GLOBAL MACROECONOMIC UPDATE

Macroeconomic Themes & Analysis

Geopolitical Strains and Inflation Battles Threaten Stability

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OUTLOOK

In each edition of our Global Macroeconomic Update, we focus our attention on the five main global regions and their economic and political developments. Following important economic indicators, we discuss the macroeconomic implications of major geopolitical updates, central bank decisions and the release of new economic data.

As we move into the second half of 2024, we expect important political elections to play substantial roles in new economic policy. Evolving geopolitical tensions in Middle East, Africa and Latin America, the rise of the right wing in Europe, and persistent inflationary pressures put strain on economic safety nets. Central banks worldwide are likely to continue their cautious approach to monetary policy, balancing the need to combat inflation with ambitions of economic growth.

Markets are likely to experience increased volatility as investors respond to the rapid succession of political events and economic data releases. Global markets will be closely watching for updates in the US election and the Federal Reserve's September rate cut decision, expecting knock on effects within their own economy. Increased conflict in the Middle East could raise questions of further global involvement, economic sanctions, and trade disruptions.

KEY POINTS

Direction Changes for Democrats in US Election. In North America, we discuss updates to a thrilling presidential race in the U.S. Vice President Kamala Harris, the new Democratic nominee, is championing progressive policies. Canada's economy shows growth and interest rate cuts despite inflation concerns, while Mexico faces sluggish GDP growth and a weakening peso.

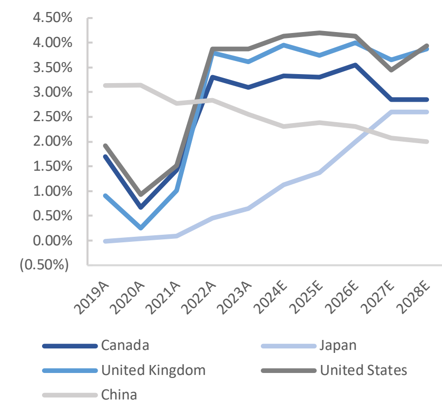
Emerging Markets Grow Steadily Despite Obstacles. In Asia, Bangladesh navigates economic crises and violent protests with IMF support, and Indonesia maintains steady growth despite inflation. China boosts its economy with electric vehicle exports and rate cuts, while Vietnam's export-driven growth faces inflation challenges. Australia and New Zealand tackle inflationary pressures, and the Pacific Islands deal with climate threats and high debt levels.

Borrowing Challenges and Power Shifts. In Africa and the Middle East, countries face fiscal challenges and opportunities. Kenya awaits IMF review of its fiscal plan amid tax protests, Tanzania supports farmers with subsidies, and Egypt raises petrol prices to secure IMF loans. Ghana, Nigeria, and Zimbabwe confront inflation and borrowing challenges. Kuwait faces a deficit, and geopolitical tensions in Palestine, Israel, Iran and Yemen threaten stability.

Maduro's Grasp Threatens Latin American Stability. Latin America's prospects include potential growth and rate cuts, but Venezuela's election has sparked protests and put pressure on Maduro, the president of Venezuela, risking further unrest and refugee crises across the entire region. Meanwhile, Argentine Inflation begins to fall under Milei but at what costs?

Inflation Battles and the Olympic Question. In Europe, the European Parliament begins its new legislative season, and the European Central Bank cuts interest rates to combat inflation, ending a recessionary period. While inflation pressures ease, the labor market remains tight with low unemployment and rising wages. Will the Olympics give France the economic boost they were hoping for?

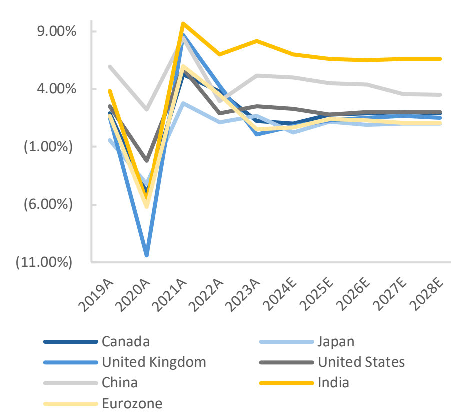
10Y GOVERNMENT BOND YIELD



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
China	4.7	0.5	25.7
Eurozone	0.6	2.6	87.4
Japan	-0.8	2.8	215.7
United States	3.1	2.9	122.7
United Kingdom	0.9	2.2	101.1
India	7.8	3.7	55.6

REAL GDP GROWTH



Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

Please read disclosures/risk and liability information beginning on page 30, including Analyst information on page 31.

Table of Contents

North America Coverage: A Week of Textbook-Worthy Political Events....3
Asia-Pacific Coverage: Crisis in Motion....7
Africa Coverage: Navigating Economic Storms....14
Middle Eastern Coverage: Economic Divergence....18
Latin America Coverage: Navigating Political Crises....20
Eurozone: State of the Union Amid Changing Economic Landscapes....25
Factors to Watch....29
Important Disclosures....30
Analyst Information....31
Risk Factors....31

NORTH AMERICA COVERAGE

Global Macroeconomic Research

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A Week of Textbook-Worthy Political Events

REGIONAL OVERVIEW

The United States is witnessing an enthralling presidential election, with President Joe Biden dropping out of the race following his disastrous performance at the June presidential debate, while the country still reels from the attempted assassination of former President Donald Trump. The new Democratic nominee, Vice President Kamala Harris, has garnered significant support, achieving record-high single-day donations at the start of her presidential run. Taking a more progressive stance than Biden, Harris has announced policies including a ban on assault weapons, social security programs, and relieving student debt.

Trump strongly opposes many of these policies and is allegedly closely aligned with the conservative manifesto, Project 2025, however has repeatedly denied any association to it. Amid heightened uncertainty about the future of the economy, Canada has received positive news about GDP growth outdoing projections. This has helped the Bank of Canada fortify their decision to make a third cut in the next few months. However, some of this optimism is tempered by the ongoing effects of inflation on sectors including manufacturing and housing, as production faces major issues with supply chains and transportation.

Conversely, Mexico observes slower GDP growth, adding to its current pool of adversity posed by a devaluing peso, reduced demand, and fewer exports. Although unemployment rates are at a low of 2.54%, continued high interest rates can exacerbate the sluggishness of the economy, an effect certainly felt by the agricultural sector.

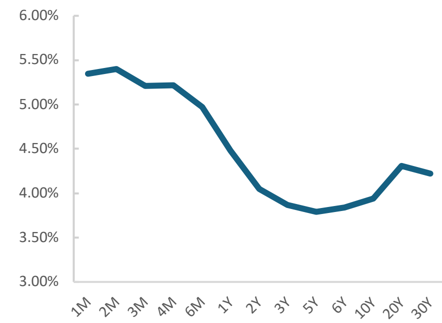
UNITED STATES OF AMERICA: A 180 DEGREE TURN FOR THE 2024 ELECTIONS

President Joe Biden made history by withdrawing from the presidential race on July 21 and endorsing Vice President Kamala Harris. Harris further made history by raising over $81 million through the Democratic Party's fundraising platform *ActBlue* within 24 hours of Biden's announcement, marking the largest single-day fundraising total in U.S. history. This record-breaking fundraising has solidified the Democratic Party's optimism towards their new representation, as the increased donations reflect regained support that was lost under Biden. Following Biden's lead, Barack Obama, Bill Clinton, and Hillary Clinton have all endorsed Harris in her presidential run.

Harris' proposed policies are more progressive than Biden's current policies, including a proposal to raise the refundable tax credit to $6,000 per year. She supports increasing the corporate tax rate back to 35%, the pre-Trump level, and – like Biden – advocates for student debt relief. One of Harris' main campaign policies is to ban assault weapons, which has garnered $15 million in support from the gun safety group Giffords, highlighting the stark divide between the Democratic and Republican stances on gun issues.

Additional points of contention between Harris and Trump include the auto industry; Harris advocates for ramping up electric vehicle production, whereas Trump considers it a threat to the economy. Harris also strongly opposes any cuts to social security programs, instead proposing improvements to Medicare to cover more benefits. Trump, on the other hand, has given ambivalent responses regarding benefit cuts. However, both candidates agree on restricting trade with China, with Trump suggesting tariffs as high as 60% on Chinese imports.

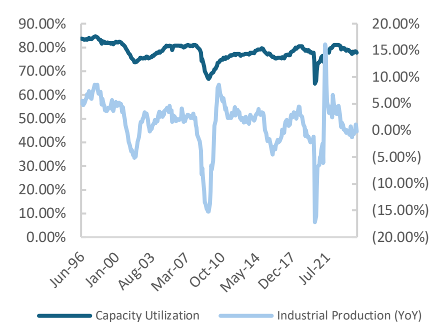
UNITED STATES YIELD CURVE



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Canada	0.5	2.7	68.8
El Salvador	4.3	1.8	62.2
Guatemala	4.1	3.8	11.1
Jamaica	2.0	5.1	71.1
Mexico	1.3	5.6	48.5
United States	3.1	2.9	122.7

US CAPACITY & INDUSTRIAL PRODUCTION



Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

Although specific details of each candidate's economic standpoints cannot be extensively discussed, economists assume that federal expenditure will continue to rise under either a Harris or a Trump presidency. Harris aims to increase the corporate tax, while Trump will likely seek to reduce it slightly more. Achieving this balance may be challenging within a single term, but if elected, Harris would presumably strive to balance court appointments between conservative and liberal judges. However, market trends currently favor a Republican win, according to Morgan Stanley analysts. This is due to the current decline in preference for the Democratic Party, attributed to slowed economic growth and high interest rates. Additionally, equity research indicates that Republican-favoring ETFs, such as those in energy and real estate, are presently outperforming Democratic-favoring ETFs, such as those in renewable energy, tech, and infrastructure. Nevertheless, market volatility is typically high during election cycles, making it important to monitor polling alongside market trends to anticipate future developments.

"Project 2025," a right-wing conservative manifesto rumored to be enacted if Trump is elected, has sparked significant discourse. Although Trump has claimed to distance himself from the project, it is authored by individuals from his administration. The manifesto proposes dismantling the Department of Education, cutting funds for low-income schools, instituting a national abortion ban, and reducing funds for green energy transition. According to the Joint Economic Committee, Project 2025 would disproportionately affect the working class by changing the tax rate to two brackets: 15% for incomes up to $168,000 and 30% for incomes above that. The corporate tax rate would be lowered to 18%, benefiting high-earning individuals. Overall, the project threatens economic security by scaling back clean energy industries and abolishing the Consumer Financial Protection Bureau, which aids individuals recovering from predatory lending practices.

Harris' push for aggressive policies, like the corporate tax hike and expanded Medicare benefits, could lead to significant shifts in investor sentiment, especially in sectors like healthcare and tech, where higher taxes and regulation might stifle growth.

Harris's strong stance on electric vehicles might also accelerate the transition to clean energy, but it could polarize states crucial to her campaign that are reliant on traditional auto manufacturing jobs.

Exhibit 1: Increased Competition Between Harris and Trump in the Polls

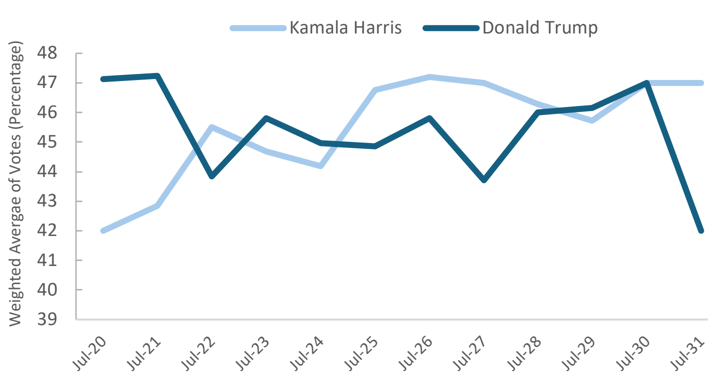
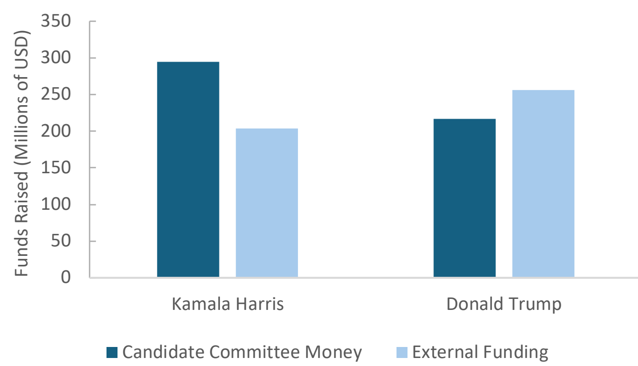


Exhibit 2: Harris Leads Trump in Funding Despite Large Source of External Money



Source(s): FactSet, Vertige Research

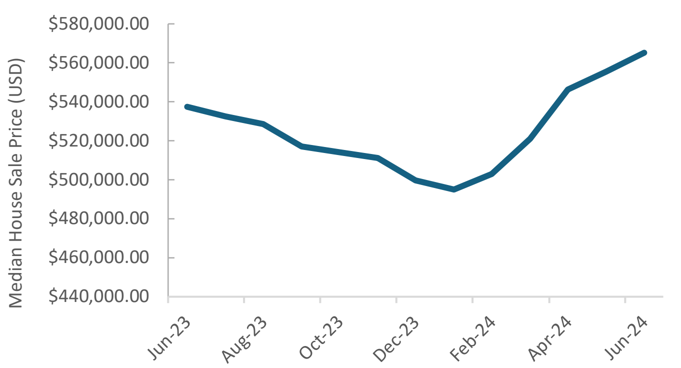
UPDATES FOR THE HOUSING INDUSTRY LOOK LESS PROMISING THAN EXPECTED

Existing-home sales, a measure of the strength of the U.S. housing market, showed bearish results for June, falling short of the forecast by approximately 100,000 units or 5.4%, indicating a cooler market than expected. This trend is consistent with the U.S. experiencing the highest median sales prices of around $426,000, thereby suggesting a decrease in demand. However, high home prices can be attributed to supply being relatively tighter than demand. Buyers seeking mortgages may be waiting for interest rate cuts, although mortgage rates may not drop immediately as inflation expectations adjust over time. With 30-year mortgage rates currently around 7%, there is potential for improvement as inflation is expected to cool by the end of the year.

The housing market is shifting from a seller's to a buyer's market, as homes remain on the market longer and inventory rises, according to Lawrence Yun, Chief Economist of the National Association of Realtors (NAR). Concurrently, the Housing Price Index (HPI), a measure of housing affordability, fell to -0.03%, a 0.39 percentage point drop from the long-term average rate. This decline is consistent with the rise in housing inventory, indicating that homes in June were less affordable than before. Although recently the labour market has been looking weak, July numbers for employment are bearish. Employment in private payrolls rose by 97,000, mostly due to gain in healthcare and hospitality jobs, and the overall labour participation rate rose by a modest 0.1 percentage points. However, these are still short of the projected gain in employment and will endorse the September rate cut. With the anticipated rate cut and expected reduction in inflation, housing affordability may begin to improve by the end of the year.

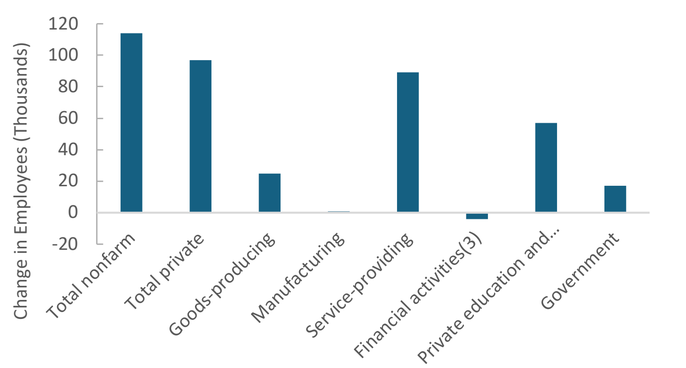
Despite 3.1 million new jobs in 2023, the labor market faces a shortage due to lower post-pandemic participation rates. If participation matched February 2020 levels, over two million more workers could fill these positions.

Exhibit 3: Median House Sale Prices Hit Record Peaks



Source(s): NAR, Vertige Research

Exhibit 4: Services See Largest Growth from June to July Among Sectors of US Production



Source(s): US Bureau of Labor Statistics, Vertige Research

CANADA: GROWTH OUTDOES EXPECTATIONS, HOWEVER SOME SECTORS STILL FEEL THE PINCH OF INFLATION

Statistics Canada released the Gross Domestic Product (GDP) report for May and June, showing growth rates of 0.2% and 0.1%, respectively. These figures represent a 0.1 percentage point increase from the forecasted value for May, providing a more positive outcome amidst high uncertainty around interest rates. Despite the growth, plans to cut interest rates for a third time in September will proceed, as overall growth for 2024 is still below expectations, according to CIBC economists. This 0.25-point cut could improve housing affordability through increased investments in construction, which would boost supply and restrict rent inflation. entertainment industry performed significantly better than the retail trade industry, which could be due to seasonal factors, or the high interest rates seen this year. Goods-oriented industries experienced larger growth than service-oriented ones, aligning with the persistent high prices in the service sector. The Bank of Canada remains optimistic that the third rate cut will further improve these growth numbers.

The Bank of Canada focuses on future trends, with core inflation measures likely rising on a three-month average, but annual growth should decline. Initial rate cuts have had a muted impact on house prices, and rent growth is slowing.

The second interest rate cut of 0.25% occurred on July 24, and the Bank of Canada remains committed to continuing quantitative tightening. This second rate cut raises questions amid the Federal Reserve decision to not cut rates. If this divergence continues, we could see a decrease in value of Canadian currency as Canadian investors look to save in foreign economies, specifically the U.S. This is worrying due to Canada's reliance on the U.S. and their trade policies. The Bank of Canada has taken a more optimistic outlook on its war against inflation than the FED. Canada's inflation has steadily declined since the beginning of the year, while in the U.S., inflation rose in the first quarter, giving perspective to the FED decision to hold rates constant. The US economy has also historically been more resilient than Canada, giving the FED more leeway to hold off on rate cuts. We predict that despite this divergence becoming more evident, with FED cuts now being imminent in September, and the US economies resilience, no significant issues will arise

The Bank of Canada cutting rates involves reducing liquidity in the economy to control demand and inflation. The Bank notes that consumer spending has been low, and the labor market has cooled, with unemployment rising to 6.4%, although wage growth has remained high. They predict that GDP growth will increase in the coming months, driven by higher consumer and investment spending as interest rates fall. TD economists forecast a lower GDP estimate for 2025 than the Bank of Canada, based on the time lag in the effects on consumer spending and the housing market.

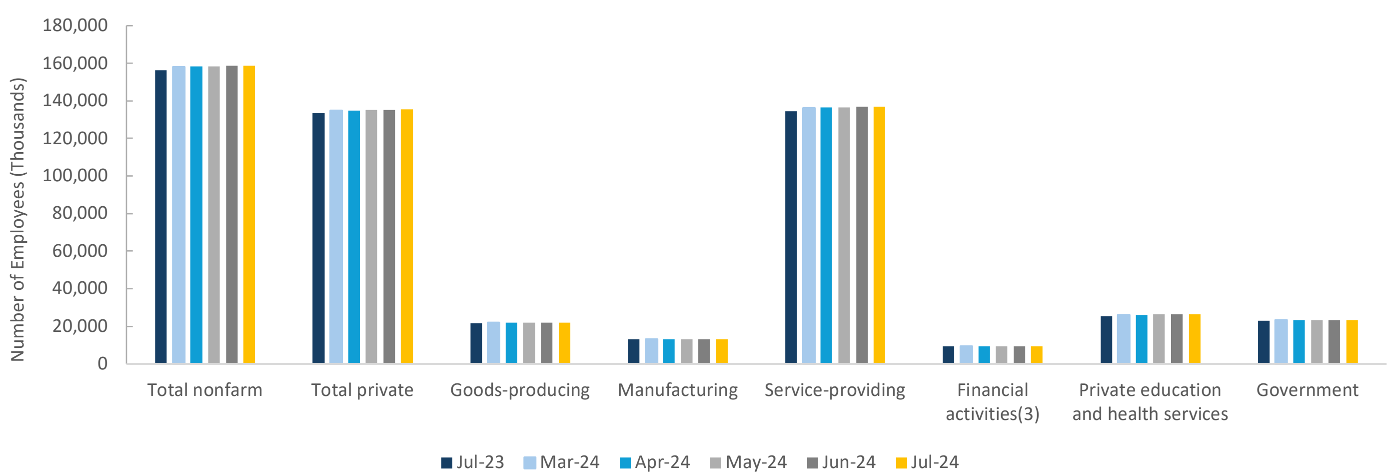
Canadian manufacturers might need to rethink their sourcing and production strategies to remain competitive as the persistent PMI contraction hints at deeper challenges in global trade and supply chains. This showcases that the rate cuts alone may not fully resolve the manufacturing sector's struggles.

The manufacturing sector experienced the largest decline in the Purchasing Managers' Index (PMI) since December 2023, due to supply chain delays and reduced manufacturing production. Inflation and geopolitical issues contributed to the PMI dropping to 47.8, a 1.5-point decrease from June. Firms reported supply-side restrictions, including delays in sea transportation and higher input prices. Unfortunately, this marks the 15th consecutive month where the PMI has been below the 50 no-change mark, according to Reuters. Although employment was stronger in the manufacturing sector, these numbers indicate a contraction in the industry. The interest rate cuts could improve the situation as firms benefit from lower borrowing costs to cover input price hikes, potentially increasing the index marginally in August.

MEXICO: GDP FORECASTS LOOKING GRIM

The National Institute of Statistics and Geography released GDP growth numbers for the second quarter on July 29, showing a 0.2% increase from May. This growth rate falls short of the forecast by 0.2 percentage points, indicating a greater-than-expected slowdown. Most of the slowdown occurred in primary sector activities such as agriculture, which witnessed a 1.7% decline from the previous quarter. Exacerbated by trade and political tensions, the Bank of Mexico expects a larger growth downturn to an annual rate of 2.4%. While maintaining a high interest rate of 11% to combat inflation, more effective monetary policy measures are needed to stimulate economic activity. Bloomberg economists predict that the slowdown will weaken the peso, and the reduction in demand for exports after the election will further exacerbate the situation. The central bank needs to decide whether to cut interest rates by the third quarter, as the current rate is proving ineffective in controlling inflation. We believe that these rate cuts will come in time for third quarter as the Bank of Mexico will hope to stimulate the economy as inflation rates begin to slow. Meanwhile, the economy suffers from a weaker currency, lower consumer spending, and reduced production.

Exhibit 5: Services Continue to Lead US Production Industries



Source(s): US Bureau of Labor Statistics, Vertige Research

ASIA-PACIFIC COVERAGE

Global Macroeconomic Research

Crisis in Motion - Bangladesh's Student Revolution, Japan's Market Crashes, China's Electric Vehicle Gamble, and Policy Shifts Amidst Great Uncertainty

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REGIONAL OVERVIEW

The Asia-Pacific region stands as a mixed economic landscape with several key trends. Bangladesh grapples with economic and political crises, relying on IMF bailouts as growth projections slow and public discontent rises. Indonesia expects to maintain a 5.1% growth rate until 2026, fueled by increased public spending, investment, and consumption, though it also faces oil-driven inflation and currency challenges.

China aims to kickstart growth in the second half of 2024 again through global electric vehicle exports as well as through the cutting of medium-term interest rates. Carrying out the vision set by the late Party General Secretary Nguyen Phu Trong who charted out their remarkably accelerated economic development, Vietnam is experiencing strong export-driven growth but faces rising inflation and a delay in its international declaration as a market economy. India maintains a robust growth rate of 7.8% for FY 23-24 which is expected to stabilize at 6.5%, despite investment and productivity concerns.

Japan shows mixed economic signals with appreciation of the Yen amid slow core inflation, but a declining Nikkei Index following Wall Street's earnings slump and a raising of interest rates for the first time in 17 years. In Oceania and the Pacific, Australia and New Zealand will have to make tough decisions on raising interest rates amidst inflation or maintaining weak growth forecasts. The Pacific Islands are strained by cost increases, climate threats, and high debt levels risking economic downturn.

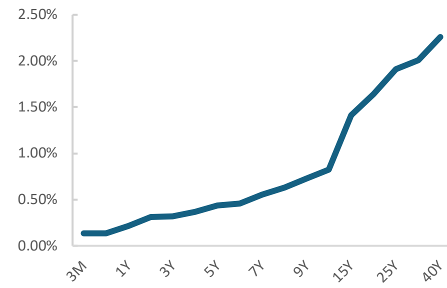
The region records robust manufacturing activity, with notable growth in South Korea and India. Trade tensions and protectionist measures especially against China however, are reshaping economic dynamics. Fiscal stability remains a critical focus, with governments needing to manage high post-pandemic debt levels to support sustainable growth.

VIETNAM EXCEEDS GROWTH EXPECTATIONS WITH STRONG INVESTMENTS AND MARKET REFORMS

Vietnam's economy is expected to grow by 6.0% in 2024 and 6.2% in 2025, according to the Asian Development Bank (ADB). However, several factors suggest that Vietnam could exceed these projections by an additional 5%. The country benefits from strong economic fundamentals, including a young, urbanizing population and strategic positioning in global supply chains, which continue to attract significant foreign direct investment (FDI). Moreover, the government has approved a substantial public investment plan of VND 688.5 trillion (28.69 billion USD) for 2024, aimed at accelerating infrastructure development. If challenges related to project readiness and budget allocation can be effectively addressed, these investments could further boost economic growth.

In addition to public investment, Vietnam's private sector is poised for expansion, supported by ongoing market-oriented reforms. However, government officials' reluctance to release infrastructure funds amid an anti-graft campaign hinders public investment. Despite this, the 2024 Land Law, effective August 1, aims to stimulate investment across various sectors by streamlining land use regulations. Investors can anticipate robust opportunities in real estate, agriculture, and infrastructure, supported by a $5 billion loan from the Asian Infrastructure Investment Bank (AIIB) for sustainable development.

JAPAN YIELD CURVE



REGIONAL ECONOMIC SUMMARY

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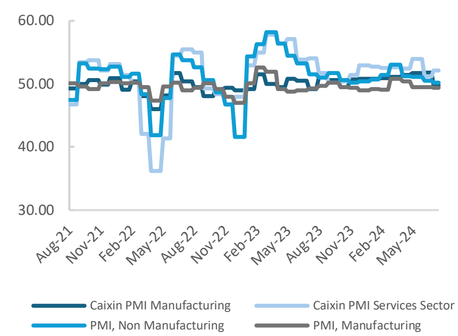
India	7.8	3.7	55.6
Japan	-0.8	2.8	215.7
Singapore	3.0	2.4	167.0
Thailand	1.5	0.8	54.7

CHINA MANUFACTURING



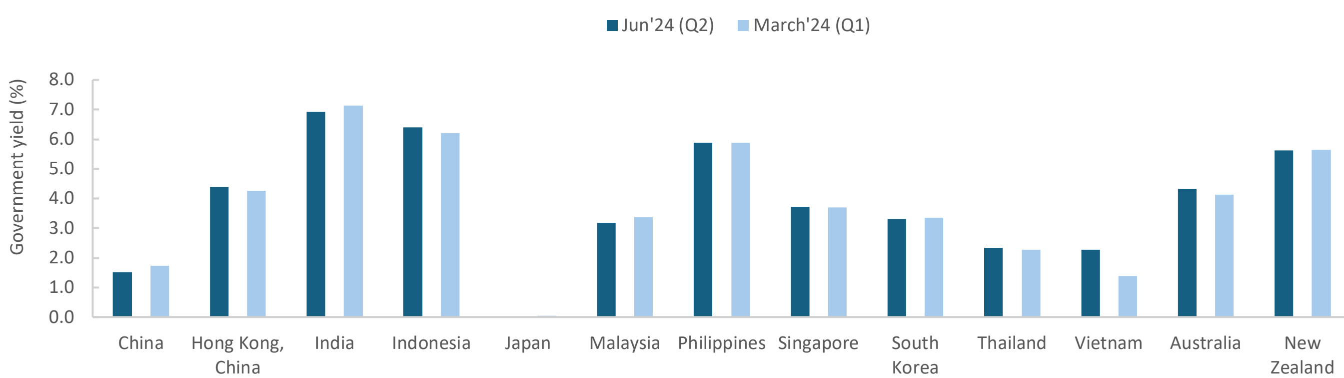
Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

INDIA EMPHASIZES FISCAL PRUDENCE AND STRATEGIC INVESTMENTS IN FY 2024-25 INTERIM BUDGET

The interim budget for FY 2024-25, presented by Finance Minister Nirmala Sitaraman on July 23, highlights India's fiscal and economic strategies: focusing on fiscal consolidation, capital expenditure, healthcare, and support for small businesses. The fiscal deficit estimate has been revised to 5.8% of GDP, slightly lower than the previous estimate of 5.9%, with a target to reduce it below 4.5% by FY 2025-26. This revision reflects the government's commitment to fiscal prudence despite moderated nominal growth estimates. Capital expenditure for the upcoming year is set at INR 11 lakh crore (approximately 130.49 billion USD), or 3.4% of GDP, representing an 11.1% increase.

The government's emphasis on financial prudence and infrastructure investment is positive for long-term economic stability and growth; the lack of new incentives or major reforms, however, could be viewed as a cautious stance by investors, particularly for those seeking shorter-term returns. The initiatives supporting healthcare and small businesses underscore the government's commitment to inclusive growth, which could translate into broader economic benefits.

Exhibit 6: Government Bond Yield Q/Q %



Source(s): Abacus Data, Vertige Research

BANGLADESH FACES CREDIT RATING DOWNGRADE AMIDST ECONOMIC STRAIN AND POLITICAL UNREST

S&P Global Ratings has downgraded Bangladesh's credit rating from BB- to B+, citing a persistent decline in foreign exchange reserves. This downgrade comes shortly after the government imposed a curfew to control violent protests. The ongoing student protests in Bangladesh erupted over government job quotas favoring independence war descendants. The movement expanded into broader anti-government demonstrations, leading to mass arrests and a harsh crackdown by Prime Minister Sheikh Hasina's administration.

The rating downgrade reflects ongoing stress on Bangladesh's external financial metrics, particularly the steady drop in foreign exchange reserves. The decline is driven by several factors, including increased import payments as the economy reopened post-pandemic, global supply chain disruptions, and elevated commodity prices due to the Russia-Ukraine war.

Mismanagement in the forex market, such as discrepancies between the official and unofficial exchange rates, further exacerbated the issue. The central bank's interventions, including injecting USD into the market and maintaining an overvalued currency, also contributed to the depletion. As a result, reserves have dropped from $48 billion in 2021 to around $21.78 billion at the end of June 2024, just enough to cover three and a half months of imports, raising concerns about the country's economic stability and creditworthiness. This pressure is likely to intensify as the curfew has disrupted significant sectors of the economy, including the crucial garments export industry (which is about 18% of the country's GDP), which is a major source of foreign currency.

Bangladesh's central bank has recently imposed withdrawal restrictions on nine banks, limiting cash withdrawals to 1 crore Taka per transaction. This action comes amid ongoing liquidity issues within these banks, which had been reliant on central bank support since 2022. The restrictions follow the resignation of the central bank's governor and the withdrawal of financial support for banks that had previously received assistance to manage liquidity shortfalls and irregularities. This moves highlights increasing financial instability and raises concerns about the broader health of Bangladesh's banking sector.

For investors, this downgrade signals increased risk, potentially leading to higher borrowing costs and reduced investment in the country. The overall economy may face slower growth due to the strained reserves and the economic disruptions caused by the curfew, despite Bangladesh's strong per capita real growth. Investors might adopt a more cautious approach, impacting the flow of foreign investment and overall economic stability.

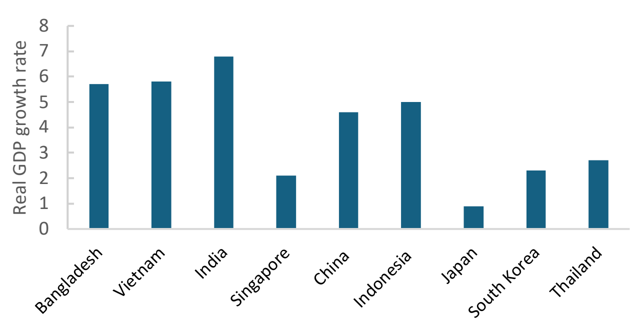
Despite encouraging production growth, the Chinese real estate market plunged for the 13th consecutive month. Prices fell by 4.9% in July, the sharpest drop since June 2015, and deeper than the 4.5% decline in June. While government bonds are being issued to fund greater consumption within the economy, a more substantial stimulus will be needed to boost housing demand. Without it, China may face a prolonged period of stagnation like Japan's experience in the 1990s.

SINGAPORE MAINTAINS STABLE ECONOMIC OUTLOOK WITH STRONG SERVICES SECTOR AND CONSUMER SPENDING IN 2024

Singapore's economic outlook has been relatively stable, with the Monetary Authority of Singapore (MAS) maintaining its monetary policy rates. The MAS projects GDP growth to reach the higher end of the 2-3% range for the full year. This projection aligns with the Ministry of Trade and Industry's forecast, suggesting a resilient economic performance despite global uncertainties.

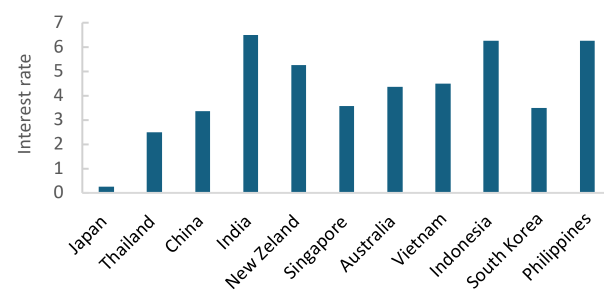
Singapore's economy showed steady growth in the first quarter of 2024, with a year-on-year (y-o-y) increase of 2.7 percent, up from 2.2 percent in the previous quarter. This growth was largely driven by a strong performance in the services sector, particularly in wholesale and retail trade, and the information and communication subsectors. Consumption expenditure also saw a significant boost, partly due to high-profile events like the high-profile artists' concerts, which fueled consumer spending.

Exhibit 7: Real GDP Growth Rate Across Countries in the APAC Region



Source(s): NAR, Vertige Research

Exhibit 8: Interest Rates Set by Central Banks Across the APAC Region



Source(s): FactSet, Vertige Research

CHINA BOOSTS CONSUMER DEMAND WITH RATE CUTS AND 1 TRILLION YUAN STIMULUS

China targeted an ambitious goal of achieving 5% GDP growth in 2024, which they failed to deliver on in the first half of the year. In an attempt to jolt waning consumer demand and kickstart this growth in, the People's Bank announced cuts in medium-term lending rates by 20 basis points to 2.3%. In addition, China's State's Planning agency or National Development and Reform Commission (NDRC), which possesses broad administrative and planning control over its economy, has raised 1 trillion yuan through special debt issuance, of which 15% will subsidise replacements of old appliances, cars, bicycles and other goods.

The policy decisions mark a deviation from the traditionally supply-side paths that have dominated Beijing circles since liberalization. That being said however, significant changes have been made in China's foreign trade structure indicating an industrial upgrade, as seen in its focus on electric vehicles, lithium batteries, and photovoltaic modules. Despite uncertainties, China's competitive advantage is clearly advancing up the industrial chain, with intermediate and capital goods increasingly dominating its exports.

ECONOMIC ACTIVITY: PRODUCTIVITY GROWTH A SHINING LIGHT DESPITE REGIONAL SLOWDOWNS FROM INFLATION AND INSTABILITY

Asia serves as a key driver in global production, and manufacturing in this region has been in full gear. China witnessed a mere increase of 2% in retail sales in June in comparison to a much stronger 3.7% in May due to declining property value, hence encouraging increased saving among households. Real GDP grew by 4.7% in the second quarter, falling from 5.3% as recorded in the first quarter. The Purchasing Managers' Index (PMI) is an economic indicator which highlights trends in the business and manufacturing sector. The PMI also fell to 49.4, recording the third straight month where the index fell below the threshold mark of 50. This is a crucial point to note as readings below 50 are indicative of economic contraction in the country.

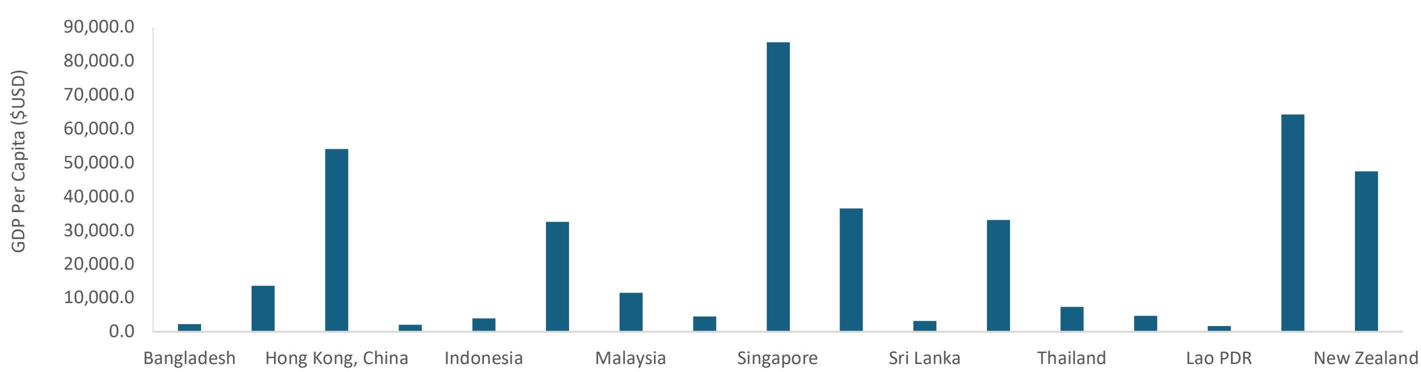
With China's growth slowing, India and Vietnam are likely to drive Asia's economic momentum. This shift could lead to a realignment in regional economic leadership and investment flows.

On the other hand, Japan's 50-point PMI in June remained short-lived as it fell to 49.1 in July for the first time in three months, because of decreased consumer spending and foreign sales. Increased input price inflation was another key driver for the reduced PMI. The Indian PMI concluded at an impressive 58.1 in July 2024, predominantly due to increased job creation and rising output, indicative of an expanding economy. Vietnam also followed on similar lines with an index at 54.7, largely because of exports and efforts made by firms to promote consumer spending. South Korea's factory activity showed an increase but at a slower pace with the PMI at 51.4 points at the end of July.

Increased production and FDI in these countries has also contributed to the overall growth of the Asian economy. Interestingly, a 21% year on year growth has been recorded by Asia Pacific carriers in the airline industry which is complimenting the booming economic growth in this region. The growth estimates for the Asia-Pacific region for 2024 has been increased to 5% from 4.9% owing to flourishing exports.

Trade will continue to be a major determinant factor of the region's growth, and we believe exports will continue to grow in APAC as demand increases and currencies remain weak in the region.

Exhibit 9: GDP Per Capita (USD) Across Asia-Pacific Region

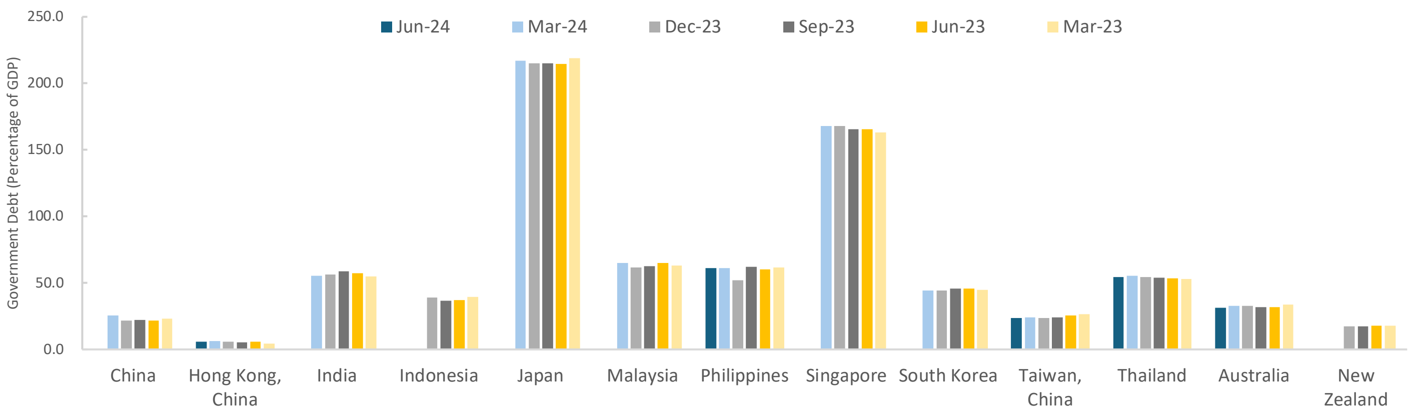


Source(s): FactSet, Vertige Research

FISCAL STANCE: DEBT SOARS IN DEVELOPED ASIA WITH LITTLE EASING IN THE EMERGING ECONOMIES

The developed economies of Japan and Singapore are surprising due to debt levels exceeding 150% of GDP. The developing nations of India, Malaysia, the Philippines show similarly alarming increases in excess expenditure, though at a smaller scale. We expect debt ratios across Asian countries to stabilize with tighter monetary controls and higher interest rates, though there is also a greater need for governments to streamline their expenditures and move away from traditional methods of debt issuance such as the utilization of foreign currency reserves, to free up more funds for greater socio-economic development, trade adaptation and climate security.

Exhibit 10: Japan Continues to Lead Asia Pacific with Highest Government Debt



Source(s): FactSet, Vertige Research

TARIFFS AND TRADE: WEST PUTS UP A WALL ON CHINESE EV EXPORTS WHILST ASIA IS FORCED TO PICK A SIDE

Trade in the region has seen several regressive positions adopted particularly against China. To start, the United States raised USD$18 Billion worth in tariffs on Chinese goods, with the European Union and Canada following suit to protect their fledgling electric vehicle industries, greatly threatened by a global oversupply of Chinese models caused by 'state-directed' subsidies. These decisions were not as surprising as when close trading partner Indonesia also hiked up tariffs on Chinese goods by 200% to protect its startups and domestic enterprises. The protective measures have several implications for the other regions of the world.

American imports of Chinese goods had already been impeded earlier in June, with further tariff hikes only further curbing domestic demand. European imports on the other hand are expected to remain constant, with the Union's demand of Chinese household appliances and consumer goods holding steadfast.

There is no doubt however that the measures will raise tensions between the regions and further disrupt the regional supply chain for trade and information. Crucially, it will also force regional nations to make key decisions on how they could somehow benefit from the situation. Some, such as Thailand and Vietnam, have utilized the economic animosity to generate their own investment, employment, and consumption opportunities by allowing Chinese electronic vehicle producers to set up factories and sell EVs at a discount to local buyers.

Amidst escalating trade tensions, Chinese electric vehicle (EV) imports in the E.U. fell by 46% in July following the imposition of tariffs in June. The market shares of Chinese automakers like BYD and MG dropped by 5% in Germany and 3% in France. Despite this decline, European vehicle manufacturers such as Volkswagen AG and Stellantis are still pursuing production partnerships with Chinese EV producers, navigating a landscape of protective trade measures.

Others, like Kazakhstan, aim to be neutral trade centers, utilizing their geographical centrism to develop a Western corridor that will stand as a trade buffer from Western China to Eastern Europe. Nonetheless with protectionist sentiments and economic hostility rising, countries in the region and beyond must make decisions that not only accomplish their economic interests but also help secure peace, global stability as well as trade.

JAPAN TIGHTENS MONETARY POLICY TO STRENGTHEN YEN AND EASE INFLATION

Earlier in June, Japan had put decades of deflation behind itself as wage and input price levels rose for the first time since 1991. In accordance with this, the Bank of Japan has raised its interest rate for the second time since 2007, moving it from a range of 0-0.1% to 0.25%. The decision marks the country's deviation from a negative interest rate environment for the first time since 2016, which it used then to encourage banks to lend more and generate greater public spending in order to contain the risks of a global economic slowdown. Though the policy aims to ride temporary inflation and bolster the yen's value, which has already been weakened by historically low interest rates, it has also resulted in higher costs for imports such as food and fuel.

Japan's economy grew at an annualized rate of 3.1% in the second quarter, driven by a rebound in private consumption and capital investment. The Bank of Japan's recent interest rate hike aims to control inflation and support the yen, though higher rates may increase borrowing costs for consumers and impact economic activity. While the rise in GDP and consumption signals a recovery, the cost of imports and recent market volatility could affect future economic stability.

Large international corporations have further benefited from a weaker yen, whilst Japanese consumers and smaller domestic businesses have struggled with rising prices. The interest rate hike is expected to support the yen by making Japanese assets more valuable and thereby more attractive for foreign investments, thus appreciating the Yen's value and potentially easing inflationary pressures. However, it may also dampen domestic demand by increasing borrowing costs, such as for mortgages and loans. For investors, this move signals a shift towards potential stability and improving confidence. For consumers, it is one that signals a costlier and debt-averse lending environment. In addition, the Bank of Japan plans to halve its government bond purchases by early 2026, indicating a gradual move away from aggressive government intervention and stimulus towards fiscal balance and market determination. The overall impact on Japan's economy will depend on how well it can balance supporting the yen without stifling growth, while also monitoring the effects of potential further rate increases.

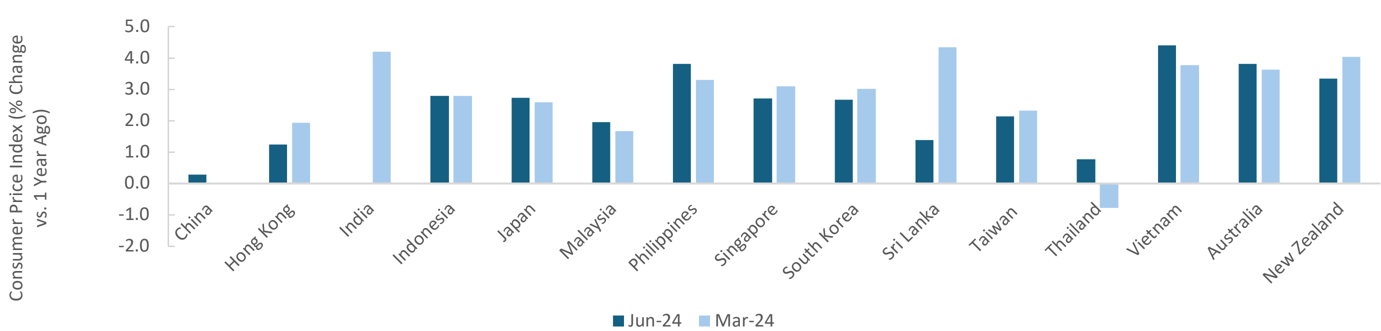
In Australia, a debate unfolds between the Reserve Bank and the government over the state of the economy, with the RBA citing excess demand while the government argues against further rate hikes. Despite the RBA's concerns, current data reveals that inflation and wage growth are subdued, suggesting that the economy is not overheating but rather struggling with slower growth and stagnant real wages.

OCEANIA AND THE PACIFIC GRAPPLES WITH INFLATION AND SHIPPING COSTS AMIDST GLOBAL UNCERTAINTY

Oceania and the Pacific region is chalked with rising uncertainty. The developed economies of Australia and New Zealand have inflation rates well above target. In Australia, 3.8% inflation surpassed the target rate between 2-3% and New Zealand's target inflation of 1-3% has also been slightly overtaken standing at 3.3%. The Houthi attacks on ships passing through the Red Sea have caused a re-routing of ships around Africa, translating into higher shipment costs impacting the Pacific Island economies far more than others, given the fact that they are heavily import-dependent and are poorly integrated into global shipping networks.

Papua New Guinea is set to grow by 3.3% in 2024 and its future in 2025 is looking bright, with an expected growth of 4.6%. Vanuatu's economy is expected to increase by 3.1% in 2024 and 3.6% in 2025. It is anticipated to be dependent on the expansion of tourism and the recovery efforts following the three cyclones that devastated the infrastructure in 2023.

Exhibit 11: Inflation and Growth Continues Across the Asia Pacific Region



Source(s): FactSet, Vertige Research

In Australia, the fight against inflation remains a central focus. Recent data shows an improvement in consumer confidence, with the ANZ-Roy Morgan Consumer Confidence index rising to 87.9 in July from 74.1 in June, although it has not gone above the 100 level showing optimism among consumers, this rise in index is a stepping stone. This increase, driven by positive expectations, partially offsets the declines seen earlier in the year. Despite this, inflation expectations have fallen to 3.7%, the lowest since September 2020. The upcoming release of the June quarter consumer price index (CPI) will be critical in determining whether the Reserve Bank of Australia (RBA) decides to adjust the cash rate, currently set at 4.35%.

New Zealand's economy faces severe challenges, with record high emigration, rising unemployment, and sluggish growth. In response, the Reserve Bank of New Zealand has cut interest rates to 5.25% to stimulate the economy, amid ongoing inflation and a forecast for further economic contraction.

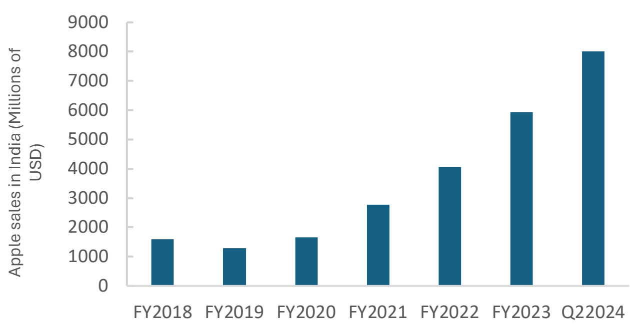
In New Zealand, the economic situation mirrors that of Australia, with high household living costs and persistent inflationary pressures. businesses have also become increasingly pessimistic and wary of profits. It only narrowly escaped from recession. The country's official cash rate (OCR) remains at 5.50%, as authorities continue to grapple with inflation, currently above the target range at 3.3%. The New Zealand government's policies, including potential fiscal measures and restrictions to monetary policy to curb demand, will be crucial in addressing these challenges.

SOUTHEAST ASIA EMERGES AS A NEW MANUFACTURING AND SUPPLY CHAIN POWERHOUSE

Supply chains are undergoing post-pandemic paradigm shifts and because of changing global ties with the most sought-after manufacturing hub: China. Another significant reason for these changes is the need to create more resilient and dynamic supply chains. In response to these changes, multinational companies have implemented the 'China +1' business strategy, wherein they are looking at diversifying their production to other countries in addition to China. India is capitalizing on this strategy and has provided smartphone production linked incentives (PLI) to foreign companies.

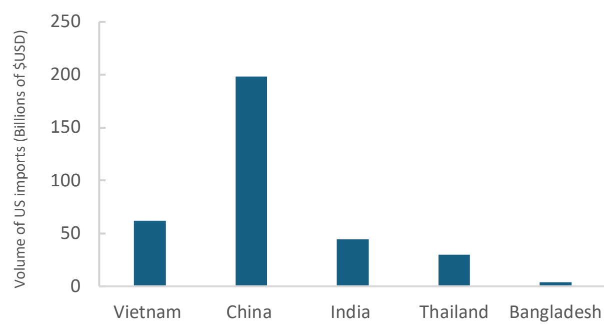
Most recently, Pegatron, responsible for the design and manufacturing of iPhones, is set to open its first Apple manufacturing plant in India. Apple plans on manufacturing 25% of its iPhones in India in the next 3-4 years. Taipei-based Wistron has been in India over the last year producing iPhones. Samsung's four factories in Vietnam have earned a combined profit of $1.2 billion in the first quarter of 2024. Malaysia is also home to Porsche's first assembly plant outside Germany. Bangladesh, Indonesia and Thailand stand as prominent beneficiaries of this strategy and are expected to significantly alter the traditional supply chain.

Exhibit 12: Apple Sales Have Grown Steadily in India Over the Past 5 Years



Source(s): NAR, Vertige Research

Exhibit 13: China Leads U.S. Imports of Trade Goods from Countries in the APAC Region



Source(s): FactSet

AFRICA & MIDDLE EAST COVERAGE

Global Macroeconomic Research

Navigating Economic Storms—Kenya's Fiscal Policy Debate, Ghana's Inflation Battle, Nigeria's Oil Revenue Surge, and Regional Policy Shifts & Trends

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REGIONAL OVERVIEW

Over the past weeks, Kenya has been awaiting the review of the fiscal policy repair plan it has submitted to the IMF. This follows protests on the proposed finance bill that attempted to raise $2.7 billion from tax hikes and introduce levies on vehicles and essential commodities to reduce the nation's debt. Tanzanian corn farmers, producing a staple food in Tanzanian cuisine, will likely benefit from government subsidization of seeds in September as well as government initiatives to buy crops at competitive prices to boost output.

Egypt has introduced a 15% petrol hike to satisfy a reform condition by the IMF to gain around $802 million in loans. Following its visit to the Central African Republic, the IMF maintained an economic growth projection between 1.4% in 2024 and 2.5% in 2025, acknowledging efforts in improving public finance management despite fuel supply difficulties. The highlight of this review focuses on the economic outlook of Ghana, Nigeria, and Zimbabwe amidst inflation, policy, and borrowing-induced challenges.

GHANA: CENTRAL BANK HOLDS INTEREST RATE STEADY AT 29% AMID PERSISTENT INFLATION CHALLENGES

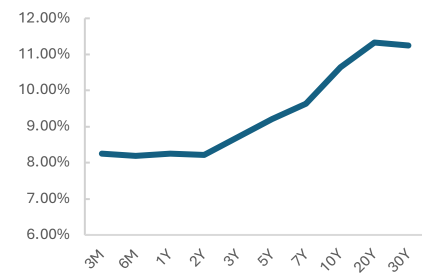
The Ghanaian Central Bank held its policy rate at staggering 29% following the bank's 118th meeting earlier this week. This makes the Ghanaian interest rate the fourth highest in the world behind countries battling severe hyperinflation such as Venezuela, Turkey, and Argentina. This is the third meeting in a row where the West African nation's interest rate has remained stable. The reasoning behind this decision lies in the nation's consumer inflation rate standing at 22.8% YoY as of June. Though YoY inflation in Ghana in June dropped slightly compared to May, where the inflation rate stood at 23.1%, the current inflation rate is still greatly beyond the target rate of 10%.

By keeping the interest rate at 29%, consumers and firms are discouraged from spending, as increased expenditure would likely drive inflation further up. The developing nation's inflation rate has remained above target for 3 years now, and recent inflation is partially credited to a weakening cedi against the dollar. As of August 2, 2024, 1 USD is worth 15.54 Cedi, up from 11 in January.

The frailty of the cedi against the dollar can be attributed to a growing demand for U.S imports leading to an increase in the price of the dollar relative to other currencies. A weakening currency signifies that imports, which Ghana relies heavily on (US$16.4 billion in 2023), are more expensive, possibly contributing to cost-push inflation. The recent weakness of the cedi can also be seen as a result of diminishing cacao revenue, with cacao revenue falling by an immense 50% to $760 million in the first half of the year. This shortfall is attributed to adverse weather, illegal mining, smuggling, and the cocoa swollen shoot virus. As a result, global cocoa prices have surged, with futures surpassing significant thresholds.

Smuggling in particular is strongly driven by the weakening cedi which has caused many farmers to search for better prices in stronger currencies across the border, limiting the supply of Ghanaian cacao. This price increase is impacting chocolate manufacturers and leading to reduced operations in Ghana's cocoa sector. For reference, in 2023, cacao and cacao preparations accounted for 11% of Ghana's exports, representing $1.9 billion. Cacao sales generate significant foreign exchange earnings which allows the nation to store more foreign currency to stabilize its exchange rates. Cacao earnings also contribute to economic development and stability which could make the cedi more attractive to investors and traders. Hence, the decrease in cocoa revenue has made it harder for the nation to defend its currency, possibly contributing to increasing inflation.

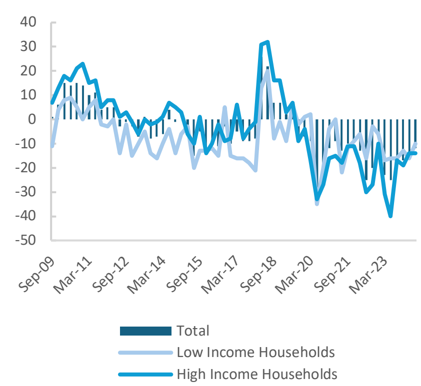
SOUTH AFRICA YIELD CURVE



REGIONAL ECONOMIC SUMMARY

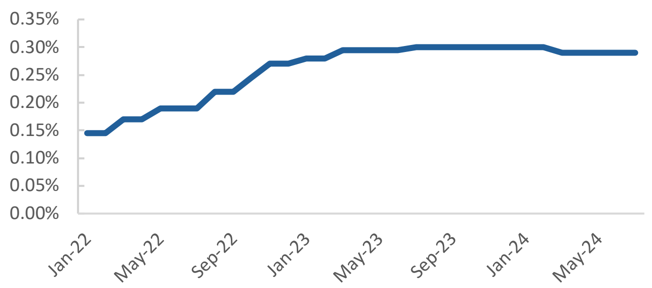
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Egypt	5.0	25.7	91.0
Israel	-1.2	3.2	63.3
Nigeria	2.8	33.4	59.0
Kuwait	-2.7	2.8	0.5
South Africa	0.6	5.1	76.1
Qatar	1.2	0.2	31.5

SOUTH AFRICA CONSUMER CONFIDENCE



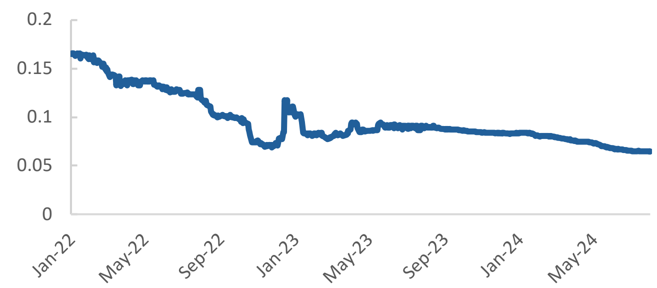
Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

Exhibit 14: Ghana's Policy Rate Surge Amidst Persistent Inflation



Source(s): Bank of Ghana, Vertige Research

Exhibit 15: The Cedi's Steady Decline Against a Strengthening Dollar



Source(s): Vertige Research

The weakness of the cedi and falling of cacao revenues represent further difficulties to the significant economic crisis dating back to 2022 that the Ghanaian government has been attempting to manage. This crisis is believed to have been caused by excess government borrowing following the nation's declining credit score. With the help of a rescue package worth $3 billion from the IMF, Ghana has been attempting to restructure its $30 billion worth of debt through managing inflation and exchange rates. With that said, in the first half of the year, gold exports in Ghana have increased by 46% while crude oil earnings have increased by around 18%.

Ghana's current battle with high inflation and a weakening cedi echoes broader challenges many developing nations strongly reliant on commodity exports face. Though gold and oil earnings provide a reprieve for the West African nation, a lack of diversification in prominent revenue sources in conjunction with the weakening cedi highlight resulting vulnerabilities in the global market.

Ghanaian gold earnings have been on the rise due to global economic uncertainty due to geopolitical tensions and inflationary fears, leading investors to invest in this safe-haven asset. This surge in demand for gold has in turn boosted Ghanaian earnings. As for oil, rising global energy demands on the back end of the pandemic paired with increased global industrial activity may have contributed to increased oil earnings.

The IMF's support and higher earnings from gold and crude oil exports provide hope for economic recovery. However, the nation's recovery will depend on the government's ability to implement sound fiscal policies and the central bank's continued efforts to stabilize the currency. Though the path to managing inflation appears difficult, the Ghanaian government is confident – Finance Minister Mohamed Amin Adam promises that inflation can trend down to 15% by the end of the year.

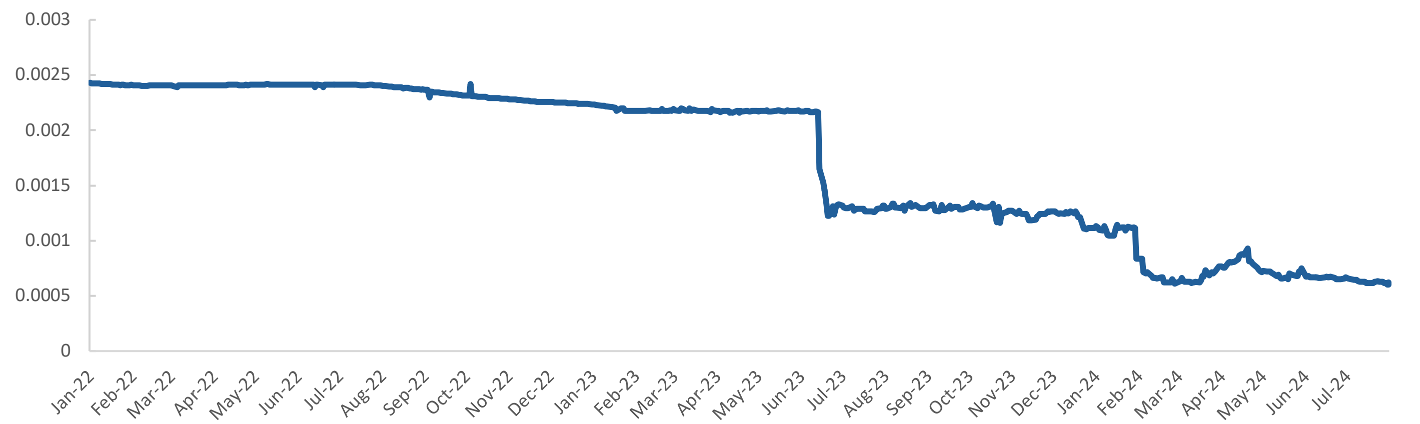
NIGERIA: RISING OIL REVENUES AND FISCAL REFORMS AMID INFLATION CHALLENGES

According to government estimates, Nigerian oil revenue has increased by 30% in the first half of the year compared to 11% in the first half of 2023. Finance Minister Wale Edun believes this rapid growth represents the fruits of governmental restructuring and optimization of finances. President Bola Ahmed Tinubu's administration has been working hard to put in place critical reforms to address its dire economic situation, such as unifying exchange rates to have one market-determined rate.

A unified exchange rate could enhance transparency by providing a clearer assessment of the true value of the naira while preventing arbitrage, simplifying Central Bank decision-making and boosting investor confidence. Nigeria has also been phasing out its longstanding fuel subsidy which has kept fuel prices low artificially; this subsidy cost the nation the equivalent of around US$2.46 billion in 2023. The Nigerian minister emphasized further improvements, such as the recovery of the agriculture industry from Q1 of 2023 to Q1 of 2024 and highlighted how the nation's debt "has fallen in dollar terms from US$108 billion to US$91 billion," credited to improvements in tax revenue collection and expenditure controls.

With that said, debt in naira terms increased by 25% due to the naira's depreciation, though the nation's Debt Management Office attributed the rise in public debt partly to currency depreciation and short-term economic reform consequences.

Exhibit 16: The Naira's Dramatic Decline Following Fiscal Reforms

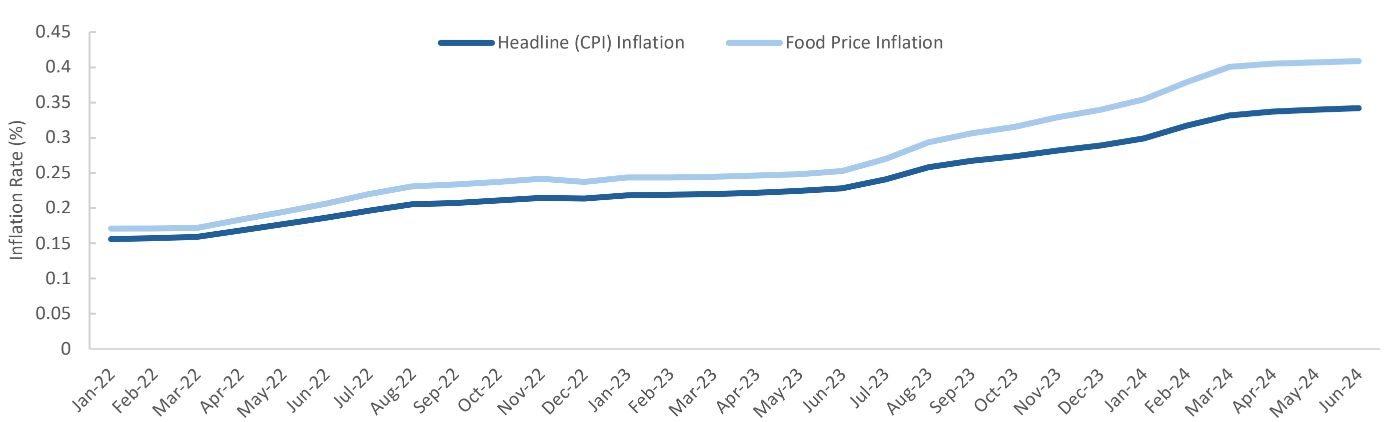


Source(s): Vertige Research

This positive news, paired with the IMF's maintained growth rate of 3.3% for the West African nation paints a hopeful picture amidst a period of great economic hardship. Similarly to the Ghanaian Cedi, the Nigerian naira has also faced a sharp devaluation against the U.S. dollar, caused by policy shifts. These shifts include liberalizing the exchange market (i.e. relying primarily on supply and demand forces instead of pegging the naira to the dollar) and uniting official and unofficial exchange rates. These decisions are believed to have caused the naira's value to decrease greatly against the dollar.

In addition to monetary policy changes, Tinubu's administration also chose to end the fuel subsidy of 15%, which kept oil prices low for citizens in 2023. Furthermore, $19 billion of short-term loans were borrowed by the preceding Buhari administration from the country's central bank, which also is believed to have increased inflation. The African nation has also been facing energy-induced inflationary pressures dating back to the Ukraine crisis. As a result, many Nigerians have struggled to afford their basic needs, with the prices of oil and – notably – food staples soaring. Last month, the inflation rate rose to a 28-year high of 34.2%. The African nation has since been facing much civil unrest. However, President Tinubu has assured that the nation is now "looking at the light at the end of the tunnel." Notably, the Nigerian monthly minimum wage was recently more than doubled from 30,000 to 70,000 NGN ($42,68~) to help mitigate the cost-of-living crisis.

Exhibit 17: Growing Headline Inflation Compared to Soaring Food Price Inflation in Nigeria



Source(s): Trading Economics, Vertige Research

ZIMBABWE: ECONOMIC CHALLENGES AND CURRENCY STABILIZATION AMID SEVERE DROUGHTS

In Zimbabwe, drought concerns have hampered economic estimates. The Southern African nation's growth has been adjusted to 2% in July, down from its forecast of 3.5% in November. Notably, the agriculture sector, which accounted for more than 40% of GDP in 2022, is now expected to contract at 21.2% from 4.9% in November, the previous period of government projections.

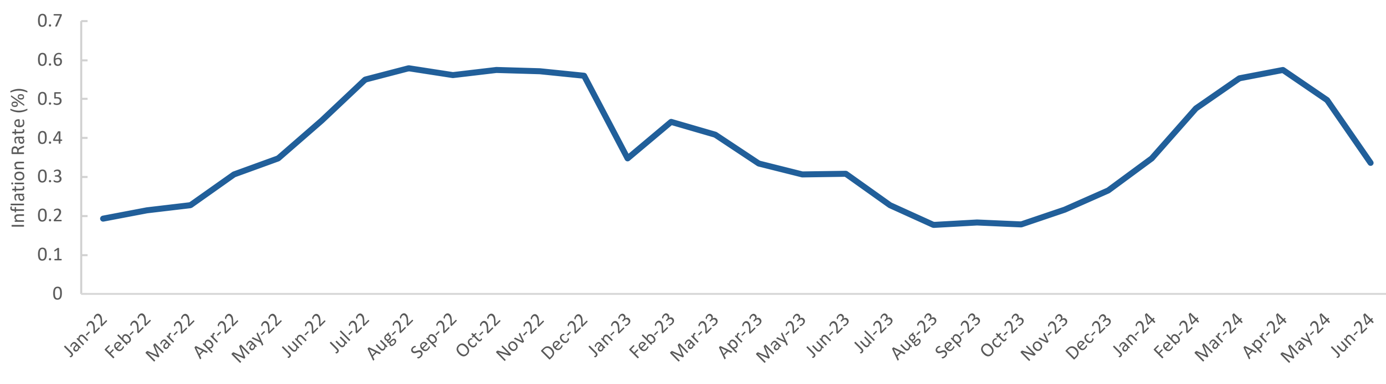
Zimbabwe's recent drought concerns has led to a downward revision of economic growth. Though the newly introduced Zimbabwe Gold (ZiG) currency aims to provide stability and curb hyperinflation, much uncertainty and scrutiny persists. The combination of weather impacts and fiscal reform highlights the complex interplay that can exist between environmental factors and economic stability.

Finance Minister Mthuli Ncube has highlighted that government spending patterns may be reconsidered as the government aims to better account for food and water insecurity. The El-Nino-induced droughts that were declared a national emergency by President Mnangagwa in May have been predicted to impact around 7.6 million people and have been a cause of economic hardship. As a result, Zimbabwe's budget deficit forecast of 1.3% of GDP remains uncertain.

In positive news, Zimbabwe Gold (ZiG), the nation's sixth attempt at a stable currency, has seen a small degree of success. Since the slow adoption of this gold-backed currency in April, prices and the exchange rate have been mostly stable, according to Ncube. The Zimbabwe Gold was created in order to fight hyperinflation and to maintain a stable currency.

This restoration is seen as essential given the nation's notorious struggle with hyperinflation, with inflation rates having exceeded 500% in 2020. This new currency adopted by the Reserve Bank of Zimbabwe has been heavily advertised by government officials. In addition, officials have also been cracking down on street currency dealers and institutions deemed to undermine the currency. Despite this, skepticism on the currency's implementation and viability remains at large

Exhibit 18: Persistently High and Volatile Headline Inflation in Zimbabwe Since January 2022



Source(s): Central Bank of Nigeria, Vertige Research

Economic Divergence—Kuwait's Oil Revenue Deficit, Egypt's IMF Deal Amid Inflation, Gulf States' Stability, and Regional Geopolitical Risk

REGIONAL OVERVIEW

The Middle East's economy has had a mixed outlook. The major oil-exporting countries, such as the UAE and Saudi Arabia, faced softer revenues because of recent OPEC+ cuts. Although remaining fiscally stable, these countries have also been pushing forward with diversification and digital transformation initiatives while keeping their 2030 vision efforts by investing heavily in clean energy, tech, and AI.

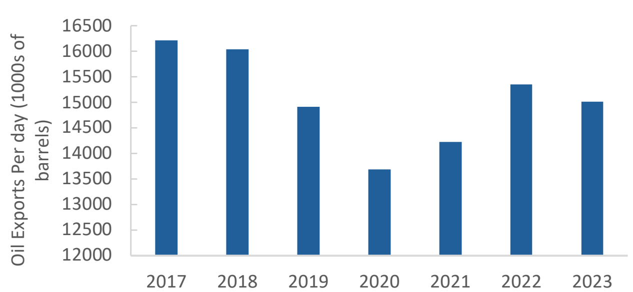
On the other hand, despite easing inflation, Kuwait reported a significant deficit in oil revenue. Regional inflation pressures moderated, and central banks signalled possible rate cuts. However, geopolitical tensions, especially in Gaza and Israel, continued to threaten economic stability across the region.

Similarly, Israel-Palestine tensions and Yemen's humanitarian crisis remain unresolved. Iraq and Lebanon continue to struggle with political instability and economic crises. Iran is seeking diplomatic relief from sanctions amid ongoing economic pressures while Lebanon is trapped in a severe financial crisis with hyperinflation and widespread poverty. Turkey faces high inflation and currency issues, currently over 40%, and a devalued lira.

The government of Turkey has implemented several monetary tightening measures, including raising interest rates to curb inflation. Still, challenges persist domestically as growing political tension as President Erdoğan faces criticism over economic management and human rights issues.

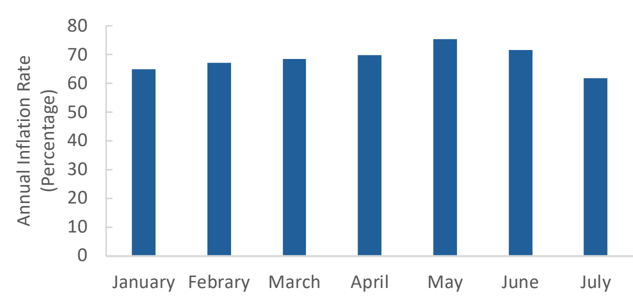
The scale of ongoing conflicts in Gaza and Yemen are disrupting the investment flows and regional supply chains despite heavy investments from the major oil exporting nations in clean energy and tech. Disruptions in oil transportation routes worsen the global supply chain issues, impacting oil prices and potentially derailing the diversification plans of oil-dependent economies in the region.

Exhibit 19: Oil Exports in Middle East at Lower Levels



Source(s): Statista, Vertige Research

Exhibit 20: Turkey Inflation Still High but Showing Positive Signs



Source(s): Trading Economics, Vertige Research

EGYPT: IMF SUPPORT IN THE MIDST OF SLOWING GDP GROWTH AND PERSISTENT INFLATION CHALLENGES

In the first half of 2024, Egypt's non-oil trade deficit fell by 16% to $15.9 billion, driven by a $1.2 billion reduction in imports and a 9.8% increase in exports, which totaled $19.6 billion. Building materials led Egypt's export growth, contributing $4.7 billion, while engineering and electronic goods dominated imports at $10.8 billion. As Egypt's currency stabilizes, economic conditions improve, with the IMF projecting GDP growth of 2.7% in FY 2023-24 and 4.1% in FY 2024-25.

In early 2024, GDP growth fell to 2.2% persistent economic difficulties and the effects of regional hostilities. Although inflation is still high at 27.5%, hopes have been raised that the Central Bank of Egypt may reduce the interest rate by September due to steady decreases in GDP. To spur growth in the private sector, the IMF has applauded Egypt's efforts at fiscal austerity and is urging more privatization and structural changes.

The emphasized efforts in stabilizing inflation and improving foreign exchange circumstances have been underscored by The IMF approving an $820 million disbursement under the Extended Fund Facility (EFF), leaving Egypt's economic landscape characterized by cautious optimism. To secure the new loans, Egypt had to match a reform condition set by the IMF to raise oil prices. On July 25th Egypt reported an up-to-15% price hike for petrol. This price hike could encourage other Middle Eastern countries to match with similar hikes, though Egypt does lose comparative advantage in the oil markets. Moreover, In the private sector of Egypt, to spur growth, the IMF is pushing for more structural reforms to enhance economic resilience. These reforms require balancing short-term economic pain with long-term gains. We predict that although the economy may become slightly unstable over the next few months, the benefits of IMF aid and guidance will aid in long-term economic strength.

KUWAIT: MIXED ECONOMIC OUTLOOK; EASING INFLATION AMIDST DECLINING OIL REVENUE

Kuwait's economy has been facing notable challenges, having recorded a significant financial deficit of KWD 1.6 billion from 2023 to 2024, a stark contrast to the previous year's surplus. This shift is largely attributed to a decline in oil revenues, which fell by KWD 5 billion, showcasing the impact of OPEC production cuts and lower global oil prices. As a country heavily dependent on oil, it will be crucial to track how Kuwait and other oil-producing nations in the Middle East navigate economic diversification efforts in the coming months to help mitigate the oil-induced efforts the Middle Eastern nation is facing.

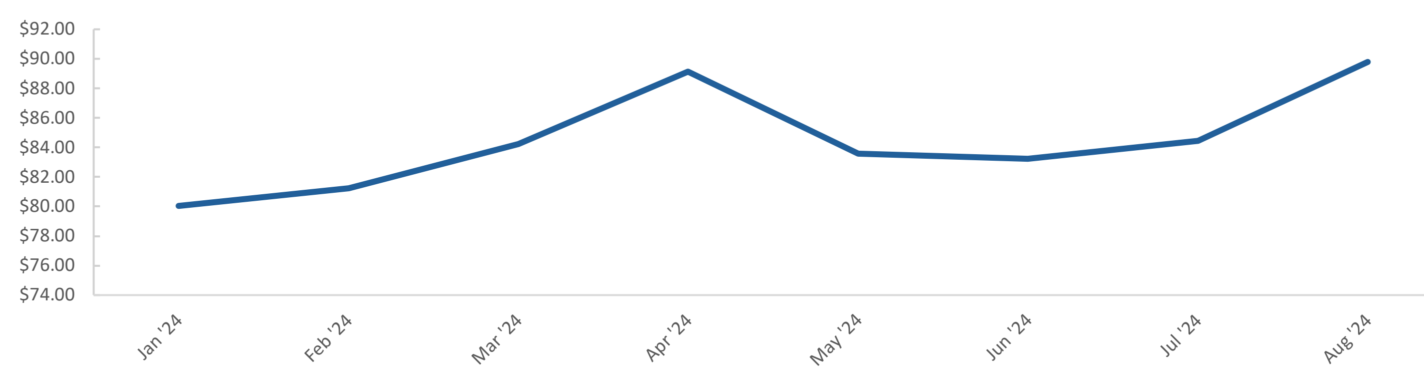
The reliance on oil in Kuwait showcases the significant shift from a financial surplus to deficit. Despite slowing inflation and proactive monetary measures, the nation's ability to stabilize its economy and diversify away from oil dependence will be crucial for long-term sustainability.

At the same time, Kuwait's inflation has slowed to 2.84% in June, driven by cooling food and rent prices. The nation has experienced the fastest employment growth since 2018, while the non-oil sector has shown signs of resilience. Despite the easing inflation, the modest increase in business activity coupled with rising input costs presents a mixed economic picture, once again emphasizing Kuwait's overreliance on oil revenues.

The Central Bank of Kuwait has been proactive in achieving the cooling of inflation, having issued bonds and tawarruq worth $782.8 million with an estimated return of around 4.38%. Tawarruq is an Islamic finance term that refers to a transaction where an individual buys a commodity on credit (usually from a financial institution) and then immediately sells it to a third party for cash at a lower price. The purpose of this transaction is to obtain liquidity or cash without violating Islamic principles, particularly the prohibition of interest.

The increase in bond issuance could serve to aid reduce excess liquidity by decreasing the nation's money supply. The combination of a significant financial deficit, slowing inflation, and proactive monetary policies underscores the current complexity of Kuwait's economic landscape. The country's efforts to diversify its economy, reduce reliance on oil revenues, and maintain financial stability will be critical to its long-term economic health and resilience.

Exhibit 21: OPEC Basket Price on the Rise—Weighted Average of Oil Prices from OPEC Countries



Source(s): OPEC, Vertige Research

LATIN AMERICA COVERAGE

Global Macroeconomic Research

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Navigating Political Crises — Argentina's IMF Deal, Brazil's Budget, Cuba's Economic Reforms, and Venezuela's Election

REGIONAL OVERVIEW

The region has seen strong economic growth along with moderating inflation, prompting many central banks to consider rate cuts. Many central banks also have a positive outlook for the end of the year, continuing into 2025 expecting growth to be maintained as global financial conditions ease. Venezuela's undemocratic election has prompted protest and a bloc of other left wing Latin American governments to put pressure on Maduro. If Maduro stays in power, it is likely that a new wave of Venezuelan refugees will emigrate across South America, prompting social unrest across the region.

ARGENTINA: THE ECONOMY SLOWS AS HOPES FOR AN IMF DEAL RISE

The Argentinean unemployment rate has risen to 7.7% and the poverty rate has risen to 57%, illustrating the flipside of Milei's austerity measures meant to bring inflation down - although Milei attributes this to the economic mismanagement of previous governments. However, inflation is continuing to fall so there is likely to be little change in policy. Additionally, the wage data from May was strong, rising 8.3% from April while inflation only rose 4.2%.

Luis Caputo, the Argentine Minister of the Economy, attended the G20 summit in Rio. While there, Caputo met with the managing director of the IMF Kristalina Georgieva on July 25th and called her the "Best IMF's [sic] MD ever". The next day, when asked whether Argentina would have a new IMF deal this year, President Milei responded "Certainly." Taken together, these comments illustrate a shift in either the Argentine government's position or the IMF's as they had previously disagreed about switching the Argentine Peso to a floating exchange rate.

As of August 2nd, the Argentine Peso trades at a rate of 932.41 Pesos to 1 USD and is set to continue to be devalued at a rate of 2% per month after recent changes by Milei's government. However, at this rate it will take at least 20 months for the official rate to come in line with the current unofficial rate which currently sit around 1400 Pesos per USD.

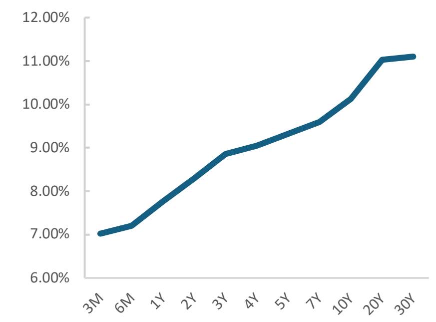
BRAZIL: A GROWING ECONOMY AND A GROWING DEBT

The Brazilian Real has had a tumultuous month, initially rallying after President Lula backed fiscal cuts announced by his finance minister Fernando Haddad, and then tumbling after Lula made comments which called his commitment to these cuts into question.

Brazil's deficit has been expanding under Lula due to his significant expansions of the welfare state. These new spending items include a $50 billion Real increase in healthcare spending, a minimum wage hike which is factored into many benefit calculations, and most significantly a new set of industrial policies on track to cost a cumulative 1.3 trillion Reals through 2026.

These massive spending increases will continue to push the deficit up even as Haddad looks to cut spending and raise taxes where possible. This growing government debt, projected to reach 95% of GDP by 2029 according to the IMF, is scaring investors

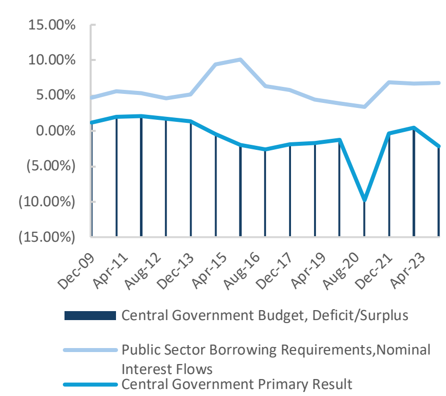
COLOMBIA YIELD CURVE



REGIONAL ECONOMIC SUMMARY

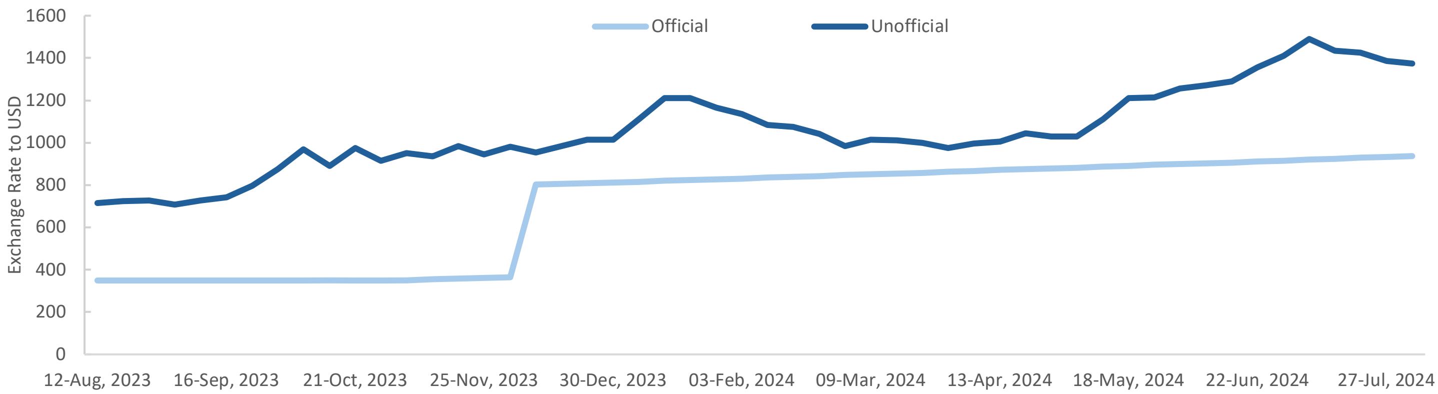
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Argentina	-5.1	266.1	85.3
Brazil	1.7	4.5	76.3
Chile	2.0	4.6	39.2
Colombia	1.8	6.9	51.1
Guatemala	4.1	3.8	11.1
Venezuela	-26.8	43.6	243.2

BRAZIL BUDGET BALANCE



Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

Exhibit 22: Large Margin Between Official and Unofficial Argentine Peso to USD Exchange Rate

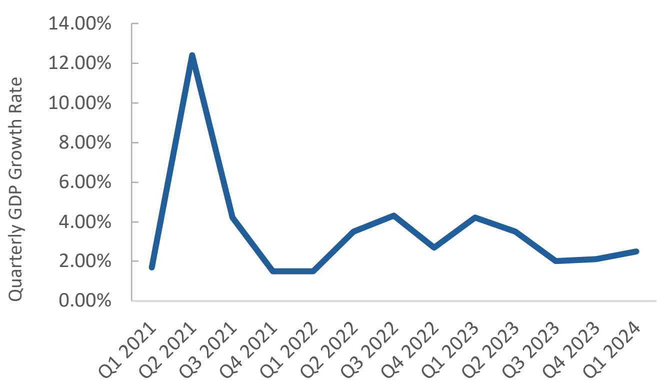


Source(s): Central Bank of Argentina, Investing.com, Vertige Research

Lula has argued that the deficit increase is secondary to issues of growth, stating "What's important is that the economy is growing, employment is growing, wages are growing." There is some truth to this statement as the estimated cash transfer multiplier of a previous welfare expansion in Brazil is 2.2, indicating that for every extra $1 spent, $2.2 of economic output was created. Despite these promising arguments, both the IMF and the World Bank predict slow real GDP growth for 2024, 1.7% and 2.2%, respectively. Worse still, forecasts for 2025 look similar, signalling that the lack of private investment may be hurting growth.

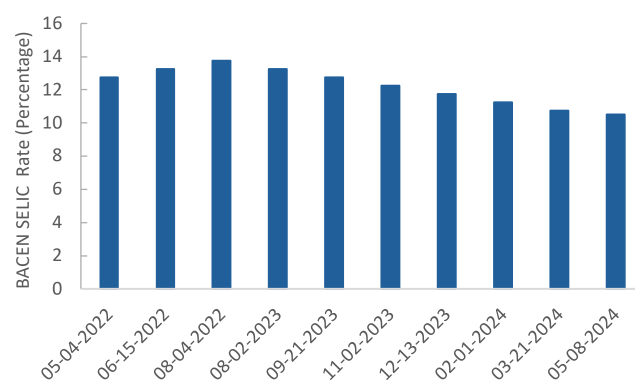
Brazil also hosted a small meeting of G20 finance ministers this week in Rio ahead of the November summit. In their current role as president of the G20, Brazil has pushed for a global 2% billionaire tax. However, this is unlikely to ever be implemented as even the US which was supportive of a 15% global minimum corporate tax has expressed disagreement with this billionaire tax.

Exhibit 23: Brazil Continues Growth into 2024 as Rates Decrease



Source(s): Statista, Vertige Research

Exhibit 24: Brazilian Interbank Rates Remain in Downward Trend



Source(s): Globalrates.com, Vertige Research

CUBA: NEW REFORMS DO LITTLE FOR A FAILING ECONOMY

A recent report by the Christian Center of Reflection and Dialogue details the extent of the recent emigration wave over the last 3 years, putting the country's population at 8.5 million, well below the official 11 million number. After the release of the report the Cuban government stated that the population is under 10 million and is continuing to decrease.

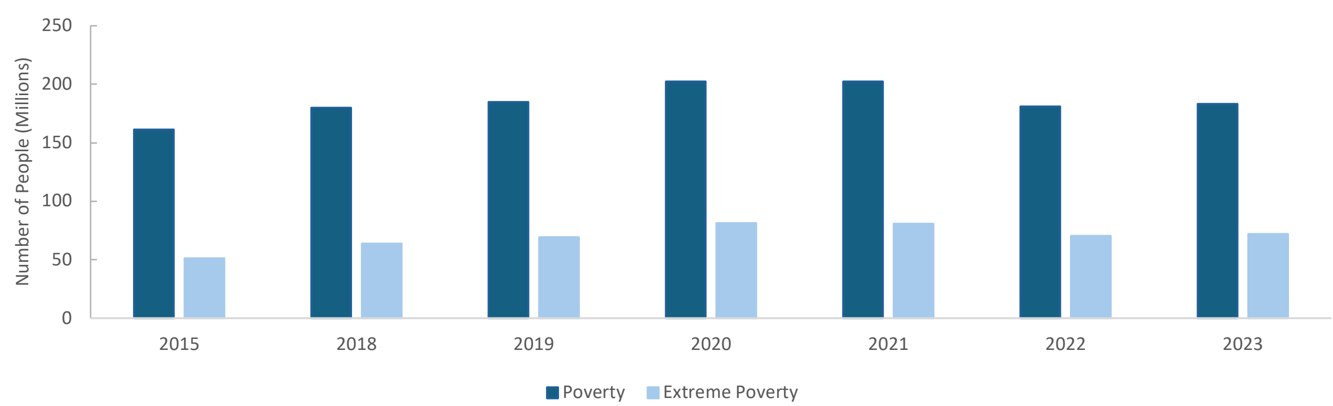
One recent study provides insight into why people are continuing to leave 3 years after the crisis began. It claims that 90% of Cubans are now in poverty and that 70% of Cubans now skip at least one meal due to financial struggles. This combined with the limitations on political freedoms, a failed package of economic reforms, and continuing fallout from the pandemic sparked protests on July 11.

The Cuban minimum wage is less than $80 USD per month. Cuba also has one of the lowest pensions in the Americas at $9.50 USD per month. If Cuba loses access to subsidized oil, the economy could enter further crisis and require both short term and long-term foreign aid.

Since then, the situation has calmed somewhat, but there is little hope that the economy will turn around. If Maduro loses power in Venezuela, Cuba's access to subsidized oil will be cut off. Additionally, Cuba is now requiring any businesses which import to finance the imports with funds from a Cuban bank account. Since the Cuban government does not sell foreign currencies to private businesses this essentially makes imports illegal as Cuban businesses will not be able to pay foreign companies in their respective nation's currency.

There are some measures which may help the economy such as one intended to stabilize industries which have lots of revenue in foreign currencies. Cuba is implementing a partial dollarization, allowing payments to the government to be made in USD and other foreign currencies although it remains whether the Cuban government will accept the market rate for these foreign denominated payments. This is particularly important for industries such as tourism, as this allows them more flexibility in how they make payments to the government.

Exhibit 25: Latin America Continues to Battle High Levels of Poverty



Source(s): Statista, Vertige Research

VENEZUELA: A STOLEN ELECTION RISKS A REGIONAL CRISIS

Amidst reports of government checkpoints being used to intimidate voters and other antidemocratic measures, Maduro has claimed that he has won the July 21 election. However, few outside observers believe the election was legitimate; his opponent Edmundo González has also claimed victory citing the unfree nature of the election as well as an early exit poll which indicated that González was winning 65% of the vote. In the days after the election, protests have erupted calling for democracy and have been met with brutality by Maduro's government.

At least 749 protestors have been arrested and at least 16 have been killed as of August 1st. Further undermining Maduro's claims about the legitimacy of the election are the published numbers, with official counts indicating that the vote shares were likely chosen ahead of the actual tabulation.

On the international stage, Maduro has found few allies. The only South American country to back the validity of the election has been Bolivia, as even other left-wing leaders in the area such as Brazil's Lula and Chile's Boric are calling for more transparency around the vote tallies. The US and the EU have also echoed these calls for transparency, with the US also recognizing González as the winner. However, no additional actions are being considered yet to pressure Maduro beyond those already in place.

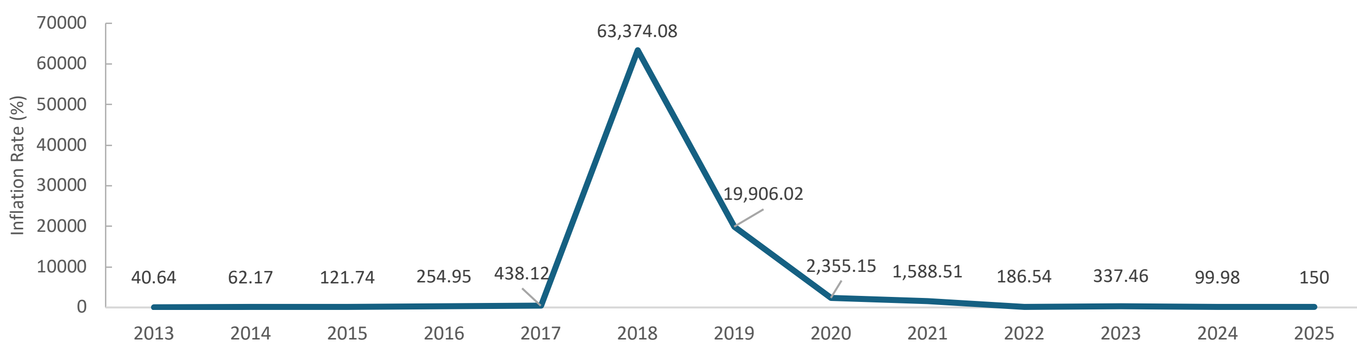
Maduro's tenure in Venezuela has significantly deepened the country's economic crisis, leading to widespread poverty, hyperinflation, and a mass exodus of citizens fleeing deteriorating living conditions. His policies have largely isolated Venezuela from the international community. First steps for a new governing party would be economic stabilization, rebuilding international relationships, and urgent humanitarian relief

In response to the international reaction, Venezuela has cut off diplomatic relationships with seven Latin American countries that have questioned the integrity of the election. Venezuela is currently extremely isolated both economically and politically, so if any solution is reached it will also likely be the start of renewed economic interaction with other nations.

On Thursday, Brazil, Colombia, and Mexico released a joint statement again calling for transparency and the release of actas to the public and on Friday they were joined by Chile. The four countries are now attempting to act as a block to pressure Maduro into a diplomatic solution to the crisis in Venezuela, but it is unclear exactly what measures they are willing to take. On Friday, they announced that their four foreign ministers would travel to Venezuela to attempt to resolve the situation.

If Maduro manages to stay in power, he will continue his disastrous economic policies. Under Maduro corruption has become institutional, rapidly hollowing out the oil industry as expertise has been systematically lost.

Exhibit 26: Venezuela Inflation Rate Since Maduro Took Power in 2013



Source(s): Statista, Vertige Research

to cut spending to avoid egregious amounts of debt as they are already at a 148.2% debt to GDP ratio. In combination with a continued demonization of private businesses, price and currency controls, and rampant inflation, Maduro will continue to stall Venezuelan growth.

If Maduro does lose power, the opposition faction led by González is the most likely successor. They will implement many economic reforms aimed at expanding the role of markets and reducing inflation. Among the proposed reforms are privatization of the oil industry and the pursuit of international trade deals. Additionally, with Maduro gone many other countries will lift their sanctions on Venezuela, further boosting the economy.

Despite the strong domestic and international reaction, it is still unclear whether Maduro will be ousted. He still commands security forces in the country and his most prominent political opponents are now on the run.

The coalition of the 4 major left-wing governments in Latin America is promising, and other South American governments are also putting pressure on Venezuela, but outside of Latin America, little is being done to pressure Maduro, leaving it to the Latin American regional powers to handle. Notably, the US is largely absent – a stark contrast from their role in preventing coups during the 2022 Brazilian election and the 2023 Guatemalan election.

COLOMBIA: TURMOIL NEXT DOOR AND EXPECTATIONS FOR 2025

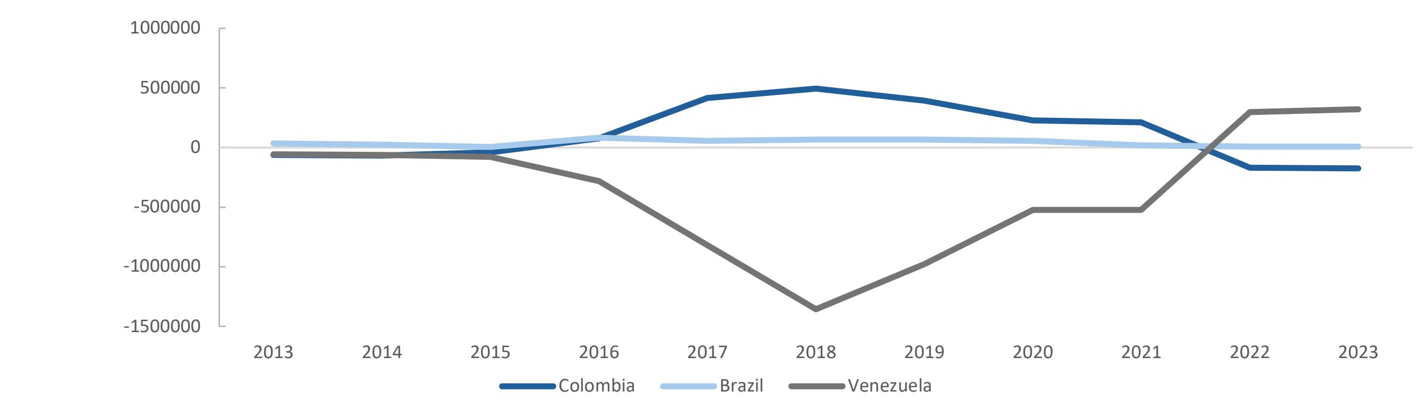
Colombia is extremely invested in maintaining a functioning Venezuelan state, as President Petro is worried that any deterioration of conditions in Venezuela will spill into Colombia as a new wave of refugees is created. Despite recent evidence that Venezuelan migrants have benefited the Colombian economy over the last few years, leaders are still averse to taking in more. This is largely driven by a rise in xenophobia that has occurred since the first major wave of immigration occurred.

Furthermore, even those who are welcoming of immigrants understand that taking in the possibly tens of thousands of refugees will be both a logistical and political hurdle that they would rather avoid. Furthermore, new migrants will strain the social safety net and fuel political uncertainty that could scare markets.

On July 31, the Central Bank of Colombia cut its interest rate by 50 basis points to 10.75% after June inflation headline inflation came in stable at 7.18% while core inflation continued to fall. The Bank expects annual inflation throughout 2024 to now reach 5.7%, but also expects economic activity to grow under the easier monetary policy. The Bank also believes that in 2025 inflation will be more in line with their 3% goal and GDP growth will as they believe the international environment will be more favorable.

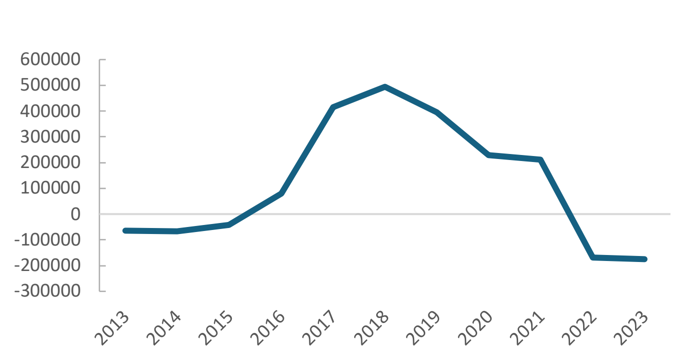
For Colombia, increased exports to Venezuela could bolster industries and create jobs, while Venezuela would gain access to much-needed goods and expertise, aiding in its efforts to stabilize and rebuild its economy. Over the last few years, Colombia has seen an outward net migration, and would desire a more controlled incoming of immigrants than would be expected should the situation in Venezuela deteriorate further.

Exhibit 27: Net Migration in Colombia, Brazil, Venezuela Since Maduro Took Power in 2013



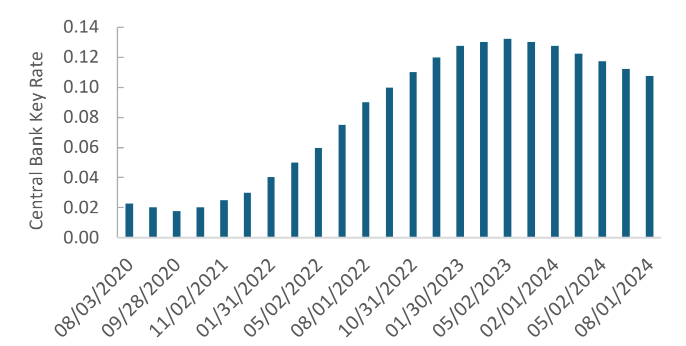
Source(s): World Bank, FactSet

Exhibit 28: Recent Net Negative Migration Out of Colombia



Source(s): World Bank, Vertige Research

Exhibit 29: Colombia Central Bank Key Rates Begin to Fall Again



Source(s): Statista, Vertige Research

EUROZONE COVERAGE

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State of the Union Amid Changing Economic Landscapes

REGIONAL OVERVIEW

Following the European elections in June, the European Parliament gathered for the first plenary session of the new legislative season. The agenda last week was electing some of the top positions for the Parliament and the Commission, discussing the presidential election in the United States, and adopting the EU Nature Restoration Law as part of the EU Green Deal.

After the European Central Bank (ECB) began raising interest rates in an effort to fight the pandemic-led inflation, a historic 25 basis point cut came for the first time in 5 years. Christine Lagarde, president of the European Central Bank, reiterated her determination to keep inflation low and reported that the ECB will keep policy rates sufficiently restrictive. The key rate which had hovered at 4% since September 2023, is now 3.75%. Although European economic growth is currently below its potential The recessionary period that plagued the EU for the past few years is now over. Inflationary pressures also cooled down continent-wide.

The European labor market remains tight, with an EU-wide unemployment rate at a record low of 6%. The European Commission attributes this tightness to increases in both the supply and demand of labor, as well as increased migration into the Eurozone. As a result of this increase, wages also hiked up by 5.8%. The European Commission expects that by 2025, average real wages are set to fully recover to 2021 levels, although effects might be heterogeneous across Member States.

FRANCE: THE OLYMPIC BURDEN

This summer, Paris is hosting the Summer Games for the third time in the city's history. Worldwide, host cities have trusted the budget set aside by the International Olympic Committee (IOC) and the Organising Committee for the Games (OCOG). However, multiple countries have found themselves inching a little too close for comfort towards debt from the expenses. The cost of hosting the Olympic Games has soared over the years, often leading to significant financial strain on host cities.

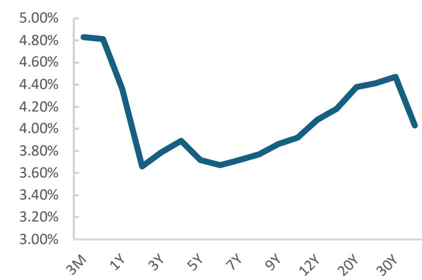
While the International Olympic Committee (IOC) argues that hosting can boost a city's global profile and stimulate economic benefits, many economists view the costs as far outweighing the benefits. Recent games have seen budget overruns and heavy debts, with examples including Tokyo 2020 and the Sochi 2014 Winter Games. Hosting cities face expenses in bidding, infrastructure development, and operational costs, with some facilities becoming costly "white elephants" that burden local budgets long after the games.

For Paris, the Olympics budget, which includes competitions, venues, staff, technology, and transportation, is almost entirely privately funded – along with a significant contribution by the IOC. Considering that the cost of the Paris Olympics represents around 0.28% of the French GDP, some are not concerned with the economic impact of the games. Further, to lower the sting of debt and keep up with sustainability goals, 95% of the facilities used are existing or temporary.

Until the games conclude it is hard to predict the financial outcome for Paris. Back in 2016, the French Center for Sports Law and Economics estimated that the Olympics may generate up to €10.7 billion as well as up to 247,000 jobs. Although variables have changed since 2016, demand push inflation for accommodation and consumer goods points to an increase in tourist tax revenue, nearly 200% more than average.

However, whether this increase in tax revenue is going to impact the government deficit remains a question. France had been experiencing low levels of growth paired with declining inflation rates, experts forecast private consumption will likely be the main driver of growth during the second half of the year. Historically, the Olympics have been a financial challenge for many cities, and time will tell if Paris follows in this trajectory.

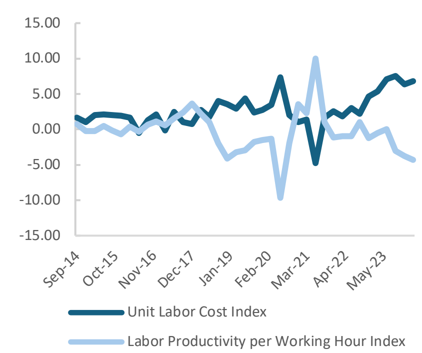
UNITED KINGDOM YIELD CURVE



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
France	1.1	2.3	109.3
Germany	-0.1	2.3	61.7
Italy	0.9	1.3	140.4
Russia	7.5	8.7	15.4
Switzerland	0.8	1.3	26.6
United Kingdom	0.9	2.2	101.1

GERMANY LABOUR COSTS/PRODUCTIVITY



Source(s): FactSet Economics, Vertige Research
Data as of August 15, 2024.

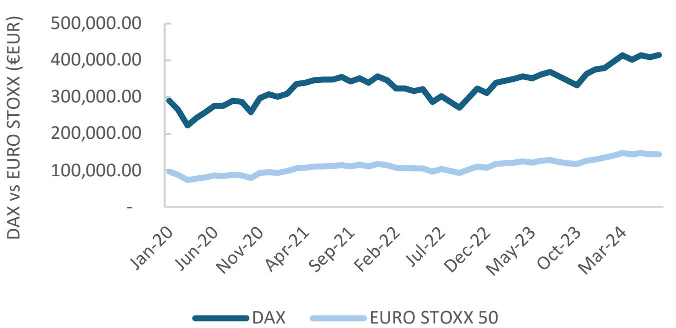
GERMANY: EUROPEAN UNION'S BIGGEST ECONOMY UNDER PRESSURE

Germany's business sentiment declined in July for the second consecutive period. This brings into question the pressures faced by the Eurozone's largest economy. S&P Global revealed that German private sector activity contracted in July, largely due to worsening manufacturing conditions. Many analysts report that Germany's economy fell back into contraction territory, with manufacturing output falling. Similarly, Deutsche Bank reported its first quarterly loss in four years, a net loss of €143 million.

In terms of German financial markets, the DAX index, a composite of 30 major German companies, fell 1.3% this week. Deutsche Bank was included in the set of losing companies. A broader European index, the Euro STOXX 50, fell 1.5%. German bond yields also fell 3 basis points to 2.3%, hitting their lowest since February 2024 pointing to decelerated business growth and a drop in demand across the Eurozone.

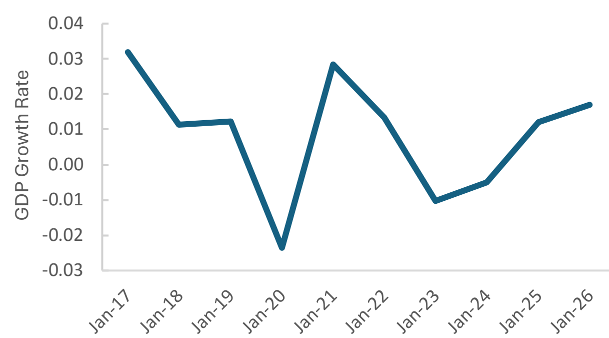
On the other hand, the labor market showcased great resilience as 83.6% of the population aged 20-64 was active in the labor force, a record high. The German labor force's challenge appears to be the aging population as it affects the labor market tightness as well as the vacancy rate.

Exhibit 30: German Stock Market Stable



Source(s): Statista, Vertige Research

Exhibit 31: Finland Climbing Up from Rock Bottom, Again



Source(s): World Bank

FINLAND: NORTHERN ECONOMY EMERGES FROM RECESSION

The Finnish economy's real GDP contracted last year, with interest rates and increases in prices weighing heavily on consumption and investment, as sentiment around the Finnish economy declined. Government consumption worked to support demand, with significant increases in social and healthcare-related spending as well as wages to improve citizen well-being overall. This year, Finland's GDP is expected to remain stagnant, with modest increases next year.

Moreover, there is growing pressure from the EU to decarbonize Baltic-Finnish gas markets. Reshaping the energy landscape in the region signals a significant shift away from sectors that have generated income in the region for decades. There is a dichotomy facing Finland and the EU altogether: facing the crisis of climate change and geopolitical instability due to dependence on Russian gas. The energy crisis of 2021 showed the Baltic region the importance and the urgency to shift away from gas and towards decarbonized alternatives.

A significant aspect of Finland's recovery plan involves decarbonizing its energy markets, responding to EU pressures to shift away from reliance on Russian gas. The 2021 energy crisis underscored the urgency of this transition, prompting Finland to explore sustainable alternatives. With rising oil prices influenced by geopolitical tensions, including OPEC+ production cuts, Finland is committed to enhancing energy security while contributing to broader climate goals. This strategic pivot not only addresses immediate economic challenges but also positions Finland for sustainable growth in the long run.

HUNGARY: ORBAN DOWN, INTEREST RATES UP

Hungary held presidential elections on February following the resignation of the previous president, Katalin Novák, who stepped down after the controversial pardon of a vice principal of a foster home in Bicske, who tried to cover up the principal's crimes when the latter was charged for child molestation. The election resulted in the victory of Tamás Sulyok, an independent candidate supported by the Fidesz-KDNP alliance with 67.67% of the electoral vote.

In the June European Election, Hungarian Prime Minister Viktor Orbán's Fidesz party won 44% of the vote securing 11 seats in the European Parliament. However, this represents a significant loss of support compared to previous elections, with the party dropping 11% since the 2022 general election.

Hungary's Prime Minister, Viktor Orbán, is known for his leadership style that emphasizes "illiberal democracy," combining strongman tactics with nationalist and socially conservative policies. He has been criticized for eroding democratic institutions, suppressing media freedom, and taking a hardline stance against immigration, which has strained Hungary's relations with the European Union. His populist approach and control over the political landscape have made him a dominant figure in Hungarian politics for over a decade.

Hungary's interest rate cut comes after the ECB chose to leave interest rates unchanged last week at its July meeting. Hungary's central bank cut its base rate by 25 basis points to 6.75% on Tuesday, in line with estimates. This was the 10th rate cut since Last October, which was when the country's monetary loosening cycle started.

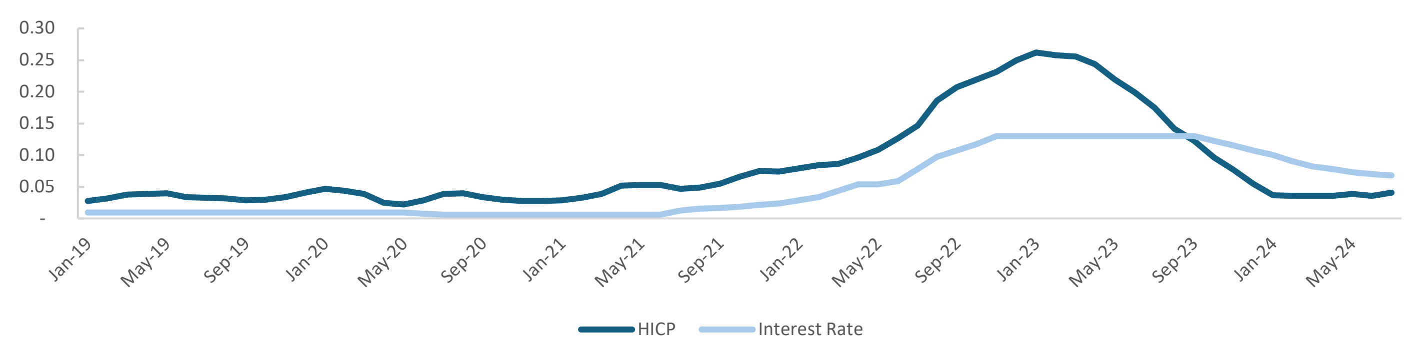
This decision was announced as Hungary's chained inflation rate, which accounts for shifts in consumer spending and the introduction of new products, provides a more accurate measure of inflation compared to traditional fixed-basket indices, fell to 3.7% in June, which was below May's five-month high of 4%, and well under analyst expectations. However, growth may be limited by slow domestic demand and the downward pressure that the Hungarian forint has been experiencing.

Overall, the European Commission expects Hungary's GDP growth to increase from 2.4% this year to 3.5% next year, while inflation is expected to come down from an average of 4.1% this year to 3.7% next year. The GDP growth of Hungary is, therefore, on the higher side compared to other Eurozone states.

The Harmonized Index of Consumer Prices (HICP) is a measure of inflation used by the ECB to assess price stability in the Eurozone. Introduced in 1996, it reflects changes in the prices of a representative basket of goods and services purchased by households. Different from the Consumer Price Index (CPI), the HICP excluding owner-occupied housing costs such as mortgage interest, local property taxes, and insurance premiums.

Each EU country compiles its national HICP using a standardized methodology. These national indices are aggregated by Eurostat to form the Monetary Union Index of Consumer Prices (MUICP), the primary inflation gauge for the Eurozone. This index helps the ECB pursue its inflation target of 2% annually.

Exhibit 32: Prices Have Calmed Down, Politics Not so Much



Source(s): Central Bank of Hungary, Vertige Research

ROMANIA: HIGH GDP GROWTH

Romania's real GDP growth is expected to exceed 3% over the next year, driven by increasing private consumption fueled by higher real disposable incomes. Financial conditions are anticipated to become more favorable, and public investment is likely to remain strong. However, weak external demand from key EU trading partners is projected for 2024. Inflation is expected to continue its gradual decline, and unemployment rates are forecast to remain relatively stable.

Despite these positive indicators, Romania faces some fiscal challenges. The general government deficit is predicted to rise to around 7% of GDP in 2024 and 2025 due to significant growth in expenditure. This increase in the deficit is a result of robust public spending, which, while supporting economic growth, also puts pressure on fiscal balances. Public spending in Romania increased due to a significant rise in capital expenditure, which reached nearly 0.7% of GDP.

Personnel spending surged by nearly 20% and costs for goods and services rose by 25.5%. Additionally, deferred spending from 2023, including military and infrastructure projects, contributed to the overall increase. Consequently, the debt-to-GDP ratio is projected to reach 54% by 2025, reflecting the higher levels of government borrowing.

This year and next, employment growth is expected to become positive, with the unemployment rate anticipated to slightly decrease to approximately 5.5%. Nominal wages in the private sector are projected to slow down, assuming there are no significant new increases in the minimum wage. In contrast, wages in the public sector are expected to rise.

Romania's hot economy is attracting foreign workers. Despite a growing economy and rising GDP per capita, the population has declined from 23.2 million in 1990 to 19 million today. The government has increased non-EU work permit quotas, but bureaucratic challenges and better opportunities abroad complicate recruitment. While some Romanians emigrate for higher wages, others are returning, leading to Romania shifting from being a country of emigrants to attracting immigration.

BULGARIA: POLITICAL GRIDLOCK REMAINS WITH 6th SNAP ELECTION

Bulgarians went to the polls for the sixth time in three years for the parliamentary election on June 9th which also coincided with the European elections. The voter turnout was at an all-time low, at 33%. The center-right coalition of The Citizens for European Development of Bulgaria and the Union of Democratic Forces (GERB-SDS) enjoyed a victory by securing 24% of the votes The election was set to take place due to the failed negotiations for the coalition terms between GERB and the centrist We Continue the Change and Democratic Bulgaria (PP-DB) alliance.

The context behind the June election dates back to April 2021 and has persisted through multiple elections. Initially triggered by corruption scandals under Prime Minister Boyko Borisov, the crisis led to repeated elections in April and July 2021, November 2021, October 2022, and April 2023, with no party securing a stable majority.

This instability since 2021 and recent uncertainty have translated into a decline in consumer confidence. Bulgaria experienced its tenth consecutive quarter of GDP slowdown, driven by a decrease in private investment and by the unwinding of the inventory buildup of the pandemic.

Bulgaria remains the poorest member state of the EU. The IMF points to fiscal reforms as a step towards adopting the Euro in 2025. The fiscal deficit and inflation prove to be the most important challenges for Bulgaria in the Maastricht Criteria, which notes the economic indicators, that European Union (EU) member states must fulfill to enter the Eurozone and must continue to respect, as real wage growth was near 5% and above labor productivity growth.

Bulgaria's path to further economic EU integration depends on the stability of the government and anti-corruption efforts. The next few months are critical to not slowing the reform momentum and jeopardize fiscal goals set by the IMF.

Bulgaria is currently in the process of preparing to adopt the euro, having met nearly all convergence criteria outlined by the European Commission. The country's national legislation is deemed compatible with EU laws, which positions it favorably for eurozone entry. Despite some economic vulnerabilities, public support for adopting the euro remains strong, with 71% of Bulgarians believing it will happen within five years. The euro convergence criteria include price stability, sound public finances, exchange rate stability, and long-term interest rates. Bulgaria fulfills all but one, sound public finances.

GLOBAL FACTORS TO WATCH

Global Macroeconomic Research

LOOKING FORWARD

As we move into September, global attention will be focused on several events and developments that could significantly influence the macroeconomic landscape.

Key political milestones include elections in Rwanda, Austria, Sri Lanka, and Tunisia, alongside the first U.S. presidential and debates – should they even happen, which is uncertain – between Harris and Trump, which will set the tone for the presidential election in November.

The UN Summit of the Future in New York will also be a critical forum for addressing pressing global challenges. Economic factors to monitor include the Argentine monetary crisis – with attention on whether Javier Milei's ongoing experiment can yield lasting results Argentina's situation could become a template for other emerging markets grappling with debt and inflation, influencing investor sentiment and capital flows into these regions. However, will the economy stabilize in time to address current humanitarian risks and poverty. The ongoing energy crisis in South Africa has potential implications for the broader African continent. If the crisis deepens, it could trigger widespread economic fallout, leading to increased borrowing costs, reduced investor confidence, and slower growth across the entire region.

Central bank decisions will be crucial, particularly those from the Federal Reserve and the Bank of Canada, where continued divergence could signal broader economic shifts. Decisions by the European Central Bank and the Bank of Japan will also be crucial as they continue to battle inflationary pressures.

Protests in Venezuela, Bangladesh, the United Kingdom, and high political tensions related to the Israel-Hamas conflict, will add layers of complexity to an already volatile global and economic environment. These developments will require careful monitoring due to their implications for economic performance and global stability. If situations worsen in these countries, action could be required from neighboring countries, creating economic effects throughout the entire region. In Latin America, protest response and Maduro's undemocratic election could be the catalyst for a new refugee crisis that could strain neighboring economies. Increasing tensions between Israel and Hamas could drag the Middle East into further conflict and economic instability.

As we navigate through these turbulent times, it will be essential to remain vigilant and adaptable. The convergence of political, economic, and social factors will likely create an unpredictable environment. Our focus in the coming months will be on providing timely insights and strategic guidance to help our readers stay informed, anticipate and respond to the shifting global landscape.

We remain committed to delivering the most relevant and actionable analysis to help you stay ahead of these developments.

Political tension can create uncertainty in the economy, as businesses, investors, and consumers hesitate to make decisions due to the unpredictability of government actions, trade relations, or regulatory changes. When conflict or tension is sustained over long periods, economic growth stifles and investments are shifted towards more stable economies. Even indirectly, it is crucial to take account of political headlines in our analysis of how the economic landscape will evolve.

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By considering these general risk factors, investors can better understand the uncertainties and potential challenges that may impact the macroeconomic environment and the analyses and projections in Vertige Investment Group's research.