

Trip Notes

IMF Annual Meeting Fall 2024



Aktia

Kennedy Center in Washington

Overview

- The overall sentiment at the meetings we participated was constructive. Currently idiosyncratic country stories continue to dominate, as the recovery following challenging times is still ongoing.
- Some of the main discussion points among participants at the meetings included the implications of stronger-than-expected US economic growth and risks of (US) inflation not converging to the Fed's medium-term targets on EM central bank monetary policies in 2024. The implications of the US presidential elections were a much-discussed topic as well.
- US presidential elections could pose a threat to sovereign restructuring processes. Past election cycles and geopolitics have not interfered on recent restructurings, but a new US administration and increased tensions in geopolitical landscape could increase the fears that some smaller countries are drawn into middle of clashes between superpowers.
- In its World Economic Outlook (WEO) the IMF continues to see emerging market economies growing at 4.2 percent in 2024 and 2025. Similarly, global growth is expected to be 3.2 percent for both 2024 and 2025. Inflation is expected to continue moderating from 5.8 percent in 2024 to 4.3 percent in 2025 (a downwards revision from the previous WEO). Inflation is expected to remain stickier in emerging markets with easing of pressures occurring in 2025.
- Country meetings: 33

Africa: Angola, Ethiopia, Ghana, Ivory Coast, Kenya, Mozambique, Nigeria, Senegal, South Africa,

Asia: Pakistan, Philippines, Sri Lanka

Central America and the Caribbean: Costa Rica, Bahamas, Dominican Republic, El Salvador, Honduras, Panama, Uruguay

Europe: Kyrgyzstan, Tajikistan, Türkiye

Middle East and North Africa: Bahrain, Egypt, Morocco, Tunisia

South America: Argentina, Bolivia, Colombia, Ecuador, Paraguay, Peru, Suriname



Photo: Washington D.C.

Ecuador

Getting back on track

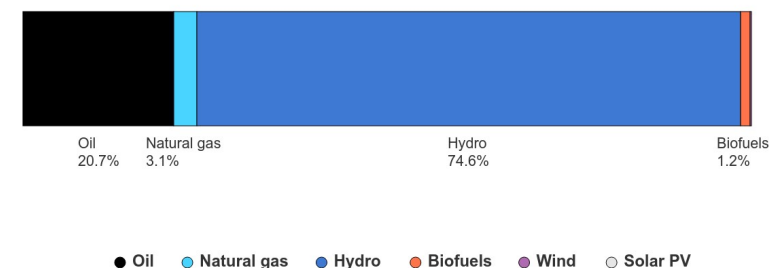
- Ecuador has been in the eye of the storm since former President Guillermo Lasso dissolved the legislature in May 2023 by activating “muerte cruzada”. General elections followed, and Daniel Noboa was elected in November 2023 to serve as president until new elections, which are waiting around the corner in February 2025.
- Noboa has had handful issues to cope within only an 18 months’ timeframe. Both fiscal and security issues were high on the reform agenda as new president took the office. The first steps for Noboa and his government was to repair the relationship with IMF (International Monetary Fund). This process has been surprisingly speedy, and, already in May 2024, the IMF announced that there would be a USD 4bn support program with a 4Y maturity EFF (Extended Fund Facility).
- Security issues were also, and still are, high priority on the reform agenda but more actions still needed in that front. Although circumstances are getting better, the country still suffers from a high number of violent deaths in small, specific areas.
- On economic front, all IMF targets are being met, and the government has outperformed so far on fiscals. However, the improvement on the revenue side has been more based on temporary actions like the central bank selling gold reserves and the government hiking taxes. Ecuador needs to increase its revenue stream in a sustainable way going forward. Increases in VAT will help and there are talks of continuing along this path (the president had the option to increase VAT temporarily from 13% to 15% and this was done in April 2024). A base assumption is that a one percentage point increase in VAT equates to 500m more revenues for the budget. Other tax brackets like income tax or corporate tax are seen more difficult to increase.
- Financing is secured for this year, but the outlook for 2025 is more challenging with an approximately USD 1.5bn financing gap in the IMF program (eurobond issuance too expensive with current levels). As part of this, Ecuador has USD 500m debt maturing with China next year and a roll-over agreement is yet to be in place.

Ecuador

Electricity blackouts and elections

- Currently, Ecuador is suffering from severe electricity issues and constant blackouts that are weighting down the economy. Unfortunately, electricity issues are structural and there are no quick fixes available for the issue. Dry weather conditions and empty reservoirs, an unstable electricity network and the unpreparedness of the government have unfortunately brought the country down to its knees.
- There is a huge, 1000MW, structural deficit in the electricity sector currently and it is constantly growing. The country has identified a need for a 5-year investment plan worth of USD 5 to 8bn to reach an extra 7000MW in the future. This scale of investments needs to be driven by the private sector, but this will take time. To cope with the electricity deficit, Ecuador has bought electricity from Colombia. This route has been closed in recent months, as Colombia started to control its own electricity levels. Until today there has been a USD 400m direct cost of electricity imports for Ecuador.
- Estimates on the economy and on government fiscals are still a bit vague and unspecific. Authorities are estimating that blackouts are resulting in a 1% drag of GDP for 2024, which would bring GDP growth for this year to 0%.

Electricity generation sources, Ecuador, 2022



Source: International Energy Agency. Licence: CC BY 4.0

- Electricity issues could also play a significant role in the upcoming president elections in February. Polls have not been recently carried out so the extent to which electricity issues affect the popularity numbers of President Noboa are unclear. There are some local views that blackouts could weigh on Noboa's popularity and open the door for opposition candidates. To secure continuity of the reform agenda, the best common opinion consensus bet is a full 4 years for Noboa in the office. Finally, electricity issues could be improving temporarily as the rainy season has started in Ecuador, which should help fill up reservoirs. But this is only a temporary relief and not a sustainable long-term solution for the problem. Temporary normalisation of electricity supplies could however reduce pressures around Noboa's possible re-election.

Ecuador

- Going forward, authorities see future potential in growth coming from the oil sector (1-2% GDP increase, even though the ITT oil project will be shutdown in coming years), mining (as high as a 5-6% increase in GDP), tourism and construction. Authorities highlighted that they have taken several measures to comply with anti-mining movements. These include better quality and higher operating standards of global mining companies, for example. The private sector plays an important role in future investments.
- **View** : We hold a position in our Hard Currency strategy, currently minor underweight vs the index. After the meetings with authorities and IMF, we are leaning more towards decreasing our exposure further, despite decent valuations.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	1.2%	0.3%	2.4%	6.2%	9.8%	2.3%
Inflation (% annual percent change)	2.2%	1.9%	2.2%	3.5%	0.1%	2.2%
Overall Fiscal Balance (% of GDP)	-1.1%	-2.0%	-3.6%	0.0%	-1.6%	-5.6%
Government Debt (% of GDP)	56.5%	56.5%	55.3%	57.0%	61.6%	38.5%
Current Account (% of GDP)	2.4%	2.8%	1.9%	1.8%	2.9%	-0.3%

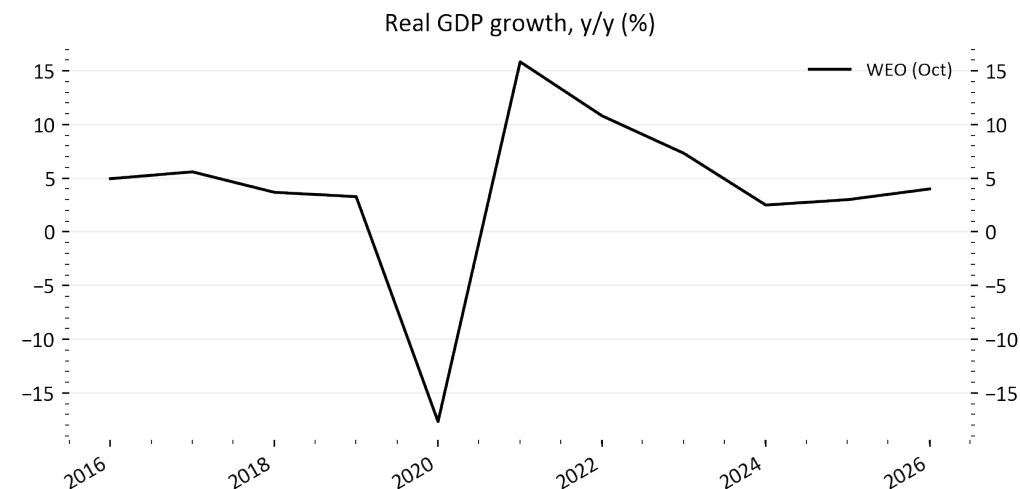
Aktia, IMF and Macrobond

Panama

Dark clouds after strong growth

- Panama has a long history of strong growth, as the average 5Y GDP growth stands at 4%. Heavy FDIs and investments have supported growth.
- However, now there are some dark clouds hanging over the successful growth story of Panama. Mining has become a very important sector for Panama's economy in recent years. It is the fastest growing sector in the country currently and they have one of largest copper mines in the world (Cobre mine). There is an estimation of over USD 200bn mineral reserves in Panama. The Cobre mine acquisition was made back in 2013 and mine opened for production in 2019. The Canadian based First Quantum Minerals is the operator of the mine. In Panama's history there has been plenty of negotiations around the mine operating contract. The most agreement was signed in November 2023 between the mine operator and the government. However, after some colorful events, including public demonstrations and the referendum vote, the Supreme Court in Panama ruled that the agreement is unconstitutional and required closure of the mine.
- Fast forward to the present, the country has a new administration led by new president José Raúl Mulino (inauguration in July 2024) in place. The Cobre mine, which accounts for around 3-5% of GDP, is closed, but new administration has plans to open it again later 2025.

Reopening the mine is important for the fiscal position going forward. In addition, a permanent closure would mean a very risky legal arbitration avenue against First Quantum (worst case scenario has approximately USD 20bn price tag for Panama). Latest polls suggest that Panamanians are currently more favorable towards mining compared to the situation back a year ago. Authorities see that a new, more favorable, and transparent mining contract is needed. One way forward could be that Panama would invest directly into the mine as an equity owner.



Panama

Social security reform & fiscal developments

- Another and even more acute issue for the government is the social security reform and especially pension reform. Panama currently has two pension systems running side by side, the old defined benefit and a new mixed system. The issue is that the old one which is running a deficit, is financed by a trust fund which is believed to be depleted. The healthcare sector reform is also part of the social security reform agenda. Time is running out, as the government has promised to deliver plans for the social security sector before year end. There are no concrete action points out yet, but options on the table vary from combining the current systems, and some parametric changes to new financing options (preferred by the IMF).
- It is immensely important for the new government to proceed and be successful with the social security reform because only then there could be enough political capital to handle the reopening of the mine. These two reforms also pave the way for other ambitious reform agendas. The government is expected to publish a credible and effective 5Y plan before year end to ensure that Panama would reach its full potential in coming years.
- The fiscal situation has been under pressure as growth has declined (Cobre mine closure and Canal revenues down due draughts), tax revenues down without significant reduction in expenditures. Growth has declined fast from over 7% towards 2%. However, long term growth potential is seen at 4% (IMF). The fiscal deficit is rising, and it will be challenging to even reach 6% for 2024. The budget for 2025 was sent back two times by the National Assembly but the third version (USD 30.1bn) was finally approved on 1 November. Going forward, the government is focusing on cutting expenditures and increasing revenues by tax reforms (VAT only 7% currently for example). The fiscal responsibility law was just published. The aim is to have not only targets but also credible plans on how to reach them.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	3.0%	2.5%	7.3%	10.8%	15.8%	3.9%
Inflation (% annual percent change)	2.0%	1.3%	1.5%	2.9%	1.6%	1.9%
Overall Fiscal Balance (% of GDP)	-3.2%	-4.3%	-3.0%	-4.0%	-6.4%	-3.1%
Government Debt (% of GDP)	55.8%	54.6%	52.4%	53.7%	55.6%	38.2%
Current Account (% of GDP)	-0.5%	-0.4%	-4.5%	-0.6%	-1.2%	-7.7%

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Panama

- There have been some worries in the market that Panama would lose Investment Grade status, but for now it seems that at least the biggest risks related to the downgrade are soon behind. According to authorities all focus will be on gaining back trust.
- On a more positive note, Panama has a chance to overcome current challenges, but it requires a lot from new administration. There are plenty of tough decisions to be made before the country is back on a solid and sustainable growth path with balanced fiscals.

View: We have exposure in Panama in our Hard Currency -strategy. We have decreased our overweight during past 12 months as the mine closure progressed. Currently, we have a market neutral exposure in Panama, but we see that lot of negatives have already been priced in.

Paraguay

Positive development continues

- Paraguay checks many of the boxes when it comes to a positive case of a developing emerging market economy. This has been reflected by the credit rating upgrade to investment grade by Moody's and IMF projections of the country being one of the fastest growing countries in the region. Growth is expected to be around double that of regional peers (at four percent), driven by economic reforms that are paying off, institutional strength and broad-based investments into the macroeconomy. While the country's outlook is positive, government officials maintain that work on transforming the economy will continue.
- Paraguay's macroeconomic objectives for the coming years revolve around further implementing fiscal and institutional reforms and growing higher value-added export sectors. The country has come a long way from past challenges of wanting to use external reserves for domestic investment and fiscal policy looseness. The priorities of the government have revolved around rebalancing macroeconomic policies (fiscal-monetary nexus) and implementing growth-supporting strategies. Monetary policy has normalised to around six percent and inflation is back on target following the post-Covid inflationary environment.
- The fiscal deficit is expected to converge to around 1.2% by 2026 driven by enacted and to-be-enacted policy reforms, such as on the social sector. Congress has been largely supportive of the Ministry of Finance's reform agenda, which has allowed for the country to pass these reforms. The civil sector reform is expected to pass later this month (November). The Caja Fiscal -reform on public sector pensions is expected to be passed next year. These are a few examples of major current fiscal related reforms on the agenda.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	3.8%	3.8%	4.7%	0.2%	4.0%	3.1%
Inflation (% annual percent change)	4.0%	3.8%	4.6%	9.8%	4.8%	3.9%
Overall Fiscal Balance (% of GDP)	-1.8%	-2.3%	-3.8%	-2.6%	-3.4%	-1.3%
Government Debt (% of GDP)	41.2%	41.9%	41.2%	40.5%	37.5%	19.5%
Current Account (% of GDP)	-2.5%	-0.6%	0.3%	-7.1%	-0.9%	0.7%

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Paraguay

Partners aligned

- Paraguay's macro environment has also attracted investments into sectors supporting diversifying the economy and transforming production to be more linked to the global economy. The Law 60/90 and maquila regime, for example, are at the centre of achieving these goals, providing tax incentives for foreign direct investment and duty exemptions on imports for companies using raw materials and components in the production of exports. Around 10% of Paraguay's exports already go through the maquila regime and foreign direct investments through the Law 60/90 are expected to tally up to the USD 300-400m range for this year (individual investment sizes have been in the 10-50m mark).
- Government officials also emphasised the role of MERCOSUR in deepening intraregional trade linkages and using the trading bloc as the cornerstone of trade policy in the formation of new preferential trade agreements (PTAs) with outer-regional blocs. Discussions with the EU and China for trade agreements are ongoing, where the biggest hurdles have to do with political factors. Paraguay has desires for by-the-book agreements, without "strings" attached – so while a PTA with China could possibly be carried out, the bloc does not want to be constrained by clauses that limit the signing or constrain the terms of other PTAs, such as with the EU (where negotiations have stumbled partly due to political economy factors) or the Gulf States.
- Relations with the IMF are good and many of the reform objectives have been met at an

accelerated schedule. The country has completed its third review of the IMF Policy Coordination Instrument, which is a non-financing instrument aimed at macroprudential policy implementation. Furthermore, as the first in the region, Paraguay has made use of the IMF Resilience and Sustainability Facility, which is a long-term financing facility aimed at strengthening the economy to climate related shocks and expanding green and sustainable industrial production. For example, one target of the government is to gradually diversify away from traditional agriculture to more sustainable forms of agriproduction. Another target is to diversify the mix of green energy production and make use of solar power and alternative fuels (such as biofuel). Paraguay has ongoing discussions with the Inter-American Development Bank for a 125m loan to set up a green hydrogen production factory (Atome PLC) allowing for the production of green fertilizers and other downstream outputs.

View: We have currently OW position in Panama in our Hard Currency -strategy. In Frontier-strategy we are invested in Paraguay both via DFI-bonds and in the inaugural guarani-denominated global government bond issued in early 2024. Paraguay offers attractive real yields and we see the currency fairly valued, lower than average liquidity limits our allocation in Paraguay.

Mozambique

Macro challenges

- Mozambique continues to face a number of challenges stemming from both domestic factors as well as external ones. The country has a lot of potential, but the current macro trajectory has tilted the risks to the downside and warranted credit rating downgrades, such as by S&P. Major issues have to do with debt repayment challenges and fiscal slippage problems. Regarding external factors, climate related events (and an uncertain security environment) cause headwinds to the economy. Much of Mozambique's upside risk relies on the materialisation of oil megaprojects.
- Overall, economic activity has been picking up according to national statistics (4.5% and 3.2% year on year for Q2 and Q1 respectively). Growth has been primarily driven by the mining sector, while growth in other sectors has been relatively modest. El Niño has been one factor weighing down on non-mining sector growth in addition to relatively tight financing conditions, consequently slowing down the manufacturing, construction, and service sectors. Nonetheless, leading indicators (PMIs) suggest that the situation is more favourable in the non-mining sectors so the outlook in the short run is cautiously optimistic.
- As with several countries in the region, inflation has been relatively muted. Since April 2023, inflation has been trending downwards, below double-digit figures, with the latest print standing at 2.4% year on year. As such, inflation does not seem to be a challenge that the country is facing. The central bank has embarked on a policy of monetary easing this year, with the main refinancing rate being cut by 375 bps over the course of nine months (from 17.25% in January to 13.5% as of writing this report). While there has been a substantial reduction in the policy rate, the decline in the rate of inflation has resulted in real rates being largely unchanged. Furthermore, the reserve requirement of 39% keeps liquidity conditions constrained. From these two perspectives, financing conditions have remained relatively tight.
- The fiscal side continues to pose a challenge. The ministry of finance recently published its fiscal outlook for 2024, where the deficit is 1% higher than expected according to IMF projections. Latest data on Mozambique's arrears to debt suppliers is not available or has not been released, so the deficit (as observed on a cash basis) is very likely to be much higher when arrears are accounted for. Part of the fiscal slippage that has been observed is potentially due spending pressures in the lead up to the elections held in October. While Mozambique is not the only country in the region (or EM space for that matter) exercising fiscal looseness prior to elections, it by no means aids in sorting out Mozambique's precarious fiscal position. Perhaps one positive is the settlement of the near-decade old tuna-bond scandal between Mozambique and creditors.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	4.3%	4.3%	5.4%	4.4%	2.4%	4.9%
Inflation (% annual percent change)	4.3%	3.5%	7.0%	10.4%	6.6%	6.8%
Overall Fiscal Balance (% of GDP)	-2.0%	-4.2%	-4.1%	-5.1%	-3.9%	-4.2%
Government Debt (% of GDP)	96.5%	96.0%	93.9%	100.3%	104.3%	82.2%
Current Account (% of GDP)	-30.0%	-29.9%	-10.6%	-36.4%	-21.3%	-30.0%

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Mozambique

LNG project is a must

- Domestic debt repayments have faced delays, which raises concerns related to the country's liquidity constraints. Consequently, this is one factor that S&P alluded to when it recently downgraded Mozambique's credit rating. Delays in payments have been occurring since 2023 to which there may be several reasons. One reason may be due to pure technical capacity constraints at the Ministry of Finance, which could be remedied with more robust amortisation calendaring systems. A second more pressing macro fundamental reason may originate from the single salary reform which has eaten up most of the fiscal space Mozambique has. The wage bill continues to be a significant fiscal drag and the IMF sees the implementation of the bill to have been more challenging than expected. With a large chunk of domestic debt is to be amortised in 2025 and 2026, authorities have exercised the idea of smoothing out debt service payments and extend the maturities of domestic debt. However, to truly address the underlying macroeconomic weaknesses, the country would be better served committing to a credible fiscal strategy.
- Much of Mozambique's potential rests on its Northern LNG export megaprojects with an investment size of USD 50bn (more than double the economy's GDP). Project developer, Total, halted its work in 2021 following Islamic State terrorists, and although the situation in the North of the country has stabilised, terrorist attacks still occur, so the situation has not yet normalised. According to the IMF, in its debt sustainability analysis, the assumption under the coming review is that the project would recommence in 2025 with production starting in 2029. With a Eurobond repayment due in 2031, the IMF sees that repayment will not be an issue as long as the project remains on track (even if the production timeline

would be somewhat delayed). However, should the project start date be continually delayed, then the problem will be magnitudes greater.

- As with many LICs, Mozambique's economy would benefit from greater diversification and a modernisation of its economy. Fixing the monetary-fiscal mix is crucial and would largely be the opposite of the current paradigm; monetary policy could be looser, whereas fiscal policy could be tighter. The currency also seems to be on the more expensive side as measured by relative real exchange range competitiveness. However, the IMF noted that the FX rate has maintained its stable level without FX interventions. This would suggest some form of a fragile balance on the external side. However, if the import-export balance would shift, then a potential FX recalibration would likely be on the table (the country has around 4M of import cover).

View: In Frontier-strategy we have a small allocation in Mozambique via currency forwards. The currency has been pegged to the USD over three years, and is starting to look somewhat overvalued in real terms. The future outlook depends greatly on the LNG projects, which hold great potential.

Senegal

Turbulent times

- Senegal is known to be one of the more stable and more advanced compared to many smaller countries in Sub Saharan Africa (SSA) area. Recent developments however have been somewhat worrying already starting from violent demonstrations when political opposition leader Ousmane Sonko was arrested in late summer 2023. This was followed by political crises as former president Macky Sall cancelled and then postponed presidential elections from February to late march. These events were followed again with violent demonstrations and international resistance.
- Bassirou Faye came out as a winner from elections and selected Sonko to act as prime minister. In Senegal there exists a law which requires formal audit on country's fiscal numbers. Unfortunately, the audit relieved some irregularities with the numbers presented earlier to public (and the IMF) due to a batch of hidden debt in offshore accounts. As a result, Senegal's debt-to-GDP over the period of 2019-2023 would have been 76% on average, which is more than 10 percentage points higher compared to what was previously reported. Additionally, the budget deficit for 2023 would be over 10% up from 6.1%. These numbers are still to be confirmed but according to authorities the magnitude is correct.
- The government has not provided a detailed explanation how irregularities are born and why – the reasons are up for speculation. Most of the hidden debt is comprised of project financing loans. Around ¾ of the loans are external, and the rest are domestic. The actual lenders are still not known to public, but in total there are around 50 different lenders and 200 different loans. One reason for hiding the debt was possibly due to a desire by Senegal to stick below the 70% regional debt limit to continue to be able to borrow and, to some extent, meet IMF programme requirements. Based on authorities' external communications, issues are related to internal communication and hiccups in information flows between local institutions. They have concentrated more on delivering message that this is a new start from clean sheet and that the audit was proof of transparency. And despite these discrepancies, Senegal has continued to be able to issue debt in domestic markets and tap the Eurobond market to a size of USD 750m in June.

Senegal

- Putting behind the reasons why numbers are worse than expected, Senegal faces fiscal challenges that requires swift actions and reforms. Fiscal consolidation will be based reforms on tax and investment code, removing tax exemptions and digitalisation of Minister of Finance processes to increase revenues. On expenditures actions include the energy subsidy removal (currently at 3% of GDP, with a target of 1.2% and 0.3% for 2025 and 2026 respectively), the wage bill reform and consolidation of government agencies. Regarding subsidies, the biggest challenge has been that they have not been targeted well enough allowing for a lot of room for improvement here. Growth expectations are high for the petrochemical sector, oil production is online (Sangomar oil field with a project target of 100t b/d) and gas production is starting. Authorities are working to get private sector more involved in future growth investments.
- The government is also pushing investments and projects forward to provide more affordable electricity for the population by using gas to produce electricity. This should bring more than 200m savings when in production. This is part of the government's larger plan to bring down the overall living cost in Senegal. The reform agenda is based on the new Senegal 2050 vision program which will evolve as time goes by.

View: Senegal has been one of our high conviction positions in lower credit rating bucket in our Hard Currency –strategy. We decreased positioning slightly after the irregularities in fiscal numbers came out and we will monitor situation carefully. On positives, new government and parliament elections (Nov 17th) could give country opportunity for fresh and clean start.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	9.3%	6.0%	4.6%	4.0%	6.5%	4.6%
Inflation (% annual percent change)	2.0%	1.5%	5.9%	9.7%	2.2%	1.2%
Overall Fiscal Balance (% of GDP)	-4.5%	-7.5%	-4.9%	-6.6%	-6.3%	-4.1%
Government Debt (% of GDP)	80.5%	84.3%	81.2%	76.0%	73.3%	49.4%
Current Account (% of GDP)	-8.3%	-12.7%	-18.8%	-20.0%	-12.1%	-7.5%

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Costa Rica

Positive growth surprises

- Growth has been solid, as the IMF expects growth to be 4% for this year with a risk tilt to the upside. Growth for the first half of the year was already recorded at 4.5% with good momentum for the rest of the year. Long term forecasts have been upgraded to around 3.4%. The positive outlook rests on three pillars: 1) effective monetary policy and continued FDI flows, 2) having the fiscal rule as a key anchor, and 3) effective debt management.
- Costa Rica has achieved a positive primary surplus for the first time in a long time (1.5% target for 2024 and H1 actual of 0.9%). The IMF sees this as an important and noteworthy achievement. On the FDI side, the most important sectors have been in manufacturing and medical devices. Gross debt levels have been declining with a recorded debt-to-GDP ratio of 66.1% for 2023 with the support of the IMF programme.
- Following the post-Covid inflation shock, inflation has seen a huge reduction, and the current rate is currently undershooting the central bank's target range of 3% +/- 2%. Inflation is expected to reach 2% by the end of the year, and by 2025 close in towards the middle of the target range. Monetary policy has been on the tighter side with the IMF seeing the nominal neutral rate standing at 4%. From the perspective of restrictive Fed policy, there has been caution in cutting rates below the Fed's target range to prevent capital outflows. The real appreciation of the currency has been driven by real macro fundamentals, rather than carry trade dynamics.
- The external sector has seen an acceleration in both exports and imports. The current account may see some widening but is fully funded by FDIs. While free trade zones (except from taxation) have fostered greater FDIs, the positive spillover effects combined with overall trade improvements and a booming tourism sector support the growth picture. The global minimum corporate tax rate agreement at 15% is unlikely to affect investment decisions (as this is a multilateral agreement and Costa Rica is attractive for investors), and the tax rate only applies to larger corporations with earnings above EUR 750m. Reserves stand at around USD 14bn.

Costa Rica

- The country has even had issues in meeting the demands of human capital-intensive labour, due to high employment rates and continued FDIs. Work on improving the social sector is continuing (namely pensions and health). Formality has increased by the largest amount in the region, which has resulted in larger claims the government has to account for. However, with larger formality, the contribution rates have increased in parallel, so the increased fiscal burden can be interpreted as a positive in this area.

View: Costa Rica's risk premium has been on steady downward path since pandemic. The average 5Y spread for the country is over 450bps (index Z-spread) but the country is now trading below 300bps on spread. Due very tight levels we have an UW position in Costa Rica in our Hard Currency – strategy.

In the Frontier-strategy, we are invested in Costa Rica government bonds. Yields have been on a downward trend and the currency has been strengthening, supported by positive fundamentals and low inflation. We have slightly reduced our positioning this year in Costa Rica due to valuations and the lower than average liquidity in the local bond market.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	3.5%	4.0%	5.1%	4.6%	7.9%	2.8%
Inflation (% annual percent change)	2.0%	-0.3%	0.5%	8.3%	1.7%	2.7%
Overall Fiscal Balance (% of GDP)	-3.1%	-3.7%	-3.2%	-2.8%	-5.1%	-5.6%
Government Debt (% of GDP)	60.9%	61.2%	61.1%	63.0%	67.6%	44.2%
Current Account (% of GDP)	-2.2%	-2.2%	-1.4%	-3.2%	-3.2%	-3.4%

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The year has been dominated by politics, with around half of the global population residing in countries with elections in 2024.



Key Highlights

Africa

Angola – Muddling trough

- Growth stabilising to around 3% (GDP expectation for 2024 MoF 3.4%, WB 3.2%, IMF 2.4%). The country is continuing with the National Development Plan 2023-2027, focusing on human capital, food security and investments especially in the transportation and energy sector. Oil production stabilising to 1.1m bbl/d and diamond production is still increasing. Angola is exercising fiscal discipline – primary surplus (lowering debt levels, debt-to-GDP 64.7% for 2024), fiscal deficit due fuel subsidies, agreement with China on debt in March 2024 supports fiscals. Reserves at USD 14.9bn, covers 8M of imports. Ongoing discussions with IMF on different program options (funded program), political support still needed.

Ghana – Restructuring done

- Country has now restructured 93% of its eligible public debt. The consent ratio among Eurobonds was 98% which means that in money terms USD 13bn of the bonds were restructured. A turnaround is on the way, the IMF program is on track (3rd review coming) and bearing fruits as revenues are increasing and expenditures are down. Growth surprised to the upside, 5.8% for the first half of the year (IMF revised growth target to 4% for 2024). The goal is to increase the tax-to-GDP ratio from 14% to 18-20%.

Cote d'Ivoire – Strong growth

- One of the bright spots in EM with very positive growth outlook. Strong 6.8% GDP growth on average, supported by cocoa exports and increasing oil production (currently 45t b/d, expected to increase to +200t b/d). Good process on budget consolidation, deficit target for 2024 was 4% (5.2% in 2023 and has a 3% target for 2025 approved budget). Debt levels are well contained (debt-to-GDP was 58% 2023) and decreasing, with an IMF debt-to-GDP target of 51.5% for 2024. Inflation is on downward path, at 4.4% for 2023 and with a target of 2% for 2026. Presidential elections are to be held in Oct 2025.

Key Highlights

Africa

Nigeria – Reform journey continues

- Non-oil exports grown back to pre-Covid levels (USD 10.4bn). Oil production is improving and domestic refinery capacity is increasing (Dangote). Remittances are still growing. With reserves at USD 40bn, the central bank must stop hoarding dollars and release some of it back to markets. Reforms and actions have been taken to improve FX market liquidity and transparency.

South Africa – New government, opportunity for change is now

- GNU committed to continue with the reform program. Increasing growth and productivity are key measures for the authorities. It is still too early to say how well the government will work together going forward, but the time is now, political capital can be utilised to make changes.

Key Highlights

Asia

Pakistan – Macro stability improving

- Reserves are up from 2 weeks import coverage to 2.5 months, remittances are growing strongly (USD 3bn per month), and Pakistan is currently running a budget surplus. The reform agenda is based on three main pillars: 1) taxation, 2) energy sector and 3) SOEs. Pakistan is moving to the right direction but is still vulnerable to shocks.

Philippines – Positive growth outlook but fiscal consolidation needed

- Robust growth outlook, continuing on a 6% growth rate for next few years. The main driver for growth comes from investment (mainly the public sector, as the private side is slowing currently). Somewhat slower fiscal consolidation as it is tied to growth figures. The fiscal deficit target is 3.2% of GDP and the target for debt-to-GDP is 57% for 2027 (over 60% currently).

Key Highlights

Central and South America

Argentina – Milei's moment

- Milei has shown much more pragmatism regarding policy implementation than what the consensus has been. While Milei has maintained popularity, support has been on a slight downward trend. The executive is committed to reaching a 0% fiscal balance, and unlikely to tweak the crawling peg. Much on future reform implementation will depend on the mid-term elections and whether Milei will establish his mandate by gaining enough congressional seats for his party.

Honduras – Cautiously optimistic

- Growth has been resilient and revised upwards. Headline inflation has been on a downward trend, but core inflation has remained sticky at 4.5%, mainly due to strong demand, strong remittances and elevated credit growth. Some slippages have occurred in both the fiscal front and current account. Reserves are healthy at 4.3M of import cover but have been heading in the wrong trend. The export side has been affected by El Niño (banana, sugar, coffee exports), and the increased demand for energy (oil and gas) has hit net exports. The IMF is cautiously optimistic.

Uruguay – Elections in the spotlight

- Elections are in the spotlight, with the pension reform rejected, greatly easing fiscal side worries. Second round voting to commence later in November, with the centre-left presidential candidate coming ahead in the first round. Fiscal institutionalism is a priority over central bank institutionalism, with the fiscal rule conditions needing to be improved. Consolidation of the fiscal side to 1% over a 5Y horizon, depending on election outcome.

Key Highlights

Europe and Central Asia

Turkey – Strong commitment to fight the inflation

- Service inflation still at 72.9%, headline around 50%. Three-year plan to get back to single digits on inflation. Government ready to tolerate lower growth path targets (growth of 5.1% for 2023, and the target for 2024 3.5% but the actual number could be 3% this year) to achieve the inflation targets.

Tajikistan – Strong remittance flows

- Positive growth at around 8% for the fourth year running, with inflation anchored at 3.5%. Reserves are expected to rise from 3.6bn (2023) to 4.6bn (2024) with current import cover at around 7-8M. Remittances have continued to be strong, and only to taper in the medium term. Performance under the IMF's first review has been solid, with all targets more-or-less being met.

Kyrgyzstan – Readying up for investment

- Reforms under way in several key sectors of the economy, including the social and health sectors as well as energy. Continuation of planned partial privatisations of state-owned enterprises, with a focus on greater reliance on the private sector. Aspiration to open up to international markets and issue debt on international capital markets with an emphasis on SDG related projects.

Key Highlights

Middle East and North Africa

Bahrain – Goal to be in forefront of banking

- Diversification of the economy going forward, as currently over 85% of GDP is coming from non-oil. Long term goal is to cover budget expenditures with non-oil revenues (currently 37%) and use of revenues from hydrocarbon to bring down debt and interest rate costs. Finance is the largest single sector, investing heavily to be on the forefront of banking digitalisation. Great emphasis on Economic Recovery Plan with five pillars (job creation, business efficiency, strategic projects (both government and private, 13/30 executed already), focusing on strategic sectors and fiscal and economic stability).

Egypt – Turnaround?

- After strong support measures from multiple sources there is now a heavy reform agenda in execution. Structural reforms on fiscals are important – these include a sustainable growth plan, stabilising fiscal side with the debt ceiling and medium-term budget framework. Growth picking up with support of private sector and debt metrics are improving. Rumors of renegotiations on IMF terms, but no official engagement yet.

Morocco – Conservative and stable on fiscals

- IMF numbers - growth potential 3.5%, debt down to 65% by 2029, deficit target 3%. The debt anchor stands at 60-65% of GDP as part of the new fiscal rule (still under discussions). Moving from conventional FX peg to a horizontal band, with an ultimate goal to have the Macro Institutional Framework (inflation targeting, flexible FX) in place. Unemployment is a big challenge (increased from 9% to 13%) as the agriculture sector has suffered from several draughts.

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