FCIA

Trade Credit & Political Risk

GREAT AMERICAN INSURANCE GROUP

Major Country Risk Developments
February 2025

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Overview

The global economic outlook has become increasingly uncertain since the U.S. November presidential elections. Unfolding U.S. trade, economic and foreign policies under the new Trump Administration, have left companies and U.S. trading partners scrambling over the implications of the many new policies and rule changes. More broadly, the consensus is that importers will be paying higher duties (tariffs) on foreign sourced goods to the U.S. Treasury upon entry. This will likely drive prices upwards, spike inflation and slow spending.

U.S. inflation in January rose to 3% year-on year, up from 2.7% previously. With global and foreign exchange markets focusing strongly on U.S. protectionism, the Canadian dollar, the euro, Mexican peso, Brazil's real- are among some of the impacted currencies. The U.S is deploying tariffs to tackle a wide range of issues from immigration to national security to overreliance on imports for production. The U.S is the largest importer of goods and services, buying $1.1 trillion worth in 2024, surpassing Chinese imports of 2.6 trillion by a wide margin. As such, higher barriers to its trade disrupt global supply chains and investment.

U.S. targeted trade with China, Canada and Mexico immediately and imposed tariffs on steel and aluminum imports globally. This should weigh on currencies over the coming months. The specter of tariffs has helped spark a sell-off in bonds on inflation fears, pushing the dollar higher and currencies of Asian emerging markets lower. It has weighed on some equity markets such as India and Malaysia.

Once in effect, 25% tariffs on aluminum and steel will impact higher prices on a wide range of goods, across sectors including autos, machinery, construction, semiconductors, aerospace, infrastructure, homes, retail and manufacturing. The effects will be felt across countries and regions at varying levels. Given the close integration of the global economy only a few countries will escape the likely effects of tariffs and trade wars.

The record of recent tariffs proves that the duties do not magically create jobs in the U.S. Manufacturing as a share of U.S. employment has fallen since the first Trump administration. Companies in industries directly protected by tariffs in the Trump first term-notably steel and aluminum-did increase their revenues. But that gain came at the expense of thousands of downstream companies that suffered from higher input costs. The earlier tariffs did nothing to reduce the U.S. trade deficits. One reason is that they tend to strengthen the dollar. Tariffs are supposed to reduce U.S. demand for imported goods, leading to less demand for foreign currencies. But when fewer dollars are sold, the greenback's value increases, which in turn depresses global demand for U.S. exports. The result is that even as Americans buy less from abroad, they sell less to foreigners.

The current proposed trade barriers are much more targeted than was promised on the campaign trail. The 25% tariffs on aluminum and steel are steep but they are not the biggest items on the list of U.S. imports.

The pushback of plans for what the U.S describes as reciprocal tariffs until April also signal less extensive action than had been feared. Moreover, the 10% tariffs on China is much less than the 60% threatened. This points to a worsening U.S.-China relations on trade and investment, though not a complete breakdown.

Anticipation of tariffs has boosted the dollar. That will hurt smaller, more export-dependent economies, and other U.S. trading partners as well. There are no reasons to believe that higher tariffs will increase profitable at

U.S. companies. If tariffs are negotiating tools, not a recurring threat that keep CEOs guessing when to place orders or where to build factories- they will need to be short. Instead of fretting about tariffs, investors should be looking for opportunities in those countries that stand to gain from probable shifts. Emerging market economies in Asia outside of China should be on the list.

While China is likely to compete more aggressively for the trade pie outside the U.S., those countries that want to benefit from disrupted global supply chains should see growth as they did after trade frictions started in the first Trump term. Vietnam is the big example. From 2017-2023, Vietnam increased its export share to the U.S. in all product categories., making it a winner among Asia's emerging economies. This growth is not merely a result of China rerouting its exports under the guise of Vietnamese goods but stems from Vietnam's hard-earned progress. Vietnam's trade linkages have expanded significantly across the globe, spanning China, the U.S., north Asia, the EU and the Asean group of 10 countries. This performance mirrors the rapid increase of foreign direct investment over the past two decades. Vietnam has outperformed the rest of the region in attracting FDI, drawing inflows from South Korea, Singapore, Japan Hong Kong, Taiwan and the U.S.

Despite mounting uncertainties, the U.S. economy is still a standout. The IMF estimates that 2024 U.S. GDP

growth was 2.8% and expects similar growth in 2025. That compares with 0.8% growth in the eurozone and 0.3% in Japan. The U.S. is giving itself multiple tools to impose whatever tariffs it likes for whatever reason it can make up on a highly flexible, legal basis, with a series of arbitrary and eminently mutable deadlines.

On top of tariffs, it already has on China, the U.S. now has 25% fentanyl-and-immigration tariffs now due on Canada and Mexico effective March 4; across-the-board steel and aluminum tariffs due on March 12; and the "reciprocal" tariffs, to be discussed in light of various reports President Trump has commissioned for April 1. Additiona tariffs on autos, pharmaceuticals and semiconductors are next in line. The assembly of tariff weaponry appears largely designed to create negotiating leverage for concessions and mark a new era and a shift away from the U.S. domestic rules-based system. The U.S. has moved toward full-scale protectionism for its industries. It is also willing to use tariffs and blocks on imports as a coercive tool of foreign policy. The aim is to get more companies to move manufacturing to the U.S.

This U.S. generalized global trade war against the rest of the world puts trade relationships at a new and uncertain stage. If the U.S. genuinely tries to close its overall trade deficit with big tariffs, this will likely cause a recession. For some economies, this shock to global trade provides a chance to bolster resilience, liberalize trade access and improve competitiveness. Amid higher trade friction and volatility, capital is seeking eager hosts. Some countries in Asia-Malaysia, Vietnam, Singapore and India for example-are positioning themselves to be winners in the trade war.

Europe

Western capitals are braced for potential decisions on European security, as the U.S. and Russia begin talks to end the war in Ukraine and European hold emergency meetings to respond to the fast-moving negotiations taking place without them.
The region's top leaders gathered in Paris for talks on Ukraine and the future of European defense, as the U.S. opened peace talks with Russia in Saudi Arabia. The Europeans were not invited to the talks. Neither was Ukraine.

This underscores the Europeans' lack of input into negotiations that could ultimately reshape the continent's security architecture. Leaders from the UK, Germany, Poland and heads of EU institutions and NATO huddled in Paris for an emergency meeting at the invitation of the French President. Joined by the heads of governments of Italy, Spain, the Netherlands and Denmark, they discussed concrete plans aimed at safeguarding European defense regardless of future U.S. engagement. The coun-

tries examined how best to support Ukraine and how to strengthen their negotiating position.

The Russians responded to the U.S. decision to open talks as a "powerful signal that we will try to solve problems through dialogue and talk about peace rather than war."

Tough European emissions rules are forcing car manufacturers to sell more electric vehicles, which are less profitable. In China, the rise of local competition is bringing the curtain down on a golden era for German brands.

There is great disruption. There are already thousands of job losses and with higher U.S. tariffs, risks inflicting further damage on Europe's economy, which has struggled to grow as fast as the U.S. in recent years. The automotive industry accounts for roughly 7% of GDP product in the European Union—far higher than in the U.S.

Volkswagen, the region's bellwether automaker, reported record profit last year, but its stock now trades at 14-year lows. It is holding talks with its labor union about closing factories in Germany. VW workers held a so-called warning strike in protest. Volkswagen exemplifies the unfolding crisis.

Europe's second-largest carmaker, Stellantis, said its Chief Executive Officer would leave, amid mounting tensions with suppliers and politicians. In January Ford's European operation announced 4,000 job cuts. Big industry suppliers such as Bosch and ZF Friedrichshafen are also laying off thousands of workers each. European carmakers planned for a rapid adoption of electric vehicles, spurred by regulators. But after an early burst of enthusiasm, consumers have not cooperated, wary of high prices and patchy charging infrastructure. Subsidies were withdrawn last December in Germany, hitting Europe's largest EV market hard.

Starting next year, carmakers will have to sell many more EVs or hybrids in the EU to comply with new limits on carbon-dioxide emissions, or else pay fines. In the U.K., manufacturers face hefty penalties if EVs account for less than 22% of their sales this year. VW has privately warned that it might have to pay EU fines of up to $1.6 billion.

The U.K. government last week hinted it could relax its emission rules, and some analysts expect the EU to follow suit. The uncertainty is perilous for an industry that relies on a high level of demand planning to coordinate long supply chains.

Even without the technology shift, Europe's car industry would be struggling. Sales in the region are running almost a fifth below pre-pandemic levels after a period of high inflation that priced less-affluent buyers out of the new-vehicle market. Production costs have been rising, particularly in Germany, which lost its supply of cheap Russian gas amid the war in Ukraine. This year, the combined profit of VW, Mercedes-Benz and BMW is expected to fall by a third. Only a modest recovery seems likely in 2026.

Another challenge is rising competition in Europe from Chinese EVs, which are often cheaper. While additional EU tariffs this year have slowed the European expansion plans of companies such as BYD, the policy is encourag-

ing them to build new factories in the trade bloc.

Exports, a traditional strength of Europe's luxury carmakers, haven't made up for a smaller, more crowded home market. Expectations are for vehicle shipments from Europe to total 2.7 million this year, 16% lower than in 2019.

China has long been a lucrative export market for top-of-the-range cars, but this year demand has been hit by a broader slowdown in luxury spending. Mercedes-Benz and BMW issued profit warnings in September, citing the weak Chinese market among other reasons. It could get worse: China has floated extra taxes on imported gasoline vehicles as a potential response to the EU tariffs.

New U.S. tariffs will only add to the pressure. This isn't just about shipments from Europe: VW, Audi, Mercedes-Benz and BMW also manufacture products in Mexico for the U.S. The U.S. imposed a 25% tariff on goods imported from Mexico. Those duties are currently on a temporary hold.

The vulnerabilities noted are a dramatic turnaround for an industry that was an outsize winner from the falling trade barriers of the 1990s and 2000s. Europe emerged from the 2008 financial crisis with a global lead in automotive production and technology. Even after China took the production crown, Europe's car industry remained robust, accounting for almost a quarter of global light-vehicle output in the years before the pandemic. This year, its share is expected to fall to 19%, far behind China at 33% and not much above North America, according to S&P Global's forecasts.

Meanwhile, EVs have handed the technological lead to the U.S. and increasingly China. Chinese companies used to pay VW for its engine know-how; now it is paying startups like Xpeng in China and Rivian in the U.S. for EV expertise.

Manufacturing orders in Germany rose in December on aerospace demand, although any tentative signs of a recovery for the struggling industrial sector face the imminent threat of tariffs from the U.S. European steel and aluminum and manufacturing sectors, among others, already under energy cost pressures and weak domestic demand, face a rough 2025-26. Global demand could contract, as higher tariffs drive up costs and consumers spend less.

Canada

Canada has warned it will impose "tit-for-tat" tariffs on U.S. products such as steel and orange juice if the U.S. goes ahead with his threat to impose high duties on Canadian imports.

Canada's energy & natural resources Minister assures that Canada wants to co-operate with the U.S. on facing down China. However, he says Canada would not stand by if the U.S. imposed potentially devastating tariffs on its exports. These retaliatory tariffs would focus on products that would create "the greatest amount of angst in the United States with the least amount of pain in Canada" — potentially steel from Michigan or orange juice from Florida.

The U.S. threat to impose a 25% tariff on all Canadian exports to the U.S. has been placed on temporary hold. Canada is the largest exporter of steel and aluminum to the U.S.

The Canadians say they are open to new co-operation with Washington, including potentially buying submarines and other military equipment, and developing

more critical mineral projects in Canada that would displace Chinese products from U.S. supply chains. There are opportunities for Canada to procure a lot of the go-forward military equipment, like the submarines from the U.S. Canada remain s open to that prospect as part of a broader conversation. A fight over tariffs was a “distraction” from more pressing issues, according to the Canadian energy minister. “The challenge we face internationally right now, it’s not Canada-U.S., it’s China,” he stated. China is known to have strategic control of a several assets, and particularly critical minerals.

The Canadian desire is for the two North American allies to build an energy and minerals security partnership or alliance that enables both countries to contribute to having more availability of raw materials and technology to support future growth. In January, China banned the export of several rare earths to the U.S. in an escalation of the technology war.

China controls most of the supply chain for rare earths, which are critical inputs for advanced clean energy and defense technologies. The Canadian energy minister visited Washington, met with Republican politicians, industry representatives and other stakeholders — as part of Ottawa’s lobbying effort to persuade the U.S. government to not impose tariffs on Canada. These tariffs, if implemented, could tip Canada’s economy into recession.

The U.S. administration proposed 25% tariffs on all imports from Mexico and Canada, accusing the U.S.’s closest neighbors of failing to tackle illegal migration and drug trafficking. Justin Trudeau, Canada’s prime minister, responds that nothing is off the table in terms of a response to U.S. tariffs.

The premier of Canada’s oil-rich western province Alberta, who met with President Trump, articulated she did not agree to any potential export tariffs on Canadian energy or other products, or any ban on exports to the U.S. While Canadian government officials continue to publicly and privately float the idea of cutting off energy supply to the U.S. and imposing export tariffs on Alberta energy and other products to the U.S. -these moves are not in the best interest of Alberta. Until these threats cease, Alberta says it would not fully support the Canadian government’s plan in dealing with the threatened tariffs. The U.S. and Canadian economies are deeply intertwined. Canada’s oil industry supplies more than half of U.S. crude imports, and Washington has invested tens of millions of dollars in Canadian critical mineral projects to reduce reliance on Chinese imports.

U.S. tariffs on Canadian imports would hurt U.S. consumers as well as Canadians, pushing up the price of gas, timber and other vital goods. In addition to crude, steel and aluminum the U.S. imports potash, uranium, critical minerals and timber from Canada.

Furthermore, U.S. President Trump says he is considering the use of "economic force" to annex Canada, for national security reasons. Canadians are agitated by these declarations, which has led to a groundswell of nationalism in Canada. There is boycotting of U.S. goods and cancelling of vacations in the U.S. Fact is, a vast majority of Canadians have no interest in becoming Americans. The U.S president's insistence that Canada should join the U.S. has stood out, triggering a mix of outrage and confusion, as the Canadian government struggles to work out the best strategy to deal with the new U.S. demands.

According to reports those in the Trump circle insist that the president's designs on Canada are serious. The annexation of Canada is said to centered on a strategic defense plan for North America. The plan is said to be tied to the demand for control over Greenland and the Panama Canal, to give the U.S. a dominant security position stretching the length of the continent.

The strategy, the new Great Game of the 21st century is focused on the arctic region. The strategic advantage of the region, make it central in the great U.S. power struggle with China and Russia. What's beneath the arctic surface, is also considered as rich -minerals, rare earth, energy potential -in which the U.S. intends to be very involved. Formerly, Canda's most secure part was its northern border in the Arctic. That area is now considered the most vulnerable. It is described as Canada's "soft underbelly".

Canada's Prime Minister Trudeau who has resigned effective March 4, 2025, has suggested stepping up defense co-operation with the U.S., announcing a C$38.6 billion plan to modernize North American Aerospace Defense Command (NORAD) capabilities over two decades; and pledged to spend C$1.3 billion to beef up border security, as well as creating a fentanyl tsar to tackle drug smuggling across the border. With PM Trudeau stepping aside the big challenge for Canadian voters is to elect the person best suited to negotiate with the U.S. and stick up for Canada's interests during this extra-ordinary testing time for the country.

Canada has traditionally offered a low-risk operating environment which is equivalent to a B rating. Canada rates as low risk in most categories, including financial risk, government effectiveness risk and infrastructure risk. The macroeconomic environment and tax policy are by far the highest risk categories. The economy has so far shown reasonable resilience amid above-neutral interest rates, and the expectation a firm momentum as the Bank of Canada (BoC, the central bank) gradually lowers interest rates in the remainder of the 2025-26 outlook period.

The Canadian economy faces significant downside risk due to new economic, trade and foreign policies in the U.S. The Canadian economy is closely interlinked with the U.S. It is highly exposed to changes in U.S. industrial, foreign and economic policies. The labor market risk

will likely rise due to high potential for industrial action, although these risks are generally manageable. We believe both countries will continue to trade – even if the current environment causes disruptions and confusion.

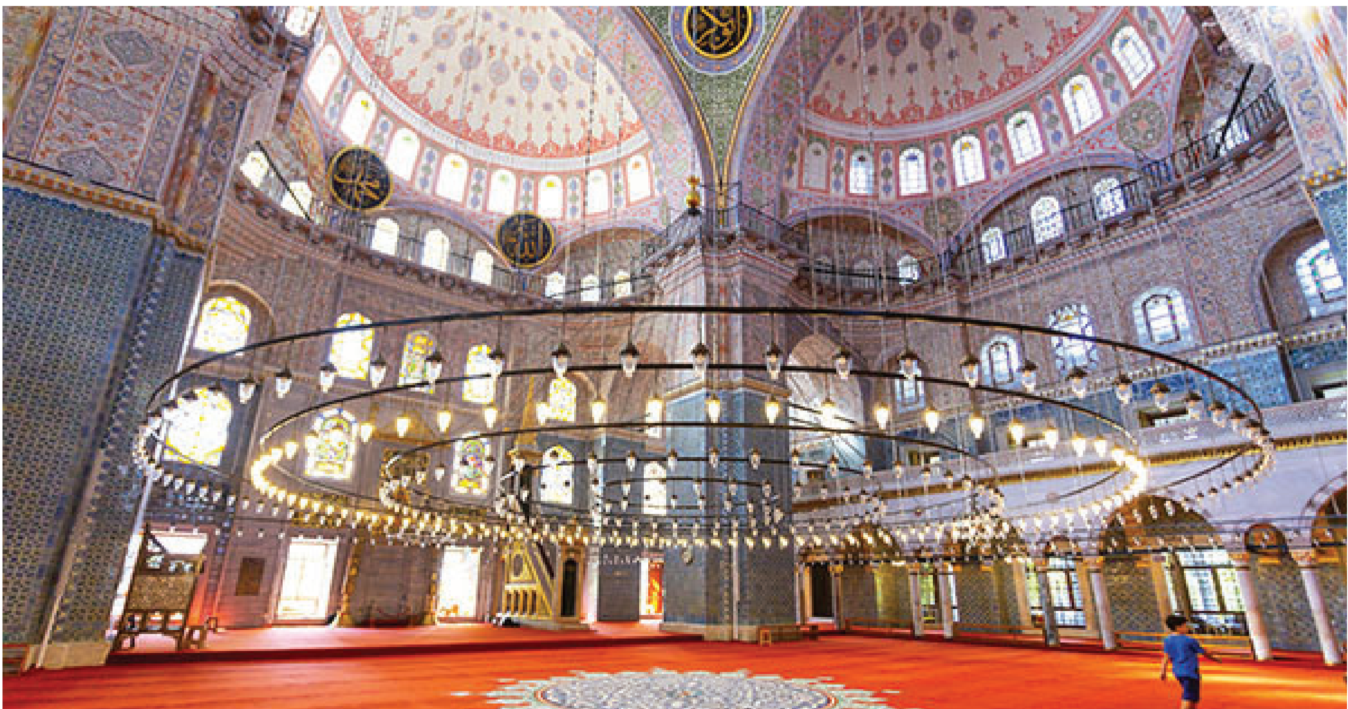
Turkey

Economically, Turkey faces several challenges. Still, with GDP growth at 4% and consistent lira strengthening over the past year, confidence has begun to return. This follows 4.5% GDP expansion in 2023. Growth could begin to slow in the coming years, if global demand slows. Turkey struggles with high inflation-down to 46% at the end of 2024. Inflation rates peaked at 85% in 2022. The Central Bank implemented a series of interest rate hikes, bringing the policy rate to 50% by March 2024. These measures have contributed to a decline in inflation to 44.38% in January 2025. The Central Bank reduced the benchmark interest rate to 45%, signaling a cautious approach to monetary easing. The target is 21% for 2025 but this seems ambitious.

The Central Bank's tight monetary stance has enabled Turkish authorities to stabilize the lira, reduce inflation, rebuild FX reserves, and de-dollarize the financial system. Turkey's savings gap with the rest of the world has narrowed, registered a decline in the current- account deficit by 4 percentage points of GDP since 2022. Turkey has recorded improved external buffers over the past year; International reserves rose by $14 billion to $155 billion in 2024, and their risk composition improved significantly.

Since unwinding foreign exchange swaps with local banks, the Turkish central bank's net foreign assets (excluding FX swaps) rose from minus $75 million to $39 billion in early 2025- due to reduced financial dollarization and demand for foreign, capital inflows and increased access to external borrowing.

Positive real interest rates, low current-account deficits and improved capital inflows will support durability and support improvements in Turkey's external buffers.



The country will be able to service its foreign debt obligations in 2025, with the IMF agreement allowing close monitoring by the Fund. The forecast is that Turkey will maintain comfortably FX reserve coverage broadly in line with its peers over the next 12 months. Reserves are projected to rise to $175 billion by 2026, equivalent to 4.8 months of current external payments.

Monetary policy remains defensive, so household consumption and fixed capital investment are expected to remain constrained in 2025. President Erdogan and the authorities now expected to take steps to prevent domestic demand from slumping, while promoting more exports, foreign capital inflows, plus trade and investments. Banks are maintaining relatively strong credit expansion while the Turkish government keep public sector wage growth and transfers elevated, allowing the fiscal budget to widen, keeping GDP growth at around 2.7% in 2025. The government will continue seeking loans and international funding, including from the Gulf states.

Turkey has sold cheap steel to the U.S. The 25% tariffs imposed on all steel imports will likely dissuade Turkish producers from seeking to sell in the U.S. market. They will be seeking alternatives to the U.S. market and that could be a challenge in the current environment.

Turkey's normalization of relations with Egypt and Saudi Arabia is progressing. The Turkish leader continues to balance his country's NATO, EU and U.S. relationship with his economic, strategic relationship with Russia. Turkey's foreign policy is partly driven by its need to improve energy security, specifically for gas, for which it is heavily import dependent. Russia's supply of discounted gas continue to be a key pillar of support to Turkey's economy.

The May 2024 halt on bilateral trade with Israel will eventually be negotiated- providing that Israel enables continuous and "adequate" humanitarian aid into Gaza. Transshipments of Azerbaijani oil to Israel via Turkey are still halted.

Terrorism risks in Turkey remain elevated, demonstrated by an October 23, 2024, Kurdistan Workers Party ("PKK") attack on Turkish Aerospace Industries. Kurdish and jihadist militants have intent but significantly reduced capabilities to carry out complex attacks in major cities- Istanbul and Ankara. Attacks appear unlikely to return to pre-2017 scale and frequency.
Pro-Kurdish politicians have engaged with imprisoned Kurdish leaders, including the leader of the PKK. These talks aim to resolve the decades-long conflict between the Turkish state and Kurdish militants.

India

The Indian Prime Minister Narendra Modi met with U.S. President Trump in early February and agreed to increase imports of U.S. oil and liquified natural gas (LNG) by India. This is seen as an effort to rebalance the two countries' trade relationship. Russia is currently the main supplier of crude to India, while Qatar is the biggest provider of LNG. The commitment by India followed U.S. complaints of India as an abuser of tariffs while threatening to impose reciprocal tariffs. The new initiative has the potential to expand the market for U.S. suppliers. According to one of India's top natural gas importers, this is a time of more benign prices for U.S. gas exports and India is ready to import more LNG from the U.S.

The International Energy Agency said India's natural gas consumption will increase by nearly 60% by 2030, with LNG imports set to more than double in the same period driven by steady demand growth and a much slower rise in domestic production. In 2023, India's total net gas production met just about half of its demand. India has much appetite for more energy. Therefore, there is potential for India to buy more LNG from different sources. Doing business in India carries moderate risks. The ruling coalition, led by the Bharatiya Janata Party (BJP), won the 2024 general election, which has aided political stability, but its narrow parliamentary majority may cause some policy uncertainty related to certain business reforms.

Strong demand for goods and services and increasing purchasing power will continue to make India an appealing market. A young demographic, technological progress and strong growth momentum will underpin India's attractiveness for foreign firms, although challenges associated with employment generation and climate change will weigh on medium-term potential.

The government has prioritized infrastructure spending, focusing on telecommunications, transport, logistics, energy and defense. Efforts to attract foreign manufacturing companies to India has been moderately successful, although remaining behind Southeast Asian peers. The country's robust economic momentum will mitigate some macroeconomic risks. India will sign more bilateral free-trade agreements (FTAs) in 2025-26. Public debt levels are high but manageable, as most of the debt is held domestically.

With GDP growth currently at 6.4%, the slowest since the pandemic efforts to bring in more foreign investment will be boosted in 2025. Companies in India will be assessing the impact of slower growth on their investments and the outlook for consumption; as well as government budgetary proposals aimed at spurring growth -which would impact the business environment.

Microsoft is among many foreign corporations that are increasingly considering investment in India. While the country is still short of enough highly skilled technical researchers and quantum engineers, etc., interest has grown in India as an alternative manufacturing, assembly and servicing location that can rival China.

Microsoft's chief executive recently took a whirlwind tour of India and left a trail of gifts behind. They included a $3 billion planned investment over the next two years. Funds are to be used mostly for developing artificial intelligence and cloud services under Azure, Microsoft's cloud computing platform. Funds will also be used for training 10 million Indians in AI skills by 2030. The company described this as the single largest expansion that Microsoft has ever done in India.

There is optimism over the level of AI development activity currently taking place in India. Approximately 17,000 Indian developers are on GitHub, a platform that allows developers to create, store and share their code, which Microsoft acquired in 2028.India is expected to become the largest community of GitHub by 2028. Indian developers are working on more than 3,500 generative AI projects.

Technology companies in the U.S. are expecting removal of regulatory shackles under the Trump administration. This will allow them to stay ahead of China. Some Indian companies are doing interesting work in AI, but there are no clear signs of significant breakthroughs in

technology or product development that would launch India as leading global player. Nonetheless, the size of the Indian market and its demographics make this country prime for multinational investments and market access going forward.

While Microsoft is investing $3 billion in India, its global plans are to spend $80 billion in 2025 developing data centers globally, with more than half of that figure invested in the U.S.

India has gained in export market share to the U.S. since 2017, but not by much. A "Make in India" drive by the Modi government, tax cuts and production incentive schemes have helped, especially in the information technology sector. Still, manufacturing has not kept up with the country's rapid growth, and its share of GDP declined to 14% in 2024 from 16.5% in 2014. Mr. Modi is trying to change that with pre-emptive lowering of tariffs on U.S. goods while boosting bilateral India-U.S. trade, investment and security ties. He is targeting further investment in sectors such as toys, footwear, and IT.

Colombia

In early February, President Gustavo Petro demanded that his entire cabinet resign. Then, he flew to Dubai to give a speech on artificial intelligence and the threat it poses to "global civilization."

Back home, Petro's government was in disarray. New leadership has since been replaced in several key ministries, including defense – even as fierce battles between rebel groups in the country's northeast have displaced at least 52,000 citizens.

The chaotic cabinet reshuffle – which followed a botched attempt by Petro to stand up to pressure over migration from the U.S. – has added to the isolation of Colombia's president (and first leftist leader) halfway through his term. The loss of confidence in Petro's leadership threatens to worsen a security crisis in the U.S.'s backyard.

With two years left in his term, observers see little potential for the Petro Government to get much accomplished

legislatively. The crisis was parked by Petro's choice to appoint the scandal-ridden political operator Armando Benedetti as chief of staff, while promoting his 30-year-old confidante as foreign minister – despite her lack of foreign policy experience. Both individuals are embroiled in a campaign finance scandal that continues to roil the government.

Observers believe the appointments were made with an eye to presidential and legislative elections in May next year, in which Petro is barred from standing again but is seen as wishing to install a loyal successor to continue Colombia's leftist experiment. The president is seen as focused on the 2026 election and that there be continuity.

President Petro, a self-described revolutionary and prolific social media user who spent years in opposition either side of a stint as mayor of Bogota, took office in 2022 promising to overhaul the oil and coal exporter's investor-friendly economic model while weaning the country off fossil fuels. Since then, warring rebel groups and drug traffickers expanded their presence in Colombia – as President Petro plans for wide-ranging peace talks floundered.

Fiscal stability has come under heavy strain, in part due to increased spending and reduced tax take, while a ban on new fossil fuel exploration has led to growing reliance on imported natural gas. Foreign direct investment last year fell 17.6%.

In mid-February, the government levied a surprise 1% tax on fossil fuel production -citing powers granted by emergency decrees in response to the fighting in Catatumbo in the country's northeast.

The Petro government has had some success in expanding the state's role in pensions, but attempts to reform health, education and labor laws have faced pushbacks in congress, where he declared the death of his left-of-center coalition in April 2023.

The recent collapse of the president's cabinet was triggered by a rancorous televised six-hour cabinet meeting on February 4th that aimed to discuss the emergency in Catatumbo. In the meeting several front benchers-including his Vice President-blasted Petro for installing the tarnished new chief of staff.

The mood had already been soured by the crisis in U.S.-Colombia relations after Petro rejected a U.S. military flight carrying deported migrants in handcuffs. Petro eventually reversed himself, but the damage had been done. Colombia's image after two-years under President Petro's leadership has slipped and its previous close alliance with the U.S. has taken a hit. Other leaders in the region have opted to take a far more cautious and conciliatory approach to the U.S. president.

The Colombian private sector and foreign investors in the country are looking forward to a successor to Petro. Most voters are similarly anxious about the country's current leadership.

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Trade Credit & Political Risk

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