Country Risk and the Global Outlook

June 2021

Regional divergences to remain wide in 2021

Commentary:

A broad post-pandemic global recovery will remain elusive in 2021 with big divergences between and within regions. Recoveries are subject to multiple headwinds arising from debt levels, supply-side constraints and the pandemic itself. Supply chain uncertainty is elevated, keeping demand for inventories high and thus driving input inflation expectations In India, th e return to pre-pandemic levels will be arduous. Adding to the downside risk to growth is the price pressures emanating from supply chain disruptions and input prices which have manifested in the high inflation for manufactured products. Inability to fully pass the price increase to consumers amidst subdued demand conditions will further impede the recovery of businesses which have been impacted by the uncertainty of the nature and period of restrictions. Dun & Bradstreet COVID-19 business disruption tracker shows that as of 3rd week of May 2021, 49% of business were disrupted owing to COVID-19 related restrictions with 55% of estimated sales revenues and 58% of employees of associated firms being impacted as a result," said Dr Arun Singh, Chief Economist, Dun & Bradstreet.

INTRODUCTION

Our forecasts show considerable regional divergences for real Gross Domestic Product (GDP) growth in 2021, as different economies continue to face the challenges of the Covid-19 pandemic. In North America, the success of the vaccine programmes will see growth come in at 6.3% - the strongest regional forecast - compared with a contraction of 3.7% in 2020.

Asia-Pacific will experience the strongest growth of 5.8%, having seen a contraction of only 1.6% in 2020, as many regional countries were able to contain the initial spread more successfully than counterparts elsewhere. However, excluding China, the region is due to recover back to its 2019 output only in 2022. Our trend for the Asia-Pacific was still stable in June 2021, but the increase in the epidemic in countries and jurisdictions that had hitherto controlled it is cause for concern and evidence of the threat of the variants.

Growth will come in at 4.2% in Europe, where vaccines are being rolled out, and 4.0% in Latin America, which is still experiencing increasing cases levels but will be boosted by strong commodity prices.

The latter will also support growth in Eastern Europe and Central Asia (3.5%), Sub-Saharan Africa (2.7%), despite its inability to access and roll out vaccines, and the Middle East and North Africa (2.5%).

However, growth will be subject to a number of headwinds, including the need to implement measures to contain Covid-19, the higher levels of sovereign, corporate and household debt, supply-side constraints and short-term inflation, including sharply rising commodity prices.

A consequence of the combination of strong commodity prices and highly indebted emerging economies is the rising threat of direct and indirect nationalisation. Recent threats include the potential nationalisation of a gold mine in the Kyrgyz Republic and proposed increases in taxes on copper extraction companies in Chile and Peru. Meanwhile, in sub-Saharan Africa, governments in Zambia, Ghana and Uganda are eyeing commodity producers as a way to increase revenues.

The longer-term political effects of the pandemic could reach into the democracies, with International Monetary Fund (IMF) research showing that past epidemics led to increased social unrest, after a delay. The International Labour Organization (ILO) has warned that the pandemic in 2021 will have caused 75m jobs to disappear and its data show the world lost 5% of working hours in Q4 2020, 10% in Europe and South America.

RATINGS UPGRADES

- **United States of America**

RATINGS DOWNGRADES

- **India**

Monthly changes in country risk ratings and outlook trends

Dun & Bradstreet Country Risk Analysis			
Country	**May 2021**	**June 2021**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
United States of America	DB2c	DB2b	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
India	DB5b	DB5c	1 quartile
Outlook Trend Upgrades (from/to)			
Costa Rica	Deteriorating	Stable	
Cyprus	Deteriorating	Stable	
Denmark	Deteriorating	Improving	
Greece	Deteriorating	Stable	
Hungary	Deteriorating	Improving	
Iceland	Deteriorating	Improving	
Iran	Deteriorating	Stable	
Italy	Stable	Improving	
Libya	Stable	Improving	
Romania	Deteriorating	Stable	
Sierra Leone	Deteriorating	Stable	
Slovakia	Deteriorating	DImproving	
Slovenia	Deteriorating	Stable	
South Korea	Stable	Improving	
Spain	Stable	Improving	
Outlook Trend Downgrades (from/to)			
Israel	Stable	Deteriorating	
Kyrgyz Republic	Stable	Deteriorating	

REGIONAL SUMMARIES

North America

Market outlook improves in the U.S. as an aggressive national vaccination campaign facilitate resumption of commercial activities fuelling growing momentum in the labour market. Conversely, Canada's labour market continues to deteriorate as harsh containment measures hit high-contact industries during a third wave of Covid-19.

Western and Central Europe

Positively, the speed of the vaccination programme has picked up and lockdown rules are gradually being eased, opening up the chance of a slow return to economic normality. Our proprietary payments performance data shows that average payment delay in Europe stood at 14.4 days in Q1 2021, virtually unchanged from Q4 2020.

Asia Pacific

Manufacturing appeared to turn the corner in many regional economies in Q1 2021, but private consumption and new fixed investment often lagged, with the former falling 7.9% y/y in Singapore and the latter 20.2% y/y in the Philippines. Since Q1 2021, the renewed spread of coronavirus and slow vaccination rate have cast doubt on the region's recovery, not least in India.

Latin America & Caribbean

Rising Covid-19 infections force the re-introduction of quarantine and other restrictive measures depressing private consumption, denting business confidence and threatening fragile recoveries. Political and insecurity risks are elevated amid a wave of public demonstrations against corruption, inequality, environmental and socio-economic policies.

Eastern Europe & Central Asia

Covid-19 continues to pose the biggest downside risk to our 3.5% growth forecast for this year. The region is experiencing a rising wave of infections and a vaccination rate that is not keeping up. Moreover, accelerating inflation is prompting a number of central banks to start hiking rates, leading to tighter credit conditions.

Middle East & North Africa

We have upgraded the risk outlook for MENA from 'deteriorating' to 'stable' on the back of rising oil prices, which are boosting the outlook for regional business activity, especially in the oil-rich countries. However, headwinds still exist including the Covid-19 pandemic and elevated, albeit easing, security issues.

Sub-Saharan Africa

An upswing in commodity prices is benefitting most regional states, trimming elevated debt risks. However, business activity is being constrained by the on-going Covid-19 pandemic, which in particular is hitting the lucrative tourism sector. Access to and rolling out the vaccines will be a major constraint for businesses well into 2022.

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 target groups - 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**

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