Government Borrowing High On Pandemic And Geopolitical Tensions

- Despite economic recovery, global sovereign borrowing will stay elevated owing to high debt rollover needs, fiscal policy normalization challenges, high inflation, and polarized social and political landscapes.
- Tightening monetary conditions will push up funding costs.
- By end-2022, we project that the commercial sovereign debt stock will reach a record of US$66.5 trillion, with the U.S. and Japan accounting for over one-half.
A Confluence Of Headwinds Is Affecting Financing Conditions

APAC Issuance Remains Strong So Far In 2022…

...But Speculative Grade Issuance Slowed To A Trickle

- For 2022, fears have grown that the Federal Reserve could move too quickly, aggressively, or unpredictably in its fight with inflation over the coming months.
- The divide of strong and weak credit names will see greater distinction.
- This may point to greater reliance by speculative-grade borrowers on concessional finance.
- Having said this, our forecast features relatively solid 5.1% growth for Asia-Pacific in 2022.
All Sovereigns Enter 2022 In A Weaker Fiscal Position

- Between January 2020 and September 2021, we downgraded approximately 25% of our rated sovereigns at least once.
- Default risk remains high. Three sovereigns (Lebanon, Suriname, and Zambia) have been in default since 2020. In addition, eight sovereigns are rated in the 'CCC' or 'CC' categories.
Beyond The Debt Service Suspension Initiative (DSSI)

- For several countries, low-cost lending from bilateral/multilateral sources makes up a significant share of borrowings, helping to keep debt service more affordable.
- The Common Framework for Debt Treatments Beyond the DSSI aims to coordinate official and private debt relief.
- If "official" creditors provide debt relief, we would typically not view this as constituting a sovereign default.
- Similarly, "debt-for-nature" or "debt-for-climate" swaps involving official creditors are unlikely to constitute a sovereign default.
- If a sovereign seeks debt relief from private creditors, we will undertake a case-by-case assessment to determine whether there has been a default on commercial debt.

S&P Global Ratings
Environmental, Social, And Governance (ESG) Risks Are In Focus

- The impact of climate change is far more important for emerging sovereigns than advanced economies.
- Regionally-close sovereigns have been effectively sharing and diversifying risk through multilateral risk-pooling institutions (e.g., Caribbean Cat Risk Insurance Facility, Pacific Catastrophe Risk Assessment and Financing Initiative).
The Sovereign Green Bond Market Is Expanding

- In 2021 alone, sovereign green issuance expanded more than 2.6x that of 2020, rising to US$96 billion.
- The number of governments that issued green debt for the first time last year increased and included the U.K., Italy, Spain, Serbia, Slovenia, and Andorra.
- We expect that at least 11 sovereigns will tap the green bond market in 2022.

Source: S&P Global Ratings.
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Key Takeaways

- Fiscal policy normalization is proving challenging in many regions, including the Pacific
- Bond financing conditions are tightening for lower-rated borrowers, and nominal interest costs are rising globally
- After a surprisingly benign 2020 and 2021, sovereign default risk is back in investors' sights
- A growing number of sovereigns are investigating green and thematic bonds
- S&P Global Ratings cannot provide policy advice, but notes that debt relief/restructuring involving private-sector creditors would generally constitute a sovereign default in our view (while debt relief/restructuring involving only official bilateral/multilateral creditors would not)
Analytical Contacts

Martin Foo
Associate Director, Sovereign and International Public Finance
martin.foo@spglobal.com
+61 3 9631 2016