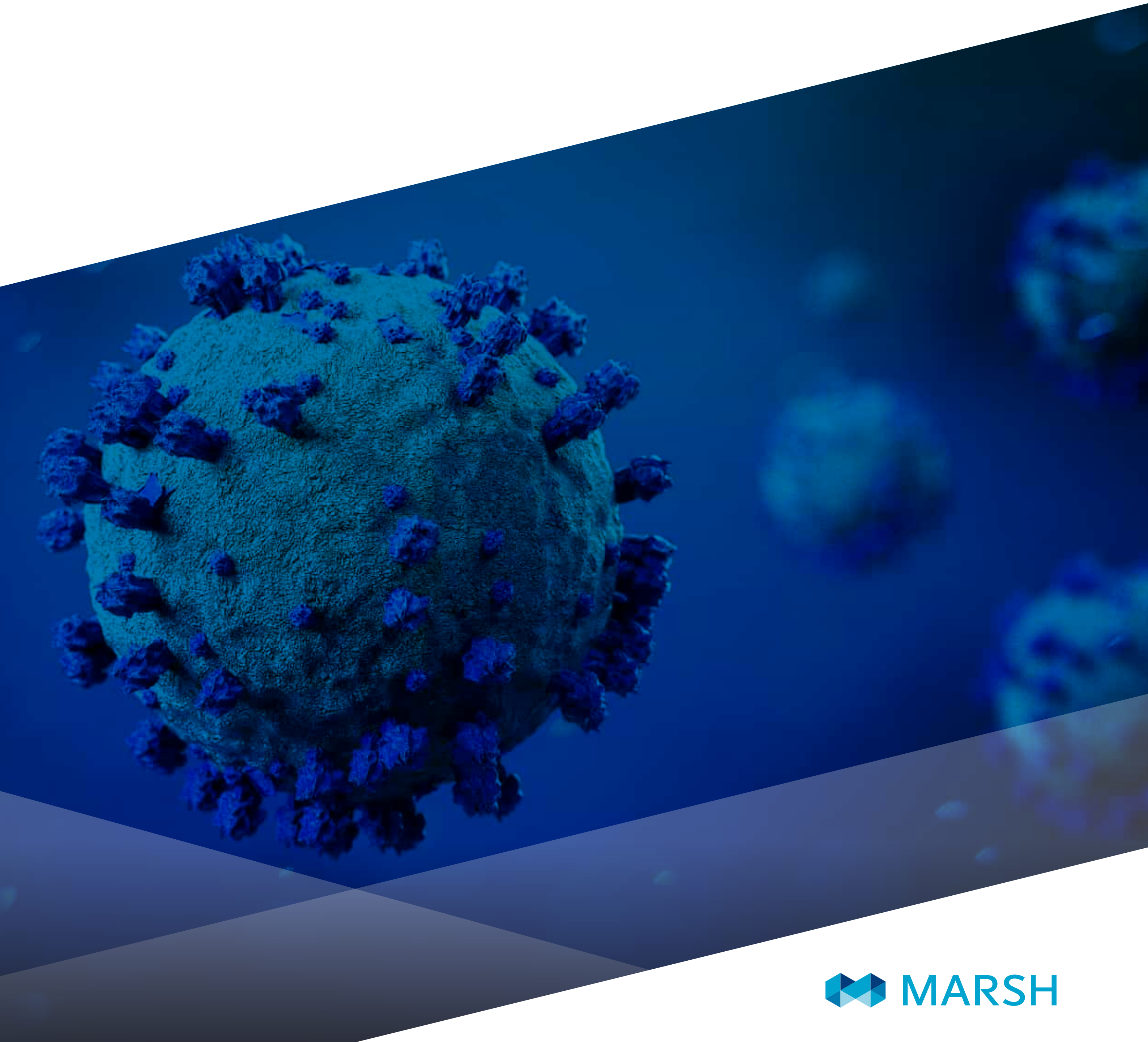
MARSH JLT SPECIALTY

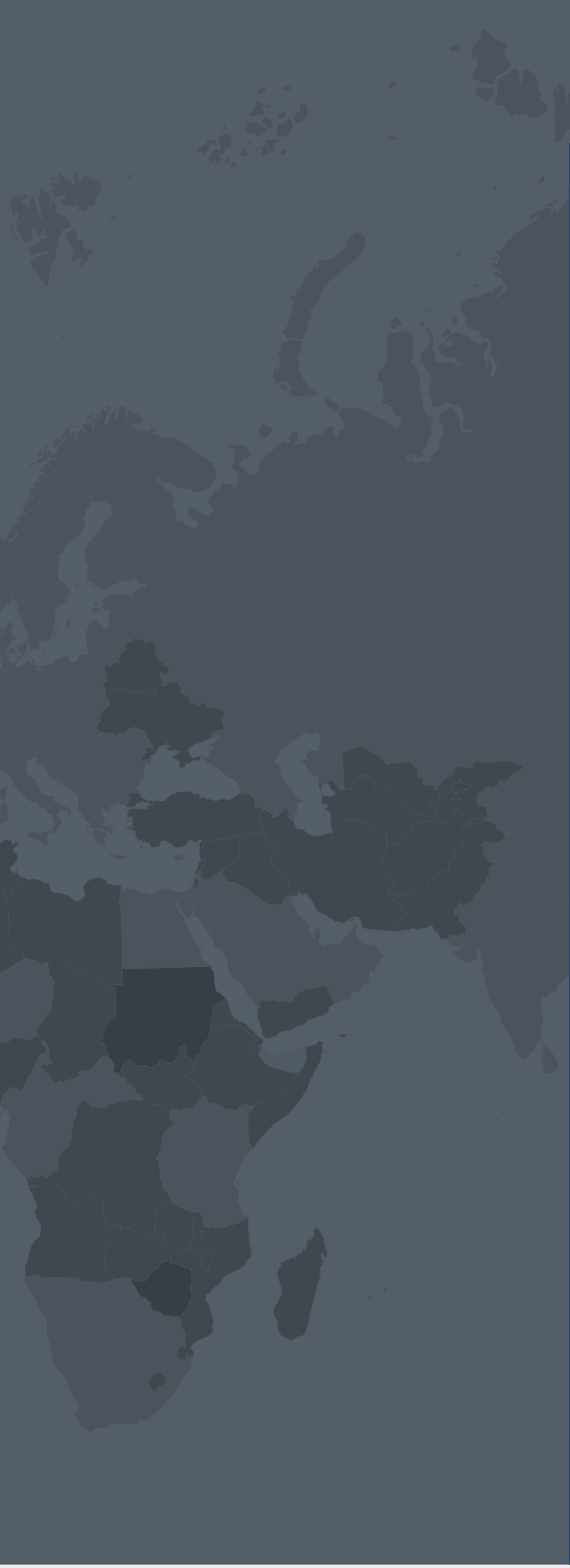
INSIGHTS | AUGUST 2020

Political Risk Map 2020: Mid-Year Update

COVID-19 Sharply Increases Economic Risks



MARSH



INSIGHTS | AUGUST 2020

Political Risk Map 2020: Mid-Year Update

CONTENTS

Introduction

COVID-19 has complicated an already volatile political risk landscape. Despite a focus on the pandemic, the geopolitical flashpoints that we highlighted in March 2020 have not gone away. In the coming months, many may be intensified by the pandemic, as some governments seek to distract from domestic issues by ramping up foreign policy assertiveness, bringing a risk of violent confrontation.

The pandemic's economic and social impacts are driving significant shifts in global political risk — introducing new dynamics and accelerating existing geopolitical megatrends, such as trade protectionism and the transition to a multipolar world order. The deepening Sino-American rivalry has accelerated since the onset of COVID-19. The politicization of trade and investment relationships has extended to public health, with leaders in both countries routinely blaming the other for the pandemic.

Cooperation between China and the US on the pandemic has been weak, and tensions have risen over Hong Kong SAR, Taiwan, and the South China Sea. Our expectation that tech firms will be increasingly caught in the crossfire is playing out, while countries find themselves under geopolitical pressure to choose sides. In July 2020, the UK government announced that Chinese firm Huawei's technology would be banned from its 5G networks. As the US presidential election approaches, relations are likely to deteriorate further.

Outside of the US-China rivalry, recent months saw a Sino-Indian confrontation in the Himalayas in which at least 20 troops were killed. Tensions on the Korean peninsula also look set to rise, with North Korea severing communication lines with the South and blowing up a joint liaison office in June 2020.

International focus on COVID-19 may also be masking simmering tensions between Iran and the US. Relations between the two countries remain weak, following the January 2020 US drone strike that killed a leading Iranian general. In July, two US fighter jets approached an Iranian passenger plane in Syrian airspace, and days later Iran's revolutionary guards fired a missile at a replica aircraft carrier in the Strait of Hormuz.

Economic Impact

Since January 2020, all 197 countries rated by Marsh JLT Specialty's *World Risk Review* have seen their country economic risk increase, compared to just 60 countries in the same period in 2019. Moreover, risk ratings have increased by a larger magnitude compared to the same period last year.

Between January-July 2019, 97% of the economic risk ratings that increased did so by between 0.1 and 0.4, compared to just 7% in 2020 (see Figure 1). In 2020, 40% of ratings increased by between 1 and 1.4. No scores rose by this magnitude in January-July 2019.

The International Monetary Fund (IMF) forecasts that the global economy will shrink by 4.9% in 2020. With many governments looking to ease lockdown measures, attention is focused on the shape and size of an economic recovery.

An economic recovery is difficult to forecast, given the significant uncertainty over governments' ability to contain and manage COVID-19, particularly without a vaccine. Recent weeks have exposed these challenges. While economic data from Europe showed a tentative move toward recovery, fears of a second wave of infections may yet undermine momentum. As a result, the post-COVID recovery is likely to be uneven across countries and sectors. Countries that entered the crisis with weaker fundamentals are likely to face deeper economic scars, while those able to deploy large fiscal packages and effectively manage the virus are best placed for recovery.

Trade tensions are also likely to amplify, if or when a global economic recovery takes hold. The drivers of increased trade protectionism remain in place, and are likely to be exacerbated by deteriorating US-China relations during the pandemic. The Phase One trade deal reached between the two states is at risk of being abandoned, posing risks to a post-COVID recovery in global trade volumes.

With some exceptions, emerging markets (EMs) will benefit from a recent return to stability in global financial markets, allowing most of them to avoid the severe balance of payments pressures caused by rapid capital outflows. However, long-term debt sustainability in many EMs will be weakened by the pandemic, as governments deploy additional spending and weak economic activity drags on revenues. In some cases, such as South Africa, COVID-19 has exacerbated existing weaknesses in public finances, while the simultaneous drop in global commodity prices has also hit many oil-producing nations.

Strained government finances could also push some governments to seek alternative sources of revenues, possibly leading to contract alterations or expropriation in more profitable sectors. Regulatory changes may look to increase government royalties, potentially weakening operating environments.

The pandemic is likely to drive rising sovereign credit risks in the coming quarters. Many countries have deployed extensive fiscal stimulus packages to support the private sector, fund additional health care spending, and invest in a post-COVID recovery, all at a time of reduced government revenues. For many EMs, this will weigh on debt sustainability. In the first half of 2020, one-third of Moody's sovereign ratings actions related to COVID-19, and all downgraded sovereigns were EMs.

Countries that entered the crisis with weaker fundamentals are likely to face deeper economic scars.

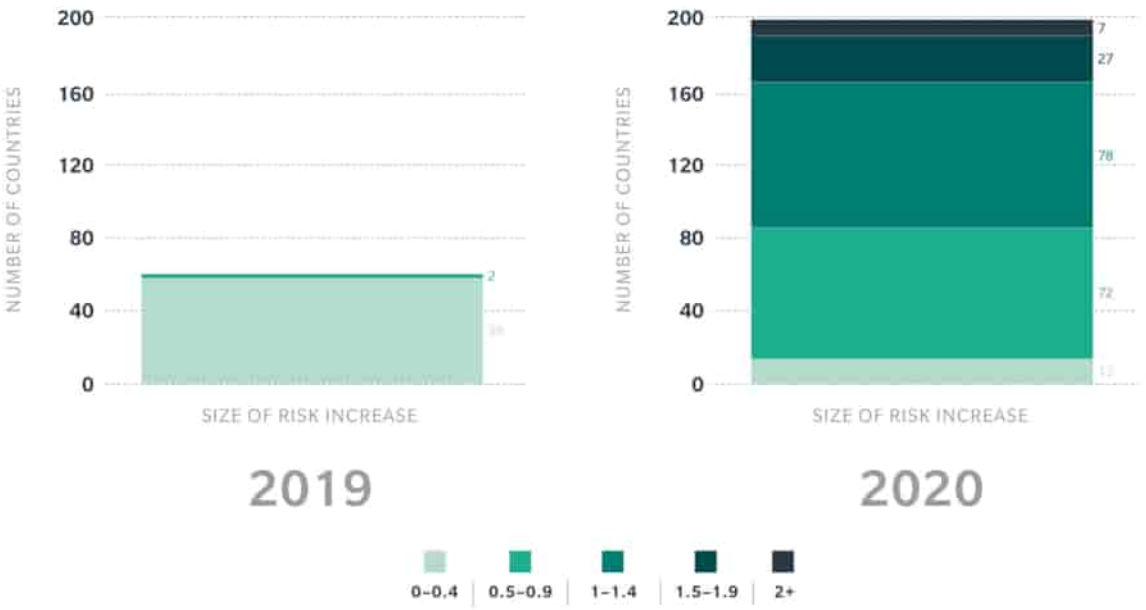
FIGURE 1

The number and magnitude of economic risk changes in the first half of 2020 far exceeded those in the first half of 2019.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW

Percentage of Country Economic Risk Rating Changes, January-July.

Magnitude of Country Economic Risk Rating Changes, January-July.



Protests and Government Instability

National lockdowns, curfews, and the health risks posed by COVID-19 have limited the risk of civil unrest in recent months. The pandemic's onset largely froze existing protest movements, with the risk of disruptive protests falling in places like Chile and Hong Kong SAR. However, the underlying drivers of unrest in many economies — declining standards of living, inequality, and corruption — remain, and in many cases may be exacerbated by the pandemic's economic impact. As lockdown measures ease, some protest movements will probably resume, as new motivations for demonstrations emerge.

Pre-existing tensions will be exacerbated by growing scrutiny of governments' handling of COVID-19. Those perceived to have failed to effectively manage the pandemic could face anti-government protests, increasing the risk of instability.

There is a growing risk of disruptive protests in response to the reintroduction of containment measures, as willingness to comply with restrictions wanes. In July 2020, for example, Serbia faced a wave of unrest following government plans to reintroduce weekend curfews and criticism of the government's handling of the crisis.

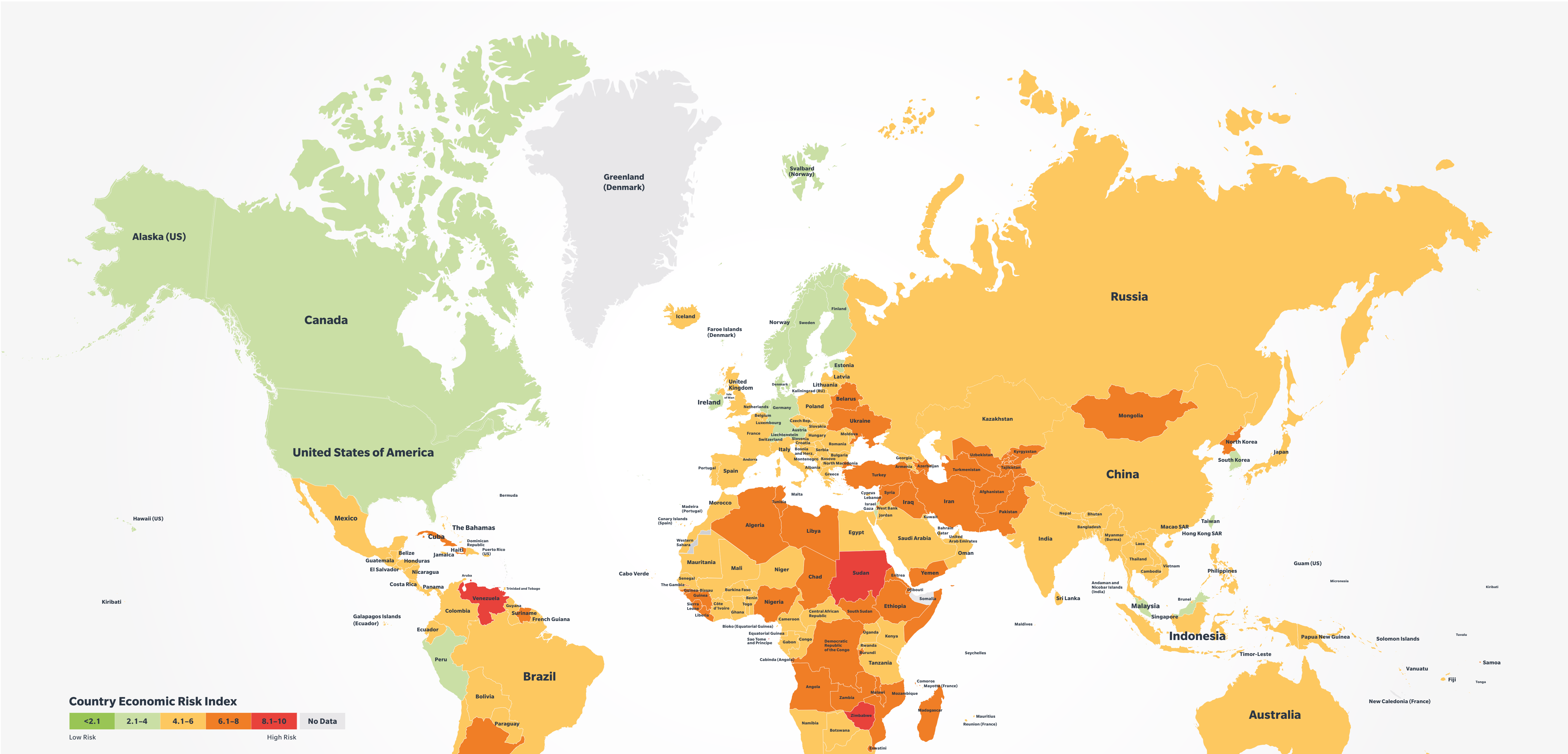
In the first half of 2020, the pandemic was accompanied in many countries by a renewed focus on racial inequality and injustice, following the death of George Floyd and others in the US, leading to a wave of protests and demonstrations. Polling by the Kaiser Family Foundation in June 2020 estimated that as many as 26 million people participated in demonstrations in the three months to June 2020, making it the largest movement in US history.

Pre-existing tensions will be exacerbated by growing scrutiny of governments' handling of COVID-19.

FIGURE
2

COVID-19 sharply increased economic risks globally.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



Based on data from the Marsh JLT Specialty's *World Risk Review* platform.

Asia-Pacific

As the region hit first by COVID-19, many countries in Asia-Pacific experienced a sharp rise in economic risk early in the year. Almost two-thirds (64%) of the countries rated by Marsh JLT Specialty's *World Risk Review* experienced an increase in their country economic risk rating of more than 1, between January and July 2020. In the same period in 2019, no country posted a rise of this magnitude. Only 23% of countries posted any increased economic risk.[1]

While states such as China, South Korea, and Vietnam have received praise for their domestic handling of the COVID-19, others have struggled to bring it under control. Despite an early lockdown, cases in India continue to rise, contributing to one of the largest increases in economic risk in the region (1.4).

Below, we provide an update on the region's largest economies, China and India, along with Vietnam, a country that may benefit in the long term from other countries' likely efforts to reduce their dependency on Chinese manufacturing.

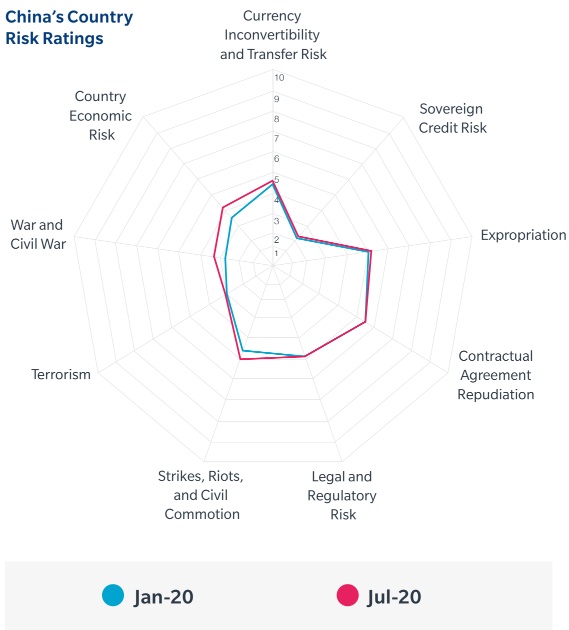
China

Having been largely successful in containing COVID-19's domestic spread, President Xi Jinping's domestic authority appears mostly unscathed from the pandemic. His position is likely to remain secure, provided the government can deliver an economic recovery and prevent or minimize a second wave.

FIGURE 3

China's economic risk and risk of war and civil war saw the most change in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



1 All risk ratings referenced in this report were produced by Marsh JLT Specialty's *World Risk Review*. The country economic risk rating indicates the propensity for economic adjustment, including significant devaluation and/or high inflation and increases in the level of credit defaults among domestic businesses. The country economic risk peril index assesses the risk of economic instability, and the potential effects this may have on businesses operating in the country or territory.

COVID-19 significantly weakened China's economic performance in the first quarter of 2020. Its real GDP contracted 6.8% year-over-year, as national lockdown measures significantly affected the secondary and tertiary sectors. Reflecting these challenges, China's country economic risk rating increased by 0.6, from 3.6 to 4.2, between January and July 2020 (See Figure 3).

However, China is emerging from COVID-19, and domestic demand is recovering. In June 2020, industrial profits rose by 11.5% year-over-year, the quickest growth in profit since March 2019.

China's full-year GDP growth is forecast at 1.6% in 2020. It is forecast to rebound in 2021, at 7.4%, but growth will be uneven across sectors as containment measures remain in place and the international trade landscape remains complex.

COVID-19 has not altered the long-term trend of deepening military, political, and economic tensions between China and the US. Indeed, relations appear to be deteriorating at an accelerated rate, and this will be the key trend in Chinese foreign affairs through the remainder of 2020.

Hong Kong SAR, the South China Sea, Taiwan, and technological competition are all potential flashpoints in the two countries' relations. For example, on May 27, 2020, US Secretary of State Mike Pompeo announced that the US believed that Hong Kong SAR was no longer autonomous from China, given China's application of new national security laws on behalf of Hong Kong SAR.

The US subsequently introduced the Hong Kong Autonomy Act (HKAA), which imposes sanctions on banks that do business with Chinese officials who are involved in violating Hong Kong SAR's constitution.

In July 2020, the US additionally introduced sanctions on senior Chinese officials for their role in alleged human rights abuses in Xinjiang, and declared Chinese activity in the South China Sea unlawful. Escalating measures taken by both sides will increase the risk that the Phase One trade deal reached in January 2020 will be repealed in part or in full.

External relations with other Western economies may also be strained in 2020, as states increasingly choose sides in Sino-American confrontations. With China's international reputation also weakened in some quarters by the pandemic, many will prioritize relations with the US, particularly on technology. In July 2020, the UK announced a ban on the use of Huawei technology in 5G mobile networks. Other countries may yet follow suit. For example, Germany is expected to make a decision on continued use of Huawei technology in the autumn.

FIGURE 4

India's economic risk rating increased steeply in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW

India

Despite implementing a nationwide lockdown in March 2020, India has been one of the countries most affected by COVID-19. India's early lockdown closed large parts of the economy. Even as measures have relaxed, the Indian economy faces a severe contraction over the next 12 months, particularly in the services sector, where domestic and international demand has collapsed. The service sector is the key driver of India's economic growth, contributing 54% of GDP in 2018-2019.

The country's GDP is forecast to contract by 4.5% in 2020-21. The economic impact will be deeper if the pandemic cannot be brought under control in the second half of 2020. As a result, India's country economic risk rating increased by 1.4, from 3.5 to 4.9, in the first seven months of 2020 (see Figure 4).

India's political stability is likely to endure in 2020, however. Prime Minister Narendra Modi occupies a secure position, with sufficient support to pass legislation. His mandate should not be weakened significantly by COVID-19, given that state governments are largely responsible for handling public health. Nevertheless, this does increase the likelihood of disputes between state and central government.

Currency inconvertibility and transfer risk has steadily increased in India since the beginning of 2020, its risk rating rising from 3.9 to 4.2 in the year to July 2020. The exchange rate (INR/USD) has depreciated by 7% since January 2020, driven by emerging markets' risk-averse sentiment.

Record capital outflows from India occurred amid the pandemic. Between March and April, India had the third-largest capital outflows among Asian markets: Foreign institutional investor (FII) outflows totaled USD17 billion (debt and equity). This was higher than the FII outflows for the whole of 2019 (USD11 billion). The Indian rupee will continue to weaken in the next three months and average INR77.0/USD in 2020, from INR73.0/USD in 2019.

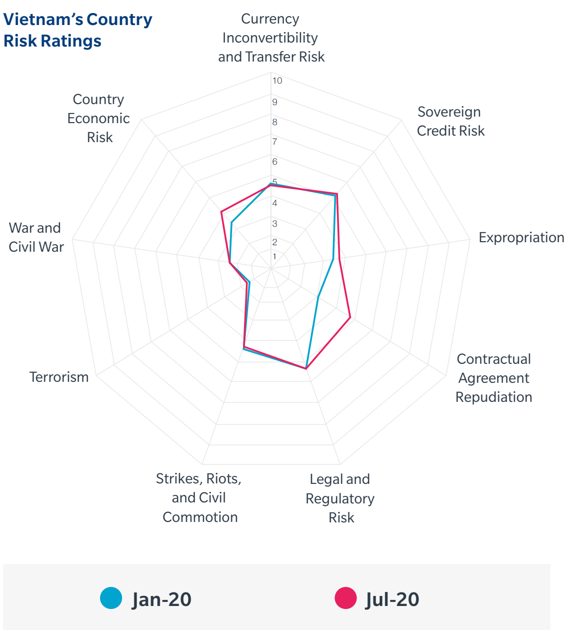
External relations with China are likely to be challenging for the remainder of 2020, following a border escalation between the two counties in June. The clashes led to the deaths of 20 Indian military personnel, and contributed to an increase in risk rating from 4.6 to 4.7.

Following the confrontation, without directly mentioning China, India banned 59 largely Chinese mobile applications, citing national security concerns. Geopolitical rivalry in the Indo-Pacific region is likely to continue between the two countries in the coming years, ensuring that interstate conflict risks remain moderately elevated.

FIGURE 5

Vietnam's contractual agreement repudiation risk increased most in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



Vietnam

COVID-19 is unlikely to weaken materially Vietnam's political stability in 2020. The government has been praised by the international community for its handling of the pandemic, recording a relatively small number of cases and deaths. The country moved early to introduce travel restrictions, school closures, and contact tracing.

Alongside the absence of an effective political opposition, this success is likely to boost the position of the ruling Communist Party of Vietnam. Although Vietnam is expected to change leadership in 2021's party congress, any incoming leader is expected to maintain the country's focus on pro-business and reformist policies.

The Vietnamese economy will continue to be negatively affected by weak external demand among key trading partners, driven by the pandemic. Vietnam's economy relies heavily on manufacturing goods for export, and supply chain disruption and collapsing consumer demand will weigh on the sector.

Real GDP growth is forecast to slow to 1% in 2020. The country posted an estimated second quarter 2020 growth rate of 0.4% year-over-year — the weakest since 2000. Reflecting these dynamics, Vietnam's country economic risk rating increased from 3.3 to 4.1 between January and July 2020 (see Figure 5).

However, in the long term, Vietnam's economy is likely to benefit from COVID-19's impact on global trade dynamics. Many manufacturers are expected to accelerate efforts to reduce their dependency on Chinese manufacturing, generating opportunities for Vietnam. The country should also benefit from the EU-Vietnam Free Trade Agreement, which takes effect in August 2020.

The main challenge for Vietnam will be managing the bottlenecks that additional demand places on an aging infrastructure system. Logistics costs are high in Vietnam, given a lack of integrated services and automation.

Despite a small increase in its *World Risk Review* rating in 2020 to date (up from 3.4 to 3.7), the risk of expropriation or nationalization of foreign investments in Vietnam will remain manageable, reflecting the government's desire to attract investment. Investment in the power and renewable sector is viewed by the government as crucial to powering the manufacturing sector, which accounts for 17% of GDP.

In June 2020, the National Assembly ratified a new Public-Private Partnership Law, the first of its kind in the country. The legislation should provide greater certainty to infrastructure investors, allowing for the establishment of public-private partnerships in transport, power grids/plants, irrigation, water supply, IT infrastructure, waste treatment, health, and education.

Middle East and Africa

To date, Africa's experience with the pandemic has not been as intense as in Asia-Pacific, Europe, and the Americas. However, the economic impact has still been large, particularly as resource-dependent economies suffered from a simultaneous drop in global prices, and tourism activity collapsed.

Similarly, the Middle East has faced rising fiscal pressures as a result of reduced oil revenues. Many governments across the region face particularly acute debt and fiscal pressures. Almost half (47%) of countries in the Middle East and Africa have seen their country economic risk rating increase by more than 1.

The pandemic and its economic impacts are also contributing to rising risks of civil unrest, as standards of living fall and governments cut social spending. Around half (52%) of countries in the region experienced a rise in their strikes, riots, and civil commotion rating between January and July 2020.

We provide updates on political and economic risks in some of the region's most important economies. South Africa, an early adopter of lockdown measures, accounts for most cases in Sub-Saharan Africa, exacerbating an already weak economic and debt environment.

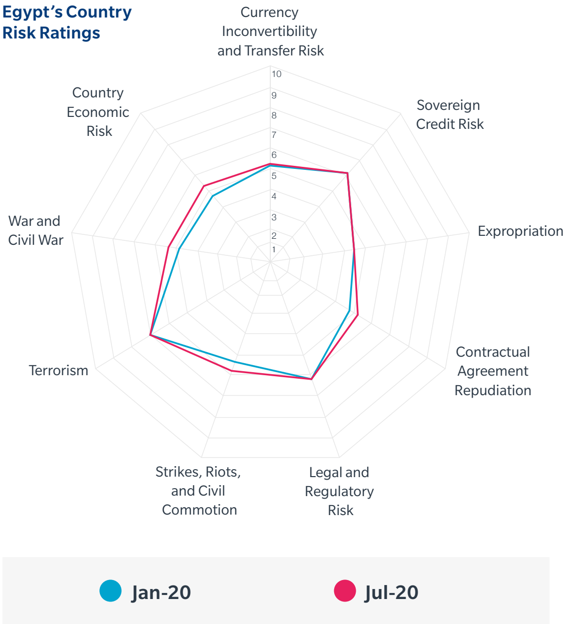
Although Egypt's government is expected to maintain its hold on power, the economic outlook is challenging, given a downturn in revenues from tourism, remittances, and the Suez Canal. Weak performance in the oil sector is straining hard currency availability in Nigeria.

FIGURE 6

Egypt saw the eighth-largest increase in risk of strikes, riots, and civil commotion.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW

Egypt's Country Risk Ratings



Egypt

Egypt's country economic risk rating increased from 4.7 to 5.4 in January-July 2020 (see Figure 6). COVID-19 suspended activity in economically crucial sectors. The demand side shock to tourism, a decline in remittances, and loss of revenue from the Suez Canal will cause growth to decelerate sharply in 2020.

GDP growth is set to slow to 2.5% in the fiscal year 2019/20, and 3% in 2020/21 — a marked deceleration from the 5.6% growth rate recorded in 2018/19.

As in many emerging markets, COVID-19 caused sharp capital outflows from Egypt in the first half of 2020, increasing liquidity risk. At the peak of investor risk aversion, in March-April 2020, capital outflows from Egypt totaled USD16 billion.

The combination of capital outflows and greatly reduced economic activity placed significant pressure on the balance of payments in the first half of 2020. However, as a net oil importer, Egypt will benefit from lower energy prices, strengthening the country's balance of payments position over the second half of 2020.

Egypt's foreign-exchange reserves are probably sufficient to avoid the introduction of capital controls or a run on the Egyptian pound in 2020. Foreign reserves are worth 6.3 months of import cover, up from 5.9 months of import cover in 2019. As a result, currency inconvertibility and transfer risks have increased only moderately, from 5.1 to 5.2.

Egypt also benefits from a USD5.2 billion loan under a 12-month standby agreement with the IMF, made in June. Egypt raised USD5 billion in eurobonds in May, thereby increasing total foreign currency reserves to USD38.2 billion at the end of June 2020, up from USD36 billion at the end of May.

Egypt's risk of strikes, riots, and civil commotion risk rating increased from 5.3 to 5.8. This was the eighth-largest rating increase in the last six months of all 197 countries rated by *World Risk Review.*

This increased risk is largely due to sporadic protests by health care workers and activists against the government's handling of the pandemic. Public hospitals in Egypt have been overwhelmed with the rate of COVID-19 infections. A disproportionately high number of COVID-19 deaths have been among health care workers, which will continue to provoke small, sporadic protests for the duration of the pandemic.

However, President Abdel Fattah el-Sisi has established a firm grip on power, and the authorities should be able to manage protest risks.

FIGURE 7

Nigeria's economic risk rating increased by 1 in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW

Nigeria

Nigeria's country economic risk rating increased from 5.3 to 6.3 in January-July 2020 (see Figure 7). The low oil price environment will compound COVID-19's economic impact on the country. Real GDP is forecast to contract by 3.5%.

Weakening global oil demand and declining domestic oil production will weigh heavily on Nigeria's external position, as oil accounts for more than 90% of the country's total goods and service exports. The collapse of global oil prices in the first quarter of 2020 led to the value of Nigeria's exports contracting sharply — falling by 19%. Over the course of 2020, the value of Nigeria's oil exports is expected to reduce by USD26.5 billion.

The country's currency inconvertibility and transfer risk rating increased by 0.4, from 6.4 to 6.8, in the last seven months. Portfolio outflows and reduced export revenues have exerted significant pressure on the naira in 2020, leading the central bank to cut its official USD exchange rate by 15% in March.

Hard currency shortages are likely to remain throughout 2020, as foreign exchange earnings remain suppressed and pent-up import demand is released as containment measures are eased. As foreign exchange reserves look set to remain under pressure in the remainder of 2020, additional capital controls are possible.

The risk of social unrest is likely to rise as a result of deteriorating economic conditions, as the government may be forced to cut expenditure. Although the government has been granted permission to increase borrowing by USD22.8 billion, a weak fiscal and debt position will make it difficult to secure financing on capital markets.

At the same time, in July, Minister of Finance Zainab Ahmed indicated that the government met just 56% of its target revenue collection in the first five months of the year. Emergency IMF funding of USD3.4 billion will provide some support, but with sources of revenue and financing under pressure, it is unlikely that the government will be able to deliver fiscal stimulus or maintain spending at current levels.

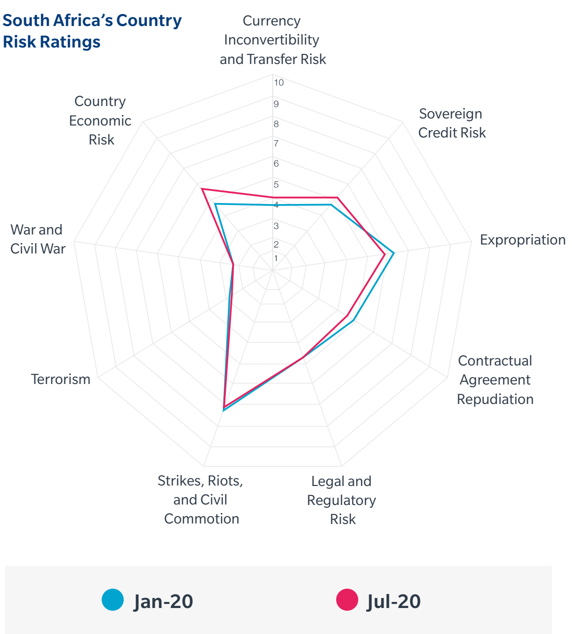
Any cuts to social spending are likely to drive civil unrest, and the country's strikes, riots, and civil commotion rating has already increased from 6.7 to 6.8. A number of violent riots have already been reported in response to government lockdown measures.

COVID-19's impact in Nigeria will be exacerbated by a challenging investment environment. Long delayed regulatory reform of the oil and gas sector does not look set to be approved in the near term, discouraging much-needed investment. At the same time, to reduce demand for hard currency, Nigeria has taken a protectionist stance to regional trade, restricting certain imports since 2019. In July 2020, the central bank restricted access to foreign exchange for corn imports.

FIGURE 8

While some of South Africa's risks increased in Jan-Jul 2020, others decreased slightly.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



South Africa

The South African economy was already grappling with a number of structural imbalances before COVID-19. The fallout from the pandemic will compound these challenges. South Africa's GDP is forecast to contract by 7.1% in 2020, as the pandemic weighs heavily on consumption and activity in key manufacturing and mining sectors.

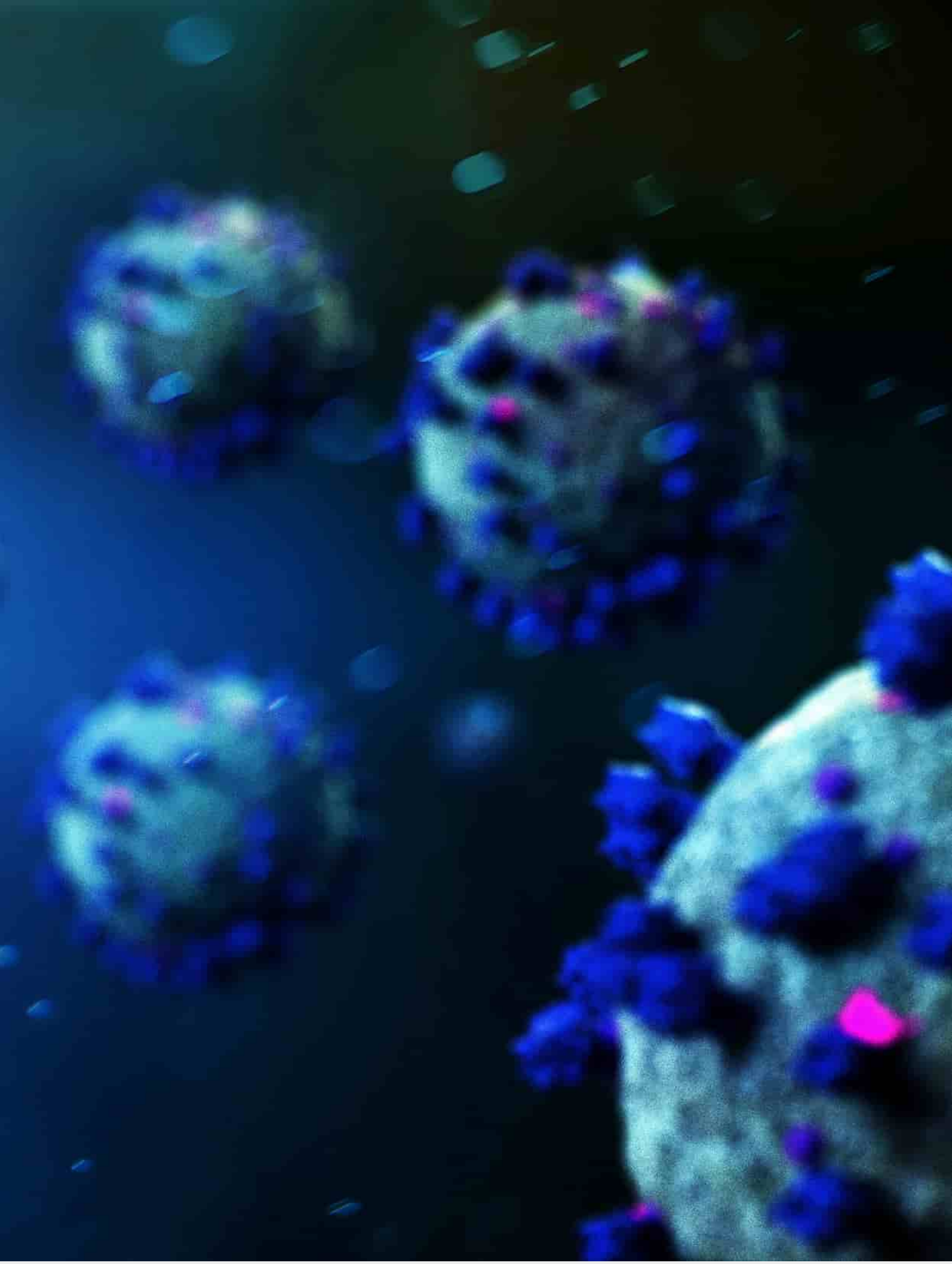
South Africa's country economic risk increased by 0.9, from 4.8 to 5.7, in the first seven months of 2020 (see Figure 8).

A sharp decline in trade and tourism revenue and additional COVID-19-related spending will put pressure on already weak public finances. The budget deficit is expected to reach 15.6% of GDP in fiscal year 2020. This will result in a 19% increase in the government debt burden, to 89.9% of GDP by year-end. This outlook contributed to its sovereign credit risk rating increasing from 4.7 to 5.1 between January and July 2020.

Rising sovereign credit risks also stem from the vulnerabilities of South Africa's struggling state-owned enterprises (SOEs). SOEs have a combined debt load of ZAR1.6 trillion, of which ZAR670 billion is guaranteed by the government in the event of default. With credit conditions tightening, many SOEs will require government financing assistance over the next few years. This will weigh on public finances and further depress growth heading into 2021 and 2022.

The worsening economic backdrop has also caused concern among international investors. The South African rand has been one of the worst-performing emerging market currencies in 2020 to date. It lost 19.5% of its value against the US dollar in the first half of 2020, driving an increase in currency inconvertibility and transfer risk rating from 3.7 to 4.

Non-resident sell-offs in rand-denominated portfolio investments totalled around USD7 billion net, 2.5% of 2020 GDP, in the first half of 2020. The second half of the year could see economic activity pick up and boost commodity prices, if the pandemic is brought under control. This would allow the rand exchange rate to strengthen to around ZAR15.75/USD1 over 2020.



Americas

More than half of countries in the Americas saw their country economic risk rating increase by more than 1 between January and July 2020. Containment measures have frozen economic activity in many states, while some have faced the added challenge of collapsing tourism revenues (Jamaica, Bahamas, and Barbados), or weak global commodity prices (Chile).

The countries covered below reflect the diverse approaches to the pandemic taken in the region. In Brazil, political dynamics are dominated by President Jair Bolsonaro's laissez-faire approach to the virus, which has contributed to his political isolation. In Mexico, the government has bucked a global trend of large stimulus measures, instead promoting austerity. Finally, the pandemic complicates Chile's political environment — lockdown measures have slowed protest activity, yet a referendum on the constitution due in October may yet yield fresh instability.

Brazil

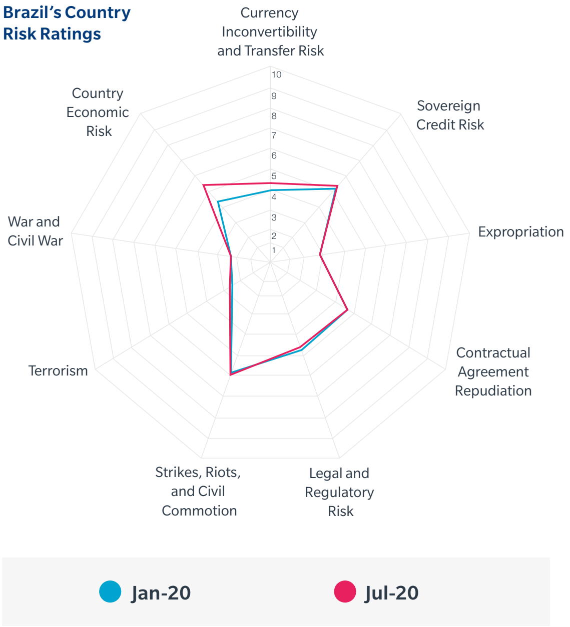
Brazil's political environment in 2020 will be characterized by President Jair Bolsonaro's handling of COVID-19. The country recorded the second-highest number of reported COVID-19 cases and deaths worldwide in the first six months of 2020. It faces a challenging economic outlook, with the public health crisis and political dynamics likely to mean that an economic recovery will not occur until 2021.

The trajectory of COVID-19 cases in Brazil indicates that the peak of the health crisis is still to come, which will disrupt a resumption in economic activity in the second half of 2020.

FIGURE 9

Brazil's economic risk rating saw the only pronounced increase in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



Bolsonaro has been criticized for the government's handling of the pandemic, leading to the departure of several political allies. Politically isolated, Bolsonaro will struggle to build consensus with the Brazilian Congress, thereby reducing the likelihood that the government will be able to pass a fiscal reform agenda this year.

Expropriation risks should remain low, given the government's ideological commitment to privatization. However, divestments are likely to be delayed by the pandemic.

Brazil's country economic risk rating increased from 4.4 to 5.4 in the first seven months of 2020 (see Figure 9). GDP contracted by 1.5% in the first quarter of 2020. But the depth of the crisis was felt in the second quarter: Industrial production decreased by 18% in April, following a 9% decline in March.

Business and consumer confidence has also fallen below the levels seen during the 2015-16 economic recession. Risk aversion in global capital markets have put pressure on the Brazilian real, which has depreciated by 33% against the US dollar since the beginning of 2020. In the next six months, the currency will continue to underperform as a weak external environment weighs on export demand and investment. Brazil's currency inconvertibility and transfer risk rating increased from 4 to 4.4 between January and July 2020.

Brazil's full-year GDP is forecast to contract by 5.2%, given the dramatic disruption to production and consumption in 2020. Falling revenues and a large fiscal stimulus package will weaken government finances, with the fiscal deficit surpassing 10% of GDP and government debt increasing to around 90% of GDP, up from 76% of GDP in 2019.

On the external front, Brazil faces a global recession, weaker commodity prices, and tightening credit conditions. Nevertheless, Brazil's external risks remain limited due to a strong international reserve position of over USD350 billion (around 20 months of import cover), which provides sufficient liquidity coverage to withstand external financial shocks.

Chile

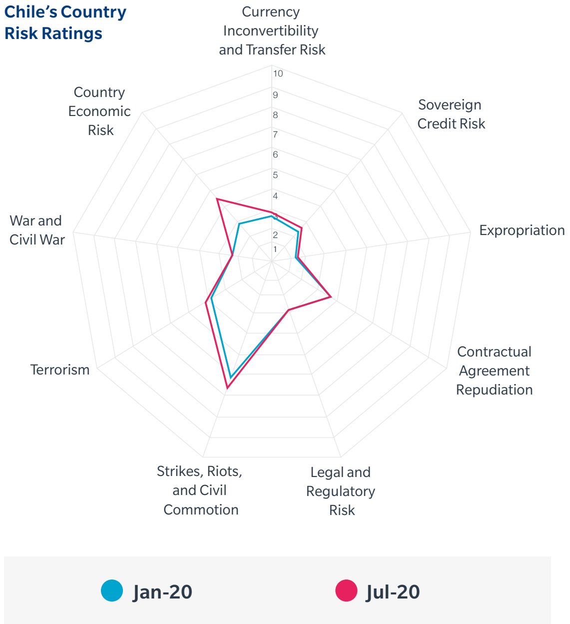
Chile's strikes, riots, and civil commotion risk rating increased by 0.5, from 6.1 to 6.6, in the first seven months of the year (see Figure 10). This was the largest increase in that risk among all rated countries.

Following unrest in the fourth quarter of 2019, lockdown measures precipitated violent protests in Santiago's low-income neighborhoods, as shortages of basic goods occurred. In May 2020, protesters erected roadblocks in the neighborhoods of Lo Prado, La Pintana, Maipú, and Ñunoa. Three separate incidents of arson targeting public transport were recorded in the Santiago neighborhoods of Villa Francia and La Pincoya.

FIGURE 10

Chile's strikes, riots, and civil commotion risk increased more than any other country rated in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



Further anti-government protests, and clashes with the police, are likely in the coming months as COVID-19 curfews are eased. Many of the socioeconomic drivers of 2019's unrest remain unaddressed, and the pandemic is likely to increase pressure for social reforms, as weaknesses in the health care system are exposed and unemployment levels rise. Chile is due to hold a constitutional referendum on October 25, 2020, which could become a flashpoint for protests.

Protests have the propensity to turn violent, with looting of supermarkets and commercial stores a risk. However, given concerns over social distancing, anti-government protests are unlikely to attract the sustained support that characterized the social unrest in Chile during the fourth quarter of 2019.

Chile's country economic risk rating increased by 1.6, from 2.9 to 4.5, in the first seven months of 2020. This was the largest such increase in Latin America. The COVID-19-related disruption to key sectors, such as mining and tourism, will cause GDP to contract by 4.6% in 2020, before rebounding in 2021.

President Sebastián Piñera announced three months of fiscal stimulus in June 2020, expected to total 10.2% of GDP (USD28.8 billion). Chile will partly finance additional spending through the issuing of new debt, which is forecast to double from approximately 20% of GDP in 2019, to 40% of GDP in 2021.

However, Chile will benefit from relatively low borrowing costs on capital markets, ensuring that its sovereign credit risk has only moderately increased from 2.4 to 2.6 in 2020 to date.

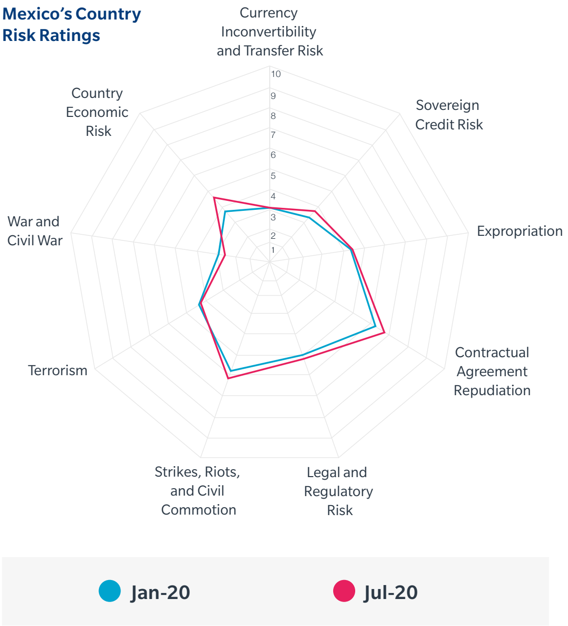
Chile's structural dependence on commodities will impede a quick recovery. Copper continues to represent close to 50% of its exports. Following an outbreak of COVID-19 in Chile's northern mining region, a state-owned mining firm suspended construction at several of its facilities in June 2020, as did several private sector mining firms. In August 2020, the firm announced the first stages of recommencing these projects as the country begins to ease lockdown restrictions in certain communities. The pandemic weighed on Chile's exports in the first half of 2020, widening the current account deficit to around 3.4% of GDP by year-end 2020. However, Chile's large stock of international reserves, and increased copper demand from China, should relieve pressure on the balance of payments in the second half of 2020.

Chile is due to hold a referendum on constitutional changes in October 2020, generating some uncertainty over the country's business-friendly operating environment and legal framework. The referendum follows 2019's civil unrest, which renewed focus on social policies, instead of pro-business reforms. The referendum will see voters decide if the country should develop a new constitution, and who should draft it. If citizens decide to progress with a new constitution, it would not be in effect until at least 2022.

FIGURE 11

Most of Mexico's risks saw some increase in Jan-Jul 2020.

SOURCE: MARSH JLT SPECIALTY WORLD RISK REVIEW



Mexico

Mexico's economy has suffered from the triple shock of COVID-19, low global oil prices, and a collapse in US consumer demand in 2020. Its country economic risk rating increased from 3.8 to 4.6 in the first seven months of the year (see Figure 11).

In the first quarter of 2020, GDP contracted by 1.6%. Over the full year, GDP is forecast to contract by up to 8.8%, although a deeper contraction remains possible. Mexico's trade relationship with the US is crucial to the country's overall economic health. The two countries are each other's largest commercial trade partners: Bilateral trade reached a record USD614.5 billion in 2019.

In 2020, the COVID-19-related closure of factories that connect value chains between Mexico, the US, and Canada will negatively affect production and exports in key sectors such as electronics and automobile manufacturing. In the first quarter of 2020, industrial production posted a 3.2% year-over-year contraction. At the peak of the COVID-19 crisis in Mexico, from March to April, exports declined from around USD20 billion to USD12.5 billion.

In contrast to many governments globally, the federal government has not offered a large fiscal stimulus package in response to COVID-19's economic impact, instead promoting fiscal austerity. The federal government has rejected proposals for additional support, including a temporary reduction in VAT. The absence of government support could be another shock to the Mexican economy, and is likely to prolong the economic downturn.

However, the United States-Mexico-Canada Agreement (USMCA) should provide some upside potential to Mexico's economy in the coming years. Becoming effective on July 1, 2020, the USMCA replaced the North American Free Trade Agreement (NAFTA), and will provide certainty to Mexico's regional trading arrangements in the latter parts of 2020. However, the USMCA contains sunset provisions, requiring joint committees to review its terms every six years. This may lead to renewed bouts of trade uncertainty in the long term.

The federal government shows little sign of abandoning anti-business policies, and the policy-making environment will remain unpredictable in the remainder of 2020. In recent months, the government has taken a particularly active stance in the hydrocarbons and power industries, as the federal government looks to promote energy independence from foreign investors.

The federal government aims to boost the state's role in the sector, while reducing the role of private investment, which has grown since Mexico's historic energy reforms in 2014. An April 2020 directive prevented a number of renewable power plants from connecting to the state-operated electricity grid, stating that they did not contribute sufficiently to transmission costs. As a result, Mexico's legal and regulatory risk rating increased from 5 to 5.2 between January and July 2020.

ABOUT THIS REPORT

This update to the *Political Risk Map 2020* draws upon data from the Marsh JLT Specialty's *World Risk Review* platform. Our country risk platform provides risk ratings for 197 countries across nine perils covering the security, trading, and investment environments. Ratings are updated on a monthly basis, and work on a 0.1-10 scale. 10 represents the highest risk, 0.1 the lowest risk.

For more information on how you can receive trial access to *World Risk Review*, please contact Eleanor Smith at eleanor.r.smith@marsh.com.

ABOUT US

Marsh is the world's leading insurance broker and risk adviser. With over 35,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data driven risk solutions and advisory services.

Marsh JLT Specialty is our specialist division, committed to delivering consulting, placement, account management, and claims solutions to clients who require specialist advice and support. At Marsh JLT Specialty our local specialists work seamlessly with global experts, together considering problems from every angle and challenging the status quo with entrepreneurial ideas and solutions.

Marsh is a business of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With annual revenue approaching US$17 billion and 76,000 colleagues worldwide, MMC helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer, and Oliver Wyman. Follow Marsh on Twitter @MarshGlobal; LinkedIn; Facebook; and YouTube, or subscribe to BRINK.

For further information, please contact your local Marsh office or visit our website at marsh.com.

GLOBAL

STEPHEN KAY
Global Coordinator
Political Risk Insurance
+1 212 345 0923
stephen.kay@marsh.com

NORTH AMERICA

CHRISTOPHE LETONDOT
Regional Leader
Credit Specialties
+1 (646) 789 3837
christophe.letondot@mmc.com

UK & IRELAND

MATT STRONG
Regional Leader
Credit Specialties
+44 207 558 3609
matthew.strong@marsh.com

ASIA

ROBERT PERRY
Regional Leader
Credit Specialties
+65 692 280 35
robert.perry@marsh.com

CONTINENTAL EUROPE

PETER KERKHOFF
Regional Leader
Credit Specialties
+31 651 274 099
peter.kerkhoff@marsh.com

LATIN AMERICA AND CARIBBEAN

HERNÁN D. MONROY URIBE
Regional Leader
Credit Specialties
+57 320 488 1039
hernan.d.monroy@marsh.com

MIDDLE EAST AND AFRICA

PIETER DINGEMANS
Regional Leader
Credit Specialties
+27 110 607 809
pieter.dingemans@marsh.com

PACIFIC

META HUDSON
Regional Leader
Credit Specialties
+61 (406) 745 686
meta.hudson@marsh.com

GRAPHICS NO. 543219483