Country Risk and the Global Outlook

March 2021

Inflation returns

Commentary:

"High uncertainty around the direction and depth of the global pandemic is the main worry for businesses at present. As a consequence of policies adopted to counter the effects of the pandemic, and the pandemic constraints on the supply side, we are noting the return of inflation after a decade where it has tended to come in below central bank targets," said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

Lockdowns and pandemic changes in spending habits have already distorted consumer price indices. According to The Food and Agriculture Organization (FAO), global food inflation was 4.3% m/m in January 2021 against a 3.1% rise in 2020. Furthermore, commodity prices and producer price indices (PPI) both indicate potential future downstream price rises. The OECD's PPI climbed by 0.9% m/m in January 2021; the eighth consecutive monthly rise and the highest in almost a decade. The World Bank's Energy, and Metals and Minerals Commodity Indices, rose sharply: by 10.0% and 3.2% m/m respectively in January 2021. However, markets are also pricing in a new inflationary environment as indicated by the recent steep rise in the ten-year bond yield for US public debt over 1.0%.

In the longer term, inflation can help to inflate away government debts. But in the short term, it is still a fiscal risk if it increases bond yields and adds to the cost of government borrowing. Governments have thrown their fiscal balances into the path of the pandemic to stop households and businesses facing existential crises. Central banks have joined forces to prevent fiscal crises. The Bank of England as of end-2020 owned one-third of UK government debt, not far off the same ratio for the Bank of Japan, which had a head start with its debt monetisation programme in the 2010s.

'Forced' household savings have reached high levels, many households have better financial reserves despite the disaster of the pandemic: but despite this, some governments in the worst-affected countries have borrowed more than households and businesses have saved. Net national savings at -2.4%, -0.7% and -0.3% of GDP in Q4 in the UK, US, and Portugal compare to 24.6% of GDP for Taiwan Region. The huge fiscal and monetary effort has helped to keep the 2020 y/y falls in total wage bills and employment inside a single-digit percentage in many of the high-income countries. However, it exposes governments to interest rate risk, 'bond market vigilantes' and inflation to an extent not seen since the 1980s.

RATINGS UPGRADES

- **India**: Signs of economic recovery continue.
- **Taiwan Region**: Recent and forecast performance improving.

RATINGS DOWNGRADES

- **Tunisia**: Threat of violent protests persists.

Monthly changes in country risk ratings and outlook trends

Dun & Bradstreet Country Risk Analysis			
Country	**February 2021**	**March 2021**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
India	DB5c	DB5b	1 quartile
Taiwan Region	DB2d	DB2c	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Tunisia	DB6b	DB6c	1 quartile
Outlook Trend Upgrades (from/to)			
Colombia	Deteriorating	Stable	
Italy	Deteriorating	Improving	
Japan	Deteriorating	Stable	
Kyrgyz Republic	Deteriorating	Stable	
Lithuania	Stable	Improving	
Malta	Deteriorating	Improving	
United Kingdom	Deteriorating	Stable	
Outlook Trend Downgrades (from/to)			
Libya	Improving	Stable	

REGIONAL SUMMARIES

North America

Canada's 9.4% unemployment rate in January was its highest since August, though job losses remained concentrated by sector and geography. The US unemployment rate fell 0.4%, but at 6.3% it stayed well above the pre-pandemic level of 3.5% in February.

Western and Central Europe

With the exception of the UK (where until 24 February, 27.5% of the population had at least one dose of the Covid-19 vaccine), vaccination progress has been very sluggish in the region. Worryingly, lockdown measures are getting extended in countries like Germany and Finland, and border closures are causing supply chain disruption.

Asia Pacific

The passage of the lunar new year in China without new Covid-19 contagion was extremely positive for anti-epidemic control and the broader economic outlook, with China likely to post double-digit y/y growth in Q1. India's real y/y GDP expansion in Q4 2020 was also encouraging. Southeast Asia, however, remains beset by disease and border controls.

Latin America & Caribbean

Shipments of Covid-19 vaccines from Russia, India and China have boosted regional supplies. Inefficient distribution, overburdened health systems, surges in infections, and an inability by most governments to prolong fiscal stimulus and relief to households and businesses still weigh heavily on the region's economic outlook for 2021-22.

Eastern Europe & Central Asia

Much of the region remains in the midst of a second wave of the Covid-19 pandemic, with lockdown restrictions in some countries only likely to be significantly relaxed in Q2. As such, while we look for a return to growth this year following an estimated contraction of 1.7% in 2020, the pace of recovery will be muted until Q3 2021.

Middle East & North Africa

The region has the widest disparities between those countries actively rolling out Covid-19 vaccines. Israel is the best country globally, while Egypt is second-worst. The failure of countries to roll out the vaccines will undermine regional trade, investment and people flows into 2022; the first two are already weak by global norms.

Sub-Saharan Africa

Limited access to vaccines will undermine business activity across the region well into 2022 as containment measures remain in place. Growth will also be held back by economic and political constraints in the two largest economies, South Africa and Nigeria, by debt distress risks, weak tourism flows and continuing logistics disruption.

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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