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OPERATING ENVIRONMENT

Emerging Markets Regain Momentum as Energy and Funding Pressures Ease

The direct impact of the Middle East conflict on emerging markets is proving less severe than initially feared. Financial markets have remained relatively resilient, with investor concerns easing as oil prices have retreated significantly from the peaks reached during the second quarter of 2026. Lower energy prices have reduced inflationary pressures globally and improved the outlook for energy-importing emerging economies, including Turkey, Egypt, Kenya, Tanzania and Bangladesh. As inflation risks recede, major central banks are expected to maintain a more neutral policy stance, reducing pressure for further monetary tightening. This should gradually improve funding conditions for EM banks and sovereigns, supporting lower USD and EUR borrowing costs and tighter financing margins. At the same time, improving market sentiment is encouraging investors to increase allocations to higher-yielding emerging market assets, supporting capital flows and liquidity. The gradual normalisation of trade routes and easing freight and insurance costs should further support global trade volumes and trade finance activity. Overall, while geopolitical risks remain elevated, the outlook for emerging market credit has become increasingly constructive, with improving funding conditions, stronger investor appetite and a more favourable backdrop for trade growth.

ARGENTINA

Argentina's economy is emerging from a prolonged period of macroeconomic instability, supported by the government's fiscal adjustment programme, tight monetary policy and ongoing structural reforms. Following a deep recession in 2024, activity has started to recover, with GDP growth expected to rebound strongly in 2026. Inflation, while still elevated by international standards, has declined significantly from previous peaks, supporting improving business confidence and market sentiment. External liquidity remains constrained but has benefited from improved access to international capital markets and continued support from multilateral institutions.

Argentina has experienced a significant improvement in sovereign credit ratings during 2026, reflecting progress in macroeconomic stabilisation, fiscal consolidation and improving external liquidity. Fitch upgraded Argentina's sovereign rating to B- from CCC+ with a Stable Outlook in May 2026, citing stronger fiscal and external balances, progress on structural reforms and improved prospects for reserve accumulation. Subsequently, S&P upgraded the sovereign to B- from CCC+, also with a Stable Outlook, highlighting lower default risk, improved market access and continued fiscal surpluses. In July 2026, Moody's raised Argentina's rating to B3 from Caa1 and assigned a Positive Outlook, pointing to declining default risk, sustained fiscal discipline and strengthening foreign exchange reserves. Overall, these rating actions signal growing confidence in the government's reform programme and mark Argentina's strongest sovereign credit momentum in several years, although ratings remain firmly within the speculative-grade category.

KAZAKHSTAN

Kazakhstan continues to benefit from a strong macroeconomic position supported by substantial hydrocarbon and mineral resources, prudent fiscal management and sizeable sovereign wealth fund assets. Economic growth is expected to remain robust in 2026, supported by energy production, infrastructure investment and resilient domestic demand. Public debt remains relatively low compared with peers, while the country's external position is supported by strong FX reserves and recurring trade surpluses.

Kazakhstan maintains investment-grade sovereign ratings (BBB/Baa range, stable outlook), reflecting strong fiscal and external buffers despite continued dependence on commodity exports.

Kazakhstan has been one of the emerging markets most positively affected by the Middle East conflict, owing to its status as a major oil exporter. The spike in oil prices during the first half of 2026 boosted export revenues, fiscal receipts and foreign exchange inflows, strengthening the country's already solid fiscal and external position.

Kazakhstan’s Eurobond are among the lowest yielding in EM, with Oct-30 USD 1.5bln note trading at S+0.70%pa.

KENYA

Kenya remains one of East Africa's most diversified and dynamic economies, supported by a large services sector, infrastructure investment and resilient domestic consumption. Growth is expected to remain around 5% in 2026, underpinned by agriculture, financial services and technology-related sectors. Fiscal consolidation efforts and improved revenue collection have helped stabilise public finances, although debt servicing costs remain elevated and external financing requirements continue to represent a key vulnerability.

Kenya is rated B/B3/B-, with the sovereign outlook stabilising following successful liability management exercises and renewed access to international funding markets.

Kenya is one of the more vulnerable Sub-Saharan African economies to Middle East-related shocks due to its dependence on imported energy and external financing. The main transmission channels are higher fuel costs, inflation, pressure on the shilling, and tighter sovereign funding conditions. Whilst lower oil prices following the ceasefire have reduced immediate risks, any renewed disruption to Gulf energy exports or shipping routes would be negative for Kenya's fiscal position, external accounts, economic growth and sovereign credit profile.

MAURITANIA

Mauritania is unrated by the major international agencies and has no Eurobond outstanding. The economy remains heavily reliant on commodity exports, mainly gold, iron ore, copper and fisheries, with China its largest export market. As a net energy importer, Mauritania was exposed to higher oil prices during the Middle East conflict, although stronger gold revenues and the start of LNG exports partly offset the impact. Public debt is manageable at around 46% of GDP, mostly concessional external debt owed to multilateral and bilateral creditors, limiting refinancing risk.

The banking sector is small, concentrated and dominated by locally owned private banks. The IMF highlights family ownership and connected lending as structural vulnerabilities, although banks remain profitable and liquid, with low financial intermediation.

Mauritania's sovereign outlook improved in June 2026 after the IMF approved new 42-month ECF/EFF arrangements, completed the final RSF review and released about US$105.6 million. The IMF assessed the previous programme as strong: all end-December 2025 quantitative criteria were met, inflation fell, the current account deficit narrowed, reserves remained adequate and non-extractive growth held up well. The IMF expects growth of about 4.7% in 2026 and continues to assess debt sustainability risk as moderate. Programme completion, new IMF financing and ongoing multilateral support underpin the credit profile, while commodity price volatility and development-related fiscal pressures remain the main risks.

PAKISTAN

Pakistan's economy has stabilised following a period of significant macroeconomic stress, supported by IMF-backed reforms, fiscal consolidation measures and a gradual rebuilding of foreign exchange reserves. Growth is recovering from subdued levels, although structural constraints, high public debt and a narrow tax base continue to limit medium-term prospects. Inflation has moderated materially from recent peaks, allowing the authorities to begin easing monetary conditions and supporting economic recovery.

Pakistan's sovereign credit profile continues to improve, supported by IMF-driven reforms, stronger foreign exchange reserves and fiscal consolidation. S&P upgraded the sovereign to B/Stable in July 2026, while Fitch maintains a B-/Stable rating. Although refinancing risks have moderated significantly, the economy remains exposed to external shocks, particularly higher energy prices and continued reliance on official external financing.

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