

Country Commentary

Fourth Quarter
2020



INSIDE THIS ISSUE

1. Global Economies Update
2. Azerbaijan
3. Belarus
4. Nigeria
5. Turkey

Financial Markets showing signs of recovery; but COVID-19 impacts remain

1. Global Economies Update

European nations are preparing tougher measures to contain the coronavirus as infections are surging toward a “tipping point” and ECB top officials amplified their call on governments to keep supporting euro-area economies with fiscal policies assuring that the monetary policy will remain a stable and reliable source of support throughout the crisis. In the US the main focus is on the Presidential election. The Democratic candidate Joe Biden is leading in the polls and investors are speculating that a victory by him would bring an increase of federal spending to boost the economy.

Emerging markets successfully avoided disorderly adjustment processes during the initial phase of the pandemic. Policy responses have been comprehensive, and the ample global liquidity made available by the central banks of developed markets allowed many countries to adopt policies that would not have been possible in the past, particularly on the monetary front.

In 4Q20 the virus continues to be the main risk for emerging markets, both to the upside and to the downside. Upside risk could materialize if a vaccine is discovered sooner and allows economic conditions globally to normalize. On the downside, a second wave of contagion could be problematic for many countries, which have already spent much of their ammunition over the past few months. Data from developed economies are a warning sign for emerging markets.

Published 13th October 2020

Contact Us
www.forfaiting.com
lfc@forfaiting.com

LONDON COLOGNE MALTA MOSCOW NEW YORK PARIS SAO PAULO SINGAPORE

2. Azerbaijan

Azerbaijan's economy is experiencing significant pressure from the combined shock of lower oil prices and the COVID-19 pandemic. Azerbaijan has a high commodity dependence, with oil and gas accounting for roughly 40% of GDP, 81% of goods and services export revenues and two-thirds of fiscal revenues but the Country has a very strong external balance sheet (sovereign net foreign assets were 84% of GDP at end-2019) which is absorbing most of the impact from lower oil prices. Another positive factor is the low general government debt at 19% of GDP at end-2019 and the country's ability to tap the capital market in case of need. The asset quality for banks in Azerbaijan will be pressured by the COVID-19 impact and lower oil prices.

Banks in Azerbaijan are still recovering from legacy asset quality problems since the 2015 devaluations and remain weak as reflected by aggregate banking sector NPLs at 7.3% in May 2020.

3. Belarus

In August-20 the Belarus sovereign risk deteriorated considerably after Alexander Lukashenko claimed a landslide victory in presidential elections to extend his 26-year rule amid opposition accusations of fraud. This triggered protests in Minsk that have been sedated with violence by the government and that are still ongoing. The situation seems to be in standstill with Lukashenko refusing to step down/concede new elections and leaning towards historical ally Russia for support. On the other side the EU and the US do not recognize as valid the result of the August's presidential elections and recently imposed sanctions on 40 Belorussian officials. The EU is now threatening to sanction Lukashenko if he fails to enter into talks with the opposition and order an end to the crackdown on protesters launched after a disputed election in August.

4. Nigeria

The global negative effect of the Covid-19 and the depressed oil market are having a dramatic effect on Nigeria but is now showing sign of stabilization. In Sept-20 Fitch affirmed Nigeria's rating at B and changed the outlook to stable from negative. The revision of the Outlook reflects a decrease in the level of uncertainty surrounding the impact of the global pandemic shock on the Nigerian economy. Oil prices have stabilized, global funding conditions have eased and domestic restrictions on movement have started to be relaxed. Nigeria has navigated external liquidity pressures from the shock through partial exchange rate adjustment combined with de facto capital flow management measures and foreign-currency restrictions, while disbursement of external official loans has supported the level of international reserves. External vulnerability persists from currency overvaluation and a possibly large foreign-currency demand backlog.

5. Turkey

Turkey is very much on the spot at the moment as its stability is being challenged by mounting geopolitical risks in the Caucasus and eastern Mediterranean regions; Turkish Lira depreciation to all time high against the USD; Potential imposition of sanctions by the EU and the US; reducing FX reserves. Despite the difficult situation the appetite for Turkish risk by international investors remains strong. The last week of September overseas investors purchased \$610 million of Turkish bonds and equities, which this is the highest volume since the start of 2018, clearly driven by the high yield that Turkish risk is offering at the moment. On 6th October Turkey issued a new \$2.5Bln Eurobond maturing in 5yrs, paying 6.4% and the order-book was 3 times oversubscribed.

The biggest immediate concern is on local corporates (which face reduced income from export, depreciating TRY revenue and high USD debt). Although this will eventually affect the banking system, top tier Turkish banks remain very well capitalized and can handle the FX depreciation (at least in the short term).