Country Commentary

LONDON FORFAITING COMPANY LTD

Second Quarter 2025

CONTENTS

1. Operating Environment

Forecasts for world growth made have been sharply lowered by all the analysts in response to the recent severe escalation in the global trade war. US 'Liberation Day' tariff hikes were far worse than expected. While subsequently paused and replaced with a near-universal 10% rate for 90 days, the shock prompted several rounds of retaliatory moves between China and the US, taking bilateral tariff rates over 100%. Fitch still expects the Federal Reserve to wait until 4Q25 before cutting rates despite the deteriorating US growth outlook. However, the surprising weakening of the US dollar has created more space for other central banks to ease and deeper rate cuts are expected from the ECB and in emerging markets.

According to the IMF, the world's growth prospects would improve immediately if trade tensions calmed and long-standing complaints about non- tariff barriers and trade-distorting measures by some countries were addressed but the near-term risk is of further escalation with knock on consequences for growth.

No emerging market has been spared from the impact of the trade war, with sovereign and corporate dollar-denominated bonds of every country posting losses.

The IMF is anticipating an increase in funding support requests from Africa as US President Donald Trump's tariffs and aid cuts reduce options.

2. Angola

Angola is holding talks with the IMF about possible financing packages, as trade wars and a slump in energy prices effectively shut the oil producer out of international bond markets. Angola is entering a period of rising loan payments, with the government allocating most of its fiscal revenue toward paying salaries and servicing debt. The southern African nation owes $864 million on a bond that's set to mature in November. Angola's had two programs with the IMF since it emerged from a 27-year civil war in 2002. The most recent was a $3.7 billion extended fund facility agreed in 2018. Africa's largest oil producer after Nigeria and Libya, Angola is also considering loans from the World Bank and African Development Bank, rather than tapping the international debt market. While the $115 billion economy picked up last year, it's still highly dependent on oil, which makes up almost all exports and roughly 60% of government revenue. Brent crude prices are down around 10% this year to below $67 a barrel, as commodity investors anticipate that a swathe of US tariffs on almost all countries will slow the global economy.

3. Chile

Chile's credit profile balances its high institutional and fiscal strengths, supported by a long history of prudent macroeconomic and fiscal policymaking, against its high reliance on commodities and relatively moderate GDP growth over the past several years. The US' recent imposition of a 10% tariff on Chilean exports to the US is negative but should be manageable for Chile; the country's exports to the US account for less than 17% of total goods exports. However, Chile would be more heavily impacted by a slowdown in China, given its close trade links. Chile's long-standing political consensus on fiscal responsibility is expected to continue, thereby preserving the country's overall fiscal strength through future political and economic cycles.

4. Ecuador

Ecuador's sovereign bonds surged in April after the country's electoral authority declared President Daniel Noboa (representing the centre-right party) the winner of the presidential elections, giving him a full four-year term to try to rein in cocaine violence and rouse the economy from its lost decade. The credit had become the worst performer in developing nations this year, with yields soaring to almost 35% after González did much better than polls had forecast in the first round — raising the possibility of the return to power of a party that oversaw a sovereign default in 2008. Fitch commented the re-election of Noboa as a

CONTACT US

www.forfaiting.com

lfc@forfaiting.com

positive event as Ecuador can continue with its fiscal reform agenda to support consolidation commitments under the program, as well as maintain central bank independence, and potentially pursue a trade agreement with the US.

Ecuador has split ratings by the three main rating agencies: CCC- by Moody's; CCC+ by Fitch and B- by S&P.

5. Ethiopia

Ethiopia remains in default on its USD 15.1bln foreign-currency debt obligations since suspending payments on its single outstanding USD1 billion Eurobond in December 2023. Ethiopia has since made progress on its external debt restructuring and In March the government has reached a deal with its official creditors to restructure $8.4bn of international debt under the G20 Common Framework, backed by an IMF programme, that will slash debt service by $2.5bn through 2028. The new pact should pave the way for a separate deal with private creditors, including holders of the $1bn Eurobond but the timing of completion is still uncertain. The support from the IMF and other concessional lenders remains key to exit from default. Last year the IMF approved a new USD 3.4bln four-year funding, of which USD1.5bln has already been disbursed.

6. Kazakhstan

Kazakhstan is investment grade rated by all three rating agencies and although the Kazakh's economy is heavily dependent on the export of oil and gas, the ratings are supported by a very large external buffer, providing financing flexibility, underpinned by accumulated oil revenue savings. Trade between the US and Kazakhstan is limited (US accounts for 3% of Kazakh trades) and heavily skewed towards energy which has been exempt from new tariffs. Kazakhstan is set to remain very reliant on crude and oil condensates, which account for just above half of exports, and about one-third of fiscal revenue. In addition, nearly 80% of Kazakh crude oil is exported through Russia, giving rise to geopolitical risk, but the risk of broad-based secondary Western sanctions is low given its banking sector compliance, and general cooperation on measures to contain re-exports to Russia, alongside the reported sharp fall in re-export volumes this year.

Kazakhstan's GDP grew by 4.8% in 2024, and Fitch expects economic growth to remain robust in 2025–2026 on high oil production, as well as solid investment and real income growth.

7. Senegal

In 1Q25 both Moody's and S&P downgraded Senegal's' rating 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 and Debt/GDP estimated at 83.7%, which is about 10% higher than the previously published 73.6%. The scale and nature of the discrepancies significantly limit Senegal's fiscal space and contribute to elevated funding needs, while indicating material past governance deficiencies. Senegal is now rated B-, negative outlook by Moody's and B, negative outlook by S&P. Despite the downgrades, the IMF has recently published a report stating that Senegal is expected to lead economic growth in sub-Saharan Africa in 2025 with an 8.4% expansion in gross domestic product (GDP), driven by developments in the energy sector and strategic economic diversification.

UNSUBSCRIBE

Published 28th April 2025