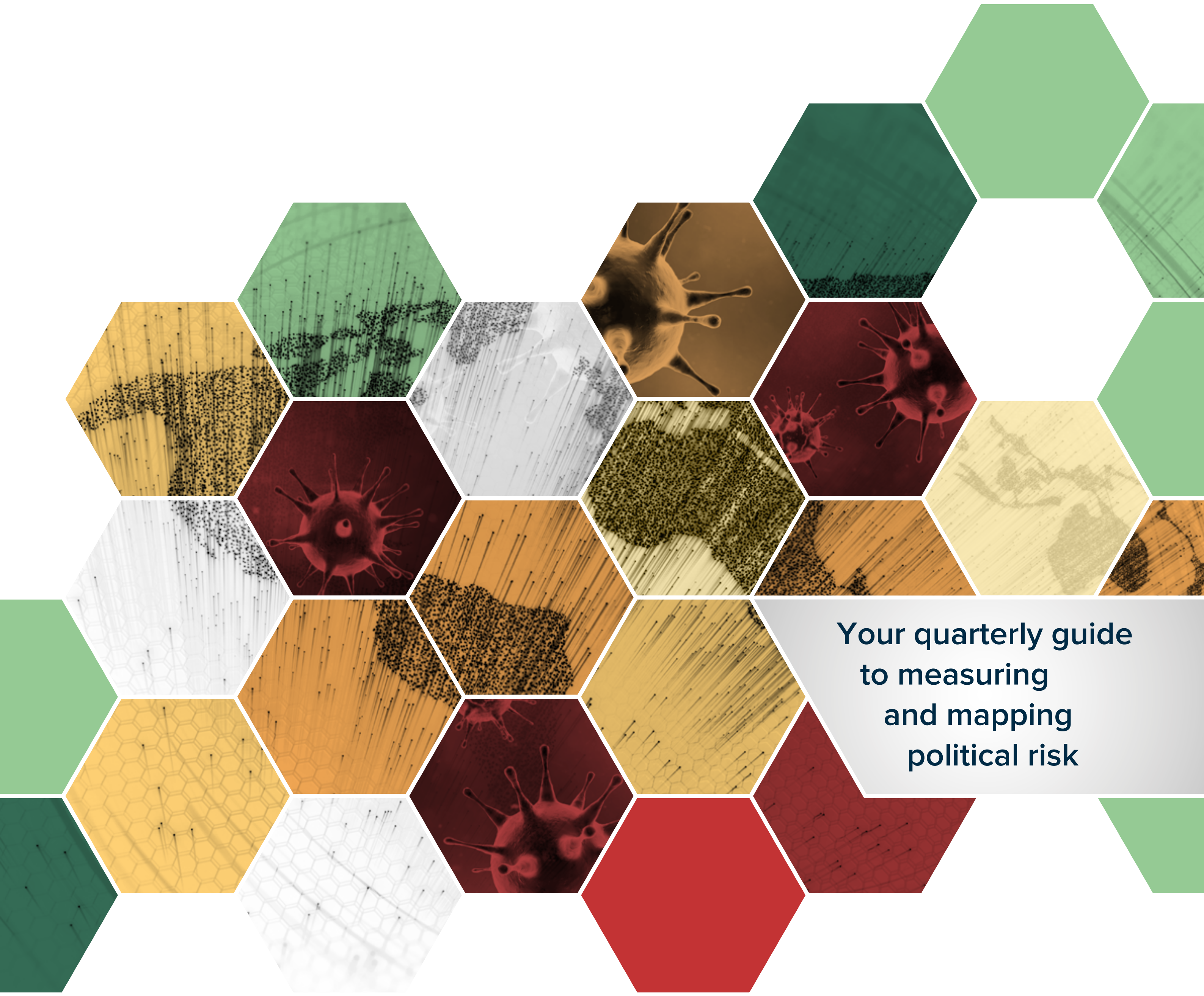
Oxford Analytica

VAPOR Country Risk Ratings: COVID-19

Value at Political Risk country ratings for decision-makers



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Executive summary

VAPOR Ratings measure current and future levels of commercial political risk for more than 160 countries based on expected frequency and severity of losses to political risk. Each rating is produced by combining latest available data with country analyst expertise.

In this special edition to capture the impact of COVID-19, the speed with which developments are outpacing data means that analyst expertise is particularly important. The identified risks and opportunities in this edition reflect analyst coverage as we look out to 1H20.

One aspect of the crisis with particular relevance for political risk is the extent to which governments are assuming emergency powers. While understandable in the current environment, in some countries such measures will present an opportunity to limit opposition and interfere with business and investors. Furthermore, as more countries implement tighter restrictions over longer periods, the risk of political violence will rise as populations react to shortages, displacement and unemployment.

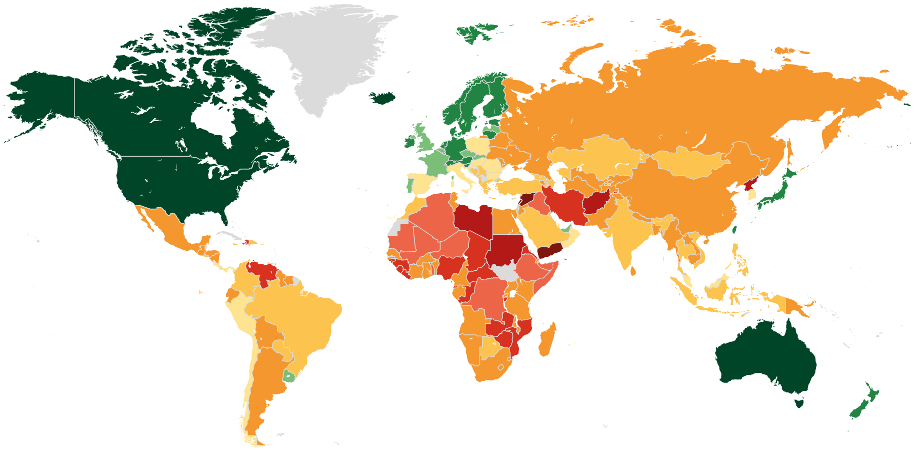
In Central and Eastern Europe, politically, COVID-19 is not creating new attitudes but amplifying existing ones. It offers national-populists a fertile environment for centralising decision-making further and adopting measures incompatible with normal democratic standards. In the Middle East, private sector borrowers may face supply chain issues that undermine their ability to pay, while government projects may again seek to delay or suspend payments to suppliers.

Contents

VAPOR Ratings

VAPOR Ratings provide a relative measure of commercial political risk for more than 160 countries. Each rating incorporates the expected losses for five perils across 14 industries. The ratings are designed not only to anticipate where unexpected country-level exposure will emerge, but also where headline risk may conceal opportunities for well-prepared organisations. Unlike generic political risk scores, each VAPOR Rating is tied to a corresponding estimate of expected loss (information that is available upon request).

Figure 1. Map of VAPOR Ratings 2Q2020



Source: Oxford Analytica, Willis Towers Watson

AR+ AR AR-

Extremely low to low-risk environment

Investors in countries that are rated AR are typically exposed to infrequent and low impact (immaterial) business risk, and are largely comfortable with concentrated exposure and passive management.

CR+ CR CR-

High-risk environment

Investors in CR countries are typically exposed to ongoing and high impact (material) business risk. Exposure in one of these countries typically requires active on-the-ground management.

BR+ BR BR-

Medium-risk environment

Investors in countries with a BR rating are typically exposed to frequent but medium impact (sometimes material) business risk. Mitigation occurs through broad-based exposure and active management.

F

Unmanageable risk environment

In a country rated F, political risk has an outsized negative impact on the overall business environment. Risk conditions in these countries exceed the ability of institutional and corporate investors to manage the risk.

Short and medium-term impacts of COVID-19

The impact of COVID-19 is inflicting severe supply chain disruption (trade embargo losses) on global businesses. VAPOR's other areas of concern -- **expropriation, political violence, currency inconvertibility and sovereign non-payment** -- currently lag these losses, but the collapse in oil prices and tourist spending, to name but two, present emerging and escalating challenges to the cost of political risk that will only grow more severe while this pandemic persists.

Europe is not only the epicentre – VAPOR shows that it is, in relative terms, also the world's most politically vulnerable region. This is driven by a combination of direct (demographics), indirect (trade and interdependence) and economic (budgetary and fiscal) factors. Coupled with the state of domestic and regional politics, 15 of the 21 countries downgraded for political risks related to COVID-19 are European. Although Europe is far from alone.

Political risks to business are exemplified by happenings in Central and Eastern Europe (CEE) and the Middle East. **In CEE, political violence and expropriation risks must be watched carefully.** Politically, COVID-19 is not creating new attitudes but amplifying existing ones. It offers national-populists a fertile environment for centralising decision-making further and adopting measures incompatible with normal democratic standards. **There is a risk that temporary restrictions on individual freedoms will be used not just to deal with the health crisis.** A further strengthening of ruling parties' grip on state resource allocation is to be expected.

Governments in CEE, as elsewhere, will be judged on how well they handle the pandemic. The public will get behind **states of emergency and restrictive measures** as long as governments can present them as resolving the crisis. Many leaders will downplay expert opinion, resort to nationalism and target external 'enemies'.

In **Hungary,** the ruling party is pushing through laws that limit freedom of expression under the guise of stopping the spread of misinformation, or of information that alarms the public or interferes with the government's mission to protect. Such measures leave great scope for interpretation.

Certainly, the prospect of an indefinite state of emergency has worried the opposition. Parties opposed to the government have asked for a three-month limit. Orban has argued that this is not enough as Hungary could be in worse shape then.

In **Bulgaria,** Prime Minister Boyko Borisov obtained parliamentary support for a bill amending the penal code to punish spreading false information with heavy fines and prison terms. President Rumen Radev vetoed the bill, saying it attacked “the last vestiges of free speech” and could be used against “any inconvenient free thinking”.

In **Poland,** Prime Minister Mateusz Morawiecki declared at a press conference on March 13 that most cases of COVID-19 were imported by foreigners or Poles returning from abroad. The underlying message is that nations would not be in crisis if there were less freedom of movement.

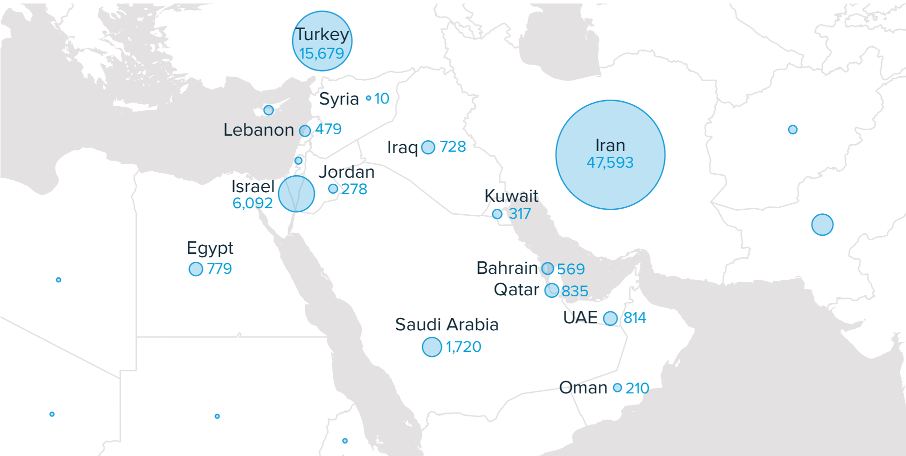
This is in line with previous anti-migration and nationalist agendas. So far, Poland has refrained from any further tightening of the executive’s grip on democracy. However, given its history of challenging the rule of law, the governing Law and Justice Party is likely to curb a critical press at least.

In all these countries, restrictive measures could remain in place after the crisis. **The public are not protesting against repression now, but their attitudes will depend on how governments handle the crisis.**

Most CEE governments are likely to suspend local or national elections, at least for the next six months. The exception is Poland, which expects to hold the May presidential election, although the main opposition is not campaigning because it would violate social distancing and will probably boycott the vote altogether.

In the Middle East, the global pandemic and plummeting oil prices are challenging Gulf countries' economic models.

Figure 2. Middle East: Confirmed cases of COVID-19, as of April 1, 2020



Source: Johns Hopkins University Center for Systems Science and Engineering; media reports

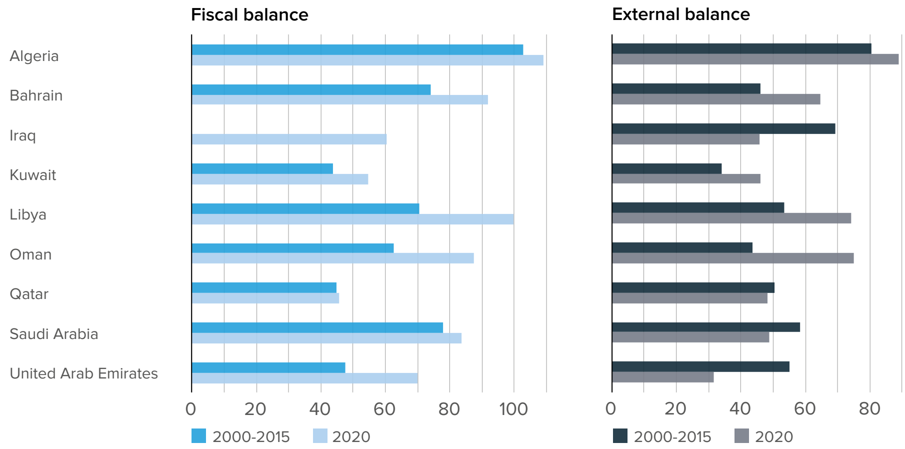
Graphic: Oxford Analytica

A combination of shocks associated with the COVID-19 pandemic and policy responses have dramatically changed the economic outlook for Gulf Cooperation Council (GCC) states. Lower oil and gas revenues are the consequence of the global crisis for regional economies, **but tourism, financial and professional services are also taking a major hit, undermining non-energy growth.**

This crisis has prompted an almost unprecedented stimulus from advanced economies, which has been partly matched in the GCC. Regional economies followed the Federal Reserve in cutting interest rates and most have rolled out credit support mechanisms to maintain credit to businesses, households and support the banks.

All producers in the Middle East region require an oil price of over 50 dollars per barrel to meet their budgetary spending, according to IMF calculations based on budget guidance available in late 2019. However, **only Saudi Arabia can manage major production increases to offset low prices.** Meanwhile, the decline in local demand and global investment is likely to weaken non-oil revenues.

Figure 3. Middle East: Select oil producers' average break-even prices (dollars per barrel)



Source: IMF

Regional economies vary dramatically in their foreign currency liquidity, and the COVID-19 shock is likely to reinforce that inequality. **Prolonged oil prices below 40 dollars per barrel would amplify concerns about debt sustainability in Oman and Bahrain,** which might need further regional support.

Weaker capital flows will further increase the cost of debt -- a particular challenge for those two countries and Saudi Arabia, which have dominated regional and indeed emerging market dollar debt issuance in the last few years. Credit default swap spreads have already widened, and if this continues, the fiscal divergence in the region will increase.

Growth remains highly reliant on government spending, itself supported directly or indirectly by oil revenues. Although non-oil revenue is rising from a low base, it is likely to fall short due to weaker global and local growth in 2020.

Government rhetoric supporting development plans is likely to outpace activity, with some, less essential projects delayed, especially if local quarantines and shutdowns are extended. However, Saudi Arabia, Kuwait, Qatar and the UAE can use off-balance sheet sources like sovereign development investment funds to maintain spending.

Across the Middle East, governments' financial needs are likely to tighten local money supply and reduce available credit for the private sector despite support measures. Gulf banks face several challenges, particularly in Qatar, Bahrain, Kuwait and the UAE, which have larger outstanding loan books and are less well capitalised than those in Saudi Arabia.

Private sector borrowers may face **supply chain issues that undermine their ability to pay, while government projects may again seek to delay payments to suppliers.** Meanwhile, lower interest rates narrow bank interest margins, a global challenge that hits their revenues.

On the positive side, the GCC is importing easier monetary policy and benefits from lower global yields. The region's central banks cut interest rates along with the Federal Reserve and have benefited from low financing costs in dollars, despite a recent widening of credit spreads.

The banking system and off-balance sheet government entities in **Dubai and Abu Dhabi remain much stronger than in 2009's debt crisis. However, property oversupply will be difficult to manage.**

VAPOR Ratings – 2Q2020

Extremely low to low-risk
- AR+
- AR
- AR-

Medium-risk
- BR+
- BR
- BR-

High-risk
- CR+
- CR
- CR-

Unmanageable risk
- F

		VAPOR Rating
	Afghanistan	CR-
	Albania	BR
▼	Algeria	CR+
	Angola	BR-
	Argentina	BR-
	Armenia	BR-
	Australia	AR+
▼	Austria	AR
	Azerbaijan	BR
	Bahrain	BR
	Bangladesh	BR-
	Belarus	BR-
▼	Belgium	AR-
	Benin	BR-
	Bhutan	BR
	Bolivia	BR-
	Bosnia and Hercegovina	BR
	Botswana	BR
	Brazil	BR
	Brunei	BR+
	Bulgaria	BR+
	Burkina Faso	BR-
	Burundi	CR
	Cambodia	BR-
	Cameroon	BR-
	Canada	AR+
	Central African Republic	CR
	Chad	CR
	Chile	BR+
▼	China	BR-
	Colombia	BR
	Congo-Brazzaville	CR
	Congo-Kinshasa	CR+
	Costa Rica	BR+
	Croatia	BR+
	Cyprus	BR+
	Czech Republic	AR-
▼	Denmark	AR
	Djibouti	BR-
	Dominican Republic	BR
	Ecuador	BR-

		VAPOR Rating
▲	Egypt	BR-
	El Salvador	BR
	Equatorial Guinea	CR+
	Eritrea	CR
	Estonia	AR
	Ethiopia	CR+
▼	Finland	AR
▼	France	AR-
	Gabon	BR-
	Georgia	BR
▼	Germany	AR
	Ghana	BR-
	Greece	BR
	Guatemala	BR-
	Guinea	CR
	Guinea-Bissau	CR
	Guyana	BR-
	Haiti	CR
	Honduras	BR-
	Hungary	BR+
	Iceland	AR+
	India	BR
	Indonesia	BR
	Iran	CR
	Iraq	CR+
▼	Ireland	AR
	Israel	BR
	Italy	BR+
	Ivory Coast	BR-
	Jamaica	BR
	Japan	AR
	Jordan	BR-
	Kazakhstan	BR
	Kenya	BR-
	Kuwait	BR
	Kyrgyzstan	BR-
	Laos	BR-
	Latvia	AR-
▼	Lebanon	F
	Lesotho	CR
	Liberia	CR

		VAPOR Rating
	Libya	CR-
▲	Lithuania	AR
▼	Luxembourg	AR
▲	Madagascar	BR-
	Malawi	BR-
	Malaysia	BR+
▲	Mali	CR+
	Mauritania	CR+
	Mauritius	BR+
	Mexico	BR-
	Moldova	BR-
	Mongolia	BR
	Montenegro	BR
	Morocco	BR
	Mozambique	CR
	Myanmar	BR-
	Namibia	BR-
	Nepal	BR-
▼	Netherlands	AR
	New Zealand	AR
	Nicaragua	BR-
	Niger	CR+
▼	Nigeria	CR
▲	North Korea	CR-
	North Macedonia	BR-
▼	Norway	AR
	Oman	BR+
▲	Pakistan	BR-
▼	Panama	BR+
	Papua New Guinea	BR-
	Paraguay	BR
	Peru	BR+
	Philippines	BR
	Poland	BR+
▼	Portugal	AR-
	Puerto Rico	BR+
	Qatar	BR+
	Romania	BR+
	Russia	BR-
	Rwanda	BR-

		VAPOR Rating
	Saudi Arabia	BR
	Senegal	BR-
	Serbia	BR
	Sierra Leone	CR
	Singapore	AR
	Slovakia	AR-
	Slovenia	AR
▲	Somalia	CR+
	South Africa	BR-
	South Korea	BR+
▼	Spain	BR+
	Sri Lanka	BR-
	Sudan	CR-
	Suriname	BR-
	Swaziland	BR-
▼	Sweden	AR
▼	Switzerland	AR
	Syria	F
	Taiwan	AR
▲	Tajikistan	BR-
	Tanzania	BR-
	Thailand	BR
	Togo	CR+
	Trinidad and Tobago	BR
	Tunisia	BR-
	Turkey	BR
	Turkmenistan	BR-
	UAE	AR-
	Uganda	BR-
	Ukraine	BR-
▼	United Kingdom	AR-
	United States	AR+
	Uruguay	AR-
	Uzbekistan	BR-
	Venezuela	CR
	Vietnam	BR
▼	Yemen	F
	Zambia	CR
	Zimbabwe	CR

Extremely low to low-risk
- AR+
- AR
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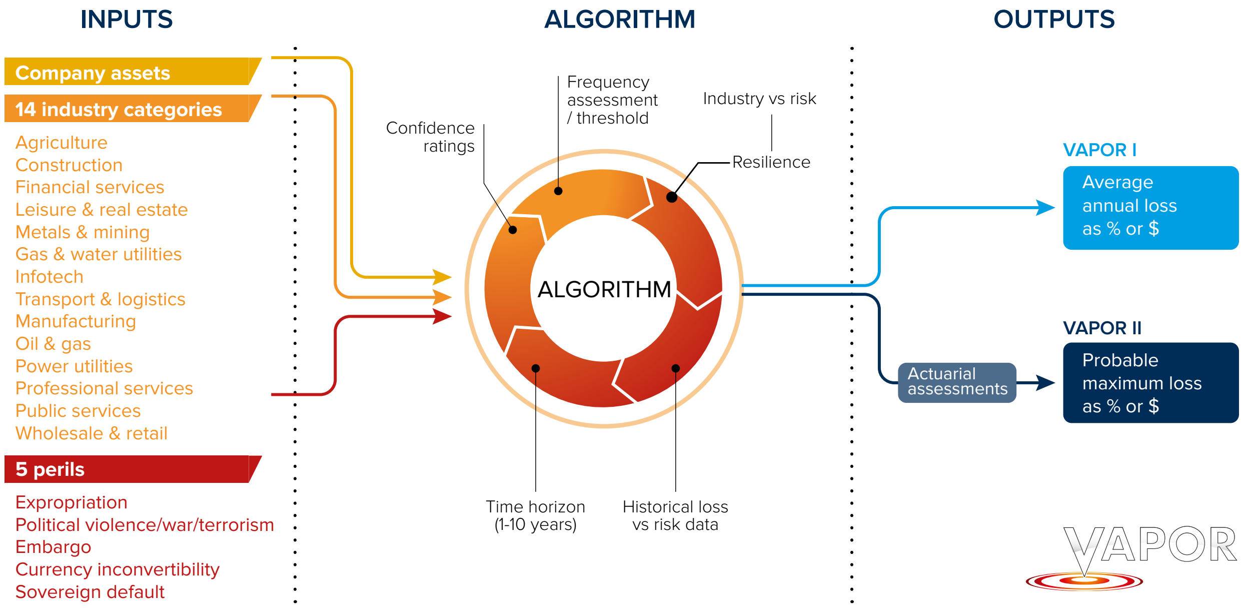
Medium-risk
- BR+
- BR
- BR-

High-risk
- CR+
- CR
- CR-

Unmanageable risk
- F

VAPOR Ratings methodology

VAPOR Ratings are based on the VAPOR (Value at Political Risk) model and platform developed in partnership with our partners Willis Towers Watson. VAPOR is an algorithmically driven system that models -- based on asset exposure and corporate risk environment across five perils and 14 industries -- the estimated average annual losses and probable maximum losses for political risk events over time. VAPOR Ratings allow for global views and country comparisons across all perils and industries for more than 160 countries and have been designed to help decision-makers map, measure and monitor exposure at an organisational level.



VAPOR Ratings are an independent opinion on political risk, which can serve as a useful starting point to assess the opportunities and risks of operating in a country. They provide a relative measure of a company or investor's risk profile across countries based on expected frequency and severity of losses to political risk.

Political risk can be defined as the risk faced by investors, corporations and governments that specific political decisions, events or conditions will impact the earnings or value of assets. This is what we refer to as Value at Political Risk. It includes risk of expropriation, political violence, embargo, currency inconvertibility and sovereign default.

For organisations requiring a more precise approach to their political risk, we provide access to the **VAPOR Dataset** -- containing nearly 500,000 political risk data points, updated quarterly -- and to the full **VAPOR service**, an online platform giving annualised average and probable maximum expected losses in dollar terms, and permitting clients to explore the effects of different scenarios.

VAPOR services

VAPOR Ratings
(AR+ to F)

Overview of the likely frequency and severity of losses to political risk in a country.

Report published quarterly

VAPOR Dataset

Model your exposure across countries, risks and industries with nearly 500k quarterly datapoints for 160+ countries, across 5 risk perils and 14 industries for 10+ years.

Available as a subscription dataset for integration into clients' own modelling

VAPOR Online
Expected loss (% or $)

For each country, across 5 risk perils and 14 industries. Estimate average annual losses and probable maximum losses to political risk events over time in dollar terms.

Available as an online subscription service

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