A D&B Special Report
July 2012

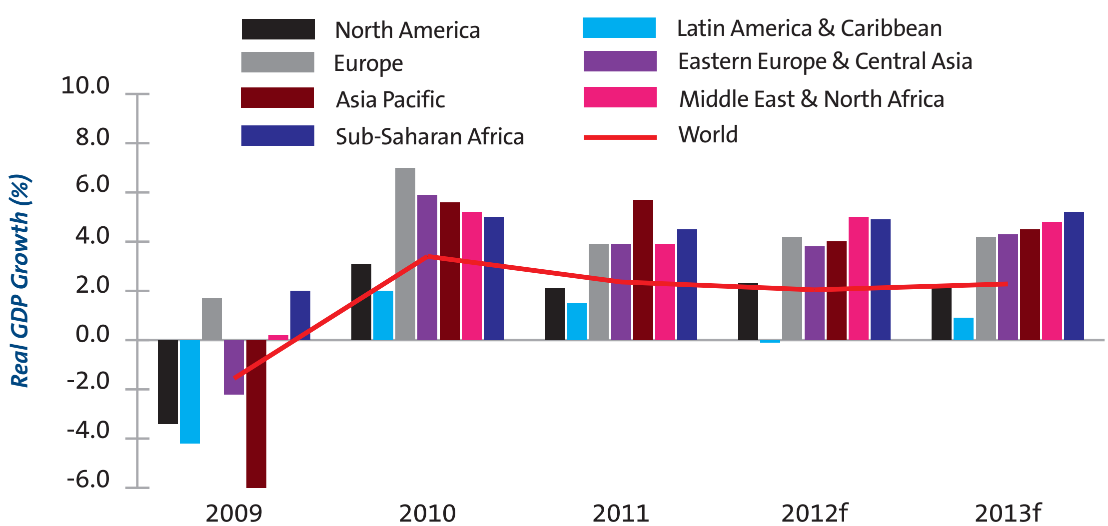
Decide with Confidence

# Global Outlook

## Global Risk Insights

- The outlook for global aggregate demand is still volatile and choppy, with dangerous headwinds.
- OECD public debt levels, China's slowdown and euro-zone dysfunction all threaten confidence.
- D&B analysis confirms that a strong turnaround in private sector balance sheets in the US has occurred since 2008.
- ***Outlook improving:*** Libya, Myanmar, United Arab Emirates.
- ***Stable prospects:*** Colombia, Iceland, Iraq, Japan, Mexico, New Zealand, Poland, US.

### Growth Outlook by Region




Source: D&B

*Economic growth will vary significantly within and between regions in 2012; European bank deleveraging is unfolding and, together with weaker European imports, could hit emerging markets; and oil producers are fearful of any further retreat in oil prices down to fiscally stressful levels.*

## Global Economic Outlook: Cyclical Negatives Tell on Growth

*IMPACT: cyclical and structural factors are offsetting each other...*

D&B continues to expect the world economy to grow at a sluggish pace of just over 2% in both 2012 and 2013. In emerging markets, the microeconomic effects of development and liberalisation still support a long-term 'supercycle'. However, we are concerned that shocks from the euro zone and the slowdown in China will produce headwinds, impeding emerging markets' short-term performance into 2013. Contagion via the trade channel and via bank deleveraging in Europe is already limiting prospects in the Middle East and Eastern Europe. Public debt levels across the developed world continue to weigh on confidence, even as private sector, non-financial balance sheets, especially in the US (and manufacturing), have turned around from the shocks of 2008.

*...while falling oil prices are a sign of weakening demand*

Global oil prices have eased substantially, in part due to recovering supply and the US oil shale boom. However, subdued demand in key markets is playing a part, and European refinery intake has fallen year on year (y/y) in recent months, unlike the US. Accordingly, if price falls are positive for the energy-intensive economies with robust domestic demand prospects, it is generally a negative sign for the world economy.

## Key Risk: Europe Deleverages, Emerging Markets Adjust Expectations

*IMPACT: even without a disorderly Greek exit, European bank lending will continue to shrink*

Bank deleveraging is well under way in Europe. Close to half of all Western European commercial banking systems saw falling claims in the private sector, y/y, in Q1, with parallel falls in Hungary and the Baltic Republics. Meanwhile, not only are the countries in the media spotlight (Spain and Greece) due to see punishing recessions in business investment in 2012, but others (such as Italy, Hungary, the Netherlands and the UK) may well follow suit. This will happen even without a Greek exit from the euro zone, which D&B still expects within months, implying further downside risks.

*IMPACT: oil producers are nervous as Chinese demand growth moderates*

Until May, oil-producing countries were confident they could ride out any storm given the medium-term trend for demand. However, with the Brent price fallen below USD100/barrel this is not certain: in addition, Middle Eastern project finance has dried up amid European bank deleveraging and high political risk perceptions since 2011. Tellingly, demand for credit in China is reported to have fallen, meaning any marked loosening of credit conditions will be of poor efficacy. However, electricity use and rail traffic data in China still suggest reasonable single-digit real GDP growth in 2012.

# North America and Mexico

## Risk Insights

- Economic growth will remain sluggish and well below pre-crisis levels.
- Firms continue to face relatively high levels of uncertainty.
- Fiscal policy in the US and the euro-zone crisis present big downside risks.
- Canada's high consumer indebtedness and overvalued housing market leave the economy vulnerable to an external shock.
- Mexico faces stiff headwinds from financial market and currency volatility.
- ***Stable:*** US, Mexico.
- ***Deteriorating:*** Canada.

## Outlook

*US growth is set to remain sluggish ...*

After showing signs of a gaining some traction early in the year, the US economy has again slid into a mid-year slump just as it did during the previous three years. Job growth remains abysmally slow and long-term unemployment rates worryingly high. But if growth looks set to remain sluggish, economic data have not signalled the tell-tale signs of a looming recession despite all the growing concerns over the global economy. By May, the manufacturing sector had grown for 34 consecutive months and order books implied continued expansion. The housing market has even shown early signs of beginning to recover from its deep, long slump.

*...while looming downside risks could drag the weak economy back into recession*

The largest domestic risk that the US economy faces is the so-called 'fiscal cliff' that looms at the end of 2012. If politicians do not rework the country's short-term fiscal plan, a combination of tax rises and spending cuts will generate an automatic fiscal consolidation of 3.0–5.0% of GDP. This would almost certainly be enough to drag the economy back into recession. With both political parties caught in increasingly tense pre-election campaigning, an agreement to rectify the situation ahead of the November elections is unlikely. Meanwhile, the euro-zone debt crisis is threatening to escalate to the point where it could impose a severe shock on the US financial system. Until uncertainty abates, many firms will remain reluctant to hire more staff or invest in facilities and equipment. The **Canadian** and **Mexican** economies both have unique domestic risks to contend with. Canadian households are beginning to strain under high levels of indebtedness, and an overvalued housing market risks a sharp correction. While the Mexican economy started 2012 strongly, it now faces headwinds from volatile financial and currency markets, and from weaker overall global demand.

## Implications

*Political uncertainty remains elevated in the US*

- Intense partisan politicking in the **US** is set to continue ahead of November's elections; another fiscal policy standoff looms in late 2012 regardless of the outcome.
- Given the US economy's continued sluggishness, the Federal Reserve will keep interest rates at record lows until 2013 and is likely to continue to engage in more inventive policy measures to lower longer-term interest rates.
- Given the **Canadian** economy's growing domestic risks, the government has come up with contingency plans in the case of a severe shock emanating from the euro zone.

*Monetary policy will remain accommodative*

- The Canadian central bank will also refrain from raising interest rates until 2013; this will help to avoid putting any additional pressure on household debt servicing costs.
- Renewed volatility of the **Mexican** peso could undermine the ability (or willingness) of some firms to service their liabilities in a timely manner.

## Recommendations

*Carefully monitor counterparties*

- D&B recommends careful monitoring of counterparties in troubled industries and/or sub-regions (e.g. in 2011, the highest rates of business failures were in the construction and transportation sectors, and in Nevada and California).

*Market volatility may warrant hedging*

- If customers' payments performance deteriorates (or is expected to worsen), revise trade terms and collection practices to minimise accounts receivable and exposure.
- Exchange rate and financial market volatility will remain a concern into 2013 as a result of the ongoing euro-zone debt crisis: hedging policies should be considered.
- Exposure to **Mexican** corporate debt and receivables should be managed carefully, with the Mexican peso likely to remain weak against the US dollar into 2013.

# Latin America

## Risk Insights

- Economic conditions diverged in early 2012, with Brazil slowing especially quickly and other countries seeing an upturn in activity.
- Risks are increasingly to the downside for the broader region, which will see weaker growth overall in 2012.
- Exchange rate and financial market volatility stemming from the ongoing euro-zone crisis will be a concern into 2013.
- ***Deteriorating:*** Argentina, Brazil, Nicaragua, Paraguay, Venezuela.
- ***Improving:*** Honduras.

## Outlook

*Economic activity diverged in early 2012...*

*...external risks are increasingly to the downside...*

*...while domestic risks vary across the region*

Latin American economies diverged somewhat throughout the first half of 2012. Weaker external demand and tighter domestic policy caused **Brazil**, the region's largest economy, to decelerate rapidly since a mini-boom in 2010. Nevertheless, several of the regions other large economies (e.g. **Colombia, Chile, Venezuela**) have fared better, accelerating after a sluggish second half of 2011. However, risks are increasingly to the downside for the broader region, which we expect to see weaker growth overall in 2012. Renewed financial stress triggered by the euro-zone debt crisis will increase credit risk and currency volatility. This could trigger renewed capital flight, undermining domestic business confidence in a way similar to that caused by the volatility in the second half of 2011. Meanwhile, weaker external demand stemming from the downturn in the EU and the significant deceleration of the Chinese economy will curb exports across the region.

Fresh domestic risks vary from country to country. In Brazil, the country risk outlook is deteriorating; growth is rapidly easing with investment falling, and it is unclear what reforms could be introduced to try to recapture the rapid rates of growth seen only a couple of years ago. Aggressive interest rate cuts since then indicate policymakers are fearful of a sharper slowdown despite continuing inflationary pressures. In **Argentina**, the region's second largest economy, resource nationalism and populist politics have severely undermined the business environment. In May, D&B downgraded Argentina's country risk rating from DB5d to DB6b (representing 'very high risk'). Conditions are also deteriorating in Venezuela, the region's fourth largest economy, with political tensions rising ahead of the presidential elections.

## Implications

*Credit risk and supply risk could escalate*

*Trade protectionism could increase as growth slows*

- Credit risk could see a rise across the region throughout the second half of 2012 if global financial market volatility continues to escalate.
- Many countries in the region remain well placed to withstand renewed capital flight, having boosted their of FX reserves over 2010–11.
- Rapid currency movements could undermine the ability (or willingness) of some firms to service their liabilities in a timely manner.
- Political risk will remain high in several countries into 2013, notably **Argentina, Bolivia, Nicaragua, Paraguay** and **Venezuela**.
- Weaker global growth prospects raise the threat of increased trade protectionism. **Brazil** and Argentina are locked in a trade dispute, while Brazil is threatening measures against South Africa.
- A Chinese 'hard landing' and/or a continued easing of commodity prices will take some of the shine off the region's natural resources sector.

## Recommendations

*Carefully monitor counterparties*

*Market volatility may warrant hedging*

- International arbitration clauses are recommended, particularly for countries with high levels of political risk.
- If customers' payments performance deteriorates (or is expected to worsen), revise trade terms and collection practices to minimise accounts receivable and exposure.
- Exchange rate and financial market volatility will remain a concern in 2012 as a result of the ongoing euro-zone debt crisis: hedging policies should be considered.
- Adequate political risk-/trade credit-insurance should be considered, where available.

# Europe (EU + Iceland, Norway and Switzerland)

## Risk Insights

- Although the euro-zone crisis spilled over to Spain, we still do not expect a complete euro-area break-up in the near term.
- Banks tightened credit standards in Q4 2011 and Q1 2012 and we expect this trend to continue over the remainder of 2012.
- Most European economies are in recession and growth will remain weak.
- As a result, payment and credit risk will remain elevated.
- ***Deteriorating:*** France, Germany, Greece, Hungary, Italy, Spain.
- ***Improving:*** None.

## Outlook

*Spain and Italy are in the spotlight while...*

Although the ECB provided support for banks in ailing euro-zone economies in December 2011 and February 2012 by injecting EUR1trn into the market, the result of these operations was only short-lived. Access to credit is still complicated and yields on Italian and Spanish government bonds rose to dangerously high levels again in Q2 2012. In mid-June, the Spanish government was forced to accept a EUR100bn recapitalisation package by the EU. We believe that it is only a matter of time until **Spain** and **Italy** will need further assistance. At the same time, growth in the euro zone is slowing down and most economies are in recession. We believe that Euroland's GDP will contract by 0.5% in 2012. As a consequence, D&B has downgraded several countries recently, most notably Germany, Spain and Greece.

*...Germany's willingness to provide funding is decreasing*

The macroeconomic turmoil (which increases payment and credit risks) is combined with an unusually high degree of political uncertainty. There is discontent between **Germany, Finland** and **Luxembourg** (on one side) and the rest of the EU (on the other) on how the crisis should be tackled. The slowing pace of reform in Italy, Spain and, most importantly **France** has lowered Germany's willingness to provide funding for ailing economies. Furthermore, the unclear political situation in **Greece** also adds to the uncertainty. It seems possible that Greece will leave the euro zone in the coming months, with unforeseeable consequences for the rest of the common currency area.

## Implications

*Payments performance is likely to deteriorate*

- European companies' payment trends (as measured by our payments performance data) will deteriorate significantly, with sharply rising insolvency and payment risks in most (if not all) countries.
- Bank runs in ailing economies (like **Spain** and **Italy**) seem unavoidable unless policymakers can agree swiftly on a banking union for the euro zone.
- The Eastern European EU member states, despite being outside the euro zone, will also suffer from the downturn in the core of the EU as their export-driven growth will slow.

*Non-euro-zone economies are also suffering*

- The crisis in the euro zone puts downward pressure on the euro and upward pressure on the **Swiss** franc and the **Norwegian** krone; this will impact price competitiveness and payments performance in both countries.
- On the upside, exporters to outside the euro zone will benefit from the euro depreciation. However, this positive trend is (at least partially) offset by declining demand from the EU but also from **China** and other emerging economies in Asia.

## Recommendations

*Expect higher credit and payment risks*

- Companies doing business in the fragile peripheral economies in the euro area should expect a higher frequency of payment delays and might consider tighter trade terms.
- Although it is not our core scenario, a sudden break-up of the euro zone cannot be ruled out. We advise companies to explore the legal repercussions on contracts in due time.
- D&B recommends monitoring the situation very closely, as the frequency of significant events is increasing rapidly.

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# Eastern Europe and Central Asia

## Risk Insights

- Economic growth is slowing, triggered by the effects of the euro-zone crisis and the slowdown in China.
- Local currency volatility is being influenced by balance of payments pressures.
- Political and insecurity risks persist.
- ***Improving:*** Turkmenistan.
- ***Deteriorating:*** Azerbaijan, Belarus, Kazakhstan, Tajikistan, Ukraine.

## Outlook

*Economic growth is slowing in most countries*

The region is likely to experience a slowdown in economic growth in H2 2012 as a result of easing international demand for its exports, particularly from the EU and China. This trend will be most evident in the region's largest economy, **Russia**, but will also be felt in smaller economies such as **Kazakhstan, Ukraine, Azerbaijan, Belarus** and **Tajikistan**. The downward trend in oil prices will put pressure on the local currencies in Russia and Kazakhstan. A reduction in export receipts, coupled with increased imports, resulted in a negative current account balance that increased the pressure in Ukraine. Financial risk in the Kazakh banking sector will persist due to a high ratio of non-performing loans to total loans (32%).

*The risk of doing business in the region remains high*

Insecurity risk and fractious international relations will remain a concern in several countries, notably in Kazakhstan (where a foiled plan to detonate bombs in Almaty was followed by several small-scale attacks in western and southern provinces) and Ukraine, where a prison sentence for former Prime Minister Yulia Timoshenko resulted in delays to the ratification of a free-trade agreement with the EU and a call to boycott the Euro 2012 soccer tournament by some European politicians. Political risk in Russia remains, stemming from a rise in demonstrations following allegedly rigged parliamentary and presidential elections. Overall, the region's trade and commercial environment continues to be hampered by bureaucracy, a high level of corruption, weak contract enforcement and the lack of a sound legal framework.

## Implications

*High FX reserves mitigate the risk of sharp devaluation*

- In **Ukraine**, delays to the ratification of the free-trade agreement with the EU will undermine trade and FDI flows to the country in the short term.
- Ukraine's struggle to secure IMF funding for the gap in both the fiscal accounts and the balance of payments may result in further hryvna devaluation.
- Availability of credit will remain poor in **Kazakhstan** as a result of the high level of risk aversion among Kazakh banks.
- Despite devaluation in recent month, the **Russian** rouble should be sheltered due to high levels of FX reserves, which will allow the authorities to mitigate downward pressure on the currency.
- In spite of solid professionals in the newly-formed Cabinet of Ministers headed by Russia's Prime Minister Dmitri Medvedev, the focus is likely to be on maintaining the balance of power between the president and the prime minister rather than implementing much-needed economic reforms.

## Recommendations

*Political and insecurity risks remain*

- 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 (and of particular industries in each country).
- Hedging against the volatility of some local currencies should be considered.
- Strict trade terms are recommended when doing business with counterparties in the region; CiA is our recommended trade terms in the majority of countries.
- Adequate political risk-trade credit-insurance should be considered.

# Asia Pacific

## Risk Insights

- Investment growth has become more volatile and elusive across the region.
- More vulnerable countries' weak points have reappeared as growth cools.
- Private consumption, import and lending growth have been more resilient.
- Public debt levels are sustainable, and financial contagion seems absent.
- ***Improving:*** Myanmar.
- ***Stable:*** Indonesia, Japan, New Zealand, Sri Lanka.

## Outlook

*China and India were downgraded...*

*...as negative factors persist in both*

The downgrades to **China** and **India**'s risk indicators (to DB4a and DB4b) in Q2 reflect the negative economic pressure on Asia's most significant emerging markets. While China's CPI inflation and fiscal position are in safe territory, real estate is deflating, manufacturing and upstream industry are cooling, and exposure to the EU (via exports) is sizeable. The government is unable to relaunch the loose credit stimulus policy seen in 2009-10, as credit demand has dwindled and the property market is contracting in many areas. Meanwhile, India is singularly failing to upgrade its policy environment, the rupee is flagging, CPI inflation could touch double-digit levels, and GDP growth has slowed to 5%. Both countries will demonstrate higher credit risks in 2012-13, even if the necessary economic adjustment is already underway.

*Late developers can still grow rapidly...*

*...but the old Asian 'tigers' will see meagre growth as classic emerging market problems return*

The region's role as a significant driver of the global economy is still intact, but medium-term average real GDP growth expectations are likely to shift down, outside of a few development laggards such as **Indonesia**, and **Myanmar**, the latter upgraded to DB6a in the wake of its political and economic reforms. Central bank financing of banks, seen in Europe since 2008, is largely absent outside **Japan**, and public debt levels are no imminent threat to confidence, even in indebted sovereigns such as India, **Malaysia** (or Japan). However, export-intensive Asian economies could still be dragged into a period of stagnation or recession in the event of a deeper shock to OECD demand. In **South Korea**, **Taiwan and the Philippines** investment has zigzagged in and out of contractions in the past year, and would fall more continuously in such a scenario. Meanwhile, in **Vietnam**, **Pakistan** and India the scarcity of FX liquidity and struggle with inflation underline the return of 'classic' emerging market problems in Asia.

## Implications

*Lower growth in China will test its development model*

- **China** 's real GDP growth is set to fall to 7.5% in 2012; while we still expect a recovery to above-8% growth in 2013, the deterioration will test China's development model.
- As crude 'credit floodgate' policies will be ineffective, China's policymakers will have to deploy structural reforms such as liberalising interest rates and capital inflows.
- Indonesia will benefit from domestic demand-driven expansion, and **Myanmar** from re-integration with the global economy as sanctions are lifted and economic reform begins.

*Vietnam and South Asian economies face FX illiquidity risks*

- **South Korea** especially will prove a bell-wether of the combined impact of European and Chinese demand trends.
- Exchange rate volatility and direct management of exchange and import regulations in countries facing FX illiquidity such as **Vietnam**, **Pakistan** and **India** will continue.

## Recommendations

*Exporters are due to pose higher credit risks*

- Draw distinctions between exporters and firms serving domestic consumer markets; the latter may still be able to depend on positive underlying trends and prove better risks.
- It is no longer safe to assume the **Chinese** yuan will appreciate or is undervalued.
- Be prepared both to tighten terms in longer-standing commercial relationships, as well as maintain terms to customers with demonstrably transitory cash flow issues.

*Anticipate more volatile FX markets*

- Monitor FX liquidity in countries with balance of payments difficulties and weak current account positions, especially in **South Asia** and **Vietnam**.
- New business opportunities will continue to arise as the region's markets mature, even in a low- or no-growth scenario for the developed world.

# Middle East and North Africa

## Risk Insights

- Political and commercial risks will be particularly significant in Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Lebanon, Libya and Yemen.
- Weakening oil prices are threatening growth prospects in the hydrocarbon economies, although an escalation of the nuclear issue in Iran could see oil prices spike sharply if any type of military action were taken against Tehran.
- Credit conditions will vary across the region, but will strengthen in the UAE.
- ***Deteriorating:*** Algeria, Iran, Jordan, Kuwait, Syria, Yemen.
- ***Improving:*** UAE.

## Outlook

*Regional political and security issues...*

In addition to risks emanating from the European debt crisis and imbalances in the emerging markets, the region faces two further challenges: the ongoing uncertainty resulting from the Arab Spring and the Iranian nuclear crisis. The outcome of the Arab Spring remains highly uncertain: in **Tunisia** there are growing tensions between the ruling Islamist party and the secular opposition, while in **Egypt** and **Libya** the final outcome remains undecided. Also, high levels of violence will be experienced in **Syria** and **Yemen**, while in **Algeria**, **Bahrain** and **Jordan** demonstrations against the governments will continue. In addition, either domestic or cross-border security issues remain a concern in **Lebanon**, **Iran**, **Iraq** and **Israel**. Any military action as a result of the nuclear issue in **Iran** will further undermine security in the region, as well as significantly increase global oil prices in the short term.

*...and global issues undermine the risk outlook*

Meanwhile, the ongoing crisis in Europe is reducing demand in one of MENA's main export markets, further undermining growth prospects in the region. Furthermore, concerns over European banks are impacting on the cost and availability of project finance, threatening investment in infrastructure in MENA. Any significant downturn in China will also impact heavily on the region as demand for oil and gas slumps and prices weaken; for example, Saudi Arabia needs oil prices to remain above USD80 per barrel if its budget is to remain in surplus.

## Implications

*Weakening oil prices will slow business activity...*

*...as will the security situation...*

*...impacting on payment performance, profitability and bankruptcies*

- Weakening oil prices are set to curtail business activity in the hydrocarbon sector.
- Nevertheless, we expect construction and service companies in oil-rich countries to benefit from strong government spending.
- However, we expect payment performance in government-related companies in oil-rich countries to start to deteriorate.
- In turn, this will impact cash flow, payments performance, profits and bankruptcies in the private sector.
- Slower growth in the oil-rich countries will see investment, remittances, aid and trade flows slow to the oil-poor countries, undermining growth; however, these countries will see lower import bills as energy costs fall.
- Uncertainty about the future and stability of **Bahrain**, **Egypt**, **Iraq**, **Lebanon**, **Libya** and **Yemen** will be significant, and remain elevated in **Algeria**, **Jordan** and **Tunisia**.
- In **Iran**, a tightening of international sanctions will undermine the economic outlook and expected returns from trade and investment.

## Recommendations

*Increase monitoring on government-related entities in oil-rich states*

*Companies should be vigilant towards counterparties with ties to Iran*

- Increase monitoring on the payments performance of government-related businesses in the oil-rich states as governments delay payments.
- Stricter terms for counterparties in the agri-food, textile and tourism sectors are advisable.
- Companies dealing with firms based in **Algeria**, **Bahrain**, **Egypt**, **Iraq**, **Jordan**, **Lebanon**, **Libya** and **Yemen** should exercise extreme caution, owing to the weak and/or deteriorating political and commercial risk outlook.
- In view of the increase in international sanctions targeting the financial and hydrocarbon sectors, we advise customers to remain vigilant towards companies with ties to **Iran**.

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# Sub-Saharan Africa

## Risk Insights

- The outlook is broadly positive, creating opportunities for business expansion.
- The EU slowdown and cooling demand in Asia will increase Africa's exposure.
- Despite easing oil prices, input costs remain high; rising socio-political and payment risks in Nigeria and policy risks in South Africa are sources of concern.
- ***Deteriorating:*** Nigeria, South Africa, Sudan.
- ***Improving:*** Ghana, Mozambique, Sierra Leone.

## Outlook

*The region will continue to show resilience in the wake of slowing world demand...*

Sub-Saharan Africa remains resilient in the wake of slowing world demand and renewed instability in West and East Africa. We expect the region to expand by 4.9% in 2012, up from 4.5% in 2011 (albeit remaining below pre-crisis trend), reflecting increased foreign appetite for investment in new resource areas (mining, oil and gas) in formerly unstable markets such as **Sierra Leone** and **Mozambique**, as well as **Ghana**. Strong public infrastructure spending will also lend some support to this scenario: indeed, growth in cross-border lending continues to rise, particularly in **Angola**, **Cote d'Ivoire**, **Kenya** and **Uganda**. Moreover, given increased global investor risk aversion toward the EU, we expect Africa to benefit somewhat from safe haven capital inflows from world markets.

*...but growth will be uneven across the region*

Despite the positive picture, regional growth will remain uneven: already, economic recovery in the region's economic giants, **South Africa** and **Nigeria**, has lost some momentum against the backdrop of the deepening EU crisis, subdued US activity, high domestic inflation, and the resurgence of socio-political risks and weaker currencies. Increasing financial market integration with developed economies has also renewed capital market volatility, fuelling uncertainty. Additionally, cooling demand in resource-intensive markets such as China and India are also posing downside risks. Already, Africa's coal and iron-ore suppliers are experiencing a rise in credit defaults from Asian markets, increasing their cash flow problems. Moreover, weaker import demand from these markets has depressed commodity prices, putting pressure on fiscal and external balances in many African markets. Further, political risk will rise in **Angola**, **Ghana** and **Sierra Leone** ahead of upcoming elections.

## Implications

*Payments risks will rise amid weak export receipts and higher cost pressures*

- Investor confidence has increased in **Ghana**, **Mozambique** and **Sierra Leone**, while **Nigeria** grapples with payment arrears and security risks, and **South Africa** with policy risks.
- The EU and Chinese slowdowns will increase short-term cyclical challenges for Africa's major commodity-dependent markets, but with no significant banking sector stress.
- Indeed, fiscal vulnerability will rise, undermining contract renewal prospects for firms that are reliant on state procurement.
- Increased global risk aversion towards indebted euro-zone markets will increase pressure on African governments to improve their budget positions and strengthen their buffers against shocks by raising royalties/taxes in extractive industries.

*Safe haven inflows could increase debt problems in the long term*

- Albeit easing, commodity prices (mainly oil) will remain high, sustaining high input costs for major commodity-importing countries.
- Renewed currency and capital market volatility could undermine the ability of some firms to service their foreign-denominated liabilities in a timely manner.
- Inflows of safe haven capital could increase the debt burden for countries over the long term, and thus raise external financing risks.

## Recommendations

*Companies should ensure stricter trade terms, hedge against exchange rate fluctuation and take out adequate insurance cover*

- Markets such as **Mozambique** and **Ghana** could create business opportunities.
- With payment risks likely to rise across the region, we recommend stricter trade terms for local counterparties, particularly those that are exposed to the downturn in the EU.
- Export-oriented companies that are susceptible to the volatility of the **South African** rand should consider hedging strategies to limit the adverse impact of currency risk.
- Companies are advised to take out adequate security and political risk insurance cover.

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## D&B Country Insight

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We monitor each country on a daily basis and produce both shorter analytical pieces (Country RiskLine Reports), as well as more detailed 50-page Country Reports. For further details please contact Country Risk Services on **+44 (0)1628 492595** or email **CountryRisk@dnb.com**.

### Additional Resources

The information contained in this publication was correct at the time of going to press. For the most up-to-date information on any country covered here, refer to D&B's monthly *International Risk & Payment Review*. For comprehensive, in-depth coverage, refer to the relevant country's Full Country Report.

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