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CEI GLOBAL REPORT

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The IMF predicts a gloomy outlook for the world economy

The IMF has once more cut down global growth projections for 2022 and 2023. According to the July update of the "World Economic Outlook Report", this year's growth will decelerate with respect to the 6.1% of last year. The economy is expected to grow 3.2% in 2022 and 2.9% in 2023, which represents a 0.4 and 0.7 percentage point decrease compared to the estimates made by the body in April (see CEI Global Report, May 2022). In the case of our country, the projections previously made are maintained, estimating that GDP will go up 4.0% this year and 3.0% in 2023.

The IMF's Managing Director, Kristalina Georgieva, forecasts a gloomy outlook for the world economy. Within the framework of a meeting of G20 Finance Ministers, she stated: "The outlook has darkened significantly, and uncertainty is exceptionally high. Downside risks about which the IMF had previously warned have now materialised". And in a news brief published on the agency's website, she added: "It is going to be a tough 2022—and possibly an even tougher 2023".

Georgieva maintains that the priority of all countries should be the fight against inflation, and recommends tightening the monetary and fiscal policies to moderate demand and reduce pressure on prices. Likewise, she raises the need to reverse the restrictions recently imposed on food exports, considering them harmful and ineffective in stabilising domestic prices. However, she recognises that "specific and temporary measures" must be taken so that vulnerable households can cope with the high prices of energy and food, for which it suggests applying direct money transfers instead of subsidies or price controls. Likewise, she remarks that these measures must be neutral from the budgetary point of view, so they must be financed by new incomes or reductions in spending in other areas but not by new debts.

Due to the severity of the situation, the head of the IMF calls for urgent action led by the G20 so that countries can face their high indebtedness and avoid higher levels of hunger and malnutrition. According to Georgieva "Large lenders –both sovereign and private– need to step up and play their part." and "the world's wealthier countries should provide urgent support for those in need, including with new bilateral and multilateral financing, especially through the World Food Programme.".

If there is no coordinated response to the crisis, the IMF recognises that the world could enter a new recession. In particular, she identifies some risks for the global economy: if Russia cuts off gas flows to Europe, if inflation and overindebtedness persist and geopolitical fragmentation increases, negative projections for future growth could even worsen.

Russia and Ukraine sign an agreement for the exports of grain and fertilisers

Russia and Ukraine reached an agreement that will enable the release of over 20 million tonnes of cereals that were stored due to the military blockade of Ukrainian ports by Russian forces. Exports will be made through a Black Sea maritime corridor and will be protected by Türkiye and the UN.

The pact was signed in Istanbul in the presence of Turkish President Recep Tayyip Erdogan and UN Secretary General, António Guterres. Russia commits itself to allowing the departure of ships from Ukrainian ports provided they are not used for war purposes. The grain will depart from the ports of Odessa, Chernomorsk and Yuzhny towards the Mediterranean Sea through the Bosporus Strait. In the city of Istanbul, a control centre will be installed with UN staff and Turkish, Russian and Ukrainian officials, who will inspect the cargo to guarantee that no weapons are transported.

The agreement, signed by the Russian Defence Minister, Serguéi Shoigu, and the Ukrainian Infrastructure Minister, Oleksandr Kubrakov, lasts for 120 days and is extendable, and it also provides unhindered access to world markets of food and fertilisers from Russia. If the mechanism works, it will represent very important economic relief for Ukraine, since it will let it release the stored grain and better face the next harvest. In turn, Russia will also be benefitted since the Kremlin obtained guarantees that Western countries will not apply sanctions against food or fertilisers of Russian origin.

After the implementation of the agreement, the international prices of cereals and fertilisers are expected to start decreasing and the threat to world food security caused by the Russian invasion of Ukraine is expected to be reduced. According to the UN Secretary General, the agreement signed "will bring relief for developing countries on the edge of bankruptcy and for the most vulnerable people on the edge of famine. And it will help stabilise global food prices, which were already at record levels even before the war."

EUROPE

The EU agrees to reduce gas consumption by 15%

The EU countries reached a political agreement to voluntarily reduce the consumption of natural gas by 15%, in which case the saving might become mandatory in the event that Russia suspends the shipment of the fuel.

The European authorities are thus responding to the Kremlin's policy of reducing natural gas shipments as a reaction to the sanctions imposed by the countries in the bloc. The uncertainty about the continuity of the Russian gas supply is really big, for which reason the EU intends to save energy before the boreal winter in order to prepare for possible future cuts.

The agreement includes exceptions, which were established to contemplate the complaints made by some countries to the initial proposal of the European Commission. Thus, countries that are not interconnected with the gas networks of other Member states will be exempt from making mandatory reductions, as will Member states that depend mainly on gas for electricity production or those that have exceeded their gas storage goals, among other exceptions.

The reduction will be applied for one year and the European Commission will perform, before May 2023, a review to study its possible extension. The measure adds to others that have already been presented by the European Union's authorities, such as the Regulation on gas storage, the creation of an energy platform for joint purchases and the REPowerEU plan (see CEI Global Report, April 2022).

Spain applies an exceptional tax to banks and energy companies

The president of the Spanish government, Pedro Sánchez, announced to the Spanish Parliament that he will apply new taxes to energy companies and banks, with which he expects to raise 7 billion euros in the next two years. This amount will be used to finance the expansion of social expenditure with the aim of sustaining citizen's purchasing power in the face of the price increases caused by the Russian invasion of Ukraine.

Like other European governments (see CEI Global Report, June 2022), the Spanish head of state decided to finance aid to the most vulnerable with funds from sectors that had benefited from increases in energy prices and interest rates. The Spanish president explained that he expects to collect 4 billion euros thanks to the tax that will be applied to the extraordinary profits of "the dominant groups in the electricity, gas and oil sectors" and 3 billion euros thanks to the tax on large financial organisations.

To justify the new measures, Sánchez explained: "What are called benefits coming from the sky do not fall from the sky: they come out of consumers' pockets" and, in parallel, he announced that the government will grant free transport tickets and increase scholarships to students, within the framework of a series of measures with which he hopes to reverse the harsh situation faced by the sector of the Spanish population with the lowest resources. According to his speech in Parliament, the Spanish government "is not going to permit that many suffer to be the benefit of a few".

The euro reaches parity with the dollar after 20 years

The euro devalued 15% against the dollar in the last year, to reach parity between both currencies on 12 July, which had not occurred since 15 July, 2002. That was the last time that the price of the European common currency had equalled that of the United States.

The current exchange rate improves the competitiveness of European exports; however, fears are raised regarding the impact that the new relative prices may have on the growing inflation of the eurozone countries. Of particular concern to the governments of the region are the rising prices of the fuel they import.

The four increases in the interest rate ordered by the United States Federal Reserve so far this year have improved the position of the bonds of the North American country in relation to the European ones, which was not compensated by an improvement in interest rates of the same magnitude by the European Central Bank. Likewise, the negative effects of the war in Ukraine were greater for the European economies than for the United States, which also contributed to reaching the current parity. In this sense, there are no economic signs that indicate that in the near future the euro will not continue to depreciate against the US currency.

SOUTH AND CENTRAL AMERICA

MERCOSUR concludes negotiations with Singapore and reduces the CET

Within the framework of the 60th Summit of MERCOSUR Presidents, and after six rounds of negotiations, the first of which was held in 2019, the conclusion of negotiations with Singapore for a Free Trade Agreement (FTA) was announced. This agreement will be the bloc's first with a member country of the ASEAN (Association of Southeast Asian Nations) and is expected to broaden trade flows, which reached US$ 7 billion in 2021. The main products exported by MERCOSUR to Singapore are: poultry products, ferroalloys, pork, bovine meat and iron ores; while the largest purchases are insecticides, integrated circuits, medicines and boats. Singapore is an interesting market due to its GDP per capita of almost US$60 billion.

The agreement has modern disciplines and improves the conditions for foreign direct investment, which is important considering that this country is one of the main investors at global level. The steps to follow for its entry into force are its legal review and underwriting and subsequent ratification by each of the parties.

On the other hand, the MERCOSUR partners agreed to reduce the Common External Tariff (CET) by 10% over the previous values for a significant number of products of the MERCOSUR nomenclature, and also allow the Parties that so wished to reduce 10% their import tariffs for the rest of the tariff codes. The exception, in all cases, are the products of the automotive sector that are ruled by bilateral agreements and certain goods of the sectors: textiles, footwear, toys, dairy products and sweetened water (established in Council Decisions No: 37/7, 26/9, 27/9, 28/15, 29/15 and 30/15 and their amendments or supplements), with respect to the sensitivities of each of its members.

Finally, it is worth mentioning that they also updated the Regulations of the Olivos Protocol for the Dispute Settlement of the bloc and created a Physical Infrastructure Working Group. Likewise, it was agreed to coordinate the design of policies for the economic reactivation of the region and the fulfillment of the Sustainable Development Goals of the 2030 Agenda.

Ecuador and China start round of negotiations for an FTA

In July, the Ecuadorian government started the first round of negotiations to sign an FTA with China, the first with an Asian country. This instance implies the exchange of positions between both countries as well as the proposals regarding each of the disciplines. The second and third round of negotiations are scheduled for the months of August and September.

The Asian country is the third destination of Ecuadorian exports and the main origin of its imports. During 2021, sales to that country amounted to US$ 4.0 billion, which represented 15.3% of Ecuador's total shipments to the rest of the world. These were concentrated in frozen shrimp and prawns, copper and crude petroleum oils. On the other hand, imports were more diversified and they totalled US$ 6.0 billion (23.5% of the total). Among the main products purchased from China are: vehicles, vaccines, cell phones, petrol oils and their preparations, and computers.

Chile presents a tax reform project

Chilean President Gabriel Boric presented his tax reform project, which consists of four legislative initiatives, two that were introduced in Congress in July and two that will be discussed in the last quarter of the year. The reform seeks to gradually achieve a collection of 4.1% of GDP by 2026, with which it aims at financing part of the new government's programme that intends to turn Chile into a country with greater equity and social cohesion.

The project includes four lines of work and what is collected in each case will have different recipients. The first proposes modifications to personal taxes: the income tax is revised and the wealth tax is created, with which it is expected to finance social rights related to health, social security and care. The second consists of rules that reduce exemptions and seek to prevent circumvention; the funds obtained in this way will be used for productive development. The third proposal includes the creation of a mining royalty that will be used for regional development. And, finally, corrective taxes will be applied (those used to correct the effects of unwanted externalities such as taxes on online betting or alcoholic beverages) whose collection will be dedicated to environment protection.

NORTH AMERICA

The US and Canada reach understanding on trade in solar products

The United States and Canada signed a Memorandum of Understanding (MOU) on 8 July to solve the dispute over trade in solar products under the United States-Mexico-Canada Agreement (USMCA). The MOU exempts Canada from safeguard tariffs, but contains a mechanism to reinstate them if imports of

Canadian solar products exceed a certain limit. Furthermore, the memorandum promotes further integration of North America's solar supply and reaffirms the commitment made by both countries to ban imports of solar products produced in whole or in part with forced or compulsory labour.

It is worth remembering that in early 2018, the US imposed a safeguard measure on the imports of crystalline silicon photovoltaic products, from any origin, after the United States International Trade Commission (USITC) determined that the country's industry was seriously damaged by the increase in imports. The measure was extended for four years in February 2022.

In June 2021, Canada had requested the establishment of a dispute settlement panel within the framework of the USMCA, after bilateral consultations were unsuccessful. In February 2022, the panel of experts concluded that the US decision to include imports from Canada in the safeguard measure was incompatible with certain USMCA rules (see CEI Global Report, March 2022). The MOU represents the resolution to this dispute.

USMCA: The United States requests consultations on Mexico's energy policies

The trade representative of the United States, Katherine Tai, announced that her country requested consultations with Mexico within the framework of the USMCA dispute settlement mechanism in relation to certain Mexican measures that prejudice US companies and the energy produced by the United States in favour of Mexican state-owned electrical utilities and oil and gas companies.

According to Tai, certain changes in Mexico's energy policies –which reverse reforms undertaken in 2013 to liberalise the energy sector– are inconsistent with the commitments assumed within the framework of the USMCA. In particular, the US objects to: i) the 2021 amendment to the Mexican Electric Power Industry Law that prioritises electricity produced by the Federal Electricity Commission (CFE, for its acronym in Spanish) over electricity generated by private competitors; ii) the actions that restrict the ability of private companies to participate effectively in the Mexican electricity sector (including delays, revocations, suspensions, among others); iii) a regulation that grants only Petróleos Mexicanos (PEMEX) an extension to comply with the maximum sulfur content requirements under the applicable automotive diesel fuel standard in Mexico; and iv) a rule that favours PEMEX, CFE and their products in the use of the natural gas transportation network in Mexico.

These measures would violate various USMCA chapters, including the provisions on national treatment, import and export restrictions in the chapters of the agreement referring to market access and investments; as well as the chapter on state-owned enterprises.

According to the terms of the agreement, the parties will begin consultations within the 30 days following the US petition. If the matter cannot be solved through consultation within 75 days, the US government could request the establishment of a panel.

Mexican President Andrés Manuel López Obrador assured that the energy policies promoted by his administration defend the country's sovereignty and do not violate the USMCA. Canada, in turn, requested its own consultations with Mexico on the matter.

US and Kenya announce Strategic Trade and Investment Partnership

The US government continues to expand the signing of trade frameworks, dialogues and partnerships that seek to encompass a wide range of global issues and administration priorities –such as labour, climate change and inequality– while moving away from the traditional approach of improving market access through free trade agreements.

In this regard, the US Trade Representative, Katherine Tai, and Kenyan Ministry of Industrialization, Trade and Enterprise Development Cabinet Secretary, Betty Maina, launched the US-Kenya Strategic

Trade and Investment Partnership (STIP). Both governments will seek to reach commitments in a wide range of areas in order to increase investment; promote sustainable and inclusive economic growth; benefit workers, consumers and businesses; and support African regional economic integration. Among the main topics of negotiation, the following were identified: agriculture, fight against corruption, digital commerce, the environment and climate change, good regulatory practices, MSMEs, workers' rights promotion and their protection, standards collaboration, trade facilitation and customs procedures.

Both countries had started trade negotiations during the administration of the previous US president, Donald Trump (see CEI Global Report, March 2020).

ASIA AND OCEANIA

China establishes priorities for the second half of the year

Within the framework of the meeting of the Political Bureau of the Central Committee of the Communist Party of China chaired by Xi Jinping, the priorities for the country's economic policy during the second half of 2022 were set. The need to consolidate the momentum of economic recovery, stabilise the labour market and the price of raw materials was highlighted. Likewise, the necessity to strengthen the global competitiveness of the industry and supply chains, and guarantee transport and logistics within the country were stressed.

According to recent data from the National Bureau of Statistics of China, the Asian country's GDP expanded 2.5% year-on-year in the first six months of 2022, while data for the second quarter showed an expansion of only 0.4%. The drop came after Shanghai was confined for two months to contain a new coronavirus outbreak, causing activity in this major financial centre to experience a contraction of 13.7% year-on-year in the second quarter. In turn, the economic activity in Beijing fell 2.9% in the same period.

The Chinese government has set an economic growth target of around 5.5% for 2022, which is likely to be difficult to achieve, given that it would demand a sharp acceleration in activity in the second half of this year. In this sense, the IMF updated the growth forecasts for the Asian country. According to the agency, the return to confinement due to new coronavirus outbreaks and the worsening of the crisis in the real estate sector forced growth to be revised downwards by 1.1 percentage points, and it now estimates it at 3.3% for 2022 and 4.6% by 2023.

Pakistan's new government enforces heavy subsidy cuts

Three months after the inauguration of the Pakistani Prime Minister, Shebaz Sharif, following the parliamentary motion of censure that ended the government of Prime Minister Imran Khan, the new coalition government, which is facing a serious economic and political crisis, applied a strong and unpopular fiscal adjustment that included the reduction of energy subsidies and the creation of new taxes.It is hoped that these measures, aimed at facilitating a new disbursement from the IMF (with which Pakistan signed a financial assistance agreement in 2019), would remove the risk of a balance of payments crisis. It is expected that, to the extent that the economic situation improves in the coming months, the current government will be able to reach the general elections of August 2023 with some chance of victory.

According to the statistics for the fiscal year starting in July 2021, it can be seen that until May, the external deficit reached US$ 13.8 billion, while in the same period of the previous year it had been

US$ 500 million. Imports increased 47% in the first ten months of the 2021-2022 fiscal period, mainly due to the increase in energy imports, which rose 96% and went from US$ 8.7 billion in 2020-21 to US$ 17 billion in 2021-22.

The government of ousted Imran Khan managed to approve subsidies of approximately US$ 4.5 billion at the beginning of the 2021-22 fiscal year. Throughout the year, after various interventions to contain tariffs and fuel prices, total subsidies amounted to US$ 7.4 billion. Of the total, 90% of these subsidies went to power generation companies. Nevertheless, the new authorities decided to cut these by US$ 4.1 billion, with an impact on users' electricity rates of around 185% in two months.

On the other hand, the package of measures provides for the creation of new taxes. Among them, one to fuels derived from petroleum. In the last thirty days, the different types of fuels and diesel increased an average of 70%. The inflationary effect of these measures affected the consumer price index (CPI), which in June recorded a 21% increase compared to the same month of the previous year. This is the highest inflation record since 2008.

Foot and mouth disease outbreak in Indonesia puts New Zealand on alert

The Prime Minister of New Zealand, Jacinda Ardern, warned that the foot-and-mouth disease outbreak detected in Indonesia in April has the potential to threaten up to 100,000 jobs in her country's agricultural sector, and stressed that although this disease is not a threat to humans, it could devastate New Zealand's cattle, if it entered their territory.

According to Indonesian health authorities, by the beginning of July, more than 317,000 animals had been infected in 21 provinces, mainly on the islands of Java and Sumatra (the most populous in the country), and approximately 3,400 animals had been euthanised. To prevent the spread of the disease, the health authorities of the country, which had been free of foot-and-mouth disease since 1986, launched a national vaccination programme.

Foot and mouth disease, a serious and highly contagious viral disease of cattle, can have a significant economic impact, especially in a country like New Zealand, which exported around 17 million sheep and 2 million cattle in the last eight months, up to May 2022. New Zealand never had an outbreak of this disease so biosecurity restrictions at the border were intensified. There are currently no direct flights from Indonesia to New Zealand; however, the authorities are on the alert that the disease should not enter through tourists who have visited Southeast Asia.

In turn, Australia is checking packages and luggage from China and Indonesia, and foot mats have been placed at airports to prevent the entry of the disease. Although the government of this country has so far rejected opposition calls to completely close the border with Indonesia, new measures are not being ruled out.

AFRICA

UNCTAD raises the importance of diversifying exports in Africa

In its latest Report on Economic Development in Africa 2022, the United Nations Conference on Trade and Development (UNCTAD) focuses on the region's dependence on commodity exports, a cause of the vulnerability of its economies and an obstacle to its development. The organisation raises the possibility that African countries diversify their economies by promoting exports of high-value services, expanding the access of private companies to financial services.

Despite decades-long efforts to diversify themselves, 45 of the continent's 54 countries remain dependent on primary product exports. UNCTAD considers a country to be commodity-dependent when these commodities account for more than 60% of its total merchandise exports.

The report indicates that knowledge-intensive services, such as information technology and financial services, could be game-changers for Africa. Trade in services is low in the region; between 2005 and 2019, services represented only 17% of its exports. Travel and transportation accounted for around two thirds, which translates into a high concentration in traditional service sectors, in which low value-added transactions predominate. Knowledge-intensive services, meanwhile, account for only 20% of the continent's service exports.

UNCTAD argues that the continent should promote the use of knowledge and technology-intensive inputs to allow the manufacture and exports of more complex goods and services instead of basic products. It also argues that smart technologies and services such as blockchain can improve access to diverse and competitive markets both inside and outside the continent. Increased trade in services can also reduce environmental degradation caused by the exploitation of natural resources.

The report also highlights the critical role of the private sector, both formal and informal, in the diversification and transformation of Africa's economies. This includes small and medium-sized companies, which represent around 90% of the continent's companies and employ around 60% of its workforce. Africa has about 50 million formal SMEs, which can help diversify exports, but have an unmet financing need of US$ 416 billion each year, according to the International Finance Corporation. This factor, added to the difficult access to corporate loans from banks, raises the need for innovative financial instruments for African SMEs to ensure their access to financing.

World Bank financing to countries in the Middle East and North Africa

In the fiscal year that ended on 30 June, the financial support of the World Bank directed to the Middle East and North Africa (MENA) countries exceeded US$ 5 billion. The funds were mainly aimed at mitigating the impacts of the war in Ukraine and the COVID-19 pandemic and were granted by the different World Bank institutions: US$ 4.1 billion from the International Bank for Reconstruction and Development, which supports middle-income countries; US$ 815 million from the International Development Association; and US$ 131 million through trust funds.

As the region's population faces a greater vulnerability from Ukraine's war-induced rise in food and energy prices, the World Bank has pledged to help mitigate the immediate impact of the crisis and open the door to structural reforms aimed at guaranteeing the availability of food for the population, in particular for the poorest ones. In Egypt, the bank approved a US$ 500 million loan to help ensure vulnerable households have uninterrupted access to bread; in Tunisia, it agreed on a US$ 130 million loan to provide emergency support to help finance wheat imports, and give aid to dairy farmers and small farmers; and in Lebanon, it approved a US$ 150 million project to finance wheat imports.

The bank authorized US$350 million in additional financing for Jordan's COVID-19 Emergency Response Project to help poor and vulnerable households in that country and refugees from Syria; while in Tunisia, it approved the sending of US$ 24 million for the COVID-19 Response Project, which focused on strengthening the health system.

Record trade between India and Africa

Currently, 33 African countries are benefitting from India's tariff preference mechanism, intended for Least Developed Countries. In the last fiscal year (2020/21), trade between India and Africa reached a record figure of US$ 89.5 billion (in the previous fiscal period it had reached US$ 56 billion). India's trade with Africa is relatively balanced with India's exports of goods and services amounting to US$ 40 billion and imports of US$ 49 billion. Through the mechanism that extends duty-free access to 98.2% of total tariff lines, India is an attractive market for African countries.

With an investment stock of US$ 74 billion, India is among the top five investors in Africa. So far, it has completed 197 investment projects on the African continent, while 65 projects are underway and 81 in their preliminary stage.

CEI GLOBAL REPORT

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