# Country Commentary

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INSIDE THIS ISSUE




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## 1. Global Economies Update

GDP growth in emerging economies is expected to slow in 2022 mainly due to the combined effects of the Ukrainian war and tapering/rate hikes by the Fed and ECB. All Emerging Market ("EM") countries/risks enjoyed favourable borrowing conditions over the last year, but the current environment is starting to affect the credit risk of certain economies more than others. The rally in oil price is favouring oil exporters such as Nigeria and Angola but negatively affecting oil importers such as Turkey, Pakistan, Kenya and Tanzania. The difficulty in accessing new FX funding due to investors' risk adverse approach and re-positioning on safe/highly rated risks is putting pressure on EM borrowers. Domestic inflation is increasing broadly in EM and will lead to unpopular hikes of domestic rates. Yields on EM loans and bonds has widened year to date reflecting higher risk and continue to be very volatile.

## 2. Egypt

According to Fitch Egypt will suffer reduced tourism inflows, higher food prices and greater financing challenges because of Russia's invasion of Ukraine. The crisis aggravates Egypt's vulnerability to outflows of non-resident investment from its local-currency bond market. Non-resident investment in Egypt's local bond market stood at USD28.8 billion at end-2021, or about 56% of foreign-exchange (FX) reserves and other FX assets of the Central Bank of Egypt (CBE). There were around USD5 billion of net outflows in September-December, and further outflows accompanied news of the Ukraine conflict. These outflows reflect tighter global financial conditions, as well as investor concerns about Egypt's external funding needs in the absence of an IMF programme. In February the Central Bank introduced the requirement for imports to be arranged under Letter of Credit rather than documentary collection. In March-22 the central bank hiked its benchmark interest rate for the first time since 2017 in a surprise move, citing global inflationary pressures from the pandemic and Russia's invasion of Ukraine. Egypt is now in talks with the International Monetary Fund on possible support and the discussions are looking at several options including a so-called precautionary and liquidity line (credit that can be drawn down if needed) alongside other forms of financial assistance.


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## 3. Ghana

Moody's downgraded Ghana to CCC+ reflecting the increasingly difficult task the government faces addressing its intertwined liquidity and debt challenges. Weak revenue generation constrains government's budget flexibility and tight funding conditions on international markets have forced the government to rely on costly debt with shorter maturity. Moody's said its projection shows that more than half of the country's revenue will go into the payment of interest for the next few years and proposals by the government to fix the challenge doesn't seem to be feasible, especially given the fragile post-pandemic environment. While Ghana's external buffers and moderate external debt amortization schedule in the next few years afford the government a window of opportunity to deliver on its strategy, balance of payments pressures will build up the longer government's large financing requirements have to rely on domestic sources. The downgrade and the difficult operating environment increase the probability that Ghana will approach the IMF asking for emergency funding.

## 4. Kenya

Kenya is rated B+ by Fitch and B by Moody's and S&P with no rating changes in 1Q22. In Dec-21 Fitch placed the rating on negative outlook reflecting concerns about the ability to halt the rise in government debt. Local currency depreciation is also concern with Kenya's debt service costs set to rise in 2022 as the local currency sinks to all-time lows against the dollar. Kenya's Treasury expects to spend a record 1.17 trillion shillings ($10.4 billion) in the year to June on loan repayments, equivalent to about two-thirds of its revenue.

The difficulty in accessing new FX funding due to investors' risk adverse approach and re-positioning on safe/highly rated risks makes borrowing more challenging.

## 5. Nigeria

In 2021 Nigeria made $44Bln from oil exports and paid $12Bln for oil import. Nigeria is struggling to increase production, but high oil prices is helping to build USD reserves.

In March-22 Fitch affirmed Nigeria's rating at B, stable outlook as higher global oil prices will drive an improvement in external liquidity and support near-term economic growth. These improvements are balanced against high hydrocarbon dependence, which leaves Nigeria vulnerable to negative oil price shocks, and structurally low domestic revenue generation. The continuation of fuel subsidies will limit upside from higher oil prices on Nigeria's public finances. Despite the capital market being closed for most EM borrowers, Nigeria recently managed to issue a $1.25bln 7yrs Eurobond @8.75%pa.