QUARTERLY FRONTIER MARKETS RECAP

Positive Trends in Frontier Market Ratings; Still Bumpy Road Ahead

Frontier market ratings continued their overall upward momentum during the third quarter, as positive rating actions outnumbered negative actions by a ratio of 3:1, registering the first two upgrades since 4Q19[1]. However, with a worsening of balance sheets due to the pandemic in many countries, new Covid surges and pre-existing structural weaknesses, the road ahead is still uncertain, evidenced by the fact that about half of all Fitch-rated FMs remain on Negative Outlook or are rated below 'B-', where no Outlooks are assigned.

All 3Q21 rating and Outlook changes took place in EMEA, with the upgrades of **Gabon** and **Cote d'Ivoire** in sub-Saharan Africa (SSA), the Outlook revision of **Georgia** to Stable from Negative in Emerging Europe and the downgrade of **Tunisia** in the Middle East & North Africa (MENA). These and other frontier markets (FMs) were discussed at our **Global Sovereign Conferences 2021**, which provided both a global and regional overview and addressed country-specific issues. Below are the main takeaways as they relate to FMs in each region.

In **sub-Saharan Africa** (SSA), the impact of Covid on growth has been less severe than in other regions, partly due to more limited infections and containment measures; because of this and very limited fiscal stimulus, the rebound will also be more subdued. While some of the fastest-growing countries before Covid should return to their strong pre-pandemic growth, we are more concerned about East Africa, due to its strong reliance on infrastructure investments. For oil-exporting countries, declining oil production from existing fields and a lack of offsetting investments are a concern, although we still see strong potential for Mozambique's gas projects.

Most SSA countries experienced a surge in debt ratios during the pandemic, but here, too, the impact has been less severe compared to other regions, notably the Americas and Emerging Europe. Oil-exporting countries were the exception, due to a strong denominator effect, although this is being reversed with the rise in oil prices this year. Another concern is the large portion of countries exhibiting very high general government interest/revenue ratios, which raise questions about debt sustainability.

Encouraging are the numerous debt issuances taking place this year, which in many cases are improving sovereign maturity structures. In addition, official support has been exceptional during the pandemic, with a sharp rise in IMF emergency funding and the first SDR allocations since 2009. Smaller countries that underwent a sharp depreciation have particularly benefited from the latter (Zambia, but also Mozambique, Namibia, Ghana, and Gabon). Globally, 45 countries have now requested debt support under the G20 DSSI and 3 have asked to join the Common Framework. To hear more about the SSA region and individual countries, including Angola, Nigeria, Ghana, Kenya, Zambia, and Gabon, click on the above webinar link.

The story is somewhat different in the **Middle East & North Africa (MENA)**, where GDP growth is not anticipated to drive credit recovery. Lebanon is expected to remain in double-digit recession in 2021, and in general, we don't expect GDP growth to be meaningfully above pre-pandemic levels elsewhere, despite significant drops in GDP in 2020. The exception is Iraq, where the growth dynamics are more idiosynchratic, driven by

Key Sovereign Rating Actions

Guatemala's 2033 and 2041 USD Bonds Rated at 'BB-'

Gabon Upgraded to 'B-'; Outlook Stable

Georgia's Outlook Revised to Stable; Affirmed at 'BB'

Cote d'Ivoire Upgraded to 'BB-'; Outlook Stable

Tunisia Downgraded to 'B-'; Outlook Negative

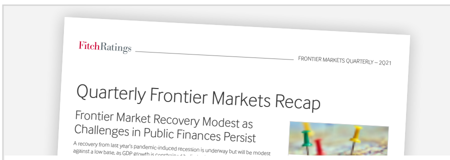
Webinars/Podcasts/Videos

Georgia: Macroeconomic and Banking Sector Outlook

Fixed Interests - Central America - Macroeconomic Outlook and Recovery

Global Sovereign Conference 2021 - Sub-Saharan Africa

Fitch Ratings is the Market Leader in Vietnam


FitchRatings
Quarterly Frontier Markets Recap
Frontier Market Recovery Modest as Challenges in Public Finances Persist

Previous Reports

Frontier Markets Recap – 2Q21

[1] This excludes Suriname, which was upgraded several times in 2020 as it transitioned in and out of default throughout the year.

oil production. MENA is among the regions most exposed to tourism, and inflows of travel receipts have more than halved across these markets. Although there are some bright spots, the recovery in tourism is expected to be gradual, which will continue to pressure structural current account deficits.

Government debt across the region is higher than their respective rating peer medians. While Jordan and Iraq are expected to bring their debt trajectories under control, Tunisia's debt will be even higher in 2023. The difficulty of consolidating public finances in the region stems from rigid budget structures, which reflect social issues that remain unaddressed since the Arab Spring, such as high youth unemployment, feeding political instability.

The **Asia-Pacific (APAC)** conference noted that while some of the strongest global recoveries were observed in this region, so too were some of the weakest. Mongolia and Vietnam were among the early leaders, but both have suffered setbacks after 2Q and 3Q outturns, respectively. Export demand and import compression cushioned contractions in 2020, whereas a strong rebound in domestic demand combined with an even more dramatic increase in exports provided key tailwinds for a recovery in 1H21. Investment levels have held up in Vietnam but have fallen in Sri Lanka and Mongolia compared to 2019. This, combined with labour dislocation, increases the scarring potential, including for Mongolia, where investment has dropped by over 20%. Sri Lanka's debt build-up has been larger than for its peers, even though its fiscal support was among the lowest in the region. Vietnam did well until the Delta variant arrived, prompting its imposition of restrictions in 3Q. For more details on these and other issues, as well as an in-depth discussion of Sri Lanka and the Maldives during the Q&A session, click on the above webinar link.

At the **Emerging Europe** conference, Belarus was discussed at length, as new sanctions were imposed by the EU on 24 June, following the re-imposition of US measures targeting some SOEs in the oil and petrochemicals sector. While the sanctions add to negative pressure on the sovereign rating, they should be manageable on the external funding side, at least until the first Eurobond payment comes due in Feb.'23. However, sanctions will weigh on already weak growth of less than 1% and could increase risks to public finances and banks. In addition, recent improvements in the policy framework are now coming under pressure. However, the new sanctions so far have not led to FX depreciation or affected international reserves, which were impacted by last year's political instability.

At the **Americas** conference, analysts noted that challenges to medium-term growth persist for Latin America & the Caribbean (LatAm) due to reduced investment rates, elevated unemployment rates and lagging competitiveness, as well as a lack of structural reform momentum, including in FMs such as Costa Rica and Bolivia. Jamaica is one of the few exceptions where gross investment is forecast to exceed the 2014-2019 average. El Salvador, along with Costa Rica, has among the highest vaccination rates in LatAm (close to 60%), while Guatemala and Jamaica have the lowest (under 20%). Most FM current account balances are better positioned now than they were in 2013 (when the first Taper Tantrum took place), the exception being Bolivia, although it is projected to recover a current account surplus in 2021 that, together with Guatemala's, will be one of the strongest among FMs[2]. While fiscal consolidation is underway, debt is high and will continue to rise until 2023 (except for Jamaica), underpinning the region's limited fiscal flexibility. Poverty levels have risen across the board during the pandemic, which could lead to social and political tensions.

Weak governance represents another challenge for the region, with erosion of checks & balances that weaken institutional strength and create policy uncertainty mostly observed in El Salvador, but also in Nicaragua and Guatemala. Costa Rica's Legislative Assembly approved an IMF Extended Fund Facility programme serving as a policy anchor to recent government efforts to narrow down the fiscal deficit. However, political gridlock and elections scheduled for 2022 add to uncertainty about legislative approvals of fiscal measures contained in the IMF programme. For a more in-depth discussion of Costa Rica, click on the above webinar link and go to the Q&A section. For more details on the entire Central American region, listen to our new podcast **Fixed Interests - Central America - Macroeconomic Outlook and Recovery**.

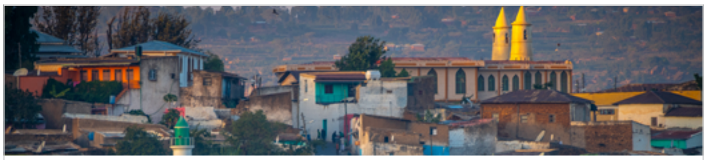
INVESTORS INCREASINGLY FOCUSING ON ESG ISSUES IN FMs

Many economic centres and industries across FMs are exposed to physical climate change risks, and several large cities are affected by rising sea levels. Droughts and floods as a result of changing rainfall patterns impose direct economic costs on agriculture-dependent economies, and social costs related to individual livelihoods and food security.

New investors are increasingly making efforts to incorporate sustainability into their investment strategies in Africa and other FM regions by, for example, including renewable energy generation in electrification programmes or housing estate developments designed to have less environmental impact. A challenge for ESG investors is the dominance of extractive industries in many FMs, as these sectors are important contributors to GDP and export earning. Several African governments are planning to issue green or sustainability bonds in the next year, but it is unclear how the market will perceive these in the context of largely commodity-dependent economies. For more information on ESG-related topics, visit our new **Sustainable Fitch website**.

[2] Paraguay's figures have been revised since the Global Sovereign Conference, with the 2021 current account surplus now expected to be slightly higher than in 2013.

Newsreel



Common Framework and Conflict Still Weigh on Ethiopia's Rating

The timeline and shape of Ethiopia's debt treatment under the G20 CF remains unclear, with Ethiopia's one outstanding Eurobond still at risk of reprofiling as part of the broader agreement. Ethiopia has stated that the Eurobond, which matures in December 2024, will not be affected by the CF treatment, but the latest G20 communique stressed the importance of comparable private creditor treatment.

New Belarus Sanctions Add to Sovereign Rating Pressure

New EU sanctions against Belarus add to negative pressure on the sovereign rating. While they should be navigable in the near term from a funding perspective, the sanctions target key export products and restrict access to financing for the government from EU lenders, including new Eurobond issuance and borrowing by some state-owned entities.

Costa Rica's Budget Maintains Fiscal Consolidation Effort

Costa Rica's decade-long fiscal deterioration could be reaching an inflection point following a strong 7M21 outturn, approval of a three-year IMF EFF and consolidation measures contained in the 2022 budget package. However, consolidation efforts are still imperilled by political gridlock, a high interest burden and rising coronavirus cases, which are reflected in the Negative Outlook on Costa Rica's 'B' rating.

Vietnam's Covid-19 Outbreak Poses a Setback to Recovery

An escalation in Covid-19 cases and deaths in 3Q21 undermines Vietnam's previously strong recovery from the pandemic shock, temporarily setting back positive rating momentum. The economy expanded by 5.6% yoy in 1H21, accelerating from 2.2% in 1H20, but restrictions to control the spread of the disease weighed on activity in 3Q21 and could persist if the outbreak is not under control.

Frontier Vision – 3Q21

Central banks in Frontier Markets (FMs) have stepped up their efforts to contain rising inflation caused by ongoing supply-chain disruptions, logistical issues and soaring commodity prices. While a number of central bankers continue to view the pick-up in inflation as short lived, many are tightening monetary policy to reduce the risk of transitory increases becoming more permanent. Interest rates have already risen in Angola, Armenia, Azerbaijan, Belarus, Georgia, Pakistan, Paraguay, Sri Lanka and Tajikistan, among others. Domestic economic activity has also recovered strongly in many FMs, including Georgia, Costa Rica and Belize, although this trend has not been uniform across all FMs. At the same time, labour markets have had rapid annual employment growth increases in 2Q21 in many FMs, such as in Azerbaijan, Belize, Costa Rica, Georgia and Senegal.

Regional Commentary

Europe

Armenia Affirmed at 'B+'; Outlook Stable

Uzbek Insurance Premiums Growing; Sector Challenges Remain

Middle East & Africa

Nigeria's Proposed USD Bond Assigned 'B' Rating

Angola Affirmed at 'CCC'

Nigeria's Petroleum Bill Could Boost Long-Term Oil Production

Tunisia's Political Turmoil Increases Risks to IMF Funding

Mozambique Affirmed at 'CCC'

Namibia Affirmed at 'BB'; Outlook Negative

New Infection Wave Raises Pandemic Risks for African Sovereigns

Latin America & The Caribbean

Latin American Sovereigns Put IMF SDRs to Varying Uses

Bolivia Affirmed at 'B'; Outlook Stable

Catastrophe Bond Gives Jamaica New Layer of Protection Against Hurricanes

Bitcoin Implementation a Credit Negative for El Salvador Insurers

Weaker Checks and Balances Heighten El Salvador's Funding Risks

Asia Pacific

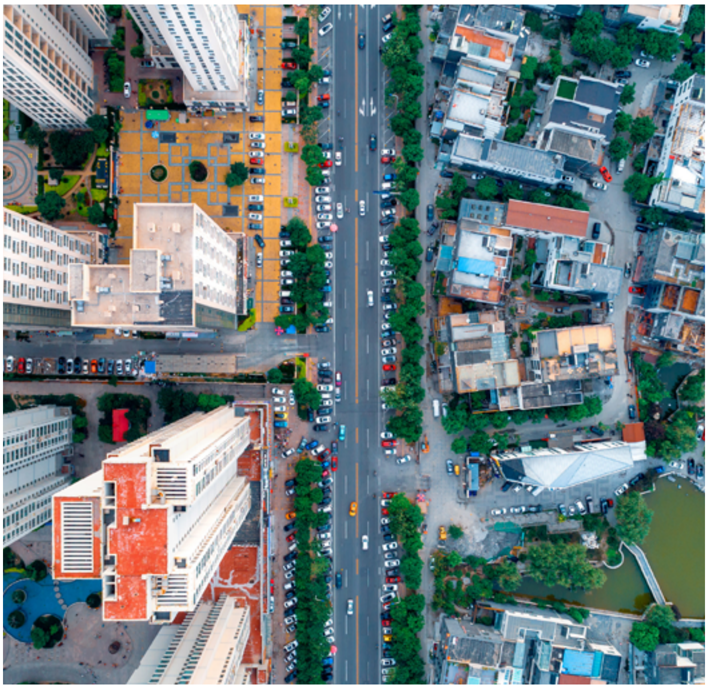
Weak Operating Environment Continues to Pressure Sri Lankan Bank Ratings

New Terminal to Assist Mongolian Mining Recovery; Border Reopening Behind Expectation

Vietnam Banks' Asset Quality Risks Rise on New Virus Wave

Mongolian Bank Merger Indicates Accelerating Sector Consolidation

Sri Lanka's Weakening External Finances to Pressure Corp. Rtgs

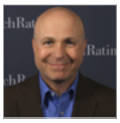


Regional Commentary

Country	Current Ratings	Last Rating Action	Outlook	Rating Action Type
Middle East & Africa				
Angola	CCC	02-Sep-2021	-	Affirmation
Cameroon	B	12-Apr-2021	▶	Affirmation
Cote D-Ivoire	BB-	19-Jul-2021	▶	Upgrade
Ethiopia	CCC	09-Feb-2021	-	Downgrade
Gabon	B-	24-Aug-2021	▶	Upgrade
Ghana	B	22-Jun-2021	▼	Affirmation
Iraq	B-	24-Mar-2021	▶	Affirmation
Jordan	BB-	03-Jun-2021	▼	Affirmation
Kenya	B+	26-Mar-2021	▼	Affirmation
Mozambique	CCC	21-Jul-2021	-	Affirmation
Namibia	BB	15-Jul-2021	▼	Affirmation
Nigeria	B	19-Mar-2021	▶	Affirmation
Tunisia	B-	08-Jul-2021	▼	Downgrade
Zambia	RD	12-Apr-2021	-	Affirmation
Latin America & The Caribbean				
Bolivia	B	24-Sep-2021	▶	Affirmation
Costa Rica	B	16-Mar-2021	▼	Affirmation
El Salvador	B-	27-Apr-2021	▼	Affirmation
Guatemala	BB-	04-May-2021	▶	Affirmation
Jamaica	B+	18-Mar-2020	▶	Affirmation
Paraguay	BB+	02-Dec-2020	▶	Affirmation
Suriname	RD	01-Apr-2021	-	Downgrade
Asia				
Mongolia	B	25-May-2021	▶	Affirmation
Pakistan	B-	27-May-2021	▶	Affirmation
Sri Lanka	CCC	14-Jun-2021	-	Affirmation
Vietnam	BB	01-Apr-2021	▲	Affirmation
Europe				
Armenia	B+	24-Sep-2021	▶	Affirmation
Azerbaijan	BB+	14-May-2021	▶	Affirmation
Belarus	B	07-May-2021	▼	Affirmation
Georgia	BB	06-Aug-2021	▶	Affirmation
Uzbekistan	BB-	09-Apr-2021	▶	Affirmation

Legend
▲ (positive), ▶ (stable), or ▼ (negative)
Source: Fitch Ratings

Business Development Contacts



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