



*By John Gandolfo and Paolo Mauro<sup>1</sup>*

Despite swings in global interest rates during the past five years, emerging market corporate borrowers have proven resilient—faring better than in previous crises.<sup>2</sup>

# How Emerging Market Companies Are Withstanding Global Interest Rate Shifts

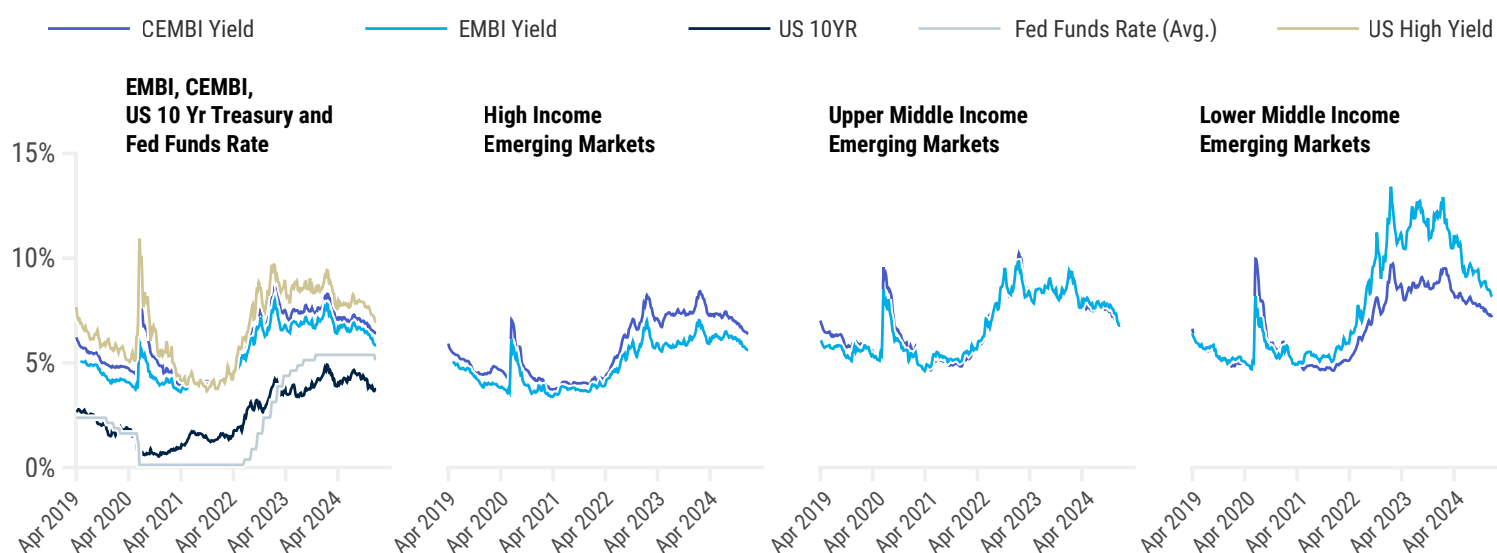
**Global interest rates have gyrated since 2019, driven by large-scale economic shocks that have shifted the macroeconomic outlook and provoked a series of monetary policy responses.** Prior to the COVID-19 pandemic, policy rates in most advanced economies were low or near zero, and nominal government bond yields were often negative. In March 2020, a sharp rise in uncertainty prompted the largest central banks to flood global markets with liquidity. Policy rates remained near zero until a surge in inflation worldwide sparked a tightening cycle. Although inflationary pressures have lessened, and central banks have begun easing—notably with a 50-basis point rate cut by the U.S. Federal Reserve in late September 2024—key global interest rates are projected to remain well above pre-pandemic levels in real terms.<sup>3</sup>

**How have emerging market companies fared?** This IFC Research Note analyzes the cost of borrowing for firms in emerging and developing economies, changes in their debt structure, and indicators of indebtedness and profitability. It finds reasons for optimism on their resilience, while noting that vulnerabilities remain. In contrast to earlier periods of heightened macro volatility and Fed hiking cycles, emerging market corporate yields rose significantly but spreads over U.S. Treasuries remained stable. Moreover, there was a noticeable shift by emerging market firms toward local currency borrowing to eschew vulnerabilities from foreign currency denominated debt. As a result, interest coverage ratios for emerging market companies are still healthier than on the eve of the pandemic. Nevertheless, borrowing costs warrant monitoring because corporate debt levels remain high and, despite recent policy rate cuts in the United States and elsewhere, global real interest rates are projected well above pre-pandemic levels in the next few years.

## Impact of Global Interest Rates on Borrowing Costs for Emerging Market Companies

**Spreads between emerging market corporate yields and U.S. Treasuries have remained relatively stable, even as global interest rates fluctuated.** Since 2019, U.S. dollar-denominated bond yields for these firms have largely mirrored movements in U.S. 10-year Treasury yields (Figure 1). One key deviation occurred in March 2020, at the onset of the pandemic, when uncertainty and risk aversion caused emerging market yields to spike even as U.S. Treasury yields fell in response to the U.S. Federal Reserve's rate cuts. However, this divergence proved short-lived, with emerging market yields swiftly falling back in line with U.S. Treasury yields—a stark contrast to the more prolonged disruptions experienced during previous emerging market crises, such as those originating in Latin America (1980s), Asia (1997), and the Russian Federation (1998), or the 2013 “taper tantrum,” during which spreads for emerging market corporate debt rose in response to a drop in global risk appetite.<sup>4</sup> During the past five years, borrowing costs for emerging market firms have tracked global interest rates more closely than in more distant historical episodes.

**FIGURE 1**  
**Emerging Markets: Corporate and Sovereign Yields on U.S. Dollar Denominated Bonds**  
In percent

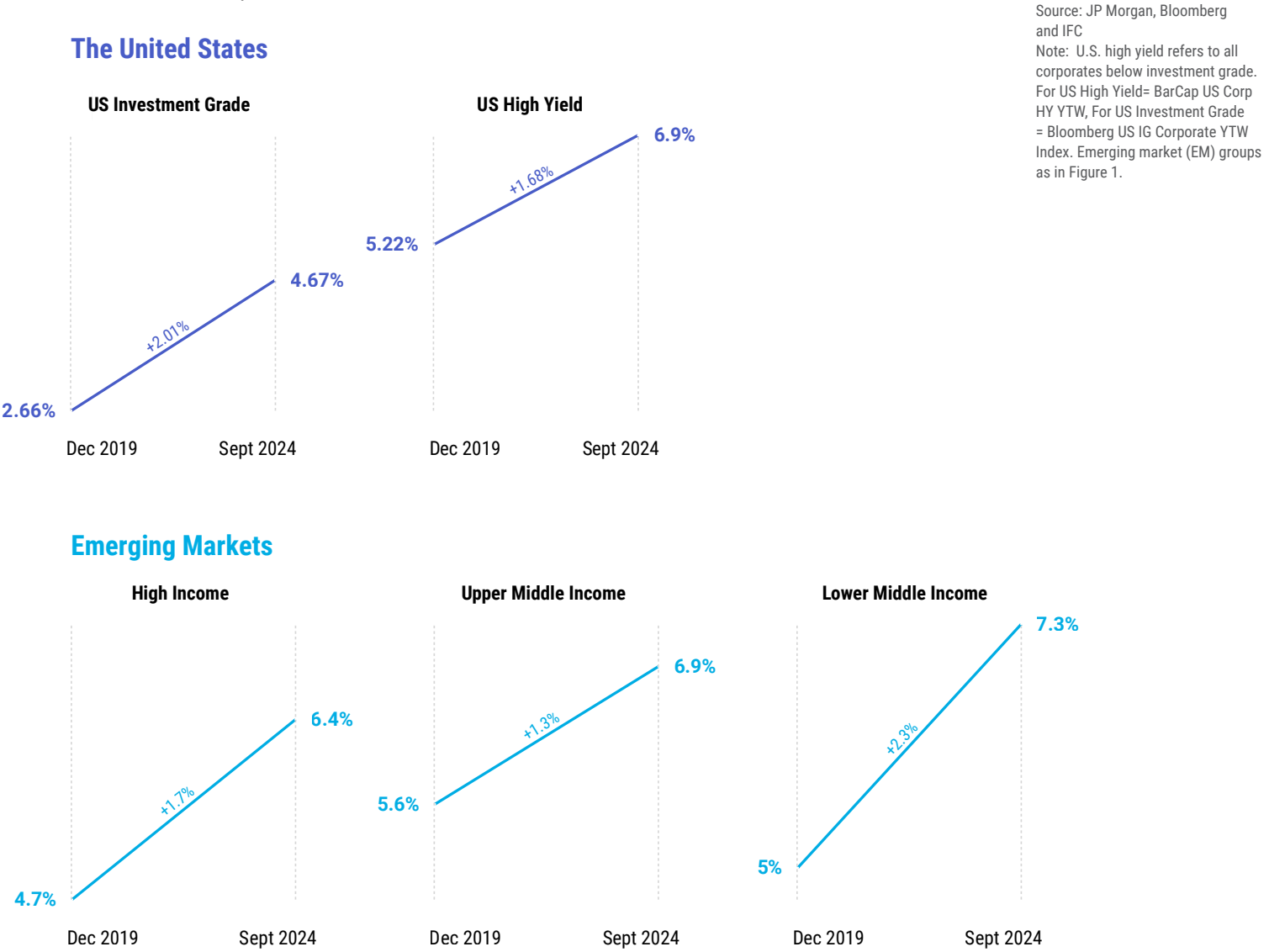


Sources: JP Morgan, Haver, St Louis Federal Bank and IFC

Note: For these charts, the Sovereign Emerging Markets Bond Index (EMBI) and the Corporate Emerging Markets Bond Index (CEMBI), which tracks the performance of the bonds, are recomputed using the same sample of countries, with a common set of countries for each income group, weighted by market capitalization (as of February 2024). The countries are grouped by income level and include high-income emerging economies (Bahrain, Chile, Oman, Panama, Poland), upper-middle-income countries (Argentina, Brazil, Colombia, Dominican Republic, Georgia, Guatemala, Indonesia, Kazakhstan, Malaysia, Mexico, Paraguay, Peru, South Africa, Türkiye, Ukraine), and lower-middle-income countries (Egypt, Ghana, India, Morocco, Nigeria, Philippines, Zambia).

**U.S. dollar-denominated corporate bond yields in emerging markets at all income levels are higher today than pre-pandemic, but the rise was similar or less pronounced than in advanced economy comparators.** On average, yields rose from 4.8 percent in December 2019 to 6.4 percent in September 2024.<sup>5</sup> Although this is a significant increase, it is less prominent than for investment-grade companies in advanced economies, which on the eve of the pandemic were benefiting from exceptionally low interest rates, whereas emerging market corporations had been contending all along with perceptions of greater risks.<sup>6</sup> For example, yields rose from 2.7 percent in December 2019 to 4.7 percent in September 2024, for U.S. investment grade companies. The percentage point increase was about the same or smaller for emerging market firms in all income groups, and smaller as a share of yields pre-pandemic (Figure 2). As expected, borrowing costs vary across income levels, with corporate borrowers in lower-middle income countries typically facing higher yields than their upper-middle income or high-income counterparts. Interestingly, in the lower-middle-income group, some corporate bonds were perceived as less risky than sovereign bonds, highlighting the nuanced risk perceptions of investors.<sup>7</sup>

FIGURE 2  
**Corporate Bond Yields Pre-Pandemic and Today**  
U.S.dollar denominated, in percent



**As interest rates on U.S. dollar denominated debt rose, there was a noticeable shift by emerging market companies toward borrowing in local currencies,**<sup>8</sup> especially in countries with relatively deep domestic capital markets. India, in particular, saw a pronounced shift toward local-currency bond issuance (Figure 3).<sup>9</sup> Borrowing in local currencies offers several advantages, including lower exposure to exchange-rate fluctuations and currency mismatches, which create vulnerabilities especially in periods of global financial volatility or high and volatile inflation. Although nominal interest rates also increased on domestic currency instruments, many corporate borrowers found them preferable to incurring the risk of depreciation or costly hedging, on top of rising foreign currency rates. However, not all firms had the option to shift toward domestic currency borrowing. In many lower-income and smaller countries with less developed capital markets, companies remain dependent on foreign currency denominated debt.<sup>10</sup>

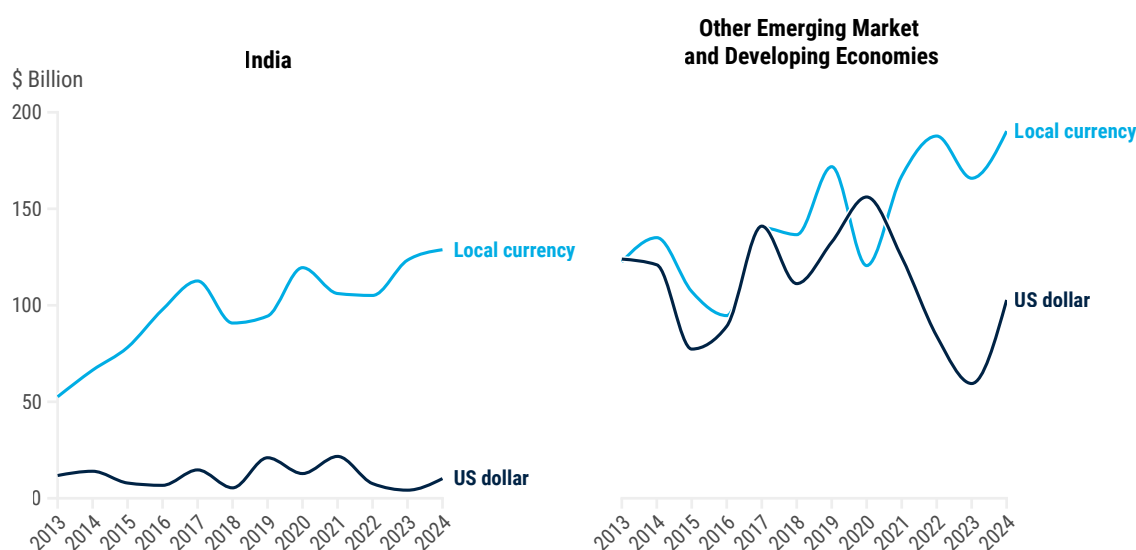
## Emerging Market Corporates Show Resilience

**Despite the rise in interest payments, emerging market firms have managed to maintain relatively healthy financial positions, as reflected in their interest coverage ratios** (measured as earnings before interest and taxes, divided by interest payments). Analysis of the balance sheets and income statements of publicly traded companies in emerging markets shows that although interest payments as a share of total debt have increased since 2021, profits have comfortably kept pace (Figure 4). As a result, interest rate coverage ratios are currently similar to pre-pandemic levels. In lower-middle-income countries, where the impact of higher interest rates has been most pronounced, interest payment ratios rose from 6 percent of total debt in 2021 to 9 percent in 2024. Nevertheless, after peaking in 2021-22, interest coverage ratios have returned to levels comparable to those seen before the pandemic (Figure 5).

FIGURE 3

### Bond Issuance by Emerging Market Companies

Local currency versus U.S. dollars, annual data



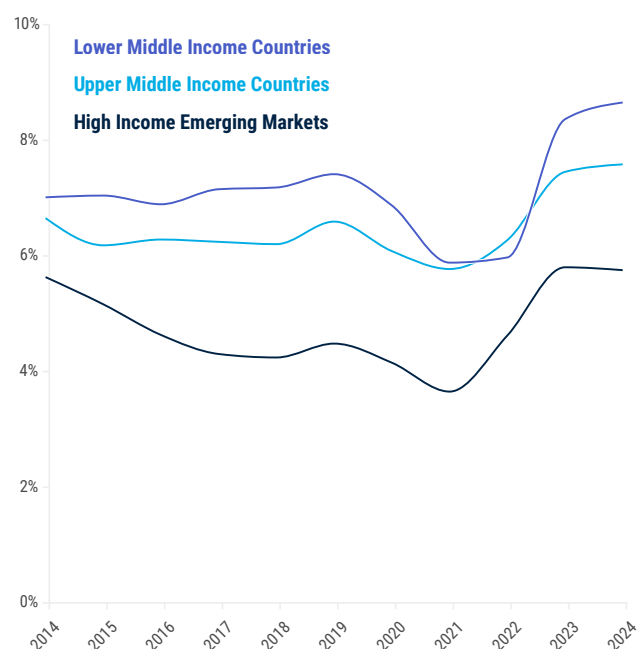
Source: Bloomberg and IFC

Note: Data for 2024 refer to the first 8 months of the year and were multiplied by 1.5 to preserve comparability.

**Although emerging market corporate borrowers maintain relatively healthy balance sheets, several factors point to potential future vulnerabilities.** First, global interest rates are projected to remain above pre-pandemic levels in the coming years, increasing the cost of refinancing debt incurred prior to 2022. Second, corporate leverage is higher today than a decade ago in most emerging markets, especially in high-income emerging economies and lower-middle income countries (Figure 6), and corporate debt as a share of GDP has risen over the past two decades.<sup>11</sup> These developments tend to make both companies and emerging economies more sensitive to shifts in global financial conditions. Third, higher interest payments might ultimately erode firms' ability to invest.

**Considering how emerging market corporate borrowers have withstood major shifts in global interest rates, there are grounds for optimism.** Beyond the cost of borrowing and related vulnerabilities, however, corporate resilience will hinge on profitability, which in turn will be heavily influenced by global, regional, sectoral, and country-specific shocks against a backdrop of high global uncertainty.

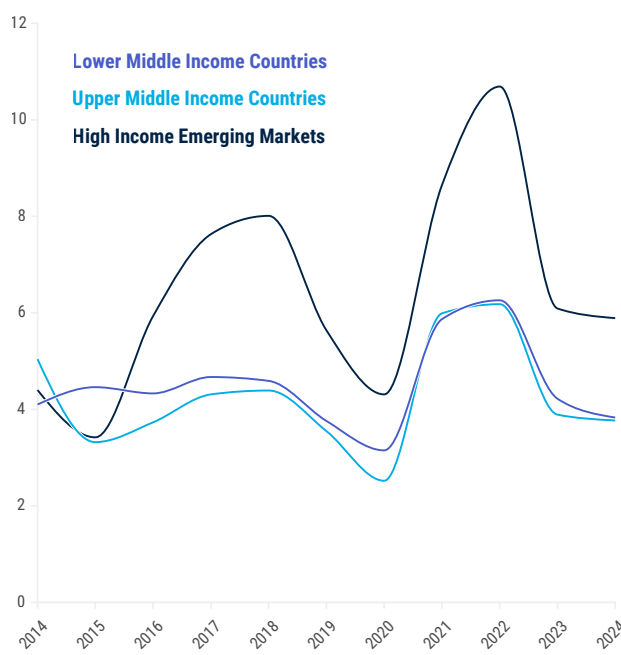
**FIGURE 4**  
**Interest Payments as a Percentage of Total Debt**  
By income group, in percent



Source: Refinitiv and IFC

Note: Data for around 9,000 listed companies. For these charts, the sample consists of countries with enough representative company data (more than 30) for the whole analyzed period. These countries are high-income emerging markets (Bulgaria, Croatia, Chile, Oman, Poland, Romania), upper-middle-income countries (Argentina, Brazil, Colombia, Indonesia, Malaysia, Mexico, Peru, South Africa, Thailand, Türkiye), and lower-middle-income countries (Bangladesh, Egypt, India, Jordan, Kenya, Morocco, Nigeria, Pakistan, Philippines, Sri Lanka, Viet Nam).

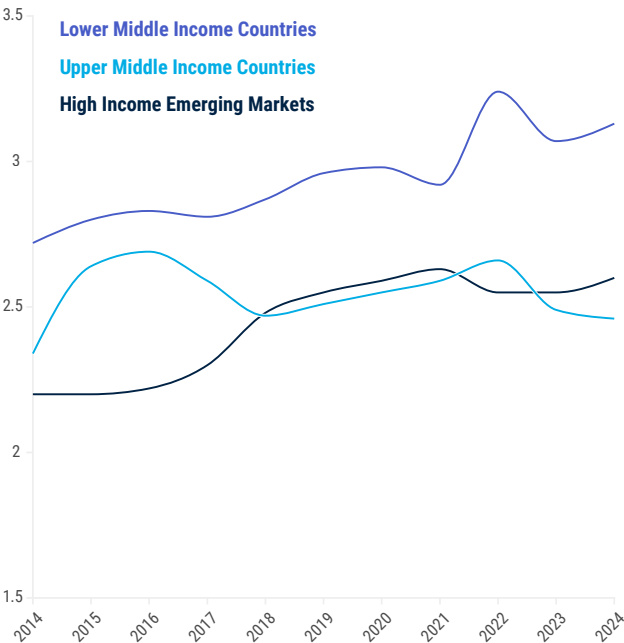
**FIGURE 5**  
**Interest Coverage Ratio for Non-Financial Companies**  
By income group



Source: Refinitiv and IFC

Note: Data for around 9,000 listed companies. The Interest coverage ratio evaluates a firm's ability to cover its interest expenses from its earnings before interest and taxes (EBIT), with a ratio below 1 signaling that a company cannot meet its interest obligations from operational income alone. For these charts, the sample consists of countries with enough representative company data (more than 30) for the analyzed period. These countries are high-income emerging markets (Bulgaria, Croatia, Chile, Oman, Poland, Romania), upper-middle-income countries (Argentina, Brazil, Colombia, Indonesia, Malaysia, Mexico, Peru, South Africa, Thailand, Türkiye), and lower-middle-income countries (Bangladesh, Egypt, India, Jordan, Kenya, Morocco, Nigeria, Pakistan, Philippines, Sri Lanka, Viet Nam).

FIGURE 6  
**Financial Leverage for Non-Financial Companies**  
By income group



Source: Refinitiv and IFC  
Note: Financial leverage is defined as total assets divided by the common shareholder equity. Data for around 9,000 listed companies. For these charts, the sample consists of countries with enough representative company data (more than 30) for the whole analyzed period. These countries are high-income emerging markets (Bulgaria, Croatia, Chile, Oman, Poland, Romania), upper-middle-income countries (Argentina, Brazil, Colombia, Indonesia, Malaysia, Mexico, Peru, South Africa, Thailand, Türkiye), and lower-middle-income countries (Bangladesh, Egypt, India, Jordan, Kenya, Morocco, Nigeria, Pakistan, Philippines, Sri Lanka, Viet Nam).

TABLE 1  
**List of Countries Used in This Note**

High Income Emerging Markets	Upper-Middle- Income Countries	Lower-Middle- Income Countries
Bahrain	Argentina	Bangladesh
Bulgaria	Brazil	Egypt
Chile	Colombia	Ghana
Croatia	Dominican Republic	India
Oman	Georgia	Jordan
Panama	Guatemala	Kenya
Poland	Indonesia	Morocco
Romania	Kazakhstan	Nigeria
	Malaysia	Pakistan
	Mexico	Philippines
	Paraguay	Sri Lanka
	Peru	Viet Nam
	South Africa	Zambia
	Thailand	
	Türkiye	
	Ukraine	

## Endnotes

1 International Finance Corporation. John Gandolfo is Vice President & Treasurer, Treasury and Mobilization. Paolo Mauro is Director, Economic and Market Research. Helpful comments by Susan Lund, IFC's Vice President for Economics and Private Sector Development and inputs by Dilek Aykut, Samed Hysa, Cesaire Meh, Florian Moelders, Nimarjit Singh, Issei Takahashi, Imtiaz Ul Haq, and Rey Zhangrui Wang are gratefully acknowledged.

2 This note focuses on a set of 37 emerging market and developing economies, defined by the World Bank Global Economic Prospects report (see Table 1 for the list). The sample does not include China owing to its large size and different economic dynamics during the period under consideration. Additionally, there is no low-income country in the sample. The countries are grouped following the World Bank country classification by income level.

3 For example, in the United States, real rates are projected between one or two percentage points above pre-2019 levels. This statement is consistent with various sources, such as the Treasury Inflation-Protected Securities market, the Fed's dot-plots minus projected inflation, or the Federal Reserve Bank of St. Louis (FRED) ex-ante real rates at <https://fredblog.stlouisfed.org/2022/05/constructing-ex-ante-real-interest-rates-on-fred/>.

4 Global risk appetite becomes especially relevant during periods of stress because it can interact with domestic vulnerabilities to amplify the impact on borrowers, especially those with weaker fundamentals. For instance, countries with weaker fundamentals were affected more significantly during the

taper-tantrum episode in May 2013. Credit ratings also play an important role in determining funding costs (Jaramillo and Tejada 2011; Goel and Ghosh 2011), even after accounting for fundamentals, as they alter investor behavior and eligibility. On sovereign borrowing costs, see also Adrian, Natalucci, and Wu, January 2024, "Emerging Markets Navigate Global Interest Rate Volatility," IMF Blog.

5 Interest costs also rose on other U.S. dollar-denominated borrowing—notably, syndicated loans, which usually have floating rates that depend on U.S. rates. A similar pattern is observed for non-listed companies over the same period, based on central bank surveys from India, Indonesia, Pakistan, Thailand, and Zambia.

6 In late 2019, more than half of advanced economy governments were able to issue bonds at negative interest rates.

7 In the sample under consideration, this occurred in Egypt and Ghana. Firms that operate internationally with receipts in foreign currency are more likely to retain low funding costs during episodes when the sovereign is perceived as risky. See also Jaramillo and Tejada 2011; Goel and Ghosh 2011; and Bevilaqua et al. (2020). In general, however, sovereign bond yields are a crucial driver of corporate bond yields (Li, Magud, Werner and Witte 2021; Bevilaqua, Hale, and Tallman 2020).

8 See also Bruno et al. (2024) for analysis of corporate bond issuance in various country groupings, and Avdjiev et al. (2024), who highlight the role of local currency credit markets as global economic shock absorbers.

9 Three countries—India, Brazil, and Thailand—accounted for more than two thirds of all local-currency corporate bond issuances. Other significant local currency markets include Indonesia, Malaysia, Mexico, Philippines, South Africa, and Türkiye.

10 A well-functioning domestic capital market for local currency issuance usually requires a strong track record of macroeconomic stability and a large domestic investor base—conditions often lacking in many lower-income emerging markets. Tyson (2023) provides an overview of capital market development in EMDEs, highlighting the role of institutional and macroeconomic factors for local currency bond issuances. In an analysis of international bond issuances by firms between 1995 and 2013, Hale et al. (2016) emphasize that economic fundamentals, such as inflation and government debt, are associated with lower probabilities of issuing in home currencies. In the context of the COVID-19 pandemic, Papageorgiou and Goel (2021) note that local currency bonds were more sensitive to domestic fundamentals, while hard currency bonds depended more on global risk sentiment.

11 For example, debt of non-financial corporates rose from about 30 percent of GDP in 2008 to about 40 percent at present in the sample of 47 countries considered, based on data from the Institute for International Finance. The increase was much steeper for China, which is not included in the sample. (For data on non-financial corporate, other private, and public debt, see also the International Monetary Fund's Global Debt Database.)

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