Major Country Risk Developments
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Overview

The IMF upgraded its forecast for 2024 global GDP growth to 3.1%, and 3.2% in 2025. It also predicts that global inflation will fall to 5.8% in 2024 and 4.4% in 2025.

Central Banks in the U.S., Japan, Canada, UK, and Norway left policy rates unchanged in January-February. However, Western central banks are becoming more confident that they could start cutting interest rates later this year as inflation falls closer to targets. However, central banks continue weighing the risk of a resurgence in price pressures if they lower borrowing costs too soon, against the danger of doing unnecessary damage to growth and jobs by waiting longer. We think caution is appropriate.

Meanwhile, global political risk concerns have increased, influencing overall risk appetite and risk premium associated with cross-border trade. Underwriters, bankers, traders, exporters, lawyers, and trade credit professionals all face bigger challenges in financing, placing, managing, insuring, and pricing foreign shipments in the highly charged geopolitical environment amid rising political risks.

Wars, coups, internal armed conflicts, ethnic & religious attacks, land grabs, mercenary & guerrilla warfare on land and sea, seem currently emboldened, hitting highs not seen in over thirty years. Heightened concerns over the safe transit of goods, including grain, LNG, crude, raw materials, food, medicines, minerals, industrial equipment, machinery, and consumer goods across borders -have intensified over recent months. Shipments have been directly or indirectly affected as countries, companies, shippers, suppliers, importers, exporters – all seeking to ensure that their cargo arrives intact. While shipping delays in the Red Sea have impacted some industrial & manufacturing activity [including EV production], the question remains: will attacks on global commercial shipping be a short-term inconvenience or could it become a longer-term impediment, slowing shipping, production and thereby dampening economic activity in the year ahead? The answer remains unclear.

The Middle East region's dominant role in global energy markets means that regional instability may disrupt the flow of oil and gas to Europe, India, China, and Japan. The U.S. has urged China to use its influence with Iran to nudge them to lean on the Houthis to backoff attacks on global shipping. The interruption of trade on the high seas, if allowed to continue, has potentially negative consequences for trade flows and economic activity, while ongoing attacks set the stage for a wider conflict. New commodity and supply chain disruptions cannot be ruled out; and shipping costs are likely to stay elevated this year. Most countries came out of the pandemic and energy crisis with higher public debt levels and borrowing costs. Bringing down public debt and deficits are big challenges. This must happen to give policymakers and budgets the space to deal with future shocks.

The International Energy Agency (IEA) has warned of volatile gas prices this year, with conflict in the Middle East and Ukraine creating an unusually wide range of uncertainty in its forecasts. The energy watchdog reports that geopolitical issues such as the war in Ukraine and in the Middle East, shipping disruptions and potential start-up delays at new liquefied natural gas plants, all represent downward risks to the current outlook, which could cause price volatility this year.

The warning comes even as the gas market is relatively calm at the beginning of the year. Despite occasional cold snaps and disruptions to liquefied natural gas shipping caused by the Houthi attacks on vessels in the Red Sea, ample levels of gas in EU storage facilities have helped push benchmark European prices to their lowest in six months. Gas storage facilities across the EU are 73% full, well above the previous five-year average. However, escalation of the regional conflict could significantly affect LNG flows in the Middle East. Qatar accounts for 20% of global LNG supplies, and with UAE transport their LNG through the Strait of Hormuz. Any disruption to this route would have implications for global LNG markets. Deliveries from Qatar to Europe normally travel through the Red Sea and the Suez Canal, but recently cargos bound for Europe were diverted, to travel via the longer Cape of Good Hope route. The rerouting adds an average 10 days of extra voyage for Qatari cargoes to Europe. No LNG carriers have reportedly come through the Suez Canal since January 16.

Meanwhile, the IEA reports that high inventory levels together with an improving supply outlook are providing gas markets with some reassurance for 2024 with global gas demand expected to grow by 2.5%. That is higher than the 0.5% growth recorded in 2023. The IEA indicated that gas demand in OECD European countries fell 7% in 2023, to its lowest level since 1995. The power sector accounted for 75% of the demand reduction, as lower electricity consumption, continued expansion into renewables and improving nuclear power availability reduced the need for gas-fired power generation.

The IEA forecasts that the world will generate a substantial surplus of oil in 2024 as demand growth slows and production from non-Opec countries, including the U.S., Brazil, and Guyana, increases. The challenge facing Opec and its allies, is that they have lost market share by cutting production but failed to trigger a significant rally in crude prices. Despite the cuts, tensions in the Middle East and the war in Ukraine, Brent is trading at about $80 per barrel, in line with prices in January 2022 before Russia's invasion of Ukraine in February 2022.

USA

The Federal Reserve's ("Fed") favored inflation gauge—rose 0.2% in December from November, putting it 2.6% above its year earlier level. That year-over-year gain is well below the 7.1% logged in June 2022, yet that still masks the extent that inflation cooled in the latter half of last year. The cooling trend looks likely to continue in the months ahead. Further declines in goods prices, such as for used cars, seem likely, while the rent-based costs the Commerce Department uses to calculate housing prices are poised to moderate.

Fed policymakers are confident that inflation is heading back down toward the 2% target. Moreover, they view their current target on overnight rates, at a range of 5.25% to 5.5%, as being well into restrictive territory, meaning that tight policy is putting downward pressure on economic activity and inflation, and the full effects of tightening have not yet been felt. The fall in U.S. inflation has opened the door for considering interest rate cuts within months. The Organization of Economic Cooperation & Development (OECD) predicts U.S. inflation of just 2.2% in 2024 and 2% in 2025 – among the lowest in the Group of Seven (G7) developed economies. The Paris based organization believes only Italy will likely see lower inflation this year.

Although inflation is falling across the world in the wake in interest rate increases, the threat has not subsided, with strong U.S. jobs growth in January rekindling concerns that the labor market remains too hot to begin rapid rate cuts. Slower GDP growth is projected for 2024, as tight monetary policy continues to work through the economy.

A gloomy outlook for the eurozone economy was underlined by the Ifo Institute's closely watched survey of German business climate index, which fell to its lowest level since 2020.

Emerging markets have been resilient, with stronger-than-expected growth and mostly stable external imbalances, partly due to improved monetary and fiscal frameworks. Still divergence in policy between countries could spur capital outflows and currency volatility.

China's consumer prices fell in January at the fastest annual rate in 15 years. The consumer price index fell for the fourth consecutive month, underlining the challenges for policymakers trying to revive investor confidence in the world's second largest economy. The 0.8% fall in January was steeper than the 0.5% forecast and a 0.3% decline in December; and comes as China's economy contends with an extended slump in the real estate sector, a stock market meltdown, and weaker export revenue.

China's deflationary pressures are weighing on corporate earnings and fueling a stock market rout. Concerns have increased that persistent deflation and struggling stock markets will keep China's household demand and private sector confidence weak, posing significant risks to economic growth prospects.

Argentina

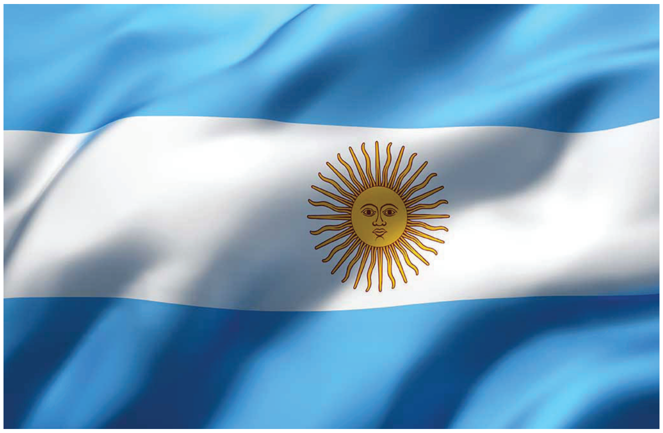
Argentina's central bank unveiled new guidelines for the payment of foreign obligations on new imports. For imports of goods, payments will be made in 4 installments; 25% at 30 days; 25% at 60 days; 25% at 90 days and 25% at 120 days. The effective dates commence once the goods have cleared Argentine customs.

For foreign payments related to services the new guidelines require payment within 30 days from the receipt of the invoice.

Amid dwindling foreign-exchange reserves, and the growing differential between the official and parallel market exchange rates, the Milei administration introduced a maxi-devaluation of the peso in December 2023. The government has been slow to lift currency controls amid fears that it could kindle increased depreciation pressures on the parallel exchange rates.

Following the December maxi-devaluation of the peso, depreciation pressure is building again. The gap between the official and black-market exchange rate had widened to 47% as of end of January, from 18% on December 15th. If the authorities fail to contain this widening trend, the risk of another devaluation will rise, which would push up inflation expectations and therefore hinder the progress that the new government can make on taming inflation. The government has increased taxes on foreign exchange transactions to discourage imports and foreign purchases. They have lifted import controls, but also raised export taxes and plans to expand the number of industries affected by export taxes. Although these taxes are meant to be temporary, there is a significant risk that the government will maintain them even after achieving its fiscal targets.

The new Milei government has proposed wide-ranging free-market reforms. While the Congress is expected to pass two bills containing the reforms, there is a significant risk that Argentine courts will overturn some of the reforms on constitutional grounds. Lower courts have already placed an injunction on labor reforms included in President Milei's decree.
It is still very early in the life of this administration. Judicial reversals are likely; and we expect that legal wrangling will take months to be fully resolved. If the Supreme Court agrees that the president's decree is unconstitutional, it will strike at the heart of the president's free-market agenda. We intend to keep watching for the progress and /or setbacks to this new agenda.



Saudi Arabia

Saudi Arabia abruptly changed its plans to expand the kingdom's daily oil production capacity, in a major policy reversal by the world's largest oil exporter. State-run Saudi Aramco said it was asked by the energy ministry to abandon a plan to increase its maximum sustainable production capacity from 12-13 million barrels a day by 2027. The multibillion-dollar investment program had set the company apart from much of the industry, where spending on oil production is generally falling because of concerns about climate targets and future demand.

Saudi Aramco accounts for about 10% of the 100 million barrels of oil the world consumes every day. The decision was taken by the ministry of energy, which remains in a position to restart the investment program if requested. The ministry of energy has not issued a statement or provided any explanation for the move, which is a significant policy shift for the kingdom. The 100 million barrel per day system, because of lack of investment, is fragile in terms of its ability to cope with any unforeseen interruptions. In the past 18 months, Saudi Arabia has repeatedly cut production as part of OPEC's efforts to support prices amid slowing demand growth and increased output from the U.S. and other producers.

As a result, Saudi Aramco is currently producing about 9 million barrels per day (b/d), down from an average of 10.2 million b/d in the first three months of 2022. That means the company already has 3 million b/d of spare capacity that it could bring online to meet any sudden rise in demand, reducing the immediate need to increase its maximum output further, said the person familiar with the decision. Saudi Arabia expects to free up a further 1 million barrels per day of oil for export by displacing liquid fuels used in the kingdom for power generation with gas.

The latest decision should be interpreted as a response to the existing spare capacity in the system rather than a change in Saudi Arabia's long-term confidence in oil demand. Saudi Arabia has 3 million barrels a day of spare capacity now so there is no rush to increase production capacity to 13 million b/d.

Supply chain inflation across the oil and gas industry had increased the costs associated with its investment program and that Saudis have not ruled out reviving expansion plans later. Right now, however, there is no need to undertake expansion when costs are high. Saudi Arabia's decision appears to be a rethink of strategy and is likely to have ramifications on Aramco's capital spending, the Gulf supply chain and OPEC+ oil policy over the next few years.

Turkey

Turkey's devastating earthquakes one year ago horrified the nation. The disaster also led to a needed shake-up in economic policy making. Soaring annual price inflation, at 60%, forced President Recep Tayyip Erdoğan to embrace economic orthodoxy in the form of higher interest rates. The central bank (CBT) has raised rates eight times since the president's policy of ultra-low interest rates was abandoned in May 2023.

The hope is for this new policy direction to last. The head of the central bank, Hafize Gaye Erkan , who managed the change in policy resigned in February after only eight months in office. During her tenure confidence of international investors toward Turkey improved noticeably. The consensus is that current attempts at economic policy overhaul are being taken seriously. The former deputy governor Fatih Karahan is the sixth CBT governor in four years. He has voiced commitment to maintaining the course set by his predecessor and asserted that while inflation will likely accelerate during the first half of 2024, the central bank expects to make progress in the months and years ahead. He cites indicators that show tight monetary policy is slowing consumer demand. Investors appear to believe the bank's policy turnaround will remain on track. The local equity market shrugged off the sudden change in the central bank's leadership. Meanwhile the lira — considering its volatile history – declined only modestly.

The new CBT chief Karahan has status with investors. His experience includes being an economist at the Fed, lecturer at Columbia University and a position in the private sector at Amazon. In addition, President Erdoğan has the continued steady and reliable guidance of his finance minister, Mehmet Şimşek who help put the brakes on Turkey's rollercoaster, hyperinflationary economy. In the three months before the first big interest rate rise last August, the lira fell 24% against the dollar. That pace has since moderated, falling 11% since then. Investors have poured a historically high $2 billion into Turkish assets (stocks) since the new hawkish policy began. Year to date the broad market index has jumped 14% in dollar terms. One popular sector is banking, especially among Turkey's top tier banks. Inflation hurts bank profitability. Capping inflation attracts investorts and bank deposits.

The banks, which had trailed the broader market since 2017, have found new life since last summer. What is needed now is for the new CBT governor to remain in office and continue fighting hyperinflation. The bank has targeted 36% inflation for 2024, well below the 64% registered in December. However, loose fiscal policy and increases in non-civil service pensions announced in January will support domestic demand as well as combining with hikes in fuel prices and other prices- will encourage many businesses to raise prices.

Turkey's current-account deficit narrowed in November 2023 to $2.7 billion – well below the $4 billion recorded in November 2022. However, the January-November deficit was still $600 million higher than a year earlier at $43.6 billion. Meanwhile capital inflows increased. Provided that policy tightening is maintained, the improvement in external balances will continue and volatility of the Turkish lira may be limited in 2024. Weak export markets and/or a rise in global oil prices could also negatively affect the current-account deficit.

On balance, we expect policy to be sufficiently tight in 2024 to limit domestic demand and lower the current-account deficit to about 3% of GDP, and to attract sufficient capital inflows to finance the deficit. Foreign exchange Reserves will hold up and the lira will depreciate steadily and even strengthen a little in real terms. There is a risk of political pressures for more expansionary policies. For example, the minimum wage was recently increased another 49%. Public salaries and pensions have risen by a similar amount. Higher pay and pensions will add to inflationary pressures by increasing demand for goods and services. Moreover, many employers will raise their own prices to cover costs and maintain or increase profits, triggering a fresh spiral of price increases.

Borrowing by Turkish entities is easier owing to Turkey's persistence with the more orthodox policies adopted after the elections, including further central bank rate rises. Recent data indicate that gross official foreign exchange reserves amounted to $97. 6 billion at end- December 2023, compared with $58.2 billion at end-June 2023.

We expect a managed depreciation of the lira against the dollar towards a level closer to fair value over the course of 2024-28. The lira will also weaken owing to factors including internal and external imbalances and some policy unpredictability.

A still strong tourism sector and recovery in external demand would support trade and service exports. Attracting sufficient capital inflows to cover the deficit and service foreign debt without drawdowns of foreign-exchange reserves will remain a risk.

Meanwhile, Turkey's sovereign wealth fund is pressing ahead with plans for an international bond issuance- in a test of investor appetite for the country's assets after the sudden departure of the market-friendly central bank governor.

Banks hired by the Turkey Wealth Fund have begun pitching the U.S. dollar-denominated bond to investors and started taking orders. The fund is seeking to raise about $500mn. Local and foreign analysts have so far largely shrugged off Turkey's latest central bank personnel change, betting that CBT governor, will stick with the policy of using high borrowing costs as the main tool to cool the inflation rate of nearly 65%.

Egypt

The Central Bank of Egypt raised its monetary policy rate 200 basis points to 21.75%, citing concerns over persistently high inflation. The decision on February 1, 2024, came amid intense negotiations with the Internaitonal Monetary Fund ("IMF") regarding a potential uplift to the $3 billion loan approved in December 2022, but which has been frozen for the past twelve months.

The tightening of monetary policy is consistent with indications from the IMF that reducing inflation is a priority. An IMF delegation arrived in Cairo in late January for negotiations over the first and sec-

ond reviews of the December 2022 extended fund facility (EFF). The discussions include likely terms for increasing the loan. The size of any increase will be related to the scope of the measures that the Sisi government is prepared to undertake. One of the core elements of the EFF was a commitment to exchange-rate flexibility. The reviews of the program have been held up because of the country's revision to a fixed exchange rate in March 2023.

Foreign exchange shortages have been exacerbated by a drop in revenue from the Suez Canal. Traffic has fallen by more than 40%, which implies a revenue loss of more than $300 million a month, based on pre-war revenue streams. This has been reflected in a sharp weakening of the Egyptian pound on the parallel market, to 70: U.S.$1, compared with the official rate of 30.8:U.S.$1.

Egypt's budget deficit will be abnormally wide in the 2024/25 fiscal year, because of debt service costs. This will prevent the central bank from raising interest rates sufficiently to support the local currency (the pound). Meanwhile, balance-of-payments stress will intensify in 2024. The consensus is that Egypt will avoid default, assuming more multilateral guarantees of sovereign bonds, that the IMF program is augmented, and that Egypt can attract reasonable high levels of foreign direct investment this year and next.

Monetary tightening and currency devaluation should keep the current-account deficit at around 3% of GDP in 2024, but attacks on shipping in the Red Sea and a halt of liquified natural gas exports while the Israel-Hamas war continues will cause it to widen. The fallout from the war between Israel and Hamas has made things worse for Egypt. In a normal year the country earns hard-currency revenues worth 2-3% of GDP from operating the Suez

Canal, and receipts from foreign tourists add a further 3% of GDP. Both sources of cash have shrunk dramatically since the war. The country needs to devalue its currency formally, but doing so would mean the value of its dollar debts would surge relative to its GDP. It would also raise the price of food, particularly grains, which Egypt mostly imports.

Egypt has a diversified export basket, and services (tourism) and energy both play important roles. A structurally low savings rate has long exposed the country to balance-of payments difficulties. We believe those vulnerabilities will remain acute in 2024. The IMF has bailed out the sitting Sisi government four times before. Despite promises of economic reforms, very little progress has been made.

If economic logic was the only consideration, Egypt would be prescribed some bitter medicine. Any further lending by the IMF or foreign governments would be contingent on it restructuring its debts, living within its means, and getting the army out of the private sector. However, such austerity would be highly dangerous. Egypt could spend years in default, a financial no-man's-land: China, its third-biggest bilateral creditor, typically tries to block debt restructuring. President Sisi would struggle to feed the populace or pay civil servants. Egypt's young, frustrated population might launch mass protests, which would be met with violent repression.

Any disorder would be hard to contain. Jihadism is already a grave problem in Egypt's Sinai Peninsula, which abuts Israel and Gaza. It could spread to cities, threatening the Sisi government. The wider Middle East cannot afford a conflagration in Egypt. At a minimum, it would render Egypt incapable of helping broker or implement a peace deal between Israel and the Palestinians.

Global creditor organizations will likely provide a bailout for Egypt once again. The country will need at least $10 billion of short-term funding to roll over debts and ease the shock of a huge devaluation. Western countries, the IMF and wealthy Gulf Arab states will be expected to pitch in. In return, they would publicly press the army to give up its grip over the economy. They will do so fully aware that, as in the past, the army is unlikely to comply, especially because Mr. Sisi is himself an ex-general. However, Egypt will never prosper until the men in uniform make way for everyone else. Ordinary Egyptians are becoming desperate.

Meanwhile, Egypt will join a taskforce to protect ships against Yemeni-based Houthi rebels. There is a distinct risk of attacks continuing, but the assumption is that the Houthis will de-escalate, once the Israel-Hamas war ends – hopefully around mid-2024. Delays continue in accessing foreign exchange to pay foreign obligations. Many have been forced to use the parallel market as obtaining scarce FX via the banking system at the official rate continues to be difficult.

Vietnam

This economy will be among the fastest-growing in Asia over the next four years, although a subdued real estate sector and slow growth in key export markets will continue to create headwinds to growth. Relatively low wages, foreign direct investment incentives and supportive trade relations will help attract inbound investment.

There is little political instability in Vietnam. The country remains a one-party state with the Communist Party of Vietnam (CPV) in control but vigilant. Strong growth in employment and household income help mitigate any discontent, and expanding restrictions on freedom of speech will suppress dissent. The government occasionally adjusts policy to placate protesters but will crack down strongly on those identified as "movement" leaders.

Vietnam maintains a foreign policy that aims to ensure continuous flows of foreign direct investment (FDI) from a range of sources and to provide widening market access for its exported goods. Relations with the U.S. and U.S. aligned countries will continue to strengthen but Vietnam will not cut its traditional ideological ties with Russia and China. The country also seeks to avoid entanglement in formal alliances. The economy is export oriented.

Vietnam's relationship with China will remain complicated, including socialist solidarity, spats over disputed territory and economic reliance. The government will be sensitive towards public sentiment regarding national sovereignty – a historically contentious issue in Vietnam. It will face continued public pressure over disputes in the South China Sea. Although security risk in Vietnam is relatively low and foreign citizens are usually safe, Chinese-owned businesses face the risk of public ire due to China's perceived encroachment on Vietnam's interests. In addition, land seizures for development, often with inadequate compensation, are a source of public discontent. Usually, the authorities counter public protests on these issues with a swift response and prevent them from growing into a wider threat to

personal safety or to business operations.

The country will benefit from robust foreign investment inflows into the manufacturing sector. Private consumption accounts for more than half of GDP, but household incomes are low by regional comparison. The economy will face headwinds owing to an anticipated acceleration in consumer price inflation this year, due to volatility in energy prices and continued food price pressures.

Economic and defense partnership with the U.S. is set to deepen under the "strategic comprehensive" partnership. Security collaboration in 2024-28 is likely to include the procurement of defense equipment under special financing terms.

Vietnam is looking to forge stronger economic and security ties with India and Japan, which have their own territorial disputes with China. We expect that Vietnam will also consider similar upgrades with Australia, Singapore, and Indonesia. The country's relations with fellow members of Association of South-East Asian Nations (ASEAN) will improve, although this will be limited by intermittent disputes over maritime territories with some members, including Indonesia and the Philippines.

The 2024-28 policy agenda prioritizes economic liberalization, aiming to decrease government involvement and attract greater FDI. The administration has made progress on increasing market access through trade blocs such as the EU-Vietnam free-trade agreement (FTA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

GDP growth is projected to accelerate to 5.9% in 2024, from 5.1% in 2023. An anticipated pick-up in external trade will help bolster manufacturing activity. However, economic growth will underperform by historical standards, given slow growth in major export markets. Household incomes, which suffered in 2023 because of manufacturers scaling back their workforce, will be bolstered by a recovery in industrial production. Private consumption expenditure is expected to rise as retail sales improve on the back of stronger household incomes, coupled with the government's wage reform measures.

Consumer price inflation is forecast to accelerate to 3.5% in 2024, from 3.3% in 2023. That's in part because Vietnam will face higher domestic rice prices, as global supplies have diminished sharply following an export ban by India, the world's largest exporter of the commodity. The ban is expected to remain in place for most of 2024. Rising education and healthcare costs will add to domestic inflation, while persistent El Nino climate conditions in 2024 could cause some disruption of agricultural supply, pushing up food inflation. Against this background, a large inventory surplus of various crops will help to keep inflation below the 4% target set by the State

Bank of Vietnam (the central bank). A gradual softening of global commodity prices will also ease cost-push pressures across a range of goods and services.

The forecast is for the currency, the dong, to appreciate modestly against the dollar in 2024. Upward pressure on the dong will be driven by a recovery in tourism and a gradual improvement in global trade. Labor market risk will remain elevated in 2024-25. Although strikes are only legal under onerous conditions, the incidence of illegal strikes is rising. While it is believed that business-friendly policies will be introduced, the government is sensitive to mass layoffs, even if there is a strong business case for them.

Although improving, Vietnam's infrastructure remains weak in several areas, partly reflecting decades of underinvestment during the era of central planning. Policy focus is urgently needed on the energy transmission and distribution system, including extending the network to remote areas where many communities are still without electricity. The country faced shortages in power supply from major hydropower plants in 2023, forcing many factories to curb operations.

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