Political Risk

A Review of the Global Landscape

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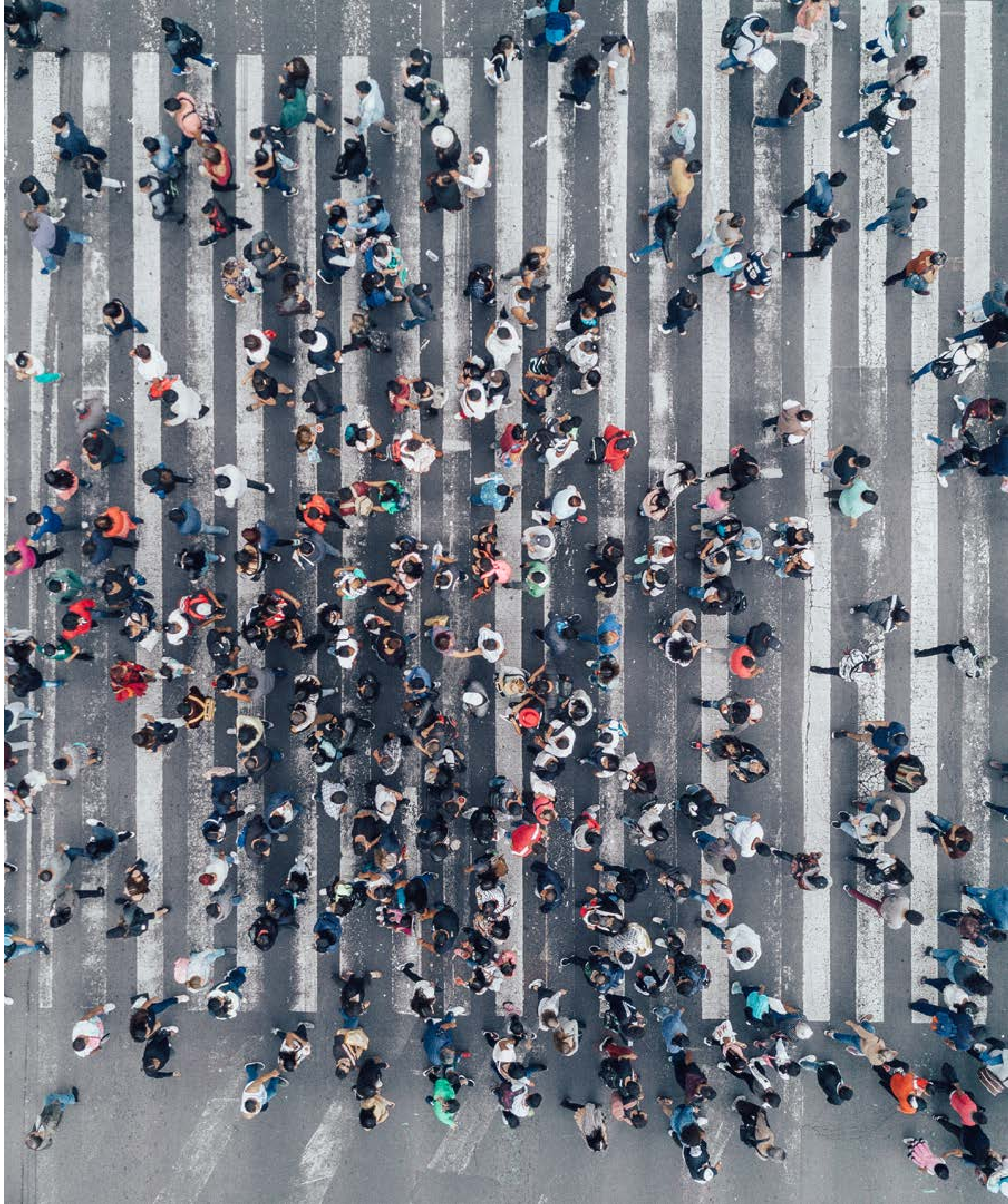

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Asia Overview

1

Asian Politics Dominated by Elections and Finances

The political scene in most of Asia is currently dominated by two themes: election fever and addressing either a high-inflation environment or battling tight financial conditions.

Political volatility remains moderate in the region given that the world's largest democracy, India, is heading to elections. Alongside India, Pakistan's elections are due in October, which will likely stoke violence there. Indonesia, too, is gearing up for elections in early 2024 and the political landscape there is also tense.

In the past quarter, political risks were elevated in Asia given unpopular policies (such as tighter fiscal reforms and higher interest rates) amid a cost-of-living crisis. While Asia has weathered the negative fallout from the Ukraine conflict and the monetary tightening conditions better than other regions, the elevated prices in several countries are now weighing on consumer sentiment. High prices have eroded purchasing power and consumer spending is declining. Adding to this was currency volatility due to globally divergent monetary conditions.

Although Asia also saw the 2022 commodity price rally weigh on the countries' public finances — and pinch household incomes — into 2023, depreciating currencies was a major concern, as the U.S. Federal Reserve continued with its aggressive monetary tightening stance. The Asian currency sell-off weighed on countries that were simultaneously witnessing the impact of high-input costs and waning pent-up demand. As a consequence, still-elevated inflation (particularly food inflation) alongside tougher policy moves could stoke tension within and among these countries.

On the other hand, any new conflict in any of Asia's leading economies is not on the horizon. Although risks have been elevated in the South China Sea, given China's movement around Taiwan, the former is unlikely to start a conflict amid the authorities' focus on a domestic recovery. China stated earlier this quarter that it is not looking to stoke conflict with Taiwan. China will likely also support opposition parties in Taiwan that are gaining ground on the ruling hardline Democrat People Party ahead of next January's election. China, however, has been engaged in some skirmishes with India along their border. In India's northeast, border tensions were elevated given China's claim on Indian territory. The skirmishes will persist in the near term, but an open conflict is not in the cards.

Elsewhere, a fluid picture is observed in Pakistan. The country was recently provided an IMF financial package to avoid debt default. However, the macroeconomic situation in the country is adverse. High inflation levels have led to protests in the streets and a massive backlash against the government. The austerity measures introduced by the government to secure the IMF deal exacerbated the public's dire circumstances and have further fuelled the anti-government sentiment. The military continues to hold influence in the political sphere in Pakistan, which suggests that the upcoming elections in October are unlikely to be free or fair. The ruling party will likely secure a win in the election with support from the military. Additionally, terrorist attacks in Pakistan have been on the rise. Balochistan region and the border with Afghanistan remain high-risk areas. Pakistan has held talks with Afghanistan, given increasing concerns of cross-border terrorism activities. In Afghanistan, the story is different. The Taliban militia, which seized the capital of Kabul in 2021, continued to retain control of much of the country. While there were anti-Taliban resistance movements, these have turned mellow since mid-2022, and are not making any headway given that the Taliban continues to overwhelm any rebel forces. Resistance to Taliban's rule therefore remains limited to small pockets in the country (some villages in the Panjshir valley). Any strong resistance is unlikely to coalesce in the near term. The resistance has also failed to attract any support from other Central Asian countries, which now are engaging with the Taliban in the hopes of maintaining regional stability.

Meanwhile, the situation in Singapore, although stable for now, is evolving. The cost-of-living crisis, supply constraints, and elevated housing prices have stoked public dissatisfaction with the government. Singapore's tight social laws ensure that no security lapses occur, and public protests remain low. However, the ruling party's popularity continues to wane as it battles economic woes.

Elsewhere in Southeast Asia, countries that have held elections this year are struggling to form or retain power in parliament. In Thailand, the leading party with the most votes, the Move Forward Party, is finding it challenging to form a government. While the public demands a move away from the military-aligned government and a constitutional amendment to make parliament more democratic, the political landscape in the country remains fluid for now. Despite winning the highest number of seats, the MFP is struggling to form a new government. The existing constitution currently mandates that the selection of the new prime minister involves the participation of 250 senators, who were appointed by the military following the 2014 coup, along with 500 members of parliament from the lower house.

Pita Limjaroenrat, the leader of the MFP party and a businessman, has formed a coalition consisting of eight parties, including the Pheu Thai Party (PTP), with a total of 312 votes. However, this falls short of the required 376 votes. The main obstacle lies in the MFP's commitment to reform the monarchy and the military, which has become a significant point of contention. Despite the MFP's attempt to find a compromise by excluding monarchy reform from the memorandum of understanding issued with the coalition partners, it is still uncertain whether the party will garner enough support from the senate. This has created room for the other party with a similar vote share, the Pheu Thai Party to lead a coalition government. For now, Thailand appears to have a political vacuum. The possibility of a military-led coup cannot be ruled out, given Thailand's history.

In Malaysia, which held elections in November 2022, Anwar Ibrahim, the leader of the Pakatan Harapan coalition, which represents a diverse range of ethnic groups, is attempting to head a unity government. Ethnic-Malay identity politics continue to exert influence in the coalition, constraining Anwar's progressive inclinations, and finding a consensus is becoming increasingly challenging. To maintain a workable parliamentary majority, Anwar has made commitments to preserve preferences for ethnic Malays, such as not altering their wealth ownership requirements. Deviating from this stance could lead the pro-Malay bloc to withdraw from the government. Additionally, the pro-Malay faction is likely to resist attempts to limit the prime minister's tenure to two terms. Therefore, the government's priority for now is to ensure the unity government holds.

Myanmar's political instability persists as a civil war rages in the country. According to the UN, about two million people have been displaced due to the ongoing war, with about 40,000 alone displaced in June. Myanmar has been engulfed in a civil war since February 2021, when a military coup overthrew the democratically elected government. Since then, the junta forces have encountered strong resistance from ethnic armies and local anti-regime groups. They have been met with repressive tactics and the fighting is persisting. Air strikes on the resisting forces continue, leading to further security issues. An airstrike by junta forces on Mindat's Wun Khone village on July 8 resulted in the killing of three civilians, including a child. In Moebye township, located in southern Shan state, clashes between junta troops and ethnic Karenni joint forces have made it extremely challenging for internally displaced persons to access food due to the military's ban on rice transportation to the area. This suggests that stability is a far stretch for Myanmar for now and that any political stability in Myanmar remains unlikely in the medium term.

In neighboring Bangladesh, all is not well. The country battles economic woes such as the cost-of-living crisis and a decline in economic activity. Given the global slowdown and poor living conditions, this creates a tense political landscape. Bangladesh has experienced a decline in political stability since mid-2022, despite the ruling Awami League, led by Prime Minister Sheikh

Hasina Wajed, dominating the parliament. In December 2022, protests emerged demanding fresh elections to be held under a neutral caretaker government. Ongoing nationwide anti-government demonstrations are expected this year in the run-up to the elections in January 2024. These protests are driven by increasing cost-of-living pressures and structural reforms mandated by the IMF, which may include potential increases in fuel and electricity prices in mid-2023. Space for political opposition remains constrained in Bangladesh. Therefore, these protests will be met with repressive tactics. A change in government is unlikely, and consequently, Bangladesh's security situation will remain compromised in the near term.

Across the border, an outperformer in Asia is India. The Modi-led government continues to have a tight hold on the political landscape and appears to be on track for another electoral win in May 2024. There is little competition from opposition in the run-up to the 2024 general elections. The opposition has formed a new coalition, which includes about 10 regional parties and the Indian National Congress (the leading opposition party at the national level) to counter Modi's influence. However, addressing the varied interests of so many regional parties is going to be a challenge and will therefore not affect Modi's prospects in the elections.

The country saw its inflation trend downward and growth momentum sustained over the first half of 2023, and consequently, protests from the public due to social concerns remain low. The government appears to have handled both the global economic crisis and the monetary tightening crisis so far. The domestic manufacturing and business sentiment remains strong. However, communal clashes are likely during 2023 and will stoke security concerns in specific states intermittently. This includes the states of West Bengal, Karnataka, Punjab and others where the ruling Bharatiya Janata Party (BJP) does not hold a majority. India remains at risk of a resurgence in clashes with its neighbors Pakistan in the west and China in the north and the northeast. Over the last quarter, India saw a resurgence in clashes with China in the northeast part of the country. However, this was quickly subdued. A war with Pakistan appears unlikely, though India may continue to face terrorism-related incidents in the northern states of Jammu and Kashmir.

Overall, Asia's political picture is stable for now, with incidents of instability where these countries have elections. The probability of an open security conflict or a spillover of domestic conflict into the overall region appears low.

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U.S. and China Overview

2 Strategic Competition and Consequences for EM Countries

Relations between the U.S. and China will likely stabilize in the next 12 months.

President Biden is focusing on his bid for re-election in 2024 and avoiding a major escalation of foreign policy concerns beyond the Ukraine war. Meanwhile, President Xi is focused on sustaining growth in order to avoid protests domestically and to provide medium-term resilience for China. This should see the two presidents building on talks to understand each country's position. However, multi-year strategic competition will likely stop any major thawing of relations, though a deterioration is unlikely considering the 2024 U.S. presidential election.

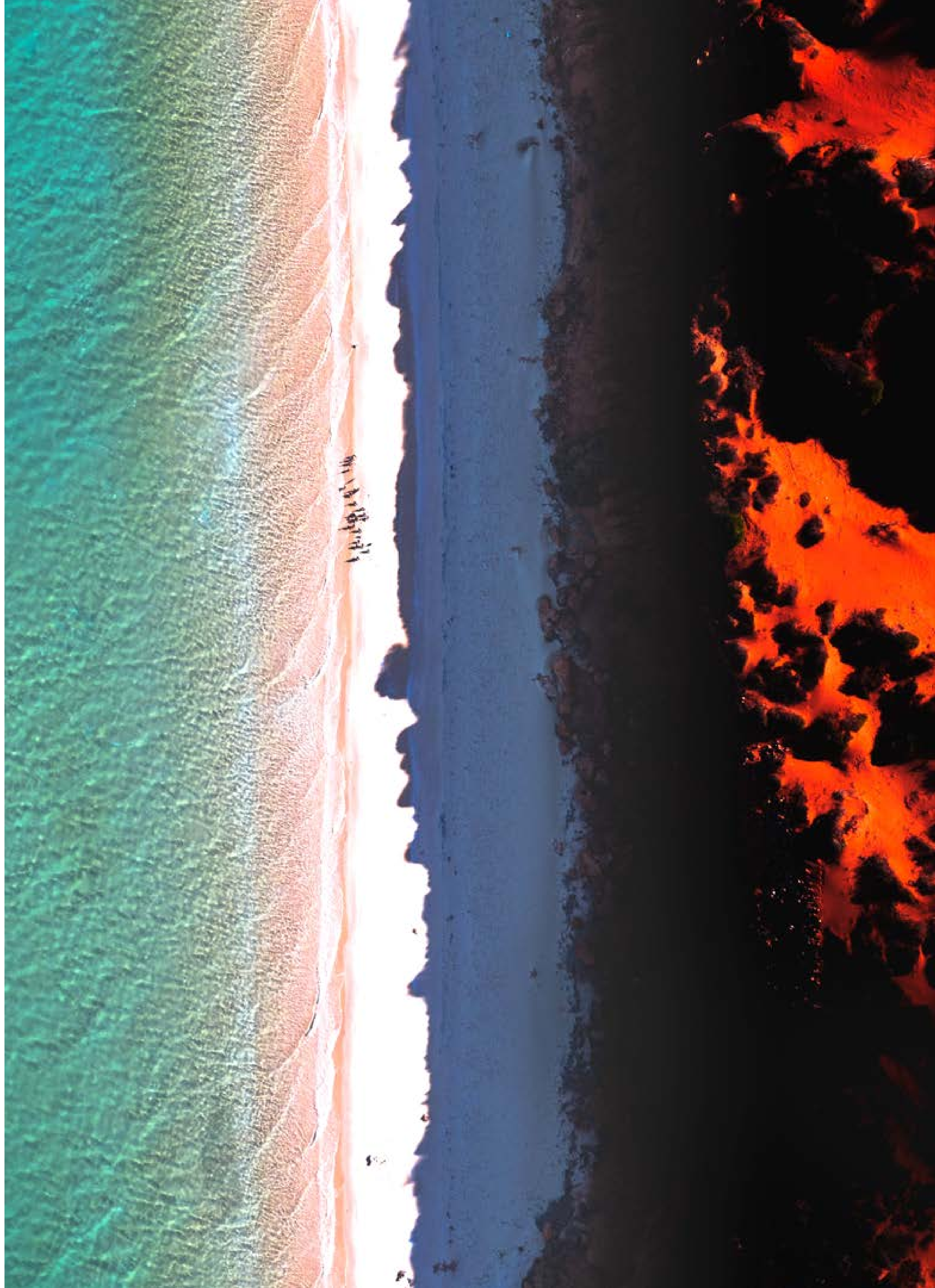
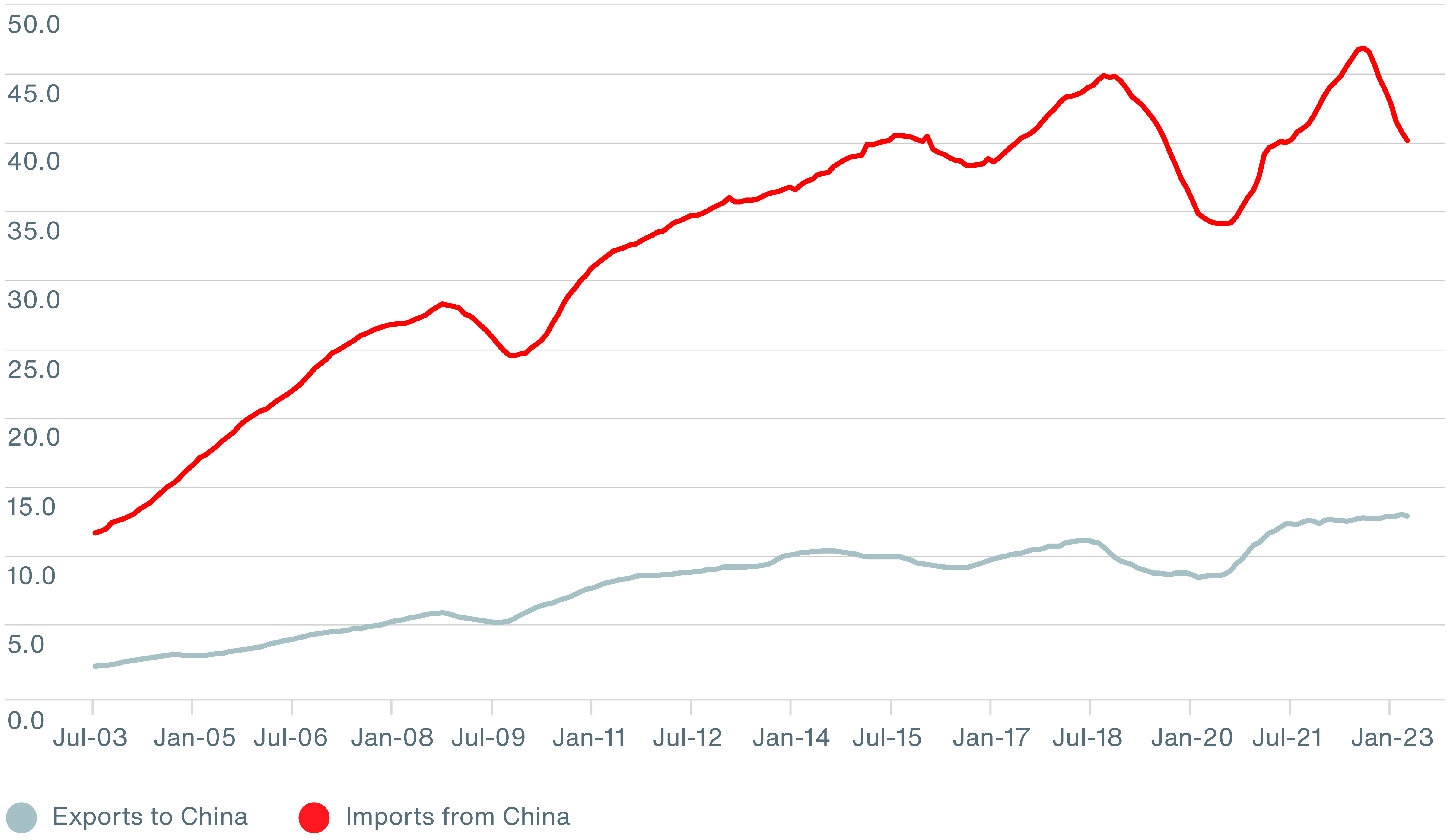


Figure 1: China exports and Imports to the U.S. (12-month average, in U.S. billions)



Source: Datastream/Continuum Economics

The relationship between the U.S. and China has developed from the economic field and into geopolitical security and competition, particularly in the last five years. President Trump's focus was mainly in the economic field, with tariffs designed to help the U.S. compete against China. However, hawks in the Trump administration feared that China's growing economic weight in the global economy could also undermine U.S. leadership in world politics and the military arena. We believe this led to measures that restricted China's ability to catch up with the U.S., especially in the technology field.

The Biden administration has accelerated the strategic competition with China, with restrictions on high-value semiconductors, AI and telecommunications. It has also been targeted at Chinese companies that the Biden administration fears have links to China's military. The important questions at this stage are: How will this competition evolve and what are the possible consequences for emerging market (EM) countries?

When the story of the unmanned China spy balloon over the U.S. broke in February, U.S.-China relations worsened and risked a dangerous downward spiral. However, we think President Biden and Xi are eager to go back to the targets set during last November's summit: pursue open communication and keep dialogue channels open. Recent meetings between U.S. Secretary of State Blinken and President Xi and his Foreign Ministry officials will likely be followed by bilateral meetings between Biden and Xi at the September G20 summit in India and the November APEC meeting in the U.S. Even so, cross-party consensus exists in the U.S. that strategic restraint is required on China's technology, military and diplomatic expansion, while Beijing has consistently defended its rights on all fronts. This means that all that can be achieved is to show the world that the U.S. and China are talking, which is important in avoiding misunderstandings.

One potential flashpoint between the countries is Taiwan. China maintains the ambition of reunification and has flexed its military strength in the Taiwan Straits and around the island. It is significant to note that Taiwan's presidential election is due in January 2024, and the last election in 2020 saw a lot of misinformation campaigns from mainland China. Even so, President Xi's current focus is sustaining economic growth because that would likely protect the communist party domestically from protests and also would provide resilience in the face of future crises. Moreover, the Ukraine war likely has reinforced China's understanding that the high-risk option of a military takeover of Taiwan would require a strong Chinese aircraft capacity to counterbalance the U.S. Navy. On the current schedule, China's military build-out is targeting 2027 as a key deadline, but sufficient aircraft carrier capabilities are unlikely until mid-2030. While a military attack on Taiwan is still possible in the next five years, we feel it is unlikely. Instead, China will likely support opposition parties in Taiwan that gain ground on the ruling hard-line Democrat People Party ahead of next January's election.

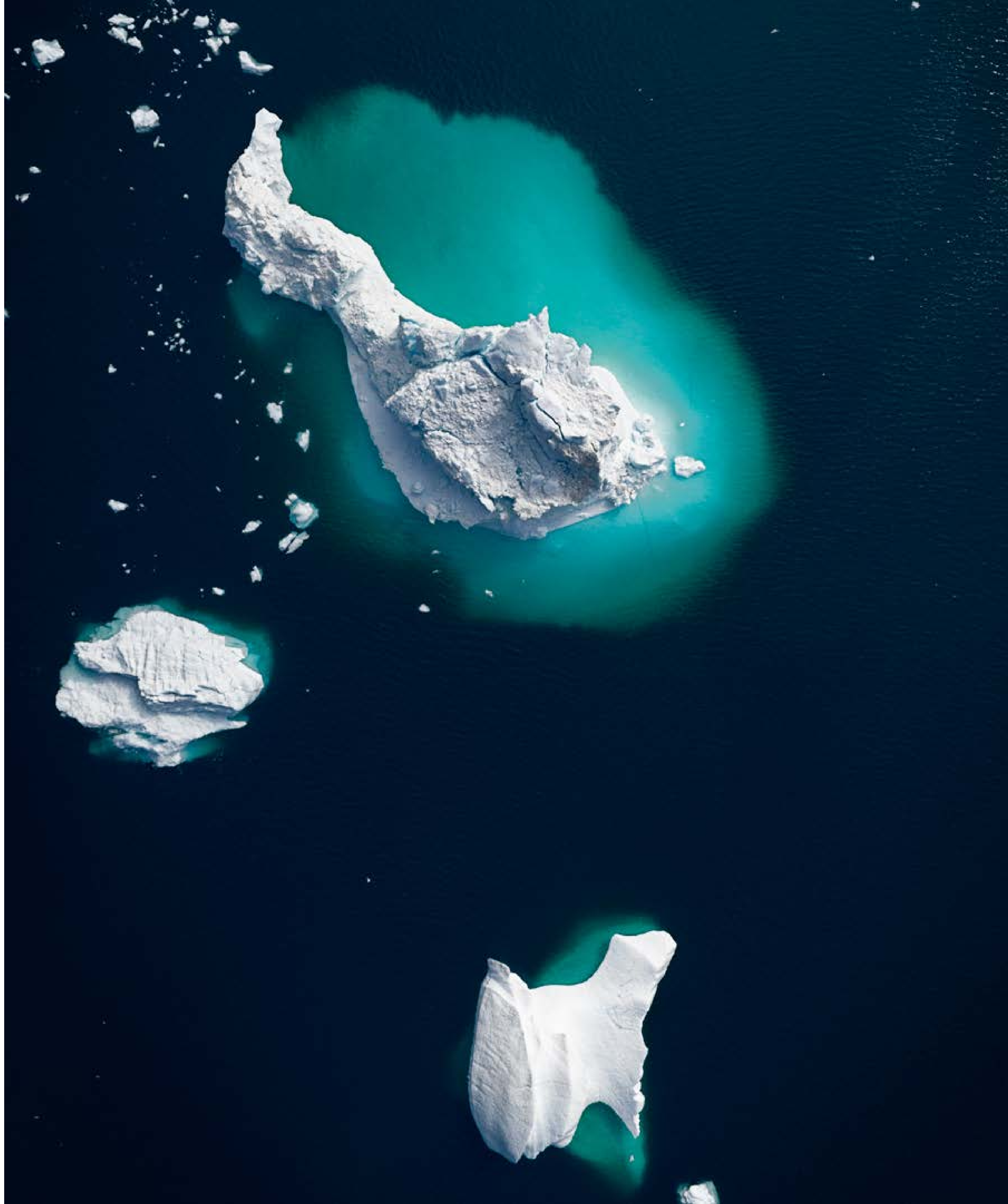
It could well be that the next 12 to 18 months see no major escalation in U.S.-China competition, as President Biden's bid for reelection suggests a bias toward avoiding major confrontation. China also understands that supplying arms directly to Russia for the Ukraine war would risk U.S. sanctions, and we think such an escalation is unlikely. Thereafter much depends on who will be the next president of the U.S. in 2025 and what the policy preference will be toward China. A hawkish U.S. president could cause a cold war and thus a spillover globally, but this is not the central scenario in the next 18 months.

What are the implications for EM countries of this backdrop of steady (but not significantly intensified) competition?

Relationships with Both Countries

Most EM countries will likely want to ensure relationships with the U.S. and China that are maintained separately, but also take account of the strategic competition to their own advantage. Asian EM countries are aware that the balance is essential in diplomatic and political terms with the two superpowers. However, this does not stop an increasing number of countries from competing with China in the global supply chain. For instance, India, Indonesia, Malaysia and Vietnam continue to attract multinationals that want to reengineer supply chains or supplement the existing China-centric supply chain to provide resilience should U.S.-China relations deteriorate sharply.

Additionally, G10 countries have a bias toward nearshoring for certain industries, which can benefit Mexico, Turkey and Morocco. Meanwhile, though the U.S. is trying to encourage the European Union (EU) to take a hard-line stance on technology with China, it appears the EU does not simply want to mirror the U.S. in this respect and wants flexibility in its own economic relationship with China.



Diplomacy in EM Countries

The U.S. has been used to having a heavy influence across most EM countries, given its military, economic and diplomatic strength. The ability of China to broker a reconnection of diplomatic relations between Saudi Arabia and Iran has shaken the U.S. diplomatic preeminence. Parts of this relate to successive U.S. administrations pivoting toward Asia, and effective reduction in interest in other regions. It is also a by-product of the Ukraine war, where EM countries do not want to be involved in U.S. diplomacy or forced into support for NATO's position on the Ukraine war. This means a role for large EM countries as intermediaries.

We think this can mean that China or other large EM countries — rather than the U.S. — may be asked to help find diplomatic solutions in the future. With Ukraine and Russia increasingly at a military stalemate, one question is whether this will lead to ceasefire talks, and who would conduct these talks. Turkey, Brazil or India could play this role alongside the UN, though the biggest obstacles remain Ukraine's precondition of Russia's withdrawal from occupied territories or Russia wanting the West to stop supplying arms to Ukraine.

G20, G7 and BRICS: The G20 has difficulty reaching major decisions, given the internal divisions over the Ukraine war. Additionally, the U.S.-China strategic competition has had an impact on G20 effectiveness in recent years and this will likely remain the case. The U.S. and the West have thus refocused on the G7, and the Hiroshima summit saw a long wish list of G7 concerns raised. Though some major EM countries attended some G7 sessions, we are of the view that they do not feel that the G7 allows their views to be captured. This captures increased importance within the BRICS grouping.

The question for the BRICS is how they use their new momentum. Apparently, 14 EM countries want to join the group, but current members do not want to dilute the decision-making process and we feel this is prompting gradual exploration of BRICS+ or associate member status as solutions. In terms of key decisions, BRICS is unlikely to launch an effective common currency given the difference in economic structure and political aspiration. However, a BRICS accounting unit is feasible at some stage, as a symbol that the U.S.'s reserve currency dominance may not last forever.

For now, the BRICS grouping will likely focus on what they can all agree on while balancing the need of not appearing pro-Russian, given the G7 stance on the Ukraine war is also important.

China and debtors: China has been a large-scale bilateral provider of loans for low-income EM countries, particularly in the past decade. Some countries have run into financial trouble with the COVID-19 pandemic and Ukraine war shocks. The good news is that debt agreements are progressing for Zambia and Ghana. This includes China and other official lenders being willing to accept no repayments for three years and an extension of debt repayments to 20 years (Zambia has also agreed to low-interest rate payments until 2037 on bilateral loans).

Negotiations with Eurobond holders are underway, with a push for similar terms, but there is uncertainty over whether this will be achieved. Even so, this is helpful as a template for Ethiopia and other EM countries given the large amount of debt with Chinese borrowers.

3

Regional and Country Overview

Asia

Afghanistan

Afghanistan has a very high overall risk. The Islamic Emirate of Afghanistan (ruling political entity) is under the leadership of the Taliban, a predominantly Pashtun and Islamic fundamentalist political movement. The presence of ethnic fragmentation, Islamic terrorist movement and human rights issues make political violence a very high risk.

Human rights abuses are alleged in Afghanistan's interim government. Underinvestment and lack of working opportunities are also big issues for Afghanistan, with the Taliban's move to ban Afghan women from working for non-government organizations creating problems. Upon the Taliban's takeover in 2021, many streams of foreign aid were frozen. As a result, 90 percent of its population lives below the poverty line.

The unfreezing of billions of dollars of assets had been offered to Afghanistan upon the honoring of promises related to security, governance and human rights. Sovereign nonpayment and inability of the government to provide fiscal stimulus are medium to medium-high risks, respectively, due to this lack of access to key assets that would otherwise facilitate sovereign payments and economic investment.

Supply chain disruption is a risk relating to a country's flow of goods and/or services caused by political, economic or environmental stability. Afghanistan has a very high risk of supply chain disruption due to fragile or damaged international relationships, vulnerability to climate conditions (such as recent earthquakes in Afghanistan and Pakistan), being landlocked, having its borders 50 percent mountainous, and poor infrastructure. Its neighbors, Uzbekistan and Turkmenistan, are keen to introduce improved infrastructure systems for railway, gas and power transportation.

Legal and regulatory risk is a very high risk in Afghanistan. Weak governance has meant many functions are affected by corruption, restrictive regulations (as seen in the 2019 presidential election and other areas of increasing authoritarianism) and weak rule of law. Weakness in working modern economic and administrative regimes has also caused issues. Banking sector vulnerability is a medium risk but could increase, with 57 percent of loans not performing in 2020 according to the UN.

China

China's overall political risk rating remains medium. The risk of political violence remains medium-high, as there is risk that either Chinese authorities make a mistake with military exercises around Taiwan that lead to escalation or president Xi unexpectedly takes a high-risk decision to confront Taiwan. The late 2022 protests over coronavirus (COVID-19) restrictions will also concern the authorities.

The U.S. and China want relations to improve, but this is to avoid misunderstandings between the two powers rather than a major change of relationships. The cross-party view in Washington remains that the U.S. and China are in strategic competition, and this requires U.S. measures to control China. Meanwhile, economic growth has bounced back after the switch to an endemic COVID-19 policy, but peak quarterly growth has already been seen in Q1. Into 2024, growth will likely slow to below 5 percent, due to the ongoing hangover in the residential property sector as well as the headwinds from the high levels of debt across the economy. Though official measures of government debt are not high, the rating for the inability of the government to provide stimulus remains at medium. Official government debt figures omit huge local government financing vehicles (LGFVs); debt and fiscal policy will likely swing from modestly expansionary to contractionary in 2024. The combination of excess debt for LGFVs, plus the overhang of property developers' debt, also means that banking sector vulnerability remains at medium. Small rural and commercial banks remain most at risk from a pickup in non-performing loans weakening equity capital and causing problems. However, China's authorities remain proactive and want to avoid any major banking sector problems and crisis management will likely be quick.

Hong Kong

Hong Kong has an overall risk increase from low to medium-low. Hong Kong has activated a new electoral system and improved its legal system. Policy from the government of Hong Kong (HKSAR Government) places importance on the housing supply, with these new initiatives retaining a medium-low risk of political violence. However, rare protests have spawned in Hong Kong in reaction to China introducing restrictions that affect Hong Kong citizens. Freedom of speech has also suffered because of the Hong Kong government's removal of dissenting billboard artwork and a popular protest anthem from Spotify.

Political interference is a risk area relating to the risk of host government intervention in the economy or other policy areas that negatively affect overseas business interests. Political interference is medium-low in Hong Kong, with risks coming from the shrinking potential of reform, silencing protests and pandemic-related restrictions damaging international attractiveness. With strong links to China and a stable electoral and legal system, political interference has also remained stable. Sovereign nonpayment has worsened to medium risk, despite a shrinking budget deficit, large foreign exchange reserves, fiscal reserves and promise of maintaining a fiscal surplus. Debt increased to 47.6 percent of GDP in 2022 but remains manageable. The inability of the government to provide stimulus has also worsened, this time to a medium-low risk, as a result of the restriction of funds due to the objective of a fiscal surplus. GDP is also vulnerable and dependent on the economic success of China on a trade and finance basis — restricting the ability of the Hong Kong government to effectively stimulate the economy.

An end to the Hong Kong dollar's pegging to the U.S. dollar remains unlikely in the next year. High foreign exchange reserves and current-account surplus also support the maintenance of Hong Kong's medium-low exchange transfer risk. The banking sector has a medium-high risk owing to its exposure to the success of China. Banking-related confidence surveys have indicated a strong banking system, especially in areas of deposits and following regulations. Legal and regulatory risk is low, possessing high-quality infrastructure, a strong link to China, ample finance to solve supply chain issues and open economy status. Lack of innovation and diversification, along with its mismatched position in the business cycles in the U.S. and China, can produce supply chain lags and a loss of competitive advantage.

India

India's overall risk rating remains medium. Given India's strong macroeconomic fundamentals and continued recovery, the social and political conditions in the country remain stable. The government maintains tight control over the security situation and enjoys a huge majority in parliament. The popularity of prime minister Narendra Modi has not waned in his two terms in parliament. It appears that he is on track to secure a third victory in May 2024. As a consequence, while social stability is ensured, political volatility is likely in the run-up to the national elections.

On the political front, there is no single opposition party that can provide formidable opposition to the ruling Bhartiya Janta Party. However, the opposition parties have come together to form an alliance ahead of the elections. This too is unlikely to dent the BJP's chances in the elections significantly.

While overall communal clashes have decreased significantly in India, pre-electoral violence is often seen in some states, such as West Bengal and Jammu Kashmir. This is likely to persist over the coming quarters as India gears up for elections. Meanwhile, the threat of terrorist attacks by extremist organizations in Kashmir will remain elevated, necessitating a strong security presence in the region. The restoration of statehood for Jammu and Kashmir, suspended in 2019, is scheduled for the second half of 2023, along with fresh local elections. This could keep the situation tense in the state.

There is growing concern in the northeast state of Manipur, which has experienced episodes of intercommunity clashes in recent months. These clashes have turned violent, and the government has been forced to impose curfews and deploy the armed forces in the region. However, this remains limited to the state and is unlikely to spill over into any other region.

The intercommunity violence is centered on demands for representation, which the government is looking to address. In the lead-up to the general election, the BJP will intensify its Hindu nationalist agenda in 2023, as demonstrated by its decision to discontinue the reservation policy for Muslims prior to the state assembly elections in Karnataka in May. While this trend may spark occasional religious and communal clashes in certain areas, it is unlikely to result in widespread social unrest.

On the geopolitical front, occasional skirmishes along India's border with Pakistan and China will persist. These are latent conflicts and are unlikely to turn into an open war. Pakistan is not in the position to go to war with India, while China is likely to make claims on Indian territory, it will not risk an open conflict at this time. Overall, India continues to present a bright picture on the political and social stability front.

Indonesia

Indonesia's overall risk rating remains medium. The low level of political instability Indonesia witnessed in September 2022 following the 30 percent fuel price hike has since diminished. Indonesia's political sphere is charging up, though, as it heads to elections in early 2024. Although Indonesia has seen a general rise in protests in recent months, the country remains fairly stable. The protests have been mostly politically led or owing to changes to certain laws. For instance, the parliament passed sweeping changes to healthcare laws to attract foreign talent in the sector, which led to protests by medical workers in the national capital. More recently, Muslim groups across the country gathered to protest the burning of the Holy Quran in Stockholm. The primary causes for protests have been changes to laws, which could put the workforce at a disadvantage by increasing cost pressures and some opposition-led protests. The protests remain non-violent and security concerns are limited. We expect sporadic protests over 2023 should prices surge again (owing to any external shock) and owing to electoral volatility.

On the election front, Indonesia's picture remains quite fluid. The upcoming 2024 presidential election in Indonesia has prompted President Joko Widodo (Jokowi) to broker a grand coalition that includes five political parties. Jokowi's main goals appear to be to leverage his popularity to help his preferred candidate preserve his legacy and avoid a three-way race that could split votes in favor of the opposition coalition. Jokowi's popularity remains high, with approval ratings exceeding 75 percent, making his support for a presidential candidate a significant factor in shaping voter choices. It appears that the Central Java governor, Ganjar Pranowo, is his favored candidate and the ruling Indonesian Democratic Party-Struggle (PDI P)'s weight is behind him. Therefore, the two leading candidates in the presidential race are Gerindra leader Prabowo Subianto and Ganjar Pranowo. In terms of political parties, the PDI-P remained the most popular with 15.2 percent support, closely followed by Gerindra with 14.7 percent. Jokowi's efforts to broker a grand coalition are likely to get some support for Pranowo. Our expectation is that Pranowo is likely to succeed in the upcoming election, given support from the PDI-P and other smaller parties in the coalition. President Jowoki's popularity is also likely to lend support to him. But with several coalitions being formed and parties forming alliances, the situation remains dynamic.

Macau

Macau remains at medium-low risk. Macau's tourism sector offers a lot of its income, with its long history of being a gambling center bringing in a lot of revenue. Ho Iat-Seng has been the chief executive of Macau since August 2019, acting as the third chief executive since its Chinese rule beginning in 1999. In the current political setup, ordinary citizens have no say on who becomes chief executive. For numerous periods since 2019, COVID-19 lockdowns have rendered gambling illegal. Significantly, a gambling kingpin, Alvin Chau, has been presented with an 18-year prison sentence for facilitating illegal bets during this period. In 2022, this closure of one of Macau's major industries greatly supported the 26.8 percent fall in GDP. Given a large portion of the gambling venues' clientele comes from Hong Kong and China, revenues have recovered quickly in the periods that it is legal, making the government's inability to provide stimulus only a medium-low risk.

A possible tightening of the local political scene has been predicted to inflame tensions between Macau and the West, representing a minimal cause for concern within its low risk of political violence. This risk is related to the violent possibilities that result from strikes, riots, civil commotions, sabotage, terrorism, malicious damage, war (including civil war), rebellion, revolution, insurrection, a hostile act of belligerent power, mutiny or a coup d'état. Local interest rates also continue to rise as lockdown restrictions lift, in line with the U.S. and Hong Kong, representing a threat to Macau's credit health and to its medium-low exchange transfer risk. Along with Hong Kong, Macau continues to possess a media environment filled with administrative attacks on free speech and forced self-censorship, one key issue of Macau's medium-low legal and regulatory risk.

North Korea

North Korea remains a very high-risk country. In a bid to pronounce its nuclear power status, nuclear weapons testing has been carried out in 2023. Though international warfare is unlikely to come directly from this nuclear testing, political violence is made a very-high risk due to concerns that tension could spiral from nuclear testing. The U.S. had made a deal with South Korea in April for the U.S. to use South Korean waters and to combine resources in the effort to deter North Korea from becoming violent. Kim Yo-Jong, Leader Kim Jong Un's sister, has warned that this U.S.-South Korea deal will spell "more serious danger," indicating that U.S. nuclear-armed submarines moving into South Korean waters may not have its intended effects in deterrence.

Legal and regulatory risk is the risk of financial or reputational loss because of difficulties in complying with a host country's laws, regulations or codes. Legal and regulatory risk is very high due to the high output of propaganda to state-owned press and broadcasters in North Korea, restricting free speech in its population. Ordinary North Koreans can be put into forced labor for accessing foreign broadcasts and foreign-based radio stations are jammed by the government. Trade flows between China and North Korea have started to recover from COVID-19 risks, looking to offer North Korea some economic recovery, making the inability of the government to provide stimulus a medium-high risk. It also has great potential in its mining resources, leaving an opportunity for economic growth through widely untapped collections of coal, iron, copper and more.

Supply chain disruption remains a high risk due to potential damages from warfare, inadequate investment in non-military initiatives, energy shortages, political and economic isolation, and lack of infrastructure. The potential gains from its mining resources, talks with the U.S. and South Korea, and its borders with China and Russia could help support its supply chain. The risk of doing business is also very high, due to productive sectors being ignored by investment in favor of military spending, lack of energy and economic isolation, despite opportunities coming from its youthful population and mining resources. With the restrictions on travel and free speech, other risks also mount on business entities.

Pakistan

Pakistan's overall risk rating remains high. Pakistan's political landscape is in turmoil as the country gears up for its upcoming general election, which is scheduled for October 2023. Given extreme political polarization and a lack of unity among institutions, the prospects for a free and fair electoral process appear grim. For now, the current ruling coalition Pakistan Democratic Movement, which includes the Pakistan Muslim League, the Pakistan People's Party, and a number of smaller parties, will manage to maintain political hegemony with support from the military. Nonetheless, their parliamentary majority will remain modest, contributing to the fragility of political stability in the nation.

Outside of the electoral volatility, Pakistan's social stability is fragile. The risk of widespread social unrest and protests is heightened given the deteriorating living conditions characterized by soaring inflation and high unemployment rates. While the IMF resumed its financial assistance to Pakistan earlier in July, this support is unlikely to substantially change the situation on the ground. Consequently, the risk of social unrest in the near term remains high. Fresh aid provided by the IMF to prevent a debt default comes with stricter fiscal reforms, which, in turn, may further aggravate social unrest within the country. Tougher reforms by the ruling coalition have resulted in eroding the limited popularity enjoyed by the government, and the fact that the situation is exacerbated by persistent inflation and shortages of essential commodities suggests that law and order will remain precarious. Pakistan will continue to grapple with sporadic episodes of political instability and mass protests, primarily due to its dire economic circumstances.

Pakistan's social stability faces additional security threats from Islamist groups such as the Tehrik-i-Taliban Pakistan (also known as the Pakistani Taliban) and a separatist movement in Balochistan. The year 2023 witnessed a surge in terrorist attacks, and this trend is expected to intensify leading up to the election. Heightened incidents of attacks targeting non-nationals and demonstrations centered on religious issues are likely to persist.

Papua New Guinea

Papua New Guinea remains at a medium-high overall risk. Following James Marape's reelection in July 2022, votes of no confidence cannot occur until February 2024, making it easier for the coalition government to make policy. The general election had caused violence, demonstrating the medium-high risk of political violence in Papua New Guinea. Despite its poor economic regulation, Papua New Guinea's large current-account surplus and promising commodity sector look to drive growth over this year. The inability of the government to provide stimulus has also improved, with risk falling to a medium level. This risk relates to the government's inability to stimulate the economy due to a lack of fiscal credibility, declining reserves, high debt burden or government inefficiency. Stimulation has occurred however, such as new gas fields being developed, liquefied gas production units being manufactured and new mines opening. With abundant opportunities in the sectors of ores, hydrocarbons, agricultural products, wood and seafood products, there is no shortage of areas in which to invest.

Supply chain disruption is a medium-high risk, due to its weak infrastructure network and high exposure to natural and climatic disasters. Banking sector vulnerability remains a medium-low risk, due to foreign exchange risks and the government's proposal to increase taxation on the banking sector. The sector's exposure to state-owned enterprises is also a risky position, as these enterprises are effectively insolvent and indebted. Sovereign nonpayment is a medium-high risk, due to IMF support, successful major resource projects and beneficial global commodity price increases. Exchange transfer remains a medium-high risk due to the crawling peg to the U.S. dollar overvaluing the Papua New Guinean kina. Exchange rate volatility can be expected in the short-term, due to the IMF's encouragement of market-driven monetary policy. Legal and regulatory risks and the risk of doing business remain high, with deep-rooted issues of corruption, red tape delaying projects, and ambiguous land laws.

Singapore

Singapore's overall risk rating remains low. Singapore's political sphere continued to maintain stability over H1 2023 and is likely to retain the status quo over the medium term. With the People's Action Party (PAP) at the helm of technocratic governance, little change is likely in Singapore's social and political landscape. The PAP, enjoying a parliamentary supermajority, has been the dominant force in Singaporean politics for decades. However, the party's dominance was slightly diluted in the 2020 election when the opposition Workers' Party increased its share of the vote. This has led to some delay within the party's transition from PAP's "third-generation" leadership, led by Prime Minister Lee Hsien Loong, to the "fourth-generation" leadership, currently headed by Lawrence Wong, the deputy prime minister and finance minister. It is expected that Lee will complete his full term, with a transfer of power occurring after the next general election in 2024.

Meanwhile, despite Singapore's ethnic diversity, the risk of ethnic tensions remains low. There are no episodes of charged violence or disruption to economic activity. The government has taken steps to increase the political representation of ethnic minorities, such as Indians and Malays. Further, the government's strict laws on censorship and limitations on public demonstrations reduce the likelihood of major unrest stemming from racial tensions.

Recent events, including the resignations of parliamentary speaker Tan Chuan-Jin and another member of parliament Cheng Li Hui, from parliament and the PAP, along with corruption controversies involving senior PAP figures, have dented the party's popularity. However, this is unlikely to impact the overall political dominance of the party. The ongoing cost-of-living crisis in the country will stoke some public discontent. This could diminish the PAP's popularity but will not create any severe public backlash. Despite these challenges, political stability in Singapore is expected to endure. The next elections are in 2024, and it is likely that the PAP will retain the top spot, albeit with a lower vote share, and by-elections are not anticipated. The PAP has assigned other MPs to fulfill the responsibilities of Tan Chuan-Jin and Cheng Li Hui in their respective group representation constituencies. Previously, the general election was projected to occur in late 2024; however, it is now believed that it will be postponed until 2025 to allow time for these issues to settle.

Sri Lanka

Sri Lanka's overall risk rating remains medium-high. Sri Lanka's political landscape continues to be marked by instability and is expected to remain so during 2023 and 2024. The country's economic challenges, coupled with ongoing fiscal austerity measures brought on by the ongoing IMF financial package, have the potential to ignite further social unrest and demonstrations. Sri Lanka witnessed massive protests last year when dissatisfied citizens took to the streets and former president Gotabaya Rajapaksa was forced to flee. While the situation on the ground has improved considerably since June last year, dissatisfied citizens are likely to demand greater accountability from lawmakers and may call for early presidential and parliamentary elections, currently scheduled for 2024 and 2025, respectively. The risk of protests turning violent for an extended period exists, particularly if the promised economic recovery fails to materialize or if clashes between pro- and anti-government groups escalate due to inadequate security measures.

Sri Lanka has witnessed strikes and protests in H1 2023, with opposition parties banding together to demand local elections (which the government delayed, citing lack of funds) and citizens protesting against austere fiscal measures (such as increased tax rates on personal income). As a consequence, Sri Lanka witnessed the imposition of curfews and other restrictions over the first half of 2023. The current government's slim majority in parliament is another risk to political stability in the near term. However, it appears as though that President Ranil Wickremesinghe is determined to serve out his full term and consolidate his position. While the macroeconomic crisis is the biggest factor stoking social instability in Sri Lanka, the government's stalling of local elections also poses a high risk. There were several protests against the decision to delay elections in the national capital in the first and second quarters of this year.

In summary, Sri Lanka's political situation remains unstable as the country grapples with economic challenges and social unrest. The potential for demonstrations, demands for accountability and calls for early elections persist. Efforts to support economic recovery and negotiations with sovereign creditors may be hindered by ongoing instability, potentially prolonging strains on the country's public finances.

Africa

Algeria

Algeria has decreased in overall risk, to a medium-high level. Threats of its already high risk of political violence have heightened due to public disapproval of the military-backed president, Abdelmadjid Tebboune. This presidential situation has also threatened Algeria's democracy, rendering elections in effect futile. A group of military Islamists also poses a social unrest risk, though little progress has been made on that front.

Legal and regulatory risk is the risk of financial or reputational loss because of difficulties in complying with a host country's laws, regulations or codes. Legal and regulatory risk is currently a high risk for Algeria, due to its corruption, bureaucratic red tape and financial sector weakness. The risk of doing business is also high due to the same issues. Within corruption, particular issues include patronage culture, nepotism, bribery and facilitation payments. Exchange transfer has weakened to a medium-high level, with external buffers and a current account surplus supported by high oil and gas prices, complemented by Algeria's increased hydrocarbon exports. However, the threats of its fiscal deficit, overvaluation of currency, and weak currency structure still weigh on the Algerian dinar.

Sovereign nonpayment remains a medium-high risk. Foreign exchange reserves are still good and external debt obligations are limited. Elevated hydrocarbon exports will support Algeria's current account balance, improving Algeria's ability to meet its requirements. With little intention of borrowing in the future, sovereign nonpayment is unlikely to fall victim to its long-term vulnerabilities relating to fiscal and external indicators. Banking sector vulnerability remains a medium risk, due to Algeria's recent return to fiscal deficit highlighting the banking system's vulnerabilities owing to its quality of credit management. A main outcome for these banks will likely be an elevated level of non-performing loans.

Supply chain disruption is a medium-high risk, due to poor infrastructure, complications due to legal and regulatory initiatives, and high youth unemployment rates. However, Algeria's position close to the European market will benefit supply chain management and running. The inability of the government to provide financial stimulus has fallen to a medium level. This is due to an evident lack of government efficiency in creating youth employment combined with weak rule of law and inefficient resource allocation (90 percent of exports are hydrocarbons and there is inadequate supply within its public sector).

Benin

Benin has a medium-high overall risk. The increasing importance of President Patrice Talon's authoritarian tendencies has been the source of elevated social unrest in Benin. Presidential elections have been a source of contention in the past. The 2016 election acted as a symbol of democracy, blueprinting how similar development across Africa could be made. However, the 2019 election brought a more restrictive electoral code with it, leading to the opposition failing validation. As a result, the level of democracy and authoritarianism has been questioned by the opposition, NGOs and civil society.

The parliamentary election in January 2023 has elected the Progressive Union and its leader, Joseph Djogbenou, gaining an improved majority of 37.56 percent. The government's privatization plan has also been controversial with large sections of the Beninese population. Additionally, a jihadi insurgency in the Sahel has started to spread and threaten Benin with potential attacks from Burkina Faso, leading to its medium-high level of political violence. Legal and regulatory risks, along with the risk of doing business, is at a medium-high level. Corruption in the shape of petty bribery and systems of patronage continues to damage judicial, law enforcement and customs functions. This corruption is also present in more high-level functions, with the diversion of public funds leaving investment inadequate and foreign direct investment unattractive.

Other factors, such as the government's attempts to increase privatization and the presence of bureaucracy, will both reduce incentives for doing business and highlight some legal inefficiencies. Such a lack of government effectiveness and inefficient use of funds makes the risk of the government being unable to provide stimulation medium-high. This risk relates to the government's inability to stimulate the economy and is normally due to a lack of fiscal credibility, declining FX reserves, high debt burden or government inefficiency. Supply chain disruption is a medium risk, due to its access to the sea for hinterland countries and strong supply chain links such as the Cotonou port, defending against the violent risks of piracy at its south side and jihadist threat at its north side. Sovereign nonpayment is a medium-high risk. Despite its large potential from its offshore oil resources, Benin remains highly reliant on its cotton sector (40 percent of its GDP) and restricts a lot of its dealings to Nigeria solely. Additionally, government debt has been consistently elevated to above 40 percent of GDP since COVID-19, where it hadn't been above 25 percent for many years, representing difficult financial commitments.

Botswana

Botswana has a medium-low overall risk. With a large parliamentary majority, the Botswana Democratic Party (BDP) and its president Mokgweetsi Masisi have long-term dominance in Botswana. With diamonds accounting for 90 percent of its exports, the BDP has decided to adopt more market-oriented economic policies to drive diversity. Successful policy changes will be challenging due to Botswana's lack of skilled labor, small domestic market, high unemployment and high poverty. Its deep respect for the rule of law, civil liberties and political rights, along with low levels of corruption, may support these policy changes and its medium-low legal and regulatory risk.

The respect given to the rule of law and stable government means political violence is a medium-low risk. Limited political controversy has been seen in the last quarter, though Masisi was made to deny allegations of planning to replace the BDP VP in the 2024 general elections. Exchange transfer is the risk of being unable to make hard currency payments as a result of the imposition of local currency controls. The Botswanan pula is under a crawling peg (pegged to the South African rand and the Special Drawing Right) currency regime. A strong foreign exchange reserve of $4.22 million (U.S.) in February also supports the pula, but appreciation of the real effective exchange rate has caused a worsened exchange transfer risk to a medium level.

The inability of the government to provide financial stimulus remains a medium-low risk, threatened by Botswana's dependence on diamond exports. This diamond dependence could mean swings in demand, and global prices will greatly damage Botswana's fiscal balance. High asset quality and profitability, coupled with its large foreign exchange reserves, have supported the banking sector. High inflation, low liquidity and monetary tightening have worsened banking sector vulnerability to a medium level, however. Sovereign nonpayment is a medium risk due to the large foreign exchange reserves, low public debt-to-GDP ratio and its planning to service debt obligations.

Burkina Faso

Burkina Faso remains a high-risk rating overall. Political violence is very high, with two coups occurring in 2022. Both foreign and domestic Islamic groups are also active, posing major security problems for the country. Attacks have occurred over April and May and despite numerous attacks and many deaths, the prime minister, Apollinaire Kyélem de Tambèla, has vocalized his disinterest in negotiating with the jihadists. Last September, a coup d'état against Lieutenant-Colonel Paul-Henri emerged. Captain Ibrahim Traoré's coup surge was enough of a threat to weaken Paul-Henri's defenses against a jihadi insurgency, which was able to make significant advances. Traoré moved swiftly in establishing big improvements in Burkina Faso's armed forces when he took power. Although these military capabilities have been called upon and proved useful, resources have been diverted from economy-boosting initiatives.

Burkina Faso's economy leans on several fragile factors, such as avoiding climate hazards, prices of cotton and gold, and weak infrastructure. It does benefit from its strength in gold and cotton production, membership in the West African Economic and Monetary Union and financial support from international entities. The government's inability to provide stimulus is therefore a medium-low risk. The French Treasury mitigates a portion of the risk on the Central African CFA franc, supporting Burkina Faso in its medium-high risk for exchange transfer. Supply chain disruption is a high risk, which is the risk of disruption to the flow of goods and/or services into or out of a country because of political, social, economic or environmental instability. Burkina Faso's supply chain vulnerability mostly stems from its weak electrical infrastructure and its exposure to climatic hazards. The risk of doing business is medium-high, due to its large informal sector, weak business environment and restrictions set by the country's problems with violence.

Cote d'Ivoire (Ivory Coast)

The country remains high on the overall risk rating due to domestic political and economic reasons. The risk of political violence remains high, while political inference is medium-high. This reflects the opposition's concerns that ex-president Laurent Gbagbo has not been given an amnesty that would allow him to participate in September municipal elections or the 2025 general election. This means that political tensions could spill over into more significant internal stability issues in the future.

On the economic front, the $3.5 billion, 40-month extended credit facility with the IMF helps the external situation (circa 5.5 percent current account deficit in 2023) and government debt issuance problems (as the government is reluctant to issue at high market rates caused by Western Africa central bank and G10 tightening). This is keeping the risk of sovereign nonpayment at medium-high and also means the government has little room for fiscal stimulus (the inability of the government to stimulate remains has moved up to medium-high).

Djibouti

Djibouti has an overall medium-high risk. Ismail Omar Guelleh, Djibouti's president, will retain power through this year thanks to support from the state's armed forces and international entities. Despite this popularity, communal violence has erupted between ethnic groups in the past, potentially a high risk with many suffering the effects of high electricity costs, chronic water shortages, poor healthcare and food insecurity.

Political violence is the risk of strikes, riots, civil commotions, sabotage, terrorism, malicious damage, war (including civil war), rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny, or a coup d'état. Political violence is a high risk due to the mentioned factors, as well as armed conflict threats stemming from the situations active in Somalia, Ethiopia and Eritrea. Supply chain disruption is a medium-high risk, due to its arid climate, making extreme weather conditions more common and presenting new challenges to infrastructure development. However, Djibouti does benefit from other details of its geography, such as being at the entrance of the Red Sea (used for 90 percent of its trade) and has aided Djibouti with its inclusion in China's Belt and Road Initiative (BRI). The BRI is an initiative to connect Asia with Western Africa and Europe, developing land and maritime networks for increased trade, economic growth and regional integration. Recent infrastructure projects have also looked to improve Djibouti's supply chain quality, concentrating on the modernization of port and railway infrastructures. The inability of the government to provide stimulus and exchange transfer have both fallen to a medium-low risk, due to a grown total FX reserve of $589 million in 2022, a fiscal deficit that has narrowed in recent quarters, a currency peg to the U.S. dollar, and successful infrastructure projects.

Despite strong foreign direct investment inflows, the risk of doing business is high due to an unskilled workforce, high electricity costs, a large informal economy, opaque business practices and corruption. Legal and regulatory risks are very high, owed to Djibouti's issues with corruption and compliance risks.

Eritrea

The overall political risk rating remains very high. With the Eritrean president still wanting to stay in Tigray and counter a perceived western-inspired threat on Eritrea from the Tigray People Liberation Army (TPLA), the risk of political violence remains high. If this deescalates it would be helpful, but this stance has not changed since the November 2022 peace deal between the Ethiopian government and the TPLA. The hard-line stance against Tigray, plus associated U.S. sanctions (Eretria is banned from Swift alongside Iran, North Korea and Russia), means the measures for legal and regulatory risk, political interference and risk of doing business remain very high. The progress on the Colluli potash mine contrasts with little investment momentum elsewhere, amid restraint from the authoritarian regime.

Ethiopia

The country remains at high overall political risk. Though the peace in Tigray is largely holding, insufficient progress has been made on transitional justice in the aftermath of the civil war. Meanwhile, Eritrean troops are still in Tigray and a risk to maintaining peace persists, while separate intermittent unrest has been seen in Amhara.

This keeps the political violence measure at very high but hinders the focus on economic growth and rebuilding. This keeps the risk of doing business and legal and regulatory risk high (social media has been banned since February for internal security reasons). Ethiopia needs to make progress on an IMF support package and an associated restructuring of foreign debt (mainly to China) under the G20 common framework (Paris Club, China and other creditors). The latter is complex given the mainly Chinese debt.

However, the previous pre-condition of transitional justice before aid appears to be softening in the Biden administration. The mood in Washington is softening toward Ethiopia for regional stability reasons and also to avoid China gaining more influence in the region. Ethiopia has recently asked Beijing to join the BRICS country grouping. This could see a moderate-sized IMF deal later this year. Domestically, the fundamental problem remains inflation, projected to be 28 percent in 2023. Though the government has launched the second phase of a multiyear growth and reform plan, the first phase made insufficient progress in the period since 2019, especially on inflation.

Gabon

Gabon has a medium-high risk overall. With Parti Démocratique Gabonais (PDG) as the favorite, the Gabonese general election will take place in 2023. Only five months before these elections, the president's term has been voted to decrease from seven to five years. The same Constitution extending presidential terms has also turned the presidential election into a single round. Already weak opposition has been further weakened and has criticized the Constitution for "facilitating the reelection" of Ali Bongo Ondimba. With the PDG's opposition calling out so much controversy and African military takeovers becoming more common, political violence is a medium-high risk. The freedom of the press is guaranteed by law, but the media landscape has led to forced self-censorship. Legal and regulatory risks are therefore medium-high, worsened by the current president's previous accusations of fraud and violence in 2016.

The government's inability to provide stimulus is a medium risk, owing to its lack of diversification (currently over-reliant on hydrocarbons). Banking sector vulnerability remains a medium risk, due to good performance in the oil market, which currently demonstrates elevated prices. A current-account surplus has also been the product of high oil prices. Gabon also uses the Central African CFA franc, which the French Treasury has pledged to mitigate any risk for, making exchange transfer a medium-low risk. Supported by oil prices, Gabon looks to meet its debt-servicing requirements. Its gross public debt is large, but real GDP growth and export earnings remain. Sovereign nonpayment is, therefore, a medium-high risk relating to the failure of a foreign government or government entity to honor its obligations in connection with loans or other financial commitments. Supply chain disruption is a medium-high risk, due to its inadequate infrastructure, especially for its electricity and transport.

Ghana

Ghana's overall risk remains medium-high. The country's main threat is its sovereign nonpayment factor, which stands at a medium-high level. This score is a consequence of the late 2022 default on the nation's Eurobonds, commercial loans and most bilateral loans. Since then, Ghana has gone through a debt restructuring process, in which has already agreed to restructure around $1.36 billion, with banks of cocoa bills (those that are used to finance production of cocoa) and locally issued U.S. bonds. Likewise, the country's pension funds were reportedly close to restructuring

$2.6 billion worth of government bonds they hold.

Another contributing factor to provide stability in this regard is the extended credit facility of about $3 billion, approved by the IMF. This scenario also means that the risk of the government's inability to provide stimulus is medium-high. As a measure to stabilize the country's finances, the government has identified twelve state companies for privatization, aiming to avoid carrying entities that are not profitable; thus, the political interference risk stands at a medium level. The challenging fiscal state, coupled with falling foreign reserves, also makes the exchange transfer stand at a medium-high level. The banking sector vulnerability remains a medium-low risk, backed by proper regulation and supervision. Nevertheless, declining credit growth and capital adequacy ratios, combined with rising non-performing loans, might negatively weight in future revisions.

The political violence factor remains a medium risk. Ghana's track record in upholding democracy and the rule of law backs this score. However, the general elections that will take place in December 2024 can destabilize this framework. First, the country is known for its election-related spending cycles, which will need to be avoided given the fiscal position, and then, former president John Mahama's campaign could mean a threat to the ruling party. The nation faces supply chain challenges — such as energy supply, transmission, and distribution — that, if paired with other elements such as weak infrastructure networks and obstructive bureaucracy, set the risk of doing business at a medium-high level.

Kenya

Kenya remains a medium-high-risk country in East Africa. William Ruto, of the Kwanza coalition, was elected president during the general elections held in August 2022 and started his four-year term one month after the process finished. While the result was contested by the opposition candidate Raila Odinga, the challenge was dismissed by the country's court and the transfer of power was smooth. During the first half of 2023, however, President Ruto has faced protests led by Odinga, who complained about the cost-of-living crisis and new taxes as well as demanded data on last year's elections from the Independent Electoral and Boundaries Commission to be published. More than 400 people were injured during the protests, which have also led to looting and invasion of private property; political violence is a medium-high risk.

The legal and regulatory risk has improved, as it moved from high to medium-high. Kenya has taken some steps to improve its regulatory system, such as launching a data protection registration system and implementing the Nairobi International Financial Centre, which aims to create an efficient and predictable operating framework; nevertheless, uncertainty on tax and regulatory policies still weighs on the country's score. Sovereign nonpayment remains a medium-high risk and the exchange transfer risk is a medium risk. By year-end 2022, the Eastern African nation had a general government gross debt and overall balance equivalent to 67.9 percent and -6.0 percent of GDP, respectively.

Kenya is set to be backed up by a $2.3 billion IMF program and a $1 billion loan from the World Bank, which have eased the concerns of foreign investors.

In part, the help comes after the government tries to implement reforms to boost revenue, such as implementing a Finance Act. The act is set to double the fuel tax and introduce a housing levy for all employees, privatizing some state companies and scrapping subsidies on fuel and food. It must be noted that the Finance Act implementation has been suspended and further developments are expected in July 2023.

Likewise, the country's unfavorable financial condition will threaten the government's ability to provide a stimulus factor, which is a medium-high risk. Despite this, President Ruto intends to increase spending on initiatives such as providing access to affordable housing and healthcare, supporting farmers and small businesses and investing in fiber networks. The banking sector is a medium-low risk as capital buffers and liquidity are strong. The country seeks to attract foreign investment by signing economic partnership agreements with the EU, reopening the Somali-Kenyan border and lifting the moratorium on new mining licenses. However, supply chain disruptions, security threats and corruption make the risk of doing business stand at a medium-high level.

Liberia

Liberia remains at a high-risk level. With the Liberian general election taking place in October, there is social unrest over the presidential rule of George Weah, who oversees a deteriorating political and economic environment. The social unrest comes as a product of Weah's perceived inability to deal with the COVID-19 pandemic, corruption cases, poverty, unemployment and inflation. Weah remains the favorite despite his lack of public popularity, which offers an opportunity to his opposition, though the opposition remains weak. Legal and regulatory risk remains high, with Reporters Without Borders indicating that journalists continue to be attacked despite the presence of freedom of speech and the press.

Elections can raise social unrest and violence, especially in post-conflict countries, but the Liberian political parties have signed a peace accord hoping to restrict political violence to its current medium-high level. George Weah's election in 2017 was the first peaceful democratic transition since its two civil wars (1990 – 1997 and 1999 – 2003).

Liberia is supported by the International Monetary Fund (IMF), improving stability for its policy-making initiatives and restricting its political interference to its current high level. Liberia possesses diverse natural resources and a strong agricultural sector. GDP growth is especially aided by strong outputs in iron ore, gold and rubber, potentially decreasing its high risk of sovereign nonpayment and high-risk rating of the inability of the government to provide stimulus. Poor infrastructure continues to damage Liberia's medium-high risk of supply chain disruption, although recent infrastructural development through investment could see this rating fall.

Malawi

Malawi has an overall medium-high risk. Political violence is a medium risk, with current threats of social unrest stemming from public dissatisfaction with the country's inflation and poverty. With stable, effective and democratic institutions under President Lazarus Chakwera — who has implemented anti-corruption efforts — social unrest may settle and help lower Malawi's medium-high legal and regulatory risk.

Corruption and bribery are present in every sector of Malawi's economy. Impunity owed to officials and generally poor enforcement has restricted the effectiveness of Malawi's comprehensive anti-corruption legal framework. Malawi has the Penal Code and the Corrupt Practices Act to criminalize and help eliminate bribery, extortion and abuse of office. The high risk of doing business is also worsened by corruption, where widespread compliance risks, large networks of patronage, red tape, bribery and bureaucracy make business investing and entry to the Malawi economy unattractive.

Malawi's geographical isolation and inadequacy in all forms of infrastructure pose vulnerabilities for its supply chain, making supply chain disruption a medium risk. Supply chains are also threatened by cyclones and droughts, and the demands put on the supply chain are volatile with tobacco prices. In addition to the environment and tobacco prices as threats, high public debt and export dependency on its agriculture industry make the inability of the government to provide stimulus a medium-high risk. Sovereign nonpayment is a medium-high risk, with the requirement for strategic restructuring for a new IMF program important. However, broad debt, accumulation of arrears, wide fiscal deficit and balance-of-payment pressures have put pressure on Malawi. This sovereign nonpayment situation also threatens the banking sector. Additionally, poor asset quality and inadequate monetary policy are predicted to make banks more vulnerable.

Banking sector vulnerability therefore remains a medium risk, still possessing strong capital buffers and profitable periods. January has seen Malawi move to a market-led exchange rate. High inflation and falling foreign exchange reserves also reflect the issues exchange transfer has experienced, which is currently a high-risk rating.

Mauritania

Mauritania remains at a high overall risk. President Mohamed Ould Cheikh Ahmed Ghazouani of the Parti El Insaf looks likely to retain the presidency until the presidential election in 2024. The complexities of its electoral system meant Parti El Insaf's victory gained a minority of the vote, but a majority in parliament. The next parliamentary election is set to take place in 2028 and Mohamed Ould Ghazouani looks likely to retain the presidency in 2024.

Along its border with Mali, Mauritania has a jihadist threat. The Meharists in the Mali border area have been able to patrol this area and help with healthcare for the local community, a duty that has been helped by EU funding. The threat of terrorism still exists, making political violence a high risk. Tensions also continue to exist between communities within Mauritania, with discrimination regularly against the Haratines (Black Moors).

These Haratines form 30 percent of the population and descended from the slaves of the Beydanes (White Moors). Legal and regulatory risk relates to the financial or reputational loss resulting from difficulties in complying with a host country's laws, regulations, or codes. Legal and regulatory risk is a very high risk in Mauritania, demonstrated by its government cutting off the internet on mobile phones to mute protests over the death of a young man in police custody. Non-existent insolvency treatment and corruption in the form of patronage networks and bribery are also evident.

The risk of doing business remains a medium-high risk and has also been elevated by this corruption, where licenses, public contracts and permit possession is sometimes only possible through bribery or criminal networks. Despite its great potential in the energy, mineral and fishery sector, supply chain vulnerability exists through its lack of arable land and exposure to weather patterns. Supply chain disruption is therefore a medium-high risk.

The government's inability to provide stimulus has worsened to a medium-high risk, due to its weak education system, high unemployment, large informal economy, an under-diversified economy vulnerable to external shocks (such as commodity prices), and many aforementioned circumstances that will restrict economic success and render government spending ineffective. However, Mauritania has recently experienced some macroeconomic stability and received support from international entities (donors and international organizations). Some fiscal stimulation and improvement in areas such as education and employment may also prove key to meeting the financial commitments related to this support and reducing its medium-high risk of sovereign nonpayment. Sovereign nonpayment continues to be supported by a stable debt-to-GDP ratio in 2022.

Mauritius

Mauritius has an overall risk of medium-low. Political violence is a medium-low risk, while social unrest is made more likely by recent failures to tackle corruption, high youth unemployment and elevated inflation. However, social unrest is low-level so far, democracy standards are high and the prime minister, Pravind Jugnauth, has a large parliamentary majority. Despite its reliance on areas of external vulnerability (tourism and European markets) for earnings, Mauritius does have a diversified export base. Its income per head has also increased over the last quarter, supporting a fall in risk for the inability of the government to provide stimulus to a medium level.

Due to its need to pay off its large debt and high levels of importation for food and fuel, funds can often be tied up in places other than economic stimulation. Stemming from its free trade agreements with China and India, Mauritius depends on these nations and other European and Asian regions, despite its strategic geographical location neighboring Africa.

Risk of doing business, political interference and legal and regulatory risk are all medium-low risks, owed to Mauritius' stable democratic institutions and attractive business climate. Political interference relates to the risk of host government intervention in the economy or other policy areas that negatively affect overseas business. Banking sector vulnerability remains a medium risk, supported by its strong financial supervision and private sector credit growth. Exchange transfer risk remains at a medium-low level, as recovery from previous inflation and falls in foreign exchange reserves caused by elevated commodity prices continue. These issues demonstrate Mauritius' vulnerability due to its dependence on food and fuel importation.

Sovereign nonpayment risk has fallen to medium-low due to export growth and real GDP expansion stemming from the tourism sector recovery. However, external and public debt remains at a level where they are a burden and make repayment requirements harder to achieve.

Morocco

Morocco's overall risk rating remains at medium. The risk of political violence remains medium-high. Domestically high unemployment and income inequality continue to cause tensions, with a risk of protests seen in February 2022 being repeated. On the international front, tensions with Algeria over numerous disputes (historical issues and Western Sahara) have worsened and both sides continue to build up military expenditure. Any actual military clash could significantly hurt the overall risk rating.

Additionally, the dispute with the European parliament over three Moroccan journalists means that the relationship with the EU is far from perfect. These tensions are keeping the legal and regulatory risk at medium-high. In contrast, the openness to Western business means that the risk of doing business remains at medium-low. For the economy, the trend is for around 3 percent growth and inflation is being brought under control — though the current account deficit at 3.5 percent of GDP needs monitoring. The inability of the government to provide stimulus remains at medium, as the government debt to GDP ratio is coming down only slowly and is projected at 68 percent for 2023.

Eswatini (Swaziland)

Eswatini, formerly Swaziland, has worsened in overall risk from medium-high to high. This is due to a rounding effect, while there are no changes in the nine smaller categories of risk. An anti-monarchy protest has started against King Mswati III in reaction to the recent lack of political and democratic reform, supporting its medium risk of political violence.

Political interference is the risk of host government intervention in the economy or other policy areas that negatively affect overseas interests. Political interference is a medium-high risk, due to restrictions put on governance, business environment and regulatory quality inflicted by the king's unpopular dealings with politics and the rule of law.

Corruption is very much present in Eswatini, within public procurement. These illegal incomes, increasingly connected with the marijuana trade, are sometimes spent to buy commercial goods and build houses on non-titled land. Many of these mentioned factors dictate Eswatini's legal and regulatory risk, currently at a high level. Thanks to good trade and investment integration with the neighboring economies of South Africa and Mozambique, political interference may less directly affect foreign investment interests. This trade support for its neighbors also caps its medium-high risk of supply chain disruption, although its infrastructure is currently restrictive.

Its poor infrastructure has been particularly harmful with regard to access to clean water and sanitation. Poor government revenue means that the government's ability to pay its financial commitments is made harder, with sovereign nonpayment a medium-high risk. These fiscal conditions and risks of government ineffectiveness make the government's inability to provide stimulus a medium risk. An example of this inability is its progress in improving Eswatini's infrastructure, with progress remaining gradual because of inadequate government revenue and funds.

Sudan

Sudan remains a very high-risk country. Particularly significant is the extreme violence and political instability in Sudan. Political violence is a very high risk, due to the military authority's weak legitimacy raising issues with civilian movements, Islamists, gold smuggling, corruption and military-economic entanglements. Militia presence in areas such as Darfur, Kordofan, and the Blue Nile has been very dangerous.

A weeklong ceasefire in Omdurman and other areas was brokered by Saudi Arabia and the U.S., though it's been violated many times. The ceasefire was administered in an attempt to end the conflict between the military and the paramilitary Rapid Support Forces, but an extension of the ceasefire has so far been rejected by the warring factions and they returned to warfare on May 29. In addition to bids to reduce political violence, relations are now improving between Sudan and South Sudan. This reinstatement of relations could also improve its very high risk of supply chain disruption, as it will reduce conflicts at the border and will also help continue pipeline transit fee payments, where a similar benefit is being gained from improving relations with Israel.

With this move, supply chains should become less vulnerable, given Sudan's Red Sea ports and its beneficial position in proximity to Gulf countries. The inability of Sudan's government to provide stimulus remains a very high risk. Partial debt cancellation in 2021 and nominal GDP growth have helped this situation. However, reforms and economic diversification remain slow and hindered by political instability and structural imbalances. Hyperinflation and currency depreciation are two significant products of this situation. The lack of nominal GDP has caused a shortage in hard currency and solvency, despite the adoption of a free-float system in March. Exchange transfer, therefore, remains a high risk. Banking sector vulnerability has worsened to medium risk, with the country currently experiencing currency depreciation, hyperinflation, limited productive lending opportunities and poor regulation. Political instability has also made sovereign nonpayment a big risk, with large arrears, Sudan is currently in default, and political stability looking difficult in the short term.

Uganda

Uganda is a medium-high-risk country. Political violence remains a high risk. Most significantly, the Uganda Freedom Activists have been calling for anti-government protests against corruption and economic hardships. Protest planning has been found to involve explosives in at least the capital, Kampala, with police rendering the organization of protests "unlawful." The police play a sizeable part in the president's stability. Yoweri Museveni (National Resistance Movement) extended his presidential reign for the fifth time in 2021, but recent protests may produce vulnerabilities. Significant drivers for protest are the National Resistance Movement's weak governance, high levels of corruption and ineffective political reform, owing a lot of the social unrest to legal and regulatory deficiencies.

Legal and regulatory risk relates to financial or reputational loss due to a failure of governments to follow the country's rule of law, where Uganda is at high risk. This lack of effective reform will also impact the validity of overseas business interests, as political interference remains a medium-high risk. These unfavorable factors of Uganda's business and economic environment create many hurdles to running a business. Risks to doing business are high, worsened by the insecurity of Uganda's bordering areas with the Democratic Republic of Congo and South Sudan. Exchange transfer is a medium risk, owing to the Ugandan shilling's exchange-rate misalignment. Banking sector vulnerability is at a medium-low risk, due to the Bank of Uganda's good financial supervision and stable credit growth. One threat to the banking sector is high levels of non-performing loans, making up 5.4 percent of gross loans at the end of 2022. Sovereign nonpayment is a medium-high risk, due to public debt at 53 percent of GDP and a fiscal deficit of 6.7 percent of GDP. Foreign investment and external credit have favorable impacts on Uganda, though its falling foreign exchange reserves could indicate a possibility of liquidity issues.

Zambia

The overall risk in Zambia remains medium-high. With long-lasting deficiencies in healthcare and education, recent austerity and cost-of-living pressures have increased pressure and calls for protest against the Zambian president. Hakainde Hichilema is the current president, looking likely to head the United Party for National Development (UPND) and the country until the general elections in 2026.

The threat of protest has come with these increasingly difficult times, making political violence a medium risk. Discouraged by UPND, the opposition Patriotic Front plan to hold anti-gay protests during the visit of U.S. Vice President Kamala Harris and ahead of the democracy summit in Lusaka. After its sovereign default in 2020 and unsustainable external debt, sovereign nonpayment remains a high risk. In a bid to improve this situation, ongoing negotiations with its external creditors aim to achieve a debt-restructuring deal. Progress has been made on bilateral loans, including Chinese lenders granting a three-year delay on payments, extending the maturity to 20 years and low-interest payments until 2037. With this deal covering $8 billion, Zambia's exit from default remains reliant on co-ordinating a largely diverse creditor base in separate $3 billion Eurobond negotiations.

Banking sector vulnerability remains a medium-low risk, although current profitability is being challenged by a higher ratio of non-performing loans to gross loans and low credit extension to the private sector. Currency alignment has benefitted from high global copper prices, a wide current-account surplus and easing inflation, making exchange transfer only medium risk despite its depreciation in real terms. Supply chain disruptions are a medium-high risk, due to Zambia being landlocked, its electricity being greatly dependent on hydropower, and transport networks proving to be unreliable. When analyzing the risk of governments being unable to offer a financial stimulus, this shortfall comes due to a lack of fiscal credibility, declining reserves and a high debt burden or government inefficiency. The government's inability to provide stimulus in Zambia remains a high risk. Major vulnerabilities lie with Zambia's dependence on copper (an industry already reliant on Chinese demand) and aforementioned supply chain threats. However, its mining and agricultural industries carry great produce and promise, representing Zambia's greatest opportunity for economic growth.

Zimbabwe

Zimbabwe remains at a very high-risk level. Zimbabwe is a nation with a promising tourism sector, agricultural strength and abundant access to mineral resources such as gold, diamonds, copper, platinum and nickel. Its economy, however, is currently experiencing hyperinflation, local currency depreciation and worsened access to food and healthcare. The Zimbabwe African National Union-Patriotic Front (ZANU-PF), the ruling political organization in Zimbabwe since independence in 1980, looks likely to continue to retain its political control in July.

The ZANU-PF's stability in power has meant the risk of political violence remains high, with its use of state institutions to crack down on the Citizens Coalition for Change party. One occurrence has been the conviction of Job Sikhala for obstruction of justice (occurring a year ago), restricting his involvement in the presidential and legislative elections in August.

Political violence has been a serious issue, with a presidential amnesty order releasing a fifth (4,000) of Zimbabwe's prisoners to help solve the overcrowding issue at prisons operated by Zimbabwe Prisons and Correctional Service. Issues of corruption and silencing of protests explain both Zimbabwe's risk of political violence coming into elections and its very high legal and regulatory risk. Legal and regulatory risk is the risk of financial or reputational loss as a result of difficulties in complying with a host country's laws, regulations or codes.

Supply chain disruption remains a high risk due to underinvestment in infrastructure and tight emergency funds due to its hyperinflation and reliance on foreign funds. Sovereign nonpayment is at medium-high risk, with its sovereign in default and exclusion from the international credit markets. Sovereign duties look to worsen, with insufficient repayment capacity, accumulating arrears, and long-term fiscal deficit. Exchange transfer is also a medium-high risk, owing to its overvalued Zimbabwe dollar and restricted access to foreign currency. Its banking sector offers more security, with banking sector vulnerability at a medium-low level. The ratio of non-performing loans to total loans remains low as the Zimbabwe dollar's depreciation has led to an increased value of foreign currency-dominated loans.

Middle East

Bahrain

Bahrain's overall risk has fallen from medium-high to medium. Social unrest remains a challenge in Bahrain due to its Shia Muslim population's long-held discontent with the Sunni ruling Al Khalifa royal family. The Sunni-ruling Al Khalifa royal family holds the main political and military posts, a position that has come under high tension with periods of civil disobedience. Risk of political violence is medium-high, a rating supported by Bahrain's attempts to reestablish relations with Iran, thereby reducing the risk of violence. Saudi Arabia has already laid the blueprint for rebuilding relations with Iran, successfully reducing its cross-border tension.

Sovereign nonpayment remains medium-high and exchange transfer risk has fallen to a medium-low level. Foreign exchange reserves are growing creating the rating fall, though reserves still may be too low to support the U.S. dollar-pegged Bahraini dinar. Sovereign nonpayment has been damaged by its high public debt-to-GDP ratio. In a bid to avoid default, Gulf allies have supported Bahrain and Bahrain has accrued strength in its current-account surplus and growing foreign exchange reserves. The inability of the government to provide financial stimulus remains a medium-high risk, though diversification of trade looks to cap this risk. Bahrain is one of the most diversified economies in the region, owing to sectors such as aluminum. However, fiscal revenues are still reliant on oil, making fiscal stimuli vulnerable to external shocks.

The risk of doing business relates to the regulatory obstacles to setting up and operating a business in the country. Low inflation and interest rates make regulatory barriers to entry less effective and investment more attractive; therefore, the risk of doing business remains a medium risk. Legal and regulatory risk remains a medium risk. Corruption's presence in the private and public sector has been targeted by the legal anti-corruption framework and the penal code, though remains due to poor enforcement.

Self-censorship is enforced through the rule of law, imprisoning journalistic entities for criticizing the king, Islam, or threatening national securities. Bahraini authorities also closely monitor online activity and offer the same penalties to online entities that are seen to be operating unlawfully. Owed to its control over journalism and having one of the highest rates of internet penetration in the Arab world, freedom of speech remains low.

Iran

Iran has a very high level of overall political risk. Though political violence is high, rather than the very high rating in some other countries in the region, the risk of unrest remains. The public protests against the regime seen last year have been brought under control by a crackdown and many arrests, but the widespread grievances have not been addressed and future public protests could be planned. Iran's very high overall rating also reflects legal and regulatory risks remaining at very high and political inference measures moving from high to very high. The protests have worried the regime, despite the attempts to blame the protests on the West. This means political inference with all aspects of people's lives, including monitoring their discontent, remains very high.

Worries among the regime also mean businesses and the economy are held back by the need to prioritize internal security. This keeps legal and regulatory risks very high and risk of doing business high. Economic growth is trending at 2 percent, which is below potential given the population dividend. The current account is projected to remain in surplus at around 2 percent of GDP in 2023 and 2024. Meanwhile, the government is trying to reestablish diplomatic relations with Egypt after the China-brokered deal to reestablish relations with Saudi Arabia. This stops sovereign nonpayment from rising further from medium-high.

Even so, risks will likely remain elevated, as a major peace dividend is unlikely for Iran. Reestablishing relations is largely a de-escalation rather than a larger swing to close relations with other Arab nations. Iran will not want to dilute its military strength on de-escalation alone. Additionally, a new deal with Europe and the U.S. is now unlikely, with the Republicans controlling the U.S. Senate and President Biden's attention switching to the November 2024 presidential election.

Kuwait

Kuwait's overall risk rating remains at medium. The main issue remains the power struggle between the ruling Al Sabah family and parts of the judicial and legislative branches due to disagreements over debts, stateless people and redrawing of electoral boundaries. This triggered the events that led up to the June 6 election (the third in three years), where opposition parties had the largest share. This will likely see the Kuwait ruler, at some stage, pressing for a fourth election, given opposition parties' demands. This is an unfriendly business environment and helps explain why the risk of doing business (medium-high) and political inference (medium-high) are higher than in other GCC countries.

The political violence measure is at medium, though there are no signs at this juncture that the power struggle could turn ugly. The support for the risk rating comes from oil exports helping government revenues and a current account surplus at close to 20 percent in 2023. This windfall from the rebound in oil prices from the 2020 lows means that sovereign nonpayment is medium-low, while banking sector vulnerabilities are also medium-low.

Qatar

Qatar's overall risk rating remains at medium-low. The improvement in relations with Saudi Arabia and UAE has been followed by a general thawing of tensions in the region. This is being driven by an understanding that the U.S. is pivoting toward Asia and rivalries need to be healed to help peace in the region and avoid unnecessary conflicts. Additionally, countries are focused on domestic policy agendas, which argue against regional tensions. De-escalation between Saudi Arabia and Iran is also crucial to improving the non-fossil fuel business environment in Qatar.

The risk of doing business remains at medium-low, as Qatar tries to attract global business and tourism. The decline in gas prices from the summer 2022 peak is not a real worry for the economy because it reflects a return to pre-Ukraine war prices. Governments around the world have been signing long-term gas deals with Qatar to secure supplies. The current account is projected at 19 percent of GDP in 2023 and will likely remain in double digits for the next five years, both as demand for gas holds up better than oil in the G10 energy transition and as the North fields increase exports in 2025.

Saudi Arabia

The overall risk rating remains medium. The great strength remains revenues from fossil fuels, which has ensured that the current account surplus should be 6 percent of GDP after the 2020 deficit with the collapse in oil prices and demand. This means the government revenue position remains healthy compared to during the 2020 – 2021 COVID-19 crisis and the inability of the government to provide stimulus has moved down from medium-low to low.

The government remains highly committed to the Vision 2030 program, which provides dual support through infrastructure spending but also a desire to reform. This should ensure that growth is 3 percent in 2023, but also in the coming years; the controlled inflation also means no internal policy conflict, unlike in G10 countries. Though the reform process could be quicker, enough is being seen to help keep the risk of doing business medium. The financial and economic strength also keeps the sovereign nonpayment risk at medium. The only high-risk rating comes from the political violence measure, as domestic discontent remains about differences in income inequality, the provision of services by the government and political and human rights freedoms. The ongoing war in Yemen also provides a risk of spilling into occasional attacks on Saudi Arabia.

Syria

Syria remains a very high-risk region. The Syrian army controls most of Syria with little indication that they will lose ground over the next quarter. Opposition forces are holding out in the North. Bashar al-Assas is secure in his presidential position and is expected to continue this year. The presence of civil conflict since 2011 has killed thousands and made millions of refugees, making political violence a very high risk.

The presence of Isis cells means violence will continue to break out on the Syrian population and foreign nations will continue to carry out strikes on Syrian land. This substantial control over the region means rebel groups have lessened their attacks, leaving occasional flare-ups in Northwestern Syria. The subsiding of the majority of conflict has meant that rebuilding has started taking place.

With the rebuild being stunted by an earthquake in February, elevated international commodity prices and currency weakness, the government's inability to provide stimulus is a medium-high risk. This risk relates to the government not being able to stimulate the economy due to a lack of fiscal credibility, declining reserves and high debt burden or government inefficiency. Syria's banking sector vulnerability is a medium risk, due to exchange rate fluctuations, currency misalignment, high inflation and low liquidity of foreign exchange.

Credit misallocation from Syria's government has worsened because of the civil war, demonstrating its very high risk of political interference. The violent acts in Syria have led to international isolation and sanctions, devastating overseas business interests.

Legal and regulatory risk are very high, owing to Syria's major political and business entities fueling corruption and extra-legal activities, unrestricted by any authority figure. Exchange transfer remains a very high risk. The Central Bank of Syria has devalued the official exchange rate since mid-2022, but the Syrian pound remains overvalued and misaligned.

Sovereign nonpayment is a high risk, due to significant falls in Syria's foreign exchange reserves. Its current-account and budget deficits damage Syria's ability to meet its requirements, with its government currently in default. Due to its isolation and sanctions, foreign direct investment is minuscule and its access to international debt markets is blocked, leading it to rely on bilateral support.

UAE

United Arabe Emirates (UAE) remains at medium-low overall risk. The ease of doing business remains medium-low, as the government continues to encourage foreign companies to use the UAE as a regional base with a favorable attitude toward businesses. This also means that the political interference measure remains at medium-low, compared to medium for Saudi Arabia (that is pressuring companies to set up headquarters in Saudi).

Competition with Saudi Arabia is increasing, but wider security goals in the region mean Saudi Arabia and UAE are aligned in key areas. Competition is also healthy if it drives reform rather than restrictive practices (e.g., Saudi airlines to compete with UAE airlines' success). This pillar of the non-fossil fuel business is also now being supported by healthy revenues from oil and gas again after the volatility of 2020. The current account is projected at 7 percent of GDP in 2023 and is likely to be sustained at this pace in the coming years. This means that sovereign nonpayment risk remains at medium-low, while the inability of the government to provide stimulus remains low (with plenty of fiscal space to support the 2030 ambitions). A 3.5 percent growth in 2023 and close to 4 percent in the coming years is helped by this twin-track approach.

Yemen

Yemen has a very high overall risk. After the collapse of a ceasefire agreement in October and a period of violence that wasn't close to the extremes we saw earlier in this civil war, its war situation has returned to its previous level. Political violence is a very high risk, owing to the conflict between the Saudi-backed government in the south and the Iran-backed Houthi rebels in the north looking to continue into 2024.

Yemen's abundant oil is what Yemen's land would offer a winner of the conflict, where Saudi Arabia's mediation efforts were insufficient in stopping the oil-fueled conflict. Growth will be hit, but stable remittance incomes, rising oil output and foreign aid will continue growth levels. The inability of the government to provide stimulus has worsened to a high risk as a result of conflict, private sector weakness and the fragility of its remaining inflows.

Conflicts will also damage sovereign nonpayment risk, currently a high risk, already creating large fiscal and current-account deficits. Aid inflows are not likely to be sufficient for Yemen to service its debt obligations and prevent further buildup of arrears. Exchange transfer is also a high risk, owing to the same poor inflows and wide current-account deficit. The Iran-backed southern government continues to monetize its fiscal deficit, putting further pressure on the exchange rate. Banking sector vulnerability is made to be a medium risk by these currency and inflationary pressures, while banks are exposed to fragile public finances and inflation-induced volatility in real interest rates. Given its lack of infrastructure for healthcare, education and water sanitation, Yemen's workforce is unlikely to support the economy when supply chain difficulties arise.

Supply chain disruption is a very high risk, despite Yemen's strategic position on the Bab el Mandeb Strait. The risk of disruption to supply chains relates to the risk of the flow of goods and/or services being disrupted as a result of political, social, economic or environmental instability, including the government's ability to respond to a disruption. With its ongoing conflict, a lot of Yemen's already basic infrastructure has been destroyed. Legal and regulatory risks and the risk of doing business are very high, due to Yemen's business climate of bureaucracy, corruption and weak infrastructure.

Eastern Europe and CIS

Albania

Albania has a medium overall risk. Political leadership is stable in Albania, with the Socialist Party of Albania retaining the election for the third consecutive term in April 2021. The government is expected to serve its term in its entirety, with the next election in 2025. However, high food and energy prices stemming from its cost-of-living crisis (also leading to high levels of migration), incomplete judicial reform and struggles within the EU accession talks have made political violence a medium risk. Supply chain disruption is a medium risk due to Albania's undeveloped road and energy infrastructure, which is worsening energy shortages that have led to regular power cuts. The Straits of Otranto provide access to the Italian market, offering a strong trade link.

Albania's low labor costs make its government more flexible in resolving supply chain issues as well as making financial stimuli more effective. However, its current account deficit (-8 percent of GDP in 2022) makes the inability of the government to provide stimulus a medium risk.

Sovereign nonpayment is the risk of failure of a foreign government or government entity to honor its obligations in connection with loans or other financial commitments. The risk of sovereign nonpayment is medium, due to high public debt-to-GDP, fiscal deficit, and current-account deficit. Exchange transfer is also a medium risk; Central Bank intervention and its tourism sector have supported the Albanian lek's appreciation since late 2022, recovering from its depreciation in reaction to the Ukraine war. Legal and regulatory risk is medium-high, with patronage networks, political influence and other forms of corruption hindering its economic sectors, judicial system and bid to join the EU. The risk of business is also strengthened by these factors. Along with its poor infrastructure, slow reform processes and weak rule of law, these factors make the risk of doing business a medium risk. Doing business is supported by Albania's good international relations (especially if it joins the EU), low labor costs and potential in many industries, such as mining and tourism.

Belarus

Belarus' overall risk score remains high. The political violence risk level is at medium-high, while legal and regulatory risks are high. The spillover of the Ukraine war on Belarus remains evident as the country continues to have close ties with Russia. On the military side, the Wagner Group staged a rebellion in Russia on June 23 and Belarussian president Lukashenko was quick to play a key role in defusing the Wagner militia's mutiny against the Kremlin as Wagner forces marched toward Moscow and took control of military facilities in two Russian cities.

Lukashenko intervened and brokered a deal under which Prigozhin would likely move to Belarus, and Wagner fighters either sign up to the Russian military, go to Belarus or return to their families. The Russia-Ukraine war continues to affect the Belarussian economy negatively. The economy is expected to grow by around 3.3 percent in 2023, but the total economic burden over the country is also very high since around 2,000 companies have left Belarus after 2021, according to the Association of Belarusian Business Abroad. It appears the sanctions caused Belarus to be more attached to Russia's economy while the political interference and risk of doing business remain at medium-high, as the war in Ukraine continues to cause a domestic strain.

Bosnia and Herzegovina

Bosnia and Herzegovina has an overall risk at a medium-high level. The stability of its government looks to continue a steady path, with a new government formation happening in October 2022 and Bosnia and Herzegovina becoming an EU candidate in December. Bosnia and Herzegovina has a three-member body presidency, divided into Bosniaks, Serbs, and Croats. Its tripartite presidency has facilitated increased polarizing views over the war in Ukraine, ideas on autonomy, and other areas of politics.

Disagreements within the presidency are always likely to cause unrest among some parts of the population. As a result, political violence is a medium-high risk. Banking sector vulnerability is a medium-low risk. The banking sector has so far proven resilient against the threats related to its country's politics, continuing to possess liquidity buffers and high capital — although more loans have been non-performing over 2022.

Exchange transfer is the risk of being unable to make hard currency payments because of the imposition of local currency controls. Exchange transfer has worsened in risk to a medium-high level due to increased imports in 2022 and leading to a growing and large current-account deficit. This rating looks to remain stable, however, due to stable foreign exchange reserves, slowing inflation. The pegging of the Bosnia-Herzegovina convertible marka to the euro, however, if inflation remains more elevated than the Eurozone in future years.

Sovereign nonpayment is a medium risk. The ratio of public debt to GDP has fallen during the last quarter and meeting objectives remains likely, despite Bosnia and Herzegovina stacking up a large sum of debt through financing from international financial institutions. The inability of the government to provide stimulus has worsened to medium risk, due to its situation of dependence on external financing and imports. This means a number of structural, financial and trade shifts need to happen to enable the government to be effective in allocating its spending.

Government effectiveness has already been called into question by its continued lack of public investment, ineffectiveness at increasing its low labor force participation, high youth unemployment, and large informal economy situations. Legal and regulatory risks are high due to corruption and defective rule of law. The rule of law is often hard to perfect with its presidential system. Corruption, including a lot of public procurement, represents a significant risk for this risk area.

Georgia

Georgia remains a medium-risk country. The ruling Georgian Dream (GD) party has received mass protest because of allegations that the government is attempting to remove democracy and taking operational advice from Russia. The government has also been accused of jailing opponents and censoring and/or silencing independent media, meaning its legal and regulatory risk is medium.

Corruption is also a significant issue in Georgia, mainly in high-level operations such as government. International human rights groups have claimed that the imprisonment of former president Saakashvili was politically motivated, demonstrating part of the troubling accusations pinned on the government. With these protests, and strained relations between Georgia and Russia over the regions of Abkhazia and South Ossetia, political violence is a medium-high risk.

A “foreign agents” draft law has been dropped because of these protests, a law which would target non-government groups that take 20 percent of funding from abroad, with protestors identifying this as a Russian-style law. With a parliamentary election in 2024 and changing Russian situation, the risk of violence is likely to worsen.

Risk to financial stimulus is the risk of the government not being able to stimulate the economy due to a lack of fiscal credibility, declining reserves, high debt burden, or government inefficiency. Georgia’s government’s inability to provide stimulus has improved in risk, becoming a medium-low risk. Even so, Georgia’s low-value exports, trade deficit and high-level corruption all mean that funds for government spending are meager. Banking sector vulnerability has also worsened to a medium-low level, due to already existing high dollarization in its banking system (61 percent of deposits and 56 percent of loans at the end of 2020). This has created an increased risk of exchange rate volatility, where its exchange rate has been elevated since April. This exchange rate volatility stemming from dollarization also makes exchange transfer a medium-high risk.

Risk of doing business is medium-low, with corruption becoming more of an issue in higher-level realms of Georgia and offset by an abundance of mineral materials, and potential for hydroelectric, agriculture and tourism. Risks for business owners are exchange rates and poor protection of intellectual property rights.

Moldova

Moldova remains a high-risk country. An acute economic crisis has arisen from threats of the Russia-Ukraine war spilling over to Transnistria. Transnistria is a Russia-backed breakaway state, internationally recognized as Moldovan, where Moldova and the unrecognized state of Transnistria have fought since 1992. Political violence is therefore a very high risk. Since the government reshuffle in February, authorities are likely to concentrate on national security, potentially protecting against these heightened threats.

Doing business remains a medium risk due to government corruption and a burdensome regulatory environment where the risk of doing business relates to regulatory obstacles. Access to resources has also been restricted by the threat of war, with a Russian missile flying over Moldovan airspace in March reducing international business activity. Wizz Air has suspended its flights to Chisinau, the Moldovan capital, in reaction to this threat. Supply chain disruption risks remain due to violence involving its neighbors. Moldova's status as Europe's poorest country restricts the government from effectively responding to disruptions, making it a medium-high risk.

Legal and regulatory risk is high, due to the lack of transparency in government and a judicial system intertwined with political elites, giving public officials impunity. The poor political and institutional quality, combined with falling fiscal balance and widening external financing requirements, makes sovereign nonpayment a medium risk, though supported by strengthening foreign exchange reserves. Banking sector vulnerability is a medium-low risk, owing to the banks' adequate liquidity and capital buffers. Non-performing loans are a banking issue that looks to worsen this year. Inflation has been present in Moldova, although it is now falling, attempting to stabilize its very high exchange transfer risk against the persistent and significant current-account deficit. With this current-account deficit and undiversified economy, the inability of the government to provide stimulus is a medium risk.

Russia

Russia's overall risk rating remains at medium-high. Political violence is rated as very high; legal and regulatory risk is rated as high and political interference as medium-high as the war in Ukraine continues to cause a domestic strain both for the public and the government. In addition to political issues, major challenges seem to have shifted to the military side recently as the Wagner Group staged a rebellion on June 23 after increasing tensions between the Russian Ministry of Defense and the leader of Wagner, Yevgeny Prigozhin. Despite President Vladimir Putin having announced on July 4 that the country is stable and united despite a brief mutiny, the Russian economy continues to struggle after the mutiny. Russia's ruble weakened in July to trade close above 90 per dollar. The ruble is now one of the worst-performing emerging market currencies, which lost 18 percent of its value this year alone. International sanctions, and the decline in energy earnings, compounded by Wagner's mutiny, have caused the Russian currency volatility. Putin's grip on power is also being questioned, and it appears the aforementioned issues have negative effects on the overall economy in addition to investors' perceptions of the Russian economy. Despite these harsh realities, Russia continues to enjoy plenty of room to stimulate via fiscal policy and, given the low government debt-to-GDP trajectory, political and military developments may change the economic scenario quickly. On the war front, Russia's and Ukraine's spring offensives have failed to gain ground in eastern Ukraine, causing a stalemate; the chance of reaching a credible peace deal remains slim.

Serbia

Serbia's overall risk score remains at medium. The political violence risk level is medium, just like political interference, supply chain disruptions and sovereign nonpayment posing medium risk. However, the situation may quickly change due to ongoing tension with Kosovo, which remains a top agenda item for the country. Serbia recently threatened a possible military intervention after tensions hiked between the ethnic Albanian-dominated government and the Serb minority living in northern Kosovo. President Vucic underscored on July 6 the recent arrests of Serbs in Kosovo to back his claim of ethnic cleansing by Kosovo authorities, which he described as well-organized and planned. Linked with this development, Serbia's legal and regulatory risks remain at medium-high, while the risk of doing business is at medium-low as the country ranks 44th in the World Bank's Ease of Doing Business List in 2022. The country's economy is going through hard times as inflation, which stood at 14.8 percent in May, stands out as a key macro challenge. In addition to hiking prices, households are squeezed by dropping real average salaries and growing interest rates and contracting credit. Despite some negative outlook, banks' vulnerability risk remains medium-low as the high interest rates have not caused stress on the banks' liabilities and liquidity conditions are stable.

Tajikistan

Tajikistan is a high-risk country. Political violence is a medium-high risk. The Taliban's takeover of Afghanistan in August 2021 threatens violence in Tajikistan as it shares a 1,357-kilometre border, making terrorism an increased threat. President Emomali Rahmon may increasingly become a target of protest due to the widespread poverty, unemployment, austerity, power shortages and political oppression, all of which have produced social unrest.

Tajikistan is part of China's Belt and Road Initiative (BRI), an initiative to connect Asia with Western Africa and Europe, developing land and maritime networks for increased trade, economic growth and regional integration. The BRI looks to improve supply chains, improving those used by Tajikistan, potentially lowering its medium-high risk of supply chain disruption. The BRI developments will also look to improve trade over the already popular transit corridor between Uzbekistan, Kyrgyzstan, Afghanistan, Pakistan and China. It is landlocked, 90 percent mountainous, highly vulnerable to climate conditions, restricted by its border with Taliban-run Afghanistan, and has weak infrastructure, compounding its supply chain risks. Prior to BRI developments, key areas of infrastructure weakness have been transportation, healthcare, energy and water.

Banking sector vulnerability is the risk of the country's domestic banking sector facing a crisis or not being able to support economic growth with adequate credit. Tajikistan's banking sector vulnerability has fallen to medium-low, where banking stability is widely supported by multilateral and bilateral donors (including China). Despite its dependence on raw materials and low level of economic diversification, its young population being presented with great potential in natural resources, agriculture and tourism, promises to keep Tajikistan's population economically active and increase banking sector interaction. However, the banking sector's concentration and perceived fragility may offer continued threats. Legal and regulatory risk remains very high, owing to the prevalence of organized crime, the politicization of the judiciary and corruption.

The risk of doing business is also medium-high, due to Tajikistan's patronage and bribery culture, which introduces obstacles to running a business. Its private sector also receives a low level of importance and investment, restricting the potential for foreign direct investment. The political risk stemming from this neglect of the private sector and instability owed to threats of violence make political interference a high risk. The poor governance also serves as a significant risk for political interference.

Turkey

Turkey's overall risk remains at medium. Politics is not the first item on the country's agenda anymore as presidential elections are now over with another Erdogan win. President Erdogan's victory in the May 28 election did not lead to a persistent increase in political violence (currently medium-low) nor lasting constitutional problems (legal and regulatory risk are at medium).

Despite relative political stability, the Turkish economy continues to struggle due to high inflation and depreciating currency. Turkey has received help by a government debt-to-GDP trajectory, which is at manageable levels, but recent increases in minimum wage, and total cost of the currency protected deposits (KKM), pose trouble for the Turkish economy. Although markets were concerned that the reelection of President Erdogan and the AKP party could mean a continuation of unorthodox policies (including very negative real interest rates and less progress in getting inflation down), the appointment of Mehmet Simsek as the new treasury and finance minister and Simsek's signaling to a hesitant return to conventional orthodox economic policies partly relieved the markets. In line with this, on June 22, the Central Bank of Turkey hiked the policy rate from 8.5 percent to 15 percent in the first monetary policy committee meeting after the elections and hinted at further monetary tightening to cool down the economy and squeeze inflation lower. Despite this, the risk of doing business in Turkey remains medium as political interference continues to be a medium level risk.

Ukraine

Ukraine's overall risk rating remains high. The high-risk rating comes from a very high risk rating in political violence, high risk rating in legal and regulatory risk and supply chain disruption and political interference, sovereign nonpayment, and exchange transfers posing medium-high risk. The clear path toward a credible peace deal remains slim, triggering the overall risk rating to be high. The ongoing war continues to devastate the country, with serious damage already occurring on the country's infrastructure such as road, rail and energy networks, which would necessitate plenty of time and extra funds to repair.

The stationing of battlefield nuclear devices in Belarus continues to cause concerns. Ukraine's president Zelensky stated on July 5 that he wanted to start the military push sooner, signaling the war on the battlefield can get worse. Military analysts predict more than 100,000 people, including civilians, have been killed and over 300,000 more injured as of the end of June in this humanitarian catastrophe. The country has also been under martial law since the beginning of the war.

The country's economy has been severely affected by the war, as IMF estimates Ukraine's GDP to decline by 3 percent in 2023, and projected consumer prices by 21.1 percent in 2023. The risk of doing business in Ukraine remains medium, while the inability of the government to provide stimulus continues to be a medium-level risk concern. The war's adverse impact continues to shape the economic and political stance of the country.

Oceania

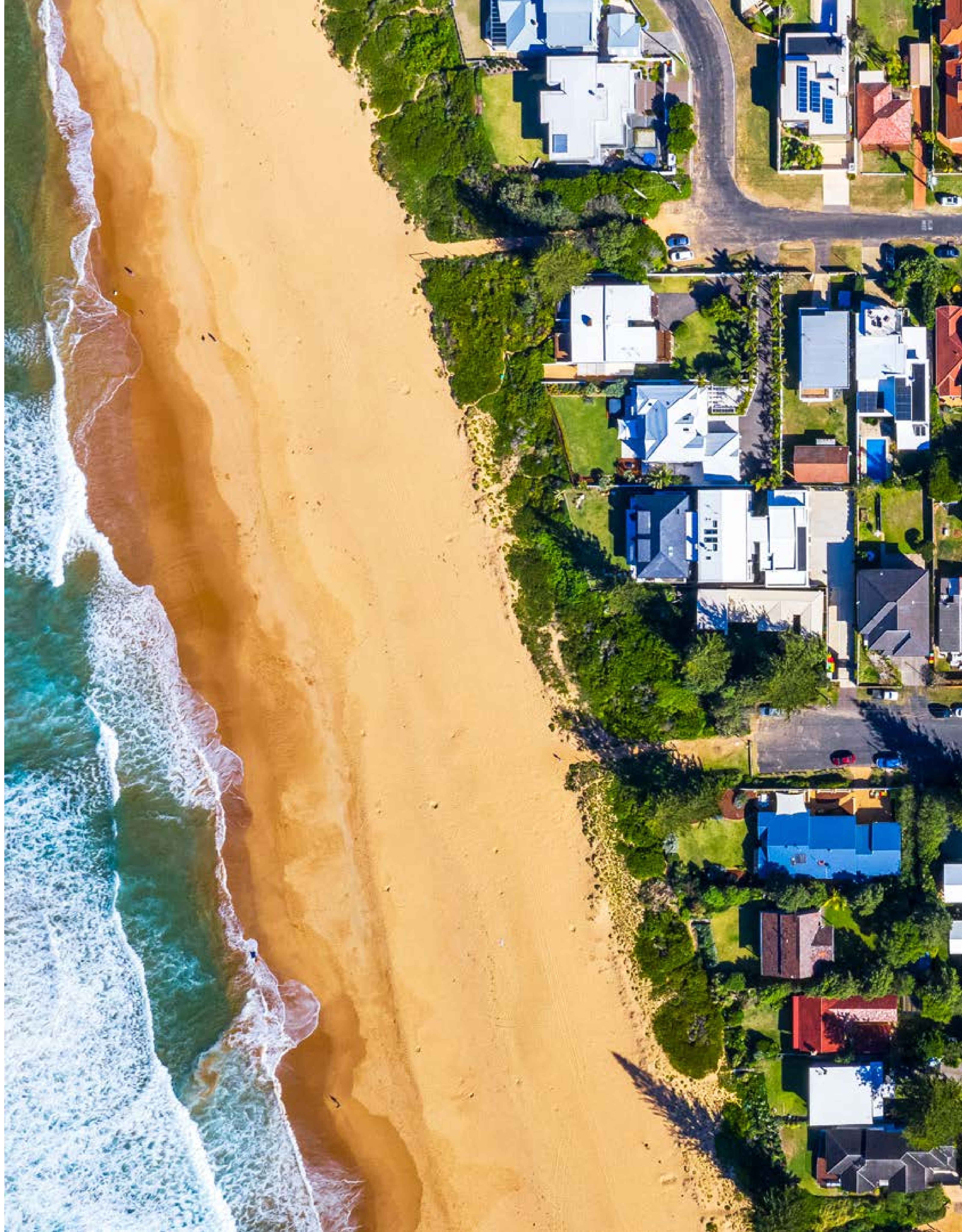
Maldives

The Maldives remains a medium overall risk this quarter, as President Ibrahim Mohamed Solih looks likely to retain the Maldivian presidency in the election in September. However, infighting within the Maldivian Democratic Party (MDP) may hinder policymaking.

Internal factionalism and criminal allegations with the MDP have been highlighted in the run-up to the election. The MDP's opposition, the Progressive Party of Maldives, has experienced similar infighting. This political instability and hindrance to policymaking make political interference a medium-high risk, due to associated political risk. Being made up of islands, the Maldives is geographically isolated, restricting cross-border trade transportation to air and sea.

With a restriction on cross-border transportation methods and substantial climate risks such as rising sea levels, supply chain disruptions become a medium risk. However, recent investment has targeted transport infrastructure in the Maldives, promising to negate or at least dampen some of this risk. Protests over the sentencing of former Maldivian President Abdulla Yameen were led by activists and the supporters of both him and his Progressive Party of Maldives.

Occurring in January, the population's protests have led to a medium risk of political violence. Legal and regulatory risk remains medium-high, relating to financial or reputational loss because of difficulties in complying with a host country's laws, regulations or codes. Despite the lack of recent and official data, the Maldives appears to continue to struggle with drug trafficking, a black market for dollars and corruption. Islamist militants have been seen to threaten violence against journalists in the independent media, reducing freedom of speech. The government's inability to provide stimulus has also fallen to a medium level, owing to developments in its tourism sector producing funds to reinvest. Fiscal consolidation has also become an active task for its government, producing an improvement in fiscal policy strength.



Americas

Argentina

Overall, Argentina's risk level is medium-high. Despite facing a severe economic crisis, the country has not experienced major protests or significant political violence from either the ruling coalition or opposition figures. Elections are scheduled for October, and we anticipate a smooth transition of power for the winner. However, there are still medium-high risks in terms of legal and regulatory issues. The government has imposed several restrictions on accessing dollars due to inflationary concerns and a scarcity of dollars. Political interference is also a medium-high risk, with clashes between the judiciary and executive branches, particularly regarding federal transfers to Buenos Aires Province and attempts to impeach Supreme Court members.

Exchange transfer risk remains medium-high due to a strong devaluation of the currency and depleting international reserves, as the agricultural sector (the main source of dollars) has been affected by severe droughts. The banking sector risk is low, as there haven't been any liquidity shortages despite the depleting FX reserves, and clear signs of a crisis are not currently evident. However, the high risk of doing business persists due to the complex inflationary environment and difficulties in accessing dollars for domestic companies. Lastly, the government's inability to provide stimulus remains a medium-high risk due to high deficits and the incapacity to finance without monetary emissions from the Central Bank.

Bolivia

Bolivia has a high overall risk. Political violence is a medium-high risk, where the violent arrest of a powerful opposition politician, Luis Fernando Camacho, the right-wing governor of Santa Cruz province, has raised protests and social commotion. Additionally, Bolivia's border with Peru has been hit with similar issues with protests, as protestors have blocked the border to encourage Peru's first female president to resign and for the Peruvian Congress to close. Being a landlocked economy, this situation, along with ongoing drug trafficking issues, highlights why supply chain disruption is a medium-high risk in Bolivia.

Political interference and legal and regulatory risk are very high. This is because of the business climate in Bolivia where output is highly dependent on hydrocarbons and ores, its private sector is underdeveloped, the majority of work is informal, corruption is common in all sectors, human rights abuse is commonplace and its population is widely polarized. Some blame for this environment falls to its presidential entities: President Luis Arce has been protested repeatedly since he took office in 2020 for numerous issues and former president Evo Morales was imprisoned this June for planning a coup d'état. A widely unstable political environment, under intense pressure from citizens and neighbor countries, has greatly hampered governability and the passing of reforms. Growth also looks to decelerate in the next year, causing the inability of the government to provide stimulus to worsen. Where international commodity prices and an improving job market have spelled promise for the Bolivian economy, contained consumer price pressures have arisen despite the boliviano's peg to the dollar, subsidies and price controls on food and fuel. Exchange transfer is also a medium risk, due to the restrictions around the currency peg.

Despite expected economic improvement this year, Bolivia is currently in a deep fiscal deficit. Subsidies, which currently run at a high rate, will restrict its opportunity for fiscal consolidation. Sovereign nonpayment is left vulnerable as a high risk, where financing initiatives heavily rely on domestic sources. Debts will continue to grow and Bolivia's reliance on multilateral donors such as FONPLATA, IBRD, IADB and the World Bank only looks to grow as well.

Brazil

Brazil's overall risk level remains at medium. There is a medium-high risk of political violence as the opposition forces of Jair Bolsonaro have shown the capability to execute violent protests, as seen in January. While protests are currently calm, the situation could quickly change. Legal and regulatory risks are also at a medium-high level, as the new administration is not ideologically in favor of pro-market policies, although no recent actions have been observed. Political interference risks remain medium-high as sudden regulatory changes could occur for political reasons. There is a medium-high risk of sovereign nonpayment due to the country's high level of public debt, which currently stands at 83 percent of the GDP.

Exchange transfer risk is at a medium level. Despite a strong devaluation during the pandemic, the Brazilian real has gained some ground due to the high level of interest rate differentials with the U.S. and advanced economies. The risk of doing business remains medium-high due to high taxes and bureaucratic challenges for companies operating in Brazil.

The vulnerability of the banking sector has dropped to medium-low, as bank liquidity levels have remained healthy even after the strong tightening of the Brazilian Central Bank. The inability of the government to provide stimulus is still at medium-high, due to the high level of public debt and fiscal deficit, which limit the government's capacity to increase spending.

Chile

Chile remains a medium-low-risk country in South America. After the country rejected a constitutional reform backed by President Gabriel Boric (of the left-wing Unity for Chile party) in September 2022, an agreement on a new process was reached in December of the same year. The new version needs to be approved by both houses of Congress and is expected to be voted on in November 2023.

Headwinds are expected as the Republican Party (radical right-wing party) of José Antonio Kast obtained 23 seats of the Constitutional Council that will write the new reform, versus the 11 seats obtained by the traditional right-wing party and 17 of the Unity for Chile party. Thus, the new version is expected to be more moderate and business-friendly.

Political violence is a medium-low risk, but downside risks that stem from the second constitutional reform process might change this ranking in future revisions. The risk of sovereign nonpayment is medium-low. The South American nation has been historically responsible with its finances. For example, in December 2022, the country achieved a fiscal surplus of 1.3 percent of GDP (the best performance in 10 years); similarly, it was able to stabilize its public debt at 38.0 percent of GDP.

Such fiscal space also minimizes the risk of the government's inability to provide stimulus, which stands at a medium-low level. The exchange transfer risk is medium. The country's high susceptibility to commodity prices, coupled with capital outflows, made the exchange rate's volatility increase by the second half of 2022. These developments had to be countered by a successful FX intervention and a liquidity provision program from the Central Bank of Chile.

The Central Bank has also activated a program to replace and expand international reserves for $10 billion. The banking vulnerability risk is medium. The sector is well-regulated and financial indicators remain strong; for instance, non-performing loan ratios remain low, profitability returned to pre-pandemic levels and the system is well-capitalized. Some susceptibility exists as low-income agents might have been hit harder by the pandemic and higher costs.

Supply chain is a medium-low risk as the threats mostly come from natural disasters, in particular earthquakes. The risk of doing business is medium-low. The country is well-known for being open to foreign investment and it also benefits from multiple free trade agreements. An example of this is the tax treaty with the U.S., approved in June 2023, which would eliminate double taxation for U.S. companies and reduce tax barriers to investment, particularly in Lithium. A downside risk in the near future is President Boric's statist agenda and the likelihood of new regulatory and tax burdens.

Costa Rica

Costa Rica remains a medium-low risk country. Following recent improvements in fiscal targets, such as achieving the lowest fiscal deficit since 2008 and continuously reducing public debt, the IMF completed the fourth extended fund facility and allowed a disbursement equivalent to $275 million. Likewise, the country took advantage of positive investor sentiment to successfully issue bonds for $1.5 billion. These developments support an improvement in the sovereign nonpayment risk from medium to medium-low.

The banking sector risk also improved from medium to medium-low as there is a rigorous vigilant oversight of the financial system from the supervisory authorities. Equally important are the forthcoming legal reforms designed to bolster the framework for bank resolution and deposit insurance. The Central Bank of Costa Rica is experiencing pressure from the business sector. The entity increased its policy rate from 0.75 percent by year-end 2021 to 9 percent by Q1 2023, which allowed it to bring back inflation to its target range. However, with inflation controlled and a significant appreciation of the Costa Rican colon, industry leaders demand an acceleration in the monetary easing cycle.

The country's exchange transfer remains at a medium rating. Mixed forces make supply chain disruption a medium-low risk, while geopolitical stability plays in favor of the country, infrastructure limitations coupled with natural disasters represent risks to supply chains in Costa Rica. The risk of doing business remains at a medium level. The country possesses a well-defined strategy to promote its exports, which is founded on free trade agreements and export diversification. Likewise, the Central American nation has taken advantage of recent global supply chain disruptions to position itself as an attractive option for "nearshoring" and "friend-shoring," aiming to exploit its skilled labor force. Tourism remains one of the key drivers of the economy but record levels of homicides during Q1 2023 represent a threat to the industry. The government's encouragement of Costa Rica's services and high-tech industries, plus the investment in education, makes political interference a medium risk; nationalization and expropriation seem to be unlikely events in the coming years.

Colombia

Colombia's overall risk score remains at a medium level. Political violence, however, rose from a medium to a medium-high risk. The disapproval rating of President Gustavo Petro, for instance, increased from 20 percent in August 2022 to 61 percent in June 2023.

Several events contributed to these changes; for example, Petro's presidential campaign is being investigated by Colombian prosecutors to evaluate if it broke the law by receiving money from prohibited sources or if it surpassed the spending limits. Additionally, the president asked for the resignation of his cabinet, announced the break with the coalition of parties that had supported him since he took power and appointed a more leftist cabinet. In the near future some actions might help Petro improve his image, like the agreement achieved with the left-wing ELN rebel group to cease fire for six months, beginning in August 2023.

Such political instability, along with corruption, lack of infrastructure, a recently approved tax reform and issues related to the enforcement of existing regulations, make the risk of doing business and supply chain disruptions medium-high and medium, respectively. Sovereign nonpayment risk is at a medium-high level, which is mostly explained by a high level of public sector debt as percentage of GDP (63.6 percent) by year-end 2022 and a general government overall balance of -6.7 percent (percentage of GDP) during the same year. Some actions have already been implemented to address the fiscal issue, like last year's progressive tax reform, which is complemented by the speech of Finance Minister Ricardo Bonilla, who has stated he will defend the fiscal rule.

Declining international oil prices and a higher nominal GDP due to inflation can affect the government's debt negatively and positively. Weakened fiscal and current account figures endanger the country's ability to provide fiscal stimulus, making it a medium-high risk.

The government has intentions to expand its social spending during 2023. Banking sector vulnerability remains a medium-low risk. While credit growth has decelerated and nonperforming loans have increased, banks are well-capitalized and liquidity buffers are strong.

Colombia's foreign exchange reserves are solid and at historical highs, with the current account improved in Q1 2023 compared to the same quarter of the previous year, and the Colombian peso has appreciated in the first three months of the year. Thus, exchange transfer is a medium risk. The country's control of corruption and rule of law remains a weakness, which, if complemented with intellectual property rights violations and counterfeiting cases, make legal and regulatory factors a medium-high risk.

Dominican Republic

The Dominican Republic remains a medium-risk country. The nation is one of the fastest growing and most macro-stable economies in Latin America and the Caribbean, which has attracted FDI. Additionally, it has recently executed policies to improve competition, infrastructure and education, but systemic problems still weigh on companies trying to do business in the country, thus the risk of doing business is medium. The majority of these systemic problems stem from inadequate implementation of current regulations and corruption, but improvements to prosecute intellectual property rights and investigate anti-monopoly are needed; this leaves the country with a legal and regulatory high risk.

The Dominican Republic has a political violence risk at a medium level, given that it faces two specific threats that affect its internal stability. The first one is the growing number of Haitians who enter the country illegally and commit acts of violence (despite President Abinader's statement of deporting those who are undocumented), and the second one is corruption. The country's main threats to its supply chain are climate-related natural disasters, such as Hurricane Fiona and floods seen during 2022; the supply chain disruption factor risk remains at a medium low level.

Sovereign nonpayment is a medium risk. While the country still has high levels of public and external debt, it is supported by a government that is favored by the market and declining debt. Further fiscal consolidation, based on tax reforms and expenditure rationalization, could help improve the risk of the inability of the government to provide stimulus, which is a medium risk.

Factors such as a capitalized, liquid and profitable financial sector, credit growth during most of 2022, and low levels of nonperforming loans support a strong banking sector, which is categorized to have a medium-low risk. The exchange transfer risk rose from medium-low to medium, as the country looks to achieve more exchange rate flexibility.

Guatemala

Guatemala's overall risk score remains medium-high. Sandra Torres of the Unidad Nacional de la Esperanza party and Bernardo Arévalo of the Semilla Party will face each other in a second-round run-off in August after none of them secured the 50 percent needed to win the election in the first round held in June. The general election has not been free of controversies as there have been complaints of bribery to magistrates of the Supreme Electoral Tribunal, exclusion of leading contenders, and attacks on polling stations. The country's political violence risk is medium-high. The judicial system remains weak, and the current government persistently advances a regressive human rights agenda, making political interference a medium-high risk.

Complicated bureaucratic processes to obtain licenses and permits that pose a challenge for foreign companies, combined with changes of government officials and corruption cases that weaken the country's rule of law, leave Guatemala with a high legal and regulatory risk. Supply chain disruption risk remains at medium-high, explained by political instability and vulnerability to weather conditions and international prices. Likewise, the risk of doing business is medium-high. While the country has promoted an open investment regime, signed multiple commercial and trade agreements, and achieved significant progress in revitalizing prospects for the private sector, these efforts are overshadowed.

Social unrest, widespread extortion and political instability keep the risk of doing business at a medium-high level. Sovereign nonpayment risk remains medium as the country achieved strong economic growth, reduced the public debt-to-GDP ratio to 30 percent in 2022, priced $1 billion in notes due in 2036 with a yield of 6.6 percent, and carried out tax administration reform efforts that have already started to pay off. The exchange transfer risk is medium-low as the country has built up its foreign exchange reserves and the inflow of remittances doubled in 2022 when compared to the levels seen in 2018. The banking sector vulnerability risk remains medium-low, explained by the growth in bank credit to the private sector and the soundness of financial indicators. The government's inability to provide stimulus risk rose from medium-low to medium, as President Giammattei looked to contain spending in 2022 as a consequence of the spillovers from the Russia-Ukraine conflict.

Guyana

Guyana remains a medium-high-risk country. Its offshore oil and gas sectors have succeeded since the development of reserves in 2020. Playing to Guyanese strengths, global oil prices have increased over the last quarter. These gains in oil revenue have driven Guyana's annual GDP growth rate to 6.4 percent in 2022, with 20 – 40 percent growth projected for 2023 and 2024. Economic support will also be provided by Guyana's membership in the Caribbean Community and Common Market (CARICOM).

Political interference remains a medium-high risk because, despite the weak one-seat legislative majority held by the People's Progressive Party/Civic, its party discipline has been applauded by political onlookers. However, the government is seen as inefficient in addressing issues and clamping down on crime, allowing political violence to remain a medium risk. These questions on government effectiveness do not offer strength to its medium-high legal and regulatory risk.

Perception of corruption and a poor Transparency International (TI) rating in 2015 do little to negate this risk. The TI rating was so bad, in fact, that the government made a public statement mapping its intention to improve. Guyana places dependency on its natural resource sector, with funding largely coming from international creditors. With an undiversified economy and a vulnerable source of funds, the inability of the government to provide stimulus has worsened to a medium-high risk.

Worsening the rating is its labor force left unskilled, with skilled workers often emigrating, damaging government effectiveness and opportunity for effective government spending.

Exchange transfer is the risk of being unable to make hard currency payments due to the imposition of local currency controls. Guyana has an increased risk of exchange transfer, moving from medium-low to medium. The official currency of Guyana is the Guyanese dollar, and it has been viewed that amid its current significant GDP growth and changing international financial markets, a revaluation of the Guyanese dollar is needed from Guyana. An enhancement of Guyana's official exchange rate would ensure a more appropriate exchange rate regime, removing some of this risk. Figures in May 2023 indicated foreign exchange reserves of $848.1 million, perhaps remaining insufficient to allow an upward adjustment yet.

Haiti

Haiti remains a high-risk country. In the last quarter, kidnappings, gang violence and economic crisis have worsened. Canada and the U.S. plot to help Haiti and its police, but Canada's military is already spread thin with the Russia-Ukraine conflict, making intervention more difficult. Political violence is a very high risk, with criminal gangs taking over about half of the country, including 90 percent of the capital, Port-au-Prince.

Local government has put insufficient resources into ending this violence, so international intervention in a longer-term move looks more likely. State capacity has fallen greatly amid this violence, meaning violence will continue for longer and reform will weaken. Under these new conditions of state capacity, political interference will remain a very high risk, as governance is now greatly restrained.

In addition to this political instability, Haiti also suffers from corruption and insecurity, making legal and regulatory risks very high. Coupled with its poor governance, its large informal sector means the risk of doing business is very high. Supply chain disruption is a high risk, due to extreme vulnerability to natural disasters and lack of infrastructure. With low levels of development, Haiti has become more reliant on international donations and U.S. and Canadian remittances.

Many imports from the Dominican Republic are undeclared, damaging tax revenues. The inability of the government to provide financial stimulus is a medium risk, therefore. Haiti's membership in CARICOM, CARIFORUM, Organization of American States, and Association of Caribbean States may aid investment funding and trade initiatives.

Mexico

Mexico's overall risk level is at medium. Political violence remains at a medium level, as political forces have not actively promoted strong protests against the government. However, there have been some protests in rural areas, mostly driven by farmers who are dissatisfied with low grain prices.

Legal and regulatory risks are at a medium-low level, as the government has not been successful in changing Mexico's usual pro-market framework and attempts to do so have been halted by the Supreme Court. Political interference remains at a medium level, as President Lopez-Obrador has made attempts to interfere with electoral organizations but has been stopped by judicial forces. The risk of sovereign nonpayment is at a medium level, with public debt at adequate levels of 50 percent of the GDP.

The risk of doing business remains medium, as despite the government's inclination toward anti-market policies, there have been no significant implementations of such policies, and this trend is expected to continue. The banking sector's vulnerabilities are at a medium level, with stable liquidity reserves and overall resilience to higher levels of tightening and banking failures in the U.S. The inability of the government to provide stimulus remains at a medium level, as the government has maintained overall fiscal discipline, with small deficits and a stabilized debt-to-GDP ratio.

Nicaragua

Nicaragua remains a medium-high risk. Following the 2021 general election, Daniel Ortega looks likely to retain his position as president until 2027. Ortega's authoritarian movements will receive criticism on the international stage, and this will raise more international threats of intervention and domestic risk of protest, making political violence a high risk.

The importance placed on power by Ortega and the Sandinista party will also raise reform weaknesses and highlight ongoing issues with corruption and the lack of investment for the population. Lack of investment has caused a landscape of inadequate health and education, supporting poverty's effects in creating a significant burden on the Nicaraguan economy. Nicaragua left the

Organization of American States, a departure initiated since the last general election. Its membership in free trade agreements has been retained, however, enabling its mineral, agricultural and fishery sectors to better avoid its medium risk of the inability of the government to provide stimulus.

Corruption, lack of transparency, drug trafficking and a large informal sector all worsen Nicaragua's very high level of legal and regulatory risk. Nicaragua's corruption is a big problem, becoming common in political circles, creating bribery situations in tax and customs offices, and remaining inadequately enforced by a rule of law that does not pursue these acts. Corruption also represents a threat to doing business, as international companies have reported widespread favouritism. Regulations and procedures also contain great amounts of extortion, facilitation payments and kickbacks, with a level of corruption and manipulation that looms over Nicaragua's judicial system, making doing business a high risk. Energy and transportation infrastructure are both weak, making supply chain disruption a high risk. Sovereign nonpayment is a medium-high risk, as, despite its high public debt burden, concessional terms in these contracts reduce risk. Exchange transfer is a medium-low risk, with the highly dollarized Nicaraguan córdoba being supported by growing foreign exchange reserves and the prospect of Chinese financing.

Paraguay

Paraguay's overall risk score increased from medium to medium-high. The country finished with a good level of foreign exchange international reserves in 2022, but the exchange rate weakened during Q4 2022, and while it has appreciated during Q1 2023, depreciation through the rest of the year is expected, given U.S. monetary policy. Thus, exchange rate transfer risk increased from medium to medium-high.

Political violence remains a medium risk. Santiago Peña, from the right-wing Colorado Party, was elected president during the general elections held in April 2023. He replaces Mario Abdo Benítez, from the same party, who has undergone two impeachment attempts, corruption allegations and internal divisions. Peña will focus on attracting foreign investment, creating jobs and producing a friendly business environment. The legal and regulatory risk remains high.

The country implemented a tax reform in 2019 which aimed to centralize tax collection. However, corruption scandals, coupled with frequent changes in laws, overshadow some of the progress that has been achieved. Supply chain disruption represents a medium-high risk for the South American nation. In addition to the widespread corruption, contraband and weak judicial security, lack of infrastructure and vulnerability to natural disasters are all factors that affect the country's risk. Paraguay issued $500 million in 10-year sovereign bonds in June 2023; in particular, it took advantage of a positive credit momentum.

The country's sovereign nonpayment risk is medium. The banking sector exhibits sound indicators of solvency, liquidity and portfolio quality, which are in line with a banking sector vulnerability medium-low risk. The business environment has been improved by implementing reforms such as the insolvency law.

However, regulatory issues and political stability could provide more support to the country's risk of doing business, which currently stands at a medium-high level.

Peru

Peru's overall risk level is medium. Political violence is at a medium-high level due to the imprisonment of former President Pedro Castillo, which has led to violent protests, particularly from rural area inhabitants. Although the protests have cooled down for now, there is a possibility of a resurgence of violent protests.

Legal and regulatory risks remain at a medium-high level as the leftist President Dina Boluarte could pursue anti-market reforms. Political interference risks are also at a medium-high level, with potential interference from the congress or executive branch, including the closure of congress or impeachment of the president.

The risk of sovereign nonpayment is at a medium level, with public debt at adequate levels of 37 percent of GDP. Exchange transfer risk is at a medium-low level, as the public debt is not high and is unlikely to impact external obligations. The risk of doing business remains at a medium level, with reasonable tax rates and an adequate business environment, although bureaucracy exists. The banking sector's vulnerabilities are at a medium-low level, with strong bank liquidity positions. The inability of the government to provide stimulus has dropped to a medium-low level due to recent reductions in public debt and fiscal deficits.

Suriname

Suriname remains at a medium-high overall risk. The inability of the Suriname government to provide stimulus has fallen from a medium-high risk to a medium risk. Continued support from Dutch financial aid, CARICOM membership, support from international donors and foreign investors, and rich resources for its mineral and agriculture sectors represent decent revenue opportunities and funds to spend.

Foreign exchange reserves had also jumped from $1.03 billion to $1.19 billion in December 2022, a development that can support fiscal stimulant initiatives. There has been promising development in relation to offshore oil and gas deposits, an area of the economy where its multiparty government has introduced encouraging reform. This indicates political effectiveness, supporting the fall in risk to financial stimulus, but also potentially helping reduce the risk of political interference in the future, with an up-to-date reform attracting more foreign investment and overseas business interests.

Political interference remains a medium-high risk, with its lack of a legal anti-corruption framework being a flaw. Legal and regulatory risk is also made a medium-high risk due to these difficulties in dealing with corruption, leaving public procurement a major issue. Risk of doing business, similarly, suffers from corruption. Additionally, the presence of an inefficient justice system, difficult business climate, difficult access to credit and lack of skilled labor make the risk of doing business high. Banking sector vulnerability remains a medium risk, owing to elevated shares of bad loans and low profitability.

Suriname has possessed an unsustainable public debt since 2020, an issue that has triggered a debt restructuring agreement with the Paris Club and has made sovereign nonpayment a medium-high risk. Supply chain disruption remains a medium risk, due to inadequate infrastructure, mainly in the transportation areas of seaports, airports, and roads.

Trinidad and Tobago

Trinidad and Tobago remains a medium-risk country. Its economy places dependence on its gas and petrochemical industries, placing it as the world's ninth-largest liquefied natural gas exporter, sixth-largest ammonia exporter and top methanol exporter.

As an attractive tourist destination, greater capitalization in the tourist sector could help it escape its dependence on the energy sector. Traditionally, this sector produces 40 percent of GDP, 50 percent of government income, and 80 percent of export revenue. Global energy prices will greatly impact Trinidad and Tobago's access to funds. Trinidad and Tobago's venture into its diversification has decreased the risk of the inability of the government to provide financial stimulus to medium-low. The People's National Movement, led by Keith Rowley, holds a majority in lower house seats, which allows for more effective and clear policymaking until the next election.

The last quarter has seen no significant protest or bad reaction to policymaking or political controversy, making political violence and political interference only medium risks. Political violence could worsen again, with the continuing tensions between Afro-Trinidadians and Indo-Trinidadians. Legal and regulatory risk is also medium, freedom of the press is encouraged by the government, but ineffective public action leaves the nation's freedom of speech imperfect. Its issues of crime and corruption among public officials also worsen its reputation and finances.

Political interference is the risk of a host government intervention that negatively affects overseas business interests, where little activity has been seen in Trinidad and Tobago. Under a de facto peg monetary regime, control of the Trinidad and Tobago dollar represents a medium-low risk for exchange transfer. Reserve coverage and strong current account surplus support exchange transfers against the threat of local policy mistakes and unbeneficial global price changes for energy. Banking sector vulnerability is also a medium-low risk, due to the future inflationary pressures and monetary tightening to be expected in Trinidad and Tobago. However, asset quality and capital-adequacy indicators are so far solid. Sovereign nonpayment has fallen to medium risk, due to a narrowing fiscal deficit. Fiscal initiatives have been supported by high global prices and demand for energy.

Uruguay

Uruguay remains a medium-low-risk country. Luis Lacalle Pou, the country's president, enjoys high levels of popularity; nevertheless, recent scandals related to his security chief and the former minister of environment have slightly diminished his image. Institutions in the South American country remain strong and capable of keeping political stability and social cohesion, making political violence a medium-low risk. One of the most relevant challenges that Uruguay faces is a drought that has affected the country since Q4 2022. The natural disaster is attributed to La Niña phenomenon and is threatening the availability of safe drinking water in Montevideo, the capital city; consequently, supply chain disruption is a medium-low risk.

President Lacalle has tried to expand the country's alliances, in particular with Asian countries. He first tried to negotiate a trade agreement with China, but recently, China has shown interest in a negotiation with MERCOSUR (a customs union that includes Uruguay, Brazil, Argentina and Paraguay). However, Brazil and Argentina have shown opposition to this idea. Then, Uruguay applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Political interference remains a medium-low risk. Sovereign nonpayment is also a medium-low risk as the country implemented a structural reform back in 2020 that aimed to introduce a deficit target, limit spending growth and set a debt ceiling. Since then, Uruguay has shown strong resilience and fiscal consolidation. Banking sector vulnerability remains a medium-low risk, given that liquidity ratios are strong, financial intermediation is expanding without losing quality and nonperforming loans are low.

The exchange transfer is a medium-low risk; this is explained by a build-up in foreign exchange reserves, an improvement in the capital account, and access to multilateral credit lines. In general, Uruguay has a stable climate for the business environment. Nevertheless, factors such as the bureaucratic processes to deal with construction permits, challenges regarding hiring, firing, and limited flexibility in setting wages mean the risk of doing business is at medium-high rating.

U.S.-Puerto Rico

Puerto Rico's overall risk remains medium-low. The current governor, Pedro Pierluisi of the New Progressive Party (PNP), will likely face an internal challenge from Jennifer González when internal elections take place next November 2024. According to *El Nuevo Dia* newspaper, González has the support of 64 percent of party members, while Pierluisi has only a 25 percent support. Opposition does not seem to be strong enough to challenge either PNP candidate.

Political violence is a medium-low risk. The legal and regulatory risk is medium-low. While the island has a clear view of establishing the necessary framework to attract foreign investment, it is not free of corruption. For instance, two relatives of Puerto Rico's governors diverted and stole millions of dollars that were aimed at the maintenance of public housing. Puerto Rico can offer lucrative tax breaks that most states can't match. For example, Pierluisi recently introduced a bill that would save individuals and corporations $545 million. Likewise, the territory stated that block chain companies would be considered as export service providers, so they would receive preferential tax treatment. Nevertheless, it faces issues that drive talent away from the island, which makes it more difficult to do business, such as a lack of affordable housing, healthcare and quality schooling. The risk of doing business is medium. Supply chain is a medium-low risk factor; the main threats are related to natural disasters and electricity shortages.

After emerging from a bankruptcy that started in 2017, the federally appointed financial oversight board approved the island's 2024 $12.7 billion budget. Nevertheless, Puerto Rico may face budget deficits in the coming years as it depends on uncertain federal Medicaid funding. Thus, sovereign nonpayment is a medium-low risk. Banking vulnerability is a medium risk. Governor Pierluisi introduced two bills that claim to strengthen the banking sector to ensure it remains solvent and compliant by, among other measures, increasing the minimum capitalization requirements and the cost of obtaining or renewing a banking license and tightening money laundering controls.

Venezuela

Venezuela remains a very high-risk country. Presidential elections are expected to be held in 2024. For this to happen, the opposition candidate will need to be chosen in October of this year. It is expected that around 14 candidates will run in opposition primary elections, yet controversies have already started. For instance, the government banned Maria Corina Machado, a leading contender, from holding public office for 15 years. Despite this, she is ignoring the ban, hoping for a reversal of the measure.

The country's risk of political violence is very high. In addition to political turbulence, Venezuela constantly faces cases of corruption; for instance, around 51 people linked to state companies PDVSA and Corporacion Venezolana de Guayana were recently involved in corruption episodes. Additionally, the country faces a humanitarian crisis that has led to a massive migration of citizens toward other Latin American countries. Thus, the legal and regulatory risk is also very high. President Nicolas Maduro aims to boost cooperation with countries such as Russia and Brazil to attract private investment, but the social, political and economic instability of the country will likely overshadow these efforts.

The risk of doing business in Venezuela is very high. Sovereign nonpayment risk is also very high. According to the IMF, the country's general government debt of 2022 stood at 158 percent percent of GDP. Venezuela defaulted on debt starting in 2017; in 2019, the U.S. imposed restrictions for U.S. investors to invest in the South American nation's debt. In June 2023, aiming to prevent lawsuits from creditors and trying to re-establish relationships with the U.S., the country pushed back a legal deadline on $60 billion of defaulted debt.

The exchange transfer risk remains very high. Affected by limited foreign direct investment flows, foreign exchange reserves are expected to remain relatively low. The country is highly dependent on international oil prices that have lost momentum; this will negatively affect its current account. Additionally, while the U.S. dollar is widely used in the country, high volatility and a newly added 3 percent tax on dollar purchases to encourage the usage of the Venezuelan bolivar is set to increase uncertainty in the market. The banking sector vulnerability is a high risk as financial intermediation is threatened by the lack of credit growth and high inflation.

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