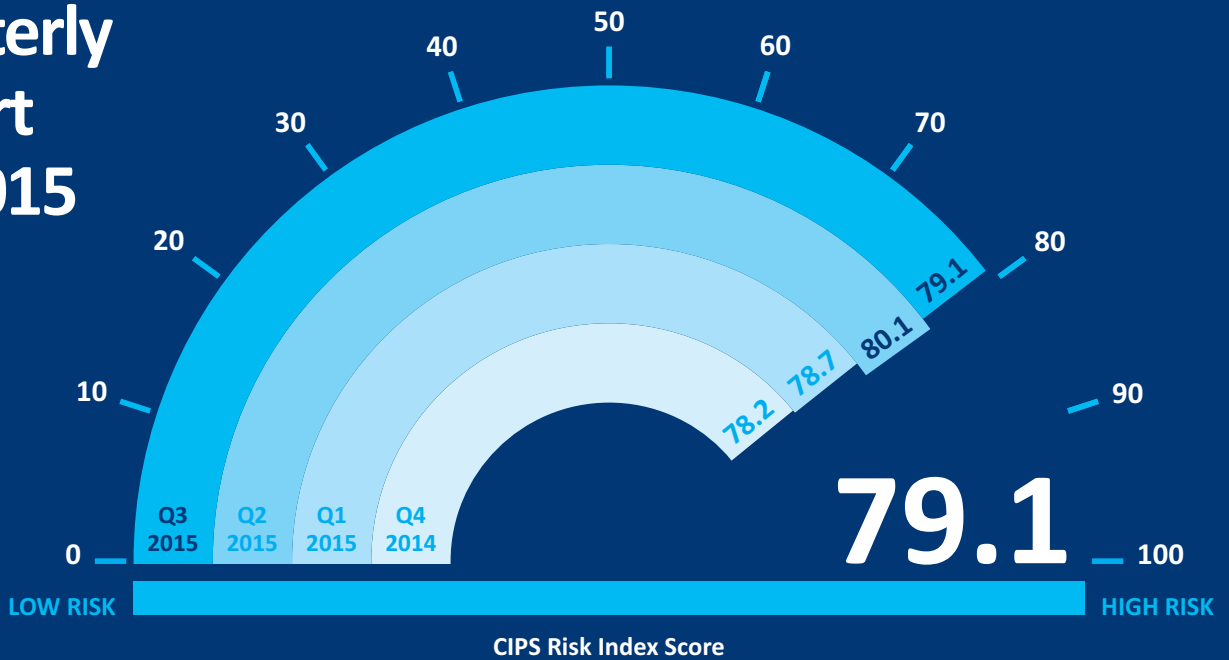


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# CIPS RISK INDEX

Quarterly  
Report  
Q3 2015



## CIPS RISK INDEX (CRI) KEY POINTS Q3 2015

**The CRI score reverses** its recent deteriorating trend with an improvement to 79.1 this quarter, on the back of upgrades by our team to some highly weighted advanced economies.

**We believe the deteriorating trend** in the CRI from the last quarter of 2014 was foretelling recent travails in emerging markets, but better news overall could be around the corner.

**Financial market volatility spiked in August**, as global investor sentiment turned against a number of major emerging markets, eclipsing improved economic news emanating from some advanced economies.

**Ten countries have been upgraded in Q3** in terms of our operational risk assessments, with fifteen countries experiencing an overall increase in operational risk for companies trading across borders.

**Our CRI has improved, but risks remain close to record highs.**

# About the CIPS Risk Index

## How the CIPS Risk Index works

The CIPS Risk Index is composed of multiple unique assessments undertaken by Dun & Bradstreet's economics team of over 40 in-house economists, data analysts and contributors working in-field across the world. In all, 132 countries (comprising 90+% of global economic activity) are assessed across nine categories, on a monthly basis. The individual country scores are then aggregated to calculate a global supply risk score.

We use weights for each country based on the contribution each country makes to total global exports (in theory, their individual contribution to global supply chains). The trade shares are anchored to data for 2010 to facilitate consistent comparison of the index scores over time. The regional scores are done in the same way, aggregating across all countries in the region based on their contribution to total exports.

### Country risk scores

Dun & Bradstreet country scores provide a comparative assessment of cross-border risk. The ratings are divided into seven bands ranging from DB1 (lowest risk) to DB7 (highest risk). Each band is subdivided into quartiles (a-d) with an 'a' designation representing slightly less risk than a 'b' and so on. Only the DB7 score is not divided into quartiles and sets a ceiling for the highest risk level.

## The Index assesses against nine categories:

### CRI CATEGORIES

1. Short-term economic outlook
2. Long-term economic potential
3. Market potential
4. FX risk
5. Transfer risk
6. Business environment quality
7. Business continuity
8. Insecurity/civil disorder risk
9. Expropriation/nationalisation risk

# CRI still weaker than 2014 average

132 country markets assessed for the period Jul – Sep 2015

Our CRI score has improved in the third quarter of 2015, the first improvement in global operational risk since Q3 2014. Our measure has fallen to 79.1

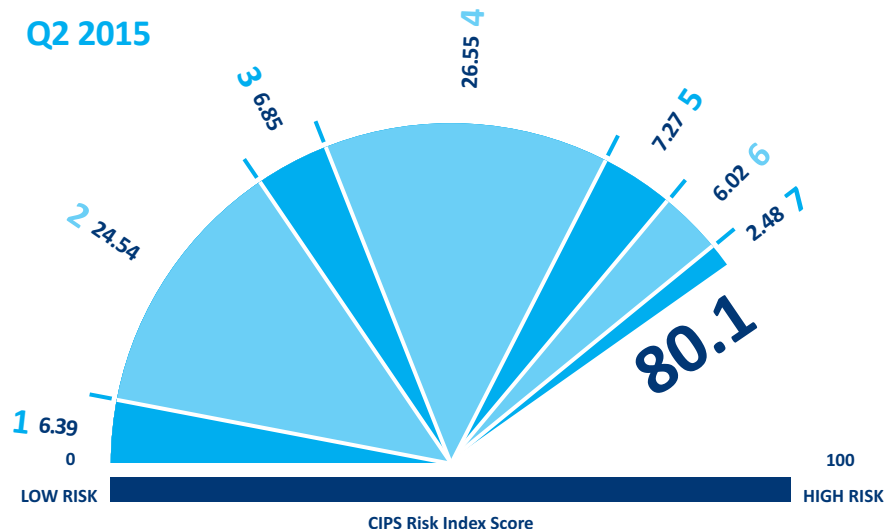
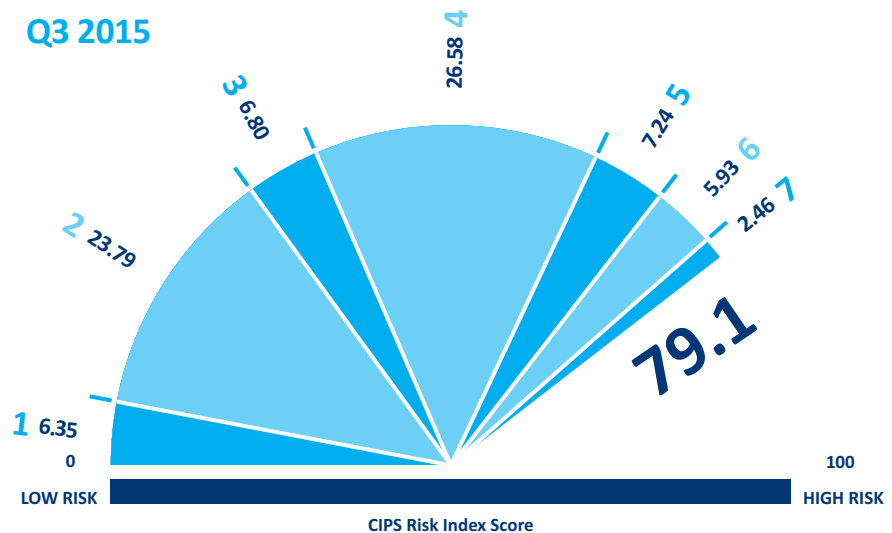
Our CRI has improved in the third quarter, the first improvement in global operational risk since Q3 2014. Nonetheless, it was a busy quarter with no less than 25 revisions to our individual country risk scores, highlighting the still conflicted nature of the operational environment.

## Contribution to global risk by region (Q3 2015 vs Q2 2015)

### REGIONS

1. NORTH AMERICA
2. WESTERN AND CENTRAL EUROPE
3. EASTERN EUROPE AND CENTRAL ASIA
4. ASIA PACIFIC
5. MIDDLE EAST AND NORTH AFRICA
6. LATIN AMERICA
7. SUB-SAHARAN AFRICA

Charts represent an approximation of regional contribution and reference should always be made to the relevant regional statement for the extent of any actual change.



# Regional Risk Summaries



## North America

**Dun & Bradstreet's country risk ratings for Canada and the US remain unchanged in Q3. We expect regional economic growth to be 2.2% in 2015, falling short of the 2.4% pace of 2014, but this is underpinned by healthy domestic demand in both Canada and the US. On the other hand, both countries face headwinds due to the slowdown of the global economy, particularly the loss of steam in emerging markets (led by the Chinese economy).**

Canada slipped into a technical recession when real GDP contracted for two consecutive quarters in H1 2015, whereas the US economy bounced back from its disappointing start in Q1 to post respectable growth in Q2. The devaluation of the Chinese yuan and the massive selloff in Chinese stock markets sparked a correction in US and Canadian equity markets and ignited volatility in global financial markets, leading many to believe that the US Federal Reserve (Fed) will consequently postpone interest rate lift-off until 2016. For Canada (more exposed externally to the global economy and to global supply chains) this will keep oil prices lower for longer, weighing on FX revenues and growth. For the US, the slowdown in emerging markets will be less impactful. The more immediate effect of financial market fluctuations is likely to be upward pressure on the US dollar, thanks to its position as a safe haven currency. In contrast, we expect the Canadian dollar to lose ground.

The first interest rate hike by the Fed continues to drive vigorous discussion and speculation. The long-running debate on whether the Fed will start raising rates in September 2015 has been laid to rest. At its latest meeting on September 17, the Federal Open Market Committee (FOMC) left its target for the Federal Funds Rate (FFR, the policy rate) unchanged at 0.00-0.25%, thereby postponing a historic first step towards a normalisation of monetary policy. The rate has been near-zero since December 2008. Dun & Bradstreet reiterates that the exact date of the rate lift-off is of little consequence for broader macroeconomic performance, and that businesses should prepare for rates to rise by the end of the year; rather, we believe that the trajectory of the policy rate and the pace of subsequent rate increases, is far more important in defining monetary policy's role in guiding the economy's expansion (and hence

for business planning). We expect subsequent increases in the FFR to follow a shallow path, reaching only 1.0% by the end of 2016.

Canada's October election produced a victory for the centrist Liberal party after a highly-charged campaign that centred largely on economic credentials. In the run-up to the election the Liberals made clear that they would seek to reverse some recently introduced tax-cutting measures and lean towards greater levels of public spending. The Liberals are now in a strong position to avoid lengthy domestic negotiations over policy and push ahead with implementation. The Party has pledged to invest heavily in infrastructure to help support economic growth rather than focus on balancing the fiscal budget. Also, there is likely to be a stronger push for environmental protection (specifically targets on greenhouse gas emissions) and a renewed push for the Keystone XL oil pipeline project to the US.

Following the FOMC's decision, and the forward guidance available from the Fed, Dun & Bradstreet has left its near-term forecast for the US economy unchanged. We expect real GDP to expand by 2.3% in 2015, accelerating to 2.9% in 2016. The main driver behind the middling forecast for this year is the insight provided by our proprietary leading indicators. Dun & Bradstreet's Small Business Health Index (SBHI) slid by 0.1 points to start Q3. July's reading of 96.3 is still above the Q2 average of 95.5, and equal to the Q1 average of 96.3, but it still falls well short of its December 2014 peak of 98.7. The US continues to be rated at DB2a.

Despite these headwinds, note that Canada and the US remain two of the best-rated countries in Dun & Bradstreet's universe of 132 countries. There are only three countries rated higher.

## Western and Central Europe

**Encouragingly, the Western and Central Europe region experienced no less than seven upgrades and only one downgrade in July-September. On the downside, Dun & Bradstreet revised the Former Yugoslavian Republic of Macedonia's risk rating downwards from DB4a to DB4c on the back of a deteriorating political environment that culminated in a poorly-executed anti-terror operation (causing the death of 22 people), and the collapse of the government. In addition, the constant inflow of refugees using the country to transit from Greece to Western Europe has also contributed to the downgrade, as supply chains have been severely impacted.**

Meanwhile, four euro-zone economies have seen upgrades to their risk ratings in Q3, helped by an agreement between the Greek government (which was re-elected in September) and the country's international creditors. In Slovenia, higher-than-anticipated growth and the better absorption of EU funds (which is in turn fuelling investment) has triggered an upgrade from DB3d to DB3b. At the same time, a sound economic recovery has also led to an upgrade of Spain's risk rating from DB4a to DB3d, just within our 'moderate risk' category.

A recovery in the domestic housing market and growth rates of 2.6% year on year (y/y) in Q1 and 2.2% in Q2, combined with encouraging forward-looking indicators, prompted us to raise the Netherlands' risk rating from DB2d to DB2c while assigning a 'stable' outlook. Positively, the number of business failures has been falling throughout the first seven months of 2015. On the back of good Purchasing Managers' Index figures, as well as robust real GDP growth figures in H1 2015, we upgraded France's risk rating by one quartile to DB2c, also helped by a 7.6% y/y drop in business failures in Q2.

In Central Europe, Dun & Bradstreet improved Hungary's risk rating from DB4c to DB4b as the weakened currency fuelled an export-led growth boom. Against this backdrop, the manufacturing sector performed especially well, but retail sales were also rising rapidly in Q2 and Q3. A last-minute attempt to use EU funds from the 2007-13 budget (allocated money has to be used by the end of 2015) and an interest rate cut also boosted investment activity. Like Hungary, the

Czech Republic is benefitting from a weak currency – maintained by central bank intervention – that is stimulating exports. The economy expanded by 4.4% y/y in Q2, the highest rate of expansion in the whole EU, and unemployment has fallen markedly. As a result, we have upgraded the country's rating from DB3b to DB2d; for the first time in the Czech Republic's history, the country is ranked in our 'low risk' category. Meanwhile, in Iceland, the gradual phasing out of the capital controls that had been in place since the financial crisis in 2008 is underway. Dun & Bradstreet had always made this a pre-condition for Iceland's return into our 'slight risk' category. The country is now ranked DB3d (up from the previous DB4a).

While Q3 was an exceptionally good quarter for the region, there are some concerns regarding the end of the year and early 2016. The slowdown in China as well as the recent Volkswagen emission scandal could hit the region's manufacturing sector, while the mass influx of refugees could undermine social cohesion and boost support for anti-immigration and anti-EU parties, thereby endangering the efficient functioning of free trade. At the same time, Greece's long-term membership of the eurozone is far from certain, as the country needs to implement further far-reaching reforms (which might eventually be opposed by the electorate). Another flare-up of the Grexit debate in the quarters ahead seems very likely; positively, however, we do not expect the eurozone to break up, even if Greece were to leave the euro area.

### FURTHER INFORMATION

#### Country Insight Reports

Quarterly reports for 132 countries provide in-depth analysis of a country's risks and opportunities in relation to the global and regional business environment. They provide summary recommendations, trend and forward-looking analysis and focussed narrative around the implications of each key risk factor.

[www.cips.org/dnb-qtr](http://www.cips.org/dnb-qtr)



## Eastern Europe and Central Asia

**Our risk rating score for the Eastern Europe and Central Asia region held steady in Q3 2015, but we believe that the underlying trend is deteriorating. While the situation in eastern Ukraine has stabilised, we have not yet upgraded the countries involved in the conflict, as a complete resolution is unlikely to be achieved in the near term. Moreover, ongoing concerns regarding the Russian economy continue to weigh on the outlook for the region, given the strong links Russia has with many of the regional countries in terms of trade, investment and remittances.**

A renewed ceasefire in eastern Ukraine, which has been broadly respected since 1 September, has spurred cautious optimism over a lasting de-escalation in the conflict between the government and the Russian-backed separatists. In a further positive development, pro-Russian rebels recently agreed to postpone disputed elections in the self-proclaimed republics of Donetsk and Luhansk. The rebels were planning separate elections without Kiev's approval, which Western governments claimed would violate the terms of the Minsk accord. Meanwhile, the Ukrainian military has reported that the opposing sides in eastern Ukraine are both withdrawing tanks and other weapons from the front line. While these are undoubtedly encouraging developments, a complete resolution of the crisis would require full implementation of the Minsk agreement. However, a number of contested issues are still unresolved – including giving Ukraine back full control over its border with Russia. As such, a 'frozen' conflict remains the most likely scenario for the time being.

The Ukrainian economy has suffered the most in this conflict, but has avoided all-out collapse, thanks in large part to the West's determination to not let Ukraine fail, a position evidenced by the IMF's loan programme. Positively, recent economic data suggest that the severe recession may be abating. Nevertheless, the short-term outlook for Ukraine remains extremely challenging, as the economy has undergone severe shocks to both demand and supply, with the significant destruction of infrastructure and supply chain disruption.

The Russian economy has been hit by the slump in oil prices, Western sanctions and fiscal austerity driven by a sharp fall in tax revenues. We expect EU sanctions on Russia to be extended in January and US sanctions to remain in place until Russia demonstrates significant progress in implementing its obligations under the Minsk accord. The recession in Russia

has weighed on activity across the region by depressing Russian import demand and triggering sharp falls in migrant remittances.

In recent months, a number of regional currencies have experienced sharp depreciations, including the Russian rouble, Kazakh tenge and Ukrainian hryvnia. Currency weakness has fuelled inflation and is squeezing profit margins as companies face greater operational costs. Depreciations have been triggered by a range of factors including the Ukraine conflict, weak oil prices and the recent emerging market currency turmoil (sparked by concerns over China's growth and the August yuan devaluation). With currency volatility likely to persist in the coming months (particularly as uncertainty continues over the start of the US interest rate tightening cycle), we still advise businesses with foreign currency exposures to employ hedging strategies.

Economic weakness and currency depreciations have increased the strain on the banking sector in a number of countries in the region, causing lending conditions to tighten. As such, cross-border payment risks are heightened, particularly in relation to counterparties with FX-denominated liabilities.

We still expect Eastern Europe and Central Asia to be the worst-performing region for economic growth globally in 2015. We forecast real GDP in the region to contract by 1.0% in 2015, and anticipate only a weak recovery next year (based largely on the assumption of a recovery in external demand). In general, despite the already weak outlook, we caution that risks remain skewed to the downside, and that they include further commodity price declines, a re-escalation in the conflict between Russia and Ukraine, renewed volatility in global financial markets, and a deeper-than-expected slowdown in China.



## Asia-Pacific

**The Asia-Pacific region's risk score deteriorated further in Q3 as its regional score moved from 3.392 to 3.420 (on our 1-7 scale, where DB7 is the highest risk score possible). The increase in regional risk was wholly driven by our downgrades of New Zealand's and Australia's country risk scores; these downgrades mostly reflected the negative external impact from the shift in China's import requirements and outlook, and the general fall in the two Antipodean producers' key commodity exports in agriculture and mining respectively.**

In July, we downgraded our country risk score for New Zealand one notch to DB2b. During Q1 2015, real GDP grew at the slowest pace since Q1 2012, with output in the agriculture and mining industries falling (in the case of the former, depressed by a drought in the North Island region). Weaker-than-forecast growth in Australia and China is sapping demand for New Zealand products, while prices of New Zealand's key exports, including milk powder, butter and cheese, continued to face significant downward pressure through Q3 2015 as global dairy prices fell to a multi-year low in July. Global dairy prices have fallen to their lowest level since the global financial crisis as slowing demand and a global supply glut have quickly pushed prices lower.

Deteriorating macroeconomic conditions led Dun & Bradstreet to downgrade Australia one notch to DB2d in September. Real GDP recorded its weakest growth in nine quarters as lower exports of goods and services weighed heavily during Q2, also marked by a sharp and continued decline in Australia's terms of trade which fell to a nine-year low. Persistently declining commodity prices among key exports and a marked slowdown in upstream industry in China, Australia's main trading partner, weighed heavily and will continue to do so over the short term. As Australia moves from its peak investment mining phase and continues into its production and output phase, historically-low global commodity prices and sliding demand will offset increased output, and continue to put pressure on the overall economy.

Sectors in China that are oriented to private consumers and services are still faring well, but, in areas burdened with over-capacity industries, local governments have been propping up employment via direct pressure and control over banks. This has meant that corporate finances in distressed sectors have become worse than if they had been able to take advantage of China's flexible labour laws; this has worsened creditors' exposures. Recent falls in electricity consumption by heavy industry reflected falls in activity: the northern, coal-heavy

provinces are the worst-affected in a syndrome worsened by corruption-driven, loss-making investments in construction and the decline of coal, as energy policy moves away from the most polluting fossil fuel. In this context, the central government raised its budget deficit projection for 2015 to the largest since 2008.

The damage to Tianjin port from a sequence of hazardous chemical explosions disrupted port operations in August, destroyed thousands of cars and containers due for shipment, and affected port users, including the automotive industry, for weeks. The 4km-radius fireball's impact was projected to cost insurers USD1.6-3.3bn. It highlighted the poor zoning and regulation in an area responsible for over half of the city of Tianjin's economic output, and through which 40% of cars are imported to China. The disaster response was confused, with undertrained reserve firefighters' use of water causing secondary explosions. The incident is likely to be the most expensive man-made disaster in Asia to date and will cause premiums for hazardous shipments in China to rise. China's top safety official was fired and calls for the professionalisation of the fire service have grown.

Otherwise, China's supply chain environment was largely benign in Q3. The port sector suffers from excess capacity, meaning little congestion, and container lines are likewise burdened with excess capacity, meaning shippers, particularly on Asia-Europe legs, can currently find bargains. Typhoon Chang-Hom's landfall on Zhejiang and Jiangsu provinces may have been the most powerful July storm seen since 1949, but the evacuation of 1m people took place in good time and the cyclone did not affect China's score in Q3. None of the other typhoons hitting mainland China, Taiwan and Japan, in what was an active typhoon season in Q3, were severe enough to warrant moves in Dun & Bradstreet's supply risk environment outlook or the broader country risk indicator, although typhoon Soudelor, in August, caused record-breaking power cuts to 4m homes in Taiwan.





## Middle East and North Africa

**The Middle East and North Africa's (MENA) regional risk score worsened slightly from 4.374 in Q2 2015 to 4.384 in Q3 2015, reversing some of the gains made in the previous quarter. Although the Q3 score is still below the high of 4.443 in Q4 2013, it remains elevated by historical standards and indicates higher average risk than other regions. Looking ahead, we expect the regional risk score to remain relatively stable over the next quarter.**

In July we downgraded three countries – Tunisia, Bahrain and Kuwait – primarily as a result of increased security concerns. Tunisia was downgraded from DB5c to DB5d (still in the 'high risk' category) following the Sousse beach attack on tourists that left 38 dead. The attack, which was claimed by Islamic State (IS, formerly ISIS or ISIL), had an immediate impact on the economically-vital tourist sector. The sector was already under pressure following an attack in March on the Bardo Museum in the capital, Tunis, which claimed the lives of 22 people. These attacks have seen the cancellation of many holidays, which has resulted in Tunisia entering a technical recession in the first half of 2015. We are currently forecasting real GDP growth of only 0.2% in 2015, and 1.3% in 2016 as holidaymakers continue to shun Tunisia in 2016. As a result, tourism and directly related sectors will suffer a significant increase in cashflow difficulties and bankruptcies, while other businesses will also face challenging conditions.

Kuwait was also downgraded, from DB4a to DB4b (still in the 'moderate risk' category), owing to an IS-claimed attack. The downgrade followed the 26 June attack in which a Sunni Saudi national entered the Shi'a Imam Jafar as-Sadiq mosque and detonated a bomb, killing 27 worshippers and injuring over 200 attending Friday prayers. The attack was part of a wider campaign by IS against Shi'a Muslims in the region, which included similar bombings of two mosques in Saudi Arabia and two in Yemen over the previous three months. We believe that the bombing has the potential to undermine communal relations in Kuwait, raising sociopolitical risks. Furthermore, there is a high risk of further attacks, potentially against other targets such as companies and embassies, undermining the business operating environment.

Meanwhile, Bahrain was downgraded from DB4c to DB4d as political tensions continued to increase and the risk of attack against the majority Shi'a population by IS escalated following similar attacks in other regional countries. Domestically, on 16 June, Sheikh Ali Salman, the leader of the main (Shi'a) opposition party Al Wefaq, was sentenced to four years in jail on charges of inciting hatred. His is the latest and highest profile of a series of cases over the last year targeting the opposition, and human -rights activists on flimsy charges. The targeting of the non-violent opposition reduces the prospects for politically-important reconciliation talks; indeed, Wefaq has said it will not participate in any dialogue with the government without Salman's involvement. Importantly, the government's policy is also likely to radicalise the more marginalised sectors of society such as the Shi'a.

Positively, we upgraded Iran by one quartile from DB5d to DB5c in August; since January 2014 the risk rating for Iran has improved by four quartiles. As with the previous upgrades the reason is related to the success of the nuclear negotiations. The 5 July agreement between Iran and the international community, represented by the P5+1 countries (China, France, Russia, the UK and the US, plus Germany), paves the way for the lifting of sanctions in early 2016; however, the deal also allows the sanctions to be reinstated within 65 days if Iran fails to comply with the terms. The lifting of sanctions would open-up the world's 28th-largest economy – the largest opening since the fall of the Berlin Wall in 1989. The move will significantly improve supply chain risk in the region, as well as curtail oil prices into the medium term, as Iran's hydrocarbon sector is revamped.

### FURTHER INFORMATION

#### Country Heatmap

Use the Country Heatmap to quickly locate the countries which are relevant to your supply base. If they are at a threshold of, or beyond your risk appetite, you can find out more from detailed Dun & Bradstreet country reports.

[www.cips.org/risk-index](http://www.cips.org/risk-index)





## Latin America

**Latin America's risk score deteriorated for a fourth quarter running, negatively impacting global supply chains. In Q3, the region's overall score worsened to 4.474 from 4.424 as aggregate economic activity decelerated further, while political tensions in key countries side-tracked or outright stalled much-needed policy-making. In addition, poor weather and natural disasters led to moderate disruption to business operations. Looking ahead, still-low export commodity prices and ongoing uncertainty in global financial markets are contributing to lower consumer and business expectations, and we see no reason for an improvement in operational risk in the next few quarters.**

Brazil's sharp real GDP contraction of 2.6% in Q2, which weighed heavily on the region's aggregate performance, and our forecast for a further slowdown (the economy is now expected to contract by 2.8% in 2015) contributed to a downgrade in the country risk rating in September by one quartile to DB4c. Troublingly, rising operational costs are squeezing profit margins as headline inflation continues on an upwards trend. Consumer prices rose to 9.9%, significantly outside of the central bank's target range of 4.5% (+/- 2%), in the twelve months to September. The steady weakening of the real is a major contributor to the current round of inflationary pressures, and firms should note that cross-border payment risks are now higher, particularly for Brazilian counterparties with USD-denominated liabilities. Relatedly, while the central bank apparently has ended its latest tightening cycle, borrowing costs in the last year have risen, with the selic now at 14.25% (its highest level since July 2006) as a result of a cumulative rise of 300 basis points since October 2014. The bank's battle with stubborn price pressures has led to higher credit risks, especially for companies with credit facilities tied to the benchmark rate. In terms of physical infrastructure, Brazil's increasingly-fragile fiscal situation – characterised by missed targets and a projected deficit of USD10bn this year – will lead to lower public spending on infrastructure and other capital projects. Moreover, political turmoil linked to the evolving Petrobras scandal and possible impeachment of President Dilma Rousseff is frustrating policy-making and deferring important economic reforms. From an operational planning perspective, firms should also pay close attention to public responses to government's proposed austerity measures, which recently triggered industrial action in the public (trade-related) and private sectors.

Chile was also downgraded by a quartile to DB3b last quarter as stagflation fears rose on the back of a failed economic recovery. The fall-out from corruption allegations also continued to weigh on President Michelle Bachelet's administration. In addition, political risks escalated as the government's education reform efforts were thwarted by a seven-week teachers' strike against plans to link pay to performance. Notably, a renewal of strike action remains a strong possibility as the two sides continue their negotiations. In similar action, in July the Confederation of Copper Workers (CTC) blocked access routes to some of the mines of the national copper company, Codelco, demanding enhanced remuneration packages. Since more strike action cannot be ruled out in the near term, firms should formulate appropriate contingency plans to minimise

disruption to supply chains. Meanwhile, business continuity was affected by an 8.3 magnitude earthquake that struck Chile's northern coast on 16 September. While damage was estimated at USD400-600m, with 2,000 homes rendered uninhabitable and 13 fatalities, the damage was minimised by the enforcement of strict building codes in previous years, as well as swift implementation of well-rehearsed disaster response plans.

Costa Rica and Uruguay were also each downgraded by a quartile in Q3. As Costa Rica's economic recovery struggled to take hold, we revised our risk rating for the country to DB4a. However, recent data suggest that the economy has stemmed its deceleration, with GDP expanding by 2.5% in Q2; this was the fastest pace of growth since Q2 2013. Elsewhere, volcanic eruptions and heavy rains impacted supply lines and transport in recent months: the San Jose international airport was closed due to several eruptions of the Turrialba volcano in the Central Valley since March, while heavy rains led to substantial household damage on the Caribbean coast and forced the closure of roads, including the San José-Caldera highway. Similarly, Uruguay's risk score was downgraded to DB3d as the economy weakened at a faster-than-expected pace on account of low domestic investment and contagion from Brazil. Real GDP disappointed, with a contraction of 1.8% q/q in Q2. In addition, market potential has been negatively impacted by Uruguay's withdrawal in mid-September from negotiations towards the multilateral Trade in Services Agreement (TiSA) led by the US and EU, aimed at liberalising trade in services such as banking, healthcare, and transport. The Uruguayan government cited the absence of the BRICS countries from the negotiations and the potential permanent loss of government control in key industries, as the main reasons for its withdrawal.

Last quarter, Cuba was a notable exception in the region, with a rating upgrade of two quartiles to DB6a. The restoration of diplomatic relations between the US and Cuba paves the way for a significant surge in foreign investment and travel; we believe this will lead to the unlocking of huge output-potential and the establishment of new supply chains for the country and region. While congressional approval is still required to fully dismantle the US embargo on Cuba, the end of 55 years of sanctions will clear the way for American firms to do business with Cuban counterparts. The agriculture, finance, telecommunications, and tourism sectors are expected to be amongst the first to start opening up on the island.



## Sub-Saharan Africa

**The region's overall risk score worsened over the third quarter of 2015 (to 5.535, from 5.533 in Q2) as our score for Ghana was downgraded, while no regional countries were upgraded. Furthermore, we believe the underlying trend in operational risk to be deteriorating slowly, as the drop in global commodity prices and the slowdown in emerging markets weigh on the export revenues and fiscal positions of key countries within the region.**

Dun & Bradstreet has revised downwards its forecast for regional growth; real GDP growth for sub-Saharan Africa will fall below 4% (to 3.8%) in 2015, down from 4.7% in 2014. This is the weakest pace of growth since 2009. The largest economies in the region will slow the most, thanks to their heavy dependence on commodity exports. As commodity prices are expected to remain weak, and demand from China will falter in the near term, these countries will need to find alternative drivers of growth, and diversify their markets. Recent commentary from the IMF warned that in most countries in the region (even those without an outside exposure to resource exports), savings from the recent period of rapid growth have been limited. The region's countries are now entering this period with larger fiscal and external deficits than at the onset of the 2007-09 global financial crisis. Over the medium term, this will hamper public sector spending on vital areas such as infrastructure and healthcare.

The negative impact of the Chinese slowdown on the sub-Saharan Africa economy will thus be two-fold. First, the drop in Chinese demand for commodities will reinforce the bust in the commodity cycle, and keep prices lower for an extended period of time. This will hurt the FX revenues of some of the region's key players, who have long depended disproportionately on one or two resource exports to China. Secondly, even a mild, relatively controlled slowdown in China will weigh on global growth measurably and will have knock-on effects on regional growth. Additionally, frontier economy currencies remain exposed to the threat of volatility in the wake of the US Federal Reserve's likely withdrawal of extraordinary monetary support.

The outlook varies significantly from country to country. Nigeria's growth in 2015 will be measurably slower than that in 2014 as the drop in crude oil prices persists and weighs on

prospects of a recovery. Following 6.2% growth in 2014, Dun & Bradstreet forecasts real GDP to expand by 4.2% in 2015. Most of the near-term growth of the Nigerian economy will be driven by the non-oil sector. Headwinds to the South Africa economy remain strong: following 1.5% growth in 2014, Dun & Bradstreet expects real GDP to be stuck at 1.5% in 2015, picking up only slightly to 1.9% in 2016. Tepid growth is expected to continue as the economy weathers FX risk, structural deficiencies, and low global prices for gold and platinum (South Africa's key commodity exports).

Low oil prices continue to undermine Angola's export revenues and FX reserves, prompting the Banco Nacional de Angola (BNA, the central bank) to intervene regularly in the FX markets to steady the kwanza and reduce the gap between the official, and black market exchange rates. In Kenya, the economy is well placed to grow at a healthy pace despite the external sector challenges, in contrast to many of its sub-Saharan Africa peers. Unlike these peers, Kenya is not overly dependent on resource extraction and exports, and hence the impact of the bust in global commodity prices will be limited for the country; we expect the economy to end 2015 with near-6% growth.

The lone downgrade in the region, Ghana, continues to face multiple difficulties in 2015. Debt levels appear to be climbing, and concern is mounting that the level of debt is unsustainable and could push the country back into 'heavily indebted poor country' (HIPC) status. According to recent estimates by the IMF, total debt could reach 75% of GDP by Q4 2015 (recent estimates by the central bank have this figure at 70%). Although Ghana faces similar external sector problems to other countries in the region, the overall vulnerability stemming from the growing debt overhang is the cause of our rating downgrade and the worsening of the country's risk profile.

### FURTHER INFORMATION

#### Country Insight Snapshot Reports

These frequently-updated reports provide a snapshot view of a country's cross-border risk exposure, focussing on the political, commercial and macroeconomic environments.

[www.cips.org/dnb-mth](http://www.cips.org/dnb-mth)

# Commentary

## Dr. John Glen

CIPS Economist and Senior Economics Lecturer at the Cranfield School of Management

“Supply chain risks have often felt remote and barely visible to even the most trained eye. In today’s environment, risks affecting supply chains feature daily on our television screens. The European migrant crisis and conflicts in the Middle East mean that the risks are getting closer – and are feeling more acute.

For a long time we have taken for granted our interconnected world, enjoying its benefits for the most part. We are currently seeing the flip side of the coin. Supply chain managers will need their wits and skills about them if these uncertain times are to be navigated expertly.

Dealing with global supply chain risk requires extensive skills. An ability to interrogate and innovate to provide solutions for businesses and customers will be paramount if we are to keep global supply chains flowing.



## Andrew Williamson

Global Leader and Leading Economist, Dun & Bradstreet

“Despite a “Grexit” being avoided (again), global financial markets lurched abruptly a few months back as concerns intensified over the extent of the growth deceleration in China and its ramifications for many other emerging markets and even the advanced economies. This business uncertainty continues to stifle the positive benefits of lowered commodity prices. Indeed, this year looks to be the first for many decades where capital outflows from the emerging markets will outweigh capital inflows. The darkening global backdrop and slightly disappointing jobs growth numbers in the United States likely forestalled the anticipated normalisation of monetary policy by the Federal Reserve in September.

Nonetheless, the CIPS Risk Index paints a contrarian view this quarter with its fall in global operational risk. We believe the CRI from late 2014 and into 2015 was indicating, ahead of time, the recently reported travails in the emerging markets. Much of the bad news has overshadowed the more promising news emanating from Europe and in particular the highly-weighted trading countries of Spain, France and the Netherlands in our index. Although there is much to be gloomy about, consensus estimates for next year are still pointing to a respectable acceleration in overall economic activity for the global economy.



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**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infosa@cips.org.za](mailto:infosa@cips.org.za)

**CIPS Asia Pacific** 31 Rochester Drive, Level 24, Singapore, 138637  
T +65 6808 8721 F +65 6808 8722 E [infosg@cips.org](mailto:infosg@cips.org)

**CIPS Australasia** Level 2, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

**CIPS MENA** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 119774, Dubai, United Arab Emirates  
T +971 (0)4 311 6505 F +971 (0)4 332 8810 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)



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