Country Commentary

Fourth Quarter 2024

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1. Operating Environment

The global economy is settling into a newfound stability as the stress of strong inflation eases, allowing central banks to keep cautiously loosening policy. Economic growth has remained resilient in recent months, inflation has continued to moderate and indicators suggest ongoing momentum in services. According to the OECD, price increases will be at target in most Group of 20 nations by the end of 2025. “The projected outlook is comparatively benign, with steady or improving growth and moderating inflation,” the OECD said. The OECD cautioned that major central banks should depend on data and take a “prudent” approach, cutting interest rates at a slower pace than they adopted when raising them in 2022 and 2023.

Policymakers have so far taken a similar stance, with the US Federal Reserve the only Group of Seven institution to have gone for a half-point reduction, while the European Central Bank, Bank of England and Bank of Canada have all stuck with more traditional 25 basis-point moves. The Bank of Japan, meanwhile, is on a tightening path.

2024 has been a good year for Emerging Markets so far. S&P and Fitch expect EM to grow in 2025 but there are downside risks: The implications of the U.S. election on trade and fiscal policy; Ongoing economic weakness in China; A further escalation of the Middle East conflict; Persistent uncertainty over domestic policies in several EMs. The main positive event for EM is the monetary policy easing by the U.S. Federal Reserve, provided it is accompanied by an orderly softening of the U.S. economy.

2. Argentina

Argentina’s latest economic adjustment measures add to uncertainties over its ability to accumulate international reserves and recover access to global capital markets. These uncertainties are reflected in in the CC rating by Fitch, affirmed in June, which signals that a restructuring or default event of some sort on foreign-currency (FC) bonds is probable.

President Javier Milei secured an important victory in June with passage of his flagship “Ley Bases” bill. The boost to confidence was short-lived, however, as market attention has turned to tensions in the policy mix.

3. Bangladesh

The mass protest by the general public resulted in the resignation of the PM Sheikh Hasina in early August with him fleeing the country and seeking refuge in neighbouring India. The Sheikh Hasina served as PM for the last 15 years and in that time, Bangladesh has seen rapid economic growth and social progress. An Interim Government has been put in place. Importantly, the head of arm forces remained neutral and assisted in put a civilian interim government in place led by Professor Md. Yunus (a prominent economist, a Nobel Peace Prize winner in 2006, founder of finance institution, Grameen Bank, a pioneer in micro finance), considered a trusted and safe pair of hands.

So far, the Country situation has quickly stabilised and with the Dhaka Stock Exchange rallying since the formation of interim government. Dr A H Mansur has been appointed the Governor of Bangladesh Bank, central bank of Bangladesh. Dr Mansur is a veteran economist with 3 decades of experience working for the IMF. It is expected that there will be a request for additional funding buffers from the World Bank of $1bn as well as $1 bn each from the Asian Development Bank and Japan Development Agency.

Overall, the USD/BDT has remained stable, exports have resumed without disruption, and it is expected that there are no long-term consequences for the important Ready Made Garment Sector (from North America & Europe).

Immediate challenges for the interim government are the banking sector and government budget. The banking sectors suffer from poor liquidity and high NPL, particularly state-owned banks and some Islami banks, which will need to be re-capitalised. Government

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	budget cuts required to reduce the 5% budget deficit. The government may need to cut up to 5% - 10% to free credit for the private sector.
	4. Mexico Mexico's lower chamber approved a controversial judicial reform plan. The most contentious of the changes proposed by outgoing President Andres Manuel Lopez Obrador would have judges selected by popular vote. The reform plan is supported by president-elect Claudia Sheinbaum, a Morena party member who takes office on October 1 but it has sparked diplomatic tensions with the United States and upset financial markets, causing a sharp fall in the peso. Mexico is investment-grade rated by the three main rating agencies and Mexican corporates continues to show stable credit metrics, benefiting from higher levels of economic activity in local and global markets since 2022. This stability persists despite headwinds such as inflation, higher interest rates, currency volatility and commodity price disruptions due to geopolitical tensions.
	5. Rwanda In October Fitch affirmed Rwanda's rating at B+, stable outlook, reflecting persistent twin budget and current account deficits (CAD), which have resulted in high public and external indebtedness. Rwanda's government debt to increase to 75.6% of GDP in 2024 and 78.2% in 2025, from 73.5% in 2023, due to further exchange-rate depreciation, primary deficits and the government's contribution to the airport construction financing, which will offset strong nominal GDP growth. Rwanda benefits from strong external loan commitments from bilateral and multilateral sources for about USD1 billion per year (close to 7.0% of GDP) in 2025 and 2026. (including the World Bank, African Development Bank and the IMF). Rwanda has access to the capital market and the issuance of a new Eurobond is an option for the Government. The $620m Eurobond maturing in Aug-31 is currently trading at S+5.10%.
	6. Senegal On 4th October Moody's downgraded Senegal to B+, negative outlook, after an audit launched by newly elected President Bassirou Diomaye Faye showed a budget deficit of 10% in 2023, almost double the 5.5% reported by the previous administration. Debt/GDP estimated at 83.7%, which is about 10% higher than the previously published 73.6%. The government has reaffirmed its commitment to returning debt to below 70% of GDP through the strengthening of domestic revenue generation. This will very much depend on the result of the parliamentary elections that will be held next month. The snap elections were called by the President Faye (elected earlier this year) in a bid to win support for his economic reforms. The downgrade reflects the reduced Senegal's "shock-absorption capacity" and leaves the government more susceptible to higher funding costs, but it doesn't flag any risk of imminent default/debt restructuring. The Senegalese authorities are in talks with the IMF about corrective measures after the government audit. This might delay disbursements from the $1.5 billion program completed in June-24, but the government is expected to work closely with the IMF and to continue to benefit from its support.

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