Conflict Exacerbates Risks For Emerging Markets Credit Conditions, Report Says

NEW YORK, March 29, 2022 /PRNewswire/ -- The Russia-Ukraine military conflict is hampering already-feeble credit conditions in emerging markets (EMs), according to S&P Global Ratings' report published today, titled "Credit Conditions Emerging Markets 2Q 2022: Conflict Exacerbates Risks". Inflationary pressures were denting corporations' margins and households' purchasing power prior to the conflict. Now, the rising energy and food prices have intensified challenges, at least over the short term, because the potential for a severe confidence shock could weaken global demand and cool off prices.

Downside risks for EMs are significant. Additional inflationary pressures and persistently high energy prices could result from an extended conflict between Russia and Ukraine, especially if sanctions on Russia hit its hydrocarbon exports. EM sovereigns are struggling to deal with the pandemic costs, managing inflation, and meeting protracted social demands, a balance between fiscal consolidation and social strife. At the same time, financing conditions could weaken rapidly following the hasty U.S. monetary tightening or continued escalation of the military conflict.

Financing conditions have tightened amid rising volatility. Spreads have surged for EM corporates, particularly those in the EEMEA region. Investors are becoming more selective, while some low-rated entities may struggle to refinance their debt or raise capital if current market conditions persist.

This report does not constitute a rating action.

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