Emerging Markets

Country Risk Analytics

MacroFinance Research

Quarterly - 2024Q3

TAC ECONOMICS

www.taceconomics.com

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Global Views on Emerging Markets

Executive Summary

→ **Aggregate EM economic growth remained robust though underwhelming in 2024H1**, supported by China's modest rebound and accelerating international trade. With most policy-drivers in neutral gear, the momentum of demand is primarily driven by international conditions (becoming progressively stronger) and household / corporate confidence (more sensitive to global / local / political uncertainties). However, the disinflationary trend observed in 2023 stopped with a (modest) upward reversal.

→ **Overall, our projection models suggest a steady GDP growth around +4.5% y/y per year in both 2024H2 and 2025**, a correct performance, but with large differentiation across regions and countries and still too low to enable a rapid improvement in overall living standards in EM, especially for smaller / less developed nations. Performances on inflation will also remain substantially differentiated, with China managing to exit a full deflation threat and Turkey managing to exit the hyperinflation period. Overall headline CPI growth for the 10 Key EM would remain broadly stable, on average, between 2023 and 2024 around +4.5% y/y before trending down to +3.8% in 2025. Added to a "higher for longer" interest outlook in the US, this will lead to more cautious / less expansionary monetary policies across EM over the next couple of quarters.

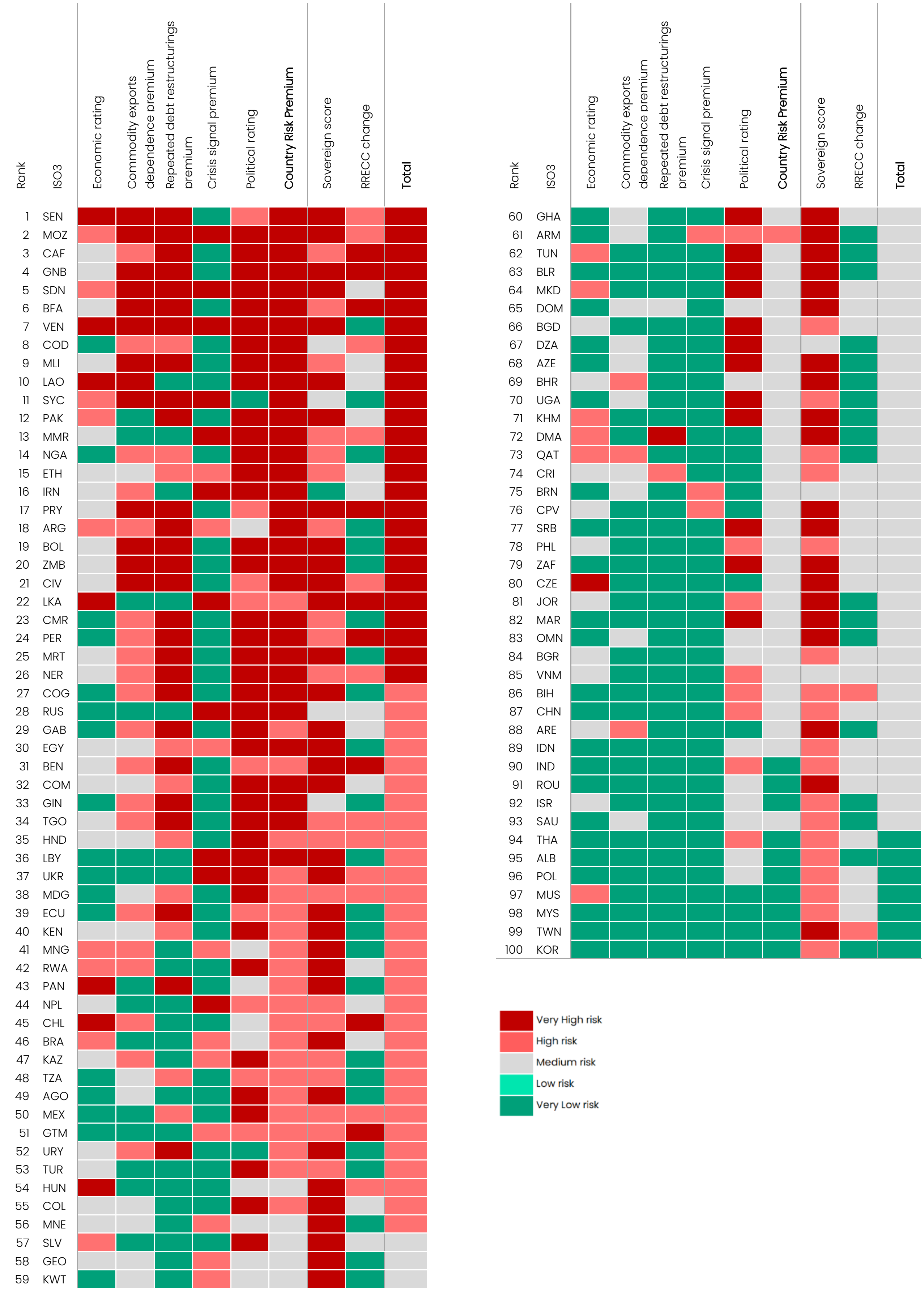
→ In this background, **our broad country-risk metrics have stabilized, though at a rather high level.** After a steady rise since 2021 to almost 600 basis points in 2023Q2, our aggregate country-risk premium for all 100 EM has edged down to 528bps as of June 2024, with a persistently large dispersion across countries. While the largest 10 Key EM seem more resilient, risk metrics are weaker for the smaller EM (50 Smallest) and highly heterogeneous for the mid-range Next 40 group of countries. Sub-Saharan Africa and Latin America have the highest average country-risk premia, while MENA, EM Europe and Asia have much lower average levels of risk.

GDP Growth and Inflation in 10 Key EM
% y/y

	GDP Growth					Inflation				
	2021	2022	2023	**2024**	**2025**	2021	2022	2023	**2024**	**2025**
Brazil	4.8	3.0	2.9	**2.1**	**2.0**	8.3	9.3	4.6	**4.2**	**3.7**
China	8.4	3.0	5.2	**5.0**	**5.1**	0.9	2.0	0.2	**0.8**	**1.8**
India	9.4	6.5	7.7	**7.3**	**6.5**	5.1	6.7	5.7	**4.7**	**4.7**
Indonesia	3.7	5.3	5.0	**5.0**	**4.9**	1.6	4.2	3.7	**3.1**	**3.0**
South Korea	4.3	2.6	1.3	**2.5**	**2.2**	2.4	5.1	3.6	**2.6**	**2.1**
Mexico	6.0	3.7	3.2	**2.1**	**2.2**	5.7	7.9	5.6	**4.5**	**3.8**
Poland	6.8	5.5	0.1	**2.7**	**3.9**	5.2	14.3	11.6	**3.9**	**4.6**
Russia	5.6	-2.1	3.5	**2.6**	**1.5**	6.7	13.8	6.0	**7.1**	**5.1**
South Africa	5.0	1.9	0.7	**1.1**	**1.3**	4.6	6.9	5.9	**5.2**	**4.7**
Turkey	11.4	5.5	4.5	**3.2**	**2.4**	19.4	72.0	53.5	**60.5**	**33.0**
10 Key EM (GDP weighted)	7.6	3.3	4.7	4.5	4.3	3.4	7.0	4.3	4.4	3.8

Source: TAC ECONOMICS DataLab

Heatmap for Risks in EM

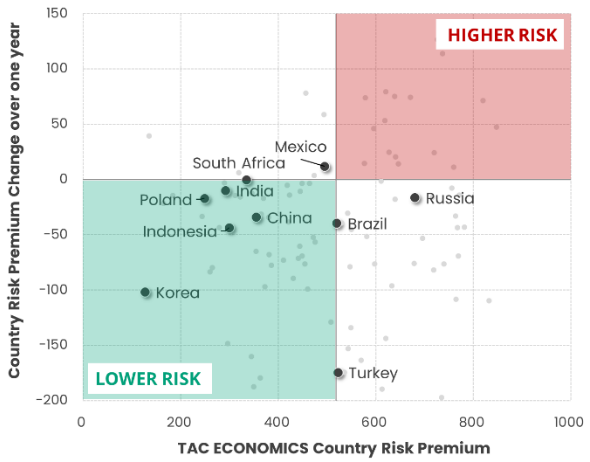


Detailed risk analysis on 10 Key EM

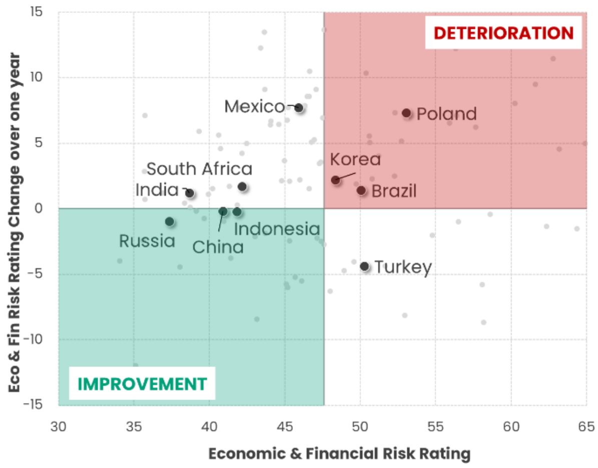
This quarter, the combination of overall Country Risk Premium and Economic & Financial Risk (in level and dynamics) is associated with a synthetic graph decomposing ex-ante vulnerabilities (country risk), potential early warning signals, and the geopolitical index of the Russia War in Ukraine Transmission. These measures are also presented in more details in individual country pages.

The two Exhibits highlight our Country Risk Premium (left side), which assess all-compassing elements of country risk (economic, political, and structural) and its dynamics over one year, along with the Economic & Financial Risk ratings (right side), which cover the network of currency, activity, and cross-border payments risks.

Country Risk Premium level and dynamics
in basis points



Economic & Financial Risk rating level and dynamics
From 0 (lowest risk) to 100 (highest risk)



Source: TAC ECONOMICS

The overall Country Risk Premiums for the **10 Key EM** in June 2024 are favorable. Six countries display relatively low Country Risk Premiums (below 400bps). Meanwhile, three large EM are very closed to the median Premium for 100 EM (at 527bps): **Mexico** due to significant cyclical pressures, **Brazil** exhibits to persistent vulnerability on the exchange rate, and **Turkey**'s economic and financial conditions are still worrisome for (domestic and foreign) investors. Lastly, the overall degree of country risk in massive in **Russia** (680bps) because of very unfavorable political and governance situation, coupled with large economic distortions, as evidenced by the Crisis Signal on Activity.

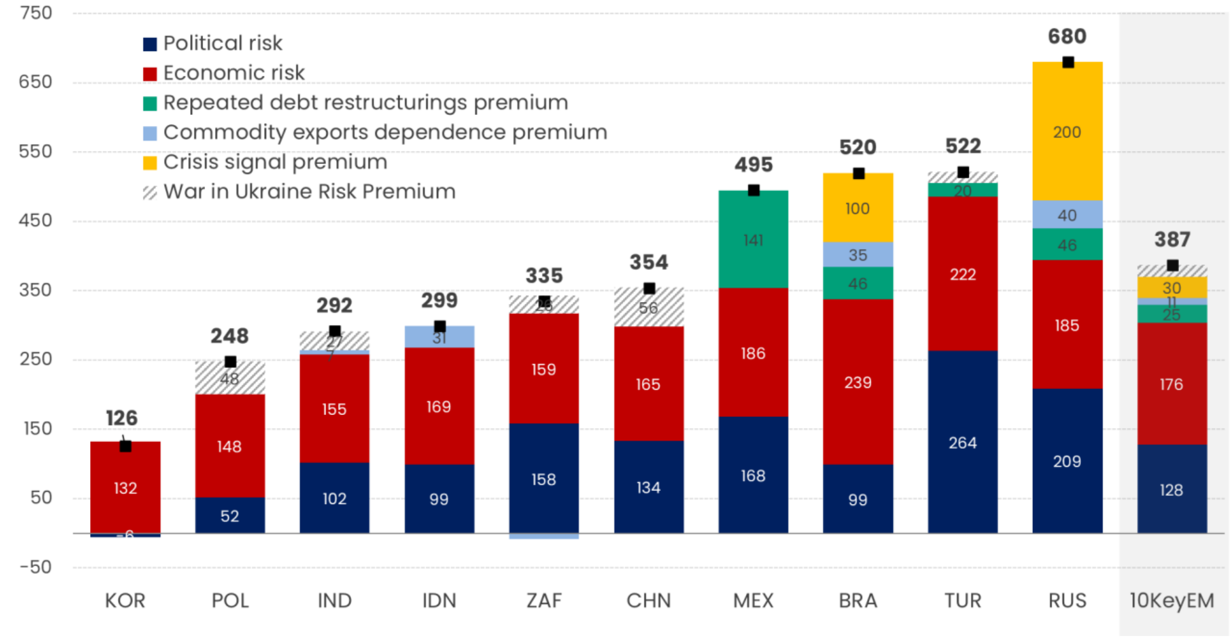
The dynamic of the Country Risk Premium has been relatively positive over the last one year. In particular, the global risk aversion towards EM, measured by an EM forex bonds' spread for sovereign and corporate, reduced by almost 50bps in the last four quarters. Both South Korea and Turkey registered massive decline in their Country Risk Premiums, as the Watch List Indication on Economic Activity in the former was switched off, whereas Turkey's Eco. & Fin. Risk ratings improved significantly (since three quarters) and its extra Risk Premium related to the Russia War in Ukraine reduced. On the opposite, **Mexico**'s Country Risk Premium degraded on account of the surge in Eco. & Fin. Risk ratings.

In parallel, the overall Eco. & Fin. Risk ratings for the **10 Key EM** are relatively favorable in June 2024. Five countries have significantly lower than median ratings (for 100 EM), whereas **Mexico** (45.9) and **South Korea** (48.3) are nearing the median level. Meanwhile, three countries display high Risk ratings: **Turkey**' with still worrisome economic and financial performances, **Brazil** due to persistent vulnerability on the exchange rate, and **Poland** because of very low economic growth and worsening inflation outlook.

When looking at changes over one year ago, Eco. & Fin. Risk ratings improved mildly only in Russia and Turkey, remained unchanged in Indonesia and China. Simultaneously, four EM saw moderate degradation (Brazil, India, South Africa, and South Korea), but four exhibited large deterioration (Mexico and Poland), thus pointing to heightened cyclical difficulties in a complex macro and geopolitical perspective.

The following chart summarizes macroeconomic and political vulnerabilities, as well as persistent geopolitical channel of Transmission of the Russia War in Ukraine. **Russia** and, to a lower extent, **Turkey**, **Brazil** and **Mexico**, continue to exhibit average or poor Country Risk Premium, because of unfavorable structural factors (early warning signals, history of debt defaults/restructuring, and, in the case of Turkey, high political and governance risks). For *lower risk* countries, the economic risk premiums are relatively homogenous, but varied levels of political risk premium and of War in Ukraine geopolitical risk premium influence heavily the overall Country Risk Premiums.

Country Risk Premium by component
in basis points



Source: TAC ECONOMICS

Brazil

Watch List Indication

Overall Risks

- The Country Risk Premium improved for a third consecutive quarter (to 520bps in June 2024) thanks to lower global risk aversion and modest reduction in Eco. & Fin. Risk ratings (50.0-C). The nascent decline in Activity Risk rating (-1.3point since mid-2023) suggests a gradual tapering of short-term cyclical pressures.
- However, the critical combination of our mediocre index of *forex reserves quality* (on the Foreign Exchange Balance), elevated Exchange Rate Risk rating (50.9), and of the persistent Watch List Indication on the exchange rate highlight well the important risks on the currency. Indeed, the significant currency depreciation so far this year has been related to substantial capital outflows. Further heightened currency volatility will remain prevalent in relation to changing global monetary perspectives.
- In parallel, on the Cyclical Balance, the return of our leading index of domestic momentum (*real economic pressure*) at a neutral level suggests a further economic recovery in the coming quarters, while the monetary policy stance remains adequate considering the progressive easing of inflation and real economic growth.

Recent Events & Outlook

- GDP growth rate has been on an upward trajectory since 2023Q3 (+2.0% y/y), reaching +2.5% in 2024Q1. On a quarterly basis, the growth rebound is more notable, with a +0.8% q/q growth in 2024Q1 against a sequential stagnation in 2023Q3 and Q4. Mining activities registered significant expansion (+5.9% y/y), while growth in services (retail, ICT) was favorable on the back of favorable labor market conditions. After a stable growth in 2022 and 2023 (+3.0% y/y), economic outlook for 2024-2025 shows a downward trend to +2.0% y/y because of the impact of elevated real interest rate and effects of massive floods in the South region.
- Inflation increased to +4.2% y/y in June 2024, up from +3.7% in Apr., as food, transportation, and healthcare prices accelerated. Upward pressures on inflation will remain prevalent with pass-through of currency depreciation, expansionary fiscal policy, and persistent rise in services prices due strengthening consumption. The annual inflation rate is expected to decline modestly from +4.6% y/y in 2023, down to +4.2% in 2024 and +3.7% in 2025.
- Exports and imports increased robustly in 2024Q2 (+15% q/q and +12% respectively) thus leading to an expanding surplus in goods trade (to USD 23.7bn against USD 18.7bn in Q1).

Interest Rates & Currency Dynamics

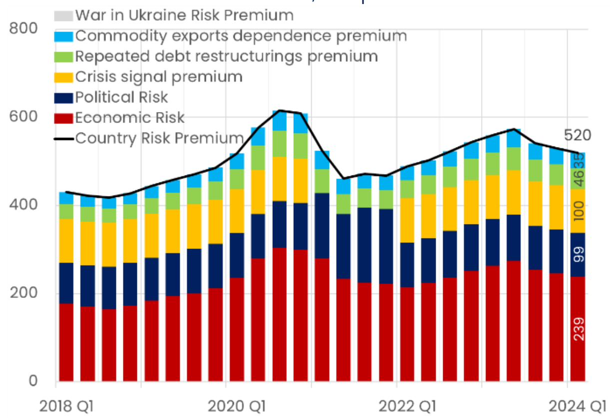
- After slowing down the monetary easing in May (Selic rate: -25bps to 10.5% against six -50bps cuts between Aug. 2023 and March 2024), the Central Bank of Brazil (BCB) decided to keep its interest rate unchanged in June because of the lingering global monetary restrictive environment. Even though inflation outlook remains well anchored in the target range [3.0% ±1.5%] for 2024 and 2025, the latest rebound in domestic inflation, large currency depreciation, and rising fiscal risk caused the BCB to interrupt the easing cycle.
- As the US Dollar strengthened significantly against EM currencies, the Brazilian Real lost 6.7% against USD over the last one month (to USD/BRL 5.5 on June 30). The robust trade performances and expected rate cuts by the US Fed will be insufficient to support the currency in the coming months/quarters because of persistent domestic and external pressures.

Country Risk Premium Components

	Rating	Premium (in bp)
Economic & Financial Risk	50.0 – C	321
Political & Governance Risk	53 – c	99
Crisis Signal	Watch List Indication	100
Country Risk Premium		520
War in Ukraine Risk Premium		*0*

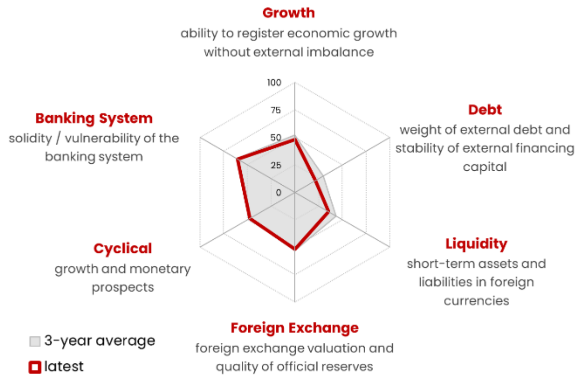
History of Country Risk Premium by components

RRECC, in bp



Scores on the Fundamental Balances

from 0 (lowest risk) to 100 (highest risk)



China

Overall Risks

- Our Country Risk Premium remained stable at a relatively favorable level (354bps), with lingering impact of the Russia War in Ukraine, partly reflecting overall geopolitical tensions in which China is a critical actor.
- The recent pick up in Eco. & Fin. Risk ratings (+1.8 point to 40.9-C in 2024Q1) in the average C-risk category arises from larger degradation in better performing Payment risk rating and shorter-term Risk rating. This convergence across types and horizons of Risk ratings suggests heightened vulnerabilities, at a time of growing economic and financial impact of geostrategic tensions.
- On the Foreign Exchange Balance, the mediocre index of *forex reserves quality*, which reveals a significant role of speculative capital inflows in recent forex reserves accumulation, is combined with an overvalued exchange rate, thus pushing the latest trajectory into an *unsustainable overvaluation* area. Simultaneously, the plunge in our leading index of domestic demand momentum has slowed down in the last quarter, pointing to likely downward pressures on the cyclical outlook in the coming quarters, while the adequate monetary management provides sufficient liquidity expansion.

Recent Events & Outlook

- On an upward trajectory since 2023Q3, GDP growth consolidated to +5.3% y/y in 2024Q1, thanks to better-than-expected household consumption (with stronger dynamics for services than for goods during the Spring Festival), and to a recovery in industrial value added and manufacturing investment. Looking forward, high youth unemployment, still negative trend in real estate market, and high debt level will weigh on household confidence, whereas public policy shall remain supportive of infrastructure growth (green economy, national security), which is more favorable for business operations (Caixin Manufacturing PMI at 51.8 in June, i.e. a three-year high). Overall, GDP growth should closely hover around +5.0% y/y in the coming quarters (+5.1% on average in 2024 and 2025).
- Inflation stabilized at +0.3% y/y in Apr.-May 2024, up from +0.1% in Mar., with higher housing, health, and education prices partially compensated by contracting food prices due to temporary overcapacity in pork meat supply. With progressive increase in goods prices, annual inflation outlook will show an upward trend to +0.8% y/y in 2024 and +1.5% in 2025 (up from +0.2% in 2023).
- Both exports and imports recovered in May 2024 (+7.6% y/y and +1.8% respectively), revealing positive dynamics of external demand, mainly on account of larger commodity imports from Africa and Latin America.

Interest Rates & Currency Dynamics

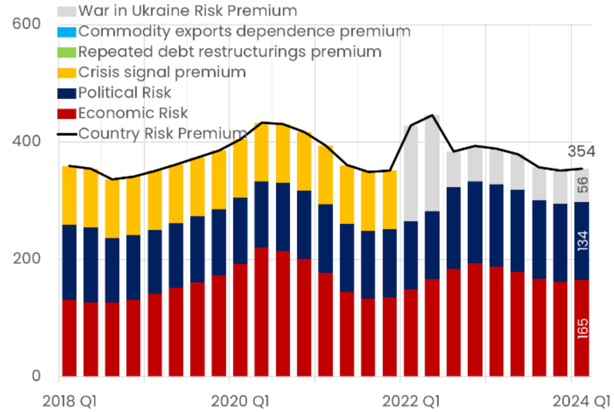
- With persistent stress in real estate, weak confidence, and limited inflationary pressures, the Central Bank is maintained a moderately expansionary monetary policy: reserve requirement ratio reduced by -50bps in Feb. 2024 (to 10%), and 5-Year Loan Prime Rate cut by -25bps. In addition, significant liquidity injections have led to a steady decline in the 3-month Shibor (-25bps since March to 1.90% in June-end). Scope for further easing appears now limited, as US Fed is delaying monetary easing, but monetary and fiscal authorities will certainly act on targeted state control and administrative guidance.
- As anticipated, the USD/CNY exchange rate weakened in the last few months due to stronger US Dollar, to reach USD/CNY 7.27 on June 30 (2.3% depreciation so far in 2024). Pressures on the currency will persist in the short-term before reversing into the USD/CNY 6.95-7.25 range with recovering portfolio inflows up to mid-2025.

Country Risk Premium Components

	Rating	Premium (in bp)
Economic & Financial Risk	40.9 – C	165
Political & Governance Risk	55 – c	134
Crisis Signal	-	0
Country Risk Premium		298
War in Ukraine Risk Premium		*+56*

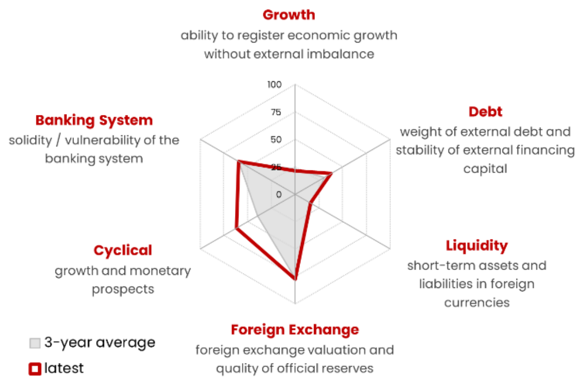
History of Country Risk Premium by components

RRECC, in bp



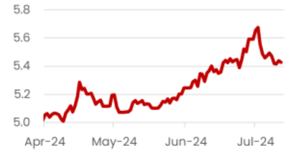
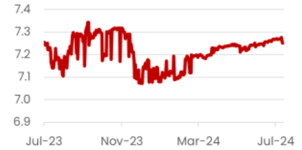
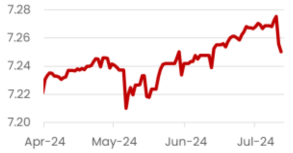
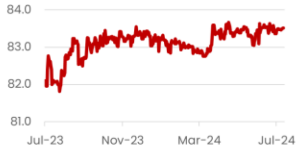
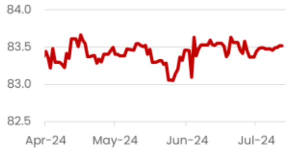
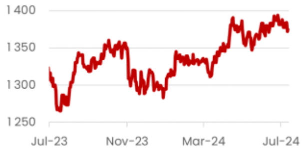
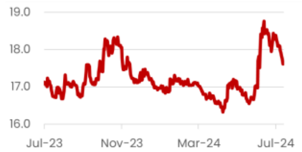
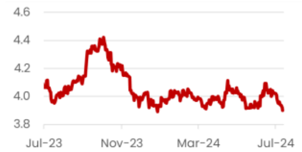
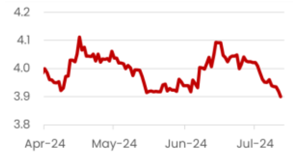
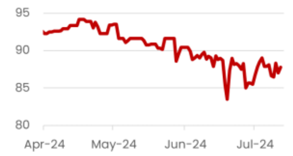
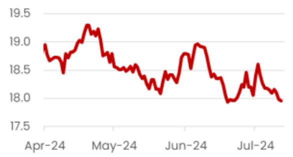
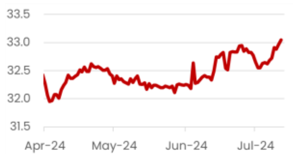
Scores on the Fundamental Balances

from 0 (lowest risk) to 100 (highest risk)

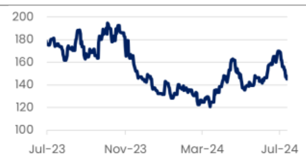
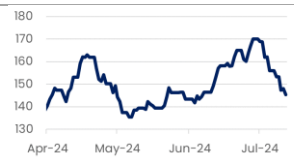
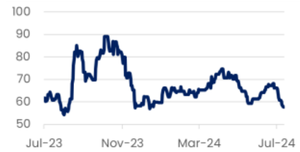
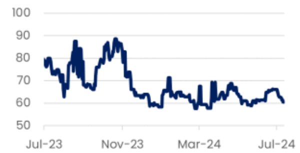
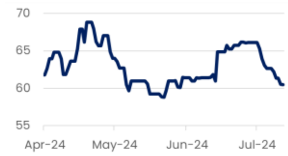
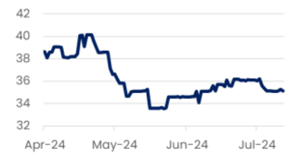
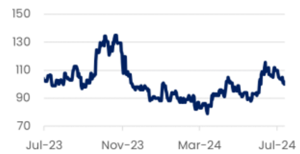
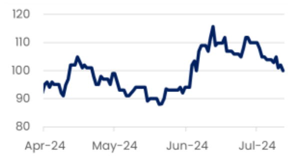
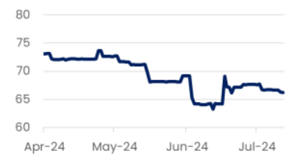
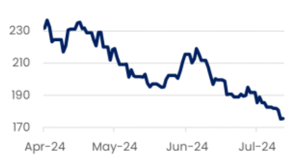
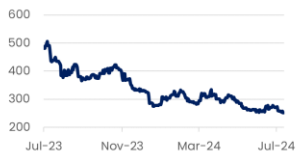
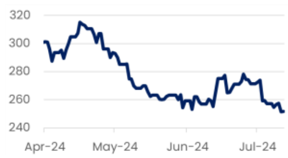


Reference Financial Data Chart Pack

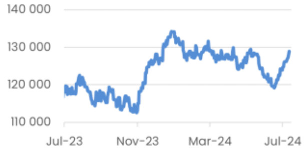
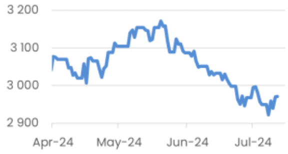
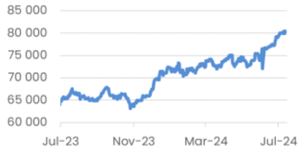
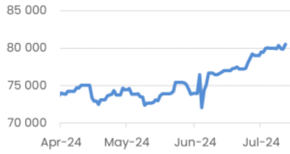
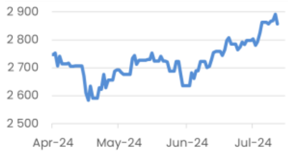
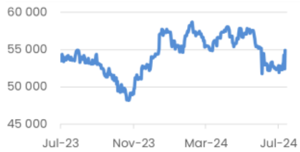
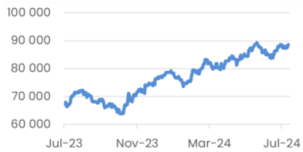
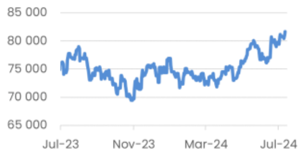
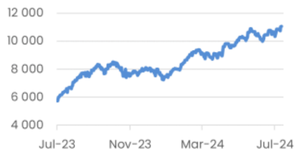
Nominal Exchange Rate against USD

	Jul. 12, 2024	1-year History		3-month History	
Brazil	5.43		-11.3%		-5.7%
China	7.25		-1.2%		-0.2%
India	83.5		-1.8%		+0.1%
Indonesia	16 115		-7.3%		0.0%
Korea	1 375		-7.3%		+0.4%
Mexico	17.6		-4.1%		-5.5%
Poland	3.90		+2.1%		+3.3%
Russia	87.8		+3.1%		+6.3%
South Africa	18.0		+1.0%		+4.8%
Turkey	33.1		-20.7%		-2.1%

5-year Credit Default Swap

	Jul. 12, 2024	1-year History		3-month History	
Brazil	145		-33		-8
China	58		-5		-13
India	45		-21		-2
Indonesia	60		-16		-3
Korea	35		+3		-3
Mexico	100		-3		-2
Poland	66		-5		-6
South Africa	176		-57		-56
Turkey	252		-185		-53

Equity Index

	Jul. 12, 2024	1-year History		3-month History	
Brazil BOVESPA	128 897		+9.5%		+1.2%
China SSE	2 971		-7.0%		-1.6%
India SENSEX	80 519		+23.1%		+7.3%
Indonesia JSE	514		-7.6%		-4.1%
Korea KOSPI	2 857		+11.0%		+5.5%
Mexico BOLSA	54 953		+1.8%		-3.3%
Poland WIG	88 694		+27.3%		+6.2%
South Africa JSE AS	81 687		+6.7%		+8.5%
Turkey BIST 100	11 065		+74.5%		+12.7%

Appendix: list of countries with ISO codes

(with corresponding region and size's group)

ISO3	Country	size group	region
ALB	Albania	50 Smallest	Europe
DZA	Algeria	Next 40	MENA
AGO	Angola	Next 40	Sub-saharan Africa
ARG	Argentina	Next 40	Latin America
ARM	Armenia	50 Smallest	Europe
AZE	Azerbaijan	50 Smallest	Asia
BHR	Bahrain	50 Smallest	MENA
BGD	Bangladesh	Next 40	Asia
BLR	Belarus	50 Smallest	Europe
BEN	Benin	50 Smallest	Sub-saharan Africa
BOL	Bolivia	50 Smallest	Latin America
BIH	Bosnia Herz.	50 Smallest	Europe
BRA	Brazil	10 Key EM	Latin America
BRN	Brunei	50 Smallest	Asia
BGR	Bulgaria	50 Smallest	Europe
BFA	Burkina Faso	50 Smallest	Sub-saharan Africa
CPV	Cabo Verde	50 Smallest	Sub-saharan Africa
KHM	Cambodia	50 Smallest	Asia
CMR	Cameroon	50 Smallest	Sub-saharan Africa
CAF	Centr. Afr. Rep.	50 Smallest	Sub-saharan Africa
CHL	Chile	Next 40	Latin America
CHN	China	10 Key EM	Asia
COL	Colombia	Next 40	Latin America
COM	Comoros	50 Smallest	Sub-saharan Africa
COG	Congo	50 Smallest	Sub-saharan Africa
COD	Congo DR.	50 Smallest	Sub-saharan Africa
CRI	Costa Rica	Next 40	Latin America
CZE	Czech Rep.	Next 40	Europe
DMA	Dominica	50 Smallest	Latin America
DOM	Dominican Rep.	Next 40	Latin America
ECU	Ecuador	Next 40	Latin America
EGY	Egypt	Next 40	MENA
SLV	El Salvador	50 Smallest	Latin America
ETH	Ethiopia	Next 40	Sub-saharan Africa
GAB	Gabon	50 Smallest	Sub-saharan Africa
GEO	Georgia	50 Smallest	Asia
GHA	Ghana	50 Smallest	Sub-saharan Africa
GTM	Guatemala	Next 40	Latin America
GIN	Guinea	50 Smallest	Sub-saharan Africa
GNB	Guinea Bissau	50 Smallest	Sub-saharan Africa
HND	Honduras	50 Smallest	Latin America
HUN	Hungary	Next 40	Europe
IND	India	10 Key EM	Asia
IDN	Indonesia	10 Key EM	Asia
IRN	Iran	Next 40	MENA
ISR	Israel	Next 40	MENA
CIV	Ivory Coast	50 Smallest	Sub-saharan Africa
JOR	Jordan	50 Smallest	MENA
KAZ	Kazakhstan	Next 40	Asia
KEN	Kenya	Next 40	Sub-saharan Africa

ISO3	Country	size group	region
KOR	Korea	10 Key EM	Asia
KWT	Kuwait	Next 40	MENA
LAO	Laos	50 Smallest	Asia
LBY	Libya	50 Smallest	MENA
MKD	Macedonia	50 Smallest	Europe
MDG	Madagascar	50 Smallest	Sub-saharan Africa
MYS	Malaysia	Next 40	Asia
MLI	Mali	50 Smallest	Sub-saharan Africa
MRT	Mauritania	50 Smallest	Sub-saharan Africa
MUS	Mauritius	50 Smallest	Sub-saharan Africa
MEX	Mexico	10 Key EM	Latin America
MNG	Mongolia	50 Smallest	Asia
MNE	Montenegro	50 Smallest	Europe
MAR	Morocco	Next 40	MENA
MOZ	Mozambique	50 Smallest	Sub-saharan Africa
MMR	Myanmar	Next 40	Asia
NPL	Nepal	50 Smallest	Asia
NER	Niger	50 Smallest	Sub-saharan Africa
NGA	Nigeria	Next 40	Sub-saharan Africa
OMN	Oman	Next 40	MENA
PAK	Pakistan	Next 40	Asia
PAN	Panama	Next 40	Latin America
PRY	Paraguay	50 Smallest	Latin America
PER	Peru	Next 40	Latin America
PHL	Philippines	Next 40	Asia
POL	Poland	10 Key EM	Europe
QAT	Qatar	Next 40	MENA
ROU	Romania	Next 40	Europe
RUS	Russia	10 Key EM	Europe
RWA	Rwanda	50 Smallest	Sub-saharan Africa
SAU	Saudi Arabia	Next 40	MENA
SEN	Senegal	50 Smallest	Sub-saharan Africa
SRB	Serbia	50 Smallest	Europe
SYC	Seychelles	50 Smallest	Sub-saharan Africa
ZAF	South Africa	10 Key EM	Sub-saharan Africa
LKA	Sri Lanka	Next 40	Asia
SDN	Sudan	Next 40	Sub-saharan Africa
TWN	Taiwan	Next 40	Asia
TZA	Tanzania	50 Smallest	Sub-saharan Africa
THA	Thailand	Next 40	Asia
TGO	Togo	50 Smallest	Sub-saharan Africa
TUN	Tunisia	50 Smallest	MENA
TUR	Turkey	10 Key EM	Europe
ARE	U.A.E.	Next 40	MENA
UGA	Uganda	50 Smallest	Sub-saharan Africa
UKR	Ukraine	Next 40	Europe
URY	Uruguay	Next 40	Latin America
VEN	Venezuela	Next 40	Latin America
VNM	Vietnam	Next 40	Asia
ZMB	Zambia	50 Smallest	Sub-saharan Africa

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