

Emerging Markets

Empty Streets And Rising Risks

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S&P Global
Ratings

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S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Key Takeaways

- Emerging markets (EMs) are facing severe stress resulting from three simultaneous shocks, as COVID-19 pandemic spreads globally. All key emerging economies that we cover will fall into recession or see sharply lower growth in 2020.
- We believe stress could become more significant in the coming weeks given that most EMs are only beginning to show an escalation of COVID-19 cases. As the epidemic accelerates, measures to contain the spread of the virus will compound the hit to economic activity from external shocks.
- The strength of eventual recovery will crucially depend on policy measures to cushion the blow and limit economic dislocation. Policy space differs across EMs.
- Downside risks are significant. Prolonged outbreak will depress activity and stress health systems. Extended shock to investor sentiment could result in heightened refinancing risk, especially for low rated issuers.

Emerging Markets | Three Simultaneous Shocks

COVID-19

Trade & People Flows, Supply Chains

Falling external demand, lower exports revenues, supply chain disruption



Social Distancing

Shock to domestic demand from containment measures



Commodities

Falling Demand For Commodities

Global recession reducing demand for commodities



Oil Supply Dispute

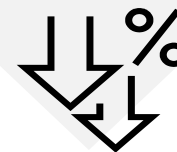
Failure to reach an agreement in OPEC+ further pressuring oil prices



Financial Conditions

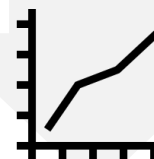
Capital Outflows

Exchange rate depreciation and volatility



Widening Spreads

EMs' spread have rapidly widened



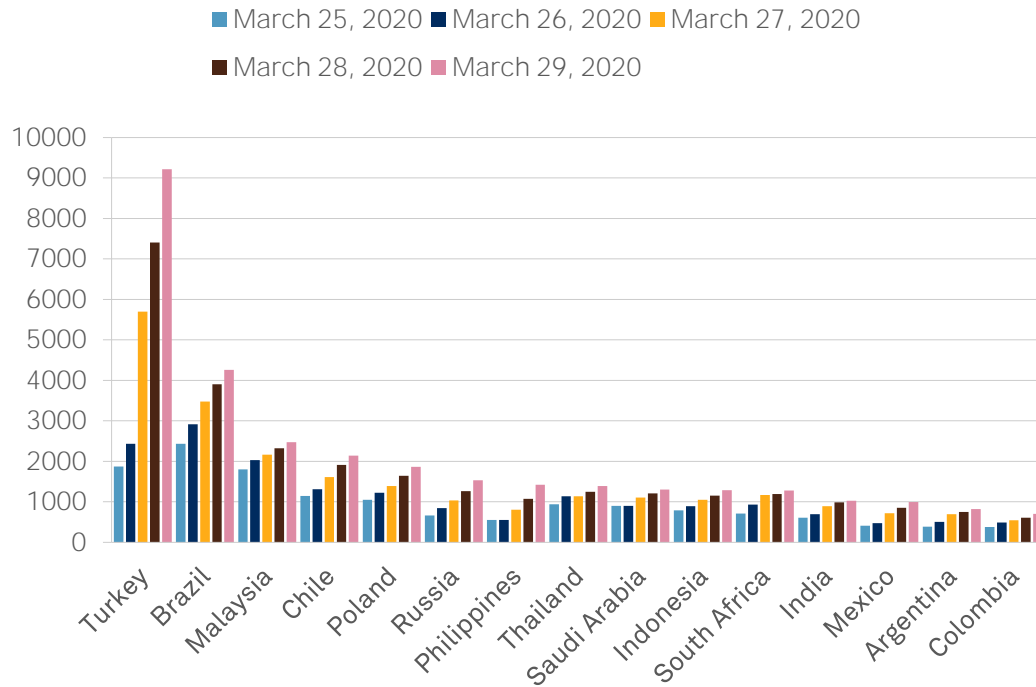
Credit Conditions

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COVID-19 | Economic Impact Will Worsen As The Virus Advances

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COVID-19 Cases Advance, Containment Measures Will Further Pressure EM Economies



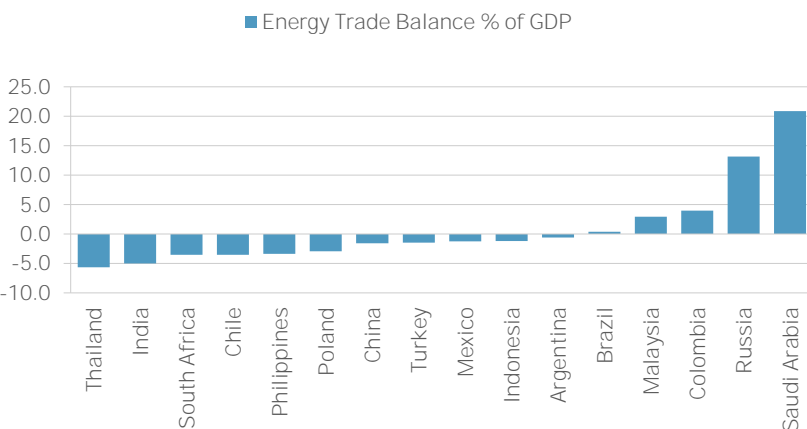
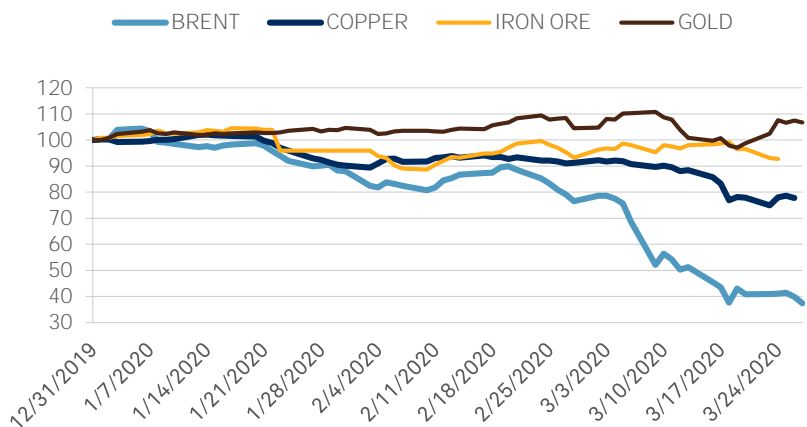
Source: Johns Hopkins Center for Systems Science and Engineering

- Outlook. EM economies are heading for a recession, amid financial market volatility. The external shock from COVID-19 is now compounded by measures to contain the epidemic as the virus spreads across EMs.
- Risks. Prolonged outbreak will depress activity and stress health systems. Tightening financing conditions, if sustained, will bring additional stress to issuers across EMs. Refinancing risks could rise.
- Credit. Current conditions will pressure high yield ratings and defaults could be expected in the most vulnerable issuers.

Commodities | Sharp Shock To Commodity Prices

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The Sharp Decline In Commodities Will Have Mixed Effects

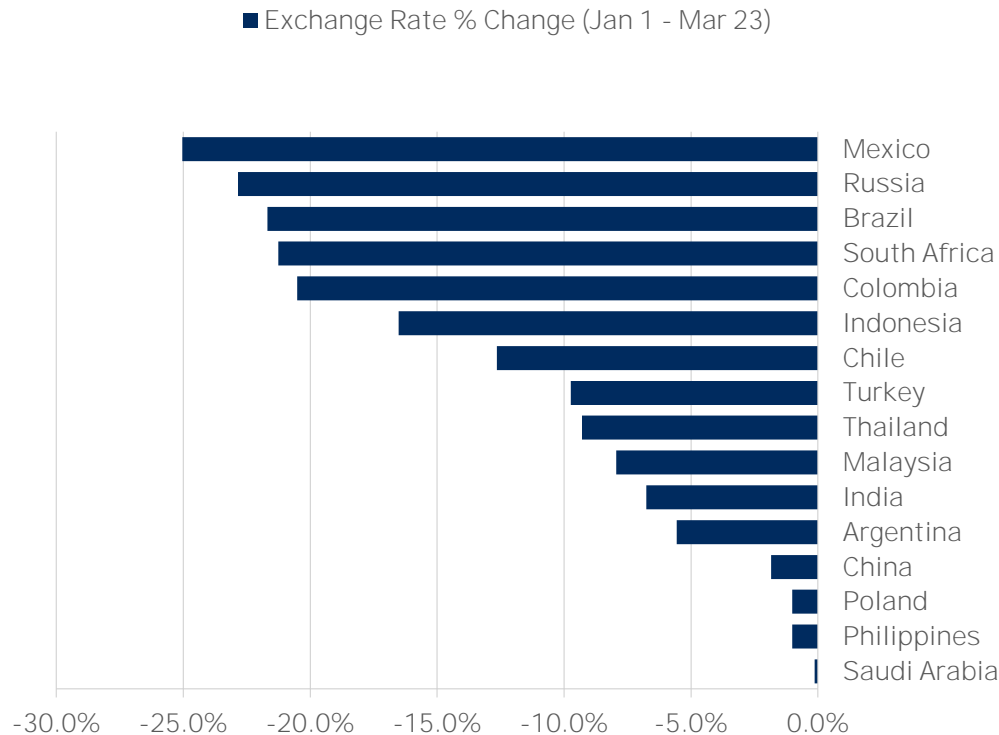


- Outlook. The effects of COVID-19, along with tensions in the OPEC+ group, pressured commodity prices. We have reviewed our assumptions for key commodities for 2020 including oil and metals. We expect the shock to be temporary.
- Risks. Declining commodity prices curtail investor confidence for emerging markets, given that such conditions are usually driven by soft global growth and volatile markets.
- Credit. While some EMs might benefit from lower fuel prices, factors for such conditions, including slower global growth and tighter financial conditions, will pressure credit quality across EM economies.

Financial Conditions | Volatile And Declining Capital Flows

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EM Capital Outflows Have Significantly Pressured Currencies

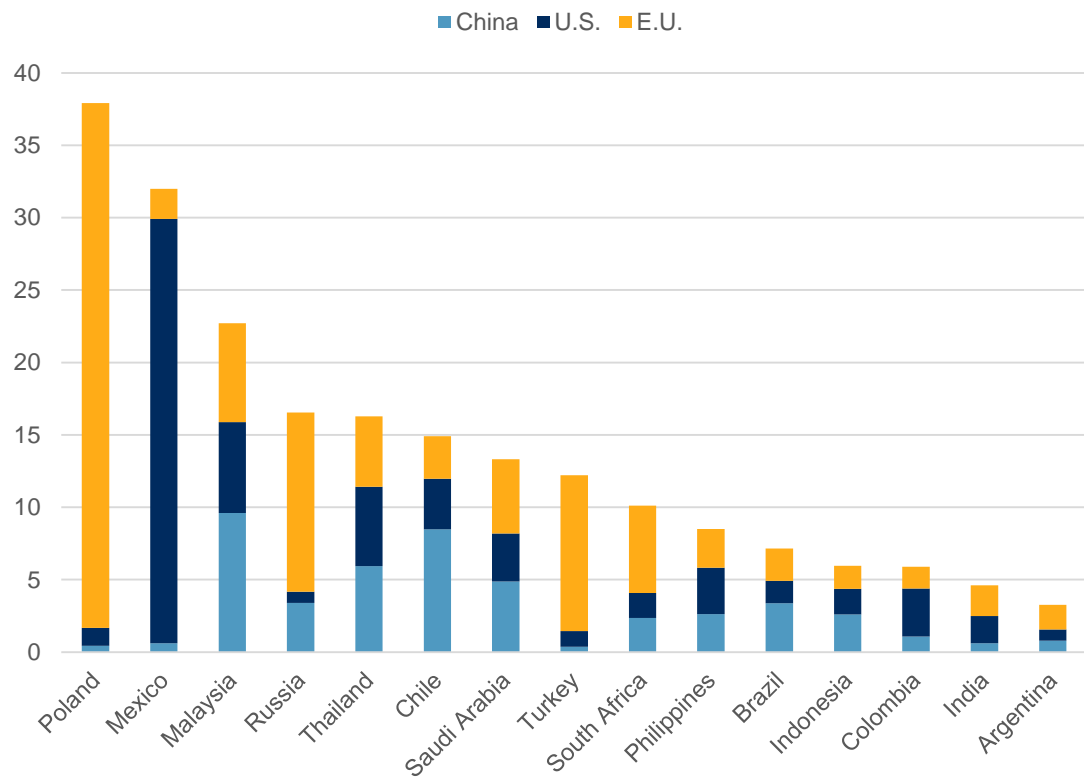


Source: Bloomberg

- Outlook. Significant questions about the depth and breadth of COVID-19's ferocity and impact on global economy and supply chains caused extreme capital outflows from EMs to risk-free assets. Speed of outflows from EMs is without precedents.
- Risks. Adverse investor sentiment towards EMs is pressuring currencies and liquidity. Continued outflows could ultimately elevate refinancing risk and inflationary pressures. Many EMs have little space for maneuver.
- Credit. Extended shock to investor sentiment could result in heightened refinancing risk, especially for low rated issuers.

Goods Trade | Slump In Global Demand Is Hitting Trade

Goods Exports By Destination (2018), % of GDP

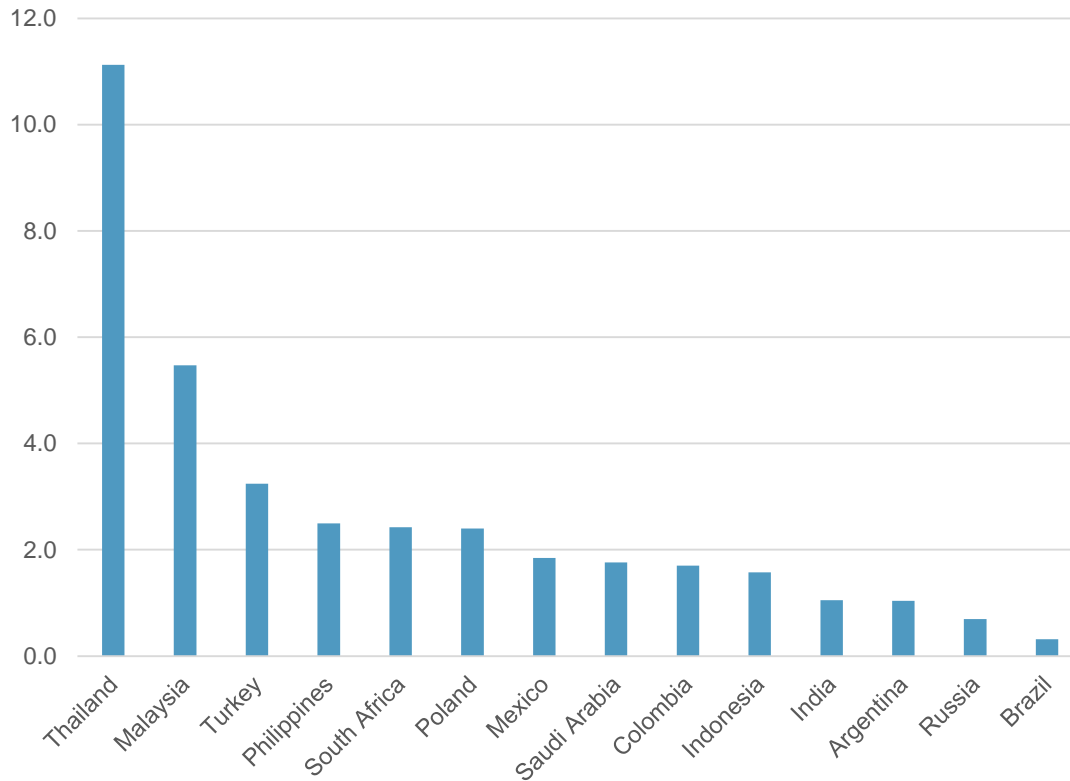


Source: IMF DOTS, S&P Global Ratings

- Trade disruptions will be felt across EMs. The shock to demand, especially in the regions that are most affected by the virus--China, the U.S., and Europe--will take a heavy toll on EM exports.
- Trade exposure varies. Russia, Poland, and Turkey rely heavily on European demand for their exports. Malaysia, Chile, and Thailand are highly exposed to China, meanwhile Mexico sends nearly 30% of GDP worth in exports to the U.S.
- Imports also matter. Several EMs also rely on imported inputs from areas heavily affected by COVID-19, causing supply-chain disruptions.

People Flows | Tourism Collapses As Epidemic Expands

Travel Exports (2018), % of GDP

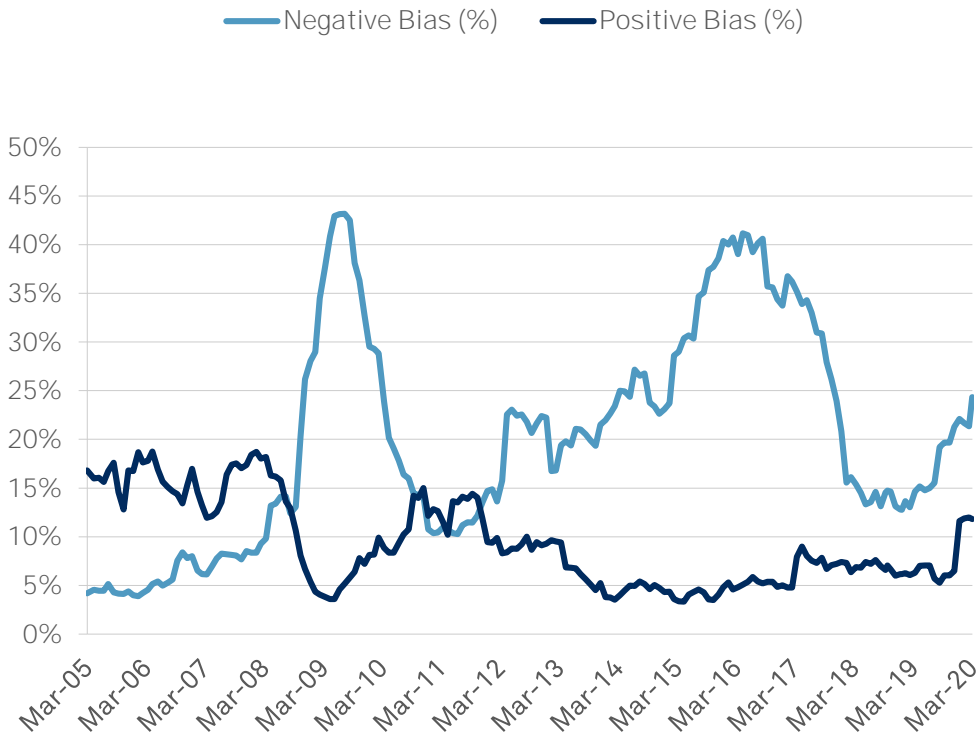


Source: CEIC, Haver Analytics, UNWTO, S&P Global Ratings

- Tourism at a halt. Travel bans have paralyzed the tourism sector, which will result in significant job and revenue losses in several EMs.
- Sizeable hit to GDP. Revenue from international tourists alone accounts for more than 2% of GDP in several major EMs.
- Uncertainty on when tourism will recover. As travel bans start to get relaxed, loss of income and economic uncertainty could delay the recovery in discretionary spending on items such as travel.

EMs | Rating Bias

Negative Outlook Bias On The Rise, Heightened Stress Will Pressure Ratings



Source: S&P Global Ratings; Data as of March 20, 2020

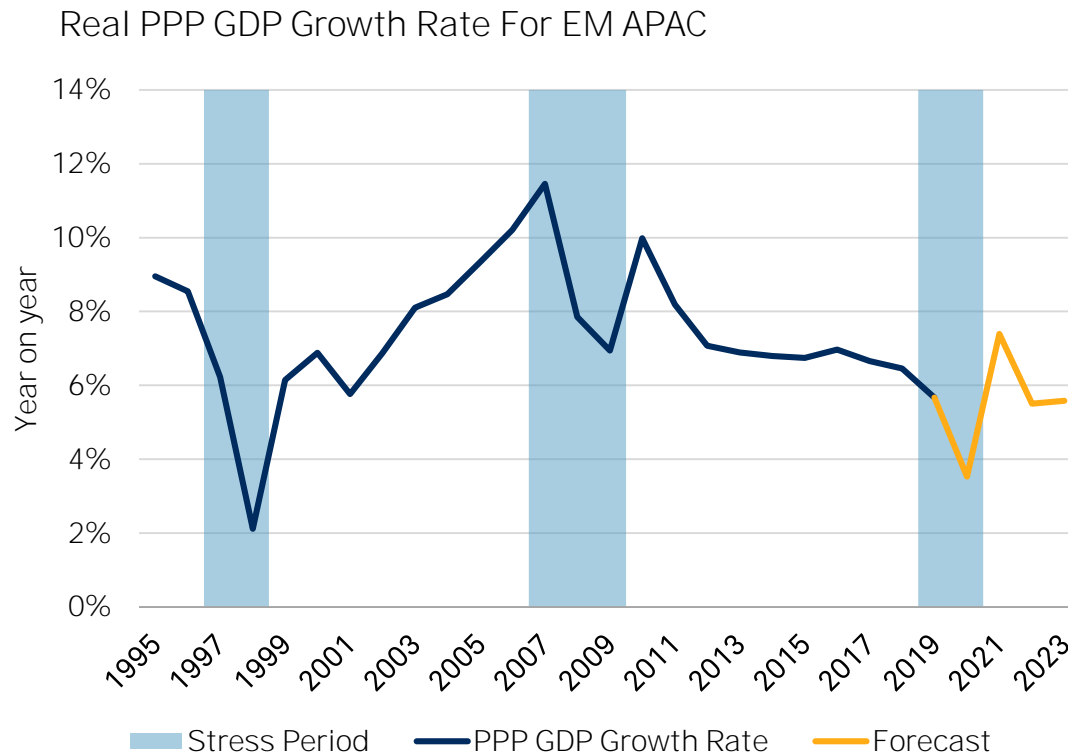
- Negative outlook bias is already on the rise, and we expect it will accelerate over the coming weeks as COVID-19 spreads across EM economies and containment measures are implemented.
- There is a large number of issuers rated in speculative grade level across emerging markets, which will suffer most as economic and financing conditions deteriorate.

Economic Conditions

APAC EM Economics | Severe Economic Impact

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APAC EMs Heading For Lowest Growth Since The Asian Financial Crisis



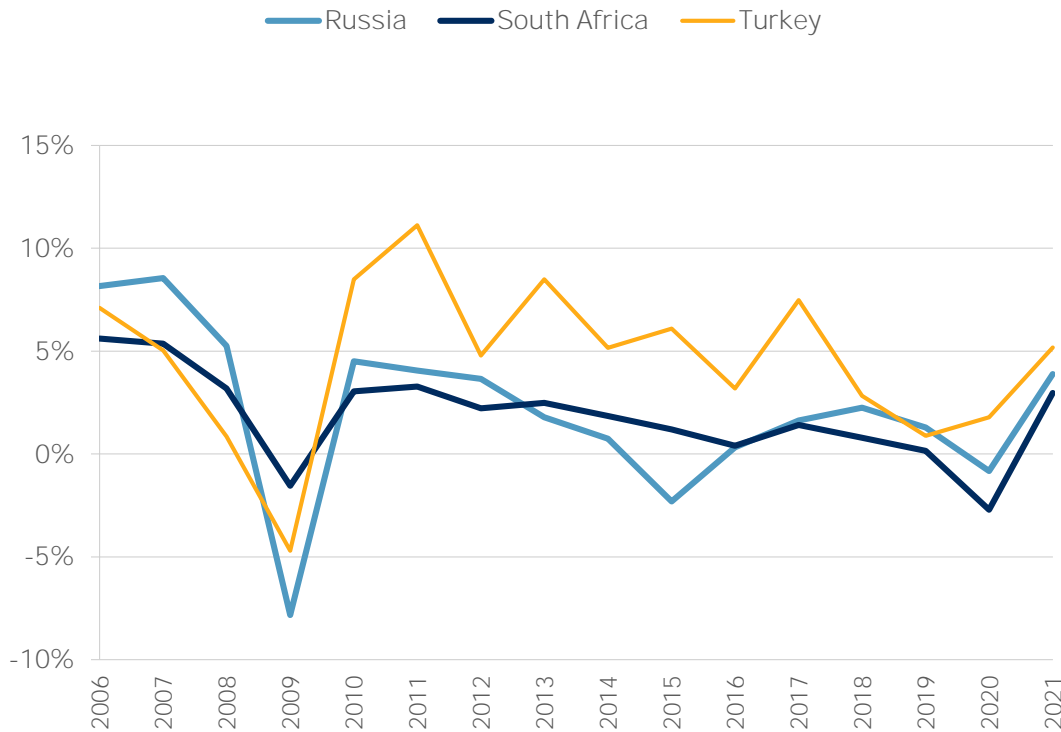
Source: S&P Global Ratings

- Growth. Discretionary consumption will be battered due to virus prevention efforts. Lockdowns across the world mean that tourism and related spending will collapse. We forecast growth of 3.5% for EM APAC in 2020, the lowest since 1998.
- Policy. There has been targeted fiscal stimulus that will cushion the blow to growth. We expect further monetary easing; however, tighter external financial conditions constrain room for policy measures.
- Risks. Further spread of the virus is the chief risk that could lead to sharp welfare and economic losses. Healthcare infrastructure in parts of the region remains patchy.

EMEA EM Economics | Severe External Shock, Domestic Demand At Risk

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Most Economies In EM EMEA Will Suffer (Real GDP Growth %)



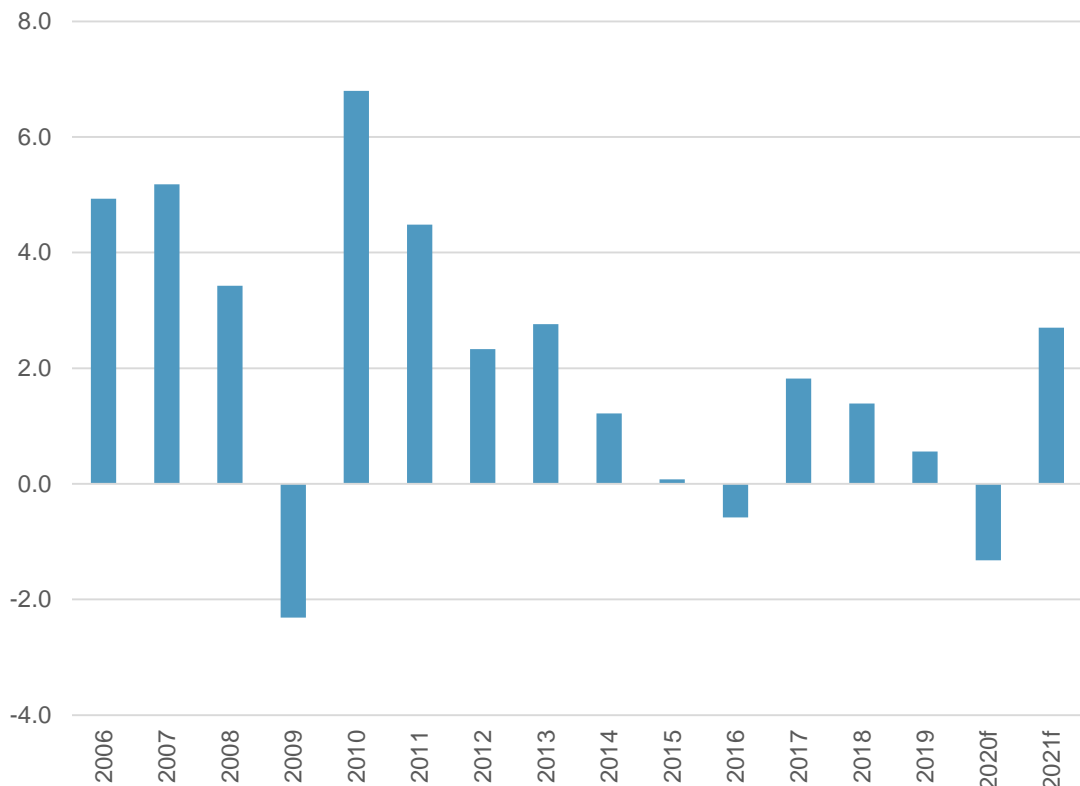
Source: S&P Global Ratings

- Growth: While external exposure varies across EMEA EMs, from commodity exports to tourism, most economies will be hit hard. Domestically, containment measures are ratcheting up, which will depress activity.
- Policy. Room for further monetary easing might be constrained in the risk-off environment. Limited clarity on fiscal support measures at this point.
- Risks. Prolonged outbreak will result in higher costs. Policy mistakes may impede the recovery.

LatAm Economics | Symptoms Of A Recession

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LatAm, Real GDP Growth (%)



Source: S&P Global Ratings.

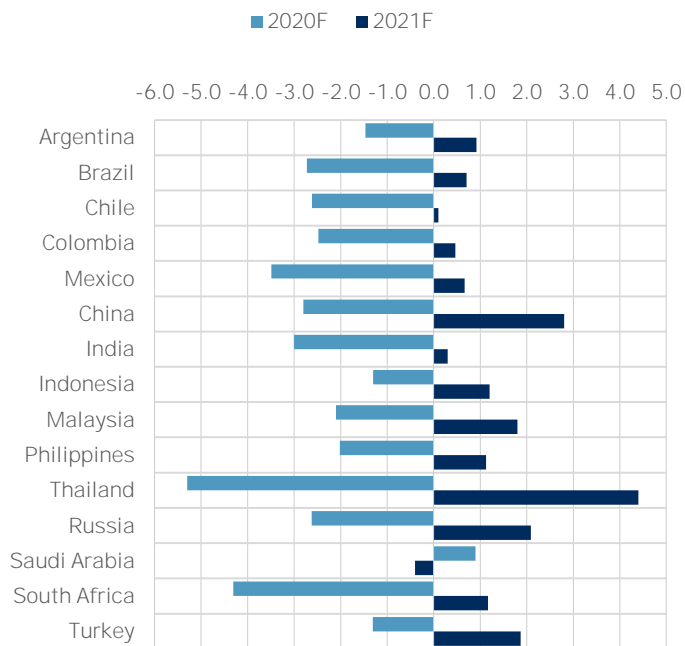
- Virus no longer just an indirect impact. The sharp increase in confirmed cases across the region is prompting travel bans, social distancing measures, and factory closures.
- Bad timing. Several economies in the region were already experiencing some of their weakest growth rates since the GFC, and this health crisis will push most LatAm countries into a recession this year.
- Risks to speedy recovery. We expect economic activity will start to recover towards the end of 2020 and into 2021. However, policy mistakes and failure to mitigate the spread of the virus could slow or delay the expected recovery.

Our GDP Forecasts | Lower 2020, Higher 2021

Real GDP Growth

(%)	2019	2020f	2021f	2022f
Argentina	-2.1	-2.5	2.4	2.0
Brazil	1.1	-0.7	2.9	2.5
Chile	1.0	-0.2	3.0	2.6
Colombia	3.3	0.7	3.8	3.2
Mexico	-0.1	-2.5	2.2	1.8
China	6.1	2.9	8.4	5.4
India	5.0	3.5	7.3	6.6
Indonesia	5.0	3.8	6.3	5.0
Malaysia	4.3	2.4	6.4	4.6
Philippines	5.9	4.2	7.5	6.7
Thailand	2.4	-2.5	7.6	3.4
Russia	1.3	-0.8	3.8	1.9
Saudi Arabia	0.3	4.0	1.6	2.7
South Africa	0.2	-2.7	3.0	1.7
Turkey	0.9	1.8	5.2	3.4

Changes In Baseline GDP Growth Forecast From 4Q 2019



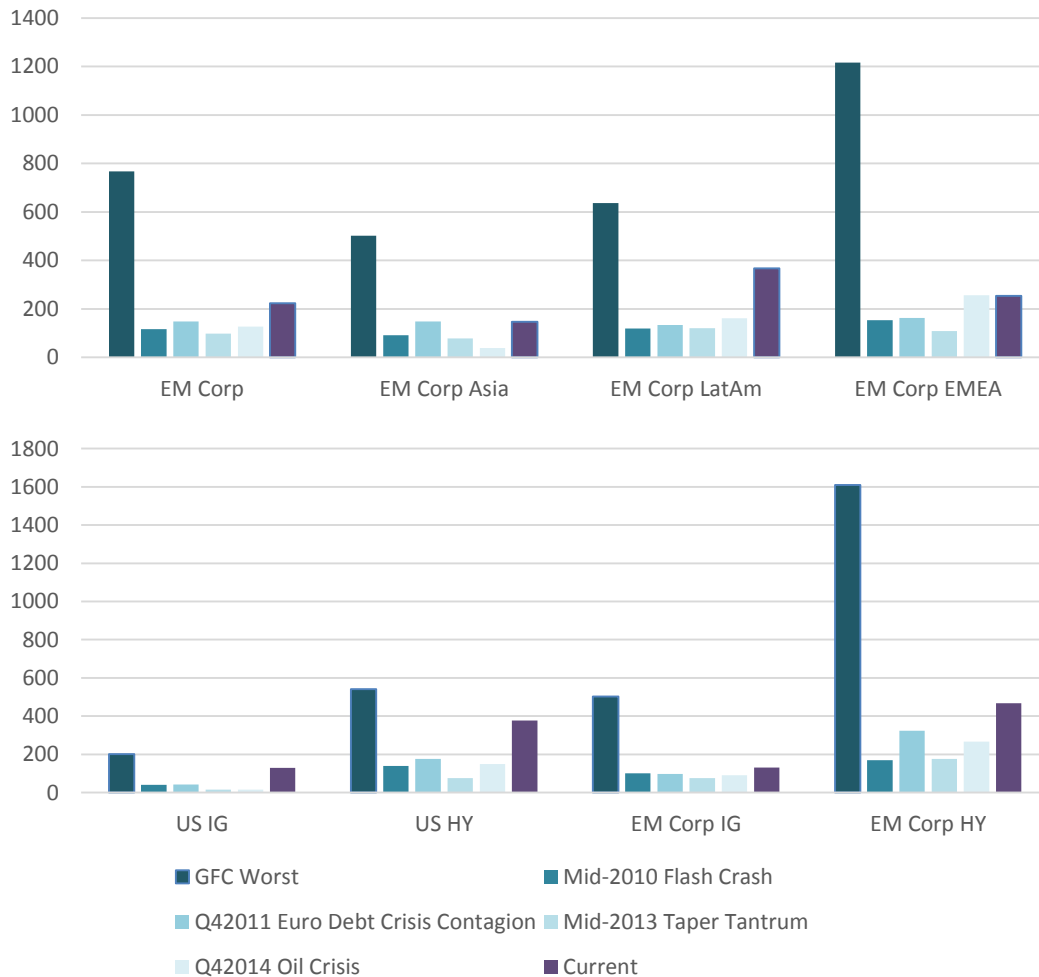
Source: S&P Global Ratings. Note: For India, 2019 = FY 2019 / 20, 2020 = FY 2020 / 21, 2021 = FY 2021 / 22, 2022 = FY 2022 / 23, 2023 = FY 2023 / 24

Financial Conditions

EM Financing | Risk Aversion

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Sharpest Increase In Spreads Over 26 Days (in bps)

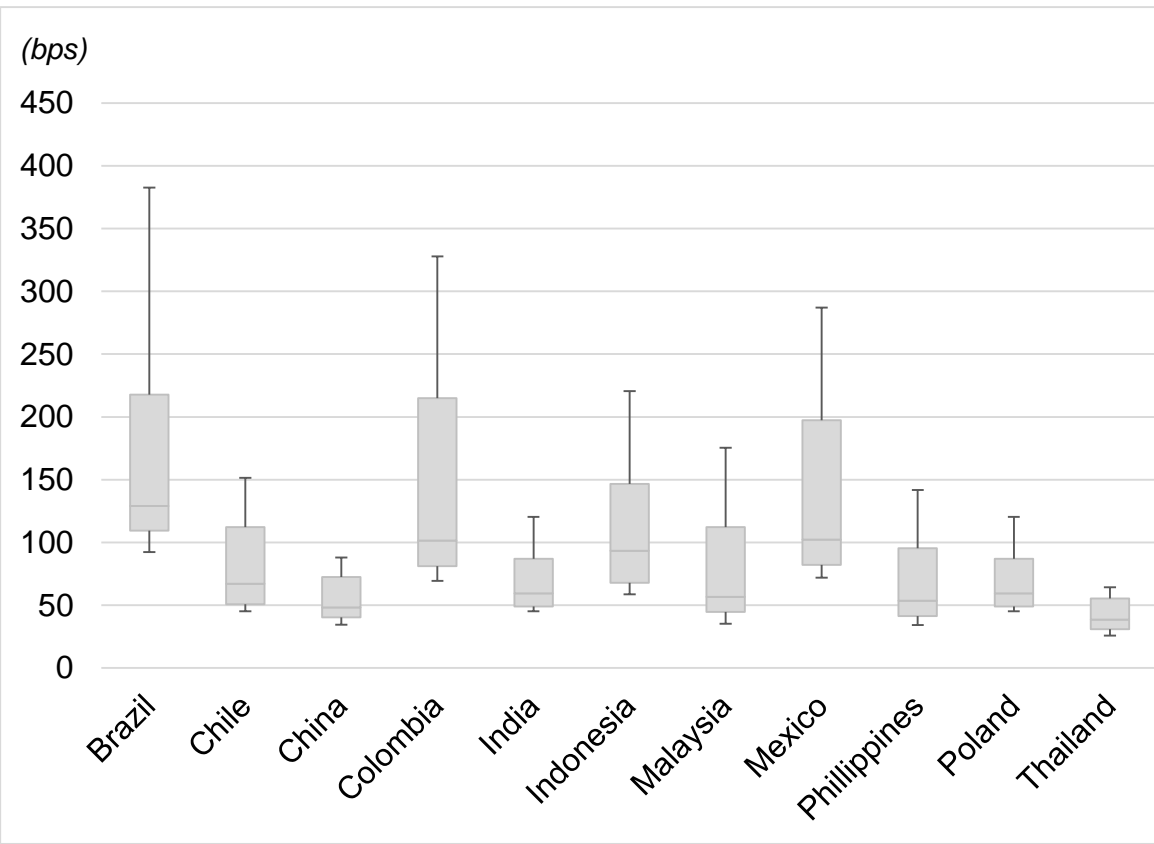


- Elevated risk aversion. EMs' bond spreads quickly escalated to the highest levels and at the fastest pace in a decade, owing to a flight to quality as COVID-19 wreaks havoc on capital markets.
- Risks. Weak investor confidence will likely constrain debt issuances, despite accommodative monetary policy across most emerging economies due to reduced capital needs and weakening demand for goods and services across most economies.
- Issuances. Cumulative corporate bond issuances across EMs total \$247 billion through March 10, 2020, after new debt capital stalls due to COVID-19 choke on demand.

EM Sovereign CDS | Widening Spreads

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30-Day EM CDS, 5Y/USD



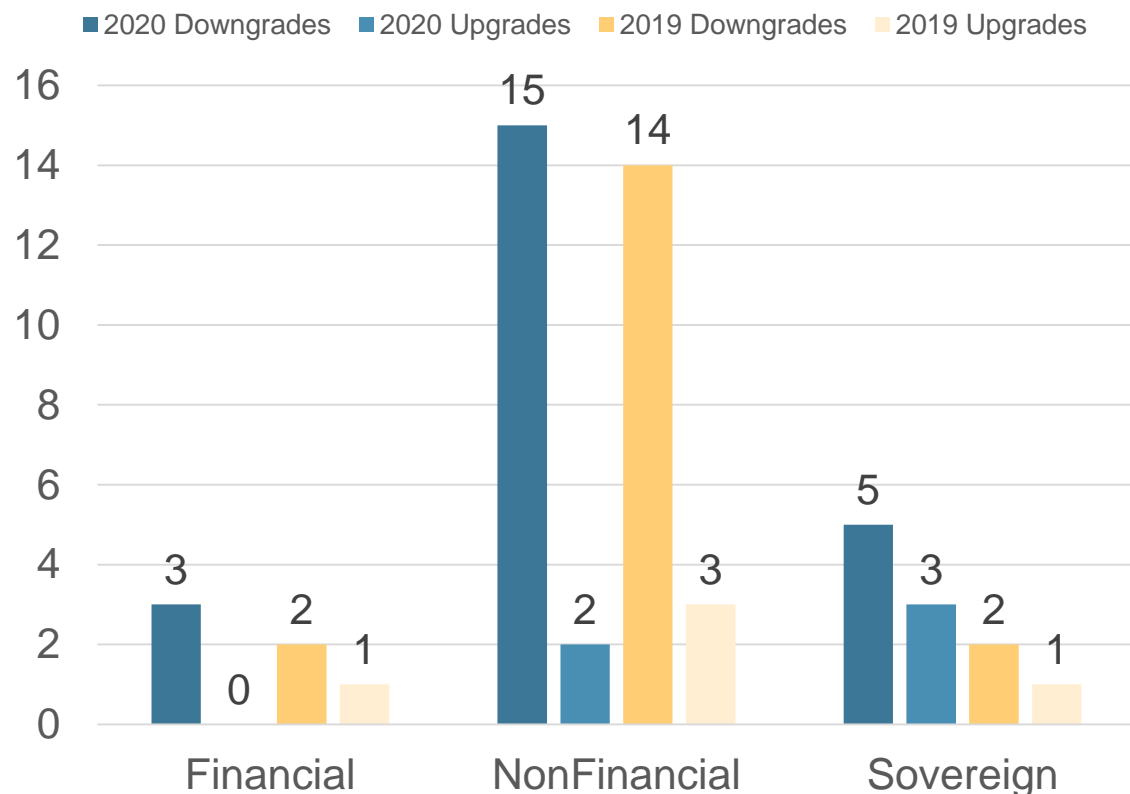
Data as of March 18, 2020. Source: S&P Global Ratings, Bloomberg.

- Widening spreads. EMs' credit default swaps (CDS) have rapidly expanded, signaling sizable investor concern about sovereign financial health.
- Flashing signals. Spreads widened an average of 130 bps across EMs in the past 30 days.
- Increasing leverage. Stimulus measures by various governments used to provide liquidity, calm market sentiment, and fund public health efforts against COVID-19 are invariably adding additional leverage to an already highly levered market.

EMs | Rating Actions

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Year-To-Date Emerging Markets Rating Actions



Data as of March 18, 2020. Source: S&P Global Ratings.

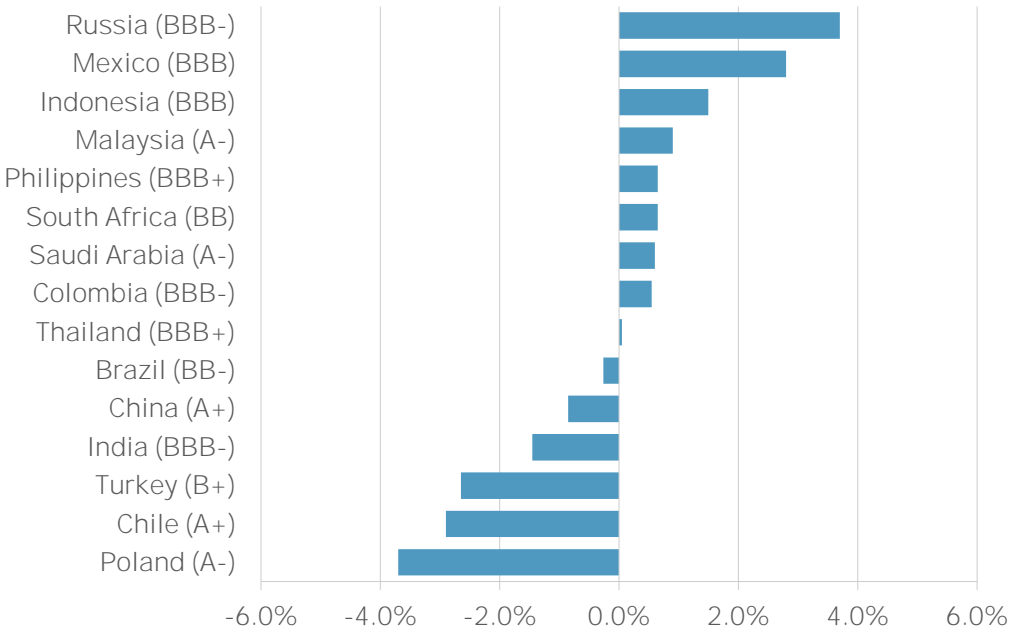
- Downgrades outpace upgrades. In 2020 so far, downgrades are outpacing upgrades by a slightly larger margin than in 2019.
- Sovereign downgrades. Argentina, Lebanon, Zambia, and Emirate of Sharjah all saw downgrades (and default in the case of Argentina and Lebanon) so far in 2020.
- Upgrades limited. Idiosyncratic conditions limit upgrades in 2020 as they had in 2019.

EMs | Interest Rates

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Are EMs Running Out Of Fuel?

■ Real Interest Rates Local Currency



- On average, key EMs have lowered their policy rates 70 bps since January.
- Some EM economies still have space to cut rates and challenging conditions demand monetary stimulus. Although, currency pressures and pass-through to inflation effects might prevent central banks from further easing.

Data as of March 23, 2020. Source: Bloomberg Intelligence, CEIC, Central Statistical Office (Poland), Federal State Statistics Service (Russia), General Authority for Statistics (Saudi Arabia), Statistics South Africa, and Haver Analytics. Argentina -12.2%.

Emerging Markets Heat Map

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Ratings

Emerging Markets Risk Profile

	Argentina	Brazil	Chile	Colombia	Mexico	China	India	Indonesia	Malaysia	Philippines	Thailand	Poland	Russia	Saudi Arabia	South Africa	Turkey
Sovereign Rating (Mar. 3, '20)	CCC-	BB-	A+	BBB-	BBB	A+	BBB-	BBB	A-	BBB+	BBB+	A-	BBB-	A-	BB	B+
Sovereign Outlook	Negative	Positive	Stable	Negative	Negative	Stable	Stable	Stable	Stable	Stable	Positive	Stable	Stable	Stable	Negative	Stable
Institutional Asmt.	6	4	2	3	3	3	3	3	3	4	4	4	5	4	4	5
Economic	5	5	4	4	5	3	4	4	4	4	4	4	5	4	5	4
External	6	3	4	6	2	1	2	3	2	1	1	2	1	1	3	6
Fiscal (BDGT)	6	5	2	3	3	4	6	3	3	3	3	3	4	5	6	4
Fiscal (DBT)	5	5	1	4	4	2	6	2	4	2	2	2	1	1	6	3
Monetary	5	3	2	3	3	3	3	3	2	3	2	2	3	4	2	4

Financial Institutions (Mar. 22, '19)

Economic Risk	10	7	4	7	6	7	6	6	5	6	7	4	8	5	6	8
Industry Risk	7	5	3	5	3	5	5	6	3	5	4	5	7	3	5	9
Institutional Framework	High	Intermediate	Low	High	Intermediate	High	High	High	Intermediate	High	Intermediate	Intermediate	Very High	Low	Intermediate	Very High
Derived Anchor	b+	bb+	bbb+	bb+	bbb-	bb+	bbb-	bb+	bbb	bbb-	bb+	bbb	bb-	bbb	bbb-	b+
Eco. Risk Trend	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Negative	Negative
Eco. Imp.	H	Int	Lw	H	VLw	H	Lw	Lw	Lw	Lw	Lw	Lw	H	Int	Lw	VH
Credit Risk	EH	H	Int	H	H	VH	VH	VH	H	H	EH	Int	VH	Int	H	VH
Competitive Dynamics	H	H	Int	Int	Int	H	H	H	Int	Int	H	H	H	Int	Int	H
Funding	VH	Int	Lw	Int	Lw	VLw	Lw	Int	Lw	Int	Lw	Int	H	Lw	H	EH

Non Financial Corporates (Rated)

Median Rating (Mar. 20, 2019)	B-	BB-	BBB	BBB-	BB+	BBB	BBB-	BB-	BBB+	BBB+	BBB+	BBB	BB+	BBB+	BB	BB-
Net Debt / EBITDA	2.3	3.1	2.5	2.6	2.7	6.2	3.8	3.4	1.9	2.2	3.5	3.3	2.0	4.6	2.5	2.0
ROC Adj.°	-23.3	8.5	5.8	8.8	6.4	3.8	5.7	5.6	7.0	10.7	8.2	4.2	9.0	7.3	6.6	-2.2
EBITDA INT. COV.	4.3	3.8	6.5	5.3	5.1	2.7	3.1	3.4	7.7	7.0	5.2	7.7	5.2	5.4	4.7	5.8
FFO / DEBT	28.0	19.6	26.7	22.0	22.6	7.3	12.6	17.8	39.0	38.2	23.0	23.4	31.6	12.3	27.2	31.6
NFC FC Debt % GDP*	11.6	14.9	32.4	8.6	17.3	6.3	6.3	7.7	11.5	5.8t	7.1	13.4	12.5	9.9	15.2	36.5
NFC Debt % of GDP*	15.6	42.9	103.3	33.6	26.4	156.7	44.2	22.9	68.1	45.7t	47.6	43.8	46.0	45.5	40.2	67.3

Color Coding

Sovereign – Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Based on Sovereign Rating Methodology, Dec. 23, 2014.

Financial Institutions BICRA—The overall assessment of economic risk and industry risk, which ultimately leads to the classification of banking systems into BICRA groups, is determined by the number of "points" assigned to each risk score on the six-grade scale. The points range from 1 to 10, with one point corresponding to "very low risk" and 10 points corresponding "extremely high risk," based on Banking Industry Country Risk Assessment Methodology and Assumptions, Nov. 09, 2011; and Banks Rating Methodology and Assumptions Nov. 09, 2011.

Non-Financial Corporates—Ratios are derived from a the Median of Rated Corporates in their respective country, we then rank them according to our Corporate Methodology, Nov. 19, 2013 by using table 17, with levels that go from minimal to highly leveraged. ° - We assess return on capital by using the median of our rated corporates in their respective country, then we adjust for inflation, we then rank it based on our Corporate Methodology, Nov. 19, 2013. * - Non financial corporates debt and foreign currency denominated debt is based on IIF global debt monitor with data as of March 2020.

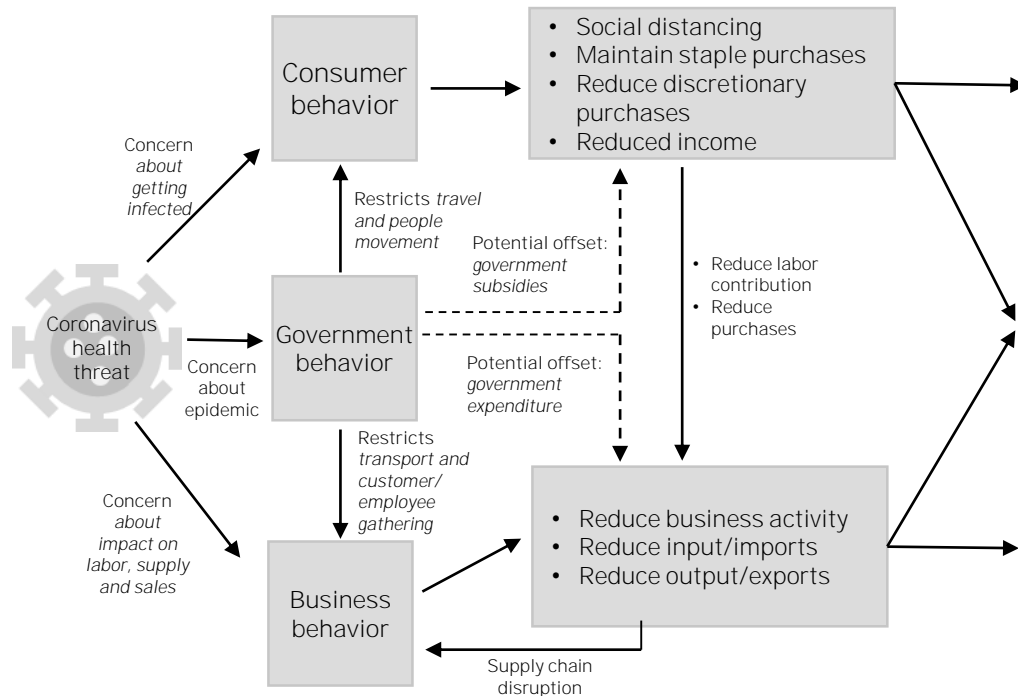
t - Source: Bangko Sentral NG Pilipinas; S&P Global Ratings.

Source: S&P Global Ratings.

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Corporate Sector Sensitivity

Corporates | COVID-19 Sector Sensitivity



	Global	Asia-Pacific	Latin America
Aviation	H	H	H
Auto	H	H	M
Consumer products	M	H	M
Gaming, leisure & lodging	H	H	H
Retail & restaurants	H	H	H
Healthcare & pharma	L	M	L
Infrastructure	M	H	H
Media & telecoms	L	M	L
Real estate	M	M	M
Transport - cyclical	H	H	H
Business services	M	M	M
Capital goods	M	M	M
Chemicals	M	M	M
Materials, bldg. & constr.	M	H	H
Metals & mining	M	H	M
Oil & gas	M	H	H
Packaging	L	M	M
Technology	M	M	M
Utilities	L	M	L

Sector revenue-EBITDA relative sensitivity

Low	Medium	High
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Note: This measures sensitivity to both revenues and EBITDA. These relative risk classifications are based on our analytical teams' qualitative opinions and do not indicate any potential rating trend or actions.

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Related Research

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Emerging Markets | Related Research

- It's Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain, March 27
- COVID-19: Coronavirus-Related Public Rating Actions On Corporations And Sovereigns To Date, March 27
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- Coronavirus Impact: Key Takeaways From Our Articles, March 26
- Global Macroeconomic Update, March 24: A Massive Hit To World Economic Growth, March 24, 2020
- Credit FAQ: Assessing The Coronavirus-Related Damage To The Global Economy And Credit Quality, March 24, 2020
- LatAm Corporate Outlook 2020: COVID-19: Testing Latin America's Defenses, March 23
- Asia-Pacific Economic Forecasts: The Cost Of Coronavirus Is Now US\$620 Billion, March 22, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17
- Stress Scenario: The Sovereigns Most Vulnerable To A COVID-19-Related Slowdown In Tourism, March 17
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17
- Coronavirus-Related Public Rating Actions On Non-Financial Corporations To Date, March 18
- Asia-Pacific Recession Guaranteed, March 17
- The European Central Bank Rises To The Challenge As Eurozone Sovereign Borrowing Soars In Response To COVID-19, March 19
- Asia-Pacific Credits Wobble As COVID-19 Goes Global, March 9
- COVID-19, Risks Of Global Recession Spike Business Services' Downgrade Tilt, March 19

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