Country Risk and the Global Outlook

February 2023

Global Economy Holds Up, Businesses Need to Remain Cautious

Commentary:

"As we conclude the first weeks of 2023, the narrative on the global economic outlook has shifted positively. While it is too soon to declare victory on inflation, central banks seem to be nearing the end of their rate hiking cycles. The general consensus points toward the fact that a global recession may not be upon us, but a global slowdown has been set in motion and businesses should remain vigilant and resilient. Even as the outlook for India's growth remains positive, according to Dun and Bradstreet's survey pan Indian businesses remain wary about the economic development in the domestic and global market. As global economy is headed towards a synchronized economic slowdown, export prospects remain weak. Amidst the difficult and uncertain external economic environment, the Indian government has delivered a balanced Union Budget which focuses on achieving an inclusive and sustainable growth while adhering to the fiscal glide path.," said Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.

Introduction

The first month of 2023 was quite eventful - Croatia joined the Eurozone as its 20th member, Brazil witnessed a mini-insurrection, India overtook China as the world's most populous nation, and the US hit its debt ceiling. Before this quarter ends, the conflict between Russia and Ukraine will have crossed its one-year mark, the Bank of Japan would have selected a successor to its longest-serving governor, and President Xi would have been confirmed as China's top leader for another term. Some of these events may have profound implications over the coming decades, while the others may pose the biggest risk to the global economy in 2023.

Over the past few weeks, the narrative on the global economy has shifted positively. Financial markets have already begun looking past the end of the monetary policy tightening cycle. We believe this optimism should be caveated. If we move the clock back one year, the world was expecting to ride on the momentum of the post-pandemic reopening; what it got instead, however, was a war between two nations. That is the nature of risk. For businesses, this means that the need to remain resilient and vigilant is more than ever to avoid sleepwalking into a crisis. With this in mind, we are sharing our outlook for Q1 2023.

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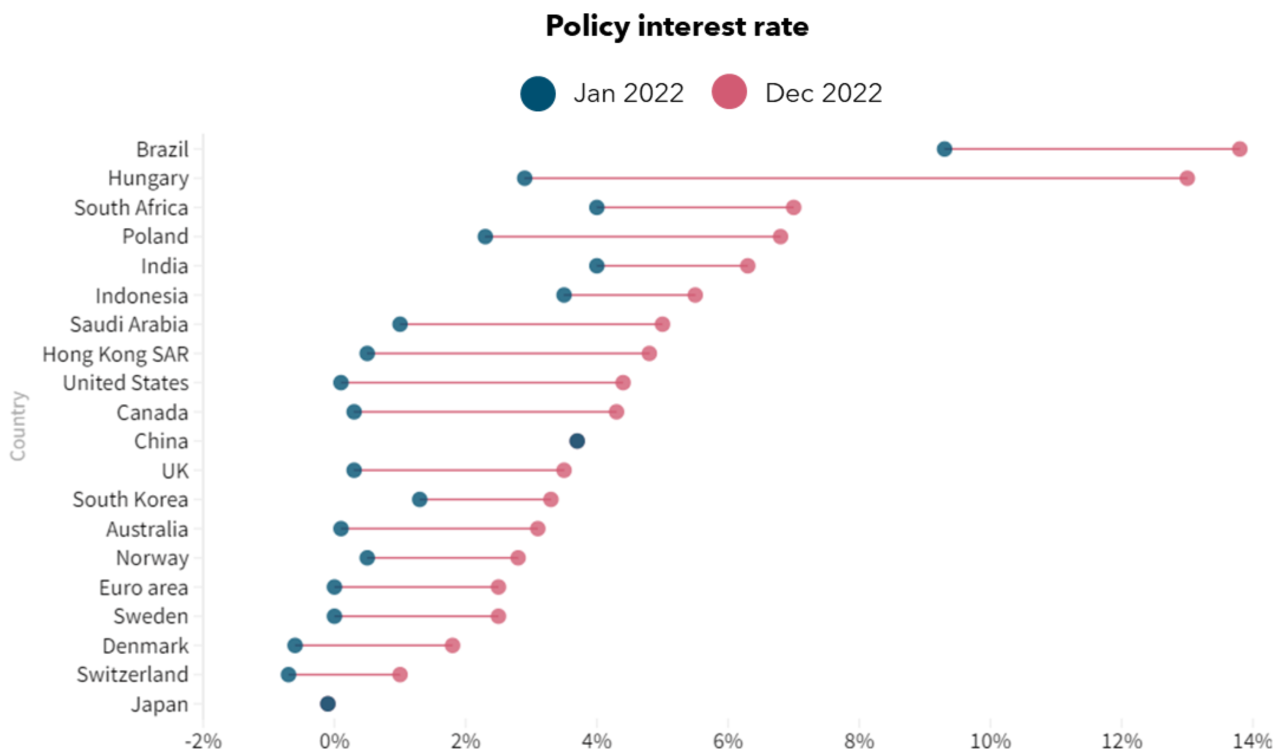
We are nearing the end of the global monetary tightening cycle



Source: Dun & Bradstreet

A global recession might not arrive, but a slowdown will likely last through 2023.

Christmas brought some much-needed holiday cheer for the global economy; 2023 kicked off with headline inflation coming down across developed markets, including in the US, the UK, and Germany. What's even more encouraging is that inflation expectations in the US are relatively well-anchored, suggesting monetary policies are working. However, given where inflation levels are currently hovering (and the fact that core pricing pressures have not yet abated), more will have to be done to weather the storm. This is reflected in central bank commentaries. We expect central banks, including the US Fed, to continue hiking rates in the upcoming meetings of Q1 2023, albeit at a slower pace. Whether this will result in a global recession is not even the most important question at this point. What businesses should know is that we are heading toward a synchronized global economic slowdown, and that they should prepare for a possible recession in developed markets. Further, the

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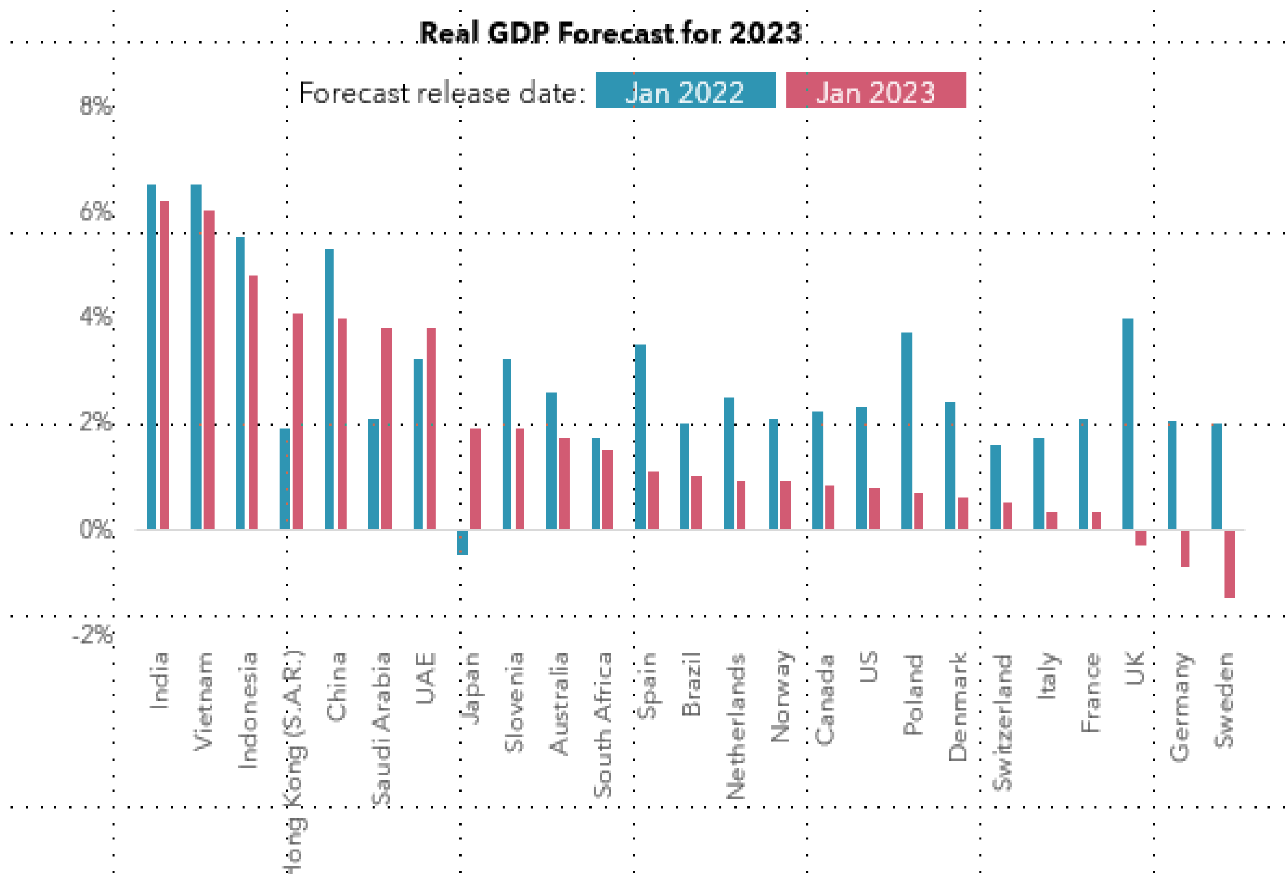
logic that a central-bank-engineered recession (if at all) should be mild, might hold true for the US, but in Europe, the course that the ongoing Russia-Ukraine war takes may continue to impact outcomes. Moreover, milder than usual weather has played an important role in easing pressure on energy prices in Europe. However, in the future, an unexpectedly cold winter may re-ignite some of this pressure on gas prices and reserves. All in all, while a global recession might never arrive, a slowdown will likely last through most of 2023.

Growth and inflation expectations have worsened vs. a year ago…



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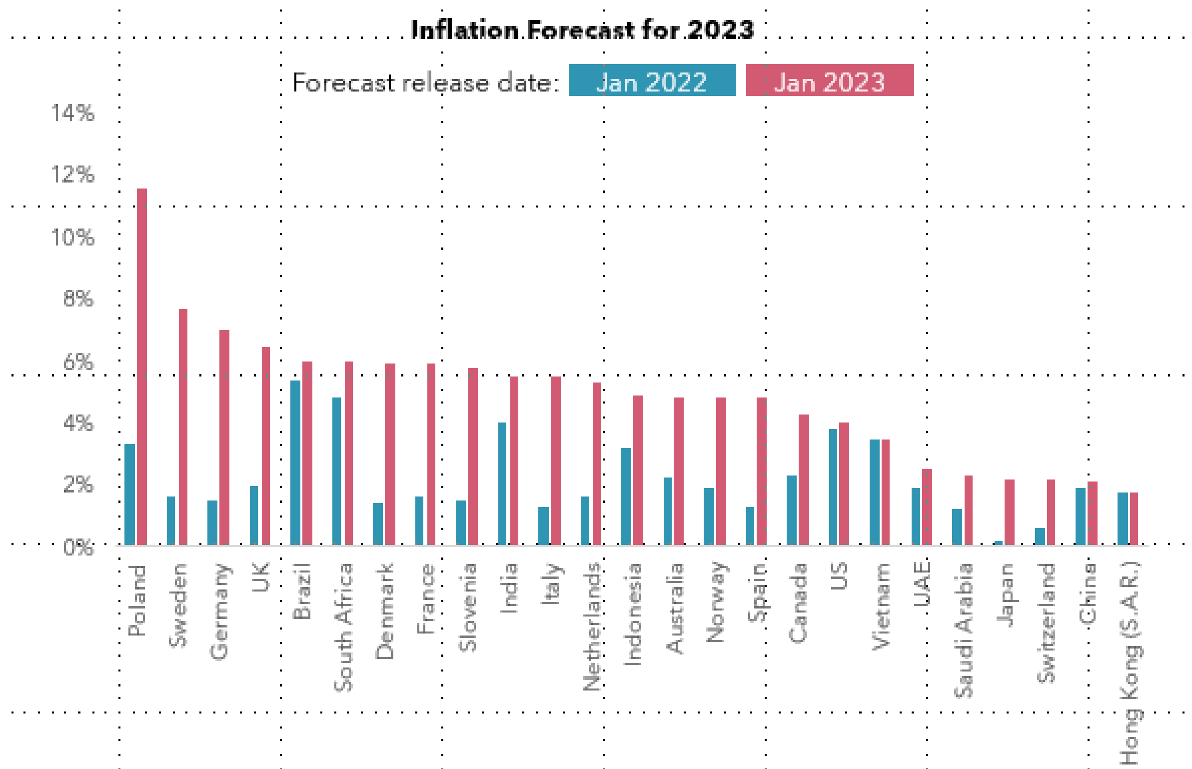
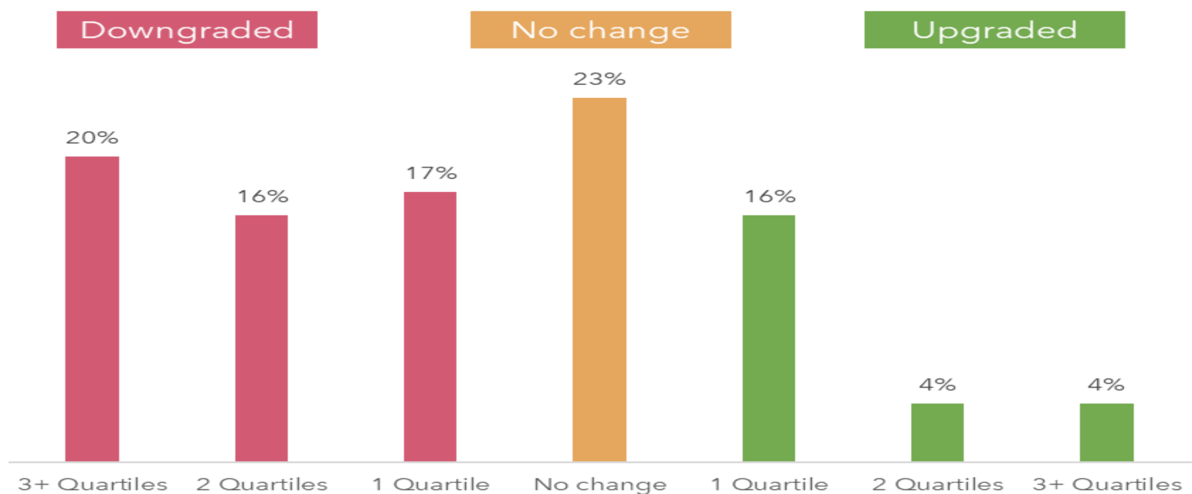


…Unsurprisingly, short-term economic outlook scores for more than half the countries under D&B Country Insights coverage have been downgraded



Source: Dun & Bradstreet

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China's reopening benefits will materialize slowly

More positive news from Mainland China, where authorities reiterated that economic revival is the top policy priority for 2023. Apart from deploying credit support for the property sector, borders have been reopened and consumption vouchers are being issued across several provinces to stimulate domestic demand. There was also the first sign of a thaw in relations between Mainland China and Australia, as shipments of coal from the latter arrived in China for the first time in almost two years. European luxury retailers will be relieved to note that Chinese consumers could soon be back buying their products; the other sector to benefit would be tourism. Throughout 2022, despite reopening borders, tourism in Asian economies did not see the kind of robust recovery witnessed elsewhere, due to the lack of Chinese tourists. That should change with Mainland China's changing stance on virus containment measures. However, for the time being, the high number of Covid-19 cases remains the headline. Several countries have imposed (and attracted retaliatory) measures on inbound travelers from Mainland China. These case numbers could even go higher with the massive internal migration around the Lunar New Year. Even if it doesn't, manufacturing and economic activity is likely to only pick up pace after the Chinese holidays, confirming our previous assessment that benefits from China's reopening will materialize rather slowly. Undoubtedly, China's reopening will benefit the global economy, but that is more likely to be a story for the second quarter of 2023, instead of Q1.

Europe has weathered winter better than many had expected it to, but the ongoing Russia-Ukraine conflict continues to cast a shadow on the region's prospects.

We have still not crossed the critical winter mark, but all signs indicate that Europe has managed through this winter better than many had expected it to. The weather has been kind to many. European firms held up better than expected gas prices, industrial production didn't take a significant hit and the initial prints on GDP data indicate that both the UK and Germany may have escaped a recession in 2022. This is remarkable, given where we were just a few months ago. All things considered, we view these signs on the European economy positively and hence have 'upgraded' the outlook to deteriorating from deteriorating rapidly. But it only means that things have turned out to be better than we, and many others like us, had expected, though we are still headed toward a significant slowdown in 2023. The conflict between Russia and Ukraine is still ongoing and the risks related to an escalation there remain intact. February will mark the anniversary of Russian troops entering Ukraine's territory. Things haven't gone Russia's way over the past one year and both sides are now dug in, and Ukraine's Western allies are providing additional military equipment and funding.

Europe introduced price caps on Russian oil that kicked in late last year. It requires traders using Western services such as maritime routes, insurance, and financing to pay no more than $60 per barrel for Russian oil. And businesses in the region are now preparing to abide by a complete embargo on crude and refined fuel imports from Russia by February 5, 2023. This is a significant development that could alter energy trade flows to the region permanently. It has the potential to change the energy mix

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of industrial inputs, creating new opportunities and risks for businesses. At the same time, as Russia's efforts are frustrated, and its leverage on energy fades, chances of a military escalation, sabotage incidents, and even risk of political interference in upcoming European elections could increase.

Dun & Bradstreet Country Risk Analysis			
Country	**January 2023**	**February 2023**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Bahrain	DB4c	DB4b	1 Quartile
Cyprus	DB5a	DB4d	1 Quartile
Hong Kong (S.A.R)	DB3d	DB3d	1 Quartile
Norway	DB2b	DB2a	1 Quartile
Thailand	DB4d	DB4c	1 Quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Sierra Leone	DB6c	DB6d	1 Quartile
Outlook Upgrades (from/to)			
Cyprus	Deteriorating	Stable	
Czech Republic	Deteriorating	Stable	
Germany	Deteriorating	Stable	
Hungary	Deteriorating	Stable	
Luxembourg	Deteriorating	Stable	
Romania	Deteriorating	Stable	
Serbia	Deteriorating	Stable	
Yemen	Deteriorating	Stable	
Outlook Downgrades (from/to)			

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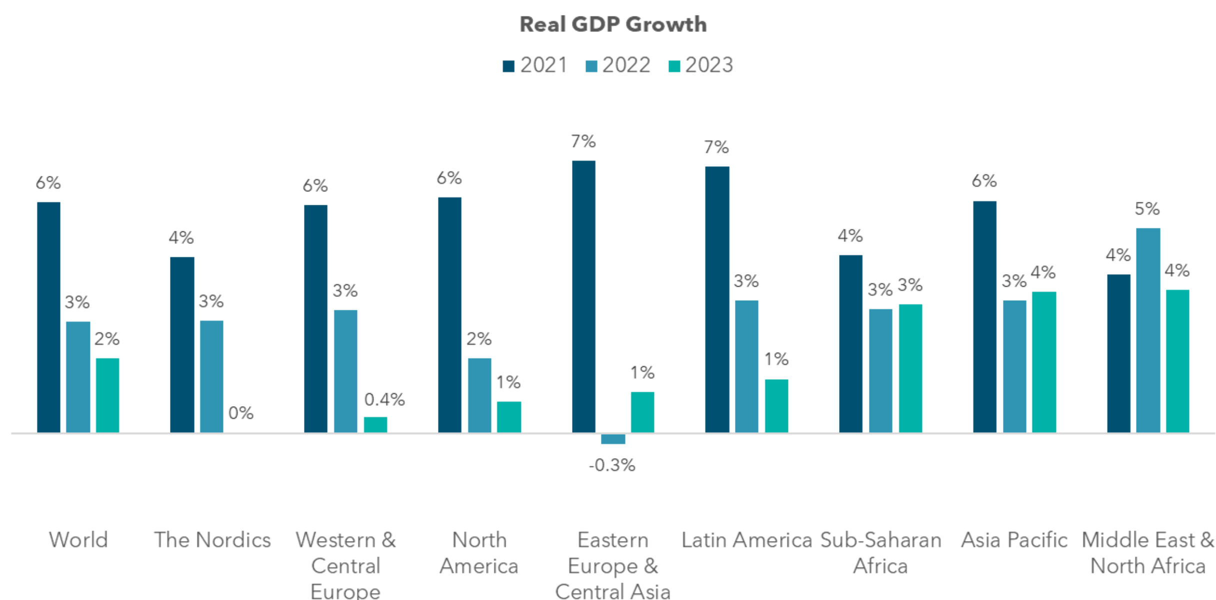
Sudan	Improving	Stable

REGIONAL SUMMARIES

In 2023, Asia Pacific and the Middle East will outperform the global economy on growth



Source: Dun & Bradstreet

North America

North America's regional outlook is maintained as 'deteriorating'. Inflation in both the US and Canada trended downward in December 2022. The Bank of Canada delivered a 25bps hike in its January 2023 meeting and will now hit pause (in line with our expectations). Labor market statistics showed marginal tightening in terms of payroll additions, but wage growth showed signs of cooling, supporting the expectation of smaller hikes in H1 2023. We expect the labor market to soon start showing the lagged effects of the massive rate hikes made in 2022.

With the US hitting its debt ceiling, all eyes will now turn to the point when the Treasury runs out of ways to find the money to keep government operations going. Through the coming months, it will have to raise the debt ceiling at some point, which may prompt fiscally conservative Republicans to negotiate hard on spending cuts using the threat of a US government default as leverage. No one in the market, including us, is expecting the US to default at this point, but the standoff over election of the House speaker earlier this month has raised concerns that this will go to the wire. Teetering on the

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brink of a low probability but a very high-risk scenario can sometimes be equally unnerving, and we expect the markets to react to every news update around this.

Western & Central Europe

Western Europe's regional outlook is upgraded to 'Deteriorating', from 'Deteriorating rapidly'. Unusually mild weather has eased pressure on energy prices at a time when headline inflation was already slowing down both in the Eurozone and the UK. However, core inflation remains stubbornly above the targets, leaving both the ECB and the BoE on a policy hiking trajectory; at the December 2022 meeting, President Lagarde assertively signaled multiple hikes in the Eurozone in the coming months.

Businesses should prepare for different scenarios; while global pressure on commodity prices and supply chains has visibly declined, an abrupt and unexpected turn in temperatures could worsen the European outlook significantly, and the re-opening of China, while positive for European and global growth, may contribute to re-invigorate inflationary pressures in Europe, for example, via higher demand for energy. In the short run, pressure on business costs is likely to remain elevated and demand will contract as consumers continue to see their purchasing power eroded.

The Nordics

In the Nordic region, energy inflation is lower than the Eurozone. Non-energy inflation is still elevated with second-round effects from higher costs pushing up prices of nearly all goods and services. Most central banks are in a state of policy uncertainty and are finding ways to strike a balance between inflation management and the risk of harming domestic economies from raising short-term interest rates.

Inflation remains the single biggest economic challenge for policymakers, followed by growth slowdown concerns and eroding real incomes due to higher prices and higher interest rates, similar to the wider Eurozone. However, the Nordic economies are relatively better placed than their EU peers, with generally robust government finances and a more disciplined approach in financial maneuvering. They are also less dependent on the vagaries of natural gas prices. However, higher interest rates are impacting Nordic households and businesses, both directly through higher costs on existing loans, especially in Sweden and Norway, and indirectly through the effect on asset prices.

Asia Pacific

The outlook for Asia Pacific region is moved to 'Stable' from 'Deteriorating'. The change reflects our expectation that, for now, we do not expect things to materially worsen from current levels. Trade in the region has been hit and will likely remain sluggish in Q1 2023. But with rising expectations that rate hikes around the world are nearing the end of their cycle, we expect regional currencies to begin

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stabilizing in the coming weeks and Asian financial assets to become attractive once again, leading to potential capital inflows.

China's reopening is a major boost to regional and global economic prospects. However, with the current high covid case numbers and the Lunar New Year holidays, economic activity will only gather pace slowly. Malaysia became the first country to pause on rate hikes in its January 2023 meeting; Indonesia and Thailand delivered 25 bps hikes each. The Bank of Japan (BOJ) re-committed itself to the yield curve control policy with the introduction of a new tool against market speculation. Overall, as growth data for Q4 2022 trickles in, we will likely see a divergence in growth patterns of the economies in the region - countries with higher domestic orientation and tourism-reliance will likely outperform those in the semiconductor and technology value chain.

Latin America & Caribbean

Barring Argentina and Colombia, inflation in the LA6 countries – Argentina, Brazil, Chile, Colombia, Mexico, and Peru – is showing signs of cooling down. However, headline figures will continue to remain much higher than the target rate. Inflation in Colombia continues to climb despite recording double-digit figures in the last six months, adding to the concerns of twin fiscal and current account deficit. Copper prices have reached the highest rate in six months, cushioning the impact of global financial tightening on Chile's finances. The slowdown in the US will continue to weigh down on the overall region's exports.

Risks to businesses in Peru have increased further as President Pedro Castillo was ousted, triggering violent protests and the subsequent declaration of a state of emergency. The invasion of Brazil's congress by protestors is a concerning risk, providing markets with yet another reason to demand higher risk premiums. The possible increase in social spending has already prompted skepticism in the markets. Growing corruption concerns may attract additional sanctions across several Central American countries.

Eastern Europe & Central Asia

Eastern European nations dependent on Russia and Ukraine for energy and food supplies are reeling under supply challenges due to the war. Commodity- and energy-importing EECA countries are facing difficult economic choices due to strong dollar and high energy and food prices. These countries continue to face further slowdown in growth coupled with higher inflation and rising interest rates.

The risk of stagflation has increased in parts of the EECA region, particularly within energy-intensive and open economies such as the Czech Republic, Hungary, Slovakia, and Poland, along with Russia and Ukraine. Countries expected to perform relatively better than their peers are Slovenia, Bulgaria, Romania, Estonia, Latvia, Lithuania, Georgia, and Serbia, reflecting less severe economic exposures to the repercussions of the war. Large and persistent external shocks alongside wider external deficits and

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the strength of the dollar have exerted downwards pressure on regional currencies and foreign currency reserves.

Middle East & North Africa

Looking ahead into 2023, prospects for the Middle East appear to be mixed. The oil-rich GCC economies will continue to grow, though we have downgraded their growth prospects a little because of lower oil production and cooling energy prices. China's reopening is supportive of oil prices. On the other hand, troubled states face a very uncertain future, especially war-torn Syria and Yemen, where conditions could easily deteriorate.

The region's travel and tourism industry is well on the way to recovery and international visitor arrivals are likely to return to pre-covid levels by the end of 2023, due to effective promotional campaigns, major investments, and the release of pent-up demand. China will also resume outbound travel in February, providing a boost.

Israel is seeing mass protests in response to an initiative by the re-elected prime minister Benjamin Netanyahu to give more powers to lawmakers in appointing judges and override Supreme Court decisions. Protestors are concerned that these efforts could have far reaching impact, from possibly legalizing settlements in the West Bank to abolishing the ongoing trial against the Prime Minister.

With no resolution in sight on the nuclear deal, Iran's currency has reached record lows amid increasing tensions with the West and the unrest gripping the country. Mass protests continue to be held, though they have reduced in intensity following government crackdowns. However, there are few signs that the government is ready to make significant concessions.

Sub-Saharan Africa

A global slowdown in growth will provide some difficulties for Africa's key commodities exporters, but their prospects are still favorable. The terms of trade remain favorable, and Europe has been looking more and more to Africa as a substitute for Russian natural gas and oil.

East Africa is in the grip of a famine as the rains failed for the fifth year in a row, with Ethiopia, Somalia, and Kenya being the most seriously hit nations. Violent conflicts in the Horn of Africa are undermining efforts to help the poor populations. The region's sensitivity to climate-related threats, which are anticipated to get worse due to climate change, is highlighted by the extreme drought. The drought also exacerbates the challenges of food security and threatens social stability. Even for countries which are agro-based, high costs of fertilizers are proving to be a huge challenge.

Nigeria is set for a Presidential election on February 25, with risks of political violence escalating. The areas especially susceptible to violence are the south-east, where a separatist group is agitating for a

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breakaway country, and the north-east, where the militant Islamist group Boko Haram and an IS-linked affiliate are active. According to some pre-election polls, the Labour Party's Peter Obi was ahead in pre-election polls. But there remains a possibility that the first ballot may not produce a clear winner. The Nigerian government is also set to face a pivotal trial in UK where the hedge fund-backed firm Process & Industrial Development Ltd. is appealing to collect an arbitration award following an allegedly fraudulent gas deal in 2017. The amount demanded is almost a third of Nigeria's forex reserves, and an adverse ruling would further destabilize the already debt-burdened country.

South Africa, the most industrialized nation in Africa, has been experiencing heavy power outages. The state-owned Eskom, which gets most of its electricity from ageing coal-fired power plants prone to breakdowns, plans to cut about 6,000 megawatts (MW) of power in a staggered manner to prevent a catastrophic collapse of the national electricity grid. A recovery plan is in place to address systemic issues, but it will take more than two years to get its energy availability factor (EAF) to up to 70%.

Key Commodity Outlook: Oil

Concerted efforts by central banks to rein in inflation globally mean that monetary policy will stay contractionary, and we are likely to see a slowdown in developed economies in Q1 2023. The reopening in China remains a bright spot for oil prices. After a lackluster start to the year, mobility indicators are picking up strongly, and demand for travel should remain strong during the Lunar New Year holidays. We expect an increase in oil consumption in February due to the pent-up demand and a host of supportive policy initiatives.

Russian oil exports are robust due to strong demand from Asia. However, the export ban on oil products could keep supply volatile in Q1 2023. An increase in supplies from OPEC and non-OPEC is unlikely as rig counts are well below 2019 levels. Weather conditions have been favorable across Europe and Asia, which has kept energy demand subdued. However, there remains the danger of a sudden change, which may lead to energy shortages. While inventories in natural gas and crude oil are at normal levels, ongoing supply constraints can quickly escalate if demand for energy rises too quickly.

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 the lowest risk, DB7 is the 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:

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DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt servicing.
DB2	Low Risk	Lowest 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.

Rating and Outlook Changes:

Rating 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.

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