Global Outlook to 2019:

2015 MID-YEAR UPDATE
GLOBAL ECONOMIC OUTLOOK: UNEVEN RECOVERY CONTINUES

The global economic recovery continues to limp along almost six years since the official end of the 2008-09 recession, with diverging trends becoming more apparent. Thus, the recovery is one of the most protracted in the past century, with real GDP per capita in many OECD countries barely recovering to 2007 levels. Furthermore, we expect growth to remain below long-term trends through to the end of this decade. In the period 2000-07 real global GDP averaged 3.7% per year (at market prices), compared with an average 3.0% per year in the period 2010-2014. Indeed we are currently forecasting real global growth of 2.5% in 2015, slightly less than the historically weak 2.6% achieved in 2014. Thus, worryingly for international companies, we believe the risks associated with doing cross-border business in the global economy remain elevated. This is reflected in our Global Risk Index (see Figure 1) which in Q2 2015 was at its third highest level ever.

In order to put this into context, of the 132 countries Dun & Bradstreet assesses, 93 are rated worse than at the start of 2008, of which 58 are rated at least three quartiles lower. In contrast, only 18 economies have seen their scores improve over this period and only three are rated more than two quartiles better. Furthermore, in 2015 to date we have downgraded 13 countries (Angola, China, Costa Rica, Gabon, Ghana, Lebanon, Macedonia, Nepal, Nigeria, Sierra Leone, Switzerland, Trinidad and Tobago, Uruguay) while upgrading six (Cote d’Ivoire, Egypt, France, Iceland, Iran and Spain). This far into the recovery we would normally be expecting to have upgraded significantly more countries from the nadir of the global financial crisis.

As can be seen from Table 1, we are currently forecasting real global growth to be weak in 2015 when compared with 2014, but thereafter we expect it to pick up to 2018, when it will peak at 3.4% before decelerating slightly in 2019. On a regional basis, the winners in 2015 – those that out-perform 2014 – will be Europe, Asia-Pacific and Middle East and North Africa (MENA). Growth will be slower in North America, Latin America and Sub-Saharan Africa and is expected to contract in Eastern Europe and Central Asia.

Further ahead, we expect the strongest regional growth to be in Sub-Saharan Africa, where growth will pick up across the forecast period to near 5% in 2019. Asia-Pacific will also perform strongly, with peak growth of 5.1% in 2018 before easing somewhat to 4.1% in 2019. Meanwhile, growth in MENA will also strengthen across the five-year forecast period from a weak 2.4% in 2015 to 4.6% in 2019 as oil prices recover. The Eastern Europe and Central Asian region will experience the most volatility, ranging from a contraction of 0.8% in 2015 to a peak of 3.3% growth in 2019. In North America we expect growth to peak in 2016 at 2.9% before falling back by 0.5 percentage points in 2019. In contrast, we expect Europe will continue to grow across the period but still perform weakly as it slowly recovers from its debt crisis, while Latin America and the Caribbean will also grow weakly across the period.

GLOBAL RISK INSIGHTS

– The Dun & Bradstreet view reveals that a convincing global economic recovery from the 2008-09 downturn is still not embedded, with diverging patterns of growth becoming more pronounced.

– While some central banks, such as the US Federal Reserve and the Bank of England, look to tighten monetary policy, others such as the Bank of Japan and the European Central Bank continue with monetary easing.

– Many commodity prices are at near six-year lows, exacerbating difficulties for commodity-exporting countries but boosting the macroeconomic conditions in oil-importing countries.

– The strong US dollar is adding uncertainty to global markets already worried about continued weak demand.
TABLE 1: FORECAST REAL GDP BY REGION 2015-2019

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</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.4</td>
<td>2.3</td>
<td>2.9</td>
<td>2.6</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Europe</td>
<td>1.3</td>
<td>1.7</td>
<td>1.9</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>4.3</td>
<td>4.4</td>
<td>4.5</td>
<td>4.8</td>
<td>5.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>0.9</td>
<td>0.0</td>
<td>1.8</td>
<td>2.3</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>1.5</td>
<td>-0.8</td>
<td>1.7</td>
<td>3.2</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>2.2</td>
<td>2.4</td>
<td>3.1</td>
<td>4.1</td>
<td>4.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.7</td>
<td>4.0</td>
<td>4.7</td>
<td>5.0</td>
<td>5.0</td>
<td>4.9</td>
</tr>
<tr>
<td>World</td>
<td>2.6</td>
<td>2.5</td>
<td>3.1</td>
<td>3.3</td>
<td>3.4</td>
<td>3.2</td>
</tr>
</tbody>
</table>

HEADWINDS OUTWEIGH TAILWINDS

Headwinds continue to outweigh tailwinds in the global economy as varying patterns of growth become more pronounced, resulting in diverging central bank policies. By late July, 41 central banks had eased monetary policy in 2015, while 18 have tightened their policies. The high level of central bank activity, combined with the uncertainty on the timing and magnitude of the US Federal Reserve’s monetary policy normalization, is ensuring elevated levels of uncertainty across global capital and exchange rate markets, which will continue throughout 2015. Meanwhile, the latest version of the IMF’s Global Financial Stability Report has highlighted that global financial risks are increasing and close to the heights reached during the 2007-08 financial crisis.

Going forward, we are concerned that there is little margin for error in the pace and shifts in monetary policy normalization, not only by the Federal Reserve in the US but also eventually in the EU, Japan and the UK. Furthermore, as monetary policy tightens and interest rates potentially begin to rise, debt burdens (particularly in highly leveraged households and companies) will result in increased exposure to interest rate risks. Relatedly, high liquidity and low interest rates associated with the massive global quantitative easing (QE) programs have most likely boosted asset values, such as house prices in the UK (which rose 1.6% month on month in April), junk bonds and stock markets, into bubble territory, with possible painful corrections to come in the short to medium term.

Furthermore, economic policy-makers in developed countries are still walking a tightrope in attempting to reduce high levels of public debt (see Figure 3) while trying to support growth in their economies: pressure to ease fiscal austerity programs has grown. Although in Europe the potential for deflation becoming embedded has eased, deflationary pressures are creating difficulties for the authorities, particularly in the debt-laden peripheral countries. This is further undermining the confidence of markets but more importantly threatening to dampen household spending and corporate investment.

In addition, against a background of continued weak economic growth, lower annual average commodity prices in 2015 and a stronger US dollar, the need to accelerate structural reforms is becoming increasingly urgent for long-term growth prospects in developing markets. Many countries have yet to reform adequately in our view. Moreover, we are concerned about the cyclical imbalances in the financial sector in a number of emerging markets, while growing imbalances in China remain a major concern for its long term potential growth path.

Finally, we expect geo-political risks to remain high throughout 2015, with particular emphasis on the security situations across much of the MENA region and in Ukraine which have the potential to raise energy prices as oil prices leap in response to the threat of supply interruptions. In addition, the threat of a ‘Grexit’ – Greece’s withdrawal from the Eurozone – has fallen in recent weeks given the compromise agreement on a medium term plan and the move towards a further bailout programme. Although the potential for political and financial contagion resulting from a ‘Grexit’ is significantly lower than just a year ago in our view, unwanted pressures and uncertainty remain with possible ramifications for Spain, Portugal and Italy.
The authorities in the advanced economies are still attempting a delicate high-wire balancing act of reducing debt levels (which include rebalancing the fiscal position through austerity measures) while simultaneously attempting to boost economic growth, which remains weak by historical standards (see Figure 2).

FIGURE 2: REAL GDP GROWTH (%) 2001-2014, SELECTED COUNTRIES

In terms of household debt as a percentage of GDP, most of our selected countries were experiencing an overall decline in 2014. Canada was the exception – fuelled by still-energetic residential house price increases. Indeed, at end-2014 in Germany, Japan, Spain, the UK and the US, household debt levels as a percentage of GDP were below their end-2008 levels, pointing the way for increased consumer spending in these countries as debt servicing and deleveraging become less of an issue. However, household debt levels in France, Italy and Greece, although falling, are still above their end-2008 levels, indicating that further deleveraging is yet to come (see Figure 3).

FIGURE 3: HOUSEHOLD DEBT AS % OF GDP 2006-2014, SELECTED COUNTRIES

Financial sector deleveraging has been substantial in many of the countries highlighted (see Figure 5). In Canada, Germany, the UK and the US financial sector debt as a percentage of GDP has fallen consistently from end-2008 or end-2009. In France, Greece, Italy and Spain deleveraging has only taken place since 2012 but in each case still remains above the end-2008 level, perhaps indicating further deleveraging to come. However, in Japan, where levels were on a downward trend until 2011, this has reversed sharply. Meanwhile, in The Netherlands ratios remain worryingly elevated at over 440% of GDP, with little sign of progress.

FIGURE 5: FINANCIAL SECTOR DEBT AS % OF GDP 2006-2014, SELECTED COUNTRIES
The build-up of public sector debt has created the greatest concern, impeding governments from pump-priming their demand-deficient economies, leaving long-term debt hangovers and curtailing productive investment. Significantly, general government debt as a percentage of GDP in each of the ten countries under consideration is still higher than at end-2008 (see Figure 6). However, only in France and Spain was it still rising at the end of 2014. Positively, public sector debt levels peaked in Germany in 2010, while the peaks in Canada, the UK and the US came in 2012 and in Italy, The Netherlands, Japan and Greece in 2013.

Thus, the high and still well above pre-recession total domestic debt levels (see Figure 7) remain an important constraint on boosting domestic demand and therefore global growth, as governments, households and businesses continue to attempt to reduce indebtedness and therefore curtail spending and investment decisions. The threat of low inflation, particularly in Europe, could exacerbate the trend of retrenchment in the private sector. Furthermore, with interest rates at record lows, there is little, if no, capacity for monetary policies to ease the situation. It is this confluence of factors that is resulting in increased calls for governments in Europe to change their fiscal policies from one primarily aimed at austerity towards greater, but more productive, government spending, building greater levels of government debt.

FIGURE 6: PUBLIC SECTOR DEBT AS % OF GDP 2006-2014, SELECTED COUNTRIES

FIGURE 7: TOTAL DOMESTIC DEBT AS % OF GDP 2006-2014, SELECTED COUNTRIES
Emerging markets have been increasing their share of global output in the past 15 years (see Figure 8) providing significant opportunities for cross border investment and trade. However, growth in the emerging markets – which drove the initial recovery from the 2008/09 recession – is being buffeted by external headwinds, including the strong US dollar and low commodity prices, particularly in the energy sector (see Figure 9). This is undermining economic growth in the main commodity exporting countries. In addition, weak external demand generally is dampening growth into the medium term. In this period, we expect increasing divergence between winners and losers among the emerging market economies. As we have stressed in previous Dun & Bradstreet Global Economic Outlooks the key to achieving sustainable long-term growth is addressing structural reforms in three particular areas: external balance vulnerabilities, longer-term supply side restructuring and political and social vulnerability.

The end of the US’s massive QE program will curtail liquidity in international markets, undermining capital flows to the emerging economies; indeed potentially reversing flows in cases where the countries have failed to use these inward capital flows over the past six years productively. Figure 10 highlights the 20 most vulnerable countries (of the 132 upon which we report) in terms of their current account deficit as a percentage of GDP. In all cases the current account deficit as a percentage of GDP averaged at least 8.5% over the five years 2010-14; the IMF recommends close monitoring of deficits over 5% of GDP for their sustainability. Of the twenty highlighted only Sierra Leone and Georgia have made significant process in addressing their external deficit, while Mozambique’s, Afghanistan’s and Syria’s positions have deteriorated significantly. Furthermore, in addition to the 20 countries highlighted, another 15 countries have also run deficits averaging over 5% of GDP in the same period.
The increasing divergence in monetary policy and growth prospects across the world has boosted the US dollar in 2015 (more of a reflection of external weaknesses than US strength). This has resulted in over 20 currencies from the Dun & Bradstreet universe of emerging markets falling by over 20% between end-June 2014 and end-June 2015 (see Figure 11). A number of countries have seen the depreciation exacerbated by other factors such as insecurity in Ukraine (where the hryvnia has fallen by almost 80%) and Russia (sanctions and the falling oil price resulting in greater than 66% depreciation). The regional situation has contributed to steep depreciations in Belarus (over 50%), Azerbaijan (over 41%) and Georgia (over 37%), while the Brazilian real has also fallen by over 45% against the US dollar. Although the depreciation should help boost the export sector in these countries as goods/services become relatively cheaper in international markets, the effect will be muted where reliance lies on Russian or European markets where aggregate demand remains depressed. In contrast, Brazil could be set to gain because of improved US demand.

In addition, as the US dollar strengthens, commodity prices, which are often priced in dollars, are falling; the move is being exacerbated additionally by the 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 12), but boost net commodity importers in Asia and Eastern Europe. The IMF estimates that a USD10/b drop in oil prices reduces export revenues to Russia of around USD25-30bn, while an energy importing country such as Turkey saves around USD4bn in import payments. The other beneficial impact for net-commodity importers will be lower pressure on prices, while lower commodity prices into the medium term should increase pressure on commodity exporting countries to implement necessary restructuring which will be beneficial for reducing commodity dependency and boosting 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 (previously known as ISIS or ISIL) continues fighting in both Syria and Iraq and is increasing its presence in other regional countries such as Algeria, Libya, Tunisia and Yemen. Meanwhile, the civil war in Yemen is becoming another example, following the wars in Syria and Iraq, of the proxy war between Sunni Saudi Arabia and Shi’a Iran, raising further concerns of similar sectarian violence in other regional countries. The violence is curtailing investment flows, trade opportunities, tourist visitors and boosting human and capital flight from the countries affected, as well neighboring countries. Meanwhile, tensions between Ukraine and Russia continue to undermine growth in both countries, as well as raising concerns in Europe about the maintenance of energy supplies from Russia.

**KEY OBSERVATIONS:**

**POSITIVES, NEGATIVES AND KEY RISKS**

- The threat of a total break-up of the Eurozone has receded.
- Energy prices will remain significantly below those of recent years, cutting input costs for businesses.
- 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.
- Capital flows are being distorted by diverging patterns of central bank actions and the resultant strong US dollar.

- Global dilemma between interest rate risk and risks from ultra-easy policy.
- Low nominal GDP growth, world-wide, elevates interest rate risk.
- Global financial stability risk is rising again and is at elevated heights.
- Emerging market risk is also rising.
The Dun & Bradstreet Overall Global Business Impact (GBI) score for Q2 2015 (published in May) stands at 254 (out of a maximum 1,000), which is an increase from 250 in Q1 2015 and reverses the recent improving trend. However, this is still below the high of 283 in Q3 2014. We evaluate our top ten risks by assessing not only the probable impact the event would have on the global business operating environment, but also the likelihood of it happening (which combined produce our rankings and scores).

The major changes in our risks since Q1 2015 are the increase in the GBI score in relation to the strong and appreciating US dollar from 18 to 40 in this report. In addition, we have also increased the GBI score in relation to Grexit from 24 to 30. However, we have downgraded the GBI scores in relation to our expectation of US monetary policy normalization and possible missteps by the US Fed (from 60 to 40) and the potential spill-over effects of the violence in Syria and Iraq (from 28 to 20).

Three new entrants into the risk matrix are insecurity in Yemen moving across its borders and interrupting global oil supplies (in 7th place); problems in Brazil impacting on foreign investors (8th); and a default by Venezuela on its foreign-currency denominated bonds undermining global capital markets (10th). Overall, headwinds facing the business community remain high by historical standards.

In third place with a score of 30 (up from 24 in the previous report) is our fear that negotiations between the Greek government and the Troika fail, leading to Greece’s exit from the euro zone. This would most likely result in significant legal and regulatory confusion, uncertainty over debt obligations and a possible domino effect on other countries, given the current strong anti-EU trend in several countries amongst voters in Europe.

In fourth equal place with a GBI score of 24 are three risks; each emanating from a different region. We are worried about the long-term impact of the Ukrainian situation on energy co-operation between Russia and Europe on global energy markets as Europe seeks to reduce its reliance on Russian gas. In the Asia Pacific region, concerns center around a contingent liability shock arising from local government investment in China, which could see domestic growth reduced to only 5%, with a knock-on effect on global economic growth.

Also in fourth place are security issues arising from the civil wars in Syria and Iraq, with the rise of the radical Sunni group Islamic State (IS, formerly known as ISIS or ISIL). We remain concerned that the violence could spread into neighboring countries, impacting not only on local supply routes but also by destabilizing oil markets, with the potential to significantly raise global energy prices. However, we believe the likelihood of this event has receded with IS suffering some reverses in Iraq in recent weeks, with the result that the GBI score has fallen from 40 in Q4 2014 to 28 in the previous report to 24 in this edition.

A second risk associated with the security situation in the Middle East and North Africa region is our worry that the insecurity in Yemen, which has already sucked in external actors including Saudi Arabia and Iran, could spill over into Saudi Arabia and/or see the closure of Bab-al-Mandab, through which shipping must pass before it enters the Suez Canal, thereby threatening oil supply routes to Europe. We assess that this risk has a GBI a score of 20.

Two of the three bottom places emanate from Latin America, and although their global impact is likely to be low, the high probability of the events occurring ensures entry into our top ten GBI scores. The first risk, in 8th place with a GBI score of 19, relates to rising political risks in Brazil tied to the Petrobras scandal, sluggish growth and the slow pace of reform depressing already subdued foreign investor positions and impacting negatively on investor sentiment in the emerging economies. Then, in 10th place with a GBI score of 15 is our fear that shrinking international reserves result in default on Venezuela’s foreign-currency denominated bonds undermining global capital markets.

Finally in 9th place with a GBI score of 18, we remain concerned with the threat of possible default contagion in China in upstream industries that currently appear to have too much capacity—such as steel-making, ship-building, solar panels and coal (and possibly cement, glass-making, aluminum and commercial real estate in the Yangtze river delta)—property and local government. This would also trigger problems in the financial sector, necessitating state rescues and emergency capital issues.
<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>A strong and appreciating dollar weighs on growth as exports and manufacturing suffer. Further, dollar strength hurts foreign profits of US corporations forcing them to cut capital spending.</td>
<td>50</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>North America</td>
<td>US and global financial volatility spikes as markets fear that the Fed might commit policy missteps in the process of normalizing interest rates and unwinding its balance sheet.</td>
<td>40</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>Europe</td>
<td>Political problems occur in the bailout negotiations with Greece missing its 20th August payment to the ECB, triggering a Grexit.</td>
<td>50</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>Fundamental long-term re-alignment energy co-operation 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 local government debts and growth slows down further to less than 5%.</td>
<td>30</td>
<td>4</td>
<td>24</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>30</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>Insecurity in Yemen spills over into Saudi Arabia and/or closes Bab al-Mandab threatening oil supplies.</td>
<td>20</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Latin America</td>
<td>Rising political risks in Brazil depress already subdued foreign investor positions impacting negatively on investor sentiment in the emerging economies.</td>
<td>95</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>In China, default contagion from bad debts in 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>Latin America</td>
<td>Shrinking international reserves result in default on Venezuela’s foreign-currency denominated bonds undermining global capital markets.</td>
<td>75</td>
<td>1</td>
<td>15</td>
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REGIONAL INSIGHT: ASIA-PACIFIC

TREND: DETERIORATING

HEADLINE REGIONAL ISSUES

- Falling exports in most regional markets suggest an inflection point and that growth forecasts have downside risks.
- Slowing economic growth is spurring monetary easing, while trade finance shows signs of tightening regionally.
- A burgeoning El Nino effect, though slow in starting, could last well into 2016 and put upward pressure on Asian food prices.
- A drawn-out upward path for US interest rates should still help keep Asian bond markets liquid and open for debt issuance.

REGIONAL OUTLOOK

REGIONAL GROWTH FORECAST

The financial imbalances, weak spots and challenges of Asian economies are becoming more obvious as economic growth slows. Central banks have adopted a clear easing bias, despite the rise expected in US interest rates from Q3 2015. China and India both saw their central banks cut key policy rates in Q1 2015, following a previous cut in November (China) and January (India). This follows the Bank of Japan’s expansion of its asset purchases in Q4. Bank of Indonesia cut its rates in February, Australia’s Reserve Bank made its second 0.25 percentage point cut of the year in May, to 2.00%, and India’s, South Korea’s and China’s central banks all cut their benchmark rates in June. China even abolished loan-to-deposit ratios for its banking system (and cut reserve requirements).

However, commercial banks in 24 developed economies reporting data to the Bank for International Settlements had opened 27% fewer guarantees (including LCs) by value for Asia-Pacific economies at end-Q4 2014, y/y. This will partly reflect commodity prices, given much bulk trade is conducted via LCs, but also reflects banks’ greater caution as Basel III requirements approach and unprofitable business lines are cut.

The oil price slump since mid-2014, qualified by the recovery since January, has not been an unqualified benefit for the region. Petrochemicals exporters such as Singapore and South Korea are witnessing continued sizeable export declines. China’s fuel taxation system, Japan’s unannounced weak yen policy, and fuel subsidy reform in Indonesia and India have diluted the benefits to the balance of payments and corporate costs. Big exporters such as China, Thailand and Singapore are also seeing negative trade contagion effects from oil-based export markets, with exports from developing Asia to oil-exporting countries contracting heavily in Q1.

OUTLOOK FOR KEY REGIONAL COUNTRIES

China is facing a marked deterioration in its industrial sectors. Because of producer price deflation, debt servicing costs could exceed profits in several sectors, in our view. Local government finances also remain under severe pressure, although refinancing avenues will deliver in most cases. The property sector is still correcting after years of development fever, with signs of stabilization and recovery so far limited to a few prime market segments. Demographic factors for the housing market are negative for China. The One-Child Policy has resulted in labor shortages in coastal provinces, but wage growth, which has driven recent private consumption and services sector growth, is abating. China’s stock markets had grown by over 150% in past year, but collapsed in July despite concerted intervention by the authorities. The collapse will drag on national output in Q3-Q4 2015, putting at risk the official 7% target for 2015.

Japan’s large manufacturers are enjoying the weaker yen as it benefits net income from abroad; but the Bank of Japan is still struggling to bring about inflation, and wage growth remains negligible, albeit with the upside of high employment levels. The fiscal consolidation required to prevent a fiscal crisis in Japan in the 2020s would still be unbearable.

Indonesia is struggling to introduce the infrastructure spending its sprawling archipelago needs, and consumers are feeling the pinch of inflation as the rupiah has weakened. The economy will grow at its slowest rate since the early 2000s in 2015. The Philippines, another neglected archipelago, faces similar difficulty mobilizing investment to meet its own infrastructure gap and a growth deceleration that could surprise in its intensity.

A negative supply shock could arise from the El Nino effect declared by Australia’s meteorology department. It could last well into 2016 and affect Indonesia, India, Australia, New Zealand and Japan, according to research published by the IMF (with Thailand and Taiwan already facing drought). The prospect is adding to worsening forecasts for India’s arable output and inflation.

RECOMMENDATIONS

- Use a mix of OA, collection and documentary credit terms across different sectors in one country as economies diversify and the near-term picture remains complex.
- Use your negotiations over trade terms to gauge customer and supplier liquidity and sentiment; be prepared to give more generous terms in cyclical sectors.
- Try to establish counterparties’ vulnerability and resilience to US dollar strengthening, Chinese demand and producer price deflation.
- Expect only modest opportunities in Southeast Asia, with oil- and commodity-linked sectors more likely to face corrections.
REGIONAL INSIGHT: EASTERN EUROPE AND CENTRAL ASIA

TREND: DETERIORATING

HEADLINE REGIONAL ISSUES
- We expect Eastern Europe and Central Asia to be the worst-performing global region overall in both 2015 and 2016.
- Downside risks prevail and include the Ukraine crisis, US/EU sanctions against Russia (and its retaliatory measures), re-balancing in China, weak commodity prices, higher than usual FX risk and local banking crises.
- However, the likelihood of the most negative scenarios (financial meltdown in Russia, NATO military involvement in the Ukraine-Russia conflict) has receded.
- The recession in Russia and the weaker rouble has negative implications on regional trade and investment, given its systemic importance.
- Political and insecurity risks are high in Central Asian and European CIS countries.

REGIONAL OUTLOOK

REGIONAL GROWTH FORECAST

Owing to the fallout from the Ukraine/Russia conflict and low energy prices, Eastern Europe and Central Asia (EECA) will be the slowest-growing region in the world in both 2015 and 2016. We forecast a contraction of -0.5% in 2015 and growth of 1.8% in 2016. This scenario is contingent on the success of the Ukraine/Russia ceasefire agreement and an increase of oil prices to above USD60 in 2015 and above USD70 in 2016; upside potential exists in the form of an end to the commercial and financial sanctions on Russia (unlikely in our view) and even higher oil prices. The partial recovery of the rouble, meanwhile, is alleviating some of the pressure on the region’s exporters. Despite their exposure to Russia via trade links, the Baltics will be the best performers in the region over the next two years. In the region as a whole, and in Central Asia in particular, the slower economic growth coupled with potential FX devaluations may exacerbate existing political dissatisfaction; we view the risk of civil unrest as higher than in the recent past.

OUTLOOK FOR KEY REGIONAL COUNTRIES

The more negative economic scenarios for Russia have failed to materialize. The country’s financial sector and the rouble have stabilized from the apparent tailspin of late 2014/early 2015, and some sectors of the economy have even grown on the back of the country’s import substitution strategy. We have revised our growth forecast to -3.0% y/y in 2015 and to +0.3% in 2016 (up from -3.5% and -1.0%, respectively). However, the Ukraine/Russia ceasefire has been violated frequently since it was brokered at the start of the year, and the situation appears to have deteriorated in Q2; we expect the EU/US to announce an extension of sanctions in June. Ukraine’s economy had been deteriorating even before the conflict; the loss of production facilities in the East and the deterioration of investor sentiment have plunged the country into a full-blown crisis. The government is in debt-restructuring negotiations with creditors, and we expect the Ukraine to avoid an outright default, at least until Q4 2015. We forecast an 8.6% contraction this year and growth of 2.2% in 2016. In Kazakhstan, owing to the partial recovery of the Russian rouble (which affects the competitiveness of Kazakh exports) and oil prices, the risk of devaluation has receded; nevertheless, economic performance will be far more sluggish than we had anticipated in 2014. We have revised downwards our GDP growth forecast for Kazakhstan to 1.8% in 2015 and 2.6% in 2016.

RECOMMENDATIONS
- Downside risks for doing business in the region prevail; moreover, different combinations of downside risks in different locations require an in-depth assessment of particular countries.
- Take legal advice on the 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 OUTLOOK

REGIONAL GROWTH FORECAST
Regional growth prospects for H2 remain depressed as the dollar continues to rally and we expect the price of oil and other key export commodities to stay weaker than in 2014, negatively affecting Brazil, Chile and Argentina to differing degrees. Notably, Colombia and Mexico are managing the fiscal impact of lower oil revenue far better than Venezuela. Ongoing rebalancing in China and a muted outlook for the euro zone constrain demand from these key markets for primary exports, while broadly lower business and consumer confidence dampen investment spending and private consumption.

Importantly, relatively low productivity and persistent structural challenges stymie diversification efforts, as manufactured goods remain less competitive than those from Asia; fiscal constraints will preclude expansionary fiscal policies. In addition, as normalization of US Fed policy draws closer, net FDI inflows are expected to narrow and add pressure to external sector balances. The sluggish external environment and broadly weaker domestic growth contribute to our regional real GDP growth outlook for 2015 of 0.9%; risks are still tilted to the downside. Positively, the region’s FX reserves and improved foreign indebtedness provide some resilience against negative shocks.

HEADLINE REGIONAL ISSUES
- A combination of sluggish external demand and soft export commodity prices is depressing growth prospects for the coming quarters.
- Oil exporters are implementing tighter fiscal measures, including higher taxation and lower subsidies/transfer payments; this could trigger negative political events.
- Several regional currencies are at record lows; default probabilities for cross-border payments and foreign currency-denominated corporate debt are up.
- High labor costs and structural inefficiencies reduce the competitiveness of manufactured exports.

OUTLOOK FOR KEY REGIONAL COUNTRIES
We have again revised down our 2015 real GDP forecast for Brazil; we now expect the economy to contract by 1.3% (our previous forecast was -1.2%) as industrial production declined for a third consecutive month in April. The ongoing probe into corruption allegations involving Petrobras executives and fiscal tightening are contributing to lower private sector confidence for H2. Worryingly, more monetary tightening is pushing up policy interest rates in Brazil and adding upward pressure on non-performing loan ratios, particularly for SMEs.

In June we also revised down our 2015 growth forecast for Mexico to 2.8% (from 3.0%) as weaker external conditions, coupled with slashed government infrastructure spending in the hydrocarbon, healthcare, transportation and telecommunications sectors, will lead to a deceleration in growth. Nevertheless, we adhere to our upbeat medium-term outlook as the benefits of structural reform are realized. In a similar vein, we have cut our growth forecast for Colombia to 3.4% (from 4.2%) as the economy lost steam in Q1, having expanded by 2.8% compared to 6.5% in the corresponding period in the previous year and 0.8% q/q (the lowest quarterly rate since Q3 2012). International uncompetitiveness, soft commodity prices and Brazil’s deceleration depress growth prospects in Argentina while, unsurprisingly, the Venezuelan economy will contract further this year (following a 2.8% contraction in 2014). We reiterate that growth will continue unevenly across the region on account of varying resilience in macroeconomic frameworks.

RECOMMENDATIONS
- Monitor changes in the political climate, as tensions could rise on the back of deteriorating fiscal accounts which force cuts in social welfare programs.
- Be prepared to tighten payment terms even in commercial relationships of several years.
- Monitor FX liquidity for commodity-dependent economies with weakening currencies.
- Ensure compliance with anti-corruption laws given the heightened focus on uncovering corrupt practices by public figures.
REGIONAL INSIGHT: MIDDLE EAST AND NORTH AFRICA

TREND: DETERIORATING

HEADLINE REGIONAL ISSUES

- Government spending of hydrocarbon revenues drives regional growth, even in non-oil economies, which benefit from trade, investment, jobs and remittance flows from the oil economies.
- The decline in the oil price to around USD63-65/b will have significant negative implications for short-term growth, particularly in the oil-exporting economies.
- Security concerns continue to be elevated across the region, but particularly in relation to proxy wars between Saudi Arabia and Iran in Yemen, Syria and Iraq.
- In addition, radical Islamist groups are threatening stability in many other countries, as seen in the case of the Sousse attack in Tunisia in late June.
- Successful negotiations between the international community and Iran should see a lifting of sanctions by end-2015.

REGIONAL OUTLOOK

REGIONAL GROWTH FORECAST

Regional growth in 2015, which will be similar to the meagre 2.4% in 2014, will be undermined by three factors: the lower oil price, regional insecurity, and weak global demand. Average annual oil prices are set to fall sharply in 2015 to under USD60/b from just under USD99/b in 2014. Oil-exporting governments will have to curtail spending, likely mothballing or cancelling a number of projects, impacting negatively on the business environment. Although oil-poor countries will benefit from lower energy import bills and inflation, these will be offset by reduced job opportunities in, trade with, investment from, and economic assistance from the oil-rich countries. The recent escalation of the violence in Yemen is creating another arena for the proxy wars being fought in the region between Sunni Saudi Arabia and Shia Iran. Furthermore, violence in countries such as Iraq, Syria and Libya is disrupting regional supply chains as well as undermining the business environment, as do events such as the Sousse beach attack in Tunisia in late June. On the positive side, the potential lifting of sanctions against Iran at end-2015 see strengthen Iranian growth from 2016 and will also support regional trade and investment flows.

OUTLOOK FOR KEY REGIONAL COUNTRIES

The region’s largest economy, Saudi Arabia, will see real GDP growth slow from 3.5% in 2014 to 3.4% in 2015, and further to 2.9% in 2016 as infrastructure spending slows. Similarly, Qatar’s prodigious double-digit growth rate in 2006-11 has slowed but will still average 6.1% in 2015-16, and 6.6% in 2017-19, driven by government expenditure ahead of the 2022 soccer World Cup. The UAE will also experience slowing growth, averaging 3.4% in 2015-16 compared with 4.8% in 2014. Although progress on the nuclear issue has now been made, with sanctions to be lifted by end-2015, the continuing sanctions, allied to weak oil prices, will curtail growth in Iran, with the economy contracting by 0.2% in 2015. However, we expect a strong rebound in 2016.

Meanwhile, in the larger non-hydrocarbon-dependent economies, Egypt, despite the uncertain political situation, will see growth virtually double in 2015 to 4.3%, from only 2.2% in 2014. Meanwhile, the Israeli economy is expected to have bottomed out at 2.8% in 2014, and will rebound to 3.2% in 2015 and 3.5% in 2016. In North Africa, the importance of the agriculture sector is reflected in the volatility of growth in Morocco: 2.4% in 2014, 4.8% in 2015 and 3.6% in 2016, while Tunisian growth will be hit by the Sousse attack as tourists avoid the country.

RECOMMENDATIONS

- Monitor the impact of falling global oil prices closely: government austerity measures could affect the private sector as contracts are cut or terminated, thus hitting profitability, cash flows and payment performance.
- Beware that the expected sustained fall in oil prices will see moves towards a rolling back of the state, and increased opportunities as state-run companies are privatized.
- Closely monitor political and security developments in all countries, but particularly in Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Syria Tunisia, and Yemen, as these will impact on business risk.
- Monitor the next steps by the various parties, including the US Congress, the Iranian parliament and the IAEA, which should see sanctions lifted by end-2015 with significant opportunities in Iran, particularly in the upstream and downstream hydrocarbon sector, business services, car production, aviation and tourism.
REGIONAL OUTLOOK: NORTH AMERICA

REGIONAL GROWTH FORECAST

A combination of some transitory and some more persistent headwinds weighed on regional growth in the first three months of the year. Real GDP contracted in both Canada and the US; this is part-explained by the harsh weather in Northern America during January and February, which also explains the behaviour of consumers in particular, who stayed away from stores. While the weather has improved in Q2, however, we are yet to see a rebound in consumer spending; the windfall that consumers have accumulated in the last 6-9 months thanks to lower fuel prices has largely been saved. The average household remains cautious about the outlook and will start spending in earnest only when they believe that the recovery has serious staying power. A drop in energy-related investment, a casualty of the slump in global commodity prices, was the other drag on regional growth in Q1, although it affected Canada more than the US.

The Canadian dollar is set to remain weak throughout H2 2015 and into 2016 thanks to only a modest recovery in global oil prices, as well as diverging monetary policy paths between the central banks of Canada and the US. The Bank of Canada is expected to maintain loose monetary policy for longer than the US Fed, and could even cut rates further in an attempt to boost flagging growth in 2015. Disappointing economic data during H1 2015 set the stage for a tough decision at the next Monetary Policy Committee meeting in July. Meanwhile, the US Fed is expected to start raising rates before the end of 2015, which should see investors increase their US dollar positions and could push the Canadian dollar even lower during late 2015 and early 2016. Geopolitical uncertainty, such as the Greek turmoil, is also likely to reinforce investors’ flight to safety and add to appreciation of the USD.

HEADLINE REGIONAL ISSUES

- Q1 activity contracted abruptly in both Canada and the US, prompting us to downgrade our forecast for near-term regional growth.
- North American growth will slow to 2.3% in 2015, recovering gradually through the rest of the year and picking up pace in H2.
- Given the diverging paths of interest rates, the Canadian dollar will remain weak and the US dollar will remain strong through the rest of 2015.
- The US and Canada remain two of the best rated and safest countries in the Dun & Bradstreet universe in terms of operational risk.

OUTLOOK FOR KEY REGIONAL COUNTRIES

Despite the upward revision in GDP in Q1 2015, growth for the year as a whole will fall short of its potential of 2.5% for the fifth year in a row; we expect the US economy to expand by 2.3% in 2015, accelerating to 2.9% in 2016. At the last FOMC meeting on 17 June, the central bankers chose to keep the Federal Funds Rate (FFR) unchanged at the zero lower bound. But, as part of its forward guidance, the committee left the door open for two rate hikes by the end of this year. Dun & Bradstreet cautions that the pace of rate increases and the trajectory of the FFR will be far more important, however, for business planning; we expect increases in the FFR to follow a shallow path, reaching 1.25% at the end of 2016.

The Canadian economy shrank by 0.1% q/q in Q1 2015, the first contraction in four years. The performance was led by a fall in business investment due to cutbacks in energy-sector spending plans, as well as soft consumer spending and disappointing exports to the US. The weakness of the energy sector will continue to act as a drag on the economy during the rest of 2015. Household spending should benefit from employment growth, wage growth and lower fuel prices that lift disposable incomes during H2 2015, while exports are expected to benefit from the weakness of the Canadian dollar and stronger demand from the US. We expect real GDP to grow by just 1.8% in 2015, before picking up to 2.4% in 2016.

RECOMMENDATIONS

- Adjust your business plans for a gradual increase in interest rates beyond mid-2015.
- Do not expect financial markets to price in political risks efficiently and smoothly at all times.
- Calibrate expansion and looser sales terms in line with the increasing pace of the recovery.
- Monitor FX liquidity in countries with balance of payments difficulties and weak currencies.
- Take advantage of commercial ties with sectors that have rebounded faster from the Great Recession.
REGIONAL INSIGHT: SUB SAHARAN AFRICA

TREND: DETERIORATING

HEADLINE REGIONAL ISSUES
- Sub-Saharan Africa’s growth fell short of expectations in H1 amid still-weak global commodity prices. Growth in 2015 is now forecast at 4.1%, below the 4.7% seen in 2014.
- Lack of support from commodity prices will widen fiscal deficits and hamper public sector spending on essential categories such as infrastructure and healthcare.
- Frontier economy currencies remain exposed to the threat of volatility in the wake of the US Federal Reserve’s withdrawal of extraordinary monetary support.
- Sustained currency weakness could pass through to domestic prices and undo some of the improvement in inflation rates.

REGIONAL OUTLOOK

REGIONAL GROWTH FORECAST
Data available in the first six months of the year suggest that the region fell short of expectations in H1, primarily due to the bust in the commodity price cycle and the general lack of discipline that left a majority of countries exposed to such a shock. The ongoing slump in global commodity prices has had a mixed impact on the region. On the one hand, countries like Mauritius that do not depend on resource exports will benefit from the increased savings that consumers are enjoying, thanks to lower energy prices. On the other hand, countries like Nigeria and Angola that are over-dependent on oil exports have seen growth slow sharply and will struggle in the near term. As their currencies depreciate in global markets and FX reserves drop due to lower export earnings, many member countries face major downside risk to their fiscal positions and are reducing spending on much-needed public infrastructure projects. If this persists, long-run growth prospects could be hurt. FX volatility is also expected to magnify around the time the US Federal Reserve starts raising rates, another downside risk.

OUTLOOK FOR KEY REGIONAL COUNTRIES
The outlook varies significantly from country to country. The meagre recovery in global crude prices in H1 2015 has prompted us to revise downwards our Nigeria growth forecast: with crude prices still more than 40% below their peak from last summer, we now expect Nigeria’s real GDP to expand 4.7% in 2015 (down from 5.2% forecast earlier) and 5.7% in 2016 (down from 6.0%). Despite the drop in prices, the country still earns nearly 70% of its government revenues and about 90% of its FX income from crude oil exports. The subdued price of oil has thus pushed FX risk to the top of the list of near-term drags on the economy, with the depreciation of the naira a major concern. Following 1.5% growth in 2014, South Africa’s economic activity remains challenged by several factors: we expect real GDP growth to reach just 2.1% in 2015, accelerating to 2.4% in 2016.

With global oil prices now much lower than in H1 2014, Angola’s export earnings and FX reserves will be undermined in 2015, creating a large current account deficit and widening the fiscal deficit. The kwanza will remain under downward pressure, and is expected to lose further value against the US dollar during 2015. Angola’s real GDP growth is estimated at a sluggish 3.5% in 2015, as lower global oil prices undermine oil sector investment and public spending plans. Non-oil sector growth (particularly in construction, light manufacturing, commerce and logistics) will remain reasonably strong, but will not be immune to the effects of lower oil prices, raising payment delay and default risk. Following 5.3% growth in 2014, Kenya’s real GDP expansion will accelerate to a robust 6.1% in 2015. Despite the upbeat outlook, there are a few downside risks, including external sector vulnerability. Kenya’s success in implementing structural reforms over the past few years means that its currency has been more stable than those of its peers in sub-Saharan Africa, but the shilling has not been completely immune to the volatility plaguing international financial markets, depreciating nearly 8% against the US dollar since the start of the year.

RECOMMENDATIONS
- Companies in mining should be aware that 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 increases.
- We recommend 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 cover.
REGIONAL INSIGHT: WESTERN AND CENTRAL EUROPE

TREND: STABLE

HEADLINE REGIONAL ISSUES

– We believe the risk of a Grexit in the short term has fallen substantially.
– Furthermore, we expect the adverse ripple effects of a Grexit to be contained anyway and do not forecast a wider break-up of the euro zone.
– Since the launch of a Quantitative Easing scheme in March, inflation rates in the euro zone have edged upwards but remain significantly below the ECB’s target range.
– The election outcome in the UK has been well-received by the markets.

REGIONAL OUTLOOK

REGIONAL GROWTH FORECAST

The risk of Greece leaving the Eurozone in the short term has fallen substantially after successful negotiations between the Greek government and the ECB, EU and IMF were concluded in July. Although the hard-left Syriza party won the January general elections campaigning on a pledge to put an end to years of austerity, in mid-July the Greek government agreed on further budgetary discipline in exchange for a third bailout. While the risk of a sudden Grexit has significantly receded, the risk of Greece leaving the Eurozone in the medium-term is, in our view, high. Positively, we believe that the threat of a Grexit no longer holds the same danger for the rest of the Eurozone as it did in 2012. Indeed, the creation of crisis-preventing tools (such as the European Financial Stability Facility), alongside the strengthening of the Eurozone’s financial institutions and the progress made towards a banking union have significantly increased the bloc’s ability to cope with the adverse effects of a Grexit. However, the ongoing Greek crisis has exposed deep political divisions between Eurozone countries which risk undermining the necessary cohesion and political will to move towards a deeper economic and political integration.

OUTLOOK FOR KEY REGIONAL COUNTRIES

While we predict an uptick in regional growth rates in 2015 and 2016 (compared with 2014), downside risks remain prevalent. In the region’s eastern periphery the unstable situation in Ukraine and the weakness of the Russian market (exacerbated by economic sanctions) will place a drag on growth and put energy security at risk in the most adverse (albeit very unlikely) scenario. In the short term, more certainty around the commitment of Greece to implement necessary reforms is positive, similar progress in Italy and France is still slow (despite some reforms being in the pipeline). Elections in Spain, Portugal and Poland also increase risks, as changes of government are possible in all these countries.

RECOMMENDATIONS

– Work closely with credit information providers to assess cross-party risk, as it can vary significantly between countries, as well as between sectors in the same country.
– Monitor the situation in Greece closely as a Grexit could still happen suddenly, depending on political decisions.
– Base business decisions on the assumption that the Eurozone will survive a Grexit.
– Despite being on an upward trajectory again since the launch of a QE scheme, expect inflation to be below the ECB’s 2.0% target in 2015-16.
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