

---

**S&P Global**  
Ratings

# Frontier Sovereigns 2023: Navigating Treachurous Waters

Macroeconomic And Sovereign Ratings Outlook

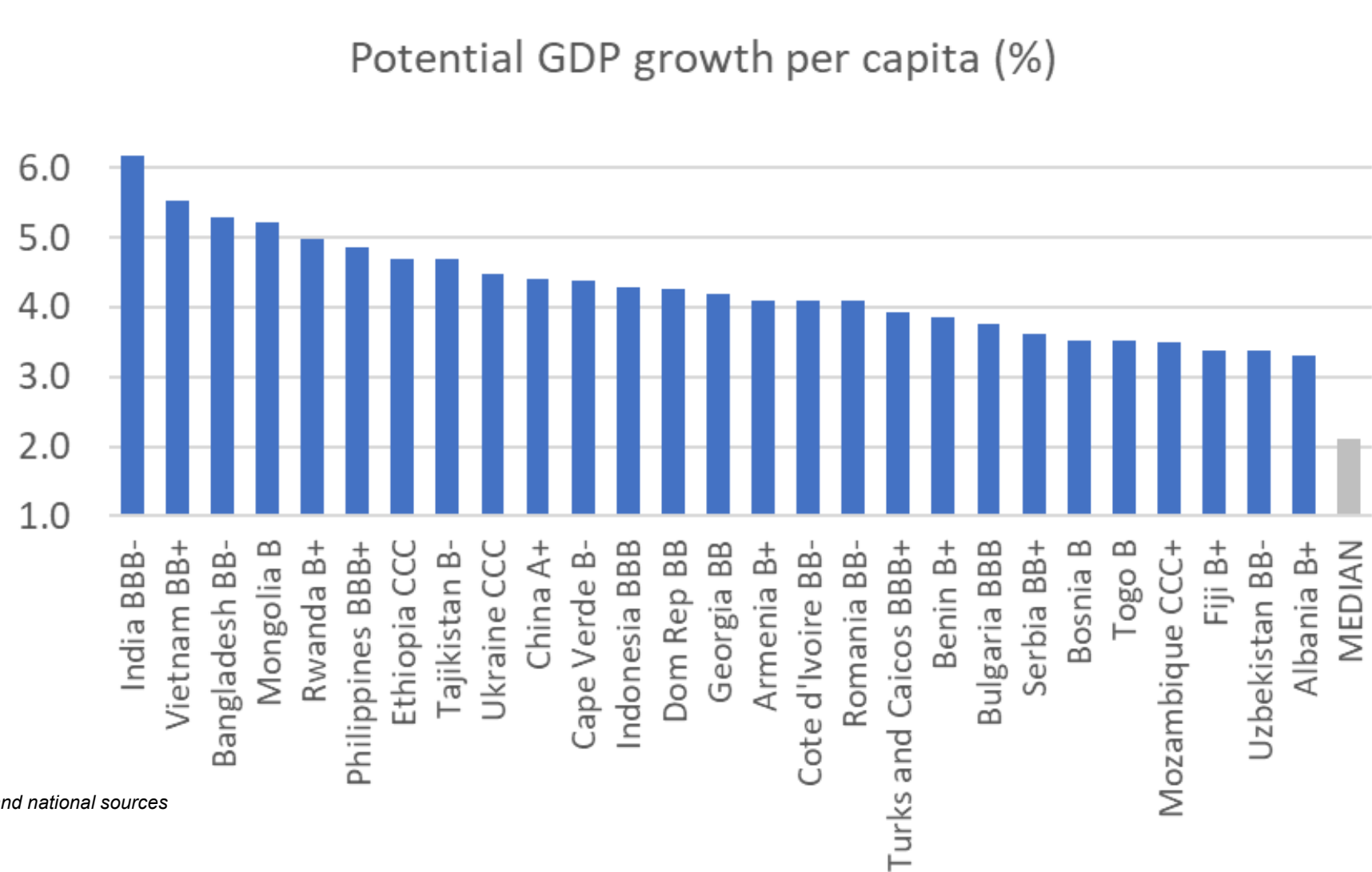
**Frank Gill**

**Senior Director, Government Ratings EMEA**

**June 2023**

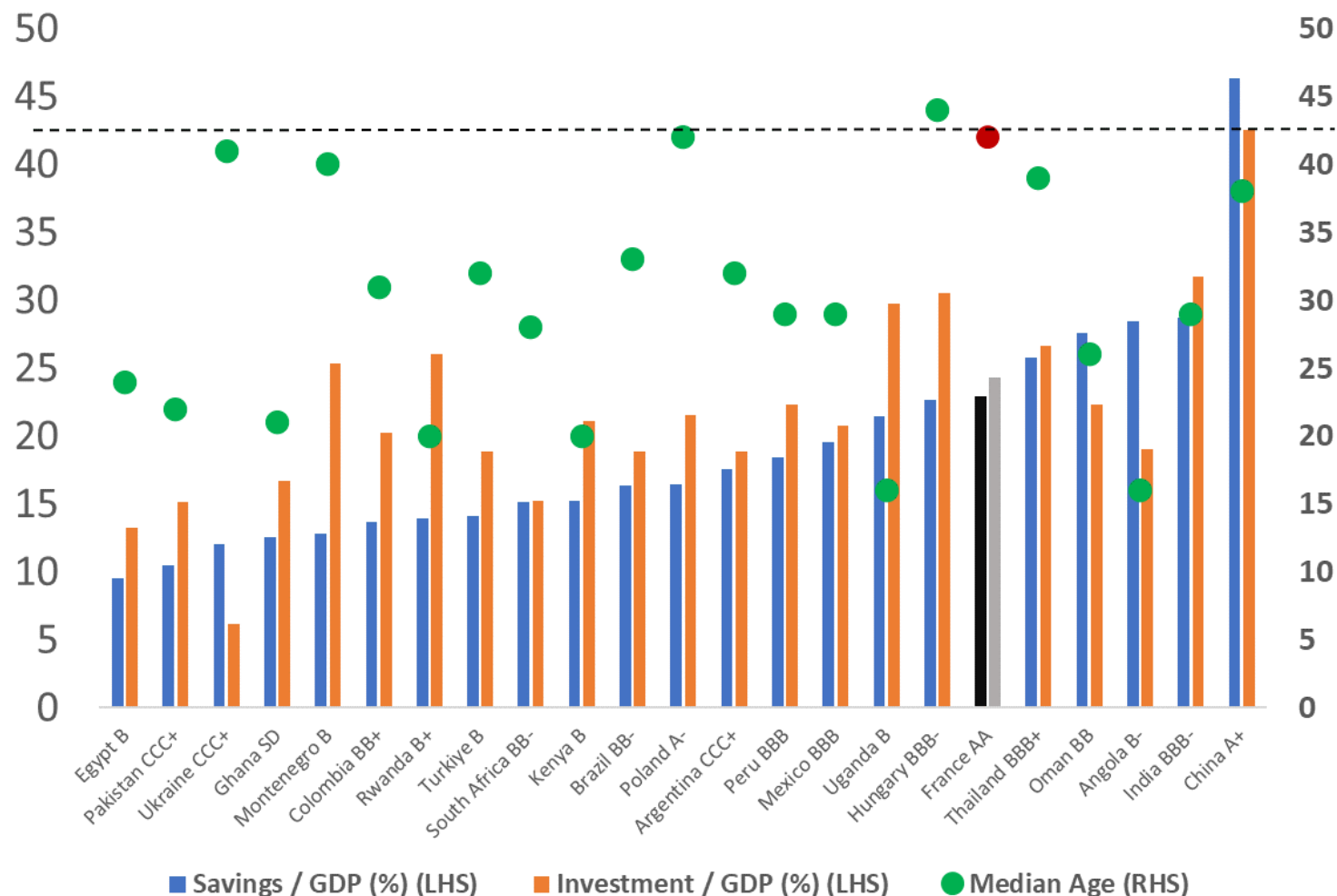


# Potential Growth in Frontier Markets: High



S&P Global Data and national sources

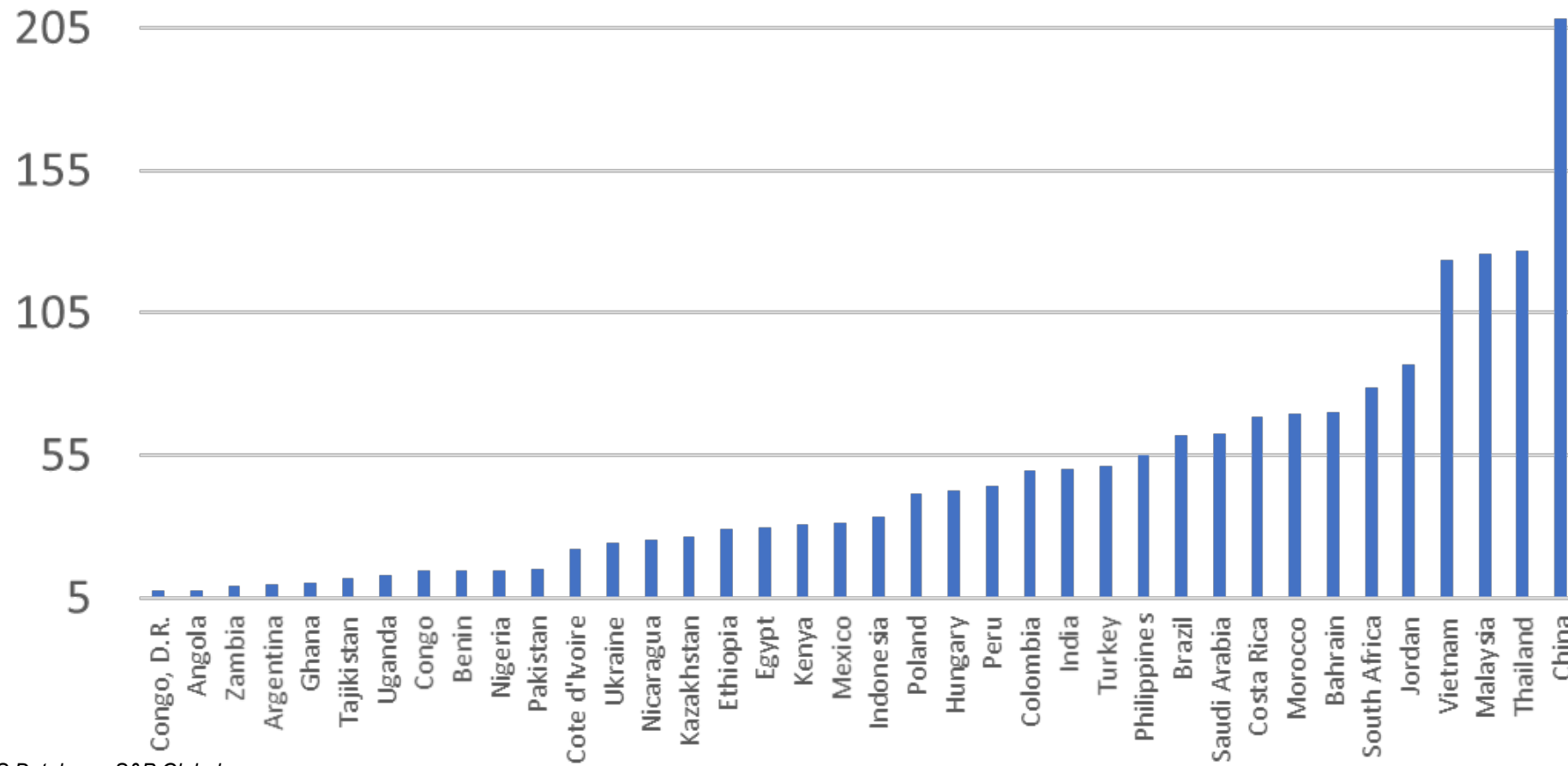
# What is an Emerging Market? A Low Savings Economy



- One classic definition of an Emerging Market is a Low Savings Economy, where investment demand exceeds domestic capacity to generate savings.
- Large dissavings are features of low income economies Egypt, Pakistan, Ghana, but also middle income economies Montenegro, Turkey, Brazil. China's savings exceed 45% of GDP. India's savings are near 30%.
- High Savings generally imply domestic financing capacity, even when fiscal debt is elevated (India).
- The story of Emerging Market distress in 2020-2022 was principally focused on low savings economies with limited domestic financing capacity, and hence high outstanding stocks of foreign currency debt.

# What is an Emerging Market? Low Domestic Financing Capacity

Banks' claims on resident non-gov't sector/GDP



IMF/World Bank SDDS Database, S&P Global

# What is an Emerging Market? Currency Pressures end 2022 vs 2019

EM Devaluations end 2022 versus end 2019

NEER since end 2019

67.0%

10.7%

2022 versus 2019 saw large currency devaluations in Argentina, Turkey, Ghana, Egypt, Colombia and Nigeria, despite many of them being net energy exporters.

High global inflation, driven by processed fuels and elevated food prices. This may be coming to an end, but the uncertainty around the war, China's reopening still persist.

Where the share of foreign currency debt exceeds 50% of government debt, currency pressures fed immediately into balance sheet shocks (Egypt, Ghana, and Turkey, but not Brazil).

Weak currencies forced many EM central Banks to tighten policy beyond what underlying demand perhaps required.

Powered by Bing

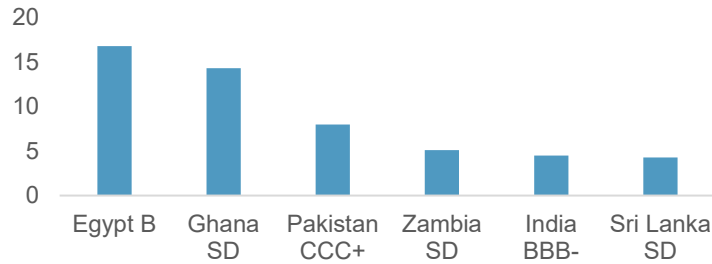
© Australian Bureau of Statistics, GeoNames, Microsoft, Navinfo, OpenStreetMap, TomTom

# Rated EM Sovereigns Operating Double Digit Inflation (30 VS 6)

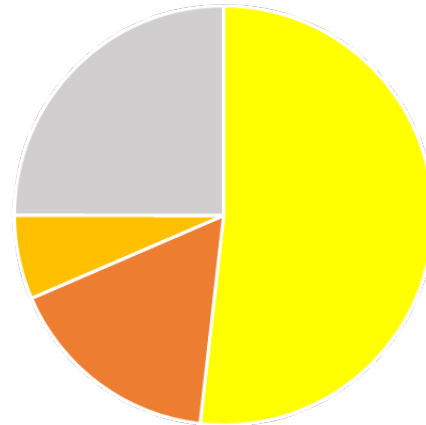
## 2019

- Angola B-
- Argentina CCC+
- Egypt B
- Nigeria B-
- Turkey B
- Uzbekistan BB-

Net Central Bank Claims on Government / GDP (%)



Nigerian CPI Basket

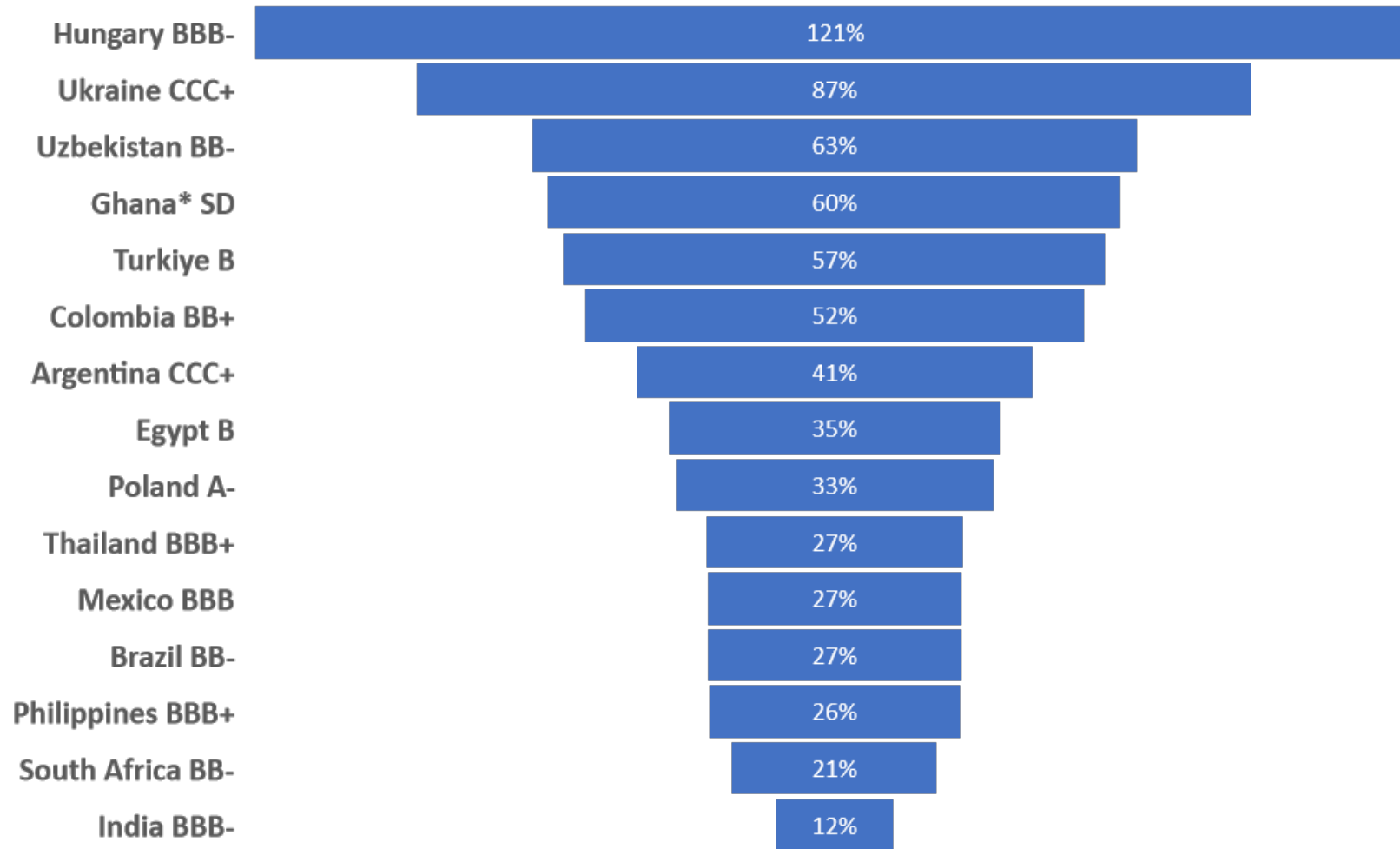


■ Food 
 ■ Housing, Water, Electricity, and Gas 
 ■ Transport 
 ■ Everything Else

## 2022

- Argentina CCC+
- Bosnia B
- Botswana BBB+
- Bulgaria BBB
- Burkina Faso CCC+
- Chile A
- Colombia BB+
- Congo DRC B-
- Egypt B
- Ethiopia CCC
- Georgia BB
- Ghana SD
- Honduras BB-
- Hungary BBB-
- Jamaica B+
- Lebanon SD
- Montenegro B
- Mozambique CCC+
- Nigeria B-
- North Macedonia BB-
- Pakistan CCC+
- Poland A-
- Romania BBB+
- Rwanda B+
- Serbia BB+
- Sri Lanka SD
- Suriname SD
- Turkiye B
- Uzbekistan BB-
- Zambia SD

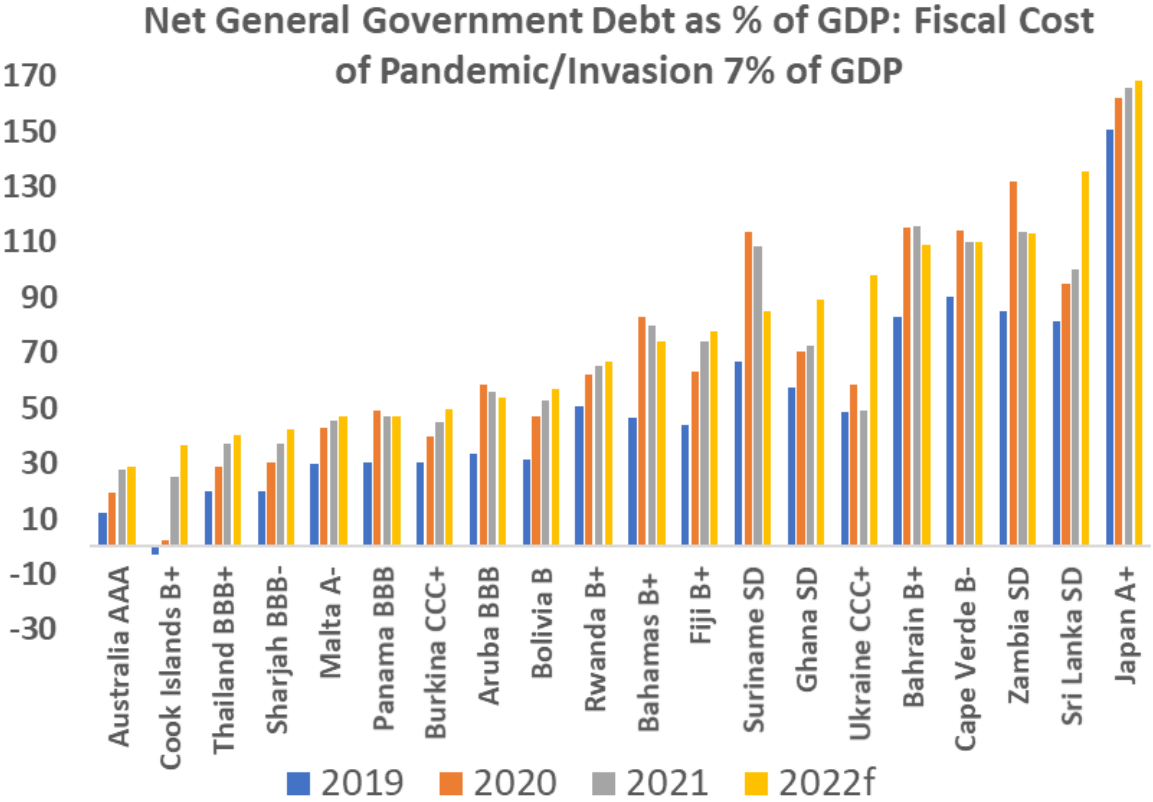
# What is an Emerging Market? Original Sin (Foreign Currency Debt as % of GDP)



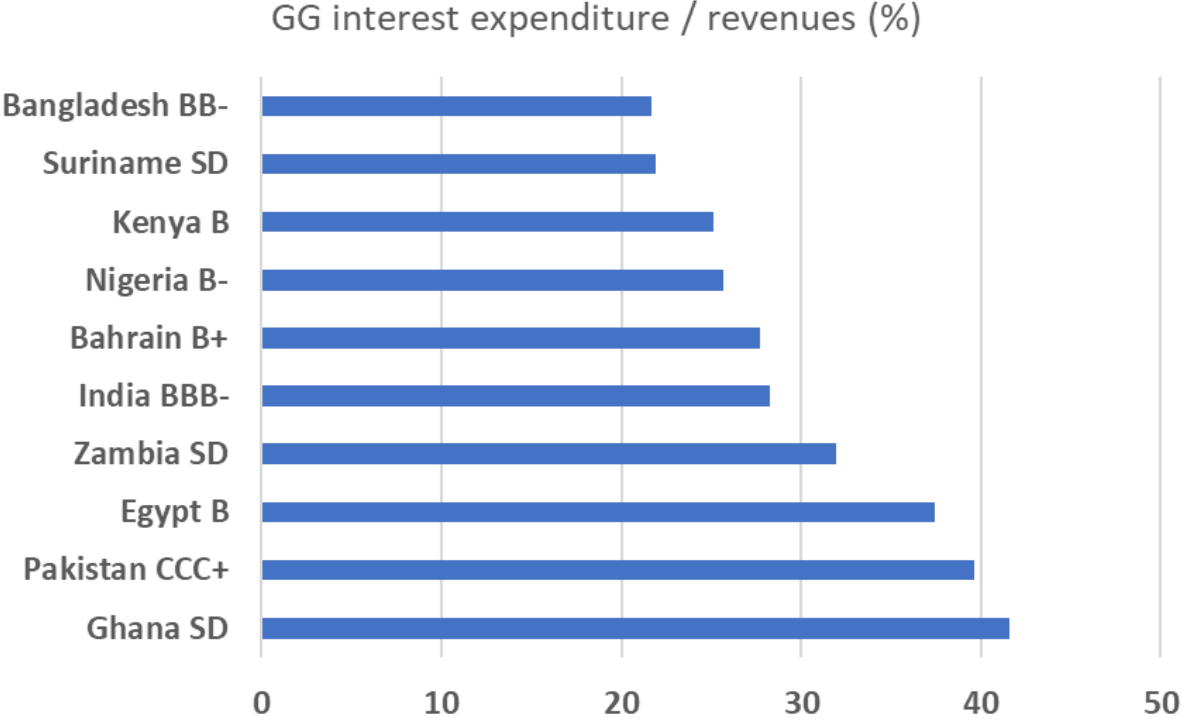
IMF/World Bank SDDS Database, S&P Global

# Cost of Duel Shocks to Emerging Markets?

## More government debt...



## More expensive debt (2022 estimates)...

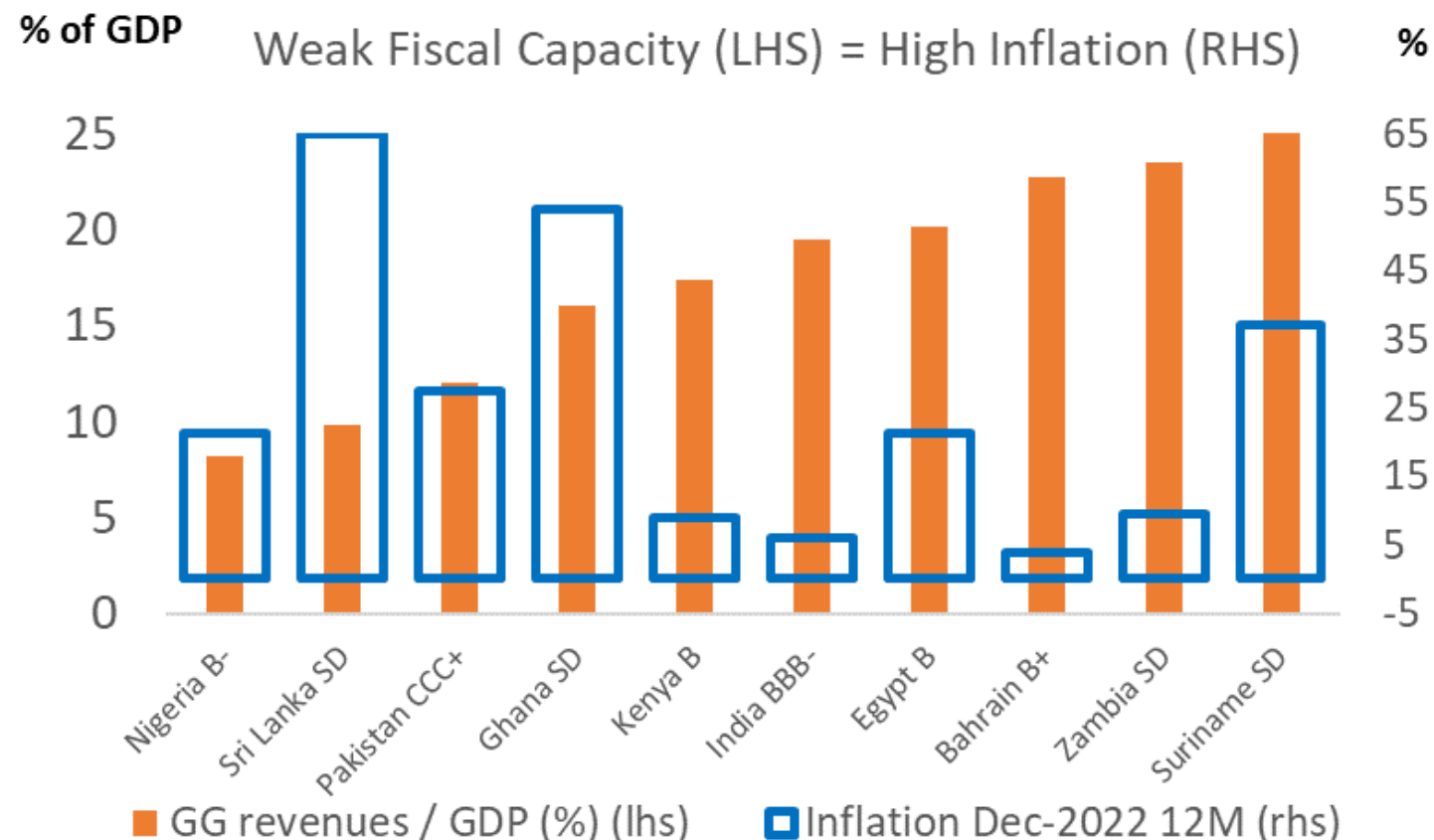


S&P Global Data and national sources



# What is an Emerging Market? Low Fiscal Capacity

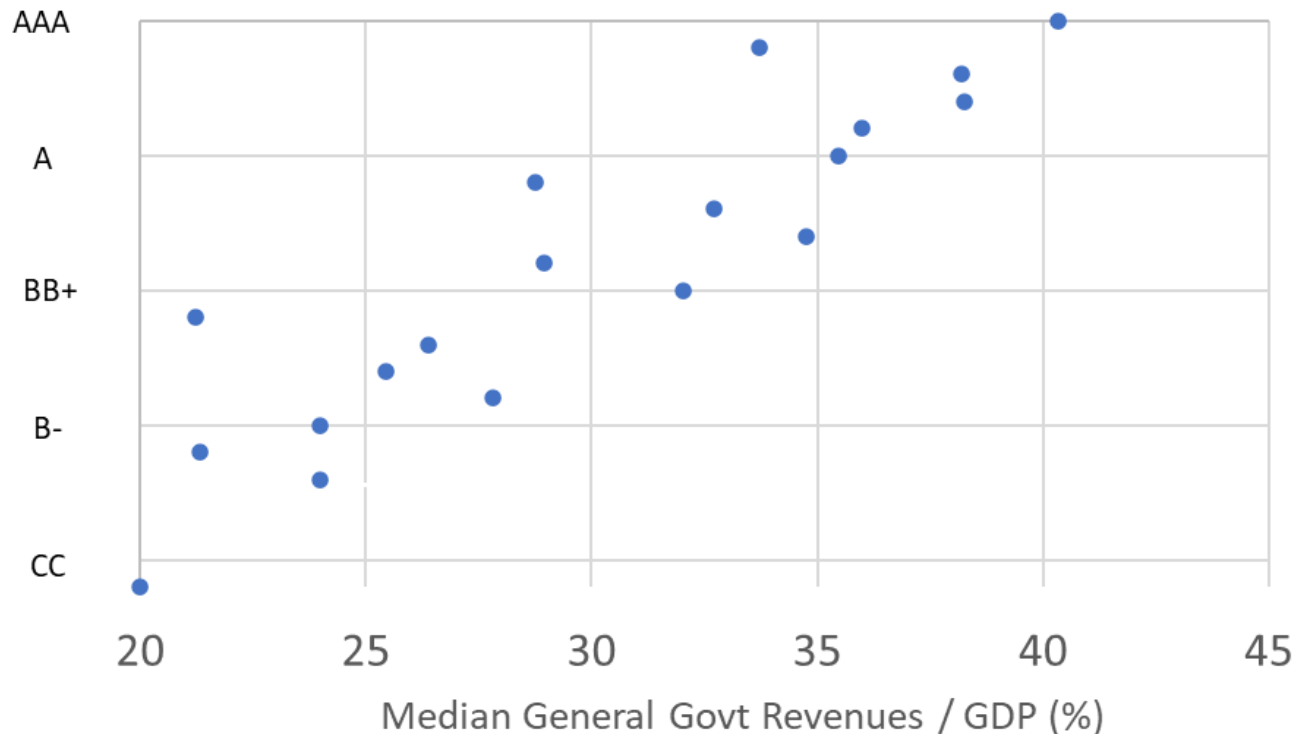
“Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.” Milton Friedman (1970)



- 10 EMs with the highest cost of debt as measured by interest/revenues.
- Where tax pressure is lower, typically inflation has been higher.
- Monetary financing in these sovereigns.
- High inflation/strong \$ drove currency devaluations across weaker EMs last year, especially large food and energy importers.
- External conditions have improved lately, as energy and food prices ease, and visibility on FED policy is less opaque.

# Strong Relationship Between Creditworthiness and Tax Pressure

## How Taxable is GDP?



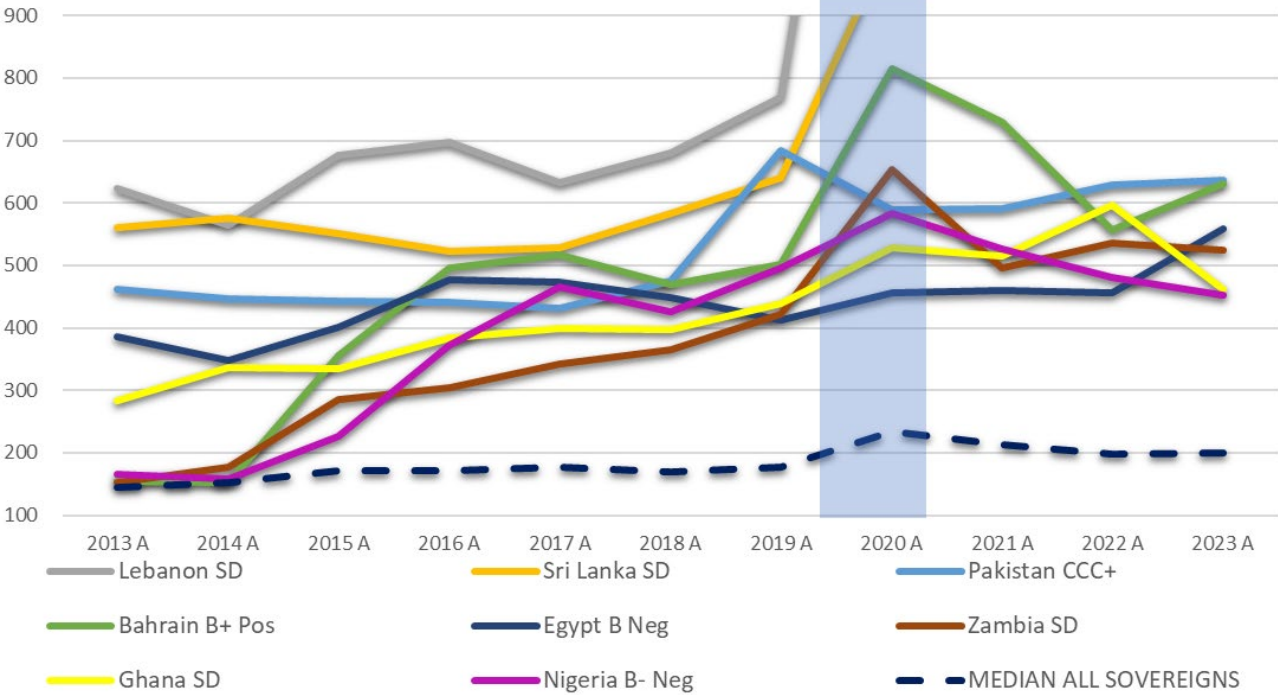
- The ability to finance spending by taxing domestic economic activity is a key determinant of creditworthiness.
- S&P Global looks at the level, and the reliability of tax earnings by the general government to service debt.
- There is a strong relationship between tax pressure and Sovereign ratings.
- Tax pressure is also closely correlated to per capita GDP and institutional assessments, although there are considerable differences across different states.

# Fiscal Capacity a Key Determinant of Ratings

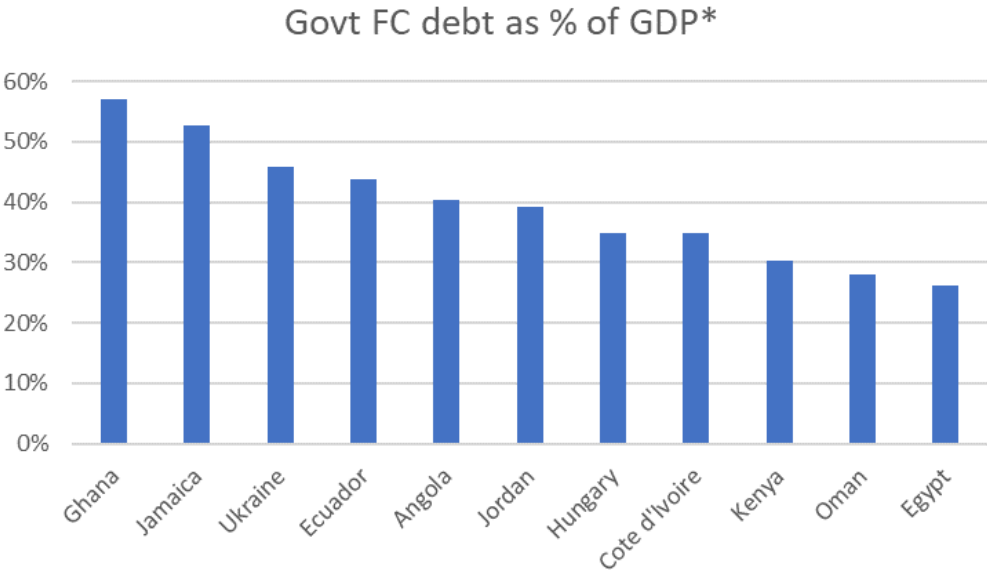
- Debt to Revenues

## Debt to Revenues (%)

Source: S&P Global, national sources

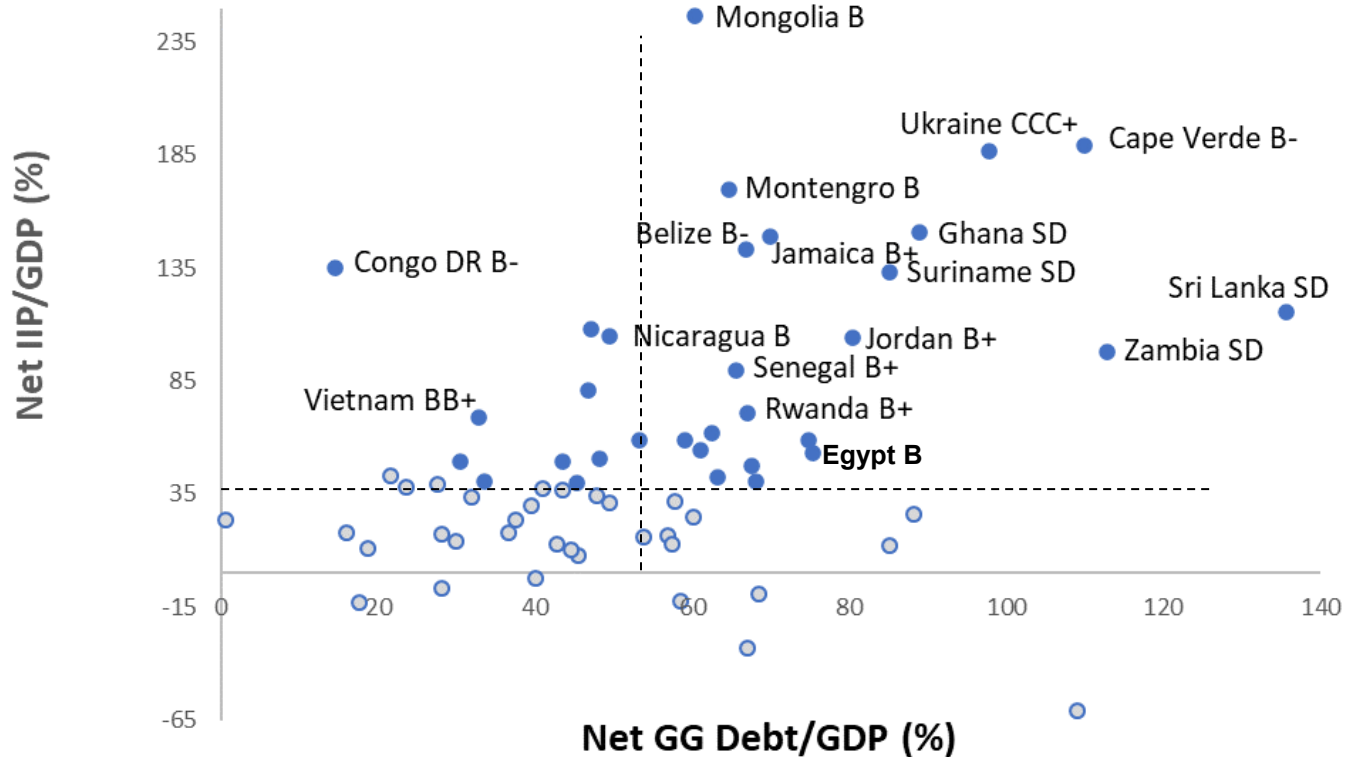


## Foreign Currency Public Sector Debt as % of GDP



# Fiscal Imbalances Can Drive External Ones

NET EXTERNAL LIABILITIES AS % OF GDP VERSUS NET GOVERNMENT DEBT AS % OF GDP



- A large external liability position often reflects that the stock of domestic savings is low, and vulnerability to external financing conditions is high.
- How can Emerging Markets grow and develop without dissavings? There are a few EM sovereigns (for example Vietnam) with a large net external liability but low public debt. But this is exceptional.
- Sub-saharan Africa combines high external and fiscal liabilities, low savings, and low fiscal receipts. The absence of lending to the private sector may reflect crowding out/unpredictable governance/or completely unrelated factors.
- The analysis of default is complicated: Argentina has been a net external creditor for decades.



Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

**[spglobal.com/ratings](http://spglobal.com/ratings)**