

# Country Risk and the Global Outlook

July 2021

## Surge in inflation is deemed to be short term

### Commentary:

*“The recent surge in inflation outside Europe is driven by short-term demand and supply factors related to the pandemic. The pandemic is still constraining business activity in many regions despite the vaccines’ success in cutting death rates. We expect inflation to return towards policy targets by 2022, but input costs will weigh on profits, or raise final prices.” said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.*

### INTRODUCTION

Global business activity in many regions continues to be constrained by the ongoing Covid-19 pandemic, despite the success of the roll-out of vaccines in the advanced economies in cutting deaths. However, the difficulties of accessing sufficient doses and rolling them out in most countries will ensure that world remains vulnerable to new cases and variants.

The Food and Agriculture Organization (FAO) Food Price Index averaged 127.1 points in May; its highest level since September 2011 and only 7.6 points below its highest-ever level. Therefore, global food inflation came in at 4.8% month-on-month (m/m) and 39.7% in May; in 2018 and 2019 food prices rather fell by 2.2% and 0.8% respectively. Commodity prices and producer price indices (PPI) both indicate potential future downstream price rises. The Organisation for Economic Co-operation and Development (OECD) PPI climbed by 0.9% m/m and 12.7% year-on-year (y/y) in April, while the World Bank’s Energy, and Metals and Minerals Commodity Indices, are rising sharply: by 7.1% m/m and 119.0% y/y and 9.1% m/m and 85.0% y/y respectively in May.

Inflation is being driven by pent-up demand following the easing of lockdowns, increased input prices, and supply constraints as lockdowns constrain output and shipping charges are boosted by container shortages and port delays, in turn driving the inventory cycle. We expect inflation to revert back towards central bank targets as some factors driving inflation return to normal and when monetary and fiscal support packages ease over the next 12 months, but until then, how the cost of upstream inflation will be shared between corporations via lower profits, and end-consumers via higher prices, will vary by sector.

Mapping the biweekly change in Covid-19 cases on ourworldindata.org shows how the pandemic has ricocheted around the world in 2021. In Q1, the intense case numbers growth was in Europe and South America, by April it was in India and the rest of South Asia, May offered a pause with falling case numbers globally except in places such as Vietnam and South Africa; but June saw new leaps in case numbers in Southern Africa, Russia and even in the highly-vaccinated Israel and the UK.

Just as policy-makers and corporate plans have shifted to scoping the end of the pandemic, the delta variant is arriving in virgin populations like the Congo, with cases isolated in southern China. Continuing travel and commerce and the high transmissibility of the latest emerging variant means even highly-vaccine rich economies have not escaped.

## RATINGS UPGRADES

- Australia
- Canada
- Sweden

## RATINGS DOWNGRADES

None

## Monthly changes in country risk ratings and outlook trends

Dun & Bradstreet Country Risk Analysis			
Country	June 2021	July 2021	Change
Country Risk Rating Upgrades (risk level has improved)			
Australia	DB2c	DB2b	1 quartile
Canada	DB2d	DB2c	1 quartile
Sweden	DB2c	DB2b	1 quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
None			
Outlook Trend Upgrades (from/to)			
Albania	Stable	Improving	
Bangladesh	Stable	Improving	
Cyprus	Stable	Improving	
Ethiopia	Deteriorating	Stable	
Indonesia	Deteriorating	Stable	
Ireland	Stable	Improving	
Israel	Deteriorating	Stable	
Norway	Stable	Improving	
Serbia	Deteriorating	Improving	
Slovenia	Deteriorating	Improving	
Outlook Trend Downgrades (from/to)			
None			

## REGIONAL SUMMARIES

### *North America*

Business continuity outlook for western US states including California, Nevada and Utah deteriorates as the drought worsens. Elsewhere, despite slowing US vaccination rates, normalization of business activity progresses. However, the highly-contagious coronavirus delta strain is a growing risk.

### *Western and Central Europe*

The regional outlook continues to improve as lockdown measures are gradually scaled back amidst the swifter rollout of vaccines. Labour market data in the EU-27 continued to improve with the unemployment rate in at 7.3% in April, down from 7.8% in Q3 2020, but furlough schemes are still masking the true situation.

### *Asia Pacific*

Producer price inflation nearly reached double-digits in y/y terms in China, in May; in India Wholesale Price Inflation surpassed 10%. The context is although industrial capacity in China has not been hampered by the pandemic, the wave of external demand from pandemic buying of goods globally is causing parts of China's economy to be at risk of economic overheating.

### *Latin America & Caribbean*

Robust increases in commodity prices including copper buoy short-term outlook for producers. Meanwhile, regional political and insecurity-related risks remain high as public demonstrations against corruption, inequality, environmental and socio-economic issues are unabated.

### *Eastern Europe & Central Asia*

The regional economy was recovering steadily as industrial output and services picked up and international travel gradually resumed - we still forecast annual GDP growth of 2.8% for Russia and 4.4% for the region in 2021. However, rapidly spreading new variants of Covid-19 pose a downside risk, given slow rates of vaccination.

### *Middle East & North Africa*

Strengthening oil prices in the short term are boosting government revenues and therefore spending, boosting business activity in the region's oil-producing countries. The oil-poor countries will benefit from increased trade, investment and remittances flows, as job opportunities in the oil-rich countries rebound.

### *Sub-Saharan Africa*

The key risk to regional business activity continues to be the Covid-19 pandemic. SSA states are struggling to access sufficient supplies vaccines and do not have the capacity to roll out the vaccines rapidly leaving them vulnerable to fresh surges and new variants, which may be resistant to existing vaccines.

## 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.

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