Country Risk and the Global Outlook

February 2021

Pandemic still dominates

Commentary:

"Our latest analysis suggests that usiness activity in 2021 will continue to be affected by uncertainties about the global pandemic. Economies are rolling out vaccination programmes at different rates, and there are also doubts about the length and depth of lockdowns. The pandemic-era pattern of sharp divergences between countries and between sectors makes mismatches of demand and supply more likely, and is also generating inflationary pressure. So CPI inflation may rise even where it has previously been quiescent, as in Europe. India faces a risk from the spurt in rise of cases in some states raising concerns over disruptions to businesses and supply chain from the restrictions imposed to cub the possibility of a 2nd wave. Nonetheless, the silver lining is that more than 12 million of the population i.e. 110% of its total confirmed cases, has been inoculated. Alongside, with the government's thrust on spending on infrastructure projects, expectations regarding sustainability of the recovery process has gathered foothold.," said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

According to the Netherlands Bureau for Economic Policy Analysis, global trade in goods and industrial production returned to pre-pandemic levels in November 2020, reflecting pent-up demand as well as demand shifts away from services to goods. The growth was primarily driven by increased Chinese output; US and EU industrial output remains below pre-pandemic levels. Furthermore, trade in services is still muted, while FDI flows fell sharply in 2020 according to UNCTAD (although capital flows recovered from Q3 onwards).

The adoption of a budget resoulution for the 2021 fiscal year by the US House of Representatives on 5 February cleared the way for use of the budget reconciliation process for enactment of legislation containing major components of the Biden administration's USD1.9trn *American Rescue Plan*. This suggests the US economic recovery, which began to show signs of flagging in Q4 2020, will be supported by the massive fiscal package which seeks to provide additional economic stimulus and relief for household and businesses. The deadlines for submissions by various congressional committees suggest voting on the final package would take place in the last week of February.

Dun & Bradstreet's Covid-19 disruption analysis put the proportion and number of pandemic-impacted businesses at 40% (85m) globally in the first week of February. Although not all of this disruption was mandatory closures of businesses, not since China's Great Leap Forward have so many millions been removed from employment by government policies.

With pandemic-era restrictions still common, demand has flowed to where supply is reliable and can expand – China's trade surplus in Q4 2020 was at a record high. With capacity unable to react fast enough, demand spikes are hitting constraints at key nodes of the global economy in container shipping, semiconductor manufacturing and migrant labour. The shortages of containers in China are sending container freight rates to record levels, with the Shanghai Containerized Freight Index for shipping a twenty-foot equivalent container, as of late January, up more than three-fold since October, and Asia-Europe spot rates six times higher relative to their level in June.

RATINGS UPGRADES

- **Australia**: Improvements in consumption rates and the labour market.
- **Azerbaijan**: Ceasefire with Armenia eases political risks.
- **United Kingdom**: Avoidance of a no-deal Brexit.

RATINGS DOWNGRADES

- **Argentina**: Deterioration in the business regulatory environment.

Monthly changes in country risk ratings and outlook trends

Dun & Bradstreet Country Risk Analysis			
Country	**January 2021**	**February 2021**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Australia	DB2d	DB2c	1 quartile
Azerbaijan	DB6a	DB5d	1 quartile
United Kingdom	DB3b	DB3a	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Argentina	DB5b	DB5c	1 quartile
Outlook Trend Upgrades (from/to)			
Cote d'Ivoire	Deteriorating	Stable	
Egypt	Deteriorating	Stable	
India	Stable	Improving	
Qatar	Deteriorating	Stable	
Singapore	Stable	Improving	
Sudan	Deteriorating	Stable	
Outlook Trend Downgrades (from/to)			
Malaysia	Stable	Deteriorating	

REGIONAL SUMMARIES

North America

Net job losses in the US and Canada in December 2020 and weak business demand recovery in January 2021 augur poorly for Q1 2021. Acceleration of national vaccination programmes suggest an uptick in the pace of economic activity from Q2 2021. However, the CDC's warning of the potential dominance of a new Covid-19 strain clouds the near-term outlook.

Western and Central Europe

Data from Dun & Bradstreet and our European World Wide Network partners shows that the average payment delay in the region has risen considerably since the outbreak of the pandemic: from 13.1 days beyond agreed terms in Q1 2020 to 14.4 days in Q3 2020. Companies need to factor in a further rise in payments risks in 2021.

Asia Pacific

China's recovery broadened to include transportation and hospitality in Q4 2020, while India's lessening Covid-19 deaths suggests its population may have achieved natural immunity: the two countries are quite strongly placed for 2021. But the pandemic is still out of control in Southeast Asia, hindering recovery prospects.

Latin America & Caribbean

Logistical and resource challenges hamper Covid-19 vaccine rollouts, delaying the return to pre-pandemic GDP growth to 2023. Severely weakened fiscal positions amid the pandemic-induced ballooning of public debt reduce fiscal revenues and raise sovereign risk.

Eastern Europe & Central Asia

Recovering commodity prices, global vaccine rollouts, and government support measures will help the region to register growth of around 3.6% in 2021, after the Covid-19 crisis caused a 2.2% contraction in 2020. But downside risks to this forecast remain elevated amid heightened uncertainty over the course of the pandemic.

Middle East & North Africa

Disparities within the region over vaccination programmes against Covid-19 are significant and will affect business activity correspondingly. Israel, the UAE and Bahrain are in the top four countries globally in terms of vaccinations given per head of population, but the likes of Iran and Lebanon are struggling to acquire vaccines.

Sub-Saharan Africa

Business activity is being constrained by a second wave of infection in the region, notably in South Africa, leading to the re-imposition of some containment measures. Trade flows, commodity prices, and economic activity are rebounding, but trends remain uncertain, and constraints such as weak tourism and logistics bottlenecks will persist.

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

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