First Quarter 2024

IN FOCUS

1. Operating Environment
2. Argentina
3. Costa Rica
4. Egypt
5. Senegal
6. Vietnam

1. Operating Environment

The global economy is dragging along at growth rates slower than previous decades, the World Bank said, as the post-pandemic rebound is weighed down by high interest rates, sluggish trade and geopolitical tensions that will hit developing countries hardest. The effects of monetary tightening on funding conditions and growth will be felt more fully in 2024 and will contribute to a challenging credit environment. Geopolitical risk will remain high in some parts of EMEA, particularly due to the wars in Ukraine and between Israel and Hamas.

Credit conditions for sovereigns in emerging Europe to be neutral in 2024 as the region's economic activity recovers and spill overs from the war in Ukraine ease, in an environment of still high geopolitical risks.

The environment pressures for the Turkish banking sector have partially abated following Turkey's return to a more conventional and consistent policy mix which has eased external funding pressures and near-term financial stability risks.

The conflict between Israel and Hamas is mostly contained in Gaza but is having negative spill overs on neighbouring countries, notably Egypt, Lebanon and Jordan. However, another year of robust oil prices will support credit metrics in oil-exporting sovereigns.

Six of the top-10 performing economies in the world are forecast to come from Sub-Saharan Africa in 2024, according to the International Monetary Fund. These include Ivory Coast at 6.6% and Tanzania at 6.1% and while the two heavyweights aren't likely to deliver quicker output in the near term, both Nigeria and South Africa are pursuing reforms that may yield benefits over time. African banks will remain exposed to domestic and global operating environment risks, but most countries are proving resilient.

2. Argentina

The rise of libertarian Javier Milei to Argentina's presidency portends big changes but he faces no easy path to stabilize the economy after years of disfunction. Milei advocates aggressive action to address longstanding macroeconomic disfunction and stagnation. After initial scepticism, markets started to rally on clearer signs of his political capacity to carry out such action, and on moderation of his more radical proposals including dollarization.

The adjustment will be painful and the path forward is laden with economic, political and social risks. Milei's party has little representation in the legislature and controls no provincial governorships, alliances with more influential parties and powerbrokers remain in flux, and the social situation is fragile. Argentina remains rated CC by Moody's and Fitch and is not a market which LFC can currently consider, but developments are closely monitored.

3. Costa Rica

In 4Q23 Costa Rica's rating was upgraded to BB-, stable outlook by S&P and B+, positive outlook by Moody's. The upgrades reflect continued improvement in Costa Rica's financial performance. External debt, net of liquid assets, has declined amid growth in the export base and accumulation of liquidity. In addition, growth is led by export-oriented goods and service sectors, including export zones with the potential to attract more nearshoring, friend shoring, and tourism. Additionally, debt management capabilities have been strengthened, helping to reduce sovereign borrowing costs and to increase government liquidity buffers.

4. Egypt

Israel's war with Hamas has put Egypt in centre-stage, unlocking few funding lines from the IMF, the EU and other lenders. Investors are still concerned about Egypt's ability to service international debt, but the risk is not quite as critical as it was before the Gaza war. No one wants to see Egypt fail now, or economic conditions to worsen. The outbreak of war means more international partners will likely be willing to provide additional support. As a result Wall

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	Street giants from Bank of America Corp. to Goldman Sachs see the danger of an immediate debt crunch receding. In October Moody's downgraded Egypt to CCC+, stable outlook and S&P to B-, stable outlook. The downgrades reflect the government of Egypt's worsening debt affordability trend and the persistence of foreign currency shortages in the face of increasing external debt service payments over the next two years, Next Eurobond to mature is $750m due on 1st March-24, currently trading at 98% cash price. The current valuations reflect the highly uncertain and risky scenario that Egypt is facing but there are not signs of imminent default. The support of the IMF, the EU and Gulf Cooperation Council (GCC) is expected to continue in the short term, but high risk of financial distress remain for the medium/long term.
	5. Senegal In November 2023 the IMF completed the first review of the Extended Fund Facility, concluding that the Senegalese economy continues to face headwinds but despite the difficult socio-economic environment, the authorities remain committed to the program objectives. Some of the downside risks identified at the time of the program request have materialized, leading to a downward revision of near-term growth. Inflation is projected to decline more gradually than anticipated. Externally, the prolonged war in Ukraine and the recent conflict in the Middle East could lead to reduced external demand, higher commodity prices, tighter financial conditions, and a further appreciation of the US dollar. Regionally and domestically, heightened political instability and increased political polarization ahead of the presidential elections could further strain the economy. While near-term risks remain tilted to the downside, with appropriate policies and the start of hydrocarbon production, medium-term prospects are favourable. Senegal is rated B+ by S&P and BB- by Moody's and its Eurobonds are among the lowest yielding is the SSA region. The next one to mature is due in July-24 and is currently trading at S+2.0%.
	6. Vietnam In December 2023 Fitch upgraded Vietnam to BB+, stable outlook. The upgrade reflects "Vietnam's favourable medium-term growth outlook, underpinned by robust foreign direct investment (FDI) inflows, which we expect will continue to drive sustained improvements in its structural credit metrics. We have increasing confidence that near-term economic headwinds from property-sector stresses, weak external demand and delays in policy implementation owing to a corruption crackdown are unlikely to affect medium-term macroeconomic prospects and that policy buffers are sufficient to manage near-term risks."

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