Country Risk and the Global Outlook

November 2021

Energy Crisis Keeps Fuel and Food Prices High Into Early 2022

Commentary:

"The natural gas crisis is boosting demand for crude oil and coal, and this demand is expected to remain high through the upcoming Northern Hemisphere winter. Stubborn inflationary pressures are challenging monetary authorities, and are likely to keep producer and consumer prices elevated heading into 2022," said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

The global energy crunch which began in Europe and Asia will likely continue into the first quarter of next year, exacerbating international supply bottlenecks and hindering business continuity across sectors and geographic regions. The seasonal spike in demand for heating fuel during the upcoming Northern Hemisphere winter, added to the sharp rebound in electricity demand from the resumption of social and commercial activities this year, will keep natural gas, crude oil and coal prices high in the coming months.

While energy prices have risen by 80% this year compared to 2020, according to the World Bank, precious metal prices are under pressure as major central banks begin tapering their quantitative easing (QE) programmes, or will begin to do so shortly. This will clear the way for an accelerated timetable for policy rate hikes amid resilient inflationary pressures. The US Federal Reserve will start scaling back its USD120bn monthly bond purchase programme from late November, while the Bank of Canada abruptly ended its QE programme on 27 October, and is now purchasing bonds only to replace maturing ones. Although both central banks adhere to the view that inflationary pressures are transitory, the unexpected stubbornness of price increases this year has led to a heightened probability of policy interest rate increases from the second half of 2022.

China's real GDP growth will decelerate to 5.6% in 2022 from 8.1% this year, with a slowdown in the domestic property sector, the energy crisis, and its zero-tolerance Covid-19 policy all posing continued risks to domestic consumption and services growth, as well as international trade logistics. Real GDP growth slowed to 4.9% y/y in Q3 from 7.9% y/y in Q2 off the back of weaker expansion in industrial production (4.9% y/y growth in Q3 compared to 9% in the previous quarter).

The loss of momentum appears to have extended into early-Q4 with the China Purchasing Managers' Index below the 50-point threshold, at 49.2 in October, slipping deeper into contraction territory from 49.6 in September. An extended slowdown in China will impact emerging markets and developing economies that have higher exposure to the Chinese economy through trade and investment.

International supply chains for goods remain strained as a result of several factors which are unlikely to be resolved before the upcoming holiday season. Indeed, they are likely to persist at least into the first half of 2022.

Monthly changes in country risk ratings and outlook

RATINGS UPGRADES

- **Chile**
- **Finland**
- **India**
- **United Arab Emirates**

RATINGS DOWNGRADES

- **Argentina**
- **Bulgaria**
- **Japan**
- **Malta**
- **Taiwan Region**

Dun & Bradstreet Country Risk Analysis			
Country	**October 2021**	**November 2021**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Chile	DB4b	DB3d	2 quartiles
Finland	DB2d	DB2c	1 quartile
India	DB5c	DB5a	2 quartiles
United Arab Emirates	DB3c	DB3b	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Argentina	DB5c	DB5d	1 quartile
Bulgaria	DB3d	DB4b	2 quartiles
Japan	DB2d	DB3b	2 quartiles
Malta	DB3a	DB3b	1 quartile
Taiwan Region	DB2c	DB2d	1 quartile
Outlook Upgrades (from/to)			
Angola	Stable	Improving	
Russia	Deteriorating	Stable	
Outlook Downgrades (from/to)			
China	Improving	Stable	
Germany	Improving	Stable	
Italy	Improving	Stable	
Netherlands	Improving	Stable	

Spain	Improving	Deteriorating
United Kingdom	Improving	Deteriorating

REGIONAL SUMMARIES

North America

Resilient inflation, which surged in September to an 18-year high of 4.4% in Canada and climbed to 5.4% in the US, mainly caused by global supply bottlenecks, threaten to further soften the pace of regional growth in 2022. The US Federal Reserve and Bank of Canada are increasingly likely to begin rates hikes next year to anchor inflation expectations.

Western and Central Europe

Risk levels in the region are generally increasing as inflation remains on an upward trend. In September, consumer prices in the euro zone grew by 3.4%, reducing households' disposable income. Inflation is expected to moderate in 2022, but will impact cash flows and confidence indicators in the coming quarters.

Asia Pacific

We maintain a 'deteriorating' outlook in the Asia Pacific region. While economies impacted by the delta variant are re-opening, the Chinese economic slowdown has emerged as a significant new headwind. A sluggish pace of vaccinations, stubbornly-high inflation and US quantitative easing tapering on the horizon add to the downside risks to growth.

Latin America & Caribbean

The region will be the slowest growing globally in 2022, with real GDP growth of 2.7%, compared to 5.4% in 2021, partly buoyed by robust commodity prices. The main risks to short-term growth are monetary tightening and elevated socio-political and economic discontent triggering protests ahead of elections, keeping political/insecurity risks elevated.

Eastern Europe & Central Asia

The outlook for the EECA region has turned 'deteriorating', due to high and rising inflation, weakening currencies, moderation in economic growth, and slow vaccination rollouts. With limited monetary policy options, interest rates are set to rise, despite fragile recovery and rising corporate sector defaults.

Middle East & North Africa

Soaring global energy prices are a windfall for oil and gas producers, but inflating the import bills of large energy importers. Global food prices have also risen, but the impact of inflation will be cushioned by increased spending on social safety nets, though monetary policy remains broadly accommodative to spur recovery.

Sub-Saharan Africa

Our outlook improves to 'stable', with a decline in new Covid-19 cases in several countries, including South Africa and Kenya, which both loosened containment measures in October, though low vaccination levels pose the risk of a fresh region-wide resurgence. Other risks are commodity-price uncertainties and Ethiopia's ongoing civil war.

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**