



Monthly Comments – Emerging Markets

MacroFinance Research – August 2020

Key Messages

RiskWatch – Reading our Covid-related risk HeatMap for 100 EMs: increasing country differentiation, higher Fx liquidity and sovereign risks ahead, and opportunities re-emerging in some EMs

This summer's RiskWatch is based on our own reading of the comprehensive Covid-related Heatmap that we have developed and updated every month since April 2020. This synthetic Heatmap provides key quantitative outputs on risk-dynamics for the 100 Emerging Markets and Developing Economies (EMs) that we monitor permanently. The Covid-19 crisis has massively exacerbated the downward economic trend in EMs, with visible geographic and time sequences: at a global level, most of the financial features of the shock are behind (depreciation of currencies and declines in asset prices in EMs), but the entry into economic recession, declines in business and household confidence on the back of unpredictable spread of the Covid-19 and a persistent uncertainty on international trade dynamics point to higher risk materialization for most EMs in the latter part of 2020 and early 2021. Among our 100 EMs, five exhibit the worst combination on the risk-indicators used in our post Covid-19 risk measures EMs (Venezuela, Montenegro, Argentina, Zambia and Mozambique); conversely, Romania, South Korea, Israel, and Taiwan show the most favorable combination of risk factors, and stronger macroeconomic resilience.

Read more on page 2...

Heatmap – Global Credit Risk, Covid-19 & RRECC Heatmap

Our updated Heatmap looks at performances and risks through each country's growth sensitivity to the pandemic / health situation, their financial risks and their ex ante vulnerabilities.

View more on pages 4 & 5...

As always, readers are most welcome to come back to us for further details or clarifications.

Completed on August 5, 2020.

RiskWatch – Our Covid-related risk HeatMap for 100 EMs shows increasing differentiation, with higher Fx liquidity and sovereign risks ahead, though opportunities re-emerge in some EMs

This summer’s RiskWatch is based on our own reading of the comprehensive Covid-related Heatmap that we have developed and updated every month since April 2020. This synthetic Heatmap provides key quantitative outputs on the risk-dynamics for the 100 Emerging Markets and Developing Economies (EMs) that we monitor permanently. The Covid-19 crisis has massively exacerbated the downward economic trend in EMs, with visible geographic and time sequences: at a global level, most of the financial features of the shock are behind (depreciation of currencies and declines in asset prices in EMs), but the entry into economic recession, declines in business and household confidence on the back of unpredictable spread of the Covid-19 and a persistent uncertainty on international trade dynamics point to higher risk materialization for most EMs in the latter part of 2020 and early 2021. Among our 100 EMs, five exhibit the worst combination on the risk-indicators used in our post Covid-19 risk measures (Venezuela, Montenegro, Argentina, Zambia and Mozambique); conversely, Romania, South Korea, Israel, and Taiwan show the most favorable combination of risk factors, and stronger macroeconomic resilience.

Multi-dimensional vision of risks and opportunities

In these Monthly Comments, we provide a summary approach to rank 100 EMs according to the likelihood of country-risk materialization over the next 18 months in the Covid-19 related environment, characterized by a unique combination of uncertainties, magnitude of reversals and multiple channels of risk transmission.

Our risk Heatmap combines three broad elements of risk assessment in the current circumstances:

- A measure of **Credit Risk**, based on foreign debt burden, foreign exchange liquidity situation, and the specific risks of broad corporate sector as well as the sovereign. Numerical values are normalized on a scale from 0 (lowest risk) to 100 (highest risk), and a synthetic **Global Credit Risk** index summarizes the different aspects.
- A measure of each country’s **Growth Sensitivity to Covid-19**, with a dual focus on the domestic situation and international transmission. The former includes variables on the health situation (number of infections, deaths, acceleration / deceleration of the pandemic, ability of health systems to cope with increasing number of cases), and on the severity of confinement / lockdown measures; international transmission is a view on potential supply-side constraints and demand-side pressures (international trade, commodity prices, tourism). All indicators are also normalized on a scale from 0 (lowest sensitivity) to 100 (highest sensitivity). A synthetic index of **Growth Sensitivity to Covid-19** summarizes the different facets of growth vulnerability.
- Our traditional overall **country risk premium** (Risk-Related Extra Cost of Capital), which we use here as a powerful indication of ex ante vulnerabilities in EMs. This country-risk premium is expressed in basis points (bp).

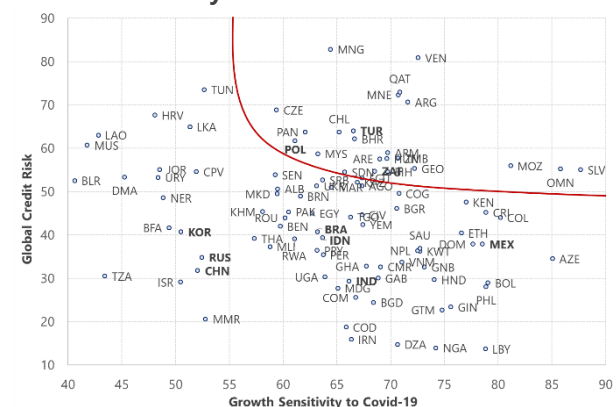
The construction of the Heatmap uses all the numerical values and provides the relative risk measures through an easy-to-read color coding, from dark red (highest risk) to dark green (lowest risk). The next pages provide the same Heatmaps in two different versions: the first ranks the countries by descending order of “combined risks” (i.e. from the highest number of red boxes to the lowest number of red boxes); the second is on alphabetical order of the country acronyms.

Identification of most vulnerable EMs

In a first step, we plot all 100 RiskMonitor countries according to both the values of our Growth Sensitivity to Covid-19 (horizontal axis) and our Global Credit Risk (vertical axis).

Countries in the upper-right area are much more likely to encounter acute difficulties because they combine a very negative impact of the health crisis on economic performances with higher financial leverage risks.

Growth Sensitivity to Covid-19 and Global Credit Risk



Source: TAC ECONOMICS

Putting aside some “special cases” (Czech Rep., Qatar, UAE and Panama, for which “specific features” included in the credit risk measures are overstated), we identify a list of EMs with such a negative combination: Venezuela, Argentina, El Salvador and, more surprisingly, Chile in Latin America; for Europe, Middle-East and Africa (EMEA), we find this worrying combination for Turkey, Hungary, Montenegro, Armenia, Bosnia & Herzegovina, Georgia, Oman, Bahrain, Mozambique, Zambia and Tunisia. In Asia, only Mongolia appears most at risk.

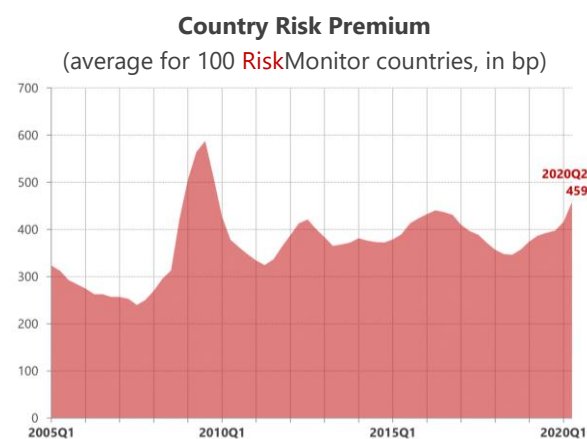
EMs with high **Global Credit Risk** generally have excessive Sovereign Risk and/or Liquidity Risk, highlighting insufficient level of forex reserves to cover external (public) debt repayments and a dual risk of renewed currency pressures and widening public funding requirements. In turn, stretching of public finances in response to Covid-19 crisis suggests significant increase in potential sovereign payment issues, especially for countries having more difficulties in accessing international capital markets and unable to obtain financial assistance from official creditors, multilateral or bilateral (cf. the G20 initiative to postpone 2020/2021 debt servicing for the poorest countries).

But we also see a heteroclitite list of countries for which the Global Credit Risk remains so far low: some oil exporting countries with very little foreign or sovereign debt so far and still large reserves are among them (Saudi Arabia, but also Libya, Nigeria, Algeria, and, to a lower extent, Iran); several Asian economies are also showing lesser credit constraints and risks (notably Bangladesh, the Philippines, and India), as well as a few Latin American economies (Bolivia, Guatemala, and Honduras) and Israel. For these countries, there is both a stronger potential room of credit-induced economic recovery in the short-term and a lower probability of getting into acute financial pressures.

Interestingly, our index of **Growth Sensitivity to Covid-19** has improved over the last two months since severe lockdowns measures and rising numbers of tests have allowed most EM to relax restrictions on movements of persons, despite an aggregate number of new Covid-19 cases continuing to increase in EMs (more than 160,000 per day in the second half of July against 139,000 per day in the first half of July).

Differences among EMs are increasing, with Asia leading the way in terms of economic recovery, but almost one third of EMs still exhibit High or Very High index of Growth Sensitivity to Covid-19 (above 70): this confirms the central scenario of lingering impact on short- and medium-term economic performances and increasing differentiation.

Lastly, the average **Country Risk Premium** for 100 EMs steadily increased since 2018-end to reach 459bps in 2020Q2, i.e. the highest level in a decade.



Source: TAC ECONOMICS

This premium is the most synthetic output of our country-risk measures as it covers economic, financial, political and governance risks, as well as “structural premia” related to commodity-dependence and the history of past financial restructurings.

The deterioration over recent quarters is led by the worsening in the average Economic & Financial Risk rating, along with sensibly higher premiums for *Commodity Exports Dependence* and *Repeated Debt Restructurings*. Overall, the number of EMs with a *High Ex-Ante Vulnerability* (42 countries show a reading close to or above 500bps) outweighs the number of EMs with *Low and Very Low Ex-Ante Vulnerability* (34 countries only show premium below 350bps).

Appendices

Appendix 1: List of 100 countries by ISO3 Code alphabetic order

ISO 3 Code	Country Name	ISO 3 Code	Country Name	ISO 3 Code	Country Name
AGO	Angola	GHA	Ghana	OMN	Oman
ALB	Albania	GIN	Guinea	PAK	Pakistan
ARG	Argentina	GNB	Guinea Bissau	PAN	Panama
ARM	Armenia	GTM	Guatemala	PER	Peru
AZE	Azerbaijan	HND	Honduras	PHL	Philippines
BEN	Benin	HRV	Croatia	POL	Poland
BFA	Burkina Faso	HUN	Hungary	PRY	Paraguay
BGD	Bangladesh	IDN	Indonesia	QAT	Qatar
BGR	Bulgaria	IND	India	ROU	Romania
BHR	Bahrein	IRN	Iran	RUS	Russia
BIH	Bosnia	ISR	Israel	RWA	Rwanda
BLR	Belarus	JOR	Jordan	SAU	Saudi Arabia
BOL	Bolivia	KAZ	Kazakhstan	SDN	Sudan
BRA	Brazil	KEN	Kenya	SEN	Senegal
BRN	Brunei	KHM	Cambodia	SLV	El Salvador
CHL	Chile	KOR	Korea	SRB	Serbia
CHN	China	KWT	Kuwait	SYC	Seychelles
CIV	Cote d'Ivoire	LAO	Laos	TGO	Togo
CMR	Cameroon	LBY	Libya	THA	Thailand
COD	DR Congo	LKA	Sri Lanka	TUN	Tunisia
COG	Rep. of Congo	MAR	Morocco	TUR	Turkey
COL	Colombia	MDG	Madagascar	TWN	Taiwan
COM	Comoros	MEX	Mexico	TZA	Tanzania
CPV	Cape Verde	MKD	N. Macedonia	UAE	UAE
CRI	Costa Rica	MLI	Mali	UGA	Uganda
CZE	Czech Rep.	MMR	Myanmar	UKR	Ukraine
DMA	Dominica	MNE	Montenegro	URY	Uruguay
DOM	Dominican Rep	MNG	Mongolia	VEN	Venezuela
DZA	Algeria	MOZ	Mozambique	VNM	Vietnam
ECU	Ecuador	MUS	Mauritius	YEM	Yemen
EGY	Egypt	MYS	Malaysia	ZAF	South Africa
ETH	Ethiopia	NER	Niger	ZMB	Zambia
GAB	Gabon	NGA	Nigeria		
GEO	Georgia	NPL	Nepal		

Appendix 2: List of 100 countries monitored by region**Eastern & Central Europe, CIS (19)**

ALB	Albania	KAZ	Kazakhstan
ARM	Armenia	MNE	Montenegro
AZE	Azerbaijan	MKD	N. Macedonia
BLR	Belarus	POL	Poland
BIH	Bosnia	ROU	Romania
BGR	Bulgaria	RUS	Russia
HRV	Croatia	SRB	Serbia
CZE	Czech Rep.	TUR	Turkey
GEO	Georgia	UKR	Ukraine
HUN	Hungary		

Latin America (18)

ARG	Argentina	SLV	El Salvador
BOL	Bolivia	GTM	Guatemala
BRA	Brazil	HND	Honduras
CHL	Chile	MEX	Mexico
COL	Colombia	PAN	Panama
CRI	Costa Rica	PRY	Paraguay
DMA	Dominica	PER	Peru
DOM	Dominican Rep	URY	Uruguay
ECU	Ecuador	VEN	Venezuela

Asia (18)

BGD	Bangladesh	MNG	Mongolia
BRN	Brunei	MMR	Myanmar
KHM	Cambodia	NPL	Nepal
CHN	China	PAK	Pakistan
IND	India	PHL	Philippines
IDN	Indonesia	LKA	Sri Lanka
KOR	Korea	TWN	Taiwan
LAO	Laos	THA	Thailand
MYS	Malaysia	VNM	Vietnam

Middle East & North Africa (15)

DZA	Algeria	MAR	Morocco
BHR	Bahrein	OMN	Oman
EGY	Egypt	QAT	Qatar
IRN	Iran	SAU	Saudi Arabia
ISR	Israel	TUN	Tunisia
JOR	Jordan	UAE	UAE
KWT	Kuwait	YEM	Yemen
LBY	Libya		

Sub-Saharan Africa (30)

AGO	Angola	MDG	Madagascar
BEN	Benin	MLI	Mali
BFA	Burkina Faso	MUS	Mauritius
CMR	Cameroon	MOZ	Mozambique
CPV	Cape Verde	NER	Niger
COM	Comoros	NGA	Nigeria
COG	Rep. of Congo	RWA	Rwanda
COD	DR Congo	SEN	Senegal
CIV	Cote d'Ivoire	SYC	Seychelles
ETH	Ethiopia	ZAF	South Africa
GAB	Gabon	SDN	Sudan
GHA	Ghana	TZA	Tanzania
GIN	Guinea	TGO	Togo
GNB	Guinea Bissau	UGA	Uganda
KEN	Kenya	ZMB	Zambia

Disclaimer

These assessments are, as always, subject to the disclaimer provided below.

This material is published by TAC ECONOMICS SAS for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this

information is believed to be reliable, it has not been independently verified by TAC ECONOMICS and TAC ECONOMICS makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of TAC ECONOMICS, as of this date and are subject to change without notice.

Your contacts at TAC ECONOMICS

Technical questions/hotline

TAC ECONOMICS team is available for any economic, financial, technical questions and requests at the following e-mail address: hotline@taceconomics.com

Tel +33 (0)299 39 31 40

Web: www.taceconomics.com

Customer relation

For any question relative to your subscription, please contact TAC ECONOMICS team by e-mail at taceconomics@taceconomics.com