Country Commentary

LONDON FORFAITING COMPANY LTD

Fourth Quarter 2023

IN FOCUS

1. Operating Environment

The world economy continues to grow at a very slow pace with the deepening slump in China's property market casting a shadow over global growth prospects, just as monetary tightening increasingly weighs on the demand outlook in the US and Europe.

The balance of risks to global growth are on the downside. Global inflation remains high and could even rise if further shocks occur if, for example, there is an intensification of the war in Ukraine or extreme weather-related events. Financial sector turbulence could resume as markets adjust to "higher for longer" USD and EUR rates. The "higher for longer" narrative has Emerging Market ("EM") economists drawing parallels to the mid-1990s, when weak growth, rising debt defaults and a slew of forex devaluations saddled EM creditors with large losses. China's economy is struggling to recover, negatively affected by the of unresolved real estate problems, with negative cross-border spill overs. Several sovereign debts remain in distress (especially in the Sub-Saharan African region) and could spread to a wider group of economies.

2. Bangladesh

The Islamic banking sector in Bangladesh continues to face liquidity challenges even though the situation is improving with support from the central bank. In September Fitch affirmed Bangladesh's rating at BB- but changed the outlook to negative from stable. The Negative Outlook reflects a deterioration in external buffers which has increased vulnerability to shocks. It also reflects Fitch's view that the country's incremental policy response, including exchange-rate system changes, and continued support from external official creditors has been insufficient to stem the fall in foreign reserves and resolve domestic US dollar liquidity strains.

3. Ecuador

Ecuador had its credit rating downgraded to CCC+ by Fitch in August who cited heightened financing risks emanating from a significant deterioration in fiscal accounts, with limited scope for additional local market financing and a challenging external financing backdrop. Liquidity constraints have resulted in a sizeable build-up in arrears since YE 2022 and there has been an increase in political risk and governability challenges. Fitch does not anticipate significant reform progress to address Ecuador's fiscal and financing challenges in the remaining 18-month presidential term. This will continue to hinder the sovereign's market access and ability to secure an IMF successor program. The political uncertainty and history of repeated defaults have caused Ecuador debt to sink more than 22% YTD, making it the worst performer in emerging markets this year.

4. Ethiopia

In Sept-23 Moody's downgraded Ethiopia to CCC-. The main driver for the downgrade is the increasingly high likelihood of government default on foreign currency debt owed to private sector creditors because of strained external liquidity, for which the government has sought relief under the G20 Common Framework for debt treatment. Ethiopia's official foreign exchange reserves are very thin, at $1.1bn, and the IMF is currently discussing a new aid package with the Ethiopian authorities. The credit risk has deteriorated in 3Q23, and a new IMF deal is urgently needed to avoid a default in 2024.

CONTACT US

www.forfaiting.com

lfc@forfaiting.com

	5. Kenya Difficult conditions for international Eurobond issuance alongside pressures in the domestic markets continue to pose debt-refinancing challenges for Kenya. The top priority for the government is to it define a plan for the refinancing/repayment of the $2bn Eurobond maturing in June 2024. Kenya's debt burden has come under investor scrutiny as the country faces dollar shortages amid rising energy and food import bills. With central bank hard currency reserves standing at just $7.4bn in July some have expressed concern a debt restructuring is looming, following other African nations including Ghana and Zambia. In August S&P affirmed Kenya's rating at B with a negative outlook. S&P stated that an increase in foreign currency lending by donors in recent months should provide Kenya with sufficient foreign exchange reserves to meet its commercial debt obligations in 2023 and 2024.
	6. Uzbekistan In August Fitch affirmed Uzbekistan rating at BB- stable outlook. The rating is supported by robust external and fiscal buffers, low government debt and a record of high growth relative to 'BB' rated peers. Political risk is low as presidential elections were held in July. The long serving president won and extended his mandate for a further 7 years and the economy has proved resilient to spill overs from the Ukraine war and Russia sanctions so far, with Uzbek banks implementing controls to comply with western sanctions. Commercial ties with Russia will remain deep, and the government will continue balancing this with strong ties with western countries as it seeks to avoid becoming subject to secondary sanctions. Uzbekistan enjoys a robust external balance sheet with FX reserves enough to cover 9.4 month of current account payables and Debt/GDP at 37%.

Published 5th October 2023

UNSUBSCRIBE