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What to watch: EM currencies at risk, destocking weighs on growth, narrower equity markets everywhere and the EU's new climate target

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In summary

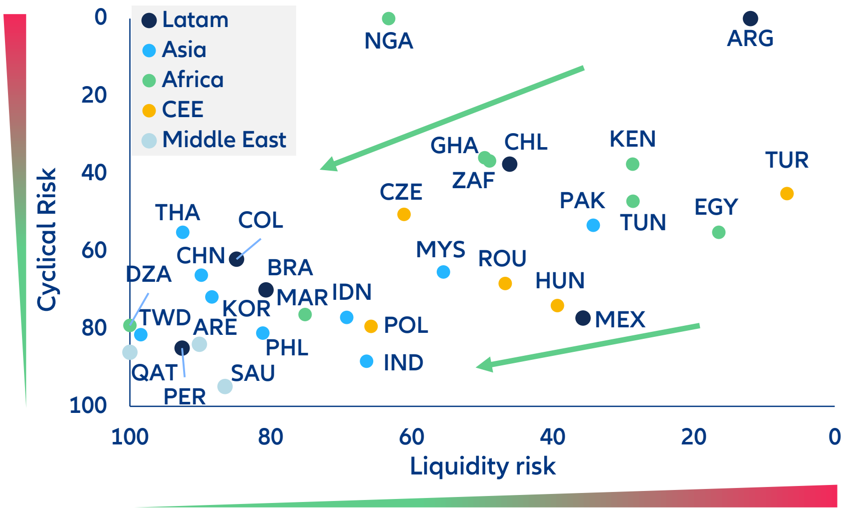
This week, we look at four important issues:

- **Emerging market currencies at risk in 2024.** Although global financing conditions eased in 2023, some emerging markets still face severe currency risks due to persistent balance-of-payments imbalances. Our watch list for a significant currency depreciation or devaluation in 2024 includes Argentina, Egypt, Kenya, Nigeria, Pakistan, Tunisia and Türkiye. Last week Nigeria became the first country this year to experience currency derailing. Further analysis from unofficial market exchange rates reveal additional markets at risk, namely Angola, Bangladesh, Bolivia and Myanmar. Weakening currencies raise the risks of sovereign default in countries with high levels of foreign currency-denominated public debt.
- **Corporates' inventories: anatomy of a fall.** After the pandemic, corporates built up strong inventories to cope with pent-up demand and to mitigate supply-chain risks. As a result, all industrial sectors (except energy) in Western Europe have recorded an upsurge in the levels of inventory relative to sales (22.6% on average for 2023, almost 4pps higher than in 2019). But as demand is falling, inventories have started to weigh on financials and pricing power. Inventories cut growth by -0.8pp in the UK, -0.4pp in the US and -0.3pp in France in 2023. In Germany, they contributed positively (+0.1pp) but a turnaround is looming in 2024 and the fall should continue elsewhere.
- **Equity markets: The costs of concentration risk.** Concentration risk is intensifying in equity markets as a small cadre of leading companies increasingly dominates returns. In the US, the top 10 companies by market capitalization (representing 30% of the S&P500), contributed to 70% of the index's returns in 2023. In Europe, the top 10 companies were also responsible for the lion's share of returns (75-90%). In each country, a single company often accounts for 10% of the respective equity index. In this context, the advantages of diversification are diminishing. While broad equity indices can still offer a buffer against market downturns, investors need to broaden their diversification strategies considering factors such as company size, geographic location and investment style.
- **The EU's new climate target: 90% less emissions by 2040.** Climate-related damages have already cost Europe EUR170bn over five years. The European Commission's new strategy includes significant carbon-capture goals, aiming to sequester up to 280mn tons of CO_2 annually by 2040. But the effectiveness and scalability of carbon-capture and removal technologies are debatable, and the new strategy lacks plans for phasing out fossil fuels to lend credibility to emission-reduction targets.

Emerging market currencies at risk in 2024

Balance-of-payments risks in major emerging markets (EMs) have moderated over the past year but Argentina, Egypt, Kenya, Nigeria, Pakistan, Tunisia and Türkiye remain highly vulnerable to a crisis. Cyclical risks related to financing and growth constraints have reduced because of the stabilization of exchange rates, moderating inflation and the easing of financing conditions in 2023. The latter is reflected in the steady decline of the JPM EMBIG spreads from 496bps in July 2022 to 325bps currently (or from 420 to 226 in the ex-CCC index), for example, as well as in the significant increase in sovereign hard-currency issuances by major EMs (USD174bn in 2023, up from USD110bn in 2022[1]). At the same time, liquidity risks have decreased, thanks to the rebalancing of large current account deficits, rising foreign exchange reserves and a slowdown in credit growth on the back of tighter monetary policies. The improvements were particularly visible in Central and Eastern European (CEE) countries[2] and in Latin America. Figure 1 illustrates our analysis of balance-of-payments crisis risks, with the upper-right corner identifying the most vulnerable economies. Since end-2022, all CEE countries except Türkiye, as well as Chile and Colombia, have moved from the upper-right corner to the center of the chart. However, all that glitters is not gold. Argentina, Egypt, Kenya, Nigeria, Pakistan, Tunisia and Türkiye remain highly susceptible to capital outflows, in particular in the event of a reversal of easing financing conditions sparking a sudden flight to safety. If the latter were to be particularly intense, Chile, Hungary, Romania and South Africa would not be out of the woods despite the recent improvements.

Figure 1: Balance-of-payments risks in major EMs (as of February 2024)



Sources: EIU, LSEG Datastream, Allianz Research. Note: Liquidity and cyclical risk scores include economic indicators (current account balance, FX reserves, external debt payments due) but also high frequency market data (exchange rates, spreads) to identify both short-term and structural vulnerabilities. Each variable receives a 0-100 (0=worst) score that is later combined.

The risk of further currency devaluations in 2024 remains high, notably in Argentina, Bangladesh, Bolivia, Egypt, Myanmar and Nigeria. Six of the seven major EMs identified above as highly vulnerable to a balance-of-payments crisis already experienced substantial currency depreciations (Kenya, Pakistan, Türkiye) or devaluations (Argentina, Egypt, Nigeria) in 2023 and are likely to continue to do so in 2024.[3] Liquidity risk remains high in these economies amid ongoing net capital outflows and low levels of FX reserves. Pakistan may soon also enter a period of volatility, with the upcoming election on 8 February and negotiations for another IMF package outstanding. Other relatively large EMs that experienced significant depreciations in 2023 include Angola, Congo DR, Ghana and Zambia (Figure 2). Meanwhile, Nigeria became the first victim this year as the naira (NGN) was devalued by around -25% last week. Before the move, the spread between the official and the black-market NGN per USD rate was approximately 60%.

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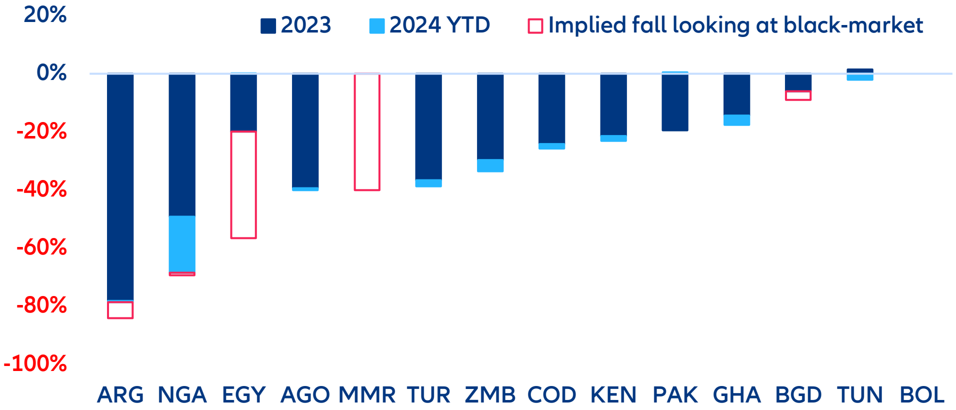
[1] *Sample of 38 EM sovereign and sovereign-guaranteed issuances for any maturity in any of the following currencies: USD, EUR, GBP, JPY.*

[2] *See [What to watch 24 November 2023](), p.4-7, for more details on the current account rebalancing in Central and Eastern Europe.*

[3] *Tunisia is the exception as the dinar remained stable over 2023 as a whole, albeit amid periodic volatility.*

As of 6 February, the spread narrowed to 16%, down -4pps from the highs of last week. In light of successive rounds of devaluation and crude oil production still below its potential, the NGN is susceptible to a further devaluation in 2024. Similarly, the Egyptian pound (spread of approximately 100%), the Myanmar kyat (65%), the Argentine peso (37%) and the Bangladeshi taka (7% as of March 2023) are also susceptible to a devaluation in the near term. Meanwhile, black-market traders are being strongly persecuted in Bolivia but its foreign currency crisis is deepening. As the supply of USD at commercial banks is drying up, a sharp currency devaluation is possible.

Figure 2: Currency performance vs. USD of selected emerging and developing markets



Sources: Various national sources for black-market rates, Refinitiv, Allianz Research. Note: black-market rates are by definition a difficult measure to track; it has only been added for a handful of countries with relatively reliable online sources.

Weakening currencies raise the risks of sovereign default in countries with high levels of foreign currency-denominated public debt. Indeed, our updated Public Debt Sustainability Risk Score (PDSRS) ranking confirms many of the same economies at risk, notably Kenya, Pakistan, Bahrain, Egypt and Tunisia. The top 30 also includes 12 countries that are already involved in some form of default or formal debt restructuring. Compared to our previous PDSRS analysis in May 2023, Ethiopia, Côte d'Ivoire, Gabon and the Dominican Republic are new to the top 30, mainly owing to increases in total public debt to GDP and higher gross external financing requirements. Meanwhile, Brazil, Colombia, El Salvador and Mauritius have left the top 30, thanks to improved debt metrics. Looking at regions, half of the 30 most stressed sovereigns are from Africa, five from Latin America, four from Asia and three each from the Middle East and Emerging Europe (Figure 3 and Appendix).

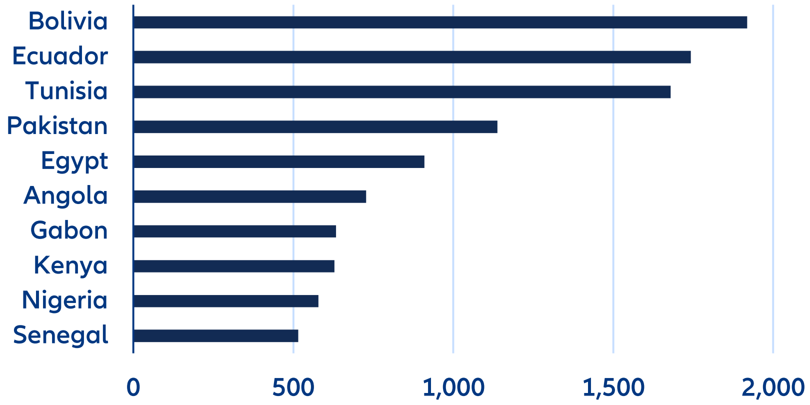
Figure 3: Public Debt Sustainability Risk Score (PDSRS) – top 33 emerging and developing markets

Rank	Country (from high risk to low risk)	Public Debt Sustainability Risk Score (0 = high risk; 100 = low risk)	Rank	Country (from high risk to low risk)	Public Debt Sustainability Risk Score (0 = high risk; 100 = low risk)	Rank	Country (from high risk to low risk)	Public Debt Sustainability Risk Score (0 = high risk; 100 = low risk)
1	Ghana	**6.4**	12	Zambia	**10.0**	23	Uganda	**36.4**
2	Argentina	**10.0**	13	Kenya	**14.1**	24	Costa Rica	**37.3**
3	Belarus	**10.0**	14	Malawi	**15.2**	25	Senegal	**38.4**
4	Ethiopia	**10.0**	15	Pakistan	**20.8**	26	Angola	**38.6**
5	Lebanon	**10.0**	16	Bahrain	**21.7**	27	Bangladesh	**41.9**
6	Mozambique	**10.0**	17	Laos	**22.3**	28	Côte d'Ivoire	**42.3**
7	Russia	**10.0**	18	Egypt	**22.5**	29	Gabon	**42.4**
8	Sri Lanka	**10.0**	19	Jordan	**25.9**	30	Dominican Republic	**42.8**
9	Suriname	**10.0**	20	South Africa	**26.4**	31	Bolivia	**42.9**
10	Ukraine	**10.0**	21	Rwanda	**30.3**	32	Panama	**42.9**
11	Venezuela	**10.0**	22	Tunisia	**30.5**	33	Türkiye	**43.5**

Sources: Horn et al 2022, IIF, IMF, LSEG Datastream, Allianz Research. Note: The PDSRS is on a scale from 0 to 100, with 0 denoting the highest risk and 100 the lowest risk. See the Appendix for the full list of 95 assessed emerging and developing markets and details on the methodology. The first 12 emerging and developing markets, noted in red and whose scores have been capped at 10, are either already in a formal restructuring process or in total or selective default.

But the devil is in the details. Ethiopia was only ranked 60th in our May 2023 analysis but nevertheless defaulted in December 2023, triggered by a lack of FX reserves, which are well below the country's gross external financing requirements (for both the public and private sector). Against this background, we also have concerns about Bolivia (rank 31), Panama (rank 32) and Tanzania (rank 58). Moreover, Ecuador (rank 57) is an example of how political turmoil can trigger a sharp rise in sovereign spreads (currently around 1750bps; Figure 4) and thus put debt refinancing at risk, even though debt metrics are overall not that bad. On the other hand, South Africa is among the top 30 EMs with the least sustainable public debt because it is forecast to face a large fiscal deficit in 2024, relatively high interest payments and moderate growth. Yet, South Africa should be able to avoid default in the next two years as most of its debt is domestic, and it enjoys a manageable debt-maturity structure and a rather diversified lender base.

Figure 4: Emerging and developing markets with sovereign spreads above 500bps (as of 5 February 2024)



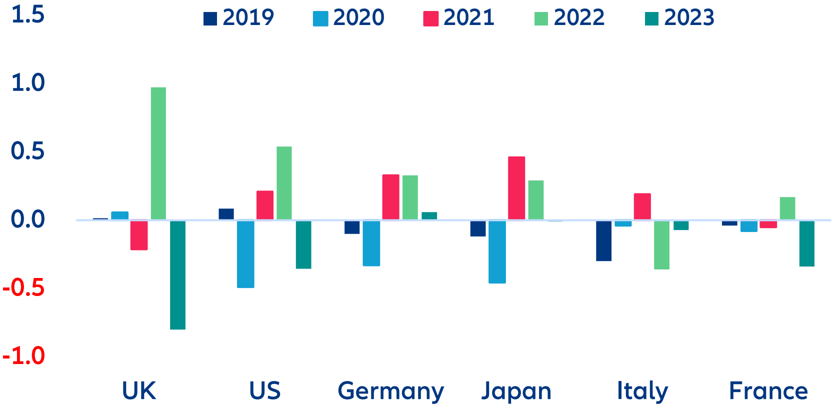
Sources: JP Morgan, Bloomberg, Allianz Research. Note: The 12 emerging and developing markets that are either already in a formal restructuring process or in total or selective default are not included in this chart; they all have spreads close to or above 2,000bps.

To avoid a series of disorderly sovereign defaults, the G20's Common Framework debt-restructuring process needs to speed up. The IMF-coordinated "Common Framework for Debt Treatment" was launched in 2020 by the leading G20 economies in response to the Covid-19 pandemic, aiming to reach debt-restructuring agreements for low-income countries under the same conditions for all creditors. However, it has been criticized for lengthy delays and disagreements. For example, Zambia was the second country to join the framework and is now in its fourth year of default due to a lengthy process. Ethiopia requested debt relief under the framework in early 2021 and defaulted in December 2023 without it, owing to delays. Ghana defaulted in 2022 and an agreement with its official creditors under the framework was just reached in January 2024. Faster processes could encourage more debt-distressed developing markets to apply early for restructuring under the Common Framework, helping them to return to manageable debt burdens sooner.

Corporates' inventories: anatomy of a fall

Inventories were the largest recessionary force in most advanced economies in 2023, cutting growth by -0.8pp in the UK, -0.4pp in the US and -0.3pp in France. But in Germany, inventories still contributed positively (+0.1pp), suggesting a turnaround looming in 2024. After the post-pandemic supply-chain disruptions, companies started to replenish their stocks during 2022, which contributed to strong GDP growth, notably in the UK, France and Germany (Figure 5). But since the end of 2022 and early 2023, sufficient levels of stocks, as well as weakening industrial orders, have prompted companies to cut back industrial production, and to slow down or stop inventory accumulation.

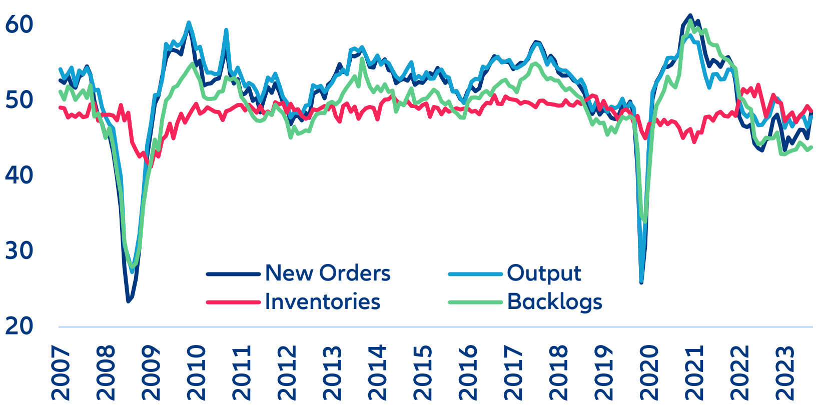
Figure 5: Contribution of change in inventories to GDP growth, pp



Sources: Refinitiv Datastream, Allianz Research, 2023 estimate for the UK, Italy, Germany and Japan

However, inventories are still at high levels as production has been exceeding new orders over the past six months. Weak demand makes it even harder for companies to find the right balance amid rising economic and policy uncertainty. In the past, new orders and companies' production levels (output) were very closely correlated throughout different economic cycles (Figure 6). However, the pandemic appears to have disrupted this relationship. In recent quarters, for instance, production has been exceeding new orders, resulting in free-falling backlogs and an inventory glut. The inventories index is still +10% above the lows of mid-2021.

Figure 6: Evolution of PMI's components in G7 economies

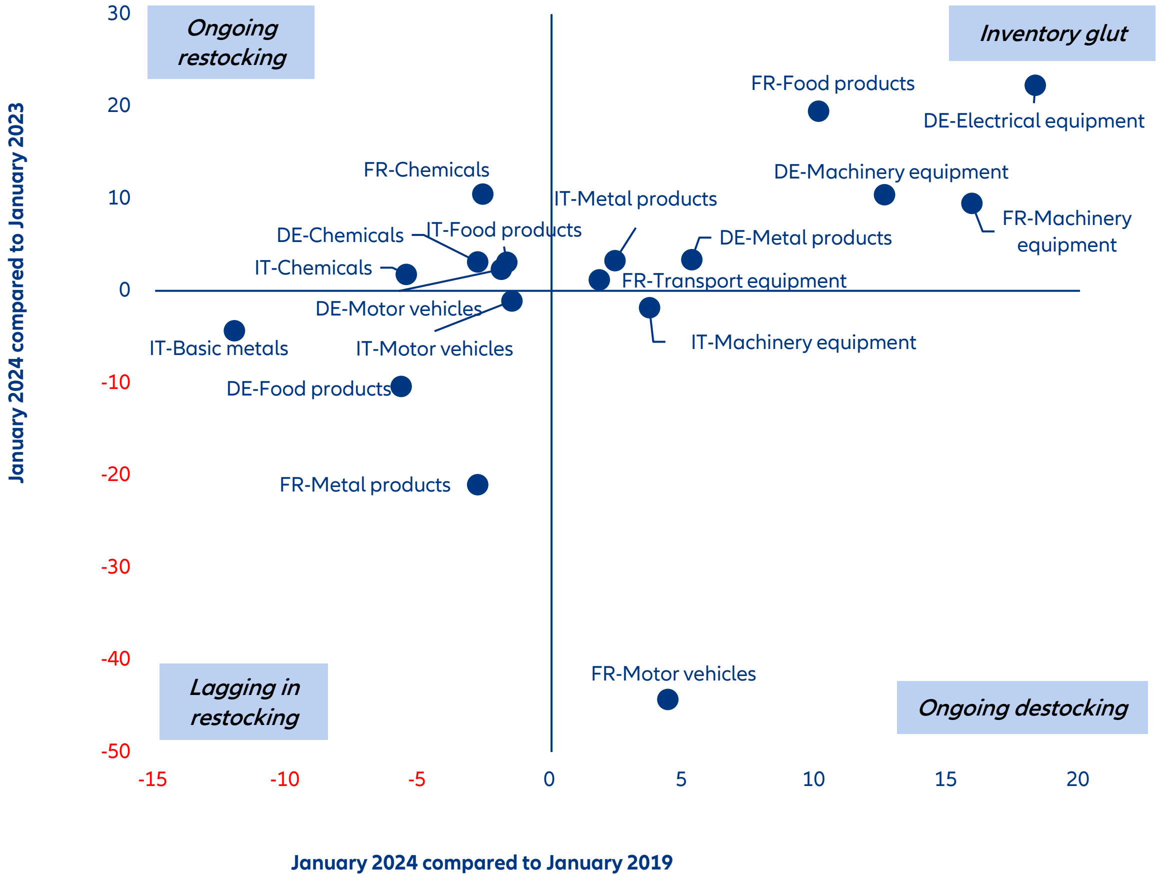


Sources: S&P Markit, Allianz Research

Western Europe remains the most exposed: one out of two European companies reports levels of stocks that are still above historical averages. The average Days Inventory Outstanding (DIO)[4] of listed firms increased further in Western Europe and in sectors such as pharmaceuticals (+2 days), retail (+2 days) and machinery & equipment (+1 day). Half of the sectors entered Q4 2023 with more inventories than the previous year. The latest monthly surveys confirm that the usual decrease in stocks we see at the end of every year fell short of significantly reducing inventories, notably in the manufacturing industries in Germany and to a lesser extent in France and the Netherlands, as well as in trade sectors, notably in Germany and Spain. On the manufacturing side (Figure 7), several major contributors to national industrial production started 2024 with a higher level of inventories compared to January 2023 or even January 2019, notably machinery & equipment (France, Germany), electric equipment (Germany), metal products (Italy, Germany) and transport equipment (France).

[4] *DIO: It indicates the average number of days the inventory is held by the company before selling it to the customer.*

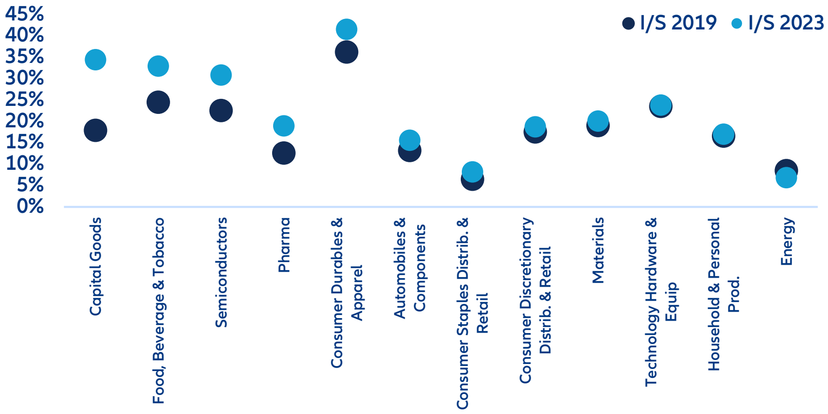
Figure 7: Change in inventories assessment by companies, for the top 5 manufacturing industries of Germany, France and Italy



Sources: Eurostat, Allianz Research

Sectors with fastest depreciation of inventories (electronics, textiles etc.) will struggle to maintain prices at current levels, especially in Europe. Since 2019, all industrial sectors (except energy) in Western Europe have recorded an upsurge in the levels of inventory relative to sales (22.6% on average for 2023 versus 18.2% in 2019). This is most probably due to the post-pandemic "just-in-case" inventory management strategy. Again, the capital goods sector leads the increase (34.5% vs 18.0%), largely explained by increases in the machinery & equipment and electrical equipment sub-sectors (Figure 8), a sector that will continue to face lower sales volumes and less pricing power, which will drag on profits going forward. For most sectors, we expect selling prices to continue to soften in the first half of the year, not only because input costs have decreased but also because this is the fastest way to clear warehouses. However, the inventory lifespan (how long a finished product can remain stocked without becoming obsolete or unattractive) will be key. Some sectors are more exposed to the risks of carrying dead inventory, notably electronics, semiconductors & tech and apparel, for which we expect the largest price cuts (and largest decline in margins) in the short-term as customer preferences and needs are changing faster than ever.

Figure 8: Western Europe - Change in inventory-to-sales ratios by sector, 2019 versus 2023



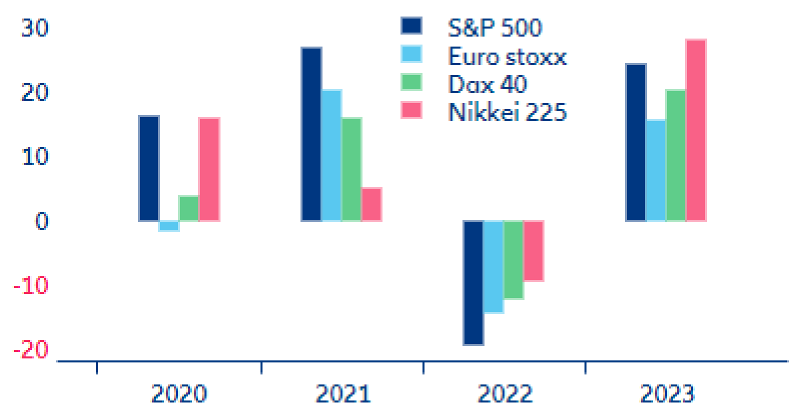
Sources: Bloomberg, Allianz Research

As a result, corporates rightsizing in all possible ways should be the new normal in 2024. With the outlook promising weak economic activity and uncertainty, we expect companies to further implement production rightsizing measures in all their business areas, from inventory management to employee restructuring and layoffs, which will have an effect on broader economic activity.

Equity markets: the costs of concentration risk

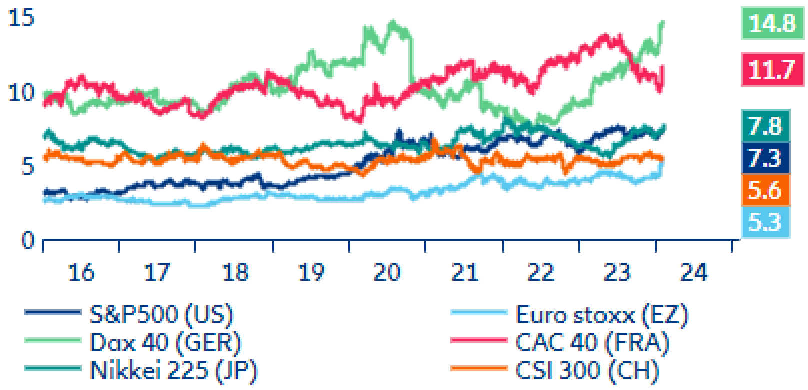
Concentration risk is intensifying in equity markets as a small cadre of leading companies increasingly dominates returns. In the US, the top 10 companies by market capitalization, which account for around 30% of the S&P500, contributed to approximately 70% of the index's returns in 2023 – a phenomenon reminiscent of the 2020 post-Covid market rally that was driven by "stay-at-home" stocks. But the US is not alone. In Europe, the top 10 companies were responsible for the lion's share of returns (75-90%) in most countries' equity markets, despite accounting for only about 40-50% of the market. And in each country, a single company often accounts for more than 10% of the respective equity index, a feat not seen in the US. Japan stands out as the notable exception to this trend, with its top 10 companies making up approximately 20% of the market, a figure that aligns closely with their contribution to overall market performance. This suggests a higher level of resilience against the concentration risks observed elsewhere.

Figure 9: Equity markets yearly performance (in %)



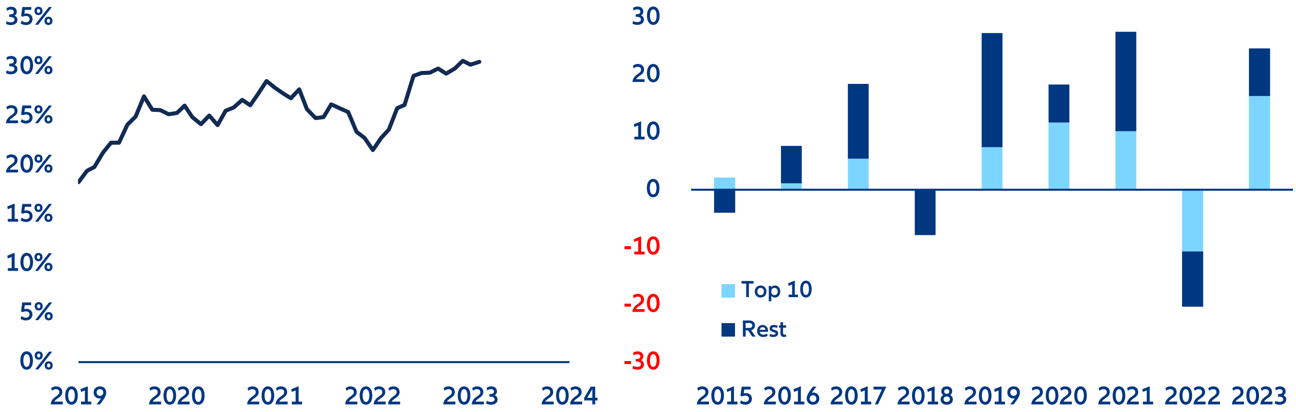
Sources: LSEG Datastream, Allianz Research

Figure 10: Biggest company by market capitalization as a % of the total equity index market capitalization (in %)



Sources: LSEG Datastream, Allianz Research

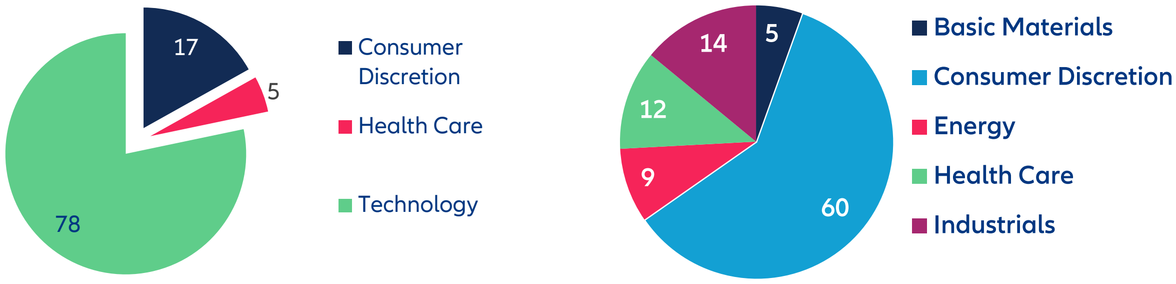
Figure 11: Top 10 S&P 500 companies' weight (left); Yearly S&P 500 performance breakdown (in %) (right)



Sources: LSEG Datastream, Allianz Research
Note: Top 10 companies market cap as a % of the total market capitalization of the index

The tech sector holds the most weight in the US, while consumer discretionary firms dominate in France. The concentration of market influence is often confined to certain sectors, and further magnified by the proliferation of new investment instruments (e.g. ETFs) that predominantly incorporate these heavyweight companies, thereby creating sustained demand. This phenomenon not only limits their downside risk but also amplifies their upside potential, illustrating a market dynamic where a handful of players disproportionately drive overall market performance. In the US, the technology sector accounts for 80% of the top 10 companies, while in France, consumer discretionary companies represent 60% of the top tier. In Italy, financial firms dominate. This sectoral concentration not only highlights a dependency on a few companies but also indicates a narrowing of diversity within indices, potentially amplifying the exposure to specific sectors (Figure 12).

Figure 12: Sectoral breakdown of the top 10 companies by market capitalization S&P500 (left), France (right) (in %)



Sources: LSEG Datastream, Allianz Research
Note: For France the Datastream equity index is used to expand the equity universe further than the CAC 40.

In this context, the traditional advantages of diversification through index-level equity investments are diminishing. While broad equity indices can still offer a buffer against market downturns, investors need to broaden their diversification strategies beyond traditional metrics. Factors such as company size, geographic location and investment style (amongst others) are becoming increasingly important in navigating the current economic challenges. Consequently, investors must carefully consider these dynamics when choosing equity indices to avoid inadvertently concentrating their portfolios in a limited number of companies or sectors. This strategic approach to index selection is vital in mitigating risk and enhancing portfolio resilience in a shifting global market landscape.

The EU's new climate target: 90% less emissions by 2040

The European Commission has set ambitious new emission-reduction targets for 2040, but will they be enough to make the EU the first climate-neutral continent? The latest recommendation, made ahead of the June elections, sets the goal of a -90% reduction in net greenhouse gas emissions by 2040 to ensure the EU meets its 2050 climate neutrality goal. The Commission also pointed out the high cost of inaction, noting that climate-related economic damages in Europe have amounted to EUR170bn over the past five years. However, the target does not impose legal obligations on EU countries or industries to meet this new target yet. Instead, it is designed to initiate a debate that is expected to lead to legislation after the June European elections. The Commission also set a 2040 target to capture up to 280mn tons of CO_2 annually, up from the 2030 goal of 50mn tons, with the goal of removing up to 400mn tones if nature and land-based methods are included. To achieve the targets, an "Industrial Carbon Management strategy" has been proposed to develop CO_2 supply chains and transport infrastructure. However, the role of carbon capture and removal technologies in the energy transition remains a topic of debate among environmental groups and scientists. While some view it as a promising solution for cleaning up heavy industries and offsetting hard-to-eliminate emissions, others are cautious about its potential impact and scalability. The EU Commission's 2040 target also lacks a concrete transition plan for the phase out of fossil fuels, including a deadline for ending gas use.

Aiming for stronger climate mitigation by 2040 will slightly reduce GDP. The European Commission estimates a -0.8% decrease at the most when targeting a 92% reduction compared to an 88% reduction, and a -1.6% decrease compared to an unambitious 78% reduction. But by 2050, GDP will almost converge again in all cases. Despite these modest overall economic impacts, the shift towards more ambitious targets will necessitate significant economic transformations, including the reallocation of capital and labor across various sectors. This includes a shift from consumption towards investment, with minimal effects on private consumption. Energy-intensive industries will also be more affected by higher mitigation targets, with a projected output decline of 0.2% by 2040 for the highest reduction targets. With increased mitigation efforts, imports of fossil fuels will sharply decrease, whereas imports of market services and agro-forestry goods are expected to rise. Additionally, imports from Africa and Asia, excluding China and India, are anticipated to grow.

Average annual energy system costs for businesses will be higher. Comparing the 92% to the 78% reduction scenario, the energy costs between 2031-2040 for industry are almost 6% higher and for the tertiary sector about 1% higher. On the upside, the average electricity production cost in 2040 with 92% reduction is expected to be 2% lower than under 88% and 3% lower than with 78% reduction.

Public finance impacts will vary as taxes from energy use contribute significantly to revenues but are expected to decrease as the EU moves towards climate neutrality, further highlighting the importance of eliminating fossil fuel subsidies. The financial risks from fossil fuel price volatility, highlighted by recent events following the conflict in Ukraine, are projected to be lower with a more ambitious 2040 target; a decarbonized economy by 2040 would see the negative impacts on GDP, private consumption and employment from such shocks halved compared to 2025, which highlights the increased in resilience through the transition.

Appendix

Public Debt Sustainability Risk Score (PDSRS)

Rank	Country (from high risk to low risk)	Public Debt Sustainability Risk Score (0 = high risk; 100 = low risk)	Total Public Debt (% of GDP) max(2023-2024)	Debt Shock (due to Covid-19 and war in Ukraine; increase in public debt-to-GDP ratio) 2019 -> 2024	Foreign Exchange-denominated Public Debt (% of total public debt) 2023	External Debt Owed To China (% of GDP) Latest	Maturing Sovereign Bonds (% of GDP) 2024-2025	Fiscal Balance (% of GDP) 2023-2024	Interest Payments (% of fiscal revenues) avg(2024-2025)	Effective Interest Rate (interest payments in % of public debt at the end of previous year) avg(2024-2025)	Interest Rate - Growth Differential (%) avg(2024-2025)	Gross External Financing Requirement (% of FX reserves) 2024Q2-2025Q1
1	Ghana	**6.4**	99.5	37.7	54.1	6.4	7.0	-7.7	28.4	7.0	6.9	329.0
2	Argentina	**10.0**	89.5	-8.9	68.0	0.0	5.2	-3.9	8.0	5.9	4.8	387.9
3	Belarus	**10.0**	42.0	1.0	73.4	11.1	0.9	-1.0	4.8	4.2	5.9	305.0
4	Ethiopia	**10.0**	37.9	-24.6	44.0	10.5	1.0	-2.4	8.2	2.6	-17.2	577.1
5	Lebanon	**10.0**	154.0	-18.3	87.0	-	22.9	-2.7	15.7	0.8	-0.9	280.4
6	Mozambique	**10.0**	92.4	-6.6	74.9	14.3	-	-2.5	10.8	3.6	-4.7	678.9
7	Russia	**10.0**	21.0	7.3	12.6	0.0	0.9	-2.8	0.8	1.3	-0.4	44.8
8	Sri Lanka	**10.0**	90.0	4.4	41.3	9.7	15.6	-7.2	134.4	15.0	6.5	996.2
9	Suriname	**10.0**	107.0	9.2	82.1	13.6	-	-0.6	15.0	4.7	-7.2	34.8
10	Ukraine	**10.0**	89.5	39.0	100.0	-	5.5	-19.0	12.1	6.3	0.0	83.8
11	Venezuela	**10.0**	250.0	44.9	99.1	42.0	2.3	-6.0	4.3	0.4	5.4	9659.8
12	Zambia	**10.0**	110.0	15.6	42.4	27.1	7.6	-5.3	25.5	10.5	6.2	11.7
13	Kenya	**14.1**	71.5	12.4	67.8	6.7	4.5	-4.8	25.3	7.5	3.2	163.3
14	Malawi	**15.2**	78.6	32.1	50.3	-	9.9	-7.4	44.6	11.6	18.5	276.0
15	Pakistan	**20.8**	76.6	-5.3	33.4	8.9	7.6	-7.8	61.9	12.6	11.9	517.7
16	Bahrain	**21.7**	127.9	26.3	62.2	-	11.0	-4.8	21.2	4.0	-0.5	968.6
17	Laos	**22.3**	121.7	49.6	86.3	27.3	1.3	-3.4	24.4	3.3	1.1	152.7
18	Egypt	**22.5**	91.0	7.9	26.0	1.1	17.2	-7.4	69.5	18.5	16.4	199.6
19	Jordan	**25.9**	90.4	8.4	51.4	-	7.3	-6.0	19.0	5.7	0.3	175.3
20	South Africa	**26.4**	75.8	19.7	29.3	0.5	4.1	-6.0	22.1	8.4	3.7	132.5
21	Rwanda	**30.3**	72.1	22.2	100.0	3.2	1.9	-6.2	11.6	4.5	3.4	121.8
22	Tunisia	**30.5**	84.0	16.7	70.3	-	3.6	-6.1	11.3	4.5	1.0	234.6
23	Uganda	**36.4**	48.3	10.1	80.5	7.4	2.7	-3.5	17.3	6.7	-3.6	238.3
24	Costa Rica	**37.3**	63.0	5.4	45.2	-	8.1	-3.3	30.8	8.2	1.7	97.6
25	Senegal	**38.4**	76.0	12.4	75.4	6.1	2.5	-4.4	11.2	3.6	-9.3	150.6
26	Angola	**38.6**	84.9	-36.4	88.2	23.4	1.2	0.0	23.2	7.6	5.9	70.3
27	Bangladesh	**41.9**	39.7	7.8	79.6	1.2	2.4	-4.5	20.9	5.4	-1.8	146.5
28	Côte d'Ivoire	**42.3**	63.0	23.5	83.2	4.8	2.6	-4.7	13.1	4.3	-4.8	93.8
29	Gabon	**42.4**	64.9	4.5	57.4	5.4	3.1	-0.7	20.2	5.9	3.1	77.2
30	Dominican Republic	**42.8**	59.8	5.8	73.4	-	7.3	-3.2	22.2	6.1	-0.6	76.5
31	Bolivia	**42.9**	81.4	22.1	48.3	5.8	-	-5.7	8.5	3.0	-3.1	824.6
32	Panama	**42.9**	52.8	12.1	99.2	-	2.0	-2.6	15.5	5.9	-0.2	730.5
33	Türkiye	**43.5**	34.1	1.6	55.2	0.7	1.7	-4.7	9.8	14.1	3.7	301.0
34	El Salvador	**44.5**	73.4	2.0	60.1	-	-	-4.0	16.0	5.4	0.6	219.5
35	Brazil	**45.0**	90.3	3.2	5.7	-	6.6	-6.6	13.5	6.8	1.4	78.0
36	Burkina Faso	**46.7**	61.2	19.7	57.0	-	1.6	-6.1	12.8	4.8	-4.6	105.2
37	Romania	**47.1**	48.2	13.1	57.3	-	3.6	-5.3	6.7	4.3	-3.7	151.9
38	Papua New Guinea	**47.2**	49.5	8.9	59.5	-	0.5	-4.2	15.2	6.2	3.9	-111.9
39	Mexico	**48.4**	54.7	2.9	16.0	-	5.9	-4.7	19.3	9.1	1.8	69.3
40	Nigeria	**48.8**	40.5	11.3	34.0	0.5	1.6	-5.3	31.6	8.9	0.3	19.7
41	Mauritius	**49.1**	79.7	-3.3	18.2	0.2	13.8	-5.4	15.0	4.5	-3.6	179.3
42	Myanmar	**49.8**	59.3	20.5	38.0	-	1.4	-4.5	18.1	4.9	-0.7	62.0
43	Benin	**49.8**	53.0	11.2	63.3	2.9	2.0	-4.0	10.3	3.2	-5.6	138.8
44	Colombia	**50.0**	55.1	2.7	37.2	-	5.7	-2.9	11.6	7.2	3.6	84.6
45	Mali	**51.8**	52.6	11.9	50.2	0.8	2.6	-4.6	7.2	3.2	-4.3	1459.8
46	Paraguay	**52.2**	42.9	17.1	90.7	-	1.9	-3.2	10.9	5.8	0.2	58.5
47	Montenegro	**53.0**	70.5	-8.3	100.0	16.1	-	-3.4	5.6	3.5	-4.0	170.4
48	Moldova	**53.5**	40.4	11.6	73.4	-	4.0	-5.0	3.8	3.6	-2.3	113.9
49	Malaysia	**54.1**	64.4	6.3	27.9	0.3	5.1	-4.6	15.2	4.2	-3.8	108.0
50	Niger	**55.0**	48.7	6.6	63.7	13.9	1.3	-4.5	6.8	3.0	-8.7	72.2
51	India	**55.1**	80.5	5.5	6.1	-	2.5	-8.4	28.5	7.5	-2.5	42.3
52	Philippines	**55.5**	57.4	20.1	29.9	0.1	5.5	-4.5	12.1	4.8	-4.7	43.3
53	Poland	**56.4**	51.0	5.3	33.0	-	8.2	-4.9	4.5	4.0	-1.0	90.9
54	Hungary	**56.9**	69.5	2.3	28.1	-	8.8	-4.6	6.4	4.5	-3.8	115.9
55	Uzbekistan	**57.0**	39.6	11.1	96.0	7.2	1.4	-4.2	0.4	0.4	-11.4	125.0
56	Armenia	**57.2**	49.2	-4.4	71.0	-	-	-2.6	12.1	6.8	-1.9	190.9
57	Morocco	**57.7**	69.0	8.2	25.8	-	6.5	-4.6	10.1	4.2	-2.1	57.0
58	Tanzania	**57.8**	39.5	-1.1	36.4	4.4	0.9	-2.4	12.4	5.2	0.3	354.1
59	Congo Rep	**57.9**	97.8	13.4	44.9	35.0	-	4.5	9.7	2.8	-3.3	47.9
60	Ecuador	**60.0**	55.5	2.4	85.9	9.9	0.1	-0.9	3.2	2.2	-1.3	159.1
61	Nepal	**60.4**	47.9	13.9	65.3	-	-	-5.4	8.0	3.9	-6.0	24.0
62	Guinea-Bissau	**60.4**	73.9	6.1	51.7	-	5.1	-3.3	12.9	3.2	-5.8	42.1
63	North Macedonia	**62.3**	53.8	13.4	100.0	-	-	-4.2	5.4	3.6	-4.5	69.2
64	Chile	**63.2**	41.2	12.9	44.7	-	9.5	-1.5	0.9	0.6	-3.4	155.6
65	Cameroon	**63.3**	41.9	-1.9	75.0	11.7	-	-0.7	6.7	2.7	-4.7	169.5
66	Guinea	**63.5**	31.6	-7.1	62.0	8.8	-	-2.3	5.9	3.0	-5.5	457.5
67	Kyrgyzstan	**63.6**	49.7	0.8	100.0	25.7	0.1	-2.1	4.0	3.0	-4.6	123.1
68	China	**63.7**	93.2	32.8	0.9	-	3.9	-5.6	5.1	1.7	-4.0	45.3
69	Uruguay	**64.5**	61.6	1.6	64.2	-	6.1	-2.9	5.8	2.8	-2.9	83.2
70	Madagascar	**65.2**	54.0	12.3	81.6	1.8	-	-3.6	6.8	2.0	-5.9	63.9
71	Algeria	**65.9**	56.0	10.0	1.2	-	2.4	-10.3	7.2	4.1	-1.1	1.6
72	Kazakhstan	**66.4**	26.6	6.6	30.4	-	3.2	-2.7	5.3	5.3	-4.0	310.9
73	Georgia	**66.8**	39.1	-1.6	85.9	-	-	-2.5	6.0	4.5	-2.0	147.5
74	Cambodia	**66.9**	35.5	7.3	100.0	24.7	-	-3.8	1.0	0.8	-6.9	60.1
75	Indonesia	**67.0**	38.7	7.5	40.0	-	1.6	-2.2	13.9	5.8	-2.8	76.5
76	Thailand	**68.1**	62.8	21.7	12.3	0.0	10.6	-2.8	6.0	2.0	-4.4	48.8
77	Tajikistan	**69.1**	33.6	-9.9	96.8	14.3	-	-2.4	4.2	3.9	-5.3	72.0
78	Albania	**69.1**	65.1	-2.9	48.5	-	-	-2.9	11.0	5.1	-1.9	60.9
79	Peru	**70.6**	34.0	7.0	47.1	-	0.8	-2.6	7.2	4.6	-0.3	26.7
80	Guatemala	**72.0**	28.3	1.5	47.6	-	0.5	-1.8	14.1	6.5	-1.4	9.0

(continued on next page)

Rank	Country (from high risk to low risk)	Public Debt Sustainability Risk Score (0 = high risk; 100 = low risk)	Total Public Debt (% of GDP)	Debt Shock (due to Covid-19 and war in Ukraine; increase in public debt-to-GDP ratio)	Foreign Exchange-denominated Public Debt (% of total public debt)	External Debt Owed To China (% of GDP)	Maturing Sovereign Bonds (% of GDP)	Fiscal Balance (% of GDP)	Interest Payments (% of fiscal revenues)	Effective Interest Rate (interest payments in % of public debt at the end of previous year)	Interest Rate - Growth Differential (%)	Gross External Financing Requirement (% of FX reserves)
			max(2023-2024)	2019 -> 2024	2023	Latest	2024-2025	2023-2024	avg(2024-2025)	avg(2024-2025)	avg(2024-2025)	2024Q2-2025Q1
81	Trinidad and Tobago	**72.1**	52.9	6.5	29.4	-	0.8	-1.8	9.0	4.8	0.2	25.5
82	Serbia	**73.3**	51.9	-1.0	68.4	2.6	1.9	-2.4	4.5	4.2	-4.7	37.3
83	Chad	**75.2**	43.2	-12.9	58.1	1.6	-	4.5	7.3	3.6	-1.0	66.5
84	Bosnia and Herzegovina	**76.1**	29.5	-2.7	74.4	6.6	-	-0.8	2.8	4.3	-2.2	54.3
85	Azerbaijan	**76.8**	24.0	6.3	74.0	-	1.4	2.3	2.0	3.4	-1.0	-86.2
86	Honduras	**78.1**	46.6	2.8	71.8	-	1.1	-1.8	5.1	3.0	-2.4	50.4
87	Congo DR	**79.2**	13.3	-3.7	70.4	1.2	-	-2.0	1.5	2.1	-7.5	113.2
88	Bulgaria	**79.4**	24.5	4.5	81.2	-	1.6	-3.1	0.9	1.6	-5.2	50.3
89	Nicaragua	**84.3**	41.5	-0.8	100.0	-	-	0.6	4.2	3.0	-3.9	47.7
90	Saudi Arabia	**85.8**	25.0	3.4	40.1	-	1.3	-1.0	1.7	2.3	-1.5	2.0
91	Oman	**86.2**	42.8	-12.2	31.0	-	2.4	0.3	2.5	2.1	-0.9	36.9
92	Qatar	**86.6**	45.5	-19.1	10.3	-	4.2	9.2	3.5	3.1	-1.7	-40.0
93	Kuwait	**88.1**	6.3	-6.5	6.3	-	6.7	-2.8	-21.8	-409.2	-413.0	-32.5
94	Vietnam	**88.8**	34.1	-7.6	37.0	-	0.6	-1.6	4.8	3.0	-6.0	54.1
95	UAE	**89.2**	31.5	3.2	3.3	-	4.9	5.2	2.0	2.2	-2.8	37.3

Methodology: For the calculation of the PDSRS, each of the indicators was rescaled from 0 to 100, with 0 denoting the highest risk and 100 the lowest (not visible in the columns 4-13, which show the actual values). Then the PDSRS was calculated as the average of the indicators, thus also ranging between 0 and 100. Note that the PDSRS, as any score indicator, is not exhaustive and that public debt sustainability may be influenced by other factors as well, for example by policy decisions and political trends.
The first 12 EMDEs, noted in red, are either already in a formal restructuring process or in total or selective default.

Sources: Horn et al 2022, IIF, IMF, LSEG Datastream, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

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