COUNTRY RISK QUARTERLY
Spring 2016

Canada

EDC
Realize a World of Opportunity

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GLOSSARY OF TERMS

SHORT-TERM COMMERCIAL

Risk Rating

Average default rate on credit commitments of 1 year or less on the part of commercial obligors in a country.

Payment Experience

Measured by the number and size of EDC claims experienced in a particular country, over a period of a year, relative to EDC's business volume growth.

- Positive: The number of claims, or the amounts claimed have decreased in proportion to EDC business volume growth.
- Neutral: The number of claims, or the amounts claimed have remained unchanged in proportion to EDC business volume growth.
- Negative: The number of claims, or the amounts claimed have increased in proportion to EDC business volume growth.

MEDIUM-LONG TERM COMMERCIAL

Commercial Country Ceiling

The Commercial Country Ceiling (CCC) is meant to represent the best possible rating that can be assigned to commercial obligors domiciled in a country. The CCC is impacted by the SPD, political risks (transfer and inconvertibility, political violence, expropriation) and other mitigating or exacerbating factors.

Expropriation

The likelihood over the medium- to long-term of government action (e.g. outright seizure of an asset/investment or less pronounced interference such as unjustified non-renewal of required permits or licenses) or weak governance conditions (e.g. a weak rule of law or high levels of corruption) having a significant impact on a country's commercial environment.

Transfer and Conversion

The likelihood, over the medium- to long-term, of a government imposing conversion or transfer restrictions that significantly effects the commercial environment. Conversion restrictions could include measures that prevent companies from converting local currency to hard currency, while transfer restrictions would be measures that inhibit the transfer of said hard currency out of the host country by legal means.

Political violence

The likelihood, over the medium- to long-term, of an act of political violence occurring in a country that significantly impacts the country's commercial environment. Political violence events can include: acts of war (declared or undeclared), insurrection, revolution, rebellion, riot, terrorism, sabotage, civil disturbance, or other such violent acts that are politically motivated.

Sovereign

The sovereign Probability of Default (SPD) measures the ability and willingness of a sovereign to honour its financial obligations over the medium-long term.

RISK RATING LEXICON
Low
Low-Medium
Medium
Medium-High
High
Prohibitive
No Information

PAYMENT EXPERIENCE LEXICON
Positive
Neutral
Negative

Country Risk Quarterly

2016: The Top 10 Risks

By Ian Tobman
Senior Country Risk Analyst
Economic and Political Intelligence Centre

The daily onslaught of negative news can be overwhelming; from the rise of populist/nativist leaders to the free fall of the Chinese stock market to the staying power of the Islamic State. Are we living in a more precarious world? The CBOE Volatility Index (VIX), which calculates the market's expectation of volatility, is rising, but it is currently below its long-term average. Therefore, it is not that risk levels have gone up but rather the risks themselves are changing. To cut through the noise and focus the minds of exporters on what's important, Export Development Canada's Economic and Political Intelligence Centre has compiled a list of the top risks facing the world economy over the next five years. These scenarios are not our base-case view, but rather tail risks, or extreme events, which can dramatically change the global landscape for Canadian companies. The following are examples of some of the most significant risks that we're watching, measured by probability and impact on Canada.

Chinese economic crisis: The challenges facing Chinese authorities over the next five years are enormous and unprecedented in scope. Balancing near-term growth to avoid a 'hard landing' while ensuring very tough structural reforms to address overcapacity and high systemic debt in an orderly fashion, all while engineering a highly complex transformation of the economy, brings significant policy risks. Although not our base case, a number of policy missteps over time can significantly erode domestic and international confidence in the Chinese economy, as well as the credibility of Chinese decision makers. This would result in greater capital outflows, a tightening of credit conditions, and culminate in a sharp economic slowdown. As the world's second largest economy, a crisis in China would surely have a dire impact on global markets, hitting Canadian trade and investment prospects.

Japanese debt bomb: Japan has the highest level of public debt of any economy, with a whopping one-third of government revenue spent solely on servicing its growing debt burden. In 2015, the IMF noted that Japan's public debt was unsustainable under current policies, and that "Japan's extremely high financing needs point to vulnerabilities to changes in market perceptions." Countless rounds of fiscal stimulus over the past decades have failed to reverse this debt dynamic. While Japan's strong culture of saving has allowed the government to continue to fund its deficits, an aging population puts this backstop at risk. Meanwhile, should authorities succeed in increasing inflation over the next five years, government debt servicing costs are also likely to increase, as investors demand higher rates. Furthermore, unorthodox monetary policies used to stoke inflation could increase systemic risks and destabilize the financial sector. Japan may, therefore, experience a perfect storm where savings decline, savers demand higher yield, the financial sector falls into trouble, and international investors lose confidence. The combined effect of this scenario would precipitate a fiscal crisis that would not remain confined to Japan, but would likely tip the world into a financial crisis.

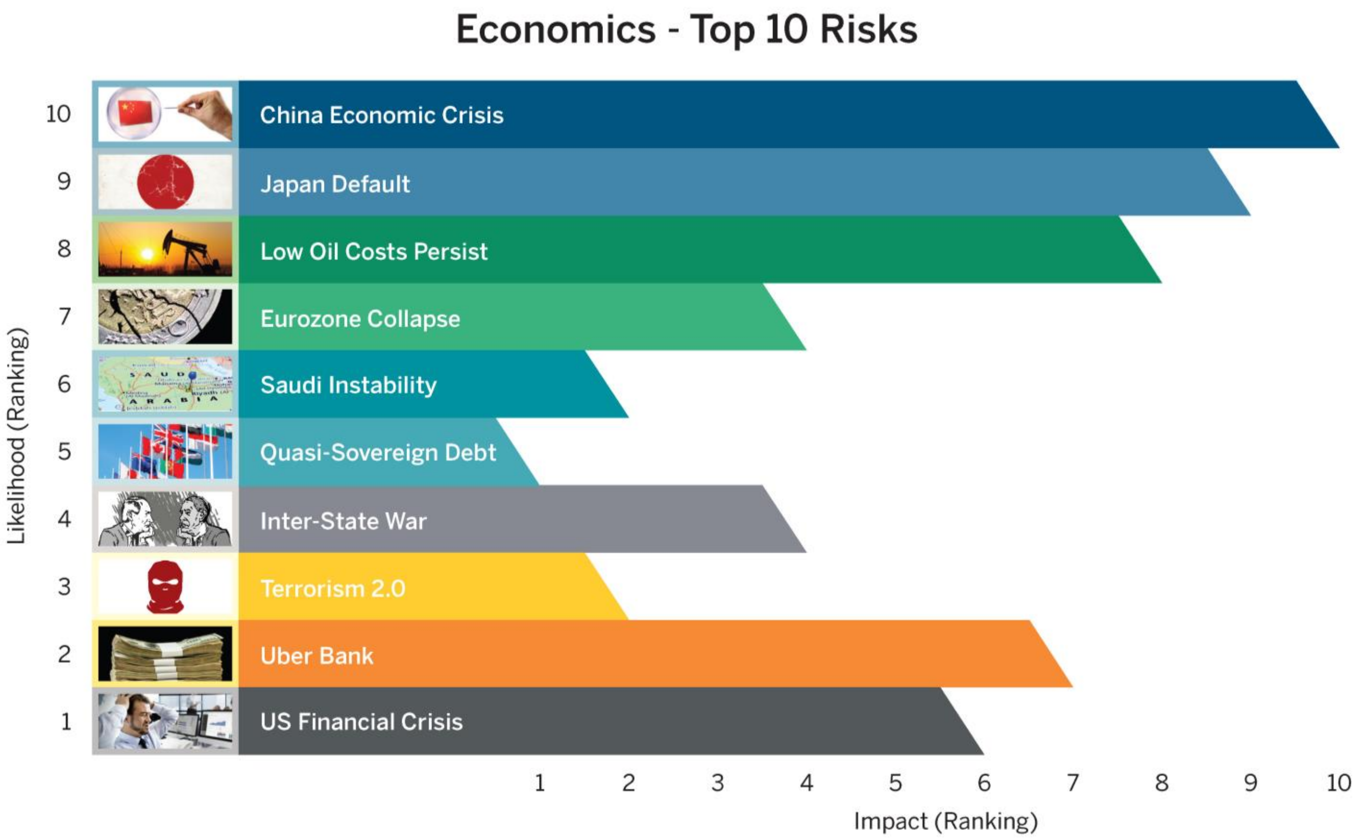
Sustained low oil prices: Recent production trends indicate that in spite of lower oil prices, production has not been scaled back. The major oil producers, Saudi Arabia, Russia and the United States (which together account for a third of total production), have so far kept output constant. At the same time, consumption growth has leveled off because of technological efficiency gains. The result has been growing inventories of crude and refined products, like gas and diesel. While a strong global economic recovery would eventually lead to a drawdown of inventories, oil prices could stay low for a prolonged period if global demand does not recover. The net effect is a persistent oversupply of oil, which holds prices down. The impact on Canada would be significant in terms of declining investment in oil production and distribution, and the subsequent second round effects of higher unemployment.

Europe's "Lehman Moment." Multiple potential crises loom large over Europe, ranging from a possible messy divorce between the UK and the European Union to the refugee crisis that challenges the continued viability of the Schengen Area, as well as surging support for radical Eurosceptic political forces across the continent. While these events threaten to derail the continent's economic recovery, the most likely trigger of the Eurozone's collapse is the rise in global financial volatility, worsening credit risk, and fears of subdued regional and global growth.

In this scenario, the European Central Bank (ECB) embarks on a policy of ever deeper negative interest rates. This would significantly undercut bank margins and lead to a vicious cycle of tightening financial conditions, reduced lending, faltering private domestic demand fundamentals and ultimately recession. These would likely expose fragile balance sheets to a severe stock market sell-off across the broader financial sector and require bank recapitalization or even government bailouts. A severe financial crisis and recession would ensue, as the financial system could become paralyzed by dwindling credit demand and supply. With no fiscal room to manoeuvre, taxpayer appetite for large bailouts would be limited to a number of core Eurozone countries, while the ECB's ability to act as lender of last resort would be overwhelmed. A severe political crisis would ensue, precipitating the collapse of the Eurozone. The repercussions of such a shock would reverberate across the world, possibly fuelling a new global financial crisis and recession.

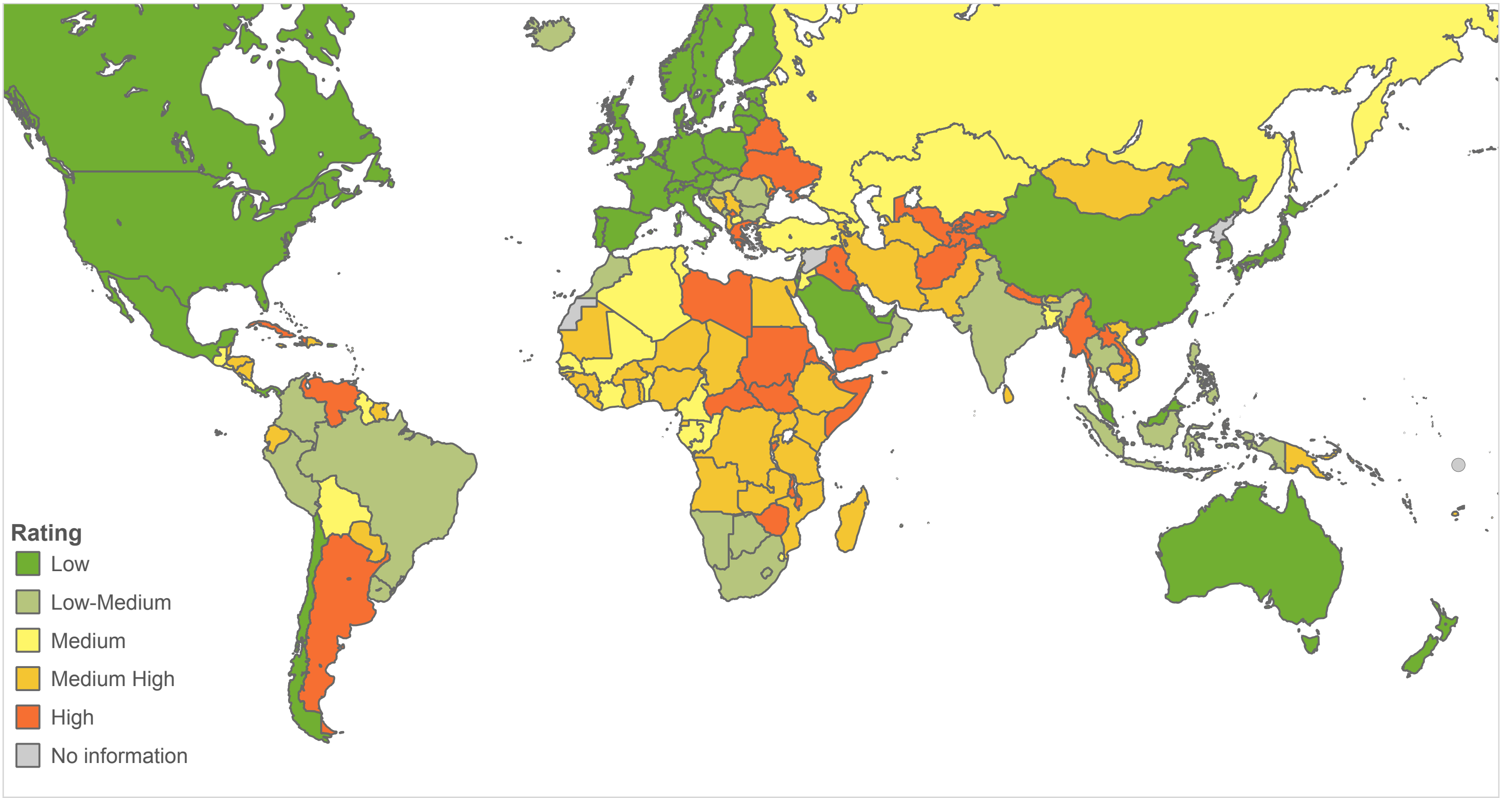
Saudi instability: After drifting through a decade of relative steadiness, the winds of change have started to blow through Saudi Arabia, increasing the possibility of domestic instability. The collapse of global oil prices from nearly USD 100/barrel in the summer of 2014, to almost USD 30/barrel today, is creating a gaping hole in the government's finances. The country has already spent more than USD 120 billion since the start of 2015 to prop up the economy and plans are under way to cut the subsidies regime, which underwrites the Kingdom's social contract. This new economic reality takes place at a time of internal competition within the royal family, as new players assumed control of power in early 2015. Finally, the sand continues to shift under the monarchy's feet. Saudi Arabia's rivalry with Iran has been rekindled with the suspension of sanctions and heightened tensions between proxies across the region. Having both the second largest share of proven oil reserves and being the second largest oil producer in the world, any wobbles from Saudi Arabia would have enormous repercussions on the global economy and the stability of an already volatile region.

The bottom line: By now you might be rethinking those bold plans to go global. However, you would be mistaken. The objective of this exercise is to provide a lens into the tail risks out there to be used for scenario planning. While country risk can seem ubiquitous, it is important to look past the headlines and the pundits, and concentrate on the risks that will have the greatest likelihood of impacting your bottom line. For those who can make informed decisions about where to look, and what to look for, environments like this provide unparalleled opportunity.

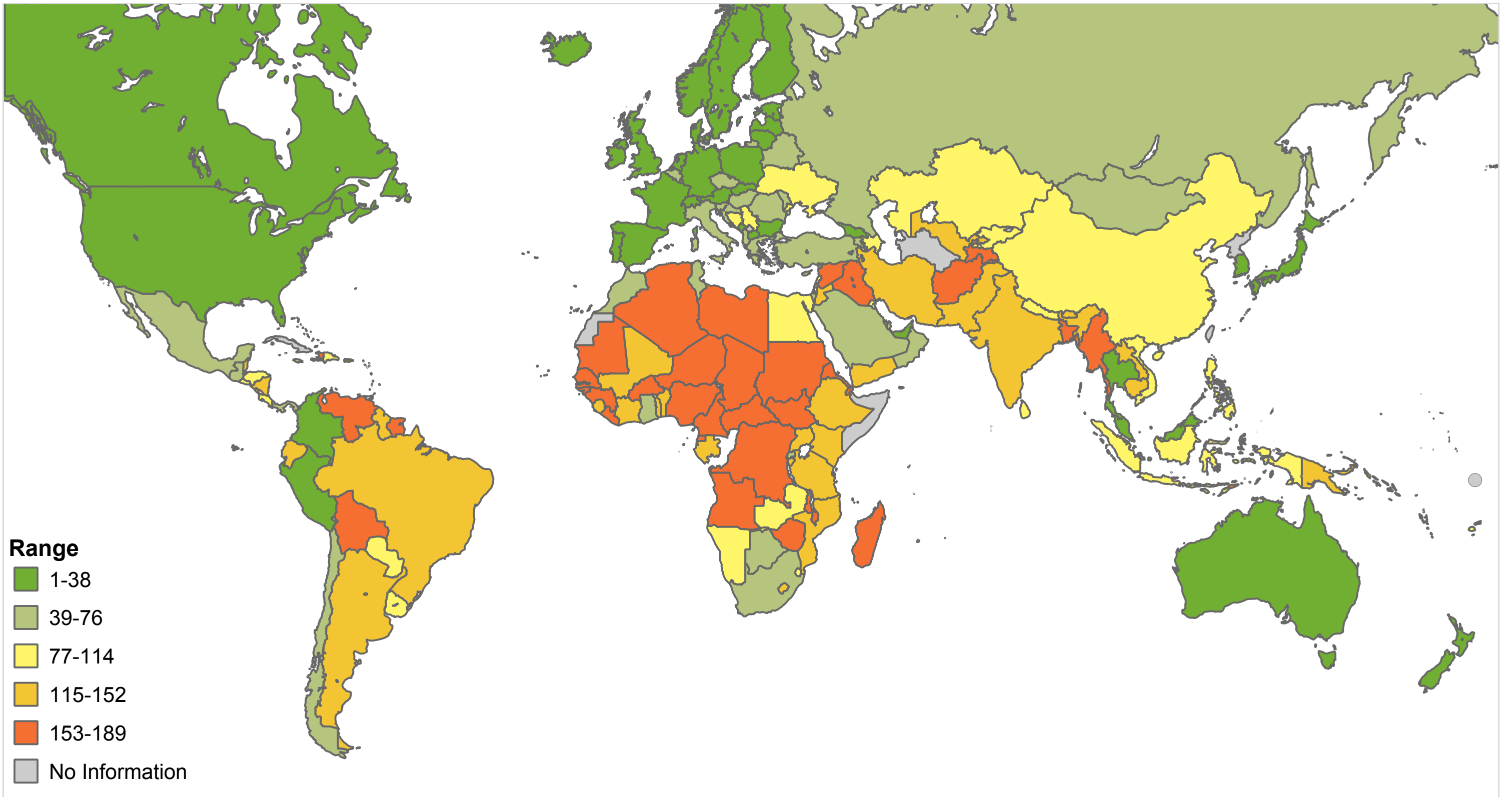

Economics - Top 10 Risks
Likelihood (Ranking)
10
China Economic Crisis
9
Japan Default
8
Low Oil Costs Persist
7
Eurozone Collapse
6
Saudi Instability
5
Quasi-Sovereign Debt
4
Inter-State War
3
Terrorism 2.0
2
Uber Bank
1
US Financial Crisis
1 2 3 4 5 6 7 8 9 10
Impact (Ranking)

Business Operating Environments Around the World

Country Commercial Ceiling

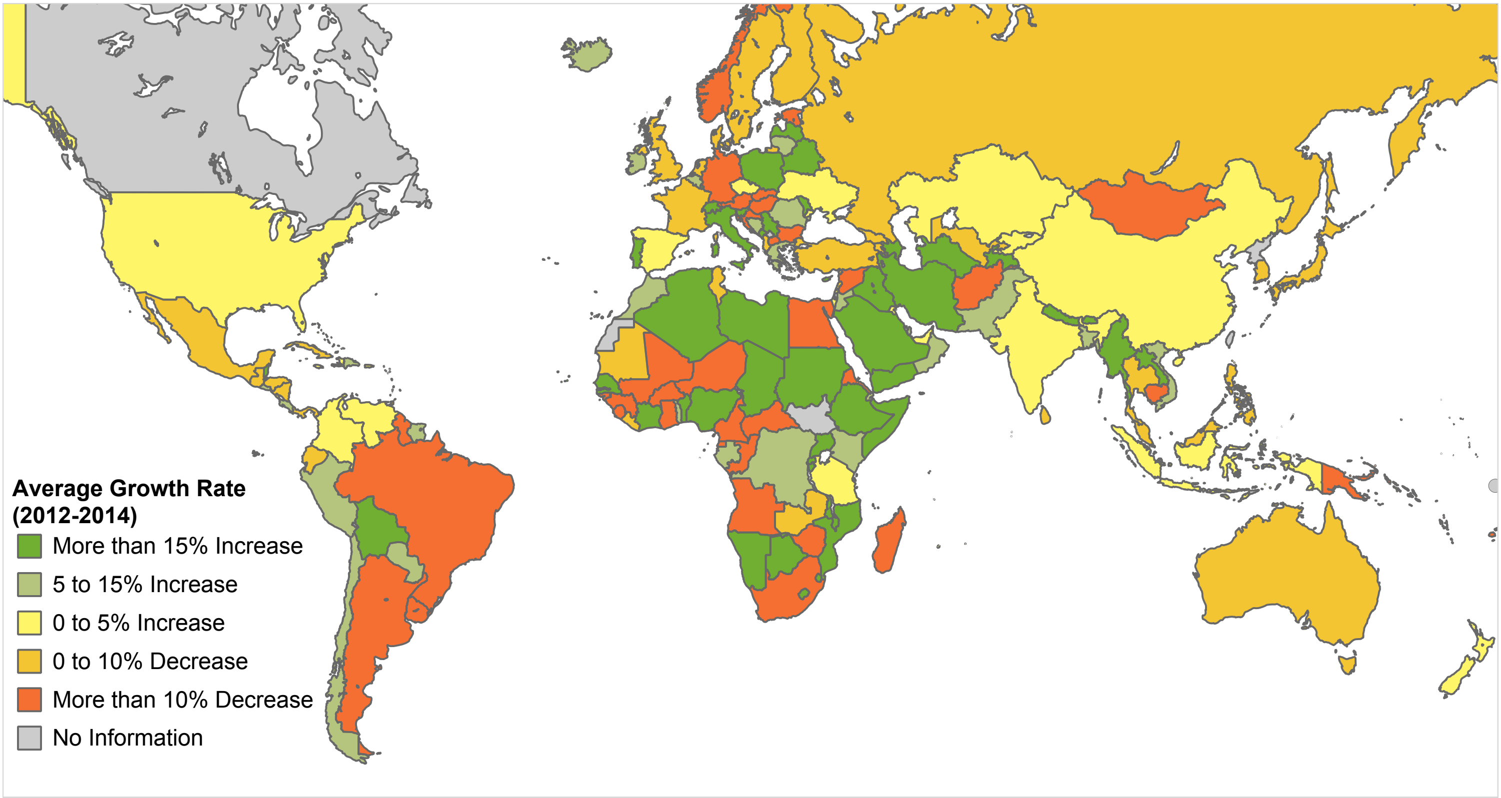


World Bank's Ease of Doing Business Rank

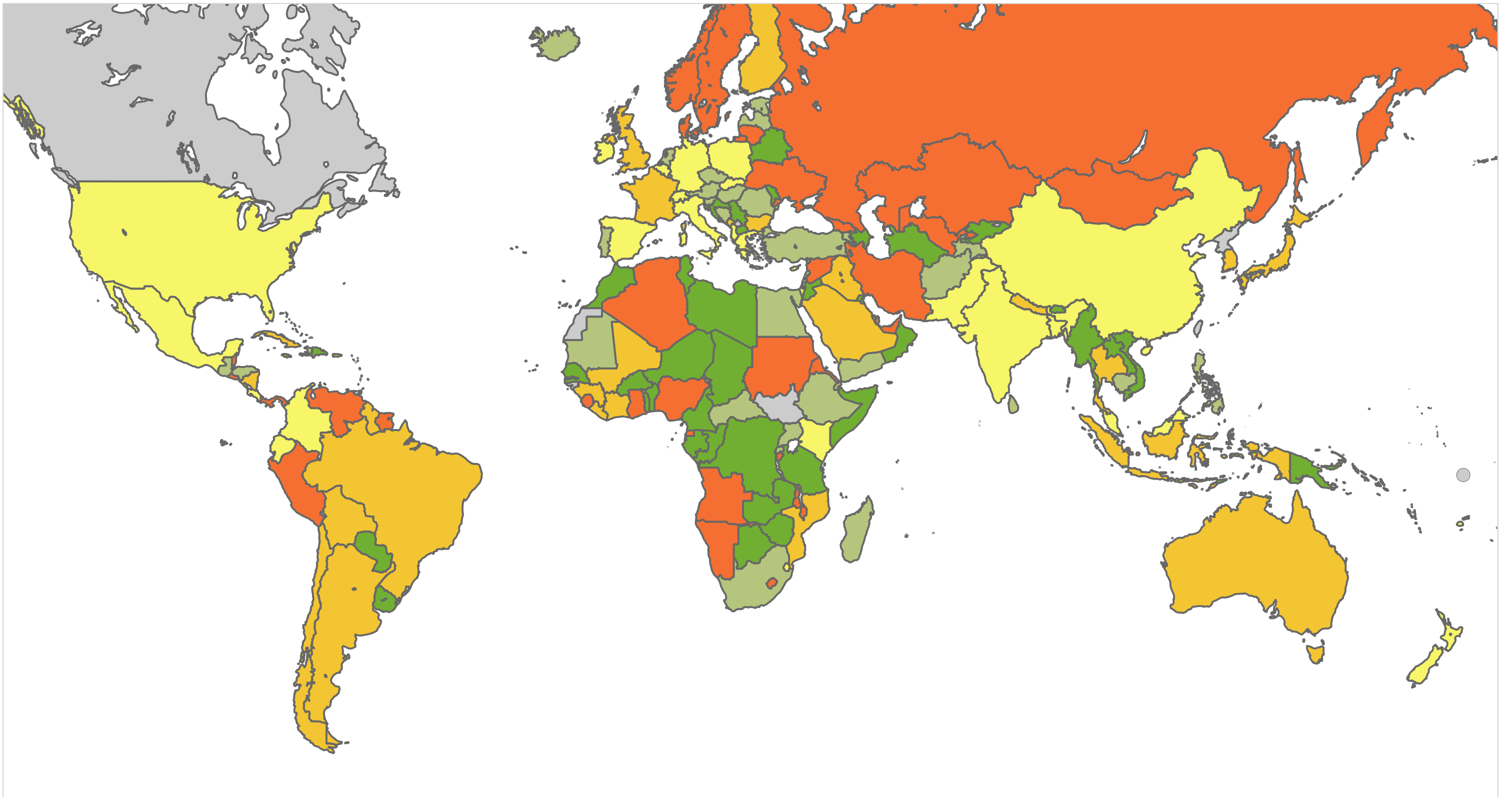


Global Trade Patterns and Canada's Performance

Canadian Export Growth by Country



Total Import Growth by Country



Americas

Upside Risks (+)

The government of Colombia and FARC guerillas are scheduled to sign a peace agreement in March 2016, which is expected to end five decades of internal conflict. While it may take years to fully implement, it is believed the agreement will reduce political violence, and encourage further foreign direct investment into the country. This could create opportunities for Canadian companies in the extractive sectors.

Argentina is back. The new administration is predicted to continue to take steps to improve the business environment and the economy, as well as welcome back Canadian investment, particularly in the oil and gas sector.

Downside Risks (-)

Travel warnings stemming from the outbreak of the Zika virus could complicate business travel to the region and lead to weaker-than-expected tourism figures. A decrease in tourism would result in weaker economic performance for Caribbean economies that rely on tourism, and potentially worsen debt metrics for governments.

Brazil is facing a prolonged economic recession and political paralysis. These challenges are creating significant barriers to passing much-needed reforms that could help the revival of its economy, and increase Canadian investment and trade presence in the market.

If the US Federal Reserve continues to tighten, there is a risk that – with capital outflows heading back stateside – Latin America will see further depreciations of local currencies and liquidity drying up. This could result in payment volatility for Canadian companies.

Argentina

Short-Term Commercial

Risk Rating **Payment Experience**

President Macri's new administration has made some major initial changes. These changes include the lifting of currency controls, unifying the foreign exchange market, lowering agricultural tariffs, and announcing plans to end the country's decade-long legal battle with its creditors. As his government continues to address some of the economic distortions in Argentina, the key risks to tackle will be inflation (presently 30 per cent) and shoring up liquidity of foreign exchange.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

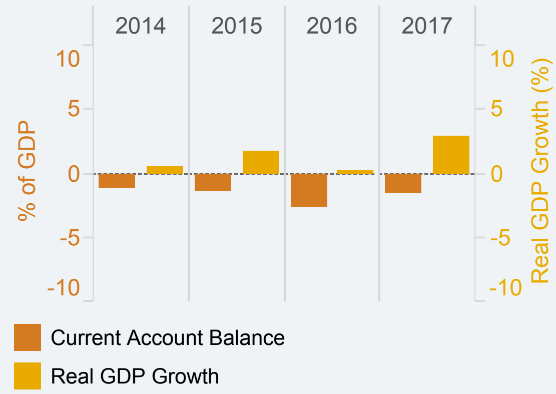
The commercial environment is weakened by transfer and convertibility risks. Although these have improved recently with the lifting of currency controls, it will take time to improve the macroeconomic situation and other indicators driving these risks. A weak regulatory environment and rule of law and high levels of corruption drive expropriation risk. The government is expected to take a less interventionist role in the economy. Although unions remain a strong political force and labour unrest is an issue for businesses, political violence is of little concern.

Sovereign

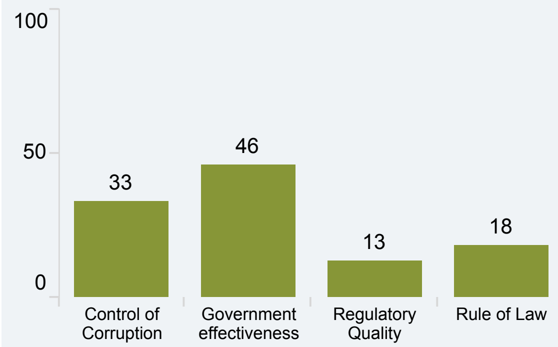
Sovereign Probability of Default

Public sector finances remain volatile, and the government is using the Central Bank's reserves to service external debt payments and finance fiscal spending. Lack of access to capital markets has driven the government to reform legislation to improve foreign direct investment opportunities in the oil and gas sector. The new administration will offer up more pragmatic economic policies over the coming years and aims to regain access to international capital markets.

Current Account and Economic Growth

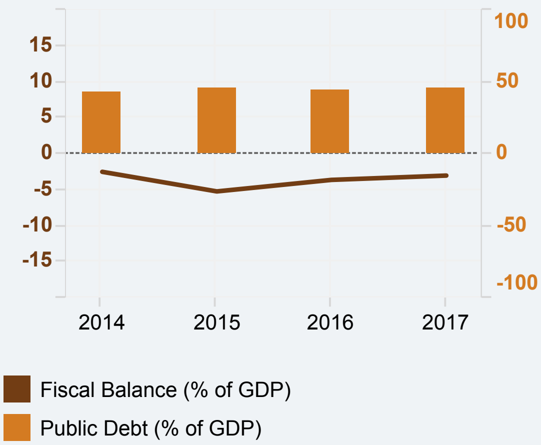


World Bank Governance Indicators



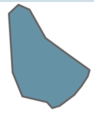
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Barbados



Short-Term Commercial

Risk Rating **Payment Experience**

The economic profile is weak, reflected by tepid growth. Real GDP growth of one per cent is projected for 2016, which is being dragged down by cutbacks in government spending. This lackluster growth is occurring against a backdrop of higher tourism figures and a better macroeconomic environment. Low energy prices will help keep inflation low and stabilize foreign exchange reserves at 3.5 months' worth of imports.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

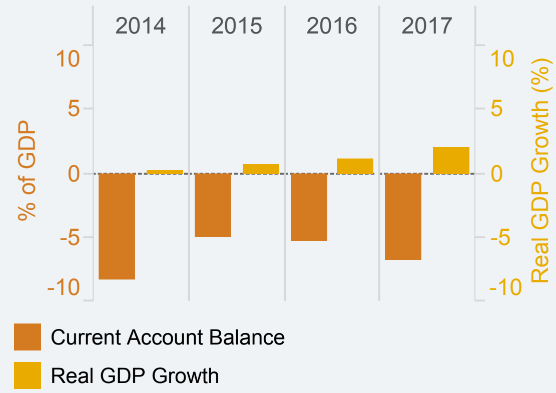
While Barbados' commercial environment benefits from the country's political stability, low expropriation, and negligible political violence risk, there is growing concern over the country's onerous levels of debt. If a domestic default were to occur, transfer and conversion risk would increase. The outlook for private sector credit will likely remain depressed, which will not be conducive to economic growth.

Sovereign

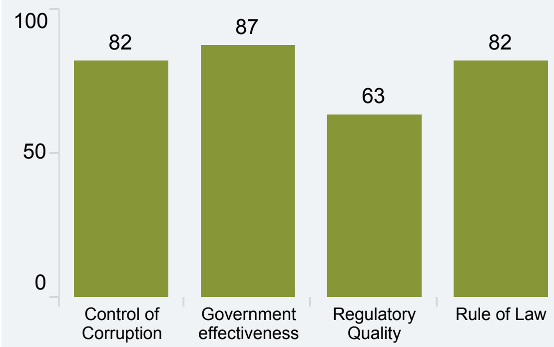
Sovereign Probability of Default

The rating is driven by fiscal shortfalls and high debt levels (public debt is roughly 103 per cent of GDP). Twenty five per cent of public sector debt is in foreign currency, which would rise in the event of a devaluation. A large portion of the government's revenue goes toward interest payments, thereby limiting policy options. Fiscal consolidation policies are currently underway, but any significant improvement to the sovereign's risk profile would occur only over the medium- to long-term time horizon.

Current Account and Economic Growth



World Bank Governance Indicators



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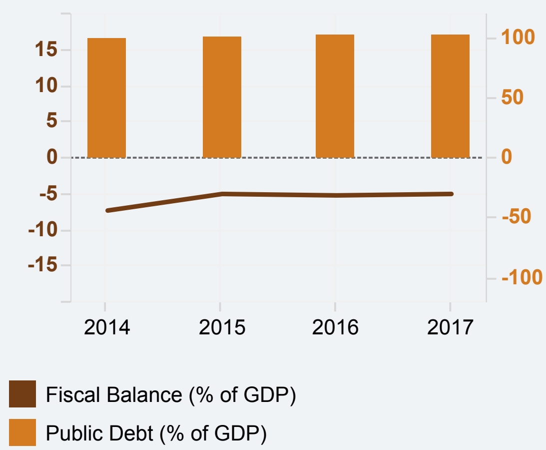
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Bolivia

Short-Term Commercial

Risk Rating **Payment Experience**

A high level of dollarization constrains monetary policy and constitutes a vulnerability to the banking system. However, a peg-like exchange rate system provides currency predictability and stability. Additionally, the country benefits from strong foreign exchange reserves with 12 months of import cover. Despite the sharp fall in oil prices, which is hurting exports, economic growth is expected to remain close to four per cent this year, driven by increased public spending and investment in the hydrocarbon sector.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

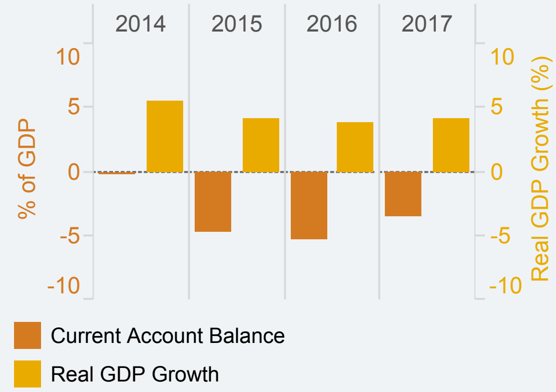
The commercial environment is characterized by the private sector's limited financial and economic integration with the global economy, as well as state intervention. The Bolivian government has openly nationalized private companies, mostly in the resources sector. However, these have not occurred since 2013 and all nationalizations have been compensated or are in negotiations. The potential for social unrest negatively impacting private sector operations in the resource sector is also an operating risk. Bolivia does not subscribe to international arbitration. The banking sector is relatively underdeveloped, and is subject to government-led regulation and intervention.

Sovereign

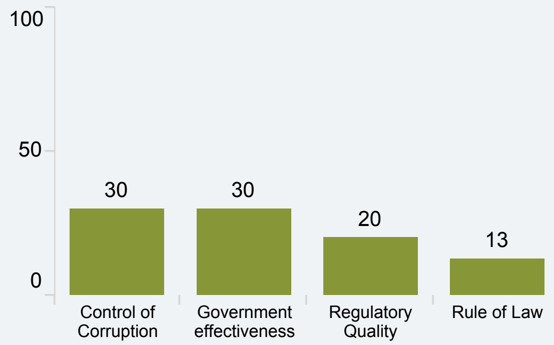
Sovereign Probability of Default

Bolivia's solvency and liquidity ratios remain strong largely due to increasingly pragmatic economic policy and management. Nevertheless, a fragmented and challenging political environment poses risks to the sovereign's creditworthiness and willingness to service external obligations. Additionally, 30 per cent of government revenues depend on the natural gas and mining sectors, making fiscal accounts vulnerable to commodity price movements. President Morales is expected to continue moderating the government's interventionist approach.

Current Account and Economic Growth



World Bank Governance Indicators



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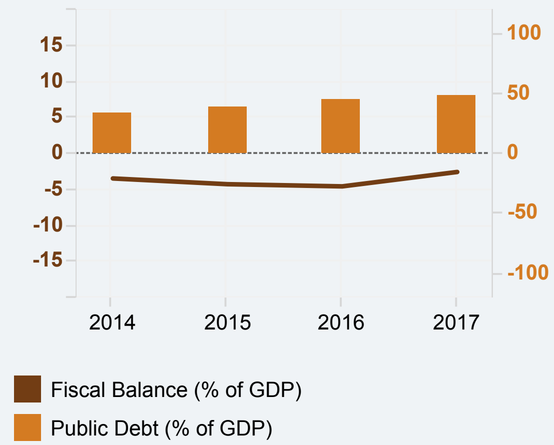
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Brazil

Short-Term Commercial

Risk Rating **Payment Experience**

Brazil's economic outlook for 2016 remains negative with growth expected to contract by more than three per cent. This is driven by depressed commodity prices, weaker domestic demand, and internal challenges. The real will continue experiencing downward pressure this year due to bearish economic activity and political uncertainty. The sharp drop in the currency has helped push inflation above 10 per cent. Despite the various challenges, a high level of foreign exchange reserves continues to result in overall benign liquidity conditions for the commercial sector.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

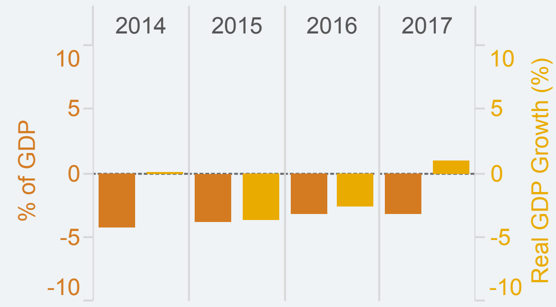
The commercial environment is characterized by a relatively strong banking sector, lack of financial dollarization, and low dependence on foreign borrowing. However, poor infrastructure, heavy bureaucracy, and high costs of doing business continue to dampen growth and investment. Brazil is currently ranked 116th in the World Bank's Ease of Doing Business index. Efforts to implement necessary structural reforms and to stimulate the economy are unlikely to occur given the current political paralysis. With many Brazilian firms implicated in the Lava Jato scandal, the government has had to open competition to include foreign companies, largely in the construction sector.

Sovereign

Sovereign Probability of Default

Although increasing, Brazil's external debt metrics remain relatively healthy, and financing needs will continue to be mostly absorbed by the domestic market. Foreign currency-denominated debt is a very small portion of total public debt and, as a result, exchange rate risk is minimal. The government continues to feel tremendous pressure to implement much-needed fiscal and regulatory reforms in order to reverse the recession and stimulate investment activity, as well as improve fiscal management. However, reforms will face increasing roadblocks given strong congressional opposition, which will be made even more challenging with the political fallout of the impeachment efforts and corruption

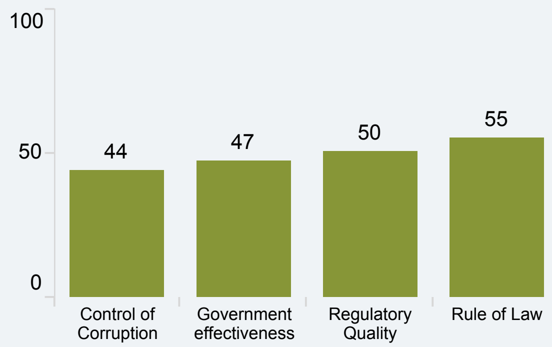
Current Account and Economic Growth



Current Account Balance

Real GDP Growth

World Bank Governance Indicators



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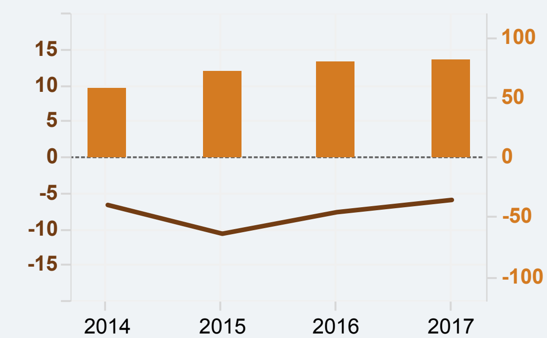
Public Finances



Fiscal Balance (% of GDP)

Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Chile

Short-Term Commercial

Risk Rating **Payment Experience**

The short-term risk environment is driven by strong liquidity (with international reserves equivalent to more than six months of imports), as well as an established banking system. The economy is very dependent on copper exports, and lower commodity prices are dampening foreign exchange earnings. That said, slightly stronger services sectors are providing a partial offset. 2016 GDP will remain subdued due to slowing global demand. The existence of an appropriately managed fiscal framework, together with the Stabilization Fund, should help cushion against short-term external shocks such as weak commodity prices and the depreciation of the peso, which has fallen by 12 per cent year over year.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

Strong governance and rule of law (including investment protection), and a good business climate strengthen the commercial environment. Banks are well-capitalized and adequately regulated. Deep and sophisticated domestic capital markets offer good liquidity conditions for private sector funding. The government's more radical reform efforts such as tax reform have hurt private sector confidence and investments. That said, the way in which the government implements and regulates the tax changes could diminish the overall impact and it is striking a more pro-business approach.

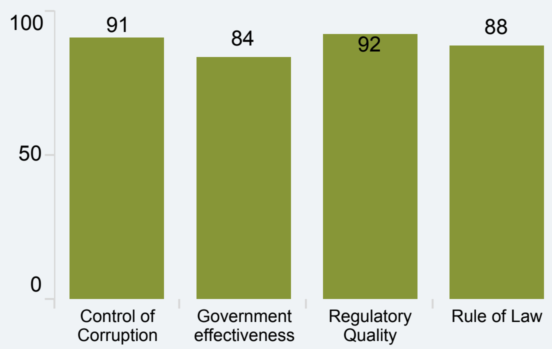
Sovereign

Sovereign Probability of Default

A strong debt profile, the sovereign’s net external creditor position, prudent fiscal management, and the Stabilization Fund support sovereign risk. In addition, stable macroeconomic fundamentals and effective economic management support a favourable solvency position for the sovereign. Risks associated with energy infrastructure investment needs could adversely affect investment over the medium term. Growing concerns related to the recent corruption scandals involving the ruling party has negatively influenced President Bachelet's popularity. These matters could have a sustained adverse impact on policy reform efforts such as education and political framework.

Current Account and Economic Growth

World Bank Governance Indicators



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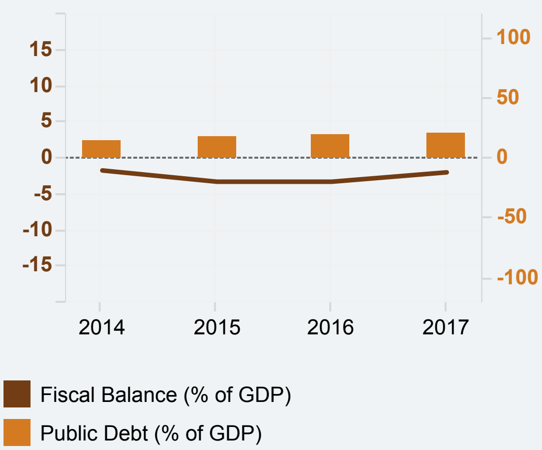
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Colombia

Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth will remain close to three per cent in 2016, driven by an uptick in manufacturing and agricultural exports. The steep drop in oil prices has led to the depreciation of the Colombian peso by 30 per cent year over year. As this continues to push up inflation, now at close to six per cent, the Central Bank is expected to increase interest rates. Despite the currency weakening, payment delays are not anticipated due to ample foreign currency reserves. The government and the Fuerzas Armadas Revolucionarias de Colombia (FARC) guerrilla group have agreed to reach a peace deal in 2016; this would be a historic event.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

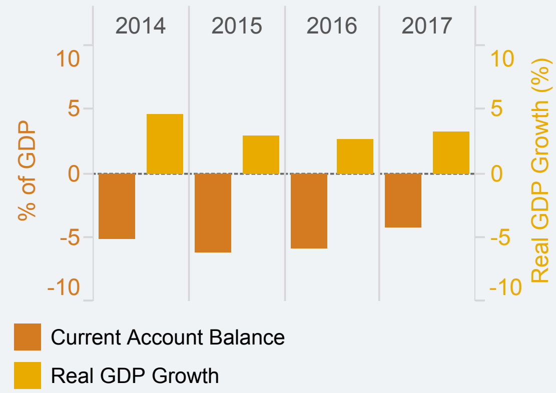
The investment environment has significantly improved in recent years in tandem with security gains. Attacks by FARC guerrillas, which often target energy infrastructure, can be expected to fall following the expected signing of a peace agreement in 2016. Although the decline in commodity prices and a new profit tax will likely hurt foreign direct investment, other sectors such as infrastructure offer new opportunities. Disputes between extractive companies and local communities sometimes lead to operational delays. Corruption and a weak court system remain key challenges.

Sovereign

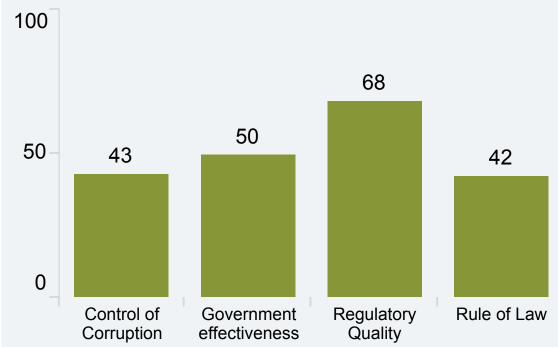
Sovereign Probability of Default

With oil accounting for one-fifth of state revenues, the sharp drop in prices has raised fiscal pressures for the government. Nevertheless, the country's strong macroeconomic policy credibility, the high level of foreign currency reserves, and a relatively diversified economy will allow it to withstand the impact. A new wealth tax will help the government plug the fiscal deficit. The external debt and current account deficits are largely financed by foreign direct investment inflows. Concluding a peace agreement with the FARC and National Liberation Army (ELN) guerrillas will remain a priority for the Santos administration.

Current Account and Economic Growth



World Bank Governance Indicators



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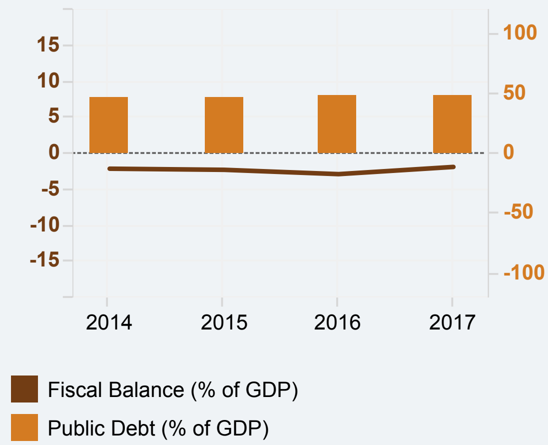
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Costa Rica

Short-Term Commercial

Risk Rating **Payment Experience**

Liquidity and access to foreign exchange (over five months of import cover) strengthen the short-term risk profile. The exchange rate has stabilized after last year's decline. Economic growth in 2016 is forecast to reach four per cent, driven by strong domestic demand and tourism. As a net importer of energy, Costa Rica has benefited from depressed prices, which has also kept inflation very low.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

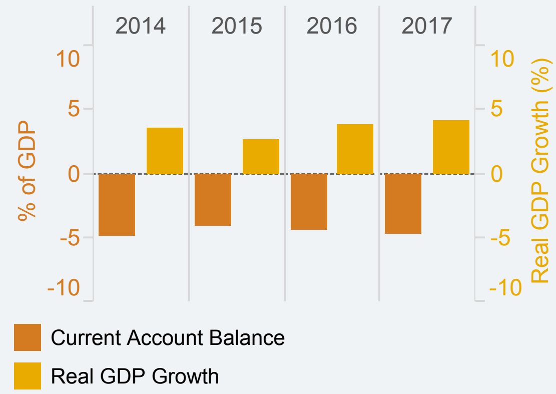
Costa Rica has long been a destination for foreign investment, given its robust business environment and relatively strong institutions. However, there have been instances where the commercial sector has been exposed to political risk, such as the government putting a moratorium on open-pit mining and oil exploration due to environmental activism. Projects aimed at improving transportation infrastructure have faced significant delays. Criminal violence related to drug trafficking is the main and growing security concern, although it is significantly lower than in neighbouring countries.

Sovereign

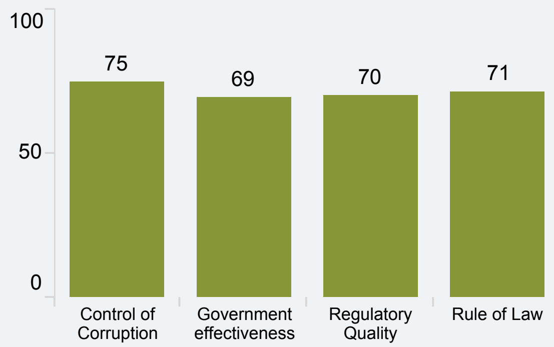
Sovereign Probability of Default

The main medium-term challenge for the sovereign is the large fiscal deficit (above six per cent of GDP), and rising public debt (almost 60 per cent of GDP). Addressing the fiscal deficit is the top priority for the Solis administration given investor concerns and the importance to the country's long-term financial viability. It will have to navigate the current political paralysis in the Legislative Assembly to pass comprehensive fiscal reform, as well as address growing social discord and corruption.

Current Account and Economic Growth

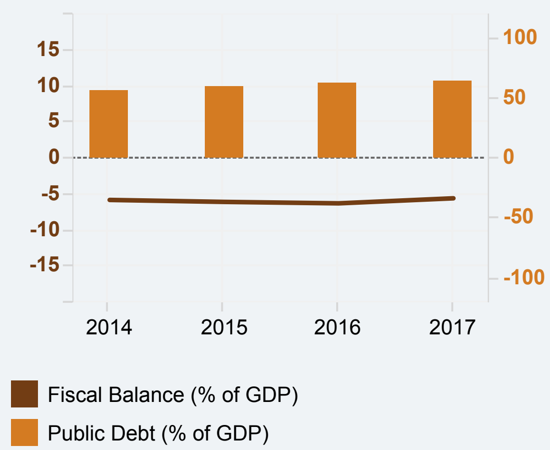


World Bank Governance Indicators



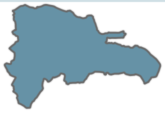
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Dominican Republic



Short-Term Commercial

Risk Rating **Payment Experience**

A growing US economy, increased tourism revenues, and rising gold exports will drive economic growth close to five per cent in 2016. No sharp depreciation of the currency is expected and inflation will remain under three per cent, benefitting from lower oil prices. Payment delays should not be an issue in the outlook period.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

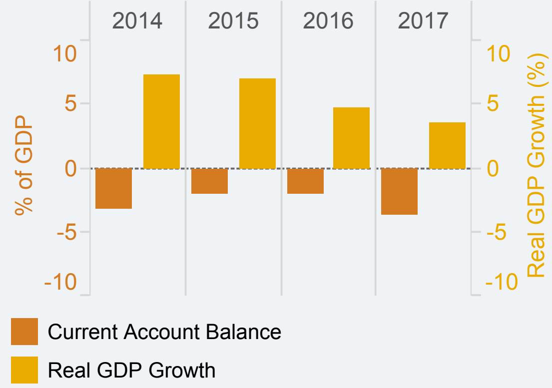
The Dominican Republic's overall pro-business environment has considerable potential. Economic competitiveness remains constrained by an inefficient electricity sector, considerable red tape, and reports of corruption. The government maintains a strong role in the economy, intervening at times. While political violence is not a significant risk, social unrest and crime may become an increasingly disruptive factor. The World Bank ranks the DR 93rd out of 189 countries in the Ease of Doing Business Index.

Sovereign

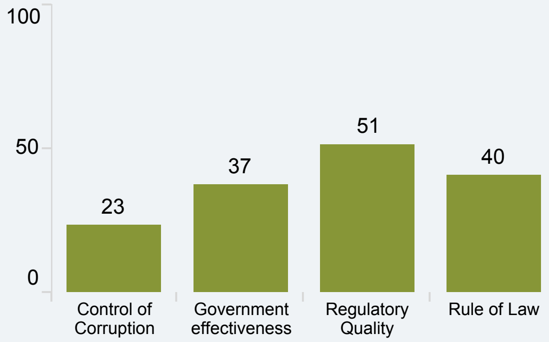
Sovereign Probability of Default

The sovereign rating reflects an elevated debt service ratio, but manageable public debt. The country is prone to periodic liquidity concerns, although government solvency is not particularly worrisome. The government has begun implementing fiscal, economic, and banking reforms. However, it is unlikely to tackle major structural reforms, such as the electricity sector whose subsidies remain a strain on the fiscal position. President Medina's administration enjoys strong popular support and his party is expected to win the May 2016 elections.

Current Account and Economic Growth

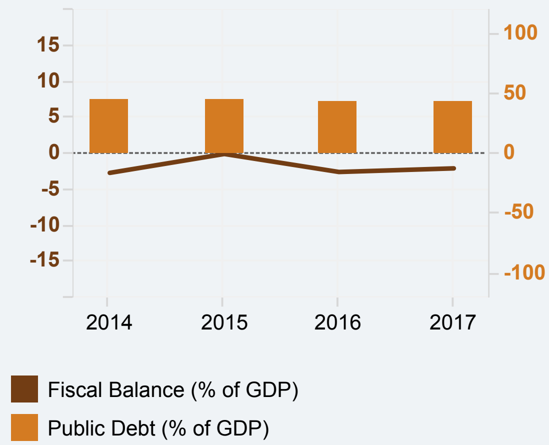


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Ecuador

Short-Term Commercial

Risk Rating **Payment Experience**

Short-term risk is driven by a deteriorating liquidity position. International reserves are equivalent to less than two months of import cover. This could cause delays in accessing foreign currency and put pressures on the dollarized regime. Continued low oil prices, and the consequent fall in public spending in 2016, will trim economic growth to almost zero.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

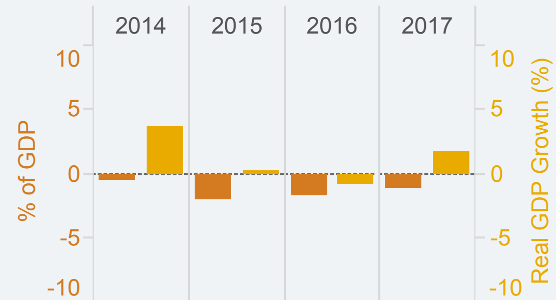
The commercial environment is challenging due to an underdeveloped banking system, limited access to financing options, and recurring government interference in strategic sectors or projects. A heavy reliance on oil exports to generate foreign exchange reserves leaves the country exposed to balance of payment shocks as commercial entities compete for limited USDs. However, the government has implemented several measures to address liquidity constraints and increase diversification. Ecuador does not subscribe to international arbitration bodies placing the dispute resolution responsibility on a partial and weak judiciary.

Sovereign

Sovereign Probability of Default

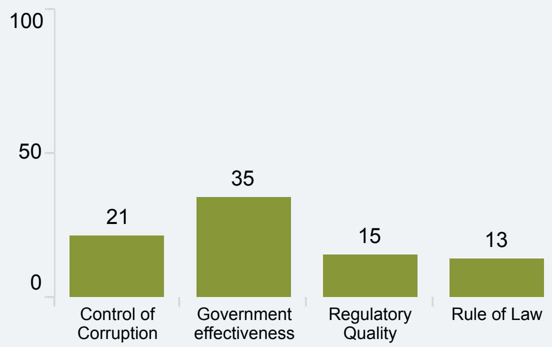
Sovereign risk is driven mostly by the government’s unpredictable policy implementation and concerns surrounding willingness to pay. Ecuador defaulted on sovereign debt owed to both official and commercial creditors in 2008. The government successfully re-entered the bond markets in 2014 and has since remained current on all debt obligations, making progress on expanding its funding beyond Chinese financing. The government's total debt has increased to pre-crisis levels, but has been largely utilized for productive expenditure such as investment in infrastructure. President Correa's pledge to step down in 2017 has created some policy uncertainty.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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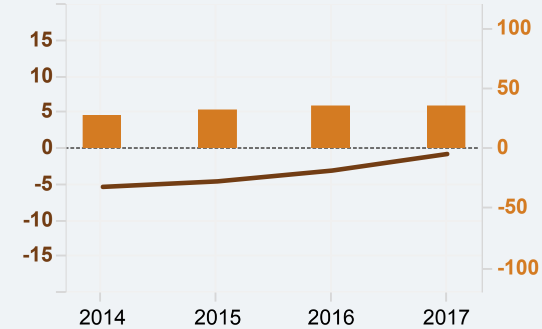
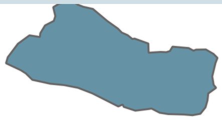
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

El Salvador



Short-Term Commercial

Risk Rating **Payment Experience**

A US economic recovery will boost El Salvador's exports and the sizeable remittances. It will also help narrow the current account deficit. However, investment will be hurt by the security situation. With gang violence spiralling, and no new security strategy forthcoming in the short term, operating costs for firms will rise. Economic growth is expected to reach 2.5 per cent in 2016 and inflation will inch upwards of two per cent.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

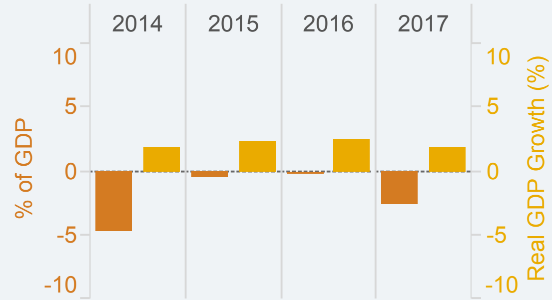
Criminal gangs pose the greatest threat to the country's security and commercial environment. Therefore, the main source of violence in El Salvador is criminal (especially extortion) rather than political. The sustainability of dollarization in El Salvador partially mitigates transfer and convertibility risks. The country ranks 86th in the World Bank's Ease of Doing Business Index, due to deep-rooted corruption, excessive bureaucratic red tape, and weak investor protection. An economic assistance plan with the US designed to enhance competitiveness will come into effect within the next five years.

Sovereign

Sovereign Probability of Default

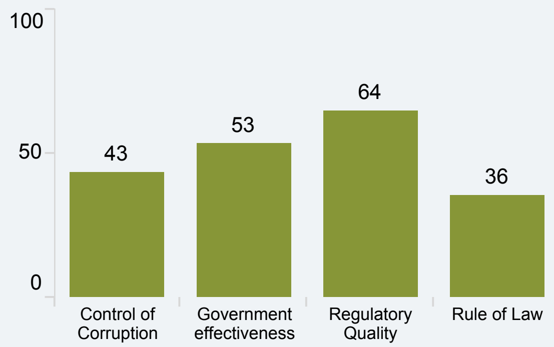
The country has a high and growing level of public indebtedness (65 per cent of GDP), which the IMF now characterizes as becoming unsustainable. Partisan division within parliament represents a risk to the sovereign's fiscal consolidation efforts, as the government will face challenges passing necessary reforms, most notably on pension. With the goal of reducing gang violence, the administration will focus on stimulating growth and reducing inequality.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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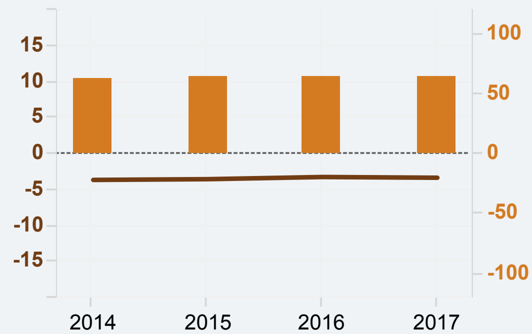
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Jamaica

Short-Term Commercial

Risk Rating **Payment Experience**

The economy is set to expand by roughly 2.5 per cent in 2016, which is the strongest growth Jamaica has experienced in years. In spite of this improvement, the economy's reliance on commodities, tourism, and remittances makes it vulnerable to external shocks. Apart from these potential shocks, the currency should remain stable; foreign exchange will likely be available as business and consumer confidence continue to grow.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

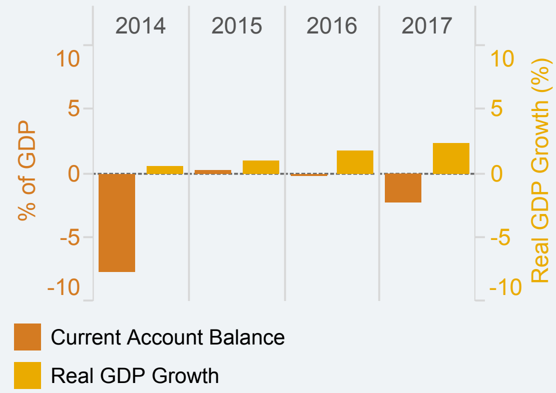
The commercial environment is weakened by sovereign risk and the banking sector's high exposure to sovereign debt. Transfer and conversion risks stem from the government's onerous debt profile. While criminal violence is a key concern, risks stemming from political instability are negligible. Corruption and bureaucracy can have adverse effects on business activity.

Sovereign

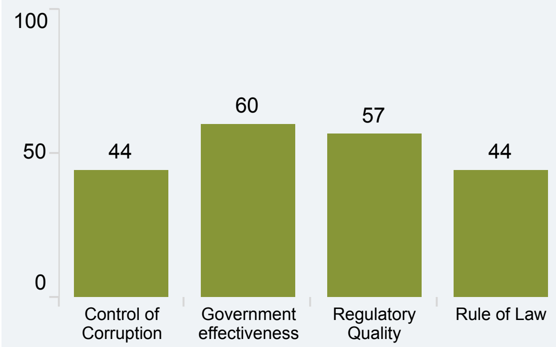
Sovereign Probability of Default

The government's burdensome debt, both as a share of GDP (over 130 per cent) and interest costs as part of government revenue, weighs heavily on the sovereign's payment capacity. This weakness is a result of the government's restructuring of its domestically held debt in 2013. However, the austerity and reforms stemming from an Extended Fund Facility with the IMF are helping to stabilize debt levels. The government will likely reduce its fiscal deficit to zero per cent of GDP in 2016. Despite these gains, the government's fiscal health remains exposed to external shocks.

Current Account and Economic Growth



World Bank Governance Indicators



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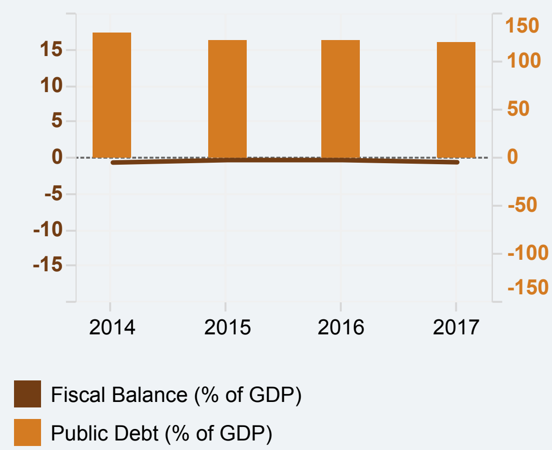
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mexico

Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth will increase modestly in 2016 to under three per cent, driven by the US recovery and demand for Mexican manufacturing exports. A sharp decline in oil prices has dented public spending plans for the coming year and has also driven the peso to depreciate by almost 20 per cent. This has been a good shock absorber for external volatility and has not pushed inflation up yet. Liquidity concerns are low as foreign currency reserves are high. All eyes will remain focused on the impact of the US Federal Reserve's rate hike, which may see further capital flows exiting the emerging markets, including Mexico.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

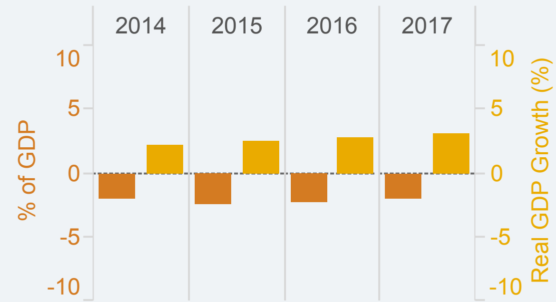
The commercial environment is supported by a stable macroeconomic landscape, an improving business climate, and strong banking sector. High levels of corruption and government bureaucracy, as well as an inefficient legal system, drive expropriation risks. The main source of violence in Mexico is criminal rather than political, which poses a significant threat to the country’s security. Localized environmental opposition is increasingly an area of concern for extractive companies. The structural reforms being implemented over the coming years will open up the energy and telecommunications sectors to increased competition and foreign investment.

Sovereign

Sovereign Probability of Default

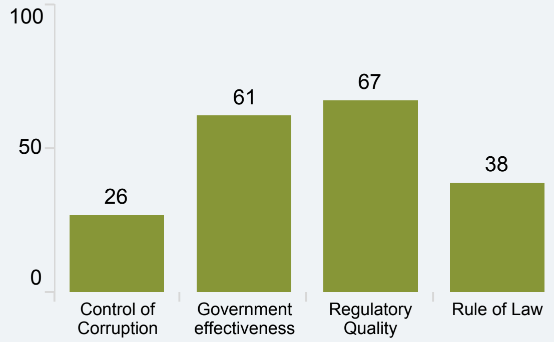
A relatively low level of government indebtedness with a manageable debt service ratio supports the sovereign rating. The country’s small current account deficit is easily financed by foreign direct investment inflows. Significant structural reforms, most notably on energy, will continue to be implemented over the coming years. This will improve Mexico’s medium- to long-term growth prospects, competitiveness, and creditworthiness. Sustained low oil prices would pose a risk to public finances as oil revenues account for approximately one-third of federal spending.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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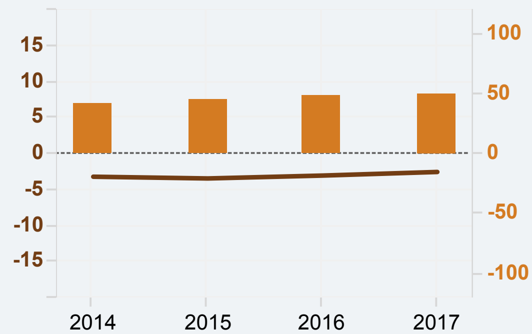
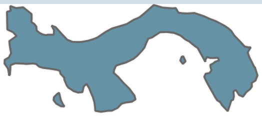
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Panama



Short-Term Commercial

Risk Rating **Payment Experience**

Panama will remain one of the region's fastest-growing economies, with GDP forecasted to exceed six per cent in 2016. This is being driven by the financial services sector and an increase in public spending on infrastructure and social services. Inflation is falling, in part due to lower oil prices and should remain above two per cent. As an open financial centre, Panama remains susceptible to global volatility that may impact capital flows.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

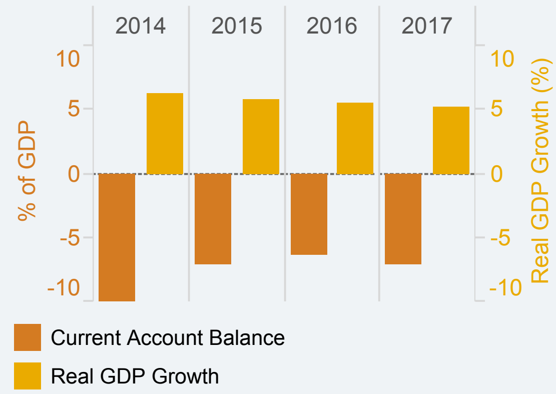
The commercial environment is relatively strong with pro-business policies. The Varela administration has embarked on a major crackdown on corruption in the public sector. While expropriation risk is not considered significant, environmental and social activism is on the rise, particularly towards mining and hydroelectric projects. The banking sector, although healthy, remains vulnerable to external shocks given that the majority of bank deposits belong to foreigners and money laundering is an issue. Criminal violence has increased, but less so than in regional peers.

Sovereign

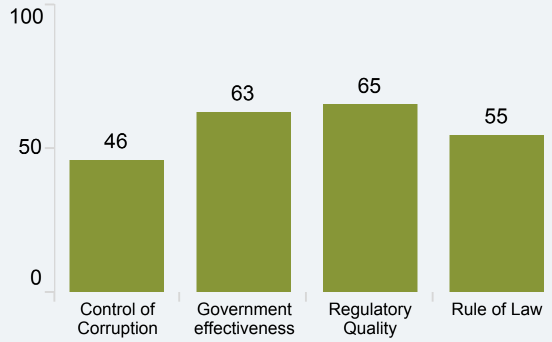
Sovereign Probability of Default

Good debt management has reduced the public debt-to-GDP ratio to below 40 per cent, increased the average maturity of its obligations, and reduced interest rates on new issuances. Some concerns exist about the government relaxing the fiscal rules with growing fiscal deficits. The current account deficit is high, but falling and financed primarily by foreign direct investment. The administration relies on alliances with other parties in Congress, which may hinder reform efforts.

Current Account and Economic Growth



World Bank Governance Indicators



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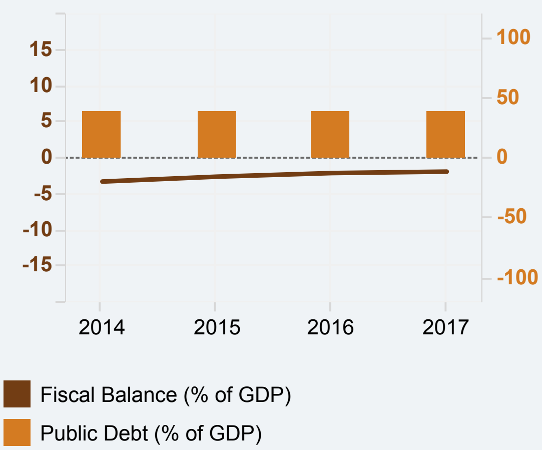
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Paraguay

Short-Term Commercial

Risk Rating **Payment Experience**

The recent mid-term election loss of President Cartes' party will hurt the pro-business reform agenda his administration was looking to implement. The country remains vulnerable to commodity prices shocks – in particular soy – as well as economic problems in its key trading partner, Brazil. Although there have been significant improvements to its policy management, high levels of dollarization limit the Central Bank's ability to manage external risks. That said, Paraguay will maintain relatively strong growth in 2016 (close to four per cent and comfortable foreign exchange reserves (almost seven months of import cover) that reduce liquidity risks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

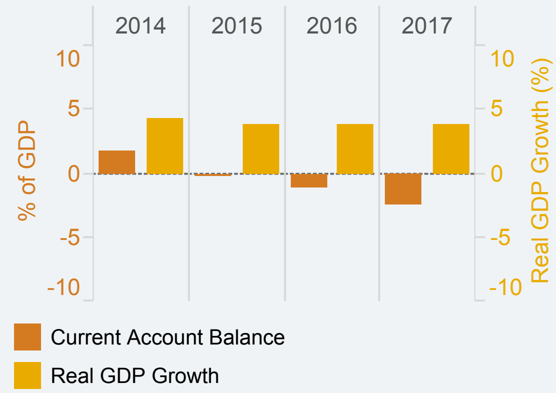
The commercial environment is characterized by a currently weak financial sector and regulatory framework, as well as significant exposure to business cycle risk reflecting a volatile political environment. Paraguay is also vulnerable to fluctuations in commodity prices, weather conditions, and spillover effects from neighbouring countries. Corruption, underdeveloped institutions, and limited infrastructure make for a more difficult business environment than nearby countries. Paraguay is improving its macroeconomic management, which include reforms to increase investment and diversify its economy. Political violence, though not a major concern, is rising with increased guerrilla attacks.

Sovereign

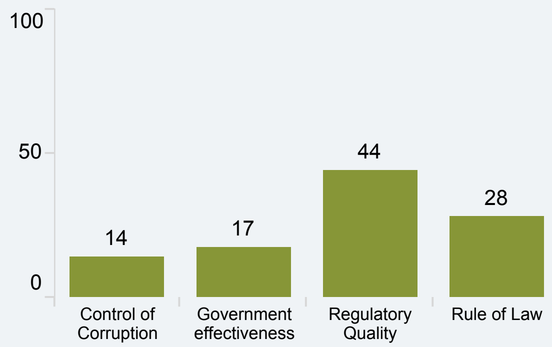
Sovereign Probability of Default

Sovereign risks are mostly driven by its exposure to swings in commodity prices and weak public institutions. Additionally, growth will be limited by infrastructure shortfalls. Notwithstanding improvements to fiscal management, implementation remains a risk, and will have a direct impact on the government's investment plans.

Current Account and Economic Growth



World Bank Governance Indicators



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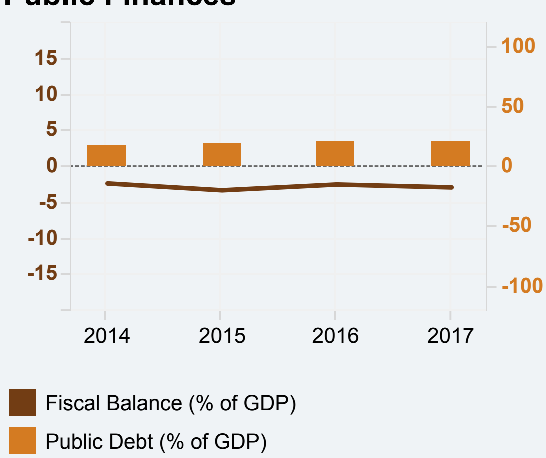
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Peru

Short-Term Commercial

Risk Rating **Payment Experience**

Peru will continue to perform below potential in 2016 given depressed commodity prices and weaker Chinese demand. However, the country's economy is recovering and set to grow by almost 3.5 per cent . Government spending is expected to ramp up in advance of April's presidential elections. The Central Bank will continue to intervene to prevent a further drop in the sol. The depreciation has been driven by low metal prices.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

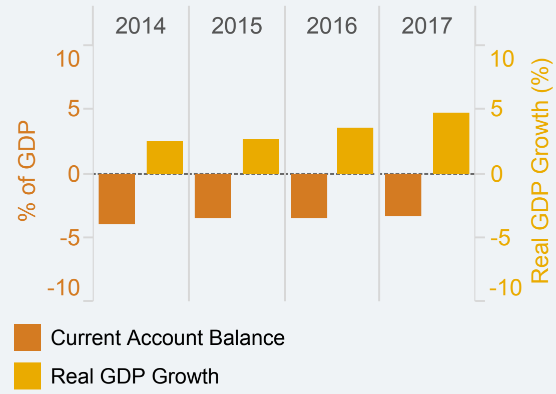
Projects in the extractive and infrastructure sectors may be impacted by bureaucratic delays and social conflicts with local communities. Key challenges for companies are weak state institutions such as the judiciary and public security, in addition to corruption. Large infrastructure projects over the coming years, focused on transportation, offer opportunities for Canadian companies.

Sovereign

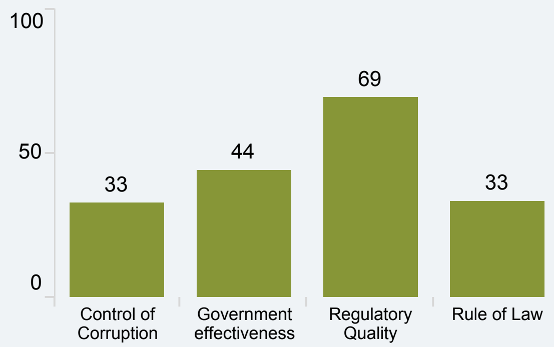
Sovereign Probability of Default

State finances are solid with low public debt at 22 per cent of GDP. The government has instituted prudent macroeconomic and fiscal policies to mitigate the impacts of US monetary tightening by the Federal Reserve. Although populist politicians emerge periodically, especially at the regional level, the next administration is expected to maintain the pro-investment policies currently in place.

Current Account and Economic Growth



World Bank Governance Indicators



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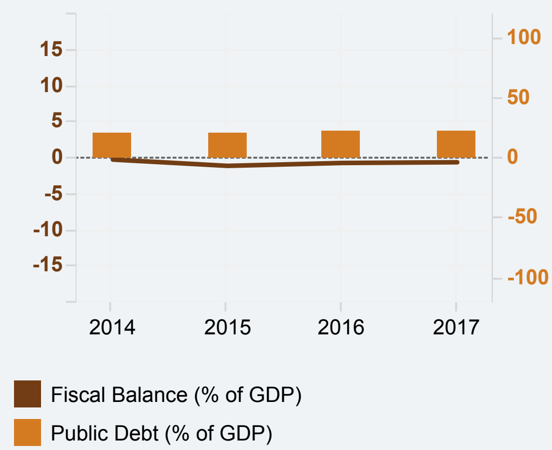
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Trinidad and Tobago

Short-Term Commercial

Risk Rating **Payment Experience**

T&T's short-term outlook is depressed by the sustained drop in energy prices, which will result in GDP contracting by over one per cent in 2016. Firms directly or indirectly exposed to the energy sector could experience a slowdown in business. This low-growth cycle will weaken trade dynamics leading to a slight depreciation of the T&T dollar. The Central Bank will continue to try and stave off any sharp drops in the currency.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

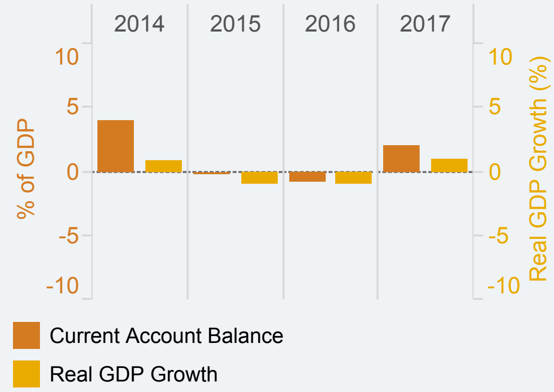
Transfer and conversion risks are partially mitigated by the market's very large foreign exchange reserves, in addition to a well-regulated banking sector. Delays in obtaining hard currency have occurred in the past. While the commercial environment is generally positive, approval delays can be an issue. The sustained drop in oil and gas prices is slowing down commercial activity in this sector.

Sovereign

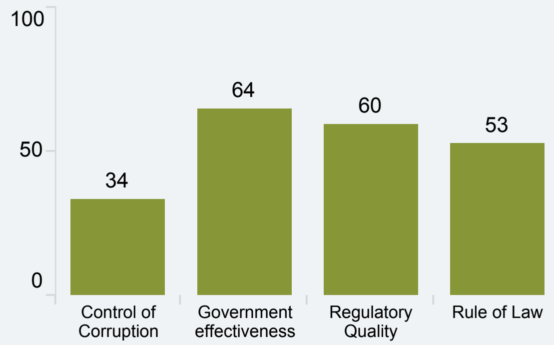
Sovereign Probability of Default

Public debt is roughly 42 per cent of GDP and is slated to moderately increase over the medium term. Although subdued energy prices will weigh on the sovereign fiscal outlook, the government will be able to meet its financing needs in the foreseeable future; general government interest payments make up 5.7 per cent of government revenue.

Current Account and Economic Growth



World Bank Governance Indicators



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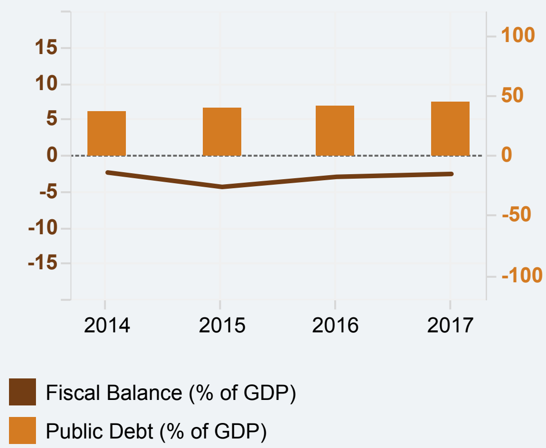
Public Finances

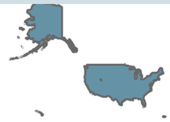


Sources: EDC Economics, World Bank, Haver Analytics, EIU

Canada

EDC

United States



Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth momentum in the US slowed in the second half of 2015 but is expected to withstand the current market turbulence, which has sparked fears over a broader economic slowdown. Growth over the next few years is projected to remain robust, driven primarily by solid domestic demand fundamentals, particularly by household consumption and a recovering housing market. Net exports are dragging on growth amid tepid foreign demand and a strong Greenback. Following its first rate hike in December 2015, the Federal Reserve is expected to continue raising rates this year amid tight labour market conditions, but the pace of increases is a key uncertainty given renewed market volatility.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

The US is the world's most dynamic and innovative economy with the top multinational corporations. The World Bank ranks it as the seventh best market in terms of ease of doing business.

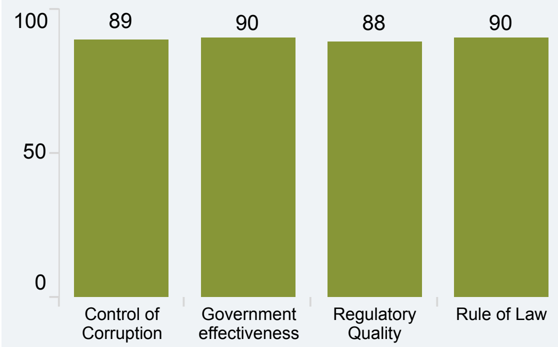
Sovereign

Sovereign Probability of Default

Although the government has a large debt load, the fiscal deficit is falling because a strengthening economy is generating higher tax revenues. With the USD as the world's reserve currency, the US enjoys low debt-servicing costs, and an unencumbered ability to borrow. Political gridlock remains a challenge. The Republicans control both Houses of Congress since last year's mid-term election, and the race toward the November 2016 presidential elections is now in full swing. This introduces a level of policy uncertainty, as any significant reform legislation could prove challenging in the current environment.

Current Account and Economic Growth

World Bank Governance Indicators



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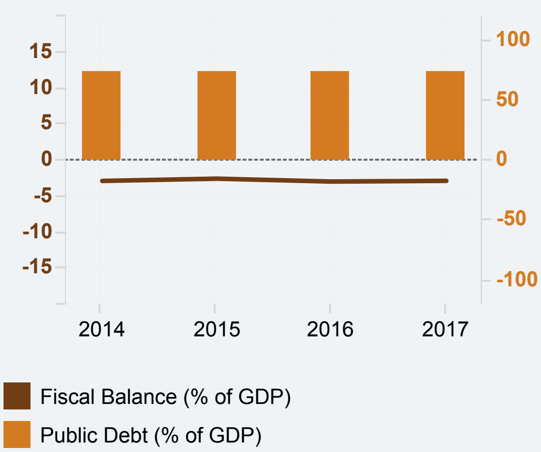
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Uruguay

Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth will remain subdued in 2016, driven by falling exports and inward investment. The slowdown in neighbouring Brazil is contributing to this and many private buyers are also exposed to Argentine risk (tourism, real estate, consumer goods, etc.), albeit to an increasingly lesser extent. Despite the recent sharp fall in the peso (18 per cent year over year), and the consequent nine per cent inflation, short-term risks are mitigated by strong bank supervision and high levels of international reserves (15 months of import cover).

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

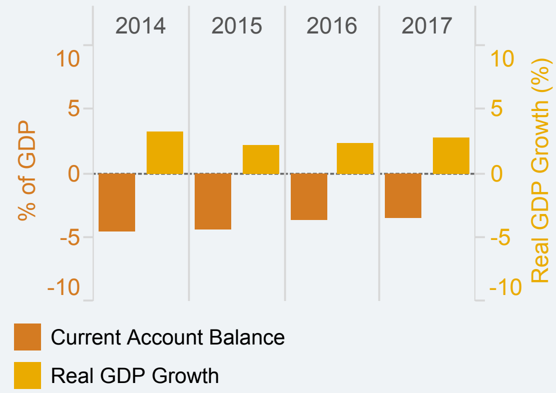
The commercial environment is strengthened by a stable economic and political environment, strong bank supervision, as well as high levels of international reserves. However, a high degree of dollarization (over 70 per cent), an overvalued currency, inflationary pressures, and frequent labour disputes are risks to the commercial sector. The government is making efforts to further diversify its export base, including continued development in the oil and gas sector. Investors benefit from a well-established regulatory system, an independent judiciary, strong investment protection, and very low levels of corruption compared to regional peers.

Sovereign

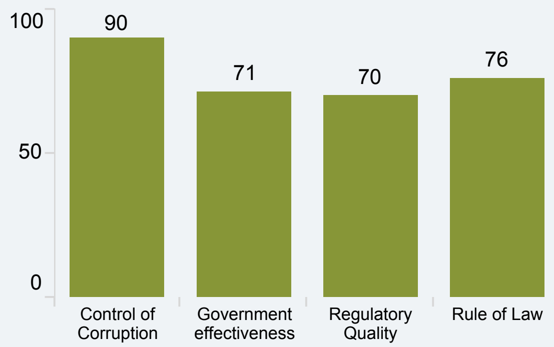
Sovereign Probability of Default

Although the sovereign remains a net external debtor, prudent management has improved debt composition, and extended maturities. International liquidity continues to provide a significant buffer against external risks. Uruguay remains somewhat vulnerable to spillover effects from the country's largest trade partners, Argentina and Brazil. State-owned enterprises tend to have weaker financial positions than the central government.

Current Account and Economic Growth

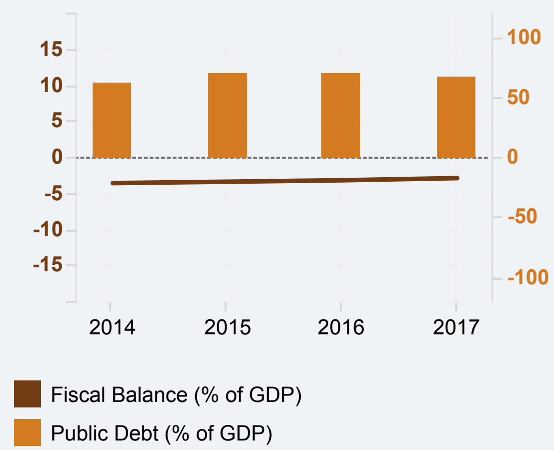


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Venezuela

Short-Term Commercial

Risk Rating **Payment Experience**

Short-term risk is driven by strict controls on the convertibility of currency. Additionally, severe liquidity pressures due to historically low foreign exchange reserves largely drive the transfer of foreign currency for all external transactions. There are currently multiple foreign exchange systems with differing exchange rates, making access to foreign currency highly cumbersome and slow. Payment delays have reached a critical point, and recovery efforts have stalled. Venezuela faces a challenging period with a continued economic recession and hyperinflation. Efforts by the newly elected opposition to address the economic crisis will face stiff resistance by President Maduro.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

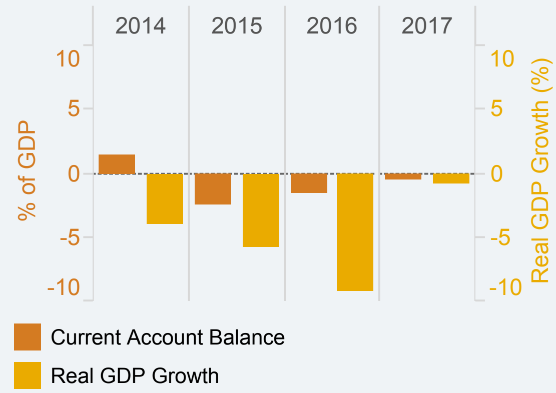
The business environment suffers from extensive use of import, transfer, and convertibility controls as part of the government's efforts to limit access to FX and prioritize certain sectors. Government interference in private sector operations is common, and expropriations have taken place without compensation. This is exacerbated by a weak rule of law, anti-private sector policies, and limited access to arbitration. Political violence risk is due to growing political instability and tensions between the ruling United Socialist Party of Venezuela and opposition parties.

Sovereign

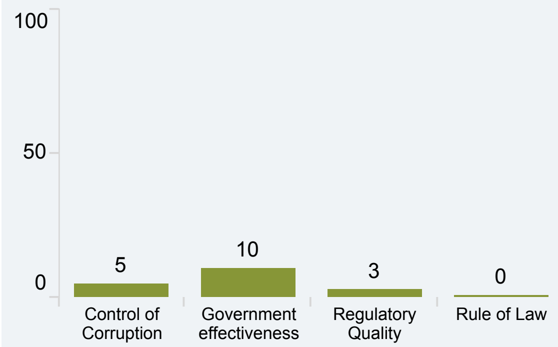
Sovereign Probability of Default

The sovereign rating is driven by unsustainably high public spending, reliance on oil revenues, and the inability of the state-owned Petróleos de Venezuela, S.A. (PVDSA) to address production constraints. The sovereign is very dependent on financing from like-minded countries such as China. The sovereign's ability to meet its payment obligations is being challenged and will be tested with external debt payments coming due in late 2016 and early 2017. The opposition's victory in December 2015 has given it control of the National Assembly; however the continued control of the executive and other key national institutions by President Maduro's party will lead to political gridlock.

Current Account and Economic Growth



World Bank Governance Indicators



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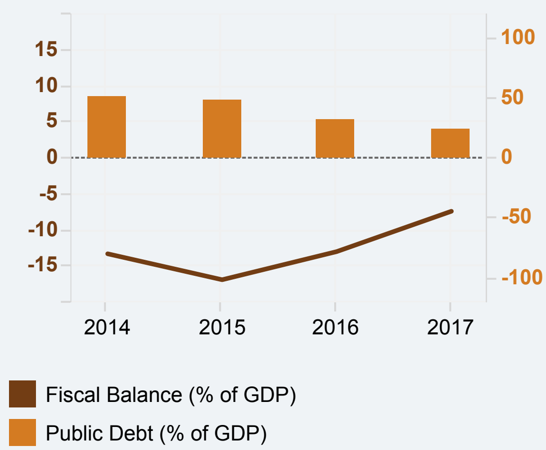
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Americas

Short Term Country Risk Rating

Americas

Commercial Country Ceiling

Risk Rating
- Low
- Low-Medium
- Medium
- Medium-High
- High
- No information

Americas

Expropriation Market Rating

Risk Rating

- Low
- Low-Medium
- Medium
- Medium-High
- High

Americas

Political Violence Market Rating

Americas

Transfer and Conversion Market Rating

Americas

Sovereign Rating

Risk Rating

- Low
- Low-Medium
- Medium
- Medium-High
- High
- No information

Asia

Upside Risks (+)

Asian economies that depend on US and Euro demand for goods and services may see an increase in trade and investment activity.

If government finances, currencies, and trade imbalances in countries that heavily rely on oil and gas imports continue to stabilize, increased government savings could be used for necessary infrastructure development.

Policy reforms and streamlined approval processes could accelerate investments and help alleviate critical infrastructure bottlenecks. As a result, markets such as India, Vietnam, Indonesia, and the Philippines, would see lower business costs and attract FDI.

Downside Risks (-)

Heightened global capital market volatility and uncertainties around the US Federal Reserve rate hike path may lead to increased foreign exchange volatility, which could put pressure on debt service for highly leveraged consumers and corporations. Although some countries may have built up their reserves in the low-priced oil environment, the rate hike may still bite into fragile current accounts.

Conflict flashpoints that impact headline growth and external trade may occur if internal socio-political tensions escalate in Thailand, Pakistan, and Afghanistan (and also more recently in countries such as India and Bangladesh).

An accelerated slowdown in China and increased uncertainty related to the downward movement of the Chinese Yuan may lead to a confidence crisis in Asian economies and competitive currency devaluations, especially in export-oriented economies.

Australia

Short-Term Commercial

Risk Rating **Payment Experience**

Weak demand for Australia's commodity exports of iron ore, coal, and natural gas subdue Australia's near-term macroeconomic outlook. Australia's export success will remain closely linked to weakened Asian commodity demand. The Australian dollar will likely continue its downward trend alongside commodity prices, which is a welcome relief to non-commodity exporters. Private consumption and housing activity are moderating the export slump. Some large resource projects have been postponed, which will affect SMEs feeding into them. However, no significant deterioration of the payment experience is expected.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

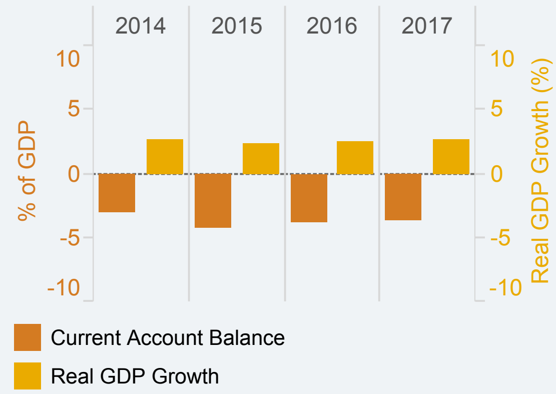
Institutional strength and a mature business environment characterize Australia's economy. Structural drivers for external demand in the medium to long term have not fundamentally changed; many of the large mining projects that were delayed will likely resume. Recently announced government support for innovation should increase investment in start-up companies and promote growth-enhancing activities such as increased research and development in healthcare and sciences. Nonetheless, the economy, which has already begun rebalancing its growth drivers from the mining industry, will need to continue moving towards service-based industries.

Sovereign

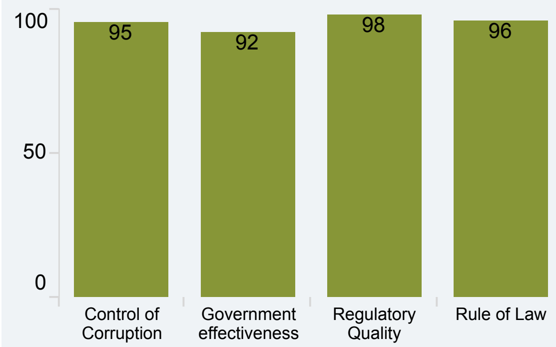
Sovereign Probability of Default

In response to economic weakness last year, Australia's Liberal Party elected Malcolm Turnbull as Prime Minister. Turnbull is focused on reinvigorating the non-mining economy and minimizing budget deficits. Solid macroeconomic fundamentals will help the government cope with most economic vulnerabilities. Nonetheless, Australia's output growth potential has diminished as the resource boom moves from the investment to the production stage, making fiscal consolidation more challenging. High private sector external debt is noteworthy but appears manageable. Weaker GDP growth will push out into 2019-20 when the federal budget can be balanced.

Current Account and Economic Growth



World Bank Governance Indicators



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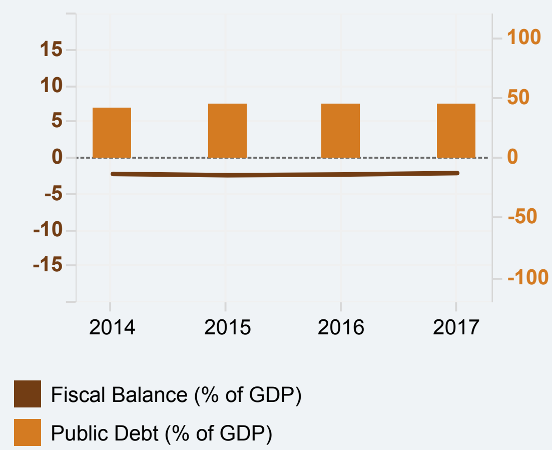
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Bangladesh

Short-Term Commercial

Risk Rating **Payment Experience**

Political uncertainty and social unrest are having an increasing impact on Bangladesh's business environment. Recurring strikes and sometimes violent – or even deadly – protests are now occurring in tandem with targeted attacks by militants, which are increasingly being linked to the Islamic State. Additionally, divisive politics continue to have an ongoing detrimental effect on policy development and economic growth. Nonetheless, import cover (about six months) has improved on the strength of ready-made garment (RMG) exports and a lower oil import bill. Payment delays can be expected due to weak bureaucracy.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

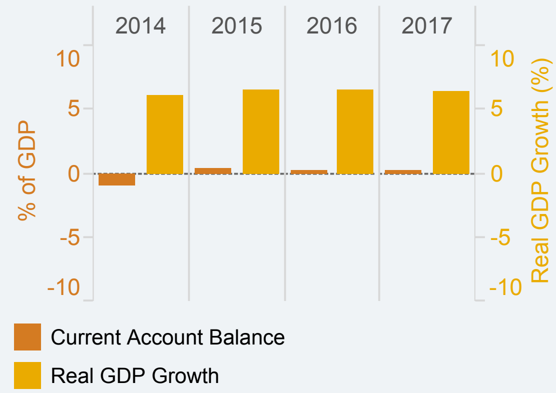
High levels of corruption, poor transparency, and particularly political disunity elevate commercial risks. Natural disasters and a loss of competitiveness in the garment industry – over the medium-long term – have the potential to stymie growth. Despite intermittent protests, exporters still manage to ship goods. The construction of a deep-sea port in early 2016 will support further growth in exports. The RMG sector remains the key export sector accounting for almost 70 per cent of merchandise exports. The banking system continues to contend with a high level of nonperforming loans hampering credit flows into the market.

Sovereign

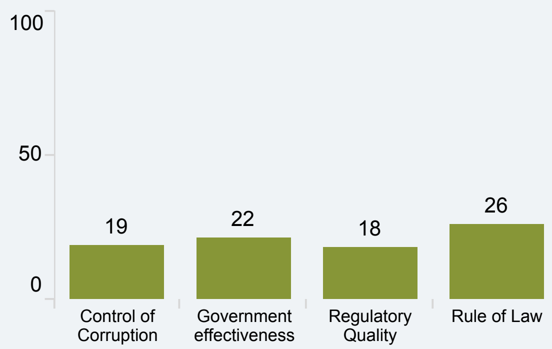
Sovereign Probability of Default

Sovereign risk remains elevated primarily due to low income, high levels of corruption, and political volatility that frustrate effective policy development. Protracted political instability may impact growth, as domestic demand responds to worsening consumer and business sentiment. Furthermore, progress on reducing subsidies and increasing tax collection is anticipated due to a commitment made to introduce a new value-added tax in July 2016. Both public and foreign investment in Bangladesh remain at relatively low levels.

Current Account and Economic Growth



World Bank Governance Indicators



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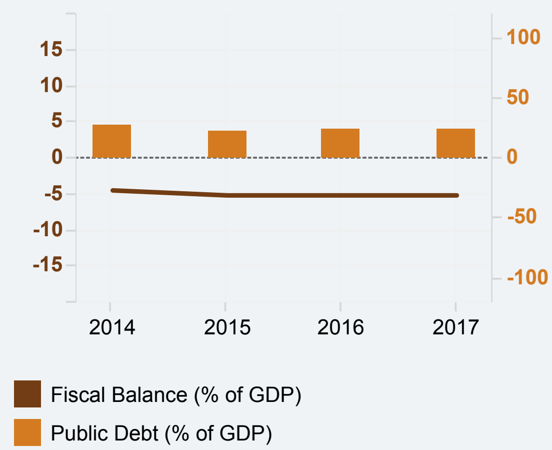
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Burma

Short-Term Commercial

Risk Rating **Payment Experience**

In November 2015, Burma held its first competitive multi-party election since 1962. The opposition, the National League for Democracy (NLD) won a strong mandate to govern. Nonetheless, it remains to be seen how national reconciliation will proceed as the military still retains significant power. Irrespective, attitudes towards foreign investment and participation would be welcomed. The fall in natural gas prices and impact of recent floods pose downside risks to near-term economic growth. Short-term commercial opportunities are emerging despite corruption and bureaucratic delays. Import cover stands around the three-month mark.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

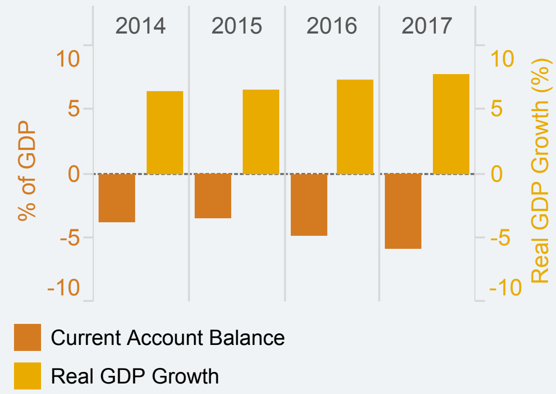
Commercial risks remain elevated as the country has had limited experience dealing with western companies. Infrastructure and institutions remain weak and susceptible to high level of corruption. Political violence risks remain, especially in the North where conflict continues. Going forward, violence against the Rohingya Muslim population will need to be addressed. By way of trade channels, China's economic slowdown will have a negative impact on Myanmar's growth path.

Sovereign

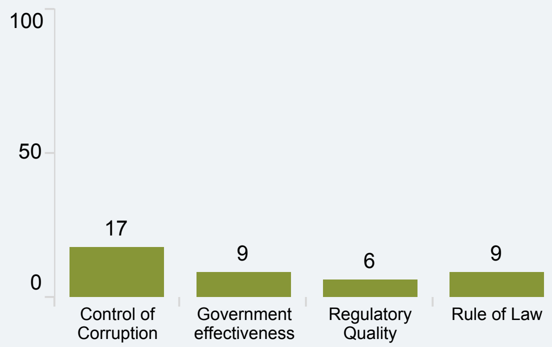
Sovereign Probability of Default

Constitutional reform to limit the role of the military in government has been voted down, which suggests that the military will remain influential. An IMF Staff-Monitored Program (SMP) has been completed, followed by a successful debt restructuring. While this should open the door to greater volumes of FDI given the country's vast and still-untapped resource potential, the risk of government interference and policy reversals can dampen the pace of investments. Sovereign risk remains elevated. Energy exports will boost foreign exchange earnings going forward.

Current Account and Economic Growth



World Bank Governance Indicators



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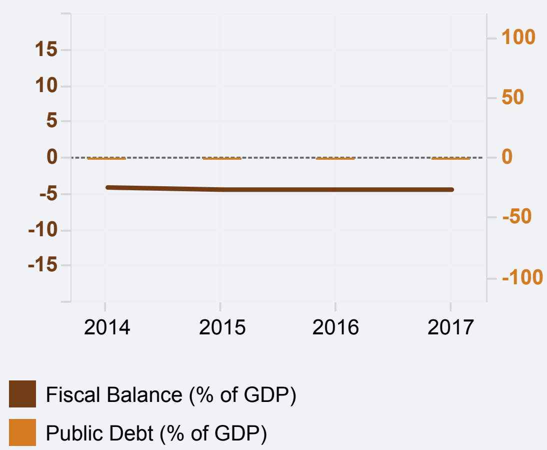
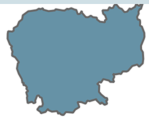
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Cambodia



Short-Term Commercial

Risk Rating **Payment Experience**

The economy is not well-diversified and is heavily dependent on garment exports. In addition to corruption, ongoing turmoil between the ruling Cambodia's Peoples Party and the opposing Cambodia National Rescue Party pose a significant challenge to conducting business. Evaluating local credit risks can be challenging due to poor transparency, weak rule of law, as well as bureaucracy. Banks are poorly regulated. Import cover remains adequate at about five months, but an abrupt reversal in FDI flows due to investor perceptions could see foreign exchange reserves dry up quickly.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

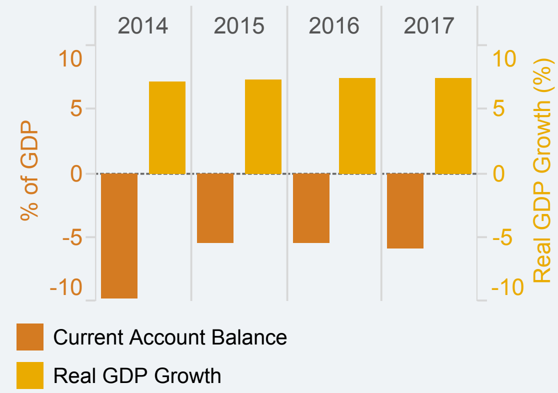
Cambodia is a low-income country, and even though the economy has opened up somewhat, the commercial environment remains challenging. Authorities have the power to implement exchange controls during a crisis. Consequently, Cambodia's persistent fiscal and current account deficits raise transfer concerns. A weak judicial system, corruption, and unproven investment environment drive expropriation risk. Political violence risks stem from occasional bouts of civil unrest related to land, wages, and political dissent. Poor working conditions and worker protests are increasing international scrutiny of the garment sector.

Sovereign

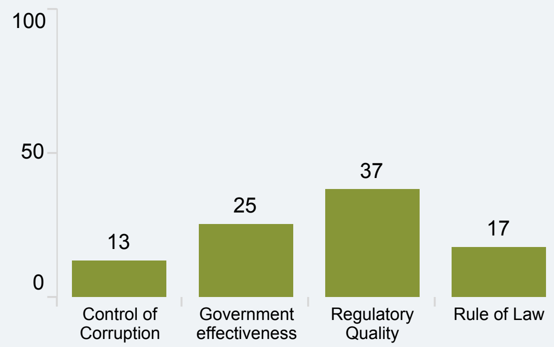
Sovereign Probability of Default

Low per capita GDP, vulnerabilities on the external position, and a poor track record in macroeconomic management are key weaknesses. While economic activity has accelerated driven by FDI in garment manufacturing, questions remain over the sustainability of the current pace of growth. Medium- to long-term stability depends on successful implementation of election reforms, and the ruling elite's ability to balance demands for greater democracy.

Current Account and Economic Growth



World Bank Governance Indicators



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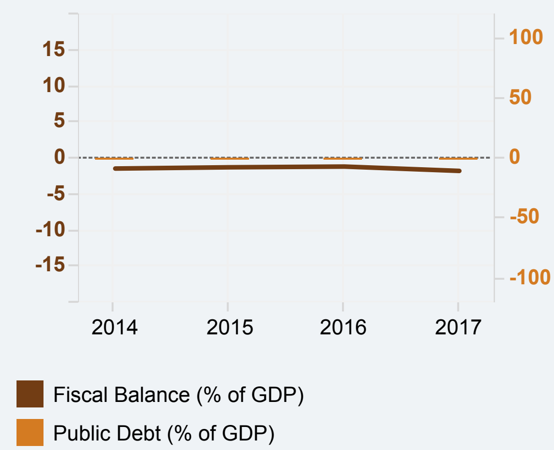
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

China

Short-Term Commercial

Risk Rating **Payment Experience**

Policy support will be a critical growth stabilizer in the near term as large parts of the economy attempt to cope with overcapacity and leverage. Equity market turmoil, the recent currency devaluation, and the slowing economy, continues to impact sentiment. The Yuan will be somewhat more volatile than in previous years as authorities now manage the currency against a basket of currencies versus solely against the USD. Volatility though is unlikely to be de-stabilizing given the policy options available to authorities. Credit and payment risks are rising as the economy slows, margins get compressed, and core parts of the economy restructures.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

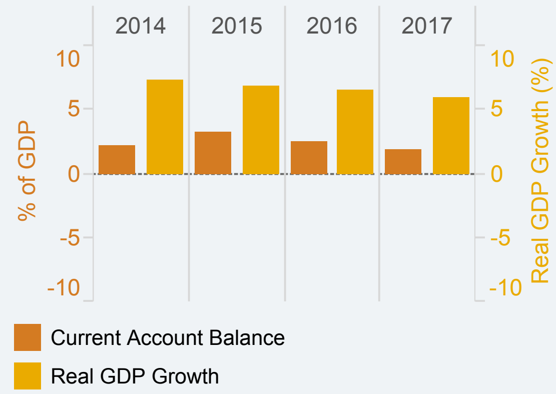
China's growth model is undergoing a multi-year transformation as the authorities attempt to reorient the economy. China's ambitious One Belt, One Road initiative – as well as plans to boost services, research and development, and focus on innovation – should open new opportunities even as traditional growth sectors moderate. The unwinding of high levels of debt across public and private sectors, as well as overcapacity in real estate and heavy industry, will dominate the near-to-medium term. Political violence risks are driven by localized protests and ethnic-based tensions in certain regions. Expropriation risks are elevated by certain institutional and governance-related weaknesses.

Sovereign

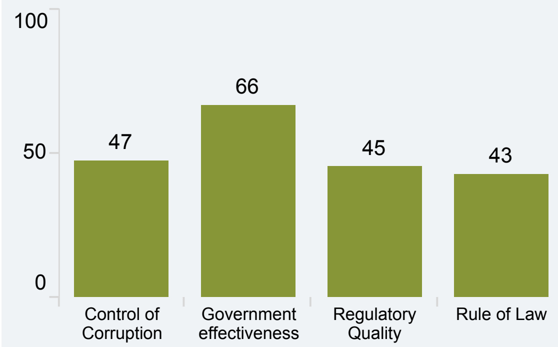
Sovereign Probability of Default

Government finances appear to have the capacity to absorb contingent liabilities arising from overleveraged state-owned enterprises including banks, as well as local governments. While foreign-denominated debt has increased in recent years, total external debt in China remains low; China is a net creditor nation. The authorities' ability to balance near-term stability while implementing much-needed structural reforms will determine China's medium-long term growth potential, including the economy's ability to withstand future shocks. However, prolonging these tough reforms increases the systemic risks.

Current Account and Economic Growth



World Bank Governance Indicators



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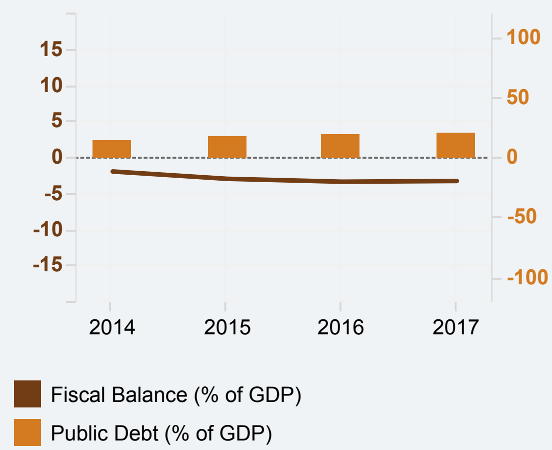
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Hong Kong

Short-Term Commercial

Risk Rating **Payment Experience**

Foreign exchange reserves are more than adequate to finance roughly four times the external debt. Access to capital should not be a problem for local companies. The money supply is also covered by foreign exchange reserves, so currency stability will continue. The slowdown in China coupled with that country's anti-corruption campaign is impacting the retail sector. Property markets have also started to cool. Despite Chinese Yuan depreciation in recent months the Hong Kong dollar-USD peg will likely stand due to the Currency Board. The pro-democracy events of 2014 have not dented business sentiment significantly.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

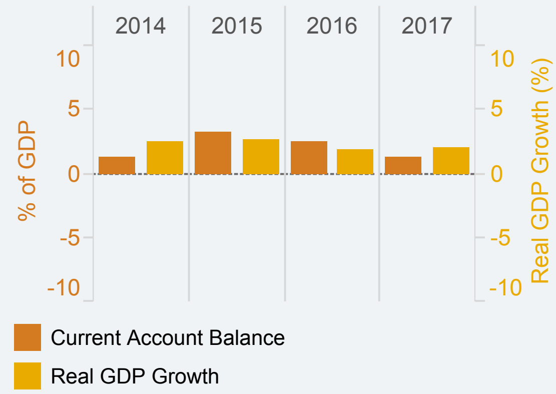
The country is open to foreign investment and hosts mature institutions and a strong business climate. The legal environment is based on British law, and World Bank business indicators are all sound. Hong Kong remains a top global destination for foreign direct investment (FDI), highlighting foreign investor comfort with the market. Hong Kong remains a gateway and launch pad for many multi-nationals to enter to China, although over the long term it will cease to be so.

Sovereign

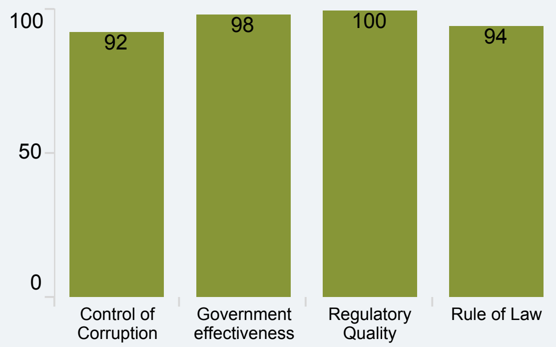
Sovereign Probability of Default

Government indebtedness is low and budgetary surpluses are the norm. The country routinely posts current account surpluses and, as a result, the level of import cover is significant. The pro-democracy movement and their demands remain unresolved. The increasingly older population will start to require more public spending on social security and health payments over the longer term. Hong Kong's economic and political ties to China remain intact. Beijing's influence over high-level political decision-making as well as the political environment will likely increase as highlighted by the recent detention in China of several Hong Kong residents.

Current Account and Economic Growth



World Bank Governance Indicators



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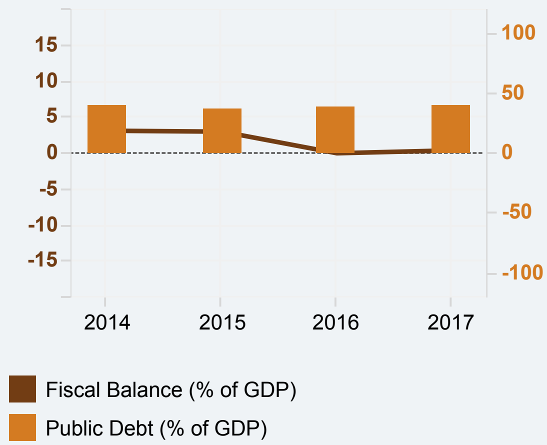
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

India

Short-Term Commercial

Risk Rating **Payment Experience**

Low oil prices continue to have a positive effect on India's current account and have alleviated inflationary pressures. This has allowed for a larger-than-anticipated rate cut to boost growth and investment. Growth is expected to be relatively robust in 2016, in the seven per cent range. Foreign exchange (FX) reserves, reflecting accommodative monetary conditions and oil prices, are up. Given its FX build-up (around nine months of import cover), India is now more prepared to deal with currency volatility that may arise as a result of global instability.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

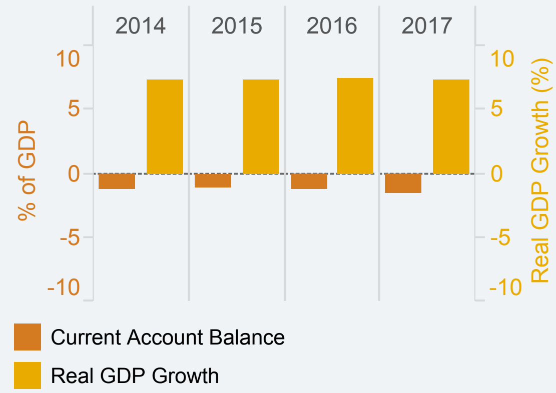
FDI is expected to continue rising due to a sense of an improved business and investment environment. After more than a year, though, lack of political support at the state level and absence of any structural reforms (such as taxation, land ownership, and labour laws) have dampened earlier optimism about PM Modi. Political violence remains concentrated in the northeastern states, and cross-border skirmishes with Pakistan continue to be localized.

Sovereign

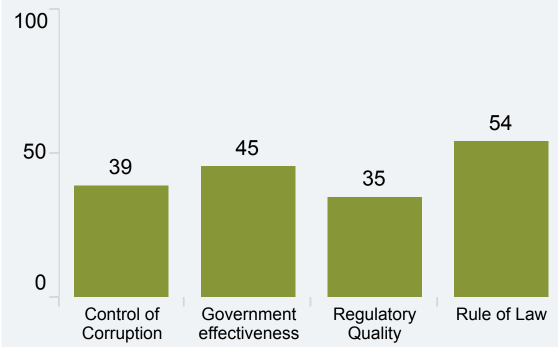
Sovereign Probability of Default

Fiscal consolidation is anticipated in coming years. Public debt levels are much higher for India than for economies with similar ratings and non-performing loans, especially related to state-owned banks continue to be a troubling factor, but the strong medium- to long-term growth projection will afford the government some policy space. What is needed are fiscal reforms regarding subsidies, privatization of government-related entities, and improvements in the tax system to strengthen revenue generation. Nevertheless, external sovereign debt obligations are quite small, which insulates the Indian government.

Current Account and Economic Growth



World Bank Governance Indicators



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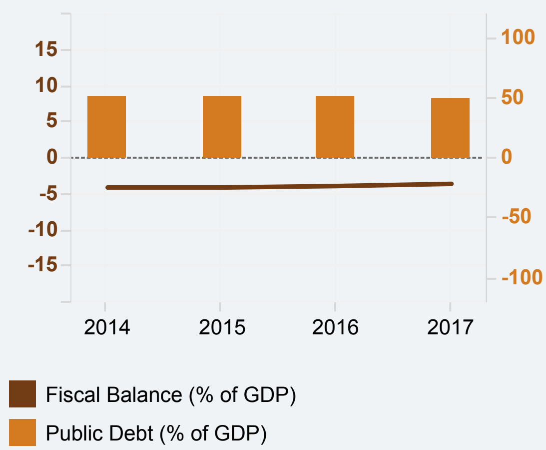


Sources: EDC Economics, World Bank, Haver Analytics, EIU

Indonesia

Short-Term Commercial

Risk Rating **Payment Experience**

Growth will slow as soft commodity prices and weaker exports take their toll on the economy. Monetary policy will continue to be accommodative as highlighted by the recent rate cut to counteract the slowdown. A weaker currency is boosting non-commodity exports, and also dampening demand for imports. As a result, Indonesia's current account dynamics have improved, but the currency will remain under pressure through 2016. FX reserves have increased from the lows of 2013 and this, coupled with steady FDI inflows, has reduced balance of payment risks. The January 2016 terror-related attacks in Jakarta were the first since 2009.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

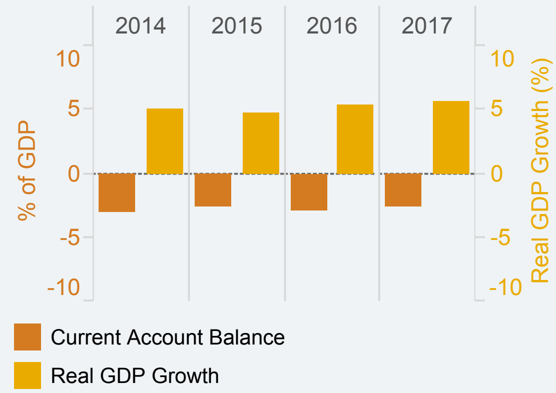
The commercial environment has strengthened in recent years given improved macro-fundamentals, political stability, robust FDI, and a well-capitalized banking sector. President Jokowi is expected to provide more policy certainty and champion governance reforms, which supports medium-term growth. Uncertain regulations, bureaucracy, corruption, and powerful vested interests can be problematic. Mining sector laws are prone to change; foreign ownership limits, a highly controversial export tax/ban, and local processing requirements are now in place. Infrastructure bottlenecks add to operational complexities. Religious tensions, extremism and the Papuan insurgency drive political violence risks.

Sovereign

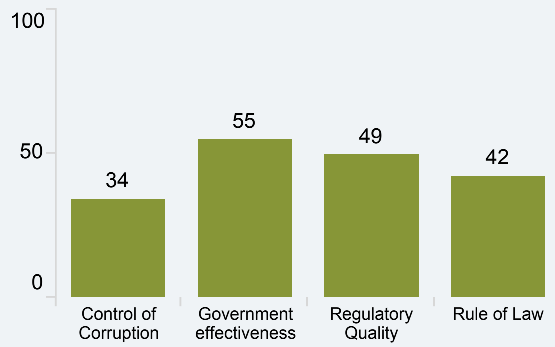
Sovereign Probability of Default

Healthy public and external debt metrics and the relatively diversified economy characterize the sovereign risk profile. While the domestically oriented economy is able to absorb most external shocks, Indonesia's reliance on commodity exports does pose challenges. Indonesia's infrastructure requirements are enormous, requiring both private and foreign investment. President Jokowi's ability to streamline land acquisitions and fast-track stalled infrastructure projects are critical to unlocking these bottlenecks. Subsidy reforms and various efforts to increase government efficiencies should free up funds for infrastructure. Economic policy orientation will not undergo drastic changes.

Current Account and Economic Growth



World Bank Governance Indicators



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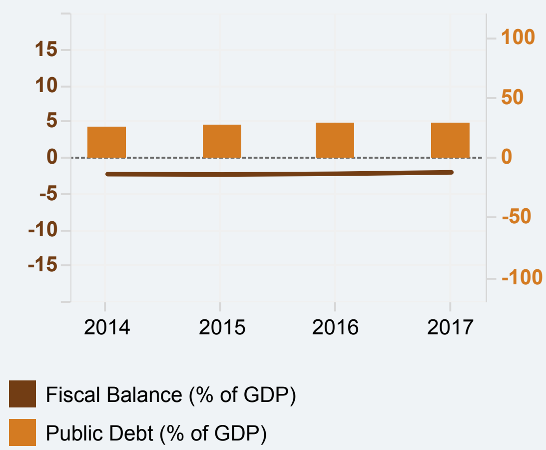
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Japan

Short-Term Commercial

Risk Rating **Payment Experience**

Japan managed to post weak GDP growth in 2015 following the 2014 recession. Looking ahead, conditions remain subdued, and growth in 2016 is expected to be lackluster. Aggressive monetary easing – along with some structural reforms – has somewhat restored domestic confidence in the economy, but it remains fragile. Real wage rates continue to disappoint, even though unemployment is at a 20-year low, increasing policy challenges. The government's target of achieving two per cent inflation continues to get pushed back. Realizing these challenges, the BOJ moved further into unchartered territory and introduced negative interest rates.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

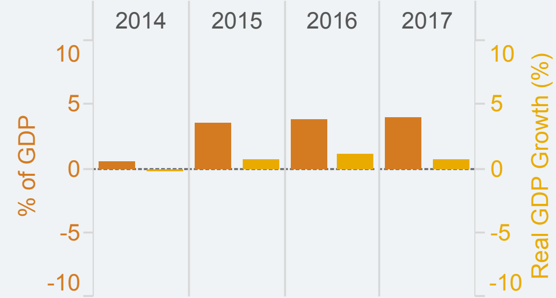
The economy is mature, and real GDP is expected to grow tepidly over the medium to long term. Japan enjoys an exceptionally strong business environment, low levels of corruption, an independent judiciary, and an entrenched rule of law and democratic institutions. While the rate of corporate failure has declined, the competitiveness of corporate Japan has again come into question. A shrinking and aging pool of both consumers and workers will continue to push Japanese companies to expand in the Asia-Pacific region. Japan's participation in the Trans-Pacific Partnership (TPP) trade agreement, as well as the Canada-Japan Economic Partnership Agreement (CJEPA), is positive for Canadian companies.

Sovereign

Sovereign Probability of Default

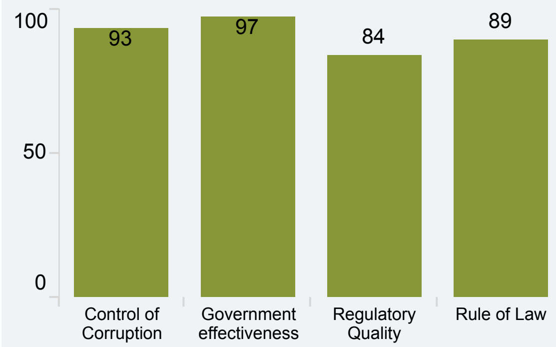
At over 230 per cent of GDP, Japan's debt burden is by far the highest in the world, and its debt servicing costs take up a quarter of the government's budget. All of this weighs heavily on long-term growth. The Central Bank's massive quantitative easing program and continued domestic investor preference for government securities reduces the sense of urgency to tackle the debt issue. However, should the Bank of Japan succeed in raising inflation, it could also drastically alter bond investor expectations and increase debt service burdens. Structural reforms that improve productivity are critical to changing debt sustainability dynamics maintaining medium- to long-term growth prospects.

Current Account and Economic Growth



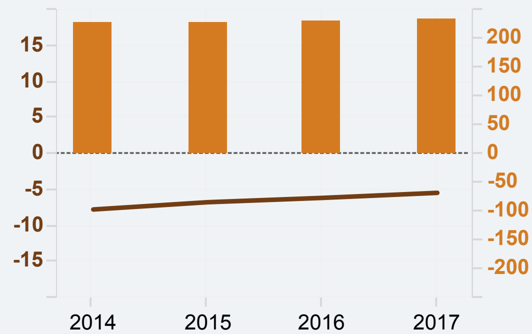
Current Account Balance
Real GDP Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Laos

Short-Term Commercial

Risk Rating **Payment Experience**

Liberalization is at an early stage, and Laos' economy continues to be state-led, heavily dependent on hydropower and resource exports to China. The economy's vulnerability to external shocks remains a significant challenge. Very high levels of corruption and bureaucratic intervention make for a challenging business environment and can result in delays, including in obtaining permits and processing payments. Foreign exchange reserves remain stretched, but sufficient to cover three months of imports. Authorities can impose limits on foreign exchange used by banks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

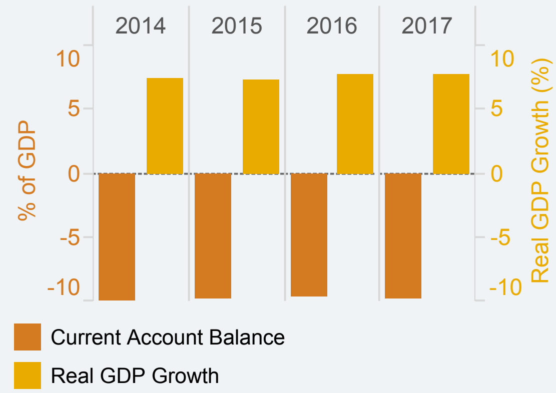
The commercial climate remains challenging due to weak institutions and rules, poor regulations, and the untested investment environment. The banking sector is weak and very poorly regulated. Local courts cannot be relied upon to enforce contracts. Transfer and conversion risk is driven by heavy state involvement in the economy and the high-risk sovereign profile. Laos' entry into the World Trade Organization (WTO) and the implementation of Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) should open the economy further, although the operating environment will remain difficult.

Sovereign

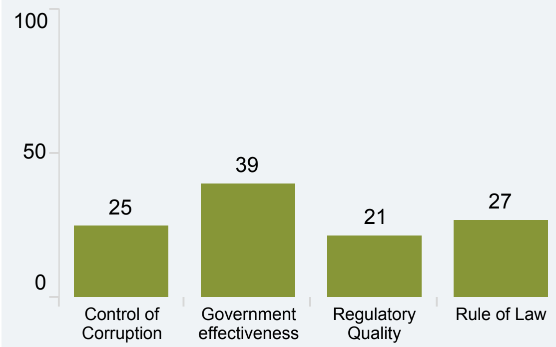
Sovereign Probability of Default

While various capital investment projects continue to support Laos' GDP growth, weakening commodity prices and fiscal pressures moderate the growth outlook. Although there was a change of leadership in January 2016, the new politburo is unlikely to make significant changes to existing economic policies. Public and external debts remain high compared to similarly rated markets, although most debt continues to remain concessional which lowers debt service costs. The government continues to rely on funding to finance infrastructure, which adds further burden to stretched debt levels. Authorities face serious difficulties managing debt dynamics. The pace of reform will likely be slow.

Current Account and Economic Growth

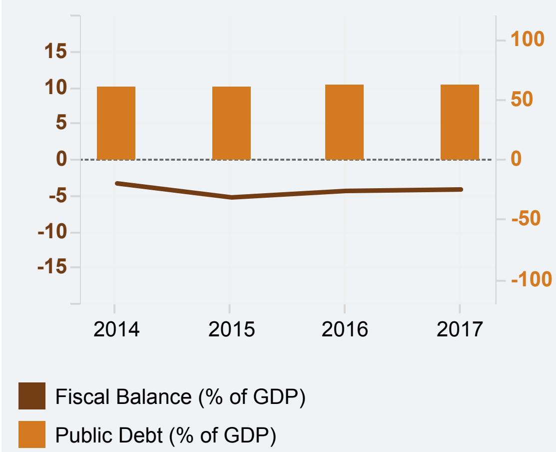


World Bank Governance Indicators



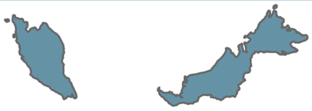
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Malaysia



Short-Term Commercial

Risk Rating **Payment Experience**

Export earnings and government revenues have both declined as a result of lower energy prices. The exchange which has depreciated significantly will remain under pressure given Malaysia's reliance on short-term capital and low oil prices. Despite the rapid pace of decline, FX reserves remain well above the three-month import cover mark supporting FX liquidity. Softer exports, capital market volatility, limited monetary policy options, and the political uncertainty engulfing Prime Minister Najib suggest macroeconomic growth will be anemic in 2016. Nonetheless, Malaysia boasts of a very favourable business environment as ranked by the World Bank.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

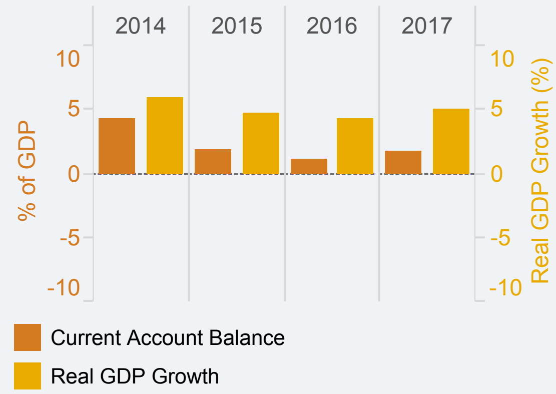
The country enjoys a relatively sound business environment that is supported by adequate infrastructure and close supply chain links with Singapore. Governance-related issues as highlighted by the ongoing corruption scandal point to business challenges. Ethnicity-based socio-economic policies risk dampening economic competitiveness over the medium-long term. Malaysia is expected to meet its stated goal of becoming a high-income country by 2020. ASEAN Economic Community (AEC) and the Trans-Pacific Partnership trade agreement should boost trade and investment and help Malaysia push through tough reforms that will increase its competitiveness and transform the economy.

Sovereign

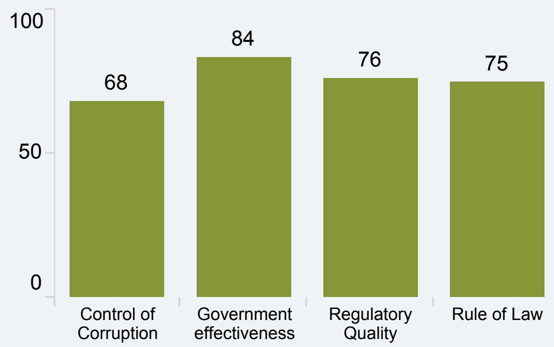
Sovereign Probability of Default

Real GDP growth is expected to continue at a healthy pace despite Malaysia's dependence on exports. Public debt of roughly 50 per cent of GDP and the government's reliance on oil revenues is a growing concern. Following rating agency warnings, authorities have taken some measures to shore up public finances. Constraints on the fiscal front will delay ambitious infrastructure development plans. Still, the political fallout from the 1MDB scandal is likely to weaken effort to transform the economy to move up the value chain. Long-standing affirmative action programs have polarized Malaysia's ethnic/religious groups, which increase the long-term risk of socio-political instability.

Current Account and Economic Growth

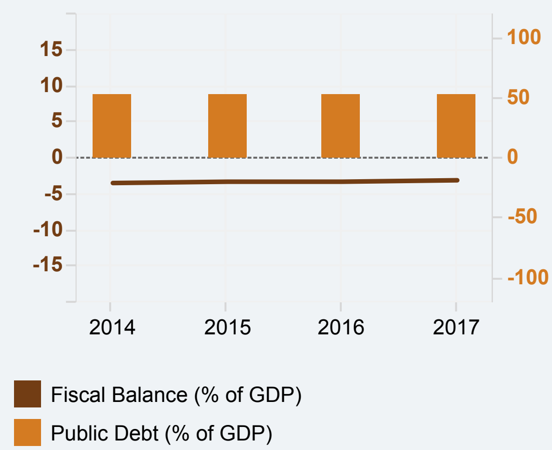


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mongolia

Short-Term Commercial

Risk Rating **Payment Experience**

Macroeconomic imbalances, financial sector stress, soft commodity exports, and the collapse in FDI inflows have reduced growth and increased credit risks. The weakening currency is adding to inflationary pressures given Mongolia's need to import food and fuel. Excessive credit growth in recent years as well as high foreign currency liabilities will put pressure on financial institutions. External liquidity will remain a pressure point due to the deteriorating foreign exchange reserve position, poor export earnings, and external debt service payments. The timely positive developments out of the massive Oyu Tolgoi (OT) mine will help turn sentiment and boost FDI.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

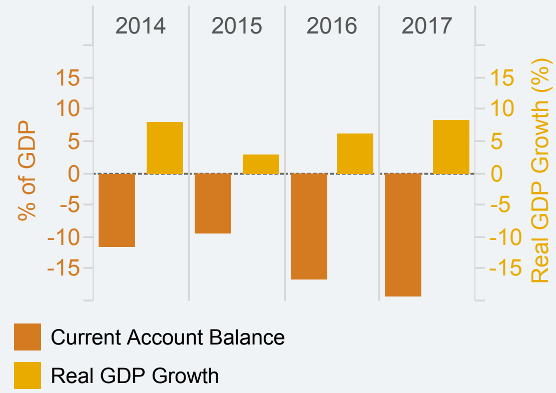
The medium- to long-term growth outlook remains impressive, but is conditional on the successful development of the highly politicized mining sector. Governance challenges related mainly to weak institutions and poor infrastructure, hamper the business environment. The investment climate, which had deteriorated significantly since 2012, is likely to turn around if the positive momentum of 2015 can be continued after the 2016/17 election cycles. The massive Oyu Tolgoi copper and gold project will now move to the underground development phase (second phase), which should impact the business environment positively.

Sovereign

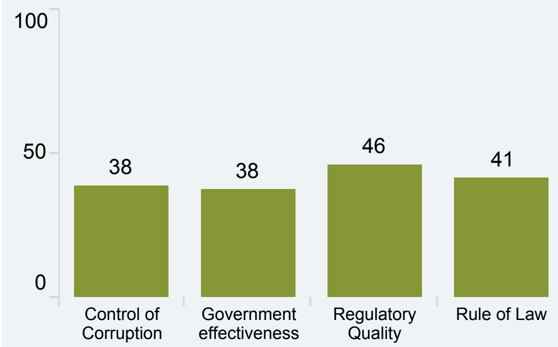
Sovereign Probability of Default

Mongolia remains a country in transition despite the impressive achievements it has made in its journey to becoming a democracy and a market-based economy. Successive governments have struggled to manage the growth and volatility associated with the commodity cycles. Fiscal and current account deficits have become a mainstay. Very high external debt, especially owed by the sovereign will continue to cloud the outlook as it navigates large debt maturities in 2017 and 2018. Bi-lateral and multi-lateral assistance as well as OT related FDI could help, but risks will remain elevated. Parliamentary (2016) and presidential (2017) elections will dominate the policy and political environment.

Current Account and Economic Growth

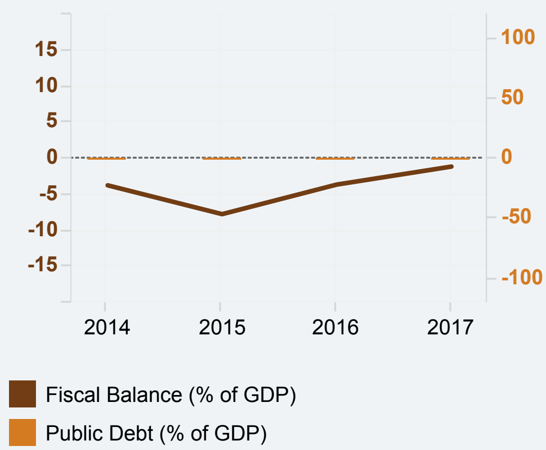


World Bank Governance Indicators



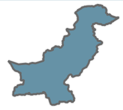
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Pakistan



Short-Term Commercial

Risk Rating **Payment Experience**

Internal and external security and political risks remain elevated, and Pakistan continues to be vulnerable to event risk. Nonetheless, current economic conditions of lower oil prices and growing remittances support a moderate improvement in Pakistan's growth is forecast at close to five per cent in 2016. The government's commitment to building up FX reserves and fiscal consolidation is also assisting Pakistan's liquidity position (import cover now stands at close to four months). Notwithstanding the current IMF program, the risk of external payment delays remains elevated.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

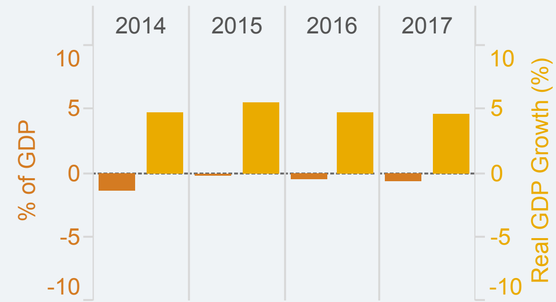
Chronic power shortages, combined with slow-coming structural reforms, and growing debt obligations hamper the outlook. Corruption and a lack of transparency alongside the poor security situation, impact the operating environment. Going forward, investment into the China-Pakistan Economic Corridor (CPEC), as well as potential improvements to the domestic energy supply, should support growth. While the potential economic benefits of the CPEC are expected to be significant, it is unclear how the financing package will be leveraged to the benefit of Pakistan's economy.

Sovereign

Sovereign Probability of Default

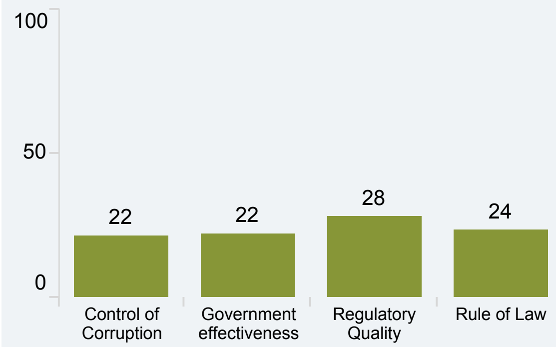
External debt repayment capacity shows some improvement but remains vulnerable to shocks. Under current policies, the government's fiscal situation remains fragile, and could become unsustainable over the medium- to long-term horizon should the country face adverse shocks. Although the current IMF package attempts to address these challenges over the short term, the country has a weak track record regarding compliance and completion. Essential elements to support growth include the restructuring of loss-making public enterprises and energy sector reform.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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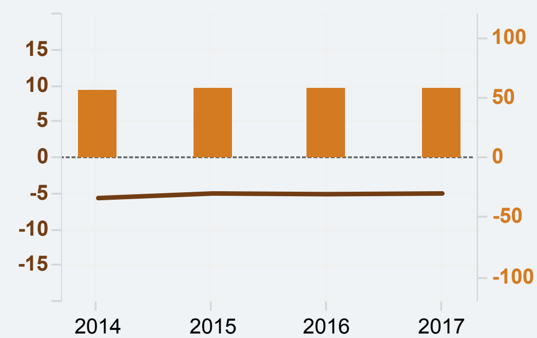
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Papua New Guinea

Short-Term Commercial

Risk Rating **Payment Experience**

Short-term commercial risk is driven by an extreme dependency on commodity exports, weak institutions, and corruption. Further, tribal-based tensions and violence are an ongoing challenge. Although new liquefied natural gas (LNG) projects should support growth and government revenues, the current rout in commodity prices is posing a strong headwind. Nonetheless, FDI into the LNG projects is supporting improvements in infrastructure. Foreign exchange reserves have strengthened and stand at around five months, but payment delays can occur. The political environment will likely remain relatively stable over the coming months, but could start worsening as the 2017 election comes.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

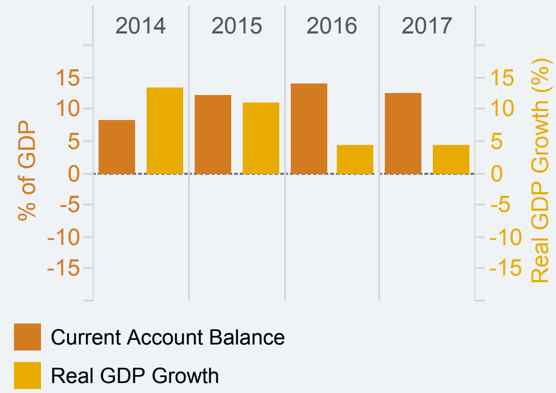
Investor disputes in the resource sector highlight risks in the commercial environment. Institutions and regulatory agencies are easily politicized. Politics are based primarily on personality and tribal allegiances, rather than policy or ideology. With more than 90 per cent of land owned communally, any changes to land ownership laws can significantly impact resource projects. Related disputes often turn violent. FX inflow from resource projects should reduce transfer and conversion risks going forward. Nonetheless, the business environment remains hampered by poor rule of law, corruption, and sub-par infrastructure.

Sovereign

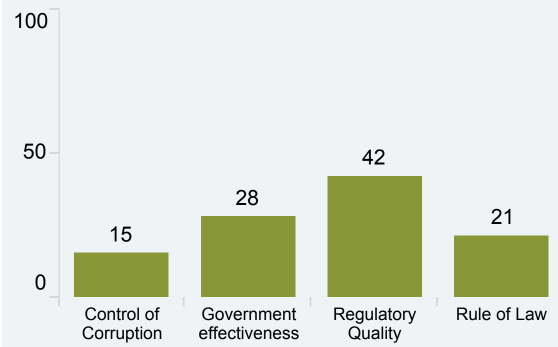
Sovereign Probability of Default

Large resource projects continue to cushion medium- to long-term government finances. Nevertheless, falling commodity prices have the potential to negatively affect foreign direct investment going forward. The transformative USD 19 billion PNG LNG project is expected to shift the current account to surplus, and drive GDP growth. The government will run budget deficits into 2017 given infrastructure and social development spending needs. Despite its massive resource wealth, PNG faces significant social challenges, including inequality, lack of education, and poor infrastructure. The political environment is consumed by high-profile corruption scandals.

Current Account and Economic Growth



World Bank Governance Indicators



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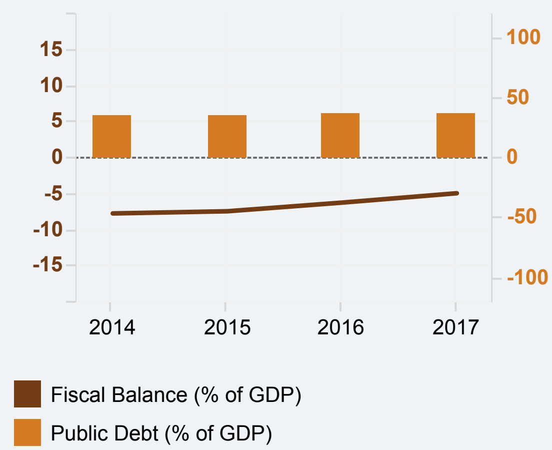
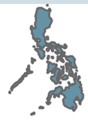
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Philippines



Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth prospects remain positive following strong consumer demand. This is supported by solid remittances from abroad, making the country one of Southeast Asia's fastest-growing economies. The Philippines' external indebtedness is low and projected to continue to decline. The business climate has improved, and is attracting foreign investment. However, it remains challenging outside of larger cities and economic zones. Pressure is mounting on the country's inadequate infrastructure, which will negatively impact trade in the short term. Foreign exchange reserves are at comfortable levels. The May 2016 presidential elections will dominate political and policy environment.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

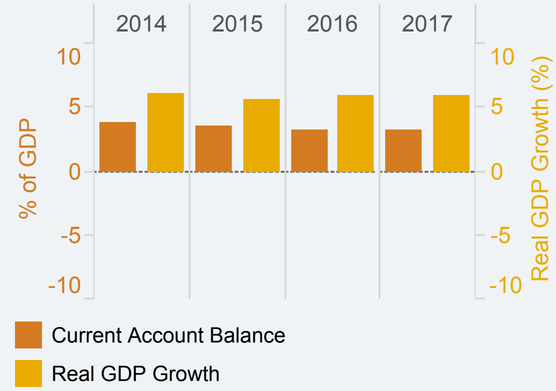
Private consumption, remittance flows, and continued foreign investor interest will buoy economic growth and improve the business environment. Political violence risks are due to security threats from insurgents, especially in the South. Expropriation risks reflect high levels of corruption, weak rule of law, nepotism, and concerns over enforcing contracts. Regulatory uncertainty poses additional challenges, particularly in the extractive sector. The operating environment varies considerably across regions and sectors. Heavy congestion at Manila's port illustrates the toll that poor infrastructure is taking on business.

Sovereign

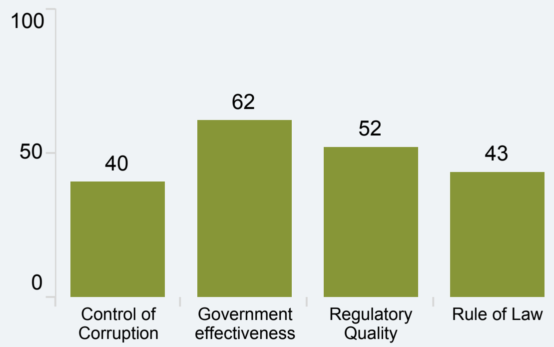
Sovereign Probability of Default

Authorities have made progress in managing the fiscal position. Public debt as a share of GDP will continue to trend downward. Public-private partnership-led infrastructure programs should boost investment as well as upgrade ailing and sub-par infrastructure across the country. Since 2010, the Philippines has enjoyed relative political stability, a rarity given the clan-based political environment. The presidential elections will be hotly contested. While the pro-business policies may see continuity, it remains unclear if the emphasis on governance, regulatory, and fiscal reforms will continue. The Chinese-Philippines maritime territorial dispute remains an ongoing point of tension.

Current Account and Economic Growth



World Bank Governance Indicators



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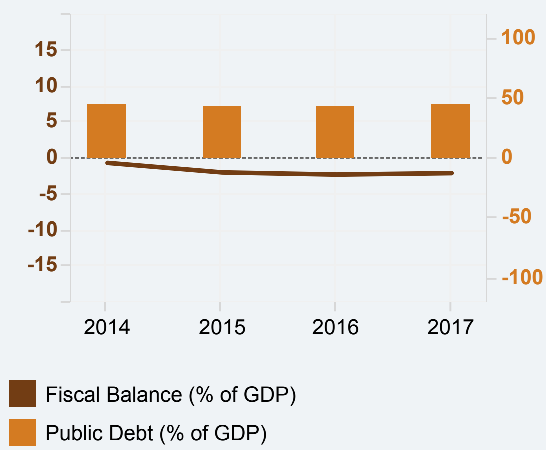
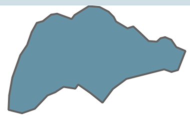
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Singapore



Short-Term Commercial

Risk Rating **Payment Experience**

Singapore is a high-income, competitive, and investor-friendly market. As a small and extremely open economy, Singapore is vulnerable to external shocks, notably a slowdown in demand in key trading partners. A re-surgent US economy and the recent downward movements in the Singapore dollar will benefit exporters. However, ample foreign exchange reserves provide a sound buffer to absorb most cyclical shocks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

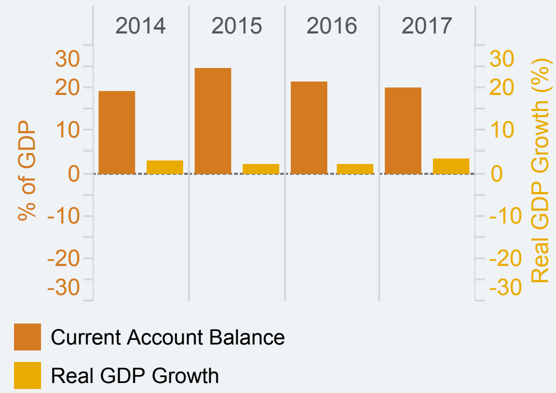
The city-state ranks consistently among the top global economies in terms of competitiveness. Singapore is becoming an increasingly important financial hub, and the regional corporate headquarters for many multinationals. Singapore has state-of-the-art infrastructure, steady investments in education, and a regulatory environment that has been tailored to facilitate foreign investments. These assets have resulted in a mature and predictable business environment. The recently launched ASEAN Economic Community (AEC), which is set to facilitate greater flows of trade and people, should benefit Singapore as the country transforms in manufacturing sector.

Sovereign

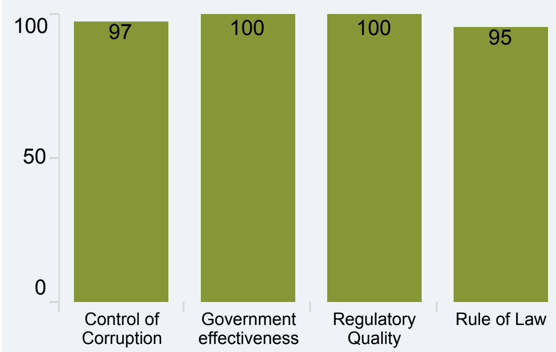
Sovereign Probability of Default

Singapore is economically mature and politically stable. Government finances are healthy and the external position is excellent. Banks are considered well-regulated and authorities are taking active steps to temper asset price inflation. Strong institutions and governance, and high per capita income levels all bode well for Singapore's sovereign position.

Current Account and Economic Growth

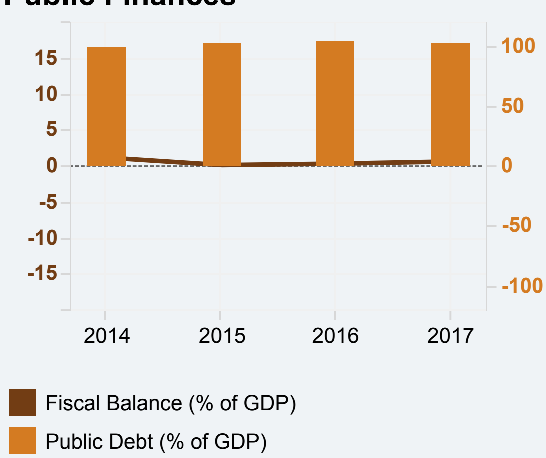


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

South Korea

Short-Term Commercial

Risk Rating **Payment Experience**

Despite South Korea's heavy trade relationship with China, the macro economy remains resilient buoyed by consumer spending and real estate activity. An expansionary budget will also help counteract export sector slowdown. Inflation and unemployment are not significant concerns, which should allow for accommodative monetary policy, although high household debt remains an area of concern for authorities. South Korea's trading partner's currency weakness is posing challenges for the country's exporters.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

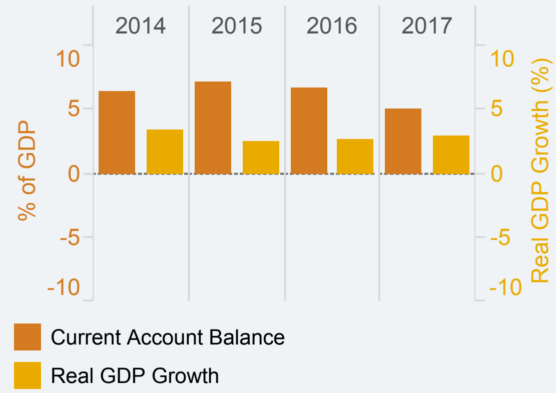
South Korea's economy is mature and developed, but exposed to swings in external demand given its reliance on trade. The commercial environment reflects strong economic fundamentals and a predictable business environment. The quickly aging population will limit economic potential over the coming decades. The recently ratified Canada-Korea Free Trade Agreement should boost bilateral trade. The trade regime is becoming more liberal, yet some barriers remain as large family-owned conglomerates dominate the commercial environment. Recent reforms have been passed to allow greater foreign ownership in some key sectors such as aviation.

Sovereign

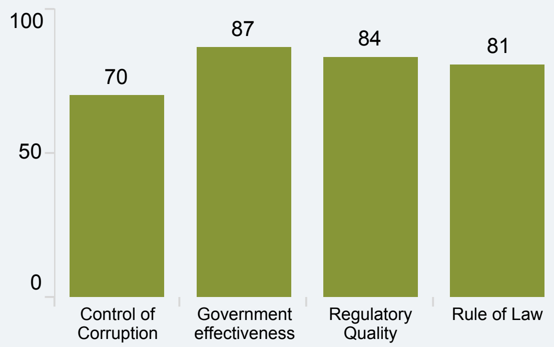
Sovereign Probability of Default

Macro fundamentals remain sound. Gross public debt and external debt levels remain manageable and are projected to improve in the medium to long term. Substantial foreign exchange reserves and swap lines with key trading partners further strengthen the external position. Growing foreign portfolio investor participation in South Korea's capital markets, while a net positive, could be a source of short-term volatility. While tail risks, event risks such as a full-blown conflict with North Korea, collapse of North Korea, or re-unification all are hugely impactful on the country and economy.

Current Account and Economic Growth



World Bank Governance Indicators



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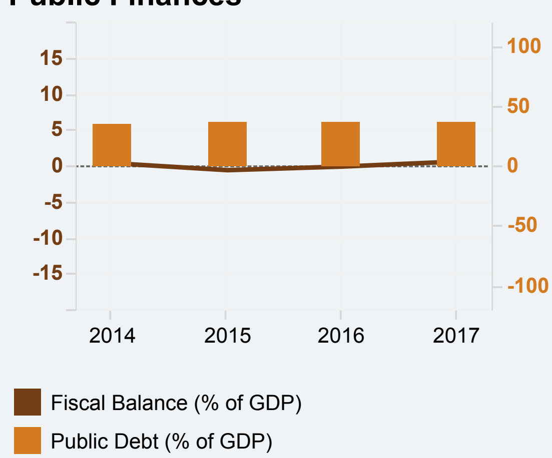
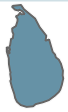
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Sri Lanka



Short-Term Commercial

Risk Rating **Payment Experience**

Near-term economic growth could slip a notch due to government budgetary consolidation efforts and attempts to address the tax system. The current account deficit is widening on the basis of soaring imports despite sound FDI inflows. Nonetheless, foreign exchange reserves provide sufficient import cover at about four months. Gradual currency weakening is expected, as external debt service payments have grown significantly.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

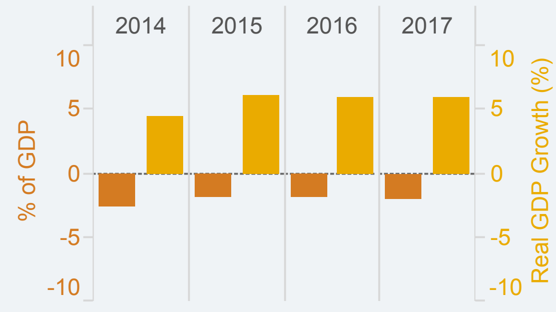
President Sirisena has pledged to reverse and review policies implemented by the predecessors in an effort to clean house. This may result in more investment opportunities for companies from the United States and Europe, as well as Indian investors. Indiscretions of the previous government include a centralization of power and interference in the judiciary. There are claims that some contracts were awarded to foreign suppliers without a transparent bidding process. The current government is pledging to review the legality of cases of expropriation under the previous regime.

Sovereign

Sovereign Probability of Default

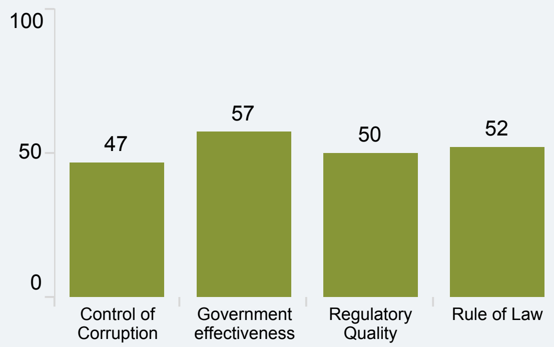
Budgetary consolidation efforts are underway, alongside the new government's attempt to address corruption and transparency. The mid- to longer-term growth trajectory is fairly solid. The previous regime's Finance Ministry has been accused of misreporting, which suggests that some consolidation efforts and budgetary constraints were needed. External debt repayments have jumped in recent years, which may require Sri Lanka to seek IMF assistance again. A repeat of an intensive Sinhalese/Tamil conflict is unlikely in the foreseeable future. The government has promised broad-based governance reforms; however, the pace of reform has been sluggish.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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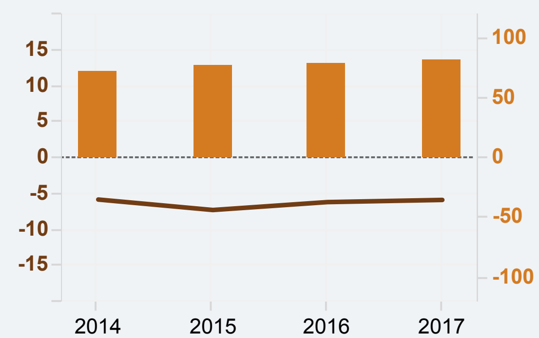
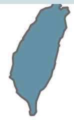
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Taiwan



Short-Term Commercial

Risk Rating **Payment Experience**

Taiwan's economy depends heavily on exports and continues to be dragged down by slowing growth in key trade partners such as China and Japan. Nevertheless, payment delays or a significant deterioration of the business environment is not expected. Taiwan's FX reserve base is massive, and USD liquidity should not be a concern. The currency is expected to remain largely stable against the USD. The decisive mandate by which the opposition party (out of power since 2008) won both the presidency and legislature in the January 2016 elections suggests room for critical reforms. However, near-term growth prospects will not see policy support until after the May 2016 inauguration of the new government

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

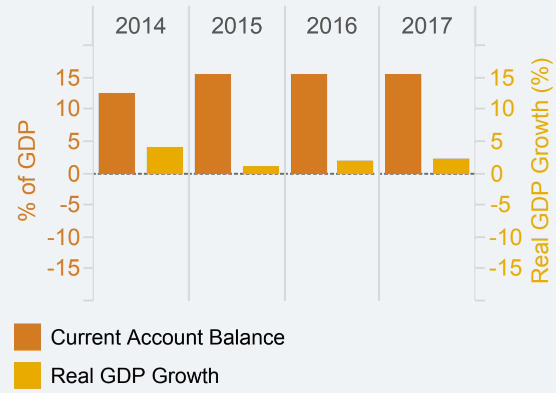
Strong institutions support the business environment. Transparency, rule of law, and the World Bank's ease of doing business ratings are impressive. Taiwan's economy is highly integrated with China's, but will also see increasing competitive pressure as Chinese (and regional) firms move up the value chains and vertically integrate, especially in the semi-conductor and high-tech industries. The newly elected government has pledged to re-invigorate the economy and increase competitiveness. Planned financial sector and high-tech reforms will provide opportunities for Canadian companies over the medium-long term.

Sovereign

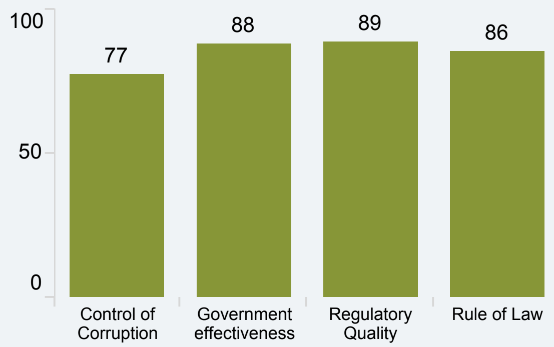
Sovereign Probability of Default

The macro economy is dynamic and mature and is supported by strong institutions as well as high per-capita income levels. The government typically runs small fiscal shortfalls, but government indebtedness is low. Taiwan is a net creditor due to a massive foreign exchange arsenal. Cross-straits relations, which had been mostly stable during recent years, will likely be more uncertain as the new government takes control and attempts to define the parameters of the highly complex Sino-Taiwan relationship.

Current Account and Economic Growth

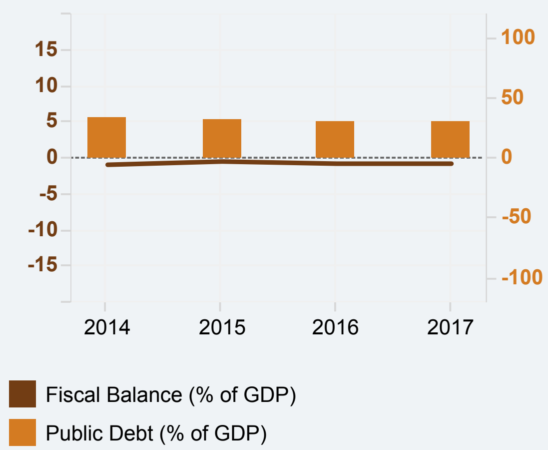


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Thailand

Short-Term Commercial

Risk Rating **Payment Experience**

Thailand's economy continues to underperform due to sluggish domestic demand, weak private investment, soft exports, as well as policy and political risks. The currency, which has weakened by about 13 per cent since January 2015, will continue to be under pressure over the next few months. While sizeable FX reserves help absorb shocks, US Federal Reserve rate tightening can impose near-term challenges, given Thailand's reliance on portfolio investments to fill budget shortfalls. Military control is likely to preserve stability in the near term. However, the underlying socio-political structural issues remain unresolved.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

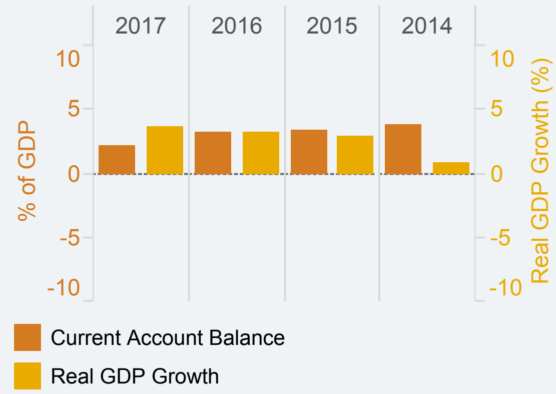
In addition to the sharp socio-political divide that brought about the May 2014 coup, political violence risks are driven by a separatist insurgency in the south. Bombings in Bangkok in August 2015 appear unrelated. Expropriation risks reflect the deeply politicized business environment and suspension of the constitution. Given the nature of the political divisions, the business environment can become politicized. Government procurement is prone to favouritism. Thailand boasts a more developed industrial fabric than many of its ASEAN neighbours, but an increasingly expensive and under-skilled workforce is quickly eroding its competitiveness.

Sovereign

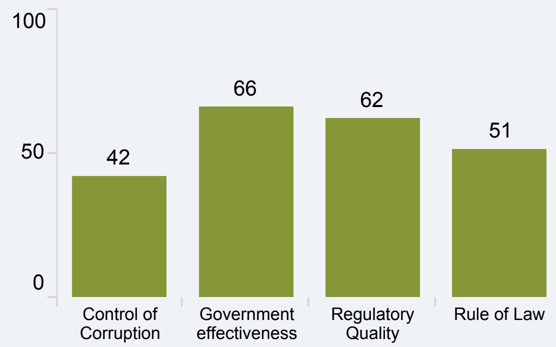
Sovereign Probability of Default

Medium- to long-term political stability is elusive due to deeply rooted tensions within Thailand's society and political system. The country's military-led government, which took power after the May 2014 coup d'état, is pinning its hopes on large-scale infrastructure investment to support economic growth and boost its legitimacy. Strong military control, continued postponement of elections, and attempts to alter the constitution to diminish role of the elected representation has the potential to stir unrest. Over a decade of ongoing political instability is taking its toll on Thailand's competitiveness. Macroeconomic growth will continue to underwhelm.

Current Account and Economic Growth



World Bank Governance Indicators



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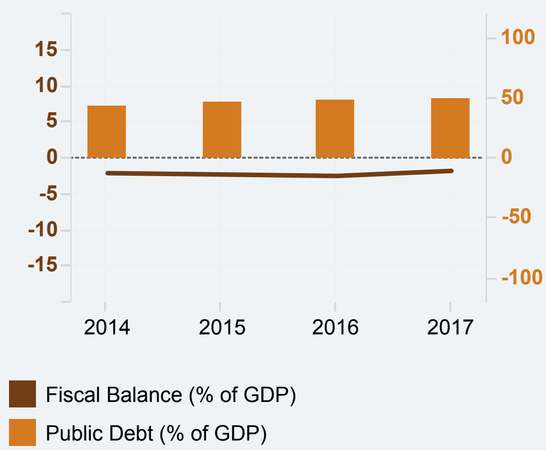
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Vietnam

Short-Term Commercial

Risk Rating **Payment Experience**

Exports and FDI inflows have improved Vietnam's short-term outlook, helping the country exceed growth expectations. Exports have diversified and are moving up the value chain. Inflation and the currency have been relatively stable in view of the recent devaluation and widening of the currency band. Foreign exchange reserves provide limited import cover at just under three months, and would be insufficient to defend the peg over a prolonged period. Vietnam remains vulnerable to domestic and external economic shocks; a drop in FDI could pose a significant foreign exchange crunch and lead to payment delays.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

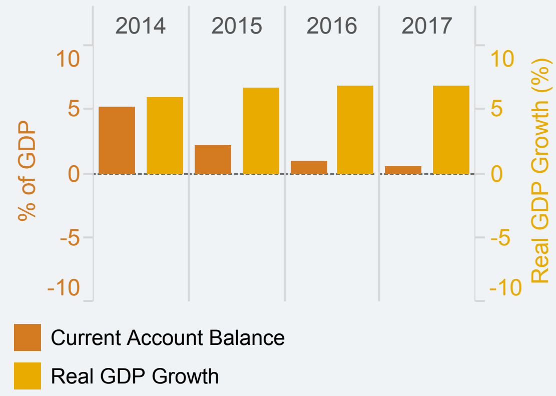
State-owned enterprises and banks dominate the economy and continue to struggle with bad loans. Transfer and convertibility risks reflect weak macroeconomic fundamentals, including low foreign exchange reserves and ad hoc policy measures that restrict use of hard currencies. The lack of transparency in government procurement and low capacity in policy development increase expropriation risks. Nonetheless, Vietnam is focused on liberalizing its markets, and has recently expanded its cap on foreign ownership up to 100 per cent in certain sectors to boost FDI. This move may help galvanize the country's privatization of state-owned companies, but implementation will be key.

Sovereign

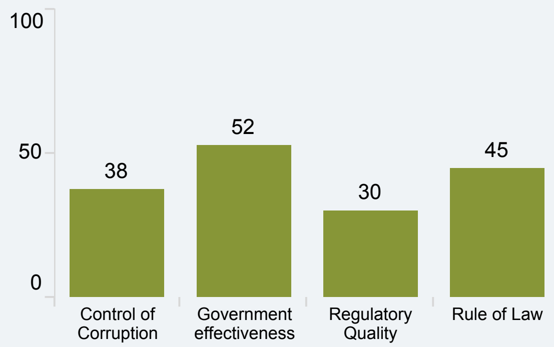
Sovereign Probability of Default

The need for deep structural reform dominates Vietnam's sovereign risk profile. Years of unsustainable credit growth and poor governance in the state-heavy financial sector have left state-owned banks with non-performing loans, which weigh on long-term growth. Vietnam's economy remains highly vulnerable to macro event risks. Should a crisis unfold, government capacity to respond will be limited by these structural issues. Nonetheless, Vietnam's signature of a free trade deal with the EU as well as membership in the TPP should boost competitiveness and spur economic growth over the medium-long term.

Current Account and Economic Growth



World Bank Governance Indicators



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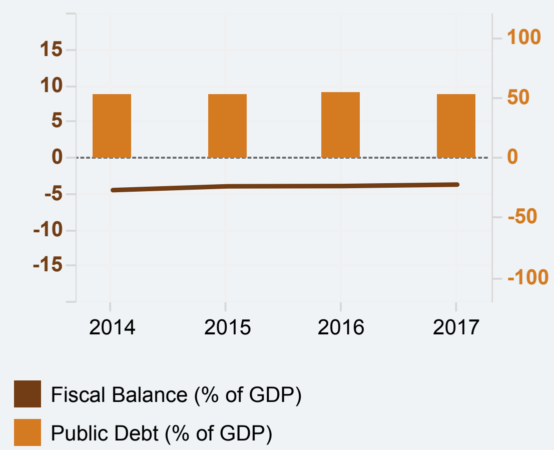
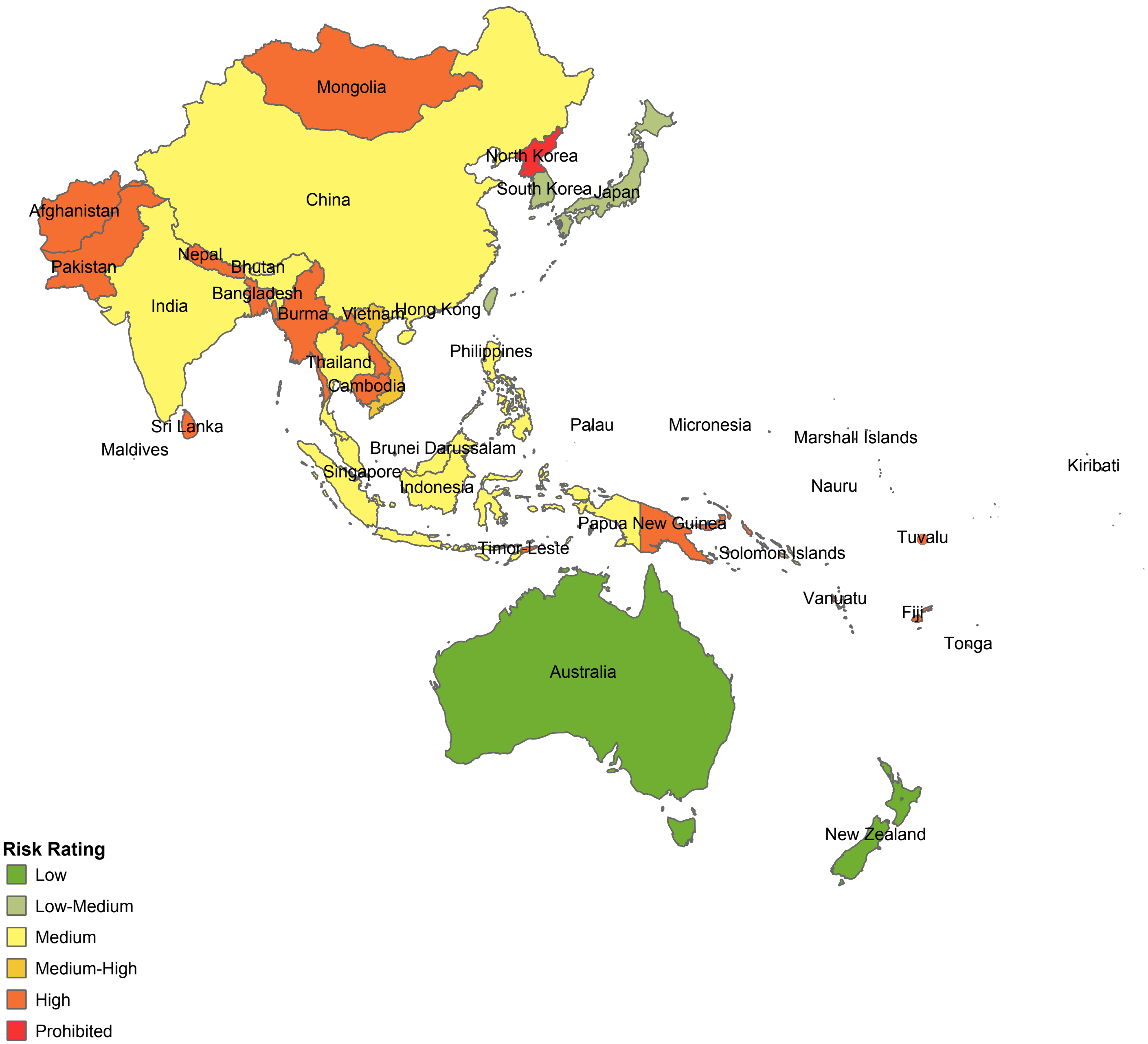
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

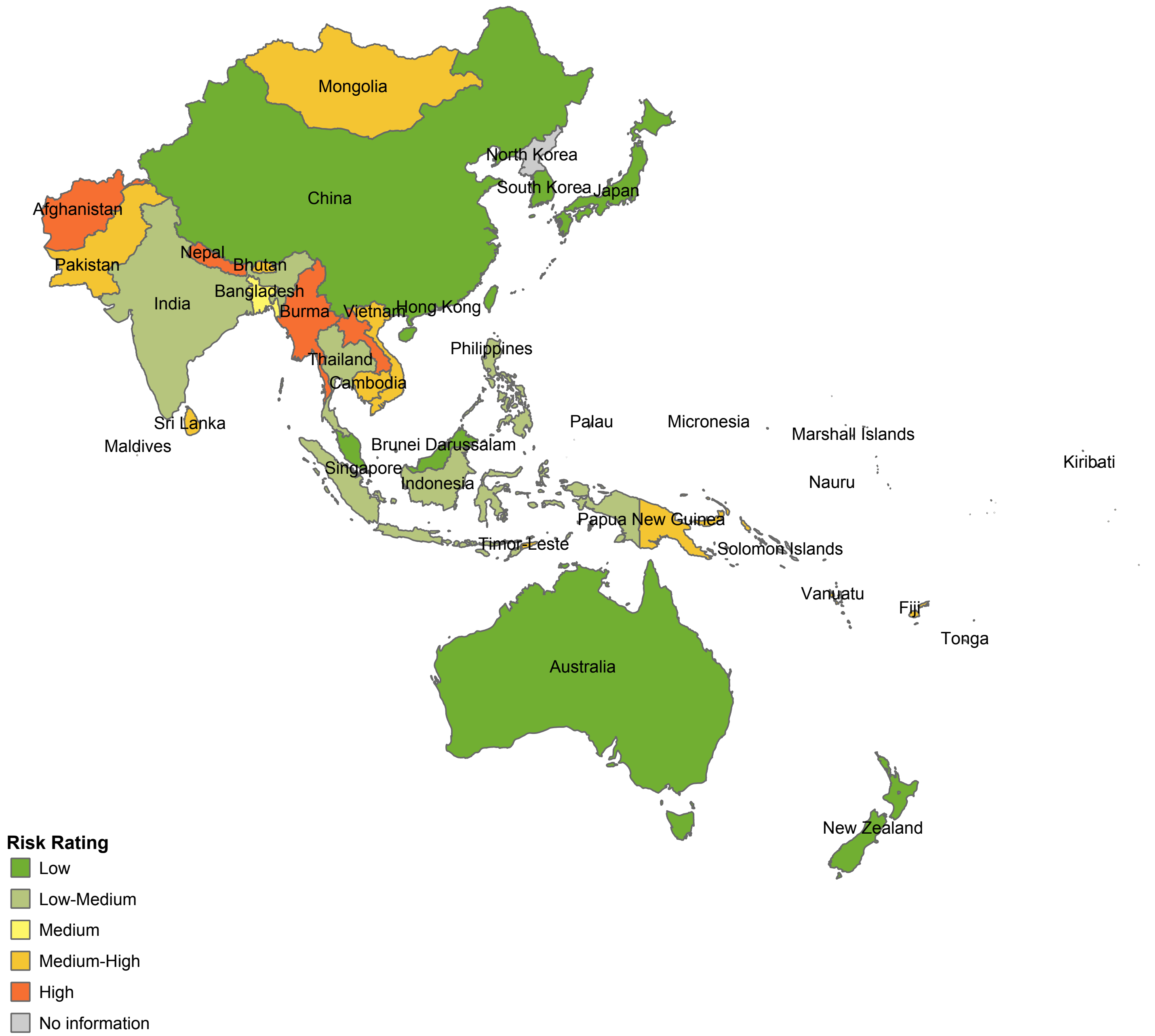
Asia

Short Term Country Risk Rating



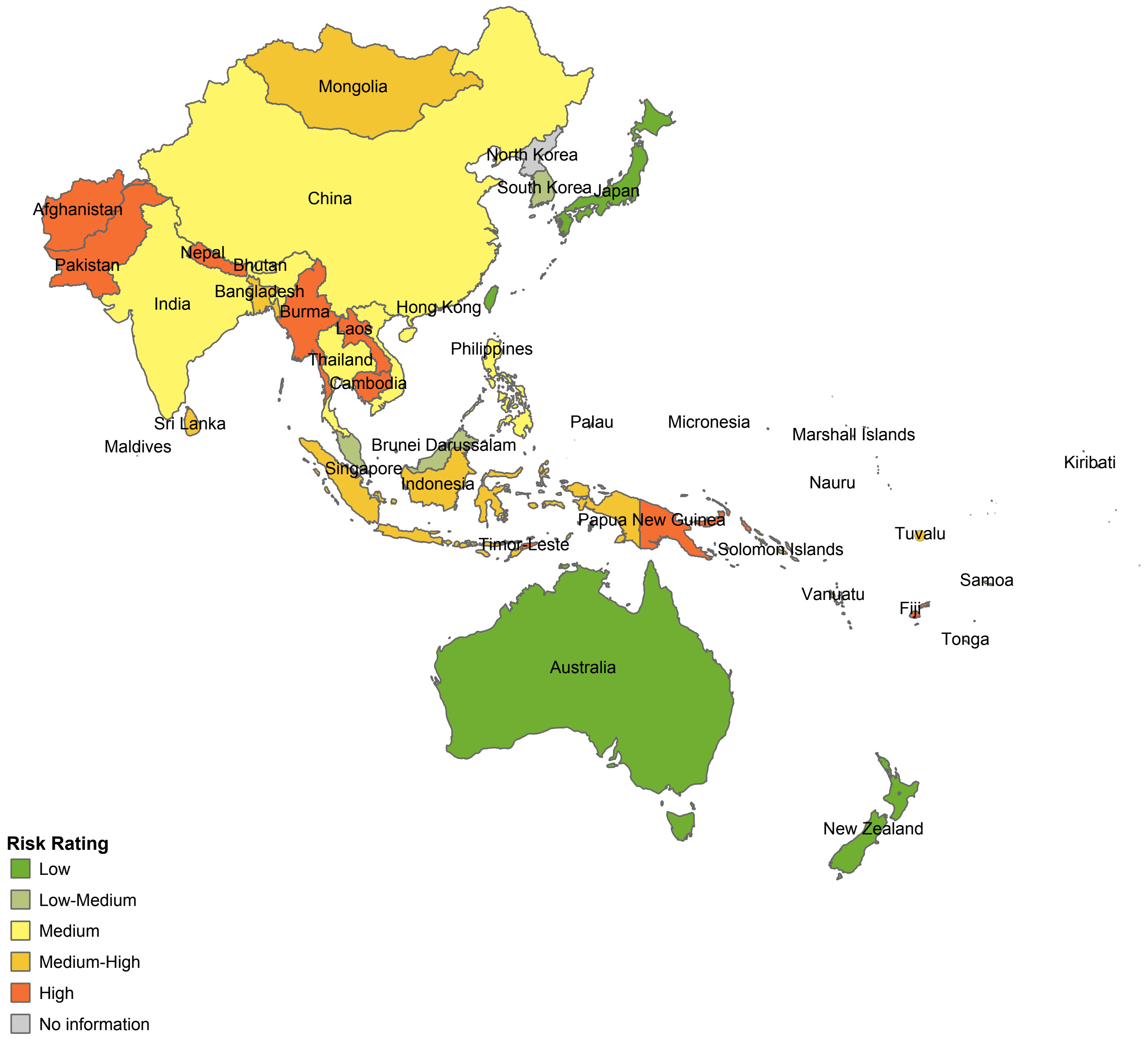
Asia

Commercial Country Ceiling



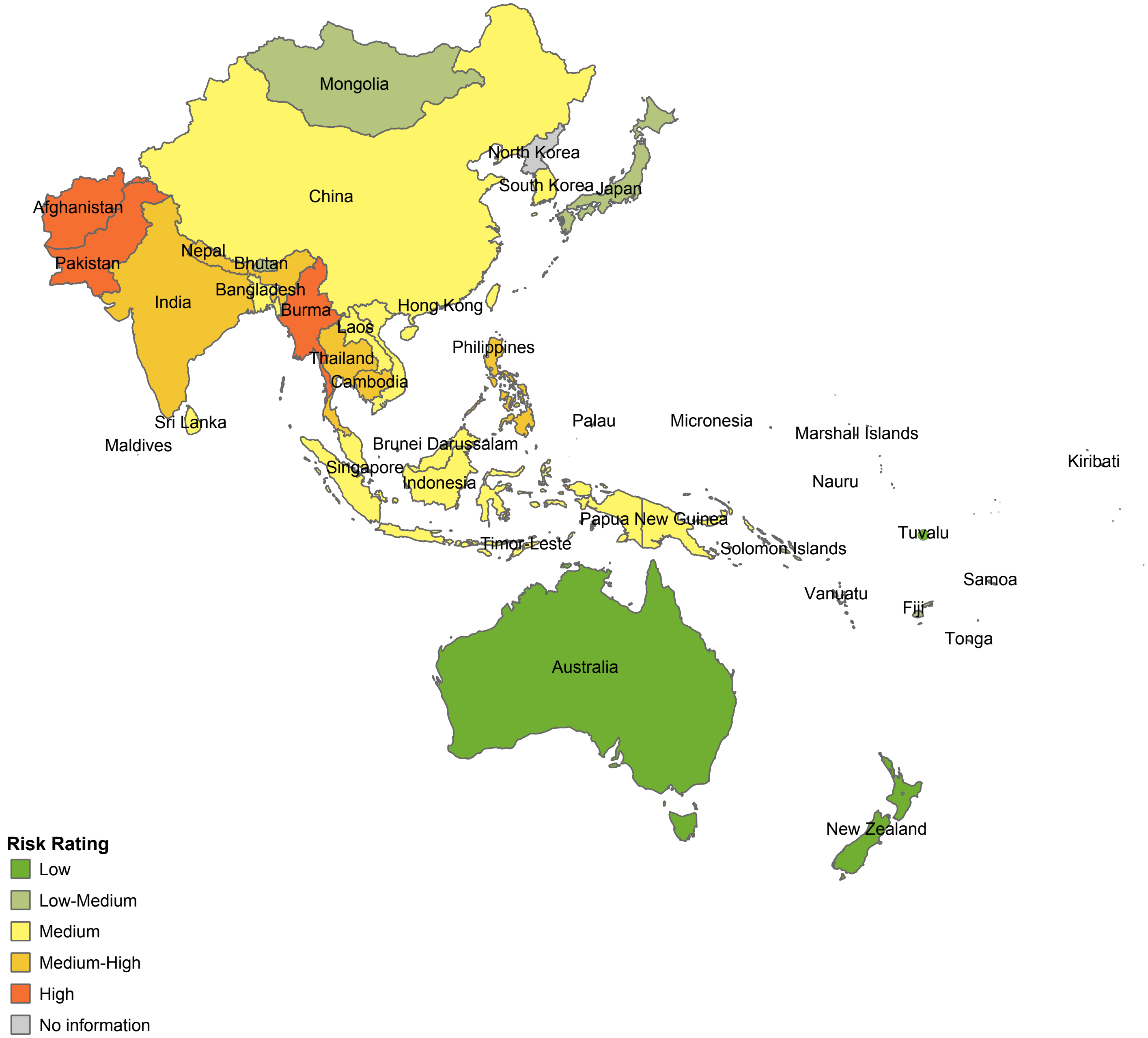
Asia

Expropriation Market Rating



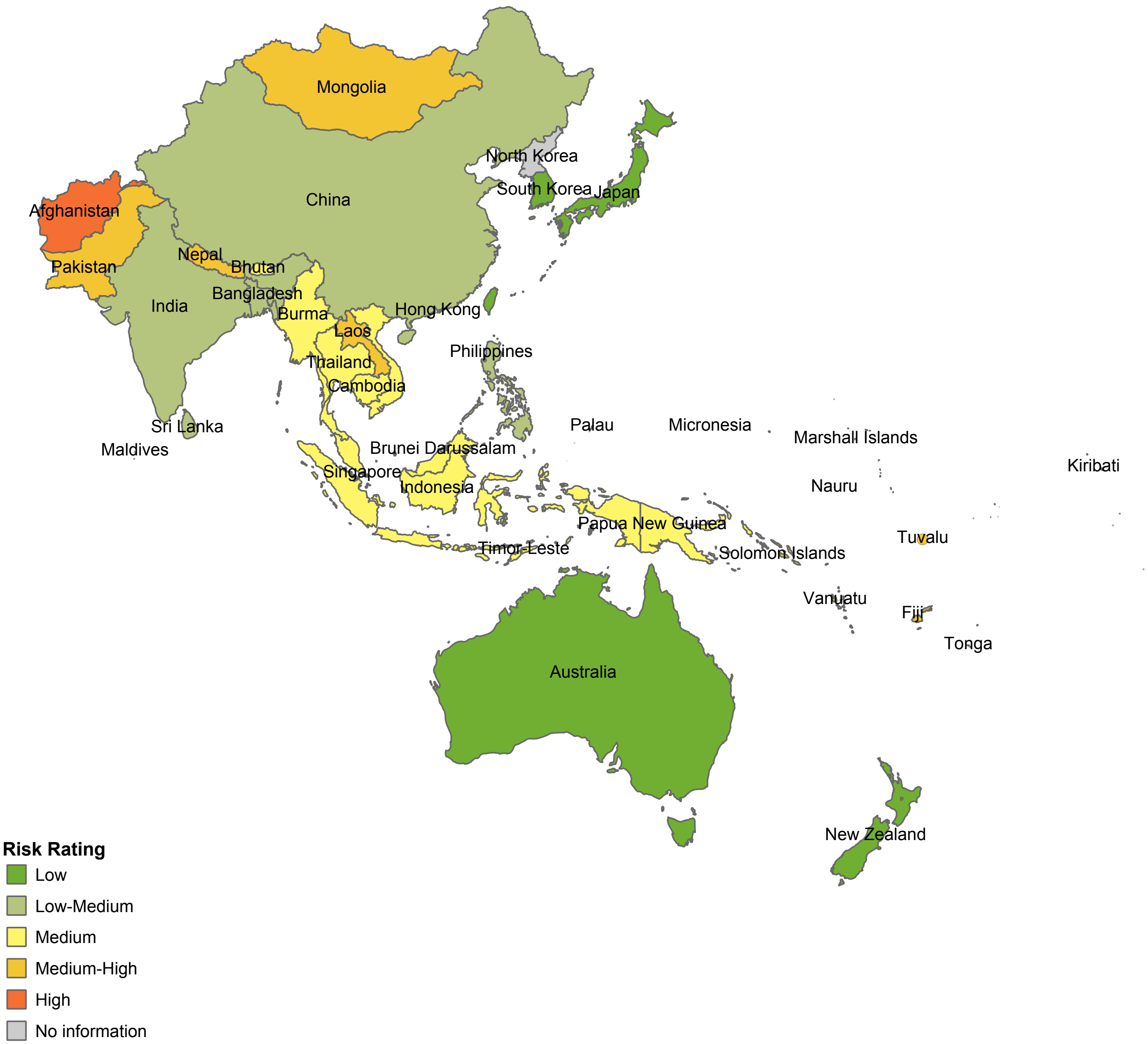
Asia

Political Violence Market Rating



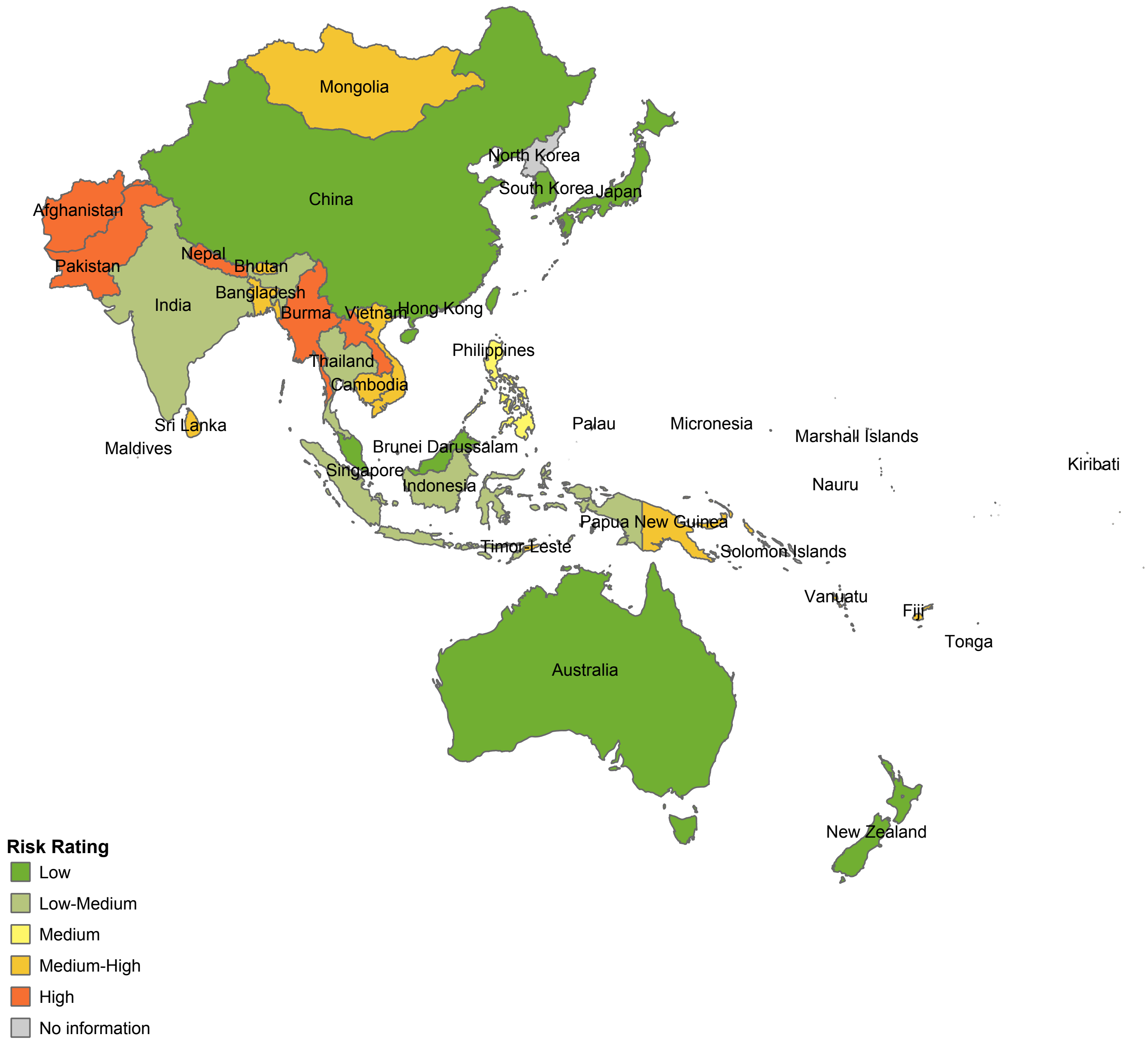
Asia

Transfer and Conversion Market Rating



Asia

Sovereign Rating



Europe

Upside Risks (+)

If demand fundamentals overshadow the winter market tantrum, the consequence will be market stability leading to an economic rebound in the US and EU. A broader global economic recovery may ensue, as capital outflows from emerging markets alongside currency depreciation abate.

Successful renegotiation of the UK's membership in a reformed EU could galvanize electorate support for the "Remain" vote, thereby eliminating fears of a messy EU break-up. Calmer global financial markets, improved economic prospects, and increased policy effectiveness would alleviate political pressures in key European countries that are facing challenging electoral calendars. As well, a successful first review of Greece's third debt bailout program, a satisfactory debt relief proposal by EU creditors, and confirmation of IMF involvement in the program could assuage fears of a future crisis in the Eurozone.

A gradual de-escalation of the Russia-Ukraine crisis – supported by the sustained ceasefire agreement – could translate into lower financial sector risks, and help bolster currency stability in Ukraine, Russia, and CIS countries.

Downside Risks (-)

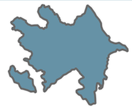
In the absence of robust economic growth, if the US Federal Reserve raises interest rates faster than expected, increasing global financial market tantrums could materialize, leading to a protracted environment of risk aversion. EU growth may falter. Capital flows out of emerging Europe could pressure already weak currencies, thereby exacerbating external vulnerabilities and domestic instability. Countries with inflexible exchange rate regimes may be forced to abandon these policies amid heightened uncertainty. Additional ratings downgrades would be possible for countries unable to adjust.

Political discord and pressure from surging Eurosceptic parties may lead to sub-optimal policy responses to myriad of crises affecting the very identity of the European Union. Risks include the Brexit referendum, the threat to the Schengen Area posed by the refugee crisis, mounting terrorism, and emerging signs of banking sector fragility. These challenges could derail the cyclical economic recovery, reignite fears of financial crisis, and shift the established political landscape.

Increased military engagement by regional powers could result in policy missteps and accidents, risking a dangerous escalation of regional instability and tensions between NATO and Russia.

The collapse of the government in Ukraine or inability to advance reforms could delay the IMF and Western financial support, increasing default risk.

Azerbaijan



Short-Term Commercial

Risk Rating **Payment Experience**

Geopolitical risk and a challenging operating environment are key risks facing the commercial sector. Hydrocarbons account for about 95 per cent of export earnings, roughly 70 per cent of government revenues, and about 50 per cent of GDP. Low oil prices have resulted in a sharp decline in FX reserves and ultimately led to currency depreciation and the imposition of transfer restrictions. The manat plunged to 1.55 against the USD by end of 2015, compared to 0.78 against the USD at the start of the year.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

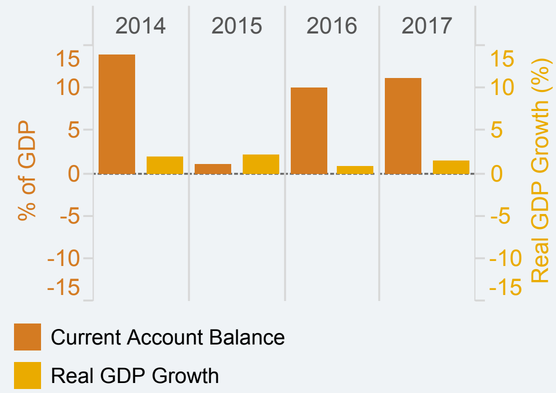
The business environment is characterized by the state's prevalent involvement in the economy and corruption concerns. The banking sector remains weak, with a high level of non-performing loans. Additionally, the protracted period of low oil prices may lead to a further deterioration in banking sector assets. Expropriation risk is driven by the weak judicial system and regulatory bodies. Political violence risks stem from the long-standing territorial dispute with Armenia over Nagorno-Karabakh. Any further intensification of the conflict will likely be characterized by additional skirmishes as opposed to a large-scale military confrontation.

Sovereign

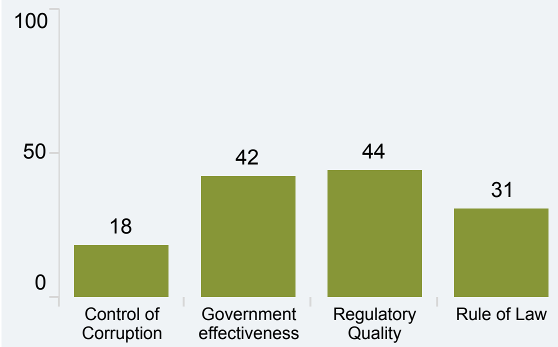
Sovereign Probability of Default

Azerbaijan's fiscal buffers remain sizeable, and public debt is very low. However, deteriorating terms of trade from prolonged lower oil prices have depressed economic growth and hurt external and fiscal balances. Severe currency depreciation has elevated economic uncertainty. The government must continue efforts to diversify the economy to reduce its dependence on hydrocarbons. Political stability will carry on as there is no unified political opposition.

Current Account and Economic Growth

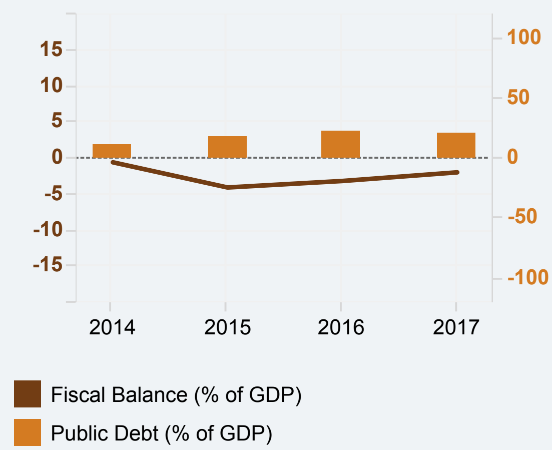


World Bank Governance Indicators



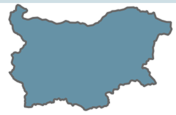
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Bulgaria



Short-Term Commercial

Risk Rating **Payment Experience**

Bulgaria's economy will post three per cent growth in 2016 as net exports rebound and private sector demand picks up. The falling unemployment rate and lower interest rates are supporting consumption gains, while corporate balance sheets have recovered somewhat. Meanwhile, lower oil prices will reduce the oil import bill. The currency peg to the euro remains stable.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

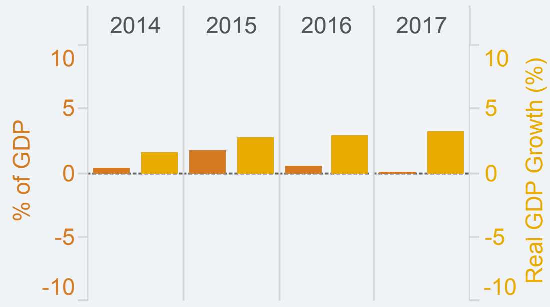
The currency board arrangement underpins macroeconomic stability, and is expected to remain in place until eventual euro adoption. Bulgaria is somewhat exposed to shifts in investor sentiment due to its high exposure to the European Monetary Union (particularly Greek banks). Corruption, organized crime, and a weak court system remain key challenges facing the corporate sector. The new government is expected to take a more business-friendly approach.

Sovereign

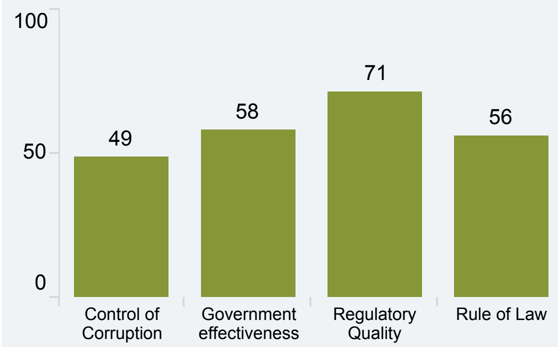
Sovereign Probability of Default

Although external debt is significant, it is easily financed due to the currency peg, healthy FX reserves, and fairly modest current account balances which provide stability. The government's debt burden is quite manageable amid low fiscal shortfalls, though populist spending can be expected due to the minority government. There are growing risks of anti-government protests tied to corruption and environmental concerns. Fortunately, EU membership provides a solid offsetting policy anchor.

Current Account and Economic Growth



World Bank Governance Indicators



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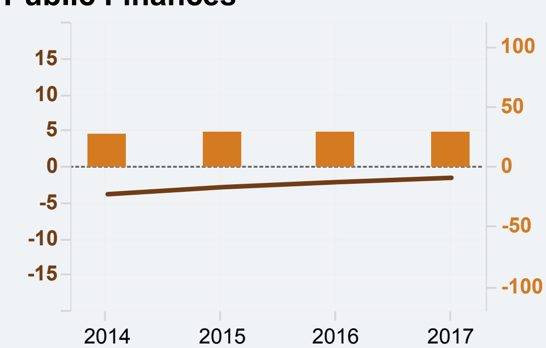
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Croatia

Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth remains weak. After declining for six straight years, GDP is posting only meager gains. The sluggish euro-area recovery and weak domestic demand are behind the poor performance. Fiscal consolidation and ongoing private sector deleveraging are weighing down growth. The financial sector is dominated by foreign banks and is quite sound. Nevertheless, non-performing loans are on the rise, and many companies have significant exposure to foreign exchange risk. Currency volatility cannot be ruled out in the coming year.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

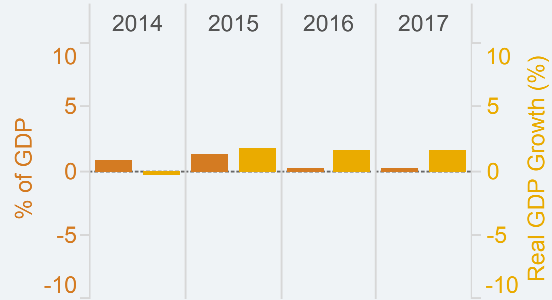
Croatia became an EU member in 2013, and improvements in the business-operating environment are expected to continue. However, administrative barriers in the trade sector for non-EU members could remain onerous. Croatia's economy is highly euroized. The total external debt will clock in at 112 per cent of GDP in 2016, but should gradually taper off by 2020. This leaves the country vulnerable to external shocks. Overall transfer risk is quite low, but corruption concerns drive expropriation risk higher. Political violence risk is also fairly low.

Sovereign

Sovereign Probability of Default

Public sector finances have deteriorated significantly following the application of new accounting rules. Public debt and the fiscal deficit are expected to remain above 90 per cent of GDP and four per cent of GDP respectively over the medium term. These ratios are on the high side. Prolonged economic weakness has complicated fiscal consolidation efforts, and austerity fatigue is setting in, clouding the prospect for introducing needed reform. Croatia has access to EU transfer funds of about three per cent of GDP per year, but its ability to meet the investment requirements is unclear.

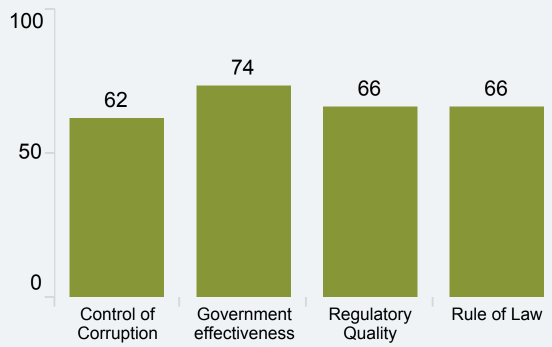
Current Account and Economic Growth



Current Account Balance

Real GDP Growth

World Bank Governance Indicators



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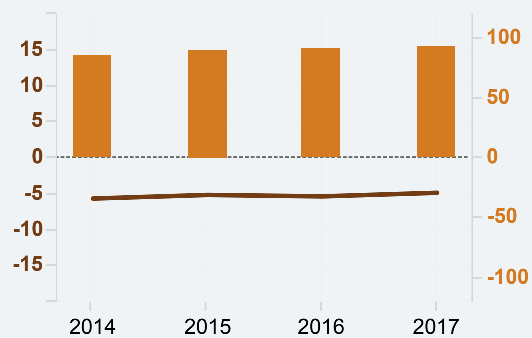
Public Finances

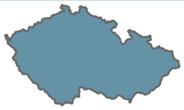


Fiscal Balance (% of GDP)

Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Czech Republic



Short-Term Commercial

Risk Rating **Payment Experience**

The Czech economy will grow by approximately 3.5 per cent in 2016, driven by resurgent domestic demand, export growth, as well as lower import costs linked to weak energy prices. Inflation will remain subdued despite the central bank's commitment to keeping the currency weak through record low interest rates and an exchange rate commitment. The krona has strengthened against the euro due to European Central Bank implementing its quantitative easing program. Imported Russian energy remains a key concern, as any escalation in geopolitical tensions could result in supply disruptions.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

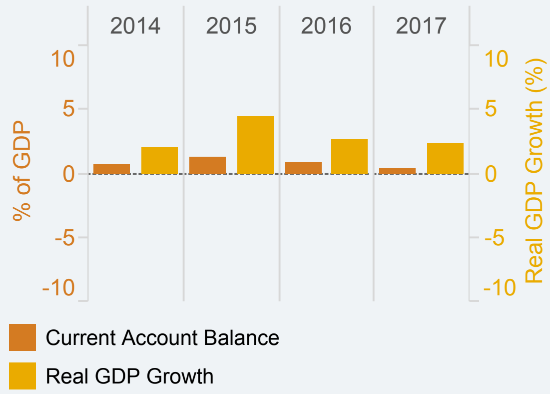
Tensions among members of the ruling coalition, as well as with the opposition, may provide an impediment to reform implementation over the medium to long term, but overall political stability is expected. An EU member since 2004, the legal and judicial systems in the Czech Republic have been aligned with EU regulations and the country is foreign-investor friendly.

Sovereign

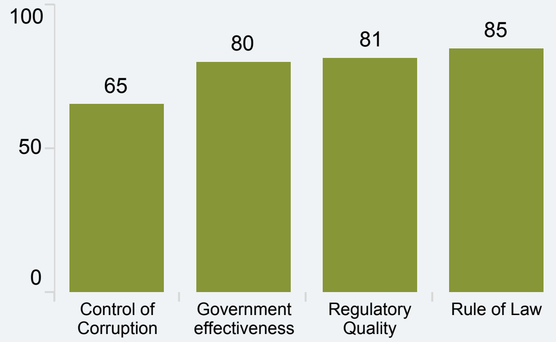
Sovereign Probability of Default

An improved economic growth outlook will support public finances. The fiscal deficit is projected to remain below the EU's three per cent of GDP target, though a slight widening of the deficit is expected in 2016 as the government pursues a populist spending policy. Public sector debt/GDP will peak at 45 per cent in 2016, and has been on a declining trend. Longer-term policy goals are anchored around higher taxes and reduced social transfers.

Current Account and Economic Growth



World Bank Governance Indicators



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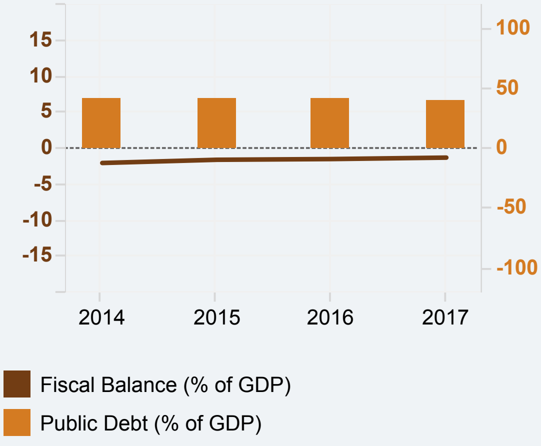
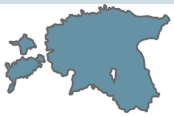
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Estonia



Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth will accelerate to two per cent in 2016. Estonia's main trading partners are the Nordic countries and Germany, but some trade exposure to Russia and the Commonwealth of Independent States (CIS) are weighing on growth. Non-performing loans are falling and domestic credit conditions are improving. Estonia's currency is the euro, thereby minimizing foreign exchange risk.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

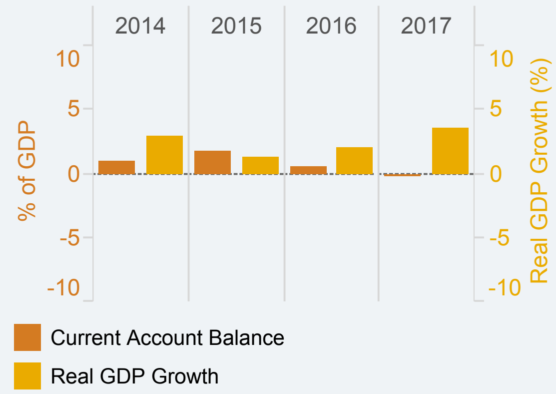
As a member of the European Monetary Union (EMU), Estonia uses the euro and maintains a very business-friendly environment for foreign companies. Eurozone membership virtually eliminates transfer risks and significantly mitigates risk of expropriation. Despite the rise in Russia's military presence in the region, political violence risks are also quite low due to Estonia's membership in NATO.

Sovereign

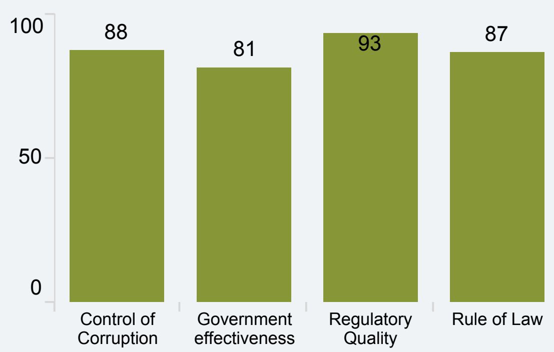
Sovereign Probability of Default

Public sector debt is low, at about 10 per cent of GDP. Despite a projected slight deterioration in the fiscal balance in 2016, overall debt dynamics are favourable. Estonia's economic prospects are positive. The government has established a very strong track record of fiscal management, which is expected to continue. Although the political system has been fractious, policy continuity is expected to prevail.

Current Account and Economic Growth



World Bank Governance Indicators



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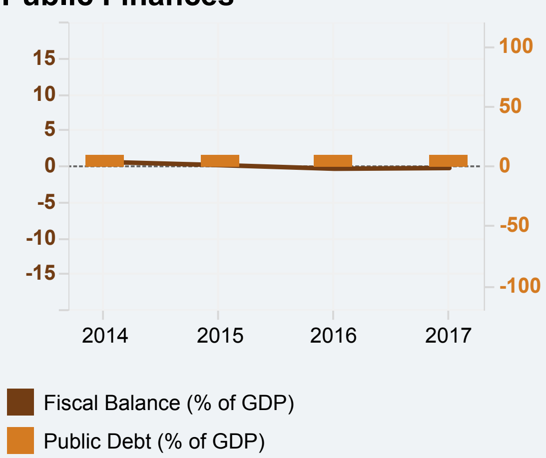
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

France

Short-Term Commercial

Risk Rating **Payment Experience**

France's short-term economic growth outlook remains positive but lackluster, and will continue to underperform regional peers. Rising consumer confidence, low oil prices, and positive credit growth offer tailwinds to domestic consumption. Expansionary monetary policy and the weaker euro are supportive of the regional economic upswing, lifting external demand. However, structural weaknesses in the French economy, including high unemployment and competitiveness challenges, will restrain growth. The recent approval of measures, such as the Macron Law labour market reform and measures to tackle high unemployment and deregulate goods and services markets, should lead to competitiveness gains.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

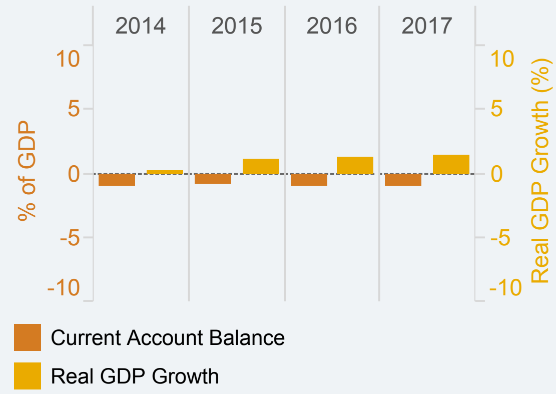
France has a great number of highly successful world-class companies and a sound banking sector. The relative lack of robust business investment growth, the key missing link in France's economic growth story, is a drag on competitiveness and potential long-term economic growth. Many of the factors supporting the current economic upswing are expected to fade over time, making the medium- to long-term growth prospects contingent on the implementation of deeper structural reforms. Despite recent efforts, more ambitious reforms are needed to reduce market rigidities and high unemployment.

Sovereign

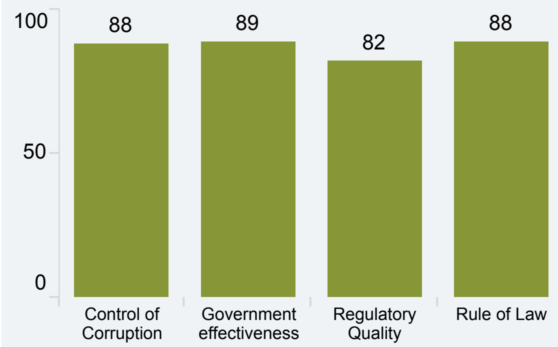
Sovereign Probability of Default

France is expected to continue facing challenging public debt dynamics over the next two years. Government debt as a share of GDP will peak in 2016 at almost 100 per cent, while the fiscal balance is projected to fall below the EU's Maastricht Treaty threshold of three per cent of GDP only in 2017. Deeper reforms are urgently needed to balance the budget and boost debt sustainability. Improved economic and fiscal prospects are among key priorities for a government facing increasingly popular opposition parties ahead of the 2017 presidential election, an influx of immigrants to the EU, and the threat of terrorism following the recent attacks.

Current Account and Economic Growth

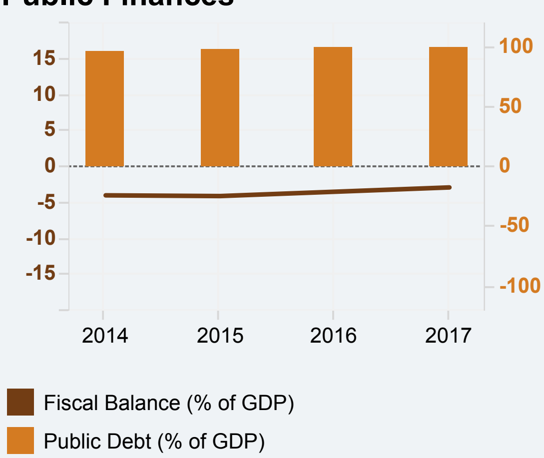


World Bank Governance Indicators



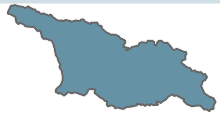
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Georgia



Short-Term Commercial

Risk Rating **Payment Experience**

Georgia's large current account shortfall is expected to narrow in 2016 due in part to lower oil prices and a gradual recovery in external demand. Despite downside economic risks due to the challenging external environment, Georgia is relatively less sensitive to shifting global financial market sentiment. It is also less exposed through trade links to the troubled Russian economy compared to regional peers. Nevertheless, weaker regional currencies have dragged the lari lower, and further weakening is possible in 2016. Georgia’s Comprehensive Free Trade Agreement signed with the EU in 2014 will support trade and investment.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

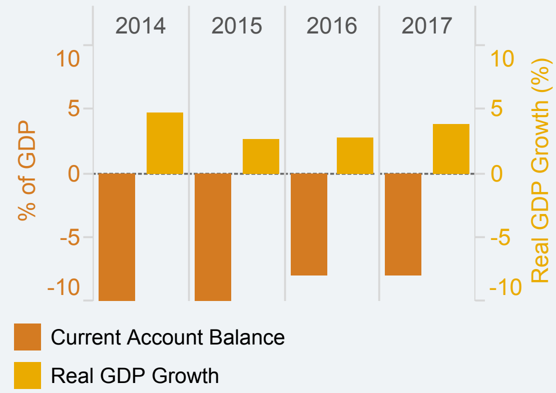
The commercial environment has strengthened due to the continued and firm commitment by the government to improve the operating environment, including judicial independence and alignment with EU regulations. It is worth noting that the country has already taken significant steps to increase foreign direct investment, and the move to deepen Georgia's integration with the European Union should help speed up this process. Political violence risks stem from the ongoing tensions with Russia over the breakaway regions of South Ossetia and Abkhazia.

Sovereign

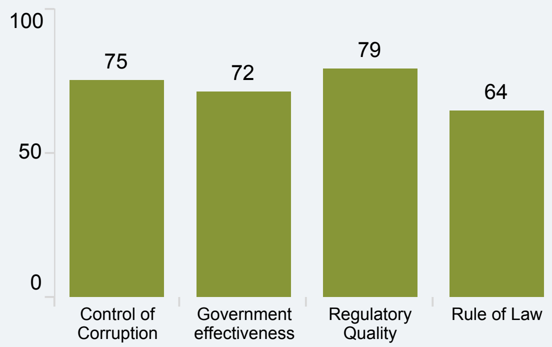
Sovereign Probability of Default

Georgia’s modest public debt of 45 per cent of GDP and its fiscal deficit of three per cent of GDP are projected to continue to improve. Georgia’s Stand-By Agreement with the IMF targets the reduction of external and fiscal vulnerabilities while promoting inclusive growth. However, relations with the Fund are mixed, due to differences in program goals and objectives. The Georgian government is committed to deepening its European integration, including militarily through its ambitions to join NATO.

Current Account and Economic Growth



World Bank Governance Indicators



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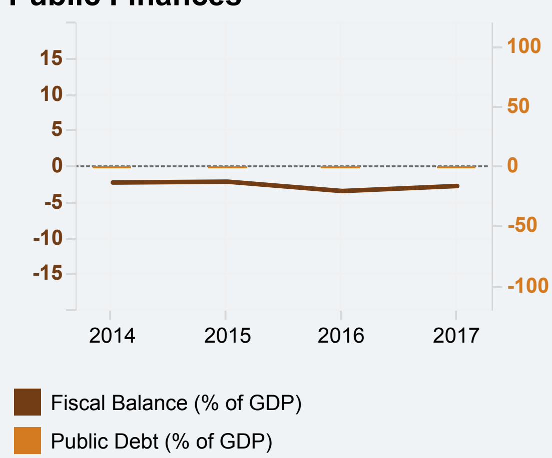
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Germany

Short-Term Commercial

Risk Rating **Payment Experience**

Germany is Europe's safe haven given its healthy public and private finances, large current account surpluses, and highly competitive and dynamic business sector. The economy is forecast to grow by 1.7 per in 2016 and 2017 as it benefits from the cyclical upswing in the Eurozone and US economies, the low interest rate environment, the depreciated euro, and low oil prices. Strengthening domestic demand supports the ongoing rebalancing away from over-reliance on exports, although Germany remains susceptible to any slowdown in demand for its exports from emerging markets. That said, robust macroeconomic and policy fundamentals support resilience to external shocks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

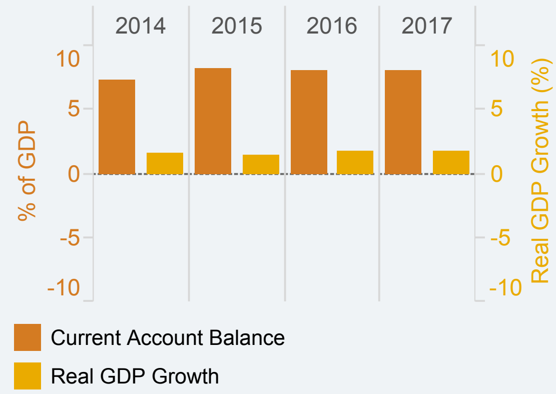
Germany's economy is highly diversified and competitive, making its commercial sector resilient to external shocks. High levels of productivity and efficiency may suffer as German wages are rising faster than those of the rest of the Eurozone. However, it will take many years for Germany's huge competitive advantage to erode.

Sovereign

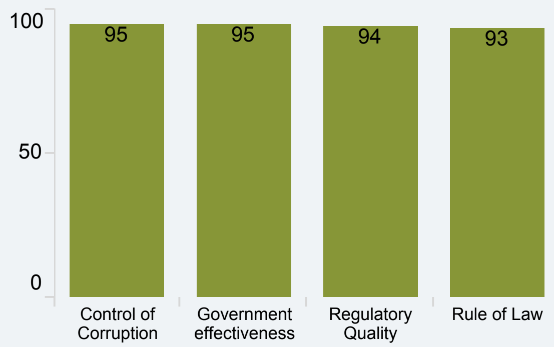
Sovereign Probability of Default

Germany's public finances will remain healthy compared to its Euro area peers, and the fiscal trajectory is favourable. As a percentage of GDP, public debt will decline to 58 per cent by 2020. Furthermore, Germany's low funding costs will ensure that the debt servicing requirements remain affordable. The German government is facing political challenges from the migrant crisis affecting the EU.

Current Account and Economic Growth



World Bank Governance Indicators



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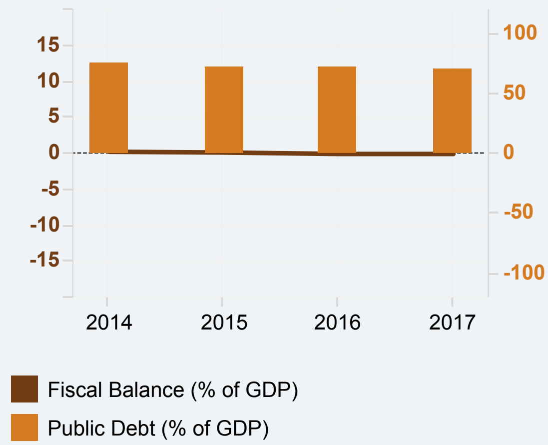
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Greece

Short-Term Commercial

Risk Rating **Payment Experience**

The Greek economy has fallen back into recession, dragged by the impacts of the imposition of capital controls and newly implemented austerity measures. Relations with EU creditors have improved, and Greece has made progress in legislating reform commitments to implement its third bailout program. The next hurdle will be negotiating and implementing reform to the pension system, a key requirement for concluding the first program review and kick-start negotiation on possible debt relief. Major systemic banks have been recapitalized. Capital controls are expected to remain in place in the short term and any relaxation is likely to be gradual.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

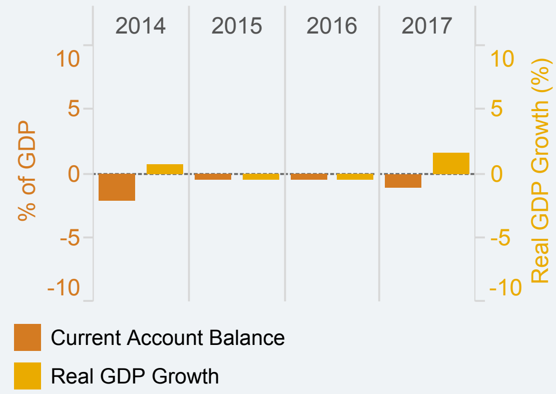
The health of the commercial sector is largely tied to the sovereign debt situation and a successful implementation of the debt bailout program. Transfer and inconvertibility risk is driven by the challenging liquidity situation facing the banking sector, given the imposition of capital controls. The new financial rescue program supports the prospect of stabilization and recovery in the medium term. The Greek parliament has passed significant structural reforms as required in the bailout program, which should result in long-term benefits. That being said, program implementation risk will remain significant.

Sovereign

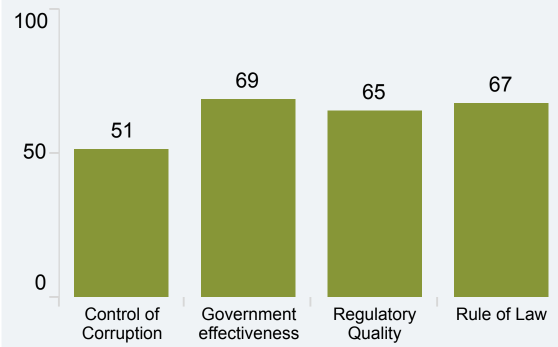
Sovereign Probability of Default

Greece's public debt is high, and long-term sustainability is contingent on successful implementation of the third bailout program, in addition to the extent of debt relief granted by creditors. The government has implemented a series of reforms and austerity measures, which will weigh on short-term growth but could provide longer-term benefits. However, the government's majority position has dwindled and could be threatened by unsuccessful pension reform negotiations, program review by creditors and debt relief shortfalls. Implementation risk remains elevated, especially as the Syriza government's parliamentary majority is slim and can be threatened by discontent over austerity measures.

Current Account and Economic Growth



World Bank Governance Indicators



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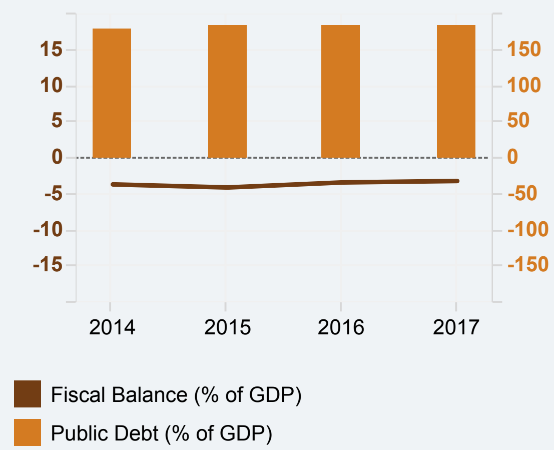
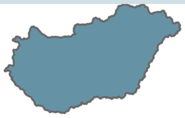
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Hungary



Short-Term Commercial

Risk Rating **Payment Experience**

Continued forint weakening and volatility cannot be ruled out in 2016. Although economic recovery continued in 2015, supported by improved sentiment and pro-cyclical policies, the outlook is subject to uncertainty. Key external vulnerabilities remain, including high foreign currency-denominated debt which is expected to clock in at 110 per cent of GDP in 2016. This could result in sharp capital flow reversals as a result of shifts in investor sentiment. Bank lending will remain depressed due to revenue losses from the introduction of new laws on the conversion of foreign-denominated loans into forints.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

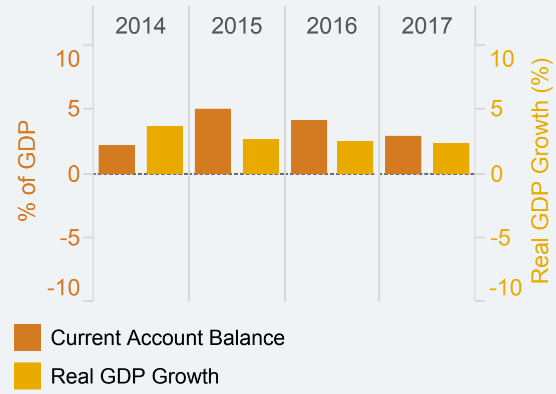
The overall commercial sector is vulnerable to exchange rate risk given the large share of foreign exchange-denominated loans. Shifting government policies have increased the level of unpredictability for investors and hurt the business environment. Increased government interference linked to a pro-cyclical policy agenda is possible.

Sovereign

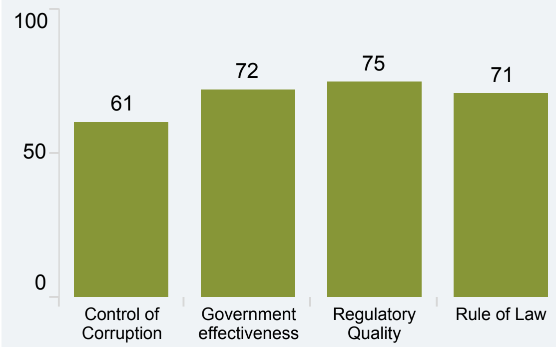
Sovereign Probability of Default

Public sector debt is expected to trend lower from about 80 per cent of GDP in 2016 to about 70 per cent by 2020. The authorities will hold fiscal shortfalls in the two to three per cent of GDP range while moderate growth is projected over the forecast. The EU has been critical of the policy direction of the government over the past few years, particularly in the areas of central bank independence and discrimination against foreign companies.

Current Account and Economic Growth



World Bank Governance Indicators



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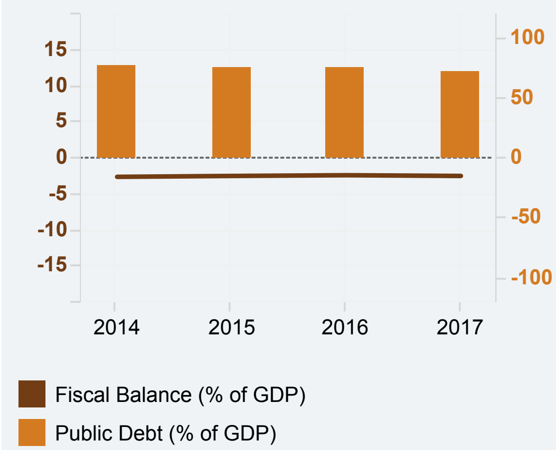
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Italy

Short-Term Commercial

Risk Rating **Payment Experience**

Following three years of contraction, the Italian economy grew by a modest 0.6 per cent in 2015 and is expected to grow in the 1.2-1.4 per cent range this year and next, underperforming the Eurozone average. This moderate growth is underpinned by improving domestic demand and confidence, monetary easing by the ECB supporting liquidity and a weaker euro, low commodity prices, and tailwinds from resurgent demand in the Eurozone. Italian banks remain overburdened with high levels of non-performing loans. Additionally, fragile confidence in an effective banking sector resolution process amid new EU bail-in regulations has led to uncertainty regarding potential financial sector stress.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

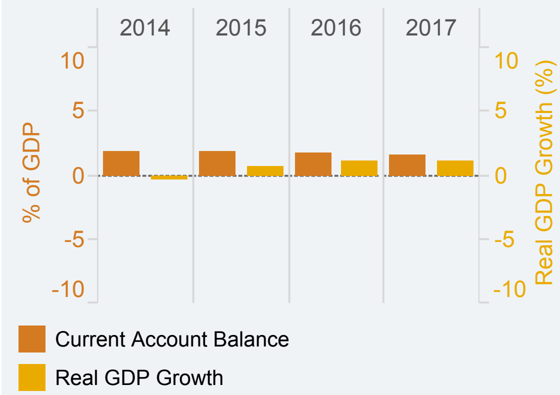
According to the World Economic Forum's Global Competitiveness Report 2015-2016, Italy ranked 43 out of 140 countries. Leading the list of the problems for doing business with the country include inefficient government bureaucracy, tax rates, and access to financing. While declining competitiveness remains a growth challenge, a myriad of reforms are gradually being implemented, holding promise for the medium- to long-term outlook. Italy is both an EU and EMU member, so currency and regulatory risks are minimal.

Sovereign

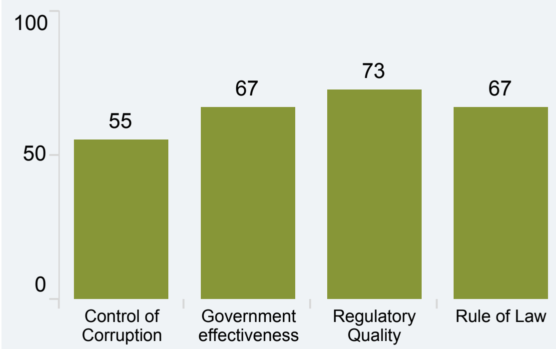
Sovereign Probability of Default

Italy is a wealthy and advanced economy, and there is a high likelihood of intervention by the European Central Bank in case of severe market pressure. The medium-term outlook is for continued weak growth in the one per cent per annum range through 2020. Public debt burden is seen as remaining very high, peaking at 133 per cent of GDP in 2015 and falling gradually in the coming years. Despite the high debt levels, Italy enjoys low debt-servicing costs and limited roll-over risk as about 80 per cent of public debt is domestically held. While the outlook for Italy's banking sector remains subdued, it is unlikely that any contingent liabilities will materialize for the government.

Current Account and Economic Growth



World Bank Governance Indicators



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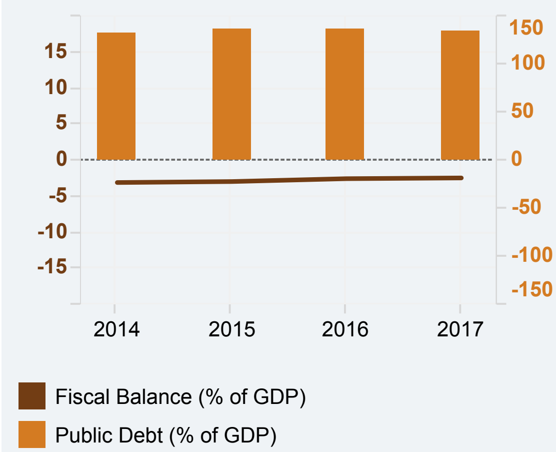
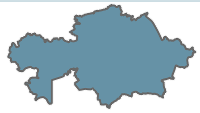
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Kazakhstan



Short-Term Commercial

Risk Rating **Payment Experience**

Kazakhstan's economy is facing strong headwinds from lower oil prices, slower Russian growth, and a weaker Russian ruble, in addition to uncertainty over the Russia-Ukraine conflict. The latest five-year fiscal stimulus plan includes the modernization of physical infrastructure and assistance to the banking sector with the aim of reducing non-performing loans. The authorities allowed the currency to float in August 2015. The tenge plunged 25 per cent overnight against the USD, and has since weakened further due to oil price weakness. Additional depreciation cannot be ruled out.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

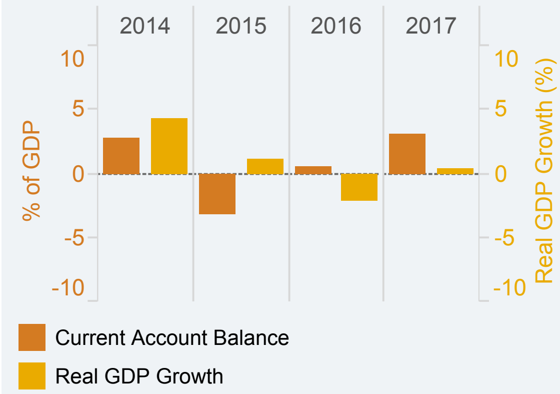
The weak banking sector and high levels of foreign exchange-denominated debt are the key risks facing the commercial sector. The government plays a strong role in the economy, particularly in the strategic energy sector. Despite improvements in the business environment, corruption, and heavy bureaucracy remain issues of concern. The government's decision in May 2014 to nationalize 11 private pension funds has hampered capital market development, and is evidence of the state taking an ever more pervasive stake in the economy.

Sovereign

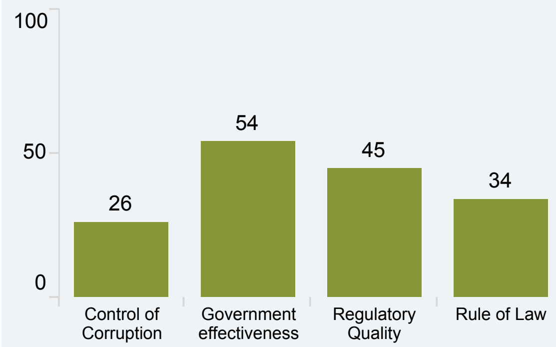
Sovereign Probability of Default

The sovereign risk profile reflects the government's strong fiscal position and the country's relatively robust economic growth outlook, thanks to a near doubling of energy production over the next five years. However, the government's finances are vulnerable to shifts in commodities prices, and therefore economic diversification remains a key policy priority. The country's ability to export energy to Asia and Europe has made it an important regional player. Long-term political stability is uncertain, given President Nursultan Nazarbayev's long-time rule, and the lack of a succession plan.

Current Account and Economic Growth



World Bank Governance Indicators



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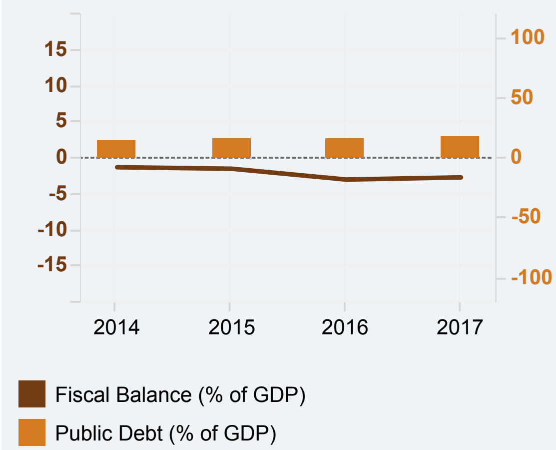
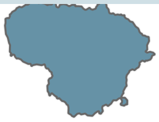
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Lithuania



Short-Term Commercial

Risk Rating **Payment Experience**

Soft EU growth and trade restrictions imposed by Russia are key downside risks. However, the adoption of the euro in January 2015 has greatly eliminated exchange rate risk, and has lent increased credibility to the policy environment. Infrastructural investments – including a regional rail link and a direct undersea power link to Sweden – will improve the business operating environment.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

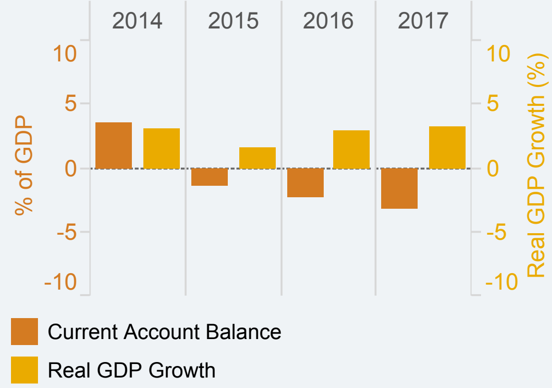
Lithuania ranks high on the World Bank's Ease of Doing Business index. The country is very foreign-investment friendly, and the judiciary is independent and respected. As a European Union member, Lithuania's commercial environment has been aligned with EU standards. Furthermore, with the adoption of the euro, transfer, and convertibility risk is now minimal.

Sovereign

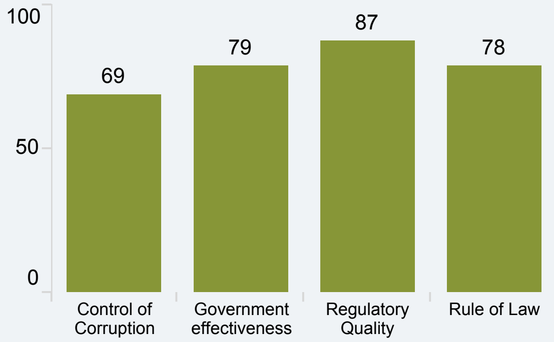
Sovereign Probability of Default

Public sector debt at 40 per cent of GDP in 2016 is low by EU standards. Lithuania's government indebtedness ramped up quickly following the global financial crisis, but government belt-tightening has enabled the turnaround. The IMF has noted the country for its economic success, which had led to Euro adoption and the establishment of credible policy anchors. While now firmly within Europe, more needs to be done on structural reforms to ensure Lithuania's long-term economic and fiscal sustainability. Weak growth in Russia has dented the near-term outlook.

Current Account and Economic Growth



World Bank Governance Indicators



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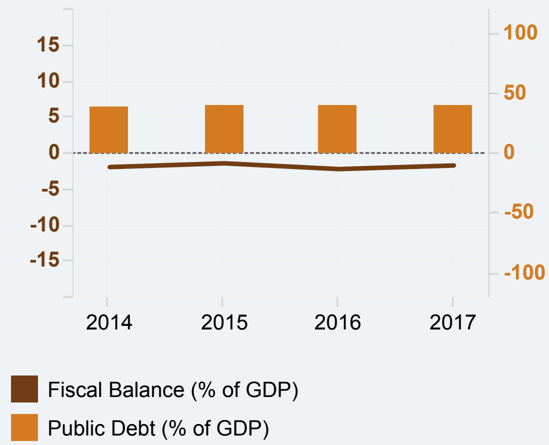
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Poland

Short-Term Commercial

Risk Rating **Payment Experience**

Poland will remain one of the fastest-growing markets in Europe, with economic growth just under four per cent in 2016. The positive outlook is underpinned by solid domestic demand amid low oil prices, and by improving prospects in the euro area (particularly in Germany) supporting export growth. Headwinds include geopolitical tensions regarding Russia and the associated sanctions regime, as well as risks from increased global financial volatility. The zloty has fared better than other emerging market currencies supported by a growing current account surplus and elevated foreign exchange reserves. Fiscal and monetary policies are likely to become more expansionary under the new government.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

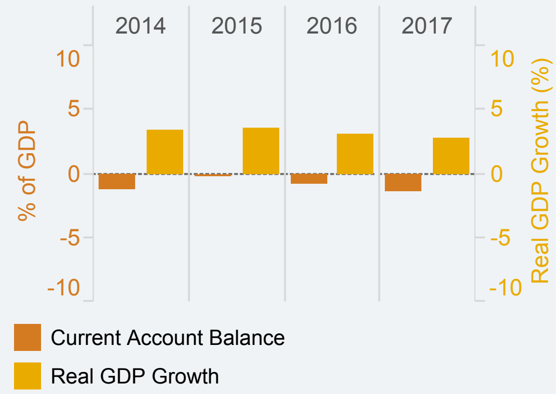
In the World Bank's Doing Business 2015 report, Poland is ranked 32nd out of 189. Access to credit is one of the strongest features of the operating environment, while tax policy is one of the weakest. The country has made huge strides in strengthening the quality of its business environment. However, Poland's infrastructure remains somewhat outdated, complicating supply-chain management. As well, the newly elected nationalist-conservative Law and Justice (PiS) party has made pledges that risk reversing past reforms, hindering the operational environment for foreign companies in select sectors, and hampering the independence of key government institutions.

Sovereign

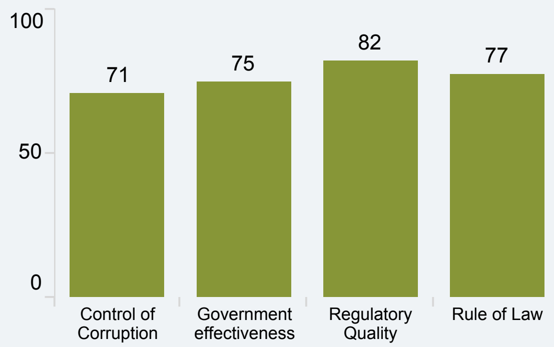
Sovereign Probability of Default

Driven partly by significant spending cuts and rebounding revenues, Poland's fiscal deficit is projected to clock in at 2.5 per cent of GDP in 2016, and its public debt burden is expected to rise slightly to 47 per cent of GDP in 2016. The Law and Justice (PiS) party won a majority in the parliamentary elections in October 2015, marking a clear shift in policy direction to the right of the political spectrum. The new government's agenda risks jeopardizing the recent progress achieved in improving public finances. Sharp changes in policy direction risk causing bouts of discontent, both domestically and vis-à-vis the EU.

Current Account and Economic Growth



World Bank Governance Indicators



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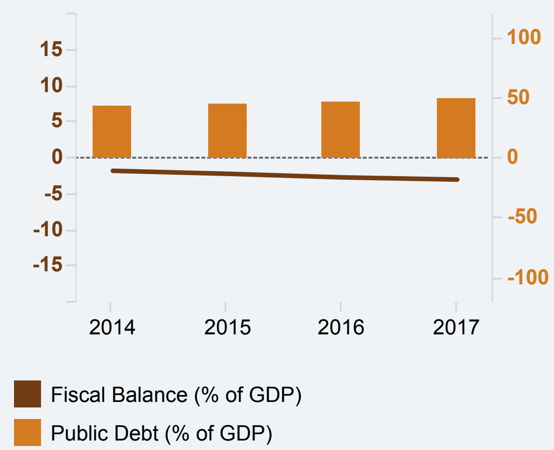
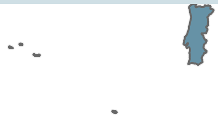
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Portugal



Short-Term Commercial

Risk Rating **Payment Experience**

Portugal's economy grew by 1.5 per cent in 2015 and is seen moderating within a 1.3-1.4 per cent range this year and next. Growth is supported by gradually improving domestic demand and external tailwinds, including the regional economic upswing, lower oil prices, and the ECB's monetary expansion. That said, unemployment and debt levels remain elevated, requiring continued deleveraging and fiscal austerity. Challenging structural reforms are needed to deal with impediments to more robust growth. The banking sector is constrained by subdued private sector credit growth and fragile balance sheets.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

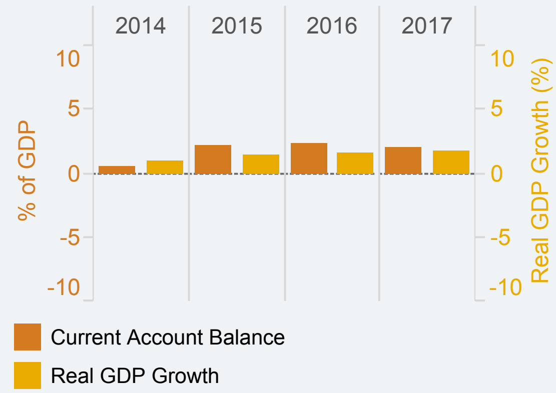
High debt levels requiring public and private sector deleveraging, low investment rates, and adverse demographic trends weigh down the medium-term economic growth. The Socialist Party-led new minority government has resulted in uncertainty regarding the outlook for government longevity and policy continuity in terms of commitment to fiscal consolidation and structural reforms, which could weigh on long-term growth prospects. That said, the commercial environment is bolstered by the presence of large European multinationals. As an EU and EMU member, currency and regulatory risks are minimal.

Sovereign

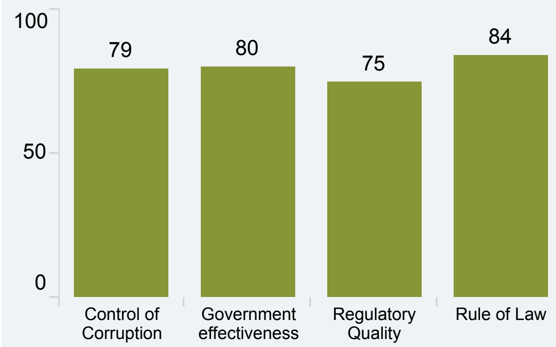
Sovereign Probability of Default

Government debt is very high at 130 per cent of GDP, and is projected to decline to a still-elevated 126 per cent by 2017. The shift in power in favour of a broad coalition of the left following the October 2015 elections partly reflects austerity fatigue. As a result, the outlook for policy continuity regarding fiscal consolidation and structural reform needed to lift growth and improve public finances has become increasingly uncertain. Although government bond yields are lower than in the past due partly to the ECB's quantitative easing program, risk premia have increased of late, reflecting downside economic, financial and political risks.

Current Account and Economic Growth



World Bank Governance Indicators



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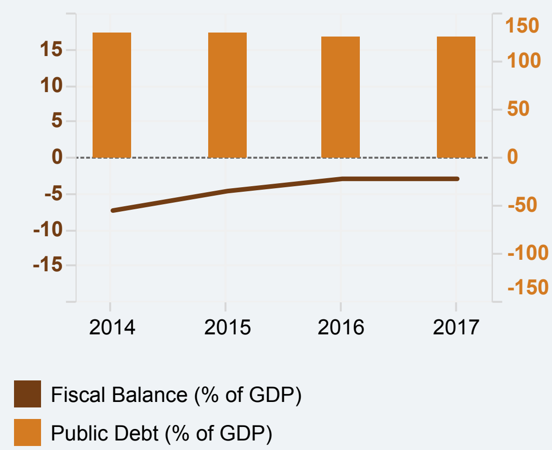
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Romania

Short-Term Commercial

Risk Rating **Payment Experience**

Romania's economy will grow by more than three per cent in 2016 due to a combination of recovering domestic demand, and a gradual recovery in the EU. Fiscal and monetary policy will be broadly supportive in both years, and price pressures have eased. The currency has slipped against the USD, although it has held fairly stable against the Euro. Interest rates remain higher than many other countries in the region. This is attracting capital flows that could easily reverse, which would result in downward currency pressure. The banking system is fairly stable, and demand for foreign exchange-denominated loans is falling.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

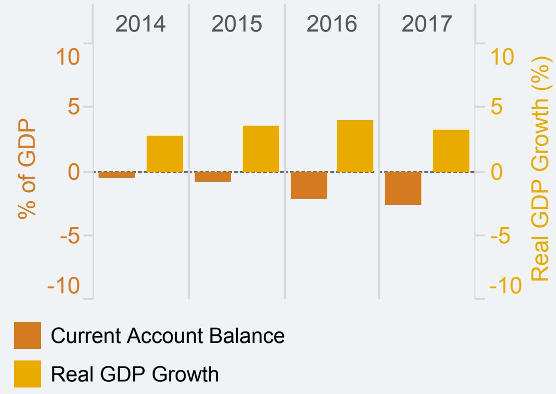
Given market conditions, the Romanian government's privatization plan continues to move slowly. The European Commission has recently raised concerns over the rule of law. Transfer and conversion and expropriation risks are mitigated by EU membership and the policy and regulatory anchor of (future) European Monetary Union membership, although transparency issues have been raised on occasion.

Sovereign

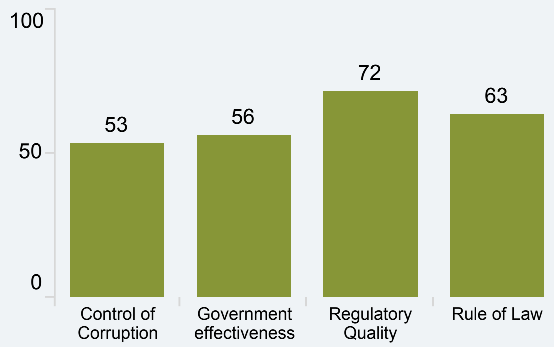
Sovereign Probability of Default

Macroeconomic policies have been reasonably sound due to IMF guidance, thereby shielding Romania from the financial market volatility that has affected many other emerging markets. Public debt/GDP (including guarantees) is expected to peak at 40 per cent in 2016, and is projected to narrow going forward alongside narrowing fiscal deficits. Political volatility will likely persist until after general elections due December 2016. Prime Minister Ponta was forced to step down last November, after allegations of fraud, tax evasion, and money laundering were compounded by protesters holding the political elite responsible for a high death toll in a nightclub fire.

Current Account and Economic Growth

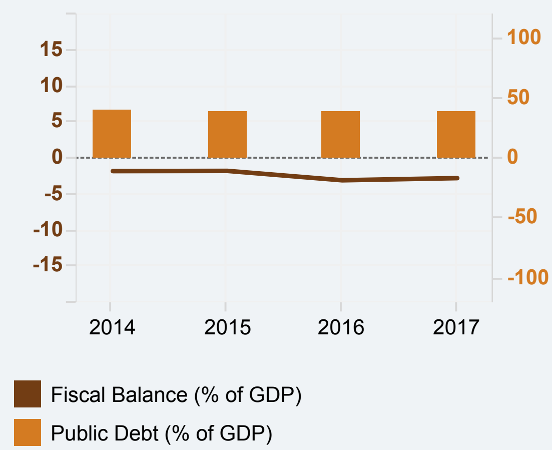


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Russia

Short-Term Commercial

Risk Rating **Payment Experience**

Persistent weakness in global oil prices continues to weigh on the ruble, which is down 30 per cent against the USD from the start of 2015. Foreign exchange reserves are down roughly USD 100 billion since 2014, as the Central Bank had intervened in the FX markets in an attempt to shore up the currency. Non-performing loans are expected to rise as access to credit is tightened. Continued currency weakness is likely, given the current weak oil price outlook.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

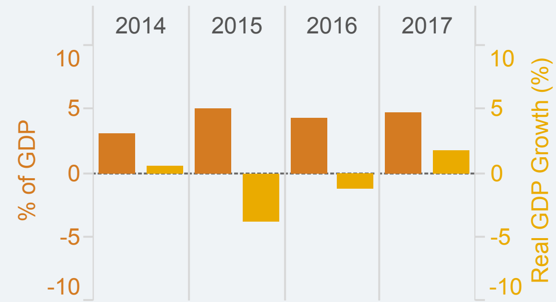
The business environment is challenging due to high levels of corruption and heavy government regulation. The ongoing geopolitical crisis is having a significant impact on the commercial sector in several ways. Deteriorating relations between Russia and the West has resulted in several adverse developments in the investment environment – particularly regarding FDI. While capital controls are likely to be avoided at all costs, prolonged restrictions to international financial markets will become an issue. Political violence risks continue to be related to terrorist incidents in the Caucusus region.

Sovereign

Sovereign Probability of Default

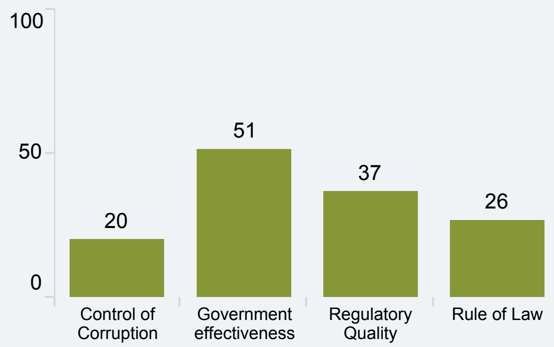
Public sector debt is just 15 per cent of GDP and the government should be able to manage to finance budget deficits brought on by lower oil prices for the time being. However, the oft-cited vulnerability of energy dependence is front and centre as the current oil price is far below the government's 'break-even' price of over USD 100/bbl. Ongoing geopolitical risks and low oil prices will continue to fuel capital flight, erode external buffers, and weigh on growth.

Current Account and Economic Growth



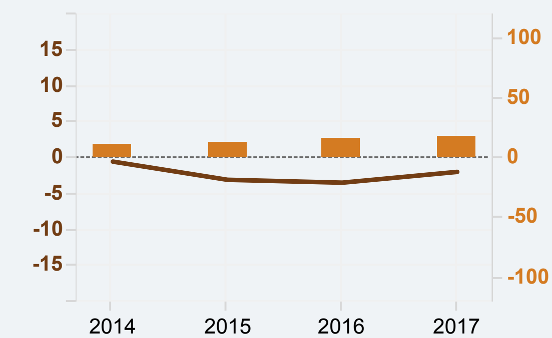
Current Account Balance
Real GDP Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Serbia

Short-Term Commercial

Risk Rating **Payment Experience**

Economic growth will rebound to about 1.5 per cent in 2016 driven by a combination of rebounding investment and net export growth. Serbia's fiscal consolidation and structural reforms have weighed on domestic demand, but external financing support via an IMF program have proved positive in terms of maintaining FDI. A key vulnerability remains the banking sector. The prominent role of the euro in the financial system means that Serbia's economy remains susceptible to trends in the euro currency and the sluggish recovery in Western Europe.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

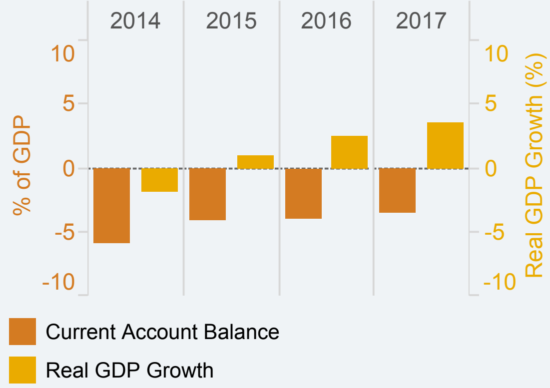
The government's path toward fiscal consolidation and structural reform is expected to support medium- to long-term growth potential, and lessen transfer risk. Serbia's EU candidate status is an important anchor to its institutional development, as it deals with corruption. Meanwhile, the ongoing tensions with Kosovo drive political violence concerns; Serbia's lack of recognition of Kosovo is considered an obstacle in its EU accession process.

Sovereign

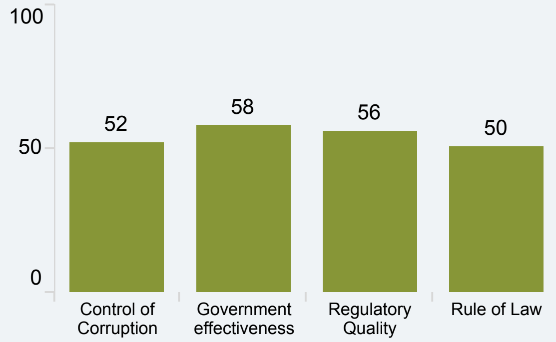
Sovereign Probability of Default

The public sector debt burden as a share of GDP has more than doubled since 2008 and is expected to peak at 80 per cent by 2016. After its previous IMF program went off-track due to a failure to meet fiscal targets, the Serbian government ramped up its commitment to an ambitious reform agenda, and successfully signed a new 36-month Stand-By Arrangement worth €1.2 billion in February 2015. Increased political stability – given the ruling government's current majority position in parliament – will likely support the implementation of difficult reforms and austerity measures going forward.

Current Account and Economic Growth



World Bank Governance Indicators



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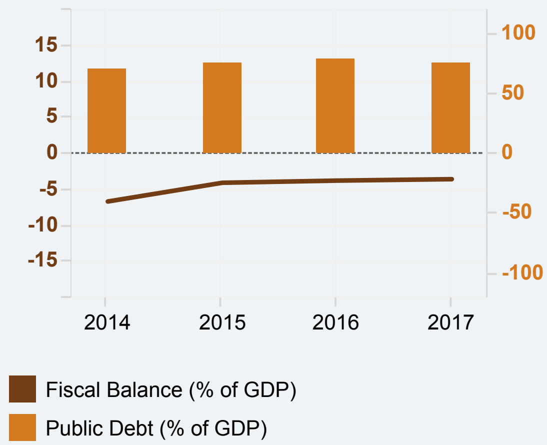
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Spain

Short-Term Commercial

Risk Rating **Payment Experience**

Spain's economy is set to continue outperforming its neighbours this year and next. Growth is projected to reach 2.5 per cent in 2016, driven partly by a nascent regional cyclical upswing, the boost to disposable income from lower oil prices, increased liquidity resulting from the ECB's monetary expansion, and resurgent domestic demand. All four of Spain's largest banks passed the ECB asset quality review, and improving economic conditions should feed through to the credit environment in the coming months. Headwinds to growth include continued high levels of unemployment, bankruptcies, and bad debts, as well as government formation uncertainty following the December parliamentary elections.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

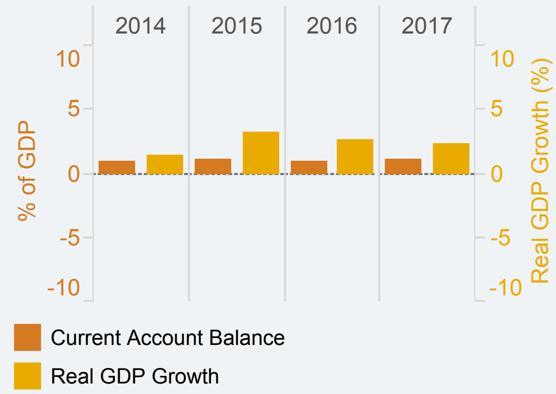
The World Economic Forum's Global Competitiveness Report 2014-15 ranks Spain 35th out of 144 countries. Access to financing, inefficient government bureaucracy, and restrictive labour regulations are cited as the top three problematic factors when doing business with the country. As an EU and EMU member, currency and regulatory risks are minimal.

Sovereign

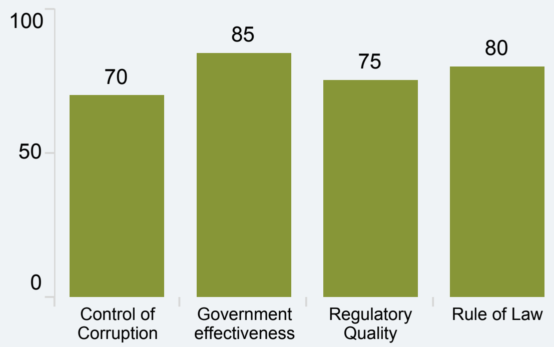
Sovereign Probability of Default

Spain's public sector debt load has almost tripled since the crisis, and is set to peak at 100 per cent in 2016, but will start coming down gradually as fiscal deficits shrink. This is helped by a growing economy, a healthier financial sector, and restored access to sovereign debt markets at advantageous terms. Structural impediments to strong and sustained growth still need to be addressed (e.g., corporate restructuring and labour market flexibility). The rapid emergence of populist political parties raises the specter of political uncertainty following the inconclusive December elections.

Current Account and Economic Growth



World Bank Governance Indicators



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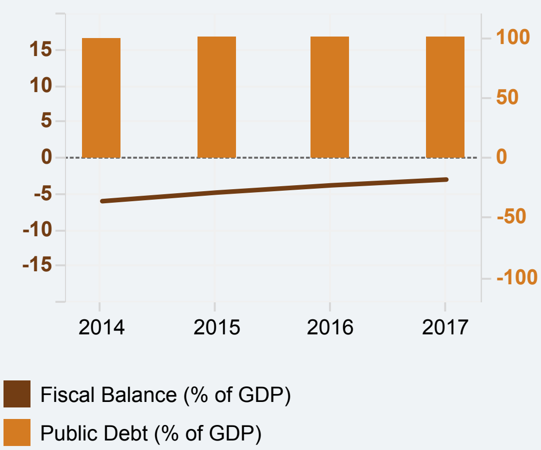
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Turkey

Short-Term Commercial

Risk Rating **Payment Experience**

Turkey's economy faces material headwinds, although growth in 2015 surprised on the upside. Reliance on short-term capital flows, challenging external debt metrics, a high current account deficit and elevated inflation reflect vulnerability to shifting global financial conditions. The charged domestic political scene is compounded by escalating conflict across the Syrian and Iraqi borders, and by recent terrorist attacks, resulting in elevated security risks. The marked lira depreciation is pressuring the Central Bank, which so far has refrained from hiking interest rates. Turkish banks remain healthy and well capitalized.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

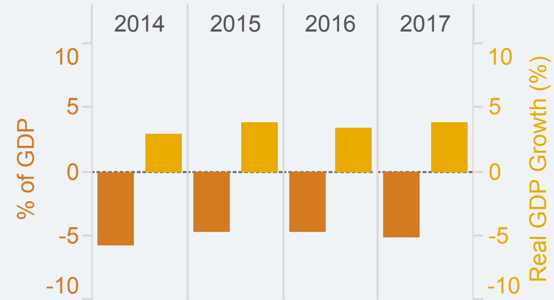
The country has significantly improved its business environment over the past decade to become a key emerging market for investors. However, Turkey finds itself at a pivotal moment in its recent history, as deep political polarization amid rising geopolitical conflict cloud the political outlook. The fragile peace process with the Kurds is currently threatened by domestic and cross-border tensions. Longstanding structural weaknesses, the slow pace of reforms, and the complex nature of political tensions risk eroding Turkey's appeal as a destination for foreign investment.

Sovereign

Sovereign Probability of Default

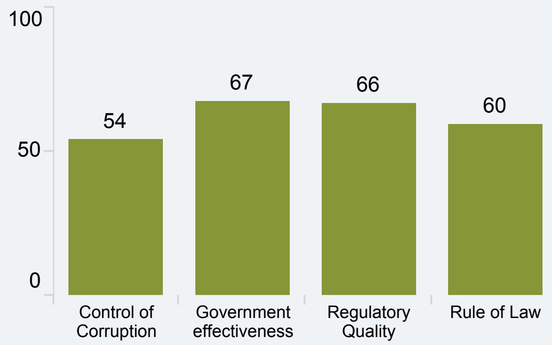
Public debt is expected to remain low at 31 per cent of GDP in 2016, and fiscal discipline will keep public finances on a favourable trajectory. Turkey appeared to have foregone EU accession as a policy priority to focus instead on growing its influence as a strong regional player and member of the G-20. That said, Turkey's pivotal role in the migrant crisis affecting Europe has rekindled efforts to reopen accession negotiations. The Justice and Development Party (AKP) parliamentary majority ensures policy continuity, but deep political polarization and uncertainty about President Erdoğan's plan to introduce a presidential system are expected to prolong policy direction risk.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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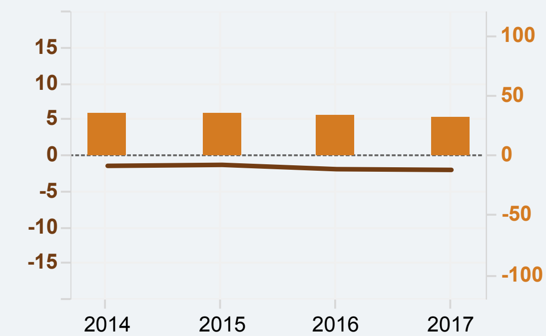
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Ukraine

Short-Term Commercial

Risk Rating | **Payment Experience**

Macroeconomic and financial risks in Ukraine remain elevated in the context of the ongoing geopolitical crisis. The economy is forecast to grow by a mere one per cent in 2016, following a 10 per cent contraction in 2015. Foreign exchange reserves are dangerously low. Fortunately, the IMF program agreed to in 2015 has provided a boost. In an effort to conserve foreign exchange, the Central Bank is relying on extensive capital controls to try to limit the hryvnia's devaluation.

Medium-Long Term Commercial

Commercial Country Ceiling | **Expropriation**

Transfer and Conversion | **Political Violence**

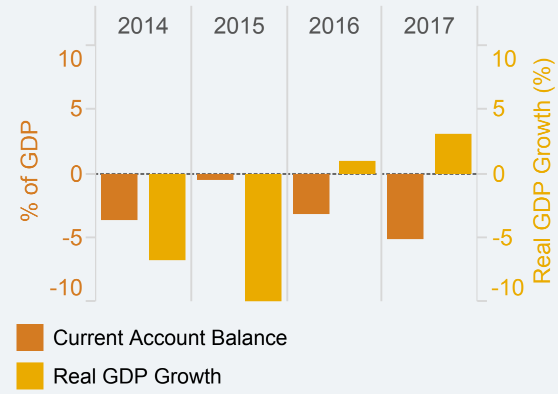
The business environment is challenging. The banking sector continues to be characterized by structural weakness, despite improvements since the severe 2009 economic contraction. Access to long-term financing remains challenging, notwithstanding the successful bond restructuring. Transfer and convertibility risks reflect capital controls. Expropriation risk reflects ongoing corruption concerns and regulatory weaknesses. Political violence risks are contained to Eastern parts of the country.

Sovereign

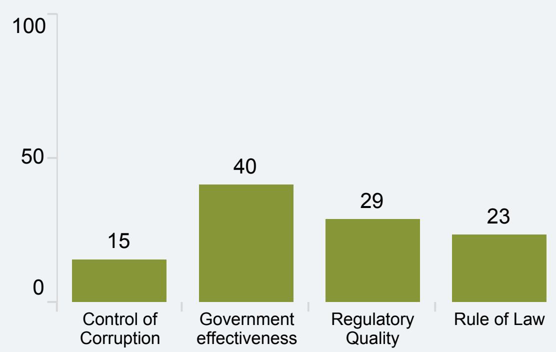
Sovereign Probability of Default

The sovereign's risk profile has stabilized amid the IMF program and the recent successful bond restructuring. Public sector debt as a share of GDP is projected to begin declining. Nonetheless, weak program performance may result in delays in the release of donor support. A re-escalation of sovereign risk hangs in the balance and official multilateral and bilateral creditors have made clear their reluctance to release funds in the absence of progress.

Current Account and Economic Growth



World Bank Governance Indicators



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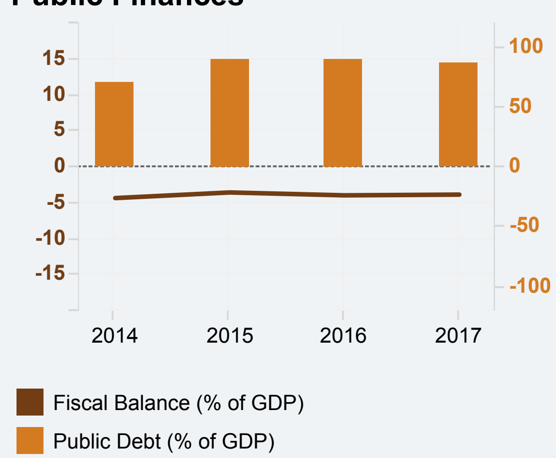
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

United Kingdom

Short-Term Commercial

Risk Rating **Payment Experience**

UK's economy has surprised on the upside, and growth is expected to reach 2.3 per cent in 2016, outperforming most of its European peers. Although the relatively robust pace of expansion will reduce excess capacity, growth remains driven mainly by domestic consumption amid supply-side disinflationary pressures. The British pound has been appreciating against the euro – particularly since the announcement of the ECB's quantitative easing program, and inflation remains well below target. In this context, the Bank of England is likely to refrain from raising interest rates until later in 2016.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

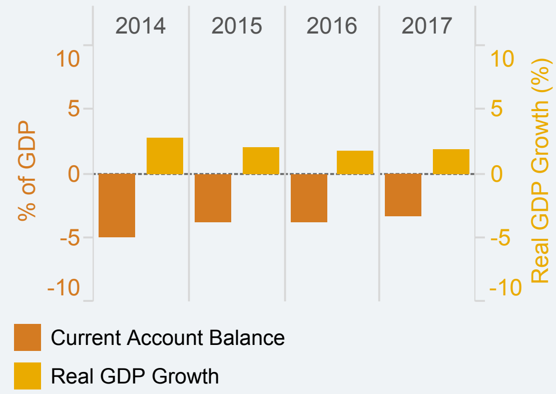
The UK was particularly hit hard by the global financial crisis, due to the size and importance of the financial sector. Additionally, problems were compounded by an overvalued housing market and elevated consumer debt levels. There is a clear need for the country to rebalance and become less dependent on consumer spending. Since the crisis, significant structural reforms to the financial sector have been implemented, including higher bank capital requirements, and provisioning and liquidity backstops. Following the Conservative's electoral victory in May 2015, a referendum on EU membership over the next 24 months is likely to increase policy uncertainty.

Sovereign

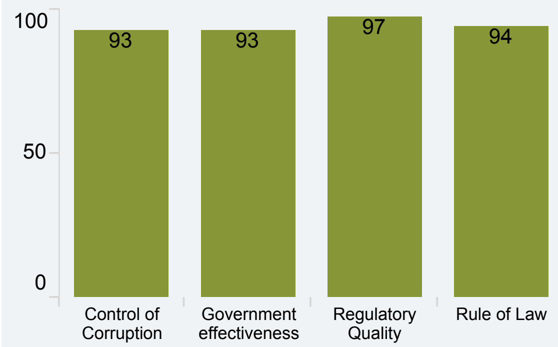
Sovereign Probability of Default

The UK public sector debt has increased dramatically over the past few years, rising from 52 per cent in 2008 to over 90 per cent of GDP in 2015. The government is projecting a return to a balanced budget by 2018, and public debt should peak in 2016. However, like many of its EU neighbours, structural reforms are necessary to ensure long-term robust growth. Priority areas are infrastructure (transportation and energy), education and training, immigration, and financial intermediation. The planned referendum (to take place before the end of 2017) on EU membership is likely to result in medium- to long-term uncertainty and accentuate divisions within the UK's political landscape.

Current Account and Economic Growth



World Bank Governance Indicators



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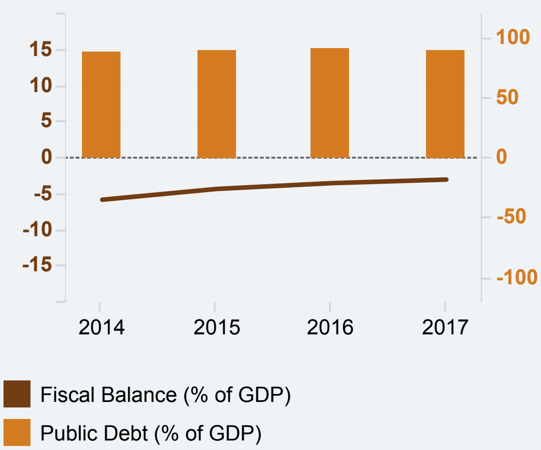
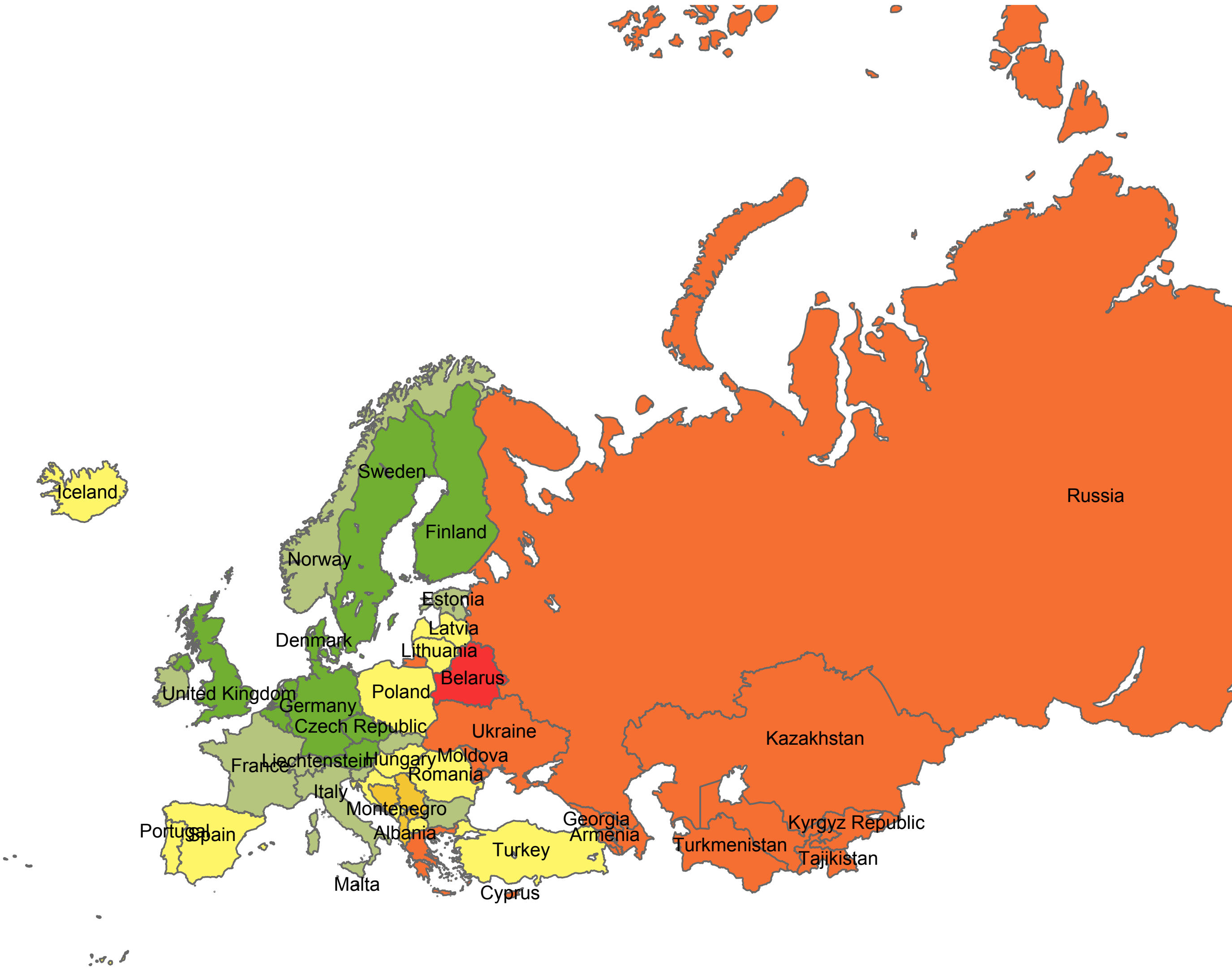
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Europe

Short Term Country Risk Rating

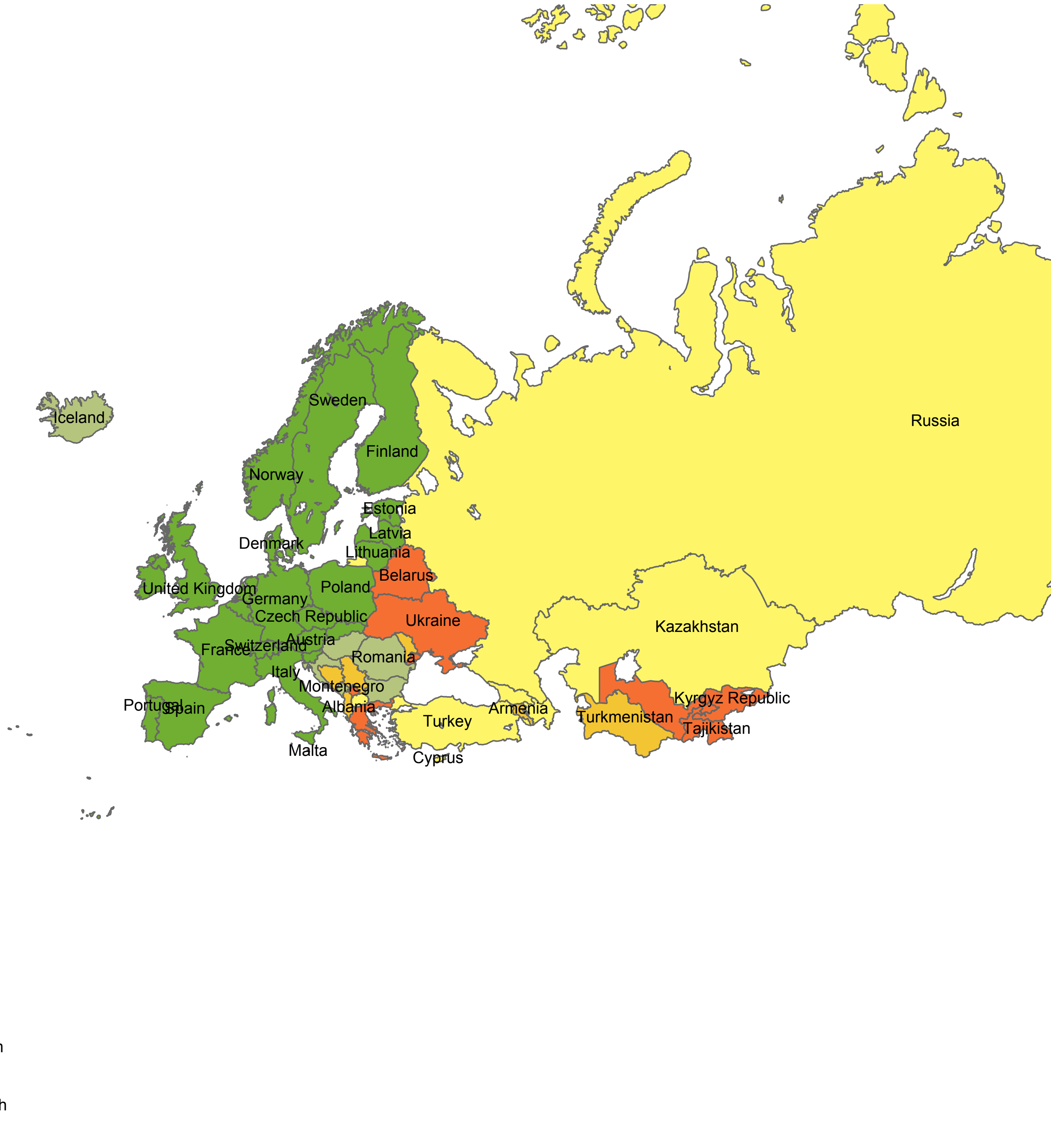


Risk Rating

- Low
- Low-Medium
- Medium
- Medium-High
- High
- Prohibited

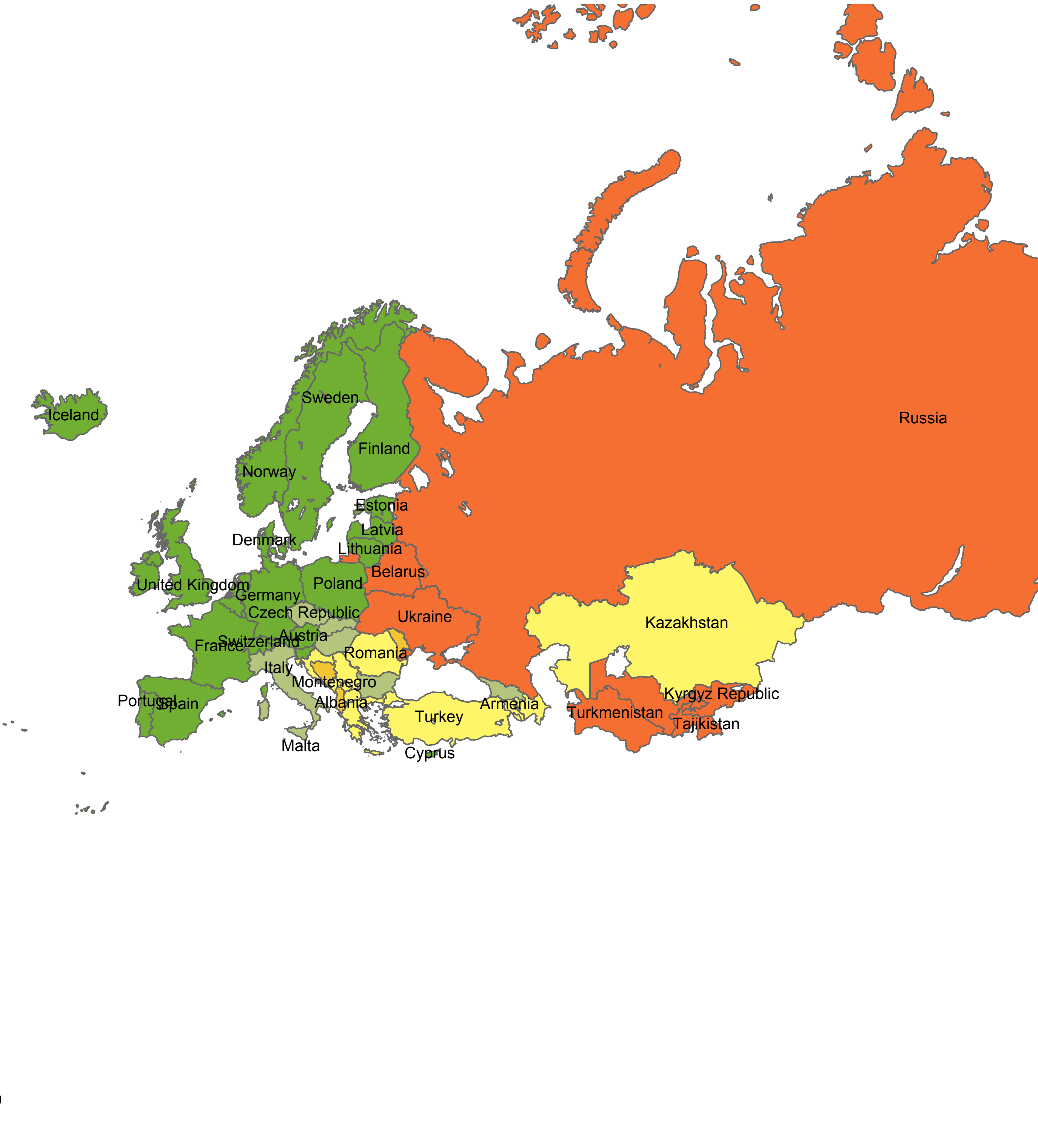
Europe

Commercial Country Ceiling



Europe

Expropriation Market Rating



Europe

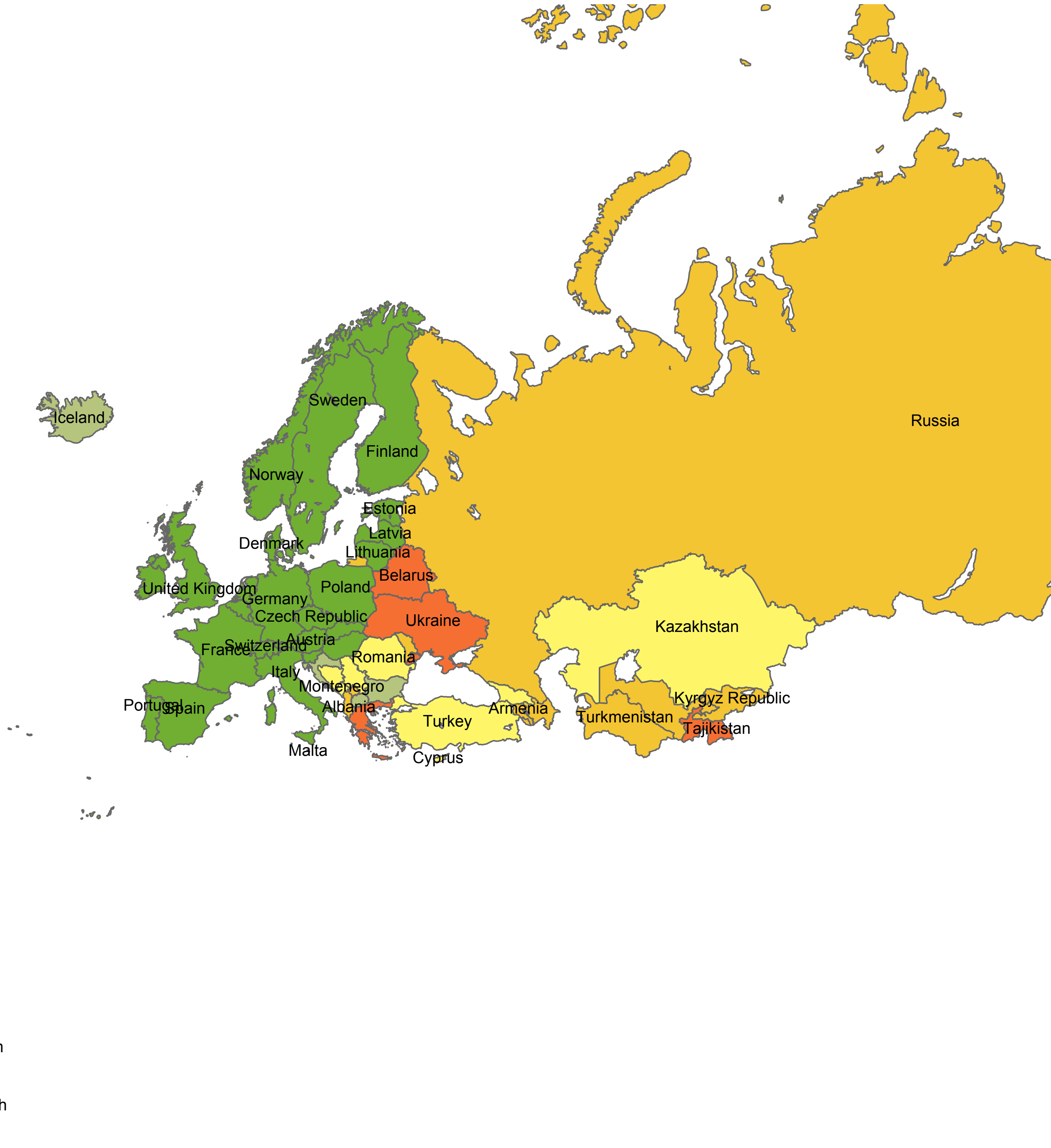
Political Violence Market Rating

Risk Rating

- Low
- Low-Medium
- Medium
- Medium-High
- High

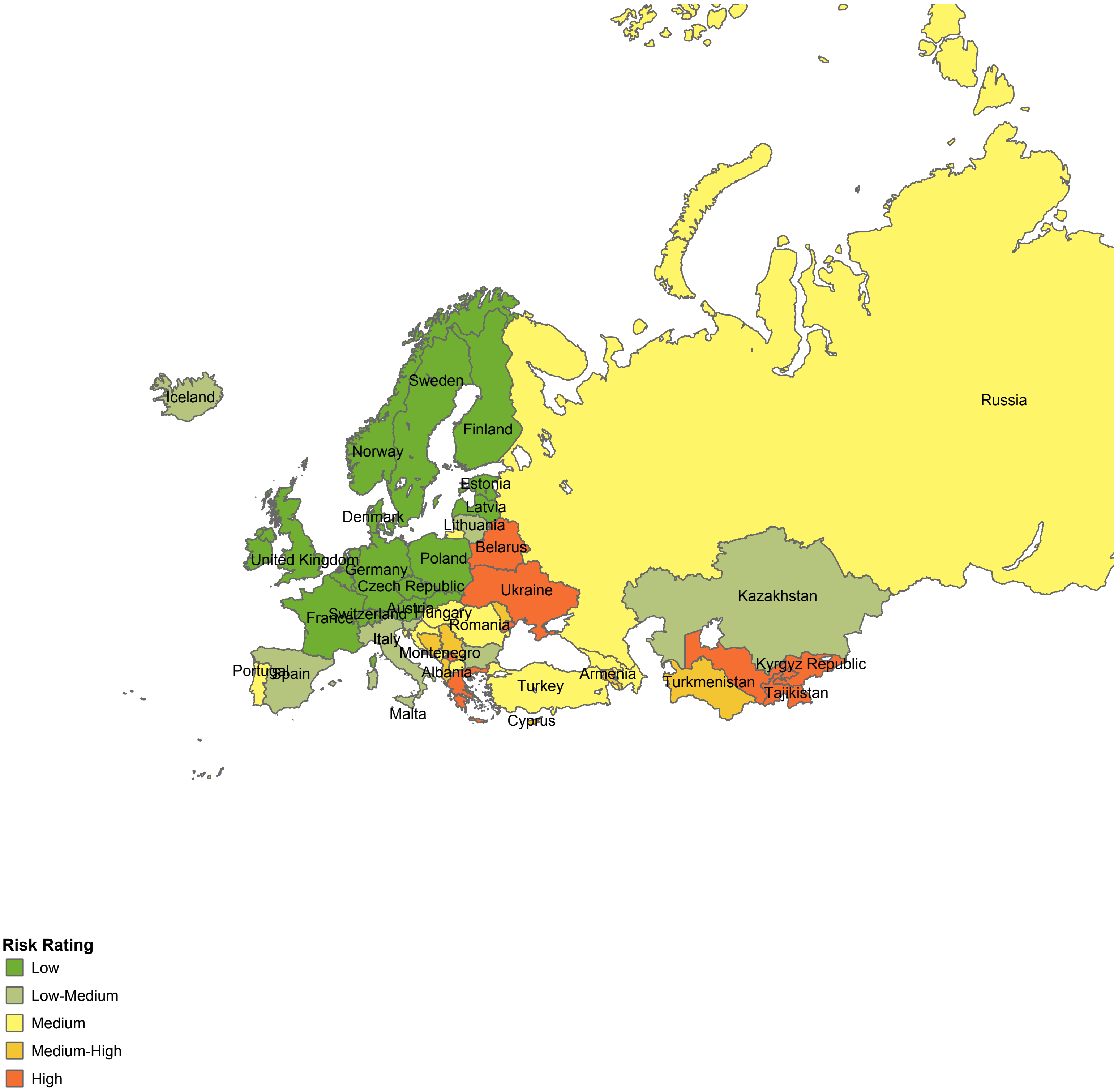
Europe

Transfer and Conversion Market Rating



Europe

Sovereign Rating



Africa and Middle East

Upside Risks (+)

Governments in the region are expected to remain able to access international capital markets at sustainable rates. This would facilitate increased economic growth and fiscal sustainability.

If prices of commodities produced within the region (particularly metals and oil) rebound, this will boost government revenues, general economic activity, and FDI inflows.

Anticipated improvements to the security environment could stabilize commercial environments, leading to increased foreign investment and domestic growth.

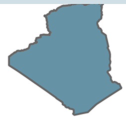
Downside Risks (-)

If militant Islamist movements establish a significant presence in countries that have until now been minimally affected, this may heighten foreign investor risk perceptions, and divert government resources.

Low oil prices could force the abandonment of USD currency pegs in the Gulf Cooperation Council (GCC) countries. This would render external debt less sustainable by driving up debt-servicing costs and eroding confidence in their economic management.

Tightening of monetary policy by the US Federal Reserve could further accelerate capital outflows from the region as higher US yields provide an attractive alternative. This would lead to increased borrowing costs for governments in the region, which in turn would decrease fiscal sustainability and cause further currency depreciation.

Algeria



Short-Term Commercial

Risk Rating **Payment Experience**

The Algerian economy will slow slightly in 2016, with growth reaching just over three per cent. Flattening oil and gas production growth as well as the cancellation of non-core infrastructure projects will contribute to the softening of growth. The significant import requirements for Algeria, coupled with the fall in oil prices, pushed the country's current account deficit to more than 17 per cent of GDP in 2015. This deficit is expected to shrink slightly but will still remain sizeable at more than 16 per cent of GDP in 2016. Though Algeria has significant forgiven exchange reserves, forecast to provide 28 months of import cover, these have declined from the 36 months of cover.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

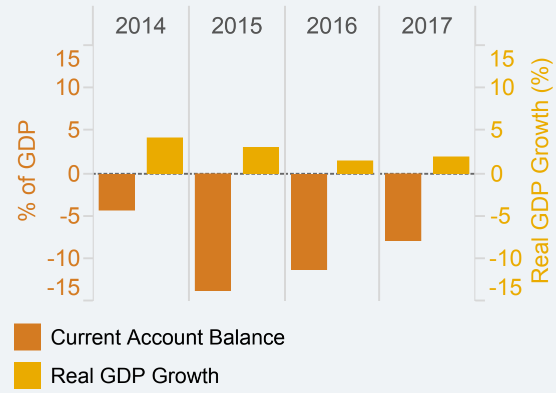
Expropriation risk is an impediment to the commercial environment and a persistent risk as demonstrated by events of government interference in October 2015. Private sector companies are disadvantaged compared to state-owned enterprises when it comes to accessing credit and government contracts. Political violence is also of concern due to ongoing terrorism threats in the northeast and southern regions. Additionally, there are persistent succession concerns amid President Bouteflika's poor health and absence from the public arena. Transfer and conversion risks remain due to Algeria's extensive system of currency controls and restrictions on payment terms for exports.

Sovereign

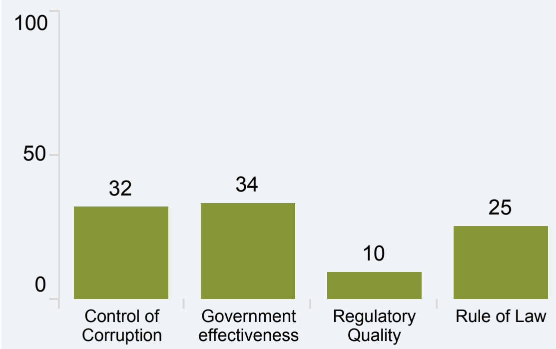
Sovereign Probability of Default

The oil and gas sector generates 75 per cent of budget revenue and over 95 per cent of all export earnings. A prolonged period of low global oil and gas prices poses a threat to Algeria's fiscal stability. Extremely generous subsidies accounting for nearly one-fifth of GDP and slowing oil production as wells age will constrain fiscal capacity in the medium term. An extended period of lower oil prices could be offset by a drawdown of the country's substantial reserves. Returning the country to the global financial markets and issuing foreign debt could also offset the looming drawdown in reserves.

Current Account and Economic Growth

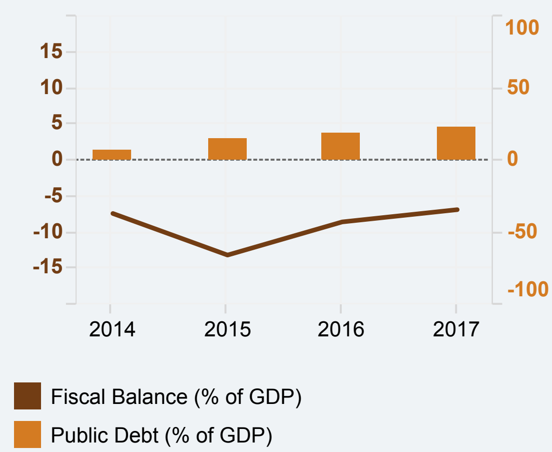


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Angola

Short-Term Commercial

Risk Rating **Payment Experience**

The economy remains highly dependent on oil (35 per cent of GDP and 95 per cent of foreign exchange earnings); depressed oil prices pose a short-term risk. The weakened oil price has turned the current account into deficit in 2015, and has driven down FX reserves. Short-term payment risks also stem from high levels of corruption and opaque regulatory and bureaucratic structures. Foreign exchange restrictions imposed in mid-2015 limit the amount of FX that can be repatriated, increasing payment risks over the short term.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

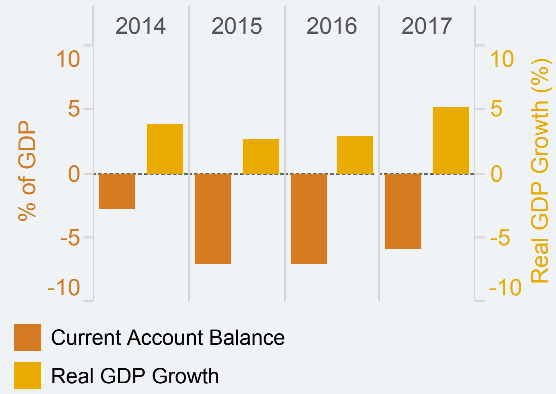
The commercial environment is somewhat weakened by expropriation and government interference risks as a result of high levels of corruption, weak institutions, and the centralization of power within the political environment. Currency regulations requiring the use of local currency by foreign oil firms, new repatriation restrictions, as well as signs of fragility within the banking sector and a drawdown of foreign reserves, drive transfer and conversion risk.

Sovereign

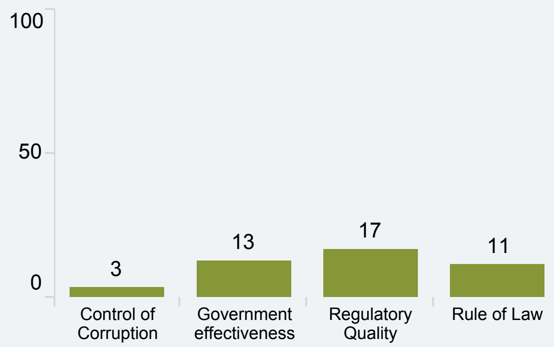
Sovereign Probability of Default

Accounting for 70 per cent of government revenue, the oil sector drives the sovereign's fiscal position. The government will be running fiscal deficits over the medium term due to falling oil production, lower oil prices, and increased public investment in economic diversification and infrastructure. The current environment is straining the sovereign's position; public debt levels spiked to close to 60 per cent of GDP in 2015, but remain manageable and are projected to fall below 40 per cent of GDP by 2020. The ruling party and president are firmly in control of the country, providing a degree of policy continuity.

Current Account and Economic Growth



World Bank Governance Indicators



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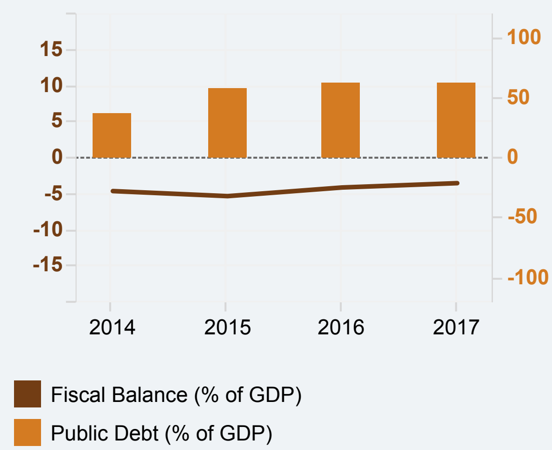
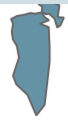
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Bahrain



Short-Term Commercial

Risk Rating **Payment Experience**

Protests by activists from the majority Shia community continue, although demonstrations are unlikely to cause significant business disruptions in the near future. Little progress has been made by the government on achieving a political reconciliation to ease communal tensions. The economy is expected to grow at approximately 3.2 per cent in 2016, with lower oil prices offsetting growth in the service sector. The currency peg is not expected to change, and foreign exchange reserves will remain sufficient at five months of import cover.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

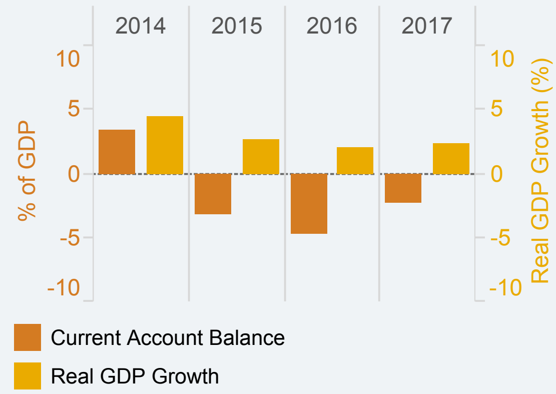
The commercial environment is weakened by political violence risks, stemming from unresolved tensions between the majority Shia community and the politically dominant Sunnis. While ongoing political concerns will have a dampening effect on the local economy, both the real estate and services sectors have seen some uptick in activity. Lower oil prices will reduce investment in the energy sector and ensure that the main drivers of the economy will continue to be the financial services, petrochemicals, and aluminum manufacturing industries.

Sovereign

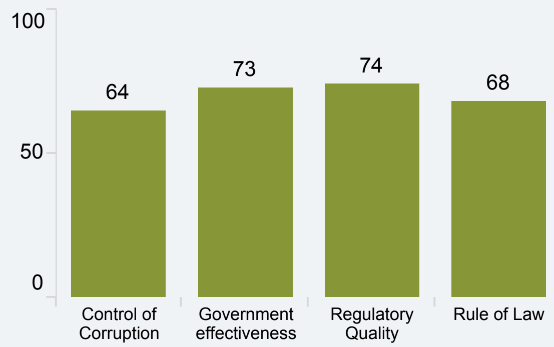
Sovereign Probability of Default

Lower global oil prices and limited fiscal assets are expected to increase Bahrain's public debt to more than 77 per cent of GDP in 2016. However, the bulk of this debt is medium- to long-term debt, and the yields on this debt have remained subdued despite the government's weaker fiscal capacity. Bahrain benefits significantly from support by its close ally and fellow Sunni monarchy, Saudi Arabia, which has been providing support and sharing revenues from jointly held oil fields. This will stabilize Bahrain's public finances despite a fiscal break-even oil price forecasted to be nearly USD 130/barrel, and a budget deficit forecasted to be above eight per cent of GDP over the medium term.

Current Account and Economic Growth



World Bank Governance Indicators



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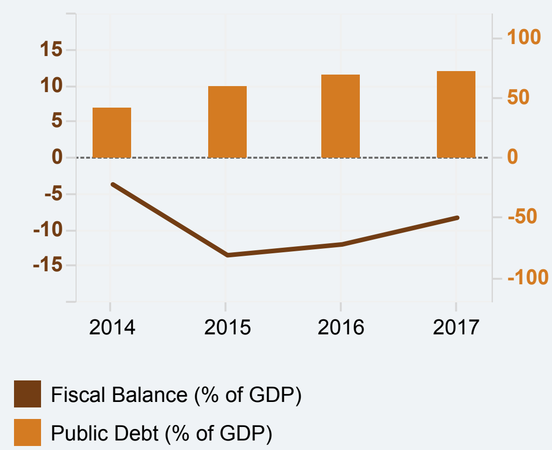
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Benin

Short-Term Commercial

Risk Rating **Payment Experience**

Its relatively poor ranking in the Ease of Doing Business index drives Benin's short-term risk. The country's small, aid-dependent economy relies heavily on cotton exports and on its port through which consumer goods are imported for sale across the border in Nigeria. Driven by public infrastructure investment, growth is forecast to be near five per cent in 2016. Weak growth in Nigeria and the transition to a new government following Benin's February 2016 presidential election are the main constraints on growth. As a member of the CFA franc currency zone, Benin benefits from a stable currency.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

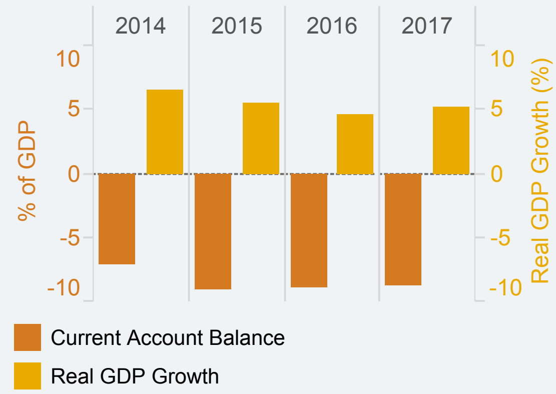
The commercial environment is hampered by governance challenges, including the weak rule of law and corruption, which drive somewhat greater expropriation and government interference risk. Benin has historically been a peaceful country, and political violence is not a major risk. Transfer and conversion risk is mitigated by Benin's membership in the CFA franc zone. The currency's convertibility into euros is guaranteed by the French treasury, reducing transfer and inconvertibility risks.

Sovereign

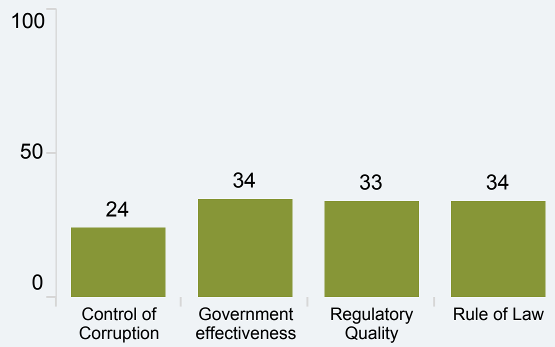
Sovereign Probability of Default

Its low income level shapes Benin's sovereign risk, with GDP per capita forecast to remain below USD two thousand (PPP-basis) over the next few years. Government revenue hinges on customs duties collected from consumer goods exports destined for Nigeria. The biggest exports are agricultural commodities with volatile prices, including cotton and nuts. Due to debt relief granted in 2006, the public debt level is low at approximately 30 per cent of GDP. The government has been disciplined about curbing spending, but is now gearing up for higher levels of public investment. Politics in Benin have historically been peaceful.

Current Account and Economic Growth

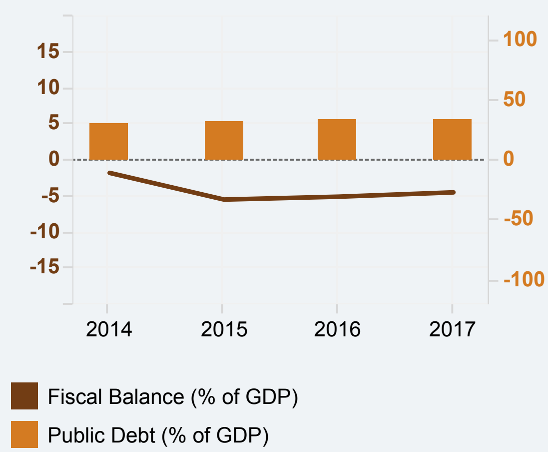


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Botswana

Short-Term Commercial

Risk Rating **Payment Experience**

Diamonds account for over 80 per cent of exports and 30 per cent of government revenues, exposing the country to price fluctuations. Fortunately, economic growth has recovered from the global recession, seeing an increased global demand for Botswana's main drivers – diamonds and the service sector. The economy is expected to grow four to five per cent annually in the coming years, and foreign exchange reserves remain ample. Botswana stands out as having a good operating environment, and the country ranks as one of Africa's least-corrupt countries.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

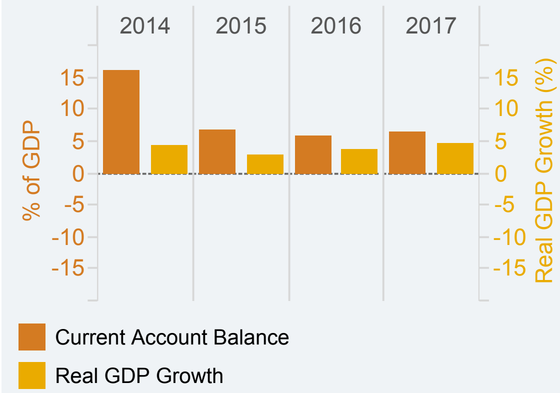
Botswana has a strong business-operating environment, which includes stable political institutions and good scores on both regulatory quality and rule of law. The political climate is steady and the ruling party, Botswana Democratic Party (BDP), has been in power since 1966, ensuring policy continuity. Very rapid growth in household debt levels is a potential vulnerability to the financial system.

Sovereign

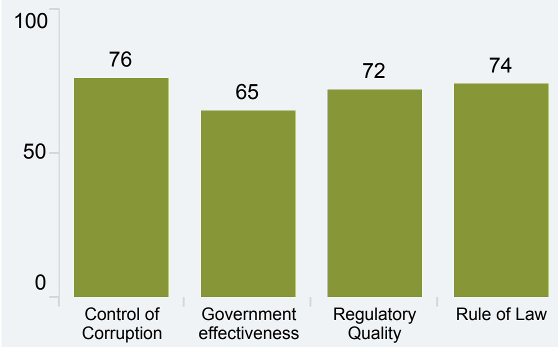
Sovereign Probability of Default

While ongoing income disparity and high levels of unemployment (20 per cent) are credit negatives, the government's good economic management, low public debt levels (projected to drop below 10 per cent of GDP within five years), and strong institutional capacity are notable credit strengths. The country stands out in the region for its successful resource governance, and prudent debt management policies. The government's dependence on diamond mining (30 per cent of revenues) represents a vulnerability, although recent expansion of mining and diamond processing, as well as non-mineral sector growth, are positive signs.

Current Account and Economic Growth



World Bank Governance Indicators



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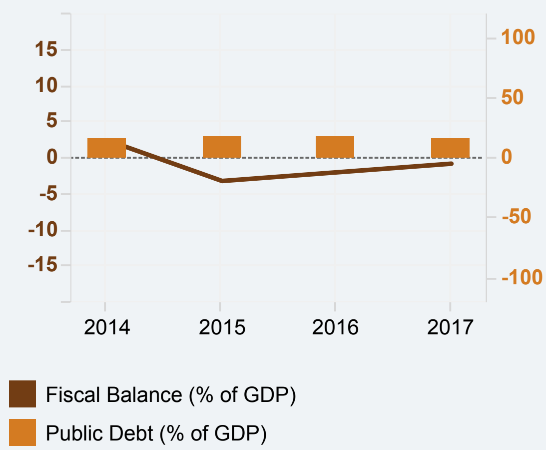
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Burkina Faso

Short-Term Commercial

Risk Rating **Payment Experience**

Burkina Faso's short-term risk rating is driven by the low prices for Burkina's main exports (cotton and gold) and by political violence concerns. Heightened security concerns following the January 2016 terrorist attack in Ouagadougou is likely to result in reduced consumption and service exports. The fact that Burkina remains in transition following the 2014 ouster of its former president, who ruled for 27 years, will also continue to curb foreign investor appetite and business activity this year. One positive sign is the country's holding of fair, free and peaceful presidential elections in late 2015.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

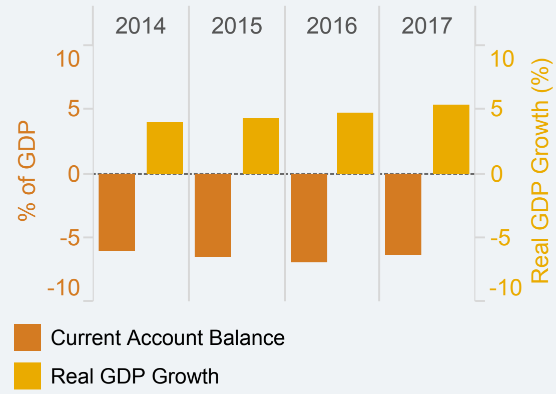
Political violence is the biggest challenge facing the commercial environment given the limited capacity of the Burkinabé security forces to respond to an increased regional terrorism threat. President Roch Kaboré, who was elected in free polls held in November 2015, must also bridge internal divisions created by the overthrow of the old regime in 2014. Expropriation risk has also increased. Politicians and civil society groups believe that more should be done to ensure that the wealth generated by the mining sector trickle down to communities. Transfer and conversion risk is mitigated by the country's membership in the CFA franc currency union.

Sovereign

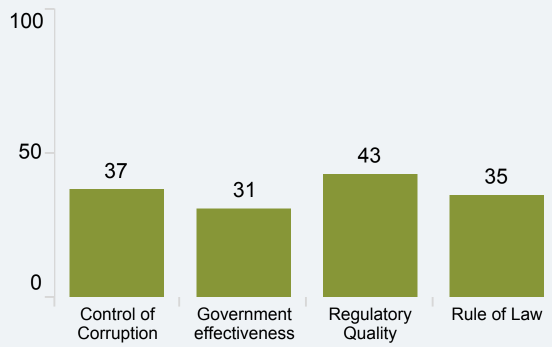
Sovereign Probability of Default

Key factors driving sovereign risk include the country's weak economic development, donor dependence, and the vulnerability of government revenues to commodity price volatility. 2015 saw the peaceful election of President Kaboré, following mass protests that led to the resignation in October 2014 of President Blaise Compaoré (in power since 1987). The transition, as well as low gold and cotton prices, will dampen FDI inflows, business confidence and government revenues into the medium term. However, total government debt remains manageable at 30 percent of GDP and government policy on spending has been prudent in the eyes of donors.

Current Account and Economic Growth



World Bank Governance Indicators



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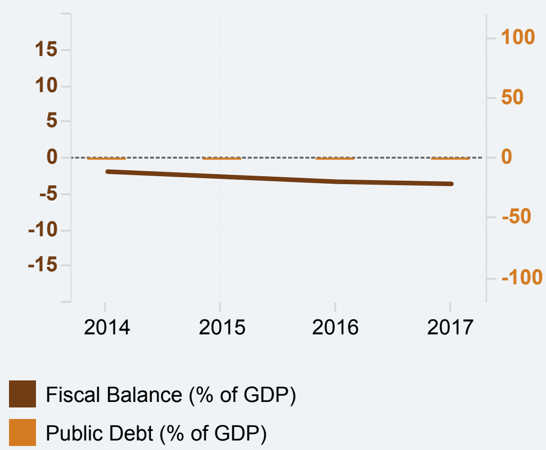
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Cameroon

Short-Term Commercial

Risk Rating **Payment Experience**

A lower-middle income country that exports oil, wood and cocoa, Cameroon is Central Africa's biggest economy. Growth is forecast to reach five per cent in 2016. The country's membership in the CFA franc zone is a credit positive. The CFA franc is pegged to the Euro, reducing the risk of local buyers being exposed to currency volatility. Membership in the currency union also reduces the risk of the country imposing currency controls on importers. Negative risk factors that exporters may face include high levels of corruption and a business environment in which it can be difficult to enforce contracts.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

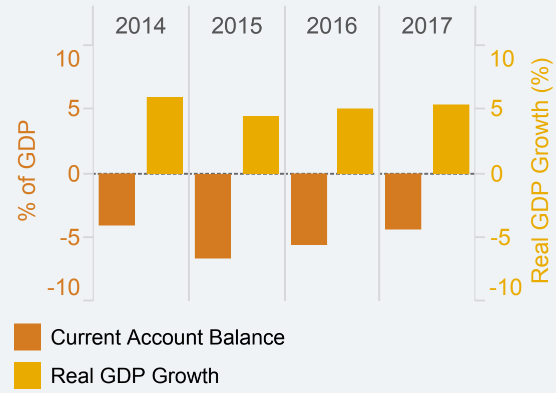
Political violence risk in Cameroon is driven mainly by the potential for political turmoil should President Biya, in power since 1982, leave office. Tensions between ethnic and linguistic groups could escalate once a succession takes place. The Nigeria-based Islamist extremist group Boko Haram is also active in northern Cameroon and poses a threat in areas adjacent to Chad and Nigeria. Expropriation risk is driven mainly by corruption concerns and the weak rule of law. Cameroon's membership in the CFA Franc zone means that the French Treasury guarantees the currency's convertibility, reducing transfer and conversion risk.

Sovereign

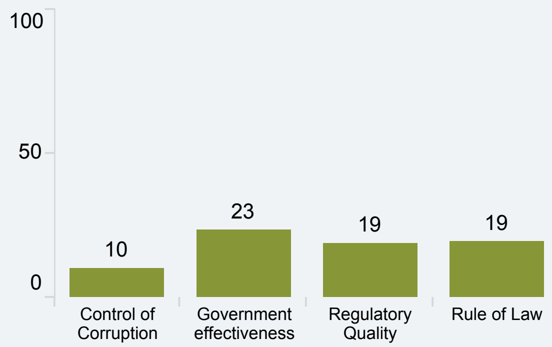
Sovereign Probability of Default

Factors that shape Cameroon's sovereign risk rating include concerns about instability once President Biya leaves office and weakening public finances that are sensitive to lower oil prices (oil receipts account for about a quarter of revenues). Increased security expenditures, civil service salaries and under-performing state owned enterprises are the main fiscal stress factors. While Cameroon's external public debt level is relatively low at 25 per cent of GDP due to debt relief received in 2006, it is accelerating quickly because of a large public investment pipeline. Foreign investment will probably taper off due to political uncertainty.

Current Account and Economic Growth



World Bank Governance Indicators



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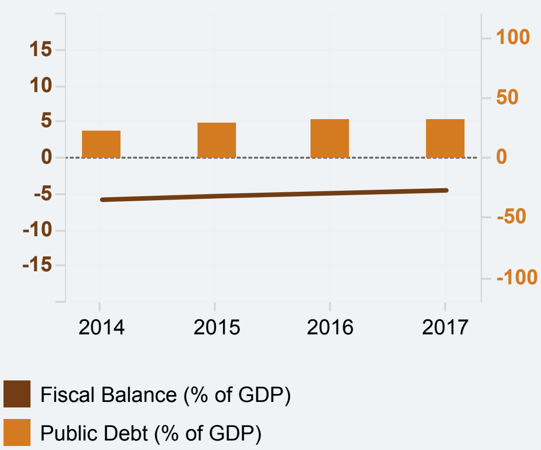
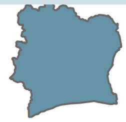
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Côte d'Ivoire



Short-Term Commercial

Risk Rating **Payment Experience**

Côte d'Ivoire has made major strides in its position in World Bank indices measuring the ease of doing business. Despite the improvement, the country is still in the bottom half of the rankings. GDP growth is forecast to remain strong at eight per cent in 2016, driven by public investments in infrastructure and private sector expansion. The medium-term political outlook is also positive. Côte d'Ivoire is a member of the CFA franc zone currency union, giving it a stable currency with convertibility guaranteed by the French treasury.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

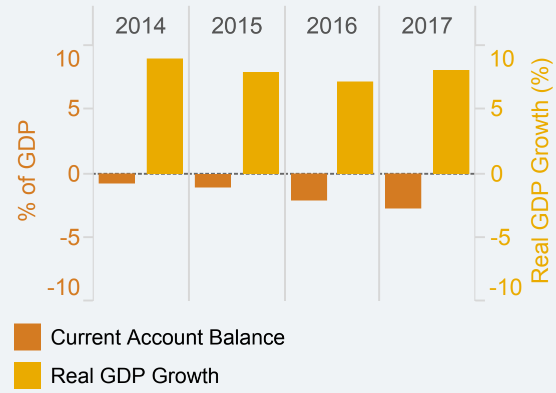
The main driver of political violence risk is the limited reconciliation achieved since the 2010-2011 civil conflict. The risk of terrorist attacks on foreigners has also increased for West Africa. While the October 2015 presidential elections were peaceful, risks will increase as the 2020 polls approach due to deep divisions between powerful aspiring leaders in the ruling party. Transfer and conversion risk is benign due to Côte d'Ivoire's membership in the CFA franc zone. Elevated corruption levels and judicial weakness drive expropriation risk. However, the government is welcoming of foreign investors.

Sovereign

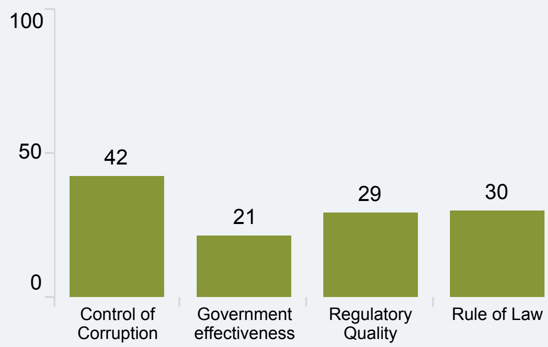
Sovereign Probability of Default

The main determinants of Côte d'Ivoire's credit profile are its low income levels (GDP per capita is below USD four thousand), and low government revenues. The country mostly exports agricultural commodities (cocoa and coffee). Income inequality and the limited reconciliation that has occurred since the last armed conflict in 2010 between supporters of the overthrown President Gbagbo and current President Ouattara pose additional risks. Côte d'Ivoire's strengths include its low external public debt ratio (projected to be below 30 per cent of GDP in 2016), high GDP growth rate trend and upbeat foreign investor sentiment about the country.

Current Account and Economic Growth



World Bank Governance Indicators



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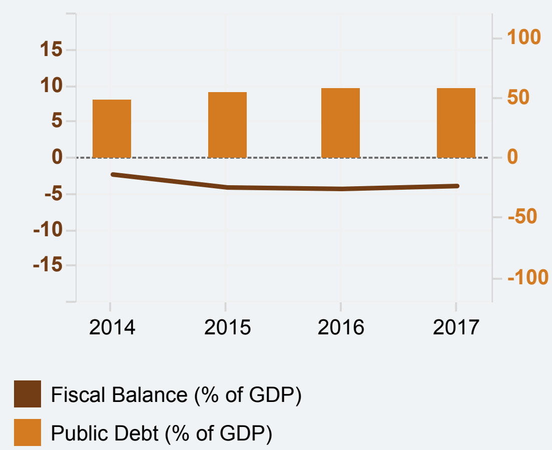
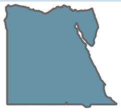
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Egypt



Short-Term Commercial

Risk Rating **Payment Experience**

Egypt's economy continues to struggle. The bombing of a Russian airliner in October 2015 has further reduced tourism, which accounts for a tenth of the economy and is a crucial supply of foreign exchange reserves. To clear demand for FX that built up after it imposed monthly limits on foreign currency deposits at banks, the Central Bank injected FX into the market in December 2015. However, the deposit restrictions remain in place, limiting importers access to foreign currency through official channels, thereby increasing payment risk.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

Egypt's growth outlook in the medium term remains modest due to weak energy infrastructure and depressed tourism receipts. The reliance of the Egyptian government on local banks for financing is limiting lending to the private sector. Transfer and inconvertibility risk, in addition to expropriation risk, are driven by low foreign exchange reserves, some controls on access to FX and weak World Bank governance indicators, respectively. The risk of political violence remains elevated. Muslim Brotherhood supporters are increasingly embracing violence against the state and extremist Islamist groups have stepped up attacks, with them generally concentrated in the Sinai.

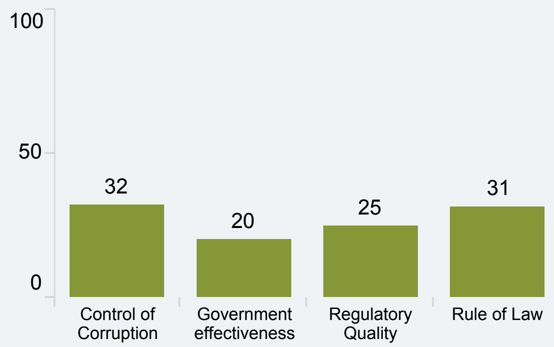
Sovereign

Sovereign Probability of Default

The sovereign risk profile reflects low growth and large fiscal and current account deficits that would be unsustainable without external aid. Saudi Arabia, Kuwait, and the United Arab Emirates have pledged or provided more than USD 30 billion in aid, which has stabilized the Egyptian government and the country's FX reserves. Public sector wages, interest costs, and food and fuel subsidies still account for nearly half of government spending. The depreciation of the Egyptian pound against the USD has further increased the burden of food subsidies. Egypt's high debt-to-GDP ratio of 90 per cent is likely to continue deteriorating without further fiscal consolidation.

Current Account and Economic Growth

World Bank Governance Indicators



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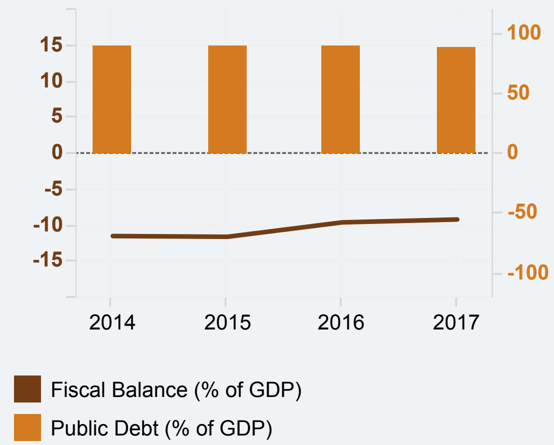
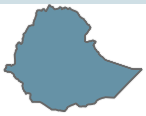
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Ethiopia



Short-Term Commercial

Risk Rating **Payment Experience**

Growth is forecast to reach an impressive eight per cent in 2016, driven by travel services and construction. However, structural vulnerabilities continue to drive up short-term credit risk. Ethiopia's foreign exchange earnings depend mainly on volatile agricultural commodities, most notably coffee. Most of these earnings are used for capital equipment imports required by the Ethiopian government's impressive investments in infrastructure. An ongoing, serious drought will force increased food imports. As a result, foreign exchange reserves will stay below two months' import cover. This may drive up payment risk as importers face delays purchasing foreign currency.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

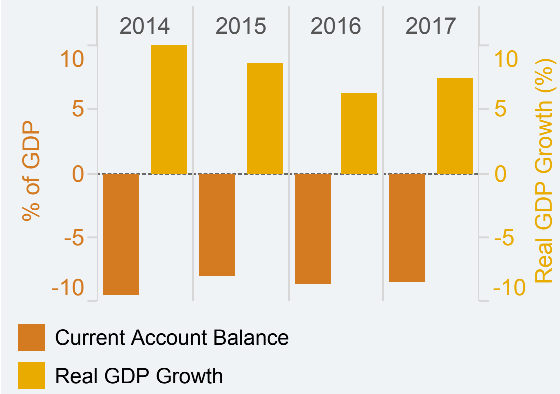
Challenges faced by businesses include Ethiopia's weak rule of law, as well as limited private sector access to financing and foreign currency. Expropriation risk is partly driven by the state's close involvement in the economy and preferential treatment of public enterprises compared to the private sector. Political violence risk is driven by longstanding ethnic tensions, overlapping land ownership grievances, and the repression of the political opposition. However, low levels of income inequality is a risk-reducing factor. Transfer and conversion risk is influenced by repatriation requirements, restrictions on transfers, and the low level of international reserves.

Sovereign

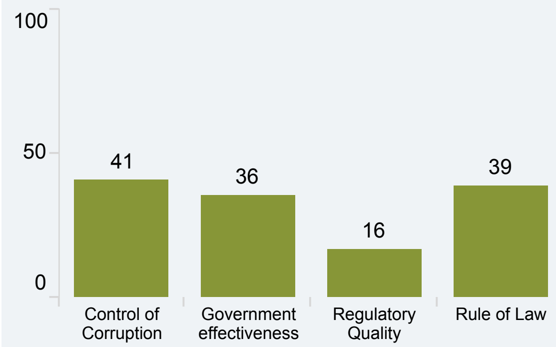
Sovereign Probability of Default

Sovereign risk is driven by Ethiopia's low nominal per capita GDP (USD 1,300), its low revenue-to-GDP ratio (under 20 per cent), and persistent trade deficits. Foreign exchange earnings depend on remittances and aid, services (airline receipts), and volatile agricultural exports. Ethiopia's ambitious public sector-led growth and infrastructure investment plan will drive economic expansion, but could result in excessive external debt accumulation if fully implemented. Ethiopia's strengths include its high GDP growth rate, low-income inequality, and low-albeit-rising external debt-to-GDP ratio, which is expected to stay near 35 per cent in the medium term.

Current Account and Economic Growth



World Bank Governance Indicators



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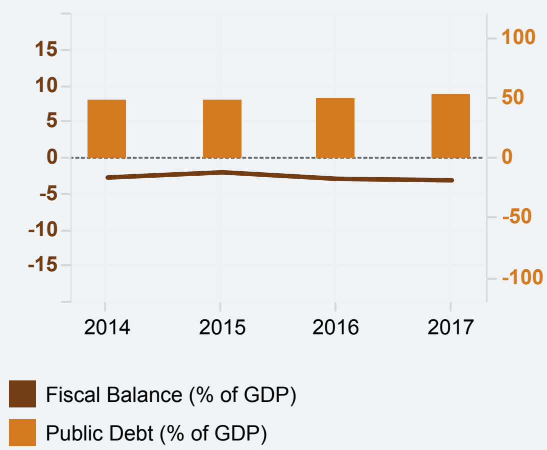
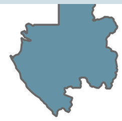
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Gabon



Short-Term Commercial

Risk Rating **Payment Experience**

Gabon ranks in the bottom quartile of the World Bank's global Ease of Doing Business index, reflecting the difficulties associated with enforcing contracts, paying taxes, and registering property. Frequent strikes and increasing opposition agitation ahead of the August 2016 presidential election are additional risk factors. Growth will be near five per cent in 2016, driven by services, new mining, and agriculture production. However, due to depressed global oil prices, Gabon's oil-dependent government has cut spending, increasing the risk of arrears to private sector suppliers with government contracts.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

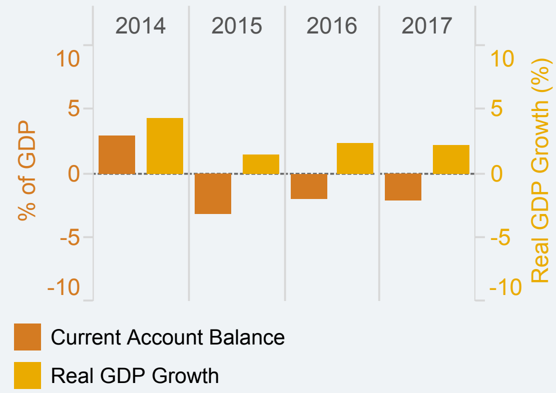
Transfer and conversion risk is reduced by Gabon's use of the Central African CFA franc, the convertibility of which is guaranteed by France. Expropriation risk is driven by Gabon's poor performance in indicators measuring regulatory quality and corruption perceptions. In the oil sector, the government has imposed controversial back tax claims on international oil companies, and imposed harsher fiscal terms on sector investors when their concessions were up for renewal. Gabon has historically had peaceful politics, but opposition frustration with the leadership's domination of the political space is increasing tensions ahead of the August 2016 presidential election.

Sovereign

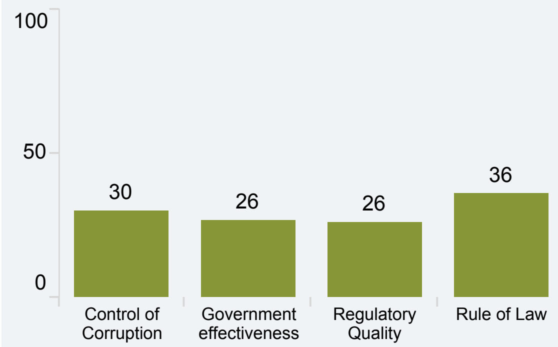
Sovereign Probability of Default

Gabon is highly dependent on oil revenues and has weak institutions. Oil accounts for approximately half of government revenue, but production levels are declining. In addition, high current spending on a bloated civil service and elevated budget deficits often result in temporary cash flow problems for the government. The government's lack of transparency on fiscal matters, persistent popular discontent over unfulfilled socio-economic expectations, and increasing political polarization between pro-regime and opposition forces, are additional weaknesses. Strengths include the low government debt level (20 per cent of GDP) and relatively high-income levels (over USD 20,000 per capita).

Current Account and Economic Growth



World Bank Governance Indicators



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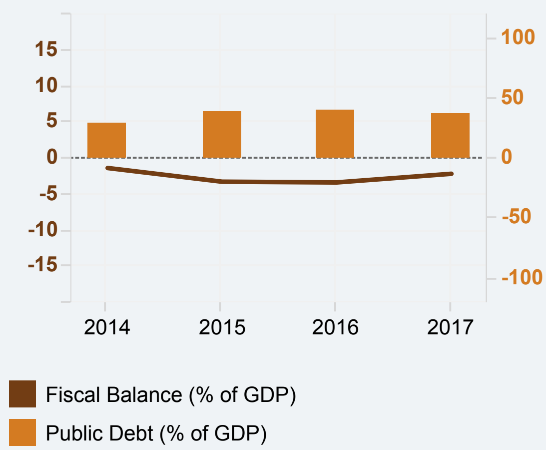
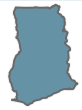
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Ghana



Short-Term Commercial

Risk Rating **Payment Experience**

Growth is forecast to accelerate to over five per cent in 2016 as Ghana slowly recovers from a slowdown caused by tight lending conditions and crippling power outages. However, weak gold and oil prices will still constrain Ghana's export earnings. Foreign exchange reserves will remain slightly below the three months of import cover mark, which could result in dollar shortages during high demand periods and lead to payment delays. The government's arrears to local companies and government agencies also increase payment risk. Ghana's scores in indices measuring the strength of the rule of law and corruption remain significant strong points.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

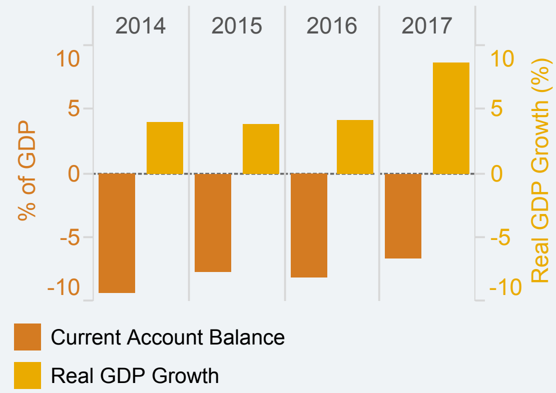
Ghana's economy is under stress due to lower gold and oil prices, power outages, high interest rates, and low confidence. Expropriation is of moderate concern; the extractive industries face some regulatory uncertainty as the government seeks to increase revenues. Transfer and conversion risk is influenced by the low level of foreign exchange reserves. However, the conclusion of an IMF program in April 2015 and the issuance of Eurobonds in 2014 and 2015 have provided a near-term buffer for reserves. The strength of Ghana's political institutions significantly reduces political violence risks.

Sovereign

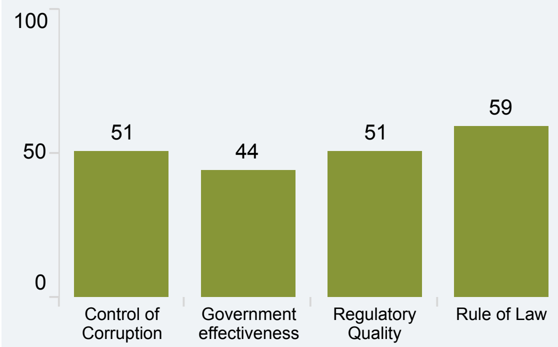
Sovereign Probability of Default

Ghana's sovereign rating is driven by the country's high debt and current account deficits. High current spending, decreasing commodity revenues, successive fiscal deficits and a depreciating currency have pushed the public debt to GDP ratio to 70 per cent in 2015. While the debt ratio is forecast to decrease gradually in the medium term, debt at some state-owned enterprises represents an additional liability. Ghana's external vulnerability also remains high. Growing debt service costs, low commodity prices and high consumption- and investment-related imports, will generate high current account deficits into the medium term.

Current Account and Economic Growth



World Bank Governance Indicators



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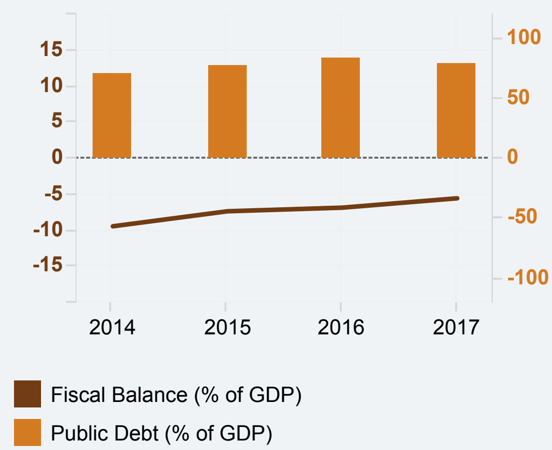
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Iraq

Short-Term Commercial

Risk Rating **Payment Experience**

Levels of violence and sectarian conflict remain extreme in parts of Iraq following the advance of ISIS across the border from Syria in mid-2014. Western and Arab military support to Iraq has helped check and reverse ISIS's momentum, but the group remains in control of several northern cities. Areas under the control of the Kurdistan Region Government (KRG) remain more secure than the rest of northern Iraq. Oil production continues in both the areas controlled by the KRG and southern Iraq and may even increase over the short term. However, payment delays remain likely due to political violence and administrative inefficiencies, as well as corruption.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

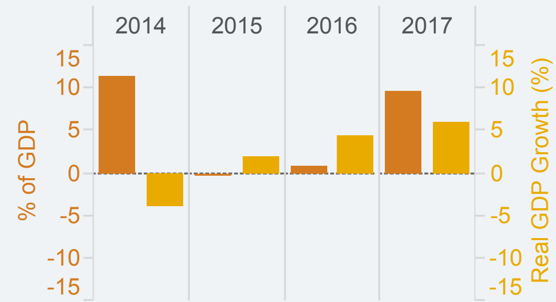
Political infighting, corruption, and a pattern of policymaking that does not consider the views of industry stakeholders elevate government interference risk. The campaign against ISIS forces has made heavy use of militias rather than government security forces. This has strained Sunni-Shia relations across the country and increased the risks of clashes in certain areas. However, in the areas administered by the KRG, political violence risks are somewhat reduced. Transfer and inconvertibility risks are due to governance factors, especially the lack of central bank independence and the decline in oil prices. Foreign exchange reserves may come under pressure in the medium term.

Sovereign

Sovereign Probability of Default

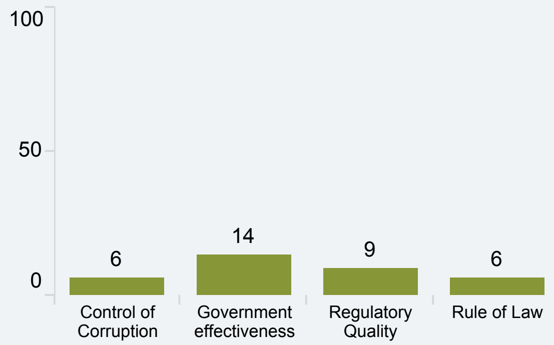
The weak sovereign risk profile reflects continuing political violence and dependence on oil revenues. The extended decline in the price of oil has battered the government's fiscal position, with the IMF forecasting a deficit of USD 11 billion in 2016. At the same time, ongoing high levels of spending on the military, and public sector salaries for the bloated civil service make it difficult for the government to reduce its exposure to fluctuations in global oil prices. Total external debt (private and public) is low at less than 30 per cent of GDP. In November 2015, Iraq and the IMF signed an agreement for a year-long monitoring program; a precondition for an IMF loan.

Current Account and Economic Growth



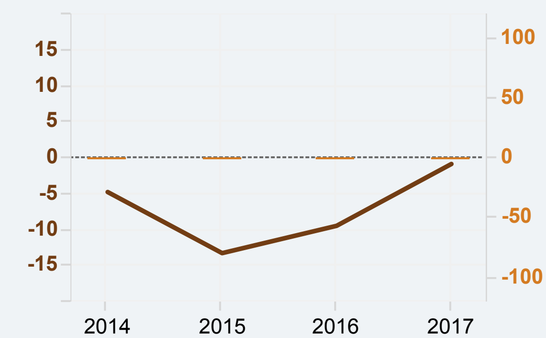
Current Account Balance
Real GDP Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Israel

Short-Term Commercial

Risk Rating **Payment Experience**

Growth in Israel has improved as development of offshore natural gas deposits progresses and Europe continues to grow. GDP is expected to grow by 3.1 per cent in 2016, the strongest pace in nearly three years. As the full volume of natural gas production comes on-line and exports begin, Israel's current account will improve. While the level of political violence has been elevated in Israel, the economy has shown itself to be highly resilient and recent incidents have had relatively little impact on commercial activity. The razor-thin majority of Benjamin Netanyahu's government will make passing reforms difficult and very likely that an early election will occur in the near term.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

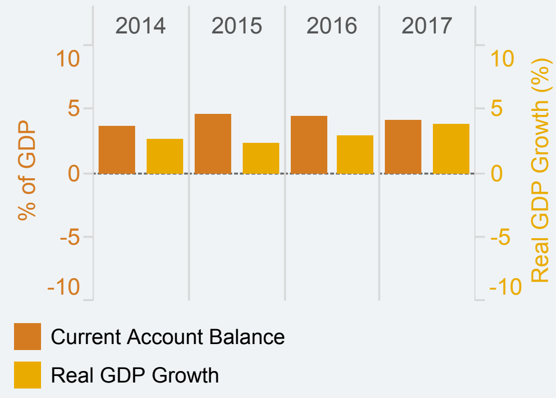
Israel's commercial environment and institutions are largely supportive of businesses and investors, as evidenced by placing 53rd (out of 189 countries) in the World Bank's Ease of Doing Business rankings. That being said, this is a drop from 26th place a decade ago. The country has been able to attract significant foreign direct investment inflows from multinational companies into the high-tech sector as well as its emerging natural gas sector. The banking sector remains well capitalized with strong oversight provided, though mortgages account for nearly 40 per cent of total assets. Political violence risk is driven largely by the Israeli-Palestinian situation.

Sovereign

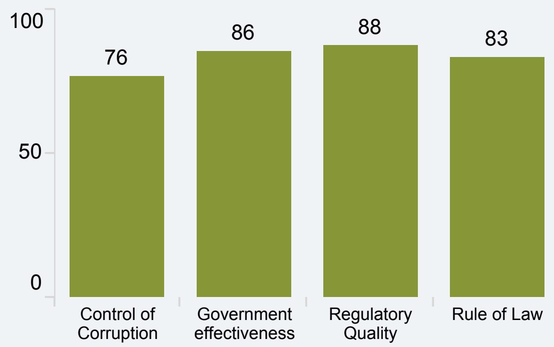
Sovereign Probability of Default

The sovereign risk profile reflects Israel's relatively high GDP per capita (approximately USD 36 thousand), and its competitive, well-diversified export-oriented economy. Historically, Israel has had good access to capital markets and is a net creditor. Government debt is expected to remain around 65 per cent of GDP into the medium term with the government continuing to borrow around three per cent of GDP per year. Other weaknesses are the country's military spending, external security threats, and domestic political volatility, which have at times resulted in loosened fiscal discipline. Revenue from the development of offshore natural gas fields will improve debt metrics in later years.

Current Account and Economic Growth

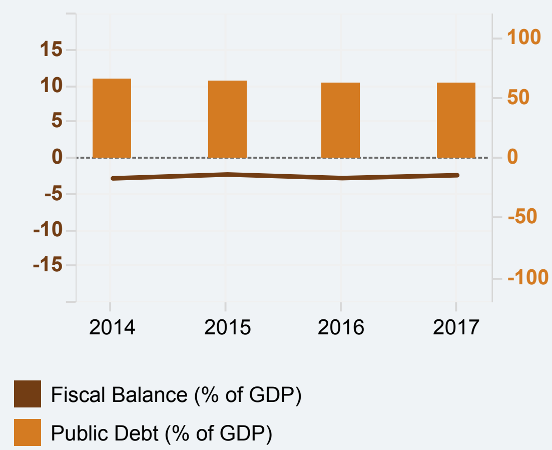


World Bank Governance Indicators



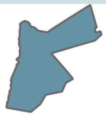
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Jordan



Short-Term Commercial

Risk Rating **Payment Experience**

Lower global energy prices and the series of reforms called for under a completed IMF program have improved Jordan's economic position. Growth is expected to reach 3.7 per cent in 2016, the strongest level since 2009. This will aid in lifting the country's foreign exchange reserves to more than 9 months of import cover. However, regional turmoil will continue to suppress tourism and negatively impact key trade routes.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

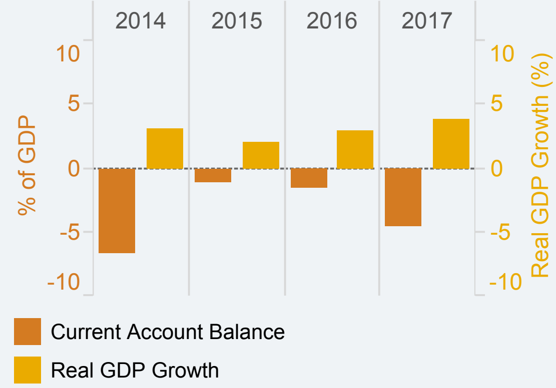
Areas of the country close to the border with Syria have experienced occasional spillover violence and artillery shelling. While tensions remain within the Kingdom, there is little popular appetite for protest or wide-ranging reform given the experience of neighbouring countries. Though the pace of reform has been slow, the government has enacted economic reforms and a limited reorganization of security forces which have eased internal tensions.

Sovereign

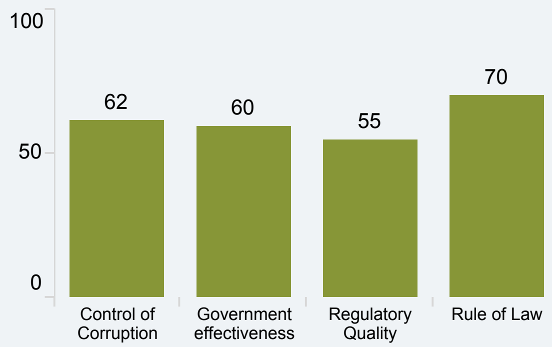
Sovereign Probability of Default

Under the terms of an IMF agreement which the government successfully completed in the fall of 2015, fuel and electricity subsidies were cut to tackle the current account deficit. These cuts improved the government's fiscal position, as has the substantial decline in global energy prices. Net government debt is expected to remain around 80 per cent of GDP in the medium term. Jordan remains a key ally for the US, EU and the Gulf states. The government is expected to benefit from this status by receiving ongoing economic support, aid to assist with Syrian refugees, and direct investment to improve infrastructure.

Current Account and Economic Growth



World Bank Governance Indicators



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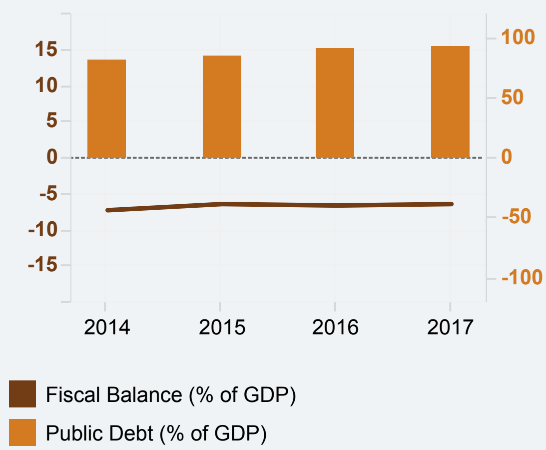
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Kenya

Short-Term Commercial

Risk Rating **Payment Experience**

The economy will continue to expand at a healthy pace with growth expected to remain in the five to six per cent range. Rising public wages, coupled with a weakening of the shilling, have raised concerns over accelerating inflation. Foreign exchange reserves remain comfortable at over four months of import cover.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

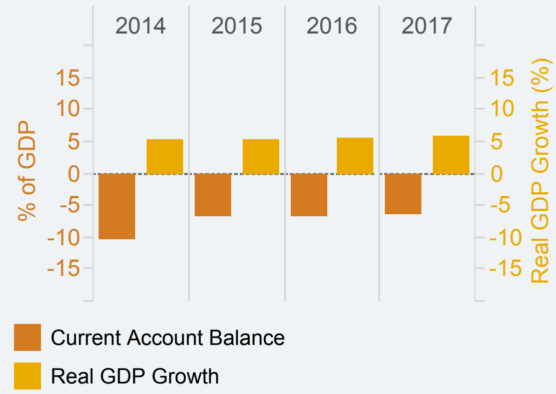
The commercial environment is strengthened by Kenya's status as a regional financial and investment hub. Instability in neighbouring Somalia leads to occasional incidents of violence in parts of eastern Kenya, and rare but high-profile terrorist attacks. Kenya continues improving in the area of governance, but corruption remains a risk to the business environment.

Sovereign

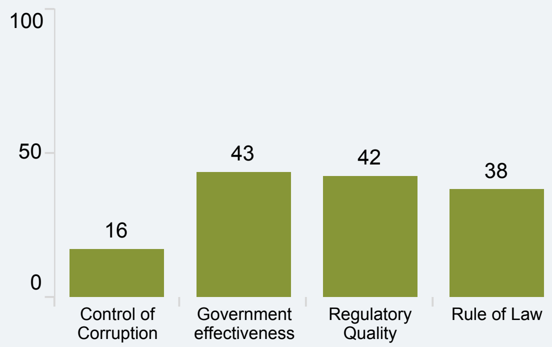
Sovereign Probability of Default

Very low per capita incomes and weak institutional strength are the main drags on the sovereign's creditworthiness. Public sector debt stands at roughly 50 per cent of GDP. However, debt-servicing metrics are favourable, and the IMF projects an improving trend. Kenya runs chronic fiscal and current account deficits (in the six to eight per cent of GDP range), and this is expected to remain the case over the medium-to-long term.

Current Account and Economic Growth



World Bank Governance Indicators



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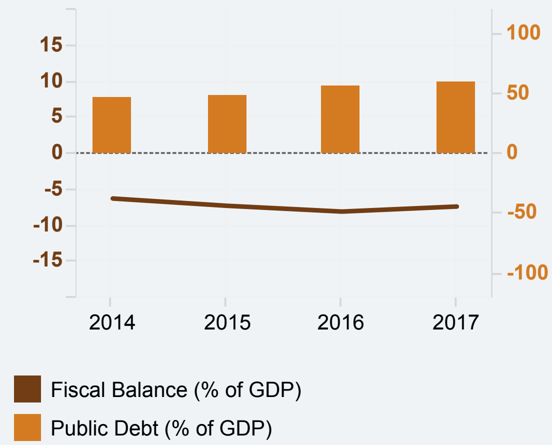
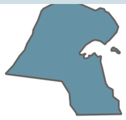
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Kuwait



Short-Term Commercial

Risk Rating **Payment Experience**

Kuwait's growth will continue to remain slow in 2016 at 2.5 per cent as the global oil glut keeps prices down. The pressure on the economy is mitigated by Kuwait's extremely high fiscal buffers and the gradual implementation of the Kuwait Development Plan. This plan, worth USD 116 billion, is slated to be implemented beginning in 2016 and focuses on 521 development projects – 90 of which are new, and 431 of which are continuing from the previous plan. The country retains ample import cover, and the current account is expected to remain in surplus. Strains in the relationship between the parliament and the executive slow decision making.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

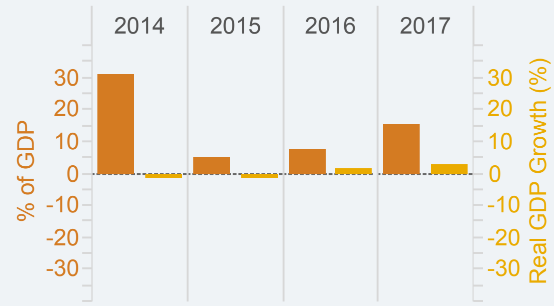
The commercial environment is relatively healthy, but risks remain. The banking sector is well regulated and is very well capitalized. Political violence risk is driven by Kuwait's proximity to Iraq and by lingering tensions between the monarchy and opposition parties. Tensions within the royal family regarding succession to the throne persist. Expropriation risk is driven by the mistrust of opposition groups in parliament to foreign investor involvement in the oil sector, which contributed to cancellations of major joint ventures in the past, as well as corruption investigations. These uncertainties continue to hinder infrastructure development and will restrain growth.

Sovereign

Sovereign Probability of Default

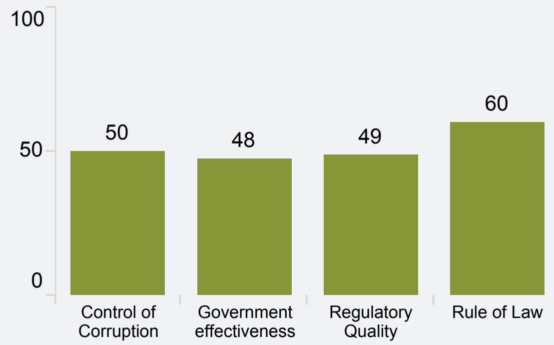
The sovereign's risk profile reflects the oil-rich country's very low levels of public debt (under 10 per cent of GDP), and consistently large current account surpluses. Oil production, which accounts for more than 80 per cent of government revenue, is expected to increase by 900,000 barrels per day by 2020. Policy deadlock between parliament and the executive has led to high levels of populist spending. Additionally, implementation of investment spending has been frequently delayed or blocked by tensions with parliament. As a result, less than 50 per cent of the 2010 five-year development plan has been completed. These tensions may continue to hinder investment over the medium term.

Current Account and Economic Growth



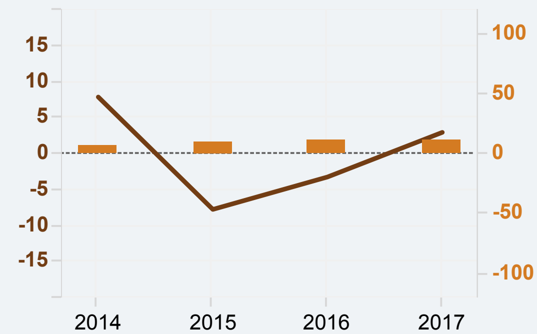
Current Account Balance
Real GDP Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Lebanon

Short-Term Commercial

Risk Rating **Payment Experience**

The country remains deeply divided along religious lines, with parliament unable to form a stable government, and a caretaker cabinet unable to endorse any major policies. Parliamentary elections initially scheduled for 2013 have now been delayed until at least March 2017. Additionally, parliament has been unable to elect a new president, leaving the post vacant since May 2014. The involvement of Hezbollah in the Syrian civil war is unsettling relationships between religious groups. Growth will remain tepid at 1.6 per cent in 2016. Domestic banks hold a large share of the country's debt, limiting the scope for growth in private sector credit.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

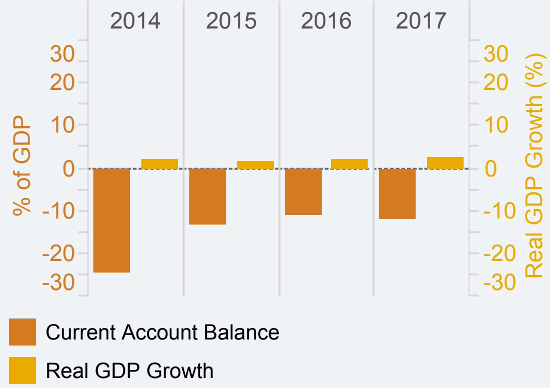
Lebanon's commercial environment is weakened by political violence risks stemming from regular sectarian clashes in Tripoli, and bombings in and around Beirut. With Lebanese factions actively intervening in the Syrian conflict, there have been spillover violence and terrorist attacks. Transfer and conversion risks remain as the government is expected to incur current accounts deficits of more than 11 per cent of GDP until at least 2020. However, the banking system does have abundant foreign exchange liquidity. Business conditions are hampered by a weak legal system, and by political gridlock, which has induced policy paralysis.

Sovereign

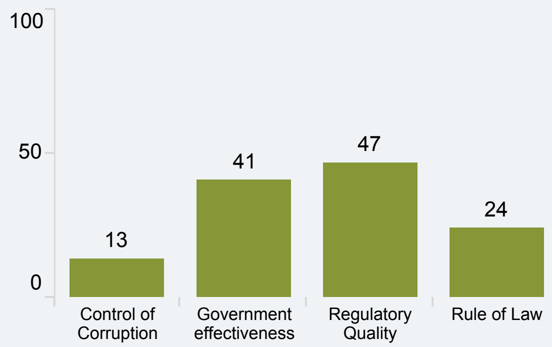
Sovereign Probability of Default

At 140 per cent, Lebanon's debt-to-GDP ratio is one of the highest in the world. After averaging growth of more than seven per cent from 2007 to 2010, economic growth has slowed dramatically to just over 1.5 per cent over the last few years. The political gridlock continues to prevent the approval of many projects that would promote growth. The political environment also makes it unlikely that IMF-recommended revisions to the tax code and the strengthening of tax administration, which would result in stronger revenues, will occur. Although offshore natural gas assets would boost revenues, development remains unlikely given policy paralysis.

Current Account and Economic Growth



World Bank Governance Indicators



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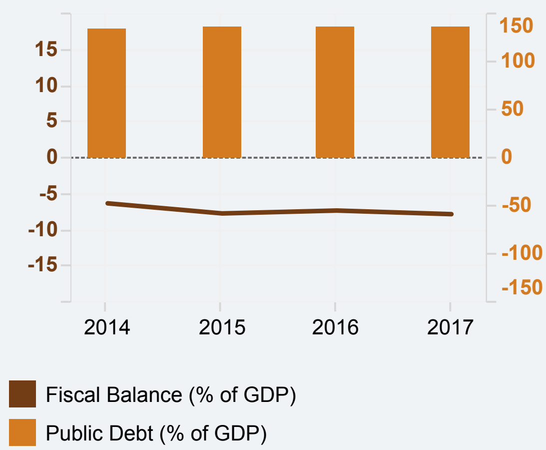
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Madagascar

Short-Term Commercial

Risk Rating **Payment Experience**

The political crisis that followed the 2009 coup d'état has ended with elections and the creation of a new government in 2014. However, risks remain, including a poor commercial operating environment. The current account remains in deficit and continues to draw upon foreign exchange reserves, which remain just under three months of import cover. The situation will continue improving with donors, including the IMF, resuming engagement and aid flows to the country.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

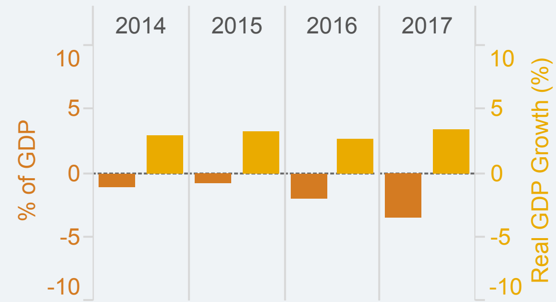
The main risk impacting the commercial space is that of expropriation and government interference. This is due to the political and policy uncertainty that stemmed from the 2009 coup d'état and the several years of transition that followed. This uncertainty had negative impacts on the country's regulatory and business environment. The return to an elected government in 2014 has provided a degree of policy predictability and improved the business environment, albeit marginally.

Sovereign

Sovereign Probability of Default

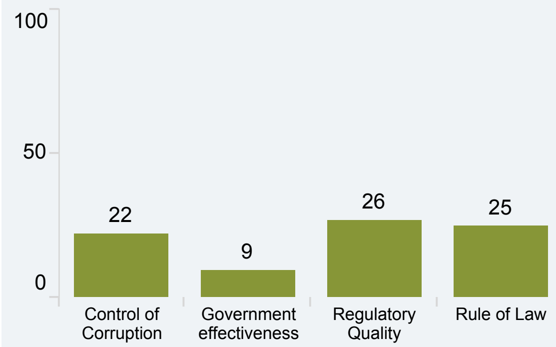
The political situation since 2009 has weighed heavily on the government's risk profile. The 2009 coup d'état and the subsequent political uncertainty resulted in donors withdrawing support. The situation is expected to continue improving with an elected government returning to power. In 2014, the IMF resumed engagement with the country and donor funding of the government has resumed.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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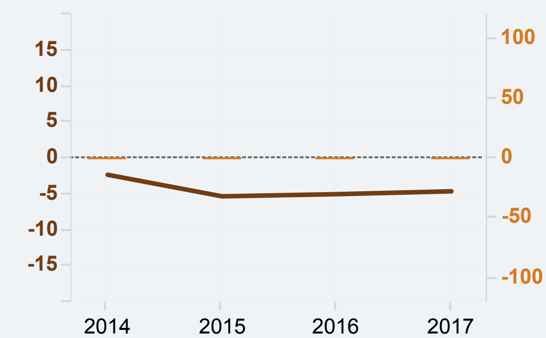
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mali

Short-Term Commercial

Risk Rating **Payment Experience**

Mali is a gold and cotton export-dependent, low-income economy still dealing with the after-effects of political crisis, which saw militant Islamists takeover parts of its northern region in 2012. A UN mission backed by France remains in the country. Despite continued insecurity in the North and increasing terrorist activity in the South, growth is still forecast to reach nearly five per cent in 2016, boosted by pent-up domestic demand but held back by low gold prices and decreased investment. Most of the country's wealth is generated in the densely populated south of the country where Mali's gold mines are located.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

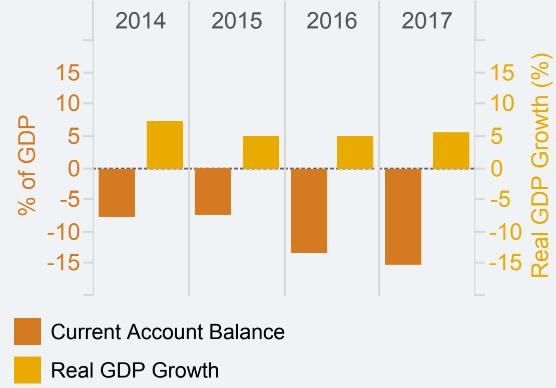
Expropriation risks are linked to governance issues, but outright nationalizations have not happened. Political violence risks remain elevated, owing to continued tensions in the North and some unresolved domestic friction related to the military's 2012 coup. Risks are highest in the North because separatist Tuareg groups and extremist jihadist militia retain a presence there. Terrorist activity targeting foreigners in the centre and south has, however, been increasing. Mali's membership in the West African CFA franc zone currency union mitigates transfer and conversion risk. The banking sector has seen increasing non-performing loans but is well capitalized, according to the IMF.

Sovereign

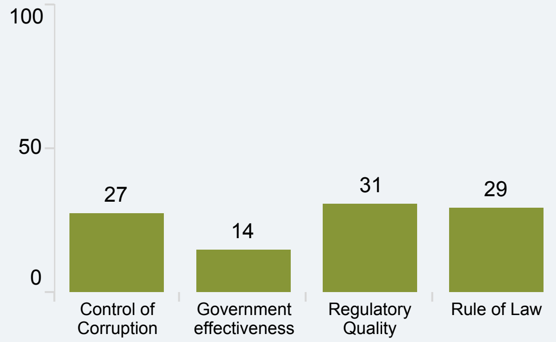
Sovereign Probability of Default

Mali is a low-income country with government revenues dependent on foreign aid and taxes collected from the gold mining sector. Exports are undiversified, comprising mostly cotton and gold (65 per cent of exports), while Mali's dependence on food and fuel imports has historically left the country with a current account deficit; Mali is currently benefiting from the lower fuel prices. One of Mali's strengths is its debt structure; public debt is mostly concessional and amounts to only 30 per cent of GDP.

Current Account and Economic Growth



World Bank Governance Indicators



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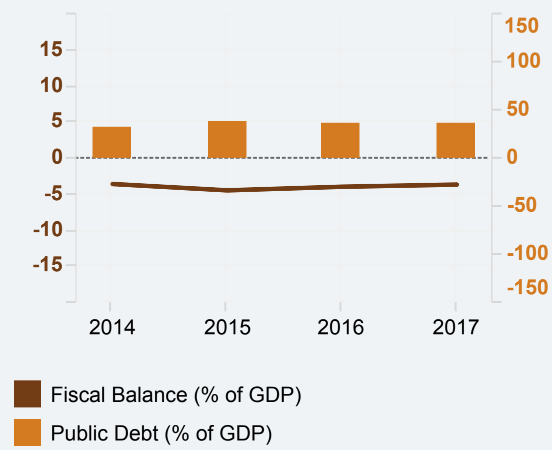
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mauritania

Short-Term Commercial

Risk Rating **Payment Experience**

Mauritania's economy is reliant on volatile exports such as iron ore, gold and fish. The country performs poorly in the Ease of Doing Business Index, which ranks Mauritania 176th out of 189 countries. Its performance in the rule of law governance indicator also places it in the bottom quartile of the ranking. Socio-economic protests occur occasionally and the country remains in an area targeted by regional Islamist extremist groups. However, despite these stresses, President Abdel Aziz's re-election in June 2014 was peaceful. Growth – driven by higher mining output, agriculture and construction – will exceed six per cent in 2016.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

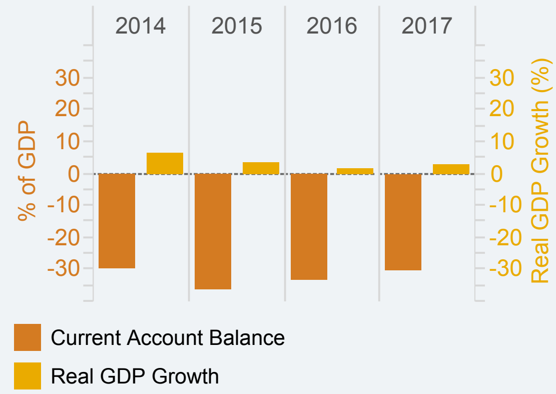
Factors driving political violence risk are ethnic and socio-economic grievances, the military's record of intervening in politics, and the presence of terrorist groups in the African Sahel region, which encompasses Mauritania and its neighbours. President Abdel Aziz and his allies dominate the political system, with limited space for opposition parties. Elevated corruption levels and the weak rule of law drive expropriation risk. Mauritania's adequate level of foreign exchange reserves helps boost its transfer and conversion risk rating. However, this is counter-balanced by the fact that export earnings are vulnerable to commodity price fluctuations.

Sovereign

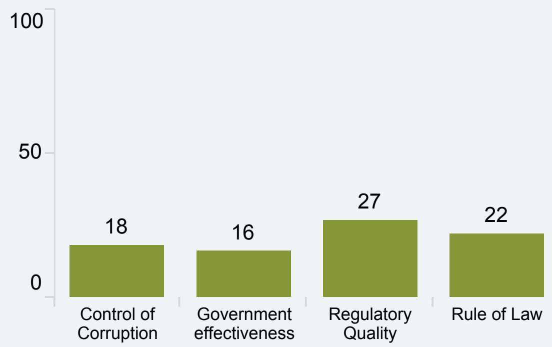
Sovereign Probability of Default

Low income levels (GDP per capita on a PPP basis is below USD two thousand) drives Mauritania's sovereign risk profile. The country has had a history of military coups and its economy is highly dependent on commodity exports (iron ore, copper, gold and crude oil). Mauritania benefited from a debt relief initiative in 2006 but the external debt-to-GDP ratio remains high at over 80 per cent. This amount may drop significantly pending negotiations with a large official Kuwaiti creditor. Foreign direct investment inflows have grown substantially in the past, but low metals prices will continue to dampen incoming investment.

Current Account and Economic Growth



World Bank Governance Indicators



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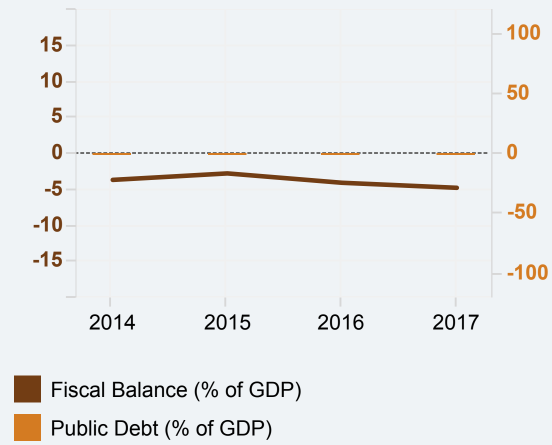
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mauritius

Short-Term Commercial

Risk Rating **Payment Experience**

Growth will remain steady at over three per cent as conditions in Europe – its main trading partner – improve. Foreign exchange reserves remain comfortable with over four months of import cover. With inflation subdued, currency stability is expected over the next year.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

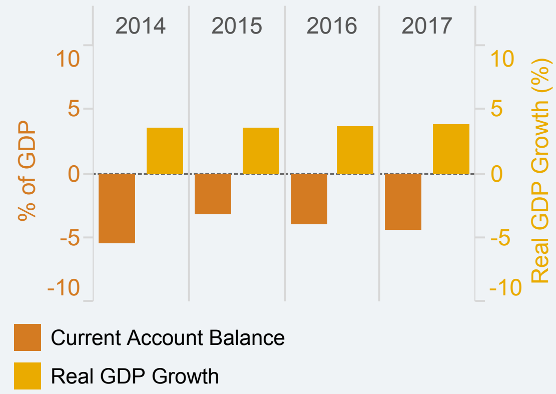
The country remains one of the top investment destinations in Africa, and is characterized by sound business legislation, strong foreign direct investment inflows, and a stable banking sector.

Sovereign

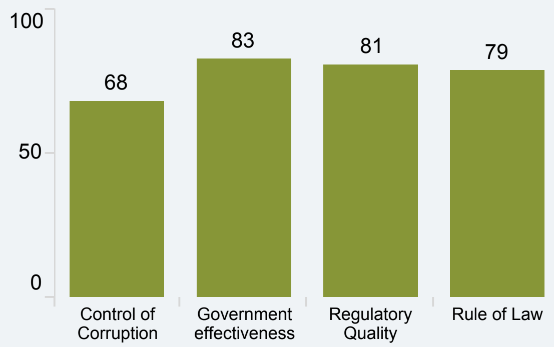
Sovereign Probability of Default

The sovereign risk profile continues to improve, and the authorities have been lauded for sound policy management. While public sector debt levels of 50 per cent of GDP are high, the robust growth outlook should facilitate fiscal consolidation over the medium term. GDP per capita has doubled in the past decade, and an increasingly diversified economy, along with public investments, will continue to boost living standards. Most medium- to long-term debt is concessional, lessening the government's interest burden.

Current Account and Economic Growth



World Bank Governance Indicators



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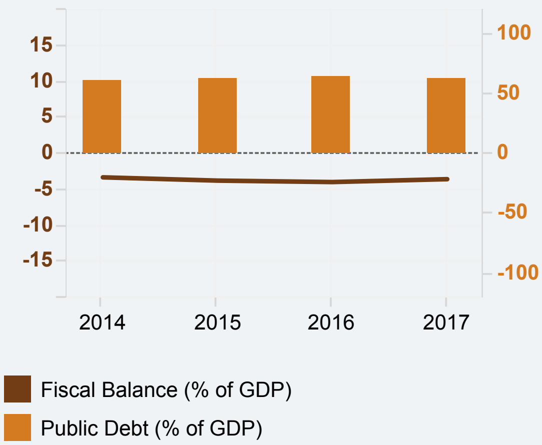
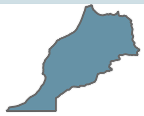
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Morocco



Short-Term Commercial

Risk Rating **Payment Experience**

As a net fuel importer and large trading partner with Europe, Morocco will benefit from positive economic conditions in 2016. Growth is forecast to be 3.1 per cent. The reduction of food and fuel subsidies since 2013 has boosted the country's foreign exchange reserves to just over six months. Morocco's stable security environment compared to regional peers will also increase tourism receipts in 2016. Parliamentary elections scheduled for the fall of 2016 could lead to increased government spending.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

Expropriation risks are driven by elevated levels of corruption and a weak rule of law. While an elected government is in place, policy development is often driven by members of the royal court. Pursuing redress through local courts in case of a dispute can be costly and time-consuming. However, Morocco is widely open to foreign direct investment in most sectors of the economy, and maintains a respectable regulatory environment. This has spurred the development of significant automotive and aerospace industry clusters in the country. King Mohammed VI continues to enjoy significant popular support and has introduced some reforms to increase the power of parliament and elected officials.

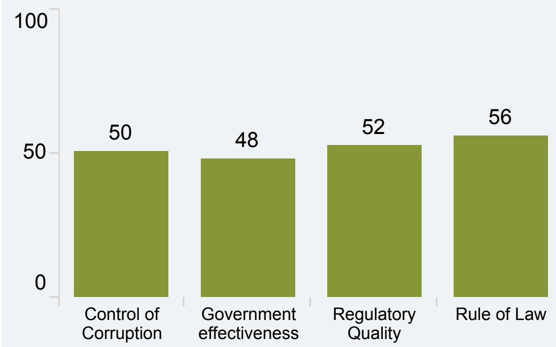
Sovereign

Sovereign Probability of Default

By 2020, Morocco's total external debt is expected to decline to less than 35 per cent of GDP, driven in part by substantial subsidy reforms and lower global commodity prices. Most of this debt is with official creditors and carries low interest rates. Morocco's relatively low GDP per capita, higher overall public debt-to-GDP ratio (64.4 per cent in 2016), and twin fiscal and current account deficits are negative factors. However, lower global commodity prices and the extension of an IMF USD 6.2 billion precautionary line of credit supports the government's fiscal agenda.

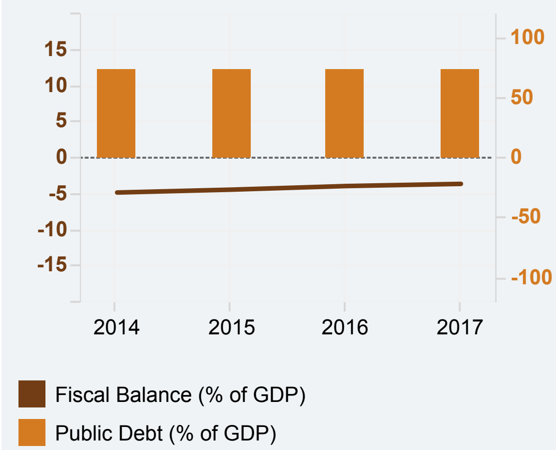
Current Account and Economic Growth

World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Mozambique

Short-Term Commercial

Risk Rating **Payment Experience**

Robust economic growth (above six per cent) will persist over the medium term, and opportunities in the extractive and infrastructure sectors are significant. The key risks are related to the weak commercial environment and low commodity prices which are delaying investment. Development of the gas sector has led to a significant current account deficit (over 35 per cent of GDP). However, this deficit will narrow as exports – including coal – continue to expand. Election results in 2014 were disputed by the main opposition party, raising some short-term risk concerns, but overall stability is expected to remain.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

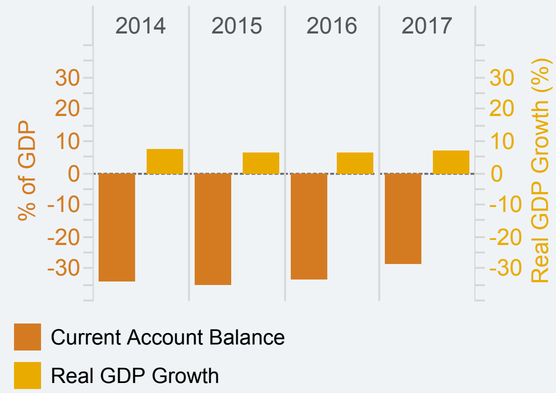
The commercial environment remains challenging, and the country continues to fare poorly in virtually all business environment indicators. This should improve as the government makes a concerted effort to continue drawing in foreign direct investment, estimated at over USD six billion annually. There was an increase in violence in the lead-up to the 2014 elections, but these attacks have since leveled off and did not greatly impact the overall business environment.

Sovereign

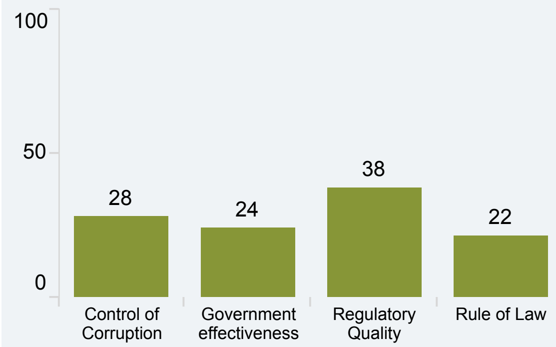
Sovereign Probability of Default

Widespread poverty, a narrow tax base, and weak institutions weigh heavily on Mozambique's creditworthiness. The economy is expected to continue growing at current rates. However, the outlook is dependent on a few mega projects and the government's management of the nascent gas sector is yet to be tested. Government debt stands at roughly 50 per cent of GDP, and debt servicing is not a major issue as most of this debt is on concessional terms. However, this situation could worsen as the government's debt management capacity has drawn criticism, including from the IMF.

Current Account and Economic Growth

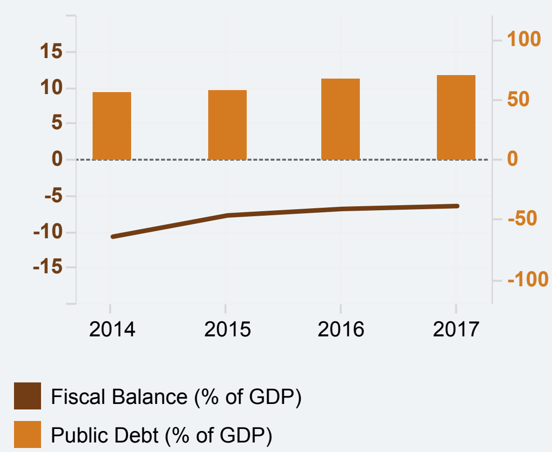


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Namibia

Short-Term Commercial

Risk Rating **Payment Experience**

The economy will continue to expand at a healthy pace of approximately five per cent annually over the medium term, driven by continuing foreign direct investment into new infrastructure and mining projects. As part of the Common Monetary Area, foreign exchange risks are partially mitigated. While Namibia's peg to the South African rand is expected to remain in place, the rand's volatility has led to heightened inflation in Namibia. The economy is heavily dependent on mining sector production (11 per cent of GDP), and is closely intertwined with that of South Africa, the country's main trading partner, which presents a vulnerability.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

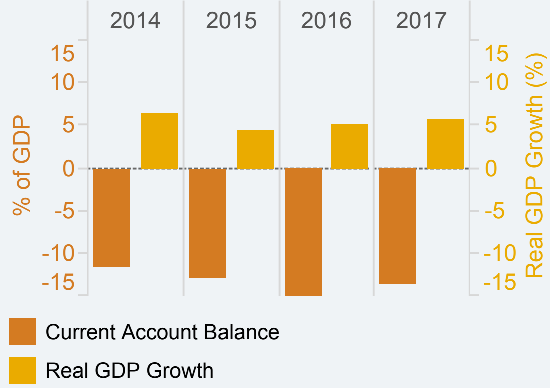
The commercial environment is strengthened by Namibia's membership in the Common Monetary Area, which brings with it a long-standing peg to the South African rand. Free movement of capital and open access to South Africa's foreign exchange and capital markets significantly reduce transfer and convertibility risk. Expropriation risks reflect ongoing regulatory changes in the mining sector, but the government is expected to maintain a favourable attitude towards foreign investment.

Sovereign

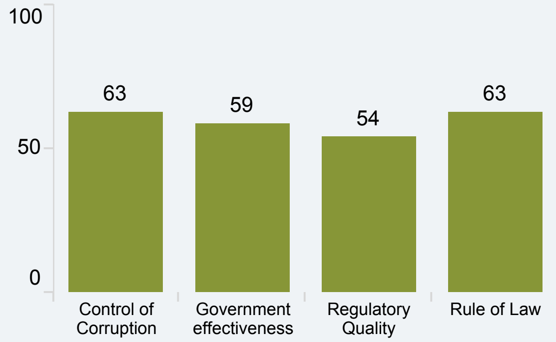
Sovereign Probability of Default

Relatively low government debt levels at 30 per cent of GDP, along with political stability and moderate institutional strength, underpin the sovereign's risk rating. The country's heavy reliance on transfers from the South Africa Customs Union, which constitute 30 per cent of government revenue, is a vulnerability to watch, particularly as South Africa's economy continues to slow.

Current Account and Economic Growth

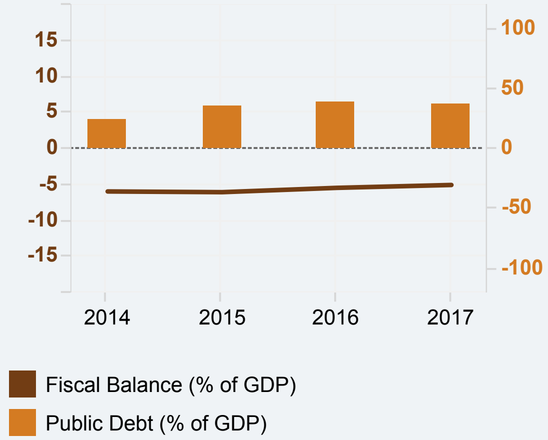


World Bank Governance Indicators



The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Nigeria

Short-Term Commercial

Risk Rating **Payment Experience**

Short-term risks have increased as a result of plummeting oil prices. The Nigerian government's high reliance on oil revenues is constraining the finances of all levels of government, increasing the risk of payment delays and defaults. Exchange controls announced in June 2015 are also restricting the ability of importers of many types of goods to purchase hard currency. Furthermore, the Central Bank's regular sales of hard currency to local banks are insufficient to meet local demand, causing late payments to foreign suppliers. The President and Central Bank oppose a currency devaluation, but it will be difficult to avoid.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

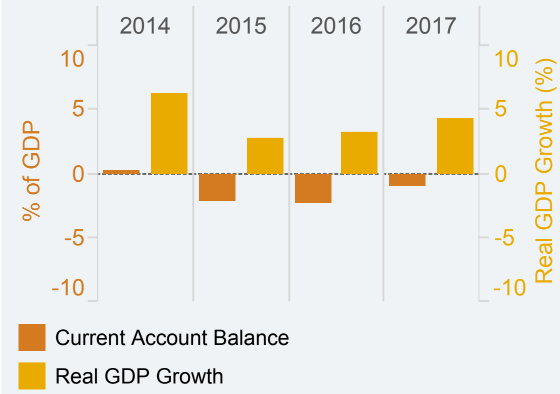
Political violence risk is driven by radical Islamist group Boko Haram's attacks in northeastern Nigeria as well as political tensions in the oil-producing Niger Delta. Expropriation risk is driven primarily by Nigeria's poor ranking in the World Bank's corruption and rule-of-law indicators. The recently elected Buhari administration's determination to tackle corruption and overhaul the public sector is positive, but could disrupt business in the short term. Transfer and conversion risk is increasing after capital controls were imposed to protect foreign exchange reserves, which had deteriorated due to plummeting oil exports.

Sovereign

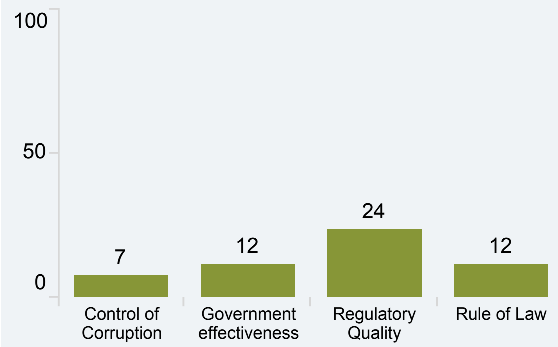
Sovereign Probability of Default

Nigeria's sovereign credit rating is supported by its low public debt-to-GDP ratio (under 15 per cent). However, exports and investment inflows, which have historically gravitated toward the oil industry, are likely to contract in the short term due to low oil prices and fears of imminent devaluation. Coupled with the oil theft problems in the Niger Delta region and growing insurgent activity there, low oil prices will constrain government revenue, 60 per cent of which comes from the oil and gas sector. Government policies to increase revenues drawn from the under-taxed non-oil economy will take time to enact.

Current Account and Economic Growth



World Bank Governance Indicators



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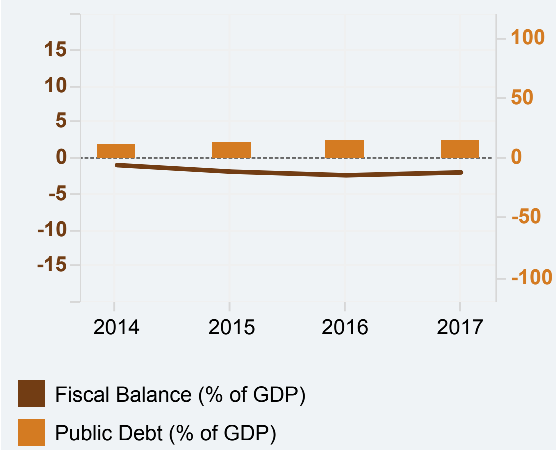
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Oman

Short-Term Commercial

Risk Rating **Payment Experience**

The rout in global oil prices has squeezed Oman's fiscal capacity and growth. GDP is forecast to grow by just 2.4 in 2016, the weakest pace in five years. With Chinese demand for commodities weakening, the volume of oil exports will also be constrained. The overall economy is largely state-led, with high levels of public sector employment and subsidies. Spending on these has been reduced, further curtailing growth in the economy. In November 2015, Oman tapped the market for a five year, USD one billion loan to support liquidity. Oman maintains more than five months of import cover, allowing for a stable currency peg to the USD.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

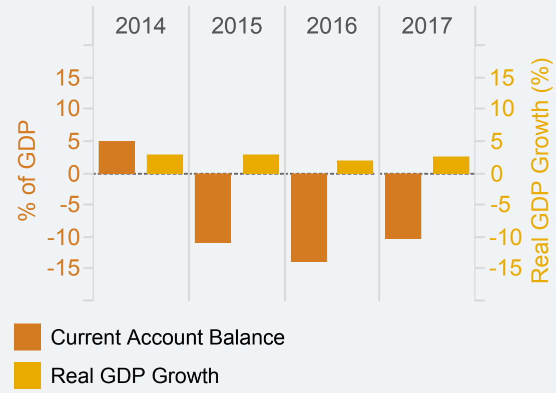
Political violence risk is not a major concern, although occasional pro-democracy protests do occur. The government is pro-investment, has enshrined property rights in law, and performs better than most regional peers on levels of corruption, lessening expropriation risk. Oman has a positive relationship with Iran, and the conclusion of Iran's nuclear negotiations with the P5+1 group may provide for stronger growth over the medium term.

Sovereign

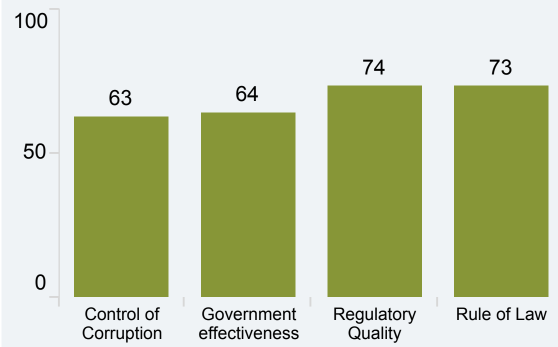
Sovereign Probability of Default

The lack of clarity around political succession could destabilize Oman in the medium term. The health of the Sultan is uncertain and there is no clear process in place to name a successor. None of the main contenders possess a broad base of support, so any transfer of power could drag out and impede government decision-making. With a fiscal break-even oil price forecast to be around USD 105/bbl in 2015 and maturing oil fields, Oman faces significant pressure in a low oil price environment. The government will face pressure to reduce subsidies and the public sector wage bill.

Current Account and Economic Growth



World Bank Governance Indicators



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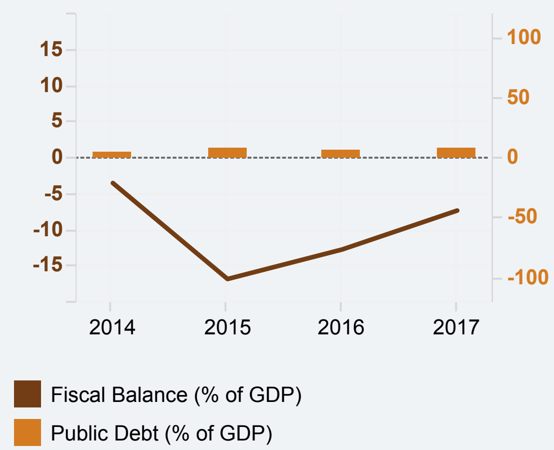
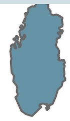
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Qatar



Short-Term Commercial

Risk Rating **Payment Experience**

Growth in Qatar has slowed from the double-digit peaks it experienced early in the decade due to a self-imposed moratorium on some hydrocarbon developments. Increasing US and Australian competition in the LNG market and lower global oil prices will restrain growth in 2016 to 4.9 per cent. Given reduced fiscal capacity, the focus will be on infrastructure, transportation, and other non-gas investments. Projects requiring completion for the 2022 FIFA World Cup may result in other projects being delayed or cancelled. Foreign exchange reserves are sizable at more than nine months of import cover, and the current account is highly likely to remain in surplus.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

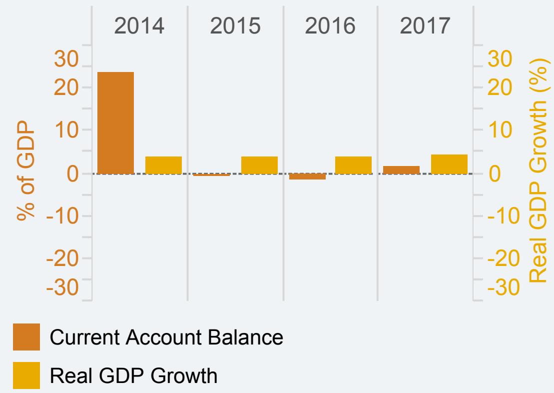
Driven by non-hydrocarbons activity, growth will remain strong into the medium term. Significant investments in communications and transportation infrastructure are planned, and development for the infrastructure in preparation for the FIFA 2022 World Cup has begun. The risk of the tournament being revoked due to corruption concerns remains due to turmoil within FIFA. While many infrastructure projects are insulated from the possible revocation, those related to stadiums and tourism are at risk if the tournament gets moved. The country's position in the World Bank's Ease of Doing Business rankings lags behind other Gulf Cooperation Council countries, and has slipped in recent surveys.

Sovereign

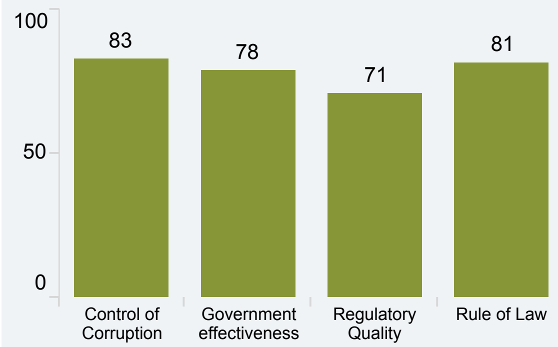
Sovereign Probability of Default

As the largest global producer of liquefied natural gas (LNG), a string of sizable government surpluses is projected in the medium to long term, even if crude oil prices remain weak. The size of these surpluses is expected to decline as LNG supply increases globally. Qatar re-entered the loan market at the end of 2015 for the first time since 2004 as declining energy prices have reduced fiscal capacity. However, at just under 40 per cent in 2015, public debt remains low. Qatar's relationship with other members of the GCC remains positive after an extended period of tensions.

Current Account and Economic Growth

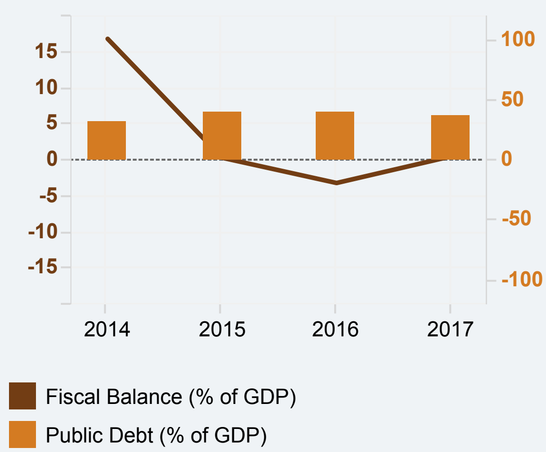


World Bank Governance Indicators



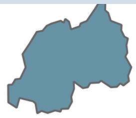
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Rwanda



Short-Term Commercial

Risk Rating **Payment Experience**

The country's small economy and its export base remain highly dependent on agriculture. As such, fluctuations in these commodity prices and weather patterns present ongoing risks. That said, Rwanda enjoys strong GDP growth rates (consistently over six per cent) and economic diversification efforts are under way. Current account deficits are a result of high levels of imports, many of which are needed to further economic development. Foreign exchange reserve levels dropped in recent years owing to the suspension of aid from several key donors, but donor relations and reserves have since recovered.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

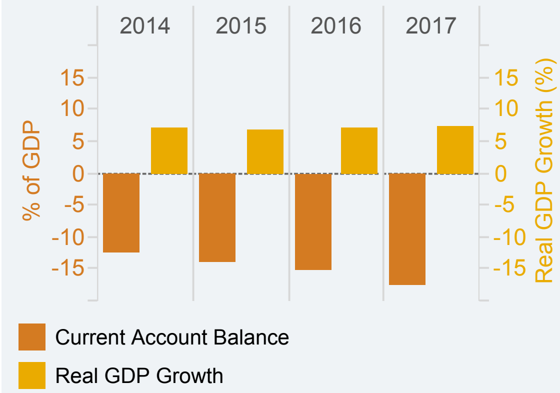
While the security environment is stable, the tightly controlled nature of the political sphere could lead to instability over the longer term. Transfer and inconvertibility risks reflect the small and poorly diversified economy; agriculture continues to account for 35 per cent of GDP. Suspension of donor support in recent years has raised foreign exchange availability concerns, but these have been handled well by the authorities. Expropriation is not considered a key risk as the government is viewed as a strong reformer of the investment environment.

Sovereign

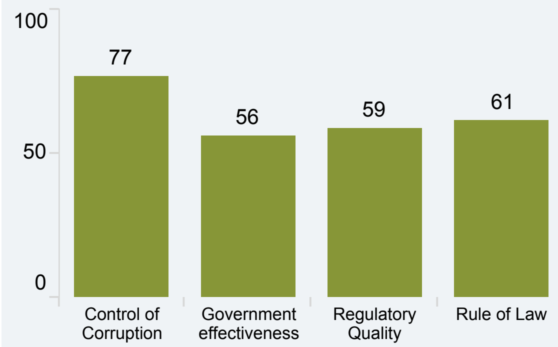
Sovereign Probability of Default

The sovereign rating is based on several structural weaknesses, including Rwanda's continued dependence on international aid, which has been sporadically withheld in recent years. While the authorities have managed these cuts relatively well through fiscal tightening and overall sound economic management, economic growth suffered as a result, but has since recovered. External debt as a per cent of GDP is expected to increase slightly over the short term; however, public debt will remain below 50 per cent of GDP.

Current Account and Economic Growth



World Bank Governance Indicators



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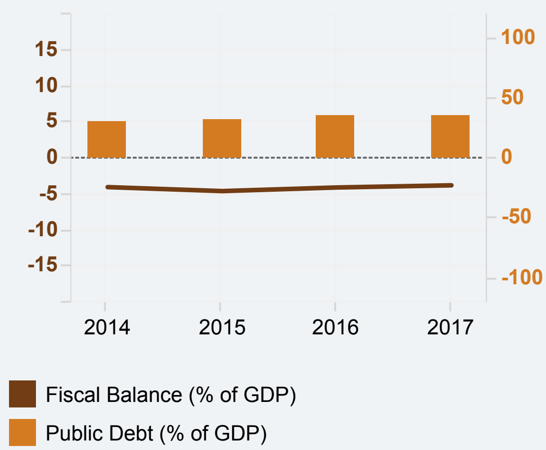
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Saudi Arabia

Short-Term Commercial

Risk Rating **Payment Experience**

The global supply glut of oil and the resulting weak prices are forecasted to keep Saudi Arabia's fiscal deficit above 15 per cent of GDP in 2016. Despite the gap, FX reserves are expected to remain at nearly 30 months in 2016, more than enough to support the riyal's peg to the USD. The low prices and some fiscal austerity will restrain growth to 1.2 per cent in 2016, the weakest growth since 2001.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

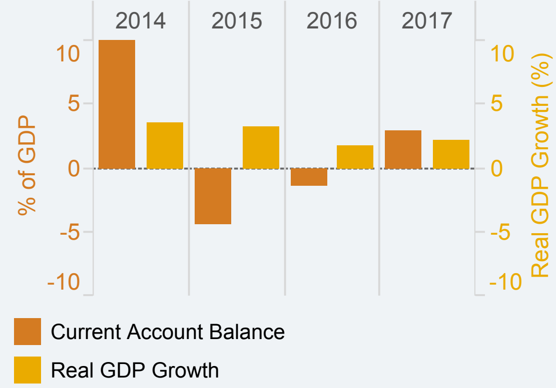
The commercial environment is strengthened by a positive growth outlook and government capital investments that are generating private sector opportunities. There remains the prospect of localized political unrest in the oil-rich Eastern Province, home to Saudi Arabia's disadvantaged Shia minority. The country will also continue experiencing sporadic attacks or incidents of terrorism due to Islamist militants. A labour market nationalization program seeks to raise the level of employment of Saudis in the private sector, and will continue to impede the use of foreign workers in specific sectors. Transfer and convertibility risks are mitigated by the very large foreign exchange reserves.

Sovereign

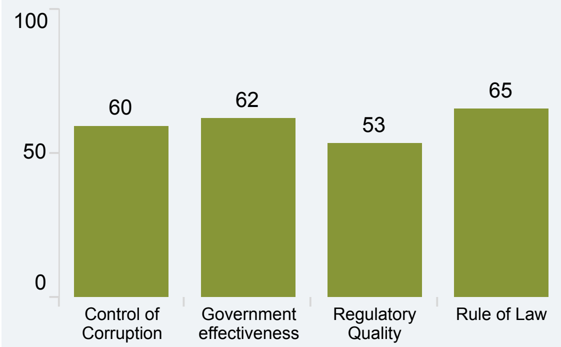
Sovereign Probability of Default

The recent cabinet reshuffle by King Salman and the line of royal succession may increase tensions within the ruling family over the medium term. The Kingdom's external debt is at negligible levels, and foreign exchange reserves exceed the country's total stock of private and public foreign debt. However, the persistence of low oil prices is expected to force the country to resume issuing foreign debt in 2016. Saudi Arabia maintains considerable fiscal flexibility given its low debt burden, high reserves and opportunity to reduce current spending by reducing subsidy spending. Any attempts or progress on subsidy reform will be slow given the importance of political and social stability.

Current Account and Economic Growth



World Bank Governance Indicators



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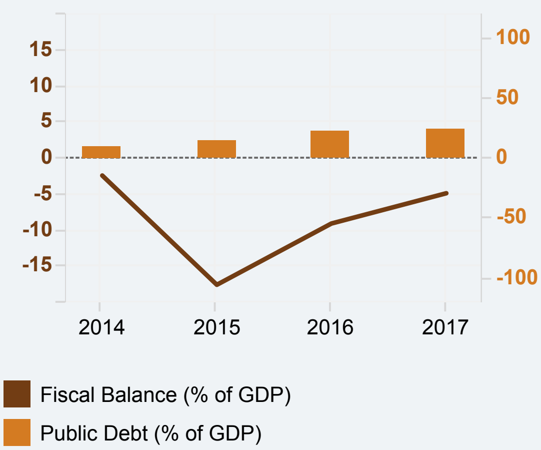
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Senegal

Short-Term Commercial

Risk Rating **Payment Experience**

Senegal's performance in the World Bank's Ease of Doing Business rankings remains lacklustre, with business constrained by a difficult tax system and long waits for access to electricity. However, Senegal performs well compared to regional peers in World Bank governance indicators measuring corruption and rule-of-law perceptions. Exports earnings come from European tourism, and agricultural and seafood commodity exports. Growth is expected to be just over five per cent in 2015. Public investment and lower fuel prices will contribute positively to economic expansion. Senegal's use of the CFA franc reduces the risk of non-payment due to transfer and convertibility issues.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

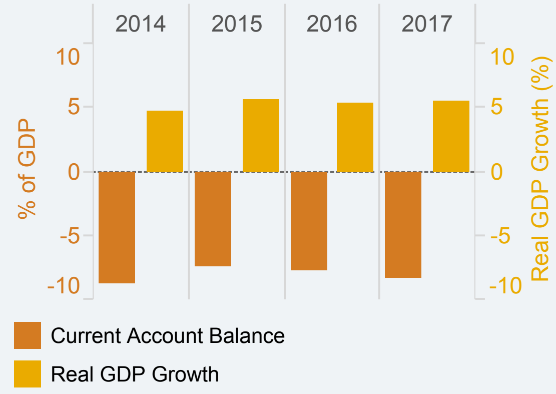
Transfer and conversion risk is determined by Senegal's membership in the West African CFA franc zone currency union. The CFA franc is backed by the French treasury and the currency union's regional bank at which the foreign exchange reserves of member countries are pooled. Expropriation risk in Senegal is lessened by its investment-friendly policy record. Political violence risk is reduced by Senegal's track record of peaceful elections and transitions. Secessionist groups in the Casamance region and militant Islamist extremists based in neighbouring countries do, however, pose a potential threat to expatriates and foreign companies.

Sovereign

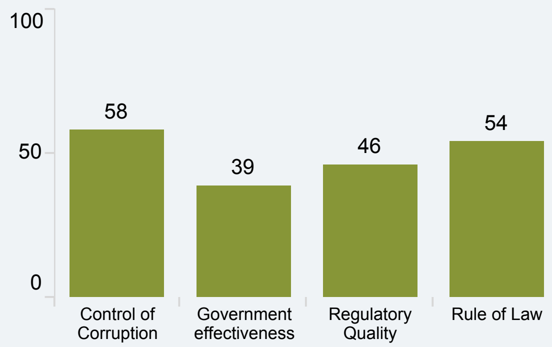
Sovereign Probability of Default

The main factor driving Senegal's sovereign risk rating is its low-income level (GDP per capita is just over USD two thousand). Subsidies provided to the country's inefficient electrical utility are a drain on public finances. Lower fuel prices will lessen subsidies in 2016 but without reforms, electricity shortages will continue to curb local industry. Senegal's strength is its good relationship with donors, which has mobilized support for the long-term "Plan Senegal Emergent" growth strategy. Senegal's debt has been rising with external public debt now at under 50 per cent of GDP, but most of this debt is concessional.

Current Account and Economic Growth



World Bank Governance Indicators



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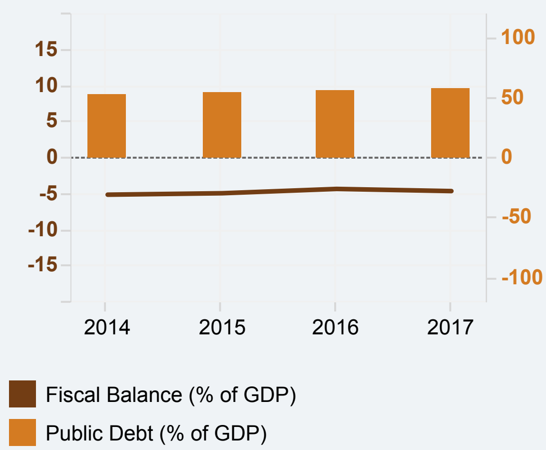
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

South Africa

Short-Term Commercial

Risk Rating **Payment Experience**

South Africa's banking sector is healthy, and the country has one of the strongest commercial operating environments on the continent. Nevertheless, economic and export growth has been sluggish. The volatility of the rand, reflecting weakened investor sentiment due to persistent strike action, high labour costs, and low growth prospects, remains a risk over the short term. GDP growth hovered around two per cent in recent years but will drop to 1.5 per cent in 2016.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

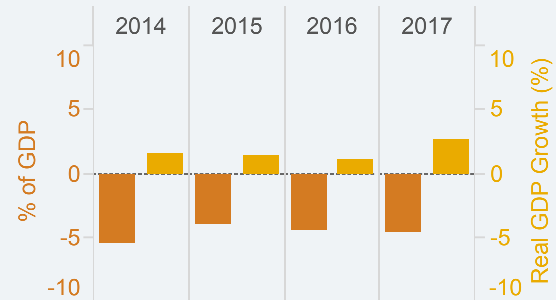
South Africa enjoys a strong business operating environment, including a healthy banking sector. Political violence and expropriation risks are driven by social and economic disparities, which have occasionally manifested themselves through violent labour disputes and populist/nationalistic rhetoric from elements of South African society. Organized labour militancy poses a business interruption risk, as witnessed during the wave of mining strikes in recent years.

Sovereign

Sovereign Probability of Default

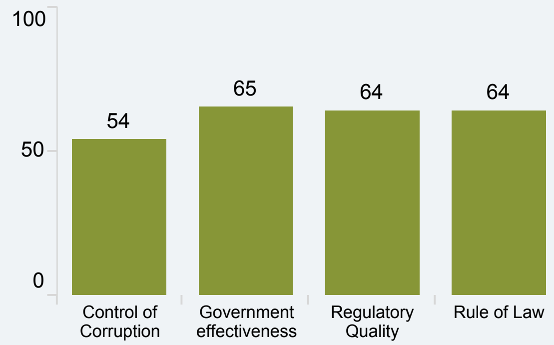
The government's moderate debt burden and its status as a net external creditor are key rating supports, but are offset by the significant structural challenges that face the country. The growth outlook is frail by regional standards, and weakened investor sentiment could drive away foreign capital flows required to fund the current account deficit (which remains roughly five per cent of GDP). The government's massive infrastructure plan should contribute to the productive capacity of the economy in the coming decades, but will increase state-held debt in the short term and may be scaled back given the sovereign's weakened position owing to sluggish growth.

Current Account and Economic Growth



Current Account Balance
Real GDP Growth

World Bank Governance Indicators



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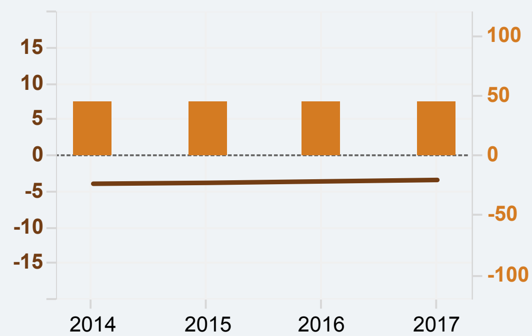
Public Finances



Fiscal Balance (% of GDP)
Public Debt (% of GDP)

Sources: EDC Economics, World Bank, Haver Analytics, EIU

Tanzania

Short-Term Commercial

Risk Rating **Payment Experience**

Despite ongoing acute power shortages, Tanzania's economy will grow by roughly seven per cent in 2015, well above the regional average. Inflation has moderated, and is now in the single digits. The current account deficit (10 per cent of GDP) is under pressure from weaker gold exports, which represent a third of all exports. The power sector corruption scandal led to donors suspending direct budgetary support in 2014, driving up short-term risks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

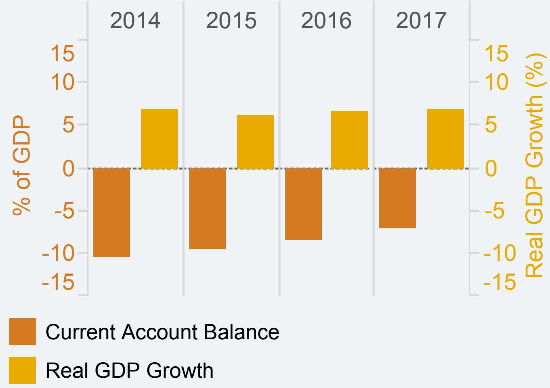
While outright expropriation is not a great concern, heightened levels of corruption, and general regulatory weakness linger. The power sector corruption scandal, which saw USD 120 million taken from the central bank, has brought these matters to the forefront. Political violence is not a major risk to business, but there have been several recent incidents in certain parts of the country that have raised concerns. The banking sector is considered stable as a result of years of financial market reforms.

Sovereign

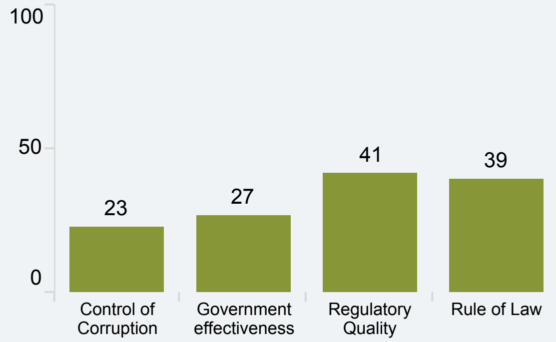
Sovereign Probability of Default

Tanzania has benefited from extensive debt relief during the last decade, and public sector debt has crept up to 45 per cent of GDP (from 25 per cent after the debt relief). In recent years, the government has accumulated some domestic arrears – an indication of fiscal stress. The exploitation of large natural gas deposits will require some short-term spending, but will have a significant and positive impact on government debt dynamics over the medium term. The recent corruption scandal – and subsequent suspension of direct budgetary support to the government from donors – has weakened the sovereign's financial position somewhat.

Current Account and Economic Growth



World Bank Governance Indicators



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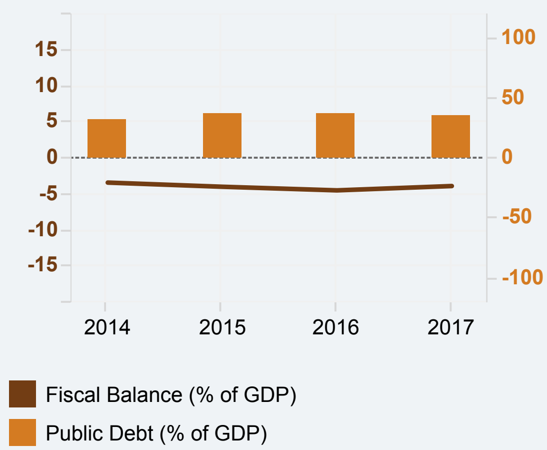
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Tunisia

Short-Term Commercial

Risk Rating **Payment Experience**

Tunisia's real GDP is expected to grow at three per cent in 2016 as the country faces lower tourism arrivals due concerns over terrorism. Weaker economic conditions in the Eurozone, particularly in Italy and France should further restrain economic growth. These countries are the main destination for Tunisian exports and a source of tourists and remittance flows. Strikes and localized protests, mostly about socio-economic issues, will continue to occur, sometimes causing brief business disruptions.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

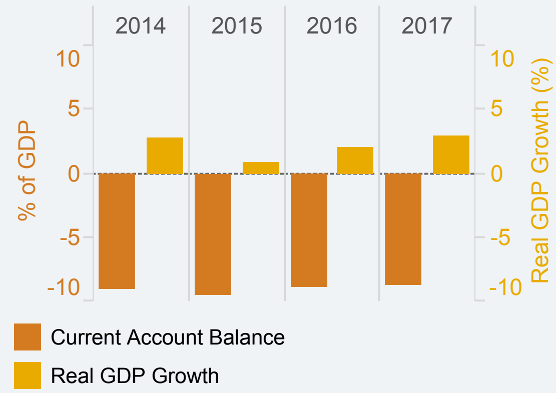
Regulatory uncertainty as the coalition government begins to pass legislation increases the expropriation risk up somewhat. This is tempered somewhat by that fact that the business environment has remained open to foreign investors, even during the period of political transition. The main political violence threats emanate from local radical Islamist groups and by militants returning from Syria and Libya. Although these groups do not have a large footprint in the country, they are strengthened by regional developments and the porous border with Libya,, as highlighted by high-profile attacks targeting foreigners in 2015.

Sovereign

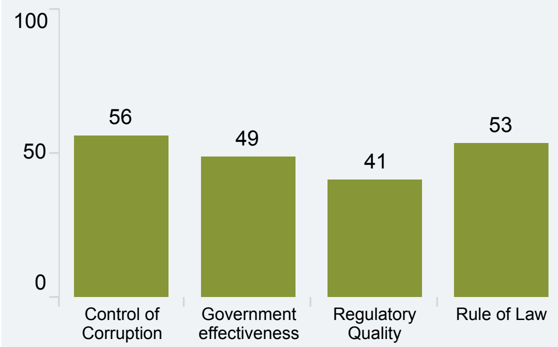
Sovereign Probability of Default

While the coalition government experienced some upheaval at the start of 2016, it will retain its parliamentary majority. The country's relatively successful transition since the 2011 Arab Spring makes it a recipient of significant financial assistance from the international community to cover fiscal and current account deficits. Total public debt (domestic and external) is very likely to remain below 60 per cent of GDP. Most of Tunisia's external debt obligations will mature in the medium to long term, and the country is expected to meet its financing needs, benefiting from its access to concessional loans from official lenders.

Current Account and Economic Growth

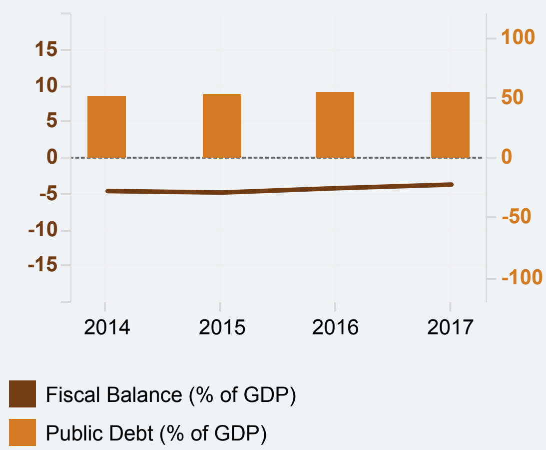


World Bank Governance Indicators



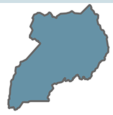
The percentile rank term ranges from 0 (lowest rank) to 100 (highest rank).

Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Uganda



Short-Term Commercial

Risk Rating **Payment Experience**

Short-term risk is driven by the country's continued dependence on donors for financial assistance, and the recent strains placed upon these relations. Fluctuations in the currency and chronic current account deficits place some pressure on the economy, particularly given its narrow export base; coffee remains the single major export revenue earner. The growth outlook is positive, but strong import demand related to the nascent oil industry will keep the current account deep in the red (10 per cent of GDP).

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

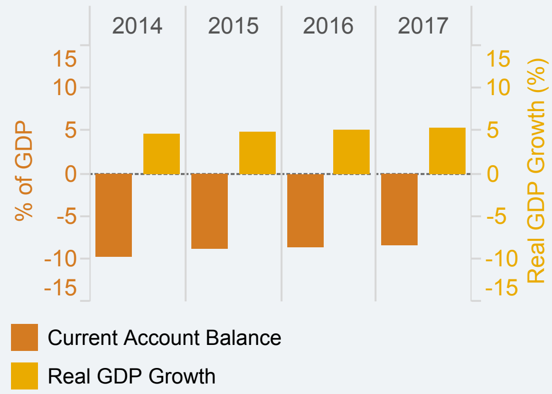
The risk of expropriation is driven by recent corruption scandals in government and regulatory concerns in the emerging oil sector. President Museveni has been in power since 1986, and the handling of an eventual succession could lead to uncertainty in both the political and business environments.

Sovereign

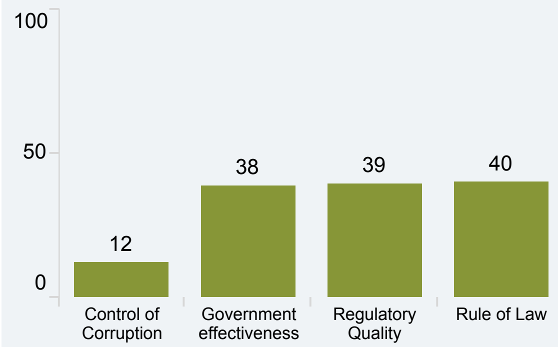
Sovereign Probability of Default

Low levels of economic development and widespread poverty are the main constraints on the rating. The public sector debt burden is manageable at 45 per cent of GDP; however, the fiscal deficit has grown in the lead-up to the 2016 elections, increasing the debt burden. The government relies on donor support, and concerns around governance led to some contributors temporarily suspending aid in 2013 and again in 2014.

Current Account and Economic Growth



World Bank Governance Indicators



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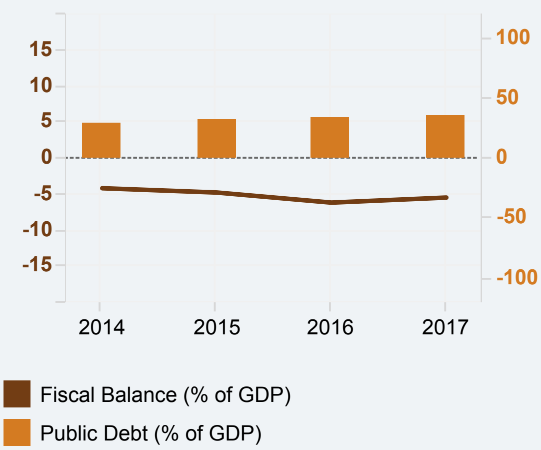
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

United Arab Emirates

Short-Term Commercial

Risk Rating **Payment Experience**

Real GDP growth is forecast to increase slightly, reaching just over three per cent in 2016. The diversified nature of the UAE's economy including trade and tourism will provide the boost, even though oil prices are expected to remain soft. The implementation of the international nuclear agreement with Iran in January 2016 may lead to even stronger growth as sectors such as tourism, transportation, and trade finance, which are closely tied to Iran, will benefit. The appreciation of the US dollar has resulted in some loss of competitiveness for the UAE due to the dirham's peg.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

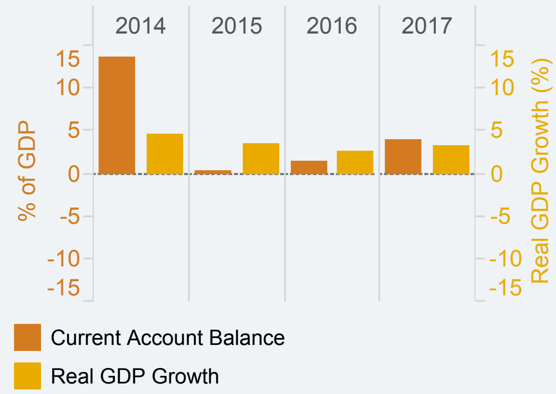
Economic growth is forecast to average around 3.5 per cent between 2016 and 2021, driven largely by household spending and non-oil business consumption. The decision to award the 2020 World Expo to Dubai is expected to bolster construction activity, infrastructure development, and growth in tourism. In Q4 2015, Dubai enacted a new law on public-private partnerships, which will permit greater private sector funding to be used for infrastructure projects. The business environment is supportive of foreign investors with a number of economic free zones across the emirates.

Sovereign

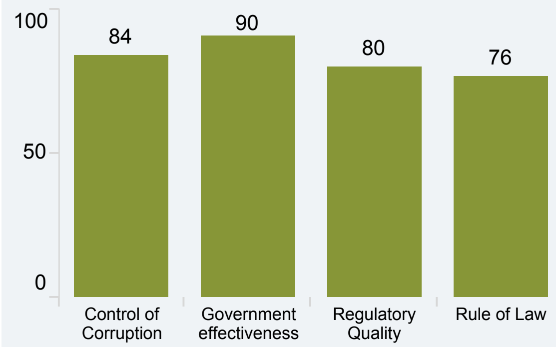
Sovereign Probability of Default

The federal government and those in individual emirates have taken steps to reduce spending in the face of weak oil prices. Fuel prices were deregulated in August 2015, following earlier increases in water and electricity rates. These moves are expected to reduce the UAE's fiscal breakeven oil price to around USD 70/barrel in 2016, more than USD 10 less than it was in 2014. Overall, the federal government's financial capacity is likely to remain strong with the support of oil-rich Abu Dhabi, which has a sovereign wealth fund with significant foreign assets and total debt levels of less than 10 per cent of GDP.

Current Account and Economic Growth



World Bank Governance Indicators



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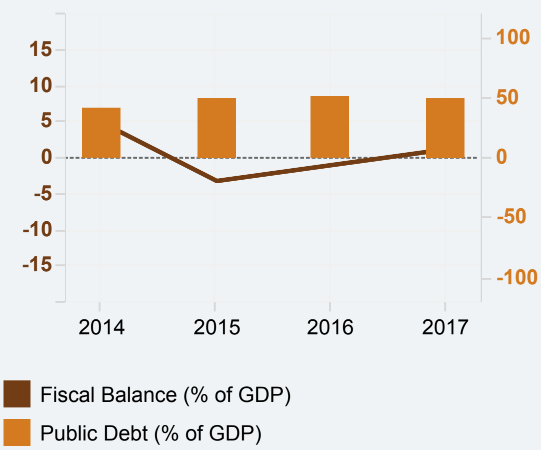
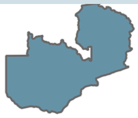
Public Finances



Sources: EDC Economics, World Bank, Haver Analytics, EIU

Zambia



Short-Term Commercial

Risk Rating **Payment Experience**

The country's heavy reliance on copper exports (70 per cent of export earnings) leaves it vulnerable to the current low price environment. A lingering fiscal deficit (six per cent of GDP) is another concern. In spite of continued foreign direct investment inflows, lowered foreign exchange reserves and an extremely weakened currency have increased short-term risks.

Medium-Long Term Commercial

Commercial Country Ceiling **Expropriation**

Transfer and Conversion **Political Violence**

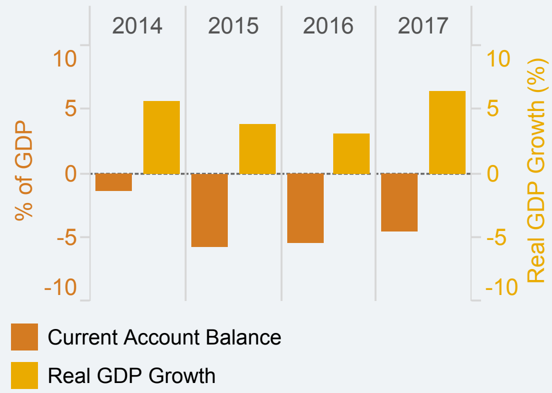
The commercial environment is weakened by regulatory uncertainty, with government directives (including some transfer restrictions) being passed and then revoked. Other key risks, such as an insufficient infrastructure and an ongoing power shortage, are related to the challenging operating environment.

Sovereign

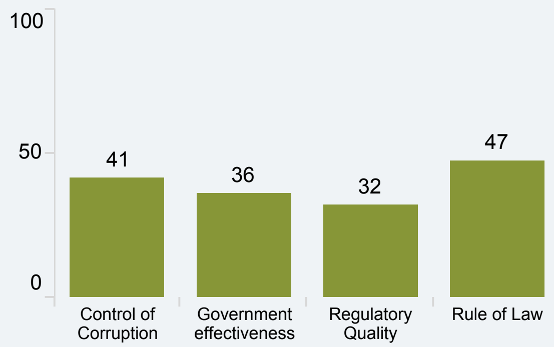
Sovereign Probability of Default

Zambia's sovereign risk profile is driven by a variety of deteriorating indicators. These include climbing debt ratios (now over 40 per cent of GDP, up from 25 per cent in 2011) and a widening fiscal deficit. Economic growth slowing to five per cent (owing to copper production cuts) is another contributing factor. Additionally, the country's currency volatility remains a concern, having lost over 40 per cent of its value against the USD in 2015. While government debt levels remain manageable, debt-servicing costs will continue to climb as an increasing share of the government's debt is in foreign currency on commercial terms. A track record political stability remains a positive factor.

Current Account and Economic Growth



World Bank Governance Indicators



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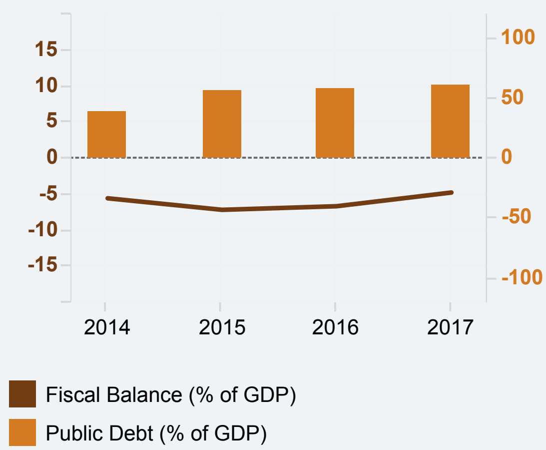
Public Finances



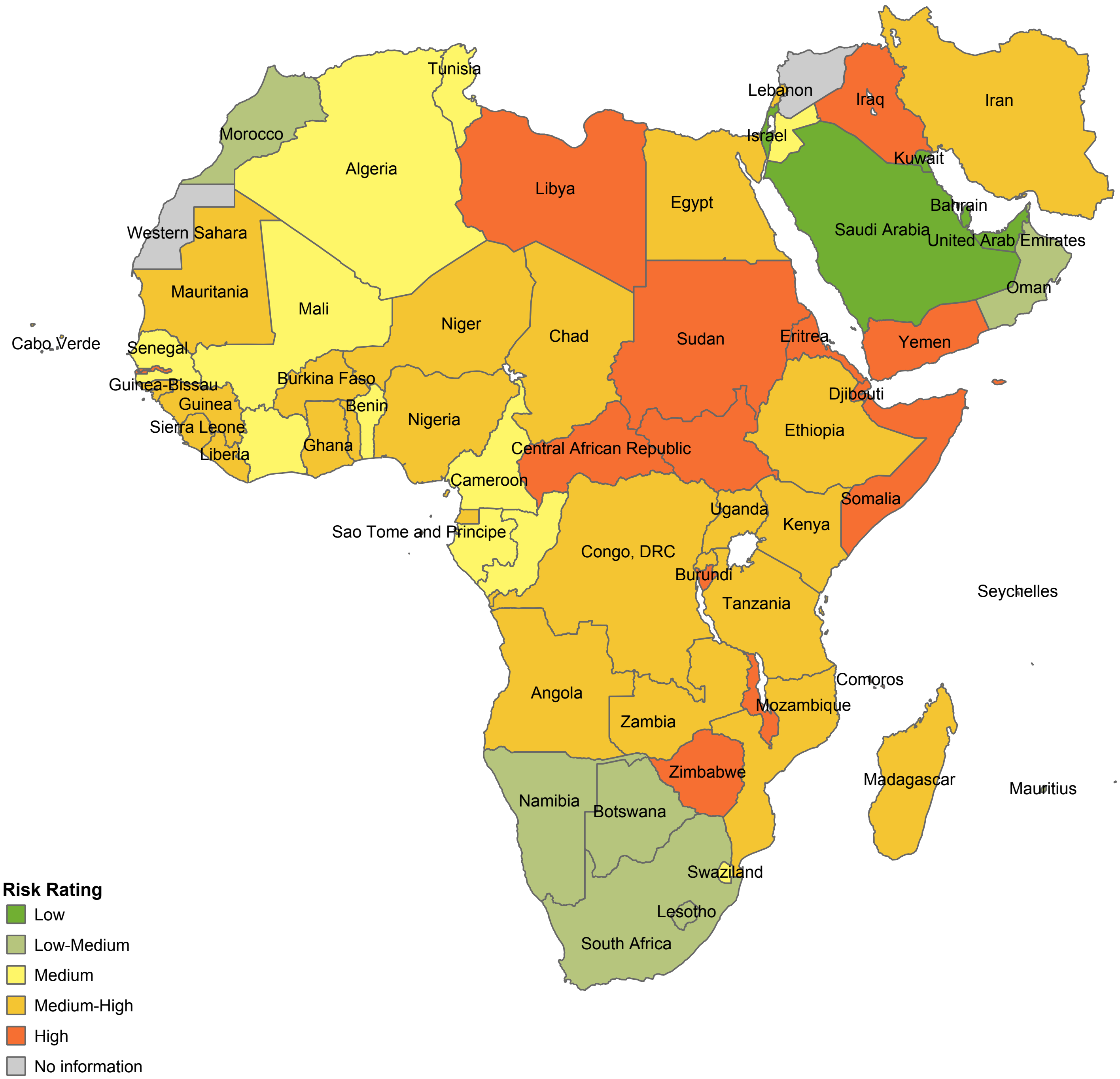
Sources: EDC Economics, World Bank, Haver Analytics, EIU

Middle East and Africa

Short Term Country Risk Rating

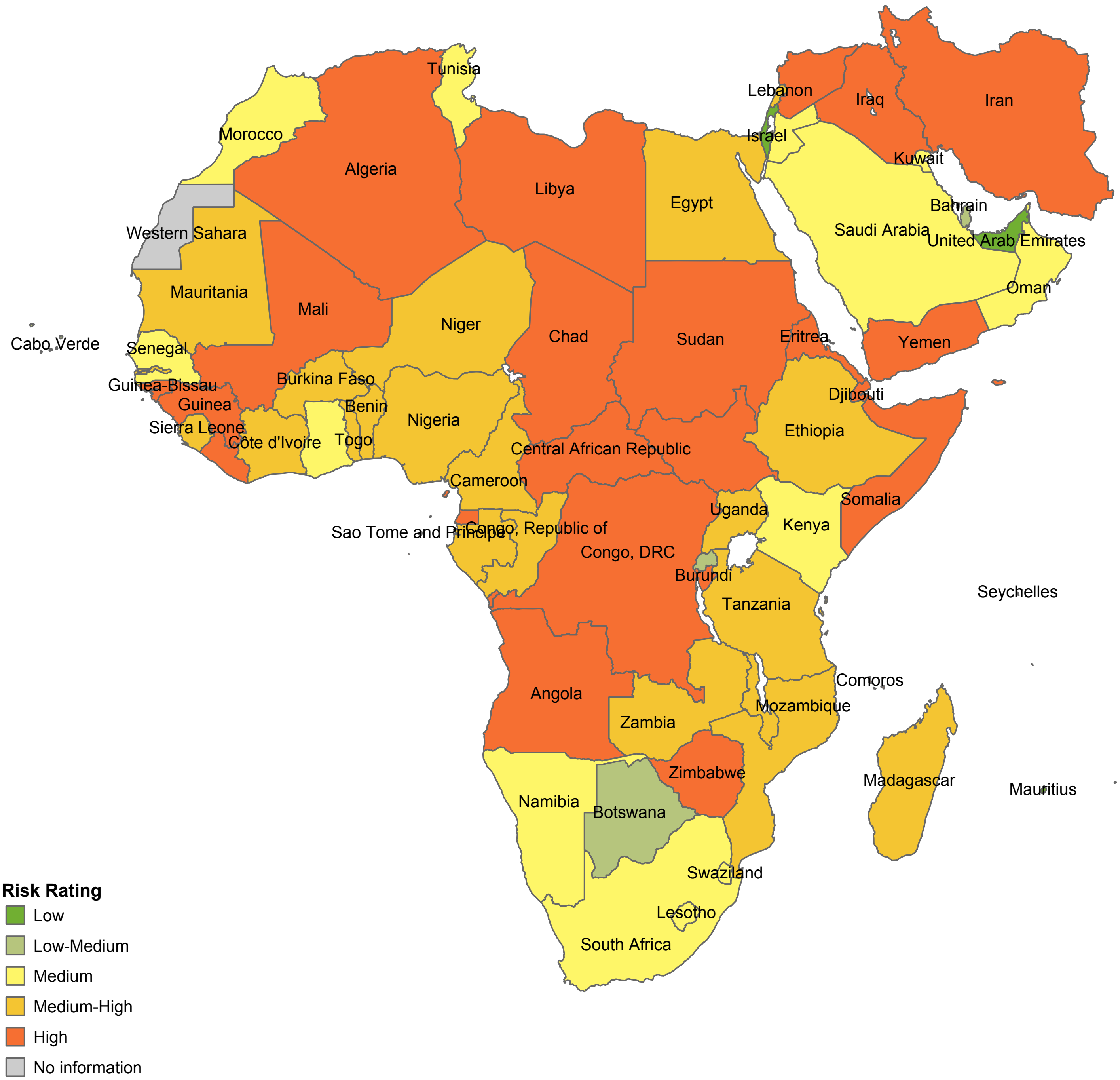
Middle East and Africa

Commercial Country Ceiling



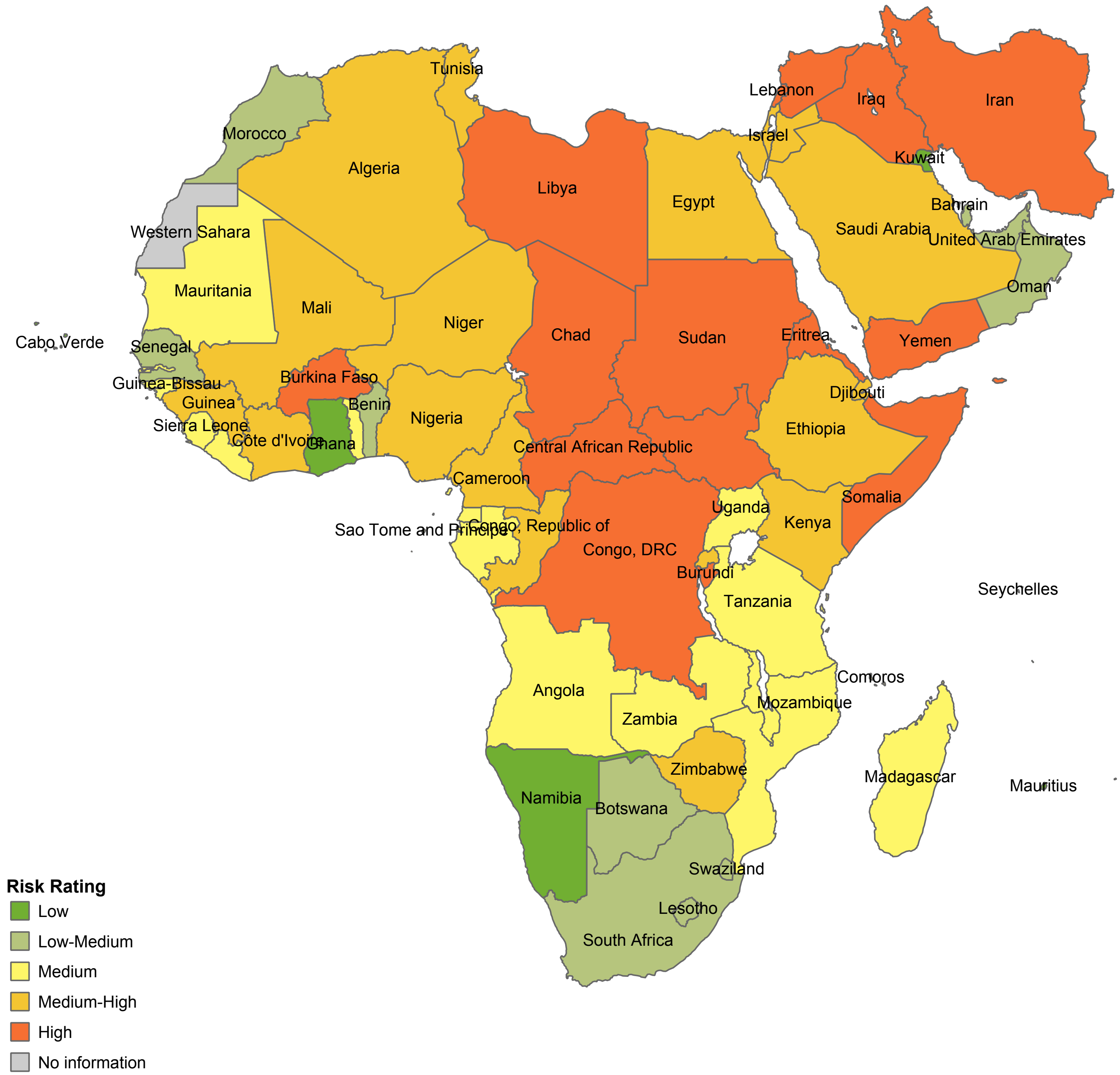
Middle East and Africa

Expropriation Market Rating



Middle East and Africa

Political Violence Market Rating



Middle East and Africa

Transfer and Conversion Market Rating

Middle East and Africa

Sovereign Rating

ECONOMIC REPORTS

- [The Commodity Tracker (weekly table)]
- [Export Leading Indicator (monthly report)]
- [Export Performance Monitor (monthly publication)]
- [Global Export Forecast (semi-annual publication)]
- [Trade Confidence Index (semi-annual report)]
- [Weekly Commentary (weekly video)]

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This assessment is valid at date of issue but always subject to review.

Please contact the **EDC Economics Division** *for current position.*