2023 a challenging year for emerging markets: Moody's

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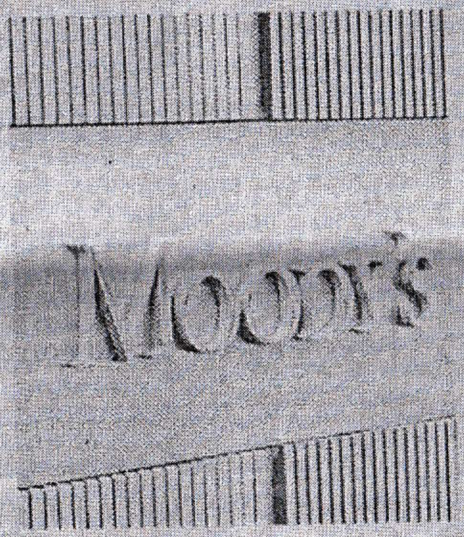
A combination of weak growth in advanced economies, persistent inflationary pressures, the Russia-Ukraine conflict, tight financial conditions, and a subdued growth outlook for China will create a difficult environment for emerging markets (EM) in 2023, said Moody's Investors Service.

In a report, Moody's said next year will present a challenging backdrop for EMs.

"Our negative outlook on credit conditions for EMs will permeate to sovereigns, companies and banks. Although higher-rated EM issuers have the credit fundamentals to weather the turn in the cycle, weaker entities with ratings of B or below are vulnerable given their limited financing options and reduced capacity to absorb shocks," the credit rating agency said.



Relatively deep domestic financial markets and proactive monetary policies will support the resilience of most EM sovereigns with ratings of Ba or higher.

Lower-rated sovereigns in particular will experience credit stress amid higher borrowing costs and diminished market access, Moody's said.

As regards India, food and fuel remain the main drivers of inflation because they represent a larger share of the consumption basket. For example, rising food prices have contributed to almost half of the growth in headline inflation this year in India, Moody's said.

With rupee depreciating against the US dollar, Moody's said the act ion taken by the central bank (Reserve Bank of India) ensures an orderly and limited depreciation.

Moody's said that Indian banks' asset quality will continue to improve on recoveries and write-offs of legacy non-performing loans.

In India and China, wind and solar power are the least expensive energy sources, and governments are supporting the transition in the form of mandatory consumption targets or prioritising renewable versus fossil fuels in dispatching energy.