2023 Annual Forecast

January 2023

RANE
Risk Assistance Network + Exchange

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Overview

As the war in Ukraine enters its second year, the combination of limited energy supplies, high inflation and monetary tightening will negatively impact economic growth in the Global North and increase the risk of financial, political and food crises in the Global South. Against this backdrop, the world's largest economies (most notably the U.S., China and the EU) will seek to shield themselves at a time of rising global uncertainty, leading to increased protectionism and limiting the room for multilateral cooperation on issues ranging from multilateral institutions to climate change.

Fighting in Ukraine will ebb and flow in 2023, but a cease-fire (let alone a peace deal) will likely remain elusive because neither Kyiv nor Moscow will be willing to make the necessary concessions to reach a settlement. Western sanctions on Russia will remain, forcing Moscow to continue looking for alternative economic and political partners to its east. The West, and Europe in particular, will face another year of tight energy markets as it prepares itself for the 2023-2024 winter, which will result in pervasively high energy prices that prolong its cost-of-living crisis and the social and political risks associated with it. In China, economic conditions will improve as Beijing softens its pandemic-related restrictions, but the reopening of the economy will depend on the evolution of infections while the government's efforts to promote a more sustainable economic model will result in only modest growth in 2023. In the United States, political gridlock will severely constrain policymaking, but this will not prevent the White House from looking for international support in its technological competition with China.

It will also be a turbulent year in the Middle East because the Iran nuclear deal will likely collapse, resulting in heightened tensions particularly between Iran and Israel that will escalate their covert war. The region may also experience financial volatility as Turkey continues its unorthodox economic policies ahead of key parliamentary and presidential elections. In the meantime, the two largest economies in sub-Saharan Africa, Nigeria and South Africa, will experience political volatility because of presidential elections that could spark ethnic and religious disputes (in the case of Nigeria) and an internally divided government that delays key economic reforms (in the case of South Africa). Finally, 2023 will be a testing year for the survival of the Common Market of the South (commonly known as Mercosur) as their members' diverging interests risk causing the bloc's foreign external tariff to collapse. ☐

ALEXEI DRUZHININ/Sputnik/AFP via Getty Images

Global Trends

The World Moves on From the Western-Led Global Order

The progressive decline of the Western-led global order will hobble multilateral efforts to manage global crises like climate change in 2023 by further degrading global institutions and increasing diplomatic tensions between countries. Global powers like the United States, the European Union, Russia and China will increasingly seek to protect themselves from their rivals' economic, security and political encroachment, leading all of them to circumvent previously accepted norms and reduce the importance of multilateral institutions like the World Trade Organization. The United States and the European Union will be closely aligned on a number of fronts, though bilateral tensions will emerge in 2023 as the U.S. Congress will likely fail to pass new global tax rules (which is a priority for Europe), and calls in Europe to impose digital service taxes on U.S. tech firms will intensify. In the meantime, the differing priorities of the West and the China-led developing world will undermine international climate negotiations and efforts by individual countries to combat rising global temperatures. This will see more Western governments adopt protectionist economic measures (like border tariffs) to support their own industries (like electric vehicles), ostensibly under their climate policies.

The West Looks For an Exit From the Ukraine War Amid the Global LNG Crunch

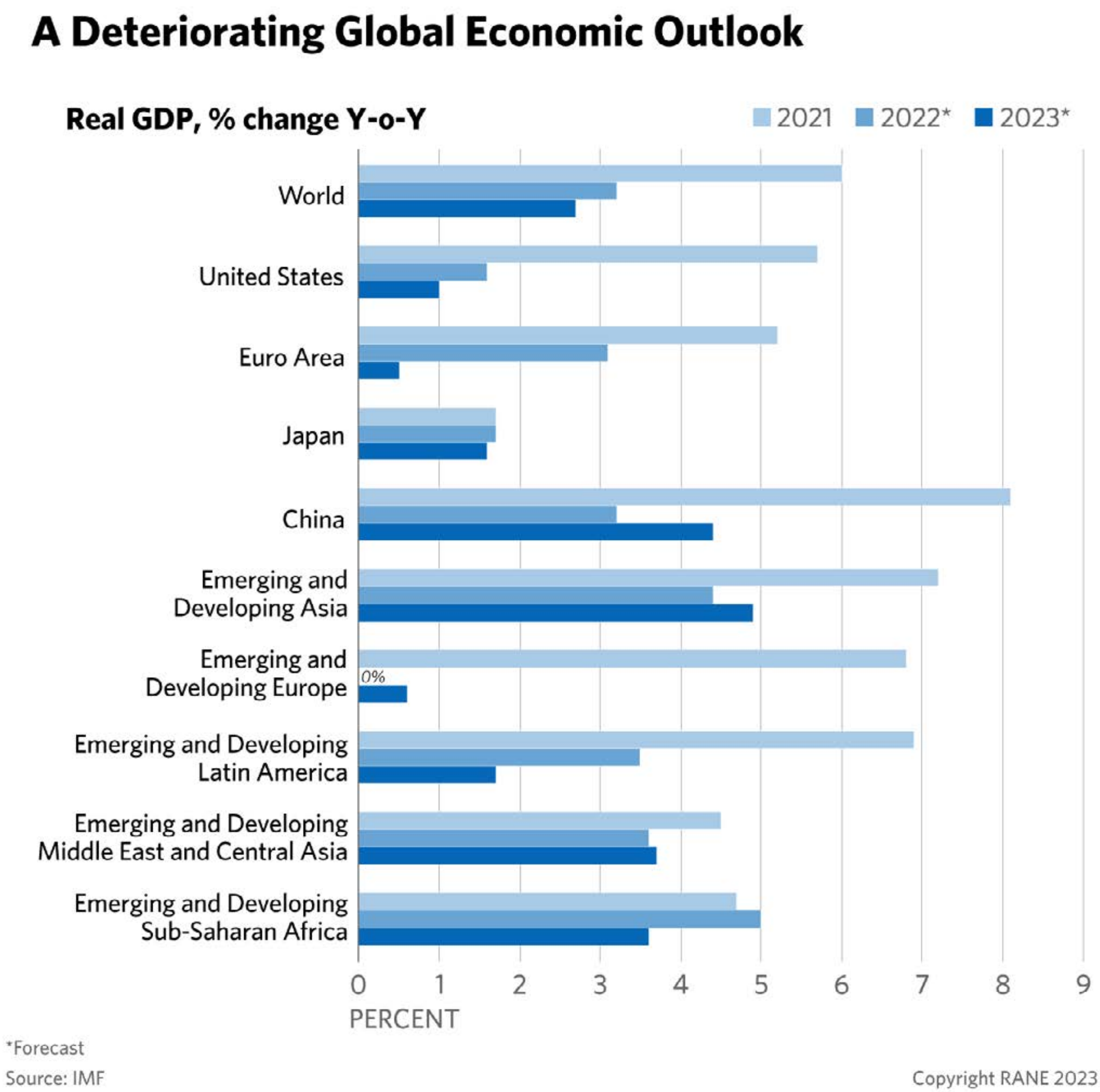
Another year of war in Ukraine and the global natural gas crunch will drive Western governments to increase pressure on Kyiv to offer concessions to Moscow to establish a viable exit from the conflict, though such an exit is unlikely to materialize in 2023. Western governments will provide enough military and financial aid to Ukraine to continue defending itself from Russian offensives. With the war continuing, the European Union will be able to avoid significant natural gas shortages in the cold months of early 2023 due to high storage levels. But the bloc will need to increase its gas imports to avoid shortages during the 2023-24 winter. This will keep natural gas prices high, adding to global economic woes. The G-7 price cap on Russian oil will have a limited impact on global oil prices in early 2023 due to recession concerns. But if global economic conditions improve in the second half of the year, it could result in shortfalls in global oil supplies that push prices upward. Weak economic conditions will lead to more nationalist Western political figures (including Hungarian Prime Minister Victor Orban and members of the U.S. Republican Party) calling for a curtailment of support for Ukraine and, in Hungary's case, an easing of EU sanctions.

EU and U.S. Monetary Tightening Slows Down Global Economy, Risks Recession

Monetary tightening by the Federal Reserve and the European Central Bank will cause an economic slowdown in 2023 and a weakening of U.S. and European labor markets. The Federal Reserve remains strongly committed to reducing multidecade high inflation, and therefore will further hike interest rates in 2023. A disinflation of the magnitude required to eventually reach the Fed's 2% target from its late 2022 levels is likely to cause a substantial increase in unemployment because it will require a significant reduction in domestic demand and in wage inflation. U.S. inflation will fall as supply-side bottlenecks ease, the post-COVID spending surge abates, unemployment increases and significantly tighter financial conditions weigh on investment, but economic growth will likely be very low. In Europe, barring a renewed energy price shock, inflation will decline throughout 2023, as supply-side bottlenecks ease and ECB-induced financial tightening weakens labor markets and raises the cost of investment, but lower inflation will come at the price of contractions in economic activity. Euro area real GDP growth will be very weak, and large economies including Germany and Italy will likely experience recessions that will negatively impact other countries in Europe that are part of their supply chains.

Emerging and Developing Countries Grapple With a Global Economic Slowdown

China's economic risk will rise, while lower middle-income countries will be particularly exposed to financial instability. Despite the easing of COVID-19 restrictions, China's economic and financial risks will remain high due to economic rebalancing policies and weakening global growth. The government will continue to rebalance the economy away from real estate investment-focused growth, but will be prepared to make minor adjustments to contain economic and financial downside risks, if necessary. Although financial stability risks will increase, they will remain manageable thanks to Beijing's deep financial pockets, wide-ranging control over the financial system and extensive capital controls. As for low-income economies, the risk of financial instability and sovereign debt defaults will increase in 2023, and countries already in default will face difficult economic recovery prospects. Tight international financial conditions, a strong U.S. dollar, weakening global growth and weakening commodity prices will lead to financial instability in emerging and developing economies, and lower middle income countries in sub-Saharan Africa, parts of the Middle East and South Asia will be particularly vulnerable. By comparison, upper middle income countries such as India, Mexico and Brazil will largely avoid broader economic and systemic destabilization because of their stronger fundamentals, more flexible policy regimes and more stability-oriented economic policies.



U.S. Efforts to Enlist Allies Against China's Tech Sector Struggle to Gain Traction

Insufficient cooperation with its allies will see the United States unilaterally impose more significant restrictions on China's tech sector as part of Washington's broader effort to counter Beijing's growing technological prowess. The Biden administration will attempt to get the European Union, Japan, South Korea and other global partners to impose export controls on key Chinese tech sectors. But U.S. allies' concerns about their economic relationships with China will limit cooperation with the White House's aggressive push to cut off China's access to Western technology. The United States, Japan and the Netherlands will jointly implement restrictions on shipments of semiconductor manufacturing equipment to China, though Washington will probably also continue enacting such restrictions on its own (in addition to those that Tokyo and Amsterdam agree to implement). While the United States will continue to focus on China's chip sector, it will likely expand restrictions targeting China's artificial intelligence and quantum computing industries as well, widening the scope of technologies targeted. In addition, the United States will likely impose more limits on U.S. companies' investments in China, including through a potential new mechanism that screens outbound investments that could have national security consequences. China, for its part, will assuage some U.S. concerns about transparency (such as over-auditing and who Chinese companies sell U.S. technology to). But this will only have a limited impact on the U.S. resolve in adding more restrictions. ☐

SERGEY BOBOK/AFP via Getty Images

Eurasia

A Cease-Fire in Ukraine Remains Elusive

Russia's invasion of Ukraine will continue but neither side will achieve territorial gains sufficient to significantly degrade the other's negotiating position, ensuring continued Western sanctions on Russia and upward pressure on commodity prices. Both sides will attempt new offensives amid concern that the frontline will become increasingly stagnate with time. Ukrainian forces, aided by steady military support from Western allies, will concentrate their offensive southward toward the Sea of Azov to isolate Russian forces in the land corridor to Crimea. But Ukrainian attacks are unlikely to dislodge Russian forces from the corridor. Ukraine will also step up strikes on targets inside Russia in hopes of further eroding the war's popularity in Russia. Russia, for its part, will continue its campaign to destroy Ukraine's critical infrastructure, focusing on the country's electricity, water and communication lifelines. The infrastructural damage will result in a fall in living standards in Ukraine and refugee flows to the European Union, but will not significantly undermine support for Ukrainian President Volodymyr Zelensky or disrupt the Ukrainian military. Meanwhile, Russia will continue small-scale attacks in Donbas while preparing for a larger offensive to secure more of the Donbas still under Ukrainian control. Russian forces will continue

Russia's War in Ukraine

Russia will seek incremental gains in the Donetsk region while preparing to defend its occupied territories in the Zaporizhzhia and Kherson regions.

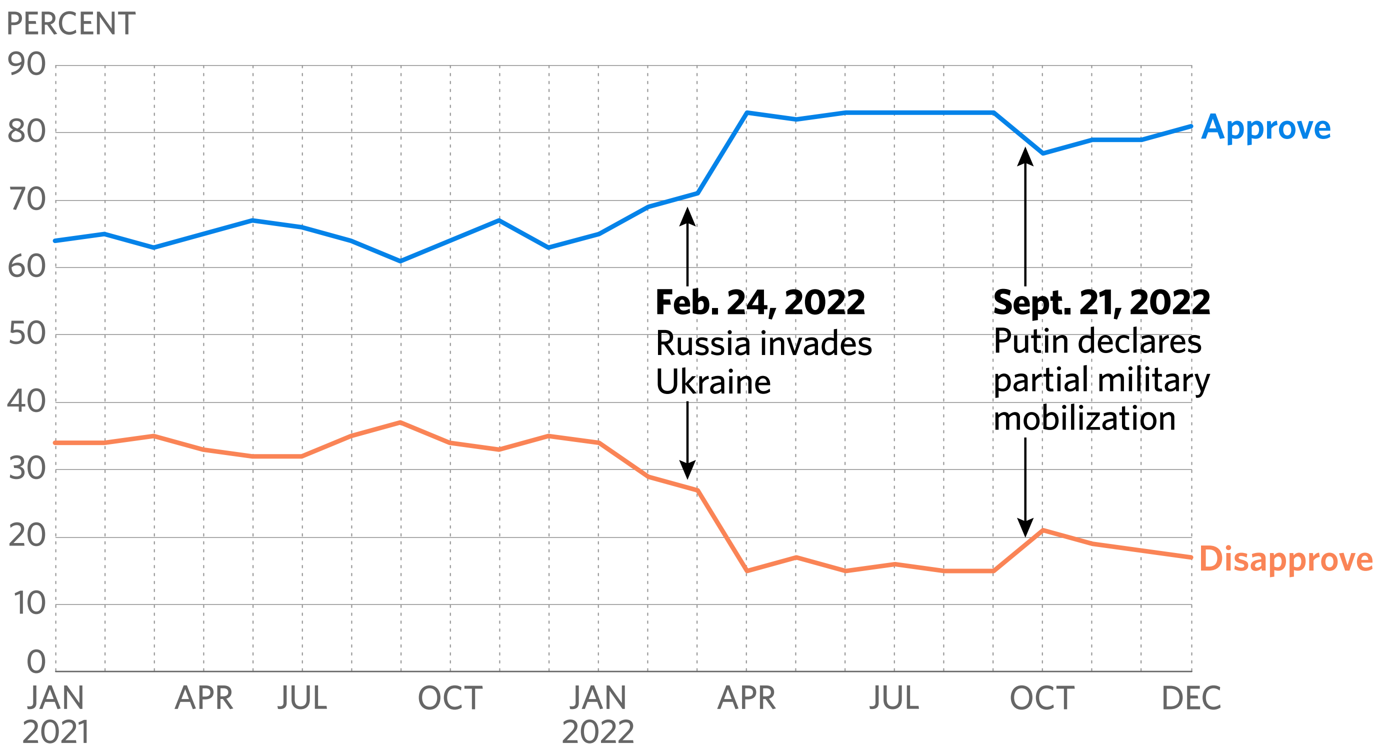
Data: Institute for the Study of War

to concentrate in Belarus and along Ukraine's northern and eastern borders, but Belarus will not join the war on Russia's side and Russia is unlikely to launch a new offensive from the country, as Moscow will instead focus on fortifying its foothold in southeastern Ukraine. The war's continuation means a cease-fire, let alone a peace deal, is unlikely in 2023. It also means Western sanctions on Russia will likely remain in full force and possibly be strengthened over the course of the next year.

Putin Holds on to Power Despite Political Disenchantment and Economic Turmoil

Domestic support for Russian President Vladimir Putin and the war in Ukraine will fall amid economic contraction and lack of major battlefield successes, but Moscow will not alter its pursuit of the war and will continue its re-

Putin's Approval Ratings Within Russia



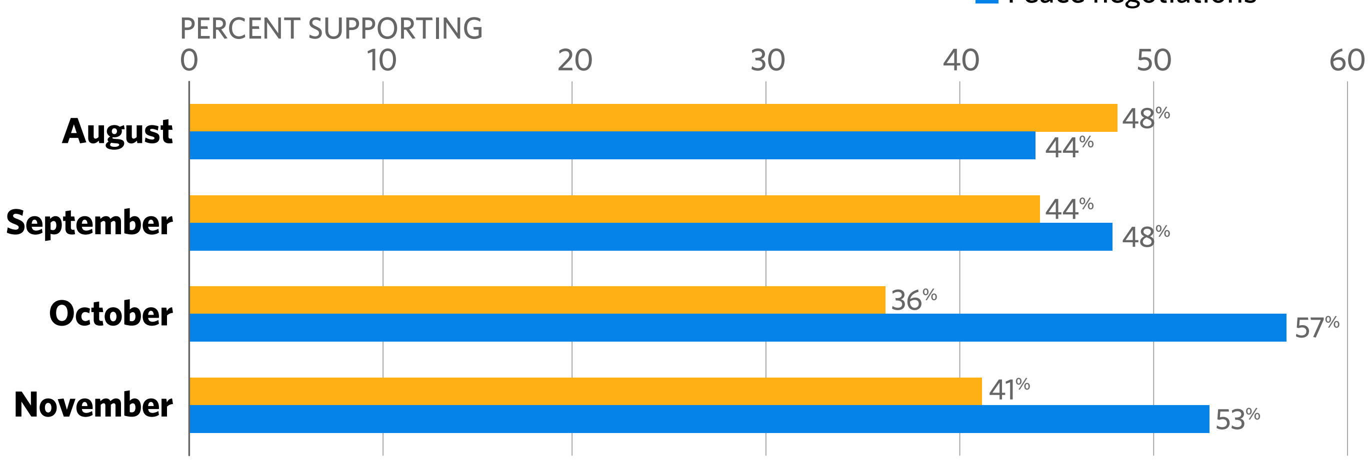
Source: Levada-Center

Support Within Russia for the War in the Ukraine

Support within Russia for continuing military actions in Ukraine or for peace negotiations

Support for

- Continuing military actions
- Peace negotiations



Source: Levada-Center polling

pression and mobilization, prompting further brain drain. Barring new major territorial losses in Ukraine (which are improbable), Putin will retain a firm hold on power and Russia will avoid significant political turmoil in 2023. Russia's continued occupation of a land corridor to Crimea will give the Kremlin sufficient grounds to justify the war's continuation. But elite and public disenchantment with the war will grow during the year as Russia fails to secure a clear victory, fueled by the continued contraction of Russia's economy, which will shrink again in 2023 under the weight of sanctions, falling oil production and workforce shortages. Depending on the course of crude oil prices and the global economy, these factors could make Russia's 2023 GDP contraction worse than that of 2022 (which was about 4%). Russia's deteriorating economy, combined with Moscow's diplomatic isolation, will complicate Russia's efforts to attract alternative investment from countries such as China and India and its efforts to create an alternative to the Western-led global order. These factors and others such as budget cuts to infrastructure, health care and education will fuel a decline in Putin's and the war's popularity during the year, prompting the Kremlin to continue relying on repression that will, in combination with fears of further mass mobilization measures, likely lead hundreds of thousands more Russians to flee the country.

Azerbaijan and Armenia Reach a Peace Deal Amid Persistent Tensions

Armenia and Azerbaijan will reach a deal demarcating their border and opening transit links in the region largely on Baku's terms, but continued disagreement over Nagorno-Karabakh means that the possibility of flare-ups in the region will remain. Disagreement over the disputed territory of Nagorno-Karabakh will remain the primary sticking point in negotiations, and the issue could be separated from overall peace treaty talks for further negotiation in a follow-up agreement. Yerevan will push for an agreement obliging Azerbaijan to provide some guarantees for the rights of Nagorno-Karabakh Armenians and allowing Armenia to conduct customs and security checks on traffic crossing Armenia to and from Azerbaijan and the latter's Naxcivan exclave via the Zangezur Corridor. Baku will push for minimal to no limitations on Zangezur traffic, using tit-for-tat shutdowns of the Lachin Corridor linking Nagorno-Karabakh to Armenia proper to pressure Yerevan. Any agreement will likely lead to protests in Yerevan and in Nagorno-Karabakh and to the radicalization of Armenians opposed to Prime Minister Nikol Pashinian. But this will not derail the agreement or cause Pashinian's ouster. The protest movement is not strong enough to remove Pashinian, while Yerevan's stalling in negotiations is unlikely to strengthen Armenia's negotiating position in the long run, and instead would likely prompt Azerbaijani forces to instigate violent flare-ups or non-lethal provocations along the Armenia-Azerbaijan border or in Nagorno-Karabakh. In any case, Russian peacekeepers will remain in Nagorno-Karabakh, but their low numbers and inability to use force means they may not deter offensive actions by the Azerbaijani military in the region. In a low probability but high risk scenario, disputes over transportation on the Zangezur and Lachin corridors and over Nagorno-Karabakh's status within Azerbaijan will prompt Baku increasingly to threaten not to recognize Armenia's territorial integrity and conduct a military operation to seize and occupy Nagorno-Karabakh or a land corridor to Naxcivan.

Kazakhstan and Central Asia Keep Their Distance From Moscow

Central Asian states will keep their distance from Russia to deepen their economic and

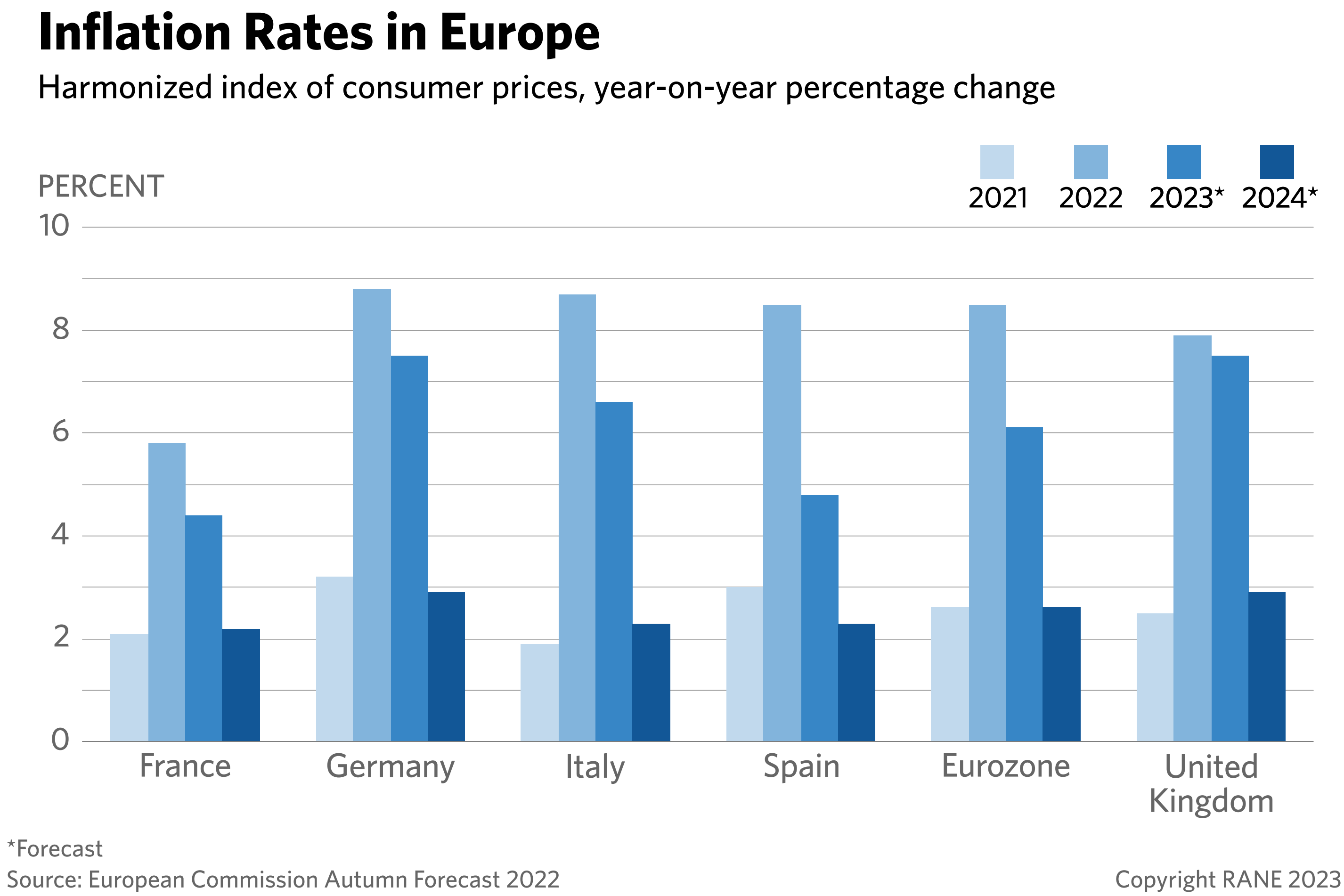
political ties with China, Turkey and the West, which will result in a relative decrease in Russian political and economic influence in the region. Kazakhstan and other Central Asian states such as Kyrgyzstan and Tajikistan will formally maintain co-operation with Russia and membership in Russian-led organizations such as the Collective Security Treaty Organization and Eurasian Economic Union, and will maintain robust trade ties with Russia to support domestic economic stability. But they will avoid new political integration projects with Moscow in favor of new investment from China, Turkey and the West. Kazakhstan in particular will simultaneously be the primary beneficiary of the continued rise of trade volumes on the Trans-Caspian Corridor bypassing Russia and from its role as a transit hub for increasing trade between Russia and China. Kazakh President Kassym-Jomart Tokayev will maintain the country's current foreign policy and cement his grip on power as the ruling Amanat party maintains majorities in parliamentary elections to the country's upper house in January and lower house in June. Tokayev's strategy of increasing his popularity by portraying himself as a modest reformer will allow the country to avoid mass unrest similar to the events of January 2022. ☐

LOIC VENANCE/AFP via Getty Images

Europe

Europe's Energy and Cost-of-Living Crises Continue

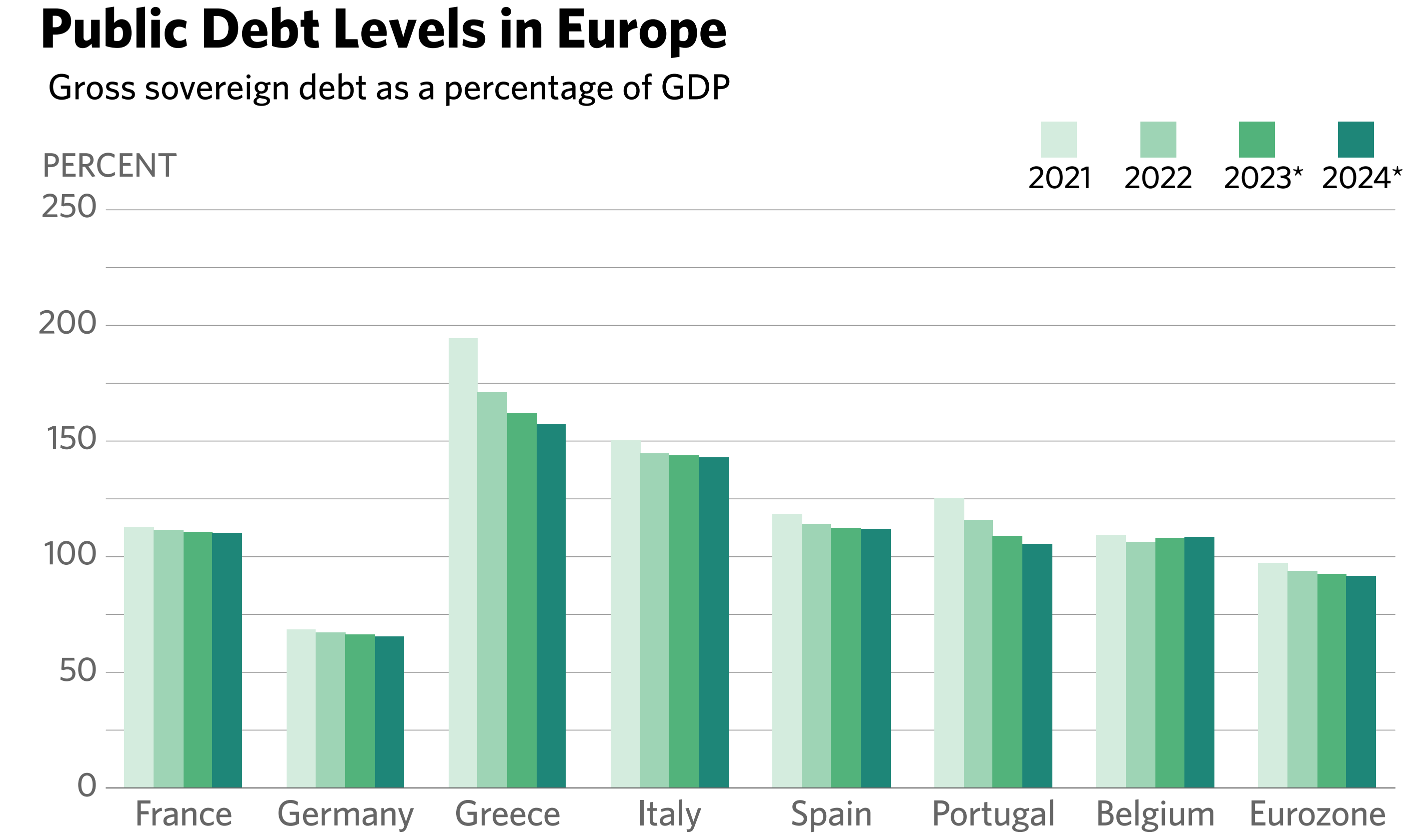
Europe's cost-of-living crisis will keep an elevated risk of social and political instability across the Continent and result in stronger pressure from European governments on Ukraine to reach a settlement with Russia. High inflation (driven primarily by high energy prices), geopolitical uncertainty and tight monetary policy will negatively impact economic activity in Europe throughout 2023, resulting in very low or negative growth. Energy supplies will remain tight and expensive, particularly impacting energy-intensive manufacturing sectors and leading to falling production. There will be a constant risk of social unrest and labor action as the cost-of-living crisis drives popular demands for government assistance and higher salaries. Opposition political parties (and in particular far-right and far-left political groups) will use demonstrations, votes of no confidence in parliament and other tactics to precipitate changes in government or early elections. Despite the complex socio-economic environment, the European Union and most of its member states will continue providing Ukraine with political, economic and military support and will keep sanctions pressure on Russia. They will also, however, increase pressure on Kyiv to reach a compromise with Moscow to end the hostilities and reduce the geopolitical drivers of high inflation and energy disruptions. This pressure will be mostly political, as Europe will not relent in its military and economic support for Ukraine, but will increase as the



Continent experiences another year of war-related economic problems.

The EU Seeks to Increase Its Strategic Autonomy

The European Commission will focus policy on shielding the bloc from the energy and cost of living crises, as well as increasing its autonomy in areas like technology and raw materials. Brussels will soften the rules on member states' sovereign debt and fiscal deficit to focus on long-term debt reduction goals, and allow governments to maintain high levels of spending in the short term to cope with the economic downturn. Northern European governments will push to link the new goals to stricter penalties for countries missing them, and Southern European governments will push to exclude multiple spending areas (on issues such as the energy transition and defense) from deficit calculations. A compromise is likely because poor economic conditions will incentivize EU governments to allow room for continued high levels of public spending. The European Union will also keep disbursing billions of euros in grants and loans from the NextGenerationEU fund (which will provide some fiscal relief to member states), and adopt a more flexible approach to national governments providing subsidies and support for struggling companies. Separately, Brussels will move to increase its autonomy on issues such as critical raw materials and technology. The European Union will promote investment, research and strategic alliances with third countries on sectors including batteries, microchips and hydrogen, and promote additional investment, storage capacity and diversification of supplies (through alliances with countries including Chile, Mexico and Australia) for products such as lithium and rare earth elements. Against this back-



*Forecast
Source: European Commission Autumn Forecast 2022

drop, the European Union and its largest member states will continue to restrict Chinese companies' access to the bloc's strategic economic sectors, including high-tech industries, and will also be willing to adopt protectionist measures to further shield critical areas of the EU economy.

A Turbulent Political Year in France, Italy and Poland

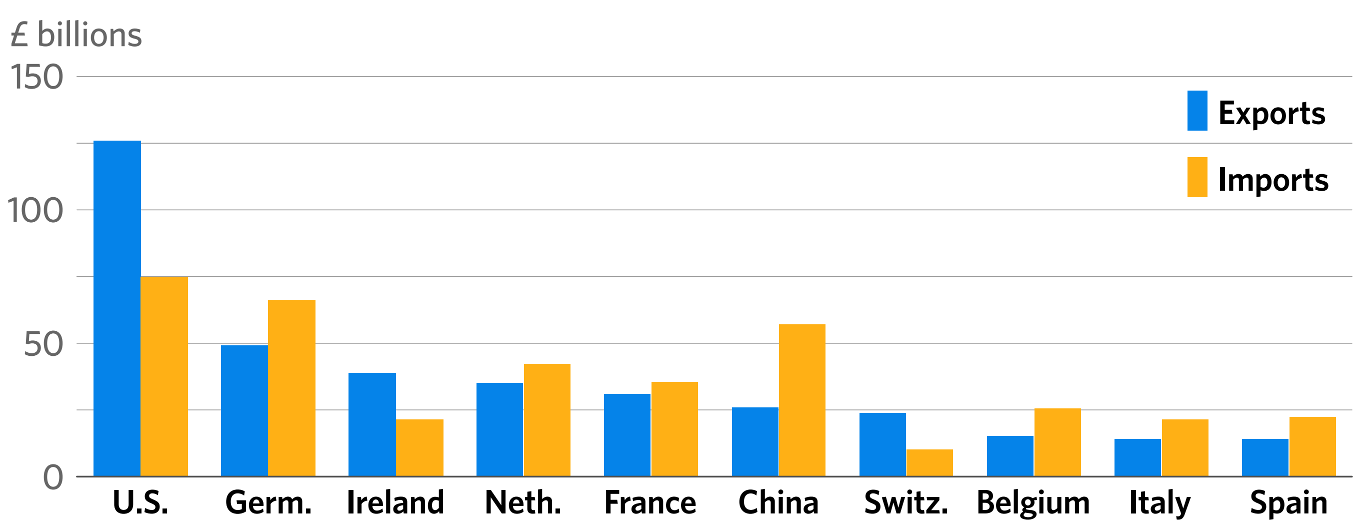
Political risk will be moderate in Italy and Poland and particularly high in France, where the government will be under the permanent risk of collapse and will be forced to make concessions on key economic reforms. In France, political pressure from opposition parties in the National Assembly will keep the government under the constant threat of collapse. A successful no-confidence motion against the prime minister is possible, and so is the dissolution of the National Assembly and early legislative elections. If this happens, it will probably produce another fragmented National Assembly that struggles to pass legislation. With or without a legislative election, President Emmanuel Macron will insist on pension reform to make the system more sustainable, but will be forced to make concessions to the opposition to pass it. Unions will protest the reform, leading to frequent disruptions in the movement of goods and people. In Italy, disputes within the governing coalition will likely result in an increasingly disjointed policymaking process that fails to implement significant reforms and, if left unchecked, could result in the collapse of the coalition. While political uncertainty could lead to turbulence in financial markets (which are worried about the sustainability of Italy's sovereign debt), a financial crisis is unlikely in 2023 because of financial assistance from the European Union and the European Central Bank's willingness to assist Rome if need be. In Poland, a general election (which must occur before the end of the year) will pit the nationalist government against the pro-EU opposition. The ruling party's probable victory would prolong tensions between Poland and the European Union and the possibility of Brussels suspending funding for Warsaw, but not to the point of risking Poland's membership in the bloc.

The U.K. Seeks a Rapprochement With the EU

Fiscal consolidation and a rapprochement with the European Union will help stabilize the British economy but also increase the risk of new political crises. Cost-of-living issues and probable recession in the United Kingdom will motivate the government to avoid a trade war with the European Union that would damage both economies. A compromise between London and Brussels on customs controls at the Irish Sea is likely, which will preserve their free trade agreement. London will also seek greater cooperation with Brussels on issues such as energy, research, migration and financial services regulation, although alignment beyond this remains unlikely under a Conservative government. The United Kingdom will also push to conclude new free trade agreements, even at the cost of signing suboptimal deals. Progress is likely in negotiations with countries including Canada, Mexico and Israel, and negotiations with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership will continue as a part of London's strategy to increase trade and investment in the Asia-Pacific region, even if a deal may not materialize in 2023. Domestically, the government will implement tax hikes and spending cuts that will reassure financial markets, lower government borrowing and reduce pressure on the Bank of England to increase interest rates. But this fiscal tightening will also likely lead to a recession and limit the scope for reform and investment to revamp the British economy. This economic environment is likely to result in continued industrial action and demonstrations. The mix of tax hikes and improving relations with the European Union will open the door to new rebellions within the Conservative Party and government crises, but are unlikely to result in an early general election because the Tories will not want to risk a defeat. ☐

The United Kingdom's Top Trading Partners, 2020

Top 10 export/import markets for goods and services



Source: UK Office for National Statistics

NOEL CELIS/AFP via Getty Images

Asia-Pacific

China's Economic Recovery Resumes, but Remains Fragile

China's economic growth will slowly recover as Beijing eases COVID-19 restrictions and offers modest economic support, but this growth will be constrained by ongoing regulatory scrutiny on the tech sector and efforts to deleverage the country's ailing real estate sector. Beijing will continue to ease its strict COVID-19 restrictions over the next year, allowing for a moderate recovery of domestic consumption. But an expected surge in new infections may temporarily depress growth and prompt authorities to revive some restrictions if death rates skyrocket. Such a return to strict lockdowns could reinvigorate nationwide protests, as could other economic triggers like mass layoffs in the tech sector or a string of bankruptcies in the real estate sector. But isolated local protests, which would minimally influence national COVID-19 policy, are more likely. The government will use supportive monetary policy in an attempt to revive consumption, but the impact may be limited as the real estate sector (which stores most Chinese household wealth) will likely remain deflated amid Beijing's deleveraging efforts, weighing on consumer confidence. Regulators will also expand oversight of data-heavy tech industries to bolster China's information sovereignty, guide capital into state innovation priorities and encourage corporate compliance with state initiatives (like Beijing's wealth gap remediation efforts). Though China's tech sector may recover some from its 2022 doldrums, its recovery will be limited as gig economy layoffs persist and regulation looms large.

China Expands Its Hong Kong Crackdown, While Avoiding a Taiwan Invasion

China will wield military coercion along its periphery, but the risk of an invasion of Taiwan will remain low. In the meantime, Hong Kong's business environment will continue deteriorating as the National Security Law expands. The West will continue deepening diplomatic and defense ties with Taiwan, which will prompt Beijing to retaliate with military coercion, including increased overflights of Taiwan and (in a less likely case) more military drills around the island. But China's frail economy and unfinished military modernization will deter Beijing from pursuing a Taiwan invasion. Hong Kong will likely expand the Beijing-backed National Security Law (NSL) — a legislative priority that got delayed in 2022 due to COVID-19 — to include bans on activities such as sedition, treason, crowdfunding, and collusion with foreign forces and political groups, as well as cybersecurity or fake news violations. These additions could result in new scrutiny on foreign business relations and information flows, accelerating the diversification of business operations out of Hong Kong and into other Asian hubs (particularly Singapore), even as Hong Kong remains a regional financial hub. In a low-probability, high-risk scenario, moderate protests could arise in Hong Kong, especially if large-scale protests return to mainland China alongside an expansion of Hong Kong's NSL, which could trigger a security crackdown and new Western sanctions against Hong Kong authorities.

Economic Needs Will Drive Japan to Mend Fences With South Korea

Japan will seek to normalize relations with South Korea in hopes resulting economic gains will bolster Tokyo's ability to achieve its controversial defense policy objectives. The Japanese government's long-term goal is to enshrine recognition of the Japan Self-Defense Forces in the constitution and remove Article 9, which forbids Japan from waging war. With this in mind, Prime Minister Fumio Kishida will seek to improve popular support for his government before a required public referendum on the topic. As a part of this strategy, he will look to end Japan's trade war with South Korea (which started in 2019 after Japan removed South Korea from a whitelist of trading partners due to concerns that some Japanese chemical exports were being smuggled into North Korea) to reinvigorate the Japanese economy through increased bilateral trade and tourism. If the economy recovers and consumer prices ease, Kishida will feel emboldened to push for more controversial policies such as recognizing the Self-Defense Forces. Improved Japan-South Korea ties will open the door to deeper cooperation on regional security issues like North Korea's ballistic missile and nuclear threat.

Elevated Security Tensions on the Korean Peninsula

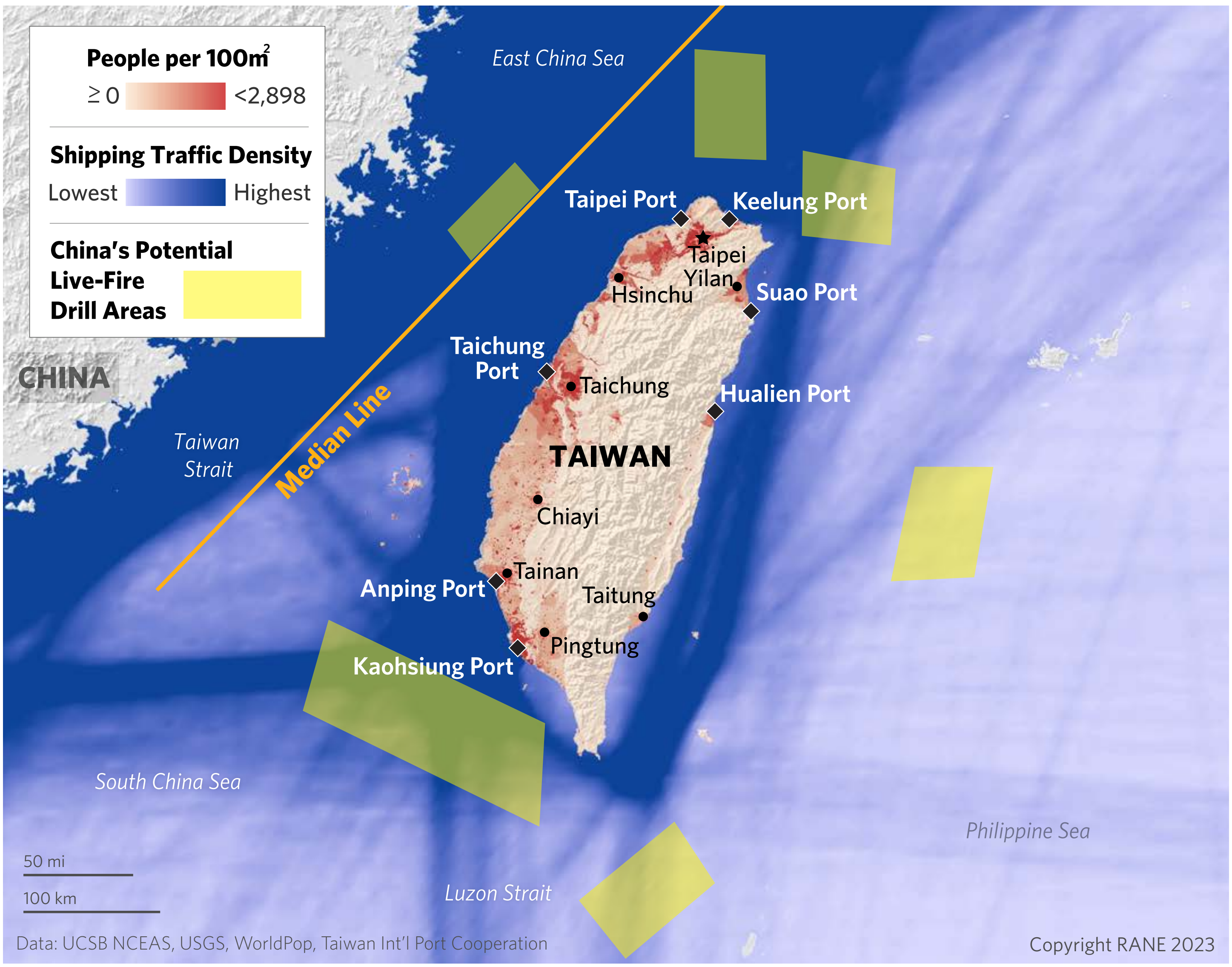
North and South Korea will escalate their tit-for-tat military brinkmanship, prompting South Korea and Japan to bolster their defenses and risking low-level incidents and potentially changing South Korea's defense policy. North Korea will violate the Northern Limit Line, the maritime border with South Korea, with missile tests and engage in high-profile ballistic missile demonstrations and nuclear tests to demonstrate its willingness to defend itself. This will increase the likelihood of low-level military incidents on the peninsula, while South Korea meanwhile examines military options outside of its current "decapitation" strategy (which involves the use preemptive strikes to neutralize North Korean leadership and key military installations before a North Korean offensive strike can be carried out). South Korea's

National Assembly will debate removing limitations on the country's ballistic missile program and on rehosting U.S. nuclear weapons, but change in any of these policies is unlikely. In the unlikely event that Seoul rehosts U.S. nuclear weapons, China will retaliate through measures such as limiting the number of Chinese tourists it allows to visit South Korea or imposing new boycotts on key Korean goods or companies in the Chinese market, which would significantly harm the South Korean economy. Increased South Korean consumption of its own arms production may limit its ability to export arms overseas to countries looking to restore depleted stocks.

Southeast Asia Will Turn Inward Amid Political Instability

Political instability across Southeast Asia will constrain economic reform and reduce room for multilateral cooperation, leading to disjointed security policies. In Thailand, a general election in or before May could mark the end of Palang Pracharat Party rule, which in turn could lead to

China's Likely Areas for Military Coercion Efforts



military intervention in politics (either through manipulation of the vote or a coup), reigniting social unrest. Alternatively, an opposition win could lead to political deadlock between the government and the military-appointed Senate. In Malaysia, the ideologically heterogeneous government will struggle to implement reforms to strengthen the currency and reduce inflation, increasing the risk of additional political crises. In Cambodia, Prime Minister Hun Sen's exit may prompt a power struggle following the country's July election. And in Singapore, Prime Minister Lee Hsien Loong could resign in favor of his designated successor while the ruling party may seek a fresh mandate in early elections, either of which could lead to policy gridlock. These events will constrain domestic consumption and investor confidence as businesses look for options to move operations away from China, which will benefit more politically stable countries like Vietnam. Domestic instability will further degrade the Association of Southeast Asian Nations' multilateral mechanisms. As ASEAN unity and institutional initiatives fail and its members push competing agendas, small groups of countries

Southeast Asia Will Turn Inward Amid Political Instability

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will tighten military cooperation and boost defense spending in response to Chinese maritime threats. Countries with claims in or near the South China Sea will become more assertive via unilateral, bilateral and minilateral security initiatives. Indonesia, Malaysia and Brunei will enhance cooperation to defend each country's respective maritime claims, while the Philippines will deepen its defense alliance with the United States, even hosting de facto permanent U.S. bases. ☐

BURAK KARA/Getty Images

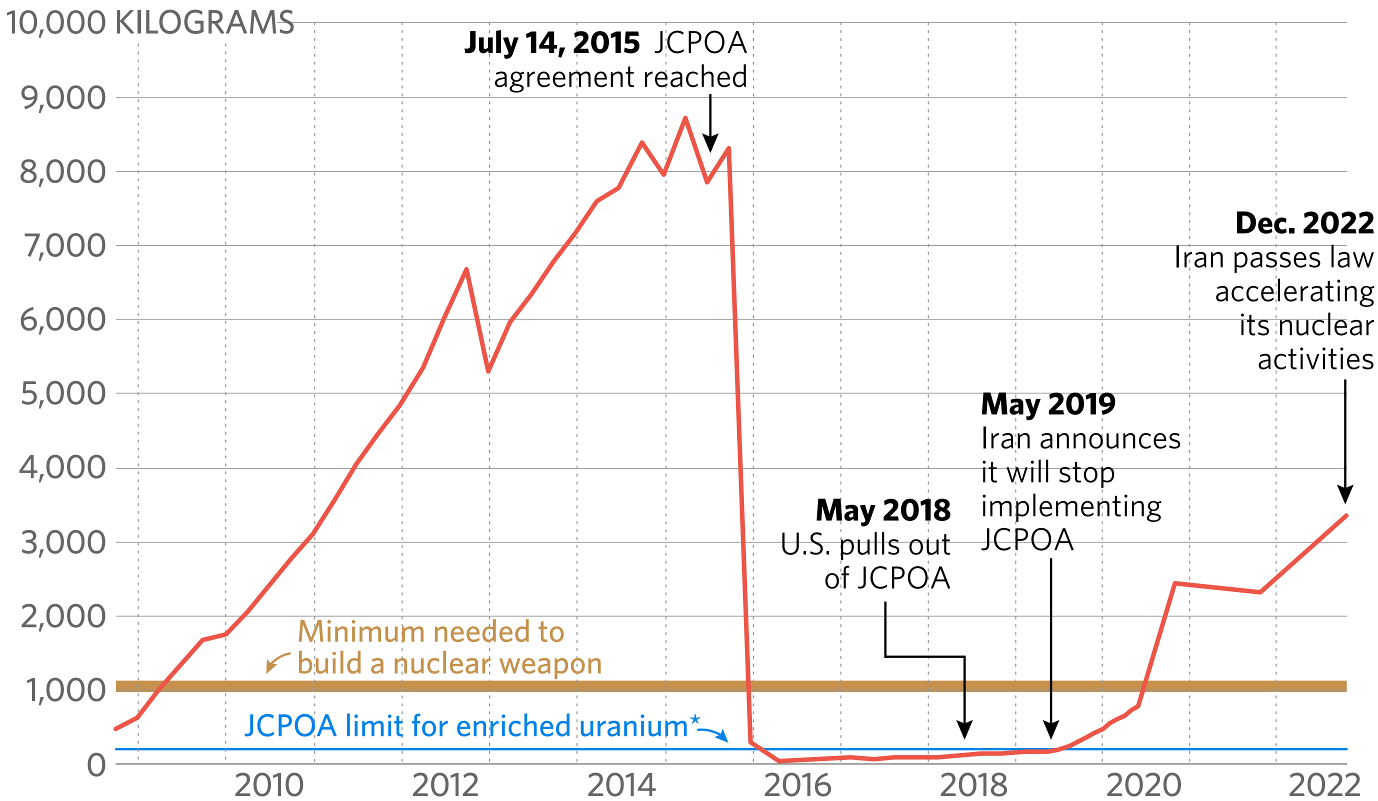
Middle East and North Africa

A New Crisis Over Iran's Nuclear Program

U.S.-Iran nuclear talks will likely collapse amid Iran's accelerating nuclear advancement and weapon transfers to Russia — triggering a new crisis that pushes the United States to expand its presence in the Middle East, while pushing Israel to escalate its covert war against Iran. The anti-government protests in Iran over the death of a young woman in police custody will persist intermittently. But the demonstrations are unlikely to see Iran's conservative government enact any significant social reforms, which would risk communicating a willingness to concede on protesters' other demands for more radical political reforms. Instead, Tehran will probably maintain its heavy-handed crackdown on the protests — stoking domestic instability, empowering hard-line policies and deepening distrust between Iran and Western countries that makes resolving the nuclear crisis more difficult. The October 2023 expiration of the U.N. arms embargo on ballistic missile technology against Iran could see Iran transfer more missiles to Russia over the next year, on top of those Tehran has already provided to Russian troops fighting in Ukraine. This, coupled with Tehran's continued nuclear advancements, will stoke Western concerns about weapons proliferation and lead to more U.S. and EU sanctions targeting the country's nuclear and defense sector. The growing chasm between the West and Iran will also paralyze U.S. efforts to draw down military presence in the Middle East, and lead to increased Iranian military provocations

Iran's Stockpiles of Enriched Uranium

Iran's stockpile of enriched uranium exceeds the 300 kg limit agreed to in the 2015 JCPOA, and has steadily climbed since 2019, particularly at higher enrichment levels.



*The JCPOA capped Iran's uranium stockpiles at 300 kg of uranium hexafluoride, which is equivalent to 202.8 kg of uranium enriched up to 3.67 percent.

Source: International Atomic Energy Agency

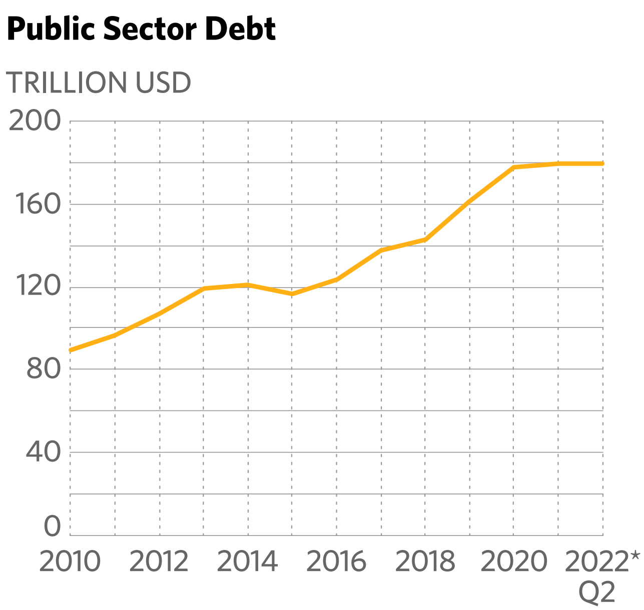
against the U.S. military and regional economic interests. In addition, Iran's advancing nuclear program will intensify calls by hard-liners in Israel and the United States to launch a military strike to set back Iran's nuclear progress. Israel, however, is unlikely to conduct such a direct attack on Iran without U.S. support, which Washington will be wary of granting due to the risk of spurring another military conflict in the Middle East. Israel will thus likely focus on pursuing less aggressive means of weakening Iran's nuclear program, such as through covert action and cyber attacks.

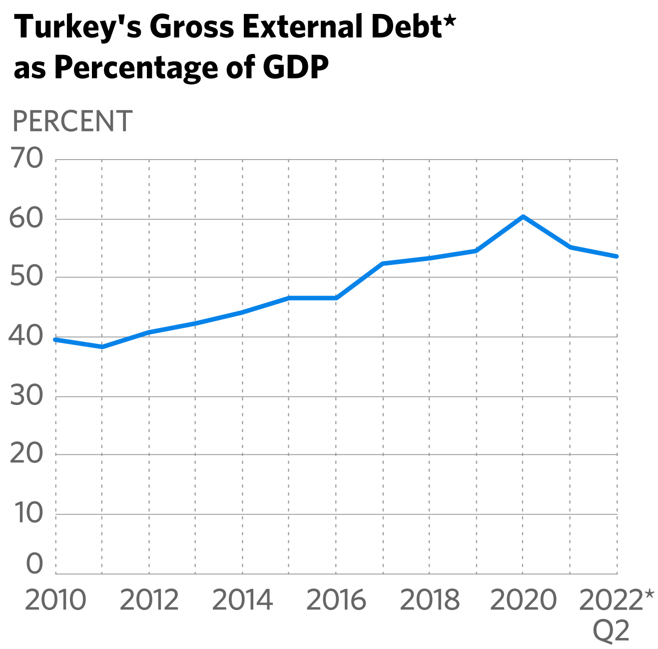
Turkey's Economic Gamble Keeps the Risk of a Crisis High

Turkey's government will risk an economic crisis as it pursues an expansionary economic strategy, while the country's national elections could trigger unrest and political uncertainty. Despite high inflation, Turkey is likely to keep Central Bank interest rates lower than orthodox economics would suggest and possibly worsen inflation by increasing wages and subsidies. In doing so, Ankara will risk a balance-of-payments crisis and recession

Turkey's Debt Load

Most of Turkey's external debt is denominated in foreign currency, creating a liability for Turkey that it must pay back in foreign currency regardless of the volatility of the Turkish lira.





*Gross external debt includes external debt of the public sector, the private sector, and the Central Bank of Turkey.

Source: Ministry of Treasury and Finance of Turkey

if inflationary pressures overwhelm the country's ability to pay off existing private and corporate debts, defend its currency, and pay for essential imports. Turkey's economy may also enter recession because of other external economic shocks such as a worse-than-expected recession in its primary export partner, the European Union, that leads to a reduction in demand for Turkish exports; another spike in energy or food prices; or a reduction in external investment into Turkey sparked by concern about its economic future, global macroeconomic conditions or both. Meanwhile, in the lead-up to the June 2023 presidential and legislative elections, the governing Justice and Development Party will attempt to divide and suppress the opposition, manipulate foreign policy for political gain and prepare to contest potentially unfavorable election results. Regardless of who wins the elections, the vote could trigger widespread accusations of fraud and provoke unrest as the losers attempt to undermine their opponent's victory.

The GCC Courts Climate Investment

The United Arab Emirates and its Gulf Cooperation Council neighbors will use the COP 28 climate conference to be held in Dubai to successfully court investment into their growing economies, but the flurry of commercial activity will not offset diplomatic tensions with the West. The United Arab Emirates will draw global media attention to the country's nascent green initiatives, showcasing growing opportunities for green investment across the GCC. Still, hydrocarbon sector investments will still comprise the vast majority of economic activity and will help make the GCC an appealing investment destination in 2023 compared to destinations experiencing economic sluggishness. Fraying diplomatic and security ties between the GCC states and their Western security patrons — related to divergent priorities over the Ukraine war, Russia ties, China ties and, most of all, energy production — will not ease in 2023, but close commercial ties and new investment opportunities between Western and Gulf companies will maintain bilateral relationships.

Tunisia Continues to Pursue Centralization

Tunisia's president will consolidate power, which will increase the likelihood of an IMF agreement but also the probability of protests amid opposition and union pushback — all against the backdrop of Algeria-Morocco tensions. Greater executive control at the expense of the Tunisian parliament means that talks with the IMF over a much-needed loan agreement are likely to progress, despite the UGTT labor union and other civil society organizations' likely disruptive protests aimed at preventing the Tunisian government from committing to the reforms the IMF will demand as a condition of any loan. These organizations are unlikely to stop the government from implementing reforms and austerity measures like tax hikes and subsidy cuts, which are likely in the coming year. The president's strong hold on the country's security forces means he can likely stare down protesters. Meanwhile, the severity of Tunisia's economic crisis will drive the president to finalize an agreement with the IMF to forestall economic collapse. Meanwhile, President Kais Saied's new closeness with Algeria driven by financial problems and a desire for more gas from Algiers will worsen Tunisian ties with Morocco, preventing regional reconciliation and cooperation on counterterrorism and border control measures. The ongoing North African divide will prolong instability in Western Sahara and hamper regional economic and investment opportunities.

Israel's New Right-wing Government Alienates Foreign Allies

The new Netanyahu government's far-right policies will strain Israeli's foreign relations, stoke unrest in the Palestinian territories and reshape the country's internal balance of power, possibly making Israeli politics even more unstable. Israel's far-right will use its increased political leverage to push controversial policies, like undermining the country's Supreme Court, passing pro-religious policies, and weakening protections for LGBT individuals. While these moves will elicit alarm from abroad, few countries will downgrade relations with Israel given that deeper strategic drivers — including everything from shared antipathy to Iran to economic and technological connections — will outweigh their concerns. But if Israel tilts too far right regarding the expansion of Israeli control over the West Bank, it could cause violence in the Palestinian territories, something that would spark significant international criticism and destabilize the Israeli government. This criticism will complicate political support for Israel, strengthening international movements that seek to isolate Israel to force the country to make political concessions to the Palestinians. □

JIBON AHMED/AFP via Getty Images

South Asia

Afghanistan's Dire Conditions and Security Challenges Worsen

Continued hard-line governance and persistent security challenges will worsen divides within the Taliban and hamper efforts to counter dire economic and humanitarian conditions in Afghanistan. The Taliban's continued prioritization of hard-line governance means poor economic and humanitarian conditions risk worsening amid constraints on international aid and foreign investment. This will likely increase risks of social unrest and armed resistance, potentially even from more pragmatic members of the Taliban, which could lead to some compromise by hard-liners. Policies most likely to trigger such challenges include strict and effective enforcement of the Taliban's ban on opium poppy cultivation and narcotics — particularly in the absence of profitable alternative crops — as well as further alienation of ethnic and religious minorities, who Taliban leaders largely distrust. Regional countries will continue to pursue a pragmatic relationship with the Taliban, potentially via investment. The extent to which the Taliban demonstrates a willingness and capability to limit extremist threats in the country, however, will be key in determining its relationship with foreign states. Violence, primarily by the Islamic State Khorasan Province and anti-Taliban resistance forces, will continue, likely decreasing during early 2023 and resurging in spring. The Islamic State Khorasan Province will continue to challenge the Taliban via attacks against the government and ethnic/religious minorities. It will, however, also challenge Taliban relations with foreign governments, with cross-border attacks likely along with attacks against foreign nationals and diplomats in Afghanistan. Meanwhile, anti-Taliban resistance forces will present localized challenges to Taliban territorial control — particularly in the northeast — but they are unlikely to present a more meaningful threat unless they garner greater foreign support or better coordinate their resistance activities.

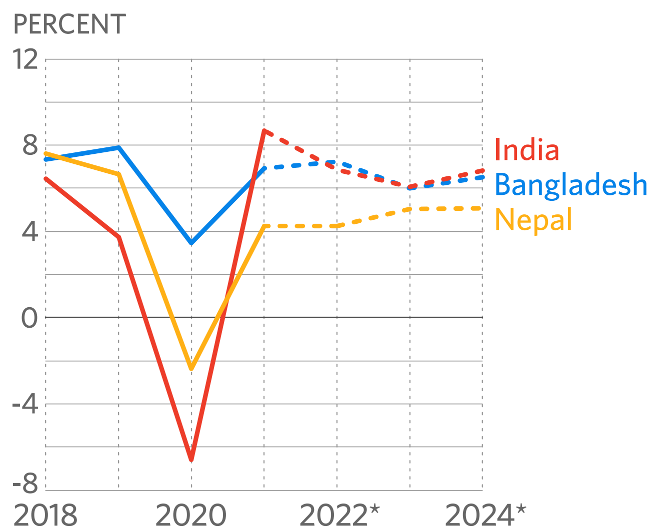
India's Economy Will Remain Strong Despite Global Headwinds

Strong domestic consumption and government-promoted investment in manufacturing will result in robust economic growth in India despite significant global headwinds. The Indian economy, which is largely dependent on domestic demand, will slow in 2023 as the high consumption patterns that followed the lifting of COVID-related restrictions in 2022 decrease and external factors — like volatile oil prices, supply chain disruptions and high interest rates that deter foreign direct investment — could limit local economic activity. But India will still experience another year of robust growth. India's high foreign exchange reserves and factors including high credit demand will also support growth. The Indian government will continue to promote investment in domestic manufacturing by expanding its incentive scheme, the Production Linked Incentive, to additional sectors of the economy and by working to simplify the tax and labor systems. While the actual implementation of Production Linked Incentive projects in areas like the semiconductor sector are unlikely to start before 2024, some sectors like pharmaceuticals and electronics might register high export growth as a result of their inclusion in the Production Linked Incentive in 2021. The government will also likely increase spending on rural areas (particularly on social programs that generate employment) to remain popular as the 2024 general elections approach. The risk of social unrest will increase by the end of 2023 due to intercommunal tensions between majority Hindus and minority religious communities as preelection campaigning — which in many cases will include anti-minority rhetoric — dominates the political discourse.

India's Economic Rebound

After facing a significant contraction in 2020 because of the COVID-19 pandemic, India experienced significant growth in 2021 and 2022. According to IMF projections, the Indian economy will continue to experience robust growth in 2023 and 2024 despite global headwinds because of a strong domestic market.

Gross domestic product, percent change from previous year

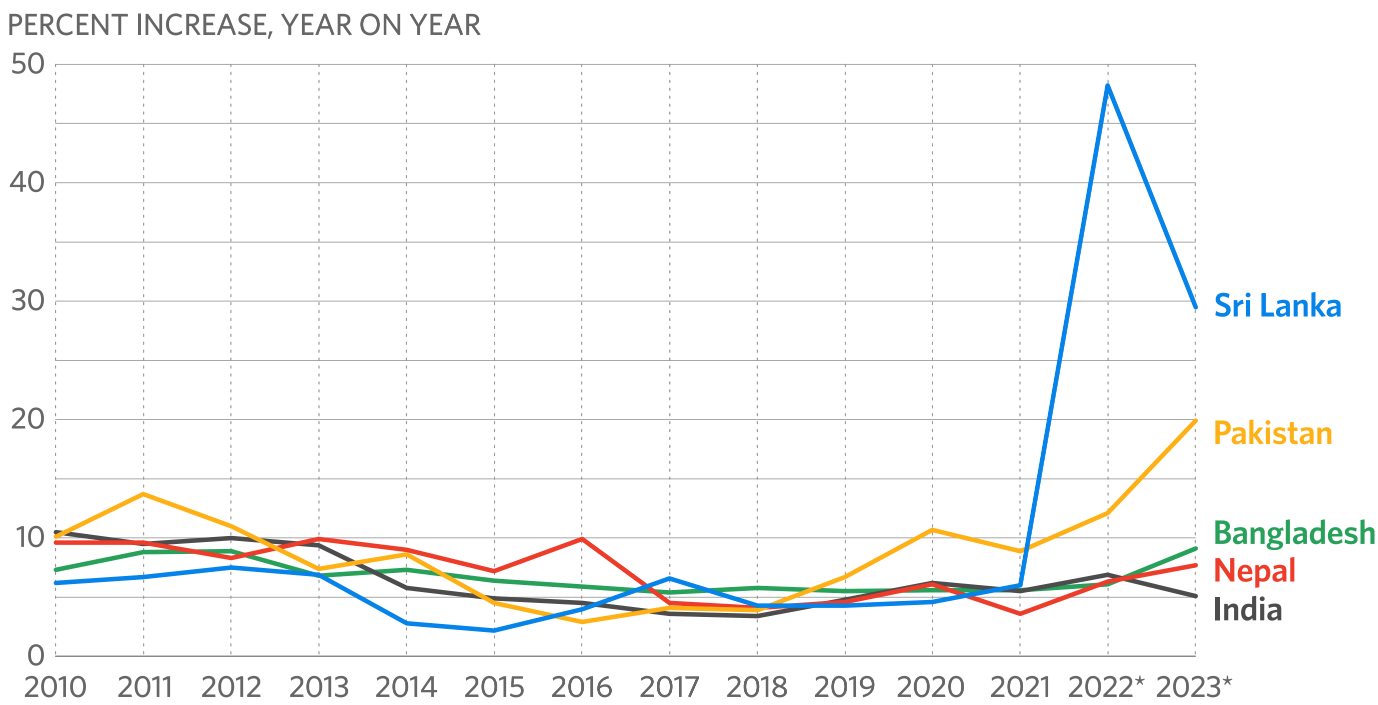


*Forecast
Source: IMF

Pakistan's Political and Economic Crisis Deepens

Pakistan's economic crisis will undermine political stability as Islamabad looks for financial support from bilateral and multilateral partners. Pakistan's economic crisis — a result of low foreign exchange reserves, a high debt burden, high inflation and the global economic impacts of the Russia-Ukraine war — will continue, and Islamabad will struggle to secure essential imports like natural gas (which represents a large part of the country's electricity generation) as well as oil and coal due to very high prices in international markets. As a result, power cuts are probable during the winter, and might extend to the summer if Pakistan experiences another year of extreme heat. The government will be under constant threat from a combination of the economic crisis and the likely social backlash against austerity measures imposed as a part of Islamabad's deal with the International Monetary Fund. In addition to its IMF program, Pakistan will likely resort to debt structuring and assistance from bilateral creditors like Saudi Arabia, other Middle Eastern partners and China to manage its financial crisis. Amid a fragile social, political and economic climate, early elections are possible, which would involve a high risk of protests and violence. The Pakistani military (which wields immense political and economic power) will likely refrain from direct intervention in political events to preserve its legitimacy, but could decide to intervene in the case of extreme political violence.

Inflation Rate, Average Consumer Prices



*Forecast
Source: IMF

Smaller Import-Dependent South Asian Economies Struggle

Financial stress in small South Asian economies will lead to economic slowdown and increased risks of political instability and social unrest. As their foreign exchange reserves dwindle, Bangladesh, Nepal and Sri Lanka will struggle to import critical products like fertilizers, oil and natural gas, which will negatively impact their food and energy security. As a part of its deal with the IMF, Sri Lanka will negotiate financial assistance from multilateral organizations and debt restructuring from its major creditors (which include China, India and Japan) before it receives funds from the IMF. The IMF deal will also force the Sri Lankan government to implement unpopular austerity measures including the privatization of state-owned companies and higher taxes that will increase the risk of widespread social unrest and a new political crisis. In Bangladesh, the global economic slowdown will negatively impact economic activity due to reduced demands for its garment exports, a central part of the Bangladeshi economy. The likely disruption in energy supplies due to difficulties in sourcing natural gas, which fuels more than 50% of electricity generation, will risk large-scale public protests that could turn violent in Bangladesh, which holds general elections in December. Similarly, in Nepal, economic slowdown coupled with limited government financial resources will threaten the continuity of the newly formed coalition government, which is ideologically diverse. ☐

CARL DE SOUZA/AFP via Getty Images

Americas

A Divided Government in Washington Portends Legislative Gridlock

A divided government in the United States will prevent the Biden administration from passing significant legislation in 2023, while Republicans will increase scrutiny on the White House's climate and immigration policies. Only the limited number of issues that enjoy bipartisan support will yield significant legislation in 2023, such as further restrictions on China's tech sector. Through subpoena and investigative powers, the Republican-led House will launch a number of investigations into immigration and climate issues. While many will have little practical impact on federal U.S. regulation in 2023, they will increase pressure on businesses and financial institutions incorporating environmental, social and governance-strategies — particularly around emissions-reduction commitments — in a bid to get them to modify their policies and de-emphasize ESG-concerns. The United States will likely see record levels of immigration from Latin America because of the sustained cost-of-living and economic crisis in many Latin American countries, raising the risk of Republicans demanding funding for the border wall and increased patrols and threatening to torpedo budget legislation funding the government. In the meantime, the Mexican government will maintain its nationalist economic policies, creating tensions with the United States a over issues such as Mexico's energy policy impacting U.S. firms. Constitutional hurdles and the opposition, however, will limit the implementation of Mexican President Andres Manuel Lopez Obrador's policies such as constitutional reforms related to the energy sector and Mexico's election process.

The New Brazilian President's Policies Will Attract Investment

The new Brazilian government's commitment to climate policies and post-election calm will likely drive increased investment in Brazil. New President Luiz Inacio Lula da Silva's administration will enact stricter climate policies (including enforcing fines and increased audits), improving Brazil's image among global investors. As investors continue to factor ESG goals into business performance, and as the political environment calms down after a turbulent 2022 marked by the presidential election, Brazil's improved reputation and political stabilization will spark renewed investment from U.S.- and EU-based companies in sectors such as banking, mining and chemical products, creating jobs and helping with a high unemployment rate. Similarly, Brazil could see increased Chinese investment, as da Silva is likely to be uncritical of China's role in the country, leading to financing for existing operations in the energy, mining and telecommunications sectors. Though da Silva will push for higher social spending, his efforts will be curbed by opposition parties' control of Congress, which will further alleviate investor concerns about Brazil's fiscal deficit. More broadly, da Silva will struggle to pass legislation due to conservatives' control of congress, leading him to rely on executive action and the regulatory sphere to implement policy.

Lack of Congressional Support Limits da Silva's Powers

The incoming da Silva administration does not have enough congressional support to pass legislation, meaning he will rely on the regulatory environment and presidential powers to do so.

ISSUE	No Congressional Approval Needed	Congressional Approval Needed
Energy	Halting Petrobras' refinery divestment programme and/or changing Petrobras' pricing structure.	Raising or lowering taxes on fuels such as diesel and gas.
Environment	Increasing oversight and enforcement of existing anti-deforestation legislation.	Passing new and likely harsher anti-deforestation legislation.
Economy	Using the Brazilian Development Bank to lend heavily and boost economic growth.	Eliminating or changing the mechanism of the constitutionally-mandated spending cap.

Elections in Argentina Will Incentivize Increased Public Spending

Argentina's government will increase social spending ahead of the general election, jeopardizing the country's fiscal consolidation program with the International Monetary Fund. Argentina's populist government will increase social spending in an effort to improve its odds for October presidential, legislative and gubernatorial races. President Alberto Fernandez will roll back previously scheduled utility subsidy cuts to avoid widespread civil unrest during an election year, even though the measure is part of the country's $44 billion International Monetary Fund fiscal consolidation program. The IMF will take issue with the pause in subsidy cuts, leading to a dispute during quarterly reviews and potentially pushing the IMF to suspend its periodic disbursements. Argentina will struggle to maintain foreign currency reserves, and if the government loses access to IMF disbursements or grain exports decrease, the country would be at risk of a large one-time devaluation in the peso, moving the official rate toward the unofficial rate, over the course of the year. As such, Argentina will continue to have a negative business climate, with high levels of inflation, tight capital controls and price caps on basic products. A new Argentine government will take office in December; a victory by the conservative opposition would result in more business-friendly policies, a stronger approach to fiscal responsibility and timid attempts at deregulation.

South American Governments Will Collaborate on Climate Action

A shared left-wing ideology and growing pressures from Indigenous communities will lead left-wing governments in South America to collaborate on climate policy, increasing the regulatory burden and decreasing reputational risks for companies. Latin American countries are likely to engage in summits due to shared left-wing ideological leanings, but domestic constraints will limit coordination on trade and policy coordination. Spearheaded by Brazil, however, South America will likely see increased coordination on climate initiatives, specifically policing border areas in the Amazon rainforest, interrupting supply chains dependent on illegal activities such as illicit logging and mining. Additionally, a coalition of more environmentally conscious governments will demand funding from the United States and European Union to finance counter-deforestation initiatives for the Amazon — leading to the creation of an Amazon rainforest climate fund. Similarly, some left-wing leaders will seek to implement local community consultations for companies operating on Indigenous ancestral lands, potentially as part of a constitutional rewrite process in Chile or negotiations between armed groups and the Colombian government, both of which will take place over the year. If such consultations grant local communities veto power over new projects, it would be highly disruptive to new and existing projects in the mining, oil and gas industries in Andean countries.

Further Cracks Emerge in South America's Trade Bloc

Uruguay will continue to negotiate a free trade deal with China, as well as its entrance into the Trans-Pacific Partnership — increasing friction with Mercosur partners Argentina, Brazil and Paraguay. Uruguay's push to unilaterally negotiate free trade agreements outside of Mercosur (which violates the South American trade bloc's rules) will result in continued diplomatic tensions with Argentina, Brazil and Paraguay. However, Brasilia, Buenos Aires and Asuncion are unlikely to suspend Montevideo from Mercosur for fear of collapsing the bloc and disrupting their tight trade ties. Moreover, Uruguay is unlikely to reach the final stages of its trade negotiations in 2023, as the government will strategically wait till after elections in Argentina in late 2023 (when a more pro-economic opening government is likely to come into power) to strengthen its negotiation position. Though Mercosur will not collapse this year, these increased tensions, combined with Uruguay's push to break free from the bloc's high common external tariff and customs union, could accelerate the bloc's demise later in the decade. ☐

Mercosur Economic Snapshot

Membership

Full: Argentina, Brazil, Paraguay and Uruguay

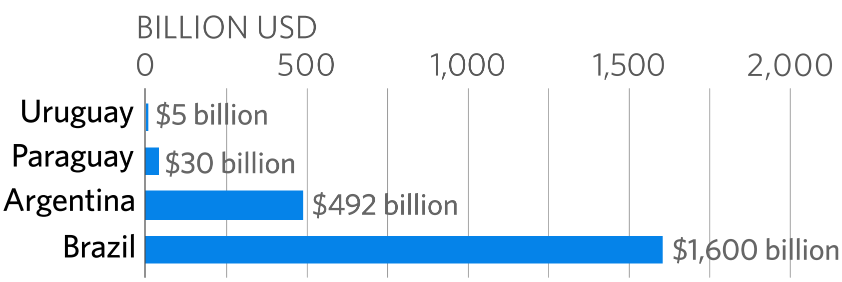
Suspended: Venezuela

Associate: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname

Gross Domestic Product, 2021

Mercosur (full members)	United States	European Union
$2.2 trillion	**$23 trillion**	**$18 trillion**

Mercosur full members GDP, 2021



TAFADZWA UFUMELI/Getty Images

Sub-Saharan Africa

Jihadist Insurgencies Threaten the Sahel and West Africa

Mali, Burkina Faso and Niger will face continuous threats to their political stability; together with limited military capacity and insufficient regional cooperation, this will give jihadist groups opportunities for territorial expansion and increased strike capabilities in coastal West Africa. Political infighting and opportunistic military leaders will continue to undermine effective governance in Mali, Burkina Faso and Niger, making these countries vulnerable to coups throughout the year. Given the French military exit from Mali in 2022 and the fact that military capabilities in Sahelian states are unlikely to improve significantly by the end of 2023, jihadist groups will likely make territorial gains in Mali, Burkina Faso and Niger and carry out strikes with increasing frequency in Sahelian capitals including Bamako, Ouagadougou and Niamey as well as northern areas of coastal states such as Togo and Benin. While anti-French sentiment will continue to complicate France's regional counterterrorism operations, France is likely to maintain its presence in Burkina Faso and Niger as a part of its push to contain jihadism that aspires to hit Western targets (barring a low likelihood scenario in which a new coup leader forces French troops to leave). Meanwhile, the Russian paramilitary group Wagner is likely to maintain its presence in Mali, where its human rights violations will likely undermine the Malian government's counterterrorism efforts by driving jihadist recruitment. Taken together, this means that political fragility and regional insecurity will reinforce each other throughout 2023, likely exacerbating humanitarian crises and worsening regional economic outlooks.

South Africa Falters Under Corruption, Electricity and Labor Crises

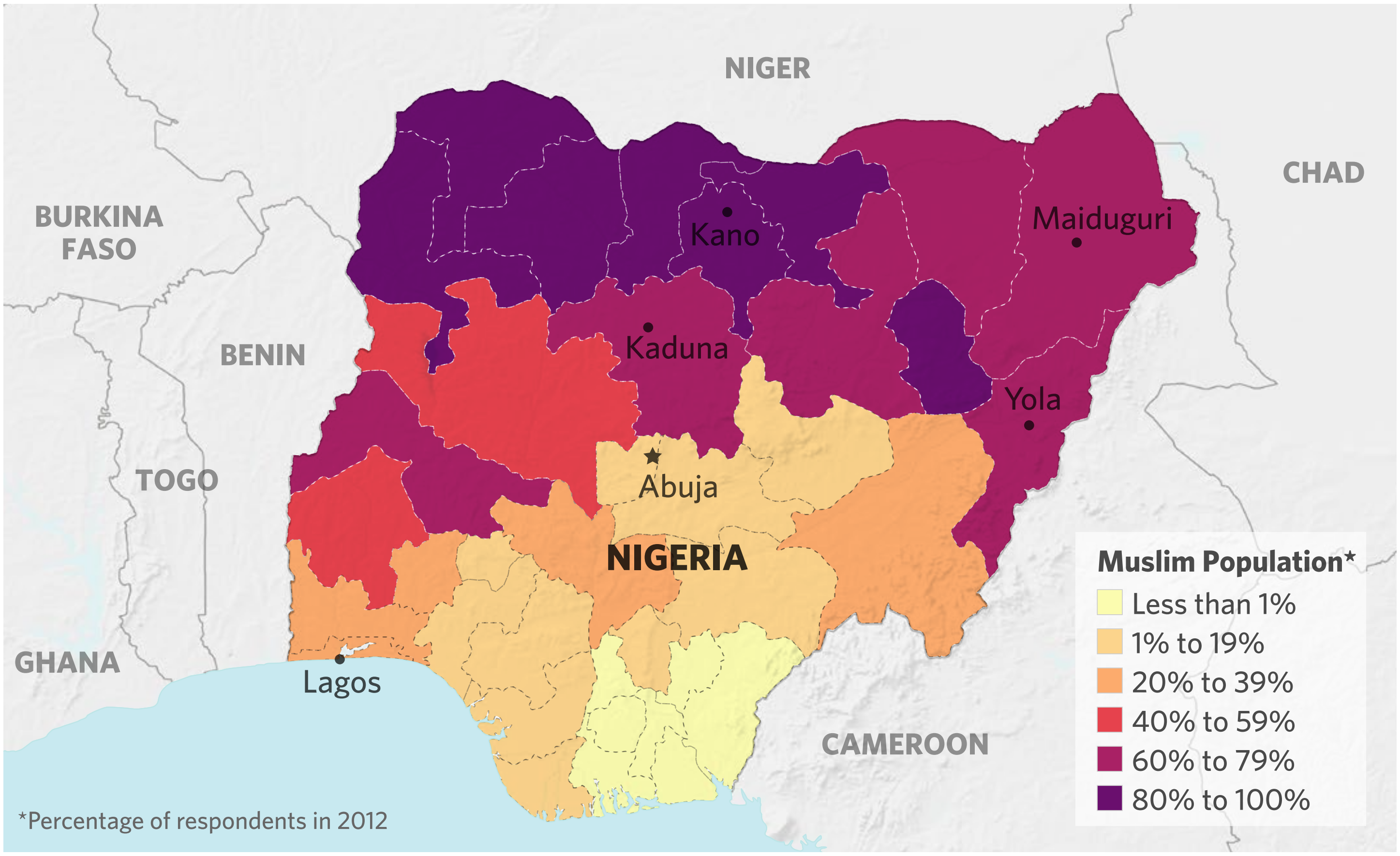
Corruption allegations against South African President Cyril Ramaphosa will worsen divisions within the African National Congress and the country, likely preventing the government from passing major structural reforms to avert ongoing corruption, labor and electricity crises. While in late 2022, Ramaphosa avoided impeachment for alleged corruption and won the party's top spot at the ANC elective conference, he will face heightened scrutiny and resistance from opposition parties and rival factions within the ANC for the remainder of his tenure. This will reduce the chances that the government will pass badly needed reforms to sectors including banking, education, electricity, labor and service delivery. Most notably, a lack of investment and reform in the electricity sector means that the country will continue to face extended rolling blackouts. This will hamper foreign business interest, contribute to crime, hobble small- and medium-sized businesses, and worsen the social and economic impact of high fuel prices. Similarly, stalled labor reforms to improve working conditions and wages mean that South Africa is likely to experience continued strikes, national shutdowns, and protests as workers demand higher wages to combat high inflation and a rising cost of living. Finally, Ramaphosa's credibility in the fight against corruption has been irreparably damaged, which will frustrate his administration's stated goals of tackling the sort of corruption described in a series of official reports published in recent years.

Nigeria's Next President Deepens Regional and Religious Divides

Barring an unlikely third-party victory, Nigeria will elect a second consecutive Muslim president in February, which will further alienate Nigeria's Christian and southern populations and divide the country. Despite the popularity of the Labour Party's Christian candidate, the more established ruling All Progressives Congress or main opposition People's Democratic Party, both of which have Muslim candidates, is likely to win the presidential election because of their grassroots support and economic resources. This means that Nigeria will likely elect another Muslim, angering Christians. The election results will also anger Nigerians from the south-south and south-east geopolitical zones, as the presidency was supposed to rotate to the south-east this election, but neither major party candidate is from the south-south or south-east. The election will exacerbate Nigeria's regional divides and result in violence, and intensify support for the southern separatist Indigenous People of Biafra. A win for Bola Tinubu of the All Progressives Congress would likely benefit the south-west in terms of federal resources and projects, as Tinubu comes from Lagos. If Tinubu honors a campaign promise to keep a fuel subsidy that costs more than sales of Nigerian oil bring in, the country's spending will become increasingly bloated and its debt outlook less sustainable. The election of People's Democratic Party candidate Atiku Abubakar meanwhile could shift investment in Nigeria's oil industry northward, which would also likely generate much resistance from the south-south. In either case, Nigeria's new president is unlikely to curb the rising cost of living, recurring fuel shortages, growing insecurity in the north or declines in oil revenue as Nigeria hurtles toward a long-term economic crisis.

Nigeria's Muslim Population, by State

Nigeria's upcoming February election will likely result in a second consecutive Muslim president, stirring discontent in Nigeria's majority-Christian south-south and south-east geopolitical zones.



Sources: Afrobarometer; The Economist

Economic Hardship Fuels Social Grievances Across Sub-Saharan Africa

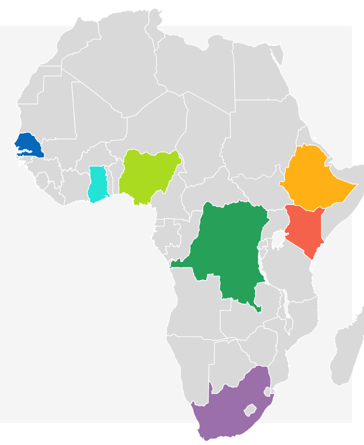
Countries across sub-Saharan Africa will face food insecurity, humanitarian emergencies, subsidy cuts and labor crises against a backdrop of increasing debt burdens, which will trigger political volatility. A global economic downturn will raise the risk of financial instability and sovereign debt defaults across the region, as countries teetering on the edge of economic crises (most notably Ghana) contend with high interest rates, weakening global commodity prices, a strong U.S. dollar and slow economic growth. And countries already in default (like Chad and Zambia) will face challenging recovery prospects. Worsening economic conditions will inflame long-standing societal grievances over issues such as unemployment, inequality and food insecurity. But governments will be unlikely to pacify discontent through increased public spending without worsening their debt burdens. Economic hardship combined with social crises and perceptions of insufficient state responses will likely trigger public demonstrations demanding government action in the Democratic Republic of Congo, Ghana, Senegal, South Africa and Zimbabwe, among other countries. Taken together, these factors will produce greater political volatility, as leaders attempt to assign blame to political scapegoats, opposition parties attempt to take advantage of ruling parties' waning popularity, and heads of state use cabinet reshuffles as evidence of political change. This will lead to investor flight to lower-risk investment destinations in most cases and, in some cases, greater regulatory uncertainty. But in extreme cases, opportunistic military leaders may try to capitalize on social grievances and economic hardship to carry out coups (particularly in the Sahel). ☐

Debt Stress and Economic Indicators, 2022

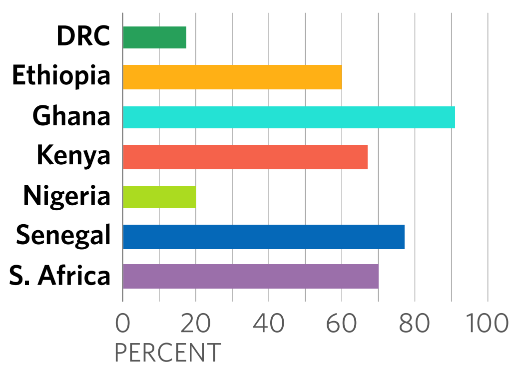
Economies across sub-Saharan Africa will grapple with heavy debt burdens and inflation against a backdrop of long-standing socioeconomic challenges like unemployment.

IMF Rating: Risk of Debt Stress

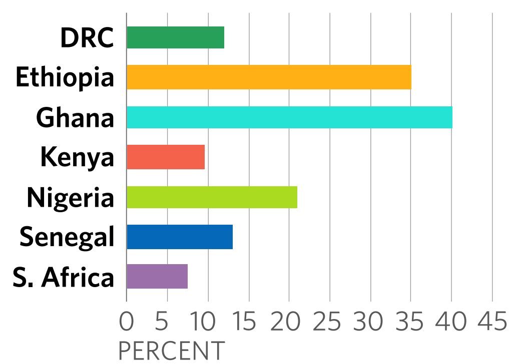
DRC	Moderate
Ethiopia	High
Ghana	High
Kenya	High
Nigeria	n/a
Senegal	Moderate
S. Africa	n/a



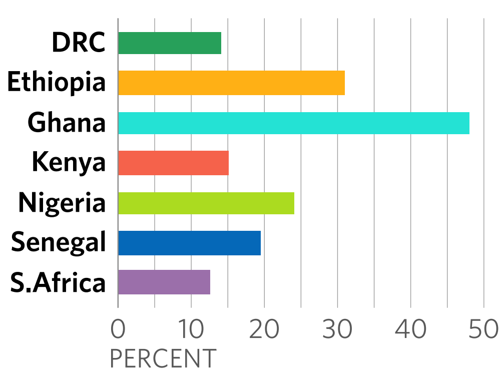
Debt-to-GDP ratio



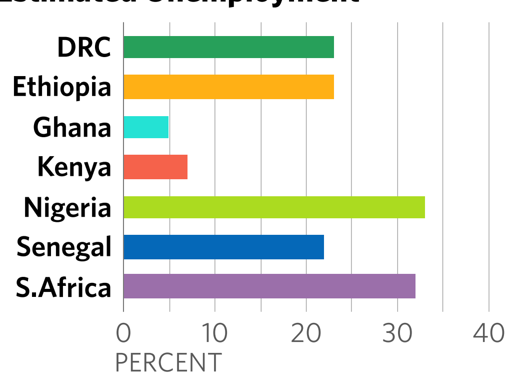
Inflation



Food Price Inflation



Estimated Unemployment



Source: IMF

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