dun & bradstreet

Country Risk and the Global Outlook

August 2021

Vaccine-priveledged economies enjoy respite

Commentary:

"Consumer and business sentiment indicators have recovered in countries with advanced vaccination programmes, and economic prospects are diverging sharply along the lines of vaccination rates and fiscal policy capacity. The pandemic delta variant's increased transmissibility has caused the situation to deteriorate in much of the Asia-Pacific region. In India business activity has picked up along with the easing of restrictions and strong push for vaccination. Not only business optimism levels have revived, our survey conducted pan India in July 2021indicated that there has been an increase in the risk appetite of the Chief Financial Officers (CFOs) as they perceived that the level of financial risk for the corporate sector will turn favourable in Q3 202, the highest since Q4 2012. Nonetheless, the current inflationary situation in India is a cause of concern. If retail inflation follows wholesale inflation, it will restrain real income and can be a drag on growth," said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

We are currently forecasting that the global economy will rebound strongly in 2021 at 5.3%, following the sharp Covid-19-induced contraction of 3.8% in 2020. The growth will be even stronger than the recovery in 2011 after the global financial crash. However, the divergence in vaccination programmes between advanced and emerging economies is reflecting in similarly diverging growth prospects; around 40% of the population in advanced countries have been fully vaccinated, compared with just 11% in emerging economies.

In addition, divergence in growth prospects is being fed by the different abilities of governments to sustain fiscal support packages in 2021. According to International Monetary Fund (IMF) data, advanced countries have announced fiscal support packages worth USD4.6trn for 2021 and beyond, while many emerging economies have withdrawn fiscal support in 2021 and are looking to rebuild government finances.

The Q2 2021 national accounts data so far shows powerful recoveries, lifted by the clear base effects from the situation in Q2 2020, but also by the extent of the recovery in household spending, mobility, employment and international trade, and continued fiscal support.

Consumer and business sentiment indicators have recovered in countries with advanced vaccination programmes. However, despite this strong growth, we are concerned that the withdrawal of fiscal and monetary supports - including of furlough schemes (which will see household spending curtailed) - will start putting pressure on business' cash flows and balance sheets among vulnerable small and medium enterprises (SMEs), even in economies that have secured hope of relief from the coronavirus. After the lull in bankruptcies in 2020, this will lead to a deterioration in payments performance and an increase in bankruptcies in many of the vulnerable SME sectors, with services sector bankruptcies in the US already having hit 2019 totals for 2021 by May, according to Dun & Bradstreet's observation of the data.

In price-adjusted terms, domestic demand, a way to gauge economic activity without the addition from exports, leapt 13.8% year-over-year (y/y) in the US, 20.4% y/y in Spain, and 8.9% y/y in Hong Kong in Q2 2021. However, the average y/y growth taken over the two past years was still weaker than the pre-pandemic trend in all cases. Only in a very few economies has the boost from international trade in goods in high demand during the pandemic allowed output to exceed likely pre-pandemic trends, and then only in manufacturing: in South Korea, Singapore and probably Taiwan Region - with even Vietnam's manufacturing sector output, albeit up 13.8% y/y in Q2 2021, only where it would have been in a no-pandemic scenario.

RATINGS UPGRADES

- **Azerbaijan**
- **Costa Rica**
- **Italy**
- **Norway**
- **Singapore**

RATINGS DOWNGRADES

- **Slovakia**
- **Slovenia**

Monthly changes in country risk ratings and outlook

Dun & Bradstreet Country Risk Analysis			
Country	**July 2021**	**August 2021**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Azerbaijan	DB5d	DB5b	2 quartiles
Costa Rica	DB5b	DB4d	2 quartiles
Italy	DB4d	DB4c	1 quartile
Norway	DB2a	DB1d	1 quartile
Singapore	DB3a	DB2d	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Slovakia	DB3b	DB3c	1 quartile
Slovenia	DB3c	DB3d	1 quartile
Outlook Upgrades (from/to)			
Albania	Stable	Improving	
Angola	Deteriorating	Stable	
Bolivia	Deteriorating	Stable	
Bosnia & Herzegovina	Deteriorating	Stable	
Brazil	Deteriorating	Stable	
Croatia	Stable	Improving	
Cyprus	Stable	Improving	
Ethiopia	Deteriorating	Stable	
Luxembourg	Stable	Improving	
Morocco	Deteriorating	Improving	
Nigeria	Deteriorating	Stable	
Romania	Stable	Improving	
Outlook Downgrades (from/to)			
El Salvador	Deteriorating	Deteriorating Rapidly	

REGIONAL SUMMARIES

North America

An upsurge in Covid-19 infections in the US, driven by the delta strain, threatens to slow business reopenings and is a key risk to the pace of economic recovery in Q3 2021. Meanwhile, the Canadian economy accelerates as easing restrictions bolster retail trade, accommodation and food services.

Western and Central Europe

Confidence indicators in the region are maintaining an upward trend, and in the eurozone, Eurostat's Economic Sentiment Index had reached a new all-time high in July 2021. That said, slowing vaccination campaigns and the spread of the more contagious delta variant increase the likelihood of another set of lockdowns into Q4 2021.

Asia Pacific

Consumer Price Index (CPI) inflation has firmed across the region in line with food, energy and upstream prices, but is not yet presenting major macroeconomic challenges. The main near-term vulnerability is the delta variant, to which no local populations has much natural immunity - while even in South Korea and Japan, vaccination programmes are only starting to reach most adults.

Latin America & Caribbean

Upward revisions in growth forecasts for Brazil and Mexico boost the regional outlook for the rest of 2021. However, still-high unemployment, elevated inflation, and socio-economic discontent exacerbate governance challenges and keep political/insecurity risks broadly elevated.

Eastern Europe & Central Asia

The regional economy was recovering steadily as industrial output and services picked up and international travel gradually resumed - we still forecast annual GDP growth of 2.8% for Russia and 4.4% for the region in 2021. However, rapidly spreading new variants of Covid-19 pose a downside risk, given slow rates of vaccination.

Middle East & North Africa

The agreement by OPEC+ to release more barrels of oil on to global markets has had little immediate impact on oil prices. The y/y rise in oil prices is boosting business activity in the oil-producing countries. The oil-poor countries are benefitting from increased trade, investment and remittances flows.

Sub-Saharan Africa

The regional outlook indicator has been downgraded to 'deteriorating' on account of a resurgence or novel spread in Covid-19 cases, the slow roll-out of the vaccine programme, civil disorder in South Africa and escalating conflict in Ethiopia. However, an upswing in commodity prices will benefit most regional states, trimming debt risk.

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.

How Dun & Bradstreet can help

In addition to providing economic insights, Dun & Bradstreet offers a range of solutions that helps clients grow and thrive by empowering more intelligent actions that drive a competitive edge. Our data, insights and AI-driven platforms bring value to our clients both at departmental levels and across the organization.

Clients can access the Dun & Bradstreet Data Cloud directly for market-leading B2B data to fuel enterprise applications and workflows. Equally, clients can take advantage of our AI-driven SaaS solutions to gain a competitive edge within the areas of Sales and Marketing by identifying and engaging with the right targets- through modern, scalable solutions, and Finance and Risk to drive intelligent actions to manage credit-to-cash and third-party risk. Small Business owners use our solutions to help launch and manage their business. Dun & Bradstreet also works with agencies in every facet of government and the public sector – providing timely and critical information and insights that advance missions and help citizens thrive. More information is available at **dnb.com**