Global Risk Insights

- The recovery from the 2008-09 recession remains the most challenging in the past century.
- The US & UK economies now lead the recovery in advanced countries, while small economies such as Ireland, Malaysia, and the Philippines continue to outperform.
- On the downside, the Eurozone faces the threat of a triple-dip recession, with key emerging economies including China and Brazil experiencing slowing growth.
- Downward revisions in growth and global economic momentum foster uncertainty across global markets.
- The drop in oil prices since mid-2014 will reduce business and household energy prices and boost macroeconomic conditions in oil-importing countries.

Global Economic Outlook: Economy Continues to Disappoint but Staggers Forward

Despite half a decade passing since the official end of the 2008-09 recession, the recovery is the most protracted in the past century. D&B expects growth to remain below long-term trends through the end of this decade. Between 2000 and 2007, real global GDP averaged 3.7 percent per year (at market prices), compared with an average 2 percent per year between 2009 and 2014. D&B forecasts real global growth of 2.3 percent in 2014, lower than the historically weak 2.4 percent achieved in 2013. Worryingly for international companies, the risks associated with doing cross-border business in the global economy still remain elevated.

To put this into context, of the 132 countries D&B assesses, 93 now rate worse than at the start of 2008; 56 rate at least three quartiles lower. In contrast, only 16 economies have seen their scores improve over this period, and only two are rated more than two quartiles better. D&B upgraded more countries than downgraded between January and the start of November 2014, a sign that conditions are easing slightly (see Table 1); however, this far into the recovery D&B expected to upgrade significantly more.

Although the Eurozone crisis is far from over, primarily European countries benefited from D&B’s upgrades. Political and security issues (rather than economic factors) in Argentina, Iraq, Jordan, Libya, Nigeria, Russia, Ukraine, and Yemen were behind over half of the downgrades.

Since D&B’s January 2014 outlook, D&B has lowered global economic growth forecasts between 2014 and 2018. Larger revisions impact the near term as concerns over the ability to reach pre-recession growth levels increase. The 2014 forecast has declined to 2.3 percent from 2.7 percent; 2.9 percent from 3.3 percent for 2015; 3.4 percent from 3.7 percent for 2016; and 2 percentage-point (pp) declines in 2017 and 2018 (see Table 2). North America constitutes the only region without a lower forecast since January 2014, with anticipated growth of 2 percent. Conversely, Asia-Pacific accounts for the largest 2014 revision, where slowing growth in China and India has prompted a declining forecast of 3.5 percent from 4.5 percent. Other regions with significantly reduced growth forecasts include Latin America (down 0.8 pp to 1 percent, owing to lower external demand); Sub-Saharan Africa (down 0.6 pp to 4.6 percent as commodity demand slows and prices fall); Eastern Europe and Central Asia (down 0.5 pp to 1.2 percent on regional security issues); and the Middle East (down 0.4 pp to 3.3 percent, thanks to lower oil prices and rising security concerns).

Furthermore, D&B’s concerns over the failed embedded recovery have prompted forecast downgrades in 2015 and 2016. Growth forecasts for North America and Sub-Saharan Africa have

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**TABLE 1: CHANGES IN RISK RATING BY REGION, JANUARY 2014 TO NOVEMBER 2014**

<table>
<thead>
<tr>
<th>REGION</th>
<th>UPGRADED</th>
<th>SAME</th>
<th>DOWNGRADED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>0</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>MENA</td>
<td>3</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Western Europe</td>
<td>9</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>1</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>2</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>The Americas</td>
<td>1</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16</strong></td>
<td><strong>102</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>
been significantly reduced (0.5 pp each year). Similar reductions impact Asia-Pacific (0.7 pp in 2015 and 0.5 pp in 2016); Eastern Europe and Central Asia (0.5 pp in 2015 and 0.6 pp in 2016); Europe (0.3 pp in 2015 and 0.1 pp in 2016); Latin America (0.5 pp in 2015 and 0.3 pp in 2016); and the Middle East and North Africa (0.2 pp in 2015 and 0.1 pp in 2016).

Towards the latter part of the five-year forecast period (2017-2018), D&B expects North America, Europe, and other advanced economies to be positioned to leverage any global recovery. D&B takes a more pessimistic view in Asia-Pacific, Eastern Europe, Central Asia, and Sub-Saharan Africa, with average growth down by 0.6 pp, 0.7 pp, and 0.4 pp, respectively. In contrast, D&B has shaded growth expectations in Latin America, the Middle East, and North Africa by an average 0.1 pp between 2017 and 2018.

### Headwinds Outweigh Upside Risks

Downside risks still outweigh upside risks. As monetary policy tightens and interest rates inevitably begin to rise, debt burdens (particularly in highly leveraged households and companies) will result in increased exposure to interest rate risks. High liquidity and low interest rates associated with massive global quantitative easing (QE) programs have most likely boosted asset values into bubble territory (e.g., house prices in the UK and The Netherlands, junk bonds, stock markets). Painful corrections could result in the short to medium term, evidenced by nearly USD1 trillion taken off global stock market valuations during the last week of July and again in October when stock markets fell sharply. The US S&P 500 index fell nearly 10 percent in a four-week period, while the FTSE Eurofirst 300 fell to a 13-month low. In addition, there is little margin for error in the pace and shift in monetary policy by the US Federal Reserve and, eventually, in the EU, Japan, and UK. Consequently, market volatility will be the norm until the end of 2015 at the earliest.

Meanwhile, economic policy-makers in developed countries still walk a tightrope in attempting to reduce high public debt levels while supporting economic growth. Pressure to ease fiscal austerity is growing. In Europe the challenge of potential deflation also creates difficulties for authorities. Some Eurozone countries are experiencing deflation, further undermining market confidence and threatening to dampen household spending and company investment.

In developing markets, the need to accelerate structural reform is vital for long-term growth, yet many countries have not reformed adequately. Moreover, cyclical imbalances in the financial sectors of a number of emerging markets remain concerning, while Chinese imbalances pose a major threat to that country’s long-term potential. In advanced and emerging economies, political expediency rather than economic necessity could derail progress. Finally, security tensions in the Middle East and Ukraine could raise energy prices, assuming oil prices rise in response to the threat of supply interruptions.

On a brighter note, the rapid fall in global oil prices (from more than USD115 per barrel (/b) in mid-2014 to USD85/b in October) will help boost growth. Global growth is stimulated by 0.2 pp for each USD10 fall in the price of a barrel of oil, according to the International Monetary Fund (IMF). Other bright spots include closing competitiveness gaps between northern and southern Europe, increased political pressure toward easing fiscal austerity, and a weakening euro that should boost short-term growth prospects.

### TABLE 2: REAL GDP BY REGION 2012-2018

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.3</td>
<td>2.2</td>
<td>2.0</td>
<td>2.9</td>
<td>3.2</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Europe</td>
<td>-0.2</td>
<td>0.2</td>
<td>1.2</td>
<td>1.5</td>
<td>2.0</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>3.8</td>
<td>3.8</td>
<td>3.5</td>
<td>3.9</td>
<td>4.5</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>2.8</td>
<td>2.5</td>
<td>1.0</td>
<td>2.1</td>
<td>2.7</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>2.9</td>
<td>2.5</td>
<td>1.2</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>3.4</td>
<td>2.5</td>
<td>2.9</td>
<td>3.6</td>
<td>4.2</td>
<td>4.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.0</td>
<td>4.5</td>
<td>4.6</td>
<td>5.2</td>
<td>5.5</td>
<td>5.7</td>
<td>5.7</td>
</tr>
<tr>
<td>World</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
<td>2.9</td>
<td>3.4</td>
<td>3.5</td>
<td>3.4</td>
</tr>
</tbody>
</table>
Progress on the Healing Process in the Advanced Economies

Advanced countries are attempting a delicate high-wire balancing act of reducing debt levels (involving rebalancing the fiscal position through austerity measures) while boosting growth to pre-recession levels. Disinflationary trends in Europe which threaten to spiral into deflation could further complicate the situation by pitching Europe into a Japanese-style era of low growth. Although debt-level healing is under way, increasing calls for governments to ease austerity programs could threaten progress.

Germany, Japan, the UK, and the US have experienced significant deleveraging in household debt, with levels in relation to GDP falling since peaking at the end of Q1 2009. In the US levels have fallen from 95.5 percent of GDP at end-Q1 2009 to 77 percent of GDP at end-Q2 2014. During the same period, household debt levels also declined in Japan (82.7 percent to 74.8 percent); Germany (65.2 percent to 56.3 percent by end-Q1 2014); and the UK (108.7 percent to 93.4 percent). Progress was slower to commence in Spain (peak at end-Q2 2010, 79.9 percent of GDP by end-Q2 2014); France (peak at end-Q3 2011, 69.2 percent of GDP by end-Q1 2014); Greece (peak at end-Q1 2012, 71.8 percent of GDP by end-2013); and Canada (peak at end-2012, 92.3 percent of GDP by end-Q1 2014). Progress also continues in The Netherlands, although household debt was stubbornly elevated at 127.2 percent of GDP by end-Q1 2014. Italy has seen little progress since its 57.4 percent of GDP peak at end-2012, hovering consistently around 55.6 percent of GDP. In Canada, household debt peaked at 92.6 percent of GDP by the end of 2012 and stood at 92.3 percent of GDP by end-Q2 2014.

Non-financial sector corporation deleveraging is a mixed picture. In the US, deleveraging bottomed out by end-Q4 2010 at 39.4 percent of GDP; since then the level edged up to 42.6 percent by end-Q2 2014. Canada’s non-financial sector debt increased in recent quarters to 63.7 percent of GDP by end-Q2 2014 from a low of 57.2 percent in 2010. Although showing signs of improvement in 2014, debt levels in Greece (76.9 percent of GDP at end-2013 to 74.2 percent by end-Q1 2014) and France (150.1 percent of GDP at end-Q2 2012 to 146.9 percent by end-Q1 2014) remain above previous lows. In contrast, levels have fallen in Germany (105.7 percent of GDP at end-Q1 2009 to around 89 percent of GDP since end-Q1 2011); Italy (122.8 percent of GDP at end-2011 to 114.1 percent by end-Q1 2014); Japan (154 percent of GDP at end-Q1 2009 to 144.0 percent by end-Q1 2014); The Netherlands (151.5 percent of GDP at end-Q2 2012 to 146.9 percent by end-Q1 2014); and the UK (118.5 percent of GDP at end-Q1 2009 to 99.1 percent by the end of 2013). Substantial financial-sector deleveraging has occurred in the majority of countries. Since the first half of 2009, deleveraging has continued in Germany (123.7 percent of GDP to 78.9 percent); Canada (58.2 percent of GDP to 49.1 percent); and the US (118.9 percent of GDP to 80.5 percent).
The process started a little later in the UK, with debt levels falling from 270.6 percent of GDP at end-Q3 2010 to 224.7 percent by end-Q1 2014. Peaks occurred even later but levels have since fallen consistently in France and Spain (peak by end-Q1 2012); The Netherlands (peak by end-Q3 2012); and Italy and Greece (peak by end-2012). Japan bucks the trend; financial sector debt levels were virtually the same at end-Q2 2014 as they were at end-Q1 2008—around 186 percent of GDP—although they hit a low of 169.3 percent of GDP at end-Q2 2010 and a high of 190.1 percent of GDP by end-2013.

Accumulating public sector debt is most concerning, impeding governments from pump-priming their demand-deficient economies, leaving long-term debt hangovers, and curtailing productive investment. General government debt as a percentage of GDP in 10 countries under consideration remains higher than at the end of 2008. Government debt is rising in five countries: Japan (235.7 percent of GDP); Greece (190.8 percent of GDP); Spain (143.3 percent of GDP); Italy (132.6 percent of GDP); and France (119.4 percent of GDP). However, since 2013 limited progress has been made in the US (125.4 percent of GDP to 122.8 percent); the UK (92.8 percent of GDP to 90 percent); Canada (80.2 percent of GDP to 77.2 percent); and The Netherlands (78.1 percent of GDP to 76.6 percent). Germany has performed best; public debt levels have fallen from 86.4 percent at end-Q2 2012 to 79.5 percent by end-Q1 2014.

High domestic debt levels stand well above pre-recession levels (see Figure 2) and constrain domestic demand and global growth. Governments, households, and businesses still endeavor to reduce indebtedness by curtailing spending and investment decisions. Deflation threats, particularly in Europe, will exacerbate the retrenchment trend in the private sector. Furthermore, with record-low interest rates, there is little capacity for monetary policies to ease the situation. This confluence of factors is prompting increased calls for European governments to change their fiscal policies from those primarily aimed at austerity toward greater, more productive spending efforts, further building government debt.

**Vulnerabilities in the Emerging Markets**

Emerging market growth, which drove the initial recovery from the 2008-09 recession, faces a number of challenges that will dampen growth in the medium term. Expect increasing divergence between winners and losers. The key to achieving sustainable long-term growth is addressing structural reforms in three particular areas: external balance vulnerabilities, long-term supply side restructuring, and political and social vulnerability. Reforms in these areas is critical in the face of escalating challenges created by the end of QE, a rising US dollar, falling commodity prices, weak Eurozone demand exacerbated by low inflation, and security issues.

The end of the massive US QE program will curtail liquidity in international markets, undermining capital flows to emerging economies. This could be counter-productive for countries that have failed to use the flows over the past six years. D&B analyzed 25 of the leading emerging markets (Angola, Argentina, Brazil, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Iran, Malaysia, Mexico, Nigeria, Philippines, Poland, Romania, Russia, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, Venezuela, and Vietnam) to assess vulnerability to reduced external capital flows (see Figure 3).
As of October 2014, the countries most vulnerable to short-term external balance risks are Romania, Poland, Malaysia, Chile, and Turkey. Since December 2013, Hungary dropped out of the top five while Malaysia, Columbia, Egypt, China, Iran, and Saudi Arabia became more vulnerable. Conversely, the Philippines, Vietnam, Nigeria, Angola, and Saudi Arabia were less vulnerable to negative impacts of sudden short-term capital outflows; these countries were also the least vulnerable in D&B's December 2013 rating. This was due primarily to the strength of their foreign exchange (FX) reserves, lower relative capital inflows, and reduced financial openness to global capital markets.

A rising US dollar is another effect of QE's end. A number of currencies have consequently bottomed out against the dollar, including the Brazilian real, Polish zloty, Russian rouble, South African rand, and the Turkish lira. This should help boost exports in these countries as goods and services become cheaper on international markets. Nonetheless, with Poland, Russia, and Turkey relying on depressed European markets, the boost may be muted at best. On the other hand, Brazil could gain thanks to improved US demand.

As the US dollar strengthens, commodity prices are falling, exacerbated by weaker-than-expected global demand. In general, falling commodity prices undermine current account balances in Africa, Central Asia, Latin America, and the Middle East (see Figure 4), but boost net commodity importers in Asia and Eastern Europe. A USD10/b drop in oil prices reduces export revenues to Russia by USD30 billion, while an energy importing country such as Turkey saves around USD4 billion in import payments, according to the IMF. Another benefit for net-commodity importers will be lower price pressure. Lower commodity prices in the medium term should increase pressure on commodity exporting countries to implement necessary restructuring which will help reduce commodity dependency and boost longer-term growth potential.

Meanwhile, security issues remain a concern in the Middle East and Northern Africa as the militant Sunni Islamic group Islamic State (previous known as ISIS or ISIL) continues to make gains in Syria and Iraq, and attract support in other regional countries such as Algeria, Libya, and Yemen. Violence is curtailing investment flows, trade opportunities, and tourism, while prompting human and capital flight from affected and neighboring countries. Tensions between Ukraine and Russia continue to undermine growth in both countries and raise European concerns about maintaining energy supplies from Russia. Finally, Ebola has yet to make any significant impact on the global economic outlook; however, it is curtailing growth at the epicenter of Sierra Leone, Guinea, and Liberia. Failure to contain the outbreak will have serious regional implications: the World Bank estimates costs of USD32 billion by the end of 2015.
Ten Key Risks Emanating from the Regions

The D&B Overall Global Business Impact (GBI) score for Q4 2014 stands at 272 (out of a maximum 1,000), down from its record high of 283 in Q3 2014 but significantly above the low of 226 in Q1 2014. The decrease in the aggregated score of D&B’s top-10 globally systemic risks reflects downgraded expectations of the likelihood of a full-blown civil war in Ukraine and the fact that EU banks did not require larger-than-expected refinancing arrangements following European stress tests. Both risks have fallen out of the risk matrix from the top four positions they occupied in the previous quarter. New entrants include a contingent liability shock arising in China related to local government investments, presidential elections in Greece leading to a Greek exit from the Eurozone, and Islamic State spreading violence to North Africa and the Arabian Peninsula. Thus, headwinds facing the business community remain high by historical standards.

As with the Q3 2014 report, D&B’s major global risk is the timing and pace of the Federal Reserve’s inevitable interest rate hikes. US policymakers should ensure that signals to global markets can be accurately interpreted to prevent any misreading of the situation. Rate increases should not be

<table>
<thead>
<tr>
<th>REGION</th>
<th>RISK</th>
<th>LIKELIHOOD OF EVENT (%)</th>
<th>GLOBAL IMPACT (1-5)</th>
<th>GLOBAL BUSINESS IMPACT SCORE (1-100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>US and global financial volatility spikes as markets fear the Fed might commit policy missteps in normalizing interest rates and unwinding its balance sheet</td>
<td>60</td>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>Civil war in Iraq and Syria spreads into neighboring countries, closing trade routes and destabilizing oil supplies</td>
<td>40</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>Fundamental long-term realignment of energy cooperation between Russia and Europe</td>
<td>40</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>A contingent liability shock arises from China’s reckless post-crisis local government investments, and triggers a slowdown in growth to 5 percent</td>
<td>30</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>West &amp; Central Europe</td>
<td>Outcome of presidential elections in Greece trigger snap elections which lead to a Greek exit from the Eurozone</td>
<td>30</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>Short-term disruption of the gas supply to Europe via Ukraine</td>
<td>30</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>Islamic State spreads violence to North Africa and the Arabian Peninsula, threatening stability and oil flows</td>
<td>20</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>North America</td>
<td>The end of the ultra-low interest rate environment chokes off the nascent recovery in business investment and drags on growth</td>
<td>20</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>Default contagion in China from bad debts in upstream industry, property and local government triggers state rescues for mid-tier banks</td>
<td>30</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>West &amp; Central Europe</td>
<td>Delayed implementation of reforms in peripheral economies delays a sustained recovery</td>
<td>30</td>
<td>3</td>
<td>18</td>
</tr>
</tbody>
</table>

1 D&B’s assessment of how an event might occur globally, by depth (seriousness) or breadth (number of countries affected. For instance, limited effect would total 1 (confined regionally or low impact on the global environment); high impact would total 5 (all countries are significantly affected).

2 Ranks the impact of an event on the global business environment. The score is totalled by multiplying the probability of the event by its global impact, then dividing by 5 to arrive at a result between 1 and 100. The higher the score, the more negative the impact on cross-border trade.
implemented too rapidly for markets or emerging economies to be able to react appropriately. The GBI score remains elevated at 60 (out of a maximum 100).

In second place with a GBI score of 40 is security concerns arising from civil wars in Syria and Iraq, where the radical Sunni group IS continues to gain fighters, equipment, and ground. Violence spreading into neighboring countries could impact not only local supply routes but oil markets, with the potential to significantly raise global energy prices.

In third equal place (GBI score of 24) are four risks: two relating to ongoing violence in Ukraine, one from the Asia-Pacific region, and one from Western Europe. Concerns persist about the impact of the Ukrainian situation on energy cooperation between Russia and Europe. In the short term supply interruptions over the winter months could result, and in the long term global energy markets may reel as Europe seeks to reduce its reliance on Russian gas.

Asia-Pacific concerns center on a contingent liability shock arising from local government investment in China. That could see domestic growth reduced to only 5 percent. The outcome of the Greek presidential election in early 2015 could additionally trigger a snap parliamentary election, leading to a Greek exit from the Eurozone (GBI score of 24). Consequences could include legal and regulatory chaos, uncertainty over debt, and a possible domino effect on other countries, given the strong anti-EU trend amongst European voters.

In seventh equal place (GBI score of 20) is the risk of the broader regional implications of groups in North Africa and the Arabian Peninsula declaring allegiance to IS. IS-trained fighters returning to their home countries intending to foment violence and attack hydrocarbon installations would inevitably spike global oil prices.

Also in seventh place is the risk related to the ending of the US Federal Reserve’s loose monetary policy. The domestic impact of raising US interest rates too early or quickly could impair the nascent recovery in business investment. Any slowdown in this would drag on growth.

A second risk in China (GBI score of 18) is the threat of possible default contagion in the upstream industry in over-capacity sectors (such as steel-making, ship-building, solar panels, coal, property, and possibly cement, glass-making, aluminium, and commercial real estate in the Yangtze river delta), property, and local government. This would trigger financial sector problems necessitating state rescues and emergency capital issues.

Finally, the risk of delayed reforms in peripheral EU economies could undermine a European recovery (GBI score of 18).

Key Observations: Positives, Negatives, and Key Risks

+ US recovery is the strongest and most sustainable
+ Lower commodity prices should boost demand, reduce current account imbalances, and lower costs for business
+ Major emerging markets are considering deep supply-side policy reform

− The Eurozone is at risk of triple-dip recession, while growth is slowing in major emerging markets
− The “new normal” is sub-par compared to pre-crisis growth levels
− Post-crisis growth is overly focused on wealth effects of rising asset prices

− The regulatory jungle and mispricing of risk in China’s financial system
− Global dilemma between interest rate risk and risks from ultra-easy policy
− Low nominal GDP growth worldwide elevates interest rate risk
− Microeconomic surprises: 10 years on, did you win big from “Web 2.0”?
− Financial governance: Could Main Street and taxpayers get “looted” again?
Regional Insight: The Americas

Trend: Stable

Headline Regional Issues

- Policy uncertainty following the outcome of the second round of voting in Brazil’s presidential election overshadows the country’s near-term outlook
- Projected GDP contractions in Argentina and Venezuela, combined with sluggish growth in Chile and Peru, weigh heavily on regional growth prospects
- Inflationary pressures remain resilient in Venezuela and Argentina and heighten the possibility of further government intervention in domestic markets
- Regional currencies remain weak against the US dollar on account of domestic and external pressures
- International reserves remain broadly solid, providing adequate buffers against moderate external shocks in the near term

Regional Outlook

Regional real GDP will expand by 1.5 percent in 2014—down from 2.6 percent in 2013—as growth in key economies falters. After slipping into recession during the first half, Brazil’s economic outlook for 2014 remains weak with a forecast of 0.1 percent. Moreover, Venezuela will contract by 2.6 percent and Argentina by 1.5 percent, weighing heavily on regional growth prospects for 2014. Worryingly, the region’s stronger economies continue to disappoint. Peru’s Manufacturing Industrial Production Index declined by 2.3 percent year-over-year in the second quarter compared to 3.5 percent in the same period in 2013, fuelled by declining output from non-primary and primary sectors. Similarly, Chile recorded relatively tepid second-quarter economic expansion of 2.1 percent year-over-year (versus 3.7 percent for the same quarter in 2013). With the IMF’s recent downward revision of China’s 2014 real GDP forecast to 7.4 percent for 2014 (from 7.7 percent in 2013) and a weaker-than-expected global recovery, commodity-driven economies will continue to face deteriorating external accounts. D&B reiterates Mexico’s progress on structural reform strengthens its short-to medium-term outlook, while an uneven growth pattern among regional economies will persist in the coming quarters.

Recommendations

- Firms in Argentina will continue to face US dollar scarcity (foreign reserves slid by 22 percent year-over-year in August). Moreover, a weaker peso, rising inflation, and a higher minimum wage in January 2015 will add significantly to operating costs
- The government is considering raising fuel prices in Venezuela for the first time in 18 years. This would lead to violent protests and a further spike in inflation. Monitor developments and take appropriate security and budgetary planning measures
- The Chilean senate’s approval of a tax reform package means firms face higher tax liabilities in the coming fiscal year
- The commercial climates in Venezuela and Argentina will continue to deteriorate as government intervention in those markets deepens
- Explore investment opportunities in large infrastructure projects as key governments lean toward more public-private partnership arrangements to facilitate capital works
Regional real GDP growth will be very heterogeneous, reflecting the different recovery stages economies face. Of the region’s five biggest economies, D&B expects the UK to perform best, followed by Germany. Conversely, France, Italy, and Spain will perform significantly worse than the UK and Germany. As France’s political leadership has neglected reforming the rigid labor market, unemployment has become a major concern. Harmful effects on growth prospects and government finances remain a critical risk factor. In general, the regional situation will stabilize in the coming months, but labor market reforms remain a prerequisite for a return to trend growth rates over the medium term.

On a positive note, D&B expects the Greek economy to return to growth in 2015 (after several years of contraction) coupled with an acceleration in Portugal. Likewise, Cyprus will return to growth in 2015 (having recorded a contraction over 2012 to 2014), while Ireland is poised to improve. With the addition of a recovering Spanish economy, all five bailout countries could see upgrades to their country risk score in the medium term. However, multiple downside risks require continued close monitoring.

**Recommendations**

- Monitor the ECB’s attempts to push inflation upwards, as failure could lead to a Japan-style deflationary development
- Although not D&B’s core scenario, a break-up of the Eurozone cannot be ruled out completely. Monitor news closely
- Maintain tight payment terms for customers in Mediterranean countries, as insolvency risk remains high and payments performance remains poor
- Watch progress the new European Commission is making in free-trade negotiations with the US, as import regulations and tariffs could change

Regional real GDP growth will be very heterogeneous, reflecting the different recovery stages economies face. Of the region’s five biggest economies, D&B expects the UK to perform best, followed by Germany. Conversely, France, Italy, and Spain will perform significantly worse than the UK and Germany. As France’s political leadership has neglected reforming the rigid labor market, unemployment has become a major concern. Harmful effects on growth prospects and government finances remain a critical risk factor. In general, the regional situation will stabilize in the coming months, but labor market reforms remain a prerequisite for a return to trend growth rates over the medium term.
Regional Insight: Eastern Europe and Central Asia

Trend: Deteriorating

Headline Regional Issues

- D&B expects Eastern Europe and Central Asia to be the worst performing region in 2014. The region will catch up with world growth in 2015 (although European Commonwealth of Independent States (CIS) countries will fall behind)
- Downside risks include the Ukraine crisis, US/EU sanctions against Russia (and its retaliatory measures), re-balancing in China, and the end of the commodities supercycle
- The slowdown in Russia has negative implications on regional trade and investment given its systemic importance
- Political and insecurity risks remain high in Central Asian and European CIS countries

Regional Outlook

The region boasts diverse growth perspectives. In 2014 D&B expects 2-percent real GDP growth in emerging Europe, underpinned by expansion in the Baltics, whose buoyant growth in the first half was badly hit by Russia’s ban on food imports in the third quarter. Emerging Europe should rebound to 3-percent growth in 2015. Net export producers in Central Asia will perform strongly at 5.7 percent growth in 2014, slowing to 5.5 percent in 2015 thanks to tepid growth in Russia and sliding commodity prices. European CIS countries will perform worst, with GDP contracting of 1.7 percent in 2014 due to a sharp GDP decline in Ukraine and flat growth in Russia. However, growth will recover to 0.6 percent in 2015, underpinned by Russia’s modest recovery and slower economic contraction in Ukraine. Regional downside risks prevail, including uncertainties around the Ukraine situation (and its impact on the “sanctions war” between Russia and Western countries), the potential slowdown in China, weak recovery in the EU, and low commodity prices curtailing growth for net energy exporters.

Outlook for Key Regional Countries

Russia, the region’s key economy, faces stalling economic growth. D&B expects slower growth in 2014 than in 2013. A sharp contraction in investment (intensified by capital flight triggered by sanctions, Russia’s retaliatory measures, and heightened security risks owing to the stand-off with Ukraine) and decelerating domestic demand growth remain critical factors. Assuming no additional sanctions and cooling in the Ukraine crisis, D&B anticipates modest growth of 0.6 percent in 2015. The abrupt rupture of trade and economic ties with Russia and the Eurasian Economic Union countries, severe damage caused by the military conflict in the east, and fiscal consolidation will force Ukraine’s economy to contract by 7 percent this year after flat growth in 2013. A USD27 billion bailout package from international donors brings unpopular reforms that might be challenging for any government to implement. D&B forecasts the GDP contraction will moderate to 1.5 percent in 2015. Greater representation of populist factions poses one risk associated with the early parliamentary elections in October, threatening implementation of the IMF program.

Meanwhile, Kazakhstan’s rate of growth (4 percent and 4.6 percent in 2014 and 2015, respectively) will remain higher than other major economies, though lower than in 2013. Ongoing problems with the start of commercial production at the Kashagan oil field, sliding commodity prices, and the closeness of trade links with Russia could exacerbate the slowdown.

Recommendations

- Downside risks for doing business in the region prevail. Different combinations of downside risks in different locations require an in-depth assessment of particular countries
- Take legal advice on potential implications of sanctions on your business
- Strict trade terms are recommended, especially in Central Asian and European CIS countries
- Adequate political risk/trade credit insurance should be considered
Regional Insight: Asia-Pacific

Trend: Stable

Headline Regional Issues

- Asian export volumes have held up, with container traffic up 9.5 percent year-over-year in August. Container imports rose only 4.4 percent
- China’s deteriorating property market and mounting credit risks in overexpanded sectors have yet to be fully felt by trade partners
- Inflation risks remain contained. While most regional currencies have arrived at sustainable valuations against the US dollar, they could be tested again after the fourth quarter
- Corporate financing conditions remain supportive, with corporate bond market issuance enjoying the hiatus in Fed policy-tightening impacts

Regional Outlook

Outlook for Key Regional Countries

Australia, Thailand, and Singapore have experienced investment recessions which have not bottomed out, but private consumption growth has held up across the region (growing 1 to 3 percent annually). The impact of a rise in the consumption tax has caused policy uncertainty Japan. And despite prevailing financial stability since Thailand’s coup, low consumer sentiment and steep drops in investment continue to be problematic as the government attempts to raise taxes.

Despite a series of mini-stimuli and selective credit easing, policy will be ineffective in shoring up China’s property market. India’s broad recovery prospects are limited by supply-side and policy implementation that could depress reform performance and business investment through 2016. Although bond yields are at near-historic lows across the region, the “credit cycle” stands at a late phase. Corporate interest rate coverage ratios appear weak in China and India, raising concerns. How debt-fuelled growth strategies adjust once interest rates start to rise in the US will prove a critical challenge, testing investor confidence in returns in Asia-Pacific local assets from the early fourth quarter onward.

Recommendations

- Visibility in credit/accounts receivable quality and sales trends will be limited by the inflection point for US monetary policy due in mid-2015
- Use a mix of open account (OA) and documentary credit terms across different sectors in one country as economies diversify and the near-term picture remains complex
- Use negotiations over trade terms to gauge customer and supplier liquidity and sentiment. Be prepared to give more generous terms in cyclical sectors
- For those sourcing from Asia, corporate willingness to offer trade credit will vary from country to country but often efforts to establish a long-term trading relationship remain strong
- Expect greater opportunities for locally-based shippers in the Association of Southeast Asian Nations (ASEAN) region after 2015 with the ASEAN Economic Community
Regional Insight: Middle East and North Africa

Trend: Deteriorating

Headline Regional Issues

- Geopolitical concerns in Syria/Iraq with the rise of IS undermine regional security
- The control of large areas of Syria and Iraq by IS undermines the business environment in Jordan, Lebanon, Turkey, and Iran
- The after-effects of the Arab spring in Tunisia, Libya, Egypt, and Yemen undermine the regional risk outlook
- Oil prices weakened in third quarter 2014, denting the budgetary positions of the Gulf states
- Negotiations over the Iranian nuclear issue have been extended, maintaining hopes of a settlement

Regional Outlook

Regional Growth Forecast

Although average annual oil prices are poised to weaken in 2015, government spending will drive growth in the oil-rich countries through infrastructure development. Meanwhile, oil-poor countries will continue to benefit from job opportunities in, trade with, investment from, and economic assistance from the oil-rich countries. Overall, D&B expects regional growth to increase from 2.5 percent in 2013 to 3.1 percent in 2014 and 3.7 percent in 2015. These forecasts are vulnerable to downward revision amid rising geopolitical issues. Short-term global economic uncertainties, the impact of US shale oil and gas on global oil prices, and restructuring in emerging markets also constitute headwinds.

Outlook for Key Regional Countries

Saudi Arabia, the region’s largest economy, will see real GDP growth rebound to 4.3 percent in 2014 and 2015 after three years of slowing growth, driven by infrastructure spending. Similarly, Qatar’s prodigious double-digit growth rate between 2006 and 2011 has decelerated but will nevertheless average 6.3 percent in 2014 and 2015, and 6.5 percent between 2016 and 2018. Government expenditure ahead of the 2022 soccer World Cup will drive growth. In addition, the United Arab Emirates will continue to recover from its 2009-10 debt crisis, expanding by 5.5 percent in 2014 and 5.6 percent in 2015. Although progress on the nuclear issue continues, the impact of international sanctions through 2015 will hamper growth in Iran, with the economy remaining virtually stagnant in 2014 and 2015.

Meanwhile, in larger non-hydrocarbon-dependent economies, Egypt will continue to suffer from its unstable political situation. Growth will fall to only 2 percent in 2014 before climbing to 3.4 percent in 2015. Israel’s economy is expected to bottom out in 2014 at 2.6 percent—down from 3.2 percent in 2013—before rebounding to 3.1 percent in 2015. In North Africa, the importance of the agriculture sector is reflected in the Morocco’s volatile growth: 4.4 percent in 2013, 2.6 percent in 2014, and 4.1 percent in 2015.

Recommendations

- Monitor the situation in Iraq and Syria, as it will impact on supply across the region. Payment performance in Jordan, Lebanon, Turkey, and Iran will also be affected
- Closely monitor political and security developments in all countries, particularly Algeria, Bahrain, Egypt, Iran, Jordan, Lebanon, Libya, Syria, and Yemen. These will impact business risk
- Do not expect the resolution of the latest violence in the Gaza Strip to bring about lasting peace between the Palestinians and Israel...
  ...
- ...but expect the situation to remain confined to Israel and the Occupied Territories
- Monitor the global oil price closely. If it approaches USD80/b, oil-rich countries will have to seriously curtail their infrastructure projects, creating a significant deterioration in the commercial environment
- Monitor negotiations between Iran and the international community over the nuclear issue. A resolution would open the Iranian economy to significant opportunities, particularly in the upstream and downstream hydrocarbon sector
Regional Insight: Sub-Saharan Africa

Headline Regional Issues
- Regional growth moderated slightly in the past few months but remains on track to slightly outpace 2013 and accelerate in 2015
- West Africa’s Ebola outbreak is the key near-term risk: unless contained, it threatens to affect overall regional growth
- The US Federal Reserve’s exit strategy could cause currency volatility and undermine capital flows to the region’s frontier economies
- Geopolitical insecurity and violence, precipitated by domestic and intra-regional conflicts, have become leading regional risks

Regional Outlook

Regional Growth Forecast

Nigeria’s country risk profile remains precarious despite solid macroeconomic prospects: real GDP growth is poised to rise 6 percent this year, accelerating to 6.2 percent in 2015. However, business continuity and security threats remain high. South Africa’s economic growth will fall short of 2013 figures. Real GDP expanded 0.6 percent quarter-over-quarter in the second quarter 2014, erasing the 0.6 percent contraction in the first quarter. D&B forecasts real GDP to advance 1.8 percent in 2014 and 2.9 percent in 2015.

Kenya’s positive outlook resulted from recent revisions in its GDP calculations, showing an economy that is nearly 25 percent larger than previously estimated. D&B has upgraded GDP growth to 5.5 percent in 2014 (up from 5.2 percent) and 5.8 percent in 2015 (up from 5.6 percent). Ethiopia, one of East Africa’s best performers over the last decade, is poised for robust growth owing to foreign capital inflows. Foreign direct investment (FDI) inflows and other forms of foreign investment are expected to increase in 2014 and beyond. Real GDP is forecast to expand 7.8 percent in 2014 and 8 percent in 2015.

Recommendations
- Mining companies should be aware they are at high risk of being targeted by militias
- Investors should beware of forced contract renewals as governments attempt to maximize returns and as resource nationalism rises
- D&B recommends stricter trade terms for local counterparties
- Monitor FX liquidity in countries with balance-of-payments difficulties and weak currencies
- Companies are advised to take out adequate security and political risk insurance coverage
For more information, visit our website at www.dnb.com, or contact our Customer Service Center at 1.800.234.3867. If you are interested in our Country Insight solutions, email us at CountryInsight@dnb.com.

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