# Country Commentary

**Third Quarter 2022**

LONDON FORFAITING COMPANY LTD

INSIDE THIS ISSUE



## 1. Global Economies Update

The economic damage caused by the Ukrainian war is contributing to a significant slowdown in global growth in 2022 and adding to inflation. IMF adjusted the expected global growth in 2022 to be 3.6% from the 4.4% projected in Jan-22 and the main causes are the global geopolitical tensions and sanctions; intensification of inflation challenges due to rising energy prices and supply disruptions; monetary tightening with higher interest rates in advanced and developing economies; slowdown of Chinese economy which has wider ramifications for Asia and for commodity exporters. The long-lasting Ukrainian war and tighter financial conditions are adversely affecting all EM countries, with Emerging Europe and Africa being the most exposed. Main stress points are higher prices and potential shortages of energy, food and other commodities (i.e Egypt, Tunisia, Turkey); Reduced trade, tourism (i.e. Turkey, Kenya, Egypt) and remittance flows from Russia (i.e. Uzbekistan); Slower growth and higher inflation (i.e. Turkey, Ghana, Pakistan); Heightened risk of social unrest (i.e. Pakistan).

Yields of EM loans and bonds continue to increase (now including commodity exporters such as Nigeria and Angola) and volatility remains very high.

## 2. Bangladesh

Stable sovereign rating (no rating actions in 2Q22). In April-22 Moody's changed the outlook of the Bangladeshi banking sector to "stable" from "negative" commenting that the operating environment for banks is normalizing, supported by a rebound in garment exports and a resumption of domestic economic activities. No direct impact from War in Ukraine but prolonged war would affect export business due to high inflation.


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*Published 6th July 2022*

## 3. Kenya

Kenya continues to benefit from the IMF support. In April-22 it obtained $244m financing and the IMF commented as follows: "The economic rebound is underway although global shocks are presenting new challenges in the form of rising global energy, fertilizer, and food prices. Kenya's robust program performance is delivering resilience that is helping the country navigate these global shocks while remaining within the authorities' targets and continuing to make progress in addressing debt vulnerabilities". In March-22 Fitch affirmed Kenya's rating commenting as follows: "Kenya's B+ rating is supported by a record of strong growth and relative macroeconomic stability. Additionally, the USD2.4 billion IMF programme is a policy anchor and contributes to external financing sources". The Negative Outlook reflects uncertainty about planned fiscal consolidation and risks to economic growth around the August 2022 general election. Fitch also commented that it expects Kenya to comfortably meet its average external amortisation of USD2.3 billion (1.8% of GDP) in FY22 and FY23, but a USD2 billion Eurobond repayment in June 2024 will raise FY24 external debt servicing needs.

## 4. Pakistan

Pakistan's credit risk deteriorated in 2Q22 on soaring inflation, decreasing FX reserves and political instability. The government is currently negotiating a deal with the IMF (for $3Bln) which is key to ease short term pressure and would open the door to new funding from Development banks, China, Saudi Arabia and international banks. Pakistan doesn't have meaningful repayments due before Dec-22 ($1Bln Eurobond) but 2023 will be very challenging with about $20Bln of repayments due.

## 5. Turkey

Turkish credit risk has deteriorated in 2Q22 as evidenced by the 5yrs sovereign Credit default swaps now trading above 800bps pa. Focusing on the banking sector, Fitch published 1Q22 Turkish Banks Datawatch report, which covers 13 banks that comprise 81% of total Turkish banking sector assets. Turkish banks reported strong profitability metrics in 1Q22, mainly due to improved margins in the lower-interest-rate environment. Asset-quality metrics continue to be flattered by loan growth. Banks' capital ratios continue to be supported by regulatory forbearance on risk-weighted assets and on the suspension of mark-to-market losses through equity but were also boosted by strong internal capital generation in 1Q22 in most cases. Notwithstanding their generally adequate profitability and provisioning buffers, as well as capital increases at the large state-owned banks in March 2022 banks' capitalisation is only adequate considering lira weakness, asset-quality pressures and seasoning risks to macro and financial stability. All the top domestic banks successfully refinanced the 1yr EUR/USD loans at reasonable costs (SORF+2.75% pa and E+2.10% pa).

In conclusion, although the sovereign risk deterioration, rising inflation and TRY depreciation will affect the banks' profitability, asset quality and capitalization of Turkish banks, the short-term credit risk remains acceptable.