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Country Risk Ratings Methodology

COUNTRY RATING: (E = most risky) COUNTRY RISK SCORES: (100 = highest risk) OVERVIEW

The operational risk model provides a standard framework for the analysis provided on Risk Briefing. It quantifies the risks to business profitability in each of the countries covered by the service. In these assessments we take into account present conditions and our expectations for the coming two years.

Twenty-four additional indices, in which indicators are weighted to reflect the concerns of a range of investors covering seven industrial sectors, provide more targeted risk assessments.

STRUCTURE OF THE MODEL

The operational risk model considers ten separate risk criteria:

- security
- political stability
- government effectiveness
- the legal and regulatory environment
- macroeconomic risks
- foreign trade and payments issues
- labour markets
- financial risks
- tax policy
- the standard of local infrastructure

(See more details below)

In considering each of these criteria we examine a number of indicators. There are 66 in all, but the number of risk indicators in each category ranges from four (tax policy) to ten (legal and regulatory). The Economist Intelligence Unit assesses each of the 66 indicators over a forecast horizon of two-calendar years.

MEASUREMENT

We assess the ten criteria on a scale of 0-100, with 0 indicating very little risk to business profitability and 100 indicating very high risk. Each of the 66 indicators within the main criteria is scored on a scale from 0 (very little risk) to 4 (very high risk). Each indicator is given the same weight within its category in the standard scores, and the overall assessment is a simple average of the scores for the ten categories. In addition, separate ratings are available for 24 sub-sectors from seven industries, in which the weightings and overall assessment are adjusted to reflect the particular concerns of that sub-sector (see more details below).

None of the 180 countries assessed earns a score of 0 or 100. This reflects the fact that risks are present even in the least risky countries and that even at the other end of the scale the risks could yet increase.

QUANTITATIVE VERSUS QUALITATIVE FACTORS

As the product looks forward and as we forecast future risk rather than simply extrapolate present trends into the future, we rely on both qualitative indicators (e.g. the risk that capital controls will be applied in time of crisis), and quantitative indicators. Even so, about two-thirds of the indicators are based on quantitative data (e.g. crime statistics), and are mostly drawn from recognised national and international statistical sources. The comparability of the qualitative assessments is made more rigorous by the extensive guidance provided to analysts on each indicator, the ability of analysts constantly to view the scoring for other countries and oversight by the Risk Briefing editorial team.

RESOURCES

Ultimately, the ratings and scores for the operational risk model rely on the expert opinion of our analysts working in regional teams. These analysts have a wide range of open and closed sources at their disposal. One of the main closed sources is our network of in-country experts who provide detailed, regular information on conditions within a country. The business operating risk model also draws on the existing analytic work already developed at the Economist Intelligence Unit through its Country Risk Model (available through the Country Risk Service) and business environment rankings model (available through the Country Forecasts).

The use of open sources is extensive and includes country-specific sources such as central bank reports, statistical yearbooks and country websites. International open sources include publications from the UN, CIA, IMF, World Bank, Heritage Foundation,
DESCRIPTION OF THE RISK BRIEFING CATEGORIES

Security risk

This category asks: is the physical environment sufficiently secure? It covers the following issues: Is this country presently subject to armed conflict or is there at least a moderate risk of such conflict in the forecast period? Is armed conflict likely to be contained? Are violent demonstrations or violent civil/labour unrest likely to pose a threat to property or the conduct of business? Has one of the parties in the armed conflict or demonstrations/civil unrest shown hostility to foreigners or private ownership? Is violent crime likely to pose a significant problem for government and/or business? Is organised crime likely to be a problem for government and/or business? Are government or business at risk from kidnapping and/or extortion?

Political stability risk

This category addresses the degree to which political institutions are sufficiently stable to support the needs of businesses and investors. It covers the following issues: What is the risk of significant social unrest during the next two years? How clear, established, and accepted are constitutional mechanisms for the orderly transfer of power from one government to another? How likely is it that an opposition party or group will come to power and cause a significant deterioration in business operating conditions? Is excessive power concentrated, or likely to be concentrated, in the executive, so that executive authority lacks accountability and possesses excessive discretion? Is there a risk that international disputes/tensions will negatively affect the economy and/or polity?

Government effectiveness risk

This category asks whether the political culture fosters the ability of business to operate effectively. The questions it covers are these: Is the present/prospective government likely to espouse and implement open, liberal and pro-business policies for nationals and foreigners? What is the quality of the bureaucracy in terms of overall competency/training; morale/dedication; and compensation/status? How pervasive is red tape? To what degree do vested interests/cronyism distort decision-making in the public and/or private sectors? How pervasive is corruption among public officials? How accountable are public officials? Is there a risk that this country could be accused of serious human rights abuses?

Legal & regulatory risk

Here we look at the risk that the legal system will fail to safeguard investment, focusing on the following issues: How vulnerable is the legal process to interference or distortion to serve particular interests? What is the risk that contract rights will not be enforced? To what extent is the judicial process speedy and efficient? To what extent do the authorities favour domestic interests over foreign companies in legal matters? How much risk is there of expropriation of foreign assets? What is government policy on actively promoting competition and curbing unfair business practices? How reliable is the protection of intellectual property? To what degree are private property rights guaranteed and protected? What is the risk that business financial statements are inconsistent or misleading? Are price controls in place, and what is the risk that these would be extended in times of economic stress?

Macroeconomic risk

Here we ask whether or not the economy is stable and predictable. We look at these issues: What is the risk of exchange rate volatility? What is the risk that the economy will experience recession in the next two years? What is the risk that the economy will experience price instability in same period? What is the risk of crowding out as indicated by domestic public debt/M2 ratio? What is the risk of interest rate volatility in the domestic financial markets?

Foreign trade & payments risk

This category looks at the risks to getting inputs/money into or out of country. It covers the following issues: What is the risk that the country will be subject to a trade embargo sponsored either by a major international organisation, a significant trading partner, or one or more of the G8 countries? What is the risk that a financial crisis could curtail access to foreign exchange for direct investors? What is the risk of discriminatory tariffs? What is the risk of excessive protection (tariff and non-tariff) in the next two years? Can investors move money in and out of the country with ease for financial transactions? Can investors make payments for goods and services and access foreign exchange without restriction? What is the risk that capital controls would be applied or, if already in place, tightened in time of economic or financial crisis?

Financial risk

Here we look at the following questions: What is the risk of a major devaluation? What is the availability and depth of financing in the local market? Is there a liquid, deep localcurrency denominated fixed-rate medium-term (five-years or more) bond market in marketable debt (debt that is traded freely)? What is the risk of a systemic crisis in the banking sector? How liquid is the stockmarket?
Tax policy risk

We ask whether taxes are low, predictable and transparent, focusing on the following issues: Is the tax regime clear and predictable? What is the risk that corporations will face discriminatory taxes? Is the corporate tax rate low (or is the prevailing rate of corporate tax actually paid low)? What is the risk from retroactive taxation?

Labour market risk

This category looks at the degree to which labour market factors are likely to disrupt business operations. It covers the following issues: How much power do trade unions wield? How common are labour strikes? How restrictive will labour laws be in the next two years? What is the risk that finding skilled labour will be a problem? What is the risk that finding specialised labour will be a problem? To what extent are increases in wages directly related to productivity increases? What is the risk that freedom of association and right to collective bargaining will not be respected?

Infrastructure risk

In this category we assess the risk that infrastructure deficiencies will cause a loss of income. Specifically, we ask: What is the risk that port facilities, air transport, the retail and wholesale distribution networks, the telephone network and the ground transport network will prove inadequate to business needs? What is the risk that power shortages will disrupt business activities? What is the risk that the information technology infrastructure will prove inadequate to business needs?
The Economist Intelligence Unit Credit Rating - Country risk ratings explained:

Country Risk Model uses quantitative and qualitative indicators covering 6 risk categories:

- **Sovereign risk** measures the risk of a build-up in arrears of principal and/or interest on foreign and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign.

- **Currency risk** measures the risk of maxi-devaluation against the reference currency (usually the US dollar, sometimes the euro) over the next 12-month period.

- **Banking sector risk** gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors.

- **Political risk** evaluates a range of political factors relating to political stability and effectiveness that could affect a country’s ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign exchange market.

- **Economic structure risk** encompasses a series of macroeconomic variables of a structural rather than a cyclical nature.

- **Overall country risk** is derived by taking a simple average of the scores for sovereign risk, currency risk, and banking sector risk.

**Ratings bands**

<table>
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<tr>
<th>Band</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
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<th>BB</th>
<th>B</th>
<th>CCC</th>
<th>CC</th>
<th>C</th>
<th>D</th>
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**Sovereign rating band characteristics**

Characteristics of countries in the different sovereign rating bands are summarised as follows:

- **AAA**
  - Capacity and commitment to honour obligations not in question under any foreseeable circumstances.

- **AA**
  - Capacity and commitment to honour obligations not in question.

- **A**
  - Capacity and commitment to honour obligations strong.

- **BBB**
  - Capacity and commitment to honour obligations currently but somewhat susceptible to changes in economic climate.

- **BB**
  - Capacity and commitment to honour obligations currently but susceptible to changes in economic climate.

- **B**
  - Capacity and commitment to honour obligations currently but very susceptible to changes in economic climate.

- **CCC**
  - Questionable capacity and commitment to honour obligations. Patchy payment record.

- **CC**
  - Somewhat weak capacity and commitment to honour obligations. Patchy payment record. Likely to be in default on some obligations.

- **C**
  - Weak capacity and commitment to honour obligations. Patchy payment record. Likely to be in default on significant amount of obligations.

- **D**
  - Very weak capacity and commitment to honour obligations. Poor payment record. Currently in default on significant amount of obligations.
ALBANIA COUNTRY RISK REPORT

Country Rating: C      Score: 48

Albania: risk assessment

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<th>Sovereign risk</th>
<th>Currency risk</th>
<th>Banking sector risk</th>
<th>Political risk</th>
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Gabriel Partos (lead analyst); Robert O'Daly (analyst). Published 04 August 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk score has improved by 1 point, to 57, but it remains close to the lower end of the B band. The Economist Intelligence Unit forecasts that after a modest election-related spike in 2017—with the budget deficit widening to 2.1% of GDP, from 1.8% of GDP in 2016—improved tax collection and renewed fiscal tightening will cut the deficit to 1.3% of GDP in 2018. We forecast that the public debt/GDP ratio will decline to an average of 70.5% in 2017-18, from 72% in 2016, but will still be above the average for similarly rated countries.

Currency risk

The currency risk score has improved by 2 points, to 51, owing to a rise in foreign-exchange reserves and increased coverage of the gross financing requirement by foreign direct investment. We expect the lek-supported by relatively high local-currency interest rates and resilient remittances from Albanians working abroad—to strengthen modestly against the euro in 2017-18; this will be reflected by a slightly stronger appreciation against the US dollar.

Banking sector risk

We expect that the Bank of Albania (BoA, the central bank) will keep the repurchase (repo) rate unchanged in 2017, at a record low of 1.25%. Banks are well capitalised and liquid, but the level of non-performing loans remains high.

Political risk

The political risk score remains unchanged, at 62, on the cusp of the CCC and B rating bands, having earlier deteriorated in the run-up to the June 25th 2017 election. With the ruling Socialist Party of Albania (SPA) returned to power with a clear majority, we expect political stability to increase gradually, resulting in an upgrade to the B rating band within the next six to 12 months.

Economic structure risk

The current-account deficit is large. Dependence on the poorly performing Italian and Greek economies constrains export growth. The 3-point improvement, to 65, in February 2017 reflected improved official data as tax reforms brought previously invisible sections of the economy into the open.
ARGENTINA COUNTRY RISK REPORT

Country Rating: C     Score: 51

Argentina: risk assessment

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<th>July 2017</th>
<th>Sovereign risk</th>
<th>Currency risk</th>
<th>Banking sector risk</th>
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Fiona Mackie (lead analyst); Robert Wood (analyst). Published 30 June 2017, 2100 GMT.

This sovereign rating, restated from the Ratings Report indicated above, is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk rating remains at B, after an upgrade in February. There has been continued progress on a programme of deep economic adjustments intended to put the economy on a more sustainable long-term footing. Fiscal tightening has begun, but will be gradual, given political considerations.

Currency risk

Currency risk remains B rated. A process of currency adjustment since December 2015 has seen the Banco Central de la República Argentina (the central bank) rapidly eliminate foreign-exchange and capital controls, and shift from a heavily managed float to a dirty float (allowing for only occasional intervention, in the event of severe currency volatility). The currency has been supported in recent months by strong portfolio inflows.

Banking sector risk

The banking sector risk rating remains at B. There has been an easing of external financing conditions in the aftermath of the sovereign’s exit from default. Economic adjustments to reduce distortions should prove beneficial to the banking sector. However, in the short term, currency adjustment and a weak economy heighten the risk of a deterioration in asset quality.

Political risk

Argentina’s political risk rating remains at BB, following an upgrade in 2016 reflecting a smooth political transition and the clear demonstration of willingness to pay by the administration of the president, Mauricio Macri, which quickly negotiated a successful payment settlement with holdout creditors upon taking office in December 2015.

Economic structure risk

The economic structure risk rating remains at B. The public debt/GDP ratio is well above 40% (a threshold in our model). Commodity dependence, high inflation and weak public finances amplify the economy’s exposure to shocks.
Sovereign risk

As a proportion of GDP, The Economist Intelligence Unit expects public debt to be below developed-country standards in 2017-18. The fiscal deficit will remain contained in 2017-18, but the government's lack of a majority in the Senate (the upper house of parliament) means that passing legislation to raise revenue or cut spending significantly is likely to remain challenging.

Currency risk

The Australian dollar's value is closely tied to international investors' perceptions of the strength of Chinese demand, as China is Australia's largest export market. We expect a significant slowing of the Chinese economy in 2018, which will put downward pressure on the Australian dollar's exchange rate against its US counterpart.

Banking sector risk

Banking sector stability is supported by high capital-adequacy ratios, tough regulatory standards and low rates of non-performing loans. However, containing risks around a boom-and-bust cycle in house prices will remain a priority for financial supervision authorities.

Political risk

The Liberal-National coalition has a narrow majority and an early election is possible in 2018, which would lead to a change in government. There is a risk that court verdicts on cases involving legislators with dual nationality could further weaken the government's position in the coming months, increasing the government's difficulty in passing its legislative agenda.

Economic structure risk

A reliance on commodity exports (particularly to China) and the high level of net foreign debt are the economy's biggest structural risks. Australia's current-account deficit is forecast to widen again in 2018, as we expect that prices for some of its key export commodities will fall.
AUSTRIA COUNTRY RISK REPORT

Country Rating: A Score: 17

Austria: risk assessment

<table>
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<tr>
<th>October 2017</th>
<th>Sovereign risk</th>
<th>Currency risk</th>
<th>Banking sector risk</th>
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Pepijn Bergsen (lead analyst); Robert O'Daly (analyst). Published 06 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The Economist Intelligence Unit estimates that the public debt/GDP ratio peaked in 2015, at 85.5%. We expect it to continue declining gradually in the coming years, despite continued modest government deficits. Risks stemming from the banking sector have decreased.

The funding position is strong, under-pinned by the low interest rate environment. The general election in October 2017 has increased political risks, but the sovereign risk rating remains at A.

Currency risk

The rating, at BBB, and the score are unchanged. The euro had been broadly stable against the US dollar up to mid-2017, but has since rallied as the region's economic recovery has continued, and as political risk has waned in Europe but risen in the US. Structural support comes from a large current-account surplus. We forecast that the euro will average US$1.15:EUR1 in 2017-19.

Banking sector risk

Risks stemming from the banking sector have decreased, in part owing to a settlement between the government and the creditors of a "bad bank", Heta Asset Resolution, in late 2016. This is in line with a broader strengthening of the banking system in recent years, including financial soundness indicators catching up with regional peers.

Political risk

An early election will be held on October 15th 2017. This is likely to lead to a coalition between the centre-right Austrian People's Party (&Ouml;VP) and the far-right, populist Freedom Party (FP&Ouml;). Although this will increase political instability, it is highly unlikely to dent the government's financing position significantly or affect its willingness to service its debt.

Economic structure risk

The economy underperformed compared with many of its peers in recent years, but has outperformed most since the start of 2017. The economic structure risk rating is supported by a positive net international investment position and persistent current-account surpluses.
Sovereign risk

Large foreign-exchange reserves will bolster the sovereign's ability to meet its payment obligations. Public debt, which stood at the equivalent of 27.8% of GDP in the past 12 months, is low compared with other BB-rated countries.

Currency risk

The Economist Intelligence Unit expects that the taka will depreciate modestly and in an orderly fashion against the US dollar in 2017-18, with Bangladesh Bank (the central bank) intervening where necessary to calm currency volatility. Depreciation will be caused by a widening current-account deficit and a narrowing interest-rate differential with the US.

Banking sector risk

We do not expect banks' net foreign asset position to deteriorate significantly in 2017-18. However, there are signs that the state-owned commercial banks, which have high levels of non-performing loans, are facing some balance-sheet pressures. The rapid pace of economic growth in the forecast period should ensure that debtors will, for the most part, be able to meet their obligations.

Political risk

There will be an increased risk of political instability in the run-up to the next parliamentary election, which must be held by end-January 2019. We believe that the ruling Awami League will dominate parliament until the election. The latest influx of refugees from Myanmar will raise border security risks, but these will largely be contained.

Economic structure risk

Bangladesh's weak infrastructure and continued reliance on textile exports will maintain a high score for economic structure risk. Readymade garments account for the majority of merchandise exports, and efforts to diversify the export base will make limited progress in the medium term.
BELGIUM COUNTRY RISK REPORT

Country Rating: B    Score: 24

Belgium: risk assessment

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<th>August 2017</th>
<th>Sovereign risk</th>
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Emily Mansfield (lead analyst); Peter Ceretti (analyst). Published 04 August 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The BBB rating is unchanged, reflecting Belgium's stubbornly high debt load and failure to generate consistent primary surpluses on the fiscal balance. Quantitative easing (QE) in the euro zone is keeping interest rates low, and Belgium's stable debt structure means that financing costs are likely to remain constrained even once QE starts to be tapered from 2018.

Currency risk

The rating remains at BBB, but the score has improved, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015 and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. The Economist Intelligence Unit does not expect the euro to fall to parity with the dollar, but forecasts an average exchange rate of US$1.12:EUR1 in 2017-18.

Banking sector risk

The rating improved to A in 2015, after a sustained improvement in the sector's health since the 2008-09 global financial crisis. The Tier 1 capital-adequacy ratio came to 15.5% in mid-2016, and non-performing loans had fallen to 3.5% of total loans. Profitability has slowed since the crisis, and remains low given the current low-interest-rate environment, but is nonetheless well above the EU average.

Political risk

The government faces long-standing strains arising from tension between the Flemish and francophone communities, and between the federal and regional governments, as well as resistance to its wide-ranging fiscal consolidation and structural reform agenda. However, Belgium's economy and sovereign market dynamics have proved largely resilient to past episodes of political instability.

Economic structure risk

The most significant structural weakness is the high debt load, at more than 105% of GDP, but the risks associated with this are mitigated by a strongly positive net external asset position. Labour costs rose faster than in neighbouring countries in 2010-13, but the government has since taken steps to moderate wage growth and reduce the tax burden on labour to boost competitiveness.
BRAZIL COUNTRY RISK REPORT

Country Rating: C  Score: 50

Brazil: risk assessment

<table>
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<th>September 2017</th>
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Robert Wood (lead analyst); Mark Keller (analyst). Published 01 September 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

The president, Michel Temer, won a vote in Congress in August to block a trial against him related to corruption allegations that emerged in May. But he faces another vote in October over other charges. The Economist Intelligence Unit expects him to survive these and finish his term (end-2018). Governability has weakened, reducing the likelihood that pension reforms will be approved. This will set back medium-term fiscal consolidation plans and sustain lingering concerns about debt sustainability.

Currency risk

The political shock in May caused a sell-off in the Real, but it has since regained ground (to R3.15:US$1 in late September). Narrowing interest-rate differentials will weaken the Brazilian currency as the central bank continues to ease monetary policy while US policy rates rise. Brazil has a large reserves cushion.

Banking sector risk

The 2015-16 recession lifted the non-performing loan ratio to 3.8% in July. Despite lingering political uncertainty, lower interest rates and an incipient economic recovery will dampen macroeconomic and credit risks. The banking system's capital buffers remain comfortable and central bank stress tests indicate that banks could withstand shocks.

Political risk

Ongoing corruption investigations and electoral considerations as October 2018 elections begin to loom are eroding support for the government in Congress. Investors now appear to be taking a sanguine view about the unlikelihood of a comprehensive pension reform being approved until the next government takes office in January 2019.

Economic structure risk

Brazil's high public debt burden and poor economic performance weigh on the outlook, but the sound financial system is supportive. The current-account deficit has narrowed, reducing external vulnerabilities.
BULGARIA COUNTRY RISK REPORT

Country Rating: B     Score: 34

Bulgaria: risk assessment

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<th>September 2017</th>
<th>Sovereign risk</th>
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Gabriel Partos (lead analyst); Joan Hoey (analyst). Published 01 September 2017, 2100 GMT.

This sovereign rating, restated from the Ratings Report indicated above, is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk rating was unchanged at BBB in The Economist Intelligence Unit's September ratings report, and the score improved by 1 point, to 33. We forecast that, after a cash-based surplus equal to 1.6% of GDP in 2016, the budget will swing back into a deficit in 2017, estimated at 1.4% of GDP, before fiscal tightening resumes in 2018.

Currency risk

We forecast that the current-account surplus, estimated at 2.9% of GDP in 2017, will decline in 2018-19 as import demand picks up. International reserves (excluding gold) reached a record high of US$26.2bn at end-July 2017-equivalent to ten months of imports-supporting the BBB currency risk rating. All governments have been committed to keeping the currency board since its establishment in 1997.

Banking sector risk

The level of bad loans is high, at 12.1% of total loans at end-June 2017, but banks are profitable and, according to the 2016 stress tests of the Bulgarian National Bank (BNB, the central bank), have sound capital adequacy. Following several recent disposals, Greek banks' importance to Bulgaria has declined, diminishing the likely impact of a renewed Greek financial crisis.

Political risk

Political uncertainty has abated since the formation in May 2017 of a new government, once again led by the centre-right Citizens for European Development of Bulgaria (CEDB). We expect disagreements between the CEDB and its nationalist coalition partners to emerge in the medium term, putting in doubt the authorities' ability to implement a coherent set of policies.

Economic structure risk

The economic structure risk rating is unchanged at BB. Government efforts to diversify export markets away from the EU have so far made little progress. We expect the current account to remain in surplus in 2018-19.
CANADA COUNTRY RISK REPORT

Country Rating: A  Score: 14

Canada: risk assessment

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Mike Jakeman (lead analyst); Felix Delbruck (analyst). Published 13 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk score has improved from 20 to 18 since The Economist Intelligence Unit's May assessment, but remains within the AA band. The change has been driven by a significant acceleration in the pace of economic growth in the country, which has flattered the fiscal balance when expressed as a proportion of GDP.

Currency risk

The currency risk score has strengthened from 21 to 19 since our last assessment, but is still within the A band. Since reaching a 13-year low against the US dollar in early 2016, the Canadian dollar has recovered some ground owing to the stronger economy and two interest-rate increases.

Banking sector risk

The banking sector risk score remains the same, at 19, and the rating is held at AA. The biggest risk to the banking sector remains a housing bust. However, we believe that government policies, such as taxes on foreign buyers in property hotspots and tighter lending criteria, combined with only a gradual pace of monetary tightening, will enable prices to soften while ensuring that mortgage holders can maintain their payments.

Political risk

The Liberal Party has enjoyed a successful two years in government and has made good progress on implementing its policy agenda. We do not foresee any difficulties in its ability to complete its term in office, which runs until 2019, and it is in a strong position for re-election.

Economic structure risk

The economy’s commodity dependence leaves it vulnerable to terms-of-trade shocks. It is highly reliant on import demand from the US, which means that the ongoing renegotiation of the North American Free-Trade Agreement (NAFTA) at the behest of the US government represents a risk to the pace of future economic growth. The household sector is continuing to borrow despite the debt/disposable income ratio posting a series of record highs.
CHILE COUNTRY RISK REPORT

Country Rating: B     Score: 23

Chile: risk assessment

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Mark Keller (lead analyst); Robert Wood (analyst). Published 13 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Sovereign risk is now BBB-rated. Years of successive fiscal deficits have increased public debt from 3.9% of GDP in 2007 to 25.1% currently. Nevertheless, the rating is supported by sound macroeconomic policy, access to ample reserves and two sovereign wealth funds. The sovereign wealth funds were valued at a combined US$25bn in August 2017.

Currency risk

The peso remains at risk of volatility in response to changes in global economic conditions, including swings in copper prices. Nevertheless, The Economist Intelligence Unit's baseline forecast is for a minimal strengthening of the peso in nominal, year-on-year terms in the remainder of 2017. Medium-term risk is mitigated by strong macroeconomic fundamentals, a manageable current-account deficit and plentiful foreign reserves.

Banking sector risk

The sector is well regulated and, although net external liabilities present risks, the strength of prudential indicators insulates banks from a possible deterioration in asset quality or external shocks. The non-performing loan ratio stood at 1.9% in August, and profitability levels are moderate.

Political risk

Presidential and legislative elections will take place in November. The former centre-right president, Sebastián Piñera (2010-14), leads most polls, and we believe that he and his centre-right Chile Vamos coalition are best placed to win. Regardless of the election results, we do not foresee any political risks to stability that could damage creditworthiness or rattle sentiment in the financial markets.

Economic structure risk

Chile will benefit from low public debt levels, but overdependence on copper exports, along with vulnerability to fluctuations in other commodity prices and falling demand in major markets, such as China, generates some economic risk.
China: risk assessment

Sovereign risk
The sovereign's position is supported by the fact that China has a large pool of savings, which enables the state to finance its debt domestically, reducing its exposure to external shocks. However, debt levels have risen quickly, and official fiscal-accounts data are likely to understate significant implicit sovereign liabilities.

Currency risk
Tougher controls on outbound capital flows and tighter exchange-rate policy management have contributed to the renminbi appreciating against the US dollar in recent months. The Economist Intelligence Unit nevertheless still expects the currency to weaken in 2018, given rises in US interest rates, weaker domestic economic growth and still-high levels of domestic liquidity.

Banking sector risk
A co-ordinated regulatory effort to tackle "financial risks" in the banking sector, which has been under way since early 2017, ought to improve oversight over the opaque shadow financing sector, in particular. However, the regulatory clampdown also brings with it risks, and overtightening could destabilise some lenders.

Political risk
We expect a planned reshuffle of the Chinese Communist Party at its national congress opening on October 18th 2017 to strengthen the position of the president, Xi Jinping. Mr Xi's likely intention to delay his retirement beyond 2022 could prompt a downgrade to the political risk score, if it sparks factional tensions.

Economic structure risk
The Chinese economy is well diversified, but parts of the current economic reform drive, particularly those relating to financial liberalisation, could cause instability. The public debt will continue to mount rapidly. A glut of excess industrial capacity and real-estate supply pose a substantial economic threat.
COLOMBIA COUNTRY RISK REPORT

Country Rating: C    Score: 44

Colombia: risk assessment

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Anna Szterenfeld (lead analyst); Robert Wood (analyst). Published 08 September 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

Recent fiscal reforms, modest economic growth and increased oil-related fiscal income will help to narrow the central government deficit in 2018-19, but the public debt/GDP ratio will rise slightly, from an estimated 53% in 2017. This still supports the BB rating.

Currency risk

The trade and current-account deficits remain large, but inflows of foreign direct and portfolio investment, along with some recovery of oil prices, have helped to stabilise the peso. Further inflows and a comfortable reserves level (US$47bn in August) will provide support, although a moderate weakening trend will take hold as interest-rate differentials with the US narrow.

Banking sector risk

Banks are well managed and capitalised. A recent rise in the non-performing loan ratio is likely to be transitory. Modest economic recovery and ongoing monetary easing by the Banco de la República (the central bank) will support credit growth and help to contain risks to asset quality and profitability.

Political risk

The implementation of a peace deal with the FARC rebel group is advancing, and will bolster creditworthiness and economic growth in the long term. Talks with a smaller rebel group, the Ejército de Liberación Nacional, began in February. Crime remains a problem, but political stability is not at risk.

Economic structure risk

Commodities exports generate a large share of foreign earnings and fiscal revenue, sustaining the economy’s vulnerability to external shocks. A persistent current-account deficit and fiscal rigidities also weigh on the rating. However, Colombia has never defaulted, which underpins its creditworthiness.
Sovereign risk

The rating remains at BBB. Following a 0.6% of GDP budgetary surplus in 2016, The Economist Intelligence Unit expects a return to small deficits from 2017. The public debt/GDP ratio, which is already low by EU standards, fell to 36.8% in 2016 and will decline further in 2017-19, as economic growth will remain strong and fiscal policy prudent. Total external debt is about 70% of GDP, but borrowing costs will remain low, reflecting in part the country's robust fundamentals.

Currency risk

The Czech National Bank (CNB, the central bank) maintained a ceiling on the value of the koruna at Kc27:EUR1 from November 2013 until April 6th 2017. Since the currency regime was concluded the koruna has begun to appreciate gently, as expected, and we expect this trend to continue. The CNB began a monetary tightening cycle in August, which it envisages will last for two years, and we expect another rate rise later this year. This will further support the currency.

Banking sector risk

Banks are well capitalised and stable, with strong liquidity buffers. A steady rise in capital-adequacy ratios has put the sector in a relatively strong position to withstand external shocks, particularly now that non-performing loan levels have declined. Cyclical risks are increasing, however, as low interest rates and rising domestic demand fuel rapid loan growth, especially for mortgages.

Political risk

We do not anticipate that the October general election will prove a source of significant political risk, although legal investigations into Andrej Babis, the leader of ANO, may complicate coalition-building. Nonetheless, we expect ANO to become the largest party in the next government and to continue to promote pro-business, fiscally responsible and (selective) anti-corruption policies.

Economic structure risk

The open Czech economy is exposed to shocks in core export markets. It is also dependent on automotive production—a highly cyclical industry that tends to suffer disproportionately in periods of regional economic weakness. A balance-of-payments crisis is unlikely, however, owing to the large share of foreign direct investment in the country's external liabilities.
DENMARK COUNTRY RISK REPORT

Country Rating: A  Score: 18

Denmark: risk assessment

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Sovereign risk

Denmark's budget deficit and public debt/GDP ratio are low. The Economist Intelligence Unit expects the deficit to expand in 2018-19 owing to the government's labour market and property tax reforms. However, the deficit will remain well within the EU's 3% of GDP threshold. Funding costs are low, with the yield on ten-year central government bonds at 0.2% in August 2017.

Currency risk

After a period of relative stability, from 2015 to early this year, Danmarks Nationalbank (the central bank) responded to speculative pressure on the currency peg to the euro in both directions. Foreign-exchange interventions have been muted in recent months, but the European Central Bank (ECB) tapering its programme of sovereign bond purchases means that the krone will remain under upward pressure. Nevertheless, we expect the krone:euro peg to hold.

Banking sector risk

EU-wide stress tests conducted in July 2016 by the European Banking Authority confirmed that Denmark's four systemically important banks were well capitalised, even under adverse economic and financial conditions. Non-performing loans as a percentage of total loans continue to decline. Many smaller banks have a low return on equity, high costs and high property market exposure, but they do not pose a systemic threat to the stability of the financial system.

Political risk

The formation of a three-party coalition in November 2016 led by the Liberal Party reduced the risk of an imminent government collapse, but some political instability remains. The coalition is short of a parliamentary majority and still has a number of policy challenges in 2017. We maintain our view that the government will struggle to survive a full term, but this should not affect Denmark's ability to service its debt.

Economic structure risk

Denmark runs a hefty current-account surplus, and despite the krone's appreciation in 2016 it remains competitive. High levels of household debt will take many years to unwind. Despite reforms designed to raise the labour supply, population ageing is likely to put pressure on public finances in the long term.
ECUADOR COUNTRY RISK REPORT

Country Rating: C    Score: 58

Ecuador: risk assessment

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Mark Keller (lead analyst); Fiona Mackie (analyst). Published 14 July 2017, 2100 GMT.

This sovereign rating, restated from the Ratings Report indicated above, is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Sovereign risk remains CCC rated. The government has struggled to adjust to the lower oil prices since 2016. The fiscal deficit in 2017 is estimated at 5.6% of GDP, lifting the public debt/GDP ratio above 40%. Concerns about external financing persist, given the country's high risk premium in international credit markets. A US$2.5bn bond issued in October will help ease short-term liquidity and boost reserves (from US$2bn before the issue).

Currency risk

Dollarisation will partly shield Ecuador from external volatility, but liquidity levels will remain under some pressure from persistently low oil prices. Concerns about fiscal management and fluctuations in the foreign reserves sustain a lingering albeit low-risk that dollarisation may be abandoned.

Banking sector risk

Deposit growth has recovered from its 2015 low, supporting liquidity, and financial soundness indicators have shown minor improvements. Government intervention and a moderate level of non-performing loans are constraining profitability and sustaining moderately high macroeconomic and credit risks.

Political risk

A power struggle within the ruling Alianza País (AP) between the president, Lenín Moreno, and his predecessor, Rafael Correa (2007-17), will undermine governability. A referendum in January 2018 is likely to result in Mr Correa being prohibited from running for the presidency in 2021, improving political stability in 2018-19.

Economic structure risk

Economic structure risk remains B rated. The current-account has been in surplus since 2016 and oil as a share of exports has declined, but GDP growth remains negative. Rising external debt, a reliance on primary exports and weak competitiveness due to a strong US dollar will continue to hurt the score.
Egypt: risk assessment

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Sovereign risk

The (managed) float of the Egyptian pound in November 2016 has boosted the reserves at the central bank and, in turn, Egypt's ability to meet its short-term debt obligations. The ongoing currency-related and fiscal reform measures are improving Egypt's access to foreign debt markets, although the depreciation of the pound may also render hard-currency debt servicing more difficult.

Currency risk

Pressure on the currency will be minimised by the narrowing current-account deficit and rising foreign reserves—which are now closing in on the pre-2011 uprising levels. Nonetheless, inflation, although set to decline in 2018, will remain high, and the high dependence on external financial support will continue to pose downside risks to the rating.

Banking sector risk

Hard-currency liquidity in local banks continues to improve, and banks are now able to meet much of the demand for hard currency. The main structural weaknesses facing the sector are high nominal deposit rates—which could be raised further to tame inflation and shore up the pound.

Political risk

Anti-regime protests cannot be ruled out, given limited room for political expression and difficult economic conditions. However, the government will contain such risks with tight security measures, and as a result we do not expect Egypt's ability to meet its short-term debt obligations to weaken in the face of public discontent with the ongoing economic reforms.

Economic structure risk

The economy is diversified, although it has suffered in recent years because of the impact of foreign-exchange shortages on industrial production and trade. The outlook should improve as the currency float helps to resolve foreign-currency liquidity strains.
Country Rating: A  Score: 16

Finland: risk assessment

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Danielle Haralambous (lead analyst); Emily Mansfield (analyst). Published 04 August 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Finland’s public finances are in relatively good shape. Although government debt is rising, it remains low by international standards: it stood at 63.6% of GDP in 2016 and The Economist Intelligence Unit forecasts that it will edge up to 64.4% in 2018. Fiscal policy will remain relatively tight, notwithstanding a planned increase in public spending in 2017. Funding costs are low, with ten-year sovereign bonds yielding 0.5% on average in the first six months of 2017.

Currency risk

The rating remains at BBB, but the score has improved, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015 and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to fall to parity with the dollar but forecast that it will average US$1.12:EUR1 in 2017-18.

Banking sector risk

Finland’s banks, some of which are part of pan-Nordic banks, have relatively strong capital ratios and were found to be resilient in EU-wide stress tests published in 2016. The financial sector has limited exposure to the most vulnerable EU countries, but some risk stems from a rising level of household indebtedness in Finland, with housing loans an area of particular vulnerability.

Political risk

Despite the ejection of The Finns (PS) from the coalition, the risk of an early election was averted after a splinter group from the PS gave its support in parliament to the remaining coalition parties. The new coalition has a reduced parliamentary majority that will hamper progress on ongoing and future reform efforts. However, this does not pose a risk to the sovereign credit rating, as the commitment to fiscal responsibility is shared by all mainstream parties.

Economic structure risk

Finland’s economy is dependent on the large telecommunications and forestry sectors. Activity in the retail, tourism and export-oriented sectors is being revived by a pick-up in Russian demand in 2017. The population is ageing rapidly, and addressing the demographic imbalance will be a long-term challenge.
FRANCE COUNTRY RISK REPORT

Country Rating: B   Score: 24

France: risk assessment

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Emily Mansfield (lead analyst); Robert O’Daly (analyst). Published 26 May 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The budget deficit narrowed to 3.4% of GDP in 2016, and the official government target for 2017 is 2.7%. The Economist Intelligence Unit expects greater energy for fiscal reform under the new administration, but we forecast that the shortfall will not return to the EU's 3% of GDP target until 2018, with public debt remaining at around 96% of GDP. Bond yields picked up in first-quarter 2017 in response to a rise in perceptions of political risk, but then eased.

Currency risk

The rating remains at BBB, but the score has improved since the start of the year, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015 and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to fall to parity with the dollar, but forecast that it will average US$1.12:EUR1 in 2017-18.

Banking sector risk

With one small exception, France's banking sector was given a clean bill of health in the asset quality review and stress tests conducted across the euro zone in 2016. The share of non-performing loans is around 4%, according to the IMF. Headwinds faced by the sector include the still moderate pace of the country's economic recovery and businesses' weak profitability.

Political risk

Following the win for Emmanuel Macron—a pro-business, pro-EU centrist—in the presidential election in April-May 2017, we upgraded France’s political risk rating from A to AA. This reflects a more stable political outlook in the light of the electorate’s rejection of the far-right, Eurosceptic candidate, Marine Le Pen, whose programme could have damaged the sovereign's creditworthiness.

Economic structure risk

Weak competitiveness, reflecting a high tax burden on labour; an inflexible and overly regulated labour market, resulting in high unemployment; and the need for fiscal consolidation will continue to weigh on France’s economic prospects over the medium term. We expect reform efforts to drive slow improvements.
GERMANY COUNTRY RISK REPORT

Country Rating: B  Score: 21

Germany: risk assessment

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Emily Mansfield (lead analyst); Peter Ceretti (analyst). Published 13 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Germany’s budget is in surplus, and fiscal discipline has full political and public support. The country enjoys safe-haven status during global market volatility, and demand for sovereign bonds is being boosted by the quantitative easing programme of the European Central Bank (ECB), keeping sovereign bond yields near historical lows. The debt/GDP ratio is high for an AA-rated country, but has been falling fairly quickly since 2015—a trend that is expected to continue.

Currency risk

The rating remains at BBB. The euro came under pressure earlier this year amid heightened political risk, but the region’s economic recovery has since supported an appreciation. A better economic and institutional outlook for the euro zone has increased its resilience to shocks, and structural support for the currency comes from a large current-account surplus. The Economist Intelligence Unit expects the euro to average US$1.13:EUR1 in 2017 and US$1.17:EUR1 in 2018-19.

Banking sector risk

In aggregate, the banking sector is well capitalised, and non-performing loans represent a small share of the total. There are some concerns about smaller, regional lenders, many of which are poorly capitalised, and worries remain about the outlook for Deutsche Bank, the country’s largest lender. Low profitability, high leverage and fragile balance sheets will remain a cause for concern, but do not pose an immediate threat to the outlook.

Political risk

The federal election on September 24th resulted in a fourth term as chancellor for Angela Merkel. The incoming government will have greater internal policy disagreements than its predecessor, and a far-right party will now have a voice in parliament. However, German politics will remain strongly centrist and consensus-driven, and so does not pose a threat to sovereign creditworthiness.

Economic structure risk

Dependence on exports, especially of capital and transport goods, exposes Germany to external downturns. Private consumption growth has strengthened as the labour market has tightened, but any fundamental change in the growth model away from exports and towards consumption will be gradual.
GREECE COUNTRY RISK REPORT

Country Rating: C     Score: 46

Greece: risk assessment

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Robert O’Daly (lead analyst); Joan Hoey (analyst). Published 01 September 2017, 2100 GMT.

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Sovereign risk

Greece’s sovereign rating remains unchanged at CCC. The Economist Intelligence Unit expects the fiscal balance to return to deficit in 2017-18 and the government debt/GDP ratio to remain elevated at around 180%. The government faces political difficulties in implementing programme measures and achieving multi-year primary surplus targets.

Currency risk

The rating remains at BBB, but the score has improved by 4 points since our June ratings report, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015 and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to fall to parity with the dollar but forecast that it will average US$1.14:EUR1 in 2017-18.

Banking sector risk

Banks’ deposit bases continue to shrink and lending growth remains negative. Non-performing loans (NPLs) are 45% of total loans; provisions over NPLs range between 66% and 74%. We expect capital controls to be eased only gradually.

Political risk

The Syriza Coalition of the Radical Left (Syriza)-led government has a fragile three-seat majority in the 300-seat parliament. The government faces opposition to bail-out policies, and the risk of an early election is high.

Economic structure risk

Greece’s public debt/GDP ratio is the highest in the euro zone, at 179.4% in 2016. Greece has a large negative external asset position of -136.7% of GDP, compared with -28.5% on average in the euro zone.
GUATEMALA COUNTRY RISK REPORT

Country Rating: C  Score: 52

Guatemala: risk assessment

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Sovereign risk

Recent corruption allegations jeopardise the position of the president, Jimmy Morales, but The Economist Intelligence Unit expects him to stay in office until the end of his term in January 2020. The political uncertainty will not materially affect the sovereign's commitment or ability to pay. Public-sector debt is low, at just under 30% of GDP, but will rise gradually in line with looser fiscal policy.

Currency risk

Guatemala is not that integrated into global financial markets, so volatility affecting emerging-market currencies has a limited impact on the quetzal. We do not expect this to change even as US monetary policy tightening continues (we expect one additional interest-rate increase this year, and three more in 2018). An ample foreign-reserves cushion and rising inflows of workers' remittances will be supportive of the currency.

Banking sector risk

Macroeconomic risks to the banking sector are low. Annual credit growth to the private sector slowed to 5% by August. Banks maintain a conservative approach to lending. We expect the sector to withstand relatively smoothly a rise in US and local interest rates in the medium term.

Political risk

Mr. Morales's position has become fragile in recent weeks following investigations into campaign finance irregularities. Over 200,000 protesters marched on September 20th demanding his resignation, and further protests are likely. In addition, his party's lack of a majority in a fragmented Congress will hamper governability and raises the risk of legislative gridlock.

Economic structure risk

Low income levels, high levels of inequality, vulnerability to fluctuations in global commodity prices and weaknesses in the public finances weigh on Guatemala's rating. However, risk is mitigated by good access to bilateral and multilateral financing.
HONDURAS COUNTRY RISK REPORT

Country Rating: C    Score: 56

Honduras: risk assessment

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Anna Szterenfeld (lead analyst); Robert Wood (analyst). Published 25 August 2017, 21:00 GMT.

The ratings contained in this report and the report itself were produced outside the European Union and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

Although the public debt/GDP ratio is quite high, at close to 51%, fiscal consolidation and relatively firm economic growth support creditworthiness and the B rating. Performance under a three-year stand-by arrangement with the IMF that runs until December 2017 has been good, and the government is expected to request an extension of the programme when it expires.

Currency risk

The currency has strengthened slightly since early 2017, but The Economist Intelligence Unit expects gradual depreciation in the rest of the year and in 2018, which will improve export competitiveness. The current-account deficit will remain near 4% of GDP as recovery in oil prices is offset by strong remittance inflows. Inward investment will help to boost reserves levels.

Banking sector risk

Financial soundness indicators remain adequate, and the non-performing loans ratio has fallen this year. Supervision and regulatory capability are improving, but credit-risk management remains substandard. Low dependence on wholesale markets helps to insulate the domestic banks from global volatility.

Political risk

Political tension will rise before national elections in November and in the subsequent months, owing to a controversial re-election bid by the president, Juan Orlando Hernández, whom we expect to win. But this should not substantially affect creditworthiness, and his re-election will support policy continuity.

Economic structure risk

The country’s heavy reliance on concessional external financing and workers’ remittances, as well as its narrow industrial and export base, keeps the economy vulnerable to shocks. However, the government’s prudent fiscal and monetary policy management is helping to bolster stability.
HONG KONG COUNTRY RISK REPORT

Country Rating: A    Score: 12

Hong Kong: risk assessment

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Duncan Innes-Ker (lead analyst); Miguel Chanco (analyst). Published 11 August 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

The Economist Intelligence Unit expects the government to post a small budget deficit in fiscal year 2018/19 (April-March), with revenue from land sales slipping as the current property boom ends. However, the sovereign’s repayment capacity will remain strong.

Currency risk

Although the Hong Kong dollar has moved towards the weaker side of its permitted trading band against the US dollar, we believe that the authorities’ capacity to defend the peg remains robust and that the risk of a disorderly large-scale depreciation of the Hong Kong dollar remains extremely low.

Banking sector risk

We expect that local policy interest rates will rise by around 100 basis points from current levels in the remainder of 2017-18. Unlike other recent increases in policy rates, banks are likely to pass this change on to their customers. Given high levels of leverage in Hong Kong, the level of bad debt in the territory will increase as a result, although we do not anticipate systemic problems.

Political risk

Carrie Lam’s term as Hong Kong's new chief executive, which began on July 1st, will not reduce political tensions in the territory. We do not believe that China will formally abolish the "one country, two systems" formula that gives Hong Kong its autonomy, but further erosion of media freedoms, and judicial and academic independence, is likely in 2017-18.

Economic structure risk

Hong Kong's trade-dependent economy is highly vulnerable to external shocks. The important economic role of the real-estate sector is likely to be a cause for concern, as we forecast that property prices will fall in 2018.
HUNGARY COUNTRY RISK REPORT

Country Rating: B  Score: 32

Hungary: risk assessment

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Gabriel Partos (lead analyst); Pepijn Bergsen (analyst). Published 21 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk rating was unchanged in The Economist Intelligence Unit's July ratings report, at BB, and the risk score remained at 45. Hungary can tap global capital markets, but public debt is high, at 74.3% of GDP at end-March 2017. We believe that the government’s commitment to sustainable fiscal consolidation is open to doubt. Continuing quantitative easing by the European Central Bank (ECB), which is set to start tapering in 2018, will keep borrowing costs low for now, despite cautious monetary tightening in the US.

Currency risk

The currency risk rating remains at BBB, having improved in March 2017 from BB, but given high public and external debt, the forint is vulnerable to any loss of international market appetite for emerging-market assets. The sizeable, albeit declining, external surplus will support the forint and should mitigate the impact of possible financial market volatility. We expect the forint to appreciate against the euro and the US dollar in 2018-19, compared with 2017.

Banking sector risk

Banks' capital and balance sheets have largely recovered from the negative effect of sector-specific taxes and government relief schemes for household foreign-currency debt, completed in 2015. The improved regulatory environment contributed to the banking sector posting record profits in 2016, which are likely to be maintained in 2017.

Political risk

We expect the government, led by the nationalist Fidesz-Hungarian Civic Union (Fidesz), to secure a third consecutive term in office at the next election, due in April 2018. Fidesz's tough anti-immigrant policy has led to a revival in the party's popularity. The government plans to continue its challenge to the EU's refugee relocation policy and will remain at odds with the EU over its crack-down on civil society organisations.

Economic structure risk

High public and external debt ratios pull the rating down. Domestic demand is playing an increasing role in driving growth, but Hungary remains highly exposed to the euro zone through export and financing channels, following only limited success in recent years in diversifying export markets.
INDIA COUNTRY RISK REPORT

Country Rating: C    Score: 46

India: risk assessment

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Firat Unlu (lead analyst); Duncan Innes-Ker (analyst). Published 08 September 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Strong economic growth and the introduction of a nationwide goods and services tax (GST) will bolster direct and indirect tax revenue. The government may announce a small fiscal stimulus package, but there is unlikely to be major slippage from the budget deficit target for fiscal year 2017/18 (April-March).

Currency risk

The Economist Intelligence Unit expects the rupee to weaken against the US dollar in the final quarter of 2017 and in 2018. This will be driven by a widening current-account deficit and a narrowing of the interest-rate differential between the US and India. However, the movement is expected to be orderly, as the Reserve Bank of India (the central bank) will be able to intervene in foreign-exchange markets to reduce exchange-rate volatility.

Banking sector risk

The share of distressed assets in the banking system is rising, weighing on banks’ balance sheets. Credit growth to industry is contracting, as companies are focused on deleveraging. However, lending to households will continue to expand at double-digit rates in 2017-18.

Political risk

The majority held by the Bharatiya Janata Party in the Lok Sabha (the lower house of parliament) will help to underpin political stability in 2017-18. However, political gridlock (owing to tensions between the major parties) and risks to social stability will weigh on the score.

Economic structure risk

A large stock of public debt and low levels of income per head constrain India’s rating for economic structure risk. However, relatively low global commodity prices will help to contain the current-account deficit.
Indonesia: risk assessment

Sovereign risk
A constitutionally mandated fiscal deficit cap, equivalent to 3% of GDP, will not be breached even though Indonesia will record fiscal deficits in 2017-18. The deficit will be mostly financed by long-term public debt. The public debt to GDP ratio will average 34% compared with an average of 30.5% in 2015-16.

Currency risk
The rupiah’s prospects have improved owing to a narrower current-account deficit and higher foreign-exchange reserves. As such, the currency will face less volatility in 2017-18 compared with recent history.

Banking sector risk
Credit growth will pick-up in 2018-19 owing to easier monetary policy, however, this will not raise banking sector risk (through a build-up of bad loans) significantly as the base of comparison remains low.

Political risk
Elections in 2019 will raise political risks in 2018. The president, Joko Widodo (known as Jokowi), will seek re-election, however, he will face a difficult challenge from his opponent, Prabowo Subianto, who is the leader of the opposition the Great Indonesia Movement Party (Gerindra).

Economic structure risk
Indonesia continues to record dual deficits on its current and fiscal accounts, which makes it reliant on foreign capital flows. Economic productivity is undermined by poor infrastructure and a low skilled labour force.
IRELAND COUNTRY RISK REPORT

Country Rating: B  Score: 25

Ireland: risk assessment

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Danielle Haralambous (lead analyst); Joan Hoey (analyst). Published 05 May 2017, 2100 GMT.
This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk
The Economist Intelligence Unit expects the primary surplus to decline slightly, to 1.4% of GDP, in 2017. However, the public debt/GDP ratio will remain on a declining trend, falling to about 66% by the end of 2018. Funding costs have risen, in line with global trends, but are still low and are likely to remain so.

Currency risk
The economic and institutional outlook for the euro zone has improved in recent months, contributing to a recovery in the external value of the euro. The value of the euro may yet come under pressure from political risk—especially in relation to the election in Italy, which we expect to take place in early 2018—and monetary tightening in the US. The euro derives structural support from a large current-account surplus.

Banking sector risk
Banks’ balance sheets continue to benefit from the economy’s recovery and rising house prices. The non-performing loan ratio fell to 12.5% in January-March 2017, but it is still high. The government has raised EUR3bn from the sale of a 25% stake in Allied Irish Banks, which was nationalised during the crisis.

Political risk
The Fine Gael-led minority coalition government faces numerous policy challenges following years of austerity and deteriorating public services. It is unstable and could fall, resulting in a snap general election in early 2018.

Economic structure risk
The rating is constrained by Ireland’s negative net external asset position, which is equivalent to almost 210% of GDP. Brexit may adversely affect some important export sectors, notably agri-food, which rely heavily on UK demand. Pharmachem is less reliant on the UK. The EU’s ruling that the Irish government must collect EUR13bn in unpaid taxes from Apple, a US multinational, poses a threat to Ireland’s attraction as a destination for foreign direct investment.
Israel: risk assessment

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Sovereign risk

The fiscal deficit will remain below 3% of GDP, despite populist spending measures and further tax cuts in the run-up to a likely early election, as revenue growth continues. Although public debt is high at 60% of GDP, the A rating is supported by a manageable repayment schedule, sound macroeconomic policy, large foreign reserves and access to new debt on good terms.

Currency risk

Currency risk remains within the A band. Israel's external position is comfortable, owing to a long-standing current-account surplus, strong foreign investment inflows and record foreign-reserve levels. Despite central bank intervention, the shekel will remain strong, hurting export competitiveness. A strong foreign-asset base and relatively robust economic fundamentals will limit downside risks for the currency even in periods of political uncertainty.

Banking sector risk

The banks' capital-adequacy ratio is high and the non-performing loan ratio, at 1.5% of gross loans in March, is low. The operating environment for banks should remain manageable as the economy continues to expand. The main downside risk is exposure to the residential property market, although the prolonged boom appears to be easing.

Political risk

The political risk rating, at BB, remains one of Israel's weaknesses. The coalition government is fraying, with personality clashes, corruption allegations against the prime minister and differing priorities hampering policymaking and likely to lead to an early election, possibly in 2018. But a change in government will not undermine creditworthiness significantly. Regional instability and the Israeli-Palestinian conflict pose security challenges.

Economic structure risk

The external position has strengthened in recent years owing to strong non-goods exports and capital-account inflows, but goods exports have performed weakly. Israel's small open economy leaves it exposed to changes in global external demand.
ITALY COUNTRY RISK REPORT

Country Rating: B  Score: 35

Italy: risk assessment

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Robert O'Daly (lead analyst); Peter Ceretti (analyst). Published 22 September 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Italy's sovereign rating remains at BB, reflecting the weakness of the country's economy, which has constrained revenue and curtailed ambitious plans to cut spending. However, the recovery that got under way in 2015 has strengthened moderately. The Economist Intelligence Unit expects the recovery to keep the budget deficit smaller than 3% of GDP in 2017 and 2018 and to stabilise the public debt/GDP ratio in 2017-18, at around 133% at the end of the year.

Currency risk

The rating remains at BBB, but the score has improved. The euro had been broadly stable against the US dollar up to mid-2017 but has since rallied as the region's economic recovery has continued, and as political risk has waned in Europe but risen in the US. Structural support comes from a large current-account surplus. We forecast that the euro will average US$1.15:EUR1 in 2017-18.

Banking sector risk

Banking risk remains at BB. There has been gradual progress since the beginning of 2017 in dealing with the sector's weakness, but non-performing loans remain elevated, undermining already weak profitability, which leaves the sector vulnerable to a renewed loss of investor confidence.

Political risk

The government led by Paolo Gentiloni of the dominant centre-left Partito Democratico (PD) is vulnerable to divisions both in the coalition and within the PD. We expect the next general election to take place at the end of the parliamentary term in early 2018, using a strongly proportional electoral system. This and increased fragmentation will complicate the formation of the next government, which we expect to comprise a coalition of established centre-left and centre-right parties.

Economic structure risk

The economic structure risk score has remained stable from March. Current-account surpluses since 2013 have helped to contain the negative net external asset position (-15% of GDP). However, the economic recovery is fragile and competitiveness has improved little. Unit labour costs are still high and firms produce mostly medium-technology, rather than high-technology, goods.
JAMAICA COUNTRY RISK REPORT

Country Rating: C  Score: 42

Jamaica: risk assessment

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Aris Iliopulos (lead analyst); Robert Wood (analyst). Published 27 October 2017, 2100 GMT.

The ratings contained in this report and the report itself were produced outside the European Union and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

There have been steady improvements in recent quarters across a range of macro-economic indicators, including the fiscal balance, real GDP growth and the current-account balance. The government continues to meet all targets under its IMF borrowing arrangement (a new three-year stand-by arrangement was signed in November 2016), but a heavy debt burden continues to impair creditworthiness.

Currency risk

Although the current-account deficit is set to increase slightly, foreign reserves will be supported by multilateral aid and global bond issuance. Jamaica's narrow export base heightens exposure to price and demand shocks.

Banking sector risk

The non-performing loan ratio has eased. Provisioning and capital adequacy ratios remain broadly stable, but bank profitability remains low. Banks face elevated macroeconomic risks related to Jamaica's heavy public debt burden.

Political risk

The government's majority of just a single seat in parliament heightens political risk, given the necessity of maintaining party loyalty to retain control. Other factors that increase political risk are tepid GDP growth, high unemployment, fiscal austerity and rising crime. Any popular discontent is unlikely to be serious enough to undermine policy or put the country's IMF agreement at risk.

Economic structure risk

Jamaica's large financing requirement, strict fiscal targets, subdued domestic demand and dependence on the external sector to drive growth will constrain GDP growth and keep the economy highly vulnerable to external shocks.
JAPAN COUNTRY RISK REPORT

Country Rating: A  Score: 20

Japan: risk assessment

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Fung Siu (lead analyst); Miguel Chanco (analyst). Published 13 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The Economist Intelligence Unit expects the ratio of public debt to GDP to continue rising in 2017-18, which will remain a major impediment to a rating upgrade over the period.

Currency risk

The yen’s value averaged ¥111:US$1 in the second and third quarters of 2017. Although this is stronger than the average of ¥114.9:US$1 in January, it is around 8% weaker than the average rate recorded in the third quarter of 2016. An anticipated sharper slowdown in China next year will see the yen strengthen against the US dollar on the back of safe-haven flows. However, the rate of currency appreciation, forecast at around 3%, will be not be dramatic.

Banking sector risk

Ultra-low interest rates will continue to squeeze spreads on domestic lending. Japan’s bigger banks are relatively well equipped to operate in this environment, given their limited reliance on domestic lending to generate profits.

Political risk

Political risk will be elevated over the short term, following the decision of the prime minister, Shinzo Abe, to call a snap poll for the House of Representatives (the lower house of parliament) that will be held on October 22nd 2017. We expect the Liberal Democratic Party-Komeito coalition government to secure another term of office.

Economic structure risk

Japan’s relatively weak rating band of BBB reflects anaemic rates of real GDP growth, which averaged 0.8% a year in 2014-16, and a high ratio of public debt to GDP, which is one of the highest among OECD countries. However, this risk category will continue to be supported by high income levels and a strong net-external-asset position.
Malaysia: risk assessment

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Fung Siu (lead analyst); Miguel Chanco (analyst). Published 11 August 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The fact that the stock of government debt is relatively lightly exposed to currency and financing risks will help to support Malaysia's BBB sovereign risk rating in 2017-18. More than 90% of the public debt is denominated in ringgit, and the bulk is held by local financial institutions.

Currency risk

The Economist Intelligence Unit expects the ringgit to depreciate over 2017-18. However, we believe that Bank Negara Malaysia (the central bank) will remain on standby to intervene in currency markets, as well as to adopt additional foreign-exchange restrictions, in order to prevent disorderly movements in the currency's value.

Banking sector risk

Local banking groups are well placed to absorb losses arising from economic shocks or problems affecting the inter-national financial system, as they enjoy high levels of liquidity and are well capitalised.

Political risk

Political risk will be high in 2017-18. We believe that the prime minister, Najib Razak, will request an early dissolution of parliament in the fourth quarter of 2017, paving the way for an election before the government's term ends in mid-2018. We expect the ruling Barisan Nasional coalition to secure another term in office, minimising any potential disruption to the policy-making process.

Economic structure risk

Exports of goods and services will continue to account for a large proportion of GDP, highlighting Malaysia's heavy dependence on external trade and its vulnerability to fluctuations in global prices for energy and electronics.
Sovereign risk

Sustained fiscal deficits, a rising public debt/GDP ratio and tepid economic growth contribute to Mexico's BB rating. Still-low oil prices will constrain revenue growth and prolong fiscal austerity. An US$88bn precautionary credit line with the IMF supports creditworthiness, which is reflected in low sovereign debt yields. The sovereign's commitment and ability to pay should not waver, despite uncertainty over US trade policy.

Currency risk

The peso has recouped losses incurred after the US elections in 2016, but moderate depreciation will resume as higher US interest rates push up the value of the dollar. A persistent current-account deficit, as well as worries about 2018 elections and the renegotiation of the North American Free-Trade Agreement will also add pressure. However, a large stock of foreign reserves will be supportive.

Banking sector risk

The rating is underpinned by strong regulation, and solid capital and liquidity indicators. A recent banking reform should gradually help to improve credit availability and deepen access to financial services. Financial soundness indicators will remain relatively good, despite a still-weak economy. The non-performing loan ratio stood at 2.1% in early October.

Political risk

Drug-related violence will persist, and the government will struggle to address a crisis stemming from chronic corruption- and security-related scandals. The Economist Intelligence Unit's baseline forecast is that Andrés Manuel López Obrador of the left-leaning Movimiento Regeneración Nacional (Morena) will win the next election, in July 2018, but this should not affect creditworthiness in the short term.

Economic structure risk

A high level of fiscal dependence on oil revenue and vulnerability to the US business cycle are sources of structural weakness, and economic dependence on the US exposes Mexico to potential protectionist measures. Efforts towards trade and investment diversification will only pay off in the long term.
NETHERLANDS COUNTRY RISK REPORT

Country Rating: A  Score: 19

Netherlands: risk assessment

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Pepijn Bergsen (lead analyst); Danielle Haralambous (analyst). Published 12 May 2017, 2100 GMT.
This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The Dutch sovereign is one of the safest in the euro zone, a status confirmed by a rating upgrade to AA in May 2017. The fiscal balance improved rapidly last year, reaching a small surplus, where The Economist Intelligence Unit expects it to remain in the coming years. Although the public debt/GDP ratio is high by the standards of similarly rated countries, it is fairly low in a euro zone context and is falling. Strong fundamentals mean that sovereign financing risks are negligible.

Currency risk

The rating remains at BBB, but the score has improved, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015 and recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to fall to parity with the dollar but forecast that it will average US$1.12:EUR1 in 2017-18.

Banking sector risk

Banking sector stability has improved in recent years. Capital ratios have risen and asset quality remains good, but the sector is an important source of risk, particularly regarding the housing market. Although household debt levels are falling slowly, they are among the highest globally and a reheating housing market could spur renewed lending growth and concerns over financial stability.

Political risk

The election on March 15th led to a fragmented result, leading to protracted coalition negotiations, which are still ongoing. Nevertheless, the eventual governing coalition will almost certainly not include the far-right populist Party for Freedom (PVV). A widely shared political preference for fiscal prudence and strong economic and fiscal fundamentals means that the credit rating is unlikely to be affected by the exact composition of the coalition that emerges.

Economic structure risk

The rating is supported by a large current-account surplus and strong net external asset position. The Netherlands remains a highly competitive economy. Risks are mainly external and include increased global protectionism.
NEW ZEALAND COUNTRY RISK REPORT

Country Rating: A  Score: 16

New Zealand: risk assessment

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Alice Mummery (lead analyst); Miguel Chanco (analyst). Published 20 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The Economist Intelligence Unit’s sovereign risk rating for New Zealand remains steady at AA. We forecast a continued budget surplus, equivalent to 0.8% of GDP, in fiscal year 2017/18 (July-June). At an estimated 32.1% of GDP, gross public debt is low compared with the median of AA-rated countries (47%).

Currency risk

At A, the currency risk rating is unchanged in our latest assessment. The New Zealand dollar has come under pressure in recent weeks, due to the uncertainty surrounding the make-up of the new government after the September 23rd general election. The currency will face continued depreciatory pressures in 2018, when we expect the Chinese economy—New Zealand’s largest export market—to experience a marked slowdown in growth.

Banking sector risk

The rating for the banking sector remains stable at AA. Banks are well capitalised and regulated, and have funding buffers in excess of minimum requirements. This would help them to withstand a potential sharp decline in property and export commodity prices.

Political risk

Political risk remains elevated in the aftermath of the election, as neither of the main parties—the incumbent National Party and the opposition Labour Party—won a sufficient majority to form a government. The New Zealand First (NZ First) party has the role of kingmaker and is in talks with both parties. We expect National and NZ First to form a coalition.

Economic structure risk

The reliance on exports of agricultural, fishing and forestry products leaves the New Zealand economy vulnerable to fluctuations in global commodity prices, as well as the negative effects of adverse weather or a downturn in the country’s major export markets, Australia and China. The country also has a structurally large current-account deficit, which weighs on its economic structure rating.
NICARAGUA COUNTRY RISK REPORT

Country Rating: C     Score: 54

Nicaragua: risk assessment

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Mark Keller (lead analyst); Fiona Mackie (analyst). Published 21 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

**Sovereign risk**

Sovereign risk remains CCC-rated, reflecting a shift towards state interventionism and away from orthodox policy management. Fiscal and debt vulnerabilities impair creditworthiness, and poor transparency and reliance on official financing also weigh on the rating. Multilateral lending will largely make up for the loss of Venezuelan financial support.

**Currency risk**

The B rating for currency risk is supported by multilateral aid inflows, solid remittances growth and moderate foreign-reserves coverage. However, amid a structurally large current-account deficit, the gross external financing requirement is high, and the possibility that multilateral lending could fall if the US imposes sanctions poses risks to balance-of-payments support.

**Banking sector risk**

Strong bad-debt provisions, prudent risk-management policies and sustained profitability underpin the banking sector risk rating, but reforms have fallen off the agenda. Rapid-albeit decelerating-growth in credit poses some risk to the banking sector, although the non-performing loan ratio remains low. A high level of dollarisation in the banking sector also poses risks to the rating.

**Political risk**

Daniel Ortega was re-elected for a third term in the November 2016 presidential election. The polls were considered neither free nor fair. Further institutional weakening is likely as concentration of power in the presidency exacerbates problems of corruption, nepotism, and a weak and politicised legal system. Mr Ortega's strong support base should limit social unrest, and concerns over willingness to pay are unlikely to emerge as long as GDP growth remains firm.

**Economic structure risk**

The rating is constrained by a large external debt stock, low income levels and high inequality. A structurally wide current-account deficit, and a heavy dependence on aid and multilateral lending also weigh on this risk category.
Norway: risk assessment

Sovereign risk
Norway’s macroeconomic environment has become more challenging owing to the impact of depressed oil prices on the offshore sector. However, the government’s ability to service its debt will not be in question given its large sovereign wealth fund. The Economist Intelligence Unit expects public debt to rise slightly in 2017-18, but funding costs will remain close to record lows.

Currency risk
The krone has been volatile against the US dollar and the euro as different factors—principally oil prices and divergent monetary policy outlooks—have pulled the currency in opposite directions. Our baseline forecast is that, although Norges Bank (the central bank) will keep monetary policy loose, the krone will appreciate gradually against both the euro and the dollar in 2017-18, owing to Norway’s economic recovery and less volatile oil prices.

Banking sector risk
Easing inflation has meant that real interest rates have become less negative, leading to a small improvement in the banking sector score sufficient to change the rating to AA in June, from A. The banking sector is well capitalised and well regulated, and remains solidly profitable, despite losses from lending to oil-related sectors. It is vulnerable to high levels of household debt and house price inflation, but there has been a recent correction in the housing market.

Political risk
The political risk score edged higher in June because of the proximity of the September general election. However, extremely orderly power transitions limit the risks to political stability, hence Norway’s AAA rating in this category. A tradition of well-functioning minority administrations and broad political consensus among the main parties will continue to underpin political stability.

Economic structure risk
The impact of the petroleum sector on the exchange rate can make the non-hydrocarbon economy less competitive. Usually this risk is mitigated by keeping a substantial amount of petroleum revenue in offshore investments. The rating is held down by Norway’s relatively narrow export base and vulnerability to fluctuations in world energy prices.
PARAGUAY COUNTRY RISK REPORT

Country Rating: C    Score: 42

Paraguay: risk assessment

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Fernando Freijedo (lead analyst); Robert Wood (analyst). Published 19 May 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk
The rating is supported by moderate GDP growth, a low public debt/GDP ratio (forecast as 22.5% in 2017) and fair reserves coverage. The fiscal deficit was 1.5% of GDP in 2016, equal to the ceiling set by the fiscal responsibility law. On the downside, some uncertainty about policy and the fiscal and financing framework will remain.

Currency risk
A comfortable cushion of reserves, bolstered by bond issuance, and reasonable prospects for growth in foreign direct investment mitigate currency risks. There is a risk of currency volatility owing to policy developments in the US, about which there is an unusual degree of uncertainty.

Banking sector risk
The non-performing loan ratio has increased recently, rising to 3.2% in June 2017, up from 2.8% in December 2016. However, macroeconomic and credit risks remain modest. Barring supply-side shocks, the outlook for inflation is benign, keeping the risk of interest-rate rises relatively low.

Political risk
The president, Horacio Cartes, has failed in his attempt to modify the constitution to allow for presidential re-election. Political uncertainty will persist ahead of a general election in April 2018. Party primaries, in which a candidate nominated by Mr Cartes will face opposition, are set for December 2017.

Economic structure risk
Reliance on oil imports and an agriculture-focused export base increase Paraguay's vulnerability to a deterioration in its terms of trade and to adverse weather. The informal economy remains large.
PERU COUNTRY RISK REPORT

Country Rating: C    Score: 42

Peru: risk assessment

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Robert Wood (lead analyst); Fiona Mackie (analyst). Published 20 October 2017, 2100 GMT.

The ratings contained in this report and the report itself were produced outside the European Union and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

Peru's sovereign risk rating remains at BBB. Prudent fiscal and monetary policies, moderate fiscal savings, which allow for countercyclical spending, and the implementation of a fiscal rule support overall credit-worthiness. Public-sector debt is relatively low by regional standards and, although rising, will remain manageable.

Currency risk

Peru's currency risk rating remains at BBB. The sol has been relatively stable since February, and strong reserves and low external debt support the outlook. The current-account deficit is narrowing, owing to a swing in the trade balance from deficit to surplus amid a recovery in both export quantities and prices. Relatively high capital inflows will also support the currency.

Banking sector risk

The BBB rating is underpinned by conservative management, adequate supervision and strong capitalisation. Levels of non-performing loans are low, and banks are well provisioned against potential future loan losses.

Political risk

The president's position is weak, given his party's minority in Congress. The opposition alternates between being co-operative and obstructionist, a factor that will weigh on the rating. Major instability is unlikely, although outbreaks of unrest focused on extractive projects will persist. The government's commitment to pay will be strong.

Economic structure risk

The dominance of metals and primary commodities in Peru's export basket—despite progress to reduce this in recent years—leaves the economy and business confidence vulnerable to fluctuations in global commodities prices.
PHILIPPINES COUNTRY RISK REPORT

Country Rating: C  Score: 48

Philippines: risk assessment

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Sovereign risk

The Philippines’ score in this category improves from 41 to 40 in The Economist Intelligence Unit's latest assessment, although the rating remains unchanged at BBB. Despite wider fiscal deficits on average in 2017-18, we do not expect the government to run into external payment difficulties over the period.

Currency risk

The currency rating remains unchanged at BBB even as the score improves from 35 to 32. The peso will face external headwinds in 2018 owing to a sharper deceleration in China’s economic growth. However, the Philippines’ foreign-exchange reserves will be adequate to prevent excessive volatility.

Banking sector risk

An improvement in the score, from 43 to 39, means that the risk rating advances from BB to BBB. The banking sector will remain in good health as the Bangko Sentral ng Pilipinas (the central bank) continues to improve the quality and enforcement of financial market regulation.

Political risk

The score in this category stays unchanged at 48 and, as such, the rating remains at BB. The popularity of the president, Rodrigo Duterte, has declined sharply over the past few months, but we continue to believe that he will be able to complete his full six-year term. Crucially, he continues to enjoy strong support in Congress (the legislature).

Economic structure risk

The score improves from 50 to 48 in our latest assessment, but the rating remains unchanged at BB. The economy will continue to be supported by large inflows of remittances in 2017-18 that will boost private consumption, but the risk score will continue to be weighed down by the Philippines’ narrow export sector, low average income levels and its vulnerability to external shocks.
PAOLAND COUNTRY RISK REPORT

Country Rating: B  Score: 33

Poland: risk assessment

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Pepijn Bergsen (lead analyst); Danielle Haralambous (analyst). Published 07 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk rating is unchanged at BB. The central government finances will show an improvement in 2017, but this will disguise a structural trend of increasing spending pressures. The Economist Intelligence Unit estimates that the general government deficit will widen to 2.7% of GDP (ESA 2010). We forecast that the public debt/GDP ratio (ESA 2010) will peak at 54% this year. Poland's gross external debt remains large as a share of GDP but is declining.

Currency risk

Since the start of 2017 the zloty has strengthened against the euro (and the US dollar) amid some instability. This appreciation reflects the solid growth trend in the economy, slightly firmer price pressures and improved investor sentiment in the banking sector following a policy shift over foreign-currency mortgages. A recent weakening of the zloty amid political unrest about judicial reform offers a cautionary note, but we expect it to continue to trade in a fairly narrow range.

Banking sector risk

Deposit growth, loan quality and capitalisation levels are improving. The incidence of foreign-currency-denominated mortgage loans is high. In August Andrzej Duda, the president, submitted a bill to parliament proposing an expansion of Poland's system of mortgage relief funds, thereby abandoning plans to force the conversion of foreign-currency-denominated loans.

Political risk

A series of reforms implemented by the government led by the Law and Justice (PiS) party has undermined the country's institutions, polarised public opinion and strained Poland's relations with the EU. The government's failure to address rule of law issues could lead to EU sanctions, but this is not our core scenario.

Economic structure risk

The economy weathered the 2008-09 global financial crisis well. However, a reliance on low labour costs and a failure to move up the value-added chain have kept GDP per head below the levels of some regional peers. The economy is well diversified, reducing its vulnerability to external shocks.
PORTUGAL COUNTRY RISK REPORT

Country Rating: B  Score: 26

Portugal: risk assessment

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Sovereign risk

The Economist Intelligence Unit believes that Portugal will continue to fund itself following its exit from the EU/IMF funding programme in 2014, and improved economic conditions and fiscal performance have led to an upgrade, to BBB. However, borrowing costs will rise moderately once again as the asset purchasing programme of the European Central Bank (ECB) is phased out in 2018. Public debt remains high, at 130.3% of GDP at end-2016.

Currency risk

The rating remains at BBB, but the score has improved, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015, and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to reach parity with the dollar, but we forecast that it will average US$1.12:EUR1 in 2017-18.

Banking sector risk

The near-collapse of Banco Espírito Santo in mid-2014 heightened concerns about financial stability, as did the sudden resolution of Banif in late 2015 and the recapitalisation of the country’s largest bank, Caixa Geral de Depósitos. The sector faces a weak economic environment and high levels of non-performing loans.

Political risk

Since its formation in November 2015 the minority Socialist Party (PS) government has relied on the external support of the Left Bloc (BE), the Portuguese Communist Party (PCP) and the Greens (PEV). Uncertainty regarding the government’s survival has eased, but an early election before the end of term in late 2019, most likely in mid-2018 or after, remains our baseline forecast.

Economic structure risk

Competitiveness gains, owing partly to bail-out-era reforms, have neutralised the external sector’s drag on economic growth and rebalanced the current account, although we expect the current account to dip into deficit again in 2018. The country’s net external asset position remains deeply negative, at -104.6% of GDP.
QATAR COUNTRY RISK REPORT

Country Rating: B  Score: 34

Qatar: risk assessment

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Mohamed Abdelmeguid (lead analyst); Keren Uziyel (analyst). Published 27 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The rating is unchanged at BB, reflecting the stalemate that followed the June boycott of Qatar by four Arab states. Although capital spending cuts and import compression have helped to improve the fiscal and external balance projections since June, real economic growth has slowed, making the high debt stock more onerous. Yet the large, albeit depleting, stock of liquid reserves at the Qatar Investment Authority (QIA, the sovereign wealth fund) are largely accessible by Qatari sovereigns, minimising the risk of an external debt default in 2018-19.

Currency risk

The currency risk rating is unchanged at B, as the improvement in the external balance is offset by the downward trend in Qatar Central Bank and QIA reserves since June. Nonetheless, the current stock of financial buffers at the QIA is sufficient to maintain the currency peg to the US dollar for several years-meaning that the risk of devaluation is negligible at present.

Banking sector risk

A growing risk of rising non-performing loans underpins the deterioration of the underlying score to the risk rating—currently at the weaker end of the B band. The boycott has undoubtedly threatened the stability of Qatar’s commercial banks, but liquidity injections from the QIA and access to international capital markets (albeit at rising premiums) will keep them solvent in 2018-19.

Political risk

The risk rating, currently at B, is constrained by external pressure on the regime and emerging domestic tribal tensions. In our view, this rating balances the negative impact of the boycott on domestic politics with the assurance provided by the military presence of US troops in Qatar—the ultimate guarantor of the emirate’s territorial integrity against foreign aggression. We therefore expect Sheikh Tamim bin Hamad al-Thani to remain Qatar’s emir in 2018-19.

Economic structure risk

A high level of dependence on oil and gas earnings will remain a source of structural weakness. Efforts towards economic diversification will be derailed by the boycott and the consequent cuts to capital spending.
Sovereign risk

In July the sovereign risk score deteriorated by 1 point, leading to a downgrade to BB. The revised 2016 budget deficit widened significantly, to 3% of GDP (ESA 2010), from 0.8% of GDP in 2015, despite delayed capital spending. The Economist Intelligence Unit estimates a significant widening of the budget deficit in 2017, to 3.6% of GDP, putting Romania in breach of EU fiscal rules.

Currency risk

On average the leu depreciated in nominal terms by 1% against the euro and 1.3% against the US dollar in 2016, resulting in a real effective depreciation (against a trade-weighted currency basket) of 1.8%. After further modest depreciation against the dollar in 2017, we expect leu appreciation in 2017-19 as strong economic growth and inflationary pressures lead to progressively tightening monetary policy. Strong nominal wage growth could damage competitiveness.

Banking sector risk

In July the banking sector risk score was unchanged. The ratio of non-performing loans to total loans has fallen sharply, from 21.9% in December 2013 to 8.3% at end-June 2017. This is expected to drop further in full-year 2017, aiding modest new lending growth, which contracted in 2016. Local subsidiaries of Greek banks account for 12% of banking assets, but have strong capital adequacy ratios to protect depositors.

Political risk

In July the political risk score improved by 3 points, to 40, because our risk model takes into account that the previous election was held more than six months ago. However, political risk remains considerable owing to tensions among the governing coalition and between the government and the judiciary, and potential attempts to soften the consequences of graft-related offences.

Economic structure risk

Romania’s BB rating reflects structural vulnerabilities, such as a relatively high ratio of gross external debt/GDP and an uncertain regulatory environment.
Russia: risk assessment

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Maximilien Lambertson (lead analyst); Agathe Demarais (analyst). Published 20 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk score has improved by 3 points, to 42, driven by growth in export revenue and foreign reserves owing to a recovery in oil prices. The Economist Intelligence Unit does not expect Russia to encounter sovereign financing problems in 2018-19. Public debt is low, estimated at 11.8% of GDP in 2017. Dependence on revenue from the oil sector is a significant economic and financial vulnerability.

Currency risk

The currency risk score has improved by 2 points, to 42, driven by growth in foreign-exchange reserves, which stood at US$350bn at end-August. The Central Bank of Russia (CBR) will gradually loosen its monetary policy in 2018-19 owing to slowing inflation. The rouble has appreciated on average this year, supported by higher oil prices, but is expected to depreciate against the US dollar in 2018 as a slowdown in China hits Russia’s terms of trade.

Banking sector risk

Banks remain under strain as a result of international sanctions, low levels of confidence in the banking sector and the stubbornly high level of non-performing loans (a legacy of the 2008-09 financial crisis). We believe that the government has the will and means to recapitalise banks as necessary to avoid a systemic crisis.

Political risk

Economic recession in 2015-16 and government spending cuts have led to a significant decline in living standards. However, the likelihood of mass protests is low, despite recent sporadic demonstrations, and political opposition remains marginalised. We forecast that Vladimir Putin, the incumbent, will easily win the presidential election, for the fourth time, in 2018.

Economic structure risk

The economy remains highly dependent on commodity exports, and the non-oil fiscal deficit is large. Investment levels are low, diversification plans are not effective and the demographic outlook is poor, albeit slowly improving. The difficult business climate will limit productivity growth and foreign investment.
Saudia Arabia: risk assessment

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Mohamed Abdelmeguid (lead analyst); Keren Uziyel (analyst). Published 07 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

**Sovereign risk**

The risk rating is constrained by the twin deficit in the current and fiscal accounts. Moreover, public debt is also rising rapidly as a share of GDP, albeit from a low base. Nonetheless, the sovereign's commitment and ability to meet its external obligations should not waver, given its large stock of reserves and small (but fast-growing) debt stock.

**Currency risk**

The rating is undermined by the country's declining—albeit still large—stock of foreign reserves and, despite the modest recovery in oil prices (compared with mid-2016), its fiscal and current-account deficits. Nevertheless, the central bank still has healthy reserves with which to support the US dollar currency peg.

**Banking sector risk**

The slowdown in the economy and cash-flow problems in the construction sector in particular have raised concerns about future non-performing loans, although the ongoing clearing of government debt arrears should ameliorate this. International bond issues have improved liquidity conditions for local banks.

**Political risk**

The appointment of the young Mohammed bin Salman al-Saud to the powerful position of crown prince may prompt further divisions within the monarchy. However, he will retain firm control of vital state institutions, which are largely led by his allies within the Al Saud family. We do not foresee any political risks to stability that could damage creditworthiness.

**Economic structure risk**

Saudi Arabia will benefit from low public debt levels, but heavy exposure to oil market volatility generates some economic risk. Efforts in trade and investment diversification will only pay off in the long term.
SINGAPORE COUNTRY RISK REPORT

Country Rating: A  Score: 11

Singapore: risk assessment

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Duncan Innes-Ker (lead analyst); Fung Siu (analyst). Published 07 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Singapore is a net creditor, putting its repayment capacity in a strong position. Moreover, all of the public debt is denominated in Singapore dollars, and so debt-servicing costs are not vulnerable to exchange-rate movements.

Currency risk

Currency risk will remain low. The Monetary Authority of Singapore (MAS, the central bank) has sufficient foreign-exchange reserves to manage the Singapore dollar’s value. The Economist Intelligence unit expects the MAS to maintain its policy stance of targeting zero appreciation of the currency’s nominal effective exchange rate in the last quarter of 2017 and throughout 2018.

Banking sector risk

Banks enjoy high levels of liquidity and remain well capitalised. These conditions are expected to persist in 2017-18. Local banks have a presence in some higher-risk markets, however. If these markets slow, as we expect China’s economy to do in 2018, it could have a negative impact on the health of the local banking sector.

Political risk

Stability will be assured by the continued political dominance of the People’s Action Party. The prime minister intends to step down before the next election but we expect the transfer of power to be smooth and have no impact on policymaking.

Economic structure risk

A large and vibrant manufacturing sector, in addition to a dominant services industry, makes Singapore’s economy fairly balanced from a sectoral point of view. However, the reliance on exports to drive GDP growth means that the city state is vulnerable to a downturn in global demand.
South Africa: risk assessment

<table>
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<tr>
<th>August 2017</th>
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Sovereign risk

Sovereign risk remains high amid significant political and policy uncertainty, thereby keeping the country’s rating in the middle of the BB band. Slow growth in revenue and the mounting financial demands of debt-laden parastatals pose significant fiscal challenges ahead of the next budget in February.

Currency risk

The relative stability of the rand so far in 2017, despite shocks such as a sovereign credit downgrade, mainly reflects broader trends in emerging markets and commodities. Depreciation will regain momentum during the remainder of 2017 and in 2018.

Banking sector risk

Banking sector risk is BB-rated, reflecting the robust and well-supervised system. An interest-rate cut in July should give a mild boost to credit growth, and the non-performing loan ratio remains at a low level. Planned changes to black economic empowerment rules in the financial sector are a source of concern.

Political risk

Divisions within the ANC between supporters and opponents of the president continue to widen ahead of its five-yearly electoral summit in December 2017, when Jacob Zuma will stand aside as leader (although not as national president).

Economic structure risk

South Africa’s B rating reflects ongoing structural constraints, such as infra-structure bottlenecks and labour market rigidities, including skills shortages and an elevated risk of strikes. Subdued economic growth will hinder efforts to bring down the budget and current-account deficits.
SOUTH KOREA COUNTRY RISK REPORT

Country Rating: B    Score: 29

South Korea: risk assessment

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Agathe L’Homme (lead analyst); Miguel Chanco (analyst). Published 21 July 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Despite a loosening of its traditionally conservative fiscal policy stance, the government’s debt-repayment capacity will not be undermined. The size of the public debt will remain manageable in 2017-18, at the estimated equivalent of 42.8% of GDP on average.

Currency risk

Owing to substantial surpluses on the current and trade accounts, currency risk in South Korea is relatively muted. However, the local currency, the won, remains vulnerable to downward pressure from adverse changes to global risk appetite, and more particularly around the North Korean military threat.

Banking sector risk

South Korea’s high level of household debt poses a threat to the stability of the banking sector. Debt-servicing problems could emerge should the rate of economic expansion slow markedly or interest rates rise sharply, although this is not The Economist Intelligence Unit’s central forecast.

Political risk

The comfortable electoral victory in May 2017 of Moon Jae-in eased concerns around political stability, which rose with the impeachment on corruption charges of the previous president, Park Geun-hye. North Korea’s rapid military progress towards full nuclearisation, however, has slightly increased the risk of a military conflict, which we still rank as relatively low.

Economic structure risk

A pick-up in global demand will support a recovery of the export-oriented economy, but a rebalancing towards more domestic demand-driven growth still requires thorough reforms. The new government will struggle to push these through in 2017-18, as it lacks a strong majority in parliament.
Spain: risk assessment

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Peter Ceretti (lead analyst); Robert O'Daly (analyst). Published 11 August 2017, 2100 GMT.

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Sovereign risk

Spain's fiscal dynamics are improving, supported by strong nominal GDP growth, which The Economist Intelligence Unit forecasts at 5.2% in 2017. However, the budget deficit will remain larger than 3% of GDP until 2018, a year later than the government agreed with the EU. Public debt peaked at about 100% of GDP in 2014.

Currency risk

The rating remains at BBB, but the score has improved, reflecting a better economic and institutional outlook for the euro zone. The euro has been broadly stable against the US dollar since mid-2015, and more recently has shown resilience to political risk. Structural support comes from a large current-account surplus. We do not expect the euro to fall to parity with the dollar but forecast that it will average US$1.12:EUR1 in 2017-18.

Banking sector risk

Solid economic recovery has improved the health of the banking sector, now among the euro area's most heavily consolidated. However, the sector required an international bail-out in 2012, and significant weaknesses remain, including low profitability and considerable levels of non-performing loans. As demonstrated by the resolution of Banco Popular, episodes of instability remain a downside risk.

Political risk

We expect an early election—although not before the second half of 2018 or 2019—but the government will not go to term. The minority Popular Party (PP) administration is one of Spain's weakest. The Catalan regional government's plan for an independence referendum on October 1st risks a legal and constitutional stand-off, although we expect Catalonia to remain part of Spain.

Economic structure risk

The return to surplus of the external account and the stabilisation of the public finances underpin Spain's BBB rating for economic structure risk. Following a current-account surplus of 1.9% in 2016 we expect small surpluses to continue in 2017-18. However, Spain's net external asset position remains strongly negative, at -85.6% of GDP, and the euro still faces long-term challenges.
Sweden: risk assessment

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Danielle Haralambous (lead analyst); Joan Hoey (analyst). Published 09 June 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Sweden's general government debt stock is modest, at 41.7% of GDP in 2016, and is projected to decline in 2017-18. The Economist Intelligence Unit expects the general government budget to record solid surpluses of close to 1% of GDP in 2017-18, reflecting a commitment to fiscal prudence, which will mean modest spending amid high tax revenues. Financing costs are exceptionally low.

Currency risk

Looser monetary policy and a stated intention by the Riksbank (the central bank) to intervene in the foreign-exchange markets, if necessary, contributed to a depreciation in the krona against the euro in the first half of 2017, although this move was partially reversed in July-August. Robust domestic fundamentals are likely to underpin the value of the krona, particularly given its safe-haven status. However, the Riksbank's easing bias will limit the risk of rapid appreciation exacerbating disinflationary pressures.

Banking sector risk

In EU-wide stress test results published in July 2016 Sweden's four largest banks were found to be among the most resilient in the region, with an average capital ratio far exceeding that of their European peers. Vulnerabilities in the financial sector stem from high levels of household indebtedness, but tighter regulation of mortgage lending will limit the threat to financial stability. There has been a slight decline in lending to the private sector as a share of GDP.

Political risk

The Moderate Party and the far-right Sweden Democrats (SD) have expressed an intention to oust the minority centre-left government. However, we expect the government to survive, as it can rely on parliamentary support from the Left Party. A change of government is likely after the general election in 2018 if more centre-right parties consider co-operation with the SD, but the government's commitment to fiscal prudence is unlikely to change.

Economic structure risk

The economy is very open, but economic growth is being driven by private consumption and investment, as well as stronger demand from major external markets in Europe. A high level of household indebtedness is a persistent vulnerability. The current account continues to record solid surpluses.
Switzerland: risk assessment

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Peter Ceretti (lead analyst); Pepijn Bergsen (analyst). Published 22 September 2017, 2100 GMT.

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Sovereign risk

Switzerland’s sovereign risk rating is unchanged at AA. Economic growth is subdued, although the Swiss franc has somewhat weakened. The Economist Intelligence Unit expects that small budget surpluses will help keep the government debt/GDP ratio stable at around 32% in 2017-18.

Currency risk

The Swiss franc appreciated sharply after the Swiss National Bank (SNB, the central bank) ended its exchange-rate ceiling of Swfr1.20:EUR1 in January 2015 and has only depreciated partially. We expect a slight depreciation against the euro this year, as the latter has been buoyed by stronger growth in the euro area and expectations of tighter monetary policy. SNB policy is likely to remain unchanged, but foreign-exchange interventions may slow. While we expect a continued, gradual depreciation, risks are balanced towards a stronger franc given the potential for safe-haven demand.

Banking sector risk

Direct exposure to the euro zone periphery is limited. Swiss banks’ ratio of non-performing to total loans stood at 0.78% in mid-2016, and regulators have applied more stringent capital requirements to the largest banks. Ultra-low interest rates are weighing on profitability, and overheating in the real estate market remains a risk, although home price growth has cooled in the last year.

Political risk

The conservative Swiss People’s Party (SVP), which won the 2015 election and claimed a second cabinet seat, will continue to push for tough immigration stances. However, Switzerland’s culture of consensus, institutional rules and government members’ obligation to defend the grand coalition administration’s common positions make serious instability unlikely over the forecast period.

Economic structure risk

Strong external and fiscal balances underpin macroeconomic stability. The current-account surplus is large, estimated at 11% on average in 2017-18, while the public sector will run small fiscal surpluses and the public debt remains stable, around 32% of GDP. Steps are being taken to mitigate risks associated with the large financial sector.
TAIWAN COUNTRY RISK REPORT

Country Rating: B  Score: 22

Taiwan: risk assessment

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October 2017

John Marrett (lead analyst); Duncan Innes-Ker (analyst). Published 13 October 2017, 2100 GMT.

The ratings contained in this report and the report itself were produced outside the European Union and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

**Sovereign risk**

The sovereign risk rating is unchanged at A in this assessment. The Economist Intelligence Unit expects a moderate deterioration in Taiwan's budget balance in 2017-18, amid more expansionary government fiscal policy, including major tax reforms. Nonetheless, the public debt remains relatively low (compared with other A-rated countries) and, for the most part, domestically held.

**Currency risk**

We expect the New Taiwan dollar to weaken modestly against the US dollar on average in 2018, after strengthening in 2017. A growing interest-rate differential with the US and weaker external demand will exert increasing downward pressure on the local currency. However, large foreign-exchange reserves will allow the authorities to continue to mitigate excessive volatility.

**Banking sector risk**

Broad stability and low levels of risk mean that the rating remains at A in this assessment. The risks associated with local banks’ exposure to foreign markets are limited and the banking sector has maintained high average capital-adequacy ratios. The ratio of non-performing loans to total loans is low and stable.

**Political risk**

Control of both the presidency and a sizeable majority in the Legislative Yuan by the Democratic Progressive Party (DPP) should reduce friction between the presidential office and parliament, boosting the effectiveness of policymaking. However, the relationship with mainland China will continue to be strained under the DPP’s rule.

**Economic structure risk**

An over-reliance on the mainland as a source of external demand and sectoral concentration on consumer electronics and associated components are major vulnerabilities in Taiwan's export-oriented economy. Nonetheless, even if the external sector were to fare worse than we forecast in 2017-18, it is unlikely that the still-large current-account surplus would be completely eroded.
THAILAND COUNTRY RISK REPORT

Country Rating: C   Score: 44

Thailand: risk assessment

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John Marrett (lead analyst); Miguel Chanco (analyst). Published 22 September 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

An expansion of fiscal revenue streams will help to restrain the budget deficit in 2017-18, despite the ramping-up of a public expenditure drive. This will contain the public debt to a manageable level, below the equivalent of 50% of GDP.

Currency risk

Stronger merchandise export growth and inward investment in 2017 has helped to boost foreign-exchange reserves. However, an anticipated slowdown in external sector growth and an expected reversal of portfolio investor sentiment represent significant growing risks to the strength of the Thai baht against the US dollar in the short term.

Banking sector risk

The banking system remains robust and able to withstand substantial financial shocks. Non-performing loans account for a small and relatively stable proportion of total loans, and capital-adequacy ratios are high and heading towards the fulfilment of Basel III prudential requirements.

Political risk

The military’s firm grip on power, supported by the smooth accession process for the new king and a new publicly approved constitution that paves the way for elections, has reduced the prospect of major protests and political upheaval in Thailand in 2017-18.

Economic structure risk

Thailand’s economic fundamentals have strengthened recently, driven by stronger external demand and a public-investment drive. However, the Thai economy’s heavy dependence on the tourism sector represents a vulnerability, while frequent government stimulus risks accelerating growth in the size of the public debt.
Turkey: risk assessment

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Robert O'Daly (lead analyst); Felix Delbruck (analyst). Published 27 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The rating is unchanged. The Economist Intelligence Unit expects the central government deficit to widen, to a still moderate annual average of 2.2% in 2017-18. The public debt/GDP ratio edged up slightly in 2016, but we expect it to remain low, at around 29%. However, political instability and fiscal stimulus measures have increased the risk of a much larger deterioration in the public finances.

Currency risk

The currency risk rating improves from B to BB, reflecting the stabilisation of the lira after the presidential reform referendum in April 2017. However, the lira remains vulnerable to further bouts of severe volatility driven by political instability, security risks and expectations of tighter global liquidity. We expect the Central Bank of Turkey to have to keep monetary policy tight to support the lira.

Banking sector risk

The rating is unchanged. The banking sector has high capital buffers. Non-performing loans (NPLs) are low, but they have risen and could rise further in the current uncertain economic environment. A weaker lira has raised external debt-servicing costs. Government guarantees and political pressure on banks could affect profitability and distort lending decisions.

Political risk

The aftermath of the July 2016 coup attempt, the government’s clampdown on its opponents and the transition towards a presidential system with few checks and balances will keep the risk of political instability high. Security risk is high owing to a violent resurgence of the outlawed Kurdistan Workers’ Party (PKK) and the spillover of the Syrian conflict. The deployment of Turkish troops to Syria raises the risk of Turkey becoming mired in the conflict.

Economic structure risk

The economy is heavily dependent on predominantly volatile short-term foreign capital inflows for growth. Corporate hard-currency indebtedness creates the risk of currency mismatches. Foreign direct investment remains low. The income tax base is narrow, owing to widespread evasion.
UKRAINE COUNTRY RISK REPORT

Country Rating: C    Score: 60

Ukraine: risk assessment

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Joan Hoey (lead analyst); Maximilien Lambertson (analyst). Published 22 September 2017, 2100 GMT.
This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign debt score improved by 1 point, to 73, in The Economist Intelligence Unit's September ratings report, reflecting macroeconomic stabilisation and a recovery in growth. However, reforms have all but stopped, and we do not expect a disbursement from the IMF until early 2018 at best. We forecast that the budget deficit will expand to an average of 2.6% of GDP in 2018-19, from 2.2% in 2016.

Currency risk

The hryvnya began to depreciate in September, in line with our expectations, owing to the strength of the US dollar. We expect this trend to continue until the end of the year, when we forecast that the exchange rate will reach HRN26.4:US$1. A drop in steel prices in 2018 will cause further currency depreciation in that year, to an average of HRN28.1:US$1.

Banking sector risk

The nationalisation of PrivatBank in December 2016 underlined the weakness of the financial sector. PrivatBank's loan portfolio remains to be assessed; preliminary work has sharply increased non-performing loan ratios. Questions remain about central bank independence after Valeria Gontareva resigned as head of the National Bank of Ukraine (NBU) in April. She is yet to be replaced.

Political risk

The frozen conflict in the Donbas will continue unresolved in 2018-19. Public support for the government is low, but we do not forecast an early election. Efforts to combat corruption and strengthen state capacity will be fitful.

Economic structure risk

Ukraine is gradually re-orienting its trade from Russia to EU markets. However, Russian gas transit to the EU still brings in US$2bn per year; this could stop in 2019. A major risk to the outlook is that institutional reforms will be blocked by domestic resistance or that the conflict with Russia will flare up.
United Arab Emirates: risk assessment

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Keren Uziyel (lead analyst); Mohamed Abdelmeguid (analyst). Published 20 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

Short-term financing needs remain large, especially for Dubai entities with outstanding liabilities from the 2009 debt standstill, with repayments peaking in 2018. However, they should be able to meet their obligations, and large sovereign wealth fund assets provide a further cushion. Given an only modest oil price recovery, the fiscal account is expected to remain deep in deficit.

Currency risk

The dirham will be susceptible to shifts in the US dollar, to which it is pegged. There is little risk of the dirham being revalued or depegged, given the UAE’s comfortable official reserves and substantial assets, and because most state revenue is denominated in dollars (the currency in which oil is traded). The UAE is unlikely to rejoin the Gulf Co-operation Council single currency project.

Banking sector risk

Despite the squeeze on liquidity after the 2014 collapse in oil prices, financial indicators remain fairly healthy and bank profitability is recovering. Banks also face high debt exposure to government-related entities (GREs), but increased use of overseas debt financing by GREs and by individual emirates should ease these pressures and also help to replenish deposits. The Central Bank of the UAE will monitor excess liquidity and large outflows from commercial banks.

Political risk

We expect the UAE to continue to benefit from domestic political stability and its regional hub status. Nevertheless, the country’s location presents some geopolitical risk, given rising instability in a number of Middle Eastern countries and intra-Gulf Co-operation Council tensions—with the breaking of ties with Qatar potentially posing limited risks to UAE gas supplies.

Economic structure risk

The UAE’s openness makes it susceptible to external shocks and, although it is more diversified than other oil producers, the economy is still heavily influenced by oil earnings, which are set to recover only modestly. Dubai’s economy is the most diversified of the emirates but is still reliant on regional liquidity; the other emirates are making slower progress on diversification.
United Kingdom: risk assessment

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Joan Hoey (lead analyst); Danielle Haralambous (analyst). Published 18 August 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

**Sovereign risk**

The rating and score are unchanged at A. The Economist Intelligence Unit expects the budget deficit to expand from 3% of GDP in 2016 to 3.6% in 2017, before shrinking to 3.5% of GDP in 2018 as slower growth negatively affects the public finances. We expect the public debt/GDP ratio to reach 92.1% in 2018. Bond yields are very low, but could rise if the UK’s fiscal position deteriorates.

**Currency risk**

The BBB rating is unchanged. Sterling weakened by just over 11% year on year against both the US dollar and the euro in 2016. The pound strengthened to about US$1.29:£1 after the government called a snap election in April, before falling back sharply after the shock result in June. By July it had recovered again, partially in response to expectations of tighter monetary policy from the Bank of England (BoE, the central bank). Our baseline forecast is that the pound will depreciate modestly in 2017-18 as the UK formally begins the process of leaving the EU and investor uncertainty intensifies.

**Banking sector risk**

Banking sector risk is rated A. Financial stability was mildly tested by market volatility after the referendum result, but the UK’s financial markets continue to function smoothly. The banking sector has strengthened since the crisis, and in 2016 all four major UK banks passed the stress tests of the European Central Bank (ECB). Non-performing loans have fallen below 1% of total loans.

**Political risk**

The outcome of the snap election on June 8th, in which the Conservative Party lost its majority, forcing it to rely on Northern Ireland’s Democratic Unionist Party (DUP), has heightened political uncertainty. The prime minister, Theresa May, has been weakened and divisions in the cabinet have intensified over the government’s Brexit strategy. The government (with or without Mrs May) may not last a full term given its small working majority and Brexit challenges.

**Economic structure risk**

We expect no marked structural change in 2017-18, but over the medium term the UK’s post-Brexit relationship with the EU may lead to significant changes.
UNITED STATES COUNTRY RISK REPORT

Country Rating: A  
Score: 21

United States of America: risk assessment

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<th>October 2017</th>
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Mike Jakeman (lead analyst); Felix Delbruck (analyst). Published 27 October 2017, 2100 GMT.

This sovereign rating is issued by The Economist Intelligence Unit credit rating agency, registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended, and is issued pursuant to such regulation.

Sovereign risk

The sovereign risk rating is unchanged at AA. The government deficit is manageable after years of austerity programmes. The administration has proposed changes to tax policy that would lower personal and business tax rates. The Economist Intelligence Unit expects reforms to be passed, but in a significantly watered-down form. Nevertheless, these will have a detrimental effect on revenue collection. We believe that a higher tax burden will be required to service public debt in the long term.

Currency risk

The currency risk rating remains at A, but the underlying score improved by one point in October 2017, owing to a strengthening economy at home and in other developed markets. Financial markets have yet to price in regular interest-rate rises from the Federal Reserve (the central bank), and we therefore think that the dollar is likely to appreciate from its current levels in 2018, in particular.

Banking sector risk

The banking sector risk score remains at A, with no change in the underlying score. Capital-adequacy ratios have risen and regulation has increased since the Dodd-Frank law was passed in 2010. US lenders have passed the first round of this year’s “stress tests”. However, the president, Donald Trump, is inclined to water down or remove many of these regulations, which would boost profits but also be likely to weaken lending standards.

Political risk

We have maintained political risk at A, following a post-election downgrade. The early months of the Trump administration have borne out our concerns that the president would bring uncertainty to policymaking. Also important are the ideological differences within the Republican Party, which will continue to impede much of the party’s policy agenda, despite the strength conferred by holding the presidency and majorities in both chambers of Congress.

Economic structure risk

Economic structure risk remains at A. Greater energy self-sufficiency, owing to higher shale gas and oil production, has reduced import requirements, narrowing the current-account deficit. However, public debt has more than doubled as a share of GDP in the past decade, and we expect it to rise further under Mr Trump’s administration as fiscal discipline weakens.
URUGUAY COUNTRY RISK REPORT

Country Rating: B    Score: 37

Uruguay: risk assessment

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Fernando Freijedo (lead analyst); Robert Wood (analyst). Published 22 September 2017, 2100 GMT.

The ratings contained in this report and the report itself were produced outside the European Union and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

The sovereign risk rating remains at BB. The fiscal deficit will narrow slightly from current peaks as the government tightens policy, but the public debt/GDP ratio will remain above 60%, a key threshold in The Economist Intelligence Unit's risk model. Creditworthiness will be supported by a large stock of reserves and proactive liability management, which has reduced rollover, currency and interest-rate risk.

Currency risk

The BBB rating reflects good scores in indicators related to liquidity, such as strong inflows of foreign direct investment, a manageable current-account deficit and high reserves/financing requirement ratios.

Banking sector risk

The sector is liquid and well capitalised, and the risk of a marked increase in delinquency ratios is contained. We expect that a more positive economic performance in Argentina and Brazil will remove a significant source of pressure on exporters.

Political risk

An effective institutional framework supports the BBB rating. The government recently lost its majority in Congress and leftist elements within the governing Frente Amplio will impair governability and progress on fiscal adjustment.

Economic structure risk

Economic structure risk remains B-rated. The public debt/GDP ratio has risen sharply in recent years, and Uruguay's continued dependence on commodities and exposure to economic performance in Argentina and Brazil has been evident in weak growth in past years. Improving growth prospects in both countries' economies will support a gradual pick-up in growth in Uruguay in the medium term.
VENEZUELA COUNTRY RISK REPORT

Country Rating: D  Score: 81

Venezuela: risk assessment

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Robert Wood (lead analyst); Fiona Mackie (analyst). Published 25 August 2017, 2100 GMT.

These ratings are restated from the Ratings Report indicated above, which was produced outside the European Union, and therefore are not issued by The Economist Intelligence Unit credit rating agency, which is registered in accordance with Regulation (EC) No 1060/2009 of 16 September 2009, on credit rating agencies, as amended. This report and the ratings, therefore, are not issued pursuant to such Regulation and do not fall within its scope.

Sovereign risk

The Economist Intelligence Unit downgraded the rating to C in August, following the installation of a Constituent Assembly that indicates that the government seeks to cling to power through increasingly authoritarian means. The deepening economic crisis and foreign-exchange constraints will erode reserves, making it extremely difficult for Venezuela to honour debt repayments (over US$4bn falls due before end-2017 and a further US$8.6bn in 2018).

Currency risk

The government it will use a “basket of currencies” to avoid the use of the US dollar. Some currencies in the “basket” are not easily convertible, complicating external transactions. Currency risk also reflects an acceleration of inflation, sharp growth in monetary supply, currency controls, a wide premium on the black-market exchange rate and low foreign-exchange reserves.

Banking sector risk

Elevated macroeconomic risks contribute to the rating. Soundness indicators are all fair, but this largely relates to the fact that capital controls are in place and nominal credit growth is disproportionately high.

Political risk

In August The Economist Intelligence Unit downgraded the rating to C. Political tension between the opposition and government will remain extremely high as the latter consolidates its grip on power through increasingly authoritarian means. Economic crisis is likely to lead to a transition to the opposition eventually, but the timing is uncertain.

Economic structure risk

A significant share of government revenue and almost all export earnings are from oil sales, reflecting the failure of successive governments to undertake structural reforms and encourage diversification. There is a threat that the US will impose oil sanctions.