20 July 2020
EM Sovereign Debt

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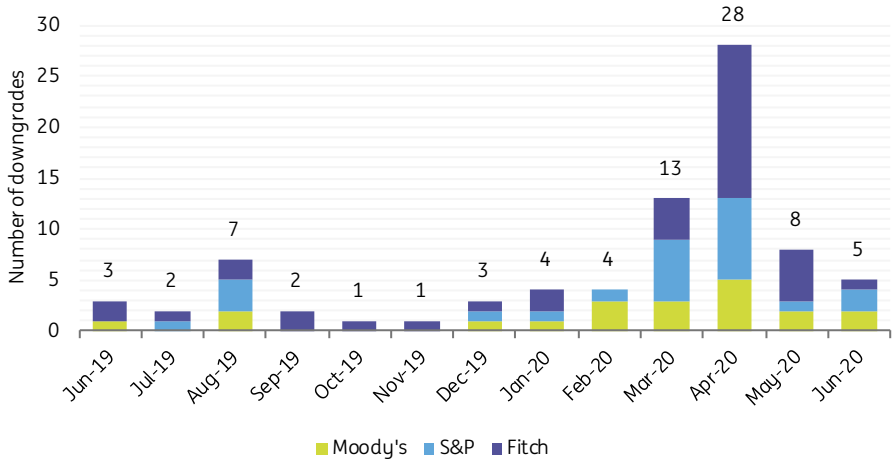
No time to be complacent on fallen angel risks

Amid the pandemic and oil price collapse, fundamentals of EM sovereigns have come under pressure across the board, resulting in a peak of 28 downgrades in April 2020 - out of 82 in total over the past year.

Countries in focus

- **Colombia**
(COLOM; Baa2 sta/BBB- neg/BBB- neg)
- **India**
(Baa3 neg/BBB- sta/BBB- neg)
- **Indonesia**
(INDON; Baa2 sta/ BBB neg/BBB sta)
- **Mexico**
(MEX; Baa1 neg/BBB neg/BBB- sta)
- **Morocco**
(MOROC; Ba1 sta/BBB- sta/BBB- neg)
- **Romania**
(ROMANI; Baa3 neg/BBB- neg/BBB- neg)

Number of EM sovereign downgrades per month



Source: Moody's, S&P, Fitch, Bloomberg, ING

Since then, the number of downgrades has dropped substantially but it's not time to become complacent. While the stabilising external backdrop has helped to cushion the fall, the fundamental deterioration is slow to materialise and there is no guarantee that 2021 will bring a much-needed rebound. As another warning sign, 54 sovereign ratings have been placed on a negative outlook since March (vs 29 to stable and 1 to positive).

This sets the context for a handful of 'BBB' rated sovereigns which face the risk of losing investment grade status in the foreseeable future. Among the sovereigns we cover in this note, this is especially true for **Colombia**, **India**, **Morocco** and **Romania** which are one or two downgrades away from becoming fallen angels, further exacerbated by negative rating outlooks. It's however not set in stone as investors and rating agencies alike are trying to look through the cycle and assess the post-pandemic outlook. For India and Morocco, lifting growth to potential will be key alongside structural reforms. For Colombia and Romania, downgrade risks are linked to restoring fiscal credibility.

Meanwhile, **Mexico** has some way to go before losing investment grade status but the combination of persistently weak growth, faltering business confidence and PEMEX-related financial troubles will become more evident in 2021. **Indonesia** is in the most favourable position here with limited downgrade risks in the near-term. However, should the pandemic and economic slump turn out more severe, this would weigh on the debt outlook and external sentiment (already being tested by fiscal monetisation and the suspension of the fiscal rule), and ultimately on ratings.

We also scrutinise rating relevance for EM debt funds and look at bond performance around the time of losing investment grade status for some issuers. Our conclusion is that concerns of such a rating event has resulted in underperformance ahead of actual downgrades, but prospects diverge afterwards (most ratings have fallen further). Lastly, yet importantly, forecasting the timing of a downgrade remains a science of its own.

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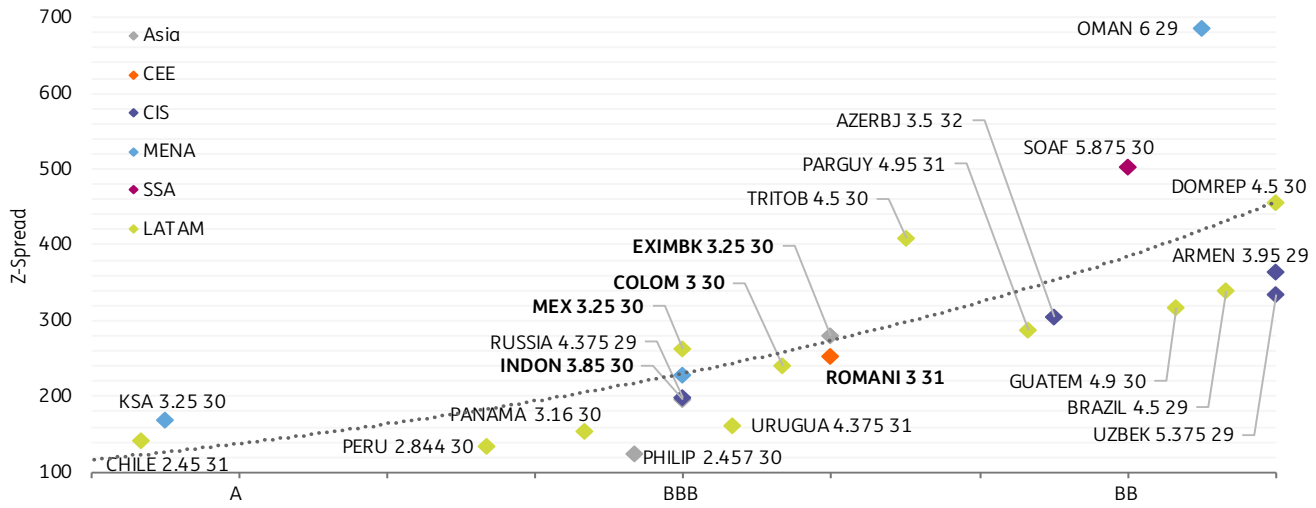
Summary of key concerns and our view for sovereign ratings

Country	Rating	Key concerns	ING view on rating risks
Colombia	Baa2 sta BBB- neg BBB- neg	**Growth**: Colombia's GDP should contract about 6-7% in 2020 which is among the better results in the region although policy stimulus measures are close to their limit **Fiscal**: The pandemic will create severe fiscal challenges in the future, with an already questionable track record of commitment to the fiscal rule being the chief medium-term vulnerability **External**: Large C/A deficits have been a long-standing source of concern but amid the pandemic, fiscal concerns pose a larger risk	The sharp deterioration seen in recent months means that more downgrades are on the cards which could result in the l**oss of at least one investment grade rating**. Averting the downward trajectory will depend on whether Congress can approve essential tax legislation to restore the medium-term fiscal outlook.
India	Baa3 neg BBB- sta BBB- neg	**Growth**: The pandemic may evolve as a permanent downward shock to GDP growth, pushing it well below the 7-8% potential rate **Fiscal**: Aggressive stimulus over the last couple of years has derailed fiscal consolidation and Covid-19 has made it worse **Asset quality**: Weak economy sustains upward pressure on NPAs and banking reforms will be key in preventing further sovereign downgrade	The negative outlooks imply a **high risk of losing investment grade status** over the coming quarters. Notably, India may not have the benefit of a doubt due to persistent structural problems (weak public finances and banking system). Taking bold steps to restore growth will be key to stabilise the outlooks.
Indonesia	Baa2 sta BBB neg BBB sta	**Growth**: Prolonged economic downturn that exerts fiscal pressure poses the biggest risk to IG ratings **Central bank monetization**: "Burden sharing" agreement may not have an immediate impact on inflation but reputational risks remain **External**: Despite improving C/A deficit ratio, IDR and the outlook on external debt sustainability remain susceptible to sharp swings in sentiment	**For the time being, risks for a downgrade appear marginal**. However, a more prolonged economic slump exacerbated by the pandemic might cause a more material deterioration in debt metrics. This in turn would weigh on investor sentiment and Indonesia's external position. Thus, **downgrade risks are likely to rise in the coming quarters**.
Mexico	Baa1 neg BBB neg BBB- sta	**Growth**: A weak countercyclical policy reaction to Covid-19 means that Mexico faces one of the largest contractions, likely around 8-9% in 2020 **Fiscal**: The near-term fiscal outlook could be supported by one-off factors, but a more persistent deterioration is possible for 2021, exacerbated by contingent liability risk from PEMEX **Governance**: A perceived anti-business policy bias by the AMLO administration have soured investment appetite by the private sector	There is a clear bias towards **further downgrades**, although we believe that Mexico will be **able to keep its investment grade status in the coming quarters**. The scope for a greater deterioration in Mexico's credit profile should become more evident later in 2021, due to a persistently lagging recovery.
Morocco	Ba1 sta BBB- sta BBB- neg	**External**: Morocco faces a widening C/A deficit due to a slump in exports, tourism receipts and remittances, but the IMF PLL provides stability **Fiscal**: Debt/GDP is expected to rise by 10pp in 2020, with further risks coming from SOEs, but this is balanced by a large domestic market **Social risks**: Low wealth, high unemployment and social disparity imply risks for social tensions	Morocco is likely to **dodge the bullet in 2020** but a negative outlook by S&P is possible. Avoiding the loss of IG status will depend on the post-pandemic outlook, notably whether growth can return to above 4% levels and how Morocco will continue its engagement with the IMF.
Romania	Baa3 neg BBB- neg BBB- neg	**Fiscal**: Fiscal rigidity has become a big concern with further risks coming from the looming 40% pension hike in September if left unresolved **Post-election policy framework**: Elections are due by March 2021 at the latest and pose an uncertainty, notwithstanding tax hikes will be on the 2021 fiscal agenda **External**: The financing structure of the current account deficit has deteriorated and preserving adequate FX reserves is a top priority	Rating concerns will be on the agenda ahead of the **October/December review dates**, with near term risks coming from the pension hike. Aside, rating agencies are however willing to **look through the electoral cycle** for a new government to embark on a more serious fiscal consolidation path.

Source: ING

10yr EM USD-denominated sovereign bonds on rating vs Z-Spread



Rating concerns weigh on spread performance

The relevance of fallen angels is debated heavily, ranging from investors highly alert on downgrade risk (as we note in discussions on Romania) to those that consider such rating events as buying opportunities (which has been the case for the recent PEMEX downgrade). Meanwhile, others claim to look through downgrades.

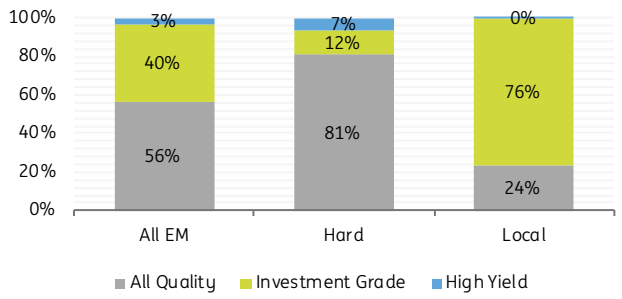
We investigate the investor base and assess spread performance for hard currency bonds, concluding that the loss of investment grade status and concerns thereof have a high relevance, but more so before the rating event than after. However, the key challenge is to correctly time such downgrades.

The significance of ratings varies but there's more to the eye

To begin with, we analyse rating constraints for dedicated EM debt funds, based on EPFR Global data which covers US$646bn of total net as of June 2020:

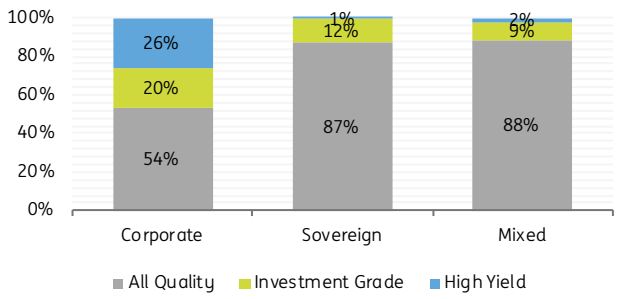
- **Hard vs local currency**: We find that most hard currency debt funds are rating agnostic, with 81% of funds investing across the rating spectrum while 12% have an investment grade mandate and 7% are specialised on high yield. In contrast, ratings appear to play a much more critical role in local currency debt with 76% of the funds bound to investment grade vs 24% with an unconstrained mandate.
- **Sovereign vs corporate focus**: Here, we focus on hard currency debt funds only. Sovereign and mixed debt funds are dominated by rating unconstrained funds. However, the picture is more balanced when it comes to corporate debt, with 54% being unconstrained and the rest more or less evenly split between IG and HY.

Fig 1 Rating constraints for hard vs local currency funds



Source: EPFR Global, ING – total net assets as of May 2020

Fig 2 Rating constraints by sector mandate (only HCY)



Source: EPFR Global, ING – total net assets as of May 2020

The EPFR Global data is a useful starting point as it reflects a relevant part of the EM investor base but should be taken with a pinch of salt given the bird's eyes perspective and its incomplete nature (mainly reflecting dedicated EM real money asset managers).

This is especially true for **EM local currency** which sees involvement from a largely rating unconstrained benchmark investor base (following the JPM GBI-EM index) and investment grade-bound global funds (FTSE WGBI and Bloomberg Barclays Global Agg). That said, non-residents own only a fraction of local currency bonds outstanding (e.g., c.10% in Brazil and 30% in Indonesia), with the majority held by domestic investors.

In **EM hard currency debt**, we have noted an increased involvement of non-traditional investors in recent years – those being investment grade-focussed real money, pensions and insurance money – which has been fuelled by the search for yield. Thus, the relevance for ratings here is higher than at first glance.

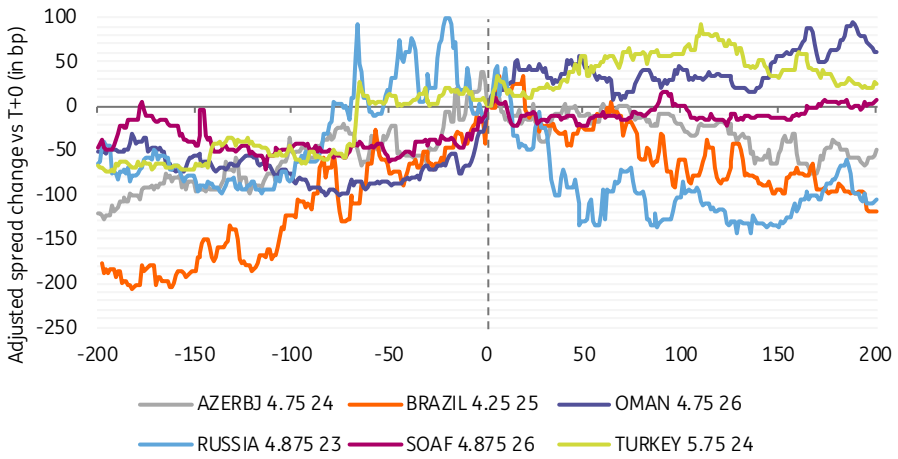
Leaving fund mandates aside, there are two additional important factors. First, there is a technical element as **concerns of forced selling** on a potential loss of investment grade status play an important role in investor decisions. Downgrade risks tend to be well flagged in advance, for example through a negative outlook/watch attached to the rating and/or views of market participants (like our comments in this note). Second, ratings reflect **issuers' creditworthiness**. As such, expectations of weakening fundamentals imply rating pressure and should be reflected by bond spreads. Often, these downward cycles have continued for years, meaning that once having become a fallen angel, further downgrades are likely to occur.

Spreads tend to underperform well before rating event and diverge post-downgrade

Having established the relevance of investment grade status, we move on to assess the impact of becoming a fallen angel on EM hard currency credit spreads. In Figure 3, we are looking at spread performances 200 days before and after the loss of investment grade status (T+0 defines the day when two out of three or one out of two ratings have fallen below investment grade). We are interested in the credit specific element. Thus, we are adjusting for market performance by using the spread differential vs the JPM EMBI Global spread (reflecting the wider market) rather than the absolute spread.

We include fallen angels of the last five years, those being **Azerbaijan** (loss of IG status on 05/02/16), **Brazil** (16/12/15), **Oman** (18/12/18), **Russia** (20/02/15), **South Africa** (07/04/17) and **Turkey** (23/09/16). As proxies for the sovereign bond curve, we have chosen intermediate maturity bonds (7-10 years to maturity at the time of downgrade).

Fig 3 Spread performance (vs EMBIG) 200 days before/after loss of IG rating status



Source: Bloomberg, ING – based to 0 on day of loss of rating status

It becomes evident that there is a large divergence in performance and every downgrade has its individual dynamic. However, there are some general trends:

- **Pre-downgrade**: Sovereign bond spreads have underperformed over the 200 days ahead of the rating event, 50b-70p in the case of Oman, Russia and Turkey, 120bp for Azerbaijan and nearly 200bp in the case of Brazil. Very broadly and generalised, the underperformance tends to occur within 100 days before the downgrade. This indicates that fallen angels are well flagged in advance.
- **At downgrade/a week later**: While the perceived risk of a downgrade often precedes such events, the actual date of a downgrade is not known in anticipation. One week after downgrade, our selected bonds traded 15-30bp wider except for SOAF 26s (2bp wider) and AZERBJ 24s (6bp tighter).
- **Post-downgrade**: In the aftermath, fortunes diverge with OMAN and TURKEY having widened further, SOAF trading in line with the market and all others tightened between 50-120bp in the 200-day window. This is despite forced selling by investment grade constrained investors, implying that forced selling is spread out over a certain time and often can be absorbed by unconstrained investors.

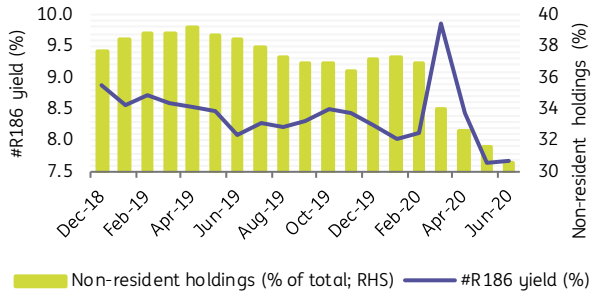
  Only Russia has regained investment grade status in February 2018 (three years after losing it). The other five sovereigns have seen further downgrades and no upgrades since (Brazil was the closest with a short-lived positive outlook on S&P's BB- between December 2019 and April 2020).

With the Covid-19 outbreak, South Africa and PEMEX have seen ratings being downgraded to sub-investment grade by Moody's, triggering index exclusions:

- **South Africa's** SAGB local currency bonds were excluded from the FTSE World Government Bond Index (WGBI) following Moody's downgrade of the sovereign from Baa3 to Ba1 on 27 March 2020. Subsequently, the share of non-resident investors in SAGBs has fallen to 30.6% in June (from 36.9% in February), but much of this has been driven by the flight to safety in March. Nevertheless, bond yields have dropped substantially on the SARB's rate cuts and government bond purchases, with SAGB 10.5% 26s (#R186) currently trading at 7.5% (down from above 10% during March). For hard currency credit, the event had limited relevance as both S&P and Fitch have rated the sovereign in non-investment grade territory since April 2017.
- Bonds of **PEMEX** were in limbo after Fitch downgraded the rating to BB+ (from BBB-) on 6 June 2019. The Mexican national oil company eventually lost investment grade status on 17 April 2020 when Moody's followed suit in cutting the rating to Ba2 (from Baa3) on the back of Mexico's sovereign downgrade (from A3 to Baa1).

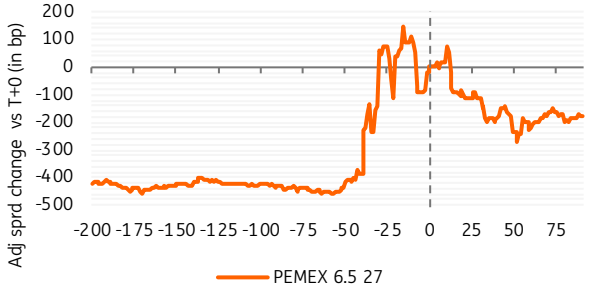
  We had estimated in July 2019 that the exclusion from the investment grade-bound Bloomberg Barclays US Aggregate Bond indices could see forced selling in the amount north of US$10bn. PEMEX bonds continue to be part of EM bond benchmarks such as the JPM EMBI Global indices. The substantial underperformance of 400bp for PEMEX 6.5% 27s in the 50 days preceding the downgrade was driven by the collapse in market sentiment in March, with bonds having recovered somewhat since.

Fig 4 SAGB non-residential holdings and #R186 yield



Source: SARB, Bloomberg, ING

Fig 5 PEMEX 6.5% 27 spread performance (vs EMBIG)



Source: Bloomberg, ING – based to 0 on day of loss of rating status

Colombia

Ratings and recent changes

Moody's: **Baa2** stable

S&P: **BBB**- negative (outlook revised from stable on 26/03/20)

Fitch: **BBB**- negative (downgraded from BBB on 01/04/20)

Key concerns

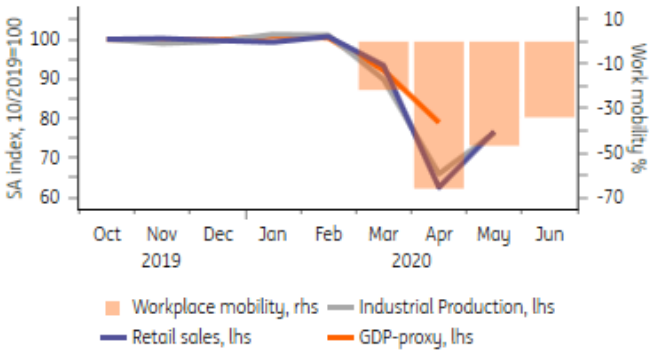
Growth prospects: As movement restrictions have been gradually eased since April, economic activity has recovered some ground but uncertainties regarding Colombia's recovery prospects remain high. Assuming the recent rise in confirmed Covid-19 cases does not derail the gradual normalisation of economic activities seen since April, GDP should contract by about 6-7% in 2020. This is among the better results in the region but, as illustrated by the doubling of the unemployment rate since the start of the year (21% in May), there's no denying the severity of the crisis and its lasting consequences. The economic policy response seen so far should help mitigate the impact of the crisis and help expedite the recovery, but policy stimuli measures appear to be near their limit, i.e. scope for additional rate cuts or fiscal spending is now very modest. As a result, with limited policy flexibility left, the recovery should depend chiefly on Colombia's ability to keep the health crisis under control and normalise economic activity.

Fiscal deficits/policy framework: Colombia's questionable track record of commitment to its fiscal rule is its chief medium-term vulnerability. This weakness has been exacerbated by the recession, the need to boost government spending to help mitigate the impact of the pandemic and the decline in oil prices. Colombia's fiscal stimulus measures, including the 2-year suspension of the fiscal rule, are far less stringent than Mexico's but they are more modest than the packages seen among its Andean peers, Chile and Peru.

While the policy response should help expedite the recovery and appears commensurate with Colombia's less deadly Covid-19 outbreak (vs its Andean peers), the recession and higher fiscal spending should, nonetheless, create severe fiscal challenges in the future. The government acknowledged as much when it recently updated its projected fiscal trajectory. According to the recently published annual Medium-Term Fiscal Framework, the fiscal deficit will rise to 8% of GDP in 2020, up from a previous projection of 2%. A larger deficit, the collapse in GDP and weaker FX will result in an eye-watering 15ppt increase in debt-to-GDP to 65%. The government also acknowledges that the surge in debt has increased the urgency for Congress to approve another fiscal reform, to help re-anchor fiscal accounts in the coming years.

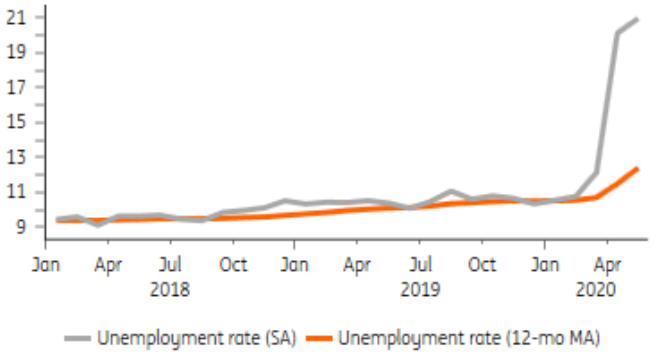
External imbalances: Colombia's large current account deficit has been a longstanding source of concern for policymakers and investors alike. Notably monetary policy remains sensitive to eventual difficulties to finance the current account deficit. This worry continues to inform policy rate decisions, as seen in the recent hawkish surprise by the central bank, which cited the risk of financial market instability, possibly driven by FX outflows. For the moment, however, fiscal concerns should remain in the foreground as the deep recession should help weaken imports and ease concerns over external accounts, despite the decline in oil prices. The FX rate should also continue to act as an effective shock absorber and a corrective driver for balance-of-payment imbalances.

Fig 6 Economic activity bottomed in April



Source: Macrobond, ING

Fig 7 But surge in unemployment is worrying



Source: Macrobond, ING

Rating outlook

Downgrade risks loom on the BBB- rating at S&P following the outlook revision to negative on 26 March (jointly with numerous other oil producers) and Fitch which left the outlook on negative after the downgrade from BBB on 1 April. Interestingly, S&P's downgrade was mainly driven by concerns on a weakening external profile while Fitch's concerns are mainly of fiscal nature.

As we have highlighted above, we consider the fiscal threat more prominent. Colombia's ability to hold-on to its investment grade will chiefly depend on its ability to convince rating agencies that Congress will be able to approve unpopular tax-boosting and spending-cut initiatives by next year. This will be a critical driver to assess Colombia's medium-term fiscal outlook, which needs to be re-anchored after the sharp deterioration that should happen in 2020-21.

As illustrated by the difficulties to approve tax legislation seen in recent years, approval of major tax legislation should not be taken for granted. This suggests that uncertainty regarding Colombia's fiscal outlook will remain exceedingly high, especially considering the difficulties in advancing unpopular legislation in late-term pre-election periods.

To make things worse, the rating agencies' base case scenario now look outdated given the sharp deterioration seen in recent months. Overall, unless Congress surprises by pre-emptively approving a tax package in the coming quarters, rating agencies may not be inclined to wait, and we would see rating pressures ramping up.

More likely than not, we see Colombia losing one of its investment grade ratings (Fitch) in the coming quarters and pressure on Moody's Baa2 rating albeit the current stable outlook and the one notch higher rating (vs S&P and Fitch) provide some buffer. S&P had indicated an 18-month review horizon starting in end-March.

Fig 8 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa2 sta	• Sustainable reduction in **fiscal deficits** (addressing challenges from low tax intake and rigid expenditure structure) • **Economic growth** at potential level of 3.5% or rising growth potential and lower-than-expected budgetary imbalances (ie, declining government debt ratios) • Rising **government revenue** • Bolstering **fiscal policy framework** (including fiscal rule, budgeting and resource allocation)	• Continued **primary deficits** leading to a persistent increase in government debt metrics • Severe shock to **economic growth** • Widening current account deficit and higher reliance on external debt inflows, leading to a weakening of **external buffers**
S&P BBB- neg	For outlook to stable: • Timely and adequate **policy measures** successfully stabilise the economy, sustain GDP growth prospects, limit the increase in the general government's net debt burden, and contain risks to external liquidity	• Negative external shocks undermine **GDP growth prospects**, contributing to worsening **public finances**, or pose further risks to **external liquidity**
Fitch BBB- neg	• **Fiscal consolidation** consistent with an improved trajectory for public debt dynamics • Return to **economic growth prospects** consistent with medium-term growth potential above 3% • Reduced **external imbalances** that improve external debt and liquidity ratios	• Failure to achieve **fiscal consolidation** consistent with stabilisation and eventual reduction of government debt • Damage to **medium-term growth prospects** • Sustained **external imbalances** that lead to a continuous rise in external debt burden

Source: Moody's, S&P, Fitch, ING

India

Ratings and recent changes

Moody's: **Baa3** negative (downgraded from Baa2 on 01/06/20)

S&P: **BBB**- stable

Fitch: **BBB**- negative (outlook revised from stable on 18/06/20)

Key concerns

Growth challenges: Exacerbating the sharp slowdown of recent years – GDP growth halved to 4.2% in FY19 (ended in March 2020) from 8.3% in FY16 – the economy is facing a deeper slump this year as the Covid-19 crisis continues to worsen. India is now the third worst-affected country by Covid-19 in the world, after the USA and Brazil. At the current rate, it's only a matter of time before it reaches the top spot.

Just like the pandemic itself, the economic fallout looks to be the worst ever. Nearly a whole quarter of economic inactivity in 2Q20 will mean a hefty dent to GDP growth (ING view -11.7%). Absent vigorous policy support, persistent negative growth remains a baseline for the rest of the fiscal year, which would make it the worst year for the economy in five decades. Our growth forecast for the current fiscal year is -5.2%, subject to more downside than upside risk. Moreover, the pandemic may evolve as a permanent downward shock to GDP growth, pushing it well below the 7-8% potential rate.

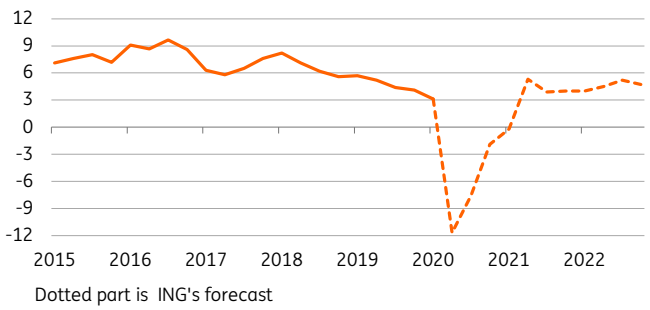
Fiscal trajectory: While weak growth has choked government revenue, the need to support the economy is fuelling spending. The government announced a 10% GDP Covid-19 stimulus package in May. This poses a significant strain on already stretched public finances, although the real (on-balance sheet) stimulus in this is only 2.6% of GDP. We forecast a further spike in the fiscal deficit to 6.5% of GDP in the current fiscal year from a 7-year high of 4.6% posted in FY2019. And record debt issuance to finance the deficit is likely to push public debt to GDP ratio close to 80%, up from 72% in the previous fiscal year.

Having shelved it in 2019, the authorities may drop the plan of overseas borrowing to fund the wider budget gap. However, a negative rating overhang is unlikely to make it any easier. On a positive note though, weak domestic demand and falling oil prices have made external payments less of a strain for sovereign rating. The current account deficit narrowed to under 1% of GDP in FY19, which is where we see it staying this year. With some permanent demand destruction resulting from Covid-19, we don't see external payments being much of a cause for concern over the next few years.

Banking system and other factors: Structural bottlenecks are playing a significant role in dampening the economy and the sovereign rating outlook. Of note here are liquidity troubles for shadow banks since late 2018 and the rising bad debt of public sector banks.

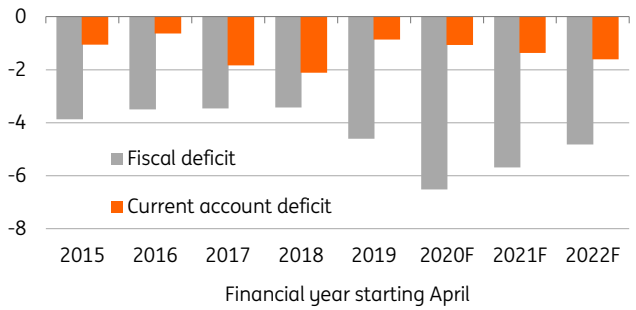
These not only hamper the pass-through of policy rate cuts to the broader banking system but also squeeze loanable funds of banks and increase the caution they need to exercise in lending these out. Abrupt policy changes (e.g. de-monetisation in late 2016) and financial sector instability also weigh on investor confidence. Banking reforms will be key in preventing further sovereign downgrade. Moody's also has identified India among the most vulnerable economies to climate change risk.

Fig 9 Real GDP (% YoY, quarterly data)



Source: CEIC, ING

Fig 10 Twin deficits (% of GDP)



Source: CEIC, ING

Rating outlook

India had its first downgrade by Moody's in 22 years as the agency cut the sovereign rating by one notch to Baa3 (from Baa2) on 1 June and kept it under negative outlook. Moody's cited persistent weak growth, challenges of effective policy implementation to stem the slowdown, worsening public finances, and financial system stress as reasons for their decision.

Moody's action aligned its rating with those by S&P and Fitch, though they both still had a stable outlook on their BBB- ratings. Subsequently, S&P affirmed its rating with a stable outlook on 10 June, but Fitch cut the outlook from stable to negative on 18 June, noting the impact of weaker growth on the public debt burden.

We don't rule out more negative rating actions ahead. That said, it's hard to justify downgrades at all at such an unfortunate time when economies are in dire need of strong policy support. However, India may not fit such a lenient view, given its perennial structural problems of weak public finances and a banking system plagued by a high level of non-performing assets, which are poised to get a lot worse during the crisis.

The Covid-19-induced economic slowdown is a big setback to prime minister Narendra Modi's reform agenda, especially to his vision of making India a $5 trillion economy in five years. There has been a greater emphasis on structural reform of critical sectors of the economy during the Covid-19 stimulus. We think taking these to fruition will be important to restore India as the world's fastest-growing economy, and its sovereign rating on an upward trajectory. For now, India's weak economic and credit backdrop will be an overwhelming factor in shaping investor sentiment towards this emerging market.

Fig 11 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa3 neg	For outlook to stable: • Outturns and policy actions (eg, enhancing financial stability be **strengthening** the supervision, regulation and capitalization of the financial sector) raise confidence that real and nominal **growth** will rise to sustainably higher rates than projected • Commensurate action to halt and reverse the rise in the **debt trajectory** (even slowly)	• Evidence that self-reinforcing economic and financial risks are rising
S&P BBB- sta	• Government significantly curtails **fiscal deficits**, resulting in materially lower general government net indebtedness	• **GDP growth** fails to meaningfully recover from 2021 onwards, and trend growth rates falls towards the average of peers • **Net general government deficits** materially exceed forecasts, signifying a weakening of institutional capacity to maintain sustainable public finances
Fitch BBB- neg	• Implementation of a credible strategy to reduce **general government debt** after the pandemic that would put it on a path towards the 'BBB' peer median • Higher sustained **investment** and **growth rates** in the medium without the creation of **macroeconomic imbalances**, such as from successful structural reform implementation and a healthier financial sector	• Structurally weaker real **GDP growth outlook,** for instance due to continued financial sector weakness or lacking reform implementation • Failure to reduce the **fiscal deficit** after the pandemic recedes, and to put the general government debt/GDP ratio on a downward trajectory

Source: Moody's, S&P, Fitch, ING

Indonesia

Ratings and recent changes

Moody's: **Baa2** stable

S&P: **BBB** negative (outlook revised from stable on 17/04/20)

Fitch: **BBB** stable

Key concerns

Fiscal impact from a prolonged economic downturn: Finance minister Sri Mulyani Indrawati warned of a recession this year and recent indicators suggest that the economy is headed in that direction with contractions in both manufacturing and retail sales. Trade numbers also point to fractured export demand coupled with a likely deterioration of potential output as imports fall sharply, driven in large part by the stark pullback in imports of capital machinery.

We expect GDP to slide into contraction territory by 2Q with growth momentum severely impaired going into 2021. The general slowdown in economic activity will lead to pressure on the fiscal position as revenue collection remains weak, which in turn could push the deficit to GDP ratio well past the government's forecast for 6.3% for the year. A substantial overshoot in 2020 and the failure to reign in the deficit below 3.2% in 2021 would lower the chances for fiscal consolidation considerably.

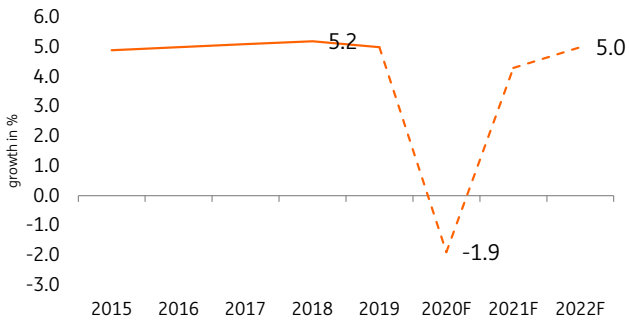
Central bank monetization: Meanwhile, Bank Indonesia and the national government recently agreed to a "burden sharing" arrangement with the central bank purchasing bonds at a discount, effectively monetizing the country's debt to lower the impact of the Covid-19 response. Initial apprehension over the new scheme centred on the threat of higher inflation although with the economy headed for a steep recession, we believe this threat to be minimal for now, given the depressed demand.

The greater concern for such a move would be reputational risk incurred by the central bank as it sets a precedent for future attempts to monetize debt, leaving the door open for eventual unmanageable debt levels if abused. For now, Indonesian authorities have been able to skirt the issue, pointing to current circumstances as justification. However, future attempts to monetize debt may not sit well with the investor community as it casts doubt on fiscal sustainability and more importantly institutional integrity.

External balances and IDR stability: Indonesia's external position is closely tied to the stability of the rupiah (IDR) which has stabilised somewhat after the March swoon where IDR fell to an all-time low. However, IDR has remained susceptible to sharp swings in sentiment, recently giving up gains when investors turned wary after the BI burden sharing arrangement was initially announced.

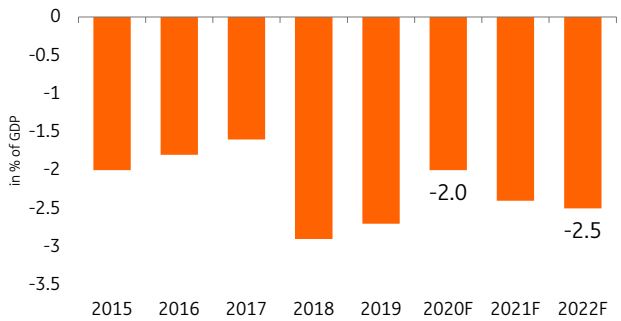
Overall, Indonesia's external position is expected to improve somewhat with the current account deficit to GDP ratio set to hit 2.0% in 2020 (from 2.7%) largely due to import compression. Slowing imports of capital machinery and raw materials will eventually limit growth potential and drag on growth in the coming quarters and we expect the external position to come under pressure once more during bouts of risk off tone.

Fig 12 GDP performance and forecast



Source: CEIC, ING estimates

Fig 13 Current account and forecast



Source: CEIC, ING estimates

Rating outlook

Indonesia's credit outlook remains relatively stable although a deteriorating economic outlook remains a credible risk that could reverse this position. S&P revised its outlook to negative on 17 April highlighting the challenging economic environment brought about by the pandemic and its probable impact on both the fiscal and external position.

The threat of a ratings downgrade for Indonesia may appear marginal for the time being given a relatively sound external position with the central bank rebuilding its buffer stock of reserves. However, we highlight the credible risk of slowing economic activity which may materially impact the fiscal position with an overshoot of the expected 6.3% deficit to GDP ratio a real possibility. Complicating matters would be the sustained rise in daily infections with Indonesia recording the highest number of infections in ASEAN. And although the external position appears comfortable, the improvement in the current account deficit comes at the expense of potential output which would hinder a quick rebound in GDP.

Thus, we expect downgrade risks for Indonesia to rise in the coming quarters should the economic slump turn to be more protracted than forecasted. A prolonged economic slump coupled with the pandemic may force additional fiscal remedies at a time where revenue collection is impaired, causing material deterioration in the country's debt metrics. A recession-like downturn will likely force investor sentiment to sour, which would in turn renew pressure on the external position with IDR expected to renew its depreciation trend.

Indonesia's credit rating hinges on the economy making a quick recovery from Covid-19 however with forward looking indicators signalling an impending recession, we expect Indonesia to face challenges on the fiscal and external position with more downgrade pressure in the coming quarters.

Fig 14 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa2 sta	• Fiscal policy measures that durably and significantly raise **government revenue**, increasing fiscal flexibility and providing more direct financial means for the government to address large social and physical infrastructure spending needs • Increase in **growth potential** toward rates commensurate with population growth and income levels, including through deepening of financial markets and greater competitiveness	• Economy-wide impacts and fiscal repercussions from a prolonged, entrenched slowdown in **growth** (e.g. difficulties reverting to a declining fiscal deficit trajectory following one-time off stimulus package) • Evidence that gradual strengthening of **policy framework** and **institutions** has stalled or reversed • Meaningful deterioration in the **external position** (e.g. prolonged currency depreciation or capital outflows, with ramifications for debt affordability)
S&P BBB neg	For outlook back to stable: • **External settings** improve materially from current levels • **Fiscal settings** improve with general government deficit and associated change in net debt falling well below 3.0% of GDP over the next two to three years	• Deeper or more prolonged **economic slowdown** over the next two years • **External** or **fiscal positions** worsen beyond projections (i.e. annual gross external financing needs surpassing current receipts and usable reserves in the year or general government interest payments exceeding 10% of revenues)
Fitch BBB sta	• Reduction in **external vulnerabilities** (e.g. sustained increase in FX reserves, reduced dependence on portfolio flows or lower exposure to commodity price volatility) • Improvement in **government revenue ratio** and strengthening public finance flexibility (e.g. better tax compliance or broader tax base) • Continued improvement of **structural indicators** (governance standards closer in line with those of 'BBB' category peers	• Sustained decline in **FX reserve buffers**, resulting from a sharp external shock to investor confidence • Rapid increase in **overall public debt burden** (e.g. budget deficits well exceeding the current 3% ceiling or accumulation of the debt of publicly owned entities) • Weakening of the **policy framework** that could undermine macroeconomic stability

Source: Moody's, S&P, Fitch, ING

Mexico

Ratings and recent changes

Moody's: **Baa1** negative (downgraded from A3 on 17/04/20)

S&P: **BBB** negative (downgraded from BBB+ on 26/03/20)

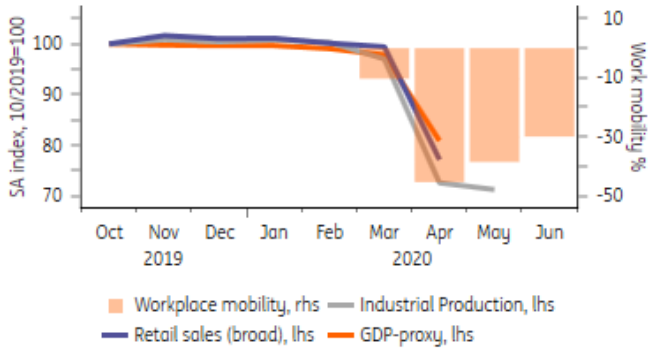
Fitch: **BBB**- stable (downgraded from BBB on 15/04/20)

Key concerns

Growth prospects: Mexico's weak growth prospects are the credit's chief vulnerability, with GDP already in stagnation for almost two years pre-Covid. Even though public records suggest that the country's Covid-19 outbreak has been milder than seen elsewhere in the region, Mexico is likely to face one of the deepest recessions in LATAM this year. The weak countercyclical policy reaction to the pandemic, informed by President Lopez Obrador's resistance to support the local private sector, has increased the downside to economic activity and we now expect GDP to contract by 8-9% in 2020. Recessionary forces have been exacerbated by the fall in oil prices, which has deepened the longstanding financial difficulties faced by the national oil company (PEMEX). Monetary policy has also been marked by a relatively hawkish stance. Despite the grim economic outlook and the rising output gap, central bank officials have refrained from embarking on an aggressive rate-cutting cycle, as seen throughout LATAM. This is, presumably due to concerns that rate cuts would compromise the stability of foreign capital flows. Unless policymaking directives change, the risk is that economic activity fails to recover, adding a persistent underperforming bias to the country's credit metrics.

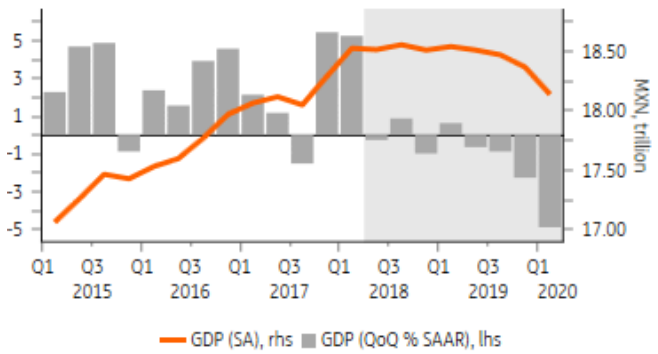
Debt burden and contingent liabilities (PEMEX): Mexico avoided the generous fiscal packages enacted elsewhere in LATAM to mitigate the impact of the pandemic, but this apparent "fiscal prudence" may exacerbate the risk of greater permanent damage to the economy, delay the recovery and, ultimately, trigger a lengthier deterioration in its fiscal accounts. In the near-term, one-off factors such as existing oil hedges, the decision to tap existing state funds, among other temporary measures, may help limit the rise in government debt in 2020. However, the risk is of a more persistent deterioration in 2021. For 2020, the larger fiscal deficit, the lower GDP and the weaker currency should result in an increase in the government's debt-to-GDP of close to 10ppts. This compares favourably with the 15-20ppts increase expected in Brazil and Colombia. Mexico's weaker recovery prospects suggests however that fiscal dynamics should be relatively more challenging for the country in 2021. PEMEX and its related contingent liabilities remain a primary source of downside risk to the country's fiscal dynamics, with the sharp drop in oil prices implying an increasing need for continued financial assistance from the federal government, deepening concerns over misallocation of resources.

Fig 15 Economic activity normalising very gradually



Source: Macrobond, ING

Fig 16 Economic activity was faltering long before Covid



Source: Macrobond, ING

Governance: Even though the government's commitment to fiscal responsibility and central bank independence have helped to support policy credibility in Mexico's macro directives, the frequent disputes between the administration and private sector counterparts have created a perception of an anti-business policy bias. Since Lopez Obrador's election, and especially since the October 2018 announcement of the cancelation of the Mexico City airport construction, private investment contracted sharply. Through the implementation of "public consultations" and allegations that

existing contracts between the public and the private sectors are rife with corruption, the government has frequently undermined investor interests. These disputes have contributed to sour investment appetite by the private sector, adding a large downside to economic activity and weighing on future investments prospects.

Rating outlook

Mexico's credit rating trajectory over recent years is clearly concerning. With the onset of Covid-19, all rating agencies have cut Mexico's sovereign rating by one notch. Moody's Baa1 and S&P's BBB ratings remain on negative outlook, suggesting that the balance of risks remains biased towards further downgrades. Fitch's downgrade on 15 April to BBB- (from BBB) marked the second within a year and leaves the rating at the lowest investment grade rating but the outlook has been put to stable.

Given the heightened uncertainties and the widespread deterioration in credit metrics everywhere, along with Mexico's relatively more measured fiscal deterioration in 2020, we suspect the credit should be able to keep its investment grade status in the coming quarters. Scope for a greater deterioration in Mexico's credit profile should become more evident later in 2021, in the context of Mexico's lagging economic recovery, when compared to its EM peers.

Contingent liabilities from PEMEX (which lost its investment grade status on the back of Moody's sovereign downgrade on 17 April) form part of the Moody's and S&P's factors that could lead to a downgrade. Fitch has been applying a one notch downward adjustment on Mexico's sovereign rating to capture most potential downside risks.

With Fitch rating the sovereign just above non-investment grade, this serves as a warning shot against unorthodox policy interventions. For now, the rating is on stable outlook but a weakening in the consistency and credibility of the macroeconomic policy framework poses the most important negative rating action trigger.

S&P has indicated a review horizon of 12-24 months for its negative outlook (starting in end-March).

Fig 17 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency	Upgrade factors	Downgrade factors
Moody's Baa1 neg	For outlook to stable: • Regained confidence in the government's ability to lay out and implement **consistent policies** and improve medium-term **growth prospects** • Credible plan toward **PEMEX** that reduces the risk of recurrent and substantial government support, while addressing the challenges facing the sector	• Further evidence that medium-term **growth** is in decline • Rising **fiscal deficits** that cause the debt trajectory to shift upward (beyond baseline scenario), due to recurrent financial support to PEMEX, a material increase in government spending, or a substantial decline in government revenues • Continued deterioration in the **policy framework**
S&P BBB neg	For outlook to stable: • Effective **economic management** that raises investor confidence, encourages private investment, and maintains moderate fiscal deficits • Steps to contain potential **contingent liabilities** by SOEs in the energy sector or broaden the non-oil tax base	• Prolonged poor **fiscal performance** resulting in a rising debt burden • Risk of potentially weak **policy implementation** • Potential increases in **contingent liabilities** from the energy sector amid increasing reliance on PEMEX for oil production and investment in Mexico
Fitch BBB- sta	• Economic recovery and improvement in **growth prospects** underpinned by credible macroeconomic policies • Credible path towards stabilizing and reducing the **government debt burden** and a reduction in **contingent liability risks** related to PEMEX • Improvement in **governance indicators** to a level closer to the rating category median	• Weakening in the consistency and credibility of the **macroeconomic policy framework** (e.g., if unorthodox policy interventions widen, leading to a reassessment of the upward notching in rating adjustment) • Trend increase in the **government debt burden**, evidenced by an upward trajectory in the general government-to-debt ratio • Deterioration in **governance indicators**, potentially reflecting an erosion of institutional strengths, which widens the gap further to the scores of 'BBB' category peers, further undermining the business climate

Source: Moody's, S&P, Fitch, ING

Morocco

Ratings and recent changes

Moody's: **Ba1** stable

S&P: **BBB-** stable

Fitch: **BBB-** negative (outlook revised from stable on 28/04/20)

Key concerns

Growth: Morocco has been hit hard by the pandemic as an economy geared towards exports (automotive exports account for nearly 30% of total) and tourism (c.10% of GDP). The government expects growth to contract by 5% in 2020, following a weak +2.2% in 2019 affected by weak agricultural output. Optimism beyond 2020 rests on Morocco's ongoing shift to higher value-added exports (notably automotive and aeronautics) which could bring growth back towards the 4.3% average growth seen between 2000-17.

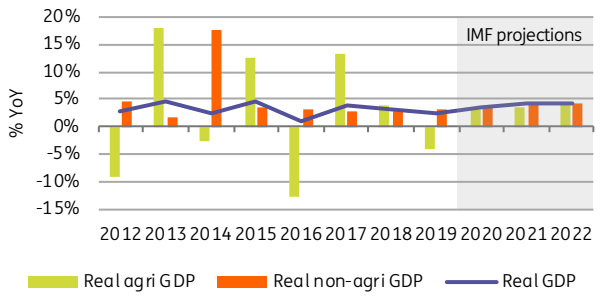
External: The crisis will also lead to a spike in fiscal and external deficits, with the current account deficit expected to widen to 7.8% of GDP in 2020 (vs 4.1% in 2019; IMF), weighed down by collapsing exports and lower tourism and remittances receipts. Amid the crisis, the US$3bn IMF Precautionary Liquidity Line (PLL) has been fully drawn (c.2.5% of GDP) which increases Bank Al-Maghrib's war chest as FX reserves rose from US$24.4bn in end-2019 to US$27.7bn in June 2020 (c.7 months of imports). The government is also planning to raise funds from external markets which would contribute to financing the deficit and rolling over the EUR1bn October maturity. Lastly, the decision to increase the fluctuation band of the dirham from 2.5% to 5.0% against its 60% EUR/40% USD basket marks a small but noteworthy step in boosting economic competitiveness and external resilience.

Fiscal risks and contingent liabilities: A revised budget deficit of 7.5% of GDP will lift central government debt to GDP from 65% in 2019 to 75% in 2020. Risks also come from SOEs, with government guaranteed external debt amounting to some 16% of GDP (Moody's). In June, Royal Air Maroc and ONCF have reportedly sought c.MAD10bn (US$1bn) in emergency aid.

There are however mitigating factors, with only 20% of central government debt being FX-denominated and the sovereign able to raise funding largely from domestic markets. Moreover, debt affordability has remained high notably reflected by a relatively low interest/revenue ratio in the 10-12% area.

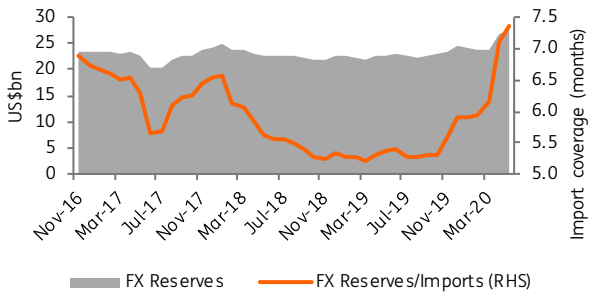
Risk from social tensions: In contrast to many other countries in the region, Morocco has been relatively little affected by social unrest over the last decade. Notwithstanding, GDP/capita is at the lower end of the BBB/BB and risks come from high unemployment among the youth (22% in the 15-24 age group) and income inequality.

Fig 18 Real agri vs non-agri GDP growth (% YoY)



Source: Haut Commissariat au Plan, IMF, ING

Fig 19 FX reserves and import cover (in months)



Source: IMF, ING

Rating outlook

The pandemic has revived downgrade concerns, with Fitch having moved the outlook on the BBB- rating to negative (from stable) on 28 April. The rating agency highlighted downside risks from the sharp GDP contraction on external and fiscal deficits and debt ratios, the latter already at levels above peers. We don't believe that a downgrade is around the corner as external stability appears anchored for now and Fitch has noted the government's "long-standing commitment to prudent economic policies".

S&P affirmed Morocco's BBB- rating with a stable outlook on 3 April. The remarks put a strong emphasis on the currency regime liberalisation, the IMF PLL and a recognition of the government's track record in attracting FDIs. Notwithstanding, indicators for growth, and thus the fiscal and external outlook, have worsened since April which implies some downside risks to the ratings. More importantly however, evidence on whether the economy could rebound in 2021, allowing for a gradual fiscal consolidation and structural reforms, will be the key determinant for the review date on 2 October.

Moody's already rates Morocco on a non-investment grade rating (Ba1) and we don't see a looming downgrade risk here. In its latest comment on 9 July, the rating agency appeared confident that the spike in fiscal and external imbalances are of temporary rather than structural nature. Despite the increase in government debt, Moody's is also taking comfort from a relatively low interest/revenue ratio in the 10-12% range over the next two years. Post-pandemic, Moody's view rests on the interest/revenue ratio to remain in the 10-15% range and a return to fiscal consolidation. On growth, Moody's is looking for non-agricultural growth to return to the 3.0-3.5% range.

All in all, the post-pandemic outlook will play a key role in setting Morocco's rating trajectory which means that a downgrade is unlikely to occur this year, but risks in 2021 undeniably remain high. The pandemic poses a large uncertainty here, but a commitment to gradual fiscal and structural reforms will be key in maintaining the two remaining investment grade ratings. Lastly, the focus will also be on Morocco's engagement with the IMF after the IMF PLL comes to an end in December 2020.

Fig 20 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency (next review date)	Upgrade factors	Downgrade factors
Moody's Ba1 sta (N/A)	• Further policy action that ensures that the **public debt ratio** (including external debt guarantees from SOEs) is firmly positioned on a downgrade trajectory • Continued implementation of fiscal and business environment reforms that improve **non-agricultural growth prospects**	• Continued **fiscal** deterioration or materialisation of significant **contingent liabilities** emanating from SOEs or from the banking sector • Unforeseen and sustained deterioration in **external accounts**
S&P BBB- sta (2 October)	• **Budgetary consolidation** prospects improve materially • Ongoing transition toward a more flexible exchange rate bolsters **external competitiveness** and **ability to withstand macroeconomic external shocks** materially • **Ongoing economic diversification** strategy results in less volatile and higher rates of economic growth	• **Budgetary performance** deteriorates beyond expectations, resulting in net general government debt above 60% of GDP • **Real GDP growth** rates significantly undershoot expectations over the forecast horizon • **External imbalances** widen, resulting in a significant increase in gross financing needs
Fitch BBB- neg (N/A)	• Milder-than-expected impact of the coronavirus-related shock on the economy and evidence that **general government and net external debt ratios** will stabilise below projections	• Evidence that the pandemic-related shock has significantly weakened **fiscal and external positions**, consistent with continued increases in government and net external debt • **Security developments or social instability** affecting macroeconomic performance or leading to significant fiscal slippages

Source: Moody's, S&P, Fitch, ING

Romania

Key concerns

Ratings and recent changes

Moody's: **Baa3** negative (outlook revised from stable on 24/04/20)

S&P: **BBB**- negative (outlook revised from stable on 10/12/19)

Fitch: **BBB**- negative (outlook revised from stable on 17/04/20)

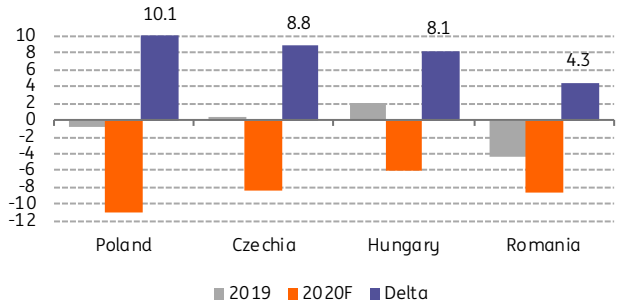
Fiscal position: The fiscal position is by far Romania's main weakness looking forward. Seen in comparison with its regional peers, Romania's budget deficit this year doesn't necessarily look out of the landscape (Figure 21), but it is its built-in rigidity which has become worrisome over the last years (Figure 22). The share of wages and social assistance (mainly pensions) has reached record levels this year. Given the inherent rigidity of these expenses (they cannot really be scaled back quickly, if at all) we believe that the government will favour an approach where they try to cap such spending while waiting for the economy to catch up and dilute their large share in overall revenues.

Pension hike: Unarguably this issue is at the heart of the fiscal concerns. Officials have been publicly pointing towards a 10% pension increase starting 1 September instead of the scheduled 40%. Our 8.6% GDP budget deficit forecast also embeds a 10% increase and apparently rating agencies have similar expectations. An official decision is still expected though. One reason we can think of for this delay is that the government might want to give the opposition as little time as possible to change its decision on pensions via a parliamentary procedure or even a Constitutional Court decision. In any case, we do expect a lot of noise around this topic, but we stick to our view that in the end a 10% increase will be applied.

Post-election fiscal policy framework: Following the general elections due to take place by March 2021 the latest, four years with no elections will follow. This is an opportunity in our view to take a longer-term view on structural reforms. Unfortunately, we will probably not have a clearer picture on what lies ahead until a new government is sworn in. Given the most recent polls, we can – at best – assume that policy continuity is more likely than not, but for now we are missing clear policy guidance from the major political forces involved. One thing that becomes more and more clear in our view is that it will be very difficult for any government to avoid tax hikes in 2021. VAT is probably the main suspect, but we wouldn't rule out measures on higher wages and even pensions as well.

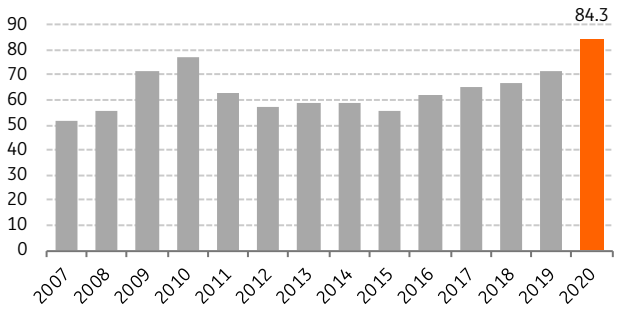
External balances: We expect a 1pp improvement of the current account deficit (CAD) in 2020 towards 3.5% of GDP. Despite this improvement, the financing structure of this deficit will likely weaken further. In 2019 only around half of the deficit has been financed from foreign direct investments (FDIs). Unpleasantly but not overly surprising, after five months of 2020, the FDI balance is negative. This will likely change in the upcoming months as the economies reopen, but overall, we do expect a significant deterioration of the CAD financing structure. Thus, the pressure on the currency and on central bank's FX reserves will not diminish. For now, the relatively strong starting point allows the NBR to remain in a relatively comfortable position this year by pretty much all reserve adequacy metrics, but – as the NBR already underlined – preserving an adequate level of these reserves becomes a top priority.

Fig 21 Budget deficit (% of GDP) in regional context



Source: National sources, ING

Fig 22 Wages and social assistance as % of revenues



Source: MinFin, ING

Rating outlook

2020 is shaping up to be a complicated year for Romania and the pandemic has only exacerbated the main vulnerabilities. As was the case with the 2008-2009 crisis which came in an electoral context as well, the approaching elections are delaying the shorter-term unpopular measures needed to stabilise the public finances and are also blurring the medium-term visibility on the public policy choices. Therefore, one cannot ignore the risk that – particularly on the budget deficit side – the repairing measures will be postponed until the adjustment could become not only painful but also contractionary.

Undoubtedly the rating trajectory will continue to hinge on fiscal policy decisions. Fitch revised the outlook to negative on 17 April, in line with our view, driven mainly by worsening public finances. On 24 April, Moody's also changed the outlook to negative, specifically referring to pension reform and pointing to a structural deterioration in public finances. In its rating affirmation on 5 June, S&P indicated that it expects the pension hike to be around 10% and a "significant fiscal consolidation" after the elections.

The next rating review will take place in October for Moody's and Fitch, and in December for S&P. In our view, the agencies seem willing to look-through the current electoral context and wait for a new government to take over and embark on a more serious fiscal consolidation path. This could mean at least 1Q21.

However, if the 40% pension hike remains unresolved and comes into effect in September, we are looking at rating downgrades across the board. In any case, we believe that the risk of downgrades will remain a constant fear for at least one year looking forward.

Fig 23 Rating drivers/sensitivities, factors that could lead to an upgrade or downgrade

Agency (next review date)	Upgrade factors	Downgrade factors
Moody's Baa3 neg (23 Oct)	For outlook back to stable: • Successful halt and – over the medium-term – reversal of the structural deterioration in **public finances** • Improved **fiscal sustainability** driven by structural fiscal consolidation in the medium-term (higher tax collection and lower share in current expenditure) • Steady reduction in the structural **current-account deficit** and increased coverage by non-debt generating flows, together with a rebalancing towards higher investment expenditure	Resolution of negative outlook expected over the next 12-18 months absent further severe shocks to the economy and/or intensification of financial risks: • Continued structural deterioration in **fiscal strength** while **external imbalances** remain at an elevated level • Weaker assessments of **institutional and governance strength**, driven by the absence of a determined and effective policy response to structural challenges in the medium-term (incorporates policy agenda after 2020/21 elections)
S&P BBB- neg (4 Dec)	For outlook back to stable: • Government makes headway in anchoring **fiscal consolidation**, leading to stabilisation of public finances and external position	• **Fiscal and external imbalances** remain elevated for longer than anticipated, with absence of fiscal consolidation resulting in higher public and external debt or a wider interest bill than forecasted • Lack of **economic policy synchronization** leading to increased exchange rate volatility, with potential negative repercussions on public- and private-sector balance sheets
Fitch BBB- neg (30 Oct)	• Confidence that **general government debt/GDP** will stabilise over the medium-term (eg, due to post-pandemic fiscal consolidation) • Sustained improvement in **external debt ratios**	• Sharp deterioration in **medium-term debt sustainability** (eg, due to failure to offset or delay increases in recurrent expenditure and/or implement a credible medium-term consolidation strategy post-pandemic shock) • Weaker **medium-term growth prospects** (e.g. reflecting a more pronounced or longer period of economic contraction that leads to permanent sectoral damage)

Source: Moody's, S&P, Fitch, ING

Appendix

Fig 24 Moody's Scorecard Factors and S&P Ratings Score for BBB rated issuers

	Moody's Scorecard Factors				S&P Ratings Score					
	Economic	*Institutions/ governance*	*Fiscal*	*Suscept to event risk*	*Institutional*	*Economic*	*External*	*Fiscal: budget perf*	*Fiscal: debt*	*Monetary*
Bulgaria	baa3	baa2	a1	ba	4	4	2	2	1	5
Colombia	baa1	baa3	ba1	baa	3	4	6	3	4	3
Croatia	ba2	a2	ba3	baa	4	4	2	2	5	4
Hungary	baa2	baa2	baa2	baa	4	4	2	2	4	3
India	a2	ba1	b2	ba	3	4	2	6	6	3
Indonesia	a2	baa3	ba1	a	3	4	4	3	3	3
Kazakhstan	baa2	ba3	aa2	ba	5	4	2	1	2	4
Mexico	baa1	ba1	baa1	baa	3	5	2	3	4	3
Morocco	baa3	baa3	baa3	ba	4	5	3	3	3	3
Panama	baa1	baa3	a2	baa	3	2	5	2	3	5
Peru	baa2	baa2	a1	baa	3	4	3	2	2	3
Philippines	a3	baa2	ba1	baa	4	4	1	3	3	3
Romania	baa2	baa3	baa2	baa	4	4	3	4	3	3
Russia	baa2	ba3	aa2	ba	5	5	1	4	1	3
Uruguay	baa3	baa2	ba2	a	3	3	2	5	4	5

Source: Moody's, S&P, ING

Fig 25 IMF April 2020 projections and World Bank external debt statistics for BBB rated issuers

	Economic Activity		Fiscal Accounts		External Accounts			
	GDP	CPI	Gross Debt	Fiscal Bal	C/A Bal	ST Ext Debt	Total Ext Debt	FX Reserves
	% yoy 2020	*% yoy 2020*	*% of GDP 2019*	*% of GDP 2020*	*% of GDP 2020*	*% of GDP 2019Q4*	*% of GDP 2019Q4*	*Months of imports Latest*
Bulgaria	-4.0	+1.0	19	-2.9	+1.7	14	59	9
Colombia	-2.4	+3.5	51	-2.5	-4.7	5	42	12
Croatia	-9.0	+1.3	71	-6.5	-4.0	13	76	7
Hungary	-3.1	+3.3	68	-3.0	-0.1	9	84	3
India	+1.9	+3.3	69	-7.4	-0.6	4	19	11
Indonesia	+0.5	+2.9	30	-5.0	-3.2	4	36	10
Kazakhstan	-2.5	+6.9	21	-5.3	-6.8	5	92	3
Mexico	-6.6	+2.7	54	-4.2	-0.3	5	36	5
Morocco	-3.7	+0.3	65	-7.1	-7.8	7	46	7
Panama	-2.1	-0.9	41	-6.2	-6.8			6
Peru	-4.5	+1.7	27	-7.1	-0.9	4	28	18
Philippines	+0.6	+1.7	39	-3.4	-2.3	5	23	9
Romania	-5.0	+2.2	37	-8.9	-5.5	7	49	5
Russia	-5.5	+3.1	16	-4.8	+0.7	4	30	20
Uruguay	-3.0	+8.8	64	-4.7	-2.5	10	71	22
Source	*IMF WEO Apr 20*	*IMF WEO Apr 20*	*IMF WEO Oct 19*	*IMF WEO Apr 20*	*IMF WEO Apr 20*	*World Bank QEDS*	*World Bank QEDS*	*ING calculations*

Source: IMF (April 2020 World Economic Outlook), World Bank (QEDS), ING

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