LONDON FORFAITING

Country List & Commentary

4th Quarter 2019

CONTENTS:

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Kenya

Kenya’s current-account deficit narrowed to 4.2% from 5.4% in previous fiscal year. Increased exports of soft commodities, receipts from tourism and slower growth of imports of food helped to narrow deficit. Foreign-exchange reserves stand at $9.57 billion, which is equivalent to 6.01 months of import cover. According to the IMF, Kenya's economy is expected to expand by 5.6% this year and 6.0% in 2020.

The aggregate banking sector profits were static in the second quarter of 2019 compared with a year earlier, but the non-performing loan (NPL) ratio dipped and private-sector lending edged higher

Mexico

Despite a turbulent first half of 2019, characterised by weak GDP growth, Mexico's external sector appears healthy, having even recorded a current-account surplus in the second quarter. The structure of the country's balance of payments has remained unchanged during this period and there has been a sustained increase in international reserves from the start of the current term in December. However, the risk of disruption to the external accounts from trade-related frictions with the US will continue to linger.

Meanwhile, inflation has continued to surprise favourably and is at the 3.0% target, allowing the central bank to cut the overnight rate. Some domestic risks appeared to have eased somewhat, including the uncertainty about the contents of the 2020 budget and the financing pressures on state-owned Pemex (the national oil company). Still, some risks persist, including the approval processes of the new North American Free Trade Agreement (known as USMCA) in the US and Canada, as well as the potential for new US threats of tariffs on Mexican exports

Nigeria

Nigeria's economy failed to gather pace in 2019 after the February polls. Real GDP growth slowed to 1.94% year over year in 2Q from 2.1% in 1Q, missing a consensus estimate of 2.5%.

Nigeria’s central bank is increasing pressure on lenders to keep providing credit in an effort to boost economic growth in Africa’s biggest oil producer. The West African nation’s banking regulator raised the minimum loan-to-deposit ratio to 65% from 60% to “sustain the momentum” seen in lending since it first lifted the measure in July, the Abuja-based Central Bank of Nigeria said in a statement dated Sept. 30. Banks have until Dec. 31 to comply with the directive or risk an additional cash-reserve requirement equal to 50% of the lending shortfall implied by the ratio, it said.

Besides, Nigeria has finally begun preliminary talks with international oil companies to settle a revenues dispute, seeking to recover $62bn on claims that the companies failed to comply with a 1993 law that hands the state a greater share of income when oil exceeds $20 a barrel.

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Turkey

Economic growth rebounded in the first half of 2019 due to fiscal stimulus and a positive contribution from net exports. The IMF now expects the economy to expand 0.25% in 2019, a sharp change from its previous forecast of a decline of 2.5%. In its assessment, the IMF pointed to a "remarkable adjustment" in the current account, a major vulnerability in the run-up to last year's crisis. The fund also described the country's public debt burden as "commendably low" and said it welcomes some of the steps taken to unwind the recent fiscal stimulus. The recovery in the lira's exchange rate led to a sharp disinflation, paving the way for aggressive monetary policy easing since late July. However, weak institutions, limited checks and balances between government bodies raise concerns about the sovereign's ability to address the challenging environment for the financial sector and broader economy. Fitch downgraded Turkey's sovereign rating by one notch to BB- in July. The policymakers are expected to keep on accommodating Erdogan's desire to lower the policy rate to single digits and to boost real GDP growth to 5% in 2020 without risking an adverse market reaction.

All the top tier banks are currently tapping the syndicated-loan market to refinance foreign-currency and the borrowing cost is cheaper now than it was one year ago.

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