

Third Quarter 2025

CONTENTS

- 1. OPERATING ENVIRONMENT
- 2. AZERBAIJAN
- 3. IVORY COAST
- 4. KENYA
- 5. MONGOLIA
- 6. PERU

1. Operating Environment

The de-escalation in US-China trade tensions has led Fitch Ratings to raise its global 2025 growth forecast to 2.2% compared April, but the world economy still faces a sharp slowdown, induced by the most severe trade war since the 1930s. The IMF said imbalances in the global economy have increased, driven principally by domestic policies in the US and China that tariffs will do little to address.

The Federal Reserve is unlikely to cut rates quickly as US growth slows. Most of the economists surveyed by Bloomberg expect a single rate cut this year, in 4Q25. Tariffs will push up inflation, labour force growth is slowing, and some inflation expectations measures remain high. The ECB appears more comfortable with recent progress on wage and price disinflation, so experts expect a further cut in rates to 1.75% in September.

Emerging market banking sectors have faced heightened global volatility amid the weakening global macro-outlook, trade war, lower oil prices in 1H25, and the escalation of geopolitical tensions in the Middle East. Banking systems in EM Asia-Pacific and Latin America are the most exposed to US tariffs risks, given higher exposure to US demand. Fitch Ratings' sector outlook on China remains on 'deteriorating', reflecting persisting challenges for banks as government policies weigh on profitability – along with the impact of the trade war on economic growth and its implications for banks' credit quality.

Fitch Ratings raised its 2025 oil price assumption to USD70/barrel from USD65/barrel to reflect the higher geopolitical risk premium due to recent events in the Middle East.

2. Azerbaijan

In July-25 Moody's upgraded Azerbaijan's rating to BBB- and maintained a positive outlook so now the Country is investment grade rated by Fitch and Moody's. The upgrade reflects improvements in institutional effectiveness, shown in a lengthening track record of maintaining macroeconomic and fiscal stability through recent shocks and oil price swings, which are expected to continue. The positive outlook reflects the view that ongoing reforms could further reduce economic and fiscal dependence on the hydrocarbon sector beyond expectations. Azerbaijan has very low Debt/GDP, equal to 21% at YE24 although it is expected to increase slightly to 26% by YE26. Azerbaijan's economy still depends heavily on oil and gas revenues, though increased European demand for Azerbaijani gas, growing renewable energy investments, and expansion of the Middle Corridor trade route between Europe and Asia could mitigate the impact of declining fossil fuel revenues.

3. Ivory Coast

Ivory coast is rated BB stable by Moody's and S&P, BB- stable by Fitch and the credit risk remained stable YTD. In June-25 Fitch affirmed the BB- stable rating based on "strong growth, sound fiscal management and solid macroeconomic policies, low inflation and strong support by the IMF. The IMF forecasts economic growth to quicken to 6.3% this year from 6% in 2024 and debt to ease to about 58.1% of GDP from 59.3%. Ivory Coast has 6 USD Eurobonds and 5 EUR Eurobonds outstanding and in March-25 Ivory Coast issued a new \$1.75bln Eurobond (due in 2036 and paying fixed coupon of 8.45%), but the order book was \$4.1bln, showing the strong demand from investors. In July-25 Ivory Coast has raised 50 billion yen (\$336 million) in Samurai bonds, the country's first, as it moves to diversify financing sources. The 10-year bond was issued at a coupon of 2.3%. The transaction "is also part of the country's efforts to diversify financing resources and broaden its investor base".

4. Kenya

In July-25 Moody's released an update on Kenya, affirming the CCC+ rating with positive outlook, citing improved debt affordability and reduced liquidity risks. Although improving, the debt affordability remains low, with interest payments consuming more than 30% of government revenue. Government external debt service (including amortization and

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Third Quarter 2025

interest) is USD4.1bln in 2025 but will exceed USD5bln in FY26 through to FY29, sustaining large financing needs. A relevant mitigant is that 50% of the external debt is due to concessional lenders. Debt/GDP is high but slowly declining. Fitch expects Debt/GDP to reduce slightly from the current 67.4% to around 65% by the end of 2026 and remain at that level for the following 3 years. Kenya's international reserves have improved markedly YTD, rising from \$9.2 billion in January to \$11 billion by June 2025, equivalent to 4.8 months of import cover. This accumulation was supported by strong remittance inflows, subdued import demand, and robust export performance.

5. Mongolia
Rated B, stable by Moody's, B+ positive outlook by S&P and B+, stable outlook by Fitch, the credit risk has improved considerably over the past 12 months as evidenced by the recent upgrades by all three rating agencies. This reflects reductions in Mongolia's public and external debt burdens, driven by continued strong performance of the country's mining sector. Mongolia's government debt ratio has declined from a peak of over 93% in 2016 to 43% of GDP at the end of 2023 and expected to moderate further. Refinancing risks are materially lower in the medium term. Since 2020, the government has been consistently refinancing upcoming maturities for the year ahead. FX income is mostly coming from export of hard commodities such as copper and coal with the main export partner being China (80% of total exports). Mongolia has access to funding from the capital market and it currently have 6 Eurobonds outstanding. In Feb-25 Mongolia successfully issued a new \$500m Eurobond maturing in Feb-35 and paying a fixed coupon of 6.625%pa. The orderbook was 6 times oversubscribed.

6. Peru
Sound policymaking supported a GDP recovery in 2024 and preserved broad macro-financial stability. Political risk in Peru has ebbed, but Fitch Ratings believes it could rise again as elections approach in 2026, which, coupled with rising crime and global trade wars, could affect growth. Peru could loosen fiscal policy again to support activity, limiting prospects for fiscal consolidation, but, despite this, Fitch believe debt/GDP will stay broadly stable at low levels (at around 30%). GDP growth rebounded by 3.3% in 2024 after contracting by 0.4% in 2023, reflecting the recovery of the agricultural and fishing industries and in domestic demand buoyed by a pension withdrawal, lower inflation, and improving business confidence, as well as ongoing fiscal impulse. In 2025, GDP is expected to continue its momentum, growing by 2.8%. Downside risks are a rise in political instability, climate-related shocks, and a sharp fall in copper prices given slowing global growth amid rising trade wars. Peru is investment grade rated by Fitch, Moody's and S&P.

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