FitchRatings

QUARTERLY FRONTIER MARKETS RECAP

Fiscal Outperformance Drives Positive Rating Actions

After a tough 2022, rating actions were skewed to the positive in 1Q23, with six frontier markets (FMs) experiencing either upgrades or positive Outlook revisions, and only three FMs recording downgrades; there were no negative Outlook revisions during the first three months of the year. However, many FMs are likely to continue to face external challenges this year, including a still historically strong US dollar (USD), high yields, and difficult market access.

Positive rating actions were concentrated in the Americas and FM Europe, triggered by both, fiscal outperformance and improved external liquidity, with the former region benefitting from its limited exposure to Europe and conservative policy settings, and the latter seeing positive spillovers from the exodus of labour and capital from Russia due to the war in Ukraine. Downgrades were mostly driven by deteriorating external positions, with one in each, the Americas (Bolivia), sub-Saharan Africa (Ghana) and Asia (Pakistan).

The positive Outlook revisions of Jamaica, Armenia and Georgia expanded the total number of Positive Outlooks to seven by the end of March, versus only three Negative Outlooks at end-1Q23 (Bolivia, Rwanda, and the Maldives). However, eight FMs are still rated below 'B-', where no Outlooks are assigned. Despite having the smallest number of countries (four) included in JP Morgan's NEXGEM index, FM Europe accounted for three of the seven Positive Outlooks in 1Q23.

MIXED TRENDS IN EXTERNAL LIQUIDITY

FX reserves have rebounded in some countries over recent months, partly due to a weaker USD, which raised the USD value of reserves denominated in other currencies and reduced the need for central banks to intervene in currency markets. The recovery in FX reserves was also helped by weaker global energy prices, which have eased external pressures on oil-importing countries. However, other FMs saw their FX reserves deplete even further, in some cases reaching dangerously-low levels.

In FM Asia, external buffers strengthened for most FMs in 4Q22. The Maldives' reserves soared 66%, benefitting from a sharp recovery in tourism and a USD200mn bilateral currency swap with India. Nonetheless, the reserve buffers are still small, the swap will need to be repaid, and it is unclear whether the improvement can be sustained. The potential upside to the Maldives' real GDP growth from China's reopening is limited by the tourism sector's already strong recovery and capacity constraints, but stronger Chinese demand could improve the country's pricing power.

Key Sovereign Rating Actions

Bolivia Downgraded to 'B-'; Outlook Negative

Costa Rica Upgraded to 'BB-'; Outlook Stable

Ghana's LT FC IDR Downgraded to 'RD'

Pakistan Downgraded to 'CCC-'

Georgia's Outlook Revised to Positive: Affirmed at 'BB'

Webinars/Videos/ SuF Content

Global Commodities Stir from China's Reopening

Sustainable Fitch: African Green Finance Is Growing, but Faces Scalability Hurdles

Video: Pace of Decommissioning of Oil & Gas Assets to Increase

Video: Global Mining Sector Outlook Weakens on Reduced Profits, Cashflow

Previous Reports

Frontier Markets Recap - 4Q22

FitchRatings

Mongolia's reserves rose 21% between Sept.'22-Feb.'23. The sovereign's continued global capital market access was demonstrated by its USD450mn bond issuance and USD200mn exchange & tender offer in Jan.'23. In addition, China's removal of Covid-19 controls should stabilize Mongolia's exports. However, external vulnerabilities are still significant, due to its large current account deficits (CADs) and high net external debt burden. Sri Lanka's reserves have risen 30% from their trough in Oct.'22 but remain very low, at around one month of imports. The USD3bn IMF financing secured in March should improve external liquidity, but the timing of any debt restructuring with official and private creditors remains uncertain.

On the other hand, Vietnam's reserves declined by 22% over 11M22, but a rebound in Chinese tourist arrivals after the easing of Covid-19 restrictions in both countries could help reverse this trend. Pakistan's reserves continued to drop in 4Q22 and Jan.'23, reaching critically low levels at less than three weeks of imports. The sharp deterioration in external liquidity, combined with difficult funding conditions, prompted its downgrade in Feb.'23. We still assume a successful conclusion of the ninth review of its IMF programme, but risks to continued programme performance and funding are large, especially with the upcoming elections in October. Furthermore, traditional allies – China, Saudi Arabia, and the UAE – appear reluctant to provide funding in the absence of an IMF programme.

In the Americas, Bolivia's downgrade in March also reflects the depletion of its external liquidity buffers, posing a major macroeconomic risk in light of a pegged currency and suspension of data reporting on this important variable. The continued fall of reserves at already low levels has rendered them vulnerable to a confidence shock, which has materialized in early 2023. External bond market access has been lost and there are no concrete prospects for large-scale support from official creditors. Without such financing options, the authorities' capacity and plans to manage the situation remains uncertain.

External liquidity has fared better in Central America & the Caribbean despite an unfavourable terms-of-trade-shock due to the war in Ukraine, thanks to ongoing growth in exports (Guatemala), free trade zones (Costa Rica) and remittances (Jamaica, Guatemala), a recovery in the tourism sector (Jamaica, Costa Rica), and increased government access to external financing (Costa Rica, Jamaica). In Dec.'22, reserves reached around 5.5 months of current external payments (CXP) in Jamaica and 6.6 months of CXP in Guatemala, both far above their respective peer medians. For the latter, this has been achieved without major sovereign external borrowing, pushing the sovereign net foreign asset position up to 10% of GDP, one of the highest among 'BB' peers and the highest in Latin America.

Jamaica has recently been given access to a total of USD1.7bn in financing by the IMF, which serves as insurance against extreme weather events or other risks and supports green projects. Jamaica has no need to issue debt on the global capital markets given its prudent fiscal stance and low external maturities. Costa Rica's legislative assembly approved external bond issuance of up to USD5bn for 2023-25, the first approval since Congress authorized just USD1.5bn in 2019. In March, Costa Rica made its first international placement of this period, issuing a USD1.5bn bond maturing in 2034 with a coupon of 6.55%.

In the Middle East & Africa, the decline in Kenya's official FX reserves to their lowest level since 2015 highlights mounting external liquidity strains. The sovereign was downgraded in Dec.'22 due to its persistent fiscal and external deficits, relatively high debt, deteriorating external liquidity, and high external financing costs, which presently constrain access to international capital markets. Kenya's financing inflows should pick up in 2Q23, supporting reserves. Total disbursements from the World Bank and the IMF are expected to reach USD1.35bn in 2023.

External liquidity also remains tight in Tunisia, due to the country's large CADs, estimated at USD3.4bn in both 2023 and 2024. The authorities have made good progress on prior actions required under the IMF's EFF, for which approval is expected over the coming weeks, with the release of the first tranche of IMF funding expected before the end of 2Q23. Under the updated financing plan, Tunisia would receive over USD5bn in external funding, mostly from official creditors in Europe and the Gulf, but this remains conditional on IMF approval of the EFF.

Ghana's lack of external liquidity has led to its suspension of payments on select external debt and to seek debt restructuring with official creditors under the G20 CF in January. We do not expect official bilateral creditor financing assurances, which will pave the way for an IMF Board approval of the ECF arrangement, before end-2Q23. Although the suspension of debt service lowers Ghana's CAD, lack of access to international capital markets will continue to weigh on reserves, albeit more moderately than in 2022. Ghana's LC and FC IDRs were both downgraded to 'RD' in February, but only the LC IDR was upgraded in March (to 'CCC'), after payments of LC bonds resumed.

In FM Europe, an influx of migrants from Russia, Ukraine, and Belarus has strengthened the external and fiscal performances of both Armenia and Georgia, triggering their Outlook revisions to Positive in 1Q23. Armenia registered the smallest CAD in its history in 2022. Net external debt fell by about 12pp to an estimated 44.5% of GDP in 2022, and the IMF's approved SBA will serve as a policy anchor and buffer for negative external shocks, such as a reversal of the recent inflows.

FitchRatings

Authorities estimate immigrants from war-affected countries at 65,000 for Armenia and 90,000 for Georgia. This has resulted in a 140% jump in money transfers for Armenia and an 86% surge for Georgia. Georgia also saw a rebound in tourism to pre-pandemic levels. Both of these factors combined led to a narrowing of Georgia's CAD by an estimated 6.4pp to 4% of GDP in 2022. We expect Armenia to maintain moderate deficits in 2023-24 and Georgia's CAD to widen to an average 6.8%, partly reflecting a limited reversal of migration trends. We are now more confident that last year's migrant and capital flows will not sharply reverse, due to the protractive nature of the war in Ukraine and as migrants become more integrated into these countries' economies.

POSITIVE RATING ACTIONS DRIVEN BY STRONG ECONOMIC & FISCAL PERFORMANCE

The Positive Outlook revisions of Armenia and Georgia also reflect strong GDP growth and fiscal outperformance. Armenia's economy grew by 12.6% in 2022, a 15-year high, boosted by the large influx of migrants, which also provides an upside to potential growth. Growth is expected to be 6.1% in 2023 and 4.7% in 2024, driven by personal consumption, stable exports, notably to Russia as Armenia replaces import sources that have become disrupted by sanctions, and public investment.

Georgia's economy expanded by 10.1% in 2022, following 10.4% in 2021. GDP growth should moderate to 4.5% in 2023, due to fading support from Russian inflows and weaker external demand. Both Georgia and Armenia's fiscal deficits more than halved last year as a percentage of GDP, falling below government targets. This was largely driven by a substantial increase in tax revenues. Strengthened balance of payments led to currency appreciation, which helped pull down public debt significantly in both countries, owing to the large share of FX-denominated debt.

In Central America & the Caribbean, Costa Rica's two-notch upgrade to 'BB-' was largely driven by the sharp structural improvements of its fiscal position, which led to a primary surplus of 2.1% of GDP in 2022, the highest since 2008 and well above the 0.7% EFF target. Government adherence to the fiscal rule, first implemented in 2020, has been pivotal to the consolidation. General government debt declined to levels roughly in line with the 'BB' median, marking a sharp reversal of steady fiscal deterioration that led to debt/GDP tripling between 2008-2021. We expect a downward debt trajectory over the next five years, largely reflecting a better primary surplus.

Guatemala's upgrade also reflects its strong fiscal and economic recovery, in addition to improved external metrics following the pandemic and global price shocks. The post-pandemic recovery of real GDP growth was one of the strongest among rating and regional peers and has been achieved without large-scale policy support and despite an adverse terms-of-trade shock. Economic activity is expected to slow modestly this year due to a deceleration in global growth. Fiscal deficits and debt remain the lowest in the 'BB' category and have benefitted from improved tax collections.

The Outlook revision to Positive of Jamaica reflects significant progress with debt reduction, its stability-oriented institutional framework and favourable financing conditions. Public debt has resumed its downward trajectory to about 85% of GDP at end-2022, below its pre-pandemic level but much higher than the 'B' median of 57%. General government debt should continue to decline to around 70% in 2026. The budget balance has improved significantly since 2020, when pandemic support measures led to the first budget deficit since 2012, with Jamaica registering a primary budget surplus of 1.8% in 2022.

Fitch Ratings

Newsreel

Nigeria's Economic Challenges Highlight Importance of Post-Election Policies

In addition to Nigeria's cash crisis, the country faces numerous other challenges to its fiscal sustainability, external finances, and economic outlook. We downgraded Nigeria's rating to 'B-' in Nov.'22, reflecting continued deterioration in debt servicing costs and external liquidity. Policy choices by the incoming administration could have a significant impact on the country's credit profile.

Sri Lanka's Probable IMF Support Deal Positive for Debt Negotiations

IMF funding should improve Sri Lanka's external liquidity, but the timing of any debt restructuring agreement with official and private creditors remains uncertain. Sri Lanka's president indicated that China had provided its support, following earlier assurances from India and Paris Club official creditors, and that Sri Lanka had completed all prior actions required under the IMF programme.

Armenian Banks Benefit from Large Russian Inflows

Armenian banks have benefitted greatly from the large flows of money into the economy due to mass migration from Russia since the start of the conflict in Ukraine. We expect banks' performance to remain stronger than historical averages in the near term, but if banks rapidly expand their lending due to excess capital and liquidity, they could face significant liquidity mismatches in the coming years if recent deposit inflows are reversed.

China's Reopening Lifts Tourism Recovery Prospects in APAC Economies

China's move away from restrictive policies designed to curb the domestic spread of Covid-19 increases the likelihood of a swift recovery for tourism sectors in the APAC region that had relied heavily on outbound Chinese travelers before the pandemic. However, recoveries will continue to face several other constraints and risks, and we expect upside risks for government ratings to be limited in the near term.

Frontier Vision – 1Q23

Central banks in the larger FMs continue to tighten monetary policy as annual CPI inflation rates climb while others are keeping interest rates elevated despite CPI inflation cooling. FM central banks tightened monetary policy further in 1Q23, with interest rate rises in: Azerbaijan, Ivory Coast, Ghana, Guatemala, Jordan, Kenya, Namibia, Nigeria, Pakistan, Papua New Guinea, Rwanda, Senegal, Sri Lanka, Tunisia and Zambia. Only the central banks of Angola and Tajikistan bucked this trend and cut their policy rates – to 17% and 11%, respectively. As global inflationary pressures stemming from commodity and food prices ease, annual CPI inflation rates have fallen in recent months in: Armenia, Azerbaijan, Costa Rica, Ivory Coast, Gabon, Georgia, Jamaica, Rwanda, Senegal and Sri Lanka, among others.

Despite the US Federal Reserve raising its benchmark interest rate twice this year, some FM currencies have appreciated recently vs the US dollar – including the Armenian dram, Costa Rican colon and Georgian lari. However, currencies in Kenya, Mongolia, Pakistan, Rwanda, Suriname and Zambia have weakened against the dollar in recent months.

Fitch's quarterly 'Frontier Vision' chart pack tracks high-frequency macroeconomic data for the countries included in J.P. Morgan's Next Generation Markets (NEXGEM) Index. The charts cover five years of historical data and the choice of data series has been harmonised as far as possible across all countries to facilitate comparisons. The index comprises countries representing sub-Saharan Africa, Latin America & the Caribbean, the Middle East & North Africa, Europe, Asia and Oceania.

Regional Commentary

EUROPE

Azerbaijan Affirmed at 'BB+'; Outlook Positive

Uzbekistan Affirmed at 'BB-'; Outlook Stable

3 Armenian Banks' Outlooks Revised to Positive

Armenia's Outlook Revised to Positive; Rating Affirmed at 'B+'

Georgian Railway's Outlook Revised to Positive on Sovereign Rating Action

MIDDLE EAST & AFRICA

Kenya's External Strains Highlighted by Falling Reserves

Tunisia's Issue Ratings Upgraded to 'CCC+'

Ghana's LT LC IDR Upgraded to 'CCC'

Tunisian Banks Face Liquidity Risks from Delayed IMF Deal

Tunisia Continues to Face Substantial Financing Risks

Nigerian Banks Face Near-Term Credit Risks From Regional Expansion

Ghana's Debt Restructure Has Limited Impact on Large Nigerian Banks' Capital

Ghana's LT LC IDR Downgraded to 'RD'

Mozambique Affirmed at 'CCC+'

Final Terms of Ghana's Sovereign Domestic Debt Restructure to Still Hurt Banks' Capital

Gabon Affirmed at 'B-'; Outlook Positive

Nigerian Islamic Finance Industry to Continue Growth on Policy Push

Nigerian Banks Have Sufficient Buffers to Withstand Prevailing Macro Challenges

Angola Affirmed at 'B-'; Outlook Positive

LATIN AMERICA & THE CARIBBEAN

Costa Rica Sovereign Upgrade Leads to National Rating Scale Recalibration

Costa Rica's 2034 USD Bonds Rated 'BB-'

Nine Guatemalan Issuers' National Scale Ratings Revised on Recalibration

Actions Taken on Seven FIs Following Costa Rican Sovereign Upgrade

Sovereign Upgrade Leads to Guatemala National Rating Scale Recalibration

Jamaica's Outlook Revised to Positive

Actions Taken on Five Guatemalan Banks Following Sovereign Upgrade

Guatemala Upgraded to 'BB'; Outlook Stable

El Salvador Affirmed at 'CC'

Significant Economic Conditions Challenge Central American Insurance Market

ASIA PACIFIC

APAC Sovereigns' Rebound in Reserves Provides Some Relief

Limited Near-Term Rating Impact for Vietnam Banks from Higher Foreign Ownership Caps

China's Reopening Lifts Tourism Recovery Prospects in APAC Economies

Mongolia's Proposed USD Bonds Assigned 'B' Rating

10 Sri Lankan Banks' Ratings Downgraded

Property Stress Would Test Vietnamese Banks' Buffers

FitchRatings

Regional Commentary

Country	Current Ratings	Last Rating Action	Outlook	Rating Action Type
Middle East & Africa				
Angola	B-	13-Jan-2023	▲	Affirmation
Cote D-Ivoire	BB-	21-Apr-2022	▶	Affirmation
Ethiopia	CCC-	20-Dec-2022	–	Downgrade
Gabon	B-	10-Feb-2023	▲	Affirmation
Ghana	RD	21-Feb-2023	–	Downgrade
Iraq	B-	21-Dec-2022	▶	Affirmation
Jordan	BB-	17-Aug-2022	▶	Affirmation
Kenya	B	14-Dec-2022	▶	Downgrade
Mozambique	CCC+	17-Feb-2023	–	Affirmation
Namibia	BB-	09-Dec-2022	▶	Affirmation
Nigeria	B-	11-Nov-2022	▶	Downgrade
Rwanda	B+	28-Oct-2022	▼	Affirmation
Tunisia	CCC+	01-Dec-2022	–	Upgrade
Zambia	RD	06-Dec-2022	–	Affirmation
Latin America & The Caribbean				
Bolivia	B-	14-Mar-2023	▼	Downgrade
Barbados	B	20-Oct-2022	▶	New Rating
Costa Rica	BB-	11-Mar-2023	▶	Upgrade
El Salvador	CC	03-Feb-2023	–	Affirmation
Guatemala	BB	16-Feb-2023	▶	Upgrade
Jamaica	B+	07-Mar-2023	▲	Affirmation
Paraguay	BB+	22-Nov-2022	▶	Affirmation
Asia				
Maldives	B-	13-Oct-2022	▼	Affirmation
Mongolia	B	18-May-2022	▶	Affirmation
Pakistan	CCC-	14-Feb-2023	–	Downgrade
Sri Lanka	RD	01-Dec-2022	–	Affirmation
Vietnam	BB	28-Oct-2022	▲	Affirmation
Europe				
Armenia	B+	10-Feb-2023	▲	Affirmation
Azerbaijan	BB+	31-Mar-2023	▲	Affirmation
Georgia	BB	27-Jan-2023	▲	Affirmation
Uzbekistan	BB-	03-Mar-2023	▶	Affirmation

Legend

▲ (positive), ▶ (stable), or ▼ (negative)

Source: Fitch Ratings

Business Development Contacts

FRANK LAURENTS
Global Strategist; EM, Sovereigns
T: +1 212-908-9127
frank.laurents@fitchratings.com

AYMERIC POIZOT, CFA, CAIA
Global Head of Investor Development – Country Head France, Belgium, Luxembourg
T: +33 1 44 29 92 76
aymeric.poizot@fitchratings.com

HELEN WONG
Head of APAC Investor Development
T: +852 2263 9934
helen.wong@fitchratings.com

Disclaimer