# CEEMEA & LatAm 2024 Outlook

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## 2024 has the potential to be a better year for EMs

### UST yields set the tone in H2 2023, with eyes fixed on Fed policy

The global economy has been attempting to recover from the turmoil of the COVID-19 pandemic, which brought about supply chain issues and restrictions worldwide, while inflation has exhibited a general disinflationary trend, though remains above target in many countries. Keeping a tight monetary policy has been the message of most central banks this year, including the Fed, and with only a few having seen enough improvement in inflation and inflation expectations to embark on easing cycles over recent months. Central bank monetary policies have been key drivers of sentiment this year and with a hawkish Fed supporting US treasury yields and the dollar for much of H2, to the detriment of EMs and wider risk assets, which have also had to navigate the presence of geopolitical tensions aligned to the ongoing Russian invasion of Ukraine and now the Israel-Hamas war. Yet, despite all this, we find that sentiment has turned into year-end as financial conditions ease and as it stands, Emerging market currencies and stocks look set to end 2023 on a positive footing.

Below is an overview of some of the key themes of 2023.

**Global economic recovery:** In 2023, many countries experienced a gradual recovery from the economic downturn caused by the COVID-19 pandemic. As vaccination efforts progressed and restrictions eased, economic activity started picking up, demonstrating resilience to the energy/cost-of-living crisis driven by Russia's invasion of Ukraine, and unprecedented monetary policy tightening to fight inflation. Nevertheless, growth remains slow and uneven. According to the IMF's baseline scenario, global growth is expected to slow from 3.5% in 2022 to 3.0% this year and 2.9% in 2024, a 0.1ppt downgrade for 2024.

There have, of course, been some divergences in economic performance and among advanced economies we have seen upward revisions to the US outlook amid resilient consumption and investment, but downward revisions to Eurozone activity. In Emerging Markets, China has disappointed this year amid growing headwinds from its property crisis, while the main CEE economies either experienced a recession (Hungary) or stagnation in H1, from which they are recovering. Turkey proved the exception in Europe, with growth supported in the first few quarters of the year by strong household spending. Meanwhile, LatAm has seen a varied performance, with growth surprising to the upside in Brazil and staying robust in Mexico, in contrast to Chile's economy, which teetered on a recession amid significant weakness in household consumption, weak confidence and greater uncertainty in top trading partners such as China.

**Inflation, central bank and government policies:** 2023 has generally been a year of moderating inflation and inflation expectations, although most countries are not expected to see a return to target until 2025 and for now, many central banks are opting to keep rates steady into the new year amid lingering domestic and external uncertainties.

Within the EM region, inflation has declined considerably in CEE and LatAm countries, and has already prompted some central banks (Poland, Hungary, Chile and Brazil) to embark on monetary easing regimes. Moderating inflationary pressures have meant that most EM policy rates are positive and while there are some exceptions in the CEE region, none are more negative than in Turkey. To this, we note that in some parts of the EM world, inflation is still posing a significant challenge for policymakers, with price pressures picking up of late in South Africa and resurging in H2 in both Turkey and Russia, where inflation dynamics have been largely driven by currency weakness and have prompted extensive rate hikes.

Meanwhile, fiscal policies have generally remained expansionary, as governments around the world sought to support their economies via infrastructure spending, tax cuts, and direct financial assistance to individuals and businesses in the wake of the pandemic and higher energy and food prices. Fiscal and monetary policies have been less aligned this year - governments have subsequently found themselves with reduced fiscal space and increased debt vulnerabilities as tight monetary policies raised the cost of servicing debts, risking greater exposure to external shocks.

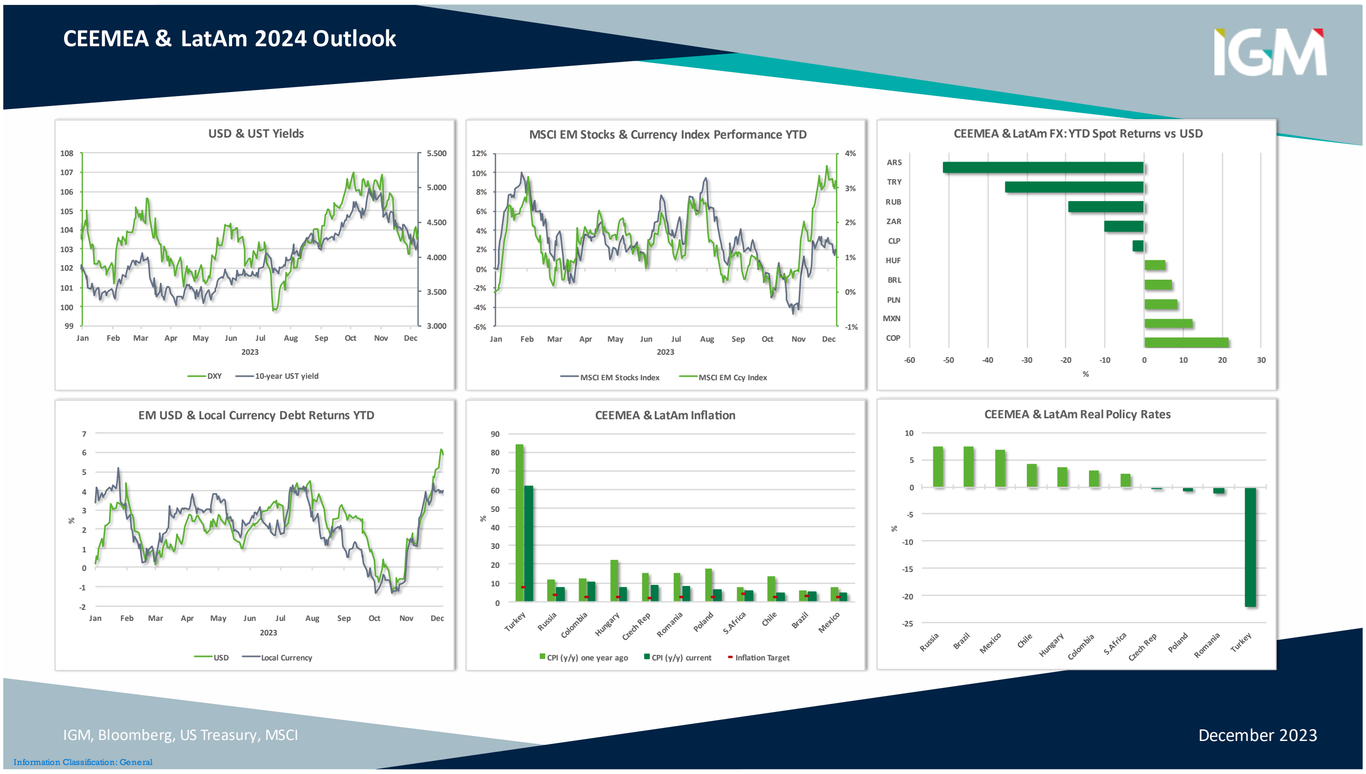
**Rising US Treasury yields:** The global bond market sell-off in H2 has been a source of concern for Emerging markets, driven by a charge in the US 10-year yield on expectations of the Fed keeping rates higher for longer amid signs of persistent inflation and a strong US economy. However, there has been a turning point in recent weeks, with the 10-year yield cooling from 16-year peaks above 5% in mid-October (to sub-4.20% at one stage) as more mixed US data left traders confident the Fed is done tightening policy and turning their attentions to potential rate cuts in early 2024. Fed officials have mainly been hawkish this year while their fight with inflation continues, yet some less hawkish messages have emerged recently, suggesting US monetary policy is sufficiently restrictive to ensure inflation falls back to target.

**EM currency performance:** After a positive start to 2023, the MSCI EM currency index found itself in consolidation mode for much of the year, unable to revisit its February peak above 1715. In October, the index had unwound all its ytd gains with a move toward 1660 as the UST yield rally boosted the dollar and spurred broad risk aversion, but it all changed in November in reaction to growing expectations for a Fed policy pivot. As US yields retreated, the dollar found itself suffering its worst month in a year in November and has largely pared ytd gains. The environment of easier financial conditions ensured the MSCI EM currency index had scope to rebound - extending past 1720 at the end of November, for the first time since April 2020 - and is subsequently looking at its best year in three, with an advance of more than 3% ytd. Emerging Market currencies with the most attractive carry returns generally benefited the most into year-end, within a lower volatility environment.

LatAm currencies have been the standout performers ytd, with the Colombian peso advancing over 20% vs the USD, the Mexican peso over 12% and the BRL gaining more than 7%. Meanwhile, the PLN has had an extraordinary year, up 8% vs the EUR (most since 2012) and more than 8% vs the USD (most since 2017) as the Polish election result favoured the pro-EU and fiscally prudent alliance of opposition parties, while the Hungarian forint has gained around almost 5% against the EUR and more than 5% against the USD, also the best performances since 2012/2017, respectively, as the central bank preserves positive real rates for carry traders even after months of easing.

At the other end of the spectrum are the usual suspects, the Argentine Peso and the Turkish Lira, losing more than 50% and 35% of their value against the dollar, respectively. The continuation of unorthodox monetary policy further undermining sentiment towards the Turkish currency into 2023. Since the May Turkish presidential election, policies have been reversed and the CBRT has embarked on a series of huge rate hikes to restore credibility and price stability, but this has not stopped the TRY from steadily extending losses against the dollar to new all-time lows. The Russian Rouble has also suffered again this year, losing almost 20% of its value vs the USD as foreign currency outflows and a shrinking balance of trade continued to weigh on the RUB amid Western sanctions. The Rouble's ytd losses would have been worse were it not for tight monetary policy and the government's reintroduction of mandatory FX sales for some exporting companies, which helped lift the currency up from 18-month lows beyond 100/USD in October.

A mention must also be given to the MSCI EM index of stocks, which posted its best monthly advance in a year in November, putting it on track for its first annual gain in three. Meanwhile, the Bloomberg Global Aggregate bond index (a gauge of global sovereign and corporate debt) returned over 5% in November, its best monthly gain since late 2008 and is set for a second consecutive year of returns. With regards to EM bonds, the Bloomberg gauge of USD-denominated debt has returned over 5.50% this year and the local currency debt gauge has returned 4%, and with LatAm debt enjoying the best returns within this asset class thanks largely to progress on the inflation front.



## Waning US exceptionalism to offer opportunities for EM assets

Many market participants had expected the US economy to soften this year under the weight of the Fed's interest rate increases, pushing the dollar lower. Yet, what we have in fact seen is that whilst growth has wavered in many major economies around the world, it has remained relatively robust in the US, defying the warnings of a recession that had been swirling since the previous year.

The exceptionalism of the US economy has been a key theme in the second half of 2023, supporting a hawkish Fed and driving broad UST yield and dollar strength. That theme was at the fore in October, when it was revealed that Q3 was a standout quarter for the US economy, with GDP increasing at a 4.9% annualised rate, the fastest pace in nearly two years, thanks to an environment of high wages and a tight labour market, which have bolstered consumer spending.

For the most part, in such an environment, investors did not need to look elsewhere for returns.

However, it is clear the US economy faces challenges and as we head into year-end, evidence of moderating inflation and a softening labour market has emerged, prompting traders to price out further Fed rate hikes in this cycle and turn their attention to when the first rate cut could be delivered.

As a result, bond yields have cooled globally, with the US 10-year yield setting the tone, retreating from the 5%-plus levels seen in October. This has spurred risk appetite, sending stocks higher and investors once again seeking out EM currencies, notably those that are liquid and high yielding.

### Is this the start of a change in fortunes for EMs and other risk assets?

The USD index is down over 3% from its October highs, having predominantly come off on expectations the Fed could cut more aggressively than most in 2024, as well as softer energy prices and increased (but not runaway) optimism on a continued China economic recovery. The last two months of the year are, of course, seasonally soft months for the dollar, but whether this is the start of the big, cyclical turn lower in the USD, is the big question.

Expectations for US rate cuts early next year (markets are fully pricing in a cut in May) have been growing despite attempts by the Fed to temper optimism. Just recently, Chair Powell suggested that whilst rates are "well into restrictive territory", "it would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease."

At the same time, not all US data has proved disappointing. Indeed, retail sales continue to highlight a relatively resilient consumer and this would rather appear supportive for a soft landing that could allow the Fed more time before cutting rates.

Nevertheless, we are somewhat bearish on the dollar through 2024 on the view that tighter monetary policy and financial conditions will ultimately catch up with the US economy at some point next year. The subsequent end of US exceptionalism should give investors greater confidence to seek returns away from the dollar.

A weaker dollar and evidence of recovering economies are going to be needed for EM FX to really benefit in an environment of lower rate differentials/less attractive carry. However, it may be too early to see prolonged dollar losses and there is still plenty of uncertainty elsewhere to keep us cautious into the new year.

The main risk to a constructive view on EM currencies in 2024 is a renewed bear steepening of the US yield curve as the Fed remains higher for longer and until we move decisively away from a strong dollar environment, we should expect high yielding EM FX to continue outperforming other developing nation currencies.

We suggest the dollar bear trend is going to take some time to build and may not peak until Fed rate cuts are underway, possibly by mid-2024. The closer we get to the Fed rate cut, the more investors may well tilt towards local currencies and local currency bonds. By mid-2024, the markets are also expecting European policymakers to have begun cutting rates, which could improve the macroeconomic outlook for H2, giving way to a stronger performance from emerging markets and riskier assets in general.

For now, though, we continue to favour a cautious and selective approach on emerging markets.

## Inflation to continue moderating, economic recovery likely to remain below potential

As we head into 2024, the geopolitical landscape has become increasingly challenging amid the Israel-Hamas conflict and with the war ongoing between Russia and Ukraine. Nevertheless, inflation should continue to cool in developed and emerging markets, aided by an easing of the volatility of food and energy prices, although is not without lingering upside risks, while the global recovery is expected to remain slow. Economic projections for 2024 generally appear to be consistent with soft-landing scenarios – moderating inflation without major downturns in activity.

We are in an environment where interest rates have mostly peaked and as previously highlighted, some EM central banks are already easing rates. Policymakers will have to tread carefully with any monetary policy easing next year as too much could reignite inflation – which, for several EM economies, is still above central bank targets - whilst too little easing could weigh on economic growth.

After three years of zero Covid policies, China's economy has disappointed after failing to experience a reopening like those seen in the US and Europe, due to far more modest government support and as worries about the property market dampened consumer and business confidence. We are expecting China to avoid the worst-case scenario next year as the government responds with stimulatory policies, but the economy will likely continue to disappoint and there is a risk its tepid growth will undermine emerging markets in general, but particularly its main trading partners.

We expect EM economic performance to have troughed and whilst a busy election calendar next year could provide a temporary boost for some, the recovery in 2024 will likely be below potential. Developing economies that are well on their way to taming inflation will ultimately be in the best position to keep economic activity moving in the right direction, potentially offering greater investment opportunities into 2024-end.

## Country specific outlooks

### Russia

• USD/RUB may resume descent under 90 amid widening interest rate differential between CBR and Fed, mandatory exporter FX revenue sales and CBR's change to FX intervention, before returning toward 100.

• Still not optimistic on RUB over the medium-term and expect general rouble weakness to contribute to keeping double digit interest rates high for longer, with Russian inflation yet to peak.

• Unemployment rate at record lows amid Ukraine war; labour market extremely tight and at its limit – a potentially destabilizing force for an economy already at risk of recession amid tight monetary policy.

### South Africa

• SARB's next rate move will be a cut, but unlikely before mid-2024 given persistent upside risks to CPI.

• High unemployment, lower household consumption, power outages and tight monetary policy pose downside risks to government's 2024 1% GDP f/c, doesn't leave much room for fiscal restraint, suggesting further delay to debt stabilisation on current plans.

• Still, Rand and SAGBs have potential to strengthen into 2024-end in absence of any notable deterioration in the local story, as the dollar softens and global growth picks up, facilitating a better risk backdrop.

### Turkey

• Turkey heads into local election year with President Erdogan hoping to win AKP the major cities of Ankara and Istanbul, stretching his victory over the CHP in the presidential elections earlier this year.

• Despite 3150bp of interest rate hikes since June, CPI is headed to at least 70% next year, warranting continued tight policy; upside inflation risks from outsized stimulus ahead of elections.

• With a lack of investor confidence, the TRY is in an extremely vulnerable position and will require robust intercession to bring it back up amidst weak external financing and geopolitical risks in the Middle East.

### Czech Republic

• Rate cuts are on the cards either late 2023/early 2024 and will be a weight on the CZK in the short-term, but possibility the CNB will remain more cautious than the markets expect.

• Sluggish Czech economic growth to remain a hinderance to a CZK recovery in 2024, ensuring it remains less attractive than some of its CEEMEA peers.

• State budget will be closely watched as the government will aim to reduce their deficit through reversing their pandemic-era borrowing spree and to fulfil on their 2024 election pledges.

### Poland

• Pro-EU government's ability to gradually unlock private investments, FDI and EU funds potentially calls for a stronger PLN and POLGBs in due course, but lack of support to implement major changes are a key risk.

• A continued cautious approach from the NBP and one that should see rates on hold until at least the March projections is a potential PLN positive.

• Expect rate cuts to resume from March on stronger Zloty, moderating inflation and inflation expectations, driving borrowing costs towards 5%.

## Hungary

• PM Orban will need to focus on unlocking crucial EU funding in the coming months or risk losing all access in 2027.

• Access to further funding will be HUF-supportive, as the country battles with a twin deficit after pulling itself out of a year-long recession.

• NBH to continue gradual monetary easing, keeping policy restrictive enough to continue slowing the EU's highest inflation rate and supporting positive real rates that ultimately aid HUF appreciation in 2024.

## Brazil

• The BRL should remain resilient and one of the strongest LatAm currencies, even though carry trade attractiveness will be reduced as the BCB continues with a 50bp rate cut pace over the coming meetings.

• BCB may proceed more carefully from Q2 onwards and we expect monetary policy to remain tight for most of 2024; Selic rate seen near 9% by year-end.

• The rollout of President Lula's spending package will be closely monitored to see the effects on the economy and if the government will be able to fulfil their fiscal targets without causing a resurgence in inflation.

## Mexico

• Slower inflation and more moderate economic growth should open room for rate cuts from late Q1/Q2 2024.

• Rate cuts will narrow the yield differential with the US, but with financial market volatility easing and Mexican yields still elevated, MXN should remain relatively attractive as a carry currency, preventing any sharp sell-off.

• Any concerns over Mexico's fiscal outlook to remain limited as President AMLO continues with relatively tight fiscal policy into the end of his term (September), leaving public debt still manageable.

## Chile

• After last year's failed attempt to rewrite the constitution, a renewed effort is underway led by the congressional majority, new document likely to be rejected in second referendum, removing lingering uncertainty into 2024.

• Interest rates remain high, BCCh will keep cutting next year, maintaining the sharpest easing cycle in the region, but unlikely to make strong commitments when signalling cuts amid Peso weakness.

• Risks from slowing growth in China, increasing interest rates in developed economies and uncertainty about constitutional changes will weigh on the CLP and may require the BCCh to re-introduce FX intervention.

## 2024 is a huge election year

**2024 Elections**

| | Total | Global share (%) |
|---|---|---|
| Number of countries | 40 | 21 |
| Population | 3.2bn | 41 |
| GDP, USD | 44tn | 42 |

*Source: Bbg Economics, IMF*

In 2024, four of the world's largest countries and territories will hold elections that will shape global affairs during the second half of the decade. In March, Russia is scheduled to hold a presidential election to appoint its leader until 2030. Between April and May, India will hold general elections to appoint the government and parliament that will lead the country until 2029. In June, the European Union will hold bloc-wide elections to appoint members of the European Parliament for the 2024-2029 period, which will also result in a new European Commission. Finally, the United States will hold legislative and presidential elections for the 2025-2028 period. Combined, these elections will cover a population of roughly 3bn people, representing more than 40% of the total world population and more than USD 40tn of the world's GDP, and their results will set the tone for global interactions into the 2030s.

In EM, several countries, besides Russia, are set to experience pivotal elections and these are all detailed below:

### Russia presidential election (March 17th): Putin the "defender" of Russia

Vladimir Putin has confirmed he will run in the March presidential election, as widely expected, potentially extending his rule until at least 2030. Putin aims to steer Russia through a tumultuous period. Recent actions, including quelling a mutiny led by the powerful mercenary Yevgeny Prigozhin, indicate Putin's efforts to consolidate support among security forces, the military, and regional voters.

Putin, who assumed the presidency in 1999, already holds the record for the longest-serving Russian ruler since Josef Stalin. While enjoying high approval ratings, extensive state support and control over state media, Putin confronts significant challenges.

The conflict in Ukraine has triggered the most significant confrontation with the West since the Cuban Missile Crisis, leading to harsh sanctions and an economic shock for Russia. Inflation and a falling Rouble further complicate economic matters, with defence spending comprising a substantial portion of the budget. The Ukraine war has exposed internal fault lines within post-Soviet Russia, highlighting the complexity of Putin's leadership amid domestic and international challenges.

Putin's leadership faced a direct threat in June when Prigozhin led a short-lived mutiny and following Prigozhin's death in a plane crash, Putin has utilized the Defence Ministry and the National Guard to assert control over the remnants of the Wagner force.

Internationally, Putin is portrayed as a war criminal and dictator, accused of an imperial land grab in Ukraine. However, he frames the conflict as part of a broader struggle against the United States, asserting that it aims to disintegrate Russia, exploit its resources, and eventually confront China. Putin will be hoping that by being seen as a "defender" of Russia, he can at very least equal his official result in 2018, 77% support on a 68% turnout. Removing any real challengers to his rule makes his re-election almost certain, but that could also mean people are less bothered about turning up to vote.

## Turkey local elections (March 31st): A chance for AKP to reclaim major cities

There is no time to rest, following President Erdogan's victory earlier this year that secured him and his Justice and Development party (AKP) a third decade in power. The task is now to boost the AKP's standings in the March municipal election and specifically recapture the big cities lost in the 2019 elections, including the capital, Ankara, Istanbul and Izmir.

Political parties permitted to compete in the elections will be announced at the beginning of the new year, while provincial and district electoral boards will release lists of certified candidates in early March.

Despite facing a political ban in an ongoing lawsuit, the mayor of Istanbul, Ekrem Imamoglu of the opposition Republican People's Party (CHP), has announced his intention to run for re-election, firing a starting gun in a race seen as a crucial indicator of the opposition's ability to challenge Erdogan's rule. It's not clear if he has the support of the CHP, which has come under new chairmanship and faces dwindling odds as its allies, the nationalist Good Party (IP) and PKK-affiliated Peoples' Democratic Party (HDP), seek to field their own candidates.

Erdogan, especially keen to win back Istanbul - politically the most important administrative region -has already revealed the AK Party is choosing its mayoral candidates through extensive voter satisfaction surveys; public opinion polls, and discussions are underway with People's Alliance partner, Nationalist Movement Party (MHP), to cooperate in major cities.

To have a chance at securing victory, Erdogan will need to prioritize policies aimed at lowering the cost of living in urban areas. The President has already tasked a new economic team, headed by Finance Minister Simsek and CBRT Governor Erkan, with steering policies towards a more orthodox approach in a bid to control inflation.

Yet, despite hiking interest rates by 3150bp (to 40%) since May, inflation is proving sticky, running at more than twelve times the central bank's official target and is expected to rise further, to beyond 70% early next year. Feeding into inflationary pressures is the plummeting value of the Lira, hitting unprecedented lows and serving as a stark indicator that Erdogan and his AK Party's path to victory in the impending elections won't be effortless. To this, there is a risk Erdogan's government may be tempted revert to less-stability orientated pro-growth measures that would undermine the new economic team's promise a more ''rational'' policy and a ''credible'' programme of macroeconomic adjustment.

Erdogan's third term as president involves navigating economic challenges, regaining political support, implementing reforms and managing complex foreign relations, particularly with Russia and the West. The 2024 municipal elections will be a crucial test for his political standing.

## South Africa general elections (May-August): ANC, its own worst enemy

Discussions among South African pundits suggest a potential decline in support for the ANC party below 50% in the upcoming national election – an occurrence not witnessed since the party's initial victory in the 1994 democratic elections.

Disillusionment has grown due to corrupt political practices, economic downturns, persistent power outages, and escalating crime rates over the past decade, prompting many voters to distance themselves from the once-revered liberation movement now turned government. Whilst internally, the ANC faces challenges like declining membership, conflicts, branch collapses, and financial struggles, unable to meet monthly salary obligations and address tax liabilities, impacting voter mobilization.

Opinion polls vary, suggesting the ANC's support could drop from 57% to a range of 45% to 51%. To maintain even this level of support, the ANC needs to rally the 10 million voters from 2019. Note, the 2021 local elections saw a historic low of 47.9% support, mainly due to ANC abstentions.

This is a chance for voters to hold the ANC accountable for South Africa's problems, but despite opposition parties' concerted efforts, there remains a dearth of viable alternatives for many voters, notably black voters. The Democratic Alliance (DA) is seen as too white and pro-business, while the Economic Freedom Fighters (EFF) attract younger voters but are considered too radical for older demographics.

Concerns over an ANC-EFF coalition's impact on the economy and racial unity led the DA to suggest a "moonshot pact" with other opposition parties, but the feasibility is doubtful due to ideological differences among the 12 opposition parties. A recent alliance, "The Multiparty Charter," formed by the DA and six small parties, lacks the needed support to achieve the 51% majority for government formation.

In South Africa's local governance, the rise of coalitions showcases the difficulties in maintaining these alliances, leading to persistent instability. Despite concerns shaping the strategies of opposition groups, most ANC leaders lean towards forging coalitions with parties other than the EFF. They see potential in partnering with the DA, perceiving it as more stable and predictable. Should the ANC maintain support above 45%, they'll probably seek alliances with smaller parties and independents, potentially even considering collaboration with the DA, their long-standing rival, if circumstances demand.

The possibility of the ANC's demise appears unlikely. Even amidst its failures, the ANC might still be perceived as a preferable option compared to a fragmented coalition of divergent parties prone to internal disagreements. Hope persists for the ANC to focus on urgent issues such as the electricity crisis, infrastructure repair, and enhanced collaboration with the private sector in the months leading up to the election. Otherwise, if the ANC remains in power, a tolerance for business as usual may wane over time.

### Mexico general elections (June 2nd): The next leader will be a woman, in historic first

After taking power in late 2018, President Andres Manuel Lopez Obrador (AMLO) will end his term next year and his Morena party have picked former mayor of Mexico City, Claudia Sheinbaum, as his successor for the 2024 general elections. Sheinbaum will go head-to-head with another female, senator Xochitl Galvez, who is running for the opposition coalition of PAN, PRI, and PRD parties. That means the next president will be a woman, in a watershed moment for Mexico.

While sticking largely to AMLO's policies, Sheinbaum has signalled some potential changes, notably expressing support for renewable energy sources. Much like Galvez, she is also considered socially progressive and both candidates have signalled an intention to maintain broadly popular anti-poverty programmes. In a similar way to AMLO, Galvez effectively resonates with underprivileged Mexicans, thus forging a connection that eludes many others in her circle, but she has also expressed support for business.

Sheinbaum's connections to AMLO are ultimately expected to give her the edge heading into the elections and polls currently place her as the frontrunner.

For investors, the prospect of a second Morena administration raises some concerns about the potential divergence from AMLO's fiscal discipline, as increased social and public works spending may not be accompanied by the same financial responsibility.

Still, Mexico should remain fiscally sound, with low public debt and substantial international reserves. Meanwhile, Banxico has responsibly guided monetary policy, positioning Mexico well to weather economic challenges, even potentially entering an easing cycle ahead of developed economies in 2024.

US interest in nearshoring, coupled with Mexico's competitive advantages, creates incentives for leaders to maintain stability and encourage foreign investment. This is crucial for addressing challenges like investing in electricity generation, transmission, and finding sustainable solutions for state-owned oil company Pemex.

### Romania presidential elections (November): One of four crucial elections next year

In 2024, Romania will have four rounds of elections - EU elections in June, followed by local elections and towards the end of the year, presidential and parliamentary elections will be organised. Regarding the former, the coalition government must step up its efforts to manage public finances effectively and access additional EU recovery and development funds if they aim to maintain a strong position in the EU elections.

Given the proximity of the Presidential and Parliamentary elections, the decision has been taken to combine them into one general election, where all seats in the Romanian Parliament will be contested alongside the office of President. The leadership of Romania's National Liberal Party, or PNL, voted during a recent meeting to form its own lists for the 2024 elections, separate from those of their governing coalition partners, the Social Democrats (PSD). PNL's leadership considered three scenarios for the upcoming elections: running independently, forming an alliance with PSD, or joining a broader right-wing coalition.

Over the recent years, President Klaus Iohannis has experienced consistently dismal approval ratings. Many Romanians consider him to be responsible for the 2021 political crisis, where the USR (Save Romania Union) exited the governing coalition. The governing coalition he is associated with has also been further criticised as corrupt and illiberal, so much so that the Economist has ranked Romania as the least democratic state in the EU.

The President's apparent complicity in alleged corrupt activity has made him very unpopular and as a result, the far right AUR has been gaining a lot of ground against the President’s PNL party in the polls, which may significantly undermine any attempts of the PNL to remain in government. Iohannis is not permitted to run for another term, having first been elected in 2014 and there being a two-term limit. No high-profile candidates have been announced and the largest party (the Social Democrats, PSD) has not yet confirmed the very likely candidacy of their leader, Marcel Ciolacu.

A recent survey conducted by pollster INSCOP showed that 29.5% of Romanians would vote for Prime Minister Marcel Ciolacu's Social Democrats and 18.4% for the Liberal Party. The PSD and PNL have announced that they will seek to continue the ruling coalition if they collectively win enough seats, but given the collapse in support of the PNL, not even this is guaranteed.

### Brazil municipal election (October 6th): Can Lula’s left-wing party make gains against the right?

The Brazil municipal elections are poised to be a crucial battleground, reflecting evolving political landscapes and public sentiment. Anticipation surrounds these elections as they will likely serve as a barometer of national sentiment, influencing the broader political trajectory of the country.

With growing concerns about economic recovery, social issues, and environmental challenges, voters are expected to prioritize candidates who offer comprehensive plans for inclusive growth, sustainable development, and effective governance at the local level.

The elections may also witness increased participation from diverse political factions, potentially leading to tight races and unexpected outcomes in various municipalities across the country. As Brazil grapples with both domestic and global challenges, these elections will be closely watched for signals about the direction of Brazilian politics and its impact on national policies.

The elections will ultimately reveal whether President Luiz Inacio Lula da Silva's left-wing Workers' Party can make advancements against the Liberal Party, which dominates Congress and is backed by former President Jair Bolsonaro.

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