Fitch Ratings 2022 Mid-Year Outlook: Global Sovereigns

Shocks of War and Higher Inflation

Fitch's Sector Outlook: Neutral

Global sovereign credit conditions have deteriorated since the start of the year, warranting a revision of the sector outlook to neutral from improving. The war in Ukraine and consequent sanctions have wide-ranging and far-reaching effects, altering global security considerations, interrupting trade and capital flows, and contributing to weaker economic growth and higher inflation. None of these issues will be resolved in the second half of the year.

Fiscal recoveries that were evident in 2021 and previously forecast to extend into 2022 have become less certain. Covid-19-related spending has largely wound down, but new spending priorities have emerged. On an a priori basis, higher inflation has an ambiguous effect on public finances, depending on whether revenues or expenditures respond more to elevated prices. But overall fiscal effects are being driven instead by active policy responses – lower taxes and higher spending – aimed at alleviating the impact of inflation on households and businesses. Most Fitch-rated sovereigns have introduced such policies.

With inflation proving to be higher and more persistent than what central banks – especially in developed markets (DMs) – had been communicating in 2021, Fitch accordingly has raised its forecasts for policy interest rates. Most importantly, we expect the Federal Reserve to be much more aggressive, with the policy stance transitioning from accommodative to restrictive. All else equal, this supports a stronger US dollar, adding to funding stresses for those emerging-market (EM) sovereigns with limited local-currency financing options.

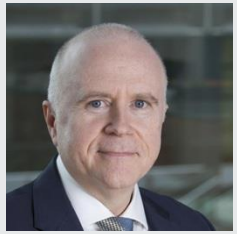
Commodity-exporting sovereigns are benefitting from higher commodity prices, with fiscal and current account surpluses. However, much more common are EM sovereigns with twin fiscal and current account deficits. Gross external funding needs will be highest this year in both nominal terms and relative to foreign-exchange reserves for EM sovereigns that are net importers of commodities. They now face tighter global funding conditions, and with a record-high share of sovereigns rated in the 'B' category or lower, it is likely there will be additional defaults.

What to Watch

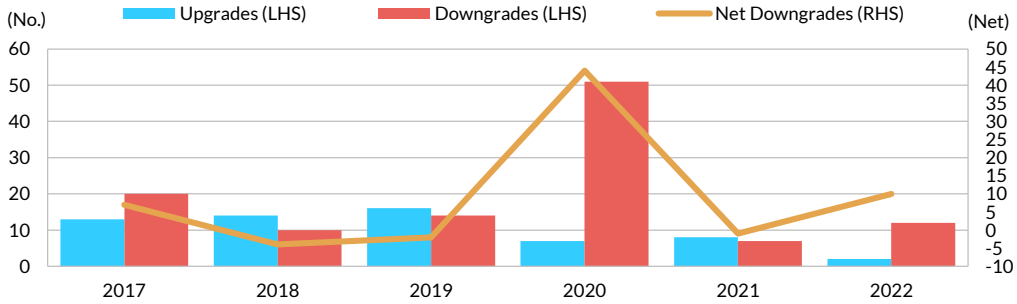
- The war in Ukraine will affect macroeconomic and sovereign credit conditions in the immediate region and beyond, with scope for unforeseen shocks.
- Elevated global inflation can support government debt dynamics in the short term, but effects may be offset by fiscal support to households and businesses to deal with higher prices.
- Rising interest rates are increasing government debt-servicing costs. Most exposed are EM sovereigns, but some highly indebted DMs are at risk as well, including in the eurozone.
- China's 'dynamic zero' Covid-19 policy will continue, along with risks of interruptions to domestic economic activity and global supply chains.

James McCormack, Global Head of Sovereigns

"Higher inflation has elicited fiscal policy responses in most Fitch-rated sovereigns. While modest fiscal deteriorations can be absorbed by the positive effects inflation has on government debt dynamics, such effects depend on the retention of low interest rates, which are now less certain."

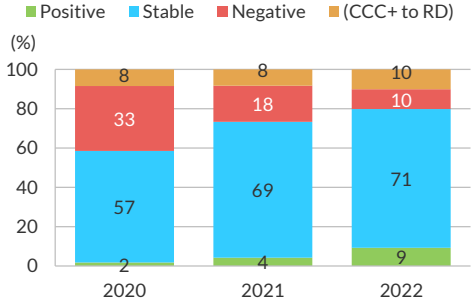


Global - Rating Changes



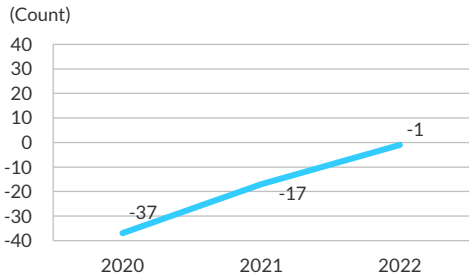
Source: Fitch Ratings

Global - Rating Outlooks



Note: Ratings CCC+ and below do not have an Outlook.
Source: Fitch Ratings

Global - Net Outlook Balance



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North America Sovereigns

Slowing Growth, Inflation Challenge

Fitch's Sector Outlook: Neutral

Slower growth, higher inflation and tighter financial conditions are the main features of the 2022 mid-year outlook relative to Fitch Ratings' expectation at end-2021. While Fitch has maintained the sector outlook as neutral, it has revised down its growth forecast for the US to below 3% in 2022 and sees below-trend growth in 2023 with a risk of recession. The Canadian economy retains more momentum but will follow a similar path. Demand and supply pressures, added to the renewed shock to commodities markets following Russia's invasion of Ukraine, will continue to pressure inflation, which is at multi-decade highs and well above policymakers' targets.

In response, we expect the Federal Reserve and Bank of Canada to raise their policy rates to 3% by end-2022. Long-term rates have already risen and yield curves have flattened.

The US sovereign rating has been on Negative Outlook since July 2020. Canada was affirmed at 'AA+' with a Stable Outlook in June 2022

Consequences of Higher Interest Rates

Governments will pay more to borrow, although financing needs are declining along with deficits. High inflation also means that real interest rates are currently ever more negative, allowing the debt ratio to continue to fall in 2022. A strong economic recovery has also boosted revenue in both the US and Canada. The housing markets in both countries are slowing in response to a sharp tightening in conditions. We have been flagging the vulnerability of the Canadian economy to a housing market correction for some time, given the high level of household borrowing and the intensified rise in house prices during the Covid-19 pandemic, but do not see overall financial stability at risk

Governments in both countries will be under pressure from voters to alleviate the impact of rising prices. The US has so far done less than many advanced countries. Canada rolled out a package of measures that had already been funded in the FY22 budget, including higher benefits for over-75s.

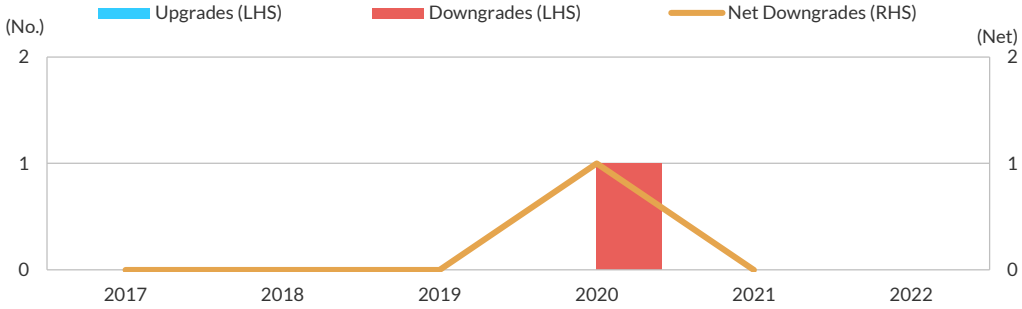
What to Watch

- US midterm elections seem ever more likely to deliver control of the House of Representatives to the Republicans, and there is a substantial chance that control of the Senate will flip too. In the interim the prospects of more spending being approved, including elements of the Build Back Better bill, have dwindled.
- Fitch expects that inflation will start to moderate as commodity price rises fade and correct, while the economy slows, but renewed shocks could challenge this.
- Central banks may need to raise rates faster than we expect. A correction in financial markets could affect spending through the wealth effect and may temper investment.
- A recession could lead to weaker fiscal outturns than we expect

Charles Seville, Senior Director, Co-Head, Americas Sovereigns

"A slowdown in the North American economy is under way, spurred in part by monetary tightening, with recession risks especially in the US Higher nominal GDP growth will help keep government debt ratios on a downward path in 2022."

North America - Rating Changes



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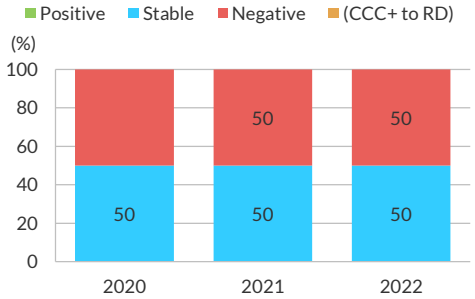
North America - Rating Outlooks



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North America - Net Outlook Balance

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Latin America Sovereigns

Economic Resilience Despite Choppy External Conditions

Sector Outlook: Neutral

Latin America's economic growth remains fairly resilient to the multifaceted external shock underway, owing to reopening of lagging sectors as the Covid-19 pandemic recedes, narrow direct exposure to Russia and Ukraine, and terms-of-trade benefits from higher commodity prices, supporting its continued neutral outlook. Resilient remittances and recovery in tourism is helping to cushion the shock for many commodity importers. Advanced monetary tightening, manageable current account deficits in most and favourable external liquidity positions should also help the region navigate turbulent external conditions. Economic momentum remained relatively solid through 1Q22, but could be restrained in the rest of 2022 and in 2023 by global and domestic monetary tightening and high inflation eroding real incomes.

Fiscal recoveries in 2021 were stronger than Fitch Ratings projected mid-year, which contributed to the stabilisation of a number of Negative Outlooks (Uruguay, Panama and Costa Rica) since mid-December 2021. Fitch expects further fiscal improvement for most sovereigns in 2022 as pandemic spending is unwound and economic recoveries continue, while wide-ranging measures many sovereigns are taking to mitigate the sharp rise in food and energy prices for households could be offset, at least in part by the revenue upside from higher inflation. Commodity exporters stand to benefit from a fiscal windfall, though energy exporters are using this primarily to subsidise fuel prices (Mexico, Colombia).

Political challenges continue, complicating efforts to address growth and fiscal challenges, and in some cases can even aggravate them. Chile and Colombia have joined Peru and Mexico in electing leftist governments, and Brazil will have elections in October. Macroeconomic policy frameworks so far have been upheld in these cases, but risks of some slippage remain. And microeconomic policy shifts can take a toll, as evidenced by Mexico's anaemic recovery path.

Only one sovereign remains on Negative Outlook (Brazil), the lowest number seen since 2014, and one is on Positive Outlook (Guatemala). Persisting economic and fiscal challenges, and difficult political contexts for addressing them, continue to weigh on credit profiles. Yet these have largely been captured in past downgrades (affecting two-thirds of the portfolio in 2020-2022), while better-than-expected post-pandemic fiscal and economic recoveries help contain further downward pressures.

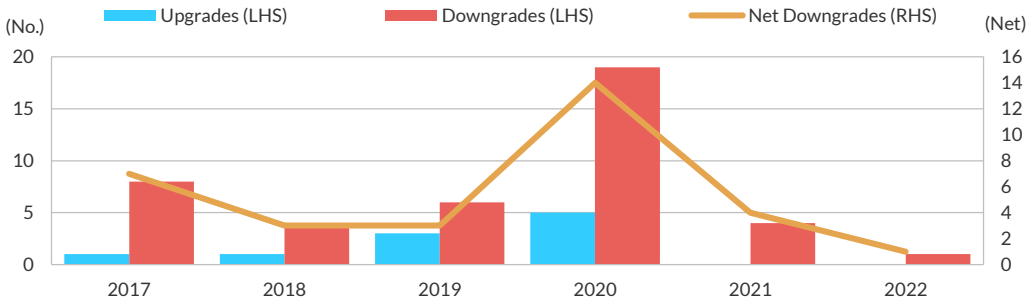
What to Watch

- Political, social and economic impact of the food and energy price shock; policy response to this and fiscal cost of related measures.
- Commodity price trends and impact on growth, fiscal and external finances. Sensitivity to China's economic slowdown.
- Tightening of external financing conditions and effects on domestic monetary policy, local yield curves, and exchange rates. Implications for financing options for low-rated sovereigns.
- Policy proposals of new and incoming governments, relevance for growth and fiscal prospects.

Todd Martinez, Senior Director

"Latin America's economic growth remains fairly resilient to the multifaceted external shock underway, owing to reopening of lagging sectors as the Covid-19 pandemic recedes, narrow direct exposure to Russia and Ukraine, and terms-of-trade benefits from higher commodity prices."

Latin America/Caribbean - Rating Changes



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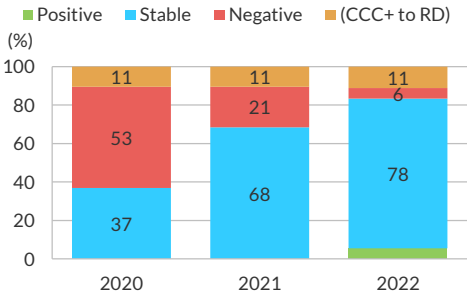
LatAm/Caribbean - Rating Outlooks



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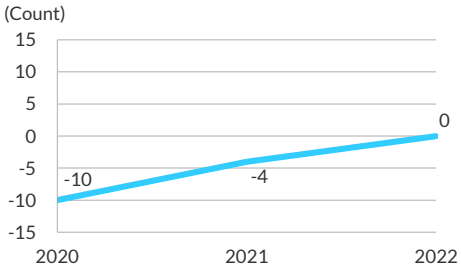
LatAm/Caribbean - Net Outlook Balance



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Western Europe Sovereigns

Energy Shock Drives Outlook Revision

Fitch's Sector Outlook: Neutral

Fitch Ratings has revised the sector outlook for western Europe to neutral from improving. The revision mainly reflects the marked worsening in the macroeconomic backdrop triggered by the invasion of Ukraine. Downward revisions to real GDP growth forecasts for western European countries reflect the high exposure to the energy shock and the sharp rise in wholesale gas prices, which will have a large impact on headline inflation and real incomes.

While the war in Ukraine continues, there is a risk of a sudden stop in Russian natural gas to Europe. The prospect of a complete halt rose following recent news that Russian energy company Gazprom had sharply reduced supply to Europe (including to Germany and Italy). Under such a scenario, gas rationing to industrial users would be likely and it would be hard for the eurozone and the EU to avoid a recession in late-2022 or early 2023 given the scale of exposures, particularly in Germany.

The weaker GDP growth outlook will slow, but not reverse, the post-pandemic fiscal recovery. European authorities have responded to the inflationary shock with measures aimed at protecting households and businesses from higher energy prices. The Ukraine-Russia conflict is also having budgetary costs via the refugee crisis and defence spending.

However, fiscal outperformance in 2021, driven by revenue growth, provides some buffer to accommodate higher spending this year without significant revisions to fiscal targets. Moreover, central government monthly figures suggest that revenue performance remained strong in 1H22, partly owing to higher inflation, which is supporting higher nominal tax revenues.

All major central banks in the region are accelerating the pace of monetary policy normalisation. Given divergences in fiscal policies within the eurozone, this task will prove more challenging for the ECB. The ECB's planned 'anti-fragmentation' programme could reduce the risk that sharp swings in sovereign borrowing costs negatively affect debt dynamics in high-debt eurozone sovereigns. This would support the creditworthiness of these sovereigns, but progress on debt stabilisation and reduction will remain key to our sovereign credit assessment

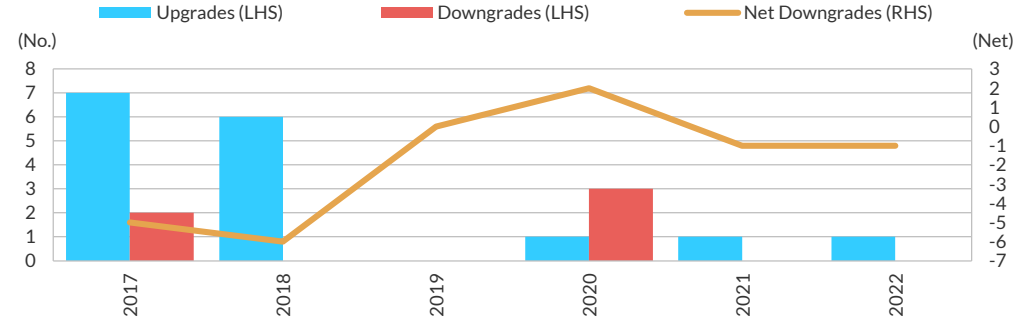
What to Watch

- A complete and prolonged stop in Russian gas supply would prompt a recession. The probability that such a risk materialises has increased recently.
- The persistence of high oil and gas prices raises risks of slower growth and lengthy fiscal support. This would likely result in larger fiscal deficits.
- We expect the ECB to announce an 'anti-fragmentation' facility by its 21 July monetary policy meeting. Failure to do so could trigger a negative market reaction.

Michele Napolitano, Head of Western Europe Sovereigns

"Fitch Ratings has revised the sector outlook for western Europe to neutral from improving. The revision mainly reflects the marked worsening in the macroeconomic backdrop triggered by the invasion of Ukraine and the sharp rise in energy prices, which will weigh on the region's growth and fiscal consolidation prospects."

Western Europe - Rating Changes



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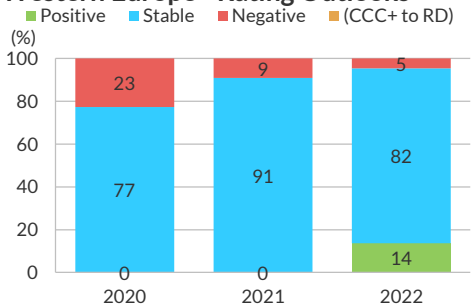
Western Europe - Rating Outlooks



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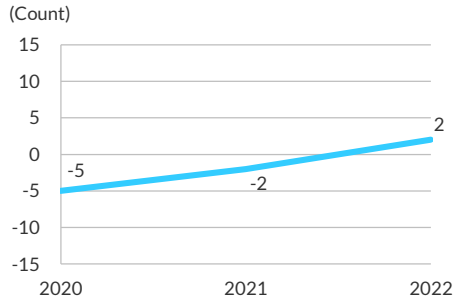
Western Europe - Net Outlook Balance



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Emerging Europe Sovereigns

Ukraine War Fallout Pressures Ratings in Emerging Europe

Fitch's Sector Outlook: Deteriorating

Fitch Ratings expects credit conditions to deteriorate for sovereigns in emerging Europe in the second half of 2022. This compares to the improving sector outlook we had at the start of the year and reflects the war in Ukraine. There have been five downgrades so far this year (Belarus, Turkey, Ukraine and two for Russia prior to its rating being withdrawn). The number of Negative Outlooks is unchanged from end-2021, at four, but Belarus and Ukraine are now rated 'CCC' and as such do not have an Outlook.

An expected sharp contraction in Russia (we forecast growth at -8% in 2022) would hit Commonwealth of Independent States sovereigns through exports, remittances and tourist arrivals. Trade and investment linkages are vulnerable to spillover from sanctions. Geopolitical risks have grown. Russia has ceased gas exports to two central and eastern European countries and the risk of a broader stoppage is growing. Many sovereigns do not have access to sufficient alternate power supplies, making rationing inevitable, likely triggering a recession, raising inflation and hitting public finances. Even those sovereigns not directly exposed or that have sufficient mitigants would face higher energy prices and lower growth.

Higher energy and food prices are pushing up the rate of inflation that was already at multi-year highs in CEE sovereigns. Tighter monetary policy and reduced disposable incomes will compound the shock to confidence from the war and hurt growth. Compensatory measures for consumers will put pressure on public finances, derailing consolidation plans at a time when nominal marginal financing costs are rising. Large refugee flows are an additional complication for some sovereigns.

Higher commodity prices and rising global interest rates create additional pressures and policy challenges for Turkey. A new policy mix introduced by the authorities at end-2021 that included the central bank maintaining the policy rate despite spiralling inflation has increased risks to public finances, while continuing pre-existing macroeconomic and financial stability risks.

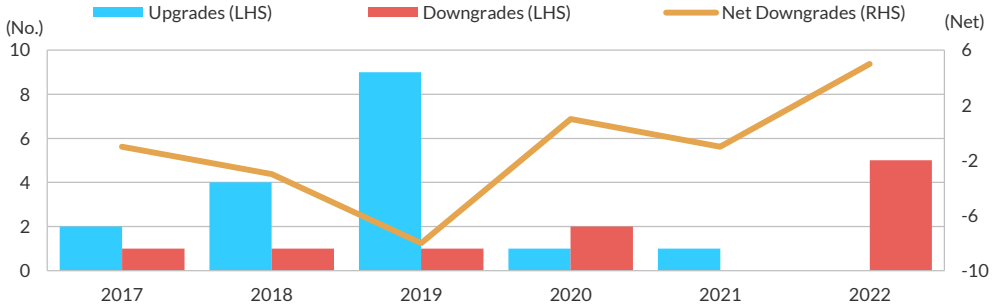
What to Watch

- An abrupt cessation of the supply of Russian gas to the EU would likely lead to energy rationing and cause major macro challenges for CEE sovereigns, although some have important offsets.
- The conflict in Ukraine and associated sanctions and countersanctions will directly weigh on the ratings of Ukraine and Belarus and spillovers remain potentially large and unpredictable.
- Inflation is at multi-decade highs and spreading beyond food and energy prices into core goods and services, hitting purchasing power and testing monetary authorities.
- Weaker growth and compensatory measures are putting more pressure on public finances following jumps in government debt/GDP at the time of the Covid-19 pandemic.
- Turkey's new economic policy mix is being pressured by a deteriorating external environment and maintaining risks for deposit stability and access to external financing.

Paul Gamble, Head of Emerging Europe Sovereigns

"The war in Ukraine and associated fallout, including a sharp recession in Russia, sanctions and countersanctions, has put downward pressure on ratings in emerging Europe and creates significant risks, most notably to the supply of energy to the region's EU members."

Emerging Europe - Rating Changes



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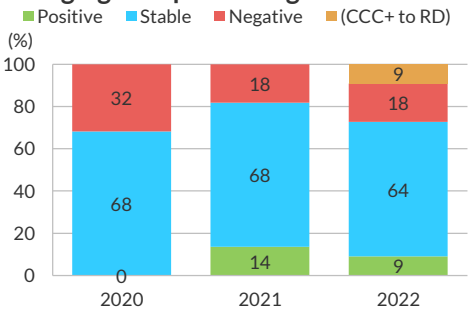
Emerging Europe - Rating Outlooks



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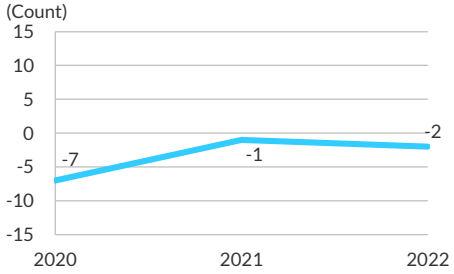
Emerging Europe - Net Outlook Balance



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Middle East and North Africa Sovereigns

Prices Buoy Oil Exporters but Other Sovereigns Face Challenges

Fitch's Sector Outlook: Improving

Fitch Ratings has kept the sector Outlook for the Middle East and North Africa (MENA) unchanged from the beginning of the year at improving. It reflects that oil-exporting sovereigns will register significantly stronger growth in 2022 as the OPEC+ taper drives large increases in oil output, except in Bahrain and Qatar, where oil production will remain stable. High Covid-19 vaccination rates in the Gulf Cooperation Council (GCC) countries, spillovers from high oil prices to other sectors, and economic reform agendas will underpin average non-oil real GDP growth of about 3%.

The US Federal Reserve's interest rate-rising cycle will pull up GCC policy rates and other interest rates, given the GCC's currency pegs to the US dollar, although not all central banks will necessarily mirror the full magnitude of US rate rises. This could become a constraint on economic activity, although with a lag, given the support from oil prices above USD100 a barrel.

Outside the GCC, the situation has become more challenging, with many MENA countries negatively affected by the war in Ukraine, which is adding to inflationary pressure, hitting tourism recoveries and increasing financing challenges, while fiscal space to help drive stronger growth is limited. Egypt, for example, has been hard hit by the war in Ukraine, but has also received substantial and swift support from bilateral partners and is negotiating a new IMF deal.

The MENA outlook is supported by reform momentum to varying degrees across the region and more constructive regional political dynamics that emerged in 2021. Nonetheless, the region continues to face significant economic and political challenges and remains vulnerable to a fresh oil price shock. Structural problems, such as high youth unemployment and poor governance, continue to pose risks to political stability and fiscal consolidation. The Gulf states face reform dilemmas as they seek to achieve long-term fiscal sustainability, while also delivering good economic outcomes for citizens and promoting economic diversification.

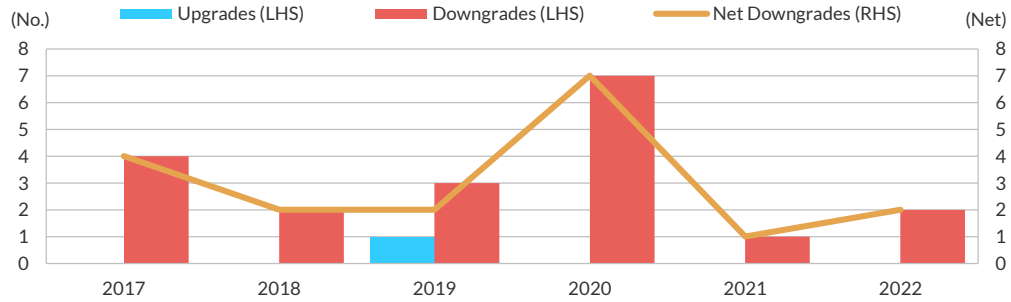
What to Watch

- A fresh oil price shock, for example, due to a renewed downturn in global oil demand, could again put pressure on the ratings of more vulnerable oil exporters.
- Social backlash against fiscal consolidation could pose a risk to ratings, particularly if in combination with other factors, such as oil price weakness or food price inflation.
- Further easing of regional tensions is possible, including relations between the GCC and Iran, but is unlikely to drive positive rating actions.
- A prolonged tightening of global financial conditions could further jeopardise funding plans in some MENA sovereigns, such as Egypt, Jordan and Tunisia.

Toby Iles, Head of MEA Sovereigns

"Oil price dynamics, reform efforts and regional politics are generally more positive than they have been for a few years, especially in the Gulf Cooperation Council countries. Nonetheless, the region continues to face structural challenges, including high youth unemployment, poor governance and hydrocarbon dependence, alongside limited fiscal space and external financing challenges in some sovereigns."

Middle East and North Africa - Rating Changes



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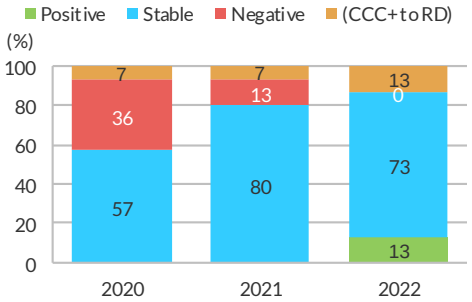
MENA - Rating Outlooks



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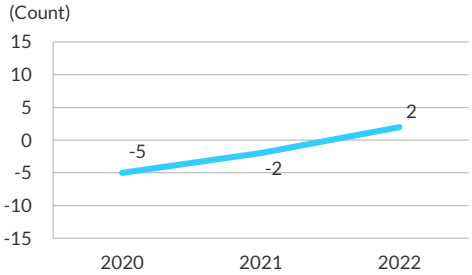
MENA - Net Outlook Balance



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Sub-Saharan Africa Sovereigns

Shocks to Global Economy Add to SSA's Vulnerabilities

Fitch's Sector Outlook: Deteriorating

The sector outlook for sub-Saharan Africa (SSA) sovereigns has changed to deteriorating from neutral as the global inflationary environment and related tightening in global financial conditions weaken sub-Saharan Africa's macroeconomic prospects and, for some countries, the cost and availability of external financing.

The shock from the war in Ukraine comes as countries are still grappling with the Covid-19 pandemic-related deterioration of their balance sheets. In 1H22, Fitch Ratings downgraded Ghana (B-/Negative) given worsening public and external finances and Namibia (BB-/Stable) given the deterioration in fiscal metrics, while higher oil prices drove the upgrade of Angola's rating (B-/Stable). Three of the 19 sub-Saharan Africa sovereigns remain on Negative Outlook.

In east Africa, the Negative Outlooks on ratings for Kenya and Rwanda reflect concerns about the ability to halt the upward trend in government debt. In west Africa, growth in Benin and Cote d'Ivoire will remain strong and pre-pandemic consolidation has meant debt levels are well below the regional median. However, Ghana faces a particularly high interest burden and soaring Eurobond yields, which complicate refinancing and raise pressure on it to seek an IMF programme.

In southern Africa, Lesotho, Namibia and South Africa struggle to stabilise public finances amid low growth and socio-political challenges, although the revenue performance in South Africa has been encouraging. Large natural gas projects in Mozambique could provide a medium-term boost, but an insurgency and governance challenges pose risks. Ethiopia and Zambia are seeking debt restructuring under the G20 Common Framework (CF).

The main oil exporters Angola, the Republic of Congo, Gabon and Nigeria will benefit from the surge in oil export prices, although domestic fuel subsidies limit the benefit for Nigeria.

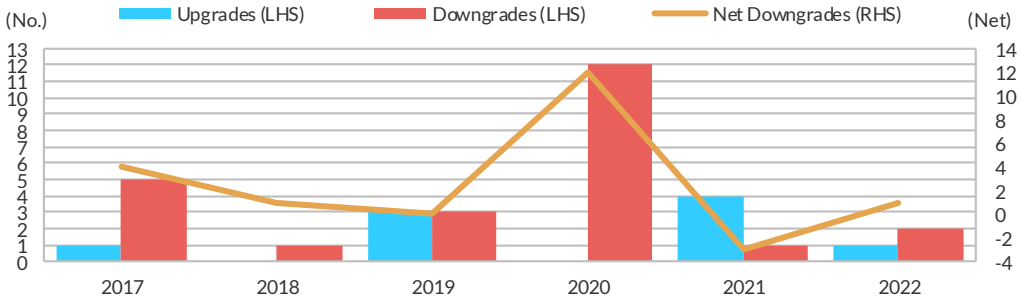
What to Watch

- Low Covid-19 vaccination rates leave sub-Saharan Africa vulnerable to new waves of the pandemic although the economic impact may remain contained.
- Reliance on public investment spending as a key growth motor raises risk of slowdown, given more limited fiscal space in some sovereigns.
- High government debt levels mean that the scale and credibility of fiscal consolidation plans will be key in assessing debt sustainability.
- Prolonged tightening of global financing conditions could damage countries with external vulnerabilities.
- The G20 CF could trigger debt restructuring with implications for private creditors.

Toby Iles, Head of MEA Sovereigns

"Many sub-Saharan Africa sovereigns continue to grapple with the deterioration in balance sheets as a result of the Covid-19 pandemic and war in Ukraine, in the context of already high government debt levels. The scale and credibility of consolidation plans is a key differentiating factor for sovereigns with high debt levels."

Sub-Saharan Africa - Rating Changes



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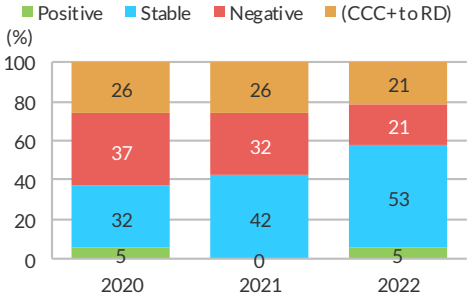
Sub-Saharan Africa - Rating Outlooks



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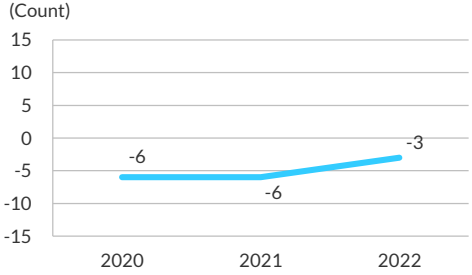

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Greater China Sovereigns

"Dynamic Zero Covid" Dominates Near-Term Outlook

Fitch's Sector Outlook: Neutral

The Greater China region continues to face a challenging near-term growth environment, influenced by the pursuit of "zero Covid" policies, which has stifled cross-border travel connectivity and led to sporadic mobility restrictions, with negative spillovers to economic activity. Meanwhile, slower global growth, the commodity-price shock, ongoing weakness in mainland China's property sector, and tighter global monetary conditions also add to near-term growth headwinds. The sector outlook remains neutral.

We have lowered our growth forecast for mainland China (A+/Stable) on two occasions in 2022 to date, following a Covid-19 outbreak in mid-March that led to an extended lockdown of the commercial hub of Shanghai and a temporary rise in mobility restrictions in other cities. We now expect economic growth of 3.7% in 2022, from 8.1% in 2021. We believe future outbreaks of Covid-19 across the mainland are likely to be contained more swiftly, given the adoption of precautionary mass testing. We therefore forecast activity to recover from 2H22, and for mainland China's economy to grow by 5.3% in 2023.

There is considerable uncertainty over when the mainland authorities will pivot away from their "dynamic zero Covid" strategy. In the absence of official guidance, Fitch assumes this process will not begin until at least 2023, and proceed tentatively. The timing of this shift has direct implications for growth prospects in China's Special Administration Regions of Hong Kong (AA-/Stable) and Macao (AA/Stable), whose small, open economies have seen only partial post-pandemic recoveries, due to anaemic business and tourism flows with the mainland and strict international border-control measures.

Fitch forecasts growth in Hong Kong at just 1% this year, before recovering to 3.5% in 2023. In Macao, we expect 8% in 2022 and 29% in 2023, leaving real GDP at about 75% of its 2019 level.

Our economic outlook on Taiwan (AA/Stable) remains broadly in line with our prior forecasts. Growth momentum is supported by resilient global demand for the island's high-tech exports, and a nascent transition towards treating Covid-19 as endemic, as highlighted by a recent relaxation of quarantine rules for inbound arrivals. We forecast growth in Taiwan at 3.2% this year, before moderating to 2.8% in 2023.

Mainland China's Policy Outlook Becomes More Supportive

We forecast the fiscal deficit in mainland China will widen to 7% of GDP this year on a Fitch-consolidated basis, from 4.5% in 2021, in light of policymakers vowing to stabilise growth momentum. Meanwhile, we expect credit growth to accelerate over the next few months. This will lead to a rise in China's economy-wide leverage ratio this year – a key medium-term rating sensitivity – before stabilising again in 2023.

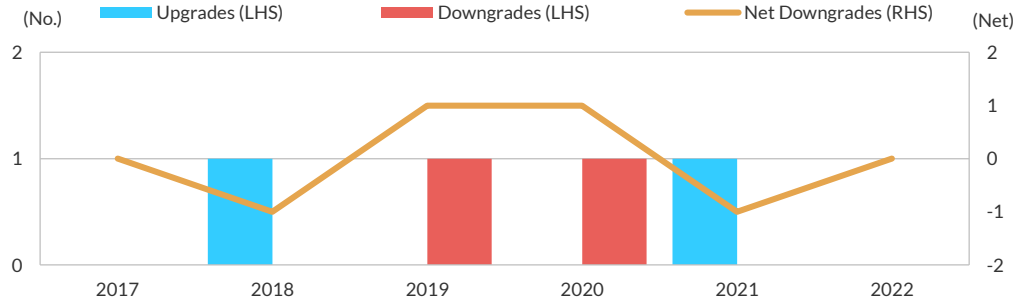
What to Watch

- Pandemic-related activity disruptions, given the adherence to "zero Covid" policies
- The scale, composition, and longevity of macro policy easing in mainland China
- Geopolitics – Sino-US relations, cross-strait tensions, spillovers from the Russia-Ukraine war

Andrew Fennell, Senior Director

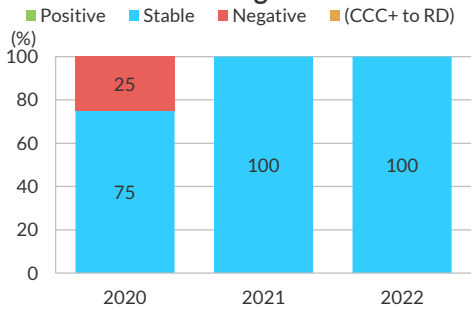
"The near-term growth outlook across Greater China remains dominated by the strict adherence to "dynamic zero Covid" in the mainland. This policy approach heightens the risk of temporary disruptions to business activity, with potential spillovers to neighbouring economies and global supply chains."

Greater China - Rating Changes



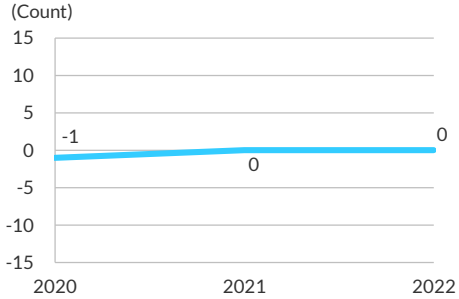
Source: Fitch Ratings

Greater China - Rating Outlooks



Note: Ratings CCC+ and below do not have an Outlook
Source: Fitch Ratings

Greater China - Net Outlook Balance



Source: Fitch Ratings

The "Rating Outlooks" chart shows the percentage of ratings that have a Negative, Stable or Positive Outlook. The "Net Outlook Balance" chart shows the difference between Negative and Positive Outlooks; a Negative Outlook balance is displayed as a negative number.

APAC Sovereigns

Inflation and "Zero Covid" Weaken APAC's Recovery Prospects

Fitch's Sector Outlook: Neutral

The outlook for APAC sovereigns has been revised to neutral from improving in December 2021, as the ongoing recovery is affected by the commodity-price shock, faster global monetary tightening than previously expected, and lower global growth. APAC sovereigns are mostly net commodity importers, with the exception of Australia, Indonesia, Malaysia and Mongolia. Further lockdowns in China represent a risk for the export and growth outlooks on APAC sovereigns, especially those closely integrated in manufacturing supply chains, located mostly in north and south-east Asia.

Fitch Ratings generally expects APAC economies to continue their recovery, but at a slower pace. Covid-19 restrictions are being rapidly eased throughout Asia, with the exception of greater China. The recovery from the pandemic in general started late in Asia, as vaccine roll-outs and border re-openings often lagged other regions, weighing on tourism for instance.

Fitch has revised the Negative Outlooks on Japan's 'A' and India's 'BBB-' ratings to Stable despite the weaker external environment, as prospects have improved for stabilising the public debt ratios of both sovereigns. Higher post-pandemic government debt and deficits have, nonetheless, reduced policy headroom for those and other APAC sovereigns to respond to shocks. The Positive Outlook on Vietnam reflects strong medium-term growth prospects, and for New Zealand the likely rebuilding of buffers over the medium term. Only the Philippines is on Negative Outlook.

Policies to Contain Inflation May Hamper Growth and Delay Fiscal Consolidation

Higher commodity prices and supply-side disruptions underpin inflation in many countries across the region. In response, central banks have begun tightening cycles, especially where rebounding domestic demand had already caused inflationary pressures, such as India, Korea and New Zealand. Aggressive tightening has occurred in Frontier Markets that are facing refinancing pressures from higher bond yields and depreciation, such as Sri Lanka, Pakistan and Laos. We expect Frontier Markets to remain most vulnerable, including Sri Lanka which will restructure its debt and was downgraded twice in 2022 to 'RD'.

Higher borrowing costs and subsidies to mitigate the impact of higher commodity and food prices may delay fiscal consolidation in several countries. Net commodity exporters like Indonesia and Malaysia will be able to fund their higher subsidy bills partly through increased commodity-related fiscal revenues.

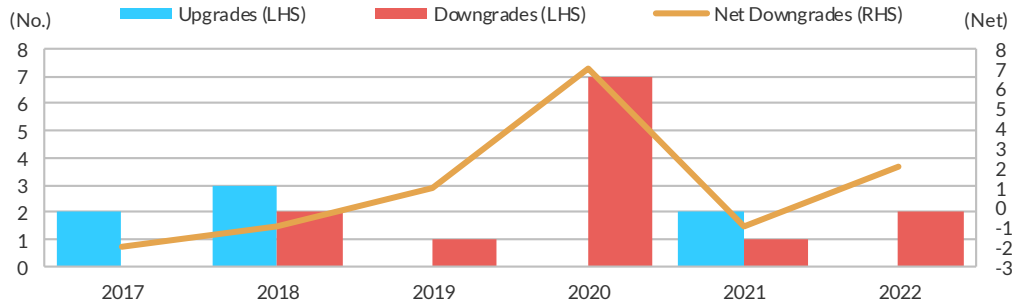
What to Watch

- External financing pressures in Frontier Markets, especially as external financing conditions tighten. This is likely to raise their dependence on multilateral and bilateral financing.
- Faster-than-expected monetary tightening as inflation pressures build, could weaken the recovery, while higher subsidies and borrowing costs may delay consolidation.
- China's "Dynamic Zero Covid" strategy represents an ongoing risk for many APAC sovereigns.

Thomas Rookmaaker, Senior Director

"APAC sovereigns are facing significant headwinds, as inflation has become widespread across the region, and China's "Zero Covid" approach may continue to affect regional trade. We expect the lagging recovery from the Covid-19 pandemic to continue in most APAC countries, even though some "Frontier Markets" are likely to remain under significant refinancing pressure for quite some time."

APAC - Rating Changes



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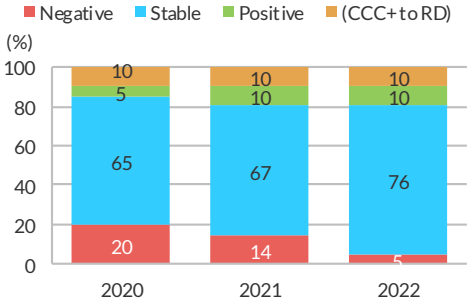
APAC - Rating Outlooks



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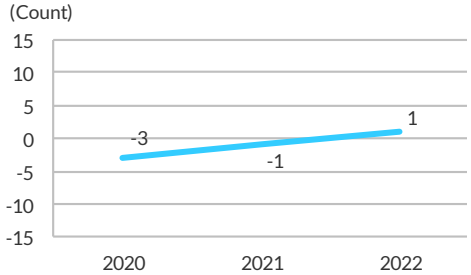
APAC - Net Outlook Balance



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Outlooks and Related Research

2022 Outlooks
Global Economic Outlook (June 2022)

Global
What the Ukraine War, Global Stagflation Scenario May Mean for Sovereign Ratings (April 2022)
Global Fiscal Recovery Interrupted (May 2022)

North America
Rating Implications of the Canadian Housing Market Slowdown (June 2022)

Latin America
LatAm Sovereigns Dashboard: Economies Show Uneven Momentum in Choppy 2022 (April 2022)
LatAm Sovereigns Dashboard: Bracing for Inflation Shock, US Fed Rate Rises (March 2022)

Western Europe
Eurozone Recession Likely in Event of Sudden Halt of Russian Gas (May 2022)
New ECB Tool May Reduce Fiscal Risks; Policy Choices Still Key (June 2022)

Emerging Europe
Poland Is Less Exposed to Russian Gas Supplies than Bulgaria (April 2022)
CIS+ Sovereigns Face Weaker Growth; Balance Sheet Prospects Vary (April 2022)
What the Ukraine War, Global Stagflation Scenario May Mean for Sovereign Ratings (April 2022)

Middle East and North Africa
Lebanon's Exit from Default Still Tough After Inconclusive Election (May 2022)
Tunisia's Political Tensions Continue to Hamper Reform (May 2022)
War In Ukraine Heightens Egypt's External Vulnerabilities (March 2022)
MENA Energy Importers Amid Higher Prices (January 2022)
GCC Sovereigns: Fiscal Outlook Improves with Oil Prices and Reform Momentum (October 2021)

Sub-Saharan Africa
Sovereign Dashboard: War and Pandemic Increase Prevalence of EM Twin Deficits (June 2022)
Rising Debt May Crystallise Risks to African Sovereign Ratings (February 2022)
South Africa Debt Still Rising Despite Higher Revenue (February 2022)

Greater China
Fitch Affirms China at 'A+'; Outlook Stable (June 2022)
Fitch Affirms Hong Kong 'AA-'; Outlook Stable (April 2022)
Fitch Affirms Macao at 'AA'; Outlook Stable (April 2022)

APAC
APAC Sovereigns Dashboard: Post-Pandemic Fiscal Consolidation to Be Gradual (April 2022)
APAC Sovereigns Dashboard: High Commodity Prices a Challenge for Much of Asia (March 2022)

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