

GLOBAL MACROECONOMIC UPDATE

Macroeconomic Themes & Analysis

Escalating Conflict and Predatory Deals Threaten Economic Stability

OUTLOOK

As the third quarter draws to a close, regional coverage intersects as war escalates in Eastern Europe and the Middle East, further exacerbating global supply chain disruptions and raising uncertainty in energy markets. China continues to intensify its influence throughout Africa with investment and project agreements, possibly reshaping trade dynamics and competition for resources. Economies will continue to face volatility as international conflict fuels economic instability and increases government debt through growing borrowing costs and military expenditures.

After the announcement of the highly anticipated Federal Reserve rate cut decision, we expect central banks to adjust to effects in capital flows, currency valuations, and inflationary pressures. Finally, countries like the UK, Bangladesh and India continue to adapt after recent elections, while the US economy awaits and fluctuates as polls swing between two candidates with notably different economic policies.

KEY POINTS

Job Reports Signal Further Struggles in North America:

The U.S. is showing signs of economic recovery but faces inflationary pressure, rising unemployment, and uncertainty due to upcoming elections. Canada's recovery is mixed, with growth being supported by government spending despite a decline in GDP per capita and increasing unemployment. Mexico is grappling with weak investment and manufacturing activity, though it has avoided an immediate recession.

Australia Sees Lowest Growth in 32 Years:

Australia faces its worst economic slump in decades, facing minimal annual growth and a GDP per capita that continues to fall. In Asia, Vietnam is experiencing strong FDI-driven growth but faces concerns over its reliance on manufacturing. India's economy is expanding with strong domestic demand and rising exports, while Indonesia's consumption-based model struggles. The big players suffer as China's economic slowdown, driven by a weak real estate market, has led to targeted stimulus measures, and Japan begins to move toward normalizing monetary policy, focusing on stabilizing the yen.

China Extends its Reach Throughout Africa:

China is deepening its economic relationships with African nations through significant investments in infrastructure and trade, though it has not offered the debt relief many countries sought, as the region struggles with health and economic crises. Nations like Nigeria and Kenya are benefiting from these ties, while concerns about exploitative practices persist. Egypt faces severe energy shortages driven by rising demand and declining gas production, reflecting broader challenges in North Africa. Meanwhile, South Africa begins to see economic stabilization.

Geopolitical Tension Worsens Economic Situation in Middle East:

In Iran, ties with Hamas and Russia create cause for concern as further escalation in the respective conflicts could lead to increased sanctions, hiked energy prices and worsening economic crises. On the other side of the region, Saudi Arabia reveals its hopeful plans for several megaprojects.

European Economies Continue on Diverging Paths

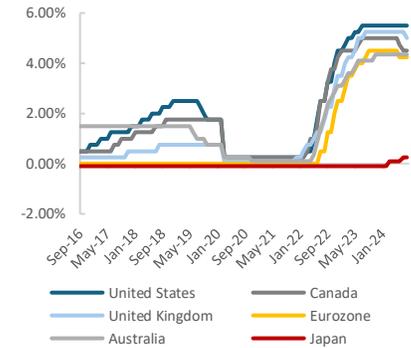
In the UK, the Labour Party faces the dual task of addressing high youth unemployment and managing inflation while promoting progressive reforms. Italy, despite receiving significant EU funds, continues to struggle with stagnant growth and rising public debt. Meanwhile, Turkey grapples with persistent inflation and a weak lira, as its government pursues austerity and high interest rates to stabilize the economy.

SEPTEMBER 21, 2024 | 6:00 AM EST

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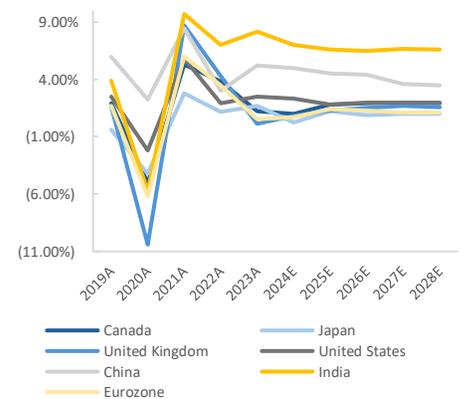
MAJOR CENTRAL BANK POLICY RATES



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov Debt % of GDP
China	4.7	0.6	25.7
Eurozone	0.6	2.2	86.9
Japan	-0.9	3.1	215.8
United States	3.1	2.6	123.1
United Kingdom	0.9	2.2	104.5
India	6.7	2.1	55.6

REAL GDP GROWTH



Source(s): FactSet Economics, Vertige Research
 Data as of September 18, 2024.

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NORTH AMERICA COVERAGE

Global Macroeconomic Research

Slow and Steady Wins the Race of Economic Stability

REGIONAL OVERVIEW

The United States, Canada and Mexico are currently at varying stages in their post-pandemic economic policy responses. The United States shows stronger signs of recovery, despite previously lagging other advanced economies. The Federal Reserve faces challenges in managing monetary policy as it balances inflationary pressures with a weakening labor market. Rising unemployment rates indicate a potential labor market breakdown, giving the Fed the evidence they needed to decide on a 50bp rate cut. This marks the end of the Fed’s rate hike cycle, in which they had raised rates 11 times in a row since March 17 of 2022. Although this rate cut was highly anticipated, the decision to opt for a more dramatic 50bp cut could signal warning signs for the state of the US economy. Furthermore, uncertainty looms over the U.S. markets and economy with the upcoming elections, where both candidates have defined their economic policy positions.

In contrast, Canada is experiencing significant uncertainty regarding its recovery path. While overall GDP growth continues, GDP per capita has been declining. Increased government spending and business investment have supported GDP growth, but household spending has decreased, particularly in non-essential areas. Despite recent interest rate cuts, high mortgage costs remain a concern, disproportionately impacting low-income households. The labor force survey suggests that the elevated unemployment rate could be a cause for concern.

Meanwhile, Mexico faces the most pronounced economic challenges among the three countries, with declining investment and weakened manufacturing activity. The depreciation of the peso adds further complications, creating a cautious economic outlook. Despite sluggish economic activity, Mexico is not currently at high risk of a recession. All three countries have staggered interest rate cuts, reflecting the effects of controlled monetary policy across the region and the dynamics of their economic relationships.

UNITED STATES OF AMERICA: DOES BAD JOB REPORT WARRANT 50BP CUT?

According to the US Bureau of Economic Analysis’ report on August 30, the personal consumption expenditure (PCE) index rose by 0.2% for July, aligning with forecasted inflation figures. The core PCE index also increased by 0.2%, while the core PCE index excluding housing rose by only 0.1%. This suggests that housing prices are less elastic, contributing to inflation levels remaining higher than desired. Personal income rose by 0.1 percentage points more than expected, while consumer spending increased by a predicted 0.5%, indicating consistent spending patterns despite slight fluctuations in personal income. This is contributing to persistent inflation, maintaining higher levels due to higher demand or prices. It could also suggest that due to increased prices, personal savings are declining, with overall personal spending outpacing the increase in personal income. This can be supported by the decline observed in the US personal savings rate from 3.5% in April to 2.9% as of July 2024.

However, the Chief Economist at RSM interprets these data points as signs of economic recovery and stabilization, which could lead to rapid job creation as the Federal Reserve reduces interest rates. With a series of negative job reports, the Fed has taken a more aggressive approach this week with a 50bp rate cut, with the aim of stabilizing the labor market and curbing early signs of recession. For months, markets had speculated over a possible 25 bp rate cut, but the Fed’s decision signals a larger concern over economic weakness than previously thought. Markets will likely interpret the decision as an expectation of a sharper slowdown or higher recession risks, but markets had begun to price in a higher 50bp rate cut over the last few weeks, so it is unlikely to rattle investor confidence in the short term. This will likely initiate a series of rate cuts that will continue through the end of 2025. This alignment in monetary policy between the U.S. and Canada is likely to alleviate some of the downward pressure on the Canadian dollar. The sharp rate cut will likely weaken the US dollar as lower rates reduce the attractiveness of dollar-denominated assets. This could benefit emerging markets across the globe as capital inflows increase.

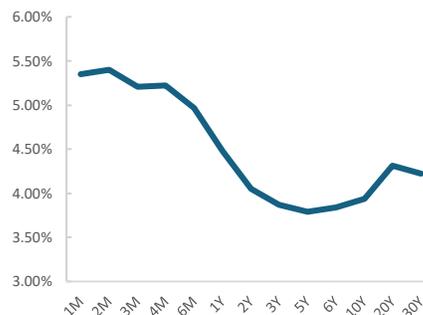
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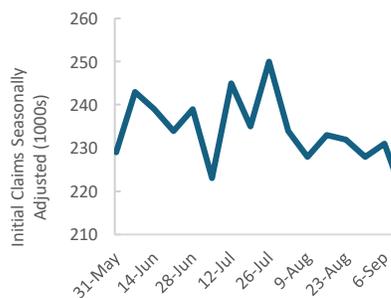
UNITED STATES YIELD CURVE



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Canada	0.9	2.0	68.8
El Salvador	4.3	1.2	62.4
Guatemala	4.1	3.1	11.1
Jamaica	2.0	6.5	69.5
Mexico	1.0	5.0	50.2
United States	3.1	2.6	123.1

U.S. UNEMPLOYMENT INSURANCE CLAIMS



Source(s): FactSet Economics, Vertige Research
Data as of September 18, 2024.

When discussing interest rate cuts, it is essential to consider the most significant factor influencing a potentially faster and more substantial reduction: the employment situation. The U.S. Bureau of Labor Statistics' August 2024 report highlights ongoing labor market weaknesses. The unemployment rate remained stable at 4.2%, but an additional 5.6 million individuals were looking for work yet were not counted in the labor force. These individuals were excluded from the unemployment figures because they were either not actively seeking work or unavailable to take a job at the time of the survey. This suggests that actual unemployment may be higher than reported. Total nonfarm payrolls rose by 142,000, primarily in construction and healthcare. However, payroll revisions revealed decreases of 61,000 for June and 25,000 for July, leaving employment figures 86,000 below expectations over the two-month period. This points to the need for economic stimulus, particularly in sectors like manufacturing and retail, to boost activity and address employment shortfalls.

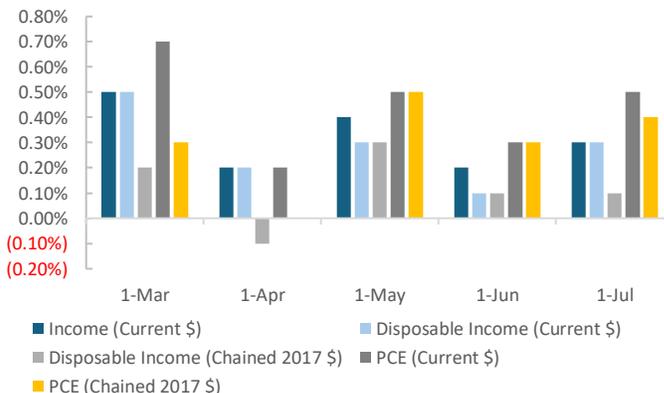
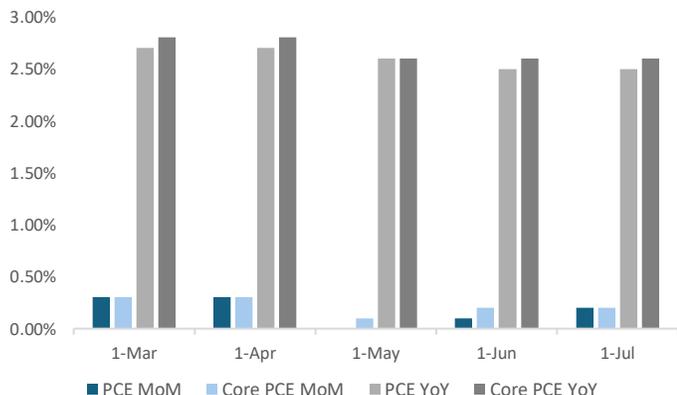
Increased consumer spending offsetting personal savings may be a sign of consumption smoothing to balance the increased savings during the pandemic. This can indicate persistent consumer spending, barring any large shocks, for the future.

Goldman analysts predict that potential corporate tax hikes, as proposed in Kamala's economic plan, could result in a 5% hit to the estimated earnings of the S&P 500 companies.

According to the Penn Wharton Budget Model, former President Donald Trump's economic policies are projected to increase the federal deficit by USD 5.8 trillion, while Vice President Kamala Harris's economic plan is expected to add USD 1.2 trillion through increased corporate taxes. Trump's policies include extending corporate tax breaks and eliminating social security benefits, partially offset by higher tariffs—10% on all imports and 60% on Chinese imports—which could generate USD 2.5 trillion. Harris's proposal involves expanding child and earned income tax credits and introducing a USD 25,000 subsidy for first-time homebuyers. She also aims to continue President Joe Biden's policies to raise revenue by increasing the tax rate for billion-dollar companies from 15% to 21% to enhance Medicare and social security benefits. Both candidates, however, would need Congressional approval for these policies.

Exhibit 1: PCE Indices Showing Signs of Reduced Inflation

Exhibit 2: U.S. Suffering from Dwindling Income Growth



Source(s): US Bureau of Economic Analysis, Vertige Research

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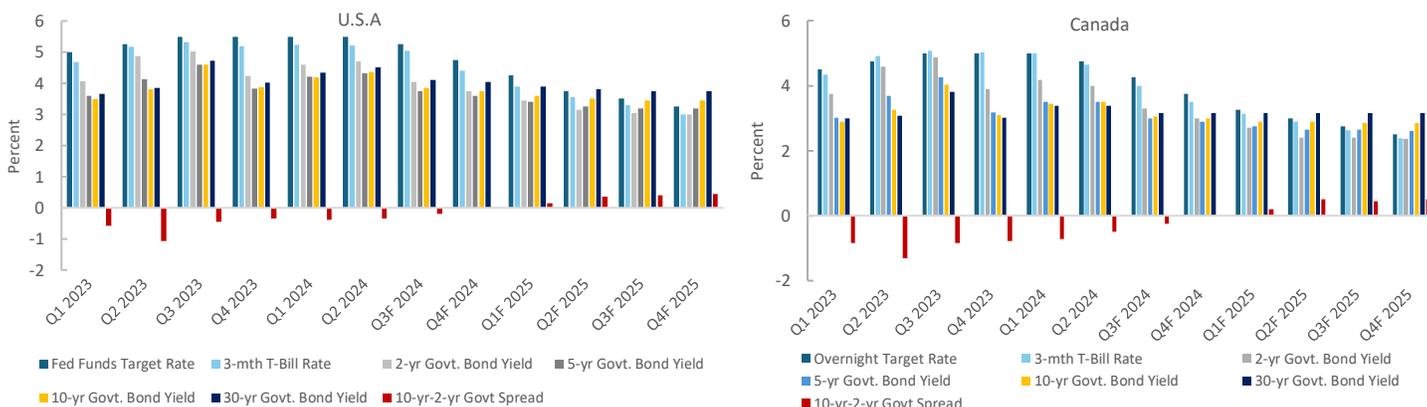
Christian Mueller-Glissmann, Managing Director of Asset Allocation at Goldman Sachs, has warned that the rapid recovery of the market following the August downturn is concerning, as risky assets have rebounded quickly while safe assets like bonds have yet to be sold off. His analysis suggests that a balanced portfolio has performed better than a 60/40 portfolio in volatile markets, but relying on bonds may not always mitigate risk as effectively as it did during the August downturn. Instead, he recommends creating alternative diversification strategies for investment portfolios.

CANADA: HIGHEST STUDENT UNEMPLOYMENT IN OVER A DECADE

According to Statistics Canada's second-quarter report, GDP per capita fell by 0.1%, marking the fifth consecutive quarterly decline, even as overall GDP rose by 0.5%. Government expenditures increased by 1.5%, business investment grew by 6.5%, and employee compensation rose by 1.6%. Much of the increase in government spending is attributed to higher employee compensation, particularly in the healthcare and education sectors. Business investment has been a key driver of GDP growth, supported by newly issued corporate bonds. Household spending fell by 0.7 percentage points from the first to the second quarter, largely due to reduced expenditures on non-essential items such as vehicles, while spending on necessities like housing, food, and electricity continued to rise. As population growth outpaces expenditure increases, per capita spending shows an overall decline.

According to Statistics Canada, both demand-pull and cost-push shocks have contributed to persistent inflation, import prices being a major contributor especially with the steady appreciation of the US dollar.

Exhibit 3: US and Canada Outlook for Interest Rates Show Parallel Trends and Smooth Recovery Over the Next Year

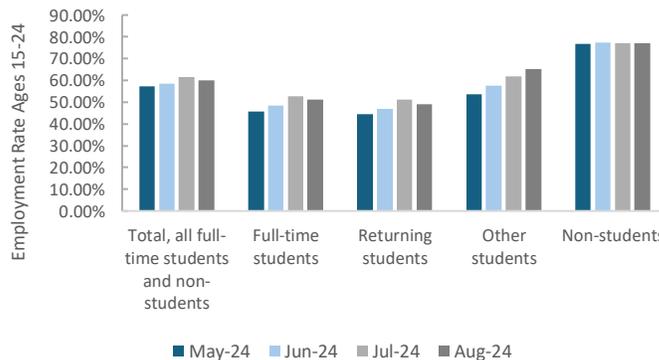
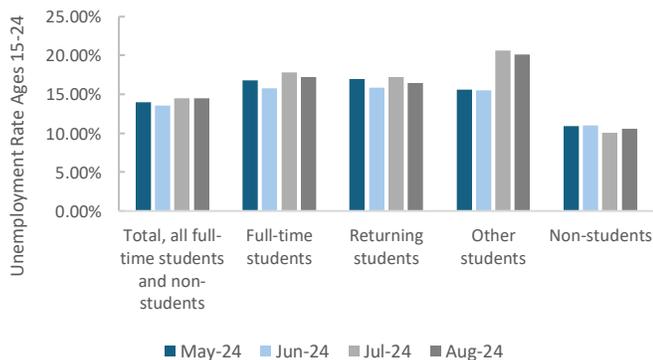


Source(s): US Bureau of Economic Analysis, Vertige Research

The Statistics Canada report also indicates that, despite two rate cuts, mortgage borrowers still face high costs. This suggests that the benefits of investments spurred by rate cuts are disproportionately accruing to high-income households, while the associated interest costs are impacting low-income households more severely. As of September 4th, the Bank of Canada reduced the target for the overnight rate to 4.25% and the bank rate to 4.5%. Inflation slowed to 2.5% in July, as expected, prompting the Bank of Canada to cut interest rates by another 25 basis points. The Bank assesses that, despite downward pressure on prices, inflation remains sluggish due to persistently high costs in the housing and service sectors. They plan to reassess the overnight rate on October 23rd. In their press release, the Bank of Canada acknowledged slowed economic activity in June and July but did not address the decline in GDP per capita.

Exhibit 4: Heightened Unemployment for Students over Summer Months Compared to Non-Students

Exhibit 5: Decreased Employment for Students over the Same Time Period



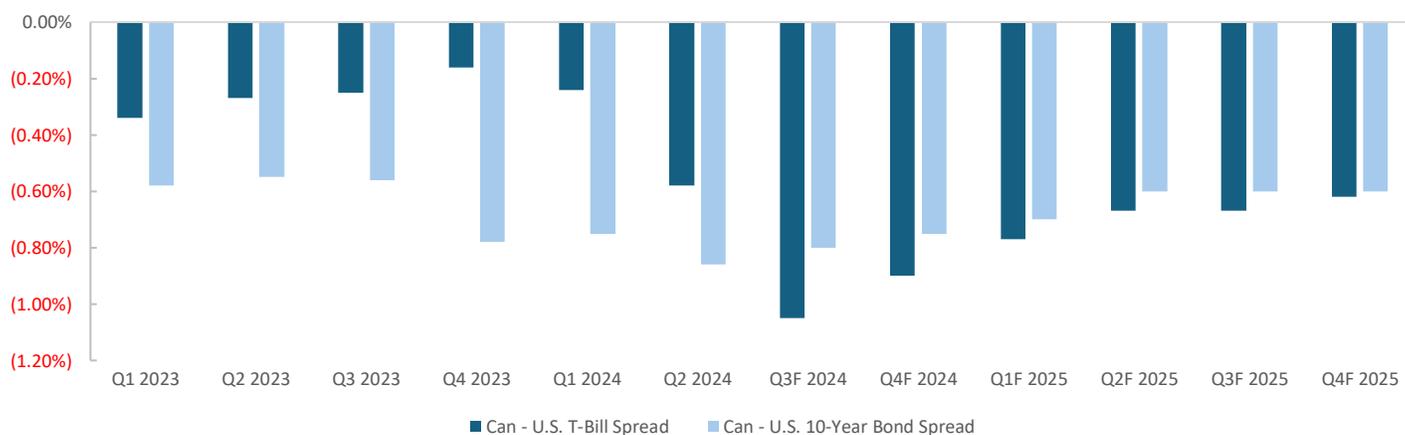
Source(s): Statistics Canada, Vertige Research

Source(s): Statistics Canada, Vertige Research

In August 2024, unemployment rose by 0.2 percentage points to 6.6%, disproportionately affecting youth, despite the addition of only part-time positions. The student unemployment rate has increased to 16.7%, the highest in a decade. The increasing unemployment rate despite the addition of only part-time positions signals the risk of underemployment for new entrants, like students, to the labor market. This delayed career development raises potential concern for the quality of future labor force output and the distribution for future job sectors. Wage growth has slowed to 5% in August, declining by 0.2 percentage points each month since June. Wage growth remains uneven across Canada's population groups: recent immigrants (in Canada for less than 5 years) experienced a 1.3% decrease in average hourly wages year-over-year, while established immigrants (in Canada for more than 5 years) saw a 6.3% increase, and Canadian-born citizens experienced a 6% increase. These demographic disparities have widened wage gaps among social groups. This data suggests that recent immigrants have been disproportionately affected by economic slowdowns due to barriers in place hindering their integration into higher-paying sectors despite, more often than not, being qualified.

Continued underemployment and wage disparity could lead to lower growth in labor productivity and increased socioeconomic disparities, further reducing overall economic growth without targeted policy interventions.

Exhibit 6: US and Canada Treasury Bill Spread with Future Outlook; Canada's 10-Year Bond Yield 86 Basis Points lower than the US



Source(s): TD Economics, Vertige Research

Despite job additions, the labor market remains stagnant, suggesting that recent interest rate cuts may be insufficient or that a more aggressive approach might be needed to stimulate the market. Overall, this environment indicates that new job entrants, such as students and recent immigrants, will face greater challenges in achieving economic stability.

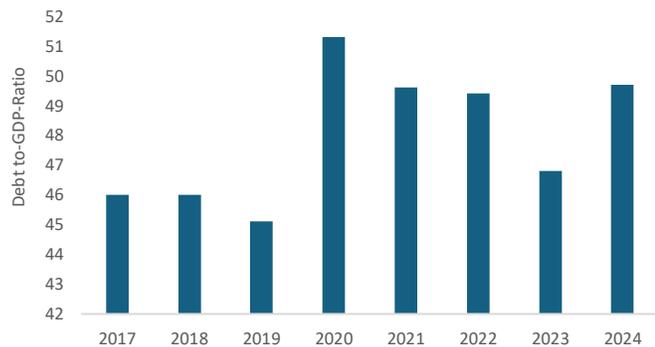
MEXICO: UNCERTAINTIES CONTINUE TO RISE AMID ECONOMIC SLOWDOWN AND POLITICAL INSTABILITY

Apart from an improvement in Mexico's Business Confidence Index for the third consecutive month, rising from 53 to 53.2, the Mexican economy is beginning to show signs of deceleration. Gross fixed investment (GFI) has declined for the first time since February 2021, with spending on machinery and equipment falling by 2.2%. According to Bloomberg, GFI decreased by 1.3% year-over-year in June, down from a previous gain of 6%, and dropped 1% month-over-month in June compared to a prior increase of 0.7%. This decline suggests that investment may have become more costly for businesses, possibly due to high interest rates, or that business confidence has weakened. Lower investment could lead to reduced demand, potentially triggering a negative feedback loop of further decreased investment. The August Manufacturing PMI also indicates a slowdown in manufacturing activity, dropping to 48.50 from 49.60 in July. The Mexican government may increase their infrastructure investment to address the declining investment and slowed manufacturing. The Bank of Mexico is expected to cut interest rates by at least 50 basis points for the remainder of 2024 to encourage investment and spending. The

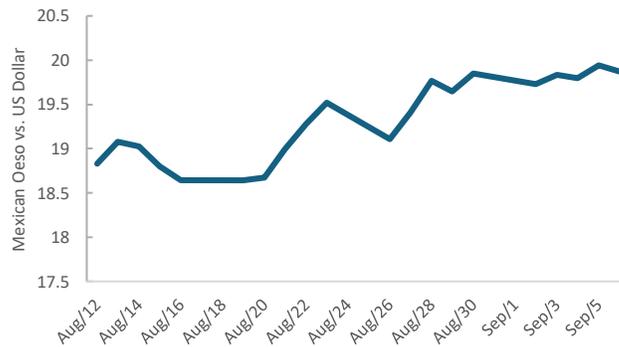
Rate cuts might give a temporary boost to investment, but if inflation remains high and manufacturing low, the positive effects may continue to be limited. Without more forceful fiscal measures or structural reforms, it is likely Mexico will face stagnation perhaps extending into 2025.

Mexico recorded a government budget deficit of MXN 830K million in July 2024 for the third consecutive month, increasing its debt-to-GDP ratio—a measure of debt default risk. While a ratio above 77% is considered high risk, Mexico’s current ratio stands at a moderate 49.7%, not yet raising concerns. However, if deficits persist, tighter fiscal policies, such as reduced public spending, may be implemented. After five months of accelerating, inflation is expected to have eased in August to 5.08% from July’s 5.57%, according to Reuters analysts, though it remains above the Bank of Mexico’s 3% target.

Exhibit 7: Mexican Debt-To-GDP Ratio Bounces Back Above 2022 Levels **Exhibit 8: Peso continues to lose strength against U.S. Dollar**



Source(s): Trading Economics, Vertige Research



Source(s): Wall Street Journal, Vertige Research

Mexico’s labor market also shows signs of strain, with the unemployment rate rising to 2.9% in July, the highest in six months, though this is in line with expectations and represents only a 0.1 percentage point increase from June’s 2.8%. Despite the increase, the unemployment rate remains historically low and does not yet indicate a recession. Mexico may choose to implement tax incentives on goods to help boost consumer spending, softening the potential impact of increased unemployment. Anticipated interest rate cuts could provide a boost to the economy, potentially lowering the unemployment rate back to previous levels. Timing will also be important with their decision—if inflation remains high, they may take a more cautious approach and cut rates less aggressively, delaying the potential positive impact on unemployment.

Meanwhile, the Mexican peso has reached a new year-to-date low against the U.S. dollar due to speculation about potential constitutional reforms under discussion in Mexico’s Congress. The anticipated reduction in foreign investment from these reforms has weakened demand for the peso, leading to its depreciation. Continued depreciation is expected if these policies are implemented. As the cost of goods and services rised due to depreciation, Mexico will likely face increased inflation from a rise in imported goods as people will look to avoid using the depreciating peso. The surge in imports will slow domestic consumer demand that could burden businesses within Mexico, dampening their economy.

Overall, political instability and economic slowdown have created uncertainties regarding Mexico’s economic outlook in the coming months. Declining investment, rising unemployment, and the depreciation of the peso suggest that Mexico will be focusing on maintaining stability for the coming months. They will likely target their fiscal policy towards improving investor confidence in the short-term to counteract any slowdown caused by their political complications. While interest rate cuts could also help stimulate growth, they may also drive inflation higher, indicating that Mexico will need to carefully navigate their policies to ensure a successful recovery.

Continued depreciation of the Peso would be likely to result in higher import prices and inflation. In response, domestic demand may decline throughout Mexico, further squeezing local businesses and creating pressure on the government for more intervention.

ASIA-PACIFIC COVERAGE

Global Macroeconomic Research

Crisis and Resurgence — Vietnam’s Investment Gambles, Australia’s Economic Meltdown, and Japan’s Policy Reckoning

REGIONAL OVERVIEW

The Asia Pacific region is navigating a complex economic landscape marked by diverse growth trajectories and evolving challenges. Vietnam's robust FDI-driven expansion places it among the region's top performers, though over-reliance on manufacturing raises concerns about long-term sustainability.

India's outlook remains optimistic, with GDP growth hitting 8.15% in fiscal 2023-24, driven by strong domestic demand and rising exports in sectors like pharmaceuticals and electronics, while government policies aim to bridge the urban-rural consumption gap. In contrast, Indonesia is grappling with a shrinking middle class and rising inequality, threatening its consumption-driven growth model.

Bangladesh, recovering from political turmoil, faces the twin challenges of inflation and youth unemployment, while China's sluggish real estate market and declining PMI signal a slowdown that policymakers are addressing through targeted stimulus measures.

Meanwhile, Australia faces its worst economic slump in decades, with slow productivity growth and declining per capita output, while New Zealand contends with budget deficits and high emigration. Japan's economic rebound has prompted a shift towards more normalized monetary policy, aimed at stabilizing the yen and controlling inflation.

Across the region, resilient supply chains remain a key focus, with ports playing an increasingly vital role in supporting decarbonization and the global energy transition, even as infrastructure challenges and external shocks continue to pose risks.

VIETNAM TRENDS THE FINE LINE OF ECONOMIC INVESTMENT AND EXPLOITATION

Vietnam’s economic rise continues to seem inexorable. The World Bank revised its growth forecasts for the nation to 6.1% in 2024 and 6.5% in the succeeding 2 years, a slight markup from 6.0% and 6.2%, respectively, as showcased in our previous edition. To add, foreign direct investment (FDI) into the country has risen by 38.6% year-to-year, totaling more than US\$4 billion and placing Vietnam in the company of the ‘Asian Tigers’ of Singapore, Taiwan, Hong Kong, and South Korea.

However, in its remarkable developments, there lies relative industrial and geopolitical tension that threatens Vietnam’s progress. While plentiful, most of Vietnam’s FDI (71%) has been directed towards its manufacturing and processing sector. In contrast, only 16% has been towards its burgeoning real estate market, and a meager 3% for education. The overwhelming investment into this area may serve as a tool of diplomatic and political manipulation, particularly at the hands of foreign powers. For instance, many Chinese firms producing semiconductors and in particular solar energy have shifted production towards Vietnam for its cheaper labor costs and to avoid heightened American tariffs under a ‘Made in Vietnam’ banner. This has prompted the U.S.A. to warn Vietnam that it will impose sanctions if it is found to be helping China violate its tariff laws.

Though enormous amounts of foreign capital and technology in its manufacturing sectors might fuel growth, Hanoi must avoid a deindustrialization trap, whereby its production-oriented sectors collapse before it even finishes its economic industrialization.

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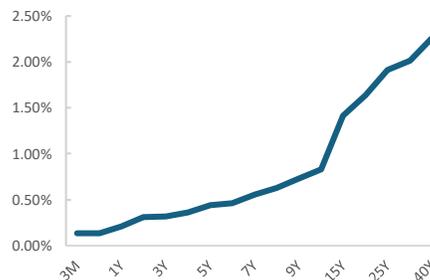
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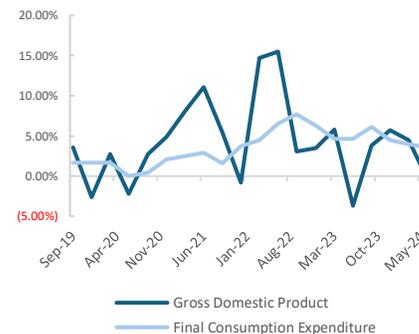
JAPAN YIELD CURVE



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Singapore	3.0	2.4	169.0
Thailand	2.3	0.4	56.0

AUSTRALIA GDP QoQ % CHANGE



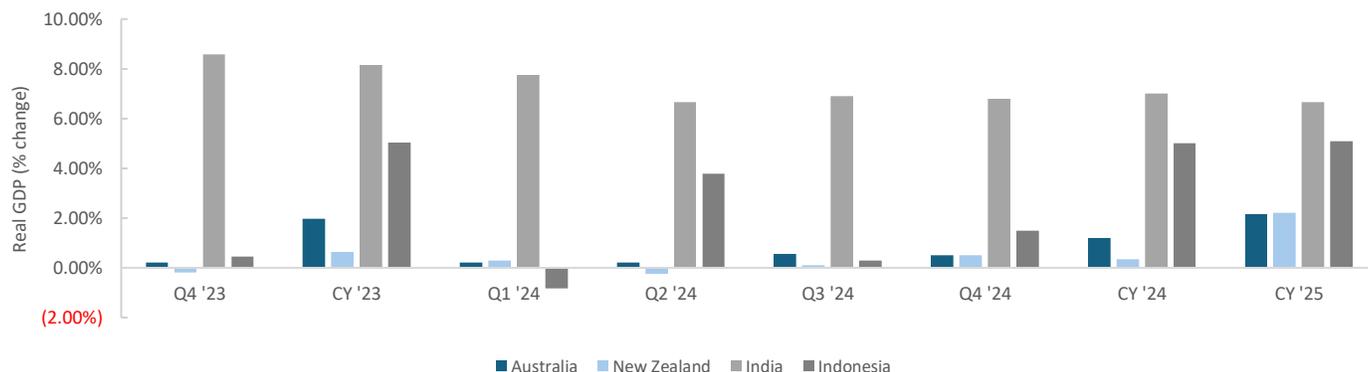
Source(s): FactSet Economics, Vertige Research
Data as of September 18, 2024.

INDIA SLIPS IN QUARTER GROWTH AMIDST SPECULATION OF GLOBAL RATE CUTS

It has been somewhat of a tepid month for India as economic growth slowed to a 15-month low of 6.7%, especially when compared to 7.8% in the same period last year. The slowdown was expected to occur prior to the start of FY25 following a heavier-than-expected monsoon in the country that dampened agricultural output and rural spending, as well as the after-effects of an election boom in May. Further dampening growth was the Reserve Bank of India (RBI), which decided to keep the repo rate unchanged at 6.5% from February 2023, which only contributed to the deceleration.

We predict that India and the global economy will gain from a U.S. soft landing after the Fed rate cut, leading to a dollar decline, increased emerging-market fund inflows, and a boost in equity and risk asset markets. However, a hard landing may force similar rate cuts by the RBI to mitigate the slowdown at the cost of high food inflation, a more competitive rupee and a Goldilocks equity market. Additionally, Vertige forecasts that the economic downturn in Washington may entangle New Delhi’s policy decisions, where the push for controlled GDP growth is faced with tight monetary policy, fiscal restraint and nudges to rein in bank credit. It is here where India will have to make tough decisions to prevent a widening of the gap between the real and asset economies, all within a global slowdown.

Exhibit 9: India and Indonesia Stand Resolute in Regional Economic Growth



Source(s): FactSet, Vertige Research

BANGLADESH REELS FROM THE AFTERSHOCKS OF REVOLUTION

It is no surprise that Bangladesh is in the economic doldrums following the nationwide revolution it faced this month. Since our last edition, which covered the large-scale student demonstrations and the ousting of Prime Minister Sheikh Hasina, the country’s condition has somewhat improved. Now under an interim government led by Yunus Mohamed, a Nobel Laureate in Economics for his contributions to microcredit and microfinance, Bangladesh has a steady hand to chart a new economic path out of the carnage of rebellion.

The path ahead, however, will be long and uncertain. The new administration in Dhaka will have to put economic growth back on track, with Moody’s projecting the Bangladeshi economy to grow below its historical annual average of 6%. Inflation continues to soar near 12%, and foreign reserves crucial to repaying debt are at a third of their value a year ago.

Crucially, 40% of Bangladeshi citizens aged 15 to 24 are considered either illiterate, unemployed, or untrainable, almost double the global average. This student crisis is what toppled Bangladesh’s previous government, and it will be vital for new leaders to combat the growing number of unemployed and unskilled young workers to not only restart growth in the economy but further prevent an even greater plunge into complete social anarchy.

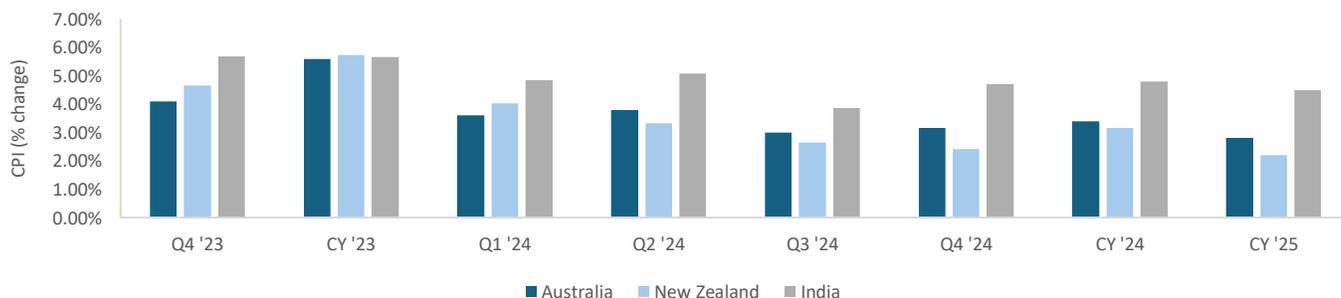
INDONESIA GRAPPLES WITH AN UNSEEN ECONOMIC KILLER

Indonesia is on a growing list of nations that face a common problem in the developing world: a disproportionate labor force. The Indonesian Economic Outlook reported in 2024 that the middle class of the country did not grow but contracted over the past 6 years. The percentage of middle-income workers in the Indonesian economy fell from 23% pre-pandemic to 17%. Furthermore, income survey data this year has shown that the Indonesian middle class is being driven out to more vulnerable categories rather than having upward mobility. This is a particularly concerning feature for many emerging economies whose economic growth, like Indonesia’s, has been driven primarily by middle- to upper-class consumption. Jakarta reported that consumption alone contributed over 80% to GDP growth and nearly 51% to tax revenue.

Indonesia's shrinking middle class threatens its consumption-driven growth; while rising debt and a falling tax base add to economic challenges. Sustainable development will require addressing income inequality and enhancing education, not just relying on population growth.

With its strongest demographic proponent now in decline, the nation’s steamrolling economic growth is now in danger of stagnating. At the same time, government debt skyrocketed to 154% of GDP in 2024, and a falling tax base makes repayment even more daunting. It serves a crucial lesson that economic growth cannot be fueled by demographic conditions alone. Socio-economic developments, particularly around education and reducing income inequality, will also contribute to holistic development. We believe that action will be taken in the near future regarding this with the introduction of free meal programs worth \$28 billion and the building of millions of homes, but President Prabowo must also handle a country whose debt levels have at nearly 60% of GDP this year, accumulating from both households and government project expenditure. Until that is stabilized, it will be difficult for Indonesia to transform its population-powered, consumption-driven economy to an equitable one as well.

Exhibit 10: Indian Inflation Remains Steady as Australia And New Zealand Suffer Slumps



Source(s): NAR, Vertige Research

CHINA'S ECONOMIC TRANSITION AMID CHALLENGES IN GROWTH AND REAL ESTATE

China witnessed a slight decrease in its already below 50-point PMI, moving from 49.4 to 49.1 in August. The world’s second largest economy lost momentum, which prompted policymakers to deviate from investing money in infrastructure projects and instead focus on targeting fresh stimulus at households. The country’s local government has slowed down on their debt issuance plans due to increased scrutiny on wasteful infrastructure expenditure. Although the government has given local governments the green signal to issue more special bonds, they have struggled to come up with methods wherein the funds could be utilized. The benefits of using these funds in purchasing empty apartment complexes to create affordable housing, thereby inserting cash into the derailing property sector.

Stagnant household consumption and a growing real estate crisis have endangered China’s ambitious goal of achieving 5% GDP growth in 2024. The real estate market has been continuously dragging down the Chinese economy due to its slump in prices of new homes. Surprisingly, as of July, China possessed 382 million square meters of unsold new houses, which is almost the size of Detroit.

The People’s Bank of China (PBOC), along with the government, has carefully taken measures to provide markets with a more prominent role in resource allocation. They have also taken steps to ensure a more market-driven interest rate curve and ensure that credit demand is more receptive to monetary policy changes.

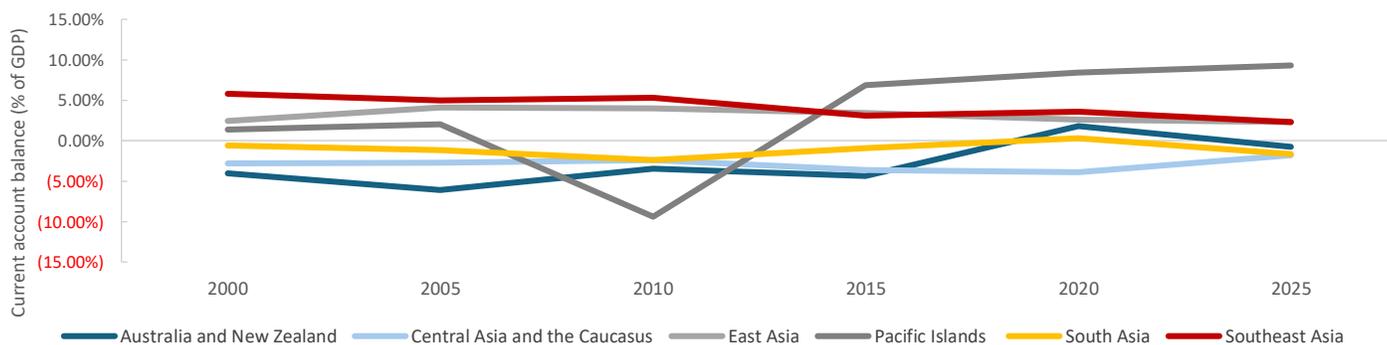
Following the USA's footsteps, Canada has also made the harsh decision of imposing a 100% tariff on all China-made electric vehicles. This move is also accompanied by a 25% duty on Chinese steel and aluminum. However, even after several bans on Chinese products by the EU, USA and Canada, China is still powering through with BYD, the best-selling Chinese electric vehicle (EV) brand, achieving a record monthly number of passenger vehicle sales, with new energy vehicles surging 30% year-on-year to 373,083 units, as of August. China's economy is likely to face continued challenges in the near term, with sluggish household consumption and a real estate slump hampering growth. While government efforts to shift focus from infrastructure spending to household stimulus may provide a boost, achieving the 5% GDP growth target for 2024 seems difficult. Trade tensions and global tariffs could add pressure, though strong performance in sectors like electric vehicles may offer some relief. Overall, China's growth will likely be modest, with risks tied to domestic demand and real estate recovery.

Asia-Pacific economies show mixed signals, with China's manufacturing struggling while services expand, and Japan and South Korea benefiting from tech sectors. Australia remains resilient, balancing inflation and economic growth through careful policy measures.

ROBUST SERVICES AND REGIONAL GAINS AMID MANUFACTURING SLOWDOWNS AND GLOBAL UNCERTAINTY

In terms of economic activity, the data from Asia-Pacific highlights the contrasting dynamics within different sectors and regions. China's official manufacturing PMI dropping to 49.1 suggests a contraction in the manufacturing sector, reflecting weaker industrial demand and production. This marks the fourth consecutive month of decline, signaling ongoing challenges in China's industrial economy, likely exacerbated by global uncertainties and domestic policy shifts. However, the non-manufacturing PMI's slight rise to 50.3 suggests a moderate expansion in the services sector, which could hint at a shift in economic activity away from traditional manufacturing toward services, especially as China continues its economic transition to a more consumption-driven model.

Exhibit 11: Impact of Sectoral Shifts on GDP Per Capita in the Asia-Pacific Region

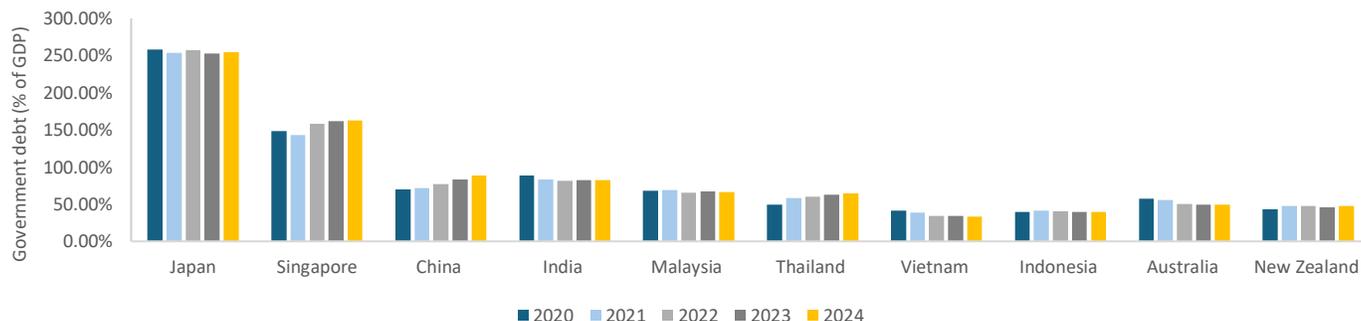


Source(s): FactSet, Vertige Research

The Caixin manufacturing PMI, which focuses more on smaller, private firms, shows a slight expansion with a reading of 50.4. This suggests that while large-scale manufacturing is struggling, smaller firms may be more resilient or adaptive to current market conditions. Meanwhile, Japan's economic activity, reflected by the Nikkei 225's performance, shows an economy that is still buoyant despite global challenges. Japan’s industrial and technological sectors appear to be supporting economic output, keeping business activity relatively stable.

In South Korea, the modest gains in the Kospi and Kosdaq hint at steady economic performance, with its tech and semiconductor sectors likely contributing to economic resilience. However, the modest scale of gains reflects caution, potentially due to global supply chain disruptions or shifts in demand.

Exhibit 12: Japan Continues to Lead Asia Pacific with Highest Government Debt



Source(s): FactSet, Vertige Research

Australia's S&P/ASX 200 rose slightly, indicating that economic activity remains robust, driven in part by resource exports and a strong domestic economy. The previous quarter for the country saw a 0.5% increase in exports, driven mainly by services like education-related travel, while imports fell by 0.2%, primarily due to reduced machinery and industrial equipment imports. Manufacturing grew by 0.7%, though the sector is challenged by fluctuations in global demand. Moving forward, if global trade conditions improve and domestic production stabilizes, a modest rebound in manufacturing and trade could be expected.

RISING TARIFFS RESHAPE GLOBAL TRADE AS NATIONS PROTECT KEY INDUSTRIES

Following the USA's footsteps, Canada has also made the harsh decision of imposing a 100% tariff on all China-made electric vehicles. This move is also accompanied by a 25% duty on Chinese steel and aluminum. However, even after several bans on Chinese products by the EU, USA and Canada, China is still powering through with BYD, the best-selling Chinese electric vehicle (EV) brand, achieving a record monthly number of passenger vehicle sales, with new energy vehicles surging 30% year-on-year to 373,083 units, as of August.

In response to growing concerns about unfair trade practices, Thailand has reinstated anti-dumping (AD) tariffs on tin-free steel imports from China, South Korea, and the EU. This is aimed at protecting the domestic steel industry by leveling the playing field for local producers. 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.

These moves reflect the growing economic competition between China and other manufacturing nations, particularly in high-tech industries, with both sides adopting increasingly protectionist policies to bolster domestic production and safeguard strategic industries.

JAPAN'S ECONOMIC REBOUND SPURS SHIFT IN POLICY AMID INFLATION PRESSURES

Japan continues to maintain its shift towards a more normalized monetary policy. Following the initial interest rate hike earlier in June, the Bank of Japan has kept its rates steady at 0.25% as inflationary pressures persist. This is part of a broader strategy to stabilize the yen, which had been weakened by historically low interest rates and manage rising import costs, especially in fuel and food.

The monetary policy will also continue to remain tightened since Japan's economy showed a faster than expected rebound in the second quarter, largely because of stabilizing commodity prices. The Bank of Japan's fresh stance on government bonds is also indicative of its policy shift; its 2026 goal to cut purchases in half is still on track. This suggests that a more balanced fiscal approach is being adopted over the significant stimulus measures that defined the past ten years.

Rising tariffs and protectionist policies reflect intensifying global trade tensions, especially between China and Western nations. These moves may disrupt supply chains and push nations to reassess their economic strategies.

Japan's gradual shift to normalized monetary policy aims to stabilize the yen and combat inflation, though higher costs and borrowing rates pose challenges for domestic consumers and businesses. The Bank of Japan remains focused on long-term fiscal balance, signaling reduced bond purchases by 2026.

The yen's value remains a critical concern, and the rate increase aims to strengthen it by attracting foreign investments into Japanese assets. This appreciation helps alleviate some of the inflationary pressures that have impacted consumers and businesses reliant on imports. However, smaller domestic businesses and consumers continue to face challenges, as higher prices and borrowing costs create a more cautious spending environment.

FISCAL STANCE: ASIAN ECONOMIES STRUGGLE WITH DEBTS AMID RECOVERY EFFORTS

Several Asian countries are grappling with high debt burdens that reflect ongoing fiscal pressures and economic recovery challenges. Japan leads the pack with one of the highest debt ratios in the world, largely due to its aging population and heavy social expenditure needs. At more than 250% of GDP, Japan's gross debt is sure to catch one's eye. Singapore, despite being a developed and wealthy nation, also carries significant debt, much of which is tied to infrastructure and government-backed investments. In developing economies like India, Malaysia, and the Philippines, debt levels have risen due to pandemic-related spending and the need to support economic growth.

AUSTRALIA RECORDS LARGEST ECONOMIC SLUMP IN 3 DECADES WHILST THE PACIFIC REELS FROM DEBT AND DEMOGRAPHIC CRISES

Much economic speculation in the Oceania and Pacific regions has been centered around Australia, as it has recorded its worst economic slump in 32 years. This past week, the Reserve Bank of Australia (RBA) posted data showing that the country's GDP grew by only 1%, the weakest annual growth rate since Australia's 1991-1992 recession, excluding the 0.3% contraction seen during the COVID-19 pandemic. Moreover, while aggregate output grew, GDP per capita fell for the sixth consecutive time by 0.4% quarter-on-quarter, ending a three-decade-long streak of income growth and development. The Labour administration in Canberra quickly addressed the causes of this unprecedented slowdown. Treasurer Jim Chalmers claimed that successive interest rate hikes from the previous Liberal government have "smashed the economy" and caused persistent slowdowns in productivity and production. However, it is also vital to note that immigration, which has been at record levels for the past five years, has further dampened the shortfall in Australian per capita output, as increases in the labor force will result only in a lower income per capita on paper, not in real terms.

The Australian economy is undoubtedly stuck in weak productivity and high-cost malaise. While inflation fell from 5.6% to 4.1%, it is still well above the 2-3% target, suggesting that the RBA will maintain hiked rates well into 2025. Unless productivity and the private sector are kickstarted by government stimulus or regulation, we believe that economic hardship and sluggishness for working Australians will continue to linger, potentially worsening before getting better.

Costs have also hit Australia's neighbors across the Tasman Sea particularly hard. The Federal Government of New Zealand announced a budget deficit that exceeded NZ\$13 billion, its highest in a decade. The current account, facing a widening deficit to 7% due to the heightened debt, has caused S&P Global to monitor the nation. However, it retains its 'broadly comfortable' sovereign rating outlook. What makes the chances of debt repayments even more improbable is that inflation remains heightened at 4.7%, which we believe implies a maintenance of interest rates by the Reserve Bank of New Zealand (RBNZ) at 5.5% even though GDP contracted to 0.2% in Q4 2023. At the same time, the country faces a massive shortfall in income generation as it sees record levels of emigration.

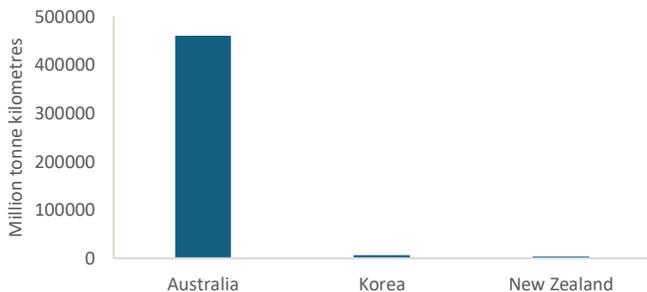
In June alone, 131,000 people left New Zealand, with 62% of them being citizens and 40% being aged between 18 and 30. With the country facing a youth brain drain, it will have to combat declining income generation and an even more daunting environment to get the economy back on track. We predict that the demographic changes will only make it more difficult for New Zealand to get its production back on track.

Australia's GDP growth remains positive, but declining per capita income highlights challenges in sustaining economic growth amidst rapid immigration. Policymakers will need to balance immigration's labor market benefits with the risk of lower individual income gains.

Australia and New Zealand face high inflation and slow growth, with interest rates likely to stay elevated. New Zealand's rising debt adds to economic concerns, though its outlook remains stable.

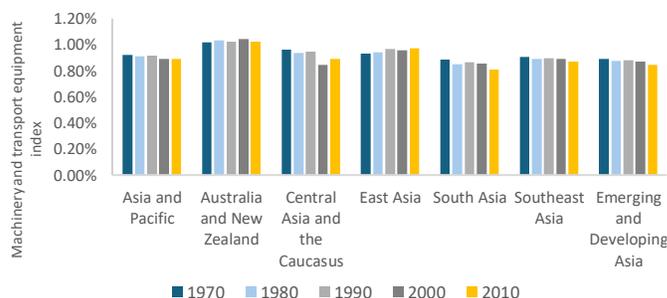
With manufacturing contracting for the 18th month in a row, debt rising, and a hawkish RBNZ, economic conditions will likely face a persistent downward trend until business and investor confidence pick up and the RBNZ implements further cash rate cuts to stimulate a pickup in sales. The World Bank recently announced that a much-needed financial funding program of \$70 million will be initiated for the Pacific Island nations of Tonga, Fiji, Nauru, the Marshall Islands, and the Federated States of Micronesia. The countries have long faced a cutoff in banking and tourism growth following the COVID-19 pandemic, seeing a large-scale flight of capital and workers toward their larger neighbors, Australia and New Zealand. While only a start, World Bank Group President Ajay Banga hopes that the aid will help subsidize banking costs in the Pacific Islands, allowing their fledgling markets to develop and recover their unstable economic condition.

Exhibit 14: Australia Dominates In Freight Transport By Rail



Source(s): NAR, Vertige Research

Exhibit 15: East Asia Soars Above Regional Peers in U.S. Imports Of Trade Goods



Source(s): FactSet

NAVIGATING THE FUTURE WITH RESILIENT SUPPLY CHAINS AND THE EVOLVING ROLE OF PORTS IN THE GREEN ECONOMY

The Asia Pacific Market Updates for August 2024 and the insights from the PIANC Asia Pacific Conference 2024 converge on the theme of evolving and resilient supply chain logistics, highlighting the dynamic shifts occurring within the industry. The market update points to positive global economic trends driven by U.S. growth and easing inflation, which are leading to increased ocean and air freight volumes. We expect this growth to continue into the latter half of the year, reinforcing the resilience of the supply chain despite ongoing challenges such as geopolitical tensions and manufacturing slowdowns. Additionally, industry-wide fleet renewal programs are aligning with broader trends toward decarbonization and modernization, which were also key themes at the PIANC conference, particularly in the context of the global energy transition. Ports are being called upon to diversify trades and develop infrastructure for alternative energy sources, such as offshore wind facilities. The conference also underscored the importance of regional collaboration, especially in supporting smaller Pacific ports that are vulnerable to climate change, which threatens infrastructure resilience and productivity.

The analysis underscored several risks to supply chain stability, such as the recent fire incident at Ningbo Port and broader challenges like aging infrastructure, workforce shortages, and the need for decarbonization. These factors underscore the vulnerability of supply chains to external shocks and operational disruptions, even as the industry continues to invest in modernization.

Looking forward, the global supply chain and logistics industry faces a dual trajectory. On one hand, the positive economic outlook and continued investment in fleet renewal, landside infrastructure, and modernization efforts are likely to enhance supply chain efficiency and capacity, positioning ports and logistics hubs as critical players in the evolving green economy. On the other hand, persistent challenges—ranging from geopolitical tensions to climate impacts—will require ongoing innovation, investment, and collaboration across the supply chain ecosystem to achieve a balance between growth and sustainability. The emphasis on decarbonization and the diversification of trade will further centralize ports in the global energy transition, making them vital to the future of sustainable and adaptive supply chains.

AFRICA & MIDDLE EAST COVERAGE

Global Macroeconomic Research

Unpacking Regional Dynamics—China-Africa Cooperation, South Africa’s Inflation Milestone, the DRC’s Monkeypox Troubles, and Libya’s Oil Struggles

REGIONAL OVERVIEW

Over the past month, long-standing ties between several African nations and China have been put in the spotlight following the Forum on China-Africa Cooperation Summit (FOCAC) in early September. In particular, countries like Nigeria, Kenya, South Africa, and Ethiopia have been strengthening their relationships with China, focusing on key areas such as trade, debt restructuring, and infrastructure development. Even prior to this summit, Kenya had already secured agreements with China over railway expansions and energy projects, including the notable USD\$5 billion invested by China into the Kenya Standard Gauge Railway. Additionally, Nigeria has petitioned for more Chinese investment in its technology and agriculture sectors, which appears likely in the coming years as the two nations’ relationship grows. China has also promised to further increase imports from African nations, having already reached its goal of importing USD\$300 billion worth of goods, of which resources and minerals from countries such as Botswana, Namibia, and the Democratic Republic of Congo (DRC) have been particularly traded. One major highlight of the FOCAC conference was China’s pledge of the equivalent of USD\$50.7 billion over three years, to be provided in the form of investments and credit lines across Africa. However, China did not agree to the debt relief many African nations were hoping for. Chinese incentives for investing heavily in Africa largely lie around access to extensive reserves of natural resources on the continent, along with capitalizing on rapidly growing African markets and acquiring political support. For these same reasons, however, many criticize Chinese intervention in Africa as being exploitative and having strings attached.

Amidst ongoing economic cooperation in Central, Eastern, and Western Africa, there have also been notable economic challenges in North Africa. Notably, Egypt has suffered from its reliance on fossil fuel production, leading to frequent energy shortages. The crisis has been driven by several factors: rising domestic demand due to a rapidly growing population, declining gas production at key sites like the Zohr gas field, and inadequate gas supply for power plants. Additionally, there is widespread concern about insufficient investment in the energy sector. These cuts have caused a significant amount of unrest, and Egypt, once touted for its extensive supply of liquefied natural gas (LNG) is now attempting to purchase LNG cargoes for the winter as another North African nation continues to struggle. Though these challenges in Egypt reflect broader economic instability in North Africa, other regions in Africa are experiencing different dynamics. For instance, South Africa has been showing signs of an economic resurgence pushed by falling inflation and GDP stability. Meanwhile, the Democratic Republic of Congo (DRC) has been bracing itself against the economic consequences and pressures of the monkeypox virus, and Libya has continued to grapple with ongoing central bank and oil struggles. The potential impacts of these developments, which have been taking the central stage on the continent, are further explored in this edition.

INFLATION IN SOUTH AFRICA FALLS TO A RECORD LOW 4.6% AS SARB MAINTAINS TIGHT MONETARY POLICY

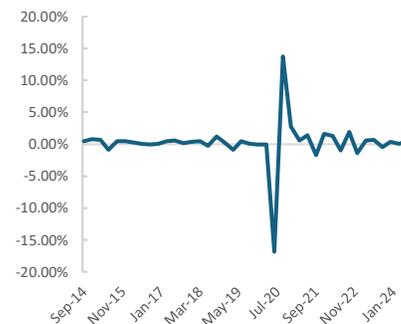
In the past month, South Africa’s CPI eased considerably to 4.6% YoY, the lowest rate of inflation the nation has experienced in the past 3 years. This decline in inflation has, for the most part, justified the South African Reserve Bank’s (SARB) monetary policy stance. Since 2021, the SARB has maintained a tight stance characterized by high interest rates targeting a 3-6% inflation range. This approach involved raising the repurchase rate, the interest rate that a country’s central bank lends to commercial banks using government securities as collateral. In November 2021, the repo rate was at a record low of 3.5%. Over 2022 and 2023, however, the repo was raised 5 times to 8.5%, where it currently stands.

Through raising the repo rate, the South African Central Bank essentially increased the cost of borrowing for commercial banks. These commercial banks then in turn passed on this increase to businesses and individuals, such as by raising rates on mortgages, car loans, or personal loans.

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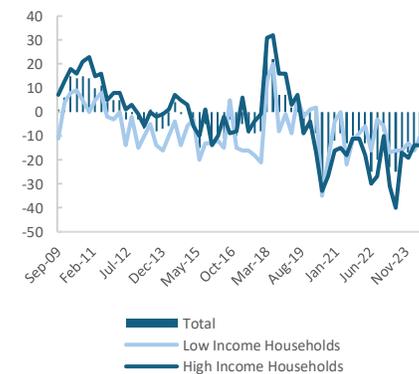
SOUTH AFRICA GDP QoQ % CHANGE



REGIONAL ECONOMIC SUMMARY

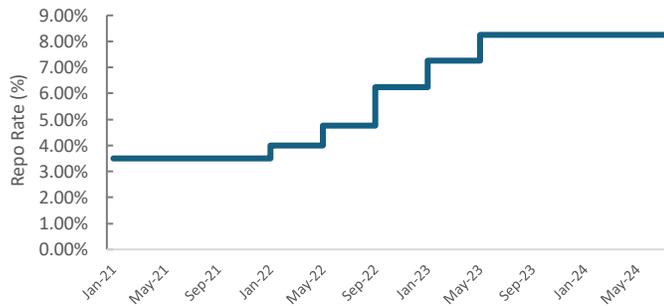
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Egypt	5.0	26.2	91.0
Israel	-1.5	3.6	63.1
Nigeria	3.0	32.2	59.0
Kuwait	-2.7	3.0	0.4
South Africa	0.4	4.4	74.3
Qatar	0.0	0.2	31.5

SOUTH AFRICA CONSUMER CONFIDENCE



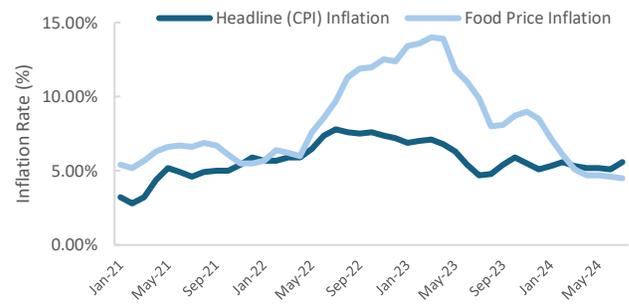
Source(s): FactSet Economics, Vertige Research
 Data as of September 18, 2024.

Exhibit 16: The SARB’s Monetary Policy Seen in Repo Rate Increases



Source(s): SARB, Vertige Research

Exhibit 17: Easing South African Inflation Amidst Volatile Food Prices



Source(s): Stats SA, Vertige Research

As businesses and individuals face higher borrowing costs, they would be incentivized to spend less, driving down inflation. The drop in food price inflation was also particularly significant. Food price inflation fell to a 4-and-a-half-year low of 3.9%. This spells a hopeful economic landscape given that South African food prices have been a major issue for poor and middle-class families, driving the cost-of-living crisis the African nation has been facing.

With that said, though food price inflation as a whole has been declining, bread and cereal prices have still been on the increase, growing by around 5.6% annually. This is problematic given that on average, starch products in South Africa are eaten six times a week, with cereal and bread being popular options on breakfast and dinner tables. Bread and cereal prices that are already high are very concerning given expectations that droughts caused by El Niño could hamper corn production. On the bright side, however, prices for flour and pasta, heavily consumed ingredients, have both had lower prices year on year, providing a degree of relief for many South Africans.

The overall monetary outlook in South Africa is promising. If the CPI in the ensuing months remains low, the SARB may give the green light to easing interest rates to promote economic growth. Despite the August PMI index showing a decline in South African manufacturing activity, likely due to increased market volatility, other economic indicators suggest stability and resilience. Notably, the rand recently reached a 13-month high of 17.63 per dollar, and the economy grew by 0.4% in the second quarter. As such, we predict that inflation will remain in the targeted 3-6% range and that the SARB will cut interest rates at least once by the end of the year, though by no more than 100 basis points given the SARB’s more conservative approach as of present.

MONKEYPOX OUTBREAK IN DRC WORSENS AS MINING SECTOR AND ECONOMY FACE STRAINS

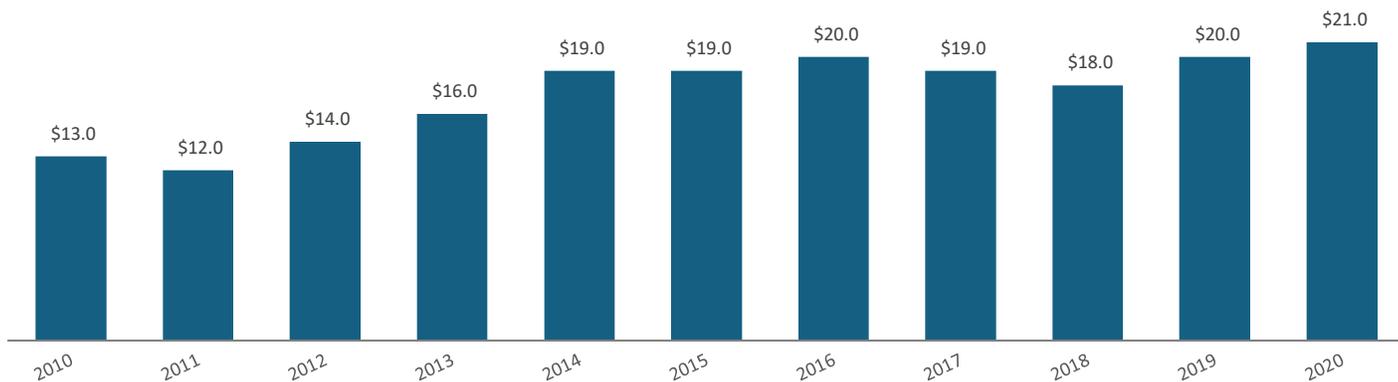
The ongoing global monkeypox (mpox) outbreak has been particularly hard-hitting in the Democratic Republic of Congo (DRC). Mpox is an infectious and zoonotic disease endemic to Central and West Africa commonly manifesting in characteristic rashes along with fever, chills, exhaustion, and respiratory difficulties. The DRC has quickly become the global epicenter for the mpox outbreak, classified as a public emergency by the World Health Organization (WHO), and has faced 96% of all reported cases and fatalities globally.

The emergence of a new mpox virus strain, clade Ib in 2023 has been particularly problematic. As opposed to previous variants, clade Ib is predominantly spread through human contact, and notably through sexual relations. The clade Ib strain also possesses a fatality rate lying around 3-4% as compared to less than 0.2% for the previous clade II, for instance. Though the clade II variation is what caused the global epidemic in 2022, infections from this variation are tamer, featuring a 99.9% recovery rate.

Given that the DRC’s economy is already fragile due to poor infrastructure, lower education outcomes and years of conflict, the mpox outbreaks place greater strain on the Central African nation. Notably, the mining sector, which contributes to around 25% of the DRC’s economy, has

The DRC’s mining sector accounts for 25% of the nation’s GDP, with 2023 mineral exports valued at USD\$16 billion. However, the ongoing monkeypox outbreak could threaten output by 5-10% according to our estimates.

Exhibit 18: Dismal DRC Per Capita Healthcare Spending from 2010 to 2020



Source(s): Macrotrends, Vertige Research

increasing mpox cases. This spread has led productivity declines and disruptions. Last year, DRC mineral exports were valued at USD\$16 billion, so even a modest production decrease of 5% would lead to a significant loss of USD\$800 million.

In addition, healthcare expenditures have also grown rapidly as the WHO and Africa Center for Disease Control and Prevention (CDC) have mobilized to assist in containing the outbreak. The WHO in particular has outlined a regional response requiring a starting investment of USD\$15 million for vaccinations and treatment efforts, which would put a further strain on the nation’s budget. Over the past years in the DRC, healthcare spending has typically lied around 3-4% of GDP, or around USD\$19-\$21 per capita. The need to reallocate funds may also impact investments in education, infrastructure, and other important services, which may hamper economic growth in the coming months.

Furthermore, currency depreciation has been a pertinent issue in Congo. In 2024, the Congolese Franc (CDF) has depreciated by around 15% against the U.S. dollar, and further increases in government spending and declines in export revenue could all drive up the already substantial inflation, which has been predicted to be in the area of 13.5% over the 2024-25 period, according to the African Development Bank (AfDB).

Exhibit 19: A Projected Downturn in DRC GDP Growth Following Challenges



Source(s): IMF, Vertige Research

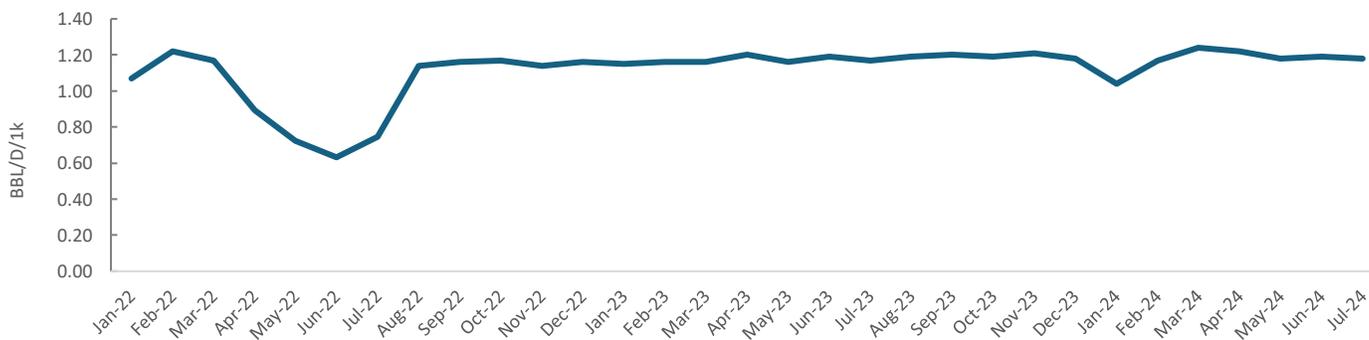
We believe that if the mpox outbreak is not better contained in the next couple of months, which appears unlikely given that 18,000 suspected cases were reported in the year so far, DRC mineral exports could have a consequential decline of up to 10%. This reduction could mainly impact minerals like cobalt, of which the DRC is the world’s leading producer. This could in turn hamper global battery and electronics industries on top of further slowing economic growth in the Central African nation. Moreover, if the disease continues to spread to a larger proportion of the population, mining operations may experience workforce disruptions, further disrupting supply. Further downturns in exports could put more downward pressure on the CDF, amplifying inflation.

Libya’s Central Bank is the only legal repository for oil revenue in the nation, providing it with a significant role in wealth and power distribution. For this reason, among others, the bank has become a major source of conflict.

LIBYAN CENTRAL BANK STRUGGLE IN SPOTLIGHT AS MARKETS REACT TO UNCERTAINTY IN OIL SUPPLY

Following power struggles over control of the Libyan Central Bank, the United Nations (UN) mission in Libya has expressed strong concerns over a possible economic collapse. This longstanding dispute, dating back to 2021, involves the eastern and western Libyan administrations. The Eastern administration is based in the city of Tobruk, held up by the Libyan National Army, a component of the broader Libyan military. The Western administration, led by interim prime minister Abdul Hamid Dbeibah is based in the capital Tripoli and possesses the most international recognition. Although the Western administration possesses more international recognition, the Eastern administration possesses the nation’s most powerful combat force and is in control of many eastern and southern portions of Libya.

Exhibit 20: Libyan Oil Production Remains Steady



Source(s): Trading Economics, Vertige Research

Tensions recently reached a boiling point because of the Western administration's attempts to replace the East-backed central bank governor, Sadiq al Kabir, who is now in self-imposed exile in Turkey. Consequently, the eastern administration declared all oilfields in eastern Libya closed. Oilfields in eastern Libya, notably those in the Sirte Basin, account for 60% of Libya’s oil revenue. Oil is a critical commodity for Libya, representing 95% of government revenue, 60% of the nation’s GDP, and 95% of its exports. Oil also represents power in controlling the distribution of wealth in Libya, with allegations of mismanagement by the current central bank governor being a particular cause for concern. Libyan oil production in 2023 alone stood between 1 and 1.2 million bpd, but the Eastern administration’s threats could greatly reduce this figure. Earlier disputes had already caused temporary disruptions in oil and natural gas production in January and early August, but many experts fear that if the conflict persists, the 1.18 million bpd produced by Libya in July could decrease by 700,000 to 900,000 bpd.

The immediate responses of oil prices to this conflict, however, were rather tame: oil prices increased slightly before retracting. For instance, U.S. oil futures were initially up by 3% following Eastern administration stoppage reports but then were down by around 2% on the following Tuesday. Given that an expectation of lower supply would typically drive prices up in the immediate and longer term, the retraction of oil prices may indicate that, for the most part, traders feel that upcoming Libyan oil halts will be temporary.

Indeed, oil prices have continued to slump as both ruling parties agreed to jointly appoint a new central bank governor, possibly signaling a resolution on the horizon. With that said, time will indicate the extent to which this is true. Furthermore, though Libya has the largest crude oil reserves in Africa, given that Libyan oil accounts for 1.2% of global oil production, though permanent disruptions would likely drive-up global oil prices, the overall impact would be limited. Of greater importance, however, is the significance of economic disruptions to the Libyan economy; given the country's dependence on oil and its considerable poverty rate of 40%, supply disruptions such as these could prove highly consequential.

With much uncertainty revolving around this situation, considering possible long-term implications is essential for market stakeholders. If ongoing talks between the rival factions' collapse, further extended halts in oil production could be expected, which could drive up global oil prices in the long term. However, if a sustained agreement can be reached—as many market participants expect—Libya's oil output could rebound and the nation could move towards addressing other pertinent economic issues, such as its aforementioned poverty rate. For the time being, however, as the central bank saga ensues, Libya remains cut off from international banks as the international community continues to monitor the situation.

A Tale of Two Countries—Saudi Arabia's Grand Vision Contrasts Iran's Economic Struggles

REGIONAL OVERVIEW

This month, the flurry of dynamic developments can be marked within the Middle East. With the war in Israel and Gaza developing, the geopolitical state of the Middle East remains on edge. Cease fire talks continue with little success, amid the airstrikes and sporadic drone attacks as the humanitarian crisis in Gaza deepens. On September 11th, an Israeli airstrike hit a school turned shelter in Gaza killing at least 18 people. On the other hand, in Iran, nuclear negotiations continue as protests heighten over economic hardships felt by the public and the second anniversary of Mahsa Amini's death.

Iran has launched a research satellite using a rocket built by the Revolutionary Guard Corps, marking the second successful rocket mission. This satellite launch is viewed as a part of Iran's border missile program amidst the regional tensions. Iran threatened to take retaliatory action in response to western sanctions imposed on September 11, which were seen as exacerbating existing tensions due to Iran's alleged delivery of ballistic missiles to Russia. Economically, such sanctions target individuals, companies and vessels involved with the missile proliferation, worsening the country's chances for economic recovery.

On the other hand, Saudi Arabia forges ahead with the 2030 vision, revealing new mega projects and strategic partnerships to diversify their economy. UAE and Qatar continue to showcase economic resilience and growth, strengthening their investment ties. In Sudan, tensions are heightened as US special envoy Tom Perriello and Sudan's freedom forces, led by Abdullah Hamdoc, are at odds over the Rapid Support Forces role in Sudan's future. Perriello is pushing for the RSF to be recognized as a terrorist group. This labeling has further increased tensions with the UAE, whose diplomatic staff recently left Sudan amid the heightened pressure. This could deter foreign investment, strain economic aid and deepen Sudan's economic challenges.

The unrest caused by the death of Mahsa Amini while detained by Iran's "morality police" led to widespread strikes and disruptions in key industries, such as oil production and manufacturing. This further weakened Iran's already fragile economy. In response to the government's crackdown, international sanctions intensified, deepening the country's economic isolation. The protests also exposed deep societal discontent, which, in the aftermath, left a lasting impact on investor confidence and raised concerns about the long-term stability of the Iranian economy.

SAUDI ARABIA’S 2030 VISION: BALANCING AI AMBITIONS, OIL PRICES, AND ECONOMIC DIVERSIFICATION AMID GLOBAL CHALLENGES

As a part of Saudi Arabia’s 2030 vision, the country has been pursuing ambitious goals in both economic diversification and technological advancements. Saudi Arabia expects to gain access to Nvidia’s high performance AI chips that could support its goal of making AI a key contributor to GDP, targeted at 12% by 2030. On the other hand, agreements are conditional on navigating U.S. export restrictions due to Saudi Arabia’s strong economic relations with China, which raises national security concerns. Moreover, because of public spending on diversification and infrastructure initiatives, Saudi Arabia’s break-even oil price, the price per barrel required to balance its budget, has increased to \$96.20 for 2023, putting increasing pressure on its finances. Although oil prices remain soft, Saudi Arabia is supported by its robust foreign reserves, relatively low debt and growing non-oil economy that has expanded by 4.4% in Q2 2024. However, despite these strengths, externally, the country seems to be at risk due to global oil demand fluctuations and geopolitical tensions that could potentially challenge its path to achieving long term economic diversification and stability.

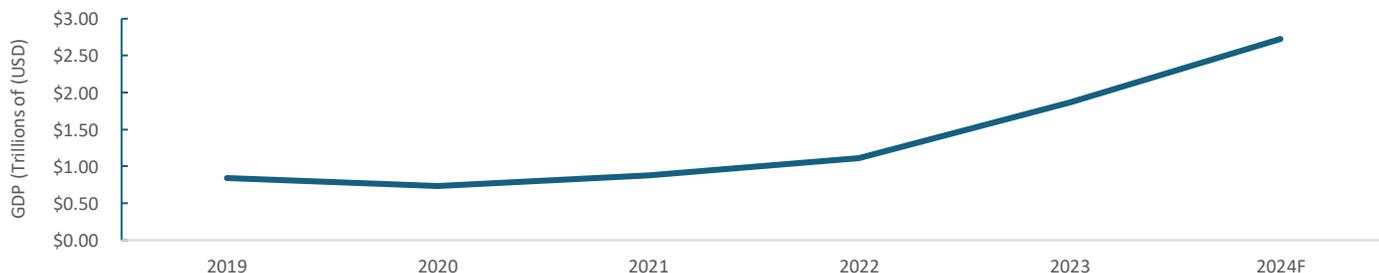
Saudi Arabia’s GDP achieved an 8.7% growth rate surpassing \$1 trillion in 2023 through the contribution of the private sector with \$440 billion or 41% of GDP. The number of Saudi workers in the private sector rising from 1.91 million in 2021 to 2.19 million in 2022, while non-oil exports reached \$84 billion showcasing a 13.7% growth.

Newly released figures from the General Authority for Statistics (GASTAT) show Saudi Arabia’s non-oil activities in the second quarter of 2023 have grown 4.9% year on year; such growth was fueled by strong performance in the financial and insurance sectors. Wholesale and retail trade, alongside restaurants and hotels, grew by 6.8%. Moreover, government consumption expenditure year on year has increased by 10.9%, 4.3% increase quarter on quarter. These numbers are driven primarily through tourism and investment, supported by an \$800 million investment over the next decade. The country opened its doors to more than 27 million international visitors who spent more than \$37 billion in the kingdom; further highlighting how tourism is a key strategy and robust pipeline that Saudi Arabia will look to leverage through the Asian 2027 cup, the Fifa World Cup 2034, The Asian Winter Games 2029 and Expo 2030.

In addition, Saudi Arabia’s inflation rate remains one of the lowest in the MENA region, showcasing the proactive measures to stabilize its economy amidst global and political pressures. In August 2024, the annual inflation rate was 1.6%, affected by 10.7% increase in housing rents. Saudi Arabia has seen lower prices in other sectors despite rising housing costs, including transportation and clothing. This has helped to mitigate overall inflation across the country. Moreover, food and beverage prices rose moderately by 0.9%, while restaurants and hotel expenses increased by 1.6%; such data will be crucial to consider as Saudi Arabia's hospitality and tourism industries continue to grow as a diversification strategy for their 2030 vision. The country has further shown this through the cancellation of hotel licensing fees to boost investments in this sector.

The government’s success in maintaining a stable inflation rate is supported by its strong non-oil sector growth exchange rate policy. The higher expenses in chemicals and refined petroleum products have also led the whole prices index (WPI) to rise by 3.2% in August. The government’s efforts to diversify the economy in the non-oil sector through investments while maintaining fiscal discipline have helped Saudi Arabia navigate inflationary pressures while promoting long term economic stability.

Exhibit 23: Saudi Arabia Continues Steady Growth



Source(s): Macro Trends, Vertige Research

IRAN'S ECONOMIC STRUGGLES: SANCTIONS, CORRUPTION, AND GEOPOLITICAL CHALLENGES HINDER RECOVERY

Iran's economy is under pressure from various international sanctions, internal mismanagement, corruption, and political entanglements. The sanctions imposed by the US and its allies have drastically reduced Iran's oil exports and have ostracized the country from the global financial system. As a result, Iran has been relying on domestic reserves such as the National Development Fund (NDF) to address its growing fiscal shortcomings. The diversion of the government originally intending to secure Iran's future by turning oil revenues into long-term assets highlights the severity of Iran's financial crisis. Recently, there has been a \$55.8 billion withdrawal to pay overdue debts to truck drivers and farmers, showing a pattern of prioritizing immediate needs over sustainable economic planning.

Iran's economic struggles are also evident from its heavy reliance on borrowing domestically and money printing, which has accelerated since the U.S. sanctions were reinstated in 2018. Throughout the past three years, the government debt to the banking system has increased by 138%, reaching 15600 trillion rials, equivalent to \$32 billion at the official rate. Under the last president, Raisi, borrowing from banks had increased 2.5 times and debt to the central bank had increased by 72%. Simultaneously, liquidity levels have doubled since 2021, now at 83,540 trillion rials (\$139 billion), adding to an annual inflation rate of 40%. The economic difficulties are worsened by corruption, often referred to as the economic mafia in several industries. The group's control over much of the economy, along with government and religious establishments creating inefficiencies, has greatly diminished private sector investment. The lack of transparency, coupled with sanctions and internal corruption, makes the country an unattractive destination for foreign investors. We don't forecast any significant improvement in foreign investor confidence given the current state of instability. This is worrying as Iran's low FDI figures sit at a mere \$1.5 billion in 2022.

Iran's economic instability translates into increasing labor unrest due to unpaid wages and unmet promises, signaling deeper structural issues and a disconnect between government policies and workers' needs. Protest and civil unrest linked to these issues create further economic uncertainty within Iran's borders.

On the political front, President Masoud Pezeshkian faces additional hurdles. Although the president has signaled a willingness to reopen nuclear negotiations to lift the sanctions, Iran's close ties with Russia in the context of the Ukraine War have complicated its diplomatic standing. Economic recovery has become increasingly unlikely as accusations that Iran is supplying ballistic missiles to Russia have prompted further sanctions. In addition, growing tensions with Israel, particularly following the assassination of political leader of Hamas, Ismaeil Haniyeh, in Tehran, add another layer of complexity to the country's international and regional relations. Improving regional and geopolitical stability is crucial if Iran hopes for a lifting of sanctions and an improving economy.

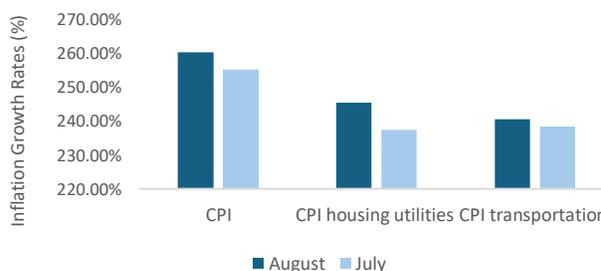
Lastly, labor unrest further threatens fiscal instability. Wheat farmers, nurses, truck drivers, and oil and gas workers have staged strikes over unpaid wages and unmet government promises, reflecting a disconnect within the workforce. These protests are a symptom of deep structural issues, including inflation, misallocation of resources. If the government fails to adequately address these concerns without draining the NDF, the financial crisis will likely worsen without hopeful signs of recovery.

Exhibit 24: Iran Maintains a Largely Negative Trade Balance



Source(s): Trading Economics, Vertige Research

Exhibit 25: Inflation in Iran Continues on Worrying Trend



Source(s): Trading Economics, Vertige Research

EUROZONE COVERAGE

Global Macroeconomic Research

Recovery — UK from Conservative Rule, Italy from Pandemic Depression, Turkey from Inflation, and Albania from Italy Agreement

REGIONAL OVERVIEW

The European and Turkish economic landscape is characterized by a mix of recovery efforts and ongoing challenges. The United Kingdom, under new Labour leadership, is grappling with the remnants of a decade-long austerity period, facing high youth unemployment and rising costs of living. Despite strong early economic growth and a projected 1.5% GDP increase in 2024, Labour's future will hinge on its ability to balance progressive reforms with economic stability.

In Albania, the recent agreement with Italy to host asylum seekers underscores the country's economic dependence on remittances and external aid. With a population of 2.8 million and one of the lowest GDP per capita rates in Europe, Albania's economic growth has slowed, reflecting broader regional trends in the Balkans. The deal with Italy represents a significant financial commitment relative to Albania's GDP, highlighting its reliance on international support.

Italy, despite receiving substantial EU funding through the Next Generation EU program, continues to face stagnant growth and high public debt. The country's GDP growth remains near zero, and inflation is projected to rise modestly. With challenges such as slow productivity and climate-related issues, Italy's economic recovery is sluggish, and its prospects for the near future are uncertain.

Turkey's economy, having been severely impacted by unorthodox monetary policies, is experiencing a cooling effect, though not as robust as hoped. Inflation remains high, despite recent improvements, and the Turkish Lira continues to struggle. The government's austerity measures, and high interest rates are designed to stabilize the economy but also pose risks to domestic demand and welfare. Foreign investment dynamics are shifting, with a possible interest rate cut on the horizon depending on inflation trends. Overall, the range of economic recovery we see in the UK and Italy, as well as the semi-recovery in Turkey, point to the importance of fiscal policy and the administration's impact on macroeconomic indicators.

UNITED KINGDOM: RETIRED FROM AUSTERITY, NEW CAREER IN UNEMPLOYED

It has been two months since the UK's Labour Party reclaimed power in a decisive election, ending 14 years of Conservative rule. Led by Keir Starmer, Labour now faces the daunting challenge of addressing the nation's pressing issues, including the cost of living, immigration, and the dire state of public services, all while contending with the economic fallout from past policies and Brexit.

While the party has proposed eye-catching policies on the environment, workers' rights, and public services, critics argue that Labour's identity is currently defined more by what it opposes than by a clear vision for the future. Starmer's leadership aims to rebuild trust, but many progressive voters remain disillusioned due to the party's hesitance to fully embrace its leftist roots.

Following the 2008 financial crisis, the Conservative-led government bailed out British banks at an estimated cost of £141 billion. In 2010, the Conservative-Liberal Democrat coalition financed this with severe (the biggest cuts to state spending since World War II) austerity measures. The youth that voted for the first time in the July 2024 election were the ones living through the reductions in welfare, social security, and education funding. They are also now entering a job market characterized by youth unemployment and a record-high cost of living.

The austerity measures included cutting the Education Maintenance Allowance, which allowed young people to apply for a means-tested allowance of £30 a week. Other schemes like Universal Credit and Housing Benefit, which support youth transition out of difficult personal circumstances, now assist significantly fewer people. Government expenditure on education as

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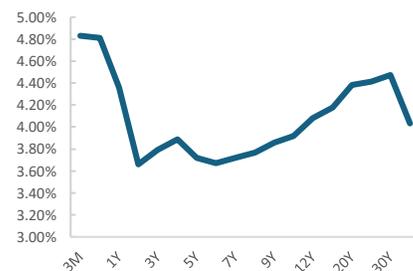
TURKEY CONSUMER CONFIDENCE



REGIONAL ECONOMIC SUMMARY

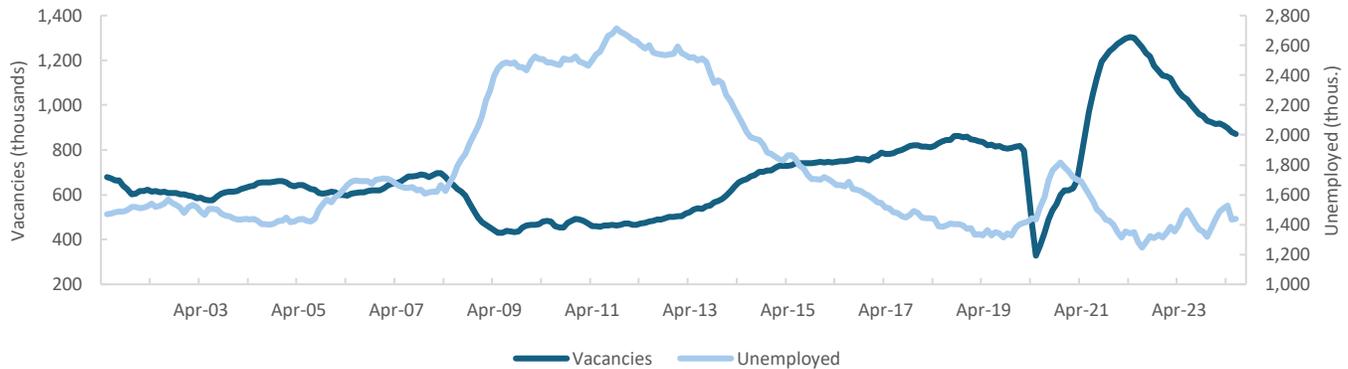
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
France	1.0	1.8	109.0
Germany	0.0	1.8	61.8
Italy	0.9	1.1	140.6
Netherlands	0.6	3.6	42.9
Switzerland	1.7	1.1	27.3
United Kingdom	0.9	2.2	104.5

UNITED KINGDOM YIELD CURVE



Source(s): FactSet Economics, Vertige Research
Data as of September 18, 2024.

Exhibit 25: UK Unemployment Low — Rise in the Horizon



Source(s): Statista, Vertige Research

The unemployment rate marked 4.2% in August, a slight decrease from the 4.4% in April 2024, which was the highest since September 2021. The number of vacancies hit 884 thousand, an all-time low since it started declining in May 2022. The pre-pandemic level in February 2021 was 819 thousand. The National Living Wage increased nearly 10% from last year to £12 hourly (CAD 21.22) when the real wage increase (or regular weekly earnings excluding bonuses) was 3%. We foresee that the new labor government will attempt to remedy this with an increase in government spending in the forms of welfare benefits and employment initiatives.

The Office of the National Statistics also reported that there was an increase in the inactivity rate, bringing it to its highest level in nearly a decade, with more than a fifth of working-age people deemed not to be actively looking for work. As of now, 9 in 10 people aged 15 to 24 see having enough money to meet basic needs as an aspiration in life. Young people are seven times more likely than their grandparents to have taken out new or additional debt in the past 12 months.

Despite ongoing economic inequality, the UK economy is showing growth, with projections suggesting it could expand by up to 1.5% in 2024 and continue this upward trend through 2025 and 2026. This is a notable increase from the 0.7% growth previously predicted in April, reflecting the strong economic performance observed in the early months of 2024. Additionally, the inflation rate is expected to hit the target level of 2.2%, following the recent reduction in the bank rate from 5.25% to 5%, marking the first cut since March 2020. We forecast the interest rates to continue their decline, similarly to the trend in Europe.

Strong economic performance is a stable reality in England; however, the Conservatives' lengthy tenure has left a legacy of austerity and a cost-of-living crisis. It is now up to the Labor Party to decide what they want their legacy to be.

ALBANIA: AGREEMENT COULD PUT STRAIN ON ALREADY STRUGGLING ECONOMY

The Albanian Prime Minister Edi Rama was joined by the Italian Prime Minister Giorgia Meloni on June 5 to visit the recently built Italian-run asylum processing center at the port of Shengjin, Albania. The Albanian Parliament, dominated by Rama's Socialist Party, approved a five-year agreement with Italy to host asylum seekers. Under the deal, Albania will shelter up to 3,000 migrants rescued from international waters at any given time, with a potential annual intake of up to 36,000 asylum seekers.

In return, Italy will pay at least 670 million euros (\$720 million) for the initial five-year period. That is 0.04% of Italy's GDP, while it's nearly 4% of Albania's. For context, Australia has been infamously engaged in offshore processing since 2013. In 2022, Human Rights Watch reported that detaining a single asylum seeker on Nauru or Manus Island cost about £1.8 million (\$2.3 million) per year. European Commission President Ursula von der Leyen applauded the deal for being 'out-of-the-box thinking.'

The UK economy has recently experienced a shift in its output gap. Initially experiencing a positive output gap post-pandemic, the economy has shifted to a negative gap due to rising energy prices and declining consumer spending. However, inflation remains above the Bank of England's target of 2%, creating a challenging environment for monetary policy. The Bank raised interest rates even as the output gap turned negative, but we forecast potential rate cuts in response to expectations that inflation will fall below target. We anticipate the introduction of higher taxes to stimulate growth amid fiscal constraint. The future promises economic stimulation for the UK as we forecast government spending to increase and interest rates to decrease. We will see if the administration and the Central Bank can collaborate effectively.

Albania’s real GDP growth has been stable since the start of the Millennium. However, like many neighboring Balkan countries, the growth is slowing down after soaring post-pandemic. With a population of 2.8 million and a negative population growth rate, Albania has one of the lowest GDP per capita and Actual Individual Consumption (AIC) in Europe. Albania has one of the lowest minimum wages in Europe, with an hourly rate of CA\$3.44.

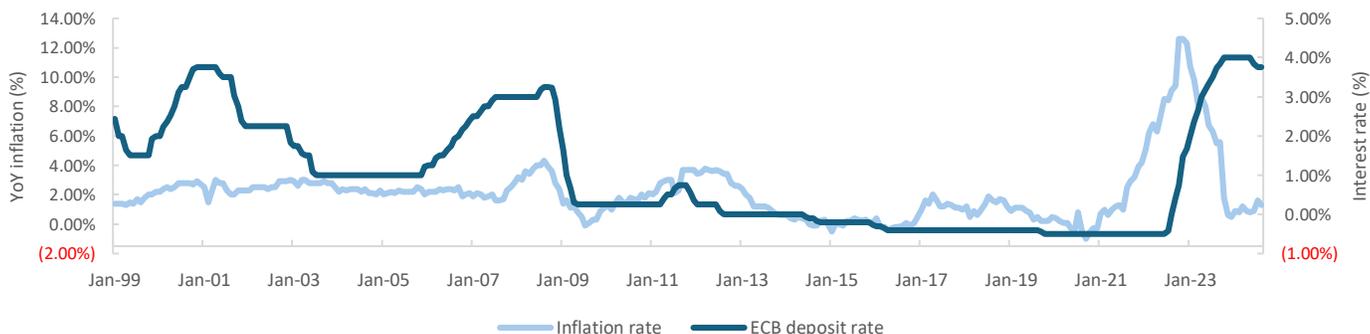
The low minimum wage also affirms Albania’s dependence on remittance—transfer of money, often by a foreign worker to their family in their home country. Many Albanian workers work in EU member countries for their higher wages and relatively abundant work opportunities. Unless Albania establishes definitive policies in order to build a strong infrastructure to boost production and consumption, Albanians will have to continue considering working abroad, and brain drain will persist.

ITALY: BILLIONS IN PROJECT FUNDING BUT NO GROWTH

Italy faced significant challenges during the pandemic as it faced one of the highest fatality rates in Europe, and the implementation of stringent lockdowns contracted the real GDP in 2020 by 9%. Historically, Italy has struggled with stagnant productivity and high public debt, currently standing at 155.8% of GDP. Italy’s debt is among the highest in the Eurozone, primarily due to high spending on retirement benefits (large aging population) and slow economic growth. The European Union had created an €800 billion project fund, Next Generation EU, aimed at supporting member countries and fostering long-term growth. Italy is allocated nearly 200 billion of the funds for the ‘Recovery and Resilience Plan’, which focuses on green and digital transition as well as infrastructure.

The Law on Strategic Investments, enacted in Albania in 2015, was designed to attract significant domestic and foreign investments in key sectors such as tourism, energy, and infrastructure. Despite its ambitious goals, the law has not achieved its intended impact, with many approved projects focusing on the tourism sector and being led predominantly by domestic investors. The law’s effectiveness has been hampered by bureaucratic challenges and perceptions of corruption. The law includes provisions for offering expedited procedures and special incentives for projects deemed crucial to Albania’s economic development, such as tax benefits and streamlined administrative processes.

Exhibit 27: Imminent Interest Rates Cuts on the Horizon for the European Central Bank



Source(s): Statista, Vertige Research

For the last few years, the plan created a large boost for economic activity, however, with the investment slowing down, Italy is facing a challenging economic landscape in the second half of 2024. Italy’s real GDP growth rate has been roaming around 0% since the start of 2021. After declining to -0.2% growth during Q2 2023, it has grown at a steady 0.2% per quarter. We forecast this slowing down of growth to be consistent in the following two years with 0.6% yearly growth. Inflation is now at 1.7% and is projected to climb towards 2% as households will increase their spendings following the slight decline in interest rates. On the other hand, the sharp decline in energy prices in 2023 and early 2024 (the 22% VAT on gas being lifted) has led to rapid disinflation and pushed core inflation down.

Italy’s economy outpaced Germany’s growth in late 2023, marking a surprising shift given Italy’s history of economic struggles and Germany’s industrial strength. In the third quarter of 2024, Italy grew while Germany’s economy shrank by 0.2%.

Climate issues are also a concern, with recent catastrophic floods highlighting Italy’s vulnerability to extreme weather events, which could worsen towards the end of summer. As Italy begins its G7 presidency, it faces significant domestic and global challenges, including slow GDP growth, economic stagnancy, and an immigration crisis. The summer wasn’t enough for Italy to heat up its economy, the best case for Italy could be a calm rest of the year.

TURKEY: TURKEY PAYS THE PRICE OF ERDOGAN’S ECONOMIC EXPERIMENT

Turkey has been experiencing some much-needed cooling down of the economy in Q2 of 2024, however short of expectations. A combination of unorthodox monetary policy, authoritarianism, and centralization has created a hyperinflationary environment, devalued the Turkish Lira (TL), and left the people struggling between low wages and high prices. The report released by the country’s statistics agency on September 3rd featured some optimistic news. In August 2024, Turkey’s annual inflation rate decreased to 51.97%, down from 61.78% in July. The core inflation rate, excluding volatile items like food and energy, fell to 51.56%, the lowest since June 2023, compared to 60.23% in July.

Price rises are slowing in Turkey, and the report also underlines the monthly change to be 2.47% - lower than the 3.23% seen in July. However, it is important to note that the Central Bank of the Republic of Turkey’s (CBRT) target inflation rate is 5% which has not been realized in the last 10 years. This ongoing decrease in inflation is a sign that Turkey’s tighter monetary policy is having an effect. After the inflation reached a peak of 85.52% in late 2022, the central bank’s benchmark interest rate was raised sharply to 50% from a low of 8.5% in May 2023, aiming to control inflation. Despite these efforts, the impact on domestic demand and industrial production has been significant.

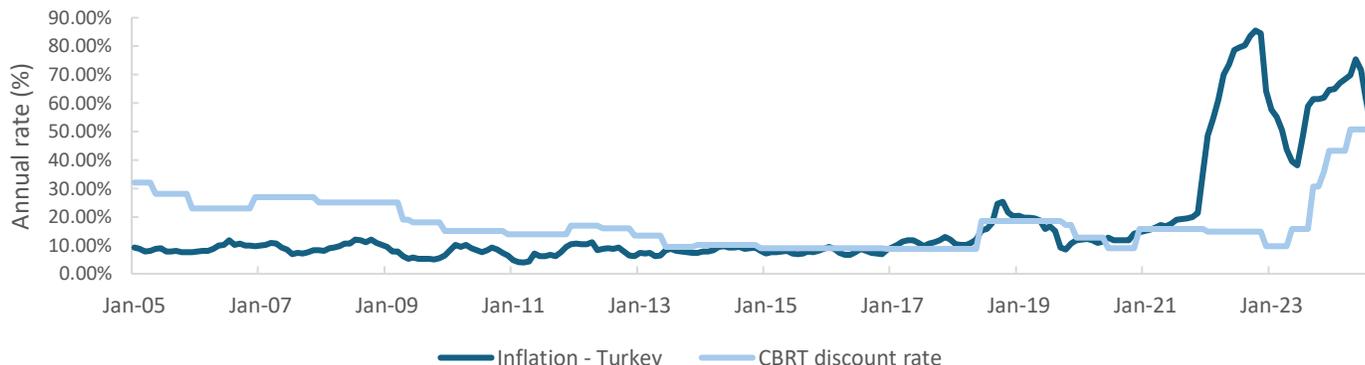
Approximately half of Turkey’s population is employed, and half of the employed population are working for a minimum wage, which has not been keeping pace with inflation. It is also important to note that independent parties such as the Confederation of Progressive Trade Unions as well as the leading opposition party, the Republican People’s Party, have criticized the state’s statistical agency for underreporting. According to their statements, rent, education, and housing expenses have increased by 121%, 121%, and 100%, respectively, over the past year. Official food inflation is reported at 44.8%, but for lower-income groups, it is as high as 80%.

Turkey’s president, Recep Tayyip Erdogan, has been famously preaching that low interest rates led to low inflation. However, after recording high inflation rates and a new Central Bank President appointment by Erdogan, the policy was dropped. As of now, the yearly interest rate has been raised to 50% in March 2024, from 8.5% in May 2023. Consequently, inflationary pressures calmed down, and so have domestic demand and production.

On the fiscal policy front, Turkey’s Finance Minister Mehmet Simsek recently unveiled a plan consisting of cutting government spending and austerity measures in the public sector. This focus on government spending resembling that of Thatcher’s will likely pull the safety net under the working class, which is already pressed between a high cost of living and low wages

On June 28, 2024, the Financial Action Task Force (FATF) removed Turkey from its gray list, which monitors countries for money laundering and terrorism financing risks. Turkey was added to this list in 2021 due to concerns about its anti-money laundering and counter-terrorism financing measures. The removal is seen as a major boost for Turkey’s financial sector and is expected to attract more international investment, enhance confidence in its financial system, and potentially lower borrowing costs. This could accelerate capital inflows and aid in the disinflation process, despite high inflation rates currently impacting the country. Countries on the FATF’s gray list are closely monitored and have to work with the watchdog to correct vulnerabilities to money laundering and terrorism financing. In February, the body removed the United Arab Emirates from the list.

Exhibit 28: Lesson From Turkey —How Stubborn Low Interest Rates Boost Inflation



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

On the other hand, the 50% interest rate and the decreasing value of the Turkish Lira (TL) in relation to USD have attracted foreign investors. Especially during 2022 and 2023, TL was decreasing in value at a higher rate than inflation; if you bought USD in exchange for TL and exchanged it back again at the end of the month, you would make a positive profit as the USD would gain value enough to offset inflation. Now, the interest rate (50% yearly) can't offset inflation (pushing 65% yearly), and the TL devaluation has slowed down. It is less profitable to buy TL to invest in savings, therefore, we forecast foreign investment to decrease which can signal a slight boost to foreign trade.

Looking ahead, we predict a modest interest rate cut in December, depending on how inflation trends evolve. If Turkey's central bank maintains its tight monetary and fiscal policies, inflation could approach single digits by early 2027. However, the current high inflation and stringent policies are causing economic strain, raising concerns about possible unrest among businesses and consumers.

GLOBAL FACTORS TO WATCH

Global Macroeconomic Research

LOOKING FORWARD

Through the final months of 2024, pivotal conferences and summits will convene global leaders to assess the year's developments and strategize for the final quarter and the upcoming year. The upcoming G20 Finance Ministers and Central Bank Governors Meeting and the World Bank and IMF Annual Meetings will address global economic stability, trade policies and development aid among other topics crucial to economic coordination. The BRICS Summit in Russia will emphasize multilateral trade and cooperation, specifically among the BRICS' new members: Argentina, UAE, Saudi Arabia, Egypt, Iran and Ethiopia. Potential deals could reshape the geopolitical and economic landscape.

As the war between Russia and Ukraine begins to escalate further, questions of regional and global involvement are raised. With Western military and economic support in Ukraine, the conflict will be a key issue in NATO deliberations, threatening increased tariffs, supply chain issues and instability, specifically in the Eurozone. In the Middle East, the Strait of Hormuz, which is the world's largest oil chokepoint, could come under disruption as Iran involves itself with conflict between Israel and Hamas. If shipping is interrupted, it could trigger significant ripple effects across the region and the entire globe, potentially driving up energy prices.

Crucial upcoming elections in Venezuela and the U.S. could be significant turning points for their respective regions. A new governing party in Venezuela could potentially reshape relations with Western countries and neighboring Latin American nations. As discussed in the previous edition of Global Macro Update, this election will be closely watched due to its implications for refugees and regional instability. In the U.S., Kamala Harris, whose economic policy emphasizes climate action, expanding social programs, and promoting inclusive growth, now leads polls. With it still being too early to predict a victor, we forecast that the next two months leading up to the election will see increased market volatility as investors weigh potential regulatory changes and shifts in government spending priorities depending on polling data.

Inflation and rising interest rates will continue to challenge economies worldwide, especially in Europe and North America. Economic indicators for growth, consumer spending, and employment are expected to be major discussion points at upcoming central bank meetings. Overall, October will be marked by critical shifts in global power dynamics, economic stability, and environmental policies, and we remain committed to delivering the most relevant and actionable analysis to help you stay ahead of these developments.

Please read disclosures/risk and liability information beginning on page 28, including Analyst information on page 29.

The IMF provides financial assistance to countries facing economic crises. As of 2023, the IMF has committed over \$250 billion through lending arrangements to various nations, stabilizing economies like Argentina, Pakistan, and Greece. IMF annual meetings and G20 summits historically have helped manage global crises, set policy agendas on issues like climate change and inequality, and promote international cooperation.

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General Risk Factors. The following are some general risk factors that pertain to the macroeconomic environment and the analyses and projections included in Vertige Investment Group's research: **(1)** Changes in the global and domestic macroeconomic environment, such as fluctuations in GDP growth, inflation rates, and employment levels, can significantly impact the performance and valuation of companies. Economic downturns or recessions can lead to decreased consumer and business spending, negatively affecting revenue and profitability; **(2)** Central bank policies, including interest rate adjustments and quantitative easing measures, as well as government fiscal policies, can influence borrowing costs, consumer spending, and overall economic activity. Sudden changes in these policies can create volatility in financial markets and impact company performance; **(3)** Political instability, trade tensions, and changes in international relations can disrupt global supply chains, impact commodity prices, and create uncertainty in financial markets. These risks can affect the operations and profitability of companies with international exposure; **(4)** Changes in laws and regulations, including those related to environmental standards, labor practices, and industry-specific regulations, can impact operational costs and compliance requirements. Legal disputes or penalties can also pose significant risks to companies; **(5)** Shifts in market dynamics, such as changes in consumer preferences, technological advancements, and competitive pressures, can alter the competitive landscape. Companies may face challenges in adapting to these changes, affecting their market share and profitability; **(6)** Each industry has unique risks that can impact company performance. For example, commodity-based industries are exposed to price volatility, while technology companies may face risks related to cybersecurity and intellectual property; **(7)** Internal factors such as management effectiveness, operational efficiency, and corporate governance practices play a crucial role in company performance. Issues like supply chain disruptions, labor disputes, and operational inefficiencies can adversely affect business outcomes; **(8)** Companies are exposed to various financial risks, including currency fluctuations, interest rate changes, and liquidity constraints. High levels of debt and poor financial management can increase the vulnerability of companies to economic shocks; **(9)** Investor attitudes and market sentiment can be influenced by factors such as earnings reports, analyst recommendations, and broader economic trends. Negative sentiment can lead to stock price volatility and impact the perceived value of companies; **(10)** Rapid technological advancements can disrupt existing business models and create new competitive pressures. Companies that fail to innovate or adapt to technological changes may lose market share and profitability; **(11)** Increasing awareness of climate change and environmental sustainability can lead to regulatory changes and shifts in consumer behavior. Companies may face risks related to environmental compliance, resource scarcity, and reputational damage; **(12)** Unpredictable events such as natural disasters, pandemics, and other global crises can have significant adverse effects on economic activity, supply chains, and company operations.

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.