

Bangkok's many contrasts

Thank you, Thailand

There is no place in the world that makes you feel more welcome than Thailand. It is not only the smiles and the delightful “Sawasdee-ka” greeting wherever you arrive. Locals are genuinely keen to please like nowhere else. Bangkok was the perfect setting for the 2026 Annual Meetings of the International Monetary Fund (IMF). A city full of contrasts that gives an invigorating hit to the senses on every corner. The hustle-bustle of its streets. The aroma, colours and taste of its exceptional food. The towering skyscrapers overlooking historic, gilded Buddhist temples.

In Thailand, these contradictions co-exist harmoniously. This is no surprise. The Buddhist tradition places great weight on accepting change and human flaws, and on understanding suffering. Today's increasingly polarised world could learn a lesson or two in accepting differences and appreciating contrasts, as Thailand does so well.

The macro: AI, thus far, trumping Trump's tariffs and wars

The IMF was worried about repeating the “resilient” mantra once more. But resilience was once again the macro theme of the meeting. The global economy absorbed its second major self-inflicted shock in two years: tariffs and the prolonged shipping disruptions through the Strait of Hormuz and now Bab Al-Mandab. Over the period, robust investments and earnings growth from the AI boom supported global markets. But non-tech earnings growth has also barely flinched. The increase in oil prices was less pronounced and led to less demand destruction than was feared, thanks to inventory releases.

The fund recommended tight monetary policy, where appropriate, and building fiscal buffers. This is a message very much heard across emerging markets (EM), but less so in developed markets (DM). The IMF also believes (and the market reaction over recent weeks nods in agreement) we are getting close to the point where a continuation of the conflict can bring more economic downside than previously. Higher rates are breaking the weak links of the economy. The meetings took place as credit spreads of Neo Clouds, Oracle, and SoftBank widened alongside French OATs, bringing a sense of unease across meetings.

Beware consensus trades

Historically, fading the consensus around IMF meetings has usually presented asymmetric opportunities. This time was no different. The consensus for a political transition in Brazil was painfully frustrated. Investors were concerned about 10-year US Treasuries moving towards 6.0%. Since then, rates have fallen back to around 5.0%. Fears over higher oil prices and AI financing materialised during the week of the event and the subsequent week, but have receded since.

The limits to fiscal sins on both sides of the Atlantic

For the third consecutive year, there was a familiar contrast in conversations with policymakers. US policymakers were strangely complacent about running primary deficits in the 2.5% (2025) to 3.5% (2026e) area. They believe the next administration will have to address the fiscal problem. After all, if nothing gets done, pensioners will experience a 22% cut in payments by 2032. That may well be true, but net interest payments rose from 2.7% of GDP in 2022 to 3.6% this year and are likely to increase to 4.9% by 2030, with the effective interest rate (r) only slightly above nominal GDP growth (g), so that $r-g$ is barely positive. If nothing gets done, both interest payments and the primary balance will keep on worsening, putting debt/GDP on a perilous and unsustainable path.

In Europe, there was no sense of crisis about lethargic growth or the fiscal crisis in France. We heard “all it takes is political will”. Officials also believe that the current French budget, which includes fiscal consolidation close to 1.8% of GDP, would pass, allowing the country to qualify for the European Central Bank’s (ECB) Transmission Protection Instrument (TPI). We hope they are right, but we are not counting on it in the short term. Recent price action has made it clear that investors’ tolerance to France’s budgetary sins has reached its limits.

A healthy contrast: Frontier showing the way

In contrast, frontier countries continue with their reform agenda. Egypt is set to run its second straight year of a 5% primary surplus. Pakistan has stabilised its macro, thanks to privatisations and orthodox fiscal and monetary policies delivering a balanced current account, single-digit inflation and FX reserve accumulation, despite the energy price shock. Meanwhile, after also implementing significant economic reforms, commodity exporters such as Nigeria, Kazakhstan, and Kyrgyzstan are benefiting from a major positive terms of trade shift. There is a long tail of smaller frontier economies, from Uruguay and Paraguay to Oman and Morocco, that have been delivering impressive results and now deserve their hard-conquered (or reconquered) investment grade status.

Emerging challenges addressed

Among the largest EM countries, the credit dynamics are a mixed bag. Nevertheless, the pattern remains clear. Countries that get to the brink have been fast to implement large and impressive adjustments. These usually come after voters opt for change after profligate leaders damage macro stability. This is the road that Panama has been on for the last two years and Romania has been on for longer than a year. With a new prime minister in place, we have reasons to believe Romania is back on track. Hungary has just unveiled a medium-term budgetary framework to consolidate its deficit towards the 3.0% Maastricht limit by 2030, clearing the fiscal condition for Eurozone inclusion by 2032. Colombia and Brazil have challenging consolidations ahead, but the new government in Colombia is likely to tackle its consolidation head on. Meanwhile, President Lula in Brazil has likely also run out of room for fiscal expansion and will be forced into consolidation to deliver stability, lower rates and economic growth.

Further upgrades ahead

Two years ago, we published a piece about the untold story of improving fundamentals in emerging markets, predicting a continuation of the wave of upgrades that started in 2023 by S&P and 2024 across the board. We have updated this exercise and included institutional scoring which is part and parcel of the rating agencies toolbox. We find that 22 countries are upgrade candidates (31.2% of the EMBI GD) and 11 could be downgraded (17.2% of the EMBI GD): two upgrades for every downgrade. There are three countries that defaulted on their debt and are working towards restructuring (Ethiopia, Lebanon and Venezuela). Countries where the model signal conflicts with the actual country rating outlook are also not included. This is a smaller ratio than our original 4-1 exercise from two years ago, to be expected after such strong performance in 2024 and 2025.

Within the upgrade candidates, Argentina and Türkiye could get multiple upgrades over coming years, particularly if they manage to lower inflation from the low-to-mid 30% area towards single-digit levels. Ecuador and Ghana have improved their credit metrics and have governance levels that suggest an upgrade. The Dominican Republic stands out for its fiscal trajectory, with the deficit narrowing gradually towards 3% of GDP and debt/GDP edging lower. Oman, Sri Lanka and Costa Rica also have metrics that merit an upgrade, the first due to low debt levels and the other two on governance. Serbia and Paraguay are likely to gain investment grade status from all three agencies.

The model flags China (A+) and Poland (A-) at risk for a downgrade due to governance, with elevated deficits weighing on indebtedness. Guatemala (BB+) is flagged on poor governance. The Republic of Congo is a downgrade candidate, but it may benefit from an IMF programme. More details in Appendix 1.

Appendix 1

Cross-sectional regression of the median S&P, Moody's, and Fitch rating on nine fundamentals across 131-country estimation samples based on IMF WEO October 2026 data. Universe: 69 EMBI Global Diversified countries.

We call 'gap' the model-implied rating minus the actual rating, in notches, where positive means fundamentals look better than the rating. Forward signal is the same measure on 2028 fundamentals, but with only one-third of the change against 2026 adopted. Drivers are each variable's contribution relative to peer sovereigns rated within one notch of the subject. This is a screen rather than a forecast, but it has been back-tested on 2010-2026 history. Where a material gap exists and an agency acts within one to two years, the action agrees with the gap's direction about 76% of the time.

Fig 1: Upgrade and downgrade candidates¹

	Country	Classification	Rating	Gap	Signal	EMBI %	Top Driver – Up	Top Driver – Down
▲	Argentina	Momentum upgrade	B-	-0.67	+4.87	2.63	Economic size	Inflation
▲	Türkiye	Strong upgrade	BB-	+2.49	+4.11	4.11	Economic size	Inflation
▲	Ecuador	Strong upgrade	B-	+3.55	+3.55	1.76	Governance	Default history
▲	Ghana	Strong upgrade	B-	+2.00	+2.69	0.81	Governance	Default history
▲	Dominican Republic	Strong upgrade	BB	+1.63	+1.81	2.86	Economic size	Interest/revenue
▲	Oman	Upgrade	BBB-	+1.59	+1.52	2.92	Debt/GDP	Economic size
▲	Sri Lanka	Strong upgrade	CCC+	+1.38	+1.24	1.14	Governance	Interest/revenue
▲	Brazil	Momentum upgrade	BB	+0.90	+1.11	3.23	Economic size	Debt/GDP
▲	Montenegro	Momentum upgrade	B+	+0.82	+1.10	0.11	Governance	Economic size
▲	Costa Rica	Strong upgrade	BB	+1.22	+1.07	1.05	Governance	Interest/revenue
▲	Serbia	Watch +	BBB-	+0.75	+0.98	0.75	Debt/GDP	Economic size
▲	Nigeria	Watch +	B-	-0.18	+0.98	2.64	Economic size	Inflation
▲	Barbados	Watch +	B+	+0.82	+0.96	0.07	Governance	Economic size
▲	Armenia	Watch +	BB-	+0.75	+0.82	0.26	Debt/GDP	Economic size
▲	Kazakhstan	Watch +	BBB-	+0.41	+0.79	1.84	Debt/GDP	Inflation
▲	Pakistan	Watch +	B-	+0.36	+0.74	0.72	Economic size	Interest/revenue
▲	Angola	Watch +	B-	-0.04	+0.66	1.76	Economic size	Inflation
▲	Azerbaijan	Watch +	BB+	+0.62	+0.60	0.24	Debt/GDP	Governance
▲	Morocco	Watch +	BBB-	+0.30	+0.43	0.77	Governance	GDP per capita
▲	Benin	Watch +	BB-	+0.08	+0.24	0.29	Inflation	GDP per capita
▲	Jordan	Watch +	BB-	-0.08	+0.06	0.67	Governance	Debt/GDP
▲	Jamaica	Watch +	BB	-0.09	+0.05	0.59	Governance	Default history
▼	China	Strong downgrade	A+	-4.18	-4.26	3.31	Economic size	Governance
▼	Guatemala	Strong downgrade	BB+	-2.31	-2.27	1.29	Debt/GDP	Governance
▼	Poland	Strong downgrade	A-	-1.88	-1.81	2.97	Economic size	Governance
▼	Congo, Rep.	Downgrade	CCC+	-1.81	-1.79	0.21	Inflation	Governance
▼	Trinidad & Tobago	Downgrade	BBB-	-1.67	-1.60	0.63	GDP per capita	Economic size
▼	Mozambique	Strong downgrade	CCC+	-1.03	-1.27	0.12	Inflation	GDP per capita
▼	Gabon	Watch -	--	-0.41	-0.78	0.24	GDP per capita	Interest/revenue
▼	Egypt	Watch -	B	-2.10	-0.60	2.82	Economic size	Interest/revenue
▼	Romania	Watch -	BBB-	-0.97	-0.54	2.76	Economic size	Governance
▼	Peru	Watch -	BBB	-0.64	-0.52	2.52	Debt/GDP	Governance
▼	Honduras	Watch -	BB-	-0.59	-0.37	0.33	Interest/revenue	Governance

¹ Classification. A country is an upgrade (downgrade) candidate when both the current gap and the forward signal are at or beyond +1 (-1) notch. It is classed as strong when the forward signal is at or beyond +2 (-2) notches, or when at least one agency has an outlook pointing in the same direction. Momentum upgrade (downgrade) means the forward signal is beyond +1 (-1) notch while the current gap is not. Watch +/- means the agency outlook and the forward signal point the same way but remain below the one-notch threshold. Countries where the model signal conflicts with the agency outlook are not classified as candidates.

Appendix 2: Our own questions on the model

On the six cases below we outright disagree, question, or will cautiously monitor the model's signal.

Brazil

Momentum upgrade (disagree)

Rating: S&P 'BB' / Moody's 'Ba1' / Fitch 'BB' **Outlooks:** One positive. **EMBI GD weight:** 3.23%

Gap: +0.90 notches **Forward signal:** +1.11

Peer group: 23 sovereigns rated within ±1 notch.

	Country	Notches vs peers	Actual value vs peer group
▲	Economic size	+2.79	USD 2,655bn (peer min / avg / max. USD 2 / USD 97 / USD 2,655bn; 96th percentile)
▲	GDP per capita	+0.15	USD 12,397 (peer min / avg / max. USD 1,540 / USD 9,759 / USD 43,858; 61st percentile)
▲	Default history	+0.09	0
▼	Debt / GDP	-1.44	97.0 (peer min / avg / max. 16.5 / 53.5 / 97.0; 96th percentile)

We believe Brazil will face rating headwinds after Lula won a fourth term (51.8/48.2). The BRL depreciated c. 8%, taking USDBRL to 5.41 from 4.99 pre-election. We now see a gradual, at best, fiscal consolidation. This keeps the Selic higher-for-longer, which means debt concerns remain unresolved. The model's signal rests on size (+2.8 vs peers), not fiscal strength. Debt/GDP 97% is the worst driver (-1.4). The IMF overstates this metric by including bonds held by the central bank for monetary policy. But even at 82% it would be among the highest in its peer group.

Türkiye

Strong upgrade candidate (monitor)

Rating: S&P 'BB-' / Moody's 'Ba3' / Fitch 'BB-' **Outlooks:** One positive. **EMBI GD weight:** 4.11%

Gap: +2.49 notches **Forward signal:** +4.11

Peer group: 30 sovereigns rated within ±1 notch.

	Country	Notches vs peers	Actual value vs peer group
▲	Economic size	+2.97	USD 1,818bn (peer min / avg / max. USD 2 / USD 53 / USD 2,655bn; 93rd percentile)
▲	Debt / GDP	+1.15	22.4 (peer min / avg / max. 22.4 / 57.0 / 97.0; 0th percentile)
▲	GDP per capita	+0.70	USD 21,079 (peer min / avg / max. USD 1,290 / USD 7,001 / USD 43,858; 87th percentile)
▼	Inflation	-3.22	34.7 (peer min / avg / max. -0.4 / 4.9 / 34.7; 97th percentile)

The key signal to watch is disinflation and political stability guaranteeing the current set of economic policies. The CBRT's revised end-2026 forecast is 28% (from 26%), set in August 2026 and now closer to the consensus. Policy rate 37%. Disinflation is intact but slower and more shock-exposed than hoped. Model's +4.1 signal is almost entirely the inflation path normalising. If the 15% forecast or interim target for 2027 slips, most of the signal goes with it. We believe disinflation is likely but may overshoot the 2027 target.

Argentina

Momentum upgrade (monitor)

Rating: S&P 'B-' / Moody's 'Caa1' / Fitch 'B-' Outlooks: Neutral. EMBI GD weight: 2.63%

Gap: -0.67 notches Forward signal: +4.87

Peer group: 35 sovereigns rated within ±1 notch.

	Country	Notches vs peers	Actual value vs peer group
▲	Economic size	+2.39	USD 768bn (peer min / avg / max. USD 1 / USD 45 / USD 768bn; 97th percentile)
▲	Governance	+2.19	0.2 (peer min / avg / max. -1.7 / -0.5 / 0.4; 86th percentile)
▲	GDP per capita	+0.98	USD 16,021 (peer min / avg / max. USD 649 / USD 3,434 / USD 28,147; 94th percentile)
▼	Inflation	-6.53	32 (peer min / avg / max. 0.8 / 7.9 / 68.4; 97th percentile)

Post Milei's solid adjustments, the country's governance and credit metrics have improved significantly. The question marks are on the external sector, since the country's short-term external debt remains elevated. FX reserves accumulation has ramped up nicely in 2026 after a challenging 2025. The key question ahead is whether Argentina will roll its large funding needs from 2027-2028 ahead of the pre-election volatility which is likely to start hitting markets at least six months before the October 2027 ballot. Disinflation is real but slower than hoped: The IMF raised its 2026 forecast to 32.5% and 2027 to 21.2% (from 15.7%).

Egypt

Negative Watch (disagree)

Rating: S&P 'B' / Moody's 'Caa1' / Fitch 'B' Outlooks: Negative. EMBI GD weight: 2.82%

Gap: -2.10 notches Forward signal: -0.60

Peer group: 36 sovereigns rated within ±1 notch.

	Country	Notches vs peers	Actual value vs peer group
▲	Economic size	+1.94	USD 443bn (peer min / avg / max. USD 1 / USD 44 / USD 768bn; 89th percentile)
▲	Governance	+1.09	-0.1 (peer min / avg / max. -1.7 / -0.5 / 0.6; 75th percentile)
▲	Primary balance gap	+0.23	16.0 (peer min / avg / max. -12.7 / 3.0 / 22.5; 94th percentile)
▼	Interest / revenue	-3.37	87.7 (peer min / avg / max. 1.8 / 14.8 / 87.7; 97th percentile)

We would attribute a higher weight to the quality of the fiscal adjustment on Egypt, a country that is aiming for the second consecutive year of a 5% primary surplus. The model downside is predicated on a very large interest/revenue ratio, but we believe this is likely to decline as policy rates dropped from 27.25% in 2024 to 19% more recently as inflation slowed to high single-digit levels. The current account deficit of 4.7% of GDP remains the key vulnerability but has been financed by foreign direct investments.

Romania

Negative Watch (question)

Rating: S&P 'BBB-' / Moody's 'Baa3' / Fitch 'BBB-' **Outlooks:** Three negative. **EMBI GD weight:** 2.76%

Gap: -0.97 notches **Forward signal:** -0.54

Peer group: 19 sovereigns rated within ±1 notch

	Country	Notches vs peers	Actual value vs peer group
▲	Economic size	+0.56	USD 470bn (peer min / avg / max. USD 17 / USD 241 / USD 4,060bn; 68th percentile)
▲	GDP per capita	+0.49	USD 24,741 (peer min / avg / max. USD 2,750 / USD 11,515 / USD 29,413; 84th percentile)
▲	Interest / revenue	+0.06	9.0 (peer min / avg / max. 0.5 / 10.3 / 25.4; 47th percentile)
▼	Governance	-1.07	-0.3 (peer min / avg / max. -0.9 / 0.1 / 0.8; 11th percentile)

S&P affirmed 'BBB-/negative on 2 October 2026, explicitly citing consolidation on track, >90% RRF absorption and EU inflows of c. 3.5% of GDP; Fitch affirmed 'BBB-/negative. All three are likely to keep the rating at the IG floor as long as the new government fiscal consolidation is back on track. Model's drag is governance (-1.1, 11th percentile of peers) and a primary balance gap of -1.8 (5th percentile). But the signal (-0.54) is milder than gap (-0.97). The other key flag is on the external accounts with the RON REER at the 92nd percentile and current account deficit at 7.7% of GDP. Nevertheless, the deficit is likely to decline as the fiscal accounts consolidate with a good part funded by EU inflows.

Peru

Negative Watch (question)

Rating: S&P 'BBB-' / Moody's 'Baa1' / Fitch 'BBB' **Outlooks:** One negative. **EMBI GD weight:** 2.52%

Gap: -0.64 notches **Forward signal:** -0.52

Peer group: 18 sovereigns rated within ±1 notch

	Country	Notches vs peers	Actual value vs peer group
▲	Debt/GDP	+1.14	28.6 (peer min / avg / max. 23.8 / 63.0 / 137.9; 6th percentile)
▲	Economic size	+0.26	USD 400bn (peer min / avg / max. USD 17 / USD 293 / USD 4,060bn; 56th percentile)
▲	Interest / revenue	+0.13	7.3 (peer min / avg / max. 0.5 / 10.2 / 25.4; 28th percentile)
▼	Governance	-1.34	-0.2 (peer min / avg / max. -0.3 / 0.2 / 0.8; 17th percentile)

Peru's debt/GDP 28.6% is among the lowest in its peer group (6th percentile) and its largest positive driver (+1.1); interest/revenue 7.3% is also better than peers. Current account is in surplus (+3.3%) – one of the strongest external positions in the universe. The entire -0.6 gap comes from governance (-1.3, 17th percentile) – i.e., political instability, which is exactly what post-election reform would address. REER at the 98th percentile of its own 10-year range, but the current account surplus suggests this is there for a good reason (terms of trade). If governance improves post-election, Peru may even be upgraded by S&P.

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