Country Risk and the Global Outlook

September 2020

Pandemic peaking again

Commentary:

"The coronavirus pandemic is still dominating developments in the real economy globally. Unemployment will keep rising above the pre-pandemic baseline as government programmes are phased out and cease to protect workers, while the pace of what recovery there is may yet weaken in Q4. We do not expect the world economy to re-attain pre-pandemic output levels before 2022. The biggest question mark is not over the depth of the recent shock but over its persistence. The dynamics of the virus are not well understood, making prediction hazardous. But it is clear that entire sectors are due imminent radical restructuring, even in the countries that controlled their outbreaks. In India, the pace of economic revival will depend on how quickly the health concerns abate as India is yet to witness a peak, economic activity restarts with 'Unlock 4' and importantly the psychological impact of the COVID-19 ebbs away. The steady rise in case-loads, even as India demonstrates one of the highest recovery rates, and the spillover effects of the strict lockdown measures undermines the growth impulses in the Q2 and Q3 of the fiscal year" said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

Globally, deaths from Covid-19 approached their April peak again in August. Nothing about the pandemic can be classified as over, despite recoveries in activity levels in some economies in Q3, as evident in PMIs, Google Mobility data and monthly economic data. However, the geographic focus has changed since Q2, with the main growth in cases experienced in the Americas, India and Sub-Saharan Africa.

Governments appear more reluctant than at the outset of the crisis to implement lockdowns, for fear of undermining fragile economic recoveries; this is particularly apparent in Latin America. However, some fear that the liberalisation of activities and use of the estimated R0 reprodution factor to drive policy could fuel the pandemic. Although a more severe outbreak has been predicted during the northern hemisphere winter, continuation at current levels would still be highly damaging economically.

While financial conditions remain easy, the real economy continues to struggle. This contrast is expressed in data from SWIFT, which still processes much of the world's financial message traffic: while financial messages related to securities transactions rose 20.3% y/y in number during January-July, the total for actual physical trade fell 15.4%. In August, the MSCI stock indices for some developed markets were above their pre-pandemic levels. European interbank rates have sunk to record lows and high-grade bond yields have fallen below their pre-pandemic levels.

Employment data confirms our belief that recovery will take some time: almost all countries with data that Dun & Bradstreet covers (with the exception of Serbia) are showing y/y declines. Indeed, we believe that the road ahead will be one of further spikes and troughs in economic activity, with considerable regional variations. Even if all jobs were to be saved, the decline in 2020 corporate profits in most OECD economies would be at least 5%.

The most recent Dun & Bradstreet analysis cycle saw only one country undergo a risk rating change: we downgraded Turkey's country risk rating from DB5c to DB5d. Meanwhile, we upgraded the overall outlooks for seven countries this month: three in Eastern Europe, two in Africa, one in the Middle East, and one in Western Europe. In contrast, there were two outlook downgrades – one in Western Europe, and one in the Middle East.

RATINGS UPGRADES

None.

RATINGS DOWNGRADES

1. **Turkey:** Another bout of pressure on the lira, along with increased domestic and external political risk.

Monthly changes in country risk ratings and outlook trends

Dun & Bradstreet Country Risk Analysis			
Country	**August 2020**	**September 2020**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
None			
Country Risk Rating Downgrades (risk level has deteriorated)			
Turkey	DB5c	DB5d	1 quartile
Outlook Trend Upgrades (from/to)			
Estonia	Deteriorating	Stable	
Germany	Stable	Improving	
Iraq	Deteriorating Rapidly	Stable	
Italy	Deteriorating	Stable	
Latvia	Deteriorating	Stable	
Libya	Deteriorating	Stable	
Lithuania	Deteriorating	Stable	
Malawi	Deteriorating	Stable	
Outlook Trend Downgrades (from/to)			
Lebanon	Deteriorating	Deteriorating Rapidly	
Spain	Improving	Deteriorating	

REGIONAL SUMMARIES

North America

As the region enters the next phase of the recovery, gains in activity indicators are likely to slow or level off. Hiring rates and output will continue to be dictated by Covid-19-related regulations affecting non-essential businesses. Meanwhile, renewed trade friction between the US and Canada will act as a further brake on the speed of the recovery.

Western and Central Europe

Recently released real GDP growth data for Q2 2020 shows the devastating effect the covid pandemic had on the region: outcomes range from a relatively low 11.3% y/y fall in Germany to a 21.7% contraction in the UK. Labour markets continue to show some resilience, but this picture is likely to change later this year as support schemes end.

Asia Pacific

Optimism that leading Asia-Pacific economies' early containment of the virus could lead an exceptional GDP performance is receding, with South Korea on the brink of lockdown in August, Japan suffering case numbers comparable to those in Western European countries, and even virus-free Taiwan Region's economy shrinking y/y in Q2.

Latin America & Caribbean

Failure to contain coronavirus in Brazil, Mexico and Argentina is propelling the region to its sharpest contraction since the Great Depression, as control measures are likely to be extended to year's end, at least. In general, public debt sustainability is a rising medium-term concern.

Eastern Europe & Central Asia

Street protests in Belarus following a rigged election are putting pressure on long-standing authoritarian President Alexander Lukashenko (in office since 1994), and regime change cannot be ruled out. The recent post-election developments again highlight the region's exposure to political risk.

Middle East & North Africa

The UAE-Israel peace accord has ironically added a further layer of security risk by hardening already embedded regional divisions. In response to the signing of the agreement Iran almost immediately detained a UAE-registered oil tanker and its crew in the Persian Gulf for allegedly breaching its territorial waters.

Sub-Saharan Africa

The coronavirus pandemic has hit the region hard, with the economy set to contract by 4.1%. In response the IMF has to date agreed support packages worth USD15.4bn to 33 countries, including the two largest economies – Nigeria and South Africa. Nevertheless, business conditions will remain fraught over the next 12 months at least.

REAL GDP GROWTH (%)

	2019	*2020f*	*2021f*
World	**2.3**	**-5.1**	**3.9**
Advanced economies	1.6	-6.5	3.5
US	2.3	-5.8	3.2
Euroland	1.2	-8.5	5.1
Japan	0.7	-5.6	1.3
UK	1.5	-9.8	6.3
Emerging economies	3.4	-2.7	4.6
Brazil	1.1	-5.7	2.5
Russia	1.3	-4.5	1.8
India	4.2	-4.5	6.3
China	6.1	0.8	5.6

Sources: IMF; JPMorgan; Dun & Bradstreet

Dun & Bradstreet Risk Indicator

Dun & Bradstreet's Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7 – DB1 is lowest risk, DB7 is highest risk. Each band is subdivided into quartiles (a-d), with 'a' representing slightly less risk than 'b' (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.
DB2	Low Risk	Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight Risk	Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

Ratings and Outlook Changes:

Ratings changes: Changes in rating are made when we judge that there has been a significant alteration in a country's overall circumstances – this could stem from a one-off event (e.g. a major natural disaster) or from a change in something structural/cyclical (e.g. an important shift in growth prospects). An upgrade indicates a significant change for the better, a downgrade a significant change for the worse. The number of quartiles of change indicates the extent of the improvement/deterioration in circumstances.

Outlook changes: The outlook trend indicates whether we think a country's next rating change is likely to be a downgrade ('Deteriorating' trend) or an upgrade ('Improving' trend). A 'Stable' outlook trend indicates that we do not currently anticipate a rating change in the near future.

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