

EMEA EM Economic Outlook

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Softening inflation broadens dovish CBs

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Softening inflation broadens dovish CBs

- Except for Turkey and some Africa frontiers, the hiking cycle has been terminated everywhere.
- A dovish shift is underway across CE3, but rest of EMEA EM central banks are more cautious or under pressure because of FX (Israel, South Africa, Russia). Frontiers with high real rates (ex-post and ex-ante) continue cutting rates - Georgia, Kazakhstan, Ukraine.
- CEE August CPI releases confirmed a widespread loss of inflation momentum. The dovish turn in CE3 is largely driven by soft inflation in Czechia and Hungary; we see risks of 4Q23 rate cuts in both vs 1Q24 baseline. Poland already cut and more is likely this year and next, but macro justification is weakest.
- Core disinflation is largely on the back of goods as services inflation slows but remains rather sticky; this maintains questions around sustainability of disinflation.
- Turkey remains on a path of its own, but the shift towards orthodoxy is gaining strength.
- A combination of domestic and global factors keeps economic activity soft in 3Q but we expect real income gains in 4Q to support consumption afterwards.
- Oil prices are above our assumption of roughly US\$80/bbl this and next year – offering support to exporters but challenging importers and adding to upward inflationary pressures.
- July hard activity has been weak on both IP and retail sales (the latter somewhat better) but nowcaster shows significant downside to 3Q GDP only in Czechia, while for Russia, Turkey and South Africa it points to upside.
- In the frontier space, growth has been softening, for both domestic and external factors; Saudi Arabia still shows robust non-oil growth but expenditure has been elevated too.
- Many frontiers have gotten market-relief but risks from high US rates and slowing Chinese economy are worth watching.

Country details in slides 12-56

For additional country-level forecasts and regional detail see the accompanying separate Appendix presentation

EMEA EM: A brief tour of the region

Czech Republic: The economy returned to positive territory in 1H23, even if very modestly. Core inflation is declining, and well spread into most sub-categories, with core goods, services and rents contributing to the slowdown. The hawkish CNB board is slowly acknowledging this, and gradually turning more dovish. Rate cuts will start in coming quarters, but will be cautious and aiming for positive real rates.

Egypt: Recent headlines on the structural reforms and privatisation drive has been positive but perhaps not enough to get the IMF nod for the first and second review without some further FX reforms. There are also increasing signs the presidential elections could be brought forward to later this year and maybe afterwards, some of the FX reforms will be implemented. Otherwise, headline inflation continues to rise largely of higher food costs and CBE likely keeps rate on hold at its next meeting

Ghana: The first review of the IMF programme is due over the next month and authorities are still hopeful they will be able to get a deal with the official creditors ahead of or just around the review. Like we saw with Zambia, a delay in getting a deal and financing assurances with official creditors could stall IMF programme disbursement even if authorities have met the set indicative targets. This could also potentially delay a deal with private creditors.

Hungary: The Hungarian economy is being hit by a mix of fiscal consolidation and a squeeze in real household incomes 2023 GDP growth will likely be slightly negative. Inflation remains extremely elevated optically, but momentum is coming down fast, supported stable FX and weak demand. The NBH started the easing cycle in May, and we expect the 1-day depo to be reconciled with the base rate (13% in September, after which the framework should be simplified.

Israel: Domestic politics has been key theme of 2023, affecting confidence and provoking capital outflows. Labor and housing markets remain tight, but cooling, with growth running slightly below trend. Inflation passed the peak, although momentum remains volatile and FX-passthrough a potential concern. The Bol likely ended the hiking cycle, but risks are skewed toward more hikes. Fiscal policy remains conservative, 2023 fiscal impulse should be positive but relatively small.

Kazakhstan: Growth has softened lately but 5% this year still seems plausible. CA should benefit as Brent prices have increased and overall BoP should improve further. As disinflation started in March, NBK started the easing cycle in August with more likely to come.

Kenya: Macroeconomic vulnerabilities have eased over the last two years, containing borrowing needs. Despite narrowing twin deficits, Kenya's large 2024 external amortizations remain a key point of focus amid falling FX reserves. Absent market access, we forecast a US\$2.4bn BoP gap in 2024, leaving FX reserves at a meagre US\$4.4bn.

Nigeria: President Tinubu has nominated a new leadership team at the central bank with Dr Yemi Cardozo in line to be the next CBN governor. He will be charged with the responsibility of implementing FX and monetary policy reforms while trying to navigate the delicate balance of achieving price stability, improving the functioning of the FX market and boosting economic growth

Poland: Growth started 2023 on a strong note on technical factors, which eventually were reversed in 2Q. In underlying terms the economy is stagnant, driven mainly by weak consumption. Inflation dynamics keep showing signs of deceleration, but core inflation is still running at a 5% saar pace. The NBP rushed through a sizeable 75bp cut, which the market didn't expect, triggering a sharp FX sell-off. Next decisions and communications likely will be more cautious.

Romania: Fiscal consolidation to continue in 2023 after fiscal outperformance in both 2021 and 2022 relative to targets; the -4.4% deficit target for 2023 cannot be met and a new target, around -%5.5 of GDP, is negotiated with the EC. Romania benefits from substantial amounts of EU funds (grants and loans) which motivate the government to have good relations with EC; we see growth outperforming CE3 growth.

Russia: The economy proved resilient to geopolitical shock, with GDP contracting a moderate 2.1% in 2022, which should be followed by ~2.6% recovery in 2023. Policies eased substantially, stimulating domestic demand, which, along with lower commodity prices, reduced the CA surplus and led to RUB weakness this year. Inflation picked up momentum on strong demand and FX passthrough. The CBR had to tighten 550bp in past 3 months and kept the door open for further hikes.

Saudi Arabia: The extension of the 1mbpd voluntary oil production curb until the end of 2023 mechanically pushed GDP into contraction despite non-oil economy continues to perform well. On the fiscal front, the decision from Saudi Aramco to pay a large extra dividend from 3Q will fill the previously expected fiscal gap resulted by higher expenditures and lower oil production. On the external side, the picture remains comfortable with an expectation for a wide CA surplus.

Serbia: Weak 1Q growth was followed by a strong rebound in 2Q and announcements of extra budgetary expenditures that help lift growth back towards 2% this year. The revised 2023 budget deficit is likely to remain contained below -3% of GDP. With lower energy prices and weak growth, a big improvement in CA is also underway. Inflation is coming down, but a return to target will be delayed until end-24. NBS has likely concluded rate hikes but we do not expect it to join the easing club soon.

South Africa: Supply side resiliency should buoy 2023 growth to a likely 0.7%/y/y. While consumption is weakening, investment should also pickup in 2H23, intensifying the deterioration in the C/A deficit to 2.5% of GDP. SARB probably will stay hawkish despite improved inflation outlook amid widening twin imbalances. The fiscal deficit likely widens to 6.3% in FY23/24 on lower revenue (due to a fall in terms of trade) and higher spending.

Tunisia: Macro picture improved despite no breakthrough on the IMF programme front. The fiscal adjustment related to lower real wages and subsidies spending has been reflected by a fiscal surplus in 1H. On the external front, a sharp narrowing of the CAD together with large financial support from Saudi Arabia and other multi/bilateral partners have allowed reserves to increase significantly easing risks around upcoming Eurobond repayments.

Türkiye: CBRT hiked its policy rate from 8.5% to 25% in the last 3 months, and pledged further tightening to anchor rapidly deteriorating inflation expectations. The credit growth significantly slowed down as the deposit and lending rates increased. We expect GDP growth to slow in 2H23 while inflation is set to rise in 4Q23 and 1H24 due to the lagged impacts of lira depreciation, wage hikes, and tax hikes.

Ukraine: Authorities easily finalized the first review under the US\$15.6bn EFF over 4 years giving access to a total of US\$115bn. Lending to a country in war is exceptional, and size of package is without precedent. Growth recovered better than expected by markets/officials, while we continue to look for 5% in 2023. The length of war and fiscal picture are key to debt restructuring.

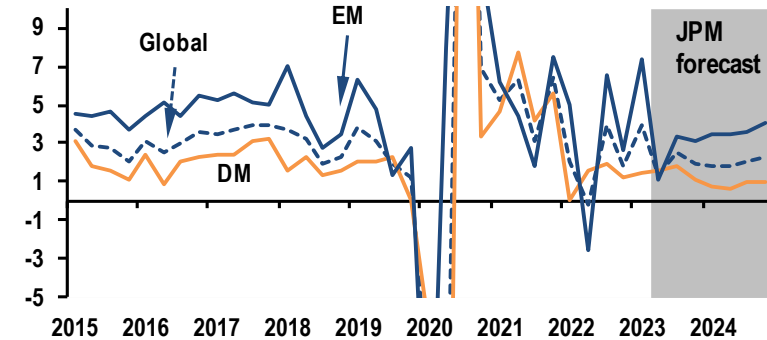
Zambia: The central bank hiked more than expected (by 50bp) at its August rate setting meeting as inflation continues to rise. Headline inflation rose to 10.8% oya in August and is on course to rise above 12% by year end. We think the BOZ will maintain a tightening stance into year end. In other news, authorities continue to await a memorandum of understanding with official creditors while also trying to negotiate a deal with private creditors.

Growth resilience

Global growth continues to be more resilient than expected

Global GDP growth

%q/q, saar

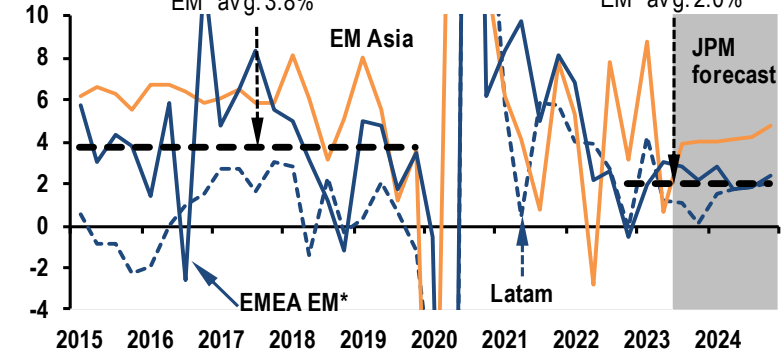


Source: J.P. Morgan

EMEA EM growth is seen below-trend over the forecast horizon

GDP growth in EMEA

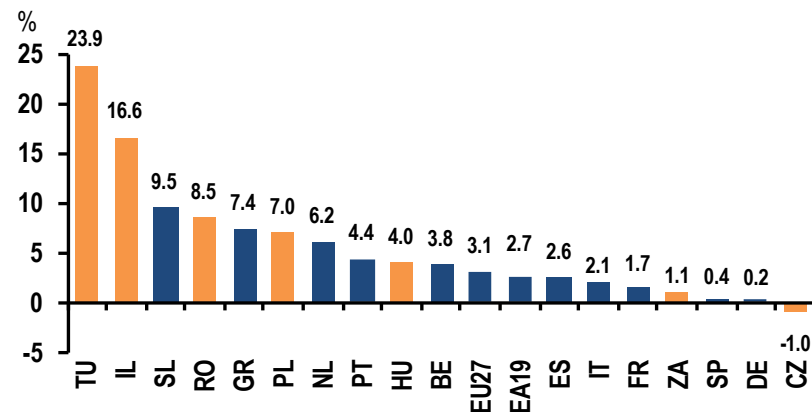
%q/q, saar



Source: J.P. Morgan *ex. Russia

Turkey remains the clear leader in terms of GDP recovery from COVID-19; Czech lags behind

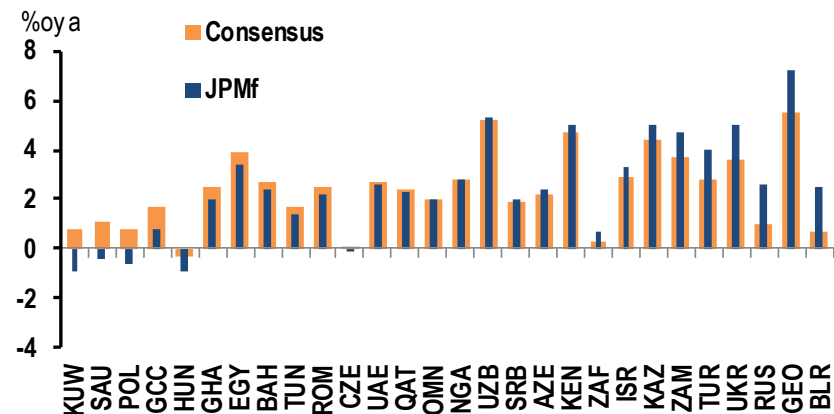
Real GDP: 2Q23 vs 4Q19



Source: Eurostat, National accounts, J.P. Morgan; EMEA EM in orange

We are slightly more bearish than consensus on 2023 growth in CEE, parts of Africa and GCC

2023f GDP growth, JPM vs consensus (bearish to bullish)

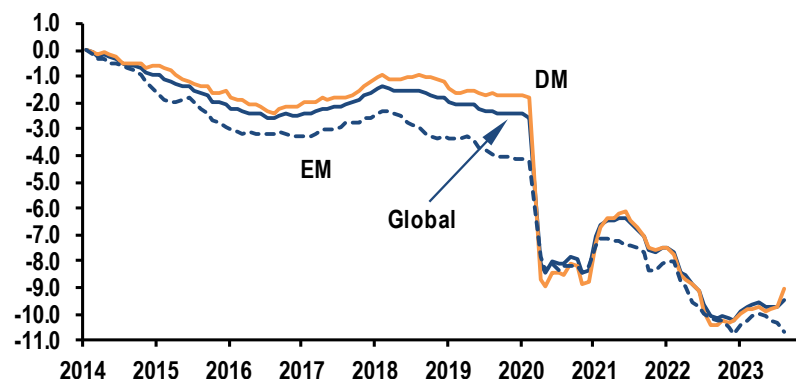


Source: J.P. Morgan, Focus Economics September 2023

Growth to stay on track despite China concerns

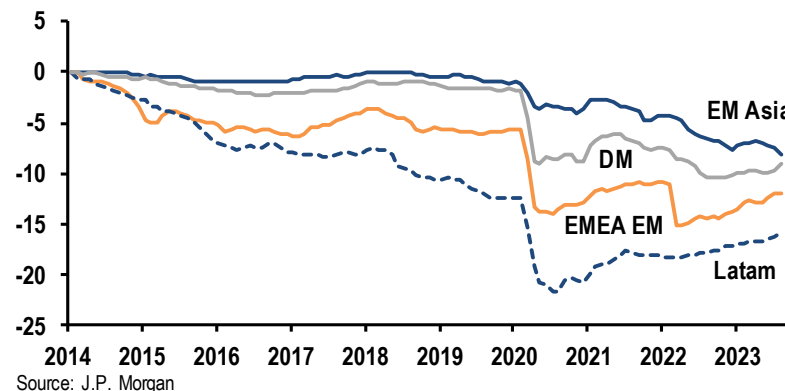
Growth forecasts have ticked higher in DM but lower in EM due to EM Asia

JPM Forecast Revision Index, %pt; cum. to rolling forecast



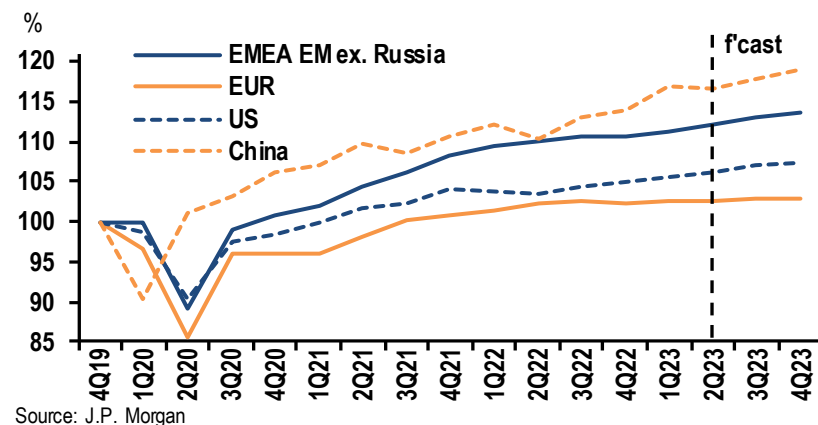
In EMEA EM, latest revisions have been to the upside

JPM Forecast Revision Index, %pt; cum. to rolling forecast



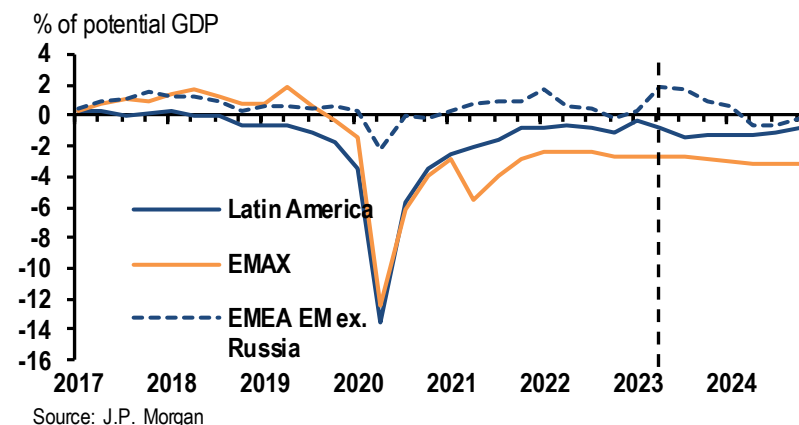
EMEA EM's recovery from COVID-19 has significantly outperformed the Eurozone

GDP levels



...and EMEA EM output gap is set to remain ahead of other EM regions, but dip negative next year

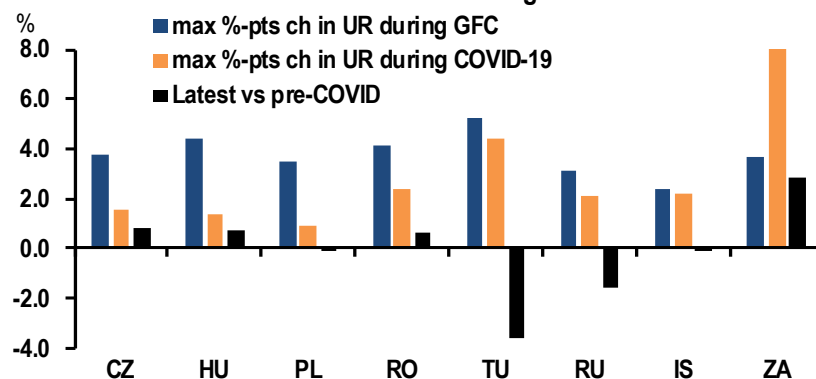
Output gaps in EM



Labour markets in EMEA EM remain tight, except for SA

During the COVID-19 recession, unemployment did not rise as much as during the Global Financial Crisis

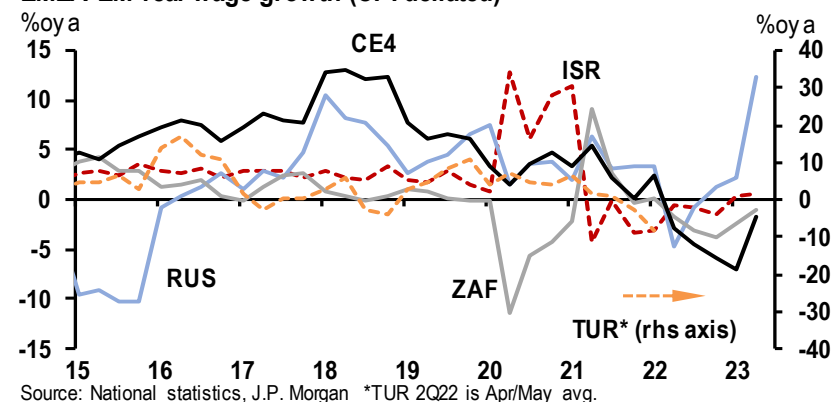
Limited deterioration in labor markets during COVID-19



Source: Haver, J.P. Morgan; compares peak in UR in a recession

Real wage growth is picking back up as inflation cools

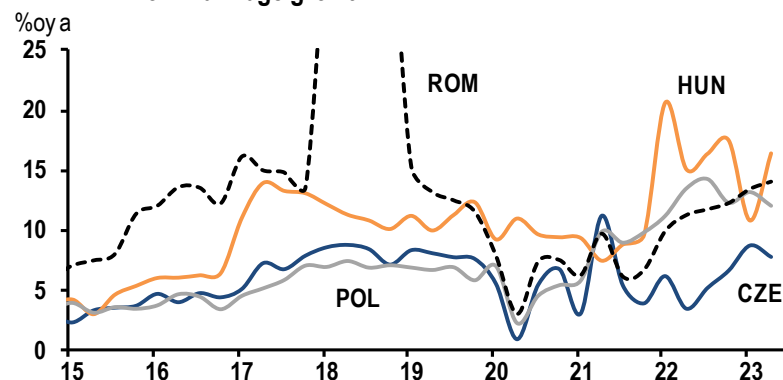
EMEA EM real wage growth (CPI deflated)



Source: National statistics, J.P. Morgan *TUR 2Q22 is Apr/May avg.

CE4 nominal wage growth is strong

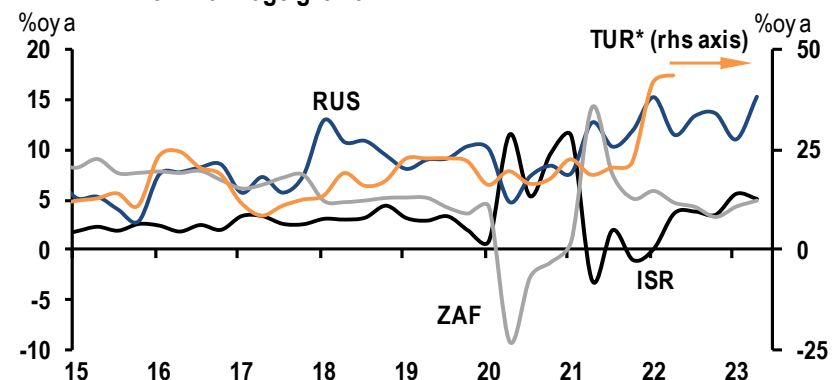
EMEA EM nominal wage growth



Source: National statistics, J.P. Morgan

Wage growth flattened after a long decline in South Africa

EMEA EM nominal wage growth

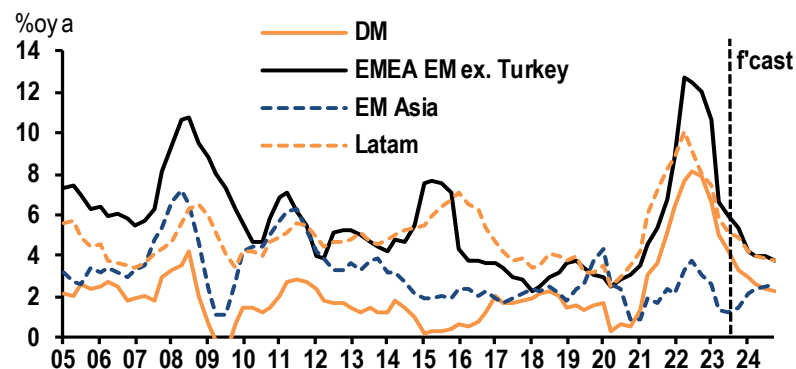


Source: National statistics, J.P. Morgan *TUR 2Q22 is Apr/May avg.

Inflation outlook is turning more constructive for low yielders

Global inflation is being reversed

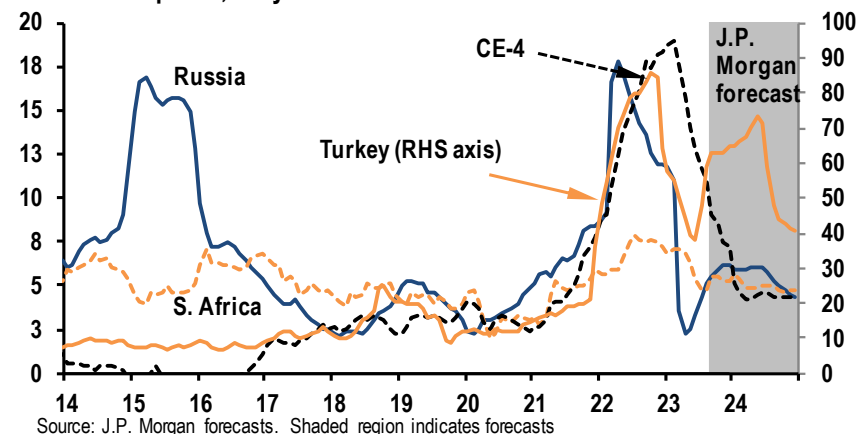
Consumer prices (headline CPI)



Source: National Central Banks, J.P. Morgan

Disinflation well underway in CE4

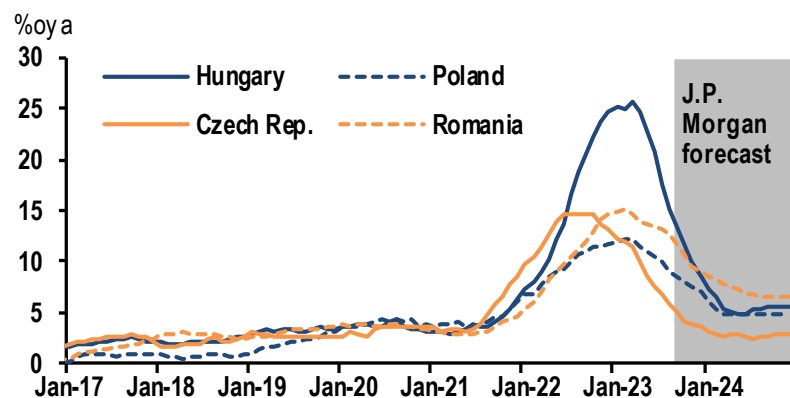
Consumer prices, %oya



Source: J.P. Morgan forecasts. Shaded region indicates forecasts

Core inflation is at a slower pace

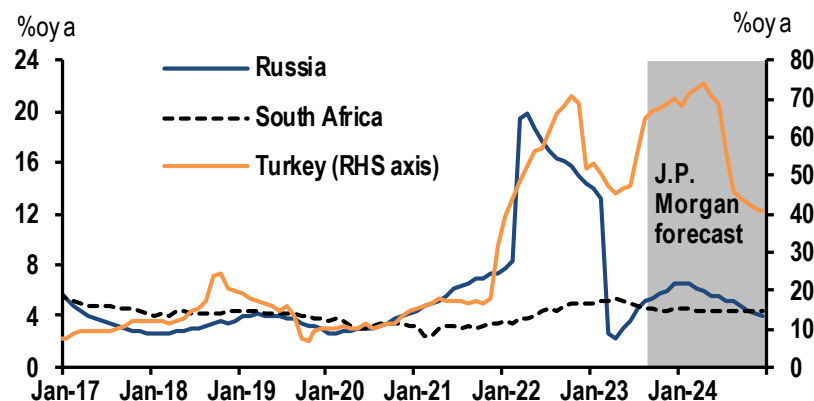
Underlying inflation in CE4



Source: J.P. Morgan, National statistics offices

Core inflation is particularly persistent in high-yielders

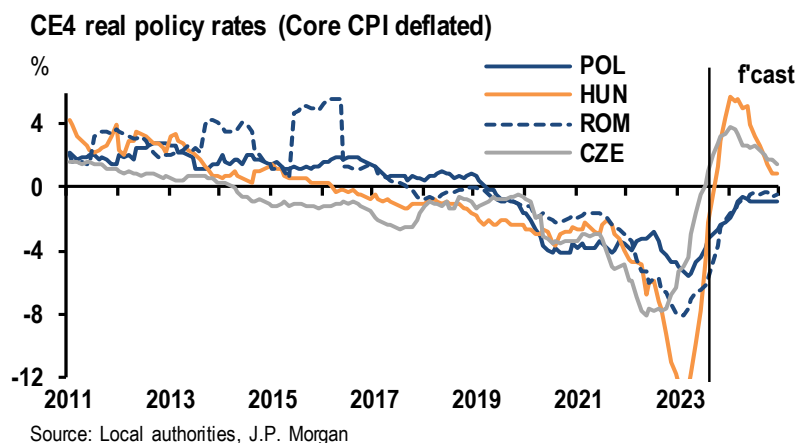
Underlying inflation in high yielders



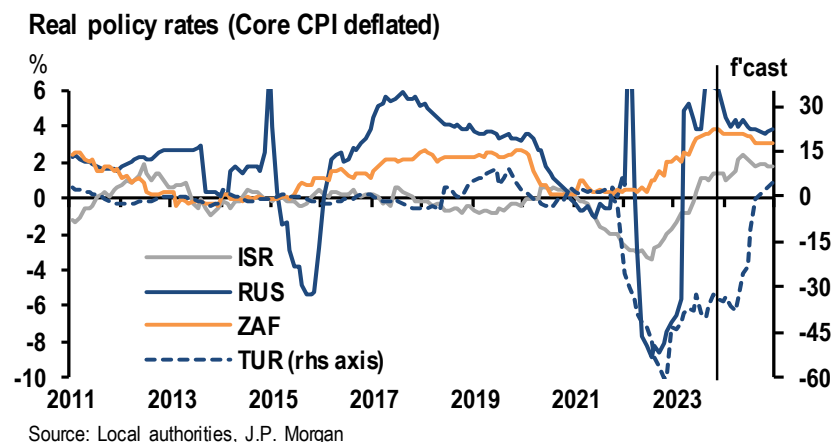
Source: J.P. Morgan, National statistics offices

...but easing of monetary conditions will only be partial

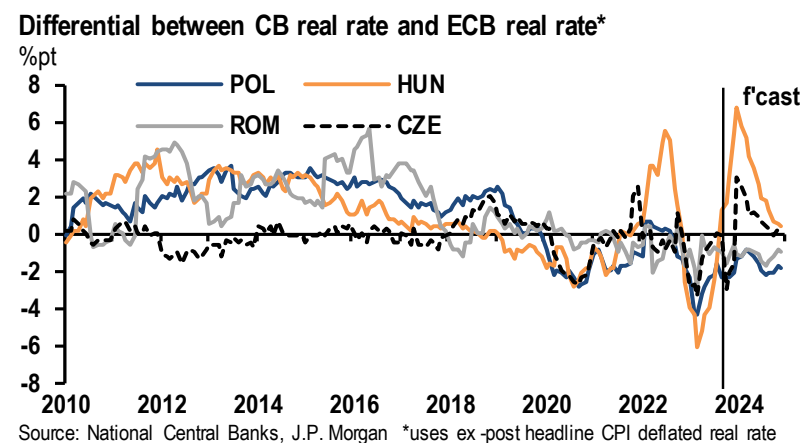
Real rates are seen increasing in CE4...



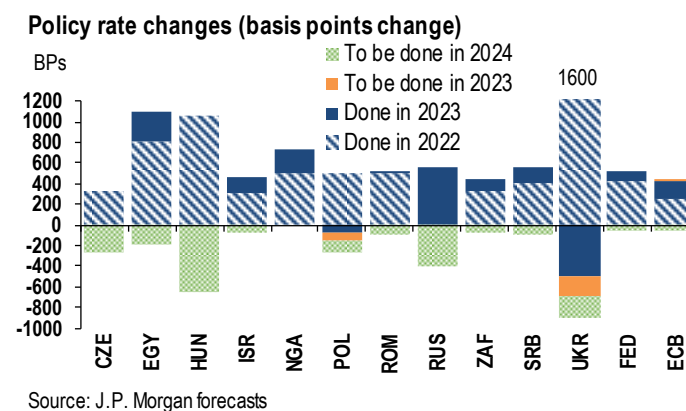
...and in high-yielders



Only Czechia and Hungary to have positive differential vs ECB

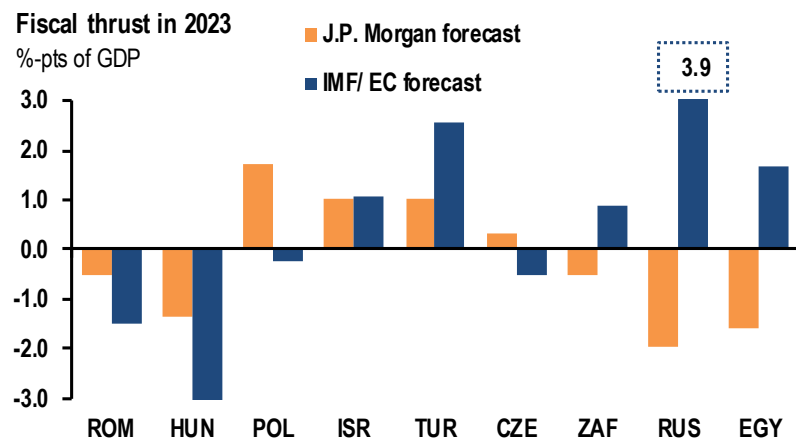


2024 easing will not fully reverse past tightening



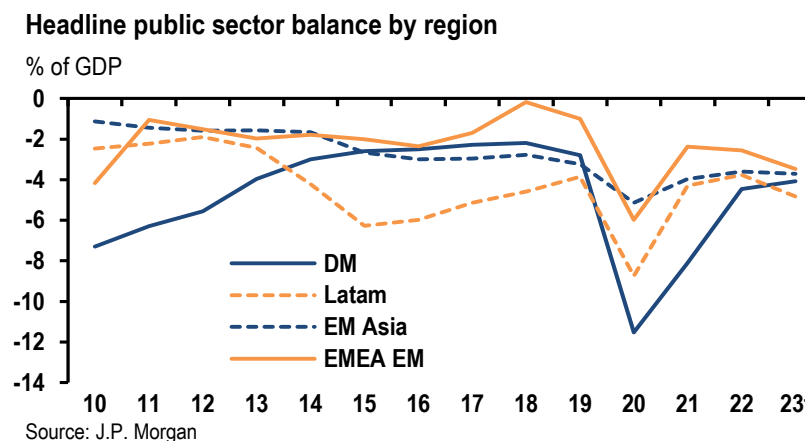
Fiscal policy: budget deficits to remain wide

Diverse fiscal policies this year

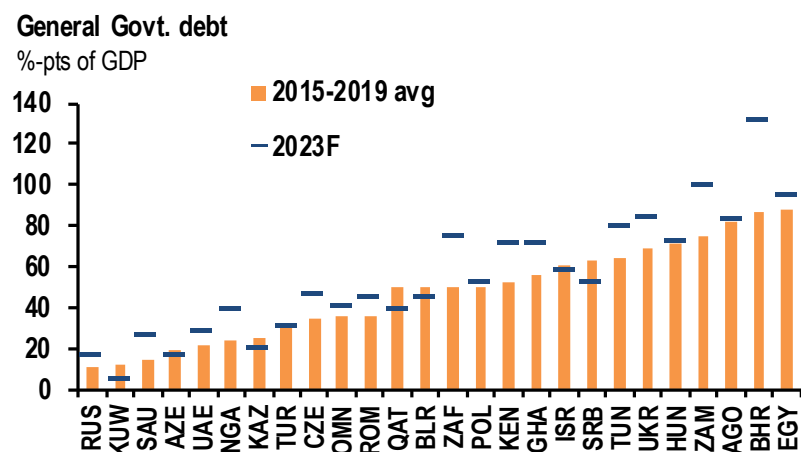


Source: J.P. Morgan, IMFWEO, European Commission. *EGY is fiscal year 24 forecast

Fiscal position to worsen in EMEA EM

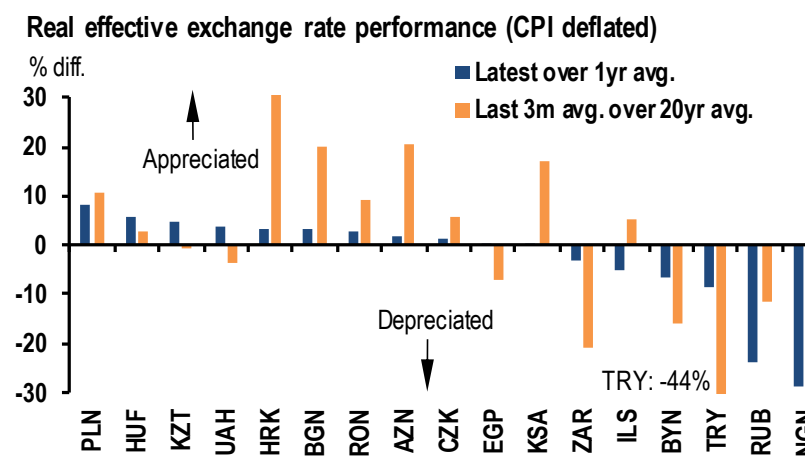


Debt/DP is expected to rise as growth and inflation slow



Source: J.P. Morgan, IMF

Positive REER developments in most of the region

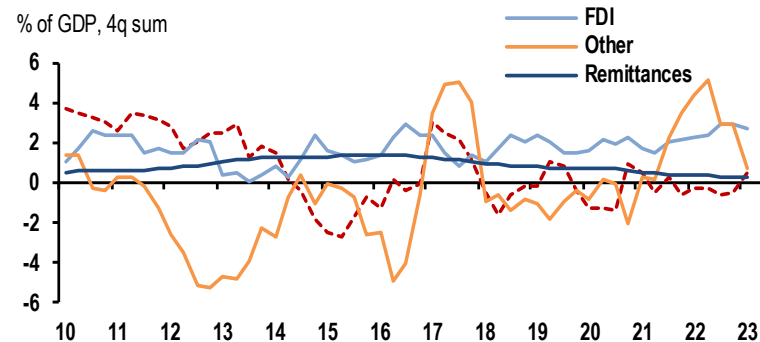


Source: J.P. Morgan, Bruegel. Latest data are Jul/Aug 2023

CA-driven vulnerabilities in CEE are being reversed...

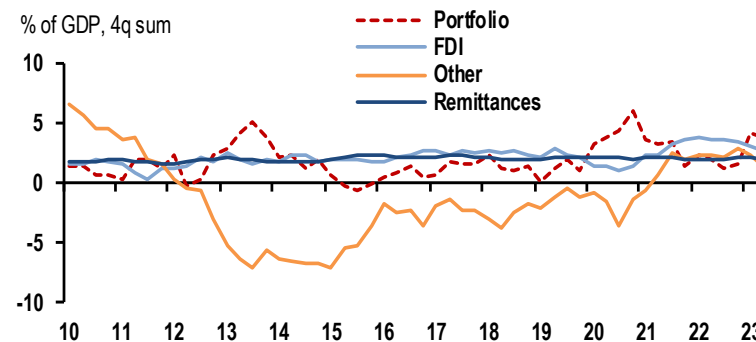
FDI flows have been growing in CE3

Balance of payments flows: CE3



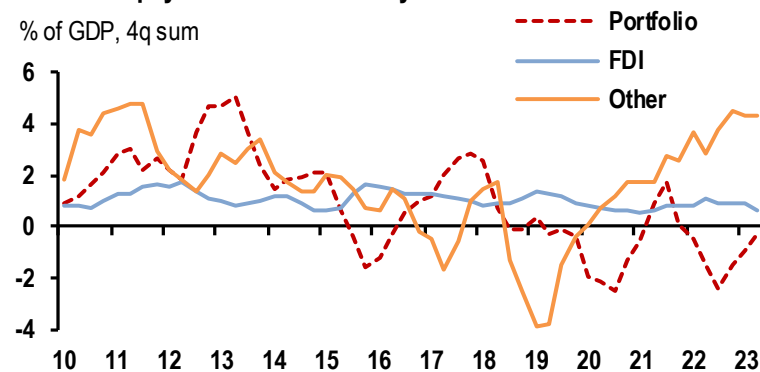
A similar picture in Romania

Balance of payments flows: Romania



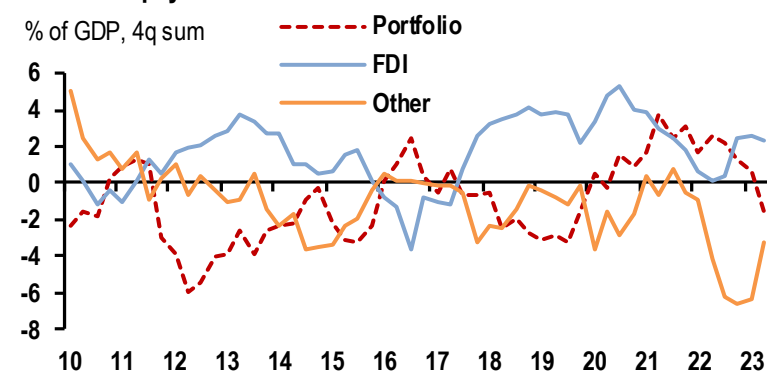
Turkey turned to loans to cover deficits

Balance of payments flows: Turkey



CA surplus in Israel drives portfolio investment abroad

Balance of payments flows: Israel

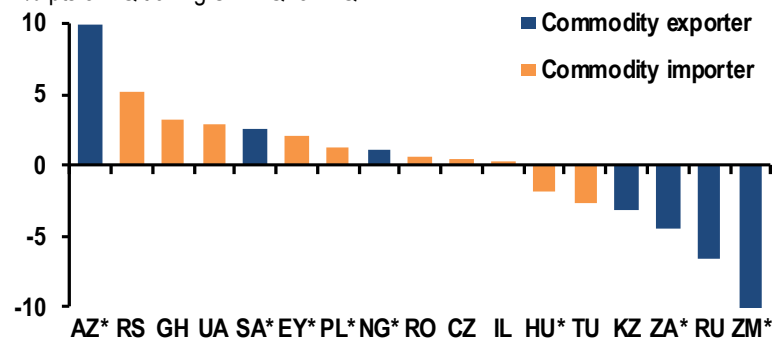


...as importers still likely to benefit from terms of trade

Quarterly trailing data shows recovery in early 23 for commodity importers

Change in current account balances as % of GDP

%-pts of 4Q trailing CA: 2Q23 - 2Q22

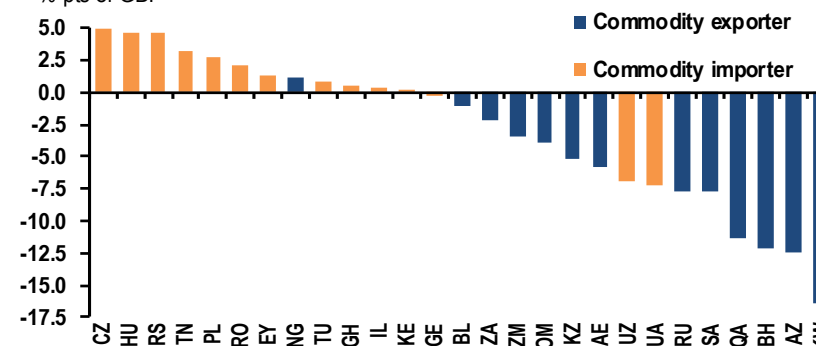


Source: National Central Banks, J.P. Morgan *1Q23-1Q22

A large reversal is expected in full-year 2023 in almost all importers

Change current account as % of GDP; 2023f - 2022f

%-pts of GDP

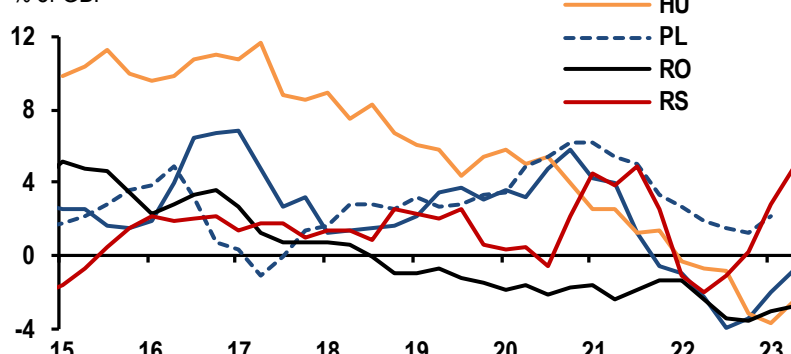


Source: National Central Bank, J.P. Morgan

Basic balances are improving in CEE as CA's improve and FDI remains solid

Basic balances in CEE (CA+KA-FDI)

% of GDP

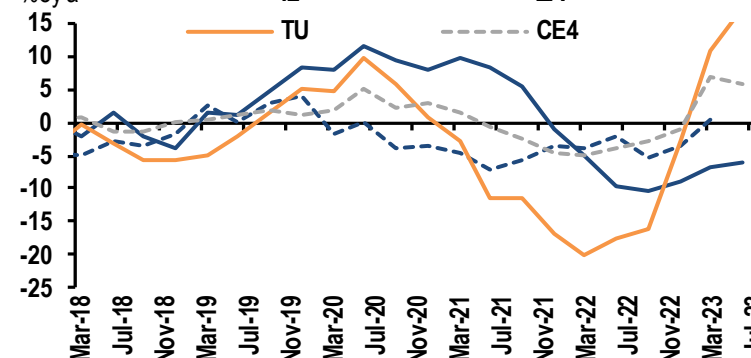


Source: National statistics (RO includes EU loans), J.P. Morgan

Terms of trade are improving from their lows

Terms of trade in EMEA EM

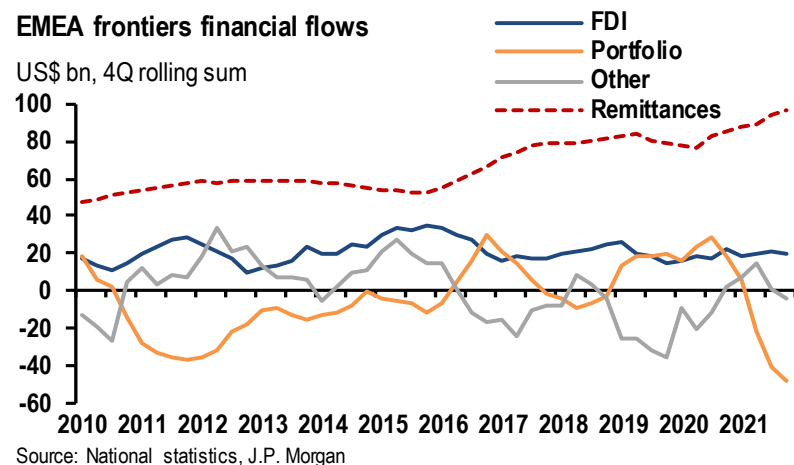
%o/a



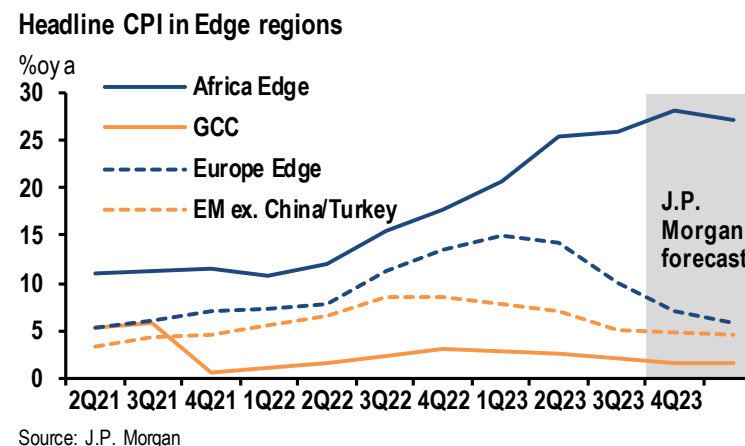
Source: National statistics offices, J.P. Morgan

Main themes in frontier markets

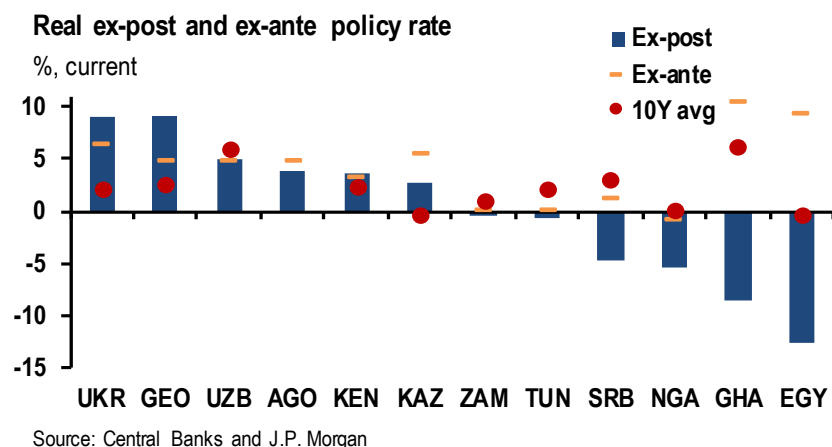
Remittances are the main source of US\$ inflows to frontier markets



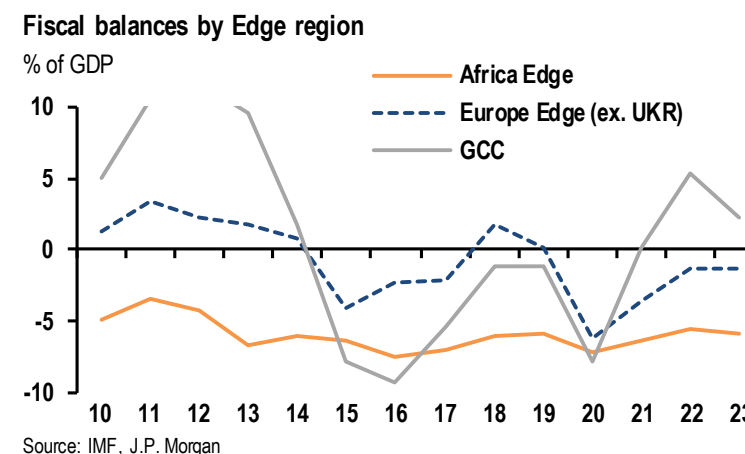
Inflation is peaking or has peaked in most frontier economies except Africa



Mix of tighter policy and falling inflation means positive ex-ante real-rates in almost all EMEA EM Edge economies



Africa shows almost no fiscal adjustment (due to interest bill)



Agenda

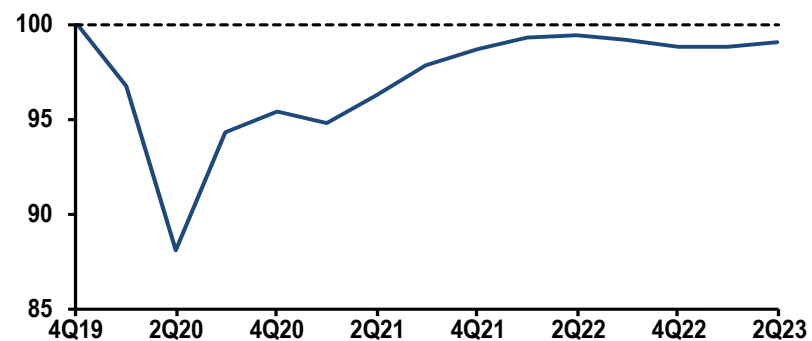
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Czech Republic: Very weak economic performance

Activity struggling to recover pre-COVID levels

Czech GDP level

4Q19 = 100

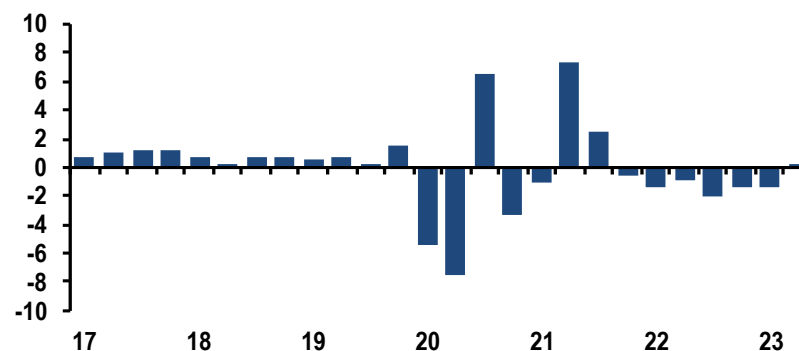


Source: J.P. Morgan

The Czech case is pretty dire, with households reducing consumption sequentially for six consecutive quarters

Czech Republic - real household spending

% q/q

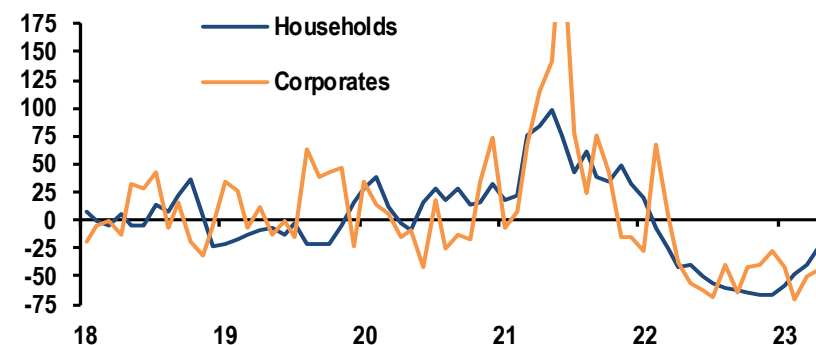


Source: CSU, KSH, GUS, J.P. Morgan

New lending in Czech Crown has absolutely collapsed

Pure new lending in CZK to the private sector

%oy a

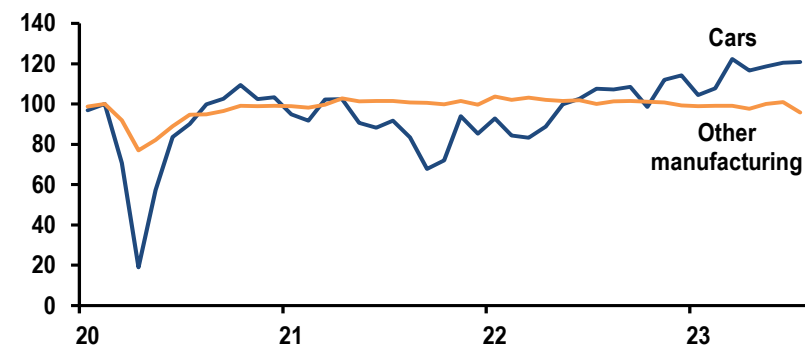


Source: CNB

The crucial car sector has recovered, but other manufacturing is stagnant

Czech manufacturing

Index Feb 2020=100, swda



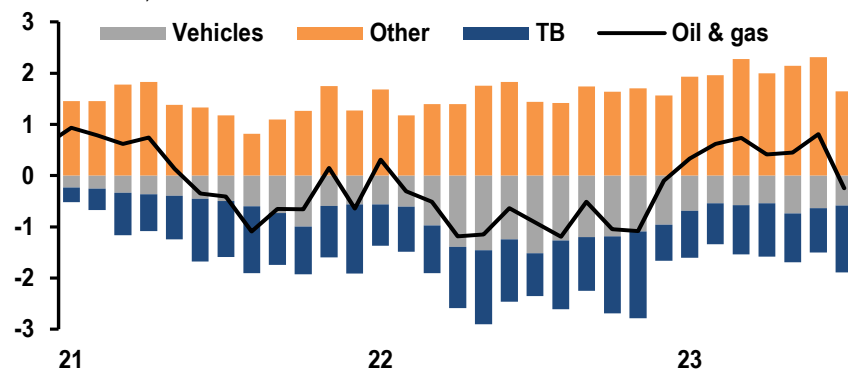
Source: CSU

Czech Republic: Current account rebounds, fiscal consolidation in baby steps

Trade balance rebounded to positive, on lower energy imports and fading supply issues in the car sector

Trade balance by sub-component

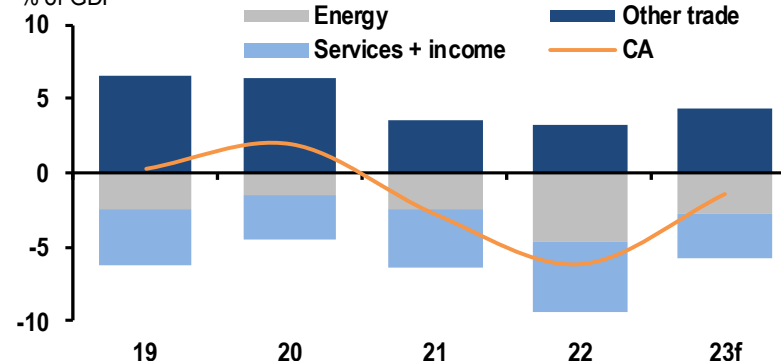
EUR billions, sa



The current account is expected to improve as energy drag disappears

Czech CA composition

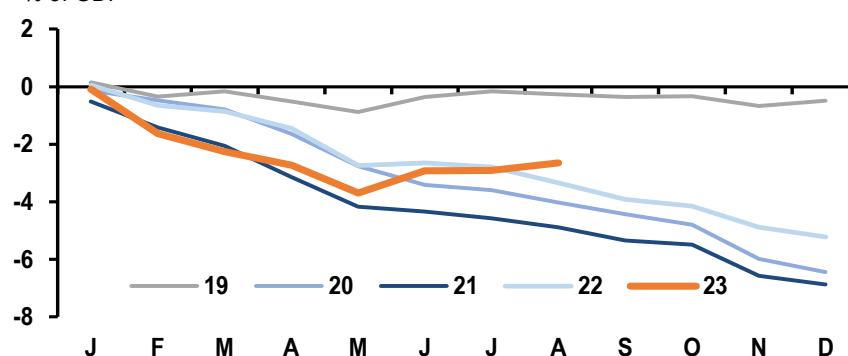
% of GDP



Budget execution started the year very poorly, mainly due to expenditure growth

State budget execution - cumulative (cash basis)

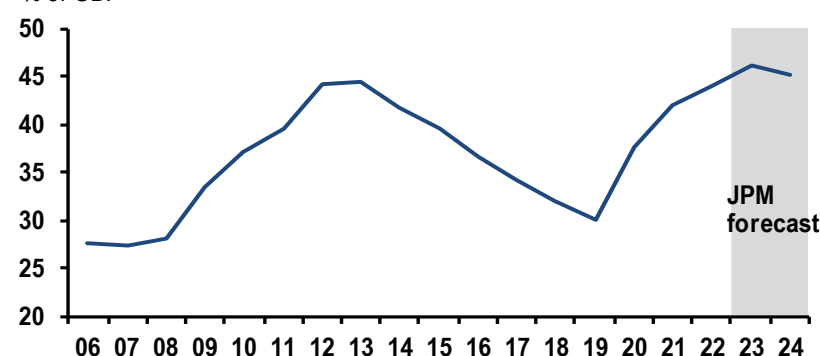
% of GDP



Despite the large deficits recently, public debt remains relatively low

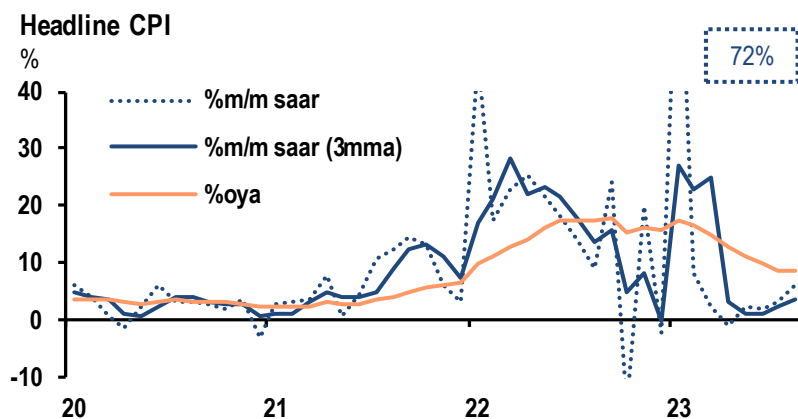
Czech general Government Debt

% of GDP

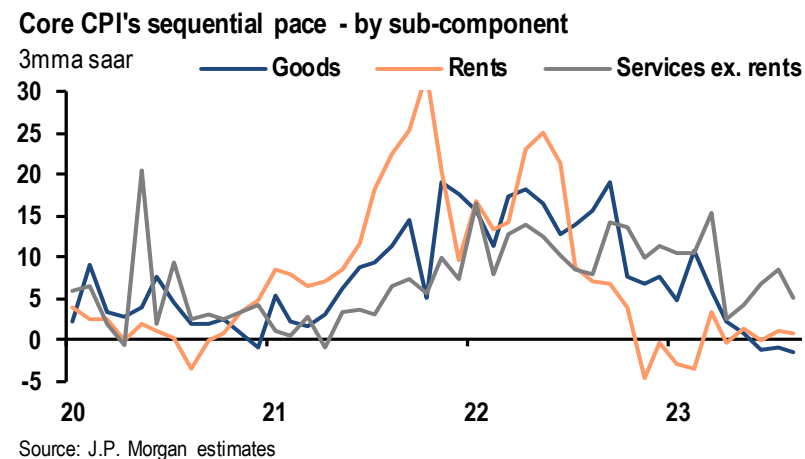


Czech Republic: Hawkish CNB gradually shifting to easing mode

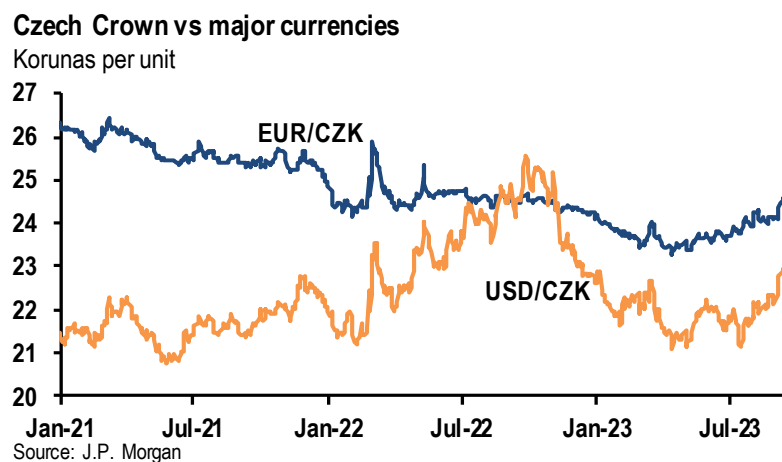
Inflation slowed significantly in the latest prints



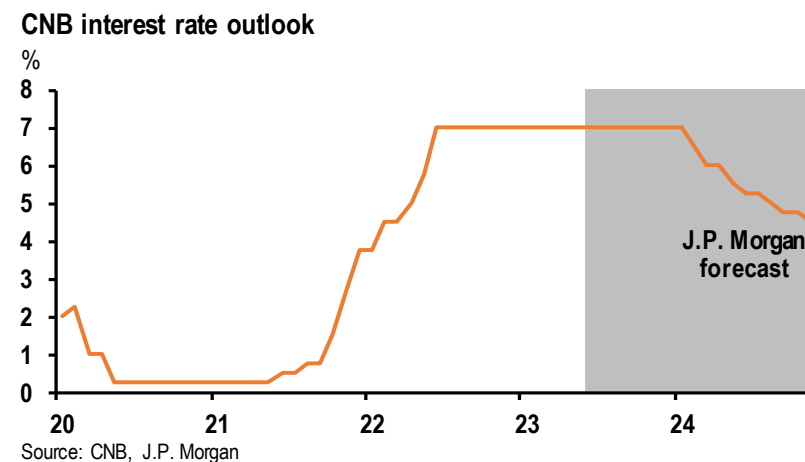
Driven also by core inflation and all its sub-components



The Czech Crown is no longer strengthening, having reverted recently some of the earlier gains



We expect the CNB to turn gradually more dovish, and start easing in early 2024, with risks for 4Q23



Agenda

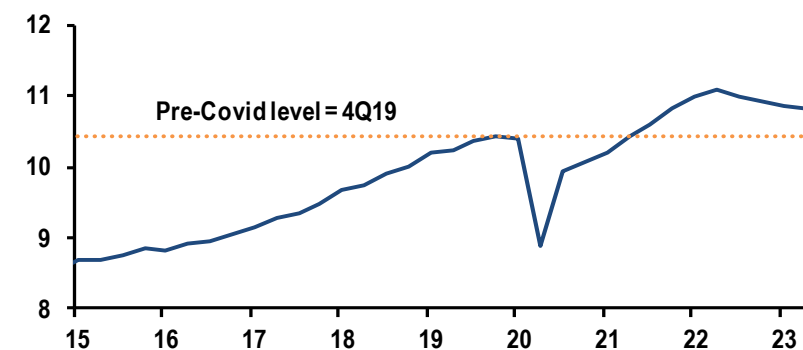
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Hungary: Expansion exhausted

GDP is above its pre-COVID level, but has now been contracting for four quarters

Real GDP

Chained 2015 HUF tn (SWDA)

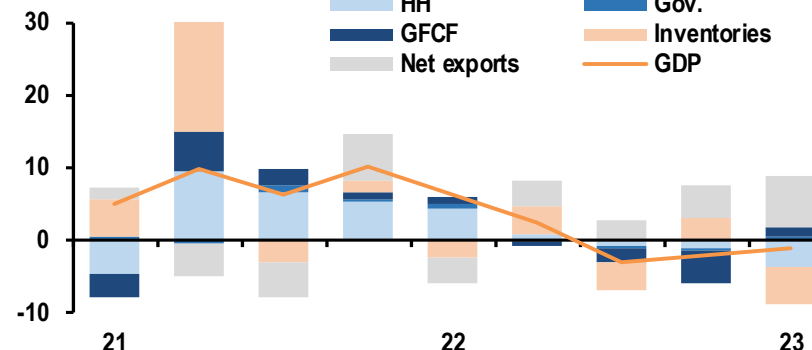


Source: KSH

Household spending has run out of steam, and has been a constant source of demand weakness since mid-2022

Hungary GDP growth - quarterly decomposition

%-pts contribution to %q/q saar

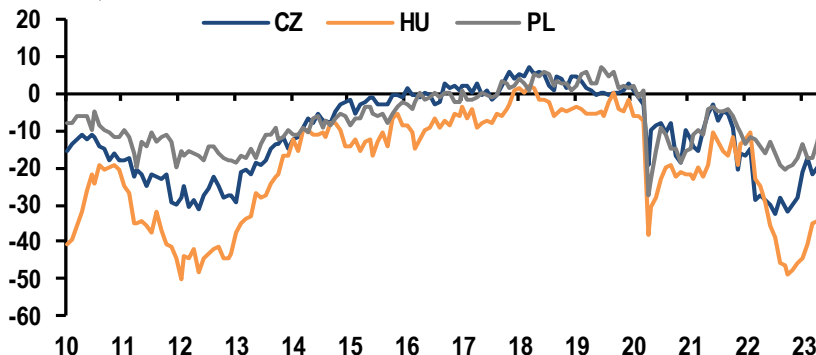


Source: KSH, J.P. Morgan

Consumer confidence rebounded from the lows

Consumer confidence

balance, %

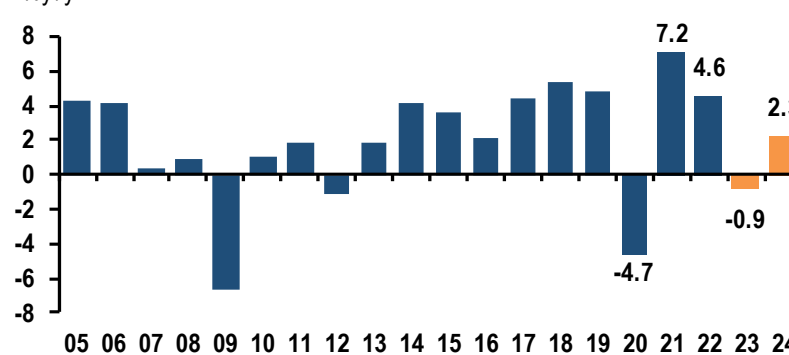


Source: Eurostat, J.P. Morgan

We expect growth to be slightly negative in 2023, rebounding modestly in 2024

Real GDP growth - Hungary

%y/y



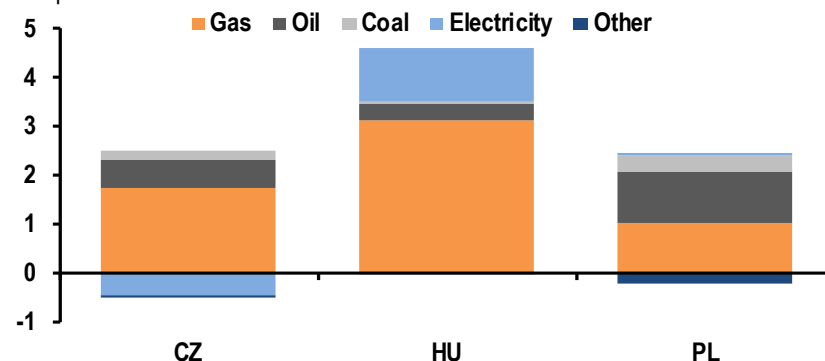
Source: KSH, J.P. Morgan

Hungary: Swift external account turnaround

Energy imports added the most to Hungary's import bill in 2022, as natural gas is ~1/3 of total energy supply

Change in net energy imports - 2022 vs 2021

%-pts of GDP

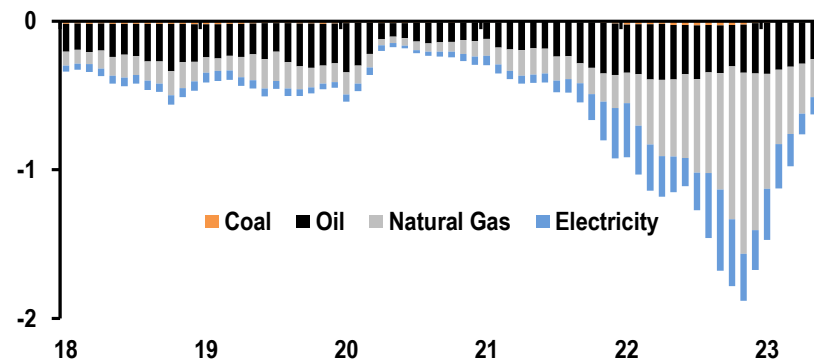


Source: Eurostat, J.P. Morgan

In 2023 there was a massive correction in trade performance, driven by energy

Hungary net energy imports

EUR billion, 3mma

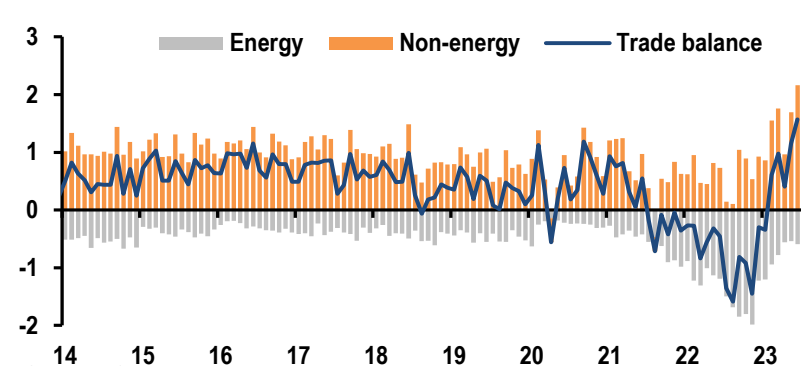


Source: KSH, J.P. Morgan

But other trade is also doing well, part car export rebound, part demand-led import compression

Hungary trade balance breakdown

EUR billion

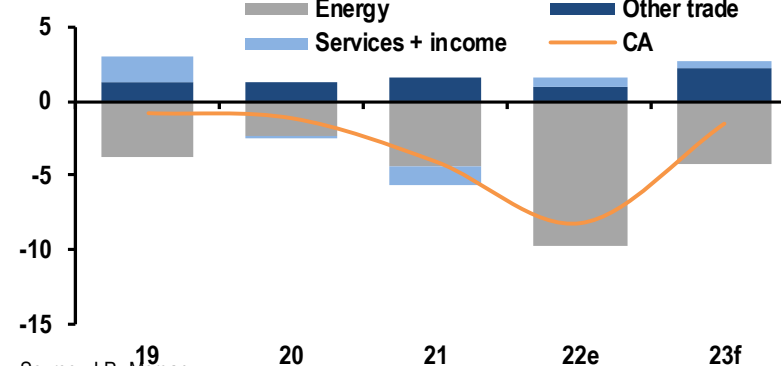


Source: KSH, J.P. Morgan

Current account likely to be slightly negative in 2023

Hungary CA composition

% of GDP



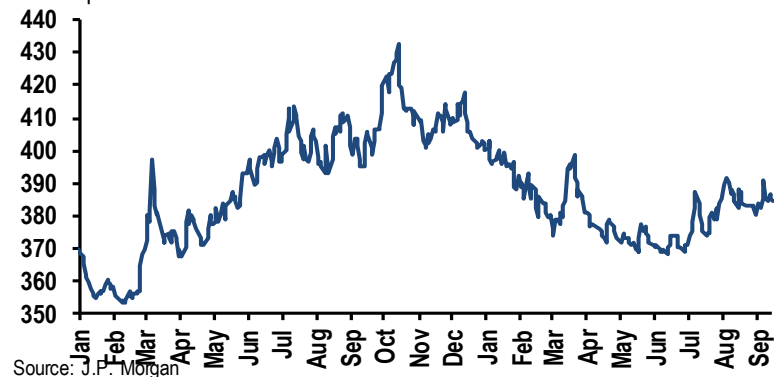
Source: J.P. Morgan

Hungary: First to cut, but from way higher levels than other countries

The macro turnaround brought a sharp rebound in the Forint, but this ran out of steam lately

EUR/HUF exchange rate

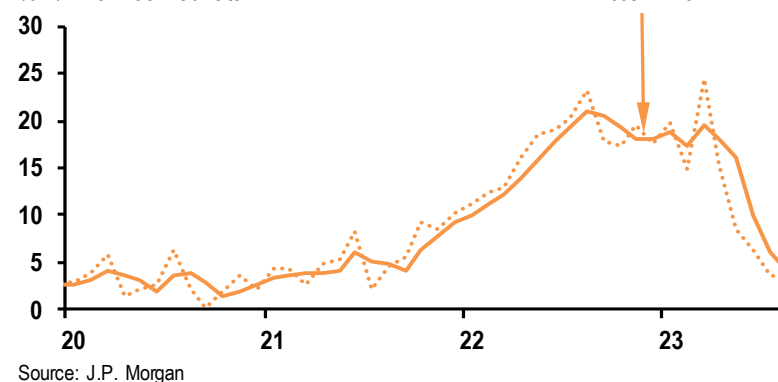
Forints per Euro



Inflation momentum has collapsed, sequentially core is running marginally above the 3% target

Momentum in core CPI (ex food)

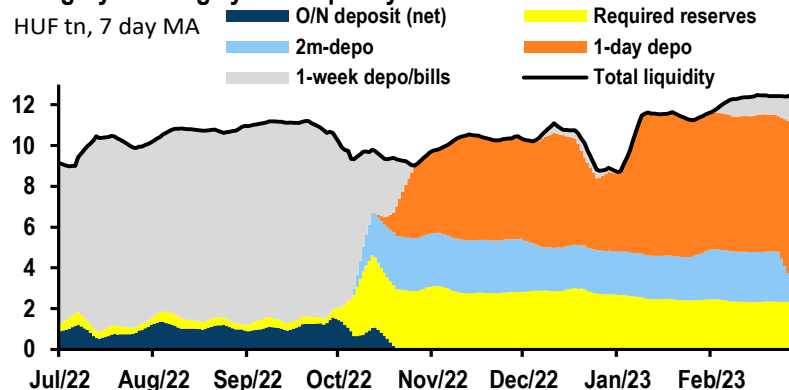
%m/m. annualized rate



Massive amounts of liquidity in the system (legacy of QE) are expensive to sterilize

Hungary banking system liquidity distribution

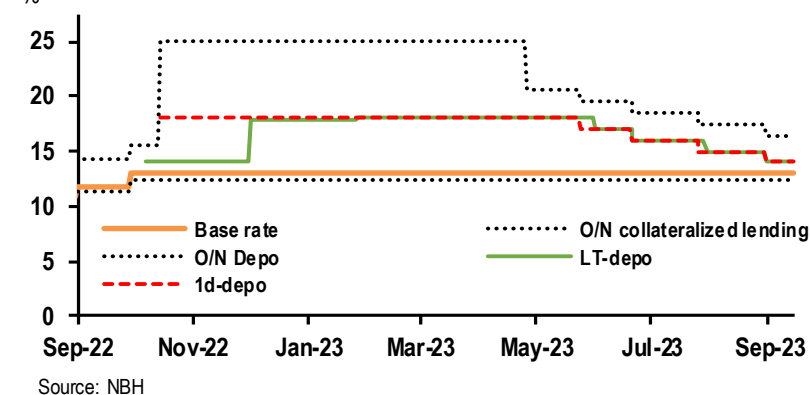
HUF tn, 7 day MA



NBH likely to cut 1-day depo to 13% in September, after which a simplification of the corridor should take place

NBH interest rate corridor

%



Agenda

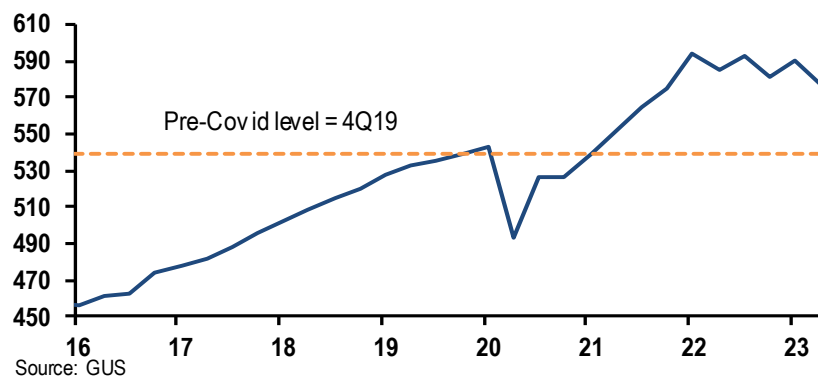
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Poland: After outperformance, stagnation

After a strong post-COVID rebound, growth stagnated since early 2022

Real GDP

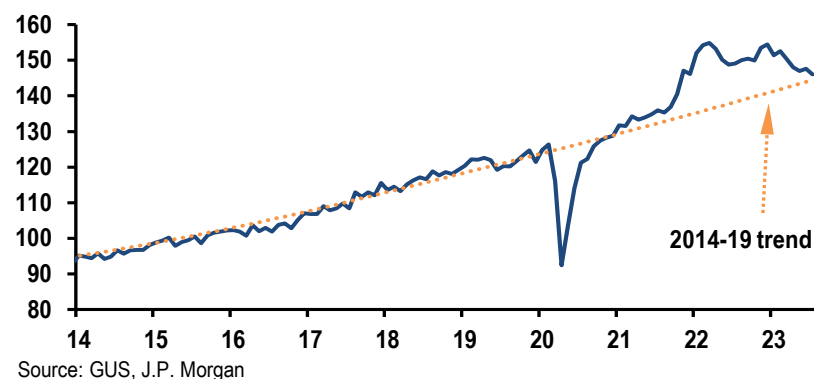
Bn PLN



Outperformance of industrial sector has been a key driver of the expansion, but this has flat-lined

Polish industrial production

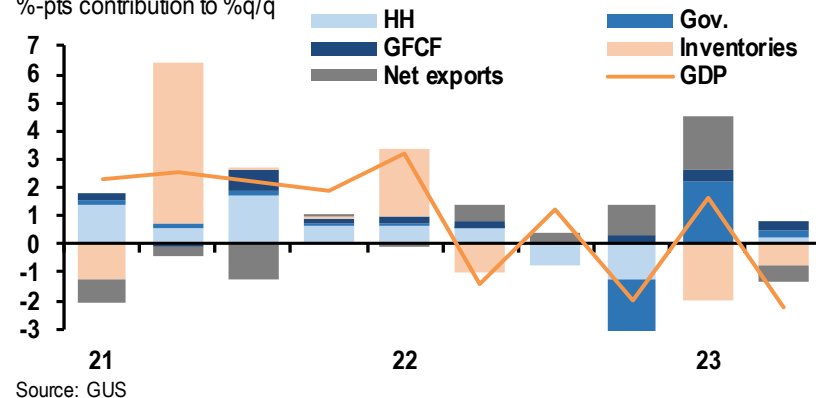
Index 2015=100, swda



Inventory building helped the most pandemic rebound, but now it is a big drag

Poland GDP growth - quarterly decomposition

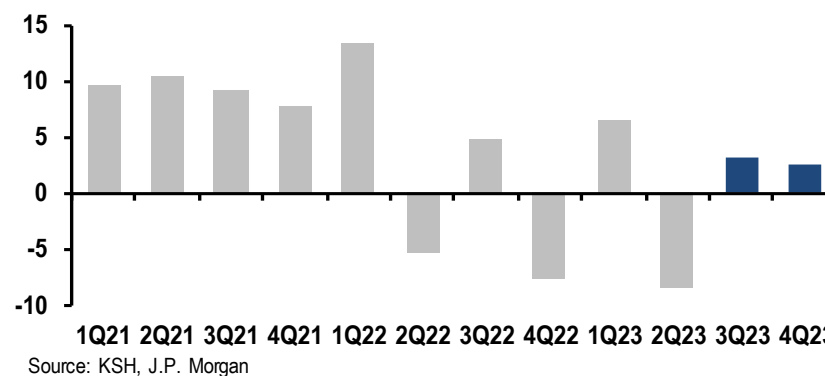
%-pts contribution to %q/q



Growth is likely to remain low, but positive, in 2023

Poland GDP growth forecast - quarterly profile

%q/q saar

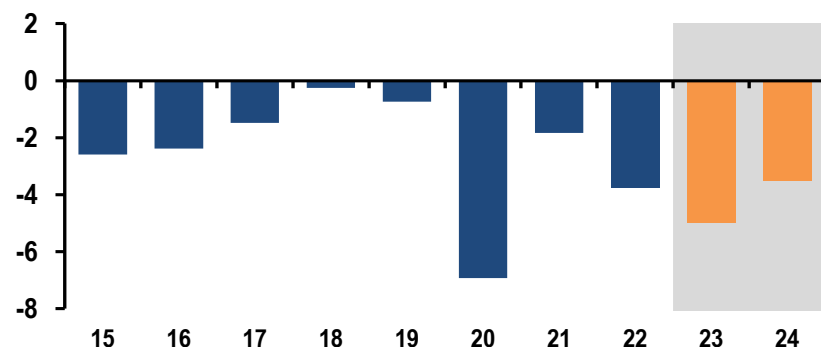


Poland: Fiscal deficit widening despite energy savings

Fiscal deficit widening in 2023, with energy savings to be replaced by defence and pre-election spending

Poland fiscal balance - J.P. Morgan forecast

% of GDP

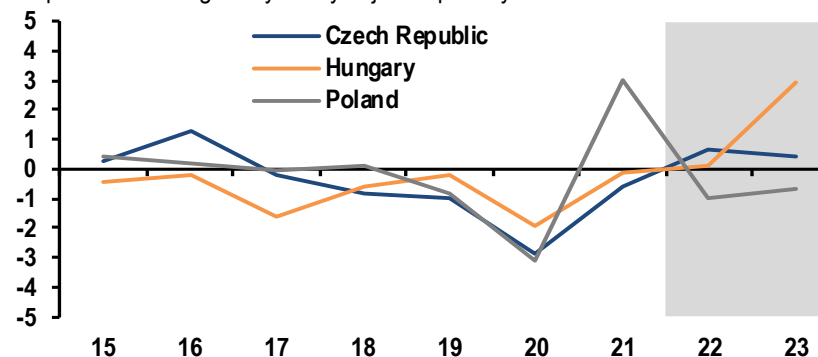


Source: J.P. Morgan

Poland will have a decent fiscal impulse in 2023, albeit some spending (military) has little growth impact

Fiscal impulses

%-pt of GDP change in cyclically adjusted primary balance

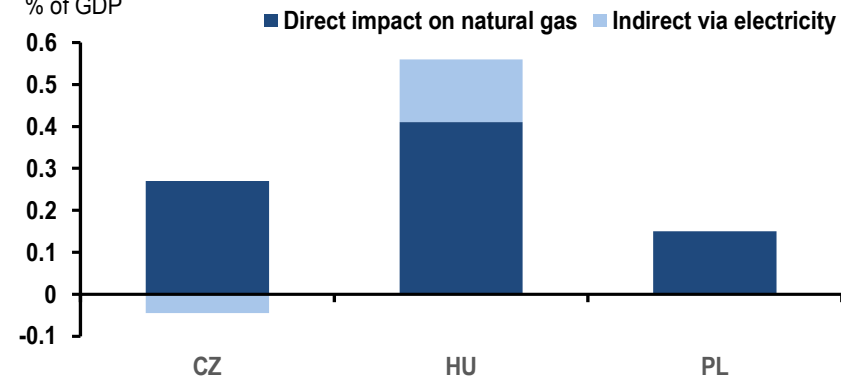


Source: J.P. Morgan estimates

Poland's CA has the smallest sensitivity to gas prices in the region

Current account sensitivity to EUR10/MWh move in TTF

% of GDP

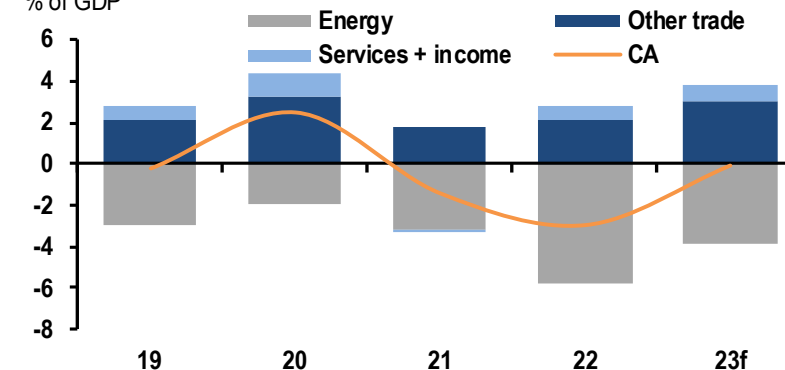


Source: J.P. Morgan

But CA still rebounding in 2023, on lower demand, better ToT, and competitive exports

Poland CA composition

% of GDP

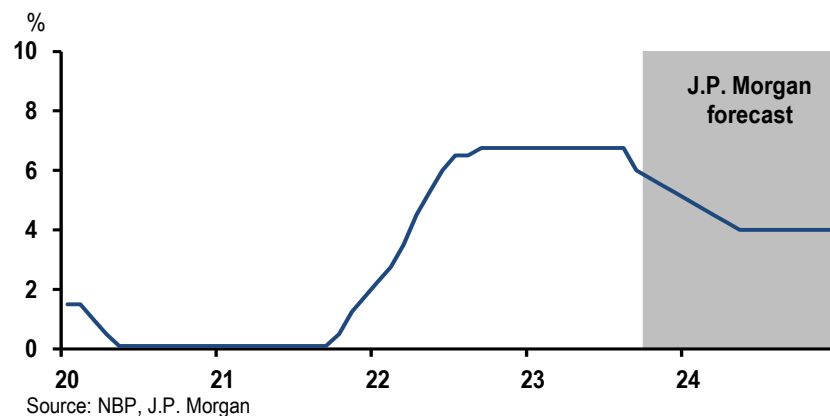


Source: J.P. Morgan

Poland: NBP cuts to the chase, plenty of uncertainty about next moves

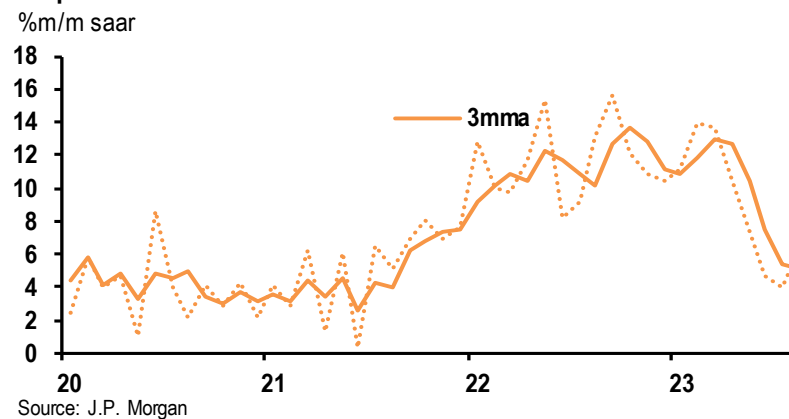
The NBP pushed a much-larger-than-expected 75bp cut, more will follow, but plenty of uncertainty about scale

NBP interest rate outlook



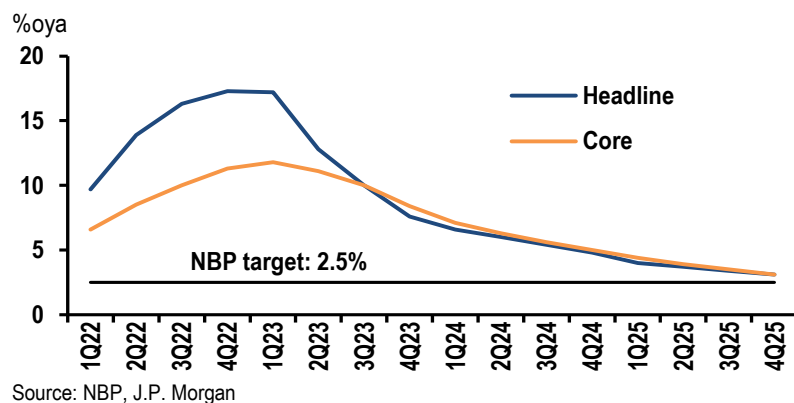
It's true that core inflation momentum fell significantly recently

Sequential momentum in NBP core CPI



But even the NBP's own forecasts show a protracted overshoot of the target

NBP inflation forecasts



Zloty sold off significantly after the latest NBP decision, the MPC will likely aim for more modest cut in October

EUR/PLN exchange rate

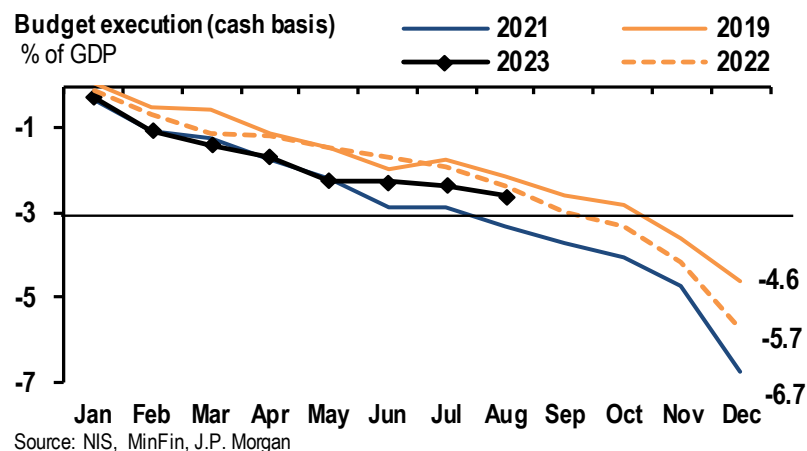


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Romania: Revised fiscal consolidation plan

Lack of any corrective measures until now makes the -4.4% of GDP target impossible to reach in 2023 (-5.5% is discussed)

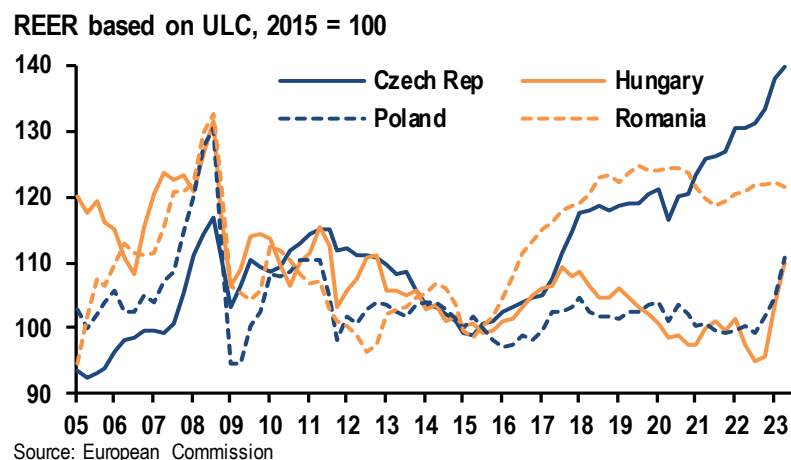


Parliament stable as PNL-PSD is the only majority that can work

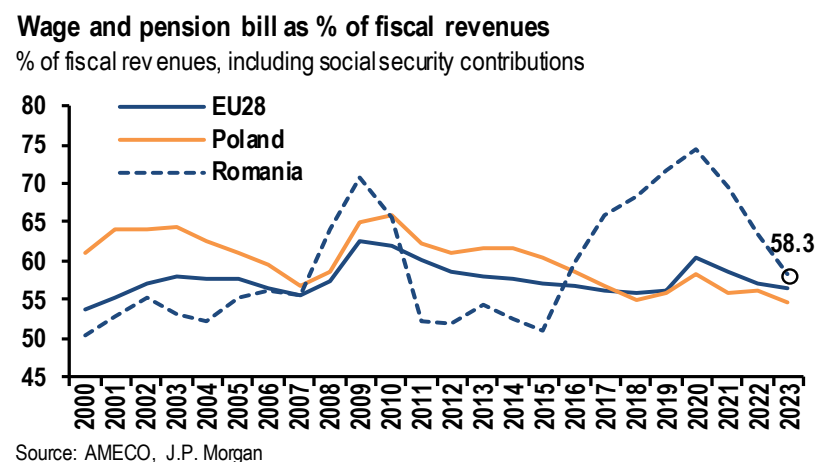
Table: Parliament structure - 234 for majority

	Chamber of Deputies	Senate	Parliament
PSD, social democrats	108	47	155
PNL, liberals	80	37	117
Orban faction, liberal	15	3	18
USR, liberals	44	25	69
UDMR, Hungarian minority	20	9	29
Minorities/other	17	-	17
Unaffiliated	19	1	20
AUR, far-right	27	13	40
Total	330	135	465

RON is second most expensive after CZK (on ULC basis)



The unsustainable wage/pension bill is being corrected

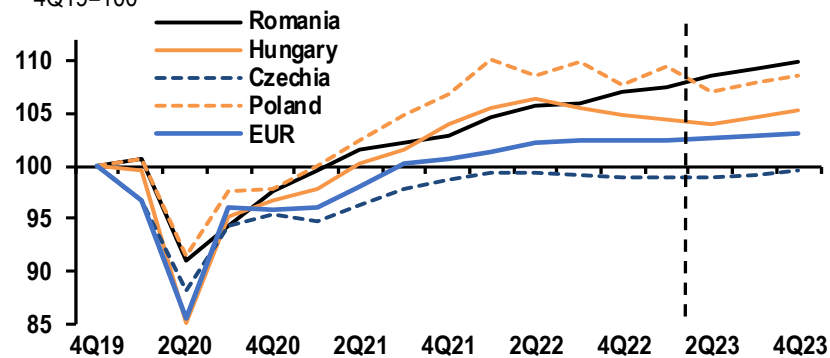


Romania: Inflation slowing, CA improving

Growth performance was strong post-COVID

Romania has seen continuous growth

4Q19=100

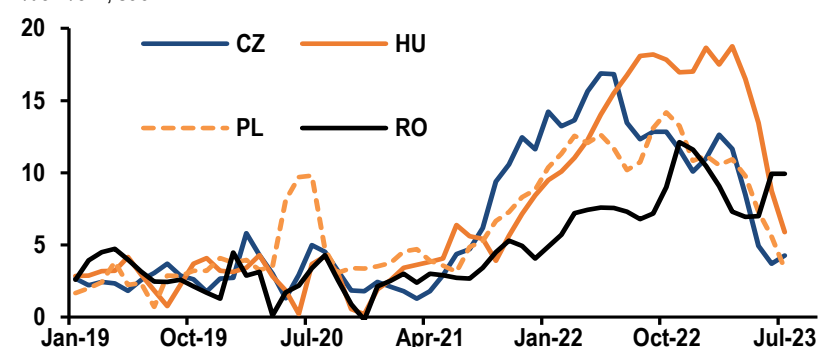


Source: J.P. Morgan

Romania's core is now highest in momentum

CE4 momentum in comparable core (HICP based)

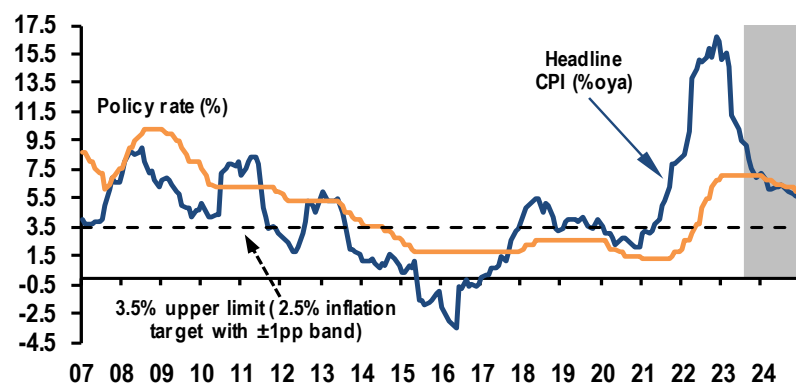
%3m/3m, saar



Source: Eurostat

Rate cuts to follow slowing inflation, but only in 1Q24

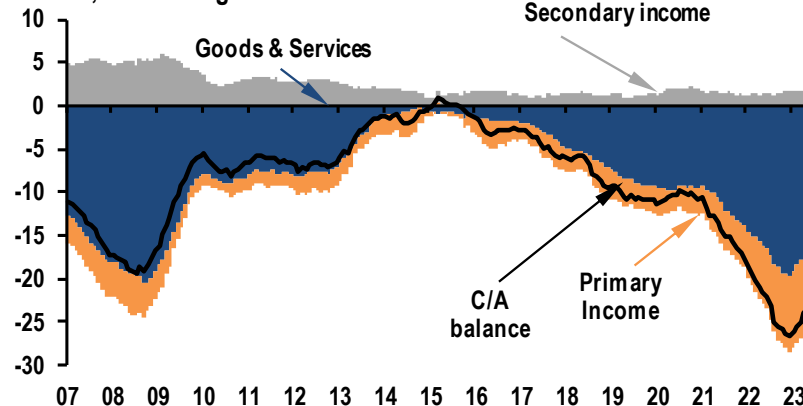
NBR policy rate versus headline inflation and target



Source: NBR, NIS, JPM forecast

The CA deficit deterioration is slowly being reversed

EURbn, 12m rolling



Source: NBR

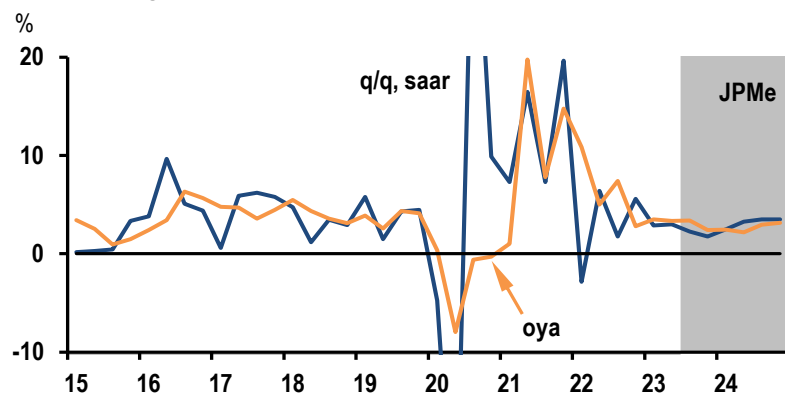
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Israel: Growth slightly below trend, fiscal policy relaxed a bit

Growth is expected to stay slightly below potential (~3.5) for a few quarters amid tighter financial conditions

Israel GDP growth

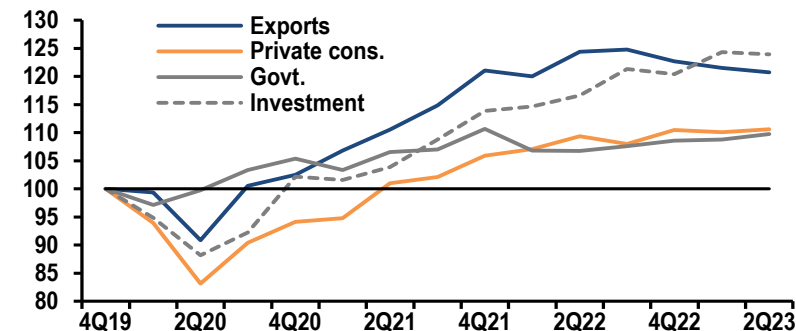


Source: J.P. Morgan

The post-COVID expansion was led by exports and investment, while consumption lagged behind; export demand eased now

Israel GDP in levels

4Q19=100 sa

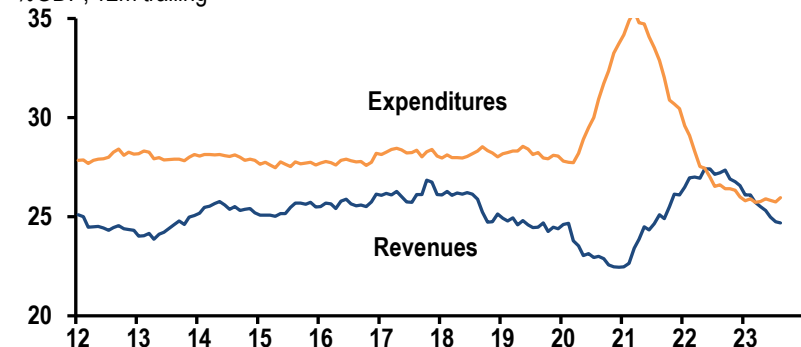


Source: CBS, Haver, J.P. Morgan

Fiscal outperformance driven by high income and property tax revenues amid lower spending is over; deficit tracking 1-2%

Budget revenues and spending - Israel

%GDP, 12m trailing

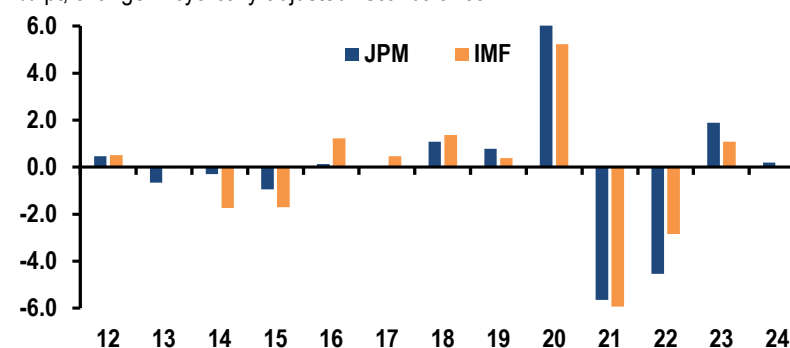


Source: MoF, Haver, J.P. Morgan

Budget is growth-positive in 2023, broadly neutral in 2024; spending cuts might be needed due to revenue shortfalls

Estimated fiscal thrust - Israel

%-pt, change in cyclically-adjusted fiscal balance

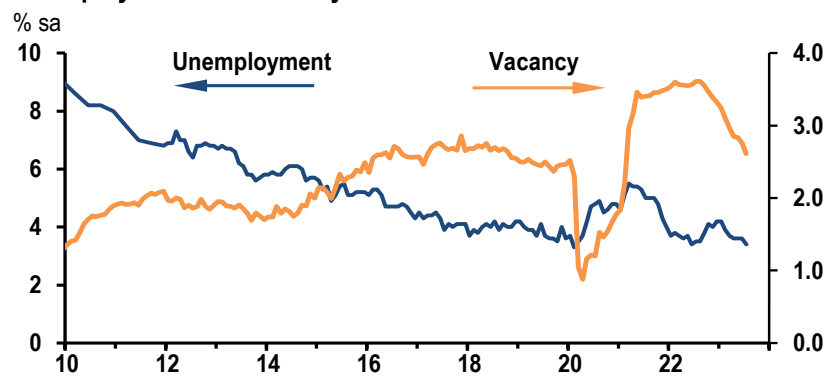


Source: IMF, Haver, J.P. Morgan

Israel: Inflation is decelerating, but remains choppy

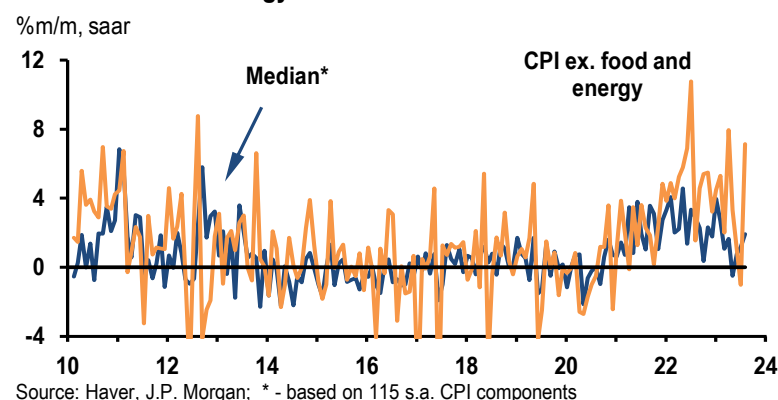
Labour market still heated, with U-rate at its lows, but signs of cooling appeared from 2H22 as vacancies normalize

Unemployment and vacancy rates



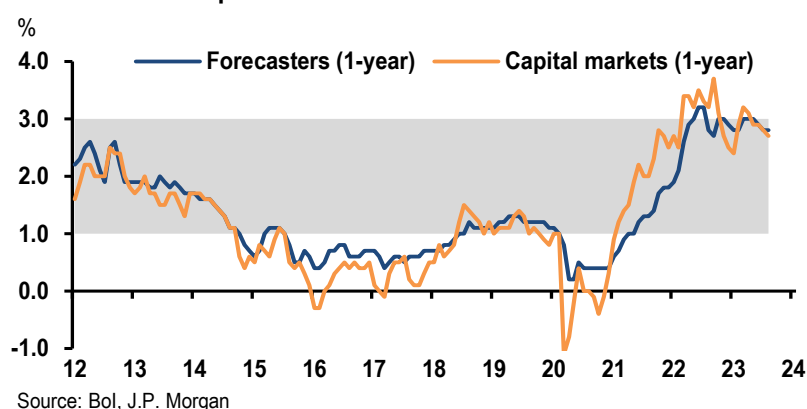
Momentum in core inflation dropped in summer, before picking up again in August, mainly on one-offs

CPI ex. food and energy vs. median inflation



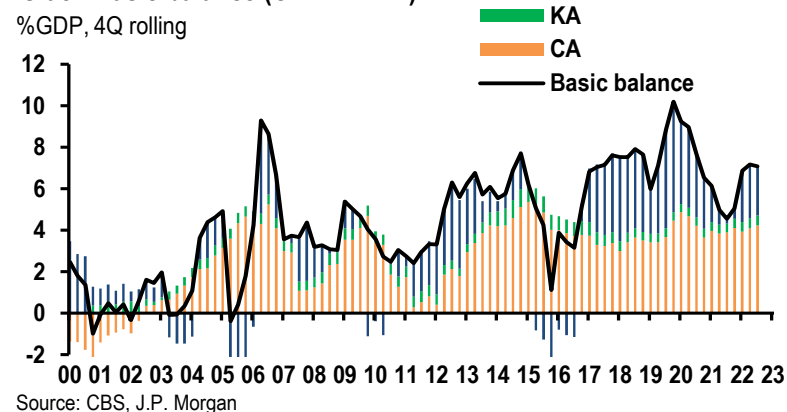
Short-term inflation expectations easing very gradually, staying close to upper-end of target range

Israel inflation expectations



ILS has depreciated even as basic balance remained in good shape – political risks spurred capital outflows

Israel: Basic balance (CA+KA+FDI)



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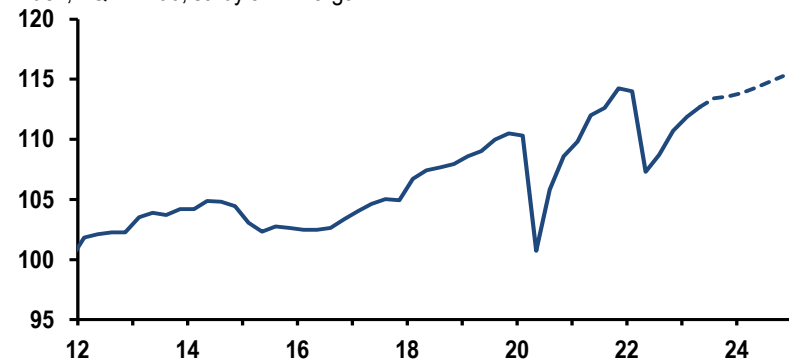
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Russia: Economy proved surprisingly resilient

GDP surprised to upside in 2022 (-2.1%) and is tracking a strong 2.6% gain in 2023; full recovery expected by mid-24

Russian GDP

Index, 4Q11=100, sa by J.P. Morgan



Business surveys suggest activity was not affected much by oil output cuts or monetary tightening so far

Russia composite PMI output / business activity

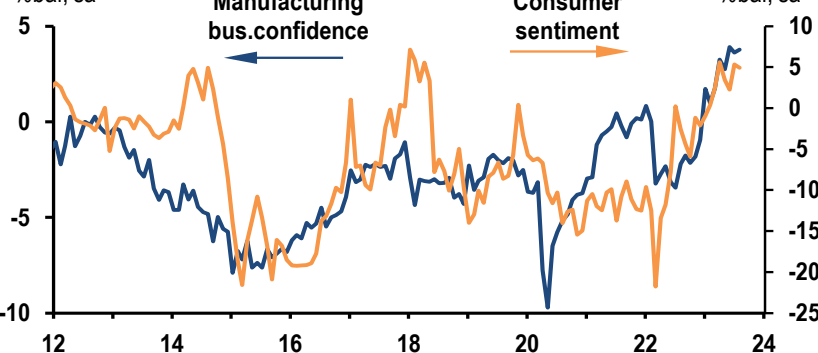
%bal, sa



Consumer and business confidence elevated, despite geopolitics

Business confidence (manufacturing) vs. consumer confidence

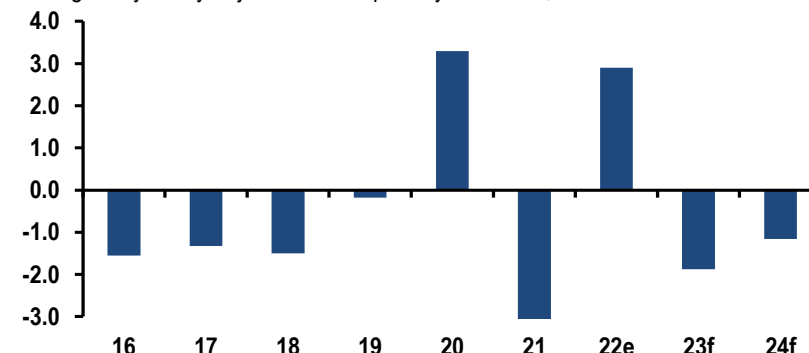
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Fiscal policy loosened at the turn of 2022-23, aiding growth, but we expect 2023-24 fiscal impulse to be negative

Russia's fiscal impulse

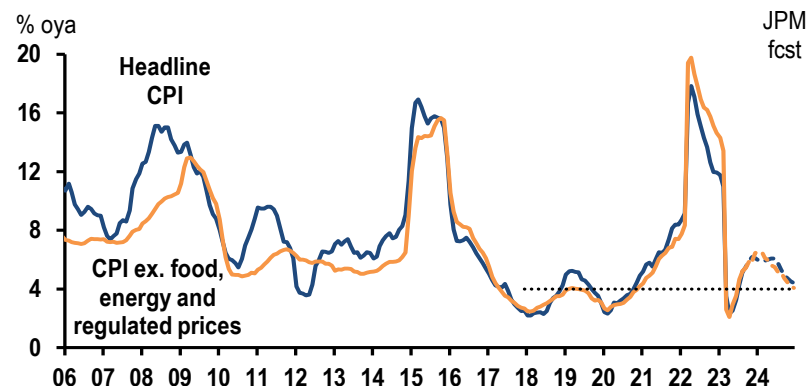
Change in cyclically-adjusted non-oil primary GG deficit, % GDP



Russia: Inflation momentum picked up on FX passthrough

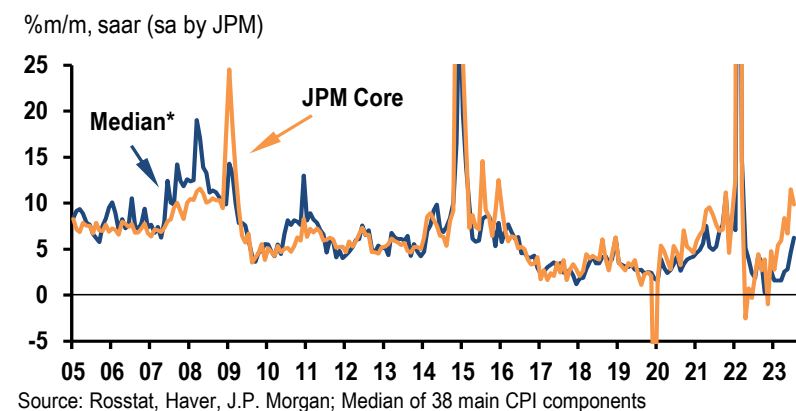
Inflation slowed below 3% by spring-23, but bounced above 5% again; we expect it to peak at 6-7%, before slowing toward 4%

Russia's CPI inflation



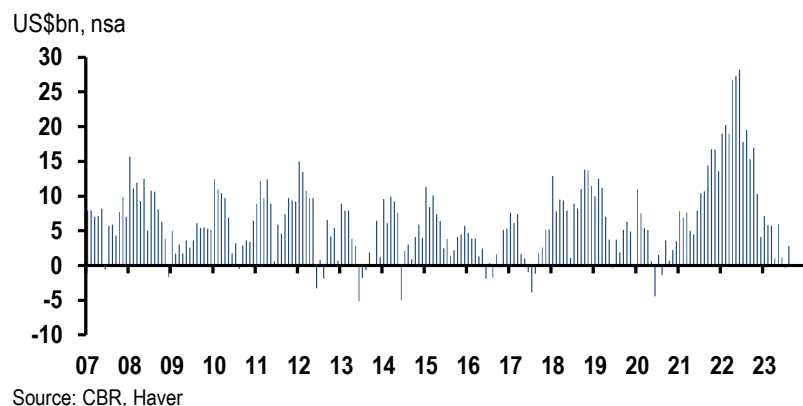
The increase in CPI momentum was relatively broad-based, accentuated by one-offs in meat (supply), cars and petrol (taxes)

CPI ex food, energy and regulated prices vs. median CPI



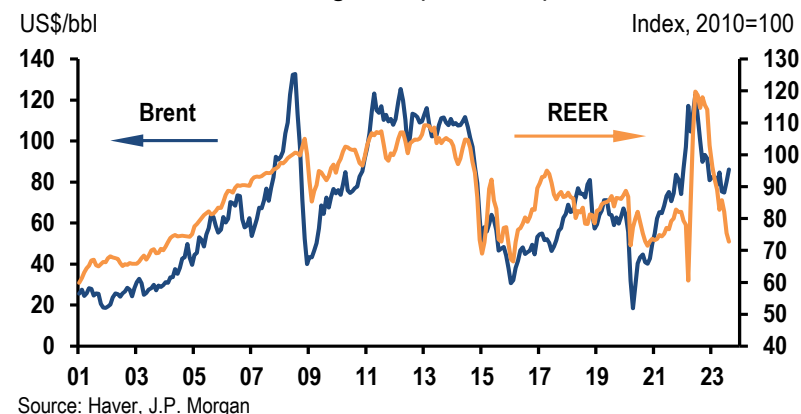
The CA surplus shrank to firmly below \$5bn a month, with RUB sliding along

Russia's monthly CA balance



REER depreciated significantly despite higher oil prices, as demand for imports heated and capital outflows remain high

Ruble real effective exchange rate (PPI-based) vs. Brent



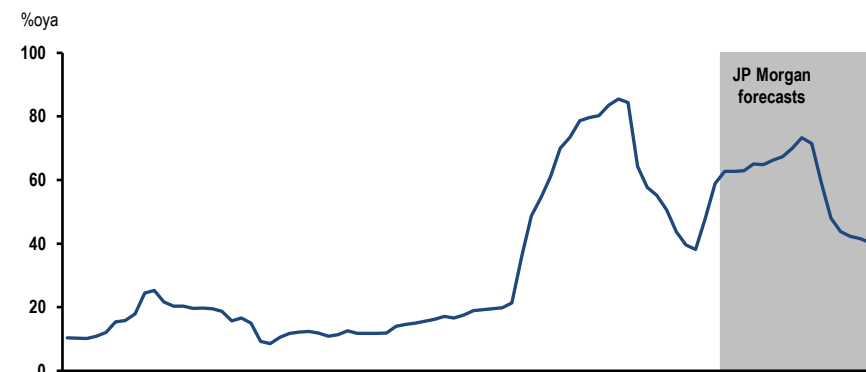
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Türkiye: Credit conditions are tightening rapidly

CPI inflation is likely to rise in 4Q23 and 1H24

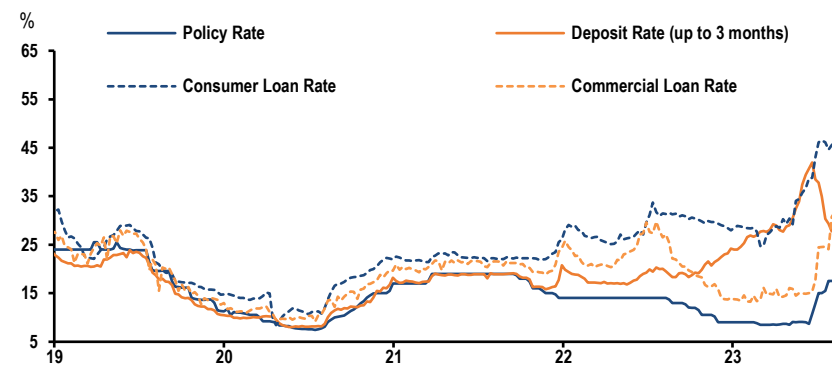
CPI inflation



Source: J.P. Morgan, TurkStat

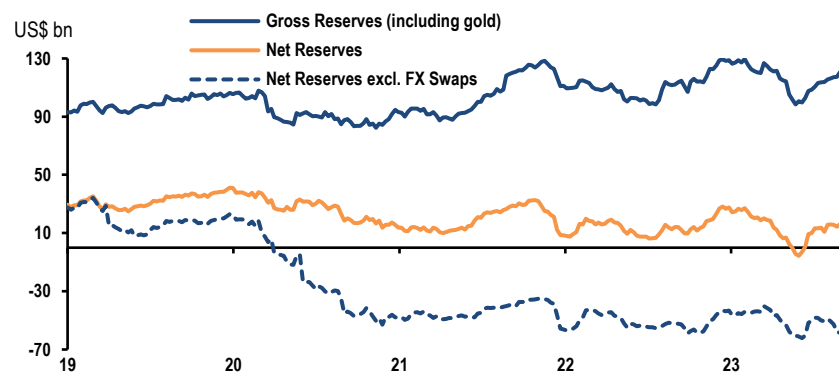
Credit conditions are set to tighten in 2H23

Market interest rates



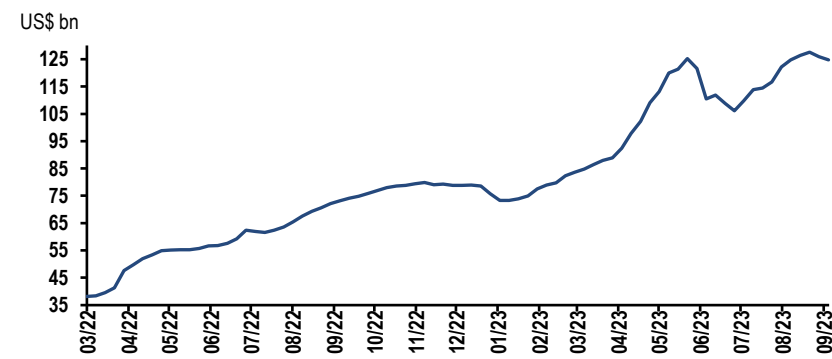
The CBRT's FX reserves are recovering

CBRT's FX reserves



The FX-protected lira deposit accounts started to unwind

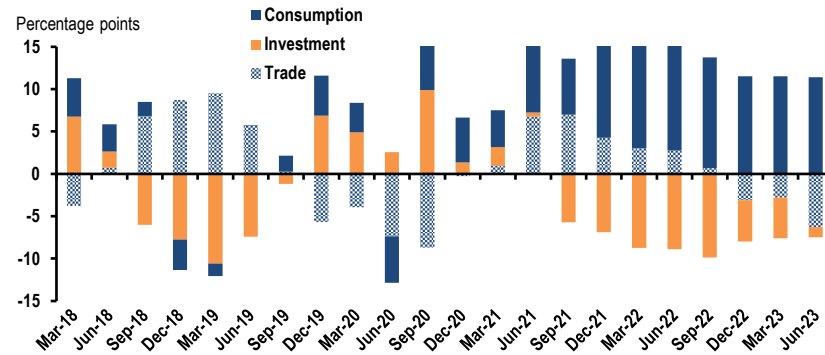
The FX-protected lira deposit accounts



Türkiye: Macro imbalances should push growth lower in 4Q23

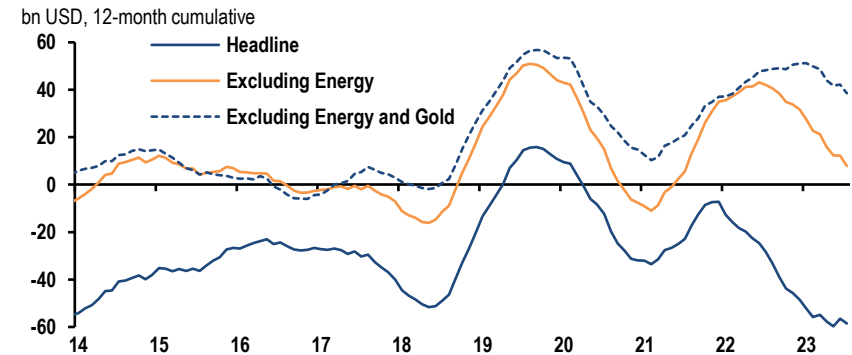
GDP growth has been driven by strong private consumption in 1H23

Contributions to GDP growth



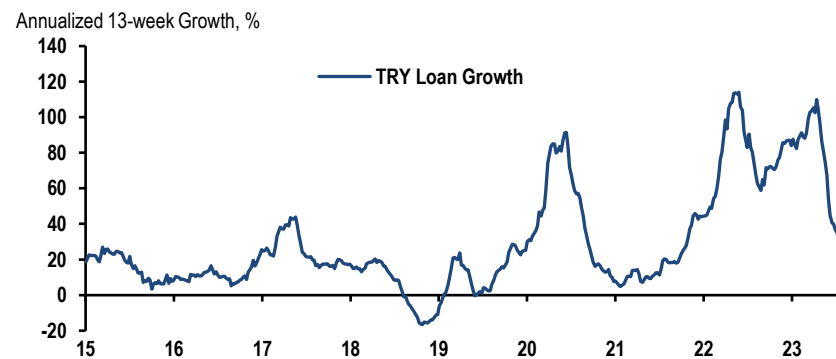
The current account deficit continues to widen due to strong domestic demand and gold imports

Current account balance



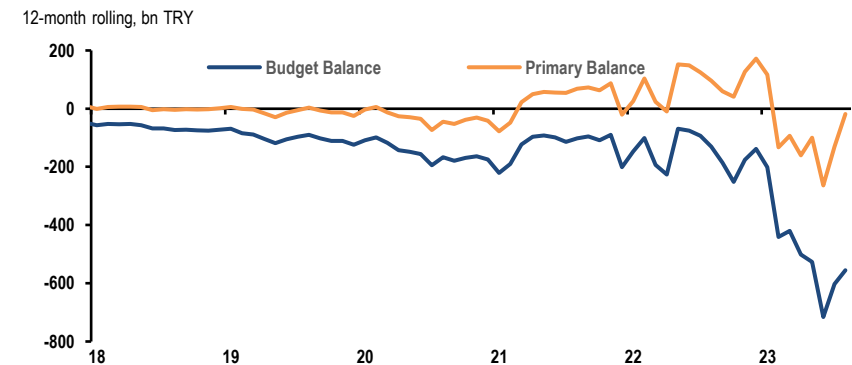
Lira credit growth sharply slowed down in 3Q23

Lira credit growth



Government budget balance set to deteriorate in 4Q23 due to the earthquake-related spending

Government budget balance



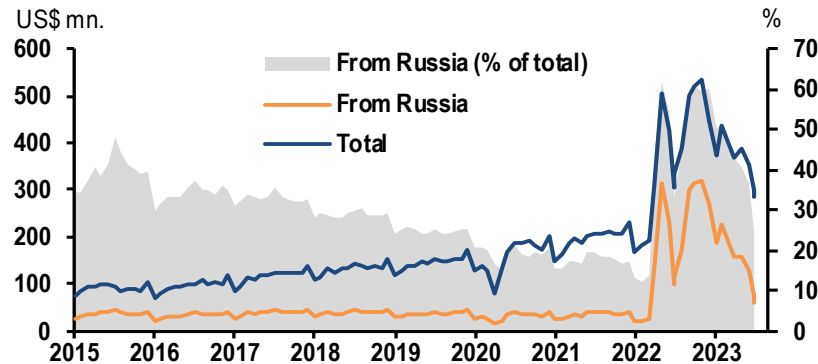
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Georgia: Policy normalisation in progress

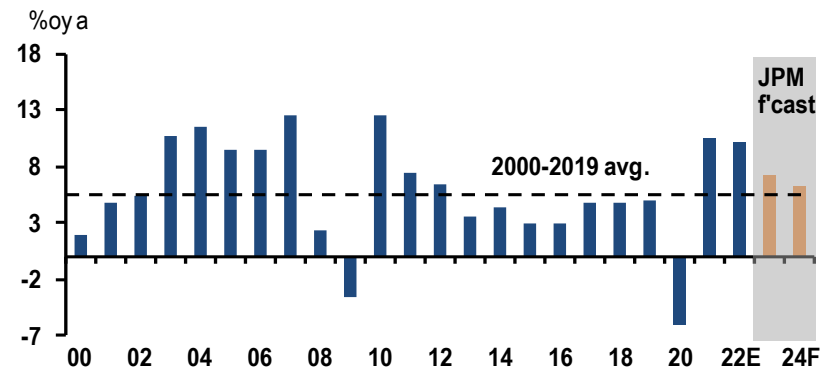
Russian financial inflows are now declining

Monetary transfers into Georgia



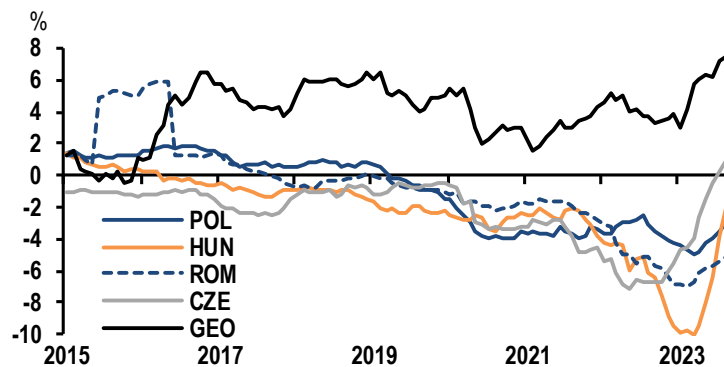
But economy is likely to sustain above-trend growth in 2023

Georgia Real GDP growth



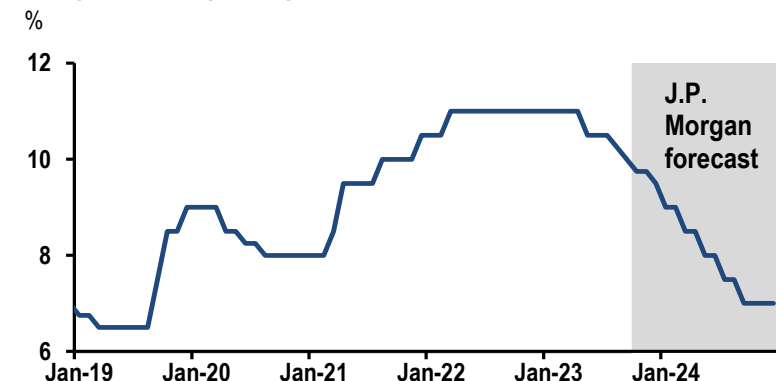
Inflation has fallen sharply owing to high positive real rate policy from NBG

Real policy rates in Georgia vs CEE (Core CPI deflated)



NBG to continue to gradually ease policy rate into 2024

Georgia Monetary Policy Rate and forecast



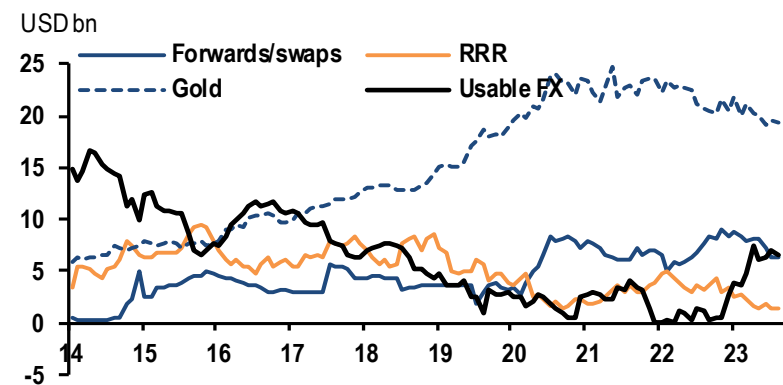
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Kazakhstan: Easing to come despite high inflation

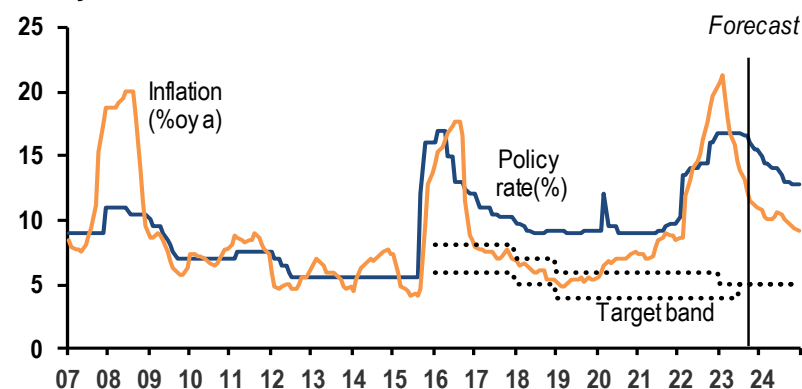
Usable FX reserves have sharply increased

Components of NBK's FX reserves



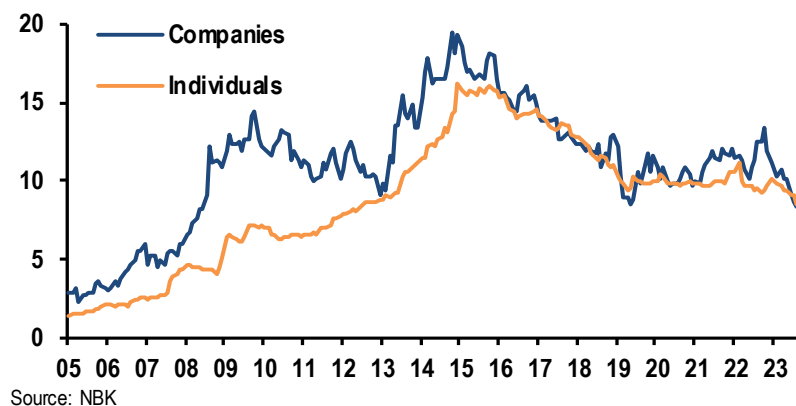
Dovish NBK to reduce rates as inflation slows

Policy rate and inflation in Kazakhstan



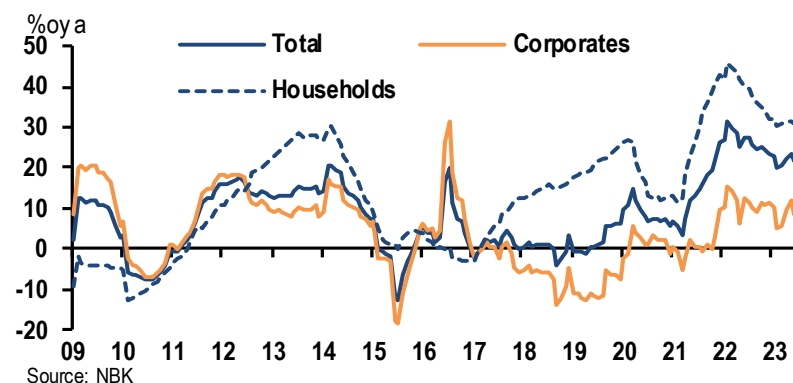
No signs of dollarization

Deposits in foreign currency (in US\$ billions)



Lending growth rebounds, but trend is of slowing

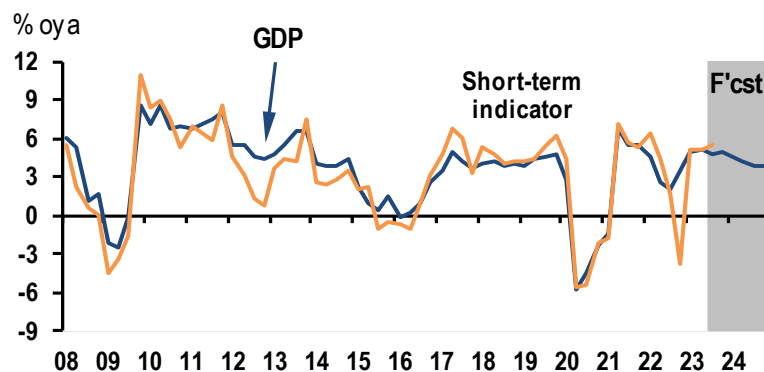
Lending activity in Kazakhstan



Kazakhstan: Strong growth outlook over 2023-2024

Growth somewhat slowing, but still robust

GDP vs. short-term indicator in Kazakhstan



Source: Agency of Statistics, JP. Morgan forecast

Strong inflows of US\$ evident in BoP

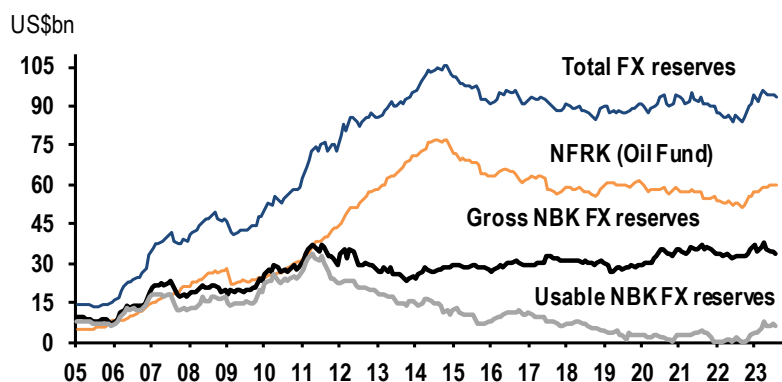
Table 1: NBK accumulated reserves in 2022

	2016	2017	2018	2019	2020	2021	2022
CAD+KA	-6.7	-3.1	-1.5	-6.8	-10.7	-2.3	8.1
FDI ("-"=inflow)	-13.7	-3.8	-5.0	-5.9	-5.9	-1.9	-7.9
Outward	3.5	1.0	-4.6	-2.2	1.3	2.7	-3.0
Inward	17.2	4.8	0.4	3.7	7.2	4.5	4.9
Portfolio ("-"=inflow)	0.7	-5.4	2.9	5.1	-7.7	-3.6	13.4
Outward	-1.3	-3.2	-0.7	4.9	-6.3	-1.2	10.2
Inward	-2.0	2.2	-3.6	-0.2	1.4	2.4	-3.2
Other ("+"=outflow)	5.1	3.7	4.8	2.1	1.1	3.0	1.4
Res ("-"=decrease)	-0.1	-1.4	-1.5	-6.6	-0.9	-2.4	4.7
E&O ("-"=outflow)	-1.3	-3.8	2.7	1.5	-2.7	-2.5	2.8

Source: NBK, JP Morgan; in \$ bn

FX reserves measures are improving; gross FX reserves decline on repaid forwards/swaps and gold

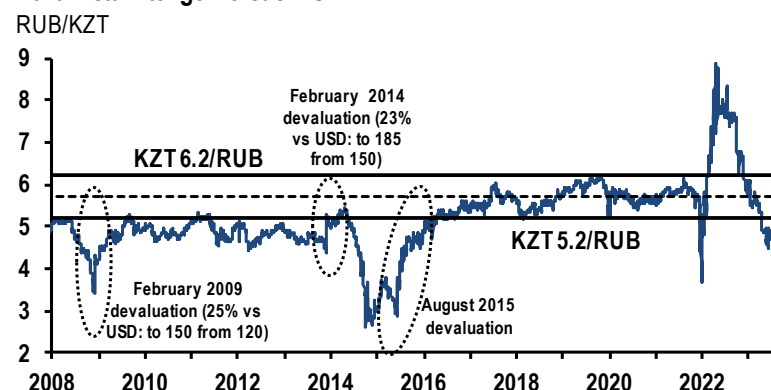
Total FX reserves of Kazakhstan



Source: NBK

KZT on strong side vs RUB but BoP is supportive

Kazakhstan tenge versus RUB



Source: Bloomberg Finance L.P.

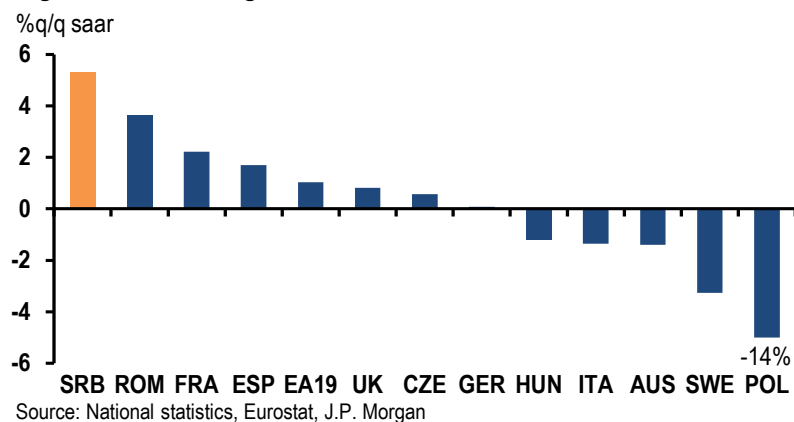
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Serbia: Modest growth but improving fiscal and external accounts

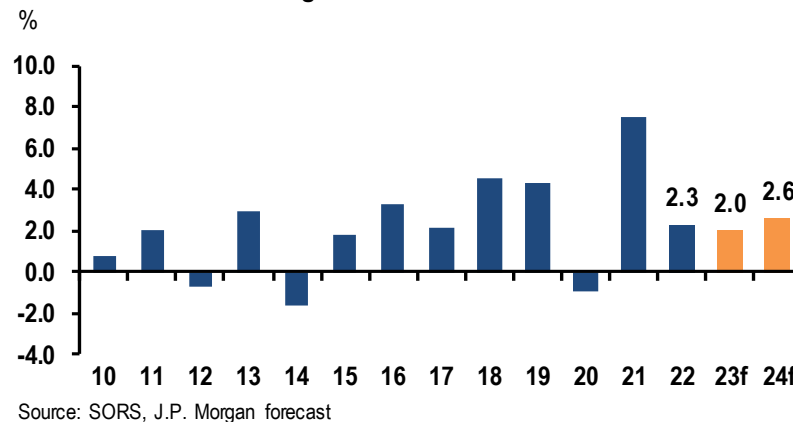
After a weak 1Q, growth rebounded in 2Q

Figure 3: Real GDP growth in 2Q23



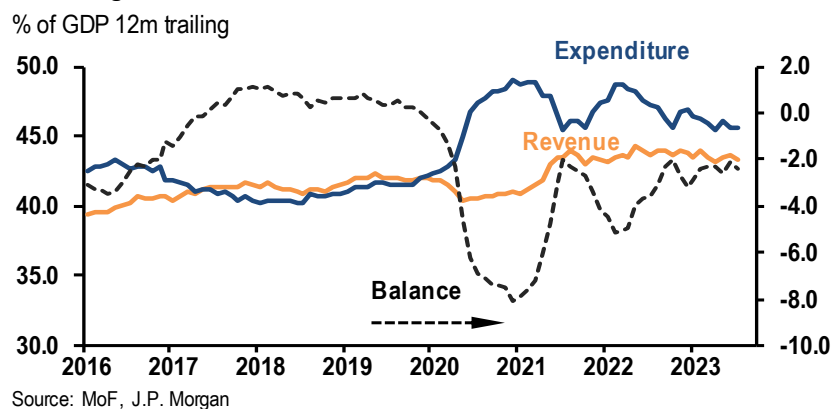
But 2023 growth unlikely to surpass 2% due to weak consumer and external growth

Serbia annual real GDP growth



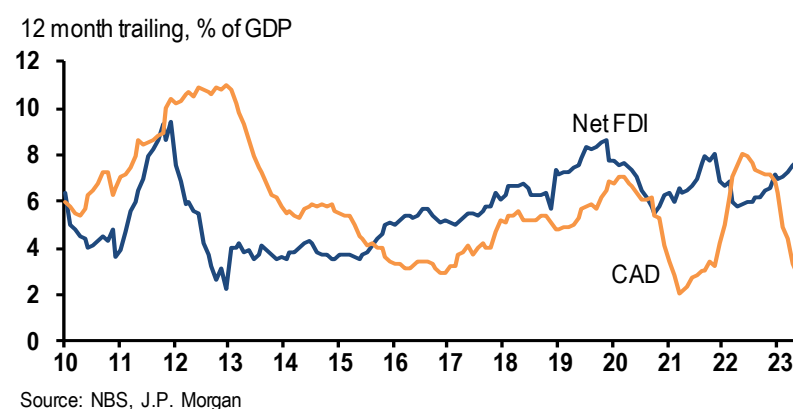
Fiscal consolidation has been solid, but some deterioration is expected into year-end on new expenditure announcements

General government fiscal balance



Significant CAD correction amid high FDI inflows has improved the external picture substantially

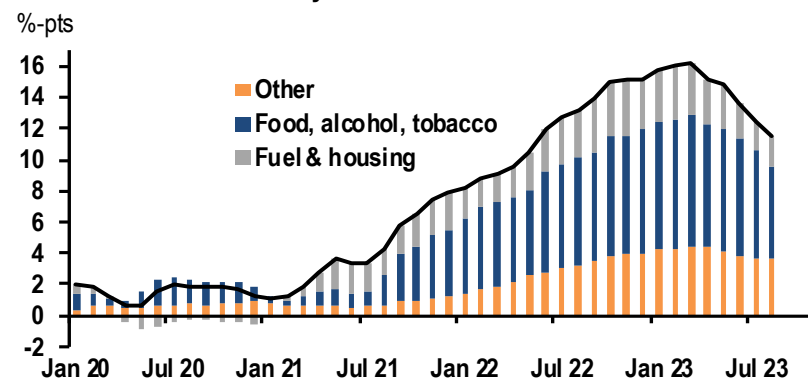
Serbia FDI and current account deficit



Serbia: Incomplete disinflation

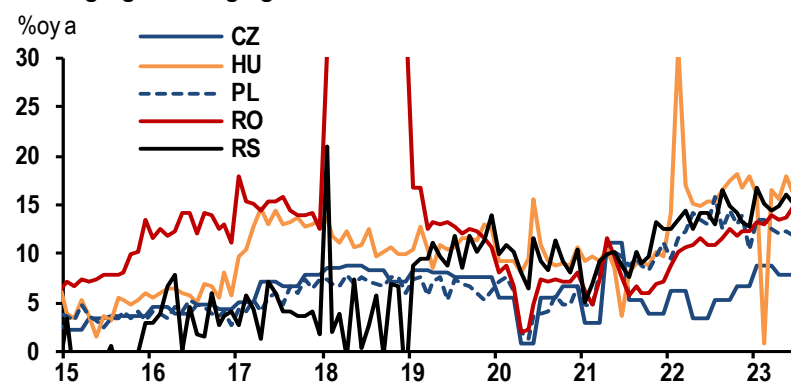
Still a lot of room for food to aid the disinflation process

Serbia contributions to oya inflation



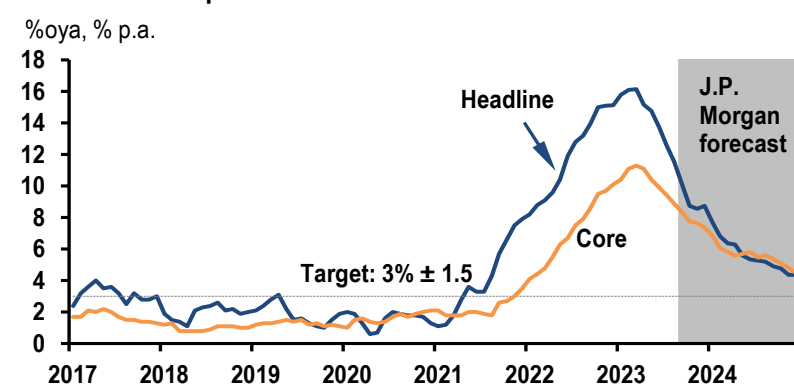
Strong and accelerating wage growth poses risks to services disinflation

Average gross wage growth in CEE



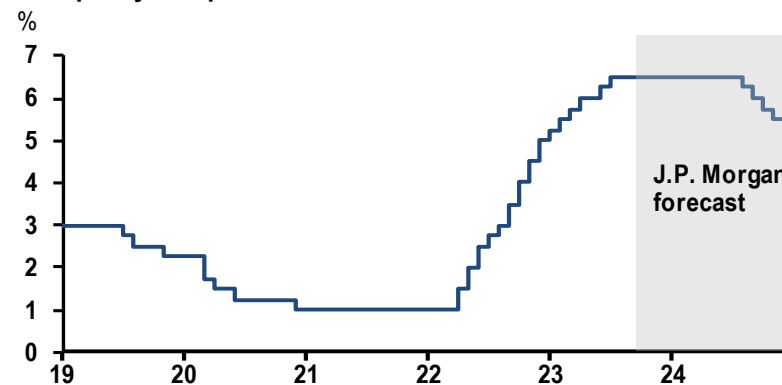
We expect inflation to return to upper-end of target band only at end-24

Serbia inflation path



NBS is likely done with hikes, but easing unlikely near-term

NBS policy rate path



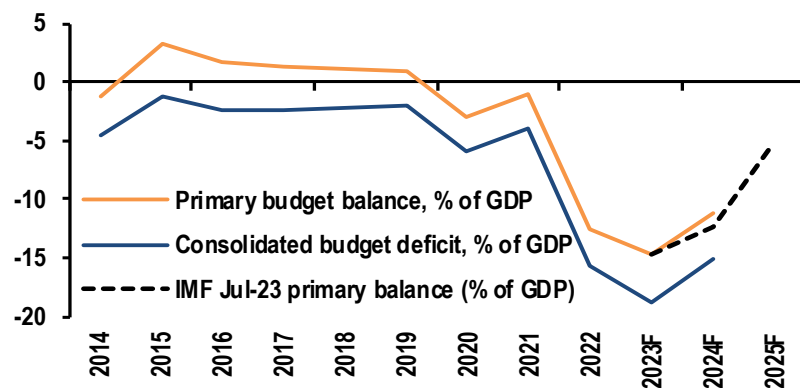
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Ukraine: War costs to keep budget deficits wide

The war creates a big funding issue on the budget side

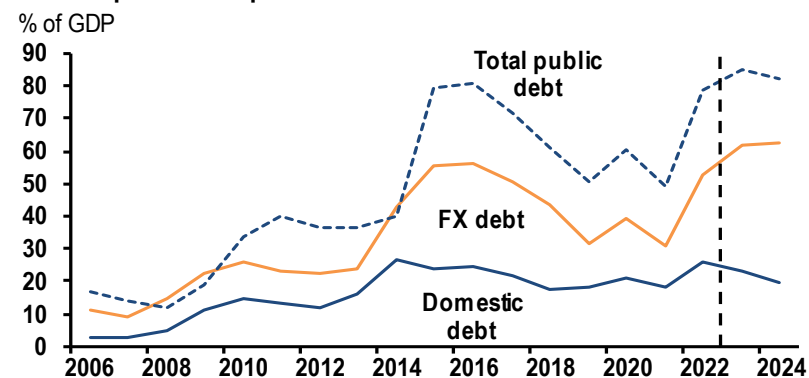
Primary and headline fiscal position, including grants



Source: Finance Ministry, JP Morgan

Debt/GDP to spike towards 85% of GDP in 2023

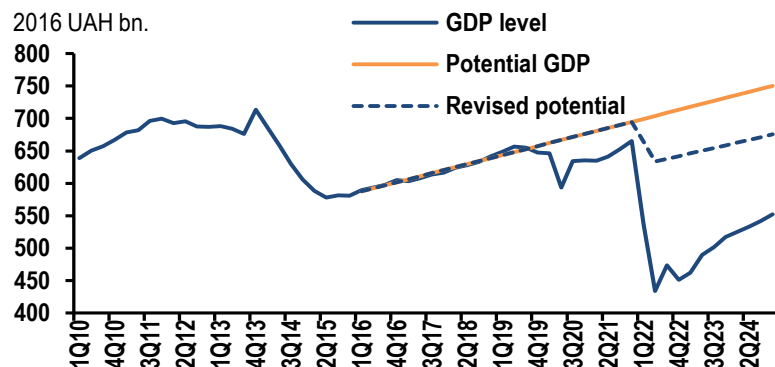
Ukraine public debt profile



Source: MinFin, National statistics, JP Morgan

GDP to recover very slowly

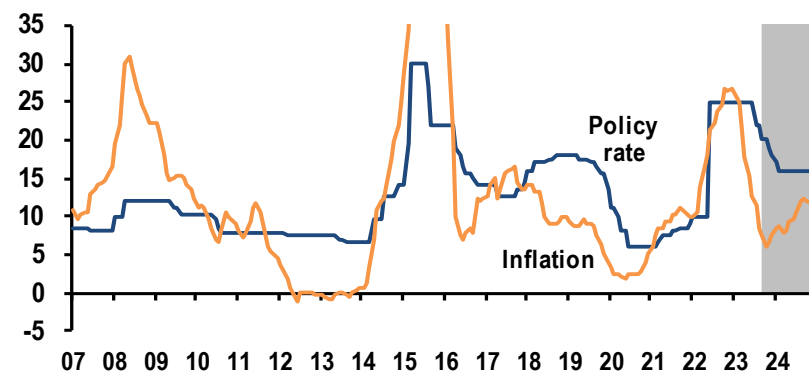
Ukraine real GDP levels



Source: State Statistics Service of Ukraine, J.P. Morgan

Downside inflation surprises justify further rate cuts

% and %oya

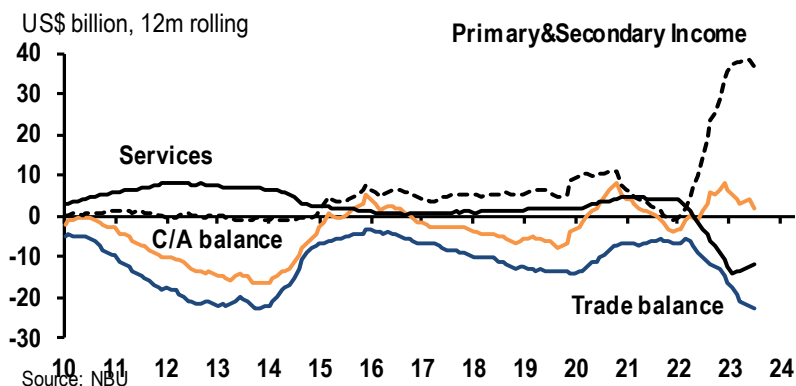


Source: Statistics Service of Ukraine, J.P. Morgan

Ukraine: Economic recovery to force CA deficits in 2023 and 2024

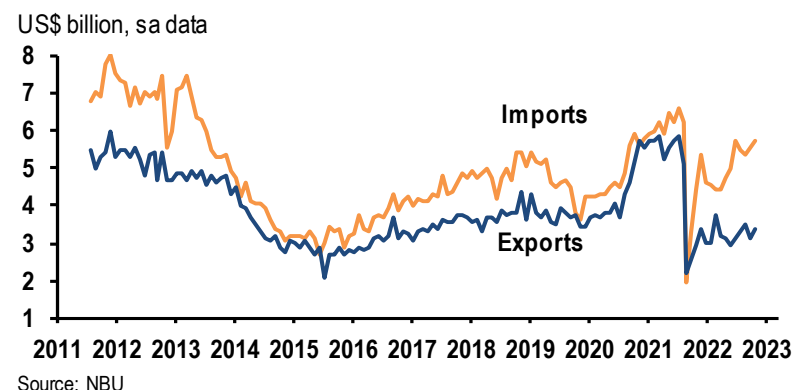
The CA deficit in 7 months of 2023 is US\$2b

Budget and military support drive the CA surplus



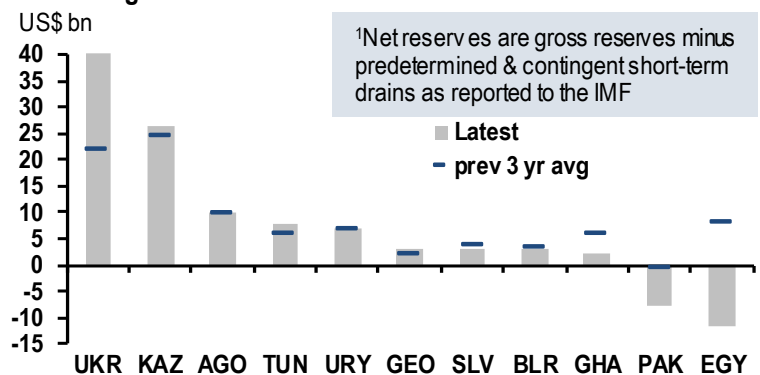
Exports recovery is unable to keep the pace with imports

Exports and imports of goods (sa data)



Despite the peg, net reserves remain at a comfortable level

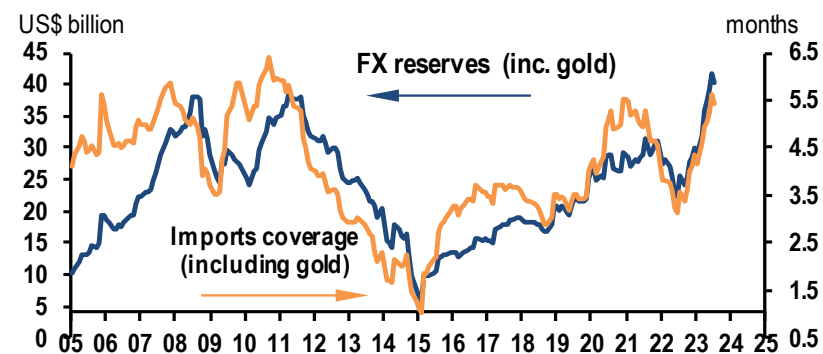
Net¹ foreign reserves in Ukraine and selected frontiers



Source: National statistics, IMF, J.P. Morgan *Ghana: US\$2bn in swaps is included in ST drains **EGY ST drains include US\$13bn deposit from GCC

Impressive rebound in FX reserves

Ukraine, FX reserves indicators



Source: NBU, UkrStat

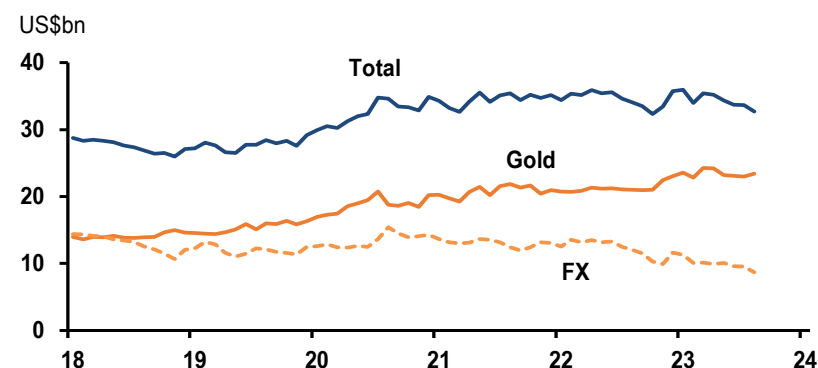
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Uzbekistan: Leaking reserves as financing gets more challenging

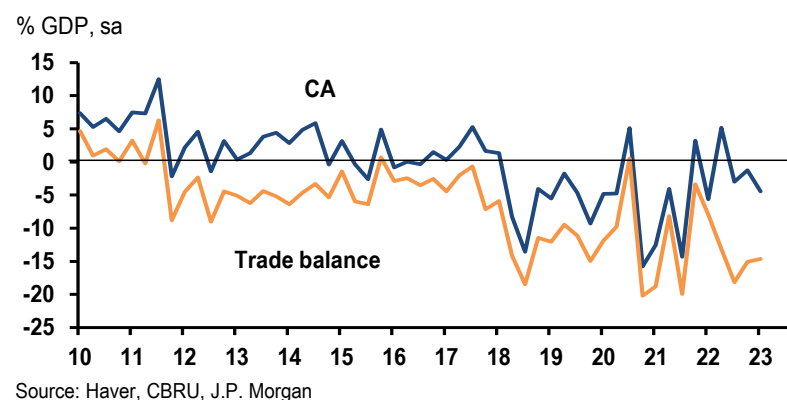
Uzbekistan has been leaking reserves from the start of 2023, with FX reserves on a downtrend since last year

Uzbekistan's official reserve assets



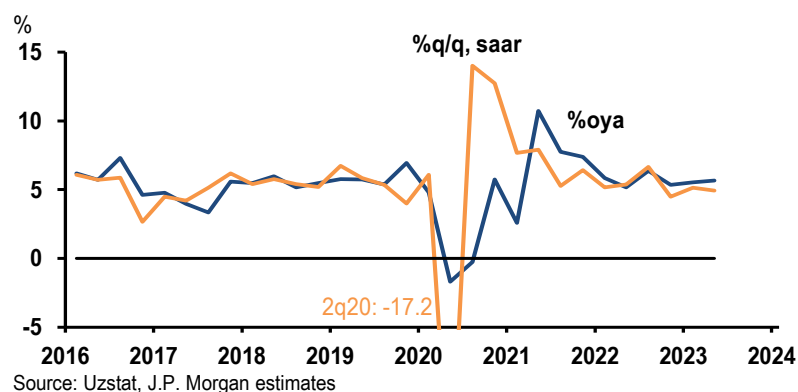
The CA remained in good shape thanks to still high (but sliding) remittances, i.e. the capital flows have been the weak link

Uzbekistan's current account



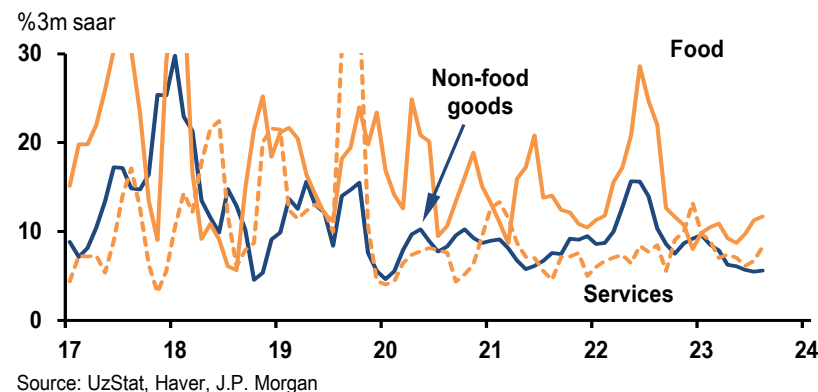
Growth has remained strong despite the winter energy crisis – fiscal relaxation helped sustain high growth rate

Uzbekistan's GDP growth



Inflation momentum stabilized in high single digits, but upcoming increases in utility prices risk lifting inflation higher again

Uzbekistan's CPI inflation momentum



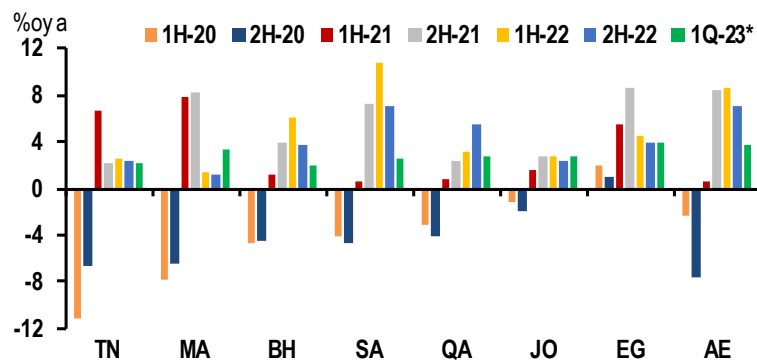
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MENA: The macro-picture

GDP growth slowing, dragged by oil curbs in GCC and need for macro adjustment in North Africa

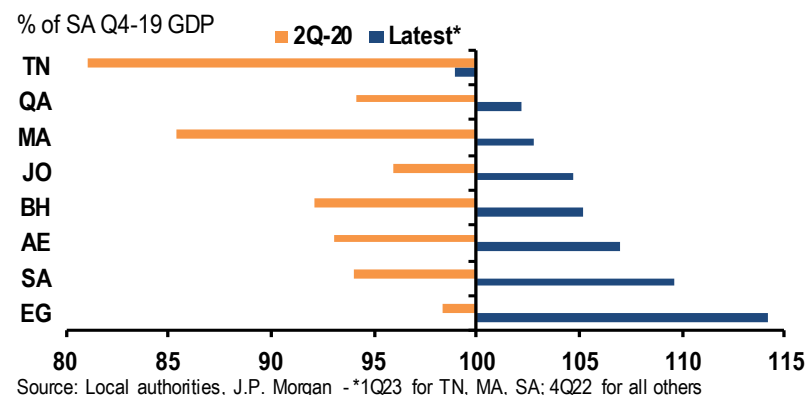
GDP real growth in MENA



Source: Local authorities, J.P. Morgan *1H-23 for Saudi Arabia and Morocco

Tunisia remains the only country without seeing a full recovery from the pandemic

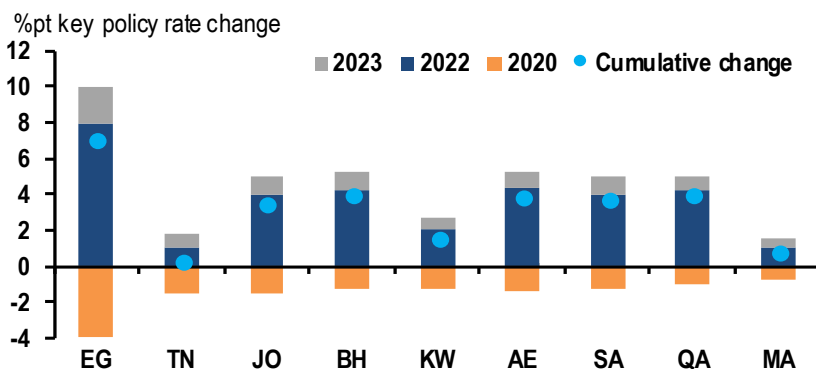
Real GDP level in MENA



Source: Local authorities, J.P. Morgan - *1Q23 for TN, MA, SA; 4Q22 for all others

Kuwait is expected to close the gap versus the Fed although CBK sent little signs on this front

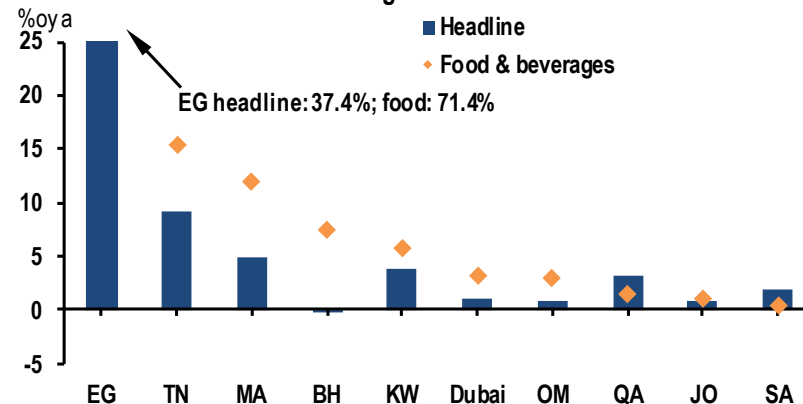
MENA monetary policy response



Source: Local central banks, J.P. Morgan

Food prices shock has been strong in North Africa, with pressure still clear in North Africa

MENA headline and food & beverage CPI



Source: J.P. Morgan. Latest available data

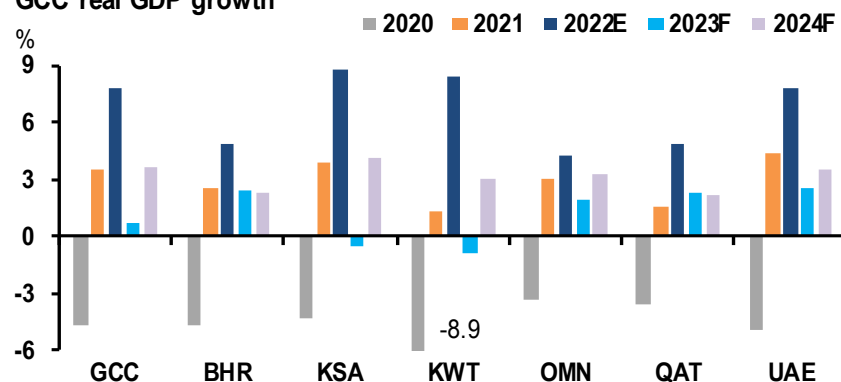
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GCC – As oil prices move higher, hydrocarbon dynamics are more favourable

OPEC+ oil curbs are the key drag to growth while non-oil activities remain strong across the region

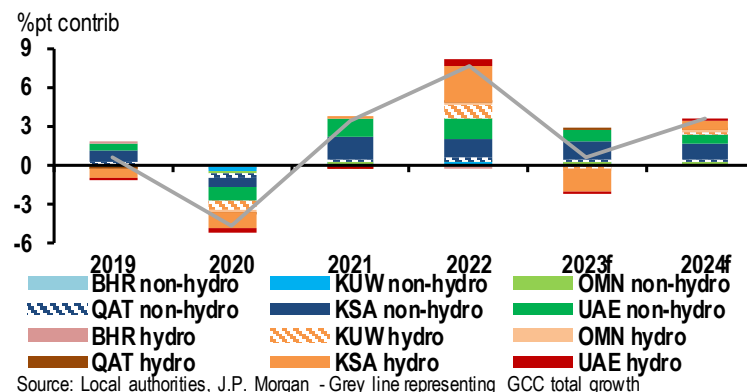
GCC real GDP growth



Source: Local authorities, J.P. Morgan

Most of 2023 GDP headline slowdown is related to Saudi Arabia curbs on oil production

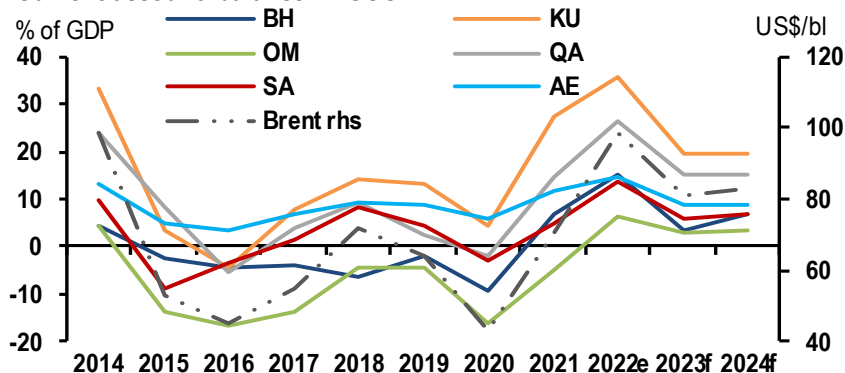
GCC contribution to growth



Source: Local authorities, J.P. Morgan - Grey line representing GCC total growth

Large current account surpluses are expected in the Gulf region

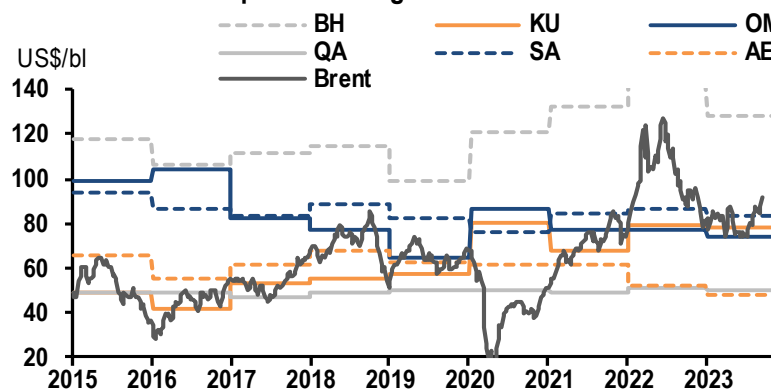
Current account balance in GCC



Source: Local authorities, J.P. Morgan

A recent pick-up in oil prices eased fiscal risks

GCC breakeven oil price for budget balance

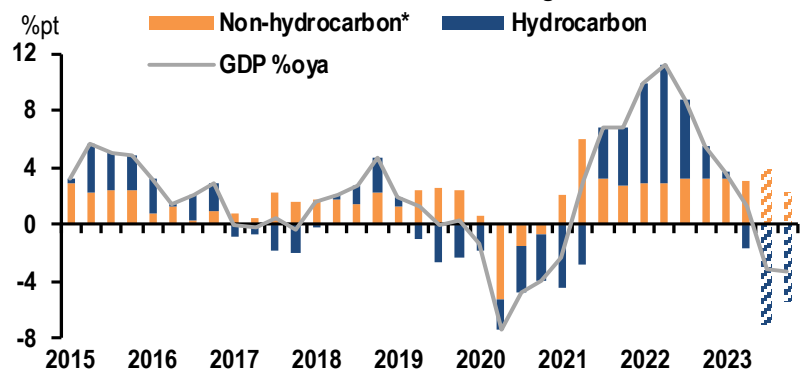


Source: IMF, J.P. Morgan - JPM estimates and forecasts for 2023 and 2024

Saudi Arabia: Voluntary curbs to contract GDP as non-oil performance is positive

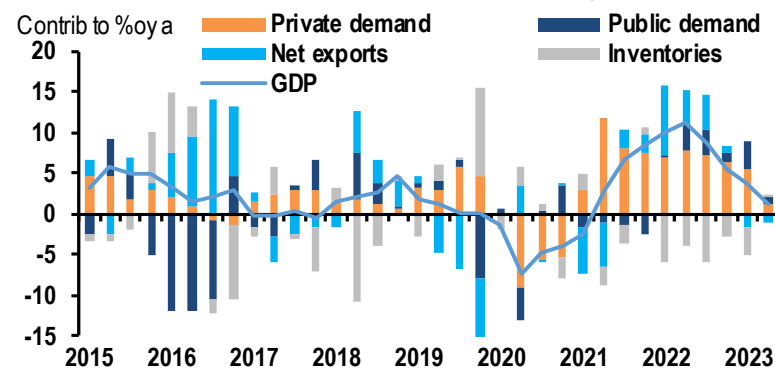
OPEC+ and voluntary oil curbs will push GDP into contraction while non-oil economy is expected to perform well

Saudi Arabia sectors' contribution to annual growth



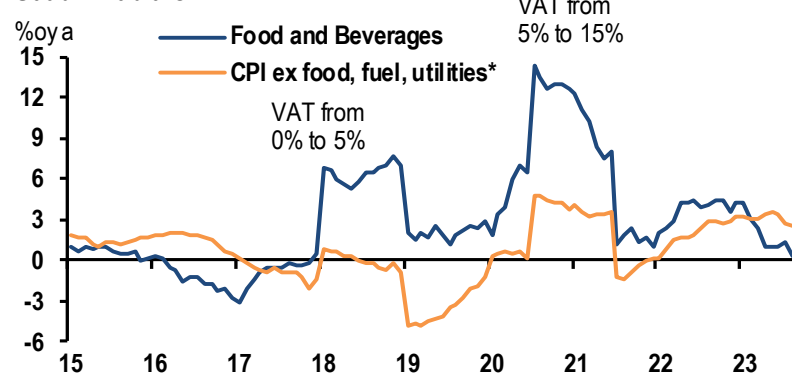
Recent expansion has been fueled by private demand

Saudi Arabia expenditures contribution to annual growth



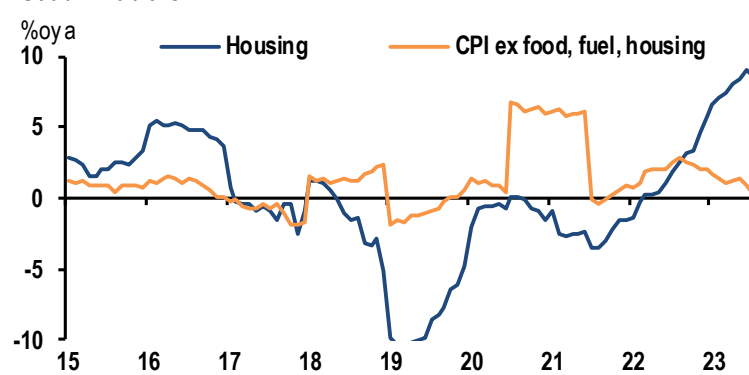
CPI expected to slightly moderate in 2023 as food prices moved lower

Saudi Arabia CPI



Pressure outside rent prices is contained and should lead to an headline below 2% for the rest of 2023 and for the entire 2024

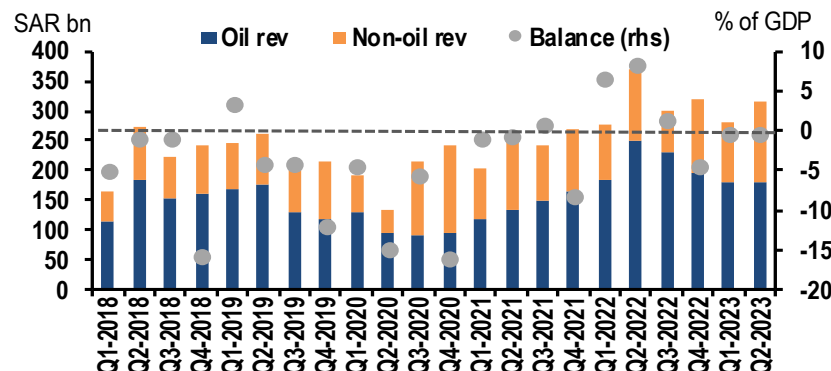
Saudi Arabia CPI



Saudi Arabia: Saudi Aramco extra dividend to fill the fiscal gap

Fiscal balance to stay close to zero as Saudi Aramco will close the previously expected fiscal gap

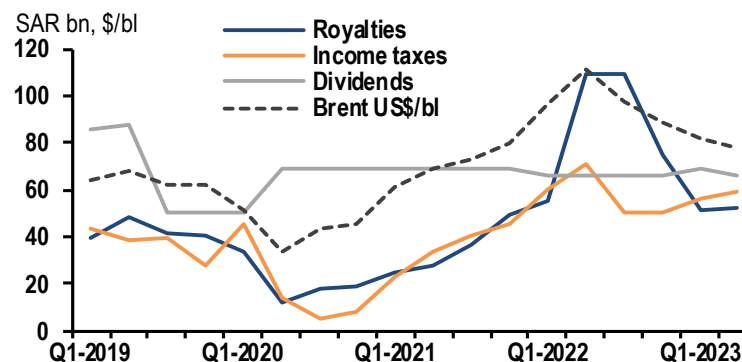
Saudi Arabia fiscal balance and revenues



Source: MoF, J.P. Morgan

Direct oil revenues will be affected by production curbs, but most of the extra US\$10bn quarterly dividend will reach state coffers

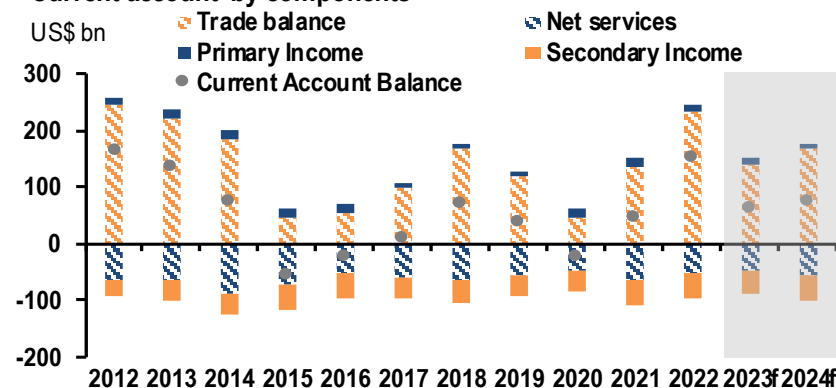
Saudi Arabia fiscal oil revenues structure



Source: Saudi Aramco reports, J.P. Morgan

Trade surplus to shrink in 2023 due to supportive although less favourable oil dynamics

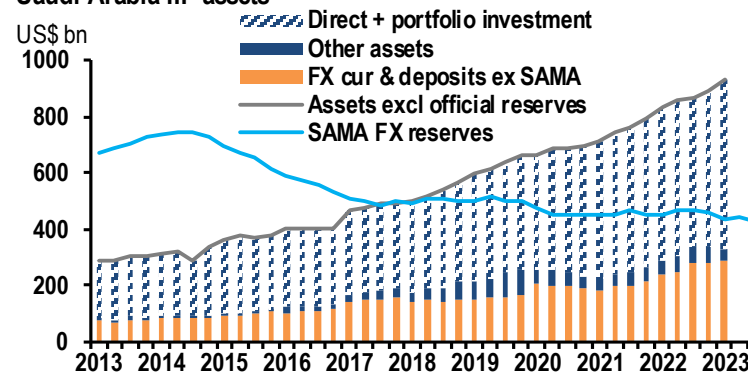
Current account by components



Source: SAMA, J.P. Morgan - Shaded area indicates JPM forecast

While SAMA assets declined, the effect of wide CA surplus is visible in higher foreign assets ownership

Saudi Arabia IIP assets

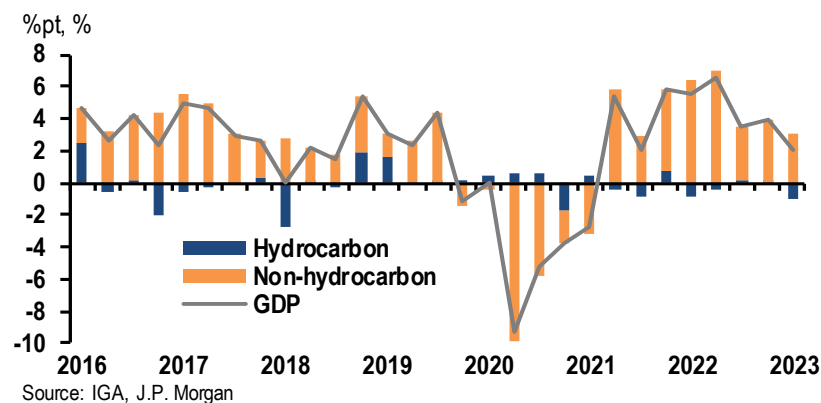


Source: SAMA *official reserve last data point for end of Aug-23

Bahrain: Regional support continues to be key as fiscal position is still vulnerable

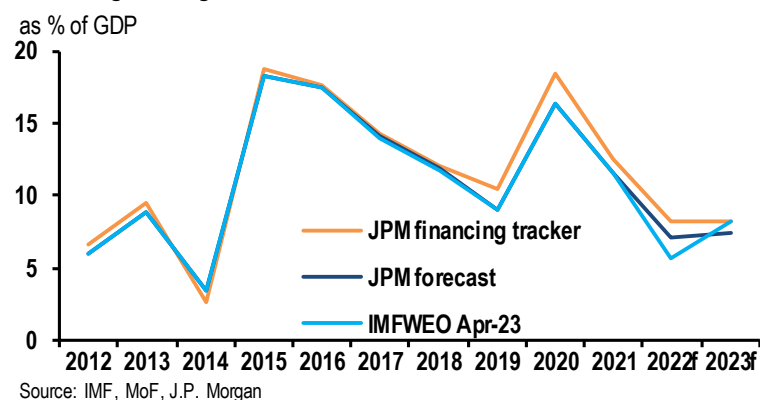
Growth remains on a positive path despite hydrocarbon drag

Bahrain contribution to oya growth



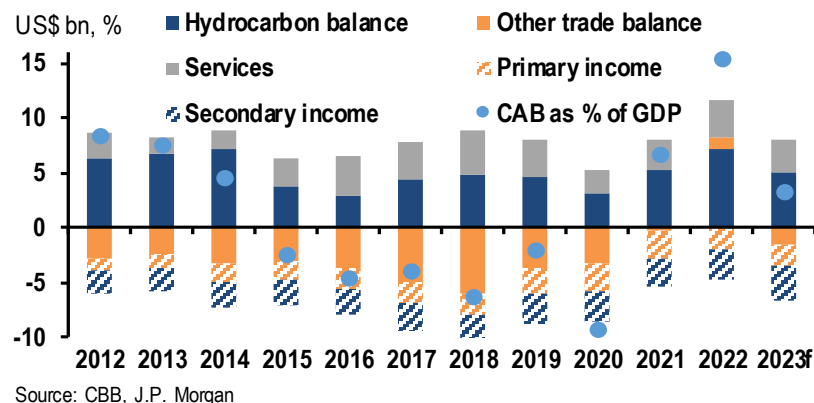
Financing sources tracker point to another year of elevated deficit

Bahrain general government consolidated fiscal deficit



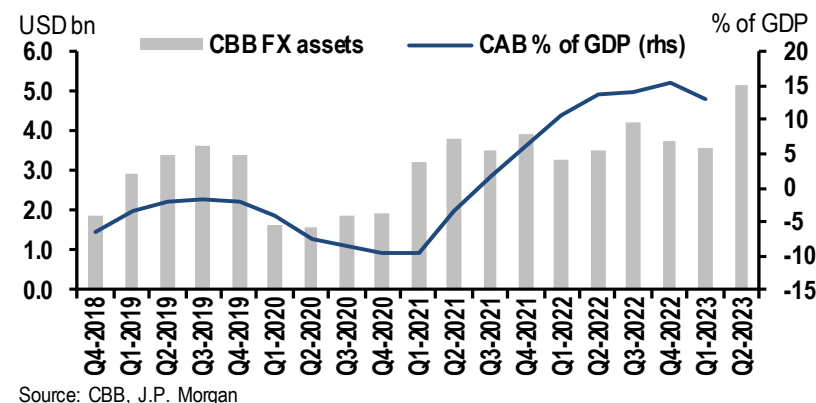
Non-hydrocarbon balance expected to return into deficit after the strong 2022 result driven by aluminium prices

Bahrain current account



Reserves improved thanks to external issuance

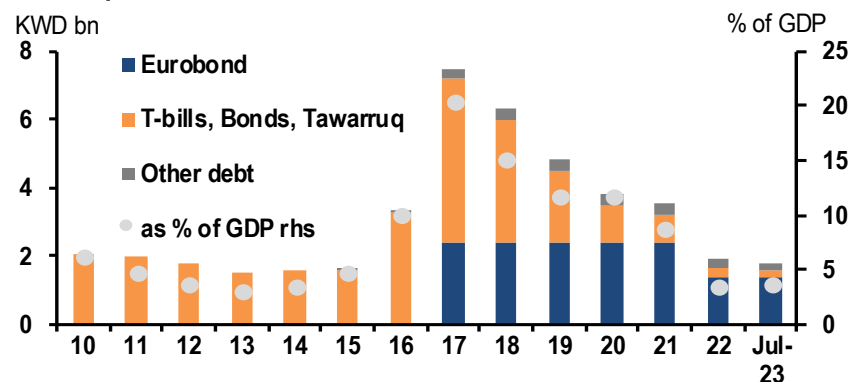
Bahrain FX reserves and CAB



Kuwait: Oil prices pick-up eased fiscal risks

We don't expect a debt law in 2023 with debt to GDP down to 4%

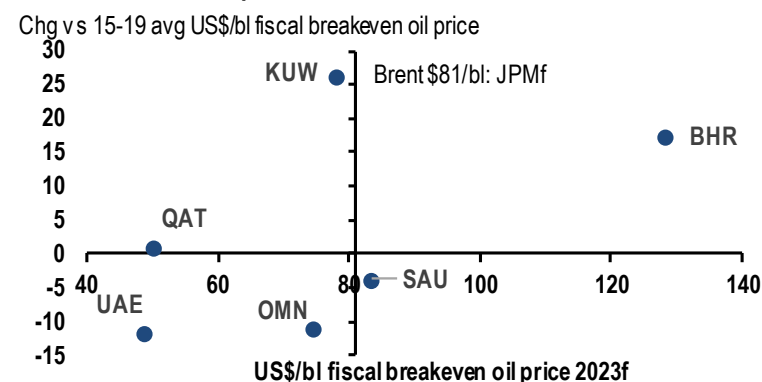
Kuwait public debt



Source: IMF, CBK, J.P. Morgan

Fiscal breakeven oil price is below our current assumption, but high sensitivity is a risk to the outlook

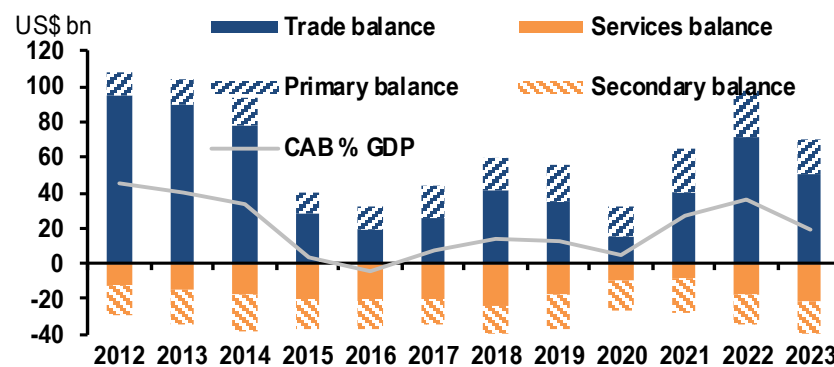
Fiscal breakeven oil price



Source: J.P. Morgan

Current account surplus expected to remain wide in 2023

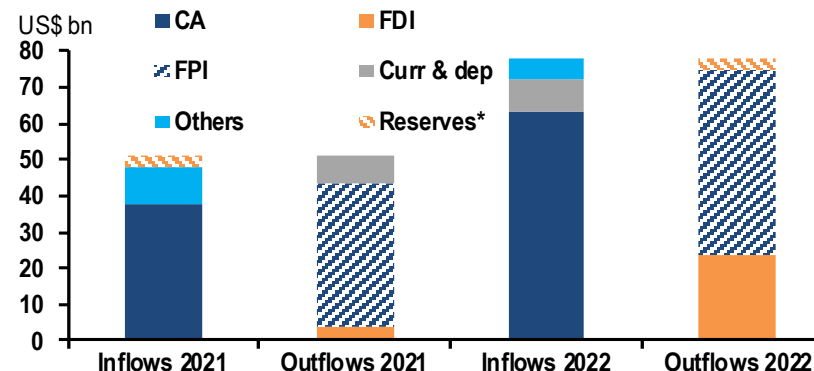
Kuwait current account balance



Source: CBK, J.P. Morgan

Large investment abroad resulted in small official reserves accumulation in 2022

Kuwait BOP flows

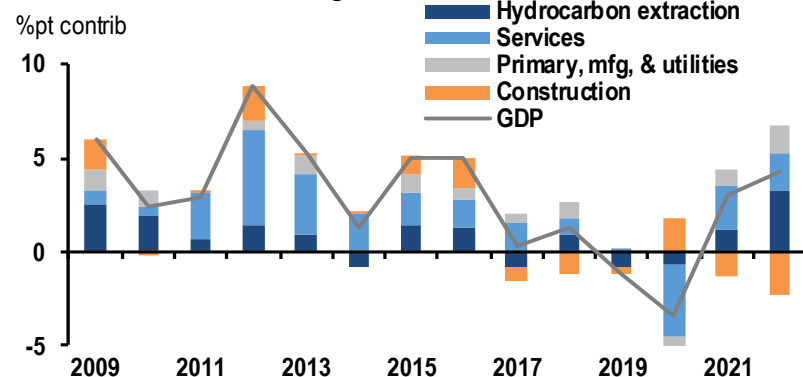


Source: CBK, J.P. Morgan - *build-up if on right column

Oman: Following the path toward investment grade

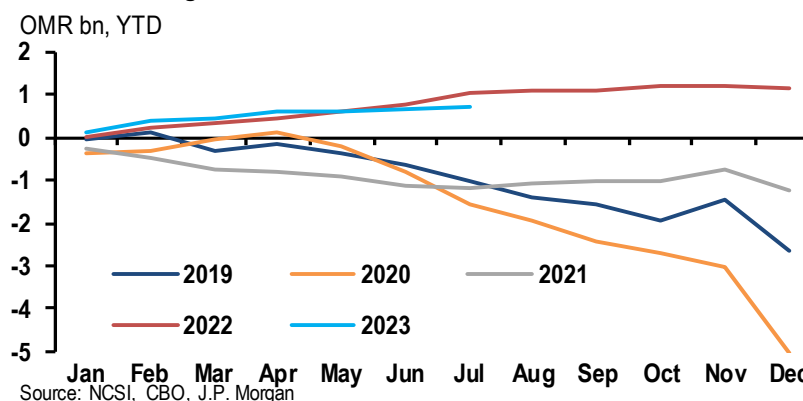
Non-hydrocarbon GDP expected to lead growth in 2023 as construction drag eases

Oman contribution to GDP growth



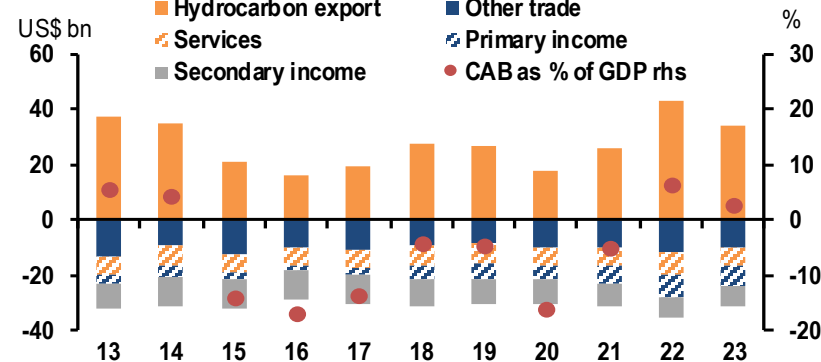
As hydrocarbon prices moved lower, fiscal results are only slightly less positive than in 2022

Oman central government fiscal balance



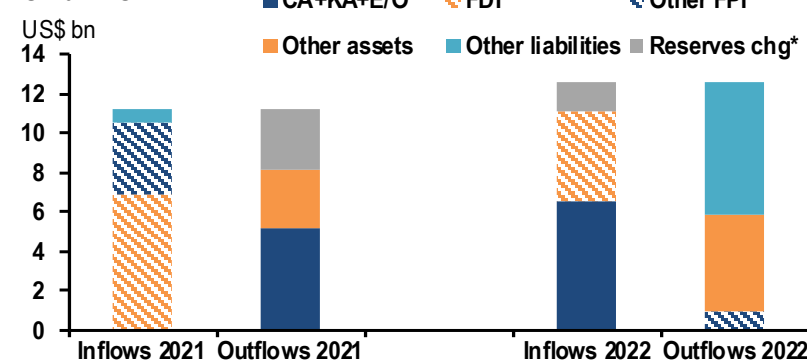
Current account returned into surplus in 2022 and it is expected to remain despite less supportive international prices

Oman current account



Large broad current account surplus allowed large external debt repayments

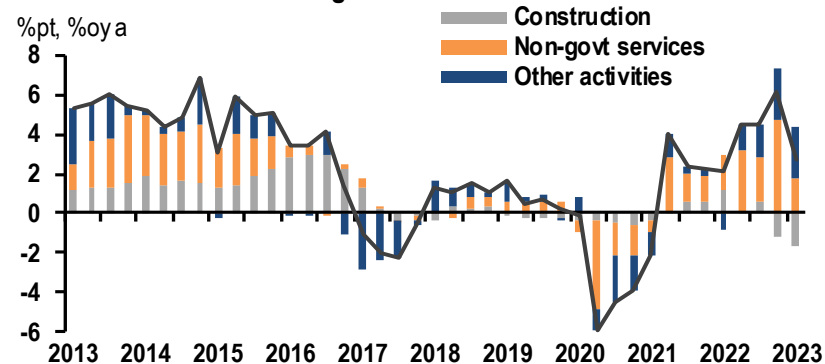
Oman BOP



Qatar: A positive macro picture as normalizing after the World Cup boost

2023 growth to slowdown after the boost given by World Cup hosting

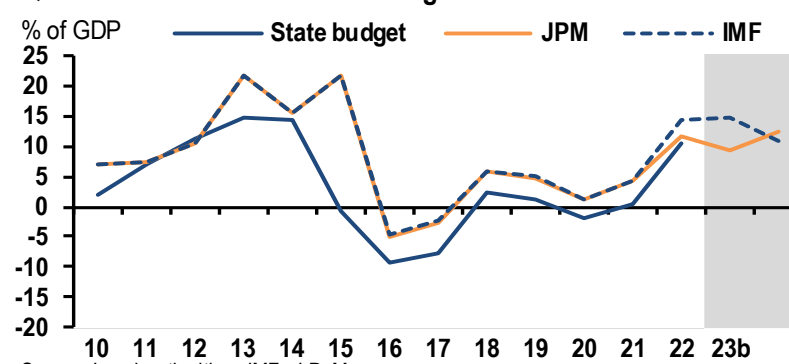
Qatar contribution to GDP growth



Source: PSA, J.P. Morgan

Fiscal surplus expected to remain wide despite lower hydrocarbon revenues

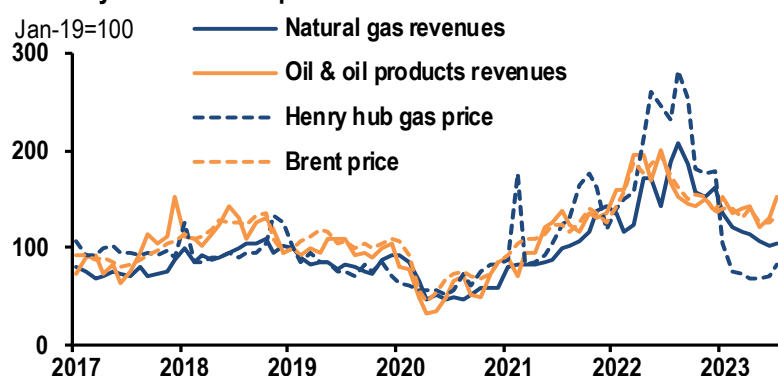
Qatar state and consolidated budget*



Source: Local authorities, IMF, J.P. Morgan

Thanks to longer contracts, gas revenues correct more gradually than spot prices would imply; CA is expected to remain wide

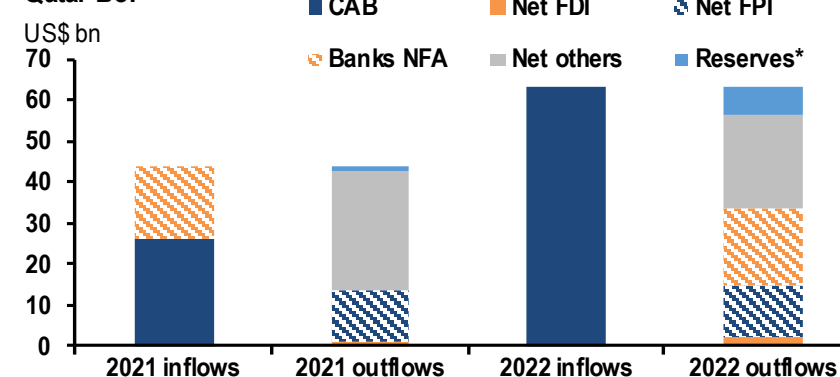
Qatar hydrocarbon exports



Source: PSA, Haver Analytics, J.P. Morgan

Reserves accumulation has been limited in 2022 also due to non-resident deposit outflows which have now stabilized

Qatar BoP

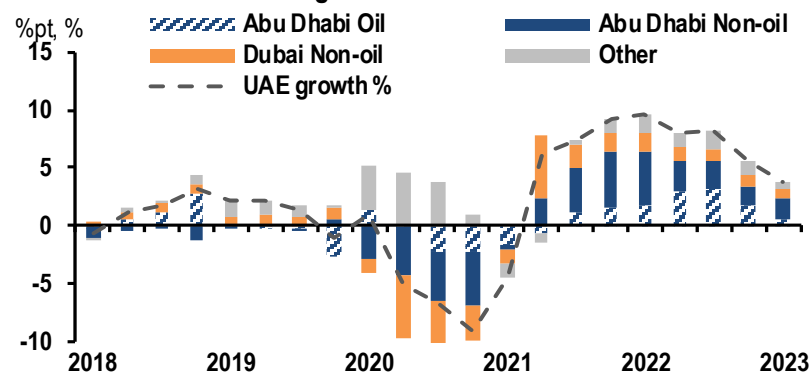


Source: QCB, J.P. Morgan *build-up if in the right column

UAE: A comfortable twin surplus

Growth expected to moderate after the strong performance in 2022

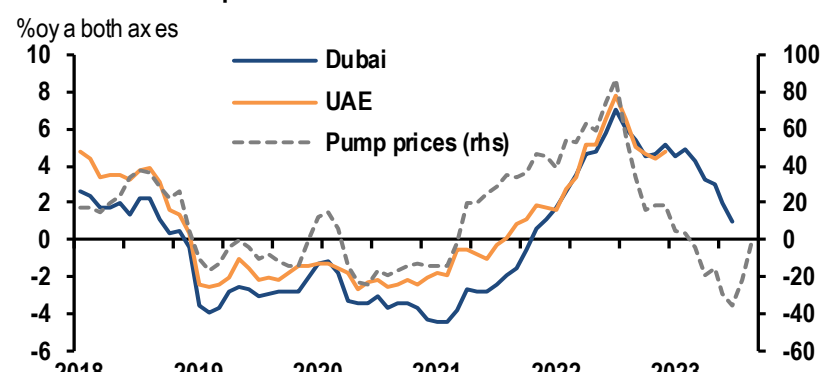
Contribution to UAE GDP growth



Source: Local authorities, J.P. Morgan

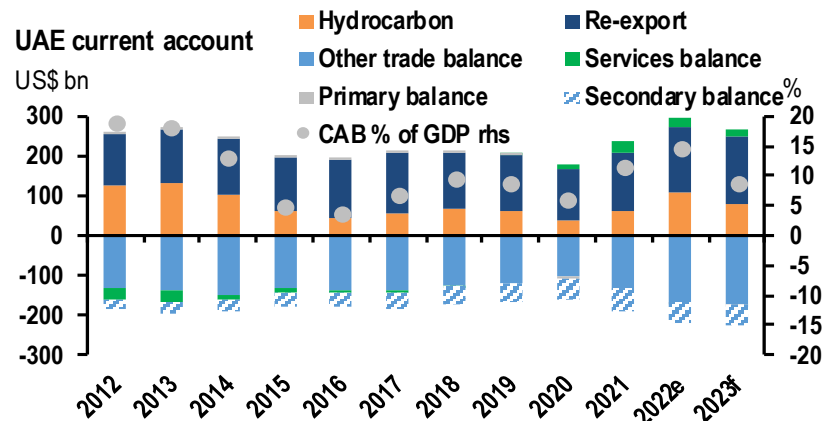
As pump prices moved lower, CPI moderated in 2023 despite some residual pressure from rents

UAE CPI and fuel prices



Source: Local authorities, J.P. Morgan

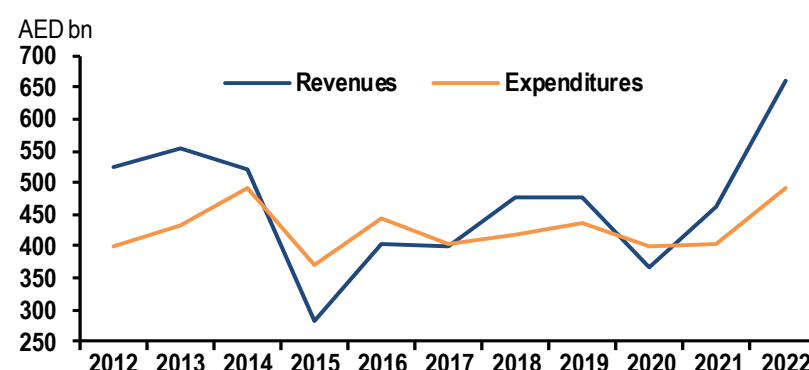
Current account surplus to moderate but remaining at comfortable levels



Source: CBUAU, J.P. Morgan

Fiscal performance has been strong in 2022 with wide surplus also expected in 2023

UAE consolidated fiscal data



Source: IMF, J.P. Morgan

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Egypt: Still waiting on IMF breakthrough as privatization effort resumed

We expect a moderate FX reserves accumulation supported by lower current account deficit and IMF programme disbursements

External financing needs and sources - Original IMF plan vs JPM updated

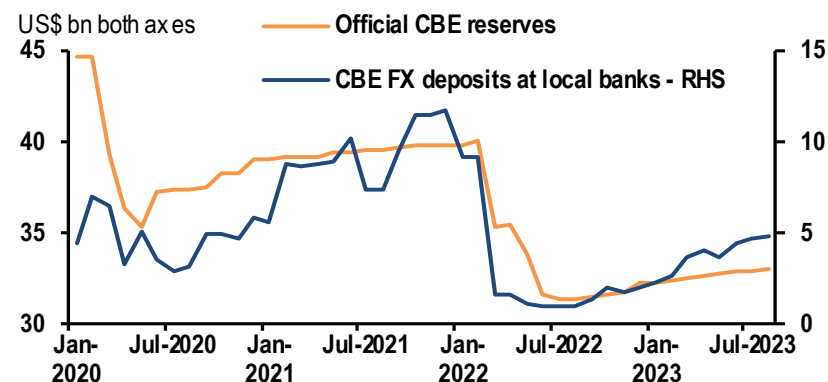
	FY22/23	FY22/23	FY23/24	FY23/24
	IMF	JPM est	IMF	JPM
External gross financing needs	23.7	19.4	24.3	22.7
CA deficit	12.6	8.3	11.1	9.5
Amortizations*	11.1	11.1	13.2	13.2
o/w IMF repayments	1.3	1.3	4.5	4.5
External financing	29.6	20.7	34.4	24.4
Net FDI incl SOE sales	11.7	10.0	16.7	12
Net FPI	6.1	-3.0	7.3	0.9
MLT loan disbursements	6.8	6.8	7.8	7.8
IMF**	0.7	0.35	0.7	1.3
Other multilaterals and bilateral	3.1	1.0	0.8	2.0
WB	1.1		0.5	
AIIB	0.4		-	
AfDB	0.3		-	
AMF	0.3		0.3	
China development bank	1.0		-	
Others (incl E/O, banks' NFA, and others)	1.2	5.6	1.1	0.4
External funding gap (-ve = build-up reserves)	-6.0	-1.3	-10.1	-1.7

*IMF estimate excludes GCC deposits and other amortizations **JPM estimate for FY24 includes US\$0.4bn from RSF

Source: IMF, J.P. Morgan

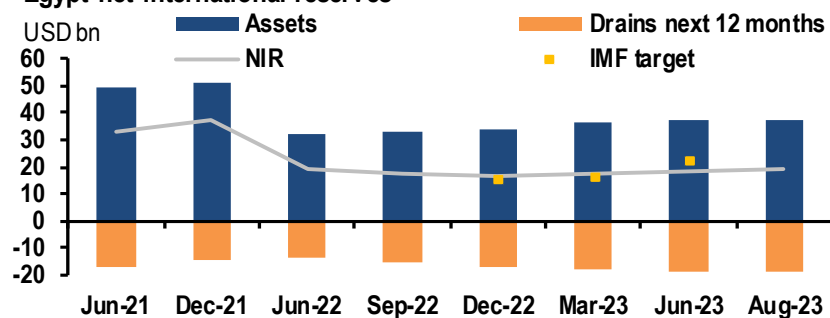
"Tier 2" reserves saw a larger jump than official reserves

Egypt official reserves and "tier 2" reserves



NIR target for June at \$23bn was missed as privatization flows and first IMF review did not materialize

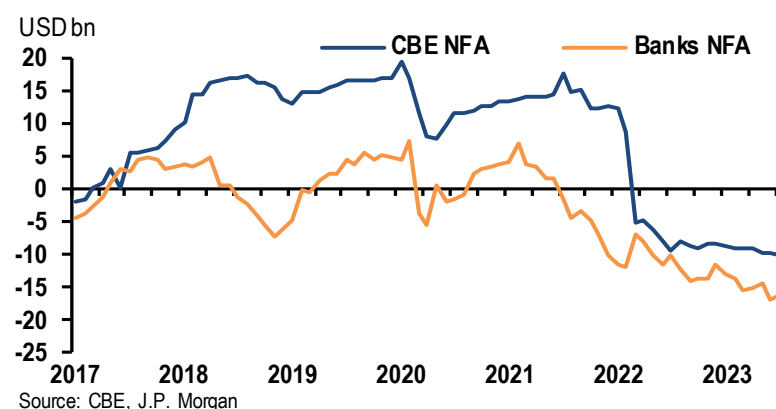
Egypt net international reserves



Source: IMF, J.P. Morgan - Assets include official reserves and CBE FX deposit at local banks
Drains exclude LT and ST GCC deposits coming due - JPM est for 2023 figures

Banking NFA under more limited but still visible pressures due to lack of inflows and despite FX supply limitations

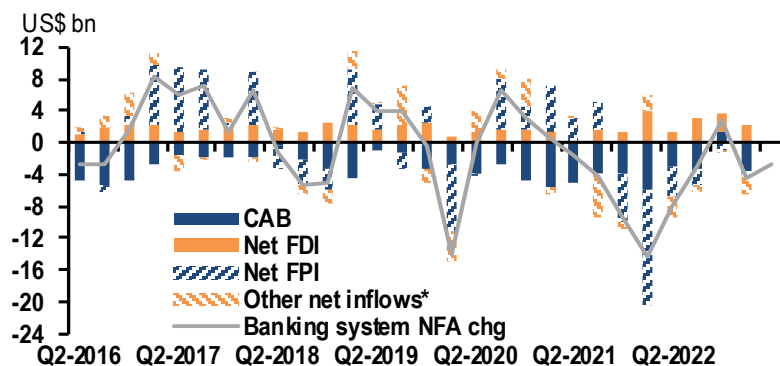
Egypt banking system NFA



Egypt: Current account shrank due to restrictions and more cautious policies

FX restriction and backlog continued to create volatility in the current account figures with large E/O in the picture

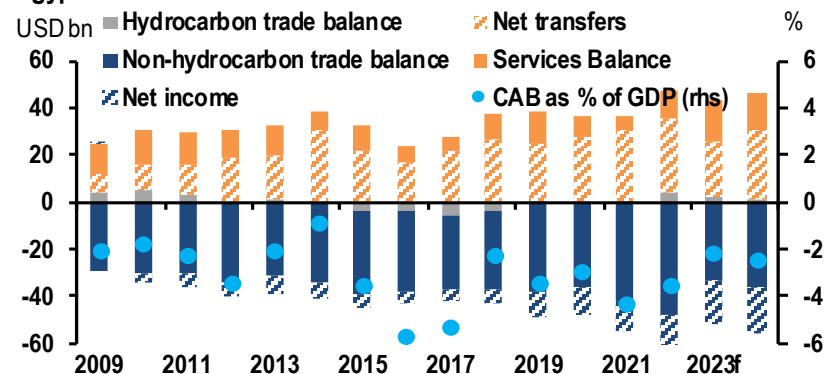
Egypt BOP and NFA



Source: CBE, J.P. Morgan *Oth investment excl NFA + capital account + E/O

Current account to stay below US\$10bn conditional on tight monetary and fiscal policies

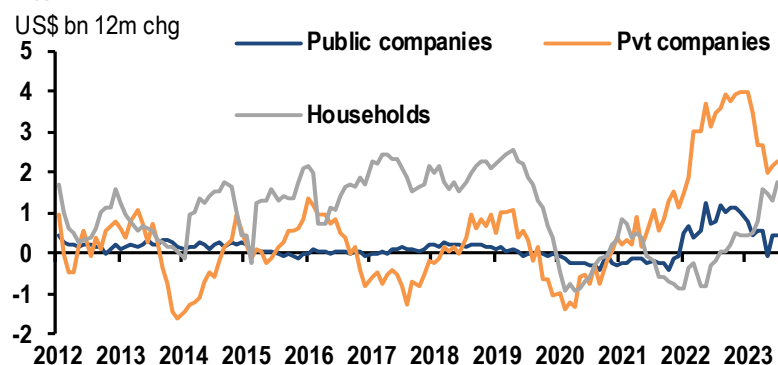
Egypt current account balance



Source: CBE, J.P. Morgan

FX market fragilities has seen dollarization increase since 2021 with more meaningful rise in household FX deposits recently

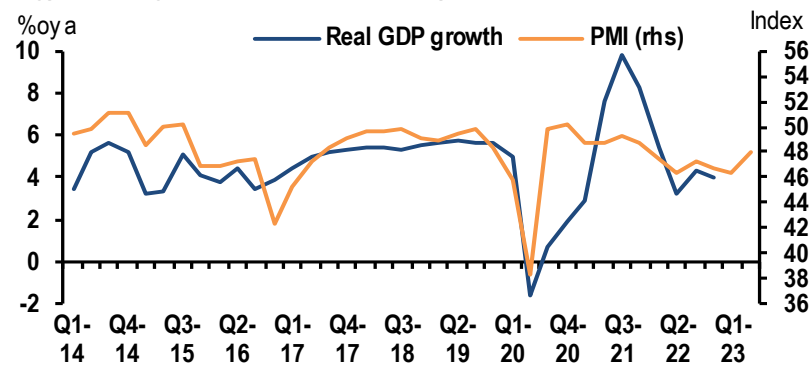
Egypt FX deposits for households and companies



Source: CBE, J.P. Morgan

Economy to slow down amid fiscal and monetary policy tightening

Egypt GDP growth and total economy PMI

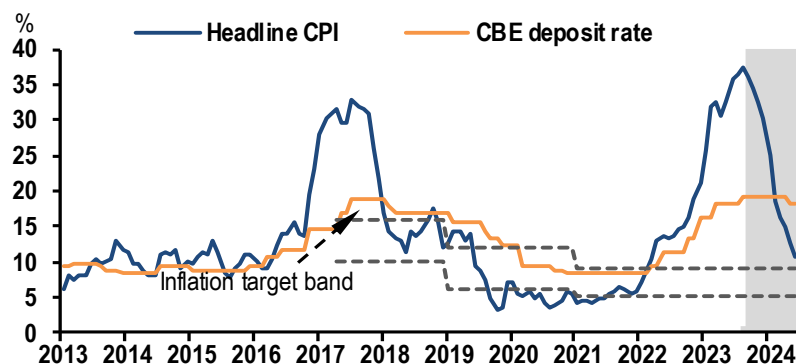


Source: CBE, IHS/Markit, J.P. Morgan - 2Q21 estimate based on full FY21 data

Egypt: Fiscal to stay tight amid a context of higher borrowing costs

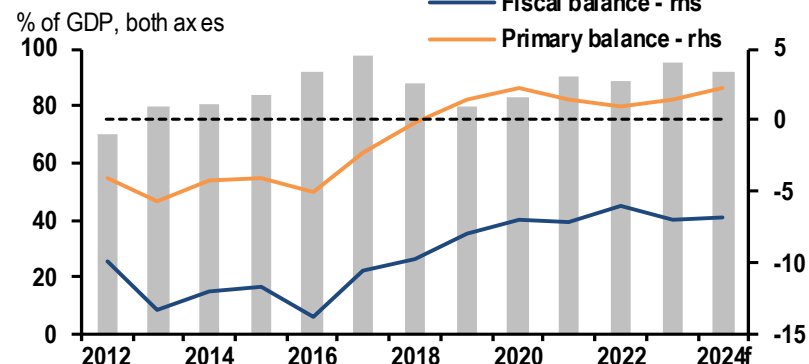
Despite 1100bps hike, inflationary pressure are still evident and fuelled by parallel rate, FX shortages, and high expectations

Egypt CPI headline and CBE O/N deposit rate



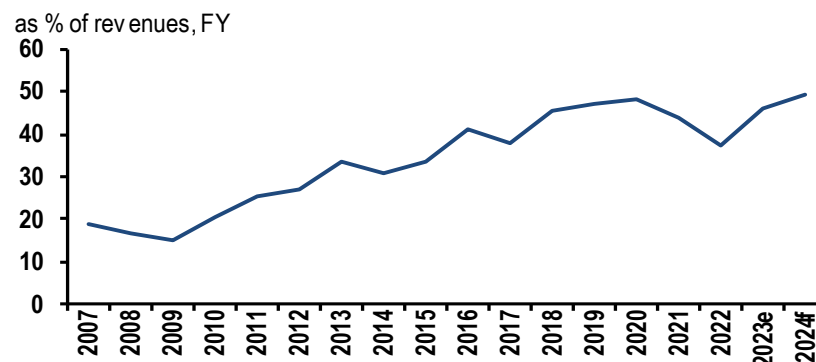
Authorities are now targeting a wider primary surplus at 2.6% of GDP as higher financing costs hit debt dynamics

Fiscal balance and debt



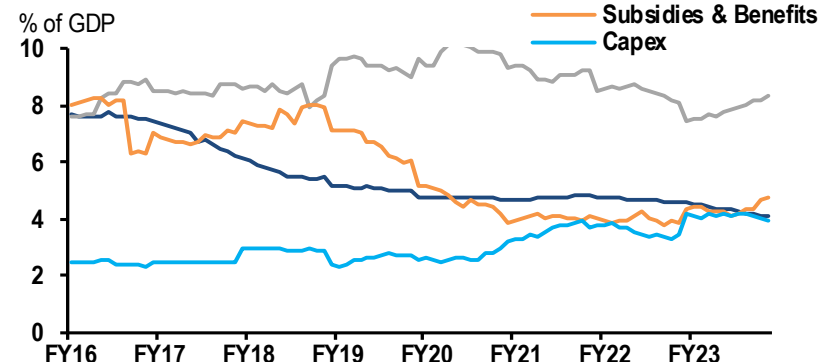
Interest payments could absorb up to half of projected revenues in FY24

Egypt interest expenditure on fiscal revenues



A slowdown in capex expenditure could lead to lower fiscal and current account deficit

Egypt fiscal expenditures



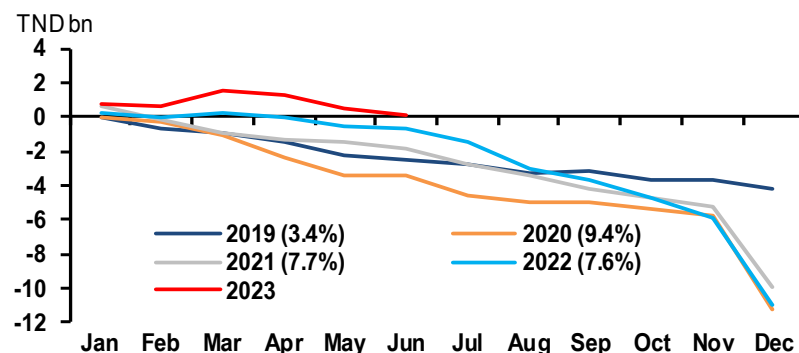
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Tunisia: Macro picture improved despite no IMF breakthrough yet

Fiscal performance largely improve in 2023 thanks to lower real wage and subsidies expenditure

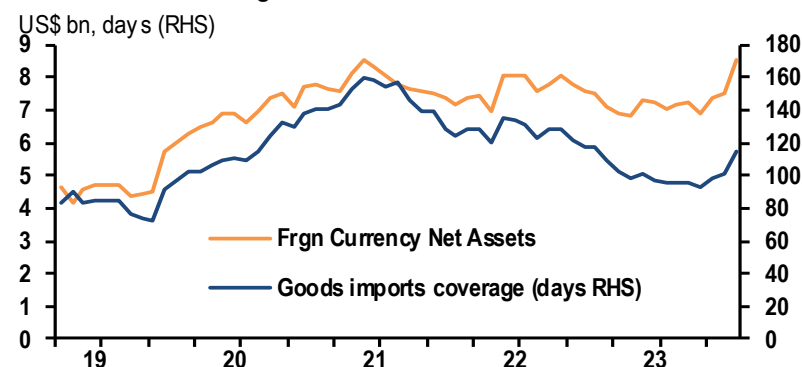
Tunisia cumulative budget performance



Source: MoF, J.P. Morgan - annual deficit as % of GDP in brackets

Reserves improved thanks to more limited CA pressures and support from bilateral and multilateral sources

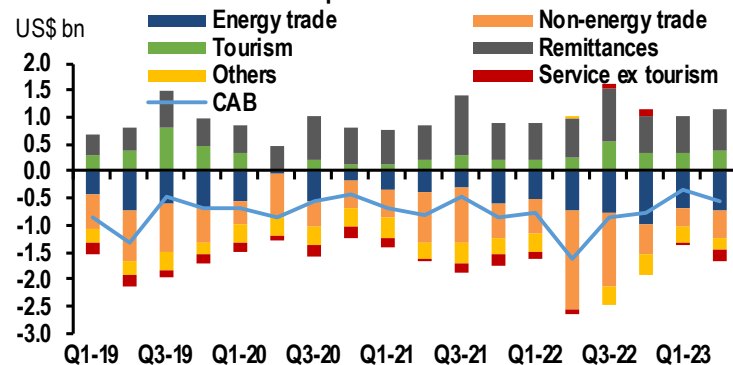
Tunisia BCT net foreign assets



Source: BCT, J.P. Morgan

Current account narrowing thanks to strong services, resilient remittances, and better ToT

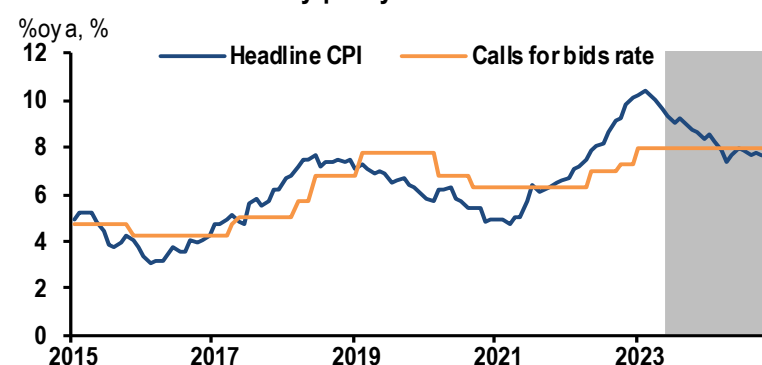
Tunisia current account components



Source: INS, BCT, J.P. Morgan

Headline inflation moving lower with some risks related to domestic and international food prices

Tunisia CPI and monetary policy rate



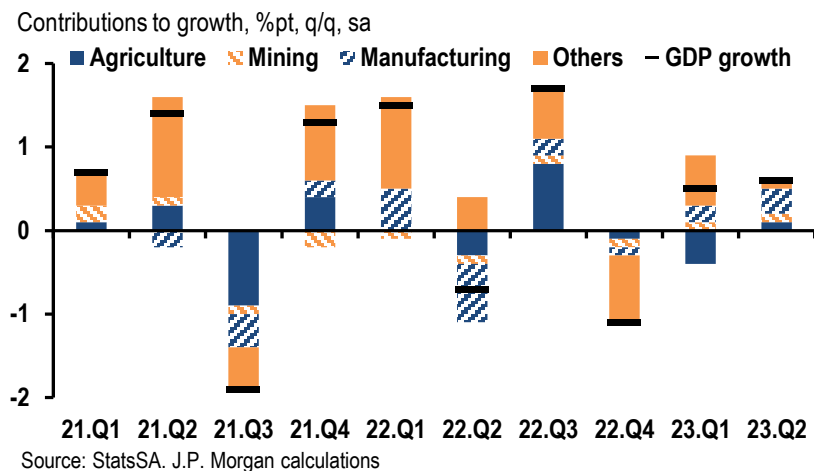
Source: BCT, INS, J.P. Morgan

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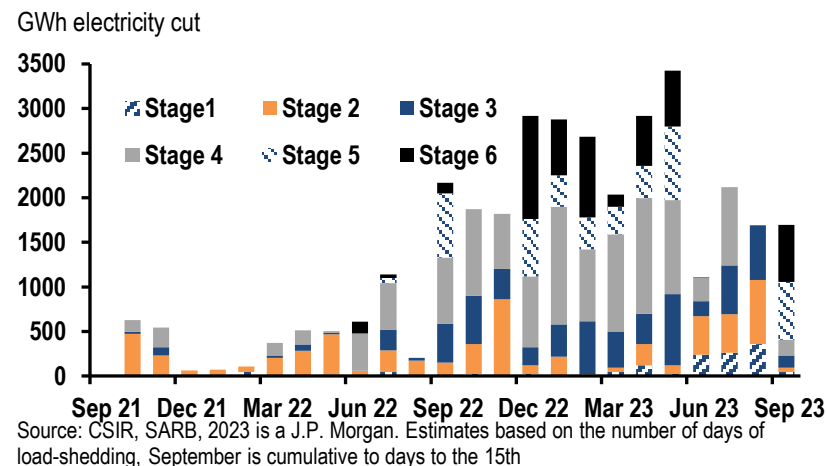
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South Africa: Economic growth amid energy deficit

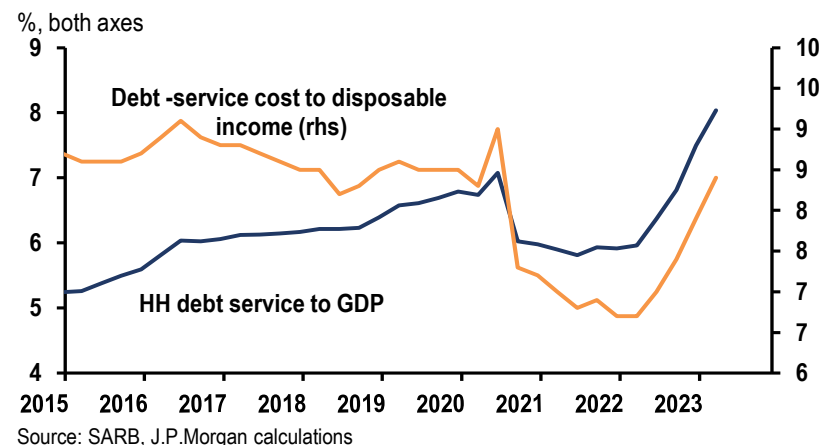
Supply side held up in 1H as power cuts reduced in June, but also continued catchup from 4Q22 hole



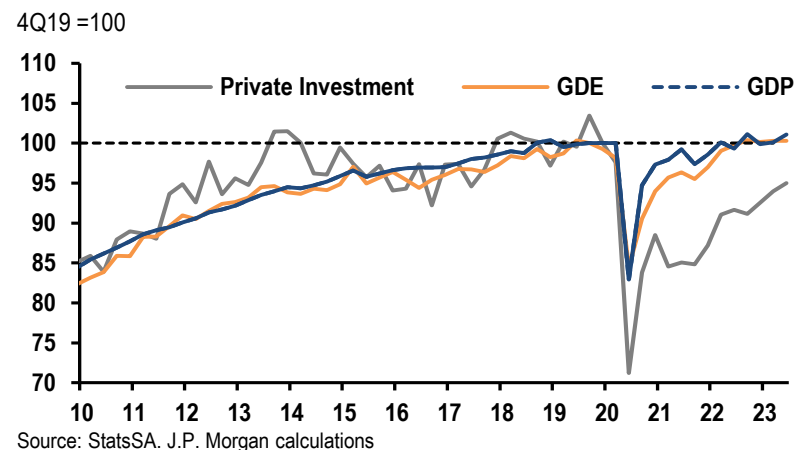
Restart of higher energy rationing should stall GDP growth in 2H



Household consumption has weakened as debt costs rise to squeeze income

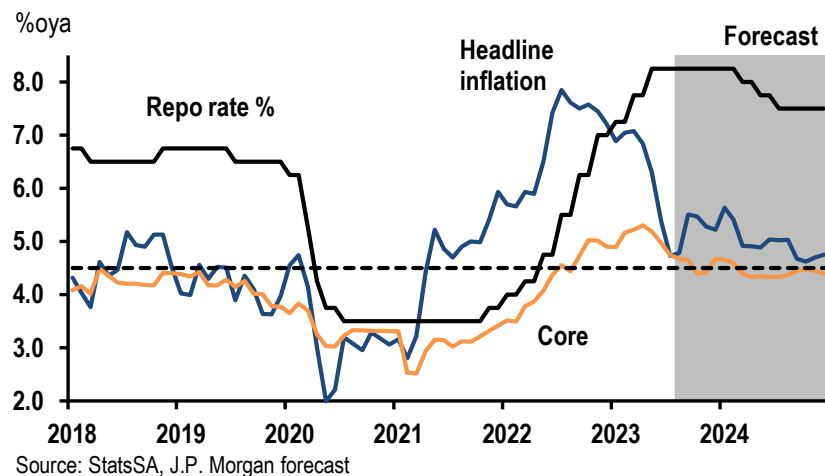


Net exports now a drag, while capex recovers

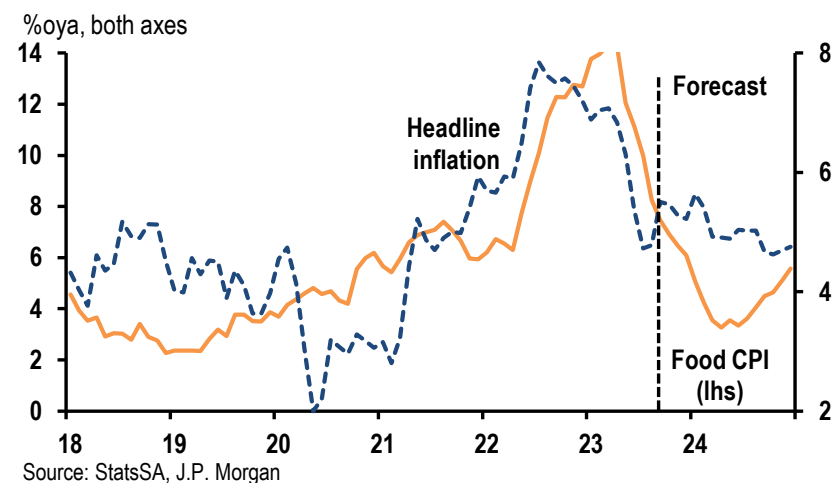


South Africa: SARB in inflation-fiscal conundrum

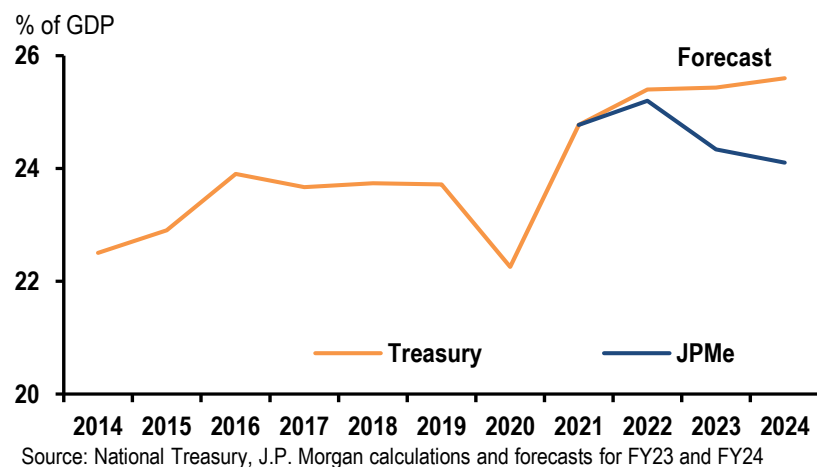
SARB likely to hold until 1Q23 as inflation is probably contained despite lingering energy related cost pressures



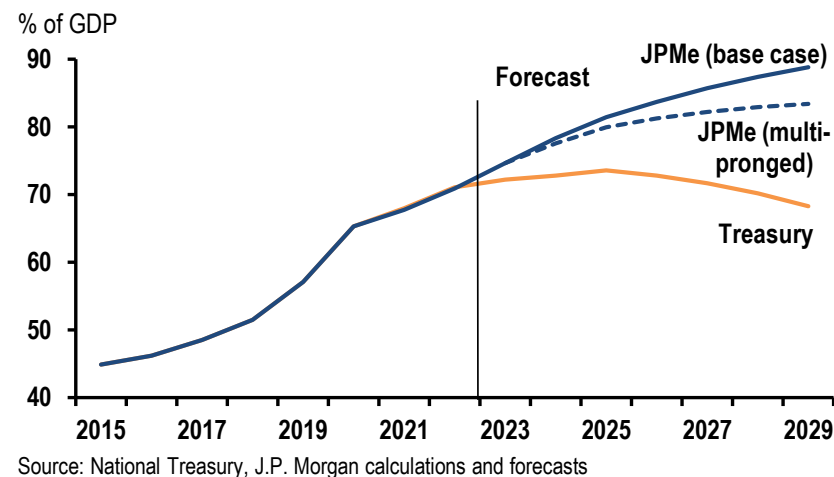
Food inflation moderation buttresses benign outlook



Yet, fiscal developments underpin country risk premium as deficit likely rises to 6.3% in FY23/24 on lower tax revenue

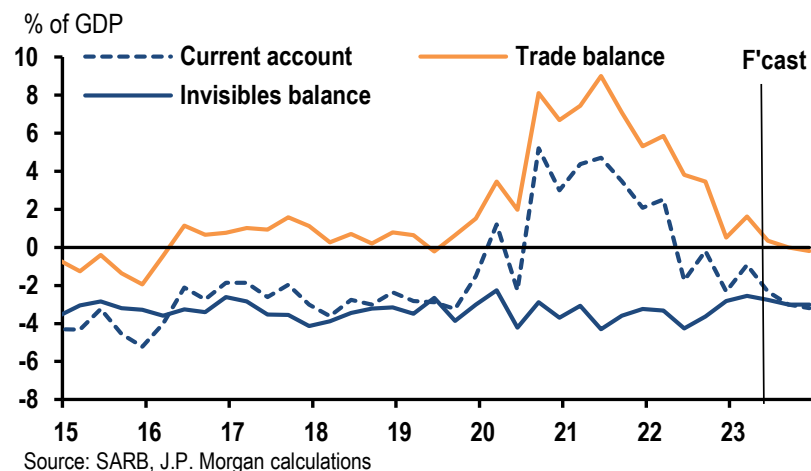


Debt-to-GDP ratio likely to rise 10%pts near term pressured by fiscal slippage and terms of trade declines

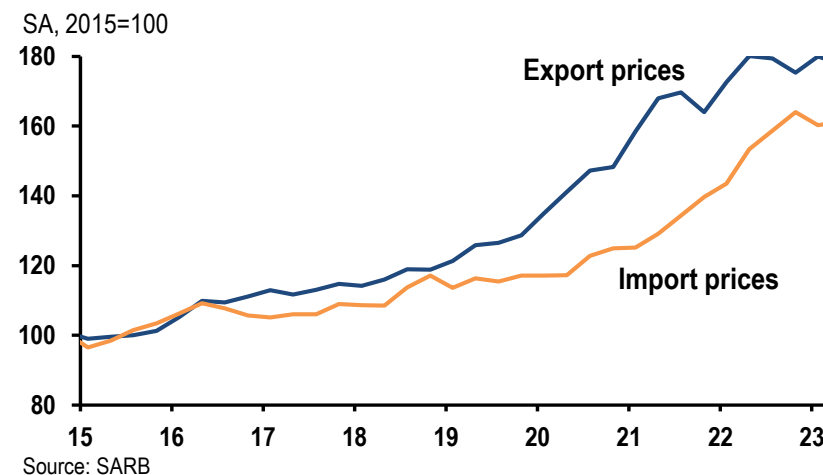


South Africa: Higher imports and declining exports prices to weigh on CAD

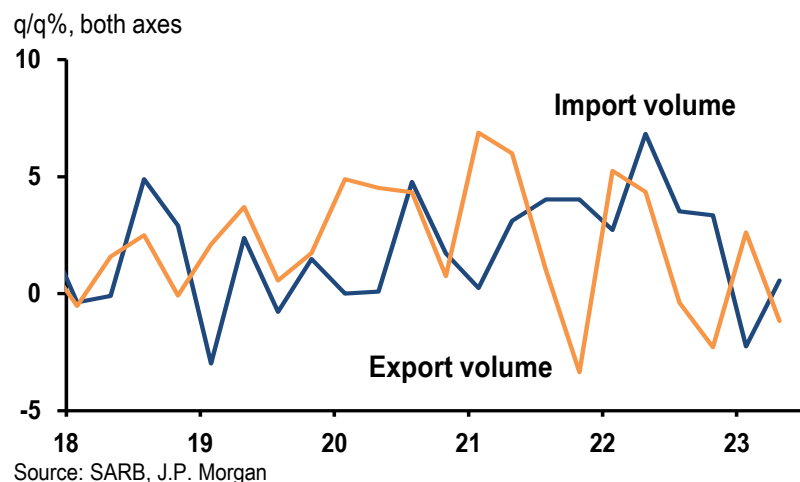
We project a 2.4% of GDP C/A deficit as trade balance deteriorates



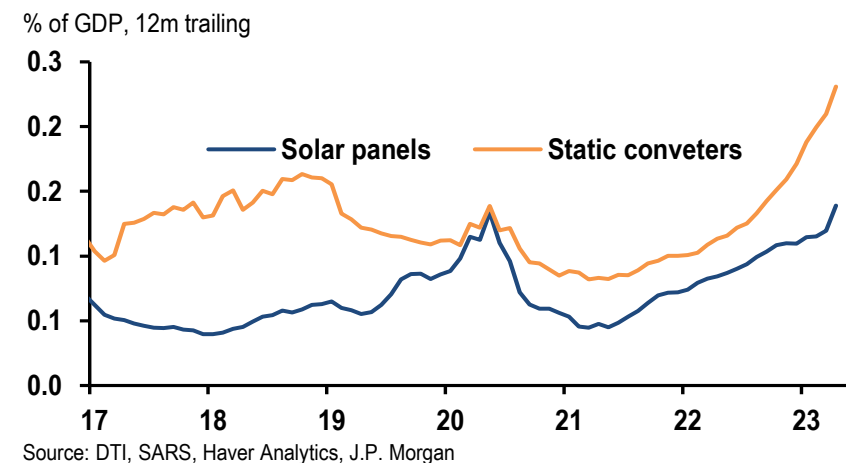
Export prices have stabilised with indications of further moderation in 2H



Exports volumes declined while imports rose



...in part reflecting an uptick in the investment of alternative energy sources



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Nigeria: Fuel subsidy and FX reforms positive for fiscals, negative for inflation

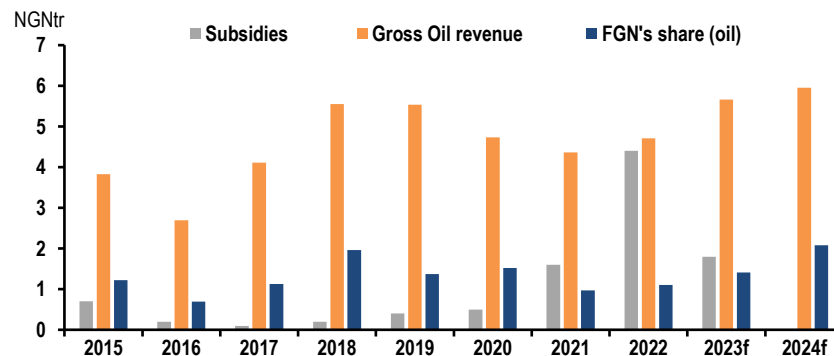
PMS prices have more than doubled since May ...

Petrol prices at different oil and FX levels after subsidy removal (NGN/ltr)

A: Retail prices	Oil price/ USDNGN	750	800	850	900
	70.0	354.8	378.5	402.2	425.8
	75.0	380.2	405.5	430.9	456.2
	80.0	405.5	432.6	459.6	486.7
	85.0	430.9	459.6	488.3	517.1
	90.0	456.2	486.7	517.1	547.5
B: Freight costs (NGN/ltr)		22.3	23.7	25.2	26.7
C: Other costs and margins		68.5	73.1	77.7	82.2
D= A+B+C; Retail fuel price					
	70.0	445.6	475.3	505.0	534.8
	75.0	471.0	502.4	533.8	565.2
	80.0	496.3	529.4	562.5	595.6
	85.0	521.7	556.4	591.2	626.0
	90.0	547.0	583.5	619.9	656.4

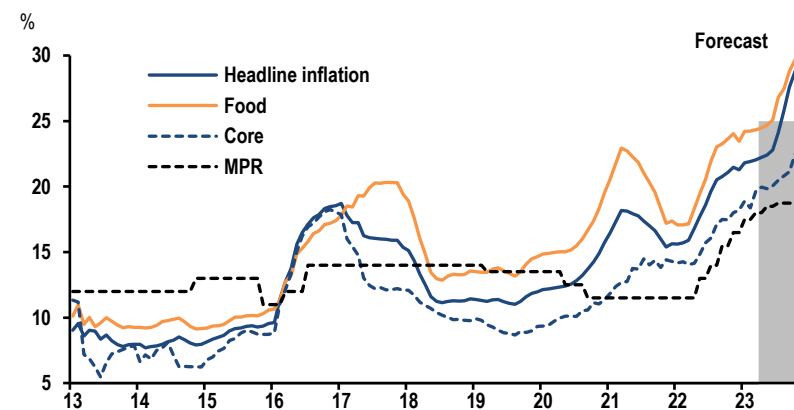
Source: PPPRA, J.P. Morgan.

Oil revenues set to nearly double from the 2022 low base to just over NGN2tr in 2024...



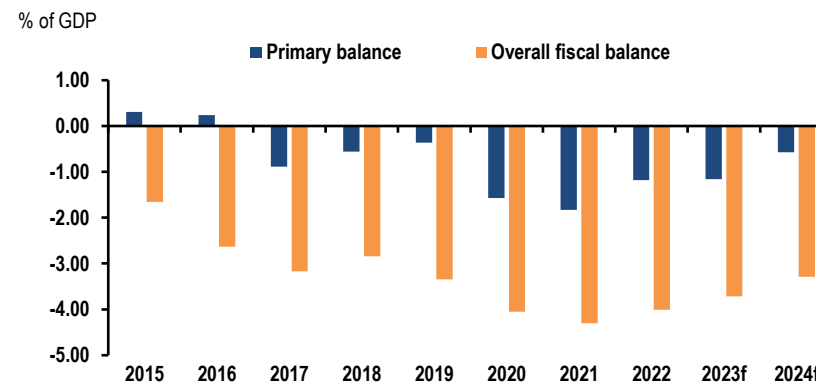
Source: Haver analytics, J.P. Morgan

... leading headline inflation higher and likely towards 30% by year-end.



Source: National Bureau of Statistics; CBN; J.P. Morgan

... helping to lower the aggregate fiscal deficit



Source: NBS, CBN, J.P. Morgan

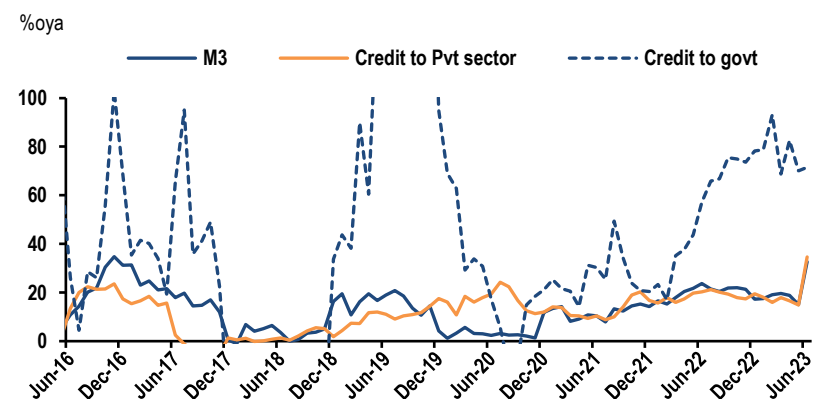
Nigeria: CBN's financials open a can of worms; firm monetary tightening required

Net FX reserves are significantly lower than previously estimated

CBN net reserves computation	NGNbn	US\$bn	NGNbn	US\$bn
	2022	2022	2021	2021
External reserves;	14,932.0	32.4	15,380.7	35.4
IMF SDR	2,306.4	5.0	2,313.2	5.3
Total External reserves; A	17,238.4	37.4	17,693.9	40.7
Liabilities:				
FX forwards; B	3,155.4	6.8	1,300.1	3.0
Securities Lending (short term =1yr and less); C	2,538.3	5.5	619.9	1.4
Currency swaps; D=J	9,852.1	21.3	9,673.6	22.2
Total liabilities; E	15,545.7	33.7	11,593.6	26.7
Net FX reserves; F=(A-E)	1,692.7	3.7	6,100.3	14.0
FX forward, OTC futures and currency swaps; G	14,945.8	32.4	13,292.2	30.6
<i>Currency swap calculation</i>				
FX forward; H	3,155.4	6.8	1,300.1	3.0
OTC futures; I	1,938.3	4.2	2,318.6	5.3
Currency swaps; J= G-(H+I)	9,852.1	21.3	9,673.6	22.2
USD/NGN	461.5		435.0	

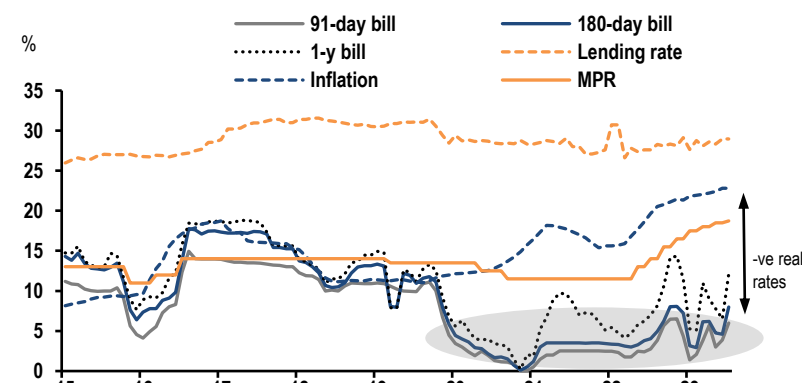
Source: CBN, FMDQ, J.P. Morgan

CBN needs to reduce fiscal deficit financing back to regulatory maximum...



Source: CBN, J.P. Morgan

... whilst also undergoing a considerable level of price tightening



Source: CBN, J.P. Morgan

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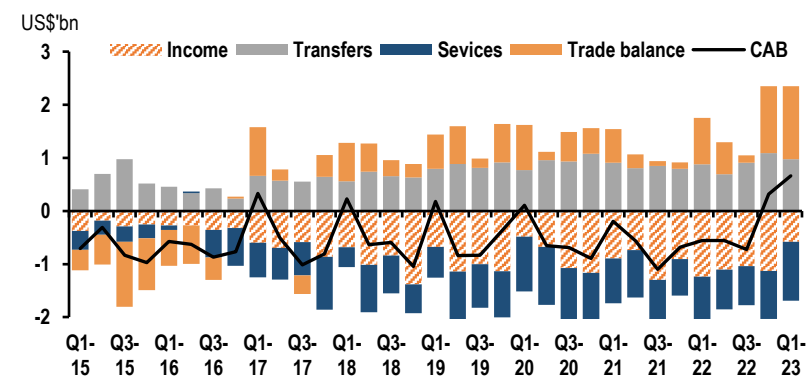
Ghana: Some progress on domestic restructuring but external still some way

Mid-year budget still showed elevated levels of domestic interest payments despite supposed relief

Ghana budget					
GHS bn (unless otherwise stated)	1H23 proj	1H23 actual	2023 budget	2023 revised budget	2023 JPMf
Total revenue and grants	64.7	59.3	143.9	134.9	116.0
% of GDP	8.1	7.4	18.0	15.8	13.8
Total Expenditure	93.0	68.5	190.9	183.9	154.4
% of GDP	11.6	8.6	23.8	21.5	18.4
Compensation of employees	22.8	23.9	45.5	51.3	51.3
Interest payment	28.6	15.1	52.6	44.9	28.5
Domestic	18.0	14.3	31.3	27.8	27.2
External	10.6	0.8	21.3	17.1	1.3
CAPEX	16.6	7.9	26.6	20.4	16.6
Primary balance % of GDP	1.1	0.0	0.7	-0.5	-1.2
Arrears clearance	-7.2	-6.3	-14.4	-6.0	-6.0
Overall balance (cash)	-35.5	-10.3	-61.4	-55.0	-45.6
% of GDP	-4.4	-1.7	-7.7	-6.4	-5.4
Nominal GDP	800.9	800.9	800.9	854.8	840.6

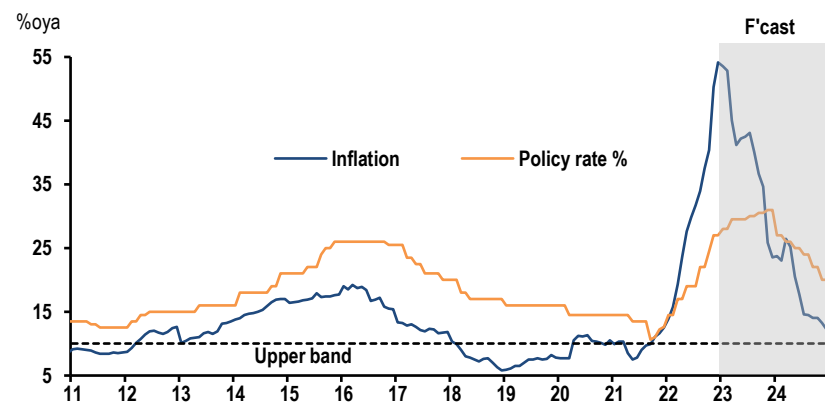
Source: BOG, J.P. Morgan

Current account balance now in surplus on higher positive trade balance and lower external interest payments



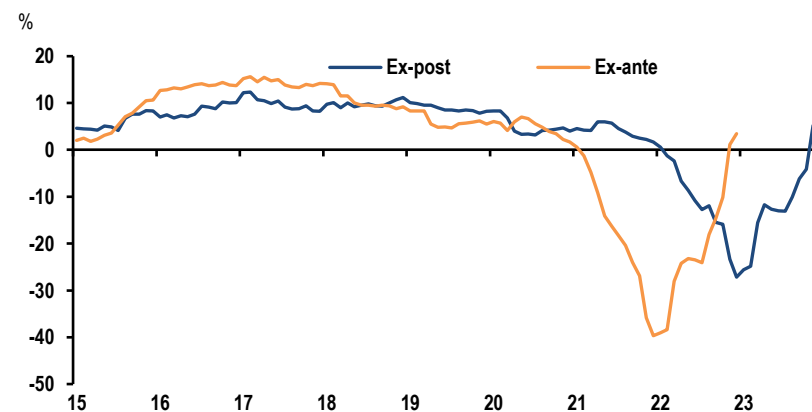
Source: Haver, BoG, J.P.Morgan calculations

Headline inflation has remained high and sticky but base effects should pull it meaningfully lower into year-end...



Source: BOG, Ghana Statistical Service, J.P. Morgan

... but BOG might choose to maintain a tightening posture given large negative real rates.



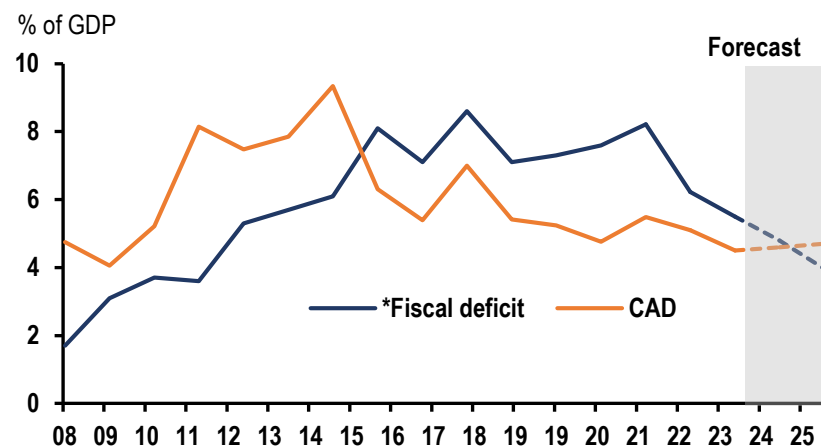
Source: Ghana Statistical Service, J.P. Morgan

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Kenya: When “muddling-through” becomes a baseline scenario

Twin deficits compression helping to ease pressure on borrowing



Source: National Treasury, IMF, CBK, J.P. Morgan. *FY data (July-June), i.e. 2020 is 2019/20

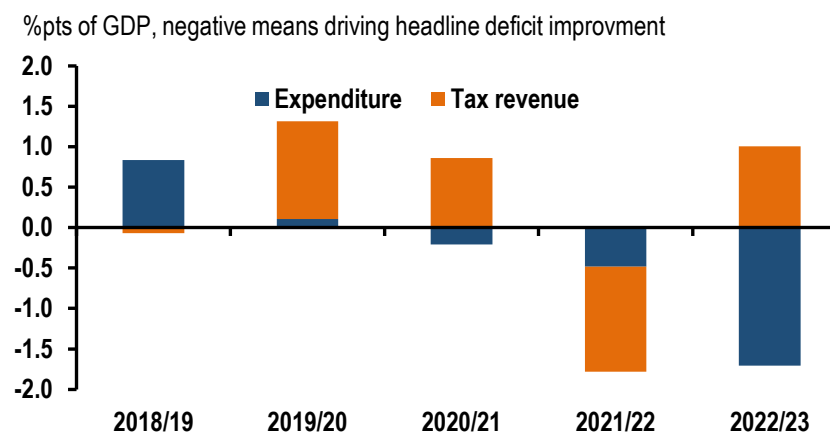
...and does little to dispel concerns regarding the large external repayments next year amid falling reserves

Table: *External financing requirements and sources, 2021–2027

US\$bn	2021	2022	2023	2024
Financing requirements	7.43	7.8	7.6	9.9
Current account deficit excl. grants	5.84	6.0	5.4	5.6
Debt amortization	1.6	1.8	2.2	4.3
Financing sources	8.6	5.9	6.5	7.7
FDI	0.1	0.3	0.7	1.0
Portfolio investment (sovereign bond)	1.0	0.0	0.0	0.0
Public sector loans*	1.9	1.3	1.2	1.2
Syndicated loans	0.0	0.3	0.5	0.6
Public grants	0.1	0.1	0.1	0.1
Private capital flows, net	2.5	3.3	1.5	2.5
Multilateral	1.9	1.6	2.4	2.3
Financing gap (- = excess of financing)	-1.2	1.6	1.1	2.2
FX reserves, eop	9.5	7.9	6.8	4.6

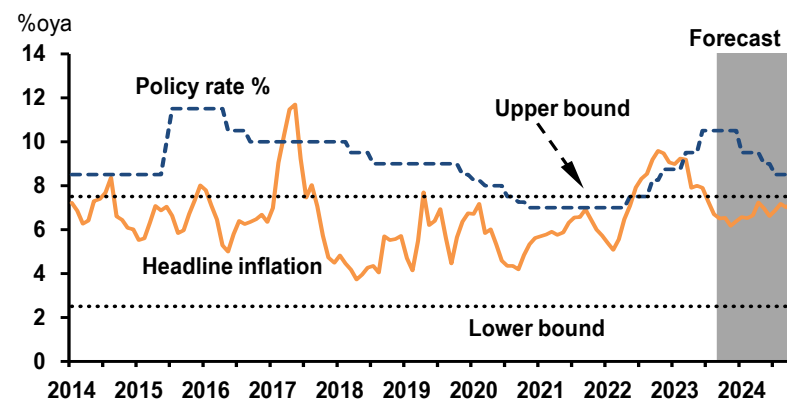
Source: IMF, J.P. Morgan, **uses JPM brent forecasts and assumes flat at \$83 after 2024

A chunk if the consolidation is due to the tight liquidity, resulting in the accumulation of arrears...



Source: Haver, National Treasury, IMF, J.P. Morgan,

CBK likely to stay put as base effects drives inflation lower, but currency and energy cost pressures remain



Source: Haver, J.P. Morgan forecast

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