



Decide with Confidence

D&B's Global Economic Outlook

to 2017

Around the World – Regional Insights, Upgrades and Downgrades

North America (US, Canada) and Mexico ■ Latin America ■ Europe ■ Eastern Europe and Central Asia ■ Asia Pacific ■ Middle East and North Africa ■ Sub-Saharan Africa



Global Risk Insights

- The recovery from the 2008–09 recession remains the most challenging in the past century.
- Deleveraging in the private and public sectors remains an inhibitor to growth throughout the forecast period.
- These pressures are offset by substantial improvement in the health of the corporate sector.
- Structural imbalances in key emerging economies are potential headwinds.
- The macro-economy, fiscal imbalances, and continued quantitative easing constitute high risks.
- New political risks have arisen as a result of the Arab Spring.
- The recovery will be uneven across regions and in time.

Global Economic Outlook: Where We Are

The recovery from the 2008–2009 recession is the slowest and most problematic of the past century...

The recovery from the 2008-2009 recession is the slowest and most problematic of the past century, highlighted by changes in D&B's country risk ratings: 56 of the 132 countries (42.4%) rate worse than in October 2009 when the recovery started, while only 23 (17.4%) rate better. This level of downward movement is extremely unusual for a recovery and reflects the unique circumstances of this cycle versus prior recoveries. Indeed in 2012, three years into the recovery, D&B downgraded 32 countries—the third highest number of downgrades in one calendar year—while only upgrading seven.

...2012 saw the third highest number of downgrades ever.

2012 was slightly more challenging than first anticipated, when global growth was predicted to be a modest 2.4%. Actual results indicate growth closer to 2%, a subdued pace by any measure. Headlines confirm the European outlook eroded throughout the year, driven by the ongoing Eurozone saga which in turn fuelled global under-performance. China's exposure to reduced European demand resulted in the Asia/Pacific real-GDP growth forecast falling by 0.5 percentage points (pp) to 3.9%. In turn, Chinese demand for commodities declined throughout the year, impacting the growth forecasts of commodity rich countries. Given these factors, most regions ended 2012 below expected growth levels: Regional forecasts for Latin America and the Caribbean fell from 4.1% to 3.0%; Eastern Europe and Central Asia from 4.5% to 3.1%; the Middle East and North Africa from 5.1% to 4.2%; and Sub-Saharan Africa from 5.5% to 4.3%.

Real GDP Growth	2011	2012e	2013f	2014f	2015f	2016f	2017f
North America	1.9	2.1	1.9	2.3	2.0	2.2	2.6
Europe	1.5	-0.3	0.3	1.2	1.6	1.6	1.8
Asia Pacific	4.1	4.2	3.9	3.7	4.1	3.6	3.9
Latin America & Caribbean	4.0	3.0	3.6	3.7	3.9	4.0	3.8
Eastern Europe & Central Asia	5.5	3.1	3.3	3.8	4.2	4.5	4.6
Middle East & North Africa	3.9	4.2	4.0	4.2	4.6	4.9	5.1
Sub-Saharan Africa	4.6	4.3	4.6	4.7	4.8	4.9	4.9
World	2.6	2.0	2.2	2.5	2.7	2.7	2.9

Global growth to pick up slowly through 2017, but downside factors still remain.

After the 2012 slowdown global economic growth is expected to pick up gradually through 2017. Nevertheless, growth is still expected to be lower than in the five years prior to 2008, and a number of concerns still weigh heavily on these forecasts. In a regional context, the forecasts highlight different growth patterns. The table above highlights the disparities in trends across the regions, with certain regions experiencing further slowdowns before growth approaches near-normal levels in 2017. Thus, slowdowns are anticipated in North America in 2013 and 2015, Asia/Pacific in 2016, and Latin America in 2017.

Where We Are Going: 2013 to 2017

The healing process following the 2008–09 recession will continue to make slow, erratic progress over the next five years...

The healing process following the 2008–09 recession will continue to make slow, erratic progress over the next five years. The significant restructuring of the US private sector is a chief driver, which, according to D&B's unique data, is resulting in slowing bankruptcies across most sectors and improved payment performance. Furthermore, the boom in unconventional gas and oil in the US is driving down energy prices, boosting business confidence and supporting growth in key sectors like manufacturing.

...but risks remain.

Despite this cautious optimism a number of risks remain, namely:

- High levels of debt, particularly in the public sector;
- Unintended consequences of the unprecedented monetary easing policies;
- Unravelling of sectoral imbalances, particularly in emerging markets; and
- Political risks associated with the transformation of countries to new governmental systems (e.g., Arab Spring).

Total debt remains high...

Total debt levels in many developed economies have expanded considerably since 2000, with some of the worst offenders being Japan (over 630% of GDP in Q2 2012), the UK (556% of GDP in Q2 2012), and France (over 510% of GDP in Q3 2012). Germany (around 350% of GDP in Q2 2012) is one of the few OECD countries to have controlled its overall debt levels across the period.

...with household debt still growing in certain economies...

When broken down into household, corporate, and public sector debt, a more nuanced picture emerges. Household debt is still growing in France (66.3% of GDP in Q2 2012), Italy (51.2% of GDP in Q2 2012), and Canada (91.5% of GDP in 2012). However, significant deleveraging has taken place in the US (down from a peak of 97.5% of GDP in Q2 2009 to 81.4% of GDP in Q3 2012) and the UK (down from a peak of 110.6% of GDP in Q1 2009 to 98.8% of GDP in Q3 2012). In Spain household debt has peaked and is falling slowly. In contrast, German household debt has fallen consistently since 2000 (now standing at 58.8% of GDP), and Japanese household debt has remained relatively static (76.6% of GDP).

...and non-financial sector debt falling significantly in the US and UK...

When looking at the non-financial sector, a similarly confused picture emerges. French companies (158.2% of GDP in Q2 2012) are still building debt, while Japanese (down from 146.2% of GDP in Q2 2008 to 135.8% of GDP in Q3 2012), UK (down from 129.2% of GDP in Q4 2008 to 117.1% of GDP in Q3 2012), and Spanish (down from 198.4% of GDP in Q2 2009 to 184.4% of GDP in Q2 2012) company debt appears to have peaked in 2008-09 and is now slowly falling. German, Italian, and Canadian company debt levels have been relatively static since the crisis erupted.

...but public sector is the main cause for concern.

However, the increase in public sector debt since 2008 is most concerning, as governments ramped up spending to boost economic growth. Furthermore, as the table



below indicates, the problem is not only in advanced economies; emerging economies to a lesser extent have seen their fiscal positions worsen. As a result, government spending in many countries will remain constrained and tax levels high over the next few years as governments attempt to balance their books. That, in turn, will constrain growth in economies such as the US, where private sector restructuring has begun.

Governments and central banks have used quantitative easing (QE) policies, allied with record low interest rates. In five short years the Bank of Japan has increased total assets by 73.1%. In the US, the Federal Reserve’s assets have increased by 224.7%, while total assets of the Bank of England have risen by 301.4%. Finally, the European Central Bank’s total assets rose by 117.0%.

Fiscal deterioration	2006	2012	Change
Advanced Economies (% of GDP)	-1.4	-5.4	-4.0
Emerging Economies (% of GDP)	-0.1	-2.3	-2.2
G7 (% of GDP)	-2.3	-6.5	-4.2
G20 (% of GDP)	-1.2	-4.4	-3.2
No. of countries in excess of 2.5% of GDP	12	30	18

The unintended consequences of quantitative easing policies are concerning...

While debate surrounds the short-term success of such policies, longer-term unintended consequences are more concerning, including excessive risk-taking. Already, yields between high-risk bonds and US treasuries are narrowing, stock markets have boomed in many countries, speculative activity in commodity markets are keeping prices higher than fundamentals would dictate, and distortions mar the foreign currency markets. Currencies in countries using QE remain artificially weak, boosting export potential. Other countries are finding their currencies strengthening from increased

capital flows, thereby weakening their export competitiveness. Importantly, exchange rate distortions are boosting “beggar-my-neighbor” trade protectionist policies, threatening global growth.

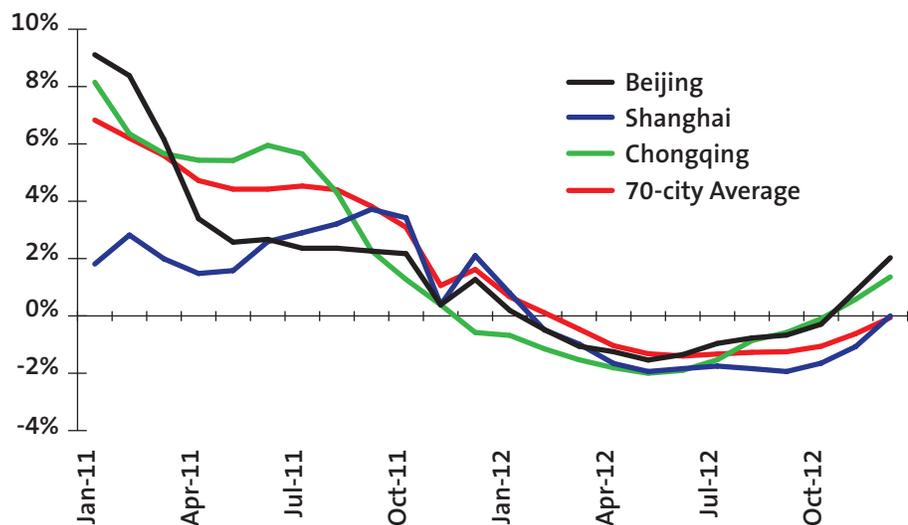
...which encourage excessive risk-taking, distorting capital markets and fuelling asset bubbles.

Furthermore, inward capital flows to emerging markets are creating asset bubbles fuelled by easy access to cheap credit. In Turkey domestic bank lending to the private sector has increased from 33.1% of GDP at end-Q3 2008 to 52.5% of GDP at end-Q3 2012, and Brazil has seen similar growth. These flows are further distorting existing sectoral imbalances and creating significant policy challenges for governments. For example, in the four years from end-Q3 2008 to end-Q3 2012, China’s domestic banking claims on the private sector have risen from 105.7% of GDP to 133.8% of GDP, fuelling a boom in home prices. While home prices have unravelled since early 2011 (see chart below), concerns linger that a collapse in home prices similar to that experienced in the US six years ago would have major implications for the global economy.

Socio-political tensions raised by the ongoing Arab Spring have produced new risks.

Finally, the Arab Spring—sparked by high levels of poverty and unemployment and exacerbated by cutbacks in government spending—has produced significant risk. These socio-economic factors could lead to similar situations in countries outside the Arab world as governments fight to rebalance their budgets while appeasing their populations. The transition to democracy is by no means certain in Egypt, Libya and Tunisia, while the civil war in Syria continues unabated. Furthermore, the situation in Lebanon, Iraq, Jordan, Algeria, and Yemen is anticipated to deteriorate over 2013. Regional stability is important in maintaining downward pressure on oil prices and global energy prices, not to mention ensuring supply-chain continuity.

Y/Y % Change in New Residential Property Prices in China



Key Observations

- Global rebalancing is underway.
- The US business sector is healthy and has become leaner and meaner.
- In addition, enablers such as the energy boom in the US are putting downward pressure on energy prices.
- However, macro-economic risks remain—largely due to fiscal issues in developed markets and risks in emerging markets.
- The longer-term impact of enormous quantitative-easing programs is concerning.
- The recovery process will not be a straight line and businesses need to be prepared for ups and downs.

Risk Insights

- US real-GDP growth will likely bounce inside a 2–2.5% annual range from 2013 to 2017.
- Healthy corporate finances, rebounding investment, and pent-up consumer demand support more robust growth.
- Headwinds include shaky public finances, slower export growth, and US household deleveraging.
- Canada's high consumer indebtedness and overvalued housing market leave the economy vulnerable to an external shock, but US growth should ultimately shield it.
- **Deteriorating:** Canada
- **Stable:** Mexico, US

Outlook

US real-GDP growth of 3% is still possible...

With the deepest financial market in the world, a unique record of innovation, and relatively dynamic demographics for an OECD country, the US stands out among developed countries. D&B estimates the US will enjoy 1-1.5 annual pp productivity growth in 2013-17. Expanding capital investment drives that optimism, growing by 4.4% year on year in Q3 2012. Capital investment in the US remains the one demand component not overshadowed by the debt crisis of 2008-09, and it continues to expand as if the country were in a normal recovery. With increasingly healthy corporate financials, the US private sector can underpin real-GDP growth of 2.7-2.9% per year in 2013-17, with some modest upside potential.

In a normal recovery cycle, the US would post real-GDP growth surpassing 3% in 2013-15. In light of pent-up demand—including demand for consumer durables—this is still a theoretical possibility. However, real-GDP growth has trended distinctly below 2.7-2.9% in the past few quarters, and D&B does not expect the Federal Reserve's forecast to be consistently met or surpassed before 2016.

...but under-trend growth is likely.

A drag on growth below normal recovery will continue due to challenges in the public sector and the country's trading partners. Negative headwinds will cut 0.5-0.7 pp from annual real-GDP growth through 2017, owing to a fiscal drag from public finances, rising taxes, and new spending cuts. The net effect will place US real-GDP growth in a 2-2.5% range for the period, with higher growth possible closer to 2017.

Negative news from overseas markets and US household deleveraging will also likely constrain growth. However, US household deleveraging will moderate, and US shale oil will also boost real-GDP growth by up to 0.3 pp annually. In 2012 and 2013, domestic production will have risen by 1 million barrels per day.

Implications

- The Federal Reserve's conditions for raising policy interest rates (an unemployment rate of under 6.5% and inflation of over 2.5%) are unlikely to be met before Q1 2015.
- **Canada** and **Mexico** will enjoy moderately supportive conditions across the border.
- More fiscal policy standoffs loom, but household and business sectors will endure.
- The NAFTA economy will be at least 10% larger in 2017 than in 2012 in real terms.

Recommendations

- Set more generous credit terms in growing US sectors as credit risk falls in even the worst affected states.
- Expect moderate credit risks in Mexico in 2013, given high US dollar liquidity.
- Consider caution given Canada's low growth trajectory and high household debt. The Mexican peso will likely remain weak against the US dollar into 2013.

Risk Insights

- Uneven economic performance is expected throughout the forecast period as the region registers moderate improvement.
- Political uncertainty will rise amid discontent with socio-economic policies and leadership challenges in major economies.
- Capital account restrictions and trade protectionism will be the centerpieces of government initiatives to defend local industries and foreign currency holdings.
- **Deteriorating:** Argentina and Venezuela.
- **Improving:** Brazil.

Outlook

Risks will vary across the region...

Latin America experienced regional growth of around 3% in 2012. The region will register 4% growth in 2013, owing to meager or declining growth in European economies, a struggling US recovery, and a decelerating Chinese economy. This outlook is accompanied by notable downside risks tied to currency and commodity price volatility as well as supply side shocks. Domestic risks will vary from country to country in the first half of 2013. With inflation contained, stronger domestic and external demand will keep **Chile** at 4.5%. **Brazil's** moderate rebound will be driven by rising household consumption, higher public spending, increased foreign direct investment (FDI), and higher portfolio investment; accommodative policies are expected despite continuing price pressures. **Argentina** will maintain a protectionist stance as its external accounts come under pressure; business confidence, the commercial environment, trade relationships, and foreign investment will deteriorate further. Conditions are also deteriorating in **Venezuela** with uncertainty surrounding President Hugo Chavez's return to the helm and doubts about the long-term survival of the ruling party without him.

...moderate growth in 2013 will improve with external conditions.

Brazil should grow by an average annual rate of 4% for

the next five years as the external environment rebounds; however, high crime rates, inflation, and inadequate infrastructure will continue to weigh on productivity. Meanwhile, Argentina's 2017 outlook is less optimistic due to significant political and institutional challenges. The continued risk of expropriation and foreign currency imbalances also threaten the business environment. As such, Argentina should see annual average real-GDP growth of 3% to 3.5% between 2014 and 2017.

Implications

Monetary policies are neutral to accommodative.

- Current lending rates will hold (and possibly decline) while government initiatives in economies such as **Argentina** and **Brazil** will improve funding access for local companies.
- 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 beyond 2013, notably **Argentina**, **Nicaragua**, and **Venezuela**.

Trade protectionism continues.

- **Brazil** and **Argentina** will implement ad-hoc trade protectionist positions as the former shields local manufacturers and the latter faces dwindling foreign currency reserves, impacting intra-regional trade and threatening capital inflows.
- Lower demand from major emerging markets and/or a continued easing of commodity prices will take some of the shine off the region's natural resources sector through at least 2015.

Recommendations

- International arbitration clauses are recommended, particularly for countries with high levels of political risk.
- If customers' payment performance deteriorates, revise trade terms and collection practices to minimize accounts receivable and exposure.
- Exchange rate volatility will remain a concern: hedging policies should be considered.

Risk Insights

- The regional risk outlook depends on future developments in the Eurozone crisis.
- Positively, no breakup of the European area is anticipated in the forecast period.
- However, the region will experience below-trend growth in 2013 and very uneven growth until 2017.
- Payment and credit risk will remain elevated until 2014 at least, especially in southern European member states.
- **Deteriorating:** France, Greece, Italy, Poland, Spain, UK (16 out of 30 in total).
- **Improving:** None.

Outlook

2013 will be challenging but a Eurozone breakup is not expected...

The risk outlook for the region depends largely on the resolution of the ongoing Eurozone crisis. Given the close economic links between the Eurozone and non-Eurozone Europe, the crisis in the common currency area will continue to influence regional and global growth over the next few years. D&B expects no breakup of the Eurozone in the forecast period; on the contrary, policymakers will likely introduce much-needed reforms of the EU's legal framework in 2013. Nevertheless, implementation risks are high (due to elections in **Italy**, **Austria**, and **Germany** this year). If member states and the EU cannot agree on treaty changes, the Eurozone could at least partially disintegrate in 2013-14. The region (and potentially the global economy) would consequently fall into a severe prolonged recession.

...the region could pursue trend growth after 2014.

For the next few years, D&B expects continued and even increased austerity measures in countries such as **Greece**, **Italy**, and **Spain**. **France**, **Germany**, **Austria**, and the **Netherlands** will reduce government spending and/or increase taxes in 2013 to meet deficit targets. This will weigh on the region's growth potential and

lead to a period of higher payment and credit risks. Positively, if these painful but necessary measures are not abandoned by newly elected governments, the EU implements a new fiscal framework, and the ECB continues with its supportive monetary policy (as expected), the EU should move toward trend growth after 2014. Overall, D&B expects real GDP in Europe to grow by slightly less than 2% in 2014-17, after a meager expansion of only 0.5% in 2013.

Implications

Growth will be uneven.

- Economic growth will be uneven; growth in Northern Europe will be higher than in Southern Europe; however, growth is likely to be exposed to severe downside risks in better-performing countries.
- Uncertainty stemming from the Eurozone crisis and the questionable survival of the common currency will impact the exchange rate and threaten further volatility.
- Currencies of countries like **Norway**, **Sweden**, and **Switzerland** will remain under appreciation pressure, arising from safe-haven investment inflows from the Eurozone.

Exchange rate volatility is likely to be an issue.

- If much-needed reforms are not implemented in due time and/or national governments abandon the austerity path (a precondition for financial help from donor countries), a Eurozone breakup is the most likely outcome.
- Beyond 2017, the poor demographic development undermines growth prospects but rule of law and the quality of infrastructure remain world class.

Recommendations

- In 2013–14, companies doing business in the fragile peripheral economies of the Euro area should expect a higher frequency of payment delays and might consider tighter trade terms.
- Although it is not D&B's core scenario, a breakup of the Eurozone cannot be ruled out. D&B advises to stay out of Greece until late 2014 at least.

Risk Insights

- External factors will force economic growth below the pre-crisis trend.
- High external pressures on current accounts undermine potential growth in countries such as Ukraine.
- Russia's decelerating growth weighs on most economies in the region.
- Adequate policy measures facilitate macroeconomic stability, but political and insecurity risks are still high.
- *Improving:* Turkmenistan.
- *Deteriorating:* Azerbaijan, Belarus, Kyrgyz Republic, Tajikistan, Ukraine.

Outlook

Economic growth will be lower than in the pre-crisis period for most of countries.

Europe's bumpy recovery and deceleration in China will weigh on the region largely through trade for major regional economies like **Russia**, **Ukraine**, and **Kazakhstan**. Strong current account surpluses in energy exporting countries are set to ease in 2013. Deterioration of external balances will pressure local currencies. In some countries, particularly **Kazakhstan** and **Russia**, more flexible exchange rates and strong foreign exchange reserves will mitigate any potential economic downturn. In others, such as **Ukraine**, a fixed exchange rate regime coupled with high financing needs is likely to expose currency.

Regional business risk remains high.

Oil prices, set to remain above \$100 per barrel for the next four years, will support exporting economies like **Kazakhstan**, **Azerbaijan**, **Uzbekistan** and **Turkmenistan**. However, growth in **Russia**, a systemic regional economy, will decelerate despite high commodity prices, due to internal imbalances associated with underinvestment in non-energy sectors. Russia's slowing growth will affect most countries in the region through trade and FDI; in addition, **Kyrgyz Republic** and **Tajikistan** may see their remittance inflows weaken. The banking sector, still overburdened with high non-

performing loans (NPLs), will continue to drag down output in **Kazakhstan** and **Ukraine**. In addition, while it moderated in 2012, inflation may rise due to global food prices and strong demand pressures, especially in energy exports. Overall, bureaucracy, rampant corruption, weak contract enforcement, and politically biased judicial systems continue to hamper the region's trade and commercial environment. Insecurity risk will remain a concern in several countries, such as **Kazakhstan** and **Russia**.

Implications

Improved macroeconomic stability stands challenged by the slowing global environment.

- Decelerating growth on the back of historically high oil prices will result in limited structural reforms in **Russia**.
- The availability of credit in **Kazakhstan** and **Ukraine** will remain poor.
- Imposed capital control measures in **Ukraine** will lift the immediate pressure on foreign exchange reserves, but offers no long-term solution for the country's current account crises.
- Persistent capital outflows defer modernization and much-needed investment in the Russian economy.
- Improved macroeconomic stability via diminishing inflation, government deficits, and debt stands challenged by the slowing global environment.

Recommendations

- Downside risks for doing business in the region prevail; different combinations of downside risks in different locations require an in-depth assessment of particular countries and industries.
- Hedging against the volatility of some local currencies should be considered.
- Strict trade terms are recommended when doing business with counterparties in the region; cash in advance is D&B's recommended trade policy in the majority of countries.

Risk Insights

- “Convergence” of low- and mid-income countries will continue...
- ...but demographics in China, South Korea, Singapore, and Thailand pose a negative factor.
- Successful “convergence” depends on provision of key public goods.
- Negative shocks could arise from issues such as water use in energy production.
- **Deteriorating:** Australia, China, India, Japan, South Korea, Singapore
- **Stable:** Indonesia, Malaysia, The Philippines, Thailand

Outlook

Asia needs new sources of economic growth...

Only Southeast Asian countries achieved strong domestic-led growth in 2012, while exporters across Asia were hit by European woes, sectoral imbalances in China, inflationary pressure in India, and a banking crisis in Vietnam. A shock seems unlikely; nevertheless, D&B suggests the region reorient capacity and employment away from supplying consumer items and resources to Europe and China over the next five years.

D&B forecasts imply a moderately successful search for new growth sources in 2013–17 for most low- and mid-income economies in South/Southeast Asia. New infrastructure will encourage growth, and rising disposable incomes will spur investment in services. If global arable and energy production can supply food and hydrocarbons, then demographics in Bangladesh, India, Indonesia, and the Philippines will strongly support consumption and return on capital. However, failure to mobilize tax revenues and provide security, justice, higher education, and other public goods will cap annual growth rates at 6% in India and at 4% in Pakistan. By contrast, Indonesia, Thailand, and the Philippines will have fiscal space to support growth.

Demographic dividend will sour for more of Asia in the mid-2010s.

Japan faces headwinds from declines in its working-age population, which shrank over 1% in 2012. Furthermore, demographic factors could sour sooner than expected elsewhere. China’s 15-to-64 population could peak in 2016 and fall thereafter. But China’s National Statistics Bureau pinpoints the turning point for the 15-to-59 population in 2012, when it declined more than 3 million. Meanwhile, the UN predicts the South Korean workforce will start to shrink and growth in Singapore and Thailand’s worker populations will be almost nil by 2017. A decline in Australia’s 35- to 54-year-olds will hurt investment if patterns in other high-income countries repeat.

China’s demographic inflection point encourages wage hikes and a re-migration of export capacity by Chinese and foreign firms to Bangladesh, Vietnam, and Indonesia. This will boost FDI outside China, despite the country’s unparalleled scale and export infrastructure. Other shocks could arise from the water-energy nexus. The region will likely increase energy consumption by 30% between 2010 and 2017; China’s will rise by 39%. Asia/Pacific will burn over 1 billion more tons of coal in 2020 than in 2010. The high demand for water from coal-fired and other thermal power generation could stress water supplies to businesses, agriculture, and households.

Implications

- **China** faces sub-7% annual growth from 2014, as credit risks from the excesses of 2008-12 damage confidence, exports stagnate, and demographics sour.
- A demographic inflection point is descending: Japan’s working age population began declining in 1997, the rest of Asia could follow suit starting in 2017.
- Confidence ranges for growth forecasts in 2013–17 are wider than in the pre-crisis 2000s.

Recommendations

- Firms serving domestic consumer markets and in more sophisticated services sectors may prove better sales opportunities.

Risk Insights

- Extreme political and commercial risks face Iran, Syria, and Yemen, and will be particularly significant in Algeria, Bahrain, Egypt, Iraq, Jordan, Lebanon, and Libya.
- Flat oil prices and low growth in Europe and China will curtail growth prospects throughout the region until at least 2016.
- The hydrocarbon economies will continue to perform stronger than other countries as governments continue to spend heavily.
- The commercial environment will remain challenging in most countries.
- **Deteriorating:** Egypt, Iran, Israel, Morocco.
- **Improving:** Turkey, United Arab Emirates.

Outlook

Flat oil prices and regional political and security issues will curtail growth...

Flat oil prices, alongside political and security issues, will push growth in most countries lower through 2017 than in the period from 2002 to 2008. However, those emerging from conflict such as **Egypt** (growth will increase to 6.5% by 2017 from only 1.8% in 2012), **Iraq** (average annual growth of 9.5% in 2013–17), **Libya** (average annual growth of 7.4% in 2013–2017), and **Syria** (average annual growth of 6.5% in 2013–2017), will see higher growth rates in the latter period. Nevertheless, the commercial environment will remain challenging in each of these countries as political tensions persist and governments fail to address issues such as corruption and the weak legal and regulatory environment.

...but post-conflict states will see growth rates improve.

A quicker than expected global recovery would boost oil prices and growth across the region, but a potential military strike against Iran significantly undermines growth prospects in the short term.

Implications

Flat oil prices and security issues will slow business activity...

- Business opportunities will increase over the forecast period in post-conflict countries such as **Egypt, Iraq, Libya,** and **Syria** (expected to emerge from conflict in 2013).
- However, until the end of 2014, instability in **Bahrain, Egypt, Iraq, Lebanon, Libya, Syria,** and **Yemen** will be significant, while **Algeria, Jordan,** and **Tunisia** will experience elevated instability.
- Tighter international sanctions against **Iran** will undermine the economic outlook and expected returns from trade and investment in the short term.
- Construction and service companies in oil-rich countries will benefit from strong government spending.
- However, D&B expects payment performance in government-related companies in oil-rich countries to deteriorate.

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

- In turn, this will impact cash flow, payment performance, profits, and bankruptcies in the private sector.
- Slower growth in oil-rich countries means slower investment, remittances, aid, and trade flows to oil-poor countries, undermining growth; however, these countries will see lower import bills as energy costs fall.

Recommendations

- Companies dealing with firms based in **Algeria, Bahrain, Egypt, Iraq, Jordan, Lebanon, Libya, Syria,** 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, D&B advises customers to remain vigilant toward companies with ties to **Iran**.
- Increase monitoring on the payment performance of government-related businesses in oil-rich states as governments delay payments.

Sub-Saharan Africa 2013–17

Risk Insights

- China's economic slowdown has weakened demand for commodities from the region. Nevertheless, Chinese regional investment will remain strong.
- Unrest in the Democratic Republic of Congo threatens neighboring countries, while the growth of radical Islamist groups in the north is also a concern.
- Countries with fiscal, inflation, and balance of payments challenges (e.g., Ghana, Kenya, Tanzania, and Uganda) face severe economic difficulties.
- **Deteriorating:** Botswana, Ghana, Kenya, Nigeria, South Africa.
- **Improving:** Senegal, Sierra Leone.

Outlook

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

Despite the hesitant global economic recovery, D&B expects the region to experience solid growth in the forecast period from 2013 to 2017. Most economies will experience average annual growth over 5%, driven by remittance, investment (particularly in the commodity sector), and export flows. One notable exception is the region's largest economy, **South Africa**, where annual average growth will reach only 3.3%. Furthermore, countries such as **Ghana, Kenya, Tanzania, and Uganda** face severe economic challenges and slowing growth as a result of fiscal, balance of payments, and inflationary difficulties. In addition, the failure to address the weak commercial environment will ensure business risks remain high across the region during the forecast period.

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

Downside risks stem from significantly slower-than-expected growth in China, curtailing investment flows and demand for exports. D&B is additionally concerned about the threat of violence spreading outside the **Democratic Republic of Congo** to neighboring countries as well as from radical Islamist groups in Mali: escalation in either situation will adversely impact growth in surrounding countries.

Implications

Strong commodity prices will boost investment, current account balances and government budgets, strengthening the economy...

- Although stagnant, commodity prices (mainly oil) will remain high, maintaining the sector's attractiveness for investment and boosting current account and revenue opportunities for governments with access to those resources.
- Global risk aversion toward sovereign debt will continue to increase pressure on African governments to improve their budget positions.
- Strong commodity prices will encourage governments to attempt to balance their budgets by raising royalties/taxes in extractive industries with foreign operators, raising commercial risks.
- Indeed, fiscal vulnerability will rise, undermining contract renewal prospects for firms reliant on state procurement.

...but will encourage resource nationalism, undermining the commercial environment.

- Any spillover of security issues from the **Democratic Republic of Congo** and Mali will increase pressure on supply chains in these areas.
- Governments must address structural issues—such as poor infrastructure, corruption, and weak legal and regulatory environments—to build stronger growth.
- Inflows of capital looking for higher returns than available in developed markets could increase the debt burden for countries over the long term, thus raising external financing risks.

Recommendations

- Commercial opportunities in businesses in the commodities sector will remain strong throughout the period.
- However, investors should be aware of the possibility of forced contract renewals as governments attempt to maximize short-term returns in this sector.
- Building domestic contacts can help offset the challenging business environment.



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Additional Resources

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