Allianz Research

Country Risk Atlas 2024: Assessing non-payment risk in major economies

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Executive summary

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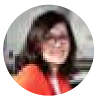

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- **The Country Risk Atlas provides comprehensive insights on the economic, political and business environment and sustainability factors that influence non-payment risk for companies in 84 economies.** Our analysis is based on our proprietary risk ratings model that is updated every quarter with the latest economic developments and Allianz Trade's proprietary data on global insolvencies and the business environment. The Country Risk Atlas is designed to help businesses and investors make informed decisions by identifying potential risks and opportunities around the world.

- **2023 was marked by signs of resilience in many markets. We upgraded 21 economies that account for around 19% of global GDP, up from eight in 2022.** This list included several emerging markets, notably China, South Africa, Qatar, Algeria, Morocco, Oman, Bulgaria, Tanzania and Uruguay, which showcased their resilience to global shocks. The outlook for several advanced economies also improved, including Croatia (with a double upgrade in Q1 and Q4), Cyprus, Greece, Iceland and Slovenia. However, we also downgraded four economies in 2023, notably Egypt because of a gloomier outlook for available liquidity and Israel due to increased political risk. In terms of regions, Africa has seen the most upgrades (10), followed by Europe (6), while only China and Uruguay have seen their risk trajectories improve in Asia and the Americas, respectively. However, Africa remains the continent with the greatest difficulties in terms of liquidity and access to international markets at a time when liquidity risk is increasing almost everywhere. Against this backdrop, the current cycle and enduring fiscal and monetary policy efforts may trigger further upgrades in the Americas, with Africa and the Middle East most likely to fall behind.

- **Overall, the global risk of non-payment for companies stands at Medium Risk, almost back to 2019 levels.** Africa's average risk rating stands above three (Sensitive), while the Middle East, Latin America and Eastern Europe (incl. Russia) are close to but below three (Sensitive). Asia Pacific is slightly above two (Medium) and Western Europe and North America are close to one (Low).

- **Looking ahead, several factors will continue to challenge the risk landscape.** First, we expect liquidity constraints in an environment of high public and private debt and high interest rates. Second, below-potential growth in most regions and lower pricing power for corporates will drive revenue growth downwards. Third, business insolvencies are set to increase (+8% globally in 2024), with Europe and the US leading the acceleration. Fourth, global supply chains are changing, taking a toll on economies with twin deficits, mainly on the current account balances. Finally, increasingly polarized geopolitics will increase uncertainty in a year packed with elections, with economies accounting for 60% of global GDP heading to polls.

Country risk Methodology

The Country Risk Rating by Allianz Trade Economic Research measures the risk of non-payment by companies in a given country. This risk is due to conditions or events outside any company's control. The overall evaluation is made of two elements:

- Country Grade is a medium-term assessment ranging from AA to D (highest risk)
- Country Risk Level provides a short-term rating from one to four (highest risk level)

Country Grade

Medium-term rating

AA → A → BB → B → C → D

Macroeconomic Risk (ME)
Political Risk (P)
Structural Business Environment (SBE)

Country Risk Level

Short-term rating

1 → 2 → 3 → 4

Commercial Risk (CRI)
Financing Risk (FFI)

The Medium-Term Rating (Country Grade) measures economic imbalances, the quality of the business climate and the likelihood of political hazards. It is on a six-level scale running from AA to D, in which AA is the lowest risk level and D is the highest risk Level.

The Medium-Term Rating is the combination of three scores:

- The Macroeconomic Rating (ME) based on the analysis of the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses:
- The Structural Business Environment Rating (SBE) measures the perceptions of the regulatory and legal framework, control of corruption, relative ease of doing business and environmental sustainability; and
- The Political Risk Rating (P), which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion and international relations.

The Short-Term Rating (Country Risk Level) identifies more immediate threats by focusing on the direction of economic output in the next 6-12 months and those macroeconomic indicators that can signal imminent financial crisis as a result of a disruption to financing flows.

It is measured on a four-level scale running from one to four, in which one is the lowest risk level and four is the highest risk level. Those four levels of risk are also labelled as low medium sensitive and high in our country risk map. The Short-Term Rating is the combination of two indicators:

- The Financing Flows Indicator (FFI), a measure of short-term financing risks for an economy that can impact payments of trade receivables between companies; and
- The Commercial Risk Indicator (CRI) which measures the short-term disruptions in demand. It includes our macroeconomic and insolvency forecasts.

You can find all our country reports on the Allianz and Allianz Trade websites.

Source: Allianz Trade, as of January 2024


R U S S I A
KAZAKHSTAN
MONGOLIA
CHINA
JAPAN
NORTH KOREA
SOUTH KOREA
TAIWAN
HONG KONG
MACAU
INDIA
SRI LANKA
IRAN
TÜRKIYE
IRAQ
AFGHANISTAN
PAKISTAN
OMAN
YEMEN
UKRAINE
BELARUS
POLAND
GERMANY
FRANCE
SPAIN
PORTUGAL
ITALY
GREECE
UNITED KINGDOM
IRELAND
NORWAY
SWEDEN
FINLAND
ESTONIA
LATVIA
MOROCCO
TUNISIA
ALGERIA
LIBYA
EGYPT
MAURITANIA
MALI
NIGER
CHAD
SUDAN
SOUTH SUDAN
ERITREA
DJIBOUTI
ETHIOPIA
SOMALIA
SENEGAL
GUINEA
NIGERIA
CAMEROON
CENTRAL AFRICAN REPUBLIC
DEMOCRATIC REPUBLIC OF CONGO
KENYA
TANZANIA
ANGOLA
ZAMBIA
MOZAMBIQUE
MADAGASCAR
NAMIBIA
BOTSWANA
SOUTH AFRICA
SEYCHELLES
COMOROS
MAURITIUS
REUNION ISLAND
SINGAPORE
MALAYSIA
INDONESIA
REPUBLIC OF THE PHILIPPINES
PALAU
MICRONESIA
MARSHALL ISLANDS
PAPUA NEW GUINEA
SOLOMON ISLANDS
STATE OF TUVALU
REPUBLIC OF VANUATU
REPUBLIC OF FIJI
TONGA
NEW CALEDONIA
FRENCH POLYNESIA
AUSTRALIA
NEW ZEALAND

Contents

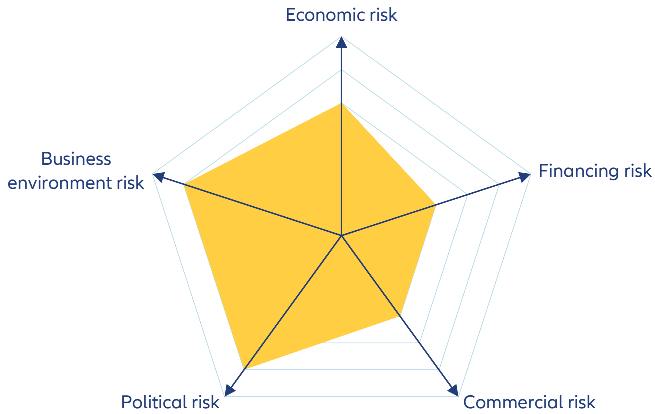
C2

Medium
risk for enterprises

Algeria

Economic transition or more of the same?

GDP	USD191.9bn (World ranking 56)
Population	44.9mn (World ranking 34)
Form of state	Semi-presidential republic
Head of government	Abdelmadjid Tebboune (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Top natural gas producer in Africa and second-largest reservoir in the region (after Nigeria), with reserves estimated to last 28 years at current rates of extraction
- Second-largest producer of crude oil in Africa (after Nigeria), with stable extractive environment
- Potential for renewable solar energy production and mining
- Large foreign exchange reserves and low levels of external debt mitigate external liquidity tensions

- Hydrocarbon production and revenues are exposed to price volatility and bilateral accords with European buyers
- Significant political and social risk, with a divided society and occasional diplomatic tensions with European partners that could have an impact on trade
- High unemployment (especially youth) and lack of economic diversification pose risks to the long-term prospects, with oil and gas accounting for 96% of exports
- The banking sector remains dominated by state-owned institutions, which are required to finance the state budget and may create contingent liabilities

Economic overview

Hydrocarbon production props up the economy in the short run

The Algerian economy has already returned to pre-pandemic levels, with GDP per capita surpassing its 2011 peak and the current account reverting into a surplus in 2022 after eight years. On the other hand, economic growth is largely a consequence of increased hydrocarbon prices, particularly in Europe and is estimated to have hovered around +2.4% in 2023 and moderate to +1.8% in 2024, well below Africa's average of +3.6% due to less favorable assumptions on energy prices and the long wave of losses in the cost of living that matured in 2023. Inflation is likely to reduce to around +4.8% on average in 2024.

Hydrocarbons represent 96% of total exports and 40% of budget revenues. Under present conditions, the government is unlikely to pursue much-needed structural reforms and reduce a high import bill. Overall, hydrocarbons remain the largest source of hard currency with liquidity buffers replenished in 2022-2023 and international reserves remaining the largest on the continent with around USD70bn at end-2023.

The government is trying to diversify its export basket and signed several agreements with China to increase the production of phosphate and iron ore as well as solar, wind and hydrogen projects with European partners. Accords with Italy, the main destination market, are likely to increase natural gas sales, attract additional investment into the sector and partly mitigate an anticipated decrease in trade with Spain following diplomatic tensions over the recognition of Western Sahara.

The transition to a more sustainable model is challenged by the economic cycle, bilateral relations and emergency measures

In 2023, international reserves recovered for the second year in a row, reaching around 1.5 years of import cover and representing a substantial buffer against external shocks, with foreign debt amounting to less than USD3bn. Financing remains unorthodox, consisting of a mix of funds from the Banque d'Algérie (the central bank) and state-owned banks through debt issuance and deposit drawdowns. If necessary, Algeria can also seek bilateral support from China and Russia.

Rising hydrocarbon production has eased Algeria's fiscal pressure over the last quarters, with the budget deficit estimated at 3% of GDP in 2023, widening to 4-5% of GDP in 2024. Trade surplus accumulated in 2022 was an exception, compared to an average annual deficit of USD15.8bn over 2017-2021. In 1994, with a debt-to-GDP ratio of more than 110%, Algeria had to turn to the International Monetary Fund, after which 13 consecutive years of public debt reduction followed, finally averaging 8.8% between 2008 and 2015. Public debt was on an upward trend between 2015 and 2021 but decreased in the past two years from 63% to 55%, underscoring the importance of investment flows, economic diversification and the reallocation of subsidies as means to further reduce solvency risk.

Recent diplomatic tensions, latent social unrest and the reconfiguration of energy supply chains may increase country risk

Algeria's prospects for government stability have improved since 2019-20, when it experienced weekly nationwide anti-government protests calling for sweeping changes to the political system. Three waves of the Covid-19 pandemic effectively neutralized the Hirak protest movement, which had served as the country's main opposition force for a decade. Moreover, the government of President Abdelmadjid Tebboune has embarked on a number of policies that have proved popular and helped to revive the economy. To reduce the risk of civil unrest, the 2024 budget law has continued to increase already high levels of social spending, including subsidies, but maintained a prudent reference price for crude oil at USD60 per barrel. Overall spending is projected to increase by 11% in 2024 to the equivalent of USD114bn, allocating more to state salaries and affordable housing.

The government is trying to open up to investors but significant obstacles remain, including capital controls. In a sign that President Tebboune's administration recognizes that the business environment needs to be liberalized, the government reversed some protectionist policies adopted since 2019. However, the implementation of such policies may pose additional threats. In September 2022, the government issued secondary legislation related to the Investment Law published in July, prescribing that the foreign investor must bear at least 25% of the overall cost of the investment in order to repatriate freely the invested capital and the income derived from it. After Algeria's application for BRICS membership in November 2022, the process has encountered some resistance from both sides and has not materialized yet. Overall, enhanced relationships with Southern European countries are likely to streamline administrative procedures for attracting investment and facilitating trade, including the transferability of funds and custom proceeds.

Bilateral relations and personal ties remain prevalent in setting the business framework, while the government continues its anti-corruption drive. Foreign companies are unlikely to be directly targeted as such actions primarily target individuals close to former President Abdelaziz Bouteflika and his inner circle. However, in June 2022, Algeria decided to suspend its friendship treaty with Spain after the Spanish Prime Minister voiced support for Morocco's Autonomy Plan for the Western Sahara. Following this, the Algerian association of banks ordered its members to freeze operations relating to trade with Spain. The decision was soon reversed but affected trade and investment prospects between the two countries. Transparency of counterparty data is also frequently cited among the causes of reduced credit limits among financial institutions and insurers.

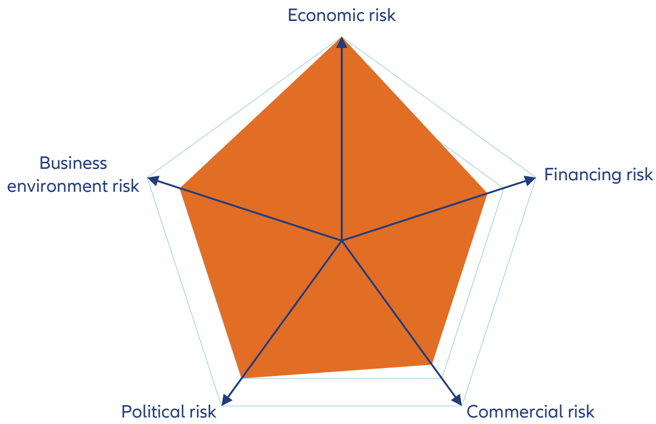
D3

Sensitive
risk for enterprises

Angola

The kwanza's rollercoaster: navigating currency storms, capital flows and revived inflation

GDP	USD106.7bn (World ranking 68)
Population	35.6mn (World ranking 43)
Form of state	Presidential republic
Head of government	João Lourenço (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Oil & gas, metals and agriculture continue to attract businesses despite a challenging environment and temporary currency restrictions
- Higher-than-average historical inflation has increased resilience and enhanced the central bank's ability to act on rates amid a positive trade balance
- Non-oil sector growth potential remains, with diamonds, agriculture and natural gas receiving investments from Europe

- Elevated exposure to oil prices and foreign investment caused another substantial currency depreciation in H1 2023.
- Revival of high inflation due to fuel-subsidy reduction and currency devaluation weighs on growth potential and living standards
- Persistent income inequality and low educational attainment hinder productivity and expertise

Economic overview

Currency woes, export struggles and moderate growth prospects

Angola faced a trifecta of challenges in 2023 – currency woes, export struggles and moderate growth prospects. The impact of monetary tightening, coupled with a severe currency devaluation, led to a growth deceleration from +3.6% in 2022 to an expected 2.6% in 2023. Inflation, on a downward trend since early 2022, took a U-turn due to a reduction in fuel subsidies and a substantial devaluation of the kwanza in Q2 2023. In June, gasoline subsidies were partially removed, causing the price per liter to rise from 160 kwanzas to 300 kwanzas (USD0.36). Simultaneously, Banco Nacional de Angola (BNA) restricted USD transactions, resulting in a 62% drop in the kwanza by the end of June compared to January. As the government continues to reduce foreign debt exposure, reserves must not be dissipated to maintain an artificial peg to the USD.

In 2024, Angola will focus on the repayment of debt and spending on social programs while cutting other expenditures. Repayments of previously restructured external debt will increase from 2023 levels, accounting for 59% of the 2024 budget, according to the government. In 2023, sovereign debt repayments amounted to some USD9.9bn (around 14% of GDP and 20% of exports). Oil production is also slowing down, with oil exports reduced by one third y/y in the first quarter, the result of import restrictions in 2021-2022 affecting equipment procurement. An anticipated 5% pay increase for public-sector workers in 2024 may prove insufficient to match inflation.

Inflation is now expected to remain in double digits in the next 12 months. The BNA lacks an inflation-targeting framework but uses a flexible informal target set at 9–11%. Lower oil production and moderate oil prices may weigh on the current account surplus, which is estimated at 3.5% of GDP in 2023, thanks to non-oil sector support, especially diamonds, agriculture and natural gas, because of new EU investments. We also expect higher capital investment in mining and energy, which will increase imports of machinery and equipment and higher consumption on the back of stronger economic growth and contractor-associated spending.

With hydrocarbons and diamonds comprising 90% of exports, a devalued local currency enhances the role of commodities. However, output constraints and increased import costs may reduce the trade surplus to 7-8% of GDP.

Volatility to persist amid oil-related investment and cost-of-living deterioration

After a period of significant depreciation following the abandonment of Angola's former strictly regulated currency regime in late 2019, good terms of trade due to high global oil prices in late 2021 led to continuous gains for the kwanza against the USD. However, following the recent steep depreciation, further currency weakness in the next few quarters remains likely.

Persistently high inflation and the withdrawal of subsidies will raise living costs and may fuel public demonstrations. Widespread poverty and public unhappiness with the authorities persist as risks to political stability. Some public protests against the subsidy cut had already erupted over the course of 2023, leading to a security crackdown. The government should be able to muddle through by raising social spending in response to mounting frustrations and limiting controls over informal labor.

Like many other countries in the region, foreign direct investment (FDI) in Angola is mostly resource-related and deployed on offshore production sites. Untapped gas deposits have drawn some recent investments as countries try to diversify their gas suppliers and the industry is liberalized, but high-quality crude oil, which is mostly of the light and sweet variety, remains the primary pull for FDI and the main economic driver. Angola's agricultural and burgeoning biofuel sectors, in addition to its hydropower potential, are expected to receive substantial new investment in the future. Potential exists outside of the energy industry in the mining of other minerals, including iron and copper and in the production of light goods and services related to mobile telephony. In contrast to the energy and mining sectors, public spending is the main driver of investment in financial services and construction. Investment in the natural gas sector is expected to increase output over the medium term. An Italian oil company and the national oil company (NOC) entered into a gas exploration agreement in 2022. Oil majors from the US and France are also part of a consortium with the NOC and will launch a new gas consortium in 2026.

Inequality and costly bureaucracy are set to stay

Since President Joao Lourenço was elected in 2017, the administration has taken steps to tackle endemic corruption while also relaxing limitations on the press and civil society, although severe governance and human rights issues persist. Even though the opposition contested the results of the 2022 parliamentary election, the electoral process was conducted smoothly and there were only minor disturbances afterwards. The ruling Movimento Popular de Libertação de Angola (MPLA) did not receive the required two-thirds majority in parliament to modify the country's constitution. Since the latter was already amended in 2021 to strengthen the president's position by increasing forbearance, the current setting should be adequate to prevent turbulence in the medium term.

As a result of income inequality, both purchasing power and educational attainment are quite low in Angola. Despite government efforts to build more schools and educate more teachers, a recent census found that 24% of adults aged 18–24 and 54% of adults aged 25–64 did not complete high school. There are fewer than 3% of college graduates among these adults and only 16% have completed elementary school, which reduces productivity and the construction of local expertise. Since much of Angola's oil and gas is in deep and ultra-deep water, drilling is a costly endeavor due to the requirement for specialized equipment and expert workers. Onshore costs (e.g., local services) can be significant and paperwork holdups are a constant source of frustration. Even though most contracts are predicated on cost recovery, the substantial upfront investment may still be prohibitive to some businesses. This means that Angola, despite its potential, is more likely to lose oil contracts to other countries due to their lower costs of operations and the greater efficiency of their procedures.

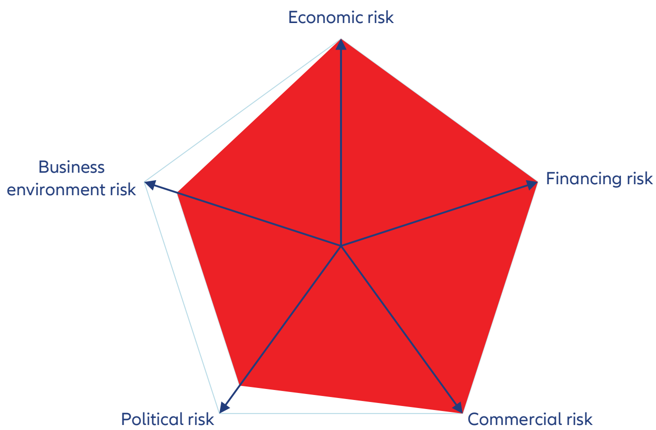
D4

High
risk for enterprises

Argentina

A leap into the unknown

GDP	USD632.8bn (World ranking 22)
Population	46.2mn (World ranking 33)
Form of state	Presidential republic
Head of government	Javier Milei (President)
Next elections	2025, Legislative



Strengths & weaknesses

- Rich natural resources (notably oil & gas)
- Highly literate population
- Diversified industrial base and services sector
- Major agricultural exporter – notably soya and wheat
- Large economy and domestic market, one of G-20 major economies
- Has made significant progress towards a digital transformation

- Structurally high, skyrocketing inflation
- Macroeconomic imbalances and weakened institutional framework
- Nine sovereign defaults, two in the past 20 years
- Capital controls in a context of recurring FX shortages
- Weak currency
- Political instability

Economic overview

A painful short term

Argentina has a long history of political and economic instability. In recent years, the country has experienced major policy shifts with significant macroeconomic stability implications, characterized by high economic and currency volatility, structurally high inflation, recurrent debt default crises and social tensions. After a deep recession during the pandemic, including a debt default, Argentina experienced strong base effects and a recovery in agricultural exports, coupled with the gradual reopening of the economy, leading to a strong rebound in 2021 (+10.3%). In 2022, growth reached 5.0%, driven by a strong performance in services. In particular, the tourism and transport sectors were strongly supported by the stimulus measures introduced after the pandemic. In 2023, however, an unprecedented drought, in addition to macroeconomic imbalances, will pushed the country into recession since 2023 is over. In 2024, Argentina is also likely to be in recession (we estimate a -2% contraction), due to the measures announced by the government to rebalance the macroeconomic picture, which includes fiscal cuts on top of galloping inflation, triggered in the short term by a major currency devaluation. In the longer term, growth could accelerate on the back of a more competitive business environment and sustained investment encouraged by the fiscal consolidation wall. We expect economic growth to average +2.5% in 2025, but uncertainties high.

Argentina also struggles with rising and widespread inflation since mid-2022, surging from 48.1% yoy on average in 2021 to 211% yoy in 2023; extremely low international reserves; continued financing of public debt by the Banco Central de

Républica Argentina (BCRA) and a high spread between the official and parallel exchange rates (e.g., the Blue Rate). The official USD:ARS exchange rate has doubled since the beginning of 2023 and has been pegged at AR350 per USD since mid-August 2023 – before being devalued by the new administration to ARS800 per USD – leading to an increase in currency competitiveness as currency depreciation outpaced inflation. Javier Milei is likely to favor keeping the peso weak as part of his idea to improve competitiveness. The inflation situation remains uncertain, but we expect it to get worse before it gets better. We expect inflation to exceed 250% in H124. Further depreciation of the peso, as well as government disengagement – especially subsidy cuts – are likely to add to inflationary pressures before orthodox economic policies start to weigh on inflation. It will take several years for inflation to stabilize at lower levels: 70.0% yoy by end-2025 and 40.0% yoy by end-2026.

Finally tackling fiscal imbalances?

Javier Milei's administration is trying to address the chronic fiscal imbalances Argentina faces by introducing fiscal austerity measures and by trying to improve the external position of the country. In accordance with Mr Milei's libertarianism, subsidies to the public sector, public employment and public investment should be reduced, as well as tax revenue (reduction of income tax and VAT). Fiscal consolidation should be well seen by the IMF, which struck a deal with Argentina in 2020. After the first announcements of the Milei administration, the IMF welcomed "bold initial actions" and said "the new package provides a good foundation for further discussions to bring the existing (...) program back on track".

Debt levels remain high despite the restructuring of market debt in 2020. They especially grew in the last two years, from 80.8% of GDP in 2021 to 89.5% of GDP in 2023. Sovereign debt remains highly exposed to FX, given the large share of debt denominated in foreign currency. Debt repayment will remain a challenge over the medium-term as Argentina's access to capital markets remains constrained by high yields and the country's relationship with official creditors is uncertain.

Overall, recent data show that the trade balance is deteriorating: a deficit was recorded in Q1 2023, at -0.59% of GDP, but also in Q2 2023, at -3.27%, in seasonally adjusted terms. Weather phenomenon El Nino had a harsh impact on Argentinian production of agricultural products. We still expect the current account to register a surplus in 2024 (1.2% of GDP) following a -0.6% deficit in 2023. The "fiscal shock" Milei wants to implement should indeed allow for internal macroeconomic indicators to get back on track and the rebound in agricultural exports due to the – speculated – end of El Nino phenomenon should support the country's current account. Note that Argentina's current and capital accounts are highly distorted by widespread trade, financial, capital, price and FX controls. Hence, the stability of the Balance of Payments is to a large extent relative, given binding controls and extensive financial repression.

Political uncertainty remains high while the business environment is poor

The business environment in Argentina is quite poor. Capital controls are quite stringent and extremely sensitive to the country's external position and the track-record of expropriation, although current risks are lower. Argentina ranks 144 out of 177 worldwide in the 2022 Heritage Foundation Index of Economic Freedom's survey and 27 regionally. The country has low rankings in terms of property rights and monetary freedom and even ranks comparatively poorly regarding its strengths. The Worldwide Governance Indicators survey of 2022 points out a degradation of the country's position, especially in control of corruption and regulatory quality. The accession to power of Javier Milei could turn the tables, because his ultraliberal stance, will for fiscal consolidation and privatizations could attract investors. But on another front, weaknesses also appear, as shown by our proprietary Environmental Sustainability Indicators of 2023: Argentina has a very poor recycling rate, as well as a renewable electricity output. It is not really vulnerable to climate change, but is poorly placed in the race for the green transition. It is overall ranked 105 out 202 for sustainability, upheld by its low water stress levels.

Political tensions peaked as the economic situation became dire in 2023 saw Milei come to power on 10 December. Milei advocates for a drastic reduction of expenses (-15% of GDP), large privatizations of the health and education systems, redesign of more than half the ministries, gradual dollarization of the economy and suppression of the BCRA. Whether Milei will implement his "shock therapy" as strictly is still to be determined, because he enjoys relatively low support in the lower house of Argentina (38/257 seats) and in the upper house (7/72 seats) and because popular opposition to his anti-social reforms is likely to be elevated. Risks to governability of the country are therefore likely to arise as time passes and as Milei's political capital fades. Having stood out as anti-system during the campaign, Milei now has to prove himself if he wants to consolidate his position in the 2025 mid-term legislative elections.

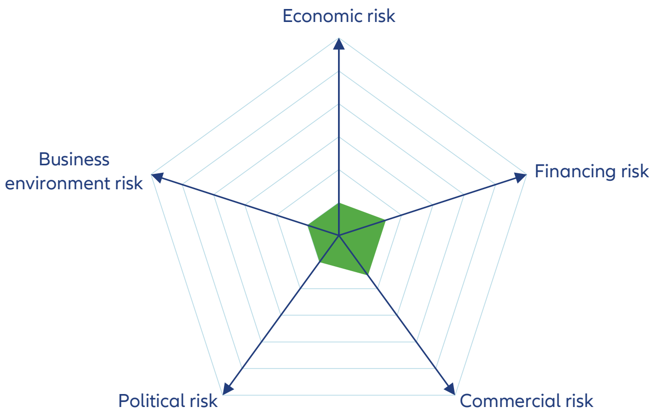
AA1

Low
risk for enterprises

Australia

Heading for a soft landing

GDP	USD1675.4bn (World ranking 12)
Population	26.0mn (World ranking 56)
Form of state	Constitutional parliamentary monarchy
Head of government	Anthony Albanese (PM)
Next elections	2024, Legislative



Strengths & weaknesses

- Large natural resource endowments
- Strong infrastructure and business environment
- Proximity with Emerging Asia
- Top touristic destination

- Dependent on Chinese demand (in the context of a deteriorating relationship) and commodity prices evolution
- High exposure to a change in climate and to natural hazards
- External vulnerabilities stem from high external debt
- High household debt

Economic overview

Modest growth and elevated inflation in 2024

Australia has been a strong growth performer in the past decades, with its GDP expanding on average by +2.9% in the 2000s and +2.6% in the 2010s. The economy contracted by -1.8% in 2020 but rebounded strongly by +5.2% in 2021, followed by +3.7% in 2022. A robust post-pandemic recovery and favorable terms of trade have positioned Australia more favorably in the cyclical aspect compared to most other advanced economies. However, headwinds have arisen from higher inflation and interest rates and the ongoing cost-of-living pressures continue to impact demand. Additionally, a sharp slowdown in export growth indicates that the external sector will likely contribute neutrally to growth in 2024. Overall, we expect annual GDP growth to slow down from around +2% in 2023 to +1.5% in 2024-2025. Australia is on a narrow path to a soft landing. Over the coming years, a more sustainable balance between supply and demand across the economy, including in labor and product markets, is expected to support the return to low and stable inflation while growth in domestic activity should return to trend.

In response to the Covid-19 pandemic, the Australian government put in place a comprehensive set of fiscal policy measures, including significant stimulus payments to households and businesses. As a result, Australia's fiscal balance registered a deficit of -8.7% of GDP in 2020 and -6.5% in 2021. As tax revenues exceeded prepandemic levels and expenditure contracted significantly with the expiry of Covid-19 support programs, a rapid fiscal consolidation took place, bringing the fiscal shortfall to -2.3% of GDP in 2022. A period of high commodity prices is estimated to have allowed the government to register an even narrower deficit in 2023. Going forward, increased pressure on expenditures is expected due to higher defense spending as well as rising healthcare and welfare expenses. Therefore, we expect the fiscal deficit to widen somewhat to just over -2% of GDP in 2024-2025.

In terms of monetary policy, following a late start, the Reserve Bank of Australia (RBA) has tightened monetary policy rapidly. In response to rising inflation, the RBA hiked the policy rate by a cumulative 425bps from May 2022 to November 2023. Given a positive output gap, a tight labor market and continued inflationary pressure in the housing and energy sectors, we expect headline inflation to remain above 3% throughout 2024. As a result, the RBA will not pivot before the second half of the year and perhaps even only in 2025.

Structural vulnerabilities: domestic debt, external debt

Australia's short-term financing risk is low. The indicators that need monitoring in the short run are mostly related to household debt and external debt. Australia's household debt continues to be among the highest in OECD countries, which means that currently higher interest rates may cause some debt-servicing strains, though effective oversight should keep the risk of banking system instability low. At around 100% of GDP in 2021 and 87% of GDP in 2022, external debt remains another source of vulnerability. However, buffers such as favorable investor confidence, a relatively positive economic outlook (compared to other advanced economies) and positive current account balances should provide some cushioning.

While Australia had been exhibiting chronic current account deficits in the past, the balance turned to a small surplus in 2019, which then expanded until 2021, driven by high prices for Australian commodity exports, most notably thermal coal and LNG. After peaking at +3% of GDP in 2021, the external surplus narrowed gradually in 2022-2023 and the current account is forecast to come in near balanced in 2024-2025. Amongst others, policies that stimulate investment and higher outward dividend payments by mining companies will contribute to reducing the current account surplus. A risk in the medium term is Australian exports' reliance on Chinese demand in a potentially deteriorating geopolitical context.

Business environment and political developments

Australia's business environment is well-positioned in our assessment of 185 economies. The World Bank's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. Likewise, the Heritage Foundation's 2023 Index of Economic Freedom survey has put Australia at rank 12 out of around 180 economies and rank four in the Asia-Pacific region, reflecting very strong scores with regard to property rights, judicial effectiveness, government integrity, business freedom, trade freedom, investment freedom and financial freedom. However, Australia scores less favorably with regard to the tax burden, attributed to a marginal income tax rate of 45% and a 28.7% tax burden in relation to GDP. In terms of our proprietary Environmental Sustainability Index 2023, Australia is ranked 54 out of 210 economies, reflecting strengths regarding water stress and climate change vulnerability, but weaknesses in terms of renewable electricity output and recycling rate.

After the general election in May 2022, the Labor party, led by prime minister Anthony Albanese, is likely to remain in power until the end of its term in 2025. Both the previous Liberal-National coalition government and Labor actually saw voting shares decline compared to the 2019 election, beneficiating the Greens and the independents and reflecting the electorate's concern with climate change and corruption. Labor and the Greens (along with some groups of independents) support more actions in these areas.

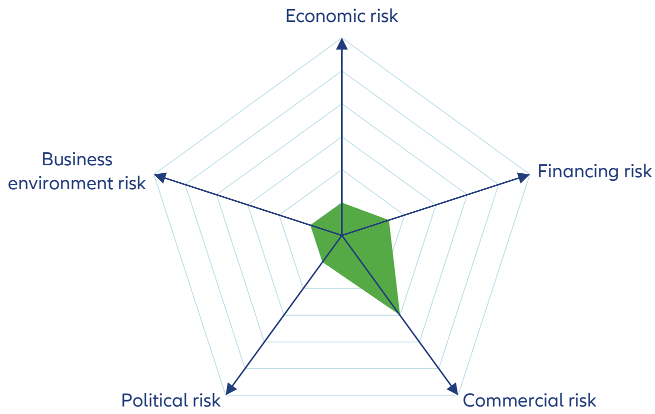
AA1

Low
risk for enterprises

Austria

Financial tightening weighs on short and medium-term growth prospects

GDP	USD471.4bn (World ranking 33)
Population	9.0mn (World ranking 98)
Form of state	Parliamentary republic
Head of government	Karl Nehammer (Chancellor)
Next elections	2024, Legislative



Strengths & weaknesses

- The Austrian government showed a swift and substantial policy response to the pandemic and energy crisis, effectively stabilizing the economy and mitigating second-round effects such as unemployment and insolvencies
- Austria maintains a strong business environment, excelling in regulatory quality and rule of law
- The country benefits from a steadily growing current account surplus, supported by the relative competitiveness and diversification of its export product palette

- The Austrian economy faced volatility in recent years, experiencing a recession in 2023 due to factors such as financial tightening, weak global demand and high inflationary pressures
- Despite initial stabilization efforts, the current financial tightening is negatively impacting economic prospects, leading to rising unemployment
- The exposure of Austria's banking sector to CESEE countries poses a medium-term financial risk. Additionally, the country's strong export dependence, especially on Germany and Eastern European economies, contributes to vulnerability, indicating a need for diversification

Economic overview

Weak growth ahead

Austria boasted a solid growth track record in the decade leading up to the Covid-19 shock, recording average annual GDP growth of +1.5%, slightly above the +1.4% for the Eurozone as a whole. In 2020, Austrian GDP contracted by -6.5% despite the initial resilience of its industrial sector, as services, notably the important tourism sector, were hit hard by Covid-19 related business closures and international travel restrictions. While the recovery in 2021 proved relatively swift, benefiting from the revival in global trade, this was interrupted by the Omicron wave, with Austria being one of the first Eurozone countries to tighten containment measures and raise the issue of compulsory vaccination to get a grip on the pandemic. In 2022, Austria saw an upswing in annual GDP growth of nearly +5% due to easing supply chain pressures and strong underpinnings of private consumption, including a solid labor market and elevated household savings, despite the elevated energy prices following the war in Ukraine. Financial tightening, weak global demand and high inflationary pressures dampened private consumption and uncertainty weighed on investments. This led the

Austrian economy into recession in 2023 with a decrease of -0.2% in GDP. Austria experienced a dichotomy in its business cycle in 2023; manufacturing and closely related sectors fell into recession while market-related services were expanding overall. Looking ahead, we expect the Austrian economy to stagnate in 2024 at +0.6% and to pick up by +1.5% in 2025. Business insolvencies increased slightly compared to 2022 but still remained around pre-pandemic levels.

The Austrian government's swift and sizeable policy response to the pandemic shock and the energy crisis has helped stabilize the economy while keeping a lid on second-round effects including unemployment and insolvencies. But current financial tightening is weighing on economic prospects, which leads to an unfavorable development in the labor market. In 2023, unemployment increased as weak economic activity coincides with an expansion in the labor force, which will ease again in 2024. Government debt peaked at a relatively moderate 83% of GDP in 2020 – when compared to a Eurozone average of around 100% – up from 70% in 2019 and stood at 78% in 2022. With the tax reform of 2022-24, which also includes a tax reduction on corporate income as well as households' disposable income, the government aims to reduce the public debt burden by fostering higher economic growth rather than relying on increased revenues, with a projected debt level of around 75% in both 2024 and 2025. The current account surplus has steadily grown throughout 2023, underpinned by the relative competitiveness and diversification of its export product palette, with expectations of further recovery in the last quarter of the year.

Fiscal consolidation ahead

Overall, indicators show that the short-term financing risk is low. The indicators that need monitoring in the short to medium run are: the fiscal deficit has moderated in 2023 from 3.2% in 2022 and further improvements are projected for 2024 and 2025, reaching 2.4% and 2.2% of GDP, respectively; the evolution of inflation was still high in 2023 but will expectedly drop to 3.2% in 2024.

In the medium run, the exposure of Austria's banking sector to Central, Eastern and South-Eastern European (CESEE) countries remains a concern. About half of total profits were generated in the region, while about a quarter of Austrian banking system assets are located there. In addition, Austria's strong export dependence, with a high concentration on Germany (which absorbs about 30% of total exports) as well as Eastern European economies, poses a vulnerability.

Mind the growing social discontent and a possible political shift to the right

The Austrian business environment proves very strong: the country scores very well in regulatory quality, rule of law and control of corruption. In particular, trading across borders, enforcing contracts, resolving insolvencies, getting electricity and registering property are ranked at the top among other OECD high-income countries.

The 2019 snap election resulted in a coalition between the Austrian People's Party (ÖVP) and the Greens. However, the government was shaken by chancellor Sebastian Kurz's resignation after pressure triggered by a corruption scandal. In early December 2021, former ÖVP interior minister Karl Nehammer became the new chancellor of Austria, facing heightened social discontent following the implementation of renewed lockdown measures – at times focused solely on the unvaccinated – as well as the announcement that a vaccine mandate will apply from mid-March 2022 onwards. Austria will face general elections in 2024, which will also determine the chancellor. We expect the political discourse in Austria to increasingly shift to the right, with a focus on migration topics. While the government has become more assertive on the migration front, we believe it will be hard for the governing ÖVP to regain votes lost to the right-wing populist Freedom Party.

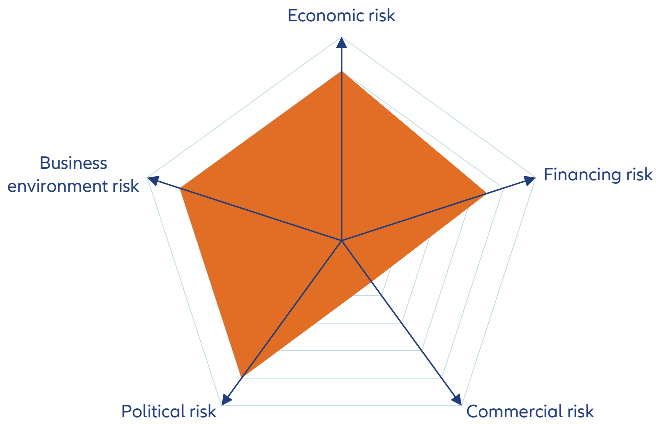
C3

Sensitive
risk for enterprises

Azerbaijan

Solid macroeconomic fundamentals but high structural risks

GDP	USD78.7bn (World ranking 73)
Population	10.2mn (World ranking 91)
Form of state	Presidential republic
Head of government	Ilham Aliyev (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Ample natural resources in the hydrocarbon sector
- Adequate level of official foreign exchange reserves at the central bank
- Substantial foreign currency assets in the State Oil Fund of Azerbaijan (SOFAZ)
- Low public debt and sovereign net creditor status

- Conflict between Azerbaijan and Armenia over the Nagorno Karabakh enclave
- Government effectiveness and slow progress of structural reforms
- Significant level of perceived corruption and weak protection of property rights
- Huge dependence on oil and gas sector, creating substantial external vulnerability
- Exchange rate risk
- Weak banking system

Economic overview

Sluggish growth, lower inflation and continued currency risk

Azerbaijan's high dependence on the hydrocarbon sector and global oil and gas prices has resulted in a regime of low and volatile GDP growth since 2011, with annual average real GDP growth of just +1.5% over the past 13 years. In 2021-2022, the country experienced a strong rebound from the double whammy of the global Covid-19 pandemic and the slump in oil prices in 2020. Real GDP grew by +5.6% in 2021 and +4.6% in 2022 after dropping by -4.2% in 2020. The rebound was broad-based, driven by domestic demand and a strong expansion in the non-oil-and-gas sector as Azerbaijan recovered from the pandemic. The oil and gas sector was boosted by rising global oil and gas prices due to the war in Ukraine. However, economic growth decelerated markedly to just +0.8% in the first 11 months of 2023, with the hydrocarbon sector contracting by -1.6% while the non-oil and gas sector expanded by a resilient +3.2%. The economy has not yet benefited from increasing European demand for Azeri oil and gas. Looking ahead, we forecast annual real GDP growth to pick up to around +2.5% in 2024-2025.

Consumer price inflation accelerated from an average of 2.8% in 2020 to 6.7% in 2021 and 13.9% in 2022 on the back of surging global food and energy prices as well as supply disruptions, as seen elsewhere in the emerging market world. The Central Bank of Azerbaijan (CBA) responded with gradual monetary tightening; it hiked its key policy interest rate in ten steps from 6.25% in September 2021 to 9.00% in May 2023. Headline inflation peaked at 15.6% y/y in October 2022 and remained in double digits until mid-2023 before rapidly falling to 2.6% in November, because of higher interest rates, sluggish domestic demand and base effects. As the latter will wane this year and the CBA has begun with moderate rate cuts, we expect inflation to pick up to an average annual 3.5% to 5% in 2024-2025.

In April 2017, the CBA shifted back from a floating exchange rate regime to a "stabilized arrangement", with the manat (AZN, the local currency) trading at 1.70:1.00 versus the USD, which has been maintained until early 2024. However, analysis of the real effective exchange rate has indicated a significant overvaluation of the AZN since Q3 2021, which amounted to around 12% at end-2023. Hence there is a considerable risk of a sudden sharp depreciation or devaluation of the AZN in the event of a domestic or external shock to the economy.

Comfortable public and external finances

Azerbaijan's public and external finances strongly benefited from the surge in global oil and gas prices in 2021-2022. After a crisis-response program to address the adverse effects of the Covid-19 pandemic and low oil prices moved the fiscal account into a deficit of -6.7% of GDP in 2020, the budget posted sizeable surpluses in 2021-2023. As hydrocarbon prices are forecast to remain broadly at the levels seen in 2023, we project continued annual fiscal surpluses in 2024-2025. Meanwhile, gross public debt should remain moderate at around 20% of GDP.

Azerbaijan's current account rebounded to a large surplus of +15% of GDP in 2021 after a tiny pandemic-related deficit in 2020. After surging further to around +30% of GDP in 2022, the annual surplus is estimated to have narrowed markedly in 2023 due to significantly lower nominal oil and gas exports. Going forward, we project continued comfortable external surpluses of around +10% of GDP in 2024-2025.

The official foreign exchange (FX) reserves of the CBA (USD12bn at end-2023) cover a comfortable ratio of six months of imports. Moreover, combined with the assets held by the State Oil Fund of Azerbaijan (SOFAZ), they cover over 35 months of imports, providing a sufficient buffer for standard trade finance. The assets held by SOFAZ had declined in the wake of both the oil-price slump in 2014-2015 and the local banking crisis (IBA debt restructuring) in 2017, but they recovered thereafter and remained broadly stable during the Covid-19 crisis, reaching a new high of USD56bn at end-2023 (approximately 65% of expected GDP). This means that the sovereign will remain a solid net creditor in the coming years.

Structural and political weakness

The structural business environment in Azerbaijan is weak and has deteriorated in recent years. The World Bank Institute's annual Worldwide Governance Indicators surveys continue to indicate substantial weaknesses regarding regulatory quality and the rule of law and control of corruption. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Azerbaijan rank of 75 out of more than 180 economies, a significant worsening from rank 38 in the 2021 survey on the back of deteriorating property rights, judicial effectiveness and government integrity. Moreover, our proprietary Environmental Sustainability Index ranks Azerbaijan only 181 out of 210 economies, reflecting serious weaknesses regarding renewable electricity output, water stress and the recycling rate.

Political risk is set to remains high in the Caucasus region. After the conflict between Azerbaijan and Armenia over the Nagorno-Karabakh enclave had been ongoing for around 30 years, Azerbaijan eventually took over the previously de facto independent territory in 2023. However, this is unlikely to bring a stable peace. Azerbaijan and Armenia took a series of steps to reopen negotiations towards a peace settlement in late 2023, but a final settlement is unlikely to be achieved in 2024. A potential next flashpoint could result from Azerbaijan's intention to establish a transport corridor through Armenia to the Azerbaijani exclave of Nakhichevan.

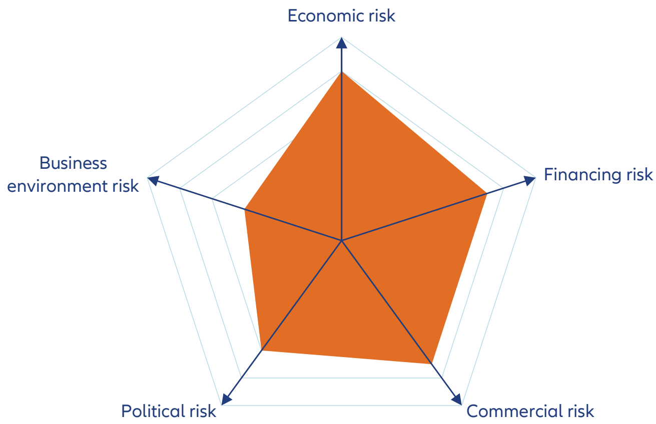
C3

Sensitive
risk for enterprises

Bahrain

Fiscal profligacy, volatile economic trajectory and conditional Gulf support

GDP	USD44.4bn (World ranking 94)
Population	1.5mn (World ranking 154)
Form of state	Constitutional Monarchy
Head of government	Hamad bin Isa Al Khalifa
Next elections	2026, Legislative



Strengths & weaknesses

- Bahrain's economy is diversified within the GCC, with the hydrocarbon sector contributing only one-fifth to GDP
- The country has received financial support from Gulf neighbors, such as Saudi Arabia, the UAE and Kuwait in recent crises
- Bahrain maintains business-friendly regulatory and legal frameworks, supporting economic activities and attracting investments

- Hydrocarbons still account for around 75% of government receipts, making Bahrain vulnerable to fluctuations in oil prices
- Bahrain faced multiple crises in recent years due to a significant drop in hard currency reserves and high fiscal and external breakeven oil prices
- The country's public debt has increased sharply, reaching 121% of GDP in 2023, with fiscal deficits and external debt posing medium-term sustainability concerns

Economic overview

Dire fiscal and external positions

The hydrocarbon sector is all-important for the Bahraini economy, even if the latter is diversified compared to that of fellow members of the GCC regional grouping. The extraction of hydrocarbons accounts for approximately one-fifth of GDP (compared to more than one-third in Saudi Arabia, for example), but the related revenues represent around 75% of government receipts. Bahrain's fiscal and external breakeven oil prices are among the highest in the region, indicating the scarce ability to generate additional revenue through taxation or other means.

As a result, Bahrain's fiscal and external vulnerabilities increased rapidly when oil prices collapsed between late 2014 and 2016. At the end of 2017, this caused a financial crisis as the fiscal and external deficits brought the central bank's FX reserves down to about USD1.6bn (import cover of just 0.8 months). In 2018, Saudi Arabia, the UAE and Kuwait agreed to provide a USD10bn financial support package to Bahrain. Although not disclosed, the aid was conditioned on strict fiscal consolidation, which curtailed growth in the non-oil sector in the following years. At the start of 2019, Bahrain introduced a 5% value-added tax. Not yet recovered from the previous crisis, Bahrain's fiscal and external accounts were again hit by the double whammy of the global Covid-19 pandemic and the oil price slump of early 2020.

In the medium term, Bahrain's public finances will remain a cause for serious concern. The government posted an average fiscal deficit of -14% of GDP in 2015–2021, which pushed up public debt from 44% of GDP in 2014 to 121% in 2023, in tandem with external debt surpassing 2.5 times the size of the Bahraini economy. We forecast another fiscal deficit in 2024, with public debt remaining unsustainably high. In contrast to the public and external debt levels, as well as compared to larger countries in the Gulf, Bahrain's sovereign wealth fund is small, estimated at USD18bn in 2023 (40% of GDP).

Overall, the country's debt position appears unsustainable in the medium term. However, we expect Bahrain's rich Gulf neighbors to continue to support it, if needed, to prevent larger concerns.

Still on an uncertain economic trajectory, but support from Gulf countries remains likely

Bahrain's recovery from the double shock of the global Covid-19 crisis and the drop in oil prices in 2020 began moderately in 2021, gathering pace in 2022, with growth averaging +2.7% and +4.2%, respectively. In 2021, authorities tightened lockdown measures again in response to a renewed and lasting surge in Covid-19 cases, despite the rapid vaccine rollout in the country. In 2023, real GDP growth moderated to an estimated +2.6%, due to lower oil and gas revenues and subdued services, especially in the tourism and transportation sectors. We expect these factors to remain in place in 2024, compounded with the resurgence of conflicts in the region, causing a further deceleration of economic growth to +1.8%.

Inflationary risks will remain low. Bahrain experienced only moderate price pressures in 2022, in contrast to many other emerging markets and advanced economies, with headline inflation reaching a peak of +4% in Q3 2022 and gradually easing thereafter. We forecast average annual consumer price inflation to be approximately +2% in 2024, up from an estimated +1.5% in 2023. Bahrain has a fixed exchange rate system, with the Bahraini dinar (BHD) pegged to the US dollar at BHD0.38:USD1. Pressures on the currency and speculation about unpegging rose as the country's dwindling FX reserves during the low-oil-price period in 2015–2017 triggered the financial crisis. However, as Saudi Arabia and some other GCC neighbors remain supportive, the risk of unpegging has declined. On the other hand, progress towards a full Gulf monetary union has been limited and we do not envisage the introduction of an effective GCC single currency in the next five years or so.

Work at the Sitra oil refinery will support GDP growth and keep the fiscal deficit in check once the project goes online. In 2024, public debt will remain well above 100% of GDP, putting pressure on the government as interest rates stay high. A substantial number of megaprojects are being bid on and may begin construction, such as the Bahrain Metro project and a road and rail bridge to connect Bahrain with Qatar. Work on the Bahrain Marina, which will eventually promote tourism, is also expected in 2024.

The political landscape remains tense amid a friendly environment for businesses

The political landscape will remain tense because of latent dissatisfaction with the Sunni Al Khalifa ruling family among the largely Shia population. A decision to re-establish relations with Iran may help reduce tensions in the context of a resurgence of conflicts across the Middle East, following events in Israel, the Gaza Strip and the Red Sea. The regulatory and legal frameworks are business-friendly, while weaknesses remain with regards to perceived corruption, judicial effectiveness and government integrity. Regarding environmental sustainability, Bahrain scores badly, owing to the absence of renewable electricity output, a high level of water stress and a very low recycling rate, ranking only 189th out of 210 economies in our proprietary Environmental Sustainability Index.

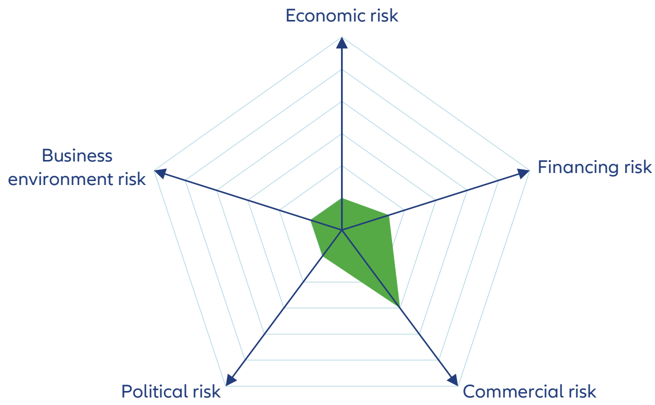
AA1

Low
risk for enterprises

Belgium

Growth to moderate further before resuming in 2025

GDP	USD578.6bn (World ranking 25)
Population	11.7mn (World ranking 80)
Form of state	Constitutional parliamentary monarchy
Head of government	Alexander De Croo (PM)
Next elections	2024, Legislative



Strengths & weaknesses

- Resilient economy through pandemic and energy crisis
- Solid labor market and job creation
- Private consumption remained supported by government measures and protected wages
- Financial sector proves resilient, banking sector improved profitability and capital position
- Strategically located at the heart of Europe, home of international institutions and workers

- High public debt ratio, no significant consolidation efforts after massive support during crises
- Manufacturing sector suffering after strong performance in 2021-22 (linked to pharma)
- Automatic wage indexation can pose fears of wage-price spiral and hamper competitiveness
- Export-oriented country which is suffering in a weak demand environment
- Political fragmentation persists

Economic overview

Economic activity will continue to face headwinds in 2024

Belgium's economic activity expanded only slightly since H2 2022, after having recovered strongly from the pandemic in 2021 and early 2022 (after the plunge of -5.7% in 2020). However, GDP proved quite resilient in 2023 while multiple challenges were affecting the Eurozone and grew above the bloc's average. Private consumption and investment were the main drivers of growth over the last quarters. Indeed, household spending remained solid thanks both to government support during the energy crisis and to the wage indexation which protected consumers' purchasing power. Despite being volatile over the recent quarters, investment also expanded and is now 4.3% above pre-pandemic levels.

Inflation continued to ease after having touched its highest level (12.3% y/y) in October 2022 since August 1975. Downward price dynamics were still driven by strong energy base effects; inflation even dipped below zero in Autumn 2023. Some volatility linked to energy prices is expected to remain in H1 2024. Also, core inflation is decelerating but remains well above the ECB's target of 2%. The declining trend of prices provides some relief to the ongoing fears of a wage-price spiral, as Belgium is one of the few Eurozone countries to have an automatic wage-indexation system for most incomes. Also, increasing savings rates and intentions should provide some support to ease the pace of wage growth.

Looking forward, declining inflation and recovering consumer confidence should provide some support to private consumption and household investment, to resume in H2 2024. However, we expect the slowdown of trade to persist in H1 given weak global demand. Therefore, we see activity to be subdued in the first quarter of the year and then to gradually pick up. We expect GDP to expand +0.8% in 2024, after 1.4% in 2023.

The labor market remains very tight, the unemployment rate is low and is expected to stay around the current rate of 5.6%. Belgium's vacancies rate is still the second highest in Europe, still at 4.7 at the end of Q3 2023.

Fiscal outlook remains challenged in the medium term

The pandemic and energy crisis increased already-high public debt and structural fiscal deficits; Belgium's public finances remain a hurdle for the medium run outlook. The public deficit is expected to stay around 5.0% of GDP in the forecast horizon and public debt is expected to stay around 107% of GDP also in 2024-25. The increase in non-temporary current expenditure over 2022-2023 is driven by the automatic indexation of public sector wages and social benefits, but also by rising aging costs and by permanent measures taken by the government during the pandemic (i.e., increase in the minimum pension and health care sector wages).

The manufacturing sector will recover gradually from the setback in 2022 and 2023. Indeed, Belgium has many energy-intensive companies which suffered from higher energy prices and labor. Also, the pharmaceuticals sector – which accounts for more than 20% of total production has been normalizing after the "artificially inflated" 2021 growth due to the massive production of Covid-19 vaccines. But output also fell sharply in several other industrial sectors (the metal sector, which consumes a lot of energy, reduced its output by 15% y/y). We see industry to gradually in 2024 recover as demand improves and costs decline further.

The NGEU funds could provide some cushion to the outlook in the coming quarters. The 35 related reforms are intended to address bottlenecks to lasting and sustainable growth, while the 105 identified investments are targeted to accelerate the transition towards a more sustainable, low-carbon and climate-resilient economy, to maximize the benefits of the digital transformation and to ensure social cohesion. The plan also intends to improve connectivity within the country, boost labor market performance, as well as the innovation capacity of the economy, and make public spending more efficient and sustainable. Allocated funds amount to EUR5.9bn in grants.

Belgium remains an extremely attractive place to invest; it ranks 21st among the most competitive nations in the world, according to the International Institute for Management Development classification. The country is strategically situated in Europe and is home to many EU institutions, NATO and numerous multinational company headquarters. It has an international rail, air and shipping infrastructure that make it one of the best locations for industry and logistics.

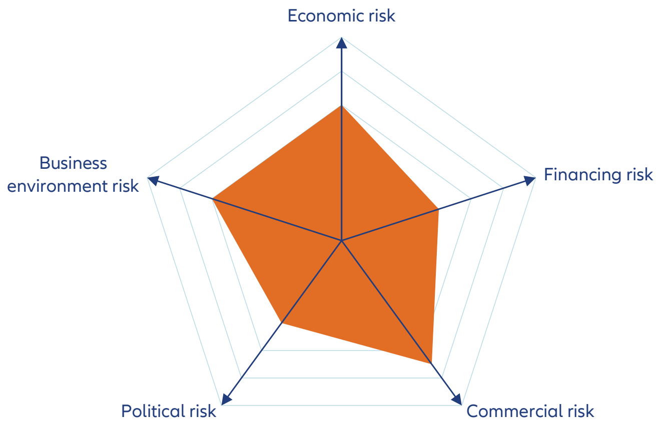
B3

Sensitive
risk for enterprises

Brazil

Gradually getting back on track

GDP	USD1920.1bn (World ranking 11)
Population	215.3mn (World ranking 7)
Form of state	Presidential republic
Head of government	Luiz Inácio Lula da Silva (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Important role on an international and regional scale
- Diversified economy
- Growing middle class
- Robust foreign direct investment inflows, high level of foreign exchange reserves and low external debt
- Support for IFIs likely if needed

- Vulnerable to global commodity prices
- High production costs
- High taxation and red tape ("Brazil cost")
- Large fiscal deficits and increasing public debt
- Political and social tensions on the back of corruption and high income inequality

Economic overview

A tale of two realities: A resilient economy and lingering challenges

In the 2000s, Brazil witnessed robust GDP growth, averaging an annual rate of +3.9%. However, leading up to the pandemic, the country grappled with a fragile growth and fiscal outlook, stemming from ongoing recovery efforts following the severe recession of 2015-2016. Consequently, Brazil registered an average GDP growth of merely +0.3% over the decade from 2011 to 2020.Despite this initial setback, Brazil underwent a rapid recovery from the pandemic, buoyed by fiscal measures, the reopening of the services sector and favorable commodity prices. Real GDP expanded by +5.0% in 2021. However, the pace of growth is currently moderating, with an expected slowdown to +2.9% in 2022.

Looking ahead, Brazil's economic trajectory is shaped by a combination of factors. Strong agricultural performance and income, alongside a robust labor market, provided tailwinds in 2023. However, the overall outlook is tempered by slowing private consumption and a decline in investment, influenced by the lingering effects of high-interest rates. Consequently, we anticipate Brazil's GDP growth to reach +3.1% in 2023, followed by a slowdown to +1.5% in 2024. In the medium term, growth is expected to average around +2% from 2025 to 2028, with the potential for an upward bias if the country stays on track with significant reforms aimed at boosting productivity.

For instance, Brazil approved its historic tax reform in 2023, which, through the merger of all consumption taxes and the introduction of an integrated value-added tax, is expected to foster substantial efficiency and productivity gains. This reform is anticipated to reduce tax competition among subnational governments, mitigate risks from judicial disputes and potentially boost overall potential growth After reaching 4.6% in 2023, we expect inflation to keep gradually decelerating and converging to the target of +3% by 2025. As inflationary pressures in Brazil have eased, the Central Bank of Brazil (BCB) began a monetary easing cycle in August 2023. The BCB has lowered its benchmark interest rate by 50 basis points in a row and signaled its intention to continue cutting rates at this pace. We expect interest rate cuts to persist until the second half of 2024 before a projected pause at 9% (down from the current 11.75% in December 2023).

Fiscal uncertainty and public debt sustainability are key risks

In 2020, Brazil faced a severe fiscal challenge with its highest deficit in almost two decades, reaching -11.9% of GDP, largely due to Covid-19 measures. Although fiscal conditions improved in 2021-2022, a new administration's expansionary policies in 2023 led to a projected deficit of 7.1% of GDP. Public debt, which peaked at 96.0% in 2020, fell to 85.3% in 2022 but is expected to rise again to 92.4% by 2025. Despite the new fiscal framework and revising spending rules in 2023, concerns persist about optimistic revenue projections and potential overspending. Achieving a balanced budget by 2024 is challenging and the public debt/GDP ratio is forecasted to reach 86% by 2028, posing macroeconomic risks, though external debt remains relatively low. Challenges include expansionary policies, revenue projection optimism and the burden of public debt.

Improved political landscape with fragile foundations, challenging business climate

President Luiz Inácio Lula da Silva, heading Brazil's left-wing Partido dos Trabalhadores (PT), currently enjoys popularity attributed to declining unemployment and disinflation as he enters the second year of his four-year term. To maintain political momentum amid economic challenges, Lula plans to leverage in expansionary policies and the Programa de Aceleração do Crescimento (PAC) – a state-driven growth acceleration plan – for a boost before the October 2024 local elections. However, anticipating a softer economy, his reform proposals for the year are expected to be more cautious due to legislators' hesitancy during local election cycles.

Political complexities arise from ongoing disputes between political parties and the executive over budget allocations for local projects, adding a layer of uncertainty. As Lula progresses into the latter half of his term, the political landscape is anticipated to become more tumultuous as parties within his congressional alliance vie for position ahead of the 2026 general election. This fragmentation in a predominantly right-leaning Congress may pose challenges to advancing Lula's progressive agenda, including proposed income tax reforms.

With his commitment to improving the illegal deforestation and mining situation in the Amazon rainforest, Lula is also expected to bring positive changes in environmental policy. Our proprietary Environmental Sustainability Indicator puts Brazil at rank 86 out of 227 economies in 2023. In terms of the overall business environment, The Heritage Foundation's Index of Economic Freedom survey 2022 ranks Brazil 133 out of 177 economies, recognized as a "Mostly Unfree" country. Monetary freedom is relatively good, but its fiscal health is among the world's worst. Meanwhile, its rank in the World Bank Institute's annual Worldwide Governance Indicators has declined during the past decade due to its poor political stability and control of corruption.

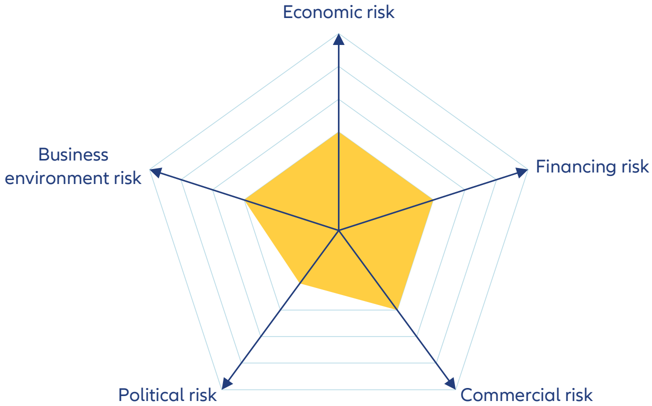
BB2

Medium
risk for enterprises

Bulgaria

Proving resilient to shocks

GDP	USD89.0bn (World ranking 70)
Population	6.5mn (World ranking 109)
Form of state	Parliamentary Republic
Head of government	Nikolai Denkov (PM)
Next elections	2026, Presidential



Strengths & weaknesses

- EU membership and good international relations
- Currency board has withstood global turbulence since 2008 and BGN is currently not overvalued
- History of prudent fiscal policies
- Comfortable external finances
- Generally adequate business environment

- Slow progress on EU-required judicial reform and anti-corruption measures
- Government instability
- Public discontent about living standards
- Vulnerability to external shocks due to high export dependency

Economic overview

Moderate growth and gradually declining inflation in 2024

Bulgaria's economic prospects have deteriorated as a result of Russia's invasion of Ukraine. The country's economy is very export-oriented, including the export of services (tourism), which makes it vulnerable to external shocks. Moreover, prior to the war, Bulgaria was heavily dependent on natural-gas imports from Russia. As a result, it has been markedly impacted by the European energy crisis and EU trade sanctions against Russia. Following a strong post-Covid-19 recovery with +7.7% real GDP growth in 2021, economic activity in Bulgaria slowed down markedly in 2022-2023 amid surging inflation, higher interest rates, weakening external demand and deteriorating business confidence. The latter affected investment in particular, which dropped substantially last year, while domestic fiscal stimulus was dialed down due to rising financing costs. Nonetheless, growth remained positive at around +2% in 2023 on the back of resilient private consumption, thanks to strong wage growth and a positive contribution of net trade as imports contracted much sharper than exports. Going forward, we expect another year of moderate growth in 2024. Consumer spending will be more restrained due to lower wage increases and higher projected interest rates for households. Investment activity should rebound in the next two years, driven by public investment, including NGEU funded projects. Meanwhile, Bulgarian exports should recover gradually in parallel with export markets but imports will rebound more strongly so that the contribution of net trade will turn negative. Overall, we expect full-year real GDP to expand by around +2% in 2024 and +2.5% in 2025.

We expect currency stability to be maintained but price stability will not be fully regained before 2025. Bulgaria's currency board (BGN1.95583:EUR1) should remain stable since foreign exchange (FX) reserves continue to clearly cover the monetary base (a requirement for a currency board; over 150% at end-2023). However, the currency board largely neutralizes monetary policy, preventing its use to counter upward price pressures since 2021. Headline consumer price inflation surged to a peak of 18.7% y/y in September 2022 and averaged 15.3% in 2022 and almost 10% in 2023, owing to markedly higher food and energy prices, as well as ongoing supply-chain and labor-market disruptions. Since mid-2023, these effects have been gradually fading and we expect this to continue in the next two years. We forecast annual average inflation of about 4% in 2024 and 2.7% in 2025, which compares to an average 1.5% in the 2010s.

Public and external finances will remain comfortable, by and large

Bulgaria's public finances will remain unproblematic despite some impact from the recent crises. The country has had a long-lasting commitment to fiscal prudence, reflected in many years of fiscal surpluses or acceptable deficits. Following annual surpluses in 2016-2019 (+1.2% of GDP on average), fiscal stimulus measures, lower revenues and declining nominal GDP in the wake of Covid-19 resulted in annual fiscal deficits of around -4% of GDP in 2020-2021 and gross public debt rose from 20% of GDP in 2019 to 24% in 2021. Further fiscal shortfalls of approximately -3% of GDP were posted in 2022-2023 as a consequence of fiscal stimulus in order to mitigate the impact of the war in Ukraine on the Bulgarian economy. Looking ahead, we forecast the annual fiscal deficit to remain close to -3% of GDP in 2024-2025 as public investment is expected to pick up. The public-debt-to-GDP ratio is projected to edge up to around 26% by 2025. However, this will still be a very favorable ratio by EU standards.

As a result of its long-standing prudent economic policies, Bulgaria was admitted to the Exchange Rate Mechanism II (ERM-II), the "waiting room" for eventual adoption of the EUR, in July 2020. In conjunction with ERM-II membership, Bulgaria also joined the European banking union in October 2020. We expect the country to adopt the EUR in 2025 at the earliest.

Bulgaria's external finances will remain favorable. After seven years of current account surpluses from 2013 to 2019, reflecting a continued solid export performance and a balanced account in 2020, Bulgaria posted manageable annual external deficits in 2021-2022, mainly as a result of lower exports of services (tourism). Softening external goods demand also played a role in 2022. A sharp drop in imports moved the current account back to a moderate surplus in 2023 and we forecasts further small surpluses in 2024-2025. Meanwhile, the steady downtrend in the gross external debt-to-GDP ratio was only briefly interrupted in 2020 in the wake of the Covid-19 crisis. It has declined from a peak of 107% of GDP in 2009 to around 45% in 2023 and is on course to fall further in the coming years. In the meantime, Bulgaria has one of the lowest ratios among the 11 EU member states in CEE.

Bulgaria's FX reserves have increased substantially since end-2013 and stood at EUR35bn at end-2023, a comfortable level with regard to import cover (around eight months). Moreover, in other terms, reserves cover about 190% of the estimated external debt payments falling due in the next 12 months, a favorable ratio and a significant and steady improvement from 80% in 2011.

Above average business environment

Bulgaria's business environment is generally adequate though spots of weaknesses remain. The World Bank Institute's annual "Worldwide Governance Indicators" surveys suggest that the regulatory framework is generally business-friendly while weaknesses remain with regard to perceived corruption and the legal framework. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Bulgaria rank 32 out of more than 180 economies, reflecting strong scores with regard to property rights, tax burden, business freedom and trade freedom. Weaknesses remain in the areas of judicial effectiveness and government integrity. On our proprietary Environmental Sustainability Index, Bulgaria is ranked 69th out of 210 economies, reflecting strong scores for energy use and CO_2 emissions per GDP, water stress and general vulnerability to climate change. However, there are still weaknesses regarding renewable electricity output and the recycling rate.

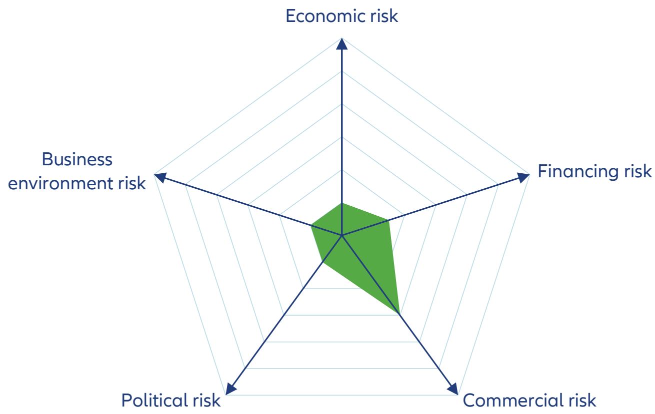
AA1

Low
risk for enterprises

Canada

High interest rates to weigh on the economy in 2024

GDP	USD2139.8bn (World ranking 9)
Population	38.9mn (World ranking 37)
Form of state	Constitutional parliamentary monarchy
Head of government	Justin Trudeau (PM)
Next elections	2025, Legislative



Strengths & weaknesses

- Canada has experienced robust job creation, with an average of 40k new jobs per month, signaling strength in the labor market
- The country boasts a stable business and political landscape with well-managed fiscal and monetary policies
- Despite facing economic challenges, Canada has historically showed resilience, with a well-managed economy and a history of maintaining a balanced fiscal and monetary approach

- Aggressive interest rate hikes by the Bank of Canada have successfully curbed inflation but have simultaneously slowed economic growth, projecting a weak GDP growth for 2024
- Soaring housing prices, coupled with high mortgage rates and decreased activity, present challenges in the housing market, potentially impacting economic growth
- Inflation's cumulative effects have outpaced wage growth, impacting consumers' purchasing power. The dwindling personal savings and reluctance to take on more debt pose challenges for sustaining consumer spending, a significant driver of economic activity

Economic overview

Slow growth in 2024

High interest rates in 2024 will continue to cool inflation, but also slow the economy such that growth in 2024 is likely to be quite weak. Indeed, the economy was just bouncing off the bottom in the second half of 2023, posting growth of -1.1% q/q annualized in Q3. On a monthly basis GDP shrank -0.2 m/m in June, -0.1% in July and 0% for August, September and October.

Yet even as the economy slows, the BoC has signaled that it will leave the overnight rate untouched at 5% into the middle of 2024, as core inflation is running at 3.5%, which is a long way from the 2% target. In addition, wage growth is currently running faster than inflation and dismal labor productivity has driven unit labor costs soaring. Clearly there are still inflationary pressures at work and a continued tight monetary policy will weigh on growth in 2024.

Even if the BoC were to keep the overnight rate at 5.0% through the first half of the year and then cut twice in the second half of the year to 4.5%, it would still be at the highest since 2007 when the BoC raised the overnight rate to slow the housing bubble. Those hikes later drove the economy into recession. The combination of already slowing growth and continued high interest rates suggests that GDP growth for all of 2024 could be +0.5% to +0.8%, with some quarters of negative or flat growth.

Other fundamentals will drag on the economy

In addition to high interest rates, other fundamentals will negatively affect the economy in 2024. For instance, inflation is still wreaking havoc on wage earners due to its cumulative effects. Since January 2021, wages have grown a cumulative 11.5%, but food has risen 20%, shelter has risen 19% and gasoline has risen 37%. Clearly wage earners are still underwater, despite recent gains.

Consumption is also poised to slow. Consumer spending accounts for about 55% of all economic activity in Canada and consumption requires money. But income is still lagging and personal savings are dwindling. Consumers could turn to credit, but they are in a precarious position to do so – Canadians are already paying a record amount of debt service compared to their incomes. The BoC's aggressive path of interest rate hikes has driven credit card rates to record highs and has put the five-year mortgage interest rate at the highest in 15 years. Furthermore, consumer confidence is dismal.

High mortgage rates are just part of the problem which will weigh on the housing market in 2024. Housing prices have fluctuated recently, but they are still 30% to 40% higher than they were before Covid-19. As a result, housing affordability is extremely low. Furthermore, since the BoC started signaling rate increases at the end of 2021, housing activity has plummeted and has never recovered – permits are down 13%, unit sales are down 30% and the value of residential structures is down 16%. As a result, housing will continue to be a drag on potential GDP growth in 2024. In a hypothetical scenario where the BoC cuts the overnight rate by 50 bps in 2024 and the five-year mortgage follows along, it would still be the highest in 15 years, continuing to make housing unaffordable and weighing on the housing market and the economy in general. Finally, since approximately 20% of mortgages need to be refinanced every year, homeowners who borrowed at 3%-4% a few years ago will face a steep increase in mortgage payments at 6%.

Exports will also come under pressure in 2024. It is expected that the US Federal Reserve will start to cut rates sooner and will cut more in 2024 than the BoC. As such it is likely that the Canadian dollar will strengthen vs. the US dollar. That will benefit consumers buying imports, but it will also hurt exporters to the US In addition. Exports to the US account for over 20% of GDP and an expected slowdown in the US will furthermore reduce demand for Canadian goods and services.

The labor market has been a bright spot, having created jobs at a strong rate and driving the unemployment rate to a record low. However, on a y/y basis, job growth slowed from 6.1% in May of 2022 to 2.5% in November 2023 and a decline that rapid is often a sign of an oncoming slowdown. The unemployment rate has risen rapidly from 5% to 5.8% in just eight months and job openings as measured by Indeed have declined by 52% in the 12 months ended in November 2023.

Most leading indicators also point to decay. The yield curve remains deeply inverted. The BoC's Business Outlook survey has fallen for three consecutive quarters and is now well into contractionary territory and 47% of the respondents said that the effects of monetary policy are "just beginning." The Canadian Federation of Independent Business (CFIB) Business Barometer survey projects poor business performance over the next three and 12 months. One positive leading indicator is the Ivey Purchasing Manager's Index (PMI), which has remained in expansionary territory for all the post-Covid-19 era.

Stable business and political conditions

Despite an unfavorable outlook, Canada is an open, well-managed economy. Its fiscal and monetary policies have normally been well-balanced outside of the Covid-19 era. Canada ranks 16th out of 176 countries in The Heritage Foundation's 2023 Index of Economic Freedom analysis. Canada ranks particularly strongly in the areas of rule of law, open markets and business freedom. It is less favorable in the areas of taxes, government and labor freedom. Politics are stable as Prime Minister Justin Trudeau was re-elected in 2021 and has held the office since 2015. The next scheduled federal election is in October 2025 for the 45th Canadian parliament.

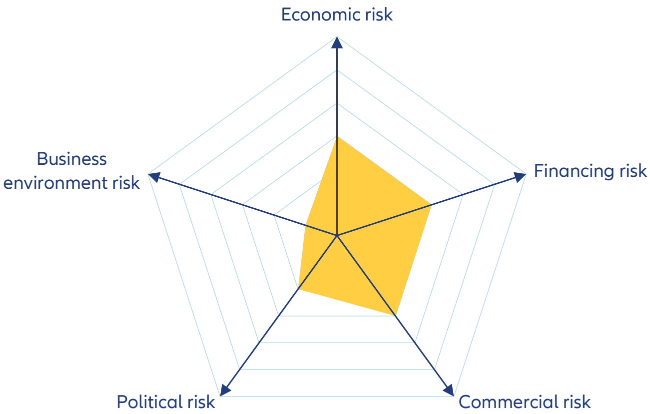
BB2

Medium
risk for enterprises

Chile

Rebalancing

GDP	USD301.0bn (World ranking 46)
Population	19.6mn (World ranking 64)
Form of state	Presidential republic
Head of government	Gabriel Boric (President)
Next elections	2025, General



Strengths & weaknesses

- Natural resource base: Chile is the largest copper producer in the world, but also benefits from other minerals, forestry and agriculture
- Strong medium-term growth
- Business-friendly environment
- Sound macroeconomic policy framework
- Widely accepted, democratic political system with successive peaceful transfers of power
- Classified as an OECD high-income economy

- Sensitive to commodity prices, particularly copper
- High level of income inequality
- Numerous strikes and political street protests could trigger instability
- Statist policies will increase the cost of doing business
- Rising political polarization
- Could benefit from a more inclusive skilled workforce

Economic overview

Economic growth set to recover

After a period of stagnation in 2023, Chile's economy is set for a modest recovery, with projected growth rates of +1.6% in 2024 and +2.5% in 2025. This expected recovery will be supported by rising real wages and a decline in inflation, creating an environment conducive to increased consumer spending. Monetary policy is also adjusting to these conditions, with the central bank easing its stance to encourage investment and spending. However, Chile faces challenges, including policy uncertainty affecting investment in the first half of 2024 and potential external risks, such as a slowdown in China affecting demand for minerals. In addition, domestic reforms to the tax and pension systems could add to this uncertainty. Environmental factors such as climate-related events also pose a risk to sectors such as agriculture and mining, potentially affecting growth and fiscal stability.

Fiscal policy is planned to be moderately expansionary, with public debt remaining under control (around 40% over the forecast period, lower than the EMEs average of 60%). The focus on medium-term mineral demand will boost revenues, supported by new mining royalties, ensuring that deficits remain manageable. As Chile navigates these challenges and opportunities, its approach to renewable energy and natural resources positions it well to benefit from the global energy transition.

Moderate fiscal deficit; current account rebalancing

Chile's fiscal deficit is projected to improve significantly, falling from 3.2% of GDP in 2023 to 2.4% in 2024. The improvement continues, with a further decline to 1.3% expected by 2028. This positive trend is attributed to higher income and sales tax revenues, boosted by the economic recovery and higher tax revenues from copper and lithium production. However, higher social spending and public works projects will partly offset these gains.

The current account deficit is also projected to improve, falling from 9.0% of GDP in 2022 to 3.7% in 2023, before rising slightly to 4.3% in 2024. This change is mainly due to fluctuations in the trade balance, influenced by volatile copper prices and import dynamics. Despite Chile's relatively large current account deficit, the risk of a balance of payments crisis is low. This reflects a large trade surplus driven by strong mineral exports, especially lithium. The services deficit will also narrow as inbound tourism recovers and logistics costs continue to ease. Robust FDI inflows, especially in renewable energy and mining, will be more than sufficient to cover the current account deficit throughout the forecast period. Chile's foreign reserves are adequate and the country maintains a stable financial position, supported by robust international reserves and access to a substantial IMF flexible credit line (6.2% of GDP).

Relatively good business environment; challenging political landscape

Chile's business environment compares favorably with its peers. Chile ranks 59th in the World Bank's Doing Business 2020 survey, with high scores for protecting minority investors, enforcing contracts, resolving insolvency, starting a business and dealing with construction permits. According to the Fraser Institute, Chile also ranks first in economic freedom (30th out of 165 countries) compared to other large economies such as Brazil (90) and Mexico (68). However, Chile's business environment could be weakened by the government's reform agenda, which includes increased regulation and a greater role for the state in many sectors. In particular, higher taxes and stricter environmental, labor and social regulations will increase the cost of doing business. President Boric's statist policies pose potential risks to the business and investment environment in the medium and long term.

The political landscape in Chile in 2024 is complex. Following the rejection of constitutional reform, President Gabriel Boric's government is focusing on key reforms in the areas of taxes, pensions and state-owned lithium. Opposition from right-wing parties, fueled by the government's low approval ratings, poses a challenge. Reform efforts are crucial, but compromises are expected due to political dynamics, including the upcoming regional and local elections on 27 October, which could further polarize the political environment and affect governability. The outcome of these reforms and elections will have a significant impact on Chile's political and economic trajectory.

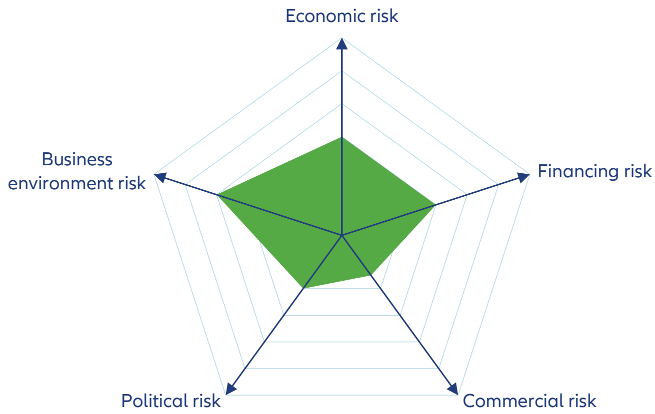
B1

Low
risk for enterprises

China

Growth headwinds and complex geopolitics

GDP	USD17963.2bn (World ranking 2)
Population	1 412mn (World ranking 2)
Form of state	Communist party-led state
Head of government	Xi Jinping (General Secretary of the Communist Party)
Next elections	2027, Legislative



Strengths & weaknesses

- Large domestic market
- Improvement in macro-prudential management
- External position and fiscal position (to lesser extent) are relatively solid
- Key position in global value chains
- New growth opportunities as the country moves up the global value chain and the services sector develops

- High corporate debt, rising household and local government debt
- Strong involvement of the public sector in the economy with occasional policy-driven disruptions
- Continued geopolitical tensions with key countries in the region and the US
- Competitiveness erosion for traditional (lower value-added) manufacturing sectors
- Aging population

Economic overview

All eyes are on policy

China has been a regular global outperformer, with real GDP growth averaging +7.7% during the period 2010-2019. It was one of very few economies that was spared by a recession at the height of the global pandemic in 2020 (growing by +2.2%), followed by a massive rebound in 2021 (growing by +8.5%) while a significant slowdown was registered in 2022 (growth at +3.0%). In 2023, the economic rebound disappointed, primarily due to low consumer confidence, a property sector downturn and limited fiscal and monetary policy support. We expect China to grow by +5.2% in 2023, followed by +4.6% in 2024 and +4.2% in 2025 – thereby converging to a path of lower trend growth compared to the recent past, notably as growth headwinds both domestic and external are likely to persist. This is slightly above growth in the broader Asia-Pacific region, expected at +4.0% in 2024 and +3.9% in 2025. In terms of prices, as a result of industrial overcapacity and weak demand, consumer and producer prices have been on a disinflationary trend since the beginning of 2023 and we expect inflation to remain muted through 2024 and 2025 at 1.6% and 1.7% respectively. We forecast insolvencies in the Asia-Pacific region to rise by +5% in 2024 and +3% in 2025, although they are expected to remain below their pre-pandemic levels. China accounts for 57% in our regional index and the economy has recently proved to be successful in maintaining a low number of insolvencies, with around 6 500 cases expected for 2023 (45% below 2019 levels but close to 2017 levels).

Policy support has been limited in 2023. However, going forward, we expect fiscal easing to shoulder the task of boosting broad based economic growth while monetary easing will play a facilitative role. Measures implemented so far have aimed to support real estate demand as well as fiscal support for urban village renovation and public housing construction. Another major focus will be to bring relief to local government debt stress through optimization and restructuring. Consequently, we expect the overall public-debt-to-GDP ratio to pick up from 83% in 2023 to 92% in 2025. In terms of external balances, we expect the current account surplus to decrease from 1.5% of GDP in 2023 to 1.1% of GDP by 2025, broadly driven by higher imports of services.

The challenge of continuing to grow in the long run

Overall, indicators show that the short-term financing risk is medium. The indicators that need monitoring in the short run are in particular the overall fiscal deficit and domestic credit growth, especially in the context of challenging local government finances and the property sector downturn. Domestic credit to the private sector relative to GDP, remains elevated compared to emerging peers (185% in 2022). However, we believe for now that authorities have the necessary tools to manage and keep risks under control.

Looking at external account balances, 2023 has been a challenging year for China. External pressures from the West are adding to domestic woes. The resilience of exports in late-2023 is unlikely to last as it is partly due to exporters decreasing prices to gain market share, which is not sustainable in the medium-term. Going forward, we expect the current account surplus to decrease to 1.4% of GDP in 2024 and 1.1% of GDP in 2025. In terms of the capital and financial account balance, net outflows of direct and portfolio investment seem to be widening the deficit, primarily due to two factors. First, foreign investors are increasingly concerned about China's challenges in the housing market, low consumer confidence and high local government debt (FDI inflows into China turned negative for the first time on record in Q3 2023) and second, outbound flows from China have increased, notably towards ASEAN and Latin American economies.

Lastly, while rising geopolitical tensions are likely to reshuffle trade and investment patterns, China will not lose its position as an end-supplier due to complex inter-linkages in the global supply chain. In the medium run, China's main challenge is managing the transition to a lower pace of potential growth as the economy matures and relies less on the real estate sector. What's at stake is to find new growth drivers (innovation, private consumption, services etc.) while navigating vulnerabilities (debt burden, geopolitical tensions, aging population etc.)

Business environment: Recent signs of deterioration

Our proprietary model that tracks the structural business environment across 184 countries suggests that the business environment in China has deteriorated over the last two years amid the broad-based economic turmoil, weaker business sentiment and rising geopolitical tensions. The World Bank Institute's annual Worldwide Governance Indicators' suggest that there has been a decline in regulatory quality in 2022 relative to 2021, although there have been slight improvements in the rule of law and control of corruption. In addition, the Index of Economic Freedom from the Heritage Foundation assigns a rank of 158 out of 184 countries in 2022, down from 107 in 2021, reflecting a deterioration in scores that reflect freedom in terms of trade, business, investment and property rights. Lastly, China ranks low based on our proprietary "Environmental Sustainability Index" at 178 out of 210 economies, suggesting that while China exhibits strengths in water stress and energy use per GDP, there is potential for improvement in terms of the recycling rate, climate change vulnerability and renewable electricity output.

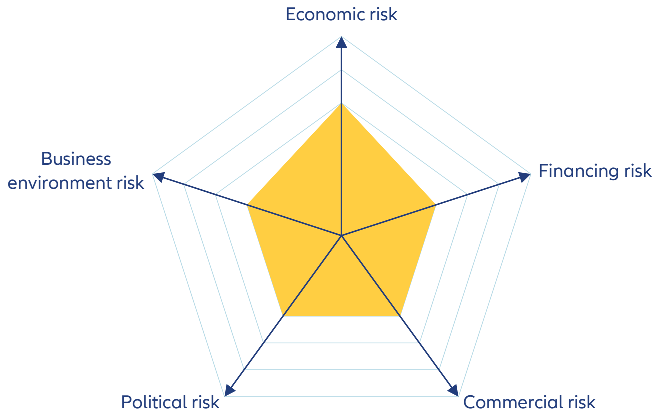
B2

Medium
risk for enterprises

Colombia

Slowing economic growth, rising macroeconomic policy risks

GDP	USD343.9bn (World ranking 44)
Population	51.9mn (World ranking 28)
Form of state	Presidential republic
Head of government	Gustavo Petro (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- King Natural resource base: agricultural, energy and minerals
- Strong medium-term growth
- Pro-business environment
- Fiscal sustainability principle included in the Constitution
- Support from international financial institutions
- Independent monetary authorities

- Sensitive to commodity price fluctuations and the US business cycle
- Difficult security situation with long running domestic insurgency and drug trafficking
- Rule of law and control of corruption remain areas of concern
- High informality in the job market
- Skewed income distribution

Economic overview

A strong hit to growth, but a gradual medium-term recovery

Colombia has shown a robust track record of macroeconomic stability and consistent economic growth over the past few decades, achieving a real GDP growth rate of +3.9% in the 2000s and +3.7% in the 2010s. Despite the challenges posed by the pandemic, Colombia rebounded significantly with a +11.0% GDP growth in 2021 following a -7.3% contraction in 2020. However, the exuberant growth observed in 2021-2022 is giving way to a deceleration in real economic growth. While economic activity pleasantly surprised in 2022 due to strong private consumption driven by pent-up savings and robust bank credit, signs of exhaustion were becoming apparent. Private consumption experienced its first sequential contraction since Q2 2020, household savings are dwindling and real bank credit continues to decelerate from its mid-2022 peak. Anticipated factors, such as the slowdown in the US and global economy, high inflation, tighter global and domestic financial conditions and heightened policy uncertainty, are likely to exert downward pressure on activity in the foreseeable future. Nevertheless, the announcement of a 16% increase in Colombia's minimum wage for 2023 provided some support. We expect a significant deceleration in real GDP growth to +1.3% in 2023, with an average growth rate of around +3% over the period from 2025 to 2028.

In Colombia, the primary objective of monetary policy is to maintain a low and stable inflation rate. In 2021, the yearly headline inflation, initially at +3.5%, surged to +11.6% by the end of 2022, with core inflation surpassing +10%. Particularly noteworthy is the food inflation, which reached +24% in

February 2023, surpassing levels observed in neighboring regions. This surge is partly attributed to climate-related supply shocks and significantly contributes to the overall increase in headline inflation.

In response to these inflationary pressures, the central bank implemented a substantial increase in the policy rate. The rate surged from +1.75% in September 2021 to +13.25% in October 2023. In December 2023, the central bank began a monetary policy easing cycle, bringing the rates down to 13%. Despite this, a slow disinflation process and inflation expectations well above the 3% target are likely to prompt the central bank to continue with a gradual easing cycle. Governor Villar has indicated that the size of the rate cuts ahead will depend on data. Potential factors such as El Niño and discussions around minimum wage present upside risks to inflation. Nevertheless, our expectation is for the central bank to further cut rates in Q1 2024. We anticipate two initial 25 basis points cuts between January and March, aiming to reach a rate of 8.75% by the end of 2024.

Gradual fiscal consolidation, weak external position

Given Colombia's enduring commitment to fiscal discipline, a commitment maintained by the current Petro government, we anticipate an ongoing emphasis on fiscal consolidation throughout the forecast period. Nevertheless, progress is anticipated to be gradual in the short term. The combination of increased social spending – partially financed by additional revenue from the 2022 tax reform – and the substantial fiscal burden of fuel subsidies is expected to impede a more rapid consolidation. Overall, we anticipate the fiscal deficit to remain relatively wide, averaging 4% over the period from 2024 to 2028.

Colombia faces a significant vulnerability due to its current-account deficit, adding to the pressures of currency depreciation. The trade imbalance is anticipated to expand in 2024, propelled by heightened import growth driven by increased domestic demand, surpassing the growth in exports. Furthermore, the global economic recovery is expected to lead to a more robust increase in workers' remittances in the year. However, the sustained high levels of profit remittances by firms, particularly in the oil sector, will impede a more substantial reduction in the current-account deficit. As a result, this combination of factors is forecasted to cause the current-account deficit to widen to -4.3% of GDP in 2024 and persist at -4.1% of GDP in 2025. Notwithstanding Colombia's fairly large current-account deficit, a strong cushion of foreign reserves, Colombia's FCL with the IMF, continued access to international markets and reasonable levels of foreign direct investment inflows will limit external payments risks.

While we anticipate that the government's challenges in advancing its statist agenda will lend support to the peso, domestic political turbulence is expected to result in sporadic currency volatility throughout 2024. Nevertheless, we forecast a stronger position of peso in 2024. This projection comes from a narrowing of Colombia's twin deficits and a weakening of the US dollar.

Still strong business environment, but increasing political risk

Colombia holds the potential for sustained, moderate long-term growth, drawing on its abundant natural resources, a relatively advanced regulatory system for business and stronger institutions and policy frameworks compared to many other Latin American nations. According to the 2022 survey by the Heritage Foundation's Index of Economic Freedom, Colombia is positioned at 60 out of 177 countries, surpassing both regional and global averages. Noteworthy strengths include favorable scores in tax burden, monetary freedom, trade freedom and investment freedom. However, challenges persist in areas like property rights, judicial effectiveness, government integrity and fiscal health, factors that will continue to influence the overall business climate. In our proprietary Environmental Sustainability Index 2023, Colombia is ranked 7 out of 227 economies. This ranking highlights strengths in areas such as energy use per GDP, CO_2 emissions per GDP, water stress and climate change vulnerability.

Gustavo Petro, the left-wing president of the Pacto Histórico coalition, exhibits erratic behavior, blending populist rhetoric with pragmatism in negotiations with opposition and independent legislators as he pursues his agenda. Petro's inconsistency will challenge the governability of his term, which ends in August 2026. Erosion of Petro's political capital due to a collapsing legislative alliance in Congress and corruption scandals involving close allies and family members will hinder progress on state-driven reforms. Recent surveys indicate Petro's popularity has stabilized at 32% in October 2023, suggesting core support remains loyal, reducing the risk of serious social unrest.

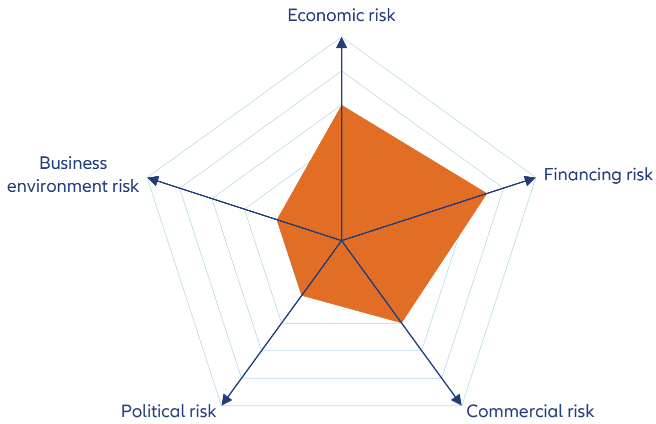
B3

Sensitive
risk for enterprises

Costa Rica

Slowing economic growth, rising macroeconomic policy risks

GDP	USD68.4bn (World ranking 83)
Population	5.2mn (World ranking 121)
Form of state	Presidential republic
Head of government	Rodrigo Chaves Robles (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Political stability, long-established democracy and institutional framework compared to regional peers
- Favorable business and legal conditions compared to the rest of Central and Latin America
- Relatively advanced transition to a greener and sustainable economy

- High dependency on US (trade, foreign investment in a few large companies and tourism)
- Large fiscal deficit with the public debt-to-GDP ratio rising rapidly as a result. Despite December 2018 fiscal reform, concerns remain on implementation and impact

Economic overview

A fragile economic recovery

Costa Rica's macroeconomic outlook was already fragile prior to the pandemic despite structural reforms. As part of its accession to the OECD, Costa Rica implemented key fiscal and structural reforms aiming at containing the high fiscal deficit, boosting medium-term growth prospects and lowering the high levels of unemployment. However, the growth outlook remained fragile, with real GDP growth averaging +1.5% over 2017-2019 amid a challenging external environment, natural disaster shocks and deteriorating investor sentiment, given the widening fiscal deficits.

Despite weakening domestic demand in the context of high inflation and rising interest rates, economic activity was supported by robust external demand, as the free trade zones continue to showcase double digit growth. As a result, a strong export performance and recovered tourism sector fueled the economy growing by +7.8% in 2021 and +4.3% in 2022. We expect that GDP growth will continue at +4.4% in 2023 and forecast that it will cool to +3.2% in 2024.

We expect inflation to fall to +2.8% in 2023, after it accelerated rapidly through 2022, peaking at +12%. The Banco Central de Costa Rica (BCCR, the central bank) is in the process of bringing down interest rates, having raised them to combat surging consumer price inflation in 2021-22. Its most recent statement indicated that it remained concerned about the risk of global oil prices delivering another supply shock and it will therefore take its time over monetary easing, even though consumer prices are firmly in deflationary territory. We expect the BCCR to keep its easing policy stance in 2024 and 2025 and returning the rate to a broadly neutral level, which we estimate at 3.25% by the end of 2025. We expect a restrictive monetary policy stance coupled with the easing of global commodity prices will result in a gradual convergence to the central bank's inflation target of 3% by 2024. The main risk to our monetary policy forecast is an unexpected spike in global food or fuel prices, triggered by geopolitical conflict or by adverse weather conditions caused by El Niño, which would push up local inflation. This would force the BCCR to pause its easing cycle and could even prompt it to raise rates again as a last resort.

Weak public finances will remain a key risk

Costa Rica's fiscal outlook mediated from the strike of pandemic. Costa Rica's Extended Fund Facility will continue to support the government's efforts to reduce the non-financial public-sector deficit, which narrowed from a pre-pandemic average of 5.7% of GDP in 2016-19 to 2.5% of GDP in 2022. However, modest economic growth will keep government revenue low, meaning that fiscal consolidation will need to be achieved through reforms to state spending, revenue-raising tax reforms and a greater focus on current and historical tax evasion.

The fiscal adjustment required by the IMF program approved in early 2021 could be a challenge, given Costa Rica's history of political impasses in the process of approving reforms or external financing. Thus, fiscal consolidation will have to be achieved through reforms in state spending and fiscal reforms for collection, but the lack of a parliamentary majority poses risks. That said, approval of the IMF program should help to catalyze additional official support from creditors for the 2023-27 period, easing sovereign financing conditions.

Fiscal overperformance, a stronger exchange rate and inflation lowered debt/GDP to 63.8% at the end of 2022 and we expect it will continue as 63% in 2023. The legislature has approved the issuance of up to USD5bn in Eurobonds and legislation is being drafted to give the executive more discretion over external borrowing. A primary dealer pilot program is underway and a new law has been passed to reduce the obstacles for foreign investors to participate in domestic debt markets, which should help develop the local market. Finally, legislation was submitted to centralize debt-related functions into a debt management office and the government is developing a strategic framework to govern its management of sovereign assets and liabilities.

The 2022 primary balance was 1.4% of GDP above the target. Tax revenues rose by 0.4% of GDP between 2021 and 2022, mostly due to stronger activity and the price effect (including strong increases in the price of imported goods). Costa Rica's balance of payment position will be supported by higher inflows of FDI. The current account deficit is expected to decline from 4.3% of GDP in 2022 and to around 3% of GDP over the medium term as external demand, including tourism, continues to recover. Additionally, the IMF program and lower import demand, alongside slower economic growth, should limit balance of payment pressures.

Business environment and political developments

According to the 2022 Heritage Foundation's annual Index of Economic Freedom survey, Costa Rica ranked 10th in Latin America, reflecting very strong scores with regard to government spending and monetary freedom while shortcomings in fiscal health, labor freedom and financial freedom.

Costa Rica's strong political institutions, long democratic tradition and relative social stability support political stability. Fiscal reforms and external financing require Congress approval and Costa Rica has a track record of political gridlocks, which could hamper policymaking in the medium-term, especially as the proposed adjustment includes several contentious reforms. In early 2023, President Chaves secured parliamentary approval for the issuance of USD5bn in Eurobonds over the next three years, in exchange for relatively minor concessions. Efforts to improve the fiscal position will be the main source of political contention.

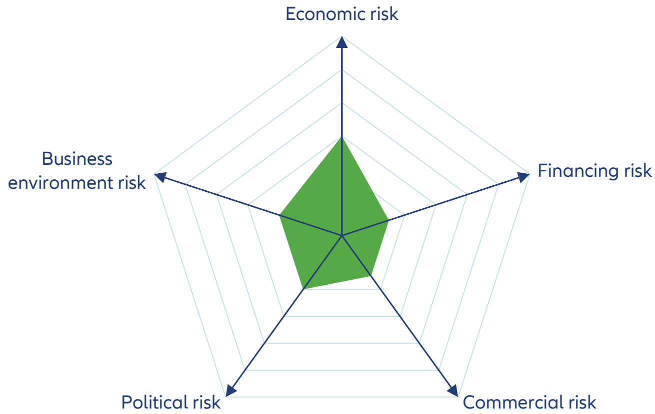
BB1

Low
risk for enterprises

Croatia

Joining the Eurozone reduced country risk

GDP	USD71.0bn (World ranking 80)
Population	3.9mn (World ranking 129)
Form of state	Parliamentary Republic
Head of government	Andrej Plenković (PM)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- EU membership and good international relations
- Eurozone accession in January 2023 provides for low transfer and convertibility risk
- Fiscal prudence since 2015 (only temporarily interrupted in 2020 due to the Covid-19 crisis)
- Comfortable annual current account balances since 2010
- Adequate, improving business environment

- Vulnerability to EU business cycle
- Economic dependence on tourism
- Net importer of energy and food
- Public debt has remained elevated despite fiscal consolidation since 2015
- Unfavorable external debt-to-GDP ratio

Economic overview

Moderate growth slowdown while inflation is easing

The economic outlook for Croatia has markedly deteriorated as a result of the war in Ukraine. The economy is highly dependent on exports, especially the export of services (tourism), which makes it vulnerable to external shocks. Croatia is also a large net importer of energy and food and thus has been hit by the surge in global prices for these goods in 2022. However, the country's direct trade relations with Russia have been small so it has been less impacted by the European energy-supply crisis and EU trade sanctions against Russia than other countries in the Emerging Europe region. Following a strong post-Covid-19 recovery, with real GDP growth of around +13% in 2021 and over +8% y/y in the first half of 2022, economic activity began to cool in the second half of that year amid higher inflation, rising interest rates, softening external demand and declining business confidence. Growth came in at +6.3% in 2022 as a whole and decelerated further to an average +2.3% y/y in the first three quarters of 2023, as the economic slowdown in Western Europe, Croatia's main export destination, weighed on trade and tourism in the country. Domestic fiscal stimulus has been moderate due to rising financing costs. Going forward, EU funding inflows should somewhat mitigate the impact on growth. We forecast annual real GDP to expand between +2.5% and +3% in 2024-2025.

Croatia joined the Eurozone at the start of 2023, marking an important milestone in the process of integration with the EU a decade after it joined the bloc. While monetary policy is now conducted by the European Central Bank (ECB), membership of the Eurozone provides for low transfer and convertibility risk and has substantially decreased external vulnerabilities related to exchange-rate risk. The backing of the ECB should strengthen the banking and financial system in Croatia and increase the economy's resilience to external economic shocks. Investor confidence should rise as well and overall Eurozone membership should provide a medium-term boost to the economy.

Inflation has moderated to 4.5% y/y at end-2023, after it had risen to a peak of 13.5% y/y in November 2022, driven by interrupted supply chains and surging energy and food costs. We project it to remain somewhat elevated in 2024 owing to strong wage growth, persistent, though slowing, price increases in services and the likely phase out of measures to mitigate the impact of high energy prices. We forecast annual average inflation of around 3.5% in 2024 and 2.5% in 2025.

Fiscal and current accounts under control but debt ratios remain elevated

Croatia's public finances are improving again after the Covid-19 crisis temporarily reversed five years of fiscal consolidation. Public finances had improved in 2015-2019, thanks to the growth rebound after the extended 2009-2014 recession as well as fiscal restraint. The budget was close to balance in those years and public debt declined from 84% of GDP in 2014 to 71% in 2019. However, owing to large stimulus measures in response to the Covid-19 crisis, combined with a substantial decline in nominal GDP, a fiscal shortfall of -7.3% of GDP was recorded in 2020, pushing public debt again up to 87% of GDP. The annual fiscal deficit narrowed markedly to around -2.5% of GDP in 2021 and returned to a narrow surplus in 2022 thanks to strong fiscal revenue growth. It likely moved back to a small deficit in 2023 owing to large increases in public wages and social benefits. Further such increases and higher public investment are forecast to widen the annual fiscal shortfalls to still moderate ratios of around -1.5% of GDP in 2024-2025. Meanwhile, the public debt-to-GDP ratio is projected to retreat gradually towards 60% of GDP by 2025.

Croatia's external finances should remain manageable. After six years of current account surpluses from 2014 to 2019 (on average +2.3% of GDP), reflecting a continued solid export performance, Croatia posted a small external deficit of -1% of GDP in 2020, mainly as a result of sharply lower exports of services (as Covid-19 hit tourism). After the annual current account moved back to a surplus of +1% of GDP in 2021, it posted another deficit of -2.8% of GDP in 2022, this time owing to sharply increased import costs for energy and food. As these costs have moderated in 2023, a small external surplus was recorded in the first three quarters of last year and we forecast continued small annual surpluses in 2024-2025. Meanwhile, Croatia's gross external debt will remain elevated at close to 90% of GDP. On a positive note, the annual external debt-service ratio has declined from a hefty 35% in 2020-2021 to a more manageable 20% or so in 2023-2024. Moreover, by joining the Eurozone in 2023, Croatia now has access to the pooled FX reserves of the ECB so that FX coverage of imports as well as of short-term external debt payments falling due is not an issue anymore.

Improving business environment

The business environment in Croatia is generally adequate though spots of weaknesses remain. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory framework is generally business-friendly while weaknesses remain with regard to perceived corruption and the legal framework. The Heritage Foundation's Index of Economic Freedom survey 2023 ranks Croatia 46 out of more than 180 economies, a significant improvement from rank 79 in the 2021 survey. The country gets strong scores with regard to the tax burden, trade freedom, investment freedom, property rights and judicial effectiveness (with the latter two items reflecting the improvement since 2021) while weaknesses remain in the areas of government integrity, labor freedom and financial freedom. Our proprietary Environmental Sustainability Index assigns Croatia is a strong rank of 13 out of 210 economies, reflecting high scores for energy use and CO2 emissions per GDP, renewable electricity output, water stress and general vulnerability to climate change. However, the recycling rate is the one weakness.

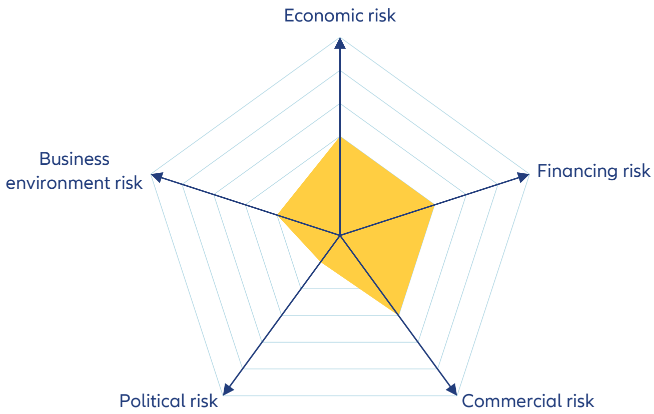
BB2

Medium
risk for enterprises

Cyprus

Economy proved resilient to the Russia-Ukraine war, but multiple challenges persist

GDP	USD28.4bn (World ranking 106)
Population	1.3mn (World ranking 158)
Form of state	Presidential republic
Head of government	Nikos Christodoulides (President)
Next elections	2026, Legislative



Strengths & weaknesses

- Solid recovery since 2013 financial crisis
- Strong public finances, fiscal prudence should be maintained over the medium-term to lower the debt burden further
- Large decline in NPL ratio

- Private debt remains high, which can amplify financial risks
- Structural reforms to unlock growth potential are needed
- Despite out of the banking sector, NPLs remain in the economy and resolution is still slow

Economic overview

Economic resilience to be tested in 2024

Following the crisis in its financial sector in 2013, the Cypriot economy was expanding solidly from 2015 supported by investment, consumer spending and tourism activity; it returned to investment grade in 2018 and then recorded an annual average real GDP growth of +4.6% in 2018-2022. The pandemic crisis interrupted the positive trend and the country fell back into recession – although a smaller contraction compared to the average for the Eurozone countries. The rebound of tourism and the increase in domestic demand well supported the recovery in 2021 and 2022, which saw GDP expanding by a solid +6.6% and +5.6% respectively. Economic output is now 12% above pre-pandemic levels. Also, the economy proved resilient to the consequences of the Russian invasion of Ukraine, despite Russia being a major business partner (in terms of financial services) but also a big contributor to tourism activity. We expect the economy to post a weaker growth in 2024 (+1.4%), after +2.4% in 2023.

Cyprus returns to fiscal discipline after significant support provided

Following the financial crisis, prudent fiscal policy put the country in a strong fiscal position, but the pandemic and the energy crisis took their tolls. The general government balance returned to surplus in 2022 (from -5.8% in 2020) and public debt decreased from the 2020 peak at 114% of GDP to 86% in 2022. In 2023, the general government balance should have improved slightly and stay around current levels in the forecast horizon. The government has stepped in to protect households and corporates from higher prices.

The country has been severely hit by surging energy prices. Given Cyprus's small size and import dependence, made the country vulnerable to external shocks. But inflationary pressures have been easing on a downward trend since August 2022. This provides some support to households' spending and investment decisions.

An economy subject to fluctuations in the service sector

The Cypriot economy is dependent on the services sector and on tourism, shipping and real estate, which constitutes a source of risk for the stability of its economy in the event of geopolitical or health crises. Services accounted for almost 84% of GDP and employed more than 70% of the labor force in 2022. Therefore, the sanctions on Russia following the invasion of Ukraine will heavily impact the sector and the economy. Russian tourist arrivals were 20% of total arrivals in the years before the pandemic.

Moreover, foreign direct investment in the country was already expected to decline over the next few years following the abolition of the Cypriot citizenship by investment program at the end of 2020 – with Russia having the biggest proportion of FDI. This slowdown is another source of risk for the economic recovery.

Finally, the banking sector has made significant progress in recent years, the average NPL ratio of Cypriot banks is now below 9%, down from over 50% only a few years ago. The sale of NPLs remained the main driver of the reduction, but risks remain around the repayment capacity of the private sector and corporates given the current outlook. Liquidity and capital adequacy ratios in the banking sector have remained high and profitability improved. Indeed, the recent increase in interest rates has certainly boosted the Cypriot banking sector's profitability. At the same time, higher rates are having a negative impact on domestic credit demand in both the corporate and household segments. However, higher interest rates increase the credit risk of existing and new loans.

Business environment attracts foreign companies

Cyprus is ranked 54 out of 190 economies in the 2020 World Bank doing business ranking. The country achieves its highest rankings in the categories of protecting minority investors, paying taxes and resolving insolvencies.

On 1 September 2023, Cyprus submitted its amended recovery and resilience plan, which now includes a REPowerEU chapter. The plan is now worth EUR1.22bn, including EUR0.2bn in loans and EUR1.02bn in grants – 5.2% of the country's 2019 GDP. In detail, Cypriot RRF devotes 45% to the green transition, up from 41% in the original plan and 24.6% to the digital transition, up from 23%. The modified plan's important social dimension is also upheld.

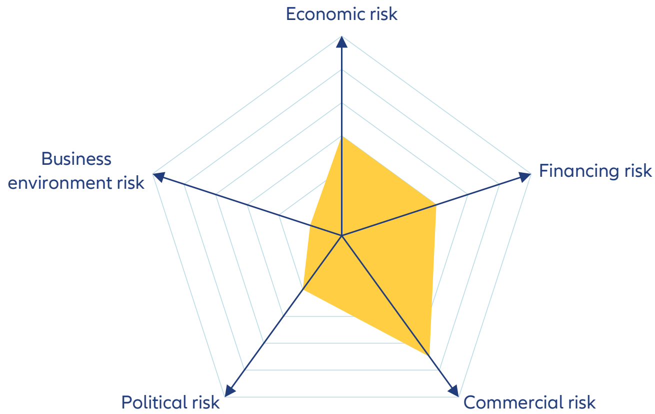
BB2

Medium
risk for enterprises

Czech Republic

Weak growth amid rebalancing of fiscal and external imbalances

GDP	USD290.9bn (World ranking 47)
Population	10.5mn (World ranking 87)
Form of state	Parliamentary Republic
Head of government	Petr Fiala (Prime Minister)
Next elections	2025, Legislative (Senate)



Strengths & weaknesses

- EU membership and good international relations
- High income economy with fairly strong underlying macroeconomic fundamentals
- Favorable public finances
- Manageable external debt burden
- Sound banking sector that has proven resilient to adverse shocks
- Favorable business environment

- History of fragile coalition governments
- Often ineffective policymaking and slow reform progress
- High export and import dependencies
- Unfavorable export structure

Economic overview

Modest growth and continued gradual disinflation in 2024

The Czech Republic (Czechia) has been a decent performer among emerging economies. However, a strong dependence on exports (accounting for around 80% of GDP), in particular on automotive shipments, causes above-average cyclical fluctuations in growth. Moreover, a high dependence on global supply chains and energy imports has made the Czech economy very vulnerable in the recent global context of supply disruptions and higher energy prices.

Real GDP expanded by an average of +2.5% over the past 20 years and by +3.9% over the five years prior to the Covid-19 pandemic. As a consequence of its dependence on exports and supply chains, the Czech economy was hit harder by the global Covid-19 crisis than others (-5.5% in 2020) despite strong economic policy support. And after a moderate recovery in 2021 (+3.6% growth), economic activity slowed down markedly in 2022-2023 as a result of the consequences of the war in Ukraine, notably the subsequent EU sanctions on Russia and soaring energy prices. The Czech economy has been mostly in recession since mid-2022. Full-year real GDP still posted moderate growth of +2.4% in 2022 but is estimated to have contracted in 2023. Looking ahead, we expect modest growth of around +1% in 2024, followed by +2.5% or so in 2025.

Inflationary pressures will decline but not disappear in 2024. Consumer price inflation rose into double-digit territory in early 2022 amid surging energy and food prices. After peaking at 18% y/y in September 2022, it fell back steadily to 6.9% y/y at end-2023 on the back of a partial correction of the earlier rise in energy prices as well as higher interest rates. The Czech National Bank (CNB, the central bank) raised its key policy interest rate by a cumulative 675bps to 7.00% from June 2021 to June 2022. Thereafter, the rate was kept unchanged until December 2023 when CNB kicked off an easing cycle by a 25bps cut. We forecast inflation to remain elevated for some time and to not fall back to the CNB's 2% ±1pp target band before 2025. We expect the CNB to continue gradual monetary easing in 2024.

Public and external finances are improving

Czechia's public finances have deteriorated in recent years but will remain manageable over the next two years. The Czech government posted large annual fiscal deficits of more than -5% of GDP in 2020-2021, as a result of a huge fiscal stimulus program in order to mitigate the impact of the Covid-19 crisis on the economy. The annual shortfalls have narrowed but remained large in 2022-2023, around -3.5% of GDP on average, as the government implemented new fiscal support measures to mitigate the impact of the energy crisis and the economic downturn on households and industry. Meanwhile, the government has decided to embark on a fiscal-consolidation program from 2024 onwards. Hence, we forecast annual fiscal deficits of less than -3% of GDP in the next two years. Financing these deficits will be manageable even though yields on Eurobonds have increased over the past years. Moreover, the government is eligible for substantial EU funding and can also access local markets. As a result of several years of elevated fiscal deficits, total public debt rose from a low of 30% of GDP in 2019 to 44% currently. It is forecast to remain around that ratio in the next few years, but this is still fairly low compared to peers.

Czechia's external position is on track towards rebalancing after a significant deterioration in 2022 triggered by rapidly increasing energy import costs since H2 2021. After seven successive years of surpluses, the current account balance moved into a deficit of -2.8% of GDP in 2021, which widened to -6.1% in 2022. However, the external shortfall returned to a small surplus of around +1% of GDP in 2023, mainly as a result of the partial correction of the earlier increase in energy prices and the curtailing effect of faltering domestic demand on imports. We forecast continued, albeit smaller annual current account surpluses in 2024-2025, as imports will recover somewhat. On another positive note, net foreign direct investment (FDI) inflows have recovered from modest levels in 2021-2022 and net portfolio inflows have also been positive again since June 2023 (on a rolling 12-month basis), after two years of significant net outflows. Altogether, this rebalancing also helped to halt the downtrend in the CNB's foreign exchange (FX) reserves, which had dropped from a peak of EUR160bn in April 2022 to a temporary low of EUR127bn a year later. Reserves still covered a comfortable seven months of imports at the end of 2023, but that rate is down from a peak of 12 months in early 2020. In other terms, reserves cover all external debt payments falling due in the next 12 months. In short, Czechia's external finances are still adequate and appear to regain some of the strength which they had lost in 2021-2022.

Strong business environment and low political risk

The Czech business environment is well above average. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly, though a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom survey for 2023 assigns Czechia rank 21 out of more than 180 economies, reflecting strong scores with regard to property rights, judicial effectiveness, tax burden, trade freedom, investment freedom and financial freedom. Meanwhile, our proprietary Environmental Sustainability Index puts Czechia at rank 59 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change. However, there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is relatively low. Czechia is a well-established democracy and has good international relations, reflected in its EU, NATO and OECD membership. Fragile coalition governments have often resulted in ineffective policymaking and slow reform progress. Yet, broad policy continuation has been the rule after past government changes, whether early or on schedule.

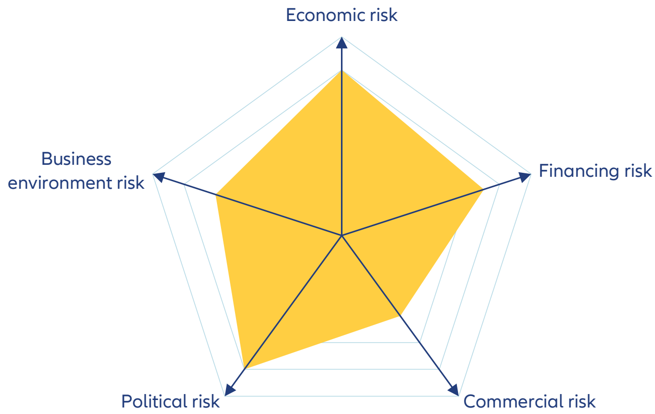
C2

Medium
risk for enterprises

Côte d'Ivoire

Cocoa, oil, gold, football and debt – everything grows, will it last?

GDP	USD70.0bn (World ranking 82)
Population	28.2mn (World ranking 52)
Form of state	Presidential republic
Head of government	Alassane Ouattara (President)
Next elections	2025, Presidential



Strengths & weaknesses

- Significant economic progress with forecasted GDP growth of +6.4% in 2024
- Stable inflation rate among the lowest in the West African area
- Support from international partners, including a positive relationship with the IMF and the West

- Risk of a two-speed economy and disparities between sectors, posing a threat to political and social stability
- Increasing pressure on liquidity and rising operating expenses
- Political confrontation and protectionism could hamper trade and investment, particularly in the context of civil wars and disputed elections

Economic overview

Buoyant opportunities amid early signs of overheating

Côte d'Ivoire has made significant economic progress, with GDP growth forecast at +6.4% in 2024, at a similar pace than 2023. The inflation rate remains among the lowest in the West African area and we expect it to remain stable at 3% in 2024. Average oil production was about 24 000 barrels per day (bpd) in 2021 and is expected to surpass 200 000bpd by 2025, equivalent to more than USD5.5bn on an annual basis. However, the economic upturn has been driven by exports, particularly cocoa, other commodities and infrastructure investment, revealing disparities vis-à-vis the economy's other sectors and the risk of a two-speed economy looms as a major threat to political and social stability.

The fiscal profile remains manageable, albeit with increasing pressure on liquidity. Capital expenditure increased as a result of faster work on infrastructure projects, mostly related to the hosting of the African Football Cup but also university and school construction projects. Operating expenses increased because of government initiatives to mitigate the economic impact of the cost-of-living crisis by assisting the energy, bakery and transportation industries. Interest payments increased as well in 2023, which have been attributed to Eurobond payments as well as greater domestic debt payments.

Support from international partners remains stable

A positive relationship with the IMF and the West is key to acting proactively to contain volatility and maintain rapid financial support in case of need. In April 2023, Côte d'Ivoire received USD3.5bn after a short negotiation with the IMF, above its initial request for USD2.6bn. The agreement is expected to last for 40 months after approval. The sum given to Cote d'Ivoire is greater than the USD3bn that Ghana, the world's second-largest cocoa exporter and an economy comparable by size to that of Côte d'Ivoire, managed to receive in December 2022 when in full debt distress. Increased support came in also thanks to resilient indicators, as the debt-to-GDP ratio is estimated to have reached 56% in 2023, i.e., below the 60% threshold. Côte d'Ivoire is now expected to implement the structural reforms outlined in its National Development Plan 2021-2025.

Political confrontation and protectionism could hamper trade and investment

Following the decision by neighboring Burkina Faso to halt military assistance from France, troops deployed in the country have been partially relocated to Côte d'Ivoire, which is positioned to become a major player in the regional fight against insurgents and benefit from enhanced protection at sea in the fight against illegal fishing, drug trafficking and piracy.

The most recent civil war was fought in 2011 for four months after a controversial presidential election in which the then-opposition candidate, current President Ouattara, was declared the winner by the electoral commission. This was not followed by an orderly transfer of power, as the Constitutional Council invalidated the results and declared the outgoing president elected. French military support was provided to Ouattara to achieve victory. The previous civil war (2002–2007) also began after a disputed presidential election, which remains the greatest point of tension in the country. The next round of the presidential election is expected in 2025. The ruling party won 123 of the 201 municipalities and 25 of the 30 regions in the local election of September 2023. President Ouattara's dominance was further consolidated a few weeks later, when his party won 56 of the Ivorian Senate's 64 seats.

Resource protection and management are also coming to the fore. There is a desire to gain more control over natural resources and boost local processing. Policy and contract changes are unlikely to be drastic, although stricter local content requirements, requests for larger production shares and increased taxation and/or regulation are anticipated in the short-to medium-term. Cocoa importers have been under increasing pressure to give guaranteed cocoa prices for the government to determine a farmgate price that encourages smallholders to continue cultivating cocoa rather than switching to other commodities. Côte d'Ivoire and neighboring Ghana launched the Sustainable Cocoa Initiative in 2018; the two nations account for two-thirds of global production. One major goal has been to require firms to pay farmers a Living Income Differential (LID) premium. Côte d'Ivoire has threatened to withdraw from sustainability efforts and has named corporations that it believes are attempting to dodge the LID. The government imposed a new "country premium" in July 2022 and issued an ultimatum in November 2022 to enterprises accused of failing to pay these fees. Following that, it agreed to give companies more time to meet its demands, indicating a reluctance to impose strict enforcement. Premium demands are anticipated to increase if Cameroon and Nigeria join the Sustainable Cocoa Initiative after lengthy talks. Their inclusion would increase the group's share of global supply to around 75%, giving them more bargaining power as the dominant source of supply.

Since 2021, the government has also attempted to allocate at least 20% of national production to Ivorian exporters. However, most indigenous businesses do not have enough funding to deal with significant fluctuations in cocoa prices, which has hampered this endeavor. Poor crop yields in the major harvest season between October 2022 and March 2023 prompted smaller local producers to warn of supply contract-default risks due to a lack of adequate stockpiles. Against this backdrop of domestic weakness, the international corporations that dominate the Ivorian market are unlikely to see a reduction in their share of beans for export in the immediate future.

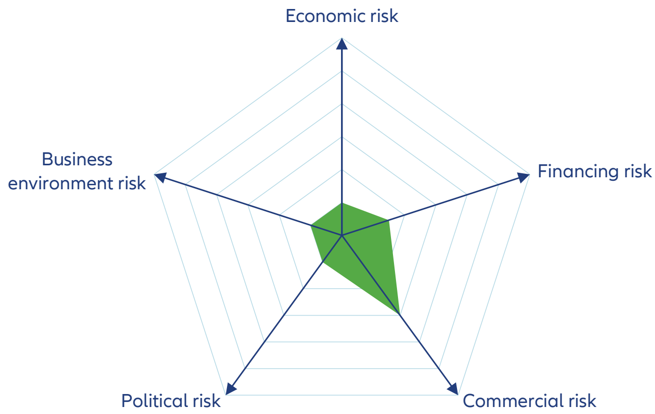
AA1

Low
risk for enterprises

Denmark

Strong business environment faced by secular challenges

GDP	USD395.4bn (World ranking 40)
Population	5.9mn (World ranking 113)
Form of state	Constitutional monarchy
Head of government	Mette Frederiksen (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Strong business environment
- Healthy public finances
- High institutional effectiveness
- Highly skilled workforce

- Exposed housing market
- Small and open economy
- High tax burden
- High amount of regulatory requirements

Economic overview

Solid fundamentals provide a path for growth

Denmark registered one of the smallest recessions in the EU in 2020 (-1.9% vs -6.3% for the EU) and reached pre-crisis levels of growth by Q3 2021. The low level of public debt (30% of GDP) allowed the government to unwind stimulus measured in a very progressive manner and reach nearly 5% GDP growth in 2022. Private consumption and fixed investment were the main drivers of growth. Growth will remain stable, with 1.2% in 2023, followed by a moderate pickup to 1.4% in 2024 and a further increase to 1.9% in 2025.The available fiscal space even enables the government to outline ambitious goals regarding green and digital investments.

Inflation has reached a 40-year high in 2022 with 7.7%, given the global supply shock and commodity prices, inflationary pressure eased throughout 2023. We expect inflation to converge towards the 2% target by the end of 2024. The labor market is expected to remain tight as the incoming flow of foreign workers has not yet recovered to pre-crisis levels. This should drive wage growth on the upside, albeit only temporarily as demand is expected to slow down and labor supply to grow.

Housing market cool down while fiscal policy remains conservative

The Danish economy exhibits few macroeconomic vulnerabilities. The country enjoys one of the largest current account surpluses in the EU (above 13% of GDP in 2022), thanks to a strong rebound in trade in goods (pharmaceutical, energy and food exports). The fiscal balance returned to a surplus in 2022, with public debt at 30% of GDP. The fiscal balance is expected to be more conservative in 2024, targeting a debt level of 28% and further reducing it to 27% in 2025. The only potential concern are the high mortgage debt levels in relation to GDP of Danish households. As higher interest rates tend to be linked to falling property prices (which have been tremendously high) and risks could reinforce each other. But corrections are already underway and the ratio of household debt to GDP fell to a low at 86% in 2022 from 104% in 2021. With monetary tightening – the policy rate of the Danish Central Bank stood at 3.75% in December 2023 – and financing costs increasingly high, housing prices should decelerate.

Favorable business environment

Denmark enjoys one of the best business environments in the world. This is based mainly due to the ease of trade across borders – best of all in this category – capacity to deal with construction permits and resolve insolvencies and its favorable fiscal environment. The country is also at the forefront of technological innovation and aims to lead the way for green investment policy.

The Danish political system is often praised for its transparency and efficiency. With one of the lowest degrees of corruption and a clear separation of powers, it is trusted by the population. The landscape is divided between the social democrats led by Mette Frederiksen, currently ruling in a bipartisan government with the Liberals and the Moderates and the center-right. With generous and transparent welfare programs, a dynamic economy and a harsh stance towards immigration, the right has almost no territory left to grapple with. The letter point could, however, prove sensitive as the discrimination experienced by minorities could stoke social unrest.

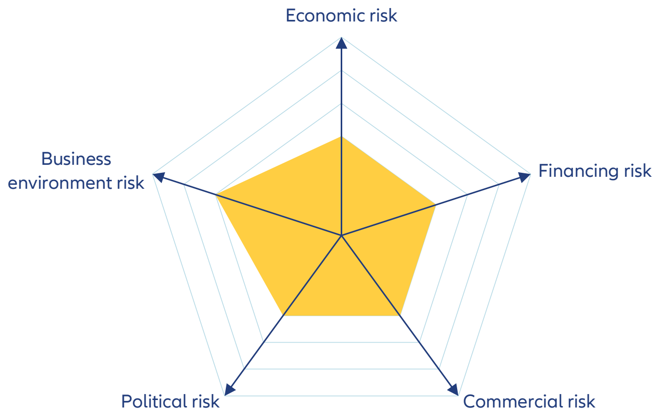
B2

Medium
risk for enterprises

Dominican Republic

Robust growth prospects, persistent structural weakness

GDP	USD 113.64bn (World ranking 65)
Population	11.23mn (World ranking 83)
Form of state	Presidential republic
Head of government	Luis Abinader (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Resilient economic growth
- Robust tourism sector
- Good infrastructure network
- Sound banking sector indicators
- Free Trade Agreement with the US (CAFTA-DR)
- Political stability

- Weak rule of law
- High levels of red tape and corruption
- Persistent income inequality is a breeding ground for social unrest
- Vulnerability to climate change impacts

Economic overview

Steady amid storms

Over the past decade, the Dominican Republic has emerged as one of Latin America and the Caribbean's fastest growing economies, boasting an average growth rate of around +5% per annum. Although the country was not insulated from the impact of the pandemic, it has since made a full recovery, with +12.3% real GDP growth in 2021 and +4.9% in 2022. The latter was largely fueled by its services sector (which accounts for approximately 55% of GDP), along with expansionary fiscal policies. In 2023, the pace of growth slowed to an estimated +3.5%, affected by a global economic slowdown that took a toll on exports, even in the face of record-breaking tourism numbers. Looking ahead to 2024, while a deceleration in tourism numbers is anticipated, a more relaxed monetary policy and a normalizing external environment are expected to push growth to +4.3%, offsetting a predicted slowdown in the agriculture (an important employment sector) as a consequence of El Niño-related droughts. Over the longer term, the implementation of a planned tax reform in 2025 is likely to constrain domestic demand, resulting in a slightly lower average GDP growth of +4.2% between 2025 and 2028.

Like many other Latin American countries, the Dominican Republic is highly dependent on oil imports. This vulnerability was exposed by supply chain disruptions arising from the Russia-Ukraine conflict which culminated in the Dominican Republic experiencing 8.8% y/y inflation in 2022. However, inflationary pressures have started to wane, dropping to around 4.3% in late 2023. They are projected to decline further to 4.2% by the end of 2024, partly due to falling commodity prices as well as the expected extension of existing fuel and electricity subsidies. This being said, a sluggish US recovery could curb tourism and suppress inflation more than anticipated, while higher than anticipated tourism could have the opposite effect. Additionally, an earlier-than-expected withdrawal of fuel and electricity subsidies or a weaker peso could exert upward pressure on prices.

Amidst a backdrop of easing inflation, the Central Bank of the Dominican Republic (BCRD) has shifted towards a more accommodative monetary stance, moving away from the tighter policies previously enacted. The benchmark interest rates, which had peaked at 8.5% early in 2023 to counter the effects of global supply disruptions, have been revised to 7.5% as of August 2023. It is projected that the policy rate will undergo a methodical decline to an estimated 6% by early 2024 and reach a terminal rate of 5.5% later the same year. Accompanying these rate adjustments, the BCRD has also relaxed legal reserve requirements for banks and increased liquidity through open-market operations

All's well, mostly ...

Part of the story behind the Dominican Republic's region leading growth over the past two decades has been prudent fiscal and monetary policy which have supported macroeconomic stability. However, unlike its economy, the country's fiscal position has yet to fully recover from pandemic disruptions. Public debt in 2023 is estimated to be around 56% of GDP, higher than the 52% pre-pandemic. This slower recovery of public finances can be attributed to government efforts to mitigate the impact of price increases on the population through increased subsidies for fuel and energy. Although, these inflationary pressures have begun to ease, the fiscal deficit is expected to remain broad in 2024, influenced by spending related to upcoming May 2024 general elections. However, projections indicate the deficit may begin to narrow again in 2025, contingent on the likely re-election of the current Abinader administration and its anticipated focus on restrained spending and long-overdue tax reforms.

After widening to 5.6% of GDP in 2022 amid softer exports and higher commodity prices, the current-account deficit is on a path of contraction. It's projected to decrease from 4.3% in 2023 to 3.7% in 2024, led by robust exports and global economic recovery. Although the deficit is anticipated to linger between 2024 and 2028, it should progressively narrow, supported by increasing remittances and tourism revenue. While BCRD's loosening monetary policy may curb capital inflows due to a smaller US interest-rate gap, FDI is still expected to rise, boosted by nearshoring activities by US-based firms. While short-term risks such as tightening global financial conditions and sluggish global growth persist, they're more balanced in the medium term, suggesting a sustainable external position.

Surface Political Stability, Deep-Rooted Challenges

In the short term, political risks appear limited as President Luis Abinader of the Partido Revolucionario Moderno holds a strong congressional majority and enjoys high approval ratings. While his re-election in the upcoming May 2024 general election is widely expected, the president's market-friendly agenda is likely to stall until then. If re-elected, the landscape of low governability risks should continue, despite lingering issues with weak public institutions and poor accountability. While government efforts to enhance the rule of law are likely to prevent large-scale disturbances, sporadic protests ignited by corruption scandals could still occur. Further fueling public unease are persistent social issues, such as high unemployment, income inequality, escalating crime and unreliable electricity. External political risks largely stem from the Abinader administration's contentious policies towards Haitian migrants, including closure of the border and deportations of undocumented migrants. These actions have strained its largely amicable relationship with the US, its main trade partner and largest source of foreign investment. Although the probability is low, there exists the risk that the US may intensify existing sanctions should it perceive a deterioration in the treatment of Haitians.

Despite its market-oriented economic policies and advantageous geographical proximity to the US, the country's business environment remains below its full potential. Principal shortcomings include unstable governance systems and gaps in vital areas such as educational facilities and its electrical network. The government has a strong commitment to electricity sector reform which points to a long-term vision, but quick fixes are unlikely. This same long-term perspective applies to a shortage of human capital, which remains a bottleneck for business sector growth. Weak intellectual property protections add another layer of complexity, undermining an otherwise robust entrepreneurial environment. This weakens R&D investment and translates into sparse patent activity, ultimately hindering the generation of quality jobs.

In spite of these challenges, the Dominican Republic's long-term economic outlook is cautiously optimistic. Yet its 23rd ranking (out of 191 countries) in the 2023 Inform Risk Index underscores the urgent need for climate resilience strategies. Increased frequency and severity of natural disasters, exacerbated by climate change, put both economic growth and vulnerable communities at risk. Addressing this issue is crucial for sustaining progress and mitigating social inequalities.

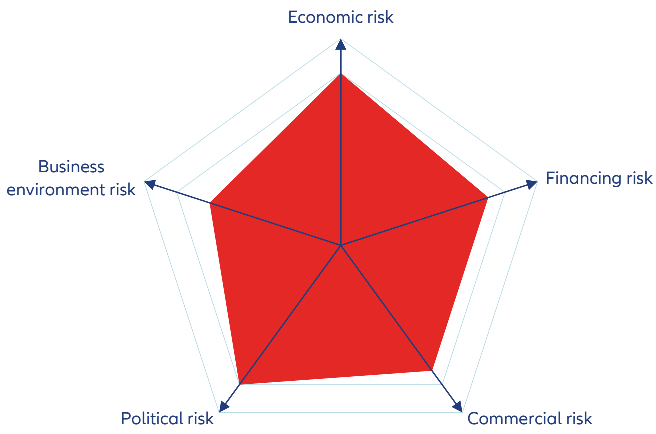
C4

High
risk for enterprises

Ecuador

Escalating insecurity and economic slowdown exacerbate political challenges

GDP	USD115.0bn (World ranking 63)
Population	18.0mn (World ranking 66)
Form of state	Presidential republic
Head of government	Daniel Noboa (President)
Next elections	2025, Presidential and legislative



Strengths & weaknesses

- Significant oil reserves
- Unexploited mining resources
- Dollarization of the economy limits transfer and currency risk and anchors inflation
- Recently improved road network
- Major exporter of bananas, cocoa and palm oil
- High tourism potential linked to biodiversity

- Dependence on oil production and high vulnerability to global oil prices
- Monetary policy limited by dollarization
- Low level of FX reserves
- Limited access to international capital markets due to successive debt defaults
- High rates of informal employment
- Rise in violence linked to gangs, organized crime and political crises

Economic overview

Slowing economy

"After a period of robust growth, Ecuador has grappled with the challenge of mitigating the impact of falling oil prices, upon which its economy heavily relies, since 2014. The country experienced a recession in 2020, recording a contraction of -7.8%, before modestly rebounding with a +4.2% growth in 2021. In 2022, its economy expanded by +3.0%, falling below the regional average of +4.8% and growth is estimated at +1.4% in 2023. Despite the full dollarization of the country since 2000, which addressed some imbalances, Ecuador continues to wrestle with structural weaknesses, including its dependence on oil exports, high rates of informal employment and limited access to capital markets, marked by several instances of default.

Furthermore, Ecuador faces heightened challenges due to a surge in nationwide violence in recent years, stemming from gang violence and organized crime, leading to increased political risks and disrupting economic stability. The recent Metastasis case, a large corruption scandal, highlights the growing influence of narcopolitics, further weakening Ecuador's rule of law and business environment. In 2024, we anticipate GDP growth to recover to +1.8%, driven by increased attractiveness for foreign investors, albeit constrained by a ban on the exploitation of oil and mining in a major oilfield of the country. Looking ahead, the growth outlook for the 2025-2028 period remains modest, hovering around +2%.

The inflation situation in Ecuador has not been as dramatic as in other Latin American countries in the past two years, for the dollarization of the economy has anchored inflation expectations and eliminated currency risks. Average inflation peaked at 3.5% in 2022 and is since then decreasing, to an estimated 2.3% in 2023, well below regional peers. The inflationary pressures, which mainly came from food, transport prices and non-tradables, eased rapidly after the crisis, thanks to dollarization and subsidized fuel prices. The dollarization deprives Ecuador from it's independence as to monetary policy, although the country has a central bank (Banco Central del Ecuador, BCE) managing international reserves. The country is dependent on the Fed's policy rate, which we expect to stay on a plateau at 5.5% until mid-2024, before the start of an easing cycle when and if US inflation normalizes fully. Despite this easing cycle, local interest rates should stay elevated in Ecuador, as the country's liquidity situation is more and more jeopardized and high-risk premiums stay the norm.

Conjunctural improvements don't account for a solid fiscal path

Ecuador's fiscal situation has improved in the last few years, thanks to several fiscal consolidation reforms and help from the International Monetary Fund (IMF). In September 2020, Ecuador and the IMF signed an Extended Fund Facility (EFF) lasting for 27 months, until end of 2022. The EFF allowed Ecuador to stabilize the macroeconomic imbalances ensuing the Covid-19 crisis and to build fiscal buffers, but political instability prevented it from gaining financial markets access. Therefore, the country has to implement further fiscal consolidation to gain market access, which is a declared goal of President Daniel Noboa. But strong fiscal consolidation is still in question, since Noboa has to account for the 2025 presidential election and since the economy also needs a stimulus. We expect government deficit to be relatively stable at around 2.3% on average in the 2024-2028 horizon. Public debt levels have peaked in 2020, before decreasing towards the pre-pandemic level at 56.3% in 2023.

On the external position side, Ecuador is highly dependent on oil exports: between one third and half of its total exports are crude oil exports, throughout the years. A large share of its trade balance is therefore determined by oil prices. In 2014-2015, when global oil prices fell considerably, oil exports in value decreased by 28.7% and have still not recovered. On top of that, oil drilling and mining are increasingly controversial, because of their devastating ecological impact in a country which has a rich biodiversity and indigenous people it wants to protect. In August 2023, Ecuadoreans voted to ban mining in the Chocó Andino region and oil drilling in the Yasuní oilfield, which accounted until then for 12% of the country's production. As a direct result, we expect Ecuador to register a current-account deficit again in 2024, which will then resorb gradually until 2027. The international reserves situation sparks concerns, with the import cover, already low, deteriorating to under two months in 2023.

Weak business environment and rising risks to governability

Ecuador ranked 119th out of 177 worldwide in the 2023 Heritage Foundation's Index of Economic Freedom survey, gaining seven places compared to 2022 and 24th out of 32 in the Americas. Its main strengths lie in monetary freedom – the US dollar is the official currency – and tax burden, but it obtains very poor scores in rule of law, as property rights, judicial effectiveness and government integrity are worsE than the world's average. The restricted access of Ecuador to investment markets leaves the country very poorly ranked in open markets freedom. Our proprietary Environmental Sustainability survey rebalances the picture, since it ranks Ecuador 33rd worldwide. The country indeed enjoys a good energy use per GDP, climate change vulnerability and an outstanding water stress situation, although it has weaknesses in renewable electricity output and recycling.

Following the anticipated elections in October 2023, which occurred in the aftermath of a political crisis at the beginning of the year that led former President Guillermo Lasso to dissolve the National Assembly, the center-right candidate Daniel Noboa emerged victorious. Notably, Noboa secured the presidency with a minimal representation in Ecuador's sole legislative house. A businessman and the son of a long-time presidential candidate, Mr Noboa has been a deputy since 2021, aligning ideologically with former President Lasso's principles of economic orthodoxy, fiscal responsibility and a robust stance against the prevailing resurgence of violence.

During his campaign, Noboa pledged to prioritize job creation and impose stricter penalties for tax evasion, garnering favor from the financial markets. However, Mr Noboa, whose term is slated to last one and a half years until 2025, lacks a majority in the National Assembly, holding a meager number of deputies (14 out of 137). The largest group in the National Assembly belongs to the radical left Revolución Ciudadana (RC) with 52 seats out of 137. In order to secure political stability, Mr Noboa formed a coalition with RC, as well as the conservative Partido Social Cristiano (PSC) and the centrist party SUMA. While this coalition helps avoid strong opposition from RC, it also compromises Mr Noboa's reform agenda, as he must tailor his program to accommodate his allies. A recent corruption scandal involving the RC party introduces a risk to governability, potentially jeopardizing the stability of the legislative coalition.

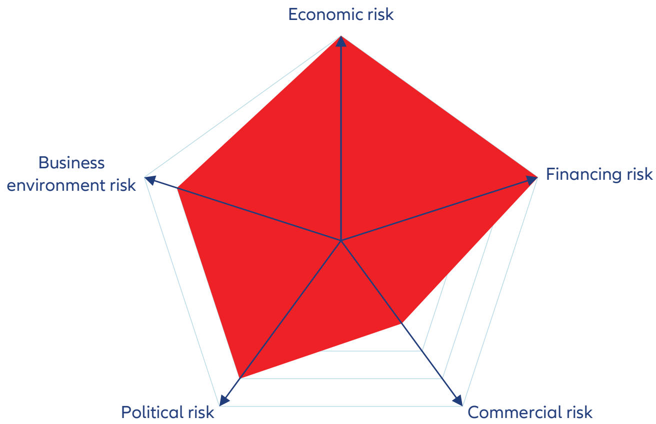
D4

High
risk for enterprises

Egypt

The Sphinx's enigma: testing Egypt's political and economic stability again

GDP	USD476.7bn (World ranking 32)
Population	111.0mn (World ranking 14)
Form of state	Semi-presidential republic
Head of government	Abdel Fattah el-Sisi (President)
Next elections	2025, Legislative



Strengths & weaknesses

- Domestic and foreign investments in infrastructure and construction, as well as positive demographics, drive high economic growth rates, despite structural challenges
- Access to alternative financing has improved, including modest privatizations and different markets, such as the Panda bonds
- Suez-related revenues and tourism receipts contribute to a relatively balanced current account, showcasing the country's ability to stabilize key income sources

- High inflation rates, particularly for food prices, pose a significant challenge to the economy, impacting purchasing power and creating difficulties in managing the exchange rate
- Potential for social unrest, driven by issues such as youth unemployment, currency depreciation and geopolitical tensions, poses a risk to political stability
- A decrease in Suez Canal and tourism revenues due to regional conflicts may add to existing challenges in accessing diverse funding sources due to high global interest rates, large credit default swap spreads and a difficult dialogue with the IMF, ultimately leading to a sovereign default

Economic overview

Austerity-led growth to cope with political and regional pressures

The Egyptian economy has maintained high growth rates despite the difficulties arising from structural imports of food, energy and refined products in a context of high population growth and increased investment (domestic and foreign) in infrastructure and construction. The economy is expected to grow by +3.5% in 2024, following an estimated +2.8–3% in 2023. However, this goes in parallel with very high levels of inflation (+33.7% in December, with food still at +79%) and evident difficulties in maintaining an acceptable buffer of foreign exchange reserves and refinancing debt.

The conflict between Israel and Gaza, which has more than 2mn people gathered in the southern portion of the Gaza Strip that borders Egypt, as well as international pressure to resume the negotiations with the International Monetary Fund (IMF), both had an impact on the early presidential elections that took place in December 2023, several months ahead of schedule. The election confirmed President El-Sisi with nearly 90% of votes, with essentially no contenders and an official turnout of 67%.

Along with currency depreciation, sovereignty remains a hot topic and is probably the main supporting factor for the military-backed government. In recent years, the government has faced popular protests against ceding the two Red Sea islands of Tiran (just 6km from the tourism resort of Sharm El Sheikh) and Sanafir to Saudi Arabia in exchange for some financial assistance. Saudi Arabia finally added them to its country map in September 2023. Any such development involving the Suez Canal remains unlikely as long as the government is solvent. Over the summer, the government privatized several state-run companies whose total value should bring in some USD1.9bn. The buyers have generally been sovereign wealth funds, subject to the diplomatic benevolence of the Arab world (Abu Dhabi, Saudi Arabia). The most desirable assets, such as a company that operates gas stations and one that sells beverages and bottled water, have not been put up for sale yet.

Remittances are likely to decrease significantly, but Egypt's current account remains close to balance due to shrinking imports. Suez-related revenues increased in recent months, bringing in an additional USD400mn on average per quarter in FY 2022-2023. The increase in transit fees between the end of 2022 and the beginning of 2023 has certainly helped, as has the strategic nature of the Canal. Authorities confirmed the increase in transit revenues to a projected total of USD9.4bn for the full FY, which would mean a +52% increase in Q4 compared to the average of the previous three quarters. Tourism receipts have also increased, thanks to rising prices and the general recovery in tourist flows seen in other countries. Both revenue channels are likely to slow down in the first half of 2024 due to resurging regional conflicts.

Strategizing amid funding challenges

Egypt's funding alternatives have been limited. High global interest rates, along with investor anxiety over economic policy, have rendered the issuance of Eurobonds unfeasible. Credit default swap spreads are worryingly large and Egypt's USD3bn IMF program has been halted after the country deviated from plan rules on the exchange rate and with economic pluralism lagging behind. Egypt's first Panda bond offering on the Chinese market has helped the Ministry of Finance raise about USD500m. The Treasury is hoping to raise an additional USD1bn in Japanese bonds and sign a commercial bank loan to assist in financing a huge budget deficit and to reduce pressure on foreign exchange reserves. Egypt will face a maturity wall on public external debt in 2024 totaling around USD10.7bn (equal to 2.5% of GDP and around 20% of projected tax revenues, also considering the devaluation of the Egyptian pound).

The deterioration of sovereign risk goes hand-in-hand with a marked increase in Egypt's credit default swap spreads. A USD1.5bn sukuk (Islamic bond) was issued in early 2023, suggesting that other areas of the capital market remain active and officials had explored the potential of issuing Panda bonds, although it was uncertain whether the terms would be permissible. Compared to the interest rates on Egypt's USD29bn in conventional notes, Panda bonds have a much more attractive interest rate of 3.5% over a three-year tenure. Egypt has maintained a "darling" reputation among multilaterals and its continued capacity to attract foreign financial support, exemplified by the partial guarantees from the Asian Infrastructure Investment Bank and the African Development Bank, has kept the yield low.

Balancing social control and potential unrest

Despite the president's tight control over institutions and the army's support, the autocratic political system carries a hidden risk of social unrest. Going forward, rising social discontent related to high youth unemployment, low purchasing power and currency depreciation, as well as potential misalignment with other Arab countries over the relationship with Israel and the protection of Palestinians, may trigger revolts and institutional changes. Security risks related to latent conflict in Libya and Sudan also weigh on the downside, as do claims against Ethiopia over the upstream allocation of water from the Nile basin.

If the government manages to keep accessing alternative sources of money on favorable terms, particularly through bilateral aid, it may not need to comply with previous IMF recommendations. If this happens, market reforms that the government would prefer not to implement, such as the privatization of state assets, may be sidestepped.

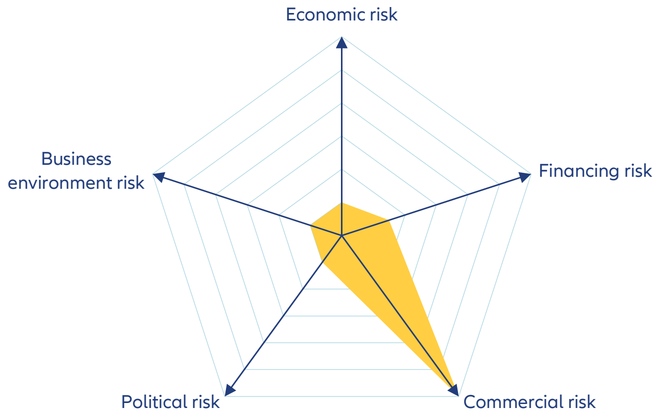
AA2

Medium
risk for enterprises

Estonia

Caught in protracted recession

GDP	USD38.1bn (World ranking 100)
Population	1.3mn (World ranking 155)
Form of state	Parliamentary Republic
Head of government	Kaja Kallas (PM)
Next elections	2026, Presidential



Strengths & weaknesses

- Low systemic political risk
- Good regional and international relations (except with Russia), EU and NATO membership
- One of the most open and liberal economies in the world
- Eurozone membership provides for low transfer and convertibility risk
- Healthy public finances
- Strong business environment, supported by stable institutions and an independent judiciary

- High gross external debt
- Unfavorable trade structure, with a high dependence on a few EU countries
- Energy import dependence on Russia (prior to the war in Ukraine)

Economic overview

Slow recovery in 2024-2025

Estonia's economic outlook has sharply deteriorated as a result of the war in Ukraine. This is mainly due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 8% of Estonia's exports, 10% of its imports and, notably, 46% of its natural gas imports). Following a strong post-Covid-19 rebound with +7.2% real GDP growth in 2021, economic activity in Estonia cooled rapidly in 2022 amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. In q/q terms, real GDP has contracted for seven consecutive quarters from Q1 2022 until Q3 2023, taking the economy into full-year recession in 2022 (-0.5%) and 2023 (-3.4% in the first three quarters). Looking ahead, we expect Estonia to exit recession in the course of 2024, in part due to base effects and in part thanks to an eventual modest recovery of trade with Western Europe. Government fiscal stimulus and EU fund inflows should also help. We forecast full-year real GDP to expand by around +1% in 2024 and +2.5% in 2025.

Inflationary pressures will remain elevated in 2024. Consumer price inflation rose to double digits at end-2021 and remained there until mid-2023 (with a peak of 25% y/y in August 2022), driven by surging energy and food prices as well as interrupted supply chains. In the meantime, it has come down to 4% at end-2023 thanks to base effects, moderated energy prices and weak domestic demand. As these effects will gradually wane in 2024, we forecast inflation to remain in the range of 3-4% in 2024. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Estonia.

Public and external finances have weakened but remain unproblematic

Estonia's public finances will remain manageable despite strong fiscal stimulus measures taken in 2020-2021 to mitigate the economic impact of the Covid-19 crisis and renewed, albeit more moderate, stimulus to mitigate the impact of the recession in 2022-2023. The government posted fiscal deficits of -5.4% of GDP in 2020, -2.5% in 2021 and -1.0% in 2022. We forecast the annual shortfalls to increase to the range of -2.5% to -3.0% in 2023-2025, driven by rising wages and pensions as well as new permanent spending for defense, education and child benefits. At the same time, fiscal revenues have deteriorated due to the lasting recession. As a result, public debt increased from just 8.5% of GDP in 2019 to slightly more than 20% and is projected to remain above that threshold in the next years. However, this will still be very low compared to peers or the Eurozone average and in fact means that Estonia should have more room for fiscal leeway if needed.

Estonia's external finances should remain manageable as well. Following seven years of annual surpluses from 2013 to 2019, the current account posted moderate deficits equivalent to -1.0% of GDP in 2020 and -1.8% in 2021, mainly due to a relative strong import performance in the context of a domestic investment boom. The annual shortfalls widened to almost -3.0% of GDP in 2022-2023 owing to sharply increased prices for energy and food imports. Going forward, we forecast the annual deficits to narrow somewhat in 2024-2025 as global energy prices have moderated.

Gross external debt is elevated in Estonia, having risen from 76% of GDP in 2019 to around 90% in 2023 in the wake of the Covid-19 crisis and the impact of the war in Ukraine. We forecast the ratio to remain close to 90% in the next few years amid weak economic growth potential. Meanwhile, short-term external debt as a share of gross debt has fallen to 34% as of September 2023, after it had increased from just 28% in 2018 to around 40% in mid-2022. Overall, any concern about the gross external debt position is mitigated by the fact that Estonia remains a net external creditor and has actually enlarged that position in recent years. At end-2023, net external assets accounted for around 31% of GDP.

Strong business environment and moderate political risk

The business environment for corporates in Estonia is very strong. The World Bank's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. Likewise, the Heritage Foundation's annual Index of Economic Freedom surveys have put Estonia in the top ten out of around 180 economies in recent years (rank 6 in 2023), reflecting very strong scores with regard to property rights, judicial effectiveness, government integrity, tax burden, trade freedom and investment freedom; only labor freedom is scored below average. With regard to environmental sustainability, Estonia scores somewhat less favorably, owing to a low level of renewable electricity output and a moderate recycling rate. However, the country does well with regard to energy intensity, water stress and overall vulnerability to climate change and has significantly improved in terms of CO_2 emissions in recent years. In all, Estonia has climbed to rank 57 out of 210 economies in our proprietary Environmental Sustainability Index, up from rank 70 a year ago.

Overall systemic political risk has deteriorated somewhat from a previously low level because geopolitical risk in the region has increased with the war in Ukraine. Estonia is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. However, there is a risk that social tensions are emerging from the sizeable Russian-speaking minority in Estonia.

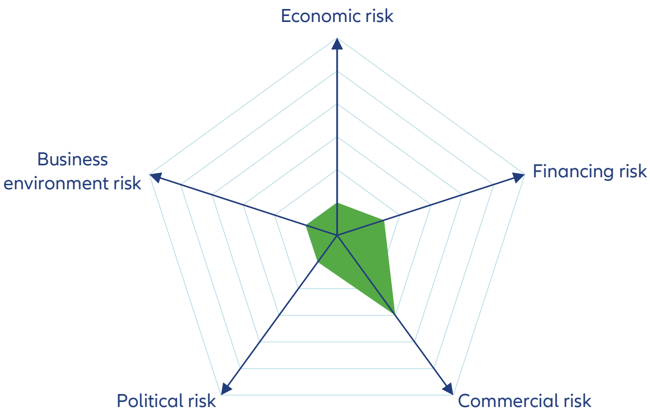
AA1

Low
risk for enterprises

Finland

From hibernation to rebound

GDP	USD280.8bn (World ranking 48)
Population	5.6mn (World ranking 116)
Form of state	Parliamentary republic
Head of government	Petteri Orpo (PM)
Next elections	2027, Legislative



Strengths & weaknesses

- Attractive business environment with high research and development spending
- Low fiscal deficit and contained public debt
- Improving competitiveness, a highly skilled workforce and a robust welfare state

- Exposure to Russia is still high
- Rapidly deteriorating current account balance with high private debt, notably linked to housing loans
- High labor costs and weak demographics

Economic overview

Muted growth to resume in 2024

Finland has experienced rather low growth in the past, with +1.2% on average over the last 20 years and just +0.6% for the past decade. GDP declined by -2.9% in 2020, much less than the EU average. Government consumption and exports have primarily been responsible for the rebound. The country benefits from a dynamic manufacturing sector that enables it to support its current account surplus. Consumer spending benefited from the release of excess savings after Covid-19, which helped growth to be strong at +3.0% in 2021 and +2.1% in 2022. The unemployment rate fell from 7.6% in 2021 to 6.8% in 2022, but the labor market situation will deteriorate in 2023 and 2024. The unemployment rate will rise to 7.8% in 2024, which is above the level of structural unemployment.

High inflation and policy tightening are weighing on domestic demand and the slowing of the global economy leads us to expect a GDP decline of -0.4% in 2023. The economy will strengthen gradually, but output growth will remain moderate, at +1.0% in 2024 and +2.2% in 2025. Inflation reached 7.1% in 2022, with energy and food prices being the main drivers. After reaching its peak in the last quarter of 2022, inflation has decelerated to 6.2% in 2023, followed by a decline to 2.4% in 2024 and a further decrease to 2.2% in 2025. Tighter credit constraints also weigh on housing prices, even though the real estate market seems fairly valued in Finland.

Fiscal leeway to tackle economic uncertainty

Finland has a history of moderate fiscal deficits, hovering around -3% of GDP in the past decade. The fiscal deficit went from -1% in 2019 to -5.9% in 2020 but decreased again to -2.8% in 2021 and -0.9% in 2022 on the back of increased revenue performance due to higher-than-expected inflation, increased accrual of social security contributions and the gradual removal of pandemic-related measures. The general government deficit is expected to widen to -3.2% of GDP in 2024, driven by a revenue decrease due to changes in social security contributions. Additionally, the deficit is projected to be influenced by additional defense spending, costs from R&D-related measures and investment funding over the forecast horizon. These factors will persist in 2025, leading to a further increase in the deficit to -3.4%. In 2022, the debt-to-GDP ratio stood at 73.0%, pointing to the resumption of a growing trend. The general government debt-to-GDP ratio will increase in the next years, reaching 76.2% in 2024 and 78% in 2025, due to a higher primary deficit. On the monetary front, as a Eurozone member, the country relies on decisions taken by the European Central Bank.

An attractive business environment

The main areas of improvement are access to credit and the protection of minority investors. However, the country tops the list when it comes to resolving insolvencies. Moreover, it is worth mentioning Finland's inclination towards innovation, as seen in the advancement of its digital infrastructure, a characteristic common to Nordic countries.

Like in other Nordic countries, the Finnish political system is regarded as a model of transparency and efficiency. The country is ruled by the liberal-conservative National Coalition in a right-wing coalition with the Finns Party, the Swedish People's Party and the Christian Democrats. Political opposition is more often constructive than seen elsewhere.

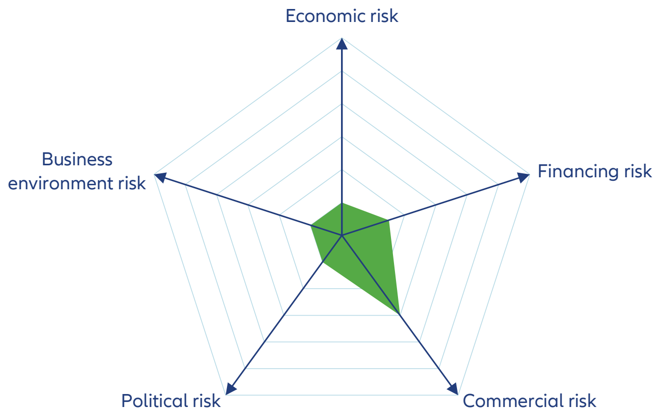
AA1

Low
risk for enterprises

France

Cyclical headwinds, structural challenges

GDP	USD2782.9bn (World ranking 7)
Population	67.9mn (World ranking 21)
Form of state	Semi-presidential republic
Head of government	Emmanuel Macron (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- High quality infrastructure (e.g., transport)
- Many international corporate giants and growing presence of technological start-ups ('French tech')
- Diversified economy
- Numerous nuclear plants that make the country less vulnerable to energy shortages
- Qualified engineers and strong export-oriented services

- Low employment rate among youth and seniors
- Weakening productivity growth
- Lack of large SMEs that can bear the sunk costs associated with innovation and exports
- Rent-based economy (e.g., retail distribution, taxis)
- Elevated level of public spending and questionable efficiency

Economic overview

Economy stagnating

The French economy has grown little since end 2022, held back by high energy costs gradually feeding through into corporates' bills, depressed household confidence, lackluster export growth and the effects of the ECB's tightening monetary policy. Against this backdrop, the government has rolled out large support packages since the end of 2021 – including a generous tariff shield – to cushion the impact of the energy crisis on households and corporates' finances. Furthermore, growth momentum had benefited from the resumption of nuclear production and the build of stocks by corporates to replenish low inventories. The French economy should be stuck in this around zero growth environment through the middle of 2024. Corporate investment, which has held up well in 2023, should weaken as cash buffers are being depleted and external funding is drying up in a high interest rate environment. Growth should receive a boost from much lower inflation, which will support household income and consumption, but households will remain cautious for much of 2024, as indicated by persistently high savings intentions. The government has started to tighten fiscal policy to reduce a large fiscal deficit, but in 2024 most of the tightening will stem from the unwinding of energy subsidies, with expected little growth-hurting impact insofar energy prices remain contained. Tight fiscal policy will nevertheless increasingly constrain growth from 2025.

Inflation has cooled down rapidly since the beginning of 2023, amid the unwind of supply-chain disruptions, lower commodity prices and persistently weak underlying demand. We expect it to be fully normalized by the summer of 2024, at below +2%, as indicated by corporates' weakening selling price expectations.

Corporate sector and public sector vulnerabilities

French corporate profit margins have been squeezed since the war in Ukraine. Excluding the transportation services and energy sectors, margins are at their lowest level since the mid-1980s. Low pricing power, alongside rapid rises in wage costs (the minimum wage is indexed to inflation) and declining productivity have kept companies from increasing their margins, especially in the services sector.

French corporates have persistently run large negative financial balances (i.e., they must rely on external funding or cash reserves to fund investment spending) over the past two decades. Over the past two years, external funding has dried up as interest rates have increased sharply. In this context, corporates have funded their investment by digging into their cash buffers. But those reserves have now pulled back below their trend, while it has become more difficult to roll over short-term credit lines. The financial environment is thus becoming more challenging for French corporates, especially SMEs. Excluding micro firms, corporate bankruptcies have surged over the past months. Thankfully, corporates have partially shielded their balance sheets against elevated interest rates through higher prices and larger interest-yielding assets: their interest coverage ratio (post-tax profit over net interest expenses) remains contained, though decreasing rapidly.

The public sector's balance sheet bore the brunt of the dual shocks of the pandemic and the energy crisis. Public debt has increased by about 14 points of GDP between 2019 and 2023, more than in the Eurozone and the US. Elevated inflation has initially boosted tax receipts but is now pushing up 'catch up' spending (such as the indexation of social benefits and civil servants' wages). The government has also pushed through tax cuts on households and corporates and ramped up industrial subsidies massively. Amid the re-introduction of European fiscal rules, we expect the government to broadly stick to the rules-binding 0.5% of GDP of fiscal consolidation per year from 2025, but risks of fiscal slippages are high. Nevertheless, public debt as a share of GDP should remain broadly flat at an elevated level.

Stark improvement in the labor market but productivity performance a weakness

France's labor market has held up remarkably well since the pandemic. The unemployment rate has dropped while net job creations were the most dynamic among the large, developed nations since the pandemic, especially for the young. The labor participation rate picked up sharply to reach its highest recorded level. Despite weakening hiring intentions, unemployment is not expected to increase by much amid large labor shortages. Labor market strength is an important buffer against fading economic momentum.

Nevertheless, dynamic employment is partly the by-product of poor productivity performance. Abundant labor, sizeable hiring of young people and labor hoarding have weighed on French productivity, which sits well below its pre-pandemic level. More concerning, the underlying efficiency of labor seems to have decreased. Dynamic investment through 2022 and an expected increase in youth work efficiency (notably apprentices) should sustain an improvement of labor productivity in the next couple of years but we do not expect a return to the pre-pandemic implied path. The continuous drop in school proficiency for French students and poor skills of the labor force is a big headwind for future productivity growth. Furthermore, long-lasting structural issues (e.g., the lack of qualified workers, skill mismatches and little incentives to start work) are likely to prevent a significant drop of the unemployment rate below 7% in coming years.

Export performance is an area where France continues to underperform. French export volumes are well below their pre-pandemic implied path, held back by low exports of transport materials. On the positive side, exports of services have been dynamic since the pandemic. Export performance has been held back by a wide range of structural issues. The government has rolled out ambitious industrial subsidies to try to shore up manufacturing and exports, but incentives for corporates to restore production in a low potential growth country are weak. To boost the post-Covid-19 export recovery, the challenging sectoral specialization (e.g., aircraft and automobiles), poor price and quality competitiveness and the lack of qualified (technical) workers are amongst the chief issues to address.

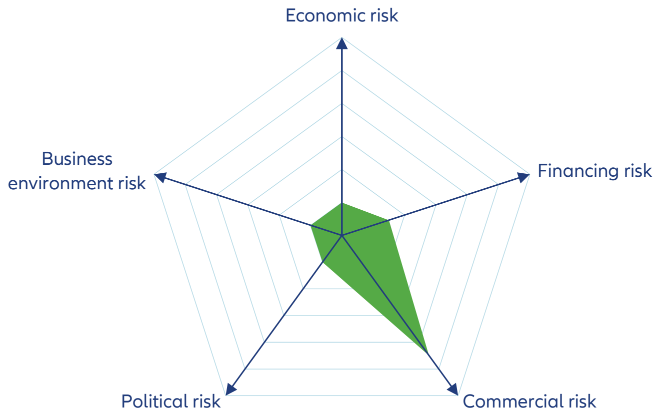
AA1

Low
risk for enterprises

Germany

Cyclical and structural challenges weigh on growth prospects

GDP	USD4072.2bn (World ranking 4)
Population	84.1mn (World ranking 19)
Form of state	Federal Republic
Head of government	Olaf Scholz (Chancellor)
Next elections	2025, Legislative



Strengths & weaknesses

- Solid public finances
- Strong industrial base
- Low structural unemployment
- Well-diversified export sector (products & trade partners)
- Low systemic political risk

- Aging population and skilled-labor shortage
- Dependence on exports
- High energy prices
- Dominance of the automobile sector
- Subdued medium-term growth prospects due to weak investment

Economic overview

The German economic engine is sputtering

Despite a +3.1% recovery in 2021 and GPD expanding by +1.9% in 2022, pre-crisis GDP levels were only reached in early 2022, whereas the Eurozone aggregate already hit that milestone in late 2021. The German economy has barely grown since the Covid-19 setback. But the German government has intended to revive the engine through the 10-point economic plan. At its core, the growth and opportunity act provides concrete impulses for growth and competitiveness as well as funding that should make Germany more attractive as a businesslocation, along with climate and transformation funds. The pact for planning, approval and implementation acceleration phases out more than 100 single regulations and the tax reform on electricity prices for the industry will lower electricity prices for business. Announced fiscal measures will amount to around 2.5% of GDP.

However, the German economy is struggling with cyclical and structural headwinds which pushed the German economy into recession in 2023. It will not recover until 2024 (+0.5%) and will grow by +1.7% in 2025. Next to dim short-term prospects, the medium-term outlook is also concerning. In addition to high energy costs, the headwinds for the German economy come primarily from weak global demand, especially for highly cyclical goods such as cars, machine tools and chemicals. In addition, the lopsided global growth in services compared with goods is causing problems for the local economy. Germany is also facing structural challenges, including labor shortages, high energy costs, a heavy regulatory and tax burden, creeping digitalization and political uncertainty.

In Germany insolvencies are again on the rise due to the reinstatement of the insolvency laws after the temporary suspension to file for insolvencies and overall tighter financing conditions. They will however remain below 2019 levels despite a rebound in 2023 that reached +22% y/y i.e., +3 210 firms to 17 800 cases. The sectors most under scrutiny are trade, hospitality and construction. We expect the government to remain ready to act in a targeted way, as they did to rescue several most-hit utilities.

Inflation – no return to 2% target before 2024

Mirroring other Eurozone economies, German inflation pressures are easing in the energy and food sectors despite short-term volatility. Inflation came in at 5.9% on average in 2023 and we expect it to slow further to 2.6% and 2.2% in 2024 and 2025, respectively. However, core inflation also looks set to settle well above average mainly because of services inflation. Supply bottlenecks have diminished but could rise again due to ongoing geopolitical uncertainty. At the same time though labor cost pressure will remain high while the green transition will generate additional costs. Overall inflation will decline markedly, albeit remain above 2% – both headline and core – even in 2025.

Fiscal outlook: Budget consolidation turns fiscal spending more restrictive

The German government has been bypassing its debt brake of 0.35% as structural debt in relation to potential GDP, particularly to finance its program to combat climate change. But the Federal Constitutional Court's ruling in November 2023 has stripped the government of the financing for climate and industrial policy projects: at least EUR60bn (costing -0.7pp of GDP spread over 2023-2027) and potentially a further EUR200bn set aside to aid the economic recovery from the economic stabilization fund are at stake. This situation also illustrates how Germany has managed to control its public debt. While government spending in relation to GDP was 45% in 2019, it is currently 48% (after over 50% in 2020 and 2021). This means that almost half of economic output is still funneled through public coffers, which leaves enough room for maneuver. But the German government has struggled to find consensus on setting priorities in its 2024 budget as it will have to comply with the debt brake and fiscally consolidate its structural balance at least in 2024 until further notice. This leaves it with EUR17bn savings from the core 2024 budget and EUR12bn from the Climate and Transformation Fund (KTF) in 2024, which adds up to a total of 0.7% of GDP.

This gap was now announced to be financed by various measures such as the early expiry of the e-car purchase premium, a reduction of solar subsidies and environmentally harmful subsidies on fossil fuels, as well as labor market measures. At the same time, revenue for the KTF is to be increased by raising the CO2 price to EUR40 from 2024, which is EUR5 more than previously planned. As Germany faces a challenging economic environment, this creates further uncertainty for firms and households. If the savings measures do not deliver what they promise, it could shave off approximately -0.3pp of GDP in 2024 and potentially prolong the recession in an already very weak environment as it cuts competitiveness and torpedoes a catch-up effect of public and private investments. Germany's fiscal impasse highlights the need to prioritize investments on par with current consumption and find a way to finance necessary investments in the years to come.

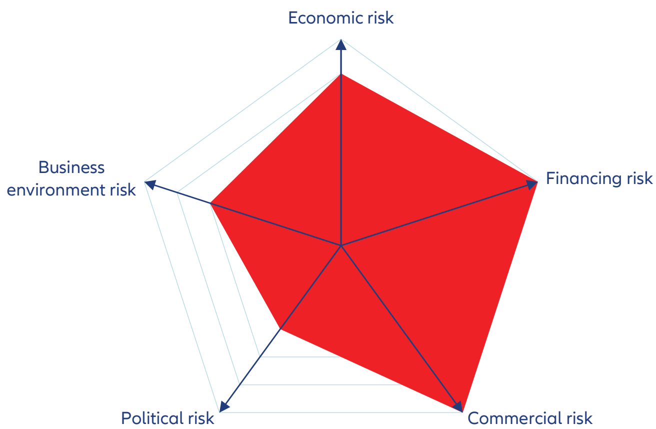
C4

High
risk for enterprises

Ghana

Only way forward is up

GDP	USD72.8bn (World ranking 77)
Population	33.5mn (World ranking 47)
Form of state	Constitutional Democracy
Head of government	Nana Akufo-Addo (President)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- Established track record of good governance, with a functioning democratic system and peaceful transfer of power among political parties and strong economic growth
- Natural resource base (cocoa, gold, forestry etc.,) now supplemented by the discovery of commercially exploitable oil reserves
- Market-oriented policy framework and overall positive relations with international financial institutions

- Effects of the selective default in late 2022 and the relative restructuring have alienated businesses, while continuing twin deficits (fiscal and current account) require careful management
- High exposure to sell-off pressures in emerging economies with periodic risk of currency depreciation, FX reserve depletion and payment crisis
- While some safeguards are established, the capability to manage oil wealth is yet to be tested as well as spillover effects from prolonged regional instability

Economic overview

Inflation will remain elevated throughout 2024

In 2022, Ghana's economic growth decreased because of the sovereign crisis and activity reduced further in 2023 at an estimated +1.5%, bringing the pace of economic growth close to the almost 30-year record low of +0.5% in 2020. Non-extractive industries led the downturn because they were hit the hardest by the widespread slowdown brought on by falling corporate and consumer confidence, as well as the challenging external situation. The non-extractive sector grew at around +1% on average in 2022-2023, the slowest pace since the 1980s. If positive demographics are considered, this indicates a decline in living standards, while a moderate recovery is forecast in the second half of 2024, bringing the annual GDP growth to around +3% for 2024.

Currency depreciation has paused, giving some respite to businesses and banks. In December 2022, Ghana ceased to make payments on its external debt to official bilateral and external commercial creditors, leading to haircuts on sovereign debt and domestic debt as well. Gross international reserves fell to USD1.1bn (0.5 months of imports) at the end of February 2023, USD5bn below the level of mid-2021, due to FX interventions by the Bank of Ghana to reduce volatility. As a result of these factors, the value of the Cedi has dropped by -50% between 2022 and early 2023. The agreement reached with the International Monetary Fund in mid-May 2023 was the first step towards a comprehensive debt-restructuring process involving the G20 group, including China, as well as domestic creditors and has helped contain currency depreciation since.

Inflation will stay elevated throughout 2024. Prices rose sharply in late 2022, hitting +54% y/y in December and remained elevated throughout 2023, closing the year at around 23% (i.e., 15 points above the target) on a downward trajectory. However, food price inflation remains elevated, due to a persistent lack of confidence as well as poor financial and logistical alternatives. The central bank has hiked its policy rate by a total of 15.5pps since early 2022 to reach 30% in July 2023. To increase financial stability at the expense of credit growth, it also extended the reserve requirement from 8% to 14%. We expect inflation to remain in the double digits for 2024 as well, with interest rates declining visibly in the second half of the year only.

The economy is set to recover in the medium term

Growth is predicted to remain muted over the coming years, with inflation returning to single digits in 2025. Starting in 2026, growth is expected to begin rising again towards its long-term potential of about +5%. The anticipated development of oil and gas production, as well as the opening of new gold mines, are all contributing factors to the extractive industry's robust performance. Exposure to negative terms-of-trade shocks from Ghana's overreliance on commodities will be partly mitigated by the variety of the export basket, which includes gold, crude oil and cocoa (80% of total exports).

Debt restructuring may set a positive precedent for other countries in the region. Due to its excessive debt levels in comparison to regional peers, Ghana became the fourth African country (after Chad, Zambia and Ethiopia) to request bilateral debt restructuring under the Common Framework platform sponsored by the G20. Absorbing the losses will take time and reduce the economic impulse, particularly in the case of the banking sector and companies exposed to state-owned entities. However, the institutional and legislative platform remains sound and will help rebuild the economy once a comprehensive agreement with all the creditors is reached.

Ghana's attractiveness has significantly improved over the past few years, thanks to recent business-friendly reforms, enhanced connectivity and the availability of digital services. Ghana was one of the first countries to ratify the African Continental Free Trade Agreement in 2018 and retains strong potential to become a trade and logistics hub for West Africa.

Leadership may shift, fiscal consolidation likely to endure

Ghana's performance in terms of civil liberties, rights and political stability exceeds that of most African peers. Independent poll observers generally deem general elections in Ghana to be free and fair. The high electoral turnout rate (79% in the 2020 presidential election) testifies to the state's credibility and to the country's democratic achievements. Ghana's strong record of accomplishment in democracy and rule of law is expected to prevent any serious social disorder, although the post-pandemic rises in unemployment and poverty, along with rising food and energy prices, have spurred discontent in recent years. Poor working conditions in the public sector and a lack of economic possibilities for young people are eroding trust in institutions. Future demonstrations may be temporarily disruptive but mostly peaceful and concentrated in urban centers.

Political life in Ghana will be defined by their bitter competition if the New Patriotic Party (NPP) retains power by a narrow margin and the National Democratic Congress (NDC) leads the opposition. With only 137 seats and the assistance of one independent member out of a total of 275, the NPP's working majority in parliament makes it difficult to pass contentious legislation. Policymaking will be delayed throughout the rest of the government's term because of the difficulty of reaching consensus on key legislation (particularly revenue-mobilizing acts).

As a result of anti-establishment sentiment and public anger with the current government over decreasing living standards, a transfer of power at the December 2024 election looks likely. Given the lack of budgetary headroom, we do not expect the present or next administration to be able to counteract the consequences of growing living costs through the imposition of subsidies, resulting in long-term popular anger and unrest. Nonetheless, policy will continue to concentrate on sustaining macroeconomic stability, given Ghana's long history of democratic rule.

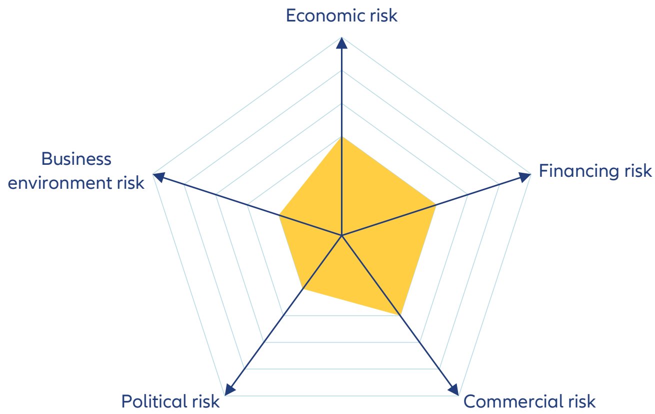
BB2

Medium
risk for enterprises

Greece

Solid recovery sees challenges from monetary policy tightening

GDP	USD219.1bn (World ranking 55)
Population	10.6mn (World ranking 86)
Form of state	Parliamentary Republic
Head of government	Kyriakos Mitsotakis (PM)
Next elections	2027, Legislative



Strengths & weaknesses

- Solid economic performance and strong recovery from sovereign debt crisis
- Sound public finances and significant decline debt-to-GDP
- Large NPLs disposal, down from critical levels
- Pro-European political stance and government focus on reforms

- Private sector credit can suffer again as consequences of tighter financial conditions
- Public debt remains high and will remain above 60% for long time
- High dependency on tourism both in term of GDP and employment
- Structural reforms are needed (especially in some areas) to improve competitiveness

Economic overview

Strong post pandemic recovery faces challenges

In 2023, the Greek economy continued to expand, still at a much faster pace than the Eurozone (+2.1% vs +1.7% in real terms expected), despite having slowed down compared to 2021 and 2022 impressive growth rates. GDP stands more than 6.0% above pre-pandemic levels. However, Greece's recovery has almost paused in Q3 2023 (almost stagnated over the quarter), given the impact of monetary policy tightening on the economy and long-lasting challenges faced. Consumption contracted both for households and the government (-0.7% and -1.2% q/q respectively) and fixed investment posted the third consecutive quarterly decline – after being a key driver of growth in 2021-22. At the same time, net foreign demand contributed negatively to growth as exports decreased slightly while imports increased. The figures bode well with a weakening growth momentum in 2024, clouded by surging interest rates and weaker external demand. We remain cautious over the outlook; we expect real GDP growth to normalize and reach +1.0% in 2024 after +2.1% in 2023 and then to pick up in 2025 to +1.5%.

Private consumption was one of the main drivers of the recovery and expanded by more than 7.0% both in 2021 and 2022 but we see private spending to have clearly slowed down in 2023 due to elevated uncertainty and surging interest rates, despite easing inflation is providing some cushion to households' and corporates' consumption outlook.

Investment performed solidly in 2021-2022 but prolonged uncertainty has weighed on the outlook. Nonetheless, the inflows of Next Generation EU funds will provide some support in the coming years. Indeed, Greece is one of the major beneficiaries of the NGEU facility and is expected to mobilize around EUR36bn over the period 2021-2026. This creates an additional impulse for public and private investment. Finally, intense tourism activity in summer should provide support to net trade in H2 2024.

Public finances have been impacted both by the pandemic and energy crises related support measures. The fiscal deficit decreased further in 2023 to 2.3% and is expected to improve in 2024-2025. Recent actions by rating agencies' actions have recognized the country's fiscal progresses, updating its Autumn 2023, although investors were already pricing Greece as an investment grade country. Moreover, most of the public debt remains in official hands and secured long maturity, so higher interest rates should be cushioned and rollover risks reduced.

The labor market experienced a steady recovery, with the unemployment rate down to 10.8% in Q3 2023, from 11.2% in the previous quarter. The key force leading to the marked improvement has been the decline in the numbers of unemployed, now at 2008 levels. With rising nominal wages and the slowdown in inflation, real compensation of employees is expected to turn positive and support households' purchasing power.

Rising interest rates will weigh on the outlook

Prices pressure is easing markedly, though the reading in November 2023 was above 2.0%. The declining trend is driven by decreasing energy prices while food price growth remained sustained (+9.0% y/y). At the same time, we see the impact of the ECB tightening on Greek households and firms.

The Greek banking sector has strongly reduced its burden of NPLs (non-performing loans), enhancing its capacity to provide credit to the real economy, especially businesses over the last decade. The Greek NPLs ratio decreased from 47.6% in 2017 to 7.9% in Q3 2023, but most of the impaired assets remain in the economy as they moved from the banking sector to the servicers and the level is still well above Eurozone average. Credit risk must be monitored given the inflows of non-performing loans continue, albeit at a limited rate and repayment capacity can deteriorate. Finally, private sector debt decreased markedly to 99% of GDP in 2022 (from 125% in 2020).

NGEU reforms should help improve the business environment

The Greek business environment has improved in recent years but remains regulated and complex. The digitalization of public services, the reduction in corporate taxes, the unification of the social security system and the reform of the labor and product markets helped in this way. Greece also has one of the slowest court systems in Europe. According to the OECD, Greece has one of the more restrictive and heavily regulated business environments while corruption in public administration is perceived to be still relatively high. Many of these challenges are tackled by the NGEU related reforms.

On 31 August 2023, Greece submitted its amended recovery and resilience plan, which includes a REPowerEU chapter. In detail, Greece's plan values EUR35.95bn (of which EUR18.22bn of RRF grants and 17.73bn of loans and includes some national resources). It is structured around 103 investment streams and 75 reforms; 38% of the plan will support climate objectives while 22% of the plan will foster the digital transition.

On the political side, the June 2023 legislative election, under new legislative law, saw New Democracy winning – after not having reached the absolute majority in May. The ruling party New Democracy secured almost 41% of the votes while Syriza lost further ground and obtained 17.8% of the votes. This means policy continuation and a strong focus on economic developments.

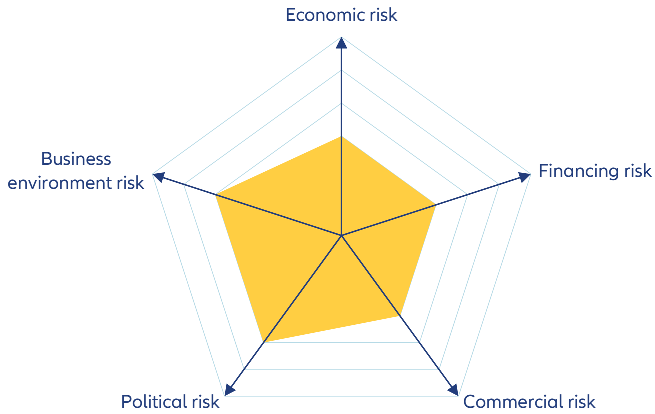
B2

Medium
risk for enterprises

Guatemala

Solid growth, remaining structural challenges

GDP	USD95.00bn (World ranking 69)
Population	17.4mn (World ranking 70)
Form of state	Constitutional Democratic Republic
Head of government	Bernardo Arévalo
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Prudent macroeconomic policy framework
- Moderate debt ratios and adequate external balance
- Access to international financial support likely if needed
- Trade agreement with the US (DR-CAFTA)
- Effective management of current account
- Mining and agricultural resources

- High dependency on primary commodities and the US (trade and remittances)
- Weak institutional framework, legacy of political instability
- Severe levels of crime and drug trafficking
- Low medium-term real GDP per capita growth and highly skewed income distribution
- Poor infrastructure
- Lack of skilled labor supply

Economic overview

Resilient growth, price pressures to remain in the short term

Guatemala has built a strong track record of prudent macroeconomic, fiscal and financial management over the years, with real GDP growth +3.3% on average in the 2000s and +3.54% on average in the 2010s. The Guatemalan economy was remarkably resilient during the pandemic with GDP slightly contracting by -1.8% in 2020. Underpinned by a favorable external environment and the authorities' swift, comprehensive and coordinated policy response, Guatemala has experienced a robust recovery, posting growth rates of +8.0% in 2021 and +4.1% in 2022. The increase in 2022 was primarily driven by a +3.7% surge in domestic private and public consumption, a result of the sustained macroeconomic stability maintained through disciplined monetary and fiscal policies. Despite this resilience, social indicators are likely to have deteriorated during the pandemic and global inflationary pressures may persist stubbornly. Overall, we expect Guatemala will decelerate to +2.9% in 2023 and forecast a slight uptick to +3.5% in 2024.

In 2022, monetary policy decisions were based on the analysis of the inflation risk balance. Inflationary pressures could persist in the short run due to increases in international prices of commodities, container transportation costs and disruptions in some major global supply chains. Additionally, the formation of the El Niño phenomenon is expected to result in a decrease in rainfall, primarily affecting the eastern departments of the country. This is likely to weigh on the country's agricultural output, leading to inflationary consequences. The combination of these factors resulted in an inflation rate of +6.9% at the end of 2022, surpassing the +3-5% target range set by the Monetary Board. We expect inflation to remain elevated at +6.3% in 2023 before gradually converging to +5.5% in 2024 and staying within the target range in 2025-28. In this context, the Banco de Guatemala (Banguat) kept the policy rate at 5% in 2023. As inflation falls towards the target range, Banguat will continue monetary easing, taking the policy rate to 2.75% by 2025.

Guatemala has been traditionally fiscally prudent. Over the past decade, fiscal deficits have consistently stayed below +2% of GDP on average. Moreover, the public debt-to-GDP ratio of Guatemala is low by emerging-market standards, even at 37% of GDP in 2022. This will give the government adequate access to external financing from bond markets on reasonable terms throughout 2024-28. This has been achieved by utilizing the existing normative framework and budget evaluation processes to ensure a low debt-to-GDP ratio, providing appropriate safeguards for debt repayment and meeting financial commitments. In response to the Covid-19 pandemic, the Guatemalan Government implemented a comprehensive set of fiscal policy measures, leading to the country's fiscal balance reaching its historical low at -4.9% of GDP. Due to better-than-expected tax revenues, the fiscal balance rebounded swiftly to -1.2% of GDP in 2021 and -1.7% of GDP in 2022. As the government's intention to increase the tax base to finance key policy areas, we expect the fiscal deficit to stabilize to -1.8% of GDP in 2023 and 2024.

Robust and stable external finances

Guatemala has recorded a current-account surplus since 2016, primarily due to substantial remittance receipts, which have consistently increased for more than two decades. The current account balance declined from +5.0% of GDP in 2020 to +2.2% of GDP in 2021 and +1.4% of GDP in 2022. This decline resulted from the continued strength in remittances being more than offset by a substantial increase in imports, aligning with the economic recovery and weaker terms of trade. Looking ahead, remittances are expected to moderate as the effect of the US stimulus fades out. However, they are likely to remain higher than pre-Covid-19 levels because the implementation of the US infrastructure bill should boost construction, a sector that heavily employs Central American immigrants. Also, after an oil price related surge in fuel imports in 2022, total imports should decline in line with the projected downward correction in oil prices. Therefore, we expect the current account to keep its surplus position with +2.4% of GDP in 2023 and +1.8% of GDP in 2024.

The Guatemalan quetzal (GTQ) is expected to remain stable. Thanks to strong inflows of remittances, Guatemala has accumulated significant foreign reserves, providing import cover for nearly nine months. This cushion has helped maintain a relatively stable GTQ/USD exchange rate and real effective exchange rate. Overall, we expect the quetzal to appreciate slightly in nominal terms in 2024 once US demand rebounds, with little change in 2025-28 as Banguat maintains its managed-float exchange-rate regime as an implicit anchor for inflation.

Moderate political risks but weak business climate

Guatemala's business environment is quite poor in our assessment of 185 economies. The World Bank's annual Worldwide Governance Indicators surveys suggest that both the regulatory quality, legal frameworks and the level of corruption need to improve. Likewise, the Heritage Foundation's 2022 annual Index of Economic Freedom surveys have put Guatemala in the 69th position out of 184 economies, reflecting very strong scores with regard to tax burden, government spending, fiscal health, monetary freedom and trade freedom. However, Guatemala scores less favorably with regard to the property rights, judicial effectiveness, government integrity, labor freedom and financial freedom. In terms of Environment Sustainability Indicators 2023, Guatemala ranks 104th out of 210 economies, displaying underperformance in climate change vulnerability and recycling rate.

The Supreme Electoral Tribunal (TSE) certified the election results, which normally guarantees that the president-elect, Bernardo Arévalo and winners of congressional elections take office. Despite this, the former president's allies spent months trying to invalidate the elected members of Arévalo's party and Arévalo's inauguration. Ultimately, the transfer of power occurred after street protests. While this inauguration brings a feeling of hope and proof that Guatemalan's are willing to fight for democracy, Arévalo's party will hold a minority position in the legislature, keeping governance risks high throughout the 2024-28 forecast period.

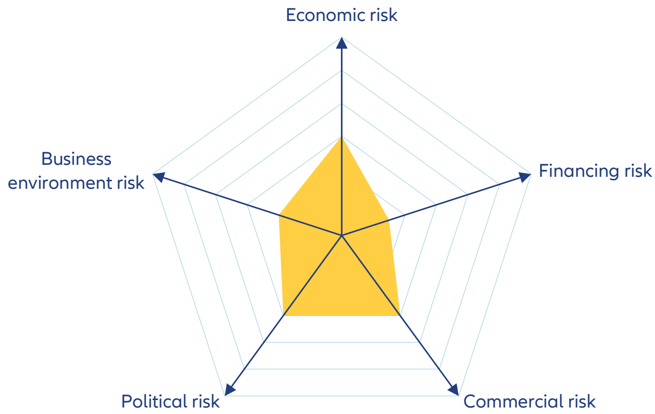
BB2

Medium
risk for enterprises

Hong Kong

Strong fundamentals safeguard the Fragrant Harbor

GDP	USD359.8bn (World ranking 43)
Population	7.3mn (World ranking 103)
Form of state	Special Administrative Region of the People's Republic of China
Head of government	John Lee Ka-chiu (Chief Executive)
Next elections	2025, Legislative



Strengths & weaknesses

- Well-developed and resilient financial system
- Solid business environment
- Strong public and external finances
- Robust services sector
- Disciplined fiscal and monetary policies

- Vulnerable to external shocks
- Concentrated geographic and sectorial trade structure
- Sensitive to political developments in mainland China and US-China rivalry
- Wide income disparity

Economic overview

Sailing through calmer waters, after a multitude of adverse economic shocks

Hong Kong has been a strong economic performer in the past decades, with an annual average growth of +4.2% during the 2000s and +2.9% on average in the 2010s. But in three of the five years between 2019 and 2023, Hong Kong's real GDP has been in a contractionary phase. In addition to the 2019-2020 social unrest, the Covid-19 pandemic significantly impacted the economy. As a consequence, real GDP contracted for two consecutive years by -1.7% in 2019 and -6.5% in 2020, followed by a strong rebound in 2021 with growth accelerating to +6.4%. But the recovery was short-lived as economic growth contracted again in 2022, by -3.5% on the back of a challenging external environment, tightening in monetary conditions, rising geopolitical tensions and a significant decline in mainland China's trade activities. Going forward, we estimate the economy to have grown by +3.3% in 2023 and expect growth to settle at +2.1% in 2024 and +2.4% in 2025 on the back of a gradual recovery in external trade and higher inbound tourism (notably from China). However, private investments, inflationary pressures, rising geopolitical tensions and demographic challenges may weigh on medium term growth prospects.

Fiscal policy has been broadly accommodative in the past five years, with an annual average fiscal deficit of -4.1% of GDP, with broad based stimulus measures to businesses and households including health spending, temporary employment schemes and direct support measures – lowering profit tax, waiving business registration fees and distributing consumption vouchers for instance. Going forward, we expect the fiscal deficit to narrow to -1.0% of GDP in 2024 and to return to a surplus of +0.2% of GDP in 2025 reflecting the government's commitment to fiscal discipline and increased revenues from land sales and profit taxes. Yet, the surplus will remain low in the medium term relative to the pre-pandemic average, on the back of constraints from an aging population and infrastructural projects that include the Northern Metropolis and the Lantau Tomorrow Vision.

On the monetary policy front, the Hong Kong Monetary Authority (HKMA) has limited room to maneuver as the Hong Kong dollar is pegged to the US dollar. Consequently, policy rates are primarily a function of the actions of the US Federal Reserve and until early 2024 has seen a cumulative increase of 525bps since the quantitative tightening cycle of the US Federal Reserve began in March 2022. At the same time, the high levels of liquidity in Hong Kong have reduced banks' reliance on HKMA facilities, restricting effective transmission of monetary policy. In terms of prices, the currency peg has broadly kept inflation under control and we expect a moderate overall price growth of +2.1% in 2023, +2.2% in 2024 and +2.5% in 2025.

Robust macro-fundamentals with vulnerabilities due to the trade structure

Short term financing risk in Hong Kong broadly remains low as the economy has strong fundamentals in terms of public and external balances. Indeed, fiscal support played a crucial role to mitigate the impact of the adverse economic shocks that hit the economy in the last five years. However, we expect broad fiscal consolidation going forward. Despite remaining high relative to historical levels, public debt as a percentage of GDP remains low internationally and will remain below 10% of GDP in 2024 and 2025.

In terms of external balances, Hong Kong's current account balance has recorded surpluses for more than 25 years now (including during a number of external and domestic shocks such as the Great Financial Crisis and the Covid-19 pandemic), which has resulted in the accumulation of external financial assets. On the back of a recovery of trade and earnings from overseas investments, we expect the current account balance to post a surplus of +6.3% of GDP in 2024 and +6.1% of GDP in 2025. The main structural vulnerability arises from the economy's geographical and sectorial concentration in terms of its trade structure. For instance, Hong Kong's reliance on China for exports (notably of electronic machinery and appliances) makes it vulnerable to potential cyclical swings in global demand and in China, as well as rising geopolitical tensions. Meanwhile, gross external debt remains high, at more than 500% of GDP. However, this only reflects Hong Kong's position as a global and regional financial center rather than a structural macroeconomic vulnerability.

Resilient business environment, within a stable political landscape

The business environment in Hong Kong remains strong with internationally renowned infrastructure, free port status, favorable policies in terms of trade and exchange controls and tax policies. The World Bank Institute's annual Worldwide Governance Indicators 2022 survey indicates strong scores with respect to the regulatory and legal frameworks and the control of corruption. Likewise, the Heritage Foundation's annual Index of Economic Freedom survey 2020 (the economy has been discontinued since) suggest a broad-based strength in economic freedom, notably with regard to property rights, government integrity, tax burden, government spending, fiscal health, business freedom, labor freedom, trade freedom and financial freedom. Our proprietary Environmental Sustainability Index suggests weaknesses in environmental sustainability owing to a very low level of renewable electricity output and a moderate recycling rate. Overall, the index ranks Hong Kong 100 out of 210 economies.

We do not expect significant changes to the political landscape in Hong Kong and disruptions to business and public services are unlikely in the short to medium term especially in the context of the national security law implemented in 2020. John Lee, a former police officer and security official who served as Chief Secretary for administration in 2021-22, was elected as the Chief Executive of Hong Kong following a restricted-franchise poll in May 2022 and we expect him to be selected for a second term in 2027 by the central government. While the territory will retain a high degree of autonomy under the Basic Law, a great deal of local policy steering will be influenced by mainland China's central government.

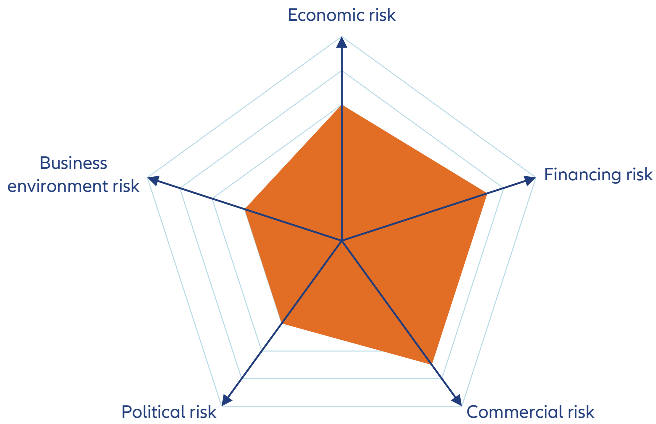
B3

Sensitive
risk for enterprises

Hungary

Macroeconomic imbalances remain a cause for concern

GDP	USD178.8bn (World ranking 58)
Population	9.7mn (World ranking 94)
Form of state	Parliamentary Republic
Head of government	Viktor Orbán (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Generally stable parliamentary democracy
- EU membership
- Strong, competitive manufacturing base

- Deteriorated investment climate, as a consequence of unconventional economic policy measures since 2010
- At times, difficult relations with the IMF and the EU
- Exchange rate vulnerability
- Weak public finances, with a high public debt burden
- Large total external debt burden
- Low level of FX reserves

Economic overview

From recession to gradual recovery

Hungary is a modest performer among emerging economies and its high dependence on exports, in particular on automotive shipments, causes above-average cyclical fluctuations in growth. Real GDP expanded by an average +2.1% over the past 20 years though the performance was better over the last five years prior to the Covid-19 pandemic (+4.1% on average, on par with the average of the Central and Eastern European EU member states). While the global Covid-19 crisis affected the Hungarian economy markedly in 2020 (-4.5% contraction), it rebounded strongly with a +7.2% output increase in 2021. However, Hungary's economic prospects have considerably worsened since war broke out in Ukraine. This is mainly due to the country's heavy (pre-war) energy-import dependence on Russia and the impact of EU sanctions against Russia on the domestic economy. In 2022, economic growth in Hungary still held up better than initially expected (+4.6%) thanks to robust consumer and public spending as well as external demand. However, the impact of surging inflation, rising interest rates, sluggish external demand and deteriorating business confidence took full effect in 2023. Real GDP contracted by an estimated -0.6%, largely driven by plunging consumer spending and investment activity. Looking ahead, GDP is forecast to expand by just over +2% in 2024 and about +3% in 2025, mainly thanks to improving investment and consumer spending on the back of falling interest rates and recovering real income growth.

Inflationary pressures will decline but remain on the cards in 2024. Consumer price inflation rose into double-digit territory in May 2022 and remained there until September 2023, with a peak of 25.7% y/y in January 2023, the highest rate seen in the EU. It was driven by surging energy and food prices combined with a weakening forint (HUF, the local currency) in 2022 that pushed up import costs. The Magyar Nemzeti Bank (MNB, the central bank) began monetary tightening earlier than peers in the region (in June 2021) and eventually also more decisively – it hiked its key policy rate from 0.60% in May 2021 to 13.00% in September 2022 and the overnight lending rate to 25.00%. Meanwhile, in Q4 2023, inflation fell rapidly to 5.5% at year-end and the MNB was one of the first central banks in Europe to embark on a monetary easing cycle. Going forward, we expect the disinflation process to moderate and forecast annual average inflation of just under 5% in 2024 and 4% in 2025. In line with that, the MNB is likely to continue a gradual easing cycle.

Worrisome public and external finances

Hungary's public finances have become a cause for renewed concern after the Covid-19 crisis reversed eight years of fiscal consolidation. The annual fiscal deficit had been smaller than -3% of GDP since 2012, resulting in a gradual improvement of public debt from the peak of 80% of GDP in 2011 to 65% in 2019. Owing to large fiscal stimulus measures in response to the Covid-19 crisis, annual budget shortfalls of -6% to -8% of GDP were recorded in 2020-2022, pushing public debt up again to 79% of GDP temporarily. Government stimulus measures in response to the higher energy costs and inflationary pressures since 2022 and the recession in 2023 have been smaller than the previous measures, mainly because financing costs have markedly increased. Nonetheless, the annual fiscal deficit is estimated at over -5% of GDP in 2023 and forecast at -3% to -4% in 2024-2025, keeping the public debt-to-GDP ratio at around 70%.

Despite a swift rebalancing of the current account in 2023, Hungary's external position remains a cause for concern. As Hungary's import bill began to rise in 2021-2022 owing to surging energy prices, the current account deficit widened substantially to -4.1% of GDP in 2021 and -8% in 2022. But thanks to lower energy import prices and reduced imports due to the economic recession, the current account improved substantially and is estimated to have come in roughly balanced in 2023. Looking ahead, the external balance is forecast to return to small annual deficits in 2024-2025 on the back of the expected recovery of domestic demand and imports. What remains a concern, however, is Hungary's gross external debt in relation to GDP which surged from an already high ratio of 97% in 2019 to over 160% in 2020 and is currently estimated at about 140%. Even if we exclude intercompany debt liabilities to foreign parent companies, the remaining external debt stands at a still comparatively high ratio of more than 60% of GDP currently. Meanwhile, the biggest concern is Hungary's low level of FX reserves. At the end of 2023, they covered less than three months of imports or, in other terms, less than all external debt payments falling due in the next 12 months (below both the benchmark "comfort" levels of four months and 125%, respectively).

Deteriorating business and political environments

The Hungarian business environment is just above average. Increased state interference in the economy through frequent and arbitrary policy changes (for example sectoral taxes, pension nationalization, mortgage pre-payment schemes, utility tariff cuts and the weakening of institutions (diminished roles of the Fiscal Council and the Constitutional Court)) have hurt the investment climate in recent years. This is also reflected in the World Bank's annual "Worldwide Governance Indicators" surveys, according to which Hungary has steadily deteriorated with regard to regulatory quality, rule of law and perceptions of corruption over the past decade. In our proprietary "Environmental Sustainability Index", Hungary is ranked 92nd out of 210 economies, reflecting poor scores for renewable energy, water stress and recycling rate.

Systemic political risk remains somewhat elevated since the government has engaged in unconventional economic and institutional measures over the past decade. As a result, international relations have suffered, especially with the IMF and the EU. Currently, the EU is withholding funding for Hungary under the "Recovery and Resilience Facility". This probably explains why Hungary's economy is one of a few in the EU which experienced a huge drop in investment activity in 2023. In the longer term, persistent tensions with the EU may have a damaging effect on investor confidence.

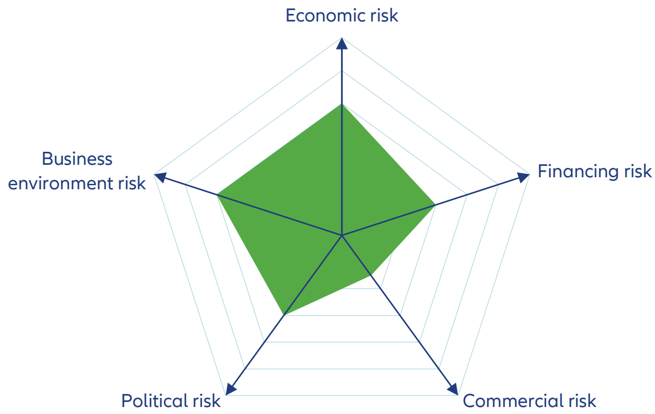
India

B1

Low
risk for enterprises

Unlocking the growth potential

GDP	USD3416.6bn (World ranking 5)
Population	1 417mn (World ranking 1)
Form of state	Federal parliamentary republic
Head of government	Narendra Modi (PM)
Next elections	2024, general



Strengths & weaknesses

- Stable democracy, with peaceful changes of government
- Large internal market, providing some insulation from global business cycle
- Successful diversification into manufacturing and services
- High annual GDP growth
- Low external debt relative to earnings, repayment capacity and reserves
- Favorable demographics

- Structural weaknesses including inadequate infrastructure and current and fiscal account deficits
- Financial risk to monitor, namely balance sheets of banks and non-bank financial institutions
- Weak structural business environment (slowly improving)
- Poverty and uneven income distribution, low literacy rates and fierce brain drain
- Vulnerable to natural disasters
- India-China relations to remain tense in part due to border disputes

Economic overview

India to become the second-largest economy in Asia-Pacific region by 2030

The Indian economy is a good performer among emerging economies, with +6.5% growth on average over 2000-2019 and +6.9% over 2010-2019 (in line with emerging Asia). However, the Covid-19 crisis hit India badly and the economy was already in a vulnerable state at the end of 2019. The resulting contraction in GDP was among the deepest in the Asia-Pacific region. A partial recovery was thereafter delayed by a renewed outbreak of Covid-19 (the Delta variant). Despite a moderation in growth in 2022, India's economy remains resilient and outpaced the average growth rate among emerging economies and Asian economies.
We expect India to grow by +6.9% in FY23-24 and +6.3% in FY24-25, in the context of moderating domestic and external demand. That said, public spending, foreign investment and easing inflation will be tailwinds. Over the longer run, we expect India to become the second-largest economy in the Asia-Pacific region by 2030. Five game-changers could shape India's mid-term economic outlook: foreign investment, trade, human capital, climate change and geopolitics.

In terms of public policies, measures had been put in place to dampen the negative impact of the Covid-19 crisis. The fiscal deficit has declined slightly since, but public spending remains elevated (ahead of the general election in April-May 2024), supporting energy, transport and infrastructure and measures for households. On the monetary side, after policy tightening to contain inflation (250bps of cumulative rate increases between May 2022 and February 2023), we expect the Reserve Bank of India (RBI) to start cutting the policy rate in the second half of 2024. This will help ease financial pressure on households and businesses.

Structural vulnerabilities in check but to keep in mind

Overall, indicators show that the financing risk is low in the short-term. In the medium run, the indicators that need monitoring are (i) public finances, with an exceptionally large (albeit declining) fiscal deficit; (ii) the financial sector and non-performing assets and (iii) the current account deficit and moderate foreign direct investment inflows (for now).

We are particularly wary of the leeway for and efficiency of policy stimulus on both the fiscal and monetary sides. Public debt shot up with the Covid-19 crisis and seems to be stabilizing at the high level of around 80% of GDP (vs. c.70% before the pandemic). Resilience of the financial sector has improved since 2022 but needs to remain monitored (the system-wide gross non-performing-loans ratio came down to 3.9% in March 2023 from 5.9% in March 2022). Banks need reinforcing of their capital and liquidity positions against potential stress. The current account deficit is expected to narrow but remain around 1% of GDP in the coming few years. More broadly, foreign direct investment inflows are moderate for now, but adequate liberalizing reforms in a potentially favorable geopolitical environment could allow India to attract large amounts of foreign investment in the coming years.

Business environment and political developments

India's business environment is close to the median in our assessment of 185 economies, with little change over the recent years. The Heritage Foundation's Index of Economic Freedom survey in 2022 assigns India rank 131 out of 184 economies (slightly deteriorated from 123rd in the 2021 survey), reflecting good scores with regards to the tax burden, government spending, trade freedom and monetary freedom though weaknesses remain with regards to fiscal health, investment freedom, financial freedom and government integrity. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators survey indicates scores since 2019 that have stagnated in the control of corruption and slightly improved in regulatory quality and the rule of law (all in the 45%-55% percentile range). Our proprietary Environmental Sustainability Index puts India at rank 175 out of 202 economies, reflecting better performance in energy use per GDP and CO2 emissions per GDP, but weaknesses in terms of climate change vulnerability, renewable electricity output and the recycling rate.

The ruling Bharatiya Janata Party (BJP) is likely to stay in power and renew its term at the general election in April-May 2024. Narendra Modi, prime minister since 2014, should remain the dominant figure in the government. Given his strong popularity and the lack of an effective political opposition, the stability of this government is unlikely to be rattled in the coming few years. We would watch out for potential episodes of the BJP intensifying its Hindu nationalist agenda, potentially generating communal clashes – though unlikely to spark large-scale social unrest.

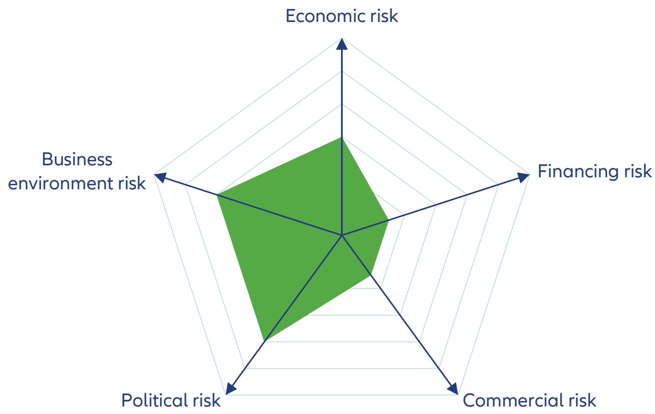
B1

Low
risk for enterprises

Indonesia

Resilient growth amidst improved fundamentals

GDP	USD1319.1bn (World ranking 16)
Population	275.5mn (World ranking 4)
Form of state	Presidential Republic
Head of government	Joko Widodo (President)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- Fast growing economy
- Abundant natural resources
- Favorable demographics
- Relatively resilient banking system
- Solid public finances and sound fiscal policies

- Weak legal system
- Inefficient tax administration and strong informal economy
- Exports' dependency on commodities and China
- Serious infrastructure gap compared to regional peers
- Increasing inequality
- Low levels of education spending

Economic overview

Solid levels of growth in coming years

Indonesia has shown relatively strong GDP growth rates over the past two decades, averaging +5.2% in the 2000s and +5.4% in the 2010s. However, it was severely affected by the Covid-19 pandemic, suffering a -2.1% full-year contraction in 2020. 2021 saw a moderate recovery, with GDP growing by +3.7%. The momentum continued in 2022 with GDP growing by +5.3%. Growth took a small step down in 2023 (likely to +5%), on the back of a resilient consumer sector but slowing external demand. We expect Indonesia to continue to register solid levels of economic growth, nearing +5% in 2024-2025, on the back of a strong consumer base and easing inflation, investment in the context of global supply-chain diversification and a moderate rebound in global demand.

After expanding to around 6% of GDP in 2020, the fiscal deficit has been narrowing in recent years and returned close to the pre-crisis long-term average of around 2% in 2022. Increases in direct taxes, new commodity export levies, removal of income assistance expenditure and higher corporate tax revenue are keeping the fiscal deficit in check. This is likely to help gradually reducing the public-debt-to-GDP ratio.

In terms of monetary policy, Bank Indonesia (BI) started a tightening cycle in the second half of 2022, against inflationary pressures and to stabilize the rupiah. A cumulative 250bps of rate hikes have been applied until October 2023. We expect no further increases as inflationary pressures ease and the rupiah stabilizes against the US dollar and 50bps worth of rate cuts are likely in the second half of 2024.

No imminent risk from structural vulnerabilities

Indonesia's short-term financing risk is deemed moderate. Though not in alarming states, the following areas of structural macroeconomic vulnerabilities are worth monitoring: (i) fast-rising domestic credit and (ii) FX reserves for rupiah stabilization and external repayment. The long history of reliance on external financing led to this vulnerability, especially under episodes of downwards pressure on the rupiah.

On the back of wider fiscal deficits and the recovery in domestic demand, real domestic credit growth increased rapidly from the beginning of 2021, though it has slowed down since the middle of 2022. The public debt-to-GDP ratio rose from 30% pre-pandemic to about 40% in 2022. Efficient fiscal consolidation since then allowed to stabilize the public-debt-to-GDP ratio and we expect a gradual decline in the coming years. On the external side, the annual current account balance was back in positive territory in 2021-2022 (after a decade of deficits) and is likely to register much lower deficits over 2023-2025 compared to the pre-pandemic long-term average. That said, FX reserves have not kept pace with the growth of imports in recent years. As a result, import cover dropped from ten months at end-2020 to 5.6 months in late-2023. The latter is still an adequate ratio but the indicator requires monitoring. Meanwhile, Indonesia's reliance on commodity exports also makes it vulnerable to a reversal in global commodity prices that could undermine investor confidence and external repayment capacity.

Business environment and political developments

Indonesia's business environment is ranked above average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom survey 2022 assigns Indonesia rank 66 out of 185 economies (it climbed from 2017 to 2020, but went down since 2021), given its good performance in government spending, fiscal health and tax burden, though weaknesses remain in government integrity, judicial effectiveness and labor freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators survey indicates that government effectiveness, regulatory quality and rule of law have improved since 2011. Though the government has taken policy actions to achieve net zero emissions by 2060, environmental sustainability remains in bad condition, considering Indonesia's coal-dominated energy mix and industry reliance on natural resources.

The next presidential election will take place in February 2024, which will test the political stability Indonesia has achieved in recent years and challenge the wave of liberalizing reforms. Indonesia has traditionally been inclined towards protectionism of key industries and natural resources. Over his two terms in office, current President Joko Widodo (known as Jokowi) has pushed consensus on this issue further towards acceptance of higher levels of foreign investment, especially in industries downstream of primary goods extraction. However, after the election, there is the risk that the next government could tighten laws on foreign ownership and investment, as protectionist views still persist strongly among the political class. That said, in the baseline scenario (based on latest polls), the next president is likely to be current defense minister Prabowo Subianto, who has committed to continue Jokowi's policies. We would also watch out for potential protests and unrest if the election result is close.

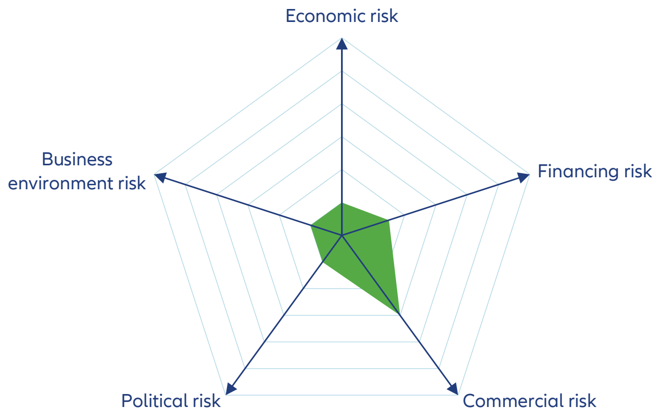
AA1

Low
risk for enterprises

Ireland

A regular Eurozone outperformer

GDP	USD529.2bn (World ranking 27)
Population	5.1mn (World ranking 123)
Form of state	Parliamentary Republic
Head of government	Leo Varadkar (PM)
Next elections	2025, Presidential



Strengths & weaknesses

- Strong business environment
- Robust current account surplus
- Strong fiscal position
- English-speaking business location

- Sensitive to external shocks due to high openness to trade
- High dependency on foreign investment
- High private debt

Economic overview

A regular Eurozone outperformer

Ireland has consistently outperformed other Eurozone countries, with growth rates of +6.2% over the past 30 years and +9.1% over the past 10 years. This impressive economic performance can be attributed in part to the expanding presence of multinational corporations (notably in the technology, pharmaceutical, chemical and financial sectors), which have become integral to the Irish economy, accounting for over 50% of GDP and employing approximately 10% of the labor force. However, 2023 showed the downside of this dependency, as the environment of higher interest weighed on global demand while consumers' resilience has also reduced and dragged the country into a recession, to an estimated -2%. Looking to 2024, a modest +2.6% rebound in GDP is expected as these economic pressures should ease. While households' saving rate is back to pre-pandemic levels, the tightness of labor market should provide limited support with nominal wage growth above 4% along a disinflationary trend (inflation expected to fall to 2% in 2024).

Moderate medium-run vulnerabilities

A key reason behind the sizeable presence of multinationals in Ireland has been its attractive low tax environment, which has lured substantial foreign investment. However, in 2022, Ireland introduced changes to the international corporate tax framework. These changes included the reallocation of profits of multinational companies across different states and an increase in the tax rate for large companies from 12.5%

to 15%. This could mean that higher taxes on the domestic economy are needed as corporate tax revenue is the second-largest single source of revenue, standing at more than half of the increase in total revenue since the Covid-19 crisis. On the positive side, the external account is strong: the current account surplus should continue to stay above 5% thanks to the recovery in global trade which should strengthen Ireland's net exporter position.

In the medium run, Ireland's trade structure remains a vulnerability in terms of the dependency on pharmaceuticals and computer services. In addition, in terms of destinations, export concentration is high as the US and the UK represent around 40% of total Irish exports. The strong presence of the multinational sector makes Ireland appear very vulnerable in terms of external debt but being part of the Eurozone makes it manageable. In addition, the rapid and strong global tightening in monetary policy has led to a correction in house prices as of mid-2023 which should continue into 2024 on the back of lower housing affordability and less support from the multinational sector.

The banking sector in Ireland is in good health with profitability being boosted by rising net interest margins and a strong deposit base. Net interest margin is close to 3% compared to 2% pre-pandemic. NPL ratio stands below 3% compared to close to 5% pre-pandemic, but an increasing trend is expected due to deteriorating households' and firms' balance sheets and higher borrowing costs. Household debt stands at 108% of net disposable income, above US levels, but 40pp below UK levels. Business insolvencies have returned to pre-pandemic levels and should increase by +12% in 2024, to 760, highest level since 2018.

The fiscal balance should continue to register a small surplus in the coming two years. Additionally, public debt has been kept under control, decreasing from pandemic peaks of 58% of GDP to around 43% in 2024, presenting an overall strong fiscal position. To further stabilize future public finances against the volatility of corporate tax receipts, the government is in the process of establishing a sovereign wealth fund. This fund aims to strategically invest the windfall revenues generated from corporate tax revenues. The size of the fund is expected at EUR100bn by 2035 with a rate of return of close to 4%. A second fund of EUR14bn is planned which intends to finance green infrastructure but also support catch-up on targets to cut greenhouse gas emissions.

Business environment and political developments

Ireland's business environment is notably strong, scoring highly in regulatory quality, rule of law and corruption control. Ireland also has a very well-educated labor force and enjoys a significant openness to foreign trade and FDI. Starting a business, protecting minority investors, paying taxes and resolving insolvencies are ranked at the top among other OECD high-income countries. However, going forward, the introduction of the minimum global corporate tax reform is expected to modestly dampen Ireland's attractiveness, particularly for multinationals.

The 2020 general elections resulted in a three-party governing coalition (Fianna Fail – center-right, Fine Gael – center-right and the Green Party – center-left) and is the most fragmented parliament in recent history. Under the terms of the coalition agreement, Leo Varadkar of Fine Gael became Taoiseach in December 2022, following a rotational arrangement with Fianna Fáil. This transition of power occurred smoothly, but with the general elections approaching (due by March 2025), there are expectations of potential challenges within the coalition, as parties may reassess their positions if they believe this will play better with their voters.

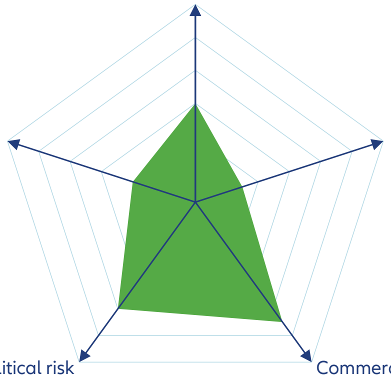
B1

Low
risk for enterprises

Israel

Before and after: a less secure nation?

GDP	USD522.0bn (World ranking 28)
Population	9.6mn (World ranking 95)
Form of state	Parliamentary Democracy
Head of government	Benjamin Netanyahu (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Israel excels in high-tech goods, business services and defense, boasting a developed economy and a skilled labor force
- Despite global challenges, Israel's economy contracted only -1.9% in 2020, rebounding strongly with +8.5% and +6.4% growth in 2021 and 2022 and remaining poised for long-term economic growth
- Record-low unemployment at 2.6% in November 2023 and inflation dropping to 3.3% indicate a tight labor market and stable economic conditions

- The ongoing conflict is expected to have severe, short-term consequences, affecting private consumption, labor supply and foreign investors' confidence
- Internal tensions and prolonged hostilities exacerbate political uncertainty. Trust issues with international allies and potential internal dissatisfaction pose challenges to the government
- Anticipated military spending in 2024 may lead to a deficit of over 6% of GDP, contributing to public debt nearing 70%. This could impact government bonds and economic sustainability

Economic overview

A resilient economy with high-tech strengths and growing pains

The conflict will have severe, short-term economic consequences. We expect a surge in government consumption to continue into 2024, but this will not fully offset the growth impact of conflict-related restrictions, the dampening of private consumption, a disrupted labor supply (due to the massive call-up of military reserves) and weakening investment. Even if the military effort is limited, we predict the economy to return to pre-escalation levels only later in 2024, with economic growth hitting +1.5% this year on the back of public consumption growing by more than +10% if we include military imports. A multifront fight would significantly increase the war's economic weight. In 2025–27, real GDP growth is expected to exceed 3% annually. However, a prolonged conflict might damage the investment potential and Israel's long-term growth prospects.

Israel is the third-largest economy in the Middle East after Saudi Arabia and Türkiye. It is an open, developed economy with critical capabilities in high-tech goods, business services and defense, as well as a diversified export base, a highly skilled labor force and stable fundamentals that have increased the economy's resilience to shocks despite continuous military confrontation. Annual per capita income exceeds USD40 000 and real GDP has grown at an annual rate of +4% on average over the last 15 years.

Israel fared quite well during the global Covid-19 pandemic. Economic growth dropped by only -1.9% in 2020, far less than the regional and worldwide averages and a fast vaccination program laid the groundwork for a robust return to +8.5% and +6.4% growth in 2021 and 2022, respectively, fueled by expanding natural gas production and exports. In the first nine months of 2023, Israel was already converging towards low-paced growth due to external and internal factors, including the controversial justice reform and an almost-full occupation reached at the end of 2022. Israeli tech start-up investment had already fallen to a five-year low between January and June 2023 – a decrease of -31% compared to the second half of 2022 and a -68% decrease from H1 2022. At the same time, the construction sector and tourism-related industries (mainly transport and services) are being hit by the conflict and the reduced availability of personnel and resources.

The unemployment rate reached another record low of 2.6% in November 2023, indicating a labor shortage because of border closures and the country's decreased attractiveness since the beginning of retaliation following the October attacks. In June, inflation dropped from 5.4% in January to 3.3% in November 2023 – the lowest level since February 2022, but still above the central bank's 1.0–3.0% target. The policy rate is likely to remain above 4% for the rest of the year, but it could loosen faster amid lower-than-expected GDP growth to implicitly subsidize financing conditions given reduced international market appetite.

Balancing business confidence and political assertiveness

Substantial progress had been achieved on fiscal consolidation before the pandemic, while 2024 may see a deficit of more than 6% of GDP due to an anticipated increase in military expenditure and conflict-related measures. Public debt was reduced to 58.5% of GDP in 2019 from 74% in 2009. However, a significant recovery package to mitigate the impact of the pandemic produced a fiscal deficit of -11% of GDP in 2020, pushing public debt back to 71% of GDP. Successive efforts, buoyant growth and the small fiscal surplus achieved in 2022 (+0.6%) for the first time since 2000 contributed to reducing the debt-to-GDP ratio to 61%, but this is likely to expand again, nearing 70% by the end of 2024. According to Bank of Israel research, every 1% increase in the public debt to GDP ratio raises the actual yield on long-term government bonds by 10 basis points. Transfers to schools and seminaries serving ultra-Orthodox Jewish communities and to married ultra-Orthodox Jewish men who choose to study religious texts rather than work reached USD1.7bn in the 2023 budget, around the size of all inflows to Israeli start-ups in one quarter of 2023. If tech firms were to move abroad, this would impact a significant share of government revenues and skilled labor, making such forms of economic assistance unsustainable.

76 and divided: a nation's dangerous crossroads

Without a clearly written constitution, it is especially important for Israel to keep the judiciary separate from the executive and legislative branches. The internal tensions that emerged in the first nine months of 2023 and the prospect of a prolonged conflict around Israel's borders portend greater political uncertainty, political developments linked to the person of Prime Minister Benjamin Netanyahu and a general deterioration of political risk in the country.

The Netanyahu-led national unity government may bear responsibility for further escalation, while greater distrust from international allies and internal dissatisfaction with his policies would make a reelection difficult. Israel has had five general elections from April 2019 to November 2022 and polls have also been held in the past, even during particularly tense periods. We do not expect hostilities to cease before the end of the year, considering weaker diplomatic pressures from main security partners as a result of the run-up to the next US presidential election and related uncertainties.

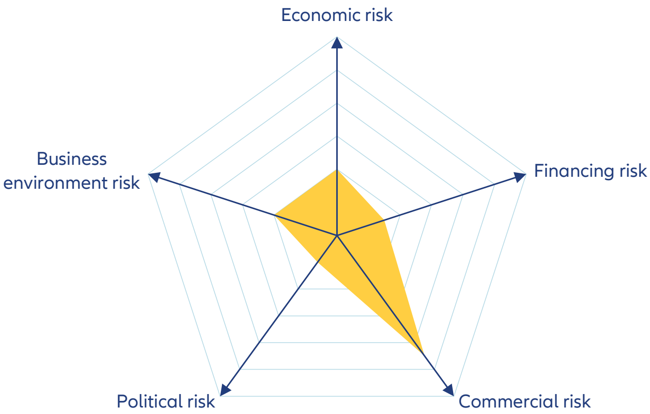
A2

Medium
risk for enterprises

Italy

Post pandemic rebound has decelerated

GDP	USD2010.4bn (World ranking 10)
Population	58.9mn (World ranking 25)
Form of state	Republic
Head of government	Giorgia Meloni (PM)
Next elections	2027, Legislative



Strengths & weaknesses

- Resilient private consumption despite high inflation and falling real wages
- Labor market keeps improving, with employment at a record high
- Good appetite for Italian sovereign bonds, helped by recent actions by rating agencies
- Investment has slowed but will be supported by NGEU projects implementation
- Declining inflation to provide some breathing room
- Italian banks have cleaned up their balance sheets and built-up stronger capital positions

- Fiscal consolidation under the spotlight
- Heavy red tape which hinders innovation and competitiveness
- Declining working-age population and demographic challenges ahead
- Efficient and timely allocation of EU funds is being tested
- Structural reforms needed in many areas
- Sovereign-bank nexus has reduced but not disappeared

Economic overview

Higher interest rates and weak demand have clouded the outlook

Italy recovered solidly from the pandemic and turned out the best performer among the big four economies. GDP is now expanding by 3.4% above pre-pandemic levels (vs. EZ GDP +3.1) despite having slowed down in recent quarters given the Eurozone has been challenged by cyclical headwinds. Private consumption growth resumed in Q3 2023 as confidence slowly recovers. The massive investment rebound experienced in 2021-2022 (+22% and 10% y/y respectively) has reverted in 2023 and will only pick up slightly given the high interest rates environment and some delays in the implementation of the NGEU projects.

We see activity to grow only +0.5% in 2024, after +0.7% in 2023 and then to pick up to +1.5% in 2025. Indeed, Italy has been highly exposed to the energy crisis; gas represents 43% of the country's energy supply (and Russia was Italy's largest gas supplier, with 40% of all imports in 2020, reduced well below 10% in 2023). This has had a significant impact on households' purchasing power and saving rates and limited manufacturing production.

Therefore, a sustained decline in prices will provide some breathing room to the outlook. Clearly, energy negative base effects remained the main driver of decreasing inflation (which touched 11.8% y/y in September 2022) and Italy's inflation is now one of the lowest in the Eurozone (below

2%). However, we expect some rebound in the short term, reflecting the phasing out of favorable administrative measures, pushing headline inflation slightly above the 2% threshold. Also, core inflation embarked on a solid downward trend; the contained hourly wage dynamic (at 2.7% in November 2023) is helping in the process.

The labor market improved further in the course of 2023, but a slight deterioration is expected this year. The number of employed stayed at a record high and the number of inactive at historic low levels, while the number of unemployed has picked up slightly in recent months. The unemployment rate is low at 7.6% but is seen to deteriorate in 2024 due to the lagged effects of the current economic slowdown. Moreover, structural weaknesses remain; Italy has one of the lowest female labor force participation rates in the Eurozone and the lowest employment rate. This would require major policy interventions to (i.e., supply of childcare facilities) to reinforce women's presence in the labor force.

Business insolvencies resumed after 2020 but remained well below pre-pandemic levels. Monetary policy tightening and the rapid pass-through to corporate financing costs will push up the number of insolvencies in 2024-25. In particular, the manufacturing sector saw a very weak 2023 given the persistent falling demand across the entire sector and signaled no big hopes for 2024 despite a small improvement in future expectations.

Policy tightening impacts Italy's fiscal outlook

The government balance deficit has seen a narrowing in 2023-2024 from 9% and 8% in 2021 and 2022, respectively (given the new Eurostat accounting method for tax scheme which produced significant backward revision). However, we don't expect any substantial consolidation efforts. Debt dynamics benefited from the favorable differential between nominal growth and debt-servicing costs in late 2022 and during 2023, which alleviated pressures on debt ratio, but we see debt-to-GDP stabilizing around current levels; no significant downward trend is expected in the medium term. Moreover, monetary policy tightening will translate into higher interest debt burdens (i.e., above 4% of GDP in Italy), but lengthened debt maturity profiles and good appetite of domestic retail investors should ease immediate rollover.

The Italian sovereign bond market has stabilized after being hit by "old" concerns. Despite fears, the 2023 autumn round of rating actions by major agencies has concluded with no downgrades, alleviating some pressures in the Italian bond market. Indeed, spreads widened in October when the Draft Budgetary Plan was released, envisaging lower growth and a higher fiscal deficit (and any debt reduction). Moreover, the retail oriented H2 2023 sovereign issuances have found good appetite domestically, providing further relief from the ECB's quantitative tightening.

NGEU funds should help to improve the business environment

Italy is set to receive EUR194bn of NGEU funds (EUR122.6bn in loans and EUR71.8bn in grants) to boost growth. The efficient implementation of NGEU related reforms and timely allocation of funds, coupled with a strengthened administrative capacity, will be decisive and should kick-off a sustained path towards the country's green transition and digital transformation.

On 7 August 2023, Italy submitted its amended recovery and resilience plan, which includes a REPowerEU chapter. The modified plan has a strong focus on the green transition, devoting 39%, up from 37.5% in the original plan, of the available funds to measures that support climate objectives and reinforces Italy's digital preparedness and maintains its important social dimension. Italy already received four tranches of payments (around EUR100bn) linked to the fulfillment all the relevant milestones and targets and submitted the payment request for EUR10.6bn in December 2023. It covers transformative reforms in areas including public procurement, frameworks for spending review, industrial property system, competition law, waste management and education, as well as follow-up measures to keep up the implementation efforts concerning the already adopted reforms in the areas of justice.

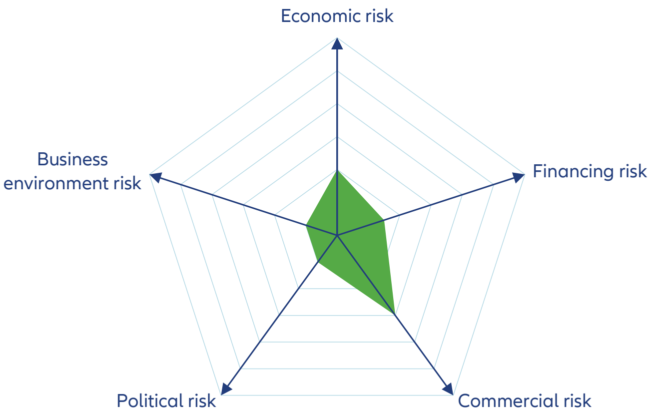
A1

Low
risk for enterprises

Japan

Slow return to normal

GDP	USD4231.1bn (World ranking 3)
Population	125.1mn (World ranking 11)
Form of state	Parliamentary constitutional monarchy
Head of government	Fumio Kishida (PM)
Next elections	2025, Legislative



Strengths & weaknesses

- Robust external position (current account surplus, low public external debt)
- Innovative industries and high-quality products
- Large financial surplus of non-financial corporations
- Developed country in a dynamic region
- Low inflationary pressures
- Political stability

- Vulnerable to natural disasters
- Aging population
- Huge public debt and large public deficits
- Highly dependent on energy imports

Economic overview

Real GDP just back to prepandemic levels

The Japanese economy has been a slow performer among peers, with GDP growing by +0.8% on average over 2000-2019 and by +1.2% over 2010-2019. This compares with average growth of +1.9% and +2.0% for all advanced economies, respectively and average growth in Asia-Pacific of +4.5% and +5.0%, respectively. In 2020, the economy entered the Covid-19 crisis on a soft footing, being on the verge of a technical recession at the end of 2019. Real GDP contracted by -4.3% in 2020, after shrinking by -0.4% in 2019. The recovery in 2021 was mild, with growth of just +2.3%, followed by a modest +0.9% in 2022, even though Covid-19 constraints ended in that year. In 2023, growth picked up to an estimated +1.8%, bringing real GDP back to its 2019 level. Private consumption has been the driver of the modest rebound in the last two years, compensating for the decline in net exports due to worsening global demand. We predict annual real GDP growth to moderate to approximately +1.0% in 2024-2025, still supported by domestic spending and investment, but tamed by higher input costs and weak trade. Over the longer term, Japan should return to its prepandemic, structurally low growth rate of slightly over +1% per year until 2028. On the one hand, the medium-term economic performance will be supported by more dynamic global and domestic demand, higher public investment as well as a competitive environment. On the other hand, labor shortages caused by the aging of the population will curtail Japan's growth prospects.

Inflationary pressures are scarce in Japan. Headline consumer price inflation averaged +0.5% over 2010-2019, including three deflationary years. Inflation accelerated to an average +2.5% in 2022 but remained well below the global rate of +8.7%. In 2023, inflation came in at around +3% – a 30-year high in Japan – while global inflation decreased to an estimated +7%. Against this backdrop, the Bank of Japan, (BoJ, the central bank) has maintained its ultra-accommodative, negative policy interest rates stance – in contrast to almost all other major central banks in the world that have tightened their monetary policies over the past two years. Such a divergence is putting pressure on the currency, with the JPY depreciating against the USD (JPY132:USD1 in Q1 2023, JPY149:USD1 in Q4 2023). Alongside high global energy and food prices, the weakness of the JPY will cause higher imported inflation. Further depreciation is likely until the second half of 2024, when the US is expected to begin with monetary easing. In the coming years and as long as the economic recovery and inflationary trends are not sustainable, the BoJ is likely to keep a negative policy rate and continue purchasing assets and controlling the yield curve. If inflation proves persistent and if wages increase, the BoJ could eventually seize the opportunity to raise its policy rate into positive territory, reversing the deflationary mindset. Fiscal policy had been eased significantly during the height of the Covid-19 crisis and we expect the government to continue to support household income and encourage rising wages and workforce training in the next few years. On the corporate side, the government will keep incentivizing efforts towards digitalization and innovation (especially when it comes to semiconductors and the green transition).

Structural vulnerabilities: public finances, demographics, climate

Overall, indicators show that Japan's short-term financing risk is low. The indicators that need monitoring in the short run are mostly related to public finances, with very large levels of fiscal deficit and public debt. The latter already stood at 236% of GDP in 2019 and rose to 260% in 2022. It is expected to moderate a little to just over 250% by 2025, benefiting from somewhat higher nominal GDP growth, which mechanically drags down the ratio. The annual fiscal deficit is only slowly declining: -9.1% of GDP in 2020, between -7.0% and -6.0% in 2021-2023 and forecast at around -4.5% in 2024 and -3% in 2025. However, debt-servicing costs remain manageable, given low interest rates. Currency risks are also limited as most of the debt is denominated in JPY and domestically-owned.

In the long run, the Japanese economy's vulnerabilities mostly stem from a declining, aging population – with gains in productivity not enough to compensate and a strong resistance to immigration. The working-age population (between age 15 and 64) has been declining in Japan since 1996 and the old age dependency ratio reached 51.2% in 2022, meaning that there is not even two working-age Japanese people per person over the age of 64. The fertility rate in Japan declined to 1.26 in 2022. Climate change is another long-term risk for Japan, which, as an archipelago, is vulnerable to rising sea levels and more intense weather events.

Business environment and political developments

Japan's business environment is well-positioned in our assessment of 185 economies, rated in the best range in the majority of the subcomponents, although it seems to be slightly deteriorating. The 2023 Heritage Foundation's Index of Economic Freedom survey assigns Japan rank 31 out of around 180 economies, reflecting particularly good scores with regards to property rights, judicial effectiveness, government integrity, business freedom and trade freedom, while there remains room for improvement regarding public finances and investment freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. Our proprietary Environmental Sustainability Index puts Japan at rank 78 out of 210 economies, reflecting strengths in energy use per GDP, water stress and CO2 emissions per GDP, but weaknesses in terms of the recycling rate and renewable electricity output.

Japan's political stability rests on the dominance of the Liberal Democratic Party (LDP) under Prime Minister Kishida Fumio. Internal LDP dynamics, including factional debates and cooperation with the junior coalition partner, Komeito, shape policy more than opposition scrutiny. Despite economic challenges and a by-election setback, the LDP maintains broad appeal, securing Kishida's position amid a lack of credible contenders. In September 2023, a cabinet reshuffle reinforced Kishida's leadership, aligning with influential conservative factions. The weakened liberal and left-wing opposition, marked by successive defeats and a lack of reform ideas, struggles to challenge the LDP. While the conservative Ishin party gains support, it shares policy proposals, limiting its ability to challenge the LDP's national rule. In the House of Representatives, the LDP-Komeito coalition holds a robust majority, streamlining legislative processes. Kishida is anticipated to call an early 2024 lower-house election, seeking public approval for tax increases and is likely to obtain it. A victory would pave the way to political stability in the medium term.

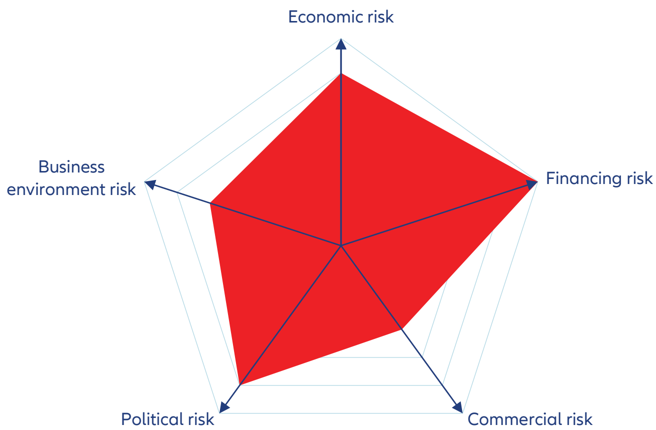
C4

High
risk for enterprises

Kazakhstan

High vulnerability to global economic cycle and external shocks

GDP	USD220.6bn (World ranking 54)
Population	19.6mn (World ranking 63)
Form of state	Presidential Republic
Head of government	Kassym-Jomart Tokayev (President)
Next elections	2028, Legislative



Strengths & weaknesses

- Abundance of raw materials (especially hydrocarbons)
- The National Fund of the Republic of Kazakhstan (NFRK, the sovereign wealth fund) holds ample assets
- Strategic location in Central Asia: benefits from China's Belt and Road Initiative in terms of FDI and infrastructure investment

- Authoritarian regime
- Interventionist and protectionist economic strategy
- High dependence on global commodity prices
- Exchange rate vulnerability to external shocks
- Regional instability in Central Asia
- High external debt burden

Economic overview

Solid growth but persisting inflation and currency risk

A lack of economic diversification makes Kazakhstan's economy highly vulnerable to global demand for and prices of commodities, especially of oil and gas. Economic growth has been volatile and modest over the past decade, at just +2.8% on average annually. After contracting by -2.6% in 2020, real GDP expanded by +4.1% in 2021, +3.2% in 2022 and around +5% in 2023. The external sector was the main growth driver, benefiting from surging global oil and gas prices and, in 2021, rapid growth in China (Kazakhstan's main export destination). China's revocation of its zero-Covid-19 policy in end-2022 supported Kazakh growth again in 2023. Looking ahead, we forecast average annual real GDP growth to remain above +4% in 2024-2025.

Currency and inflationary risks remain on the cards. Since the massive devaluation of the Kazakh tenge (KZT) in 2014 and the subsequent shift to a floating exchange rate regime, the currency has depreciated by an average annual -14% in 2014-2022, though it stabilized in 2023. The KZT is particularly vulnerable to external shocks such as the global oil price slumps in 2015-2016 and 2020 or the Covid-19 pandemic. Strong exchange-rate movements also feed through to inflation. The latter rose to an average of 15% in 2022-2023 owing to increased energy and food prices as well as supply disruptions. Inflation has only gradually come down to 9.8% at end-2023 and we forecast it to remain elevated in the next two years.

Manageable public finances but weak external finances

Kazakhstan's public finances have deteriorated in recent years but will remain manageable in the near term. A crisis-response program to address the adverse effects of the Covid-19 pandemic and low commodity prices widened the annual fiscal deficit from -0.6% of GDP in 2019 to -7% in 2020 and -5% in 2021. The shortfall narrowed markedly thereafter and the official fiscal account was near balance in 2022-2023 thanks to the economic recovery and higher oil prices, but also due to some activities of numerous public entities which actually weaken fiscal accountability. For example, in 2023 the National Fund of the Republic of Kazakhstan (NFRK, the national oil fund) purchased shares of KazMunayGas, the previously 100% state-owned oil and gas company, in order to generate fiscal revenues for the government. In 2024-2025, we forecast small annual fiscal deficits. In any case, budget transfers from the NFRK have been used to finance most of the higher fiscal spending since 2020. As a result, assets held by the NFRK fell from a 2.5-year peak of USD62bn at end-2019 to a low of USD52bn in September 2022, before eventually recovering to USD60bn at end-2023. Meanwhile, total government debt rose from 20% of GDP in 2019 to 26% in 2020 but that ratio has slightly declined since then. In any case, this is still low compared to peer countries.

Kazakhstan's external finances are a cause for concern. Following eight years of annual deficits in 2014-2021 (on average -3.3% of GDP), the current account moved to a surplus of +3.1% of GDP in 2022 on the back of the high oil and gas prices, but reverted to an estimated deficit of around -3% in 2023, owing to the decline in oil prices. We forecast continued annual deficits to the tune of -2.5% to -4% of GDP in 2024-2025. Meanwhile, Kazakhstan's external debt-to-GDP ratio has declined from an average 85% of GDP over the past decade but is forecast to remain above 60% in the next few years, which will still be a comparatively high ratio while external debt servicing will remain hefty at around 35% of export earnings.

The central bank's official foreign exchange (FX) reserves are another cause for concern, since they have heavily fluctuated between USD9bn and USD17bn over the past five years, with the high volatility causing uncertainty. Towards the end of 2023, reserves strengthened somewhat to USD16bn which, however, is only sufficient to cover around 38% of the estimated external debt payments due in 2024 (estimated at USD42bn), well below an adequate ratio of 100%. In other terms, FX reserves cover only three months of imports, well below a comfortable level of four months. The assets of the NFRK provide some cushion with respect to the low level of official FX reserves. However, the Kazakh authorities have indicated over the past decade that they are not willing to use those assets for purposes they are not meant for, such as for example bailing out faltering banks.

Deteriorating business environment and high political risk

The business environment in Kazakhstan has weakened in recent years and is now slightly below average in our assessment of 185 economies. The Heritage Foundation's 2023 Index of Economic Freedom survey assigns Kazakhstan rank 71 out of more than 180 countries, down from rank 34 two years earlier. The significant worsening reflects deteriorated property rights, judicial effectiveness, business freedom and labor freedom while government integrity has remained weak. Moreover, the World Bank Institute's annual Worldwide Governance Indicators surveys continue to indicate considerable weaknesses with regard to regulatory quality and, in particular, the rule of law and control of corruption. Our proprietary Environmental Sustainability Index ranks Kazakhstan only 140th out of 210 economies, reflecting serious weaknesses regarding renewable electricity output and the recycling rate.

Systemic political risk in Kazakhstan is high. The political regime is considered an autocracy with weak institutional effectiveness. In response to violent social unrest in January 2022, President Tokayev began reforms that aim at curbing presidential powers and delegating more powers to parliament, as well as making the registration of political parties easier in an attempt to improve pluralism. The reforms have the potential to significantly improve the political environment in Kazakhstan. However, progress on the reforms is likely to be slow, not least because of potential opposition from political elites. Moreover, mismanagement or slow advancement of the reforms could spark renewed social unrest, in particular if the economic situation worsens. Overall, the risks to political stability will remain high in Kazakhstan over the medium term.

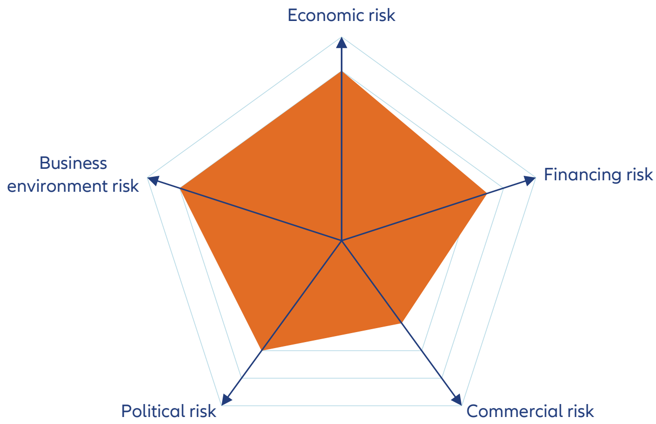
C3

Sensitive
risk for enterprises

Kenya

With bated breath until June, then onward?

GDP	USD113.4bn (World ranking 67)
Population	54.0mn (World ranking 27)
Form of state	Republic
Head of government	William Ruto (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- GDP growth is driven by a thriving services sector, especially in telecommunications and finance, a profoundly diversified economy and positive demographics
- Deep integration into regional trade, with around 47% of goods exported to African countries in 2023
- The recent trade agreement with the EU positions Kenya for economic benefits and increased attractiveness to foreign investors

- Public debt surged from 40% to 68% of GDP in ten years, with half in foreign currency, while prohibitive financing conditions pose liquidity risks
- Elevated political risk due to increased poverty, social tensions, radicalization and security issues
- Inflation spiked due to external and internal factors, leading to a continuous tightening cycle, which is depressing the economy

Economic overview

Are structural reforms still fashionable?

Kenya has been a standout performer in Sub-Saharan Africa, achieving an average GDP growth rate of +5% over the past decade. Factors such as a stable macroeconomic environment, sustained investor confidence and a thriving services sector, particularly in telecommunications and financial services, have fueled the country's economic potential. The new economic course Kenya has embarked on since late 2022 under President William Ruto is ambitious and may bear fruit in the medium-to long-term, although it is weighing on growth and domestic stability prospects in the short term.

Kenya's real GDP is projected to grow slightly above +5% in 2024, but risks remain tilted to the downside, with 2023 closing at an expected pace of +4.4%, around 0.5% less than initially forecasted and persistent inflation (6.6% in December 2023). Kenya also benefits from manufacturing diversification and regional trade integration. In the first nine months of 2023, about 47% of exports were directed to African countries, up from 39% in 2019. However, a less reliable client base, affected by the liquidity crisis, as well as increased costs of imported products that are essential to local manufacturers and agricultural producers, are weighing on Kenya's trade deficit, which is likely to stay at around -11% of GDP in 2024. In 2023, remittances grew at an estimated +4%, bringing in around USD4.5bn in hard currency, equivalent to 4% of projected GDP.

Short-term uncertainties loom in line with prohibitive market financing conditions (yields on one-year sovereign maturities exceed 16% at the time of writing) and tight credit conditions. These factors are driving increased political confrontation and protests that could deter investment at a time when it is most needed and a substantial portion of sovereign debt in hard currency reaches maturity in the middle of the year. We anticipate that IMF and World Bank assistance will assist Kenya in navigating perilous economic challenges in 2024, notably the redemption of USD2bn in Eurobonds in June, as well as providing a medium-term framework for stronger macroeconomic stability. The next Eurobond redemptions, worth USD1.9bn, will not fall due until 2027–28, while the World Bank announced in December a massive USD12bn loan package over three years, starting in July 2024, to unleash infrastructure projects.

Beyond monetary tools: the vital role of concessional debt in economic support

Inflation accelerated in 2022-2023 due to rising global food and energy prices, but also because of regional peculiarities such as limited infrastructure, limited purchasing power and supply dependencies that add up to imported inflation. Consequently, the central bank initiated a tightening cycle in May 2022 by raising its policy interest rates for the first time since 2015 from 7% to the current 12.5%. This cycle is expected to continue well into 2024 (even though inflation is predicted to gradually moderate) to counter currency devaluation and rein in liquidity.

Kenya's fiscal and current account imbalances have exacerbated vulnerabilities to external shocks. The country's public debt has increased from 40% of GDP to 68% in ten years, due to large infrastructure projects and poor tax collection. Moreover, almost half of Kenya's public debt is denominated in foreign currency, making it susceptible to exchange rate fluctuations. Reliance on commercial financing has increased, accounting for 30% of total public debt, as a result of improved personal income and access to commercial debt. In 2023, the International Monetary Fund (IMF) approved around USD2.4bn in new funds during successive reviews of ongoing programs. Existing facilities have been extended from 38 to 48 months, giving the country more time to execute reforms and they have been broadened to consider climate resilience measures after the country experienced the worst drought in decades.

Unstable at home, on his way in diplomatic relations

Kenya's systemic political risk is elevated. This reflects political and social tensions stemming from social inequality and corruption, as well as security risks, including cross-border spillovers from the ongoing conflict in Sudan and latent tensions in Ethiopia and Somalia.

The difficulties of promoting organic reform while maintaining internal cohesion are reflected in a shifting approach to foreign relations. The current administration revised the terms and partly cancelled infrastructure projects contracted by Chinese companies with the previous government. On trade policy, Kenya signed an economic partnership agreement (EPA) with the EU in June 2023, expanding on an interim accord in effect since 2017. The EU is Kenya's top export destination and second-largest trading partner, generating EUR3.3bn of trade in 2022 – an increase of +27% compared to 2018. Once ratified, the EPA will open up new export potential for Kenya via duty-free and quota-free entry into the EU market and make the country more appealing to EU investors. The EPA will create significant economic benefits for Kenya, provide tools for dispute resolution and help in climate change mitigation. Other components, such as trade in services, competition policy and intellectual property rights, could be added to the EPA over time. On the other hand, the deal means Kenya has bypassed the fellow Eastern African Community (EAC) member states in implementing the agreement between the two sides after a previous version of the accord between the EU and the EAC stalled. Tanzania and Uganda declined to approve the agreement for various reasons, while Rwanda signed the previous EPA but did not ratify it.

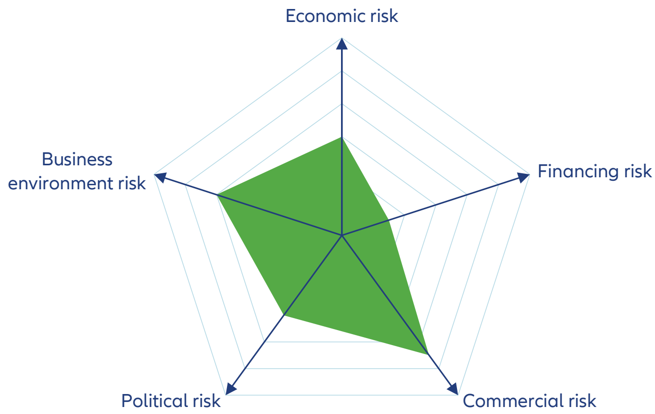
B1

Low
risk for enterprises

Kuwait

Riding on the crest of the black gold wave, with its ups and downs

GDP	USD184.6bn (World ranking 57)
Population	4.3mn (World ranking 128)
Form of state	Constitutional Emirate
Head of government	Meshaal al Ahmad al Sabah
Next elections	2027, Legislative



Strengths & weaknesses

- Strong oil prices and well-controlled inflation contribute to sustained real GDP growth and fiscal surpluses
- Significant external buffers, with a substantial sovereign wealth fund and ample official reserves, provide a cushion against economic uncertainties
- Financial institutions with strong capital and liquidity ensure stability and resilience in the face of economic challenges

- Heavy reliance on the oil and gas sector, which accounts for the majority of tax revenue, makes the economy vulnerable to fluctuations in global oil prices
- Sluggish progress in the long-term diversification strategy, New Kuwait Vision 2035, limits options for reducing dependence on the hydrocarbon industry and for international investors at large
- Slow-moving bureaucracy and ongoing disputes between the government and parliament hinder the progress of critical infrastructure projects and fiscal reforms

Economic overview

From surpluses to sustainable growth?

Kuwait's economy continues to improve, thanks to strong oil prices and inflation is under control. Increases in local and foreign demand helped boost non-oil GDP growth to +4% in 2022. As a result of this and an uptick in oil production, real GDP growth in 2022 jumped to +8.2%. Growth in non-oil GDP is expected to remain robust, driven by domestic demand and steady over the medium term. In contrast, growth in oil GDP is likely to fall owing to production cuts, with a current level of 2.5mn barrels per day (mbd) on average, compared to a previous average of around 3mbd. We expect overall GDP growth to remain below the historical average of +2.8% in 2024 after an estimated stagnation or mild recession in 2023, confirming the volatile nature of Kuwait's GDP.

Inflation is kept in check with the support of monetary policy tightening and the peg to a basket of currencies, resulting in a stable level of KWD0.3 per USD throughout the past eight years. Subsidies for staples such as rice and sugar, as well as controls on domestic fuel prices, have also helped counterbalance volatility in international prices. Core inflation (excluding food and transportation) has been falling since Q2 of 2022. We project an average inflation rate of 3% for 2024.

Both the external and internal balances have improved and external buffers are growing. In 2022–2023 (April–March), the government reached a surplus of +23.4% of GDP, thanks mostly to high oil income but also to expenditure discipline, which should have allowed it to transfer the equivalent of more than 10% of GDP to the sovereign wealth fund. The size of the sovereign wealth fund is more than five times that of GDP. The current account surplus surpassed 30% of GDP in 2022, thanks in large part to rising oil revenues and is estimated to have remained high in 2023. The country's official reserves alone amounted to around USD50bn as of the end of 2023, equal to ten months of projected imports. Financial institutions have ample capital and liquidity and provisioning ratios for non-performing loans are stable.

The opposition-dominated single-chamber parliament approved the 2023–2024 (April–March) budget in August after continuous negotiations. Overall spending is expected to increase by +15% to about USD85bn, yet only 9.5% of the budget is allocated to capital spending, despite the need for long-delayed infrastructure upgrades and development projects. The fiscal breakeven has been conservatively set at an oil price of USD70 per barrel.

Slow progress on the path to economic transformation

The oil and gas industry in Kuwait accounts for almost 90% of tax revenue. A lengthy period of policymaking inertia means that the long-term diversification strategy, New Kuwait Vision 2035, will advance relatively slowly, leaving businesses with few options to invest in aside from the hydrocarbon industry.

In the next few years, the country is expected to continue to be led by Sheikh Meshaal al-Ahmad al-Jaber al-Sabah, 83, who succeeded his half-brother in December, or his successor. Many policies, including the so-called "Kuwaitization" of the country, are likely to continue. The Silk City mega-project and the USD6.5bn Mubarak al-Kabeer Port, both located in Kuwait's Northern Economic Zone, are two of the most important components of the country's five-year development plan for FYs 2020/21-2025/26 (April-March). During the anticipated period, disagreements between the government and parliament and a slow-moving bureaucracy in Kuwait will impede progress on significant infrastructure projects and the government's fiscal reform initiatives.

The government's work program (released in July) states its intention to create a new sovereign fund called Ciyada to implement such projects alone or in cooperation with the private sector, under the supervision of the existing sovereign fund, the Kuwait Investment Authority (KIA). Part of the revenues in excess of the break-even price should also end up in this fund, thus providing an additional buffer. This second fund would help realize the government's long-standing goal of separating the state's off-budget investment activities from politicized fiscal debates: the chairmanship of the KIA, in fact, passed from the Minister of Finance to the Minister of Investment and Economic Affairs in 2021.

Balancing regional normalization and national security

Short-term foreign policy objectives for Kuwait include keeping up strong bilateral ties with the US, the country's traditional security guarantee. The continued usage of Ali Al Salem Air Base by the US gives credence to the belief that ties between the two countries will remain strong through the next presidential term (2024-2028). Kuwait is one of the Gulf Arab countries most opposed to regional normalization, as this may imply the US reducing its Middle Eastern footprint to focus on security threats in Europe and Asia. At the same time, Kuwait is unlikely to seek ties with Israel in 2024–28, while Kuwaiti-Iranian ties may improve in the medium term.

In this context, talks between Kuwait and Iran to define their maritime border have restarted. A resolution to the long-running dispute would ease tensions with Saudi Arabia over plans to develop the Dorra gas field in the offshore portion of the Partitioned Neutral Zone (comprising acreage shared by Kuwait and Saudi Arabia), which Iran claims to be within its territorial waters to the north. Since the Iraqi federal supreme court declared a 2012 bilateral agreement on navigation rights unconstitutional, efforts to resolve demarcation issues with Iraq in the shared Khor Abdullah canal have stalled. Kuwait's plans to expand the Northern Economic Zone logistics hub in the north of the country are at risk due to legislative resistance in Iraq and the possibility of rising nationalist sentiment in Kuwait.

Given their common interests, primarily in the oil industry, Kuwait is poised to increase its bilateral connections with Asian economies, especially China, to catalyze the development of essential infrastructure within the framework of the Belt and Road Initiative. Several agreements were signed at a meeting between the then-crown prince and Chinese President Xi Jinping in late September.

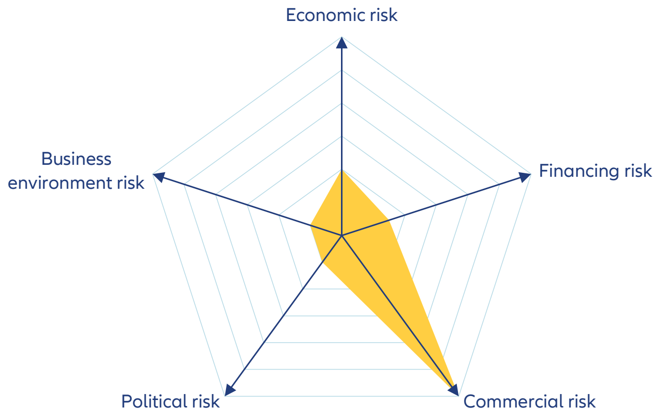
A2

Medium
risk for enterprises

Latvia

Modest recovery in 2024

GDP	USD41.2bn (World ranking 98)
Population	1.9mn (World ranking 150)
Form of state	Parliamentary Republic
Head of government	Evika Siliņa (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Low systemic political risk
- Good international relations (except with Russia), EU and NATO membership
- Competitive business environment
- Eurozone membership provides for low transfer and convertibility risk
- Adequate public finances and access to international capital markets

- Small industrial base
- Unfavorable export structure, largely dependent on Russia (prior to the war in Ukraine) and other Baltic States
- Banking sector remains vulnerable due to the high level of (volatile) non-resident deposits
- Regional inequalities and mismatch in labor markets (between workers and jobs)

Economic overview

Growth to remain weak, inflation back to normal

Latvia's economic prospects have significantly deteriorated as a result of the war in Ukraine. This is mostly due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 7% of Latvia's exports, 9% of its imports and, notably, 100% of its natural gas imports). Following a strong post-Covid-19 recovery with +6.7% real GDP growth in 2021, economic activity in Latvia slowed down markedly in 2022 and moved into recession in 2023 amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. Additionally, the sharp economic slowdown in Western Europe weighed on trade in Latvia. Going forward, government fiscal stimulus and EU funding inflows as well as a gradual rebound in external demand should support a moderate recovery in Latvia in 2024-2025. We forecast full-year real GDP to expand by approximately +1.5% in 2024 and +2.5% in 2025.

Inflationary pressures have subsided for now but upside risks remain on the cards in 2024-2025. Consumer-price inflation began to rise in mid-2021 and surged to well over 20% y/y in the second half of 2022 and early 2023, driven by soaring energy and food prices as well as interrupted supply chains. It decelerated then rapidly to single digits by June and as low as just 0.6% y/y by end-2023, thanks to base effects, monetary tightening by the ECB and slowing domestic demand. Looking ahead, these effects are likely to fade and headline inflation is forecast to pick up somewhat to the range of 2-3% y/y in

2024-2025. Upside risks to this forecast include a renewed energy price shock, potential supply disruptions or tightening labor markets. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Latvia.

Deteriorated but manageable public and external finances

Latvia's public finances should remain manageable despite strong fiscal stimulus measures taken in 2020-2021 to mitigate the economic impact of the Covid-19 crisis and renewed, albeit more moderate, stimulus to mitigate the impact of the economic downturn in 2022-2023. The government posted annual fiscal deficits of -4.5% of GDP in 2020, -7.3% in 2021 and -4.6% in 2022 and we forecast shortfalls to the tune of -3.5% in 2023-2024. This should keep public debt above 40% of GDP until 2025 at least. However, this will still be moderate compared to peers or the Eurozone average.

Latvia's current account balance shifted to sizeable annual deficits of -4% to -5% of GDP in 2021-2022, since imports in value terms increased much more strongly than exports as a result of the sharply increased prices for imported energy and food. Owing to softening domestic (import) demand and moderating energy prices, the current account shortfall is estimated to have narrowed somewhat in 2023. Looking ahead, we expect the annual deficit to decline further to around -2.5% in 2024. Financing the deficits should not cause problems over the forecast horizon, thanks to solid net FDI inflows (covering around one half of the shortfalls) and Latvia's Eurozone membership. A major weakness in Latvia remains the relatively high level of external debt. This is a legacy from earlier huge current account deficits in the 2000s. However, the external debt-to-GDP ratio has continued to shrink from its record high of 147% of GDP in 2016 to an estimated 93% in 2023. We expect this positive trend to continue gradually in the next two years.

Strong business environment and moderate political risk

The Latvian business environment is generally strong. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly while a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Latvia rank 17 out of more than 180 economies, an improvement from rank 30 two years ago. The country scores well with regard to property rights, judicial effectiveness, tax burden, trade freedom and investment freedom while there remains some room for improvement in terms of government integrity and labor freedom. Meanwhile, our proprietary Environmental Sustainability Index ranks Latvia 31st out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change, though there are still moderate weaknesses in renewable-electricity output and the recycling rate.

Overall systemic political risk has deteriorated somewhat from a previously low level because geopolitical risk in the region has increased with the war in Ukraine. Latvia is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. However, there is a risk that social and cultural push-back is emerging from the sizeable Russian-speaking minority in Latvia.

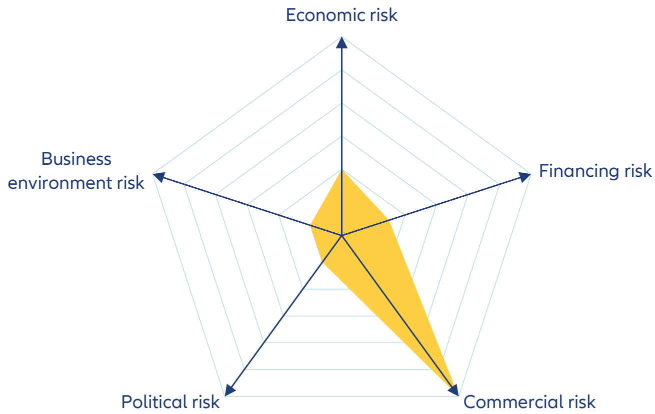
A2

Medium
risk for enterprises

Lithuania

Moderate recovery in 2024

GDP	USD70.3bn (World ranking 81)
Population	2.8mn (World ranking 136)
Form of state	Parliamentary Republic
Head of government	Ingrida Šimonytė (PM)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- Low systemic political risk
- Good international relations (except with Russia), EU and NATO membership
- Eurozone membership provides for low transfer and convertibility risk
- Sound public finances and access to international capital markets
- Strong business environment

- High external debt burden
- The industry is dominated by one large refinery complex, Orlen Lietuva
- Unfavorable export structure, with high export and import dependence on Russia (prior to the war in Ukraine) and a few EU countries

Economic overview

Growth to remain restrained while inflation normalizes

Lithuania's economic prospects have sharply deteriorated as a result of the war in Ukraine. This is due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 11% of Lithuania's exports, 12% of its imports and 37% of its natural gas imports). Following a strong post-Covid-19 recovery, with +6% real GDP growth in 2021, economic activity in Lithuania slowed down markedly in 2022-2023 amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. The economy grew by just +1.9% in 2022 and slipped into recession in early 2023 as real GDP in quarter-on-quarter terms contracted for two consecutive quarters (-0.5% in Q4 2022 and a hefty -3.0% in Q1 2023). We estimate a small full-year economic contraction in 2023 as the significant economic slowdown in Western Europe has additionally weighed on external demand in Lithuania last year. Looking ahead, we expect a gradual economic recovery on the back of government investment and fiscal stimulus, EU funding inflows, a rebound in consumer spending and a pick-up in global demand. We forecast real GDP to expand by around +2% in 2024 and +2.5% in 2025.

Inflationary pressures have abated for now but upside risks remain on the cards in 2024-2025. Consumer-price inflation rose markedly from mid-2021 and surged to a peak of 24.1% y/y in September 2022, driven by soaring energy and food prices as well as interrupted supply chains. It remained in double-digits until mid-2023 before base effects, monetary tightening by the ECB and slowing domestic demand triggered a rapid disinflation in the second half of 2023 to a low of just 1.2% y/y in December. Going forward, these effects are likely to wane and headline inflation is forecast to pick up to the range of 2% to 3.5% y/y in 2024-2025. Upside risks to this forecast include a renewed energy price shock, potential supply disruptions or tightening labor markets. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Lithuania.

Manageable public and external finances

Lithuania's public finances should remain manageable. Four years of small annual fiscal surpluses in 2016-2019, which brought down total public debt to 36% of GDP, proved that the government is in principle pursuing budgetary prudence. As a result of substantial fiscal stimulus measures to mitigate the impact of the Covid-19 crisis on the economy, a large fiscal deficit of -6.5% of GDP was recorded in 2020. But the annual shortfall swiftly narrowed to -1.1% in 2021 and even further to -0.7% in 2022, despite the energy crisis, since expenditure on energy support measures and intermediate consumption was lower than expected. We estimate the fiscal deficit to have increased to about -2% of GDP in 2023 as the government implemented several projects that were partly planned for 2022. It also increased social spending and public investment and had to shoulder higher interest expenditure. In 2024-2025, the fiscal deficit to GDP ratio is forecast to widen further, driven by additional spending on social benefits and a substantial increase in pensions and public wages. Meanwhile, public debt in relation to GDP has fallen from a temporary peak of 46% of GDP in 2020 to 38% in 2022, in part helped by strong nominal GDP growth and is projected to remain around that level in the next few years. In any case, such a debt-to-GDP ratio is favorable as compared to fellow Eurozone member states.

After five years of annual surpluses, Lithuania's current account posted a hefty -5.5% of GDP deficit in 2022, triggered by sharply increased import prices for energy and food. As the latter have eased markedly in 2023 and because nominal imports shrank more strongly than exports, the current account moved back to a surplus of around +1.8% of GDP. Looking ahead, we forecast continued, albeit smaller annual surpluses in 2024-2025 since imports are likely to recover. Meanwhile, gross external debt in relation to GDP has steadily declined from a temporary peak of 81% in 2020 and is projected at around 60% in 2024.

Strong business environment and low political risk

The Lithuanian business environment is very strong. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business friendly. Moreover, the perceived level of corruption has steadily declined since 2018 and is now relatively low. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Lithuania rank 20 out of 176 economies. The country scores well regarding property rights, judicial effectiveness, tax burden, trade freedom and business freedom while there remains some room for improvement in terms of labor freedom. Meanwhile, our proprietary Environmental Sustainability Index ranks the country 14th out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change, though there are still moderate weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is low. Lithuania is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. Government instability and frequent early elections seem to be a story of the past. Since 2008, all elected governments survived their terms, at times as minority governments and were replaced only at the next orderly elections (which were held in October 2012, October 2016 and October 2020). Solid economic policies that began in the wake of the 2008/2009 global financial crisis enabled Lithuania to join the Eurozone in January 2015.

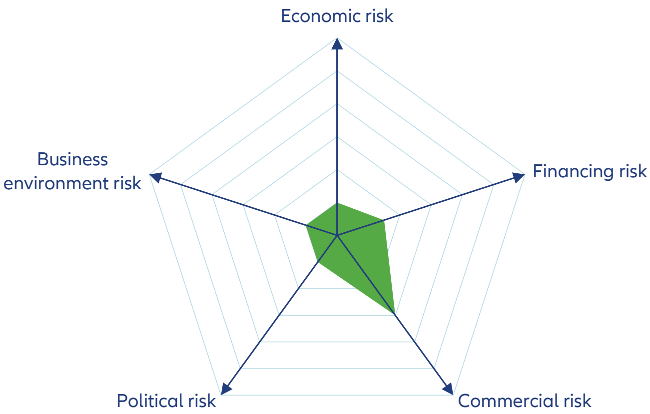
AA1

Low
risk for enterprises

Luxembourg

GDP growth to remain subdued in 2024 and 2025

GDP	USD82.3bn (World ranking 71)
Population	0.7mn (World ranking 167)
Form of state	Constitutional Monarchy
Head of government	Luc Frieden (PM)
Next elections	2028, General



Strengths & weaknesses

- Dynamic economy; competitive, digital and innovative
- Resilient and attractive labor market
- Economic and political stability

- Economy little diversified (mostly focused on financial services)
- Strongly dependent on the Eurozone economic cycle
- Education system to be improved to address the challenges of digitalization and to better anticipate the skills that are needed

Economic overview

Luxembourg experienced a strong slowdown

Weaker external demand, tighter financial conditions and confidence effects weigh on Luxembourg's growth. Economic activity remained weak in recent quarters, on the back of a decrease in investment and exports. Domestic demand was supported by the growth in private and government consumption, also buoyed by the introduction of additional government support measures and three wage indexations in 2023. However, prolonged uncertainty and the slowdown in the labor market will further weigh on household consumption. Indeed, savings rates are now well above historical levels.

At the same time, investment is expected to remain weak due to the uncertain economic outlook in combination with the impact of higher interest rates. With additional drag coming from net exports, we expected GDP to have contracted in 2023 (-1.0%) and to recover only marginally in 2024 and 2025 (+0.9% and +1.6% respectively).

Price pressures are easing but inflation is still above the ECB's 2% target. Prices growth has been experiencing a downward trend from August 2023, driven by negative base effects of energy prices. In the meantime, the labor market proved resilient but showed first signs of weakening; we expect the unemployment rate (currently at 5.7%) to deteriorate slightly in 2024.

Luxembourg's external balance is dominated by the large financial sector, which has supported current account surpluses in recent decades but has seen large disinvestment in the last quarters.

Public finances have been impacted by the pandemic and energy crisis. In 2023, the government deficit is expected to widen to 1.9% of GDP (from 0.3% in 2022) given weak activity and an increasing impact of measures to mitigate the impact of high energy prices and to support household purchasing power and the income of corporations. Public expenditure has been affected by three successive automatic wage indexations increasing compensation of employees and social transfers. At the same time, revenue growth has moderated in 2023, from the high growth rate in 2022. Revenue continues to benefit from the resilient labor market via higher personal income tax and social contributions. In 2024, we expect the government deficit to increase to 2.1% of GDP.

As part of the EU Next Generation program, Luxembourg's Recovery and Resilience Facility will be financed by EUR93.4mn in grants. The plan puts a strong focus on the green transition with 61% of the resources allocated to support climate objectives (exceeding the minimum of 37% required by the RRF Regulation) while 32% is allocated for digital objectives. Digital measures cover research and innovation, deployment of new technologies, digitalization of the public administration, territorial institutional and social cohesion, which are expected to engage the private sector in the transition. Investments are also planned in digital skills, digital connectivity and eHealth. This includes measures aimed at improving the digital inclusion of the population and workers, as well as the digitalization of SMEs.

Further diversification of economic activity is auspicable

Luxembourg's competitive advantage in financial services will support recovering growth. The country has developed a strong competitive advantage in financial services over the past decades, turning it into the world's second-largest investment fund center after the US and the most important private banking center in the Eurozone. The government has been aiming at economic diversification for a few years and has been encouraging the development of sectors such as communication and information technologies, logistics, e-commerce and biotechnologies.

However, labor productivity needs improvement in Luxembourg, given lower education levels compared to neighboring countries. The skills shortage has caused most of the jobs created in the financial sector to attract foreign nationals, causing Luxembourg's resident workforce to rely on public administration jobs or jobs in the steel sector – highly subjected to foreign competition.

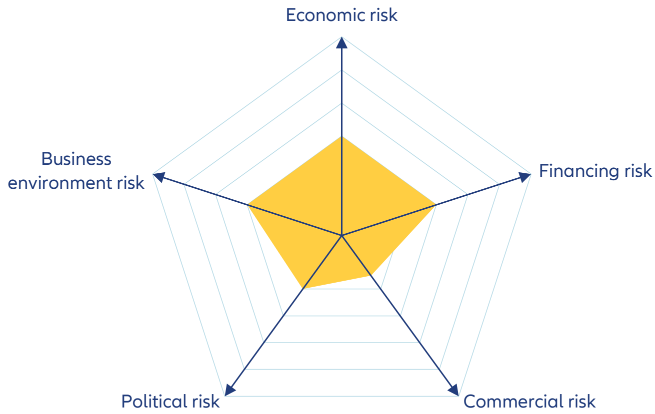
BB2

Medium
risk for enterprises

Malaysia

Weak spots remain amid broadly strong macro-fundamentals

GDP	USD406.3bn (World ranking 37)
Population	33.9mn (World ranking 45)
Form of state	Federal parliamentary constitutional monarchy
Head of government	Anwar Ibrahim (PM)
Next elections	2028, legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Robust domestic demand
- Healthy labor market
- Resilient banking sector

- Vulnerable to external pressures
- Export dependency leads to cyclical risk
- High level of private external debt and public debt needs monitoring
- Deteriorating business environment

Economic overview

Growth to moderate below pre-pandemic levels in the near term

After having experienced a robust growth trajectory, growing by +4.7% y/y on average in the 2000s and +5.4% y/y between 2010 and 2019, Malaysia was severely hit by the Covid-19 pandemic and the ensuing Movement Control Orders put in place by the government. Consequently, the economy experienced a -5.5% y/y contraction in 2020 which was followed by a modest recovery of +3.3% in 2021. On the back of tailwinds, notably a buoyant global environment, global commodities boom and a recovery in domestic demand, the economy saw a strong rebound in 2022, growing by +8.7%. In 2023, the economy remained resilient to the challenging external environment, high inflation and tight monetary policy and we estimate that the economy grew by +4.4% primarily driven by private consumption. Going forward, supported by a recovery in external demand, an easing of monetary policy and a pick-up in the services sector, we expect growth to remain stable at +4.4% in 2024 and to average around +4% per year in the medium term until 2030.

The fiscal policy in Malaysia has been broadly expansive after the onset of the pandemic, with the fiscal deficit increasing from 4.9% to 5.9% of GDP during the 2020-2022 period. However, we expect the fiscal deficit to have narrowed to 4.5% in 2023 and to remain at this level in the near term going forward as fiscal consolidation will remain an area of focus for Malaysian policymakers, especially on the back of clear targets set in the Public Finance and Fiscal Responsibility Act passed in October 2023.

With the aim of finding an equilibrium between supporting economic growth and keeping inflation under control, the Bank Negara Malaysia – the central bank of Malaysia – is likely to maintain a neutral policy stance after having implemented a cumulative 125bps hike in the policy rate in 2022-2023. We forecast inflation to moderate to 2.3% and 2.4% in 2024 and 2025 respectively, declining from 2.6% in 2023. Still, inflationary pressures from domestic policies including the subsidy reform, price caps and higher services tax will prevent the central bank from a premature monetary policy easing in the near term.

Keep an eye on public and external debt

Broadly, the short-term financing risk for the economy is deemed medium. While structural macroeconomic vulnerabilities are manageable, it is worth monitoring public finances and external debt, reflected by a high and rising fiscal deficit, public debt, and external debt relative to GDP.

The large round of fiscal stimulus since the pandemic widened the fiscal deficit and elevated public debt to 70% of GDP in 2021 and 2022 (compared with 55% on average in the 2010s). The fiscal deficit widened to 6% of GDP during this period – a significant deviation from 2.9% on average in the 2010s. However, in 2023 the fiscal deficit narrowed to 4.5% of GDP and will stabilize at 4.6% in 2024 and 2025 as policymakers focus on a path of fiscal consolidation through a combination of spending cuts, new taxes and subsidy reforms. We expect public debt to remain above 60% in the next two years. On the brighter side, most of the public debt is expected to be funded onshore. On the current account front, we expect Malaysia to register a surplus of 2.7% of GDP in 2023, followed by 2.8% and 2.9% primarily driven by a goods trade surplus, as external demand recovers and the slump in the electronics cycle experiences a recovery. That said, Malaysia's reliance on external trade and its structure also makes it vulnerable to cyclical swings in some specific sectors including electrical machinery and equipment, commodities and electronics.

Challenges remain in the business environment despite easing political instability

Malaysia exhibits an above-average business environment but is facing a downward trend. The Heritage Foundation's Index of Economic Freedom survey 2022 assigns the economy rank 42 out of 185 economies, down from rank 22 in 2021 – thereby pushing it down to the "Moderately Free" category from "Mostly Free" previously. The drop reflects weaknesses in terms of financial freedom, government integrity, labor freedom and judicial effectiveness to name a few. However, monetary freedom and trade freedom remain bright spots. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators 2022 survey indicates that Malaysia performed well in terms of regulatory quality, although the rule of law and control of corruption remain weak spots. Lastly, our proprietary Environmental Sustainability Index ranks Malaysia 147 out of 210 economies, due to challenges in terms of climate change vulnerability, recycling rate and renewable electricity output.

Malaysia's predominant political party, United Malays National Organization (UMNO), has long held power in the ruling coalition. The situation changed in 2018 amid a corruption scandal, launching an era of political instability, with four different governments over a period of five years. In the November 2022 election, none of the contestants won a parliamentary majority, which was the first time that Malaysia has seen a hung parliament since its independence. After intense negotiations, the leader of the multicultural Pakatan Harapan (PH) coalition, Anwar Ibrahim, became the 10th prime minister of Malaysia and heads a unity government. Stability and continuity have been key features of Anwar's speeches in addition to the signing of a memorandum of understanding between the component parties in the PH coalition. In addition, he has pledged to work with the pro-Malay factions in the coalition and focus on areas such as economic growth and anti-corruption rather than on reforms on sensitive issues including race-related reforms. These factors should ensure broad political stability although the weak standing of the UMNO due to corruption charges poses some risk to political stability in the near term.

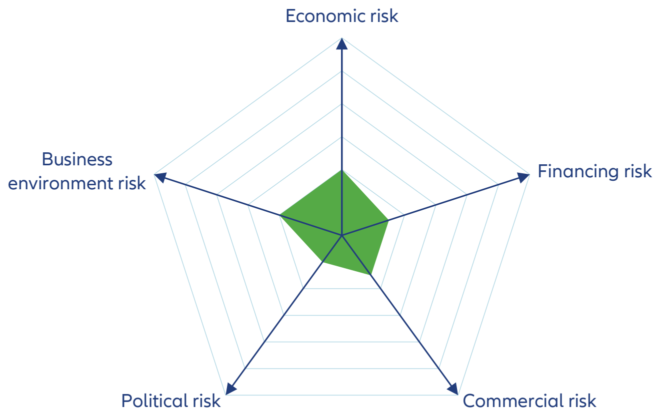
A1

Low
risk for enterprises

Malta

Outstanding growth will normalize, but still well above the Eurozone average

GDP	USD17.8bn (World ranking 125)
Population	0.5mn (World ranking 172)
Form of state	Republic
Head of government	Robert Abela (PM)
Next elections	2024, General



Strengths & weaknesses

- Impressive post-pandemic recovery, with GDP 18% above 2019 levels
- Solid labor participation and large inflows of foreign workers
- Sound financial system

- Fiscal deficits remain large, stretched by pandemic and energy crises
- Strong dependency on foreign financial flows
- Corruption and money laundering fears have not fully dissipated

Economic overview

The economy continues to recover, despite prolonged challenges

The post-Covid-19 GDP rebound was strong both in 2021 and 2022 (+12.4% and +8.2% respectively) and continued during 2023 (we forecast +6.1%) despite multiple challenges affecting the Eurozone. The economy showed rapid growth in both private and public consumption, as well as in investment. Export of services quickly rebounded thanks to strong tourism activity, both in terms of the total number of visitors and tourism expenditures. However, GDP growth is expected to slow down in 2024 (despite remaining well above Eurozone average) to +2.5% and then to +1.6% in 2025. Inflation continues to decelerate after the 2022-2023 spike. Malta saw a dip in inflation at the end of 2023, but official statistics show it was still well above the Eurozone average. Declining energy prices are driving the downward trend but food prices continue to rise.

The general government deficit-to-GDP ratio is estimated to have declined only slightly to around 5.0% of GDP in 2023. We also expect the government balance to narrow a bit further in 2024-2025. Fiscal support to shield households and firms from higher energy prices reached almost 7% of GDP. The government has mandated Enemalta, the (67%) state-owned energy provider in the country, to freeze prices at their 2014 level while compensating the firm for the losses the price cap implied due to the increasing cost of energy imports.

To ensure growth, structural reforms are needed

Malta's economy is oriented towards services (tourism and financial services) but also towards exports in the manufacturing sector, particularly in electronics and pharmaceuticals. The onslaught of the pandemic has severely underlined the need for structural reforms, notably (i) investment in research and development (R&D) and (ii) improvement of the governance framework. Increased investment in R&D is needed to boost productivity and attract human capital to fill the skills gap. The improvement of the governance framework is also essential to ensure the increase and maintenance of foreign investment flows and the stability of the country's financial situation.

Malta's Recovery and Resilience Plan (RRP) will help to address some of the structural policy challenges. The RRP had an initial value of EUR344.9mn, while its amended plan is worth EUR336.3mn. Under the EU's Recovery and Resilience Facility (RRF), at the core of the NGEU instrument, Malta's RRF grant allocation decreased from EUR316.4mn to EUR258.3mn. In April 2023, Malta submitted a request to amend its NRRP, to which it added a new REPowerEU chapter with an additional grant allocation of EUR30mn. It also requested to transfer a portion of its share of the Brexit Adjustment Reserve to its plan (EUR40mn. The plan includes the measures to help the country's green transition, accelerate the digital transition (primarily focusing on the public sector), increase the resilience and sustainability of the health sector and address challenges in education, labor markets, pension systems and the judiciary system. The implementation of the plan is underway and Malta requested the first payment in December 2022.

Business environment and political developments

Malta was in the bottom of the first half of the 2020 World Bank Doing Business ranking: 88th out of 190 economies. The country achieved top rankings in enforcing contracts, trading across borders and protecting minority investors. In 2020, the country improved the reliability of its electricity supply by upgrading its grid and setting up a grid-operations control center. In June 2022, the Labor Party that has ruled the country since 2013 won the general election. In January 2020, prime minister Joseph Muscat stepped down as members of his government and staff were implicated in the murder of an investigative journalist. He has since been replaced by Robert Abela. The government will continue to face challenges including concerns over good governance, criticism over the "golden passport" scheme and the high cost of living.

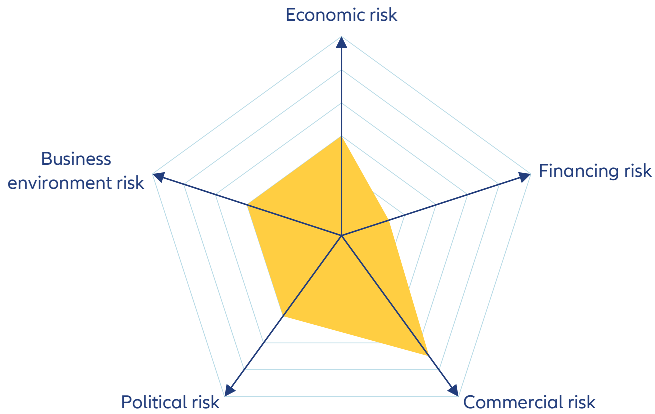
BB2

Medium
risk for enterprises

Mexico

Policy will be key to success

GDP	USD1414.2bn (World ranking 14)
Population	127.5mn (World ranking 10)
Form of state	Federal Republic
Head of government	Andrés Manuel Lopez Obrador (President)
Next elections	2024, General



Strengths & weaknesses

- Sound macro-policy framework: fiscal spending is capped and pro-active inflation-targeting central bank
- Moderate debt ratios and strong external position (manageable current account deficit, large FX reserves)
- Strong legacy from pro-business reforms in the last decade
- Structural business environment exceeds Latin American average
- Durable political framework with stable handovers of power
- Member of OECD
- Easy access to capital markets
- Support from IFIs likely if needed

- Financial integration means market volatility is driven by both domestic (more or less pro-business stance) and external (US) policy risk. Trade uncertainty dissipated but doubts over the implementation of NAFTA remain
- Fiscal position highly sensitive to oil price (oil = 30% of public revenues)
- Sensitive to US business cycle (around 80% of exports)
- Skewed income distribution (geographically as well as among socio-economic groups), still high poverty levels
- Security issues related to drug-trafficking
- Rule of law and control of corruption below Latin America's average

Economic overview

Reforms needed to boost longer-term growth prospects

México has a proven track record of implementing prudent macroeconomic and fiscal policies, establishing a certain degree of macroeconomic stability. Despite a surge in Covid-19 infection rates, ongoing global supply chain disruptions and uncertainties arising from the Eastern European conflict, the Mexican economy witnessed a growth of +3.0% in 2022. This recovery was primarily attributed to the resilience of the manufacturing sector and modest improvements in the services sector, driven by positive changes in domestic spending, particularly in investments. In 2023, Mexico's economic activity continued its expansion, bolstered by growth in both services and industrial production, supported by a robust US economy, nearshoring trends, a tight labor market and rising wages. However, economic activity is expected to gradually lose momentum in the following quarters, primarily due to a weaker US economy and the lagged effects of tightening monetary policy. Our projection indicates economic growth reaching +3.4% in 2023, followed by a deceleration to an average of +2% in 2024-2025.

In the medium term, depending on the national policy to be adopted by the next government – the elections will take place in June 2024 – the country's growth rates could rise. The country stands to benefit greatly from the nearshoring policy – in 2023 it became the top trading partner of the US, overtaking China and the IDB estimates that the additional gains from exports could reach USD30bn. However, the current protectionist/state policy towards the energy and mining sectors appears to be a limiting factor, as the state is unlikely to be able to cover the high levels of investment required (particularly in lithium extraction).

We anticipate a gradual easing of inflation in the coming period. The alleviation of shocks stemming from the pandemic and geopolitical tensions, such as the Russian-Ukrainian war, coupled with the current monetary policy stance, has contributed to the downward trajectory of inflation. It is essential to note that this path may not unfold linearly, as certain pressures persist within the services component, particularly in an economic environment demonstrating greater resilience than previously anticipated. Our projections indicate an average inflation rate of 5.5% and 3.8% for the years 2024 and 2025, respectively.

We anticipate that The Bank of Mexico (Banxico) will maintain its benchmark interest rate at 11.25%. With Banxico's board retaining its hawkish bias and aiming for an orderly and sustained convergence of headline inflation to the 3% target, the central bank announced its decision to keep the reference rate at its current level for an extended period. Assuming that disinflation persists, our expectation is for Banxico to gradually ease the policy rate starting from Q1 2024, reaching 7.75% by the end of 2027.

Solid external accounts, fiscal slippage to take time to fade

Mexico's external profile remains robust. The country has a track record of modest current account deficits (-1.3% as the historical average). Nearshoring trends should support exports despite a slowdown in the US and should boost FDI inflows over the forecast period, helping Mexico to cover its current account dynamics comfortably. Should capital flows underwhelm, Mexico's reserves cushion will help to mitigate balance-of-payments risks.

In anticipation of the 2024 general election, the Mexican government, led by López Obrador, has shifted away from fiscal austerity that characterized the initial five years of his term. The projected fiscal deficit of 2.2% of GDP for 2025-2029 appears challenging, as the next president is unlikely to implement necessary spending cuts or fiscal reforms, leading to expected fiscal slippage. The forecast indicates a widening fiscal deficit from 3.8% of GDP in 2023 to 4.9% in 2024, the largest in over three decades. Despite the lack of commitment to substantive fiscal reform from potential successors Sheinbaum and Gálvez, the next administration faces the delicate task of balancing spending control, political consolidation and economic growth. The deficit is projected to gradually narrow to 3% of GDP by 2028.

On a positive note, recent fiscal austerity has reduced the public debt/GDP ratio to an estimated 47.5% in 2023, down from the pandemic-era peak of 51.7%. However, due to election-related spending and modest fiscal reform, the ratio is expected to rise to 52.6% in 2028. Access to ample domestic financing and global capital markets positions the government to easily cover its financing requirements.

Competitive yet deteriorating business environment

The Heritage Foundation's Index of Economic Freedom 2022 survey assigns the country rank 67 out of 177 countries, above the regional and world averages, reflecting strong scores with regard to tax burden, government spending, tax freedom and investment freedom. However, Mexico scores less favorably regarding property rights, judicial effectiveness and government integrity due to weak rule of law, bias toward state-owned enterprises and policies that harm the private sector. These factors will continue to weigh on the business climate.

Political risk is assessed as moderate. Morena is expected to maintain its dominance leading up to the upcoming June 2024 presidential and legislative elections. While an opposition alliance, including the centrist Movimiento Ciudadano (MC), a growing minority party, may present a stronger challenge to Morena, differences in policies and negotiations over power-sharing quotas pose obstacles to forming such a coalition. The most recent polls show that Morena's representative, Sheinbaum, has 60% support, while her nearest rival, Xóchitl Gálvez, a right-wing senator and candidate for the opposition coalition, Frente Amplio por México (Frente), has 33%. In light of these figures, Morena is poised strongly for the 2024 presidential race. Any opposition candidate faces a formidable task in uniting ideologically diverse parties, mobilizing disaffected voters and countering Morena's advantage as the incumbent party.

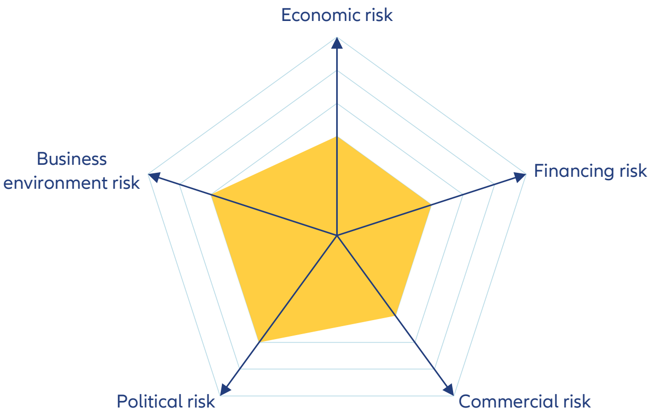
B2

Medium
risk for enterprises

Morocco

Economic growth within reach, with risks tilted to the downside

GDP	USD134.2bn (World ranking 60)
Population	37.5mn (World ranking 40)
Form of state	Constitutional Monarchy
Head of government	Aziz Akhannouch (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- The Moroccan economy benefits from diversified exports, including agricultural goods, phosphates, manufacturing (automotive components, conductors and wires), contributing to a reduction in the external deficit
- Despite challenges like the earthquake and prolonged drought, the tourism sector, particularly in Marrakesh, has shown resilience with minimal damage. Morocco remains a popular tourist destination, with remittances contributing significantly to hard currency inflows
- The availability of international financing, including a USD5bn IMF precautionary credit line, provides a financial safety net, helping to manage fiscal and external balances in the face of reconstruction costs and subdued demand from major trading partners

- Prolonged drought and below-average rainfall levels in late 2023 have led to a significant drop in water storage in dams, impacting agricultural output. Government actions to reduce water withdrawal may further strain agricultural productivity
- The economy faces a risk of commodity price resurgence, especially for imports like liquefied natural gas. Diplomatic disputes with neighboring Algeria have disrupted gas supplies, affecting power plants and posing challenges to energy security
- Diplomatic tensions with the EU, stemming from corruption allegations involving members of the European Parliament, increased controls on journalists and critical voices, while the plan for Western Sahara may reduce available financing and lead to increased trade selectivity

Economic overview

Water scarcity and subdued demand from major trading partners continue to weigh on short-term prospects

Together with the September earthquake that struck the surroundings of Marrakesh with significant losses, the Moroccan economy suffered from prolonged drought that caused limited agricultural output with GDP growth estimated at +2.6% in 2023. A similar pace, slightly below the regional average of +3.6%, is likely to be maintained in 2024, reflecting weak demand growth from its major trading partners, with reconstruction costs weighing on the fiscal deficit. However, international financing is available, including USD5bn under an IMF precautionary credit line. The fiscal and external balances should remain manageable and the damage to Marrakesh, a popular tourist destination, has been minimal.

The export of agricultural goods, phosphates and manufacturing (automotive components, conductors and wires) will reduce the external deficit, while food-related inflationary pressures are likely to normalize in the first half of 2024. However, the level of rainfall in late 2023 remained below the 10-year average and water scarcity usually determines actions from the government to reduce the amount of water that is withdrawn from artificial basins to irrigate farmland. The water storage in dams plummeted to a mere 23.5% in December 2023, down from 31% recorded 12 months before.

Another risk to the outlook is a resurgence of the price of commodities that Morocco imports due to international prices and trade bottlenecks. Morocco entered the liquefied natural gas market in late 2023 to counter the loss of pipeline supplies from a neighboring exporter, Algeria, due to a breakdown in diplomatic relations. Algeria, which has sufficient alternative export capacity, used gas as economic leverage in its dispute with Morocco and Spain over Western Sahara, cutting off gas supplies to Spain via the Maghreb-Europe pipeline, which passes through Morocco, in the fourth quarter of 2021. Morocco had received a small portion of the transit gas as royalties and as a result found itself unable to supply its two gas-fired power plants. Together, these power plants have 1.7 gigawatts (GW) out of a total installed capacity in the country of just over 11 GW.

Finally, diplomatic tensions with the EU following the 2022 corruption allegations involving members of the European Parliament could also reduce available financing and increase trade selectivity by the EU, which accounts for almost two-thirds of the country's exports. The EU is also the largest foreign investor in Morocco, with more than half of the country's stock of foreign direct investment.

Relations with the West and the social contract will determine capital flows and the fiscal balance

Tourism, remittances and exports remain the main sources of hard currency. Net receipts from tourism exceeded USD7bn in 2022, up from USD2bn a year earlier and even surpassing by 16% the record year of 2019. Remittances also show a continuous improvement (+4.4% in the first 11 months of 2023) and may have reached USD11.5bn at year-end, around 8% of GDP and almost double the value of 2019.

While the main export item, phosphates and derivatives, is highly dependent on international prices and competition from merchant producers, the diversification of the Moroccan economy supported a generalized expansion of exports of automotive and textile goods in 2023, favoring additional investment in these sectors.

Tackling poverty and enhancing social inclusion remain key to driving long-term growth. Government subsidies as well as price-controlled sugar, cooking gas and wheat continue to play a role in the social contract, together with periodic subsidies to transport operators.

Latent variables retain the potential to shape the business environment

The steps taken to reform state-owned enterprises, as well as the activation of the Mohammed VI Fund and the implementation of the new Investment Charter, are widely seen as potential catalysts for foreign direct investment. While much remains to be done to address water scarcity, progress in liberalizing the electricity market should accelerate the transition to renewable energy. On the other hand, the business community is keeping a close eye on the protection of property rights and the independence of the judiciary.

The country remains in the world's second-to-last decile for the employment rate (39%, equivalent to 10.7mn people). The shift towards services, increased crop volatility due to drought and limited prospects in rural areas are increasing urbanization trends and labor-related claims. The services sector is the largest employer, with 47% of the workforce, followed by agriculture (29%), manufacturing (12%) and construction (11%). Traditionally, the unemployment rate is higher in urban areas, reaching 16% in 2022, down from 17% in 2021. Unemployment is lower in rural areas (5%) and remains higher among young people aged 15 to 24 (33%), university graduates (19%) and women (17%).

The relationship with the EU has slightly deteriorated in recent months, following increased controls on journalists and critical voices, uncertainties surrounding Morocco's plan for the Western Sahara and corruption investigations involving current and former members of the EU Parliament. Negotiations for a deep and comprehensive free trade area with the EU were launched in March 2013 but were put on hold the following year at Morocco's request.

The king is less likely to be blamed for economic problems than the government, although his personal wealth is likely to come under increasing criticism and public scrutiny. The likelihood of large and organized riots as well as targeted boycott campaigns in response to increased living costs, such as those conducted in 2018 and 2020, remains elevated. Hotspots include major city squares, the parliament, ministries and local government offices.

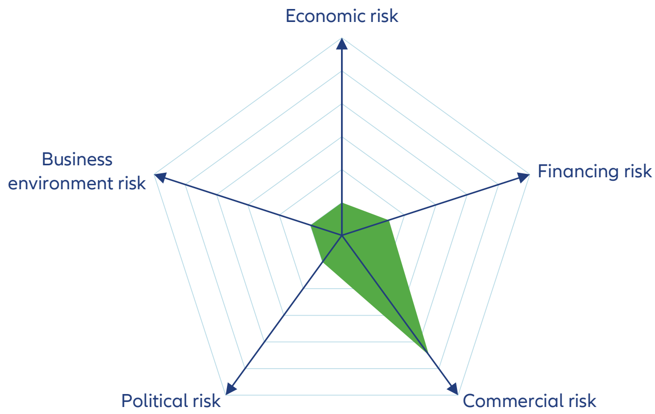
AA1

Low
risk for enterprises

Netherlands

Return to positive growth, but activity will remain below trend

GDP	USD991.1bn (World ranking 18)
Population	17.7mn (World ranking 68)
Form of state	Constitutional Monarchy
Head of government	Mark Rutte (PM, outgoing)
Next elections	2028, General



Strengths & weaknesses

- Solid economic fundamentals, growth will gradually recover (still well above pre-pandemic levels)
- Labor market remains tight, t with a low unemployment rate and high vacancies
- Open economy, characterized by high living standards
- Well-developed infrastructure

- Political fragmentation and long negotiations to form the ruling coalition
- Housing crisis to be tackled
- Very urgent green transition, especially independence from fossil fuels
- Concerns about cost-of-living crisis have not disappeared
- Monetary policy tightening impact on the financial sectors requires close monitoring

Economic overview

Recovery from technical recession will be only gradual

The Netherlands recorded three consecutive quarters of contraction in 2023 and the economy is likely to remain subdued in the coming quarters. We expect activity to gradually recover from Q2 2024, with overall GDP growth at +0.6% in 2024, after a timid +0.2% in 2023. Despite GDP growth staying at +5.8% compared to end-2019 (EZ average +3.0%), the Netherlands' faster post-Covid-19 rebound is now narrowing compared to Eurozone peers. Private consumption suffered due to elevated uncertainty and surging prices eroding households and corporates' consumption behavior. Net trade and investment remained volatile over the recent quarters.

Inflation pressures in the Netherlands have been decelerating strongly, after reaching one of the highest rates in the Eurozone in October 2022. The price development of energy (gas, electricity and district heating) has long had a major impact on the course of inflation -due to soaring prices in late 2022. Easing prices and strong wage growth should provide some breathing room for private consumption which will gradually resume in 2024-25.

The Netherlands has a strong and tight labor market. This means many companies are looking for workers while few people are looking for a job; vacancies are at record highs. There is a huge shortage of staff in various sectors such as ICT, construction, healthcare and education. The high inflation environment and labor market tightness led to a sharp rise in wages. Also, the government has taken a step for the lowest income earners by increasing the minimum wage by 10.15% on 1 January 2023. Looking forward, the disinflationary pressures should ease any fears of a wage-price spiral in the Netherlands.

On the confidence side, consumer sentiment is gradually recovering from historic lows, while business confidence remains weak.

According to the Draft Budgetary Plan, the government deficit is seen at 2.4% of GDP in 2024 (from 1.5% in 2023). This increase is driven by growing expenditure on social benefits and defense as well as an increase in public investments. However, with the government formation talks still ongoing and a probable right-wing ruling party, we cannot exclude a deterioration in the government deficit over the next years.

Dutch election results surprised with far-right party in the lead

Political fragmentation means forming the next government will take months of negotiations. Indeed, the Netherlands went to the polls in November 2023 after the former government led by long-serving Prime Minister Mark Rutte collapsed in early July when the four parties of the ruling coalition clashed over an immigration bill to reduce asylum seekers. In a surprise result, Wilders' Party for Freedom PVV won the election and obtained 37 seats (out of 150 seats), but to govern it would need to seek coalition with at least two other parties.

Migration and housing were the key themes of the 2023 electoral campaign. The centrist and right-wing parties are confident in reducing or capping the number of migrants allowed in the country per year – including asylum seekers, labor migrants and students. Strictly connected to new arrivals, the structural lack of housing has also re-emerged as a hot topic, given the further push to demand. To address the issue of availability and affordability of both rental and owner-occupied homes, the previous government implemented the Housing Construction policy program. One of its objectives is to build at least 981 000 dwellings up to 2030, despite increasing challenges stemming from higher construction costs and rising interest rates.

In addition, the new government will have to tackle climate policy and the issue of nitrogen emissions. The Netherlands is an extensive agricultural exporter (second only to the US). This coupled with a dense population and heavy traffic leads to large nitrogen emissions. All major parties have promised to halve (or cut significantly) emissions by 2030. But the new ruling coalition will have to reach an agreement on which sectors to prioritize in the coming years.

Declining inflation has also not really reduced concerns over the cost-of-living crisis. Price growth entered negative territory in October 2023 and reached its lowest level since September 2016 on the back of sturdy base effects from the peak reached last year (>14% in September and October 2022) and declining energy prices. But this has only partially alleviated households' loss of purchasing power since prices of food and alcohol were still high. In response to high inflation, negotiated wages are lagging behind but are expected to grow by more than +5% both in 2023 and 2024. Wage-price-setting dynamics should also remain in focus for the next government.

The Netherlands will receive EUR4.7bn in grants (0.8% of GDP) from the NGEU funds. The Netherlands did not apply for EU loans as its cost of borrowing remains low. The Dutch plan is structured around six pillars: promoting the green transition; accelerating the digital transformation; improving the housing market with a focus on building renovation; strengthening the labor market, pensions and future-oriented education; strengthening the public health sector and pandemic preparedness; tackling aggressive tax planning and money laundering.

Amid a reduction in Russian gas exports to Europe, the Netherlands benefits from LNG import capacity as well as a low dependence on Russian gas, but as a major transit and storage hub remains under pressures to help out with supply for elsewhere, including Germany.

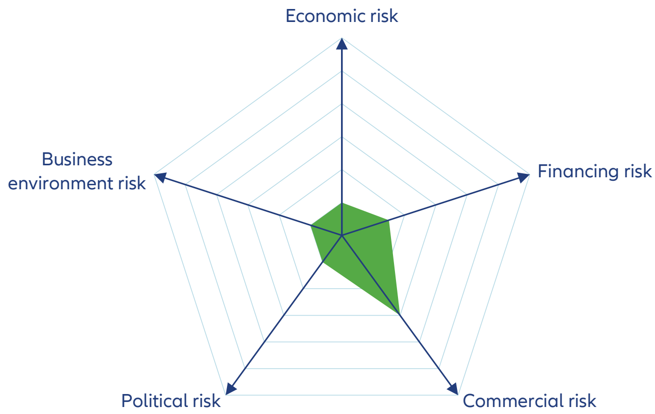
AA1

Low
risk for enterprises

New Zealand

Slow and modest recovery from difficult past years

GDP	USD247.2bn (World ranking 51)
Population	5.1mn (World ranking 122)
Form of state	Parliamentary democracy under a constitutional monarchy
Head of government	Christopher Luxon (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Solid public finances
- Proximity to Asian markets
- Favorable demographics
- The tourism industry

- Shortage of skilled workers
- Dependence on agricultural exports
- High level of household debt
- Vulnerability to natural disasters

Economic overview

Modest recovery and gradual retreat of inflation

New Zealand recorded robust GDP growth in the 2000s and 2010s by OECD standards, with +3% and +3.2% on average, respectively. Thanks to a swift policy reaction, which consisted of stringent rules that contained the pandemic, the economy experienced a comparatively moderate Covid-19 slump in 2020, with GDP contracting by -1.1%. The country experienced a strong recovery in 2021 (+6% growth), but a central bank tightening cycle from end-2021 onwards undermined consumption and investment growth which, combined with a deteriorating global trade environment and rising energy prices, resulted in a slowdown of economic growth to +2.3% in 2022. New Zealand even experienced a technical recession in Q4 2022-Q1 2023 and another one is likely to be recorded for Q3-Q4 2023. For the full year 2023, growth is expected to come in below +1.5%, jeopardized by persistent high inflation, weak consumption and investment and floods. However, in 2024-2025, we expect annual average growth to be lifted to the range of +1.5% to +2%, thanks to the economic reopening of China, New Zealand's main trading partner, the gradual recoveries of other export markets (supported by free-trade agreements), increased investments in infrastructure and a consumption rebound.

The Reserve Bank of New Zealand tightened its monetary policy from October 2021 on, trying to tackle rising inflation prompted by disturbances in supply chains and furthered by the global hike in energy prices in 2022. Consumer price inflation increased to an average of 7.2% in 2022 and remained elevated through 2023 (likely averaging in the 5.5-6% range over the year). Notably, food prices are set to remain elevated for some time after the damages to agriculture caused by natural events, though goods prices should decline due to a moderation of oil prices and lower domestic demand. Overall, inflation is forecast to decelerate gradually and to fall below 3% only in the course of 2024. Hence the policy interest rate, which was hiked from 0.25% in August 2021 to 5.50% in May 2023, should stay at this level, with little chances of a loosening before mid-2024.

Solid public finances but weakened external finances

New Zealand's sovereign financing risk is deemed low, even though its public finances have suffered in the past years. Fiscal support measures in response to the Covid-19 pandemic and then to mitigate the impact of rising global energy and food prices drove up the annual fiscal deficit to an average of -4% of GDP from FY2019-20 to FY2022-23. However, the shortfalls are forecast to narrow in the coming years, falling to less than -2% of GDP by 2025, following the cancellation of several welfare measures introduced in 2022-2023, as well as the reinforcement of taxes on tobacco, alcohol and methane emissions. New Zealand's public debt rose in recent years, but at less than 50% of GDP remains clearly below the of the OECD (around 100% of GDP) or the Asia-Pacific zone (around 60%). The main financial concern of the country is the level of household debt, largely composed of mortgages, which stands at nearly 170% of disposable income and suffered from the interest rate hikes in recent years. Historically high housing prices have sunk by -10% y/y on average through the year as of November 2023, though this is still not enough to allow first-time buyers that have suffered from the cost-of-living crisis to afford a house.

New Zealand's external finances have suffered due to subsequent crises in recent years. The current account deficit widened from -1% of GDP in 2020 to -6% in 2021 and nearly -9% in 2022. From 2023 onwards, the external shortfall should narrow, albeit gradually, supported by the recovery in Chinese imports, somewhat declining energy import prices, a rebound in tourism and a trade agreement with the EU and the UK, likely to come into force in 2024. Yet, the annual current account deficit is forecast to remain above -6% of GDP in 2023-2024. More generally, New Zealand's trade structure leaves it vulnerable to external shocks: (i) China is New Zealand's main trade partner, accounting for nearly 30% of its exports and nearly 25% of its imports in 2022. (ii) Australia and the US are the second and third largest trade partners, with significant shares, making New Zealand dependent on the business cycles of these economies. (iii) New Zealand's exports also rely very heavily on food and agricultural products and are therefore exposed to weather hazards.

Strong business environment and stable political framework

New Zealand has a very favorable business climate, sharing first place in our business environment rating. The Heritage Foundation's Index of Economic Freedom survey 2023 ranks the country fifth in the world for doing business and third in the Asia-Pacific region. New Zealand scores especially high with regards to property rights, judicial effectiveness, government integrity, trade freedom and financial freedom. But there is still moderate room for improvement regarding the tax burden, labor freedom and investment freedom. The World Bank Institute's annual Worldwide Governance Indicators surveys indicate very high levels of regulatory quality (rank 6 worldwide), the rule of law (rank 5) and control of corruption (rank 3). Meanwhile, our proprietary Environmental Sustainability Index puts New Zealand at rank 22 out of 210 countries, reflecting very good resistances to climate change and water stress, fairly good proficiency in energy use compared to GDP, renewable electricity output and CO_2 emissions compared to GDP. Only the recycling rate of the country is judged poorly.

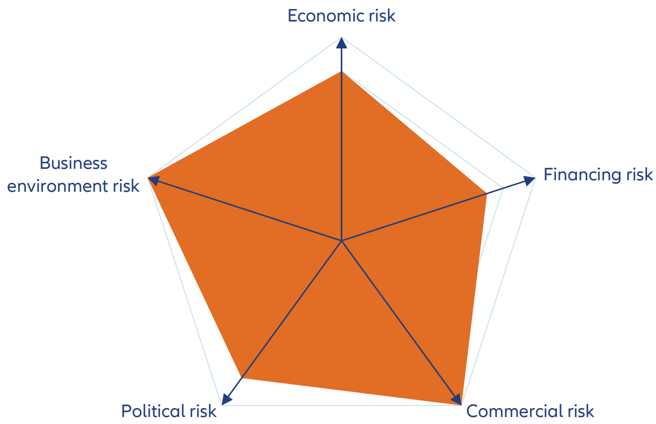
Generally speaking, New Zealand's political environment does not present much risks, thanks to established and transparent processes and consensus-building practices across parties. The general election in October 2023 resulted in the return of the National Party, against the Labor Party (which had been in power since 2017). National does not enjoy a majority in parliament and would thus require the support of smaller parties such as ACT and NZ First. This does not imply a risk of political instability, as New Zealand is used to coalitions.

D3
Sensitive
risk for enterprises

Nigeria

Tank up before you go

GDP	USD477.4bn (World ranking 31)
Population	218.5mn (World ranking 6)
Form of state	Federal Republic
Head of government	Bola Tinubu (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Dominant economy in Africa in terms of population, GDP and crude oil production
- A vibrant civil society accustomed to dealing with the cyclical nature of the economy
- Vast mining potential and investors are likely to be granted considerable incentives to develop the sector

- Terrorism, insurgency, kidnapping and violent crime are major deterrents to business operations in many parts of the country due to poverty and deep ethnic, religious and subnational divisions
- Structural imbalances caused by a dependence on the import of refined products, poor infrastructure and generalized subsidies
- Long history of economic mismanagement and corruption continue to affect perceptions of doing business in the country

Economic overview

Economic growth remains below potential

Nigeria's economy is expected to grow by +3% in 2024 after a sluggish 2.4% expected for 2023, broadly in line with global growth but around 1pp below our forecast for the Sub-Saharan region. This is due to an economic cycle still favoring second-tier commodity exporters, thanks to a geopolitical premium on several commodities and a self-imposed production quota by top crude oil producers. Hydrocarbons generate about 50% of government revenues and more than 80% of exports, but agriculture and services surpass the energy sector in terms of GDP contribution.

Foreign exchange scarcity will continue in the immediate future. The Central Bank of Nigeria (CBN) has returned to stronger currency supervision after briefly switching to a "managed float" in June 2023 and a freely traded naira is unlikely even in the long run. General elections in February 2023 brought to power Bola Tinubu, the candidate of the ruling party, with a mere 37% of votes. Growing demographics (half of the current population is under the voting age) and declining interest (the actual voter turnout fell from 69% in 2003 to 27%, 7 points lower than in 2019) support the idea that only a small minority of the estimated 215-220mn population actively supports the current leadership. Between late May and June, only a few weeks after he was sworn in, President Tinubu decided to remove the governor of the CBN, devalue the local currency to a level closer to its fair value and phase out the country's costly fuel subsidies. Faced with the possibility of growing inflation and nationwide protests, a covert petrol subsidy was reintroduced. In the short term, it is likely that a partial subsidy will be maintained as Nigeria will continue to import all its fuel until the second half of 2024, when the long-awaited Dangote refinery, which opened in May 2023, ramps up production. Against this backdrop, it is likely that net exports will be the sole growth driver in 2024 and help the economy accelerate in 2025.

Nigeria has a history of double-digit inflation. Due to rising fuel, utility and food prices, average inflation reached 18.8% year over year in 2022, some 10 points above the CBN target of 6–9%. Due to the surge in inflation, the CBN has raised its policy rate to 18.75%, but the 725bps tightening cycle has proven unconvincing so far, with inflation hitting 28.2% in November 2023. Given the country's heavy reliance on imported refined petroleum products, international prices may continue to push the fuel import bill up and the local currency down.

Authorities' comments on the country's debt management plans have sparked concerns about a debt restructuring in mid-2023 as well as actual data and debt transparency. Yields on 10-year maturities in hard currency remain elevated at 13.8%, compared to 8% in February 2022 and 16% in November 2022. The long-lasting practice of financing the budget through the CBN may add 12–15 points to the debt-to-GDP ratio from an IMF estimate of 37% of GDP if short-term advances by the CBN were converted into government bonds.

Fiscal pressures persist due to institutional weakness, social challenges and output constraints

The government faces wide-ranging fiscal pressures, while the capacity to respond remains constrained by Nigeria's long-standing institutional weakness and social challenges. The risk that a negative feedback loop sets in over the next couple of years due to a combination of higher government borrowing needs and rising interest rates has intensified. However, the risk of a sudden sovereign default is low given the small amount of FX-denominated debt (about 42% as of June 2023) and the limited amount maturing in the next two years.

Production in the key oil sector remains weak due to security challenges. Despite being the 12th world producer of oil (first in Africa), Nigeria did not benefit from favorable oil and gas prices in 2022. Oil production fell significantly due to persistent extraction constraints. At 1.3–1.4mn barrels per day (mbd) in late 2023, output has remained well below the OPEC+ quota of 1.74mbd throughout the year and the organization agreed to allocate 1.4mbd for 2024 unless the country is able to produce more. After Angola quit the organization in December 2023, it is likely that foreign investors may prioritize Angola's upstream segment over other projects in the region.

Security crises remain beyond the capability of the federal government

Due to its substantial size, Nigeria holds a prominent position in Africa. Despite this, the country follows a protectionist economic policy. Internal security challenges constrain Nigeria's capacity to contribute personnel to regional military units, as previously done for regional security. The Senate rejected President Tinubu's request for military intervention in Niger following the July 2023 coup, which lessens the likelihood of creating a regional force.

In recent years, the northeast has grappled with escalating banditry and kidnapping, posing a national destabilization threat. Well-funded criminals, with links to terrorist groups, have broadened their operations. In the oil-rich Niger Delta, there is widespread distrust of the government, with locals feeling unfairly excluded from Nigeria's oil wealth. Governance challenges persist in the region and criminal activities associated with militant groups continue to jeopardize oil extraction.

Given the broader regional threat posed by Islamist extremist organizations, the US has been a major arms supplier to Nigeria and is likely to persist in providing security assistance. The persistent menace from Islamist terrorist groups, such as Boko Haram and Islamic State West Africa Province, operating in the north and executing attacks nationwide, remains a concern. Prolonged violence between farmers and herders in central Nigeria, driven by factors like rapid population growth and natural resource depletion, presents challenging issues.

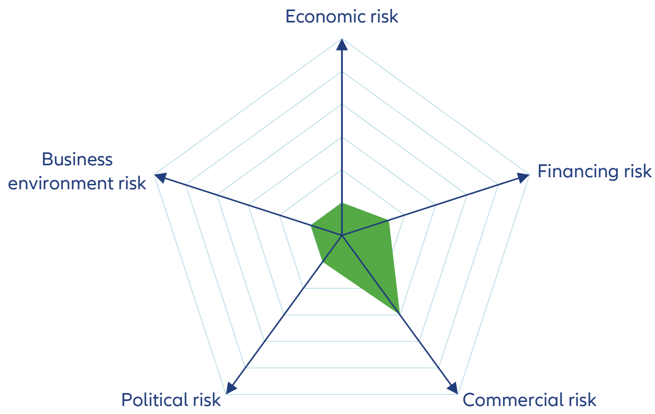
AA1

Low
risk for enterprises

Norway

Resilient economy that reinvokes growth

GDP	USD579.3bn (World ranking 24)
Population	5.5mn (World ranking 118)
Form of state	Constitutional Monarchy
Head of government	Jonas Gahr Støre (PM)
Next elections	2025, Legislative



Strengths & weaknesses

- Full integration in the EU's internal market and free travel zone
- Strong business environment supported by a wide political consensus
- Highly skilled and educated workforce
- Profitable banking system and financial stability
- Robust fiscal framework and ample support by the Government Pension Fund Global

- Persistently low energy prices
- Low diversification of the economy
- Very high household debt level
- High corporate and personal tax rates
- High unit labor costs

Economic overview

Cooling of economic growth

After a negative GDP growth rate of -1.9% in 2020, Norway recovered strongly in 2021, surpassing its pre-crisis GDP level and continued strong growth of +3.2% in 2022. To counter the effects of the health crisis, the Norwegian administration introduced a household income-protection program by offering higher wage subsidies for temporary layoffs, higher unemployment benefits and expanded health care. Heavily affected companies were also able to benefit from a compensation program. Key hard-hit sectors such as health care were strengthened. The unemployment rate fell from 4.4% in 2021 to 3.2% in 2022, with slight increases to expected over the next years.

High inflation and policy tightening are weighing on domestic demand and the slowing of the global economy led GDP to grow only very moderately in 2023. The economy will strengthen gradually but output growth will remain moderate at +0.6% in 2024 and +1.9% in 2025. Solid export growth and high energy prices led to a current account surplus of 30.3% of GDP in 2022. Despite a reduction in the trade balance surplus due to the moderation of energy prices, the current account surplus stayed high throughout 2023. Similar to other

Nordic countries, Norway's recovery has been accompanied by strong employment growth and the low recovery in immigration will continue to push the unemployment rate to a new record low, keeping upside pressures on wages. Against a strong recovery, the central bank has been one of the first among advanced countries to start normalizing. The peak policy rate stood at 4. 5% in December 2023. As a consequence, the housing market rally is paused but without major corrections.

Comfortable fiscal space to maneuver

Norway's economy is robust and has been able to resist and take advantage of the health care crisis to ensure growth. There are three elements to be monitored in the coming years: (i) the government's intention to diversify its economy, (ii) the maintenance of low public debt and finally (iii) the government's support for employment, given the tightness of the labor market. Beyond the health care crisis, the Norwegian government is likely to focus its efforts on diversifying the economy away from the oil sector. Norway has more fiscal room to maneuver than most other European peers, with a fiscal surplus of 9.4% of GDP in 2021, a high of 19.4% of GDP in 2022 and more than 25% in 2023. Norway will be able to launch new stimulus measures without a significant impact on public debt, which remained low at 37% in 2022. Public debt will continue to drop to 36% for both 2024 and 2025.

Vulnerabilities in the medium run, notably in terms of financial stability, might come from excessive household debt, which was more than 190% of gross disposable income in 2022. Further vulnerabilities include high house and commercial property prices. So far house prices in Norway continue stronger than expected in 2023. But high interest rates will contribute to tighter financing conditions. This will trigger a tightening of household consumption and result in increased losses on banks' loan portfolios.

Strong business environment

Norway has a strong business environment, particularly when it comes to enforcing contracts and resolving insolvency. In recent years, the government has implemented a series of reforms to make it easier to enforce contracts.

A minority center-left coalition led by the Labor Party took office in October 2021. Political stability remains assured even in the absence of a parliamentary majority, underlining the country's strong historical capacity for cooperation. Policies to diversify the economy and pursue green initiatives are likely to be progressive and we do not expect any major disruption to the oil sector despite pressure from some smaller parties.

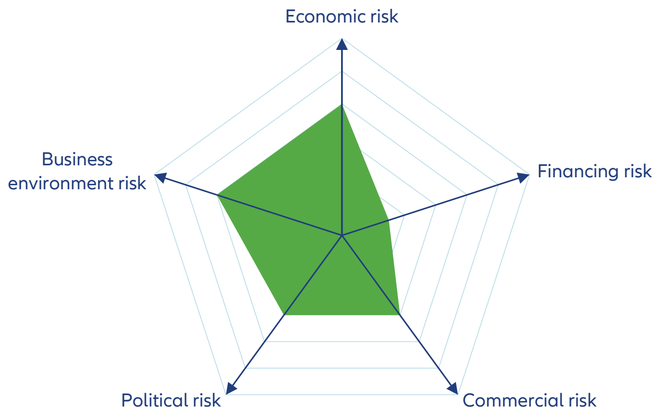
B1

Low
risk for enterprises

Oman

Diversification at play, with a few challenges attached

GDP	USD114.7bn (World ranking 64)
Population	4.6mn (World ranking 126)
Form of state	Monarchy
Head of government	Haitham bin Tariq Al Said (Sultan and PM)
Next elections	2027, Legislative



Strengths & weaknesses

- Fiscal and current account balances are in surplus thanks to oil and oil-related revenues, which is supporting the economic recovery and improving Oman's debt maturity profile
- Positive diplomatic relations with all countries in the area, thanks to a moderate foreign policy and the absence of binding dependencies or affiliations (non-OPEC member)
- Enhanced regional influence qualifies the country as a credible additional supplier of refined and petrochemical products

- Over-reliance on hydrocarbons (35% of GDP) exposes the country to oil price volatility
- Risk of increased costs for businesses due to an "Omanization" policy to replace expatriate workers in the private sector with Omani nationals
- A conflict resurgence in the region could affect economic and trade performance

Economic overview

A fiscal stability success story – for now

In order to hasten the economic recovery from the pandemic-caused slowdown and support the expansion of its banking sector, Oman started a three-year fiscal stability program in October 2022. On the back of favorable oil revenues and fiscal actions under the plan, the fiscal balance attained a surplus of +7.5% of GDP that year. It is projected to remain in surplus throughout the medium term. Furthermore, the government used some of the hydrocarbon windfalls to pay off, prepay and buy back a portion of central government debt in order to improve its maturity profile.

Economic growth is predicted to improve slightly to +2.8% in 2024 from an estimated +2% in 2023. Accelerated production at the country's main petrochemical project is one of the reasons why non-hydrocarbon growth is set to increase to 3% in 2024. In August 2023, Oman signed its first-ever natural gas sales agreement with Germany to supply 0.4mn metric tons per year of LNG from 2026.

The exchange rate and price stability are likely to be maintained. Oman has a fixed exchange rate system, with the Omani rial (OMR) pegged at OMR0.38 per USD. We expect the currency peg to hold over the next two years and help keep inflation pressures in check at around 2% in 2024. Profitability in the banking industry has rebounded and capital and liquidity buffers remain healthy.

Economic diversification challenges amid a supportive cycle

Oman's economy is still heavily reliant on hydrocarbons, which account for approximately 35% of GDP, 75% of total fiscal revenue and 58% of total goods exports. Aside from the central government, the public sector includes around 170 state-owned businesses (SOEs) engaged in almost every economic sector. Macroeconomic uncertainties, particularly shocks resulting from oil price volatility, the realization of contingent liabilities from SOEs and additional difficulties in removing subsidies, might impact the fiscal balance and public debt in the long term.

The current cycle is mostly supportive of the Omani economy. With the help of oil and non-oil exports, Oman achieved its first current account surplus since 2014 in 2022 at +5.2% of GDP and this is expected to continue in the medium term. Sultan Haitham bin Tariq al-Said will prioritize preserving Oman's domestic unity while attempting to reconcile the need to reduce fiscal spending with the need to preserve the current economic development trajectory. New road, rail and port infrastructure connecting Oman to the rest of the Gulf will support the growth of the logistics sector. Trade and budget surpluses expected in 2023–24 will allow the government to postpone additional spending cuts.

Gradual shifts in foreign policy and the labor market

The Sultanate of Oman is the oldest independent state in the Arab world. The government avoided relations with communist countries during the Cold War because of former-USSR support for the Dhofar insurgency (1963–1976) in the country's southern governorate. Since 1970, Oman has adopted a moderate foreign policy and extended its diplomatic contacts considerably. It backed the Camp David Accords in 1979 and was one of three Arab League governments, along with Somalia and Sudan, that did not cut ties with Egypt after the Egypt-Israel peace deal was signed in 1979. Oman has also launched diplomatic endeavors in Central Asian nations in recent years, particularly in Kazakhstan, where it is involved in a joint oil pipeline project. In addition, Oman maintains cordial relations with Iran, its north-eastern neighbor across the Gulf of Oman and established international relations with the Holy See in 2023, with a signing ceremony taking place in New York City.

In the foreseeable future, the government is likely to continue to strengthen ties with its Gulf neighbors, particularly Saudi Arabia and the United Arab Emirates, as well as with Iran, while maintaining some distance from informal cartels, such as the Organization of the Petroleum Exporting Countries (OPEC). The recent rapprochement between Saudi Arabia and Iran as well as the resurgence of conflicts involving Israel are likely to reinforce cohesion among Gulf Cooperation Council (GCC) countries to the benefit of trade-flow stability and economic cooperation.

On the labor front, Oman faces the same difficulty as the other five GCC members in reducing the fiscal cost of an overstaffed public sector by requiring or incentivizing the private sector to hire Omani citizens rather than foreigners without deterring the business investment necessary for ambitious economic growth and diversification strategies. Foreign workers dominate the private sector in Oman, despite the fact that expats do not make up a demographic majority in the country in the same way that they do in other Gulf countries. This is because they are often hired because they demand lower wages and fewer labor rights.

Despite years of stricter "Omanization" rules and higher expat hiring fees, nationals now make up slightly under 20% of the 1.7mn strong private sector workforce (excluding domestic workers). Companies still lean toward hiring skilled foreign workers because of the cost savings. This has led to a considerable increase in the number of expatriates working in the private sector, after a precipitous drop caused by the Covid-19 pandemic. Despite this and the gradual increase in the number of private sector posts reserved exclusively for nationals (nearly 200 were added in July 2022, including for human resources managers, librarians and legal clerks), many Omanis continue to favor public sector work due to the higher pay and generally better working hours. A new labor law approved in July 2023 introduced incentives for recruiting Omani nationals in the private sector, greater rights for private-sector workers and increased margins for businesses to fire underperforming staff to further the government's Omanization goals. This plan is aimed at reducing the fiscal burden of the bloated public sector (mainly staffed by Omanis) by creating attractive possibilities for nationals in the expat-dominated private sector. However, this may increase operational costs for private sector enterprises.

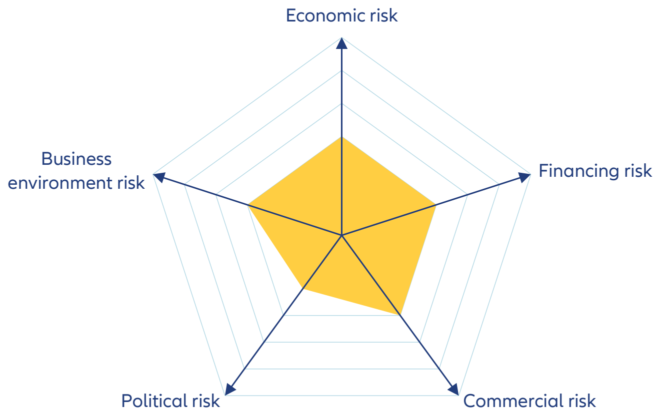
BB2

Medium
risk for enterprises

Panama

Challenging times

GDP	USD76.5bn (World ranking 74)
Population	4.4mn (World ranking 127)
Form of state	Constitutional Democracy
Head of government	Laurentino Cortizo (President)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- Trade hub based on the Panama Canal and the Colon free trade zone
- Regional financial hub and international banking center
- Business environment above regional average
- Generally stable political system
- Major recipient of foreign direct investment in Latin America
- Focusing on diversifying its economy, particularly in the services sector

- Increasing pension deficits and fiscal pressures
- Vulnerability to external shocks (climate change, global trade and financial links)
- Rule of law and control of corruption are below average
- Informality of the job markets (estimates: up to 50% of workers)
- Deficiencies in education and vocational training
- Political uncertainly surrounding May 2024 election linked to mining contract crisis

Economic overview

Growth prospects hit by closure of huge copper mine

Panama is small open economy acting as a regional financial and logistical hub that benefits from the activity of the canal, the Colon free trade zone (CFZ) and a strong banking sector compared to peers. Before the pandemic, it was the fastest-growing economy in Latin America, with average real GDP growth at +6%. Panama fully recovered from the 2020 recession in 2022, but we expect GDP growth will slow sharply in 2024 (to 3.0% from nearly 6% in 2023), as the closure of First Quantum Minerals (FQM), the Canadian operator of Cobre Panamá (Central America's largest copper mine) will weigh on exports and investment. It is uncertain whether the government and First Quantum Minerals (FQM), the Canadian operator of Cobre Panamá (Central America's largest copper mine) will strike a new deal over the coming months or whether FQM will pursue international arbitration. Panama's economy and exports will take a hit and mining royalties of USD375m per year (backdated to 2022) will not be paid. This will complicate the fiscal and financing outlook, although it was not explicitly included in the 2024 budget. For the 2025-2028 outlook, we expect growth to exceed +4% as global trade recovers and the country's export-driven economy (driven by its trade logistics and financial services) significantly outperforms regional and global trends. At the same time, fixed investment is expected to rise, boosted by major infrastructure projects such as the USD4.4bn expansion of the Panama City metro, a USD1.5bn bridge over the Panama Canal and a USD1.2bn gas-fired power plant in Gatún. However, climate change looms as a long-term challenge, with the potential to disrupt the Panama Canal (a vital conduit for 6% of global trade) through increasingly unpredictable water levels affecting operations.

Road blockades and supply-chain disruptions resulting from anti-mining protests in November lifted inflation to an estimated 3% at end-2023. Inflation will ease towards 2% over the 2024-28 forecast period, but there is a risk that an (increasingly likely) El Niño-related drought will hit local food supplies, driving up prices.

Pressure on the fiscal accounts

Panama's adherence to the Social and Fiscal Responsibility Law (SFRL) has helped stabilize its public finances post-pandemic. However, increasing pension deficits and fiscal pressures pose challenges, potentially leading to missed deficit targets of 3%, 2% and 1.5% of GDP from 2023 to 2025. The government may need to raise taxes due to low tax revenue and the reluctance to cut public investment, especially during election times and amid economic deceleration. By September 2023, the fiscal deficit reached 4.8% of GDP. Public debt remained high at 57.5% of GDP in 2022, with a moderate expected decrease in the near future (around 50% in 2026).

Panama typically faces moderate current account deficits, which are anticipated to expand in 2023, largely due to rising oil prices, but are forecasted to narrow down to about 3% of GDP between 2024 and 2026. Despite the expected decline in copper exports in 2024 following the shutdown of the Cobre Panamá mine, the long-term forecast for copper exports remains optimistic given the lack of clarity about the longer-term future of the mine. Panama, a major recipient of foreign direct investment in Latin America, has been focusing on diversifying its economy, particularly in the services sector and continues to draw investment through its market-friendly policies and dollarized economy.

Unusual period of political uncertainty could affect business environment

Panama's business environment is notably competitive, evidenced by its rankings in key international surveys. The Heritage Foundation's 2021 Index of Economic Freedom placed Panama 56th out of 185 countries, while the 2020 Doing Business Survey ranked it 86th. Despite this favorable status, the uncertainty surrounding the Cobre Panamá issue has introduced a degree of political unpredictability, contrasting with Panama's reputation as a stable investment destination in Central America. The future of negotiations with First Quantum Minerals and potential new contract terms beneficial to the state remain uncertain, particularly in light of the upcoming general election and potential changes in administration.

Panama, traditionally stable by regional standards, is now grappling with political uncertainty ahead of a May 2024 general election. Recent opposition to a contract with First Quantum Minerals, concerning the significant Cobre Panamá copper mine, has ignited social unrest and protests, particularly over issues of environmental impact and economic inclusion. A Supreme Court ruling deeming the contract unconstitutional has intensified this uncertainty, prompting President Laurentino Cortizo to order the mine's closure. While this move quelled immediate protests, the mine's long-term future remains in limbo. This turmoil underscores deeper issues of perceived government corruption and ineffective promises from the main political parties to combat it and enhance constitutional transparency. Despite President Cortizo's majority in the National Assembly, these compounding challenges suggest a complex political landscape and uncertainty as the next election approaches.

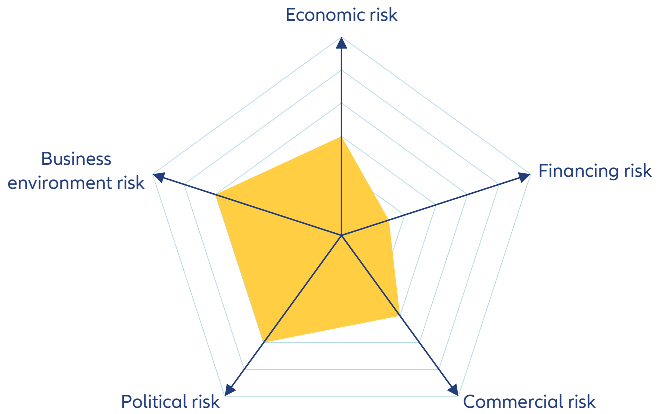
B2

Medium
risk for enterprises

Paraguay

Right policies in place and growth path ahead

GDP	USD41.7bn (World ranking 97)
Population	6.8mn (World ranking 107)
Form of state	Constitutional Republic
Head of government	Santiago Peña (President)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Contained fiscal budget and public debt
- Abundant hydroelectric resources
- Government pursuing business-friendly policies

- High dependence on the agricultural sector and weather conditions
- One of the poorest countries in Latin America with high inequality and substandard infrastructure
- Wide informal economy
- Low diversification of the economy
- High level of corruption and criminality, poor rule of law

Economic overview

Economic activity to pick up

Paraguay is a small South American economy, accounting for 0.67% of total Latin American and Caribbean GDP in 2019. It recorded average economic growth of +2.8% from 2012 to 2022, compared to the +1.9% average for Latin American countries. Despite this growth and although the poverty rate has been falling almost continuously for the past 20 years, around a quarter of Paraguay's population is still considered poor, according to national standards. Indeed, Paraguayan society is marked by inequality: In 2008, 2.5% of the population owned 85% of the land in this highly agricultural economy.

Paraguay was fairly resilient during the Covid-19 pandemic. It entered a recession in 2019 (-0.4% GDP growth) and remained in recession in 2020, but with the lowest GDP contraction rate (-0.8%) of the region. It then rebounded in 2021 (+4.2%). However, a severe long-lasting drought in 2022 brought economic growth to a barely positive +0.2%. In 2023, the end of the water crisis should benefit agricultural production and enable the rebound of hydroelectrical energy – notably thanks to the Itaipú dam, shared with Brazil, which is the subject of renegotiations – and fluvial trade, which is crucial for a landlocked country like Paraguay. We therefore expect real GDP to grow by +4.5% in 2023. In the medium to long term, Paraguay should benefit from a stronger tendency towards public investment and resilient private consumption driven by disinflation, though it will continue to face the risk of adverse weather events that could threaten the economy.

Given its dependence on imports and vulnerability to weather conditions, Paraguay was one of the Latin American countries most affected by global inflation in 2022 (9.8% on average). But strict monetary policy prior to the Russia-Ukraine war, along with a rapid hike following the conflict – setting the policy rate at an all-time-high of 8.5% – is likely to push inflation down to 5.2% in 2023. An easing cycle started in August 2023, but the Banco Central del Paraguay (BCP) is expected to remain cautious as core inflation remains above target and as lowering the policy rate too quickly would narrow the interest rate differential with the US and its 5.5% policy rate, worsening the depreciation of the guarani (PYG).

Appropriate policies amid external risk

Since passing the Fiscal Responsibility Law in 2013, the government has shown restraint in public spending. President Santiago Peña is expected to promote orthodox economic policies, aiming at fiscal soundness through the better collection of taxes and the revision of the pension system, but supporting small businesses through tax incentives and encouraging infrastructure improvement thanks to public-private partnerships. Targeted cuts and policies, notably geared towards fighting tax evasion, will allow the public deficit to shrink to 1.5% of GDP by 2026, thus meeting the legal target set out in 2013. Along with the growth of GDP, this should allow Paraguay to reduce its public-debt-to-GDP ratio. This peaked at 40.9% in 2022 – compared to an average of 69.5% in the region – and should decrease from this point on. Ensuring longer term soundness would entail making investments in infrastructure, health and education, with efficient and targeted spending that could be financed by increasing the taxation level. Paraguay is the third least-taxed country in the region, with a tax-to-GDP ratio of 13.4% in 2020, compared to the regional average of 21.9%.

Paraguay is highly reliant on trade. From 2018 to 2022, volume imports accounted for 35.4% of GDP on average (versus 28.6% in Bolivia, 23.5% in Uruguay and 13.8% in Brazil). Its high export levels allowed its trade balance to be 3.2% of GDP on average in volume from 2010 to 2019. But the Paraguay's export profile makes the country vulnerable to several risks, particularly since it is impacted by the El Niño–Southern Oscillation climate phenomenon. In 2022, Paraguay suffered a severe drought, which impacted the water level of rivers, the electricity production of dams and its crops. As a result, soya seeds exports, which represented 28% of total exports in 2021, dropped by -59% in 2022. Despite this vulnerability, Paraguay's external position appears to be improving: higher commodity prices should prop up export gains in the medium term and the current-account deficit is predicted to decrease to about 1.5% of GDP by 2027, while the country sits on good international reserves.

Fragile business environment; results of the elections have ensured political stability

Paraguay's business environment remains weak. The 2022 Heritage Foundation's Index of Economic Freedom ranked Paraguay 73rd in the world and 17th in the region. It has an outstanding score for its low tax burden, but all the other indicators report ambiguous to deleterious situations. In particular, government integrity is particularly low, as well as judicial effectiveness and labor freedom. The World Bank's 2022 Worldwide Governance Indicators survey placed it 142nd with regards to rule of law and 175th in control of corruption, with its indicators significantly deteriorating. Paraguay seems more resilient when it comes to environmental challenges: our 2023 Environmental Sustainability Indicator placed it just below the first quartile in the list of countries. It scored a perfect score regarding renewable electricity output, thanks to its broad production of hydroelectricity and emits less CO2 relative to its GDP. The consolidation of the fiscal position and the consistency of paraguay's policies should send positive signals to investors in the years to come.

In April 2023, Paraguayans elected Santiago Peña to the presidency for a mandate lasting until 2028. Mr Peña of the Partido Colorado (PC) – which has ruled almost continuously since 1947 – intends to consolidate the country's fiscal position through orthodox economic reforms and cuts in public spending. The Partido Colorado also won a majority in both legislative houses, which will arguably allow the president to implement his reforms. But political instability will probably not vanish under Mr Peña's presidency. Tensions within the presidential party could emerge as ideological discrepancies exist. Moreover, trust in the political system has diminished by several events, including corruption scandals involving the former president and current head of the PC. Tensions could arise in case of a failure to renegotiate the Itaipú Treaty with Brazil as it is a sensitive topic for Paraguayans who hope for a more favorable deal – a probable outcome, considering President Lula's will to consolidate relations. With the next general elections to be held in 2028, political continuity in Paraguay is fairly assured in the medium term.

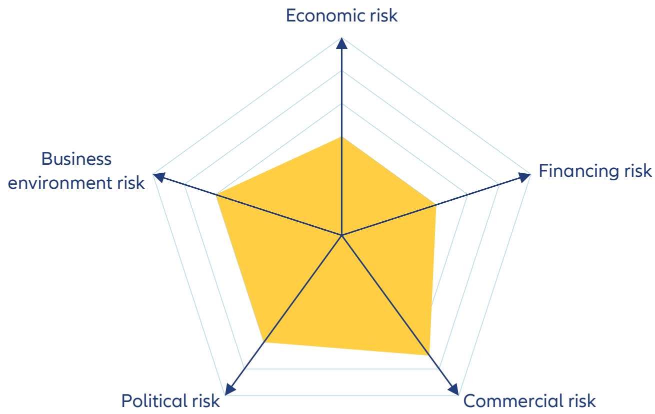
B2

Medium
risk for enterprises

Peru

Fundamentals still solid but the continuing political crisis is a major risk

GDP	USD242.6bn (World ranking 52)
Population	34.1mn (World ranking 44)
Form of state	Constitutional Republic
Head of government	Dina Boluarte (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Natural resource rich (minerals: copper, silver, gold, zinc, energy and fishing)
- Track record of strong macroeconomic policy framework and independence of the central bank
- Low levels of public debt
- Strong international reserves and contained external debt
- Membership of the Pacific Alliance and Andean Community

- Vulnerability to climatic shocks
- Strong dependence on Chinese demand and commodity exports
- Highly skewed income distribution and high poverty levels
- Dollarization of the financial system
- Poor governance indicators

Economic overview

Sturdy Fundamentals, political headwinds

Peru's macroeconomic fundamentals are among the strongest in Latin America: The export-oriented country has a low public debt-to-GDP ratio, a rules-based fiscal policy, a flexible exchange rate, large foreign reserves and a credible central bank. Despite these strengths, the country faced a challenging year in 2023, when it entered a technical recession with the real GDP contraction estimated at around -0.1%. This economic downturn can be attributed to the ongoing political instability that has plagued the country since the ouster of then-President Pedro Castillo in 2022. While the intense anti-government protests that followed have largely subsided, the political atmosphere remains tense. Economic activity in 2023 was also affected by El Niño, which weighed on fishing, agriculture and related industries.

President Dina Boluarte, Castillo's successor, is expected to remain in office until the end of her term (in 2026), but her tenure is overshadowed by widespread unpopularity and is sustained by a fragile coalition. This political uncertainty, compounded by the negative impact of Castillo's presidency on the business environment, continues to impede Peru's economic stability and growth. Additionally, the country's exposure to extreme weather events, recently highlighted by disruptive El Niño conditions, has further complicated the economic landscape.

In spite of these hurdles, Peru's economic outlook shows signs of improvement, with real growth projected to rise to +2% in 2024 and 3.1% in 2025. This expected rebound is driven in part by disinflation, with average inflation forecasted to fall from 6.1% in 2023 to 4.2% in 2024. As a result of this trend it is anticipated that the Banco Central de Reserva del Perú (BCRP) will continue its monetary easing policy that began in September, offering further support to the economy. However, agricultural disruptions caused by El Niño pose a risk to these projections. Increased prices resulting from such disruptions could hinder the disinflation process and potentially prevent the BCRP from implementing the anticipated rate cuts.

Limited risks to the external side, fiscal consolidation may take longer

Although fiscal policy will remain broadly prudent under the current administration, challenges including slow economic growth, extreme weather events and populist influences from Congress are anticipated to hinder fiscal consolidation efforts. Consequently, the fiscal deficit is projected to widen slightly, from an estimated 2.2% of GDP in 2023 to 2.9% of GDP in 2024. Potential relief from rising metal prices, particularly copper (Peru's primary export), is likely to be offset by increased government spending, as it attempts to support a struggling economy and mitigate the impacts of extreme weather events. As a result, public debt is expected to see a slight increase, reaching 34% of GDP in 2024. Although this is higher than pre-pandemic levels, it is projected to decline in the subsequent years and remains low in comparison to regional standards.

On the external side, Peru's current account deficit is poised to increase to 2.9% in 2024. This contrasts with a drop to about 1.9% in 2023, a decline attributed in part to the opening of a new copper mine which boosted exports. Although rising metal prices in 2024 may counteract some of the impacts of high oil prices, the deficit is still anticipated to grow due to a deceleration in export growth and widening in primary income and services deficit. The services sector faces challenges, predominantly from the lasting negative effects on tourism due to the 2022/23 protests. This, combined with slower growth in other export areas, contributes to the expected increase in the overall deficit. However, the sustained high demand for Peru's export metals, especially copper, driven by increased investment in green technologies, is poised to maintain robust foreign direct investment levels through 2024-27. This, along with the Banco Central de Reserva del Perú's (BCRP) strong international reserve position, is expected to minimize the risk of a balance-of-payments crisis, ensuring external financial stability.

Political challenges weigh on the business environment

In recent years, Peru's business environment has navigated through a period of significant challenges. The tenure of ousted President Pedro Castillo led to a marked deterioration, with his hard-left platform frequently clashing with the private sector. The repercussions of this, including the halting of large-scale projects by firms, continue to affect Peru's economic performance into 2023. Although the new President, Ms Boluarte, adopts a more business-friendly stance, her tenuous grip on power and dependence on a fragile coalition government imply that only modest progress can be anticipated in improving the business environment.

Despite these challenges, Peru's business environment remains relatively strong, albeit with a decline in its global and regional rankings in recent years. The country's openness to foreign trade is a significant advantage, but this also introduces vulnerabilities, particularly due to its high dependence on Chinese demand and on commodity exports. This reliance can be problematic as it exposes the economy to external shocks, such as fluctuations in Chinese market demands or changes in commodity prices. Peru also exhibits strengths in areas such as registering property, managing construction permits, facilitating credit access and investor protection. Nevertheless, substantial gaps persist, especially in the ease of starting a business and tax payment processes. The political environment, marked by instability and uncertainty, further constrains progress in these areas. Moreover, concerns regarding the rule of law and control of corruption are significant and underscore the urgent need for concerted efforts to refine the business climate.

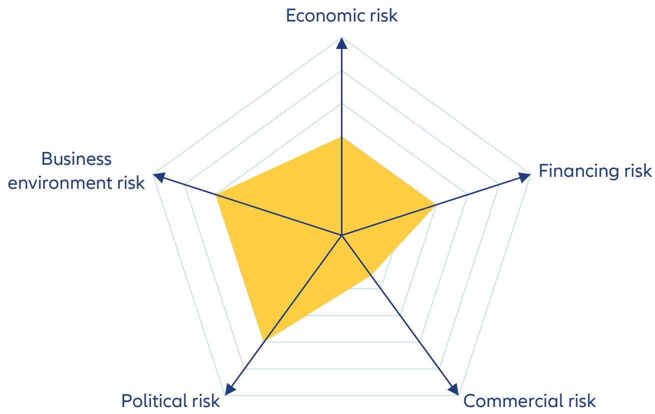
B2

Medium
risk for enterprises

Philippines

Navigating structural challenges to unlock further growth potential

GDP	USD404.3bn (World ranking 39)
Population	115.6mn (World ranking 13)
Form of state	Presidential Republic
Head of government	Ferdinand Marcos Jr. (President)
Next elections	2025, legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Favorable demographic dynamics
- Robust domestic consumption
- Resilient banking sector
- Strong remittances inflows

- Vulnerable to external pressures
- Cyclical risks from heavy reliance on electronics exports
- Weak business environment
- High public debt
- Climate change vulnerability

Economic overview

Economic slowdown in the clear – growth to accelerate in the medium term

The Philippines has experienced strong GDP growth over the past two decades, with +4.5% on average in the 2000s and +6.4% in the 2010s. The Covid-19 pandemic hurt the economy severely, with GDP contracting by -9.5% in 2020 (the worst full-year recession on record) with a patchy recovery in 2021, growing by +5.7% amidst challenges in managing the public health crisis locally. Restrictive measures related to the pandemic were fully lifted by October 2022 and the economy experienced a strong rebound, growing by +7.6% in 2022. In 2023, the economy slowed down, with growth estimated to have moderated to +5.1% in 2023 on the back of headwinds such as the challenging external environment in terms of demand, high inflation and tight monetary policy. The near-term growth trajectory of the Philippines paints a promising picture, with growth expected to rise to +5.7% in 2024 and stabilizing at an average of +5.9% in the medium term until 2030, supported by a recovery in external demand (notably for electronics), private consumption and investments – accelerated by the diversification of supply chains away from China.

Fiscal policy has been broadly expansive since the pandemic, with the fiscal deficit rising from 1.5% of GDP in 2019 to 5.5% of GDP in 2022. We estimate the fiscal deficit to have narrowed to 4.8% in 2023 and to consolidate gradually to 3.9% by 2025 as the government tries to optimize its revenues and expenditures. However, high interest payments on debt and support for low-income households mean that achieving the pre-pandemic (2010-19) average of 0.5% remains a challenging task at hand for the policymakers.

In terms of prices, we expect inflation to slow down to 3.4% and 3% in 2024 and 2025 respectively, well within the target range of 2-4% of Bangko Sentral ng Pilipinas (BSP) – the central bank of the Philippines. This is in comparison to a 15-year high of 6.1% in 2023. After an off-cycle hike of the policy rate to tame inflation in October 2023, the central bank will maintain a neutral policy stance going forward before a gradual easing when the economy avoids upside risks to inflation.

Deteriorated, yet manageable public finances with a volatile external balance

Broadly, the Philippines' short-term financing risk is deemed medium. However, the deteriorating public finances are worth monitoring, especially given the fact that the fiscal deficit remains significantly elevated relative to pre-pandemic levels. Further, the level of foreign direct investments remains low which will be worth monitoring as the president aims to improve the business environment to attract foreign investments.

The fiscal deficit rose during the Covid-19 crisis and is unlikely to return to the pre-pandemic level in the coming few years. At the same time, public debt rose to 60% of GDP in 2022 and 2023, from less than 40% in 2019. Going forward, it should moderate to around 55% on average in 2024 and 2025, which means that although it will remain above the pre-pandemic average of around 40%, it is lower than the levels seen in the 2000s (close to 60% on average during the period 2000-2010). Further, the situation is not critical in the short to medium term, in part thanks to the country's reliance on domestic rather than external financing. On the external balances front, the current account deficit widened to 4.5% of GDP in 2022 on the back of markedly increasing energy prices (the Philippines is a net energy importer). We estimate it to have narrowed to 3% in 2023 and to decline further to 2.1% by 2025 supported by lower imports of fuel and capital goods and a recovery in goods and services trade. However, the country relies significantly on remittances for domestic consumption and is therefore vulnerable to challenges in the external environment. Further, the economy's heavy reliance on the exports of electronics (more than 50% of its total exports) makes it vulnerable to cyclical swings in the sector.

Impediments to further economic progress: a weak business environment and political tensions

With a lower-than-average performance, the business environment in the Philippines broadly remains weak. The economy was ranked 80 out of 185 economies in the Heritage Foundation's Index of Economic Freedom survey 2022, down from rank 73 based on the survey conducted in 2021. The decline was primarily driven by significant weaknesses in terms of property rights, judicial effectiveness and government integrity. However, on the positive side, indicators for government spending, fiscal health and tax burden performed well. Meanwhile, the World Bank Institute's Worldwide Governance Indicators 2022 survey indicates that problems related to the rule of law and corruption warrants serious attention. Lastly, our proprietary Environmental Sustainability Index suggests that renewable electricity output, recycling rate and climate change vulnerability remain weak spots for the economy, thereby limiting its potential for accelerating growth.

Ferdinand Marcos Jr. was elected president of the Philippines in mid-2022 with a landslide victory and is able to count on the support of a majority in the House of Representatives (the lower house) and the Senate (the upper house). These factors and his emphasis on broad-based policy continuity in line with his predecessor Rodrigo Duterte suggest government stability during his presidential term, although risks such as geopolitical escalations with China (as he leans more towards the US contrary to the previous government which leaned more towards China) and falling public support due to an economic slowdown warrant prudent monitoring. It will be worth monitoring the next legislative elections, due in 2025.

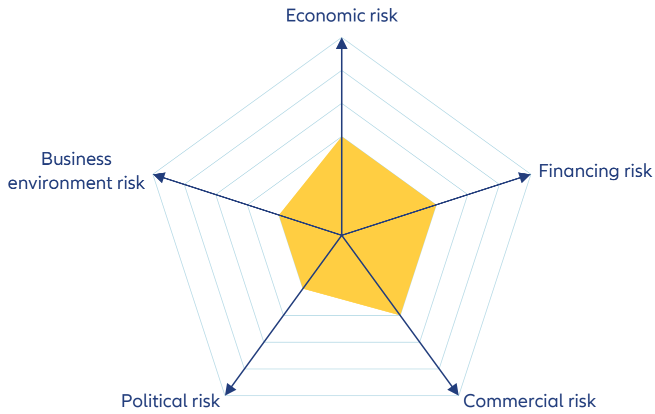
BB2

Medium
risk for enterprises

Poland

The worst is over but the recovery will be mild

GDP	USD688.2bn (World ranking 21)
Population	37.6mn (World ranking 39)
Form of state	Parliamentary republic
Head of government	Donald Tusk (PM)
Next elections	2025, Presidential



Strengths & weaknesses

- EU membership
- Diversified sectoral external trade structure
- Robust domestic demand
- Resilient external finances
- Sound business environment

- Slow structural reform progress
- Tendency towards pro-cyclical fiscal stimulus
- Non-diversified regional external trade structure
- High external debt burden

Economic overview

Moderate recovery and sticky inflation in 2024

The outlook for the Polish economy deteriorated as a result of the war in Ukraine. Following a strong post-Covid-19 rebound with +6.9% real GDP growth in 2021 and +8.8% y/y in Q1 2022, economic activity has cooled markedly since Q2 2022 as production was hit by supply-chain disruptions and rising input costs, notably surging energy prices. Full-year growth held up well in 2022, at +5.3%, thanks to pent-up consumer spending and solid investment activity. But in 2023, consumption fell markedly and a sharp drop in inventories was noticed as the full impact of the war hit the Polish economy, notably higher inflation and interest rates. The decline in domestic demand also pulled down real imports while real exports stagnated. Hence a positive contribution from net trade has mitigated the downturn and ensured that the economy just avoided a full-year contraction of GDP in 2023. Looking ahead, we forecast moderate real GDP growth of about +2.5% in 2024 and +3% in 2025, on the back of a recovery in consumer spending and continued robust investment.

Consumer price inflation reached a peak of 18.4% y/y in February 2023. Thereafter, it rapidly eased to 6.1% in December thanks to the unwinding of the energy and food price shocks in 2022. Going forward, fading base effects will slow down disinflation in 2024. Moreover, substantial fiscal spending pledges of the newly elected government as well as strong wage growth remain an upside inflation risk, requiring continued cautious monetary policy. We forecast inflation to average approximately 5% in 2024 and 4% in 2025. It may return to the National Bank of Poland's (NBP, the central bank) inflation target of 2.5%±1pp only at the end of 2025. The NBP hiked the policy interest rate to 6.75% in September 2022 and kept it there for a year until it pivoted with a large 75bps rate cut in September 2023, followed by a 25bps cut in October. Thanks to the rapid disinflation process, the NBP shifted its focus to supporting the ailing economy and was thus one of the first central banks in Europe to embark on a monetary easing cycle. We expect continued gradual monetary easing in 2024, matching the disinflation process.

Public finances require monitoring but external finances have improved

Poland's public finances have deteriorated since 2019 but should remain manageable until 2025. Strong economic growth supported fiscal consolidation in 2014 to 2019 despite a moderately lax fiscal policy stance at the time. Fiscal deficits were low and public debt fell from 56% of GDP in 2013 to 46% in 2019. A huge fiscal stimulus program against the backdrop of the Covid-19-induced recession reversed that trend in 2020. The government posted a fiscal deficit of around -7% of GDP and public debt rose back to 57% of GDP. The economic rebound in 2021 and high inflation in 2022, which raised nominal GDP, lowered the debt-to-GDP ratio back to 49%. In 2023, increased spending on defense, public sector wages and social benefits as well as some pre-election stimulus widened the fiscal deficit to an estimated -5% of GDP. Looking ahead, the deficit is unlikely to narrow much in 2024 owing to the large spending pledges of the new government. However, the latter is likely to be more cooperative with the EU than the previous government and may also embark on some fiscal consolidation after 2024, to comply with the EU fiscal rules. This provides the opportunity to unlock EU funds of up to 14% of GDP over 2024-2027, which will boost investment and economic activity and thus lower the fiscal deficit and public debt to GDP ratios beyond 2024. We forecast that the annual fiscal deficit will narrow gradually to approximately -3% of GDP by 2028 and public debt will stabilize at about 52% of GDP.

Poland's external finances improved in 2023 after they deteriorated in the previous three years. The current account balance posted manageable annual deficits of -1.4% and -3% of GDP in 2021 and 2022, respectively, driven by surging energy import prices. The moderation of these prices in 2023 combined with faltering imports in the wake of subdued domestic demand has moved the current account back into an estimated surplus of around +1% of GDP. We forecast continued but smaller surpluses in 2024-2025 as imports are expected to recover more strongly than exports. On another positive note, foreign exchange (FX) reserves have recovered as well after they declined from mid-2021 to end-2022, due to the financing of the external deficit during that period. Current reserves cover almost five months of imports and, in other terms, more than all external debt payments falling due in the next 12 months – both of which are comfortable ratios. Meanwhile, the gross external debt to GDP ratio has fallen to just below 50%, down from 63% in 2020 and is now one of the lowest ratios compared to peers in Central and Eastern Europe.

Sound business environment

The Polish business environment is well above average, despite a perceived deterioration over the past years. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory framework is business-friendly though a certain level of corruption is still perceived as present and the legal framework has worsened since 2014. The Heritage Foundation's 2023 Index of Economic Freedom survey assigns Poland rank 40 out of more than 180 economies, reflecting strong scores regarding property rights, tax burden, trade freedom, investment freedom and financial freedom. However, weaknesses remain regarding judicial effectiveness. Our proprietary Environmental Sustainability Index puts Poland at rank 51 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change, though there are still weaknesses in renewable electricity output and the recycling rate.

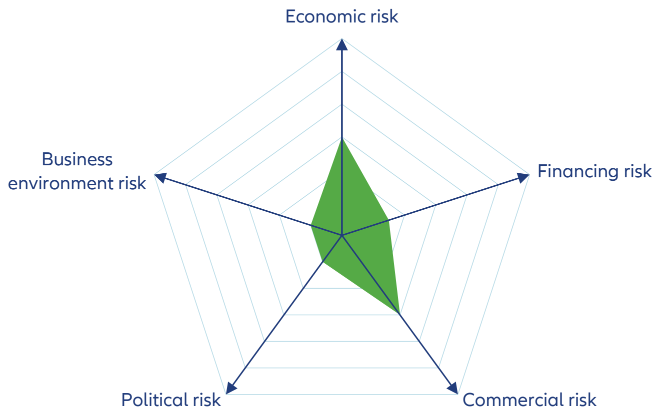
BB1

Low
risk for enterprises

Portugal

Being resilient

GDP	USD251.9bn (World ranking 50)
Population	10.4mn (World ranking 90)
Form of state	Parliamentary Democracy
Head of government	António Costa (PM)
Next elections	2024, Legislative



Strengths & weaknesses

- Improving competitiveness thanks to deep structural reforms (banking sector, pensions, labor market)
- Modern infrastructure network
- Large companies with international presence
- Good performance in some industrial and innovative sectors
- Buoyant tourism sector
- Efficient system for R&D, relatively high-skilled labor
- Fiscal consolidation reforms

- Still high public debt (among the highest in the world) despite fiscal consolidation efforts
- High private sector debt
- Still weak banking system hampering the financing of the economy
- Number of insolvencies still 30% higher than in 2007
- Political turbulence
- Complex legal system and poor rail and technological infrastructure

Economic overview

Overall good macroeconomic situation despite the many headwinds

In recent years, Portugal has distinguished itself with an improvement in economic growth, after holding a weak position in the region. While annual growth in Portugal averaged +0.9% from 2010 to 2019 (Eurozone: +1.6%) and while it suffered from a stronger hit than the region in 2020, growth slightly tailed the Eurozone's average of +5.5% in 2021 and was double the regional average in 2022, at +6.7% – the second highest growth rate in the region after Ireland. In Q1 2023, Portugal registered a growth of +1.47% q/q, followed by a +0.04% growth in Q2, showing the volatility of its economic situation. While growth will be constrained by the same challenges as the rest of the world – high inflation and tight monetary policy, the Portuguese economy will still benefit from, among other things, a strong tourism sector (17% of GDP in 2019), a generous fiscal support from the EU and an easing in supply-chain restrictions. In the longer term, Portuguese growth should converge towards European growth, at around 2% by 2027.

Since 2022, annual inflation in Portugal has been on average 15% lower than in the rest of the Eurozone. Inflation rose sharply in 2022, but sank more rapidly in 2023 than in the rest of the region, with a y/y average of 8.4% in Q1 2023 – compared with 9% in the Eurozone. Core inflation rose later and less aggressively, but is more persistent, with y/y core inflation exceeding headline inflation for the first time in Q2 2023, at 5.7%. Inflationary pressures are prompted by the strong growth in nominal wages, particularly after the agreement reached in 2022 to raise private sector worker's wages by 5.1% in 2023 and by a compounded rate of 20% by 2026. Inflation should however be tamed by then: after 5.3% in 2023, we predict it to decrease from 3.4% in 2024 to the ECB's target rate of 2.0% in 2026.

Making its way to fiscal and financial stability

Portugal has been able to reduce public debt from 134.9% of GDP in 2020 to 112.4% of GDP in 2022, thanks to a strong nominal GDP growth and fiscal consolidation reforms. This should lead to a balanced budget by 2025, with an exceeding primary balance from 2022 on. Public debt should continue to decrease – to 97% of GDP in 2027 –, as fiscal deficit reduces. Along with the EUR14bn granted to Portugal within the EU Recovery and Resilience Facility, this should give Portugal room to increase public investments, in particular regarding state pensions, public-sector pay, health infrastructure and education. However, a likely change of government in 2024 creates uncertainty about the continuity of fiscal consolidation in the medium term.

Portugal's external position is mixed: although it enjoys a large – and growing – services surplus, thanks to tourism – which accounts for 17% of GDP – the trade balance is consistently negative. The current-account, in deficit until 2022, should resorb in 2023 and improve significantly to +1.1% of GDP by 2027. Portugal's dependency on tourism is a strength, but at the same time a weakness, considering the volatility of touristic activities. With almost one in five Portuguese living abroad, Portugal benefits from a non-negligible inflow of remittances from workers located in particular in other European countries. Since 2010, remittances represent on average 1.68% of GDP, with notably an increase in the early 2010s and a slight decrease since the mid-2010s.

Unexpected political turbulence brings uncertainty ahead

The Portuguese business environment appears to be good overall, but has some major shortcomings impeding its ranking as a favorable business environment. In particular, it suffers from a complex tax system, poor rail infrastructure and a low technological readiness. In the 2022 Heritage Foundation's Index of Economic Freedom survey, Portugal ranked 31st in the world and 21st in the region. It scored very well in property rights, judicial effectiveness and monetary freedom, but lagged far behind on terms of labor freedom and government spending. The World Bank's 2022 Worldwide Governance Indicators survey ranked it 56th worldwide for regulatory quality, 32nd for rule of law – improving compared to 2021 – and 47th for control of corruption. As to the environmental sustainability of Portugal, our proprietary indicator shows strengths in climate change resistance and energy use per GDP, but weaker performances in renewable electricity output and the recycling rate – ranking Portugal as the 24th most sustainable country.

António Costa, Portugal's prime minister and leader of the Center-left Socialist Party (PS), resigned on 07 November, after several government officials were made formal suspects of an investigation into possible crimes of corruption related to mining and energy concessions. President Marcelo Rebelo de Sousa, called for a snap election for March 2024. Costa's Socialist Party has consistently confounded fears of economic mismanagement since taking office in late 2015, by exercising strong fiscal discipline whilst overseeing robust economic growth. Indeed, the budget balance swung from a deficit of 7.4% of GDP in 2014 to a surplus of 0.8% in 2023, while total government debt fell from 132% of GDP to 112%.

In the near term, the political events should not have much impact on fiscal policy because the draft 2024 budget – which was first approved by parliament just a week before Costa's resignation – looks set to be implemented as originally planned. However, there is a possibility that the Center-right Social Democratic Party (PSD), which is the Socialists' main rival and which oversaw stagnation during the European debt crisis, could jeopardize the economic gains, especially given that it would probably need to form a coalition with the far-right populist Chega group to secure a majority.

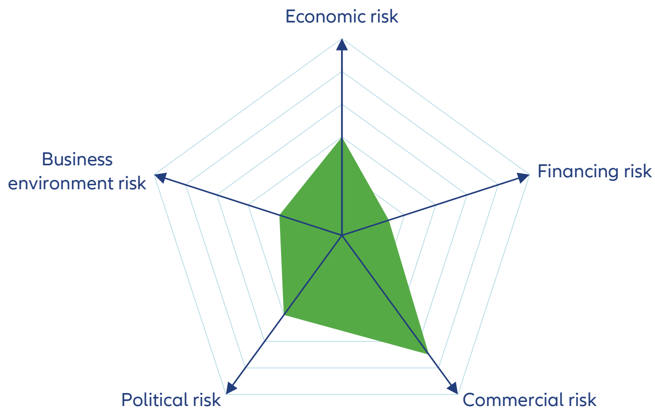
BB1

Low
risk for enterprises

Qatar

Balancing wealth and dependencies

GDP	USD237.3bn (World ranking 53)
Population	2.7mn (World ranking 141)
Form of state	Emirate
Head of government	Tamim bin Hamad Al Thani (Emir)
Next elections	2025, Legislative



Strengths & weaknesses

- Qatar's vital role in the LNG market and commitment to diverse sectors, including sports and tourism, fosters economic stability and growth
- Robust diplomatic ties with several countries as mediator on diplomatic disputes and host of global events increase the likelihood of international support in case of another deterioration of relationship with the Saudi-led bloc
- The North Field East LNG expansion project, combined with low inflation and enhanced fiscal policy, supports significant economic development

- Qatar's heavy reliance on hydrocarbon exports exposes its economy to fluctuations in global energy prices, necessitating tax reforms
- Geopolitical instability and trade bottlenecks, especially through the Hormuz Strait, pose risks to Qatar's export-dependent economy
- Despite political improvements, challenges in judicial effectiveness and business and labor freedom highlight areas for enhancing the overall business environment

Economic overview

An acceleration driven by natural gas, infrastructure and tourism

Qatar has one of the highest levels of GDP per capita in the world, yet the economy relies significantly on hydrocarbon exports. GDP growth is expected to accelerate to +3% in 2024. Investment in the energy sector, including renewables and fossil fuels, as well as a stronger tourism industry and better partnerships with neighboring countries, will drive momentum. Geopolitical instability in the region and trade bottlenecks are downside risks since the majority of exports are shipped through the Hormuz Strait. Average inflation is expected to fall in 2024, thanks to the base effects and lagged effects of previous interest rate hikes. The Qatari riyal is pegged at QAR3.64 per USD1. The peg is likely to stay in place, given the economic stability it provides and Qatar's significant international reserves to defend it.

The economic acceleration will reflect the government's willingness to move forward with a variety of new infrastructure projects worth slightly less than USD19.2bn. The Public Works Authority (Ashghal) will play a key role, as the projects cover many sectors and provide potential for private-sector engagement. We also expect the tourism industry to sustain its recent vibrancy – visitor arrivals more than doubled year on year in the first nine months of 2023, reaching 2.9mn. Qatar will host the World Aquatics Championships in February 2024, confirming its ambitions as a worldwide athletic powerhouse and has also expressed interest in bidding for the summer Olympic Games in 2036.

The North Field East LNG expansion project will be a major economic driver, first through significant investment spending until the completion date (2026) and then by fast-expanding liquefied natural gas (LNG) output. Low inflation, along with progressive monetary relaxation, will also help to maintain private spending, while the government's emphasis on economic diversification will drive stable development in non-energy sectors.

A fiscal and military surplus ahead?

External liquidity will remain unproblematic in the next two years. Qatar has recorded large, sometimes huge, annual current account surpluses for more than two decades, with the exception of 2016 and 2020, when global oil and gas prices were particularly low. These surpluses have contributed to the buildup of the Qatar Investment Authority (QIA), a sovereign wealth fund currently estimated at approximately USD480bn. The combined international reserves of the central bank and the QIA represent over two times the annual GDP and cover more than 80 months of imports.

With oil and gas revenues accounting for around 85% of fiscal inflows, lower global energy prices might jeopardize tax collection. Declining oil and gas prices may offer the necessary motivation for the government to finally implement the long-delayed value-added tax (VAT). The government will also have to meet the expenditure commitments linked to a large-scale public works plan in 2024. The initiative will involve enhancements to the road and energy networks, as well as new water and sanitation infrastructure. Furthermore, the authorities have increased military spending, with a special emphasis on expanding the country's naval capabilities. According to SIPRI, the country is already the biggest spender globally in defense on a per capita basis, with more than USD5 000 per inhabitant in 2022.

As a result, we expect VAT to be adopted in 2024, although at a modest rate of 5%. This will support budgetary surpluses of 4–5% of GDP each year in 2024–25. As the first phase of the North Field East gas development project begins, the surplus will increase by 2026. With a strong fiscal outlook, public debt is expected to decrease from 45% of GDP at the end of 2023 to 33% by the end of 2028.

Enhanced diplomacy as an act of self-defense

Qatar's foreign policy is based on counterbalancing partnerships that strengthen its regional strategic position and serve as a backup for regime security. After the Saudi-led blockade in 2017, the limelight provided by the football World Cup, increasing strategic relevance as a natural gas supplier and glimmers of stability and cohesion in the region between 2021 and October 2023 have reduced the likelihood of similar events occurring in the near future against the country. Relations between Qatar and its Arab neighbors, Saudi Arabia, the UAE, Bahrain and Egypt, have improved in a pragmatic manner. Property rights, a clear taxation system and fiscal health remain sound; on the other hand, judicial effectiveness and business and labor freedom present room for improvement.

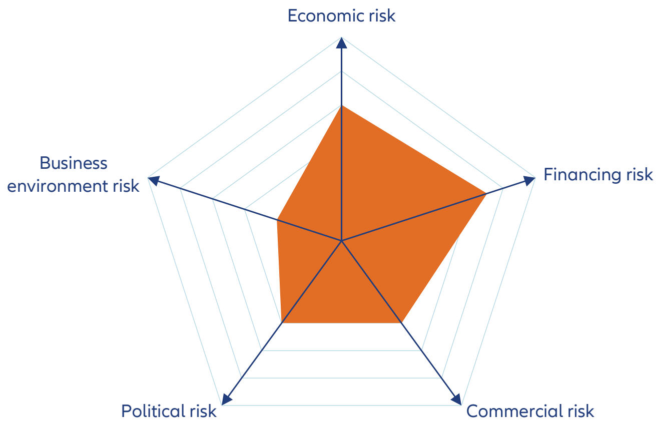
B3

Sensitive
risk for enterprises

Romania

Macroeconomic imbalances remain a concern

GDP	USD301.3bn (World ranking 45)
Population	19.0mn (World ranking 65)
Form of state	Republic
Head of government	Marcel Ciolacu (PM)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- EU membership and good international relations
- Competitive industrial sector
- Low unemployment
- Adequate business environment

- Government instability
- Lack of structural reforms in key economic sectors
- Weak public finances
- Large annual current account deficits, with modest coverage through net FDI inflows
- High external debt burden

Economic overview

Moderate growth and sticky inflation in 2024

Romania has been a strong performer among emerging economies, though periods of economic overheating have caused concern at times. Average annual real GDP growth was +3.7% over the past 20 years, well above the respective average of the Central and Eastern European EU member states. The global Covid-19 crisis affected the Romanian economy markedly in 2020 (-3.7% contraction), but it rebounded strongly with a +5.7% output increase in 2021. However, Romania's economic prospects have significantly deteriorated since the war in Ukraine. This is due to the country's (pre-war) energy import-dependence on Russia and the impact of EU sanctions against Russia on the domestic economy (for example rising inflation and potential energy shortages). In 2022, economic activity in Romania still held up better than initially expected, thanks to robust consumer spending, investment and external demand. Statistical base effects also helped to achieve growth of +4.7% annually. However, the impact of surging inflation, rising interest rates, weakening external demand and deteriorating business confidence took full effect in 2023. As both domestic and external demand slowed down markedly, real GDP growth is estimated at just slightly over +2%. Going forward, growth is forecast to pick up to around +3% in 2024 and +3.5% in 2025, supported by resilient public spending and investment as well as strengthening consumer spending on the back of rising real disposable income, a fading impact of past interest rate hikes and some monetary easing.

Monetary policy by the National Bank of Romania (NBR, the central bank) is officially based on inflation targeting (2.5% ± 1pp) but has been loose for a long time. The real interest rate was negative from end-2017 to October 2023, i.e., the key policy interest rate was below the inflation rate, even when the latter was above the target range for most of 2018-2019 amid rapid double-digit wage growth and again since mid-2021 amid rising energy prices. The latter drove consumer price inflation into double digits from early 2022 until mid-2023. The NBR hiked its policy rate moderately from 1.25% in September 2021 to 7.00% in January 2023. It has also frequently intervened in foreign exchange (FX) markets to prevent excessive currency volatility – not surprising as the official exchange rate regime is that of a managed float – thereby maintaining the exchange rate of the RON stable against the EUR. We expect it to continue to do so as long it has sufficient FX reserves. Meanwhile, inflation is forecast to remain sticky on the back of hikes in food prices and strong wage growth. We forecast headline inflation to average approximately 5.6% in 2024 and 4% in 2025.

Worrisome public and external finances

Romania's public finances will continue to deteriorate and have become a cause for concern. Strong pro-cyclical fiscal stimulus already widened the annual fiscal deficit to -4.3% of GDP in 2019. That ratio rose sharply to -9.3% in 2020 and -7.2% in 2021 because of Covid-19-related fiscal stimulus and loan guarantees and subsidies for SMEs, as well as lower nominal GDP. Further large annual fiscal shortfalls of around -6% of GDP were posted in 2022-2023, this time due partly to lower fiscal revenues as well as higher spending needs in the wake of the crisis sparked by the war in Ukraine. Despite some planned fiscal consolidation, the annual deficits are forecast to remain high at about -5% in 2024-2025. Meanwhile, the public debt-to-GDP ratio increased from 35% of GDP in 2019 to 47% in 2022 and is forecast to reach about 50% in 2025. While this still appears modest compared to other EU countries, the trend dynamics are a reason to worry.

Romania's external finances are another cause for concern. The current account deficit widened steadily from -0.3% of GDP in 2014 to -9.3% in 2022, before narrowing slightly to an estimated -6.5% in 2023. Crucially, only some 38% of the combined shortfall in 2022-2023 was financed through net foreign direct investment (FDI) inflows, well below the comfortable level of 75% and down from a recent high of 168% in 2016. Looking ahead, we expect exports and imports to grow at similar rates in 2024-2025 so that the annual current account deficits should remain large at above -6% of GDP in this period. The net FDI coverage of the deficits is likely to remain below 50% as capital flows to (weaker) emerging markets will remain muted amid ongoing global economic headwinds. Combined with the projected high fiscal deficits, this could raise external financing needs to critical levels. Moreover, the downtrend in the external-debt-to-GDP ratio from 77% of GDP in 2011 to 47% in 2019 has reversed; the ratio came in at 57% in 2020 and should remain above 50% in the next few years. Meanwhile, the NBR's FX reserves have increased again from temporary lows in 2022, although the aforementioned exchange-rate interventions cause some volatility in the level. At USD65bn at end-2023, reserves covered just about 4.8 months of imports, which is considered an adequate ratio. In other terms, however, they do not cover all external debt payments falling due in the next 12 months (well below the benchmark "comfort" level of 125%).

Above average business environment

The business environment is adequate though spots of weaknesses remain. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly while weaknesses remain regarding perceived corruption. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Romania rank 53 out more than 180 economies, reflecting strong scores regarding property rights, tax burden, trade freedom and investment freedom. However, weaknesses remain in the areas of judicial effectiveness, government integrity and financial freedom. In our proprietary Environmental Sustainability Index, Romania ranks 40th out of 210 economies, reflecting strong scores for energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change. Yet, there are still weaknesses in renewable-electricity output and the recycling rate.

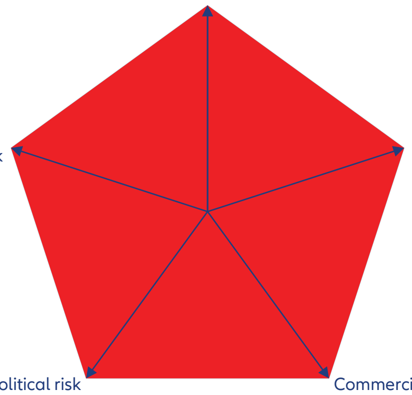
D4

High
risk for enterprises

Russia

Gloomy medium-term economic outlook

GDP	USD2240.4bn (World ranking 8)
Population	143.6mn (World ranking 9)
Form of state	Presidential Republic
Head of government	Vladimir Putin (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Abundant natural resources, in particular oil and gas
- More than 20 years of continued current account surpluses
- Low public debt

- Geopolitical risks, including the Russian war in Ukraine
- Extensive Western sanctions
- High vulnerability to global oil price shocks
- Prone to capital flight
- Exchange rate remains vulnerable to volatility and sudden depreciation
- Poor rule of law and high level of perceived corruption

Economic overview

Unprecedented sanctions have resulted in much deteriorated political, economic and business environments

Following the Russian military invasion of Ukraine on 24 February 2022, governments around the world imposed sweeping and sizable financial and economic sanctions on the Russian economy and individuals, including partial export embargoes on hi-tech goods exports, sanctions against the largest Russian banks, the removal of multiple Russian banks from the SWIFT messaging system and the freezing of around one half of the Central Bank of Russia's (CBR's) foreign exchange (FX) reserves held in G-7 and other Western countries. Meanwhile, many countries have also imposed an oil-import embargo. Counter-sanctions from Russia have included FX controls for business transactions, stringent capital controls regarding payments abroad (including sovereign debt service and banning foreigners from selling securities), the nationalization of foreign companies deciding to exit Russia after the start of the war as well as selected export embargoes to the West (especially on most natural gas exports to the EU). The capital controls also led to a selected default of the Russian government on its sovereign debt in mid-2022. As long as the Russian war against Ukraine continues, further escalation cannot be excluded, which could result in even harsher sanctions and counter-sanctions. The overall environment for doing business in and with Russia is now very unfavorable.

Modest growth and elevated inflation in 2024-2025

The Russian economy entered a recession in 2022 but held up much better than initially expected despite wide-ranging sanctions. Real GDP contracted by -2.1%, driven by a drop in inventories, a negative contribution of net trade and a decrease in consumer spending. In 2023 the economy rebounded strongly on the back of substantial fiscal stimulus that supported domestic demand. Real GDP expanded by +2.9% y/y in the first three quarters and is estimated at over +3% in 2023 as a whole. Russia was also able to divert a large part of its exports. While Western sanctions were stepped up – including the EU's embargo and the G-7 countries' price cap (at 60 USD/bbl) on seaborne Russian crude oil imports from December 2022 and the EU ban on Russian oil products from February 2023 – China, India and Türkiye have become the main buyers of Russian oil and some of their imports have been "re-blended" and sold on to countries with sanctions in place. Looking ahead, economic activity is projected to cool in the next two years owing to slowing domestic demand due to higher inflation and interest rates and difficulties in replacing lost European markets for gas exports. Overall, we forecast average annual GDP growth of around +1.5% in 2024-2025.

Consumer price inflation has steadily increased from the low of 2.3% in April 2023 to 7.4% at the end of the year as import suppression, labor shortages, supply-chain disruptions and a weaker currency in 2023 exerted upward pressure on prices. Lower oil and gas prices in 2023 have markedly weakened demand for the Russian ruble (RUB), which has lost -30% in value against the USD since end-November 2022 – when the West's oil embargo and price caps came into force. We expect headline inflation to remain elevated for some time and to begin moderating in the second half of this year. We forecast it at an average of around 6.5% in 2024 and 4.5% in 2025. In response to the weakening RUB and the building inflationary pressures, the CBR hiked its key policy interest rate from 7.50% to 16.00% in H2 2023. We expect monetary policy to remain tight until substantial disinflation takes hold.

Fiscal and external positions are deteriorating but remain sustainable, for now

Russia's fiscal deficit widened in 2023, mainly due to rising defense spending and social expenditures as well as declining energy export revenues. Looking ahead, military spending is expected to surge to around 6% of GDP in 2024, making up about one third of the total budget. However, revenues are also expected to rise, in part thanks to special taxes on energy companies. Overall, we forecast an annual fiscal deficit of around -2% of GDP in 2024. Russia will finance the shortfall through domestic bond (OFZ) issuance and withdrawals from the National Wealth Fund (NWF, a sovereign wealth fund). That said, it should be noted that a substantial drawdown of the NWF, as well as potential expenditure cuts in the next years, would have crucial medium and long-term effects for the economy and the welfare of the Russian people.

Russia's foreign exchange (FX) reserves have recovered since September 2022 and we expect the Russian economy from this perspective to be able to cope with Western sanctions in 2024. FX reserves (excluding gold) fell from USD498bn in January 2022 to a temporary low of USD417bn (including frozen FX reserves) in September 2022, about half of which was due to the USD's strength weighing on the valuation of assets in other currencies. Since then, they have recovered somewhat and stood at to USD443bn at end-2023. A reversal of the valuation effect played a role in the recovery, but the record-high current account surplus of USD238bn (+10.5% of GDP) in 2022 and the de-dollarization of external trade have likely been more important. The Chinese renminbi is gaining increasing popularity in Russia's external trade so that forthcoming export earnings cannot be frozen by Western sanctions anymore. Under the assumption that frozen FX reserves have remained roughly stable at USD238bn (half of total FX reserves in February 2022) since the war began, available FX reserves are currently estimated at just over USD200bn. This level is sufficient to cover a healthy six months of imports. Meanwhile, the current account surplus shrank markedly to USD53bn in 2023 (around +2.7% of GDP), mainly due to lower energy export revenues and we forecast it to remain close to that level in 2024. Yet such a surplus should help to escape a sharp decline in available FX reserves over the next year. In a more conservative but less likely scenario where available FX reserves fall to USD160bn at some point in 2024, import cover would still be five months. And in a worse scenario, Russia would still have the possibility to monetize part of its gold reserves, which stood at around USD156bn at end-2023.

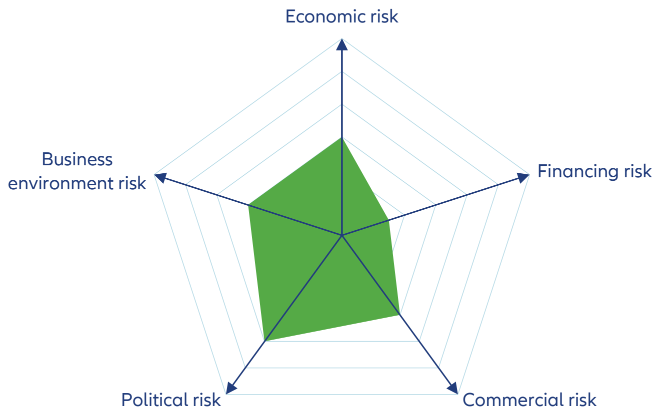
B1

Low
risk for enterprises

Saudi Arabia

Burning momentum in 2022, braking sharply in 2023: Will 2024 be a limbo year?

GDP	USD1108.1bn (World ranking 17)
Population	36.4mn (World ranking 41)
Form of state	Monarchy
Head of government	Salman bin Abdulaziz Al Saud (King)
Next elections	None



Strengths & weaknesses

- Second-largest proven oil reserves globally, low extraction costs and over 70 years of oil supply at current production rates
- Commitment to Vision 2030 remains, as well as funding to mega-projects for a diverse economy
- Stable inflation thanks to large export revenues, ample reserves and a strict monetary tightening cycle helps the construction sector and overall project financing

- Over 30% of GDP and 70% of exports reliant on hydrocarbons, exposing vulnerability to oil price fluctuations
- The resurgence of conflicts in the Middle East pose a threat to investors and people appetite for the region, impacting long-term prospects
- Succession dynamics and governance issues affect international perception and create uncertainties

Economic overview

Self-inflicted production cuts and diversification hold the key to growth

The Saudi economy looks set to start growing again in 2024, after a year of little to no growth in 2023, but much of its fortune will depend on the government's stance on oil production. The economic decline was self-inflicted when the monarchy unilaterally reduced oil output by one million barrels per day (b/d) in July 2023 and maintained this attitude until the end of the year to help support oil prices. A rise in oil production and exports in the second half of 2024, along with rapid growth in the non-oil economy, will boost real GDP growth by about +2%, in line with the post-2014 average. A substantial fiscal deficit is likely to remain supportive of non-oil activities, with negative spillovers on energy and construction projects from the resurgence of conflicts across the region.

The kingdom, which has been rich with cash from robust oil sector earnings in recent years, will continue to fund a series of mega-projects aimed at creating a more diverse economy in accordance with Vision 2030. On the other hand, trade disruptions and regional instability may weigh on businesses and foreign appetite for the region, potentially posing obstacles to Saudi Arabia's plan to attract many more tourists, companie and talent. Even if the country remains heavily reliant on agri-food imports, including grain, it has always been able to find alternatives, given ample purchasing power.

Inflation in Saudi Arabia is likely to remain around 2% thanks to large export revenues, ample reserves that allow the local currency to maintain the currency peg with the US dollar and a strict monetary tightening cycle initiated in March 2022, in parallel with that of the US Federal Reserve.

The resurgence of a geopolitical premium to the oil price may complicate plans

Saudi Arabia possesses the world's second-largest proven oil reserves (>15% of global resources), low extraction costs and its oil will last for over 70 years at current rates of production – the longest reserves/production ratio among the three top producers (US, Russia and Saudi Arabia). The unbalanced nature of the economy is reflected in how much hydrocarbons account for the overall economy – around 30% of GDP and 70% of exports. According to government plans, environmental sustainability should become a driver of long-term growth and efficiency gains. In fact, renewable power generation is booming in the kingdom, but its nominal capacity remains lower than that of the UAE. Water stress is also high and estimates of waste recycling rates remain very low.

In the short term, oil prices will continue to dominate the picture and enable additional government financing to achieve the long-term targets envisioned under Vision 2030. Decisions taken in 2023 by the Organization of the Petroleum Exporting Countries (OPEC) and shared with third parties like Russia, Kazakhstan, Azerbaijan, Mexico and Oman (OPEC+) have proven less effective than in the past to maintain the price of crude oil above USD80 per barrel, which is a comfortable level to meet fiscal and trade balances for most OPEC+ countries. Moreover, the resumption of a geopolitical premium to the oil price, given the resurgence of conflicts in the Middle East, has complicated plans to elevate production quotas, de facto favoring countries that are not bound to output restrictions.

The fiscal balance returned to the positive side in 2022, thanks to exceptionally high oil prices and is likely to return to the negative. Saudi Arabia's annual current account balance also shifted to substantial deficits in 2015–2016, after 15 years of very high surpluses and posted another deficit in 2020 due to the pandemic-related oil price slump. As expected, the current account surplus widened in 2022, reaching 16% of GDP and is likely to remain in positive territory even though with much lower proportions. Foreign exchange reserves held at the central bank have reduced over the years from a peak of USD746bn in August 2014 to USD438bn in November 2023. Despite the decline, they are still sufficient to comfortably cover maturities on our forecast horizon, but caution related to future prospects may condition the predictability of the government and state-owned entities as long-term investors.

Regional conflicts, succession dynamics and governance concerns affect policy predictability

The resurgence of conflicts in the Middle East, particularly around Israel, poses a threat to the international appetite for the region. In early 2023, Saudi Arabia made a few steps towards normalizing relationships with peers and playing a broader role in the region, which contributed to easing trade and investment conditions. In March, the kingdom reached a historic accord with Iran, negotiated by China. Relations between Saudi Arabia and Türkiye had also come to a truce after years of hostility, but recent altercations related to sporting events hosted by Riyadh may further complicate the picture. In March 2023, Saudi Arabia agreed with Ankara to deposit a USD5bn swap line in the Turkish central bank to mitigate the lira exchange rate volatility, confirming the kingdom's role as one of the main lenders of last resort for countries in the region.

Succession dynamics and broader governance concerns put a drag on policy predictability. While comments made by a Saudi investor in March 2023 sparked the crisis in the Swiss banking sector, the suspension of diplomatic relations with Qatar in 2017 sparked a few commercial disputes and international arbitration cases. Until governance mechanisms improve and institutional capabilities strengthen, similar events may unfold again.

Competition with the United Arab Emirates for business and investment opportunities is likely to exacerbate policy divergences and enhance the possibility of confrontation between the UAE and Saudi leadership, although the competitive dynamic increases the chance of domestic reforms aimed at improving regulatory and operational conditions in an effort to make each country more appealing to global investors. In March 2023, three foreign law firms were granted the first licenses to practice in Saudi Arabia to encourage business expansion.

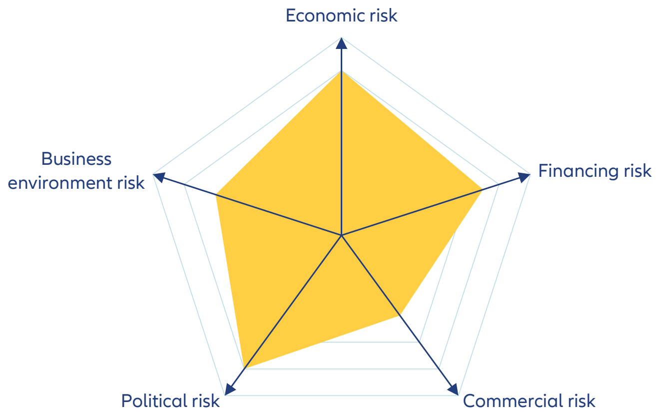
C2

Medium
risk for enterprises

Senegal

Economic boom amidst liquidity challenges and political transitions

GDP	USD27.7bn (World ranking 109)
Population	17.3mn (World ranking 71)
Form of state	Republic
Head of government	Macky Sall (President)
Next elections	2024, Presidential



Strengths & weaknesses

- A fast-growing economy with a projected GDP growth of +8% in 2024
- Diversified investments in agriculture, electricity production, information technology and transport are stimulating development
- Although there were protests and tensions in the run-up to the presidential election, Senegal has a history of peaceful power transitions, so it is possible to view the process as a continuation of democratic dialogue in the nation

- Senegal faces liquidity challenges due to its heavy dependence on imports and the limited size of its economy compared to hydrocarbon projects
- Despite a history of peaceful transitions, political tensions are expected to persist after the presidential election, potentially impacting foreign investment and the overall business environment
- Senegal faces a shortage of skilled local labor and heightened dependence on international oil companies to keep offshore projects afloat

Economic overview

One of the fastest-growing economies in Africa

Despite further delays in major offshore upstream natural gas projects, Senegal's GDP is expected to have grown by about +5% in 2023 and to accelerate to +8% in 2024 on the back of the start of LNG production and a new legislature that will benefit from higher revenues. The presidential election in February is the political cornerstone of the year and arrives after an ultra-long presidential campaign coupled with the exclusion of the main opponent for judicial reasons and unprecedented protests and repression throughout 2023. Our forecast for Senegal's GDP growth for 2023–2024 reflects the economy's strong fundamentals, continued IMF support and the assumption that oil and gas production will go online in H1 2024. Ongoing investment in agriculture, electricity production, information technology and transport will have a multiplier effect on the whole economy.

Year-on-year inflation reached a multi-decade high of +14% in November 2022, largely on account of food price increases, then cooled down gradually and is expected to average 4% in 2024. The CFA franc is pegged to the euro at 655.96 units per EUR1 and hence moves in tandem with EUR-USD swings.

The National Assembly passed the 2024 budget bill, which meets the IMF's deficit objective of 3.9% of GDP and reinforces policy commitments for fiscal consolidation and debt sustainability. The budget law includes a consistent growth in tax income to 20% of GDP by 2025, as well as a progressive phase-out of untargeted energy subsidies, with a pledge to reduce them to 1% of GDP in 2024.

Trade balances, public debt and borrowing trends indicate deteriorating liquidity

Senegal is heavily dependent on imports of food and crude oil and is thus exposed to international commodity price developments. Import-price volatility along with adverse domestic weather conditions preserved a structural trade deficit for a long time, but this may come to an end when oil projects begin. Hydrocarbon-related investment and exports represent more than half of the forecasted GDP growth over the next two years, which may offer substantial support to projected fiscal revenues and government spending. Given the current fiscal constraints, the IMF recommended that sustained fiscal consolidation efforts continue through the medium term by increasing fiscal revenues, phasing out energy subsidies by 2025 and limiting the use of the budgetary reserve envelope, allowing authorities to limit the fiscal deficit to around 5% of GDP.

The public and private debt composition and the borrowing trend point to a deterioration of liquidity in the medium term, with Senegal's debtors now owing more than 15% of GDP to private creditors and foreign governments on a bilateral basis. The corresponding amount was less than 5% of GDP in 2013. Public debt as a share of GDP has doubled in ten years, from 37% to an estimated 75% in 2023. International reserves remain stable at around the equivalent of USD3bn, but the hard currency pool between West African Economic and Monetary Union members partly mitigates liquidity risks.

The presidential election in February is a political cornerstone after an ultra-long campaign and protests

In February, Senegal's voters will elect a new president after Macky Sall served the maximum two terms allowed. In a subregion plagued by coups in previous years, the country has distinguished itself through peaceful power transitions in recent decades. However, political tensions are likely to continue even after the election, with an effect on foreign investment and the overall business environment. In 2023, protests took place particularly in Dakar and the hinterland, as well as in the southern province of Ziguinchor, with several arrests and clashes between the Senegalese military forces and the secessionist Movement of Democratic Forces in the Casamance (MFDC).

The current lack of skilled local labor and the likelihood that the government will demand strict adherence to using local suppliers and subcontractors complicate Senegal's goal of 50% local content for the oil and gas industry by 2030. Contract risks in the hydrocarbons sector have decreased as the government has pushed out many smaller operators to make room for better-resourced firms. Others who fail to reach an agreed-upon work schedule risk losing their concessions if they lack beneficial political ties and, more recently, discussions between a big operator and the government failed, resulting in the restart of an international arbitration process. The chances of expropriation are typically modest. Commercial dispute resolution is improving because of the introduction of a commercial court, but the judiciary remains understaffed and susceptible to political pressure, making contract enforcement more difficult.

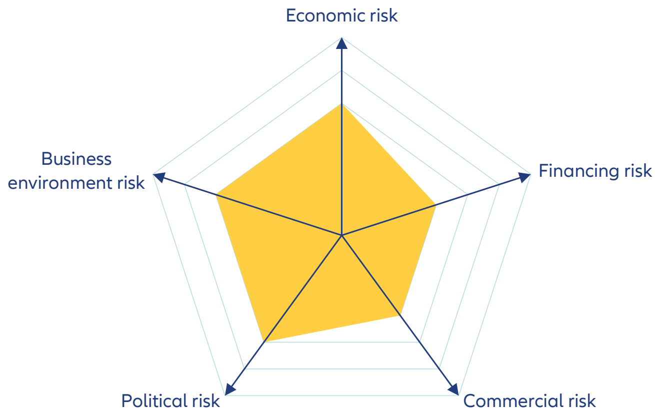
Serbia

B2

Medium
risk for enterprises

Recent crises have revealed vulnerability to external shocks

GDP	USD63.5bn (World ranking 84)
Population	6.8mn (World ranking 108)
Form of state	Parliamentary Republic
Head of government	Ana Brnabić (PM)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Strong growth potential
- Comfortable level of foreign exchange reserves
- Track record of currency stability
- Low labor cost plus generous state subsidies for foreign companies
- Continued substantial FDI inflows

- Unresolved Kosovo conflict
- Elevated public debt
- High external debt burden, including external arrears
- Deficient infrastructure (roads, railways)
- Elevated level of perceived corruption and bureaucracy

Economic overview

Growth to pick up supported by lower inflation

The economic outlook for Serbia has deteriorated because of the war in Ukraine. Previously, the country had emerged as a sound economic performer in the Emerging Europe region. Average annual real GDP growth increased from just +0.7% in 2010-2014 (compared to a regional average of +3.7%) to +3.2% in 2015-2019 (vs. +2.8%). In 2020, Serbia's economy was less hit by the global Covid-19 pandemic than most others: real GDP declined by a comparatively modest -0.9% (while the whole region contracted by -2.3%) and rebounded to an expansion of +7.6% in 2021 (vs. +6.8% for the region). However, in 2022-2023, annual growth dropped to just above +2% amid the energy crisis and surging inflation in the wake of the war. Looking ahead, real GDP growth is forecast to pick up to an average annual +3.5% in 2024-2025, thanks to strengthening consumer spending, supported by lower inflation and accelerating investment expansion.

Inflation pressures will ease but not vanish while currency stability is expected to be maintained in 2024. The monetary policy framework is officially based on inflation targeting but in practice also on a "managed" exchange rate float. The National Bank of Serbia (NBS, the central bank) aims to keep the increase in consumer prices within a 3%±1.5pp band in 2024-2026. However, consumer prices increased beyond the upper band of the target range in September 2021 and eventually rose to a peak of 16.2% in February 2023, mainly because of surging food and energy prices, but also due to some supply-chain and labor-market disruptions. As these effects are gradually fading, inflation decreased to 7.6% at end-2023 and is likely to fall back to the NBS's target range towards the end of 2024. The NBS embarked on a monetary tightening cycle late in April 2022. It hiked its key policy interest rate by a cumulative 550bps to 6.50% in July 2023 and has kept it stable since. The exchange rate has remained remarkably stable at 117-118 RSD per EUR since mid-2019 and we expect this to remain the case in 2024.

Gradually improving public and external finances

Although recent global crises have halted the fiscal consolidation path in Serbia, public finances should remain manageable in the near term. Supported by IMF advice, fiscal consolidation had much advanced in 2016-2019. The annual fiscal account was near balanced in this period, after large deficits until 2015, so that public debt declined from 71% of GDP in 2015 to 52% in 2019. Then the fiscal responses to the Covid-19 crisis and the impacts of the war in Ukraine have worsened public finances. Serbia posted annual fiscal deficits of approximately -8% of GDP in 2020, -4% in 2021 and -3% in 2022-2023. Going forward, we forecast a gradual moderation of the annual shortfall in 2024-2025 thanks to the economic recovery and a reduction in energy-related stimulus measures. Meanwhile, total public debt has declined from 57% of GDP in 2020 to around 52% and is forecast to gradually decrease further in the next years.

Serbia's external finances are projected to stabilize in the near future after they were hit hard in 2022 because of the energy-price surge. The annual current account deficit narrowed to just over -4% of GDP in 2020-2021 but then widened markedly to around -7% of GDP in 2022, mainly because of sharply increased energy import costs while nominal export growth softened amid the global slowdown. However, the shortfall is estimated to have declined to about -2.5% in 2023 because of falling energy prices and softening domestic demand. As the latter is expected to recover in 2024-2025, we forecast the annual external deficit to widen again to around -3.5% of GDP in the next two years. Meanwhile, gross external debt is projected to remain high at over 60% of GDP in the near future. The ratio is higher than that of peers and includes ongoing external arrears (approximately 6% of the gross external debt); hence close monitoring is warranted.

Meanwhile, foreign exchange reserves recovered to a new peak of EUR22bn at end-2023, helped in part by disbursements under the two-year IMF Stand-by-Arrangement (SBA) agreed in December 2022 as well as the inflow of other funds, including USD1bn from the Abu Dhabi Fund for Development. As a result, the import cover of reserves improved to a comfortable level of more than five months in December 2023 (up from a low of 3.2 months in May 2022). In other terms, the reserves' coverage of all external debt payments maturing within 12 months increased to over 350% (well above an adequate level of 125%). Overall, external liquidity and debt risks appear manageable in the near term but will require continued monitoring in the medium term.

Political and governance challenges remain

Systemic political risk had gradually improved in Serbia from 2014 to 2022 but experienced a setback at end-2022 as tensions in northern Kosovo rose sharply to dangerous levels. A serious violent conflict has been so far averted because both sides made concessions under substantial international pressure. We expect that the situation between Serbia and Kosovo will remain tense and that a resolution of Kosovo's status will remain elusive in the next two years at least. The Serbian government is committed to EU integration while maintaining good relations with Russia and China. But the Kosovo issue, Serbia's close relations with Russia as well as EU concerns over the rule of law are likely to constrain Serbia's progress towards EU accession.

The business environment in Serbia is slightly below average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns the country an adequate rank of 58 out of more than 180 countries. However, the World Bank Institute's annual Worldwide Governance Indicators surveys continue to indicate considerable weaknesses regarding regulatory quality and, in particular, the rule of law and measures to combat corruption. Moreover, our proprietary Environmental Sustainability Index ranks Serbia only 142nd out of 210 economies, reflecting serious weaknesses regarding renewable electricity output, water stress and the recycling rate.

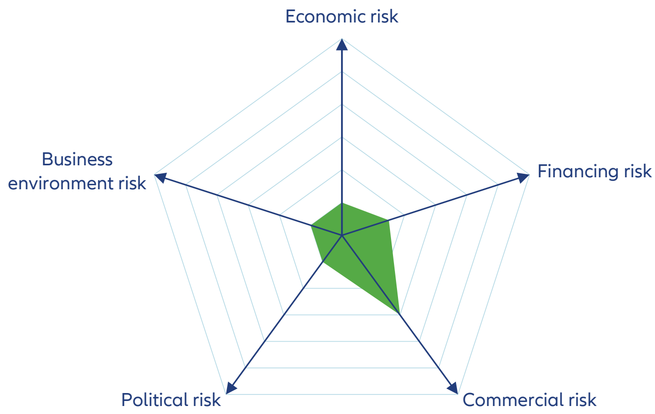
AA1

Low
risk for enterprises

Singapore

Resilient growth in a roaring business environment

GDP	USD466.8bn (World ranking 34)
Population	5.6mn (World ranking 114)
Form of state	Parliamentary Republic
Head of government	Lee Hsien Loong (PM)
Next elections	2025, Legislative



Strengths & weaknesses

- Favorable business environment
- Strong public and external finances
- Disciplined fiscal and monetary policies
- Stable political environment
- Strategic geographic position

- Vulnerable to external challenges
- Medium term challenges including social inequality and job-skill mismatches
- Limited renewable energy potential
- High dependence on exports

Economic overview

Sustained economic resilience underpinned by disciplined fiscal and monetary policy

Singapore has a remarkable track record of economic growth, with an annual average rate of +5.4% in the 2000s and +5% in the 2010s. The economy was severely hit by the Covid-19 crisis with growth contracting by -3.9% in 2020, followed by a strong rebound of +8.9% in 2021 and moderating to +3.7% in 2022, driven by a rebound in external demand and higher corporate and household confidence. However, the post-pandemic recovery seems to have come to an end, as we estimate growth to have slowed down to +0.9% in 2023 due to softening external demand amid high inflation and a downturn in the electronics cycle. Going forward, we forecast growth to settle at +2.2% in 2024 and +2.3% in 2025, driven by a recovery in private consumption and investments. In the medium term, risks to economic growth are tilted to the downside, which include risks such as a global economic slowdown, supply chain disruptions and rising geopolitical tensions. In the longer term, risks from climate change may weigh on the economic prospects of the economy.

Fiscal policy in Singapore has been supportive during the Covid-19 crisis, with measures such as cash payouts, wage subsidies and targeted financial support which pushed the fiscal balance into a deficit of -6.8% of GDP in 2020 – a significant deviation from the pre-pandemic surplus of +5% of GDP. The economic recovery and the rollback of broad-based supportive measures have brought back the fiscal balance into positive territory since, with the fiscal balance posting a surplus of +1.2% of GDP in 2021, +0.8% in 2022 and +3.2% in 2023. Looking ahead, we expect it to moderate at +2.8% in 2024 and +3.4% in 2025, while targeted policy measures will continue to be rolled out, especially to ease the impact of higher prices. Medium and long-term challenges such as an aging population, risks from climate change and the need to maintain its competitiveness among rising competition from its regional peers will constrain the surplus from increasing further.

In terms of prices, headline inflation remained elevated in 2022 and 2023 at +6.1% and +5% respectively, relative to a pre-pandemic average of +1.7% across 2010-2019, on the back of the GST rate hike and a tight labor market. The Monetary Authority of Singapore (MAS) has tightened monetary policy five consecutive times between October 2021 and 2022 and have maintained a neutral stance since, to tame inflation. Its policy stance has been helpful in dampening inflation, with inflation expectations remaining well-anchored. We expect them to continue to maintain a neutral stance in the short term before pivoting, staying cautious particularly on the back of upward risks to inflationary pressures. Looking ahead, we expect inflation to moderate to +2.9% in 2024 and +2.5% in 2025 with upside risks mainly arising from higher agricultural prices from a severe El Nino weather event and higher oil prices if the Israel-Hamas conflict escalates.

Rock-solid macro fundamentals outshine structural vulnerabilities

Short term financing risk in Singapore remains low on the back of strong macro-fundamentals – both in terms of public and external finances. It remains one of the few countries with the top credit rating of AAA from leading credit agencies. We forecast public debt to remain elevated in 2024 and 2025 at 165% and 168% of GDP respectively. However, it should not be a cause for concern, as it is entirely domestic and is issued to meet specific long-term objectives, in addition to the economy being a net external creditor.

On the back of favorable trade policies and infrastructure, Singapore continues to solidify its strength as a globally renowned entrepot. In terms of external balances, the economy has run a current account surplus for decades, with an annual average of +18% of GDP during the 2010s and as a consequence, has accumulated ample foreign exchange reserves. The solid current account balance reflects a surplus in trade in goods and services, partly offset by a deficit in the income account, on the back of repatriation of profits by foreign firms and interest payments on external debt. We estimate the current account balance to post a surplus of +16.6% of GDP in 2023 and going forward, we forecast it to moderate a little to +15.2% in 2024 and +14.6% in 2025, as private consumption and capital-related imports recover. Vulnerabilities mainly arise from the economy's dependence on its external sector, making it exposed to challenges that are sometimes beyond Singapore's control.

Corporate-friendly business framework, with low risks to political stability

Singapore offers a prime business environment for corporations thanks to its liberal landscape in terms of trade and investments, transparent political system, favorable tax policies, solid infrastructure and a strong workforce. The World Bank Institute's annual Worldwide Governance indicators suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. On broadly similar lines, the Heritage Foundation's annual Index of Economic Freedom Survey 2022 ranks Singapore first out of 185 countries, reflecting strengths in areas such as property rights, government integrity, tax burden, government spending, business freedom, trade freedom, financial freedom and investment freedom. However, Singapore scores less favorably with regard to environmental sustainability, owing to a very low level of renewable electricity output and a high level of water stress. Overall, Singapore ranks 79 out of 202 economies based on our proprietary Environmental Sustainability Index.

The political landscape in Singapore remains stable, transparent and efficient. By addressing medium and long-term challenges such as social inequality, immigration, job-skill mismatches and the perception of an inadequate social safety net, the ruling People's Action Party (PAP) led by Lee Hsien Loong, will aim to further boost its popularity after a mild erosion to its dominance following the election in 2020, when the Worker's Party (WP) – the main opposition – increased its vote share. Vulnerabilities to the political landscape arise from Singapore's ethnic diversity, but escalated racial tensions are not likely due to constraints on press freedom and public demonstrations.

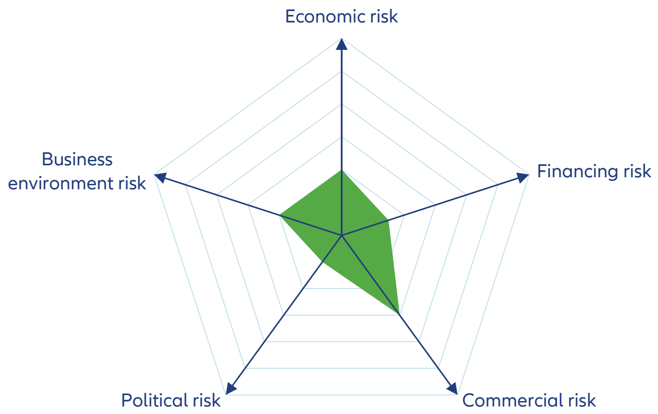
A1

Low
risk for enterprises

Slovakia

Defying the global headwinds

GDP	USD115.5bn (World ranking 62)
Population	5.4mn (World ranking 119)
Form of state	Parliamentary Republic
Head of government	Robert Fico (PM)
Next elections	2024, Presidential



Strengths & weaknesses

- Low systemic political risk
- Good regional and international relations; EU membership
- Eurozone membership providing for low transfer and convertibility risk
- Solid banking sector
- Strong business environment overall; very attractive for foreign investors

- Small domestic market
- High dependence of the economy on the automobile sector and on exports
- High external debt level

Economic overview

Modest growth and elevated inflation

Slovakia has been a strong performer compared to both Eurozone and emerging economies, with real GDP expanding by an average +3.3% over the past 20 years. However, a high dependence on exports (amounting to almost 100% of GDP) causes above average cyclical fluctuations in growth. Moreover, a high dependence on global supply chains and energy imports make the Slovak economy vulnerable to external shocks. Therefore, the economy was hit hard by the global Covid-19 crisis (-3.3% decline in 2020), despite sizeable economic policy support. And after a strong recovery in 2021 (+4.8% growth), growth slowed down markedly in 2022 (+1.8%) because of the consequences of the war in Ukraine, notably the subsequent EU sanctions on Russia and soaring energy prices. Growth in 2023 is expected to have slowed further to around +1% on the back of contracting consumer and public spending and a drop in inventories. However, a recession was avoided thanks to a solid rise in fixed investment and a positive contribution to growth by net trade. The latter was a result of a much stronger decline in imports than in exports.

Looking ahead, we expect a gradual acceleration of real GDP growth to approximately +1.5% in 2024 and +2.5% in 2025, supported by the recovery of consumption from the energy price shock and continued investment growth driven by EU structural funds, the Recovery and Resilience Facility and government investment. External demand for Slovakia's main export products is expected to strengthen over the next two years, but the increase in Slovak imports is set to be as strong so that the contribution of net exports to growth will be more balanced.

Inflation will continue to moderate but remain elevated in 2024-2025. Consumer price inflation had begun to rise in the first half of 2021 and hit a peak of 15.4% y/y in February 2023, driven by interrupted supply chains and surging energy and food costs. Since then it has eased to 5.9% in December, in part due to base effects, the ECB's tighter monetary policy and slowing domestic demand. Going forward, inflationary pressures will remain elevated. Energy inflation is set to rise as government measures regarding gas prices for households are expected to be phased out in 2024. Moreover, the tight labor market provides conditions for strong wage and price growth in the services sector. We forecast annual average headline inflation at around 5% and 3% in 2024 and 2025, respectively. Meanwhile, Eurozone membership provides for low transfer and convertibility risk and has substantially decreased external vulnerabilities related to exchange rate risk in Slovakia.

Worsened but manageable public and external finances

Slovakia's public finances have deteriorated in recent years but should remain manageable over the two-year forecast horizon. The Covid-19 crisis reversed seven years of fiscal consolidation. The annual fiscal deficit had been below -3% of GDP since 2013 (on average -1.9%). As a result, total public debt fell from 55% of GDP in 2013 to 48% in 2019. Then, fiscal stimulus measures combined with declining nominal GDP in the wake of the Covid-19 crisis resulted in large fiscal shortfalls of more than -5% of GDP in 2020 and 2021. Following an improvement to -2% in 2022, the deficit has widened again to around -5.5% in 2023 owing to increased expenditure to counter social pressures as well as the impact of high energy prices. Although energy-related measures are expected to be phased out in 2024, the annual fiscal deficit is forecast to remain above -5% of GDP in 2024-2025, mainly owing to a new range of social expenditure measures and an increase in defense spending. Nonetheless, financing the deficits should be manageable even though yields on Eurobonds have increased. The government is also eligible for substantial EU funding. As a result of several years of elevated fiscal deficits, total public debt has risen and should remain at close to 60% of GDP in 2024-2025. However, this is still a favorable ratio compared to most other Eurozone member countries, especially in Western Europe.

Slovakia's external position has largely rebalanced after it rapidly deteriorated in 2022. Following a decade of moderate current account surpluses or deficits (on average -1% of GDP in 2012-2021), a large external shortfall of around -8% of GDP was posted in 2022, a result of surging energy import prices. Moreover, only one fourth of the shortfall was covered by net foreign direct investment inflows, which have a longer-term nature, in contrast to 61% of the cumulative deficit in 2015-2019. As energy prices have moderated from the very high levels in 2022 and imports contracted in 2023 due to weak domestic consumption, the current account deficit narrowed markedly to an estimated -2.4% of GDP last year. As imports are expected to recover going forward, we forecast the annual external shortfall to widen moderately to around -3% of GDP in 2024-2025. Overall, thanks to Slovakia's Eurozone membership, external liquidity risk should remain limited.

Strong business environment and low political risk

The Slovak business environment is well above average. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly though a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Slovakia rank 33 out of more than 180 economies, reflecting strong scores regarding property rights, judicial effectiveness, tax burden, trade freedom and investment freedom. However, weaknesses remain in the areas of government integrity and labor freedom. Meanwhile, our proprietary Environmental Sustainability Index puts Slovakia at rank 53 out of 210 economies, reflecting strengths in energy use and CO_2 emissions per GDP, water stress and general vulnerability to climate change, though there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is low. Slovakia is a stable democracy and has good international relations, reflected in its EU, NATO and OECD membership. Government stability has suffered since 2016 and could, if continued, result in ineffective policymaking and slow reform progress. Yet, broad policy continuation has been the rule after past government changes.

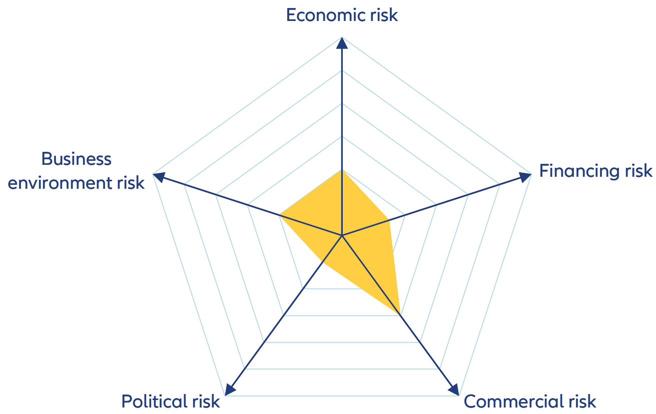
A2

Medium
risk for enterprises

Slovenia

Macroeconomic fundamentals show resilience to external shocks

GDP	USD62.1bn (World ranking 85)
Population	2.1mn (World ranking 147)
Form of state	Parliamentary Republic
Head of government	Robert Golob (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Good regional and international relations, EU and NATO membership
- Eurozone membership provides for low transfer and convertibility risk
- Favorable annual current account balances since 2012 (either surpluses or moderate deficits)
- Favorable business environment

- Elevated public debt
- High gross external debt
- High export dependence on EU business cycle
- Significant exposure to tourism inflows

Economic overview

Growth slowdown and elevated inflation

The economic outlook for Slovenia has deteriorated because of the war in Ukraine but the economy has proven more resilient than most peers among the EU member states in Central and Eastern Europe (CEE). Following a strong post-Covid-19 rebound with +8.2% real GDP growth in 2021, economic activity began to cool in H2 2022 amid elevated inflation, rising interest rates, softening external demand and declining business confidence. Full-year growth came in at +2.5% in 2022, however, a recession was avoided. We estimate growth to have come in at about +1.5% in 2023, supported by a strong increase in fixed investment and net exports. Solid tourism activity kept real exports almost stable while real imports plunged, reflecting weak domestic consumption and declining inventories. Looking ahead, growth is forecast at an annual average of +2.5% or so in 2024-2025 on the back of a mild recovery of domestic consumption and continued investment activity, supported by EU funding. External trade activity should also resume, but with import expansion matching exports, the contribution of net trade to overall growth is set to remain small.

Inflationary pressures have been milder than in peer CEE countries but will nonetheless remain on the cards in 2024-2025. Consumer price inflation rose to a peak of 11.0% in July 2022 and hovered around the 10% mark until March 2023 before falling to 4.2% y/y in December. Owing to strengthening price pressures for recreation, the disinflation path may face some hurdles going forward. We forecast annual average inflation to moderate from 7.5% in 2023 to around 3.8% in 2024 and 3% in 2025, i.e., remaining above the

ECB's 2.0% target for some time. Potential energy price spikes and flood-related adverse effects pose some upside risks to our forecasts.

Robust public and external finances

The Slovenian government's bailout of the three major banks following the domestic banking sector crisis in 2013 led to a sharp deterioration in public finances. Large fiscal deficits in 2013-2015 pushed up total public debt to 83% of GDP in 2015. But rapid fiscal consolidation and solid GDP growth thereafter brought the debt-to-GDP ratio down to 65% in 2019.

The Covid-19 crisis reversed the positive trend. The government implemented strong fiscal stimulus measures, resulting in fiscal deficits of -7.6% of GDP in 2020 and -4.6% in 2021, followed by a more adequate -3% of GDP in 2022. In 2023, however, the shortfall is estimated to have increased again to almost -4% on the back of increased government spending to tackle the economic fallout from the war in Ukraine and EU sanctions on Russia. Looking forward, the annual deficit is forecast to fall below -3% of GDP in 2024-2025, thanks to some fiscal consolidation and strong nominal GDP growth. Meanwhile, total public debt has fallen from a temporary peak of 80% of GDP in 2020 to slightly below 70% and is projected to continue to decline moderately in the next few years. This ratio is below the Eurozone average. Moreover, as a member of the EU and the Eurozone, Slovenia benefits from the "Next Generation EU" package.

Gross external debt fell from a peak of EUR47bn (124% of GDP) in 2014 to EUR44bn (92% of GDP) in 2019 but has since risen steadily to EUR57bn as of end-2023 (approximately 92% of GDP) in the wake of the subsequent crises (Covid-19, war in Ukraine). Moreover, the share of public sector external debt stands at just below 60%. However, there are several facts that mitigate concerns about the external debt position: First, only 36% of it is short-term debt. Second, Slovenia became a net external creditor in 2021 and since external assets have continued to rise more strongly than liabilities, the former exceeded the latter by EUR6.7bn at end-2023. Third, the external debt-to-GDP ratio is comparatively low for an advanced economy and, being a Eurozone member, Slovenia can be considered as such. Fourth, external debt of the Slovenian banking sector accounts only for 9% of gross external debt, which is very low for an advanced economy.

Slovenia's external current account posted a deficit in 2022, after 10 consecutive years of large surpluses, because imports rose much faster than exports as a result of the sharp increase in global food and energy prices in that year. Yet, the annual external shortfall was small at -1% of GDP and has given way to successive and rising monthly surpluses in the first eleven months of 2023, since energy prices have moderated. We forecast annual current account surpluses between +2% and +4.5% of GDP in 2023-2025.

Favorable business environment and low political risk

The business environment for corporates in Slovenia is strong. The World Bank's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns the country rank 37 out of some 180 economies (up from rank 48 in 2021), reflecting strong scores with regard to property rights, judicial effectiveness, trade freedom, investment freedom and business freedom. However, weaknesses remain with regard to the tax burden and financial freedom. Concerning environmental sustainability, Slovenia scores less favorably, owing to a low level of renewable electricity output, a moderate recycling rate and a high vulnerability to climate change. However, it does well regarding energy intensity, CO2 emissions and water stress. Overall, Slovenia ranks 84th out of 210 economies in our proprietary Environmental Sustainability Index.

Overall systemic political risk is low. Slovenia is a well-established democracy and has good international relations, reflected in its EU, OECD and NATO membership. Broad policy continuity can be expected after national elections. Slovenia's sovereign creditworthiness is not at risk as all major political parties support fiscal discipline. Lastly, Eurozone membership provides for moderate transfer and convertibility risk in Slovenia.

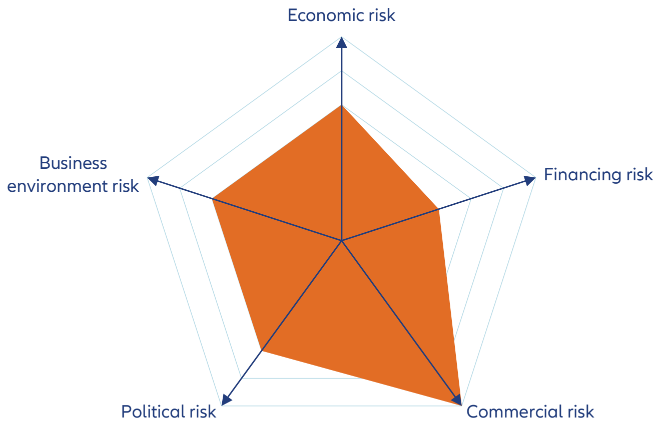
B3

Sensitive
risk for enterprises

South Africa

Navigating economic resilience amid power struggles and fiscal challenges

GDP	USD405.9bn (World ranking 38)
Population	59.9mn (World ranking 24)
Form of state	Republic
Head of government	Cyril Ramaphosa (President)
Next elections	2024, Legislative



Strengths & weaknesses

- Despite challenges such as load shedding, poor infrastructure and modest employment rates, South Africa exhibited positive economic performance in 2023, with declining trends in insolvencies and reduced external vulnerabilities
- The budget deficit presented a positive surprise, with fiscal consolidation efforts, disciplined salary increases and increased tax collection contributing to stabilization of the government debt ratio at slightly over 70% of GDP
- South Africa also retains external resilience to shocks, with abundant international reserves covering around six months of imports, a flexible exchange rate and limited external debt in foreign currency

- The lack of reliable electricity supply poses a significant drag on growth, hindering businesses, industry and households from realizing their full potential
- Despite fiscal improvements, South Africa ranks poorly in public debt sustainability risk due to a considerable short-term absorption of revenues for debt repayment and elevated sovereign bond yields
- Disputes among political elites have led to violent uprisings and insurgencies, impacting the institutional framework, state legitimacy and the predictability of government action

Economic overview

Economic resilience evident with declining insolvencies and positive 2023 performance

A modest GDP growth is in the air for South Africa this year (+1.4%). After an expected +0.7% in 2023, in line with our forecasts, output in the energy-intensive mining sector and manufacturing is likely to resume close to pre-pandemic levels thanks to an increased availability of electricity, some electoral spending, tourist inflows and resilient internal demand. Overseas visitors increased by 47% year on year to 1.9mn between January and November 2023, while African visitors increased by 53% to 5.8mn. Private consumption and services remain supportive, while social unrest and violent events are likely to intensify in the electoral period. The need to increase social spending before the general election and idiosyncrasies among public entities pose risks to the outlook.

Inflation remains under control since the peak of 8% in early 2023 and is likely to return to a 4% average in 2024, with the central bank taking a dovish approach in Q2. Economic resilience remains a feature of South Africa, as evidenced by a declining trend in insolvencies and a positive economic performance in 2023 despite business interruptions, increased inequality caused by load shedding, poor infrastructure and a modest employment rate, which remains slightly above 40%. External vulnerabilities have reduced, with foreign debt to GDP now at less than 40%, down from 53% and 56% in 2019 and 2020, respectively.

Electricity generation poses the heaviest drag on growth, with the national utility being able to work at only half of its nominal capacity. This lack of reliable electricity supply hinders businesses, industry and households from realizing their potential. While labor unions are likely to mobilize strikes in opposition to loosening local content rules for new generation capacity, it is improbable that sufficient capacity will materialize in the next 12 months.

High interest on debt, but the budget deficit remains moderated

Due to a considerable short-term absorption of revenues to repay interest on debt and an increase in sovereign bond yields, South Africa ranks in the worst quintile in our public debt sustainability risk assessment as of end-2023. The primary balance in 2024 is expected to remain within -1% of GDP (-0.6%), with personal income tax (PIT), corporate income tax, local and import value-added tax (VAT), as well as import customs duties as primary contributors to revenue growth. Salary increases and bonuses led to larger PIT inflows and recent inflation bolstered VAT revenue streams. However, interest expenditure on debt will account for 4.5–5% of GDP.

Although the level of government debt is still elevated, the ratio is expected to stabilize at a little more than 70% of GDP, including government guarantees on state-owned enterprises' (SOEs) debt. Interest payments are part of the price of the favorable debt structure, which is primarily denominated in local currency and has a lengthy amortization profile on average (12 years). International reserves remain abundant (USD61bn in September, around 15% of GDP) and cover for around 6 months of imports, double the level commonly seen as critical for emerging markets. Fiscal consolidation will continue, with increased tax collection and disciplined salary increases providing some flexibility to meet mounting social demands and moderately supporting SOEs in case of need. Although the country's dependence on foreign capital makes it susceptible to sudden stops due to international relations, such as the alleged sale of weapons to Russia or the recent stance against Israel for the treatment of Palestinians, the external balance has so far been resilient to shocks. Buffers include a flexible exchange rate, limited external debt in foreign currency and substantial external assets that make South Africa the largest net investor on the continent, with a net position of USD59bn. In 2023, foreign direct investment (FDI) inflows fell to USD4.3bn following an impressive performance in 2022, but FDI outflows increased (as residents returned foreign assets), bringing net FDI to USD6.4bn.

South Africa's slow-growing export markets and volatile export markets contribute to its high import propensity of 28% of GDP, affecting its external accounts negatively and putting pressure on the rand. The rand's value is influenced by price discrepancies, commodity price fluctuations, the current account deficit and the need to accumulate foreign reserves. Upside pressures include increased foreign investor interest in developing economies, a conservative central bank stance and upwardly moving commodity prices, which should buffer its longer-term depreciation trend.

Election test for a society that remains divisive

The country is less competitive than its peers due to its distance from global markets, high labor costs and an extractive economic structure. Increased strike and unrest risks are a result of inter-union conflict, particularly in the precious metal mining industry, where there is an ongoing struggle for power.

The state's limited ability to conduct effective policy is compounded by demographic pressures, competition between groups and unions in countering government action, inequality heightened by the crises of recent years and, more recently, inflation. Worsening disputes among political elites and the resulting increase in violent uprisings and insurgencies further weigh on state legitimacy, the capability of the ruling ANC party to defuse dissent and the predictability and effectiveness of government action.

The leading party clearly lost positions in the local elections held in November 2022, when support for the ANC crucially fell below the 50% benchmark. For now, it is difficult to see a strong contender and even if the party loses the absolute majority in the upcoming election, it is likely to remain the largest in parliament, way ahead of its closest rival and able to continue to govern with the support of a junior coalition partner.

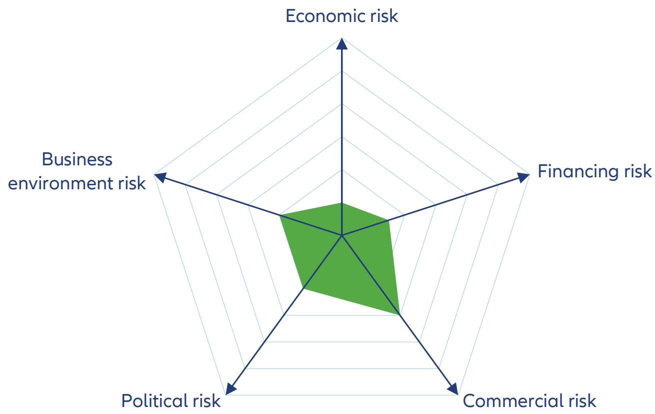
A1

Low
risk for enterprises

South Korea

Economic structure to remain sound despite rising headwinds

GDP	USD1665.2bn (World ranking 13)
Population	51.6mn (World ranking 29)
Form of state	Presidential Republic
Head of government	Yoon Suk-yeo (President)
Next elections	2024, Legislative



Strengths & weaknesses

- Advanced economy with high per capita income
- Sound financial sector
- Solid external position (low external debt, ample foreign exchange reserves, etc.)
- Strong business environment
- Firmly established democracy

- Geopolitical risk (stemming from North Korea)
- Economic vulnerabilities due to dependency on external demand
- Elevated household debt
- Slowly improving but still weak corporate governance
- Aging population

Economic overview

Moderate recovery amid easing inflation expected in 2024

South Korea is a major Asian economy, recognized for its thriving industrial sector and electronics exports. Its rapid economic development (one of the fastest rates seen over the past decades) earned it the title of "Asian tiger". The economy is strong and modern, with sound finances and an educated and skilled workforce. However, its aging population and stance against immigration raise concerns about future economic activity.

South Korea has historically exhibited solid economic growth rates, averaging +4.9% in the 2000s and +3.3% in the 2010s. The Covid-19 pandemic and the country's stringent testing, tracing and isolating strategy led to a shallow full-year recession in 2020, with GDP contracting by just -0.7%. 2021 brought about a strong recovery (+4.3%) as the export-oriented economy benefited from the rebound in external demand. Growth then moderated to +2.6% in 2022 and slowed further to just +1.3% in 2023, dragged down by weakening external demand as well as domestic consumption and investment. In 2024-2025, the economic situation should improve on the back of the expected recovery in external demand and the easing of monetary policy by the Bank of Korea (BoK, the central bank). We project annual real GDP growth to average +2.2% during this period.

Inflation in South Korea rose from 2.5% in 2021 to 5.1% in 2022, though it remained significantly lower than the OECD average (9.6%). It eased to an estimated 3.8% in 2022 and is expected to decline further to below 2% in 2024, driven by modest demand and falling producer prices. This should allow the BoK to embark on a gradual monetary easing cycle by mid-2024.

Solid public and external finances, watch out for household debt

The pandemic marked a turning point in the country's fiscal policy as it shifted from a conservative stance to an expansionary one, owing to a public investment initiative in response to the pandemic. Following a quarter of a century of positive budget balances, South Korea has registered annual fiscal deficits since 2020, albeit comparatively small ones (around -1% of GDP on average). Narrow fiscal deficits are expected to remain the norm in the coming years as the government invests in research and development, while pressures from growing pensions and healthcare requirements for the aging population increase. South Korea's public debt rose from 42% of GDP in 2019 to 54% in 2023 but is forecast to remain below 60% in the next few years, a still favorable ratio compared to the OECD average that is approaching 100%.

The real issue to monitor in South Korea is household debt, which amounted to 105% of GDP in 2023, in the form of mortgages. That said, financial risks overall are contained, given a robust and regulated financial system and sufficiently capitalized banks. Another important concern is the aging population, a structural threat to the South Korean economy: With the world's lowest fertility rate – 0.81 children per woman in 2021 – the median age of the population is rapidly rising, reaching 44.5 years in 2023, adding pressure on pensions and setting the stage for harsh labor reforms.

South Korea's external position is favorable in the short term but the economy may face some medium-term challenges. The current account balance has posted continued annual surpluses since 1998, even during the Great Financial Crisis and the Covid-19 crisis. It dropped to +1.8% of GDP in 2022 due to rising energy import prices but is expected to recover to +2% of GDP by 2025. Vulnerability stems from a concentration in shipments: exports are in the electronics sectors and China (23% of exports in 2022) and the US (16% of exports in 2022) remain the dominant destinations. In a context of growing geopolitical tensions, this jeopardizes the medium-term stability of the country's exports.

South Korea's gross external debt is comparatively low at less than 40% of GDP and that ratio is expected to decline in the coming years. Moreover, the country is a net external creditor.

Business environment and political developments

South Korea exhibits a strong business environment. The Heritage Foundation's Index of Economic Freedom survey of 2023 ranks it 15th in the world for doing business and 5th in Asia. It performs especially well with regard to property rights, judicial effectiveness, fiscal health and business and trade freedom, while the tax burden, investment freedom, financial freedom and labor freedom show some weaknesses. The World Bank Institute's annual Worldwide Governance Indicators surveys regularly assign South Korea strong scores for its regulatory and legal frameworks, though the level of perceived corruption has some room for improvement. Our proprietary Environmental Sustainability Index ranks South Korea 74th in 2023, reflecting good resilience to climate change and favorable ratios for energy use and CO2 emissions per GDP. Yet, the renewable electricity output is very low.

After the tight election in 2022, President Yoon Suk Yeol of the conservative People Power Party (PPP) has been focusing on deregulation and tax cuts, as well as ideologically conservative policies. His party does not have a majority in the unicameral parliament, which is dominated by the opposition (Democratic Party), creating a confrontational law-making situation that is likely to last at least until the legislative elections of April 2024. The result of these elections is quite uncertain as many voters remain undecided and the Democratic Party is facing some turmoil amidst investigations against its leader Lee Jae-myung. Although none of the parties enjoy broad political support, strong democratic sentiment guarantees a well-established political system. South Korea hovers around the 20th place in the Economist Intelligence Unit's Democracy Index and is described as a "full democracy". Meanwhile, relations with North Korea are not expected to improve under the presidency of Yoon Suk Yeol in part given the context of still simmering tensions between China, North Korea and the US.

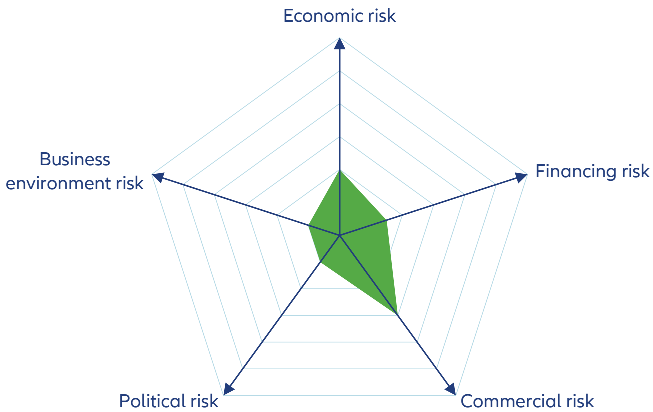
A1

Low
risk for enterprises

Spain

Keeping good momentum

GDP	USD1397.5bn (World ranking 15)
Population	47.6mn (World ranking 30)
Form of state	Parliamentary Monarchy
Head of government	Pedro Sánchez (PM)
Next elections	General elections, 2027



Strengths & weaknesses

- Good performance and competitiveness in some specific sectors, although competitiveness gains are starting to reverse
- Presence of large international companies
- Fiscal consolidation to be frontloaded and government debt ratio to decline
- Bridge between Latin America and the rest of the world
- Large economy
- Good infrastructure network

- Still high public debt (>100% of GDP)
- High private debt
- High unemployment rate compared to its European peers despite progress
- Need of further structural reform on education and training
- Fragmented political landscape, internal tensions over sovereignty issues (Catalonia)
- Highly dependent on EU supply and demand

Economic overview

Slowing but solid economic growth

Despite the challenges posed by Russia's war against Ukraine, the Spanish economy has remained resilient. Economic data for Q4 indicates a continuation of Q3 momentum. The economy experienced a slowdown in Q3 of 2023, influenced by a weakening global environment and the impact of monetary tightening. However, it still grew at a robust rate. The INE's preliminary GDP data showed a +0.3% q/q growth in Q3, surpassing the Eurozone average (-0.1%). After growing by +2.5% in 2023, we expect GDP to grow by +1.8% and +1.8% in 2024 and 2025, respectively.

Throughout the forecast period, Spain's economic activity will largely be driven by domestic demand. Enhanced household consumption, fueled by real income increases due to lower inflation rates, and job creation; wage growth in a robust labor market will also play a significant role. Additionally, gross fixed capital formation will contribute substantially to growth, spurred by NGEU investment projects gaining momentum in 2024 and 2025. While net external demand will improve in the short term, its overall contribution to GDP growth will be more moderate compared to previous years, as an increase in goods and non-travel services exports will be balanced by a rise in imports (linked, inter alia, to the increase in the import content of gross fixed capital formation) and a levelling off in travel service exports.

Headline inflation is expected to remain on a slightly upward path in early 2024 and to resume a downward path in the second half of the year. We expect it to have reached 3.6% in 2023 and to reach 3.4% in 2024. Under the baseline scenario it is assumed that both the lower VAT rate on food and the public transport subsidies will be extended. A potential extension of the energy price measures could further temper inflation and boost activity in 2024.

The country continues to face challenges due to structural weaknesses such as high debt and low productivity, as well as established labor-market underperformance, characterized by high and persistent unemployment and temporary work, largely above levels seen in among European peers. To address the latter, the Spanish government adopted a new labor reform at the end of 2021, restoring some of the workers' rights lost in the past – and, above all, addressing the problem of the high incidence of temporary work in the country. To date, we note that the reform has led to a major shift in the employment profile, with a robust increase in permanent contracts and Spain's unemployment rate recently fell to a 15-year low of 11.60%. That being said, it is still too early to draw definitive conclusions about the reform and its impact on the functioning of the labor market[1].

(Modest) fiscal consolidation is underway

Most of the measures launched in 2021-2022 by the government to mitigate the negative effects of the energy crisis and help households and businesses with the high cost of living expired in 2023. That said, initiatives to reduce income inequality and increase the minimum wage, along with budget demands from the PSOE's regional allies, will keep the budget deficit relatively wide in 2024, at a forecasted 3.5% of GDP, a slightly improvement from 4.1% in 2023. That said, Spain remains on track to receive substantial support from the EU's Recovery and Resilience Facility over 2021-26, providing some budgetary support. We expect the fiscal deficit to narrow gradually, to 2.5% of GDP in 2026, helped by strong nominal growth, although debt will remain high by EU standards. Despite this, the general government debt/GDP ratio will decline only modestly, from an estimated 109% in 2023 to about 104% by 2027.

Business-friendly environment but reforms needed; fragile political stability

Spain is ranked 31 out of 190 economies in the World Bank's Ease of Doing Business rankings, ahead of other major European economies such as France (33), Italy (58) and Portugal (39). Despite reforms since the 2008-09 crisis, structural weaknesses persist, particularly an over-reliance on tourism and labor market inefficiencies.

Spain faces higher risks to employment, given the predominance of SMEs, which are more vulnerable to liquidity shocks and the high share of temporary contracts. Spain relies on EU demand and supply more than other country and energy prices have escalated faster than in Eurozone overall, which worsens the balance of risks. As a result, sectors such as transport, the electro-intensive industry and construction might be significantly affected.

Following Pedro Sánchez's re-election as Spain's Prime Minister in November 2023, Spain's political stability is expected to improve in the short term. Sánchez, leading the Spanish Socialist Workers' Party, secured a majority in the first investiture vote, exceeding his 2020 support. This victory positions him to lead until 2027. However, reliance on multiple regional parties, each with distinct interests, could make the government inherently unstable and susceptible to policy paralysis. The likelihood of government collapse before the term's end may increase over time due to these complexities.

[1] See our report *No quick wins: More jobs but little productivity in the Eurozone*

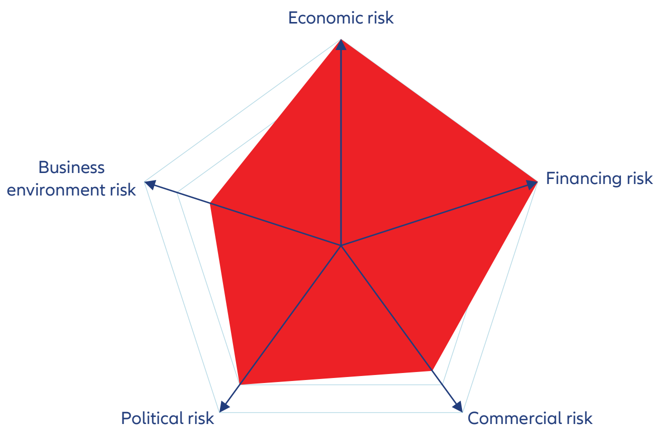
D4

High
risk for enterprises

Sri Lanka

Rebuilding after the storm

GDP	USD74.4bn (World ranking 76)
Population	22.2mn (World ranking 59)
Form of state	Presidential republic
Head of government	Ranil Wickremesinghe (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Growing tourism revenues
- Increasing workers' remittances
- Strategic location for trade

- Weak public finances
- Fragile external position
- Vulnerability of export base (highly dependent on textiles, clothing and tourism)
- Vulnerability to climate and natural disasters
- Political instability and policy uncertainty
- Ethnic tensions remain a threat to stability and growth prospects

Economic overview

A troubled economic recovery

Sri Lanka's economic growth path has been volatile, but the country has exhibited robust long-term averages in the past: +5% in the 2000s and +5.3% in the 2010s. Since 2020, the country's economic health has been suffering from exogenous shocks and endogenous weaknesses. The Covid-19 pandemic caused a contraction of real GDP by -4.6% in 2020, followed by a moderate recovery of +3.5% in 2021. Then GDP plunged even more by around -8% in 2022 due to structural imbalances and financing risks that were not tackled in a timely manner. In 2023, the country continued to face economic challenges and contracted by around -4%. A modest recovery may take place in 2024.

In May 2022, Sri Lanka defaulted on its sovereign debt for the first time in its history due to a series of adverse events: a loss in fiscal revenues in 2019 due to terrorist attacks impairing tourism and the global Covid-19 crisis in 2020-2021, as well as poor economic policies in 2021, notably a ban on imported chemical fertilizers – in an attempt to halt an ongoing decline in foreign exchange (FX) reserves – which led to a rise in agricultural producer prices (+35% in two months) and dramatically low harvests. As FX reserves had fallen to less than USD2bn in early 2022 and without access to international financial markets since sovereign credit rating downgrades in 2020, the Sri Lankan government eventually had no other choice than to call for a restructuring of its debt in May 2022. In March 2023, the IMF approved a 48-month

USD2.9bn Extended Fund Facility (EFF) to help the country get back on track, but Sri Lanka will remain in default until 2024 at least. The IMF's first review of the EFF in December 2023 was approved and the Sri Lankan government will continue fiscal consolidation measures to maintain IMF support.

Monetary policy was tightened with significant policy rate hikes in 2021-2022 (+1 100bps in total), in response to surging inflation (around 50% in 2022). Since then, inflation has eased (around 16% in 2023) and should decline further in 2024. The Central Bank of Sri Lanka (CBSL) thus began to ease the monetary policy in Q2 2023 and should continue to do so in 2024, allowing domestic debt restructuring to roll out more easily for the country.

Rebuilding financial stability

Looking ahead, Sri Lanka's financing risk will depend heavily on its ability to meet debt-restructuring goals. The government will remain in default in 2024 and we forecast the general government budget deficit to narrow only gradually from the double-digit percentage ratios in relation to GDP in 2020-2022. Gross public debt should remain elevated in the coming years, hovering around 120% of GDP (compared with c.80% in 2019). A domestic debt-restructuring plan was passed in July 2023 and an initial agreement was found in November 2023 with key official foreign creditors (including India and the Paris Club) to restructure around USD6bn of debt.

Sri Lanka's external finances will remain fragile, reflected in continued annual current account deficits in the coming years and a high level of external debt (estimated at around 70% of GDP). FX reserves as of October 2023 recovered to USD3.6bn but that covered less than three months of imports (well below the favorable ratio of four months). In a longer perspective, in order to tackle these structural imbalances, an export diversification away from the high dependence on the textile & clothing and tourism sectors will be required, among other actions.

Business environment and political developments

Sri Lanka's business environment is considered below average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Sri Lanka rank 136 out of 184 economies, reflecting weaknesses with regards to property rights, judicial effectiveness, government integrity, labor freedom, investment and financial freedom. Better scores are only achieved for tax freedom and trade freedom. Moreover, the World Bank Institute's annual Worldwide Governance Indicators surveys indicate weaknesses concerning the regulatory framework, the rule of law and measures to combat corruption. Our proprietary Environmental Sustainability Index puts Sri Lanka at rank 96 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, as well as water stress. However, there are still weaknesses in renewable electricity output, the recycling rate and the general vulnerability to climate change.

The political situation in Sri Lanka remains unstable. Poor handling of the economic crisis and the resulting mass protests led former president Gotabaya Rajapaksa to step down and flee the country in July 2022. Since then, the Sri Lanka Podujana Peramuna (SLPP) has supported Ranil Wickremesinghe – leader of the United National Party – to serve as interim president. President Wickremesinghe thus remains dependent on the SLPP's majority in Parliament for policymaking. With the next presidential and parliamentary elections planned for 2024, approval ratings of the incumbent president and his government are weak and significantly trailing the main opponent, Anura Kumara Dissanayake (leader of Janatha Vimukthi Peramuna). Considering that President Wickremesinghe's opponents have already expressed antipathy towards the IMF deal in place, a change in government could be a risk to the program and loan agreement in its current form.

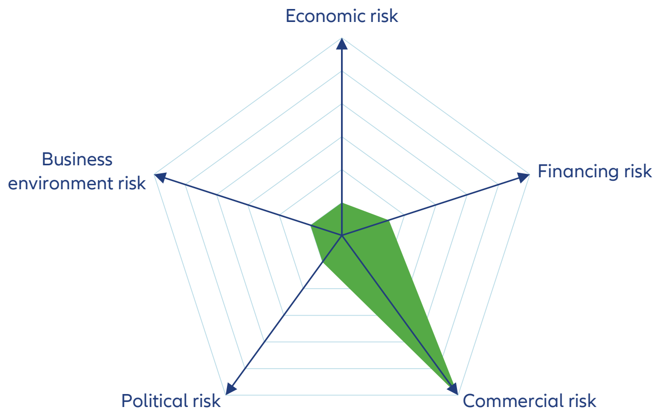
AA1

Low
risk for enterprises

Sweden

Tough times for Sweden's economy

GDP	USD585.9bn (World ranking 23)
Population	10.5mn (World ranking 88)
Form of state	Constitutional Monarchy
Head of government	Ulf Kristersson (PM)
Next elections	2026, Legislative



Strengths & weaknesses

- Highly skilled and educated labor force
- High value-added manufacturing industries with one of the highest levels of R&D spending in the world
- Very diversified export structure in terms of products
- Sound public finances
- Strong and effective institutions
- Relatively low corporate tax rates compared to peers

- Excessive household debt
- Steep rise in house prices
- Weak governing coalition
- Aging population
- High personal income tax compared to OECD
- High unit labor costs; strongly regulated labor market

Economic overview

Economic strain will persist until 2025

The Swedish economy quickly bounced back after the pandemic. Already by the end of 2021, GDP surpassed pre-crisis levels by nearly 5%. However, the output gap has not closed. In 2022, domestic demand – consumer spending, in particular due to strong residual savings and wealth effects from the unprecedented increase in house prices – and private investment were strong drivers of growth. But already during the last quarter of 2022, growth came to a halt as some parts of the economy began to slow. In 2023, production and the labor market proved resilient and order books were still full but throughout the year the situation worsened leading Sweden into a recession. And the outlook is also gloomy: consumption plunged due to pressures from higher mortgage costs and price levels and trade followed suit. In addition, the Swedish real estate market contracted as a correction to the new interest environment. It will continue to weigh on construction activity and, together with broader uncertainty and price increases, is set to put overall investments down. Over our forecast horizon, the Swedish economy is expected to grow again by +0.6% in 2024 and +2.1% in 2025.Like in many industrialized economies, business insolvencies slightly increase compared to 2022 but return to average pre-crisis levels.

Sweden's unemployment rate dropped from 8.7% in 2021 to 7.5% in 2022 thanks to sustained employment growth. Due to adverse economic developments in construction and real estate, the increase is marginal in 2023, but we expect further increases to 8.5% in both 2024 and 2025, keeping the labor market relatively tight. Demographic challenges are likely to make the normalization of labor markets slow. Wage growth remained strong contributing to persistent inflation until the end of 2023. Sweden currently struggles with a weak crown and still high but falling inflation and concerns about financial stability. This complicates the situation for the Riksbank which has joined other central banks around the globe in steep rate hikes to tame inflation and reached a peak policy rate of 4.0% in November 2023. Rate cuts are to be expected mid 2024 the earliest.

Financial stability risks and housing market uncertainty

Overall Sweden's public finances are in good shape compared to the Eurozone average. The general government balance showed a small deficit in 2023, following a surplus of 0.7% of GDP in 2022. A marginal expansion in the government balance is expected for 2024 and 2025, reaching -0.7%. The deficit is mainly due to falling revenues relative to nominal GDP on the back of a wilting economy, increasing social transfers (such as the electricity subsidy) and higher government consumption due to heightened inflation as well as the build-up of defense spending. This should support a decline in public debt close to 30% of GDP in 2023. The Swedish economy continues to enjoy one of the lowest debt levels in advanced economies.

Vulnerabilities in the medium run, notably in terms of financial stability, might come from excessive household debt, which is more than 240% of gross disposable income in 2022. Property makes up 80% of household debt and the sharp fall in house prices, high debt levels, rising interest rates and a weakened economy reflect soaring mortgage costs.

Excellent business environment paired with security matters

Sweden's business environment is one of the best in the world. Sweden performs particularly well-ranked in registering properties, getting electricity, resolving insolvency and trading across borders. In recent years, the government has implemented a series of reforms to make it easier to transfer property by increasing administrative efficiency, as well as to start a business by requiring the registry of companies to register a company within five days. The quality of the business environment comes from a high-quality workforce, infrastructure and attractiveness for foreign investment.

Since September 2022, Sweden has been governed by a coalition between the Moderate Party, Christian Democrats and Liberals, with external support from the far-right Sweden Democrats. Ulf Kristersson became prime minster. Currently, Sweden faces a massive shift in security and defense matters. The government has set a focus on strengthening security through Sweden's application to the NATO and agreements with Finland and Türkiye as well as an increase of the defense spending to 2% of GNP by 2026.

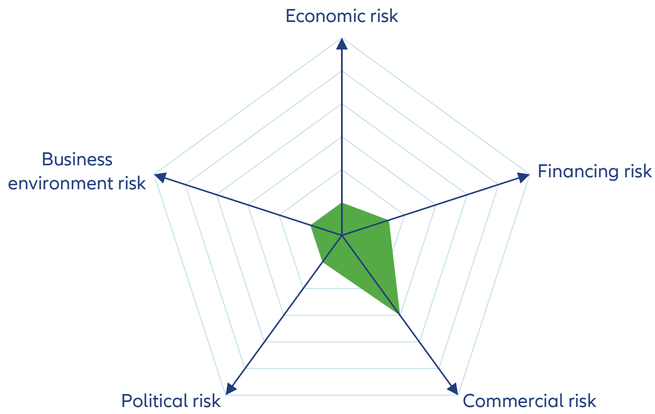
AA1

Low
risk for enterprises

Switzerland

Solid economic fundamentals help cushion the growth headwinds

GDP	USD807.7bn (World ranking 20)
Population	8.8mn (World ranking 100)
Form of state	Confederation
Head of government	Viola Amherd (President for 2024)
Next elections	2027, Legislative



Strengths & weaknesses

- Competitive high-income economy
- Sound political institutions
- Specialization in high-quality exports for which demand is relatively insensitive to exchange rate moves
- Healthy public finances
- Strong external position

- Overvalued CHF due to safe haven role
- Strong dependence on financial and export sectors
- Rising labor costs and stagnant productivity growth
- Financial sector’s exposure to real estate lending (around 85% of domestic assets are concentrated in mortgages)
- Unfavorable demographics

Economic overview

Solid economic fundamentals help cushion the growth headwinds

Switzerland boasted a solid growth track record in the two decades leading up to the Covid-19 shock, recording average annual GDP growth of +2% – notably above the +1.7% for the Eurozone as a whole. The Swiss economy was more resilient than its European peers and recorded output loss of only 2.3%. The economy recovered strongly and returned to its pre-pandemic size already in Q1 2021, with annual growth of +5.4% in 2021 and +2.7% in 2022. The first half of 2023 was still quite robust with +0.9%. Domestic demand and increased industrial exports supported growth. However, the slowdown in the global economy and lower international demand for goods exports are pressuring down the manufacturing sector and the associated exports.

Despite a lower recession risk compared to its European neighbors, the Swiss economy is not immune to the global economic slowdown. The construction sector is struggling next to cyclical pressures in manufacturing. But the services sector shows some resilience. Moreover, there are strong structural underpinnings of private consumption, including the solid labor market situation. Unemployment will remain low at around 2% to 2.5% up to 2025 and elevated household savings should help cushion the negative impact on spending. We expect real GDP growth to follow an increasing trajectory: +1.5% in 2024 and +2.3% in 2025. Switzerland is one of the few countries where insolvencies are already back above pre-crisis levels in 2022 and they are increasing further by +8% in 2023, but they will drop by -6% in 2024.

Switzerland has managed to keep inflation in check due to a strong Swiss Franc which has reduced the cost of imported goods and services. Other factors include a more favorable energy mix (with electricity demand almost entirely met by hydropower and nuclear power), the highest share of regulated prices in Europe and a lower weight for energy and food in the consumer price index compared to other countries. Inflation dynamics have eased significantly over the last year. In Q1 of 2023, inflation rose to 3.2%, although it fell significantly again in the second and third quarter of 2023 to 2.1% and 1.6%, respectively. The increase at the beginning of the year was primarily due to electricity and gas prices. But services and food also contributed to inflation. We expect inflation to come down to 1.6% in 2024 and 1.2% in 2025.

Low short-term financing risk

Overall, indicators show that the short-term financing risk is low thanks to the solid faring of public finances with the budget balance balanced and public debt below 40% of GDP in 2023. In addition, Switzerland has consistently posted large current account surpluses thanks to a large positive balance in trade of goods as well as in services. The current account balance for Switzerland has rebounded since Covid-19, reaching 8% in 2023.The unilateral abolition of most import duties on almost all industrial goods from January 2024 is estimated to lower the federal revenue by 0.7%.

Very favorable business environment

The Swiss business environment proves very strong: the country scores very well in regulatory quality, rule of law and control of corruption. Switzerland boasts a well-educated labor force. It ranks at the top among other OECD high income countries.

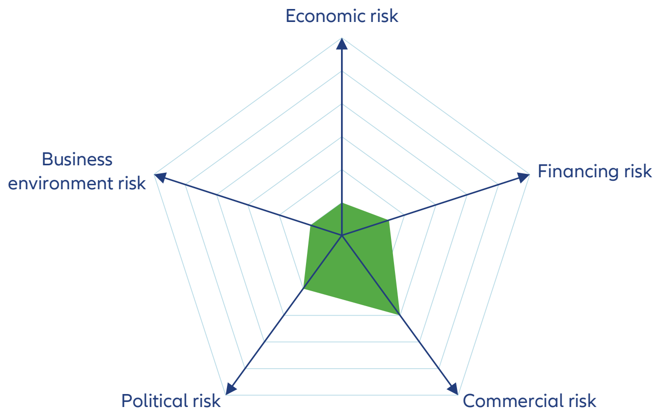
A1

Low
risk for enterprises

Taiwan

Seeking growth in an uneasy (geo)political landscape

GDP	USD791bn (World ranking 2022)
Population	23.3mn (World ranking 2022)
Form of state	Semi-presidential republic
Head of government	Lai Ching-te (President-elect)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Robust growth in private consumption
- Healthy labor market
- Well developed and resilient financial system
- Solid business environment
- Strong public and external balances

- Vulnerable to external pressures
- Export dependency leads to cyclical risk
- Threat of industrial competition and talent poaching from China
- Vulnerable to fluctuations in international fuel prices
- Concentrated geographic and sectorial trade structure

Economic overview

Strong position in the global value chain ensures stable growth momentum

Taiwan has recorded robust GDP growth over the past decades, with an average annual rate of +3.9% in the 2000s and +3.6% in the 2010s. Even during the years of the Covid-19 crisis, the economy showed remarkable resilience, recording a growth of +3.4% in 2020, +6.6% in 2021 and +2.6% in 2022, broadly outpacing the annual average growth of the Asia-Pacific region by +1.2 pps during this period (+4.2% vs. +3%). In addition to effective containment strategies and swift policy action, the economy's competitiveness in terms of manufacturing, notably of semiconductors can be attributed to its resilience during this period when most economies were not spared by the public health crisis. However, on the back of softer global demand and a downturn in the electronics cycle, we estimate economic growth in Taiwan to have slowed to +1.2% in 2023. Looking ahead, we expect the economy to grow by +2.8% in 2024 and +2.6% in 2025 on the back of continued growth in private consumption, a recovery in global trade, especially with a gradual reversal in the electronics cycle downturn and de-stocking in China, the US and the EU. However, weaker-than-expected demand due to high interest rates in advanced economies and cross-strait tensions pose downside risks to our forecasts.

Fiscal policy in Taiwan has been broadly accommodative. To provide relief during the pandemic, the government accelerated fiscal spending through measures such as tax breaks, loan moratoria and subsidies. The annual fiscal deficits came in at -2.9% of GDP in 2020 and -2.1% of GDP in 2021 before declining to -1.7% of GDP in 2022. Going forward, we expect the fiscal balance to turn to a slight surplus starting in 2023 (+0.3%) and moderate in 2024 and 2025 (+0.2%) on the back of softer government expenditure and increases in tax enforcement, reflecting their attempts to impose fiscal discipline.

Headline inflation remained relatively high compared to historical levels in 2021 (+2%), 2022 (+3%) and 2023 (+2.5%) (albeit low relative to international standards) and has consequently led to the tightening of domestic monetary policy since March 2022, with a cumulative increase of +75bps so far, with the policy rate currently standing at 1.875%. Looking ahead, we expect a gradual easing of monetary policy by the Central Bank of the Republic of China (CBC) as we forecast inflation to ease to +1.8% in 2024 and +1.2% in 2025, in addition to limited incentives for further tightening due to slowing growth in money supply (M2) and the weak economic outlook. However, risks to inflationary pressures from higher international fuel prices, adverse weather conditions (notably on food prices) and a weakening currency cannot be completely ruled out.

Solid macro-fundamentals tied down by geopolitical tensions

On the back of a well-developed and resilient financial system and sound external and fiscal balances, the short-term financing risk in Taiwan remains low. We expect the fiscal balance to register a surplus in the near term until 2025, public debt to remain low at 22% of GDP in 2024 and 19% in 2025 and the current account balance to stabilize around 12% of GDP during this period.

Taiwan exhibits robust external balances with a strong track record of more than 20 years of large current account surpluses – reflecting its strong position within the global value chain. The expected recovery in global trade, in particular a reversal of the global electronics cycle downturn, will only fuel this trend going forward. Consequently, we expect the economy's current account balance to register a surplus of 12.1% of GDP in 2024 and 11.7% in 2025. Further, we expect gross external debt to remain low, below 30% of GDP in the near-term. However, the economy's strong dependence on external trade makes it vulnerable to challenges in the external environment. Worsening geopolitical risks and rising cross-strait tensions are also softening inbound foreign investment flows from multinational firms.

Business-friendly environment, with broad political stability

Taiwan has a solid business environment with well-developed physical infrastructure, an educated workforce and business-friendly policies. The Heritage Foundation's annual Index of Economic Freedom surveys have put Taiwan in the top ten out of 185 economies in recent years (rank 4 in 2023), reflecting very strong scores with regard to property rights, judicial effectiveness, government integrity, tax burden, business freedom and trade freedom. Indicators that have the potential to improve further include those related to labor freedom and financial freedom. Likewise, the World Bank Institute's annual Worldwide Governance Indicators 2022 survey suggests that the regulatory and legal frameworks are business-friendly and the level of corruption is low. On the downside, Taiwan scores less favorably with regard to environmental sustainability, owing to a very low level of renewable electricity output and a moderate recycling rate, although it does well with regard to energy use and CO2 emissions. Overall, Taiwan ranks 109 out of 210 economies in our proprietary Environmental Sustainability Index.

As we were expecting in our baseline scenario, the 2024 presidential elections were won by Lai Ching-te of the Democratic Progressive Party (DPP) with a share of 40.05% of total votes – slightly higher than that of his opponent Hou Yu-ih from the opposition Kuomintang (KMT), who earned 33.49% of votes. By contrast, KMT won the legislative elections with 52 seats while DPP lost ten seats and retained 51. Since 57 seats are needed for a parliamentary majority, the third party – Taiwan People's Party (TPP) which won eight seats will be the kingmaker until the next elections. These results lead us to expect a broad containment in cross-strait tensions in the near term ans with negligible impacts on businesses and financial markets as the DPP's China-skeptical policy stance will be constrained by the opposition's push for a more conciliatory approach. However, uncertainties to the medium-term political stability of the economy cannot be ruled out and will remain a function of the collaboration between the government and the opposition, as well as factors external to Taiwan.

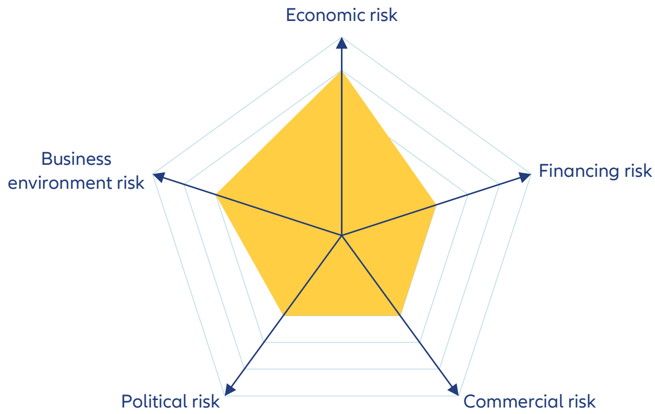
C2

Medium
risk for enterprises

Tanzania

Navigating riches and challenges on a foreign-led growth horizon

GDP	USD75.7bn (World ranking 75)
Population	65.5mn (World ranking 23)
Form of state	Republic
Head of government	Samia Suluhu Hassan (President)
Next elections	2025, Presidential and legislative



Strengths & weaknesses

- Large endowment of mineral (gold, copper, nickel, natural gas) and vegetal (tobacco, coffee, cotton, cashew) natural resources in a stable and secure environment
- Demographic potential with good literacy rates and growing development of infrastructure networks connecting landlocked producers in the region with logistics hubs at sea
- Strong inward investment flows and positive relations with all major donors and international multilateral bodies

- Growing foreign debt and imports of capital goods, not sufficiently balanced by an increase in non-commodity related domestic production
- Despite poverty-reduction efforts, half the population still lives in poverty and 60% in moderate to severe food insecurity
- Although revenues are increasing, about a third of it is spent on debt servicing, leaving limited room for measures to support the neediest and new debt, which is capped at levels agreed with the IMF

Economic overview

The economy is set to grow despite challenges

Mining activity, the export of minerals and heavy investment in infrastructure have propelled Tanzania's economy to an expected +5.6% growth rate in 2023. Due to El Niño's potential for crop losses, agricultural expansion and related exports will remain muted. Violent and frequent rains throughout the year damaged crops and infrastructure, aggravated health conditions and doubled the price of maize (the main staple crop). The government responded to inflationary pressures by temporarily subsidizing fuel and fertilizer prices and limiting financial system liquidity. This strategy stayed consistent with what was agreed on with the International Monetary Fund, which praised the fiscal prudence at play and the legislature's proactiveness in pushing forward the reforms targeted at balancing economic and budgetary imbalances. Modest increases in government spending are expected until 2027 due to rising debt-service costs and projected increases in social spending, which are likely to rise as the 2025 election year approaches.

In 2024–2027, growth is projected to return to the historical average of +6% per year, also thanks to critical foreign investment into the East African Crude Oil Pipeline Project, which is expected to move more than 200 000 barrels per day from oil-rich Uganda to the port of Tanga in northern Tanzania. French and Chinese firms sponsor the infrastructure. Phased development of cross-border trains with Rwanda, power projects and road network expansion will also support growth over the next few years. A diversified basket of goods exports, including agricultural products and gold from the North Mara and Bulyanhulu gold mines and the rise of tourism in what is perceived as a more stable environment than that of peers, will complement the economic push.

A capital-intensive growth paradigm with financial and monetary constraints

Tanzania's capital-intensive growth model is highly demanding for oil and capital goods imports that feed into the structural current account deficit. The current account deficit is a result of higher capital import demand more than offsetting stronger gold exports. The trade balance alone posted a deficit of slightly more than 6% of GDP in 2022 and it is expected to remain around this level in the next few years amid currency depreciation risks.

Public debt is moderate (42% of GDP), although the share of foreign debt accounts for about two-thirds of the total and debt service exceeds 4% of GDP, also due to higher interest rates globally. The debt-associated burden thus remains high, despite higher-than-average revenue mobilization for the area (14% of GDP). Unlike its neighbors, being an oil importer does not allow additional sources of revenue, while upper-end tourism is sustaining the economy to a greater extent.

External debt and investment costs may determine commercial relationships amid an aging leadership framework

The slow but relentless build-up of external debt and investment-related costs has also come with strengthened commercial relationships with a plurality of partners that are targeting Tanzania as a hub with potential in south-eastern Africa. Tanzania's economic ties have expanded to include the United Arab Emirates, China and India, which are now the main destination markets. Tanzania's duty-free access to the Indian market, as well as a new arrangement to conduct bilateral trade in Indian rupees, will strengthen business ties with India. At the same time, long-standing bilateral relations between Tanzania and the US will be bolstered through an agreement signed with the Export-Import Bank of the US in 2023. Inefficiencies, corruption and general lags in cargo-clearing processes at the port of Dar-Es-Salaam induced the government to lease four out of 11 deep-water berths to a UAE-based group under a concession aimed at tripling revenues from the facility to USD11bn over the next decade and doubling cargo traffic to more than 48mn metric tons by 2032. Protests followed the decision with repression by police and 20+ people arrested.

Contract cancellation risks remain elevated, while security risks are less prominent than among regional peers. In recent years, the state has lost several international arbitrations against foreign companies for canceling licenses for mining activities (nickel and rare earths) and terminating the lease contract of a construction company in the real estate sector in Zanzibar. At the moment, other similar cases are pending and this could lead the government to terminate or renegotiate bilateral investment treaties as unfavorable and costly to the host country. Despite the resurgence of riots and security crises in the area (the Democratic Republic of Congo, Mozambique, as well as South Sudan and the Horn of Africa), only isolated events of violence have been recorded in the northern regions around the main mining hubs, mostly by individuals or small groups of common criminals and along the border with Mozambique by terrorists trespassing in the Tanzanian regions of Rovuma and Mtwara.

With an average life expectancy at birth of 66 (seven years more than in Mozambique and five more than in Kenya), half of the country's 55mn residents under the age of 15, a literacy rate of more than 80% and long-lasting poverty, the next decade may see a huge shift in politics and grassroots demands. In March 2021, Samia Suluhu Hassan, who had served as vice president since 2015, became Tanzania's sixth president (and the first female president) after the death of President John Magufuli, who had been re-elected in 2020. Known as Mama Samia, she started to bridge the partisan divide and lifted press restrictions imposed by her predecessor, along with reissuing licenses to opposition publications. She is expected to complete her term, which runs until 2025 and then to be re-elected for another five-year term, backed by her ruling party, Chama Cha Mapinduzi (CCM), which has won all elections since 1995. In this situation, Mama Samia's initiative for reconciliation might hasten a smooth transition.

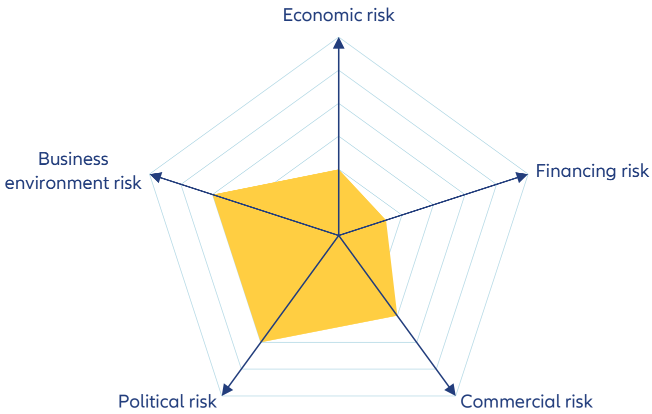
B2

Medium
risk for enterprises

Thailand

Optimizing growth, constrained by challenges in the business and political environments

GDP	USD495.3bn (World ranking 30)
Population	71.7mn (World ranking 20)
Form of state	Constitutional Monarchy
Head of government	Srettha Thavisin (PM)
Next elections	2027, Legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Robust domestic consumption
- Strong FDI inflows as a result of firms diversifying away from China

- Weaknesses in governance and corruption
- Deficiency in skilled labor force
- Weak demographic profile
- High level of household debt

Economic overview

Growth to edge up in the medium term, driven by a recovery in tourism and robust consumption

Thailand experienced comparatively moderate GDP growth in the decade prior to the Covid-19 crisis, with an average annual growth rate of +3.6%. However, the pandemic significantly impacted the economy, resulting in a contraction of -6.1% in 2020 followed by a slow recovery in 2021 (+1.5%) and 2022 (+2.6%). We estimate the economy to have slowed down to an annual growth rate of +2.4% in 2023 due to the drag from challenging external conditions – notably weak global demand and the slowdown in China broadly offsetting the positive contributions from private consumption growth. Looking ahead, we expect economic growth to accelerate to close to +3% in 2024 and 2025 on the back of a gradual recovery in external demand, an acceleration in inbound tourism, higher investments and continued robust private consumption. Further, Thailand stands to benefit significantly, especially in terms of higher FDI inflows as multinational firms look to diversify supply chains away from China – conditional on incentives to improve its competitiveness relative to its regional peers (notably Vietnam and Indonesia).

The Covid-19 crisis saw a shift in the broad fiscal policy stance of Thailand. The fiscal deficit deviated significantly from its trend in 2020 (-4.5% of GDP), 2021 (-7%) and 2022 (-4.6%) – compared with -0.8% of GDP in 2019 and -0.3% of GDP on average in the 2010s. We expect the fiscal deficit to moderate to an annual average of -2.7% of GDP during the period 2023-2025, in the context of populist policies to stimulate domestic consumption and higher infrastructure investments, but also stronger growth and therefore higher government revenues.

On the monetary policy front, the Bank of Thailand switched to monetary tightening in August 2022 with a cumulative increase of 200bps by the end of 2023, on the back of a considerable depreciation of the Baht against the US dollar and rising inflation. Looking ahead, we expect the monetary policy stance to remain neutral in the near term with a gradual easing thereafter likely depending on the government's expected fiscal expansionary path and a gradual easing of inflationary pressures. After rising to a record high of 6.1% in 2022, we expect headline inflation to ease to 1.4% in 2023 and 2024, followed by a slight increase to 1.5% in 2025, thereby remaining within the target range of the central bank (1-3%). However, demand-induced inflationary pressures cannot be completely ruled out – notably from strong private consumption growth, wage growth prospects and fiscal stimulus measures.

Resilient financing environment, with vulnerabilities in terms of public debt

Broadly, the short-term financing risk in Thailand is medium. Indeed, while the level of FDI relative to the current account deficit remains low, in the medium term, it should accelerate on the back of multinational firms' efforts to diversify supply chains away from China. In addition, public debt will be worth monitoring, although it remains manageable as most of it is domestic and with long maturities.

Thailand's financial system has showed resilience but vulnerabilities exist. The fiscal deficit rose significantly during the pandemic although it should moderate to an annual average of -2.7% of GDP during the period 2023-25. Public debt rose from 41% of GDP in 2019 (and an average of 36% in the 2010s) to close to 61% in 2022 in the wake of the pandemic. Going forward, we expect public debt to stabilize around 60% by 2025. On the positive side, this is not critical as most of the debt is domestic and with long maturities. In terms of the external balance, Thailand's current account balance posted moderate deficits in 2021-2022 as the tourism sector suffered from the pandemic and rising global energy prices boosted the value of imports in 2022. We expect the current account deficit to have narrowed to -0.2% of GDP in 2023 and to return to a surplus of 1.9% in 2024 and to 2.6% in 2025, driven primarily by the recovery in the tourism sector, moderating energy prices and a recovery in trade on the back of a pickup in external demand. In addition, the promotion of free trade and deeper regional integration through the signing of free trade deals will be on Thailand's external policies agenda in the medium term.

Challenges remain in the business environment and political outlook

Thailand's business environment has deteriorated over the past few years, according to our assessment of 185 economies, in which the country now ranks just below average. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Thailand rank 80 out of 184 economies, down from rank 42 in the 2021 survey, reflecting deteriorations regarding property rights, judicial effectiveness, government integrity, business freedom, labor freedom and trade freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators survey suggest weakness in regulatory quality and the control of corruption based on the 2022 survey, with a slight decline from the previous year. Our proprietary Environmental Sustainability Index puts Thailand at rank 154 out of 210 economies, reflecting weaknesses in terms of renewable electricity output, the recycling rate and overall climate-change vulnerability. However, the country scores better with regard to energy use and CO2 emissions per GDP as well as water stress.

The current coalition government led by Srettha Thavisin faces challenges despite its comfortable majority in the House of Representatives due to differing interests of the component parties within the coalition. Voters have been disillusioned over the alliance between the Pheu Thai Party (PTP), which promised greater democracy and the military aligned parties. Further, the leading opposition party – the Move Forward Party (MFP) faces a serious charge that its campaign to introduce reform of the monarchy is equivalent to trying to overthrow the current governing system of constitutional monarchy. In the short to medium term, risks to political stability in Thailand cannot be completely ruled out.

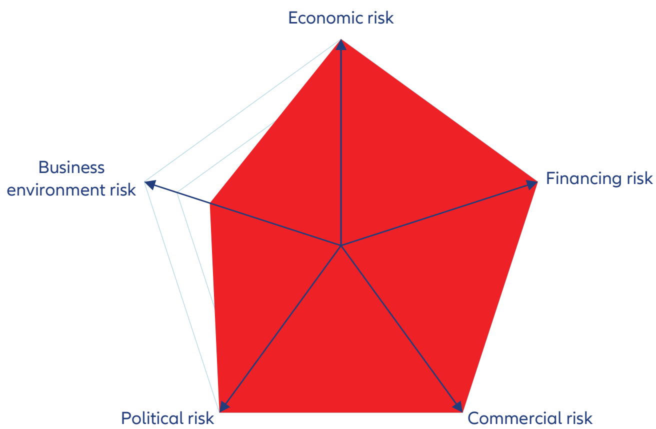
D4

High
risk for enterprises

Tunisia

Stalling without falling (for now)

GDP	USD46.7bn (World ranking 90)
Population	12.4mn (World ranking 78)
Form of state	Republic
Head of government	Kaïs Saïed (President)
Next elections	2024, Presidential



Strengths & weaknesses

- Diversified economy with educated workforce and known capabilities in manufacturing, plastics, petrochemicals, transportation, agriculture and tourism
- Tunisian authorities successfully managed repayments of maturities in 2023 recurring to bilateral aid and import restrictions
- Despite concerns about debt sustainability and potential reserve depletion, a default does not look imminent
- The ability to navigate economic challenges suggests a degree of resilience and adaptability

- Massive youth unemployment (~40%), coast-inland inequality, talent flight and fragile social stability
- A deeply distorted economy with long-lasting entry barriers and high business costs across sectors
- A splintered political landscape and an abysmally low election turnout contribute to institutional rigidities and raises concerns about the legitimacy of government actions
- Continuous postponement and increased distance in negotiations with the IMF signal a lack of consensus on a viable economic recovery plan, exacerbating the credibility crisis

Economic overview

Debt sustainability concerns will persist until 2026

Economic stagnation in 2023 with an estimated +0.9% GDP growth is forecast to be followed by +1.8% growth in 2024 as a result of stalling negotiations with the IMF, political turmoil, sluggish growth in Europe (Tunisia's main export partner) and a prolonged tightening cycle across advanced economies.

Concerns about debt sustainability will accompany Tunisia at least until 2026, since around 52% of the Tunisian public debt comes to maturity between 2024 and that year. The sum of the current account deficit and external debt repayments maturing in the next 12 months is forecast at around USD5bn, with international reserves standing at USD8.1bn as of October 2023 (equivalent to eight months of 2023 imports). This means that a depletion of reserves throughout the year is likely should negotiations with international lenders keep stalling, but a default should not materialize even without rapid IMF support. Tunisian authorities managed to repay Eurobond maturities in 2023 (USD166mn in yen-denominated guaranteed bonds in August and EUR500mn in euro-denominated bonds in October) as repayments were stipulated in the 2023 Budget Law. A EUR850mn Eurobond is maturing in February 2024, representing almost half of the total amount of sovereign debt maturing in the year. Therefore, the balance of payments will remain under pressure as long as external financing remains limited and the current account posts a deficit even under persistent import restrictions.

A deeply distorted economy, with long-lasting entry barriers and elevated costs for businesses

Negotiations with the IMF have been continuously postponed through 2023 and seem to remain the only way out of the economic and credibility crisis that has enveloped the country since 2022. The board of the International Monetary Fund (IMF) has yet to approve a bailout package for Tunisia originally discussed for USD1.9bn. The package, which may help restore external and fiscal stability as well as provide social protection, was tentatively agreed upon with Tunisian authorities in October 2022 and widely seen as a multiplier of much-needed international financial assistance for an amount of around USD5bn, equivalent to 4% of Tunisia's GDP. The distance between the two sides has increased and it is now unlikely that a staff-level agreement on a financing deal with Tunisia will be signed in the short term. In addition, Tunisia's performance under previous IMF programs has been poor. The last IMF agreement was terminated in March 2020, earlier than intended, due to the protracted parliamentary and presidential election cycle at the time and with just five out of eight reviews completed.

The economy remains deeply distorted, with elevated entry barriers because of market concentration and inflated costs of doing business across sectors due to factors such as onerous regulations on investment, trade and permits, limited access to capital and expanding government bureaucracy. Redundancies in the public sector, difficult conditions for agricultural workers and still-subdued demand from tourists weigh on long-term economic prospects. Tensions between the government and trade unions, including the Nobel Peace Prize winner UGTT (Tunisian General Labor Union), remain latent and led to the arrest of political opponents amid concerns over spending cuts affecting the public sector, with public salaries totaling 15% of GDP. The agricultural sector employs about 15% of the country's workforce and remains particularly vulnerable to climate change and water management in the absence of foreign investment. Tourist receipts dropped to USD1.3bn in 2022 (2.9% of GDP) and are estimated at USD2bn for 2023, still far from USD3.5bn recorded in 2010 (7.5% of GDP), the year before the Arab Spring unfolded from Tunisia across Northern Africa and the Middle East. In contrast, regional peers such as Morocco and Egypt were able to return to 2010 levels already in 2016–2017.

A splintered political landscape exacerbates Tunisia's institutional rigidities

The economic and social turmoil in Tunisia, the cradle of the Arab Spring pro-democracy movement more than a decade ago, has only increased since President Kais Saied seized power, began cracking down on his opponents and suspended the Parliament in July 2021. In July 2022, a new constitution came in, which gave almost absolute power to the president. In March 2023, the first session of Parliament took place after legislative elections highlighted record-high abstention rates on both rounds on the back of calls for a boycott from opposition parties. Elections to the new second chamber of parliament were held on 24 December 2023. Opposition parties boycotted the poll and turnout was once again minimal. Official participation numbers in the referendum to accept his new constitution (30%), a new parliament with reduced powers (11.2%) and the December municipal elections (11.6%) have all been gravely low. Under the new constitution introduced by President Saied, the latter election serves to put in motion a parliamentary chamber that will aid in government spending and regional development initiatives. The poor turnout is clearly frustrating President Saied's efforts to legitimize his authority.

Moreover, public statements by President Saied against Black communities raised tensions across the country as well as with Sub-Saharan partners and multilateral lenders. An increasing flow of migrants from Tunisia has also accompanied the government's quest for a normalization of diplomatic relationships with Europe and negotiations for further financial assistance. The arrest of former parliamentary speaker and opposition leader Rached Ghannouchi in April 2023 confirmed that the clampdown on civil liberties is far from over and this is likely to alienate donors and multilateral institutions for a long time, as well as increase reputational risk for companies dealing with Tunisian entities associated with the regime.

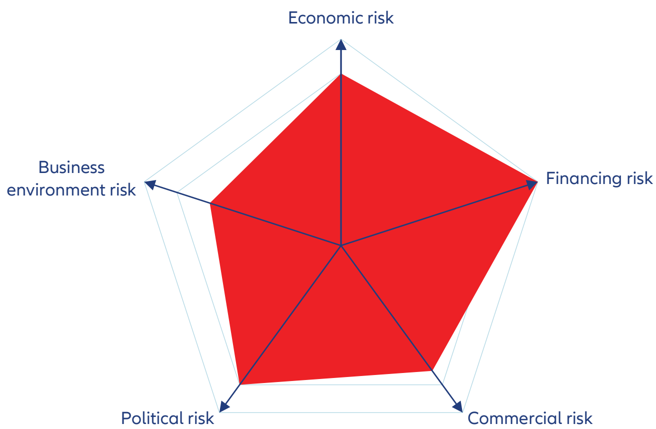
C4

High
risk for enterprises

Türkiye

Will the shift to orthodox monetary policies last this time?

GDP	USD906.0bn (World ranking 19)
Population	85.3mn (World ranking 18)
Form of state	Presidential Republic
Head of government	Recep Tayyip Erdogan (President)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Important geostrategic position (that has historically always ensured aid when needed)
- Adequate business environment (though deteriorating)
- Potential as regional hub between Europe, MENA and Asia

- Exchange rate vulnerability to domestic and external shocks
- Economic policy responsiveness
- History of persistently large current account deficits
- Very high short-term external debt burden, especially in the private sector
- Low foreign exchange reserves (compared to imports or short-term external debt)
- Geopolitical risks

Economic overview

Rebalancing will take time to bear fruit

Türkiye has posted dynamic growth overall in the past two decades, averaging +4% in the 2000s and +5.9% in the 2010s, though annual growth rates have been quite volatile in response to global and domestic shocks. The economy was hit by the Covid-19 pandemic but still managed to expand by +1.9% in 2020, followed by a strong recovery to +11.4% in 2021. However, the latter reflected in part an overheating of the economy because of expansionary fiscal policies and an unorthodox, ultra-loose monetary policy stance. The latter culminated in a currency crisis that has been ongoing since the end of 2021. Nonetheless, economic activity held up well in 2022 and 2023, with real GDP expanding by +5.5% and approximately +4%, respectively, thanks to strong domestic demand, in particular private consumption. Looking ahead, we expect a further moderation of activity in Türkiye against the backdrop of a slowing global economy and because the government embarked on a consolidation of the loose economic policies after the general elections in May 2023. We forecast real GDP growth to slow down to around +3% in 2024, followed by a slight acceleration to +4% or so in 2025.

Consumer price inflation surged from 19.3% y/y in August 2021 to 36.1% at end-2021 and hit a 24-year record high of 85.5% in October 2022, due to the shift to the unorthodox, ultra-loose monetary policy stance in September 2021, even though headline inflation was close to 20% at the time. This shift eroded investor confidence and sent the Turkish lira (TRY) into a deep dive. As a result of subsequent imported inflation, producer and consumer prices skyrocketed. Moreover, surging energy and food prices in the wake of the war in Ukraine added to the inflation pressures in 2022. By mid-2023, headline inflation had decreased to around 38%, mainly due to base effects, but the TRY had lost two-thirds of its value against the USD over the prior two years. The depreciation would have been even stronger had the CBRT not frequently intervened in foreign exchange (FX) markets to support the TRY, which, however, reduced its FX reserves to critical levels.

Meanwhile, if maintained, the change to a more orthodox monetary policy stance after the general elections in May 2023 – the Monetary Policy Committee (MPC) of the Central Bank of Türkiye (CBRT) raised the key policy rate from 8.5% to 42.5% by end-2023 – should reduce Türkiye's severe macroeconomic imbalances in the medium term. In the near term, however, economic activity will slow owing to increased interest rates and high inflation. The latter rose again to 65% at end-2023 due to tax hikes and the TRY depreciation after the CBRT halted excessive FX interventions. Going forward, we forecast annual average inflation at around 40% in 2024 and 20% in 2025.

Public and external finances require close monitoring

Türkiye's public finances have deteriorated in 2023 and require continued monitoring in 2024-2025. Considerable pre-election expenditure and substantial reconstruction spending after the devastating earthquakes in February have only been partially offset by the tax hikes in the second half of last year. Hence, we expect that the fiscal deficit has increased from -1.7% of GDP in 2022 to approximately -5% in 2023. The shortfall is projected to remain large and broadly unchanged in 2024 before narrowing in 2025. Nonetheless, total public debt should only rise moderately in relation to GDP since ongoing high inflation will continue to push up nominal GDP. Crucially, however, the share of FX-denominated debt in total public debt rose from just 40% at end-2017 to a worrisome ratio of 65% at end-2023.

External imbalances will remain high and a key concern for doing business with Turkish corporates because the rebalancing will take time. Türkiye has a history of persistently large current account deficits that are mostly financed through new short-term external debt, mainly net portfolio investment inflows and net external bank borrowing, which are subject to sudden reversals when investor sentiment deteriorates. Türkiye has experienced a series of such events since 2018 (homemade political crisis in 2018, Covid-19 in 2020, return to unorthodox monetary policies in September 2021 and the war in Ukraine in 2022). This has contributed to the country's financial and economic crises over the past years.

Meanwhile, the recent increase in gross FX reserves from USD56bn in May to around USD90bn as of end-2023 should not be overrated because reserves still fall short of the stock of total external debt falling due within the next 12 months which has risen to an extremely high level of around USD250bn (analysts usually consider FX reserves exceeding short-term external debt as adequate). Moreover, current reserves cover less than three months of imports (more than four months are considered comfortable).

Deteriorated business environment

The business environment in Türkiye has steadily deteriorated over the past years and is now considered below average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Türkiye rank 104 out of more than 180 economies (down from rank 76 in 2021 and rank 64 in 2014), reflecting good scores with regard to tax burden, trade freedom and investment freedom while weaknesses remain in particular with regards to property rights, judicial effectiveness, government integrity, labor freedom and financial freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators surveys indicate that the regulatory framework, the rule of law and measures to combat corruption have all weakened since 2014. On a more positive note, our proprietary Environmental Sustainability Index puts Türkiye at rank 66 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress and general vulnerability to climate change. However, there are still weaknesses in renewable electricity output and the recycling rate.

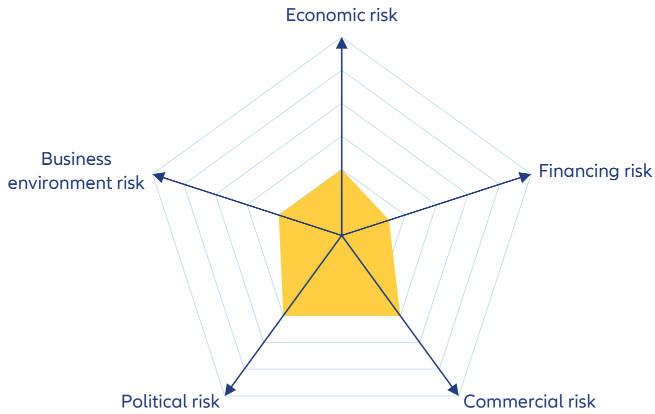
BB2

Medium
risk for enterprises

United Arab Emirates

Growth at all costs – a calculated gambit?

GDP	USD507.5bn (World ranking 29)
Population	9.4mn (World ranking 96)
Form of state	Constitutional Monarchy
Head of government	Mohammed bin Zayed Al-Nahyan
Next elections	2027, Legislative



Strengths & weaknesses

- Political and social stability reinforced through the appointment of the nation's third president in May 2022 and the nomination of his eldest son as crown prince in April 2023
- Exceptional endowment, thanks to an abundance of hydrocarbons that has allowed for continued current account surpluses and the build-up of large net foreign assets that can be used to absorb significant shocks
- First-class financial and logistical hub

- An absolute monarchy formed recently and led by the emir of Abu Dhabi as the principal oil producer, which could fall apart if leadership is compromised
- Regional instability may weigh heavily on import costs and the overall attractiveness of the UAE vis-à-vis regional peers
- The anticipated decline in oil revenues may push the government to raise taxes, reducing the UAE's competitive advantage over other countries in the region

Economic overview

An oasis of growth in a troubled region?

The UAE economy grew by around +3% in 2023, thanks to moderately favorable hydrocarbon prices, higher revenues from tourism and continuous growth in the real estate and construction sectors at large. This year, growth is expected to reduce to around +2.3%, with the non-oil economy losing some grip because of the resurgence of conflicts in the region and increased caution by foreign investors. Despite such headwinds, the overall performance is likely to post among the best results across the Gulf.

Resurgent energy demand following the pandemic, along with a steep spike in international oil prices, led to a rapid increase in oil output and exports in 2022, fueling rapid development in the non-oil economy alongside the full reopening of non-oil industries such as tourism. The latter, along with real estate and logistics, has risen significantly after the pandemic. These trends have continued into 2023, with occupancy rates of hotel rooms in Dubai exceeding 90% and partially offsetting the fact that oil demand growth slowed down and OPEC+ set stricter production quotas. The UAE has been the most vocal opponent of OPEC+ output cuts and the implementation of a 9% corporate tax rate in July helped increase much-needed non-oil revenues.

Consumer demand remains robust as federal and emirate governments spend extensively on capital programs and resident assistance to alleviate cost-of-living constraints. Government efforts such as easing residency rules for foreign nationals, inflation-relief initiatives and private-sector support are driving economic prospects.

Contingent liabilities remain a concern but fiscal stability is progressing

In recent years, a business-oriented approach has led the way to weaning the economy off oil rent and expanding services. Expat attraction and foreign investment policies are key to consolidating the construction sector, which continues to account for nearly 20% of bank lending as well as services. Construction kept rising in the first three quarters of 2023, with real estate activities also increasing at a slower pace. Together, these two industries accounted for 13% of the UAE's GDP in 2022. Property prices have seen a significant rise only in the past two years, following a lengthy period of rebalancing as the housing stock moved toward equilibrium. In 2021, the UAE's largest construction company filed for bankruptcy and was liquidated, indicating some imbalances in such a flamboyant sector. Since the bankruptcy law went into effect at the end of 2016, government-related firms, including construction conglomerates, special-purpose vehicles and developers, have increasingly entered official restructuring and liquidation processes. Costs for contractors and project developers are rising again because of increasing loan rates and this trend is expected to slow the market temporarily despite the presence of many cash buyers.

Fiscal stability is also progressing. In September, Dubai began repaying a USD20bn bailout loan from Abu Dhabi and the country's central bank as part of an effort to reduce its debt burden, almost 15 years after the sheikhdom teetered on the brink of default. Contingent liabilities remain a reason for concern as the size of the financial industry remains elevated, with total assets equaling 220% of GDP. At the same time, the total debt of government-related entities (i.e., banks and non-banks with at least a 20% government stake) amounts to around 75% of GDP. Large sovereign net foreign assets are still greater than the entire banking sector, but the impacts of even a partial rescue would be visible, given the financial industry's disproportionate size in contrast to the rest of the economy.

Abu Dhabi remains the UAE federation's primary financial backer, although support should not be taken for granted. Over the last decade, Abu Dhabi's contribution to the UAE federal government has averaged 13% of the emirate's GDP (8% of UAE GDP), or more than 35% of Abu Dhabi's government spending, in the form of direct donations and spending on behalf of the UAE federal government.

The cost of playing the field

The UAE is a young federation with a history dating back to 1971-1972 and faces typical succession dynamics that may raise concerns despite a general sense of stability perceived by foreign investors. In April 2023, President Mohammed bin Zayed nominated his eldest son Khaled as crown prince, ending the kingdom's succession dilemma. MbZ was appointed as the UAE's third president in May 2022 after becoming the country's de facto ruler in 2014. The appointment took 10 months and involved creating internal consensus with his five full brothers.

Aside from its role in the Israel-Gaza crisis, the UAE has also been sparring with Riyadh over key mediation topics such as Sudan and the Yemen crisis, oil-production strategies and geostrategic dominance in the Red Sea. In May 2023, the UAE suspended participation in a US-led maritime alliance to protect shipping in the Persian Gulf after Iran seized two oil tankers.

Relations with Russia have improved, sparking skepticism from Western partners. Over a million Russians visited the UAE between January and October 2023, representing a +67% increase over the previous year. Tens of thousands of Russians have also relocated to the UAE, establishing businesses and purchasing real estate. Western governments are concerned that the influx may conceal the involvement of sanctioned oligarchs and have been pressuring the UAE to restrict relations with Russia. However, major corporate and financial institutions have taken a more cautious approach than authorities.

Insistent allegations that the UAE is becoming a transit point for products like electronics and semiconductors that can be repurposed to support Russia's war campaign raise reputational risks and may trigger sanctions. Exports of electronic parts from the UAE to Russia rose by more than seven-fold last year, making it the largest type of commodity delivered in that direction. Triangulations to bypass trade sanctions and increased concerns over limited money laundering and counterterrorism controls may restrain diplomatic and commercial relations with key partners and ultimately alienate Western businesses.

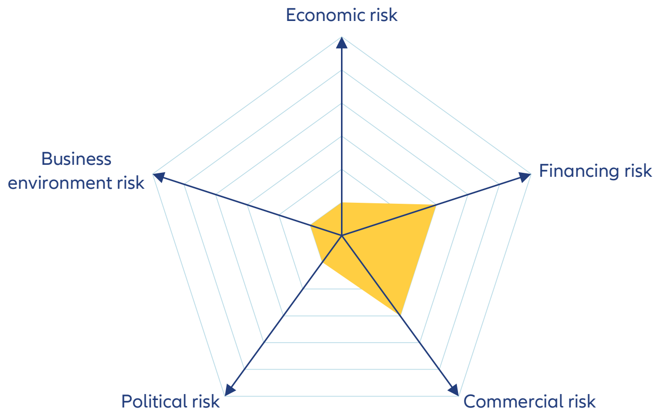
AA2

Medium
risk for enterprises

United Kingdom

Defying a hard landing

GDP	USD3070.7bn (World ranking 6)
Population	67.0mn (World ranking 22)
Form of state	Constitutional Monarchy
Head of government	Rishi Sunak (PM)
Next elections	2025, Presidential and legislative



Strengths & weaknesses

- High trade balance surplus on services
- Healthy banking sector
- Diversified export structure
- Friendly business environment

- Very high twin deficits
- Lower economic attractiveness post Brexit
- Low productivity growth
- Decreasing long term per capita income

Economic overview

Recession dodged, caution ahead

The UK's economy is likely to have narrowly sidestepped a recession in 2023, though the economic outlook remains far from optimistic, reflected in subdued confidence among consumers and businesses alike. The external environment has been a recent drag, with exports remaining below prepandemic levels, an outlier among G7 countries. A bright spot has been the resilience of domestic demand, particularly from consumers buoyed by significant savings amassed since the pandemic but also strong consumer credit growth, which builds up risks in the medium run. This buffer has propped up an economy that leans heavily on private consumption amid a tough international environment, helping it surpass its prepandemic real GDP by close to 3%. Moving ahead, this domestic cushion may thin, undermined by falling real wages over 2022-23 and negative wealth effects, pushing consumers to save more. While we expect the UK to avoid a full-blown recession, GDP growth will remain low at +0.6% in 2024, followed by 1.5% in 2025.

While inflation is gradually trending downwards, it continues to linger significantly above the BoE's target and a return to below 2% is not expected before 2025. This sluggish decline stems in part from ongoing pressures in the services sector and a labor market that – despite signs of cooling – remains tight. Wage increases in the UK, which have surpassed those of peers, fuel the risk of a wage-price spiral. In the context of these ongoing inflationary pressures, it is anticipated that interest rates will stay higher for longer with no foreseen rate cuts until Q4 2024.

After a hiatus during the pandemic, corporate risk in the UK is back with a vigor as insolvencies are set to remain 30% above prepandemic levels. Unlike their European and American counterparts, which are grappling with diminishing margins, UK companies have showed resilience, managing to grow their margins even amidst the pressures of increasing labor costs. Nevertheless, this resilience is counterbalanced by a concerning trend of reduced corporate cash reserves. The outlook ahead is sobering, with forecasts suggesting a continued uptick in annual insolvencies in 2023 as well as 2024.

Excessive imbalances need to be reduced

Since Brexit, the UK economy has been exposed to negative structural changes. First, in 2022, labor shortages soared to record levels. Although these vacancies have subsequently decreased, they continue to exceed their long-term trends, indicating ongoing challenges in the labor market. Additionally, youth employment continues to be a concern, with the employment rate for those aged 18 to 24 significantly trailing behind that of other age groups.

Second, post-Brexit, the EU's share of UK imports remains below prereferendum levels, continuing a longer-term decline. In 2022, China solidified its position as the UK's largest single import market, accounting for a significant 13.4% of its total merchandise imports. The UK's dependence on imports from outside the EU presents a potential risk to its production sector. This was exposed in 2021, when global supply shortages highlighted vulnerabilities in the global supply chain and pushed inflation above that of peers, underscoring the potential implications of the UK's shift in import sources.

Third, the economy has accumulated high twin deficits, exceeding -4% of GDP, which coupled with fickle market confidence and elevated borrowing costs are expected to push the next government to switch to fiscal consolidation in the medium term. In the short term, however, the fiscal deficit is anticipated to remain wide, with the current government expected to maintain high spending levels in the lead-up to the 2024 election. In 2023, the Bank of England shifted from its cautious approach of the previous year, adopting an "aggressive, early hiker" stance. This strategic pivot was not only aimed at addressing persistent inflation but also at reinforcing the nation's faltering currency. The UK economy is particularly vulnerable to fluctuations in foreign exchange rates, with around 50% of its import prices being influenced by currency dynamics, notably higher than in countries like France and Germany. This high sensitivity in import prices is in stark contrast to the export sector, where the benefits of a weaker currency are limited due to a substantially lower pass-through effect. These growth benefits are further reduced by the current international context of sluggish global trade growth, which is projected to modestly exit recession in 2024 (+3.3%). Despite a recent recovery, the GBP still remains below prereferendum levels, though there is some potential for further appreciation. It is expected that the loss of favorable EU trade terms will continue to weigh on exports in 2024, but this will likely be offset by reduced import costs, which will prevent the UK's current account deficit widening significantly.

Strong business environment but weaker since Brexit

Political volatility may be on the horizon in 2024. Under Prime Minister Rishi Sunak, who assumed office in October 2022, the Conservative Party has made modest gains in opinion polls but still significantly trails the Labor Party. The next election, expected in late 2024, is likely to be a challenging one for Sunak and the Conservatives. Forecasts are currently pointing towards a Labor victory, with a narrow but absolute majority. A transition to their governance will likely bring an initial honeymoon period of public goodwill. However, maintaining this support will depend on their capability to effectively tackle the country's economic and social challenges.

In this evolving political landscape, policy towards investment remains favorable and the UK maintains an overall pro-business policy stance. Despite the rise in corporate tax from 19% to 25% in 2023, the UK's rate is still lower than that of the EU's largest economies. However, Brexit has worsened the UK's terms of trade, notably as foreign direct investment has adjusted on the downside and the sterling has suffered from a strong depreciation.

The UK continues to negotiate further trade agreements post-Brexit, seeking to strengthen its global trade network. A notable advancement is an anticipated Free Trade Agreement (FTA) with India, though negotiations remain ongoing. This effort is part of a broader strategy as the UK adapts to new trade dynamics outside the EU. A number of FTAs have been established in recent years, including with Australia (December 2021) and New Zealand (February 2023). In addition to these, the UK joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in July 2023, linking it with an important Asia-Pacific trade bloc of 11 countries.

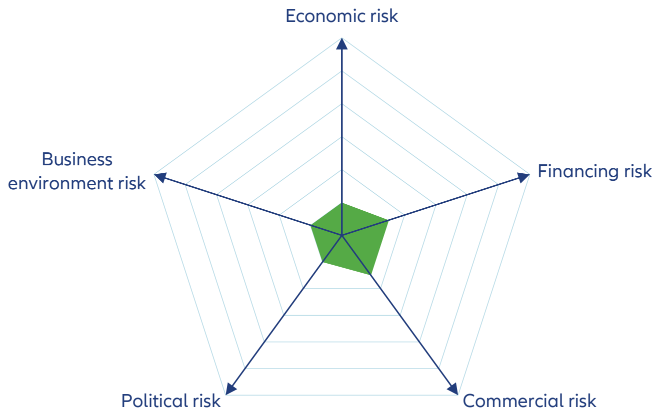
AA1

Low
risk for enterprises

United States

Soft landing in 2024

GDP	USD25462.7bn (World ranking 1)
Population	333.3mn (World ranking 3)
Form of state	Federal Republic
Head of government	Joe Biden (President)
Next elections	2024, Presidential and legislative



Strengths & weaknesses

- World's largest economy
- Effective governmental checks and balances
- High per capita GDP
- High data transparency
- Reserve currency
- Large oil and gas reserves
- Diverse GDP
- Strong underlying productivity growth

- Increasing political polarization and unpredictability of policymaking
- High public debt that will continue to rise absent major fiscal tightening
- Social disruption
- Increasing shortages of labor an obstacle to re-industrialization drive

Economic overview

Heading for a soft landing as supply-side of the economy improves

The US bounced back rapidly from the pandemic-induced downturn and has been easily outpacing developed market peers since then. In 2023, the US economy remained remarkably resilient to the Fed-induced sharp rise in interest rates, thanks to the unwinding of consumer savings built up during the pandemic, loose fiscal policy and solid corporate and household balance sheets. Meanwhile, inflation and wage growth have cooled down amid the ending of global supply-chain disruptions, an easing of labor market conditions and the Fed's high credibility in anchoring medium-term inflation expectations close to targeted inflation.

For 2024, GDP growth should step down. The high interest rate environment is starting to weaken some segments of the economy beyond construction. Consumer loan delinquencies have started to pick up, while cyclical hiring (e.g., in retail) is losing momentum. Meanwhile, some of the factors that boosted 2023 growth should reverse, such as tighter (though not overwhelming) fiscal policy. At the corporate level, prolonged tight lending standards from banks should lead to a weakening of business investment – already evidenced in lower capex intentions. Households are expected to slow their usage of pandemic savings – which are still far from being exhausted yet – to fund consumption expenditures: data indicate that households have been increasingly shifting their funds from liquid deposits to less liquid time deposits and money market funds. Against this backdrop, solid private sector balance sheets, falling inflation and an improvement of the supply side of the economy (through a boost to labor supply and a pick-up in productivity) should allow the US economy to head towards a soft landing in 2024

Corporate bankruptcies should continue to rise through 2024 as economic momentum falters and catch-up effects from the pandemic continue to play out. However, solid corporate balance sheets (in particular, high cash buffers and low debt-to-equity ratio) should keep them contained. Against this backdrop, the US is expected to retain one of the highest rates of medium-term GDP growth potential amongst large developed markets.

Structural vulnerabilities

The US remains the world's largest economy and, despite its dominance being challenged, the US dollar remains by far the world's largest reserve currency. US financial markets are the largest and the deepest globally, providing cheap and liquid financing. Nevertheless, the economy is carrying a tremendous debt load. Independent research bodies such as the Congressional Budget Office (CBO) expect the public debt load to continue rising rapidly over the coming decades in the absence of ambitious policy measures to rein in spending and/or increase revenues. Increasing political infighting makes this prospect unlikely, at least in the short term.

There is also an inexorable demographic of an aging workforce as "Baby Boomers" are retiring and will continue doing so for much of this decade. At the same time, there will not be enough workers to support this ever-growing population of older, sicker retirees. Labor shortages are set to worsen over the coming years and decades, which will increasingly constraint the ability of the US economy to boost the share of manufacturing significantly.

The US also suffers from persistently high trade and current account deficits. While the Treasury securities used to finance these deficits remain highly liquid, the occasional battles to raise the debt ceiling create unnecessary turmoil in the financial markets and threaten the country's credit rating.

Business environment and political developments

The business environment in the US is very accommodating, consistently ranking amongst the top performers in Ease of Doing Business reports. The hallmarks of the economy include strict enforcement of contracts, the ease of resolving insolvencies, the rule of law in general and the easy access to credit.

Politics is becoming increasingly divisive, both between and within political parties. Repeated disagreements over the debt ceiling and the budget have increased economic and political uncertainties. Some of President Biden's flagship legislation – such as large green subsidies – could be removed or watered down if a Republican wins the presidential election in November 2024. However, measures introduced to counter China's growing influence – such as export restrictions on high-end chips and chipmaking equipment – are unlikely to be phased out by a Republican amid political consensus to rein in China's access to western technology. Moreover, the strong policy push towards re-industrialization is likely to continue whoever wins the White House and Congress in the next elections.

A Trump 2.0 presidency could have far-reaching consequences for both the US and the rest of the world though. Trump's campaign pledges include more customs tariffs being levied – including against western allies – and the seizing of some of China's strategic assets on US soil. On the domestic side, a Trump presidency would probably mean lower taxes and the return of the deregulatory agenda.

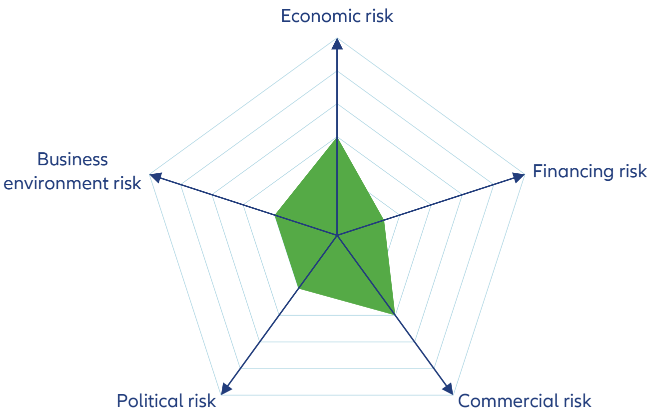
BB1

Low
risk for enterprises

Uruguay

Strong governance and institutions, in pursuit of fiscal consolidation

GDP	USD71.2bn (World ranking 79)
Population	3.4mn (World ranking 132)
Form of state	Constitutional Republic
Head of government	Luis Lacalle Pou (President)
Next elections	2024, General



Strengths & weaknesses

- Robust democratic political system with a good degree of social consensus
- Relatively high levels of foreign reserves
- Stable FDI inflows

- Persistent high inflation and public debt-GDP ratio
- Banking system highly dollarized with large non-resident deposits
- Vulnerable to external shocks particularly through trade and financial links with neighbours Brazil and Argentina and main merchandise export partner China

Economic overview

Solid basis, conjunctural headwinds

Uruguay experienced a period of high growth from 2004 to 2014 (+5.36% on average), but has since then seen subdued growth. Its economy held up better than the regional average during the pandemic and it recovered pretty well in 2021 (+5.3%) and 2022 (+4.9%), thanks to strong exports in agricultural commodities. Last year was marked by the most severe drought in 40 years – which hit the whole Southern Cone – which led to subdued exports, a worse fiscal balance and eventually low growth (estimated at +0.8%) in 2023. The country also suffered directly from the economic crisis in Argentina and from the slowdown of the whole region, as tourism revenue constitutes a non-negligible part of its economic structure. Still, Uruguay has a healthy economy, with high income per head, stable FDI inflows and a balanced democratic system which makes it one of the most robust democracies in the world. In 2024, we predict GDP growth to pick up to +3.3%, as the weather conditions ease and allow for a rebound in agricultural production and exports, as well as industrial production and exports. On the longer term, growth should stabilize at just under +3% on average, driven by a well led green transition and resilience in exports.

Uruguay has had above-regional inflation for several years now, with levels hovering between 7.8% and 9.8% between 2019-2022. However, inflationary pressures have started to ease since September 2022 on and inflation has continued to decrease, reaching 3.9% y/y in September 2023, owing to lower global commodity prices and easing logistics. Uruguay has an inflation target range of 3-6%, with the Banco Central del Uruguay (BCE) – the Uruguayan central bank – raising its policy rate to a peak of 11.5% in December 2022 and having started an easing cycle since then. The easing cycle should be quite progressive, since lowering the policy rate too quickly could cause peso depreciation, due to a narrowing interest rate differential with the US. The orthodox fiscal policy led by President Lacalle Pou helped tame inflation. We expect a gradual convergence of inflation to below 6% in the 2024-2025 forecast period.

Indicators point to a solid fiscal situation

Uruguay has made a strong commitment to fiscal consolidation. Uruguay's resilient fiscal performance in absorbing the Covid-19 pandemic shock, coupled with its track record of adherence to its revised fiscal framework, has strengthened fiscal credibility, increased resilience to economic shocks and reduced the risk of a potentially significant future increase in the public debt burden. The recent adoption of a reform that improves the sustainability of the pension system further signals the commitment to a more prudent fiscal policy in line with its high governance scores. We expect the budget deficit to remain relatively stable at around 2.5% of GDP and the public debt at 60% of GDP over the 2024-2027 forecast period.

The current-account balance in Uruguay reached a deficit of-3.7% of GDP in 2023, it's highest level since the balance became negative in 2020. The loss in exports from the agricultural subdued production is central in understanding the widening deficit of this year, as well as the widening fiscal balance deficit (-3.2% of GDP in 2023). The outlook should change from now on. However, the rebound in food production and industry and a higher sales tax collection – with the redirection of private consumption towards the domestic side – should support the fiscal situation. Uruguay appears a very solid country on the fiscal side, especially since its fiscal policy is guided by the Consejo Fiscal Asesor (CFA), a council created in 2013. The public debt set at 59.3% of GDP in 2022 and is expected at a stable level, just over 60% in the next years.

External finances remain sound, despite their dependence on the primary sector. External debt is likely to set at 85.0% in 2023. Nevertheless, inflows of FDI and a high level of international reserves provide a substantial buffer against external shocks or bulk repayments.

A strong business environment and political stability

Uruguay's business environment is very strong: the country ranks 27th out of 177 in the 2023 Heritage Foundation's Index of Economic Freedom survey and 4th in the Americas. Its best scores are obtained in property rights, judicial effectiveness and business freedom and the country enjoys labor competitiveness. Uruguay appears well protected from corruption and foreign investments don't need preliminary approval. Trade freedom is also well assessed, as the trade-weighted average tariff rate is 9.6%. The only bad score Uruguay obtains is in financial freedom, as the government still takes a big role in the financial sector. The 2022 Worldwide Governance Indicators survey ranks the country 19th, over 209 countries, in control of corruption and in the first quartile for regulatory quality and rule of law. All indicators have improved compared to 2021. Moreover, our proprietary Environmental Sustainability survey of 2023 indicates that the country performs quite well in resistance to water stress, CO2 emissions and renewable electricity output. On the other hand, the recycling rate is poorly rated.

President Luis Lacalle Pou enjoys relatively high levels of popularity, thanks to strong job creation and increasing wages. The government may leverage its political capital to continue efforts towards fiscal consolidation. We expect the government to expand the number of free-trade agreements (FTAs) Uruguay has outside Mercosur, such as advancing on joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – an initiative also back by Argentina's new President Javier Milei. The government also seeks to increase foreign investment, especially in services. There are still certain risks of increased political tensions as parties seek to differentiate themselves from the current government ahead of 2024 general elections, during which Laacalle Pou cannot run for presidency again. Uruguay remains a strong democracy and therefore political risk appears contained in the next years.

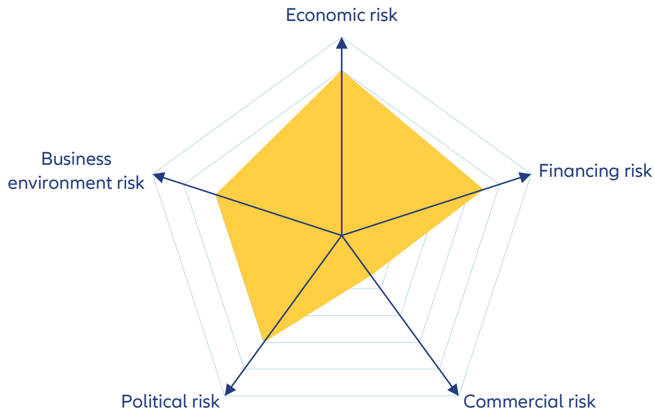
C2

Medium
risk for enterprises

Vietnam

Realizing opportunities and keeping structural fragilities in check

GDP	USD408.8bn (World ranking 37)
Population	98.2mn (World ranking 16)
Form of state	Communist party-led state
Head of government	Nguyễn Phú Trọng (General Secretary of the Communist Party)
Next elections	2026, Legislative



Strengths & weaknesses

- Low wages but relatively skilled workforce
- Competitive manufacturing hub
- Development potential of various natural resources, especially minerals (iron ore, copper, gold) and energy (oil, natural gas, coal)
- Relatively open economy with growth model based on trade
- Ongoing shift towards higher value-added sectors

- Lack of transparency
- A fragile and opaque banking system
- Infrastructure to be improved
- A complicated business environment
- Low external reserves
- Recurrent tensions with China

Economic overview

Growth to recover and trend towards the long-term potential

Vietnam is a good performer among emerging economies, with nearly +7% growth on average in the three decades before the Covid-19 pandemic and +4.5% on average over 2020-2022. Against the backdrop of the global economic growth slowdown and weaker external demand, we estimate that real GDP growth declined from +8% in 2022 to +4.7% in 2023 and expect a recovery to +6.3% in 2024. As such, Vietnam will remain one of the fastest-growing economies in the Asia-Pacific region in the upcoming years. Outperforming exports, especially of electronics, machinery and footwear, will remain the key growth drivers, supported by the trend of international firms diversifying their supply chains and relocating their operations to Vietnam. Impacted by higher global commodity prices and the stronger USD since 2022, inflation in Vietnam accelerated and reached an average 3.2% in 2022 and 3.3% in 2023 (from 1.8% in 2021). We expect the inflation rate to remain elevated in 2024 (3.4%) before easing slightly in 2025 (3.1%).

Over the longer term, the economy is expected to remain a sturdy growth performer in the region, helped by foreign direct investment, solid demand from Asian and Western markets, strong competitive advantages (low labor costs, high productivity growth and a strategic location), increasing integration in global supply chains and a positioning as a global manufacturing hub. Vietnam may also benefit from some firms' will to divest and diversify from China and find new production sites.

Liquidity risk has increased

Overall, indicators show that Vietnam's short-term financing risk is sensitive, reflecting declining foreign exchange reserves and import cover, as well as high credit growth. With efforts to ensure stability in the VND-USD exchange rate, foreign exchange reserves in Vietnam have fallen and the ratio of money supply M2 to foreign exchange (FX) reserves increased from 529% at the end of 2021 to nearly 700% as of August 2023 (a ratio below 400% is considered adequate). Likewise, the number of months of imports that is covered by FX reserves decreased from 3.9 at the end of 2021 to 2.8 in August 2023 (at least four months is usually deemed appropriate). A heavily managed exchange rate regime so far sustained the risk of a large depreciation. However, if external demand conditions were to deteriorate and FX reserves to fall further, the central bank may at some point no longer be able to defend the VND.

Real domestic credit growth has remained elevated. It showed a downtrend at the beginning of 2023, dropping from nearly +14% y/y in January 2022 to +6.6% y/y in January 2023. However, it has since remained at a relatively elevated level (+6.3% y/y in September 2023), as inflation has been easing and the State Bank of Vietnam (SBV, the central bank) began relaxing monetary policy in March 2023 by reducing the discount rate from 4.5% to 3% and the benchmark refinancing rate from 6% to 4.5%, in an aim to support economic growth after a weaker performance from the external sector. On the one hand, these policy moves helped alleviating a credit crunch in the property sector, where many firms were facing repayment and refinancing difficulties, leading to an increasing risk of bad debts in the banking sector. On the other hand, continuously rising credit will raise private sector debt-sustainability risks if the economy slows down more than expected.

Business environment and political developments

Vietnam's business environment is below average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Vietnam rank 72 out of 184 economies (a steady improvement from rank 105 in the 2020 survey), reflecting good scores with regard to the tax burden, government spending, business freedom and trade freedom, while weaknesses remain particularly in the areas of investment freedom, financial freedom, property rights, judicial effectiveness and government integrity. The latter is underscored by the World Bank Institute's annual Worldwide Governance Indicators surveys, which indicate considerable weaknesses with regards to the regulatory and legal frameworks, as well as measures to combat corruption. Our proprietary Environmental Sustainability Index puts Vietnam at rank 130 out of 210 economies, reflecting strengths in energy use per GDP and water stress, but weaknesses in terms of climate-change vulnerability, renewable electricity output and the recycling rate.

Political stability is to be expected in the coming years. Vietnam is a one-party state, tightly controlled by the Communist Party of Vietnam (CPV). Nguyễn Phú Trọng was named general secretary of the CPV for the third consecutive term in early 2021, ensuring policy continuity. The next election for the National Assembly (often characterized as a rubber stamp for the CPV) is scheduled to be held in 2026. CPV General Secretary Nguy□n Phú Tr□ng's policy agenda in the coming years focuses on a high-level anti-corruption campaign, attracting foreign investment, privatizing state-owned enterprises and upgrading infrastructure.

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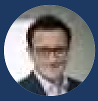

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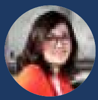

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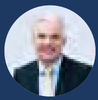

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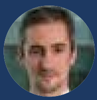

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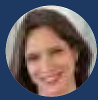

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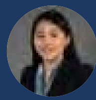

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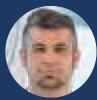

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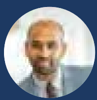

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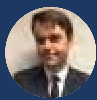

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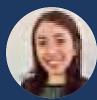

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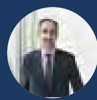

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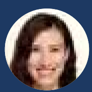

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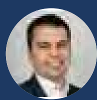

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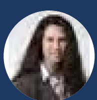

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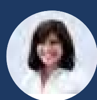

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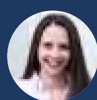

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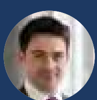

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