Country Commentary

LONDON FORFAITING COMPANY LTD

1984-2024 40 YEAR ANNIVERSARY

Second Quarter 2024

1. Operating Environment

Resilient global growth, especially in the U.S., and loosening financial conditions have improved macroeconomic conditions for emerging markets since the end of 2023. Countries that in 2023 were at high risk of default are now in a better financial condition thanks to: (i) renewed access to the international capital market (Kenya issued $1.5Bln Eurobond in Feb-24); (ii) increase of DFIs and concessional lending (Egypt received over $50bln of financial support YTD); (iii) progress in debt restructuring (Ghana, Ethiopia and Zambia expected to exit default in 2024). Turkey continues to improve as inflation has eased and external liquidity risks have moderated (Upgraded to B+, positive outlook by Fitch in March-24). Despite the positive 1Q24, the downside risks for EM are present, particularly with the upcoming US elections, persistent headwinds in China, and rising tensions in the Middle East/Ukraine

2. Egypt

In March S&P upgraded Egypt to B-, positive outlook. The positive outlook reflects the potential for further improvements in Egypt's external position and alleviation of foreign currency shortages. It also reflects the view that the determination of the exchange rate by market forces will help drive GDP growth and over time support the government's fiscal consolidation plan. Furthermore, The Central Bank of Egypt has taken steps to liberalize the exchange rate and tighten its monetary stance, while a significant increase in foreign direct investment and a large donor support program will significantly improve external liquidity.

In April-24 Egypt's net international reserves surged to their highest level in about two years following a landmark investment deal with the United Arab Emirates.

3. India

India balances its large and diversified economy with high growth potential, a relatively sound external position, and a stable domestic financing base for government debt against high general government debt, weak debt affordability, and low per capita income. A stronger and more stable economy has emerged from the pandemic. Following a series of relatively strong growth numbers in the first three quarters of financial year 2023-24, Moody's has revised India's real GDP growth projection to 8 per cent for the full year. India is rated BBB- by all three the main rating agencies.

4. Kenya

In Feb-24 Kenya successfully issued a new $1.5bln, 7yrs sovereign Eurobond which was 4 times oversubscribed (first time since 2021). This is a remarkable achievement which shows investors' interest in taking medium-long term risk on Kenya. The issuance of the Eurobond and recent funding from concessional lenders remove the refinancing risk on the $2bln Eurobond due in June-24, which has been one of the key concerns for investors and rating agencies. Debt repayment obligations peak in 2024 (at $5.5bln) and then decline in the medium term (below $4bln in 2025 and 2026). Following the recent borrowings, the focus is post 2024 and Kenya is expected to maintain access to funding from the syndicated loan market, concessional lenders and Chinese banks (accounting for 1/3 of total external debt). In a report published in Jan-24, the IMF assessed Kenya's public debt as "sustainable", reflecting the authorities' continued policy actions and expected robust export growth in the medium term

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5. Panama

Panama lost its Investment Grade rating in March-24 when Fitch downgraded it to BB+, stable. The downgrade reflects fiscal and governance challenges that have been aggravated by the events surrounding closure of the country's largest mine. Large fiscal deficits and revenue underperformance have driven some of the largest rises in government debt/GDP and interest/revenues among peers since 2019 before the pandemic. This has constrained counter-cyclical policy space that was already more limited in the context of dollarization and poses a greater vulnerability in light of the sovereign's heavy reliance on external markets for funding. The Minera Panama copper mine closure further complicates the fiscal outlook and highlights growing governance challenges.

6. Uganda

Uganda's economy is underpinned by favourable medium-term growth prospects, a record of relative macroeconomic stability aided by an independent central bank operating under an inflation targeting framework, and an expectation that real GDP growth and planned fiscal consolidation will contribute to stabilizing government debt/GDP. In March Fitch affirmed Uganda’s rating at B+ but changed the outlook to negative reflecting external financing and liquidity pressures related to reduced availability of concessional external financing and grants. Downside risks to fiscal adjustment owing to public financial management shortfalls, notably in revenue collection, will exacerbate financing and liquidity pressures due to high government interest payments and rising external debt service amid tight financing conditions, and a weak reserve position.

The World Bank is the most important source of external financing, accounting for 33% of government external debt. In March the IMF completed the fifth review under the credit facility, allowing immediate disbursement of $120m.

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