Economic & Financial Analysis

EM Rates and Credit

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Please note that this is the non-investment research version of EM Credit Outlook and does not include the investment strategies contained in the Global Markets Research version of the report

EM Credit Outlook

Risky Business

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Executive summary

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It's a sit up and pay attention moment when emerging markets run a collective fiscal deficit of some 10% of GDP. Eye-watering stuff that pushes the aggregate emerging markets debt/GDP ratio above 60%. That is a level that emerging market debt should not be above, but such is the effect of the 2020 crises that in fact an average of 70% of GDP is probable in the medium term. Therein lies the biggest risk for emerging markets, one that will be ever present in the coming decade. We explore further and assess the risks.

Given that context, our constructive stance on emerging markets has a focus just on the immediate few quarters, where we view the emerging space as one that aligns in a net positive sense, just about. The year ahead should see the US dollar remain on a weakening trend, a circumstance that cushions emerging market economies in many ways. It is also a year in which there will be some upward pressure on core rates, but not too much. This is a goldilocks combination, as there is a needed reflection and global growth underpinning, but no big bad bear market for core bonds.

To make money in emerging markets, risk must be taken though. Not a new theme, but in 2021 it is very apt. It is in the high yielders where value can be gleaned. This is applicable in both the local currency and hard currency spaces. We think that risk adjusted returns are tolerable enough to pan them as the way to go in the next few quarters. But having to go out the credit curve for returns is fraught with added risk. It needs to be balanced with a rolling strategy, on tight stops where applicable.

The low yielding emerging markets offer very little apart from a vanilla low yielding rolldown play that remains vulnerable to any outsized upside to core US dollar rates. There are many places to hide in low yielding EM, but very few to make decent alpha. Even risk adjusted based off current volatility does not tell the full story here, as future volatility can spike, as it most probably will at some point.

Better then to be positioned in selected product that provides a decent cushion of spread, ensuring that the implied breakeven in the spread is not breached too easily.

Key drivers and themes for 2021

- **Ongoing dollar weakness alongside a reflection theme present a positive backdrop**
- **Treasury yields will rise, but not by much; 1.25% to 1.5% for the 10yr is the range**
- **Risks come from valuations. We go into 2021 with tight credit spreads overall**
- **The value is in high yield, both in credit, FX and local rates. Not much elsewhere**

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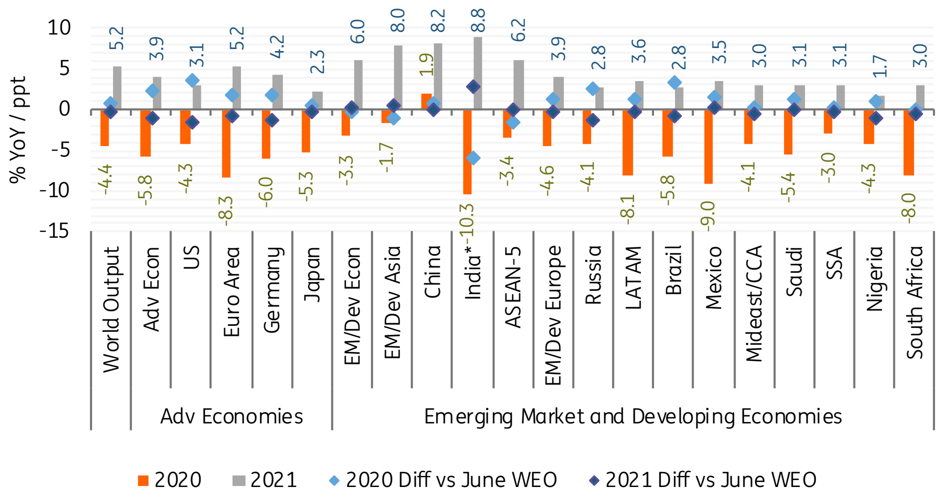
Global impulses

These have been the toughest of times for economies globally. The fiscal expansion to help pay for large holes left in the macro fabric is nothing short of unprecedented in modern times. And the collapse in activity is also staggering. As we make our way through the early part of 2021, we will continue to battle the virus. Application of the vaccine through 2Q will help to get us back to some sense of normalcy. But it will be a different kind of normal, with lots of government debt and macro collateral damage to deal with in the coming number of years, and quite probably decades.

Fig 1 IMF WEO 2020-21 GDP growth projections for country groups/regions (% YoY)



* Fiscal year basis for India
Source: IMF (WEO Oct 20), ING

Core rates will be higher in 2021, but not by that much

Against this backdrop we expect core market rates to remain relatively contained. There are two factors driving this. First, the US Federal Reserve will not even consider hiking rates until 2023. That's two full years of unchanged policy ahead and, for the first of those - 2021 - there is absolutely no need to apply a rate hike discount. Second, central banks are impacting longer tenor rates through ongoing quantitative easing (QE) policies. There is little prospect for a let up here through 2021. In fact, if anything, a twist in the direction of increased longer dated buying is probable from the Federal Reserve.

Should we worry about bond supply? Well yes and no. There is little doubt that the price of extra issuance in the coming years will be at the whim of the buyers of bonds. That opens a vulnerability in terms of price for issuers. However, to the extent that there is ample demand for core bonds there should not be an issue. Certainly, the flows seen into core paper in recent quarters suggests that investor demand remains strong. Moreover, those players on the demand side include central banks, and therein lies the real ability to contain market yields, and so far without the need for explicit caps.

That is not to say that market rates won't rise, as in all probability they will. We expect to see the US 10yr trade with a 1-handle as a theme through 2021. Our central tendency sees it in the 1.25% to 1.50% area as we progress beyond the dark days of 1Q 2021. But we are not expecting the 10yr to get to a 2-handle. And if it did get there, it would be quite short lived. Two reasons for this. First, the macro environment with large output gaps won't support it, and second, central banks would likely prevent it, or at least curb the enthusiasm for higher yields as economies need time to heal and rebuild.

Steeper rates curves from the back end to reflect a reflection theme

The central prognosis for 2021 sees the US 10yr yield heading for the 1.25% to 1.5% area, steepening the 2/10yr curve towards 100bp, with the front end anchored. The 30yr is another animal, being very technically led. At 1.7% now, in all probability it hits a 2-handle in 2021. But it is unlikely to make much progress beyond that. The 10/30yr spread by implication sees a mild flattening. While a 30bp+ uplift in the 30yr yield is in fact a big move given its elevated duration at such low rates, it is still not what we would describe as a bear market for bonds. Higher market rates and a steeper curve – yes. A big bad bear market – no.

And that is reflected in the structure of the curve, which sees the 5yr trade rich versus the 1yr and 10yr – a classic sign that this is not a bear market. In fact, that construction is consistent with the Fed keeping its finger very much on the easing button, as we think it will as a theme through 2021.

The risk profile will be dominated by inflation (not supply)

The biggest risk to this contained rates view is most likely to come from inflation. Right now, there is minimal inflation risk, and large output gaps should keep a lid on that risk. But if service sector bottlenecks were to emerge post pandemic, then a rush higher in prices could yet threaten higher-than-forecast yields. There is an alternative extreme, where we slip back into deflation, raising the spectre of negative nominal market rates – that, thankfully, is a much lower probability outcome for 2021.

Reflation, growth and a weaker dollar

The growth profile will be good in 2021. In most economies there is the potential for above-trend growth, as output gaps have room to close. In the US that will imply a 4-plus handle on growth, and well above the 2-handle we had become accustomed to pre-crisis. Europe will lag, but should still see above-trend growth, at least for 2021.

The other important impulse comes from the dollar. We expect to see broad-based weakness as a theme for 2021. This is centred on an upswing in global growth, which typically takes the bid out of the dollar relative to comparables that tend to get underweighted during downturns. A Biden administration is also expected to be far less antagonistic on the international trade front, again reducing the bid to the dollar.

Trickle down to Emerging Markets

Apart from core rates, global growth and the dollar, the other ingredient to assess is the credit environment. As we face into 2021 there has been a consistent build in ratio of downgrades to upgrades, which is a perfectly typical reaction to recession (and this has been a big one). Despite that, default rates remain relatively subdued.

Default rates for a typical recession would be in the area of 7-8%. The rear-view mirror currently shows defaults running at half that. The risk is that that worsens as we progress through 2021. During the great financial crisis, cumulative defaults ran at close to 15% over a two-year period. So, the mood in credit is positive, but there are vulnerabilities.

Added to that is the fact that credit spreads in the investment grade corporate space are quite tight right now. In fact, spreads are not only back to pre-Covid-19 levels but are through them. And that against a backdrop in which core rates are still ultra-low, implying a very low all-in yield. The link to emerging markets is indirect here through relative value, and potential for a risk-off inspired corporate spread widening period.

Hard currency versus local currency

The early months of Covid-19 saw hard currency credit outperform versus local currency. This reflected a firming in the dollar premium, which left emerging market currencies vulnerable, but also a strong credit market environment generally, underpinned by a strong primary market in the investment grade space.

The more recent months have seen a shift into local currency, and local currency outperformance versus hard currency. This reflects a dollar-weakening trend. And as credit has continued to perform, hard currency emerging markets have been performing too, albeit underperforming versus local currency.

As we look into the early months of 2021, we would envisage more of the same. There is room for more local currency outperformance. This is mostly through the FX channel, but there is also a high running yield attainable in high yield emerging markets that enhances the overall total return performance versus lower yields in hard currency.

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Fig 2 General government gross debt (% of GDP for 2020)

Lowest (in %)		Highest (in %)	
Estonia	19	Lebanon	172
Russia	19	Suriname	145
Kuwait	19	Belize	135
Azerbaijan	20	Bahrain	128
Kazakhstan	23	Mozambique	121
Bulgaria	24	Angola	120
Guatemala	32	Zambia	120
Chile	33	Congo (Rep)	105
Saudi Arabia	33	Brazil	101
Nigeria	35	Jamaica	101
Paraguay	35	Sri Lanka	98
Uzbekistan	36	Argentina	97
UAE	37	Montenegro	91
Moldova	38	India	89
Indonesia	38	El Salvador	89
Tanzania	39	Jordan	88
Czech Republic	39	Croatia	88
Peru	39	Pakistan	87
Bangladesh	40	Egypt	87
Turkey	42	Tunisia	85
Côte d'Ivoire	42	Albania	83
Benin	42	Oman	82
Latvia	44	Slovenia	81
Cameroon	45	South Africa	79
Romania	45	Hungary	77
Honduras	46	Morocco	77
Vietnam	47	Ghana	77
PNG	47	Israel	77
Tajikistan	48	Gabon	74
Lithuania	48	Costa Rica	70

Source: IMF (WEO Oct 20), ING

Fiscal and external debt sustainability

Based on IMF data from the October 2020 World Economic Outlook, emerging market economies are expected to run a fiscal deficit of 10.4% of GDP in 2020 with debt/GDP rising by 9ppt to 61%. With many support measures continuing into 2021 and GDP still below 2019 levels, fiscal deficits are projected to remain high at 8.8% of GDP in 2021 and only coming down to around 6.1% of GDP in 2025. All in all, the EM general government gross debt burden will continue to rise towards 70% of GDP in the medium term.

In Figure 2 on the left, we look at 2020 gross debt levels for individual EM countries. Among the sovereigns that have defaulted on parts or all of their debt over the past twelve months, Argentina (97%), Belize (135%), Lebanon (172%), Suriname (145%) and Zambia (120%) have in common a high debt/GDP ratio, with Ecuador (69%) being the exception. Thus, we tend to be more concerned about countries with a higher debt burden albeit it is rarely the sole reason for defaults.

Over the next years, debt sustainability and downgrade fears will remain with us but only become acute for some, particularly sovereigns that are struggling with stabilising their debt trajectory (due to structurally high deficits and/or low growth), spend a too high portion of their revenues on debt servicing and/or rely on external debt markets for refinancing. With our FX strategists expecting a supportive backdrop for EM currencies, a high FX debt/total debt share should be less of an imminent threat for now.

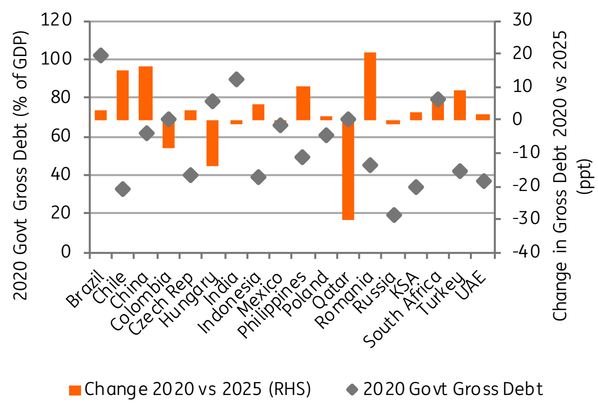
Among the larger sovereigns, fiscal concerns are largest in Brazil and South Africa with debt stabilisation hinging on economic and fiscal reforms. In frontier EM, Sri Lanka is the weakest link, with stretched debt/GDP, interest servicing and external refinancing needs (including a US$1bn Eurobond maturity) amid low fiscal credibility. Angola, Bahrain, Egypt, Oman and Pakistan have a combination of increasing debt burden or high levels to start with, high interest service and/or elevated financing needs, but benefit from supportive anchors (IMF programmes or other sponsors). Others with fiscal vulnerabilities include Costa Rica (rising debt burden and high interest service), El Salvador (high debt burden and interest service amid 2021 elections), Ghana (high debt burden and interest service) and Kenya (rising debt on large primary deficits and high interest service).

External vulnerabilities should remain in check thanks to the favourable backdrop, but Bahrain, Belarus, Sri Lanka, Tunisia and Turkey, among others, continue to have weak balance sheets (notably low FX reserves and high external financing needs).

Debt levels set to rise further on balance, with risks higher for some

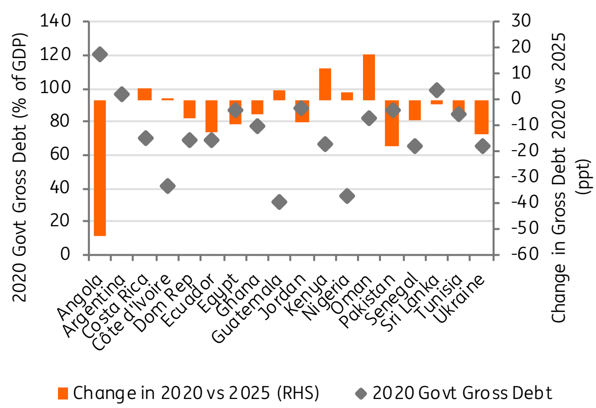
Figures 3 and 4 display the expected change in gross debt levels (in percentage points) between 2020 and 2025 for selected EM economies based on IMF projections.

Fig 3 Major EM: Change in gross debt 2020-25 (ppt)



Source: IMF (WEO Oct 20), ING

Fig 4 Frontier EM: Change in gross debt 2020-25 (ppt)



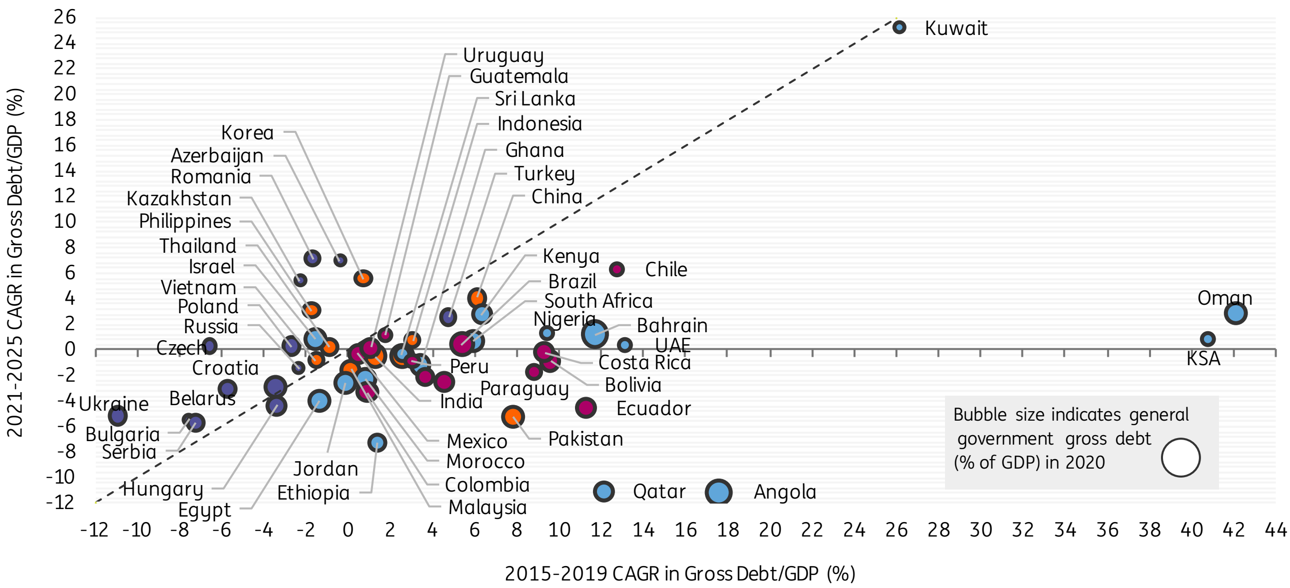
Source: IMF (WEO Oct 20), ING

We look out for large increases, or more modest ones in the case of already high debt levels. The IMF expects the highest increase in gross debt/GDP between 2020 and 2025 for Kuwait (+71ppt to 90% in 2025), Romania (+21ppt to 65%), Oman (+18ppt to 99%), South Korea (+17ppt to 65%), China (+16ppt to 78%), Chile (+15ppt to 48%) and Kenya (+12ppt to 79%). Meanwhile, Bahrain (+9ppt to 137%), Brazil (+2ppt to 104%) and South Africa (+6ppt to 85%) see more modest increases, but with already high debt levels to begin with.

In contrast, the largest reduction in debt levels is projected for Angola (-53ppt to 67%) Qatar (-30ppt to 38%), Pakistan (-18ppt to 69%), Serbia (-15ppt to 45%), Hungary (-14ppt to 63%), Ukraine (-14ppt to 52%), Ecuador (-13ppt to 56%), Ethiopia (-13ppt to 56%), Croatia (-12ppt to 76%) and Egypt (-10ppt to 77%) over the same time horizon.

It is important to highlight that this is not set in stone and we believe the IMF forecasts tend to be too optimistic for EM sovereigns on the right of (or below) the dotted line in Figure 5, which had increased their debt/GDP ratios in previous years but are projected to reduce or stabilise their indebtedness in the coming years.

Fig 5 CAGR of government gross debt/GDP in 2015-2019 vs 2021-2025 (% YoY)



Source: IMF (WEO Oct 20), ING

Among the larger economies, Brazil and South Africa have seen their debt/GDP ratios rising to high levels (>80%) amid subdued growth even before the pandemic (respective average growth of 1.5% and 0.8% between 2017 and 2019), thus stabilisation hinges on reform implementation. This is also the case for the GCC oil exporters, with an additional sensitivity coming from the oil price outlook. Most have started fiscal consolidation following the oil price collapse in 2014/15 but debt/GDP has nonetheless risen substantially over the past five years, with Bahrain and Oman seen as more vulnerable given higher debt ratios and limited reserve assets.

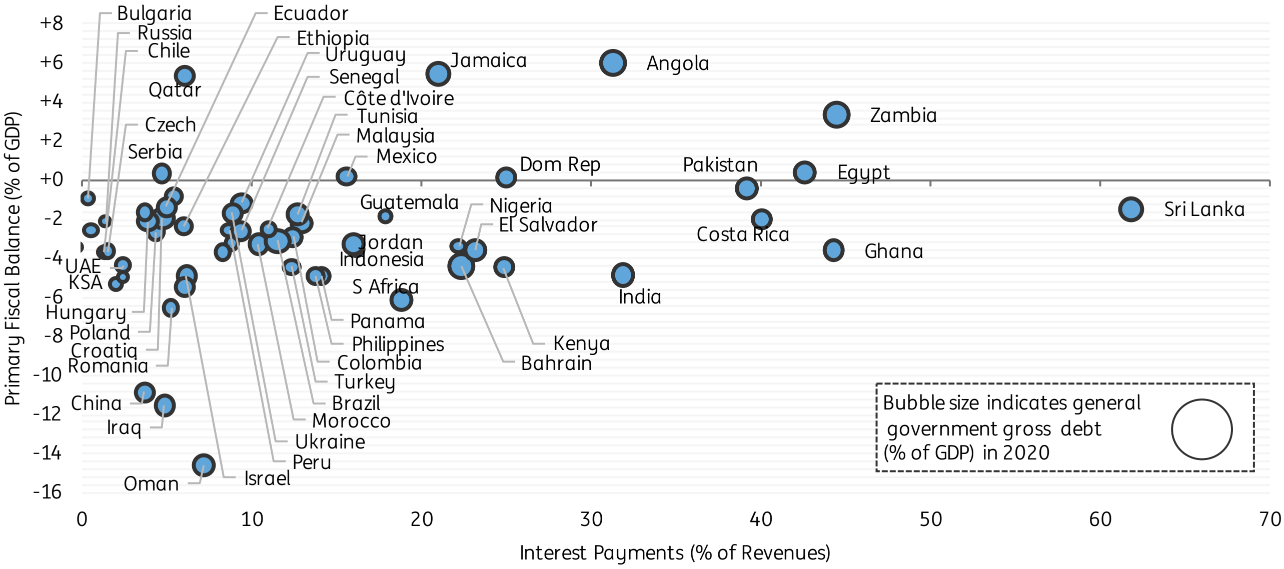
Lastly, the IMF's optimism is evident for sovereigns that are in a lending arrangement with the fund, including Angola (US$3.7bn 3yr Extended Fund Facility or EFF since December 2018), Pakistan (US$6bn 39-month EFF since July 2019) and to a lesser extent Ecuador (US$6.5bn 27-month EFF since September 2020). For those, debt/GDP has risen by 10-30ppt over 2015 to 2019 but is projected to fall substantially over the next five years. However, we acknowledge that IMF programmes with Egypt (since 2016) and Ukraine (on and off since 2015) have led to a 15-30ppt decline in debt/GDP until 2019 while we had seen reform progress in Angola and Pakistan before the pandemic.

Debt service weighs on frontier EMs while stronger sovereigns benefit from low yields

When it comes to interest service on government debt, we see two key drivers: principally, increased borrowing will mean that sovereigns have to pay more on the larger nominal amount of debt outstanding and an increased risk premium. However, we have seen evidence for lower borrowing costs in countries that benefitted from very accommodative monetary policies although this has been mostly limited to economies with deep local debt markets (thanks to rate cuts and central bank bond purchases) and stronger fundamentals (with high grade sovereigns having dominated hard-currency debt issuance this year). As an example, interest rates on Mexican government bonds (BBB average rating) have fallen by 150bp in the first nine months of 2020 (to 5.7% in September based on IMF calculations) but those of South Africa (BB) have risen by 100bp over the same time (to 10.2%) as fiscal concerns have persisted.

Looking at Figure 6, we note that interest service weighs notably on frontier markets due to a combination of higher indebtedness, higher coupons and lower revenue capacity (as a % of GDP). Sri Lanka stands out with the highest interest payment/revenue ratio by a wide margin (62% in 2021), followed by Zambia (44%), Ghana (44%), Egypt (42%), Costa Rica (40%), Pakistan (39%), India (32%) and Angola (31%). In order to reduce debt, some of these countries have been required to run primary fiscal surpluses to reduce or stabilise their debt burden (as seen in Angola, Egypt and Jamaica).

Fig 6 Interest payment (% of revenues) vs primary fiscal balance (% of GDP) in 2021



Source: IMF (WEO Oct 20), ING

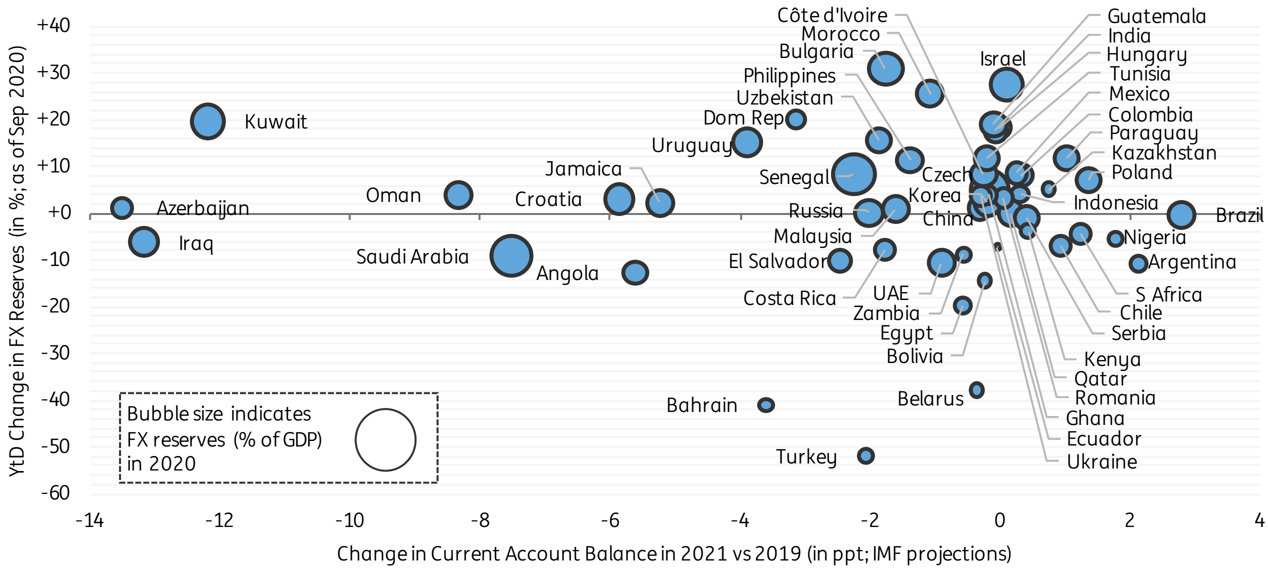
Window of opportunity to improve external resilience but some remain vulnerable

Going into 2021, we are generally less concerned about external vulnerabilities as they have decreased for many and are contained by a favourable external backdrop driven by a weak dollar and continued inflows.

Particularly for large commodity importers which tend to run current account deficits, the latter have narrowed (eg, for Brazil, Indonesia and South Africa) or become surpluses (India, Mexico, Philippines and Ukraine) due to pandemic-driven import compressions. Many of those will continue to run lower deficits in 2021 when compared to levels in 2019 (x-axis in Figure 7; based on IMF forecasts). In contrast, sovereigns that are reliant on commodity exports (Angola, Azerbaijan and Bahrain, Iraq, Oman and Saudi Arabia) and tourism (Croatia and Jamaica) see a deterioration.

Moreover, we believe that prudent FX reserve management has resulted in higher FX reserves this year (y-axis), a trend that should continue next year based on our view of a weak US dollar. However, Turkey (-52% YtD), Bahrain (-41%) and Belarus (-38%) have depleted their FX reserves, which have come down to a very low 6-7% of GDP as of September (see bubble size).

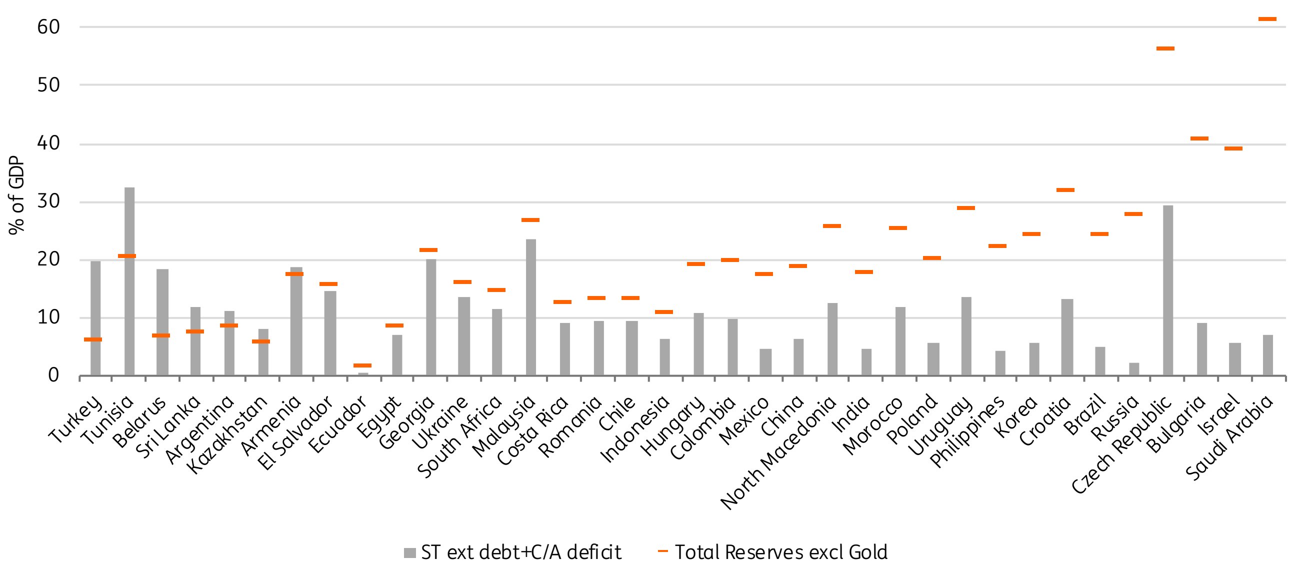
Fig 7 C/A balance differential between 2019 and 2021 (ppt) vs FX reserve YtD change (%; as of September 2020)



Source: IMF (WEO Oct 20, IFS), ING

In Figure 8, we compare short-term external financing needs (as a proxy, we use the IMF current account balance projections for 2021 and the World Bank's external debt statistics) vs FX reserves. External vulnerabilities are high for those economies where FX reserves don't cover financing needs over the next year. This is the case for Turkey, Tunisia, Belarus, Sri Lanka, Argentina, Kazakhstan (when excluding sovereign wealth assets) and Armenia, although we note that there is a lack of external debt statistics for smaller economies (eg, missing for Bahrain which also screens as vulnerable). We will continue to monitor FX reserves and refinancing needs but believe that the favourable backdrop should facilitate access to external funding sources for most sovereign in 2021.

Fig 8 Short-term external refinancing needs vs FX reserves (% of GDP; sorted by lowest differential)



Short-term external debt based on original maturity at issuance (as of June 2020); current account balance projections for 2021 based on IMF WEO
Source: IMF (WEO Oct 20, IFS), World Bank (QEDS), ING

Limited risks from external sovereign debt redemptions in 2021

Similarly, the favourable external backdrop should allow lower rated sovereigns to approach the primary market in 2021 in order to plug fiscal deficits or refinance debt.

When it comes to the latter, sovereigns that are rated single B or lower will face a modest US$12.6bn of debt redemptions in 2021, slightly down from US$13.4bn in 2020 (we exclude debt in default). Moreover, almost half of that amount can be attributed to Turkey (US$6.4bn across three bonds and one sukuk) which has been able to return to debt markets recently (and should be able to do so again in 2021). The remainder is split across Oman (US$1.5bn in June 2021), Bahrain (US$1.0bn in January) Pakistan (US$1bn in October), Sri Lanka (US$1bn in July), Ukraine (US$1bn in September), Nigeria (US$0.5bn in January) and Senegal (US$0.3bn in May). Among them, Sri Lanka screens as the most vulnerable based on our previous analysis with high debt/GDP, an unsustainable interest payment/revenue ratio, low FX reserves (vs external financing needs) and annual Eurobond redemptions of US$1.0-2.2bn annually until 2030.

The amount of annual debt redemptions for B and lower rated sovereigns will gradually rise from a still low US$16bn in 2022 to US$29bn in 2025. However, as many sovereigns tend to actively manage their debt profile (and tender bonds early), this should see a smoothening of the debt maturity profile (in 2020, we have seen buybacks by Ivory Coast, Mongolia and Ukraine, among others). The amount, however, would rise if we were to see more sovereign downgrades, which appears likely as we counted eight sovereign that have at least one BB- rating with a negative outlook.

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Political risks

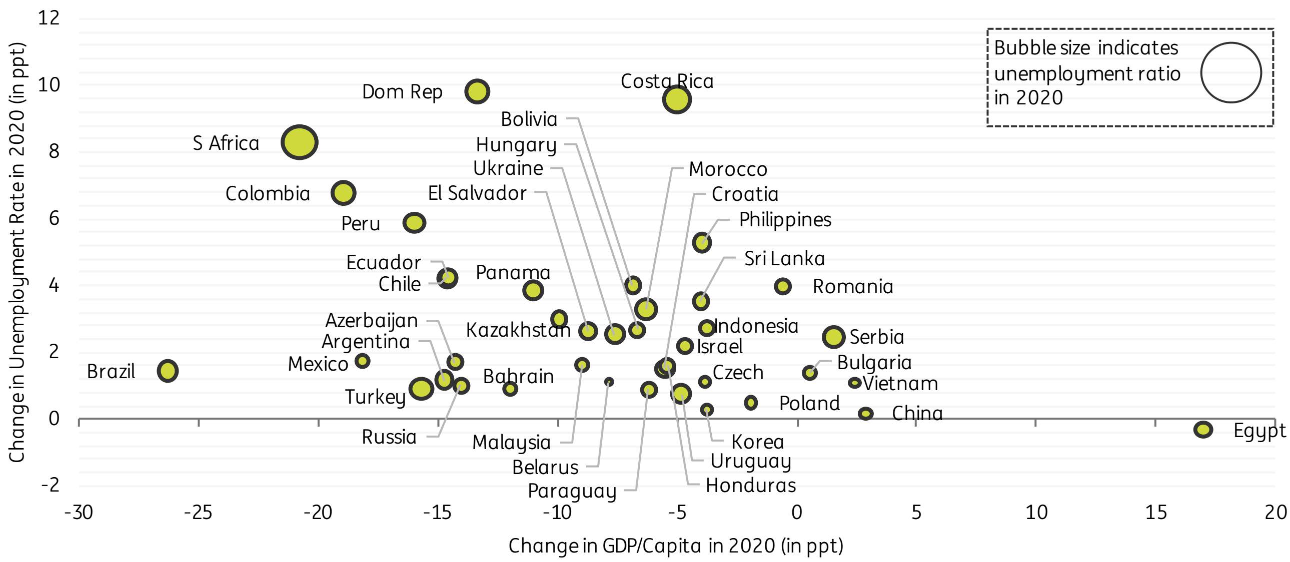
Political and social risks set to rise in 2021 if pandemic fades

With a relatively light electoral calendar and the focus on the pandemic, domestic political and social risks have played less of a role in 2020. Should health concerns fade as vaccines become more readily available, we believe that political and social risks re-emerge as key drivers. Our conviction is driven by the rise in unemployment ratios and drop in economic wealth that will take time to reverse amid an uneven economic recovery, providing a fertile ground for political and social tensions.

In Figure 9, we look at the IMF's projections for 2020 on GDP/capita and unemployment ratios (based on the October 2020 World Economic Outlook), assessing the change in both compared to 2019. We see large falls in GDP/capita for most economies, led by Brazil (-26%), South Africa (-21%) and Colombia (-19%). Meanwhile, unemployment increases are led by the Dominican Republic (+9.8ppt to 16.0%), Costa Rica (+9.6ppt to 22.0%), South Africa (+8.3ppt to 37.0%) and Colombia (+6.8ppt to 17.3%).

On these two dimensions combined, Latin America, the Middle East and Sub-Saharan Africa have been hit hardest by the pandemic: in the chart, the countries impacted the most are Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru and South Africa while Brazil and Mexico also see large GDP/capita falls but unemployment ratios have risen more modestly. Additionally, many MENA/SSA economies are not represented in the chart (due to the lack of an IMF forecast on unemployment), but we note a GDP/capita contraction in the 12-32% range for Angola, Iraq, Zambia and all GCC countries. This also raises the spectre for political upsets in the 2021 elections, with LATAM, MENA and SSA becoming hotspots.

Fig 9 Change in GDP/capita and in unemployment in 2020 vs 2019 (ppt)



Source: IMF (WEO Oct 20), ING

LATAM, MENA and SSA dominate electoral calendar

While elections in EM stood in the shadow of the US presidential ballot in 2020, we will see a busy electoral calendar dominated by Latin America and Middle East/Africa:

- In **EM Asia**, we are set for a relatively quiet year and few changes. The exception is Malaysia: while elections are only scheduled in 2023, the perennially weak government (with a 2-seat majority) remains at risk of collapse and we thus could see snap elections in 2021. Meanwhile, there has been growing unrest in Thailand as protesters push for government change and reform of the monarchy.

- In **CEE**, Bulgaria will hold parliamentary elections in March, which will result in a more fragmented political landscape. While the ruling centre-right GERB still seems to come first in most polls, the left-wing socialists are closing the gap and a few parties have a possibility of making the 4% threshold. The limited compatibility among the latter would complicate the formation of a coalition and policymaking. Later in 2021, presidential elections follow. Parliamentary elections will also take place in Albania (25 April) and the Czech Republic (by October).

Fig 10 Elections and political events in 2021

Asia		
Date	Country	Event
By Mar-21	Laos	Parliamentary
23/05/2021	Vietnam	Parliamentary
05/09/2021	Hong Kong	Parliamentary
Unscheduled	Mongolia	Presidential

CEE/CIS		
Date	Country	Event
10/01/2021	Kazakhstan	Parliamentary
10/01/2021	Kyrgyzstan	Presidential
28/03/2021	Turkmenistan	Parliamentary
Mar-21	Bulgaria	Parliamentary
25/04/2021	Albania	Parliamentary
Jun-21	Kyrgyzstan	Parliamentary (snap)
Sep-21	Russia	Parliamentary
By Oct-21	Czech Republic	Parliamentary
By Dec-21	Uzbekistan	Presidential
Unscheduled	Armenia	Constitutional Referendum
Unscheduled	Bulgaria	Presidential

Summits	
Date	Event
May-21	World Economic Forum
14/09/2021	UN General Assembly
30-31/10/2021	G20 Leaders' Summit
01-02/11/2021	UN Climate Change Conference (COP26)

MENA/SSA		
Date	Country	Event
14/01/2021	Uganda	General
14/02/2021	Central African Republic	Presidential (2nd)
21/02/2028	Niger	Presidential (2nd)
By Mar-21	Cabo Verde	General
Mar-21	Republic of Congo	Presidential
11/04/2021	Chad	Presidential
By Apr-21	Benin	Presidential
May-21	Somaliland	Parliamentary
06/06/2021	Iraq	Parliamentary
18/06/2021	Iran	Presidential
May/Jun-21	Ethiopia	General
12/08/2021	Zambia	General
By Aug-21	South Africa	Municipal
24/10/2021	Chad	Parliamentary
By Oct-21	Morocco	Parliamentary
Oct-21	Qatar	Shura Council
04/12/2021	The Gambia	Presidential
24/12/2021	Libya	General
Unscheduled	Djibouti	Presidential
Unscheduled	Ivory Coast	Parliamentary
Unscheduled	Somalia	Parliamentary
Unscheduled	Syria	Presidential

LATAM		
Date	Country	Event
07/02/2021	Ecuador	General
28/02/2028	El Salvador	Parliamentary
11/04/2021	Chile	Constitutional Convention
11/04/2021	Peru	General
06/06/2021	Mexico	Parliamentary
Oct-21	Argentina	Parliamentary (mid-term)
07/11/2021	Nicaragua	General
By Nov-21	Chile	General
Unscheduled	Honduras	General

Source: EISA, EIU, IFES, NDI, local governments, media, ING

- In **CIS**, political stability remains in focus in 2021 after the elections in Belarus and Kyrgyzstan caused substantial political unrest. The latter elections were annulled and will take place by June. In other elections, we look for policy continuation, with United Russia facing an important test in the Duma elections in September while presidential elections in Uzbekistan (December 2021) could reconfirm Shavkat Mirziyoyev and his economic reform course. Meanwhile, there is little risk of surprise coming from parliamentary elections in Kazakhstan on 10 January. Beyond elections, geopolitical and sanction risks remain a challenge for Russia, with hopes and fears coming from a new US presidency (due to a possibly more assertive but also predictable stance).
- It will be a busy year in **Sub-Saharan Africa:** Political and ethical tensions have increased under Ethiopian PM Abiy's rule which resulted in a show of force through the military in the northern Tigray region. Some unrest might prevail, but Abiy's government is likely to be reaffirmed in the general elections by mid-2021. Geopolitically, tensions with Egypt will persist as no agreement has been reached on

the Grand Ethiopian Renaissance Dam (GERD). In Zambia, general elections pose uncertainties for a sovereign debt restructuring and relations with the IMF.

In South Africa, the focus will be on the fight against state capture as well as economic and fiscal reform implementation. With ANC Secretary-General Ace Magashule facing corruption charges, party politics will dominate headlines ahead of the ANC National General Council in May. By August, local elections will be held, which the ANC is set to win as the main opposition Democratic Alliance appears to be in a weak state although the radical left EFF might pose a challenge. The results will be seen as an indicator of President Ramaphosa's popularity.

- The geopolitical landscape in the **MENA** region is set to change radically with the new US leadership in 2021 as well as easing tensions in the GCC and new ties between Arab states with Israel.

  Under the Obama administration, US President-elect Biden played an important role in reaching a nuclear accord with Iran, but a revival of a new deal ("JCPOA 2.0") appears less straightforward. Notably, Iran's political landscape is set to change dramatically as citizens vote on 18 June for a successor to President Rouhani, with risks coming from a stronger showing of hardliners. This will be closely followed by neighbouring Arab states and Israel.

  Both, however, have their own dynamics: in the GCC, signs have been towards easing tensions between Saudi Arabia and Qatar (with a possible deal brokered by Kuwait and the US), which could end the boycott by the former and its allies Bahrain, Egypt and the UAE against Qatar. In Israel, another round of parliamentary elections has all but become inevitable (the fourth round within roughly two years) after Blue and White broke with PM Netanyahu's Likud party in supporting a no-confidence motion.

- **Latin America's** political calendar will be dominated by general elections in Peru and Chile, both already having faced tremendous political tumult for the past few years. However, elections also pose high uncertainty for Argentina (October mid-term elections), Ecuador (7 February general elections), El Salvador (28 February parliamentary elections) and Honduras (general elections in late 2021).

  In Peru, the April election of a president with a working legislative majority is essential to end years of political dysfunction that has resulted in a very unstable presidential mandate, including three presidents in less than the five-year typical mandate.

  In Chile, social unrest provides fertile ground for political instability that could also calm down following the election of a constitutional convention to rewrite the country's constitution, taking place in April, and general elections in November. Overall, while uncertainty is likely to remain elevated, the political calendar could also serve to reset political expectations and create a more harmonious political environment in the Andes.

  In Mexico, the focus will be on mid-term elections in July, with Congressional races helping determine President Lopez Obrador's ability to hold on to the large majority he currently enjoys. AMLO remains popular, but the deep recession and Mexico's questionable handling of the pandemic may reduce MORENA's ability to keep its current share of seats in the Lower House.

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Hard currency sovereign debt

An improving macro outlook, very accommodative monetary policy and a weaker dollar all should underpin the continuation of the search for yield theme but, on top of that, allow for more risk tolerance as we go into 2021. When it comes to hard currency credit, relatively rich valuations and the expected rise in underlying core rates constrain our optimism to some extent. Here, we believe that the high beta/high yield complex will fare better while EUR-denominated bonds also make a compelling case.

EM USD: Valuations and technicals favour HY amid modest rise in core rates

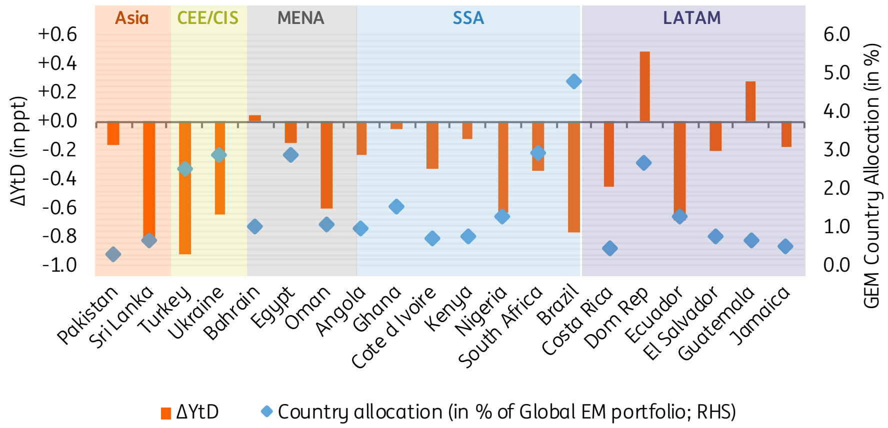
Richer valuations are best reflected by the increase in modified duration which, for the Bloomberg Barclays EM USD Aggregate Sovereign index, has risen from 7.2 years in 2018 to 7.9 years in 2019 before making a bigger jump to 9.0 years as of November 2020. Notably for investment grade issuers, we have seen a large fall in yields (mainly driven by underlying core rates) and substantial bond supply (at longer maturities and lower coupons), thus modified duration for those has stretched beyond 10 years in November (10.1 years vs 9.0 years at end-2019). In comparison, the increase has been smaller for high yield sovereign (from 6.6 years to 7.3 years).

2021's reflation theme should see a modest rise and steepening in the US Treasury curve. While this shouldn't pose as a threat to our appetite for EM risk, it is a challenge for sovereign bonds with a lower spread component. With investment grade sovereigns trading with a Z-Spread of 122bp (based on Bloomberg Barclays Indices), there is a limit to how much it can tighten further should the 10yr US Treasury yield rise towards 1.25-1.5% in 2021 as our colleagues in rates strategy envisage. In contrast, high yield sovereigns still offer a large risk premium with a Z-Spread of Z+552bp on balance.

We acknowledge that the preference for the high yield/high beta complex has become a consensus view: since November, we have seen an outperformance of EM HY sovereigns vs their IG peers, with a total return of 8.2% (vs +2.1% for EM IG sovereigns) on the back of the US elections and rising vaccine prospects, meaning that some of the optimism for 2021 has been front-loaded.

Nonetheless, there is room for more: when we analysed the relationship between UST10yr yields and individual sovereign credit spreads, we found that the high yield/high beta complex tends to outperform (vs low yield/low beta) when confronted with a mild upward trajectory for core rates. As a result, we expect more spread compression along the lines of credit quality, driven by the likes of South Africa and frontier EMs, as UST10yr rises above 1% next year. Technicals also remain supportive as we expect inflows to remain forthcoming while de-risking earlier this year (Figure 11) implies substantial room for a reversal as investors become more comfortable with the economic outlook.

Fig 11 Fund manager country allocation (current vs YtD change as of October 2020)



Source: EPFR Global, ING – only active funds benchmarked against JPM EMBI and related

Against that, credit fundamentals will, on balance, continue to deteriorate in 2021 as debt levels rise further (as we highlighted in our section on debt sustainability above) amid an uneven growth recovery and political/social risks that threaten reform implementation (with a busy election schedule notably for LATAM and SSA). This is also reflected by rating outlooks that remain hugely skewed to the downside, with the three rating agencies attaching 75 negative outlooks vs 5 positive outlooks across 90 EM sovereigns. However, we believe that favourable external and technical tailwinds can paper over some cracks, meaning that EM investors can give many countries the benefit of doubt and look past some temporary weakening in fundamentals.

There are exceptions for those where fiscal and eternal balance sheets are extremely stretched (with Sri Lanka as the weakest link among the larger frontiers) and/or political and social risks might rise (with a busy election calendar for LATAM, MENA and SSA) which will weigh on performance. However, we believe that contagion risks should be limited amid a strong external market backdrop.

EM EUR: Search for yield and additional carry underpin demand (notably for IG)

While 2020 has been a challenging year for EM EUR credit (given poor liquidity conditions in 2Q20 and lower returns on a hedged basis vs EM USD), loose ECB monetary policy (reflected by negative yielding Bunds and a €11.2 trillion stockpile of negative yielding €-denominated bonds) remains a strong anchor that will see investors continuing their search for yield, in turn favouring EM EUR with a spread pick-up. When it comes to CEE EUR sovereigns, they should also benefit from the EU budget and recovery fund that paves the way for more spread compression in 2021.

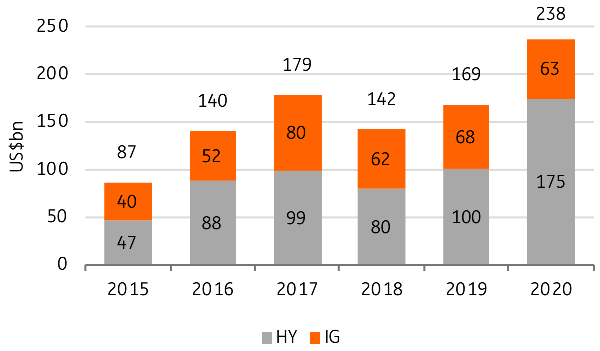
EM EUR also screens as attractive from a crossover currency perspective. Notably in high grade EM USD, the limited room for further spread tightening means that investors could buy EUR bonds of the same issuer (or similar-rated issuers) with a currency-adjusted spread pick-up, providing a means to enhance returns. In general, the spread pick-up serves as a liquidity risk premium given the less structured investor base in EM EUR (notably with the lack of a dominant EM dedicated investor base). For high yield/frontier markets, the EUR vs USD pick-up tends to be much higher (given the smaller investor base). While we consider the case for a EUR vs USD pick-up theme less pressing here, a strong performance in EM USD HY should, with some time lag, also translate into a catch-up rally of their EUR siblings.

Bond supply forecast for EM Asia, CEE and CIS: Off the peak, but remaining high

To finance exceptionally large deficits and thanks to dovish Fed and ECB, 2020 has turned out to be a record year with EM sovereigns having raised US$238bn of US$ and €-denominated debt compared to US$169bn in 2019 (Figures 12 and 13). However, below the surface, this has been entirely driven by investment grade issuers, which have secured a total of US$175bn, or 74%, of the total in 2020 (vs US$100bn, or 59%, in 2019). In contrast, we have seen a drop in the amount of debt issued by sub-investment grade sovereigns from US$68bn in 2019 to US$63bn in 2020 (26% of total issuance in 2020).

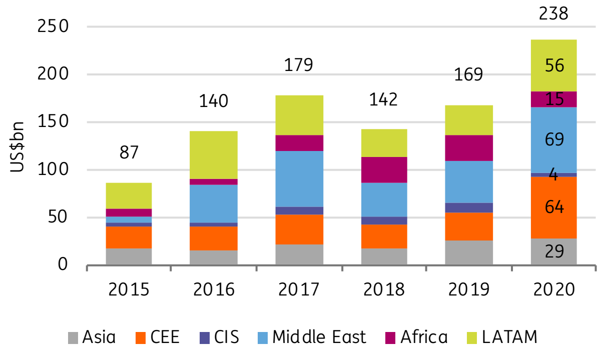
Going into 2021, we expect the total amount of debt issued to remain higher than in pre-pandemic years but recede from record levels of 2020 as we enter the post-pandemic economic recovery and with some issuers having pre-financed at end-2020. Nonetheless, deficits remain much larger than in years before the pandemic (EMs are expected to run an 8.8% of GDP fiscal deficit in 2021 vs deficits of 4.8% in 2019 and 10.4% in 2020) and external funding conditions are set to remain favourable. Indeed, the latter should improve for high beta and frontier EMs, with issuance becoming less skewed towards investment grade names as had been the case in 2020.

Fig 12 Issuance by credit quality (US$bn)



Source: Bond Radar, ING

Fig 13 Issuance by region (US$bn)



Source: Bond Radar, ING

Below, we provide our issuance forecasts for sovereigns in EM Asia, CEE and CIS.

- In Asia, we expect sovereigns to issue around US$24bn in 2021, not far below 2020 levels (US$27bn in 2020). Notably, China has become a frequent visitor to the primary market since 2017 (having issued US$10.4bn in 2019 and US$10.8bn in 2020) while Indonesia and the Philippines will continue to take opportunity of favourable external bond market conditions. Those three issuers dominate Asian sovereign issuance (US$20bn out of the US$24bn based on our view), but we could also see Mongolia, Pakistan and Vietnam returning to bond markets. However, we believe that Sri Lanka won't be able to tap bond markets unless fiscal credibility is partially restored, which would inevitably include IMF involvement. Lastly, it remains to be seen whether India will eventually debut on external bond markets.

Fig 14 EM Asia: gross/net issuance forecast for 2021 vs 2020 (US$ equivalent)

	2020E		2021F		
(all values in US$bn)	Redemptions	Gross Issuance	Redemptions	Gross Issuance	Net Issuance
China	-	10.8	-	10.0	10.0
Indonesia	2.0	7.5	3.7	6.0	2.3
Malaysia	-	-	0.8	-	-0.8
Mongolia	0.4	0.6	0.1	0.8	0.7
Pakistan	-	-	1.0	1.0	0.0
Papua New Guinea	-	-	-	-	0.0
Philippines	0.8	6.6	1.6	4.0	2.4
South Korea	-	1.5	0.4	1.5	1.1
Sri Lanka	1.0	-	1.0	-	-1.0
Vietnam	0.7	-	-	1.0	1.0
Total	**4.9**	**27.0**	**8.6**	**24.3**	**15.7**

Includes estimates for USD and EUR-denominated bonds excl. local law bonds; redemptions include buybacks
Source: ING estimates

- While many CEE issuers had focused on reducing their FX debt portion in recent years, 2020 has seen a big bang in issuance. Among them, it is Romania that stands out for having raised €12bn (vs €5bn in 2019). In 2021, our conviction is for borrowing to fall, especially for those that can benefit from EU transfers (thanks to the EU budget, recovery fund and SURE). However, we still expect CEE issuers to raise €32bn in 2021 (vs €46bn in 2020) as market conditions are too good to shy away from.

Fig 15 CEE: Gross/net issuance forecast for 2021 vs 2020 (€ equivalent)

	2020E		2021F		
(all values in €bn)	Redemptions	Gross Issuance	Redemptions	Gross Issuance	Net Issuance
Bulgaria	-	2.5	-	2.0	2.0
Croatia	1.1	2.0	1.3	1.5	0.2
Czech Republic	1.0	-	2.0	-	-2.0
Estonia	-	1.5	-	2.0	2.0
Hungary	1.7	6.0	1.3	1.0	-0.3
Latvia	1.2	1.0	1.3	1.0	-0.3
Lithuania	1.8	3.8	1.3	2.0	0.7
Poland	5.3	3.7	4.7	4.0	-0.7
Romania	2.0	11.6	0.5	5.5	5.0
Serbia	0.9	3.0	0.6	3.0	2.4
Slovakia	-	-	-	-	-
Slovenia	-	-	-	-	-
Turkey	3.8	8.8	2.9	9.0	6.1
Other Balkans	0.8	2.1	0.7	1.0	0.3
Total	**19.6**	**46.0**	**16.6**	**32.0**	**15.4**

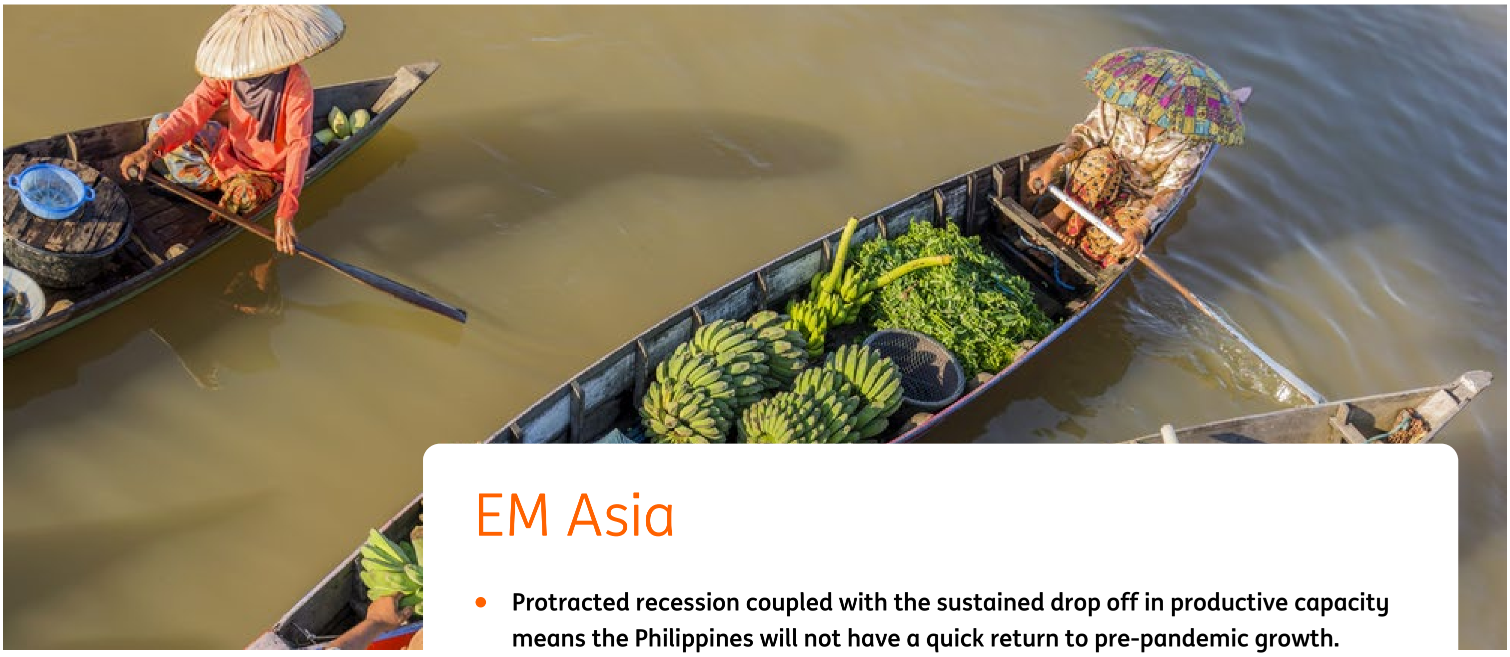
Includes estimates for USD and EUR-denominated bonds excl. local law bonds; redemptions include buybacks
Source: ING estimates

- We have seen limited issuance from CIS sovereigns in recent years (US$8bn in 2020) due to geopolitical risks while others tend to be infrequent guests. All in all, we see downside risks to our issuance forecast of US$7bn due to limited access to the primary market and continued sanctions risk when it comes to Russia while there are alternative funding sources available (with Kazakhstan having raised US$550m equivalent in RUB).

Fig 16 CIS: Gross/net issuance forecast for 2021 vs 2020 (US$ equivalent)

	2020E		2021F		
(all values in US$bn)	Redemptions	Gross Issuance	Redemptions	Gross Issuance	Net Issuance
Armenia	0.1	-	-	-	-
Azerbaijan	0.2	-	0.2	-	-0.2
Belarus	-	1.3	-	-	-
Georgia	-	-	0.5	0.5	-
Kazakhstan	-	-	-	1.0	1.0
Russia	4.3	2.4	-	2.0	2.0
Tajikistan	-	-	-	-	-
Ukraine	2.2	4.1	1.5	3.0	1.5
Uzbekistan	-	0.6	-	0.5	0.5
Total	**6.8**	**8.4**	**2.2**	**7.0**	**4.8**

Includes estimates for USD and EUR-denominated bonds excl. local law bonds; redemptions include buybacks
Source: ING estimates



EM Asia

- **Protracted recession coupled with the sustained drop off in productive capacity means the Philippines will not have a quick return to pre-pandemic growth.**
- **In Indonesia, labour market and investment law reforms could boost sentiment.**

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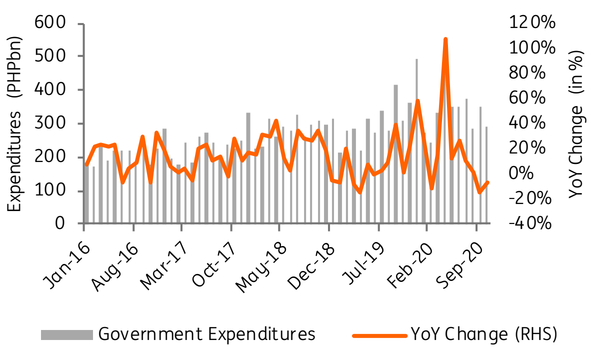
Philippines

Key drivers: An ongoing 10-month long lockdown period has hobbled growth prospects even as authorities have moved to relax mobility restrictions. Going forward, the protracted recession coupled with the sustained drop off in productive capacity likely means the Philippines will not have a quick return to pre-pandemic growth velocity.

Fiscal outlook: Following two stimulus packages, the government appears to be reining in on spending and targets a 7.6% of GDP deficit for 2020. For 2021, authorities are banking on medium-term structural reform bills (such as the recently passed CREATE bill which will slash corporate taxes by 5ppt but result in PHP250bn in foregone revenues). Thus, the 8.5% of GDP deficit target for 2021 will only be achievable if expenditures remain in check. Expect authorities to grapple with a widening of the deficit to GDP ratio more so as growth is expected to splutter. A slower-than-expected recovery would mean revenue streams remain constrained at a time that GDP is likely to post only modest growth.

External outlook: The Philippines continue to enjoy a solid external position with the latest Balance of Payments (BoP) registering a strong surplus, driven by a current account surplus and a large amount of foreign borrowings by the national government helping to shore up the financial account. The PHP has enjoyed an appreciation bias for most of the year. With the current account expected to remain in surplus next year and financial account flows from government borrowing forecast to be substantial, the Philippine external position is likely to be solid for at least the next 12 months.

Fig 17 Monthly government expenditures and %Ch YoY



Source: Bureau of the Treasury Philippines, ING

Fig 18 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	6.0	-10.3	4.6	4.2
Nominal GDP (US$bn)	376.8	337.9	345.7	361.3
GDP per capita (US$)	3,485	3,139	3,210	3,341
CPI (average, %YoY)	2.5	2.4	2.9	3.1
Consolidated government balance (% of GDP)	-2.5	-6.7	-6.1	-5.6
Consolidated primary balance (% of GDP)	-0.2	-5.4	-4.9	-3.9
Total public debt (% of GDP)	39.6	51.4	52.3	51.1
Current account balance (% of GDP)	-0.1	1.7	0.2	-1.5
Net FDI (% of GDP)	2.0	2.1	1.8	1.9
FX reserves ex gold (US$bn)	87.8	104.9	105.8	104.7
Import cover (months of imports)	9.5	15.1	11.9	10.1
Gross external debt (% of GDP)	22.2	23.7	24.1	23.9
Central bank key rate (year-end, %)	4.0	2.0	2.0	2.5
USD/PHP exchange rate (year-end)	48.05	48.25	47.38	48.76

Source: National sources, ING estimates

Indonesia

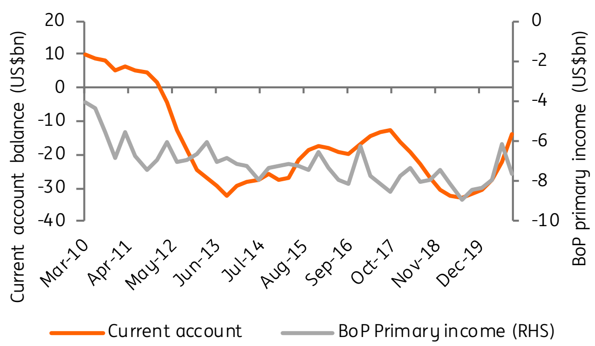
Key drivers: For 2021, Bank Indonesia (BI) is expecting GDP to rebound by 4.8-5.8% (vs a 1% to 2% contraction in 2020). In the near term, investor sentiment may get a boost from domestic developments with President Jokowi securing passage of his hallmark Omnibus law, covering labour market and investment law reforms, which could attract foreign direct investments over the medium term. However, Covid-19 infections remain elevated with Indonesia currently having the most daily infections in the region (as well as total number of cases) which could dampen risk sentiment going forward.

Fiscal outlook: President Jokowi has been determined to offset the negative impact from the Covid-19 pandemic, implementing a substantial stimulus bill worth IDR695.2 trillion (c.US$50bn) to jumpstart the economy. In response to the pandemic, the 3% deficit to GDP cap was relaxed early in the year and authorities are forecasting the gap to widen sharply to 6.3% in 2020. Over the coming years, the deficit is expected to narrow to 5.7% in 2021 and 4% in 2022 before returning to 3% by 2023.

Going forward, we expect a gradual improvement on the fiscal front in large part due to normalising revenue collection as economic activity improves. On top of improved revenue collection in 2021, the central bank has offered its fair share of support via a "burden sharing" agreement or deficit financing. The initial move was met with some scepticism at first, but concerns appear to have died down in the months after and should remain contained as long as the amounts financed are relatively small and these unconventional moves feature a time-bound expiration.

External outlook: Indonesia's external account has improved somewhat in 2020, owing largely to a less severe current account deficit to GDP ratio with BI expecting only a -0.5% to -1.5% shortfall in 2020 before a return to -1.0% to -2.0% in 2021. The narrowing of the current account gap from -2.9% in 2019 can be traced largely to the swing in the trade balance from a deficit of US$3.5bn to a surplus of US$17bn as of October. Despite the stark improvement in the trade balance, the current account remains in deficit weighed down by the primary income account which has stayed in negative territory due to elevated coupon payments on foreign debt. We do expect some reversal in the trade balance in 2021 as import demand is revived to some extent and this may result in renewed pressure on the current account to widen substantially and in turn limit IDR appreciation and the external position.

Fig 19 Current account and primary income (US$bn)



Source: Bank Indonesia, ING

Fig 20 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	5.0	-2.2	2.1	4.3
Nominal GDP (US$bn)	1,119	1,105	1,116	1,139
GDP per capita (US$)	4,136	4,098	4,134	4,217
CPI (average, %YoY)	3.0	2.1	2.9	3.3
Consolidated government balance (% of GDP)	-2.2	-5.2	-5.0	-4.8
Consolidated primary balance (% of GDP)	-0.4	-3.3	-3.0	-1.6
Total public debt (% of GDP)	30.1	37.6	38.1	37.2
Current account balance (% of GDP)	-2.7	-1.2	-2.2	-2.7
Net FDI (% of GDP)	2.2	3.0	3.2	3.0
FX reserves ex gold (US$bn)	129.2	134.1	132.7	130.6
Import cover (months of imports)	9.1	12.1	11.2	10.9
Gross external debt (% of GDP)	36.1	38.1	37.6	37.1
Central bank key rate (year-end, %)	5.0	3.75	3.5	3.5
USD/IDR exchange rate (year-end)	1,4130	1,4121	1,3801	1,4064

Source: National sources, ING estimates

CEE/CIS

- **EU members benefit from EU funds, which is a clear cushion for such economies, aiding fiscal positions, external accounts and positioning for better growth**
- **Aspiring EU members are performing admirably from a macro perspective, a clear positive to have EU targets. Turkey and Russia remain idiosyncratically apart**

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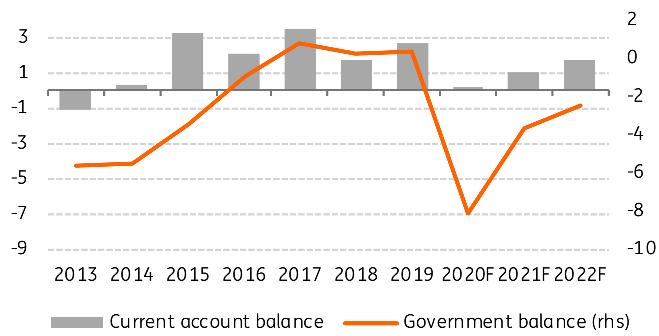
Croatia

Key drivers: Though not loudly admitted, most hopes for 2021 are channelled towards a better tourist season than in 2020. And with the vaccination campaign due to start in 1Q21, chances are high for Croatia to consolidate its safe destination status and enjoy the benefits of an almost normal tourist season. This will offer some space for policies to focus on the medium and longer-term goals such as implementation of the National Development Strategy which has at its heart the development of a sustainable tourism sector by 2030.

Fiscal outlook: The strong track record of fiscal discipline built up over several years still offers plenty reserves of credibility for the government's fiscal stance. However, officials seem decided not to capitalise on it and in 2021 are targeting a budget deficit reduction of over 5ppt, to below 3.0% of GDP. Though achievable, we think this might not be achieved without some negative side effects for the economy. Therefore, we believe that the deficit target might be reconsidered higher at some point in 2H21.

External outlook: As a direct influence of the collapse in tourism revenues, the surplus on the services side has contracted sharply this year. However, the trade balance deficit also witnessed a correction and with the help of EU funds, the current account should remain in a small surplus this year (ING forecast: c.0.2% of GDP). While some improvement is to be expected in the following years, Croatia's chronic dependence on imports will probably limit the C/A surpluses to levels rather closer to 1% than the 2-3% of previous years.

Fig 21 Fiscal and external balance (% of GDP)



Source: Eurostat, ING

Fig 22 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	2.9	-8.5	4.1	4.0
Nominal GDP (US$bn)	60	55	64	68
GDP per capita (US$)	14,800	13,500	15,900	16,900
CPI (average, %YoY)	0.8	0.2	0.7	1.2
Consolidated government balance (% of GDP)	0.4	-8.1	-3.7	-2.5
Consolidated primary balance (% of GDP)	2.6	-4.8	-2.2	-2.0
Total public debt (% of GDP)	72.8	88.5	86.1	84.6
Current account balance (% of GDP)	2.7	0.2	1.0	1.8
Net FDI (% of GDP)	2.0	1.0	1.2	1.1
FX reserves ex gold (US$bn)	18.6	17.5	19.8	20.1
Import cover (months of imports)	8.9	9.5	9.5	9.3
Gross external debt (% of GDP)	75.4	87.7	83.4	80.0
Central bank key rate (year-end, %)	0.30	0.30	0.30	0.30
USD/HRK exchange rate (year-end)	6.64	6.28	6.03	6.28

Source: National sources, ING estimates

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Hungary

Key drivers: We expect growth to contract by 5.8% in 2020 (vs +4.6% in 2019), roughly in line with the regional average. The government designed the necessary measures to ease the negative impact from lockdowns, but as a small open economy with a major role of tourism, the economy was hit hard nonetheless. On the positive, the labour market weathered the first shock relatively well.

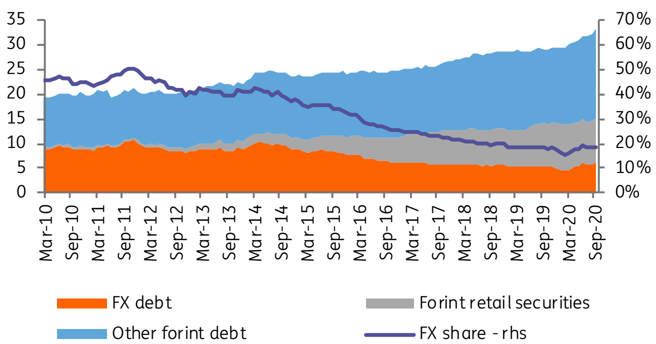
The second wave could take a higher toll with the budget already stretched. The central bank stepped in with the first ever government bond purchase programme and lending programmes but needed to take care regarding the forint. The highest inflation in the region combined with the dovish legacy of the central bank and the low interest rate environment made the forint vulnerable, being the underperformer of the region for almost the whole year. With a resolution on the EU rule-of-law funding mechanism having been reached, this has removed a key risk but at the cost of potential rule of law challenges further down the line.

Fiscal outlook: The crisis erases a decade of progress in debt reduction as Hungary is likely to see the fiscal deficit hitting 9% of GDP in 2020 (the highest since 2006). As a result, debt/GDP will rise from 65.4% in 2019 to 80.1% in 2020, the highest level since 2011. Roughly a quarter of the deficit is tied to direct expenditures on epidemic defence. Another quarter is related to the usual pre-financing of EU projects. Most of the budget slippage is from the expenditure side, while revenues are holding up quite well. With an improving economic activity, the deficit could be around 6.5% of GDP in 2021 without any austerity measures. As 2022 is an election year, we see only a slow improvement in debt metrics over the next couple of years.

External outlook: As the coronavirus rewrote the financing plans several times this year, the Debt Management Agency also changed the structure of debt issuance. It decided to return to the FX debt market. With a €6.5bn Eurobond issuance (including green bonds) in 2020, the FX share of the public debt moved back to just below 20%. With such extensive issuance, Hungary has already pre-financed the maturing FX debt in the next two years. The debt agency prefers to keep the FX ratio within the 10-20% range of total debt, so there should be far less (if any) Eurobond issuance in 2021.

The expected €11bn inflow from Brussels in 2021-2022 regarding the pre-financed EU projects by the government will keep the FX reserves at a safe level. The current account should see a modest improvement from the forecast 1% deficit this year. We expect the current account deficit to halve in 2021 (partly because of tourism and industrial exports) or even move to zero at best.

Fig 23 Structure of the public debt (HUFtr)



Source: Government Debt Management Agency, ING

Fig 24 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	4.6	-5.8	3.7	4.8
Nominal GDP (US$bn)	163	151	169	179
GDP per capita (US$)	16,730	15,531	17,383	18,446
CPI (average, %YoY)	3.4	3.3	2.8	3.0
Consolidated government balance (% of GDP)	-2.1	-9.0	-6.5	-4.5
Consolidated primary balance (% of GDP)	0.2	-6.5	-4.5	-2.6
Total public debt (% of GDP)	65.4	80.1	77.9	74.7
Current account balance (% of GDP)	-0.2	-0.9	-0.4	0.0
Net FDI (% of GDP)	1.3	1.9	2.8	3.0
FX reserves ex gold (US$bn)	26.5	31.1	31.7	29.3
Import cover (months of imports)	3.0	3.8	3.8	3.3
Gross external debt (% of GDP)	72	84	80	75
Central bank key rate (year-end, %)	0.90	0.60	0.60	0.60
USD/HUF exchange rate (year-end)	294.7	295.8	292.0	308.3

Source: National sources, ING estimates

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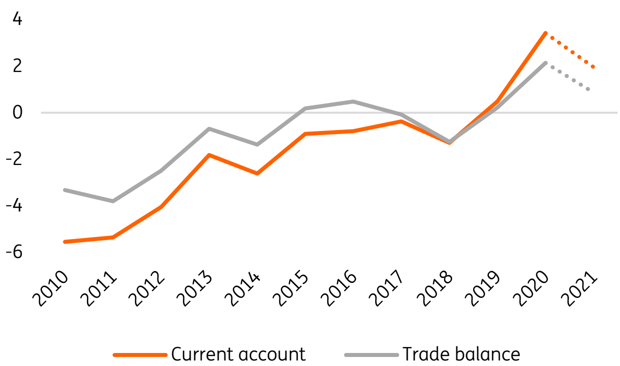
Poland

Key drivers: The GDP contraction in 2Q20 was among the shallowest in the EU and CEE, and the 3Q20 GDP recovery was very robust with GDP growth only 1.8% below pre-pandemic levels. The strong labour market, recovery in global manufacturing and Polish exports should remain supportive for GDP growth. The typical seasonality of viral infections indicates that another pickup in new cases may happen in February 2021. This could affect the 1Q21 GDP figure, but 2Q-4Q21 should be robust due to an anticipated reopening of the economy and the impact of a vaccine on the eurozone and the local economy.

Fiscal outlook: In the wake of the Covid-19 pandemic the government launched a large fiscal impulse worth c.6% of GDP. In anticipation of a second lockdown the government has built a large fiscal space of c.PLN110bn (US$30bn) to support the economy. If all of it were to be utilised, the general government deficit would reach 12% of GDP in 2020 and 6% in 2021. Despite the severe second Covid-19 wave, the government has decided to put the economy in semi-lockdown only and use PLN45bn to support the economy. This will allow the 2020 government deficit to stay closer to 10% of GDP and 5% of GDP in 2021.

External outlook: Net exports have contributed positively to GDP growth during the pandemic. The current account surplus increased from 0.5% of GDP in 2019 to a record-high 3.5% of GDP in 2020. Merchandise exports fared much better during the crisis than imports. Also, as a net oil importer, Poland has benefitted from lower oil prices. Going forward, both balances are set to moderate on the back of stronger domestic demand but are set to remain in surplus.

Fig 25 Current account and trade balances (% of GDP)



Source: NBP, INGF

Fig 26 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	4.5	-2.8	4.0	5.0
Nominal GDP (US$bn)	598	586	656	726
GDP per capita (US$)	15,787	15,477	17,366	19,200
CPI (average, %YoY)	2.3	3.5	2.8	2.8
Consolidated government balance (% of GDP)	-0.7	-10.0	-5.0	-3.3
Consolidated primary balance (% of GDP)	0.6	-8.7	-3.8	-2.7
Total public debt (% of GDP)	45.9	57.3	60.9	62.2
Current account balance (% of GDP)	0.5	3.4	2.0	1.2
Net FDI (% of GDP)	1.6	1.2	1.1	1.0
FX reserves ex gold (US$bn)	114.5	122.6	124.9	126.6
Import cover (months of imports)	5.9	6.7	6.3	6.1
Gross external debt (% of GDP)	60	61	56	52
Central bank key rate (year-end, %)	1.50	0.10	0.10	0.25
USD/PLN exchange rate (year-end)	3.80	3.75	3.53	3.50

Source: National sources, ING estimates

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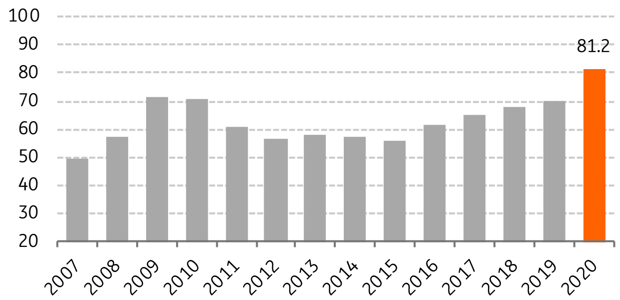
Romania

Key drivers: While 2020 has been about damage control, it will be key in 2021 to bring new measures to stabilise the medium-term fiscal outlook. Arguably the most expected event for 2021 should come early in the year, with the formation of a new government supported by a new parliamentary majority. Markets and agencies are eager to see the new government's fiscal agenda, a long overdue issue. Subsequently, the rating downgrade threats should stay with us for most of 2021, hence every rating review will be feverishly anticipated.

Fiscal outlook: 2021 should be the first year of a long-awaited fiscal consolidation process. We don't expect miracles here, no spectacular one-off measures with significant and immediate fiscal impact. We rather look for a steady stream of small steps aimed at optimising budget revenues and expenses. Hence, the pace of budget deficit reduction should not be large. A 2ppt yearly deficit reduction will, in our view, strike a reasonable balance between the need to reduce the budget gap and the need to avoid contractionary economic effects stemming from this measure. Over time, the new government will have to address fiscal rigidity (with social spending and public wages accounting for above 80% of revenues in 2020). If the government is successful, we see a chance that debt/GDP will stabilise below 55% of GDP in the medium-term.

External outlook: Romania's increasing twin deficits will remain at the heart of our concerns. While on the fiscal side some consolidation can be envisaged, on the current account side the problem looks to have become more structural in nature. Despite the deep economic contraction, the trade balance deficit continued to widen throughout 2020, suggesting fundamental competitiveness problems. Hence, a better EU funds absorption to rebalance this remains not only a nice to have but rather a must have for the next couple of years at least.

Fig 27 Public wages plus social spending as % of revenues



Source: MinFin, ING

Fig 28 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	4.2	-5.5	4.1	5.0
Nominal GDP (US$bn)	248	255	284	303
GDP per capita (US$)	12,800	13,300	14,900	16,100
CPI (average, %YoY)	3.8	2.6	2.4	2.4
Consolidated government balance (% of GDP)	-4.4	-9.6	-7.3	-5.5
Consolidated primary balance (% of GDP)	-3.2	-7.9	-6.3	-4.1
Total public debt (% of GDP)	35.3	45.9	49.7	51.5
Current account balance (% of GDP)	-4.6	-4.5	-4.3	-4.1
Net FDI (% of GDP)	2.4	1.1	1.4	1.4
FX reserves ex gold (US$bn)	32.9	36.1	37.1	38.4
Import cover (months of imports)	4.6	5.6	5.3	4.9
Gross external debt (% of GDP)	49	47	52	52
Central bank key rate (year-end, %)	2.50	1.50	1.50	2.00
USD/RON exchange rate (year-end)	4.27	4.06	3.94	4.13

Source: National sources, ING estimates

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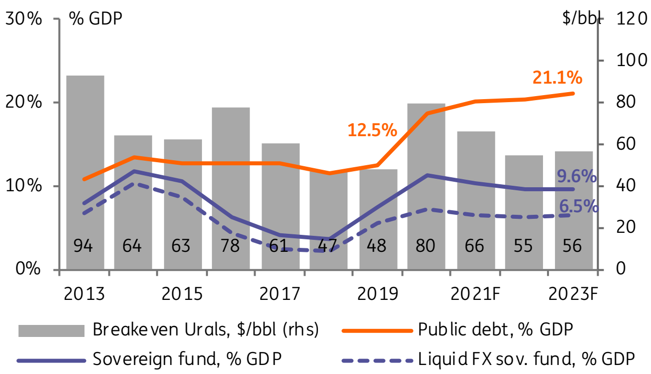
Russia

Key drivers: Russia has weathered 2020 relatively well, with a modest GDP drop of 3-5%, and has held onto its strengths, such as positive real rates, 40% of GDP international reserves, 7% of GDP liquid FX fiscal savings, and public debt under 20% of GDP. But the pandemic did not create new points of growth and the recovery path for 2021 is challenged by foreign policy uncertainties, OPEC+ commitments and the return of fiscal policy focus to social support amid overall consolidation. Russian assets should fare well in a global risk-on, thanks to macro stability and transparent monetary policy. Risk factors to this view are mostly Russia-specific, including higher-than-expected CPI on regional fiscal easing, additional capital outflow both by households and corporates on low local confidence, and sanctions.

Fiscal outlook: Following a fiscal deficit of 4.0-4.5% of GDP this year, the Minfin is guiding for consolidation in 2021-23 to preserve Russia's macro advantages and external resilience. Yet, given the moderation in economic recovery and upcoming parliamentary elections in September 2021, the intensity of such consolidation could be challenged. Room for a looser trajectory is suggested by the suspension of the fiscal rule, the RUB1.1tr spending backlog and extra cash on the interim Treasury accounts, as well as a proposal to ease requirements for market borrowing by the regions. That would mean decoupling between the balances of the federal and regional budgets, currently linked through 100% coverage of regional deficits through transfers from the federal budget.

External outlook: The external outlook has been largely driven by geopolitical risks. Notably in 2H20, we have seen the RUB discount vs EM/commodity peers widen to 15%, attributable to the political crisis in Belarus, the poisoning of local opposition leader Navalny and the likelihood of a Biden victory. Regarding the latter, however, we see no evidence to suggest that a shift in US leadership means higher sanctions risk (sanctions against Rusal and Renova were first applied in 2018), especially given no indication of Russian meddling in the recent US elections. Moreover, support should come from the current account (US$30bn in 10M20) as the loss in oil exports has been offset by increased exports of gold and grain, and reduced imports of goods and services. The risk is on the local private capital outflow (US$44bn in 10M20), reflecting the foreign asset accumulation by households and corporates.

Fig 29 Fiscal policy – guiding for consolidation



Source: Finance Ministry, ING

Fig 30 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	1.3	-3.0	2.5	2.2
Nominal GDP (US$bn)	1,700	1,534	1,617	1,696
GDP per capita (US$)	11,582	10,463	11,040	11,582
CPI (average, %YoY)	4.5	3.4	4.2	3.9
Consolidated government balance (% of GDP)	1.9	-5.0	-3.0	-1.8
Consolidated primary balance (% of GDP)	2.7	-3.5	-2.0	-0.3
Total public debt (% of GDP)	12.5	18.4	20.0	20.0
Current account balance (% of GDP)	3.8	2.2	3.0	4.0
Net FDI (% of GDP)	0.6	-0.3	-0.6	-0.6
FX reserves ex gold (US$bn)	444	440	451	469
Import cover (months of imports)	21	23	21	20
Gross external debt (% of GDP)	28.9	31.8	30.4	29.0
Central bank key rate (year-end, %)	6.25	4.25	3.50	4.50
USD/RUB exchange rate (year-end)	61.91	72.00	73.00	74.00

Source: National sources, ING estimates

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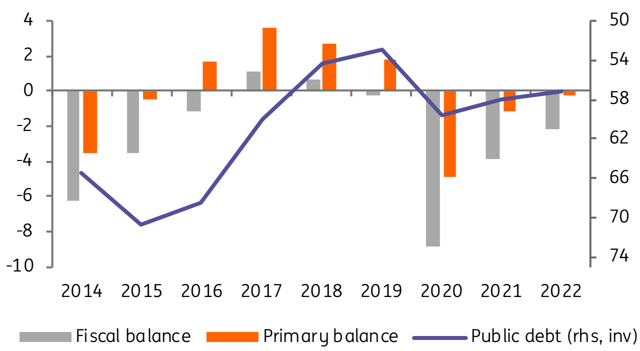
Serbia

Key drivers: Growth-wise, Serbia is likely to be Europe's top performer this year, with a contraction of only around 1% and a full GDP recovery from this year's slump by the end of 3Q21. This was facilitated by the large fiscal room available after years of balanced budgets. The relationship with the IMF under the Policy Coordination Instrument (PCI) remains largely on track and the fund should confirm successful completion of the programme in 1Q21. The National Bank of Serbia (NBS) still has some room for easing, but it might want to make judicious use of this limited space.

Fiscal outlook: Following several years of almost balanced budgets, a whooping but temporary expansion of the budget deficit towards the 9.0% area in 2020 (which essentially equals the government's response to the coronavirus shock) has been indulgently accepted by the markets. However, this might not hold twice and the government's plan for a 3.0% budget gap in 2021 seems to address these concerns. Public wages and pensions, as well as the minimum wage will increase in 2021 by 5-6%, which is likely bordering the IMF's maximum tolerance. We believe that the deficit will be higher as the correlation between GDP growth (anticipated to accelerate strongly in 2021) and budget revenues will probably take some time to be restored to pre-crisis levels.

External outlook: With a current account balance set to narrow by 1ppt of GDP or more this year amidst a still widening trade balance, Serbia's external position should overall cope well with this crisis. We see a current account deficit of €2.7bn this year (c.5.5% of GDP) while still being fully covered by foreign direct investments. The persistence of the deficits (which we anticipate to continue in the medium term) is likely one of the key drivers behind the government's eagerness to close the budget gap at an accelerated speed, as large twin deficits are probably not tolerable for Serbia at the moment.

Fig 31 Risks of fiscal slippage look contained (% of GDP)



Source: Finance Ministry, ING

Fig 32 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	4.1	-1.1	5.5	5.0
Nominal GDP (US$bn)	51.0	54.0	62.2	65.9
GDP per capita (US$)	7,400	7,700	9,000	9,600
CPI (average, %YoY)	1.9	1.6	1.7	2.2
Consolidated government balance (% of GDP)	-0.2	-8.9	-3.9	-2.2
Consolidated primary balance (% of GDP)	1.8	-4.9	-1.2	-0.2
Total public debt (% of GDP)	52.9	59.7	58.1	57.2
Current account balance (% of GDP)	-6.9	-5.5	-5.5	-5.4
Net FDI (% of GDP)	7.8	4.7	5.9	5.9
FX reserves ex gold (US$bn)	13.6	13.0	13.5	13.9
Import cover (months of imports)	6.8	7.4	6.5	5.6
Gross external debt (% of GDP)	61.3	66.9	62.6	59.7
Central bank key rate (year-end, %)	2.25	1.00	1.25	1.75
USD/RSD exchange rate (year-end)	105.0	98.0	94.0	97.8

Source: National sources, ING estimates

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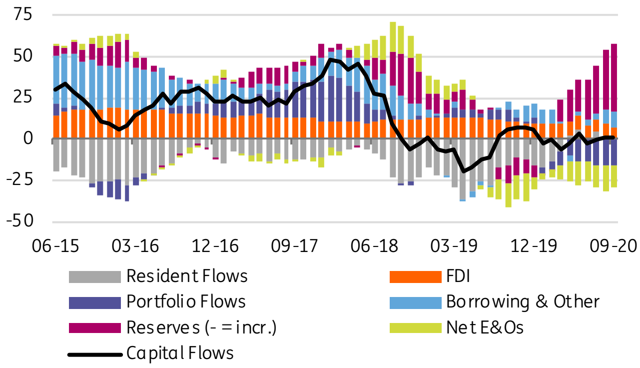
Turkey

Key drivers: Thanks to supportive economic policies, the impact of the pandemic has been more limited than for many other countries in 2020. The pace of activity is likely to stabilise given recently accelerated normalisation steps, that include: (1) a course correction by the CBT including a large policy rate hike and simplification of the monetary policy framework; (2) the BRSA's decision to remove the asset ratio rule to slow down credit formation; and (3) tax adjustments to support de-dollarization. Going forward, the monetary policy stance will need to remain prudent to keep inflation in check and attract capital inflows. A second Covid-19 wave remains a key risk amid high uncertainty regarding the global economic outlook and policy response.

Fiscal outlook: According to the IMF-defined budget metrics, despite a large primary balance deficit on a cumulative basis, it showed a nominal contraction over the same period of 2019. This indicates that the fiscal policy has remained relatively measured. For 2021-2023, the government's programme envisages a continuation of the supportive fiscal stance, with the primary balance to remain in deficit during the entire forecast period, albeit with an improving trend. However, the latest signals from the newly appointed Finance Minister show more prudence to support the CBT and restart a disinflation trend. The Treasury plans to cut its domestic debt rollover from 146.7% (estimated) this year to 120.5% in 2021. The rise in total debt redemptions next year - by c.2.4ppt of GDP - mainly stems from domestic debt, up by 2.2ppt. External debt redemptions will rise slightly. The higher domestic borrowing requirement is attributable to a wide budget deficit and a shortened maturity of new borrowing.

External outlook: The worsening current account deficit this year is attributable to the deterioration in core and gold deficits in the goods balance and a plunge in the services balance due to the collapse in tourism revenues. However, we are likely to see a marked improvement in 2021 driven by a recovery in tourism given the latest news on vaccine, a decline in gold imports with normalisation in portfolio preferences of locals after the CBT's recent course correction and a lower core (excluding gold and energy) deficit. The capital account, on the other hand, paints a challenging picture as we have seen a large reserve depletion amid the pandemic due to external deleveraging, portfolio outflows and a widening trade deficit. The decisive tightening (shifting the real policy rate to the highest among major EM economies) can be supportive for portfolio flows.

Fig 33 Breakdown of C/A financing (12m-rolling, US$bn)



Source: CBT, ING Bank

Fig 34 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	0.9	1.0	4.0	4.0
Nominal GDP (US$bn)	761	695	765	786
GDP per capita (US$)	9,127	8,310	9,030	9,169
CPI (average, %YoY)	15.2	12.2	12.8	10.7
Consolidated government balance (% of GDP)	-2.8	-4.7	-4.1	-3.8
Consolidated primary balance (% of GDP)	-0.5	-1.8	-1.1	-0.9
Total public debt (% of GDP)	33.1	40.2	39.0	38.1
Current account balance (% of GDP)	1.1	-5.1	-1.9	-2.2
Net FDI (% of GDP)	1.2	1.0	1.3	1.4
FX reserves ex gold (US$bn)	81.2	40.1	48.1	60.0
Import cover (months of imports)	4.9	2.3	2.6	3.0
Gross external debt (% of GDP)	57	61	54	53
Central bank key rate (year-end, %)	12.00	16.50	13.50	10.50
USD/TRY exchange rate (year-end)	5.95	7.60	8.00	8.80

Source: National sources, ING estimates

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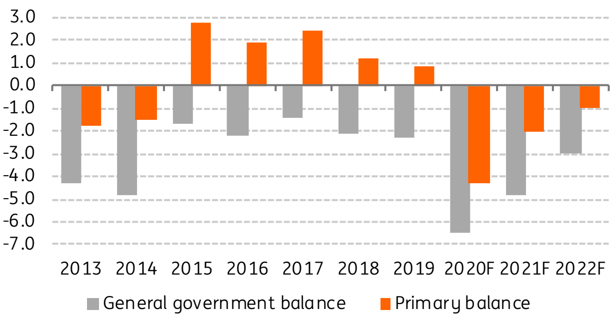
Ukraine

Key drivers: As was the case in 2020 as well, the IMF topic will remain key to Ukraine's fiscal and economic prospects. Officially, the commitment to the IMF agreement remains intact, but the will (and/or ability) to put it into practice might not be. The ruling party, Servants of the People, appears increasingly fragmented in parliament, with important pieces of legislation now needing tough negotiations to be passed. Though hiccups are still possible, Ukraine needs the IMF support and it will likely comply with the fund's main requests in areas such as anticorruption, bank resolution or privatisations.

Fiscal outlook: Fiscal policy will remain relatively loose in 2021. We expect a narrowing of the fiscal deficit from 6.5% this year to just below 5% next year, in line with the IMF's request. The financing needs will become more pressing in 2H21 when they will rise to over 7.0% of GDP for which we see little alternative to IMF funding.

External outlook: Fundamentally, the C/A deficits should start to be visible again next year as the imports demand will recover and travelling abroad will probably resume, but we believe that the C/A deficit will be smaller than the market predicts. As vaccine availability might come first in the EU, USA, China and Russia, Ukraine's main trading partners, the external demand should pick up a few months earlier than the internal one, hence the import growth should outpace exports only at a later time in the year.

Fig 35 Fiscal balances to gradually improve (% of GDP)

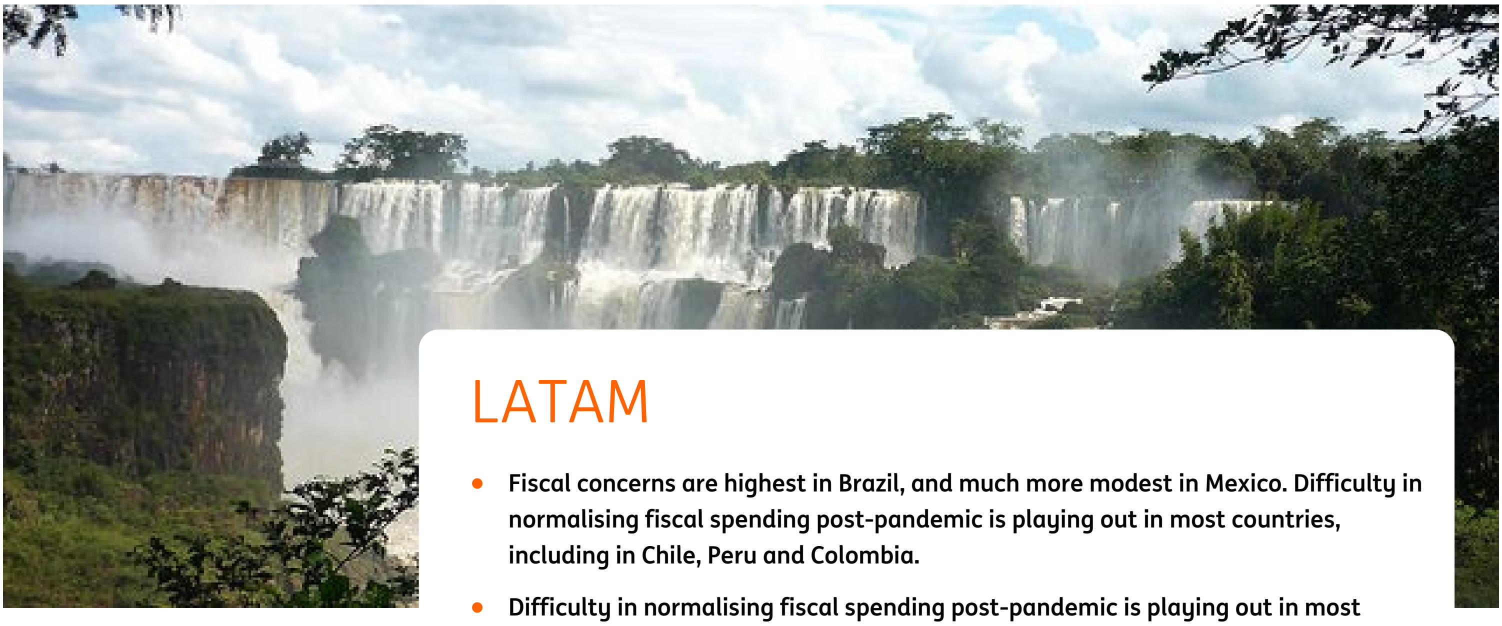


Source: Finance Ministry, ING

Fig 36 Macro forecasts

	2019	2020F	2021F	2022F
Real GDP (%YoY)	3.2	-4.9	4.6	4.1
Nominal GDP (US$bn)	154	147	154	162
GDP per capita (US$)	3,700	3,500	3,700	3,900
CPI (average, %YoY)	7.9	2.7	5.5	4.5
Consolidated government balance (% of GDP)	-2.2	-6.5	-4.8	-3.0
Consolidated primary balance (% of GDP)	0.9	-4.3	-2.0	-1.0
Total public debt (% of GDP)	50.3	63.9	63.0	62.0
Current account balance (% of GDP)	-5.1	2.9	-1.5	-3.0
Net FDI (% of GDP)	3.8	-1.6	1.4	2.0
FX reserves ex gold (US$bn)	25.3	28.2	31.3	34.0
Import cover (months of imports)	5.0	7.1	6.8	6.9
Gross external debt (% of GDP)	87.8	96.9	101.2	98.7
Central bank key rate (year-end, %)	13.50	6.00	5.00	5.00
USD/UAH exchange rate (year-end)	23.6	28.4	29.0	29.5

Source: National sources, ING estimates



LATAM

- **Fiscal concerns are highest in Brazil, and much more modest in Mexico. Difficulty in normalising fiscal spending post-pandemic is playing out in most countries, including in Chile, Peru and Colombia.**
- **Difficulty in normalising fiscal spending post-pandemic is playing out in most countries, including in Chile, Peru and Colombia.**

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Faced with the pandemic, most LATAM policymakers acted by implementing robust monetary and fiscal policy stimulus measures. That was a suitable course of action at the onset of the pandemic, but it's clear that, for many of the countries, there is little scope for more fiscal easing. Signs of fiscal consolidation in 2021 are needed. The medium-term should be determined by ability to transition to a fiscally responsible stance in the coming months, while keeping the policy mix slightly expansionary.

Brazil and Mexico in context

The 2021 outlook will hinge on post-pandemic growth-trajectories, with noted upside for Brazil and Colombia. A constructive outlook for commodity prices should benefit Andean FX in general, but political risk is high in Chile and Peru. Fiscal concerns are highest in Brazil, and much more modest in Mexico. Difficulty in normalising fiscal spending post-pandemic is playing out in most countries, including in Chile, Peru and Colombia.

For Andean countries, politics should also be an important factor driving asset prices in 2021, with high-stakes elections taking place in Peru and Chile. Peru and Chile have already been facing tremendous political instability for a few years and, even though elections typically generate uncertainties, there's also some hope that, in these two cases, elections could pave the way for less political friction in their aftermath.

Peru

In Peru, the election of a president with a working legislative majority, in April, appears essential to end years of political dysfunction that have resulted in very unstable presidential mandates, including three presidents (and counting) in less than the (typical) 5-year mandate. Post-elections, Peruvian assets should outperform.

Chile

In Chile, social unrest continues to provide fertile ground for political instability, but that should calm after the election of a constitutional convention to rewrite the country's constitution, taking place in April, and general elections in November. Meanwhile, copper prices, the chief driver for Chile's terms-of-trade, are projected to remain elevated, near current levels – a supportive factor.

Colombia

Colombia represents the most attractive prospect in the Andeans, with reduced political noise and large potential for appreciation if oil prices follow the appreciation trajectory we expect. Risk of a credit rating downgrade is the main risk for this call, but rating agencies appear reluctant to downgrade the credit in the shorter-term, as they wait for the government and Congress to act on their plan to re-anchor fiscal accounts.

Appendices

Emerging markets heat map

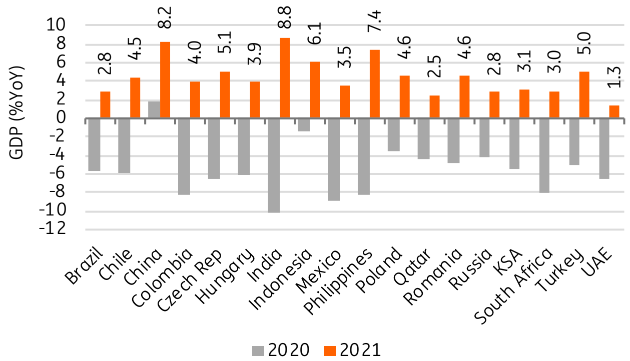
Fig 37 Emerging markets heat map

	Economic Activity		Fiscal Accounts		External Accounts					Banking Sector	
	GDP	CPI	Gross Debt	Fiscal Bal	NIIP	C/A Balance	ST Ext Debt	Total Ext Deb	FX Reserves	Reg Capital	NPLs
Unit	*% yoy*	*% yoy*	*% of GDP*	*% of GDP*	*% of GDP*	*% of GDP*	*% of GDP*	*% of GDP*	*% of Ext Fin Req*	*% of RWA*	*% of Loans*
Year	*2021*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020Q2*	*2020Q2*	*Latest*	*Latest*	*Latest*
Brazil	+2.8	+2.9	101	-6.5	-29	+0.0	5	45	480	16	2.8
Chile	+4.5	+2.7	33	-4.0	-16	-2.9	7	85	135	13	2.0
China	+8.2	+2.7	62	-11.8	15	+0.7	8	14	299	15	1.9
Colombia	+4.0	+2.1	68	-6.2	-61	-3.9	6	55	200	18	3.7
Czech Republic	+5.1	+2.4	39	-4.3	-13	-0.5	33	76	190	21	2.8
Egypt	+2.8	+6.2	87	-8.1	-54	-4.2	3	34	121		
Hungary	+3.9	+3.4	77	-3.9	-41	-0.9	11	138	179	18	1.3
India	+8.8	+3.7	89	-10.9	-14	-0.9	4	21	382	14	8.2
Indonesia	+6.1	+1.6	38	-5.5	-26	-2.4	4	38	175	23	2.9
Israel	+4.9	+0.2	77	-7.1	43	+3.5	10	30	699	14	1.4
Korea	+2.9	+0.9	48	-2.3	35	+3.4	10	32	421	15	0.3
Malaysia	+7.8	+2.4	68	-4.7	-3	+1.8	28	70	113	18	1.5
Mexico	+3.5	+3.3	66	-3.4	-50	-0.1	5	43	354	17	2.0
Peru	+7.3	+1.9	39	-4.3	-44	-0.3	5	34	641	15	3.5
Philippines	+7.4	+3.0	49	-7.3	-4	-1.5	3	24	507	15	2.0
Poland	+4.6	+2.3	60	-4.3	-45	+1.8	8	58	350	18	3.8
Romania	+4.6	+2.5	45	-8.1	-42	-4.5	6	51	133	23	4.4
Russia	+2.8	+3.2	19	-2.6	33	+1.8	4	33	1,325	13	9.6
Saudi Arabia	+3.1	+3.7	33	-6.0	91	-1.6	6	30	837	19	1.9
South Africa	+3.0	+3.9	79	-11.1	41	-1.8	11	55	122	16	4.0
Sri Lanka	+5.3	+4.7	98	-8.1	-55	-3.2	9	63	64	16	5.4
Thailand	+4.0	+1.8	50	-4.9	8	+4.6	10	34	861	18	3.2
Turkey	+5.0	+11.9	42	-7.9	-53	-0.9	19	65	28	20	4.2
Ukraine	+3.0	+6.0	66	-5.3	-14	-3.0	11	86	123	21	48.1
Uruguay	+4.3	+8.2	69	-4.0	-29	-3.3	11	83	210	19	2.3
Source	*IMF WEO Oct 20*	*IMF WEO Oct 20*	*IMF WEO Oct 20*	*IMF WEO Oct 20*	*IMF, ING calculations*	*IMF WEO Oct 20*	*World Bank QEDS*	*World Bank QEDS*	*ING calculations*	*IMF FSI*	*IMF FSI*
Green	*90 Percentile*		*10 Percentile*	*90 Percentile*	*90 Percentile*	*90 Percentile*	*10 Percentile*	*10 Percentile*		*90 Percentile*	*10 Percentile*
Red		*90 Percentile*	*90 Percentile*	*10 Percentile*	*10 Percentile*	*10 Percentile*	*90 Percentile*	*90 Percentile*		*10 Percentile*	*90 Percentile*

Source: IMF (WEO Oct 20, FSI), World Bank (QEDS), World Economic Forum (Global Competitiveness Report 2019), ING

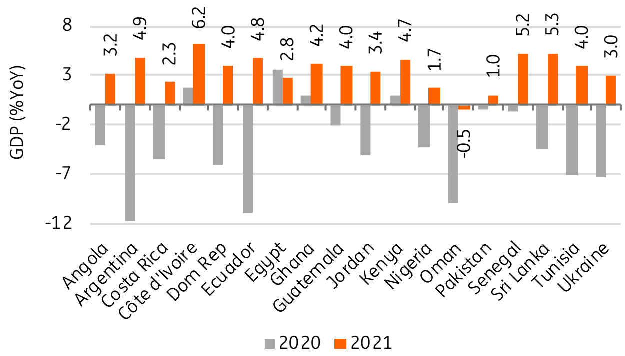
Emerging markets GDP growth

Fig 38 Major EM: GDP growth in 2020-21 (% YoY)



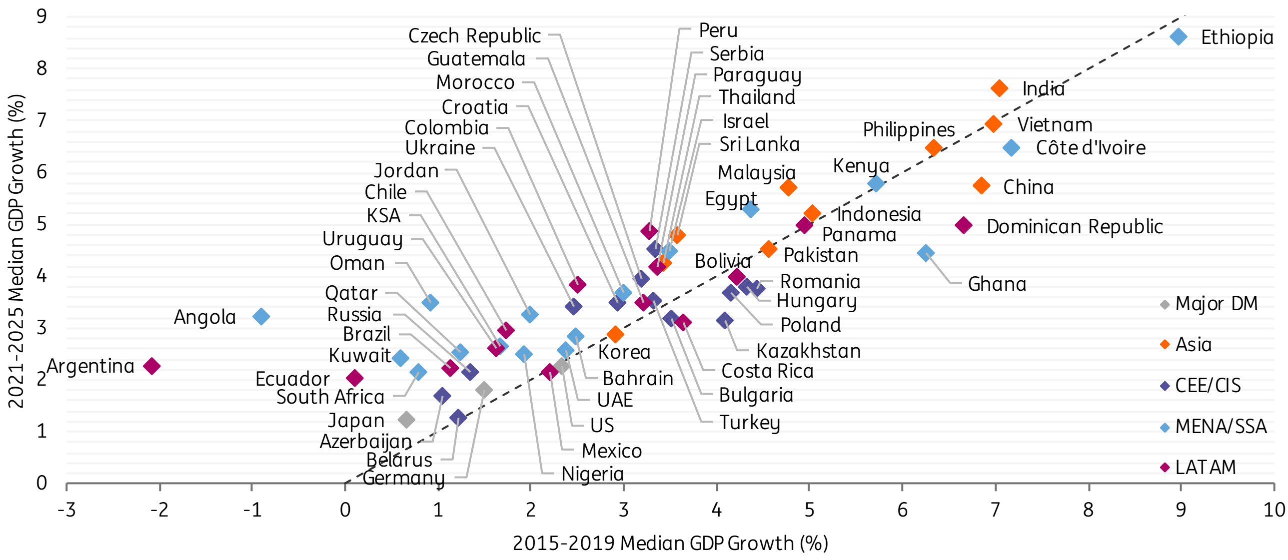
Source: IMF (WEO Oct 20), ING

Fig 39 Frontier EM: GDP growth in 2020-21 (% YoY)



Source: IMF (WEO Oct 20), ING

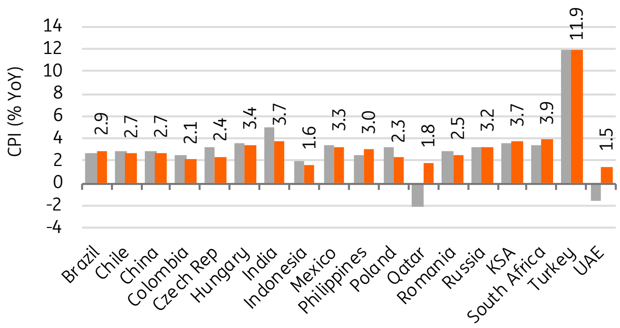
Fig 40 Median GDP growth in 2015-2019 vs 2021-2025 (% YoY)



Source: IMF (WEO Oct 20), ING

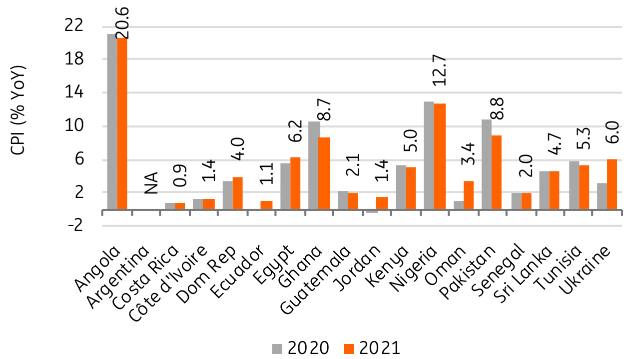
Emerging markets CPI in 2020-21

Fig 41 Major EM: CPI in 2020-21 (%YoY)



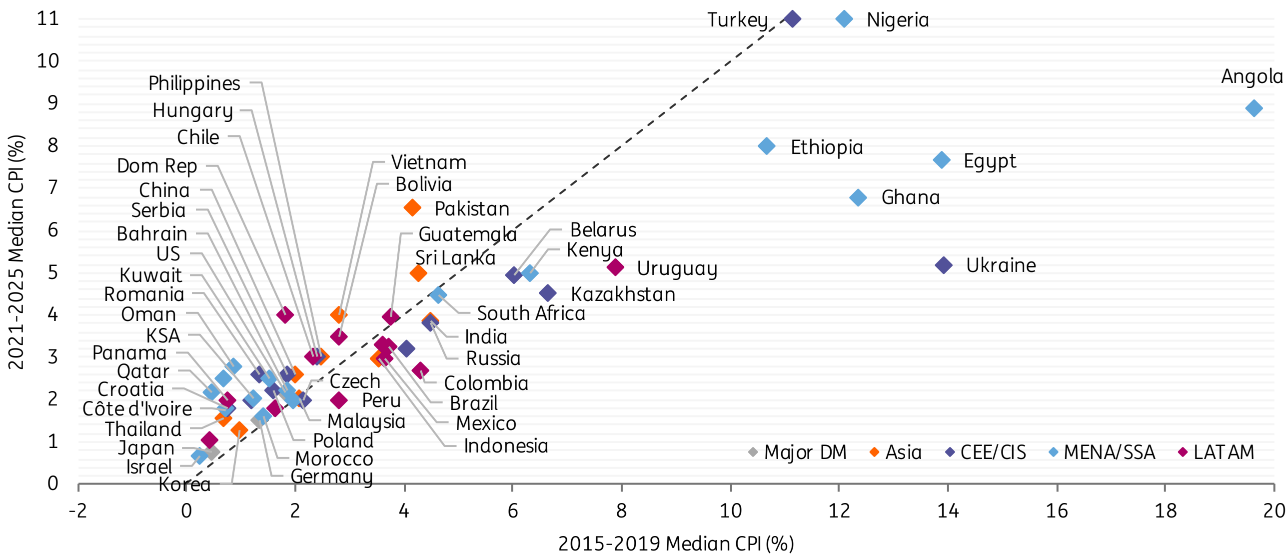
Source: IMF (WEO Oct 20), ING

Fig 42 Frontier EM: CPI in 2020-21 (% YoY)



Source: IMF (WEO Oct 20), ING

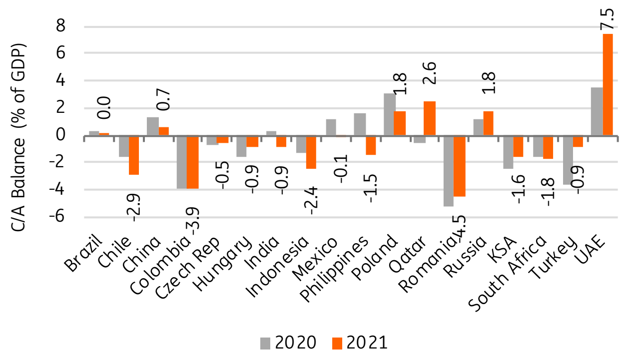
Fig 43 Median CPI in 2015-2019 vs 2021-2025 (% YoY)



Source: IMF (WEO Oct 20), ING

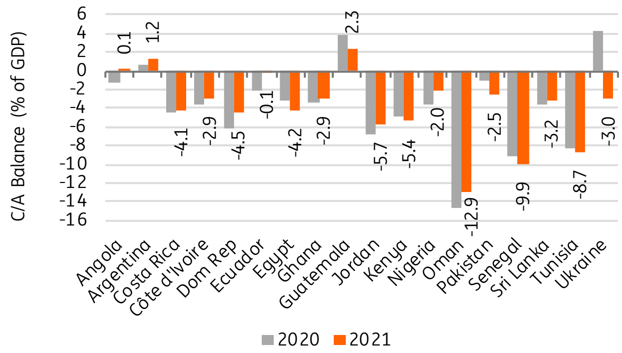
Emerging markets C/A balance in 2020-21

Fig 44 Major EM: C/A balance in 2020-21 (% of GDP)



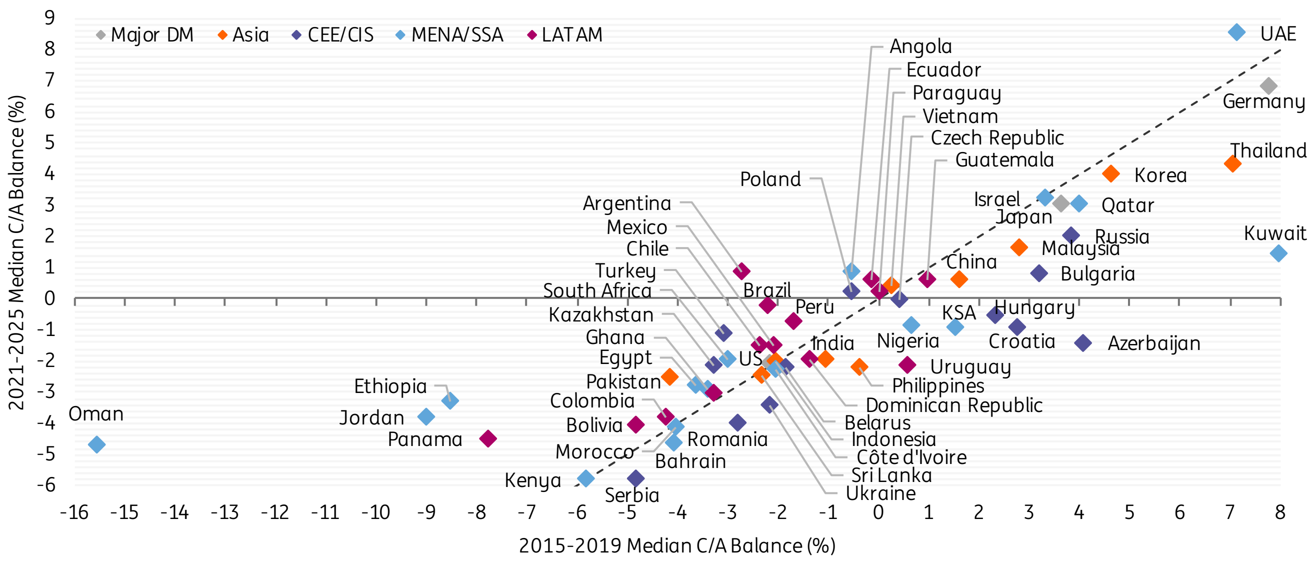
Source: IMF (WEO Oct 20), ING

Fig 45 Frontier EM: C/A balance in 2020-21 (% of GDP)



Source: IMF (WEO Oct 20), ING

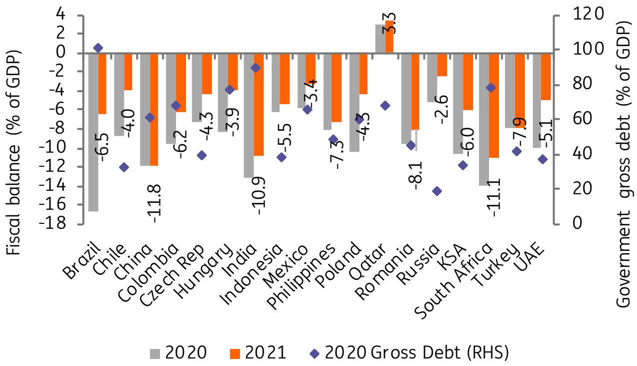
Fig 46 Median C/A balance in 2015-2019 vs 2021-2025 (% of GDP)



Source: IMF (WEO Oct 20), ING

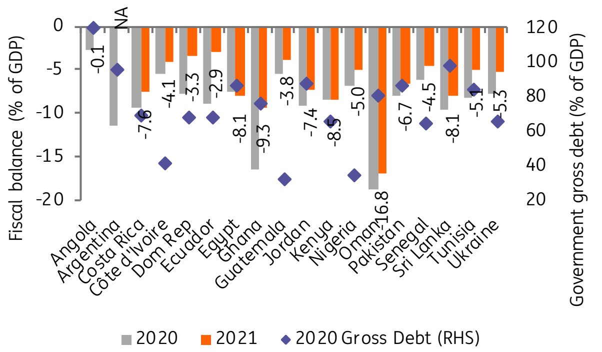
Emerging markets Fiscal balance in 2020-21

Fig 47 Major EM: Fiscal balance in 2020-21 (% of GDP)



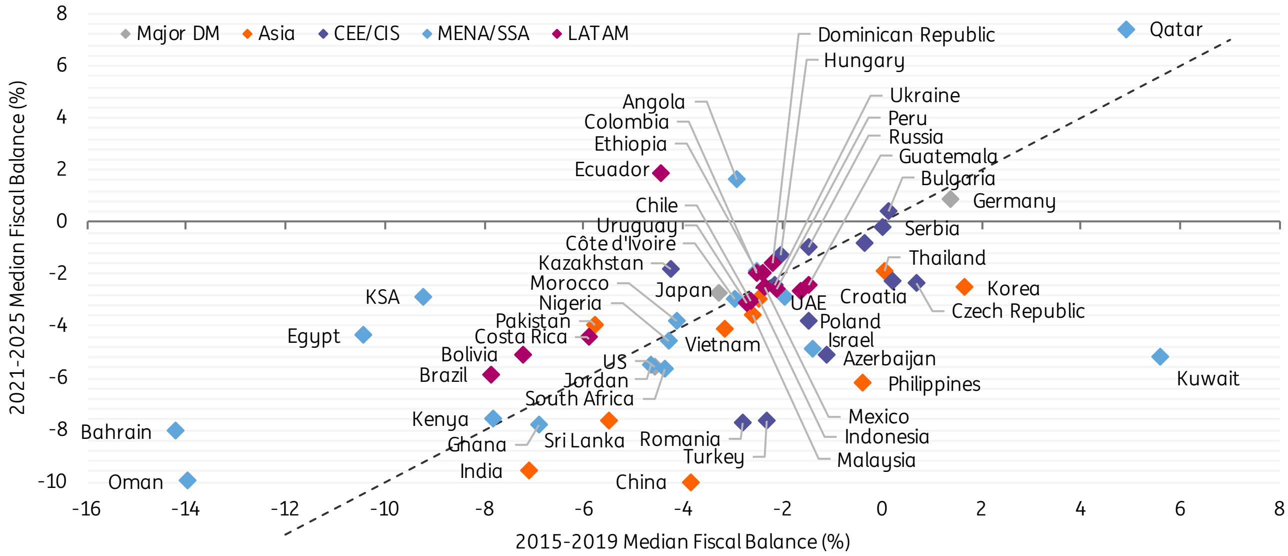
Source: IMF (WEO Oct 20), ING

Fig 48 Frontier EM: Fiscal balance in 2021-21 (% of GDP)



Source: IMF (WEO Oct 20), ING

Fig 49 Median fiscal balance in 2015-2019 vs 2021-2025 (% of GDP)



Source: IMF (WEO Oct 20), ING

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