

Trip Notes

IMF Annual Meetings in Marrakech, Morocco

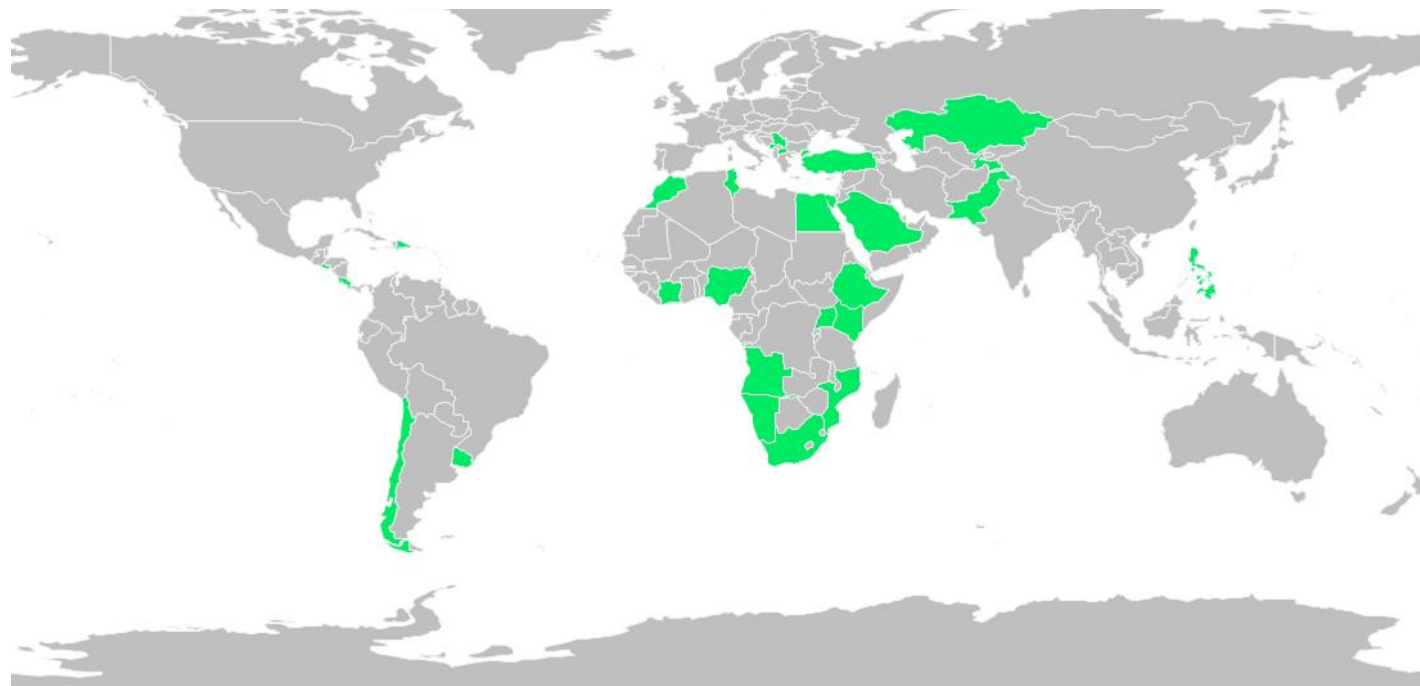
Aktia

Photo: Morocco hosted the Annual Meetings of the World Bank Group and International Monetary Fund in Bab Ighli in Marrakech

IMF Meetings - Summary

Aktia EMD Team's country meetings alongside the semi-annual IMF meetings

- Aktia's Emerging Market Debt Team travelled to Marrakech, Morocco, to participate in the side events organised in connection to the IMF's Fall Meetings. This was the first time in a half a century that the IMF and the World Bank held their annual meetings on the African continent. Morocco wanted to host, despite the devastating earthquake only a few weeks earlier. The meetings were originally scheduled to be held in Morocco already in 2021 but were twice postponed due to the global COVID-19 pandemic.
- All in all, we had over 30 meetings mostly with country delegations comprising of central bankers, finance ministers and treasurers. Most IMF representative meetings were organized virtually this fall. All in all, we covered in total 26 emerging and frontier countries.
- Ghana and Zambia informed that scheduled meetings with investors were canceled due to advice received during the ongoing debt restructuring talks.
- In this report, we go through some of the key themes that came up during the meetings and go into more detail on selected countries.



Africa: Angola, Ethiopia, Ivory Coast, Kenya, Mozambique, Namibia, Nigeria, South Africa, Uganda

Asia: Kazakhstan, Pakistan, Philippines, Tajikistan

Central America and the Caribbean: Costa Rica, Dominican Republic, El Salvador

Europe: North Macedonia, Montenegro, Serbia, Turkey

Middle East and North Africa: Egypt, Morocco, Saudi Arabia, Tunisia

South America: Chile, Uruguay

Overview

- Countries have been grappling with multiple shocks, referring to the ongoing recovery post-pandemic and the challenges arising from elevated inflation, particularly due to Russia's invasion of Ukraine. The global background does not seem to be less volatile going forward either.
- Geopolitical uncertainties persist, evident during the IMF meetings overshadowed by fresh violence in the Middle East, specifically the conflict between Israel and Hamas. There are concerns about the conflict spreading.
- Many countries mentioned experiencing extreme weather events like droughts and flooding, exacerbating food inflation. Worries related to climate emergencies, more near-term worries about effects of El Nino, and impact on economies were noted.
- Subsidies-based policies were failing to deliver net zero emissions and that scaling them up would explode public debt. After several markets experiencing adverse weather conditions, these were also mentioned as downward risks.
- Higher U.S. bond yields, a strong U.S. dollar as well as higher domestic interest rates will put some countries especially in our frontier universe in more challenging positions. Central banks in some emerging and frontier markets have started monetary easing cycle, but should inflation stay persistent, rate cuts might be delayed.
- Many countries were mentioning refraining from issuing international bonds because of unattractive market conditions. Also, several countries were cutting back domestic issuances because of high yields. Serious financing constraints mean that authorities will seriously need to step up revenue mobilisation efforts.



Photo: The IMF and World Bank Annual Meetings were held in Bab Ighli in Marrakech

Overview & Dominican Republic

- The IMF's World Economic Outlook (WEO) published during the annual meetings projects global economic growth slowing from 3.5% last year to 3% this year and 2.9% next year. Emerging markets and developing economies' growth decelerating only marginally from 4.1% last year to 4.0% this year and 4.0% next year. Global inflation is seen decelerating from estimated 6.9% this year to a still-high 5.8% next, which is slower than seen during last WEO update in July. In emerging market and developing economies inflation is expected to decelerate from this year's expected 8.5% to 7.8% next year.

Dominican Republic

- As in LatAm generally, also Dominican Republic has started the easing cycle. Central Bank (CB) has cut 100bps since June and has also eased credit conditions. This has resulted in 200bps decrease in market rates. Currently, rates around 5-6% in real terms are still high when compared to the neutral rate at 2%. All in all, there is still room for normalization going forward. Inflation is down from a peak of 10% (April 2022) to 4% currently. For future rate path, CB will carefully watch US data. Lower inflation, development of oil prices, continuation of fiscal consolidation, shrinking negative output gap and especially interest rate differential to the US will play major role in CB's future decisions.
- In DomRep oil/fuels are 25-30% of the CPI basket so subsidies play significant role. Fuel prices were frozen in 2022 and 2023. For the 2024 budget there is DOP 10bn (USD 350m) allocated to fuel subsidies and there is a commitment that fuel prices will be kept stable if WTI is trading over USD 90bbl.
- Growth has been somewhat depressed, but the picture has significantly improved in recent months. For 2023 the growth expectation is 3%. Main sectors driving the growth are construction, manufacturing and tourism. For example, number of tourists have been

increasing 30% y-o-y and are 40% above pre-pandemic levels. For 2024 GDP growth is expected to pick-up to 5-5.5% (IMF forecast 5.2%). Improved credit conditions are seen especially in loan growth in construction and manufacturing sectors.

- Economic growth is supported by exports in general and near shoring in sectors like logistics and medical devices (now days the main product in free trade zones). FDIs are concentrated to tourism and construction sectors but most recently has grown in the mining sector. Dominican has one the world largest gold mines (Pueblo Viejo) and expansion plans of the mine was approved earlier this year.
- Local capital markets are currently developing fast. FX market have deepened a lot, major development has been shifting away from spot market trades to NDF (non-deliverable forward, these are now 90% of the fx trades) trading. Other important reforms include a general fiscal reform, promotion of increased public investments (targeting 4% of GDP), tax reform involving a reduced share of tax exemptions and the broadening of the tax base, and finally, a gradual shift towards a more flexible labor market
- View:** Rates cuts are underway, but there is still way to go towards neutral levels. Tourism and near shoring have supported the growth outlook and the new gold mine endeavor will further support growth. We have significant positions in our Hard Currency and Frontier strategies.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	5.2%	3.0%	4.9%	12.3%	-6.7%	5.3%
Inflation (% annual percent change)	4.0%	4.0%	7.8%	8.5%	5.6%	3.4%
Overall Fiscal Balance (% of GDP)	-3.1%	-3.2%	-3.2%	-2.9%	-7.9%	-3.1%
Government Debt (% of GDP)	59.4%	59.8%	59.5%	63.2%	71.5%	46.4%
External Current Account (% of GDP)	-3.5%	-3.7%	-5.6%	-2.8%	-1.7%	-3.0%

Egypt

- Egypt continues to battle with its economic difficulties, seeking financing from the funding sources still available to it. Before the IMF annual meetings, Moody's downgraded Egypt's credit rating to Caa1 with a stable outlook due to the worsening debt affordability trend and the persistence of foreign currency shortages. However, the expectation is that Egypt will be able to muddle through.
- Egypt has a large current account deficit which it has been able to bring down by restricting imports. The IMF is projecting a deficit of 1.7% for this year, but the projections were made prior to the recent Israel-Hamas war. The government's economic growth projections are higher than those of the IMF's. It is possible that the Israel-Hamas war will have a negative impact on important tourism sector and foreign direct investment (FDI) inflows. But the war has increased Egypt's importance geopolitically which might increase economic support from the international community to alleviate current account issues.
- Progress of Egypt's Asset Monetization Programme has been slow for financial market's taste. They delivered USD 1.9 bn by the end of June and they are working on another USD 3.5 bn to be sold. This types of sales take time in the EM environment, also when considering probable governance issues of state-owned enterprises. However, probably more has been achieved in the privatization process than would have been possible without the economic crises. The reform intention is to level the playing field in the state-led economy for private sector companies.
- One of the key requirements from the IMF to Egypt has been FX flexibility. The head of the IMF, Kristalina Georgieva, commented the FX devaluation requirement prior to the IMF annual meetings. She also said progress has been made with the Egyptian authorities.

However, another devaluation is very unlikely before the presidential elections in December, as Egypt wants to protect its citizens from further erosion in living standards to maintain social cohesion. Inflation is running high, particularly food inflation, which is around 70%.

- Egypt's first and second reviews of the IMF program of USD 3 billion have been delayed, probably because of the FX flexibility requirement. However, Egypt is now expecting an IMF review announcement by year-end. Any announcement regarding a potential increase in the current program can only occur after Egypt completes its two delayed program reviews. The IMF has been strict regarding the requirement of FX flexibility. However, considering the potential impact of the Israel-Hamas war on Egypt's economy, which is beyond Egypt's control, the IMF might find flexibility to increase the program to USD 5 billion. Egypt is the IMF's second-biggest borrower, owing about USD 22 billion to the Fund.
- **View:** Egypt debt repayment burden is increasing for the next few years which will require availability of funding and particularly continuity of reform momentum. Right after the IMF meetings Egypt issued Africa's first yuan-denominated, sustainable panda bonds in about USD 480 million, which show their ability to find small pocket's of funding streams, and thus 'muddling through' scenario is intact. We have been selling holdings in Egypt and still hold a small allocation in our frontier strategy. We also have position in our Hard Currency strategy and will continue to monitor developments carefully.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	3.6%	4.2%	6.7%	3.3%	3.6%	3.8%
Inflation (% annual percent change)	25.9%	35.7%	13.2%	4.9%	5.7%	12.9%
Overall Fiscal Balance (% of GDP)	-10.7%	-4.6%	-5.8%	-7.0%	-7.5%	-10.1%
Government Debt (% of GDP)	88.1%	92.7%	88.5%	89.9%	86.2%	82.7%
External Current Account (% of GDP)	-2.4%	-1.7%	-3.5%	-4.4%	-2.9%	-3.3%

Ivory Coast

- Ivory Coast held regional and municipal elections early in September. According to the official's, elections were calm and peaceful and the ruling party (Rally of Houphouëtists for Democracy and Peace = RHDP) was the winner by a clear margin (123/201 municipalities and 25/31 regions) before the opposition parties. Presidential elections will be held 2025.
- Economic development is robust, growth expectations for this year is 7%. The growth outlook is also positive for the next few years as GDP forecast is stable at around 7%. The Government is committed to continue further diversifying the economy. Right now, the country is well known for its cocoa, cocoa products and most recently cashew nuts exports. Further support for the economy is expected to come from both the oil and gas industry. The New Baleine field is now online, and production numbers are already growing. With second development phase to be completed during the next year, oil production is forecasted to double to 75.000 barrels per day and gas to around 70m standard cubic feet of associated gas per day.
- The fiscal deficit is contained and improving, last year the deficit was 6.8% and the target for the current year is 5.2%. Ministry of Economy and Finance expects to reach the regional fiscal deficit target of 3% by 2025. The IMF review (ECF/EFF arrangement) from the beginning of October confirms that the risk to debt sustainability is only moderate, thanks to the estimated increase on the revenue side. Officials presented back in the days the National Development Plan (NPD) for 2021-2025 which aims to mitigate risks and managing the impact of climate change and other exogenous shocks by further diversifying the economy.
- From a budget point of view, the 2024 budget is fully funded. Financing will be combination of regional markets and multilaterals (IMF, AfDB, WB) as well as an increase in revenues. Market conditions don't favor eurobond issuance currently. There was, however, discussion

with investors on USD denominated bond issuance pros/cons and officials acknowledge the benefits and will consider it in the future as one option.

- Recent coups in Niger and Gabon have raised questions on the security and stability in the region. Ivory Coast officials stated that, due to the swift response to the Niger coup in the form of commercial and financial sanctions, both WAEMU (West African Monetary Union) and ECOWAS (Economic Community of West African States) took a clear regional stance. The situation in Gabon is under control and was initially different, as there was no act of violence.
- View:** Ivory Coasts compelling growth story, increasingly diversified economy, relatively stable and predictable governance and good relationships with multilaterals are all positive signs for us. We continue with significant position in our Hard Currency strategy.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	6.6%	6.2%	6.7%	7.0%	1.7%	6.5%
Inflation (% annual percent change)	2.0%	2.8%	5.1%	5.6%	2.3%	1.3%
Overall Fiscal Balance (% of GDP)	-4.1%	-5.2%	-6.8%	-4.9%	-5.4%	-2.4%
Government Debt (% of GDP)	57.0%	56.8%	56.8%	50.9%	46.3%	32.4%
External Current Account (% of GDP)	-3.8%	-4.7%	-6.5%	-4.0%	-3.1%	-0.3%

Aktia, IMF and Macrobond

Morocco

- Altogether the economic impact of the quake will probably be very limited and could even turn out to be positive in the end due to support measures. The country has received wide support from the international community which is estimated to amount to USD 20 bn in the next 5 years according to central bank officials. Financing of the reconstruction will be funded mainly through donations and contributions, however the total amount and the channels are not yet confirmed. Morocco has USD 5bn of Flexible Credit Line (FCL) and USD 1.3bn Resilience and Sustainability Facility (RSF) arrangements with the IMF in place as last resort for funding. IMF highlighted that there must be balance of payments requirement before the FCL could be drawn.
- Growth this year has surprised positively (forecast 2.5-2.6% y-o-y) despite the draught that has depressed agricultural sector revenues. IMF will probably revise growth forecast up due to reconstruction plans and positive expectations for the agriculture sector. Also, recovery of the tourism sector has already surprised positively, just after a few weeks of the earthquake.
- In the past, draughts have caused severe issues and country launched a few years ago a National Water Plan 2050 to tackle water scarcity issues. The reform plan is enormous (over USD 35bn) and aims to solve the issue in hand, for example, the plan includes new dams, pipelines, canal systems and better recycling processes. On the financing side there are many actors involved from multilaterals (World Bank, IMF), to other countries (France, EU) and of course private companies (Public-Private Partnerships).
- Inflation has peaked (in February 10%) and is falling (currently at 5%) but is still volatile since food inflation has been still increasing. CB expectation is that inflation will be normalized back to levels around 2% in a couple of years. Inflation targeting will be introduced in the future but has no set date yet.



Photo: Kasbah Mosque

Morocco & Mozambique

- Morocco has had a flexible currency regime (MAD pegged to EUR+USD basket) in place since 2018 and most recently it has widened the band (to +/- 5%). CB stated that there is no timeline for a floating currency regime, but it will go hand in hand with other reforms like removal of capital controls. Decision will be in the hands of Ministry of Finance in the end. Morocco has currently USD 35bn of fx reserves which provides healthy buffers.
- There has been a good amount of activity on the FDI (Foreign Direct Investments) front. Automotive sector has recently attracted flows from China and Korea. For example, cars under the brand of Dacia are built in Morocco. The country still lacks the human capital to manufacture engines independently, so they are imported. Additionally, other sectors like green energy and renewables show great potential. For instance, there is a current need for investments in the electricity transfer network from the southern to the middle and northern parts of the country.. Morocco is also the richest country of the world when it comes to phosphates (has 70% of the world's phosphate reserves), which is an essential ingredient in all fertilizers.
- Government has focused on bringing debt levels down and enhance revenues by increasing the tax base. Corporate and personal tax reforms are executed, VAT tax reform will follow. At the same time government spending will be reduced by introducing a social registration system. This will enable more targeted spending. For this year, achieving a budget improvement will be a challenge but despite of current challenges the government is committed to decrease the fiscal deficit (currently around 5% of GDP). Current account deficit will be lower than expectations due to tourism, export of services (also non-tourism) and goods (fertilizers, automotive sector). IMF is revising the deficit target of 3.5% down to 3% (actual could be even as low as 2+%) .
- **View:** Positive development of FDIs (automotive sector, NWP), possible growth pulse due to reconstruction activities and relatively modest debt metrics but still modest growth outlook

in general keeps us neutral on the country. We have a position in our Hard Currency strategy, but nothing in our Frontier strategy as local yields remain unattractive.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	3.6%	2.4%	1.3%	8.0%	-7.2%	3.5%
Inflation (% annual percent change)	3.3%	4.0%	8.3%	3.2%	-0.3%	1.2%
Overall Fiscal Balance (% of GDP)	-4.2%	-4.9%	-5.2%	-6.0%	-7.1%	-4.6%
Government Debt (% of GDP)	69.1%	69.7%	71.5%	69.5%	72.2%	57.3%
External Current Account (% of GDP)	-3.2%	-3.1%	-3.5%	-2.3%	-1.2%	-5.1%

Aktia, IMF and Macrobond

Mozambique

- Mozambique's economy has shown resilience through successive shocks including flooding and Cyclone Freddy in February. Economic activity picked up in mining, services, and agriculture sectors. The IMF is expecting real GDP growth to reach 7.0% in 2023 which is the highest in Sub-Saharan Africa. In the medium term the authorities were expecting growth trajectory to continue around 5.0%
- Investments in liquefied natural gas (LNG) projects will play a pivotal role for Mozambique's economy. These investments have faced headwinds and been postponed due to security issues in northeastern part of the country where the majority of offshore natural gas resources are located. Recently Total Energies has announced contemplating restarting operations towards the end of the year on the back of the improved security situation, for which IMF expects production to start in 2027. Both Total's and Exxon's projects are costing around USD 20 billion each. Italian ENI's the Coral LNG project started production in November 2022 as planned when first gas exports to Europe was also made.

Mozambique

- The current account deficit is large due to capital investments in the LNG sector, but it is financed by FDI and long-term debt which does not raise concerns. However, the projects need to be completed to generate exports to reverse flows. This year the IMF is seeing the deficit narrowing due to weaker imports.
- The central bank, Bank of Mozambique, is keeping monetary policy tight with the benchmark rate at 17.25% to fulfil its mandate of low and stable inflation. It started tightening cycle already in January 2021. Inflation peaked at 12.9% in last August after starting to cool down reaching 4.6% this September. The IMF is seeing inflation at 7.4% at the end of this year.
- Fiscal space is limited therefore consolidation is required. Fiscal slippage last year due to overruns in the implementation of the wage bill reform and revenue underperformance. The parliament approved the wage bill in December 2021, but some mistakes were detected in the implementation. Target is to bring public service remuneration to 7-8% of GDP while it still consists 12% of GDP right now. Next year will be an election year in Mozambique which presents risks for fiscal slippages for which there is no room.
- Mozambique's debt increased after the hidden debt scandal in 2015-16. Currently the government debt is slightly over 90% of GDP. The IMF assess Mozambique's debt burden as sustainable, but at high risk. Mozambique is balancing on a tight rope to keep prudent fiscal course and making debt service payments. The IMF Board approved a three-year Extended Credit Facility (ECF) arrangement of approx. USD 460 million for Mozambique in May 2022, which is keeping reform momentum. The third review by the IMF is starting in coming weeks.
- The currency, metical, is officially floating, but has been interestingly very stable for the past two and half years. Foreign exchange reserves have been also stable at approx. USD 3.2 billion which is the equivalent of 3-4 months of imports. The Bank of Mozambique has increased reserve requirements to build up reserves and stepped away from exchanging currency for fuel imports which is done through commercial banks.
- **View:** The country is red in our Traffic Light Approach and as such government bonds are not allowed and furthermore it is not possible to invest locally in Mozambique's government securities. We are invested in Mozambican metical currency forwards but have not rolled maturities as yields have become less attractive. We keep monitoring the market.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	5.0%	7.0%	4.2%	2.4%	-1.2%	5.5%
Inflation (% annual percent change)	6.5%	6.7%	10.3%	6.7%	3.5%	6.4%
Overall Fiscal Balance (% of GDP)	-2.2%	-2.8%	-5.0%	-3.6%	-5.4%	-4.2%
Government Debt (% of GDP)	92.4%	89.7%	95.5%	104.9%	120.0%	78.9%
External Current Account (% of GDP)	-39.3%	-16.0%	-32.9%	-22.4%	-27.6%	-31.3%

Aktia, IMF and Macrobond

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Serbia

- The economy has surprised on the upside and the GDP growth expectation for 2023 is 3.5%. Serbia has very limited debt levels, current debt-to-GDP is 51% and forecast for 2024 is 51.7%. Accompanied with shrinking budget deficit (2023 target 3.3% and for 2024 2.2%, aligned with IMF and debt levels stability), healthy development in unemployment rate (current 9.6%, peak 25.9% in 2012), constantly rising reserves (record high at €24.2bn) and FDIs (Foreign Direct Investments) at €4.5bn (almost 8% of GDP) puts the country in relatively decent position.
- Refinancing needs for 2024 are EUR 6 bn. Off that, financing from Emirates (EUR 2 bn) is under extension negotiations. The rest will be financed from local and external markets, and multilaterals (IMF 1.2bn), the country will keep all of its options on the table. Local markets are developing rapidly, and yield curve diversity will increase as there was a new 8y bond launched in September. This highlights how the government has a goal to increase share of financing from regional markets. According to MoF, eurobond issuance is option too but there are no concrete plans for it yet. Officials stated that they are committed to continue its ESG agenda and green financing as they issued their first green bond back in 2021. Officials sees value for Serbia to be recognized as a committed participant in the green financing space. There are also €1.5-2bn of green projects open for investments.
- Inflation peaked back in March at 16.2% but has fallen to 10.2% currently. Central Bank sees current key rate level of 6.5% appropriate. Before lowering rates, CB would like to see inflation and inflation expectations (currently at 6%) significantly lower. The officials stated that the next rates decisions will be data depended. However, IMF would like to see continuation in policy tightening.
- Serbia has a strong emphasis on infrastructure projects. There are several projects related to diversifying energy sources (for example gas pipelines, just finished Bulgarian

intersection project) and infrastructure (projects in highspeed railways and highways). Altogether the infrastructure projects represent 7.2% of GDP this year. Largest company in Serbia is the local electricity company (Elektroprivreda Srbije, EPS JSC) which is under restructuring currently and is vital part of energy sector reform. Aim is to reach renewables share of 40% in final energy consumption by 2040.

- EU accession plans are going forward. During the meeting with officials there was a question whether recent disputes in Kosovo has jeopardized any of the funding. Officials responded that it has been declared that Serbia was not involved and that there will be no sanctions in any form for the country. Serbia has strong intentions to find a solution to the situation with Kosovo but due to the long history, there is no timetable for it. The country signed free trade agreement with China mid-October and there are currently discussions going on also with Egypt, Emirates and South Korea.
- **View:** Serbia suffered as Ukraine war started but has been recovering slowly. Now the country is getting back to a growth path with strong emphasis on infrastructure investments. The growth outlook, relatively attractive pricing, long-term improvement in credit metrics and EU accession plans justifies our overweight positioning in the Hard Currency strategy. We do not currently have any local currency investments in Serbia but are monitoring the market for opportunities.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	3.0%	2.0%	2.3%	7.6%	-0.9%	2.1%
Inflation (% annual percent change)	4.0%	8.2%	15.1%	7.9%	1.3%	3.7%
Overall Fiscal Balance (% of GDP)	-1.8%	-1.8%	-0.1%	-3.3%	-7.2%	-2.6%
Government Debt (% of GDP)	49.6%	51.3%	53.5%	56.3%	56.9%	57.8%
External Current Account (% of GDP)	-3.2%	-2.3%	-6.9%	-4.3%	-4.1%	-6.0%

Aktia, IMF and Macrobond

Uganda

- Uganda is a predominantly agrarian economy that may soon receive oil revenues. The IMF projects real GDP growth of 4.6% for this year and 5.7% for 2024. This growth is driven by agriculture, which is still largely rainfed, as well as the positive impact on economic activity from a nascent oil and gas sector.
- Oil production is expected to start in 2025, attracting increased foreign direct investment to the country from historically low levels. Discussions about building a refinery are in advanced stages with various partners. The higher capital imports associated with oil sector development are reflected in the current account deficit, which the IMF expects to narrow this year to 7.1% from last year's 8.2%.
- Inflation peaked at 10.7% last year and slowed to 2.7% in September, below the Bank of Uganda's (BoU) target of 5%. The IMF expects inflation to be at 5.8% this year and 4.7% in 2024. BoU eased monetary policy once, reducing rates by 50 basis points to 9.50% in August after a tightening cycle of 350 bps in 2022. The new Governor has not been officially nominated following the death of Emmanuel Mutebile in January 2021, although Deputy Governor Michael Atingi-Ego is managing the role effectively.
- The shilling has remained relatively stable this year, except for a depreciation in August due to the World Bank's announcement of freezing new funding to Uganda, citing the country's anti-LGBTQ act as contradictory to its values. Uganda asserts itself as one of the few countries in the region without foreign exchange challenges. It does not intervene in the FX market and maintains an open capital account. The authorities aim to maintain FX reserves at around 4 months of import cover, targeting a return to 4.5 months.
- The World Bank's existing portfolio across various sectors, totaling USD 5.4 billion, remains unaffected by the funding halt, but new project financing is impacted. Approximately 60% of

Uganda's debt is concessional and primarily sourced from the World Bank. Initially, Uganda anticipated also budget support of around USD 500 million from the World Bank. Ugandan authorities are actively engaging with the World Bank to implement projects in a non-discriminatory and inclusive manner. There is optimism that an announcement might be made before year-end, ensuring continued funding from the World Bank. Additionally, domestic issuance has become more expensive, leading to reduced domestic issuance.

- If an agreement between the World Bank and Uganda is not reached, Uganda will need to explore additional avenues for fiscal consolidation. This includes enhancing domestic revenue collection, currently standing at only 14% of GDP, and prioritizing spending by reducing non-critical expenditures. The budget deficit, which peaked at 9% in 2020, has reduced to 5.6% at the end of the financial year 2022/23 in June. The fiscal responsibility requirement is 3%, which is expected to be achieved through further fiscal consolidation efforts.
- View:** Uganda's economy offers opportunities, and the existing IMF program supports ongoing economic reforms. From an ESG perspective, the country requires closer scrutiny. Monitoring available funding sources is essential, given Uganda's heavy reliance on concessional finance. We are currently invested in local markets as part of our Frontier strategy due to high real rates and fairly stable currency among other reasons.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	5.7%	4.6%	6.4%	5.7%	-1.2%	5.3%
Inflation (% annual percent change)	5.0%	3.5%	10.2%	2.9%	2.5%	6.7%
Overall Fiscal Balance (% of GDP)	-2.8%	-4.2%	-5.8%	-7.5%	-7.5%	-3.0%
Government Debt (% of GDP)	47.7%	48.3%	48.4%	50.6%	46.4%	27.8%
External Current Account (% of GDP)	-8.2%	-7.1%	-8.2%	-8.3%	-9.4%	-5.6%

Uruguay

- There have been significant positive developments in Uruguay's economy in recent years. Moody's upgraded the credit rating in May due to new fiscal rules and labor reforms, reflecting the government's commitment to fiscal discipline and improved public finances. Despite the severe drought since 2022, which has impacted key sectors, especially agriculture, coupled with softening global demand, economic growth is expected to be 1.0% in 2023, increasing to over 3.0% in 2024 according to IMF forecasts. The drought and reduced tax revenues have led to a moderate widening of the fiscal deficit this year.
- The current account deficit is primarily financed by foreign direct investment (FDI) inflows. UPM's new pulp mill, completed in December 2022 with an investment totaling approximately USD 3.5 billion (equivalent to ~5% of GDP), began operations in April. The completion of UPM's investment may decrease FDI inflows, although the country's political stability could continue to attract more investors.
- The inflation rate has plummeted to historically low levels since late 2022, thanks to high interest rates, a strong currency, and declining commodities prices. However, inflation is expected to rise due to statistical baseline effects, FX depreciation, and salary increases. The IMF projects inflation to reach 5.3% by the end of 2023 and further acceleration next year.
- Uruguay's central bank has been building credibility by adopting a new monetary policy framework and reinstating a benchmark interest rate as its primary policy tool in September 2020. The central bank began tightening the policy rate in November 2021 and continued throughout last year before initiating an easing cycle in April, making it one of the first central banks in the world to do so. In October, the central bank lowered its key interest rate from 10% to 9.5%. Policymakers have indicated that they are nearing the end of the easing cycle.
- Risks to the Uruguayan economy include global oil prices and the outcome of the general election in neighboring Argentina. The financial relationship between the two economies has significantly diminished over the past two decades, as Argentina's role as a major trading partner has been overtaken by China, Brazil, and the European Union. A possible negative impact could affect the tourism sector.
- Uruguay's own general elections are scheduled to be held in October 2024. The upcoming election year will present a test for fiscal policy. The sitting President, Luis Lacalle Pou, is not eligible to run for a second consecutive term. Polls show a tight, competitive election between the center-left and center-right. As the current government is well-liked, no drastic changes are expected in policies.
- View:** With inflation declining the real interest rates in Uruguay are high and Uruguay has offered good value for all our strategies. Considering the multiple challenges faced by many of our markets, Uruguay is offering stability to our portfolios.

	2024F	2023F	2022	2021	2020	2011 - 2019
Real GDP (% annual percent change)	3.3%	1.0%	4.9%	5.3%	-6.3%	2.4%
Inflation (% annual percent change)	5.7%	5.4%	8.3%	8.0%	9.4%	8.2%
Overall Fiscal Balance (% of GDP)	-2.6%	-3.2%	-2.5%	-2.6%	-4.7%	-2.0%
Government Debt (% of GDP)	61.4%	61.6%	59.3%	63.4%	68.1%	53.3%
External Current Account (% of GDP)	-3.3%	-3.7%	-3.5%	-2.5%	-0.8%	-1.1%

Aktia, IMF and Macrobond

Thank you



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