Country Commentary

LONDON FORFAITING COMPANY LTD

Second Quarter 2023

IN FOCUS

1. Global Economies Update

Numerous downside risks continue to weigh on the global outlook: Contagion following the collapse of regional mid-size US banks (i.e. SVB, Signature Bank); China's recovery stalling; Escalation of Ukrainian war and Geopolitical tensions US/Europe vs China/Russia; Persisting inflation; Tighter global financing costs could worsen debt distress. Overall economic and credit outlook to remain challenging for Emerging Markets in 2023 with weak growth outlook and rising funding costs. Four EM countries are now in default (incl. Ghana & Sri Lanka) and more are likely to follow during the year (Pakistan, Ecuador, Tunisia).

The impact on EM of the US banking crisis is still to be assessed. For the moment there is a global "risk off" sentiment as investors look for "safe havens".

2. Bangladesh

Bangladesh's GDP growth is expected to slow to 5.2% in the fiscal year ending June due to rising inflation, a revenue shortfall, energy shortages and slower global growth, according to a recent report by the World Bank.

The banking system is facing difficulties in securing USD funding, but Bangladesh's dollar crunch is seen easing as imports decline, while buoyant remittances and export growth help the South Asian nation rebuild its reserves, according to the central bank.

Bangladesh remains rated BB- by all three main rating agencies.

3. Ecuador

Ecuador's dollar bonds are among the worst performers in Latin America, amid growing concerns over the possible impeachment of President Guillermo Lasso.

In 2020 Ecuador defaulted and in Sept-20 successfully restructured its external debt but almost 3 years later, Ecuador is still rated CCC-.

4. Kenya

Kenya is currently rated "B" by all three rating agencies and it doesn't seem to be at immediate risk to be downgraded below B- but Kenya's credit risk has been deteriorating over the past two years.

In 1Q23 S&P changed the outlook from stable to negative as a challenging Eurobond issuance environment and recent tightness in domestic debt markets are raising Kenya's medium-term fiscal and external refinancing risks. In conclusion, although the short-term risk remains acceptable, the scarcity of FX availability, the increased (and increasing) EUR/USD rates and the uncertainty over Kenya's ability to access funding the international capital and loan markets are a concern.

5. Senegal

Rated "BB-" by Moody's (affirmed in March-23) and "B+" by S&P both Stable Outlook (no rating changes YTD).

Senegal enjoys political, institutional and economic stability with GDP growth averaging 6.4% over the past 5 years. Senegal's Eurobonds are among the lowest yielding and less volatile in the SSA region.

Both the IMF and rating agencies consider the country's debt as sustainable with a moderate risk of debt distress in the medium term. Debt/GDP currently at 65.5% is projected to peak this year, before gradually declining.

6. Tunisia

In Jan-23 Moody's downgraded Tunisia to CCC from CCC+ and maintained negative outlook due to the absence of comprehensive financing to date to meet the government's large funding needs

Very tight domestic and external liquidity and high financing needs put Tunisia at high risk of default in 2023 and striking a deal with the IMF deal is vital to avoid default. A $1.9Bln deal is under negotiation but has not materialized yet.

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	7. Turkey The key event for Turkey is the upcoming elections. Erdogan, who wields almost unbridled power in Turkey, is seeking another term in presidential and parliamentary elections on May 14. With the nation facing an economic crisis and struggling to recover from devastating earthquakes. Polls suggest a tight race that could threaten his 20-year rule, the longest in Turkey's history. In March S&P affirmed the sovereign rating at B, but changed the outlook to negative from stable, reflecting risks to Turkey's creditworthiness from "what we consider untenable monetary, financial, and economic policy settings. Contingent liabilities from state banks and public enterprises are large and growing, while balance-of-payments and exchange-rate vulnerabilities remain elevated." Despite the challenges, Turkey continues to successfully issue Eurobonds. On 6th April, the nation issued $2.5 billion in dollar-denominated green bonds due in 2030 at a 9.3% yield. The book was three times oversubscribed.

Published 12th April 2023

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