Country Commentary

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1. Operating Environment

Emerging markets continue to rally as risk appetite stayed strong in 2Q24 thanks to mounting bets on monetary easing across core and developing economies. The rating/outlook of Turkey, Nigeria, Ivory Coast and Egypt was upgraded in 2Q24, and Ghana government announced that the Country is about to exit from default on its international debt as the official creditors committee endorsed the debt restructuring plan.

Yield of EM assets (loans/bonds) continue to compress. Nigeria bond due in Nov-25 now trading at S+2.4% p.a. down from S+4.0% p.a. at YE23. Egypt in 1Q24 received over $40bln of funding (UAE and IMF) easing short term risk with Credit Default Swaps ("CDS") reducing to 550bps (1800bps in Oct-23) and June-25 Bond yield now S+2.10% (S+20% in My-23). Turkey 5yr CDS at 260bps, the lowest level since Feb-2020.

No significant changes in the operating environment are expected in 2H24. Investors have abundant liquidity to invest, the lack of primary transactions is supporting the price of outstanding loans/bonds and ECB and FED are expected to cut rates in the second part of the year making access to borrowing easier and cheaper.

2. Brazil

The 2024 budget targets a federal primary deficit of 0% of GDP in 2024, down from 2.4% in 2023, which the authorities expect to achieve within a 0.25pp tolerance range and exempting new spending related to flooding (0.2pp so far). The yield from tax measures intended to deliver this consolidation remains uncertain, however, as the largest of these involves settlements of tax debts that have yet to begin, and congress has blocked other efforts. Inflation stood at 3.9% yoy in May 2024, demonstrating some lingering inertia but no major new pressures. Fitch projects Brazil's economy to grow 1.7% in 2024, down from 2.9% in 2023. In June Fitch affirmed Brazil's rating at BB, stable outlook, supported by its large and diverse economy, high per-capita income, strong external finances and resilience to shocks, and deep local markets supporting sovereign financing flexibility and low foreign-currency debt share.

3. Ghana

The international sovereign debt is currently in default, but a restructuring agreement with bond and loan holders has been agreed in the past few days. The restructuring process is expected to be completed by the end of September. Bond holders agreed to take a 37% haircut on their notional exposures, but the default bonds are currently trading at around 50% cash price.

As Ghana emerges from default, the rating is expected to be in the CCC category given the liquidity constrains that typically follow and event of default. The IMF is essential in providing the necessary USD liquidity, but high inflation and tight monetary conditions remain key credit challenges. The banking sector's non-performing loans ratio increased sharply to 25.7% at end-April 2024 from 16% at end-2022 and loan quality risks are expected to remain high throughout 2024. The banking sector's capitalization was significantly weakened by the domestic debt restructuring that concluded in 2023 and is under further pressure due to the depreciation of the Cedi (20% depreciation against USD in 2024 YTD). Banks are far less affected by the ongoing sovereign external debt restructuring as their exposure to Ghana's Eurobonds is limited, and they have already taken sizeable impairments.

4. Pakistan

External liquidity and funding are still Pakistan's key credit challenges, despite stable debt dynamics. A new IMF deal is expected to be agreed, underpinning other external funding. Pakistan's external position has continued to improve since February's election. The current account deficit is on track to narrow to 0.3% of GDP (just USD1 billion) in FY24,

	from 1.0% in FY23. Gross reserves (including gold) now stand at USD15.1 billion, over two months of external payments, up from USD9.6 billion at FYE23. However, Pakistan's projected funding needs still exceed reserves, at about USD20 billion per year in FY24–FY25, including maturing bilateral debt that is expected to be rolled over. This leaves Pakistan exposed to external funding conditions and policy missteps. Pakistan's 'CCC' rating reflects high external funding risks amid high medium-term financing requirements.
	5. Tanzania Tanzania sovereign risk is stable as in June Fitch affirmed the rating at B+, stable outlook. Tanzania's rating reflects its relatively strong real GDP growth, low inflation, and moderate level of government debt, underpinned by strengthened reform momentum backed by an IMF programme. The rating is constrained by weak governance, revenue underperformance, and a weak macroeconomic policy framework compared with 'B' category peers, that has sustained foreign-exchange liquidity pressure. In June the IMF agreed a funding package of $936m and extended the programme until May-26.
	6. Turkey In 2024 both S&P (May24) and Fitch (Mar24) upgraded Turkey's rating from B to B+, with a Positive Outlook. The upgrade reflects increased confidence in the durability and effectiveness of policies implemented since the country's pivot in June 2023 to reduce macroeconomic and external vulnerabilities. The Positive Outlook reflects the expectation that the overall macroeconomic policy stance should be consistent with a significant decline in inflation, lower current account deficits (CAD) and stronger liquidity buffers. Fitch has recently revised its Turkish banking sector outlook to improving from neutral on reduced external financing pressures and macro and financial stability risks following Turkey's adoption of more conventional macroeconomic policies after last year's presidential election. In April, May, and June 24 all the top tier Turkish banks were able to refinance the upcoming USD/EUR dual tranche syndicated loans at considerably lower cost comparing to one year ago. The USD tranches have been secured by all the banks at S+2.50% pa, comparing to S+4.20% in spring 2023. The EUR tranche has been sourced at E+2.25%, comparing to E+4.00% the year before.

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