Global Economic Outlook – October 2024

Global economy stabilizing but geopolitical risks come to fore in Q4

Commentary:

"As inflation continues to gradually move toward central bank targets, businesses are breathing a sigh of relief that policymakers have at last ushered in a path to lower borrowing costs. The Q4 2024 Dun & Bradstreet Global Business Optimism Insights report reflects enhanced expectations from businesses of a favorable global monetary policy outlook. Indeed, the global economy appears to have successfully navigated the recent environment of high interest rates. Where there have been recessions, they have not been deep or protracted – though many businesses are continuing to face bankruptcy, and we are not out of the woods yet. The pivot to more supportive policy settings will be slow and transmission from cut in policy rate to lower interest rates will take months to fully work through. Downside risks are rising: dark clouds appear to be gathering in the Middle East, threatening wider conflict, trade disruption, and a more uncertain business environment in that region," said Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.

Introduction

Resilience sums up the global economy this year. Monetary policymakers seem to have played a strong game, achieving lower inflation through raising interest rates without causing deep economic contractions – though how successful their approach has been will only become clear as further GDP data becomes available. We are optimistic that resilience will continue during the remainder of this year and into 2025. However, we advise caution: though businesses have weathered heightened political uncertainty worldwide over the past year, as we enter Q4 2024 it seems that risks are beginning to tilt to the downside.

The global monetary policy easing cycle has now entered a new phase as leading central banks aim to stimulate economic growth. In September 2024, the U.S. Federal Reserve (the Fed) cut rates by 50bps, following similar moves by other major central banks. The Fed and the European Central Bank (ECB) have indicated their openness to looser monetary policy, though the timing and size of further interest rate cuts is uncertain. The impact on economies is perhaps even more uncertain, though lower global interest rates should ease pressure on central banks in emerging economies. The U.S. economy appears to be gradually slowing, the Eurozone recovering, albeit led by France and Spain, rather than Germany, and collectively solid expansion in Asia-Pacific and Latin America.

Although things are looking up for the global economy, downside risks to our outlook appear to be gathering. Escalating regional conflicts in the Middle East and Ukraine, concerns about recession in the U.S., slower growth in the Chinese Mainland, and ballooning budget deficits and high and rising public debt burdens across developed economies should all be closely watched. We expect the global economy to adeptly navigate these risks, though some regions will be more negatively affected than others.

Outlook

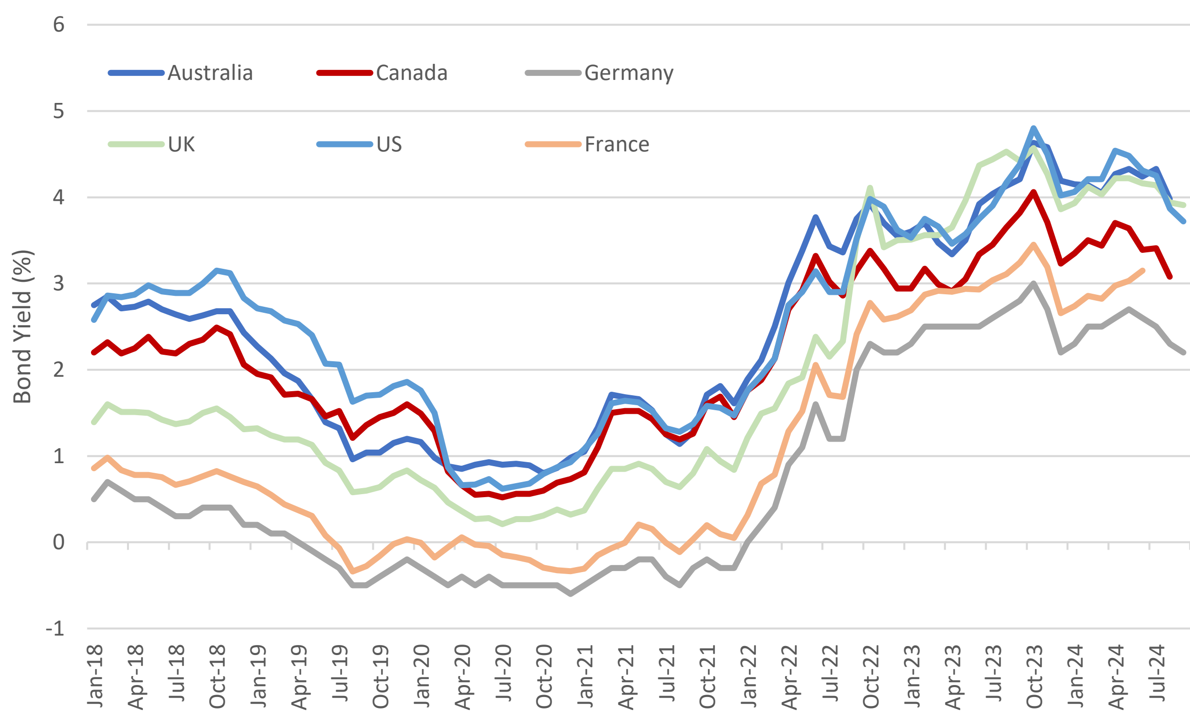
The policy mix appears to be improving and should, in time, provide more support for economic growth. However, the pivot to more accommodative monetary policy is not likely to usher in immediately faster growth everywhere. Globally, key growth drivers in developed economies for the remainder of this year and into next will be stronger inflation-adjusted income growth and progressively looser monetary policy.

Disinflation is likely to continue in developed economies as services and core inflation cools, and reduced labor shortages should translate into softer wage pressures. In September 2024, Eurozone headline inflation fell below the ECB's target for the first time in three years, while inflation in the U.S. continued a broad downward path, settling just above the Fed's target, implying that both central banks may cut rates further this year.

A relatively more predictable inflation path should provide greater clarity around future monetary policy decisions, implying greater certainty for businesses. And if inflation stays under control, central banks may move to looser policy more quickly.

Global fiscal policy has been looser than expected this year, particularly in developed economies where we had expected debt pressures to limit government spending. In 2025, we think fiscal stimulus will be retrenched in countries where output is close to potential – in September, the IMF advised the U.S. and some European economies to start on a path of fiscal consolidation. Global bond yields have eased this year on the back of concerns over slowing growth in major economies and rising expectations of interest rate cuts. Increasing bond yields (borrowing costs) in France reflect concerns that the government has been unable to get its finances into order and reduce the burgeoning budget deficit.

10-year developed economy government bond yields have eased through this year



Source: Haver Analytics, Dun & Bradstreet

Emerging economies are expected to continue growing in 2025 across regions, supported by the ongoing period of Fed accommodation, which will continue to create space for central banks in developing economies and weaken the value of the US dollar. The weaker dollar may increase the risk appetite of investors seeking higher returns, thereby encouraging foreign capital inflows and foreign investment into emerging economies, boosting economies and businesses in these regions. With inflation set to continue to moderate through Q4 2024 and into next year and with generally healthy macroeconomic fundamentals, further rate cuts in emerging economies look to be on the cards, facilitating easier borrowing conditions. Stronger growth in India, in other parts of emerging Asia, and in parts of Latin America may be sufficient to offset slightly softer growth in the Chinese Mainland.

Amid mounting headwinds, the Chinese government has introduced several stimulus measures this year in an attempt to meet its 2024 growth target. In September, the government launched a package of support measures, including additional liquidity for the banking system and a special bonds issuance, the sale proceeds of which are to be used to increase household subsidies. The fiscal stimulus was accompanied by a cut in the benchmark interest rate, with the aim of providing a boost to the so-far sluggish economic recovery. Policies aimed at raising demand mark a shift towards more directly stimulating consumption as concerns grow that the risk of deflation may lead to indefinitely deferred spending.

Lower Fed rates are also positive for the Middle East and North Africa (MENA) region, where non-oil growth has remained resilient through 2024, particularly in Gulf Cooperation Council (GCC) countries. However, **tension in the region, specifically in and around the Levant, is ratcheting up heading into Q4.** Given the recent events in Lebanon, the risk of the regional conflict spreading further has increased and uncertainty is heightened, posing significant economic risks for the Middle East.

Risks

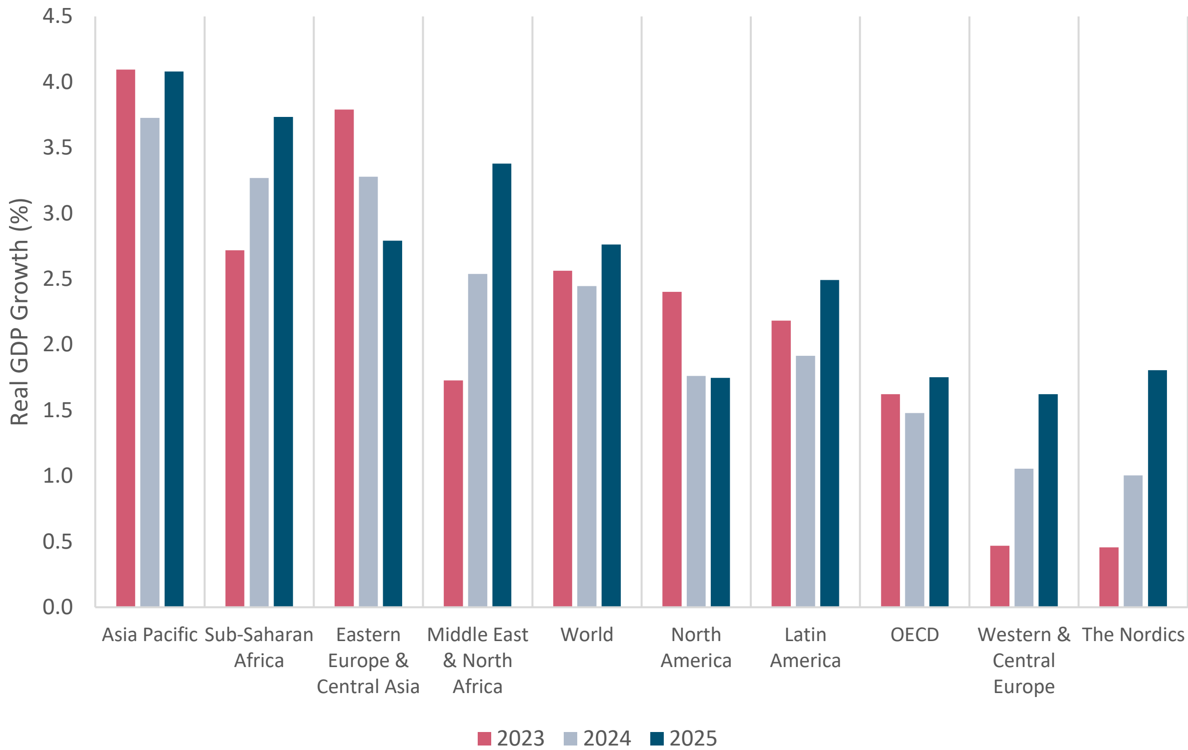
Although our baseline forecast remains relatively positive, risks seem to have tipped to the downside as we move into Q4. The escalation of fighting in the Middle East may further disrupt shipping and trade and cause global inflation rates to increase – benchmark oil prices rose through early October as investors feared that the intensification of hostilities could broaden into a wider regional conflict. However, a persistent rise in global crude oil prices will likely be avoided, since the supply side is relatively unaffected. If the conflict remains relatively contained, the impact on global economic growth may be limited.

Deviations from the expected relatively smooth disinflation path could lead to interest rates following an expected path, which could in turn trigger volatility in financial markets. Keeping borrowing costs higher for longer would worsen the credit environment and put growth at risk; in the U.S., this would increase upward pressure on the dollar, with harmful spillover effects on emerging economies.

On the upside, inflation falling faster than expected could precipitate a quicker recovery in real incomes, which could provide a stronger boost to consumer confidence and spending. Central banks may loosen policy more quickly than expected, which will work out positively for businesses. The Dun & Bradstreet Q4 2024 Global Business Optimism Insights report reveals that business optimism is growing around the world, in anticipation of a favorable monetary policy environment globally. Over 75% of the 10,000 firms we surveyed told us they have strong confidence in sales and domestic and export orders. Our headline Global Business Optimism Index has shown consistent improvement over the year, implying that businesses have adapted well to the challenges of 2024, including tight monetary policy, the fallout of election-induced policy shifts, and supply chain disruptions.

Regional Summaries

Real GDP growth likely to accelerate in 2025 as policy mix becomes more supportive

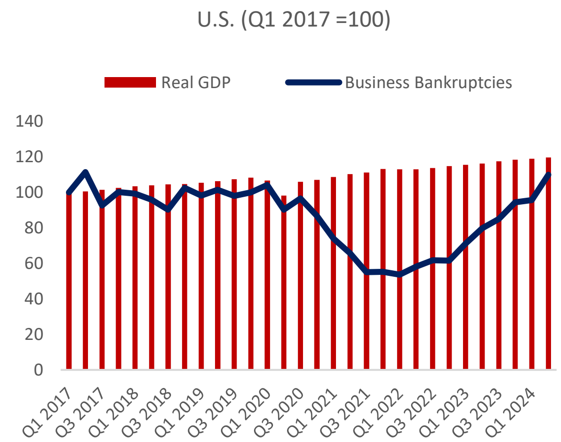


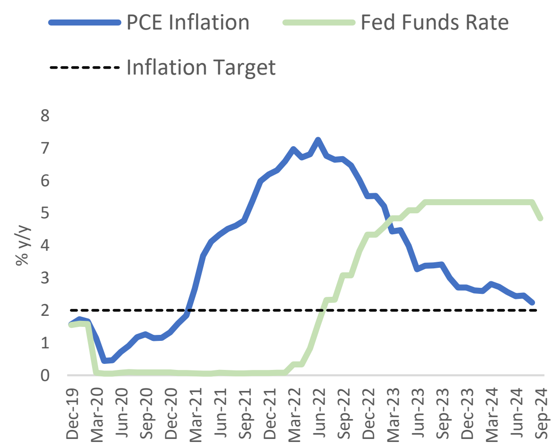
North America

Growth in the U.S. economy has continued to gradually decelerate and looks set to slow further as unemployment ticks up – but we do not expect the economy to tip into recession. Restrictive monetary policy continues to hold back the private sector and consumer spending is likely to provide less support as wage growth softens and the labor market cools. At its September meeting, the Fed lowered interest rates by 50 bps and looks ready to make further cuts this year and through 2025. Easing inflation and lower rates will likely provide support to economic growth. Though its result may have some of the most significant implications for global industry and economic growth, the U.S. presidential election, which will take place in early-November, is too close to call.

The gap between the economic performances of the U.S. and Canada is expected to begin narrowing over the remainder of 2024 and into 2025. This will probably be achieved through an improvement in Canada's economic outlook, coupled with a mild pullback in U.S. growth. The Bank of Canada made its third consecutive interest rate cut in September and signaled that borrowing costs may be lowered further before the year is out – and at an accelerating pace should economic growth or the labor market disappoint. Prime Minister Justin Trudeau's government is under threat following the collapse of the parliamentary alliance between his Liberal Party of Canada and the New Democratic Party. Although Trudeau survived a second vote of no confidence in October, opinion polls show that the PM is under pressure.

U.S. business bankruptcies continue to increase while falling inflation allows Fed room to cut





Source: Haver Analytics, Dun & Bradstreet

Western & Central Europe

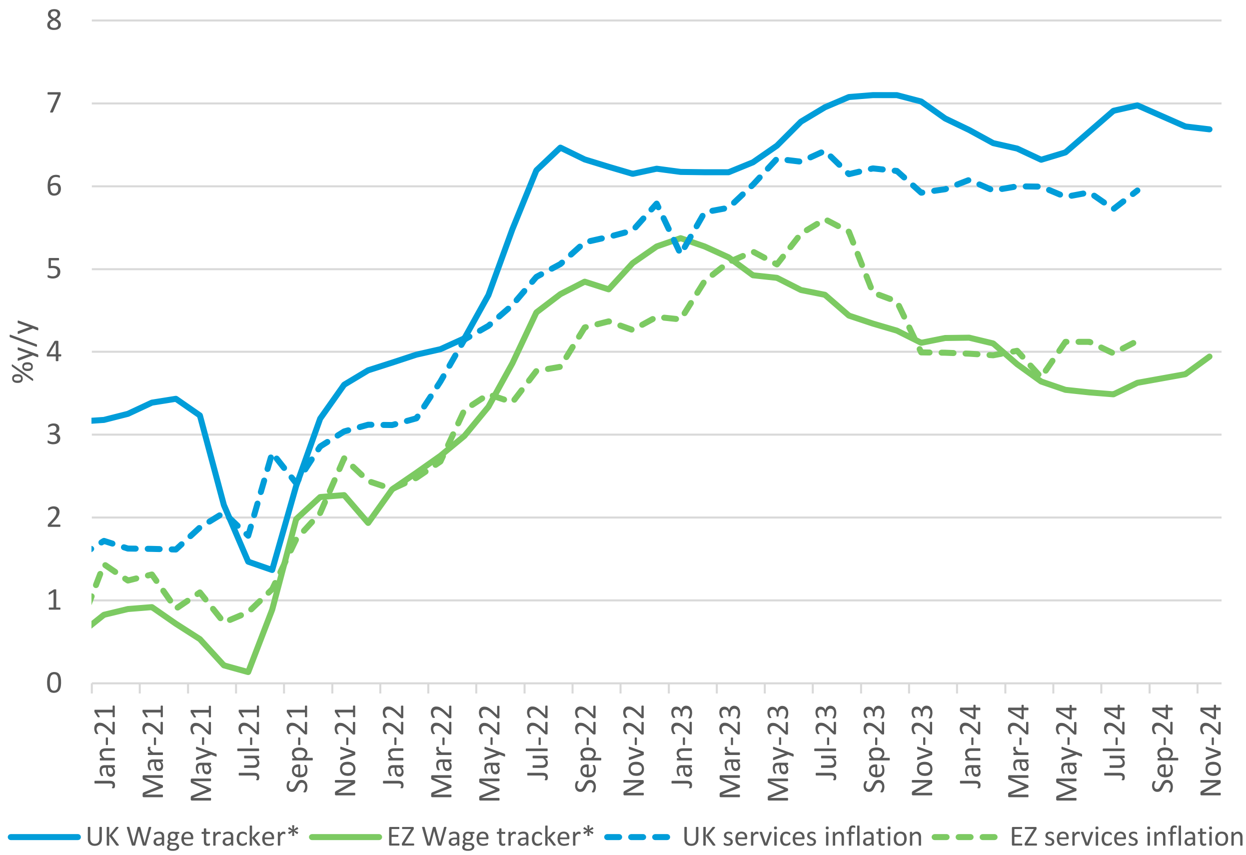
The Eurozone economy continued its recovery in Q2, with mixed performances across the region. German GDP shrank compared with Q1, but GDP of Spain, France, and Italy all expanded. There are growing concerns that Germany will slide back into recession, creating an uncertain outlook for the European economy and regional politics going into 2025. The U.K. economy began Q3 on a sluggish note with zero GDP growth in July, matching the previous month. Declining output in production industries and the construction sector has offset the small uptick in the services and agriculture sectors.

In September, the ECB cut its key deposit facility rate for the second time this year, providing support to a weak European economy. The bank is anticipating that any increase in inflation in the final few months of the year will be temporary and that price pressures will dissipate as firms offset rising labor costs through productivity gains. Therefore, inflation should decline towards target through 2025-26 and enable the ECB to cut once more this year if wage pressures remain contained. The Bank of England (BoE) maintained the Bank Rate at its September meeting, citing the need to contain inflation expectations and reduce services inflation. The bank indicated that the future path of rate cuts will be slow given the difficulty in reducing overall price pressures.

Also in September, former ECB President Mario Draghi unveiled his highly anticipated report on the state of European competitiveness. The thrust of the report is to ensure Europe is not left behind the U.S. and the Chinese Mainland during three major economic megatrends: (1) de-globalisation through increasing protectionism; (2) the global transition to net zero; and (3) a huge leap in productivity using new tools such as artificial intelligence (AI). Without greater investment and new regulations, the EU would face a "slow agony" through a gradual worsening of comparative living standards compared with other advanced economies, says the report.

The U.K. economy has likely slowed in H2 2024 so far, following a strong start to the year. Wage growth and services inflation remain relatively strong, providing something of a brake to the decline of headline consumer prices. However, headline prices are still falling, which will likely mean that the BoE will consider further interest rate cuts this year and through 2025. The government has scheduled the Autumn Budget for October 30, when policy priorities and spending decisions will be announced.

Eurozone and U.K. services inflation remains sticky, holding up wages



Source: Haver Analytics, Dun & Bradstreet; Notes: Wage data shown as 3-month moving average, advanced two months

The Nordics

The Nordics are emerging as a compelling turnaround story, gradually recovering from the dual challenges of recession and high inflation. We expect economic growth to gain momentum over the next year as inflation stabilizes and central banks shift towards more accommodative monetary policies. Labor markets are projected to revert to their long-term trends, characterized by modest wage hikes and lower unemployment rates.

In Denmark, economic expansion is largely driven by the flourishing pharmaceutical sector, with Novo Nordisk at the forefront. Rising wages have significantly boosted private consumption, contributing to low unemployment and stable GDP growth. However, this growth remains concentrated in the pharmaceutical industry, while sectors such as manufacturing and construction are encountering considerable challenges. Construction bankruptcies are nearing crisis levels, partly due to the lingering effects of the pandemic. Although inflation has eased, primarily due to a decline in energy prices, there is a risk that rising costs in other sectors could trigger renewed inflationary pressures. Additionally, employment growth may slow down as the broader economy experiences a downturn outside of pharmaceuticals.

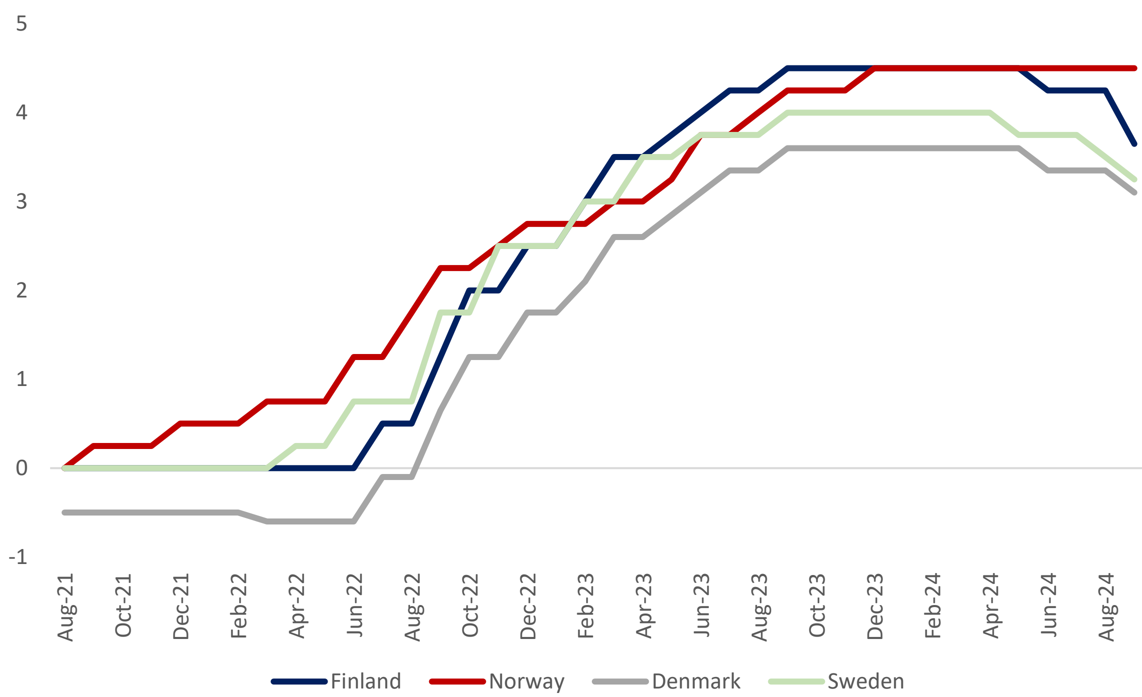
Sweden's economy showed resilience in early 2024, although households and the housing market remain fragile. Anticipated reductions in interest rates and income tax cuts are expected to bolster real wages, yet it remains uncertain whether these measures will fully compensate for recent declines in wage levels.

Foreign trade remains robust, employment figures are steady, and inflation is gradually easing. Despite a downward revision in growth forecasts, the likelihood of a severe recession appears low.

In Norway, growth remains modest, with a mild recovery anticipated in 2025. Private consumption is still elevated, but there are signs that unemployment is beginning to rise. Inflation is easing, despite the upward pressure from wage growth, and the economy is being tempered by rising interest rates, which are starting to take effect.

Finland is on a gradual path to recovery from recession, supported by declining interest rates and low inflation, both of which are enhancing domestic demand. However, unemployment is expected to rise until economic growth generates demand for labor. Although wages are increasing at a faster rate than in recent years, export orders are weak – but anticipated to improve as global markets recover. The housing market has stabilized, evidenced by rising transaction volumes, and new home construction is projected to gain traction by 2025. This recovery is expected to be driven by stronger private consumption, decreasing inflation, and increased export demand. Overall, growth is forecast to contract by 0.2% in 2024, followed by a rebound of 1.5% in 2025.

Nordics benchmark interest rates (%)



Source: Haver Analytics, Dun & Bradstreet

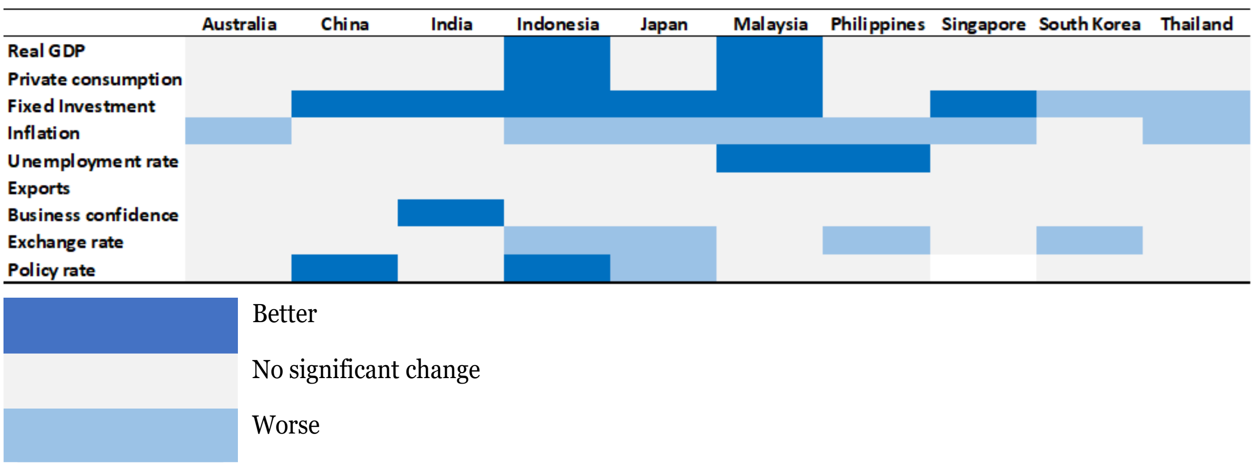
Asia Pacific

The Federal Reserve's 50 bps rate cut in September will influence monetary policy decisions across the Asia-Pacific (APAC) region, likely leading to lower regional interest rates. However, the effects will likely vary based on specific market conditions. Countries such as the Chinese Mainland and Indonesia may benefit from lower global yields, allowing central banks to adopt a more dovish stance to stabilize growth. The People's Bank of China (PBoC) is already cutting rates to address weak economic performance and deflationary risks, and Bank Indonesia preemptively lowered rates ahead of the Fed. However, the Fed's actions complicate the trajectory for central banks such as the Bank of Japan, which has been tightening after years of negative rates. A strengthening yen could delay further rate hikes in Japan as global rate differentials shrink.

The reaction of APAC central banks will depend on inflation trends and country-specific nuances. Inflation is receding across the region, but services price stickiness in markets like Australia and Singapore suggests a hawkish stance will remain. In contrast, the Chinese Mainland continues to battle near-zero inflation, while India's central bank remains cautious, focusing on disinflation before considering cuts. Australia, despite slowing inflation, is likely to keep rates on hold as its central bank monitors core inflation. With inflation cooling faster in Indonesia and New Zealand, both countries have already begun cutting rates.

Growth trajectories also diverge within the region. The Chinese Mainland's weak retail sales and industrial production signal a sluggish recovery, compounded by structural issues in its housing market. In September, the PBoC announced funding to boost the stock market, support share buybacks, and assist the struggling property sector. However, additional demand-side measures, particularly fiscal easing, may be necessary to improve the growth outlook. Australia and Japan are seeing slower but steadier growth, with policymakers focused on managing inflation without stifling recovery. India, buoyed by a robust rural recovery and upcoming festive season, looks set to maintain steady growth, though the Reserve Bank of India (the central bank) remains conservative in its rate outlook. Meanwhile, the outlook for Singapore and Hong Kong S.A.R. hinges on financial market stability, with growth likely to remain subdued as inflationary concerns persist.

Asia Pacific economic performance, Q2 2024



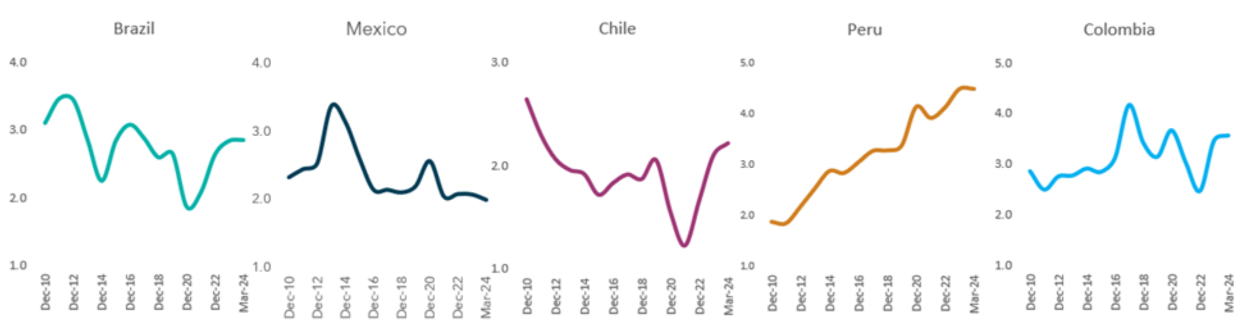
Source: National Statistics Offices, Dun & Bradstreet; Notes: 1) Policy rate is as of end-September 2024; 2) Performances calculated as change from previous quarter, compared with standard deviation of changes over past 12 quarters; 3) Retail sales is used as a proxy of private consumption for the Chinese Mainland.

Latin America & the Caribbean

As 2024 draws to a close, recovery across the region will continue to be uneven, marked by a challenging fiscal environment and high political uncertainty. Inflation is proving to be sticky, primarily led by the services component, leading many central banks to slow their pace of monetary policy easing, with Brazil and Honduras even reversing course. Even though monetary policy has started to be eased in the region, rates remain high. This assumes importance given that non-performing loans (NPLs) have stabilized at elevated levels and in some countries are continuing to increase amid slowing economic activity (though NPLs have stabilized somewhat in Brazil and Mexico). The onset of the Fed's easing cycle is likely to help central banks in the region to continue pursuing monetary policy easing. This would support most Latin American currencies, which, in turn, should boost consumption. Nonetheless, policy uncertainty, in some of the countries in the region has been moderating, providing a tailwind to growth. Besides, expected strong but moderating growth of the U.S. economy, a resurgence in tourism, and government initiatives to attract foreign investment, particularly in the critical minerals and renewable energy sectors, will also support growth.

Latin America is in the middle of a monetary easing cycle, with demand and, in particular, private investment likely to be supported by the lowering of interest rates. Inflation in the region moderated from October 2023 to April 2024; however, it began to rise again in May 2024, albeit at a moderate pace, particularly in countries such as Chile, Costa Rica, Uruguay, Bolivia, and Mexico. Currency depreciation pressures, persistent services inflation — especially in Mexico and Colombia — and wage growth in some countries, along with a rebound in tourism, have contributed to sticky inflation. Even as central banks continue to ease policy rates in 2025, they are unlikely to reduce them to historical lows, given that developed economies, particularly the U.S., will not return to the nearly zero rates that prevailed at the end of the previous decade. The primary risks for investors in this region include uncertainty regarding fiscal policy, political instability, the timing and pace of central banks' policy rate changes, and supply chain disruptions, particularly those caused by weather.

Latin America non-performing loans to total gross loans (%)



Source: Haver Analytics, Dun & Bradstreet

Political turmoil remains high in some countries, causing policy paralysis and posing risks to business continuity. Venezuela is experiencing a severe economic, social, and political crisis. The European Union, the U.S., and several Latin American nations have not officially recognized Nicolas Maduro’s contested re-election in the July presidential election, increasing the likelihood of international sanctions. In Colombia, political stability is threatened by the president's potential attempts to bypass norms in order to push his reform agenda through by decree, especially after Congress rejected the proposed budget for 2025. Any peace agreements with rebel groups in the country are likely to be fragile, and ongoing conflicts with these groups pose significant threats to business continuity.

In Ecuador, the president has declared that the country is facing an "internal armed conflict" following the escape of gang leaders from prison, which has led to increased societal violence and a surge in criminal activities. The situation is hindering cross-border trade and exacerbating pressures on already strained supply chains.

Eastern Europe & Central Asia

Eastern Europe stands at a critical juncture of recovery, characterized by steady growth, declining inflation, and gradually accommodating monetary policies incentivizing further growth. As the region confronts geopolitical and labor market challenges, its focus on digital transformation, infrastructure investment, and human capital development will be essential in ensuring long-term economic resilience.

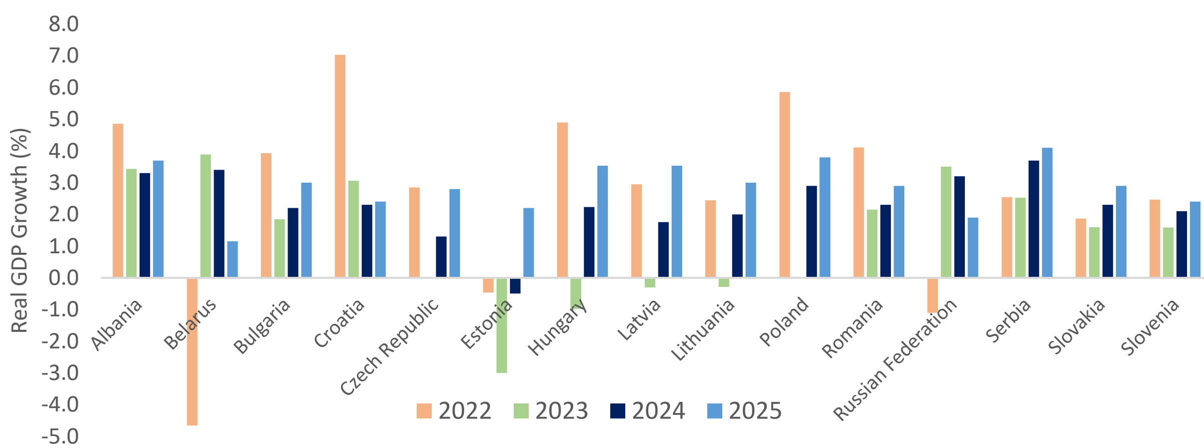
Eastern Europe is projected to achieve GDP growth rates between 3.0% and 4.5% in 2024, supported by robust domestic consumption, a rebound in foreign investment, and a gradual recovery in export markets. Countries such as Poland, Romania, and the Czech Republic are expected to lead this growth, while nations such as Russia, Belarus, and Ukraine will experience war-driven economic demand. The average inflation rate across the region stands at approximately 4.5%, a substantial reduction from prior peaks, largely attributable to declining energy prices and enhanced supply chain efficiencies. Central banks are adopting a cautious approach, likely maintaining steady or slightly reduced interest rates to support economic growth while managing inflation expectations.

As recovery gains traction, the average unemployment rate in Eastern Europe is projected to decline to around 5.5% by the end of 2024. This reflects a tightening labor market, with sectors such as technology, healthcare, and skilled trades experiencing significant labor shortages.

Poland's economy is buoyed by strong consumer spending, infrastructure projects, and a resilient services sector. Inflation is expected to stabilize at around 4.0% in 2024, with unemployment projected to decrease to 4.8% as labor demand rises across various sectors. Romania benefits from rising private consumption and foreign investments, particularly in technology and renewable energy. Its inflation rate is anticipated to be around 3.8%, reflecting effective monetary policies and stabilizing food prices. The Czech Republic's growth will be driven by its strong manufacturing base and export performance, with unemployment expected to remain low at 3.9%. For Ukraine, the ongoing conflict continues to severely impact growth, with significant damage to key infrastructure and energy supplies hampering economic recovery. For Russia, growth is sustained by wartime production and elevated employment, though the long-term sustainability of this model is in question, as the broader economy faces increasing challenges.

Eastern Europe is witnessing renewed FDI inflows, bolstered by growing investor confidence, nearshoring, government incentives, and strategic investments in key sectors. The region is increasingly focusing on the green energy transition, with significant investments anticipated in solar, wind, and bioenergy projects. Notably, Poland and Romania are expected to attract major investment in transportation, logistics, and urban infrastructure, aided by the EU's Recovery and Resilience Facility. Countries across Eastern Europe are actively diversifying their energy sources to enhance security and reduce reliance on Russian gas. This strategy involves increased investments in liquefied natural gas (LNG) terminals, renewable energy infrastructure, and energy efficiency measures. Such initiatives are not only pivotal for energy independence but also crucial for meeting environmental sustainability goals.

Eastern Europe real GDP growth q/q (%)



Source: Haver Analytics, Dun & Bradstreet

Central Asia is poised for a period of moderate growth, driven by a combination of favorable commodity prices, increased regional integration, and ongoing efforts to diversify economies away from traditional sectors. The region is navigating a complex landscape shaped by geopolitical dynamics, climate challenges, and demographic changes.

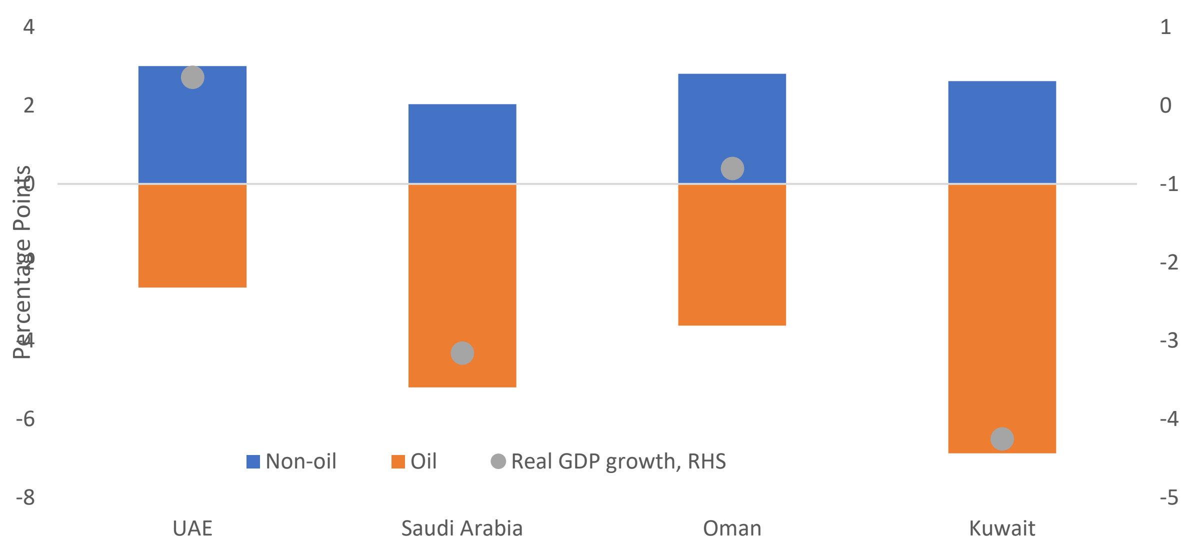
Central Asia is projected to experience GDP growth rates ranging between 4.0% and 5.5% in 2024. This growth is primarily supported by robust demand for natural resources, particularly oil, gas, and minerals, which are vital to the economies of Kazakhstan and Turkmenistan. Additionally, increasing domestic consumption and investment in infrastructure projects are expected to bolster growth across the region. Uzbekistan and other countries are pursuing ambitious reforms aimed at enhancing economic productivity and attracting foreign investment, contributing to a more vibrant economic environment.

The average inflation rate in Central Asia is anticipated to stabilize at around 6.5% in 2024, a moderation from previous peaks. This stabilization is attributed to improved supply chain conditions, lower food prices, and the gradual easing of global energy prices. Central banks across the region are likely to maintain a cautious monetary policy stance, with most expected to keep interest rates steady to support growth while monitoring inflationary pressures. The unemployment rate in Central Asia is projected to remain stable, averaging around 6.0% by the end of 2024. Many citizens in the region seek employment opportunities abroad, especially in Russia and Kazakhstan.

Middle East & North Africa

Non-oil growth across the MENA region has remained resilient through 2024, particularly in GCC countries. In the first half of the year, non-oil GDP growth was solid, with Saudi Arabia, the U.A.E., Kuwait, and Oman all posting strong numbers. This trend is expected to continue into Q4 2024, with looser monetary conditions likely to further boost non-oil sectors. The Federal Reserve's rate cuts have eased financial conditions in the region, allowing GCC central banks to lower or start lowering their rates, making credit more accessible and supporting non-oil growth, particularly in sectors such as tourism, manufacturing, and retail.

Middle East contribution to GDP by activity, Q1 2024



Source: National statistical offices; Note: Data for Saudi Arabia is H1 2024.

However, oil revenues will remain a drag on overall economic growth due to ongoing production cuts by OPEC+ members. These cuts, which are set to extend through 2025, aim to stabilize oil markets but have reduced revenues for major oil exporters. While non-oil sectors continue to perform well, the oil sector's contraction will weigh on fiscal balances and could limit the region's ability to expand public investments. In addition, global demand forecasts for oil have been revised down, partly due to weaker-than-expected growth in the Chinese Mainland, further dimming the prospects for a rebound in oil revenues.

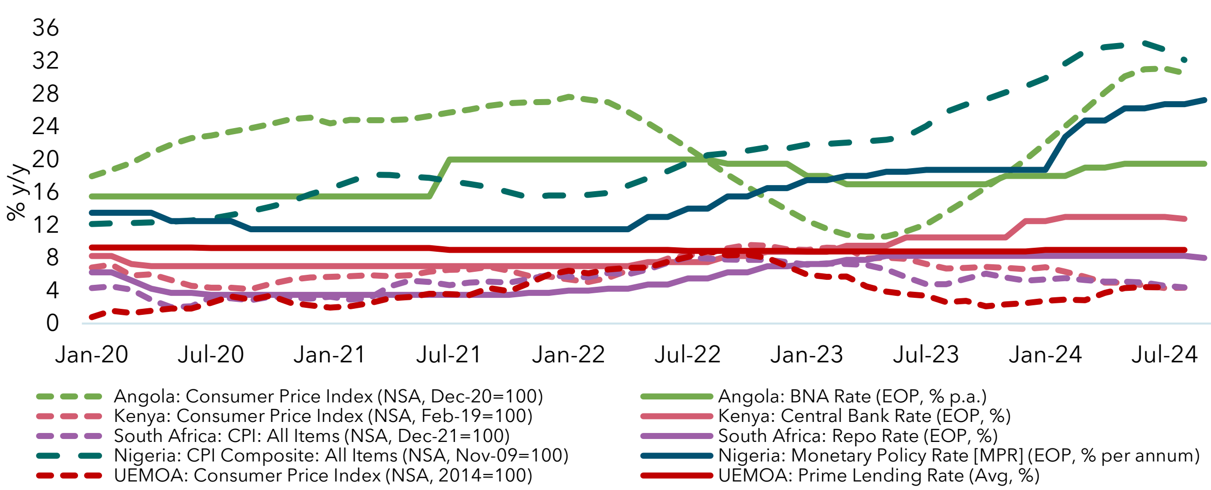
Political risks also present a significant downside for the region's economic outlook. Tensions in the Red Sea, particularly Houthi attacks on maritime shipping, continue to pose a threat to trade flows and could disrupt supply chains. Israel's heavy strikes against Hezbollah, the country's ground invasion of Lebanon, and retaliatory actions against Israel by Iran have raised concerns about the conflict spreading even further in the region. While the non-oil economy is set to benefit from easing financial conditions, the combination of weak oil revenues and geopolitical risks will limit overall growth in the MENA region for Q4 2024.

Sub-Saharan Africa

Sub-Saharan Africa's economic outlook for Q4 2024 shows glimpses of recovery amid ongoing volatility and persistent challenges. Growth is expected to be driven by a revival in private consumption as inflation eases, improving household purchasing power. This recovery has been pivotal in the turnaround of policy rates, allowing for a relatively dovish monetary policy stance.

However, economic recovery is not uniform across the region. Western Africa, particularly those countries affected by coups, is struggling to revive consumption under pressure and teeters on the edge of a second wave of inflation. Similarly, Central Africa continues to experience inadequate economic recovery. In nations such as Angola and Ghana, inflation remains persistently high, delaying the inflection point for rate cuts.

Sub-Saharan Africa inflation peaks, but geopolitical challenges persist in a stabilizing region



Source: Haver Analytics; Dun & Bradstreet

East African economies are expected to sustain high growth rates, with Kenya projected to regain its position as one of the largest economies in the region. Although the short-term outlook for Southern African countries has improved due to easing inflation, they continue to face low growth owing to structural issues such as high unemployment and energy shortages. Sub-Saharan Africa's recovery will be contingent on the future trajectory of commodity prices, with climate change and geopolitical risks shaping a cautiously optimistic outlook for the region.

Inflation across sub-Saharan Africa is showing signs of easing; however, it is also susceptible to climate-related risks and the subdued recovery of commodity prices. Extreme weather events and concerns over food insecurity are expected to keep prices high in Eastern Africa, including in Ethiopia and Malawi. Interest rates across sub-Saharan Africa are inching down as recovery prospects allow for a more accommodative monetary policy, providing relief from previously stringent measures. Except for Nigeria, the region is moving towards relative stability, with interest rates peaking in major economies. Despite this easing, interest rates remain significantly high, keeping borrowing costs and debt burdens unsustainably elevated. Over half of sub-Saharan African countries are grappling with unsustainable debt, with many nations dedicating over 45% of their revenues to debt servicing in 2023.

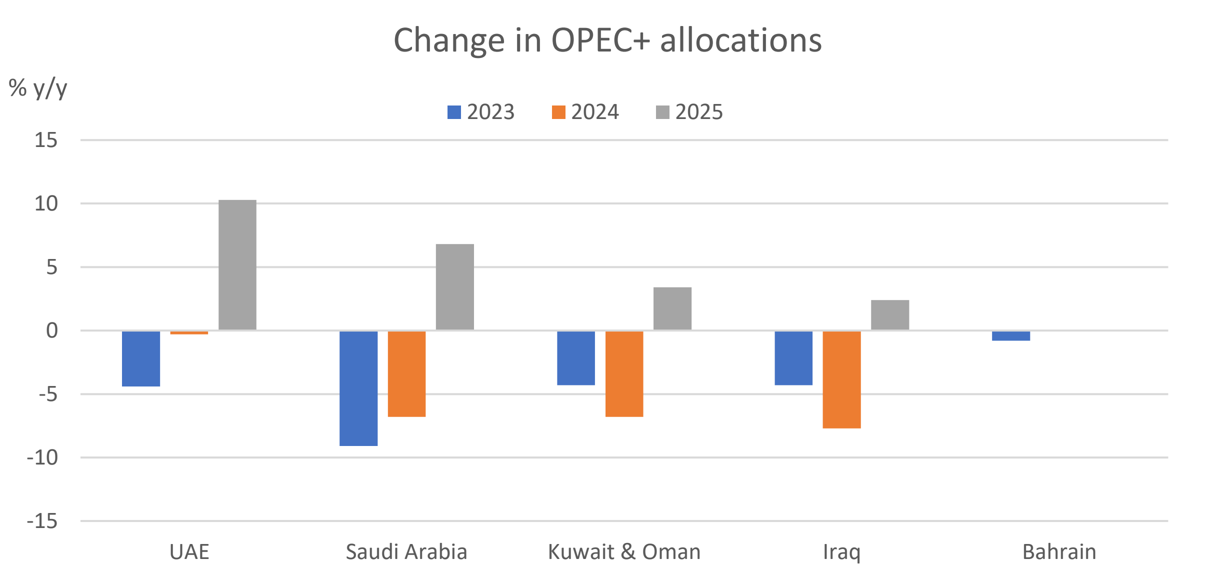
Currencies continue to present a mixed picture. Weak currencies continue to depreciate due to fragile forex positions, lack of trade competitiveness, supply chain vulnerabilities, price instabilities, and weaker fiscal balances. Stronger currencies are experiencing some respite from the downward trend, with the decline in U.S. Fed rates providing a cushion to these currencies. Countries that are part of the Central African Economic and Monetary Community (CEMAC) or the West African Economic and Monetary Union (WEAMU) operate currency pegs, preventing them from plunging into extreme debt adversity.

Weakening currencies have many ramifications. Imports are more expensive, a balance of payments crisis looms large, and there is increasing dependence on external agencies. The combination of such factors often leads to austerity measures and constrained institutional control, resulting in political and social unrest. Although efforts are being made to reduce external debt exposure, this often comes at the cost of enforced austerity measures, as seen in Kenya. Similarly, Nigeria's economy continues to spiral downward, with ongoing protests since August 2024 over the removal of fuel subsidy worsening the cost-of-living crisis. Additionally, essential social expenditure is being foregone, and the lack of good governance and prevalent corruption are exacerbating the already fragile situation. Although efforts are being made to reduce external debt exposure, this often comes at the cost of enforced austerity measures, as seen in Kenya. Additionally, essential social expenditure is being foregone, and the lack of good governance and prevalent corruption are exacerbating the already fragile situation.

Key Commodity Outlook: Oil

Oil supply is expected to remain tight in Q4 2024 as OPEC+ continues to enforce production cuts, with key producers such as Saudi Arabia and Russia maintaining voluntary reductions. However, demand remains soft, particularly as U.S. gasoline consumption declines after the driving season and demand from the Chinese Mainland remains low. Although prices briefly recovered following the Fed's rate cut in September, fundamentals, including tepid demand and cautious investor sentiment, will largely dictate price movements going forward. Despite heightened geopolitical risk, such as the potential further escalation of the Israel conflict, we view the probability of significant disruptions as low. As a result, oil prices are expected to hover around current levels, with Brent likely remaining in the USD70-75 per barrel range.

Change in OPEC+ allocations



Source: OPEC+. Note: actual production varies from allocations, including compensatory cuts for Iraq from August 2024 to September 2025.

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