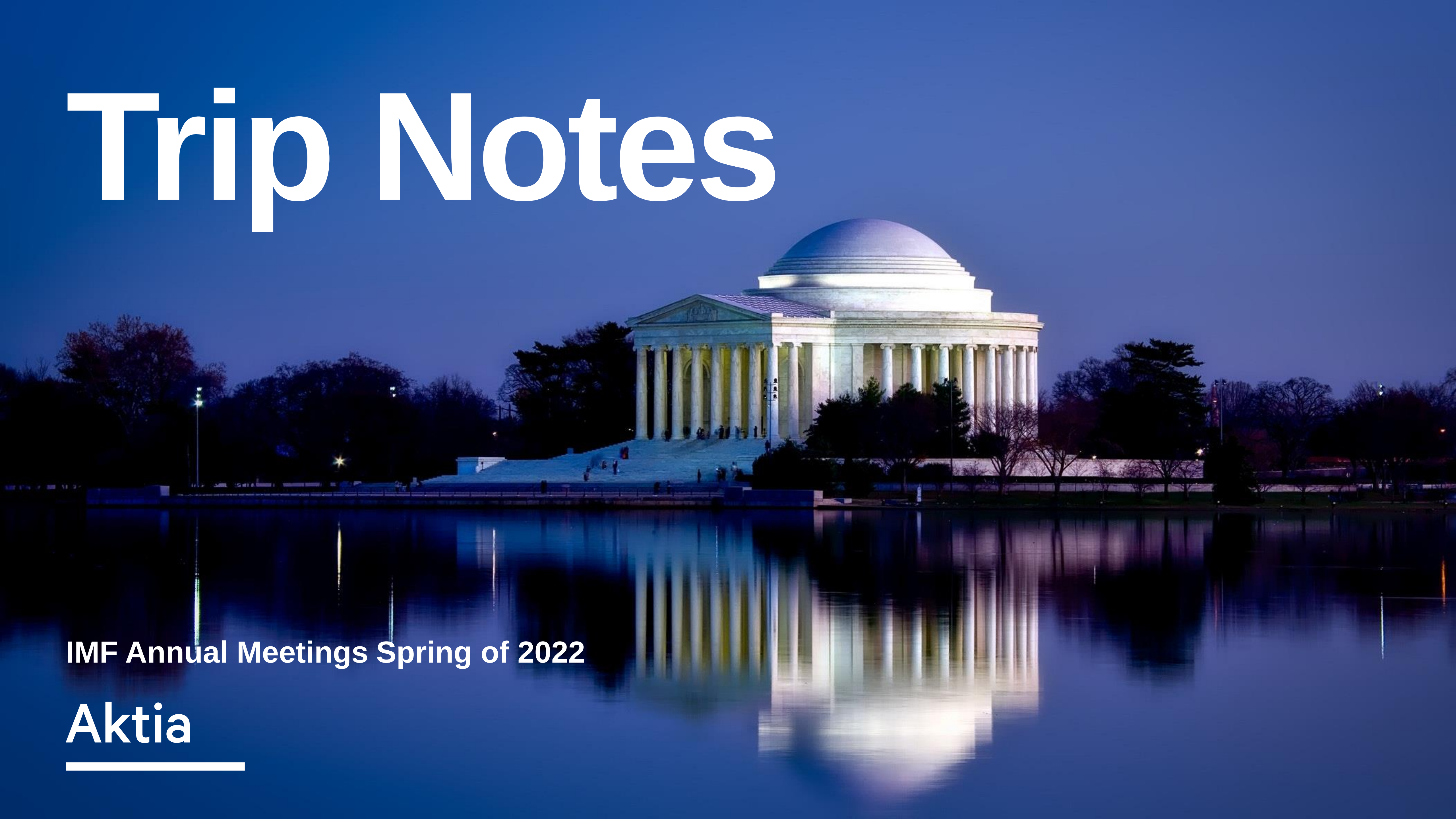


Trip Notes

IMF Annual Meetings Spring of 2022

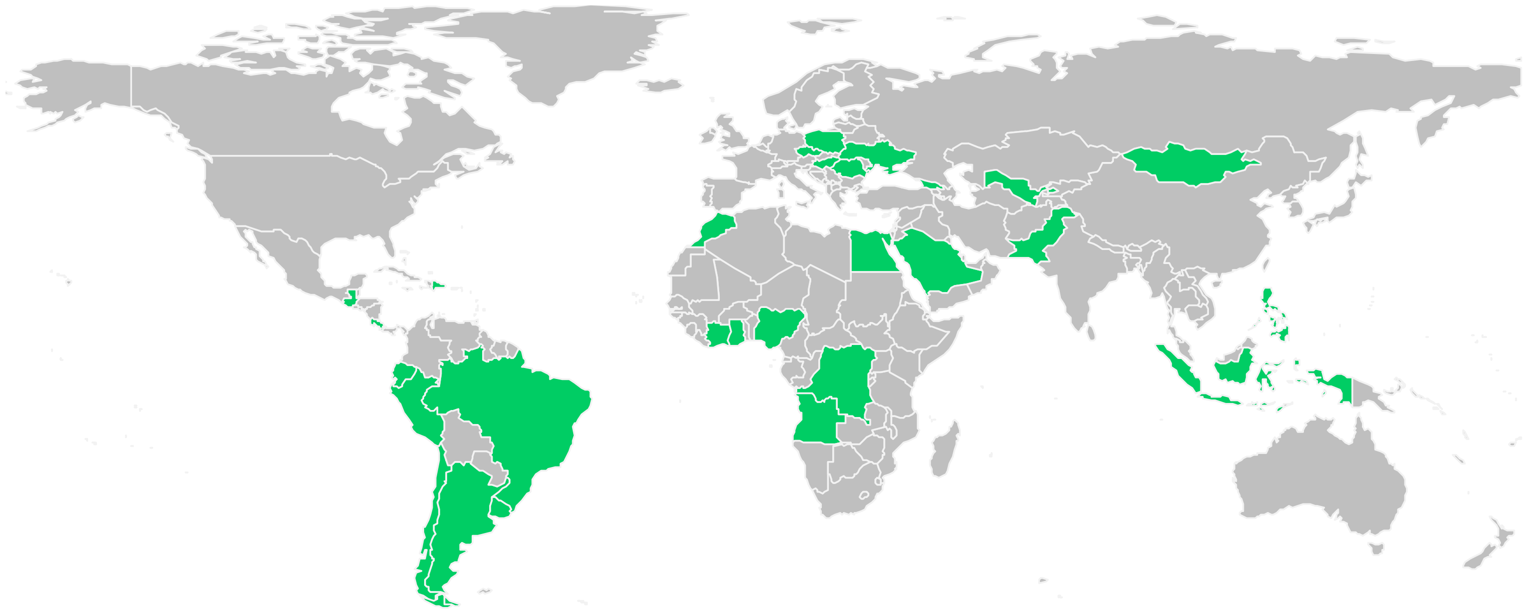
Aktia

IMF Meetings

Overview

- After two years of virtual meetings, in person events are finally back. In April, we travelled to Washington DC, to take part in the sideline events that are organized in connection to the IMF semi-annual meetings. In total, we had around 50 meetings, of which half took place in Washington DC. The meetings were mostly with representatives from the IMF, finance ministries and central banks covering around 30 different emerging and frontier countries. With this publication we aim to highlight what the key takeaways were in our view on a more general level and also from the point of view of some individual countries.
- Unsurprisingly, the Fed's rapid monetary policy normalisation, the war in Ukraine and concerns around China's growth outlook were mentioned in practically every meeting. Naturally, for most countries, excluding some commodity exporters, risks to growth were seen to be tilted to the downside. At the same time, several EM and Frontier countries have recovered from the corona slump and this recovery is still expected to continue, albeit at a slower rate than last year. This was also reflected in the IMF's latest WEO, where on average, both DM and EM growth for this year were downgrade by around 1%-points to +2.9% and +3.2%, respectively. Frontier country growth expectations were revised down by approximately 0.5% to +3.8%, underlining that these countries are usually less tightly linked to the global economy than more developed countries.
- The war in Ukraine will most likely have negative spillover effects to growth in Europe and countries that have close economic links to Russia. Other than that, the war in Ukraine was mainly seen as a driver of inflation and, as a result, a central bank story. Given the new round of commodity price shocks, which is likely to keep inflation higher for longer, EM central banks are still cautious and even the most pre-emptive rate hikers are not yet comfortable in announcing that the tightening cycle is coming to an end yet.

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



Africa: Angola, Democratic Republic of Congo, Ghana, Ivory Coast, Nigeria

Asia: Indonesia, Mongolia, Pakistan, Philippines, Uzbekistan

Central America and the Caribbean: Costa Rica, Dominican Republic, Guatemala

Europe: Czech Republic, Georgia, Hungary, Poland, Romania, Ukraine

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

South America: Argentina, Brazil, Chile, Ecuador, Peru, Uruguay

IMF Meetings

Overview

- High inflation has implications on the fiscal side, as well. Several EM countries have responded to higher food and energy prices by introducing measures to mitigate the impact of higher prices on households, which in turn, burdens public expenditures (subsidies) and/or weakens revenue (tax cuts). This may pose headwinds to the needed fiscal consolidation, after the rise in debt levels during the pandemic. For example, according to the IMF around 40% of countries in South America have adopted measures to contain food and energy prices, with an average cost of 0.3% of GDP. Also, an increasing number of countries have decided to ban the export of certain food products. While it may help domestic consumers, it also adds to the pre-existing supply side issues of the global economy.

- Given that the corona pandemic has caused significant social stress in several countries, as employment is still below pre-pandemic trends, the recent spike in the cost of living may also add to the risks for civil unrest. Low-income countries, in particular, may be more exposed to this, but this applies to wealthier countries too. In some meetings climate change was highlighted as a food security issue, as Africa has suffered from severe weather conditions that have damaged agricultural production.

- In order to address these kinds of long-term structural risks, the IMF has launched a new USD 50 billion Resilience and Sustainability Trust (RST), to help low-income and vulnerable middle-income countries. The detailed design of the programme is yet to be announced, but access to the financing is decided case by case, and it is most likely to be capped at 150% of the IMF quota or SDR 1 billion. The programme is proposed to have a 20-year maturity and a 10-year grace period. While the total size of the RST may not be overwhelming, it could have an especially meaningful impact on low-income countries and their efforts to mitigate climate change risks.

IMF Meetings

Latin America

Chile

- The ample fiscal stimulus during the covid pandemic has helped the economy recover strongly, with real GDP already 12% above the pre-crisis level. However, last year the economy showed clear signs of overheating driven by private consumption – as growth was around 5% above estimated potential output – and demand-push inflation pressures have become a clear challenge for policy makers.

- In order to bring economic activity to sustainable levels, the main theme for authorities this year is to engineer a soft landing, meaning, the monetary and fiscal policy setting should cool down growth but without driving the economy into a deep recession. Because of a tighter economic policy mix and a smaller boost coming from re-opening, GDP growth for 2022–2023 is likely to be relatively weak. Furthermore, there will likely be negative quarter on quarter growth figures at least in the first half of the year. Chile's medium-term growth is seen to be in the range of 2–2.5%, which could be achieved in 2024.

- The central bank's hiking cycle, launched in July, has been among the tightest in EM. The meetings confirmed our view that the bulk of rate hikes are most likely already behind, as the central bank is expecting weaker growth to eventually start driving inflation lower. The central bank sees that the current policy rate is close to a level that is consistent with bringing inflation back to target. However, given the external price pressures stemming from the war in Ukraine, risks are still tilted towards higher rates and a longer tightening cycle. Moreover, inflation expectations remain elevated. Some investors have been concerned that the minimum wage hike (14%) would add to inflation pressures, but overall, the impact is estimated to be relatively small – in the ballpark of +0.2%-points.

- After two years of record high budget deficits, this year marks a meaningful drop in expenditures as the government is targeting a structural balance of 3.1% of GDP. In some sense this year's consolidation is an "easy" task, as additional spending due to the pandemic is no longer justified. The main challenge for the government is to balance between the need for fiscal consolidation and social demands. In order to address scars left by the pandemic, the new government has introduced a measure called the Inclusive Recovery Plan, which is a support programme (USD 3.7 billion or 1.2% of GDP) that aims to, among other things, mitigate higher energy prices and recover jobs by offering employment subsidies. The programme is funded within the fiscal envelope for 2022 the government is committed.

- From a market point view, politics will be an important focus area over the coming quarters, keeping uncertainty at high levels. Especially the pension reform, tax reform and constitution reform will draw lot of attention. However, some of the experts we met were quite doubtful of the government's ability to make progress given the government's very ambitious goals. Furthermore, they were of the view that there will be political continuity despite the new left-leaning government.

- In the past there have been several attempts from both sides of the political spectrum to reform the pension system. However, these attempts have never translated to actual reforms. When it comes to the tax reform, investors are concerned that the higher tax burden on the mining sector could hamper the investment outlook. The government, however, is trying to assure that it will safeguard the competetiveness of Chile's mining sector by keeping the total tax burden in line with peer group countries.

  On the constitution reform, there has been a moderation in proposal items to the text during the recent months, underlining the expectation that the rewriting process may not cause a major shift in Chile's economic and political model. Also, it was pointed out that that the process has clearly showed that the most radical proposals will be filtered out. Thus, one shouldn't put too much focus on the proposals – what will be more important is what will be included in the draft. Thirdly, it was pointed out that if the referendum is passed, the implementation will take time – most likely several years – so there will not be a sudden change to Chilean economy.

- **View:** Our local currency strategy has investments in Chile via NDFs, as they offer more attractive yield levels than government bonds. Political risks remain as one of the key drivers. However, in our view the Chilean peso is undervalued, and the hawkish central bank and copper prices are supporting factors. On the hard currency side, we are invested in Chile through green and sustainability bonds.

> **Last year the economy showed clear signs of overheating driven by private consumption.**

IMF Meetings

Latin America

Costa Rica

- Costa Rica is currently facing economic challenges following a strong recovery of growth in 2021 (+7.5%). The pre-existing shock from Covid as well as the prolongation of the pandemic has led authorities to revise forecasts for macro fundamentals downwards. With the war in Ukraine, shocks to the supply side further dampen the economic outlook. Inflation is likely to peak in summer although prevailing risks may extend and increase the severity of heightened price pressures.

- The Costa Rican central bank has already engaged on a path of monetary tightening and further hikes can be expected in the upcoming policy meetings. The focus of the central bank seems to be on the pace of tightening and matching policy objectives to minimise the impact on growth. The risks to stagflation have increased and the risks are to the downside.

- Economic recovery will depend on the rebound of tourism, global economic financial conditions and how long Covid will weigh down on global growth. Tourism is likely to recover only later in 2023, as it is currently down by around a third compared to pre-pandemic levels. Accounting for around 5-8% of Costa Rica's GDP, the rebound of tourism is important especially now given the potential boost from pent-up demand for travel by foreign holiday makers.

- On the financial front, outbound portfolio flows have placed pressures on FX and central bank reserves have somewhat contracted. However, reserves still account for over three months' worth of imports and are expected to reaccumulate this year. While the central bank does not explicitly target a certain FX level or manage the float, the FX channel relating to inflation is something that the central bank monitors. One policy option would be to incentivise portfolio stock to remain in Costa Rica. This could theoretically be achieved by rate policy, but also through some FX hedging requirements for pension funds that hold assets abroad.

- A global rebound in growth is naturally something that Costa Rica, as a small open economy, can only wait for. Supply chains remain stressed and China's zero-Covid policy add to the global economic rebound woes. Should a new Covid-19 variant emerge in autumn, the growth outlook for Costa Rica has the potential for further downward revisions.

- Regarding Costa Rica's new government, the implementation and following through on IMF programmes are unlikely to notably differ from the previous government. This is, despite the somewhat hawkish campaign rhetoric by the newly elected president of getting more favourable terms on some of the points of the previously agreed programme. Should the debt-to-GDP level stabilise from its current high of 70% towards the fiscal rule benchmark level of 60%, the outlook on the fiscal side will be boosted – also allowing for more fiscal breathing space and flexibility.

- **View:** Under the new administration and new president, Chaves, it is still too early to evaluate the agenda going forward. Debt metrics are deteriorating, authorities have to approve and implement long-term sustainable fiscal structures to tackle the issues before market access is compromised. Our hard currency strategy has positions in long dated USD-bonds but is currently underweight compared to the benchmark. Our Local Currency Frontier strategy's Costa Rica weighting is around 3% with positions in local currency government bonds and AAA-rated supranational issued bonds.

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The Costa Rican central bank has already engaged on a path of monetary tightening and further hikes can be expected in the upcoming policy meetings.

IMF Meetings

Caribbean

Guatemala

- The country has remained fiscally conservative. Despite the primary deficit in 2020, authorities have since steered the primary balance back into a surplus. Subsequently, Guatemala's fiscal situation remains solid and government debt remains below 30% of GDP.

- Growth has remained robust throughout the pandemic. Growth is also expected to remain strong going forward at 4% in 2022 and return to the pre-pandemic trend. Economic activity has been supported by an accommodative monetary policy, strong remittances and a pandemic-resilient medical industry.

- Remittances were at record high levels in 2021, representing around 17% of GDP. Remittances were boosted by a strong US economy and particularly the construction sector. Cash transfers associated with the "American Rescue Plan" and the high marginal propensity to remit by Guatemalan migrants further supported remittance flows. Guatemalan migrants in the US maintain strong links back home.

- Inflationary pressures are more driven by local factors than global ones. However, monetary policy stimulus will have to be withdrawn, as real rates are too low to slow down inflation.

- Guatemala’s external balance is in good shape. Current account surpluses are expected going forward. The Guatemalan quetzal is deemed as significantly undervalued by the IMF and FX-reserves sufficient as per IMF-metrics

- Guatemala’s high level of corruption has been historically difficult to eradicate. High levels of corruption are still creating tensions with the US. Future reforms will have to tackle these governance issues for the country to continue developing

- **View:** The external debt of Guatemala continues being attractive, especially due to the conservative fiscal stance. On the local currency side, we currently only have a small investment position through a development finance institution bond linked to the policy rate. The small investment position is more a function of bond supply being dry and low rates rather than our willingness to invest.

Dominican Republic

- The growth recovery from the Covid-19 slump has been impressive, especially since the Dominican Republic is heavily dependent on tourism. The recovery broadened during the second half of 2021 as the service sector picked up. Part of this recovery is attributed to the government’s tourism recovery plan that focused on, among other things, mass vaccination and attracting tourists by providing free healthcare that covers all type of emergencies including possible covid contagion.

- Last year the economy grew 12.3% which is much faster than the IMF’s initial forecast of 6%. At the end of last year, real GDP was around 5% higher than before the pandemic. Despite increased tourism flows in Q4, tourism activity remained approximately 20% below 2019 levels and a full recovery might take several years. Going forward there will be more competition between tourist destinations.

- Like in many other countries, inflation is a challenge for the Dominican Republic as inflation (around 9%) is running above the central banks’ target range of 3–5%. Monetary policy normalization is likely to continue. Despite historically high inflation and the prevailing global supply side shocks, inflation expectations remain relatively well anchored. Furthermore, wage pressures are muted.

- Last year the budget deficit was 4% of GDP. The IMF expects this figure to narrow to 3.5% this year. The government has responded to the increase in cost of living by introducing a temporary (4–6 months) fuel subsidy programme. The programme is funded within the 2022 budget envelope. Nonetheless, risks regarding its fiscal cost are tilted to the upside given that energy prices may remain heightened for a prolonged period. Overall, the government’s commitment to maintain prudent fiscal policy seem to be very strong and the focus is on expenditure consolidation. The implementation of the electricity reform is one example on the government’s pledge to maintain public finances on sustainable path: the tariff increases were ratified in a challenging economic environment. One of the main weakness of the Dominican Republic’s public finances is the low tax revenue base. Standing at around 30% of GDP, this figure is clearly low compared to peers.

- The Fed’s tightening cycle is seen to be one of the main risk this year, given the fact that around 70% of public debt is denominated in USD. On the positive side, the IMF sees the DOP exchange rate to be in line with fundamentals. In addition, the government has already covered its external financing needs for this year. The external rollover needs for 2023 are relatively low and the Dominican Republic has good access to markets, if need be. Regarding the current account deficit, which the IMF expects to settle in the range of 2.5–3% of GDP, risks were seen balanced as the deficit is fully financed by FDIs. FDI flows have remained stable during the past years.

- **View**: We are invested in the Dominican Republic in all of our strategies. The response by policy makers to the corona pandemic has been robust and underlines strengths in governance. On the local currency side yields have adjusted back to neutral levels from historical lows seen in Q3-2021. We see the currency as fairly valued. In the hard currency strategy, we have a significant overweight.

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We are invested in the Dominican Republic in all of our strategies. The response by policy makers to the corona pandemic has been robust and underlines strengths in governance.

IMF Meetings

Asia

Pakistan

- Pakistan has been under pressure in recent months mainly due political challenges. It all came down to the opposition initiated no-confidence vote against former PM Imran Khan in early April. Khan lost the vote and Pakistan now has new coalition government in place. The new PM is Shehbaz Sharif, former opposition leader and three times elected Chief Minister of Punjab.

- The new minister of finance is Miftah Ismail, a well known and experienced politician.

- The new government has a mountain to climb, and next elections are just behind the corner (October 2023). The fiscal side is deteriorating due to high energy and food prices and the relationship with the IMF needs to be quickly re-established to get serious negotiations going.

- In meetings with authorities, it was very clearly stated that there is fundamental change with the new government and strong commitment to develop a good relationship and continuity with the IMF. The first target is to extend the existing program which has its seventh review ongoing. Negotiations have already started, and the IMF will visit Pakistan in early May. Talks will focus on main issues surrounding subsidies on electricity and gasoline. There have been some arguments from the IMF that they would like to see a more front-loaded roll back on subsidies.

- Pakistan's external position is mainly affected by high import costs (due to higher commodity prices). The import bill for fiscal year 2022 was USD 5 billion and from that USD 45 billion came from energy. From July 2021 to February 2022, the total cost of imports increased by USD 18 billion and from that USD 11.5 billion came from energy, food and vaccinations. Despite the significant terms of trade shock, the current account deficit narrowed significantly in February. The central bank's projection is around 4% of GDP for this year.

- The available financing for Q4-FY22 & FY23 is USD 45 billion which consists roughly 1/3 FDIs + Bonds + IMF, 1/3 expected rollovers from bilateral officials (Saudi Arabia, China) and 1/3 from multilaterals. The next steps regarding the financing situation are negotiations with Saudi Arabia (new PM speaks fluent Arabic) and hopefully positive breakthroughs with the IMF. Authorities anticipate that if these steps are successful, market levels should become more favorable compared to current ones and maybe then new issuance could be discussed.

- The central bank's governor Reza Baqir's term is ending. In early May it was announced that former Deputy Governor Murtaza Syed will be appointed as a new governor (whether this is just interim appointment or government's long-term choice is unclear).

- The probability for early elections is quite low. The opposition has very few options get the process started. It is more likely that the possible sharp depreciation of the rupee could trigger social unrest and build pressure for early elections.

- **View:** After a very challenging past few months for Pakistan there is now time for difficult and painful decisions. With the new government in place there is now a strong commitment to have a close and continuous relationship with the IMF. Time will tell how the government succeeds to improve fiscals and the relationship with the IMF without causing too strong resistance from voters and the opposition. Current market pricing is appealing but there is still a lot of uncertainty about the future outlook for the country. We have positions in our hard currency and frontier strategies.

Uzbekistan

- Eastern-Europe and especially ex-Soviet Union countries have been in the spotlight since the war in Ukraine started. Uzbekistan is no different as Russia is the country's largest trading partner. Imports and remittances were heavily hit when the invasion started but have recovered remarkably since the initial shock.

- The official government growth expectation for 2022 was 6% before the war. It has now been revised down to 4% (IMF 3.5%)

- Remittances were down by 30% during the first two weeks of the March but have since then recovered back to pre-war levels. Migrants are seemingly waiting out on ruble level recovery before continuing money wiring as usual. Most migrants work in the construction sector, so uncertainty is high going forward. Remittances from Russia represent over 70% of total amount. Usually, during summer months there are more migrants coming home so the next few months could be challenging regarding remittance levels. The central bank's projection for remittances is 9.5% of GDP for 2022.

- Inflation is 12.5% currently but the central bank expects it to cool down to 9% before year end. The central bank is not too worried about the inflation in bigger picture; however, food prices are the main concern. Uzbekistan is trying to secure situation by buying large quantities of food commodities, such as wheat, from the markets. Authorities also commented that is seems that harvest levels are surprisingly strong both from Ukraine and Russia. Uzbekistan can buy agricultural products and energy from Ukraine and Russia with discounted prices (by railway, private deals).

- The energy sector is subsidised with the main goal of stabilising prices. Social payments are linked to inflation, so higher inflation translates into higher subsidies. For example, the gas price for households is around USD 35 while market price is five to seven times higher. Uzbekistan has also stopped all gas exports as production is required to cover for their own consumption.

- The expectation for the fiscal deficit is currently at 3% but there are talks to widen it to 4% for 2022. Higher commodity prices (gold + copper) are supporting the fiscal side. For example, gold's budget price is USD 1700 and every USD 100 price increase in gold price is equivalent of almost USD 300 million to the budget. For copper, the budget price is USD 8000 so the effect of rising prices is also positive.

IMF Meetings

Asia & Europe

- The current account deficit was 5% of GDP pre-war and is now at 8% according to authorities. The IMF's estimate is 9% due to an expectation of a larger fall in exports and a larger decline in migrant workers in Russia (IMF estimates a 50% decline, while the central bank has estimated only a 20-30% decline in the number of migrants). However, there is also a positive expectation for investments to pick up again, and also FDI's and project finance to come in as things settle down first.

- The central bank has targeted reserve levels of USD 35 billion which accounts for around 14 months' worth of imports. In practice, stable levels are achieved by buying/selling gold when needed.

- The budget deficit (USD 2.5 billion) will be financed through IFIs. Bond issuance is not supported by current market pricing.

- USD 10 billion worth of PPI (Private Participation Investments) deals have been signed, mainly in renewables and utilities sectors. Authorities expect to sign USD 14 billion worth of PPIs in the next five years' time. Privatizations are accelerating, four phase program started already back in 2019. At first phase was disclosure of SOEs that should be closed down entirely. In second phase government sold some SOEs based on initial analyses. Now authorities are working on SOEs that need some preparation work (IFRS accounting etc) before entering the selling phase. According to authorities there will be major SOE IPOs coming in the near future (for example Uzavto (autos, trucks, buses), Almanyk (mining) and Uzmetkombinat (ferrous metals)).

- The banking sector has large role in the economy and close ties with Russia. The purchase of state owned Ipoteka Bank by OTP bank was postponed due the war but going forward authorities sees that there will be three SOE banks in Uzbekistan. In the discussions it was also clarified that there is no immediate capital injection needs for the banks but with conviction these will be needed in coming years.

- The relationship with Russia is difficult – Uzbekistan fully supports sovereignty of Ukraine but at the same time Russia will remain a major trading partner for the country also in the future. The Ukrainian war has sped up WTO negotiations, these are now with high priority.

- **View**: We see that out of the ex-Soviet countries, Uzbekistan and Kazakhstan are better positioned compared to some smaller economies like Georgia, Armenia or Tajikistan. The whole area is under pressure currently but there could also lie new opportunities in the future. Even though Russia is the largest trading partner for Uzbekistan, we see that its strong reserve-position should help the country survive these challenging times. We have positions in our Hard Currency and Frontier strategies.

Ukraine

- The total losses due to war have surpassed half a trillion dollars according to estimates by Ministry of Economy and the Kyiv School of Economics, and the estimates of direct damage to Ukrainian infrastructure so far vary between USD 80-120 billion.

- GDP decreased by some 45% in March, compared to the previous year due to the war.

- The harvest this year is seen to be 50-70% of normal, as the sector is hampered by lack of fuel, fertilizers and workers. Production of iron ore and metals is affected more due to being located in the conflict zone. The IT sector has not been affected to the same magnitude, as workers have been able to relocate to western parts of the country. Overall, exports are constrained restricted by logistics with Ukrainian seaports closed and railways the only mode of transport.

- The government financing needs are USD 5-7 billion monthly including military and debt service. To finance this Ukraine has received substantial support from G7 countries together with IFIs, and the government has funded USD 1 billion per month via issuing war bonds.

- The government has lost 50% of revenues, and there are challenges in revenue collection.

- Central bank reserves have slightly decreased to USD 27 billion, down from USD 31 billion beginning of the year. The CB is the lender of last resort and has transferred UAH 60 billion to the budget thus far.

- In the beginning of the war the central bank gave up on inflation targeting, imposed capital controls, allowing only imports of essential goods, and fixed the exchange rate of hryvnia at 29.25 against the dollar. The unofficial market continues to trade somewhat weaker around 33 hryvnia to the dollar. According to the central bank the measures are temporary, but the war needs to end for the restrictions to be lifted and the local bond market to continue trading.

- The financial system in Ukraine is showing resilience, the banking sector is in operational mode despite the war. Three quarters of the bank branches are open, the payment systems are functioning, and customers can access their savings. Bank deposits have increased by 20% and there are no signs of a bank run.

- **View**: It seems increasingly likely that the war in Ukraine will continue for a prolonged time. We have continued decreasing our exposure in Ukraine via letting the FX forwards mature at the NBU rate. The Government bond market is closed, only war bonds trading, and it is not expected to open before the war is over.

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We see that out of the ex-Soviet countries, Uzbekistan and Kazakhstan are better positioned compared to some smaller economies like Georgia, Armenia or Tajikistan.

IMF Meetings

Africa

Ivory Coast

- The country has shown strong resilience against the Covid-19 economic downturn, and the growth rebound has been strong. The growth outlook is solid with the IMF expecting growth to be 6% p.a. over the medium term (local authorities have somewhat lower growth expectation).
- The strong relationship with the IMF and calm political environment supports the reforms agenda going forward (National Development Plan). The newly appointed vice president (Tiémoko Meyliet Koné) brings continuity and might even become the next president. The business environment is flourishing and progress in continuous. Corruption and governance are areas with room for improvement, but as usual this takes time.
- 2021 growth was revised up from 6% to 7% due to strong consumption in energy and private sectors and without any signs of Covid-19 on the ground.
- The IMF is monitoring debt forecasts closely but sees them very reasonably for now. External debt payments to revenues are well below the 18% threshold.
- In the short term, the current global environment brings some pressures (via higher commodity prices) that must be tackled with targeted policies at the governmental level. However, there is very little doubt that the Ivory Coast would not be successful to contain effects of higher prices. Price caps are in place for diesel and gasoline prices. Food prices are also controlled. These measures are challenging to maintain for longer periods if commodity prices stay at elevated levels. At the same time, the country is a producer of natural gas which balances the equation.
- The link to WAEMU (West African Economic and Monetary Union) is strong, which brings stability. The IMF does not see lots of pressures for the currency at the moment. However, the current account could be under some temporary pressure at the Union is still a net importer of oil. Inflation is currently 5.6% but there are already some signs of relief.
- The Ivory Coast produces about 50% of the world's cocoa and is one of largest producers in cashew nuts. Additional to production, now the country is also transforming pure raw materials to different forms (cocoa oil, cocoa butter, powder etc.). For example, 30% of cocoa production is now processed into different forms domestically, and the goal is to increase this to represent 50% of production. Sustainable cocoa is also an interesting development area. These actions mean that the country is moving up in the value chain and will have a more diversified economy which will translate to higher revenues. Going forward, the Ivory Coast has to make sure that local farmers have incentives to increase productivity – one solution could be by granting ownership of lands to farmers.
- Revenue collection needs improvements. The personal income tax system is very complicated, land and property ownership records are underdeveloped, and ongoing digitalization projects will help a lot going forward. Currently customs dominate the revenue side, taxes represent only 12% of the total and the share of VAT is till low, for example. In addition, the large share of informal businesses must be better tackled.
- Possible game changers for the country are new oil & gas discoveries on coastal areas. However, it is too early to predict whether these will materialize or not.
- **View**: The Ivory Coast was very resilient against Covid-19 and the recovery has been strong since. The medium-term growth outlook is solid and the economy is diversifying step by step. Strong relationships with IMF and membership in the WAEMU brings. We like the country and the outlook, and we see lot of potential going forward. The economy is diversifying, the debt situation is under control, there is room for improvement especially on the revenue side. Potential new oil & gas discoveries would be big positives. We have positions in our hard currency strategy.

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Possible game changers for the country are new oil & gas discoveries on coastal areas. However, it is too early to predict whether these will materialize or not.

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