Country Risk Analysis- Four Emerging Economies

Country risk reflects a nation's ability to sustain growth, manage external shocks, maintain financial stability, and uphold fiscal responsibility. In today's uncertain global environment—marked by high inflation, geopolitical tensions, and volatile capital flows—emerging economies face unique pressures that can significantly affect their macroeconomic stability and creditworthiness. This report provides a comparative risk analysis of four major emerging economies: India, Brazil, Indonesia, and Türkiye. Each country is assessed across four key pillars of economic vulnerability.

Methodology

Indicators Used

Four primary risk categories were assessed using the following indicators:

- Macroeconomic Stability: GDP Growth (%), Inflation (%), Unemployment (% of labor force)
- External Sector Risk: Current Account Balance (% of GDP), Forex Reserves (Total reserves in months of imports), External Debt (% of GNI)
- Fiscal Risk: General Government Net Lending/Borrowing, General Government Gross Debt (% of GDP)
- Financial Sector Risk: Bank Capital Adequacy, Private Sector Credit (% of GDP), Non-Performing Loans (% of total loans)

Scoring Approach

Annual data points from 2005 to 2023 were scored using a 1 to 5 risk scale (1 = low risk, 5 = high risk) based on economic thresholds. Scores were averaged across indicators within each pillar to calculate a pillar score, and across pillars to determine the overall country risk score.

Data Sources: World Bank, IMF, OECD, Trading Economics, Macromino

Country Analysis

India

India's macroeconomic profile has several strengths but also underlying weaknesses. India has averaged GDP growth of 6–7% over the last two decades, making it one of the fastest-growing large economies in the world. But the benefits of this growth haven't been equally felt across the population and has not in turn translated into enough formal jobs. India's macro score of 2.4 reflects strong GDP growth but moderate to high levels of inflation and persistent unemployment. Even the rapid 7% of growth rate will not create sufficient jobs according to Bloomberg. 46% of the workforce is still employed in agriculture, even though the sector contributes less than 20% to gross domestic product. Youth unemployment has touched 45.4% in 2022-2023. India's inflation has averaged around 5–6% for much of the last 10–15 years, regularly exceeding the RBI's target of 4% and remains sticky. With high food driven inflation with food making up nearly 50% of the CPI basket, prices of staples like vegetables, pulses, and cereals are heavily affected by monsoons and supply chains. Rising inflation expectations, slow policy transmission, and domestic cost pressures in services and housing drives stickiness in inflation.

India runs a structural current account deficit with an import dependancy on fuel, gold and electronics. Its services exports help narrow the gap but don't help fully offset the trade imbalance. India's deficit grew wider in 2022 along with increased oil prices during to the Russia Ukraine war and FDI's also saw a decline. This makes India dependent on stable capital inflows like FDI and portfolio investment. In order to reduce its dependence on volatile capital inflows and narrow its persistent trade deficit, India needs to shift from an import-heavy structure to a more export-competitive one. Logistics costs in India is 13–14% of GDP, which is much higher than the global benchmark of 8%, makes Indian exports less competitive globally. To address this, initiatives such as the National Logistics Policy to reduce the cost of logistics and the Production Linked Incentive program to boost exports to high value added sectors like electronics, pharmaceuticals, semiconductors have been have been introduced. As of 2025, investments worth Rs 1.76 lakh crore, generated production of over Rs 16.5 lakh crore and employment of over 12 lakh. Total reserves pose as a strength with a risk score of 1.5. As of 2024, India holds over $620 billion in foreign exchange reserves, which covers 8–9 months of imports and is far above the global norm (3–4 months). This gives RBI room to stabilize the rupee and manage capital outflows. India's external debt is the lowest among the others with a risk score of 1.3. Most of it is long term and held by the private sector preventing rollover risks. However, the US dollar denominated debt remains the largest component of India's external debt with a share of 53.4 per cent at end-September 2024. This poses a high exchange rate risk but the reserves of $620 billion act as a buffer.

India has consistently run one of the largest fiscal deficits among the 4 countries. Over the 2005–2023 period, India's general government deficit has averaged 7-8% of GDP and touched 12% during the crisis year of 2020. Interest payments on debt has averaged 20% in the last ten years, while maintaining a limited revenue base, reducing the space for public investment and making it harder to cut the deficit. This has pushed total public debt to over 80% of GDP, rising steadily after 2020 and is quite high for an emerging economy. India spends nearly ₹11–13 lakh crore a year just on interest payments — money that could otherwise go into infrastructure or social services. Such levels of debt and persistent deficits also raise concern for credit rating agencies, for instance, in 2020–21, when the deficit spiked during COVID, Moody's downgraded India's sovereign rating to Baa3.

India's capital-to-assets ratio averaged between a modest 6% and 8% over the past decade. However, Indian banks are assessed as adequately capitalized under regulatory norms, with a Capital Adequacy Ratio (CAR) of over 16% as of 2023. This higher figure is based on risk-weighted assets, in line with Basel III guidelines. Much of the capital strength, particularly among public sector banks, has come from large-scale government recapitalizations, amounting to over ₹3 lakh crore between 2016 and 2021. Non-performing loans (NPLs) have been a major source of stress in the past, peaking at around 11% of total loans in 2018. While the introduction of the Insolvency and Bankruptcy Code (IBC) and other structural reforms helped bring the gross NPL ratio down to 3.2% in 2023, concerns remain. Recent stress is emerging in retail credit, particularly in unsecured loans, as household leverage rises and interest rates remain elevated. India's credit-to-GDP ratio is relatively low, at about 55–60%, which points to under-penetration of institutional finance. This does reduce the risk of credit bubbles, but it may also restrict private sector investment and push borrowers toward less regulated non-bank financial institutions (NBFCs), where systemic risks are harder to monitor. India's financial sector is more stable today than it was a decade ago, but risks persist in the form of uneven capital strength, reliance on government bailouts, and shifting credit stress from large corporates to retail borrowers and NBFCs.

Brazil

Brazil's macroeconomic risk remains moderately high, with a score of 3.3 driven by modest GDP growth, elevated unemployment, and persistent inflationary pressures. After contracting in 2020, the economy rebounded, growing 2.9% in 2022 and around 3.4% in 2023, supported by strong household consumption and a record agricultural harvest. However, structural constraints—such as low productivity growth, volatile investment trends, and tight monetary policy—have kept Brazil's long-term average GDP growth below 1% over the past decade. Inflation peaked above 10% in 2022 and, while it eased to below 5% in 2023, it remains above the central bank's 3% target. This has led to sustained high interest rates, limiting the scope for monetary support to growth. Meanwhile, unemployment, though falling, remains high at 7.5% in early 2024, with a significant share of informal and underemployed workers. These macroeconomic indicators, while improving in recent years, continue to signal underlying vulnerabilities, especially in Brazil's labor market and inflation management framework.

Brazil's external risk profile is relatively moderate, with a score of 2.1, reflecting strengths in reserves and external debt management, but some vulnerability in its current account position. The country has maintained a persistent current account deficit, averaging around –1.8% of GDP in recent years, which makes it moderately reliant on foreign capital inflows to finance its external needs. On the other hand, Brazil's foreign exchange reserves are strong, exceeding $340 billion, and covering more than 10 months of imports, providing a significant buffer against external shocks such as commodity price volatility or sudden capital outflows. Brazil's external debt remains low and stable, currently around 29% of gross national income (GNI). This is a comfortable level compared to other emerging markets and has not shown signs of excessive piling up. The structure of the debt is favorable: it is primarily long-term, and a significant portion is denominated in local currency (reais), reducing exposure to exchange rate volatility. This limits two key risks that often trigger external crises—rollover risk, and currency mismatch risk. As a result, while Brazil still runs a moderate current account deficit, its external position is well-cushioned by a stable debt profile and strong foreign reserves, allowing more flexibility in navigating global shocks.

Brazil's fiscal risk is elevated, with an average score of 3.9, driven by large and persistent government deficits and a rising public debt burden. Over the past few years, Brazil has consistently spent more than it earns, with the general government fiscal deficit averaging around –7% of GDP. In 2023, the deficit reached approximately –7.5%, and similar levels are projected in the near term. This reflects a structural gap between revenues and expenditures, including high mandatory spending on pensions, salaries, and interest payments. As a result, Brazil's gross public debt has climbed to around 74% of GDP in 2023 and is projected to exceed 80% by 2026. While most of this debt is issued domestically and in local currency—which reduces exposure to currency risk—it still places a growing burden on public finances and limits the government's flexibility to respond to economic shocks. High debt and sustained deficits also weaken investor confidence and can lead to higher borrowing costs.

Brazil's financial sector risk is rather contained, with an average score of 2.2. The ratio of domestic credit to GDP remains moderate at around 70–75%, reflecting a financial system that is developed but still limited in reach compared to more credit-driven economies. Banks in Brazil are adequately capitalized, with capital-to-asset ratios in line with global norms, and are tightly regulated under a strong central banking framework. The share of non-performing loans is low by emerging market standards, suggesting overall financial stability. While high interest rates restrict broad credit access and increase debt service costs for some borrowers, the core of Brazil's banking system remains stable, with no immediate signs of stress. As long as economic growth holds up and inflation remains contained, financial risks are expected to stay moderate.

Indonesia

Indonesia's macroeconomic risk is relatively low, with an average score of 2.1, supported by stable growth, contained inflation, and gradually improving labor market conditions. The economy has shown strong post-pandemic resilience, maintaining real GDP growth around 5%, driven by domestic demand and natural resource exports. Inflation remains within target despite global shocks, reflecting effective monetary management by Bank Indonesia. Although unemployment has fallen to pre-COVID levels, underemployment and informality remain areas of concern with 59% of the nation's 144 million workers are engaged in informal activities. Overall, Indonesia's macro fundamentals are sound and better balanced than many of its emerging market peers.

Indonesia's external risk is moderate, with a score of 2.4, reflecting a generally stable external position but with some underlying vulnerabilities. The current account balance has remained moderate in recent years, hovering between mostly deficits and a few surpluses. After recording a slight surplus in 2022 due to high global prices for coal and palm oil, the balance slipped into a deficit of around 0.5–1% of GDP by 2023–24 as export prices normalized and imports rose. Indonesia's current account is hence sensitive to changes in global commodity prices, given its reliance on raw material exports like coal, nickel, and palm oil. In terms of foreign exchange reserves, Indonesia holds approximately $140 billion, which covers about 6–7 months of imports which is moderate by emerging market standards. Countries like India and Brazil maintain reserves covering 9–11 months of imports. While Indonesia's reserve buffer is enough to manage normal external flows, it is not large enough to comfortably absorb prolonged shocks, such as sustained capital outflows during global financial stress or sharp increases in oil prices. During recent periods of turbulence, such as the COVID-19 crisis and U.S. interest rate hikes, the rupiah weakened and the Bank of Indonesia had to intervene using reserves to stabilize the currency. External debt remains manageable and stable, standing at around 30–32% of GNI, with the majority of it long-term and spread across various lenders lowering the risk of repayment pressure in the short run. According to the IMF's reserve adequacy framework, Indonesia's reserves meet the minimum adequacy threshold, but they do not place the country in the 'strong buffer' category.

Indonesia's fiscal risk is moderate, with an average score of 2.4, driven by a combination of slightly high fiscal deficits and low overall debt levels. While the government has managed to reduce its budget deficit post-COVID after hitting 6% in 2020, it still remains at around 2.5% of GDP. Spending pressures are on fuel subsidies, infrastructure, and social welfare which weigh on the budget, while the country's tax-to-GDP ratio remains one of the lowest among its peers, limiting its ability to sustainably increase revenue. However, Indonesia's gross government debt remains low at below 40% of GDP, and much of it is in local currency and held domestically, reducing fiscal vulnerability giving Indonesia more flexibility than many emerging markets.

Indonesia's financial sector risk is moderate, with an average score of 2.6. The country's credit-to-GDP ratio is relatively low, indicating that access to formal finance remains limited for much of the population and small businesses. Indonesia's capital-to-assets ratio has been around 11–12% in recent years. This is above the Basel III minimum of 8%. The non-performing loan ratio has continued to decline, reflecting stronger risk management and regulatory oversight.

Turkiye

Turkiye exhibits a fragile macroeconomic picture. The economy grew by 5.3% in 2022 and 5.1% in 2023, driven by expansionary fiscal and monetary policies. These boosted consumer spending growth to record levels as reported by OECD. However, these policies also led to, record high levels of inflation reaching 72% in 2022 and a large depreciation of the Turkish lira. The Central Bank gradually raised interest rates by a cumulative 41.5 percentage points, reaching 50% in March 2024, and the government is planning a fiscal consolidation for the coming years.

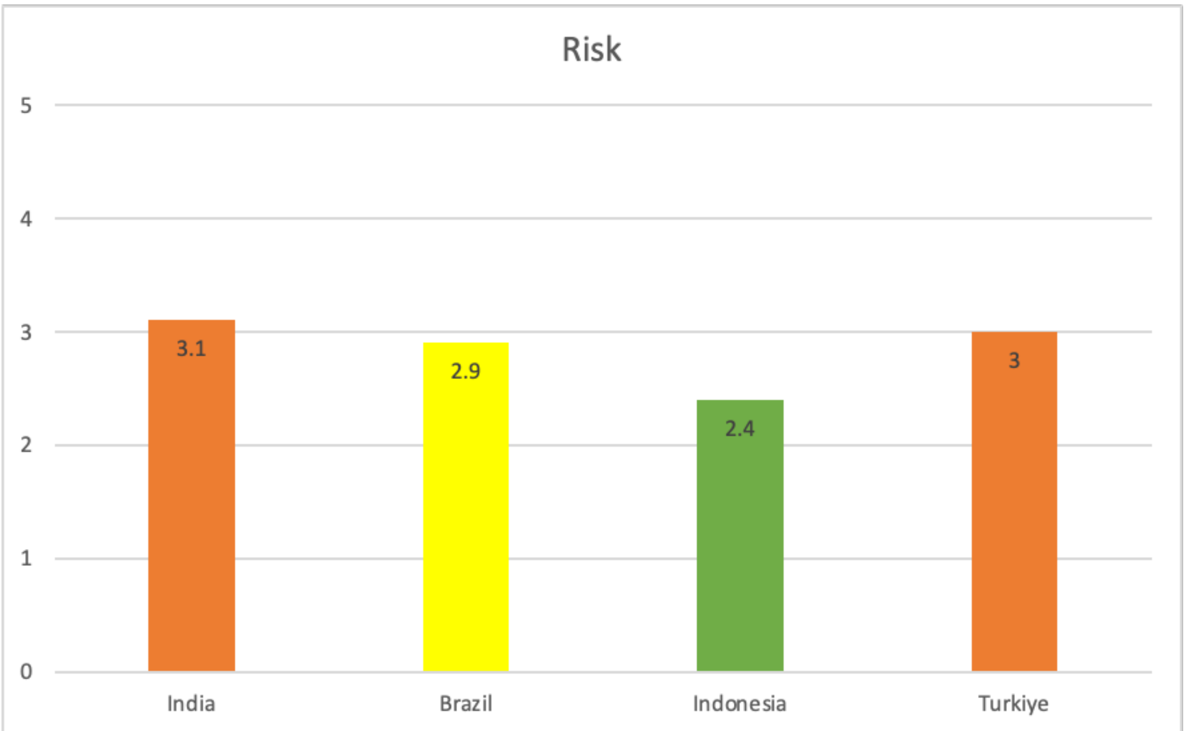
Inflation, scoring 4.2, is Türkiye's most significant macroeconomic vulnerability. Since 2021, the country has faced spiraling inflation, which reached above 65% in 2023 and remained above 50% in 2024. The causes are both policy-driven—such as aggressive interest rate cuts despite rising prices—and structural, including currency depreciation, reliance on imports, and wage hikes. The currency lost 80% of its value against the USD since 2021, driving up import costs. Unlike short-lived inflation spikes seen in other economies due to global shocks, Türkiye's inflation has proven sticky, with price rises broad-based across essential categories like food, housing, and services. The central bank, under political influence for much of the period, kept rates low, undermining confidence in monetary policy. While rates have now started to rise under new leadership, inflation remains stubborn. Unemployment, with the highest risk score of 4.7, adds further macro stress. Although official figures place unemployment at around 9.5–10%, these headline numbers mask deeper labor market issues with youth unemployement exceeding 20%. Nominal wage hikes have not kept up with inflation and public sector wages are better adjusted, but private sector workers suffer more. Türkiye's workforce skills lag those of other OECD countries, worsened by the emigration of high-skilled individuals.

Türkiye's external risk stems from reliance on volatile capital inflows, and vulnerable reserve buffers. The current account has consistently run deficits with a figure of 4.1% of GDP in 2023, mainly due to energy imports and a weak lira. Energy imports alone accounted for 70% of the deficit. The country depends heavily on short-term foreign capital to finance these gaps. Foreign exchange reserves are a major concern. As of early 2024, Türkiye's gross reserves covered just 3–3.5 months of imports, much below the comfort level seen in other emerging markets like India. External debt remains elevated, at over 50% of GDP, with a significant portion denominated in foreign currency and held by the private sector. This creates risk when the lira weakens, as debt servicing becomes more expensive.

Tukiye's fiscal risk is moderate. It has kept public debt manageable, but fiscal pressures are rising. Gross government debt stands at about 36–39% of GDP, which is low compared to other emerging markets. This provides some fiscal space. However, budget deficits have widened, especially after the 2023 earthquakes, which triggered a wave of public spending on reconstruction and subsidies. The government's net lending/borrowing balance reached -5.2% of GDP in 2023, one of the largest in the region. If growth slows, rising social spending and inflation-indexed expenditures could push fiscal risks higher over time.

Türkiye's financial sector has held up relatively well so far, but signs of strain are emerging. Bank capital ratios are moderate with capital-to-assets at around 6–7%, and CAR just above 13% which are adequate but not especially strong, especially in a volatile environment. Non-performing loans (NPLs) are officially low, at around 1.9%, but many analysts believe asset quality may be overstated, due to restructuring and regulatory forbearance. Stress could emerge if interest rates stay high or the economy slows. Credit to the private sector remains relatively strong, but recent years have seen excessive reliance on state-owned banks, and high loan growth not always aligned with productive investment. The financial sector is also increasingly intertwined with government policy, raising concerns about independence.

Conclusion



Turkiye and Brazil, both of which scored high on macro risk, need to restore monetary policy credibility by ensuring that central banks remain committed to interest rate-based inflation control. India with stronger macro fundamentals should still remain cautious of inflation persistence, especially from food and energy shocks. Indonesia shows the lowest macro risk but must stay guarded against volatility from commodity dependence and take measures on bettering labor market participation and productivity. Turkiye and Brazil show clear signs of external fragility, with high current account deficits and pressure on reserves. Improving export competitiveness and building adequate forex reserves by attracting long term capital flows is key. India, despite moderate deficits, maintains strong reserves and has low external debt, but should continue managing capital inflows judiciously. Diversifying exports and boosting FDI inflows to reduce reliance on commodities and buffer external shocks is key for Indonesia. India and Indonesia need reforms to broaden the tax base and reduce dependence on subsidies. Extending debt maturities to reduce rollover risks can pose beneficial for Brazil. All four countries should boost formal employment to expand the tax base. Brazil and India must closely monitor NPLs and credit concentration, particularly in public sector banks. Policymakers must continue enhancing credit access, particularly for MSMEs.

This four-country comparison highlights how macro stability, external buffers, and fiscal discipline are deeply interconnected in shaping sovereign risk. While Indonesia shows the lowest average risk due to its stable growth, prudent debt, and improving governance, Türkiye and Brazil face more acute challenges, especially on inflation and external fronts. India remains a mixed case showing strong fundamentals but needing to remain cautious of persistent structural risks in its fiscal and financial systems.