved across most EMs. This stems from resilient economic growth, falling inflation, and market expectations of rate cuts, especially in advanced economies. These factors have led to increasing appetite for EM debt and a moderate progress in credit demand.

The credit context still reflects high borrowing costs and corporate refinancing risks. This is especially so for the lower end of the rating spectrum. Our indicators have troughed at -1.5 standard deviations in the fourth quarter 2022, suggesting a potential credit recovery could occur in 2025.

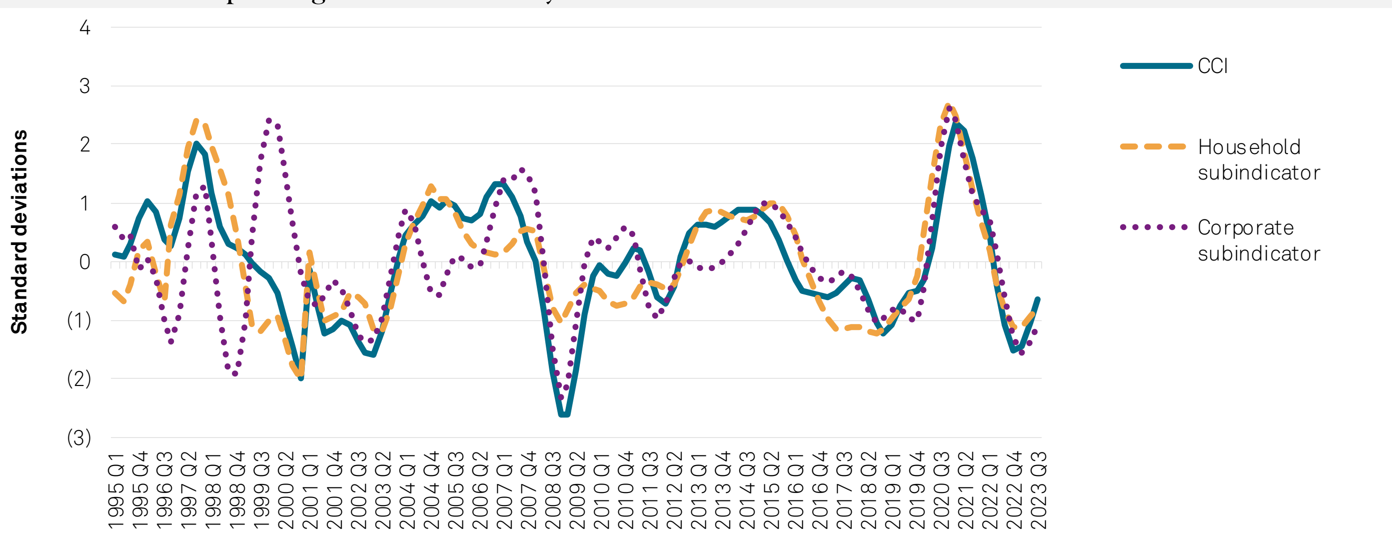
The upward trend comes after seven quarters of CCI easing from its 2.3 standard deviations peak in the first quarter 2021. This pointed to credit stress throughout 2023 (see chart 11). Several factors have cushioned this:

- Resilient domestic activity;
- Sustained fiscal stimulus and the economic rebound from the pandemic; and
- A manageable maturity wall.

With the latest data, the indicator has reached its inflection point for all EM countries. The correction is more pronounced for Chile, Mexico, and Turkiye.

Chart 11

EM CCI continues pointing to a credit recovery in 2025



Note: We view the CCI as a leading indicator for potential credit stress outcomes. **The CCI period ends in Q3 2023**. Household and corporate sub-indicators were created by taking the weights in the overall CCI and rescaling such that the sub-components' weights in the sub-indicator sum to 1. EM geographies included: Brazil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Poland, South Africa, Thailand, and Turkiye. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings. For more details about our CCI, see "White Paper: Introducing Our Credit Cycle Indicator", June 27, 2022.

Corporations: The corporate sub-indicator now displays its trough in the third quarter 2023 at -1.6 standard deviations. Corporate debt increased also in same quarter, while equity valuations stabilized. The increase in corporate debt reflects rising credit appetite among domestic lenders, especially in LatAm, as market sentiment turns positive amid the anticipation of a soft landing.

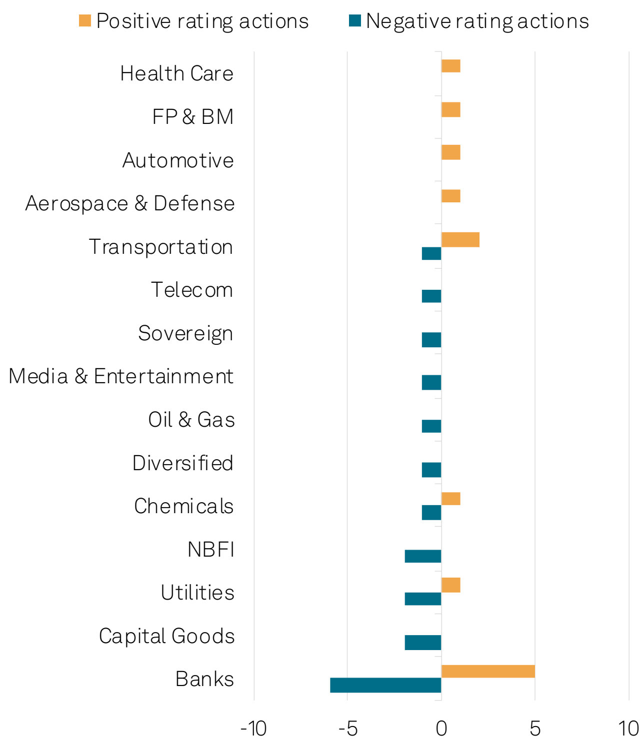
However, still-high interest rates, combined with a softening in external demand, will likely constrain EM corporate profits and capital expenditure (capex) in 2024. Meanwhile, equity valuations varied across regions. They dropped in LatAm and the EM EMEA, and remained resilient in EM Asia.

Households: The household sub-indicator narrowed to -0.8 standard deviations for the third consecutive month (-1.1 in the fourth quarter 2022), a slower pace than its corporate counterpart. Household debt rose quarterly only in Brazil and Malaysia, whereas it was flat across other EMs. Property prices showed mixed results: they're still rising in LatAm, particularly in Mexico, where demand continues to exceed the tight supply of units. House prices fell elsewhere because of struggling retail markets, as prolonged high inflation limited purchasing power.

Sector Trends

Chart 12

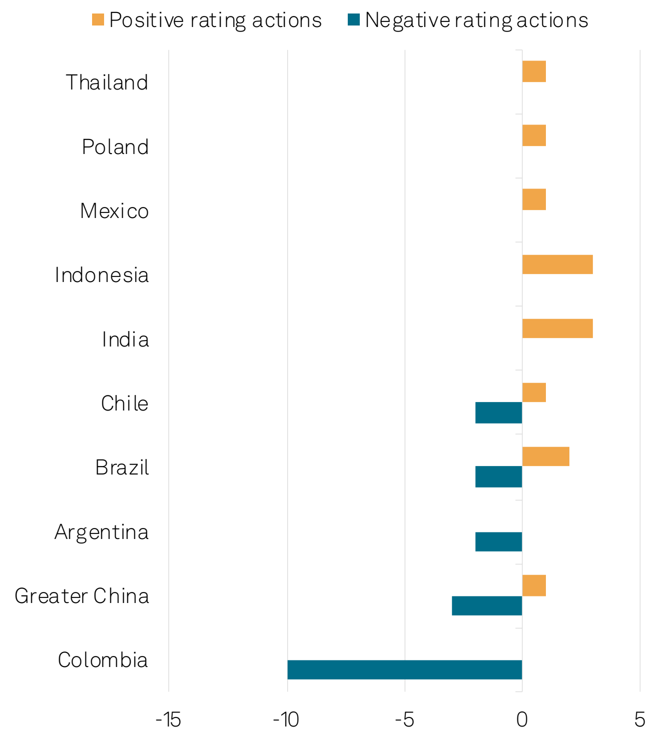
EM rating actions by sector year to date



Data from Jan. 1, 2024 to Feb. 29, 2024. Source: S&P Global Ratings Research & Insights.

Chart 13

EM rating actions by country year to date



Data for EM18, includes sovereigns. Data from Jan. 1, 2024 to Feb. 29, 2024. Source: S&P Global Ratings Credit Research & Insights.

Sovereigns

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EM Asia: Global Uncertainties Still The Thing To Watch

Global economic activity and financing conditions remain soft, but not so weak that they create financial volatility in EM Asia.

Current account balances and inflation in most economies should improve, especially if energy prices reverse their recent gains.

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

Sudden capital swings. An unexpected deterioration of global financial stability, geopolitical risks, or interest-rate expectations could prompt investors to withdraw from EM Asia, making financing conditions much harder for some.

Higher energy prices undermine external and fiscal metrics. Amid the recent economic uncertainties, current account deficits could remain wide in some economies as exports fall and fuel prices remain elevated. This could be exacerbated by higher imports in countries that subsidize energy consumption. A supply shock that raises energy prices sharply could still pose threats to external and fiscal positions.

What we're watching

A sharp increase in funding costs could weaken fiscal support and economic growth. Higher interest payments are negative for the fiscal assessment of our sovereign ratings, especially where government debt is high and nonresidents are important sources of funding. If higher financing costs also significantly affect economic growth, it could exacerbate the negative impact on fiscal performance.

A further rebound of energy imports can damage our assessment of some EM Asia sovereigns' external profiles. Net external debt would weaken where current account deficits persist or widen because of energy imports. Additionally, this deterioration could worsen investor confidence, raising financing costs further. These factors could damage credit fundamentals of some sovereigns.

EM EMEA: Split Pathways And Key Elections

Several EM EMEA sovereigns have already transitioned to a lower inflation/lower consumption environment--in particular in Central and Eastern Europe (CEE)--as signaled by weak 2023 GDP growth, improving balance of payments, and in most cases (Bulgaria, Hungary, North Macedonia, Poland, and Serbia), an appreciating real effective exchange rate that reflects larger trade shares with the euro area. On the other hand, some sovereigns in this region, such as South Africa and Turkiye, have real effective exchange rates that are notably weaker than pre-pandemic levels, and their macroeconomic outlook remains uncertain, complicated by the domestic political calendar and past policy mistakes. In a separate category, there are several frontier sovereigns in EM EMEA, including Egypt and Nigeria, which have raised domestic interest rates and liberalized exchange-rate policies in an effort to alleviate persistent liquidity shortages, epitomized by previously wide gaps between their formal and parallel market exchange rates.

What we're watching

We revised our outlook on our 'B-' rating on Egypt to positive on March 18. Egypt's fiscal and external position had been challenging before the Hamas-Israeli conflict broke out in October 2023. The war created new external strains by putting at risk tourism and Suez Canal earnings. Nevertheless, it also underlined the urgency to sort out Egypt's budgetary and external imbalances. The March 5 decision by the Central Bank of Egypt to converge the official rate with the parallel level, in tandem with a 600-bp rate hike, has unlocked an estimated $20 billion in MLI financing principally from the IMF and the EU, along with the UAE's $35 billion commitment to develop Egypt's Mediterranean coastline at Ras al-Hikma. A considerable portion of FX swap loans from the CBE will be converted into equity in several projects. We think this package has a better chance of succeeding than past programs, which were arguably underfunded, and too focused on the need to adjust Egypt's public finances, rather than to shore up confidence in its currency and economy. Debt to GDP remains elevated and expensive to service. But the spur to growth, and the opportunity to draw in substantial FDI into the non-hydrocarbon economy could—along with efforts to raise tax collection--and smooth out the domestic debt profile, lead to upgrades and a new path forward for the Egyptian economy.

Poland's credit story has also hinged closely on a long delayed increase in external support. Finally, on February 23, the European Commission unblocked €60 billion in Recovery and Resilience Funds as well as €77 billion in EU Budgetary Funds (cohesion funds) for Poland, with around €20 billion (2% of GDP) expected to be disbursed during 2024 (€6.3 billion has already been made available, although it will take a considerable period of time to allocate this financing to specific projects). Expectation of these capital inflows has contributed to upward pressure on the zloty, which in real effective terms, has appreciated 18.6%, more than nearly any other EM currency from pre-pandemic levels. Only the Mexican peso and the Czech koruna have appreciated more in real terms since then. However, currency strength may be unwelcome, given the high sensitivity of the Polish economy to still soft industrial activity in Germany. Polish exports contracted during 2023 for the first time since 2009 (excluding the first year of the global pandemic, 2020). Nevertheless, excluding the auto sector, there are some signs of recovery, particularly in chemicals. With a more diversified industrial base and lower concentration in autos than its CEE peers, Poland may avoid some of the structural drags that its neighbors face.

Turkiye will hold regional elections at the end of March. With recent policy decisions--particularly the January minimum wage hike--driven by the upcoming elections--a stronger effort to rebalance the economy appears to be on hold. There's no doubt that the resetting of monetary policy is closely linked to the credit story. This is because most of Turkiye's balance of payments outflows--whether gold or consumer durables imports, or inflows into domestic dollarized savings products--continue to reflect still very negative ex-post deposit rates. We calculate that adjusting for current inflation, deposit rates remain around -30% (versus close to 0% in 2012-2020). We choose not to adjust for expected inflation, because inflationary expectations remain volatile and highly unreliable. Uncertainty over future inflation and the exchange rate is driving the recent declines in net FX reserves, as a sizeable portion of expirations of FX-protected deposits is migrating into pure FX deposits, forcing the central bank to intervene. At the same time, consumer spending remains elevated. There has been little moderation in domestic demand. After elections, if the economy begins to slow, the current account to narrow, and exchange rate to remain stable will determine whether Turkiye can rebuild reserve coverage levels close to those of its rating peers—a key metric we monitor to determine our credit rating on Turkiye. We continue to doubt this can occur without a much steeper economic slowdown than is visible so far.

South Africa continues to exhibit a combination of low volatility and poor economic growth ahead of May 29 national and regional elections. Last year, per capita GDP resumed contracting after two years of the post-pandemic recovery. In dollar terms, per capita GDP is at $6,500 this year, slightly below the 2017 level. Low growth has translated into poor fiscal outcomes, driven primarily by the rising cost of servicing a rising stock of debt, with net general government debt projected at 75% of GDP at the end of 2024, compared with 55% at the end of 2019. At the same time, the majority of this debt is denominated in domestic currency, with South Africa having one of the deepest domestic-currency capital markets among EMs, with a considerable pool of domestic savings, a strength that also shows up in the economy's overall net external creditor position (given very considerable direct investment assets of the corporate sector abroad). Should the African National Congress, which has governed the country since the end of apartheid in 1994, fail to win a majority in elections, there could be a degree of uncertainty about potential policy shifts and what they might imply for growth, public finances, and monetary policy. Policy shifts will also be relevant to our credit rating on South Africa.

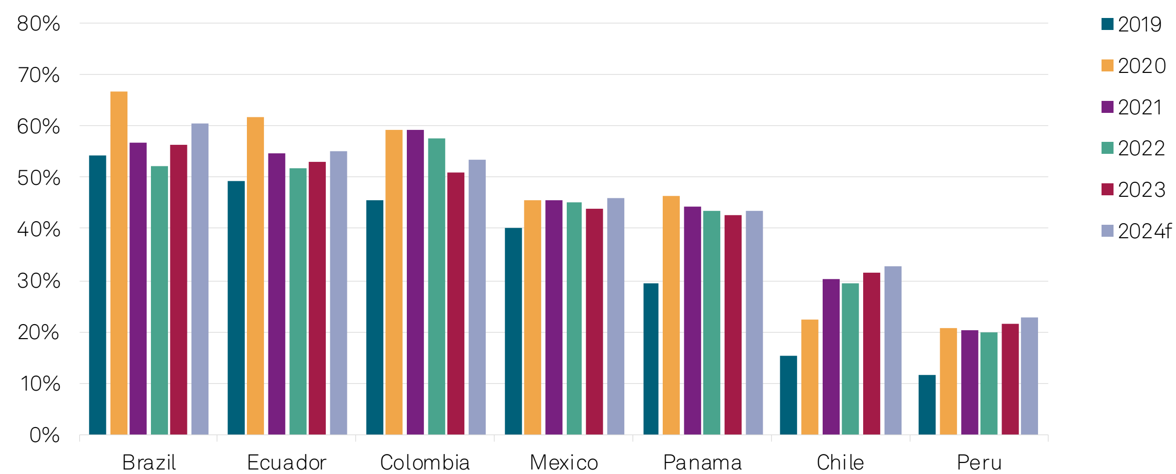
LatAm: Limited Ability To Deal With Economic And Social Challenges

Economic performance in much of LatAm and the Caribbean in 2023 was modestly better than projected at the beginning of the year, but it remains weak in comparison with other regions of the world. Most of the region has low GDP growth prospects in 2024 and its political landscape limits the room for policy maneuver to address deep economic and social challenges. Sovereigns in the region now carry a higher burden of debt (see chart 14) compared with pre-pandemic years, and the debt burden is likely to rise in 2024. We currently have a negative outlook on the foreign currency rating on seven regional sovereigns (Argentina, Bolivia, Chile, Peru, Ecuador, Colombia, and Panama) and a positive outlook on only Barbados.

Chart 14

Sovereign's debt burdens will rise in 2024

Net general government debt % of GDP



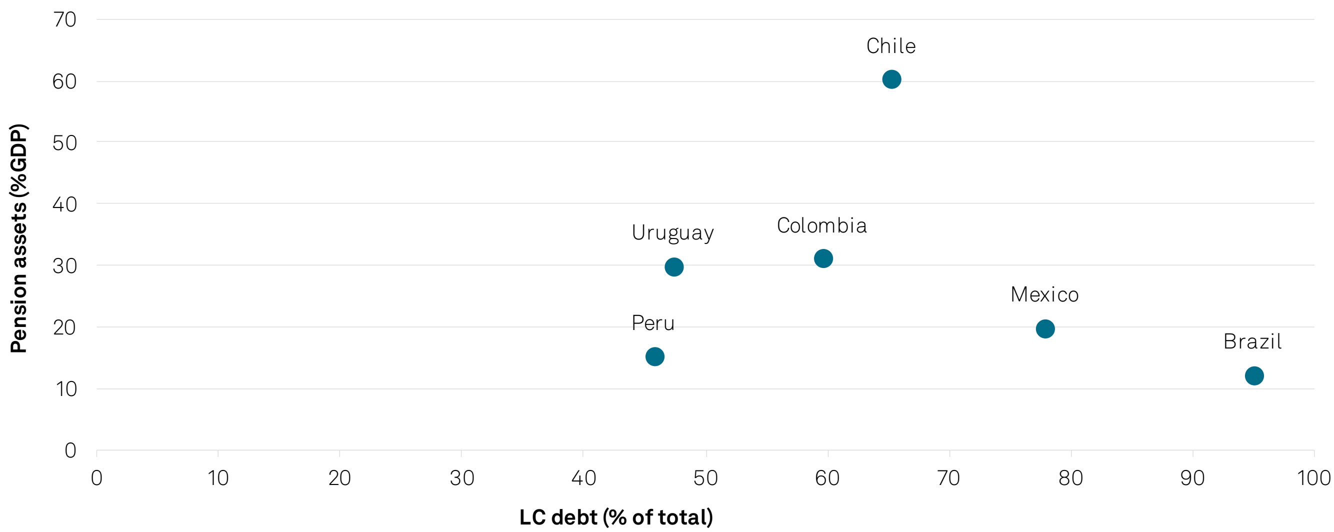
f-Forecast. Source: S&P Global Ratings.

Higher interest rates and a larger debt burden constrain fiscal policy. However, the vulnerability embedded in a sovereign's debt burden depends on many factors, including the currency of its debt and the availability of domestic financial savings. Many sovereigns have had success in reducing the share of their debt denominated in foreign currency, lowering their vulnerability to a sharp exchange-rate depreciation that could drastically increase their debt servicing costs in local currency. Brazil and Mexico, the two largest debt issuers in the region, have reduced their currency exposure. In contrast, Peru and Uruguay are more exposed to this risk.

The development of local capital markets, especially pension funds, has alleviated liquidity concerns, thanks to their stable demand for sovereign debt. The growth of private-sector pension funds has, for example, played a key role in funding Chile's sovereign debt. In contrast, recent steps to permit early withdrawals from privately-managed pension funds in Peru have reduced their capacity to fund the sovereign and other domestic issuers, weakening the resilience of domestic financial markets.

Chart 15

The development of local capital markets, especially pension funds, has alleviated liquidity concerns



Source: S&P Global Ratings.

What we're watching

Argentina's newly-elected administration has pursued an ambitious set of economic and institutional reforms that were sent to Congress through both decrees and legislation. However, opposition from Congress and powerful governors has blocked approval of the wide-ranging reforms, leading the administration to seek other channels to undertake its macroeconomic adjustment program. The government has begun a substantial fiscal adjustment, involving cuts to subsidies, transfers, and capital spending, as well as some revenue measures that do not require Congressional approval. Moreover, President Milei has called upon governors to agree to a national pact that would set common goals and give direction to the reform efforts. Building political support for reforms is key to the sustainability and outcome of the difficult fiscal adjustment now under way.

Political leadership of Mexico will be renewed in early June after national elections for the presidency, Congress, and some local governments. Based on current trends, the former mayor of Mexico City, Claudia Sheinbaum, of the governing Morena political movement is in a leading position. Her victory would likely ensure continuity in policies of current center-left president Andres Manuel Lopez Obrador, whose six-year term ends this year. We expect a moderate adjustment in fiscal policy next year after a wider fiscal deficit planned for the current year. Although FDI into Mexico has been rising thanks to a realignment of global supply chains, its GDP growth prospects remain weak, constraining our sovereign rating. It remains to be seen if the next administration can boost private investment to raise long-term economic prospects. Moreover, the results of the Congressional elections will help determine whether a potential Sheinbaum administration will have enough support to pass several controversial amendments to the Constitution that critics fear would loosen checks and balances within the government.

We have a negative outlook on the Andean region sovereigns (Bolivia, Chile, Colombia, Peru, Ecuador, and Colombia). Our outlook on Chile reflects risks stemming from weakening political consensus on key parameters of its political and economic agenda, which threaten to weaken economic performance. After the failure of two attempts to draft a new constitution, Chile’s political leadership is focusing on long-delayed reforms to taxation and pensions.

Peru's persistently unpopular president and Congress have maintained political stability since the ouster of a former president who was removed from office and jailed. However, the weak political standing of the current leadership has limited its ability to implement measures needed to boost investment and the country's disappointing rate of economic growth. Our negative outlook reflects the risk that political impasse or further adverse developments reduce the predictability of policymaking or worsen institutional stability, harming the economy further. Although the political leadership in **Colombia** is far stronger than in Peru, it **also faces the challenge of boosting the country's recently low GDP growth performance**, which has contributed to the negative outlook on the rating.

Corporations

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EM Asia: Overall Subdued Outlook But Diverges Within The Region

Firms remain cautious amid soft consumer demand in China and in many key export markets globally. That said, the 2023 cyclical downturn across certain sectors may reverse. For example, we anticipate above-average growth in the technology sector due to recovering semiconductor demand, while the chemicals sector's margins may improve slightly from very low levels in 2023. Overall, we project an average revenue and profit growth of 5% or less in 2024 for the companies we rate in EM Asia, barely in line with our GDP growth forecast for the region.

Country-wise, the profit outlook growth is more clouded in China. Property market weakness and soft consumer confidence could drag on growth, despite signs of recovering exports. We expect retail sales in the country to grow 4.2% in 2024, or slower than our GDP growth forecast of 4.4%. However, India remains a bright spot. Indian firms are benefiting from robust growth, strong pricing power, and deleveraging efforts. The companies we rate--which represent some of the biggest firms in India--have the largest positive rating bias (18%) among key markets in EM Asia. We estimate that corporate earnings among the rated firms are about 50% higher on average than before COVID, and the profit outlooks of telecommunications and airport operators stand out. Nevertheless, the pace of positive rating actions should slow in 2024 as the scope for further deleveraging narrows amid increasing spending and investments.

The issuance outlook is slightly more positive compared to last year, but funding access remains highly selective. Expected rate cuts in the U.S. and credit cycle upturn in Asia will be supportive to bond issuances this year. We expect investment-grade companies, which represent about 65% of the rated firms in EM Asia, to continue dominating issuances. Demand for such issuances remains solid, and these entities have managed to keep raising funding in the past two years despite a broad downturn in investor sentiment and rising funding costs. Two factors, however, could continue to limit investment-grade activity. First, a still large differential between offshore U.S. interest rates and domestic interest rates in countries such as China, India, and Indonesia may incentivize firms to raise funds domestically because it can be cheaper and prevent currency risk. Second, tepid capex and investments in China could further reduce activity in a country that historically dominated the region's issuances of hard-currency bonds.

Funding is still significantly more constrained and selective for smaller firms across EM Asia. It's not an issue of liquidity--domestic liquidity is ample in China, India, and Indonesia (less so in Vietnam). But lenders continue prioritizing lower-margin (but less risky) loans to larger private and state-owned firms with solid financial standing or critical public policy roles as nonperforming loans (NPLs) creep up. Domestic capital markets are likely to stay selective through 2024 as well, though still elevated funding costs in foreign currency markets may make them more attractive to smaller issuers. We see funding windows for weaker-rated issuers to stay short-lived throughout 2024, continuing a trend observed since 2022.

EM EMEA: Diverging Trends, Intensifying Pressures

Saudi Arabia: Supportive operating environment remains in place. Given the Vision 2030 related investment activity, we continue to see healthy activity across a large set of sectors in the Kingdom, while most corporations continue to benefit from broadly supportive credit conditions in their domestic market (please see "GCC Corporate And Infrastructure Outlook 2024: Holding Up Against Refinancing Needs", published on March 4, 2024). For real estate, we expect demand to remain strong thanks to Vision 2030 investments attracting new businesses and expats to the country, while we believe that the Kingdom's new visa regime that opens the way to real estate ownership for foreigners could also trigger further increase in demand (please see "GCC Real Estate How Credit Stories Have Evolved", published on March 11, 2024).

Albeit from a very small number of issuers, we observed very strong hard-currency issuance volumes among Saudi corporations in the first quarter of the year, and we expect similar trends for the rest of the year. Similarly, we expect healthy IPO activity in the Kingdom in line with our high-level expectations we highlighted in "Saudi Arabia's Debt Market: Ready For Takeoff", published June 19, 2023.

In March, Saudi authorities announced that they're transferring 8% of Aramco's shares to firms owned by the Public Investment Fund (PIF), increasing the sovereign wealth fund's total (direct and indirect) shareholding in that company to 16%. Given the market capitalization of Aramco as of March 18, 8% of shares are worth around $160 billion. Saudi authorities announced that this transaction aims to further strengthen PIF's balance sheet. PIF plays a major role in the Kingdom's Vision 2030 strategy.

Turkiye: Rated non-financial corporate issuers enter 2024 from a position of resilience and strength. We currently have a net positive outlook bias after the revision on five Turkish issuers following the same action on the sovereign rating on Nov. 30, 2023 (see "Turkiye Outlook Revised To Positive From Stable On Subsiding Twin Deficits; 'B' Ratings Affirmed"). These revisions were on companies with stand-alone credit profiles that are higher than 'b' but that are also capped at the sovereign rating level because of their predominant exposure to Turkiye. The Turkish lira's sharp depreciation against hard currency hasn't eroded debt-to-EBITDA ratios thanks to availability of hard-currency cash, which acts as natural hedge. That said, we're seeing pressures on interest coverage and free cash flow, exacerbated by increased borrowing costs for issuers with heavy working capital needs. Consumer-focused corporations, notably telecoms and consumer products, deployed pricing power sequentially to mitigate inflationary pressures. More discretionary sectors, notably white goods, saw strong volume growth in 2023 as households rushed to complete refurbishment at home in anticipation of further price increases.

2024 will be another challenging year due to the expected slowdown in economic growth and tighter domestic funding conditions. We're already seeing signs of a decline in demand for more discretionary items such as white goods. Even in less discretionary consumer staple food and beverage categories, companies are signaling low volume growth prospects compared with the 5%-7% rate in 2022-2023. Consequently, we anticipate price increases to play less of a role in the revenue growth equation for companies in 2024 due to the need to manage operating leverage. The Red Sea disruption and the ongoing Ukraine-Russia war pose potential risks to companies, primarily from a sourcing of inputs point of view, although these are yet to materialize for the rated issuers.

Tighter domestic credit conditions and general retraction of banks from lira-denominated loans in 2023 increased the use of alternative financing methods, notably credit cards and local bond issuance, which are very expensive. In February 2024, brewer and soft drinks manufacturer Anadolu Efes Biracilik ve Malt Sanayii AS (BB+/Negative/--) issued a one-year TRY2 billion bond at a coupon of 47.75% (275 bps above the central bank's base rate). Tighter funding conditions so far have only resulted in one negative rating action (white goods manufacturer Arcelik A.S. [BB/Negative/--] in 2023). That said, despite the net positive outlook bias, it is among the factors that could weigh on the credit quality of lower-rated Turkish issuers in the next 12 months.

After dearth of issuance in international debt markets in 2022-2023, we anticipate a pickup among the rated Turkish corporations in 2024. This will be driven by both upcoming refinancing needs and potentially opportunistic behavior, as appetite from international investors for Turkish assets has started to improve. A small number of rated issuers are facing eurobond refinancing needs in 2025, and we're monitoring closely the progress in the coming months, given potential implications on our liquidity assessments. We typically expect issuers to refinance well in advance of maturity dates to avoid a rating cliff.

South Africa: A challenging operating environment persists for most corporations. Power and transportation infrastructure constraints continue to reduce efficiency and increase costs for most South African corporations. At the same time, low GDP growth, a weak currency, and high inflation and interest rates weigh on consumption and demand. In addition, softer prices for many commodities have eaten into revenue and cash flow of many mining companies.

Leverage is ticking up, mainly in the mining and other commodity-driven sectors. However, despite the squeeze on top-line growth and margins, we expect cost discipline, growth capex deferral, and lower oil prices to provide some cash flow relief. Furthermore, relatively low absolute debt levels and modest refinancing risk across most commodity-driven and domestically focused companies, together with comfortable rating headroom, are supporting most ratings for now. Persistently poor operating conditions, and volatile economic and commodity-price trends elevate downside risks.

Power and transportation infrastructure constraints continue to present operational challenges for corporations, especially the mining and manufacturing entities. Power disruptions are still straining corporate costs and crimping operational efficiency. Furthermore, the poor operating performance of Transnet SOC Ltd.'s ports and rail operations is exacerbated by elevated supply delivery times and higher shipping costs due to global supply-chain disruptions.

We're seeing glimmers of light at Eskom Holdings SOC Ltd. and Transnet, from operational and financial risk perspectives. Eskom's power supply disruptions have eased substantially in 2024 year-to-date versus the same period in 2023, partly due to the return of Kusile Units 1 to 3 to service and the Unit 5's synchronization to the grid last year. Recent data also points to signs of improvement at Transnet, given a reduction in port waiting times and fewer incidents of vandalism on key rail lines. These improvements are partly attributed to the government's financial support of both these entities, in our view. Eskom's debt relief package will ameliorate liquidity stress in the next two years, providing space for much-needed maintenance to take place. Transnet received a ZAR47 billion government guarantee package in Dec. 2023, which is bolstering its refinancing efforts and slowly improving its liquidity.

Mining companies currently face the deepest challenges. Lower commodity prices, combined with elevated mining inflation, are denting margins, and platinum group metal producers in particular are looking for ways to control costs, delay or slow expenditure on capital projects, and restructure higher-cost operations. Gold producers are benefitting from high commodity prices, but are not immune to higher costs and skilled manpower shortages in some operating jurisdictions.

LatAm: Stability Across Sectors

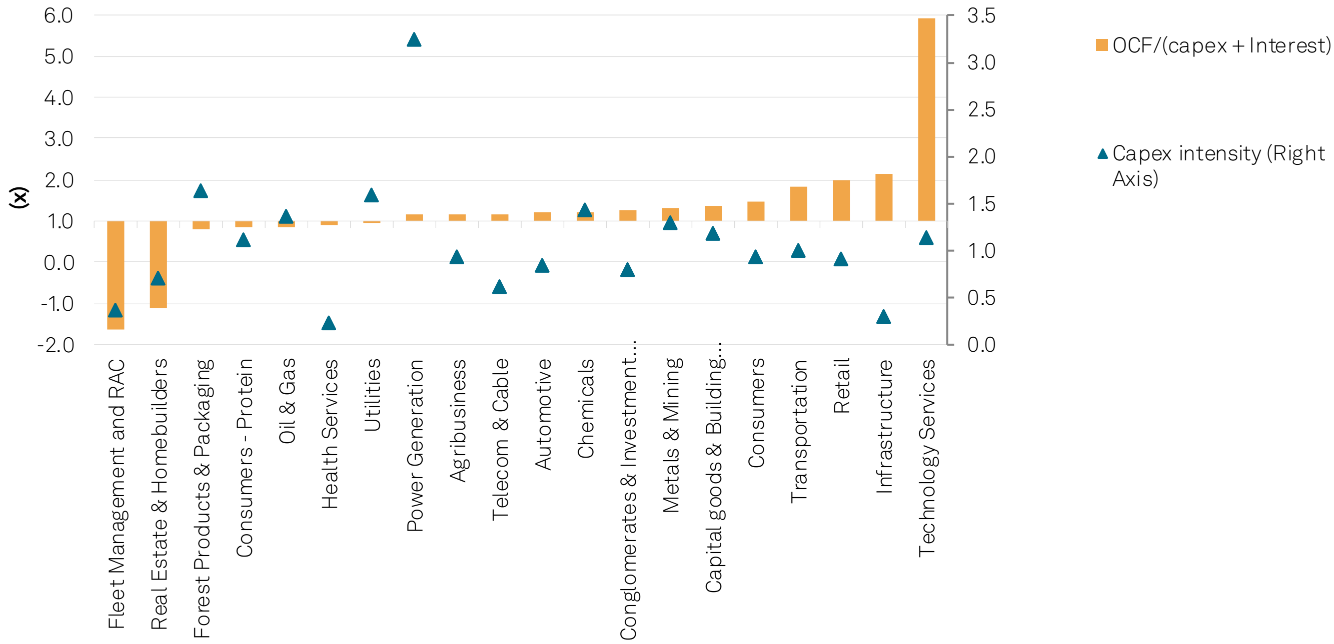
Credit conditions are stable among LatAm corporations. The net outlook bias remains a bit negative (close to -10%), signaling mostly sectorial weaknesses rather than systemic issues. Also, despite the negative outlooks on Chile, Colombia, and Peru, the risks embedded in those outlooks aren't a near-term threat to the ratings on respective corporations--except for several government-related entities (GREs).

Borrowing costs have been dropping from international and domestic historic highs. This eased cross-border market access for investment-grade and 'BB' rated corporations, and improved domestic financing, notably in Brazil, Chile, and Argentina. We expect the trend to continue, which may foster investments and growth.

Investment levels remain below historic levels, which signals caution. The chart below shows that even though operating cash flow across sectors is healthy, as most of sectors generate enough to fund capex and interest payments, many sectors are investing less than medians for the past 10 years.
We believe low investment is mainly driven by still high interest rates--with median yields close to 8%--10% for 'BB' rated issuers and 11%-15% for 'B' rated issuers, which lowers returns on investments. Business conditions, in our view, are satisfactory, as close to 70% of corporate sectors had median returns on assets at or above historic medians as of Dec. 2023.

Chart 16

Operating cash generation and capex intensity

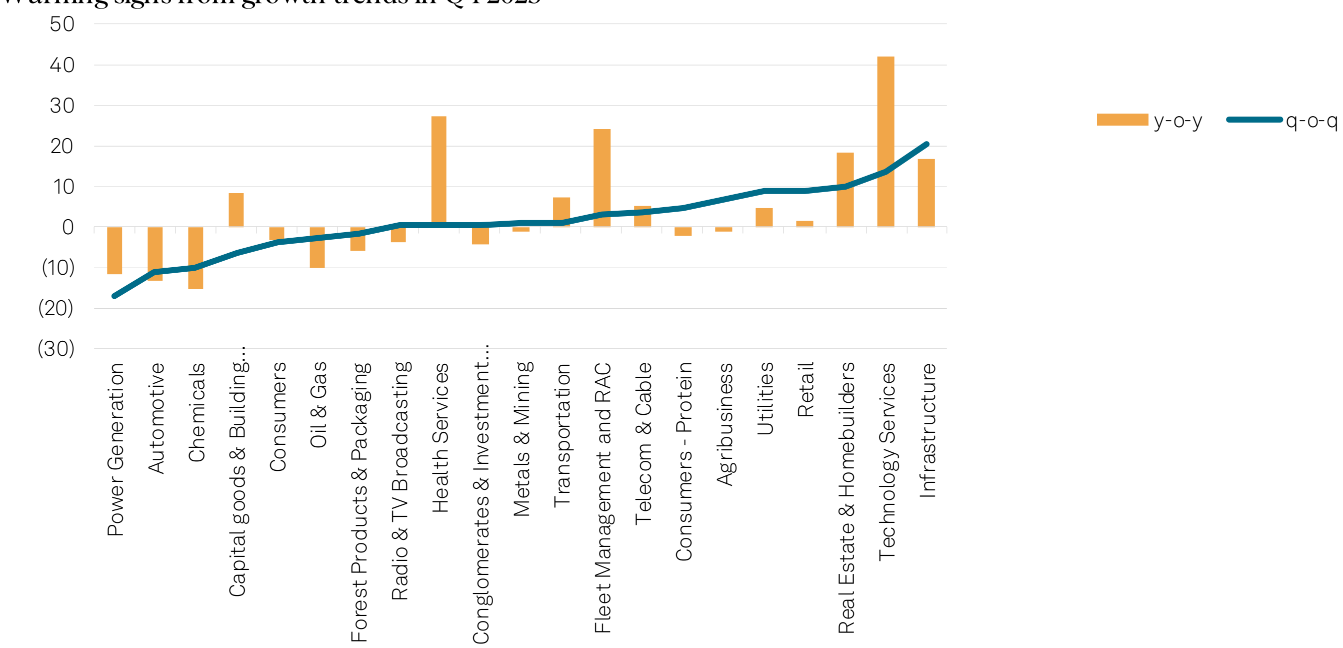


Note: Capex intensity is calculated by dividing last-twelve months capex-to-assets / historic capex-to-assets. OCF: Operating cash flow=net income + D&A + other non-cash items + change in working capital. Source: S&P Global Ratings.

But the growth pace is pointing to weakening business dynamics in certain sectors. Chart 17 shows many important sectors of LatAm economies are posting median growth rates below 2022 (Q4 2023 versus the same quarter in 2022). The trend is driven by lower commodity prices for the agribusiness, forest, chemicals, protein, metals and mining and oil and gas sectors, but also slower demand in key sectors such as automotive and consumers.

Chart 17

Warning signs from growth trends in Q4 2023



Source: S&P Global Ratings.

Financial Institutions

EM Asia: Commercial Real Estate (CRE) Exposures To Cast Shadow On Asset Quality

Commercial property risks have emerged as a significant concern for EM Asian banks. Particularly, banks in China and Vietnam face the highest exposure, with Cambodian banks following closely behind. Philippine banks are also vulnerable due to their large CRE exposure.

China's L-shaped property recovery to cast overhang on banks and finance companies. For Chinese banks, we estimate an increase in the NPL ratio for property development lending, reaching 4.7% in 2024. This is due to sluggish property sales hindering the recovery of developers' loan quality. We expect China's property markets to undergo a prolonged L-shaped recovery, with sales facing a projected 5% drop in 2024. Policies will likely stabilize higher-tier cities first, while the lower-tier ones continue to grapple with excess supply and weak demand. The market is witnessing a growing divide, with state-owned developers doing better than their private peers. Leverage remains elevated across all developers.

The shadow banking sector has a higher exposure to developers, comprising 10%-13% of total shadow banking assets, by our estimate. Commercial bank lending to developers, on the other hand, accounts for 6%-7% of sector loans. This reflects the heavy reliance of smaller developers with limited funding access to nonbank financing channels. Alternative lenders are estimated to supply 35%-40% of developers' debt, equivalent to RMB6.9 trillion - RMB8.9 trillion. However, shadow banking to the property sector has shrunk due to regulatory efforts to curb risks. For instance, the trust industry's exposure to property has declined to 4.5% of trust assets under management, or RMB1.0 trillion as of the third quarter of 2023, from its 2019 peak of 13% and RMB2.9 trillion, respectively.

Separately, China's distressed asset management companies face further impairment losses due to significant exposure to the property sector, potentially exacerbating capital strain. These companies have been grappling with impairment losses due to legacy property exposures, despite substantial provisions made in recent years. If the real estate downturn worsens beyond projections, downgrade risks could intensify for the state-owned distressed asset management companies. As of the end of June 2023, the average proportion of restructured distressed assets linked to the property sector remained high at 51%. We expect government support for these companies to remain very high due to their policy role, which is a key rating factor.

Vietnam property woes to persist. Mirroring China's regulatory measures, the Vietnamese government's stringent policies have made it increasingly difficult for weaker or smaller developers to access bond markets. This crackdown has triggered a confidence crisis, exacerbated by an oversupply of properties and the proliferation of small and weak developers operating with excessive leverage, with a reliance on short-term debt. Consequently, the market witnessed a wave of bankruptcies across more than 1,000 developers.

While demand dynamics are showing signs of improvement, the sector still grapples with the aftermath of excessiveness, necessitating a thorough working through of the supply glut. The banking sector has felt the brunt of these challenges, with NPLs spiking to 4.9%, a figure that previously stood at an understated 2%. We expect the recovery to be a prolonged process, with the earliest signs not expected until 2025. We believe NPLs could peak at 5%-6% in 2024 upon the expiration of the restructuring scheme in June 2024.

NPLs could improve when several real estate and land-related legislations passed in December 2023 and January 2024 come into effect in 2025, in our view. The laws could pave the way for a faster recovery of the real estate market. A large part of the current real estate trouble can be traced to the legal issues and roadblocks in project approvals. The passing of these laws could speed up project approval process, easing developers' access to liquidity. We believe asset quality stresses will remain elevated at similar levels in 2025, as it takes time to restore the supply and demand equilibrium in the property sector, and for confidence to return. However, the

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government has a tendency to exercise forbearance in times of need, and we believe it could extend the restructuring scheme for another year to prevent a cliff effect on 2024 reported NPLs, in which case the reported NPLs may rise only incrementally.

Cambodian banks face downside risk amid property oversupply. Cambodia's real estate sector has been similarly affected, albeit with distinct nuances. Even prior to the onset of the Covid-19 pandemic, oversupply issues loomed large, particularly in the high-rise segment primarily catering to foreigners. Although the Chinese border has reopened last year, foreign demand for property is still constrained. This has exacerbated the supply and demand mismatch. Additionally, weak credit demand, given global macroeconomic conditions, has slowed loan growth to mid-single digits, the lowest level in over a decade. Thus, the NPL ratio has surged to more than 5%, more than doubling from its pre-pandemic level of 2%. While the real estate sector's contribution to the economy remains relatively limited in Cambodia, downside risks stemming from oversupply remain elevated. We expect NPLs could rise to more than 6% in 2024, reflecting the combined impact of credit stressors and denominator effect of anemic loan growth.

Philippine banks are more exposed than their Indonesian and Malaysian peers. We expect marginal upticks in NPLs in the property sectors of Indonesia, Malaysia, and the Philippines. Notably, Philippine banks appear more vulnerable, with approximately 12% of their loans to property development, compared to around 6% for Indonesian and Malaysian banks. Vacancy rates remain high in Kuala Lumpur and Jakarta, at about 30%, while Metro Manila nears a 20% vacancy rate. These figures reflect the growing trend of remote work, particularly in the Philippines, where they also signal the departure of offshore gaming operators and supply overhang. However, we expect any increase to be limited, given that prices in these cities have not experienced significant corrections like those observed in China and Vietnam. Regulatory measures, such as the Philippines central bank's (BSP's) 60% cap on real estate collateral value for secured loans and increased provisioning requirements for unsecured portions, have helped temper potential overheating. Additionally, other CRE exposures, such as hotels and shopping centers, are faring better amid robust domestic consumption and tourism. Moreover, BSP's stress tests include a 25% write-off rate on banks' real estate NPLs to ensure they have sufficient capital to withstand losses.

Indian banks are relatively better placed. Indian banks' CRE exposure is only 2.5% of their total loans, while the rated Indian finance companies' exposure is below 5%. Moreover, CRE in India is currently performing better than its regional counterparts.

EM EMEA: A Mixed Panorama

South Africa: Muddling through. South Africa's structural economic woes and infrastructure gaps are undermining the country's short- and medium-term growth prospects. S&P Global Ratings estimates GDP growth at around 1.3% in 2024 and 1.5% in 2025. Coupled with tight lending conditions, we forecast that growth in credit to the private sector will be subdued at 5% in 2024. However, we expect banks to extend credit to the renewable energy sector because of electricity shortages. While leverage remains stable with private-sector credit to GDP at 70%, households' disposable income will remain stressed because of high interest rates and elevated food prices. We expect that the banking sector's credit loss ratio will remain higher than the historically low of 0.75%, averaging 1.4% of total loans through 2024. Similarly, NPLs will likely remain elevated, at above 4% of systemwide loans in 2024. The performance of the CRE sector won't help either as high vacancy rates depress valuation in some city centers.

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

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

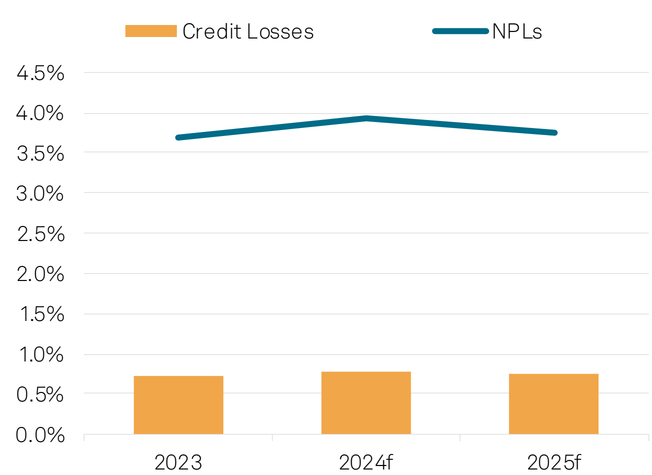
Gulf Cooperation Council (GCC): A bright spot in EMs. We expect headline real GDP growth to accelerate in all GCC countries in 2024, except for Bahrain, with dynamic nonoil growth in Saudi Arabia and the UAE. Inflation will remain close to the target and contained by price administration measures, and we expect the regional central banks to follow the Fed movements. We anticipate slightly slower credit growth overall, partly due to the base effect and banks' more cautious stance. This will support profitability, but margins will likely start to narrow by the end of the year, reflecting the lagged impact of anticipated interest rate cuts and higher funding costs. We expect GCC banks to continue posting strong asset quality indicators, and we don't expect much deterioration, given high levels of precautionary provisioning. Private-sector leverage is contained but high rates will keep the cost of risk elevated, particularly among banks with larger exposure to entities that don't depend on government cash infusions. Banks' capitalization levels will also continue to support their creditworthiness in 2024.

Banks are predominantly funded through strong local deposit franchises in the UAE, Kuwait, and Oman, although in the latter country, one-third of customer deposits come from the government and its GREs. Liquidity strains could emerge in externally levered systems like in Qatar and could rise where domestic funding is growing slower than credit such as in Saudi Arabia, increasing the need for external funding. However, investors are closely watching the ongoing or potentially worsening geopolitical tensions. In the unexpected case of escalation and the region's proximity to direct conflict narrows, capital outflows could begin, while we expect the Qatari banking system to show resilience under the stress scenario according to our calculations and thanks to strong government support.

Exposure to Egypt and Turkiye are also another factor to watch across GCC banks. At the same time, risks in Turkiye appear to be abating, and our loss scenario shows exposures are relatively contained at the system level. If banks were to write off their exposure to Egypt, they would lose between 15% and 80% of net income (of one year). For Turkiye, it's between 10% and 130% of net income for exposed banks, based on the 2022 figures.

Chart 18

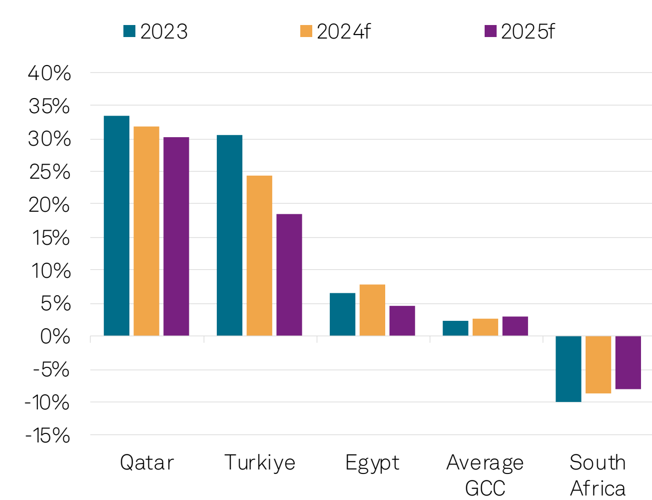
GCC banks will keep strong asset quality indicators



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

Chart 19

GCC banks are mainly funded through local deposits



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

Egypt: High imbalances. Egyptian banks' exposure to the government--through securities and loans--is very high, at about 60% of systemwide assets as of October 2023. While yields on government securities have helped banks achieve resilient profitability and compensate for subdued private-sector credit growth, they have also increased the doom loop between banks and the sovereign. Total private-sector lending remains relatively low, at about 19% of total banking system assets as of October 2023, partly due to the low--albeit slowly improving--penetration of financial services in the economy. We anticipate demand for credit to decelerate amid recent changes in monetary policy, with a substantial interest-rate hike (800 bps since early 2024), and the Egyptian pound's devaluation of more than 35%. As such, banks' margins will suffer for several quarters until the interest-rate increase is reflected in the assets yield. That's because we expect the cost of deposits to adjust more quickly, as almost 80% of domestic currency deposits is either time or saving. We continue to expect profits to benefit from carry-trade activities on sovereign securities. Low economic growth and weak domestic currency are also likely to widen credit losses in 2024 and 2025, compared with an average of 120 bps over the past four years and 150 bps in 2023.

The banking sector is dominated by public lenders that tend to have privileged access to government-related financing projects while distorting competitive dynamics. Banks are primarily funded by retail deposits, growth of which has been resilient and more than sufficient to fund the sector's lending activity. However, due to the foreign-currency shortage in the country, the system's external position has deteriorated in the past two years. The banking sector's net external debt reached a high of 9.5% of total loans as of October 2023.

Turkiye: Slowly rebalancing. More rational policies are gradually helping to rebalance the economy, but the private sector will suffer in the short term. Despite proven to be resilient in the past quarters, aided by still deeply negative real interest rates, we expect demand for credit to decelerate amid tightening policies, and economic activity to slow in the next two years. This should help to gradually narrow twin deficits and rebuild the foreign-currency reserves of the central bank. In that scenario, we expect Turkish borrowers' creditworthiness to erode amid tightening financing conditions (a significant increase in interest rates), slowing economic activity, further depreciation of the Turkish lira, and persistent inflationary pressures. Therefore, we expect credit losses for banks to remain elevated at above 300 bps in 2024-2025. A still negative real interest rate and the further use of restructured loans will continue to hinder our visibility of loan-quality erosion though. But we expect NPLs to reach 4.5%-5.0% of total loans from an ultra-low 1.6% as of the end of January 2024.

Tightening financing conditions, regulation, and slowing economic activity will curb credit demand. That will also lead to real-estate price adjustment in the next 12-18 months, but only gradually as negative real interest rates and high proportion of self-financed operations will continue to support the market. Housing loans, all fixed rate, represent less than 5% of total loans, but real-estate price dynamics are relevant for tangible collateral evaluation and for banks' exposure to construction and real estate companies. Therefore, although not our base-case scenario, a sharp correction could result in a substantial increase in the banking system's credit losses.

The simplification of the regulatory framework and more orthodox policies are to some extent lessening pressures on banks' operations and funding. Since June 2023, authorities have been gradually removing most of the macroprudential measures, which were adding complexity to Türkiye's regulatory framework and banks' operations. Yet, some important forbearance measures persist, and we still see limited checks and balances among government bodies, with power concentrated within the executive branch. In addition, due to its high reliance on short-term external debt, we think Turkiye's banking industry is more exposed than those of peer countries' to developments in global capital markets, and it depends on investor sentiment, which recently has been more supportive. Authorities' initiatives aiming at trying to make lira-denominated assets attractive will come with additional pressure on banks' cost of funding.

Deposit dollarization has trended down over the last several quarters, but foreign-currency deposits remain an attractive asset.

Banks are still heavily reliant on external financing (see chart 19). The implementation of more rational policies since June 2023 translated into positive market reaction over the last several quarters, and an increasing rate of external debt rollovers for banks, with lower costs. Assuming current efforts are sustained, we expect Turkish banks will be able to refinance most of their $99.6 billion in short-term debt as of Dec. 31, 2023. Moreover, foreign-currency liquidity, estimated at $143.7 billion as of the same date, offers a cushion against any unexpected reduction in rollover rates, even though a large portion is placed with the central bank and may not be fully accessible in a stress scenario, given the central bank's low foreign-currency reserves.

LatAm: Fragile Asset Quality Stabilization Amid Sluggish Economic Recovery

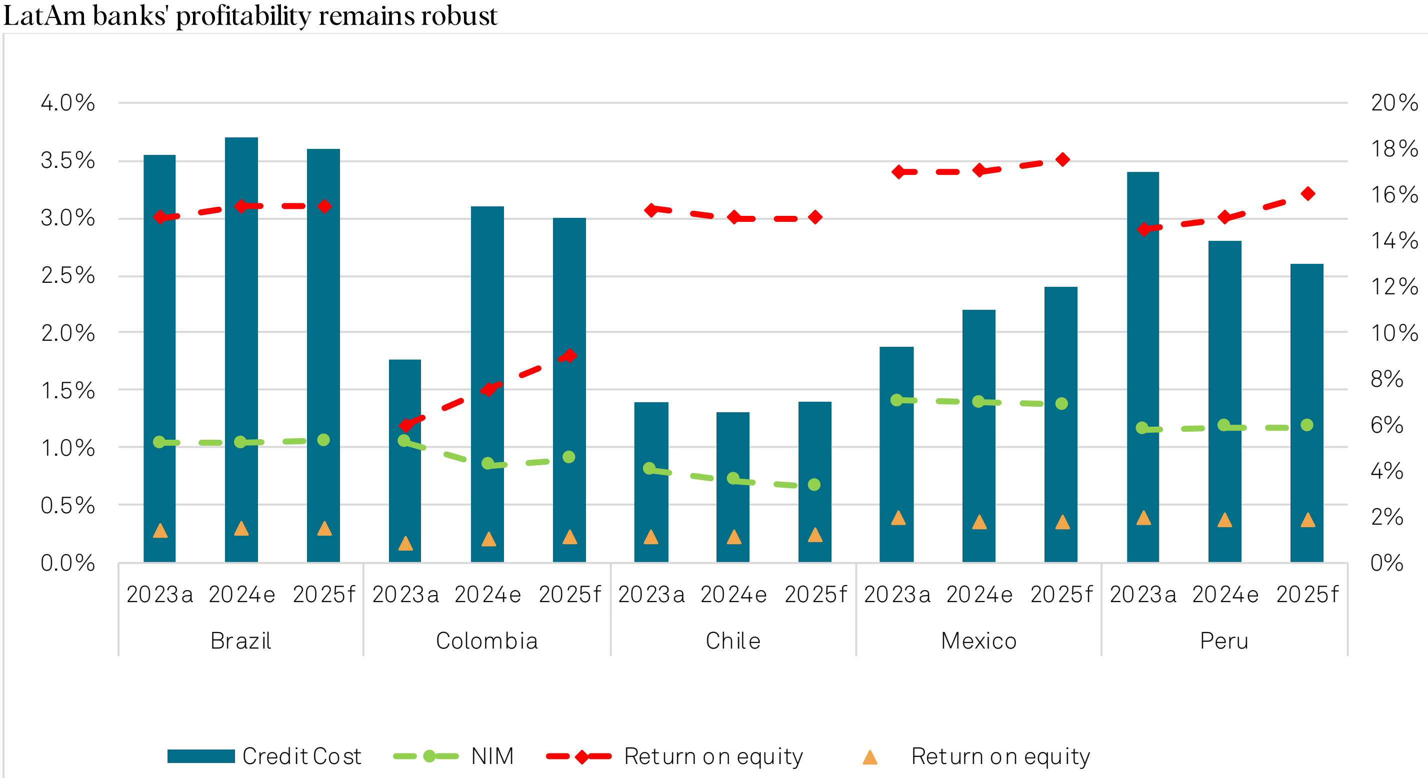
Asset quality metrics are starting to improve across most of LatAm financial institutions. But the process is still anemic because economic growth remains subdued, and we believe a pickup in NPLs, especially in the small and midsize enterprises (SME) lending segment and retail unsecured credit, to be the biggest risk to most financial institution ratings across LatAm in 2024. Corporations will benefit from decreasing interest rates, easing their financial burden, which will help normalize asset quality metrics. But sluggish lending in the SME sector and high interest rates will continue straining asset quality performance.

We expect lending growth to remain at single digits. Although we expect a pickup in credit demand in the corporate sector due to falling interest rates and refinancing needs, banks will likely continue to pursue conservative underwriting practices, given the tepid pace of asset quality stabilization. We expect credit growth will mostly come from the retail and corporate lending sectors. SMEs' credit quality is strained as internal demand remains modest, given high interest rates and the persistently inadequate flow of credit to these entities, as they typically are charged a higher cost of borrowing than that for large companies. And during periods of asset quality deterioration, the access to credit is further restricted.

Regional banks' solid profitability, due to their diversified business mix and sizable levels of government bonds with high yields and margins, enable them to withstand credit cycles and wider credit losses. Banks continue to maintain high provisioning coverage ratios, which help mitigate the impact of weakening asset quality metrics. As central banks continue to lower their policy rates, we expect margins to narrow but profitability should remain sound compared with those of international peers, thanks to still healthy margins and recovering asset quality metrics.

Chart 20

LatAm banks' profitability remains robust



e - estimate, f - forecast. Source: S&P Global Ratings.

Appendix: Economic Data And Forecast Summaries

Table 2

Real GDP

(%)

	2022	2023	2024F	2025f	2026f	2027f
Argentina	5.0	-1.6	-3.5	3.3	2.2	2.5
Brazil	3.1	2.9	1.8	2.0	2.1	2.2
Chile	2.5	0.2	2.0	2.7	2.9	3.0
Colombia	7.3	0.6	1.1	2.8	3.0	3.1
Mexico	3.9	3.2	2.5	1.8	2.2	2.3
Peru	2.7	-0.6	2.7	3.0	3.1	3.2
China	3.0	5.2	4.6	4.8	4.6	4.4
India	7.0	7.6	6.8	6.9	7.0	7.0
Indonesia	5.3	5.0	4.9	5.0	5.0	4.9
Malaysia	8.7	3.7	4.3	4.5	4.6	4.6
Philippines	7.6	5.6	5.9	6.2	6.5	6.4
Thailand	2.6	1.9	3.9	3.0	3.2	3.1
Vietnam	8.0	5.0	6.1	6.7	6.7	6.7
Hungary	4.6	-0.7	2.2	3.0	2.8	2.5
Poland	5.5	0.2	2.8	3.1	2.9	2.8
Turkiye	5.3	4.5	3.0	3.0	2.8	2.8
Saudi Arabia	8.7	-0.9	2.2	5.0	3.1	3.0
South Africa	1.9	0.6	1.3	1.5	1.4	1.4

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

Table 3

CPI inflation

Year average (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	72.4	133.5	275.0	105.0	52.5	40.0
Brazil	9.3	4.6	4.1	3.7	3.5	3.5
Chile	11.8	7.7	3.5	3.2	3.1	3.0
Colombia	10.2	11.7	6.4	3.9	3.2	3.0
Mexico	7.9	5.5	4.5	3.5	3.2	3.0
Peru	7.9	6.3	2.3	2.3	2.1	2.0
China	2.0	0.2	1.2	1.9	1.9	2.1
India	6.7	5.5	4.5	4.4	4.8	4.6
Indonesia	4.2	3.7	2.8	3.2	3.2	3.1
Malaysia	3.4	2.5	2.6	2.4	2.4	2.3
Philippines	5.8	6.0	3.4	3.2	3.0	3.0
Thailand	6.1	1.2	1.4	1.3	1.1	1.1
Vietnam	3.2	3.3	3.5	3.5	3.4	3.3
Hungary	15.3	17.3	4.6	3.9	3.5	3.9
Poland	13.3	10.9	5.4	4.1	3.7	3.7
Turkiye	72.3	53.8	55.8	27.3	18.0	11.0
Saudi Arabia	2.5	2.5	2.1	2.0	1.8	1.8
South Africa	6.9	5.9	5.0	4.3	4.3	4.2

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

Table 4

Policy rates

End of period (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	75.00	100.00	70.00	55.00	40.00	35.00
Brazil	13.75	11.75	9.00	9.00	9.00	9.00
Chile	11.25	8.25	5.00	5.00	5.00	5.00
Colombia	12.00	13.00	9.00	7.00	7.00	7.00
Mexico	10.50	11.25	9.50	7.00	7.00	7.00
Peru	7.50	6.75	4.00	4.00	4.00	4.00
India	2.75	2.50	2.30	2.30	2.30	2.30
Indonesia	6.50	6.50	5.75	5.25	5.00	5.00
Malaysia	5.50	6.00	5.25	4.75	4.50	4.50
Philippines	2.75	3.00	2.75	2.75	2.75	2.75
Thailand	5.50	6.50	5.75	4.25	4.00	4.00
Hungary	1.25	2.50	2.00	1.75	1.75	1.75
Poland	13.00	10.50	6.00	3.00	3.00	3.00
Turkiye	7.50	5.75	5.75	4.75	3.00	3.00
Saudi Arabia	9.00	45.00	45.00	20.00	15.00	10.00
South Africa	5.00	6.00	5.00	3.75	3.50	2.50

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

Table 5

Exchange rates versus US$

Year average

	2022	2023	2024f	2025f	2026f	2027f
Argentina	130.70	296.30	1210.00	2700.00	3900.00	4850.00
Brazil	5.17	5.00	5.00	5.05	5.13	5.18
Chile	873	840	960	980	990	998
Colombia	4,254	4,327	3,980	4,050	4,150	4,225
Mexico	20.12	17.79	17.25	17.75	18.25	18.75
Peru	3.83	3.74	3.75	3.80	3.90	4.00
China	6.70	7.10	7.10	6.90	6.80	6.70
India	80.00	82.80	83.30	84.60	85.90	87.50
Indonesia	14,853	15,237	15,614	15,675	15,744	15,775
Malaysia	4.40	4.53	4.62	4.30	4.25	4.21
Philippines	54.50	55.60	54.80	52.80	51.50	50.90
Thailand	35.10	34.80	35.90	35.80	35.50	35.30
Hungary	375.10	353.10	360.30	366.10	368.75	370.00
Poland	4.20	4.20	4.01	4.03	4.13	4.17
Turkiye	16.44	24.73	35.00	41.25	42.63	43.50
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75
South Africa	16.40	18.50	18.90	19.10	19.20	19.20

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

Table 6

Unemployment

Year average (%)

	2022	2023	2024f	2025f	2026f	2027f
Argentina	6.8	6.4	9.5	8.5	8.0	7.9
Brazil	9.5	8.0	8.7	8.6	8.3	8.3
Chile	7.8	8.6	8.2	7.6	7.5	7.4
Colombia	11.2	10.2	10.9	10.4	10.0	9.9
Mexico	3.3	2.9	3.3	3.4	3.4	3.4
Peru	4.4	4.5	4.6	4.4	4.2	4.1
China	5.6	5.2	5.1	4.9	4.8	4.7
Indonesia	5.8	5.4	5.2	5.2	5.1	5.0
Malaysia	3.8	3.4	3.3	3.2	3.2	3.2
Philippines	5.4	4.4	4.6	4.2	4.2	4.1
Thailand	1.2	1.0	1.0	1.0	1.0	1.0
Hungary	3.7	4.0	3.8	3.7	3.7	3.6
Poland	3.2	2.8	2.6	2.5	2.5	2.4
Turkiye	11.2	9.8	10.5	10.7	10.5	10.3
Saudi Arabia	5.6	5.2	4.9	4.4	4.0	3.8
South Africa	33.5	32.5	31.3	31.0	31.0	30.8

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

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- Credit Trends: Risky Credits: Silver Lining For Emerging Markets, Feb. 7, 2024
- White Paper: Introducing Our Credit Cycle Indicator, June 27, 2022

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

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

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