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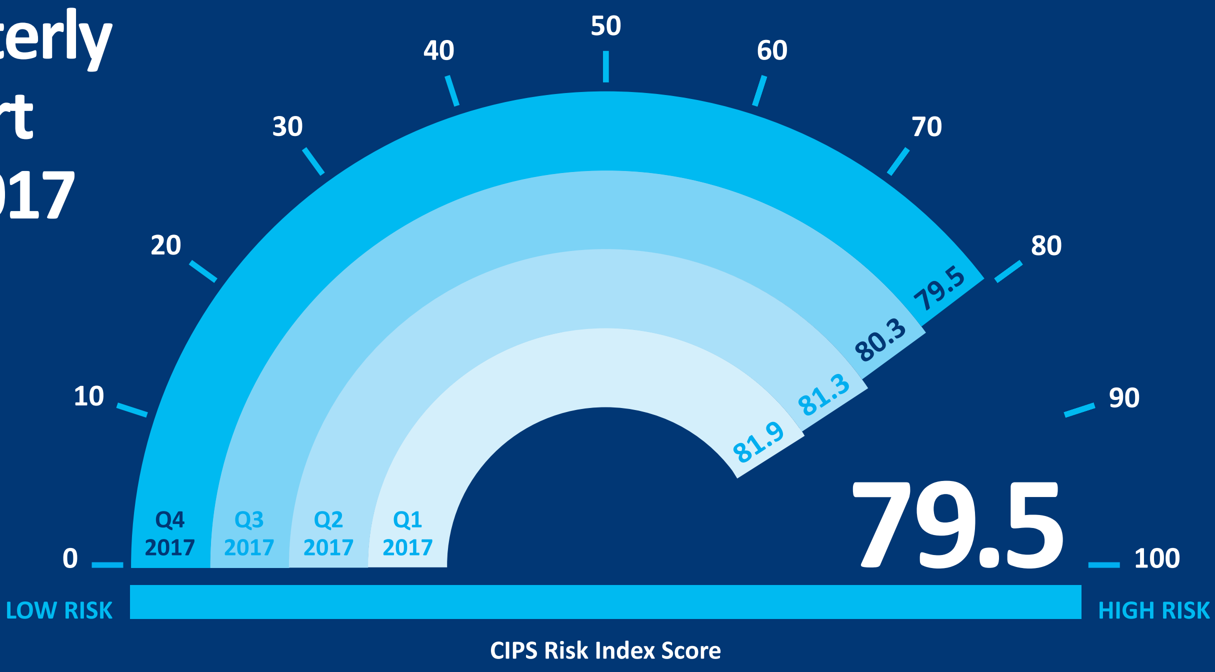
CIPS RISK INDEX

Quarterly Report Q4 2017



CIPS RISK INDEX (CRI) KEY POINTS Q4 2017

The CRI score improved modestly for the fourth straight quarter, signalling a moderation in cross-border supply chain risks. Synchronised growth across major world economies bodes well for global supply chains.

The improvement in the CRI score reflects a strong finish to 2017, while our optimism about global growth in 2018 remains high: we forecast the strongest growth since the recession.

In an upside for supply chains, we (like the IMF and World Bank) currently forecast strengthening growth in 2018; one caveat here is the potential for trade disputes.

Nine countries were upgraded in Q4 in terms of our operational risk assessments, while only three were downgraded; momentum effects of upgrades/downgrades from Q3 2017 also impacted the CRI.

Our CRI score improved notably, signalling continued moderation in supply chain risks.

Leading global excellence in procurement and supply

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). For consistency, the trade shares were originally anchored to data for 2010, but in 2017 these were rebased to export rates from 2015. The regional scores are completed in the same way, aggregating across all countries in the region based on their rebased 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

Fourth straight CRI improvement in 2017

132 country markets assessed for the period Sep – Dec 2017

A synchronised acceleration in growth in major economies signals reduced supply chain risk in the near term as our CRI drops to 79.5 in Q4 2017 (from 80.3 in Q3).

Thanks to a broadly based pickup in global economic activity, operational risks for global businesses declined for the fourth time in 2017. CIPS Risk Index (CRI), powered by Dun & Bradstreet, score fell below the 80-point mark and is now at its lowest since Q1 2016.

Contribution to global risk by region

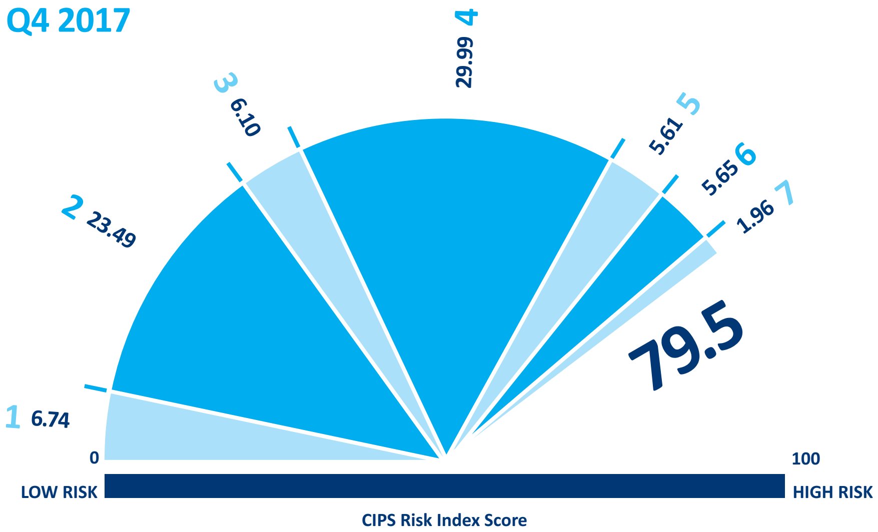
(Q4 2017 vs Q3 2017)

REGIONS

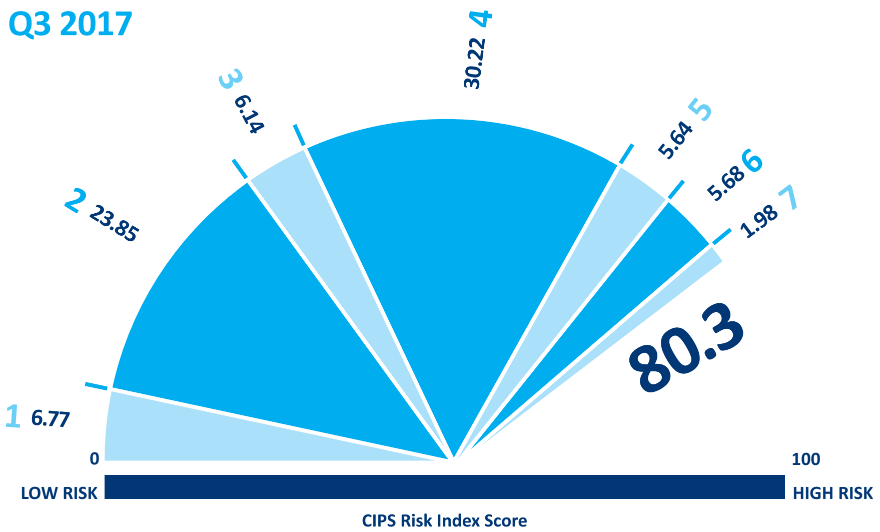
1. NORTH AMERICA
2. WESTERN AND CENTRAL EUROPE
3. EASTERN EUROPE AND CENTRAL ASIA
4. ASIA PACIFIC
5. MIDDLE EAST AND NORTH AFRICA
6. LATIN AMERICA
7. SUB-SAHARAN AFRICA

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.

Q4 2017



Q3 2017



Regional Risk Summaries

North America

Supply chain risk in North America, as measured by the CIPS Risk Index (CRI), powered by Dun & Bradstreet, score, remains unchanged in Q4 2017, as neither Canada nor the US saw any changes in their country risk scores. But the underlying trend in supply chain risk is an improving one, as a steady acceleration in growth in both Canada and the US will push 2018 regional growth up to its best rate since the end of the recession. Risks to growth are to the upside.

Labour market resilience in both countries will be a key factor driving growth and inflation, while both central banks will continue to normalise monetary policy, taking advantage of the robust near-term outlook.

Dun & Bradstreet forecasts that growth in the United States will accelerate to 2.6% in 2018, with risks to the upside. The advance estimate from the Bureau of Economic Analysis shows that US real GDP advanced 2.6% SAAR in Q4 2017, slightly below the 3.2% pace set in Q3 but strong enough to take calendar 2017 growth to 2.3%, in line with our forecasts. The fundamentals of the economy remain strong, and the US is going through its third longest expansion ever. Growth in 2018 will be driven by persistent and strong hiring in the labour market, steady spending by confident consumers, and increased investment from bullish businesses benefitting from the recent reduction in the corporate tax rate. Corporate tax reform has largely been welcomed by the business community (and households) and is expected to keep sentiment high while contributing modestly to near-term growth. From a policy perspective, the passage of the tax law in December 2017 removed a key source of political uncertainty, prompting Dun & Bradstreet to upgrade the US's outlook trend indicator from 'deteriorating' to 'stable'. As of February 2018, we have, however, held our political environment outlook at 'amber' (upgraded from 'red' in January) as disagreement between Democrats and Republicans could impede policy again in the near term, raising the risk of a government shutdown and delay in the passage of debt-ceiling measures.

The labour market remains the backbone of the economy's strong fundamentals. US hiring started 2018 on a solid note when employers added 200,000 net new non-farm jobs in January, slightly faster than our forecast of 187,000 and ahead of the calendar 2017 average of 181,000. Smoothing out month-to-month variations, the 3-month moving average of job gains comes to 192,000 in January, indicating the depth of hiring in the economy. The unemployment rate held for the fourth straight month at 4.1%. At this mature stage of the business cycle, about 106,000 jobs per month are needed to keep the unemployment rate at 4.1%; in fact, Dun & Bradstreet's forecast of an unemployment rate below 4% was realized in May, when the rate was driven to 3.9%. It marks the first time unemployment is below 4% since 2000. The economy added 164,000 jobs in April.
Sub-par wage growth had been the one missing piece of the otherwise bright jobs story, but the January jobs report provided the most sanguine signal yet that wage growth is finally starting to accelerate. Average hourly earnings growth picked up from 2.7% in December 2017 to 2.9% in January, its fastest pace since the Great Recession ended in June 2009. The lingering and persistent tightness of the labour market suggests that wage growth – and more importantly broader earnings growth – will continue to quicken gradually in 2018. The recent tax reform will also help: many US companies have announced one-time bonuses to their employees, citing the tax cuts, while some have gone further and announced higher wages. The bonuses will add to ongoing strength in the Employment Cost Index.

In Canada, 2017 marked a strong turning point for the economy: after years of underperformance, overall growth momentum strengthened as real GDP rose at an estimated annual pace of 3.1% – the strongest growth since 2011. Although the pace of growth in 2017 was uneven, several growth indicators turned notably higher, including industrial production, retail and wholesale trade, and total trade (exports and imports), while both business and consumer survey information climbed throughout the year. Additionally, the labour market showed resilience. Full-time employment growth momentum was strong in 2017, with gains the largest as a percentage of the total labour force since 2011. Due to a reduction in labour slack, total compensation also improved markedly through 2017. The gradual trend of an improving labour market will continue to empower consumption growth in 2018, albeit with limitations due to elevated household debt. In 2018, expect overall real GDP growth to slow compared with 2017's pace but still to rise by 2.4% amid ongoing changes in the composition of growth. Both public and private gross fixed capital formation will continue to improve as the recovery in oil prices persists and public investment in infrastructure continues, helping to offset some of the negative effects from higher debt-servicing costs.

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

North America continued

That said, there are a number of concerns and headwinds that are deterring us from raising Canada's rating further. First, fundamentals in the housing market remain stretched. Mortgage debt remains the primary contributor to high household indebtedness, and while regulations have helped to raise the proportion of new mortgage debt deemed low-ratio (considered more financially stable), the share of new mortgages deemed high-ratio continues to grow and remains concentrated in the Toronto and Vancouver markets.

Second, uncertainty regarding existing trade agreements and contentious issues are posing risks to the external environment. After six rounds of NAFTA renegotiations, all sides remain far apart. Major issues include a lack of resolution regarding content origination ratios and revisions to the handling of the investor state dispute settlement systems. As negotiations enter the seventh round, the March deadline is quickly approaching.

Some progress has been made on non-contentious issues such as agreements on anti-corruption, with updated chapters on handling digital and telecommunication products also close to conclusion. NAFTA renegotiations aside, Canada has recently become embroiled in multiple trade disputes, resulting in filed trade complaints with the WTO. On one hand, Canada is a complainant against the US regarding multiple trade remedy measures: Canada is attempting to remedy the US's 2017 use of tariffs on the country's softwood lumber producers by filing a complaint through the WTO. We see this move as risky, as it could further inflame relations at a crucial time, with NAFTA renegotiations entering the final phases. On the other hand, Canada is also a recipient of WTO complaints: Australia has filed a complaint over its domestic wine sale process, and other countries have joined the complaint. Increases in WTO complaints means an increase in trade tensions, clouding our external outlook.

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

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Western and Central Europe

TREND*

Encouragingly, for the third consecutive quarter, risk levels dropped in Western and Central Europe. Overall, the region saw four upgrades and only one downgrade in the final quarter of 2017.

Most notably, given the country's size, Germany's risk rating was revised upwards by one quartile to DB1c (making it the best-ranked country in our 132-country coverage universe, ahead of Sweden and Norway, which are currently ranked DB1d). While political risk remains somewhat higher than normal, given the ongoing coalition talks following the September election, macroeconomic indicators remain sound, while payments performance and business failure developments are still of outstanding quality.

The Netherlands also saw a risk rating upgrade (from DB2c to DB2b) as the economy expanded rapidly and as forward-looking indicators point to a solid growth rate in 2018–19. At the same time, data from Altares, Dun & Bradstreet's Rotterdam-based World Wide Network partner, shows that the number of business failures fell significantly throughout 2017, while the average payment delay declined to 5.9 days (compared with a European average of 13.2 days).

Elsewhere, in mid-February the Instituto Nacional de Estatística issued a preliminary estimate of overall 2017 growth, leading us to upgrade our overall risk rating for Portugal from DB4b to DB4a. In line with our previous estimate, GDP growth reached 2.7% in 2017, up from 1.5% in 2016, and, given the strength of investment and domestic demand, we consider that growth is well enough balanced to warrant an upgrade, with risks for 2018 weighted on the upside. We currently forecast growth of 2.3% in 2018, though this forecast is subject to upward revisions: consumer demand and investment growth remain firm, and prospects are good for continued steady growth in both.

Meanwhile, Greece's national statistics office (ELSTAT) announced it had revised its GDP compilation method in October, to make it compliant with the European System of National and Regional Accounts (ESA) 2010, and that it consequently updated GDP data for the Q1 2014–Q2 2017 period. Post-revision data shows that real GDP shrank by 0.2% in 2016 as a whole. The Q2 2017 GDP growth rate was also revised: lifted to 1.6% y/y, up from a pre-revision value of 0.8% y/y. In the light of this, Dun & Bradstreet has raised its growth forecasts for 2017 and 2018 to 1.0% and 1.5% respectively, up from 0.6% and 1.0% previously. The pace of economic expansion is likely to accelerate in 2019, on the back of an ongoing (albeit slow) improvement in labour market conditions, with a positive knock-on effect on household purchasing power, and thus consumer spending.

In Italy, no single party or coalition was able to secure an outright Parliamentary majority in its March election. Instead, a vote split between the center-right alliance (37%), the anti-establishment M5S (32%) and the center left, including the ruling Democratic Party (23%) resulted in a hung Parliament and a long road ahead to form a government. There is a broad consensus that part of the reason the ballot did not produce a clear winner is due to the so-called Rosatellum, a new electoral law that puts a premium on coalitions while making it hard for parties to win on their own. The fact that the new legislation does not contemplate an automatic majority for any party or group that wins more than 40% of the vote also increases the risk of elections resulting in a hung parliament. Overall, a transition coalition government with the objective of leading the country towards new elections could be the most likely scenario.

Western and Central Europe continued

Preliminary data points to a consolidation of the economic recovery in 2017 in Spain. Looking ahead, we expect a lower unemployment rate, rising real disposable incomes, and higher consumer and business confidence to provide a further boost to household spending. Overall, we expect real GDP to grow by 3.2% in 2018 and by 3.3% in 2019. Risks to our forecast are balanced. Domestically, risks could arise from setbacks and delays on the fiscal front: indeed, Spain's public debt is well above the 60% of GDP threshold imposed by the Maastricht treaty because of persistent budget deficits (the deficit was at 4.5% of GDP in Q3). As a result, the debt-to-GDP ratio is unlikely to stabilise without further consolidation measures; this means that the government's ability to foster growth in the coming quarters will be modest at best. As background to this, low inflation will not help decrease the real value of the debt burden, reducing the room for a somewhat easier short-term fiscal stance.

The only downgrade in the region affected Poland, whose rating dropped by one quartile to DB3c, despite sound real GDP growth and generally improving market conditions. The rationale behind the downward revision was the government's controversial judicial reform, which severely undermines the independence of courts. Although the Polish president eventually vetoed some of the proposals, the recent developments again highlight the weakening rule of law in Poland, a trend that started in late 2015. Furthermore, relations with the EU are also stressed over the handling of the migrant crisis, and Poland is at risk of losing EU funding in the next multi-year framework; this would strip the country of funding for infrastructure investment.

European Supply Chain Trends

From a supply chain perspective, three medium-term trends need monitoring over the next few years. Firstly, at the macroeconomic level, the EU is making good progress in free-trade negotiations with several Asian economies, and the trade deal with Japan is now awaiting signature. Furthermore, talks with Mercosur are also progressing (although upcoming elections in Brazil could bring talks to a halt soon). This could open up new markets in the coming years and thus create options to diversify supply chains. Meanwhile, while the future trade relationship between the EU and the UK is still unclear, as Brexit talks remain stalled, the most likely outcome is still the successful negotiation of a free-trade agreement. Such an outcome would somewhat minimise the negative impact of Brexit for cross-border traders.

Secondly, infrastructure investment in Central Europe could see significant cuts in the EU's next multi-annual financial framework (which starts in 2020). The loss of British contributions post-Brexit, as well as the plan to link EU subsidies with the quality of the rule of law (which has deteriorated significantly in several Central European states over the past few years), could lead to a slowing in infrastructure improvements, with adverse impacts on supply chain integrity.

Thirdly, with more and more economies reporting labour shortages in the logistics sectors, supply chains could become less stable. In Germany alone, 50,000 lorry drivers are retiring each year, while only 10,000 enter the profession. Meanwhile, Britain's haulage industry is also reporting a shortage of 45,000–50,000 lorry drivers, and given that many lorry drivers are close to retirement, it seems likely that this problem will become more severe.

Eastern Europe and Central Asia

Our risk rating score for Eastern Europe and Central Asia (EECA) saw a very slight improvement in Q4 2017, to 5.3470. However, the score continues to indicate that, on average, supply chain risk is greater than in any other global region with the exception of Sub-Saharan Africa.

The improvement was a result of the base effect of our one quartile upgrade for Uzbekistan, from DB6c to DB6b (still in the 'very high risk' category) at the end of Q3 in our Central Asia sub-region. This upgrade followed the government's decision to float the currency in September, which suggests that President Shavkat Mirziyoyev is (unlike his predecessor) serious about economic reform, boding well for long-term growth prospects.

Although country risk remains elevated for the region as a whole, the outlook is stable and there are indications of improvements ahead. The regional recovery continues to broaden, with the policy focus in the CIS (Commonwealth of Independent States, an alliance of former Soviet states) countries gradually shifting from crisis management to supporting adjustment and recovery. Higher commodity prices, firmer external demand and strong investor appetite for emerging market assets helped to bolster regional activity in 2017 and should be supportive of growth in 2018. Overall, the trajectory of oil prices remains a crucial factor for the economic outlook: we expect the average annual oil price to strengthen in 2018, to USD59.1 per barrel (/b), compared with USD54.4/b in 2017.

Nevertheless, supply chain risk remains elevated. Contributing factors include: Western sanctions against Russia (which are unlikely to be lifted any time soon, despite President Trump's softer stance against Moscow compared with many in Washington); the lower-for-longer oil price environment (despite the strengthening of the oil price in late 2017 and early 2018); banking sector stresses across a number of CIS countries; the rising incidence of cyber threats; domestic political instabilities (tensions increased in Russia ahead of the March 2018 presidential election); and geopolitical tensions (particularly in relation to the ongoing Russia–Ukraine dispute being fought in eastern Ukraine). On the positive side, authorities in some oil-exporting nations are stepping up efforts to liberalise their economies, which should improve supply chains over the medium term by generating new opportunities for cross-border investment and trade.

Fragility in the banking sector was shown in Russia towards the end of Q3, when two big private lenders were rescued by the central bank within the space of a month. However, we do not believe a systemic banking sector crisis is likely, especially as the authorities appear to have sufficient resources to support all of Russia's systemic banks to prevent a financial crisis. Nevertheless, in the near term, large privately owned banks are likely to remain under extreme liquidity pressure (with further rescues a possibility) as the confidence of both depositors and creditors in their stability remains shaky. Across the region more generally, already-elevated levels of non-performing loans in a number of states have been rising further as businesses continue to contend with cash flow difficulties, heightening cross-border payment risks. More positively, however, an ongoing disinflationary trend across much of the region is allowing central banks to continue to bring down headline interest rates in an effort to lower borrowing costs.

Finally, geopolitical risks in the region remain high, as they have been for some time, continuing to threaten supply chains, and business continuity. Relations between the US and Russia slumped to new lows in Q3 as US President Trump signed a bill into law in August which imposed sweeping new sanctions on Russia. The move triggered a diplomatic tit-for-tat between Washington and Moscow, and appears to have landed what appears to be a fatal blow to hopes of a significant rapprochement between the two powers under the Trump administration. Domestically in Russia, opposition leader Alexei Navalny's anti-corruption and presidential campaigns galvanised pent-up social and political grievances among the electorate, prompting a spate of anti-Kremlin protests, ultimately barring him from the presidential election in March that saw Vladimir Putin win his fourth six-year term. Meanwhile, in Ukraine the commercial environment remains hampered by rising political turmoil, which threatens to thwart the government's pro-market reform agenda and complicates near-term business planning.

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Asia-Pacific

TREND*

The Asia-Pacific region's risk score improved slighly from 3.5664 in Q3 o 3.5603 (on our 1–7 scale, with 7.000 the highest-risk score possible) in Q4. The change was due to the improvement in Singapore's country risk indicator in December 2017.

Dun & Bradstreet downgraded Singapore's score during the soft patch in growth that Singapore was experiencing in 2015, but the city-state has successfully navigated that downturn after a good stretch of above-average real GDP growth, driven especially by electronics, diodes, and biomedical devices manufacturing, with port statistics underlining the recovery. The external trade environment has picked up to support the upgrade.

There were various challenges to supply chains in the past quarter. In India, last-minute changes to rates for different products for the new Goods and Services Tax (GST), India's first national VAT, although reflecting a desire to placate the business community, disrupted supply chains severely and held back tax collection as new (often small-scale) businesses struggled with completely novel bureaucratic and IT requirements. To address the grievances of small-scale industries, traders, and exporters, the national GST council announced measures to support exporters and small businesses, exempted certain goods from taxes, and amended the GST rates of various goods. The national IT infrastructure for GST, able to handle 100,000 simultaneous users, seems potent. However, the new tax caused disruption to companies and supply chains into Q4, reduced government tax revenues and – by delaying tax rebates for exporters – caused acute working capital shortages among such firms.

Ultimately, India's numerous smaller warehouses, located in myriad locations for tax efficiency under the old regime, should consolidate, resulting in operational efficiencies as India gains a truly national internal customs union; indeed, average truck-haul distances have already increased. Meanwhile, reforms and investment in the port sector are taking effect, with a new terminal in part-operation in the largest state-owned container port serving Mumbai and with integrated rail services and radio-frequency tagging helping containers along faster.

In December, we downgraded China's supply environment outlook to 'deteriorating' from 'stable', due to natural gas shortages. Chinese demand jumped in response to ambitious targets to end the use of coal in north China's power, industrial, and district heating systems. The increase in China's demand for LNG delivered by tanker caused the global spot market to tighten considerably in 2017, with prices close to doubling from June to December. Despite two new LNG terminals (commissioned in 2017) bringing the national total to 16, Beijing and the northern economic hub around it have been short of gas amid a cold winter. China's national energy administration took over the natural gas allocation system from national oil companies, granting household demand official priority. Diversions of gas from eastern, southern, and far-western provinces caused shortages and shutdowns for industrial users nationally, with millions of tonnes of gas diverted north by January.

There have been no major natural disasters that had any discernible impact on Dun & Bradstreet's proprietary risk scores or economic forecasts since the cyclone season in Australasia and then Asia wound down in 2017. In Q1 2018, an earthquake in Taiwan exposed weaknesses in pre-1997 building codes as several high-rises collapsed from the shocks, but there was no disruption to industrial production as there was for semiconductor manufacturers in south Taiwan in 2016. However, droughts continued in Sri Lanka and South Korea.

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

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Middle East and North Africa

The Middle East and North Africa's (MENA) regional risk score worsened for a third consecutive quarter in Q4 2017 to a score of 4.2200, from 4.2169 in the previous quarter.

The change in the risk relates to the base effects in the previous quarter of our one-quartile upgrade of Egypt in September and our three-quartile downgrade of Oman in August. In addition, this quarter we downgraded Lebanon's risk rating by one quartile in November, before reversing the downgrade the following month, leaving Lebanon at DB6a. Downward pressure on the regional country risk ratings is coming from four sources. First, the ongoing high levels of insecurity, particularly in Iraq, Libya, Syria, and Yemen. Second – and relatedly – the Islamic Cold War between Saudi Arabia and Iran. Third, the continuing diplomatic spat between the Quartet (Saudi Arabia, the UAE, Bahrain and Egypt) and Qatar. Fourth, the pressure that Washington is maintaining on Iran. However, pressure has eased in economic terms as the oil price continues to strengthen.

In November, we downgraded Lebanon's risk rating by one quartile from DB6a to DB6b and put the outlook on deteriorating (from stable) following the apparently forced resignation of Prime Minister Hariri while on a visit to Saudi Arabia. At that point, it seemed that Hariri was being detained in Saudi Arabia. However, he returned to Lebanon, whereupon his resignation was rescinded. As a result, we upgraded Lebanon's risk rating to DB6a and returned the outlook to stable as the political situation normalised.

In relation to regional supply chains, in the past two quarters in the Persian Gulf, supply chains have undergone a period of realignment because of the Quartet–Qatar dispute that broke out in early June. The closure of the land border between Qatar and Saudi Arabia, as well as the suspension of flights and maritime links between the Quartet countries and Qatar, has forced the latter to build new supply routes. In particular, Qatar has forged closer ties with Oman, Iran, and Turkey to bypass the blockade. However, this has added to costs in the supply chains. Significantly, it appears the oil trade is not being affected, as VLCC-category oil tankers continue to take on crude in the one shipment from both sides in the dispute.

Meanwhile, levels of insecurity remain high across the region, although the war in Syria appears to be entering a new phase in which government forces have regained control of much of the country, helping to improve cross-border supply routes. Although Islamic State has suffered territorial losses, we are concerned that in the face of these setbacks the radical group will launch more lone-wolf missions across the region (and also in other areas of the world) to try and rebuild its support base. In addition, groups affiliated to al-Qaeda are rebuilding in the region, with a resultant upsurge in activity. Both elements have the potential to disrupt supply chains within and between regional countries.

More specifically, in relation to the statuses of the supply environment outlooks for the individual MENA countries, we made no high-level changes in Q4 2017, which means that just two countries in the region, Israel and the UAE, are in the 'green' category. Six countries (Iraq, Jordan, Lebanon, Libya, Syria and Yemen) are assigned a 'red' status, either because they border countries that are wracked by civil war or are experiencing civil war. However, in November we upgraded the supply environment outlook trend for Syria to 'improving' as the war appears to be entering its final phase, and the areas under government control are now seeing a relatively booming business environment. We also upgraded the supply environment outlook for Qatar in October, from 'deteriorating rapidly' to 'deteriorating', as the country adjusted more smoothly than anticipated to the economic boycott by the Quartet.

Regional trend against previous quarter. Downward arrow represents reduction in risk.

Latin America

Our Risk Score Index for Latin America rose to 4.3893 in Q4 from 4.3880 in Q3 as recent political developments served to complicate policymaking and create heightened uncertainty in the commercial environments in several countries.

Moreover, with the region in an intense electoral cycle that extends to 2019, and which includes legislative and presidential votes in the largest economies, political risk will be a key factor in Latin America's near-term outlook.

In Costa Rica, a complex scandal involving influence-peddling and corruption severely damaged public confidence in the political class, and – perhaps more significantly – weakened its democracy, having implicated members of the judiciary. Dubbed the Cementazo (Cement hit), it involves a USD31.5m loan made in November 2015 by the state-owned Banco de Costa Rica to Juan Carlos Bolaños, head of Sinocem Costa Rica, a subsidiary of a Chinese cement company. Prior to the loan, Bolaños had successfully lobbied Congress to remove the regulation that cement could only be stored for 45 days, easing restrictions on Chinese imports and allowing Sinocem to compete with the two large cement sellers, Holcim (Switzerland) and Cemex (Mexico). Together with Costa Rica's still-troubling fiscal position, we downgraded our overall country risk rating from DB4b to DB4c, and the outlook from 'stable' to 'deteriorating'.

In a similar vein, political events led to Peru's rating outlook being downgraded from 'stable' to 'deteriorating' as President Pedro Pablo Kuczynski pardoned the former president, Alberto Fujimori, who was serving a 25-year sentence for corruption and human rights abuses. The move is widely considered as a quid pro quo between Kuczynski and Kenji Fujimori, leader of a faction of the majority Fuerza Popular (FP) opposition party, to avoid impeachment. Kuczynski's decision plunged Peru into its worst political crisis in recent years and provoked a spate of street protests, cabinet resignations, and Congressional losses, as well as international condemnation. With Kuczynski's political capital vanishing, the outlook is extremely uncertain and we expect legal challenges against the pardon to affect political arrangements.

Troublingly, the crisis in Venezuela is deepening, and the country remains at DB6d with a 'rapidly deteriorating' trend outlook. Having successfully routed the opposition, President Nicolas Maduro is set to tighten his grip on power with the announcement of a snap presidential election on 22 April. Unsurprisingly, Maduro is expected to secure a second six-year term, despite the crippling economic crisis marked by hyperinflation and foreign exchange scarcity. Maduro has cracked down on political opponents, who have been imprisoned or banned (for example, Henrique Capriles, who lost the 2013 presidential election to Maduro by less than 2%). The decision to bring forward the election from December 2018 is widely seen as a move to capitalise on the disorganisation of the opposition.

Conversely, and despite political tensions, Brazil's rating outlook was elevated to 'improving' from 'stable' as the economic recovery accelerated to surpass initial forecasts. Consequently, we nudged our 2018 growth projection up to 2.2% following estimated growth of 1.0% in 2017. Historically low interest rates, higher real wages and rising employment will continue to support household demand while external demand firms and commodity prices strengthen in coming quarters. Business confidence and expectations are also improving, but are contained by the government's inability to pass reforms that are crucial to reducing the fiscal debt in the next few years. In this connection, the medium-term outlook remains clouded by the failure to pass crucial pension reforms that would enable the government to adhere to the federal spending cap approved in December 2016. With elections due in October, doubts that the president can push through the reforms are mounting, given the electorate's disenchantment with the current political leaders and the need for cross-party support to advance the deeply unpopular pension reforms.

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Latin America continued

Overall, the region's economic recovery will gather pace in 2018, underpinned by higher growth in Brazil and Argentina. Indeed, our outlook for Argentina is particularly sanguine and has led to an upgrade of its country risk rating from DB6a to DB5a – moving it out of our 'very high risk' category – amid marked progress with fiscal reform. In December, several significant fiscal measures were approved by Congress, including the FY2018 budget, an agreement with provincial governments to reduce their deficits, tax reform, and unpopular – but crucial – pension reform. The government has already been cutting subsidies and, combined with the latest reforms, is seeking to reduce government spending further while encouraging investment by creating a more competitive commercial environment. Also notable is the implementation of export liberalisation measures, the most recent of which is a plan to reduce taxes by 0.5% each month from January 2018 to result in a total cut of 12% on soybeans, soybean oil, and soybean meal. Boosted by its impressive showing in mid-term elections last October, President Mauricio Macri's Cambiemos coalition is expected to press ahead with more reforms (including to the labour market), albeit at a slower pace given the recent outcry against pension reforms and the government's need for Congressional allies because of its minority standing in both houses.

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Sub-Saharan Africa

Supply chain risk improved marginally in Sub-Saharan Africa in the three months to December, although none of the regional countries were upgraded or downgraded. The change in the regional CRI was due to the momentum effect of Malawi's upgrade in Q3.

Underlying risks point to a slight improvement for supply chains in the near term, with better growth expected in the medium term. Faster global growth and higher commodity prices will be the main drivers of the acceleration in Sub-Saharan Africa's growth in 2018. Resource-dependent members will continue to need fiscal discipline to recover from the commodity price shifts of the last couple of years. And as the US Federal Reserve continues to raise rates in 2018, and global financial conditions tighten, regional economies may suffer from periods of capital outflow and weaker currencies. Meanwhile political risk remains elevated, and sporadic episodes of civil disorder could hamper the region's return to faster growth.

Despite the divergence in the major economies in the region, the average 2018 outlook for Sub-Saharan Africa remains dependent on our forecast for commodity prices. In particular, we forecast that the price of a barrel of Brent crude will average US$59.1 in 2018, modestly higher than its 2017 average of US $54.4. The dynamics of global oil demand and supply, therefore, dictate that regional heavyweights like Angola and Nigeria will need to diversify away from their dependence on hydrocarbons and consider alternative growth strategies to increase their FX earnings. As a significant step in this direction, the central bank of Angola has adopted a floating exchange rate system to help alleviate pressure on its dwindling FX reserves: these were last recorded at around US$14bn towards the end of 2017, compared with US$20bn at the start of 2017 and US$30bn in 2014 (prior to the oil price slump). The kwanza had been pegged to the dollar at AOA165.9:USD1 for almost two years, and the move to greater flexibility resulted in a depreciation of around 20% in January alone, taking the kwanza to around AOA205:USD1 by the end of the month. Further exchange rate depreciation is anticipated in 2018, given subdued economic growth and weak national finances.

The largest regional economy, South Africa, finally saw an end to months of intense political in-fighting that had been a significant weight on business confidence and global investor sentiment in Q4. In a dramatic end to his beleaguered tenure, President Jacob Zuma finally submitted his resignation on 14 February. The ruling ANC had fired Zuma earlier that week, but Zuma had refused to step down. His resignation came hours before ANC leaders planned to hold a vote of no-confidence. Cyril Ramaphosa is the new leader of the ANC and likely next president of South Africa after the 2019 general election. Consumer and business confidence remains low, investor sentiment is downbeat, and the country's creditworthiness is being questioned. Economic conditions could begin to improve in 2018: slightly higher prices for South Africa's major export commodities, alongside higher mining sector output, as well as a recovery in agriculture and improved electricity supplies, will create some positive drivers behind the country's short-term economic outlook, but growth will remain fragile.

The Nigerian economy has emerged from recession but remains burdened by stretched public finances, liquidity concerns, capital controls, and policy uncertainty. The government is pursuing investment for infrastructure and non-oil business activity, but spending plans will be restricted by the fiscal deficit and a large debt-servicing burden. The FX market is complicated by a ban on FX for certain imported goods and variant exchange rates, although the inter-bank rate and official exchange rate are the two main rates in use. FX reserves are on the rise, driven by slightly higher production levels and a modest recovery in oil prices. The government has managed to push through some pro-business reforms in recent years, which has put it among the major business reformers in the World Bank's latest Doing Business 2018 report. Political instability and security concerns will continue to adversely affect the domestic political scene, creating policy inertia and undermining economic growth.

Ethiopia is among the fastest growing economies in Africa, and international firms continue to take up positions to gain a foothold in one of the continent's most promising markets and production bases. The government is investing heavily in transport and power infrastructure and in export-oriented industrial parks. These include projects that seek to improve connectivity and access to sea ports in East Africa. The government has lifted a state of emergency that was imposed in late 2016 in response to civil unrest. There remains a risk of renewed disruptive protests and demonstrations, and drought conditions in some parts of the country are adding to a sense of social instability. The birr is expected to lose further ground against the US dollar, which will involve a pattern of gradual currency depreciation and intermittent larger adjustments by the central bank.

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

Commentary

JOHN GLEN
CIPS Economist

Given the threats looming over the global economy, it was a surprise to see overall risk in supply chains improving for yet another quarter, the fourth in a row.

The overall Index figure was at its lowest since the first quarter in 2016, as a period of stability descended over global supply chains. The threat of trade wars between the US and China, and the UK and Europe however, may severely impact this trend for improvement.

Though the Index reported no change to risk in the US and Canada, the undercurrents are showing there are more expected improvements to come in that region in 2018, with predictions for the strongest rebound in economic growth since the recession.

And where America leads, the world is sure to follow.

The drivers for this growth appear to be good labour conditions with more employment in more regions, consumer confidence resulting in strong spending patterns, and businesses benefitting from recent tax breaks re-investing their spare capital into business opportunities and higher wages.

Though returning for a moment to focus on the dark clouds of potential trade hostilities alluded to earlier, it is largely political threats that could create an unwelcome adjustment in this trajectory of strong global economic growth, resulting in an undesirable start to what was a promising 2018.

FURTHER INFORMATION

CIPS has developed a knowledge partnership with Dun & Bradstreet to allow CIPS members access to insight and information to help identify and mitigate supply chain risk.

www.cips.org/dunandbradstreet

**Regional trend against previous quarter. Downward arrow represents reduction in risk.*

BODHI GANGULI

Global Leader and Leading Economist
Dun & Bradstreet

Dun & Bradstreet's Global Risk Index score improved for the fourth straight quarter, dropping from 80.3 in Q3 2017 to 79.5 in Q4. The Q4 reading is the first time the index has dropped below the 80-point mark in the past two years, bringing it down to a level not seen since Q1 2016. Supply chain risks are lower and are expected to improve in the near term on the back of faster global growth.

In line with the IMF and World Bank, we are currently forecasting strengthening growth in 2018. Our forecast of 3.2% would be the strongest global growth since the 2010 rebound from the 2008–09 contraction. In regional terms, the outlook for North America (in particular the US) is now improving, as is Western Europe, and we have recently upgraded our growth forecast for China (although we remain concerned about credit quality in both China and India). As a result, our outlook for Asia-Pacific remains at 'stable' for the present. Furthermore, strengthening commodity prices will boost growth prospects in the commodity-exporting emerging economies.

FURTHER INFORMATION

Dun & Bradstreet provide CIPS members with proactive expertise and targeted analysis for use in managing global supply chain risk exposure.

www.dnb.co.uk/solutions/supplier-management-solutions/cips

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