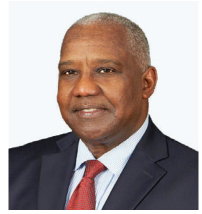
Major Country Risk Developments
October 2024



By Byron Shoulton

Overview

Global tensions have heightened as the war in the Middle East escalates. This increases uncertainty not only in the region but impacts the outlook for the global economy. We are at a new stage of multiple wars, increasingly agitated non-state militias globally, and without a blueprint as to what comes next. Iran's ballistic missile strikes on Israel on October 1, 2024, have raised fears of an all-out war in the Middle East. The recent deepening spiral now involves Lebanon.

Israeli intelligence engineered the detonation across Lebanon of thousands of pagers and two-way radios used by Hezbollah operatives. Ongoing airstrikes on Beirut and southern Lebanon mark the most significant Israeli strikes after eleven months of tit-for-tat escalation with Hezbollah. On September 27, Israel dealt Iran a devastating blow by killing Hezbollah's leader Hassan Nasrallah. Despite reeling from these latest hits and the evisceration of its command structure, Hezbollah continues to lob missiles at Israel. Iranians are now bracing for Israeli retaliation. The cycle appears far from over.

The current situation underscores the near-complete breakdown of deterrence in the Middle East. Both state and nonstate actors are taking huge risks. The pager attack could have signaled Israel's resolve to compel Hezbollah to de-escalate or face a catastrophic war. Israel's assassination of Nasrallah, intensified strikes on Lebanon, and a ground invasion suggest a grimmer possibility: a more expansive Israeli military intervention in Lebanon.

For nearly two decades, relative calm has reigned on the Israeli- Lebanese border. But the latest escalation lays

bare the reality of a region that has grown profoundly more perilous since Hamas's October 7 terror attack and the ensuing Gaza conflict. The Middle East is no longer bound by established rules of engagement and modes of deterrence. Assumptions undergirding the behavior and risk calculus of many state and nonstate actors in the region are increasingly obsolete. Clear redlines and mutually accepted rules of the game are glaringly absent. So, too, are reliable channels through which the warring parties could de-escalate.

Global crude prices notched their biggest weekly rises in almost two years, as traders speculate that Israel or Iran could strike energy infrastructure in the world's most important oil-exporting region. Brent, the global oil benchmark, settled at $78.05 a barrel on November 4th, up more than 8% in a week. The price surge came as escalating conflict in the Middle East ignited fears of violent disruption to exports in the region that produces one-third of the world's crude.

Iran exports half of its oil production. Damage to oil infrastructure would have ripple effects on the global oil markets. But one of the biggest fears is disruption in the Strait of Hormuz, the world's most important oil chokepoint.

Libya has indicated that it would resume full oil production, that should return 700,000 barrels a day of crude to the global market following the resolution of a dispute between rival political factions in the country.

Libya normally pumps 1.2 million barrels of crude a day, but output has fallen to less than 450,000 barrels p/d since the government in control of the east of the country shut down production and exports in August in a fight over control of the central bank. Full production in Libya will help allay concerns in the market over the potential for the escalating Middle East conflict to disrupt oil supply from Iran and other Gulf producers.

Weak demand from China and Opec+ producers continuing to sit on spare capacity, which can be brought back - if Iranian supply was suddenly disrupted, has weighed on the market. Even the return of Libyan supplies doesn't offset what could potentially be at risk in the region right now.

Oil traders have snapped up crude supplies in response to Iran's missile barrage on Israel. The move bid up oil prices which had been near their lowest levels since 2021. Lower energy costs this summer helped pull down U.S. inflation, putting back money in drivers' pockets, and likely had consumers feeling a bit more optimistic about the economy. Depending on Israel's next move, the risk of a wider war holds the potential to bring energy costs back on the front burner. Some are betting on oil prices running up to $100 a barrel from a recent $73 - given the escalating war.

USA

Employers added 254,000 jobs in the U.S. during September, significantly above the 150,000 jobs that were expected. The unemployment rate slipped to 4.1%. The report showed a hiring surge in leisure, services, travel, healthcare and construction sectors, powered by consumer spending on eating out, drinks and travel.

This followed the U.S. Federal Reserve's (the Fed) cut in interest rates for the first time since March 2020. The Fed reduced its key rate by half a percentage point to a range of between 4.75% and 5%. The central bank suggested that it would cut rates again later this year. With inflationary pressures easing, the Fed has pivoted to tackle a cooler labor market.

Workers in Boeing's biggest union went on strike, after they resoundingly rejected an offer of a 25% pay raise over four years. The union had been pushing for a 40% increase. It is the first strike to hit Boeing since 2008. The company has suspended hiring and furloughed white-collar staff to cut its costs during the industrial action. The strike jeopardizes Boeing's recovery in a significant way. The company could suffer as much as $1.5 billion for each month workers remain off the job. In addition to being cash-strapped, Boeing reportedly shows back-order backlogs of 5,490 aircraft, worth about half a trillion dollars' worth of revenue.

Meanwhile, for the first time in almost 50 years, dockworkers at dozens of U.S. ports went on strike seeking a substantial pay increase, while objecting to plans for greater automation at the ports. The union later accept ed a 69% pay raise and suspended the strike for three months. U.S. port infrastructure is considered among the least efficient among advanced economies. Negotiations continue between the owners of the ports and the longshoremen's union, regarding future automation at the port facilities.

China

The People's Bank of China cut interest rates, eased reserve requirements for banks and reduced the cost of existing mortgages. It also introduced new tools to stoke the stock market. China's Communist Party also promised to arrest the decline in the real estate market and to fight the economic slowdown more forcefully than it has done so far.

Media reports suggest the central government may soon borrow an extra $285 billion (roughly 1.5% of GDP]. Half of the funds will help local authorities deal with their debts; the other half will help consumers, including direct handouts to families with more than one child.

Chinese markets welcomed the new measures implemented in September aimed at stabilizing the capital markets and reviving economic activity. The People's Bank of China $114 billion stimulus package is expected to boost the stock market via lending to asset managers, insurers and brokers to buy equities, and to listed companies to buy back their stock. This is the first time the People's Bank of China (PBoC) have used these types of monetary policy tools to support capital markets. The central bank said the funds allocated could be doubled or tripled if the schemes work.

Chinese policymakers also floated an idea for a stock stabilization fund. The new measures are among the biggest stimulus and support that the PBoC has ever aimed at China's equity markets, which slumped over the past four years, reflecting a lack of confidence in the country's ailing economy. Following the announcement, China's CSI 300 index of Shanghai- and Shenzhen-listed shares — which is down more than 40% since 2021 — rose 4.3% for its best day since July 2020. The renminbi strengthened 0.5% against the dollar to just over 7.01:US$1, its highest level in more than a year.

Meanwhile, a strong rally in the renminbi, is testing Beijing's currency management regime. The stimulus plan and the U.S. Fed's embrace of lower interest rates sent Asian currencies surging against the dollar.

The PBoC kept the official exchange rate at between 7.1 and 7.2 to the dollar for most of 2024, even as the spot renminbi stayed at the bottom of a 2% trading range. In the past month the PBoC has allowed much more movement in the fix as the Chinese currency rose to 7 against the dollar, a sign that Beijing is engineering a controlled appreciation to smooth the effects of a rush back into Chinese assets from abroad.

While China welcomes the shift away from the relentless renminbi depreciation which existed during most of 2023 and 2024, it is likely that policymakers are also keeping a keen eye on the pace of further appreciation.

China's foreign reserves stood at roughly $3.3 trillion in September and many of its exporters have amassed dollars from business abroad. Chinese state-owned banks were reportedly buying dollars on the onshore market to slow the rise of the renminbi.

Despite a rebound for the dollar amid the escalating conflict in the Middle East, many expect continued appreciation of Asian currencies. Any strengthening of the Chinese economy could benefit other Asian currencies, especially those of countries that count China as a top trading partner, such as Indonesia, or whose tourism economies partly depend on Chinese visitors such as Thailand. Chinese consumers are expected to open their wallets if they feel more confident. These evolving factors are quite supportive for emerging Asia.

Israel

Before the war the Israeli economy was settling into a comfortable recovery mode. Many of the 300,000 Israeli workers who left their jobs to fight when the war began, have now returned to offices, factories and farms. Nonetheless, a difficult situation is becoming more strained. GDP growth was just 0.7%, on an annualized basis, between April and June, 5% below forecasts.

For the second time this year, Israel's finance minister sought an increase to the emergency deficit from legislators. Spending is way up, a fact that worries investors. So does the possibility of more fierce fighting. Meanwhile, money has begun to flee Israel. Between May and July outflows from banks to foreign institutions doubled compared to the same period last year, to $2 billion. Israel's economic policymakers are now more concerned than they have been since the start of the conflict.

Any wartime economy rests on a knife's edge: governments must fund armed forces, often through deficit spending, while ensuring that the economy is robust enough to clear debts when peace arrives. The nightmare scenario for Israel is for the conflict to reach Tel Aviv and Jerusalem, the country's commercial centers. But even a less intense war in which fighting is limited to the country's north may be sufficient to tip the economy over the edge.

Israel's free-spending ministers are not helping. In March, when the armed forces hoped for a ceasefire by

July, generals reckoned they would need $16 billion, (or 3% of Israel's GDP) on top of their normal budget, and then a permanent increase of $8 billion a year to cope with the new security situation. Since then, as fighting has continued to rage, deficit forecasts have continued to rise. The deficit is now expected to hit 8.1% of GDP this year-almost three times as much as expected before the war. With hostilities set to spread, the deficit will likely grow wider still.

In January 2024, Israel's government debts were 62% of GDP, below the average in the OECD group of mostly rich countries. That gave the country's finance ministry a bit of breathing room. If fighting continues next year, the financial situation will deteriorate. Bondholders want reassurance that there will be space left for more war spending and have a lower ceiling for acceptable debt than in similar countries. The rating agencies are also nervous. Fitch and Moody's have indicated they are likely to downgrade Israel again after doing so once this year. Stronger economic growth would ease the pain. Although reservists have returned to work and consumption has returned to pre-war levels, Israel's economy remains smaller than it was on the eve of the war. The labor market remains ultra-tight, with the unemployment rate at 2.7%. Firms are struggling to fill vacancies and Israel's smaller high-tech companies are under strain. They are losing out on funding due to the war.

Approximately 80,000 Palestinian workers were denied work permits after October 7th and have never been replaced. As a result, the construction sector is 40% smaller than it was last year, greatly impeding housebuilding and repairs. Inflation hit an annual rate of 3.6% in August, having accelerated over the summer. Should the scale of Hezbollah's attacks increase, the lack of construction workers will become an even bigger problem.

Investors are unsure if Israel will bounce back. The shekel is volatile and Israeli banks are experiencing capital flight. The three largest banks report a big increase in customers asking to transfer savings to other countries or to index them to the dollar. Although inflation is above target, the central bank left interest rates unchanged in September, for fear of derailing the recovery.

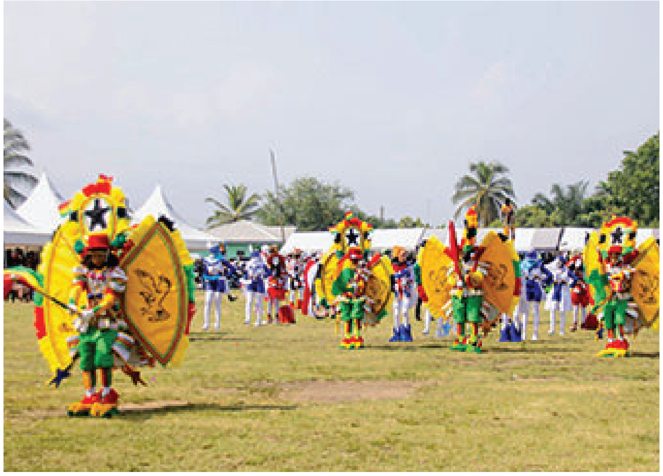
Whatever happens, Israeli economists are resigned to things getting worse.

Africa

After two years of sovereign debt default, Ghana has managed to agree with its creditors on a rescheduling. The country successfully negotiated and received restructuring of its $13 billion outstanding bonds foreign debt. The arrangement reduces the country's debt load and provides a much-needed opportunity to stretch out its repayment schedule at lower interest rates, while receiving some debt relief. This agreement paves the way for Ghana to return to global capital markets two years after an economic crisis forced it to suspend debt payments.

Almost all bondholders voted to exchange their bonds for new debt worth $4.7 billion less, lowering Ghana's debt bill by more than $4 billion over the next two years. The economy is expected to turn the corner with the removal of this debt overhang.

Ghana is the latest country to complete a debt rescheduling this year as investors and governments come to the end of a series of protracted negotiations to resolve a wave of sovereign defaults following the Covid-19 pandemic.



Rampant inflation and the collapsing Ghanaian currency (cedi) following the Russian invasion of Ukraine led Ghana into a $3 billion IMF bailout that required talks with its major creditors to reduce the debt.

As a result of the economist crisis, this gold and oil producer that was once one of Africa's fastest-growing countries, was overtaken by the Ivory Coast as West Africa's second second-largest economy after Nigeria.

The IMF projects that Ghana's gross public debt will now fall below 80% of GDP, down from nearly 100% in 2022. The inflation rate remains high at 22% in September. The legacy of the financial turmoil will be a key factor in the upcoming December elections, which will put the current Vice President running against a former president.

In Zambia, which like Ghana used a G20 endorsed "common framework" for poorer countries to deal with creditors, had to wait four years for lenders to finally agree to terms this year. Last month Sri Lanka reached a deal in principle for bondholders to restructure nearly $13 billion of bonds just before elections due in December. Ukraine finalized a wartime restructuring of $20 billion in debt in September after four months of talks.

Meanwhile, Egypt is gearing up to return to the international debt market for the first time in three years. The country's finance minister told investors that the government is hoping to raise $3 billion in external debt over the coming months. Much of this borrowing will be via Eurobonds. The bonds are denominated in dollars and have become an important source of finance for African governments.

Ethiopia is the next big G20 common framework debt rescheduling case to be negotiated after Ghana. But talks to reschedule $1 billion in bonds that fell into default last year have quickly become acrimonious. The bondholder creditor committee has complained that the 18% haircut being sought by Ethiopia from investors is "wholly inconsistent" with economic fundamentals. The committee has also criticized a lack of transparency over Ethiopia's dealings with official creditors.

According to S&P the African Eurobond bond market have grown fivefold, from around $20 billion to over $100 billion in the decade to 2021. Twenty-one African countries issued Eurobond debt, making it among the top two drivers of capital to sub-Saharan Africa, alongside China's Belt & Road Initiative.

For borrowing countries, the international capital market helps diversify funding, gives access to money without the strict conditions of the IMF and World Bank, and sets standards for domestic markets. For investors, African debt provides attractive returns. When rich world sovereign debt had fallen to 1% in 2021, 40% of African-government dollar bonds still yielded over 8%.

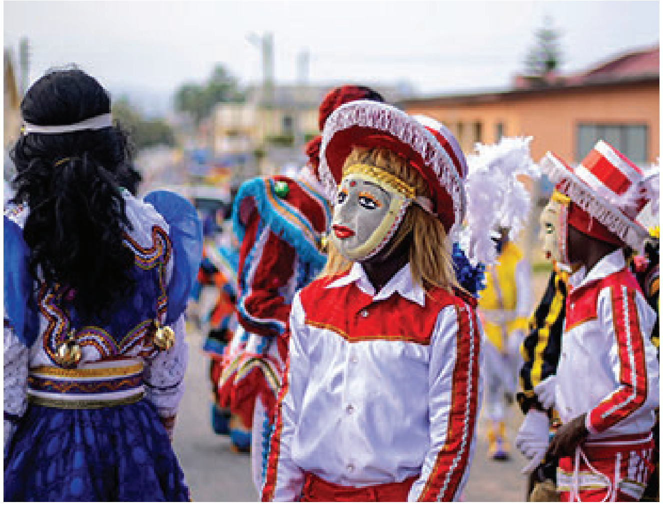
When interest rate rose in rich countries and the world grew stormier, the risk of lending to cash-strapped developing countries increased. Eurobond issuance by emerging economies fell 70% in 2022-23 compared with the previous two years. Other than Gabon raising a modest $500 million, no African government raised dollar bonds in public markets in 2023.

As demonstrated by Egypt's planned return to the market, investor appetite is now returning. Issuances by Benin, Ivory Coast and Kenya earlier in 2024 were oversubscribed. These three countries have so far raised $5 billion. In addition to Egypt, Angola and Nigeria are expected to issue dollar debt soon.

Recent protest activity across Sub-Saharan Africa is unlikely to result in structural economic and political changes in the region. Governments – including in Kenya and Nigeria – have already made some concessions to protesters, yet these actions will fail to tackle underlying challenges, such as high levels of perceived corruption and inadequate public service provision.

Increasing pressure to halt economic reforms risks worsening fiscal challenges across the region. Even countries without major protests may slow their reform agendas due to fear of unrest spilling over. Recent protest activity across Sub-Saharan Africa (SSA) is unlikely to result in structural economic and political changes.

Large-scale protests started in Kenya in June, sparked by public outrage over IMF-imposed austerity measures and a proposed tax-heavy finance bill, and led to at least 50 fatalities as security forces clamped down on protesters. Unrest quickly spread to other SSA countries, including Uganda and Nigeria, where people protested high levels of perceived corruption and challenging economic conditions. Although the protests were swiftly suppressed in Uganda, they continued in Nigeria. This has prompted security forces to impose curfews to control the situation. In addition, governments in Ghana and Tanzania have preemptively banned protests, signaling their concern that protests might spill over. Protest activity appears to have moderated in recent weeks, though the risk of flare-ups remains significant.



Both Kenyan and Nigerian authorities have made concessions to some of the protesters' demands, indicating their concern that rising anti-government sentiment could threaten political stability. In Kenya, President William Ruto responded by retracting the finance bill, aimed at generating $2 billion in additional taxes. In Nigeria, President Bola Tinubu, while not fully meeting demands such as lowering fuel prices, announced the disbursement $364.8 million to state governments to support citizens.

Although these measures will temporarily quell public discontent in Kenya and Nigeria, they fail to tackle deeper structural grievances – such as high levels of perceived corruption and inadequate public services – leaving the risk of future violent protests high.

The Governance Risk component of political risk indices has been rising and remains above the historical average, pointing to elevated risks. Rising pressure on governments to halt their economic reforms will exacerbate fiscal pressures across the region. Over the past few years, governments across SSA have run substantial budget deficits as they supported their economies amid the Covid-19 pandemic and Russia's war in Ukraine.
This led to an increase in borrowing, particularly from domestic debt markets, and a related rise in debt servic-

ing costs.

Brazil

Following stronger than expected second-quarter GDP growth, 2024 growth estimates were revised to 3% (from 2.5% previously). As the U.S. began to ease monetary policy, Brazil started to tighten its interest rates. In September Banco Central do Brazil (the central bank) raised interest rates for the first time in two years to tackle stubbornly high inflation. The central bank lifted its main rate by a quarter point to 10.75% and indicated that more rises will come in the months ahead. The total magnitude of the cycle will hinge on incoming inflation data.

Resilient economic activity, fiscal slippage and rising inflation expectations will likely see the BCB implement a modest tightening over the rest of the year and possibly into 2025. The Selic rate is set to be raised from 10.50% to 11.50% by year-end, reversing roughly a third of the cuts implemented over 2024. The Lula administration's budget proposals for 2025 suggest that it will again fail to comply with the fiscal framework that was unveiled in 2023, with revenue likely to disappoint relative to plan and little effort being made to rein in spending.

Space exists for the BCB to revert to loosening mode over 2025, should tighter monetary policy work to slow domestic demand and in turn inflation. However, the incoming BCB President is likely to move cautiously so as to build credibility with investors, who are wary of his ties to President Lula.

Governability under the president Lula da Silva is expected to erode in 2025 as he enters the second half of his term and parties in his fragile congressional alliance begin to jockey for position ahead of the October 2026 general election. A survey by a local pollster put Lula's approval rating at around 54% -the highest reading since August 2023, partly owing to lower unemployment (6.8%).

However, Lula's popularity has since slipped and remains vulnerable if the economy were to falter. Pre-election maneuvering within Lula's alliance will make it harder for the president to advance progressive items of his agenda in 2025, and the electoral campaign could bring the legislative process, for all but minor bills, to a standstill. To complicate matters, Brazilian society is likely to remain highly polarized, which will not only create uncertainty about the outcome of the 2026 presidential election (Lula to run for another term) but will also sus-

tain political and social stability risks more broadly over the short-term.

The October 2024 local elections serve as a bellwether of sentiment towards Lula's government and support for right-wing parties ahead of the 2026 presidential, state and congressional elections. The dynamics of the presidential contest will be influenced by economic factors. A disappointing performance would weigh on Lula's chances of running for re-election or choosing a successor; and would improve prospects for a right-of-center contender.

Buoyed by two years of GDP growth averaging 3% and progress on tax and fiscal reforms, sentiment towards Brazil is more favorable than in recent years. However, fears about fiscal mismanagement, and state intervention in the economy will weigh on investor confidence. Lula wants to encourage state-led development through a new industrial policy that aims to increase public and private investments, financed partly by the BNDES, the state development bank. The government will also install allies in state-owned enterprises (SOEs) to support its public policy goals, even though this could weaken their governance structures. New privatizations are unlikely, but progress on infrastructure concessions will continue. Lula also aims to strengthen environmental policies to attract more foreign investment or at least reduce the risk of divestment.

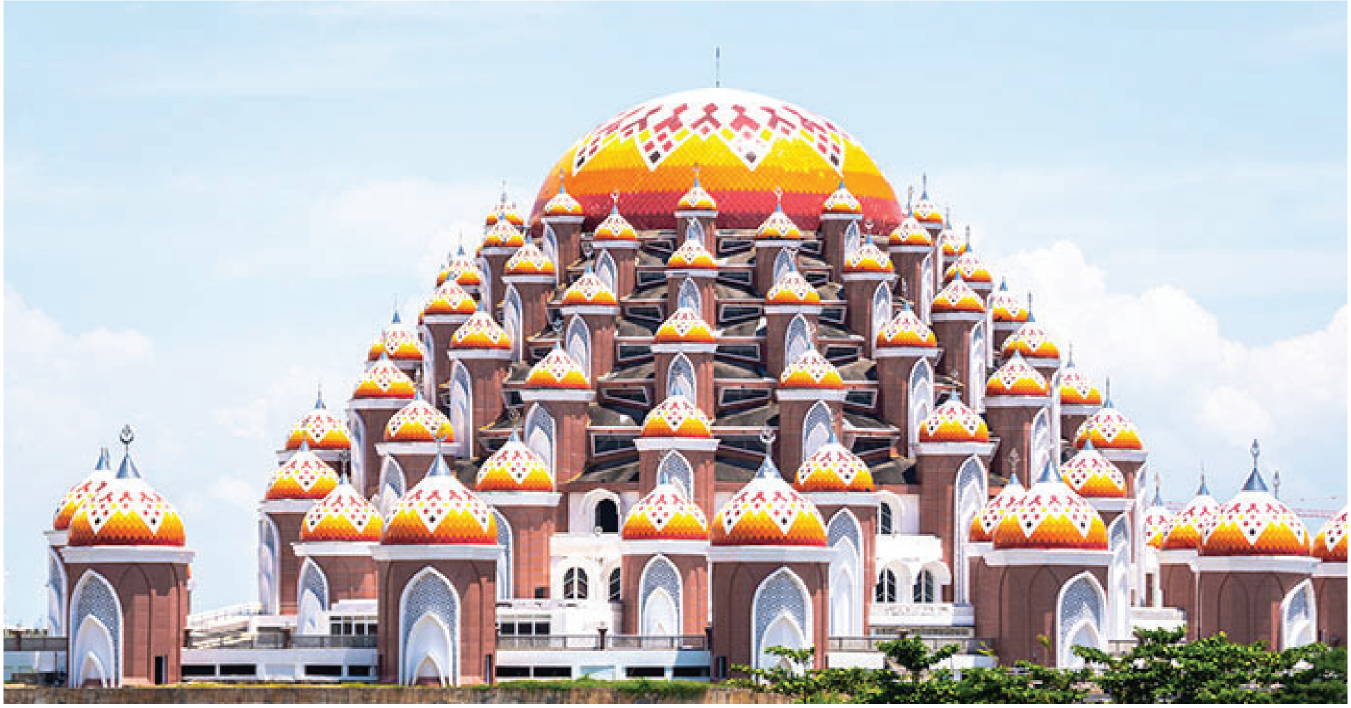
The Real has been under pressure since mid-2024 owing to investor concerns about the strength of Lula's commitment to the country's fiscal framework, as well as narrower interest-rate differentials with the U.S. in the wake of the BCB's monetary-easing cycle, which lasted from August 2023 until June 2024. Some of this pressure should abate now that the Federal Reserve has shifted into easing mode, particularly as the BCB will lift interest rates over the next few months.

Although Brazil runs a sizeable current-account deficit, its structural trade surplus (stemming from huge agricultural exports), modest external debt ratio, solid foreign direct investment inflows (FDI) and large reserves cushion will contain risks to the external position. After a bumper harvest boosted the trade surplus, narrowing the current-account deficit to an estimated 1.6% of GDP in 2024, we expect rising imports to cause the deficit to widen to 2.7% of GDP by 2029. FDI inflows will cover the shortfall, reflecting ample market opportunities. Public external debt is low, and although private external debt is moderate, most firms have some sort of currency hedge. Exports of agricultural goods and minerals, particularly to China, will keep the trade account in surplus throughout 2025-29.

Indonesia

From mine sales to expansion into nickel and aluminum smelting, coal producers in Indonesia are reducing their exposure to the commodity as finding financing for the "dirtiest" fossil fuel becomes increasingly difficult.
This south-east Asian country's coal capacity is still growing, and as the world's top exporter Indonesia also remains one of the biggest emitters of carbon, with environmental groups criticizing government for its slow progress towards greener energy sources.

Corporate efforts to diversify underscore the scrutiny businesses are now facing amid the energy transition and



concerns over long-term demand for coal. There are obviously growing environmental, social and governance pressures, and coal is front and center in this discussion. According to the head of an Indonesian company which has been expanding rapidly into nickel processing, it is very challenging for companies to raise money for coal-related activities. The company has not put any new funds into coal in the past five years. Instead, it has been accumulating cash from the existing [coal] business and all that cash is going into growing the company's nickel business.

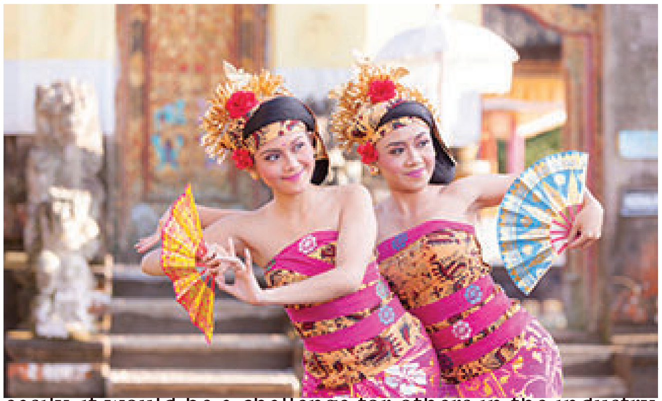
The plan is to close its coal business when reserves run out in a few years. The company entered the nickel business in 2020 to tap into soaring demand for the metal used in electric vehicle batteries. It expects nickel to contribute about 60% of revenues by the end of this year — a big jump from 11% — and aims to double production capacity to 150,000 tons by the end of 2025. Other coal producers are also transitioning. Indika Energy has launched electric motorbikes and solar power plants and sold some coal mines. It is aiming to reduce its coal business to 50 per cent of total revenues by 2025. Another coal producer is building an aluminum smelter and a hydro power plant. Announcing last month, it plans to spin off its coal business through a public offering.

According to Indonesia's Institute for Energy Economics and Financial Analysis [IEEFA], five of the seven major publicly listed Indonesian coal producers are investing in diversification. In recent years, foreign banks have largely stopped financing coal operations, with Indonesian companies primarily securing financing from domestic institutions. Adaro struggled to find funds for a $2bn aluminum project involving a coal power plant last year, and in April, carmaker Hyundai called off an aluminum supply agreement with Adaro.

Despite diversification efforts, Indonesia's coal capacity is still increasing and threatens the country's goal to reach net zero emissions by 2060. The government banned the construction of new coal power plants in 2022 but granted several exceptions where construction could still proceed. New plants can be built for exclusive use within mineral processing sites and for other projects deemed as strategic to national interests.

The IEEFA reports that two of the seven listed Indonesian coal producers had major expansion plans that would add an estimated 58 million tons of capacity. Indonesia produced a record 775 million tons of coal last year. Coal is responsible for more than 60% of electricity generated in Indonesia, with the country having abundant thermal coal reserves and being the world's third-largest producer.

China, India, Japan and South Korea are among the top buyers of Indonesian coal. Developed countries have promised to provide $22 billion in financing through public and private funds to help the country wean itself off coal. However, progress with the distribution of funds has been slow. Meanwhile, Indonesia's sovereign wealth fund is eying green energy transition in its $1bn investment plan. Still, coal remains a lucrative business as prices have climbed in recent years. Indonesian coal producers saw record profits in 2022. In August, Glencore, the world's largest publicly listed coal producer, dropped plans to spin off its coal business after investors pushed the company to keep coal for better returns.

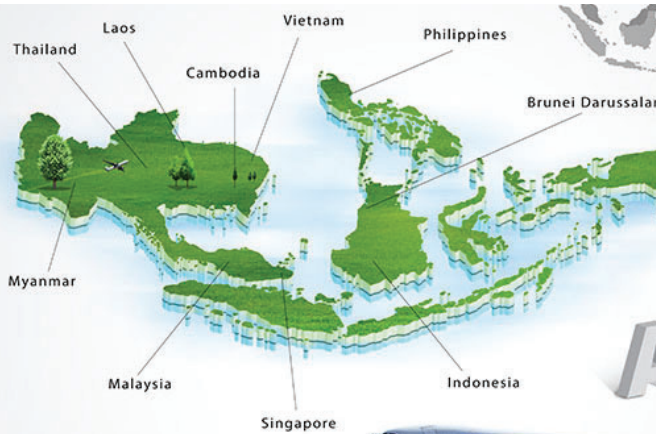


easily, it would be a challenge for others in the industry. For some larger players, it would be more difficult to diversify to new areas and transform their coal business into a minority contributor. It would take a much longer time. Fitch Ratings expects funding access for coal to narrow further over the next three to five years. Companies that adopt meaningful diversification strategies that go beyond thermal coal - will likely achieve better funding access compared with those that maintain conservative financial profiles with no diversification plans.

Indonesia is the largest and most populous economy in South-east Asia. Its industry is based heavily on the production and processing of domestically sourced raw commodities, including coal, palm oil and nickel.

Following the general election in February, Prabowo Subianto will succeed Joko Widodo (known as Jokowi) as president in October. Mr. Prabowo will maintain a large but loose-knit coalition to preserve political stability and minimize internal conflict. The next administration will likely prioritize infrastructure development and the downstream development of heavy industry (notably the production of batteries for electric vehicles).

Economic activity will likely remain resilient in the second half of 2024 and into 2025. Investment in industries related to hard commodities will remain robust. Exports of base metals will gain a larger share in Indonesia's export basket, despite easing global prices.



Competing external powers will continue to court Indonesia. The country will remain non-aligned, continue to seek new trade partners and deepen its engagement with established regional and international groups, especially ASEAN.

Inflation has held steady with the consumer price index rising a modest 2.1% year-on-year in July. The easing of global rice prices if India lifts its export ban, means that inflation could moderate at a faster pace in the coming months. The central bank waited for the Federal Reserve to cut interest rates in September to begin its own easing cycle. However, with inflation easing and the rupiah appreciating, we anticipate a cut at Bank Indonesia's next meeting

Political instability risks have risen in recent weeks as members of the legislature loyal to the incoming government have sought to overturn a High Court decision on August 20th, which lowered the hurdle for nominating candidates to local legislatures.

Indonesia will pursue a neutral foreign policy in 2024-28, avoiding explicit alignment with either the U.S.- or China-led bloc. It will continue to avoid taking a side in the Russia-Ukraine conflict. Within the Association of South-East Asian Nations (ASEAN), relations between Indonesia and Malaysia will strengthen following their joint support for Palestine and co-operation on the future of palm oil exports. Indonesia will collaborate with Australia on resource extraction for the development of electric vehicle (EV) batteries; Indonesia has significant nickel reserves, while Australia accounts for around half of the global lithium supply.

The expectation is for real GDP growth to undershoot the target of 8% in 2025-28. However, his ambitious goals will sustain government consumption during this period, with public spending driven by key infrastructure projects and social assistance programs. A recovery in inbound tourism, particularly from South-east Asia and China, will also support services export levels.

Food inflation will continue to trend downwards, given the fading effects of the El Niño climate phenomenon, which pushed up prices in early 2024. We expect overall inflation to fall below 2% by year-end, which is within the central bank's target range of 1.5-3.5%.

The current-account deficit will widen slightly in 2024, driven mainly by elevated oil prices and an increase in primary income outflows. The gap as a percentage of GDP will nevertheless be modest compared to previous years, owing to the success of Jokowi's down streaming strategy.

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Trade Credit & Political Risk

What is Trade Credit Insurance?

Companies selling products or services on credit terms or financial institutions financing those sales face the risk of non-payment by their buyers.

Trade Credit Insurance provides a cost-effective mechanism for transferring that risk. FCIA's Trade Credit Insurance products protect the policyholders against losses resulting from that non-payment.

Why Trade Credit Insurance?

One of a company's largest assets is their accounts receivable but they are often not insured. This could often be due to lack of knowledge of availability of coverage.

A debtor's nonpayment can be caused by commercial events such as insolvency or protracted default. On international transactions, nonpayment can also result from the occurrence of disruptive political events such as wars, government interventions, or currency inconvertibility.

A Few Value-Added Benefits For Insureds

FCIA's Trade Credit Insurance policies offer companies a wide array of flexible coverages. You can insure a broad multi-buyer receivable portfolio, a smaller select receivable portfolio (key accounts), or a single buyer receivable.

Some Value-Added Benefits of Trade Credit Insurance

- Sales expansion
- Ability to offer longer repayment terms
- Access to better financing terms
- Reduce earnings volatility
- Reduce bad debt reserves

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