Country Commentary

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1. Global Economies Update

There was no credit crunch in the aftermath of recent US banking stresses, but bank funding costs are rising and, with central bank quantitative tightening policies withdrawing liquidity, there is a risk of sharper than expected credit tightening hitting growth. Near-term global growth prospects have improved again reflecting consumption and job creation in the US proving surprisingly resilient, China's reopening prompting a swift rebound in services activity and expansion in EM ex-China outperforming expectations.

Core inflation remains stubbornly high and its failure to respond to aggressive rate rises since mid-2022 has become a key concern.

2. Egypt

In May-23 Fitch downgraded Egypt to B and kept it on negative outlook. Uncertainty around Egypt's ability to meet its external financing needs has increased reflecting a deterioration in all macroeconomic indicators and still constrained prospects for the government being able to access external borrowing. Despite the government's asset monetisation programme international investors remain cautious due to the very high level of inflation and expectations of currency depreciation. Egypt's external sector is highly exposed to the success of the privatisation program and further support from the Gulf Cooperation Council (GCC) and the IMF. In the first half of July Egypt signed deals worth $1.9 billion with private sector firms and a United Arab Emirates wealth fund. This sending a clear signal of progress in efforts to revive an economy crippled by a foreign-currency crunch.

3. Pakistan

In July-23 the IMF Executive Board gave final approval for a stand-by arrangement to lend Pakistan $3 billion in the next nine months. About $1.2 billion is set to be released immediately. The loans will increase the country's FX reserves and help improve its credit ratings. Fitch raised Pakistan's sovereign rating to CCC and upgrades from other agencies may follow. However, Pakistan still faces challenges. Even assuming the IMF disburses the remaining funds, Pakistan is expected to run out of the dollars needed to repay its debts by the end of April 2024. Also, there is a risk the country won't be able to pass IMF reviews needed to secure the remaining money. Those are scheduled for November and February, just after national elections that could put a new government into power. More aid will be needed to avoid default in the longer-term.

4. Peru

Peru has experienced a prolonged period of political turmoil since 2016 with six presidents, numerous Ministerial reshuffles and the disbanding of Congress. In Dec-22 President Castillo was impeached, resulting in his ouster and Congress appointing his VP Dina Boluarte to the Presidency which runs until 2026. This triggered violent protests with multiple deaths and widespread road blockades that are still ongoing. The downside credit risks remain elevated amid weakening of governance, political instability, and lower growth prospects but Peru is still investment grade rated by the three main rating agencies and is not expected to be downgraded to "junk" anytime soon. The BBB ratings are supported by moderate public debt, strong external liquidity, a track record of macroeconomic stability and a disciplined policy framework.

5. Sri Lanka

In April-22 the government announced the suspension of external debt payments (including Eurobonds and commercial loans) and 15 months later the Government still hasn't been able to reach a debt restructuring agreement with its creditors. Sri Lanka has $41bln of external debt and $39bln of domestic debt and it is seeking to restore debt sustainability in line with a $3 billion International Monetary Fund bailout program it secured in March. Similarly to Ghana, the government is making progress in the restructuring of the local debt but with still no significant news on the restructuring of its international debt.

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	6. Turkey The appointment of Mehmet Simsek as Treasury and Finance Minister and the change in leadership at the central bank indicate a potentially sharp policy shift. Simsek, who enjoys credibility in financial markets following his performance in previous Erodgan governments, has pledged a return to a "rational handling of the economy" with price stability as its main target. Another potential sign of policy intent is the lira's recent depreciation (30% against the USD in June) that could ease pressure on international reserves which were being eroded to support the currency. Turkish banks' capital buffers position them well against any looming policy shift, with rates likely to almost triple to 24% this year and the lira remaining under pressure.
	7. Zambia In June-23, nearly three years after it defaulted on its bonds, the Zambian Government announced a debt restructuring deal with key creditors (including China) accounting for $6.3Bln of debt. The deal that Zambia secured sees it paying back the debt in 20 years, with interest rates as low as 1%. The terms are in line with China's approach to restructuring that avoids writing off liabilities. The restructuring represents an approximate 40% cut in the net present value of the debt, which is what private creditors, like bondholders, will need to match under the G20's requirement for comparable treatment. This is paving the way to new funding from the IMF. Holders of Zambia's $3 billion Eurobonds have told the government that they're willing to "come onboard" with a debt restructuring agreement.

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