

CAPITAL ECONOMICS

# EM Roundtable: sizing up risks and opportunities

27<sup>th</sup> February 2024



# Agenda

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- Which EMs are set to Shine?
- What Trump 2.0 would mean for EMs
- Assessing financial risks in EMs

# Which EMs are set to shine?

Shilan Shah

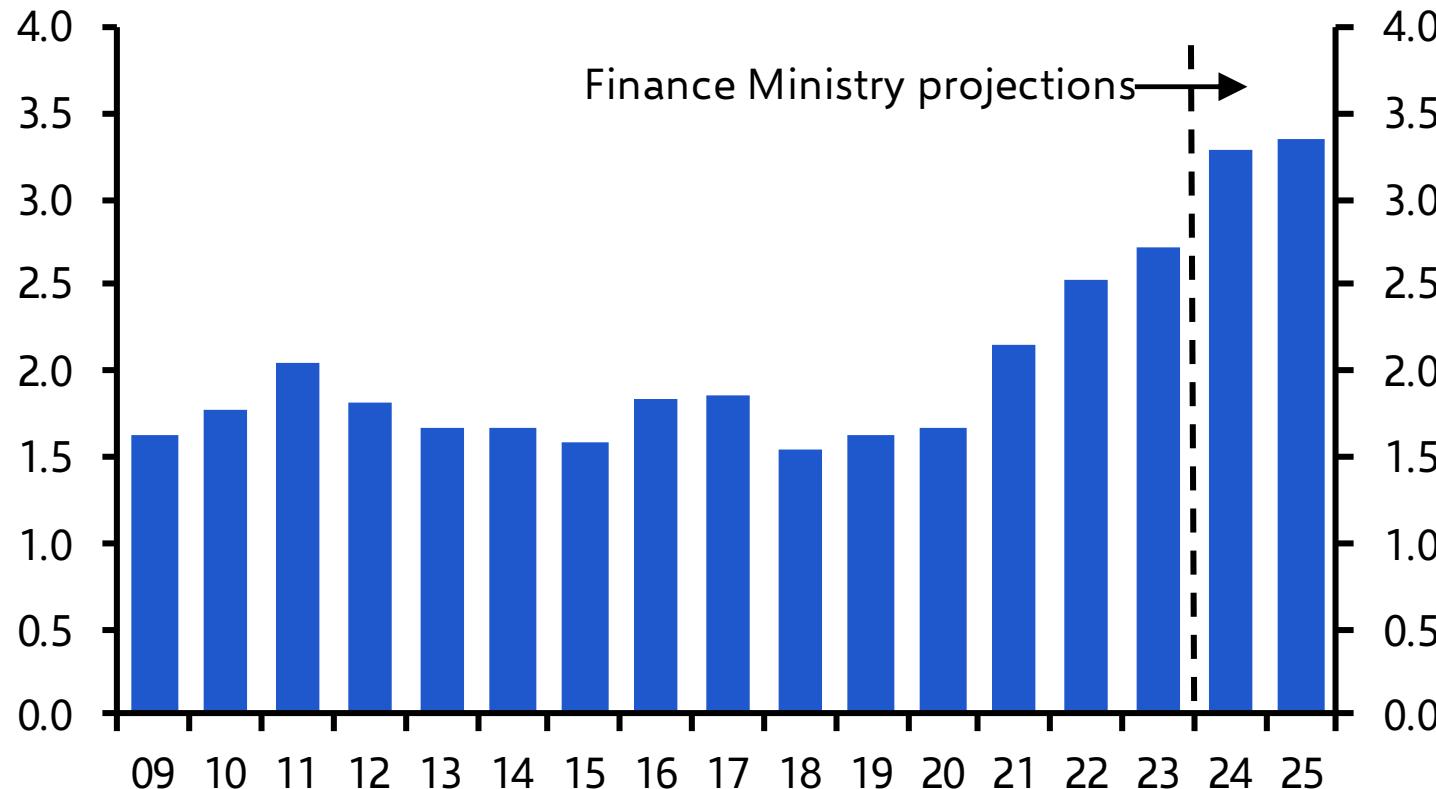


# The Case for India

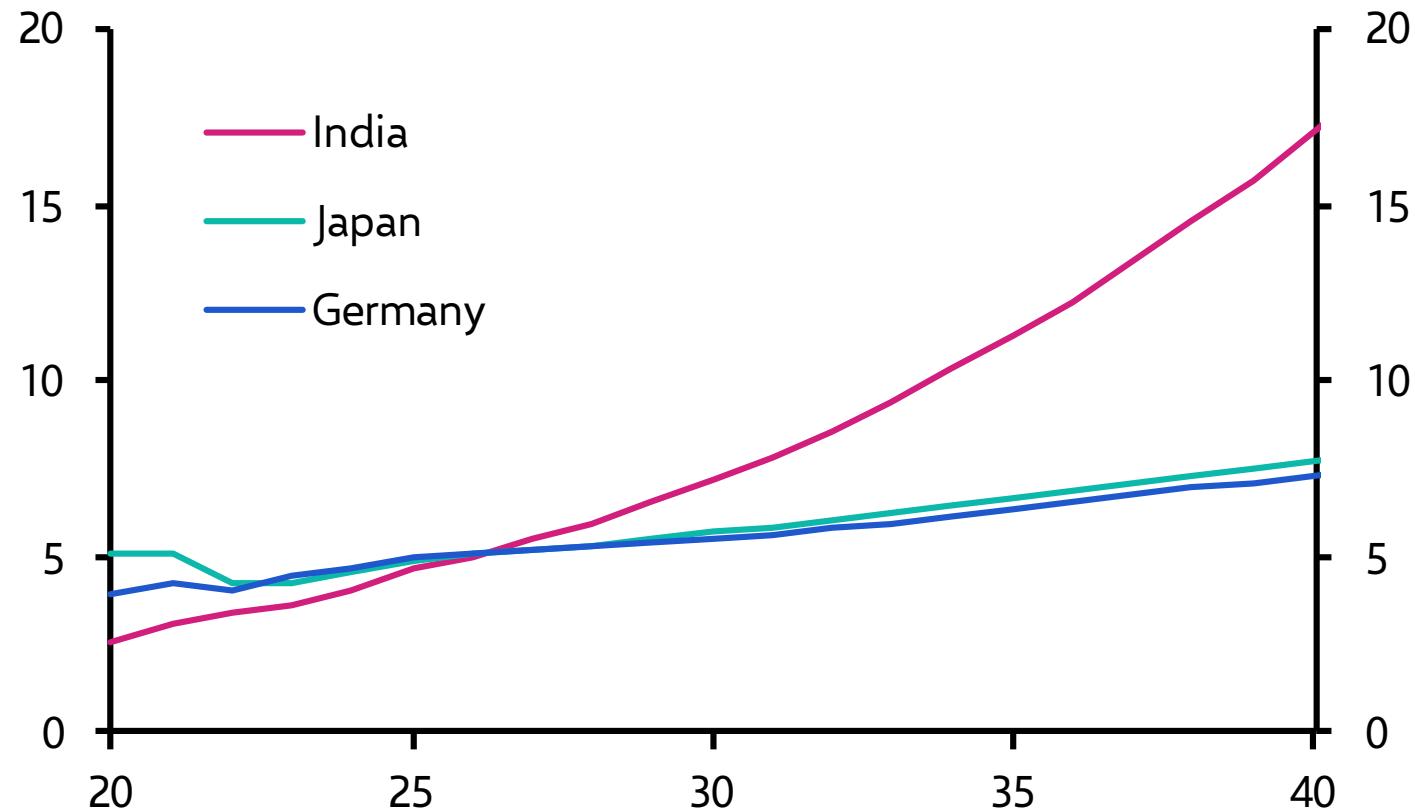
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- Infrastructure drive set to continue.
- Election should result in another government with working majority.
- Large labour supply, reform progress & geopolitical alignment = friendshoring candidate.

# India Central Government Capital Expenditure (% of GDP)



# Nominal GDP (\$trn)

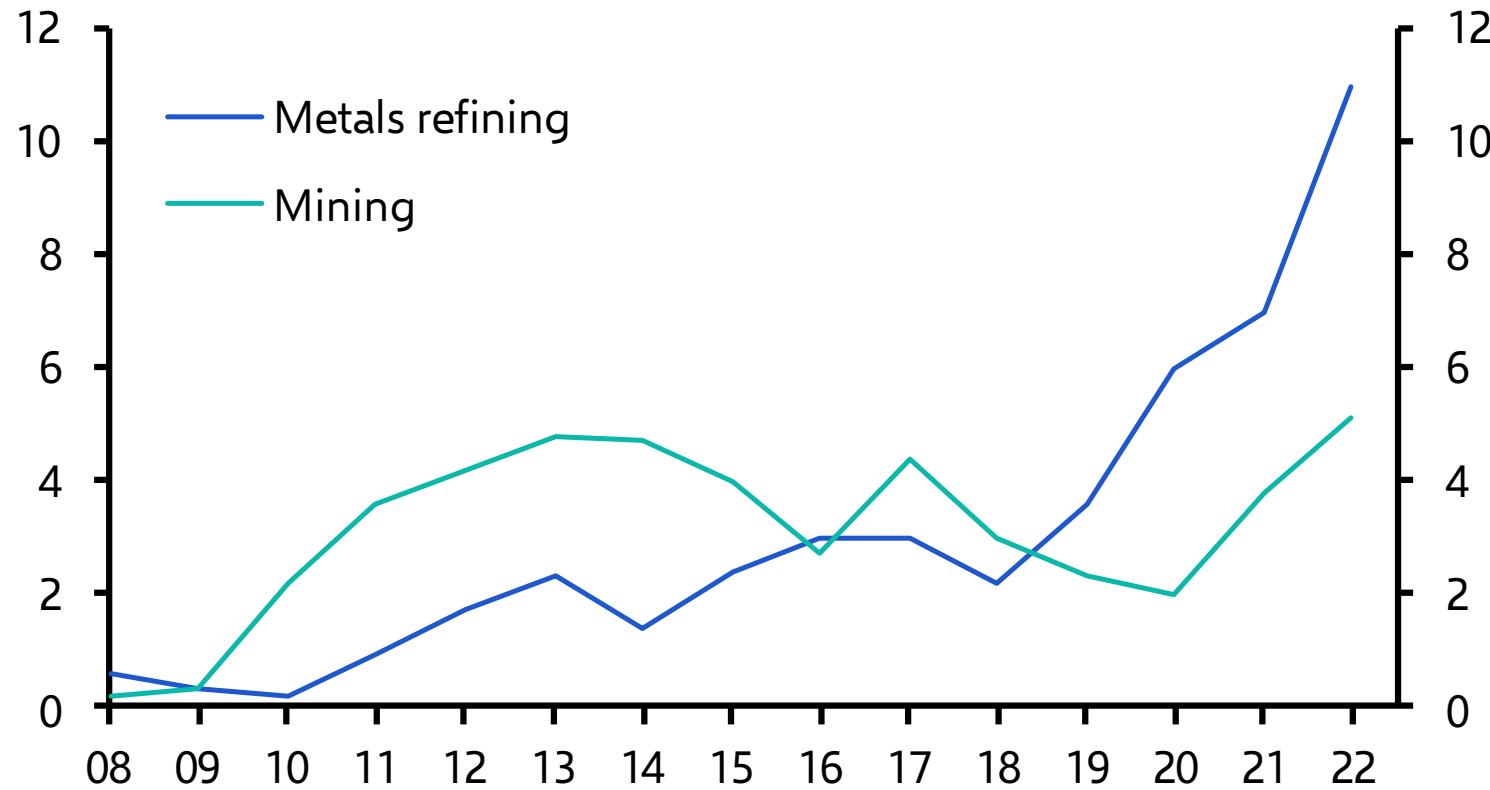


# The Case for Indonesia

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- Demographic outlook is still positive.
- President-elect has pledged to continue on structural reform path.
- Push to boost domestic refining of enormous nickel deposits

# Indonesia Inward FDI (\$bn)



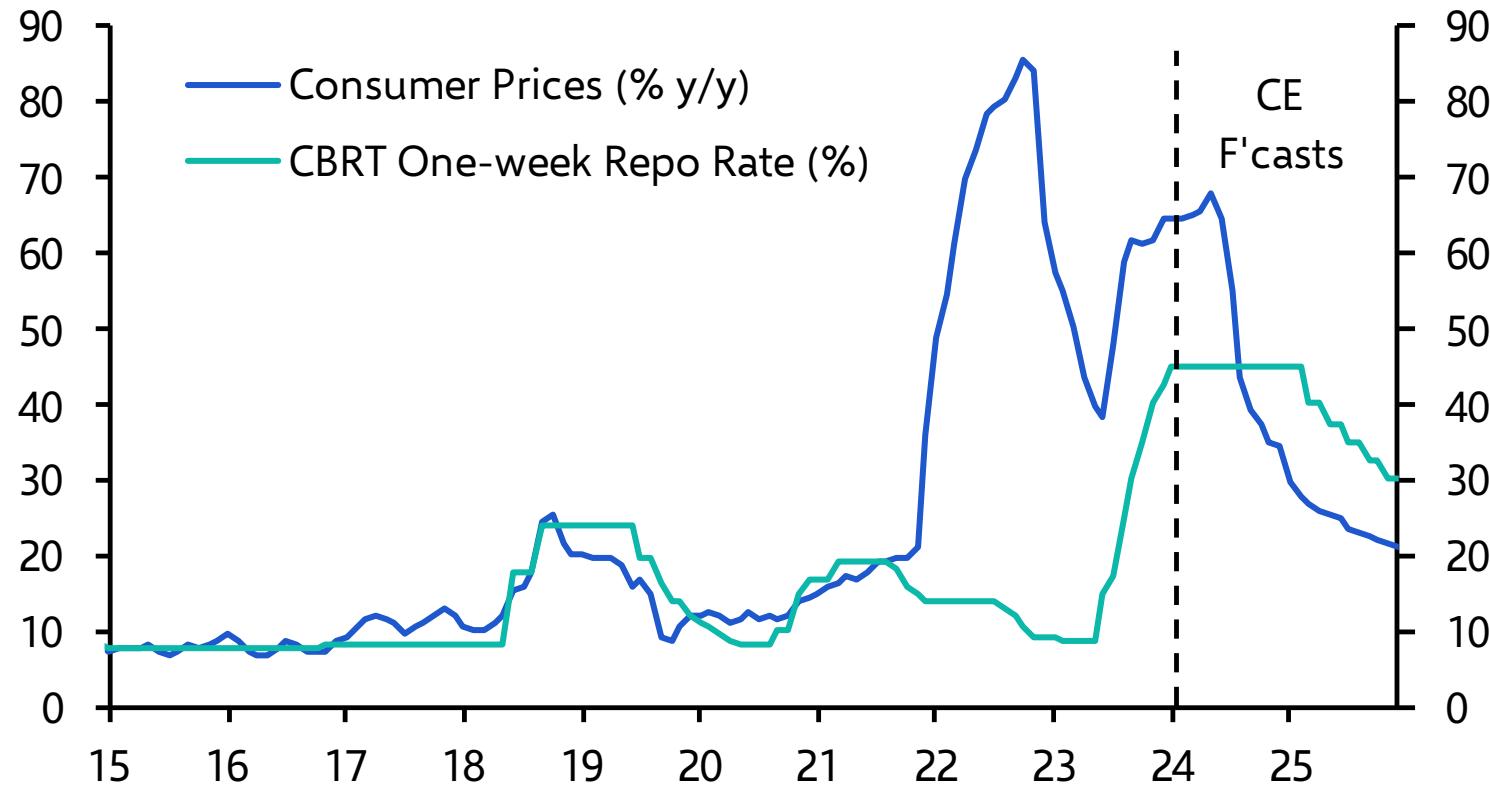
Sources: Lowy Institute, Capital Economics

# The Case for Turkey

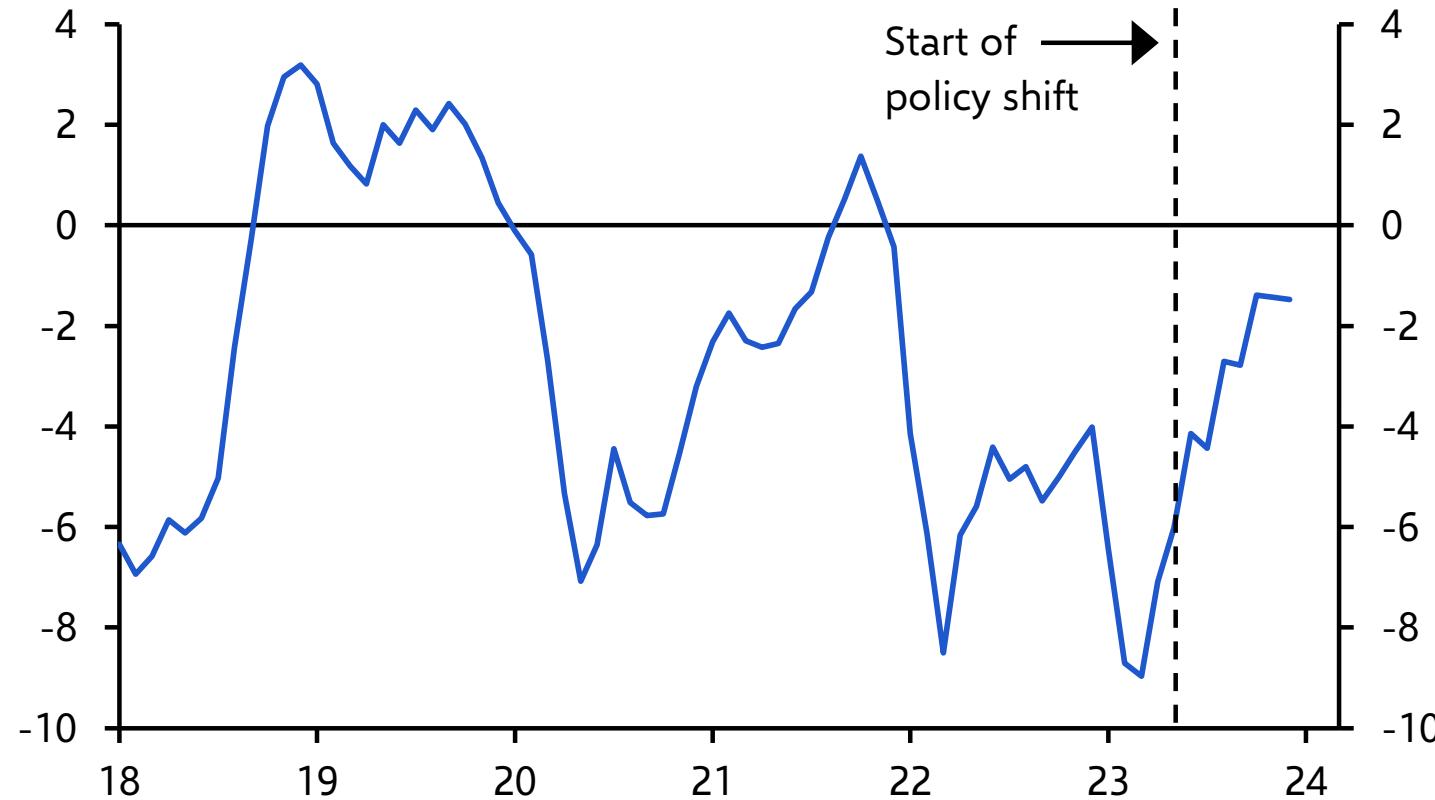
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- Policy U-turn underpinned by aggressive monetary tightening.
- Tax hikes and lira devaluation.
- Tighter policy has not faced political resistance so far.

# Turkey Consumer Prices & Policy Rate



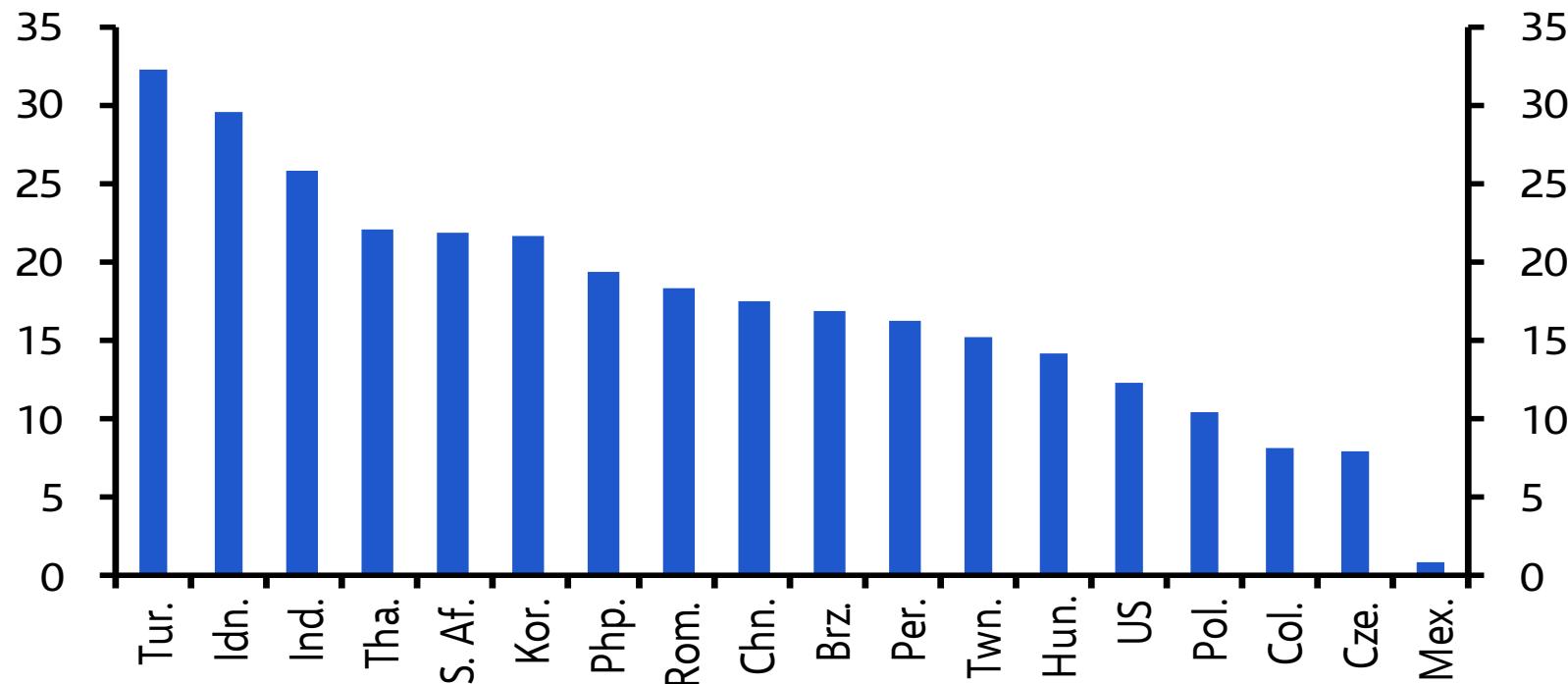
# Turkey Current Account Balance (% of GDP, 3m. SA)



Sources: Refinitiv, Capital Economics

# CE Projected 10Y LCU Government Bonds

(Total Returns, %, US\$-Terms, Now to End-2025)



# What Trump 2.0 would mean for EMs

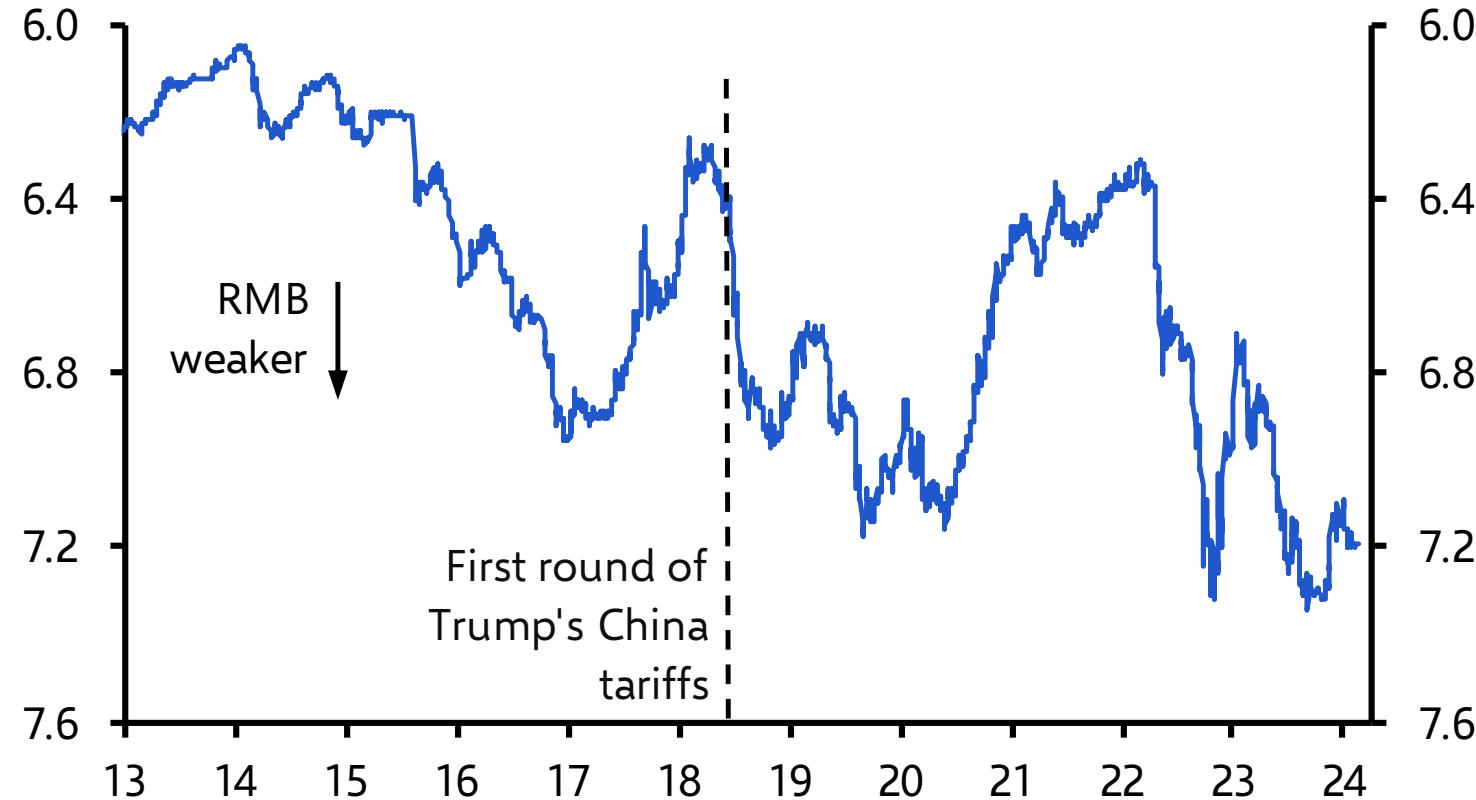
Leah Fahy



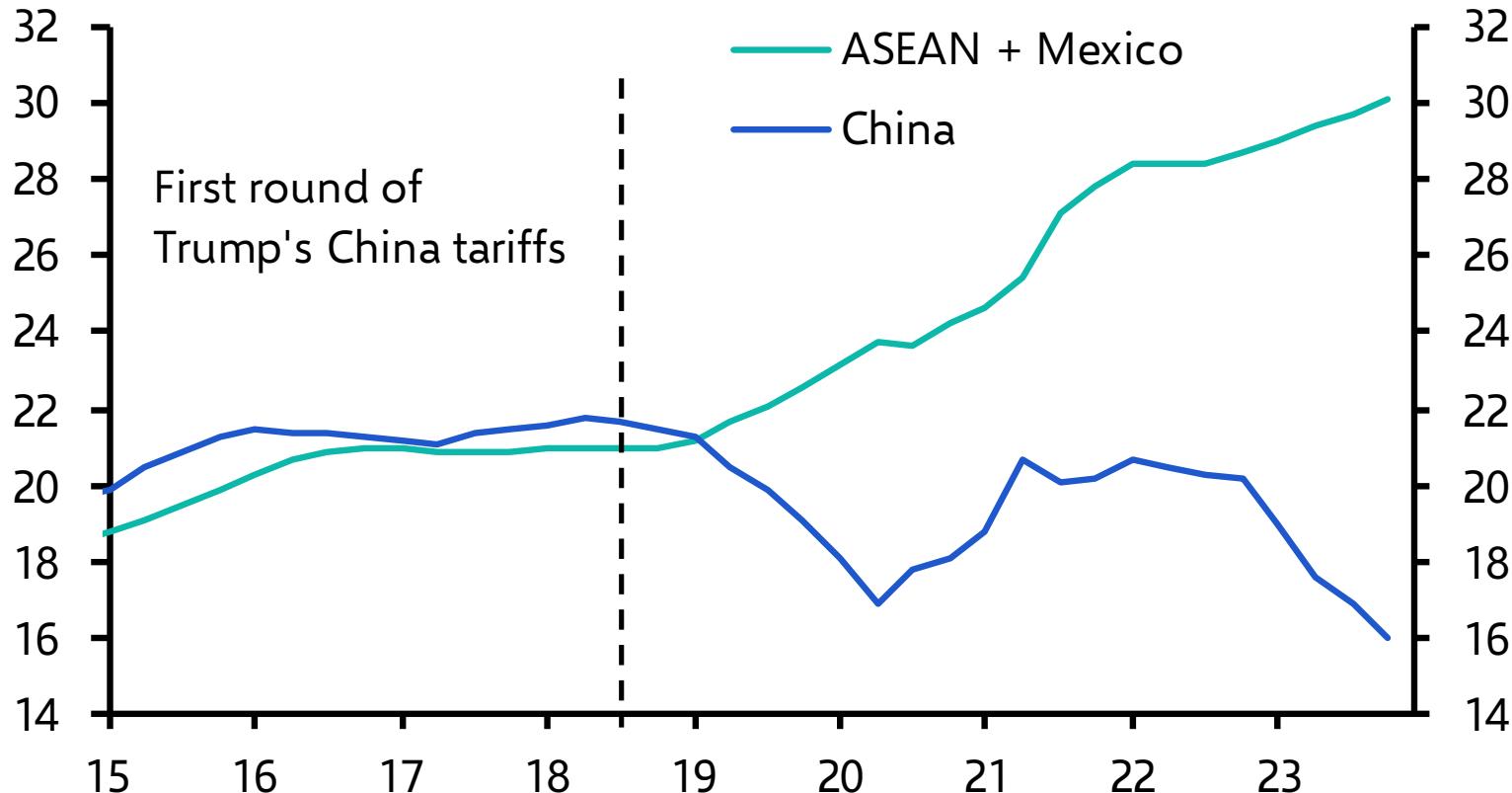
# Implications of a Trump Presidency for EMs

	Scenario 1: US tariff on imports from China	Scenario 2: US tariff on all imports
Geopolitical implications	Further fragmentation of US and China blocs	US protectionism – possible splintering of US bloc
Impact on China	RMB depreciation, fall in exports and foreign investment	RMB depreciation, fall in exports and foreign investment
Impact on Other EMs	Benefit from higher external demand and investment	Exports and currencies weaken

# Renminbi Exchange Rate (CNY/USD, Inverted)

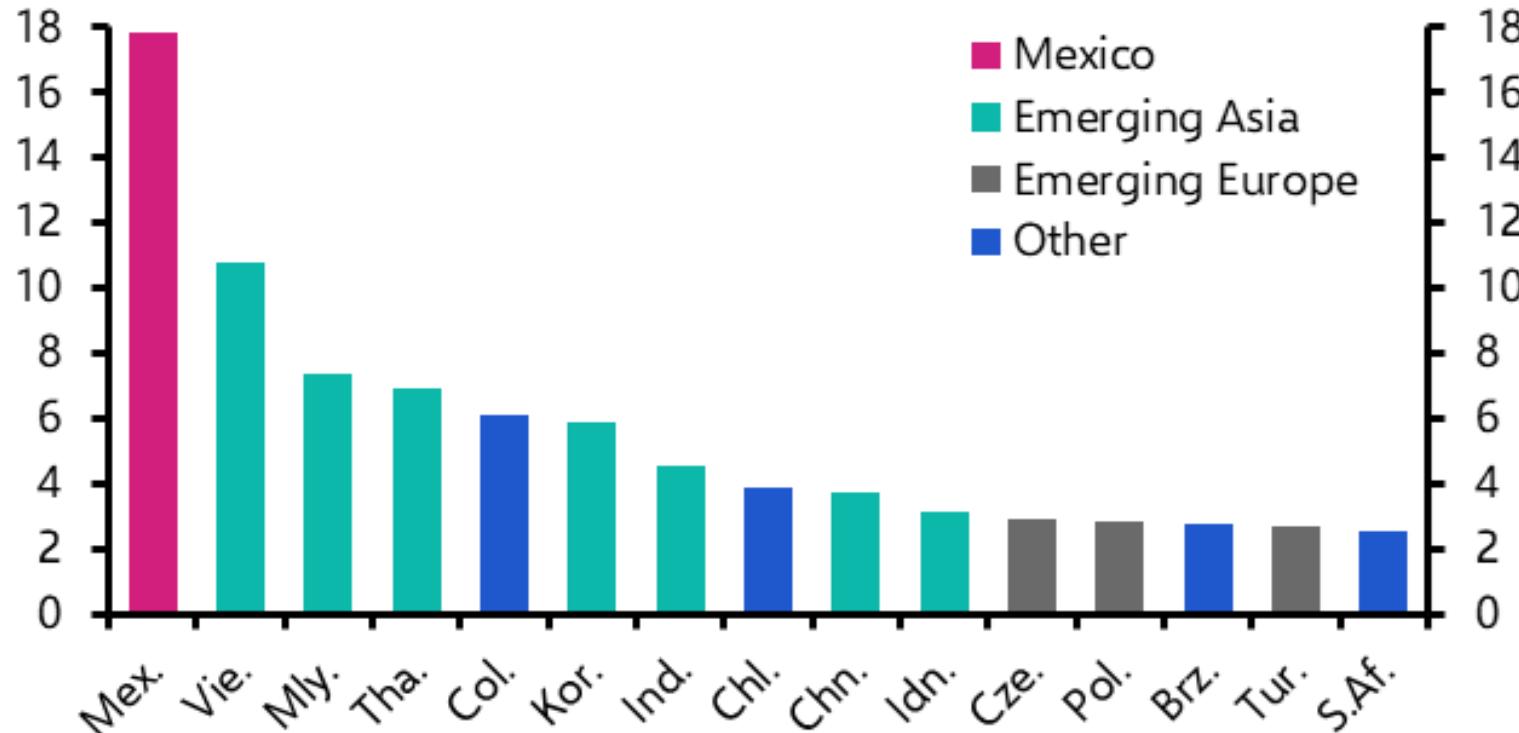


# US Imports by Source (% of Total, Rolling 12m)



# Value-added Embodied in Final US Demand

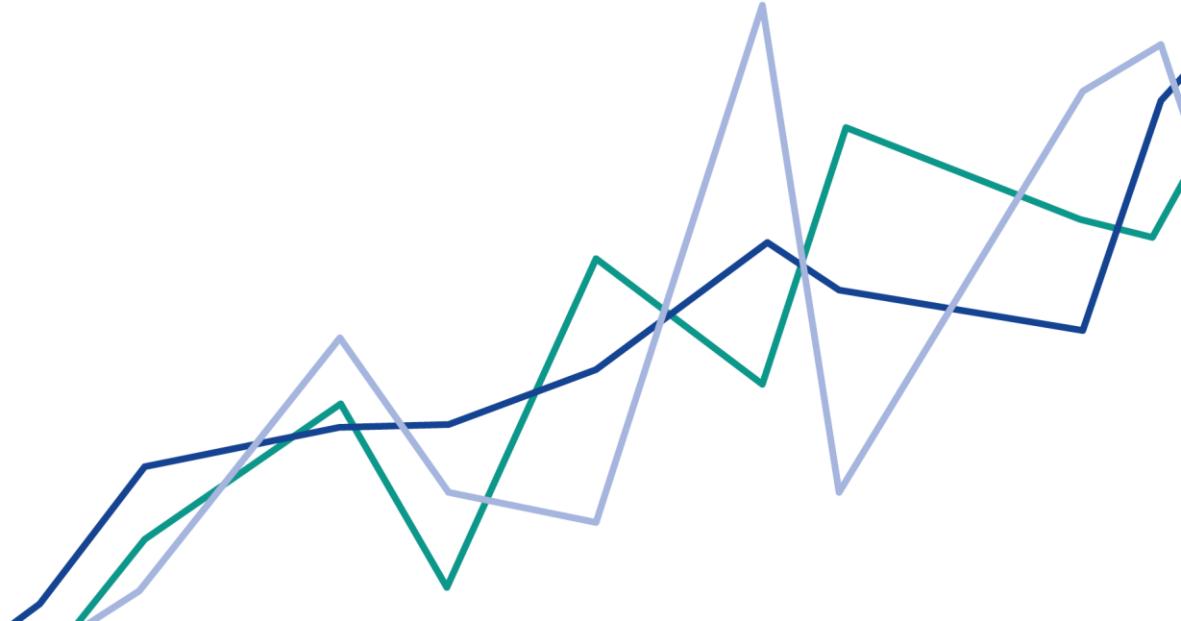
(% of GDP, 2026-20 avg.)



Sources: OECD, World Bank, Capital Economics

# Assessing financial risks in EMs

Liam Peach

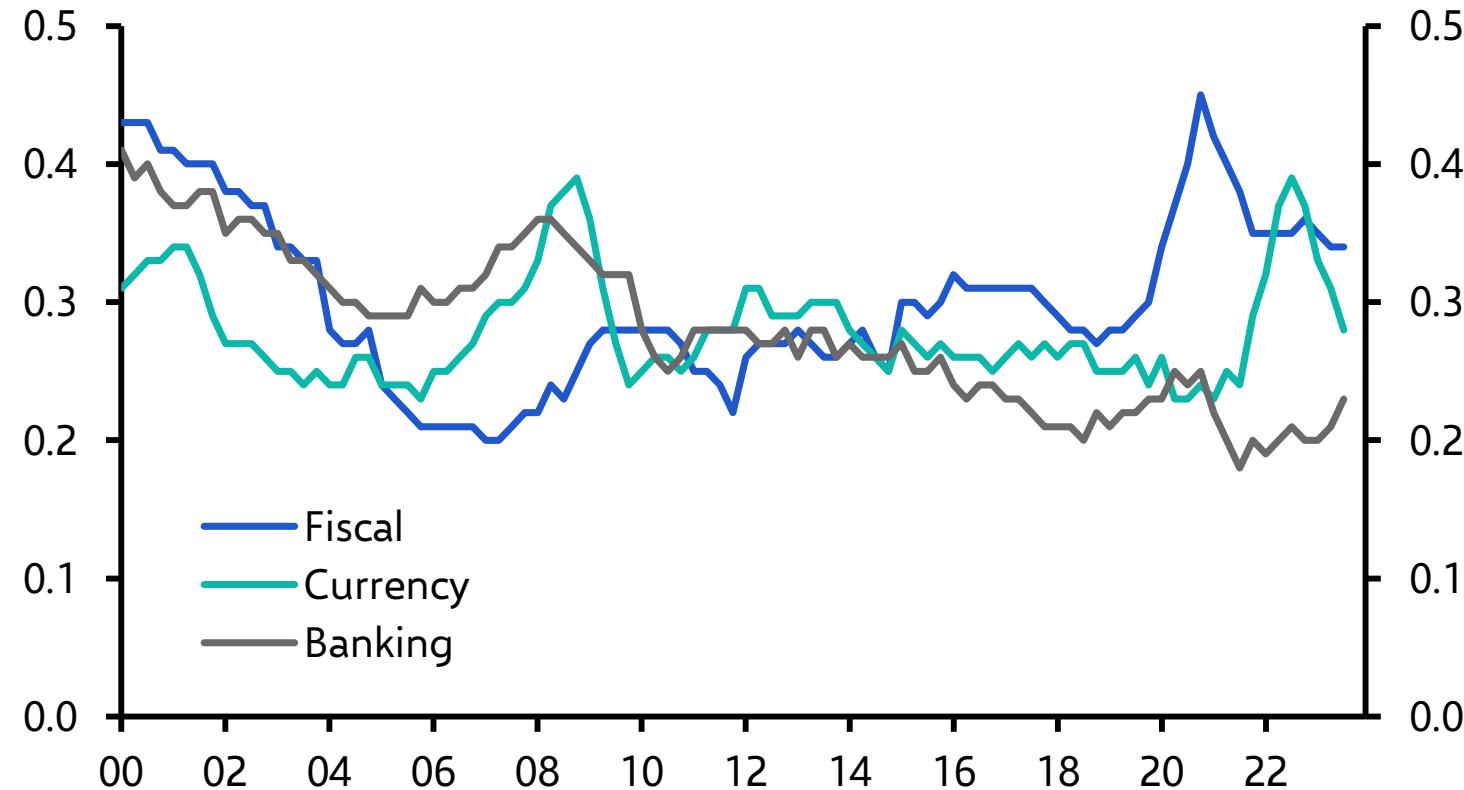


# Assessing financial risks in EMs

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- We have developed a set of proprietary indicators to identify emerging signs of currency, banking and sovereign debt crises.
- EM banking risks are low – but moderate concerns in LatAm.
- Currency risks are concentrated in the usual suspects (Turkey, Argentina) as well as Egypt.
- Sovereign debt risks continue to flash red in frontier markets, including Tunisia.

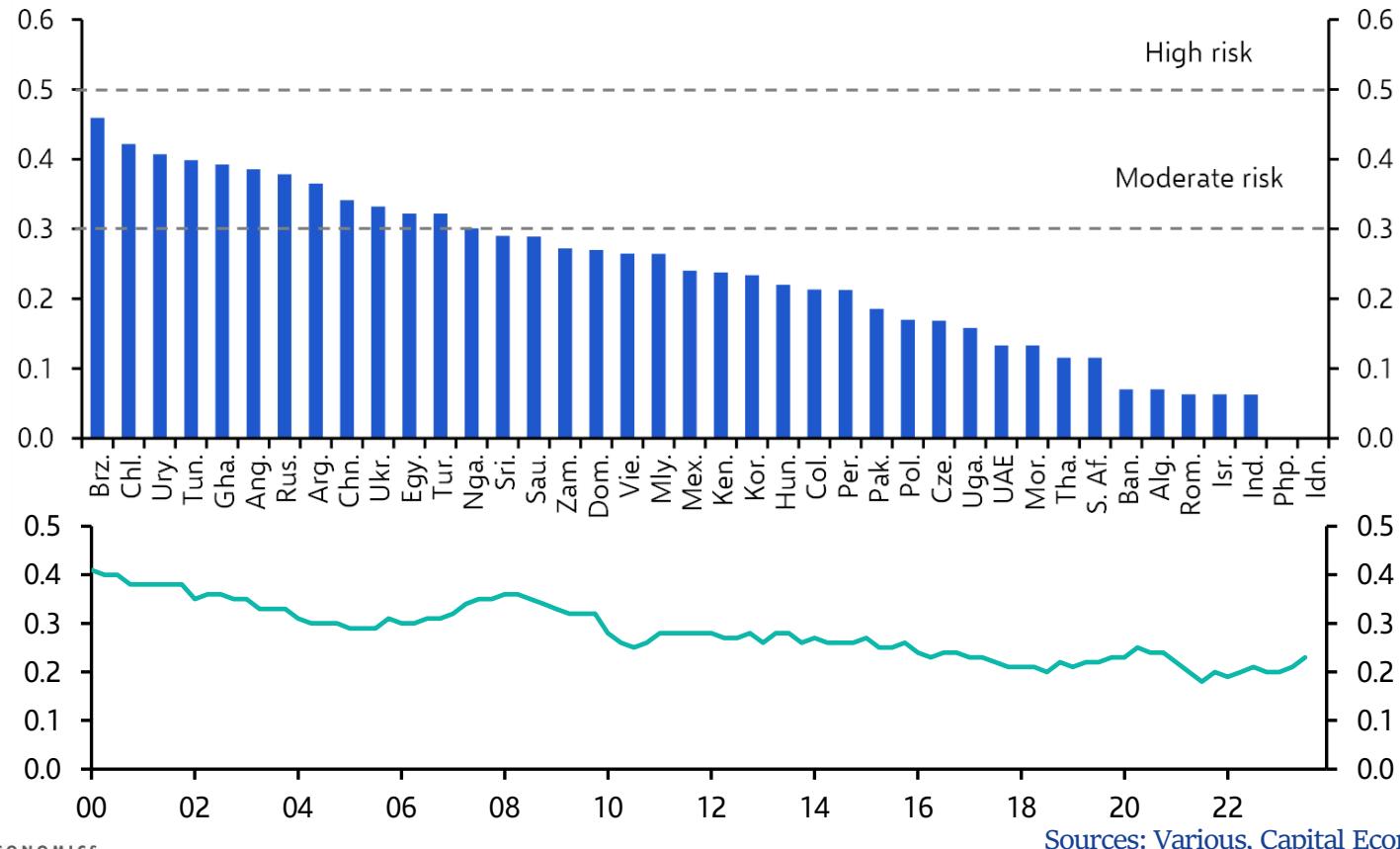
# EM Financial Risk Indicators\*



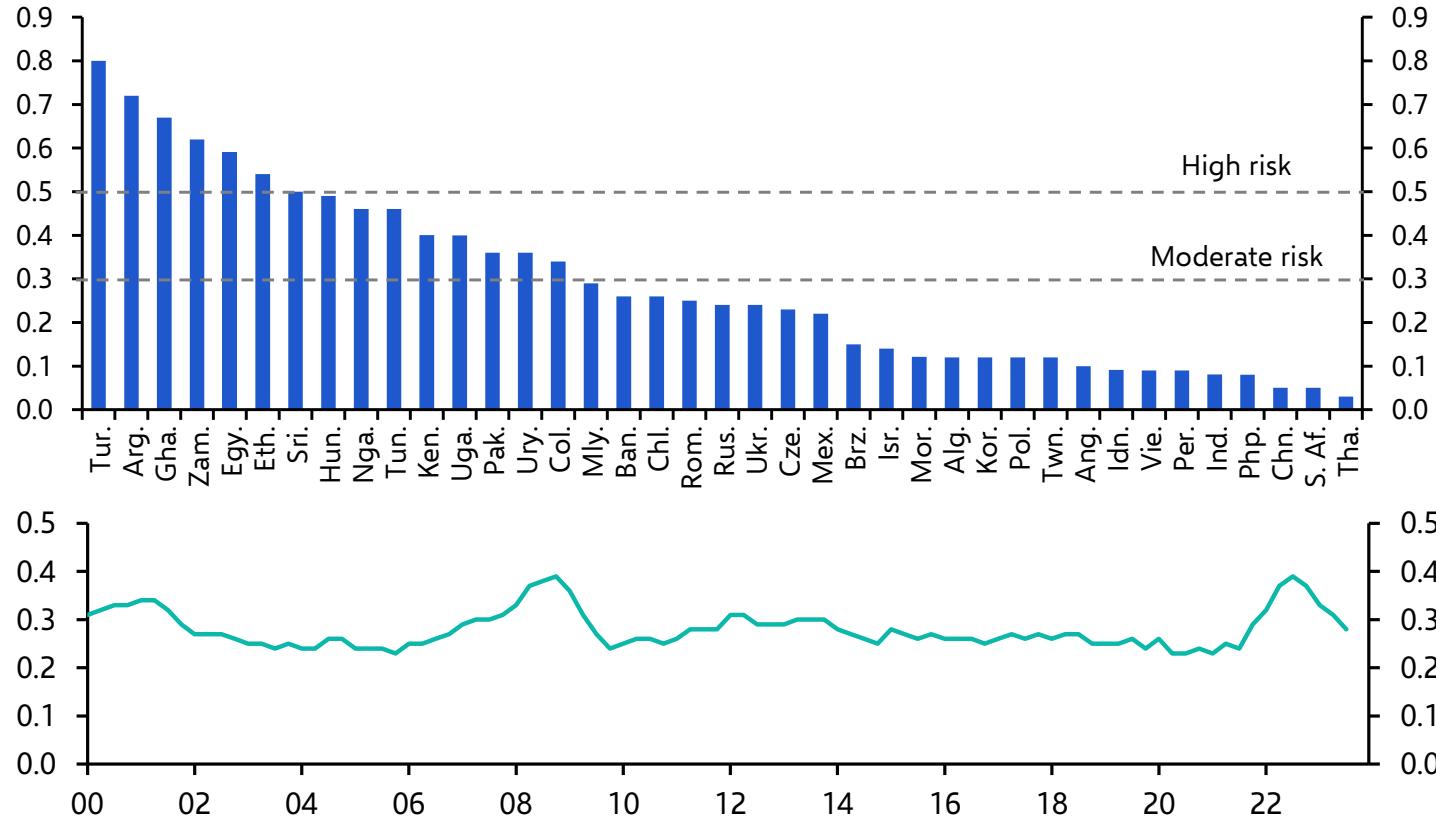
Sources: Various, Capital Economics

\*Avg. of 30+ EMs

# CE Banking Risk Indicators

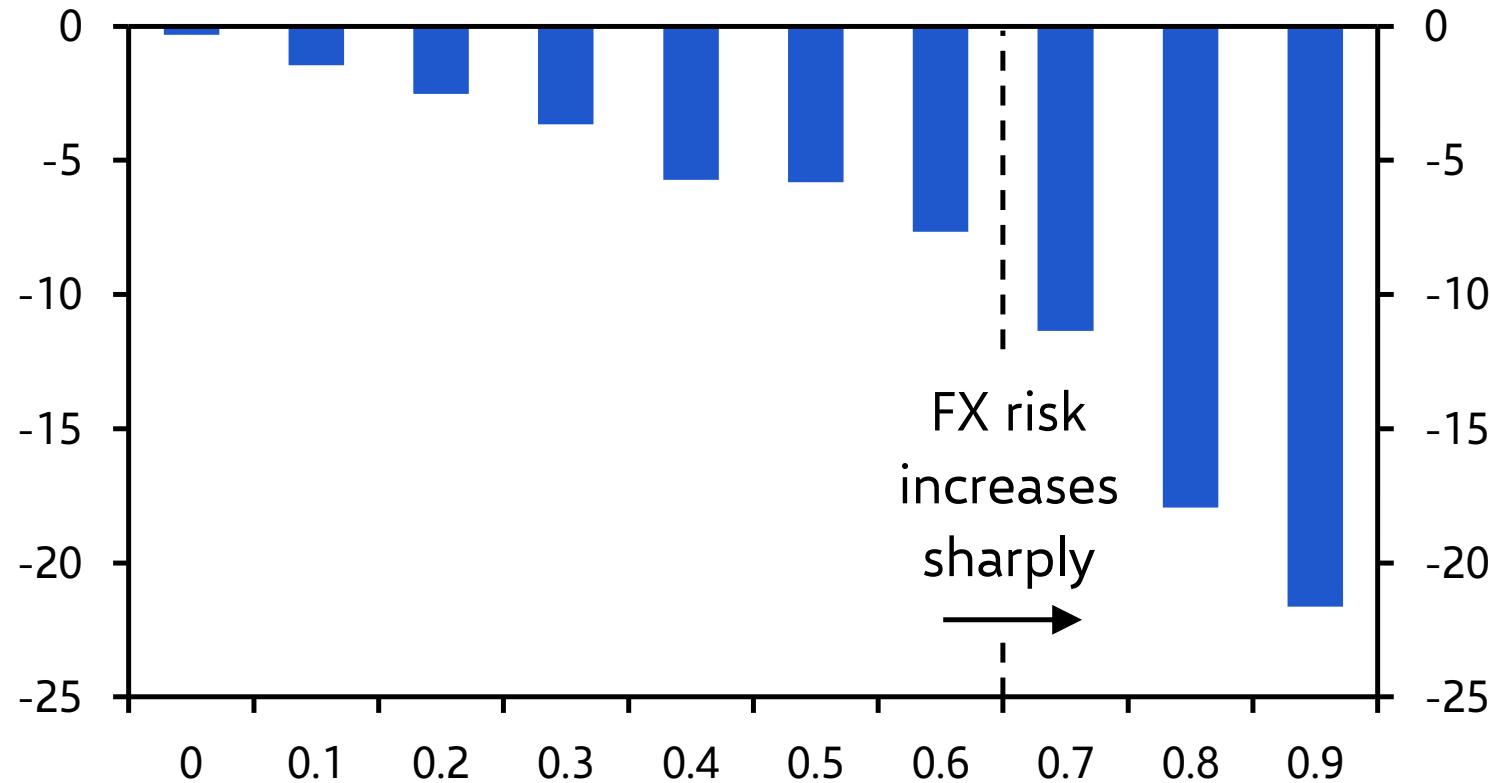


# CE Currency Risk Indicators



Sources: Various, Capital Economics

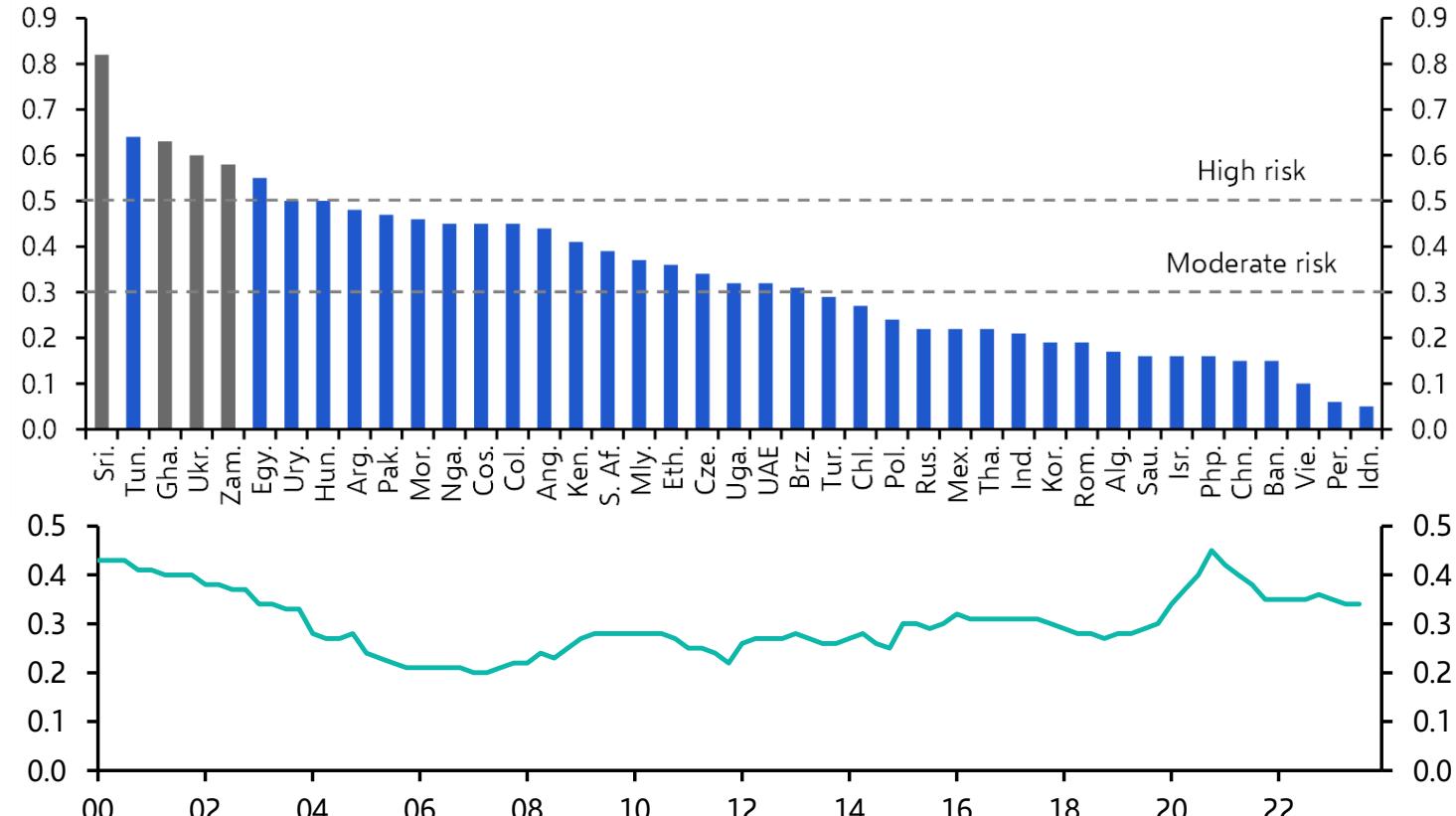
# FX Risk Score & Avg. 1Y Change in EM FX vs \$\*



Sources: Various, Capital Economics

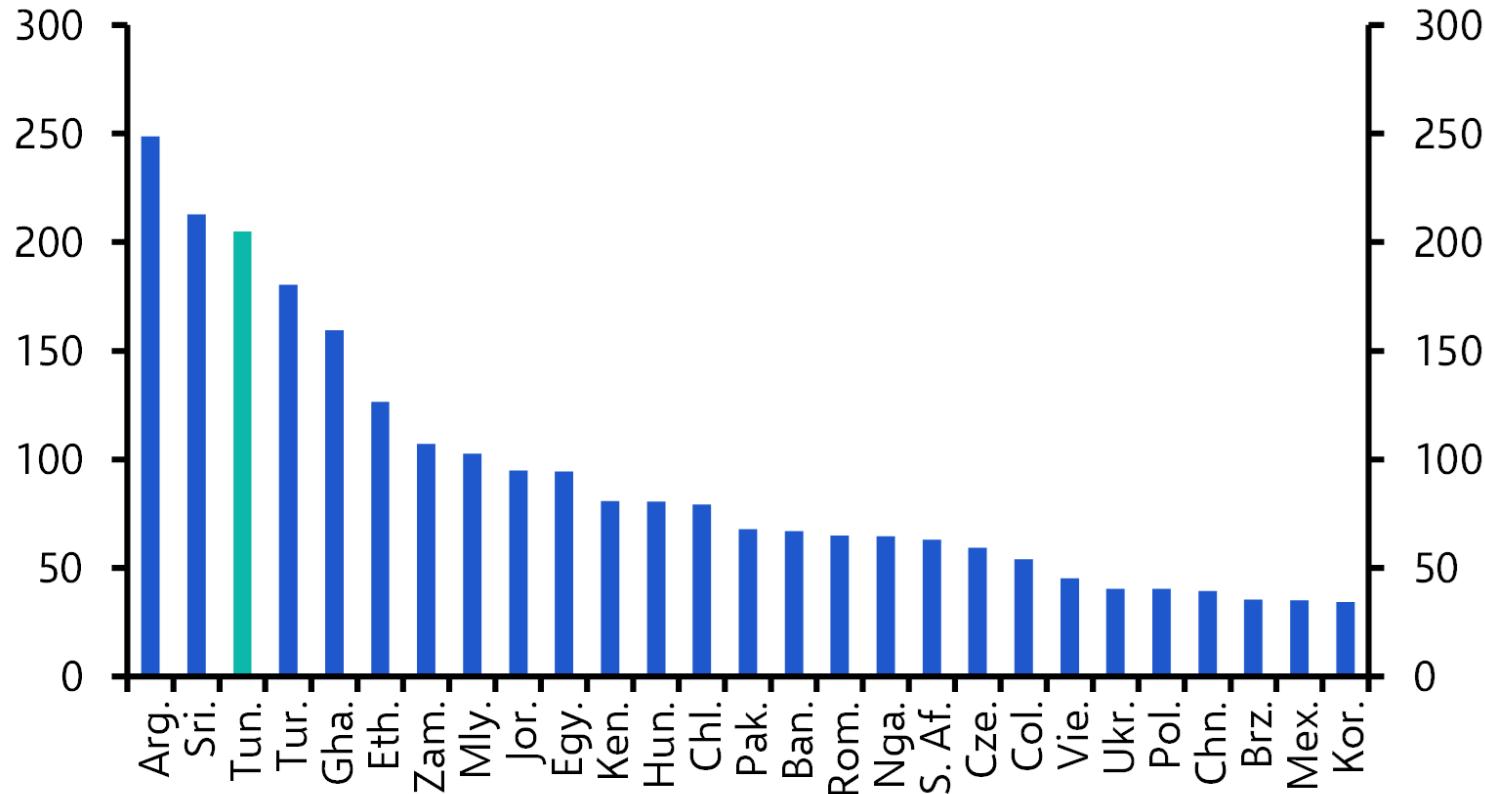
\*2000-2022

# CE Sovereign Risk Indicators



Sources: Various, Capital Economics

# ST Gross External Financing Requirement\* (% of FX Reserves)



Sources: Various, Capital Economics

\*CA deficit + short-term external debt

## Concluding thoughts

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- India has the best long-run prospects of any major economy. Turkey's turnaround is fragile, but going in the right direction.
- Trump 2.0: China would find it harder to shrug off damage in round two of the trade war. For other EMs, the key is whether tariffs are focused on China or imposed broadly.
- EM financial risks have generally eased. But there are pockets of vulnerability, mainly in frontier markets.

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