Country Commentary

First Quarter 2022

LONDON FORFAITING COMPANY LTD

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1. Global Economies Update

2021 operating environment has been characterized by strong economic growth, supported by high oil and commodity prices and accommodative monetary policies adopted by the central banks. The new year is starting full of uncertainties and the global markets are expected to be highly volatile in 1Q22 as investors are trying to assess the repercussions that the newly discovered and fast spreading COVID variant will have on economies all around the globe. The geopolitical tensions in several Emerging Market countries (Belarus, Ukraine and Ethiopia) and the likely deterioration of FX funding conditions for EM borrowers are a further concern.

2. Angola

Just a handful of currencies made headway against the USD in 2021. Angola's kwanza is one of them. The currency of Africa's third-biggest oil producer has strengthened 15% last year, buoyed by surging crude prices, a credit-rating upgrade and a hawkish central bank. That puts it on track for its best annual performance since 1999, when the current version of the kwanza was introduced. Angola's economy, which depends on oil for 90% of export revenue, is forecast to expand about 0.2% this year and 2.4% in 2022, helped by higher crude prices, according to the Finance Ministry. The nation earned praise from the International Monetary Fund, which approved a $772 million disbursement in June, for reforms aimed at diversifying the economy. In Sept-21, Moody's raised the country's credit rating for the first time, citing improved governance and debt metrics.

3. Ethiopia

In Nov-21 S&P lowered Ethiopia's rating deeper into junk to CCC, citing a risk to debt payments as the civil and geopolitical conflict in Africa's second-most populous nation worsens. S&P estimates Ethiopia's external obligations at $5.5 billion in the three years to 2024. "These relatively high external refinancing needs exceed the country's gross foreign exchange reserves of about $2.9 billion" and "Access to official external funding remains impaired" S&P said in the statement. Ethiopia's Eurobonds have plunged to fresh records in 4Q21 and the Eurobond maturing in Dec-24 is now trading at L+21% p.a. The Ethiopian government forces have recently made major advances in their fight against Tigrayan dissidents after a 13- month conflict that's triggered humanitarian and economic crises. The Tigrayan leader ordered a strategic retreat by his troops and urged the United Nations Security Council to oversee an end to the civil war.

Published 5th January 2022

4. Sri Lanka

In Dec-21, Fitch downgraded Sri Lanka's sovereign rating to 'CC' from 'CCC', saying there is an increased probability of a default in coming months in light of the country's worsening external liquidity position underscored by a drop in foreign-exchange reserves.
The first of Jan-22, Sri Lanka's federal Cabinet will meet to decide whether or not to seek bailout funds from the International Monetary Fund as the nation struggles with limited options to address upcoming debt maturities. The government is running short of foreign exchange. It has $3.1bln of foreign exchange reserves, roughly enough to pay for two months of imports and it is due to pay back $500m Eurobond on 18th Jan-22 and another $1Bln in July-22. The Eurobond due on 18th Jan-22 is currently trading at 95% cash price, indicating that investors believe that Sri Lank will ask IMF (and possibly other lenders) for help and avoid default.

5. Turkey

USD/TRY was very volatile in 3Q21 and on 20 Dec-21 it hit the all-time high level of 18.0x. The day after, Erdogan announced emergency measures to bolster the volatile lira: "Should the lira's decline against hard currencies exceed banks' interest rates, the government will pay holders of lira deposits the differential". The plan is intended to suppress retail investors' demand for dollars, and the Treasury will now underwrite losses in new lira deposits in the case of another run on the currency (Turkey can support such cost as it has a low level of debt). The announced measures triggered a sharp appreciation of the TRY that is now trading at 13.0x against USD. TRY is expected to remain volatile in the new year, as rates might be cut further, but this is not expected to have an immediate negative effect on the credit risk of Turkish top tier banks. The Turkish authorities have already announced plans to inject capital into state-owned banks and foreign owned banks continue to maintain adequate capital buffers.

6. Vietnam

Vietnam's economic growth accelerated in the fourth quarter as manufacturing revived and exports extended their recovery from the pandemic slump earlier this year. Gross domestic product rose 5.22% in the fourth quarter compared to a year earlier, that compared to the median estimate of 3.7% for the fourth quarter in a Bloomberg survey of 21 economists. The economy expanded 2.58% for the full year, compared to the median estimate of 2.2% in the Bloomberg survey and just above the government's forecast of 2.5%. The nation's economic growth is a "great result given that the pandemic had seriously affected all sectors of our economy," Nguyen Thi Huong, head of the general statistics office, said during a briefing in Hanoi. The economy is expected to accelerate its recovery from the pandemic in 2022 with momentum coming from the travel and tourism industries, increasing domestic consumption and government stimulus measures.