Analysis selection for JCC

February 2020

COVID-19 virus impact

5 Mar 2020 - Country Risk | Strategic Report

Although the World Health Organization has not declared a global pandemic, there are now confirmed outbreaks in several WHO regions.

- **The replacement of senior Communist Party of China leaders in mid-February indicates the central government is confident the new Hubei leadership is capable of keeping the COVID-19 virus outbreak under control in its epicentre.** Major cities across mainland China are carrying out gradual work resumptions. National-level ministries including the National Development and Reform Commission (NDRC) have increasingly signalled to local governments to accelerate the start of economic activities. Mainland Chinese scientist Zhong Nanshan estimated that growth of new cases will peak in late February, with the outbreak "over" – likely referring to a stable period of no new cases – by April 2020. President Xi Jinping reported that the "epidemic situation has shown positive changes" during the most recent Politburo Standing Committee meeting. The World Health Organization (WHO) is currently sending a delegation to mainland China to "lay the groundwork" for a larger international team in supporting containment measures.

- **Nonetheless, IHS Markit assesses that local governments in mainland China will remain cautious in reopening cities, especially those that have experienced more severe outbreaks, including localities in Guangdong, Henan, and Zhejiang provinces.** Situations in Hubei, the epicentre of the outbreak, remain severe, with strong indications on social media that hospitals and medical professionals allegedly do not have enough equipment and capacity to treat the increasing number of patients. Furthermore, multiple major cities have maintained elevated restrictive measures, including Beijing, Nanjing, Hangzhou, and Shenzhen, particularly in districts with confirmed infections. In Guangzhou, Zhenzhou, Fuzhou, and Xi'an, in addition to Wuhan, local government are authorised to temporarily requisition private property – likely referring to hospitals, property, and medical equipment – to support the containment of the COVID-19 virus. Continued severity in Hubei will divert medical resources from other provinces, especially testing kits, which makes accurate estimation of infection cases outside Hubei increasingly difficult, indicating that a high number of unconfirmed infections remain for some localities.

- **COVID-19 virus will have a larger negative effect on the global economy than the severe acute respiratory syndrome (SARS) outbreak in 2003.** At the time of SARS, mainland China was the world's sixth-largest economy, accounting for only 4.2% of global GDP. However, mainland China is now the world's second-largest economy, accounting for 16.3% of global GDP. If de facto confinement in mainland China persists until the end of February 2020, and is lifted progressively beginning in March, the resulting economic effect will be concentrated in the first half of 2020, with a reduction of global real GDP of 0.8% in the first quarter and 0.5% in the second quarter. In this scenario, the COVID-19 virus outbreak and resulting measures will reduce global real GDP by 0.4% in 2020. The effects of the COVID-19 virus outbreak are most pronounced in household consumption and mitigated in the industrial sector because factories are seasonally idle during this period. Nevertheless, in many ways, mainland China's economy is more vulnerable today than it was in 2003, with productivity and overall economic growth already slowing amid the effects of the mainland China-US trade conflict. Confinement measures in other countries, notably in Italy's northern industrial zones, will compound the economic impact.

- **The COVID-19 virus may trigger more force majeure calls by mainland Chinese counterparties, especially in provinces with companies that experienced reduced business because of mainland China-US trade disputes.** Mainland Chinese companies may consider using emergency provisions to terminate or breach the terms of agreements with their commercial partners to minimise economic loss. This risk is particularly high for companies with agreements containing unclear force majeure provisions that mainland Chinese partners could exploit. Counterparties based in localities with slow economic growth, highly reliant on smooth intermediate goods supply chains, or that have experienced strong adverse effects from trade diversion during the past year because of mainland China-US trade disputes will be particularly prone to local political pressure to limit losses. Several copper traders have already declared force majeure.

COVID-19 likely to harm Saudi Arabia and UAE, undermining energy and tourist receipts and forcing spending cuts

3 Mar 2020 - Country Risk | Headline Analysis

The impact of the coronavirus disease 2019 (COVID-19) outbreak on the economies of Saudi Arabia and the United Arab Emirates is likely to be high, despite both countries reporting low incidence to date. As of 2 March, the UAE had reported 21 cases while Saudi Arabia had none so far. Saudis take almost 22 million trips abroad, suggesting that contagion is likely at some point.

- **Lower oil prices are likely to force both governments into spending cuts and increased borrowing.** China reduced its purchases of Saudi crude oil for March 2020 by 500,000 barrels per day and its total oil import demand has dropped approximately 20 percent since the coronavirus disease 2019 (COVID-19) outbreak was announced. The associated temporary slowdown in Chinese economic activity is triggering a sharp sell-off for most commodities, including oil. IHS Markit will lower its 2020 average annual oil price forecast from USD62 per barrel Brent crude in the February forecast to around USD56 for its March round of forecasts. Actual prices have fallen from USD68 on 3 January to USD50 on 2 March. If the weakness persists, or even accelerates, with the OECD warning that annual global growth could be halved, both countries will face a reduction in export earnings and fiscal receipts, with the latter making them likely to reduce spending significantly. A prolonged adverse adjustment to the Saudi budget, currently projected to entail a deficit of 6.4 percent of GDP for 2020/21, would increase the likelihood of delays to major hydrocarbon expansion plans, including the USD110 billion proposal to develop unconventional gas resources at the Jafurah field. Nevertheless, Saudi Arabia had a debt-to-GDP ratio of 22.9% in 2019, and the United Arab Emirates had one of 19.0%, according to IHS Markit's Sovereign Risk data. As such, both countries currently have sustainable debt indicators and should enjoy access to international markets for large-scale borrowings if necessary.

- **The impact on the private sector will be channeled through both reduced government spending and reduced exports to China.** China is important for both Saudi Arabia and UAE as an export market, especially regarding non-oil exports. China accounted for roughly one-third of Saudi Arabia's non-oil exports and was the fastest-growing non-oil export market for the UAE in 2019. Demand slowdown there would delay near-term progress with both countries' industrial strategies and their ambition to wean their countries' economic structure away from oil. Global economic slowdown is particularly likely to harm the metals and chemicals sectors. According to the International Monetary Fund, Saudi Arabia's budget has a breakeven price of USD84 per barrel (Brent crude) for 2020, and the UAE's is USD68 per barrel.

- **Higher borrowing requirements are likely, in less receptive market conditions, with government policy likely to shift the burden to banks.** Lower oil prices will force both states into more borrowing, with increased competition from sovereign debt sales and increased market risk aversion threatening to increase borrowing costs for the private sector at a time when its own requirements for funding are likely to increase. As an indicator of the adverse change in bond market sentiment, Dubai Islamic Bank postponed on 1 March its planned issuance of a US dollar-denominated sukuk worth approximately

USD750 million due to unfavourable market conditions. It is also likely that the cost of insuring against sovereign debt defaults by Gulf States in the credit default swap market will continue to increase. The Central Bank of the UAE has advised, but not forced, banks to be lenient with borrowers, asking that they reduce fees and reschedule loans. It is likely that the UAE will push further in this direction, rather than allow large failures of SMEs or state-owned enterprises, and that Saudi Arabia will follow suit.

- **An appreciating US dollar puts dollar-pegged economies like Saudi Arabia and the UAE under strain.** As the US dollar appreciates, so do the Saudi riyal and the UAE's dirham under their respective currency pegs. Such appreciation makes the tradable sector of both economies less competitive and encourages more imports to and fewer exports from the two countries. Moreover, services trade with other, non-dollar pegged countries like India is also likely to face pressure. A rate cut by the US Federal Reserve would be a positive indicator for both countries, reducing currency appreciation risks.

- **The travel and tourism industries in both countries are likely to be badly affected.** In the last week, Kuwait, Oman, and Saudi Arabia stopped Gulf Cooperation Council (GCC) travelers from entry just using their IDs, requiring passports to permit controls blocking those who have visited countries heavily affected by COVID-19 from being admitted. As a further indicator of the growing regional control of tourist flows, Bahrain has banned travel from the UAE. Lower global travel will hurt the tourism industry in the UAE. Dubai received 16.7 million tourists in 2019, almost a million of whom were Chinese. The impact in the UAE will be particularly severe if the COVID-19 outbreak impacts Dubai's Expo 2020 and the Abu Dhabi Grand Prix scheduled for 29 November. Saudi Arabia cancelled on 27 February the issuance of visas for Umrah, the "out of season" pilgrimage, and stopped issuing tourist visas to countries affected by COVID-19. Umrah attracts approximately 20 million pilgrims annually, including 7 million foreign visitors. This represents a sharp temporary reversal to the government's plan to expand tourism, and negatively affects businesses that partnered with the Saudi administration to benefit from the social liberalisation permitting the expansion of the entertainment industry.

Indicators of changing risk environment

Increasing risk

- Saudi Arabia cancels Hajj for late July 2020, setting a historic precedent.
- Saudi cancels planned delegation visits and summits related to its hosting of the November 2020 G20 meeting.
- Regional bond spreads for the Gulf rise and demand falls significantly – potentially within wider global credit aversion – increasing the cost of borrowing for debt issuers, reducing the willingness of Gulf states to undertake further borrowing, and forcing them to consider sharp spending cuts. Private sector borrowers also face greater debt service burdens, reducing their profitability and potential investment capacity.

Decreasing risk

- China starts to increase oil and other exports as the outbreak stems, and the historic lows of the PMI for February (35.7 compared to an expected 45) quickly turn around in March 2020.
- A Federal Reserve rate cut, or concerted global intervention, eases upward pressure on the dollar.
- One or more of the above encourage renewed credit appetite in global bond markets and a recovery in global stock prices, easing concerns about rising financing costs.

Temporary ceasefire to continue following US-Taliban agreement, reducing terrorism risks in cities and to aviation in Afghanistan

2 Mar 2020 - Country Risk | Headline Analysis

The US and the Taliban on 29 February formally signed an agreement for the withdrawal of US and coalition soldiers from Afghanistan, in exchange for the Taliban’s commitment to end its support for transnational

Islamist militant groups – primarily Al-Qaeda – and to begin intra-Afghan negotiations, which are scheduled to start on 10 March.

- **The full withdrawal of US and coalition soldiers from Afghanistan will be contingent on progress in intra-Afghan negotiations.** The agreement will enable almost 5,000 of 13,000 US and coalition soldiers in Afghanistan to be withdrawn from the country within 135 days. The withdrawal of the remaining troops is planned to take place in 14 months, but is contingent on progress in intra-Afghan talks and counter-terrorism co-operation between the Taliban and the United States. According to US media reports, all but seven US air bases in Afghanistan will be closed in the first phase of the withdrawal. The remaining bases – located in Bagram, Kabul, Jalalabad, Mazar-e-Sharif, and Herat – will continue to host foreign troops until the full withdrawal. The agreement document does not outline the exact conditions for the withdrawal of the remaining troops, but US Secretary of Defence Mark Esper said on 1 March that a breakdown in intra-Afghan talks would lead to the suspension of the military withdrawal process.

- **The temporary ceasefire that preceded the US-Taliban agreement is likely to continue informally to facilitate intra-Afghan talks, but anti-reconciliation Taliban factions will continue to stage attacks.** Although the text of the US-Taliban agreement does not explicitly mention commitments by either side to reduce violence, it is likely that the conditions of the temporary ceasefire from 22–28 February will informally continue as intra-Afghan talks begin. Most importantly, the Taliban will likely maintain its current policy of not targeting air bases with a foreign presence, staging attacks in urban areas (including the capital Kabul), or staging offensives to capture provincial capitals. More broadly, the US-Taliban agreement is likely to lead to a marked reduction in Taliban intent to target foreigners. Although a more comprehensive ceasefire is likely to be discussed during intra-Afghan talks, it is unlikely that one will be agreed in the early phases of the negotiations. That said, the conditions of the temporary ceasefire are likely to hold for the initial stages of intra-Afghan talks, which will likely last for several months. Although Taliban factions that oppose the reconciliation process will continue to stage attacks against air bases, mainly involving indirect rocket fire against Bagram and Kabul airports, these are unlikely to be sophisticated given that all major Taliban factions – most notably including the hardline Haqqani Network – are likely to be politically invested in the peace process, and therefore reluctant to undermine talks with attacks.

- **A breakdown in intra-Afghan talks would likely trigger a resumption of Taliban attacks against Afghan government and military targets in urban areas.** Intra-Afghan talks, which will aim to establish a power-sharing agreement between the Taliban and the Afghan government, are likely to be more complicated than US-Taliban negotiations. Contentious issues will probably include the release of prisoners by both sides, women's rights, and the role of Islam in the Afghan legal framework. Moreover, divisions within the Afghan government – many of whose members, particularly in President Ashraf Ghani's office, are opposed reconciliation with the Taliban – will risk undermining negotiations. The US, however, is likely to act as a mediator and will probably work with Afghan and Taliban officials to facilitate a comprehensive peace deal, particularly when disagreements arise or if either side withdraws from talks. However, there is a very high risk of the negotiations stalling or fundamentally breaking down beyond the three- to six-month outlook, which would likely trigger an increase in Taliban operations against Afghan government assets in urban areas until attempts were made to restart the talks.

Indicators of changing risk environment

Increasing risk

- US and NATO countries curtailing their financial assistance to the Afghan government would likely undermine the military capability and economic sustainability of the state, emboldening the Taliban to take a harder line in intra-Afghan negotiations. This would increase the risk of talks breaking down and of the Taliban resuming offensive operations.
- Any evidence that the Taliban continues to maintain its connections with Al-Qaeda would increase the risk of the US abandoning the withdrawal agreement, triggering a resumption of Taliban and US military operations.

Decreasing risk

- The formation of a politically inclusive negotiating team by the Afghan government that includes representatives of Abdullah Abdullah, the losing candidate in the September 2019 presidential election, would improve the prospect of intra-Afghan talks resulting in a meaningful settlement with the Taliban.
- Joint US-Taliban military operations against the Islamic State in Afghanistan would indicate strong intent on both sides to adhere to the withdrawal agreement, reducing the likelihood that either party will abandon the deal.

Turkey-Russia escalation

4 Mar 2020 - Country Risk | Strategic Report

Turkey is engaged in a counter-offensive against the Syrian army and Iranian-commanded troops in Syria's north-western Idlib and Aleppo provinces. Russian troops have been deployed to the strategic town of Saraqib, where the M4 (Latakia to Aleppo) and M5 (Damascus to Aleppo) highways intersect. Turkey-backed groups are likely to attempt to retake the town; further incidents of Turkish-Russian confrontation likely, albeit contained to Syria.

- **Further incidents involving the Turkish military/proxies against the Syrian and Russian military and Iranian-backed militias are likely.** For the Syrian government, the highways are the primary link for domestic trade and future reconstruction materials between Syria's second city, Aleppo, and the capital, Damascus. For President Erdoğan, the loss of these highways to Syrian government-aligned forces would leave the Syrian opposition he backs confined to the most economically insignificant part of Syria, with far less leverage to extract additional concessions from Syria and Russia over the issue of the Yekîneyên Parastina Gel (YPG) / Partiya Karkerên Kurdistan (PKK) Kurdish presence in north-east Syria. Of even greater concern to Turkey, the Syrian government offensive is causing unprecedentedly large internally displaced person (IDP) flows (of up to 800,000) to the Turkish border. Turkey is already hosting 3.7 million Syrian refugees. Critically, Turkey has several observation posts established under the Astana process, that are now located up to 20 km behind enemy lines, and it seeks to recapture this territory fully. Neither side is likely to back down and Turkey has already had considerable success in attrition of Syrian armour, using unmanned aerial vehicles (UAVs), anti-tank guided weapons, and artillery. This suggests that the Turkish army and its allies on the one side, and the Syrian government forces and their Iranian-commanded allies on the other side, will get into repeated confrontations and incidents on Syrian territory, with casualties on both sides, aircraft and UAV shootdowns, and strong rhetoric.

- **Neither Russia nor Turkey is seeking a full-scale confrontation and will likely keep any incidents confined to Syria.** Russia is extremely unlikely to directly attack Turkish territory for fear of triggering NATO Article V response, which would lead to direct US involvement and an embarrassing climb down, if not a wider conflict. Furthermore, it has only eight modern fighter jets in Syria, with most of its aircraft there being used in a ground-attack capacity, and some of its air defence systems may be vulnerable to Turkish electronic counter-measures, which have already been successfully used against Syrian assets. It is primarily dependent on resupply by sea, which, in extremis, Turkey could cut off by invoking the Montreux Treaty's terms that permit Turkey to close the Bosporus to military shipping if it is threatened by war. Similarly, the Turkish government cannot be assured of NATO backing if it is drawn into an escalation against Russia in Syrian territory. As such, although the two sides will target one another to secure their tactical objectives, or, more likely, allow their proxies and allies to do so, both will try to negotiate temporary, unstable settlements without triggering full-scale conflict.

- **Risks to aviation over Syrian Idlib and Turkish Hatay provinces are severe, as Turkish aircraft engage Syrian jets and ground targets from Turkish airspace.** Turkish F-16 operating over Turkish airspace shot down two Syrian jets on 1 March 2020, and another Syrian jet on 3 March. Syria has since closed its airspace over Idlib. Syria or Russia are likely to launch surface-to-air missiles at Turkish aircraft if they enter Syrian airspace. These include long-range S-200 missiles, which were previously involved in the accidental shootdown of a Russian reconnaissance aircraft off the coast of Latakia in September

2018. These missiles pose a very high risk of accidental shootdown to all aircraft, including commercial airliners at cruising altitude, within the missiles' operating range of up to 300 km.

Indicators of changing risk environment

Increasing risk

- Turkish forces shell areas occupied by Russian military police in Saraqib, indicating Turkish willingness to escalate.
- The 5 March meeting between President Putin and President Erdoğan is called off or fails to secure a ceasefire agreement, making it more likely that Erdoğan will expand the Turkish counter-offensive.
- Turkey accuses Iran and/or Russia of providing support for the PKK/YPG, indicating that it is preparing public opinion for a bigger operation in Syria targeting Islamic Revolutionary Guard Corps-backed units.
- Turkish allies and proxies threaten the outskirts of/access to Aleppo city, a likely a red line for Russia, triggering Russian escalation.
- Syrian or Iranian-backed forces cause extensive casualties among Turkish troops stationed in observation posts, triggering a much larger Turkish response.

Decreasing risk

- President Putin and President Erdoğan agree to joint monitoring of the M4 and M5 highways when they meet on 5 March.
- Turkish UAVs achieve further successes against Syrian armoured formations and artillery, forcing the Syrian government offensive to halt, indicating lower risks for a few months.
- Syrian forces withdraw to their 'de-escalation zone' limits, ending their siege of Turkish observation posts, and conceding to Turkey's demands.

Migrant influx from Turkey likely to cause ground-cargo disruption, spike in migrant smuggling into Greece and Bulgaria

3 Mar 2020 - Country Risk | Headline Analysis

Greece on 1 March announced a “maximum level of deterrence” at its borders following Turkey’s 28 February decision to cease restrictions for refugees seeking to go to Europe in response to a military escalation in northwest Syria. Greek authorities reported around 10,000 illegal land border-crossing attempts from Turkey on Sunday (1 March), while up to 1,000 people reached the Greek eastern Aegean Islands by sea. Turkish Interior Minister Süleyman Soylu claimed that 101,577 refugees left the country as of the evening of 1 March over the Greek and Bulgarian borders, although this figure is likely exaggerated for domestic purposes. Bulgarian authorities did not report an increased migrant pressure, with Turkey likely directing refugees to the Greek border.

Significance: Turkey’s cessation of border controls is likely to continue until a credible signal of increased support for refugees in Turkey is received from the European Union, which the Turkish government can in turn present as a diplomatic victory domestically. This is moderately likely to happen, probably as an additional financial support. Brussels would likely provide a substantial support package to Turkey as part of the next 2021–27 EU budget framework, adding to the EUR6 billion (USD6.6 billion) under the 2015 refugee deal. However, without EU support, migrant crossings from Turkey into Greece and, to a lesser extent, Bulgaria, as well as from Greece through the Western Balkans further into Europe are likely to increase in 2020, particularly during May–August. There had already been a steep rise in the number of migrants into Greece from Turkey in 2019. Occasional cargo disruption lasting up to a week at the Greek and Bulgarian land borders with Turkey would be probable. An additional indicator is likely to be the outcome of the current escalation in northwest Syria. A renewed Syrian government push in Idlib – although unlikely, given Turkey’s heavy military deployment in the area – would raise the risk of a mass internally displaced person (IDP) movement towards Turkey. With more than 800,000 IDPs having already been forced towards the border since May 2019, additional displacement would risk overwhelming Turkish border-security measures.

Risks: Ground cargo

Sectors or assets affected: Transport

Lebanon's protest and default risk

4 Mar 2020 - Country Risk | Strategic Report

Lebanon is increasingly likely to default on its Eurobond repayment, triggering a wider default on sovereign liabilities. Prime Minister Hassan Diab stated on 2 March that a decision will be made on 6 or 7 March regarding the USD1.2-billion Eurobond repayment that is due on 9 March. IHS Markit believes a distressed exchange or unilateral default on Lebanon's commercial debt is virtually certain at this point. Lebanon's foreign financial and legal advisors have not yet reached a deal with foreign bondholders over a swap for new securities, and will unlikely reach one ahead of default.

- **Lebanon's 160% debt-to-GDP ratio is unsustainable, making eventual renegotiation of the debt very likely.** The Lebanese government is increasingly likely to announce that it plans to default on the 9 March 2020 repayment of a USD1.2-billion Eurobond. IHS Markit believes that the meetings with the International Monetary Fund (IMF) on 20–24 February was the first step toward a complex debt restructuring exercise. It is unclear at this stage if the government plans to force a haircut on the principal, or merely to reschedule the deb. Former Finance Minister Ali Hasan Khalil stated on 3 March that officials are considering asking local banks to buy back Eurobonds sold to foreign hedge funds to strengthen the Lebanese negotiating position. Even if achieved, the government has not offered credible financial, fiscal, or economic reform plans that would be a viable strategy to present to creditors in any future negotiations. The trading levels for Lebanese debt strongly indicate that investors are now pricing in both a default and a severe capital write-down or haircut during future rescheduling. Lebanon's key debt and external indicators are very weak and fundamentally unsustainable. It has a public debt stock of over 160% of GDP, a budget deficit of 9% of GDP, 45% of the budget is consumed by debt servicing, and its current account deficit exceeds 25% of GDP.

- **The government is likely to seek debt reduction and longer maturities, raising risks to the banking sector.** As a newcomer to Lebanon's political elite, Prime Minister Hassan Diab is less dependent on support from the banks and seeks to boost his own popularity by sacrificing the interests of their larger depositors, who are generally members of the country's ruling elite. As such, currency devaluation, efforts to write down Lebanese sovereign debt, and delayed repayments of capital are very likely, as is the forced conversion of large bank deposits into largely worthless equity. The IMF has supported changing the peg to between LBP1,750 and LBP2,000 to the dollar, to bridge the gap between the official rate (LBP1,507.5) and the black market value of around LBP2,500. A re-evaluation would mean banks would face a loss associated with the conversion as banks' liabilities would increase, without an asset revaluation. The key risk to the banking sector's stability continues to stem from the central bank (Banque du Liban: BdL)'s own weakness, as the banks have some USD70 billion deposited with BdL but the central bank only has USD30 billion in reserves to face such claims.

- **Economic reforms risk bringing about government collapse through a no-confidence vote.** Parliament only narrowly endorsed Prime Minister Hassan Diab's cabinet on 11 February. The cabinet's ministerial statement includes an ambitious but unrealistic economic reform plan notably based on attracting foreign investment for infrastructure projects. France and Saudi Arabia stated separately on 23 February that they are ready to support Lebanon; however, any actual financial aid is unlikely to be delivered due to doubts over the country's ability to implement any reforms. The IMF has stated that it will consider financial assistance if the government is serious about reforms, notably reducing subsidies to the state-owned electricity company and reducing state debt through privatisations. Diab's cabinet consists of candidates selected by Hizbullah and its allies, Shia Amal and Christian FPM, with its rivals, the Sunni Future Movement, Christian Lebanese Forces, and Druze Progressive Socialist Party, boycotting the cabinet. All parties will use their influence to disrupt policies that go against their interests. The government's narrow parliamentary majority raises the risk of losing a vote of no confidence should it request an IMF bailout, engage in unpopular reforms or seek to impose measures to fight corruption, from which the ruling elite is widely perceived to benefit.

- **Violent protests and criminality are likely to become more frequent across Lebanon, with rioting primarily targeting banks and state-owned enterprises.** Any significant austerity measures, such as stopping public sector hiring and reducing state pensions, reducing bread and fuel subsidies, raising electricity prices, or increasing tax rates, notably for fuel and value-added tax (VAT), are likely to escalate protests, roadblocks, and vandalism. Vandalism against cash machines, state-owned enterprises, politicians' residences, political party offices, media offices, banks (particularly BdL), and high-end commercial property are likely to become more frequent and widespread. Tens to hundreds of people, and, more rarely, thousands of people, will continue demonstrating by Martyrs' Square, BdL, and by other government buildings and main squares and intersections countrywide, briefly blocking workers' access to public enterprises. Criminal gangs targeting small shops, money transfers, and engaging in kidnap for ransom are likely to expand their activity.

Indicators of changing risk environment

Increasing risk

- Finance Minister Ghazi Wazni commits to forcing banks to accept a bigger burden in addressing its debt sustainability problems, indicating that debt write-down is more likely.
- Lebanon repays the 9 March Eurobond, but this depletes its reserves further and raises the risk of future shortages of essential basic goods, in turn leading to more severe civil unrest and elements of state failure.
- Hariri allies, but not those of his rivals, are indicted on corruption charges, raising the risk of violent unrest by his supporters.
- The United States imposes sanctions on Lebanese leaders close to Hizbullah, signaling its desire to choke Hizbullah further, but raising the risk of a violent backlash from Hizbullah in the form of unrest against the government and/or of terrorist attacks against state and private interests perceived as colluding with the US.

Decreasing risk

- Prime Minister Diab presents a plan addressing reform of the electricity sector, improved collection of customs duties, curtailment of corruption, the removal of banking secrecy, and debt reduction and rescheduling.
- Local banks raise their levels of capital significantly, possibly through forced conversion of their largest deposits into shares.
- The current government resigns, and a national unity emergency administration is formed, largely staffed by relatively well-respected technocrats.
- The United Arab Emirates or other Gulf states provide sizeable volumes of aid to Lebanon's central bank to ease its current problems.
- Banks' deposit base returns to growth, indicating that the banking sector may regain confidence of the Lebanese diaspora.

Formation of South Sudan’s new unity government decreases likelihood of civil war, but localised fighting likely

27 Feb 2020 - Country Risk | Headline Analysis

South Sudan’s Revitalised Transitional Government of National Unity (RTGoNU) was formed on 22 February in Juba, having been delayed twice before in 2019. After dissolving the government on 21 February, President Salva Kiir appointed opposition leader Riek Machar as first vice-president and three of his allies, Taban Deng Gai, Rebecca Nyandeng de Mabior, and James Wani Igga, and General Hussein Abdelbagi Akol to vice-presidential roles. Kiir stated that his troops will ensure security in Juba, the capital, for members of the executive.

- **Countrywide civil war is unlikely in 2020 because of President Kiir's assertion of RTGoNU security procedures in Juba.** This means that troops in Juba will be loyal to Kiir. Previously, in March 2019, prospective members of the RTGoNU agreed to form a protection force for the president and each of the vice-presidents made up of their loyal troops and fighters. Because executive security details will no longer be made up of rival troops, the likelihood of fighting between them in Juba is greatly decreased. This, in turn, decreases the likelihood of countrywide civil war, which was triggered by fighting between the government and opposition in Juba in 2013 and 2016.

- **Machar's limited capability to respond to Kiir militarily after being pressured into forming the government will likely limit fighting to isolated areas and not disrupt oil production.** Although on 15 February Kiir reduced the number of regional states from 32 to 10 – one of Machar's key conditions for joining the government – there is still significant disagreement between Kiir and Machar on the creation of three "special administrative zones". Such disagreements and mistrust between the government and opposition have reportedly led to continued recruitment of new fighters and non-compliance with troop cantonment measures that are intended, under the 2018 peace agreement, to bring previously warring parties into a unified army. Localised small-arms skirmishes between government forces and opposition militias are likely during 2020, but these are unlikely to escalate to full combat between Sudan People's Liberation Movement in Opposition (SPLM-IO) fighters and government troops, the two most significant belligerents. After having been based outside of South Sudan for several years without access to large sums of money, Machar lacks effective control of many fighters previously loyal to him. Regardless, Machar would be unlikely to overtly support fighting in oil-producing areas such as Ruweng Special Administrative Zone, so as not to be perceived as a spoiler of the peace process or diminish oil transit revenues for his main international patron, Sudan. Kiir must also negotiate with smaller armed groups not included in legislated power-sharing arrangements under the transitional constitution. These groups signed a ceasefire agreement with the government in January 2020 and are likely to seek positions within government. If excluded after talks with the government scheduled in March, these groups are likely to return to conflict. The National Salvation Front is the strongest of these groups and would engage government troops in small-arms fighting in the Equatoria regions.

- **New government appointments are likely to take at least several months, during which time regular government services such as issuing permits and tax returns will be impeded, increasing corruption risks.** Kiir dissolved the government ahead of the RTGoNU forming and must now appoint a new government in line with the transitional constitution. With Kiir and Machar having to negotiate between themselves and placate members of their respective patronage networks, these appointments will require extensive negotiations, probably leading to a months-long period without fully staffed government in South Sudan. It is likely that Kiir's allies will retain control of government business during this period, increasing the likelihood of discontent and corollary risks of the opposition, which is mandated to share control, exiting the unity government and returning to fighting.

Indicators of changing risk environment

Increasing risk of resumed conflict

- The president and vice-presidents establish significant independent security details, whether official or not, made up of their own fighters in Juba, increasing the likelihood of armed combat in Juba and countrywide.
- National Salvation Front leader Thomas Cirillo is not granted a senior role in government, such as army general, state governor, or cabinet position, increasing the likelihood that his group returns to fighting against the government in the Equatoria regions.

Decreasing risk of resumed conflict

- A member of Machar's SPLM-IO is appointed minister of petroleum, indicating that Kiir will share power with Machar.
- Ruweng Special Administrative Zone is subsumed into Unity state, granting Machar's SPLM-IO greater control of oil production and revenues.

RISK NOTE: Saudi Arabia destroys alleged Houthi boat-borne IED off Yemeni coast

24 Feb 2020 - Country Risk | Headline Analysis

The spokesperson for the Saudi-led coalition in Yemen, Colonel Turki al-Maliki, stated on 23 February that Saudi naval forces had prevented an 'imminent' attack by Houthi insurgents against an unspecified target in the southern area of the Red Sea.

- Colonel Al-Maliki provided no details of the incident, other than that Saudi naval forces in the Red Sea thwarted an attempt by Houthi militants to mount an attack using a remotely controlled "booby-trapped" boat laden with explosives. Al-Maliki also said that Saudi forces discovered and destroyed three naval mines in the Bab-El-Mandeb strait and the southern Red Sea on the same day. The Houthi movement did not issue any statement related to this incident. The Yemeni insurgent group did, however, claim attacks on Saudi Arabia's southern Yanbu port with weaponised unmanned aerial vehicles (UAVs) and ballistic missiles on 21 February, which the Saudis said they had intercepted. Houthi spokesperson Yahya al-Sarea stated that this attack was in retaliation for the Saudi airstrikes carried out in Al Jawf governorate on 14 February that killed nearly 30 civilians.

- Following the incident, the Saudi-led coalition and the United Nations-recognised Yemeni government announced an intensification of security measures around the main sea and land entry points into Yemen and deployed further forces along the Yemeni Red Sea coastline to prevent weapons smuggling to the Houthis. The US Navy reported that a large shipment of Iranian-made weapons, including 358 surface-to-air missiles and various military components, destined to the Houthis was seized in the Arabian Peninsula on 9 February. This reflects the ongoing attempts by Iran to provide assistance to the Houthis in Yemen and the militia's enduring efforts to improve the sophistication of its military arsenal. The Houthis unveiled on 23 February a new set of weaponry during a military ceremony in the capital Sanaa, which included new air defence system missiles equipped with electro-optical sensors. During the weapons showcase event, Houthi military officials reiterated that attacks against Saudi targets would continue as long as the Saudi-led military coalition continues its airstrike campaign in Yemen, where Saudi airstrikes around Sanaa have resumed after a hiatus of four months.

- IHS Markit assesses that the Houthi movement will continue to escalate attacks against strategic targets in Saudi Arabia given its ready access to weaponised UAVs, unmanned marine vehicle-borne improvised explosive devices (UM-VBIEDs), and sea mines to engage both military and commercial ships off the Yemeni Red Sea coast. Military and commercially flagged vessels from countries participating in the Saudi-led coalition, such as Sudan and the United Arab Emirates, would be at highest risk. As we previously assessed, the Houthis are unlikely to risk escalating their attacks to include indiscriminate and recurring attacks targeting international commercial shipping, which would almost certainly invite a concerted military effort against them. There is an increasing risk, however, of one-off demonstrative attacks and accidental targeting due to misidentification of commercial vessels. UAV and ballistic missiles attacks into Saudi Arabia and targeting military bases, energy assets, and airports are also likely to increase in frequency as the Houthi will likely attempt to disrupt forthcoming international meetings that will be held in Riyadh in preparation of the G20 that Saudi Arabia will host in November 2020. This risk is higher across southern Arabia, including Asir, Jizan, and Najran.

RISK NOTE: Shelling of Tripoli's port by Libyan National Army raises risk of disruption to shipping off Tripolitania coast

21 Feb 2020 - Country Risk | Headline Analysis

The Libyan National Army (LNA) released a statement on 18 February claiming its forces had destroyed a Turkish cargo ship docked at Tripoli seaport.

- This is the first Libyan National Army (LNA) attack deliberately targeting Tripoli seaport since the beginning of its offensive aimed at capturing the Libyan capital in April 2019. According to the LNA statement, four rockets targeted a Turkish ship offloading weapons destined for the Government of National Accord (GNA), which the LNA is attempting to overthrow. The Turkish government denied this claim, stating that no Turkish ship was at Tripoli port. According to IHS Markit marine data, however, a Turkish bulk carrier AYLA arrived at Tripoli on 15 February from Istanbul. Pictures and videos on social media showed that no ship in the port appeared to be damaged or hit in the attack. Libyan media reported that the four missiles hit a warehouse that was set on fire; the National Oil Corporation (NOC) announced that the projectile struck metres away from a highly explosive liquified petroleum gas (LPG) tanker discharging in the port. On 19 February, the NOC urgently evacuated fuel vessels from the port and suspended all offloading operations as a precautionary measure.

- The LNA announced a complete naval ban on all sea ports in western Libya on 20 May 2019, which remains in effect, as part of its ongoing offensive to capture Tripoli from the GNA. This applies to the ports of Tripoli, Misrata, Zawiyah, and Khoms where any vessels, especially of Turkish origin, that are suspected of carrying weapons or smuggling fuel for the GNA are likely to be targeted by the LNA's navy and with airstrikes if they fail to respond. The risk of further LNA shelling or mortar attacks targeting Tripoli port will remain severe in the two-month outlook. As Turkey is expected to start shifting major weapons shipments through Misrata and Khoms ports, the risk of LNA attacks against these two ports is likely to increase in the two-month outlook.

- This latest escalation will further jeopardise the already complicated UN-led peace process. Following the LNA attack, GNA Prime Minister Fayez al-Sarraj suspended on 20 February his participation in the ceasefire talks hosted by the UN in Geneva. On the same day, LNA commander Khalifa Haftar stated that a ceasefire was possible only after "the withdrawal of Turkish mercenaries, an end to Turkish arms supplies to Tripoli and the liquidation of terrorist groups" in the capital, reiterating the wide disagreements still existing between the warring sides and their tenuous adherence to the truce, as both sides continue to mobilise and breaches of the ceasefire continue on a daily basis in Tripoli.

RISK NOTE: Blockade of Libyan oil terminals and oilfields unlikely to be lifted until next round of UN-sponsored talks

11 Feb 2020 - Country Risk | Headline Analysis

The National Oil Corporation (NOC) said on 10 February that it was forced to shut down al-Zawiya refinery after tribes affiliated with the Libyan National Army (LNA) closed a valve on the main pipeline between Sharara field and Zawiya refinery.

- The Libyan National Army (LNA) is using its control of Libya's energy sector to economically isolate the Government of National Accord (GNA), likely in advance of an attack on Tripoli in the coming week. Tribes and militias loyal to the eastern-based LNA have been shutting down oilfields and oil export terminals in southern and eastern Libya since 20 January, including the key oil export terminals of Ras Lanuf, as-Sidr and Zuwaytinah. The LNA is likely attempting to economically isolate the GNA, as oil revenues are deposited into the Tripoli-based central bank, and as a means to increase pressure on European countries dependent on Libyan energy supplies to shift their support in favour of the LNA. IHS Markit assesses that this is likely in advance of an attack on Tripoli in the coming week. According to the Libyan Central Bank, the oil blockade has resulted in a loss of USD2.5 billion so far in 2020, and no oil revenues being recorded in January 2020. Moreover, oil output has fallen from 1.2 million barrels per day to 200,000, dragging down production to its lowest level since 2011.

- The LNA is unlikely to lift the blockade before the next round of UN-sponsored talks. On 9 February, representatives of the UN-recognised GNA and the LNA met in Geneva without reaching an agreement on a permanent ceasefire, highlighting the shortcomings of the interim deal reached on 18 January in Berlin. UN Libya envoy Ghassan Salamé gave no update on efforts to end the blockades, adding that the issue will be further discussed during the next meeting between LNA and GNA representatives, tentatively scheduled for 18 February. However, tribes and militias in areas of eastern and southern Libya controlled by the LNA have stated that they oppose resuming oil exports unless Tripoli "is freed of militias" and "Turkey withdraw the Syrian fighters sent in support of the GNA in Tripoli". These are two key demands put forward by the LNA to stop its offensive aimed at capturing the Libyan capital, which means that the blockade is likely to continue.

- Fighting across Tripolitania is likely to persist, with severe risks to aviation and marine assets. Despite the truce between the GNA and the LNA being formally still in place, serious violations are reported on a daily basis. Moreover, both sides continue to receive shipments of weapons from Turkey and the United Arab Emirates, which politically and militarily support the GNA and the LNA respectively. According to multiple reliable social media sources, sections of Mitiga airport have been converted by Turkish military personnel into a logistics headquarters to support GNA military operations. As such, the LNA is likely to consider Mitiga airport as a priority strategic target. The latest LNA attack on Mitiga was reported on 9 February, when operations were suspended, with the LNA reiterating the imposition of a no-fly zone over Tripolitania including for civilian aircraft. We assess that the LNA is unlikely to deliberately target non-Turkish civilian aircraft landing or taking off from Mitiga airport. However, given the intensity of fighting and the indiscriminate use of weaponry, including anti-tank guided missiles, artillery rockets, and surface-to-air missiles by both sides, the risk of miscalculation and misidentification is severe. Similarly, vessels off the coast of Tripolitania face an increased risk of aerial attack, though the risk is mitigated by the low accuracy of LNA airstrikes.

Guatemalan customs services announce plans to improve procedures, cargo and supply-chain delays remain likely through 2020

21 Feb 2020 - Country Risk | Headline Analysis

Guatemala’s Tax Authority Superintendence (Superintendencia de Administración Tributaria: SAT)’s interim head Werner Ovalle confirmed on 19 February plans within the SAT to improve customs processing technology. The need for change was recently flagged by the first dispatch times study conducted by Guatemala’s Customs Authority. Released on 30 January, the study found that customs procedures were responsible for 34% of shipment processing times. The average waiting times were logged at 10 hours for land processing, between six and eight days at Guatemala’s largest ports, and nine days for airline cargo. Ovalle has stated that delays will be reduced through changes including paperless advanced filing for merchandise, pre-registration for drivers at border crossings, and the launch of synchronisation of customs documentation with neighbouring countries such as El Salvador. He said that the implementation of these measures should take place in the next six months. The measures were welcomed by business groups, with the American Chamber of Commerce of Guatemala stating that the implementation would decrease foreign-trade dispatch times, while Institutional Relations Director for the Guatemalan Exporters Association (Asociación de Exportadores de Guatemala) Fanny Estrada claimed that the changes were necessary to regain lost competitiveness.

Significance: IHS Markit projects gradual improvements to Guatemala’s customs procedures by 2021, reducing waiting times for manufactured and agricultural goods as a result of the customs adjustments. These are likely to support the revival of sluggish external trade. Guatemalan exports grew by only 2% in 2019, reaching USD11.18 billion, while maquila activity and free-zone production fell by 8.7% and 6.4%, respectively. Estrada has indicated that the agribusiness sector has also lost its competitiveness. Reducing restrictions on the passage of goods between Guatemala and its neighbours appears risk positive. The first key indicators of progress will be the timely implementation of the planned changes and the smooth operation of the new technology. Delays and operational glitches would be an adverse indicator for business confidence. Signs of problems would include reported contract breaches due to customs-related delivery delays, particularly affecting clothing and textiles; fresh, dried, or frozen fruits; and vegetables, rubber, and wood products; related business groups and associations requesting the government for round-table talks, seeking further investments in customs operations; or the announcement of co-ordinated labour strikes at processing points. The government’s launch of training sessions to introduce the new filing processes would be a more positive indicator of its commitment to expediting the introduction of the procedures.