Allianz Research

Country Risk Atlas 2025: Repeat, rewind?

February 2025

Executive summary

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- **This year's edition of our flagship country risk report provides an overview of the risks to businesses from the domestic and international environment in 2025.** The Country Risk Atlas provides comprehensive insights on the economic, political and business framework, as well as sustainability factors, that influence non-payment risk for companies in 83 economies. Our analysis is based on a proprietary risk ratings model updated quarterly with the latest economic developments and Allianz Trade's unique data on global insolvencies and the business environment. The Country Risk Atlas is designed to help businesses and investors make informed decisions, highlighting potential risks and opportunities around the world.

- **Country risk improvements have been registered in countries representing 17% of global GDP.** In 2024, Allianz Trade upgraded 48 country risk ratings (+27 vs 2023) and downgraded only five (+1 vs 2023). The upgrades reflect a partial recovery in economic growth and financing conditions across regions. Upgrades were distributed mostly across emerging markets: Latin America has seen the most (13), followed by Emerging Europe (10) and Asia-Pacific (nine). However, only 17 upgrades pertain to the long-term aspect of our rating, emphasizing that these improvements are largely cyclical. Meanwhile, most of the downgrades were seen in the Middle East region, including Bahrain, Israel and Kuwait, the result of prolonged supply-chain tensions and crude oil prices below the fiscal breakeven.

- **Downside risks remain high in 2025-26.** While the global economic outlook has improved, thanks to decelerating inflation, recovering credit flows and improved liquidity conditions, many emerging countries still present less conducive business conditions, while developed markets are facing prolonged political uncertainty and upcoming fiscal consolidation. In addition, the looming global trade war is increasing recession risks, which coupled with the return of inflationary pressures would likely undermine confidence, keeping corporates in a prolonged 'wait and see' mode. Looking at our country risk sub-ratings, the economic recovery from pre-pandemic conditions has been evident particularly for indicators related to macroeconomic conditions. These have improved at the global level mostly thanks to improvements in 2024 on the back of decelerating inflation, recovering credit flows and improved liquidity conditions, and the global average stands above pre-pandemic levels, at 3 out of 6, equivalent to a BB rating.However, the global average of the structural business environment (SBE) is worse compared to pre-pandemic levels, equivalent to a rating of B. In 2024, 18 countries saw a deterioration in their SBE score, including Saudi Arabia, Taiwan, Japan, Romania and Chile. In terms of commercial risk, we remain well below pre-pandemic levels despite last year's partial improvements, mainly driven by the normalization in business insolvencies. The global average of commercial risk scores stood below 2 (Medium) pre-pandemic, while they are closer to Sensitive risk currently. Indeed, business insolvencies are above their pre-pandemic number (compared to the 2016-2019 average) in two out of three countries, up from half in 2023. Interestingly, large firms have not been immune to rising business insolvencies. With more than one bankruptcy a day, 2024 is set to be a record-high year for insolvencies of companies with over EUR50mn in turnover. In 2025, we expect our Global Insolvency Index to reach a stable level after three consecutive years on the rise. However, insolvencies will continue to increase in countries accounting for 50% of global GDP, including the US, Germany, Italy, Spain and China.

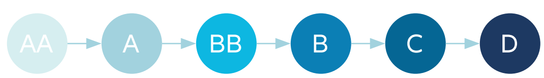
Country risk methodology

The Country Risk Rating by Allianz Trade Economic Research measures the risk of non-payment by companies in a given country. This risk is due to conditions or events outside any company's control. The overall evaluation is made of two elements:

- Country Grade is a medium-term assessment ranging from AA to D (highest risk)
- Country Risk Level provides a short-term rating from one to four (highest risk level)

Country Grade

Medium-term rating



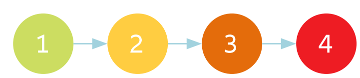
Macroeconomic Risk (ME)

Political Risk (P)

Structural Business Environment (SBE)

Country Risk Level

Short-term rating



Commercial Risk (CRI)

Financing Risk (FFI)

The Medium-Term Rating (Country Grade) measures economic imbalances, the quality of the business climate and the likelihood of political hazards. It is on a six-level scale running from AA to D, in which AA is the lowest risk level and D is the highest risk Level.

The Medium-Term Rating is the combination of three scores:

- The Macroeconomic Rating (ME) based on the analysis of the structure of the economy, budgetary and monetary policy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses;
- The Structural Business Environment Rating (SBE) measures the perceptions of the regulatory and legal framework, control of corruption, relative ease of doing business and environmental sustainability; and
- The Political Risk Rating (P), which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion and international relations.

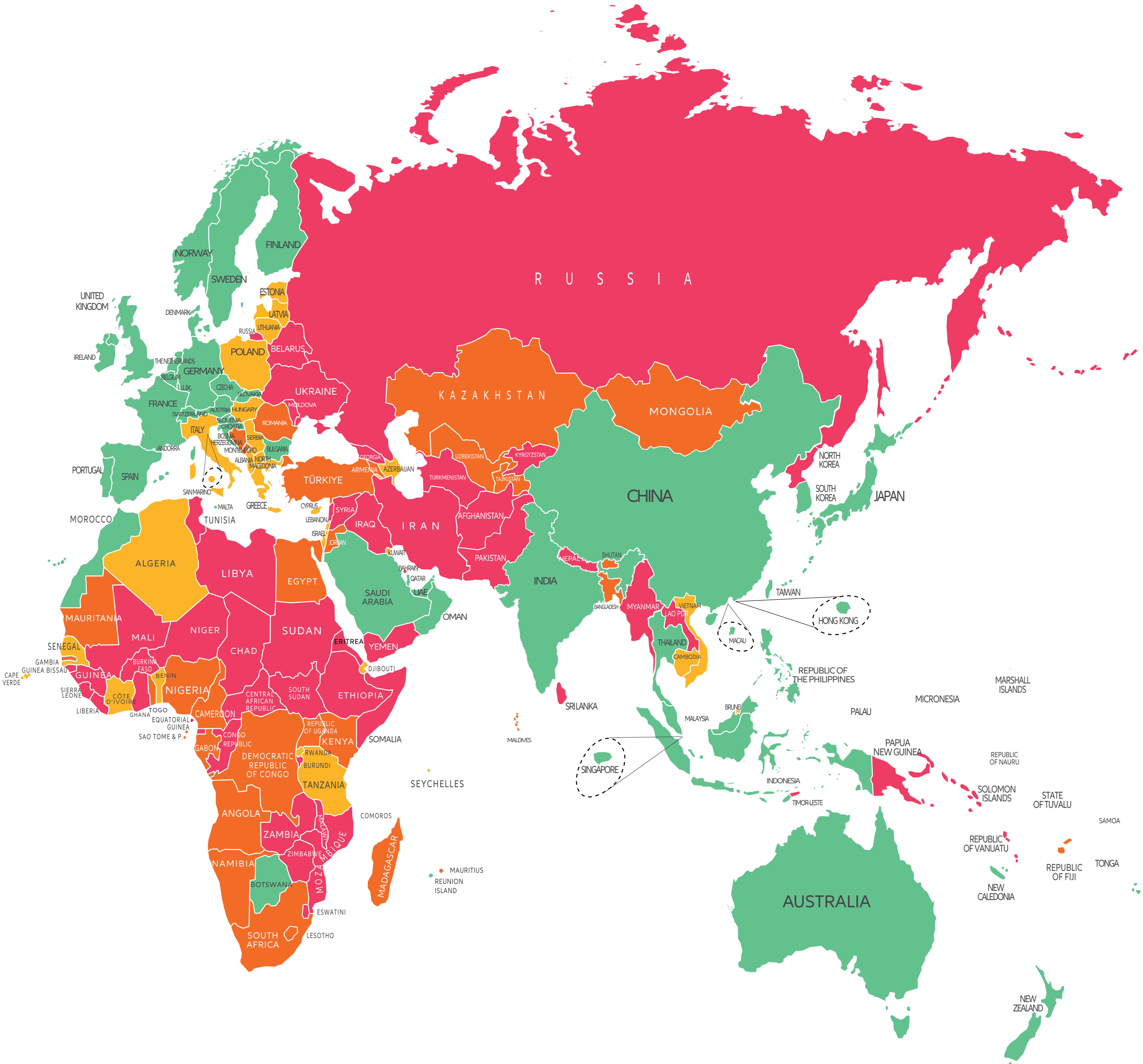
The Short-Term Rating (Country Risk Level) identifies more immediate threats by focusing on the direction of economic output in the next 6-12 months and those macroeconomic indicators that can signal imminent financial crisis as a result of a disruption to financing flows.

It is measured on a four-level scale running from one to four, in which one is the lowest risk level and four is the highest risk level. Those four levels of risk are also labelled as low medium sensitive and high in our country risk map. The Short-Term Rating is the combination of two indicators:

- The Financing Flows Indicator (FFI), a measure of short-term financing risks for an economy that can impact payments of trade receivables between companies; and
- The Commercial Risk Indicator (CRI) which measures the short-term disruptions in demand. It includes our macroeconomic and insolvency forecasts.

You can find all our country reports on the Allianz and Allianz Trade websites.

Source: Allianz Trade, as of 16 December 2024


RUSSIA
KAZAKHSTAN
MONGOLIA
CHINA
JAPAN
NORTH KOREA
SOUTH KOREA
TAIWAN
HONG KONG
MACAU
NORWAY
SWEDEN
FINLAND
ESTONIA
LATVIA
LITHUANIA
DENMARK
UNITED KINGDOM
IRELAND
POLAND
BELARUS
UKRAINE
GERMANY
THE NETHERLANDS
BELGIUM
LUX.
CZECHIA
SLOVAKIA
AUSTRIA
HUNGARY
MOLDOVA
ROMANIA
FRANCE
SWITZERLAND
SLOVENIA
CROATIA
SERBIA
BULGARIA
ITALY
ANDORRA
PORTUGAL
SPAIN
SAN MARINO
MALTA
GREECE
TÜRKIYE
GEORGIA
ARMENIA
AZERBAIJAN
CYPRUS
SYRIA
LEBANON
ISRAEL
JORDAN
IRAQ
IRAN
KUWAIT
BAHRAIN
QATAR
UAE
SAUDI ARABIA
OMAN
YEMEN
UZBEKISTAN
KYRGYZSTAN
TURKMENISTAN
TAJIKISTAN
AFGHANISTAN
PAKISTAN
INDIA
NEPAL
BHUTAN
BANGLADESH
MYANMAR
LAO PDR
VIETNAM
THAILAND
CAMBODIA
SRI LANKA
MALDIVES
MALAYSIA
BRUNEI
SINGAPORE
INDONESIA
TIMOR-LESTE
REPUBLIC OF THE PHILIPPINES
PALAU
MICRONESIA
MARSHALL ISLANDS
PAPUA NEW GUINEA
REPUBLIC OF NAURU
SOLOMON ISLANDS
STATE OF TUVALU
SAMOA
REPUBLIC OF VANUATU
REPUBLIC OF FIJI
TONGA
NEW CALEDONIA
AUSTRALIA
NEW ZEALAND
MOROCCO
TUNISIA
ALGERIA
LIBYA
EGYPT
MAURITANIA
MALI
NIGER
CHAD
SUDAN
ERITREA
DJIBOUTI
ETHIOPIA
SOMALIA
SENEGAL
GAMBIA
GUINEA BISSAU
CAPE VERDE
GUINEA
SIERRA LEONE
LIBERIA
CÔTE D'IVOIRE
BURKINA FASO
GHANA
TOGO
BENIN
NIGERIA
CAMEROON
EQUATORIAL GUINEA
SAO TOME & P.
CENTRAL AFRICAN REPUBLIC
SOUTH SUDAN
REPUBLIC OF UGANDA
KENYA
GABON
CONGO REPUBLIC
DEMOCRATIC REPUBLIC OF CONGO
RWANDA
BURUNDI
TANZANIA
SEYCHELLES
ANGOLA
ZAMBIA
MOZAMBIQUE
MALAWI
COMOROS
MADAGASCAR
MAURITIUS
REUNION ISLAND
NAMIBIA
ZIMBABWE
BOTSWANA
ESWATINI
LESOTHO
SOUTH AFRICA

Contents

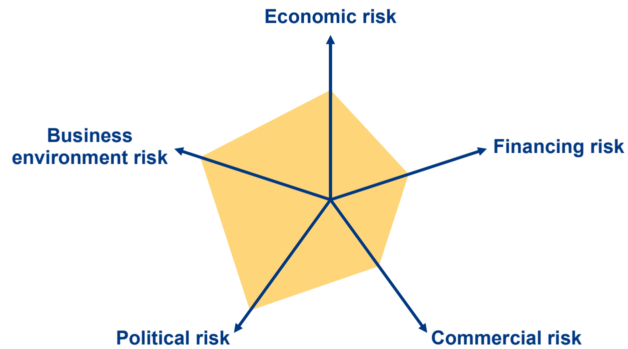
C2

Medium
risk for enterprises

Algeria

A stable rent economy

GDP	USD239.8bn (World ranking 53)
Population	46mn (World ranking 34)
Form of state	Semi-presidential republic
Head of government	Abdelmadjid Tebboune (President)
Next elections	2029, Presidential



Strengths & weaknesses

- Top natural gas producer in Africa and second-largest reservoir in the region (after Nigeria), with reserves estimated to last 28 years at current rates of extraction
- Second-largest provider of oil to Europe via pipeline and an increasing LNG supplier
- Potential for renewable solar energy production and mining

- Hydrocarbon production and revenues are expected to deteriorate and negatively impact growth in the mid term
- Significant political and social risk, with a divided society and occasional diplomatic tensions with European partners that could have an impact on trade
- Lack of any substantial economic diversification pose risks to the long-term prospects, with a banking sector dominated by state-owned institutions, which are required to finance the state budget and may create contingent liabilities

Economic overview

Gas and oil sustain an increasingly rentier economy

Algeria's GDP growth is expected to slow to +2.7% in 2025 from +3.0% in 2024. The downward trend in global natural gas prices is causing a gradual decline of Algerian growth from the +4% averaged between 2021-2023. As prices further relax and hydrocarbon production moderates due to lagging investment, economic activity is expected to continue slow towards the end of the decade.

Inflation is projected to slightly pick up in 2025 to 5.5% y/y following a downward shift in the first half of 2024 from the 9% y/y recorded in late 2023 due to a drop in food prices caused by import relaxation during Ramadan. Yet inflation has continued to increase since April 2024, mostly due to food price increases. Meanwhile, the Bank of Algeria (BA) has kept the policy rate at 3% since 2020, and slightly increased the reserve ratio in 2023 by 100bps.

After a full year of depreciation, the Algerian Dinar remained flat by end-2024 at .0074USD/DZD. However, according to some estimates, the parallel exchange rate of dinar to USD is expected to be more than 60% lower than the official rate. The black-market rate has been deteriorating due to inflation but also due to the decreasing foreign reserves at the Bank of Algeria. A decade ago, FX at the BA were standing around USD200mn while today are hardly above USD60mn after touching rock bottom during the pandemic. However, relative to other nations, this remains an elevated number above 12 months of imports, providing a substantial buffer against external shocks, allowing the BA to keep an anchored exchange rate.

Short-term improved fiscal and external position but long-term questions remain

Hydrocarbons play a pivotal role in the Algerian economy, with oil and gas revenues making up 96% of all exports and over 60% of government revenue. The disruption of global energy markets following Russia's invasion of Ukraine has further amplified the importance of hydrocarbons to Algeria's finances. Since 2022, revenue from hydrocarbons has accounted for around 20% of non-hydrocarbon GDP and over 15% of overall GDP, both significantly higher than pre-invasion levels. At the same time, non-hydrocarbon revenues have declined and are not expected to return to pre-invasion levels this decade.

Despite elevated hydrocarbon revenues, the Algerian government continues to struggle to balance out its budget. With total revenue at 29.2% in 2024, just below Saudi Arabia's 29.2%, Algeria's fiscal balance stood at -9.3% in the same year, much larger than the -3% of GDP of its Gulf peer. The non-oil fiscal balance has experienced a moderate improvement to -29.5% in 2024 and should experience further improvement in 2025. Although the fiscal balance has continued to worsen since the pandemic, and it will remain highly dependent on hydrocarbon revenues, the government's debt profile did return to pre-pandemic levels of 31% in 2022. Since then, the debt burden has moderately increased and is expected to reach 34% in 2025. Algeria's sovereign wealth fund, the Revenue Regulation Fund, has also seen its buffers increase by more than 5% of GDP since 2020, while government transfers have grown by over 5% compared to pre-pandemic levels.

On the external front, Algeria's current account is estimated to have reached 3.3% of GDP in 2024, marking the third consecutive year of surplus. However, a return to a deficit is expected by 2025 to -2.5% of GDP, driven by declining non-renewable energy prices. Since joining OPEC in 2023, Algeria has maintained oil exports at 1mn barrels per day, adhering to a self-imposed ceiling as part of efforts to stabilize oil prices even as global prices have softened. The country is working to expand its oil refining capacity, though progress has been slow; a new refinery is expected to become operational by 2027.

Regarding natural gas, as Europe's second-largest supplier of pipeline gas after Norway, Algeria has gained strategic importance in the EU's gas market since 2022, primarily through the Medgaz (via Spain) and Transmed (via Tunisia and Italy) pipelines, which deliver gas as far as Germany. Liquefied natural gas (LNG) exports are set to rise in the short to medium term as aging facilities are upgraded. While France and Turkey remain Algeria's largest gas customers, the country has diversified its European clientele, supplying Croatia for the first time in 2024 and expanding exports to Hungary, Slovakia and the UK. Improved gas prices in 2024, due to supply disruptions in the Eastern Mediterranean, benefited Algeria. Its role as a gas supplier to Europe could grow further if the long-discussed Trans-Saharan gas pipeline becomes a reality, connecting Nigerian gas fields to Europe via Algeria. However, political challenges continue to stall the project despite interest from both African nations and European energy companies.

Political continuation with the reelected President Tebboune

The 2024 presidential elections in Algeria reaffirmed President Tebboune's leadership, though the 94% electoral win has been met with skepticism, with some viewing it as a "show election." This outcome signals political and policy continuity as Algeria's increasing economic power, fueled by its energy revenues, continues to appease the military, political and economic elites. A significant shift has been the expanded role of the military following Tebboune's announcement of a policy change allowing troop deployments abroad with parliamentary approval.

While social stability appears to have been maintained in the short term – evident from the absence of major post-election protests – the longer-term outlook remains uncertain. Algeria's rentier economy faces mounting pressure from declining gas and oil reserves. Without new discoveries or a shift in the economic model, social tensions could resurface as the economy deteriorates.

On the energy front, the government has prioritized renewable energy, aiming for 27% of electricity generation from renewable sources by 2023. Although only around 10% – approximately 1,200 MW – of electricity is projected to come from renewables in 2024, this still represents a notable increase from 2019's 4% (400 MW). Chinese solar power companies have emerged as key players, securing most new contracts, including a substantial 3,000 MW project awarded in early 2024.

Meanwhile, the business landscape remains heavily influenced by bilateral relations and personal connections, despite the government's ongoing anti-corruption drive. Foreign companies, particularly those with no links to former President Abdelaziz Bouteflika's circle, are unlikely to face significant risks. Italy has become Algeria's closest European ally, particularly in the energy sector, where Italian firms such as ENI, Saipem, Ansaldo Energia and Bonatti play leading roles. Moreover, in 2022, the Stellantis Group announced plans to establish a Fiat car manufacturing plant in Oran, further diversifying Algeria's industrial base.

However, diplomatic tensions have flared up. In July 2024, following Spain's stance, France endorsed Morocco's autonomy plan for Western Sahara, dealing a blow to Algeria's backing of the Polisario Front. Algeria responded by recalling its ambassador from Paris, further complicating its international relations.

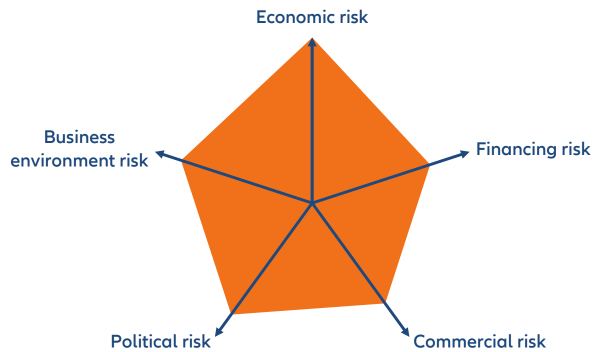
D3

Sensitive
risk for enterprises

Angola

Oil output to improve Angola's growth but risks remain high without diversification drive

GDP	USD84.7bn (World ranking 73)
Population	36.7mn (World ranking 43)
Form of state	Presidential republic
Head of government	João Lourenço (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- High mineral and natural wealth aligned with the energy transition, potential metal and agriculture exporter
- Hydrocarbon projects coming online bring sustainability to the country's mid-term revenue outlook
- Benefiting from geopolitical fragmentation as country plays on both sides

- Oil-centered economy without faster diversification push could leave Angola behind in the long-term
- High social toll caused by high inflation levels
- Levels of education and human capital remain low, impeding faster growth and development

Economic overview

Oil dynamics will continue to steer the economy

Growth in Angola is expected to continue accelerating into 2025 at +2.8%, after +2.4% in 2024 due to an increase in oil production, which is expected to reach 1.2mn barrels per day (bpd) in 2024 and slightly higher at 1.3mn bpd 2025. Inflation is projected to be at 28.4% in 2024 and then to slow to 21% in 2025. Oil will remain the core of the Angolese economy. New oil fields have been coming online throughout 2024, with an expected 43 new wells. On top of that, momentum is building to increase value-added to oil exports with the coming online of the Cabinda refinery plant in April 2025, which should supply 5-10% of the country's refined oil product's needs. Currently Angola imports almost 100% of its refined oil products.

Together with mining and agriculture, gas is a growing driver of Angola's non-oil economy. Gas exporters via LNG are an important part ofthe country's diversification strategy even if they remain a small share of the economy. In late 2024, a new gas pipeline is projected to come online which should result into 6bn cubic meters (bcm) of natural gas produced annually in 2025, a small number compared to the 30bcm exported by Nigeria, the continent's biggest producer. Angole continues to have high potential for mining exports. Diamonds are currently the main export, but copper and iron ore mines should come online as new investments around the Lobito corridor are realized. Angola's agriculture sector accounts for 10% of GDP, yet climate hazards continue to take a toll on agricultural output and reduce its capacity to expand. The southern part of Angola is currently facing a record-breaking prolonged drought that is reducing the region's suitability for crop production, while some important domestically produced crops, including maize, bean and groundnut, will be heavily impacted. On the bright side, Angola has plenty of water resources that could be utilized to improve its food security.

Improved short-term position at risk due to absence of diversification

In 2025, Angola will be out of the worst debt-service pressure cycle. Servicing the debt costed Angola 16.2% of GDP in 2023 and 12.8% in 2024, and it is projected at 11.9% in 2025. These high levels of debt were partly caused by the sharp 2023 depreciation, which brought public debt to 73.9% of GDP. Public debt is projected to reduce to 58.5% in 2024 and 52.1% in 2025. Efforts to ease pressure from debtors was achieved through an agreement with its main bilateral creditor, China, which provides more flexibility to Angolan authorities to access funds in the escrow account, lowering debt-service pressure. Angola currently owes China around USD17bn, and in 2023 a three-year moratorium which paused debt payments to the Asian nation ended.

Given this pressured debt position, Angola is identifying new sources of financing for the mid to long term. Angola is planning to tap international markets in 2025 as yields fall in an expected continuation of the US Federal Reserve easing cycle. An issuance between USD500mn and USD1.5bn is being considered, according to the finance minister. In parallel, authorities are discussing a potential new program with the International Monetary Fund, the last program with the IMF in 2018 was worth USD3.7bn. Furthermore, a debt-for-nature-swap is being considered following Gabon's 2024 issuance. Since early 2024, the global index indicating the performance of all Angola's hard currency debt has decreased by 8pps but it remains 12pps above pre-pandemic levels. The reduced pressure on Angola's debt profile should also reduce pressure on the kwanza, which has depreciated by 9pps in 2024, making it one of the worst perfomers among African currencies. In late 2024, the Banco Nacional de Angola took initial steps to increase hard currency liquidity by mandating banks to trade 30% of their hard currency holdings to the interbank market or to the BNA. Yet, the Angolan kwanza is projected to depreciate further into 2025 without further moves to strengthen the currency by the BNA. The move by the BNA comes after a slight improvement in the banking system, which saw non-performing loans increase sharply in 2023 to 15%, and that remains under pressure from a loss-making banks accounting for 6% of the total system assets.

On the fiscal front, Angola remains highly dependent on oil revenue, which represented around 60% of all government income in 2024. Yet, oil revenues are projected to decrease in the mid-term due to falling global oil prices, maturing oil fields and the lack of investment. In an effort to improve its sustainability, the government is in the midst of rebalancing the budget. Since 2023, oil subsidies have been slashed by almost 50%, increasing oil prices by almost 90%, and further subsidy elimination is expected in 2025. In parallel, a privatization drive is also ongoing. In 2024, the state listed 30% of banking and insurance public assets on the Angola stock exchange, raising more than USD74mn. In 2025, a further privatization pushed is expected. As a consequence, government subsidies have already felt some relief, falling from 3.8% of GDP in 2023 to an expected 1.4% in 2025. This will bring the overall fiscal balance to 1.6% of GDP in 2024, and 1.3% in 2025, making Angola among the few countries in the entire African continent with a forecasted positive fiscal overall balance.

The Lobito corridor brings potential to a highly unequal society

President Joao Lurenço, first elected in 2017 in a contested election after the almost 40-year rule of President dos Santos, pushed for a regeneration of the political class by implementing some corruption reforms against selected individuals, including close allies of dos Santos and factions within the Angola's ruling party, the Movimento Popular de Libertação de Angola (MPLA). Early on in the administration, Lurenço also relaxed limitations on the press and civil society. However, by 2024, he had imposed new restrictions on media and public protests, curbing democratic freedoms.

In parallel, President Lurenço has pushed for enhancing foreign investment in the country, given a decline in inflows since the 2015 peak. The relaunch of AIPEX in 2024, the country's investment agency and the signing of an investment facilitation agreement with the EU aim to diversify Angola's FDI inflows from hydrocarbons into minerals and metals. Angola is the EU's sixth investment destination in Africa and it is set to become Africa's first green hydrogen exporter to Europe when a new Angolese-German hydroelectric-powered green hydrogen project comes online in late 2024. The EU's investment agreements should be viewed in the broader context of the Lobito corridor, an ambitious infrastructure project to construct and update 2,600km of rail and road lines connecting mineral rich regions of Zambia and the Democratic Republic of the Congo to the Lobito port on Angola's Atlantic coast. The corridor's financing exceeds USD2bn from the G7, the EU, the African Development Bank and a consortium of European companies. The project aims to integrate copper, cobalt and other precious metals into international supply chains essential for the energy transition.

Western nations' efforts to develop the Lobito corridor stand in stark contrast to China's substantial influence over the global metal supply chain, particularly given that China controls an estimated 70% of global cobalt processing. Historically, China has been a close ally of Angola due to their shared communist background. Amid the current geopolitical tensions between the US and China, Angola is strategically positioning itself to benefit from engaging with both sides. Additionally, countries like the UAE are also ramping up their investments in Angola, particularly in the metals and logistics sectors, further diversifying the nation's economic partnerships.

While there are prospects for a more dynamic economy, and a stable macroeconomic context, the reality on the ground is much more complex. Angola tops the list of countries in terms of income inequality and has one of the lowest rankings in human development indexes. Both purchasing power and educational attainment are significantly low. Indeed, purchasing power has seen an incredible shock during the last few years due to the increase in fuel prices. Regarding human development, a recent census found that 24% of adults aged 18–24 and 54% of adults aged 25–64 did not complete high school. There are fewer than 3% of college graduates among these adults and only 16% have completed elementary school, which reduces productivity and the construction of local expertise.

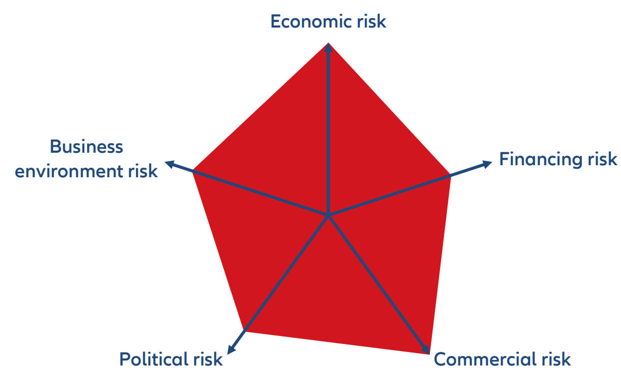
D4

High
risk for enterprises

Argentina

Several economies, one future

GDP	USD632.8bn (World ranking 22)
Population	46.2mn (World ranking 33)
Form of state	Presidential republic
Head of government	Javier Milei (President)
Next elections	2025, Legislative



Strengths & weaknesses

- Comprehensive deregulation measures improving the business climate
- Expanding natural gas production in Vaca Muerta bolstering energy exports
- Growing mining sector driving export growth, particularly in lithium and energy resources

- High poverty rates (exceeding 50%) contributing to social fatigue and unrest
- Persistent fiscal and debt challenges limiting policy flexibility
- Uneven economic recovery, leaving key sectors like construction lagging

Economic overview

Navigating disinflation and recovery

Argentina's economy faced a challenging path in 2024, marked by a severe recession, sharp fiscal consolidation and high inflation. The administration of President Javier Milei enacted policies such as a 120% devaluation to correct foreign exchange (FX) distortions, discontinuation of monetary financing and a fiscal adjustment of approximately 5% of GDP. These measures helped narrow the foreign exchange gap and improve international competitiveness, allowing FX reserves to stabilize closer to pre-crisis levels. However, they came at a high cost to economic activity. With poverty rates exceeding 50% as of mid-year, the government implemented targeted social benefits and governance reforms to soften the social impact.

The energy and mining sectors have been prominent drivers of growth, with forecasted GDP contributions of 5.3% in 2025 and 4.9% in 2026. Expanded oil and gas output, particularly from Vaca Muerta, has positioned Argentina as a key global energy exporter. Increased lithium production further bolsters its standing in critical commodity markets, essential for the energy transition. In contrast, the construction and consumer goods sectors continue to face setbacks, hindered by reduced public investment and the erosion of purchasing power. While operating margins for businesses have improved, providing some relief, constrained consumer demand underscores the uneven nature of the recovery.

Monetary policy has focused on reducing inflation, bolstering confidence and restoring the central bank's credibility. The cessation of monetary financing has curtailed money supply growth, creating a more stable foundation for economic recovery. However, domestic demand remained subdued due to weakened consumer purchasing power, exemplified by a -31% drop in the real minimum wage and declining retail activity. Net exports remained the sole growth driver throughout the majority of 2024 as fiscal austerity limited domestic investment.

Looking ahead, +4.5% GDP growth is expected for 2025, supported by gradual disinflation and improving investor confidence. Average consumer price growth is forecast to lower to 63% and 32% in 2025 and 2026, respectively. Upside risks to our GDP forecast include lower than expected inflation, which would boost real wages and raise purchasing power.

The road remains rocky

Argentina's medium-term outlook hinges on investment resurgence, currency management and fiscal prudence. The investment promotion regime (RIGI) and easing currency controls will support growth in key sectors like energy and mining. These measures, alongside regulatory reforms, are anticipated to attract significant foreign investment, with USD13.2bn in projects already submitted under RIGI, aimed at expanding energy and mining capacities, particularly in Vaca Muerta.

Despite these gains, challenges persist. Public debt remains elevated at 40% of GDP, with high domestic exposure creating vulnerabilities. Fiscal discipline, though essential, has curtailed public spending, impacting social programs and infrastructure development. Moreover, Argentina's financial system is heavily exposed to sovereign debt, heightening risks linked to currency liberalization. Financial institutions' heavy exposure to sovereign debt, accounting for 42.8% of assets, highlights the fragility of fiscal and monetary stability. Regulatory simplifications and aggressive tax reforms – including plans to reduce the number of taxes by 90% – are expected to strengthen business confidence. Currency controls, although set to ease by mid-2025, remain a barrier to realizing full investment potential.

Argentina's FX reserves improved in 2024 due to targeted measures like tax amnesties and fiscal discipline, narrowing the official-dollar gap to 20-22%. The lifting of currency controls is a pivotal element of Argentina's economic strategy, with full removal expected after the 2025 midterm elections. This step, while crucial for long-term stability, carries short-term risks, including potential impacts on the banking sector liquidity and inflationary pressures. Positive trade balances, fueled by agricultural and energy exports, offer a buffer, but adverse weather events, like La Niña, could disrupt this outlook. These risks underscore the importance of a new IMF program, anticipated by early 2025, which could provide fresh funds and reinforce policy credibility.

Reforms inspire optimism but test resilience

Political stability and external relations will shape Argentina's broader economic environment in 2025-2026. President Milei's administration has made significant strides in deregulation and fiscal reform, but its ability to maintain momentum will be tested in the October 2025 midterm elections. La Libertad Avanza's (LLA) popularity, supported by an improving economy, positions it to gain seats in Congress, but achieving a majority remains unlikely. This political dynamic will influence the pace and extent of reforms.

Internationally, Argentina seeks to strengthen ties with key partners. Relations with the US, especially under a potential second Trump administration, offer opportunities, including securing a new IMF program and increasing policy credibility. However, tensions within Mercosur and China's strategic influence in Argentina's infrastructure and agriculture add layers of complexity. Navigating these relationships will require careful diplomacy to balance economic interests and geopolitical pressures.

Domestic political risks include social discontent stemming from high unemployment and inequality. While sectors like mining and energy thrive, urban areas face rising living costs and constrained consumption. Contract frustration risks and policy reversals could deter long-term investment, underscoring the need for consistent governance.

Despite these hurdles, Argentina's economic outlook remains cautiously optimistic. Strategic reforms, combined with sectoral growth in mining and energy, position the country for recovery. However, sustaining this momentum will require balancing fiscal discipline, social cohesion and political stability.

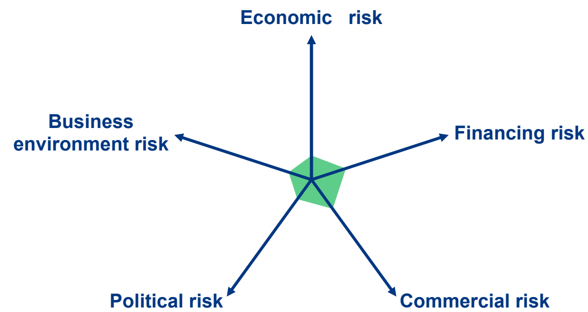
AA1

Low
risk for enterprises

Australia

Troubled waters

GDP	USD1723.8bn (World ranking 13)
Population	26.6mn (World ranking 55)
Form of state	Constitutional parliamentary monarchy
Head of government	Anthony Albanese (Prime Minister)
Next elections	2025, Federal



Strengths & weaknesses

- Large natural resource endowments
- Strong infrastructure and business environment
- Proximity with Emerging Asia
- Top touristic destination

- Dependent on Chinese demand (in the context of a deteriorating relationship) and commodity prices evolution
- High exposure to a change in climate and to natural hazards
- External vulnerabilities stem from high external debt
- High household debt

Economic overview

Heading towards a mild recovery

Australia has been a strong performer in the past decades, with its GDP expanding by +2.9% on average in the 2000s and +2.6% on average in the 2010s. A strong post-pandemic recovery and favorable terms of trade have positioned Australia more favorably in the cyclical aspect compared to most advanced economies. However, household consumption slowed since 2022-2024, with headwinds arising from higher interest rates and the ongoing cost-of-living pressures, especially on housing, continuing to impact demand.

Additionally, a sharp slowdown in export growth indicates that the external sector contributed almost neutrally in 2024. As more than 30% of Australian exports go to China, this phenomenon could become even stronger as trade tensions between China and the US escalate. Likewise, China's growth is converging to a slower path than before, which will also affect Australian exports and growth. Growth slowed down from +3.9% in 2022 to +2.0% in 2023 and likely +1.2% in 2024. However, real incomes are expected to increase in 2025, supporting household consumption and eventually helping GDP growth to pick up. This is why we expect Australia's growth to reach +2.1% in 2025 and 2026. Australia is on a path to a mild recovery. Over the coming years, a more sustainable balance between supply and demand across the economy, including in labor and product markets, is expected to support the return to low and stable inflation as growth in domestic activity returns to trend.

Although the fiscal deficit increased significantly because of measures implemented during the Covid-19 crisis, increased tax revenues and the expiry of Covid-era support programs led to a steep consolidation of the fiscal balance in 2022. In 2023, high commodity prices and lower unemployment allowed the government to register a narrow deficit of -0.9% of GDP. Despite those two years of fiscal balance improvements, sources of fiscal pressure, such as falling global prices for Australia's commodity exports, an aging population, climate change and the country's heavy reliance on tax revenues, led the fiscal deficit to widen to an estimated -1.7% in 2024 and to -2.0% in 2025. This deficit could also respond to rising defense costs, healthcare and welfare spending.

The RBA's rapid monetary policy tightening in 2022-2023 (+425bps to the policy rate), managed to slow down inflation substantially. The RBA has been on hold since the end of 2023, waiting for clear signs that inflation is headed back towards the 2-3% target range. We forecast inflation to retreat to 2.8% in 2025 and 2.6% in 2026 (after an estimated 3.3% in 2024), allowing the RBA to cut its policy rate by at least -100bps in 2025-2026.

Structural vulnerabilities: domestic debt and external exposure

Australia's short-term financing risk is low. The indicators that need monitoring in the short run are mostly related to domestic debt. Australia's household debt continues to be among the highest in OECD countries, albeit growing at a slower pace than in recent years. That said, despite this elevated level of household debt and higher interest rates, there are very few debt-servicing strains for now. This may be explained by the slow diffusion of the RBA's past rate hikes, given the weak level of mortgage demand. However, as most of the low fixed-rate loans offered during the pandemic era ended in 2024, the mortgage rate rose by another 20bps. Even though debt payments will continue putting pressure on household budgets, the situation is expected to remain viable as the RBA will soon start its rate-cutting cycle and real domestic credit is still in decline (average of -3.9% in the past 12 months).

While Australia has historically run deficits, the current account balance was in surplus between 2019 and 2023. But the previous support from high prices for Australian commodity exports, most notably thermal coal and LNG, has faded, leading to a return to a current account deficit in 2024 (likely around -1% of GDP). A similar small deficit is likely to remain in 2025-2026, partly because of policies that stimulate investment and higher outward dividend payments by mining companies. Australia's trade dependence on China also poses a medium-term risk in the face of a potentially deteriorating geopolitical context.

Business environment and political developments

Australia's business environment is well-positioned in our assessment of 185 economies. The World Bank's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. Likewise, the Heritage Foundation's 2024 annual Index of Economic Freedom surveys have put Australia 13th out of 184 economies in recent years and 4th in the Asia-Pacific region, reflecting very strong scores with regards to property rights, judicial effectiveness, government integrity, business freedom, trade freedom, investment freedom and financial freedom. However, Australia scores less favorably regarding the tax burden, attributed to a 45% income tax rate and a 28.7% of GDP tax burden. In our proprietary Environment Sustainability Index 2024, Australia ranks 42nd out of 210 economies, up from 54th place in 2023. Underperformance is mainly visible in renewable electricity output, recycling rate and CO2 emissions per GDP.

After the general election in May 2022, the Labour party, led by prime minister Anthony Albanese, is likely to remain in power until the end of its term in 2025, partly thanks to its support from the Greens and the independents. Those parties had benefited from an increased number of votes during the 2022 elections, reflecting the electorate's concern with climate change and corruption. Of particular interest heading into this election year is the Labor government's proposed campaign finance laws. The amendments include limits on donations and campaign spending as well as a lowering of the disclosure threshold to AUD1,000 from its current threshold of AUD16,900. The intent of these reforms is to limit big money's influence on Australian politics. At the election to be held by May 2025, the Labour Party will be defending a narrow majority and runs the risk of emerging with a minority government.

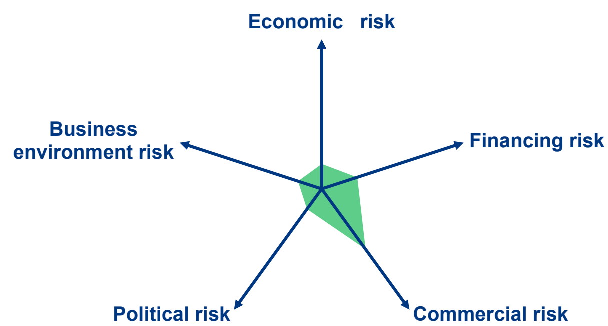
Austria

AA1

Low
risk for enterprises

In distress

GDP	USD516bn (World ranking 26)
Population	9.1mn (World ranking 98)
Form of state	Parliamentary republic
Head of government	Alexander Schallenberg (Chancellor)
Next elections	2028, Legislative



Strengths & weaknesses

- High productivity level
- Low income inequality
- Low unemployment

- High export dependence
- Elevated public debt
- Unfavorable demographics

Economic overview

Recession risks loom large

Austria boasted a solid growth track record in the decade leading up to the Covid-19 shock, recording average annual GDP growth of +1.5%, slightly above the +1.4% for the Eurozone as a whole. In 2020, Austria's GDP contracted by -6.5% despite the initial resilience of its industrial sector as services – notably the important tourism sector – were hit hard by Covid-related business closures and international travel restrictions. The recovery in 2021 and 2022 proved relatively swift: Austria saw an upswing in annual GDP growth of +5% and +5.4%, respectively, due to easing supply-chain pressures and strong underpinnings of private consumption including a solid labor market and elevated household savings despite the elevated energy prices following the war in Ukraine. In 2023, financial tightening, weak global demand and high inflationary pressures dampened private consumption and uncertainty weighed on investments. This led the Austrian economy into recession, with a GDP contraction of -0.8% and an ambiguous development where manufacturing was in recession but services were still holding up. 2024 was a second year of recession as the country is grappling with a decline in investment and weak demand for capital goods and machinery. Exports to Germany, Austria's most vital trade partner, saw a notable drop in 2024, reflecting a longer-term trend. However, falling interest rates may soon improve financing conditions. In 2025, foreign demand is anticipated to recover slightly, providing some economic stimulus that could also boost private consumer spending. Nevertheless, overall growth will remain modest around +1%. Investment in equipment is likely to continue its downward trajectory due to deteriorating corporate earnings amid rising wages and commodity prices. Business insolvencies increased massively compared to pre-pandemic levels but after a peak in 2024 we expect them to drop by -8% year-on-year in 2025.

The cyclical downturn in economic prospects led to unfavorable developments in the labor market. In 2023, unemployment increased to +6.4% as the weak economic activity coincided with an expansion in the labor force. Looking ahead, the unemployment rate is set to continue to rise to +7.0% in 2025 as a result of a potential recession. Although wage growth has surged sharply, helping to offset purchasing power losses due to higher inflation, it took longer for wages to rebound from the impact of rising prices. While current wage growth in Austria remains robust, it has now passed its peak. Consumers continue to feel the pinch and this combined with escalating housing costs signalling broader economic issues has led to decreased consumer confidence and increased political dissatisfaction.

Financially stuck in the middle

Government debt peaked at a relatively moderate 82.5% of GDP in 2021 and stood at 77.8% in 2022. But the public budget situation is precarious with a projected public debt ratio of 80.8% in 2025. The budget deficit is increasingly moving away from a sustainable path. The fiscal deficit is anticipated to expand to more than -4% of GDP in 2025 from -2.7% in 2023. Inflation is expected to drop to +2.1% in 2025 and 2.0% in 2026.

In the medium run, the exposure of Austria's banking sector to central, eastern and south-eastern European (CESEE) countries remains a concern. About half of total profits were generated in the region, while about a quarter of Austrian banking system assets are located there. In addition, Austria's strong export dependence – with a high concentration on Germany (which absorbs about 30% of total exports) as well as Eastern European economies – poses a vulnerability.

Mind growing social discontent amid a political shift to the right

The Austrian business environment proves strong: the country scores very well in regulatory quality, rule of law and control of corruption. In addition to its strategic location in Europe and high-quality infrastructure, Austria offers a skilled workforce and robust legal framework.

In the 2024 elections, the FPÖ, with its anti-migrant and pro-Russia stance, won over many Austrian voters. It retained 76% of its 2019 voters and gained 25% from former ÖVP supporters, the largest voter shift in Austria's history. Additionally, it mobilized over 250,000 non-voters and captured 40% of those dissatisfied with the ÖVP-Greens coalition. Government formation is proceeding slowly. Austria will face general elections again in 2029.

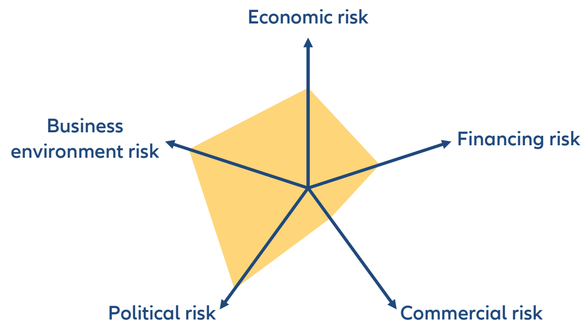
Azerbaijan

C2

Medium
risk for enterprises

Untapped potential

GDP	USD72.4bn (World ranking 83)
Population	10.1mn (World ranking 93)
Form of state	Presidential republic
Head of government	Ilham Aliyev (President)
Next elections	2028, Parliamentary



Strengths & weaknesses

- Non-hydrocarbon sector growth reached +8% in 2024, driven by strong performance in construction, transport and hospitality
- Inflation stabilized at 3.5% in 2024, while a fiscal surplus of +2.5% of GDP was supported by rising revenues and efficient spending
- The manat remained stable, backed by substantial SOFAZ reserves, which increased to USD62bn

- Azerbaijan remains vulnerable to fluctuations in oil and gas prices, with hydrocarbon exports declining -29% in value in 2024
- Total investments fell -3% in 2024, with sharp contractions due to reduced public spending and project completions
- Regulatory quality, rule of law and corruption control remain problematic, compounded by low scores in renewable energy and water resource management

Economic overview

Rebounding growth with structural weaknesses in investments and trade

Azerbaijan's high dependence on the hydrocarbon sector and global oil and gas prices has resulted in low and volatile GDP growth since 2011, with an annual average of less than +2% since 2010. Looking ahead, GDP growth is expected to average around +3% in 2024-2025, driven by strong performance in the non-hydrocarbon sector, while inflation is forecasted to stabilize at 3.5%. Persistent risks include a potential correction in the manat's overvaluation and volatility in hydrocarbon markets.

The economy rebounded strongly in 2024, with real GDP growth estimated at +4.5% thanks to robust activity in the non-hydrocarbon sector and a recovery in hydrocarbons. The non-hydrocarbon sector expanded by +8% in 2024. Key growth drivers included construction (+19%), transport (+17%)

and hospitality (+15%), while agriculture grew by just +0.7% due to unfavorable weather conditions. The hydrocarbon sector's value-added rose +7% in September, supported by a +5% increase in natural gas production. Crude oil output saw mixed performance, with production levels rising slightly from mid-year but remaining 4% below 2023 levels. Our current oil price forecast for 2025 remains slightly superior to the fiscal breakeven, which the IMF puts at USD73 per barrel, up from USD55 in 2023.

On the demand side, investments declined by -3%, reflecting weaker public and private sector spending. Non-hydrocarbon investments contracted sharply by -33%, attributed to reduced public sector allocations, while hydrocarbon investments dropped -40%, following the completion of major projects in 2023. Exports fell -24%, primarily due to a -29% decline in the value of hydrocarbon exports, driven by lower crude oil volumes and a significant drop in natural gas prices. In contrast, non-hydrocarbon exports grew by +27%, supported by increased shipments of polymers and cotton. Imports surged +24%, largely due to public sector activity, including reconstruction efforts and preparations for the United Nations Climate Change Conference (COP29) of November 2024. The manat (AZN) exchange rate remained stable at AZN1.7 per USD1, backed by interventions from the Central Bank of Azerbaijan and the State Oil Fund (SOFAZ), whose assets rose +10% to USD61.6bn by October.

Comfortable public and external finances

Inflation stabilized at 3.5% in the second half of 2024, significantly lower than the double-digit rates observed in 2022. Food prices continued to increase moderately, while inflation in non-food goods and services remained subdued in the second half of 2024. Housing prices maintained their upward trajectory, with the annual increase in the housing price index reaching +9.2% in the third quarter. Credit growth in the banking sector gained momentum, with business and consumer lending expanding, while deposit growth was supported by rising local currency savings. However, bank profits slightly declined due to higher interest costs.

The fiscal position remained stable, with revenues rising +52.7% y/y in September, primarily due to a 3.8-fold increase in SOFAZ transfers. Non-hydrocarbon revenues grew by +10%, supported by higher tax receipts, including VAT and excise taxes. Expenditures increased +9.6%, driven by current expenditures, while capital expenditures fell slightly. The budget posted small deficits in the last months of the year, with an overall surplus estimated at around +2.5% of GDP by year-end.

Governance, corridor politics and environmental challenges

Political risks in the Caucasus region remain high. President Ilham Aliyev secured a fifth term in a February 2024 snap election, which, along with a parliamentary election brought forward to September, had limited opposition participation. His New Azerbaijan Party retained its parliamentary majority. Azerbaijan's territorial ambitions, including plans for the Zangezur corridor linking its mainland to the Nakhichevan exclave, remain a flashpoint in its relations with Armenia. While a peace agreement is a stated priority, lasting resolution is unlikely in the near term. Meanwhile, Azerbaijan is expanding its alliances, including renewing ties with Russia, advancing oil agreements with the EU, collaborating with Türkiye on regional connectivity and normalizing relations with the Taliban to unlock new markets in South-East Asia.

The structural business environment in Azerbaijan remains weak, with persistent issues in regulatory quality, the rule of law and control of corruption. Governance challenges are underscored by Azerbaijan's decline in the Heritage Foundation's Index of Economic Freedom and its poor performance in our proprietary Environmental Sustainability Index due to shortcomings in renewable energy, water management and recycling.

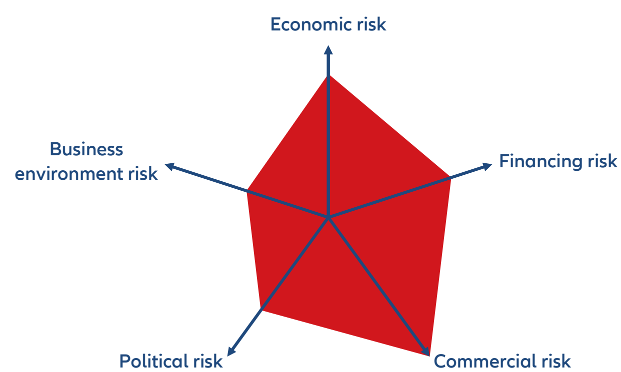
C4

High
risk for enterprises

Bahrain

Echoing the 2014 crisis with low oil prices and surging debt

GDP	USD43.2bn (World ranking 97)
Population	1.5mn (World ranking 154)
Form of state	Constitutional Monarchy
Head of government	Hamad bin Isa Al Khalifa
Next elections	2026, Legislative



Strengths & weaknesses

- Bahrain's economy is diversified within the GCC, with the hydrocarbon sector contributing only one-fifth to GDP
- The country has received financial support from Gulf neighbors, such as Saudi Arabia, the UAE and Kuwait in recent crises
- Bahrain maintains business-friendly regulatory and legal frameworks, supporting economic activities and attracting investments

- Hydrocarbons still account for around 75% of government receipts, making Bahrain vulnerable to fluctuations in oil prices
- Bahrain faced multiple crises in recent years due to a significant drop in hard currency reserves and high fiscal and external breakeven oil prices
- The country's public debt has increased sharply, reaching 121% of GDP in 2023, with fiscal deficits and external debt posing medium-term sustainability concerns;

Economic overview

Solid growth but worsening debt position

Bahrain is forecasted to have grown by +2.6% in 2024 and the pace is projected to be slightly lower at +2.5% in 2025, a downward revised estimate, given the relatively low oil price of the global economy and the postponement of increases in OPEC's oil-production quotas. This revision is in line with the rest of the Gulf economies, which are all exposed to lower oil revenues from the highs of 2022. While the hydrocarbon sector is all-important for the Bahraini economy, it is more diverse than peers in the GCC. The extraction of hydrocarbons accounts for approximately one-fifth of GDP (compared to more than one-third in Saudi Arabia). Starting in the 1970s, Bahrain diversification strategy ran through the energy-intensive metallurgical industry, mainly aluminum but later also iron. As a result, Bahrain become one of the world's largest aluminum exporters. Bahrain Aluminum, Bahrain's publicly owned aluminum company, owns the largest smelter in the world, and 10% of the firm is publicly traded in both Bahrain and London stock exchanges. Under the current strategy, the Bahrain leadership is pushing to develop Bahrain as a global financial center.

Inflation in Bahrain has followed similar dynamics to that of other GCC members. In 2024, inflation reached an estimated 2.8%. In 2025, it is expected to decrease to 2.1% by the end of the year.

Overall, the country's debt position appears unsustainable in the medium term. After 127% of GDP in 2024, it is expected to grow to 129% in 2025, the highest level in the entire Middle Eastern region after Lebanon. Bahrain's rich Gulf neighbors have supported the small island's finances for the last few decades, and this is expected to continue while the status quo and leadership remain in power. Yet, without fiscal consolidation, Bahrain's finances will not return to a sustainable path. During the latest International Monetary Fund review, Bahrain authorities blocked the publication of Article IV, which would have provided more light on this aspect.

Increasing debt brings no relief to public finances

While Bahrain's economic activity is more diversified than the rest of the GCC, the country's finances are more dependent. Hydrocarbon-related activity accounts for 75% of government receipts. This translaes to the highest regional break-even oil price at USD135/barrel. As global oil prices are projected to remain on the downside with the return of Donald Trump to the White House and the increase of US oil exports, Bahrain's revenues will not improve in the short term, extending the country's structural problems.

The government deficit is estimated to have ended 2024 at -7.7% and is projected to be slightly lower in 2025, an improvement from 2023 when it was at -10.6%. The government deficit was this large during the 2014-2017 crisis, which emerged after a sustained period of low oil prices and was only resolved by a USD10bn rescue packaged from the UAE, Kuwait and Saudi Arabia. Although the details were not disclosed, the aid was conditioned on strict fiscal consolidation, which curtailed growth in the non-oil sector in the following years. At the start of 2019, Bahrain introduced a 5% value-added tax. Not yet recovered from the previous crisis, Bahrain's fiscal and external accounts were again hit by the double whammy of the global Covid-19 pandemic and the oil price slump of early 2020.

Bahrain's banking sector has remained sound during the post-Covid tightening cycle, with non-performing loans slightly increasing in 2023 and estimated to have remained stable during 2024. Asset quality was also maintained during the same period. Major banks have been able to increase profitability in the high-interest-rate environment. Interest rates have since begun to decrease together with the policy rate set by the central bank, which has followed the US Federal Reserve's policy rate.

Megaprojects and tourism amid a tense political landscape

Like other GCC countries, Bahrain has set 2030 and 2050 development plans aiming at diversifying its economy from oil. The Bahrani leadership's current diversification plan has finance and tourism at its core. On the financial side, over the last decade, Bahrain has made a name for itself as a successful regional finance hub. Over the last five years, Bahrain Bourse has surged by 43% and ranked fourth in terms of returns in the region after the financial centers of the UAE and the Riyadh bourse. However, this is mainly due to a selected number of firms such as Aluminum Bahrain. The financial sector has positively supported Bahrain diversification as more than a 100 fintech firms are now based in the country. Yet, as Dubai and Abu Dhabi are gaining more international traction, some firms, such as BNP Paribas, have decided to reduce their workforce in Bahrain's capital, Manama.

When it comes to tourism, the Bahrain leadership is in sync with Saudi Arabia as it is developing large infrastructure projects. Over the last few years, Bahrain has opened a substantial number of megaprojects to bidding to achieve such a shift. The Bahrain Metro, a road and rail bridge to connect Bahrain with Qatar, or the Bahrain Marina, are the top examples. However, Bahrain's sovereign wealth fund is estimated to be much smaller than those of its neighbors: around USD19bn (40% of GDP), compared to the UAE's USD1,400bn, constraining its capacity to follow a similar model to finance such megaprojects.

Bahrain's political landscape will remain tense because of latent dissatisfaction with the Sunni Al Khalifa ruling family among the largely Shia population. A decision to re-establish relations with Iran may help reduce tensions in the context of a resurgence of conflict across the Middle East, following events in Israel, the Gaza Strip and the Red Sea. The regulatory and legal frameworks are business-friendly, while weaknesses remain with regards to perceived corruption, judicial effectiveness and government integrity. Regarding environmental sustainability, Bahrain scores badly, owing to the absence of renewable electricity output, a high level of water stress and a very low recycling rate, ranking only 189th out of 210 economies in our proprietary Environmental Sustainability Index.

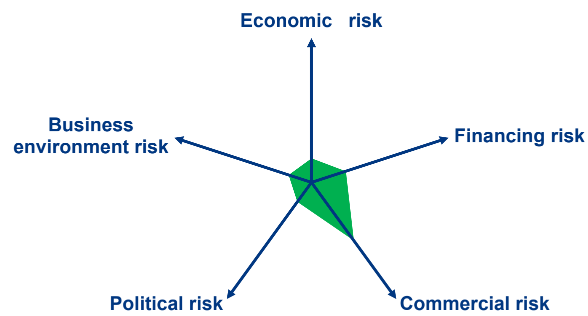
AA1

Low
risk for enterprises

Belgium

Steady activity to pick up only slightly in 2025-2026, challenged by fiscal woes

GDP	USD632.2bn (World ranking 23)
Population	11.8mn (World ranking 80)
Form of state	Constitutional parliamentary monarchy
Head of government	Alexander De Croo (Prime Minister, outgoing)
Next elections	2029, Legislative



Strengths & weaknesses

- Moderate growth and resilience throughout the double crisis
- Resilient labor market
- Private consumption remains supported by wage-indexation mechanism
- Resilient financial sector proves resilient, improved profitability and capital position of banking sector
- Strategically located at the heart of Europe, home to international institutions and workers

- Under strong EU fiscal scrutiny, given large public deficit and high public debt ratio; no significant consolidation efforts are foreseen in the short term
- Automatic wage indexation translates into more persistent price pressures and hampers competitiveness
- Export-oriented country suffering in a weak global demand environment
- Political fragmentation persists

Economic overview

Economic activity will continue to face headwinds

Belgium's pace of activity stabilized in 2024, supported mainly by private consumption and investment. Household spending remained solid, thanks to both government support during the double crisis and wage indexation, which protected consumers' purchasing power. And although it has been volatile, investment also expanded and is now 4.4% above pre-pandemic levels. Public investment drove the increase while housing investment remained weak – currently 12% below pre-pandemic levels.

Inflation declined rapidly in 2023 amid declining energy prices but inflationary pressures remain. Base effects from the previous year played out strongly in 2024 and Belgium's CPI remained one of the highest in the Eurozone (2.7% on average in 2024). In particular, by prompting cost and price responses by businesses, wage indexation became an important driver of core inflation and has temporarily weighed on price competitiveness. Further monetary policy easing should provide some relief to the long-lasting fears of a wage-price spiral as Belgium is one of the few Eurozone countries to have an automatic wage-indexation system for most incomes. Also, increasing saving rates and intention should provide some support to ease the pace of wage growth.

Looking ahead, declining inflation (expected at 2.0% in 2025) and recovering consumer confidence should provide some support to private consumption and household investment in 2025. However, we expect only a gradual rebound in trade given weak global demand. Overall, we expect GDP to expand by +1.2% in 2025 and by +1.4% in 2026.

The labor market has shown some signs of cooling, with the unemployment rate now up to 5.8% (compared with 5.3% in December 2019). Moreover, labor is less seen as a constraint to production and Belgium's vacancies rate, albeit still one of the highest in Europe, decreased to 4.9% at the end of Q3 2024, from the 6% peak in Q1 2022.

Fiscal outlook further challenged by new rules

The pandemic and energy crisis increased Belgium's already-high public debt and structural fiscal deficits and public finances remain a hurdle for the medium-run outlook. The public deficit is expected to stay around 5.0% of GDP in 2025-2026, and public debt is expected to stay around 107% of GDP. The increase in non-temporary current expenditure over 2022-2023 was driven by the automatic indexation of public sector wages and social benefits, but also by rising aging costs and by permanent measures taken by the government during the pandemic (i.e. increase in the minimum pension and health care sector wages).

The European Commission launched an Excessive Deficit Procedure against Belgium in summer 2024 for breaching the 3% deficit target but the government has not yet submitted the Medium-Term Structural Plan as requested by the new framework. The plan was originally due to be submitted in September 2024, but the country, whose incoming government is still being formed, was granted a first postponement. The plan should consist of a trajectory that respects the requirements of the new European budgetary rules, and also include reforms and investments that justify extending the adjustment period from four to seven years, which would make the effort less painful.

In 2024, the manufacturing sector recovered gradually from the 2022-23 setback. Belgium has many energy-intensive companies that suffered from higher energy prices and labor costs. We expect industry to continue to recover in 2025 as demand improves and costs normalize further.

The NGEU funds could provide some cushion to the outlook in the coming quarters. The 35 related reforms are intended to address bottlenecks to lasting and sustainable growth, while the 105 identified investments are targeted to accelerate the transition towards a more sustainable, low-carbon and climate-resilient economy, to maximize the benefits of the digital transformation and to ensure social cohesion. The plan also intends to improve connectivity within the country, boost labor market performance and the economy's innovation capacity, while also making public spending more efficient and sustainable. Allocated funds amount to EUR5.9bn (of which EUR264mn is in the form of loans).

Business environment and political developments

Belgium remains an extremely attractive place to invest; it ranks 21st among the most competitive nations in the world, according to the International Institute for Management Development classification. The country is strategically situated in Europe and is home to many EU institutions, NATO and numerous multinational company headquarters. It has an international rail, air and shipping infrastructure that makes it one of the best locations for industry and logistics.

Government coalition talks are facing their last deadline: negotiations must be wrapped up by the end of January 2025. After their surprise win in the election in June 2024, Bart De Wever has been trying for months to form a government comprising five parties: the right-wing nationalist New Flemish Alliance (of which he is the chair), the Francophone center-right Reformist Movement, the Francophone centrist Les Engagés, the centrist Christian Democrat and Flemish Party and the center-left Flemish Forward party. The possible coalition would make 82 seats out of a total of 150. If he clinches a deal, De Wever will be prime minister, leading a center to center-right leaning government, focused on plugging Belgium's budget gap. But if the talks fail, the country could run out of options and be set for new elections, which would give the far-right Vlaams Belang a new shot at becoming Belgium's largest party.

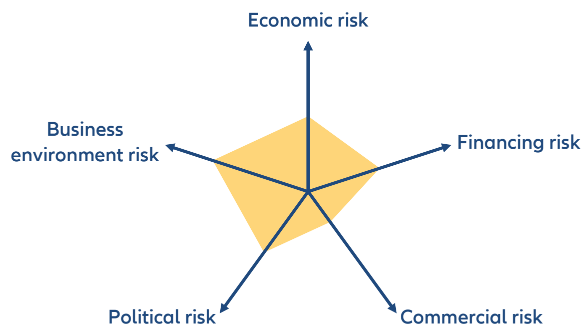
B2

Medium
risk for enterprises

Brazil

The year only starts after Carnaval

GDP	USD2173.7bn (World ranking 13)
Population	216.4mn (World ranking 7)
Form of state	Presidential republic
Head of government	Luiz Inácio Lula da Silva (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Largest economy of the region, largely industrial and financially sophisticated, with significant trade surplus
- Robust agricultural performance and energy production growth
- Record-low unemployment, high-level education and reduced poverty levels in recent years

- Rising public debt, expected to approach 90% of GDP amid tighter financing conditions
- Dependence on international commodity prices in a context of still volatile inflation and currency
- Political interference and wavering fiscal discipline impacting investor confidence

Economic overview

Sustained growth with some cracks

Brazil's economy continues to show notable resilience, driven by a combination of robust agricultural output, a healthy labor market and strong consumer spending, all of which are critical factors that have underpinned recent economic growth. In 2024, Brazil's GDP was supported by inflation-proof consumer demand, strong agricultural performance and expanding industrial sectors. The auto market, one of the fastest-growing globally, also contributed to economic activity. Industrial production at large is on the rise, helping to sustain momentum despite external challenges such as rising imports, particularly from China, which risk dampening domestic production. Increasing insolvencies in the agribusiness sector also highlight the importance of prudent financing and high sensitivity to both international input prices and weather conditions, including deforestation-related droughts and declining crop productivity in affected areas.

Brazil's inflationary pressures remain a concern, with inflation forecasted to hover around 4.5% in 2025 and dip below 4% only in the second half of 2026. A large part of the authorities' strategy to address inflation involves the central bank's aggressive monetary tightening amid recurrent fiscal slippage. The Selic rate is expected to reach nearly 15% by mid-2025, continuing to curtail consumer spending and business investment, which could result in slower overall growth in the coming years. While higher interest rates are necessary to manage inflation, they also significantly increase Brazil's debt-servicing costs, which currently represent 7% of GDP. Moreover, a large portion of domestic debt is indexed to the Selic rate, making these costs particularly sensitive to rate hikes.

To address these fiscal challenges, Brazil's government is implementing fiscal reforms, including adjustments to income tax structures, capping public sector wages and imposing retirement age limits for military personnel. These measures aim to curb the growing fiscal deficit, but with public debt rising towards 90% of GDP by the end of 2026, the challenge of stabilizing fiscal dynamics remains. Brazil's revenue collection ranks among the highest in the region, yet it is still insufficient to meet the country's expenses and the resulting debt burden.

Despite these challenges, Brazil has made progress on poverty reduction, with the country managing to decrease extreme poverty by 40% in the first year of the current administration. This success can be attributed to sustained increases in wages, a reduction in unemployment and effective social policies that have bolstered private consumption. The country's unemployment rate, which has hit a record low of 6% at the end of 2024, is one of the key factors driving consumption and economic growth, and it has helped maintain a sense of optimism in the country's economic trajectory.

Fiscal credibility weighs on currency and confidence

Brazil faces several economic headwinds in the medium- and long-term, notably the tension between fiscal stability and the need for sustainable growth. Economic growth is expected to slow down, with GDP growth forecast at +2.5% in 2025 and +2.3% in 2026. This deceleration is largely due to the cumulative impact of continued monetary tightening, rising borrowing costs and sluggish investment, all of which are dampening the country's economic dynamism. While the government's fiscal reforms and tax initiatives offer some hope for stabilization, their credibility remains to be tested and may not be sufficient to alleviate the broader fiscal pressures that the country faces amid the global economic fracturing.

The primary deficit is expected to remain around 2% of GDP, even though Brazil's revenues are in line with the OECD average. The central government is aiming to implement a zero-primary budget in 2025, but failure to approve the new budget by Congress in 2024 and the rising debt burden will remain a significant challenge. The sensitivity of government bonds to interest rate fluctuations means that a 100bps hike in rates further strains Brazil's fiscal position by adding an estimated 0.3-0.4% of GDP annually to the debt-servicing bill.

Currency depreciation, largely driven by fiscal concerns, is expected to continue in the short term, but Brazil benefits from a large trade surplus and low public external debt, which helps mitigate currency-related vulnerabilities. The interest rate differential between Brazil and the US also offers a potential cushion against further depreciation of the Brazilian Real. However, foreign investment sentiment is weighed down by ongoing fiscal uncertainties and the political risks tied to the upcoming 2026 elections. The outcome of these elections, particularly if they lead to a shift in government, will likely determine the future trajectory of Brazil's economic and fiscal policies.

In the energy sector, Brazil's oil output is expected to exceed 4.5mn barrels per day by 2027, which would make it the sixth largest producer globally and could provide a crucial economic lifeline. Growing energy exports and the substitution of liquefied natural gas imports with long-term supplies from Argentina could boost net trade and support Brazil's balance of payments, providing a degree of resilience against other structural weaknesses. However, Brazil's trade relations and overall economic policy are still heavily shaped by its political framework, which remains prone to internal tensions and the shifting priorities of lawmakers, making long-term investment decisions more difficult.

Political ambition meets fiscal reality

Brazil's political environment remains marked by significant uncertainty as the 2026 elections approach. Though President Luiz Inácio Lula da Silva enjoys considerable popular support, especially due to his historical ties with the working class and his ability to enact reforms in the past, faces increasing challenges in advancing his progressive agenda. Lula's health concerns further complicate his political future as it remains unclear whether he will seek re-election in 2026. His tenure has been characterized by both legislative victories and setbacks, with a more conservative Congress frequently opposing some of his key proposals. The government's push for wealth taxes and reforms to the income tax code has met resistance, undermining the potential for sweeping fiscal reforms that could stabilize the country's long-term debt trajectory.

This political tension is compounded by Brazil's uncertain fiscal future. The government's commitment to fiscal discipline is being questioned, particularly given the country's growing deficit and the structural challenges posed by high debt-servicing costs. If the economy falters in the coming years, there is a real possibility that a right-wing candidate could emerge as a stronger contender in 2026. This shift would signal potential policy reversals and could create further instability, especially given the political fragmentation within the country.

Internationally, Brazil's political stance is equally complex. Lula has pursued a non-aligned foreign policy, pushing for a multipolar world order that includes a more prominent role for Brazil in global politics. While this approach has positioned Brazil as an advocate for developing nations, it has also raised concerns among Western powers. Brazil's decision to host COP30 in 2025 will provide an opportunity for Lula to highlight his environmental policies, particularly in relation to deforestation in the Amazon. However, tensions over his government's foreign policy direction, along with economic volatility, could complicate Brazil's diplomatic relations with both Western countries and other global powers.

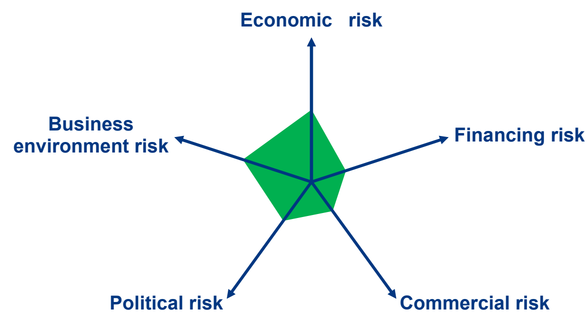
BB1

Low
risk for enterprises

Bulgaria

Economic resilience despite government instability

GDP	USD101.6bn (World ranking 69)
Population	6.4mn (World ranking 110)
Form of state	Parliamentary Republic
Head of government	Rosen Zhelyazkov (Prime Minister)
Next elections	2026, Presidential



Strengths & weaknesses

- EU membership and good international relations
- Currency board has withstood global turbulence since 2008 and BGN is currently not overvalued
- History of prudent fiscal policies
- Comfortable external finances
- Adequate business environment

- Slow progress on EU-required judicial reform and anti-corruption measures
- Government instability
- Public discontent about living standards
- Vulnerability to external shocks due to high export dependency

Economic overview

Faster economic growth ahead and inflation set to decline

Bulgaria has been a strong performer among emerging economies, though periods of economic overheating have caused concern at times. Average annual real GDP growth was +3.7% over the past 20 years, well above the respective average of the Central and Eastern European EU member states. The global Covid-19 crisis affected the Bulgarian economy markedly in 2020 (-3.7% contraction), but it rebounded strongly with a +5.7% output increase in 2021. However, Bulgaria's economic prospects have significantly deteriorated since the war in Ukraine. This is due to the country's (pre-war) energy import-dependence on Russia and the impact of EU sanctions against Russia on the domestic economy (for example increased inflation and potential energy shortages). In 2022, economic activity in Bulgaria still held up better than initially expected, thanks to robust consumer spending, investment and external demand. Statistical base effects also helped to achieve growth of +4.1% annually. However, the impact of surging inflation, rising interest rates, weakening external demand and deteriorating business confidence took full effect thereafter. As both domestic and external demand slowed down markedly, real GDP grew by just +2.1% in 2023 and the momentum gradually slowed down during 2024. The first half of 2024 saw a strong expansion of private consumption, backed by double-digit wage increases. On the contrary, both public and private investment were weak, reflecting political uncertainty and low absorption and delay of EU funds leading to a growth rate of +2.2% in 2024. Looking ahead, we expect growth rates of +2.5% in 2025 and +2.4% in 2026.

We expect currency stability to be maintained but price stability will not be fully regained before 2025. Bulgaria's currency board (BGN1.95583:EUR1) should remain stable since foreign exchange (FX) reserves continue to clearly cover the monetary base (a requirement for a currency board; currently at over 140%). However, the currency board largely neutralizes monetary policy, preventing its use to counter upward price pressures since 2021. Following an average 13.0% in 2022 and 8.6% in 2023, inflation decelerated steadily in the first months of 2024 due to substantial reductions in food and energy prices. Headline inflation reached its lowest point at 1.2% in September due to reduced fuel prices. We expect inflation to stabilize at around +2.7 for% for 2025 and +2.4% in 2026, owing to continued strong wage pressures and accelerating credit growth.

Public and external finances will remain comfortable, by and large

Bulgaria's public finances will remain unproblematic despite some impact from the recent crises. The country has had a long-lasting commitment to fiscal prudence, reflected in many years of fiscal surpluses or acceptable deficits. Following annual surpluses in 2016-2019 (+1.5% of GDP on average), fiscal stimulus measures, lower revenues and declining nominal GDP in the wake of Covid-19 resulted in annual fiscal deficits of around -4% of GDP in 2020-2021, and gross public debt rose from 20% of GDP in 2019 to 24% in 2021. Further fiscal shortfalls of -2.4 of GDP on average were posted in 2022-2023 as a consequence of fiscal stimulus in order to mitigate the impact of the war in Ukraine on the Bulgarian economy. Looking ahead, we forecast the annual fiscal deficit to come in at close to -3% of GDP in 2025-2026 as public investment is expected to pick up. The public-debt-to-GDP ratio is projected to edge up to around 27% by 2026. However, this will still be a very favorable ratio by EU standards.

As a result of its long-standing prudent economic policies, Bulgaria was admitted to the Exchange Rate Mechanism II (ERM-II), the "waiting room" for eventual adoption of the EUR, in July 2020. In conjunction with ERM-II membership, Bulgaria also joined the European banking union in October 2020. However, we expect accession to the Eurozone to be delayed until 2026 at least since inflation is still exceeding the reference value of the ECB and the European Commission and also because of continued government instability.

Bulgaria's external finances will remain favorable. After seven years of current account surpluses from 2013 to 2019, reflecting a continued solid export performance, and a balanced account in 2020, Bulgaria recorded manageable annual external deficits in 2021-2023, mainly due to lower exports of services (tourism). Weaker external demand for goods also played a role. We expect foreign trade activity to remain subdued and forecast near-balanced current accounts in 2024-2026. Meanwhile, the steady downtrend in the gross external debt-to-GDP ratio was only briefly interrupted in 2020 in the wake of the Covid-19 crisis. It has declined from a peak of 107% of GDP in 2009 to around 48% in 2023 and is on course to fall further in the coming years.

Bulgaria's FX reserves have increased substantially since end-2013 and stood at EUR38bn in mid-2024, a comfortable level with regard to import cover (around eight months). Moreover, in other terms, reserves cover about 175% of the estimated external debt payments falling due in the next 12 months, a favorable ratio and a significant and steady improvement from 80% in 2011.

Average business environment but prolonged government instability

Bulgaria's business environment is adequate though spots of weaknesses remain. The World Bank Institute's annual "Worldwide Governance Indicators" surveys suggest that the regulatory framework is generally business-friendly while weaknesses remain with regard to perceived corruption and the legal framework. The Heritage Foundation's "Index of Economic Freedom" survey 2024 assigns Bulgaria rank 31 out of more than 180 economies, reflecting strong scores with regard to property rights, tax burden, business freedom and trade freedom. Weaknesses remain in the areas of judicial effectiveness and government integrity. In our proprietary "Environmental Sustainability Index", Bulgaria is ranked 94th out of 210 economies, reflecting above average scores for energy use and CO_2 emissions per GDP, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses regarding renewable electricity output and the recycling rate.

Overall systemic political risk is moderate. Bulgaria is a democracy and has good international relations. It is a member of the EU and NATO and an OECD accession candidate. However, government instability has become a concern. Six parliamentary elections since 2021 have failed to produce a stable, lasting government. In October 2024, Bulgaria held its seventh election with the center-right GERB emerging as the largest party, winning 26% of the vote. Bulgaria's parliament approved a cabinet led by Rosen Zhelyazkov, ending months of negotiations on forming a coalition government. On a positive note, Bulgaria fully joined the Schengen Area on 1 January 2025, marking a significant milestone in its EU integration efforts.

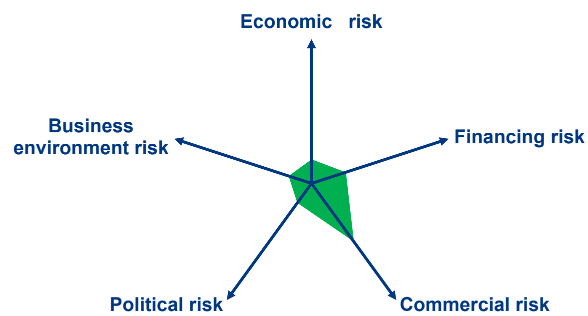
AA1

Low
risk for enterprises

Canada

Turbulence in 2025 but a good landing likely

GDP	USD2140.1bn (World ranking 10)
Population	40.1mn (World ranking 37)
Form of state	Constitutional parliamentary monarchy
Head of government	Justin Trudeau (Prime Minister, outgoing)
Next elections	2025, Legislative



Strengths & weaknesses

- Canada ranks highly in areas like property rights, judicial effectiveness and business freedom, reflecting stable and transparent governance in a developed democracy
- Canada's developed economy remains open and adaptable, with a history of effectively addressing macroeconomic pressures
- Policy shifts could leverage Canada's vast natural resources to stimulate economic growth

- Persistent inflation, slowing growth, rising unemployment and low productivity create a difficult economic environment for policymakers and citizens alike
- A 25% tariff on goods exported to the US could severely impact Canada's economy, given the significant reliance on US trade
- The transition to a new government and a shift in policies add complexity to navigating economic challenges, with potential conflicts between fiscal policies and the Bank of Canada's monetary objectives

Economic overview

A new government will face a host of difficult challenges

2025 is likely to be a turbulent year for Canada. Prime Minister Justin Trudeau's resignation in January signaled a massive change in Canadian politics, and a desire for a new approach to managing the economy. At the same time the Bank of Canada (BoC) will struggle with a difficult combination of persistent inflation, slowing growth and a potential trade war.

Trudeau's resignation ended 10 years of liberal policies which eventually lost their appeal. His approval rating at the time of his resignation was less than 20%, signaling that Canadians were ready for a turn towards more conservative policies. His successor, most likely Pierre Poilievre of the Conservative Party, will have to deal with a number of significant problems, including taxes, high inflation, slowing growth, rising unemployment, low productivity, high household debt, a troubled housing market and unpopular immigration and climate policies. One of the issues that the Conservatives will probably address the most quickly is the carbon tax, which has long been a target of Conservative ire. Other Conservative efforts are likely to include supporting the oil and gas sector, capping spending, balancing the budget, cutting immigration and reducing government red tape.

In addition to the political turmoil at the beginning of the year, Canada has been threatened with a 25% tariff on all goods exported to the US. The damage to the Canadian economy as a result of this policy could be significant. First, exports to the US account for 20% of all Canadian GDP – a 25% tariff on 20% of GDP would be a massive drag on economic growth. In terms of inflation, if Canada matches the US tariffs, the results would be devastating as well. Imports from the US into Canada account for 63% of all imports and 16% of GDP. Tariffs on that amount of goods would drive up prices dramatically and create inflationary pressures. Therefore, a tariff war would severely slow the growth of the economy, and sharply raise the prices consumers would face (in both countries).

A classic but complicated dilemma for the BoC

The BoC's war on inflation, which entailed raising interest rates from March 2022 to July 2023, did indeed have some degree of success. The headline consumer price index fell from a 43 year high of 8.1% in June 2022 and has now been running close to the target of 2%. But the BoC's favored core measures of inflation have been much more stubborn, staying between 2.4% and 2.7% for most of 2024. That's not much progress towards the 2% target. So it has been too early to declare victory over inflation, and certainly wage earners know it. Since January 2021 when inflation started to accelerate, wages have grown 16% cumulatively, but the things that wage earners need to live have gone up even more: around 25% for food and shelter, and around 30% for gasoline. In other words, Canadian wage earners are still under water, and that's why life still feels so expensive, and that's one of the reasons why citizens have became disenchanted with Liberal policies.

In addition to sticky inflation, the growth side of the economy is stumbling. GDP is well below the long-term average, productivity is abysmal and unemployment has risen from 6.2% when the BoC started to cut rates to 6.7% by the end of 2024. Therefore, the BoC finds itself in the classic central bank dilemma of either increasing accommodation too soon, which could boost the economy but stoke inflation, or not increasing accommodation fast enough, which will choke off inflation but slow the economy. To complicate things even further for the BoC, the new federal government is likely to take measures to stimulate the economy such as cutting taxes and limiting immigration, both of which could stoke inflation, but the government may also try to limit spending which would (temporarily) slow the economy.

We believe the BoC's most likely path will be to cut two or three times in 2025, bringing the overnight rate down from 3.25% in January to between 2.75% and 2.5% by the end of the year. That's a much faster decline than the US Federal Reserve Bank, which will most likely set the fed funds rate to a range of 4.00% to 4.25% by the end of 2025. That in turn should drive the Canadian dollar (CAD) down even more than its decline during the last several months of 2024. A weaker CAD would make imports more expensive, thus increasing inflationary pressures, but it would also make Canadian exports cheaper which would increase demand, and thus offset any tariffs the US might impose (to a certain extent).

The outlook for Canada is challenging in 2025, with competing agendas and clashing policies. The BoC would like to be able to cut rates a bit more to make it easier to stimulate the economy, but that risks a resurgence in inflation, especially with the possibility of a tariff war and a weaker CAD. And the new government's policies create an unknown balance of inflationary and growth impulses. Overall we believe that GDP growth will be around +1.7%, somewhat slower than the long term average, while inflation will remain sticky at 2.2%. In addition to high interest rates, other fundamentals will negatively affect the economy in 2024. For instance, inflation is still wreaking havoc on wage earners due to its cumulative effects. Since% of the respondents said that the effects of monetary policy are "just beginning." The Canadian Federation of Independent Business (CFIB) Business Barometer survey projects poor business performance over the next three and 12 months. One positive leading indicator is the Ivey Purchasing Manager's Index (PMI), which has remained in expansionary territory for all the post-Covid-19 era.

Stable business and political conditions

Despite an uncertain outlook, Canada is an open, developed economy with mostly transparent governance. Canada ranks 16th out of 184 countries in The Heritage Foundation's 2024 Index of Economic Freedom analysis. Canada ranks particularly strongly in the areas of property rights, judicial effectiveness and business freedom. It is somewhat less favorable in the areas of government spending, fiscal health, tax burden, and labor freedom. Politics are relatively stable as it is a developed democracy. The next scheduled federal election must be held before October 2025 for the Prime Minister and the 45th Canadian parliament.

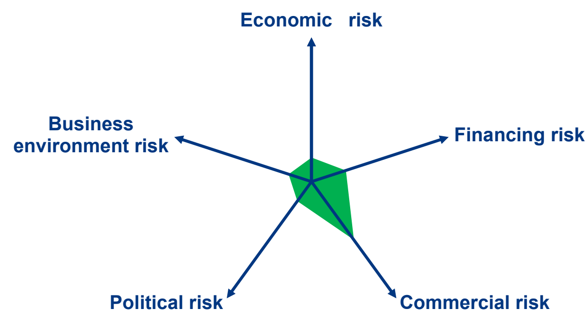
BB1

Low
risk for enterprises

Chile

Mines, markets and majorities

GDP	USD335.5bn (World ranking 45)
Population	19.6mn (World ranking 64)
Form of state	Presidential republic
Head of government	Gabriel Boric (President)
Next elections	2025, General



Strengths & weaknesses

- High global demand for copper and lithium due to green energy transition
- Fiscal deficit expected to narrow to 1.0% of GDP by 2026
- Public debt below 45% of GDP, lower than emerging market peers, and strong foreign direct investment planned

- Dependence on China and potential trade and geopolitical tensions
- Governance challenges hinder taxation, pensions and lithium reforms
- High unemployment rates, especially for women, and 30% informality limit inclusive growth

Economic overview

Solid but mild growth ahead

Chile's economy is on a recovery trajectory, with GDP growth projected at +2.3% in 2025 and an acceleration to +3% in 2026. This momentum is driven by a rebound in domestic demand, supported by rising real wages and solid external demand for minerals, particularly copper and lithium. Copper alone accounts for 10% of GDP and 50% of export earnings, making it a cornerstone of the economy. Sustained demand from China and the EU, driven by the global transition to green energy, bolsters Chile's export outlook. However, the economy remains vulnerable to external risks, including slower-than-expected growth in China, its largest trading partner.

Inflation, which is anticipated to average above 3% until early 2026, remains a significant challenge. Electricity tariff hikes of up to 60% between June 2024 and February 2025 are elevating consumer prices, while sticky service inflation persists. The central bank is navigating these pressures through cautious monetary easing. After reducing the policy rate to 5% in late 2024, it plans further gradual cuts, with expectations of a 4% nominal policy rate by late 2025.

Real wage growth will sustain consumer demand, despite intrinsic imbalances. The labor market remains fragile, with unemployment rates hovering near 9% for women and 7.9% for men. Informality exacerbates job quality issues, particularly for women, where rates have risen to nearly 30%. Anecdotal evidence highlights retail sector related fragilities. Retail investors are delaying expansions due to security concerns. Conversely, the mining sector is buoyed by USD7.7bn in copper projects under execution for 2025, including USD4bn from state enterprises and USD3.7bn from private initiatives.

Medium-term strategies to stabilize progress

Chile's medium-term outlook depends on navigating fiscal consolidation while promoting investment. The fiscal deficit is forecast to narrow from 2.3% of GDP in 2024 to 1.3% in 2025 and 1.0% in 2026. This progress hinges on disciplined spending and new revenue measures, including a copper mining royalty and anti-tax evasion policies expected to yield USD1.2bn this year. However, fiscal challenges persist, with public debt projected to remain below 45% of GDP, significantly lower than emerging market peers although facing slightly higher financing conditions.

External dynamics shape Chile's trajectory, with sustained mineral demand from China, the US and the EU driving exports. Copper prices are expected to rise moderately over 2025-2026 due to supply constraints and green energy investments in the US and EU. In contrast, lithium prices are unlikely to recover to their 2022 highs, reflecting oversupply concerns. Despite these variances, robust foreign direct investment (FDI) in the renewable energy and mining sectors strengthens Chile's position.

Regulatory reforms remain pivotal. Efforts to streamline approvals for infrastructure projects have gained momentum, with cross-party support in Congress. These measures aim to attract USD23bn in private investment over the next two years, focusing on sectors like solar and wind energy. However, delayed reforms in taxation and pensions risk undermining fiscal sustainability, social stability and investor confidence.

Delicate balance between openness to business and social stability

Chile remains a regional leader for its business environment, supported by strong institutions and free trade agreements with the US, EU and China. Nevertheless, political polarization and governance challenges pose risks to long-term stability. President Gabriel Boric's administration faces legislative gridlock, complicating the passage of key reforms in taxation, pensions and state-owned lithium. While Congress has approved measures to combat tax evasion, skepticism remains over their ability to deliver USD1.2bn in additional revenue annually.

The subnational elections of late 2024 signaled shifting political dynamics. Centrist candidates gained prominence, reflecting voter fatigue with polarization, while the ruling leftist coalition fared relatively well. However, the incumbent administration lacks a strong contender for the 2025 presidential election, raising uncertainties about policy continuity. The upcoming election is likely to focus on crime and migration, with anti-incumbent sentiment dominating the narrative and increased party fragmentation most likely.

Political risks include potential contract frustration in the mining sector, particularly as the government expands its role in lithium production. International disputes over shared water resources with neighboring Bolivia and Argentina could escalate, complicating cross-border investment. Domestically, addressing inequality through unified social programs and labor market reforms is crucial for maintaining social cohesion and political stability.

Anecdotal evidence underscores the challenges. Mining strikes, once frequent, have subsided, but the cost of government-driven initiatives in the sector remains among the highest in Latin America with potential contingent liabilities maturing in the forecast horizon. In the retail sector, security concerns have prompted some investors to scale back operations. However, sectors such as renewable energy and mining remain robust, with planned investments exceeding USD15bn by 2026. Internationally, Chile's participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) strengthens its trade ties, particularly with Asia-Pacific economies, and reduces dependence on a single market. Chile's ability to navigate these challenges while leveraging its mineral wealth and trade networks will define its economic and political trajectory over the next decade.

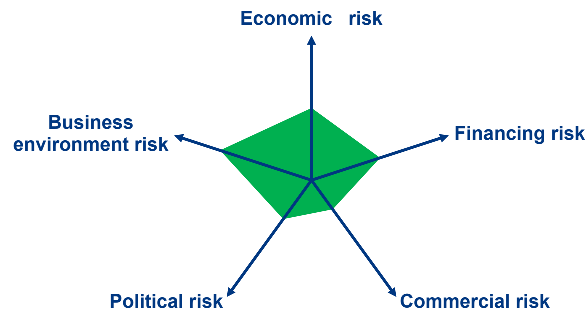
B1

Low
risk for enterprises

China

Growth headwinds and complex geopolitics

GDP	USD17794.8bn (World ranking 2)
Population	1 410.7mn (World ranking 2)
Form of state	Communist party-led state
Head of government	Xi Jinping (General Secretary of the Communist Party)
Next elections	2027, Legislative



Strengths & weaknesses

- Large domestic market
- Strong external position and key position in global value chains
- New growth opportunities as the country moves up the global value chain and the services sector develops
- Fiscal position of central government relatively solid
- Improvement in macro-prudential management

- High corporate debt, rising household and local government debt
- Strong involvement of the public sector in the economy with occasional policy-driven disruptions
- Continued geopolitical tensions with key countries in the region and the US
- Competitiveness erosion for lower value-added manufacturing sectors
- Aging population

Economic overview

All eyes are on policy, domestic and external

China has been a regular global outperformer in history, with real GDP growth averaging +10.3% during the 2000-2009 decade and +7.7% over 2010-2019. It was one of very few economies that was spared by a recession at the height of the global pandemic in 2020 (growing by +2.2%), followed by a massive rebound in 2021 (growing by +8.5%). Continued stringent sanitary policies and a real estate crisis led to a significant slowdown in 2022, with growth declining to +3.0%. The subsequent economic rebound disappointed (growth at +5.2% in 2023), in the context of still low consumer confidence, the property sector downturn and limited fiscal and monetary policy support. Domestic headwinds subsisted in 2024, partly mitigated by stronger policy support and resilient exports. We expect growth of +4.6% in 2025 and +4.2% in 2026, indicating a path of lower trend growth compared to the previous decades, given continued domestic and external headwinds. In terms of prices, as a result of industrial overcapacity and soft demand, price pressures have been muted since the beginning of 2023. We expect inflation to reach 1.0% in 2025 and 1.5% in 2026.

Policy support clearly stepped up from the end of September 2024. The PBOC delivered a super package of monetary easing, followed by fiscal measures that both provide short-term support and attempt to tackle the long-term sustainability of public finances. Further policy support will also likely be delivered in 2025, with a special focus on domestic demand. Larger room for maneuver for fiscal spending by the central and local governments may translate into favorable measures for households – although the scale may ultimately depend on how large the shock from higher US tariffs is. On the monetary side, we expect at least two policy rate cuts of -10bps each in 2025, and two cuts of -25bps each in the reserve requirement ratio.

The challenge of continuing to grow in the long run

Overall, indicators show that the short-term financing risk is medium. The indicators that need monitoring in the short run are the overall fiscal deficit and domestic credit growth, especially in the context of challenging local government finances and the property sector downturn. Domestic credit to the private sector relative to GDP remains elevated compared to that of emerging peers (205% in Q2 2024). However, we believe that authorities have the necessary tools to manage and keep risks under control for now.

Looking at external account balances, China continues to exhibit current account surpluses, although these are likely to soften in the coming years. 2024 marked a year of moderate growth in exports after a difficult 2023, while imports remained subdued in the context of soft domestic demand. The current account balance likely hit around 2% of GDP in 2024 (after 1.4% in 2023) and is likely to moderate to around 1.5% in 2025 and around 1% in 2026. Trade restrictions in the context of the renewed US-China trade war will weigh on Chinese exports, especially in 2026. In terms of the capital and financial account balance, net outflows are likely to continue on the back of limited inflows and rising outbound flows from China (e.g. FDI into ASEAN and Latin American economies).

Lastly, while rising geopolitical tensions are likely to reshuffle trade and investment patterns, China will not lose its position as a critical end-supplier due to complex inter-linkages in the global supply chain. In the medium run, China's main challenge is managing the transition to a lower pace of potential growth as the economy matures. What's at stake is to find new growth drivers (innovation, private consumption, services etc.) while navigating vulnerabilities (debt burden, geopolitical tensions, aging population etc.).

Business environment

Our proprietary model that tracks the structural business environment across nearly 200 countries suggests that the business environment in China has deteriorated over the past years amid the broad-based economic slowdown, weaker business sentiment and rising geopolitical tensions. The World Bank Institute's annual Worldwide Governance Indicators suggest that there has been a decline in regulatory quality, although there have been improvements in the rule of law and control of corruption. In addition, the Index of Economic Freedom from the Heritage Foundation assigns a rank of 154 out of 184 countries in 2023, compared with 107 in 2021, reflecting a deterioration in scores that reflect freedom in terms of trade, business, investment and property rights. Lastly, China ranks relatively low based on our proprietary "Environmental Sustainability Index", at 159 out of 210 economies, suggesting that while it exhibits strengths in water stress and climate adaptation, there is potential for improvement in terms of the recycling rate, renewable electricity output and CO2 emissions per GDP.

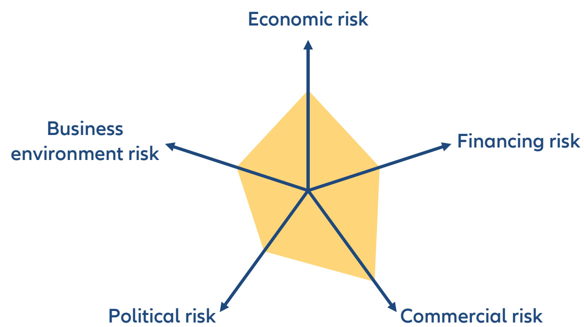
B2

Medium
risk for enterprises

Colombia

More troubles ahead

GDP	USD335.5bn (World ranking 45)
Population	19.6mn (World ranking 64)
Form of state	Presidential republic
Head of government	Gustavo Petro (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Latin America's fourth-largest economy, Colombia's GDP growth is expected to accelerate
- Colombia's institutional framework provides stability
- Popular support allows progress on fiscal tightening and energy transition

- Exposure to commodity price shocks, non-state actors and porous borders
- Fiscal policy uncertainty, weak Congressional support and an interventionist agenda have deterred private investment
- Exchange rate volatility remains on the cards due to diplomatic tensions

Economic overview

Not great, not terrible

Colombia's economy is on a recovery trajectory following a challenging period. After a contraction of -0.7% in Q3 2023, GDP began to recover, with growth rates of +0.5% in Q4 2023 and further increases of +0.9%, +1.8% and +2.0% in the first three quarters of 2024. This recovery has been achieved amidst efforts to reduce inflation and manage high spending levels. By September 2024, the economy had grown by +1.6% compared to the same period in 2023.

The recovery has been driven by household consumption, particularly in non-durable goods, and a strong performance in civil works, which boosted domestic demand. However, growth has been uneven across sectors. The agricultural sector and tertiary activities, such as artistic and entertainment activities, have shown strong performance, while secondary activities, particularly manufacturing, have lagged. The construction sector faced challenges due to a contraction in housing, though civil works growth offset this.

Inflation has been steadily decreasing, reaching 5.2% by the end of 2024, down from 9.3% at the end of the previous year, but still overshooting the target band of 3% ±1pp for the fourth consecutive year. Lower food and regulated prices have helped reduce the rate, though service inflation remains relatively rigid, supported by robust tourist flows. By the end of 2024, the monetary policy rate stood at 9.5%, driven mostly by fiscal concerns and spillover effects on the exchange rate from discontinuity in the US administration. The central bank is anticipated to lower interest rates to 7% in 2025, reflecting the convergence of inflation to its target and supporting economic recovery through improved financial conditions. The exchange rate is expected to remain high in the short term but mildly appreciate by 2026 due to reduced external volatility and stabilized domestic financial conditions, reducing competitiveness.

However, the depreciation of the Colombian Peso is exerting upward pressure, compounded by an uncertain fiscal outlook and the larger-than-expected +9.5% increase in the minimum wage delivered in December 2024. This increase is likely to contribute to higher overall inflation as several services are indexed to the minimum wage. Additionally, changes in the composition of the central bank board scheduled for February may alter its cautious stance.

Looking ahead, the economic outlook for 2025 is positive, with expected GDP growth of +2.5%, slightly below national forecasts (+2.9%) and approaching its potential. Inflation is anticipated to fall close to the 3% target by year-end, signaling a more stable economic environment.

Structural challenges persist

Colombia's economic outlook is characterized by moderate growth and gradual stabilization. Fixed investment is projected to grow by +3.9% in 2025, led by civil works and machinery, with a more robust growth of +7% anticipated in 2026. Residential construction is expected to recover from mid-2025, contributing to economic growth. Private consumption is forecasted to increase by +3% per year in 2025, driven by demand for durable and semi-durable goods, and in 2026, as services gain momentum due to improved labor and financial conditions.

The current account deficit is projected to be 3.2% of GDP in 2025 and 3.5% in 2026, driven by increased imports of capital goods and raw materials, consistent with growing domestic demand. This deficit will be primarily financed by foreign direct investment. Colombia's export sector is experiencing mixed performance. While there has been an increase in non-traditional exports over 2024, this growth has been insufficient to counterbalance the decline in commodity prices. Consequently, total exports have recorded negative growth rates for the second consecutive year. Given the dependence on exports, the unemployment rate is expected to decline to 9% in 2025-2026 on average, with job creation in manufacturing, construction and services. However, challenges remain in labor force participation, particularly among youth and women, and migration flows will play a decisive role.

Structural challenges persist, such as increasing domestic savings and investment to bolster long-term growth potential and compensate for lower government spending due to lower-than-expected revenues. Current gross domestic savings, at 10.5% of GDP, limit the capacity to finance necessary investments. Efforts to diversify exports, attract foreign direct investment and strengthen public and private savings are essential for long-term growth. Addressing these issues will be crucial for future economic sustainability discussions.

Political risk to stay

Gustavo Petro's election as Colombia's first leftist president in decades marked a significant shift, generating both optimism and uncertainty, especially regarding economic and fiscal policies. Concerns about excessive spending and capital flight emerged, though not all materialized. Initially, President Petro had Congressional support through alliances with traditional parties, enabling him to advance social reforms in labor, pension and healthcare. However, his confrontational tone soon dissolved these alliances, leaving him without a stable majority and hindering reform progress, with Congress posing significant obstacles. While inequality is declining and social tensions have eased, his ability to mediate deals with local paramilitary organizations and reduce the effects on the country of the crisis in Venezuela has only partially emerged.

President Petro's early achievements included the 2022 tax reform, which increased government revenues and reassured markets, and the politically challenging but necessary normalization of gasoline prices to address the Fuel Stabilization Fund deficit. Despite these successes, economic challenges have grown. The post-pandemic boom faded, leading to weak GDP performance and sharp declines in investment, with low budget execution rates raising efficiency concerns.

Uncertainty around oil and gas contracts and fiscal rules continues to weaken investor trust. However, Colombia's strong institutions, independent central bank and divided Congress have mitigated major risks by preventing radical proposals. As the 2026 elections near, there is concern that President Petro might attempt to influence monetary policy and break fiscal rules to implement expansive policies for electoral gain.

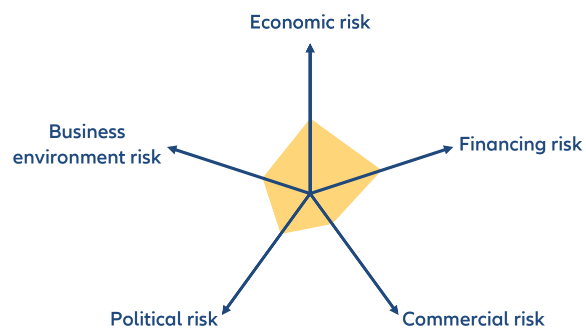
BB2

Medium
risk for enterprises

Costa Rica

Weaving growth, challenges and restoration

GDP	USD86.5bn (World ranking 71)
Population	5.2mn (World ranking 123)
Form of state	Presidential republic
Head of government	Rodrigo Chaves Robles (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Costa Rica's GDP growth has consistently outpaced the LAC average, supported by foreign direct investment and thriving export sectors, particularly in free trade areas
- The government has successfully implemented fiscal reforms, reducing primary deficits and returning public debt to a sustainable path, including completing an IMF program in 2024
- Costa Rica has made significant strides in renewable energy, with almost all electricity generated from renewable sources. It is the first tropical country in the world to have reversed deforestation

- Poor-quality infrastructure, particularly in roads and key trade infrastructure, hampers connectivity and limits economic efficiency
- Despite high public investment in education, outcomes remain below OECD averages, with significant gaps in basic skills and high youth unemployment
- Increased crime, poverty persistence and an aging population pose risks to social stability and economic growth in the medium term

Economic overview

Sustained economic growth and progress on fiscal stability

Costa Rica's macroeconomic outlook has improved significantly in recent years, supported by structural reforms and robust external demand. Over the last decade, economic growth has outpaced the Latin America and Caribbean (LAC) average (+3.6% vs. +3.0%), driven by foreign direct investment and a thriving export model concentrated in free trade zones. These zones now represent 15% of economic activity, produce 66% of exports – led by the medical equipment, electronics and food sectors – and contribute 11% of national employment, offering wages 46% higher than the national average. However, a significant productivity gap persists, with levels still 57% below the OECD average despite a +30% increase over the last decade.

Economic growth has remained strong, with GDP expanding by +5.1% in 2023 and an estimated +4% in 2024. Growth continues to be driven by dynamic export sectors and a recovered tourism industry. Looking ahead to 2025, we forecast growth to stabilize at +3.5%, reflecting steady FDI inflows and robust performance in high-value manufacturing and services. The government's successful fiscal consolidation, including the 2018 tax reform and the completion of an IMF program in 2024, has also helped return public debt to a sustainable path. Structural primary deficits of 2.6% of GDP have shifted to surpluses of 1.8%, underscoring progress in stabilizing the economy. Downside risks to our outlook include repatriations from the US that directly or indirectly impact the country, increased violence and higher security risks.

Inflation has remained subdued, averaging around 0% for two consecutive years, but is expected to return to a healthy range of 2-2.5% over the course of 2025. The monetary policy environment has supported these trends, while external risks, such as global commodity price volatility or adverse weather events, remain manageable. Sustained growth and further structural reforms will be critical to narrowing the productivity gap and bolstering long-term competitiveness.

Addressing infrastructure gaps and energy challenges

Costa Rica's medium-term economic and social stability faces challenges stemming from persistent infrastructure gaps, private sector limitations and deteriorating indicators in education, security and social protection. The government's fiscal constraints, driven by the fiscal rule that caps spending growth and a high-interest debt burden (4.8% of GDP in 2023), restrict resources for public investment, education and social programs. Public investment continues to decline, and private investment remains insufficient to close the capital gap required to address both development needs and climate challenges.

Infrastructure deficiencies are particularly pronounced. Adverse hydrometeorological events, with an estimated annual cost of 0.3% of GDP, exacerbate infrastructure deterioration, while inadequate investment and maintenance result in poor-quality assets. For instance, 37% of road infrastructure is in poor or very poor condition, hindering connectivity between peripheral regions, the Greater Metropolitan Area and international markets. Key trade infrastructure, including rail corridors, ports, airports and border crossings, is aging or at capacity limits. This leaves Costa Rica with the most significant lag among OECD countries in infrastructure quality and international trade efficiency indicators.

The electricity sector, despite significant advances in renewable energy, faces challenges in efficiency and modernization. Costa Rica went from meeting 99% of its national electricity demand with renewable sources in 2021 to 91% in 2023, reflecting increased reliance on fossil fuels for electricity generation. Hydropower, which accounts for 73% of total electricity generation, makes the system vulnerable to prolonged droughts, necessitating costly and polluting thermal generation. Moreover, electricity represents only 23% of total energy consumption, while fossil fuels dominate at 66%, primarily for transportation and industry. Modernizing generation, transmission and distribution systems, alongside adopting smart grid technologies, is essential to ensuring reliable and competitive energy for growing industrial and household demand, while reducing dependence on fossil fuels and enhancing climate resilience.

Political landscape, social strains and governance outlook

President Rodrigo Chaves has pursued a broadly market-friendly and orthodox economic agenda but faces significant challenges in governance. His efforts to shrink the size of the state and combat a surge in violent crime are likely to encounter resistance from unions and left-wing parties, particularly given the administration's lack of a legislative majority and strained executive-legislative relations. In late 2024, Chaves unveiled plans to lift the country's 14-year ban on open-pit mining, challenging its long-standing environmental reputation. The proposal focused on the Crucitas gold deposit, located approximately 200 kilometers north of San José near the Nicaraguan border. The site has been inactive since 2010, when authorities revoked the concession to a Canadian firm and instituted a nationwide ban on open-pit mining. The proposed legislation seeks to grant Crucitas a one-time exemption from the ban, allowing the site to be auctioned. Despite large-scale opposition across society, Chaves' enduring popularity ensures his endorsement will carry substantial weight in the 2026 presidential election, even though he is ineligible to run.

Poverty, challenges in education, rising insecurity and an aging population represent long-term challenges. Poverty has remained stagnant over the past decade (22% in 2023 vs. 21% in 2010), and income and territorial inequalities persist, particularly in peripheral regions with lower socio-economic indicators. Education, a key driver of social mobility, faces significant shortcomings despite public spending exceeding the OECD average (6.3% of GDP vs. 5.1%). Outcomes fall short, with deficits in mathematics and reading equivalent to four years behind the OECD average and the lowest secondary school graduation rates in the organization. High youth unemployment (22% vs. 11% in the OECD) reflects a mismatch between education and labor market needs. Insecurity has surged, with the homicide rate reaching a historic high of 17.2 per 100,000 inhabitants in 2023, close to the LAC average of 19.9. Young people are disproportionately affected, accounting for 45% of homicide victims, driven by the interplay of poverty, limited job opportunities and low educational returns. Meanwhile, Costa Rica's rapidly aging population risks further straining public pensions, healthcare systems and social protection networks, amplifying socio-economic challenges.

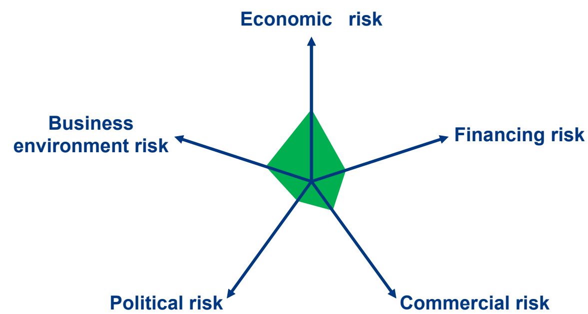
BB1

Low
risk for enterprises

Croatia

Setting the stage for continued success

GDP	USD82.7bn (World ranking 76)
Population	3.9mn (World ranking 129)
Form of state	Parliamentary Republic
Head of government	Andrej Plenković (Prime Minister)
Next elections	2028, Parliamentary



Strengths & weaknesses

- EU membership and good international relations
- Eurozone accession in January 2023 provides for low transfer and convertibility risk
- Fiscal prudence since 2015 (only temporarily interrupted in 2020 due to the Covid-19 crisis)
- Comfortable annual current account balances since 2010
- Adequate, improving business environment

- Vulnerability to EU business cycle
- Economic dependence on tourism
- Net importer of energy and food
- Public debt has remained elevated despite fiscal consolidation since 2015
- Unfavorable external debt-to-GDP ratio

Economic overview

Growth is softening and inflation lower but still above target

The economic outlook for Croatia slowed as a result of the war in Ukraine. The economy is highly dependent on exports, especially the export of services (tourism), which makes it vulnerable to external shocks. Croatia is also a large net importer of energy and food and thus has been hit by the surge in global prices for these goods in 2022. However, the country's direct trade relations with Russia have been small so it has been less impacted by the European energy-supply crisis and EU trade sanctions against Russia than other countries in the Emerging Europe region. Following a strong post-Covid-19 recovery, with real GDP growth of around +13% in 2021. Economic activity began to cool in the second half of 2022 amid higher inflation, rising interest rates, softening external demand and declining business confidence. Growth came in at +7% in 2022 and decelerated further to +3.1% in 2023, as the economic slowdown in Western Europe, Croatia's main export destination, weighed on trade and tourism in the country. Domestic fiscal stimulus has been moderate due to rising financing costs. A solid economic momentum of +3.5%

unfolded in 2024, dominated by strong domestic demand. Going forward, the outlook remains solid, with steady support from domestic demand and EU backing on investments, even though external demand will deliver only modest support due to higher uncertainties related to Eurozone recovery, a weak Germany and a looming trade war. We forecast annual real GDP to expand by +2.9% on average in 2025 and +2.7% in 2026.

Croatia joined the Eurozone at the start of 2023, marking an important milestone in the process of integration with the EU a decade after it joined the bloc. While monetary policy is now conducted by the European Central Bank (ECB), membership of the Eurozone provides for low transfer and convertibility risk and has substantially decreased external vulnerabilities related to exchange-rate risk. The backing of the ECB should strengthen the banking and financial system in Croatia and increase the economy's resilience to external economic shocks. Investor confidence should rise as well and overall Eurozone membership should provide a medium-term boost to the economy.

Inflation moderated through 2023 and 2024 after it had risen to a peak of +13.5% y/y in November 2022, driven by interrupted supply chains and surging energy and food costs. We project it to pick up slightly owing to strong wage growth, persistent, though slowing, price increases in services and the likely phase-out of measures to mitigate the impact of high energy prices. We forecast inflation at 2.7% in 2025 and 2.3% in 2026.

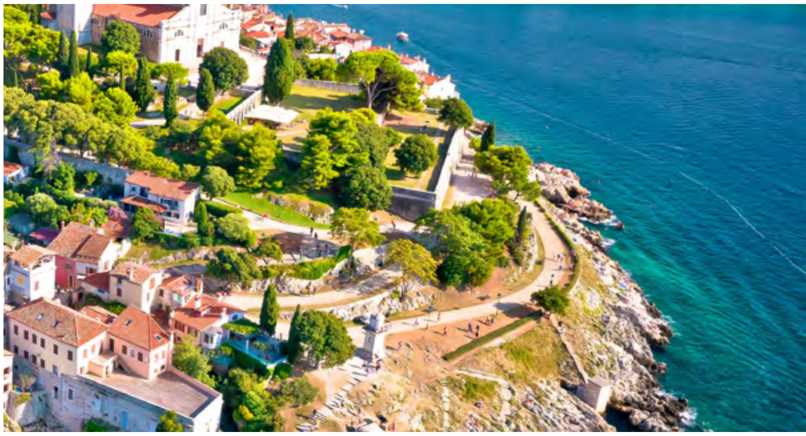
Fiscal and current accounts under control but debt ratios remain elevated

Croatia's public finances are improving again after the Covid-19 crisis temporarily reversed five years of fiscal consolidation. Public finances had improved in 2015-2019, thanks to the growth rebound after the extended 2009-2014 recession as well as fiscal restraint. The budget was close to balance in those years and public debt declined from 84% of GDP in 2014 to 70% in 2019. However, owing to large stimulus measures in response to the Covid-19 crisis, combined with a substantial decline in nominal GDP, a fiscal shortfall of -7.2% of GDP was recorded in 2020, pushing public debt again up to 86% of GDP. The annual fiscal deficit narrowed markedly to around -2.5% of GDP in 2021 and returned to a narrow surplus in 2022 thanks to strong fiscal revenue growth. It moved back to a small deficit of -0.7% in 2023 owing to large increases in public wages and social benefits. Further such increases and higher public investment are forecast to widen the annual fiscal shortfalls to still moderate ratios of around -1.9% of GDP in 2024, -1.7% in 2025 and -1.4% in 2026. Meanwhile, the public debt-to-GDP ratio is projected to retreat gradually below 60% of GDP by 2025.

Croatia's external finances should remain manageable. After six years of current account surpluses from 2014 to 2019 (on average +2.3% of GDP), reflecting a continued solid export performance, Croatia posted a small external deficit of -1% of GDP in 2020, mainly as a result of sharply lower exports of services (as Covid-19 hit tourism). After the annual current account moved back to a surplus of +1% of GDP in 2021, it posted another deficit of -2.8% of GDP in 2022, this time owing to sharply increased import costs for energy and food. As these costs have moderated since 2023, an external surplus of +1.2% of GDP was recorded last year and we forecast continued small annual surpluses in until 2026. Meanwhile, Croatia's gross external debt will remain elevated at around 80% of GDP. On a positive note, the annual external debt-service ratio declined from a hefty 35% in 2020-2021 to a more manageable 20% or so in 2023-2024. Moreover, by joining the Eurozone in 2023, Croatia now has access to the pooled FX reserves of the ECB so that FX coverage of imports as well as of short-term external debt payments falling due is not an issue anymore.

Improving business environment

The business environment in Croatia is generally adequate though spots of weaknesses remain. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory framework is generally business-friendly while weaknesses remain with regard to perceived corruption and the legal framework. The Heritage Foundation's Index of Economic Freedom survey 2024 ranks Croatia 39 out of more than 180 economies, a significant improvement from rank 79 in the 2021 survey. The country gets strong scores with regard to the tax burden, trade freedom, investment freedom, property rights and judicial effectiveness (with the latter two items reflecting the improvement since 2021) while weaknesses remain in the areas of government integrity and financial freedom. Our proprietary Environmental Sustainability Index assigns Croatia is a strong rank of 18 out of 210 economies, reflecting high scores for energy use and CO2 emissions per GDP, renewable electricity output, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. However, the recycling rate is the one weakness.



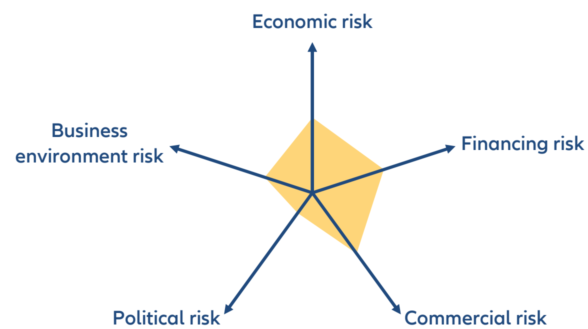
BB2

Medium
risk for enterprises

Cyprus

Remaining resilient but challenges persist

GDP	USD32.2bn (World ranking 103)
Population	1.3mn (World ranking 158)
Form of state	Presidential republic
Head of government	Nikos Christodoulides (President)
Next elections	2026, Legislative



Strengths & weaknesses

- Solid recovery since 2013 financial crisis
- Strong public finances and commitment to improve public finance position
- Large decline in NPL ratio and improved bank capitalization

- Private debt remains high, which can amplify financial risks
- Structural reforms to unlock growth potential are needed
- Large tourism sector is highly reliant on a few countries

Economic overview

Strong growth to moderate gradually

Economic activity in Cyprus remained robust in 2024, despite some volatility, and well above the Eurozone average. Looking ahead, growth is forecast to moderate – staying around +1.8% in 2025, still supported by strong domestic demand – and to gradually soften to +1.6% in 2026 as external conditions become less supportive and domestic demand normalizes.

Service exports, particularly in ICT sector and tourism, continued to show robust performance despite heightened geopolitical tensions both in the immediate region and more broadly. The strategic relocation of firms to Cyprus has contributed notably to recent growth, driven by businesses seeking a more stable operating environment amidst global uncertainties. This influx has helped diversify the island's economic base, reducing reliance on any single market or source country.

The summer of 2024 saw international arrivals to Cyprus remaining 2% below pre-pandemic levels. Nonetheless, the tourism sector has adapted well to the loss of Russian and Ukrainian visitors –which accounted for around 20% of arrivals in 2019 – by successfully attracting more visitors from Western Europe. The UK led this shift, representing 34% of total arrivals in the first half of 2024. Israel emerged as the second-largest tourist market at 10% of arrivals during the same period. While the ongoing Middle East conflict poses potential risks, its impact on Cyprus's tourism industry has so far been modest.

Looking at prices, the gradual normalization of energy prices has helped inflation to decline markedly during 2023. The disinflationary trend continued in 2024, reaching 1.4% in the third quarter – the lowest level after the post pandemic spike (at 9.5% y/y in Q3 2022). Overall, we expect inflation to slowly increase towards the 2% target in 2025 and 2026.

Cyprus has committed to fiscal discipline. The government's fiscal position is expected to remain solid over the next years. After posting a surplus of around 2.0% of GDP in 2023, the government balance improved further in 2024, driven by robust revenue growth outpacing rising expenditures. Government revenues will continue to benefit from improved labor market conditions, resulting in stronger social security contributions following the higher employer and employee contribution rates introduced in January 2024. At the same time, corporate and personal income taxes and VAT collections are expected to rise. On the expenditure side, public wage bills are projected to increase, reflecting inflation indexation and higher social contributions for civil servants. Meanwhile, public investment will benefit from the Recovery and Resilience Plan (RRP) related projects, and the deployment of other EU funds from the 2021–2027 budget. Looking ahead, we expect the fiscal surplus to remain positive, but to slightly decrease from the current level while risks around the fiscal outlook have not disappeared, including additional fiscal cost or implementation delays in large-scale infrastructure projects, such as the liquified natural gas terminal.

The labor market continued to strengthen in 2024, boosted by increased hiring in the tourism industry and the public sector. As a result, the unemployment rate fell by 1pp to 4.5% by the end of Q3 2024 – its lowest level in 15 years. Skills mismatches and overall labor market slack remain limited, supported in part by the government's initiative to attract multinational businesses, which has helped bring in foreign workers with the needed skill sets.

An economy highly reliant on the services sector

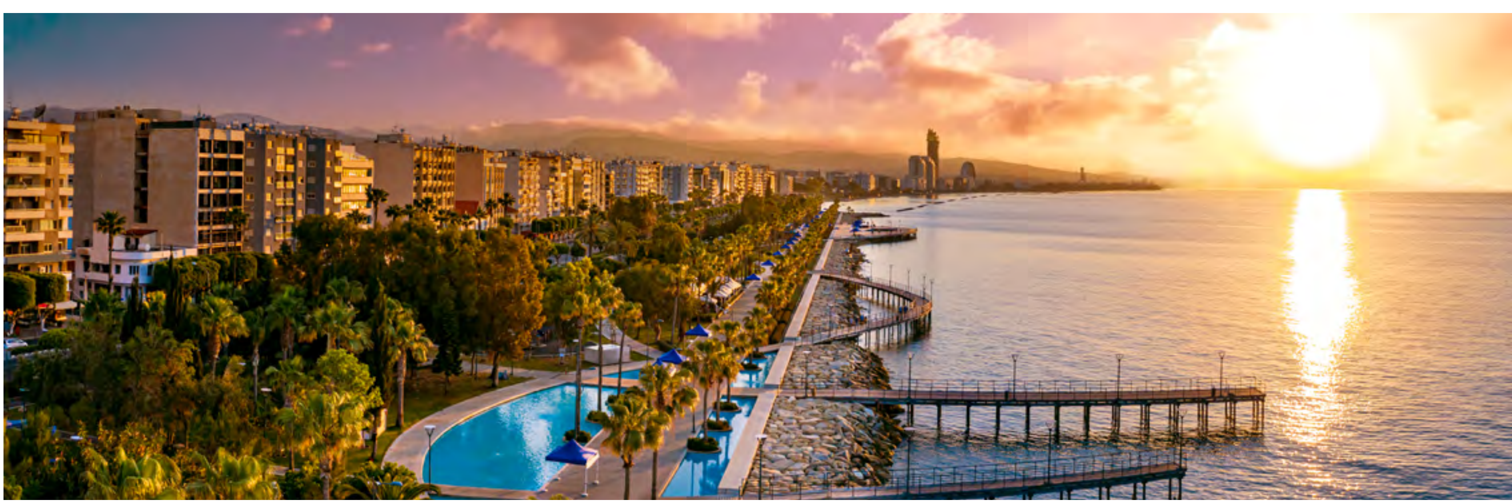
The Cypriot economy is essentially dependent on the services sector and in particular on tourism, shipping and real estate, which constitutes a source of risk for economic stability in the event of geopolitical or health crises. Services accounted for approximately 78% of GDP and employed more than 70% of the labor force in 2023. Therefore, the sanctions on Russia following the invasion of Ukraine are impacting the sector and the economy.

The banking sector continues to make significant progress. Non-performing loans have declined remarkably from a peak of EUR29.2bn in 2014 to a historic low of EUR1.7 billion in June 2024. The average NPL ratio of Cypriot banks is now below 7%, though this is still elevated by Eurozone standards. .

Business environment attracts foreign companies

Cyprus is ranked 54 out of 190 economies in the 2020 World Bank's doing business ranking. The country achieves its highest rankings in the categories of protecting minority investors, paying taxes and resolving insolvencies.

The revised Recovery and Resilience Plan is worth EUR1.22bn, including EUR0.2bn in loans and EUR1.02bn in grants, equivalent to 5.2 % of the country's 2019 GDP. In detail, Cyprus's RRF devotes 45% to the green transition and 25% to the digital transition. In 2024, the country received the second payment of EUR115mn in grants after successfully meeting 37 milestones and targets.



BB1

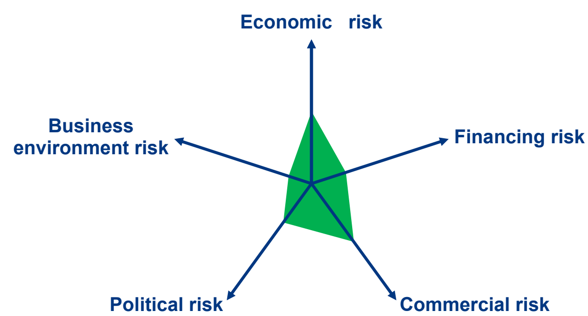
Low

risk for enterprises

Czech Republic

Economic recovery expected to continue at a slow pace

GDP	USD330.9bn (World ranking 46)
Population	10.9mn (World ranking 86)
Form of state	Parliamentary Republic
Head of government	Petr Fiala (Prime Minister)
Next elections	2025, Legislative (Senate)



Strengths & weaknesses

- EU membership and good international relations
- High income economy with fairly strong underlying macroeconomic fundamentals
- Favorable public finances
- Manageable external debt burden
- Sound banking sector that has proven resilient to adverse shocks
- Favorable business environment

- History of fragile coalition governments
- Often ineffective policymaking and slow reform progress
- High export and import dependencies
- Unfavorable export structure

Economic overview

Muted growth and moderate inflation

The Czech Republic (Czechia) has been a decent performer among emerging economies. However, a strong dependence on exports (accounting for around 80% of GDP), in particular on automotive shipments, causes above-average cyclical fluctuations in growth. Moreover, a high dependence on global supply chains and energy imports has made the Czech economy very vulnerable in the recent global context of supply disruptions and higher energy prices.

Real GDP expanded by an average of +2.4% over the past 20 years, and by +4.0% over the five years prior to the Covid-19 pandemic. As a consequence of its dependence on exports and supply chains, the Czech economy was hit harder by the global Covid-19 crisis than others (-5.3% in 2020) despite strong economic policy support. And after a solid recovery in 2021 (+4.0% growth), economic activity slowed down markedly in 2022-2023 as a result of the consequences of the war in Ukraine, notably the subsequent EU sanctions on Russia and soaring energy prices. The Czech economy stagnated from mid-2022 to end-2023. Full-year real GDP still posted growth of +2.8% in 2022 but contracted by -0.1% in 2023. Growth remained subdued in the first half of 2024 as weak external demand acted as a constraint on the speed of the recovery but resumed for the full year to a modest +0.9% on the back of domestic demand and high investments. Looking ahead, we expect growth to resume to +2.2% in 2025 and +2.4% in 2026 driven by households' consumption and investment activity while net exports contribute negatively.

After peaking at +18% y/y in September 2022, consumer price inflation fell back steadily to +6.9% y/y at end-2023 and stood at +2.0% in June 2024, on the back of a correction of the earlier rise in energy prices as well as higher interest rates. However, it edged up again towards the end of 2024. The Czech National Bank raised its key policy interest rate by a cumulative 675bps to 7.00% from June 2021 to June 2022. Thereafter, the rate was kept unchanged until December 2023 when CNB kicked off an easing cycle that brought down the rate by a cumulative 275bps to 4.0% by December 2024. Further gradual easing is likely in 2025.

Public and external finances are improving

Czechia's public finances have deteriorated in recent years but will remain manageable over the next two years. The Czech government posted large annual fiscal deficits of more than -5% of GDP in 2020-2021 as a result of a huge fiscal stimulus program in order to mitigate the impact of the Covid-19 crisis on the economy. The annual shortfalls narrowed but remained large in 2022-2023, around -3.5% of GDP on average, as the government implemented new fiscal support measures to mitigate the impact of the energy crisis and the economic downturn on households and industry. Meanwhile, the government has decided to embark on a fiscal-consolidation program from 2024 onwards. Hence, we forecast annual fiscal deficits of less than -3% of GDP in the next years. Financing these deficits will be manageable even though yields on Eurobonds have increased over the past years. Moreover, the government is eligible for substantial EU funding and can also access local markets. As a result of several years of elevated fiscal deficits, total public debt rose from a low of 30% of GDP in 2019 to around 45% currently. It is forecast to remain around that ratio in the next few years, still fairly low compared to peers.

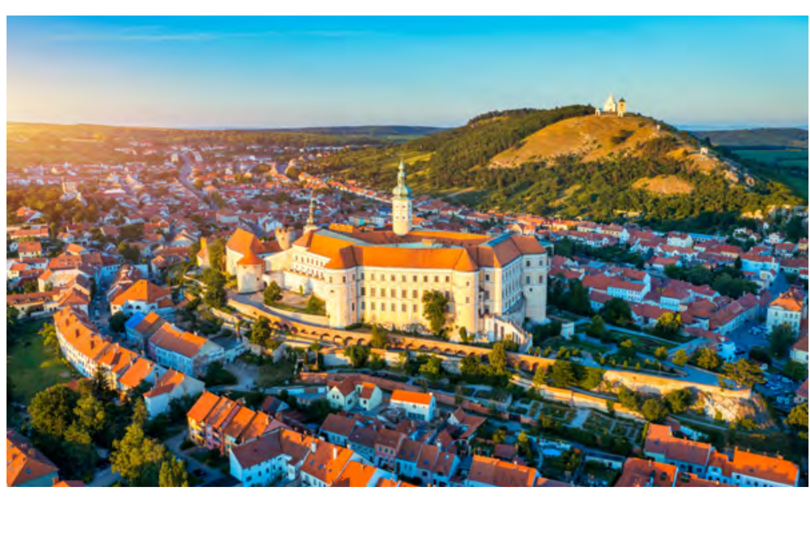
Czechia's external position has rebalanced after a significant deterioration in 2022 triggered by rapidly increasing energy import costs since H2 2021. After seven successive years of surpluses, the current account balance moved into a deficit of -2.7% of GDP in 2021, which widened to -4.7% in 2022. However, the external shortfall returned to a small surplus of +0.4% of GDP in 2023, mainly as a result of the partial correction of the earlier increase in energy prices and the curtailing effect of faltering domestic demand on imports.

We forecast a continued moderate current account surplus in 2025 as both exports and imports will recover only modestly. On another positive note, net foreign direct investment (FDI) inflows have recovered from modest levels in 2021-2022 and net portfolio outflows have been smaller since June 2023 (on a rolling 12-month basis), after two years of significant net outflows. Altogether, this rebalancing also helped to halt the downtrend in the CNB's foreign exchange (FX) reserves, which had dropped from a peak of EUR160bn in April 2022 to a temporary low of EUR126bn a year later. Reserves still covered a comfortable seven months of imports as of mid-2024, but that rate is down from a peak of 12 months in early 2020. In other terms, reserves cover all external debt payments falling due in the next 12 months. In short, Czechia's external finances are still adequate and appear to regain some of the strength which they had lost in 2021-2022.

Strong business environment and low political risk

The Czech business environment is well above average. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly, though a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom survey for 2024 assigns Czechia rank 24 out of more than 180 economies, reflecting strong scores with regard to property rights, judicial effectiveness, tax burden, trade freedom, investment freedom and financial freedom. Meanwhile, our proprietary Environmental Sustainability Index puts Czechia at rank 60 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is relatively low. Czechia is a well-established democracy and has good international relations, reflected in its EU, NATO and OECD membership. Fragile coalition governments have often resulted in ineffective policymaking and slow reform progress. Yet, broad policy continuation has been the rule after past government changes, whether early or on schedule.



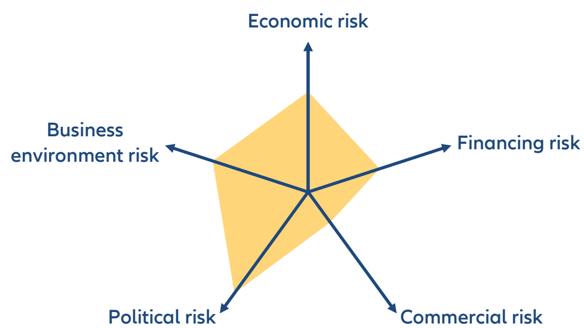
C2

Medium
risk for enterprises

Côte d'Ivoire

Robust growth in a presidential election year

GDP	USD78.8bn (World ranking 78)
Population	28.9mn (World ranking 51)
Form of state	Presidential republic
Head of government	Alassane Ouattara (President)
Next elections	2025, Presidential



Strengths & weaknesses

- Stable macroeconomic and political environment have supported robust economic growth, making it the second-fastest growing nation in African over last decade.
- Leading commodity exporter with significant market power over cocoa and increasing player in the oil market, boosted by recent new field discoveries.
- As a member of the West African Economic and Monetary Union, it enjoys a common currency, relative monetary stability and access to a liquidity pool mechanism that mitigates convertibility and transfer risk.
- The government benefitted from considerable debt relief in recent years amid a significant improvement of the business climate.

- Industry estimates suggest that Côte d'Ivoire captures only around 4-6% of total revenue from the cocoa market, leading to modest overall fiscal revenues (17% of GDP).
- Vulnerability to climatic effects on agricultural output, production constraints due to weather and lack of investment in long-term forest sustainability.
- Exogenous risks from its northern neighbors in the Sahel region, which is currently experiencing economic, security and political challenges.

Economic overview

Robust growth continues amid cocoa market shock

Côte d'Ivoire's robust growth is expected to continue, with GDP forecasted to increase by +7% in 2024 and 2025, significantly outpacing its Western African neighbours such as Nigeria and Ghana. Inflation is projected to remain among the lowest in the African continent at 2.8% in 2025, after 3% in 2024, thanks to the currency stability of the Western African Franc.

Growth in 2025 will be primarily driven by private consumption and private sector investment, following a reduction in government spending that began in 2023 after the peak in investment in preparation for the Africa Cup of Nations. This robust growth has been taking place notwithstanding a challenging climate for agriculture, which accounts for 20-25% of GDP and 7% of total export revenue. Climate distress caused by El Niño reduced rainfall and significantly impacted cocoa output in 2024; 2025 is expected to bring higher precipitation. Cote d'Ivoire's main exports fell below 2mn tons in 2023, 20% below average, and is projected to have been just above 2mn in 2024. Cocoa prices surged to historical highs in the spring of 2024 and although there has been a moderate decline since then, prices remain well above historical averages.

Cote d'Ivoire's robust economic growth has been heavily commodity driven. Besides cocoa, exports include oil, rubber, gold, nuts and cotton, which introduces high volatility and cyclicality to the nation's revenues. The oil industry has gained momentum with the discovery of a new oil field, increasing potential oil reserves by 25%, and by an increase in the production capacity from 30,000 barrels/day to 40,000 in early 2024. While it is still a modest oil exporter, oil represents 15% of total exports and its share is expected to continue growing as global oil importers seek new markets.

The stable macroeconomic environment brought both by political stability and the institutional framework of the West African Economic and Monetary Union (WAEMU) has positively contributed to economic growth since 2012, with growth rates between 5% and 10% (except 2020). The positive macroeconomic signalling has also reduced the cost of financing for the country, which currently enjoys some of the lowest spreads on the continent. In January 2024, Côte d'Ivoire was the first African nation to return to the financial markets post-Covid, issuing two oversubscribed Eurobonds primarily for debt-management purposes, thereby smoothing debt liquidity ratios. Since then, major rating agencies have improved its rate or outlook. Debt stands at 60% of GDP and under the current 40-month IMF arrangement, the fiscal deficit should return to the WAEMU target of 3% by 2025.

Fiscal consolidation as the nation seeks to de-commoditize the economy

The fiscal profile remains manageable, with decreased pressure on liquidity following the issuance of an oversubscribed USD2.6bn Eurobond. Reforms on both the revenue and expenditure sides have started to bear fruit, aimed at rebuilding fiscal buffers. On the expenditure side, non-targeted subsidies have been reduced, while some targeted subsidies have been maintained. On the revenue side, Côte d'Ivoire's tax revenue stands at 14% and the government has continued to implement reforms in tax collection focusing on VAT and the cocoa industry to top the WAEMU's target of 20%.

The cocoa industry has experienced significant volatility in recent years. Initially impacted by a supply shock, global prices surged from USD4,200 per ton in early 2024 to USD12,000 per ton in April. However, local producers did not see a proportional increase in their revenue due to fixed farm-gate prices, which provide farmers with income stability. These rates are set at the beginning of the harvesting season. Amid the short supply due to climate conditions, some farmers ceased supplying to pressure for payment increases. In response, the Ivorian government raised the rate from CFAF1,000 to CFAF1,500.

The newly established Ivory Coast-Ghana Cocoa Initiative (CIGCI) aims to increase revenue for farmers and ensure standards in harvesting and production, addressing issues such as human trafficking, child labor and deforestation. Governments are pushing companies to pay a premium to farmers and the deadline of 20 November has been extended for further negotiations, bringing some ease to the markets. While cocoa supply has stabilized and prices have fallen, the mid- to long-term outlook for the industry remains challenging due to the need for more investment and unfavorable climate conditions.

The government has made significant efforts to extend the value chain of commodities exported by Côte d'Ivoire. Currently, only 45% of all cocoa is processed within the country and cocoa derivatives such as powders or butter account for just over 10% of total exports. Meanwhile, other major advanced manufacturing sectors have yet to consolidate. Gold and oil are the fastest-growing exports and together with agricultural products they will continue to be Abidjan's main exports and sources of foreign exchange.

Stable politics in a complicated neighborhood

The next presidential elections in Côte d'Ivoire are scheduled for 2025. The presence of President Alassane Ouattara – who has been in power since 2011 – on the ballot would likely shift the balance in his favor, ensuring policy continuity until 2030. However, significant questions remain regarding his age (now 82) and the capacity of the country's political system to peacefully transition to a newly elected democratic leader post-Ouattara. The last transition in 2011 resulted in civil conflict. Local and regional elections held in the fall of 2023, following the organization of the Africa Cup of Nations, demonstrated continued support for Ouattara's party.

Instability may arise from external sources as Côte d'Ivoire's three northern neighbors – Burkina Faso, Mali and Guinea – are all ruled by military juntas. Following a decade of political instability and a surge in terrorist groups, these countries, plagued by weak governance, turned to military rule. Côte d'Ivoire's most challenging relationship is with Burkina Faso, with which it shares strong commercial ties. Côte d'Ivoire serves as the gateway for Burkina Faso's trade, and over 4mn Burkinabe live in Côte d'Ivoire. A terrorist organization has established a presence in the natural park between the two countries, coinciding with Burkina Faso severing ties with ECOWAS, the regional union that facilitated security cooperation. As a leading country in both ECOWAS and WAEMU, Côte d'Ivoire will need to intensify its diplomatic efforts to find solutions that not only address short-term issues but also ensure long-term stability for the Sahel and West Africa as a whole.

Looking westward, Côte d'Ivoire has recently found a new partner in Senegal, despite marked contrasts in leadership and age – Senegal's president is among the youngest on the continent. Through the signing of several memorandums of understanding to enhance trade, investment, business exchanges and people-to-people connections, both countries appear committed to increasing African intra-regional cooperation.

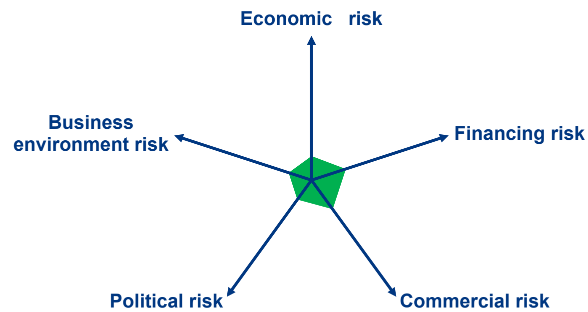
AA1

Low
risk for enterprises

Denmark

Calm waters amid high geopolitical uncertainty

GDP	USD404.2bn (World ranking 35)
Population	5.9mn (World ranking 113)
Form of state	Constitutional monarchy
Head of government	Mette Frederiksen (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Strong business environment
- Healthy public finances
- High institutional effectiveness
- Highly skilled workforce

- Exposed housing market
- Small and open economy
- High tax burden
- High amount of regulatory requirements

Economic overview

Solid growth and stabilized inflation

The Danish economy has experienced robust growth in recent years, largely driven by the pharmaceutical sector, which is increasingly contributing to overall economic performance. This industry has propelled Danish industrial production and exports to new heights, accounting for nearly a quarter of total turnover in the industrial sector in 2023. Additionally, consumer spending is gaining traction due to positive real wage growth and a tight labor market, enhancing household purchasing power significantly. In 2025, we anticipate a growth rate of +1.5%, followed by an increase to +2.0% in 2026. This ongoing progress in the Danish economy is primarily attributed to the expected decline in interest rates, which will stimulate demand both within Denmark and in major export markets. Furthermore, significant real wage increases are expected to drive higher household consumption.

The trend in Danish consumer prices has fluctuated a lot in recent years but inflationary pressures subsided throughout 2023, settling at +3.3%. While price increases for energy and goods have moderated, inflation in the services sector remains elevated due to wage pressures. The annual average inflation rate is projected to rise to 2.0% in 2025 and maintain that level into 2026. Labor market constraints are easing as increased demand for workers has been met by an influx of migrant labor and higher retirement ages. Additionally, collective wage bargaining, coupled with significantly lower inflation, has allowed households to recover lost real wage levels, although wage growth is projected to slow down moving forward.

Solid public finances with sustained surplus and reduced debt

In 2023, the government achieved a surplus of 3.3% of GDP, driven by robust tax revenues and lower-than-anticipated government consumption. By mid-2023, most measures to alleviate high energy prices were scaled back as expected. Government revenues have been strengthened by a large increase in income tax receipts thanks to the strong employment growth. This marked the sixth year running with a surplus. In 2024, subdued economic activity outside the pharmaceutical and energy sectors likely lead to increased social transfers and slightly reduced tax revenue. Additionally, higher public spending and investment, particularly in military expenditures, are projected to have decreased the surplus to +2.4% of GDP. Tax revenue may benefit from stronger pension yield taxes due to lower interest rates. Under current policies, the surplus is expected to decrease to +1.8% in 2025 and +1.6% in 2026, mainly due to automatic stabilizers. Meanwhile, the ongoing budget surplus has contributed to reducing public gross debt to approximately +30% of GDP. Along with a substantial balance in the government's account with the central bank, this affords significant flexibility in fiscal policy planning. Gross debt levels are projected to decrease to 31.3% in 2025 and 30.5% in 2026.

Favorable business environment

Denmark boasts one of the most favorable business environments globally, characterized by a competitive regulatory framework. The country features low barriers to entry, facilitating smooth cross-border trade and benefiting from a supportive fiscal climate. Additionally, Denmark is a leader in technological innovation and is committed to pioneering green investment policies.

The Danish political system is often praised for its transparency and efficiency. With one of the lowest degrees of corruption and a clear separation of powers, it is trusted by the population. The landscape is divided between the social democrats led by Mette Frederiksen, currently ruling in a bipartisan government with the Liberals and the Moderates, and the center-right. With generous and transparent welfare programs, a dynamic economy and a harsh stance towards immigration, the right has almost no territory left to grapple with. The letter point could, however, prove sensitive as the discrimination experienced by minorities could stoke social unrest.

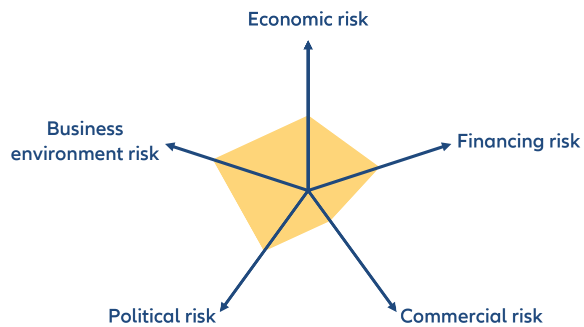
B2

Medium
risk for enterprises

Dominican Republic

Steady rhythms of resilience

GDP	USD 121.4bn (World ranking 62)
Population	11.23mn (World ranking 83)
Form of state	Presidential republic
Head of government	Luis Abinader (President)
Next elections	2028, Presidential



Strengths & weaknesses

- Consistently high GDP growth, averaging +5% since the 1970s
- Record-breaking tourism revenues, contributing 20% of GDP in 2024
- Strong political stability and a clear pro-market reform mandate

- Persistent high inequality and poverty rates limit market potential
- Dependence on oil imports and vulnerability to extreme weather events
- Cross-border instability with Haiti poses economic and social risks

Economic overview

Tourism and remittances drive a steady beat

The Dominican Republic has sustained robust economic growth for decades, with GDP growth averaging +5% since the 1970s. The post-pandemic recovery showcased the economy's resilience, with an impressive +12.3% growth in 2021 and +4.9% in 2022, supported by a booming services sector and expansionary fiscal policies. However, in 2023, global economic headwinds slowed growth to +2.3%. Despite this, tourism – contributing USD26bn, or 20% of GDP in 2024 amid a record-high 11mn arrivals – and remittances, which accounted for USD10.8bn (8.8% of GDP) mostly from the US, sustained domestic consumption.

Inflation stabilized at +4.8% in 2024, a significant reduction from the +8.8% peak in 2022. The Central Bank of the Dominican Republic (BCRD) adopted a more accommodative monetary stance, gradually lowering its benchmark interest rate from 8.5% to 6% in 2024. The rate may decrease further to 5% by 2025, slightly below the neutral level. Meanwhile, government efforts to expand liquidity and extend subsidies for fuel and electricity have mitigated inflationary pressures.

Real GDP growth is expected to decelerate mildly in 2025 and 2026 to +4.5% and +4%, respectively, due to reduced inputs from the US economy. However, tourism expansion, improved liquidity and a normalization of external conditions will sustain growth. Exports under free trade zones will also sustain growth as they reached USD8.6bn in 2024, up 6.9% from the previous year, with total exports setting a record of USD12.9bn.

Reforms chart a course through uncertainty

The Dominican Republic's medium-term economic prospects remain positive, bolstered by prudent fiscal and monetary policies. With public debt reaching 58% of GDP in 2024, fiscal discipline is expected to narrow the deficit to 3% by 2025. President Luis Abinader's administration is pursuing fiscal consolidation via incremental reforms to widen the tax base, reduce evasion and control expenditures. These efforts are critical after a comprehensive fiscal reform failed in 2024.

Investment is set to remain robust, with nearshoring activities driving foreign direct investment (FDI). However, the currency may face pressure from a narrower US interest-rate gap due to BCRD's easing. Extreme weather events present a significant downside risk. La Niña conditions, combined with rising water temperatures, increase the likelihood of hurricanes, threatening infrastructure and economic stability. Climate-related disasters already cost approximately 0.5% of GDP annually.

Additionally, Haiti's ongoing security crisis poses medium-term risks. The Dominican government maintains a partial border closure, critical for containing spillover violence. Haiti is also a key export destination; stabilization there could lead to normalization in 2025. However, prolonged instability would weigh on growth and bilateral trade.

A strong mandate meets enduring challenges

Political stability remains a cornerstone of the Dominican Republic's economic outlook. The May 2024 re-election of President Abinader and his Partido Revolucionario Moderno (PRM) with a congressional supermajority ensures continuity for pro-market reforms. High approval rates and a strong mandate provide an opportunity to advance labor, healthcare and education reforms, with a labor bill vote expected in early 2025.

The country's rank of 58th in the 2024 Index of Economic Freedom reflects strong business freedom but highlights issues with government integrity, as perceived corruption remains high. Sporadic protests tied to corruption scandals may arise but are unlikely to disrupt the overall stability. Persistent social challenges, including income inequality, crime and unreliable electricity supply, continue to constrain the business environment.

Cross-border relations with Haiti remain strained due to migration and security concerns. While President Abinader's decisive actions – such as sealing the border and deporting undocumented migrants – have garnered domestic support, they have also created tensions with the US, the Dominican Republic's largest trade partner. Resolving these issues will be crucial for maintaining strong diplomatic ties and sustaining economic growth.

Despite these risks, the Dominican Republic's stable political landscape and targeted reforms position it as a resilient investment destination, capable of navigating challenges in the years ahead.

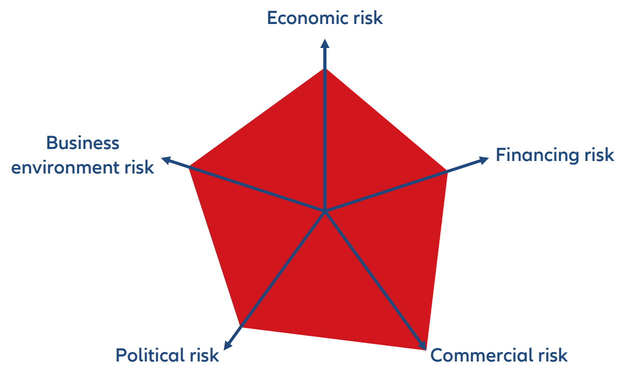
C4

High
risk for enterprises

Ecuador

The fiscal pasillo narrows again

GDP	USD118.8bn (World ranking 63)
Population	18.2mn (World ranking 67)
Form of state	Presidential republic
Head of government	Daniel Noboa (President)
Next elections	2025, Presidential and legislative



Strengths & weaknesses

- Full dollarization provides monetary stability
- Growing remittance inflows, supporting household consumption
- Significant hydrocarbon and renewable energy potential

- Structural fiscal and liquidity constraints
- High levels of violence and political instability
- Dependence on oil exports and vulnerability to climate change

Economic overview

Oil, climate and budget constraints

Ecuador's economic performance in recent years has reflected the country's vulnerabilities and resilience. A severe recession in 2020 saw GDP contract by -7.8% amid pandemic-induced demand shocks in hydrocarbons. By late 2023, the economy had already returned to pre-pandemic levels but remained under pressure from structural inefficiencies and external shocks. Growth fell again below the regional average in 2023 and stalled in 2024. It is set to rebound modestly to +1.2% in 2025.

Inflation trends reveal contrasting dynamics. While consumer prices rose only +0.5% year-over-year in 2024, producer prices spiked by +7.5%. If businesses fail to pass rising costs to consumers, insolvencies may proliferate in 2025. Dollarization, a double-edged sword, has maintained historically low inflation but limits monetary policy tools. Liquidity challenges persist, with international reserves ending 2024 at USD6.9bn – covering less than three months of imports – while remittances, totaling USD4.7bn in the first nine months of 2024, have contributed to keep the economy afloat.

The country's acute reliance on hydroelectric energy was underscored by a historic drought in 2024, which disrupted power supply and highlighted the need for infrastructure investment. Government efforts to reactivate thermoelectric systems, including a USD700mn initiative, have yet to stabilize the energy grid. The depletion of the Amistad gas field and regulatory barriers further complicate energy security, necessitating liquefied natural gas imports and deterring potential investors in renewable energy.

A fiscal dilemma on the horizon for late 2025

Ecuador's fiscal space remains very limited, given ongoing current expenses to face climate-related stresses, the emergence of potential additional constraints to oil production and the impact of the ongoing security crisis and wildfires on tourism receipts. The market remains broadly illiquid due to successive debt defaults, high rates of informal employment and a rise in violence linked to gangs, organized crime and political crises. The full dollarization of the economy since 2000 has constrained fiscal flexibility, as evidenced by reliance on deposit drawdowns and domestic arrears to finance a USD3.7bn fiscal deficit in 2023. Fiscal consolidation programs supported by the IMF have improved debt metrics, with the public debt-to-GDP ratio falling to 55% in 2023 following a debt-for-nature swap that reduced international bond obligations by USD1bn. The government is bound to fiscal consolidation until late 2025 when the program with the IMF expires. The fiscal deficit is projected to average 2% of GDP between 2024 and 2028, but this will largely depend on the collaboration with the IMF.

The prominence of commodities also remains a double-edged sword. Although oil accounts for nearly one-third of exports, the ban on drilling in the Yasuní field and mining in Chocó Andino has eroded potential revenue. Agribusiness is also largely dependent on weather conditions, with banana trade accounting for 2% of GDP.

Foreign investment potential is significant, particularly in energy. Ecuador's hydrocarbon reserves and renewable opportunities could attract substantial capital if regulatory reforms and bureaucratic inefficiencies are addressed. However, persistent social opposition to privatization and liberalization efforts complicates progress, particularly in the legislature, which is likely to remain fragmented.

Security and stability challenges amid economic strides

Ecuador's political and social environment presents critical risks to its economic outlook. Despite gaining 11 places in the 2024 Heritage Foundation's Index of Economic Freedom, Ecuador ranks below the regional average, reflecting poor rule of law, government integrity and judicial effectiveness. The homicide rate, though reduced to 40 per 100,000 people in 2024 from 47 in 2023, remains alarmingly high. The entrenchment of organized crime, exemplified by prison riots and armed attacks, continues to destabilize the nation.

President Noboa's security measures, including militarization and the construction of maximum-security prisons, echo policies from neighboring countries but have drawn criticism from civil society over potential human rights abuses. Meanwhile, international relations remain fraught, with tensions over border energy exchanges and disputes in the Pacific region. Suspension of electricity imports from Colombia during droughts further underscores the need for domestic energy resilience and heightens security risks.

Political uncertainty adds to the social and economic framework. The general elections in February 2025 could exacerbate existing fragmentation in the legislature, stalling critical reforms. The government's ability to deliver on infrastructure investment, fiscal stabilization and institutional strengthening will be pivotal in mitigating contract frustration risks and attracting foreign capital. Meanwhile, diplomatic efforts and trade partnerships remain essential to offset vulnerabilities from commodity dependence.

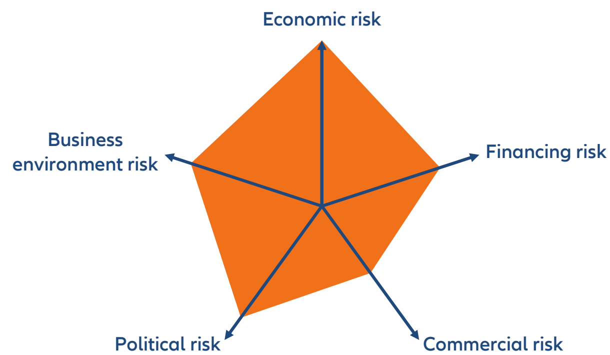
D3

Sensitive
risk for enterprises

Egypt

A military-led economy eager for reform

GDP	USD395.9bn (World ranking 38
Population	113mn (World ranking 14)
Form of state	Semi-presidential republic
Head of government	Abdel Fattah el-Sisi (President)
Next elections	2025, Legislative



Strengths & weaknesses

- High economic growth rates, despite structural challenges, driven by domestic and foreign investments in infrastructure and construction.
- Efforts made to diversify financial channels and attract international investments, including strategic moves such as privatization plans and exploring alternative funding sources such as Panda bonds.
- Currency depreciation presents opportunities for Egyptian companies to compete on the global stage.

- High inflation rates, particularly for food prices, pose a significant challenge to the economy, impacting purchasing power and creating difficulties in managing foreign exchange reserves.
- Potential for social unrest, driven by issues such as youth unemployment, currency depreciation and geopolitical tensions, poses a risk to political stability.
- Challenges in accessing diverse funding sources due to high global interest rates, large credit default swap spreads and interruptions in IMF programs, which could strain financial resilience and ultimately lead to a sovereign default.

Economic overview

Sustainable economic growth but challenges ahead

The Egyptian economy is set to accelerate to +3.5% GDP growth in 2025 and +4.2% in 2026, an improvement after a slow 2024 due to the carry-overs of the currency crisis, impacted by the wars on all of its ground borders, including the revenue drop from the Suez Canal levies. This is in the context of high population growth and slow economic dynamism due to the high presence of the military in the economy. Yet, reform momentum and increased investment (domestic and foreign) in infrastructure, construction and other profitable sectors from the liquid-rich UAE and Saudi Arabia present opportunities to dynamize the economy.

In March 2024, the free floating of the Egyptian pound, agreed with the IMF as part of its concessional loan, depreciated the currency by almost 40%. Subsequently, inflation soared above 40% y/y. Since then, CPI has come down to 24% (as of November 2024). We expect inflation to remain a concern throughout 2025, ending the year at 16.2%, followed by 11.2% in 2026. Maintaining the free-floating mechanism remains a high priority for the IMF and investors, who fear a return to a managed exchange, taking Egypt back to multiple currency markets. As painful as the fall of the Egyptian pound has been for the purchasing power of Egyptians, it has also translated into higher competitiveness for Egyptian companies.

With liquidity issues at the central bank mostly behind, thanks to a USD35bn transfer from the UAE converted into Egyptian pounds, and an IMF program providing up to USD8bn in concessional loans, Egypt's main challenge is now achieving sustainable mid- and long-term economic growth. Under the 2030 plan, Al-Sisi's government has taken several steps to maintain the inflow of FX and promote domestic activity. A growing tourism industry, foreign investments in newly privatized firms and the selling real estate in the Mediterranean and Red Sea coasts should keep the FX coming in. In parallel, selected industries have received significant public and private investments, including agriculture, energy and chemical industries, as well as manufacturing.

Finances to only turn the page in the mid-term

Egypt's external position is expected to slightly improve to -5.0% in 2025, after -5.5% in 2024, one of the worst years on record, caused by the decrease of revenues from the Suez Canal and a significant collapse of natural gas exports, which forced the country to import gas. While the Suez Canal will only be back to regular traffic once the conflict in the Levant is resolved, pressure on the natural gas export market seems to have begun easing and it is expected that exports will go back to normal by June 2025. Hence, Egypt current account will return closer to zero but only in 2026. In fact, the Egyptian leadership considers natural gas, together with renewables, among the top priorities of the country's mid- and long-term development.

The fiscal topic remains a top concern for international lenders. In 2024, Egypt's fiscal balance went down to -10% of GDP and it is expected to remain there in 2025. Government revenues continued to decrease to 16.6% in 2024, from the historical average of 22% of GDP, while expenditure increased, driven by higher energy and food subsidies, which are not expected to decline. To shore up revenue, the Egyptian state together with international lenders designed a privatization plan to partially auction 35 state/military-owned companies on the Cairo Stock Exchange. In December 2024, a first offering of Egypt's United Bank went ahead, raising almost USD100mn. The companies expected to be publicly offered in 2025 include banks and chemical and industrial enterprises. Currently, military, and state-owned business interests capture an estimated 40% of GDP. Given the intertwined interest of the government and the military, it is uncertain that the full privatization plan will go ahead, even if PM Madbouly gave the green light for 10 new firms to go public in late 2024.

Part of the revenue collected from the SOE's public offering is expected to support Egypt's debt repayment in the next few years. In late 2024, Egypt's total public debt stood at 91% of GDP and it is expected to decrease in the mid-term. During the first half of 2025, Egypt faces high levels of debt repayments, both domestic and external. Hence, it has been reported that Egypt is exploring an issuance of a Eurobond of up to USD3bn; this would be the first time that Cairo taps international markets since 2021.

Ambitious plans in a difficult geopolitical context

Egypt's main challenge remains sustainable growth in the mid and long term to provide employment and prosperity to a population projected to almost double by 2050. Cairo is expected to grow by 10mn people in the next 25 years. Under the current 2030 plan, the Egyptian leadership has defined energy, both renewable and natural gas, as well as agriculture and manufacturing as the top economic drivers. Regarding energy, Egypt has been working with European partners to become a regional energy hub. A gas pipeline linking Greece to Egypt is under study and could be ready by 2030. An agreement with Turkey was also reached in 2024 to supply the country with higher amounts of LNG. In parallel, Egypt has also collaborated with the UAE to obtain investments in its renewable energy industry, mainly to supply European markets. Italy and Egypt are currently studying a potential electricity interconnector to provide up to 3GWs to the peninsula.

In the manufacturing sector, Egypt has heavily invested in military-controlled corporates in the textile industry to modernize its weaving and spinning industry in northern Cairo to increase export output. Egypt is an important exporter of clothing to the US, with whom it enjoys a no-tariff regime for its knitting industry. In the agriculture sector, Egypt is undertaking an ambitious plan to reclaim 6mn square meters of land from the dessert to increase food production in the Nile basin, an initiative that faces significant challenges, given rising temperatures and ongoing water disputes with upstream Nile basin neighbors.

The Egyptian president maintains tight control over institutions, backed by the army, but the autocratic governing system poses an underlying risk of social unrest. Going forward, rising social discontent related to high youth unemployment, low purchasing power, the currency depreciation and disagreements with the leadership might trigger revolts seeking institutional change. Security risks related to latent conflict in the Levant, Libya, Sudan and the horn of Africa also weigh on the downside.

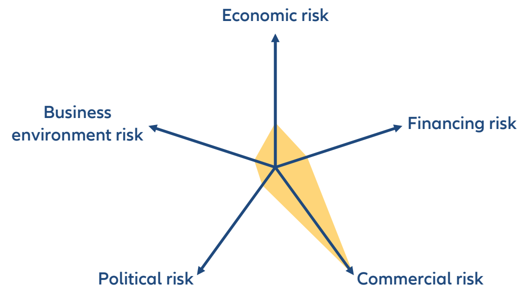
Estonia

A2

Medium
risk for enterprises

Growth on the starting block as fundamentals remain strong

GDP	USD40.7bn (World ranking 100)
Population	1.4mn (World ranking 155)
Form of state	Parliamentary Republic
Head of government	Kristen Michal (Prime Minister)
Next elections	2026, Presidential



Strengths & weaknesses

- Low systemic political risk
- Good regional and international relations (except with Russia), EU and NATO membership
- One of the most open and liberal economies in the world
- Eurozone membership provides for low transfer and convertibility risk
- Healthy public finances
- Strong business environment, supported by stable institutions and an independent judiciary

- High gross external debt
- Unfavorable trade structure, with a high dependence on a few EU countries
- Energy import dependence on Russia (prior to the war in Ukraine)

Economic overview

Growth steers towards recovery yet inflation remains high

Estonia's economic outlook has sharply deteriorated as a result of the war in Ukraine. This is mainly due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 8% of Estonia's exports, 10% of its imports and, notably, 46% of its natural gas imports). Following a strong post-Covid-19 rebound with +7.1% real GDP growth in 2021, economic activity in Estonia cooled rapidly in 2022 amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. In q/q terms, real GDP contracted for eight consecutive quarters from Q2 2022 until Q1 2024 and was flat in Q2 2024, taking the economy into full-year recession in 2023 (-3%). Looking ahead, we expect Estonia to exit recession in 2025, in part due to base effects and in part thanks to an eventual modest recovery of trade with Western Europe. Government fiscal stimulus and EU fund inflows should help. Subdued private consumption due to forthcoming tax hikes over the next two years and weak investment will challenge Estonia's economy, but mild export growth and easier monetary policy may foster recovery. We project +1.6% growth in 2025 and 2.3% in 2026.

Inflationary pressures are forecast to remain elevated in 2025-2026. Consumer price inflation rose to double digits in late 2021 and remained there until mid-2023 (peaking at 25% y/y in August 2022), driven by surging energy and food prices as well as disrupted supply chains. Since then, it fell to 3.5% in 2024 – thanks to base effects, moderated energy prices and weak domestic demand. Services inflation has risen on the back of significant wage increases and is expected to remain elevated. We forecast headline inflation to remain above the ECB's 2% inflation target for most of 2025-2026. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Estonia.

Public and external finances have weakened but remain unproblematic

Estonia's public finances will remain manageable despite strong fiscal stimulus measures taken in 2020-2021 to mitigate the economic impact of the Covid-19 crisis and renewed, albeit more moderate, stimulus to mitigate the impact of the recession in 2022-2024. The government posted fiscal deficits of -5.4% of GDP in 2020, -2.5% in 2021, -1.0% in 2022 and -3.4% in 2023. We forecast the annual shortfalls to remain in the range of -3% to -3.5% in 2024-2026, driven by rising wages and pensions as well as new permanent spending for defense, education and child benefits. As a result, public debt increased from just 8.5% of GDP in 2019 to almost 20% in 2023 and is projected to rise further to more than 25% by 2026. However, this will still be very low compared to peers or the Eurozone average and in fact means that Estonia should have more room for fiscal leeway if needed.

Estonia's external finances should also remain manageable. Following seven years of annual surpluses from 2013 to 2019, the current account turned into a deficit equivalent to -2.5% of GDP in 2020, mainly due to a considerable deterioration in the services surplus. The annual shortfalls widened to almost -4.0% of GDP in 2021-2022, reflecting sharply higher prices for energy and food imports. In 2023, the annual deficit narrowed to -1.7% of GDP as global energy prices moderated and Estonia's services surplus improved again. These trends continued in 2024, and we forecast the annual deficits to narrow somewhat further in 2025-2026.

Gross external debt is elevated in Estonia, having risen from 74% of GDP in 2019 to around 92% in mid-2024 in the wake of the Covid-19 crisis and the impact of the war in Ukraine. We forecast the ratio to remain above 90% in the next few years amid weak economic growth potential. Meanwhile, short-term external debt as a share of gross debt fell to 29% as of June 2024, after it had increased from just 28% in 2018 to around 40% in mid-2022. Overall, any concern about the gross external debt position is mitigated by the fact that Estonia remains a net external creditor, even though that position declined somewhat in the first half of 2024. In June 2024, net external assets accounted for around 22% of GDP.

Strong business environment and moderate political risk

The business environment for corporates in Estonia is very strong. The World Bank's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. Likewise, the Heritage Foundation's annual Index of Economic Freedom surveys have put Estonia in the top ten out of around 180 economies in recent years (rank 6 in 2024), reflecting very strong scores with regard to property rights, judicial effectiveness, government integrity, tax burden, trade freedom and investment freedom; only labor freedom is scored below average. With regard to environmental sustainability, Estonia scores somewhat less favorably, owing to a low level of renewable electricity output and a moderate recycling rate. However, the country does well with regard to energy intensity, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. Moreover, it has significantly improved in terms of CO2 emissions in recent years. In all, Estonia has climbed to rank 57 out of 210 economies in our proprietary Environmental Sustainability Index, up from rank 70 in 2022.

Overall systemic political risk has deteriorated somewhat from a previously low level because geopolitical risk in the region has increased with the war in Ukraine. Estonia is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. However, there is a risk that social tensions are emerging from the sizeable Russian-speaking minority in Estonia.

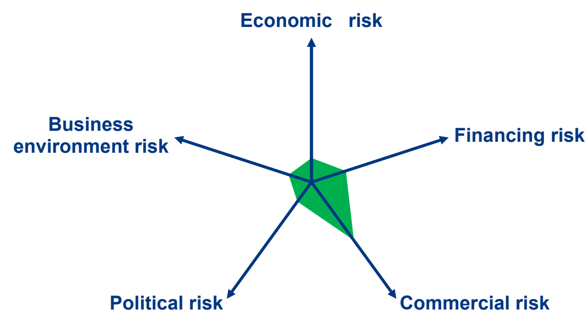
AA1

Low
risk for enterprises

Finland

End of the economic slide

GDP	USD300.2bn (World ranking 47)
Population	5.6mn (World ranking 116)
Form of state	Parliamentary republic
Head of government	Petteri Orpo (Prime Minister)
Next elections	2027, Legislative



Strengths & weaknesses

- Attractive business environment
- High R&D spending
- Highly-skilled workforce
- Robust welfare state

- Exposure to Russia still high
- High private debt, notably linked to housing loans
- High labor costs
- Weak demographics

Economic overview

Slow recovery

Finland has faced a period of modest growth over the past decade, averaging just +0.9%. However, the economy saw a rebound in 2021 with a growth rate of +3.0%, followed by +2.1% in 2022, largely driven by consumer spending fueled by the release of excess savings accumulated during the Covid-19 pandemic. In 2023, Finland slipped into recession, recording a decline of -1.2%. This economic weakness was widespread, influenced by factors such as inflation eroding purchasing power, tighter financing conditions and lackluster performance in export markets. Yet, 2024 brought some encouraging signs even though growth is still fairly subdued. A decrease in inflation and interest rates has bolstered consumer confidence, although it remains relatively fragile, leading to still stagnant private consumption. The construction sector continues to struggle; however, lower interest rates have gradually revitalized housing sales, and the decline in house prices seems to have stabilized. While the labor market has been on a downward trend, there are expectations for improvement in 2025 as economic growth begins to pick up. Overall, the outlook for Finland's economy is becoming more optimistic as international trade is expected to strengthen in the coming years. However, rising geopolitical tensions pose a potential threat to this positive forecast. Growth is anticipated to accelerate to +1.3% in 2025 and +1.5% in 2026, driven by increased consumer spending and revived investment spending.

Inflation reached +7.1% in 2022, with energy and food prices being the main drivers. After reaching its peak in the last quarter of 2022, inflation decelerated to +6.3% in 2023. There has been a broad-based drop and inflation has been the lowest in the Eurozone in 2024. Annual inflation in goods and food fell to nearly zero and only services prices increased in 2024. The price of electricity has fallen throughout. Since inflationary pressures are low, inflation is expected to remain around +2% in the coming years, despite the price increase resulting from the VAT hike.

Persistent deficits in public finances

Finland has a history of moderate fiscal deficits, typically around -3% of GDP over the past decade. However, public finances have deteriorated significantly, dropping from -0.4% in 2022 to -2.7% in 2023, bolstered by higher-than-expected inflation, increased social security contributions and the gradual lifting of pandemic measures. The general government deficit is projected to widen further to -4.0% of GDP in 2024. In response, the Finnish government plans substantial cuts to public expenditure and will implement increases in value-added tax and other indirect taxes starting in 2025 to enhance revenue. Despite these efforts, ongoing economic weakness and rising interest payments on government debt complicate the task of rebalancing public finances. While the deficit is expected to gradually decline to -3.7%in 2025 and -3.3% by 2026, public debt will continue to rise as expenditures remain significantly higher than revenues. In 2023, the debt-to-GDP ratio was recorded at 77.1%, indicating a resumption of an upward trend. After a sharp increase in 2024 due to sluggish GDP growth, a slight slowdown in debt growth is expected at 84.6% in 2025, followed by a further increase to 85.9% in 2026. As a member of the Eurozone, Finland's monetary policy is influenced by decisions made by the ECB. .

Innovative business environment

Finland's political stability, low corruption levels and transparent legal system contribute to a secure business environment that fosters growth and development. Its strong inclination towards innovation is evident in its advanced digital infrastructure, which reflects the country's commitment to progress. As a global leader in green technology and data-driven solutions, Finland leverages its expertise and innovative approach to excel in these fields, positioning itself at the forefront of sustainable advancements.

Like in other Nordic countries, the Finnish political system is regarded as a model of transparency and efficiency. The country is ruled by the liberal conservative National Coalition in a right-wing coalition with the Finns Party, The Swedish People's Party and the Christian Democrats under Prime Minister Petteri Orpo since 2023. Political opposition is more often constructive than seen elsewhere.

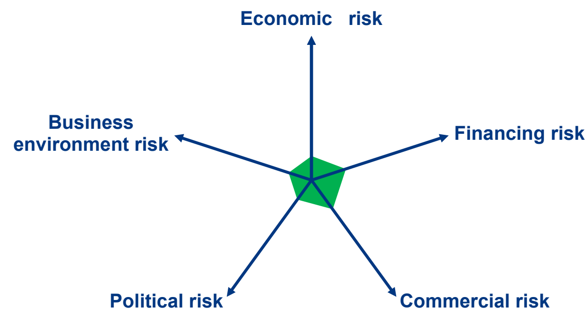
AA1

Low
risk for enterprises

France

Contending with political instability

GDP	USD3030.9bn (World ranking 7)
Population	68.2mn (World ranking 21)
Form of state	Semi-presidential republic
Head of government	Emmanuel Macron (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- High quality infrastructure (eg. transport)
- Many international corporate giants and growing presence of technological start-ups ('French tech')
- Diversified economy
- Numerous nuclear plants that make the country less vulnerable to energy shortages
- Qualified engineers and strong export-oriented services

- Low employment rate among youth and seniors
- Weakening productivity growth and deteriorating proficiency levels
- Lack of large SMEs that can bear the sunk costs associated with innovation and exports
- Prone to social disruption and unrest
- Elevated level of public spending and questionable efficiency
- Elevaed tax burden on labor and corporate

Economic overview

Political gridlocks take their toll

With no party or coalition securing an absolute majority in the July 2024 elections, the divided National Assembly has increased uncertainty for the economy. For instance, the government of Michel Barnier was taken down in end-2024 by a no confidence vote over the budget. The government had to pass a "Special Law" to keep the state functioning and allow Social Security payments to be processed. Uncertainty over potential tax hikes and spending cuts are hurting corporate sentiment, with many businesses and households delaying or cancelling investment plans. Moreover, financial conditions are a bit tighter than they would have been under a no-election scenario amid a rising interest rate spread of French bonds relative to German bonds. Tighter financial conditions are visible in the housing market where mortgage rates, which are fixed on French government bond yields, have barely decreased, postponing the recovery in housing transactions and residential construction.

In this environment, we expect French GDP growth to slow down to a meagre +0.7% in 2025. A weak German economy, as well as expected increased in US tariffs, will add headwinds to the French economy. New export orders have been weak for the past few months – a reflection of weak overseas demand, increasing Chinese competition and weak consumer goods spending – and the industrial sector is struggling. Against this backdrop, loosening monetary policy will provide some relief to borrowers by lowering the cost of funding and, potentially, reduce the incentives to save for households (French households have a historically high savings rate), provided that the political situation settles down. Low inflation and a resilient – though easing – labor market should also provide some welcome tailwinds to consumer spending.

Corporate bankruptcies have reached historically high levels in 2024, with most sectors feeling the pinch. May companies are struggling with a heavy debt load, rising interest expenses and changing consumer spending patterns. Lower growth and still tight, though easing, financial conditions should keep corporate bankruptcies elevated in 2025.

Public sector vulnerabilities

The public sector's balance sheet is very strained. French public finances bore the brunt of the dual shocks of the pandemic and the energy crisis: public money has been poorly targeted during these crisis (eg. the generous tariff shield benefited all households irrespective of their income). Furthermore, successive French governments under President Macron have lowered the tax take but without any corresponding decrease in spending. Social security spending has grown particularly rapidly over recent years despite the flagship pension reform of 2023: while the retirement age is being raised gradually, the bill contains many carve-outs and it increases state pensions for low-income households.

The lack of an absolute majority in the National Assembly means that the government is struggling to find substantial savings that most MPs can agree on. The original draft bill of the Barnier government planned over 1.2% GDP of fiscal consolidation in 2025 – heavily skewed towards tax hikes rather than spending restraint. The new Bayrou government will likely deliver less, probably to the tune of 0.6-0.7% GDP. Lower growth and a smaller fiscal adjustment mean that the deficit is likely to remain very high through 2026.

Improvement in the labor market but productivity performance a weakness

France's labor market has held up remarkably well since the pandemic and the structural unemployment rate has decreased over the past few years. The labor participation rate picked up sharply to reach its highest recorded level. The government's ambitious labor market policies – such as changes to the unemployment benefit insurance scheme and subsidies for apprenticeships and vocational training – have helped to improve a long-standing French weakness. However, much remains to be done to increase the French employment rate close to the levels of Northen European countries. Long-lasting structural issues (e.g., the lack of qualified workers, skill mismatches and little incentives to start work) are likely to prevent the unemployment rate from dropping significantly below 7% in the coming years. Political infighting could also reduce the momentum for further reforms.

France has fared very poorly in terms of productivity performance in recent years. The continuous drop in school proficiency for French students and the poor skills of the labor force are a big headwind for future productivity growth. Also, excessive regulation and ever-increasing public spending have likely increasingly weighed on productivity.

Export performance is an area where France continues to underperform. Export performance has been held back by a wide range of structural issues. The government has rolled out ambitious industrial subsidies to try to shore up manufacturing and exports but incentives for corporates to restore production in a country with low potential growth are weak. To boost the post-Covid-19 export recovery, the challenging sectoral specialization (e.g. aircraft and automobiles), poor price and quality competitiveness and the lack of qualified (technical) workers are amongst the chief issues to address. .

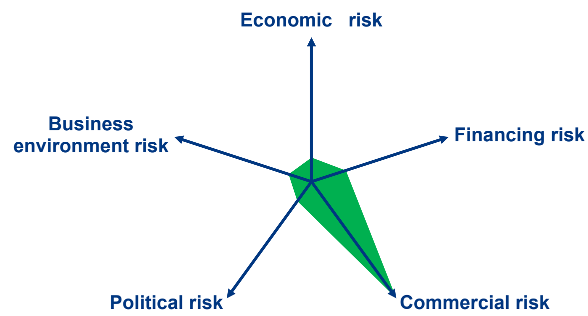
AA1

Low
risk for enterprises

Germany

Make it or brake it

GDP	USD 4456.1bn (World ranking 3)
Population	84.5mn (World ranking 19)
Form of state	Federal Republic
Head of government	Olaf Scholz (Chancellor)
Next elections	2025, Legislative



Strengths & weaknesses

- Solid public finances
- Strong industrial base
- Low structural unemployment
- Well-diversified export sector (products & trade partners)
- Low systemic political risk

- Aging population
- Skilled-labor shortage
- Dependence on exports
- Dominance of the automotive sector
- Subdued medium-term growth prospects due to weak investment

Economic overview

Economic struggles with persistent headwinds

After a period of high political fragmentation and uncertainty, Germany urgently needs greater stability and reduced uncertainty to restore its economic footing. After contracting in 2023 by -0.1%, the country's economy faced challenging conditions again in 2024 with a drop of -0.2%. The upcoming elections and the threat of a trade war with an increasingly protectionist US could halve the projected GDP growth in 2025 to just +0.4%, while also weighing on GDP growth for 2026 (+0.9%). The German economy requires reorientation and while a new government is expected by mid-2025, it will face similar challenges as its predecessors (i.e., increased global fragmentation, protectionism that threatens its export-driven model and competition – especially from China – along with increased energy costs and pressure on the manufacturing sector). The next German government must implement substantial structural reforms to improve economic prospects and tackle low productivity, employing a combined strategy of increased spending alongside competitiveness-focused reforms, although significant fiscal loosening seems unlikely even after the elections.

To address pressing budget gaps and invest in the green transformation, infrastructure and innovation, Germany needs a comprehensive Agenda 2030 that unites political and industrial stakeholders. Additionally, demographic reforms and tax changes are essential for boosting competitiveness. In an increasingly fragmented world, Germany needs to transform its export-oriented economic model, embracing more European solutions.

German insolvencies remain on the rise since the reinstatement of the insolvency laws, which had been temporarily suspended during the Covid-19 pandemic and the energy shock crisis due to Russia's invasion of Ukraine and more stringent financing conditions. The sectors facing the greatest challenges include trade, hospitality, professional services and construction. A slight easing is anticipated in 2025 and insolvency rates are projected to decrease by -3.9% in 2026, bringing the total down to 22,100 cases.

Similarly to other Eurozone economies, inflation pressures in Germany are easing in the energy and food sectors, despite some short-term volatility. However, downside risks remain, particularly from core inflation, with services inflation proving to be especially persistent. In 2025, inflation will only see a slight decline to 2.1%. This is attributed to a temporary increase in food prices and gradually easing price pressures on services. However, from 2026 onwards, Germany's inflation rate is expected to gradually return to 2%. This is largely due to two key factors: the earlier monetary policy tightening and decreasing price pressures from labor costs. Wage growth, which is particularly significant for the labor-intensive services sector, surged sharply to +5.9% in 2023. For 2025, we project wages to rise by +2.8%, followed by +2.4% in 2026.

Austerity budget planning at odds with economic stimulus

Despite facing multiple crises, Germany is committed to reducing its deficit. In 2023, the deficit ratio was -2.2%, while the debt-to-GDP ratio was 63.6%, with expectations for further decline under the current debt brake. However, a federal court ruling in the fall of 2023 required the government to implement cuts and reallocate resources. In November 2024, the German government coalition collapsed due to disagreements over addressing the funding gap in the 2025 budget and broader economic directions. Consequently, Germany will operate on an interim 2025 budget until a new government is established (expected by mid-2025) and agrees on a 2025 budget. However, the ongoing weak economy, along with rising pension and healthcare costs, will pose significant challenges in reaching budget agreements that comply with the debt brake. Simultaneously, there is increasing urgency to stimulate the economy and support the green transformation, particularly given the uncertain future of the Climate and Transformation Fund (KTF) after 2025. Current expenditures on climate protection are already insufficient to meet established targets.

Looking ahead, only a moderate reform of the debt brake is expected from a new government. Therefore, in the coming years, the fiscal deficit is expected to decrease to 2.2% of GDP from 2.6% in 2023, with corresponding debt-to-GDP levels between 61.8% to 62.3% in 2025 and 60.8% to 61.6% in 2026, depending on the deficit ceiling.

Stable business environment alongside current weakness

Germany offers a dynamic business environment, underpinned by a strong industrial base and a highly skilled workforce. Renowned for its stability and commitment to sustainability, the country faces challenges such as regulatory complexities and rising energy costs that necessitate adaptation and innovation for businesses to stay competitive. Additionally, uneven performance across different sectors and regulatory areas presents obstacles. In response, new initiatives are being implemented to enhance regulatory frameworks, making them more conducive to competition while reducing administrative burdens. The current initiatives aimed at reducing bureaucracy further enhance a vibrant business landscape.

Following the collapse of the German coalition, snap elections are set for February 2025. Germany is likely to have a coalition government in place by mid-2025. This coalition may prove to be more stable and functional than the outgoing one. However, it will still encounter similar constraints and challenges, particularly in light of a more protectionist US administration.

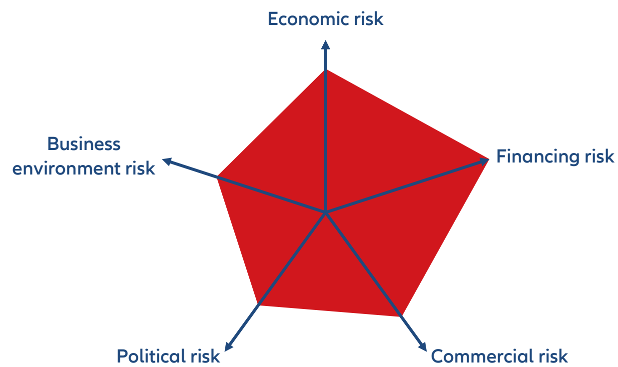
C4

High
risk for enterprises

Ghana

Commodity exports and bailout pulling Ghana out of default

GDP	USD76.4bn (World ranking 81)
Population	34.1mn (World ranking 47)
Form of state	Constitutional Democracy
Head of government	John Mahama (President)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Established track record of good governance, with a functioning democratic system and peaceful transfer of power
- Diverse and rich export basket provides a hedge against price fluctuations by balancing risk
- Market-oriented policy framework and overall positive relations with international financial institutions

- Effects of the selective default in late 2022 and the relative restructuring have alienated businesses
- High exposure to sell-off pressures in emerging economies with periodic risk of currency depreciation, FX reserve depletion and payment crisis
- Capability to manage oil wealth is yet to be tested as well as spillover effects from prolonged regional instability

Economic overview

Growth picks up but vulnerabilities remain

Since defaulting on its debt in 2022, Ghana's economic growth has been timid. 2024 showed the first signs of a rebound, with GDP growth picking up to an estimated +4%, and in 2025 it is projected to reach +4.9%. In 2024, growth was powered by the extractive sector, growing at an annual rate of +7%, mainly driven by the simultaneous price rally of two of its most exported goods: gold and cocoa. Gold prices increased by +23%, while cocoa prices rose by +45%, though both commodities have slightly fallen since their peak in late 2024. Gold is Ghana's main export, and Ghana is the second-largest producer of the commodity in the African continent. Oil, which is Ghana second-largest export and only a 15-year-old industry, has enjoyed a period of relatively high prices, but oil markets remain very vulnerable to geopolitics, which could bring further instability to the oil revenues that are highly beneficial to Ghana. Cocoa is Ghana's third-largest export and crucial, given the large amount of employment it represents. Ghana is the world's second-largest exporter of cocoa. However, in the most recent harvesting season, cocoa production reached the lowest level in decades due to temperature variations and tree diseases. Although dependence on multiple commodities serves as a hedge against potential price collapses, it also highlights Ghana's ongoing vulnerabilities to fluctuations in global markets.

During 2024, Ghana experienced decreasing but high levels of inflation, an estimated annual average at 39% in 2024. It is expected to average 22% in 2025. With a policy rate at 27%, the Bank of Ghana (BoG) is expected to start easing in 2025. In parallel to the price crisis, the Ghanian cedi experienced a 27% depreciation in the first 11 months of 2024, but has since appreciated by almost 10%; as of 01 January 2025, the cedi stood at 0.068 USD. The depreciation path followed the political uncertainty of the December 2024 Presidential election that was won by former PM and main opposition leader John Mahama. The peaceful development of the elections and transition of power provided further confidence in the cedi. The elections took place amidst high levels of widespread public dissatisfaction, given the price and currency crisis and the IMF program that is reducing energy subsidies to consolidate public finances.

As a pre-IMF program requirement, the restructuring of Ghana's foreign debt provided a sustainable repayment path. But 2025 will see an important increase of debt servicing to 14.3% of GDP, mainly due to the increase of repayments to external creditors from 3.2% to 5% of GDP. Under current IMF forecasting, Ghana is expected to reduce its public debt by 5% in 2025 to 74% of GDP, and an ambitious 9% to 63% of GDP in 2026. Ghana's liquidity issues remain as the debt service-to-revenue ratio remains among the highest in the African continent and the financing gap remains at 2% of GDP.

Fiscal stance to remain turbulent but relief ahead

The outlook for Ghana's fiscal stance started to brighten in 2024 as it achieved a positive primary balance at .5% of GDP. It is projected to further grow to 1.5% in 2025. Yet the overall balance, which includes interest payments, remained at -3.5% in 2024 and is projected at -2.7% in 2025. Revenue is projected to increase moving forward as the government is aiming to increase its revenue base via indirect taxes; expenditure is also expected to decline. The new Mahama Administration has assured the continuation of IMF commitments and fiscal consolidation.

Driven by the increase of global commodity prices of cocoa and gold, Ghana's current account saw a positive balance of 1% of GDP; in 2025, higher imports, as well as increased FX via higher foreign direct investments should balance out and lower the current account to 0% of GDP. The increase of Ghana's export commodity prices also supported the build-up of higher levels of reserves, which stood at 2.3 months of imports at the end of 2024 and should increase to 2.8 months by end-2025.

To enhance the soundness of the banking sector, the Ghanian government began making progress towards the recapitalization of several highly indebted banks. Yet, Ghana's banking system remains in risk as NPLs continued to accelerate during the first half of 2024, negatively impacted by the currency decline.

A smooth political transition paves the way for critical reforms

The new administration has the potential to drive short-term grow by addressing two key issues: first, restructuring the Ghanian Cocoa Board to operate solely as a regulator, rather than a competitor to cocoa farmers. This could alleviate the strain on farmers due to low production. Second, fixing the country's state power company is crucial. The company faces substantial power shortages and owes billions of dollars to private energy suppliers, partly due to unpaid bills from its clients. In spring 2024, the company even cut electricity to the Parliament building due to unpaid bills, highlighting the severity of the issue. Additionally, a significant boost to growth could arise as two new gold mines open up in the second half of 2025, expected to add 600,000 ounces of gold annually, increasing revenues to state coffers.

In terms of reforms to boost non-commodity sectors, the new administration has yet to deliver an economic plan besides promises of job creation. Yet, given the depreciation of the Ghanian cedi and an improvement of trade perspectives under the recently ratified African Continental Free Trade Agreement, Ghanian companies could boost their growth by aiming to serve markets across Africa, as well as the EU and the UK, given the favorable trade arrangement in place between the partners. Finally, given strong commercial ties with Gulf countries, especially gold exports to the UAE, Ghana could benefit by opening its economy and use Gulf states' high liquidity as a catalyst for strategic industry and agricultural investment.

Ghana's performance in terms of civil liberties, rights and political stability exceeds that of most African peers. Independent poll observers generally deem general elections in Ghana to be free and fair. The high electoral turnout rate (60% in the 2024 presidential election) testifies to the state's credibility and to the country's democratic achievements. Ghana's strong record of accomplishment in democracy and rule of law is expected to prevent any serious social disorder, although the post-pandemic rises in unemployment and poverty, along with rising food and energy prices, have spurred discontent in recent years. Poor working conditions in the public sector and a lack of economic possibilities for young people are eroding trust in institutions. Future demonstrations may be temporarily disruptive but mostly peaceful and concentrated in urban centers.

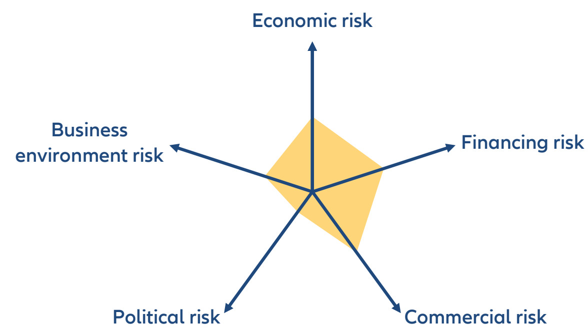
BB2

Medium
risk for enterprises

Greece

A still-favorable growth outlook

GDP	USD 238.2bn(World ranking 54)
Population	10.4mn (World ranking 90)
Form of state	Parliamentary Republic
Head of government	Kyriakos Mitsotakis (Prime Minister)
Next elections	2027, Legislative



Strengths & weaknesses

- Solid post-pandemic performance and strong recovery from sovereign debt crisis and macro-adjustment program
- Sound public finances and substantial decline in debt-to-GDP ratio
- Encouraging trends in the banking system: plunging non-performing loan ratio and enhanced capital position
- Pro-European political stance and government focus on reforms

- Private sector credit can suffer again as a consequence of tighter financial conditions
- Public debt remains high and will remain above 60% for long time
- High dependency on tourism both in term of GDP and employment
- Structural reforms needed to improve competitiveness

Economic overview

Strong post-pandemic pace of recovery has started to normalize

In 2024, the Greek economy continued to expand at a much faster pace than the Eurozone (+2.2% vs +0.7% in real terms expected), helped by solid private consumption, continuing accumulation of inventories and increasing exports. Though the economy has remained resilient despite high interest rates and weaker external demand, we remain cautious over the outlook: we expect GDP to grow by +1.7% in 2025 and +1.5% in 2026.

Investment performed solidly in 2021-2022 but stabilized during 2023 and 2024, more than doubling compared to pre-Covid levels. Moreover, the inflows of Next Generation EU funds will provide some support in the coming years. Indeed, Greece is one of the major beneficiaries of the NGEU facility and is expected to mobilize around EUR36bn until 2026 and has received less than 50% of the allocated resources so far. This will create an additional impulse for public and private investment.

Private consumption proved resilient throughout the period of elevated uncertainty and surging interest rates, helped by easing inflation and recovering real incomes. Intense tourism activity in the summer also provided support to net trade in 2024; the year closed with record-breaking visitor numbers and revenues, estimated at EUR22bn, up from EUR20bn in 2023 (EUR18 billion in 2019).

Public finances have been impacted both by the pandemic and support measures related to the energy crisis. The fiscal deficit decreased further in 2023 to 1.3% and is expected to improve in 2025 before returning to a surplus in 2026, thanks to the continuation of sound fiscal policy. Fiscal discipline coupled with the high inflation environment brought public debt down from 209.4% in 2020 to 163.9% in 2023. As a consequence, Greece has seen a series of rating upgrades recently, after 13 years in the junk category. Moreover, most of the public debt remains in official hands and has secured long maturity, so rollover risks should be cushioned.

The labor market experienced a steady recovery, with the unemployment rate down to 9.0% in Q3 2024, back to levels seen before the sovereign debt crisis. The driving force behind this marked improvement has been the decline in the numbers of unemployed. With rising nominal wages and the slowdown in inflation, real compensation of employees has started to recover and support households' purchasing power.

Monetary policy easing will give some breathing room

Price pressures eased markedly in 2023 but the trend normalized in 2024, with CPI averaging 2.7% y/y. Inflation is set to reach the ECB's target in 2025.

The Greek banking sector has strongly reduced its burden of non-performing loans, enhancing its capacity to provide credit to the real economy, especially businesses, over the last decade. Greece's NPLs ratio decreased from 47.6% in 2017 to 4.3% in Q3 2024, but most of the impaired assets remain in the economy as they have moved from the banking sector to the servicers. Encouragingly, Stage 2 loans have also decreased, alleviating some concerns on credit risk. Finally, private sector debt decreased markedly to 99% of GDP in 2022 (from 125% in 2020). .

NGEU reforms should help improve the business environment

Greece's business environment has improved in recent years but remains regulated and complex. The digitalization of public services, reduction in corporate taxes, unification of the social security system and the reform of labor and product markets have helped. However, Greece also has one of the slowest court systems in Europe. According to the OECD, Greece has one of the more restrictive and heavily regulated business environments while corruption in public administration is perceived to be still relatively high. Many of these challenges should be tackled by the NGEU-related reforms.

On 31 August 2023, Greece submitted its amended recovery and resilience plan, which includes a REPowerEU chapter. In detail, Greece's plan is valued at EUR35.95b (of which EUR18.22b is in RRF grants and EUR17.73bn in loans, including some national resources). It is structured around 103 investment streams and 75 reforms; 38% of the plan will support climate objectives while 22% of the plan will foster the digital transition.

On the political side, under a new legislative law, the June 2023 legislative election, saw New Democracy winning – after not having reached the absolute majority in May. New Democracy secured almost 41% of the votes while Syriza lost further ground and obtained 17.8% of the votes. This means policy continuation and a strong focus on economic developments.

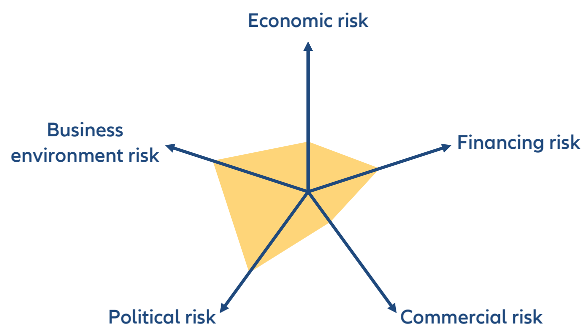
Guatemala

B2

Medium
risk for enterprises

Can the Quetzal remain hovering in the air?

GDP	USD95.00bn (World ranking 69)
Population	17.4mn (World ranking 70)
Form of state	Constitutional Democratic Republic
Head of government	Bernardo Arévalo
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Guatemala is the largest economy in Central America, an upper middle-income country and the only one in LatAm with gross public debt below 30% of GDP. Fiscal space is ample
- Guatemala demonstrated strong GDP growth and resilience during the pandemic. Decade-long fiscal discipline provides a solid base for expansionary fiscal policies
- Increased spending in 2025 on education (17% of the budget), health and infrastructure aims to address structural gaps

- Heavy reliance on US labor market conditions creates vulnerability for private consumption and complicates security policies
- Persistent opposition to President Arévalo's administration and voter disillusionment, especially among indigenous communities, may undermine governance and business continuity
- At only 14% of GDP, Guatemala's tax revenues limit its ability to finance necessary reforms and public investment without increased borrowing

Economic overview

Growth persists, but is it enough?

Guatemala has built a strong track record of prudent macroeconomic, fiscal and financial management over the years, with real GDP growth averaging +3.5% between 2020 and 2023. The Guatemalan economy was remarkably resilient during the pandemic, with GDP slightly contracting by -1.8% in 2020. Underpinned by a favorable external environment and the authorities' swift, comprehensive and coordinated policy response, Guatemala experienced a robust recovery and maintained solid growth in 2024, estimated at +3.5%.

Inflationary pressures persisted after the pandemic and the increase in international prices of commodities in 2022, leading to +4% yearly increases in 2023-2024. Additionally, a decrease in rainfall has affected primarily the eastern departments of the country, weighing on the agricultural output. The combination of these factors resulted in an inflation rate which remains rather close to the upper end of the +3-5% target range set by the central bank. Inflation remained elevated at +6% in 2023 before gradually converging to +3% in 2024 and moving closer to +1% by year-end. It is expected to stay within or slightly below the target range in 2025-26. In this context, the Banco de Guatemala (Banguat) started easing its monetary policy in the fourth quarter of 2024. As inflation falls towards the target range, Banguat is expected to continue monetary easing, taking the policy rate to 2.50% by the end of 2025.

Guatemala has traditionally been fiscally prudent. Over the past decade, fiscal deficits have consistently stayed below 2% of GDP on average. This will give the government adequate access to external financing from bond markets on reasonable terms. President Bernardo Arevalo's administration plans to run larger fiscal deficits in the coming years (around 3% of GDP) to address the economy's structural gaps: infrastructure, social safety net and governance. This is unlikely to create significant problems and may even be credit-positive if the government succeeds at improving the structural issues.

Closing the gaps that hold Guatemala back

Guatemala's economy will remain stable over the medium and long term, bolstered by prudent monetary and fiscal policies. Inflation is on target, international reserves are ample, fiscal deficits are contained and the public debt-to-GDP ratio remains low. Priority areas include infrastructure development, human capital investment and governance improvements, essential to bolster productive sectors and ensure sustained, inclusive growth. Sluggish exports and limited foreign investment may face new hurdles under the new US administration.

While the economic outlook is favorable, risks are weighted to the downside. Heavy reliance on remittances ties private consumption to the US labor market, disproportionately affecting vulnerable populations. This dependency complicates monetary and exchange rate policies. Other risks include inadequate progress on the economic agenda, potential social unrest, commodity price volatility, natural disasters and cyber threats.

Guatemala must address its significant investment needs, particularly in infrastructure, education and health. With tax revenues among the lowest globally at around 14% of GDP, enhancing revenue collection is critical. Despite progress, further measures such as comprehensive tax reform, improved public communication and strengthened legal protections for officials are needed to increase collections without over-relying on external financing. Strategic and efficient public spending must accompany this effort, focusing on transformative multi-year projects to address pressing challenges like malnutrition and education deficits.

Expansionary fiscal policies could remain sustainable if reforms gain legislative approval. Strengthening the domestic capital market is also essential, including developing a secondary debt market and enhancing transparency with investors. These steps are crucial for ensuring Guatemala's long-term economic resilience and development trajectory.

A delicate political balance

Powerful political opponents will try to prevent President Bernardo Arévalo of the center-left Movimiento Semilla (Semilla) from making progress on his policy priorities of fighting corruption and poverty. A diplomatic initiative by the US government in January 2024 allowed the president to take office after winning the presidential run-off and after months of stalemate by the previous administration, which has maintained most seats in Congress. The inauguration itself took place after midnight on 15 January, following a dramatic last-ditch effort by members of Guatemala's outgoing government to stop the process. The struggle to neutralize these opponents is likely to occupy Arévalo – and undermine the government's effectiveness – for most of his term. In addition to Semilla's temporary suspension by the Supreme Court for irregularities in its formation, voter disillusionment was evident in 2024, especially among indigenous communities. This has manifested itself in sporadic protests, which are likely to remain a feature of the political landscape throughout the forecast period. However, such protests will be limited in scope and focused on specific issues, such as blocking a highway to draw the government's attention to an unresolved local land rights dispute. Such protests will not target the government itself and are unlikely to bring it down. General elections will likely be held by August 2027.

The relationship with the US and the management of migration flows and incidents of violence will be key elements for the country's stability. Domestically, reducing inequality and the ability to invest in education will mitigate potential negative effects from third countries. In early December 2024, the ruling coalition managed to pass the 2025 budget, which includes substantial spending of about 16% of GDP, resulting in a deficit of -3.1% for next year – the highest in a decade. About 17% of the budget will go to education, followed by health and social services, communications, infrastructure and housing.

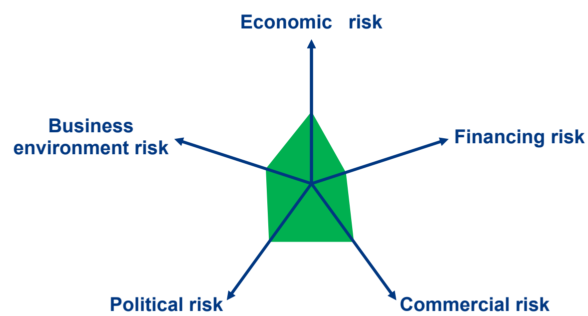
BB1

Low
risk for enterprises

Hong Kong

Strong fundamentals safeguard the Fragrant Harbor

GDP	USD382.1bn (World ranking 39)
Population	7.5mn (World ranking 103)
Form of state	Special Administrative Region of the People's Republic of China
Head of government	John Lee Ka-chiu (Chief Executive)
Next elections	2025, Legislative



Strengths & weaknesses

- Well-developed and resilient financial system
- Solid business environment
- Strong public and external finances
- Robust services sector
- Disciplined fiscal and monetary policies

- Vulnerable to external shocks
- Concentrated geographic and sectorial trade structure
- Sensitive to political developments in mainland China and US-China rivalry
- Wide income disparity

Economic overview

Sailing through calmer waters, after a multitude of adverse economic shocks

Hong Kong has been a solid economic performer in previous decades, with an annual average growth of +4.2% during the 2000s and +2.9% on average in the 2010s. But between 2019 and 2023, Hong Kong's real GDP growth has been very volatile, swinging between -6.5% and +6.5%, due to factors such as social unrest, the Covid-19 pandemic, a challenging external environment, tightening monetary conditions, rising geopolitical tensions and a slowdown in mainland China. Going forward, we expect growth to settle at +2.4% in 2025 and +2.2% in 2026. A recovery in global trade supported the Hong Kong economy in 2024, while weakening exports thereafter will partly be offset by improving private consumption and investment spending such as the Northern Metropolis project and the Lantau Tomorrow Vision.

Fiscal policy has been broadly accommodative in the past years, with an annual average fiscal deficit of -4.4% of GDP since 2019, with broad-based stimulus measures to businesses and households during this period. In 2023, the fiscal deficit reached -5.7% of GDP. It likely narrowed to -4.5% in 2024 and should continuously decrease to reach a balanced budget in the medium term, reflecting the government's commitment to fiscal discipline and increased revenues from land sales and profit taxes. Yet, the surplus will remain low in the medium term relative to the pre-pandemic average, on the back of constraints from an ageing population and infrastructural projects.

On the monetary policy front, the Hong Kong Monetary Authority (HKMA) has limited room to maneuver as the Hong Kong dollar is pegged to the US dollar. Consequently, policy rates are primarily a function of the actions of the US Federal Reserve and have seen a cumulative increase of 525bps between 2022 and 2024. In September 2024, the HKMA lowered its policy rate by 50bps to 5.25% (in line with the Fed pivot), followed by two other 25bps cuts in November and December to 4.75%. At the same time, the high levels of liquidity in Hong Kong have reduced banks' reliance on HKMA facilities, restricting the effective transmission of monetary policy. In terms of prices, the currency peg has broadly kept inflation under control and we expect a moderate overall price growth of +1.7% in 2024, +2.4% in 2025 and +2.5% in 2026.

Robust macro-fundamentals with vulnerabilities due to the trade structure

Short-term financing risk in Hong Kong broadly remains low as the economy has strong fundamentals in terms of public and external balances. Indeed, fiscal support played a crucial role to mitigate the impact of the adverse economic shocks that hit the economy in the past years. However, we expect fiscal consolidation going forward. Despite remaining high relative to historical levels, gross public debt as a percentage of GDP remains low internationally and will remain around 10% of GDP in 2024, 2025 and 2026.

In terms of external balances, Hong Kong's current account balance has recorded surpluses for more than 25 years now (including during a number of external and domestic shocks such as the Great Financial Crisis and the Covid-19 pandemic), which has resulted in the accumulation of external financial assets. On the back of a recovery of trade and earnings from overseas investments, we expect the current account balance to post a surplus of around 10% of GDP through 2024-2026. The main structural vulnerability arises from the economy's geographical and sectorial concentration in terms of its trade structure. For instance, Hong Kong's reliance on mainland China for exports (notably of electronic machinery and appliances) makes it vulnerable to potential cyclical swings in global demand and in mainland China, as well as rising geopolitical tensions. Meanwhile, gross external debt remains high at more than 500% of GDP. However, this only reflects Hong Kong's position as a global and regional financial center more than a structural macroeconomic vulnerability.

Resilient business environment, within a stable political landscape

The business environment in Hong Kong remains strong with internationally renowned infrastructure, the free port status, favorable policies in terms of trade and exchange controls and tax policies. The World Bank Institute's annual Worldwide Governance Indicators 2023 survey indicates strong scores with respect to the regulatory and legal frameworks and the control of corruption. Likewise, the Heritage Foundation's annual Index of Economic Freedom survey 2020 (the country has been discontinued since) suggest a broad-based strength in economic freedom, notably with regard to property rights, government integrity, tax burden, government spending, fiscal health, business freedom, labor freedom, trade freedom and financial freedom. Our proprietary Environmental Sustainability Index ranks Hong Kong 108th out of 210 economies, owing to a very low level of renewable electricity output and a moderate recycling rate.

We do not expect significant changes to the political landscape in Hong Kong and disruptions to business and public services are unlikely in the short to medium term especially in the context of the national security law implemented in 2020. John Lee was elected as the Chief Executive of Hong Kong following a restricted-franchise poll in May 2022 and we expect him to be selected for a second term in 2027 by the central government. While the territory will retain a high degree of autonomy under the Basic Law, a great deal of local policy steering will be influenced by mainland China's central government.

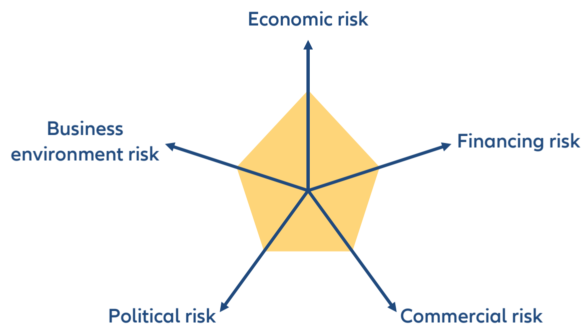
B2

Sensitive
risk for enterprises

Hungary

Resilient growth and gradual unwinding of imbalances

GDP	USD212.4bn (World ranking 56)
Population	9.6mn (World ranking 95)
Form of state	Parliamentary Republic
Head of government	Viktor Orbán (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Generally stable parliamentary democracy
- EU membership
- Strong, competitive manufacturing base

- Deteriorated investment climate, as a consequence of unconventional economic policy measures since 2010
- At times, difficult relations with the IMF and the EU
- Exchange rate vulnerability
- Weak public finances, with a high public debt burden
- Large total external debt burden
- Low level of FX reserves

Economic overview

From recession to gradual recovery

Hungary is a modest performer among emerging economies and its high dependence on exports, in particular on automotive shipments, causes above-average cyclical fluctuations in growth. Real GDP expanded by an average +2.1% over the past 20 years though the performance was better over the last five years prior to the Covid-19 pandemic (+4.1% on average, on par with the average of the Central and Eastern European EU member states). While the global Covid-19 crisis affected the Hungarian economy markedly in 2020 (-4.5% contraction), it rebounded strongly with a +7.1% output increase in 2021. However, Hungary's economic prospects have considerably worsened since war broke out in Ukraine. This is mainly due to the country's heavy (pre-war) energy-import dependence on Russia and the impact of EU sanctions against Russia on the domestic economy. In 2022, economic growth in Hungary still held up better than initially expected (+4.6%) thanks to robust consumer and public spending as well as external demand. However, the impact of surging inflation, rising interest rates, sluggish external demand and deteriorating business confidence took full effect in 2023. Real GDP contracted by -0.9%, largely driven by plunging consumer spending and investment activity. The recovery in the first half of 2024 was subdued owing to continued weak external demand, coming in at +0.4% for the full year.Looking ahead, GDP is forecast to expand to +2.1% in 2025 and +2.6% in 2026, mainly thanks to improving investment and consumer spending on the back of falling interest rates and recovering real income growth. But a weak Germany with strong interlinkages particularly in the automotive sector are gnawing at the growth prospects.

Inflationary pressures have declined but will remain on the cards in 2024-2025. Consumer price inflation rose to a peak of 25.7% y/y in January 2023, the highest rate seen in the EU, driven by surging energy and food prices combined with a weakening forint (HUF, the local currency) in 2022 that pushed up import costs. The Magyar Nemzeti Bank (MNB, the central bank) began monetary tightening earlier than peers in the region (in June 2021) and eventually also more decisively – it hiked its key policy rate from 0.6% in May 2021 to 13.0% in September 2022 and the overnight lending rate to 25.0%. Meanwhile, inflation has fallen back to the upper half of the +3% ± 1pp target range of the MNB and is projected to remain there for most of the period until end-2025. The MNB was one of the first central banks in Europe to embark on a monetary easing cycle in October 2023 and has since cut its key policy rate to 6.5% in December 2024. Further gradual easing is likely in 2025 with inflation hoovering around target.

Worrisome public finances and somewhat improved external finances

Hungary's public finances have become a cause for renewed concern after the Covid-19 crisis reversed eight years of fiscal consolidation. The annual fiscal deficit had been smaller than -3% of GDP since 2012, resulting in a gradual improvement of public debt from the peak of 80% of GDP in 2011 to 65% in 2019. Owing to large fiscal stimulus measures – first in response to the Covid-19 crisis in 2020-2022 and then to mitigate the impact of higher energy costs and inflationary pressures since 2022 and the recession in 2023 – annual budget shortfalls of -6% to -8% of GDP were recorded in 2020-2023, pushing public debt up again to 79% of GDP temporarily. Meanwhile, the government has announced some fiscal consolidation measures from 2024 onwards, also because financing costs have markedly increased. Nonetheless, the annual fiscal deficit is projected at over -5% of GDP in 2024 and around -4% in 2025, gradually easing to -3.6% in 2026, keeping the public debt-to-GDP ratio at around 74%.

Thanks to a swift rebalancing of the current account in 2023, Hungary's external position has gradually improved though it is not out of the woods yet. As Hungary's import bill began to rise in 2021-2022 owing to surging energy prices, the current account deficit widened substantially to around -4% of GDP in 2021 and -8% in 2022. But thanks to lower energy import prices and reduced imports due to the economic recession, the current account improved substantially and posted a small surplus of +0.3% of GDP in 2023. In the first half of 2024, the external balance has further improved and we forecast continued annual surpluses in 2024-2025. What remains a concern, however, is Hungary's gross external debt in relation to GDP which surged from an already high ratio of 97% in 2019 to over 160% in 2020 and is currently estimated at about 137%. Even if we exclude intercompany debt liabilities to foreign parent companies, the remaining external debt stands at a still comparatively high ratio of more than 60% of GDP currently. In the meantime, there has been some improvement in Hungary's comparatively low foreign exchange reserves, which have been a concern for a long time. Reserves increased to USD42bn in mid-2024, covering just about three months of imports or, in other terms, just all external debt payments due in the next 12 months (this means that the respective "adequacy" benchmarks for these two indicators have been met for the first time in a long time, albeit only just).

Deteriorating business and political environment

The Hungarian business environment is just above average. Increased state interference in the economy through frequent and arbitrary policy changes (for example sectoral taxes, pension nationalization, mortgage pre-payment schemes, utility tariff cuts and the weakening of institutions (diminished roles of the Fiscal Council and the Constitutional Court)) have hurt the investment climate in recent years. This is also reflected in the World Bank's annual "Worldwide Governance Indicators" surveys, according to which Hungary has steadily deteriorated with regard to regulatory quality, rule of law and perceptions of corruption over the past decade. In our proprietary "Environmental Sustainability Index", Hungary is ranked 141st out of 210 economies, reflecting poor scores for renewable energy, water stress and recycling rate.

Systemic political risk remains somewhat elevated since the government has engaged in unconventional economic and institutional measures over the past decade. As a result, international relations have suffered, especially with the IMF and the EU. Currently, the EU is withholding some funding for Hungary under the "Recovery and Resilience Facility". This probably explains why Hungary's economy is one of a few in the EU which experienced a huge drop in investment activity in 2023. In the longer term, persistent tensions with the EU may have a damaging effect on investor confidence.

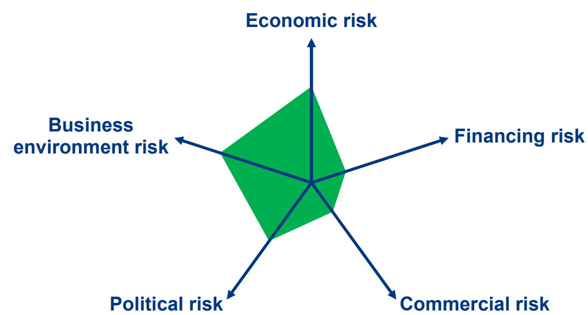
B1

Low
risk for enterprises

India

Unlocking the growth potential

GDP	USD3549.9bn (World ranking 5)
Population	1 428.6mn (World ranking 1)
Form of state	Federal parliamentary republic
Head of government	Narendra Modi (Prime Minister)
Next elections	2029, general



Strengths & weaknesses

- Relatively stable government
- Large internal market, providing some insulation from global business cycle
- Successful diversification into manufacturing and services
- High annual GDP growth
- Low external debt relative to earnings, repayment capacity and reserves
- Favorable demographics

- Structural weaknesses including inadequate infrastructure and current and fiscal account deficits
- Financial risks to monitor, namely balance sheets of banks and non-bank financial institutions
- Weak structural business environment (slowly improving)
- Poverty and uneven income distribution, low literacy rates and fierce brain drain
- Vulnerable to natural disasters
- ndia-China relations to remain tense in part due to border disputes

Economic overview

India to become the second-largest economy in Asia-Pacific by 2030

The Indian economy is a good performer among emerging economies, with +6.2% growth on average over 2000-2019 and +6.9% over 2010-2019 (roughly in line with emerging Asia). However, the Covid-19 crisis hit India badly and the economy was already in a vulnerable state at the end of 2019. A partial recovery was thereafter delayed by a renewed outbreak of Covid-19. Despite a moderation in growth in 2022, India's economy remains resilient and outpaced the average growth rate among emerging economies and Asian economies. Thereafter, Indian growth bounced back and reached +7.7% in 2023, exceeding expectations. A moderation in growth in 2024 (likely +7%) resulted in part from slower private consumption due to high costs of living and fiscal consolidation. We expect growth to edge down further in

2025 and 2026 but remain at a solid level at +6.4%. Despite uncertainties in the global environment, public spending, foreign investment and easing inflation will be tailwinds. Over the longer run, we expect India to become the second-largest economy in the Asia-Pacific region by 2030. Five game-changers could shape India's mid-term economic outlook: foreign investment, trade, human capital, climate change and geopolitics.

In terms of public policies, the fiscal deficit has declined slightly since the Covid-19 years and should continue to gradually do so in 2025 and 2026. Among other things, broadening the tax base and strengthening tax compliance will help consolidate the public finances. On the monetary side, after policy tightening to contain inflation (+250bps of cumulative policy rate increases between May 2022 and February 2023), we expect the Reserve Bank of India (RBI) to pivot to cutting the policy rate in 2025 (-50bps likely over the year) as inflation is likely to approach its 4% target. This will help ease financial pressure on households and businesses.

Structural vulnerabilities in check but to keep in mind

Overall, indicators show that financing risk is low in the short-term. In the medium run, the indicators that need monitoring are (i) public finances, with a very large (albeit declining) fiscal deficit; (ii) the financial sector and non-performing assets and (iii) the current account deficit and moderate (although increasing) foreign direct investment inflows.

We are particularly wary of the leeway for and efficiency of policy stimulus on both the fiscal and monetary sides. Public debt shot up with the Covid-19 crisis and seems to be stabilizing at the high level of around, if not above, 80% of GDP (vs. c.70% before the pandemic). The resilience of the financial sector has somewhat improved since 2022 but needs to be monitored (the system-wide gross non-performing-loans ratio came down to 2.5% in September 2024 from 5.9% in March 2022). Banks should reinforce their capital and liquidity positions against potential stress. Externally, the current account deficit is expected to remain around 1.5% of GDP in the coming few years. More broadly, foreign direct investment inflows are relatively moderate for now, but adequate liberalizing reforms in a potentially favorable geopolitical environment for India could allow the country to attract large amounts of foreign investment in the coming years. Furthermore, through 2024, the RBI observed a significant increase in foreign exchange reserves, which could reinforce foreign investors' confidence and increase FDIs. .

Business environment and political developments

India's business environment is below average in our assessment of 185 economies, with little change in recent years. The Heritage Foundation's 'Index of Economic Freedom' survey in 2023 assigns India rank 131 out of 184 economies (slightly deteriorated from 126 in the 2022 survey), reflecting good scores with regard to the tax burden, government spending, business and monetary freedoms though weaknesses remain in particular with regards to fiscal health, investment freedom, financial freedom, government integrity and property rights. Meanwhile, the World Bank Institute's annual 'Worldwide Governance Indicators' survey indicates scores since 2019 that have stagnated in the control of corruption and the rule of law and slightly improved in regulatory quality and government effectiveness (all roughly in the 45-60% percentile range). Our proprietary 'Environmental Sustainability Index' puts India at rank 153 out of 210 economies, slightly higher than its 172 rank in the previous year, reflecting better performance in energy use per GDP and CO2 emissions per GDP, but weaknesses in terms of climate change vulnerability, renewable electricity output and the recycling rate.

The ruling Bharatiya Janata Party (BJP) obtained a significantly reduced majority following the general elections held in 2024. This thinner margin has required the BJP to form a coalition government, which has slowed the government's ambitions to pass market-friendly reform and will make the timing and scope of these reforms longer and less predictable. However, Narendra Modi, prime minister since 2014, remains the dominant figure in the government. Although his popularity remains high, his party could potentially face credible political opponents if regional parties make it to the national level. Nevertheless, the stability of this government is unlikely to be challenged in the coming few years. We would watch out for possible episodes of the BJP intensifying its Hindu nationalist agenda, potentially generating communal clashes, and the potential emergence of rival political parties.

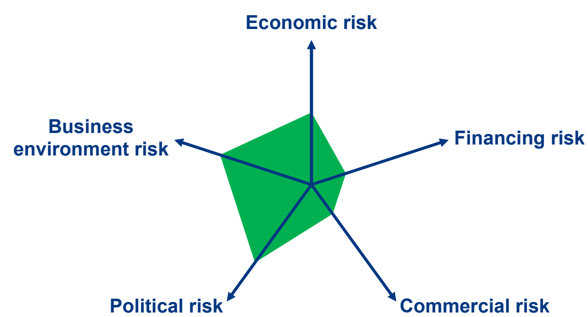
B1

Low
risk for enterprises

Indonesia

Resilient growth amidst improved fundamentals

GDP	USD1371.2bn (World ranking 16)
Population	277.5mn (World ranking 4)
Form of state	Presidential Republic
Head of government	Prabowo Subianto (President)
Next elections	2029, Presidential and legislative



Strengths & weaknesses

- Fast growing economy
- Abundant natural resources
- Favorable demographics
- Relatively resilient banking system
- Solid public finances and sound fiscal policies

- Weak legal system
- Inefficient tax administration and strong informal economy
- Dependency on commodities and China
- Serious infrastructure gap compared to regional peers
- Increasing inequality
- Low levels of educational spending

Economic overview

Solid levels of growth in coming years

Indonesia has shown relatively strong GDP growth rates over the past two decades, averaging +5.2% in the 2000s and +5.4% in the 2010s. However, it was severely affected by the Covid-19 pandemic, suffering a -2.1% full-year contraction in 2020. The recovery in the following years brought GDP growth at +3.7% in 2021, +5.3% in 2022 and +5.0% in 2023. We expect Indonesia to continue to register solid levels of economic growth (around +5% through 2025-2026) on the back of a strong consumer base and easing inflation, investment in the context of global supply-chain diversification and a moderate rebound in global demand.

After expanding to around 6% of GDP in 2020 in the midst of support measures to tackle Covid-19 the pandemic, Indonesia's fiscal deficit narrowed in the following three years. It is likely to expand slightly in 2025 and 2026, and approach but remain below the limit of 3% of GDP set by law. The expected higher fiscal deficit will likely be the result of higher government spending in social programs, education, healthcare etc.

In terms of monetary policy, Bank Indonesia (BI) went through a tightening cycle in 2022-2024 that raised the policy rate by 275bps to keep inflationary pressures in check and stabilize the rupiah. A first policy rate cut took place in September 2024 (-25bps), followed by a second one in January 2025. Further easing is likely in 2025 as inflation remains within the central bank's target range of 1.5%-3.5%.

No imminent risk from structural vulnerabilities

Indonesia's short-term financing risk is deemed low. Though not in alarming states, the following areas of structural macroeconomic vulnerabilities are worth monitoring: (i) fast-rising domestic credit and (ii) FX reserves for rupiah stabilization and external repayment. The long history of reliance on external financing has led to this vulnerability, especially under episodes of downwards pressure on the rupiah.

On the back of wider fiscal deficits and the recovery in domestic demand, real domestic credit growth increased rapidly in 2021-2022, before stabilizing at more manageable levels thereafter. The moderate rebound in 2024 should be monitored. The public debt-to-GDP ratio rose from around 30% pre-pandemic to about 40% in 2022. Efficient fiscal policies since then allowed the public-debt-to-GDP ratio to stabilize, and we expect this to continue in the coming years. On the external side, the annual current account balance was back in positive territory in 2021-2022 (after a decade of deficits) and is likely to register much lower deficits over 2025-2026 compared to the pre-pandemic long-term average. FX reserves reached higher levels in 2024, although they have not kept pace with the growth of imports. As a result, import cover dropped from 10 months at end-2020 to around six months in mid-2024. The latter is still an adequate ratio but the indicator requires monitoring. Meanwhile, Indonesia's reliance on commodity exports also makes it vulnerable to a reversal in global commodity prices that could undermine investor confidence and external repayment capacity.

Business environment and political developments

Indonesia's business environment is ranked above average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Indonesia rank 61 out of 185 economies, given its good performance in government spending, tax burden, monetary freedom and trade freedom, though weaknesses remain in government integrity, judicial effectiveness and investment freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators survey indicates that government effectiveness, regulatory quality and rule of law have improved since 2011. Though the government has taken policy actions to achieve net-zero emissions by 2060, environmental sustainability remains in bad condition, considering Indonesia's coal-dominated energy mix and industry reliance on natural resources.

Prabowo Subianto was elected in the February 2024 Presidential elections and will likely follow former president Joko Widodo's footsteps. Indonesia has traditionally been inclined towards protectionism of key industries and natural resources. Over his two terms in office, Joko Widodo had pushed consensus on this issue further towards acceptance of higher levels of foreign investment, especially in industries downstream of primary goods extraction. President Prabowo Subianto is expected to continue down this path. He retains a dominant majority in parliament – although it is smaller than the previous government's and thus may face more hurdles from opposition parties. The next elections will be held by 2029.

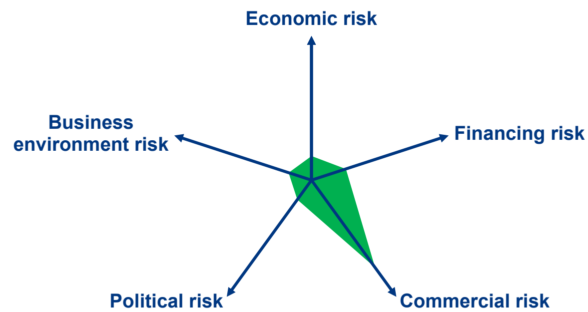
AA1

Low
risk for enterprises

Ireland

A regular Eurozone outperformer

GDP	USD545.6bn (World ranking 25)
Population	5.3mn (World ranking 121)
Form of state	Parliamentary Republic
Head of government	Leo Varadkar (Prime Minister)
Next elections	2025, Presidential



Strengths & weaknesses

- Strong business environment
- Robust current account surplus
- Strong fiscal position
- English-speaking business location

- Sensitive to external shocks due to high openness to trade
- High dependency on foreign investment
- High private debt

Economic overview

Strong economy but external headwinds build

Ireland's GDP is notoriously volatile because of large profit-shifting strategies by multinationals between Ireland and the rest of the world, which create large swings in intellectual property flows. As a result, even though Ireland's GDP dipped in both 2023 and 2024, its underlying health remains strong.

The strong economic performance can be attributed to the presence of multinational corporations (notably in the technology, pharmaceutical, chemicals and financial sectors), solid exports to fast-growing markets such as the US, a skilled labor force, strong immigration inflows and a low structural unemployment rate.

However, Ireland may face a challenging 2025, with the US set to impose new tariffs on EU imports. The US is the largest export market for Irish companies by far. On the other hand, positive factors include the ECB loosening monetary policy, which will increasingly support private domestic demand as interest rates decline. Business insolvencies have picked up significantly in 2024 but are expected to decline in 2025 and

2026 as access to credit eases and borrowing costs continue to decline.

Moderate medium-run vulnerabilities

A key reason behind the sizeable presence of multinationals in Ireland has been its attractive low-tax environment, which has lured substantial foreign investment. However, in 2022, Ireland introduced changes to the international corporate tax framework, including the reallocation of profits of multinational companies across different states and an increase in the tax rate for very large companies from 12.5% to 15%. This could mean that higher taxes on the domestic economy are needed as corporate tax revenue is the second-largest single source of revenue, standing at more than half of the increase in total revenue since the Covid-19 crisis. On the positive side, the external account is strong: the current account surplus should continue to stay above 5%, thanks to the recovery in global trade, which should strengthen Ireland's net exporter position.

In the medium run, Ireland's trade structure remains a vulnerability in terms of the dependency on pharmaceuticals and computer services. In addition, in terms of destinations, export concentration is high as the US and the UK represent around 40% of total Irish exports. The very strong presence of the multinational sector makes Ireland appear very vulnerable in terms of external debt but being part of the Eurozone makes it manageable.

The fiscal balance should continue to register a surplus in the coming two years. Additionally, public debt has been largely kept under control, decreasing from pandemic peaks of 58% of GDP to around 42% in 2024, presenting an overall strong fiscal position. This should provide the country with strong buffers to mitigate future negative shocks hitting the economy and supporting the high valued added sectors.

An area of weakness is stretched affordability in the housing market. The Irish housing market is marked by a persistent imbalance between demand and supply. Housing supply remains critically low. New housing completions have slowed, raising concerns about the government's annual target of 33,450 units. The shortage of homes has intensified affordability challenges for buyers, despite recent reductions in mortgage interest rates.

Business environment and political developments

Ireland's business environment is notably strong, scoring highly in regulatory quality, rule of law and corruption control. Ireland also has a very well-educated labor force and enjoys a significant openness to foreign trade and FDI. In particular, starting a business, protecting minority investors, paying taxes and resolving insolvencies are ranked at the top among other OECD high-income countries. However, going forward, the introduction of the minimum global corporate tax reform is expected to modestly dampen Ireland's attractiveness, particularly for multinationals. Furthermore, a further decrease in taxation in the US under the Trump administration may erode Ireland' competitiveness.

Ireland's recent political developments are centred around the aftermath of the 2024 general election, which highlighted a fragmented political landscape. Despite expectations, Sinn Féin's anticipated surge in support did not materialize. Instead, the centrist coalition of Fianna Fáil and Fine Gael emerged with relative strength but fell short of a majority, necessitating complex coalition negotiations.

Economically, the outcomes of these negotiations could influence Ireland's policy direction on housing, public spending and climate action, especially with concerns about the cost of living and energy prices.

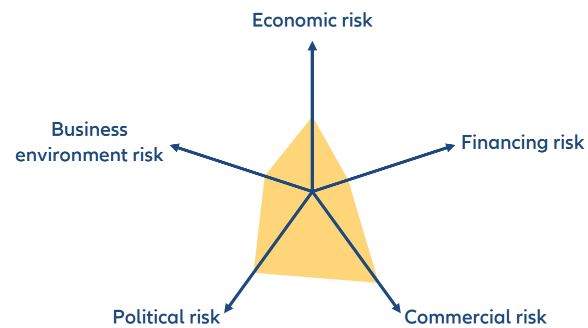
B2

Medium
risk for enterprises

Israel

A resilient economy will be boosted by long-lasting ceasefire

GDP	USD509.9bn (World ranking 28)
Population	9.8mn (World ranking 95)
Form of state	Parliamentary Democracy
Head of government	Benjamin Netanyahu (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Israel excels in high-tech goods, business services and defense, with a developed economy and skilled labor force
- Despite challenges of war and pandemic, Israel economy remained resilient
- Record-low unemployment at 2.6% in November 2024 and inflation dropping to 3.2% indicate a tight labor market and stable economic conditions

- The conflict has had severe consequences for several sectors and the labor market and further exposed commercial banks to sovereign risk
- As politics shift towards post-conflict dynamics, the Israeli state may become more susceptible to instability
- Military spending in 2024 increased the deficit to over 6.9% of GDP, contributing to public debt nearing 69%, increasing the cost of financing

Economic overview

Growth to rebound through 2025 as economy normalizes

The 15-month conflict has had substantial effects on the Israeli economy. As a ceasefire was agreed upon in early January 2025, the economic rebound will depend on the dynamics of its implementation. Additionally, internal politics of the Israeli government could play a crucial role in determining the duration of the ceasefire. 2024 was marked by volatility due to the conflict, resulting in estimated growth of +0.5%. In 2025, growth is expected to rebound to +3%. However, several sectors of the economy remain severely impacted, particularly tourism and construction, as well as regions on the front lines, which have been the hardest hit since October 2023. In 2024, an economic contraction was mainly avoided due to a surge in government consumption. In 2025, the economy is expected to begin rebalancing, private consumption is expected to gradually return and some initial private investment should resume. Nonetheless, economic prospects remain contingent upon the progression of the conflict.

Israel is the third-largest economy in the Middle East after Saudi Arabia and Türkiye, and is an open and developed market, with critical capabilities in high-tech goods, business services and defense, as well as a diversified export base and a highly skilled labor force. Annual per capita income exceeds USD50,000, and real GDP has grown at an annual rate of +4% on average over the last 15 years. During the global Covid-19 pandemic, Israel fared well, which already demonstrated the solid fundamentals that have increased the economy's resilience to shocks despite continuous military confrontation.

Inflation dropped during 2024 to 3.2% y/y, and it is forecasted to continue lowering to 2.6%, entering the central bank's 1.0–3.0% target band. The policy rate is likely to fall below 4% by the end of 2025, and it could loosen faster if the most affected economic sectors do not rebound. The unemployment rate remained at a record low of 2.7% in November 2024, indicating a labor shortage because of border closures and the high levels of military enlisting.

Fiscal consolidation to kick in after 15 months of growing debts

As the regional conflict extended beyond the Gaza strip, towards Lebanon, and air warfare continued in Iran, Syria, Iraq and Yemen, Israel's financing needs grew. Hence, in 2024, Israel's bond issuance was the largest on record – above USD75bn – higher than the previous record set in 2020 during the Covid-19 pandemic. 81% of the issuance was made in local currency. The government deficit ended the year at an estimated -6.9%, and in 2025 it is projected to reduce to -5.5%. Besides the military expenditure, transfers to ultra-Orthodox Jewish communities are a growing budget constraint, reaching USD1.7bn in the 2023 budget, around the size of all inflows to Israeli startups in one quarter of 2023. As a result, government debt saw a significant increase during 2024, from 9% of GDP to 69%. Considering Israeli fiscal discipline since the Global Financial Crisis, it is projected that government debt will return to pre-pandemic levels, just below 60% by 2029.

Credit default swaps increased by +69% in 2024, rising above Brazil's CDS. This, together with the developments on the ground, led Moody's to downgrade Israel from A2 to Baa1, maintaining the country in the investment range. The move was not followed by other major rating credit agencies and did not see a large number of hard currency outflows, which would have otherwise been expected. The New Israeli Shekel, which remained relatively stable throughout 2024, began to appreciate since the withdrawal of forces from Lebanon in late 2024, and in early 2025 reached 0.28 USD/Shekel, not seen since June 2023. In a similar manner, the Tel Aviv Stock Exchange rallied in late 2024 on expectations of a possible ceasefire between Israel and Hamas.

Society remains divided even through the war

Israeli society has experienced divisions that have persisted even during times of conflict. Prior to the Hamas attacks in October 2023, debates surrounding a judicial reform aimed at adjusting the balance between the judiciary and legislative branches sparked social tensions. Although protests have since subsided, underlying divisions remain, with potential to resurface as military operations decrease. During the conflict, new societal challenges emerged, such as discussions around military service for ultra-Orthodox communities, which led to some opposition and protests. Politically, the national unity government faced changes when opposition leader Benny Gantz exited, though the coalition continues to maintain a majority in the Knesset. The government, led by Prime Minister Netanyahu, navigates internal differences within its coalition, particularly between Likud and smaller right-wing parties.

Over the past 15 months, the government and central bank have implemented measures to sustain economic activity amid conflict. These measures include postponing loan repayments and offering interest-free loans to sectors and households affected by the war, helping to maintain the health of the banking sector. However, challenges persist as commercial banks have increased their holdings of government bonds, raising their exposure to sovereign risk.

The technology and defense sectors remain dynamic parts of Israel's economy, heavily reliant on venture capital investments. However, tech start-up investments have seen a decline, reaching a five-year low in early 2023, reflecting broader global economic trends and challenges within the sector.

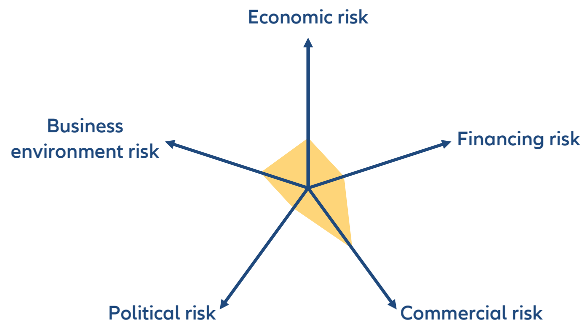
A2

Medium
risk for enterprises

Italy

Post pandemic rebound has hit a soft patch

GDP	USD 2254.9bn (World ranking 8)
Population	58.8mn (World ranking 25)
Form of state	Republic
Head of government	Giorgia Meloni (Prime Minister)
Next elections	2027, Legislative



Strengths & weaknesses

- Labor market improved significantly, with employment at a record high
- Good appetite for Italian sovereign bonds, helped by recent rating agency actions and public debt strategies
- Investment has slowed but will be supported by NGEU projects implementation
- Declining inflation and recovering real incomes to support consumption

- Fiscal challenges remain, with Excessive Deficit Procedure launched by European Commission
- Still heavy red tape which hinders innovation and competitiveness
- Declining working-age population and demographic challenges ahead
- Efficient and timely allocation of EU funds is under test
- Structural reforms needed in many areas

Economic overview

Normalizing activity supported by household consumption

Italy recovered solidly from the pandemic and turned out one of the best performers among the four major Eurozone economies. But though GDP is now 5.6% above pre-pandemic levels (vs. EZ GDP 4.6%), economic activity has slowed down in recent quarters, and even stagnated (in real quarterly terms) in Q3 2024. Private consumption growth resumed in 2024 as confidence slowly recovered alongside the strong decline of inflation. However, the massive investment rebound experienced in 2021-23, supported mainly by the Superbonus tax credit and to a lesser extent by the inflow of NGEU funds, reversed course in 2024. Looking ahead, we expect private consumption to pick up further as income recovers and monetary policy eases, while a catch-up in NGEU spending should make up for the partial recovery of investment activity. In 2025, we expect GDP to expand by +0.8%, followed by +1% in 2026.

The sustained decline in prices has provided some breathing room to the outlook. Negative base effects remained the main driver of decreasing energy inflation, and Italy's inflation rate (1.0% in 2024) is now one of the lowest in the Eurozone (below the ECB's 2% target). However, we expect a rebound in the short term, given the volatility of energy prices and strong base effects playing out. Inflation in expected to gradually return to target in 2026, after reaching 1.7% y/y in 2025. Core inflation has embarked on a solid downward trend and has been below 2% since June 2024.

The labor market improved further in the course of 2024, but a slight deterioration is expected in 2025 as signs of easing have emerged. The number of people employed stayed at a record high and the number of inactive is at historic low levels, while the number of unemployed people has picked up slightly in recent months. The unemployment rate decreased sharply to 5.7% in November 2024 (from 7.5% a year earlier) but is set to deteriorate slightly in 2025 due to the lagged effects of the current economic slowdown. Moreover, structural weaknesses remain. Italy has one of the lowest female labor force participation rates in the Eurozone and the lowest employment rate. This would require major policy interventions to (i.e. supply of childcare facilities) to reinforce women's presence in the labor force. Also, productivity is on a downward trend and demographic challenges are also adding pressure.

Business insolvencies resumed after 2020 but remained well below pre-pandemic levels. Monetary policy tightening and the rapid pass-through to corporate financing costs pushed up the number of insolvencies in 2024. In particular, the trade sector together with manufacturing and construction saw the largest increases in 2024, given persistent falling demand and ongoing global challenges.

Italy tries to return to fiscal discipline, in line with the new EU fiscal rules

The government balance deficit is likely to have narrowed in 2024 from 8.4% on average between 2020 and 2023 respectively. In 2024, the revised EU fiscal framework was reinstated, bringing further challenges and requiring specific consolidation efforts in the coming years Thus, the government has submitted the first Medium-Term Structural Plan, promising a 0.5% of GDP adjustment over the next seven years. However, slowing growth is already posing challenges to the targets. We expect the government deficit to reduce gradually after the 2024 improvement (seen at 3.8% thanks also to non-recurrent inflows), reaching 3.7% and 3.5% of GDP in 2025 and 2026, respectively. Debt dynamics benefited from the favorable differential between nominal growth and debt-servicing costs in the post-pandemic high-inflation environment, which took the debt ratio to 136% from 154% in 2020. But we see the debt-to-GDP ratio stabilizing around current levels; no significant downward trend is expected in the medium term.

The debt stock remains sizable and is still expected to face upward pressure in 2025-2026 due to the massive repercussions of the Superbonus, while the new framework requires an annual debt reduction of 1pp over the adjustment period. The cost of servicing this debt will remain significant. Despite the ECB loosening its monetary stance, the debt burden is projected to stay around 3.7% of GDP on average over the next three years. Fiscal credibility in the financial markets remains crucial for refinancing Italian debt. The appetite for BTPs continues to be solid among retail domestic investors, which now hold 14.5% of total government debt, up from 9.5% at the end of December 2019. These investors are gradually – though not entirely – absorbing the chunk of bonds the ECB is releasing.

NGEU funds should help tackle long-lasting structural challenges

Italy is set to receive EUR194bn of NGEU funds (EUR122.6bn in loans and EUR71.8bn in grants) to boost growth. The efficient implementation of NGEU-related reforms and timely allocation of funds, coupled with a strengthened administrative capacity, will be decisive and should kick off a sustained path towards the green transition and digital transformation. The results-based approach, organized into milestones and targets, incentivizes methodical planning and facilitates more efficient implementation.

Reforms are the main benefit from the RRF. On 7 August 2023, Italy submitted its amended recovery and resilience plan, which includes a REPowerEU chapter. The modified plan has a strong focus on the green transition, devoting 39% of the available funds to measures that support climate objectives, and reinforces Italy's digital preparedness and maintains its important social dimension. Italy already received EUR122bn linked to the fulfillment all the relevant milestones and targets and submitted the seventh payment request for EUR21bn in December 2024.

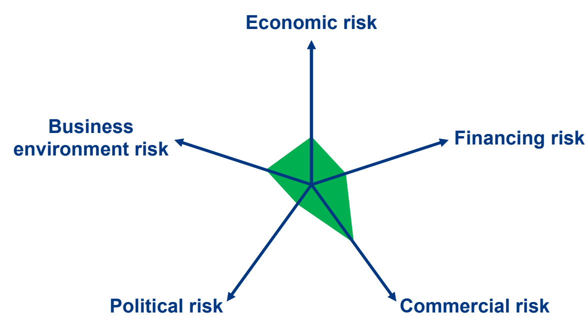
A1

Low
risk for enterprises

Japan

Slow return to normal

GDP	USD4212bn (World ranking 3)
Population	125mn (World ranking 12)
Form of state	Parliamentary constitutional monarchy
Head of government	Shigeru Ishiba (Prime Minister)
Next elections	2025, Legislative



Strengths & weaknesses

- Robust external position (current account surplus, low public external debt)
- Innovative industries and high-quality products
- Large financial surplus of non-financial corporations
- Developed country in a dynamic region
- Low inflationary pressures

- Vulnerable to natural disasters
- Aging population
- Huge public debt and large public deficits
- Highly dependent on energy imports
- Strong competition from neighboring countries in the semiconductor industry

Economic overview

The end of deflation

The Japanese economy has been a slow performer among peers, with its GDP growing on average by +0.5% over 2000-2019 and +1.2% over 2010-2019, a moderate pace compared to other advanced economies or the Asia-Pacific region. Real GDP contracted by -4.2% in 2020, and was followed by a mild recovery, with growth of just +2.8% in 2021, followed by a modest +1.1% in 2022, even though Covid-19 constraints ended in that year. In 2023, growth picked up to an estimated +1.7%, bringing real GDP back to its 2019 level.

GDP likely contracted by -0.2% in 2024, and we expect a recovery of +1.2% in 2025 and +1.1% in 2026. The contraction in 2024 was mainly due to lower private consumption in the context of high costs of living. Improvements going into 2025 will be supported by rising wages and easing inflation, and government measures (such as tax cuts and oil price regulation). Fundamentals for Japanese exports are bright (especially for electronic goods), but their performance risks being capped by the more protectionist US trade policy. Over the longer term, Japan should return to its pre-pandemic, structurally low growth rate of below +1% per year. On the one hand, the medium-term economic performance will be supported by more dynamic global and domestic demand, higher public investment as well as a competitive environment. On the other hand, labor shortages caused by an aging population will curtail Japan's growth prospects.

Inflationary pressures were scarce in Japan until recently. Headline consumer price inflation averaged 0.5% over 2010-2019, including three deflationary years. Inflation accelerated to an average of 2.5% in 2022 (although well below the global rate of 8.2%). In 2023, inflation came in at around 3.3% – a 30-year high in Japan (while global inflation decreased to 6.2%). Against this backdrop, in March 2024, the Bank of Japan, (BoJ, the central bank) exited negative interest rates, which had been in place since 2016, and raised further its policy rate in July 2024 and January 2025. Quantitative easing was also scaled back. We expect inflation to decelerate and come down to 1.8% in 2025 (after above 2.5% likely in 2024) and 1.9% in 2026.

Fiscal policy had been eased significantly during the height of the Covid-19 crisis and we expect the government to continue to support household incomes and encourage rising wages and workforce training in the next few years. On the corporate side, the government will keep incentivizing efforts towards digitalization and innovation (especially when it comes to semiconductors and the green transition). However, Japan's neighbors in the Asia-Pacific region will pose strong competitive obstacles to the country's development in the semiconductor industry.

Structural vulnerabilities: public finances, demographics, climate

Overall, indicators show that Japan's short-term financing risk is low. The indicators that need monitoring in the short run are mostly related to public finances, with very large levels of fiscal deficit and public debt. The latter stood already at 236% of GDP in 2019, rising to around 250% in 2023 and 2024, and expected to remain around that level in 2025 and 2026. The fiscal deficit remains high but is slowly declining: from -9.1% of GDP in 2020, it was projected at around -6% in 2024 and is set to decline to around -3% in 2025 and 2026. Debt-servicing costs remain manageable, given still-low interest rates. Currency risks are also limited as most of the debt is denominated in JPY and domestically owned.

In the long run, the Japanese economy's vulnerabilities mostly stem from a declining, aging population – with gains in productivity not enough to compensate and a strong resistance to immigration. The working-age population (between age 15 and 64) has been declining in Japan since 1996. The old-age dependency ratio (the highest in OECD countries) reached 70% in 2023, meaning that there are not even two working-age Japanese for a Japanese person over 64. The fertility rate in Japan declined to 1.2 in 2023, a record low. Climate change is another long-term risk for Japan, which, as an archipelago, is vulnerable to rising sea levels and more intense weather events.

Business environment and political developments

Japan's business environment is relatively well-positioned in our assessment of 185 economies, rated in the best range in the majority of the sub-components, although it seems to be slightly deteriorating. The 2023 Heritage Foundation's Index of Economic Freedom survey assigns Japan rank 31 out of around 185 economies, reflecting particularly good scores with regards to property rights, judicial effectiveness, government integrity and monetary freedom, while there remains room for improvement regarding government spending, and fiscal health receives an alarmingly low score. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business friendly and the level of corruption is low. Our proprietary Environmental Sustainability Index puts Japan at rank 83 out of 210 economies, reflecting strengths in energy use per GDP, water stress and CO2 emissions per GDP, but weaknesses in terms of the recycling rate and renewable electricity output.

Japan's political stability has seen deterioration in recent years, with an increased risk of returning to frequent changes in government leadership. Prime Minister Shigeru Ishiba's Liberal Democratic Party (LDP) registered a relatively weak victory in the snap election for the lower house of parliament in October 2024. In total, the LDP lost 68 seats and the ruling coalition (LDP and Komeito) now forms a minority government with 220 of the 465 seats at the lower house. At the same time, the main political rivals of the Constitutional Democratic Party saw a significant gain in the number of seats won, bringing their total to 148 (up from 96 seats previously). This weakened position, along with Ishiba's unpopularity with other members of the LDP, could lead to a push for his resignation. A lot depend on the outcome of the upcoming upper-house election in July 2025.

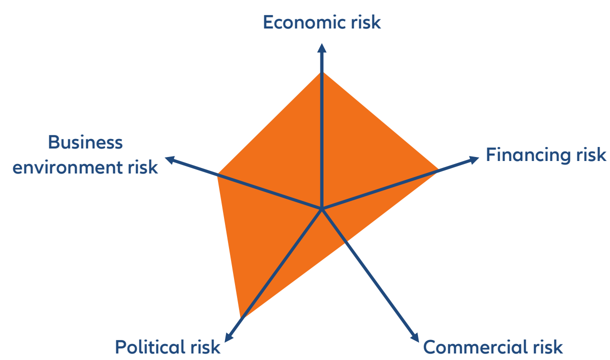
Kazakhstan

C3

Sensitive
risk for enterprises

Fragile stability

GDP	USD261.4bn(World ranking 50)
Population	19.9mn (World ranking 63)
Form of state	Presidential Republic
Head of government	Kassym-Jomart Tokayev (President)
Next elections	2028, Legislative



Strengths & weaknesses

- Kazakhstan's vast reserves of oil, gas and minerals, coupled with its position as a key regional transit hub, provide a strong foundation for economic growth and foreign direct investment.
- Diversification efforts are showing progress, with sectors such as construction, transportation, manufacturing and retail experiencing robust growth supported by domestic demand and credit expansion.
- Kazakhstan's balanced approach to international relations has helped attract foreign investments in diverse sectors, including pharmaceuticals, automobiles and renewable energy.

- Despite recent growth in non-oil sectors, the economy remains overly dependent on hydrocarbons, exposing it to vulnerabilities from global energy price fluctuations.
- Persistent industrial unrest, particularly in the energy sector, and the government's authoritarian response to dissent, create an uncertain political and business climate that could deter investors.
- Depreciation of the tenge, coupled with reliance on sovereign fund withdrawals to bridge fiscal deficits, underscores challenges in achieving sustainable fiscal and monetary stability.

Economic overview

Economic rigidities vs. growth volatility

Kazakhstan's economy continues to be dominated by its oil and gas sector, which accounts for approximately half of the country's exports and over 40% of government revenue. The reliance on hydrocarbons underpins the country's non-diversified economic structure, making it vulnerable to fluctuations in global energy markets. Despite challenges in the mining sector, including a -2.4% decline in output from maintenance at major oilfields, the overall economy showed resilience in 2024. The construction, transportation, logistics, manufacturing and retail sectors have expanded, fueled by robust credit growth and increasing domestic demand.

Inflation remains a concern. After moderating earlier, a spike in food prices and service costs, combined with currency depreciation, pushed headline inflation to 8.4% in November 2024. The National Bank of Kazakhstan (NBK) responded with a surprise 100bps hike, raising the policy rate to 15.25%, with other hikes likely in 2025. Inflation is expected to peak at 9.2% in mid-2025 before gradually easing, but it will remain above the 5% target until 2027. Monetary policy is expected to remain tight through late 2025 unless fiscal reforms signal credible consolidation. The Kazakhstani tenge's weakness, partly due to the Russian ruble's volatility, has provided some support to exporters but has also added to inflationary pressures. With international reserves at USD44.6bn, the NBK has the flexibility to stabilize the currency if necessary.

Fiscal constraints and currency risk weigh on the outlook

The medium-term outlook for Kazakhstan is cautiously optimistic. GDP growth is projected at +4% in 2025, with further acceleration to +4.5% in 2026, driven by the expansion of the Tengiz oilfield and strengthening non-oil sectors. However, fiscal constraints remain a significant challenge. Budget deficits have widened due to insufficient tax revenues, necessitating increased withdrawals from the National Fund of the Republic of Kazakhstan (NFRK). In 2024, these withdrawals were equivalent to over 6% of GDP, with a similar share planned for 2025. Despite these pressures, strong investment income has allowed the NFRK to grow by +4% to reach a robust level by year-end.

Currency risks persist as the tenge remains under pressure from external factors such as the ruble's performance and domestic fiscal laxity. While a recovery in the ruble could strengthen the tenge, high household lending and surging retail demand are likely to sustain import growth, capping appreciation potential. Notably, the current account turned to a surplus in late 2024, helped by an improved trade balance and reduced demand for investment-related imports, which may mitigate some risks. Investment activity is robust, bolstered by Kazakhstan's pragmatic foreign policy amidst the Russia-Ukraine war. The country has attracted significant FDI inflows into pharmaceuticals, automobiles and food production, leveraging its strategic location and mineral wealth. Nonetheless, fiscal consolidation and reforms in tax collection will be crucial to ensuring sustainable growth as the risk of missing future fiscal targets looms.

Fragile stability at home, delicate balance at its borders

Kazakhstan's business environment presents a mix of opportunities and challenges. The government's interventionist policies, such as mandated foreign currency sales by public entities and fiscal rule reinstatements, have aimed to stabilize the economy but often introduce uncertainties for businesses. Political stability remains fragile, exacerbated by industrial unrest. In November 2024, oil sector workers in Zhanaozen staged strikes over pay and conditions, reflecting long-lasting dissatisfaction within the energy sector. This industrial action followed a series of earlier protests over fuel price increases and wage disparities in recent years that culminated in the intervention of special Russian forces in January 2022, highlighting ongoing economic vulnerabilities and institutional fragilities.

The broader political landscape is marked by President Kassym-Jomart Tokayev's efforts to consolidate power following unrest in 2022. His administration has prioritized cracking down on dissent, curtailing media freedom and civil society activities to prevent further upheavals. This authoritarian turn could deter investors, although Kazakhstan continues to attract interest due to its resource wealth and strategic location. Following the exit of several Western companies from Russia, Kazakhstan has positioned itself as a viable alternative, attracting FDI in the consumer goods and renewable energy sectors.

The proposed Russia-China pipeline, with routes passing through Kazakhstan, exemplifies the nation's strategic importance in regional energy logistics. If realized, the project could significantly enhance transit revenues and bolster energy supplies, fostering industrial growth. However, the potential for geopolitical tensions and sanctions related to Russia remains a concern. Meanwhile, recurring strikes in key industries, such as the oil sector, underscore the social and economic risks that could impede the country's business climate. Overall, while Kazakhstan's near-term prospects are buoyed by infrastructure development and sectoral diversification, addressing fiscal imbalances, mitigating political risks and fostering a more pluralistic environment will be critical for long-term stability and growth.

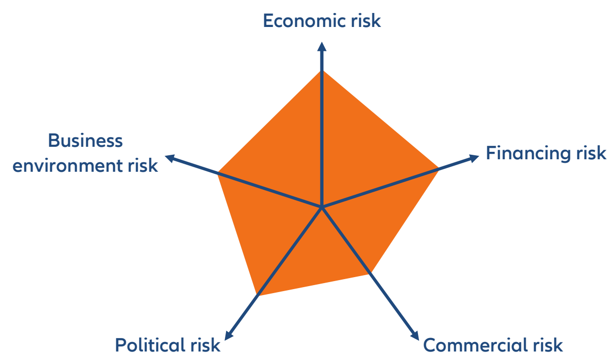
C3

Sensitive
risk for enterprises

Kenya

Robust growth faces challenges from fiscal consolidation and high debt

GDP	USD107.4bn (World ranking 67)
Population	55.1mn (World ranking 26)
Form of state	Presidential Republic
Head of government	William Ruto (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- GDP growth is driven by a thriving services sector, especially ITC and finance, and agriculture
- Trade gateway to the East African market
- The administration has embarked on an ambitious program to accelerate foreign investment, rationalize infrastructure spending, optimize subsidies and redress structural imbalances

- Public debt surged from 40% to 68% of GDP in ten years, with half in foreign currency, while prohibitive financing conditions pose liquidity risks
- Elevated political risk due to increased poverty, social tensions, radicalization and security issues
- Vulnerable to external risks such as regional security and climate change

Economic overview

Strong medium-term growth prospects face short-term concerns

Kenya has maintained +4.8% growth in 2024 even amid substantial political uncertainties and social unrest. In 2025, growth is expected to reach +5% and to remain elevated thereafter. In 2024, inflation in Kenya has been on a downward trajectory from the 7.7% reached in 2023, likely to reach 5.1% in 2024 and a slightly higher 5.2% in 2025. The central bank has responded by decreasing the policy rate, easing financial constraints. Factors such as a stable macroeconomic environment, sustained investor confidence and a thriving services sector, particularly in telecommunications and financial services, have fueled the country's economic potential.

The economic and structural reforms implemented by the Ruto Administration has boosted confidence in financial markets, with the shilling becoming one of the best performing currencies in 2024. However, the finance bill presented to parliament in early 2024 sparked protests and civil unrest due to tax increases on food, transportation and money transfers. After weeks of protests, the police turned violent, causing the deaths of 50 demonstrators. As a result, the current President cancelled the bill, raising questions about the risks of a sovereign default, and reshuffled his cabinet, incorporating members of the main opposition party. Since then, the government has slowly normalized and the businesses environment is back to normal.

Kenya's economic structure remains among the most diversified and developed on the continent. Services represent around 70% of total GDP, with the private sector playing a significant role. Nairobi has become a hub for many international firms operating in East Africa. Tourism reached a historical record during the 2024 summer and given Kenya's superior infrastructure, Nairobi's airports act as a hub for the entire region. Together with tourism, ICT and finance firms have also strengthen their presence in Kenya over the last few years. In early 2024, a USD1bn+ investment into cloud and cybersecurity infrastructure was announced by G42 and Microsoft. The agricultural sector, which accounts for around 20% of Kenya's GDP, has been enjoying growth thanks to the improved output of Kenya's main exports: tea, flowers and coffee. Furthermore, these top exports have been enjoying high global prices, which have helped reduce Kenya's current account deficit. By September 2024, the revenue for the coffee and tea sectors had already reached the total of the previous year.

Economic reconfiguration challenged by widespread social fatigue and security risks

Kenya successfully tapped the international markets in February 2024, issuing a USD1.5bn, four times oversubscribed Eurobond maturing in 2031, to roll over a USD2bn Eurobond that matured in June 2024. The successful buyback of its Eurobond reassured markets about Kenya's position, causing an appreciation of the shilling. Since September 2024, Kenya's Eurobond prices have returned to an upward trend. In addition, the USD606mn IMF disbursement of two additional tranches of the program have also assured markets of Kenya's stability in the short term as a new path of fiscal consolidation was also agreed with the Washington-based institution. Amid this newfound balance, Kenya's economic growth path remains on track. However, there are plenty of challenges due to its debt profile, fiscal stability and the banking sector.

Fiscal consolidation is the cornerstone of the IMF program to bring Kenya back to a mid- and long-term sustainable path. Under the new financial bill currently being considered by the Kenyan Parliament, consolidation has slowed from 2.5% GDP between 2023 to 2028 to 1.6%, while pushing most of the consolidation to the 2025/26 period, instead of 2024/25. While some tax hikes are not included, the government is currently considering others such as on cigarettes, as well as introducing new taxes on tourism.

Kenya's debt profile remains vulnerable mainly due to the large amount of financing needs and the elevated debt service. The country's public debt escalated from 40% to 69% in the past ten years. Due to the Eurobond maturity, debt service in 2024 represented 5.8% of GDP and 60% in terms of total revenue – among the highest in the entire region. While a significant decrease is expected, in 2025, debt service will remain at 5.1% of GDP and around 5% in the mid-term. Almost half of Kenya's public debt is denominated in foreign currency, making it susceptible to exchange-rate fluctuations. 2024 saw an sizable appreciation of the shilling, which helped to reduce repayments. Yet the risk of depreciation remains ahead of a possible increase of tariffs from the US, one of Kenya's biggest trading partners. While foreign reserves have remained above four months of imports, they have deteriorated from pre-pandemic levels.

The banking sector has continued to face difficulties with deteriorating asset quality due to decreased public spending, as well as an increase in levels of non-performing loan levels (NPLs). Over 12 months, NPLs went from 18.4% in Q4 2022 to 25.7%. This was caused by difficulties to repay household and mortgage loans, and worsened by private sector loans exposed to the delayed payments of the government.

The current account remains negative due to Kenya's dependency on imports. Energy imports remain above 4% of GDP, showing Kenya's vulnerability on global energy price fluctuations. Agriculture, tourism and an increase of remittances over the last few years are helping to reduce the current account gap, which will remain at -4.1% of GDP in 2024 and 2025.

A tightrope walk in balancing domestic and international consensus

Violence is not absent from Kenya's political system. During the post-presidential election period, tensions erupted during the summer of 2024 in opposition to tax increases. Such episodes, which can be explained by many historical and political factors, are also an example of the inequalities in Kenyan society. On top of that, conflicts to the north of Kenya both in Somalia, Sudan and Ethiopia create a latent risk of possible cross-border spillovers, given the relative stability of Kenya.

The difficulties of implementing organic reforms while maintaining internal cohesion are reflected in the approach to foreign relations from international investors to trade policy. The current administration revised the terms and partly cancelled infrastructure projects contracted by Chinese companies with the previous government, and also cancelled a bid won by an Indian conglomerate worth USD2.6bn. The Ruto Administration maintained strong ties with the US during Joe Biden's Presidency as Kenya became the first Sub-Saharan African nation to be a major non-NATO ally. During the Biden Presidency, Kenya and the US also signed a major trade and investment partnership, which came after years of negotiations of a free-trade agreement during the first Trump Administration. It remains a question mark what the Trump Administration's position will be on its commercial ties with Kenya and the African continent. The US is Kenya's second major export partner, after the EU. Hence, possible US tariffs on Kenyan imports could hurt the Kenyan economy.

With the EU, its main trade partner, Kenya signed an economic partnership agreement (EPA) in June 2023, expanding on an interim accord in effect since 2017. The EU is Kenya's first export destination and second-largest trading partner, totaling EUR3.3bn of trade in 2022 – an increase of +27% compared to 2018. Once ratified, the EPA will open new export potential for Kenya via duty-free and quota-free entry into the EU market and make the country more appealing to EU investors. The EPA will create significant economic benefits for Kenya, as well as help for climate-change mitigation. The EPA also provides tools for dispute resolution. Other components, such as trade in services, competition policy and intellectual property rights, could be added to the EPA over time. The deal means Kenya has bypassed the fellow Eastern African Community (EAC) member states in implementing the agreement between the two sides, after a previous version of the accord between the EU and the EAC stalled. Tanzania and Uganda declined to approve the agreement for various reasons, while Rwanda signed the previous EPA but did not ratify it.

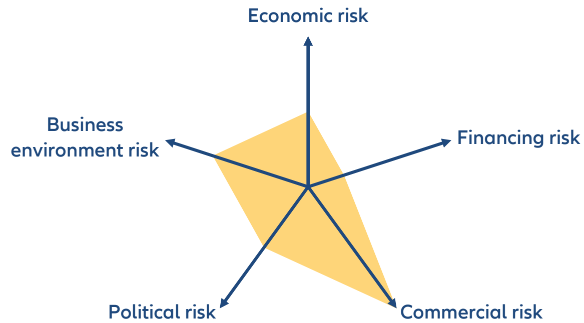
B2

Medium
risk for enterprises

Kuwait

Economic stagnation amid falling oil prices

GDP	USD184.6bn (World ranking 57)
Population	4.3mn (World ranking 128)
Form of state	Constitutional Emirate
Head of government	Meshaal al Ahmad al Sabah
Next elections	To be determined



Strengths & weaknesses

- Strong oil prices and well-controlled inflation contribute to sustained real GDP growth and fiscal surpluses
- Significant external buffers, with a substantial sovereign wealth fund and ample official reserves, provide a cushion against economic uncertainties
- Financial institutions with strong capital and liquidity ensure stability and resilience in the face of economic challenges

- Heavy reliance on the oil and gas sector, which accounts for the majority of tax revenue, makes the economy vulnerable to fluctuations in global oil prices
- Sluggish progress in the long-term diversification strategy, New Kuwait Vision 2035, limits options for reducing dependence on the hydrocarbon industry and for international investors at large
- Slow-moving bureaucracy and ongoing disputes between the government and parliament hinder the progress of critical infrastructure projects and fiscal reforms

Economic overview

Oil-production cap weighs on growth

After experiencing robust post-pandemic growth, Kuwait's economic expansion has stalled since 2022. In 2024, overall growth is projected at -1.8%, while oil sector GDP is forecasted to contract again by -4.3%. The negative post-pandemic trend has been amplified by a self-imposed oil production cap. Kuwait's oil production reached the lowest levels since the pandemic during the first half of 2024. The production quota, agreed upon by OPEC+ members to stabilize global oil output at a relatively high price, reduced Kuwait output by more than 10% and it is anticipated to start easing by October 2024.

Inflation declined gradually in the first half of 2024, reaching 2.8% y/y at the half-year mark. However, inflation risks persist as there are signs of it picking up again. Kuwait imports 96% of its food consumption, making it highly vulnerable to global price volatility. The Emirate's government plays a crucial role in maintaining price stability by subsidizing food and construction imports valued at 1% of the country's GDP.

As global oil prices have normalized at a lower level, highly oil-dependent countries such as Kuwait and Saudi Arabia have been experiencing a 24-month downturn. In this context, Kuwait has been among the worst performers in terms of diversifying its extractive sector. In response, the government has established several priorities under the 2035 State Vision to offset oil dependence. Key priorities include large infrastructure projects and boosting the domestic labor market by passing laws to prioritize local hires. Additionally, the 2035 Vision incorporates gas production as a new economic driver to increase state revenue and finance the rest of the 2035 Vision. This includes the development of the controversial Durra gas, which is expected to increase Kuwait's production capacity from 2.9 mn barrels per day (mbd) in 2024 to 3.65mbd by 2035. If such plan should move ahead, state revenue would see a USD11bn boast over the next five years. While this shift would allow the government to increase spending, it also carries the risk of replacing one non-renewable source with another.

Economic diversification: a necessity for fiscal stability

Kuwait remains highly dependent on the performance of its oil sector. As oil prices have trended downward, the country's fiscal stance has also weakened from its post-pandemic surge. The fiscal deficit for the 2023/24 is estimated to have reached -4.3%, and in the absence of new revenue streams, the deficit is expected to continue growing unless oil prices rise. Faced with such negative outlook, Kuwait's leadership has developed the 2035 Vision to diversify the economy. Yet, political gridlock between the royal family and the elected Parliament has made implementing reforms challenging.

Despite this fiscal stance, Kuwait has enjoyed a few years of strength in its external position. The current account stood at 34.5% in 2022, moderated to 32.9% in 2023 and is expected to continue decreasing in 2024. Nevertheless, Kuwait's strong external position has allowed the central bank to accumulate the third-largest level of reserves in the region, just behind the UAE and Saudi Arabia. A significant portion of the reserves are held at the Kuwait Investment Authority (KIA), which manages over USD900 bn, making it the fifth largest sovereign wealth fund in the world. The KIA serves as the government's main treasurer.

In July, Kuwait announced the creation of a new sovereign wealth fund to prioritize domestic investments. This decision aligns with a broader trend among Gulf nations to reprioritize spending their oil windfalls domestically, despite higher returns abroad. Following in the footsteps of Saudi Arabia, Kuwait is in the midst of massive public investments in mega-projects, including the creation of a new city. Silk City, financed in collaboration with China's Belt and Road Initiative, aims to become a business and transportation hub in the Middle East and a strategic port for China's global ambitions, linking Pakistan's Gwadar port to the Mesopotamian basin.

Political question marks remain

In May 2024, the new Emir Meshal al-Ahmad al-Sabah dissolved and suspended the National Assembly for up to four years, just a few days after a new round of elections had taken place. This decision came after years of political instability and tensions between the Royal family and an opposition-led Parliament. This move consolidated power in a smaller group of leaders, which could bring short-term stability, but defers addressing the nation's divides among different societal groups. Since taking office, the new leadership has proposed a set of measures that would address gaps according to OECD standards in trade and investment sectors, including the introduction of a 15% business tax to all business – until now only due for non-GCC companies – an excise duty and new rules on transparency, all with the aim of reducing reliance on oil revenue. However, the new rules would not significantly expand government revenues. All major reforms to do so, including a VAT and a new debt law that would allow the country to raise money in money markets, providing new sources of funding ahead of oil prices, have been ruled out.

Iraq's invasion of Kuwait in the 1990s left a lasting impact on the country's parliamentary system and foreign relations are now under scrutiny. Kuwait hosts the largest number of US troops in the region, while having strong economic ties with China and Iran. Yet, recently, Kuwait agreed to start extracting gas from Durra gas field together with Saudi Arabia. This field is located between the Iran-Saudi Arabia-Kuwait maritime border and Iran claims its sovereignty. Kuwait's flexibility in managing its foreign relations has allowed it to benefit from being under the US security umbrella while receiving increased Chinese investments, as well as retaining strong ties with its Sunni and Shia neighbors.

Kuwait's biggest threats are dictated by its geography, rising temperatures due to climate change and a difficult regional environment. Climate events in Kuwait will continue to be more extreme. As seen in the UAE, extreme rains could become the norm during specific periods. Rising temperatures will also take an increasing toll on Kuwaitis and foreign labor: it is estimated that more than 10% of deaths will be due to extreme heat and above 15% of foreign workers are exposed to long hours of heat. The regional context of war in the Middle East could also play an important role in the country's future. Relations with Iraq remain tense as it considers a UN-approved international border at the Khor Abdullah canal unconstitutional and keeps pressuring Kuwait to redraw the borders to control the entire canal. Finally, Kuwait is highly dependent on the open maritime borders of the Strait of Hormuz. More than 60% of Kuwait's oil exports cross the strait by boat and the growing LNG economy is also expected to use the same route. Given current geopolitical instabilities, Kuwait's economy could be collateral damage from a potential closure of the strait.

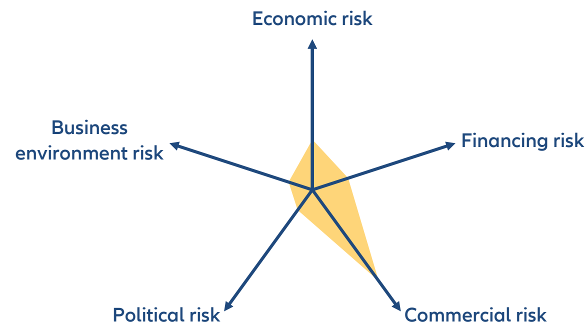
A2

Medium
risk for enterprises

Latvia

Moderate economic recovery ahead

GDP	USD43.6bn (World ranking 96)
Population	1.9mn (World ranking 149)
Form of state	Parliamentary Republic
Head of government	Evika Siliņa (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Low systemic political risk
- Good international relations (except with Russia), EU and NATO membership
- Competitive business environment
- Eurozone membership provides for low transfer and convertibility risk
- Adequate public finances and access to international capital markets

- Small industrial base
- Unfavorable export structure, largely dependent on Russia (prior to the war in Ukraine) and other Baltic States
- Banking sector remains vulnerable due to the high level of (volatile) non-resident deposits
- Regional inequalities and mismatch in labor markets (between workers and jobs)

Economic overview

Growth and moderate inflation to pick up in 2025

Latvia's economic prospects have significantly deteriorated as a result of the war in Ukraine. This is mostly due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 7% of Latvia's exports, 9% of its imports and, notably, 100% of its natural gas imports). Following a strong post-Covid-19 recovery with +6.7% real GDP growth in 2021, economic activity in Latvia slowed down markedly in 2022 (+3%) and moved into recession in 2023 (-0.3%) amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. Additionally, the sharp economic slowdown in Western Europe weighed on trade in Latvia with the second year of recession in 2024 (-0.1%). Going forward, government fiscal stimulus and EU funding inflows as well as a gradual rebound in external demand should support a moderate recovery in Latvia in the next two years. We forecast full-year real GDP to expand by an average of around +2.5% in 2025-2026.

Inflationary pressures have subsided for now but upside risks remain on the cards in 2025-2026. Consumer-price inflation began to rise in mid-2021 and surged to well over 20% y/y in the second half of 2022 and early 2023, driven by soaring energy and food prices as well as interrupted supply chains. It then decelerated rapidly to single digits by mid-2023 and to just 0.1% y/y in May 2024, thanks to base effects, monetary tightening by the ECB and slowing domestic demand. As these effects gradually fade, headline inflation has picked up to 2.2% y/y in November 2024 and it is forecast to increase further to the range of 2-3% in 2025-2026. Upside risks to this forecast include a renewed energy price shock, potential supply disruptions or tightening labor markets. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Latvia.

Deteriorated but manageable deficit

Latvia's public finances should remain manageable despite strong fiscal stimulus measures taken in 2020-2021 to mitigate the economic impact of the Covid-19 crisis and renewed, albeit more moderate, stimulus to mitigate the impact of the economic downturn in 2022-2023. Following annual fiscal deficits of -4.4% of GDP in 2020, -7.2% in 2021 and -4.6% in 2022, the government was able to reduce the shortfall to -2.2% in 2023, largely thanks to better-than-expected revenue and the phasing-out of most pandemic-related stimulus measures. After widening in 2024 due to significant increases in public-sector wages, social benefits and public investment, we expect the deficit to reduce again to -2.0% in 2026. As a result, total public debt is forecast to rise from 44% of GDP in 2023 to about 49% by 2026. However, this will still be moderate compared to many peers or the Eurozone average.

Latvia's current account balance shifted to sizeable annual deficits of -4% to -5% of GDP in 2021-2023, since imports in value terms increased much more strongly than exports as a result of the sharply increased prices for imported energy and food. Owing to softening import demand and moderating prices for energy, the current account shortfall is projected to narrow somewhat in 2024-2026. Financing the deficits should not cause problems over the forecast horizon, thanks to solid net FDI inflows (covering around one half of the shortfalls) and Latvia's Eurozone membership. A major weakness in Latvia remains the relatively high level of external debt. This is a legacy from earlier huge current account deficits in the 2000s. However, the external debt-to-GDP ratio has continued to shrink from its record high of 147% of GDP in 2016 to a 97% in 2023. We expect this positive trend to continue gradually over the next years down to 84% in 2026.

Strong business environment and moderate political risk

The Latvian business environment is generally strong. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly while a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom 2024 survey assigns Latvia rank 19 out of more than 180 economies, an improvement from rank 30 three years ago. The country scores well with regard to property rights, judicial effectiveness, tax burden, trade freedom and investment freedom while there remains some room for improvement in terms of government integrity and labor freedom. Meanwhile, our proprietary Environmental Sustainability Index ranks Latvia 19st out of 210 economies, reflecting strengths in energy use and CO_2 emissions per GDP, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk has deteriorated somewhat from a previously low level because geopolitical risk in the region has increased with the war in Ukraine. Latvia is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. However, there is a risk that social and cultural push-back is emerging from the sizeable Russian-speaking minority in Latvia.

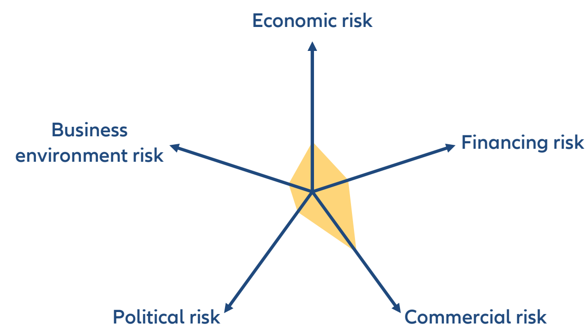
A2

Medium
risk for enterprises

Lithuania

Consumer spending drives gradual recovery

GDP	USD77.8bn (World ranking 79)
Population	2.9mn (World ranking 136)
Form of state	Parliamentary Republic
Head of government	Gintautas Paluckas (Prime Minister)
Next elections	2028, parliamentary



Strengths & weaknesses

- Low systemic political risk
- Good international relations (except with Russia), EU and NATO membership
- Eurozone membership provides for low transfer and convertibility risk
- Sound public finances and access to international capital markets
- Strong business environment

- High external debt burden
- The industry is dominated by one large refinery complex, Orlen Lietuva
- Unfavorable export structure, with high export and import dependence on Russia (prior to the war in Ukraine) and a few EU countries

Economic overview

Growth rebounds with inflation in check

Lithuania's economic prospects deteriorated sharply in 2022-2023 as a result of the war in Ukraine. This was due to the country's geographic proximity to Russia and its significant (pre-war) trade relations (accounting for 11% of Lithuania's exports, 12% of its imports and 37% of its natural gas imports). Following a strong post-Covid-19 recovery, with +6.3% real GDP growth in 2021, economic activity in Lithuania slowed down markedly in 2022-2023 amid surging inflation, rising interest rates, weakening external demand and deteriorating business confidence. The economy grew by just +2.4% in 2022 and 0.3% in 2023. A gradual recovery started in 2024, driven mainly by consumer spending, thanks to low inflation. We expect the recovery to continue in 2025, supported by some fiscal stimulus, EU funding inflows and a pick-up in global demand. We forecast real GDP to grow by around +2.4% per year on average in 2025-2026.

Inflationary pressures have abated for now but upside risks remain on the cards in 2025-2026. Consumer-price inflation rose markedly from mid-2021 and surged to a peak of +24.1%

in September 2022, driven by soaring energy and food prices as well as interrupted supply chains. It remained in double-digits until mid-2023 before base effects, monetary tightening by the ECB and slowing domestic demand triggered a rapid disinflation in the second half of 2023. Headline inflation was below 1% in the first ten months of 2024. Going forward, the disinflation effects are likely to wane and inflation is forecast to pick up to the range of 2% to 3% y/y in 2025-2026. Upside risks to this forecast include a renewed energy price shock, potential supply disruptions or tightening labor markets. Meanwhile, Eurozone membership provides for moderate transfer and convertibility risk in Lithuania.

Manageable public and external finances

Lithuania's public finances should remain manageable. Four years of small annual fiscal surpluses in 2016-2019, which brought down total public debt to 36% of GDP, proved that the government is in principle pursuing budgetary prudence. As a result of substantial fiscal stimulus measures to mitigate the impact of the Covid-19 crisis on the economy, a large fiscal deficit of -6.5% of GDP was recorded in 2020. But the annual shortfall swiftly narrowed to -1.1% in 2021 and even further to less than -1% in 2022-2023, despite the energy crisis, since expenditure on energy support measures and intermediate consumption was lower than expected. Until 2026, the fiscal deficit to GDP ratio is forecast to widen to around -2%, driven by additional spending on social benefits and a substantial increase in pensions and public wages. Meanwhile, public debt in relation to GDP fell from a temporary peak of 46% of GDP in 2020 to 38% in 2022 and 2023, in part helped by strong nominal GDP growth, and is projected to remain just below 40% in the next years. In any case, such a debt-to-GDP ratio is favorable as compared to fellow Eurozone member states.

After five years of annual surpluses, Lithuania's current account posted a hefty -5.5% of GDP deficit in 2022, triggered by sharply increased import prices for energy and food. As the latter eased markedly in 2023 and because nominal imports shrank more strongly than exports, the current account moved back to a surplus of around +1.9% of GDP which widened to more than +3% in the first seven months of 2024. Looking ahead, we forecast continued, albeit smaller annual surpluses of around +1.5-2% in 2025-2026 since imports are likely to recover. Meanwhile, gross external debt in relation to GDP has steadily declined from a temporary peak of 87% in 2020 and is projected at around 60% in 2025 and 2026.

Strong business environment and low political risk

The Lithuanian business environment is very strong. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business friendly. Moreover, the perceived level of corruption has steadily declined since 2018 and is now relatively low. The Heritage Foundation's Index of Economic Freedom 2024 survey assigns Lithuania rank 15 out of some 180 economies. The country scores well regarding property rights, judicial effectiveness, tax burden, trade freedom and business freedom while there remains some room for improvement in terms of labor freedom. Meanwhile, our proprietary Environmental Sustainability Index ranks the country 23rd out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is low. Lithuania is a well-established democracy and has good international relations – except with Russia – reflected in its EU, OECD and NATO membership. Government instability and frequent early elections seem to be a story of the past. Since 2008, all elected governments survived their terms, at times as minority governments, and were replaced only at the next orderly elections (which were held in October 2012, October 2016 and October 2020). Solid economic policies that began in the wake of the 2008/2009 global financial crisis enabled Lithuania to join the Eurozone in January 2015.

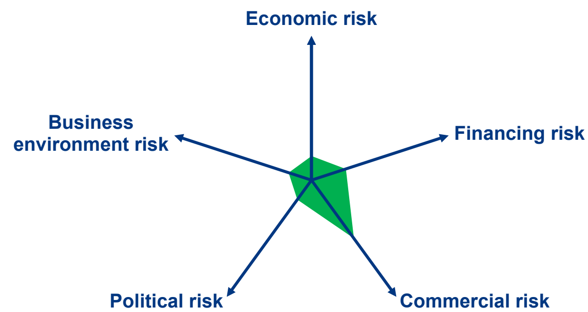
AA1

Low
risk for enterprises

Luxembourg

Subdued growth to rebound in 2025

GDP	USD85.8bn (World ranking 72)
Population	0.7mn (World ranking 167)
Form of state	Constitutional Monarchy
Head of government	Luc Frieden (Prime Minister)
Next elections	2028, General



Strengths & weaknesses

- Dynamic economy; competitive, digital and innovative
- Resilient and attractive labor market
- Economic and political stability

- Economy little diversified (mostly focused on financial services)
- Strongly dependent on the Eurozone economic cycle
- Education system to be improved to address the challenges of digitalization and to better anticipate the skills that are needed

Economic overview

Emerging from a prolonged slowdown

Economic activity remained quite subdued in 2024, only exiting the prolonged recessionary trend in the second half of the year. The wage-indexation mechanism prevented real wages from falling, safeguarding households' purchasing power and supporting private consumption despite weak consumer sentiment. However, net exports and gross fixed capital formation continued to decline, weighing on the overall recovery momentum. We expect the economy to partially rebound in 2025, expanding by +1.6%. The easing of financial conditions is expected to support the financial sector and the recovery of the construction sector. Private consumption will remain supportive, driven by an increase in real disposable income, boosted by another round of wage indexation scheduled for 2025.

Inflation began a downward trend in 2024, with CPI reaching a year-on-year low of 0.8% in November 2024, the lowest rate recorded since 2021. The trend has been primarily driven by significant declines in gas and petroleum product prices. Looking ahead, inflation is likely to remain broadly stable in

2025. In the meantime, the tight labor market is showing the first signs of easing. Employment growth has slowed to its lowest level since the Covid-19 crisis, and hiring intentions are weakening further.

The general government deficit decreased only marginally in 2024. Looking ahead, slower expenditure growth is anticipated due to a less inflationary environment and the temporary implementation of the provisional twelfths system. Despite measures to support households, businesses and the construction sector – impacting revenues by 0.5% of GDP – revenue growth is projected to remain strong, driven by adjustments to tax brackets and reduced social security contributions. Therefore, we expect the deficit to rise slightly, reflecting new recovery and household support measures, including a corporate income tax cut. The gradual phase-out of energy price mitigation measures will help contain expenditure growth despite rising public compensation and social transfer costs.

Further diversification of economic activity is needed

Luxembourg's external balance is dominated by the large financial sector, which has supported current account surpluses in recent decades but has seen large disinvestment in the last quarters.

As part of the EU Next Generation instrument, Luxembourg's Recovery and Resilience Facility is expected to receive by 2026 EUR82.7mn in grants. Luxembourg has already received EUR32.38mn, representing almost 40% of its total allocation. The updated plan retains its strong focus on the green transition, with 68.8% of the resources allocated to support climate objectives (from 60.9% in the initial plan), and significantly exceeding the minimum of 37% required by the RRF Regulation. 30% of the resources remained allocated to digital objectives. The plan continues to prioritize the digital transformation, including investments in research and innovation, the deployment of new technologies, the digitalization of public administration and measures to foster territorial, institutional and social cohesion. These initiatives are expected to actively engage the private sector in the transition. Further investments are planned in digital skills, digital connectivity and eHealth. The updated plan also maintains its focus on improving digital inclusion for the population and workers and advancing the digitalization of small and medium enterprises. However, a further diversification of economic activity will be necessary in the medium period.

Luxembourg's competitive advantage in financial services will support recovering growth. The country is the world's second-largest investment fund center after the US and the most important private banking center in the Eurozone. The government has been aiming at economic diversification for a few years and has been encouraging the development of sectors such as communication and information technologies, logistics, e-commerce and biotechnologies.

However, labor productivity needs improvement in Luxembourg, given lower education levels compared to neighbor countries. The skills shortage has caused most of the jobs created in the financial sector to attract foreign nationals, causing Luxembourg's resident workforce to rely on public administration jobs or jobs in the steel sector, which are highly subject to foreign competition.

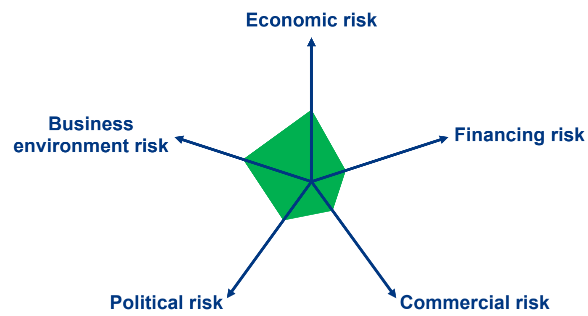
BB1

Low
risk for enterprises

Malaysia

Weak spots remain amid broadly strong macro-fundamentals

GDP	USD399.6bn (World ranking 37)
Population	34.3mn (World ranking 46)
Form of state	Constitutional monarchy
Head of government	Anwar Ibrahim (Prime Minister)
Next elections	2028, legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Robust domestic demand
- Healthy labor market
- Resilient banking sector

- Vulnerable to external pressures
- Export dependency leads to cyclical risk
- High level of private external debt and public debt needs monitoring
- Deteriorating business environment

Economic overview

Growth to moderate below pre-pandemic levels in the near term

After having experienced a robust growth trajectory, averaging +4.7% y/y in the 2000s and +5.4% y/y between 2010 and 2019, Malaysia was severely hit by the Covid-19 pandemic, experiencing a -5.5% y/y contraction in GDP in 2020, followed by a modest recovery of +3.3% in 2021. On the back of a buoyant global environment, higher commodity prices and a recovery in domestic demand, the economy saw a strong rebound in 2022, growing by +8.7%. In 2023, the economy remained resilient to the challenging external environment, high inflation and tight monetary policy and grew by +3.6%, primarily driven by private consumption. Growth was still supported by strong domestic demand in 2024, as well as easing monetary policy and a recovery in external demand. Looking ahead, we expect growth to average around +4.2% per year in the medium term until 2030.

Fiscal policy in Malaysia has been broadly expansive after the onset of the pandemic, with the fiscal deficit increasing from 4.9% to 5.9% of GDP during the 2020-2022 period. However, the fiscal deficit narrowed to 4.6% in 2023, and decreased further in 2024. Fiscal consolidation will likely remain an area of focus for Malaysian policymakers. As a matter of fact, the 2025 budget will bolster government revenue through expanded taxes and a global minimum tax, while also cutting subsidies as they have been a major driver of spending since the pandemic. The government is targeting a deficit of 3.8% in 2025, despite record budget spending.

With the aim of finding an equilibrium between supporting economic growth and keeping inflation under control, the Bank Negara Malaysia – the central bank of Malaysia – is likely to maintain a neutral policy stance after having implemented a cumulative 125bps hike in the policy rate in 2022-2023. We forecast inflation to moderate to 2.1% and 2.2% in 2025 and 2026, respectively, declining from 2.5% in 2023. However, inflationary pressures from the 2025 budget, including subsidy cuts and broader taxes will prevent the central bank from a premature monetary policy easing in the near term.

Keep an eye on public and external debt

Broadly, the short-term financing risk for the economy is deemed low. While structural macroeconomic vulnerabilities are manageable, it is worth monitoring public finances and external debt, reflected by relatively high fiscal deficit, public debt and external debt relative to GDP.

The large round of fiscal stimulus since the pandemic has widened the fiscal deficit and elevated public debt to nearly 70% of GDP in 2023 (compared to an average of 55% in the 2010s). The fiscal deficit exceeded 6% of GDP during the pandemic years – a significant deviation from 2.9% on average in the 2010s. However, in 2023 the fiscal deficit decreased to 4.6% of GDP and further narrowed to 4.3% in 2024. It is now expected to stabilize below 4% in 2025 and 2026 as policymakers focus on a path of fiscal consolidation through new taxes and subsidy reforms, although the 2025 budget also includes significant spending increases. We expect public debt to remain around 68% over the next two years. On the brighter side, most of the public debt is expected to be funded onshore. On the current account front, we expect Malaysia to register a surplus of 2.8% in 2025, primarily driven by a goods trade surplus as external demand recovers, and the slump in the electronics cycle experiences a recovery. However, Malaysia's dependence on foreign trade and its structure also make it vulnerable to cyclical swings in some specific sectors including electrical machinery and equipment, commodities and electronics. As global trade becomes increasingly driven by geopolitics, Malaysia could emerge as an alternative to China, but the country's heavy reliance on China could also weaken the resilience of its external sector.

Challenges remain in the business environment despite easing political instability

Malaysia exhibits an above-average business environment but is facing a downward trend. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns the economy rank 42 out of 184 economies, down from rank 22 in 2021. The latest rank reflects weaker scores in terms of financial freedom and government integrity. However, tax burden, trade freedom, government spending and monetary freedom remain bright spots. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators 2023 survey indicates that Malaysia performed well in terms of government effectiveness and regulatory quality, although the voice and accountability, as well as the political stability and absence of violence/terrorism, remain weak spots. Lastly, our proprietary Environmental Sustainability Index ranks Malaysia 107 out of 210 economies, up from rank 147 the previous year. There is particular room for improvement in terms of renewable electricity output and the recycling rate.

Malaysia's predominant political party, United Malays National Organization (UMNO), has long held power in the ruling coalition. The situation changed in 2018 amid a corruption scandal, launching an era of political instability, with four different governments in five years. In the November 2022 election, none of the contestants won a parliamentary majority, which was the first time that Malaysia has seen a hung parliament since its independence. After intense negotiations, the leader of the multicultural Pakatan Harapan (PH) coalition, Anwar Ibrahim, became Malaysia's 10th Prime Minister, heading a unity government. Stability and continuity have been key features of Anwar's speeches in addition to the signing of a memorandum of understanding between the component parties in the PH coalition. In addition, he has pledged to work with the pro-Malay factions in the coalition and focus on areas such as economic growth and anti-corruption rather than on reforms on sensitive issues including race-related policies. In 2023, Anwar Ibrahim presented the "Madani Economy" framework, a 10-year plan aimed at boosting competitiveness while reducing the fiscal deficit. This plan sets medium term targets that will shape future policy and budgets, such as increasing female labor force participation, achieving a 3% deficit or ranking Malaysia among the top 30 economies globally.

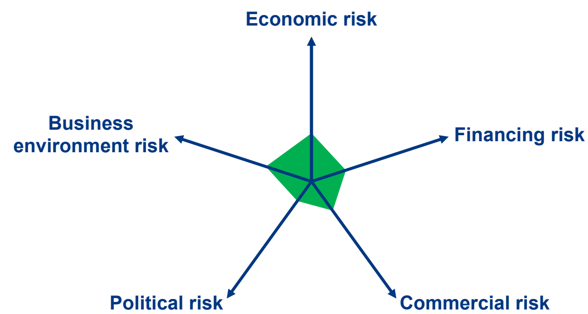
A1

Low
risk for enterprises

Malta

Normalizing growth, but still above the Eurozone average

GDP	USD21.0bn (World ranking 116)
Population	0.6mn (World ranking 171)
Form of state	Republic
Head of government	Robert Abela (Prime Minister)
Next elections	2027, General



Strengths & weaknesses

- Highest rate of post-pandemic growth in the Eurozone
- Solid labor participation and large inflows of foreign workers
- Sound and large financial system

- Improved fiscal deficits but above 3% target
- Strong dependency on foreign financial flows
- Corruption and money laundering fears have not fully dissipated

Economic overview

The smallest economy with the highest growth in the Eurozone

Malta's economic performance remains on a strong trajectory, with 2024 another record year in terms of economic performance, driven by strong private and public consumption. Economic output stood 27% above end-2019 levels. Tourism, a cornerstone of Malta's economy, has not only recovered from the pandemic-induced downturn but has surpassed pre-Covid levels. By 2023, the number of arrivals had already exceeded the 2019 benchmark. This positive momentum continued into 2024, with tourist arrivals between January and August up by more than 20% compared to the same period in 2023. Tourism expenditures grew in tandem, bolstering the hospitality, recreational and related services sectors. Moreover, professional, IT and financial services – the other key pillars of Malta's service-oriented economy – are also expanding robustly, reinforcing export growth. In 2024, exports continued to outpace imports, delivering a positive contribution from trade to overall GDP growth. Following a notable slowdown in 2023, investment growth is expected to accelerate, supported by the ongoing absorption of funds from the EU's Recovery and Resilience Facility (RRF). Overall, GDP is expected to moderate into a steadier growth path in the medium term, at around +1.9% and +1.7% for 2025 and 2026, respectively.

Strong migratory flows have been a key driver of economic activity but are unlikely to be sustained. Malta's population is now 25% larger than in 2015, driven by liberal migration policies amid an aging native population and the EU's lowest birth rate. The inflow has included both high-skilled EU workers and lower-skilled labor from non-EU countries, contributing significantly to recent economic growth. This resulted in a decrease of the unemployment rate to historic low, and a contained wage pressure given the increased inflows of foreign workers. However, as Malta is already the most densely populated EU member state and faces growing infrastructure constraints, tighter migration policies—especially for non-EU arrivals—are likely.

Inflation continues to decelerate after the 2022-2023 spike. Malta's CPI remained below 2% from 2013 to August 2021, spiked during the energy crisis and saw a dip in 2024, with headline inflation averaging 1.7% by the end of the year. We expect price growth to stabilize around the ECB's target in 2025 and 2026.

In 2024, the general government deficit is expected to decline compared to the previous year, reflecting a reduction in subsidies – particularly those aimed at cushioning the impact of elevated energy prices – and lower restructuring costs for the national airline. By 2025, this downward trend is set to continue as subsidies further decrease relative to the size of the economy, although some measures targeting energy prices are likely to remain.

Safeguarding financial stability and pursuing structural reforms to ensure growth resilience

Malta's economy is oriented towards services (tourism and financial services) but also towards exports in the manufacturing sector, particularly in electronics and pharmaceuticals. Despite the recent pace of growth, structural reforms are needed to enhance long-term growth. In particular, investment in research and development (R&D) is needed to boost productivity and attract human capital to fill the skills gap, as well as innovation and digitalization. Finally, the improvement of the governance framework is essential to ensure the increase and maintenance of foreign investment flows and the stability of the country's financial situation.

Within the Next Generation EU framework, the European Commission authorized a second payment of EUR58.9mn in May 2024. The total amount of funds disbursed to Malta under the RRF has reached EUR166.3mn, corresponding to 50% of all the funds earmarked in Malta's plan, with 39% of milestones and targets met.

Business environment and political developments

Malta was in the bottom of the first half of the 2020 World Bank Doing Business ranking: 88th out of 190 economies. The country achieved top rankings in enforcing contracts, trading across borders and protecting minority investors. In 2020, the country improved the reliability of its electricity supply by upgrading its grid and setting up a grid-operations control center.

The Labour Party was re-elected for a third consecutive term in 2022. The government will continue to face challenges including concerns over good governance, allegations of corruption and the high cost of living..

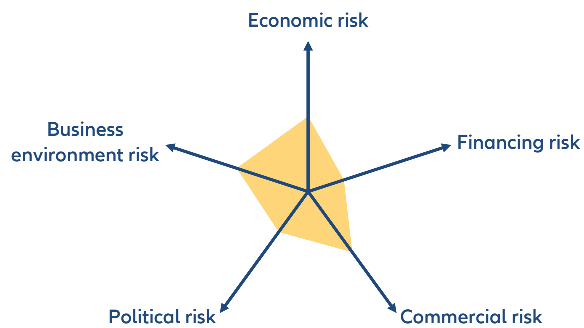
BB2

Medium
risk for enterprises

Mexico

Under the same sun

GDP	USD 1788.9bn (World ranking 12)
Population	128.5mn (World ranking 10)
Form of state	Federal Republic
Head of government	Claudia Sheinbaum Pardo (President)
Next elections	2030, General



Strengths & weaknesses

- Second-largest market in Latin America with 14 FTAs, highly integrated with global value chains
- Solid fiscal profile, ample reserves and increasing focus on renewable energy and industrialization
- Stable political framework, enabling legislative continuity and nearshoring opportunities

- Dependence on the US, which buys the equivalent of 30% of Mexican GDP, leaves it vulnerable to shifts in trade and industrial policy
- Fiscal challenges linked to oil revenues (30% of government income) and contingent liabilities
- Structural inefficiencies in competitiveness and elevated security risks

Economic overview

Resilient domestic demand, cautious easing

Mexico's economy has demonstrated robust resilience, averaging +4% GDP growth since 2021. However, growth slowed to +1.5% in 2024, influenced by subdued US demand and monetary policy lag effects. Remittances – equivalent to 3.4% of GDP in 2024 – and nearshoring investments underpinned domestic activity. Fundamentals, including consumer confidence, credit availability and wage bill dynamics, provided some stability, but weaker industrial production signaled a deceleration by late 2024.

The central bank Banxico has commenced monetary easing amid decelerating inflation, which is projected to remain above 4% in 2025 and stabilize at similar levels in 2026. The central bank's dovish stance, paired with synchrony to the Federal Reserve's rate cuts, suggests Mexico's policy rate could decline to 8.5% by end-2025 and 7.5% by 2026. Despite a mildly depreciating peso, the wide interest rate differential with the US will provide currency support, balancing import costs of capital goods and commodities.

Mexico's nearshoring success has been instrumental in mitigating external risks. As the top US trading partner in 2023-2024, Mexico's manufacturing and services sectors have benefited from foreign investment inflows and labor market competitiveness. However, rigidities in energy and mining, coupled with insufficient vertical integration in industries like electronics and semiconductors, limit growth potential. Policymakers must address these structural gaps to sustain momentum amid global geoeconomic fracturing.

A pragmatic pivot amid uncertainty

The administration under Claudia Sheinbaum offers a mix of pragmatism and continued state interventionism. Sheinbaum's fiscal policies aim to stabilize public finances after pre-election spending increased the deficit from 3.4% of GDP in 2023 to 4.7% in 2024. Fiscal revenues remain weak (17% of GDP), prompting expanded tax incentives for local and foreign companies, especially in technology and R&D, effective through 2030.

Nearshoring presents a key medium-term growth driver. Mexico's status as the US's top trading partner and the unveiling of the "Plan México" strategy – targeting 15% national content growth in automotive and electronic exports by 2030 – highlight its industrial ambitions. However, investment bottlenecks in energy and manufacturing sectors, combined with slower US demand under the Trump administration, temper these prospects. Achieving a USD100bn annual FDI target by 2030 would require reversing declines in new capital investment, which fell to historic lows of 5.8% of total FDI in 2024. The government's focus on rail and the helpful narrative around creating an alternative to the capacity-constrained Panama Canal may also sustain private investment. The government seeks to grow energy generation capacity by 16% and expand renewable energy integration. Streamlined permitting processes and public-private partnerships are vital to achieving these targets, offering potential relief to Mexico's energy-intensive industries.

Mexico's current account dynamics remain stable, buoyed by remittances and reserves. Nevertheless, risks persist around the 2026 USMCA renewal, where protracted negotiations or a US withdrawal could sharply impact trade and investment flows. A disruption in these agreements would have far-reaching implications for sectors dependent on open trade, including automotive, electronics and agriculture, with the latter plagued by consecutive periods of drought.

Political challenges on the horizon

Mexico's political landscape under President Sheinbaum combines strong congressional backing and a less populist approach than her predecessor. Her pragmatic tilt faces resistance from Morena hardliners, which may dilute reform ambitions. State-led policies and protectionism in sectors like energy, alongside judicial inefficiencies and contract risks, remain barriers to an optimal business environment. The government's emphasis on renewable energy and expanded natural gas storage reflects a commitment to modernizing infrastructure but underscores regulatory unpredictability for private investors.

Security challenges persist as cartel activity and elevated violence weigh on perceptions of safety. Violence related to the 2024 elections led to an increase in the country's homicide rate, breaking the slowdown cycle that had been going on for four consecutive years. Risks remain elevated in specific regions.

Diplomatic ties with the US remain pivotal, especially following Trump's return to office in 2025. The interplay of trade disputes, tariff threats and broader geopolitical dynamics poses external risks. Yet, Mexico's integration with global value chains, aided by its location and competitive costs, remains an anchor for economic stability.

International relations could further strain Mexico's business environment. Diplomatic tensions stemming from differences in energy policies or trade disputes may require strategic negotiation to protect Mexico's interests. Meanwhile, sporadic social unrest and long-standing structural issues in income distribution challenge broader economic inclusion. However, Mexico's deep ties with the US, the potential of the "Plan México" and an emerging focus on industrialization remain compelling long-term strengths.

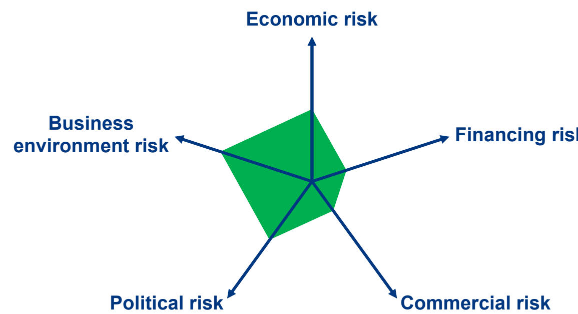
B1

Low
risk for enterprises

Morocco

Enhanced economic outlook, benefiting from a fragmented trade system

GDP	USD134.2bn (World ranking 60)
Population	37.5mn (World ranking 40)
Form of state	Constitutional Monarchy
Head of government	Aziz Akhannouch (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Increasingly diversified economy and a growing manufacturing hub to the EU; already a top car supplier to Europe
- Foreign policy aligned with that of the upcoming Trump administration
- Prospects of additional production of phosphates and fossil fuels

- Climate shocks remain the highest risk to Moroccan economy and social stability
- Youth unemployment remains high (above 20%)
- Diplomatic tensions with the EU will remain top of the agenda

Economic overview

A robust economic outlook threatened by climate shocks

Morocco's GDP growth is projected at +3.1% y/y in 2024 and +3.5% in 2025. The economy is currently experiencing an expanding cycle, helped by several simultaneous factors. Industrial production growth has seen strong quarters and is projected to continue with increased foreign investment in manufacturing, energy and mining. Agricultural output, which suffered in recent years due to a prolonged drought, is expected to see some relief, given the autumn 2024 rains. Tourism arrivals are expected to beat last year's historic record, while consumer and government spending continue to show signs of strength, with consumer sentiment growing, and government revenue on the rise. Inflation saw a drop in early 2024, which should bring annual inflation to 1.7%. Inflation in 2025 and 2026 is projected to be above 2%.

However, there are still many challenges to the Moroccan economy and business community. Climate is a top concern. The rains in the autumn 2024 season provided some relief after the driest year in 80 years was recorded in 2023. However, in later 2024, torrential rains killed more than 20 people in Southern Morocco and flooded parts of the desert, filling up Lake Iriqui, which had been dry for more than 50 years. Morocco is being affected by weather patterns traditionally seen in Mali or Mauritania, much to the south.

The Moroccan economy continues to maintain low levels of debt, forecasted at 26.9% of GDP in 2024, followed by an increase to above 27% in 2025. However, deficit is projected to continue growing 4.2% of GDP in 2024 and 4.9% in 2025. Finally, the social context remains tense as official unemployment remains above 30%.

Public finances require monitoring while exporting capacity is on the rise

Government spending has been picking up in recent years through both increased revenues and increased debt issuance. Debt service remained just below the African average at 5.5% of GPP in 2024, but it is expected to rise to 6.9% in just two years. The government has expressed interest in issuing a Eurobond valued in USD1bn in 2025. While debt levels still provide the finance ministry some leeway to continue borrowing, some state-owned enterprises are highly indebted, which represents a potential fiscal risk for the government. Morocco's water and energy utility company accumulates the equivalent of 8% of total public-sector debt. Morocco's government is in the midst of reforming some of the troubled SOEs by opening them to private sector ownership (which is expected to raise almost USD1bn in 2024) and with lending from the World Bank.

The Moroccan Central Bank governor pointed towards a full flexibilization of the Moroccan dirham, currently pegged in a EUR-USD basket with a fluctuation band of ±5%. However, according to the central bank governor, successful inflation targeting should be achieved before a full flexible exchange. In 2024, the dirham appreciated by 2%+, among the best performing currencies in Africa. International reserves are currently at a record high, given increased foreign direct investment, tourism income and robust remittances that persist at record levels.

The economic growth of the Moroccan economy over the last decade has been driven by an overall increase of all major economic sectors, notably services, government and manufacturing, and to a lesser extent agriculture and construction. Yet, the extraction sector has experienced a sharp decline since the Covid-19 pandemic, driven by global price fluctuations. The value of Morocco's main export, phosphates, decreased by -25% from the 2021 peak to 2023, but has already showed signs of growth in 2024. In the mid-term, phosphates as well as other extracting activities are expected to grow, given the increase in volume capacity, as well as the large number of natural resources available in the Western Sahara region. Automobiles follow phosphates as the top Moroccan export. The North African economy is currently among the top car exporters to the EU, exporting above 500k cars in 2023, similar to China, Japan and South Korea. Morocco's successful car industry follows years of investment by European carmakers like Renault and Stellantis, aiming to boost competitiveness within their costs and mitigate the risks associated with offshoring.

Morocco's enhanced international role amid its Western Sahara recognition and a fragile social cohesion

Morocco is actively pursuing a decades-long development plan to elevate its income level from low-middle income to higher-middle income. While the plan does not have the same capital resources as those of the Gulf nations, it focuses on diversification, investment attraction and renewable energy as key priorities. A significant portion of spending is allocated to large-scale projects. In the 2025 budget, Morocco will prioritize the construction of sports venues for the Africa Cup of Nations in 2025 and the World Cup 2030, which it will host alongside Spain and Portugal. Additionally, defense spending is set to increase under the planned budget for 2025.

The budget also includes funds for the development of the Atlantic pipeline, intended to connect Nigeria's gas fields to Morocco through 13 other countries, although this expensive infrastructure project still requires international financing for completion. Morocco aims to enhance its role as an energy hub. On the renewable energy side, the government has focused on attracting solar and green hydrogen investments, in line with the EU's energy transition goals. The country has also awarded several contracts to global oil firms for offshore and onshore exploration, although significant discoveries have yet to be made. France's recent announcement recognizing the autonomy of the Western Sahara under Moroccan authority, a position in line with that of Spain and the US, will open the door to French businesses and investments, given the rich natural resources from fish to phosphates in the region. However, recent European Court of Justice decisions have impacted fishing and farming agreements between the EU and Morocco, affecting EU fishermen and Moroccan businesses in the region.

Social dynamics in Morocco have become increasingly active, with increasing demonstrations, reflecting public sentiment on various issues. The government continues to allow some peaceful protests while focusing on strengthening key international relationships, particularly in the defense and technology sectors. In parallel, youth unemployment remains elevated at above 20%, a broader trend across the Mediterranean region. Although the government is pursuing initiatives to address it, high youth unemployment levels continue to pose a challenge for the economic and social context of the country.

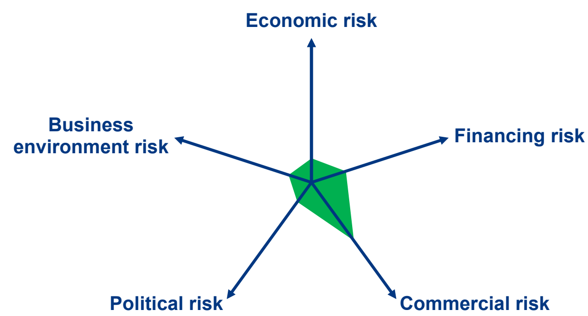
AA1

Low
risk for enterprises

Netherlands

Return to positive but below-trend growth

GDP	USD1118.1bn (World ranking 17)
Population	17.8mn (World ranking 69)
Form of state	Constitutional Monarchy
Head of government	Dick Schoof (Prime Minister)
Next elections	2028, General



Strengths & weaknesses

- One of the most open economies in the world, benefiting from its strategic location
- Labor market remains tight, with low unemployment rate and high vacancies
- Open economy, characterized by high living standards
- Well-developed infrastructure

- Political fragmentation
- Housing crisis to be tackled: still-high demand and limited supply
- Very urgent green transition, especially independence from fossil fuels
- Strong dependency on exports in a context of weak growth for trading partners

Economic overview

Activity to catch up further after stalling

Despite enjoying a faster post-Covid rebound than its Eurozone peers (+8.5% compared to end-2019, EZ average +4.6%), the Netherlands barely escaped a contraction in 2023 (+0.1%). And though economic activity resumed in 2024, the drivers have been volatile. Private consumption started to recover after elevated uncertainty and surging prices eroded household and corporate consumption behavior. Yet, both consumer and business confidence remain weak and below their long-term averages, while net trade and investment have also been volatile.

Inflation pressures in the Netherlands decelerated strongly in 2023, after reaching one of the highest rates in the Eurozone in October 2022. Inflation rebounded to one of the highest rates in the Eurozone in 2024 (3.3% on average) due to strong base effects, playing especially on energy prices (gas, electricity and district heating). In 2025, we expect prices to ease and the CPI to reach 2.7%, followed by 2.1%. Together with a strong wage growth, this should provide some breathing room for private consumption, which will be gradually pick-up in 2025-26.

The Netherlands' labor market remains very strong and tight. This means many companies are looking for workers while few people are looking for a job; vacancies are at record highs. There is a huge shortage of staff in various sectors such as ICT, construction, healthcare and education. The high inflation environment and labor market tightness have led to a sharp rise in wages. Also, the government has taken a step for the lowest income earners by increasing the minimum wage.

The new government's first budget promised new spending while keeping the deficit below 3%. According to the Draft Budgetary Plan, the government deficit is seen at 2.5% of GDP in 2025 (from 1.8% in 2024). The priorities of the Dutch government focus on migration, the tight housing market and household incomes. Other key policy issues to be addressed include measures aimed at improving the quality and accessibility of healthcare and education, as well as tackling climate change, the energy supply and the tight labor market.

Fragile government to tackle multiple challenges

The Wilders' Party for Freedom surprised by winning the November 2023 election, obtaining 37 seats (out of 150 seats). However, negotiations for cabinet formation collapsed throughout the process, finally resulting in the formation of the Schoof cabinet in July 2024, comprising the PVV, the People's Party for Freedom and Democracy (VVD), New Social Contract (NSC) and the Farmer–Citizen Movement (BBB). Political fragmentation means the government remains fragile and will face challenges in its term.

Migration and housing were the key themes of the electoral campaign and are key priorities of the new government. It has already announced the strictest asylum policy ever, with the aim of reducing or capping the number of migrants allowed in the country per year – including asylum seekers, labor migrants and students. Strictly connected to new arrivals, the structural lack of housing has also re-emerged as a hot topic, given the further push to demand.

In addition, the new government has scaled back climate ambitions; the 2030 target for the reduction of emissions has remained at 55% (compared to 1990 levels), although this no longer is a minimum reduction, and the extra buffer will be skipped. Notably, the Netherlands is an extensive agricultural exporter (second only to the US). This coupled with a dense population and heavy traffic leads to large nitrogen emissions.

Moreover, the Netherlands' growing reliance on liquefied natural gas (LNG) from the US has led to a sharp increase in the climate impact of its natural gas consumption. Although the US now supplies 27% of the gas used in the Netherlands, it is responsible for 66% of the total greenhouse gases emitted during gas extraction and transport.

The Netherlands is set to receive EUR5.4bn in grants (0.5% of GDP) from the NGEU funds. The Netherlands did not apply for EU loans as their cost of borrowing remains low. The Dutch plan is structured around six pillars: promoting the green transition; accelerating the digital transformation; improving the housing market, with a focus on building renovation; strengthening the labor market, pensions and future-oriented education; strengthening the public health sector and pandemic preparedness and tackling aggressive tax planning and money laundering.

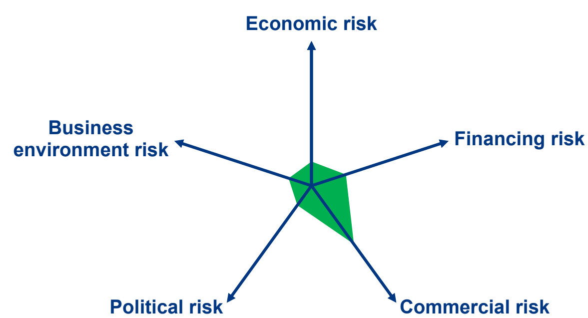
AA1

Low
risk for enterprises

New Zealand

Slow and modest recovery

GDP	USD235.5bn (World ranking 51)
Population	5.2mn (World ranking 122)
Form of state	Parliamentary democracy under a constitutional monarchy
Head of government	Christopher Luxon (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Solid public finances
- Proximity to Asian markets
- Favorable demographics
- The tourism industry

- Shortage of skilled workers
- Dependence on agricultural exports
- High level of household debt
- Vulnerability to natural disasters

Economic overview

Modest recovery and gradual retreat of inflation

New Zealand recorded robust GDP growth in the 2000s and 2010s by OECD standards, with +3% and +3.2% on average, respectively. Thanks to a swift policy reaction, the economy experienced a comparatively moderate Covid-19 slump in 2020 (GDP contracting by -1.1%), followed by a strong recovery in 2021 (around +6% growth). The central bank tightening cycle from end-2021 to 2023 undermined consumption and investment growth which, combined with a deteriorating global trade environment and rising energy prices, resulted in a slowdown of economic growth to +2.2% in 2022 and +0.9% in 2023. Another year of low growth was likely recorded in 2024 (around +0.5%) as the economy continued to deal with elevated borrowing costs. In 2025-2026, we expect annual average growth to recover to +1.7% and +2.3%, respectively, as monetary easing supports investment. A return to pre-crises levels of growth seems difficult in the coming years, in part on the back of exports being pressured by sluggish demand from New Zealand's trade partners.

The Reserve Bank of New Zealand (RBNZ) tightened its monetary policy from October 2021 until mid-2023 (+525bps in its policy rates), trying to tackle elevated inflation prompted by disturbances in supply chains and furthered by the global hike in energy prices in 2022. Consumer price inflation increased to an average of 7.2% in 2022 and 5.7%

in 2023, before moderating to around 3% in 2024 and likely around 2% in 2025-2026 – well within the RBNZ's target range of 1-3%. As a result, the RBNZ started to ease its policy stance in mid-2024 (-125bps in its policy rate in the second half of 2024) and is likely to deliver a further -125bps worth of cuts by the end of 2026.

Solid public finances but weakened external finances

New Zealand's financing risk is deemed low, even though its public finances have somewhat suffered in the past years. Fiscal support measures in response to the Covid-19 pandemic and then to rising global energy and food prices drove up the annual fiscal deficit to an average of nearly -4% of GDP between 2020-2024, compared with around -1% on average in the 2010s. However, the fiscal deficit is forecast to narrow in the coming years, falling to less than -2% of GDP by 2026. New Zealand's public debt rose in recent years, but at less than 50% of GDP remains well below the average for the OECD (around 80% of GDP) or the Asia-Pacific region (around 60%). The main financial concern of the country is the level of household debt, largely composed of mortgages, which stands at around 170% of disposable income, and is affected by still relatively elevated interest rates. Household debt servicing stood at around 11% of disposable income at the end of 2024, the highest since mid-2011.

New Zealand's external finances have suffered due to subsequent crises in recent years. The current account deficit widened from -1% of GDP in 2020 to nearly -9% in 2022 and remained at around -6% in 2024. It is likely to narrow somewhat in the coming few years, albeit gradually, in the context of still soft demand from China, somewhat declining energy import prices, a rebound in tourism and a trade agreement with the EU that came into effect in 2024. Yet, the annual current account deficit is forecast to remain at -5% in 2025 and -4.5% in 2026. More generally, New Zealand's trade structure leaves it vulnerable to external shocks: (i) China is New Zealand's main trade partner, accounting for more than 25% of its exports and more than 20% of its imports in 2023; (ii) Australia and the US are the second and third largest trade partners, with significant shares, making New Zealand dependent on the business cycles of these economies and (iii) New Zealand's exports also rely very heavily on food and agricultural products and are therefore exposed to weather hazards.

Strong business environment and stable political framework

New Zealand has a very favorable business climate, sharing first place in our business environment rating. The Heritage Foundation's Index of Economic Freedom survey 2023 ranks the country fifth in the world for doing business and third in the Asia-Pacific region. New Zealand scores especially high with regards to government integrity, judicial effectiveness, trade freedom, business freedom and property rights. There is still moderate room for improvement regarding the government spending and tax burden. The World Bank Institute's annual Worldwide Governance Indicators surveys indicate very high levels of regulatory quality and control of corruption (rank 3 worldwide), and a very high level of rule of law albeit slightly lower than the previous year, ranking 5th worldwide down from the 3rd rank based on the 2022 survey. Meanwhile, our proprietary Environmental Sustainability Index puts New Zealand at rank 15 out of 210 countries, reflecting very good resistances to water stress and climate change, fairly good proficiency in renewable electricity output, CO2 emissions compared to GDP and energy use compared to GDP. Only the recycling rate of the country is judged poorly.

New Zealand's political environment does not present many risks, thanks to established and transparent processes and consensus-building practices across parties. Since 2023, the government has been led by the National Party, under Christopher Luxon. Despite their short time in office, the government has received historically low approval ratings. At the same time the party has struggled with implementing some of their reforms due to conflict with their coalition partners, such as NZ First's resistance to allowing foreigners to buy property in the country as part of the Golden Visa reforms. For these reasons, we expect that Labour under Chris Hipkins will likely return to power next year in the 2026 election as he currently holds the highest approval of any political party leader.

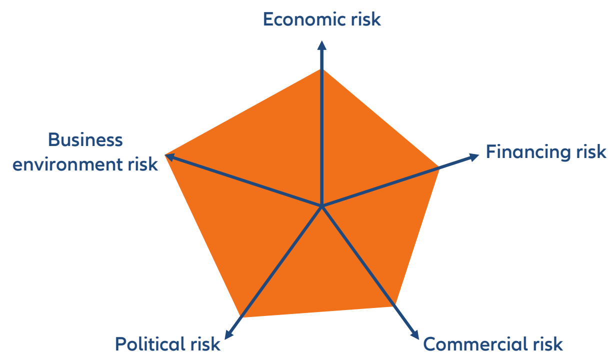
D3

Sensitive
risk for enterprises

Nigeria

Oil refined domestically and debt discipline present an opportunity for the African giant

GDP	USD362.8bn (World ranking 42)
Population	223.8mn (World ranking 6)
Form of state	Federal Republic
Head of government	Bola Tinubu (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Rich in natural resources, from hydrocarbons to mining
- Low levels of debt
- Biggest population in the African continent, thriving services and agriculture sectors

- Terrorism represents a major threat to northern provinces
- Long history of economic mismanagement and corruption continue to affect perceptions of doing business in the country
- Structural imbalances caused by a dependence on the import of refined products and generalized fuel subsidies

Economic overview

Growth picks up, fueled by services and agriculture

Nigeria's economy is forecasted to grow by +3.2% in 2025, a slight increase from +2.9% in 2024 and below our forecast for Sub-Saharan Africa. The oil sector continued to hinder growth in 2024 due to Nigeria's compliance with the OPEC production ceiling. Oil production is not expected to pick up at least until mid-2025 as OPEC has extended the production cap to maintain prices somewhat elevated. The non-oil sector has continued to grow above +3% in 2024, with a strong pick up in the second half of 2024. Growth is forecasted to remain robust in the mid-term, boosted by growth in agriculture and services, especially the finance sector. Meanwhile, increased refined oil from the Dangote refinery should continue to boost the manufacturing sector as it should be fully functional by 2026, reducing expensive imports.

In 2024, the Nigerian nira depreciated over over 40% against the USD, pushing inflation to 33.5%, among the highest CPIs on the African continent. Consequently, private consumption faced a sizable negative shock in H1 2024. In 2025, inflation is expected to decline to around 24%, back to 2023 levels; the Central Bank of Nigeria is expected to follow suit and start easing in Q2 2025. In parallel, the naira's strong depreciation strengthened Nigeria's external position. International reserves have grown by +25% since early 2024, above 10 months of imports, and the current account balance is forecasted to expand to 3.5% of GDP in 2024 and 2.2% in 2025.

However, in an economic environment marked by declining oil prices and reduced demand driven by slower economic activity in European economies and China, Nigeria's heavily reliance on oil for its exports and government revenue remains the primary challenge to its economy. Oil revenue remains just below 40% of total government revenue and oil exports represent 90% of total exports. Nigeria's external break-even oil price is approximately 80USD/barrel, while the fiscal break-even price is assessed to be above USD150/ barrel.

Fiscal pressures persist due to oil dependence, but low debt levels and increased liquidity support stability

The government faces wide-ranging fiscal pressures but the capacity to respond remains constrained by Nigeria's long-standing institutional weakness and social challenges. The fiscal balance is projected to slightly improve over the short-term from -5.1% of GDP in 2024 to -4.5% in 2025., due to the phase-out of oil subsidies. The Tinubu administration initially phased out oil subsidies in 2023 but reintroduced them in 2024, citing soaring inflation. In 2024, the subsidies accounted for 3.3% of GDP. The 2025 budget is valued the lowest since 2018 in USD terms; the decline in government spending should support Nigeria's fiscal balance. Under the current fiscal plan, untargeted oil subsidies are scheduled to be phased out to 0% of GDP by 2028, which should be less of a challenge with the increased domestic production of refined oil. The 2025 budget allocated less than 20% of spending for capital expenditure but Nigeria requires an increase in capital investment into infrastructure, among other top priorities for its development and poverty reduction. However, even with lower spending, there is no further effort planned to diversify government revenue from oil; the deficit is projected to remain at least -4% of GDP in the long-term.

The risk of sovereign default has declined since the pandemic period, given lower global rates, a low amount of FX-denominated debt and the limited amount of debt maturing in the short term: 2.47% of GDP in 2024 and 2.1% in 2025. In December 2024, Nigeria tapped international markets for the first time since 2022 by issuing two Eurobonds with total value of USD2.2bn, which were highly oversubscribed. Meanwhile, international reserves initially suffered post-depreciation in early 2024 but have since replenished and are expected to continue increasing as the inflow of FDIs is projected to more than double in 2025 and 2026. Increased access to FX should strengthen the domestic banking sector, which remains stable with improved capital adequacy ratios, but with deteriorating NPLs, especially in micro-finance banks and development finance institutions.

Production in the key oil sector remains weak due to lack of investment, governance and security challenges. Despite being the 12th world producer of oil (and the top producer in Africa), oil production has continued to fall significantly since the 2010 peak of 2.5mn barrels per day (mbd). At 1.2–1.3mbn in 2024, output has remained below the historical average and massive investments from global oil firms should come in annually to expand Nigeria's production capacity.

Trade and investment opportunities but security threats remain

As the biggest country in the African continent, Nigeria would highly benefit from reaping the opportunities that come from the African Continental Free Trade Agreement. Nigeria currently exports just 10% of total trade with the rest of the continent. The Western African nation's trading infrastructure is currently set up to serve commodity exports directed to mainly Europe and Asian economies - Nigeria's biggest trading partners - and imports of refined oil, machinery and consumer products from these same markets. Yet, increased investment in port and road infrastructure could double intra-African trade from USD8.5bn annually.

During the summer of 2024, Nigeria experienced a period of social tensions and protests motivated by the cost-of-living crisis and by similar demonstrations that took place in Kenya and spread across the African continent. The government reacted with an increased budget to support households and heavy security measures. In recent years, various regions in Nigeria have encountered increasing security challenges, including issues related to safety and stability. There are concerns about external influences in some areas, which have complicated local dynamics. In the Niger Delta, many community members have expressed concerns about equitable access to resources, highlighting ongoing governance and development challenges that affect the oil sector. Given the broader regional security landscape, Nigeria continues to receive support from international partners. Addressing the security situation in the north and managing community relations in central Nigeria, where resource pressures and demographic changes are factors, remain important priorities.

Given the broader regional threat posed by Islamist extremist organizations, the US has been a major arms supplier to Nigeria and is likely to continue providing security assistance. The persistent menace from Islamist terrorist groups, such as Boko Haram and Islamic State West Africa Province, operating in the north and executing attacks nationwide, remains a concern. Prolonged violence between farmers and herders in central Nigeria, driven by factors like rapid population growth and natural resource depletion, also presents a challenge.

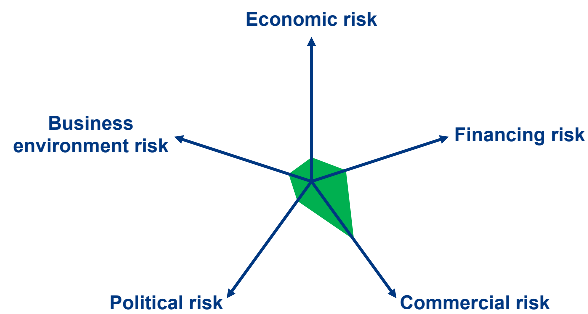
AA1

Low
risk for enterprises

Norway

Revitalized optimism

GDP	USD485.5 (World ranking 31
Population	5.5mn (World ranking 117)
Form of state	Constitutional Monarchy
Head of government	Jonas Gahr Støre (Prime Minister)
Next elections	2025, Legislative



Strengths & weaknesses

- Full integration in the EU's internal market and free travel zone
- Strong business environment supported by a wide political consensus
- Highly skilled and educated workforce
- Profitable banking system and financial stability
- Robust fiscal framework and ample support by the Government Pension Fund Global

- Persistently low energy prices
- Low diversification of the economy
- Very high household debt level
- High corporate and personal tax rates
- High unit labor costs

Economic overview

Brighter economic outlook on growth and lower inflation

Despite a decline in residential investment and consumer spending, Norway's economy benefits from increased petroleum investments, enhanced export competitiveness due to a weak NOK and higher public spending of oil revenues. Strong export profitability and high investment on the Norwegian Continental Shelf are expected to sustain growth, supported by the petroleum fund's value surge.

Norway's growth prospects are optimistic, supported by strong economic fundamentals and strategic investments. The nation continues to leverage its abundant natural resources, especially in oil and gas, which remain vital to its economy. Furthermore, Norway is actively working to diversify by investing in renewable energy and technology sectors, aligning with global sustainability objectives. Government initiatives aimed at improving infrastructure and promoting innovation are expected to drive further growth. Although challenges like fluctuating oil prices and global economic uncertainties persist, Norway's resilient economy is well-positioned for ongoing expansion. While firms' profitability remains high, wage growth was above +5% for the second year in a row in 2024, which should push up household purchasing power and thus private consumption. Growth should reach +1.4% in 2025 and +1.7% in 2026 as the economy gradually returns to its potential growth rates.

Inflationary pressures are gradually easing but remain significantly above the 2% target. Overall inflation has decreased notably from +5.5% in 2023, driven by lower price growth in food and energy, as well as base effects. However, with sustained high wage growth, inflation is expected to remain elevated at +2.3% in 2025, reaching target by 2026. The combination of high nominal wage growth and stagnant productivity suggests ongoing price pressures on Norwegian goods and services. Additionally, the vulnerability of the NOK and the link between wage formation, inflation and industry profitability complicate efforts to control inflation compared to other countries. As a result, Norges Bank is likely to maintain its current interest rates at its 16-year high of 4.5%, with no cuts anticipated before March 2025. Furthermore, the Norwegian krone (NOK) is susceptible to geopolitical influences and international interest rate trends. If the NOK continues to weaken, it will become increasingly challenging to reduce inflation towards the 2% target, prompting Norges Bank to potentially delay any rate cuts even further.

There is still an elevated risk that negative events could weaken financial stability

Most households and businesses have managed to service their debt despite rising interest rates and high inflation. However, significant uncertainty looms over the economic outlook and future market developments, particularly amid ongoing geopolitical tensions. Many households carry substantial debt, making them vulnerable in the event of an economic downturn. Norway's financial system remains robust, characterized by strong earnings, efficient operations and solid buffers that ensure bank resilience. In the coming years, three key elements warrant close monitoring: (i) the government's commitment to diversifying the economy, (ii) the maintenance of low public debt levels and (iii) government support for employment in light of a tight labor market. The Norwegian government is likely to prioritize efforts to reduce reliance on the oil sector. This dependency has historically provided Norway with greater fiscal flexibility compared to many other European nations, evidenced by a remarkable fiscal surplus of +25.4% of GDP in 2022. After oil prices normalized in 2023, a surplus of +16.6% was achieved. Similar surpluses are anticipated in the coming years, with projections +12.7% for 2025 and +12.8% for 2026. Norway is well-positioned to implement new stimulus measures without significantly impacting public debt, which remained low at 36.3% in 2022 and increased slightly to 44% in 2023. Projections indicate that public debt will continue to decline to 42.7% in 2025 and further to 42.5% in 2026.

Strong business environment

Norway offers a robust business environment, excelling in areas such as low market entry barriers, competition, trade, and investment. In recent years, the government has introduced several reforms aimed at streamlining contract enforcement. However, there remains an opportunity to further simplify regulatory and administrative burdens on businesses.

A minority center-left coalition led by the Labor Party took office under Prime Minister Jonas Gahr Støre in October 2021 but collapsed in January 2025 over the adoption of EU energy directives. Political stability should remain assured even in the absence of a parliamentary majority, underlining the country's strong historical capacity for cooperation. Policies to diversify the economy and pursue green initiatives are likely to be progressive and we do not expect any major disruption to the oil sector despite pressure from some smaller parties.

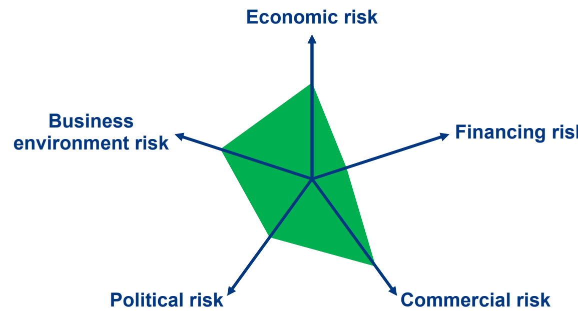
B1

Low
risk for enterprises

Oman

Momentum in private and non-oil sector, leveraging its neutral diplomatic role

GDP	USD108.2bn (World ranking 66)
Population	4.6mn (World ranking 126)
Form of state	Monarchy
Head of government	Haitham bin Tariq Al Said (Sultan and Prime Minister)
Next elections	2027, Legislative



Strengths & weaknesses

- Thanks to oil revenues and consolidation plan, Oman has a strong fiscal position
- Growing non-oil business activity
- Oman's balanced foreign policy and diplomatic efforts enhance its regional influence and qualify the country as a credible additional supplier of hydrocarbons

- Overreliance on hydrocarbons exposes Oman to oil price volatility.
- The state over participates in the economy in both the oil and non-oil sectors; SOEs exert extensive control over numerous areas, which hinders growth and leads to an overextended public sector.
- Struggles to include Omani citizens in the growth of the non-oil private sector and in its transition away from hydrocarbons.

Economic overview

Growth on the rise, thanks to undergoing effort to diversify

Oman is expected to speed up its growth in 2025 to +2.6%, after +1.5% in 2024, in line with Saudi Arabia or Qatar. Growth is expected to be fueled by a modest rise in oil production, given some partial relaxation of the OPEC ceiling on oil production. But most importantly, there will be a robust growth in non-oil activity. Food production, infrastructure construction and energy-intensive industries are forecasted to expand in 2025. 2024 was a ground-breaking year for Omani's private sector, thanks to the IPO of 25% of the upstream arm of the oil and gas SOEs, raising more than USD2bn. This move is framed in the 2040 national plan to shift the state's role in the economy from owner to regulator, increasing and stimulating the participation of the private sector in the economy. Together with Saudi Arabia, Oman is the only country in the GCC expected to increase FDI in terms of GDP over the long term, given that the private sector still lags behind other Gulf countries.

Year-on-year inflation is forecasted to increase to 1.9% y/y in 2025, after a year at 0.7% in 2024. Inflation in Oman will continue to remain lower than in Saudi Arabia and Qatar, as it has since the Covid-19 pandemic. The Central Bank of Oman together with the rest of the GCC monetary authorities have continued to follow the Fed's move in block, lowering the policy rate by 50bps and 25bps in September and December 2024, respectively, maintaining stability in exchange rates. Oman has a fixed exchange rate system, with the Omani rial (OMR) pegged at OMR0.38 per USD. We expect the currency peg to hold over the next two years.

Oman's debt profile has turned the corner since the pandemic brought government debt to 68% of GDP. Since then, the government used some of the hydrocarbon windfalls to pay off, prepay and buy back a portion of central government debt in order to better serve its maturity profile. In 2024, debt to GDP reached 34% of GDP, a -33% reduction in five years. Debt is forecasted to grow to 40% by the end of the decade. Additionally, international reserves are expected to continue to grow from the current 4.2 months of prospective imports to above 5 by 2026. However, macroeconomic uncertainties, particularly shocks resulting from oil price volatility, the realization of contingent liabilities from SOEs, given the important share of SOEs in the country's economic activity, and difficulties in removing subsidies might impact the fiscal balance and public debt on a long-term horizon.

An economy built around hydrocarbons

A fiscal stability program was introduced after the Covid-19 oil shock. Oman started a three-year program to further the sultanate's economic recovery from the pandemic slowdown and to assist in the growth of the country's banking sector. On the back of favorable oil revenues and fiscal actions under the plan, the fiscal balance attained a surplus of +5% of GDP in 2024 and Oman is projected to remain in surplus throughout the medium term, showcasing stronger financial health than that of the UAE, Saudi Arabia or Qatar.

Oman's economy is still heavily reliant on hydrocarbons, which account for approximately 35% of GDP. Government revenue is the most dependent on hydrocarbons, bringing in 77% of total fiscal revenue since gas prices increased due to the Russian invasion of Ukraine. Revenues from natural gas increased to represent around 25% of total revenues, while oil descended from 60 to 50%. The Omani leadership has yet to take serious steps towards diversifying revenues form oil. In late 2024, the government announced that it was backtracking plans to introduce a 5% universal personal income tax agreed on and passed by Parliament in 2022, which would have only increased revenues by 2%, but would have been welcomed by international investors to diversify the revenue stream.

Exports are also highly exposed to the hydrocarbon industry, which representing over 60% of total goods exports. Oman's export strategy has focused on using energy-intensive industries to add value to its supply chain, developing iron ore, chemicals, fertilizers and the plastic industry in the country, materializing in an increase of FDI for such industries. Energy-intensive industries have been attracting foreign investments from Asia: Chinese firms have invested in iron ore-processing and aluminum plants. The renewable energy industry has also been on the rise, fueled by green hydrogen investments. In early 2025, a new auction of land will be offered, increasing the total number of plants to six. Yet, these remain a small share compared to oil activities in the country.

With the help of oil and non-oil exports, the current account achieved its first surplus since 2014 in 2022, at +5.2% of GDP, and is expected to continue in surplus in the medium term. Sultan Haitham bin Tariq al-Said will prioritize preserving Oman's domestic unity while attempting to reconcile the need to reduce fiscal spending with preserving the current economic development trajectory. New road, rail and port infrastructure connecting Oman to the United Arab Emirates will support the growth of the logistics sector. Trade and budget surpluses expected in 2024-25 will allow the government to postpone additional spending cuts. .

Neutral diplomacy and stability, the backbone of the Sultanate

Since the Cold War, Oman has maintained a neutral foreign policy, enabling the Sultanate to position itself as negotiator and bridge in international diplomacy. Oman maintains important ties with the US, being among the only countries with a free-trade agreement with the US (since 2006). It also shares strong cultural and historical ties with Iran. Leveraging these longstanding relationships, Oman has served as a venue for negotiations between the US and Iran in recent years. Muscat was an early site for the Iran Nuclear Deal Talks (JCPOA) and is frequently used as a back channel between the two rivals. Additionally, Oman has hosted talks involving various factions from Yemen.

In recent years, Oman has enlarged its international relations; in 2023, it established international relations with the Holy See. India is among Oman's top international partners. Oman hosts one of the biggest Indian communities in the world, representing 20% of the Omani population. Historical ties dates to several millenniums and since the early 21st century, economic and defense ties have only grown further. India is Oman's second largest export destination for non-oil exports and in recent years, Oman has become a top destination for Indian tourists. A potential pipeline linking Omani gas fields to the western Indian province of Gujarat is under study, even though its feasibility is in doubt due to high costs. In this context, and due to Oman's neutral diplomacy, Oman maintains strong political ties with Pakistan and participates in China's Belt and Road Initiative. Although it does not officially recognize Israel, Oman has cultivated economic and political connections with the country. Consequently, Oman is one of the few countries in the Middle East to maintain positive relations with all major global powers.

Oman remains a core member of the GCC, maintaining strong political ties with to other Gulf states. The growing physical infrastructure connecting the Sultanate to the UAE and the rest of the Gulf via railroad should boost non-oil business activity. The Sultanate shares common challenges with the rest of the Gulf, including reliance on oil, vulnerability to global oil price fluctuations and the risk associated with global decarbonization efforts. Like Saudi Arabia, Kuwait or Bahrain, Oman must persist in the path of diversification. Leveraging its diplomatic strength, Oman has the potential to attract business and investment from regional players like India and the UAE, as well as from international markets. With the new Trump Administration, Muscat could capitalize on Washington's renewed interest in the region, serving as a bridge among various stakeholders and benefiting economically from increased US investment.

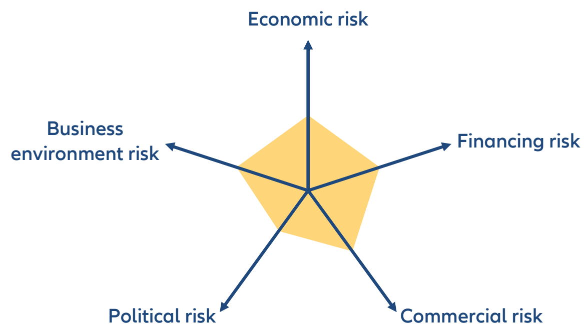
BB2

Medium
risk for enterprises

Panama

How deep are Panama's waters?

GDP	USD83.4bn (World ranking 74)
Population	4.4mn (World ranking 127)
Form of state	Presidential Republic
Head of government	José Raúl Mulino (President)
Next elections	2029, Presidential and legislative



Strengths & weaknesses

- Panama's strategic location, diversified economy and robust logistics and financial services sectors provide a solid growth platform
- Major projects like metro expansion and a new canal bridge highlight long-term commitments to development
- Recovery to a projected 3.5% growth by 2025–2026 demonstrates resilience despite significant challenges

- Mounting deficits, high debt levels and uncertainty around arrears settlements strain economic stability
- Protests over contentious policies expose deep-seated public distrust in institutions and threaten political cohesion
- Exposure to climate impacts, particularly on the Panama Canal and agrifood-logistics balance, poses long-term operational risks

Economic overview

Growth boosted by construction and finance

Panama's economic growth is expected to rebound gradually in 2025-2026, recovering from an estimated +2.5% in 2024 to an average of +3.5%. This growth will be supported by base effects following the closure of Cobre Panamá, the country's second-largest export source after the Canal, and investment in the construction sector. However, faster growth will be constrained by persistent challenges, including high unemployment, significant labor informality, increased repatriation and rising insecurity linked to illicit trafficking through the Darién Gap connecting Panama and South America. The short-term costs of migration in the current setting are estimated to total around 0.5% of GDP every year.

Panama's strategic advantages – its location, openness to trade, ports and robust logistics sector – continue to underpin its diversified economy, with financial services remaining a key growth driver. Despite these strengths, fiscal pressures are mounting. Falling revenues and rising expenditures pushed Panama's fiscal deficit to 7.1% of GDP in the first nine months of 2024, the highest on record, including during the pandemic. The full-year fiscal deficit is projected at 6% of GDP, though this figure is subject to uncertainty based on how much of the government's large stock of arrears is settled and the outcomes of a tax amnesty. Debt is forecast to reach 63% of GDP, with interest payments consuming almost one-fifth of government revenues.

Public spending will play a diminished role in growth in 2025 due to planned budget cuts, though investment in major infrastructure projects will remain a key driver. Notable projects include a cable car system in San Miguelito, a railway line from Panama City to David, the expansion of the Panama City metro and the construction of a fourth bridge over the Panama Canal.

Pressure on the fiscal accounts

The country's political framework remains fragile after an informal governing coalition was set up to secure a working majority. José Raúl Mulino, a former security minister supported by a center-right coalition, assumed office as Panama's new president in 2024 after his party gained the relative majority with 17% of votes. The party leader, former president Ricardo Martinelli (2009–2014), was disqualified from the presidential race and is now taking refuge in the Nicaraguan embassy in Panama City after a 2023 money-laundering conviction. Panama's fiscal outlook is expected to worsen as the government's inability to secure congressional backing for more rapid fiscal consolidation underscores the legislative hurdles President Mulino is likely to encounter in advancing his agenda. Political parties from the opposition are showing more willingness to collaborate to avoid an impasse, while Martinelli's supporters are taking advantage to increase the former president's bargaining power.

Key challenges for the new administration include addressing fiscal and pension reforms and resolving the dispute over Cobre Panamá, the region's largest copper mine, which was shut down in 2023 by a presidential decree issued by then-President Laurentino Cortizo after the Supreme Court deemed the government's contract with its Canadian operator unconstitutional. The mine contributed about 5% of the country's GDP.

Climate challenges and protests

Panama experienced robust growth over the past two decades, driven by trade, services and large-scale investment projects, making it one of the world's fastest-growing economies. Between 2001 and 2019, Panama's growth averaged an impressive +6.1%, the highest in Latin America and the Caribbean. However, the country now faces increasing vulnerabilities to climate change. According to the World Bank, Panama ranks 14th among nations most exposed to multiple climate impacts, with weather-related challenges affecting the Panama Canal's operations, the balance between its agrifood sector and logistics and social stability. The Canal requires significant investment to prevent drought-related low water levels from disrupting ship transits.

Public protests may also interfere with Panama's logistical reputation. In late 2023, a massive protest movement erupted over a newly enacted law regularizing the contract of a major copper mine, bringing the economy to a standstill. The scale and intensity of the protests, which occurred just months before the presidential election, highlighted the fragility of Panama's social compact and deep public distrust in state institutions.

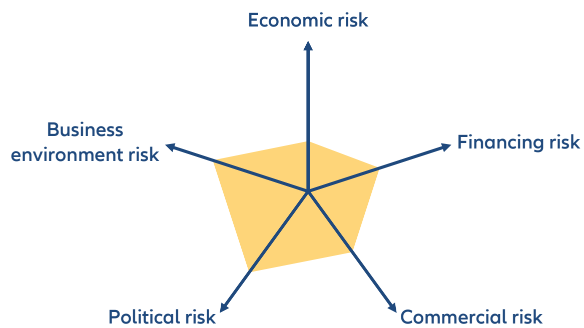
B2

Medium
risk for enterprises

Peru

Mining riches and political rifts

GDP	USD267.6bn (World ranking 49)
Population	34.4mn (World ranking 45)
Form of state	Constitutional Republic
Head of government	Dina Boluarte (President)
Next elections	2026, Presidential and legislative



Strengths & weaknesses

- Peru boasts a low public debt-to-GDP, a credible central bank and large foreign reserves, creating a stable foundation for long-term growth
- High demand for copper, gold and fruits, along with a robust mining sector, sustain export revenues and attract investment
- Strategic infrastructure projects and steady private investment highlight Peru's long-term economic potential

- Corruption allegations and weak governance undermine confidence, with succession risks looming over the administration
- Rising public spending, contingent liabilities and populist measures threaten fiscal discipline
- Heavy dependence on volatile commodity markets, long-lasting poverty and a vast informal economy hinder sustainable growth

Economic overview

Economic resilience under pressure

Peru's economy demonstrated resilience in 2024 despite domestic unrest and global headwinds, achieving an estimated growth of +3.1%. This performance was driven by public spending, robust private consumption and favorable global commodity prices, particularly for copper and gold. Mining remains a cornerstone of the economy, with high global demand sustaining activity. However, intermittent strikes and protests disrupted economic operations, presenting downside risks for 2025. Despite these challenges, inflation ended 2024 within the Banco Central de Reserva del Perú's (BCRP) target range of 1-3%, largely due to declines in food and fuel prices. This allowed the central bank to cut its policy rate to 5% in November 2024, with further easing expected in 2025 to support consumption and investment amid an inflation average forecasted at 1.5-2%.

Export performance in 2024 presented a mixed picture. While goods export volumes slowed, high prices for key commodities, such as copper and gold, bolstered export revenues. Risks loom for 2025 due to potential changes in

US trade policy under the new administration, including possible blanket tariffs that could weigh heavily on Peruvian exports. Meanwhile, private consumption – fueled by pension fund withdrawals, low inflation and improved employment – remains a significant growth driver. However, these factors are expected to diminish in 2025, despite a positive outlook for agricultural exports, particularly fruits. Infrastructure projects, such as the USD3.5bn Chancay Port developed by Chinese investors, are key to long-term economic dynamism and are aligned with government priorities to stimulate private investment and foster trade partnerships with Beijing and Asia-Pacific economies.

Fiscal picture worsens, but private investment remains strong

Peru's medium-term growth prospects remain steady, with GDP forecasted to grow by +3.5% in 2025 and +3% in 2026, respectively 0.9pp above and in line with the regional average. A robust pipeline of mining and infrastructure projects will underpin economic activity, while the sol is projected to strengthen as global copper demand rises and the US dollar softens amidst a milder monetary stance by the Federal Reserve.

Despite this, fiscal constraints remain a pressing concern. National oil company Petroperú's financial struggles necessitated government bailouts totaling USD2.8bn in 2024, equivalent to 0.9% of GDP, which, alongside lower revenues and increased public spending, are pressuring fiscal balances. The fiscal deficit is forecast at -2.1% of GDP in 2025, aligning with fiscal rules but leaving little room for fiscal slippage.

Efforts to bolster fiscal health include measures such as VAT on digital services, stricter anti-evasion policies, and accelerated resolutions in the Fiscal Tribunal. These reforms aim to enhance revenue collection and create fiscal space for social and infrastructure investments. However, political fragmentation and populist pressures could undermine these efforts. Nevertheless, Peru's relatively low public debt-to-GDP ratio, prudent macroeconomic management, and significant foreign reserves are expected to support its investment-grade credit rating, provided fiscal discipline remains intact. External risks, such as slower global growth and potential US tariffs, also cloud the fiscal outlook.

Opportunities amid political turmoil

Peru's business environment reflects a mix of opportunities and challenges. Macroeconomic stability and high-profile projects, such as the Chancay Port, have boosted foreign investor confidence thanks to the timeliness of their execution and the special relationship that Peru, along with the other Andean economies, continues to have with the other side of the Pacific. The mining sector continues to attract significant private investment, and improved business sentiment has been reported, aided by government efforts to promote investment-friendly policies.

Persistent political instability remains a significant challenge. President Dina Boluarte faces mounting corruption allegations, including cases related to human rights abuses in 2023 protests, illegal enrichment and cronyism. Although her administration is supported by a fragile coalition in Congress, impeachment attempts in 2025 are likely, especially as legislators will no longer risk triggering early elections by removing her. However, her removal appears improbable unless there is a substantial political realignment.

Rising crime and insecurity further weigh on Peru's business outlook. Homicides increased by +22% y/y in 2024, highlighting growing challenges in public safety. Issues with informal mining operations persist, as evidenced by the government's controversial extension of permits for informal mines, which business groups oppose. This extension underscores the delicate balance the administration faces between formalizing the mining sector and addressing social pressures.

The upcoming general elections, scheduled for 2026, will be pivotal, with fragmented politics likely delaying structural reforms. While a right-of-center candidate may have the best chance, political uncertainty is likely to deter investors in the interim. Nevertheless, Peru's commitment to fiscal discipline, ongoing infrastructure projects and the resilience of private consumption and investment amid political instability provide cautious optimism for medium-term growth. Strategic economic relations with China, particularly in mining and infrastructure, will deepen, although this could exacerbate tensions with the US, adding another layer of geopolitical risk.

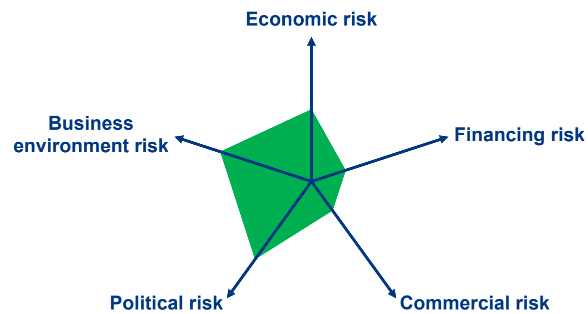
B1

Low
risk for enterprises

Philippines

Navigating structural challenges to unlock further growth potential

GDP	USD404.3bn (World ranking 39)
Population	115.6mn (World ranking 13)
Form of state	Presidential Republic
Head of government	Ferdinand Marcos Jr. (President)
Next elections	2025, legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Favorable demographic dynamics
- Robust domestic consumption
- Resilient banking sector
- Strong remittances inflows

- Vulnerable to external pressures
- Cyclical risks from heavy reliance on electronics exports
- Weak business environment
- High public debt
- Climate change vulnerability

Economic overview

Robust growth in the medium term

The Philippines has experienced strong GDP growth over the past decades, with +4.5% on average in the 2000s and +6.4% in the 2010s. The Covid-19 pandemic provoked the worst full-year recession on record in 2020 (with GDP contracting by -9.5%), followed by a patchy recovery in 2021 (+5.7%) and a stronger rebound in 2022 (+7.6%). 2023 and 2024 returned to more normal but slightly below-average rates of growth (around +5.6%) as for most of that period, the Philippine economy dealt with challenges in the external environment, high inflation and tight monetary policy. These headwinds are likely to alleviate somewhat in 2025 in the context of exports being supported by the global electronics cycle, private consumption improving on the back of lower inflation and monetary and fiscal easing and investment picking up thanks to public spending. GDP growth is thus likely to near +6% in 2025, before edging down to +5.7% in 2026 as US policies under President Trump create some challenges (through trade policy but also more restrained monetary easing). In the medium-term, post-pandemic economic scarring means that growth is likely to remain a little lower than the pre-pandemic average in the coming few years (we expect +5.7% on average in 2025-2029). For example, while the tourism sector used to be a boost to growth before the pandemic, the recovery in the past few years has lagged behind that of regional Southeast Asian peers and is likely to remain a drag to overall growth for the Philippines.

Fiscal consolidation has been slow in the post-pandemic years. From 1.5% of GDP and a pre-pandemic average of +0.5%, the fiscal balance deteriorated to -6.2% in 2021 and this deficit has been very slowly narrowing since – still at an estimated c.4% in 2024-2025. While the government has ambitious plans to bring the deficit to 3% of GDP in 2028 in part thanks to improving and expanding tax collection, high interest payments on debt and support for low-income households will likely stall the progress.

Deteriorated yet manageable public finances with a volatile external balance

The Philippines' short-term financing risk is deemed broadly low. However, public finances are worth monitoring, especially given the fact that the fiscal deficit remains significantly elevated relative to pre-pandemic levels. Further, the level of foreign direct investments remains low, which will be worth monitoring as the country hopes to improve the business environment to attract foreign investments.

The fiscal deficit rose during the Covid-19 crisis and is unlikely to return to the pre-pandemic level in the coming few years. At the same time, public debt rose quickly and is expected to reach nearly 60% of GDP in 2025-2026, from less than 40% in 2019. That being said, the situation is not critical in the short to medium-term, in part thanks to the country's reliance on domestic rather than external financing. On the external balances front, the current account deficit widened to a peak of 4.5% of GDP in 2022, on the back of markedly increasing energy prices (the Philippines is a net energy importer), before narrowing to around 2.5% of GDP in 2023-2024. It is likely to remain around 2% of GDP in 2025, supported by lower imports of fuel and capital goods and a recovery in goods and services trade. However, the country continues to rely on remittances for domestic consumption and is therefore vulnerable to challenges in the external environment. Further, the economy's heavy reliance on the exports of electronics (more than 50% of its total exports) makes it vulnerable to cyclical swings in the sector.

Impediments to further economic progress: a weak business environment and political tensions

With a lower-than-average performance, the business environment in the Philippines broadly remains weak. The economy was ranked 89 out of 185 economies in the Heritage Foundation's Index of Economic Freedom survey 2023, down from rank 73 based on the survey conducted in 2021. The decline was primarily driven by significant weaknesses in terms of judicial effectiveness, government integrity and property rights. However, on the positive side, indicators for government spending, tax burden and trade freedom performed well. Meanwhile, the World Bank Institute's Worldwide Governance Indicators 2023 survey indicates that problems related to the rule of law and corruption warrant serious attention. Lastly, our proprietary Environmental Sustainability Index puts the Philippines at rank 78 out of 210 economies, suggesting that renewable electricity output, the recycling rate and climate change vulnerability remain weak spots for the economy, thereby limiting its potential for accelerating growth.

Of particular concern is the escalating tension between the two main political camps, the Duterte and Marcos families, heading into the midterm elections this year. The rift began its escalation in early 2024, when former president Rodrigo Duterte alleged the current president, Ferdinand Marcos, and his allies of trying to amend the constitution to remove term limits. Since then, this feud has escalated between the two camps going with Sara Duterte, Rodrigo's daughter and Marco's VP, being removed from key appointments due to her perceived threat as a challenger in the 2028 election. This rift could potentially risk delaying key structural reforms. Furthermore, it has raised alarms over potential political violence: The government commission on elections (Comlec) has identified 400 cities and municipalities as areas of concern for political violence.

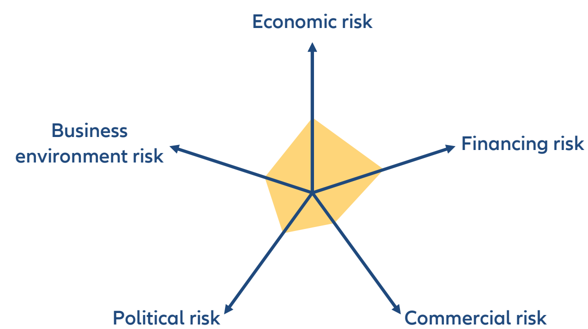
BB2

Medium
risk for enterprises

Poland

Optimistic growth outlook amidst worries over public finances

GDP	USD688.2bn (World ranking 21)
Population	37.6mn (World ranking 41)
Form of state	Parliamentary republic
Head of government	Donald Tusk (Prime Minister)
Next elections	2025, Presidential



Strengths & weaknesses

- EU membership
- Diversified sectoral external trade structure
- Robust domestic demand
- Resilient external finances
- Sound business environment

- Slow structural reform progress
- Tendency towards pro-cyclical fiscal stimulus
- Non-diversified regional external trade structure
- High external debt burden

Economic overview

Moderate recovery and easing price pressures

The outlook for the Polish economy is gradually brightening after deteriorating sharply as a result of the war in Ukraine. Following a strong post-Covid-19 rebound with +6.9% real GDP growth in 2021, economic activity cooled markedly from mid-2022 as production was hit by supply-chain disruptions and rising input costs, notably surging energy prices. Full-year growth held up well in 2022 at +5.6%, mainly thanks to pent-up consumer spending and solid investment activity. In 2023, the full impact of the war hit the Polish economy, with consumption and inventories falling sharply, along with notably higher inflation and interest rates. A positive contribution from net trade mitigated the downturn and ensured that the economy avoided a full-year contraction of GDP in 2023 with +0.2%. In 2024, Poland's industry remained weak due to soft external demand and a recession in construction. Consumption grew only moderately while investments stagnated. Despite one-off flooding events affecting consumer behavior, real GDP growth came in at +2.8% in 2024. In the next two years, it will stabilize at +2.8% in 2025 and pick up to +3.4% in 2026 on the back of a recovery in consumer and public spending and robust fixed investment.

Consumer price inflation reached a peak of +19.1% y/y in February 2023. Thereafter, it rapidly declined to +2.1% in March 2024, thanks to the unwinding of the energy and food price shocks in 2022. It edged up again to +5.1% in mid-2024 as base effects faded and services inflation remained elevated over 6%. Going forward, the new government's substantial fiscal spending pledges as well as strong wage growth remain an upside inflation risk, requiring continued cautious monetary policy. We forecast inflation to increase further to above 4% in 2025 and it may gradually return to the upper end of the National Bank of Poland's (NBP, the central bank) inflation target range of 2.5%±1pp by the end of 2026. The NBP hiked the policy interest rate to 6.75% in September 2022 and kept it there for a year until it pivoted with a large 75bps rate cut in September 2023, followed by a 25bps cut in October. Since then, the NBP has kept the policy rate unchanged against the backdrop of the recovering economy, inflation risks and the slower than earlier expected monetary easing in advanced economies. We expect further rate cuts only by the middle of 2025 at the earliest.

Public finances require monitoring but external finances have improved

Poland's public finances have deteriorated since 2019 but should remain manageable until 2025. Strong economic growth supported fiscal consolidation in 2014 to 2019 despite a moderately lax fiscal policy stance at the time. Fiscal deficits were low and public debt fell from 56% of GDP in 2013 to 46% in 2019. A huge fiscal stimulus program against the backdrop of the Covid-19-induced recession reversed that trend in 2020. The government posted a fiscal deficit of -6.9% of GDP and public debt rose back to 57% of GDP. The economic rebound in 2021 and high inflation in 2022, which raised nominal GDP, lowered the debt-to-GDP ratio back to 49%. In 2023, increased spending on defense, public sector wages and social benefits as well as some pre-election stimulus widened the fiscal deficit to -5.1% of GDP. With the new government likely to be more cooperative with the EU than its predecessor, it may embark on some fiscal consolidation to comply with the EU fiscal rules. This provides the opportunity to unlock EU funds of up to 14% of GDP until 2027, which will boost investment and economic activity and thus lower the fiscal deficit and public debt to GDP ratios to some extent. We forecast that the annual fiscal deficit will narrow gradually to approximately -3% of GDP by 2028 and public debt will stabilize at about 56% of GDP.

Poland's external finances improved in 2023 after they had deteriorated in the previous three years. The current account balance posted manageable annual deficits of -1.2% and -2.4% of GDP in 2021 and 2022, respectively, mainly driven by surging energy import prices. The moderation of these prices in 2023 combined with faltering imports in the wake of subdued domestic demand moved the current account back into a surplus of +1.5% of GDP in 2023. We forecast a continued but smaller surplus in 2025 as imports are expected to recover somewhat stronger than exports, but see deficits again widening from 2026 onwards. On another positive note, foreign exchange (FX) reserves have steadily recovered as well after they declined from mid-2021 to end-2022, largely due to the financing of the external deficit during that period. Current reserves cover almost five months of imports and, in other terms, more than all external debt payments falling due in the next 12 months – both of which are comfortable ratios. Meanwhile, the gross external debt to GDP ratio has fallen to 51%, down from 63% in 2020, and is expected to fall further; it is already now one of the lowest ratios compared to peers in Central and Eastern Europe.

Sound business environment

The Polish business environment is well above average, despite a perceived deterioration over the past years. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory framework is generally business-friendly though a certain level of corruption is still perceived as present and the legal framework has worsened since 2014. The Heritage Foundation's 2024 Index of Economic Freedom survey assigns Poland rank 42 out of more than 180 economies, reflecting strong scores with regard to property rights, tax burden, trade freedom, investment freedom and financial freedom. However, weaknesses remain in particular with regard to judicial effectiveness. Our proprietary Environmental Sustainability Index puts Poland at rank 56 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses in renewable electricity output and the recycling rate..

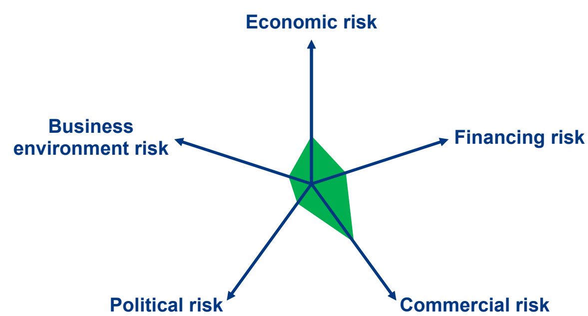
A1

Low
risk for enterprises

Portugal

Moderating but resilient growth

GDP	USD287.1bn (World ranking 48)
Population	10.5mn (World ranking 89)
Form of state	Parliamentary Democracy
Head of government	Luis Montenegro (Prime Minister)
Next elections	2026, presidential and 2028 legislative



Strengths & weaknesses

- Improved competitiveness thanks to structural reforms (banking sector, pensions, labor market)
- Friendly business environment
- Good performance in some industrial and innovative sectors

- Still high public debt (among the highest in the world) despite fiscal consolidation efforts; minority government can still face fiscal challenges
- High private sector debt
- Still complex legal system and poor rail and technological infrastructure

Economic overview

Economic resilience despite multiple global challenges

Portugal has recorded a solid and sustained pace of growth in recent years, with an overall improvement in economic performance from its weak position following the Eurozone sovereign debt crisis. While annual growth averaged +0.9% from 2010 to 2019 (Eurozone: +1.6%), and while Portugal suffered a stronger hit than the region in 2020 given its larger dependence on the services sector, growth tailed the Eurozone's average in both 2022 and 2023. In 2024, the pace of growth started to stabilize. Despite multiple global challenges, the Portuguese economy still benefits from a strong tourism sector (19.6% of GDP in 2023) and generous inflows from the NGEU instrument. Besides buoyant tourism, we expect private spending and recovering investment to support economic growth, which is likely to reach +1.3% in 2025 and +1.6% in 2026.

Inflation in Portugal declined in 2023 after reaching its peak in October 2023 (10.1% y/y). Core inflation decreased less sharply, with inflationary pressures prompted by the strong growth in nominal wages. Therefore, inflation averaged 2.4% in 2024 and it is expected to reach 1.9% in 2025 and 1.7% in 2026.

Fiscal commitment and further reforms

Portugal has been able to reduce public debt from 134.1% of GDP in 2020 to 97.9% of GDP in 2023, i.e. below 2010 levels, thanks to strong nominal GDP growth and fiscal consolidation reforms. The government balance returned to a surplus in 2023 (after reaching it for the first time in years in 2019), and it is likely to stay positive despite decreasing until 2026. As the fiscal deficit remains low, public debt should stabilize. Along with the EUR22bn allocated to Portugal within the EU Recovery and Resilience Facility, this should give Portugal room to increase public investments, in particular regarding state pensions, public-sector pay, health infrastructure and education. The 2025 budget bill was passed in parliament, a relief for the new center-right minority government, which took office in April 2024. The new budget promises to lift growth and generate a small surplus despite tax cuts for young people and businesses, and hikes in wages and pensions.

Portugal's dependency on tourism is a strength but also a weakness, considering the volatility of touristic activities. With almost one in five Portuguese living abroad, Portugal benefits from a non-negligible inflow of remittances from workers located in particular in other European countries.

Minority government comes with uncertainty

Portugal ha quickly emerged as one of the top business destinations in the EU, offering an ideal environment for entrepreneurs, investors and international companies alike. Recent data from Eurostat reveal that business creation has risen significantly, reflecting the Portugal's effort to support innovation and new business ventures. As the country continues to foster a business-friendly climate, it is becoming an increasingly attractive hotspot for global and domestic investors. The Portuguese government has put in place some measures to reduce bureaucracy which, along with a supportive legal framework, have made it easy for start-ups, foreign companies and Portuguese companies to get off the ground.

Luís Montenegro became the prime minister of Portugal after the March 2024 election. The results gave Montenegro and his center-right Alliance-Democratic only a small margin over the outgoing Premier António Costa's Socialist Party. This raised uncertainty about the government's long-term viability as it faces a highly fragmented parliament and depends on the votes of outside political formations. With just 80 seats in the 230-seat legislature, the AD will need the support of either the far-right Chega party, which quadrupled its parliamentary representation to 50 members of parliament, or the center-left PS, which secured 78 seats, to pass legislation.

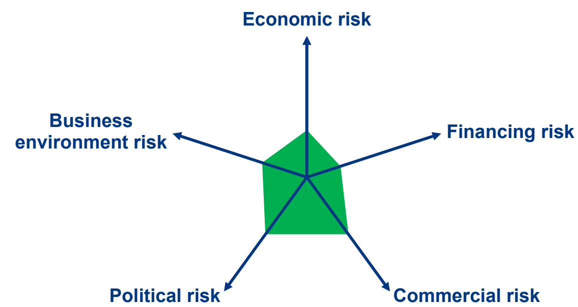
Qatar

BB1

Low
risk for enterprises

Expanding gas output to maintain growth

GDP	USD235.8bn (World ranking 55)
Population	2.7mn (World ranking 141)
Form of state	Emirate
Head of government	Tamim bin Hamad Al Thani (Emir)
Next elections	2025, Legislative



Strengths & weaknesses

- Qatar's vital role in the LNG market and commitment to diverse sectors, including sports and tourism, fosters economic stability and growth
- Robust diplomatic ties with several countries as mediator on diplomatic disputes and host of global events increase the likelihood of international support in case of another deterioration of relationship with the Saudi-led bloc
- The North Field East LNG expansion project, combined with low inflation and enhanced fiscal policy, supports significant economic development

- Qatar's heavy reliance on hydrocarbon exports exposes its economy to fluctuations in global energy prices, necessitating tax reforms
- Geopolitical instability and trade bottlenecks, especially through the Hormuz Strait, pose risks to Qatar's export-dependent economy
- Despite political improvements, challenges in judicial effectiveness and business and labor freedom highlight areas for enhancing the overall business environment

Economic overview

Hydrocarbons continue to drive growth, awaiting the expansion of the largest gas field

Qatar has one of the highest levels of GDP per capita in the world, yet the economy relies significantly on hydrocarbon exports. GDP growth is expected to accelerate to +4.3% in 2025 after an estimated +2.7% in 2024, signaling a rebound from the post-World-Cup moderation. Inflation is expected to remain low at 2% y/y in 2025, from 1.6% in 2024, alongside progressive monetary relaxation following the US Federal Reserve's move.

The energy sector will continue to drive the economy in the mid-term. In 2026, the expansion of the North Field East gas field – the largest in the world – should double the field's output by 2030. Meanwhile, the expansion is already a major economic driver through significant investment spending. In addition, infrastructure investment and fast-growing tourist arrivals are contributing to drive momentum. We expect the tourism industry to sustain its recent vibrancy – visitor arrivals increased by almost +30% in the first nine months of 2024, compared to the previous year. Geopolitical instability in the region and trade bottlenecks are downside risks since most exports are shipped through the Hormuz Strait.

The Qatari riyal is pegged at QAR3.64 per USD. The peg is likely to stay in place, given the economic stability it provides and Qatar's significant international reserves to defend it.

Sound fiscal space allows for growing spending

External liquidity will remain unproblematic in the mid-term. Qatar has recorded large current account surpluses for more than two decades, with the exception of 2016 and 2020, when global oil and gas prices were particularly low. These surpluses have helped build up the Qatar Investment Authority (QIA), a sovereign wealth fund currently estimated above USD500bn. The combined international reserves of the central bank and the QIA represent over two times the annual GDP and cover more than 80 months of imports. Furthermore, Qatar successfully accessed international markets by issuing a USD.5bn green bon in April 2024. This bond achieved the lowest spread ever recorded for a Middle Eastern, African or Eastern European country. This milestone coincided with the launch of the first renewable energy strategy.

With oil and gas revenues accounting for around 85% of fiscal inflows, lower global energy prices might jeopardize tax collection. Yet, as gas prices are projected to remain higher in the mid-term, compared to crude prices, Qatar won't have the pressure to implement alternatives sources of tax revenue, such as the long-awaited value-added tax (VAT). With a strong fiscal outlook, public debt is expected to decrease from 45% of GDP at the end of 2023 to 33% by the end of 2028.

The economic acceleration and the soundness of Qatar public buffers is reflected in the increase of public expenditure, including military spending, health, and education budgets, as well as infrastructure investment. The 2025 budget has increased infrastructure spending by 5% to around USD58bn with a variety of new infrastructure projects. The Public Works Authority (Ashghal) will play a key role as the projects cover many sectors and provide potential for private sector engagement.

Dollars and balanced diplomacy to drive its global presence

In line with the other Gulf economies, in late 2024, the Qatari authorities approved a new Qatarisation law, which will be enforced in the spring of 2025, requiring firms to prioritize the employment of Qatari nationals, except for companies in the energy sector. In parallel, the Qatari government also approved reforms to bring more flexibility to the existing labor market, allowing workers to freely change employment, increasing the minimum wage and abolishing exit permits, among other reforms. Both reforms should bring mixed results to the labor market.

Qatar's ample liquidity buffer is allowing the country to play a greater role in the Gulf and the broader Middle East region. Amid the risks of exporting all its gas via the Strait of Hormuz, Qatar, together with the UAE and Turkey signed an agreement to invest in the Iraq development road, an infrastructure project that should link the Gulf with the Anatolian peninsula via road, rail and potentially pipelines. In addition, like other GCC members, Qatar is investing in enhancing rail and road connections with Saudi Arabia to link the country to the GCC Railway.

Qatar's foreign policy is based on counterbalancing partnerships that strengthen its regional strategic position and serve as a backup for regime security. Relations between Qatar and its Arab neighbors, Saudi Arabia, the UAE, Bahrain and Egypt, have improved in a pragmatic manner since 2017. Qatar has also continued to position itself as a strong partner of the US, with a recent strengthening of ties with the Biden Administration, as it also enjoys strong links with East Asian partners as it is the main provider of LNG to the region.

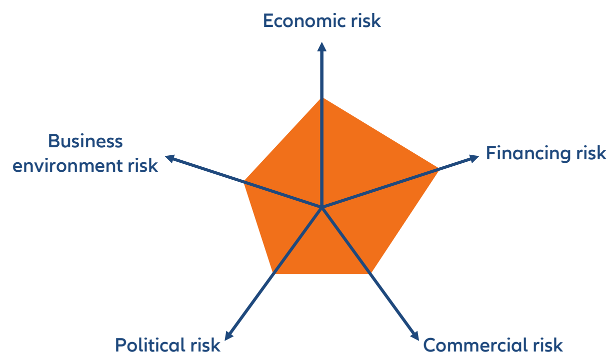
B3

Sensitive
risk for enterprises

Romania

Macroeconomic imbalances remain a concern

GDP	USD351.0 (World ranking 43)
Population	19.1mn (World ranking 65)
Form of state	Republic
Head of government	Marcel Ciolacu (Prime Minister)
Next elections	2025, Presidential



Strengths & weaknesses

- EU membership and good international relations
- Competitive industrial sector
- Low unemployment
- Adequate business environment

- Government instability
- Lack of structural reforms in key economic sectors
- Weak public finances
- Large annual current account deficits, with modest coverage through net FDI inflows
- High external debt burden

Economic overview

Moderate growth and sticky inflation

Romania has been a strong performer among emerging economies, though periods of economic overheating have caused concern at times. Average annual real GDP growth was +3.7% over the past 20 years, well above the respective average of the Central and Eastern European EU member states. The global Covid-19 crisis affected the Romanian economy markedly in 2020 (-3.7% contraction), but it rebounded strongly with a +5.7% output increase in 2021. However, Romania's economic prospects have significantly deteriorated since the war in Ukraine. This is due to the country's (pre-war) energy import-dependence on Russia and the impact of EU sanctions against Russia on the domestic economy (for example increased inflation and potential energy shortages). In 2022, economic activity in Romania still held up better than initially expected, thanks to robust consumer spending, investment and external demand. Statistical base effects also helped to achieve growth of +4.1% annually. However, the impact of surging inflation, rising interest rates, weakening external demand and deteriorating business confidence took full effect thereafter. As both domestic and external demand slowed down, real GDP grew by just +2.1% in 2023. In 2024, growth reached an average of +1.4% in the first half of the year, but fell into recession at -0.3% in Q3, ending with an overall growth of +0.8% for the full year. Going forward, growth is forecast to pick up gradually to +3.1% in 2025 and 3.6% in 2026, supported by resilient public spending and investment as well as strengthening consumer spending on the back of rising real disposable income, the fading impact of past interest rate hikes and some monetary easing.

Monetary policy by the National Bank of Romania (NBR, the central bank) is officially based on inflation targeting (2.5% ± 1pp) but has been loose for a long time. The real interest rate was negative from end-2017 to October 2023, i.e., the key policy interest rate was below the inflation rate, even when the latter was above the target range for most of 2018-2019 amid rapid double-digit wage growth, and again since mid-2021 amid rising energy prices. The latter drove consumer price inflation into double digits from early 2022 until mid-2023. The NBR hiked its policy rate moderately from 1.25% in September 2021 to 7.00% in January 2023. Romania then began a rate-cutting cycle in July 2024, gradually lowering the policy rate, which currently stands at 6.5%. It has also frequently intervened in foreign exchange (FX) markets to prevent excessive currency volatility – not surprising as the official exchange rate regime is that of a managed float – thereby maintaining the exchange rate of the RON stable against the EUR. We expect it to continue to do so as long it has sufficient FX reserves. Meanwhile, inflation is forecast to remain stickier than in neighboring countries on the back of hikes in food prices, strong wage growth and loose fiscal policies. Inflation remained at 5.6% in 2024 but will fall gradually to 4.5% in 2025 and 3.4% in 2026. .

Worrisome public and external finances

Romania's public finances will continue to deteriorate and have become a cause for concern. Strong pro-cyclical fiscal stimulus already widened the annual fiscal deficit to -4.3% of GDP in 2019. That ratio rose sharply to -9.3% in 2020 and -7.2% in 2021 because of Covid-19-related fiscal stimulus and loan guarantees and subsidies for SMEs, as well as lower nominal GDP. Further large annual fiscal shortfalls of more than -6% of GDP were posted in 2022-2023, this time due partly to lower fiscal revenues as well as higher spending needs in the wake of the crisis sparked by the war in Ukraine. Despite some planned fiscal consolidation, the annual deficits are forecast to remain high at more than -5% of GDP in 2024-2026. Meanwhile, the public debt-to-GDP ratio increased from 35% of GDP in 2019 to 49% in 2023 and is forecast to exceed 50% in 2024-2026. While this still appears moderate compared to other EU countries, the trend dynamics are a reason to worry.

Romania's external finances are another cause for concern. The annual current account deficit widened steadily from -0.3% of GDP in 2014 to -9.3% in 2022 and has remained high at over -7% in 2023-2024. Crucially, only some 30% of the combined shortfall in the last two years was financed through net foreign direct investment (FDI) inflows, well below the comfortable level of 75% and down from a recent high of 168% in 2016. Looking ahead, we expect exports and imports to grow at similar rates in 2025-2026 so annual current account deficits should remain large at above -6% of GDP in this period. The net FDI coverage of the deficits is likely to remain below 50% as capital flows to (weaker) emerging markets will remain muted amid ongoing global economic headwinds. Combined with the projected high fiscal deficits, this could raise external financing needs to critical levels. Moreover, the downtrend in the external-debt-to-GDP ratio from 77% of GDP in 2011 to 47% in 2019 has reversed; the ratio came in at 57% in 2020 and should remain above 50% in the next few years. Meanwhile, the NBR's FX reserves have increased again from temporary lows in 2022, although the aforementioned exchange-rate interventions cause some volatility in the level. At USD70bn in August 2024, reserves covered about five months of imports, which is considered an adequate ratio. In other terms, however, they do not cover all external debt payments falling due in the next 12 months (well below the benchmark "comfort" level of 125%).

Above average business environment but high political uncertainties

The business environment is generally adequate though spots of weaknesses remain. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly while weaknesses remain with regard to perceived corruption. The Heritage Foundation's Index of Economic Freedom survey 2024 assigns Romania rank 51 out more than 180 economies, reflecting strong scores with regard to property rights, tax burden, trade freedom and investment freedom. However, weaknesses remain in the areas of government integrity and financial freedom. In our proprietary Environmental Sustainability Index, Romania ranks 54th out of 210 economies, reflecting strong scores for energy use and CO2 emissions per GDP, and water stress. Yet, there are still weaknesses in renewable-electricity output and the recycling rate, as well as its exposure to climate events and its readiness to protect itself against such events.

Overall systemic political risk is moderate. Romania is a democracy with good international relations. It is a member of the EU and NATO and an OECD accession candidate. But political uncertainty has reached high levels, significantly impacting prospects for fiscal consolidation. In December 2024, the Constitutional Court annulled the presidential election amid allegations of foreign interference, prompting new presidential elections in spring 2025. A new pro-European coalition government of four parties has been formed, though its stability remains uncertain.

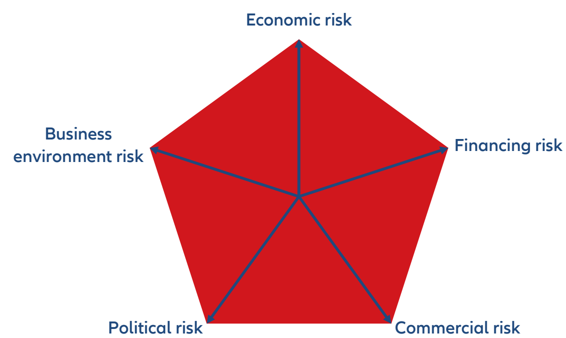
D4

High
risk for enterprises

Russia

Resilience and risk

GDP	USD2240.4bn (World ranking 8)
Population	143.6mn (World ranking 9)
Form of state	Presidential Republic
Head of government	Vladimir Putin (President)
Next elections	2026, legislative



Strengths & weaknesses

- Russia's vast reserves of oil, gas and minerals underpin its economic stability and global influence, providing significant export revenue and energy security
- Low unemployment and robust wage growth support domestic consumption and contribute to short-term economic dynamism
- Strong fiscal and industrial policies enable Russia to pivot toward new trade partners and withstand external sanctions

- Heavy reliance on commodities leaves the economy vulnerable to global price fluctuations and sanctions, limiting diversification
- Restrictions on access to advanced technologies and global markets hinder innovation and productivity
- Authoritarian governance and unfavorable demographic trends create long-term instability and impede economic pluralism

Economic overview

Mounting pressures

Russia's economic patterns in 2024 were shaped by persistent sanctions, the Ukraine conflict and an emphasis on fiscal and industrial policy to sustain growth. Sizable government spending, particularly on military-related production, has bolstered the economy but also driven inflation and strained labor markets. Growth in 2024 exceeded expectations, with labor shortages and wage growth supporting domestic consumption. Yet, inflation remained high at around 6% as of the end of the year. The Central Bank of Russia (CBR) pursued a stringent monetary policy, raising key rates above 20% to stabilize inflation, reduce currency volatility and prevent overheating.

Short-term growth continues to rely on fiscal stimulus, import substitution and the exploration of alternative export markets. Our forecast for 2025 is for subdued growth (+1.8%) at levels similar to the pre-pandemic average due to international oil prices remaining close to 2024 levels and sanctions. However, pressures from slowing construction and weaker export performance in sectors like metals and energy are evident. The housing sector, previously supported by subsidies, has decelerated significantly, while export volumes have declined by -20% since 2021. The construction sector is expected to shrink further, with a -10% decrease in housing commissioning projected for 2025.

Inflation management remains a key challenge for the CBR, given tight labor markets and strong nominal wage growth, and is projected to rise by +12% in 2025. While high interest rates will temper capital outflows and stabilize the ruble at RUB105/USD, further monetary tightening may be necessary if inflationary pressures persist.

Pulling all levers amid sanctions and strategy

Russia's medium-term outlook is constrained by structural factors including restricted market access, adverse demographics and the tightening of cross-border transactions. Export-related industries face declining global demand, especially in coal and refining, while ongoing sanctions limit technological upgrades. Export volumes are expected to fall by another -2% in 2025, contributing to reduced trade balance surpluses.

Fiscal policy remains expansionary, with government expenditure projected to grow by +5% in 2025 despite a planned contraction in non-defense spending. A budget deficit of RUB1.2tn or 0.5% of GDP is anticipated. However, this stimulative approach risks fueling inflation, complicating the CBR's efforts to stabilize prices, even though the level of government debt is not expected to rise much above 20% of GDP, partly because of limited access to international markets. Low unemployment at 2.3% and tight labor markets are likely to sustain domestic consumption but amplify inflationary risks. Growth prospects for 2026 remain subdued, with GDP growth unlikely to exceed +2%.

Currency stability is supported by high interest rates and constrained capital outflows, which have not impeded the ruble from depreciating rapidly in late 2024. The exchange rate is expected to stay above RUB100 per USD1 in 2025 due to weaker export revenues and a relatively strong dollar environment. Increased trade with China and other non-Western partners may provide partial relief but is unlikely to offset declining traditional markets.

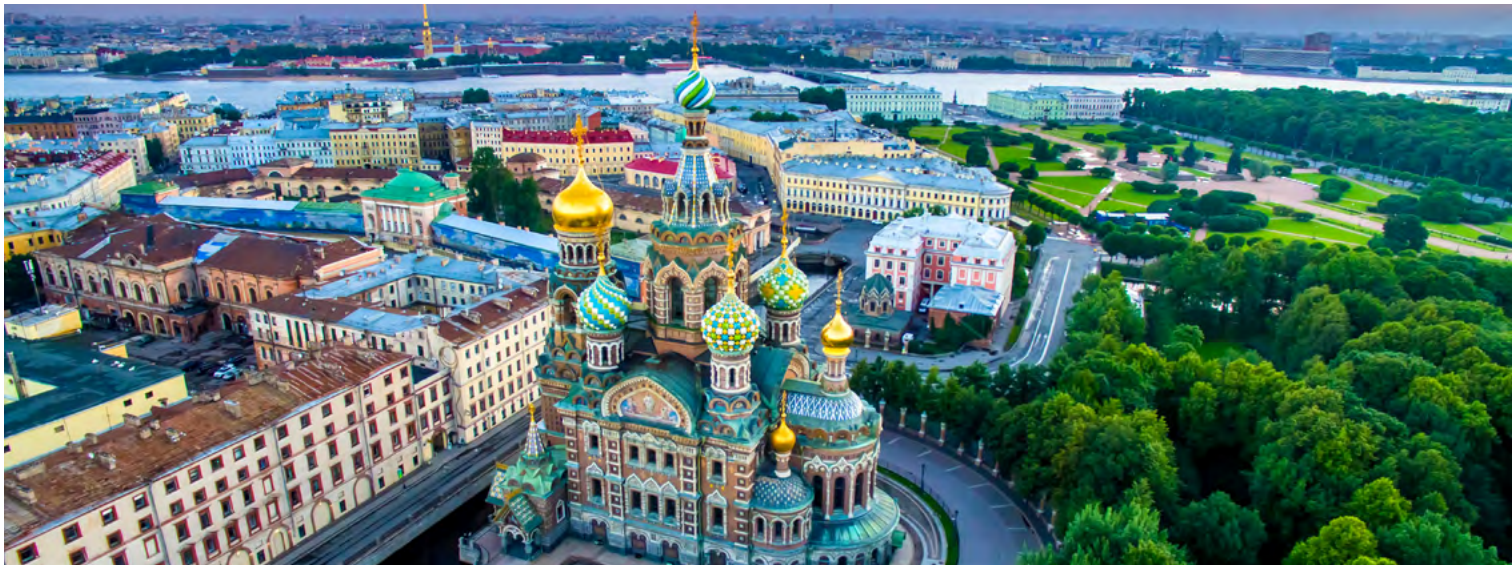
A future that looks too much like the past?

Russia's business environment remains heavily influenced by government intervention and geopolitical uncertainties. The authoritarian regime under President Vladimir Putin continues to suppress dissent effectively, but the risk of political instability remains elevated. Succession uncertainties beyond 2030 and mistrust of Russian governance abroad weigh heavily on investor confidence.

Tight state control over key sectors and economic levers, while ensuring stability, reduces market dynamism and flexibility. Sanctions and technological isolation further erode the country's competitive edge, discouraging foreign direct investment. The construction and export industries, in particular, are constrained by limited access to advanced technologies and materials.

Inflationary pressures evoke memories of past economic crises, raising concerns among the population and elites alike. While suppression of dissent ensures political continuity in the short term, latent discontent poses risks to long-term stability. The brittle nature of the regime, masked by economic resilience and strict governance, underscores these vulnerabilities.

Externally, declining Western support for Ukraine and potential shifts in the conflict's dynamics could influence Russia's geopolitical standing. An agreement favoring Russia remains a likely scenario, though continued isolation from Western markets will constrain long-term growth potential. Demographic challenges, particularly labor market shortages, further exacerbate these difficulties, dimming the country's economic prospects beyond 2026.



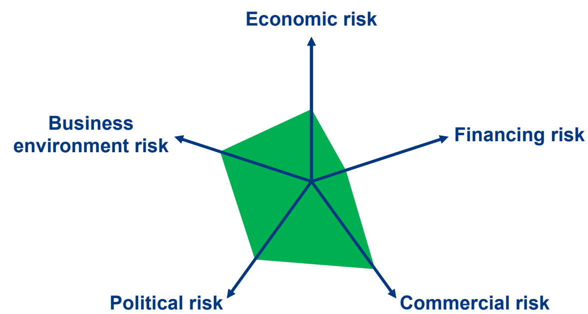
B1

Low
risk for enterprises

Saudi Arabia

Economy to rebound but concerns on long-term sustainability remain

GDP	USD1067.6bn (World ranking 19)
Population	36.9mn (World ranking 40)
Form of state	Monarchy
Head of government	Salman bin Abdulaziz Al Saud (King)
Next elections	None



Strengths & weaknesses

- Second-largest proven oil reserves globally, low extraction costs and over 70 years of oil supply at current production rates
- Commitment to Vision 2030 remains, as well as funding to mega-projects for a diverse economy
- Stable inflation thanks to large export revenues, ample reserves and a strict monetary tightening cycle helps the construction sector and overall project financing

- Over 30% of GDP and 70% of exports reliant on hydrocarbons, exposing vulnerability to oil price fluctuations
- The resurgence of conflicts in the Middle East pose a threat to investors and people appetite for the region, impacting long-term prospects
- Succession dynamics and governance issues affect international perception and create uncertainties

Economic overview

Feeling the pinch of falling oil prices

Saudi Arabia's economy rebounded during the second half of 2024, ending the year with GDP growth at +1.4%. The 2024 slowdown was the result of oil prices dropping below USD80/barrel and the self-imposed oil production cap of 9-9.5mn barrels per day. In 2025, momentum will continue building, with projected growth at +4.0% as oil output increases. After a year of oil production quotas to stabilize the global price, OPEC is projected to raise output, which should support Saudi Arabia's growth. Saudi Arabia's neighbors, notably Kuwait, are projected to also benefit from the increase of oil output.

The non-oil economy continued to grow over the first half of the year, albeit with a decelerating trend, reflecting the country's continued heavy dependence on commodities. Non-oil industrial and manufacturing sectors grew at a weaker pace, while construction grew by +10%, boosted by government spending on massive infrastructure projects. In parallel, services outperformed with tourism in the lead. In the first seven months of 2024, international arrivals to the Kingdom increased by +73% from the previous year. Inflation is following similar trends to the rest of the GCC countries, with prices expected to slightly rise to 2.3% y/y in 2025, compared 1.7% in 2024.

Lower oil revenues widen deficit but ample fiscal space remains

Despite government efforts to shift revenue collection away from oil, more than 60% depends on hydrocarbons and no major shift is expected in the midterm. During 2024, the Kingdom ran a government deficit above 3% to finance its infrastructure projects. In 2025, deficit is projected to slightly increase to 3.5%. The growing deficit was financed via the largest issuance of government bonds in the Kingdom's history that reached USD50bn, showing the growing financing needs. The non-oil primary deficit is projected to have reached 32% in 2024 and will slightly decrease to 30% in 2025. Saudi Arabia's Finance Minister Mohammed Al-Jaadan has continued to highlight the conservative approach to government revenue forecasts; debt will only increase if the oil-price trajectory is confirmed and diversification does not accelerate further.

While the deficit is increasing, the Kingdom's low current debt levels (27% of GDP in 2024) give it ample space to continue with loose fiscal policy. In 2024, Saudi authorities ramped up funding via capital markets to fill an expected fiscal shortfall of about USD21bn. In the first half of 2024, they issued bonds valued at USD12bn that were highly oversubscribed. According to the Saudi Debt Management Center, total debt issuance in 2024 is projected to have reached USD37bn. Similarly, Saudi Aramco, the country's national oil company, which saw profits drop by -14% in Q1 2024, plans to re-enter the debt market, expecting to raise USD3bn, along with selling a 0.64% stake valued in USD11.2bn.

Saudi Arabia's external position remains strong, driven by a high current account surplus. Foreign reserves at SAMA (Saudi's Central Bank) have decreased over the last decade but they remain above 9% of GDP, well above a year in months of imports. However, the capital and financial account have not seen the expected improvements, given lower foreign direct investment inflows than anticipated. Vision 2030 targeted 5% of GDP of FDI inflows, while they remained at 1.2% in 2023. .

Top-down development raises concerns about driving sustainable growth

The Kingdom's leadership remains committed to their Vision 2030 program, channeling oil funds for economic diversification, stimulating the domestic economy and building up the country for major sports and cultural events. Throughout the next decade, the Kingdom will host several sport events (including the 2034 FIFA World Cup) and the 2030 Riyadh Expo. Saudi Arabia also plans to tap into the growing LNG global market as it is expanding domestic gas output. In the face of lower-than-expected oil revenues, authorities have scaled back some projects of the 2030 Vision and redistributed and reprioritized funds. The question remains if such a top-down approach to economic development through mega-projects and events will bring sustainable long-term economic growth.

Saudi Arabia is following the footsteps of the United Arab Emirates in positioning itself as a hub for tourism, technology and financial services through the adoption of new laws aimed at providing safer regulatory stability and attracting FDI, such as the new laws in civil and commercial transactions, and an investment code. Higher female labor force participation is also supporting growth and attracting more talent from across the region. In addition, the active role of the Kingdom's sovereign wealth fund to invest in strategically important technologies could channel productive investment towards Saudi Arabia and support the diversification effort. Notably, the main investments have been directed towards AI and electric vehicles.

Saudi Arabia has been establishing new global partnerships, diversifying from the US, its main historical partner. In the framework of the G20, Saudi Arabia has joined forces with European countries, other Middle Eastern nations and India for the development of a new economic corridor that would bring Saudi Arabia into the center of transportation between Europe and South Asia, even though this plan is now under question due to the conflict in the Levant. China has become an important political ally to Saudi Arabia after having built a solid economic relationship over the last decade in the framework of the Belt and Road Initiative, with major infrastructure projects built and financed together with Chinese corporations. Politically, Beijing has become an important partner and mediator in the region, brokering a deal to reestablish relations between Saudi Arabia and Iran in 2023, as well as a mediator between Palestinian factions, which are strongly connected to the Kingdom's political elites.

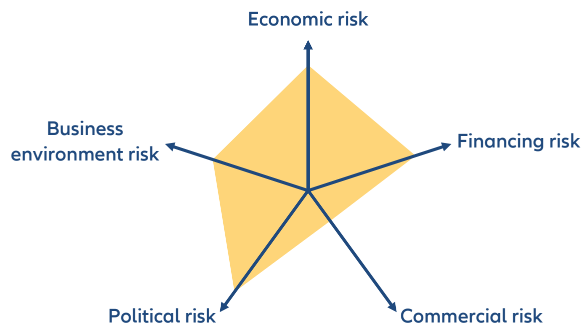
C2

Medium
risk for enterprises

Senegal

Economic boom amidst liquidity challenges

GDP	USD31.0bn (World ranking 106)
Population	17.8mn (World ranking 70)
Form of state	Republic
Head of government	Bassirou Diomaye Faye (President)
Next elections	2029, Presidential



Strengths & weaknesses

- Relatively good regional and international relations, membership of the West African Union (WAEMU) and usage of CFA franc provide relative economic stability including low risk associated with exchange rate volatility, convertibility and transfer of funds
- Political stability and market-friendly reforms have elicited foreign investment amid solid collaboration with the IMF
- Oil and gas fields coming online, along with increasing tourism, are improving external and fiscal accounts

- Revised fiscal deficit at 11% of GDP in 2024 will lead to higher debt servicing and increase financing requirements
- Delays in oil and gas production, coupled with output falling below expectations, could diminish government revenue and exacerbate liquidity challenges
- Growth prospects have become increasingly vulnerable to climatic effects, e.g. on agricultural output, and the import bill as Senegal remains a net importer of food and energy

Economic overview

Growth continues to pick up with new hydrocarbons

Despite political instability due to the Presidential elections that took place in March 2024, Senegal's GDP continued to rally at an estimated +5.7% in 2024 and growth is projected at +8% in 2025 due to the coming online of LNG production plant and the increase of oil output via a new deep-water field that will produce up to 100,000 oil barrels a day. The presidential election was the political cornerstone of the year, taking place after a controversial month-long delay, and resulted in the election of the not very well-known opposition leader Bassirou Doimaye Faye, a left-leaning politician who ran in place of the disqualified Ousmane Sonko. In November 2024, snap legislative elections took place, providing the President's party PASTEF with a Parliamentary majority. Amid the constitutional crisis, the fact that Senegal continued to grow at an impressive rate shows the momentum of the economy. However, many challenges remain, notably short-term liquidity, fiscal imbalances, as well as security and possible ramifications for the regional institutions from the military-led governments in much of the Sahel region.

Economic growth has been mainly driven by hydrocarbon additions to the economy. In Q3 2024, quarterly growth reached +8.9% as Senegal began exporting oil. Yet, the agriculture sector employs 75% of Senegal's workforce, mainly dedicated to self-subsistence, as well as to the export of fish and groundnuts. Fishing together with phosphates and mining were the main inflow of FX to the country before hydrocarbons began being exported. Processed food is still a relatively small part of the economy, even if it has been growing over the last decade. The still agriculture-based society and the new hydrocarbon activities could clash as the exploitation of oil and gas alters the ecosystem and the economy, and reduces the number of available jobs.

Year-on-year inflation is set to increase to 2% y/y in 2025, from 1% in 2024, given the increase of revenues and most likely government spending caused by the new government priorities. The CFA franc, shared in the West African Economic and Monetary Union (WAEMU) region, is pegged to the euro at 655.96 units per EUR1 and hence moves in tandem with EUR-USD swings. Risks to the stability of the CFA franc come from Senegal's Sahel neighbors under military-rule such as Mali or Burkina Faso, which have put the currency into question due to its colonial ties. A break with the CFA franc without a studied plan would bring instability, putting the central bank and convertibility into question, as well as leading to greater inflation. International reserves have remained stable at around the equivalent of USD3bn, but the hard currency pool between WAEMU members partly mitigates liquidity risks.

Fiscal path remains uncertain as new IMF program is negotiated

Not long after winning the election, President Faye announced an audit of government finances given the underreported deficit during 2024, which according to new estimates stood at 11% of GDP, instead of the officially reported 5.5%. This announcement came as a shock to the ongoing IMF arrangement, given that it modifies the agreed fiscal path. As a result, a renegotiation with the IMF is underway. The new finance minister has assured international creditors that the new government will work towards bringing the budget deficit to 3% by 2027. The public and private debt composition and the borrowing trend point to a deterioration of liquidity in the medium term, with Senegal's debtors now owing more than 15% of GDP to private creditors and foreign governments on a bilateral basis. The corresponding amount was less than 5% of GDP in 2013. Public debt as a share of GDP has doubled in over a decade, from 37% in 2013 to an estimated 84.3% in 2024. Given the increasing hydrocarbon revenue, debt is expected to begin climbing down in 2025.

Senegal is heavily dependent on imports of food and crude oil and is thus exposed to international commodity price developments. Import-price volatility along with adverse domestic weather conditions preserved a structural trade deficit for a long time. In 2024, the current account was estimated to be -12.7% of GDP and it is expected to improve to -8.3% in 2025. The improvement is forecasted to continue as oil and gas revenues kick in.

Ambitious plans for a society plagued by high illiteracy

Senegal remains in the low human development category of the HDI composite, given its low literacy rate (just above 40%), relatively low life expectancy (68) – though this is higher than the rest of the Sahel – and low GDP per capita. In the early days of the Faye administration, economic policy has turned around two pillars: sovereignty and growth. Motivated by strong colonial hardships, Senegal's new leadership aims to reduce dependence on foreign aid and creditors. In addition, the administration wants to gain independence on food and energy imports while boosting growth. In an ambitious 25-year economic and social development plan, Dakar's new government aims to finance investment via hydrocarbon revenues, while promising fiscal discipline. The plans include increasing agriculture and fertilizer production, as well as boosting manufacturing by processing the country's raw materials in-house.

For foreign companies, contract risks in the hydrocarbons sector have decreased as the government has pushed out many smaller operators to make room for firms with better resources. Others who fail to reach an agreed-upon work schedule risk losing their concessions if they lack beneficial political ties and, more recently, discussions between a big operator and the government failed, resulting in the restart of an international arbitration process. The chances of expropriation are typically modest. Commercial dispute resolution is improving because of the introduction of a commercial court, but the judiciary remains understaffed and susceptible to political pressure, making contract enforcement more difficult.

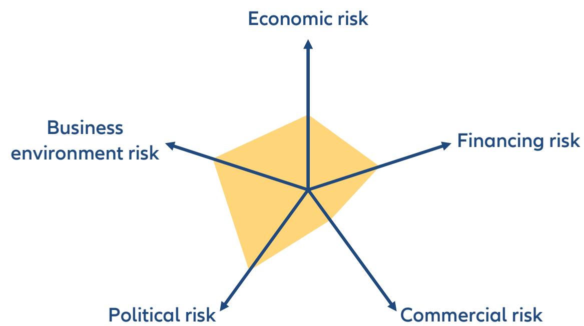
B2

Medium
risk for enterprises

Serbia

Displaying credibility toward 2027

GDP	USD75.2bn(World ranking 82)
Population	6.6mn (World ranking 108)
Form of state	Parliamentary Republic
Head of government	Aleksandar Vučić (President)
Next elections	2027, Presidential and legislative



Strengths & weaknesses

- Collaboration with the IMF and adherence to fiscal deficit targets are ensuring a steady decline in public debt, projected to reach 45% of GDP by 2025
- Robust growth, supported by strong private consumption and FDI inflows
- Ambitious infrastructure projects and energy diversification, including EXPO 2027, lithium mining and nuclear collaboration, position Serbia for sustainable long-term growth

- Tensions with Kosovo and balancing EU accession with ties to Russia and China complicate foreign relations, attracting criticism and potential diplomatic fallout
- A widening current account deficit and reliance on import-driven infrastructure spending pose risks to macroeconomic stability
- Persistent issues with regulatory quality, local governance and environmental management hinder investor confidence and sustainable progress.

Economic overview

Steady growth and a solid monetary policy trend

Serbia's economy has demonstrated resilience and adaptability, rebounding from global disruptions and local challenges. Following sluggish growth of just +1.2% in 2022-2023 due to the energy crisis and inflationary pressures, economic activity surged with +4.3% growth in the first half of 2024, driven by moderating import demand and a rebound in net trade. By end-2024, real GDP growth is forecasted at approximately +3.8%, and expected to approach +4.5% in 2025 and accelerate through 2027 before stabilizing around potential at +4% by 2028. Private consumption is recovering, buoyed by strong wage growth and easing inflation, while foreign direct investment (FDI) is energizing infrastructure and utility development.

Inflation pressures have eased significantly, declining from a peak of 16.2% in February 2023 to 7.6% at the close of 2023, and further stabilizing within the National Bank of Serbia's (NBS) target range by mid-2024. Proactive monetary policy, including cumulative rate hikes totaling 550bps from April 2022 to July 2023, has anchored expectations. The gradual easing cycle initiated in mid-2024 aligns with the decreasing inflation, targeting a sustainable rate of 3.5% by end-2025.

While these gains reflect strong policy execution, risks persist. Supply-side constraints, a tight labor market and rising import demand could temper the momentum. Nonetheless, the structural strengthening of energy resilience and robust external reserves, now equivalent to six months of imports, provide a cushion against shocks.

A leap into the future, but in what direction?

Serbia's medium-term outlook is shaped by its "Leap into the Future—Serbia EXPO 2027" program, which emphasizes ambitious infrastructure investments. Public investment, already at elevated levels, continues to rise, focusing on transport, energy and utilities. Notably, the recent repeal of a 35-year moratorium on nuclear energy and the initiation of a nuclear energy cooperation agreement with France highlight Serbia's commitment to sustainable energy transition.

Fiscal metrics show signs of stabilization. Gross external debt is projected to remain at around 62-63% of GDP, while public debt will stay near 50% of GDP on a declining trajectory. The government aims to reduce public debt to 45% of GDP by 2025 and maintain this downward trajectory thereafter. The fiscal deficit, at 3% of GDP in 2024, aligns with efforts to sustain public investments while maintaining fiscal discipline. Sovereign debt issuance has been well-received, with ESG bonds yielding 4.75% after hedging into euros, and domestic bonds achieving yields around 6%.

External dynamics are less favorable. The current account deficit is projected to widen to over 4% of GDP by 2025 as infrastructure spending boosts imports. However, strong FDI flows, exemplified by China's USD990mn greenfield investment in Zrenjanin, underpin medium-term growth potential. Managing these external vulnerabilities alongside domestic fiscal goals will be key to sustaining momentum.

The Serbian government's collaboration with the International Monetary Fund (IMF) has been instrumental in underpinning fiscal discipline and structural reforms. The current program emphasizes keeping fiscal deficits at no more than 3% of GDP, balancing necessary public investments and priority spending with debt reduction. These measures aim to enhance economic resilience while ensuring public debt remains on a sustainable downward trajectory.

Investment grade and there to stay

Political stability remains precarious after the resignation of the Prime Minister. Tensions with Kosovo persist, with a durable resolution unlikely in the short term. Meanwhile, Serbia's foreign policy balancing act – maintaining EU accession aspirations while fostering close ties with Russia and China – adds complexity. The government's decision to appoint pro-Russian officials has drawn international criticism, particularly from the US, potentially straining diplomatic and economic relations.

Contract frustration and succession risks are non-trivial, particularly as Serbia's energy and mining sectors attract foreign investment. Yet, initiatives like the Leap into the Future signal long-term strategic thinking, suggesting a willingness to navigate challenges for sustainable growth. Serbia's mining sector, particularly lithium exploration, represents a double-edged sword for the nation's economy. Despite its potential to position Serbia as a key player in the global energy transition, the government's aggressive push for lithium mining and nuclear collaboration agreements risks facing increasing domestic opposition. Environmental concerns and calls for equitable resource management underscore the delicate balance policymakers must strike.

Despite an improved investment grade rating achieved in October 2024, regulatory quality and rule of law concerns linger. The ambitious public investment agenda underscores the government's commitment to economic modernization, yet weaknesses in governance, economic pluralism and environmental sustainability could hinder progress.

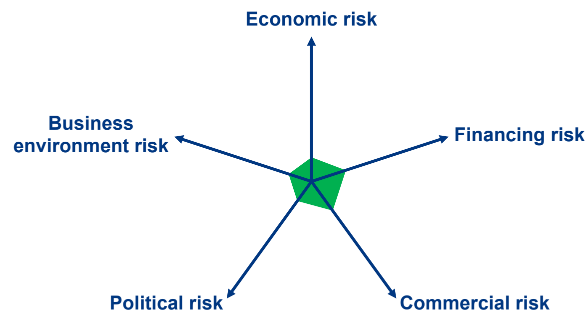
AA1

Low
risk for enterprises

Singapore

Resilient growth in a roaring business environment

GDP	USD501.4bn (World ranking 30)
Population	5.9mn (World ranking 114)
Form of state	Parliamentary Republic
Head of government	Lawrence Wong (Prime Minister)
Next elections	2025, Legislative



Strengths & weaknesses

- Favorable business environment
- Strong public and external finances
- Disciplined fiscal and monetary policies
- Stable political environment
- Strategic geographic position

- Vulnerable to external challenges
- Medium term challenges including social inequality and job-skill mismatches
- Limited renewable energy potential
- High dependence on exports

Economic overview

Sustained economic resilience underpinned by disciplined fiscal and monetary policy

Singapore has a remarkable track record of economic growth, with an annual average rate of +5.4% in the 2000s and +5% in the 2010s. The economy was severely hit by the Covid-19 crisis, with growth contracting by -3.9% in 2020, followed by a strong rebound of +9.7% in 2021 and moderating to +3.8% in 2022, driven by a rebound in external demand and higher corporate and household confidence. The post-pandemic recovery then came to an end, with growth slowing to +1.1% in 2023 due to softening external demand amid high inflation and a downturn in the electronics cycle. Growth then improved in 2024, in part thanks to a rebound in global demand and domestic private consumption. Going forward, we forecast growth to settle at +2.2% in 2025 and +2.1% 2026, driven by solid investment growth while exports are likely to face a mixed outlook in the context of more protectionist US trade policies. In the medium term, risks to economic growth are tilted to the downside, which include risks such as a global economic slowdown, supply-chain disruptions and rising geopolitical tensions. In the longer term, risks from climate change may weigh on the economic prospects of the economy.

Fiscal policy in Singapore was supportive during the Covid-19 crisis and pushed the fiscal balance into a deficit of -6.7% of GDP in 2020 – a significant deviation from the pre-pandemic average of +5% of GDP surplus. The economic recovery and the rollback of broad-based supportive measures have brought the fiscal balance back into positive territory since, with a surplus of +1.1% of GDP in 2021, +1.2% in 2022, +3.5% in 2023 and a likely +4.5% in 2024. We expect the fiscal balance to stabilize at around 3% in 2025 and 2026, while targeted policies will continue to be rolled out, such as measures for the labor market or support for technology sectors. Medium- and long-term challenges such as an ageing population, risks from climate change and the need to maintain its competitiveness among rising competition from regional peers will constrain the surplus from increasing further.

In terms of prices, after reaching highs in 2022-2023, headline inflation is likely to ease: we expect 1.5% in 2025 and and 1.3% in 2026 (close to the pre-pandemic average of +1.7% across 2010-2019). Upside risks remain, mainly arising from elongated supply chains, commodity prices and geopolitical shocks. During the monetary policy tightening cycle across 2021-2023, the Monetary Authority of Singapore (MAS) increased the slope of the S$NEER policy band four times and took up the center three times. This policy stance has been helpful in dampening inflation, with inflation expectations remaining well-anchored. The MAS policy stance pivoted in 2025, reducing the slope of the S$NEER policy band. Further easing action is still possible this year, though with MAS staying cautious with currency impacts and the upward risks to inflationary pressures.

Rock-solid macro fundamentals outshine structural vulnerabilities

Short-term financing risk in Singapore remains low on the back of strong macro-fundamentals – both in terms of public and external finances. It remains one of the few countries with the top credit rating of AAA from leading credit agencies. We forecast public debt to remain elevated in 2025 and 2026 at around 175% of GDP. However, this should not be a cause for concern as it is entirely domestic and is issued to meet specific long-term objectives. Moreover, the economy is a net external creditor.

On the back of favorable trade policies and infrastructure, Singapore continues to solidify its strength as a globally renowned entrepot. In terms of external balances, the economy has run a current account surplus for decades, with an annual average of +18% of GDP during the 2010s, and as a consequence, has accumulated ample foreign exchange reserves. The solid current account balance reflects a surplus in trade in goods and services, partly offset by a deficit in the income account, on the back of the repatriation of profits by foreign firms and interest payments on external debt. The current account balance likely ended 2024 with a surplus of around +18% of GDP. Going forward, we forecast it to remain around that level in 2025 and 2026. Vulnerabilities mainly arise from the economy's dependence on its external sector, making it exposed to challenges that are sometimes beyond Singapore's control.

Corporate-friendly business framework, with low risks to political stability

Singapore offers a prime business environment for corporations, thanks to its liberal landscape in terms of trade and investments, transparent political system, favorable tax policies, solid infrastructure and a strong workforce. The World Bank Institute's annual Worldwide Governance indicators suggest that the regulatory and legal frameworks are business-friendly and the level of corruption is low. On broadly similar lines, the Heritage Foundation's annual Index of Economic Freedom Survey 2023 ranks Singapore 1st out of 185 countries, reflecting strengths in areas such as trade freedom, property rights, government integrity, tax burden, government spending, business freedom, investment freedom, monetary freedom and financial freedom. However, Singapore scores less favorably with regard to environmental sustainability, owing to a very low level of renewable electricity output and a high level of water stress. Overall, Singapore ranks 76 out of 210 economies based on our proprietary Environmental Sustainability Index.

The political landscape in Singapore remains stable, transparent and efficient. The new prime minister, Lawrence Wong, succeeded Lee Hsien Loong in May 2024 (both are from the People's Action Party, PAP). He will continue to address medium- and long-term challenges such as social inequality, immigration, job-skill mismatches and the perception of an inadequate social safety net, aiming to further boost PAP's popularity after a mild erosion in its dominance following the election in 2020, when the Worker's Party (WP) – the main opposition – increased its vote share. The next general election should take place in early 2025, with the PAP likely securing a victory – though it may be slimmer than in the past. Vulnerabilities in the political landscape arise from Singapore's ethnic diversity, but escalated racial tensions are not likely due to constraints on press freedom and public demonstrations.

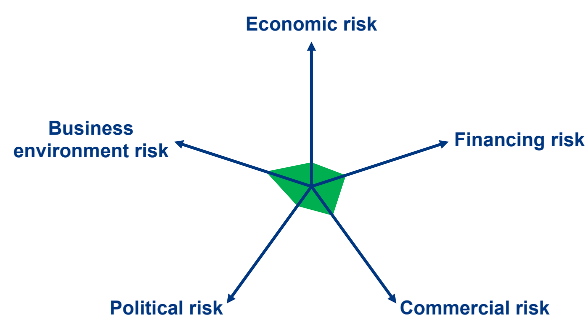
A1

Low
risk for enterprises

Slovakia

Consolidation is shaping the economic outlook

GDP	USD132.8bn (World ranking 61)
Population	5.4mn (World ranking 118)
Form of state	Parliamentary Republic
Head of government	Robert Fico (Prime Minister)
Next elections	2027, Presidential



Strengths & weaknesses

- Low systemic political risk
- Good regional and international relations; EU membership
- Eurozone membership providing for low transfer and convertibility risk
- Solid banking sector
- Strong business environment overall; very attractive for foreign investors

- Small domestic market
- High dependence of the economy on the automobile sector and on exports
- Relatively high external debt level

Economic overview

Growth outlook balances export challenges while inflation pressures rise

Slovakia has been a strong performer compared to both Eurozone and emerging economies, with real GDP expanding by an average +3.3% over the past 20 years. However, a high dependence on exports (amounting to almost 100% of GDP), in particular on automotive shipments, causes above average cyclical fluctuations in growth. Moreover, a high dependence on global supply chains and energy imports makes the Slovak economy vulnerable to external shocks. As a consequence, the economy was hit hard by the global Covid-19 crisis (-3.3% decline in 2020), despite sizeable economic policy support. And after a strong recovery in 2021 (+4.8% growth), growth slowed down markedly in 2022 (+1.9%) and 2023 (+1.6%) as a result of the consequences of the war in Ukraine, notably the subsequent EU sanctions on Russia and soaring energy prices. On the demand side, weak growth in 2023 reflected contracting consumer and public spending and a drop in inventories. However, a recession was avoided thanks to a solid rise in fixed investment and a positive contribution to growth by net trade. The latter was a result of a much stronger decline in imports than in exports. In 2024, Slovakia's GDP grew by +2.0% supported by the recovery of consumption from the energy price shock and a rebound in public spending. Looking ahead, exports are expected to grow despite risks from weaker trading partners. Private consumption may decline due to VAT increases and subsidy expirations, but wage growth will help. Strong private and public investments, aided by EU funds, will support GDP growth, projected at +1.7% in 2025 and +2.3% in 2026.

Inflation has moderated but will remain pronounced in 2025-2026. Consumer price inflation has eased from an average +11% in 2023 to +2.8% on average in 2024, in part due to base effects, the ECB's tighter monetary policy and slower domestic demand. Going forward, inflationary pressures remain in the cards. Energy inflation is set to rise as government measures regarding gas prices for households are set to expire in 2025. Additionally, the consolidation package, which is set to be implemented in January 2025, includes an increase in VAT rates and thus directly affects consumers. Moreover, the tight labor market provides conditions for strong wage and price growth in the services sector. We forecast annual average headline inflation at +3.2% in 2025 and +2.7% in 2026. Meanwhile, Eurozone membership provides for low transfer and convertibility risk and has decreased external vulnerabilities related to exchange rate risk in Slovakia.

Worsened but manageable public and external finances

Slovakia's public finances have deteriorated in recent years but should remain manageable over the two-year forecast horizon. The Covid-19 crisis reversed seven years of fiscal consolidation. The annual fiscal deficit had been below -3% of GDP since 2013 (on average -1.9%). As a result, total public debt fell from 55% of GDP in 2013 to 48% in 2019. Then, fiscal stimulus measures combined with declining nominal GDP in the wake of the Covid-19 crisis resulted in large fiscal shortfalls of more than -5% of GDP in 2020 and 2021. Following an improvement to -1.7% in 2022, the deficit slipped again to -4.9% in 2023 owing to increased expenditure to counter social pressures as well as the impact of high energy prices. Although energy-related measures are expected to be phased out in 2025, the annual fiscal deficit is forecast to remain above -5% of GDP in 2025, mainly owing to a new range of social expenditure measures and an increase in defense spending, dropping again to below -5% in 2026. Nonetheless, financing the deficits should be manageable even though yields on Eurobonds have increased. The government is also eligible for substantial EU funding. As a result of several years of elevated fiscal deficits, total public debt has risen and should remain at close to 60% of GDP in 2025.

Slovakia's external position has largely rebalanced after it rapidly deteriorated in 2022. Following a decade of moderate current account surpluses or deficits (on average -1% of GDP in 2012-2021), a large external shortfall of around -8% of GDP was posted in 2022, mainly a result of surging energy import prices. Moreover, only one-fourth of the shortfall was covered by net foreign direct investment inflows, which have a longer-term nature, in contrast to 61% of the cumulative deficit in 2015-2019. As energy prices moderated from the very high levels in 2022 and imports contracted substantially in 2023 due to weak domestic consumption, the current account deficit narrowed markedly to -1.6% of GDP in 2023. As imports are expected to recover going forward, we forecast the annual external shortfall to stay below -3% in 2025 and 2026. Overall, thanks to Slovakia's Eurozone membership, external liquidity risk should remain limited.

Strong business environment but policy trends require monitoring

The Slovak business environment is well above average. The World Bank Institute's annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are generally business-friendly though a certain level of corruption is still perceived as present. The Heritage Foundation's Index of Economic Freedom survey 2024 assigns Slovakia rank 34 out of more than 180 economies, reflecting strong scores regarding property rights, judicial effectiveness, tax burden, trade freedom and investment freedom. However, weaknesses remain in the areas of government integrity and labor freedom. Meanwhile, our proprietary Environmental Sustainability Index puts Slovakia at rank 69 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress as well as its exposure to climate events and its readiness to protect itself against such events. However, there are still weaknesses in renewable electricity output and the recycling rate.

Overall systemic political risk is relatively low. Slovakia is a stable democracy and has good international relations, reflected in its EU, NATO and OECD membership. Government stability has suffered somewhat since 2016 which jeopardizes effective policymaking and reform progress. The left-nationalist coalition government, which came into office after early elections in September 2023, is more Eurosceptic than its predecessor. The European Commission argues that it has made several legislative changes that weaken the rule of law and the prosecution of corruption allegations. Slovakia is therefore threatened with the suspension of some EU funding.

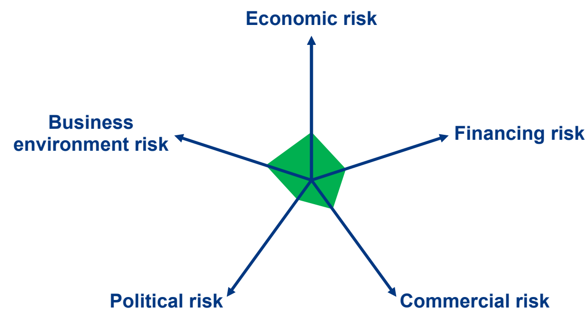
A1

Low
risk for enterprises

Slovenia

Resilient economy with strong macroeconomic fundamentals

GDP	USD68.2bn (World ranking 85)
Population	2.1mn (World ranking 148)
Form of state	Parliamentary Republic
Head of government	Robert Golob (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Good regional and international relations, EU and NATO membership
- Eurozone membership provides for low transfer and convertibility risk
- Favorable annual current account balances since 2012 (either surpluses or moderate deficits)
- Favorable business environment

- Elevated public debt
- High gross external debt
- High export dependence on EU business cycle
- Significant exposure to tourism inflows

Economic overview

Growth and inflation set to accelerate

The economic outlook for Slovenia has deteriorated because of the war in Ukraine but the economy has proven more resilient than most peers among the EU member states in Central and Eastern Europe (CEE). Following a strong post-Covid-19 rebound with +8.4% real GDP growth in 2021, economic activity began to cool in the second half of 2022 amid elevated inflation, rising interest rates, softening external demand and declining business confidence. However, a recession was avoided. Full-year growth came in at +2.7% in 2022 and +2.1% in 2023, supported by a strong increase in fixed investment and net exports. Solid tourism activity kept real exports almost stable while real imports plunged, reflecting weak domestic consumption and declining inventories. Growth remained weak in 2024 but the structure changed, with domestic consumption and restocking becoming the main drivers, while the corresponding rebound in imports turned the contribution of net trade to overall growth slightly negative. Looking ahead, growth is forecast to pick up to an annual average of around +2.5% in 2025-2026 on the back of a continued recovery of domestic consumption and investment activity, supported by EU funds.

Inflationary pressures have been milder than in peer CEE countries. Consumer price inflation rose to a peak of +11.0% in July 2022 and hovered around +10.5% until March 2023 before falling to +4.2% y/y in December and further to just 0.0%y/y in October 2024, thanks to markedly reduced energy prices. As the effect of declining energy prices will fade and owing to strengthening price pressures for recreation, headline inflation is likely to pick up in the next quarters. We forecast annual average inflation to come in at slightly above +2% in 2025 and drop to target again by 2026.

Robust public and external finances

The Covid-19 crisis interrupted a previously strong fiscal consolidation trend. The government implemented strong fiscal stimulus measures to mitigate the economic impact of the pandemic, resulting in fiscal deficits of -7.6% of GDP in 2020 and -4.6% in 2021, followed by a more adequate -3% in 2022. In 2023, the shortfall decreased to -2.5% of GDP, in spite of the government measures to tackle the economic fallout from the war in Ukraine and EU sanctions on Russia. In 2024, the annual deficit widened somewhat owing to increased social spending and reconstruction efforts after the heavy floods in 2023, which more than outweighed cuts in subsidies. Looking ahead, the fiscal deficit is likely to decline in 2025-2026 as social contributions will increase and post-flood reconstruction spending should gradually decline. That said, there is a degree of uncertainty concerning annual deficit projections since reconstruction investment depends on the planning and maturity of projects. Nevertheless, we do not expect the annual fiscal deficit to exceed -3% of GDP until 2026. Meanwhile, total public debt has fallen from a temporary peak of 80% of GDP in 2020 to slightly below 70% in 2023 and is projected to continue to decline moderately in the next few years. This ratio is below the Eurozone average. Moreover, as a member of the EU and the Eurozone, Slovenia benefits from the “Next Generation EU” package.

Gross external debt fell from a peak of EUR47bn (124% of GDP) in 2014 to EUR44bn (92% of GDP) in 2019 but has since risen steadily to EUR60bn as of mid-2024 (approximately 94% of GDP) in the wake of the subsequent crises (Covid-19, war in Ukraine). Moreover, the share of public sector external debt stands at just below 60%. However, there are several facts that mitigate concerns about the external debt position. First, only 35% of it is short-term debt. Second, Slovenia became a net external creditor in 2021 and since external assets have continued to rise more strongly than liabilities, the former exceeded the latter by EUR7bn in mid-2024. Third, the external debt-to-GDP ratio is comparatively low for an advanced economy and, being a Eurozone member, Slovenia can be considered as such. Fourth, the external debt of the Slovenian banking sector accounts for only 9% of gross external debt, which is very low for an advanced economy.

Slovenia’s external current account posted a deficit in 2022, after 10 consecutive years of large surpluses, because imports rose much faster than exports as a result of the sharp increase in global food and energy prices in that year. Yet, the annual external shortfall was small at -1.1% of GDP and gave way to a considerable surplus of 4.5% of GDP in 2023 as energy prices moderated. Monthly surpluses widened further in 2024 and we project continued large surpluses in 2025-2026.

Favorable business environment and low political risk

The business environment for corporates in Slovenia is strong. The World Bank’s annual Worldwide Governance Indicators surveys suggest that the regulatory and legal frameworks are business friendly and the level of corruption is low. The Heritage Foundation’s Index of Economic Freedom survey 2024 assigns the country rank 43 out of some 180 economies (up from rank 48 in 2021), reflecting strong scores with regard to property rights, judicial effectiveness, trade freedom, investment freedom and business freedom. However, weaknesses remain with regard to the tax burden and financial freedom. Meanwhile, our proprietary Environmental Sustainability Index ranks Slovenia 17th out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, water stress, as well as its exposure to climate events and its readiness to protect itself against such events. The only weakness is the renewable electricity output while the recycling rate is moderate.

Overall systemic political risk is low. Slovenia is a well-established democracy and has good international relations, reflected in its EU, OECD and NATO membership. Broad policy continuity can be expected after national elections. Slovenia’s sovereign creditworthiness is not at risk as all major political parties support fiscal discipline. Lastly, Eurozone membership provides for moderate transfer and convertibility risk in Slovenia.

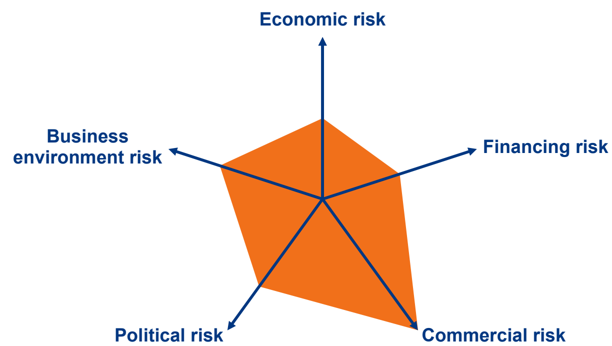
B3

Sensitive
risk for enterprises

South Africa

Accelerating economic growth despite reform delays

GDP	USD377.8bn (World ranking 40)
Population	60.4mn (World ranking 24)
Form of state	Republic
Head of government	Cyril Ramaphosa (President)
Next elections	2029, Legislative



Strengths & weaknesses

- Africa's most industrialized economy, with the largest and most liquid capital market, reduced external vulnerabilities and a declining trend in insolvencies, despite increasing costs due to load shedding, poor logistics and still modest employment rates.
- Improved macroeconomic context, ongoing fiscal consolidation efforts, on top of abundant international reserves covering six months of imports.
- Significant growth potential exists if structural reforms and investments in infrastructure, particularly the electric grid, are prioritized.

- Frequent business disruptions resulting from inefficient utilities, red tape and lack of investment.
- Considerable absorption of revenues for short-term debt repayment and still elevated sovereign bond yields compared to peers.
- Polarized and deeply unequal society, which remains inclined to political fragmentation, disaffection towards the institutional framework and violent uprisings with the potential to block business activity across the most sensitive areas of the country.

Economic overview

Momentum building in the South African economy

Economic growth in South Africa is forecasted to gain further momentum in 2025, doubling to +1.5% after a sluggish +0.7% in 2024. Following the general election, consumer and business confidence has risen, driven by increased trust in the Government of National Unity (GNU) and its potential reforms. Yet, the most tangible improvement to economic activity has been the end of electricity loadshedding since March 2024. However, the mining sector, which accounts for a significant portion of exports, remains weak, along with the agriculture sector, which also saw a drop of output from the previous year. Economic activity growth in 2025 will be supported by new reforms and an improved electricity supply. The coalition between the African National Congress (ANC) and the Democratic Alliance (DA) has brought in a more business friendly government and introduced a new layer of checks and balances within the South African government.

As the continent's most diversified economy, South Africa has historically been hindered by weak infrastructure, as evidenced by the underperformance of the mining sector.

Throughout 2023 and 2024, mining activities lagged during a period when other mining powerhouses like Australia and Brazil thrived. Poor train and port connectivity hampered exports and overall output. Similarly, the electricity sector has significantly impacted economic activity due to frequent blackouts and unreliable supply. However, improvements in electricity supply during the first half of 2024 have led to increased output in manufacturing and retail sales. Despite these improvements, the country's electricity issues are deep-rooted and unlikely to be fully resolved in the short term. The new infrastructure minister in the GNU has pledged to boost investment to address supply-side challenges, including ports, roads, the power grid and water infrastructure, which could enhance both economic output and productivity. Yet, reforms could be hindered by poor policymaking and political interests.

Inflation is forecasted to continue gradually declining to 3.9% in 2025. The central bank is currently adopting a dovish stance. In this context, we anticipate a declining trend in insolvencies and positive economic performance in the latter half of the year. External vulnerabilities have diminished, with foreign debt to GDP below 20% since 2021, and expected to slightly increase in 2025 to 19.8%. .

A disappointing fiscal outlook

Due to a considerable short-term absorption of revenues to repay interest on debt, South Africa ranked in the worst quintile in our public debt sustainability risk assessment as of end-2024. The overall balance is expected to slightly increase in 2025 to -6.3%, after an estimated -6.2% in 2024. Government revenues saw a decline during 2024 due to the decrease of energy-generation imports, including solar panels and crude oil, which reduced tax duties collected. As a result, fiscal consolidation disappointed during 2024, with a deficit around 5% by end-2024, and it is expected to improve only marginally in 2025. The budget to be announced in February 2025 should provide better guidance on the deficit path.

The level of government debt remained elevated at 75% of GDP in 2024 and is forecasted at 77% in 2025; the ratio has significantly increased from the 2011-19 average of 45%. Interest payments are part of the price of the favorable debt structure, which is primarily denominated in local currency and has a lengthy amortization profile on average (12 years), and that provides some room to maneuver in the country's debt profile.

After a year of appreciation, the South African rand reversed its course in late 2024, offsetting the gains and finishing the year at 18.77USD/ZAR. International reserves followed a similar path: With an increase above USD61bn, the year closed just above USD60bn, around six months of imports, double the level commonly seen as critical for emerging markets.

Commercial opportunities ahead amidst slow reforms

Since taking office, President Cyril Ramaphosa has faced challenges in implementing effective reforms. Inflation, demographic pressures and the highest inequality levels in the world have made South Africa's social contract increasingly unstable, particularly since the Covid-19 pandemic. While the immediate health crisis has passed, its social consequences remain significant. The unemployment rate, currently above 33%, has been gradually rising and is nearing the historical peak of 35% reached during the pandemic. Similarly, school dropout rates and the number of children receiving no schooling have increased after initially declining post-pandemic. Despite South Africa leading in education spending among emerging markets, the quality of education remains a concern, contributing to persistently low productivity. The ruling ANC party's ability to implement reforms will be crucial for the country's success. Additionally, its capability to transition from a party with an absolute majority to a senior partner in a coalition with diverse interests will be key to enhancing the predictability and effectiveness of government actions.

South Africa's external sector holds significant potential for delivering outstanding results but it also faces many challenges. As a top exporter of highly valued minerals to Asia and Europe, improving South Africa's infrastructure could increase capacity and profitability. In addition, as a relevant exporter of cars to developed markets, mainly Germany – thanks to the numerous factories of German auto manufacturers – South Africa enjoys important skilled labor that could be expanded to new auto power houses such as China. However, it also faces the systemic troubles of Germany's industry. Finally, South Africa's value chains are well integrated into the rest of the African continent, with the newly agreed Africa-wide trade agreement, South Africa's role in the region could significantly increase.

The geopolitical context in the Middle East has presented South Africa with an opportunity to become a focal point for global trade as traffic through the Suez Canal has been disrupted. The Cape of Good Hope has emerged as the primary maritime connection between Europe and Asia, leading to a +328% increase in containership arrivals at South African ports since December 2023. This surge in port traffic has also boosted port revenues. Implementing trade facilitation measures, such as improving port operations and cargo handling, could transform South Africa's ports into major logistic hubs connecting Asia, Europe and Latin America.

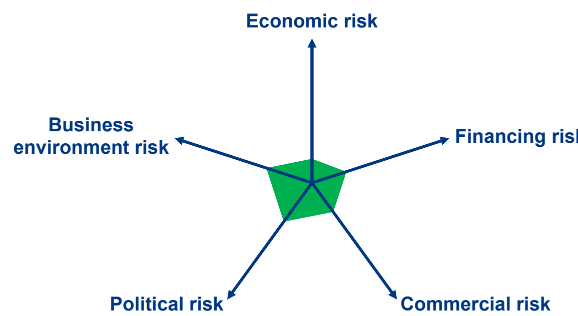
A1

Low
risk for enterprises

South Korea

Economic structure to remain sound despite rising headwinds

GDP	USD 1712.8bn (World ranking 14)
Population	51.7mn (World ranking 29)
Form of state	Presidential Republic
Head of government	Yoon Suk-Yeol (President)
Next elections	2027, Legislative



Strengths & weaknesses

- Advanced economy with high per capita income
- Sound financial sector
- Solid external position (low external debt, ample foreign exchange reserves, etc.)
- Strong business environment
- Firmly established democracy

- Geopolitical risk (stemming from North Korea)
- Economic vulnerabilities due to dependency on external demand
- Elevated household debt
- Slowly improving but still weak corporate governance
- Aging population

Economic overview

Stable economic growth

South Korea is a major Asian economy, recognized for its thriving industrial sector and electronics exports. Its rapid economic development (one of the fastest rates seen over the past decades) earned it the title of "Asian tiger". The economy is strong and modern, with sound finances and an educated and skilled workforce. However, its aging population and stance against immigration raise concerns about future economic activity.

South Korea has historically exhibited solid economic growth rates, averaging +4.9% in the 2000s and +3.5% in the 2010s.

The Covid-19 pandemic led to a shallow full-year recession in 2020, with GDP contracting by just -0.7%. The recovery thereafter was forceful (+4.6% in 2021), before a moderation in growth to +2.7% in 2022 and +1.4% in 2023, in particular in the context of weakening external demand and a downturn in the electronics cycle. GDP growth firmed up in 2024, driven by a recovery in global trade and the electronics cycle, real household income growth and monetary easing by the Bank of Korea (BoK). Some of these tailwinds should remain in the short-term, but risks are likely on the downside, in the context of geopolitical tensions, higher trade tariffs imposed by the US and domestic political uncertainty. We expect GDP growth to settle at +2.1% in 2025 and 2026.

Inflation in South Korea declined from 5.1% in 2022 to 3.6% in 2023, remaining significantly lower than the OECD average. Inflation eased further to an estimated 2.2% in 2024 and is expected to stabilize at 1.9% in 2025 and 2% in 2026. This should allow the BoK to extend its monetary easing cycle that started in 2024 into 2025-2026.

Solid public and external finances, watch out for household debt

Following a quarter of a century of positive budget balances, South Korea has registered annual fiscal deficits since 2020, albeit comparatively small ones (around -1% of GDP on average). Narrow fiscal deficits are expected to remain the norm in the coming years. The government wants to focus on deregulation and tax cuts to boost private-sector investment and employment, notably to promote research and development in the semiconductors, batteries and AI industries. South Korea's public debt rose from 40% of GDP in 2019 to almost 53% in 2024 but is forecast to remain below 60% in the next few years, a still favorable ratio compared to the OECD average that is approaching 100%.

The real issue to monitor is household debt, which amounted to 105% of GDP in 2023, mainly in the form of mortgages, and makes the economy sensitive to interest rate changes. In Q1 2024, the ratio fell below 100% for the first in over three years, thanks to a strengthening of macroprudential policies and a slowdown in housing market prices. Moreover, financial risks overall are largely contained, given a robust and closely regulated financial system and sufficiently capitalized banks. Another important concern is the aging population, a structural threat to the South Korean economy. With the world's lowest fertility rate – 0.72 children per woman in 2023 – the median age of the population is rapidly rising, reaching 45 years in 2024, adding pressure on pensions, health and social care, and setting the stage for harsh labor reforms.

South Korea's external position is favorable in the short-term but the economy may face some medium-term challenges. The current account balance has posted continued annual surpluses since 1998, even during the Great Financial Crisis and the Covid-19 crisis. It dropped to +1.4% of GDP in 2022 due to rising energy import prices but is expected to recover to around +4% of GDP across 2025-2026. Vulnerability stems from a concentration in shipments: exports are mainly in the electronics sectors and China (20% of exports in 2023) and the US (18% of exports in 2023) remain the dominant destinations. In a context of growing geopolitical tensions, this jeopardizes the medium-term stability of the country's exports.

South Korea's gross external debt is comparatively low at less than 40% of GDP and that ratio is expected to decline in the coming years. Moreover, the country is a net external creditor.

Business environment and political developments

South Korea exhibits a strong business environment. The Heritage Foundation's Index of Economic Freedom survey of 2023 ranks it 15th in the world for doing business and 5th in Asia. It performs especially well with regards to fiscal health, property rights, business freedom, government spending, monetary freedom and judicial effectiveness, while the labor freedom, financial freedom, investment freedom and tax burden perform relatively less well. The World Bank Institute's annual Worldwide Governance Indicators surveys regularly assign South Korea strong scores for its regulatory and legal frameworks, though the level of perceived corruption has some room for improvement. Our proprietary Environmental Sustainability Index ranks South Korea 88th in 2024, reflecting good resilience to climate change and favorable ratios for energy use and CO2 emissions per GDP. Yet, the renewable electricity output is very low, so the government's efforts to develop offshore wind power will need to be monitored.

South Korea is currently dealing with an impeachment process against President Yoon Suk-Yeol (from the currently ruling People Power Party), following his failed attempt to implement emergency martial law in December 2024. The first half of 2025 is thus likely to be marked by political uncertainty, before an early presidential election likely produces a president from current opposition Minjoo. This would realign the executive power with the parliamentary majority, potentially improving policymaking. Beyond the ongoing short-term uncertainties, South Korea hovers around the 22nd place in the Economist Intelligence Unit's Democracy Index and is described as a "full democracy". Meanwhile, relations with North Korea are not expected to improve, in part as the latter aims to further develop strategic weapons and given the context of still simmering tensions between China and the US.

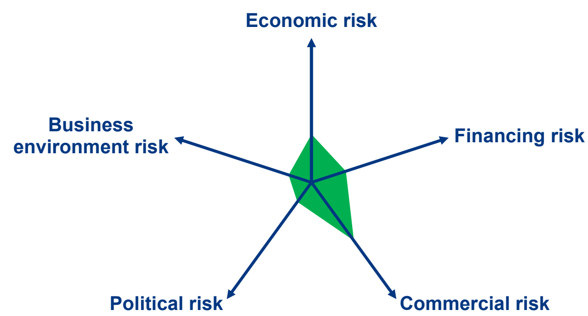
A1

Low
risk for enterprises

Spain

Growth overperformance to stay

GDP	USD 1580.7bn (World ranking 15)
Population	48.4mn (World ranking 31)
Form of state	Parliamentary Monarchy
Head of government	Pedro Sánchez (Prime Minister)
Next elections	General elections, 2027



Strengths & weaknesses

- Very strong post-pandemic economic performance
- Improving labor market, which benefits from a large inflow of migrants
- Presence of large international companies
- Improved fiscal metrics
- Bridge between Latin America and the rest of the world

- Still high public debt (>100% of GDP) and high private debt
- High unemployment rate compared to its European peers despite progress
- Need of further structural reform on education and training
- Fragmented political landscape, internal tensions over sovereignty issues (Catalonia)
- High dependence on tourism

Economic overview

Slowing but solid economic growth

Despite the ongoing global challenges, the Spanish economy has remained resilient and has over-performed its peers in recent years. It recorded robust growth in 2024, supported by solid private and public consumption, while investment and foreign trade turned out more volatile.

Looking ahead, Spain's economic activity will still be supported by rebounding domestic demand. Enhanced household consumption, fueled by real income increases due to lower inflation rates, job creation and wage growth in a robust labor market, will play a significant role. Additionally, gross fixed capital formation will contribute substantially to growth, spurred by NGEU investment projects, with the related spending expected to catch up in 2025-2026. While net external demand will improve in the short term, its overall contribution to GDP growth will be more moderate compared to previous years as an increase in goods and non-travel services exports will be balanced by a rise in imports (linked, inter alia, to the increase in the import content of gross fixed capital formation) and a levelling off in travel service exports.

In 2025, we expect Spain to mark its fifth year of GDP growth overperformance compared to the Eurozone average, but the pace will moderate: +1.8% in 2025 and +2.0% in 2026.

Inflation was on the rise in the last quarter of 2024 after falling to its lowest level since the beginning of 2021 in September 2024. Headline inflation is expected to remain on a slightly upward path in early 2025 and then to resume a downward path later in the year. We expect inflation to reach 2.1% in 2025 and 1.9% in 2026, after 2.7% in 2023.

In parallel, the labor market showed positive developments, driven primarily by the 2021 labor market reform that helped curb dualism between permanent and temporary work, as well as large migration inflows. Job creation accelerated in December 2024, adding 35,500 new registered workers, up from the 29,900 recorded in the same month of 2023. Thus, the Spanish labor market closed the year with an increase of over 500,000 new registered workers. Finally, the number of unemployed persons fell by 25,300, placing the total at 2.56mn, the lowest figure since December 2007. However, structural challenges remain to be tackled: unemployment remains high compared to peers and productivity is low.

Undisclosed fiscal intentions, despite recent progress

Spain missed the 15 October deadline to present its next draft budget, resulting in the extension of the 2024 budget into 2025. The general government deficit likely reached 3.0% of GDP in 2024, influenced by the phase-out of measures designed to mitigate high energy prices. This deficit is expected to marginally decrease in 2025 and stabilize in 2026 due to a slowdown in primary expenditure amidst strong tax revenue growth. In the meantime, the debt-to-GDP ratio is seen declining gradually during 2025 and then stabilizing around 100% in 2026. The Tax Agency ended 2024 with a record collection nearing EUR300bn, although the average tax burden remained below the EU average of 37% of GDP in 2023.

Several tax increases have been implemented in 2025, affecting both individuals and businesses, with the goal of raising an additional EUR4,500mn annually, as outlined in the government's Structural Tax Plan. Additionally, the start of the new year marked the cessation of some inflation-combatting aid measures that had been in effect in recent years, although transportation subsidies will continue for another six months.

Crucial spending of NGEU challenged by political fragility

Spain is ranked 31 out of 190 economies in the World Bank's Ease of Doing Business rankings, ahead of other major European economies such as France (33), Italy (58) and Portugal (39). Despite reforms since the 2008-09 crisis, structural weaknesses persist, particularly an over-reliance on tourism and labor market inefficiencies.

Spain faces higher risks to employment, given the predominance of SMEs, which are more vulnerable to liquidity shocks, and the high share of temporary contracts. Spain relies on EU demand and supply more than other countries and energy prices have escalated faster than in Eurozone overall, which worsens the balance of risks. As a result, sectors such as transport, the electro-intensive industry and construction might be significantly affected.

Political stability in Spain is expected to remain fragile, even after the re-election of Pedro Sánchez, the leader of the centre-left Spanish Socialist Workers' Party (PSOE), as prime minister in mid-November 2023. The government is likely to be inherently unstable due to its reliance on a high number of regional parties, each with its own competing interests. This situation significantly increases the risk of policy paralysis and the potential for the government to collapse before the end of its term in 2027.

Finally, Spain's effective use of the NGEU funds is crucial to sustain its economic recovery and long-term growth, addressing structural challenges and ensuring a more sustainable and inclusive future. Within the NGEU instrument, Spain is one of the main beneficiaries, set to receive EUR160bn in loans and grants until 2026. The transformative impact of Spain's plan stems from a robust combination of reforms and investments designed to address the country's specific challenges. The reforms aim to eliminate bottlenecks to lasting and sustainable growth, while the investments are strategically targeted to accelerate the transition towards a more sustainable, low-carbon and climate-resilient economy. Additionally, they seek to maximize the benefits of digital transformation and ensure social cohesion. The plan also focuses on improving connectivity within the country, enhancing labor market performance, boosting the economy's innovation capacity and making public spending more efficient and sustainable.

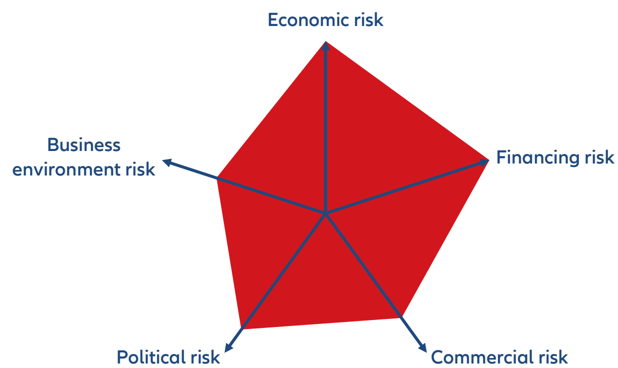
D4

High
risk for enterprises

Sri Lanka

Rebuilding after the storm

GDP	USD84.4bn (World ranking 74)
Population	22.0mn (World ranking 60)
Form of state	Presidential republic
Head of government	Anura Kumara Dissanayake (President)
Next elections	2029, Presidential



Strengths & weaknesses

- Growing tourism revenues
- Increasing workers' remittances
- Strategic location for trade

- Weak public finances
- Fragile external position
- Vulnerability of export base (highly dependent on textiles, clothing and tourism)
- Vulnerability to climate and natural disasters
- Political instability and policy uncertainty
- Ethnic tensions remain a threat to stability and growth prospects

Economic overview

The economy is recovering but normalization is difficult

Sri Lanka's economic growth path has been volatile. The country had in the past exhibited robust long-term averages (+5% in the 2000s and +5.3% in the 2010s), before entering a more difficult phase in recent years. Since 2020, the country's economic health has been suffering from exogenous shocks and endogenous weaknesses. The Covid-19 pandemic caused a contraction of real GDP by -4.6% in 2020, followed by a moderate recovery of +4.2% in 2021. Then GDP plunged even more by around -7.4% in 2022 due to structural imbalances and financing risks that were not tackled in a timely manner, followed by another contraction by -2.3% in 2023. A recovery has taken place since (growth in 2024 likely exceeding +5%) and is likely to continue into 2025 (around +4%) and 2026 (+3.5%), thanks to improving real income growth supporting consumption and the recovering manufacturing sector lifting investment. Externally, exports should be supported by the rebound in tourism and relatively conducive global demand for goods. As such, future growth prospects are generally on the right track, but are unlikely to return to pre-pandemic and pre-crisis levels, reflecting permanent economic scarring.

Sri Lanka defaulted on its sovereign debt for the first time in its history in May 2022 due to a series of adverse events: terrorist attacks in 2019 impairing tourism, the Covid-19 crisis in 2020-2021 and poor economic policies in 2021 that led to a drastic fall in foreign exchange (FX) reserves. In March 2023, the IMF approved a 48-month USD2.9bn Extended Fund Facility (EFF), to help the country get back on track. A first review of the EFF in December 2023 was approved by the IMF and an agreement on the restructuring of 98% of the face value of Sri Lanka's outstanding sovereign debt was found with the country's new government in December 2024. Sri Lanka will thus likely continue to try and improve its fiscal framework, by increasing revenue and implementing governance and anti-corruption reforms. The government may seek to deliver left-leaning domestic policies, but the risk of another liquidity crunch is likely low.

Monetary policy was tightened significantly between 2021-2023 (+1100bps in total), in response to surging inflation (around 50% in 2022 and around 17% in 2023). Since then, inflation has eased (around 2.5% in 2024) and should stabilize at a manageable level in the coming few years. The Central Bank of Sri Lanka (CBSL) thus began to ease the monetary policy in 2023, cutting policy rates by -750bps until the end of 2024 and allowing domestic debt restructuring to roll out more easily for the country. Monetary easing should continue in 2025.

Rebuilding financial stability

Looking ahead, Sri Lanka's financing risk will depend heavily on its ability to meet debt-restructuring goals. The country officially exited default at the end of 2024 but is unlikely to regain access to international capital markets until 2026. The general government budget deficit will only narrow gradually in the coming years and gross public debt is also likely to remain elevated, above 100% of GDP (compared with c.80% in 2019). Sri Lanka's external finances will remain fragile, reflected in current account deficits in the coming years and a high level of external debt (estimated at around 70% of GDP). FX reserves as of December 2024 recovered to USD6.1bn but that covered just around three months of imports (clearly below the favorable ratio of four months). Over the long term, in order to tackle these structural imbalances, an export diversification away from the high dependence on the textile & clothing and tourism sectors will be required, among other actions.

Business environment and political developments

Sri Lanka's business environment is considered below average in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom survey 2023 assigns Sri Lanka rank 136 out of 184 economies, reflecting weaknesses with regards to fiscal health, investment freedom, financial freedom, government integrity and judicial effectiveness. Comparatively better scores are only achieved for tax burden and government spending. Moreover, the World Bank Institute's annual Worldwide Governance Indicators surveys indicate weaknesses concerning the regulatory framework, measures to combat corruption and the rule of law. Our proprietary Environmental Sustainability Index puts Sri Lanka at rank 45 out of 210 economies, reflecting strengths in energy use and CO2 emissions per GDP, as well as water stress. However, there are still weaknesses in the recycling rate, the general vulnerability to climate change and renewable electricity output.

The political situation has undergone significant changes following widespread dissatisfaction with the established political parties. Anura Dissanayake, of Janatha Vimukthi Peramuna (JVP), was elected president in September 2024, representing the first victory by a third-party candidate. The parliamentary snap election in November aligned the legislature with the president, with the National People's Power (an alliance led by JVP) winning 159 seats, up from their prior election results of three, and obtaining a more than two-thirds majority. The election represents a broad shift in the political climate in the country, improving stability. Going forward, we expect the government to focus on its left-leaning domestic platform, while also attempting to discuss with the IMF about debt restructuring. The main risk to political stability is likely from the economy as Dissanayake's popularity could be affected if living standards do not improve.

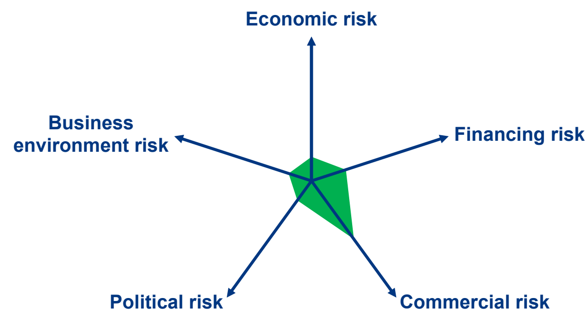
AA1

Low
risk for enterprises

Sweden

Long awaited reversal

GDP	USD 593.3bn (World ranking 24)
Population	10.5mn (World ranking 88)
Form of state	Constitutional Monarchy
Head of government	Ulf Kristersson (Prime Minister)
Next elections	2026, Legislative



Strengths & weaknesses

- Highly skilled and educated labor force
- High value-added manufacturing industries with one of the highest levels of R&D spending in the world
- Sound public finances
- Strong and effective institutions
- High degree of openness to foreign investments

- Excessive household debt
- Weak governing coalition
- Aging population
- High personal income tax compared to OECD
- High unit labor costs; strongly regulated labor marke

Economic overview

A gradual rebound

The Swedish economy rebounded swiftly after the pandemic, with GDP exceeding pre-crisis levels by nearly +5% by the end of 2021. In 2022, strong domestic demand – particularly consumer spending fueled by residual savings and rising house prices – along with robust private investment, drove growth. Yet, in 2023, the economy entered a recession, contracting by -0.1%. Consumption fell sharply due to rising mortgage costs and inflationary pressures, leading to an increase in unemployment to +7.7% in 2023. The labor market has shown remarkable resilience despite weak economic growth, partly due to a shift in domestic demand towards labor-intensive services like health, ICT, restaurants and hotels. However, the typical delay in labor market responses to broader economic trends suggests that employment growth will begin to accelerate to +8.4% in 2025, with the unemployment rate expected to decrease to 7.8% by 2026. The real estate market also contracted as it adjusted to the higher interest rates, impacting construction activity and overall investments amid broader economic uncertainty. But the worst is over: home prices began to rise in spring 2024 following the Riksbank's first rate cut, and household consumption is expected to improve further. After modest growth in 2024, the Swedish economy is anticipated to rebound by +1.9% in 2025 and +2.1% in 2026.

Inflationary pressures remain modest with all subcategories except services decelerating sharply. As a result, inflation is expected to drop to 2.9% in 2024 and reach the target level of 2% by 2025 sustaining into 2026. This is a result of several factors: the diminishing impact of supply bottlenecks, a significant negative output gap, a continued decline in energy prices and a recovery in the effective exchange rate since mid-2023. With inflation slowing, the weak economy takes precedence in monetary policy decisions. Lower global interest rates are likely to ease depreciation pressure on the Swedish crown, supported by structural strengths like a competitive business sector and low public debt. In 2024, the Riksbank cut rates by 150bps between May and December, reducing them from 4% to 2.5%. An additional reduction of 75bps expected in 2025 due to ongoing economic weakness.

Expansionary fiscal policy and household debt dynamics

Although Sweden's general government balance shifted to a deficit of -0.6% of GDP in 2023, following a surplus of 0.7% in 2022, the country's public finances remain robust. This deficit primarily stems from declining revenues relative to nominal GDP due to a weakening economy and higher government consumption driven by inflation and rising defense spending. In response to significant needs for maintenance and replacement investments, energy sector expansion and enhanced defense capabilities, the government plans to increase spending over the next few years. Consequently, deficits are projected to widen to -1.9% in 2024 and -1.7% in 2025. Public debt is expected to rise to 34% of GDP in 2024 and 35% in 2025. However, Sweden will still maintain one of the lowest debt levels among advanced economies.

In the medium term, financial stability may be threatened by excessive household debt, which is predominantly tied to property, accounting for 80% of total household debt. The significant decline in house prices in 2023, coupled with elevated debt levels, high interest rates and a weakened economy has intensified mortgage cost pressures on households. However, gradually decreasing interest rates are expected to alleviate some of this burden, even as incentives to save may diminish. The recovery is anticipated to gain traction in 2025 and 2026, despite ongoing high financing costs.

Excellent business environment with boost in security matters

Sweden boasts one of the world's best business environments, recognized for its innovation, strong R&D performance and a vibrant start-up scene. The country is a global leader in cleantech and circular economy models. This favorable business climate is supported by a highly skilled workforce, robust infrastructure and strong appeal for foreign investment.

Since September 2022, Sweden has been governed by a coalition of the Moderate Party, Christian Democrats and Liberals, with external support from the far-right Sweden Democrats. Ulf Kristersson serves as Prime Minister. The country is currently undergoing a significant transformation in security and defense policy. Sweden joined NATO in March 2024 and has already doubled its defense spending since 2020, with plans for a further 10% increase as part of a long-term goal to reach 2.4% of GDP by 2025.

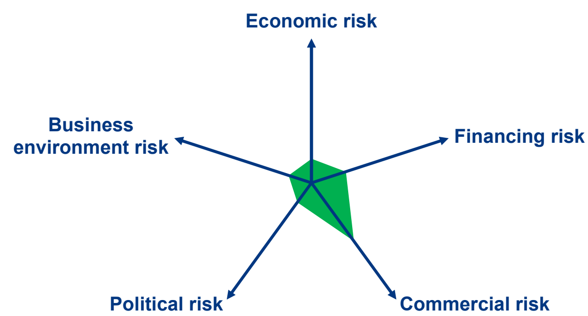
AA1

Low
risk for enterprises

Switzerland

Solid economic fundamentals help cushion the growth headwinds

GDP	USD884.9bn (World ranking 20)
Population	8.8mn (World ranking 100)
Form of state	Confederation
Head of government	Karin Keller-Sutter (President)
Next elections	2027, Legislative



Strengths & weaknesses

- Competitive high-income economy
- Sound political institutions
- Specialization in high-quality exports for which demand is relatively insensitive to exchange rate moves
- Healthy public finances
- Strong external position

- Overvalued CHF due to safe haven role
- Strong dependence on financial and export sectors
- Rising labor costs and stagnant productivity growth
- Financial sector's exposure to real estate lending (around 85% of domestic assets are concentrated in mortgages)
- Unfavorable demographics

Economic overview

Global economic weaknesses hamper Swiss economic growth

The Swiss economy experienced a growth slowdown to +0.8% in 2023, attributed to the past real appreciation of the Swiss Franc, weak external demand and reduced investment. However, a gradual recovery in external demand, coupled with lower inflation and easing monetary policy, is expected to boost growth to +1.5% in 2025. Growth is supported by strong structural foundations in private consumption, including a resilient labor market and a more dynamic industrial sector. Yet, downside risks currently outweigh upside potential as uncertainty surrounding international economic and trade policy is very high. Notably, insolvencies in Switzerland are still slightly increasing and are on historically high levels. After an increase in 2024, insolvencies are expected to stabilize in 2025 and then decline by -8% in 2026.

Inflation is decreasing even in the face of elevated service costs which put upward pressures on core inflation. On the one hand, the disinflationary trend is being supported by lower prices for goods and energy, aided by last year's nominal appreciation. On the other hand, rising rents and persistently high service inflation are moderating this decline. As wage growth has slowed, pressures on the services sector will ease in 2025. We anticipate an inflation rate of +0.9% in 2025 supported by lower electricity prices and easing price pressures from the services sectors, followed by +1.1% in 2026. As a result, Swiss inflation is expected to remain within a manageable range and below the target of the central bank.

Budget shortfalls but low structural deficit

The federal government is slipping into a slight structural deficit as both expenditure and revenue fell short of budget expectations in 2023. This resulted in a structural deficit of -0.5% and a debt ratio of +17.8% of GDP, which is very low by international standards. Cost-cutting measures in 2024 aimed to reduce the federal budget by CHF2bn annually. However, rising military spending, increased retirement and survivors benefits and healthcare costs, expenses related to the Ukraine conflict and climate protection will likely elevate the deficit further. Despite this, federal debt is expected to remain stable at just under +14% of GDP, with total government debt declining until 2025.

Very favorable business environment

The Swiss business environment proves very strong: the country scores very well in regulatory quality, rule of law and control of corruption, and also boasts a well-educated labor force. Switzerland could streamline requirements necessary to set up new firms and the licensing system. Regulatory barriers in the energy, transport and e-communications sectors are higher than in the average OECD economy, but barriers to trade are low.

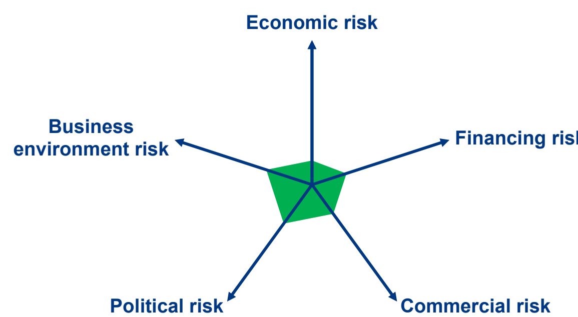
A1

Low
risk for enterprises

Taiwan

Seeking growth in an uneasy (geo)political landscape

Form of state	Multiparty Democracy
Head of government	Lai Ching-te (President)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Robust growth in private consumption
- Healthy labor market
- Well developed and resilient financial system
- Solid business environment
- Strong public and external balances

- Vulnerable to external pressures
- Export dependency leads to cyclical risk
- Threat of industrial competition and talent poaching from China
- Vulnerable to fluctuations in international fuel prices
- Concentrated geographic and sectorial trade structure

Economic overview

Strong position in the global value chain ensures stable growth momentum

Taiwan has recorded robust GDP growth over the past decades, with an average annual rate of +3.9% in the 2000s and +3.6% in the 2010s. Even during the years of the Covid-19 crisis, the economy showed remarkable resilience, recording a growth of +3.4% in 2020, +6.6% in 2021 and +2.6% in 2022, broadly outpacing the annual average growth of the Asia-Pacific region by +1.2pp during this period (+4.2% vs. +3%). In addition to effective containment strategies and swift policy action, the economy's competitiveness in terms of manufacturing, notably of semiconductors, can be attributed to its resilience during this period. Moreover, on the back of a recovery in global demand and a rebound in the electronics cycle, GDP growth in Taiwan is estimated to have increased to +4.4% in 2024, before likely settling at +2.6% in 2025 and +2.3% in 2026. However, protectionist US trade policy and endeavors from the US and China to develop their own chip production pose downside risks to Taiwan's economic outlook.

Fiscal policy in Taiwan has been broadly accommodative. To provide relief during the pandemic, the government accelerated fiscal spending, tax breaks, loan moratoria and subsidies. The annual fiscal deficit came in at -2.9% of GDP in 2020, before stabilizing at around 2% of GDP in 2021 to 2023. Going forward, we expect the fiscal balance to keep a constant path with a narrower deficit of -1% until 2026 on the back of softer government expenditure and increases in tax enforcement, reflecting their attempts to impose fiscal discipline in the line of the Fiscal Discipline Act.

Headline inflation remained relatively high compared to historical levels in 2022 (3%), 2023 (2.5%) and 2024 (2.1% estimated, albeit low relative to international standards) and consequently led to the tightening of domestic monetary policy in 2022-2023 (+75bps to the policy rate). In March 2024, the Central Bank of the Republic of China (CBC) unexpectedly increased its discount rate by another +12.5bps back to 2%, due persistent inflationary pressures. Looking ahead, we expect a gradual easing of monetary policy by the CBC (-25bps in 2025) as we forecast inflation to ease to 1.6% in 2025 and 1.3% in 2026.

Solid macro-fundamentals tied down by geopolitical tensions

On the back of a well-developed and resilient financial system, and sound external and fiscal balances, the short-term financing risk in Taiwan remains low. We expect the fiscal balance to register a slight deficit in the near term until 2026, public debt to remain low at 24% of GDP in 2025 and 22% in 2026 and the current account balance to stabilize around 15% of GDP during this period.

Taiwan exhibits robust external balances with a strong track record of more than 20 years of large current account surpluses – reflecting its strong position within the global value chain. The recent recovery in global trade, and in particular the reversal of the global electronics cycle downturn, will only fuel this trend going forward. Consequently, we expect the economy's current account balance to register a surplus of around 15% of GDP in 2025 and 2026. Further, we expect gross external debt to remain low, below 30% of GDP in the near-term. However, the economy's strong dependence on external trade makes it vulnerable to challenges in the external environment. Worsening geopolitical risks, US trade policy and rising cross-strait tensions are also softening inbound foreign investment flows from multinational firms.

Business-friendly environment, with broad political stability

Taiwan has a solid business environment with well-developed physical infrastructure, an educated workforce and business-friendly policies. The Heritage Foundation's annual Index of Economic Freedom surveys have put Taiwan in the top 10 out of 185 economies in recent years (rank 4 in 2023), reflecting very strong scores with regards to judicial effectiveness, fiscal health, government spending, trade freedom, business freedom, monetary freedom, property rights, tax burden and government integrity. Indicators that have the potential to improve further include those related to financial freedom, labor freedom and investment freedom. Likewise, the World Bank Institute's annual Worldwide Governance Indicators 2023 survey suggests that the regulatory and legal frameworks are business-friendly and the level of corruption is low. On the downside, Taiwan scores less favorably with regards to environmental sustainability, owing to a very low level of renewable electricity output and a moderate recycling rate, although it does well with regards to energy use and CO2 emissions. Overall, Taiwan ranks 117 out of 210 economies in our proprietary Environmental Sustainability Index.

The 2024 presidential elections were won by Lai Ching-te of the Democratic Progressive Party (DPP) with a share of 40.05% of total votes – slightly higher than that of his opponent Hou Yu-ih from the opposition Kuomintang (KMT), who earned 33.49% of votes. By contrast, KMT won the legislative elections with 52 seats while DPP lost 10 seats and retained 51. Since 57 seats are needed for a parliamentary majority, the third party – Taiwan People's Party (TPP) which won eight seats will be the kingmaker until the next elections. These results lead us to expect a broad containment in cross strait tensions in the near term with negligible impacts on businesses and financial markets as the DPP's China skeptical policy stance will be constrained by the opposition's push for a more conciliatory approach. However, uncertainties to the medium-term political stability of the economy cannot be ruled out and will remain a function of the collaboration between the government and the opposition, and factors external to Taiwan.

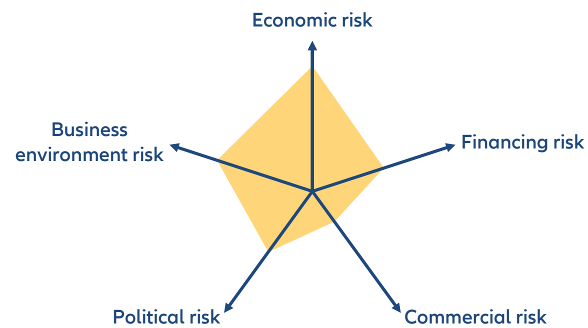
C2

Medium
risk for enterprises

Tanzania

Emerging economic powerhouse in East Africa

GDP	USD 79.2bn (World ranking 77)
Population	67.4mn (World ranking 23)
Form of state	Republic
Head of government	Samia Suluhu Hassan (President)
Next elections	2025, Presidential and legislative



Strengths & weaknesses

- Large endowment of mineral (gold, copper, nickel, natural gas) and vegetal (tobacco, coffee, cotton, cashew) natural resources in a stable and secure environment
- Demographic potential with good literacy rates and growing development of infrastructure networks connecting landlocked producers in the region with logistics hubs at sea
- Strong inward investment flows and positive relations with all major donors and international multilateral bodies

- Growing foreign debt and imports of capital goods, not sufficiently balanced by an increase in non-commodity related domestic production
- Despite poverty-reduction efforts, half the population still lives in poverty and 60% in moderate to severe food insecurity
- Although revenues are increasing, about a third of it is spent on debt servicing, leaving limited room for measures to support the neediest and new debt, which is capped at levels agreed with the IMF

Economic overview

The economy is set to grow despite challenges

Exports of minerals, mainly gold and cooper, as well as agriculture, tourism and construction have been boosting Tanzania's GDP over the last decade. GDP growth in 2025 is forecasted at +5.6%; since 2019, growth has averaged above +5% since it was not severely affected by the global pandemic-related slowdown. Tanzania's balance between rich and diverse commodities, a growing export-oriented manufacturing base, improving infrastructure and fast-growing tourism appeal has supported growth in recent years. Agriculture activities continue to be the main contributor to the GDP, mainly through extensive employment. Coffee has been an increasingly exported commodity in recent years, while minerals, especially raw copper, have become a major success story in Tanzania. In one decade, its export value has doubled and copper is increasingly being refined in the country mainly to serve Asian countries, notably India. Last April, a new license was given to US-based Lifezone Metals to establish a processing facility locally. Manufacturing has also become a growing industry, thanks to the export of cotton-derived products such as knitted t-shirts to South Asia. Finally, tourism is among Tanzania's most successful industries: an estimated 2m foreign tourists arrived in 2024 and earnings from the industry are estimated to have been close to USD4bn. A +20% increase in tourists is forecasted for 2025.

Inflation in Tanzania is on an upward trend, projected to climb to 5% in 2025 after ending 2024 at 3.1%. Tanzania was able to shelter itself from the global inflation surge, thanks to effective monetary policy – which maintained the key policy rate at 6% – orthodox fiscal policy – even though the government enacted some temporary subsidies for fuel and fertilizers – and a healthy reserves level at four months of imports. In addition, food prices were also sheltered, thanks to Tanzania maintaining an impressive strategic grain reserve that reached 340,000 tons in 2024 and that was key to supply grain to neighboring countries. This strategy stayed consistent with what was agreed on with the International Monetary Fund, which praised the fiscal prudence at play and the legislature's proactiveness in pushing forward the reforms targeted at balancing economic and budgetary imbalances.

Downside risks come from climate shocks, vulnerabilities to global commodity prices shocks as well as an increasing fragmented geopolitical order.

A healthy fiscal stance and improving current account deficit

A major development in late 2024 was the strengthening of the Tanzanian shilling, which ended the year with a 2% appreciation after rallying almost 10% in a matter of weeks. This occurred as the US Federal Reserve lowered its policy rates and investors sought new ventures. In addition, in early 2024, the government announced a de-dollarization of the tourism sector, requiring tourists to exchange foreign currency for the shilling. As of early January 2025, the shilling exchanged at .0004 to the USD and some depreciation is expected throughout 2025.

Tanzania's growth model is highly demanding for oil and capital goods imports that feed into its trade imbalance. The current account deficit is a result of higher capital import demand more than offsetting stronger exports. The trade balance alone posted a deficit of slightly more than 3% of GDP in 2024 and this is expected to remain in 2025. But this has been an improvement from the -6% of GDP recorded in 2022, coinciding with the global oil price hike. Despite the grim current account outlook, the financial account remains solid, thanks to a healthy inflow of FDI valued at around 2% of GDP.

Regarding the fiscal stance, Tanzania ended 2024 with a deficit close to 3%, and a primary balance of -0.4%; both are expected to gradually decrease in the mid-term. This shows the soundness of the government finances. In parallel, public debt is moderate at 46.7% of GDP in 2024 and expected at 46.3% in 2025. Foreign debt represents two-thirds of total outstanding debt, mainly owed to multilateral institutions such as the IMF and World Bank. Tanzania is currently under an IMF arrangement of USD1bn. While Tanzania's revenues are growing, a sizable amount is dedicated to servicing debt. Tanzania's banking sector is stable with well capitalized banks and decreasing NPL numbers as of the latest data available from June 2024.

Political stability and growing influence in the region

With an average life expectancy at birth of 66 (seven years more than in Mozambique and five more than in Kenya), half of the country's 55mn residents under the age of 15, a literacy rate of more than 80% and long-lasting poverty, the next decade may see a huge shift in politics and growth demands in Tanzania. In October 2025, a new round of Presidential elections is scheduled to take place. The current President Suluhu Hassan is expected to run again, extending her rule to 2030. Under the current government's national Five-year Development Plan, several sectors and areas have been identified to promote long-term growth. Among the priorities lies the reduction of energy imports via the establishment of an LNG plan to take advantage of the gas fields in the southern region bordering Mozambique, which should be added to Tanzania's oil refinery capacity. In addition, a new oil pipeline bringing 200,000 barrels per day from Uganda's fields should be operative in 2026 and could bring further energy sources. Hydropower is also being advanced by the opening of a controversial dam in 2024, which will add 235MW to the grid, and the Julius Nyem dam, which is expected to be operative in 2025. Infrastructure investment has also soared in the last few years, including the development of cross-border trains linking the economic hubs of the East Africa Community members, Tanzania's natural region of trade and influence.

Tanzania's economic ties have also expanded outside the region towards the Indian and Pacific Ocean, including with the UAE, China and India, which are now the country's main export destinations. Tanzania's duty-free access to the Indian market, as well as the arrangement to conduct bilateral trade in Indian rupees, will strengthen business ties with India. A new agreement in June 2024 was signed with the South Korean government, establishing a new credit line worth USD2.5bn. The strong ties with the Middle East remain, especially with the UAE, which operates part of the Dar Es Salam port via DP World – which should double cargo traffic by 2032 – as well as Egypt, which supported the construction of the Juluis Nyem dam. Tanzania has also been growing its political and military ties with the BRICS group, and most importantly with China, with whom it has performed military drills in recent years. While Tanzania's economic and political influence and scope are growing, it also faces challenges with neighbors, given border disputes with Malawi over the demarcation of the lake separating both countries, for example.

Contract cancellation risks remain elevated, while security risks are less prominent than among regional peers. In recent years, the state has lost several international arbitrations against foreign companies for canceling licenses for mining activities (nickel and rare earths) and terminating the lease contract of a construction company in the real estate sector in Zanzibar. At the moment, other similar cases are pending, and this could lead the government to terminate or renegotiate bilateral investment treaties as unfavorable and costly to the host country. Despite the resurgence of riots and security crises in the area (the Democratic Republic of Congo, Mozambique, as well as South Sudan and the Horn of Africa), only isolated events of violence have been recorded in the northern regions around the main mining hubs, mostly by individuals or small groups of common criminals, and along the border with Mozambique by terrorists trespassing in the Tanzanian regions of Rovuma and Mtwara.

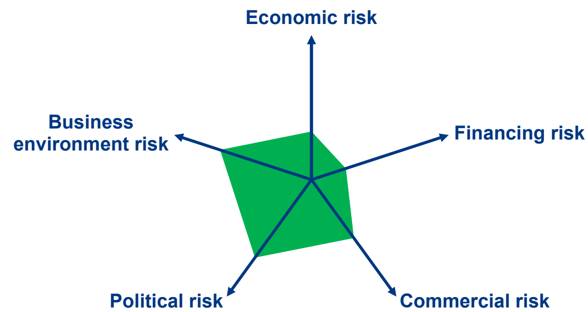
B1

Low
risk for enterprises

Thailand

Optimizing growth, constrained by challenges in the business and political environments

GDP	USD514.9bn (World ranking 27)
Population	71.8mn (World ranking 20)
Form of state	Constitutional Monarchy
Head of government	Paetongtarn Shinawatra (Prime Minister)
Next elections	2027, Legislative



Strengths & weaknesses

- Member of the Association of Southeast Asian Nations (ASEAN)
- Robust domestic consumption
- Strong FDI inflows as a result of firms diversifying away from China

- Weaknesses in governance and corruption
- Deficiency in skilled labor force
- Weak demographic profile
- High level of household debt

Economic overview

Growth supported by a recovery in tourism and robust consumption

Thailand experienced comparatively moderate GDP growth in the decade prior to the Covid-19 crisis, with an average annual growth rate of +3.6%. The pandemic had a large negative impact on the economy, resulting in a contraction of -6.1% in 2020 followed by a slow recovery in 2021 (+1.5%) and 2022 (+2.5%). The economy then decelerated to an annual growth rate of +1.9% in 2023, dragged down by challenging external conditions. While private investment contracted more than expected in 2024, private consumption was robust, inbound tourism accelerated and external demand recovered. Looking ahead, these tailwinds should maintain economic growth at +2.7% in 2025 and +2.5% in 2026. The government has also implemented several programs aimed at further boosting private consumption and investment, thereby supporting the country's growth prospects. However, the looming trade war and slowing external demand from the US will pose risks to Thailand's manufacturing output and export growth, either directly or indirectly through Thai manufacturers linked to Chinese firms. These effects could be offset by strong domestic demand and rising demand from Europe. Furthermore, Thailand stands to benefit significantly from higher FDI inflows as multinationals look to diversify their supply chains away from China – provided it is incentivized to improve its competitiveness relative to its regional peers (notably Vietnam and Indonesia).

In terms of fiscal policy, the Covid-19 crisis saw a shift in Thailand's stance. The fiscal deficit deviated significantly from its trend in 2020 (-4.5% of GDP), 2021 (-7%) and 2022 (-4.6%) – compared with -0.8% of GDP in 2019 and -0.3% of GDP on average in the 2010s. The fiscal deficit moderated to -2.0% in 2023, and we expect it to average 3.1% during the 2025-2026 period amid populist policies to stimulate domestic consumption and higher infrastructure investment. At the same time, stronger growth should lead to higher government revenues. Thailand is expected to strengthen its tax collection process in the coming years, partly through a minimum corporate tax that is due to take effect in 2025.

On the monetary policy front, the Bank of Thailand shifted to monetary tightening in August 2022 with a cumulative increase of 200bps by the end of 2023, in the context of significant depreciation of the Baht against the US dollar and elevated inflation. After announcing a 25bps cut in October 2024 to mitigate tighter financial conditions, we expect the monetary policy stance to remain neutral in the near term with a gradual easing thereafter, in part depending on the government's expected fiscal expansionary path and a gradual easing of inflationary pressures. After rising to a record high of 6.1% in 2022, headline inflation eased to 1.2% in 2023 and declined further in 2024, mainly on the back of lower energy and food prices. Headline inflation is expected to pick-up to 1.3% in 2025 and 1.4% in 2026 due to rising energy prices and potential for additional economic growth, thereby remaining within the target range of the central bank (1-3%). However, demand-induced inflationary pressures cannot be completely ruled out – notably from strong private consumption growth, wage growth prospects and fiscal stimulus measures.

Resilient financing environment, but public debt needs monitoring

Overall, the short-term financing risk in Thailand is low. Public debt will be worth monitoring, although it remains manageable as most of it is held domestically and with long maturities.

Thailand's financial system has shown resilience, but vulnerabilities remain. The fiscal deficit rose significantly during the pandemic but has robustly moderated in 2023, going from 4.6% in 2022 to 2.0% in 2023. It should remain moderate, at an annual average of -3.1% of GDP during the 2025-2026 period. Public debt rose from an average of 36% in the 2010s to close to 61% in 2022 in the wake of the pandemic. Going forward, we expect public debt to slightly increase to around 66% by 2025. On the positive side, this is not critical as most of the debt is domestic and with long maturities. In terms of the external balance, Thailand's current account balance posted moderate deficits in 2021-2022 as the tourism sector suffered from the pandemic and rising global energy prices boosted the value of imports in 2022. The current account deficit returned to a surplus in 2023, reaching 1.4% of GDP and we expect it to reach 2.0% in 2025. This increase will be driven primarily by the recovery in the tourism sector, moderating energy prices and a recovery in trade on the back of a pick-up in external demand. In addition, the promotion of free trade and deeper regional integration through the signing of free-trade deals will be on Thailand's external policy agenda in the medium term.

Challenges remain in the business environment and political outlook

Thailand's business environment has deteriorated over the past few years, according to our assessment of 185 economies, in which the country now ranks just around the average. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Thailand rank 80, down from rank 42 in the 2021 survey, reflecting deteriorations with regards to property rights, judicial effectiveness, government integrity, fiscal health, investment freedom and labor freedom. Meanwhile, the World Bank Institute's annual Worldwide Governance Indicators 2024 survey suggests a decline in the already-weak control of corruption indicator, and a slight improvement in political stability and absence of violence/terrorism, although this indicator remains weak. Our proprietary Environmental Sustainability Index puts Thailand at rank 138 out of 210 economies, reflecting weaknesses in terms of renewable electricity output, the recycling rate and overall climate-change vulnerability. However, the country scores better with regard to CO2 emissions and energy use per GDP as well as water stress.

Former prime minister Srettha Thavisin was dismissed in August 2024 by a decision of the Constitutional Court, leading to the House of Representatives electing Paetongtarn Shinawatra as prime minister. Shinawatra is the daughter of a former prime minister and de factor leader of the ruling Pheu Thai Party (PTP). The alliance between the PTP, which has promised greater democracy, and the parties close to the military will continue to be challenged. However, the military is likely to remain powerful. The risk of a military coup remains quite low but it could increase should the coalition government fall apart. In addition, the leading opposition party – the Move Forward Party (MFP) – was dissolved by the Constitutional Court but has reformed under a new name (the People's Party (PP)), and will keep pursuing progressist policies. The divisive issue of reforming the monarchy will also continue to weigh on political stability. In the short to medium term, risks to political stability in Thailand cannot be completely ruled out.

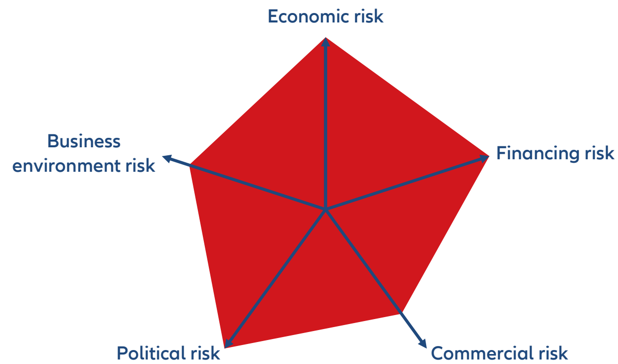
D4

High
risk for enterprises

Tunisia

An improved outlook amidst an isolating economy

GDP	USD48.5bn(World ranking 92)
Population	12.5mn (World ranking 78)
Form of state	Republic
Head of government	Kaïs Saïed (President)
Next elections	2029, Presidential



Strengths & weaknesses

- Diversified economy with educated workforce and known capabilities in manufacturing, plastics, petrochemicals, transportation, agriculture and tourism
- Easy access to the European market and strategic position in the Mediterranean Sea
- Prospects of additional production of phosphates and fossil fuels

- Increasing deterioration of the banking sector due to higher exposure to the sovereign
- Massive youth unemployment (~40%), coast-inland inequality, talent flight and fragile social stability
- The President's power grab could backfire, with more social unrest

Economic overview

Improved domestic outlook while debt sustainability pressures remain

Growth in Tunisia is expected to improve but remain low at +1.6% in 2024, and +1.5% in 2025, given the easing cycle throughout major central banks and an improved agriculture output compared to the previous years. Inflation is expected to slightly decrease from 7% in 2024 but will remain elevated at 6.7% in 2025. However, inflation risks are on the rise, given the Government's recent bill that diminishes the independence of the Central Bank of Tunisia (BCT), while financing needs remain elevated, given upcoming Eurobond maturities.

Debt sustainability remains among the top concerns in Tunisia. Debt service equaled 9.1% of GDP in 2024 and is projected to continue increasing by 0.3pp in 2025 and forecasted to reach 10.3% of GDP in 2028. Debt service is projected to equal USD9.5bn between 2025 and 2026 with an increasing servicing cost as the yields of both Eurobonds maturing in the short- (USD1.2bn maturing in January 2025) and mid-term (USD760m in July 2026) have seen a sharp increase. Considering Tunisia's latest withdrawal of USD850mn of foreign reserves from the central bank in February 2024 to repay a maturing Eurobond, we can expect similar monetary engineering in the next repayment. International reserves have since increased again above USD8.6bn. As Tunisia will most likely meet its short-term repayment requirements, it will be deteriorating long-term output by increasing the cost of financing for both businesses and the government. This in turn will increase the chances of an imminent currency devaluation, while continuing to reduce investors' appetite for the Northern African economy

An economy being unplugged from the rest of the world

The debt-to-GDP ratio of the Tunisian economy is projected to reach 83.7% in 2024 and 84.3% in 2025. More than 40% of the total debt is hard currency issued, which raises concerns of a possible devaluation of the dinar. The Government is currently striving to reduce its foreign debt share by focusing on domestic financing via its commercial banks and the central bank. Commercial banks, which already hold sovereign debt amounting to 12% of GDP, are increasingly buying more sovereign bonds, thereby raising their exposure to sovereign risk in case of default. In parallel, the BCT is financing the commercial bank's operations by liquidity injections and supporting the government to meet its foreign currency maturity obligations. A new bill passed in Parliament in October 2024 only reinforces the lack of independence of the central bank.

Tunisia's fiscal stance remains under pressure even if some improvements are materializing. The fiscal balance, which stood at -6.9% of GDP in 2023, is projected to decrease to -5.9% of GDP in 2024 and -5.1% in 2025, a fiscal consolidation of almost 1% of GDP per year. The government has also decelerated on the borrowing side as a 1% annual consolidation is expected, to -6% in 2024 and -5.1% in 2026, given the sustained improvement on government revenues since 2022, among the highest in the region. In parallel, global commodity prices have decreased the bill for energy and food subsidies, but the Tunisian budget remains highly vulnerable to external commodity shocks. Investment in renewable energy could be an important asset to reduce such import reliance but the lack of appetite for the Tunisian economy is preventing further improvement on this front.

The current account balance has been improving since 2022 and it is now projected to decrease below -3% of GDP in 2024, and -2.7% in 2025, a significant improvement from the 2010-20 average of -6.2%. However, Tunisian trade remains structurally unbalanced, Tunisian exports to the EU – its main trading partner – remain agriculture-based and lower value added, while its imports continue to be higher value added and expensive. The latest improvements have been driven by both a decrease of imports and a boost in agricultural exports. The exports boost is the result of a recovery in agricultural output and a surge of olive oil exports (+55% y/y), thanks to the surge in global prices and better rainfall. Cereal production has also increased by +60% y/y, reducing imports and improving the external position. Meanwhile, capital and financial transfers have improved from the previous decade, thanks to greater number of remittances, as well as a partial recovery of tourism arrivals, even though they remain below the pre-Covid peak. Bilateral support from donors has remained elevated; Italy and France have announced millions of euros of loan and aid to the current government in exchange for stricter borders. Multilateral transfers have been reduced as Tunisia denied the signature of a new program with the International Monetary Fund due to the opposition to reduce subsidies for essential goods. Such reforms would have improved Tunisian finances, but also increased inflation and most likely enhanced social tensions.

Over the last two decades, Tunisia has experienced a slow process of de-industrialization as services account for an increasing share of the economic output. Industry's contribution to the economy has slowly decreased from 26% to 19%, while services has risen from 58% to 66%. The agricultural sector has remained stable at around 10% over the same period. Yet, agriculture employment has declined to about 14% of the country's workforce from 18% two decades ago, while services has increased its employment rate and that of industry remained stable.

Business reforms nowhere to be found among the President's priorities

Presidential elections in October 2024 extended President Kais Saied hold of power after a crackdown on the opposition and a doubtful electoral process, according to different right groups. Turnout of the election was at 30%, but more than 2.4mn supporters remain organized to sustain his support. Saied, who took control in 2019 after years of instability following the Arab Spring, has transformed the constitutional setup, taking central stage of all the country's decision and policy making. While the Tunisian General Labor Union (UGTT) remains an important organized block within Tunisia, with over 1mn affiliates, it has had mix results opposing the government and pushing for its priorities. In April 2024, the UGT called for a national strike that was partially followed. It is expected that the UGTT will continue to pressure the government for higher wages and pro-labor reforms, but its influence is in decline.

Saied has put at the core of his Presidency his populistic message on independence from foreign powers, hence the refusal to accept funds from the IMF or the EU with strings attached. This message closely aligns with the stance of the Algerian regime, with whom Saied has strengthened ties. Several of the economic policies enacted since he took office have pushed the economy to reduce imports, with import-substitution-like policies. The results have been mixed: domestic production has increased in agricultural products such as grains and vegetable oils, but non-agriculture or higher value products have not seen a significant positive impact, due to the increase on tariffs to products necessary to produce higher-end products.

The current administration has emphasized economic policies aimed at increasing self-sufficiency and reducing reliance on foreign imports. This includes measures to boost domestic production, particularly in agricultural sectors such as grains and vegetable oils. While there have been positive outcomes in these areas, the impact on non-agricultural and higher value-added products has been limited, partly due to increased tariffs on essential production inputs. The administration has also focused on promoting renewable energy initiatives, which could benefit from enhanced foreign investment and reforms in the electricity market. These efforts are part of a broader strategy to improve the country's economic resilience and reduce external vulnerabilities.

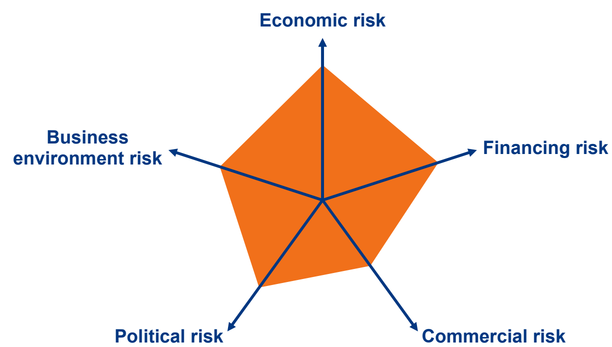
C3

Sensitive
risk for enterprises

Türkiye

Keep building bridges

GDP	USD906.0bn (World ranking 19)
Population	85.3mn (World ranking 18)
Form of state	Presidential Republic
Head of government	Recep Tayyip Erdogan (President)
Next elections	2028, Presidential and legislative



Strengths & weaknesses

- Türkiye's location at the crossroads of Europe and Asia, as well as between Russia and the Mediterranean, enhances its role as a key player in regional trade and energy transit, offering significant geopolitical leverage and economic opportunities
- The country benefits from a sophisticated economic structure, with strong sectors in automotive, textiles, agriculture and construction materials, which provide resilience against sector-specific downturns
- Türkiye's relatively young and well-educated population provides a dynamic labor force that supports economic growth and innovation, offering potential for productivity gains and demographic dividends

- Frequent shifts in domestic and foreign policy, along with potential political instability and Western sanctions, create an unpredictable business environment that can deter investment and economic planning
- Ongoing high inflation rates erode consumer purchasing power and investor confidence, complicating monetary policy and economic stability efforts
- Türkiye's substantial external debt and reliance on short-term financing make it vulnerable to global refinancing conditions and currency fluctuations, posing risks to economic sustainability

Economic overview

A credible, low-speed course

Türkiye's economic trajectory is currently dominated by persistent inflationary pressures and a complex monetary policy landscape. The Central Bank of Türkiye (CBRT) has embarked on a cautious path of monetary easing since late 2024, with the real interest rate slightly positive at 3-3.5%. This policy shift aims to navigate the fragile disinflation process, yet significant risks remain. Average consumer price inflation is projected at around 34% on average in 2025, potentially closing the year at around 25%. Achieving the central bank's target inflation band of 21-26% is contingent on external factors, such as global energy prices and the repercussions of US trade policies, which could derail these efforts.

In the short term, Türkiye's GDP growth is expected to moderate to +2.5% in 2025, a slight decline from 2024 and below the 2010s average of +5.9%. This reflects the constraints imposed by tight fiscal policies and fluctuating international demand for Turkish exports. The automotive industry, a key contributor to Türkiye's economy, experienced a slowdown in 2024, with motor vehicle production declining by 7.5% year-on-year to 1.4mn units. Despite these challenges, the sector's export value reached USD36.8bn, underscoring its resilience and global standing.

Inflationary pressures are exacerbated by sticky pricing and backward-looking tax revaluations, which complicate the CBRT's efforts to maintain economic stability. The central bank's cautious approach, involving a gradual reduction in interest rates, aims to balance the need for economic growth with inflation control. However, the potential for premature rate cuts poses a significant risk, potentially undermining the disinflation process and investor confidence.

Fiscal policy will play a crucial role in supporting the central bank's objectives. The budget deficit is expected to narrow to 3.5% of GDP, aligning with efforts to curb demand-side inflation pressures. However, this fiscal tightening may disproportionately impact low-income households, who continue to face economic hardships despite a notable 30% increase in the minimum wage. The government's stabilization efforts, while necessary, may encounter social resistance, complicating the path to economic recovery.

In summary, Türkiye's economic outlook is characterized by a delicate balance between inflation control, growth stimulation and sustainable corporate margins. External risks, including volatile energy prices and geopolitical tensions, pose significant challenges to achieving these objectives. The resilience of key sectors, such as the automotive industry, provides a glimmer of hope, but sustained efforts are required to navigate the complex economic landscape and ensure long-term stability.

Walking a fine line

The medium-term economic outlook for Türkiye will be shaped by a strategic focus on fiscal consolidation and macroeconomic stabilization. The anticipated narrowing of the budget deficit to 3.5% of GDP reflects the government's commitment to fiscal discipline. The current account balance is also expected to reach an overall balance by the end of 2025. This positive development is underpinned by a combination of stable demand from the US and Middle Eastern markets, offsetting weaker conditions in Europe. The Turkish lira, which has experienced relative stability, is forecasted to further depreciate by approximately 20% against the USD, reaching TRY45 per USD by year-end. The appreciation of the real exchange rate, coupled with elevated labor costs, has eroded corporate profit margins, particularly for exporters, and overall competitiveness; this should be considered when assessing corporate insolvency risks.

The government's fiscal strategy includes comprehensive tax reforms to ensure fiscal sustainability. These reforms involve establishing a minimum corporate tax rate and narrowing exemptions on corporate and value-added taxes. Such measures aim to enhance revenue generation and support the fiscal framework amidst economic adjustments. However, the fiscal tightening may impose significant burdens on low-income households, exacerbating social inequalities and potentially fueling social unrest. Türkiye's fiscal policy is further influenced by the need to address the aftermath of the February 2023 earthquakes, which prompted significant reconstruction spending.

The slowdown in corporate investment, driven by higher real exchange rates and tight domestic credit conditions, poses a risk to economic growth. This hesitancy to invest could impede economic expansion, necessitating targeted policy interventions to stimulate investment and support long-term growth.

Predictability remains key

The political stability afforded by President Recep Tayyip Erdogan's administration, supported by a parliamentary majority, provides a semblance of continuity. However, the unpredictability of policy decisions, historical interference on monetary policy and geopolitical tensions introduces significant risks to the business climate and economic outlook.

The potential for early elections in 2025, driven by the AKP-MHP coalition's strategic calculations, adds a layer of political uncertainty. While the coalition seeks to leverage geopolitical gains in Syria to bolster domestic support, the approach to courting Kurdish voters remains fraught with risks.

Internationally, Türkiye's foreign policy often conflicts with NATO and EU interests, creating friction with key allies. Despite these tensions, pragmatic and transactional relationships are likely to persist, driven by mutual economic and security interests. The fall of Syria's Assad regime presents both opportunities and challenges, with the potential to facilitate the return of Syrian refugees and alter regional dynamics. Although no significant impacts from US trade policy on the country are expected, the relationship with President Donald Trump will remain as tense as in the past.

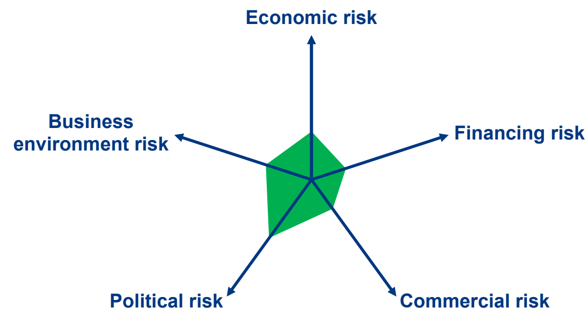
BB1

Low
risk for enterprises

United Arab Emirates

Robust non-oil growth continues as oil output set to pick up

GDP	USD504.2bn (World ranking 29)
Population	9.5mn (World ranking 96)
Form of state	Constitutional Monarchy
Head of government	Mohammed bin Zayed Al-Nahyan
Next elections	2027, Legislative



Strengths & weaknesses

- Political and social stability reinforced through the appointment of the nation’s third president in May 2022 and the nomination of his eldest son as crown prince in April 2023
- Exceptional endowment, thanks to an abundance of hydrocarbons that has allowed for continued current account surpluses and the build-up of large net foreign assets that can be used to absorb significant shocks
- First-class financial and logistical hub

- An absolute monarchy formed relatively recently and led by the emir of Abu Dhabi as the principal oil producer, which could fall apart if leadership is compromised
- Intervention in foreign conflicts could jeopardize the growing global role of the Emirate economy
- The anticipated decline in oil revenues may push the government to raise taxes, reducing the UAE’s competitive advantage over other countries in the region

Economic overview

Oil continues to dominate but diversification gains momentum

The UAE economy continues to experience robust growth, estimated at +5.3% in 2025 and +4.0% in 2026. Despite the moderation in global oil prices, averaging USD84 per barrel in 2024, and a slowdown in neighboring Gulf economies, the Emirates maintain resilient growth due to their diversified economy. Inflation is anticipated to slightly accelerate to 2.5% in 2025, before slightly decreasing to 2.1% in 2026, above the 2023 levels.

The oil sector began to see a modest uplift in production in mid-2024, following a 15-month period of OPEC+ coordinated oil production ceilings. Nevertheless, oil output remained below 3mn barrels per day in 2024, lower than in 2023. In 2025, annual oil output is expected to grow by +10%. Among OPEC members, the UAE is actively pushing for greater production quotas to maximize production capacity and increase short-term revenue. The UAE is concerned about being left with significant oil reserves without sufficient global demand due to the ongoing energy transition away from non-renewables.

The UAE's non-oil sector, more diversified than the rest of the region, sustained the country's growth in 2023 and 2024 despite the decline in oil production. Manufacturing accounts for approximately 7-8% of GDP, driven by heavy industries such as metal processing, aluminum, construction materials and petrochemicals, thanks to the availability of cheap energy. The government has prioritized manufacturing in its diversification strategy. Construction and real estate have also been strong growth contributors, spurred by private real estate development and significant government-led infrastructure projects, which have grown between +3% and +6% annually since 2018. The services sector remains a driving force in the Emirati economy, representing around 50% of GDP. Tourism, which has experienced high levels of growth since Expo 2020, expanded at a rate of +7-8% in 2024. Financial services, retail and logistics are also key contributors to the services sector in the UAE.

Strengthened fiscal and external position

The UAE's fiscal breakeven oil price, the price at which the fiscal account is balanced, has decreased to below USD60 per barrel. With an average oil price of USD84 per barrel in 2024, the fiscal position remains strong. Although it has deteriorated since the peak in 2022, the UAE still holds a much stronger position compared to its Gulf peers. Total public debt, forecasted at 31.3% of GDP in 2025, has been decreasing since the height of the Covid-19 pandemic and is expected to continue declining gradually in the mid-term. Given the reliance on oil revenue which still accounts by 50% of total revenue, Emirati authorities implemented a new 9% corporate tax as of June 2023, applicable to companies with income exceeding USD100,000, although there are still numerous exemptions and deductions. The country remains income tax-free with a low VAT rate of 5%.

The external position remains strong in 2025 and in the medium term. The annual current account balance was estimated at 8.8% in 2024 and is projected at 8.2% in 2025. Oil revenue, along with a rapidly growing real estate and tourism sector, supports the UAE's central bank in maintaining foreign reserves above seven months of imports. Additionally, the national oil company's profit transfers to the Sovereign Wealth Fund (SWF) represent around 5% of annual GDP, providing ample space for the SWF to invest both domestically and internationally, thereby offering a greater liquidity cushion.

On the monetary policy front, the UAE's central bank has maintained its policy of following the Federal Reserve by lowering its main policy rate by 50bps to 4.9%. Amid high interest rates aimed at combating inflation, the UAE banking sector remains robust, with a decreasing trend in the non-performing loan (NPL) ratio at 5.2% in 2023 and strong liquidity ratios well above the minimum thresholds. The local banking sector is highly profitable, with a return on assets of 1.5% and a return on equity exceeding 10%.

A growing global trade hub

The UAE offers one of the most favorable business environments in the Middle East and is emerging as a global leader with an increasing number of trade agreements amid global fragmentation. The Emirates already have free trade agreements with their Gulf neighbors, the EU, Israel, China and Australia. Additionally, agreements with Indonesia and India are currently under negotiation to expand their scope. Further negotiations are ongoing with Malaysia, New Zealand, the Mercosur community, Japan, Turkey, South Korea and others.

This economic openness aligns with the UAE's Industrial Strategy 2031, also known as Operation 300bn, which aims to transform the UAE into a global manufacturing hub by investing AED300bn (USD80bn) by 2031. The strategy focuses on strategically identified sectors such as advanced manufacturing, technology, pharmaceuticals, defense and aerospace. If successful, this initiative would nearly double the manufacturing sector's contribution to GDP from 7% to 13%, comparable to the industrial sectors of the United Kingdom or France.

The UAE's international influence has grown significantly over the past decade. Through Dubai-based logistics giant Dubai Ports World (DP World), which is ultimately owned by Dubai's ruling family, the UAE operates logistics infrastructure in 10 different African countries. Notably, DP World participates in the port off the Somaliland coast to service Ethiopian businesses and consumers.

Regarding environmental sustainability, the UAE faces significant challenges, including the lack of renewable electricity output, high water stress, and a low recycling rate. Climate change is expected to have an increasing impact on the UAE's economy, as evidenced by the intensification of rainfall during rainy seasons, with the highest precipitation recorded in 75 years in April 2024, and rising summer temperatures. Overall, the UAE ranks 146th out of 210 economies in our proprietary Environmental Sustainability Index. In the medium term, this could affect the country's ability to attract capital, as investors are increasingly focusing on sustainability.

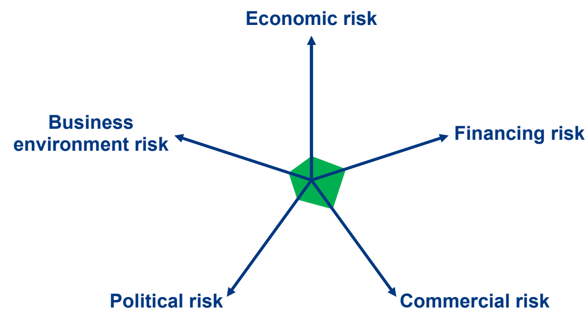
AA1

Low
risk for enterprises

United Kingdom

Facing policy trade-offs

GDP	USD 3340.0bn (World ranking 6)
Population	68.3mn (World ranking 21)
Form of state	Constitutional Monarchy
Head of government	Keir Stamer (Prime Minister)
Next elections	2029 (general)



Strengths & weaknesses

- Services exports powerhouse
- Healthy banking sector
- Diversified export structure
- Friendly business environment
- Well positioned for AI roll-out

- Elevated twin deficits
- High public debt
- Deteriorating goods exports performance
- Low productivity growth
- Weak National Health Service

Economic overview

Growth struggling to pick up momentum

The UK economy has fared poorly over the past two years, hit by multiple issues ranging from elevated inflation, tight financial conditions, restrictive fiscal policy and deteriorating goods export competitiveness. Furthermore, policy announcements in 2024 have hit the private sector's confidence owing to upcoming large tax hikes. Meanwhile, even though inflation has retreated significantly from its past peaks, it remains stubbornly above the Bank of England (BoE)'s 2% target. This means that the BoE has had to remain more hawkish than many of its central bank peers. Sticky inflation reflects a weak performance of the supply side of the UK economy, including a declining labor participation rate since the Covid-19 pandemic, persistent (though declining) labor shortages and lacklustre productivity growth.

We expect GDP growth to gradually pick up pace through 2025 after a dismal 2024. However, the UK is still contending with sticky inflation, and inflation is not expected to pull back before the second half of 2025. Still soft demand and easing inflation should allow the BoE to step up its easing cycle later in the year, with the BoE bank rate expected to reach 3.5% by December 2025. This will provide a welcome decline in funding costs for the private sector. Access to credit has started to loosen and should continue to do so as the BoE becomes more dovish. Fiscal policy should be less restrictive in 2025 than in 2024. Moreover, pro-investment government policies should provide tailwinds to the construction sector, including infrastructure, residential and the NHS.

Nevertheless, while the domestic environment should improve, upcoming US tariff hikes will provide a challenging external backdrop. The US is the first market for UK goods exports and we expect increased US tariffs on sectors such as automotive, chemicals and machinery & equipment. Finally, while the government's pro-investment policies will be supportive to UK growth overall, the sharp planned rise in the National Insurance contributions will limit the growth benefits by weighing on both labor supply and labor demand.

Corporate risk in the UK will remain elevated. UK companies have showed resilience, but tight financing conditions and weak demand have put them under pressure over the past two years. We expect business insolvencies to remain at elevated levels in 2025 and 2026, though easing from 2024's peak.

The government has to contend with policy trade-offs

The government unveiled ambitious investment policies in its October 2024 Budget. Namely, it plans to build 1.5mn new homes over five years, to liberalize the planning regime (a law was already passed in 2024) and to significantly boost healthcare (NHS) and defence spending.

However, the government has to content with a difficult fiscal backdrop: the UK's debt-to-GDP ratio likely reached 102% in 2024 and the public deficit settled at -5.2% of GDP (after -6% in 2023). Elevated deficits are a core issue in the UK, not only because they jeopardises fiscal sustainability and reduce fiscal space, but also because they suck up domestic savings in an economy that sorely needs them to increase investment. Faced with this difficult fiscal backdrop, the government is committed to reducing deficits, but a substantial reduction will only start in 2026. Indeed, fiscal spending will be ramped up relatively quickly in 2025, but tax hikes will be raised more gradually. The main tax hikes will be in National Insurance (NI) contributions, inheritance and capital gains taxes and personal income taxes (through the freezing of tax brackets), along with the scrapping of the VAT break for private school fees. Meanwhile, excluding investment, overseas aid, defence and healthcare, and funding to local councils, spending in most other departments will be trimmed in real terms to help to reduce deficits. Based on the OBR's assessment, the fiscal stance will be mildly restrictive in 2025 (0.2% GDP) before turning very restrictive in 2026 (0.8% GDP). We expect the public deficit to narrow to -4.5% of GDP in 2026, after remaining around flat in 2025 (at -5.3% GDP).

The UK economy remains particularly vulnerable to fluctuations in foreign exchange rates, with around 50% of its import prices being influenced by currency dynamics, notably higher than in France and Germany. This high sensitivity stands in stark contrast to the export sector, where the benefits of a weaker currency are limited due to a substantially lower passthrough effect.

Strong business environment

Under the current government, policy towards investment will become more favorable, especially on ambitious homebuilding plans and NHS, which are supportive of the economy's potential growth. The UK should also maintain an overall pro-business policy stance, as reflected by the Chancellor of the Exchequer's push to incentivize domestic and foreign firms to increase investment in the UK.

However, taxation on corporates has increased in recent years (including sharply on oil and gas companies) and will continue from 2025 as NI contributions will be gradually raised. The UK's overall tax take (35% GDP) will move from the middle of the pack advanced economies to the first quartile by 2029-30. Further increases in taxation on corporates and labor risk undermining growth by weighing on the private sector's incentives to invest and save.

The UK continues to negotiate further trade agreements post-Brexit, seeking to strengthen its global trade network. The UK joined the CPTPP in 2024, a trade agreement representing over 15% of the global economy. We estimate it generate around USD1.3bn in export gains for British exporters, mainly in the machinery, automotive and pharmaceutical sectors.

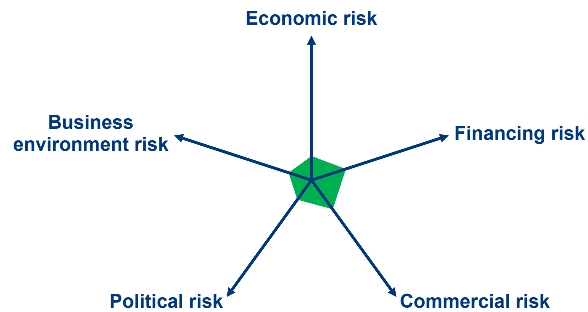
AA1

Low
risk for enterprises

United States

Policy shakeups

GDP	USD27360.9bn (World ranking 1)
Population	334.9mn (World ranking 3)
Form of state	Federal Republic
Head of government	Donald Trump (President)
Next elections	2026, legislative



Strengths & weaknesses

- World's largest economy
- Effective governmental checks and balances
- High per capita GDP
- High data transparency
- Reserve currency
- Large oil and gas reserves
- Diverse GDP
- Strong underlying productivity growth

- Increasing political polarization and unpredictability of policymaking
- High public debt that will continue to rise without major fiscal tightening
- Prone to social disruption and unres
- Shortages of labor an obstacle to re-industrialization drive

Economic overview

Slowing but still solid growth

The US economy grew robustly over the past two years compared to peer advanced economies, buoyed by loosening financial conditions (especially a strong stock market), pro-investment policies rolled out during the Biden administration (CHIPS Act, IRA, IIJA), stellar performance of the digital economy, strong inflows of migration and low household savings. However, it is important to note that this growth over-performance has also been fueled by large but unsustainable fiscal deficits. Noticeable areas of persistent weakness have been the housing market, hit by elevated mortgage rates and stretched affordability, and the industrial sector, highlighting the challenges faced by the US economy to re-industrialize.

The pick-up in household confidence in the wake of the elections in November 2024 and loose financial conditions should support activity in early 2025. Meanwhile, the economy will continue to benefit from the Biden administration's policies. Although the construction spending boom has plateaued, follow-up equipment investment for these factories is likely to accelerate. Other tailwinds for capex growth include growing investment in data centers and hardware equipment. Nevertheless, tight immigration policy and upcoming tariff hikes on imports – with foreign countries expected to retaliate against US exports – will provide some headwinds to US growth. Trade uncertainty will likely hurt corporate sentiment while higher tariffs will be passed on to some degree to consumer prices and corporates' importing input costs. Tight immigration policy could increase labor shortages in some industries heavily reliant on foreign labor, such as farming, construction, food preparation and healthcare, and weigh on aggregate demand.

In 2026, we expect the Trump administration to deliver new tax cuts but the net fiscal boost to the economy should be modest as federal spending will be restrained. Meanwhile, the negative growth effects of some policies – particularly tariffs and immigration – as well as persistently elevated interest rates will take an increasing toll on activity. We forecast GDP growth to dip below trend growth in 2026, but to remain well above that of peers.

Sticky inflation and resilient growth will prompt the Fed to become increasingly hawkish. The labor market is expected to cool further in 2025 but with only a moderate increase in the unemployment rate forecast. Indeed, slowing labor supply, induced by tight immigration policy, should put floor on unemployment. In this context, we see little scope for further easing of monetary policy in the next 18 months. Accordingly, we expect the Fed funds rate to settle in the 4.00-4.25% range over the next 18 months or so. We see the Fed normalizing policy in the second half of 2026 by cutting interest rates down to our estimate of the neutral rate (3.5%) amid lower growth and cooling inflation.

Corporate bankruptcies have been on a firm upward trend since 2022, though they remain contained relative to historical averages. However, insolvencies of large firms remained way above pre-pandemic levels. Persistently elevated funding costs are straining some US companies. However, other factors are also at play, including a weak industrial sector overall and changing consumer spending patterns. We expect corporate bankruptcies to edge a bit higher in 2025 amid a growth slowdown and prolonged high interest rates. However, solid corporate balance sheets (in particular, high cash buffers and low debt-to-equity ratios) should keep them contained.

Against this backdrop, the US is expected to retain one of the highest rates of medium-term GDP growth potential amongst large developed markets.

Structural vulnerabilities worsen

The US remains the world's largest economy and despite its dominance being challenged, the US dollar remains by far the world's largest reserve currency. US financial markets are the largest and the deepest globally, providing cheap and liquid financing. Nevertheless, the economy is carrying a tremendous public debt load. Independent research bodies such as the Congressional Budget Office (CBO) expect the public debt load to continue to rise rapidly over the coming decades in the absence of ambitious policy measures to rein in spending and/or increase revenues. Increasing political infighting – as highlighted by repeated stand-offs in Congress between and within parties over the budget and/or the debt ceiling – and policy pledges by the new administration make this prospect unlikely, at least in the short term. Indeed, while the Trump administration is committed to slashing federal spending (eg. by removing or cutting funding to some federal agencies), it does not plan to address explosive welfare spending (Social Security, Medicare, Medicaid) – one of the core reasons behind large deficits. Furthermore, this new administration is expected to renew the 2017 tax cuts (set to expire at the end of 2025) and to deliver new ones. A large body of evidence suggest that lower taxes do not ''pay for themselves'' and therefore increase deficits. In all, we expect the federal deficit to remain way above 6% of GDP in 2025 and 2026.

The economy also faces inexorable demographic change, with an aging workforce as "Baby Boomers" are retiring and will continue doing so for much of this decade. At the same time, there will not be enough workers to support this ever-growing population of older, sicker retirees. Labor shortages are set to worsen over the coming years and decades, which will increasingly constrain the ability of the US economy to boost the share of manufacturing significantly. The US also suffers from persistently high trade and current account deficits. While the Treasury securities used to finance these deficits remain highly liquid, the occasional battles to raise the debt ceiling create unnecessary turmoil in the financial markets and threaten the country's credit rating.

Business environment and political developments

The business environment in the US is very accommodating, with the economy consistently ranking amongst the top performers in Ease of Doing Business reports. The hallmarks include strict enforcement of contracts, the ease of resolving insolvencies, the rule of law in general and the easy access to credit. However, politics is becoming increasingly divisive, both between and within political parties. Repeated disagreements over the debt ceiling and the budget have increased economic and political uncertainties. Some of President Biden's flagship legislation – such as large green subsidies – will be removed or watered down under the Trump administration. However, measures introduced to counter China's growing influence – such as export restrictions on high-end chips and chipmaking equipment – are likely to be pursued, and even strengthened, amid political consensus to rein in China's access to western technology. Moreover, the strong policy push towards re-industrialization will continue under the Trump administration, with industrial subsidies likely to be ramped up for sectors such as steel, aluminium and automotives.

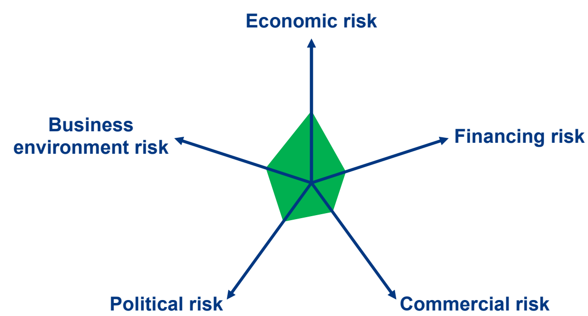
BB1

Low
risk for enterprises

Uruguay

In sun and shadow

GDP	USD77.2bn (World ranking 80)
Population	3.4mn (World ranking 133)
Form of state	Constitutional Republic
Head of government	Yamandú Orsi (President)
Next elections	2028, General



Strengths & weaknesses

- Robust democracy with a stable political framework and low corruption levels
- Resilience in agricultural exports and a track record of fiscal discipline
- Strong international reserves and moderate external debt as buffers against shocks

- High levels of public debt and continued dollarization
- Limited governability challenges due to lack of majority in the lower house
- Growing threats from organized crime, including drug trafficking via porous borders

Economic overview

Continuous positive performance

Uruguay experienced a period of high economic growth from 2004 to 2014 (+5.4% on average). Its economy held up better than the regional average during the pandemic, and it returned to past levels of growth in 2021 (+5.3%) and 2022 (+4.9%), thanks to strong exports in agricultural commodities. 2023 was marked by the most severe drought in 40 years – which hit the whole Southern Cone – leading to subdued exports, a decrease of -4.4% in manufacturing production and eventually lower growth (+0.8%). The country also suffered directly from the economic crisis in Argentina, and from the slowdown of the whole region, as tourism revenue from neighboring countries constitutes a non-negligible part of its economic structure. Nevertheless, Uruguay has a healthy economy, with the highest per capita income in the region, stable FDI inflows and a balanced democratic system. Economic growth recovered in 2024, driven by strong agricultural production and exports. Real salaries and employment rebounded alongside.

For 2025, GDP growth is expected at a healthy +3% amid weaker economic momentum in Brazil and exchange rate pressures that may stoke inflation. The ongoing economic recovery in Argentina is a partial offset, with positive spillovers for tourism and goods exports. Inflation, which reached its lowest annual levels since 2005 in early 2024, is forecasted to climb by late 2025 as the central bank returned to a hawkish stance in December 2024 to address inflationary pressures.

Uruguay's ongoing challenge of dollarization limits monetary policy flexibility. With over half of its loans and 70% of deposits in USD, currency shifts impact both pricing and consumption. Nonetheless, the government's commitment to maintaining fiscal stability and President-elect Yamandú Orsi's balanced fiscal priorities aim to support long-term resilience.

Political stability vs. emerging risks

Uruguay's fiscal framework remains a hallmark of economic stability. Adherence to fiscal discipline was reinforced through the pension reform of 2023, raising the retirement age to 65, which curbed future liabilities. The referendum held in late 2024 on the retirement age increase and the general election showed the population's commitment towards full sustainability of the pension system. Public debt is expected to remain stable at 55-56% of GDP, and the fiscal deficit will be contained around 3% of GDP.

Following nearly two decades of inflation at around +7-8%, the central bank has prioritized anchoring inflation expectations by way of increased communication and transparency with market participants and business chambers. Such efforts have helped lower inflation expectations, with yearly consumer price increases forecast to remain within the target range (3-6%) in 2025-2026.

Stable capital inflows, sound external balances and the increasing proportion of sovereign debt in local currency (54% in 2023, up from 44% in 2019) reflect Uruguay's prudent financial management. President-elect Orsi's administration is expected to focus on boosting social spending while pursuing innovative reforms, such as a personalized VAT linked to income and pension system adjustments to enhance benefits. However, proposed labor reforms, including shorter working hours, may face the challenges of balancing economic productivity with social priorities.

Balancing growth and reform

Uruguay remains one of Latin America's most stable democracies, underscored by the recent elections. The Frente Amplio's Senate majority supports governability, but the lack of a lower-house majority presents potential hurdles in implementing reforms. Orsi's administration plans to pivot foreign policy toward strengthening Mercosur ties, moving away from pursuing trade deals outside the bloc. This contrasts with previous administrations' focus on global diversification. Growing organized crime, particularly drug trafficking exacerbated by porous borders with Brazil and Uruguay's port infrastructure, poses a rising threat to national security and the business environment.

Uruguay's business environment is very strong: the country ranks 27th out of 177 in the 2024 Index of Economic Freedom, and 4th in the Americas. Its best scores are obtained in property rights, judicial effectiveness and business freedom, and the country enjoys labor competitiveness. Uruguay has little corruption (16th in the CPI 2023), and foreign investments do not need preliminary approval. Trade freedom is also well assessed as the trade-weighted average tariff rate is 9.4%. The only bad score Uruguay obtains is in financial freedom as the government maintains a strong presence in the financial sector. The 2022 Worldwide Governance Indicators survey ranks Uruguay 19th out of 209 countries in control of corruption, and in the first quartile for regulatory quality and rule of law. All indicators have improved compared to 2021. Moreover, our proprietary Environmental Sustainability survey indicates that the country performs quite well in CO2 emissions and renewable electricity output. On the other hand, the recycling rate is poor and water stresses have had a significant impact on growth.

Uruguay's commitment to democratic values, low corruption and business-friendly policies continue to attract investment. However, balancing moderate and radical factions within the Frente Amplio will test Orsi's political acumen. Uruguay's enduring strengths – regional diplomacy, fiscal prudence and robust institutions – provide a solid foundation for navigating these challenges while charting a sustainable path forward.

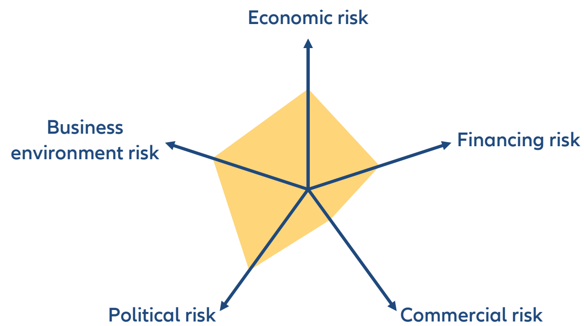
B2

Medium
risk for enterprises

Vietnam

Realizing opportunities and keeping structural fragilities in check

GDP	USD408.8bn (World ranking 34)
Population	98.9mn (World ranking 16)
Form of state	Communist party-led state
Head of government	Tô Lâm (General Secretary of the Communist Party)
Next elections	2026, Legislative



Strengths & weaknesses

- Low wages but relatively skilled workforce
- Competitive manufacturing hub
- Development potential of various natural resources, especially minerals (iron ore, copper, gold) and energy (oil, natural gas, coal)
- Relatively open economy with growth model based on trade
- Ongoing shift towards higher value-added sectors

- Lack of transparency
- A fragile and opaque banking system
- Infrastructure to be improved
- A complicated business environment
- Low external reserves
- Recurrent tensions with China

Economic overview

A growth outperformer regionally and globally

Vietnam is a good performer among emerging economies, with around +7% growth on average in the three decades before the Covid-19 pandemic, and +4.5% on average over 2020-2022. Against the backdrop of the global economic growth slowdown and weaker external demand, real GDP growth declined from +8.1% in 2022 to +5.0% in 2023. A recovery in global trade, especially in consumer electronics, supported Vietnam's manufacturing sector in 2024. We expect robust growth to persist in the coming years at +6.6% in 2025 and +6.4% in 2026. As such, Vietnam will remain one of the fastest-growing economies in the Asia-Pacific region in the upcoming years. Outperforming exports, especially of electronics, machinery and footwear, will remain the key growth drivers, supported by the trend of international firms diversifying their supply chains and relocating their operations to Vietnam. Additionally, domestic demand will be supported by monetary easing, with in particular a recovery of the flagging property sector. Impacted by higher global commodity prices and the stronger USD since 2022, inflation in Vietnam accelerated and reached an average 3.2% in 2022 and 3.3% in 2023 (from 1.8% in 2021). We expect inflation to remain elevated in the coming few years.

Over the longer term, the economy is expected to remain a sturdy growth performer in the region, helped by foreign direct investment, solid demand from Asian and Western markets, strong competitive advantages (low labor costs, high productivity growth and a strategic location), increasing integration in global supply chains and a positioning as a global manufacturing hub. Vietnam may also benefit from some firms' will to diversify from China and find new production sites.

Liquidity risk under control for now but needs monitoring

Overall, indicators show that Vietnam's short-term financing risk is medium, with monitoring needed when it comes to elevated credit growth, the banking sector, foreign exchange reserves and external debt.

Real domestic credit growth remains elevated. We estimate it showed a downtrend at the beginning of 2023, dropping from nearly +14% y/y in January 2022 to +6.6% y/y in January 2023. However, it has then remained at a relatively elevated level and visibly accelerated in late 2024 (+13% y/y in September 2024), in part on the back of low inflation and easy monetary conditions – the State Bank of Vietnam cut the benchmark refinancing rate from 6% to 4.5% in 2023. On the one hand, these policy moves helped alleviating a credit crunch in the property sector, where many firms were facing repayment and refinancing difficulties, leading to an increasing risk of bad debts in the banking sector. On the other hand, continuously rising credit will raise private sector debt-sustainability risks if the economy slows down more than expected.

Foreign exchange (FX) reserves in Vietnam peaked in early 2022 and declined quickly through the year, before roughly stabilizing. The ratio of money supply M2 to FX reserves increased from 529% at the end of 2021 to nearly 820% in August 2024 (a ratio below 400% is considered adequate). Likewise, the number of months of imports that is covered by FX reserves decreased from 3.9 at the end of 2021 to 2.5 in August 2024 (at least four months is usually deemed appropriate). A heavily managed exchange rate regime so far sustained the risk of a large depreciation of the VND. However, if external demand conditions were to deteriorate significantly and FX reserves to fall further, the central bank may at some point no longer be able to defend the VND. External debt of around 35% of GDP is relatively elevated for an emerging country, but it remains at a decent level when compared to exports.

Business environment and political developments

Vietnam's business environment score is below average and close to the median in our assessment of 185 economies. The Heritage Foundation's Index of Economic Freedom 2023 survey assigns Vietnam rank 72 out of 184 economies (a steady improvement from rank 105 in the 2020 survey), reflecting good scores with regard to the fiscal health, government spending, trade freedom, tax burden, business freedom and monetary freedom, while weaknesses remain particular in the areas of judicial effectiveness, government integrity and investment freedom. Some of these points are underscored by the World Bank Institute's annual Worldwide Governance Indicators surveys, which indicate considerable weaknesses with regards to the regulatory and legal frameworks, as well as measures to combat corruption. Our proprietary Environmental Sustainability Index puts Vietnam at rank 92 out of 210 economies, reflecting strengths in energy use per GDP and water stress, but weaknesses in terms of renewable electricity output, the recycling rate and climate-change vulnerability.

Political stability is to be expected in the coming years. Vietnam is a one-party state, tightly controlled by the Communist Party of Vietnam (CPV). Tô Lâm was appointed general secretary of the CPV in August 2024, shortly before the death of his predecessor, Nguyen Phú Trong, who had held the position since 2011. In October 2024, Luong Cuong was appointed state president, thus reestablishing power-sharing among the top four leaders (CPV general secretary, state president, prime minister and chairman of the National Assembly). The next national congress of the CPV will take place in 2026, and competition within the party for the top positions is likely to persist until then. The policy agenda is likely to continue focusing on a high-level anti-corruption campaign, efforts to attract foreign investment and reduce state involvement.

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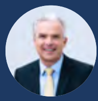

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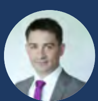

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