

Quarterly Frontier Markets Recap

Positive Developments in Select Frontier Markets, but Political Risks Persist

Financing Risks Ease in LatAm: During the first three months of this year, Fitch reported positive frontier market news from all regions, with some of the most notable developments taking place in the Americas. El Salvador's legislature passed the 2019 budget and approved USD1.3bn in financing for 2019, including a new external bond issuance to rollover debt. This is important, as a two-thirds majority is needed to approve external financing, a requirement that had not been achieved in other recent budgets. Ecuador reached an agreement with the IMF and other international financial institutions for USD10.2bn in credit lines, which should mitigate the country's financing risks over the medium term. Under the auspices of the IMF agreement, Ecuador might be the only Andean country to pursue meaningful structural reforms over the next three years.

Favorable IMF Deals/Reviews in EMEA & Asia: In Europe, Armenia's precautionary stand-by agreement with the IMF to support the new government's reform plans and increase resilience against external shocks stood out, while in Asia, the IMF agreed to extend Sri Lanka's three-year EFF, giving this country more time to complete its economic reforms. Sri Lanka's recently announced budget sets out plans to get fiscal consolidation back on track, restoring policy certainty after the disruptions caused by political upheaval in 2018. In Africa, Gabon's third IMF review shows improvements in the implementation of its IMF programme and related reforms, although challenges remain significant, particularly under the political vacuum created after President Bongo fell ill last year.

Rating Actions Balanced in Early 2019: Sovereign rating actions were mixed over the first three months of this year, with three rating upgrades (Egypt, Georgia and Jamaica), three negative rating actions (Costa Rica, Namibia and Ecuador) and three rating affirmations (Azerbaijan, Belarus and Ghana). All upgraded sovereigns have been exhibiting steadfast adherence to their IMF agreements. In Egypt, economic and fiscal reforms are likely to continue to generate better economic outcomes once the IMF programme concludes in 2019. In Jamaica, cross-party support for economic reforms has resulted in one of the largest primary surpluses of any sovereign rated by Fitch, as well as a significant cut in the debt burden. Both Egypt and Georgia continue to exhibit robust economic growth, with Georgia showing resilience to negative developments in some of its main trading partners.

Financing/Growth Concerns Drive Negative Rating Actions: While Costa Rica successfully passed fiscal reforms to address its imbalances, the near-term yield of these will be limited, keeping fiscal deficits high and the debt burden on a steep upward trajectory. Large near-term financing needs and uncertainty amidst high interest rates and shorter debt maturities have led to Costa Rica's two-notch downgrade and continued Negative Outlook. Ecuador's reliance on external debt issuance to meet its large fiscal financing needs has resulted in the sovereign's Outlook revision to Negative in January. The downward adjustment of Namibia's growth prospects, which compromises the government's ability to stabilize its debt trajectory, has led to a negative rating action on this sovereign.



Key Sovereign Rating Actions

Egypt Upgraded to 'B+'; Outlook Stable

Georgia Upgraded to 'BB'; Outlook Stable

Namibia's Outlook Revised to Negative; Ratings Affirmed at 'BB+'

Jamaica Upgraded to 'B+'; Outlook Stable

Costa Rica Downgraded to 'B+'; Outlook Negative

Ecuador's Outlook Revised to Negative; Rating Affirmed at 'B'



Webcast

Insights on Mongolian Mining's First-Time Ratings of 'B'

Positive Developments in Select Frontier Markets, but Political Risks Persist (continued)

Wide Range in Bond Issuance Yields: A total of five Fitch-rated frontier markets (Ghana, Paraguay, Ecuador, El Salvador and Sri Lanka) issued USD-denominated bonds, with yields ranging from 5.4% (Paraguay) to 10.75% (Ecuador). Faced with tightening market access, Ecuador reached out to the IMF, despite the organization's historic unpopularity in the country. Paraguay's favorable terms come on the heels of its rating upgrade in December. The country's continued commitment to macroeconomic discipline is reflected in its low fiscal deficit. In addition, Paraguay boasts the lowest general government debt within the 'BB' category, at 17% of GDP in 2018.

Political and Structural Risks Remain: While the positive developments mentioned above are encouraging, risks and weaknesses remain. In Ecuador, lackluster economic growth as the government tries to move away from public-sector investment to private sector-led growth has resulted in a sharp drop in the president's popularity and increased political fragmentation. These political uncertainties might bring risks to its IMF arrangement, although presidential and legislative elections are not due until 2021. There is also a risk of increased polarization and political brinkmanship in El Salvador. In Jamaica, structural indicators such as governance, human development and per capita income are better than the 'B' median, but the high crime rate remains an obstacle for investment.

In Egypt, the potential for political instability remains a risk, given the economic adjustment programme and ongoing structural problems, such as high youth unemployment, deficiencies in governance and security concerns. In Tunisia, the newly agreed public service pay raise could jeopardize fiscal deficit targets under its IMF arrangement. Furthermore, risks to political instability remain significant ahead of the 2019 elections, and high unemployment and inflation are sparking social discontent. In Gabon, strikes by public sector and oil workers in December reflect social tensions. Public sector strikes hindered budget execution during the first half of 2018. In Sri Lanka, the disruptions created by last year's political crisis led to setbacks in addressing significant economic and fiscal challenges, and the approach of presidential elections in late 2019 could trigger renewed political tensions.

...With Some Exceptions: Unlike other frontier markets, Armenia's institutions are strong and the December elections gave the new president a commanding majority in parliament. In Namibia, World Bank governance indicators are a key support for the rating, with high scores on political stability, rule of law, voice & accountability and control of corruption, although some structural bottlenecks such as low education persist. Fitch expects policy continuity around Namibia's October 2019 elections, given SWAPO's track record of winning large majorities.



Frontier Vision – 1Q19

Frontier market economies continue to see weakening export growth, consistent with the recent slowdown in world trade, but several countries have also seen interest rates decline against a backdrop of the Fed and ECB becoming more dovish, says Fitch Ratings' Economics team.

Export growth has recently turned negative in Armenia, Bolivia, Ecuador, El Salvador, Ghana, Guatemala, Honduras, Jordan and Zambia, while growth rates have decelerated in Azerbaijan, Cameroon, Georgia, Mozambique, Paraguay, Tunisia and Vietnam.

Another notable development since our last Frontier Vision chart pack is that interest rates have fallen in several countries, including Angola, Armenia, Azerbaijan, Georgia, Mozambique, Nigeria and Paraguay. This has coincided with a substantial shift in the global monetary policy outlook with both the Fed and the ECB recently signalling that policy normalisation is likely to be on hold for some time. However Pakistan and Sri Lanka have been important exceptions, with both seeing recent rate hikes – in March 2019 and November 2018, respectively.

Newsreel



Armenia's IMF Deal Confirms Post-Transition Policy Focus

Armenia's precautionary IMF Stand-By Arrangement (SBA) confirms the new government's economic policy priorities are in line with our expectations of a fiscally prudent and reform-minded approach. Policies are focused on maintaining sustainable growth, fiscal consolidation and mitigating external vulnerabilities.



Angola Bank Reforms Start to Tackle Sector Weakness

The closure of two Angolan banks that failed to meet new capital requirements shows that reforms to address weakness in Angola's banking system are starting to have an impact. Bank closures could be positive for the overall credit quality of the sector by removing smaller, weaker banks and reducing competitive pressure on remaining banks. In our view, Angola is over-banked.



Tunisia Wage Agreement Increases Risk of Fiscal Slippage

Tunisia's agreement to raise civil service wages and delays to pension reform increase risks to the government's 2019 and 2020 fiscal deficit targets. Lower-than-budgeted oil prices create some leeway but will not fully offset expenditure overruns. Tunisia's public-sector wage bill is a major hurdle to fiscal consolidation.



Ecuador New Economic Plan Could Stabilize Rating Outlook

Successful implementation of Ecuador's new economic plan could help stabilize the sovereign's Rating Outlook by reducing the fiscal deficit, easing financing constraints and diversifying funding sources. However, significant implementation risks exist, owing to the likely political unpopularity of key reform measures. Passage of necessary legislation through the National Assembly is uncertain and will be a key test for the economic plan.

Regional Commentary

Europe

Azerbaijan Affirmed at 'BB+'; Outlook Stable

Belarus Affirmed at 'B'; Stable Outlook

Middle East & Africa

Ghana's USD Notes Rated 'B'

Ghana Affirmed at 'B'; Outlook Stable

Nigerian Banks' Rising LC Issuance Is Credit Positive

Development Bank of Namibia's Outlook Revised to Negative; Rating Affirmed at 'BB+'

Tunisia's Inclusion on EU High-Risk List Challenges Banks

Access/Diamond Deal Boosts Large Banks' Dominance in Nigeria

Gabon IMF Programme Still Faces Political, Social Tensions

Latin America & The Caribbean

IMF Deal Mitigates Ecuador Financing Risks

Paraguay's USD500MM Bond Rated 'BB+'

Governability to Be Key Issue for New El Salvador President

Ecuador's 2029 USD Bond Rated 'B-'

El Salvador Budget, Debt Approval Supportive of Credit

Asia Pacific

Sri Lankan Banks Manage Capital Impact of SLFRS 9

Sri Lanka Taking Steps to Reduce Fiscal and Economic Risks

Sri Lanka's USD Bonds Assigned Final 'B' Rating

Ratings

Country	Current Ratings	Last Rating Action	Outlook	Rating Action Type
Middle East & Africa				
Angola	B	28-Dec-2018	►	Affirmation
Cameroon	B	09-Nov-2018	►	Affirmation
Cote D-Ivoire	B+	05-Oct-2018	►	Affirmation
Egypt	B+	21-Mar-2019	►	Upgrade
Ethiopia	B	23-Nov-2018	►	Affirmation
Gabon	B	05-Oct-2018	►	Affirmation
Ghana	B	18-Mar-2019	►	Affirmation
Iraq	B-	30-Jul-2018	►	Affirmation
Kenya	B+	18-Oct-2018	►	Affirmation
Mozambique	RD	21-Sep-2018	–	Affirmation
Namibia	BB+	21-Feb-2019	▼	Affirmation
Nigeria	B+	02-Nov-2018	►	Affirmation
Tunisia	B+	11-Dec-2018	▼	Affirmation
Zambia	B-	11-Oct-2018	▼	Downgrade
Latam & Caribbean				
Bolivia	BB-	03-Jul-2018	►	Affirmation
Costa Rica	B+	15-Jan-2019	▼	Downgrade
Dominican Republic	BB-	20-Sep-2018	►	Affirmation
Ecuador	B-	10-Jan-2019	▼	Affirmation
El Salvador	B-	13-Jun-2018	►	Affirmation
Guatemala	BB	17-Apr-2018	►	Affirmation
Jamaica	B+	31-Jan-2019	►	Upgrade
Paraguay	BB+	11-Dec-2018	►	Upgrade
Suriname	B-	24-Aug-2018	►	Affirmation
Asia				
Mongolia	B	09-Jul-2018	►	Upgrade
Pakistan	B-	14-Dec-2018	►	Downgrade
Sri Lanka	B	04-Dec-2018	►	Downgrade
Vietnam	BB	15-May-2018	►	Upgrade
Europe				
Armenia	B+	30-Nov-2018	▲	Affirmation
Azerbaijan	BB+	25-Jan-2019	►	Affirmation
Belarus	B	18-Jan-2019	►	Affirmation
Georgia	BB	22-Feb-2019	►	Upgrade

Legend

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

Source: Fitch Ratings

Business Development Contacts

**Frank Laurents**

Global Strategist; EM, Sovereigns
+1 212-908-9127

**Aymeric Poizot, CFA, CAIA**

Global Head Investor Development Fitch Ratings
+ 33 1 44 29 92 76

**Helen Wong**

Head of APAC Investor Development
+852 2263 9934

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