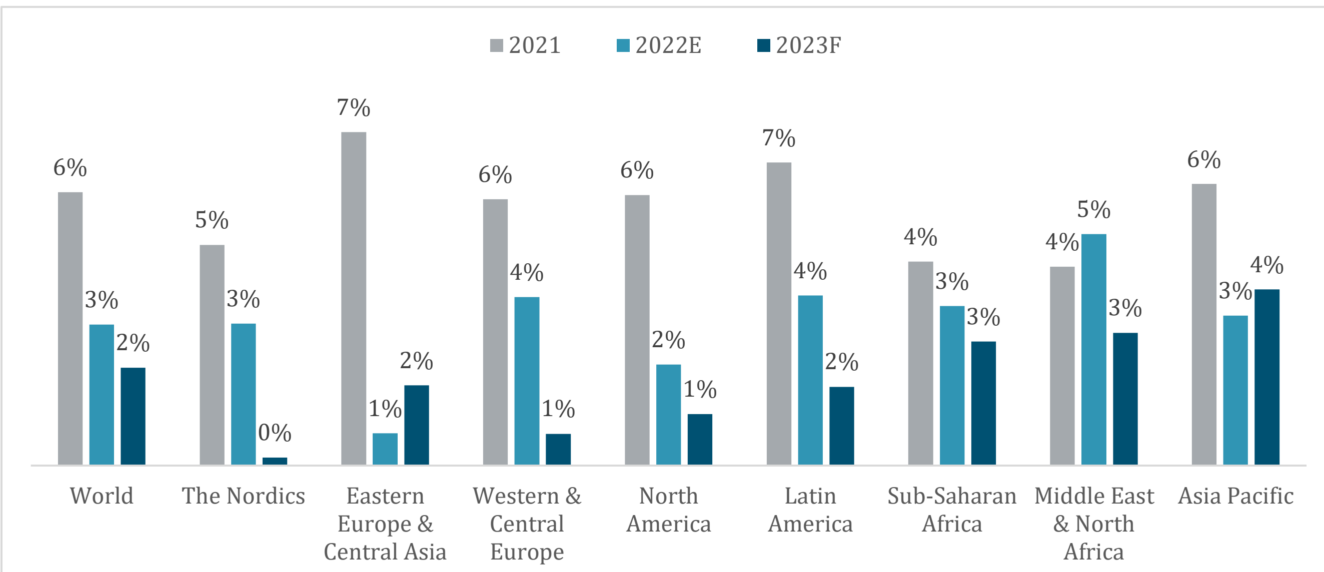
Country Risk and the Global Outlook – August 2023

A Mixed Monetary Policy Narrative Likely to Play Out in H2

"Monetary policies around the world have delivered on their promise, bringing inflation down – but core inflation may prove to be a different matter. While some major markets, such as the U.S., have shown resilience, others are not at par: Europe and the UK seem to be skirting dangerously close to stagflation. Prices could be pushed up during the rest of 2023 due to a range of factors, including Mainland China's stimulus policies, which will raise demand. Monetary policies are diverging. Some emerging markets, such as Vietnam and Chile, look likely to cut rates, whereas others (Mexico and the Philippines) may have to retain elevated rates," **said Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.**

Real GDP Growth



Global Economic Outlook

The current state of the global economy is best described as looking good – in a rear-view mirror. There is little doubt that an economic slowdown lies ahead, and there is concern that the easier fight against inflation is behind us, with the real test – bringing down core inflation – still to come. However, an obvious positive is that several key markets, most notably the U.S., have continued to show resilience while making progress on tackling inflation.

Russia's decision to abandon the Black Sea Grain Initiative and the specter of extreme weather events due to the El Niño effect threaten to undo progress on lowering food price inflation. Oil prices are inching up too as OPEC+ production cuts have hit supply, compounded by a fall in U.S. rig counts. In Mainland China, stimulus policies are likely to add to demand, which we expect will push prices higher towards the end of the year. But as it stands today, the overall risk environment for the global economy seems more benign.

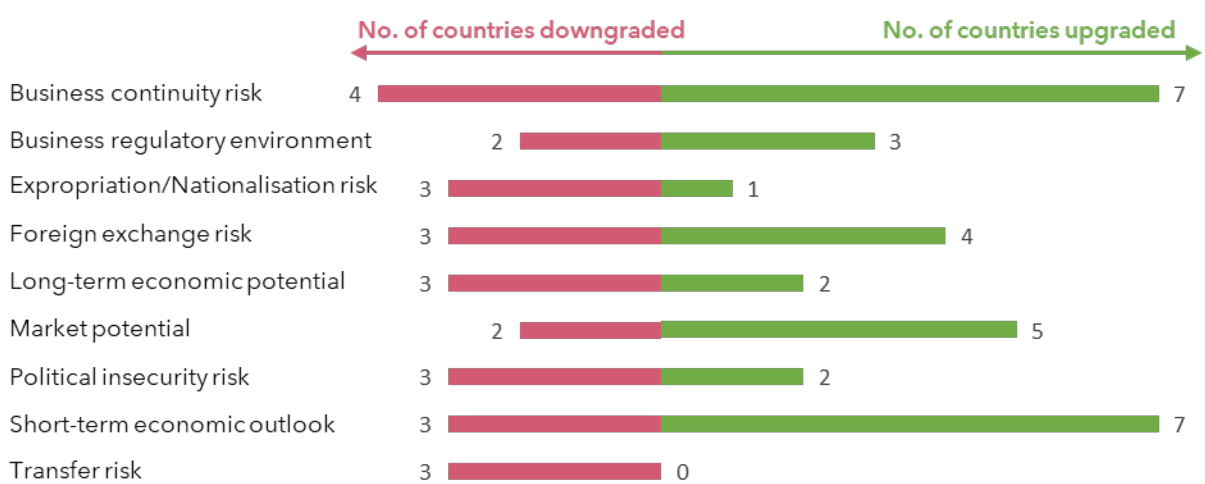
Monetary policies are delivering on their promise, without using a sledgehammer approach to crush demand. We are at, or near, the peak of interest rate cycles globally. The Bank of England (BoE) recently hiked interest rates by 25 bps, in line with the US Fed and the European Central Bank. From here, we expect monetary policies to diverge in line with the economic realities of individual markets. Generally, developed markets have a very weak case for rate cuts, given hotly running labor markets and insufficient evidence of progress on core inflation. Europe and the UK remain at a greater risk of further sliding towards stagflation. In emerging markets, rate cuts look more imminent – in fact, Brazil, Vietnam and Chile have already delivered big rate cuts recently. At the same time, emerging markets, where inflation is still running above or close to upper tolerance thresholds (such as Mexico and the Philippines), may have to hold rates at elevated levels for a bit longer to avoid widening risk premiums with the U.S .dollar, which will put depreciation pressures on local currencies, reversing hard-earned gains on inflation.

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Political	Supply
Cambodia	Brazil	Cambodia	Bahrain	Bahrain
Bahrain	Poland	Serbia	Yemen	Luxembourg
Greece	Romania	Greece	Serbia	South Africa
Serbia	Serbia	Mexico	Mexico	China
Sudan	Malawi	Sudan	Sierra Leone	Singapore

Note: *Colors indicate Upgrade, Downgrade*

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

▲ **Brazil:** The Central bank implemented a surprise 50 bps cut in its August meeting to stimulate the economy, which will positively impact the short-term growth outlook. Inflation has dropped to the lowest since September 2020, while bumper crop production will add to forex earnings.

▲ **Poland:** With moderating inflation and resilient economic growth, prospects of an early rate cut are brightening. Although the credit environment is improving, the political landscape remains fragile, with elections looming amid geopolitical challenges arising from a strained relationship with the EU.

▲ **Cambodia:** Cambodia's membership of the Regional Comprehensive Economic Partnership (RCEP) is improving its attractiveness as a low-cost manufacturing and assembly location for Chinese and East Asian exporters looking to export to RCEP markets.

▼ **Sudan:** Four months since the outbreak of conflict, the cycle of varyingly well-observed ceasefires followed by fresh outbreaks of violence continues to shape the country's prospects, jeopardizing Sudan's role as a gateway into Africa.

▼ **Mexico:** We expect the Bank of Mexico to hold rates until the end of the year to preserve the interest rate differential with the U.S. However, the risk of expropriation has increased after the government occupied a section of railroad operated by a private conglomerate.

Key Market Updates

United States: The launch of a real-time payments service, FedNow, promises a considerably better payments experience for small businesses.

Germany: Consecutive drops in prominent business indicators signal a prolonged period of subdued growth as sentiments among German firms further worsen. Economic malaise is not helped by political unrest.

Mainland China: The recently announced controls on germanium and gallium is the latest shot in its ongoing chip war with the U.S. Although the two sides show a willingness to talk, export controls and other measures mean supply chains and business continuity suffer amid confusion.

Spain: Political gridlock grips Spain as the national election on July 23 resulted in no party receiving sufficient votes to form a government. The conservative Popular Party won the most votes but fell short of expectations and a majority. Political maneuvering now means a prolonged period of uncertainty for businesses.

Russia: As the Russian economy revives despite sanctions, war, and a labor shortage, rising fiscal spending and worsening terms of trade could escalate inflation. The rouble has continued to fall against the U.S. dollar as revenues from energy sales collapse due to falling gas prices and the West's cap on seaborne Russian crude oil.

Ukraine: The war-ravaged economy is showing signs of an initial revival, supported by an inflow of hard currency, a pick-up in economic activities and broader financial stability.

Turkey: Financial markets welcome the recent reversion to conventional economic policies, provided they last; as markets regain confidence, the lira and growth will suffer before achieving sustained stability.

Israel: The passing of judicial reform laws will reignite mass protests, negatively impacting capital flows and governance.

Argentina: A deep recession following a severe drought that hit crop yields (and, in turn, badly needed export revenues), runaway inflation, and capital controls will hinder investment inflow. Political uncertainty and a possible default pose further risks to the economy.

Norway: Lead indicators of economic activity continue to point to a slowdown in Q3. A so far resilient housing market is likely to make way for a fall in house prices. Although inflation has peaked, imported inflation is playing a key role, suggesting only a slow moderation of monetary policy.