

SHORT-TERM POLITICAL RISK: EIGHT COUNTRIES DOWNGRADED



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In the framework of its regular review of short-term (ST) political risk, Credendo has downgraded eight countries.

Downgrades	From	To
Bangladesh	3	4
Bhutan	2	3
Burkina Faso	5	6
Djibouti	3	4
El Salvador	4	5
Haiti	5	6
Mongolia	4	5
Uganda	3	4

➤ **Bangladesh: downgrade from category 3/7 to 4/7**

Since its outbreak, the war in Ukraine has sharply harmed Bangladesh's liquidity, particularly through high commodity prices. As the country is a net fuel importer, it is hit hard by costlier energy imports. Besides, workers' remittances – a major source of current account receipts – have been weakening. As a result, foreign exchange reserves have been rapidly depleting during the year (-23% between end 2021 and October 2022) towards close to pre-Covid levels. Even though limited amount of foreign currency is required for low external debt service soaring imports have contributed to substantially widen the current account deficit (multiplied by four) and have lowered the foreign exchange reserves' import cover to four months (from seven months in 2021), a nine-year low. This has justified a downgrade of the short-term political risk from 3/7 to 4/7, which is still a moderate risk rating. The outlook for 2023 is negative with liquidity pressures projected to remain high as the expected sharp global economic slowdown will hit the western (EU) demand for garments, the country's dominant industry, whereas fuel prices are expected to persist at high levels too. In reaction, the authorities might allow a further depreciation of the taka (which was devalued several times in 2022), strengthen import restrictions on a broader list of non-essential goods, provide incentives to increase workers' remittances, and seek additional external financial support. In November, Dhaka already obtained an IMF agreement for a precautionary USD 4.5 billion loan aimed to stabilise its economy (including a liquidity support) and increase climate resilience.

➤ **Haiti: downgrade from category 5/7 to 6/7**

Haiti is on a slippery slope towards becoming a failed state. The country has been engulfed by insecurity ever since the assassination of President Jovenel Moïse in July 2021. Since then, several violent criminal groups have disrupted the economy and dominate a large part of the capital. The lack of a democratically elected president and of a functioning parliament (Haiti's parliament has been inoperative since 2020) have deepened the country's institutional vacuum. Criminal gangs become increasingly more powerful and their capabilities already

international intervention is necessary, for now they have been resorting to sanctions together with the United Nations (UN). Mid-October, the UN adopted a sanctions package on Haiti to quell gang violence while, in the beginning of November, the USA went a step further and imposed sanctions on two individuals in Haiti based on allegations of illicit drug trafficking. More sanctions will likely follow in the coming months. Even if an intervention takes place, political instability will persist well into the medium term, given the lack of legitimacy any leader would likely hold. Given Haiti's political instability and the clear deterioration of the political situation, the short-term political risk classification has been downgraded to category 6/7.

> Uganda: downgrade from category 3/7 to 4/7

Uganda's financial situation has deteriorated. Short-term external debt had already been increasing significantly for several years and has now shown a further jump. The current account balance has become more negative since the start of the conflict in Ukraine. This is mainly caused by the deterioration of the terms of trade, caused by higher oil, food and fertiliser prices. In a context of rising government debt and a global increase of financing costs due to rising interest rates, this will further stress the country's financial position. Hence, Uganda's short-term political risk was downgraded to category 4/7.

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