Major Country Risk Developments
June 2026

Overview

The OPEC+ oil cartel agreed to increase production for the fourth consecutive month. Beginning in July, production will increase by 188,000 barrels per day, in a symbolic move, as the war in the Middle East has choked off the critical Strait of Hormuz waterway, through which 20% of the world's oil passes. The countries agreeing to the output increase include Saudi Arabia-the cartel's de-facto leader-along with Russia, Iraq, Kuwait, Algeria, Kazakhstan and Oman.

The impact of the move on global markets is expected to be limited until flows resume through the Strait. Disruptions in the waterway have pushed major Gulf producers to redirect crude flows away from Hormuz. Saudi Arabia has ramped up use of its East-West pipeline to the Red Sea port of Yanbu, raising flows to 7 million barrels per day from the prewar rate of 2 million barrels a day. The United Arab Emirates [which exited OPEC in May], has rerouted some of its exports via a pipeline to Fujairah, a port city outside of Hormuz. The pipelines and the small number of crossings will not replace all the crude carried by tanker ships through a free and open waterway, but their use will help prevent an even worse energy crisis from unfolding.

Tensions remain elevated in the region despite a ceasefire between the U.S. and Iran. Both sides are anxious to seal a deal. The U.S. wants an agreement that reopens the Strait but is reluctant to meet Iran's demand for access to billions of dollars in now-frozen cash; with less than stringent commitments on its nuclear program as the price for a peace deal. Mediators in the negotiations say talks are stalled over those issues. Meanwhile, Iran says it has halted military operations against Israel following a cycle of retaliatory attacks between the two countries which threatened to jeopardize peace efforts. In response, oil prices fell from $98 per barrel to $94 .70.

About 80% of the world's trade by volume travels by sea. Governments naturally worry about keeping goods moving. A series of crises in recent years, from the Covid-19 pandemic to the current closure of the Strait of Hormuz, has shown how easily the global trading system can be thrown into chaos. The desire to reduce dependence on chokepoints for both commercial and geopolitical reasons is natural. Political pressure for shipping firms to use selected ports and sea routes, in defiance of commercial logic, is growing.

The rush to build port infrastructure has been driven by anxiety, including concerns about China's ambitions and its tightening hold on global supply chains. Chinese firms now operate or have a financial stake in at least 129 ports outside China, according to The Economist. Chinese firms have reportedly spent $80 billion on port construction from Antigua to Tanzania, with many investments tied to bilateral trade and regional shipping agreements.

China's firm grip on global ports has rattled Western governments. Operating ports allows Chinese firms to prioritize their cargo and vessels and speed up customs and logistics. Were the global trading system flowing smoothly, China's dominance of sea lanes would be less of a concern. But a rerouting of shipping, most recently due to the closure of the Strait of Hormuz, has left ports more prone to congestion, punitive fees on cargo sitting idle and sharp rises in freight rates.
Container ships in the Indian subcontinent are facing particularly bad congestion, while waiting times at the Panama Canal have lengthened by increased volumes of energy exports to Asia. So far, no one has come up with a good strategy to deal with the chaos at ports.
Non-Chinese shipping companies are rapidly beefing up their own networks. Since 2021, such firms have announced $140 billion of acquisition in various maritime supply chains. Germany's Hapag-Lloyd signed a deal in January to acquire 50% of a container-terminal operator in Brazil; more recently it raised its stake in India's JM Baxi Ports, and announced plans to acquire ZIM, the Israeli shipping line.

In January, U.S. investment firm Stonepeak, formed a $10 billion joint-venture, United Ports, with CMA-CGM, a French firm. In February AP Moller Maersk's terminal subsidiary, together with Eurogate (a container-handling firm), announced plans to invest $1.2 billion to expand a shipping terminal in the North Sea.
Governments are also paving the way for their country's firms to secure maritime routes and berths. India is amid a vast port-building effort that is expected to continue until 2047; in October, Saudi Arabia signed a $450 million deal for the Jeddah Islamic Port. Singapore is building a $20 billion automated port and shipping hub. DP World, Dubai's port company, has signed deals to invest and expand its positions at ports in Dar es Salaam, Tanzania and Callao in Peru.

If the energy crisis in the Middle East is not solved, the world will be facing a "dark scenario," the OECD has warned. The multilateral agency confirmed that a prolonged disruption to energy flows extending into the second half of 2027 would cut global growth to 2.1% this year and 1.8% in 2027. Major central banks such as the U.S. Federal Reserve would have to raise interest rates to curtail inflation.

The problems that global trade confronts today are not just the result of the effective closure of the Strait of Hormuz. The targeting of oil and gas infrastructure by

Iran, which was as predictable as the closure of Hormuz itself, caused significant damages. At least eight important Gulf refineries are fully or partially out of action as is the Ras Laffan LNG facility in Qatar. How long it will take to repair the destruction and return to previous production levels remains unknown. New Iranian missile and drone attacks on Bahrain and Kuwait further complicates hopes of an imminent deal with the U.S. to end the conflict.

The closure of Hormuz has helped push price growth ahead of pay increases in the U.S., UK and elsewhere. Across the Eurozone, the current energy shock has been a fresh setback for consumers who have only just clawed back the ground lost in the 2022 inflationary shock. Forecasts for real wage growth in 2026 are close to zero across the Eurozone. Some suggest the impact is already deeply negative in some countries such as France that have no fiscal space to shield consumers. The drag on real wages comes as diplomatic efforts to end the Middle East conflict intensifies. The squeeze on households creates two separate worries for policymakers. One is that households will rein in spending, worsening the hit from the war to economic growth and forcing companies to cut jobs as demand slows.

In 2025, compensation per employee in the Euro area grew by 2%, as unemployment hovered near record lows. Another possibility is that workers will succeed in bidding up wages, fueling persistent inflation even if energy prices fall. According to the European Central Bank, unions are struggling to secure generous terms this year, just as workers become more worried about job security. France for example, is now cutting taxes as consumers face growing strains. In Germany, consumers are also in a weak position to bargain for higher wages but are partly protected from the most immediate price increases by cuts in fuel duty. The consensus is that while some workers in Europe are better protected from rising prices and the hit from the Iran war remains smaller than the energy shock of 2022, it now seems likely that the Eurozone economy could face a mild recession.

UK households face a similar squeeze. Average earnings grew at an annual pace of 0.1% in the three months to March, excluding bonuses, and are set to fall outright as inflation rises over the coming months against a backdrop of very weak hiring. UK workers were already losing bargaining power at the onset of the war, with unemployment rising and vacancies at a five- year low. Support for family finances was recently announced by the UK government-in the form of VAT cuts on summer trips and meals out, and a delayed increase in fuel duty-was not insignificant, but the conclusion is that this will not prevent the country from facing its fourth period of falling real wages since 2008. Still, Europe has weathered the energy crisis sparked by the Iran war far better than the shock caused by Russia's 2022 invasion of Ukraine, which sparked a macroeconomic crisis. This raises important questions: how much of today's demand weakness will reverse once conditions normalize in the Strait and how much of it reflects a more durable shift in consumption.

USA

The U.S. labor market appears to be stabilizing. The country added more jobs than expected in May, posting strong payroll gains for the third consecutive month. Despite uncertainties around the Iran war, inflation, trade and artificial intelligence, the latest jobs report suggests the U.S. labor market is steadily recovering from its weak patch last fall and winter.

According to the U.S. Bureau of Labor Statistics, the U.S. added 172,000 jobs in May (in leisure, hospitality, local government, and health care) beating expectations. That was far better than the 80,000 jobs that analysts anticipated. The unemployment rate stayed unchanged at 4.3%, in line with expectations. So far in 2026, the labor market has been stronger than initially perceived. Last year hiring slowed sharply, with average gains of barely 10,000 jobs per month. So far this year an average of 76,000 jobs were added each month - a respectable pace given sharp declines in immigration and sluggish labor-force growth. According to the data, job openings have risen sharply, and the U.S. manufacturing index recently hit a four-year high, with factories recently hiring more workers. A healthier labor market helps ease fears of an economic downturn. This trend should reinforce the view among Federal Reserve officials that inflation remains a bigger risk for the U.S. economy than unemployment.

In early June, the U.S. announced plans to impose tariffs of at least 10% on dozens of countries following a probe into forced labor practices, in the first significant effort by the Administration to resurrect trade levies since its defeat at the U.S. Supreme Court earlier this year. The Office of the U.S. Trade Representative (USTR) said it intended to impose tariffs on 60 countries for not doing enough to prevent the import of goods using forced labor, a failing that it claimed left U.S. workers competing on an "unlevel playing field."

China, the EU, India, Japan and the UK are among the major economies targeted by the new U.S. proposal, which would set tariffs of between 10% and 12.5%. The Administration vowed to resume its trade war after the Supreme Court in April ruled that most of the tariffs announced in 2025 were illegal. The proposal from the USTR relies on Section 301 of the Trade Act of 1974, which allows the U.S. government to open investigations into the practices of trading partners. Under the Trade Act, the planned levies cannot be imposed immediately and are subject to public comment. The USTR divided the 60 trading partners targeted by the measure into two categories, imposing a 10% levy on the EU and 15 other countries, including Mexico, Argentina, Taiwan and the UK. The remainder, including China, Australia, South Korea, Japan and Brazil, would be hit with a rate of 12.5%.

The U.S. has longstanding provisions controlling the import of goods that are manufactured using forced labor. In its report, the USTR cited rice imported from Myanmar, tobacco from Malawi, and cotton from the western Xinjiang region of China.

China flatly rejected the U.S. position, asserting that there is no such thing as "forced labor" in China. The Chinese foreign ministry said it viewed this as a U.S. pretext for political manipulation.

The U.S. move comes just weeks ahead of the expiry of a flat 10% tariff that was imposed on dozens of countries following the Supreme Court defeat. It used Section 122 of the Trade Act of 1974, but this was only valid for 150 days.

Trade experts and officials have hit out at the latest proposed duties, saying the U.S. was using the forced labor investigation as a pretext to rebuild the sweeping tariff regime that was struck down by the Supreme Court. New Zealand's trade minister said the latest duties were unsurprising and that it was expected that President Trump would seek other ways to reimpose tariffs. He added that New Zealand is not involved with any form of forced labor.

Oil prices fell by roughly 20% in May as traders responded to optimistic messaging from the U.S. that a deal with Iran to reopen the Strait of Hormuz was imminent. But with their militaries targeting each other and negotiations ongoing, the prospects for a rapid and full reopening of the narrow waterway remain uncertain. Even before the latest development in diplomatic talks, global policymakers have been ratcheting up their warnings that a new price shock could be coming, as government oil stockpiles and commercial inventories run dry.

The International Energy Agency, IMF, World Bank and World Trade Organization warned that global oil inventories are being drawn down at a record pace, posing a threat to economic stability. If shipping flows do not return to normal, continued rapid depletion of global oil inventories ahead of peak summer oil demand in the northern hemisphere, would present increasing risks to fuel security, market confidence and broader economic resilience, said a joint statement from the four organizations.

Some forecasters expect a rise in oil prices to $150 a barrel. The Strait is also a vital conduit for fertilizer, liquefied natural gas and other critical commodities, heightening economic risks if it remains closed.

It is clear the U.S. oil industry is worried even though it stands to benefit in the short term from a $60 billion-plus boost to cash flows if West Texas Intermediate averages $100 a barrel this year. ExxonMobil and Chevron, the two largest U.S. oil companies, issued stark warnings about the risk of surging prices because of the loss of shock absorbers, including declining inventories and the reduction of vast amounts of sanctioned oil from Russia and Iran that was stuck at sea. Some oil majors believe the current energy crisis will likely push more governments to focus on energy security and build up oil stockpiles when the immediate crisis subsides.

There is also the likelihood that price increases and supply disruption will weaken oil demand and cause consumers to switch to alternatives and prompt governments to incentivize this transition. Perhaps the best example of this is in China, where oil demand has fallen as much as 9%, or 1.5 million barrels of oil per day, with little visible disruption. The decline appears to be the product of a quiet economic choice by consumers. Faced with higher gasoline, diesel and airfare, many consumers seem to have shifted away from oil-based transportation toward cheaper, lower-carbon alternatives: electric buses, gas-powered trucks, subways, electrified high-speed rail and electric taxis. U.S. inflation jumped to an annual 3.8% in April, while average hourly earnings increased by 3.6% over the year, meaning prices are rising faster than earnings for the first time in two years.

China

In a period of economic uncertainty, China is cementing its status as a leading trading nation in goods, due to the depth and breadth of its supply chains, as it broadens its commercial relations to reduce reliance on any single market or region. Chinese companies are going global, with the country's manufacturers becoming true multinationals, with growing presence overseas; while international companies are using the Chinese market as a testing ground to develop new products.

For businesses in the rest of the world, China presents an enormous source of demand for goods in sectors such as food, energy, healthcare and technology. It has held the position as the world's second largest importer since 2009. Chinese imports of integrated circuits and semiconductors have surged with the boom in AI investment, overtaking crude oil as China's top import and reaching more than $400 billion in 2025.

Meanwhile, China is rapidly expanding infrastructure, resource and energy projects in its western region as it pursues growth at all costs, despite alleged human rights abuses in Xinjiang and a security apparatus that closely monitors Tibetans. Billions of dollars from state-owned enterprises and Chinese companies headquartered in the country's much richer eastern cities are pouring into the west region, as Beijing attempts to bind the area more tightly into China's mainstream economy and population. The Xinjiang average annual growth rate in 2025 was 5.5%, while in Tibet it was as high as 7%, outpacing the countrywide level.

One project that captures the scale of the Chinese Communist Party's (CCP) ambitions is a $167 billion hydroelectric dam that will sit on Tibet's Yarlung Tsangpo river. It could produce more electricity than the UK generates annually. A series of multibillion-dollar mega-projects such as this one could transform the region into a major energy hub. Western China is also considered the country's "resource frontier," boasting copper, lithium, rare earth metals and uranium in substantial quantities.

China's western flank is not the only frontier in Beijing's line of sight. The country's share of global manufacturing continues to rise, stoking tensions with allies whose domestic industrial groups are being pushed out of business as a result. In sectors where Europe and the U.S. used to dominate, such as autos, shipbuilding and solar, subsidies and cheap loans have fueled Chinese companies' rapid rise, according to a recent report by the OECD. Specifically, approximately 60% of Chinese firms' global market share gains since 2005 can be attributed to state subsidies, the report added.

The war in the Persian Gulf has raised inflation around the world. But the price shock hits differently in China. Prior to the conflict, inflation in China, the world's second-biggest economy was uncomfortably low. Producer prices fell for 41 consecutive months. The war broke that sequence: producer prices rose a little in March and by 2.8% in April. This jump may deter the central

bank from cutting interest rates this year, and the "loan prime rate" that commercial banks charge their best customers remain unchanged.

China's reflation is narrow and domestic spending remains painfully weak. It may seem counterintuitive to ease monetary policy when inflation is rising, but that may be the only way to ensure that China doesn't slump back into deflation when the energy shock passes. President Xi has declared that the crisis in the Gulf was at a "critical juncture" and reiterated calls for an end to the fighting to help stabilize energy supplies and international trade.

Separately, China exported more than 400,000 electric vehicles (EVs) in April 2026, a 40% increase over the same month a year ago. That pushed total Chinese EV exports for the first four months of 2026 to 1.4 million units, more than double the same period in 2025.

According to forecasts from the IEA, global EV sales will hit 23 million units in 2026, accounting for nearly 30% of all auto sales worldwide. China is not just participating in that growth, it is supplying a substantial portion of it. Most striking is that Chinese EV exports to Brazil last month surged 221% year- over- year to 38,144 units. This makes Brazil the largest single destination for Chinese electric vehicles in the month. Brazil also led all nations in overall Chinese automotive exports for April at 121,766 total units.

The Brazil story illustrates something important about how Chinese automakers are approaching international expansion. Rather than relying exclusively on established markets in Europe, they are building dominant positions in fast-growing economies where price sensitivity is high, EV infrastructure is still developing and domestic competition is limited.

The U.S. has imposed 100% tariff on Chinese EVs and is moving toward legislation that would ban Chinese-made EVs even if they are assembled domestically. North America imported just 4,422 Chinese EVs for the month, a fraction of every other major region. Chinese automakers have simply shifted focus toward markets where barriers to entry are lower and demand is rising. South Korea, Germany, and Australia all saw import increases of Chinese EV's. Europe remains a critical volume market, despite its own tariff regime, importing 83,813 Chinese EVs in April.

Part of the reason tariffs have not derailed China's export machine is that Chinese manufacturers have been building local production capacity in target markets. BYD and other Chinese automakers have confirmed factory investments across Southeast Asia, Latin America and Europe, serving customers without shipping finished vehicles from Chinese ports.

At the same time, Chinese domestic demand for EVs has softened. Local sales of EVs fell by 10.8% in April, the fourth consecutive month of year-over-year declines, following the expiration of government purchase incentives at the end of 2025. This created a direct incentive for Chinese automakers to push harder to sell more vehicles overseas. Moreover, Chinese auto manufacturers now have even more reason to price aggressively abroad, which keep their vehicles attractive to price-sensitive buyers in Brazil, Southeast Asia, and parts of Europe.

Outside of Europe and the U.S., Chinese models now account for 55% of all EV sales. In markets where no

tariff wall exists, Chinese vehicles are winning on price, availability and, increasingly, on quality.

Overall, ongoing weak Chinese demand at home is responsible for the country's continued lower imports of foreign crude. This helps explain why global oil prices have not risen even higher-even as the Strait of Hormuz remain closed.

India

India's central bank (Reserve Bank of India or RBI) held interest rates steady at 5.25% on June 4, 2026, despite mounting pressure on the rupee -due to a surge in foreign capital outflows and the effects of the Iran war. The war and the subsequent elevated energy prices now pose a material upside risk to India's inflation outlook. The RBI downgraded its forecast for GDP growth in the current year to March 2027- to 6.6%, from 6.9% earlier, citing the Iran war and an expected weak monsoon season that could dampen agricultural activity.

The forecast is for consumer price inflation to accelerate to 4.8% in 2026, up from 2.2% in 2025. This is driven primarily by high energy prices feeding in through fuel prices (petrol and diesel together account for 5% of a revised CPI basket), transport costs, and second-round effects through higher freight and logistics costs. Every increase of US$10 per barrel in oil prices push up Indian inflation by an estimated 0.2-0.5% -if passed on to consumers. Additionally, a rebound in food prices, and high gold and silver prices, continue to accelerate inflation in 2026.

The government removed a 12.5% capital gains tax for foreign institutions on interest from India's foreign debt. The RBI also said it will allow global investors to buy 40-year bonds, thereby creating the option for foreign bond buyers to buy longer-term Indian debt. This is up from the current 10-year maturity limit. This change was included among a slew of measures aimed at supporting the languishing rupee and to encourage new foreign capital inflows. The RBI will also raise the current 10% for individual foreign ownership of India-listed companies. These measures, along with tax benefits provided by the government, are expected to attract foreign capital inflows for Indian government borrowing. They are also aimed at inducing Indians living overseas to buy government bonds.

The outlook is for a wider trade deficit, and current-account deficit over 2026, led by rising energy costs and prices of precious metals. With crude prices above $90 per barrel, pressure will mount on the current account through the import channel. When oil prices increase by $10 per barrel, India's import bill rise by $14 billion, and its current-account deficit/GDP ratio expands by 0.5%. Beyond higher prices for energy items, markets are anticipating disruption to exports of rice, tea, gems, jewelry, electronics and textiles, either due to disruption to shipping lines along the Middle East or lower demand in Gulf countries.

India is the world's third-largest consumer of oil and gas and imports 90% of its supply, with half coming from the Middle East. India will resort to purchasing more Russian oil, as well as tapping oil imports from Africa and South America, but the latter will raise import bills through high freight costs. When energy prices rose, Prime Minister Modi called for Indians to cut back on foreign travel, conserve fuel and avoid buying gold, which, along with oil and gas, is a major contributor to India's import bill. Indians imported $72 billion of gold in the 2025-26 fiscal year that ended in March, a 24% increase from the previous year. To curb imports that were adding pressure to the rupee, the government raised the duty on gold from 6% to 15% last month. The rupee recovered slightly from its record low of Rs97:US$1 on May 19, but the government has struggled to stem the outflow of capital from the country. Foreign investors have shed their Indian holdings at the fastest pace ever, pulling out more than $25 billion so far this year.

As a major exporter of refined fuels such as diesel and jet fuel, India could potentially curb refined fuel exports to preserve supplies if necessary. Countries most vulnerable in that scenario would include the UAE, Singapore, the U.S., Australia and South Africa, which are major importers of Indian refined fuel.

The crisis in the Gulf is disrupting fertilizer imports; combined with potential El Nino weather event later this year; it could also reduce agricultural yields. There is the possibility this could lead to another export ban from India for agricultural items such as rice and sugar. However, a projected healthy harvest (example rabi crop) will ensure that food prices do not spiral out of control. Still, the anticipated El Nino climate event from mid-2026 will pose risks to adequate monsoon rainfall, potentially curbing agricultural output and amplifying food inflation.

Despite being the largest recipient of inward remittances, India is much less vulnerable to the disruption of remittances from the Gulf region. Only 30% of Indian remittances come from the Gulf region (mainly UAE and Saudi Arabia), and their percentage share has fallen compared to historical highs, owing to the Indian diaspora diversifying to countries like the U.S., UK, and Canada. Additionally, the Indian economy is much less dependent on remittance income for consumption support compared to South Asian countries like Sri Lanka, Pakistan and Nepal.

Beyond the conflict, India's export performance will be led by sectors and industries including consumer electronics, pharmaceuticals, engineering goods, chemicals, gems and jewelry and refined petroleum products. Meanwhile, India's dependence on imports for key commodities, including crude petroleum, gold, coal, machinery and electronic components, will persist over the next several years.

Government-led export promotion schemes, rising interest in India's large domestic market and multinational efforts to diversify beyond China have encouraged global firms to form export-driven partnerships with domestic manufacturers. India's ongoing-though gradual-expansion of its manufacturing base supports a favorable export outlook over 2027-30, despite temporary setbacks resulting from higher U.S. tariffs.

After more than 12 years in office, Prime Minister Modi faces some challenges. His promise to modernize India's economy has not been as successful as hoped. Many complain that India has not moved significantly in a market-friendly direction. The rupee, already among Asia's worst-performing currencies in 2025, lost 11% if its value against the dollar over the last twelve months. For the first time ever, the currency could hit 100 rupees:US$1 this year.

India is likely to become an increasingly important diplomatic, military and economic power given its significant market size and persistently high growth rates. Successive governments will seek to ensure India's primacy within South Asia. However, India's relations with its South Asian neighbors will remain fluid with changing alignments, while rivalries with Pakistan and China will continue over the longer term. China's presence in South Asia (especially Pakistan) will push India towards adopting a more defensive posture, including upping its defense infrastructure and arsenal along shared borders.

It is unlikely that India will formally align itself with the U.S. or Russia. Instead, it will be inclined to maintain a degree of independence in foreign policy to allow maneuvering space for its domestic considerations. Even as it engages more with the West, India will balance its traditionally strong relationship with Russia, which has been a major source of military equipment and energy. However, that relationship will tend to weaken-not sour- over time. India's participation in U.S. led groups such as the Quad (an informal diplomatic grouping between the U.S., Japan, Australia and India) and China-led blocs such as the Shanghai Cooperation Organization will fluctuate, depending on bilateral relations and the broader geopolitical context. Long-standing links with the Gulf region and Africa, and deepening investment ties, will provide India with opportunities to expand political, economic and cultural engagements in these regions.

Bolivia

Over the past month protesters have blocked the roads into Bolivia's seat of government. Bolivia's dollar-denominated sovereign bonds are plummeting, marking six weeks of declines, as protests and roadblocks disrupt the supply of essential goods to the capital La Paz and beyond. The month-long spark of violent clashes threatens to plunge the country back into political and economic chaos. Protesters are demanding the resignation of President Rodrigo Paz just seven months after he took office. Such a move would plunge Bolivia back into political uncertainty which made this country off limits to prospective investors, prior to the election.

Last year's election of the 58-year-old president ended two decades of uninterrupted socialist rule in Bolivia, led by the Movimiento al Socialismo (MAS). Voters rejected that party because of its economic mismanagement which led to biting inflation and fuel shortages. Many former MAS voters were wooed by President Paz's promise of gradual reform, but the economic problems persisted.

The new president has cut fuel subsidies, liberalized the foreign exchange market and saw Bolivia return to the international capital markets. Although investors welcomed his free-market agenda, the president faces growing pressure from farmers, miners, teachers and indigenous groups, especially after the war in Iran sent inflation soaring. Food, fuel and medical supplies are in short supply, threatening to paralyze the economy and accelerate double-digit inflation. The protests and unrest are likely to leave deep sociopolitical scars and limit the Paz administration's ability to credibly push through new reforms. The government could be toppled.

Lawmakers are proposing a pay cut across all branches of government following President Paz's announcement that he will reduce his salary by 50%. The proposed pay cut would affect the salaries of politicians, including mayors, and governors. Several members of the cabinet have resigned, and some business and civic groups are threatening to join in the protests to force the government to bring an end to the blockades. Frustrated citizens and business leaders are demanding that the security forces be allowed to take control, dismantle roadblocks and remove protesters. There are calls for a new election within 90 days if the president is forced to resign. The government is not ruling out the use of force, but seem reluctant given historical precedent in Bolivia, where a government bringing out the army to quell civil unrest have been thrown out of office for doing so.

In 2025, the IMF proposed a structural fiscal adjustment equivalent to 8% of GDP over three years. However, rising oil prices and exchange rate liberalization will wipe out much of Bolivia's fiscal savings, making it necessary for the government to raise prices again to meet the IMF target. But further adjustments do not seem politically viable in the current environment. Instead, the government will be forced to adopt a more gradual path of reforms to reduce the fiscal deficit, which will likely delay any agreement on a long-term program with the IMF.

The risk of social unrest has always been a central concern for Bolivia's creditors, and the current destabilization could delay or derail the needed reform agenda.

On May 27, the LaPaz Departmental Federation of Drivers began an indefinite general strike to protest fuel supply and fuel quality issues, as well as the government's failure to fulfill its commitments. Drivers are protesting long lines at gas stations and poor fuel quality. They seek financial compensation, deferral of bank loans and cost of living adjustments. Urban and interprovincial bus services were suspended, and roadblocks were set up at major access points. These moves reflect the transport sector's frustration and could intensify tensions between drivers and the government.

Transport operators continue to express outrage over rising prices for basic goods, joining the public outcry for government relief. The transportation strike coincides with the month-long protests and an estimated 150 roadblocks across the country. The government has countered that the transport strike is hindering the free movement of fuel tankers, which could shut down the country. Nonetheless, labor unions have joined in with demonstrations, citing the impossibility of operating normally in the country.

In addition to economic and fiscal reforms, the restoration of Bolivia's relations with the U.S. and the opening of the country's resources to private investment had begun to encourage foreign investors. However, the prolonged disruption of daily activity has provided solid reasons for pause among prospective investors. Meanwhile, the U.S. government has expressed support for the Paz government, and the World Bank said it continues to back Bolivia's reform agenda. The bank approved a $200 million loan in February for social projects, the disbursement of which is still pending congressional approval. Brazil has pledged humanitarian aid to the country, joining Chile, Peru and the U.S. The current active U.S. engagement in Latin America (compared to past decades) opens the possibility of U.S. intervention should the ongoing protests begin to spiral out of control.

The situation in the capital La Paz and other major cities is critical given the severe shortages of fuel, basic foodstuffs, and medical supplies. Hospitals are facing oxygen shortages while transport workers keep the main roadways blocked, demanding urgent solutions to their demands. The government has tried maintaining communication with the protesters, while warning that if no agreement is reached soon, forceful measures will be employed to regain order in the country. The president has sought to revise rules governing a state of emergency, with a view toward using the security forces to regain order by arresting demonstrators. The economic toll is also mounting. A national industry chamber estimated that blockades had cost the mining sector over $600 million in the first three weeks of protests. The economy is estimated to have been hit so far to the tune of $2.1 billion.

President Paz blames former president Evo Morales (a founder of MAS) and his followers, (some are rumored to have close association with drug cartels) for creating the confrontations that are now unfolding. The previous government, led by socialist Luis Arce, a former ally of Morales, left Bolivia mired in economic chaos, with annual inflation at 20.4% in 2025 and a projected decline of up to 3.3% in GDP in 2026.

Bolivians elected President Paz in 2025, largely because of his promise to restructure the economy, expand access to fuel, and improve the functioning of the state. Bolivia was already facing a severe economic crisis, with high inflation and difficulties accessing energy resources. Early in May, workers took to the streets to demand wage increases and presented a list of 16 demands to the Paz government. The document, delivered by the Bolivian Workers Union (COB), the country's largest labor union, included a demand to reduce the salaries of the president and government ministers, as well as tax relief measures.

The Paz administration had already faced a first wave of protests between December 2025 and January this year, after cutting fuel subsidies as part of its reform agenda. At that time the government managed to reach agreements that contained the protests. This time however, the protests have not lost momentum despite the government's attempts to negotiate.

The government has highlighted the support it is receiving from heads of states in Argentina, Brazil, Chile and from the U.S., as clear signs of regional defense of democracy against attacks by "national and international organizations." Regarding the economy, President Paz defended the 30% cut in public spending and the elimination of fuel subsidies to stabilize the currency. He stressed that the central bank is no longer the government's "petty cash fund" and that agreements have been reached with the IMF, IDB and the World Bank.

Even if the government regains control of the streets, the aftermath of the protests will likely reduce the scope for aggressive tightening in the short term. The government says it has no plan to privatize state-owned companies, including mining firms. However, the government admits that it plans to make loss-making state firms efficient, or wind them down.

Fear of privatization is a key concern that has helped drive the protests against the government. While President Paz seeks to repair an economy devastated by corruption and 20 years of mismanagement, violent groups have blocked streets and created mass disorder which hurts the reform agenda, hits confidence and derails goals to stabilize the economy and attract foreign investment to Bolivia.

In a show of support for the Paz government, the U.S. Secretary of State has declared that the U.S. "will not allow criminals and drug traffickers to overthrow democratically elected leaders." The Trump administration recently sent emergency food aid, medical supplies, and logistical support to Bolivia to help alleviate shortages caused by the blockades.

Brazil

Few countries were ready as Brazil for the oil shock caused by the U.S.-Israel war on Iran. Over the past half-century Brazil, an agricultural giant, built the world's most sophisticated biofuels industry. The country is the world's second-largest ethanol producer and the third-largest producer of biodiesel. Ethanol is an alcohol that is used to power cars, while biodiesel fuels heavy vehicles. Both are mixed into petrol and diesel, with the Brazilian government's mandated blends of 30% and 15% respectively. Three-quarters of Brazil light vehicles contain technology enabling them to operate on anything from 100% pure petrol to the 100% ethanol delivered at pumps across the country.

This cuts Brazil's reliance on foreign fuels and guards against inflamed markets. The at the pump price for Brazilian petrol has risen by 10% since the Iran war, and diesel by 20%. While painful, this is far short of the staggering 30-40% jumps in the U.S. Brazil's fuel duties are relatively low, closer to those in the U.S. than the higher European rates. This means that big increases in the price of oil should lead to big increases in consumers' costs. One reason they have not is the caution of Petrobras, the state-controlled oil company, which refines most of Brazil's fuel and has tried to swallow additional costs. In addition, the competitiveness of Brazil's bioenergy has helped.

Data shows that the average cost of biodiesel has dropped below that of imported diesel for the first time since 2022. Retail ethanol prices have only nudged up by 2%. The government is reportedly considering increasing the share of ethanol in petrol to 32% and giving biodiesel a tax exemption. It has also launched a three-year study to assess the technical feasibility of permanently raising blend ratios, to 35% for ethanol and 25% for biodiesel.

This is not the first time biodiesel has shielded Brazil. The original idea was to protect energy independence. The military dictatorship created the first program after the 1973 Arab oil embargo. Brazil was then importing 80% of its fuel and the embargo was crippling the economy. Processing excess sugar-cane juice into ethanol was a no-brainer. A decade later 96% of new cars sold ran on ethanol. As the first "flex-fuel" cars went on sale in 2003, the government set up a parallel plan to promote biodiesel derived from seeds, mostly soybeans. Both programs have benefitted from solid government backing and have bolstered Brazil's sovereignty, which, despite being a major exporter of crude, still imports 10% of its petrol and 25% of its diesel. Moreover, biodiesel enables Brazil to curb its greenhouse-gas emissions, without alienating its farmers, who grow biofuel feedstocks.

Brazil's trade surplus widened to $7.82 billion in May 2026, up 10.8% from a year earlier and above market expectations of $7.65 billion. Exports rose 6.6% year-on-year to $31.9 billion, driven by stronger shipments from agriculture (9.8%) and manufacturing (9%), which more than offset a 1.9% decline in extractive industries. Higher exports of corn, soybeans, cotton, beef, fuel oils, and gold supported the increase, while shipments of coffee, iron ore, crude oil, sugar and cellulose fell.

Imports increased 5.3% to $24.08 billion, mainly due to a 6.3% rise in manufacturing purchases, led by fuel oils, semiconductors, and passenger vehicles. Trade with China remained strong, with exports rising 9.5% and imports surging 24.2%, while exports to the EU increased 8.8%. In contrast, exports to the U.S. fell 14% and shipments to Argentina dropped 21.7%. From January to May, exports rose 8.7% and imports increased 3.2% from a year earlier.

GDP growth is forecast at 1.6% in 2026 and according to an IMF forecast, Brazil's GDP is projected to follow a steady upward trajectory from 2026-2030. The economy is projected to reach $2.29 trillion in 2026. Growth is anticipated to accelerate in 2027, with GDP rising to $2.41 trillion. This upward momentum is forecast to continue in 2028 and further strengthen in 2029 at $2.67 trillion.

Brazil's general government net debt has shown a rising trend in recent years. It increased from 61.4% of GDP in 2020 and is expected to peak at around 74% of GDP by 2029. The fiscal balance remained negative across the period, indicating persistent government borrowing. The deficit deepened significantly in 2020 to -11.6% of GDP due to extraordinary spending to counter effects of the pandemic. Although it improved sharply in 2021, deficits widened again in subsequent years. Projections suggest gradual fiscal consolidation, with the deficit narrowing from over -8% of GDP in 2025 to -4.6% of GDP by 2030.

President Luiz Inacio Lula Da Silva (Lula) has committed to continue working with Congress to advance key elements of his progressive agenda as the October 2026 presidential election approaches. Although Lula will benefit from incumbency, the prospect for a right-of-center candidate would improve if the economy were to falter unexpectedly and if opposition parties were to unite behind that candidate. A change of government would bring renewed impetus to fiscal and structural reforms.

Relations with the U.S. soured in 2025 after the U.S. imposed a 50% tariff on Brazilian exports. However, tensions have eased since then with extensive exemptions bringing the effective duty down to 25.5%. The leaders of both countries met in Washington recently and seemed comfortable with each other, with both men expressing positive sentiments following the meeting. U.S.-Brazil relations appear now to be back on track. The expectation is that the tariff rate will ease as talks between both countries continue.

Lula will seek to position Brazil as a more assertive player in a multipolar world, and push for a rules-based international order. He will prioritize deepening regional integration through Mercosur (the Southern Cone customs union) and strengthening ties with non-Western partners, including the BRICS group of emerging economies.

This year Lula approved the first complementary legislation under a long-awaited tax simplification reform, establishing general rules for the new tax system the measures will regulate the unification of several federal, state and municipal taxes into a dual value-added tax over a transition period running from 2026-2033.
Household consumption accounts for the largest component of domestic demand in Brazil. As income levels rise, consumer spending patterns are broadening beyond food staples to include discretionary goods, healthcare, leisure, and digital services. Due to advanced and cutting-edge energy infrastructure,

which offers natural gas and electricity to practically all households, there is a high level of access to clean cooking fuels.

China is the largest buyer of Brazilian soybeans and beef. Chinese demand for sustainable agricultural products encourages Brazilian producers to continue adopting green practices throughout the production process, enhancing value added and international competitiveness, while contributing to forest protection. A major Chinese meat importer has agreed to buy 50,000 tons of certified deforestation-free Brazilian beef by the end of 2027, reflecting a quiet shift to reshape production in Brazil and help to protect the rainforest. Despite carrying an estimated price premium of 5-10% over conventional beef, the Chinese importers are confident that the products will find a ready market. They assert that Chinese consumers are looking beyond just price, and now increasingly consider traceability and consistent quality. The products are expected to flow into premium supermarkets, high-end restaurants and live-streaming platforms where full traceability and deforestation-free credentials serve as the main attraction.

The appetite for sustainably sourced products is not limited to beef. In 2025, three companies signed an agreement to supply 1.5 million tons of sustainable Brazilian soybeans to China between 2025-2030, with independent third-party auditing to ensure the absence of deforestation.

Brazil is reportedly the only country where all elections are entirely electronic. Voters know the election outcome within four hours of the polls closing. Voters can verify the result by seeing if tallies in the polling stations match the electronic voter logs published on the country's Superior Electoral Court (TSE) website, which oversees general elections. An independent federal audit office also collects a large sample of paper tallies, comparing them with the electronic tally, that certifies the winner.

In 2022, former President Jair Bolsonaro lost his campaign for re-election as president. He followed his defeat with a flood of internet charges that the country's voting machines were rigged. Distrust of the electoral system has been spurred by polarization and online misinformation, not by proven fraud. Well-meaning critics suggest combining the machines with individual receipts, not just the polling stations' electronic tally. There are growing concerns that distrust of the voting system could discourage segments of the voting population from casting their ballots in October.

The campaign of the leading opposition candidate for October's presidential election, Flavio Bolsonaro (son of former President Jair Bolsonaro) has faltered. Leaked messages showing close connections between the candidate and a corrupt banker, have derailed hopes that Flavio would succeed in soundly defeating President Lula. All bets are now off.

Written by Byron M. Shoulton
Senior Global Economist
FCIA Trade Credit & Political Risk Division
Great American Insurance Group
For questions / comments, please contact Byron at
bshoulton@fcia.com

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