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Emerging Market Sovereign Credit Risks Are Rising, Says Report

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FRANKFURT (S&P Global Ratings) Oct. 3, 2016--Emerging market sovereigns face rising risks to their credit quality despite still strong foreign investments in emerging markets, says S&P Global Ratings in a report published today ("Why Emerging Market Sovereign Ratings Are Falling While Portfolio Inflows Are Rising.")

"Nine of the 20 top emerging market sovereigns--those with the largest absolute amount of sovereign debt outstanding--have negative outlooks, indicating a possible downgrade over the next two years, against just two positive outlooks," said Moritz Kraemer, Global Chief Rating Officer for Sovereign Ratings.

Our average rating on this group of sovereigns has declined by nearly one notch since the start of 2011. Over the same period, cumulative portfolio inflows to the emerging markets have risen to over $1.1 trillion. Emerging market sovereign bonds continue to rally as yield-seeking investors flee ultra-low interest rates at home while expectations that the U.S. Federal Reserve would start to hike interest rates have yet to materialize.

We now expect the Fed will start to raise rates in December, gradually bringing to an end the super-accommodative international financial environment from which emerging markets are benefiting. We expect tightening international liquidity will hit Turkey, Venezuela, and Argentina the hardest because they are the most dependent on capital inflows.

Another rising risk to emerging market sovereign ratings is weakening governance, the report says. "A growing focus on electorate-pleasing domestic

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issues to the detriment of economic progress, as well as potential for geopolitical conflicts, also pose risks to emerging market sovereign creditworthiness," said Mr. Kraemer.

The slowdown in global growth and world trade, as well as rising protectionism in advanced economies, will hit emerging markets that are highly dependent on trade.

A heavier slowdown in Chinese growth than our base case currently envisages could also lead to downgrades of some sovereigns with strong trade links, with Russia and Brazil facing the heaviest risks.

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The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on the S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4009.