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Country Risk and the Global Outlook

January 2022

Inflationary Pressures Remain

Commentary:

"Measures to curb the spread of Omicron, the highly-contagious coronavirus variant, will slow services recovery in the near-term with travel, leisure, hospitality and education among the most affected sectors. An ongoing oscillation in demand and supply side factors keep inflation resilient, given the fluidity of the global economic environment. In India, measures to curb the surge in Omicron cases along with elevated global comodity prices would push domestic prices higher and add to the woes of small businesses whose operational and credit risk have increased." said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

Rising food and energy prices pushed the euro area's headline inflation to 5% in December from 4.9% in November - the highest since records began - with energy up by 26%, and food, alcohol, and tobacco having risen by 3.2% in annual terms. Although inflation for services (2.4%) and non-energy industrial goods (2.9%) is closer to the ECB's 2.0% inflation target, elevated energy prices are squeezing disposable incomes and profit margins.

Despite increasing its average inflation forecast for 2022 to 3.2%, the European Central Bank (ECB) is unlikely to begin hiking its policy rate before 2023, as it adheres to the view that inflation will moderate by mid-2022, albeit remaining above its target inflation rate of 2%. In developing economies in particular, food and energy inflation exacerbate socio-economic and political discontent, contributing to elevated insecurity risks.

Strong headwinds for the hospitality and leisure industry are expected to continue in the coming months. Recovery in the global tourism sector was set back in recent months with omicron-related mobility restrictions aimed at slowing infection rates.

Looking ahead, measures to curb future Covid-19 variants that may emerge this year will contribute to the start-stop reopening pattern that beset the sector in the past year. The pandemic is estimated to have cost the global tourism industry USD2trn in 2021, the same as 2020, according to the UN World Tourism Organization. Moreover, the sector's recovery in 2022 is unlikely to result in a return to pre-crisis levels of activity amid rising travel costs, particularly for air travel. A multi-speed recovery is expected to unfold.

Monthly changes in country risk ratings and outlook

RATINGS UPGRADES

- **Thailand**

RATINGS DOWNGRADES

- **Sweden**

Dun & Bradstreet Country Risk Analysis			
Country	**December 2021**	**January 2022**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Thailand	DB5b	DB4d	2 quartiles
Country Risk Rating Downgrades (risk level has deteriorated)			
Sweden	DB2c	DB2d	1 quartile
Outlook Upgrades (from/to)			
Russia	Deteriorating	Stable	
Spain	Deteriorating	Stable	
Thailand	Deteriorating	Stable	
Outlook Downgrades (from/to)			
Angola	Improving	Deteriorating	
Austria	Stable	Deteriorating	
Belgium	Stable	Deteriorating	
Denmark	Improving	Stable	
Germany	Stable	Deteriorating	
Ireland	Improving	Stable	
Netherlands	Stable	Deteriorating	
Sweden	Improving	Stable	

REGIONAL SUMMARIES

North America

Normalisation of economic activity, particularly in services, is reversed as Canadian provinces and territories reimposed mobility restrictions to curb the spread of the omicron variant. The US Federal Reserve could begin increasing interest rates as early as March, with the unemployment rate dropping to 3.9% in December, just above the pre-crisis level of 3.5%.

Western & Central Europe

Covid-19 continues to be a source of concern for some major European economies. While the variant creates concerns around supply chains bottlenecks, there is no government support currently in sight for affected businesses or sectors. Overall, government restrictions are not expected to have a large impact on the UK recovery.

The Nordics

The Nordics' economic recovery faces challenges from high inflation, surging Covid-19 cases, rising electricity prices and lack of supply of materials and equipment. Economic growth in the region is set to moderate as governments impose new restrictions to curb an omicron-fueled surge in Covid cases. For the region, the tight labor market, climbing wages and capacity constraint continue to affect businesses. Central banks in countries like Norway and Sweden are increasing interest rates and tapering asset purchases to reduce excessive liquidity in the system.

Asia Pacific

We maintain the Asia-Pacific region's outlook at 'stable'. Most economies in the region will enter 2022 with strong growth, which will alleviate, but not offset, the pains from impending US rate hikes. As property market stress comes to a head, Chinese policymakers will spend early 2022 looking to stabilise growth, albeit at lower levels. The omicron variant most threatens the recovery of tourism-dependent economies.

Latin America & Caribbean

The region will be the slowest growing in 2022 with a real GDP forecast of 2.6%; pandemic stimulus and relief continue to be unwound due to tight fiscal space, while monetary tightening continues as policymakers seek to anchor inflation expectations. Rate hikes by the US Fed and other advanced economies will also weigh on growth.

Eastern Europe & Central Asia

Resilient inflation, weakening currencies, and surges in new infections of Covid-19 amid still-low vaccination levels weigh heavily on the region's near-term outlook. With moderating growth, lower consumer confidence and still-high inflation, policymakers have limited options, and the risk of corporate defaults is high.

Middle East & North Africa

The MENA region faces multiple pressures on external finances due to the negative short-term outlook for oil as well as non-oil commodities, lower services earnings from tourism, and risk of portfolio outflows following the Fed's increasingly hawkish stance. Remittance inflows have been a positive, along with increased spending on social safety nets and accommodative monetary policies.

Sub-Saharan Africa

Our outlook is now 'deteriorating' due to omicron. Several countries in addition to South Africa have recorded a massive surge in cases. Slow regionwide vaccine rollouts exacerbate the risk of additional new variants emerging. Other risks include non-oil 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**