Monthly Comments – Emerging Markets

MacroFinance Research – February 2021

Key Messages

RiskWatch – Adapting country-risk measures to the post-Covid transition

Our global scenario highlights the "2021-transition" from an almost exclusive focus on damage limitation (health and economic) in front of the Covid-19 pandemic to a succession of "loops" resulting in a recovery process this year, albeit irregular and asynchronous across countries. This global scenario implies rapidly changing sensitivity to the pandemic itself with different implications in terms of risks. We have therefore adapted the metrics aiming at capturing the specific Covid-related risk-developments, with now both positive and negative factors.

The results of our quantitative screening of 100 countries highlight 10 countries with persistently negative sensitivity to the current conditions towards Post-Covid: Venezuela, Argentina, Ecuador, Mozambique, Zambia, Seychelles, Libya, Tunisia, Sri Lanka, and Montenegro. Among the largest countries, Taiwan, South Korea, China, and Russia are listed among those able to have a positive sensitivity to current conditions, either because the health situation is better controlled or because the economic and financial factors are now benefitting from the global recovery, including on commodity and oil prices. Conversely, Malaysia and the Philippines fare relatively poorly, as well as Mexico, Colombia, Brazil, and South Africa.

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

Completed on February 16, 2021.

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What a difference a year can make! It was only one year ago that the world woke up to the global pandemic and the past 12 months have seen huge movements on health challenges, policy management, economic and social performances, and outlook for the next few years. It is precisely during such changing times that quantified measures of risks make most sense, but they are also more difficult. Our approach at TAC ECONOMICS is to continue complementing our traditional non-linear / AI-based RiskMonitor system with metrics that are specifically adapted to the changing circumstances.

The early part of 2021 marks precisely a significant change in circumstances, with the complex combination of persistent increase in Covid-19 cases including through new variants of the virus, the progressive roll-out of vaccination plans, increasing adaptation of economic agents to constraints on movements, supportive policies and an improving background for international trade. We have therefore adapted, completed, and re-calibrated the metrics aiming at capturing the specific Covid-related risk-developments, with now both positive and negative factors.

Please note that this is only a measure of sensitivity to the current conditions of transition to post-Covid; it is therefore a specific angle of country risk, which needs to be added or combined with our traditional RiskMonitor outputs to depict a clear and forward-looking view of aggregate levels of country risk today: these broader results for country-risk assessment will be presented in our next Monthly Comments early March.

A quantified approach to specific risk-sensitivity to Covid-19

We look at risk factors (positive or negative) that are not properly captured by our traditional quantitative outputs (Ratings, Early Warning Signals, Overall Country-Risk Premium). At this juncture, the overall sensitivity to the transition to a post-Covid period can be measured as a combination of three broad sets of arguments or factors, as depicted in the next chart.

Construction of the Overall Index of Sensitivity to Post-Covid Transition
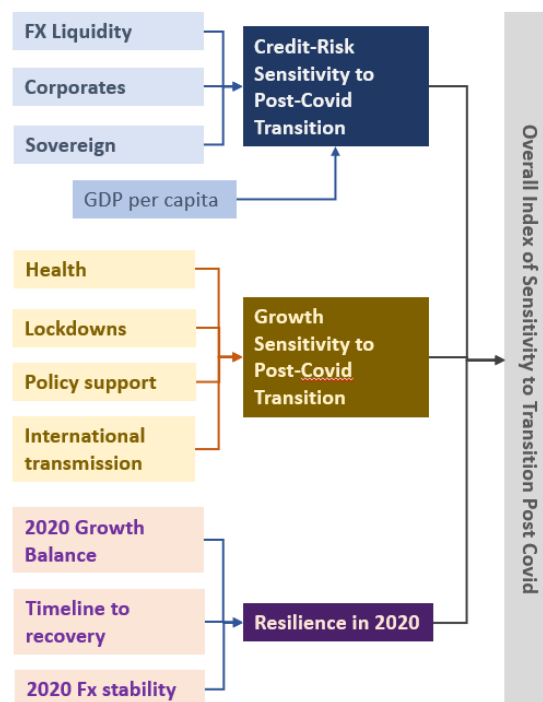
Source: TAC ECONOMICS

A first set of arguments or variables looks at countries ability to recover more or less rapidly, more or less strongly and more or less balanced (***Growth Sensitivity to Transition Post-Covid***).

A second set of factors focuses on element of credit risks that have been substantially altered during 2020, namely foreign currency liquidity pressures, risks of widespread corporate defaults, and sovereign risks (***Credit Sensitivity to Transition Post-Covid[1]***).

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[1] *The overall index of Credit Sensitivity to Transition Post-Covid is adjusted by the level of GDP per capita to reflect differences in debt / leverage tolerance according to development levels.*

Finally, the third set of factors aims at capturing what the 2020 performances have taught us in terms of each country's *Resilience* when confronted with a global shock.

We adapt a "Russian Doll "aggregation technique where individual indicators are normalized and being assigned specific weights to construct the intermediate variables (Credit, Growth, and Resilience), to which are also assigned pertinent weights. All metrics are on a scale from *0 = best performance* to *100 = worst performance*.

Key messages from the overall Sensitivity to Transition Post-Covid

When combining all the relevant indicators and arranging them alongside the designed methodology, we can identify both the "best in class" countries and the highest (negative) risk sensitivity to the transition to a post-Covid period.

The Heatmap below provides a visual illustration of performances for the top 10, bottom 10 and the 20 largest Emerging Markets of Developing Economies (EMDE)[2].

HeatMap - Index of Sensitivity to Post-Covid Transition-
(**dark red** = highly negative sensitivity,
dark green = positive sensitivity)
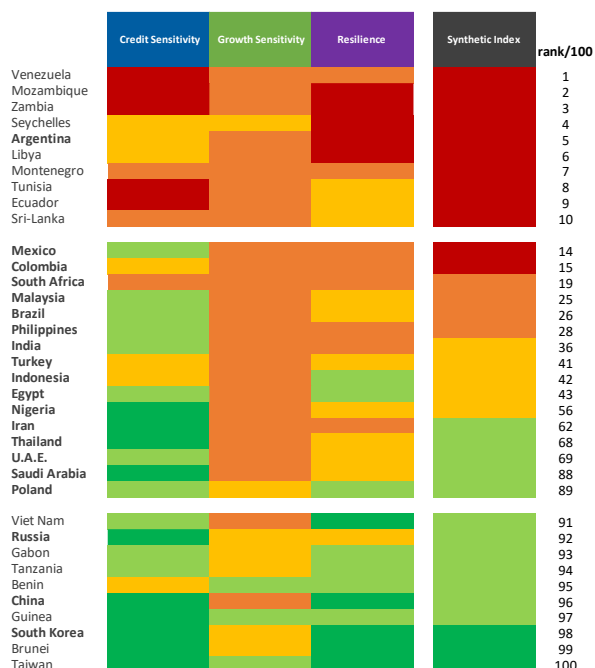
Source: TAC ECONOMICS

This Heatmap allows two key comments:

• In terms of **regional location**, Asia shows a much better performance with limited or positive sensitivity to the current conditions: five Asian countries are

among the 10 best performers and only one (Sri Lanka) is among the worst 10. Conversely, Latin America appear much more negatively sensitive to current conditions, with no country in the 10 best performers, three in the worst 10; Mexico, Colombia and Brazil (among the 20 key EMDEs) are not far from the upper part of the Heatmap. Africa is the region with the largest disparities, with three among the worst 10 but four among the best 10 (not our intuitive view: we find here Gabon, Benin, Guinea and Tanzania). Sensitivity to Post-Covid transition is also highly heterogeneous for Emerging Europe (Montenegro in the worst 10, Russia in the best 10 and Poland not far from the bottom of the Heatmap) as well as for MENA countries (Libya and Tunisia in the worst 10, but oil exporters like Saudi Arabia and UAE close to the best 10).

• The Heatmap and the previous comments show also a **large dispersion among key EMDEs**, though only one out the 20 largest EMDEs is among the worst 10 (Argentina). Despite Asia's relative strength in our metrics, Malaysia, the Philippines, India and Indonesia are not yet out of the woods, mostly because they would be late in engineering a substantial catch-up recovery as fully controlling the epidemic appears more difficult, but policies have been comparatively less supportive, notably on the fiscal front. Also, Egypt fares rather well in this sensitivity measure, strongly supported by the visible resilience of the country in 2020. Conversely, South Africa shows a rather negative overall index of sensitivity.

A more nuanced view when getting into details: financial defaults and medium-term insights

We look here at the combinations across measures constituting our overall index of sensitivity, as they allow going beyond the aggregate ranking and highlight critical risks when operating in / with EMDEs.

The first observation takes the indexes for Credit Sensitivity and Growth Sensitivity to the post-Covid transition.

Countries positioned in the upper-right area of the following chart are those with strong likelihood of a large number of acute corporate difficulties or even failures and / or sovereign default.

Venezuela being the worst performer and the negative position of Ecuador (sovereign default in 2020) should not come as a surprise but the position of Chile gives a pretty strong message of under-estimated negative sensitivity to the current conditions. Similarly, the presence in the upper-right area of Mozambique or Zambia is consistent with their 2020 financial tensions and requests for debt restructuring or rescheduling, at

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[2] *Heatmaps with all 100 EMDEs and the detailed components of our measures are in appendix, first by descending order of (negative) sensitivity risk, and also by alphabetical order.*

least with official creditors, but the closeness of Senegal to this negative area is both more surprising and revealing an under-estimated negative impact.

Credit Sensitivity *versus* Growth Sensitivity
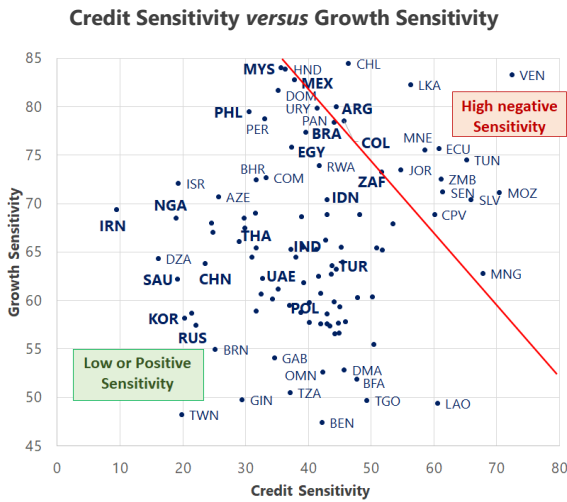
Source: TAC ECONOMICS

Among other large EMDEs, many LatAm countries are close to the negative area, notably Mexico, Colombian and Brazil.

A second observation focuses on our metrics for Resilience. Though it remains so far a simple assessment based on 2020 performances in a context of a "common" worldwide shock, it provides a useful insight into longer-term country-risks. Indeed, as we believe that such "*expected but unpredictable global events*" are likely to be repeated over time, a combination of long-term growth prospects (based on the latest IMF projections for GDP growth in 2021-2024) and our resilience indicator allows a better view for medium-term priorities.

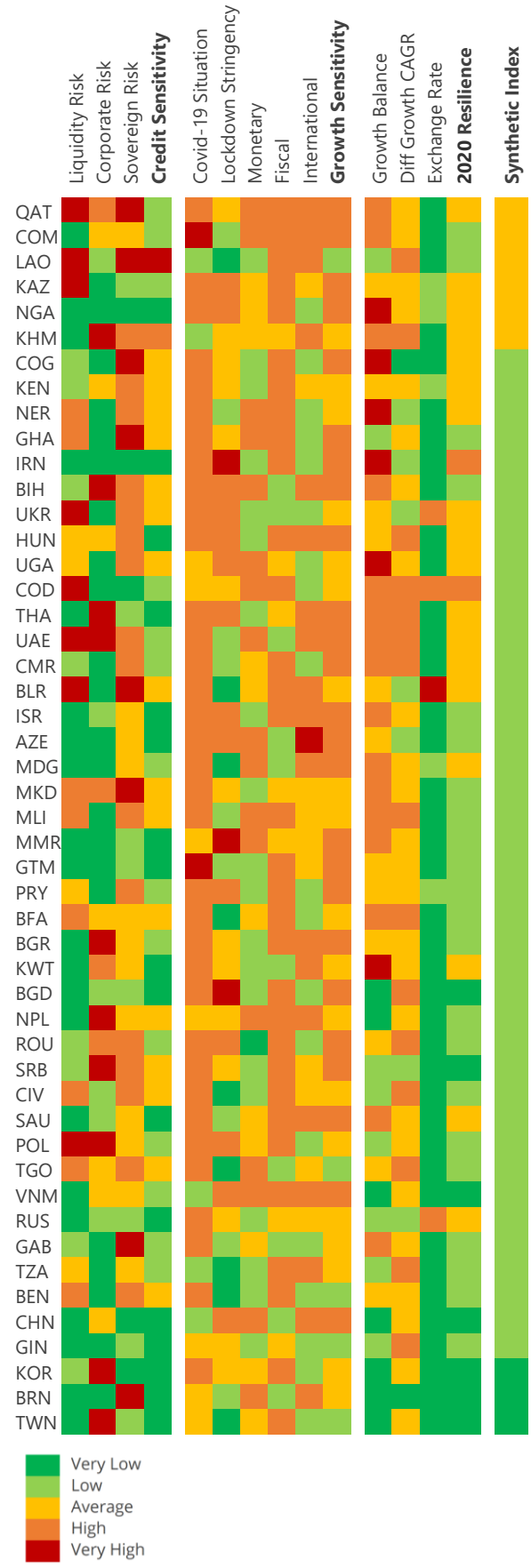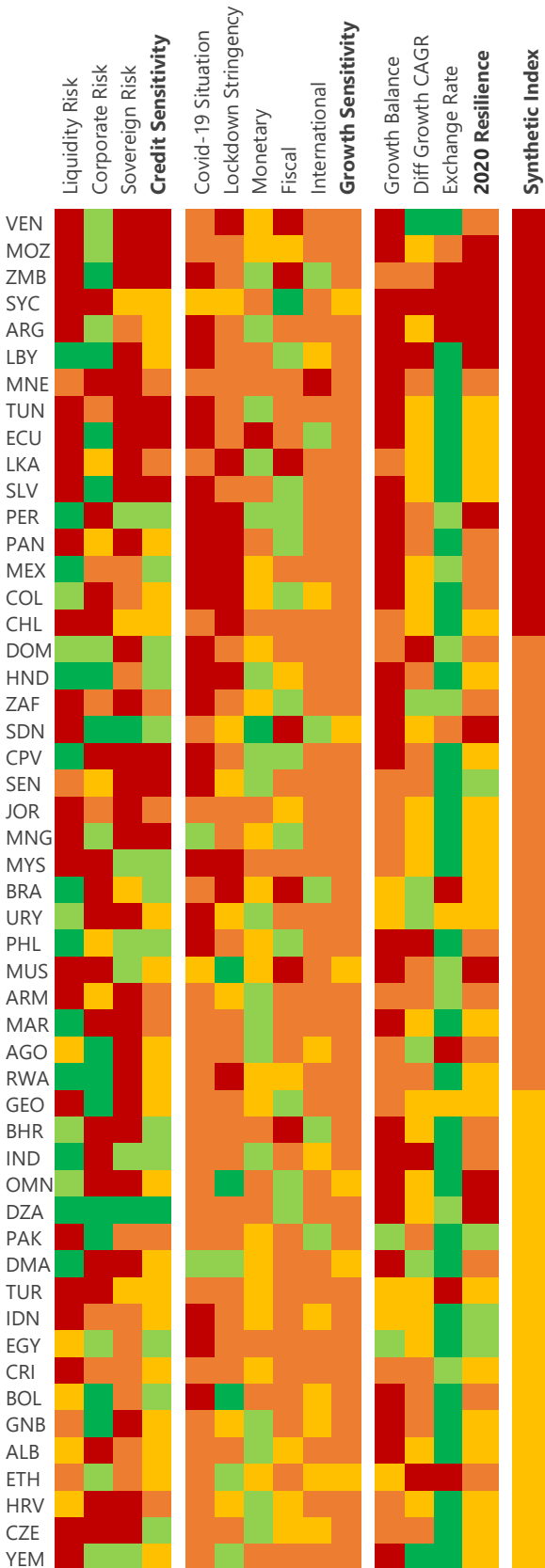**Resilience versus LT Growth**
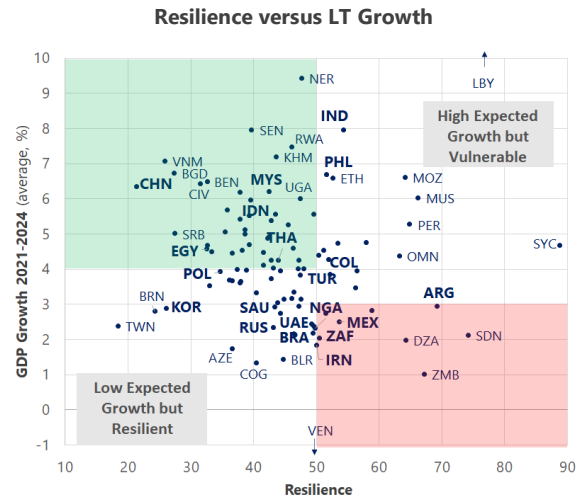
Source: TAC ECONOMICS, IMF/WEO

Indeed, countries in the upper-left area (in green above) offer a perspective of faster economic development while having shown a relatively strong resilience during the global shock of 2020: China is unsurprisingly located there, as well as other Asian countries: Vietnam, Bangladesh, Malaysia, Thailand, and Indonesia. In addition, we find a very interesting list of African countries, including Ivory Coast, Senegal, Benin, Uganda, and Rwanda, as well as Egypt.

Conversely, the bottom-right area shows countries with a weak resilience as testified by the 2020 performances and mediocre expectations for future growth: finding Algeria there alongside Mozambique or Sudan may be a useful reminder of the critical challenges facing the country in the immediate future. Lastly, South Africa and Nigeria, as well as Mexico and Argentina are also located there or close to there.

Credit Sensitivity, Growth Sensitivity & Resilience Heat Map

From highest risks (Synthetic Index) to lowest risks

Heat map legend:
- Very Low
- Low
- Average
- High
- Very High

Credit Sensitivity, Growth Sensitivity & Resilience Heat Map

Alphabetical order of countries' acronyms

Appendix 1: List of 100 countries monitored   by alphabetical order of ISO3 Code

ISO 3 Code	Country Name
AGO	Angola
ALB	Albania
ARG	Argentina
ARM	Armenia
AZE	Azerbaijan
BEN	Benin
BFA	Burkina Faso
BGD	Bangladesh
BGR	Bulgaria
BHR	Bahrein
BIH	Bosnia
BLR	Belarus
BOL	Bolivia
BRA	Brazil
BRN	Brunei
CHL	Chile
CHN	China
CIV	Cote d'Ivoire
CMR	Cameroon
COD	DR Congo
COG	Rep. of Congo
COL	Colombia
COM	Comoros
CPV	Cape Verde
CRI	Costa Rica
CZE	Czech Rep.
DMA	Dominica
DOM	Dominican Rep
DZA	Algeria
ECU	Ecuador
EGY	Egypt
ETH	Ethiopia
GAB	Gabon
GEO	Georgia
GHA	Ghana
GIN	Guinea
GNB	Guinea Bissau
GTM	Guatemala
HND	Honduras
HRV	Croatia
HUN	Hungary
IDN	Indonesia
IND	India
IRN	Iran
ISR	Israel
JOR	Jordan
KAZ	Kazakhstan
KEN	Kenya
KHM	Cambodia
KOR	Korea
KWT	Kuwait

ISO 3 Code	Country Name
LAO	Laos
LBY	Libya
LKA	Sri Lanka
MAR	Morocco
MDG	Madagascar
MEX	Mexico
MKD	N. Macedonia
MLI	Mali
MMR	Myanmar
MNE	Montenegro
MNG	Mongolia
MOZ	Mozambique
MUS	Mauritius
MYS	Malaysia
NER	Niger
NGA	Nigeria
NPL	Nepal
OMN	Oman
PAK	Pakistan
PAN	Panama
PER	Peru
PHL	Philippines
POL	Poland
PRY	Paraguay
QAT	Qatar
ROU	Romania
RUS	Russia
RWA	Rwanda
SAU	Saudi Arabia
SDN	Sudan
SEN	Senegal
SLV	El Salvador
SRB	Serbia
SYC	Seychelles
TGO	Togo
THA	Thailand
TUN	Tunisia
TUR	Turkey
TWN	Taiwan
TZA	Tanzania
UAE	UAE
UGA	Uganda
UKR	Ukraine
URY	Uruguay
VEN	Venezuela
VNM	Vietnam
YEM	Yemen
ZAF	South Africa
ZMB	Zambia

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

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