

# Trip Notes

IMF Annual Meeting Spring 2024

Aktia

View from Washington





# Overview

- The overall sentiment at the meetings we participated in was somewhat more constructive, compared to the most recent IMF meetings we participated in during 2023.
- Stronger than expected US economic growth and the risk of (US) inflation not converging Fed medium term targets, its implications for EM central bank monetary policies in 2024 and the US presidential elections, were the main discussion points among participants at the meetings.
- Frontier and distressed countries access to multi- and bilateral funding sources together with successful external bond issuances by, for example, Sub-Saharan countries during Q1 2024 has improved market sentiment.
- In its World Economic Outlook (WEO) the IMF expects emerging markets economies to grow at 4.2 percent in 2024 and 2025. Global growth is expected to be 3.2% in both 2024 and 2025. Inflation is expected to continue moderating from 5.9 percent in 2024 to 4.5 percent in 2025. The decline in inflation in emerging markets is projected to be somewhat slower than in developed markets.
- Country meetings: 34

**Africa:** Angola, Nigeria, Senegal, South Africa, Zambia

**Asia:** Kazakhstan, Pakistan, Sri Lanka, Uzbekistan

**Central America and the Caribbean:** Costa Rica, Dominican Republic, El Salvador, Guatemala, Jamaica, Panama

**Europe:** Armenia, Serbia, Ukraine

**Middle East and North Africa:** Tunisia

**South America:** Argentina, Brazil, Colombia, Ecuador, Paraguay, Suriname, Uruguay, Venezuela



Photo: IMF Conference

# Brazil

- The Brazilian economic growth has been stronger than expected since the pandemic recovery started. According to government estimates, the economy has grown 6-8 percent more than expected in cumulative terms since the pandemic thanks to a broad set of economic reforms implemented since 2017 (for example labour and pension reforms). Currently the government is reforming the VAT system, with estimated significant positive long-term impact on GDP (5-20%).
- With monetary policy relatively tight, inflation is expected to fall to 4.1 percent in 2024 and 3.0 in 2025 (IMF).
- Economic growth has been supported by strong developments in, for example, the agricultural and oil sectors. Oil production is expected to increase significantly, with a 60 percent increase in oil exports over the medium term.
- Growth potential is also supported by a relatively low female participation rate in the labor force, potentially unlocking more growth with targeted reforms. This is important, as the Brazilian demographic picture could be better (fertility rate 1.53).
- The Brazilian government has set-out a “Sustainable Fiscal Regime” targeting recurring and growing primary surpluses. There is a debate whether the government will be able to meet these targets, partly due to a tendency to water-down fiscal targets as also seen

recently. The resulting discrepancy in expected future primary results, GDP growth and interest rates leads to significant differences in the future debt/GDP trajectory expected by the government and market participants. The 10-year ahead market estimates see debt/GDP peaking at approx. 86 percent up from 74.3 in 2023, while the government estimates debt at 76 percent.

- Assuming 2 percent real growth and 4-5 percent real rates the medium-term debt stabilizing primary balance is around 1.5 percent for Brazil. Currently local yields are in the area of 10-11 percent in nominal terms, adding pressure on government to pursue prudent fiscal policies.
- **View:** Our EMD Hard Currency strategy is invested into Brazilian government bonds (~4% allocation). While downside risks to the credit stem from some external factors (i.e. Fed cuts being postponed, commodity prices), we also see the credit less exposed to geopolitical tensions (Middle-East) and relatively attractively priced.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	2.1%	2.2%	2.9%	3.0%	4.8%	0.4%
Inflation (% annual percent change)	3.0%	4.1%	4.6%	9.3%	8.3%	5.6%
Overall Fiscal Balance (% of GDP)	-5.5%	-6.3%	-7.9%	-3.1%	-2.5%	-6.1%
Government Debt (% of GDP)	89.3%	86.7%	84.7%	83.9%	88.9%	74.3%
Current Account (% of GDP)	-1.5%	-1.4%	-1.3%	-2.5%	-2.8%	-3.0%

Aktia, IMF and Macrobond

# Costa Rica

- Growth is expected to remain at a healthy close to 4%, despite the ongoing fiscal consolidation in the country. The country is another success story in fiscal consolidation, having been in dire straits a few years ago, with the IMF and the fiscal rule having acted as anchors for the consolidation. The public employment law has advanced quite a bit, but it is still not fully implemented. The fiscal rule will hopefully work as a safeguard if future administrations would be inclined to spend more, even though it is softened when debt to GDP moves below 60% again. There are also a large amount of revenue decreasing bills in parliament, the historically large consolidation increases the chance that some of these will pass.
- FDI is at a good level, supported by the U.S. CHIPS Act (for diversifying the global semiconductor supply chain). The country is also seeing continued investments into the medical supply industry and seems to be in general a winner from nearshoring.
- Security risks are still very low, but there are longer-term risks related to drug trafficking, and safety is what Costa Rica sells to tourists and foreign companies.
- We understood that there is a social consensus that the country is dependent on its rich nature, and therefore very strong support locally for climate work. The Costa Rican program under the Resilience and Sustainability Facility is therefore particularly interesting; it is a truly homegrown agenda on climate change, with real-life solutions such as including transition risks in medium-term budgeting and climate change stress

testing built into central bank stress tests of the banking sector along with regulation of socioenvironmental risks in the banking sector.

- Inflation has been abnormally low (core 0%) and is expected to return to the bottom of the target range of 2-4% this year. The independence of the central bank will be further strengthened by the new CB-law, one of the structural benchmarks in the IMF-program.
- The Costa Rican colon has strengthened significantly, but there seems to be an agreement that the currency is supported by fundamentals. So far only the smaller exporters (like fruit) have suffered from the strong currency. There is an expectation that if local interest rates continue to decrease, there will be outward bound portfolio flows, but the inflows from exports (positive balance of trade due to net service exports), FDI and record tourism (Q124 was even better than record 2023) will compensate that. The central bank has used the underlying strength in the colon to rebuild foreign exchange reserves, which are now high by historical standards.
- **View:** We are invested in Costa Rican government bonds in our hard currency and Frontier strategies. Valuations are tight in both markets though.

	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)	2.9%	0.3%	0.5%	8.3%	1.7%	2.7%
Overall Fiscal Balance (% of GDP)	-2.6%	-3.0%	-3.2%	-2.8%	-5.1%	-5.6%
Government Debt (% of GDP)	59.6%	60.6%	61.1%	63.0%	67.6%	44.2%
Current Account (% of GDP)	-1.9%	-2.1%	-1.4%	-3.7%	-3.2%	-3.4%

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# Jamaica

- Jamaica is the poster child of successful debt consolidations, managing an incredible debt reduction, with more than halving their debt to GDP in 10 years and being on track to a healthy debt to GDP of 60% in the year 2028. This is really an incredible feat, considering that most other countries' debt has increased significantly during this period and the multiple shocks the global economy has faced in the last few years.
- Their fiscal responsibility law is very appropriate for debt consolidation, as it is simple, credible and flexible. Flexibility is needed in times of crises, but then authorities need to be able to return to a credible fiscal regime when the crisis is over. The Jamaican law has been tested throughout several crisis-periods lately, and the authorities have shown their steadfast commitment to their fiscal policies. The country is again on a track to post a fiscal surplus, with a large primary surplus, at 6% of GDP, and they have managed to maintain it on these levels for several years. The cooperation with the IMF is considered very successful, the country currently has a Precautionary and Liquidity Line and one arrangement under the Resilience and Sustainability Facility
- The government might lose some votes in the 2025 elections, especially as they disappointed in local elections. However, risks to fiscal discipline are relatively small, as it was the opposition that started the current orthodox policies.
- The downside of a very large period of fiscal consolidation has been lacklustre growth. Growth is expected to approach potential, at a bit below 2% this year. The low potential is explained by a consistent brain drain to especially the US, UK and Canada, and Jamaica has one of the largest diasporas in the world relative to its population. The economy is still rather small, firms have trouble achieving economies of scale, there is a lack of competition and crime is slowing down development.
- Tourism recovered from covid and is at pre-pandemic levels, but now capacity constraints are slowing down growth. More investments are needed, and they will likely turn the current account back to deficit from the current surplus. Foreign exchange reserves are at record high though.
- Jamaica is highly prone to natural disasters, but the damage is mitigated by large amounts climate insurance that the government has taken, which amount to above twice the average size of yearly damage of 2% of GDP
- **View:** Jamaican hard currency debt has been expensive for many years, and we have not been invested in it due to valuation reasons. The Frontier strategy is invested in Jamaican Government bonds and DFI-bonds in Jamaican dollars.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	1.7%	1.8%	2.2%	5.2%	4.6%	-0.2%
Inflation (% annual percent change)	5.0%	7.0%	6.5%	10.3%	5.9%	5.5%
Overall Fiscal Balance (% of GDP)	0.4%	0.3%	0.3%	0.3%	0.9%	-1.2%
Government Debt (% of GDP)	64.7%	67.5%	71.8%	77.1%	94.2%	119.5%
Current Account (% of GDP)	-0.9%	0.3%	1.5%	-0.8%	1.0%	-5.2%

# Nigeria

- The story in Nigeria is currently about slowly atoning for old sins. The central bank ran a very unorthodox monetary policy for years, partly on the behest of the previous administration, and the connected elite managed to profit from an overvalued currency and the multiple exchange rates, at the cost of the population and economic development.
- Reforms have now been started under the new administration almost a year ago. The central bank is adamant in regaining the trust of investors, to only work with orthodox monetary policy tools (with inflation targeting), increase communication and to build an institution that is more robust and not only dependent on one person. We welcome the communication of the symptoms and the cures and especially the steps already taken to remedy the trust deficit, e.g. the devaluation of the naira and the monetary policy tightening that has been done in 2024 already (monetary policy rate hikes of 600 bps YTD).
- However, inflation still remains high (although MoM has been decelerating), partly driven by the past weakening of the Nigerian naira, which still remains volatile. The central bank has used foreign portfolio inflows to replenish reserves and pay off past obligations and hopes that reserves will grow again in the medium-term. This underscores the fact that it is going to take some time to balance the economy again, and the discomfort from this

balancing act is going to eat into the government's political capital (removal of subsidies, inflation), especially as Tinubu's government is a minority government and the opposition claims that it won the presidential election. It might very well take a couple of years for inflation to return to the central bank's target range on a consistent basis and the same goes for growth.

- All in all, Nigeria is still a mixed basket, the problems in the electricity sector are not fully resolved, even though tariffs have been increased, the security situation in the north is still unresolved and will weigh on food prices, oil production is still below the quota, but at the same time actual hands-on reforms have been to tackle some of the bottlenecks to growth.
- **View:** We will follow the reform momentum closely and have started adding currency forwards in our Frontier strategy but will need to see more progress before entering the onshore market. The hard currency strategy has 1.2% Nigerian government bonds.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	3.0%	3.3%	2.9%	3.3%	3.6%	2.5%
Inflation (% annual percent change)	23.0%	26.3%	24.7%	18.8%	17.0%	11.8%
Overall Fiscal Balance (% of GDP)	-4.2%	-4.6%	-4.2%	-5.4%	-5.5%	-3.3%
Government Debt (% of GDP)	46.8%	46.6%	46.3%	39.4%	35.7%	23.0%
Current Account (% of GDP)	-0.1%	0.6%	0.3%	0.2%	-0.7%	0.7%

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THE TREASURY DEPARTMENT



The independence of the central bank will be further strengthened by the new CB-law, one of the structural benchmarks in the IMF-program.

View from the Treasury Department in Washington

# Panama

- Panama posted strong growth figures in 2023 (+7.3% GDP), but growth is expected to be hit severely in 2024 by the supreme court decision to close the Minera copper mine operated by First Quantum Minerals Ltd. IMF expects GDP growth in 2024 to moderate to 2.5 percent, primarily due to the direct and indirect effects of the mining closure.
- Fiscal balances are expected to be under pressure in Panama. In 2023, the government recorded a deficit of 3.0 percent, however this figure included one-off revenues from the Minerva mine and land sales to the Panama Canal which are not expected to be repeated in 2024. The government targets a 2.0 percent deficit for 2024, driven by expected increases in tax revenue increases and under-executing on public investment programs. In addition, the government will face additional financing needs of approx. 1.6 percent of GDP due to the increase funding needs of the social security fund.
- Reducing expenditure and increasing revenues could also prove tricky given Panama's presidential elections are just around the corner and most of the candidates' programs are rather expenditure heavy.
- Panama current government debt / GDP level is currently relatively low at 54 percent. IMF stressed importance of commitment to the medium-term fiscal plan of reducing the fiscal deficit to 1.5.
- Attracting future FDI is one key issue for Panama to ensure future growth prospects. In this respect, resolving the legal case surrounding the Minera copper mine will be a key thing to monitor during 2024.
- **View:** Panama's credit spreads have widened both in absolute and relative terms during the last 12 months and its credit rating was cut to BB+ by Fitch in March 2024. Our Hard Currency strategy holds approximately a 2 percent weight in Panama.

	<b>2025F</b>	<b>2024F</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2011 - 2020</b>
Real GDP (% annual percent change)	3.0%	2.5%	7.3%	10.8%	15.8%	3.9%
Inflation (% annual percent change)	2.0%	1.7%	1.5%	2.9%	1.6%	1.9%
Overall Fiscal Balance (% of GDP)	-3.0%	-4.0%	-2.9%	-4.0%	-6.4%	-3.1%
Government Debt (% of GDP)	55.1%	54.1%	52.2%	53.7%	55.6%	38.2%
Current Account (% of GDP)	-3.4%	-2.1%	2.0%	-3.9%	-3.0%	-7.9%

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# Senegal

- Growth is expected to be strong, with the economy expected to grow by 8.3 in 2024 and 10.2 in 2025. Future growth is expected to be supported by oil and gas projects, expected to start production in Q3/Q4 2024. Senegal continues to be a growth-leader in the SSA region, together with the Ivory Coast.
- Inflation has been moderating from the elevated levels seen in 2022. The IMF expects inflation to reach 3.9 percent 2024 and 2.0 in the year 2025.
- The IMF stressed the importance of adherence to the projected fiscal targets, with the fiscal deficit projected to decline from 3.9% to 3.1% during 2024 and 2025. Current energy subsidies are expected to be phased out to meet these targets.
- A positive growth outlook is key for Senegal where government debt levels remain relatively elevated, currently standing at approximately 80% of GDP. The IMF expects debt levels to decrease to 67.6% of GDP over the next two years.
- The government prefunded much of its 2024 funding needs already in 2023 due to an expectation of heightened political uncertainty during 2024 due to presidential elections. The prefunding was mainly conducted via the regional bond market (CFA denominated) and syndicated loans in the external market.
- Presidential elections were, after some initial uncertainty, held in March 2024. The opposition candidate Bassirou Diomaye Faye gathered 56 percent of the votes in the first round, while Amadou Ba gathered 36 percent. Ba was the successor candidate chosen by

the outgoing president MacKay Sall.

- Faye's success was remarkable given he was released from prison just two weeks prior to the election, together with his running mate Ousmane Sonko, who was disqualified from running in the presidential election.
- The new administration's focus is on reducing youth unemployment, corruption and improving social standards in the country. Discussions of exiting the West African Currency Union (WAEMU), debt re-profiling and renegotiating oil and gas contracts have been toned down post-election.
- **View:** Senegal remains one of the strongest growing economies in the Sub-Saharan Africa region and globally, supported by new oil and gas projects coming on-line in H2 2024. Our EMD Hard Currency strategy holds a significant position of ~ 4 percent in Senegal.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	10.2%	8.3%	4.1%	4.0%	6.5%	4.6%
Inflation (% annual percent change)	2.0%	3.9%	5.9%	9.7%	2.2%	1.2%
Overall Fiscal Balance (% of GDP)	-3.1%	-3.9%	-4.9%	-6.6%	-6.3%	-4.1%
Government Debt (% of GDP)	67.6%	72.5%	79.6%	76.0%	73.3%	49.4%
Current Account (% of GDP)	-4.8%	-8.9%	-15.1%	-19.9%	-12.1%	-7.5%

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# Tunisia

- One criterion we have been following throughout the last few years has been the country's relationship with the IMF, and in Tunisia's case that has been unclear to say the least. There was a staff-level agreement on a funded program in late 2022, but after the Tunisian authorities removed some of the reforms (fuel price and SOE's) from the agreement, not much in terms of a dialogue seems to have been taking place. To make things worse, the assessment of the current situation seems to differ significantly between the authorities and the global lender, adding to the feeling, that the Tunisian authorities are out of tune with many of their creditors.
- Debt is already high at around 80% and on an increasing path. It is the expenditure side of the budget which is weighing on the headline and the bulk of it is formed from the (low productivity) public sector wage bill and fuel subsidies. The budget is also confused by ad-hoc reimbursements to SOE's for import and concurrent borrowing these SOE's. A new law allows direct financing of the government by the central bank, measures to plug the budget gap amidst no access to global capital markets.
- We believe the country will face balance of payments issues in the coming years, and at the same time Banque de Tunisie is focusing on a slightly bizarre effort to lure especially young Tunisians savings into the official financial sector by encouraging them to have Paypal accounts and invest in cryptos, as long as they leave part of their assets in bank accounts (instead of keeping it in cash, or beyond the reach of the authorities). If we understood correctly, capital account restrictions will be somewhat loosened with the goal of increasing financial inclusion, but details remain unclear. The program is also an effort to leverage the assets of the almost 2 million Tunisian diaspora worldwide.
- Reserves are one of the few bright spots, with gross reserves covering over 100 days of imports currently. However, these have been high due to global tailwinds, such as strong tourism, an improved terms of trade and remittances. The country has also received financing from other Arab states and Italy, countries which have an interest in Tunisia's stability, in an otherwise volatile region. Consecutive Eurobond maturities will likely decrease reserves in the coming years. We understood that output in the free-trade zones is shrinking and that FDI's are generally decreasing.
- Presidential elections are scheduled for 2024, but the opposition is preparing for an unfair election and there seems to be little hope of a restoration of democracy
- **View:** We have no investment in Tunisia, due to the negative fundamental development in the country. The country was downgraded to red in our Traffic Light Approach in 2023.

	2025F	2024F	2023	2022	2021	2011 - 2020
Real GDP (% annual percent change)	1.8%	1.9%	0.4%	2.6%	4.6%	0.8%
Inflation (% annual percent change)	6.9%	7.4%	9.3%	8.3%	5.7%	5.1%
Overall Fiscal Balance (% of GDP)	-4.9%	-5.4%	-6.6%	-6.7%	-7.6%	-5.2%
Government Debt (% of GDP)	79.5%	78.6%	76.6%	79.9%	79.9%	59.2%
Current Account (% of GDP)	-3.7%	-3.5%	-2.5%	-8.6%	-6.0%	-8.7%

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