Country Commentary

LONDON FORFAITING COMPANY LTD

First Quarter 2023

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1. Emerging Market Outlook 2023

Emerging Markets ratings are at a record low and across the globe the only regions who's where the credit outlook is not seen as deteriorating over the next 12 months are China, Middle East and Latin America.

Inflation is expected to have a net adverse effect on emerging market sovereigns, with public finance pressures remaining high due to very high levels of interest payments, especially for Sri Lanka, Ghana, Pakistan and Nigeria.

The world has seen significant increases in Government debt levels over the period 2019-2022, with a median Government Debt / GDP now at 60%.

IMF agreements are in high demand with over 40 countries engaging in active financing plans in 2022. Reaching an IMF agreement is going to be vital for the economies of Pakistan, Egypt and Tunisia in 2023.

Geopolitical risks continue to remain high; Ukraine/Russia war will still have a long lasting effect on most nations, China & US relations could worsen in 2023, tensions in the Middle East are likely to continue e.g. Israel appointing a new far-right government and the ongoing tensions / protests in Iran.

Elections due in 2023 include Nigeria, Argentina, Pakistan and Turkey could lead to major changes in both Fiscal and Monetary Policy.

2. Angola

In Jan-23 Fitch affirmed B-, with positive outlook, reflecting the recent sharp decline in Angola's central government debt, large current account surpluses and lower government financing risks underpinned by a supportive oil price environment. Fitch expects Angola's central government debt to decline to 54.5% of GDP in 2024, from an estimated 60.3% in 2022 and 77.4% in 2021. Angola's real GDP growth accelerated to 3.1% in 2022, from 0.7% in 2021, primarily driven by a robust performance of the non-oil economy, but also a return to positive growth of the oil sector.

3. Brazil

Luiz Ignacio "Lula" da Silva of the leftist Workers Party (PT) was voted into office as president in January, after his narrow victory over incumbent Jair Bolsonaro in October 2022 elections. Lula pledges a shift away from the liberal economic agenda of recent years. It is unclear how forceful a policy shift he will pursue, which has been a source of market volatility since the elections. Fitch projects growth of 3.0% in 2022, reflecting surprisingly strong momentum in the year supported by the final stages of post-pandemic economic reopening, stimulus measures, and a strong labour market.

4. Nigeria

Nigeria sovereign risk deteriorated in 2H22 as evidenced by Fitch's downgrade in Nov-22. The downgrade to 'B-' reflects continued deterioration in Nigeria's government debt servicing costs and external liquidity despite high oil prices in 2022. Low oil production and the expensive subsidy on petrol have consumed most of the fiscal benefit of high oil prices in 2022 and will continue to stress already low government revenue levels. If implemented, subsidy reduction in 2023 would benefit public finances, but constrained oil production and structurally low domestic non-oil revenue mobilisation will limit potential gains. Nigeria's government debt remains low as a percent of GDP, but low revenue will keep debt affordability a key rating concern. Nigeria's government debt averaged 31% of GDP in the three years to 2021 with this well below the historical 'B' median of 50%.

Despite the deterioration of credit risk Nigeria maintains manageable near-term external debt service. It is estimated that the government faces external debt amortisations of USD2.4 billion in 2023 and USD2.7 billion in 2024, which will be met through a combination of reserves drawdown and new external borrowing, most likely syndicated loans

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	5. Panama In 4Q22 Moody's changed the outlook of the BBB rating to negative reflecting rising fiscal pressures stemming from an increasingly rigid spending structure related to upward trends in wages, transfers and interest payments. Additional pressures relate to prospects of persistent deterioration in the financial position of the social security's defined benefit program, with projections indicating its reserves will run out by 2024. The affirmation of the ratings at BBB reflects (i) Panama's economic strength, which remains supported by prospects for continued robust GDP growth in 2023-24 relative to rating peers; and (ii) Moody's expectation that, notwithstanding the rising fiscal pressures, the government's debt burden would remain broadly stable at around 60% of GDP and in line with that of its BBB-rated peers.
	6. Vietnam In Dec-22 Fitch published a positive report on the Vietnamese banking sector. Commenting that "the propensity of Vietnam's authorities to support the banking system is evident from recent regulatory actions". This led to Fitch's upgrade of most domestic banks' Long-Term Issuer Default Ratings (IDRs) in November 2022. Positive macroeconomic momentum, if sustained into 2023, also makes it likely that standalone credit ratings may be upgraded in the next 12 months. Following a stable 2021, sovereign Vietnam risk has improved in 2022, as evidenced by S&P upgrade to BB+ and Moody's upgrade to BB.

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