TAC ECONOMICS

Emerging Markets

Country Risk Analytics

Quarterly – 2025Q3

TAC ECONOMICS

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Global Views on Emerging Markets

Executive Summary

- **The global economic context remains challenging for Emerging Markets** (EM), shaped by persistent structural headwinds. Geopolitical tensions and rising conflict risks are intensifying, while an oversupplied oil market is weighing on energy prices and weakening the external balances of oil-exporting economies. At the same time, global trade is becoming more restrictive, with US tariffs now structurally anchored at a minimum of 10%.

- **Policy support in EM will remain limited in the short term.** Fiscal space is constrained, as countries are under pressure to reduce their primary deficits amid rising interest costs. On the monetary side, while rate cuts are gradually being implemented, central banks remain cautious. The scope for easing will largely depend on the stabilization of global food prices.

- **Growth drivers are losing momentum.** External demand is negatively affected by ongoing US tariff measures, while investment remains subdued due to the lagged impact of tight monetary policy and declining business confidence. Household consumption should hold up moderately, supported by easing inflationary pressures, thus providing a limited cushion for domestic demand.

- **EM growth will moderate over the next quarters amid rising cyclical pressures.** Average GDP growth across a sample of 10 key EMs is expected to slow from 4.5% in 2024 to 3.9% in 2025, and 3.7% in 2026. A gradual recovery is anticipated from mid-2026 as monetary policy becomes more accommodative. Growth will decelerate sharply in 2025 in Mexico (near-recession), South Korea, and Turkey, while stabilizing at weak levels in China and Indonesia. Conversely, growth in Poland and India is expected to peak in 2025 before softening slightly in 2026.
- **EM financial resilience remains a relative strength.** Several currencies retain appreciation potential, underpinned by a weaker US dollar (linked to domestic vulnerabilities), a sustained growth premium, and stable interest rate differentials with developed economies. Moreover, improving country risk metrics signal enhanced macro-financial buffers and support selective investor interest in EM assets.

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TAC ECONOMICS GDP Growth and Inflation Projections in 10 Key EM
%

	GDP Growth				Inflation			
	2023	2024	2025	2026	2023	2024	2025	2026
Brazil	3.2	3.4	2.2	1.7	4.6	4.5	5.3	4.5
China	5.4	4.9	4.4	4.4	0.3	0.3	0.1	0.7
India	8.8	6.7	7.5	5.4	5.7	4.9	3.5	4.6
Indonesia	5.0	5.0	4.8	4.7	3.7	2.3	1.9	2.7
South Korea	1.6	20	0.9	2.1	3.6	2.4	2.0	1.7
Mexico	3.4	1.2	0.0	0.8	5.6	4.8	3.9	3.8
Poland	0.1	2.9	3.4	3.0	11.6	3.7	3.7	2.8
Russia	4.1	4.3	1.2	1.2	6.0	8.4	9.4	6.4
South Africa	0.8	0.5	1.1	1.2	5.9	4.4	3.4	4.2
Turkey	5.1	3.2	2.5	3.3	53.5	60.0	35.3	23.4
10 Key EM (GDP weighted)	5.0	4.5	3.9	3.7	4.5	4.4	3.3	3.0

Source: TAC ECONOMICS DataLab

China

Overall Risks

- The Country Risk Premium decreased modestly in the last quarter (to 340bps) as the ongoing reduction in global risk aversion towards EM has more than offset the significant deterioration in Eco. & Fin. Risk ratings since 2023-end. Short-term (< 1 year) Risk ratings worsened the most in recent quarters (+10 points to 49.9-C), auguring heightened cyclical and financial pressures in the coming quarters.
- The robust position into the *low risk* area of the Liquidity Balance (forex reserves covering more than 17 months of imports) is associated with a favorable upturn of the *forex reserves quality* index on the Foreign Exchange Balance. In fact, the accumulated forex reserves at the Central Bank jumped in 2025Q1 (by USD +74bn to USD 3.33tn) owing to the quarterly higher trade surplus (USD 273bn in 2025Q1 against USD 183bn in 2024Q1). However, China remains into the *unsustainable overvaluation*, reflecting heightened pressures on the currency's valuation.
- Lastly, the leading indicator of domestic demand momentum (*real economic pressure* on the Cyclical Balance) revived further in the last quarter, although still at an unfavorable level that suggests downward cyclical pressures in the near term.

Recent Events & Outlook

- GDP growth remained stable at +5.4% y/y in 2025Q1, unchanged from the previous quarter, as government policies supported consumption of durable goods. In addition, the recovery in Manufacturing PMI (to 50.4 in June from 48.3 in May) is underpinned by improved domestic conditions (trade and new orders), while external demand remained muted in line with raised US tariffs. GDP growth is projected to slowdown in the second half of 2025 (to about +4.0% y/y) in the face of global challenges, before gradually rebounding in 2026. Overall, the V-shape profile in activity will lead annual GDP growth rates to remain +4.4% in 2025 and 2026.
- Disinflation remained stable over the last three months (-0.1% y/y from March to May 2025), driven by weak employment metrics, moderation in domestic demand, and persistent pressures on the property market. Indeed, consumer confidence and spendings have been further dampened by the continued downgrade in property prices. Inflation shall remain low in 2025 (+0.1%) before a narrow raise in 2026 (+0.7%).

Interest Rates & Currency Dynamics

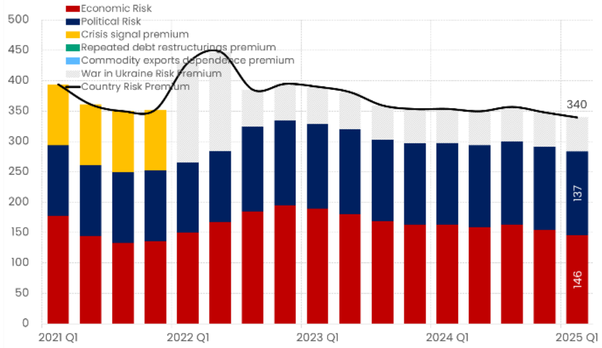
- In 2025Q2, the Central Bank (PBoC) announced a package of monetary easing measures to support domestic demand and offset external trade pressures. The central bank cut its 7-day reverse repo rate by 10 bp to 1.4% and lowered the required reserve ratio (RRR) by 50bp to 9.0%, injecting up to RMB 1tn in domestic liquidity.
- After reaching a low point in early-April (to USD/CNT 7.35) due to escalating trade tensions with the US, the Chinese Yuan reappreciated against the US Dollar since then (to USD/CNY 7.1 in early July). This modest currency strengthening reflects the positive impact of tariffs bilateral reprieve and of policy stimulus to prevent further cyclical disruptions. Additionally, a crackdown on illegal crypto trade may have resulted in increased stability in capital flows, further supporting the currency's appreciation.

Country Risk Premium Components

	Rating	Premium (in bp)
Economic & Financial Risk	48.1 – C	146
Political & Governance Risk	55 – c	137
Crisis Signal	-	0
Country Risk Premium		283
War in Ukraine Risk Premium		*+56*

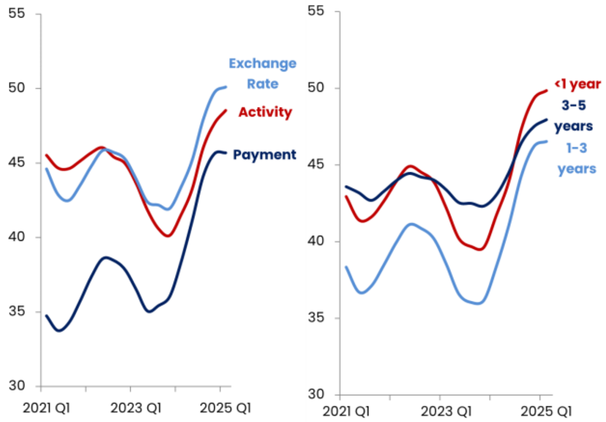
History of Country Risk Premium by component

RRECC, in basis point



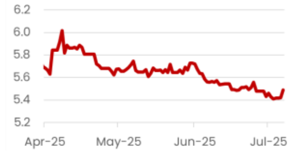
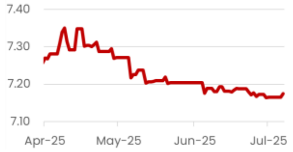
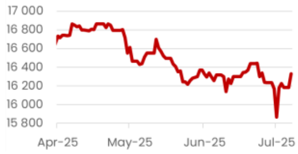
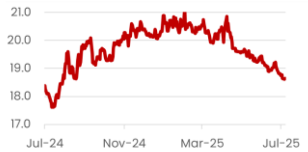
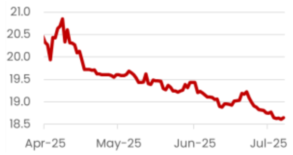
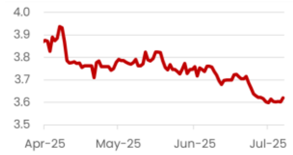
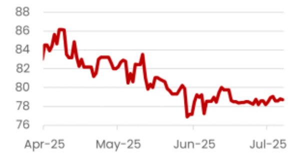
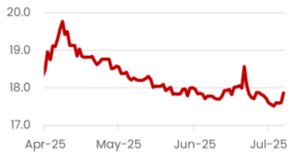
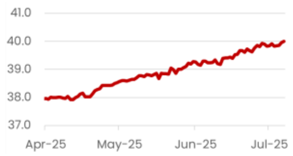
Economic & Financial Risk Rating by type and horizon

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

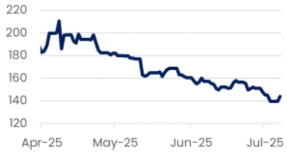
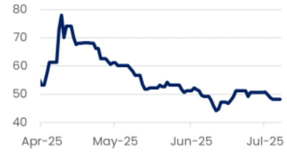
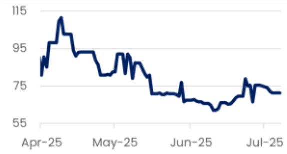
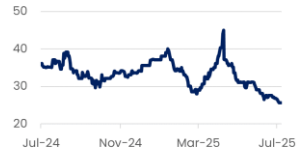
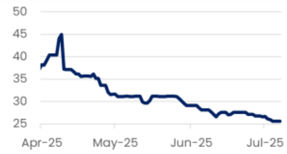
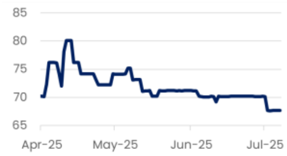
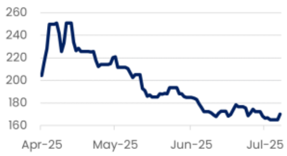
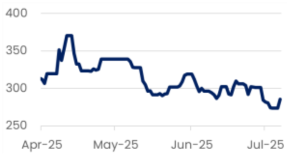


Reference Financial Data Chart Pack

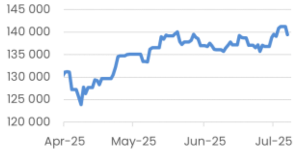
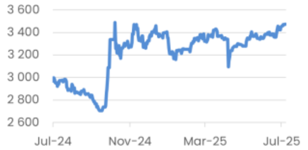
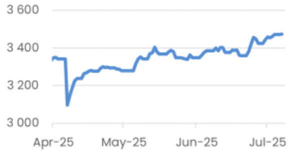
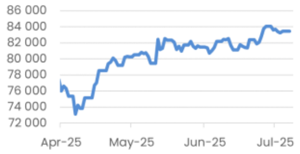
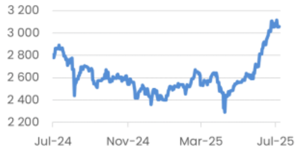
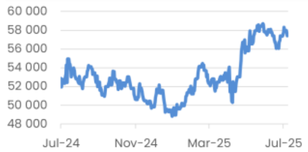
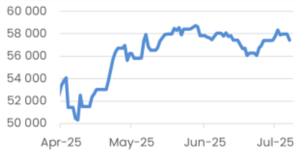
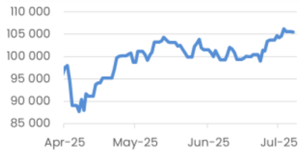
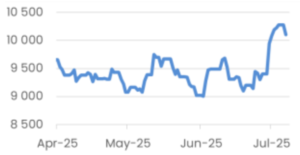
Nominal Exchange Rate against USD

	Jul. 7, 2025	1-year History		3-month History	
Brazil	5.49		+0.1%		+7.8%
China	7.17		+1.3%		+1.9%
India	85.9		-2.8%		+0.2%
Indonesia	16 331		-0.5%		+3.3%
Korea	1 376		+0.1%		+6.9%
Mexico	18.6		-3.0%		+11.0%
Poland	3.62		+9.4%		+8.7%
Russia	78.7		+12.0%		+9.5%
South Africa	17.9		+1.6%		+9.6%
Turkey	40.0		-18.3%		-5.0%

5-year Credit Default Swap

	Jul. 7, 2025	1-year History		3-month History	
Brazil	144		-12		-56
China	48		-13		-13
India	51		+6		-6
Indonesia	71		+9		-27
Korea	26		-10		-15
Mexico	104		0.0		-49
Poland	68		+1		+7
South Africa	170		-13		-8
Turkey	286		+28		-3

Equity Index

	Jul. 7, 2025	1-year History		3-month History	
Brazil BOVESPA	139 490		+10.5%		+11.1%
China SSE	3 473		+17.7%		+12.2%
India SENSEX	83 443		+4.3%		+14.1%
Indonesia JSE	493		-3.4%		+19.8%
Korea KOSPI	3 059		+6.9%		+31.4%
Mexico BOLSA	57 423		+9.7%		+13.8%
Poland WIG	105 479		+20.8%		+20.2%
South Africa JSE AS	97 363		+20.5%		+18.5%
Turkey BIST 100	10 108		-6.9%		+7.4%

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