S&P Global Ratings

Credit Conditions Asia-Pacific Q4 2024

Mixed Signals: Growth And Rates

Sept. 25, 2024

This report does not constitute a rating action

Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Asia-Pacific committee on Sept. 17, 2024.

Key Takeaways

- **Between a rock and a hard place.** Pains from China's property crisis persist despite government stimulus. The outlook for households and businesses is somber. Consequently, we have lowered the country's GDP growth to 4.6% in 2024 and 4.3% in 2025. While more stimuli may be needed to restore confidence, authorities are holding back to avoid exacerbating China's already high indebtedness. We view risks around China's slowdown as high and worsening.
- **Shifting gears.** While most Asia-Pacific central banks will gradually follow the U.S. Federal Reserve in cutting rates, domestic factors will vary the pace of monetary easing across the region. We expect sharper rate cuts through 2025 and anticipate refinancing conditions will improve, with issuers able to tap offshore markets. We have therefore lowered our assessment of financing risk to elevated from high.
- **Walking a fine line.** Still strong global demand and diversification of manufacturing to outside China generate growth opportunities for export-centric Asia-Pacific countries. With the U.S. and Europe poised for a soft landing, we expect Asia-Pacific's growth to stay at 4.4% over 2024-2025. Meanwhile, the risk of worsening geopolitical tensions could stifle the region's growth momentum through supply chain disruptions and costlier commodities. We have raised the geopolitical risk level to high.
- **Volatility on the rise.** An unexpected global hard landing could spur risk-off sentiment and capital outflows, particularly in emerging Asia. Trade barriers and climate adaptation could raise costs for businesses and undo disinflationary trends. Japan's exit from near-zero rates could risk the abrupt unwinding of carry trades and longer-term shifts in asset allocation. The divide among industries and households may widen, while evolving risks could cause lenders to turn selective. The region's net rating outlook bias remains at negative 2%.

It's complicated. Asia-Pacific's credit backdrop is increasingly nuanced, amid mixed growth and interest rate prospects. The economic storyline diverges across the region. We lowered our growth forecast for China for this year and the next, given the country's moribund real estate sector continues to sap confidence. On the other hand, we raised our 2024 growth forecast for Malaysia, Vietnam, Singapore, and Taiwan because of strong exports and domestic consumption.

Regional Credit Conditions Chair

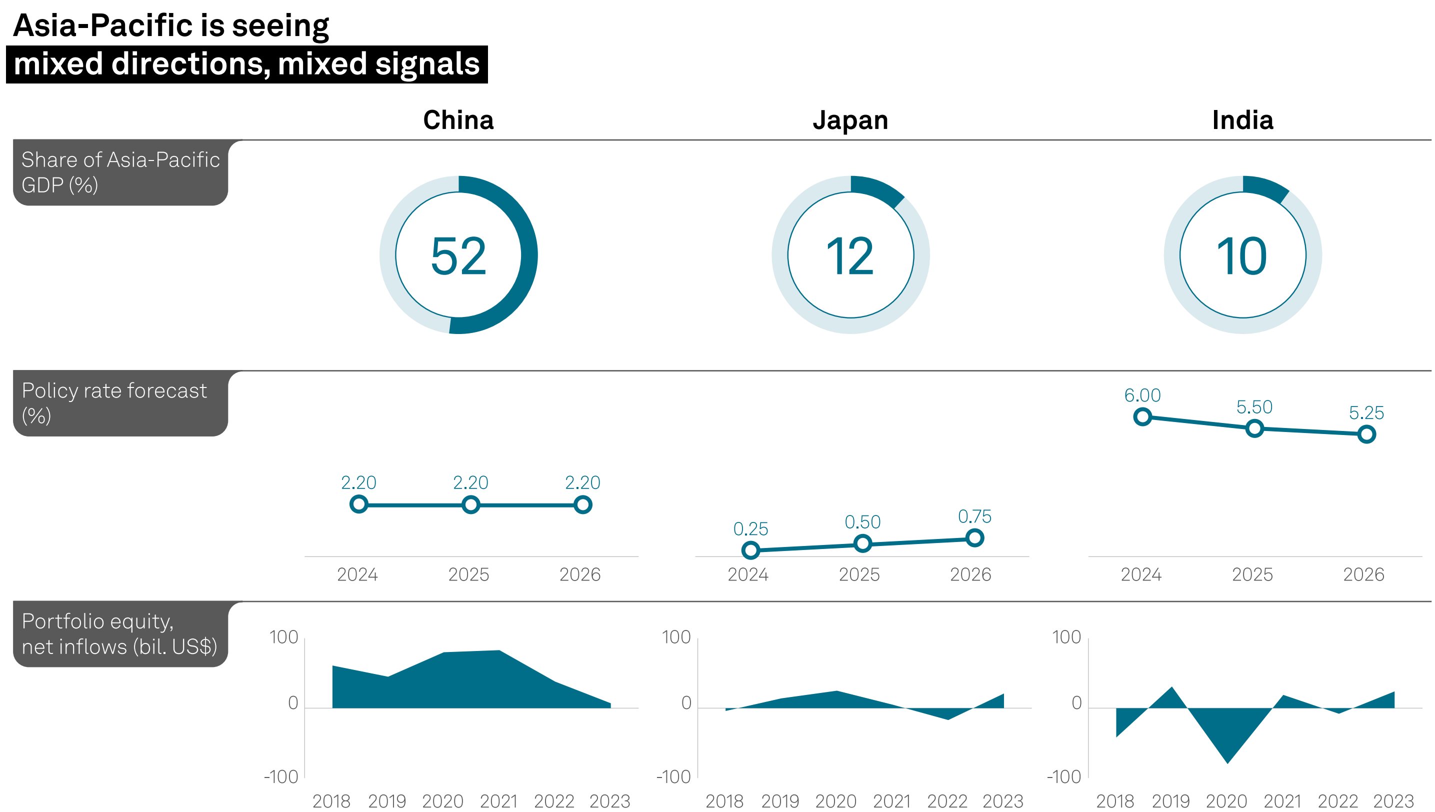
Eunice Tan
Singapore
eunice.tan@spglobal.com
+65-6530-6418

Asia-Pacific Credit Research

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

Contents

Chart 1



GDP refers to annual 2023 nominal figures. For China's policy rate, the one-year medium-term lending facility rate is shown.
Data source: GDP--S&P Global Market Intelligence. Policy rate forecast--S&P Global Ratings Economics. Portfolio equity, net inflows--World Bank DataBank.

We anticipate Asia-Pacific's central banks (except the Bank of Japan; BOJ) to gradually lower policy rates, with varying momentum across economies. Sticky inflation is preventing the Reserve Bank of Australia from cutting rates. Fears of capital outflows and pressures on domestic currencies may prompt some central banks to ease more cautiously.

A new normal. Japan's return to positive rates, after decades of near-zero rates, presents both opportunities and risks for lenders and borrowers. In particular, the narrowing interest rate differential between Japan and the U.S. could spur the unwinding of carry trades and prompt institutions to make structural shifts in asset allocation. Should the BOJ tighten aggressively, more market volatility (akin to what transpired in early August) could ensue. While higher domestic rates could incentivize onshore investing and capital inflows, offshore borrowers could face an exodus of Japanese monies.

The heightened market volatility across foreign exchange and stock markets is here to stay. The strengthening yen could narrow overseas profit contributions for Japanese corporates, as exports become less competitive and volatile stock markets compress trading profits. We anticipate the impact on creditworthiness of our rated companies is limited for now. However, cracks are deepening for the small and medium-sized enterprises.

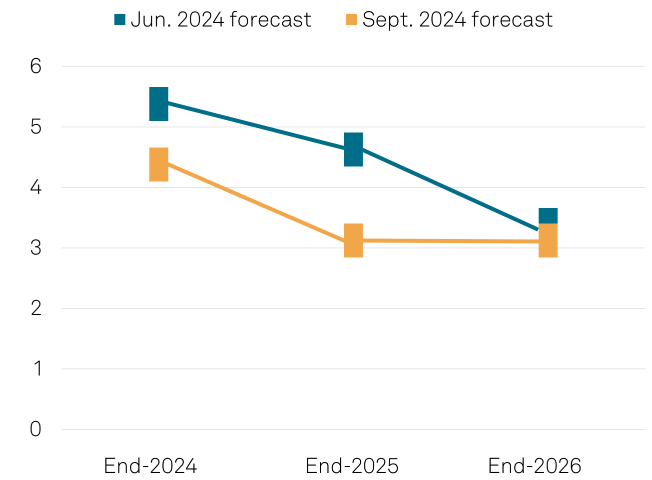
For more on this, see:

- "Credit FAQ: Japanese Corporations And Market Mayhem," Sept. 4, 2024
- "Japan Banks Primed For Market Turbulence," Aug. 19, 2024
- "Japanese Insurers Can Handle Tumultuous Markets," Aug. 15, 2024

Chart 2

Sharper U.S. Fed rate cuts through to 2025

Projected federal funds rate target range (%)

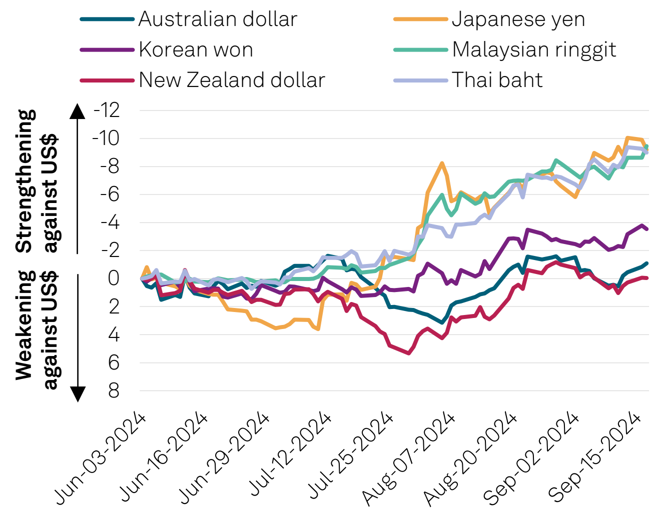


Source: S&P Global Ratings Economics.

Chart 3

Asia-Pacific currencies are regaining strength

Percentage change since June 1, 2024 (%)



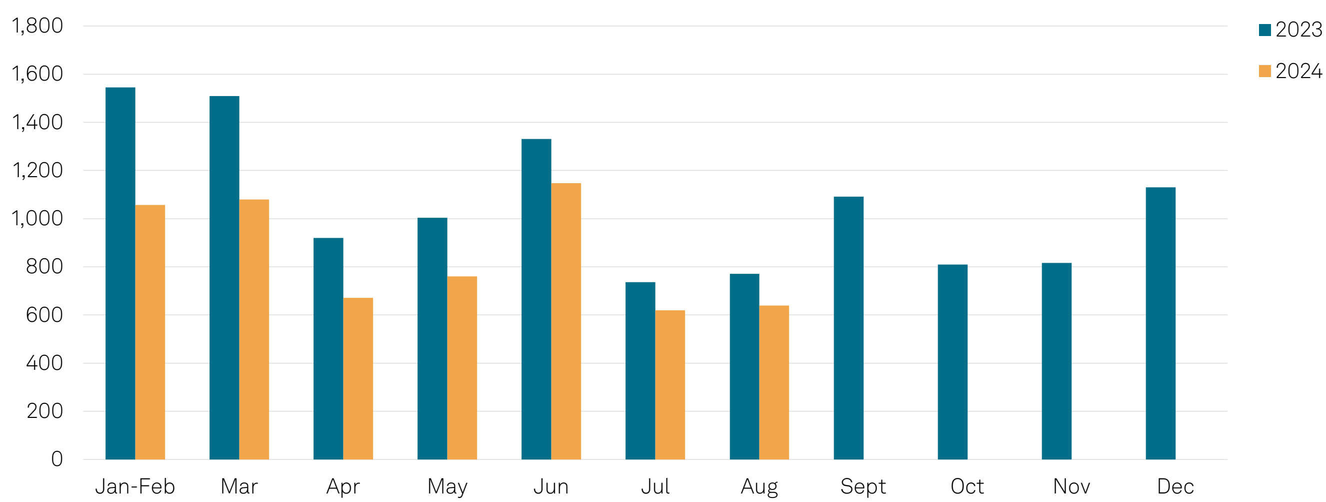
Data as of Sept. 17, 2024. Data source: S&P Global Market Intelligence.

A confidence crisis. Protracted property sales and prices reflect the severity and stickiness of China's nearly three-year long property crisis. The latest round of monetary stimulus, announced on Sept. 24, 2024, include a further cut in banks' reserve requirement ratio, cutting interest rates on existing mortgages, and lowering of downpayments. While this facilitates more credit availability in the system, weak business and household confidence continues to drag domestic credit conditions, and risks spilling over to the region and globally (particularly economies and sectors dependent on Chinese demand). The proximity and deep trade ties with China underline the region's sensitivity to the world's second largest economy.

Chart 4

China's property sales continue to slip

National primary sales by month (Bil. RMB)



RMB--Renminbi. Sources: National Bureau of Statistics of China, S&P Global Ratings.

As falling property prices dilute wealth, households could become more cautious about spending, thereby eroding demand. For businesses, this risks more margin compression and lower returns. To manage tight cash flow, businesses could prioritize repaying interest to avoid refinancing squeezes, but this comes at the expense of wages, transfers to suppliers and prospective capex. Refinancing pressure remains acute for local government financing vehicles (LGFVs): on average, about 25% of LGFV debt is set to mature over the next 12 months, but that rises to more than 30%-40% for many lower-tiered and weak entities.

The risk of entrenched deflation could constrain China's long-term structural growth. Authorities face a balancing act of reflating growth and controlling indebtedness; major fiscal stimulus to prop up growth risks another build-up of less productive debt. We see overinvestment risks in some green transition and industrial upgrading projects where utilization is sliding.

For more on this, see:

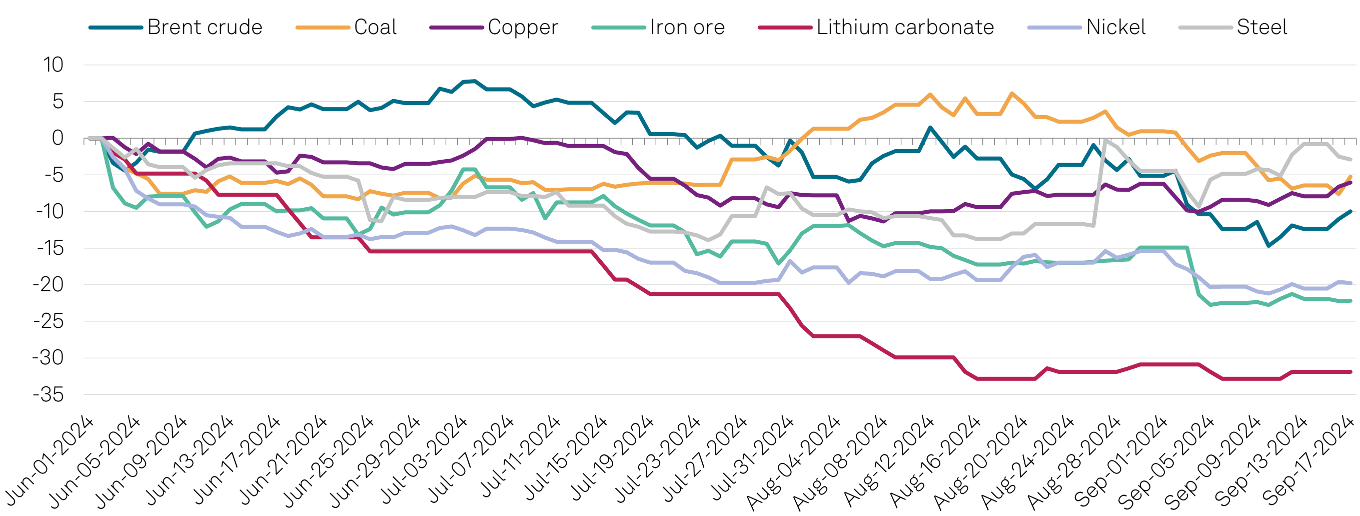
- "Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins," Sept. 25, 2024
- "Your Three Minutes In China's LGFV Debt Resolution: Buying Time Is Buying Bad Habits," Sept. 5, 2024.
- "Where Are China's Overinvestment Risks?" Aug. 7, 2024.
- "Credit FAQ: Is It Working? China's LGFV Debt De-Risk Program One Year On," July 25, 2024.

Global trade at crossroads. Trade tensions between China and the West continue to simmer. The West is tightening industrial policies to curtail the inflow of cheap Chinese imports, in a bid to protect domestic companies (as seen with scrutiny over tax-free exemptions). For China, a worsening trade war could dent its manufacturing growth engine. Malaysia and Vietnam, in particular, could see outsized drags given their strong export ties with China. A slower China could suppress commodity prices. For producers, diversifying supply chains and revenue sources is key to protecting the viability of their business operations. However, this comes with a hefty bill (see "The Shifting Of China Tech Supply Chains: The Hard Part Starts," Sept. 2, 2024).

Chart 5

Energy and commodity prices are softening

Percentage change since June 1, 2024 (%)



Data as of Sept. 17, 2024. Data source: S&P Global Market Intelligence.

The outcome of the upcoming U.S. presidential election will have a bearing on Asia-Pacific. While the two presidential candidates have differing policy priorities, China remains the common focus. Tit-for-tat tariffs would dent global trade flows, while trade negotiations may be fraught with policy missteps. Military conflicts (e.g., the Russia-Ukraine and Israel-Hamas wars) and dissonance over the South China Sea could cause energy and commodity shocks and deter capex investments. With Asia-Pacific sitting at the crossroads of global trade flows, souring business sentiment and more protectionist trade policies could affect its exports and growth.

Not all bad news. Despite China's slowing demand, strong exports and recovering domestic consumption have sustained the region's growth. Monetary easing could help improve financing conditions. Strong exports underline Asia-Pacific's key role in global manufacturing and its massive workforce. In the case of India, strong consumer spending and the government's outlays on infrastructure support its strong growth.

For more on this, see:

- "Indian Cement Makers To Spend US$14.3 Billion To Meet Surging Demand," Sept. 3, 2024.
- "Economic Research: Paving The Way: Efficient Infrastructure Key To Emerging Asia's Growth," July 24, 2024.

Tectonic shifts. Rising temperatures and an increase in extreme weather could severely affect economies and businesses. Drought or flooding may cause declines in agricultural produce, and coastal cities vulnerable to rising sea levels. To insulate against these losses, insurance coverage may become less affordable. The widening adoption of technology (such as generative AI and robotics) is set to revolutionize business models, rendering some obsolete. The need to evolve and keep pace is crucial, but the ability to foot the bill will distinguish the winners from the losers.

Amid tighter fiscal constraints and worsening geopolitical landscapes, governments are increasingly focused on domestic priorities such as cost of living, energy security, economic competitiveness, and defense spending. Surprise election outcomes globally reflect unraveling social cohesion. This could influence economic, trade and defense policies, and delay fiscal consolidation (see "Evolving Political Priorities Could Affect Energy Transition," Aug. 8, 2024).

Skewed distribution. The net rating outlook bias of Asia-Pacific issuers is stable at negative 2% as of end-August 2024, but the skewed distribution across sectors points to uneven conditions. For commodity exporters, China's slower growth momentum could inflict greater pain amid softening prices. But downstream manufacturers could benefit from cheaper inputs. Should lenders turn cautious and cut credit lines for weaker borrowers, defaults could spike. Souring sentiment could exacerbate recessionary obstacles.

Top Asia-Pacific Risks Q4 2024

China's economy: Deepening property crisis, weak confidence, high debt levels, and trade tensions to slow growth

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

China's property crisis is worsening, despite efforts by authorities to stabilize the sector. Falling home prices are denting household balance sheets, reducing individuals' propensity to consume. Protracted declines in confidence mean much slower demand, sparking fears of sticky deflationary spirals. Weak demand and over-production will depress prices, strain margins and cash flows of businesses, and prompt a bigger pullback on future capex. Sluggish domestic demand is causing manufacturers to scale up exports. However, this risks more trade barriers from export partners, potentially constraining the country's manufacturing growth engine. The need for more fiscal stimulus could exacerbate China's already high leverage. With borrowers' financials deteriorating, lenders could further tighten exposures. Fiscal constraints limit the ability of local governments to support their SOEs or LGFVs. China's weaker growth could spill over to Asia-Pacific entities, especially those reliant on Chinese demand.

Financing: Risk of intensifying market volatility could dampen financing access as central banks embark on monetary easing

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

As the Fed picks up momentum on cutting rates through 2025, many Asia-Pacific central banks would gradually follow suit, albeit at a slower pace. While this entails lower interest burdens and wider funding channels, risks to financing costs remain. Economic surprises (e.g., unexpected hard landing in major economies and smaller-than-expected rate cuts) could drive up market volatility and lead to risk aversion and capital flight. This, in turn, could increase spreads and reduce market access for borrowers, especially those at the lower end of the credit spectrum and in emerging markets. With significant volumes of debt maturing in 2025-2026, souring refinancing conditions could risk defaults.

Global economy: Risk of hard landing in major economies to weigh down business and global trade

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

While major economies such as the U.S. and Europe are poised for a soft landing, a much slower China could hurt global trade and confidence. For export-centric Asia-Pacific, a sharper than expected slowdown in major economies will hit demand for goods and services. Weaker sentiments could reverberate into slower capex investment and higher unemployment. For manufacturing-dependent economies (such as South Korea and Taiwan), the impact could be outsized. Meanwhile, China's export of excess production amid sluggish domestic consumption could intensify price competition in some industries. A deeper trade rift between China and the West could hurt business confidence, causing lenders to turn risk-off. Capital outflows could compound for some economies, exacerbating currency depreciation risks.

High costs: Trade tariffs could prompt businesses to review supply chains, exacerbating relocation and economic costs

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

Despite softer commodity prices, input costs (wages, food, and rent) remain high. While businesses have been able to pass through higher costs, slowing demand (e.g., in China) could limit this ability. China's exports of excess production could benefit through cheaper imports, but corporates competing against Chinese goods could face margin compression. The imposition of higher and broader trade tariffs could prompt Chinese manufacturers to accelerate sales diversification to other locations and lower prices further. The need for businesses to review supply chains and reshore business operations could mean additional costs and operational challenges, hurting local economies, employees, and suppliers. Meanwhile, Asia-Pacific's net energy importer status underpins susceptibility to high fuel prices. An intensifying Middle East conflict could trigger an energy supply shock, causing a resurgence in inflation.

Japan's monetary policy: Abrupt capital inflows and risk repricing of assets and derivatives cause market volatility

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

The BOJ's rate hike, along with expectations of rate cuts by the Fed back then, have prompted some unwinding of the yen carry trade and stoked market volatility. A more material unwinding of the carry trade would lead to abrupt capital inflows to Japan and heighten foreign exchange fluctuations. This volatility could spill over to the rest of the region and beyond, exacerbating risk-off sentiment. In particular, borrowers dependent on Japanese investors for financing could see reduced refinancing access. Major swings in interest and exchange rates could drive major repricing of assets, roiling speculative margins and derivative trades. Furthermore, unhedged overseas investment exposures by financial institutions and insurance companies may dilute their capital buffers.

Real estate: Negative equity and shrinking demand to exacerbate property devaluation and liquidity strains on developers

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

High mortgage rates in the region (ex-China) and shrinking demand for real estate (residential and commercial) could exacerbate an ongoing correction. In face of negative equity, borrowers could have less incentive to repay their loans, leading to significant write-downs for banks. Real estate devaluation and costlier mortgages will curtail households' propensity to spend. For property developers, shrinking demand for new properties and higher interest burdens will further constrict cash flow and intensify credit strains. An uptick in unemployment, shifting retail demands and office arrangements, and tighter review of rental expenses by businesses, could further hit demand for commercial space. Weaker tenants' income and higher interest burdens may squeeze net cash flow and valuations, prompting write-downs across REITs and structured finance markets.

Structural risks

Geopolitics: Escalating geopolitical tensions could hinder policy predictability and increase financial market volatility

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

Compounding geopolitical headwinds are complicating the risk environment, and could drag confidence, industrial production, and growth. Trouble spots include a protracted Russia-Ukraine war, a widening Middle Eastern conflict, and increasing China-West diplomatic tensions. In particular, ramifications from the pending U.S. election may prompt more trade protectionism initiatives (particularly, toward China) and higher policy uncertainty for Asia-Pacific. Meanwhile, the risk of heightened tensions across the South China Sea could hit supply chains, and spark investment outflows from the region. Reduction in policy predictability may prompt financiers to turn risk-off, and lead to more capital market volatility, asset devaluation and demands for higher risk premia. For emerging markets, capital outflows may intensify and squeeze domestic currencies. The region's governments may step up defense spending, thereby delaying fiscal consolidation.

Climate change: Extreme weather and energy transition to pose business challenges and raise costs

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

Higher physical risks from rising temperatures and extreme weather events are affecting countries everywhere, causing a more pronounced financial impact. These risks are more acute for the emerging markets that are less financially strong. To cope, governments are developing climate policies. A rapid phase-out of fossil fuels could disrupt many industries and strain credit quality. Equally, so-called brown companies that delay energy transition could be left with stranded assets and higher financing costs. Economies that depend on hydrocarbon export revenues or are centered on energy-intensive industries could also suffer. Meanwhile, climate-driven disruptions in agriculture and energy supply may fan inflation and social unrest. Rising sea levels and increasing frequency of extreme weather could point to outdated insurance-model assumptions--understating the severity of catastrophe claims and loss provisions. Insurers may need to hike policy premiums, and households may be unable to afford insurance protection. In extreme situations, some geographies may become uninsurable, resulting in a recalibration of fixed-asset prices.

Technology: Accelerating technological advancement and mounting cyber-attacks to disrupt business operations

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

Technological advances, such as in generative AI, are altering business landscapes and regulatory oversight. Technology developments (including in biological and material sciences) may enhance productivity, operational efficiencies, and competitive positioning. However, such advances mean more complexities and costs in management and maintenance. To cope, businesses may need to incur higher costs to continually adopt and adapt to new technologies. Furthermore, the increasing interconnectedness of economic activity and technology networks means higher risk of cyber-attacks. For critical infrastructure and issuer operations, this may evolve into a systemic threat and significant single-entity risk.

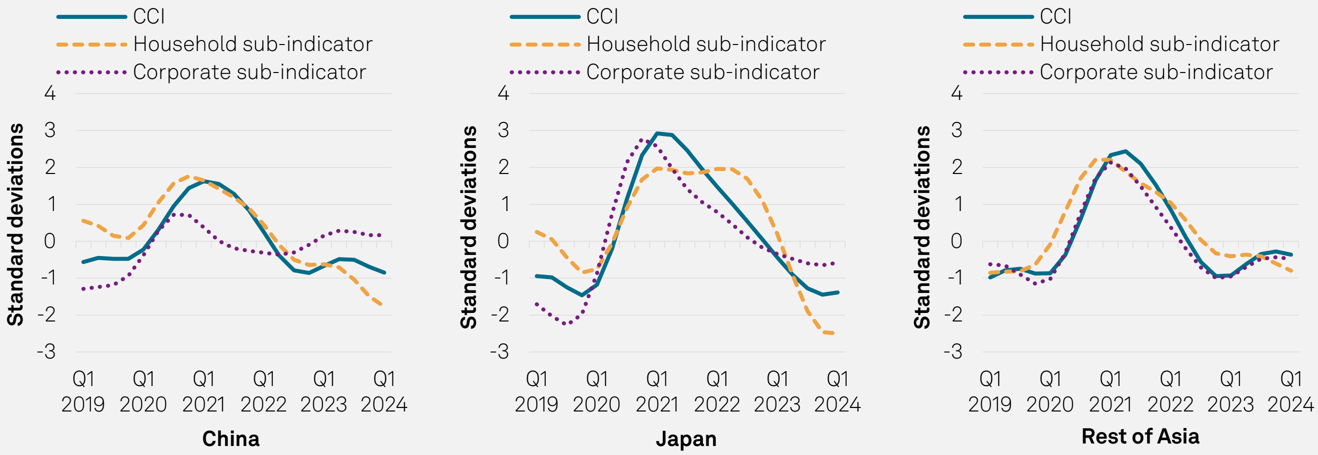
Source: S&P Global Ratings.

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

Credit Cycle Indicator

Chart 6

Asian credit cycle indicators signal diverging credit recovery prospects



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

China. The credit and economic recovery is under pressure, given the country's deepening property crisis. China's credit cycle indicator (CCI) maintained its downward trajectory to almost one standard deviation below its historical trend, pointing to a deepening credit contraction. Amid tighter credit availability, weak and heavily indebted borrowers could struggle more to refinance, spelling more downgrades and defaults. Surviving businesses will seek to shore up balance sheets through debt reduction and cost-cutting. Softening sentiment will hit growth, labor needs and confidence.

For households, sliding house prices and weaker employment prospects cause negative wealth effects, further eroding confidence. Meanwhile, rising burdens from restructuring LGFVs in poorer, debt-laden regions, could weigh on banks' capital and profitability. Consequently, banks could further tighten lending, curtailing credit availability and compounding strains in the economy.

Japan. We see a credit recovery under way as the country's CCI emerges from its trough of negative 1.4 standard deviations (which comes after a prolonged decline, since peaking in first quarter of 2021). While the CCI remains subdued compared with historical levels, credit growth could accelerate as more capital flows return to Japan.

With the Bank of Japan exiting negative rates, higher interest costs will strain borrowers' cash flows, especially small and midsized enterprises. To mitigate this, some Japanese corporates could choose to conduct asset sales to repay excess debt. This balance sheet repair could support credit profiles. Meanwhile, higher rates in the country could attract foreign investment flows. This points to widening financing options for some borrowers.

Rest of Asia. The Asia ex-China, ex-Japan CCI is at 0.4 standard deviations below historical levels. Although the indicator has exited a trough since the first quarter of 2023, momentum is cooling on the back of an increasingly nuanced macro landscape.

The region's credit and economic recovery narrative is mixed. Credit pickup is more pronounced in South and Southeast Asia (such as India, Indonesia, and Malaysia). The uptick in household and corporate debt underlines a credit expansionary phase in these markets, supporting economic growth and attracting investment flows.

The storyline is less rosy for South Korea and Hong Kong. Korea's relatively low debt growth reflects costlier debt, cautious business sentiment, and financial institutions' tightening control over household indebtedness. Hong Kong's proximity to and dependence on China means risk is spilling into growing property stresses, and capital market swings.

Macroeconomic Outlook

Central Banks To Remain Cautious Despite U.S. Rate Relief

Primary contact

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

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

- We have reduced our 2024 China GDP growth forecast to 4.6% from 4.8%. This reflects the country's sluggish property sector, weak domestic demand generally, and reluctance among policymakers to ease fiscal policy. We project 4.3% growth in 2025.
- Growth elsewhere is largely tracking our expectations. We continue to see mostly solid expansion, particularly in the emerging markets of Asia. We anticipate 4.4% GDP growth in Asia-Pacific, this year and next, slightly down on three months ago.
- Central banks will only gradually reduce policy rates, in our view. Interest rates are low compared with the U.S., and currencies cheap. In certain economies, rising house prices and household debt contribute to a cautious approach to rate cuts.

A softening of inflation and the labor market has prompted the Fed to start cutting rates sooner than we expected three months ago. Following the 50 basis points (bps) September cut, we expect another 50 bps decline this year, and we now see the policy rate reaching its so-called terminal level of 3.0% to 3.25% in late 2025. Our base scenario features a soft landing for the U.S. and Eurozone economies.

China: A Soft Growth Outlook Amid Downward Pressure on Prices

Economic momentum has slowed amid the persistent property downturn and weak confidence. Export growth has remained strong. But slow retail sales growth reflects weak consumer confidence and a trend toward cheaper products, while investment growth has also slowed.

The weak domestic demand is weighing on prices and profit margins. The GDP deflator fell 0.7% in the second quarter. Core inflation dropped to 0.3% in August, housing prices are falling, and there appears to be downward pressure on wage growth.

Despite the muted outlook, policymakers have so far refrained from significant macroeconomic policy easing. We now expect another 10 bps policy rate cut this year and some efforts by the People's Bank of China (PBoC) to encourage credit growth. But fiscal expenditure is lagging behind the 2024 budget allocation and bond issuance has been slow. There are no signs of substantial fiscal stimulus plans.

Given the weaker-than-expected domestic demand outlook, we have reduced our 2024 GDP growth projection to 4.6%, from the earlier 4.8%. We see 4.3% growth in 2025, from 4.6% before.

There are domestic and external risks. Real estate activity could be even weaker than we expect. The risk of problematic systemic deflation has risen. Externally, global growth could be slower while China faces the risk of accelerated supply chain adjustment and large barriers to trade and investment by major trade partners.

Asia-Pacific Growth Is Mostly Holding Up

The key factors driving our growth forecast remain in place, pulling in opposite directions.

- Asia's export recovery is continuing. This is supporting growth, directly and indirectly, via stronger investment.
- Elevated interest rates and/or inflation are weighing on spending power in several developed economies.

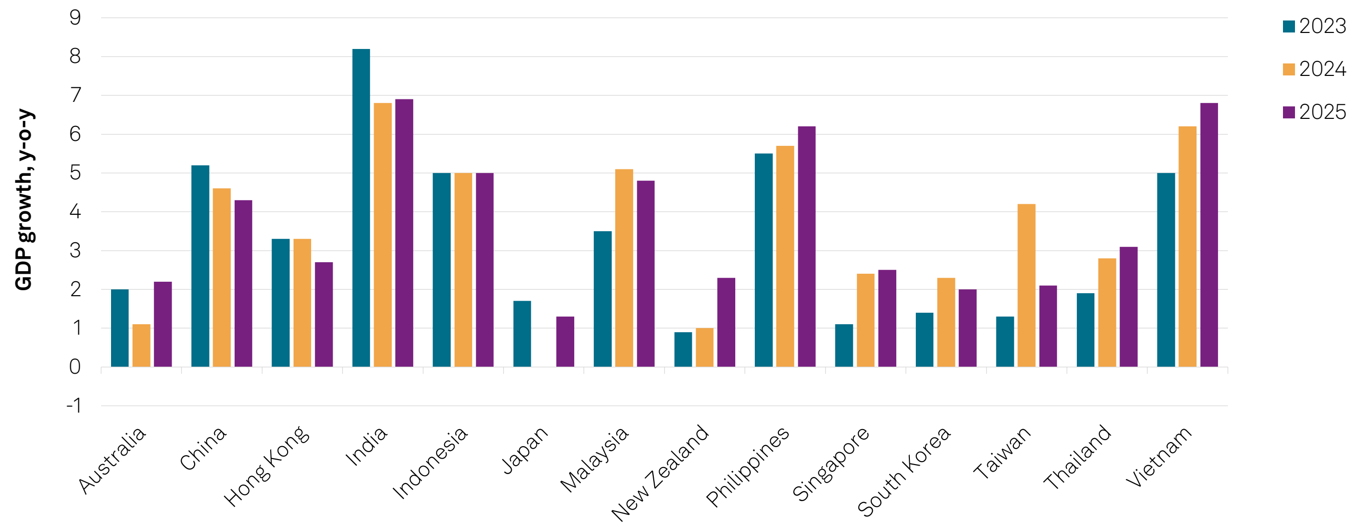
- In most Asian EMs, the restrictive monetary stance hasn't hurt domestic demand much as credit growth has remained solid.

Overall economic growth has generally remained on track and in line with expectations. We continue to mostly project solid growth, especially in the Asian EMs.

Chart 7

Growth to generally remain solid

GDP growth (%)



y-o-y--Year over year. Sources: CEIC and S&P Global Ratings Economics.

The key risks to growth are slower global growth and a pronounced slowdown in domestic consumption.

Regional Rates Won't Come Down As Fast As In The U.S.

The start of rate cuts by the Fed has brought relief to regional foreign exchange markets. Meanwhile, inflation has mostly not been a material issue anymore, except in Australia and India.

Still, we expect central banks to cut policy rates only gradually and have mostly not advanced our projections of rate cuts. Interest rate differentials with the U.S. remain uncomfortable, with policy rates low compared to the U.S. Despite the recent strengthening, currencies remain weak compared to historical trends and fundamentals. In several economies domestic considerations such as solid growth, rising house prices and household debt add to the caution on rate cuts.

- In India, solid growth allows the Reserve Bank of India (RBI) to focus on bringing inflation in line with its target.
- We expect the BOJ to gradually lift its policy rate in coming years as the outlook for inflation to be sustained at around 2% has improved.
- In Australia, sticky inflation prevents rate cuts any time soon.

Shifting perceptions on monetary policy in major economies could lead to unwarranted moves in foreign exchange and financial markets.

Financing Conditions

Broad-based Easing Trend, But Risks Remain

- Asia-Pacific financing conditions continue to see a broad-based loosening underpinned by falling yields and bond spreads, and steady issuance.
- The short-lived, but sharp market volatility in early August highlighted the remaining risk of offshore funding cost trends reversing. Such an outcome would disproportionately affect speculative grade issuers with maturing debt.
- Even with offshore borrowing becoming more of an option recently, local currency borrowing continues to be available. Local currency bond issuance remains at record highs, and banks are generally still able and willing to lend, albeit more selectively.

Primary contact

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

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

Financing conditions continue to ease as the Fed begins cutting rates and global markets expect a soft landing for the U.S. economy. Benchmark U.S. Treasury yields continue to ease while Asian U.S. dollar bond spreads remain generally stable, or even narrower (-500 bps year-to-date) in the case of high yield (chart 8). This spread compression continues to coincide with gradual improvements in speculative-grade issuance volumes across the region, albeit from a very low base.

Speculative-grade issuance volumes in the first eight months of 2024 have already surpassed full-year 2023 volumes eight-fold (chart 9), despite remaining far below the pre-2023 five-year average. Meanwhile, most regional currencies strengthened in the third quarter (chart 10), and our economics team expects further trend appreciation through to 2026 for Asian EM currencies, lowering offshore borrowing costs. These factors have coalesced to contribute to the beginnings of the recovery of offshore bond issuance from a low level.

Risks to offshore financing costs remain. Global and regional markets still face bouts of volatility and uncertainty. The most recent example was the short-lived market rout in early August. It highlighted the potential for sharp market re-pricings and how they could affect market access and funding costs if sustained. Such a situation would hurt most speculative grade issuers with debt coming due--indeed, this space will see a larger maturity wall from late 2025 onward. Moreover, most such sudden market moves include depreciations in regional currencies. A stronger-for-longer dollar could exacerbate the local currency equivalent of dollar refinancing costs and could intensify potential stresses, especially on unhedged issuers' maturing debt.

Local currency financing remains available. Even as offshore issuance begins to recover, Asia-Pacific issuers have continued to prefer borrowing in local currency markets. Local currency bond issuance through August remained at a record high, while offshore bond issuance volumes over the same period were the lowest since 2016, save for 2023's record-low (chart 11).

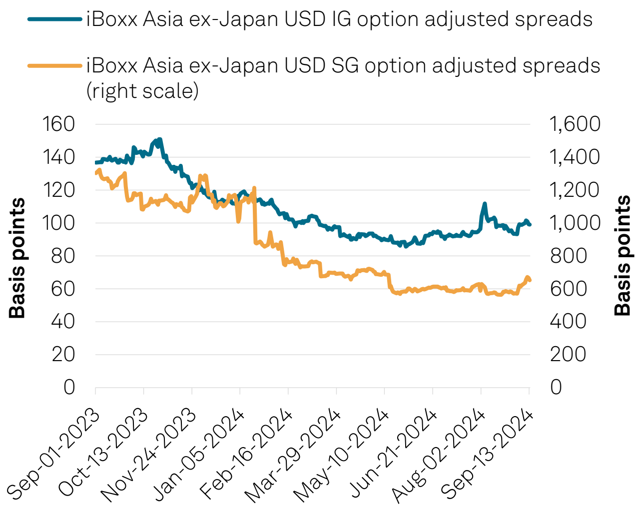
Also, banks are still generally able and willing to lend but loan demand continues to decrease, in part due to the impact of still elevated interest rates, slowdowns in the property sectors in a few markets, and continued expectations among forecasters for a moderation in global economic growth.

On top of this, banks in some regions are becoming more selective. The net impact has been uneven lending growth. For example, in China, less lending for lower-tier local governments and property sector; in Korea, declining loan growth to households.

Chart 8

Spread compression continues

Option-adjusted spreads

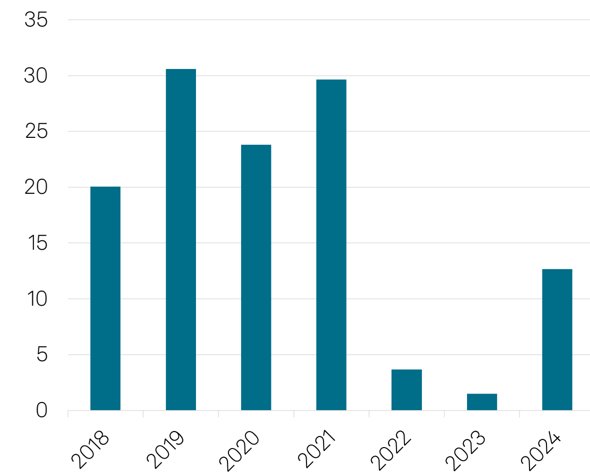


IG--Investment grade. SG--Speculative grade. Data as of Sept. 13, 2024. Source: S&P Global Market Intelligence, S&P Global Ratings Credit Research and Insights.

Chart 9

Speculative grade issuance growing from a low base

Cumulative issuance volume, Jan. to Aug. (Bil. US$)

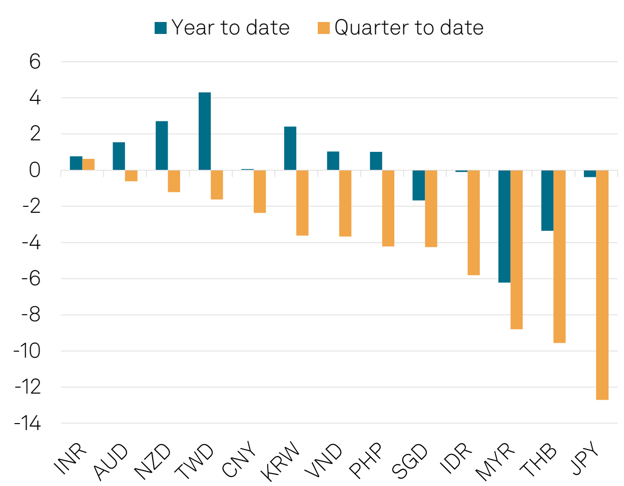


Data as of Sept. 13, 2024. Source: Refinitiv and S&P Global Ratings Credit Research and Insights.

Chart 10

Currencies strengthened in third quarter

Depreciation against US$ (%)

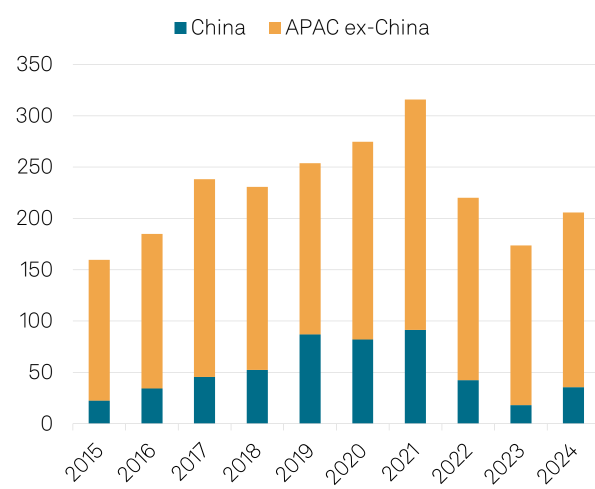


Data as of Sept. 13, 2024. Source: S&P Global Market Intelligence and S&P Global Ratings Credit Research and Insights.

Chart 11

Offshore issuance starting to recover

Cumulative offshore issuance, Jan. to Aug. (Bil. US$)



Data as of Sept. 13, 2024. Source: Refinitiv and S&P Global Ratings Credit Research and Insights.

Sector Trends

The Great Divide

- The macro backdrop is becoming more complicated. On one side, risks around China's economy are increasing. On the other, easing funding costs amid policy rate cuts in 2024-2025 will benefit borrowers. These conditions are contributing to a greater divide among Asia-Pacific borrowers.
- China's souring property crisis is squeezing downstream players, such as those in the building materials, capital goods, and chemicals sectors. Weak Chinese demand is spilling over into auto and other consumer-facing sectors. Chemicals, transportation cyclical, building materials, and real estate have the largest negative rating outlook bias.
- Geopolitical obstacles and trade barriers are increasing uncertainty. Lenders could become more selective. The need to diversify and reorder supply chains is costly and would squeeze producers' margins.
- But there is some good news. With major economies poised for a soft landing, global trade should support Asia-Pacific's manufacturers. Recovering consumption across the region (ex-China) post-pandemic should provide support and relief to some sectors (particularly, gaming).

Primary contact

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

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

What we expect and our key assumptions over the next 12 months?

China's property crisis to drag on. Cracks in China's property market are deepening. We expect national sales to continue falling through the rest of 2024 and 2025, dampening prices. Sectors that are dependent on Chinese demand, including building materials, capital goods, chemicals, and metals and mining (notably steel), would face drags.

Lower policy rates. We expect Asia-Pacific central banks to gradually cut rates, but at varying paces. Lower policy rates could lead to cheaper interest burdens (based on current spreads) for the region's borrowers. A sharper rate cut by the Fed in 2025 could encourage a pick-up in offshore issuance. The appetite to refinance for expansion and M&A could return in sectors such as consumer products and utilities.

Global economy poised for a soft landing. We maintain our view that major economies, including the U.S. and Europe, can avoid a recession and instead navigate a soft landing.

What are the key risks around the baseline?

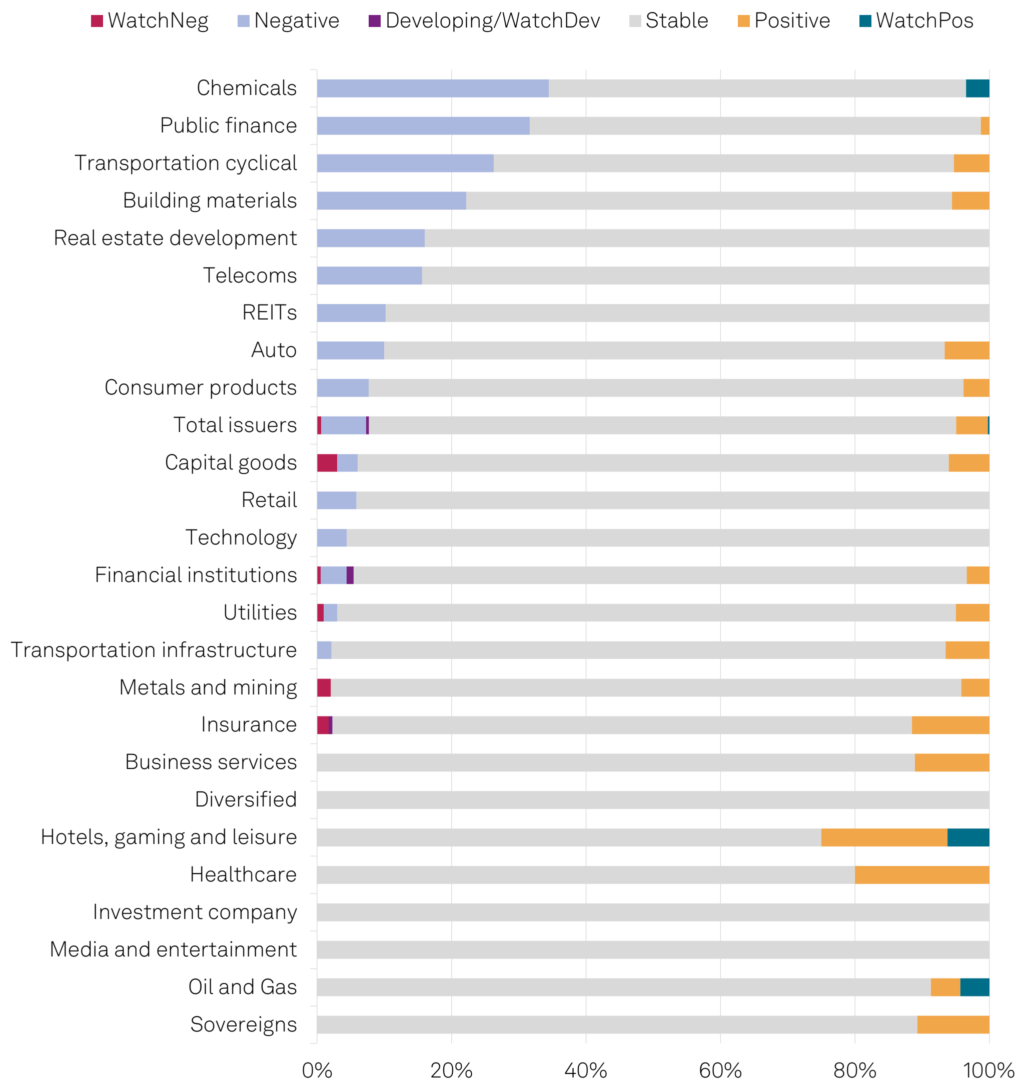
Reflate growth, reflate leverage. A deeper property crisis in China, alongside souring China-West trade relations, could cripple confidence further. Should authorities roll out stimulus to restore confidence and lift growth, this could delay fiscal consolidation efforts and exacerbate the country's already-high leverage. For LGFVs, the moribund property market means an improvement to their revenues remains elusive. This, combined with elevated spending in rolling out government directives (e.g., buying property from local hard-hit developers), will hit their cash flows and credit profiles. With credit pressure on LGFVs intensifying, banks could see more loan write-downs amid more debt restructuring.

An unexpected hard landing. A global economic hard landing would hit business activities and consumer confidence. Significant capital market volatility could occur, dragging financing conditions and investment losses. With consumers switching to cheaper goods and services, the hit to discretionary sectors will be uneven.

Geopolitical pains. A further deterioration in geopolitical tensions could hit confidence and demand. Businesses could pull back on capex and investment, and consumers turn conservative, denting growth momentum. To diversify from China, regional producers (e.g., in technology hardware) could face higher costs as they shift their supply chains. However, the impact varies along the value chain. For instance, midstream tech hardware producers face more credit risks from disruptions to operations and higher costs than downstream players.

Chart 11

Net outlook bias distribution of Asia-Pacific issuers by sector, Aug. 31, 2024



Data cut-off is of Aug. 31, 2024. Source: S&P Global Ratings.

Nonfinancial Corporate

Muted Conditions For The Rest Of 2024

- The corporate credit outlook continues to diverge across Asia-Pacific countries and sectors, given varied demand and profit outlooks.
- Soft consumer demand, modest GDP growth in China, and headwinds in export markets cloud the profit outlook of most sectors for the rest of 2024 and into 2025.
- Issuance outlook remains positive for the rest of 2024 thanks to lower rates, active fund raising ahead of the U.S. elections, Fed cuts and improving investor sentiment.

Primary contact

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

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

What we expect and our key assumptions over the next 12 months

Muted demand and profit growth heading into 2025. For rated firms in the region, we project average revenue growth to be largely flat over 2024-25. This is amid the fading of low-base effects following the pandemic, still-soft consumer sentiment in most countries, and a less robust outlook for exports for certain segments as global demand eases.

In China, weaker household confidence continues to weigh on growth and consumption, constraining the profitability of businesses in the absence of pricing power. Overinvestment risk is also showing in some sectors, such as auto, raw chemicals, and electrical equipment, flagged by sliding utilization rates or contracting profit margins. Leverage is set to fall for Chinese firms, but debt levels will take years to return to pre-pandemic levels, as a slowing economy will limit profit growth.

In Japan, a strengthening yen and muted export demand are likely to weigh on corporate operating performance. M&A remains a lingering credit risk, with a recent pick-up in acquisitions by large Japanese firms.

In India, the positive credit momentum is set to continue. Demand conditions remain favorable while recent debt reductions and prudent balance sheet management offset a steady pick-up in capex compared to pre-pandemic levels. Onshore liquidity also remains plentiful, with limited refinancing requirements for rated firms over the next two years.

Some sectors also stand out in the region. We expect the technology sector will continue to expand at an above-average pace due to strong sales of product categories such as high-bandwidth memory and AI servers. Higher visitations and expanded hotel capacity will continue to drive gaming growth in Macao, Singapore, and Malaysia.

Funding availability in global markets is improving. Issuance in U.S. dollar capital markets has been steady for investment grade credits as spreads tightened amid healthy demand and a positive rates outlook. In speculative grade, year-to-date issuance has exceeded last year's levels by more than two-thirds, marking 2024 as the first year of recovery after three years of decline. Investor sentiment toward speculative grade appears more constructive after most weaker issuers defaulted out of the sector in the past two years.

What are the key risks around the baseline?

A deeper slowdown in China's economy and the absence of a near-term recovery in China's property sector. Soft macro conditions will likely persist in China, as a weak property market and tepid economic outlook weigh on consumption. Home sales are still searching for a bottom due to falling prices and weak homebuyer confidence. There is also a risk of China's slowdown spilling over into Asia-Pacific entities, especially those reliant on Chinese consumers.

Geopolitical tensions. Geopolitical friction, trade barriers, and industrial policy are challenging Asia's dominant supply chains. The imposition of trade tariffs remains the more immediate risk as we approach the November U.S. presidential elections. These could weigh on export-oriented sectors (auto, tech, textile, steel, and chemicals) across Asia-Pacific, especially in China, Korea, Japan, and Vietnam. Middle East conflicts could heighten the risk of a resurgence of inflation as supply chains and trade flows face disruption.

Financial Institutions

Market Volatility Is Likely To Persist

- Asia-Pacific financial institutions are satisfactorily managing economic and property-sector risks. About 92% of banks have stable rating outlooks and our base case is for this scenario to continue.
- Market volatility has re-emerged after a period of relative calm. We believe the potential damage to credit profiles during 2024 and into 2025 will be limited for most banks.
- A material economic or property downside scenario outside our base case would be more challenging for banks at current rating levels

Primary contact

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

What we expect and our key assumptions over the next 12 months?

Property exposures test asset quality. Property risks are elevated in China, Hong Kong, and Vietnam. Furthermore, certain nonbank financial institutions (NBFIs) in Korea face challenges from real estate project financing.

Credit losses will be higher in 2024 but within our expectations at current rating levels. Credit losses for Asia-Pacific banks will rise by about 7% in 2024 to about US$530 billion.

Governments remain supportive. A key assumption is that governments remain supportive, and that extraordinary support is available for most systemically important banks in the unlikely event it was ever required.

What are the key risks around the baseline?

A material economic downside emerges. Policy missteps at the start of the rate easing cycle, or weaker-than-expected economic growth or employment trends outside our base case, will be a greater test for banks' borrowers and asset quality.

Property risks intensify. A worsening of property risks across the region that are under strain, most notably China's, will hit banks.

Structural risks. Many risks due to climate change, cyber, and digitalization are a slower burn for banks but increasingly are anticipated to test banks' business models.

Insurance

Market Volatility Tests Capital And Earnings Resilience

- Credit profiles remain stable. More explicit recognition of risk diversification under the revised capital model criteria has led to an enhanced capital buffer, which helps offset market volatility.
- Persistent market headwinds and forex risk could threaten earnings.
- Rising claims from extreme weather and medical inflation test insurers' ability to price for risk.

Primary contact

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

What we expect and our key assumptions over the next 12 months?

Market volatility to test investment strategy. Equity market volatility weighs on insurers' investment returns, diluting their prospective earnings. Anticipation of rate cuts (ex-Japan) could lead to a review of investment strategies and asset-liability management. Widening spreads and volatility in investment income may cause earnings contraction.

Strained margin. Underwriting profit shrinks as the frequency of extreme weather increases and medical claims inflation intensifies. Costly reinsurance cover could entail higher risk retention by primary insurers, posing risk to margin volatility.

Updates in assumptions and capital management following changes in accounting and regulation. International financial reporting standard (IFRS) 17 and updates in regulatory standards call for more focus on effective asset-liability management. This could lead to changes in capital management strategy and the associated target measure. Adjustments to financials could arise, as market participants fine-tune assumptions and systems.

What are the key risks around the baseline?

Market turmoil intensifies. Escalating geopolitical tensions and sharper than expected monetary policy adjustments by some major central banks could heighten capital market volatility. Still high interest-rate differentials, albeit moderating, and forex volatility will keep hedging costly for insurers in Japan and Taiwan. Credit stresses, notably in real estate and alternative investments, could prompt insurers to reassess risk-adjusted returns.

Deteriorating claim experience. Severity and high-impact frequency of extreme weather could raise the specter of catastrophe-related claims. Climate change-induced nonmodeled exposure could result in understatement of loss provision. Higher reinsurance costs, though with returning capacity, could disrupt insurers' risk transfer plans. Persistent medical claims inflation could dilute margins, prompting the need for product repricing.

Public Finance

Debt Increase Outpace Rate Cuts

- The decline in interest rates will remain gradual in most Asia-Pacific jurisdictions. Already-high interest payments will continue to weigh on local and regional governments (LRGs) and their associated enterprises that maintain elevated funding plans.
- Local governments in China, Australia, and New Zealand will continue to spend on large infrastructure pipelines, resulting in growing debt levels and higher interest burdens. New Zealand LRGs are behind the regions with a large negative bias over the rating outlook distribution.
- Tail risks include indebted borrowers failing to contain debt and liquidity risks, leading to systemic financing problems and loss of market confidence spilling over.

Primary contact

Kensuke Sugihara
Tokyo
kensuke.sugihara@spglobal.com
+81-3-4550-8475

What we expect and our key assumptions over the next 12 months?

Inflation and interest rates in most jurisdictions remain manageable. This will allow most countries to adapt to interest rate cuts in the U.S., and to gradually revive their fiscal performances.

New Zealand local councils are a notable exception. Elevated capital spending plans amid higher costs and interest rates continue to weigh on the fiscal performance of many LRGs in New Zealand, driving deficits and debt higher. The councils await new water reform plans; the final design of these plans could provide further clarity over the financial outcomes of LRGs.

Chinese LRGs are balancing risks with growth. China's growth will be largely linked to a gradual recovery of consumption and services. Authorities will retain large fiscal flexibility to support the recovery. On the other hand, they will also fortify risk controls, especially over the debt of local government state-owned enterprises. This would include higher tolerance for defaults among SOEs whose non-payments or bankruptcies are unlikely to trigger systemic risks.

What are the key risks around the baseline?

Increase in debt outpacing rate cuts. Slower interest rate cuts in Asia-Pacific, means borrowers will continue facing heightened debt servicing.

Property market correction. Most LRGs in the region are fiscally dependent on revenues tied to domestic property sales and prices. Prolonged revenue drags in China without new growth sources could prompt further delay in fiscal consolidation despite the efforts of LRGs to cut expenditures.

Policy shifts. To restore the economic growth momentum and market confidence, select LRGs could roll out further fiscal stimulus, including tax cuts and spending. Enhanced efforts or execution failures to contain local SOE debt risks in certain weak regions in China could prompt wider regional credit impact. Uncertainty around New Zealand's water reform and their potential impact on local government finances is driving the large negative outlook bias for the region.

Sovereign

Global Uncertainties Still The Thing To Watch

- A rebound in funding costs could weaken fiscal support. An unexpected shock and a corresponding spike in global prices could spur a resurgence of borrowing rates and squeeze government finances.
- Higher financing costs also exacerbate the negative impact on fiscal performance if they choke economic growth.
- A rebound of payments for energy imports could damage external support for some Asia-Pacific sovereigns. Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Such a deterioration could sap investor confidence, raise financing costs, and undermine credit support of some sovereigns.

Primary contact

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

What we expect and our key assumptions over the next 12 months?

Global economic activity and financing conditions remain stable, as interest rates start to fall.

Current account balances and inflation in most economies should improve, especially if energy and other commodity prices remain broadly stable.

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

What are the key risks around the baseline?

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

Rebounding energy prices seriously undermine external and fiscal metrics. Current account deficits could remain wide in some economies if exports fall and fuel prices remain elevated. Higher imports in places where governments subsidize energy consumption could intensify this. A supply shock that sharply raises energy prices could affect external and fiscal support for ratings.

Structured Finance

Consumers Are Feeling The Squeeze

- Unemployment is low and stable. The outlook for employment across the region remains supportive for residential mortgages and consumer finance assets.
- Consumers remain cautious. Weak consumer confidence and cost-of-living pressures in some markets will translate to lower lending volumes.

Primary contact

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

What we expect and our key assumptions over the next 12 months?

Unemployment to remain largely stable. Unemployment remains relatively low and stable across the region. For those markets where we expect some increase in unemployment, these are modest and low relative to historical levels.

Consumers remain cautious. While conditions are mixed in the region in relation to inflation and consumer confidence, borrowers remain disciplined in managing their budgets and debts--we expect this to continue. Additionally, lending standards remain steady.

Structural supports. We expect ratings to remain stable, with low numbers of speculative grade ratings across the region and structural supports to cushion some deterioration.

What are the key risks around the baseline?

Employment conditions weaken rapidly. If employment conditions deteriorate beyond our forecasts, this could weigh on loan performance with unemployment being the key driver of default.

Shocks to residential property markets. Significant rapid declines in housing market conditions could weigh on mortgage markets generally and affect recovery values. Risks remain in China's housing market. We expect property sales and home prices to face tough conditions as homebuyer confidence remains fragile.

Related Research

- Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins, Sept. 25, 2024
- Economic Outlook Asia-Pacific Q4 2024: Central Banks To Remain Cautious Despite U.S. Rate Relief, Sept. 24, 2024
- Your Three Minutes In China's LGFV Debt Resolution: Buying Time Is Buying Bad Habits, Sept. 5, 2024
- Credit FAQ: Japanese Corporations And Market Mayhem, Sept. 4, 2024
- Indian Cement Makers To Spend US$14.3 Billion To Meet Surging Demand, Sept. 3, 2024
- The Shifting Of China Tech Supply Chains: The Hard Part Starts, Sept. 2, 2024

  Japan Banks Primed For Market Turbulence, Aug. 19, 2024
- Japanese Insurers Can Handle Tumultuous Markets, Aug. 15, 2024
- Evolving Political Priorities Could Affect Energy Transition, Aug. 8, 2024
- Where Are China's Overinvestment Risks?, Aug. 7, 2024
- Credit FAQ: Is It Working? China's LGFV Debt De-Risk Program One Year On, July 25, 2024
- Economic Research: Paving The Way: Efficient Infrastructure Key To Emerging Asia's Growth, July 24, 2024
- White Paper: Introducing Our Credit Cycle Indicator, June 27, 2022

Editor

Lex Hall

Digital design

Evy Cheung

Appendix 1: Ratings Trends

Table 1

Net outlook bias of Asia-Pacific issuers by sector, Aug. 31, 2024

	Aug. 2023	Oct. 2023	Feb. 2024	May 2024	Aug. 31, 2024	No. of entities	Notional average rating
Auto OEM and suppliers	-6%	-3%	7%	0%	-3%	30	BBB
Building materials	-19%	-19%	-20%	-6%	-17%	18	BB+
Business services	-8%	-17%	-22%	11%	11%	9	BB+
Capital goods	-9%	-9%	-3%	-3%	0%	33	BBB
Chemicals	-3%	0%	-17%	-28%	-31%	29	BBB
Consumer products	-4%	-4%	-8%	-8%	-4%	26	BBB
Diversified	6%	11%	11%	6%	0%	18	A-
Healthcare	0%	17%	0%	0%	20%	5	BBB
Hotels, gaming, and leisure	-6%	-6%	18%	18%	25%	16	BB+
Investment company	0%	0%	0%	0%	0%	6	A
Media and entertainment	-9%	-9%	0%	0%	0%	10	BBB+
Metals and mining	4%	0%	2%	2%	2%	48	BBB-
Oil and gas	9%	9%	5%	4%	9%	23	BBB+
Real estate development	-14%	-11%	-12%	-23%	-16%	25	BBB-
Real estate investment trusts	-19%	-19%	-12%	-8%	-10%	49	BBB+
Retail	13%	13%	0%	0%	-6%	17	BBB+
Technology	-10%	-12%	-4%	-7%	-4%	45	BBB
Telecommunications	0%	3%	-3%	-6%	-16%	32	BBB
Transportation cyclical	-17%	-11%	-10%	-10%	-21%	19	BBB
Transportation infrastructure	-6%	-2%	0%	0%	4%	46	A-
Utilities	-3%	-1%	2%	3%	2%	100	A-
Total corporates	**-5%**	**-4%**	**-3%**	**-3%**	**-4%**	**604**	**BBB**
Financial institutions	8%	8%	8%	0%	-1%	385	BBB+
Insurance	-8%	-1%	6%	9%	10%	174	A
Public finance	-13%	-13%	-31%	-31%	-30%	79	AA-
Sovereign	-7%	-3%	-3%	7%	11%	28	BBB+
Total issuers	**-2%**	**-1%**	**0%**	**-2%**	**-2%**	**1,270**	**BBB+**

Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa.
OEM--Original equipment manufacturer. Teal colored cells indicate improvement from prior period, red, deterioration.
Source: S&P Global Ratings.

Appendix 2: Economic Data and Forecast Summaries

Table A1

Australia--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	2.0	1.1	2.2	2.4	2.4
Inflation %	5.6	3.5	3.4	3.1	2.9
Unemployment rate %	3.7	4.1	4.5	4.4	4.3
Policy rate % (EOP)	4.35	4.35	3.85	3.35	3.35
Exchange rate (US$ per A$)	0.68	0.67	0.69	0.71	0.73

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. A$--Australian dollar.
Source: S&P Global Ratings Economics.

Table A2

China--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	5.2	4.6	4.3	4.5	4.5
Inflation %	0.2	0.5	1.0	1.2	1.6
Unemployment rate %	5.2	5.1	5.1	5.0	5.0
Policy rate % (EOP)	2.50	2.20	2.20	2.20	2.20
Exchange rate (US$)	7.10	7.02	6.93	6.84	6.75

Inflation and unemployment rate shown are the period average. For China's policy rate, the one-year medium-term lending facility rate is shown. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A3

Hong Kong--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	3.3	3.3	2.7	2.5	2.2
Inflation %	2.1	1.9	1.9	1.9	2.0
Unemployment rate %	3.0	3.0	2.9	2.9	2.8
Exchange rate (US$)	7.81	7.79	7.78	7.78	7.77

Inflation and unemployment rate shown are the period average. f--Forecast.
Source: S&P Global Ratings Economics.

Table A4

India--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	8.2	6.8	6.9	7.0	7.0
Inflation %	5.4	4.5	4.6	4.6	4.1
Policy rate % (EOP)	6.50	6.00	5.50	5.25	5.00
Exchange rate (US$)	83.0	84.0	85.0	86.5	88.0

Inflation rate shown is the period average. f--Forecast. EOP--End of period.
For India, 2023 means fiscal 2023/2024 (year ending March 31, 2024); 2024 means fiscal 2024/2025 (year ending March 31, 2025); and so forth.
Source: S&P Global Ratings Economics.

Table A5

Indonesia--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	5.0	5.0	5.0	4.9	4.9
Inflation %	3.7	2.4	2.6	3.0	3.0
Unemployment rate %	5.4	4.8	4.7	4.7	4.7
Policy rate % (EOP)	6.00	5.50	4.75	4.75	4.75
Exchange rate (US$)	15,439	15,500	15,600	15,700	15,700

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A6

Japan--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	1.7	0.0	1.3	0.9	0.9
Inflation %	3.3	2.5	2.2	1.9	1.8
Unemployment rate %	2.6	2.5	2.5	2.5	2.5
Policy rate % (EOP)	-0.10	0.25	0.50	0.75	1.00
Exchange rate (US$)	141.6	141.0	135.0	132.0	128.0

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A7

Malaysia--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	3.5	5.1	4.8	4.5	4.4
Inflation %	2.5	2.4	2.5	2.4	2.3
Unemployment rate %	3.4	3.3	3.2	3.2	3.2
Policy rate % (EOP)	3.00	3.00	2.75	2.75	2.75
Exchange rate (US$)	4.59	4.25	4.24	4.22	4.20

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A8

New Zealand--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	0.9	1.0	2.3	2.4	2.4
Inflation %	5.7	2.8	2.2	2.3	2.3
Unemployment rate %	3.7	4.7	5.0	4.7	4.5
Policy rate % (EOP)	5.50	4.75	3.75	3.25	3.25
Exchange rate (US$ per NZ$)	0.63	0.62	0.63	0.64	0.65

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period. NZ$--New Zealand dollar.
Source: S&P Global Ratings Economics.

Table A9

Philippines--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	5.5	5.7	6.2	6.4	6.5
Inflation %	6.0	3.4	3.1	3.0	3.0
Unemployment rate %	4.4	3.9	3.8	3.7	3.6
Policy rate % (EOP)	6.50	5.50	4.25	4.00	4.00
Exchange rate (US$)	56.1	55.5	54.2	52.5	51.0

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A10

Singapore--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	1.1	2.4	2.5	2.6	2.6
Inflation %	4.8	2.7	2.0	1.9	1.9
Unemployment rate %	1.9	2.1	2.0	2.0	2.0
Exchange rate (US$)	1.32	1.30	1.29	1.27	1.27

Inflation and unemployment rate shown are the period average. f--Forecast.
Source: S&P Global Ratings Economics.

Table A11

South Korea--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	1.4	2.3	2.0	2.0	2.0
Inflation %	3.6	2.5	2.1	2.0	1.9
Unemployment rate %	2.7	2.7	2.7	2.7	2.7
Policy rate % (EOP)	3.50	3.25	2.50	2.50	2.50
Exchange rate (US$)	1,288	1,320	1,274	1,230	1,187

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A12

Taiwan--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	1.3	4.2	2.1	2.4	2.4
Inflation %	2.5	2.2	1.5	0.8	0.8
Unemployment rate %	3.5	3.4	3.6	3.5	3.6
Policy rate % (EOP)	1.88	2.00	1.63	1.38	1.38
Exchange rate (US$)	30.7	32.3	32.0	31.8	31.6

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A13

Thailand--S&P Global Ratings Economic Outlook

	2023	2024f	2025f	2026f	2027f
Real GDP %	1.9	2.8	3.1	3.0	3.1
Inflation %	1.2	0.8	1.2	1.1	1.1
Unemployment rate %	1.0	1.0	1.0	1.0	1.0
Policy rate % (EOP)	2.50	2.25	1.75	1.75	1.75
Exchange rate (US$)	34.2	33.4	33.2	33.0	32.9

Inflation and unemployment rate shown are the period average. f--Forecast. EOP--End of period.
Source: S&P Global Ratings Economics.

Table A14

Regional--S&P Global Ratings Economic Outlook

Real GDP (%)	2023	2024f	2025f	2026f	2027f
Asia-Pacific	4.9	4.4	4.4	4.4	4.4
Eurozone	0.5	0.8	1.3	1.4	1.3
EM-LatAm	1.8	1.4	2.1	2.3	2.4
U.S.	2.5	2.7	1.8	1.9	1.8

Asia-Pacific GDP growth numbers are based on current purchasing power parity GDP weights. EM-LatAm includes Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Aggregates are weighted by PPP GDP (2017-2021 average) share of total.
f--Forecast. Source: S&P Global Ratings Economics.