



OPERATING ENVIRONMENT

Emerging Markets are well positioned to be a principal driver of global growth in 2026

Emerging Markets experienced a strong resurgence in capital inflows throughout 2025, supported by both technical factors—such as a weaker U.S. dollar, monetary easing, and abundant global liquidity—and meaningful improvements in underlying credit fundamentals driven by solid structural growth. Base rates in USD and EUR have moved lower following rate cuts by the Federal Reserve and the European Central Bank, with no increases expected in the near term. Despite ongoing geopolitical tensions, rising protectionism, and the intensification of trade sanctions, Emerging Market economies delivered robust performance, recording GDP growth of 4.2% in 2025 and projected to expand by a further 4.0% in 2026, according to the IMF. Credit fundamentals have strengthened considerably, reflected in a broad wave of sovereign rating upgrades across EM. In 2025 alone, ten countries received upgrades, including core markets such as Nigeria, Ghana, Egypt, Uzbekistan, Azerbaijan, and Ivory Coast.

Although short-term volatility is likely to persist, Emerging Markets remain well positioned to be a principal driver of global growth in 2026, and capital inflows into the asset class are expected to remain firmly positive.

BANGLADESH

Bangladesh's external liquidity has improved in 2025, with FX reserves rising to USD 27.5 billion by Oct-2025, supported by official loans and a return to a current account surplus. Growth is recovering, with GDP expanding 3.7% in FY25 and supported by stronger industry and services activity. Political uncertainty remains elevated ahead of this year's elections following the 2024 government change. Inflation has eased to 8.4%, and the central bank may cut rates if inflation drops below 7%, though autonomy-enhancing legislative reforms remain pending.

IMF programme implementation continues, unlocking critical multilateral and bilateral financing. Remittances rose strongly, helped by greater exchange-rate flexibility, while ready-made garment exports posted steady gains. Fiscal revenues remain structurally low, with Fitch projecting revenue at 8.1% of GDP despite new tax measures. Banking-sector reforms are advancing, including IFRS 9 alignment and bank mergers following asset quality reviews. However, financial-sector vulnerabilities remain pronounced, with NPLs rising to 24.1% and capital adequacy at a weak 3.1%. According to the head of the country's central bank, Bangladesh's economy is poised for a quick rebound following next month's national election provided the transition of power remains peaceful. The comments come as Bangladesh prepares for a general election and constitutional referendum set for 12th Feb.

COLOMBIA

Colombia's political landscape is tense, shaped by persistent friction between President Gustavo Petro's administration and Congress, which has repeatedly blocked key fiscal and tax initiatives needed for consolidation. Policy uncertainty has increased ahead of the May 2026 presidential elections, with weakened fiscal credibility following the suspension of the fiscal rule for three years.

Ratings agencies have highlighted growing institutional strains and declining investor confidence tied to political gridlock and perceptions of erratic economic management. The downgrade by Moody's and S&P in June 2025 underscored concerns over governance effectiveness and the administration's limited capacity to implement reforms. Overall, political fragmentation and elevated uncertainty continue to weigh heavily on policy effectiveness and Colombia's broader economic outlook. Despite the reported challenges, Colombia remains a BB, stable country with access to funding from the capital market. The next USD denominated Eurobond to mature is due in Feb-27 and currently trading at S+1.40% p.a.



EGYPT

The IMF has upgraded Egypt's growth outlook, now projecting GDP to rise 4.7% in FY 2025/26 and 5.4% in FY 2026/27, reflecting stronger economic recovery and reform progress. Egypt recently reached a staff-level agreement on the next reviews of its USD 8bn IMF programme, which could unlock about USD 2.5bn in new financing plus USD 274m from the sustainability facility.

Growth accelerated from 2.4% in FY 2023/24 to 4.4% in FY 2024/25, driven by non-oil manufacturing, transport, tourism and financial services. It strengthened further to 5.3% year-on-year in Q1 FY 2025/26. The IMF also highlighted an improving balance of payments supported by robust remittances, tourism revenues and rising non-oil exports. According to Moody's, Egypt's credit profile is gradually improving despite its CCC+ rating, which reflects high debt, weak affordability and large financing needs tempered by strong official support. Reform momentum—particularly currency flexibility, inflation targeting and fiscal consolidation—is strengthening economic resilience and medium-term prospects. Egypt is rated B stable by Fitch and S&P.

NIGERIA

Nigeria's reform momentum since mid-2023 (centred on exchange-rate liberalisation, fiscal consolidation, improved oil production and the commissioning of the Dangote refinery) is driving gradual improvements in structural indicators and medium-term growth prospects. Growth is now expected to average 3.7% in 2025-2028, with inflation projected to ease toward 13% by 2028 as private-sector confidence strengthens. Stronger current-account surpluses and rising reserves, estimated just below USD 44 billion in October 2025, reflect improving external dynamics and growing trust in the naira's market-driven regime.

Fiscal and tax-administration reforms, alongside higher oil output, should help stabilise debt despite temporary election-related spending pressures. In Nov-25 S&P upgraded the outlook of the B- rating to positive from stable, reflecting improving external, economic, fiscal, and monetary results. "Despite low GDP per capita, a weak, albeit improving, fiscal revenue base, high debt servicing costs as a percentage of revenues, and challenges in compiling national statistics, we think authorities are taking steps to improve the economy's growth prospects, and macroeconomic resilience."

TANZANIA

Political risks in Tanzania have intensified following the October 2025 elections, where President Samia Suluhu Hassan secured 97.66% of the vote amid very low turnout. The election was widely criticized as undemocratic, with major opposition parties barred and key leaders detained or disqualified, leaving the process largely uncontested. Protests erupted immediately after polls closed, with demonstrations lasting several days and security forces using live ammunition, tear gas and curfews to contain unrest. Although the government claims that stability has returned and daily activity has resumed, underlying tensions remain significant. The political environment is fragile and will require close monitoring in the months ahead.

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