S&P Global Ratings

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Emerging Markets Risk Monitor:

Fed Saved The Day, Or Did It?

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Key Takeaways

- Overall: Fed's more dovish stance is supporting capital flows to emerging markets, easing financing conditions, and alleviating pressure on currencies. Nevertheless, risks loom after the fragile truce between U.S. and China is now tumbling and trade tensions are escalating again; moreover, macroeconomic conditions are weakening across key emerging-market economies.
- Key risks: Risks prevail, and are not to be underestimated**.** The threat of heightened U.S. protectionist measures, weaker economic data in developed countries, and geopolitical tensions weigh on growth prospects in emerging-market economies**.**
- Financing conditions: Financing conditions have eased for now, thanks to the response of the Fed and ECB to a weakening growth and inflation outlook, and both central banks are poised to remain highly accommodative this year and next. Nevertheless, investors' appetite for emerging-market risk is increasingly contingent on further monetary easing. Rising risks to global growth amid trade disputes and geopolitical tensions have prompted moves of both central banks. With so many pressure points and mutually reinforcing factors, investor sentiment toward riskier assets is set to be fragile.
- Macroeconomic conditions: Macroeconomic conditions remain soft and outlooks have weakened across key emerging-market economies. External and domestic risks persist, and some of risks to growth that we have previously identified have started to migrate into our baseline.
- Sector themes:

  Sovereigns: Overall, we remain constructive on emerging markets' sovereign fundamentals, though within such a broad asset class, there are many highs and lows. Outside of Asia and Eastern Europe, growth performance has been underwhelming. China remains a key reference point for the asset class.

  Corporations: Trade tensions, slower global economic growth, and commodity price volatility could undermine corporations' profits. External--and in some cases domestic--policy uncertainty is weighing on confidence and investment.

  Financial institutions: Volatility could resurface and sour financial conditions for banks in emerging markets, as trade, GDP growth, and political risks mount. However, the Fed and ECB policy should be supportive of capital flows in the near term. Geopolitical risks have risen and economic sanctions continue hurting a number of banking sectors and limiting their access to external capital markets.

Table 1

Top Emerging Markets Risks

Disruption in global trade flows stemming from U.S protectionism

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

The U.S.–China trade negotiations remain fluid and the outcome remains uncertain. Promising signs flickered after the G20 meetings; however, the fragile truce is now tumbling, trade tensions are again escalating and new tariffs loom. Moreover, a potential agreement between the U.S. and China depends on many factors that transcend purely economic interests. For China, the key risk is that the combined effects of investment restrictions, export controls, and tariffs will rewire supply chains to competitors and weaken manufacturing investment, particularly in the technology sectors that are crucial for the country's economic growth.

After President Trump's threat to impose tariffs on Mexican exports was defused, the U.S., Mexico, and Canada Agreement (USMCA) should be moving forward. Mexico's Congress already approved the agreement as it stands, and Canada is waiting for the U.S. to do the same. However, the Democratic Party in the U.S. still has concerns about Mexico's labor laws, along with environmental and intellectual property factors. Other trade disputes, such as the possibility that the U.S. imposes tariffs on EU auto exports, shouldn't be discounted, and would indirectly affect European auto supply chains in Eastern Europe and Latin America.

Volatile capital flows, fickle financing conditions, and currency pressures

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

Market volatility is likely to return in the second half of the year as negative developments erode investor confidence, and market valuations correct closer to historical levels. Continued trade tensions between the U.S. and China will probably weigh on global GDP growth prospects. Furthermore, U.S. late cycle signals are strengthening and are reflected in an inverted yield curve in that country--such a scenario has preceded recessions in the past. While a U.S. recession is not in our base case, we expect slower growth for this economy next year. In our view, adverse news about global conditions could result in the return of investor pessimism and volatile capital flows. A combination of adverse developments and heightened concern over developing risks could strengthen the dollar, pressuring emerging-market currencies.

Geopolitical tensions and policy uncertainty

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

Domestic policies remain in flux in many emerging markets, as new governments and policies transition into place. The electoral calendar for 2019 is as busy as in 2018.

In the Middle East, geopolitical tension have risen because of tighter U.S. sanctions on Iran and accusations of retaliation against GCC-based infrastructure and shipping vessels. Our base-case scenario excludes direct military conflict between the U.S. and Iran or their regional allies. Furthermore, we expect the Strait of Hormuz to remain open. But a miscalculation could raise the risk of conflict.

Several emerging market governments are already subject to, or presently vulnerable, to U.S. sanctions that limit or close their access to U.S. financial markets (Russia, Iran, Turkey, Venezuela, etc.).

Commodity price volatility

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

We expect commodity price volatility to continue due to mixed signals. In 2020, slower global growth especially in the U.S. and China will most likely pressure commodity prices. At the same time, a spike in geopolitical risks or a partial or full closure of the Strait of Hormuz could boost oil prices. Many emerging countries depend on commodity-driven revenues, especially from oil and metals. Therefore, falling prices would weaken economic growth. For those who benefit from low fuel prices, if these are driven by slower global growth, then the effect will not be positive.

Sources: S&P Global Ratings.

* Risk levels may be classified as very low, moderate, elevated, high, or very high, and 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 on whether the risk level could increase or decrease over the next twelve months.

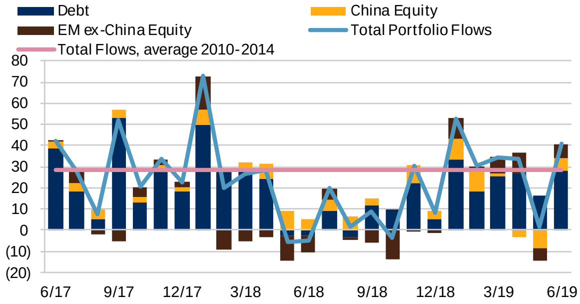
Emerging Markets Key Risks: Fed's A Lifesaver

What's changed?

Fed's shift towards a looser monetary policy is supporting capital flows to emerging markets, easing financing conditions and limiting the dollar's appreciation, which is benefiting the emerging-market currencies. However, considerable risks still loom. The threat of heightened U.S. protectionism, weaker economic data in developed countries, and geopolitical tensions are limiting growth prospects for emerging-market economies. In our view, continued tensions between the U.S. and China, increasing geopolitical frictions in the Middle East, and weakening global economic growth could raise investor concerns over the emerging-market asset class. Fluid conditions could return volatility to capital markets, which for many emerging markets are already at arguably stretched valuations. As we went to press, Bloomberg Barclays EM Local Currency Government TR Index had hit its highest level since just before the emerging market selloff in April, 2018. There is, moreover, a case to be made that the benefits of easier monetary policy are likely to be offset by worsening trends in global trade and growth, and their resulting impact on emerging markets. This is particularly the case because investors' appetite for emerging-market assets seems to be more and more reliant on the expectation of constant monetary stimulus than in the past.

Chart 1

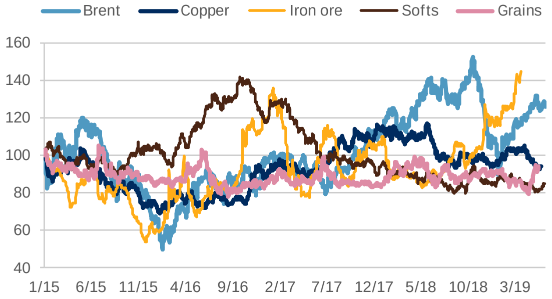
Portfolio Flows To Emerging Markets Have Recovered, Volatility Looms



Source: IIF, S&P Global Calculations

Chart 2

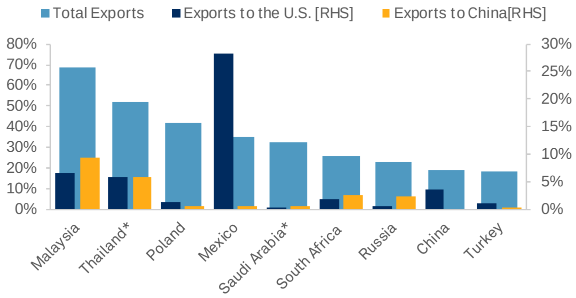
Commodity Prices Remain Supportive, But Exposure To Mixed Conditions Remains



Source: Bloomberg

Chart 3

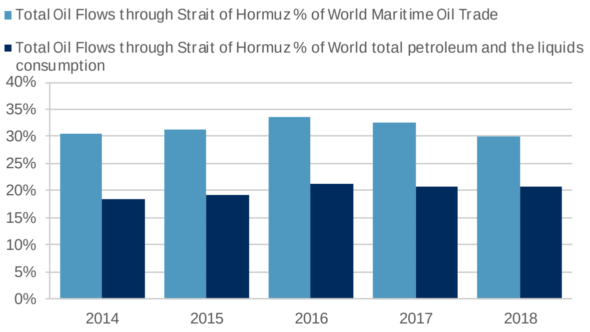
Emerging Markets' Share Of Exports To China And The U.S. (% Of GDP)



Source: World Bank, IIF, S&P Global Calculations, data as of 2017; *-2016

Chart 4

Relevance Of The Strait Of Hormuz For Global Oil Trade



Source: U.S. Energy Information Administration, Platts

Emerging Markets Risk Profile – A Mixed Bag

Our emerging markets risk profile aims to measure a country's risk exposure to weakening external and/or internal conditions by assessing the relative strength of its sovereign fundamentals, its financial system, and the corporate sector. To achieve this, we combine our analysis on sovereign ratings, our Bank Industry Country Risk Assessment (BICRA; the scores for which run from '1' [the lowest risk] to '10' [the highest]), and a selection of key indicators from the country's corporate sector (based on median ratio for rated entities).

Emerging Markets Risk Profile

	Argentina	Brazil	Colombia	Mexico	China	India	Indonesia	Malaysia	Thailand	Poland	Russia	Saudi Arabia	South Africa	Turkey
Sovereign Rating (July 2, '19)	B	BB-	BBB-	BBB+	A+	BBB-	BBB	A-	BBB+	A-	BBB-	A-	BB	B+
Sovereign Outlook	Stable	Stable	Stable	Negative	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Institutional Asmt.	5	4	3	3	3	3	3	3	4	4	5	4	4	5
Economic	5	5	4	4	4	4	4	4	4	4	5	4	5	4
External	6	3	5	2	1	2	3	2	1	2	1	1	4	6
Fiscal (BDGT)	6	6	3	4	3	6	3	3	3	3	3	4	5	4
Fiscal (DBT)	5	6	4	3	2	6	2	4	2	2	1	1	5	3
Monetary	5	3	3	3	3	3	3	2	3	2	3	4	2	4
Financial Institutions (June 27, '19)														
Economic risk	9	7	7	5	7	6	6	5	7	4	8	5	6	8
Industry risk	7	5	5	3	5	5	6	3	4	5	8	3	5	9
Institutional framework	High	Intermediate	High	Intermediate	High	High	High	Intermediate	Intermediate	Intermediate	Very high	Low	Intermediate	Very high
Derived Anchor	*b+*	*bb+*	*bb+*	*bbb*	*bb+*	*bbb-*	*bb+*	*bbb*	*bb+*	*bbb*	*bb-*	*bbb*	*bbb-*	*b+*
Eco. risk trend	*Stable*	*Stable*	*Stable*	*Negative*	*Stable*	*Stable*	*Stable*	*Stable*	*Stable*	*Stable*	*Stable*	*Stable*	*Negative*	*Negative*
Economic Imb	VH	H	H	Lw	H	Lw	Lw	Lw	Int	Lw	H	Int	Lw	VH
Credit risk	H	H	H	H	VH	VH	VH	H	VH	Int	VH	Int	H	VH
Competitive dynamics	H	H	Int	Int	H	H	H	Int	H	H	H	Int	Int	H
Funding	VH	Int	Int	Lw	VLw	Lw	Int	Lw	Lw	Int	VH	Lw	H	EH
Non Financial Corporates (Rated)														
Median rating	*B*	*BB-*	*BBB-*	*BB+*	*BBB-*	*BBB-*	*BB-*	*A-*	*BBB+*	*BB*	*BB+*	*A-*	*BB+*	*BB-*
Net debt/ EBITDA	2.2	3.0	2.9	2.6	3.6	2.0	3.5	2.1	2.2	3.0	1.9	1.8	2.5	2.5
ROC Adj.°	-3.3	9.0	14.8	5.3	7.7	2.6	7.1	12.9	12.1	6.9	14.5	9.2	6.7	17.8
EBITDA INT. COV.	5.3	4.1	7.1	4.1	4.9	4.2	3.9	8.1	11.5	5.4	6.3	13.0	4.8	5.2
FFO/DEBT	32.4	24.7	23.9	23.7	16.4	15.1	15.9	38.2	35.9	24.3	40.2	28.0	28.6	33.7
NFC FC Debt % GDP*	12.6	15.8	11.7	18.7	7.1	7.7	10.7	17.9	11.6	14.6	14.7	7.9	17.2	41.1
NFC Debt % GDP*	16.6	41.6	35.0	26.3	155.6	46.1	23	47.9	47.9	45.7	44.6	42.8	39.2	70.4

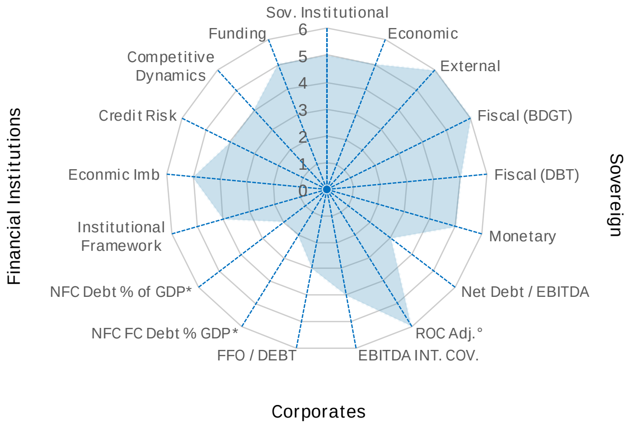
Sovereign--Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). Based on Sovereign Rating Methodology, Dec. 23, 2014.
Financial Institutions BICRA--The overall assessment of economic risk and industry risk, which ultimately leads to the classification of banking 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 to "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. We use a six scale in line with Table 17, with levels that go form minimal to highly leveraged. ° - We assess return on capital by using the median of our rated corporates in their respective country, then we adjusted by 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 2019.
Source: S&P Global Ratings.

Our radar charts in the next section present a multidimensional analysis for each country we follow in this report. Our scope includes the relative strengths of sovereign fundamentals, financial system, and corporates. We score risks on a scale from '1' (lower) to '6' (higher). A larger shadow means there's higher risk for the respective factor. Smaller shadows suggest stronger fundamentals. Uneven shadows mean that there could be more risks in a particular factor or sector within a country.

Argentina	B/Stable/B	BICRA Group: 8	Corporations' Median Rating: B

We view Argentina as vulnerable mainly because of its fragile fiscal position, very limited monetary flexibility, and heavy reliance on external financing. Argentina is holding presidential election in October, which adds policy uncertainty to its already difficult economic conditions. We expect another GDP contraction in 2019. In our view, Argentina's financial system won't exacerbate economic gloom, but it won't diminish it either. The lack of macroeconomic stability in Argentina results in a small banking system with limited lending capacity. Furthermore, under current conditions, we expect asset quality to suffer. Still, banks will be able to weather economic woes thanks to their strong capitalization and adequate profits. Funding, on the other hand, could turn volatile if conditions deteriorate further. Although Argentinian banks don't rely on external funding, bank deposits have proven to be volatile in the past. Corporations in Argentina show a fairly low and manageable leverage, but weak economy, high interest rates, and the companies' dependence on external funding makes them vulnerable to weakening conditions.

ARGENTINA

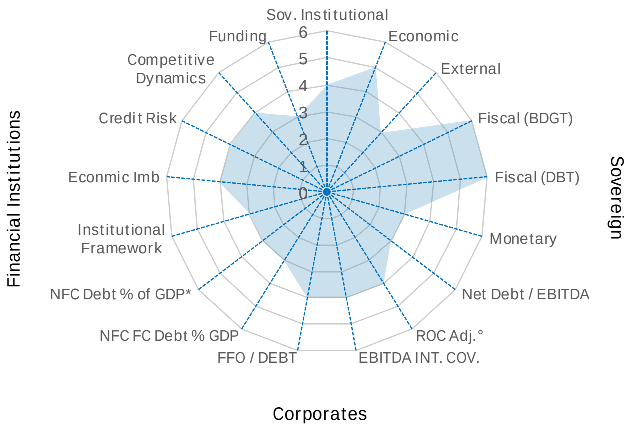


Source: S&P Global Ratings

Brazil	BB-/Stable/B	BICRA Group: 6	Corporations' Median Rating: BB-

After two years in recession, Brazil's economy is gradually recovering. Risks remain given that the country needs to implement considerable reforms to address its fiscal rigidities and lower its high debt burden. All eyes are now on the progress of the pension reform, which already passed a first round in Congress, but there's still a long road ahead. Pension reform itself won't alleviate Brazil's immediate fiscal pressures, but could lift business sentiment and pave the way for future fiscal relief. Banks have weathered the crisis fairly well, and they're now ready to resume lending, which could happen in the second half of 2019 if the government approves pension reform and business confidence improves. After several tough years, Brazil's corporations have fairly low leverage levels, healthy profitability, and little reliance on external funding. Improving economy will be key for corporations' fundamentals.

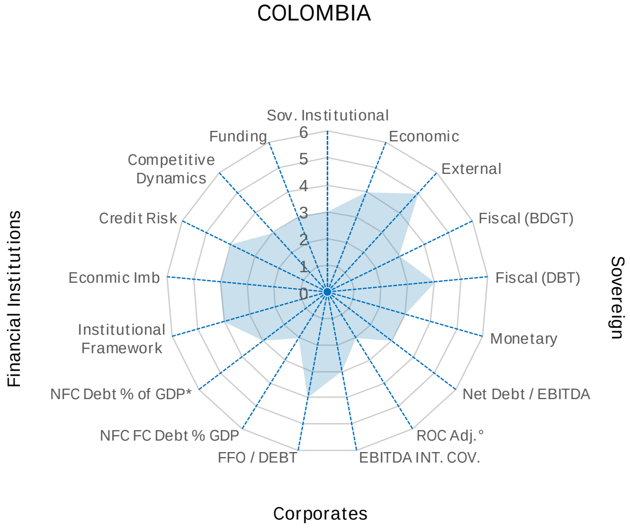
BRAZIL



Source: S&P Global Ratings

Colombia	BBB-/Stable/A-3	BICRA Group: 6	Corporations' Median Rating: BBB-

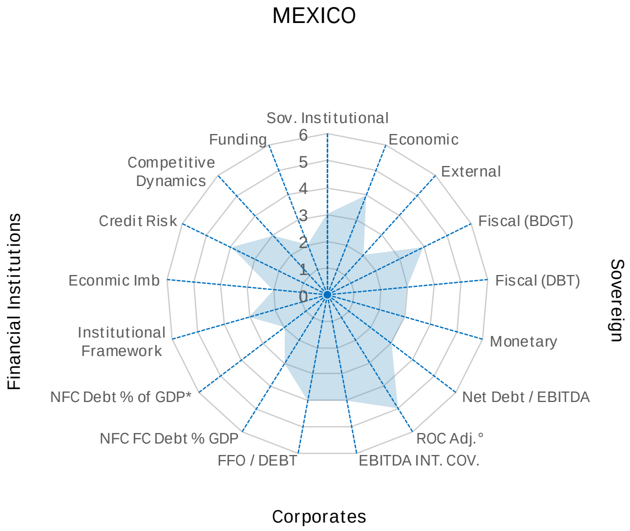
Colombia's government finances have been struggling over the past years after oil prices fell. The recent recovery in commodity prices, along with a fiscal reform, has propped up Colombia's fiscal accounts, but not without a cost because GDP growth has been sluggish and recovery will likely only be gradual. The latter is also due to a certain degrees of policy uncertainty that weighs on business confidence. Corporations have been struggling through soft economic conditions. In the meantime, the sector's leverage is high and reliance on external financing has risen over the past years. On the bright side, profitability remains satisfactory. While gradual, economic recovery should enable banks to stabilize their operations, following economic imbalances through rapid credit expansion over the past several years. Cooling economy was helpful for banks, but they're still vulnerable. This is because they took advantage of favorable external funding conditions to expand abroad, increasing their external debt and weakening their capitalization ratios. The Fed's more accommodative rates in the future could help Colombia's corporations and banks.



Source: S&P Global Ratings

Mexico	BBB+/Negative/A-2	BICRA Group: 4	Corporations' Median Rating: BB+

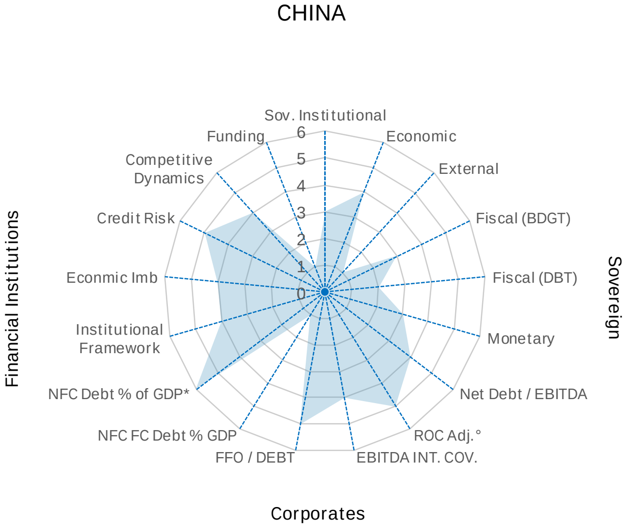
Our sovereign rating on Mexico continues to reflect its relative strengths, including fiscal discipline, sound monetary policy supported by an independent central bank, and adequate external positions with manageable current account deficit mainly financed by FDI. Furthermore, a flexible exchange rate has effectively acted as buffer for external shocks. However, the economy is losing steam because the new administration has taken polemic decisions that have so far undermined investor confidence, which is weighing on GDP growth in 2019 and 2020. Mexican nonfinancial corporations have moderate leverage and exposure to foreign currency debt, with a manageable maturity profile. Corporations will probably face headwinds from weakening economy, and profitability may suffer as a result of falling sales and relatively high financing costs. Mexican banks are well capitalized and highly profitable, so they should remain resilient under weaker economic conditions. We could expect, however, slower credit growth and weakening asset quality, which could in turn hurt banks' profitability at some point over the next two years.



Source: S&P Global Ratings

China	A+/Stable/A-1	BICRA Group: 6	Corporations' Median Rating: BBB-

China's sovereign stance is strong and has plenty of flexibility to deal with challenges such as the effect of trade tension on its economy. The sovereign has solid external accounts and a manageable debt burden, with limited reliance on external debt. As seen in 2019, China has some room to provide both fiscal and monetary stimulus to its economy. Risk for China comes mostly from its highly indebted corporate sector, although mostly in domestic markets. The country has one of the highest levels of net debt to EBITDA among emerging market economies. Moreover China's banking system is exposed to the highly leveraged corporate sector after years of aggressive loan growth. Overall, China's slowing economy could pressure not only domestic corporations, but also households, which also show higher leverage levels than those in other emerging markets. In turn, banks' asset quality and profits could suffer. Given that the largest banks are government owned, any difficulties in the financial system could weigh on sovereign finances at some point. Trade tensions and the recent failure of Baoshang Bank Co. Ltd. have complicated China's economic panorama.

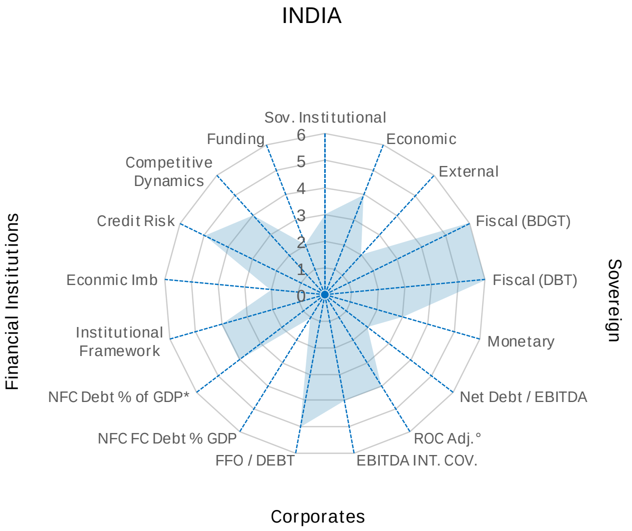


Source: S&P Global Ratings

India	BBB-/Stable/A-3	BICRA Group: 5	Corporations' Median Rating: BBB-

India faces considerable fiscal rigidities in the form of high fiscal deficits and debt. However, solid GDP growth rates and sound external accounts offset these factors, and we expect this trend to continue in the next two years. The government recently presented its budget, which includes support for public-sector banks, a more aggressive plans for divestment of state-owned enterprises, and increasing the private sector's participation in infrastructure projects. These plans should support corporations linked to infrastructure development, without placing additional burden on the government.

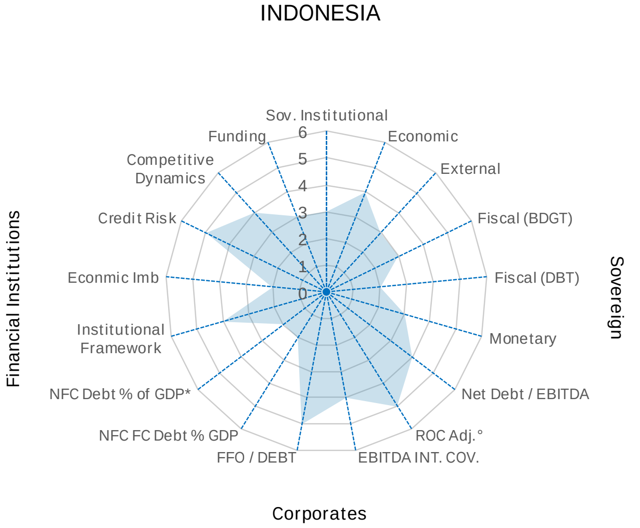
On the other hand, we believe public banks still require substantial reforms to improve risk management, service quality, efficiency, and diversity of product offerings. While the government has infused large amounts of capital into these banks in the past few years, the progress on reforms has been lackluster. The government announced that the reforms will be undertaken to strengthen governance in government banks though no specific details have been shared. S&P Global Ratings believes the government's proposed injection of Indian rupee (INR) 70,000 crore (or INR700 billion) into the banking sector as capital support should help to stabilize financial sector, although the funding is likely to weigh on government finances at the margin.



Source: S&P Global Ratings

Indonesia	BBB/Stable/A-2	BICRA Group: 6	Corporations' Median Rating: BB-

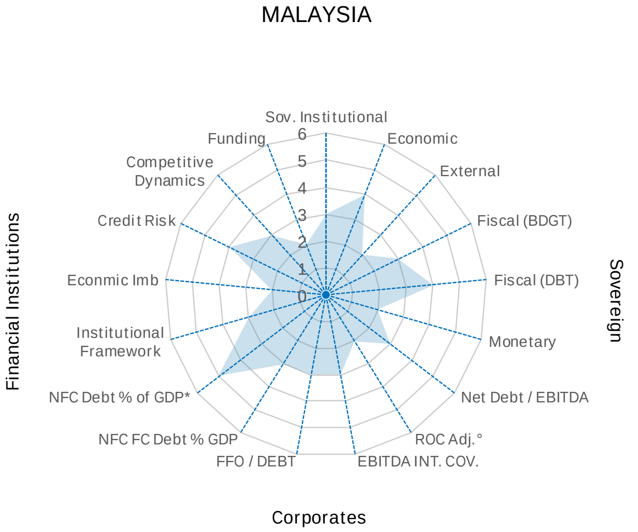
Indonesia continues to post strong GDP growth that's at a higher pace than among its peers. Policy continuity with prudent fiscal accounts continue to support the country's sovereign credit profile. Indonesia's economy is still lower-middle income, in our view. As a commodity exporter and capital importer, the country is subject to shifts in external conditions. A key rating constraint is Indonesia's GDP per capita, which we estimate at $4,200 for 2019. Growth of the Indonesian economy has been largely dependent on domestic demand. Consumption has been the leading contributor to real GDP growth, while investment also contributes a sizable share. Reduced political uncertainty following the elections won't be enough to generate solid corporate profits in 2019. In our view, the likely removal of price controls in the electricity and energy sectors will translate into higher inflation towards the end of the year. This will cap meaningful improvements in consumer sentiment. Interest rates are still high and the Indonesian rupiah hovering close to multi-year lows. Domestic banks, particularly the large and state-owned commercial ones, are well positioned to benefit from improving economic conditions. The government's infrastructure push could create multiplier effects on the economy, which would flow to banks. Furthermore, sound economic growth should help improve asset quality.



Source: S&P Global Ratings

Malaysia	A-/Stable/A-2	BICRA Group: 4	Corporations' Median Rating: BBB

Malaysia's new administration has taken upon considerable fiscal challenges after fulfilling its promises by zero-rating the goods and services tax. The latter was responsible for nearly 20% of the government's revenue. We expect Malaysia's fiscal consolidation will be modest over the coming years, but deficits will remain contained, owing to renewed efforts to increase revenue generation and expenditure management. In our view, the fiscal deficit target equivalent to 3.4% of GDP for 2019 is attainable, although a greater reliance on oil-based revenue makes budgeting less predictable. The government's tighter control over debt accumulation and guarantee issuance should help keeping contingent liabilities and net general government debt manageable. Malaysian companies have been resilient to turbulent politics since the 2018 election which prompted a brief period of currency volatility but didn't have any significant effect on the operating performance of most domestic sectors. We expect domestic markets will continue supporting favorable funding conditions for corporations. On the other hand, credit growth among Malaysian banks has moderated following post-election policy uncertainties in 2018 and generally weak sentiment. Major Malaysian banks' profitability could fall if trade tensions between the U.S. and China escalate. We expect visible margin compression, slower loan growth, and greater noninterest income volatility for the rest of 2019. Asset quality will likely hold, despite downward pressure, although the funding is likely to weigh on government finances at the margin.

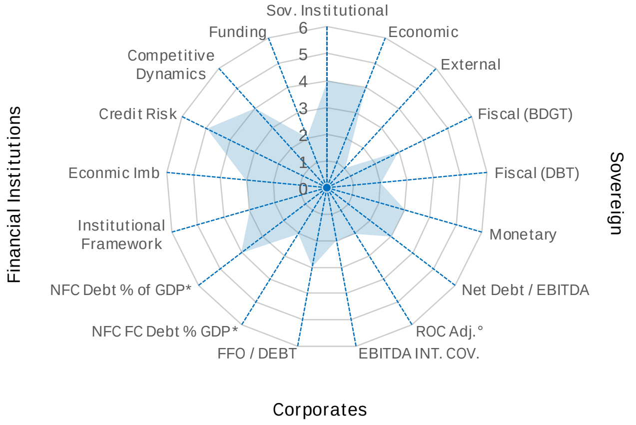


Source: S&P Global Ratings

Thailand	BBB+/Stable/A-2	BICRA Group: 6	Corporations' Median Rating: BBB+

In Thailand, even as political power gradually returns to elected leaders in the next five years, efforts are underway to heal the divide in the country. If the efforts bear fruit in the next few years, the much-talked-about reconciliation in Thailand may start. S&P Global Ratings believes this may allow a more normal form of democratic politics to take root. The government's strong credit metrics, at the 'BBB+' foreign currency credit rating level, may improve further in this scenario. However, the risk is that the economy's weakened competitiveness exacerbates the disparities in the country before these efforts are likely to make a meaningful impact. Political instability may become a greater issue again if that happens. We expect Thai companies to remain resilient to often-evolving political developments in the country. The outcome of the recent elections is credit neutral for the corporate sector. The depth of domestic capital markets and the well-tested availability of inexpensive domestic bond and bank funding over an economic cycle mitigate external vulnerabilities and the ongoing trade tensions. We remain concerned over the high credit to the private sector in Thailand, particularly because of the country's low-income levels and limited debt-servicing capacity; especially now that credit growth is accelerating.

THAILAND

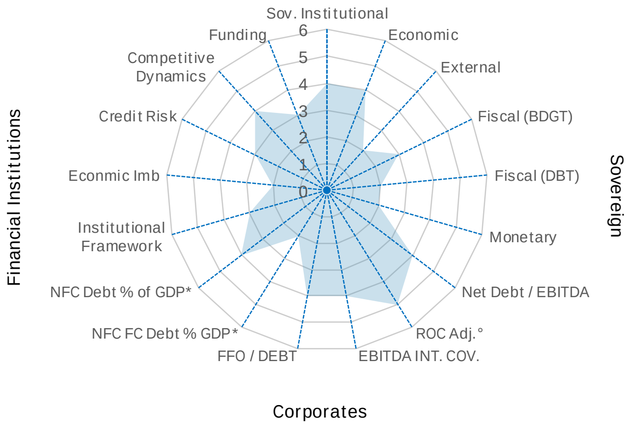


Source: S&P Global Ratings

Poland	A-/Stable/A-2	BICRA Group: 4	Corporations' Median Rating: BB

Fiscal stimulus, EU-funded public investment, and real wage increases should contribute to headline GDP growth of about 4% this year in Poland, despite soft manufacturing activity in the country's most important trading partner, Germany. So far during 2019, employment growth has remained solid, while wage pressures show no sign of abating, with exports also holding up well despite Europe's cooling economy. Over the longer term, several factors may weigh on Poland's solid economic performance, including the country's declining working-age population; the large role of state-owned enterprises (including financial institutions) in the economy; a steady decline in labor productivity over the last several years; and lower EU structural funds under the next Multiannual Budget Framework (2021-2027). We see a mixed picture among rated Polish corporations. Many of the sectors, such as telecoms, are already saturated and demonstrate weaker growth than Poland's GDP growth pace. Moreover, new taxation and salary increases will likely pressure profitability of domestic-focused businesses and could offset the growth potential. Poland's banks continue posting high nonperforming loans (NPLs), which are a legacy from the 2009 crisis. However, healthy GDP growth over the years has strengthened the private sector's debt capacity, which should support asset quality over the next years.

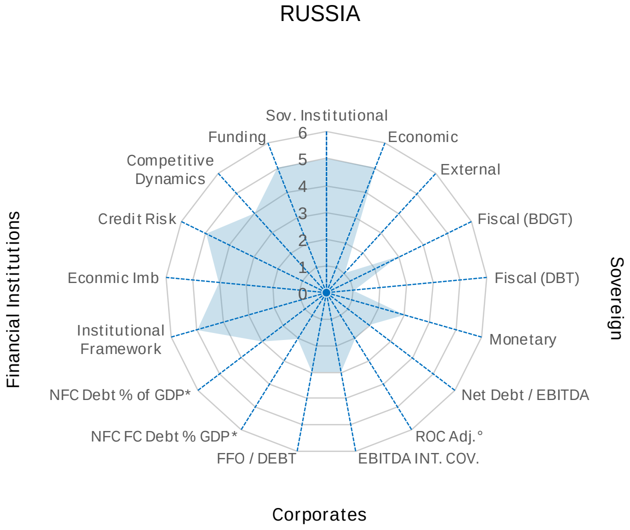
POLAND



Source: S&P Global Ratings

Russia	BBB-/Stable/A-3	BICRA Group: 8	Corporations' Median Rating: BB+

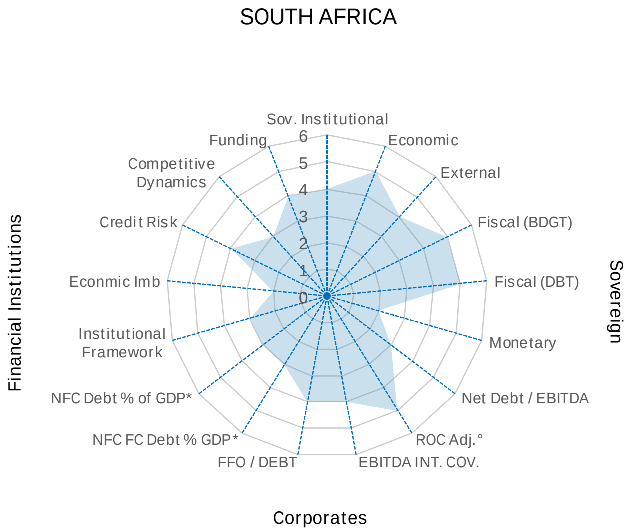
Russia's growth outlook remains subdued, due to structural constraints, such as the state's dominant and increasing role in the economy, and relatively low competition and innovation. Economic prospects have weakened further this year as fiscal policy tightened with the VAT hike, while the proposed public spending boost lags behind. Monetary conditions are rather tight with higher real interest rates than in other emerging markets, and are easing only gradually. Although access to international capital markets remains limited for many Russian state-related companies and banks, this risk has been largely absorbed by the system and incorporated into the growth strategies. Corporations have been deleveraging in the past five years and show limited exposure to external financing, while generating healthy profits. Furthermore, the government is implementing several initiatives to boost investment, although these have had little impact so far. On the sovereign side, a strong policy framework shields the economy, public finances, and financial system from external shocks. A moderate tightening of international sanctions is unlikely to undermine Russia's key credit strength; its solid public and external balance sheets. Asset quality among Russian banks has been gradually improving for the past three years. However, the amount of nonperforming and restructured loans, remains high. Any significant external shock, leading to an economy downturn, might further erode asset quality.



Source: S&P Global Ratings

South Africa	BB/Stable/B	BICRA Group: 5	Corporations' Median Rating: BB+

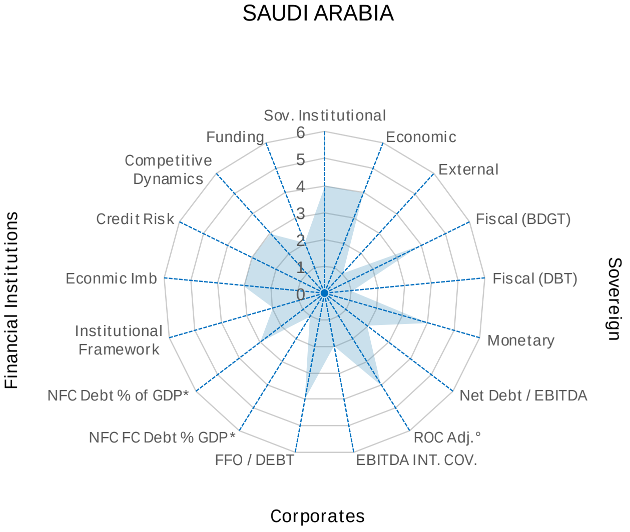
South Africa's key vulnerability is its poor growth track record, which weighs on its fiscal position. Economic growth remains well below those of most emerging-market peers on a per capita basis, and has weakened further this year due to electricity cuts, a strike in the gold-mining sector, and low confidence amid slow reform progress. South Africa's fiscal position remains weak, with sizable fiscal deficits, a large debt burden, and sizable contingent liabilities, with the latter largely tied to the energy utility Eskom. Policy uncertainty may decrease now that elections are over, but it will take time to address numerous structural impediments to economic growth, including the inflexible labor market and skill shortages. Sluggish economic growth this year will continue posing challenges for the corporate sector. On the bright side, South Africa's corporate sector has low leverage, healthy profits, and moderate reliance on external financing. South Africa's financial sector is largely profitable and well capitalized, but faces challenges that include highly indebted households (given low GDP per capita) and significant reliance on wholesale funding, although no dependence on external funds at all. Overall, the main challenge for banks is also weak economic growth, which if continued could pressure banks' asset quality and profits.



Source: S&P Global Ratings

Saudi Arabia	A-/Stable/A-2	BICRA Group: 4	Corporations' Median Rating: A-

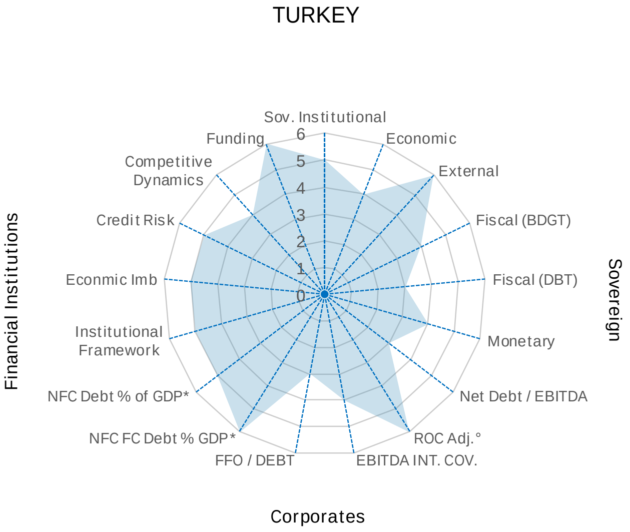
We expect the government's expansionary budget to help boost economic growth. We forecast wider fiscal deficits, but expect the sovereign to retain strong government and external balance sheets. We estimate the central government deficit will average close to 7.5% of GDP in 2019-2022. We continue to expect that public investment will increase under a four-year stimulus plan whose goal is to stabilize private-sector demand. In addition, the announced increase in 2019 expenditure underpins our real growth expectations. While we forecast an accumulation of FX reserves, we note a continued increase in external debt that tempers Saudi Arabia's strong external stock position. Monetary policy effectiveness is limited by the fixed exchange rate, which largely requires the country to follow movements in the U.S. federal funds rate, even when they may not be appropriate for domestic conditions. Healthy oil prices remain supportive for certain sectors, while government payment delays to contractors have diminished over the past few quarters. High sensitivity to commodity prices is a structural key risk for Saudi corporations and banks, while key opportunity would be a pickup in the sovereign's infrastructure spending. Private-sector lending is gradually picking up, driven by mortgage lending and slightly better economic prospects. We expect mid-single digit growth in credit for 2019 and 2020. Asset quality slipped; sour loans to large contractors are sorted out now, but we expect the sub-contractor and related supply chain segments to generate some new NPLs in 2019 and 2020. Overall, we believe the impact will be manageable for Saudi banks. Key risks still stem from politics/geopolitics.



Source: S&P Global Ratings

Turkey	B+/Stable/B	BICRA Group: 9	Corporations' Median Rating: BB-

Despite a significant turnaround in Turkey's external balance, we still view balance-of-payments risks as elevated. Past external shortfalls have led to a substantial increase in private sector external debt. This accumulated debt shows a front-loaded repayment schedule, with almost half maturing over the next 12 months, and close to 60% pertains to the country's banking system. Turkey's economy exited recession, but we expect economic activity to remain muted in the coming months. In our view, the lack of a credible and coordinated policy response to last year's currency crisis, as well as lingering political and business environment risks, will weigh on confidence, hampering growth. The absence of a package to bolster confidence in domestic banks and swiftly resolve problematic assets will also dampen the economic outlook. Turkey's corporate debt is predominantly denominated in foreign currency even in sectors (such as property and construction) that are not naturally hedged against currency risk. Given weak consumer sentiment, the corporate sector's profitability is under pressure. Turkey retains a comparatively low net general government debt burden, and the government still has some fiscal flexibility that should help it to absorb the consequences of an ongoing economic adjustment. Nevertheless, a combination of support for public-private partnerships, weaker economic growth, and possible private sector external funding pressures requiring government support could erode what appears to be a sound public balance sheet.



Source: S&P Global Ratings

Financing Conditions

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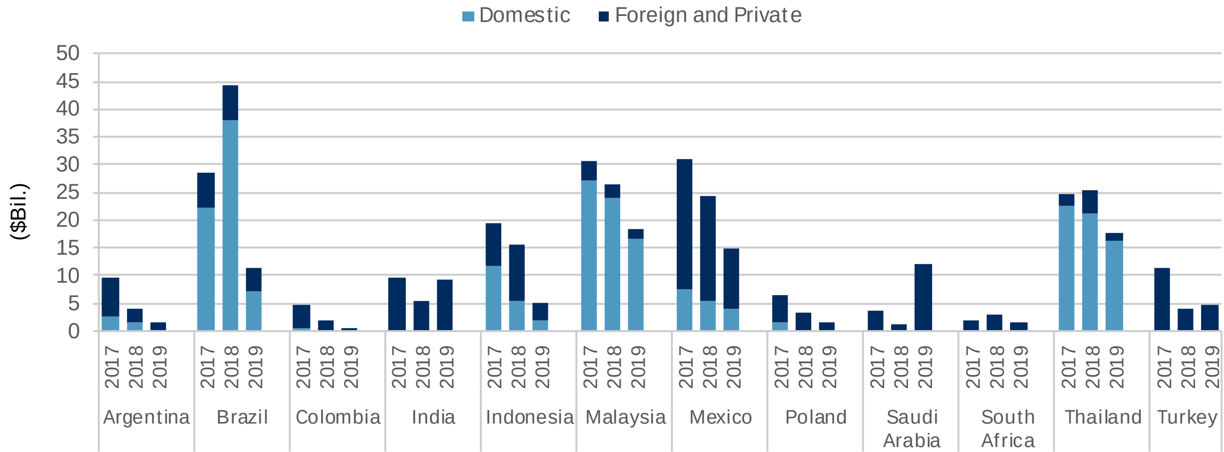
- Domestic markets have become more relevant for emerging economies.
- External events continue influencing overall funding conditions.
- Uneven conditions across emerging markets show that investors continue differentiating and looking for the entities with solid fundamentals.

Global financing conditions have eased, as the Fed and ECB are shifting gears to help address a weakening growth and inflation outlook. Both central banks are poised to remain highly accommodative for the rest of this year and in 2020. The Fed already cut interest rates this year, and the ECB has opened the door to further monetary policy accommodation in September. This should support capital flows to emerging markets, and provide room for monetary easing in several of those economies. Nevertheless, the risk is that investors' appetite for emerging-market risk is increasingly contingent on further monetary easing. Rising risks to global growth amid trade disputes and geopolitical tensions have prompted moves of both central banks. With so many pressure points and mutually reinforcing factors, investor sentiment toward riskier assets is set to be fragile.

Domestic markets in emerging economies have played a key role, especially in the last quarter of 2018, when global funds became scarce. Domestic markets in some of these countries are now a feasible alternative, particularly in those where institutional investors such as insurers, pensions, and mutual funds have been developing. Nevertheless, amid the currently low interest rates, global markets continue offering better funding conditions, especially for longer maturities, which are scarce in domestic markets in emerging-market economies.

Chart 5

Domestic Markets Have Become Relevant In Many Emerging Markets -
Emerging Markets (ex. China) financial and non-financial corporates new Issuance volumes ($ Bil.)

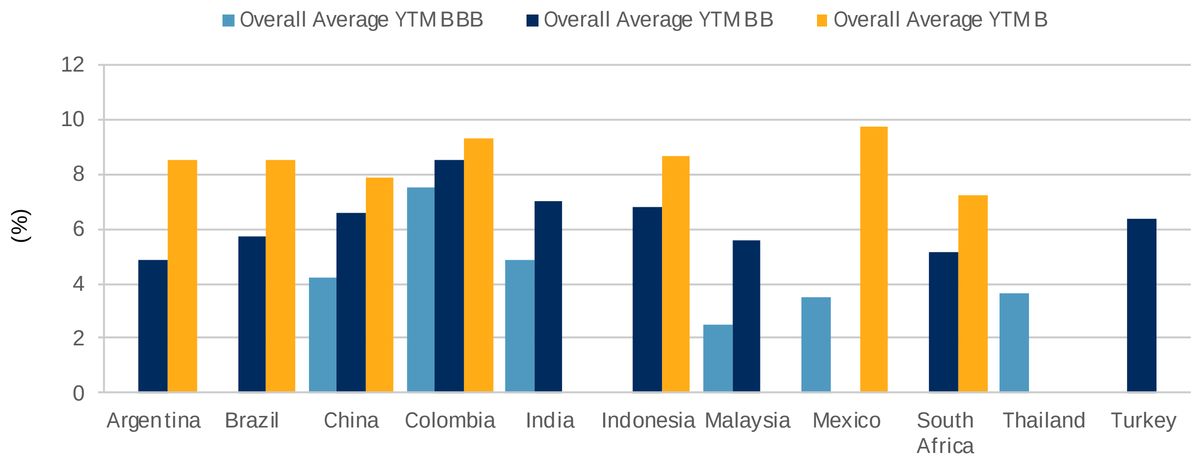


Source: S&P Global Ratings, Thomson Financial. Data as of July 11, 2019.

In general, we see uneven conditions across emerging markets, given that investors are differentiating between countries and issuers. Differentiation occurs among asset classes and rating levels, but we also observe that investors are sensitive to country risk. In other words, in many cases, we could see different yields between 'BB'-rated issuers in country x and country Y.

Chart 6

Average YTM For New Bond Issuances By Rating Category, Emerging Markets



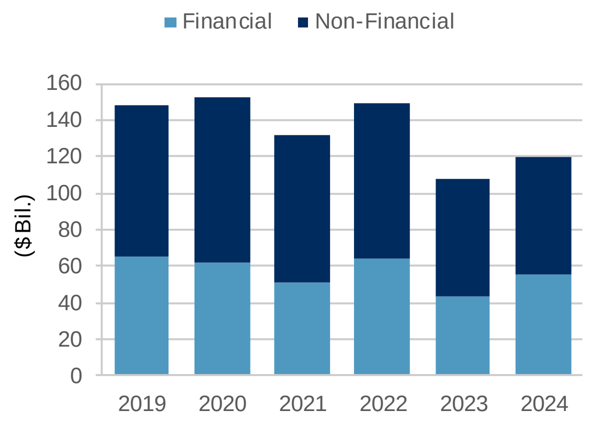
Source: S&P Global Ratings, Thomson Financial.
Note: Average YTM computed as average YTM for new bond issuances for 2016-2019 with tenors between 3 and 7 years. Data as of July 23, 2019.

While the Institute of International Finance's (IIF's) most recent survey of lending conditions across emerging markets also points to a likelihood of neutral financing conditions as a whole (with a current reading of 52), it is highly predicated on strength in trade finance and loan demand (both with a current reading of 53 and correlation of nearly 90% to overall financing conditions). For more information, see IIF's “EM Bank Lending Survey”, published on May 13, 2019.

Emerging countries' maturity profile remains manageable for the next three years. Low interest rates and still very high liquidity levels should provide a supportive environment for refinancing. Nevertheless, prospects for slower economy, the potential for a recession in the U.S., and uncertain conditions in many countries will prompt investors to ask for higher returns.

Chart 7

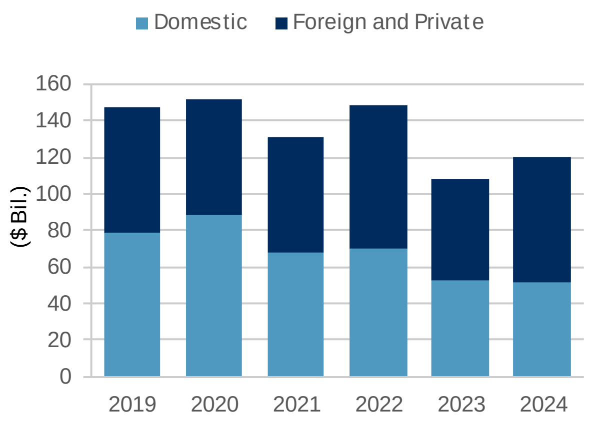
Emerging Markets (excl. China) Corporate Financial And Nonfinancial Debt Maturities



Source: S&P Global Ratings, Thomson Financial. Data as of July 11, 2019. Emerging market economies include Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, and Poland,

Chart 8

Emerging Markets (excl. China) Corporate Financial and Nonfinancial Domestic And Foreign Maturities



Source: S&P Global Ratings, Thomson Financial. Data as of July 11, 2019. Emerging market economies include Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, Poland, Russia, Saudi Arabia, South Africa, Thailand, and Turkey. May include debt that has been prepaid from original issue to maturity.

Macroeconomic Conditions

(Editor's Note: The views expressed in this section are those of S&P Global Ratings' economics team. While these views can help to inform the rating process, sovereign and other ratings are based on the decisions of ratings committees, exercising their analytical judgment in accordance with publicly available ratings criteria.)

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Macroeconomic conditions remain soft and outlooks have weakened across key emerging-market economies. External and domestic risks persist, and some of risks to growth that we have previously identified have started to figure in our baseline. We have tempered our growth expectations for this year for half out of 14 emerging-market economies covered in this report (Table 2).

Continued trade tensions between the U.S. and China, and resulting policy uncertainty, have weighed on investor and business confidence. Capital expenditures have softened especially in more trade-dependent emerging economies in Asia-Pacific and sectors in China exposed to trade tensions. Some countries appear to have benefited from trade diversion. For example, exports to the U.S. from Vietnam and Malaysia have picked up at the expense of China, while exports from Argentina and Brazil to China have risen at the expense of the U.S. It remains to be seen whether these developments are sustainable. Overall, increased risk aversion among investors and renewed concerns about global growth prospects have created an unfavorable environment for investment.

A recent cut in Fed interest rates and more accommodative monetary stance in developed economies going forward has opened space for monetary easing in emerging markets. Central banks in several emerging market economies, including Brazil, Indonesia, Russia, South Africa, and Turkey, have recently lowered policy rates, and more easing is in the cards. However, to what extent emerging market economies are able to ease monetary conditions will depend on domestic factors.

Chart 9

Countries With Inflation Of 3%-5%

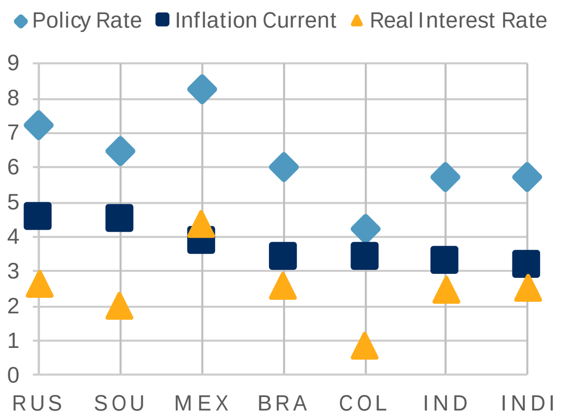
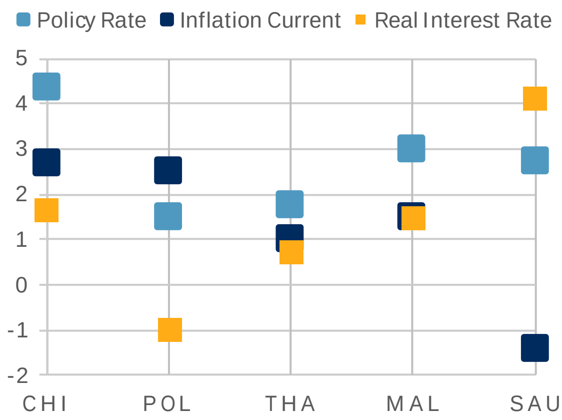


Chart 10

Countries With Inflation Below 3%



Data as of July 31, 2019. 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.

Forecast Changes

We have lowered our GDP growth expectations for most Latin American economies. Recent domestic political developments have had the most substantial impact on our growth assumptions for Argentina and Brazil.

- In Argentina, the combination of high inflation and restrictive domestic financial conditions has taken a toll on President Macri's approval rate, putting into question policy continuity after the October presidential election. The uncertainty over the election has dimmed an already weak investment picture. Our 2020 GDP growth projection of 2.2% assumes a broad degree of policy continuity after the election.
- In Brazil, political volatility associated with the process of approving a pension reform has held back investment more than we initially expected, and the recovery in household spending has flattened as labor market dynamics remain weak. We assume a pension reform will be approved later this year, which underpins our forecast for real GDP growth of 2.2% in 2020.
- The ongoing decline in oil production and a softening in the services sector are main factors behind the economic slowdown in Mexico. We assume trade relations with the U.S. will remain broadly unchanged, although the U.S. has yet to approve the new free trade agreement, and it seems that it would be difficult in 2019, especially as we approach the U.S. presidential election in 2020.

Economic growth is cooling in Asia-Pacific, but for now there are few signs of a precipitous decline.

- We remain comfortable with our 6.2% GDP growth forecast for China. Although the easing in financial conditions may have peaked, there's enough stimulus in the pipeline to stabilize activity. While the property market may soften, infrastructure investment is likely to pick up and consumption growth should steady.
- India's growth continues to disappoint. Our forecast of 7.1% for fiscal year 2019/2020 may be hard to achieve, especially if domestic confidence remains fragile. Much will depend, though, on oil prices and the monsoon season and its impact on agricultural output.
- Last year's trade impacts will continue to have a lagged drag on investment in Indonesia, even as the political picture clears up.
- The Malaysian economy still faces a sluggish external environment stemming from the ongoing global trade slowdown. This will affect the externally-oriented sectors, with the electronics and commodities sectors taking a particularly large hit.

In Europe, Middle East, and Africa (EMEA), domestic growth drivers remain weak in Russia, South Africa, and Turkey. By contrast, domestic demand in Poland remains resilient, supported by real wage growth, fiscal stimulus, and easy monetary policy. Turkey's exports have been buoyant, supported by the exchange rate adjustment, which partially offset a decline in domestic demand.

- Russia's growth outlook remains subdued, due to tight macroeconomic policies and structural constraints. Fiscal policy tightened with the VAT hike to 20% from 18%, while the proposed public spending boost lags behind. Monetary policy also remains tight, because the central bank only now has begun to unwind last year's defensive rate hikes. Gradual monetary easing and the likely increase in public investment should lift growth to 1.8% next year.
- We cut our GDP growth forecast for South Africa in May, reflecting a hit to growth from electricity cuts, a strike in the gold-mining sector, and low confidence amid slow reform progress. Following the victory of the African National Congress in the national elections in May with a clear (albeit reduced) majority, reforms may gain some momentum in the second half of this year, boosting confidence and investment. Overall reform efforts are unlikely to be significant enough to bolster GDP growth.
- **Turkey's** economy recently exited recession, but we expect economic activity to remain muted in the coming months. In our view, the lack of a credible and coordinated policy response to last year's currency crisis, as well as lingering political and business environment risks, will weigh on confidence, hampering growth. Exports growth rates should moderate, with weaker growth potentially ahead for some of Turkey's key trading partners.

Table 2

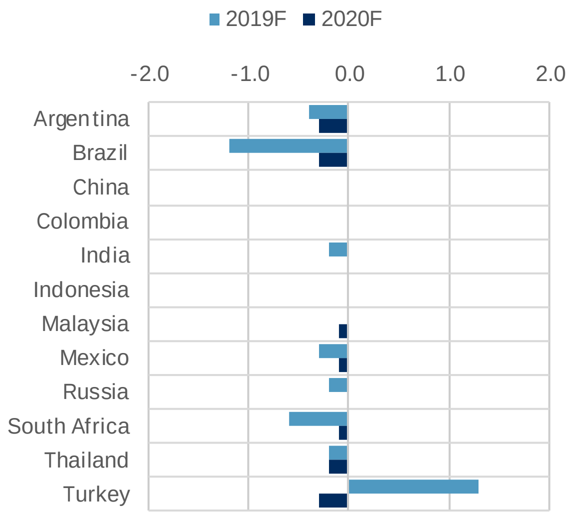
GDP Growth

(%)	2018	2019f	2020f	2021f
Argentina	-2.5	-1.6	2.2	2.5
Brazil	1.1	1.0	2.2	2.5
Colombia	2.6	2.9	3.0	3.0
Mexico	2.0	1.3	1.8	2.2
China	6.6	6.2	6.2	5.8
India	6.8	7.1	7.4	7.6
Indonesia	5.2	5.1	5.2	5.4
Malaysia	4.7	4.4	4.5	4.6
Thailand	4.1	3.5	3.5	3.6
Poland	5.1	3.9	3.1	3.0
Russia	2.3	1.3	1.8	1.8
Saudi Arabia	2.2	1.8	2.1	2.4
South Africa	0.8	1.0	1.8	2.0
Turkey	2.6	-0.5	3.2	3.2

Source: S&P Global Ratings

Chart 11

Changes In Baseline GDP Growth Forecast From 1Q2019 (Percentage Points)



Source: S&P Global Ratings

Risks To Our Macroeconomic Outlook

A deeper-than-expected deceleration in real GDP growth in the major advanced economies and (or) China would have significant spillovers to a wide range of emerging-market economies.

A further round of the U.S.-China tariff hikes or non-tariff barriers, including export controls, would undermine confidence and investment. Protectionism may spread to global sectors, including autos. This can have a deleterious impact on more open, trade-dependent economies in Asia-Pacific and Eastern Europe. Moreover, by denting investor confidence and risk appetite, such developments could also lead to a sharp deceleration in foreign financial flows to emerging-market economies, leading to currency depreciation, higher inflation, and tighter credit conditions.

Geopolitical risks in EMEA remain on our radar. The risk of additional U.S. sanctions on systemically important state-owned banks or on the stock of outstanding sovereign debt continues to loom over Russia. However, the risk of new sanctions this year has receded somewhat. A dispute with the U.S. over a purchase of Russian missile systems could result in sanctions on Turkey as soon as this summer. The recent increase in tensions in the Middle East has the potential for souring international investor sentiment and poses a risk to energy prices. The impact of this standoff may also have implications on North Korea's attitude toward further negotiations.

Sovereigns: Fundamental Progress Supports Emerging Markets, But Challenges Remain

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Of the 134 sovereigns that S&P Global rates, 95 of them are under the overly expansive category of emerging markets. So far, 2019 has been positive—if volatile—emerging markets. Global financing conditions remain highly accommodative. The Fed's shift to a more cautious monetary stance has been a key support for the asset class, with the JPM index having run up to levels last seen in April 2018. It was not until May that an escalation of trade tensions between the U.S. and China led to a reversal in net foreign purchases of emerging-market equities. However, net purchases of debt in these economies have continued, notably accelerating during June as global central banks signaled further easing.

Overall, emerging markets' fundamentals remain promising, in our view, though within such a broad asset class, there are many highs and lows. During the past two decades, emerging markets' share of global GDP has doubled in dollar terms to 40% from just under 20%, while representing close to 60% of global output in PPP terms. A combination of globalization and domestic reforms have propelled an acceleration of per capita GDP growth rate in emerging markets. Not all regions have performed the same in terms of growth, with Asia the clear outperformer. In 1999, China represented 3% of global GDP, compared with 16% today. Excluding China and other emerging Asian economies from the emerging markets' aggregate GDP data, gains in the share of the global economy in the past two decades are respectable but hardly spectacular--17% of global GDP this year, compared with 13% in 1999.

S&P remains optimistic about prospects for emerging markets over the long run, even if our balance of outlooks on the 14 most liquid emerging markets' credits is barely negative, with Mexico having a negative outlook and the remaining 13 carrying stable outlooks, after a series of upgrades earlier this year.

- The potential returns on foreign investment in emerging markets remain far higher than those in the developed world. Given the large amount of liquidity and negative yields on many G7 sovereign bonds, the case for capital inflows into emerging markets continues to be compelling.
- Emerging markets have made major progress in deepening their domestic capital markets. With a few major exceptions (Argentina, Turkey, and much of Sub-Saharan Africa) heavy reliance on foreign currency funding is a thing of the past. Emerging market governments, banks, and companies have sharply reduced their reliance on outside financing.
- So too is high inflation, given that emerging market governments, except for Argentina, Turkey, and Venezuela, have endowed central banks with sufficient independence to ensure price stability. In exceptional cases, where dollarization and inflation remain high--of the 14 emerging markets that we focus on in this report, Argentina and Turkey stand out on both counts--the sovereign ratings have been under pressure.

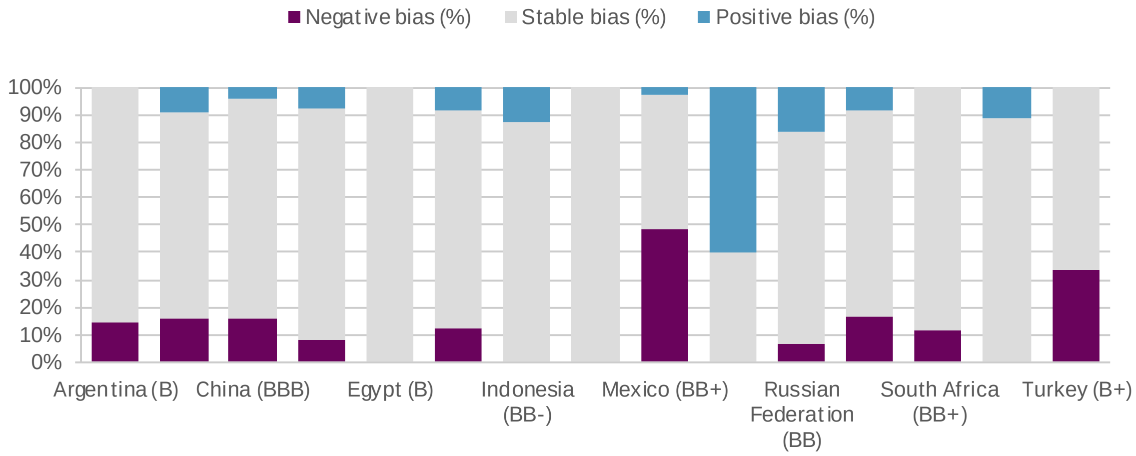
Outside of Asia, emerging markets in other regions face a variety of challenges. Since 1999, Latin America and the Caribbean have seen their share of global GDP stagnate at 6%, reflecting their lower integration into the global economy, alongside structural impediments to growth. The regional sovereigns, which have arguably benefited most from globalization--such as Mexico in which exports to GDP increased close to 15 percentage points in the past 20 years--have faced other impediments to economic performance. In EMEA, the trends have been diverse, ranging from the recent strong recovery of exports and domestic demand in Eastern Europe to very weak growth performance in South Africa and a hard landing of the increasingly dollarized Turkish economy.

The other factor to watch is China, which continues to be the biggest driver of global GDP growth, contributing about 1.2 percentage points to the likely global expansion over the next few years, or almost four times what the U.S. will contribute, according to our estimates. Chinese authorities have eased up on previous restrictions on credit including from the shadow banking system—a decision which should for the present lift the headline economy but may be generate future problems. Any shock to China's economic juggernaut would, of course, reverberate across emerging markets. China's strong demand has sustained economic performance across the emerging markets for most of the last decade—not only for commodities but for manufactured goods in regions as diverse as Eastern Europe and Latin America. Furthermore China has supported emerging countries through FDI and infrastructure financing. In absence of such contributions, emerging markets' balance of payments, growth, and fiscal metrics would deteriorate. The risk of a sharper depreciation of the Chinese yuan is also something to monitor. A weaker yuan would most likely weigh heavily on the emerging-market currencies and economies.

Sector Trends

Chart 12

Emerging Markets' Financial And Nonfinancial Corporate Bias Distribution - June 2019



Ratings in parenthesis represent current median rating, as of June 30, 2019. Bias information as of June 30, 2019. Includes parent-issuers only.
Source: S&P Global Fixed Income Research.

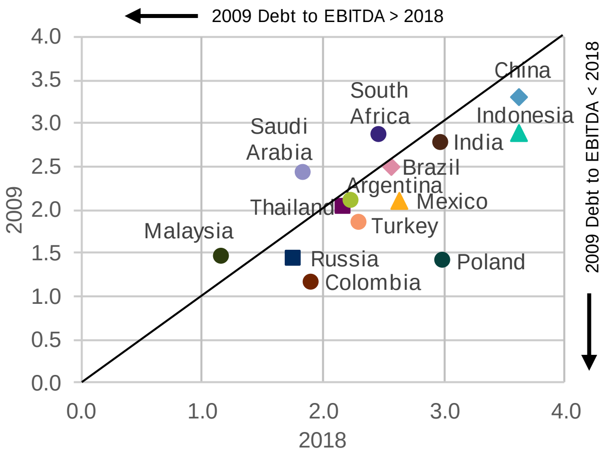
Nonfinancial Corporations

Key Takeaways

- Trade tensions, slower global economic growth, and commodity price volatility could undermine corporate profits.
- Political developments are key for corporations in many emerging countries, external and in many cases, domestic policy uncertainty has undermined investment.
- Emerging markets' corporate leverage levels are largely manageable with some exceptions.
- Foreign currency exposure is not prevalent among corporations across emerging markets and is generally manageable.
- High leverage among state-owned enterprises could be problematic for some emerging markets.

Chart 13

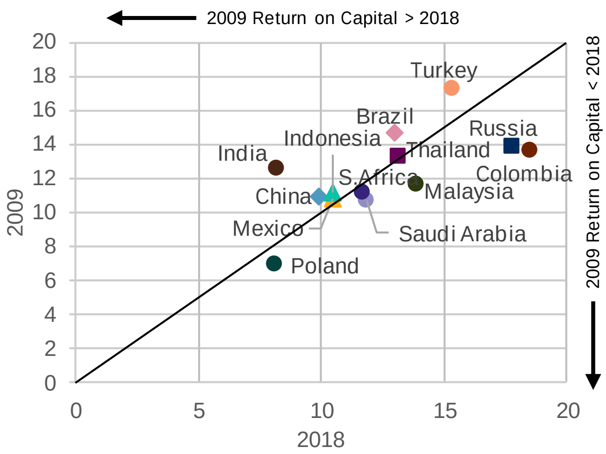
Debt To EBITDA Among Rated Corporations--2009 Versus 2018



Source: S&P Global Ratings

Chart 14

Return on Capital Among Rated Corporations--2009 Versus 2018



Source: S&P Global Ratings

Asia-Pacific

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- The economic conditions are cooling in China, threatening to weaken profitability across nearly all corporate sectors. We expect debt-servicing capabilities to decline as demand cools and profit margins contract. Deleveraging will pause or even reverse for some companies.
- India's corporations face slower economic growth both at home and abroad than in 2018. Corporations that we rate, in particular, operate amid slower global growth with leverage levels higher than those of their regional peers, leaving commodity producers with limited cushion to absorb volatility in global commodity prices. Crucial reforms might create opportunities for Indian corporations.
- Reduced political uncertainty following the elections in Indonesia won't be enough to prompt a solid profit performance in 2019. In our view, the likely removal of price controls in the electricity and energy sectors will boost inflation towards the end of the year. This will cap meaningful improvements in consumer sentiment.
- We expect Thai companies to remain resilient to the fluctuating political landscape. The outcome of the recent elections is hasn't affected the corporate sector's credit quality. The depth of domestic capital markets and the proven availability of inexpensive domestic bond and

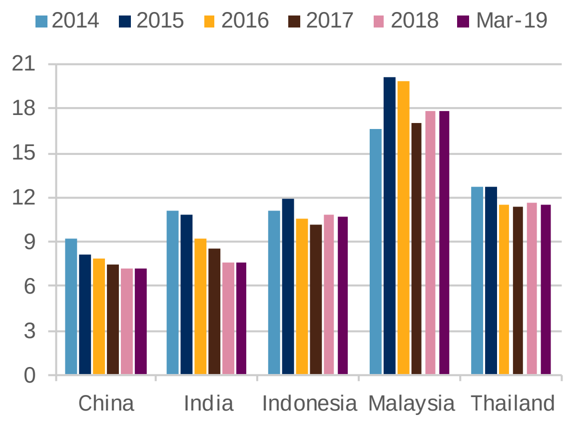
bank funding over an economic cycle mitigate external vulnerabilities and the ongoing trade tensions. We'll continue to monitor high leverage and aggressive capital spending.

- Malaysian companies have been resilient to the political changes since the 2018 election. A brief period of currency volatility occurred as a result, but didn't have any meaningful impact on the operating performance of most domestic sectors. Favorable domestic markets conditions support corporations.

Read more about Asia-Pacific corporations in "Sector Roundup Asia-Pacific: Ratings Largely Treading Water," June 27, 2019.

Chart 15

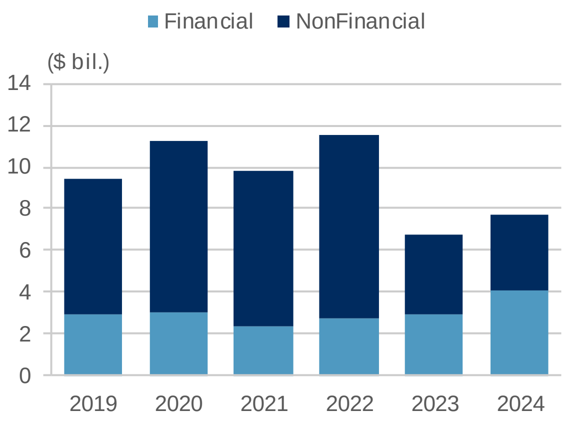
Asia-Pacific Corporate External Debt % Of GDP



Source: IIF

Chart 16

Rated Financial And Nonfinancial Corporate Bond Maturities By Maturity Year



Source: S&P Global Ratings. Data as of June 30, 2019

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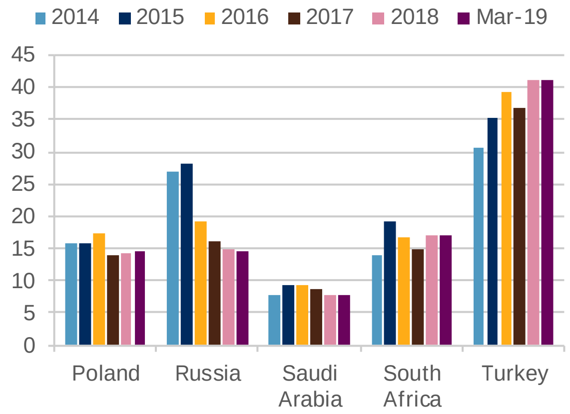
- Turkey's corporations continue to operate in a tough economy, given the macroeconomic pressures. Certain sectors, such as real estate and energy, are particularly exposed.
- Healthy oil prices are supporting Saudi corporations, while rising geopolitical risks in the GCC are key to monitor.
- Poland presents a mixed picture despite strong growth in the economy. New taxation and higher salaries could pressure profits domestically-focused companies.
- The Russian government's efforts to boost economy are not luring investment, while capex of largest corporations remain flat or is declining.
- South Africa's sluggish economy and weak consumer confidence limit revenues.

Read more about EMEA corporations in "European Corporate Credit Outlook Mid-Year 2019: A Switch In Time?," July 25, 2019.

Chart 17

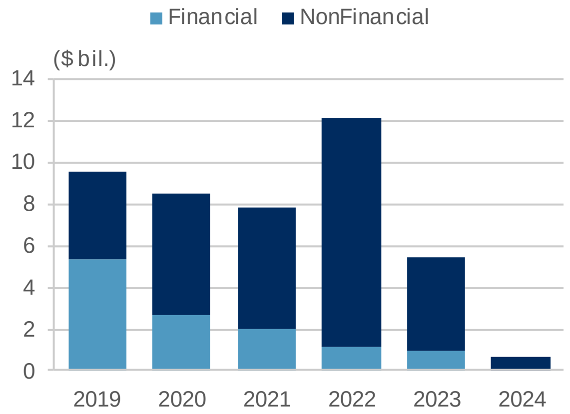
EEMEA Corporate External Debt % Of GDP



Source: IIF

Chart 18

Rated Financial And Nonfinancial Corporate Bond Maturities By Maturity Year



Source: S&P Global Ratings. Data as of June 30, 2019.

Latin America

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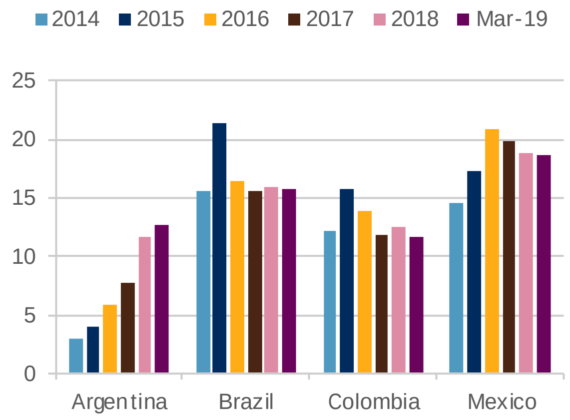
- Low leverage supports Argentine corporations through tough economic conditions. In general, domestic corporations are less leveraged than their regional peers and have been investing more aggressively, while liquidity patterns are satisfactory.
- Brazil's corporations could either benefit from rising investor confidence and economic growth if reforms are effectively implemented, or they can face challenging conditions if political deadlock continues and Brazil's fiscal rigidities worsen.
- Colombia's corporations will continue facing headwinds stemming from political uncertainty and sluggish economic growth. Recent fiscal reforms resulted in some tax relief; however, additional taxes for households continue to weigh on economic growth.
- Mexico's corporations are waiting for clarity in policy direction. Slower GDP growth prospects are generally holding back investment decisions, and corporations are keeping capex at maintenance levels.

Read more about Latin America's corporations in "Latin American Corporate Midyear Outlook: Improving Access To Financing, But Political Uncertainties Persist," July 24, 2019.

Chart 19

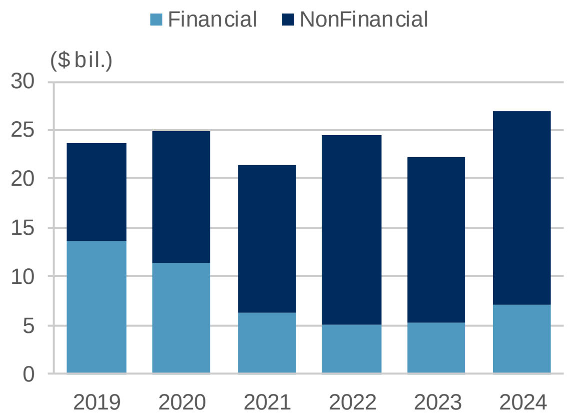
Latin America Corporate External Debt % Of GDP



Source: IIF

Chart 20

Rated Financial And Nonfinancial Corporate Bond Maturities By Maturity Year



Source: S&P Global Ratings. Data as of June 30, 2019.

Financial Services

Key Takeaways

- Volatility could resurface and sour financial conditions for banks in emerging markets, as trade and GDP growth slow and political risks mount. However, the Fed and ECB policy should encourage capital flows in the near term.
- Geopolitical risks and economic sanctions continue hurting a number of banking sectors and limiting their access to external capital markets, such as those in Russia.
- Reliance on external debt is a high risk for banks in Turkey and Qatar.
- High leverage in China remains a concern. While the government's intent is to deleverage, it loosened the credit purse strings in early 2019 to avoid an economic slowdown.

Asia-Pacific

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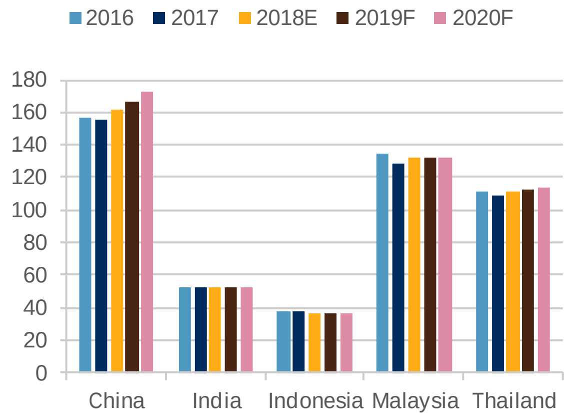
- China's slowing economic growth and the ongoing trade dispute with the U.S. could pressure the banking system's asset quality. China's high private-sector debt also poses a concern, particularly in the event of an economic downturn.
- Weak operating income among several Indian public-sector banks makes them reliant on government capital infusions. Timely and sufficient infusions are critical for these banks to tide over the provisioning hump. We expect the government to remain supportive of public-sector banks.
- Indonesian banks, particularly the large and state-owned commercial lenders, are well positioned to benefit from improving economic conditions. The government's infrastructure push could create multiplier effects on the economy, which will spill over to banks.
- The credit growth for Malaysian banks has moderated in recent years following some post-election policy uncertainties in 2018 and generally weak investor sentiments and business confidence. Escalating trade tension could pressure banks' profits.
- Accelerating credit growth in Thailand could pressure leverage amid low-income levels and limited debt servicing capacity.

Read more about Asia-Pacific banks in "Asia-Pacific Financial Institutions Monitor 3Q 2019: Stable Outlook Likely To Persist Through 2019," published Aug. 1, 2019.

Chart 21

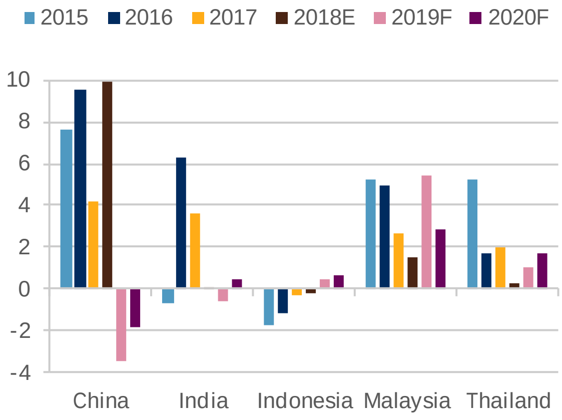
Domestic Credit % Of GDP



Source: S&P Global Ratings

Chart 22

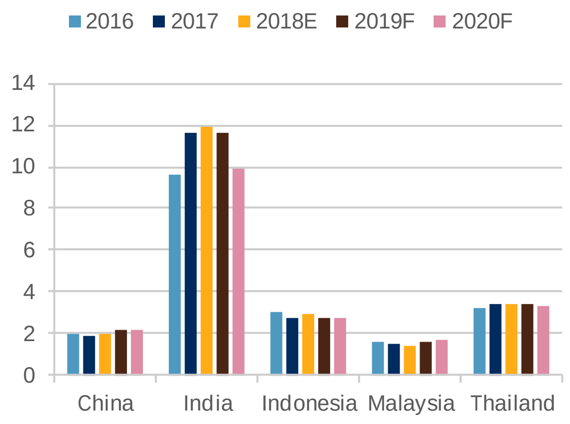
Change In Inflation-Adjusted House Prices (%)



Source: S&P Global Ratings

Chart 23

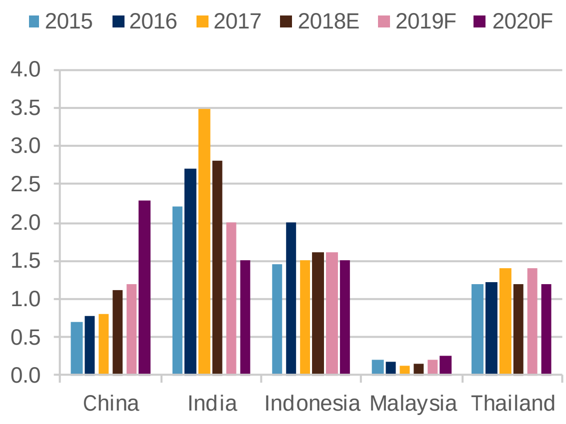
Non-Performing Assets % Of Total Loans



Source: S&P Global Ratings

Chart 24

Credit Losses % Of Total Loans



Source: S&P Global Ratings

Eastern Europe, Middle East, And Africa

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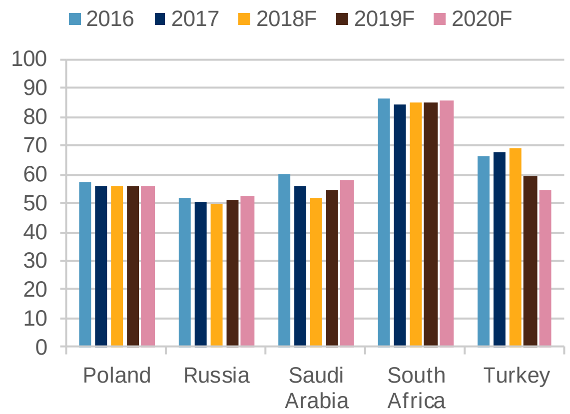
- Turkey's banks continue to carry a high external debt amid declining rollover rates and greater concerns among investors over the country's policy direction. We also expect asset quality to deteriorate, with problematic assets reaching about 20% of total loans.
- Stabilizing oil prices and the Saudi government's spending are improving the overall economic performance in the country, while private-sector lending is slightly picking up driven by mortgage lending. They key risk stems from political/geopolitical tensions.
- We expect South African banks' earnings resilience to continue, despite muted lending prospects in 2019. NPLs are not declining and cost of risk will increase marginally because of the transition to IFRS9.
- Asset quality among Russian banks has been gradually improving for the past three years. However, the amount of nonperforming and restructured loans, at 15%-18% of total loans, remains high. Any significant external shock, leading to an economy downturn might further erode asset quality, especially in retail lending, given weak dynamics of disposable income recovery.

Read more about EMEA financial institutions in "EMEA Financial Institutions Monitor 3Q2019," July 16, 2019.

Chart 25

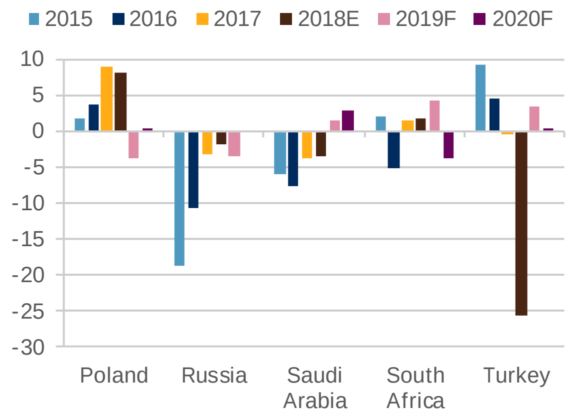
Domestic Credit % Of GDP



Source: S&P Global Ratings

Chart 26

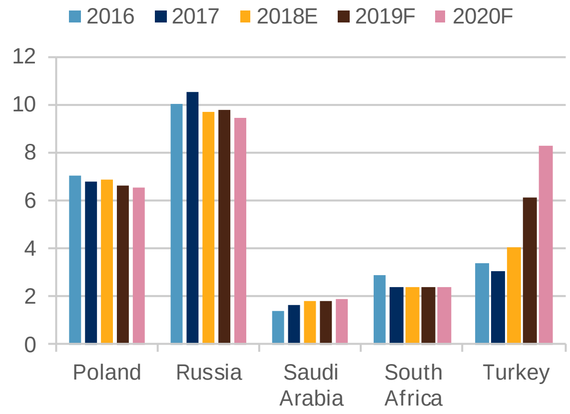
Change In Inflation-Adjusted House Prices (%)



Source: S&P Global Ratings

Chart 27

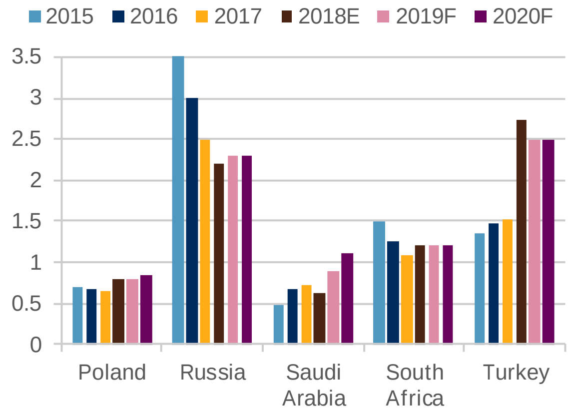
Non-Performing Assets % Of Total Loans



Source: S&P Global Ratings

Chart 28

Credit Losses % Of Total Loans



Source: S&P Global Ratings

Latin America

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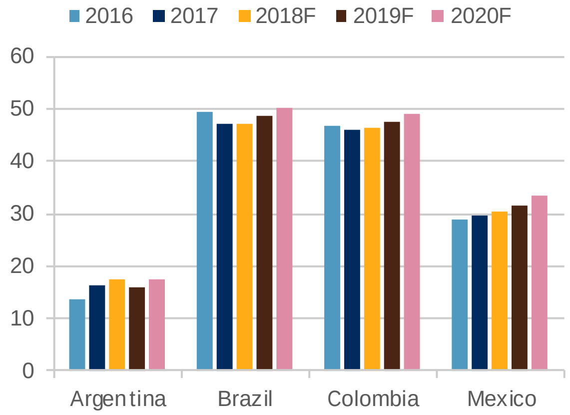
- Brazil's political uncertainties, combined with weaker-than-expected economic performance during the first quarter, have lowered business confidence and credit demand.
- Declining business conditions in Argentina compensated by the impact of high rates on loans and securities holdings.
- Cautious lending allows Mexican banks' profitability and asset quality to remain resilient amid a weaker economy.
- Despite Colombia's improving economy and borrowers' capacity, we expect credit demand to remain moderate.

Read more about Latin America's banks in "Latin American Banking Sector Mid-2019 Outlook: Weaker Economic Prospects And Slowing Credit Demand Will Test Banks' Resilience," July 18, 2019.

Chart 29

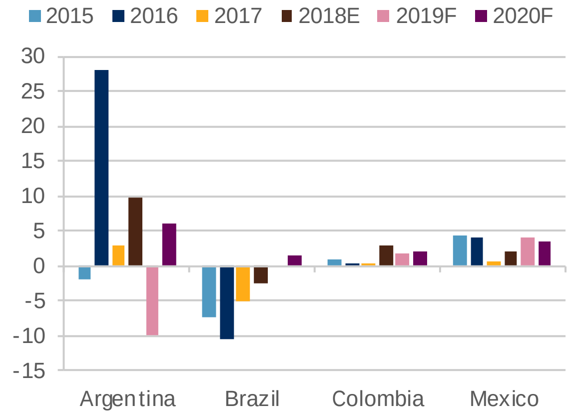
Domestic Credit % Of GDP



Source: S&P Global Ratings

Chart 30

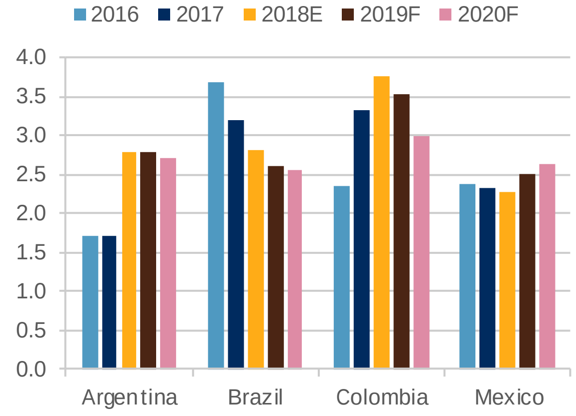
Change In Inflation Adjusted House Prices (%)



Source: S&P Global Ratings

Chart 31

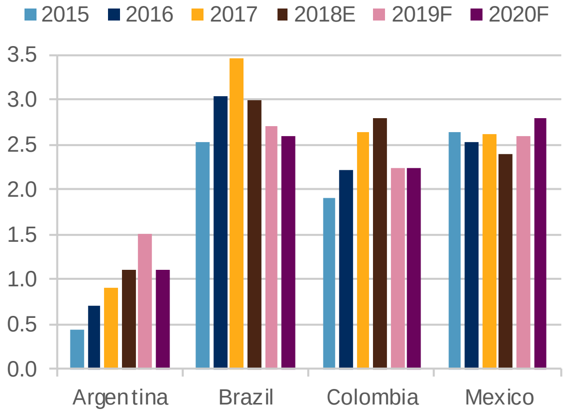
Nonperforming Assets % Of Total Loans



Source: S&P Global Ratings

Chart 32

Credit Losses % Of Total Loans



Source: S&P Global Ratings

Related Research

- Asia-Pacific Financial Institutions Monitor 3Q 2019: Stable Outlook Likely To Persist Through 2019, Aug. 1, 2019
- European Corporate Credit Outlook Mid-Year 2019: A Switch In Time?, July 25, 2019
- Latin American Corporate Midyear Outlook: Improving Access To Financing, But Political Uncertainties Persist, July 24, 2019
- Top 60 Asia-Pacific Banks: The Long Credit Cycle Lumbers On, July 24, 2019
- Latin American Banking Sector Mid-2019 Outlook: Weaker Economic Prospects And Slowing Credit Demand Will Test Banks' Resilience, July 18, 2019
- EMEA Financial Institutions Monitor 3Q2019, July 16, 2019
- Global Banks Midyear 2019 Outlook: Low For Longer And Digital Prompt Further Rethink, July 11, 2019
- China Credit Outlook: Liquidity Crunch Just The Latest Headache For Corporate Issuers, July 8, 2019
- Sector Roundup Asia-Pacific: Ratings Largely Treading Water, June 27, 2019
- Credit Conditions Asia-Pacific: Return Of Uncertainty, June 27, 2019
- Credit Conditions EMEA: Double, Double Toil and Trouble, June 27, 2019
- Credit Conditions Latin America: Optimism Fades Despite Fed's Pause, June 27, 2019
- Credit Conditions North America: Trade Tensions Cloud The Outlook, June 27, 2019

Acronym Glossary

BDGT	Budget
DBT	Debt
BICRA	Banking Industry Country Risk Assessment
Vlw	Very Low
Lw	Low
Int	Intermediate
H	High
VH	Very High
EH	Extremely High
EBITDA	Earnings Before Interests, Taxes, Depreciation and Amortization
ROC	Return on Capital
INT. COV.	Interest Coverage
FFO	Funds From Operations
NFC	Nonfinancial Corporations
GDP	Gross Domestic Product
f	Forecast

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