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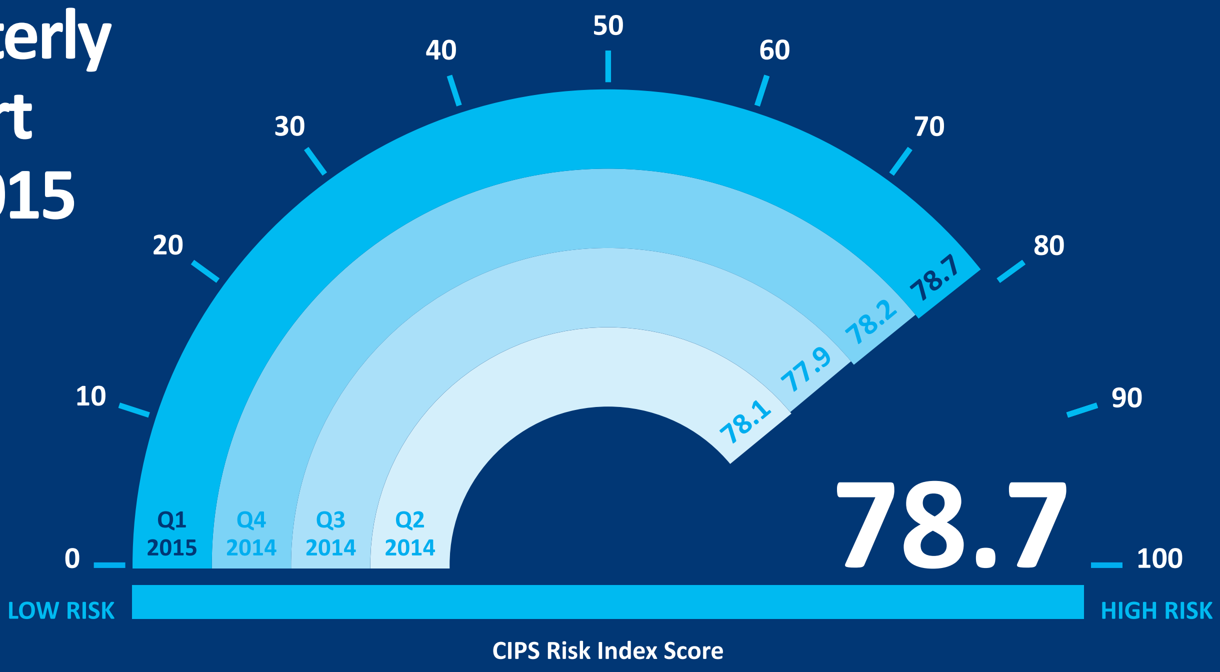
CIPS RISK INDEX

Quarterly Report Q1 2015



CIPS RISK INDEX (CRI) KEY POINTS Q1 2015

The CRI score has deteriorated again as headwinds strengthen and the global economic outlook continues to weaken, especially in the emerging markets.

The overall deterioration in the CRI score reflects the larger number of downgrades than upgrades to our country risk scores in Q1.

There are growing concerns surrounding the continued deceleration in economic growth in important emerging markets, and wage stagnation in the US and UK.

Only five countries have been upgraded in Q1 in terms of our operational risk assessments, with eleven countries experiencing an overall increase in operational risk for companies trading across borders.

Our CRI has continued to weaken into 2015, albeit marginally.

Leading global excellence in procurement and supply

About the CIPS Risk Index

How the CIPS Risk Index works

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

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

Country risk scores

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

The Index assesses against nine categories:

CRI CATEGORIES

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

CRI continues to weaken

132 country markets assessed for the period Jan - Mar 2015

Our CRI score continues to reverse on its previous improving trend, deteriorating again in the first quarter of 2015. Our measure of global risk has increased marginally to 78.7.

Our CRI has increased again after a period of falling operational risk in late 2013-2014. The CRI score is closing in on its record high, reflecting the continued sluggish global economic recovery, the impact of fallen commodity prices on key emerging markets, and elevated geopolitical risk.

Contribution to global risk by region

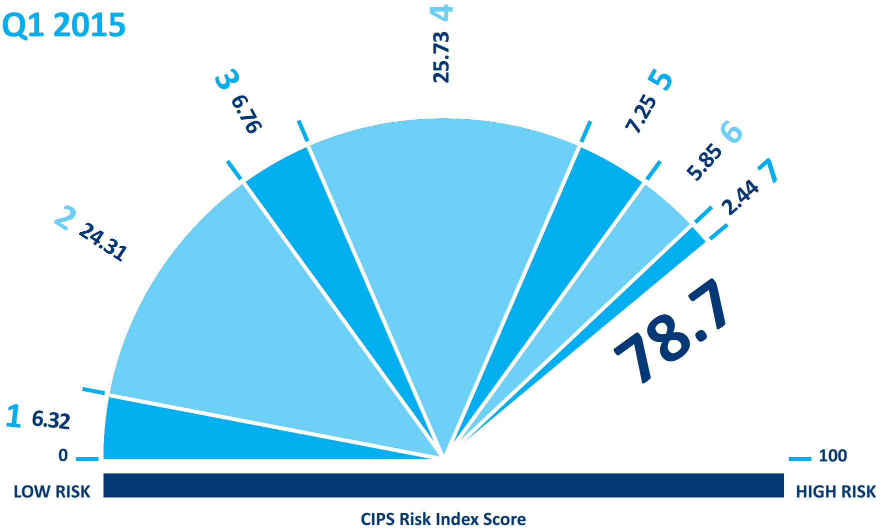
(Q1 2015 vs Q4 2014)

REGIONS

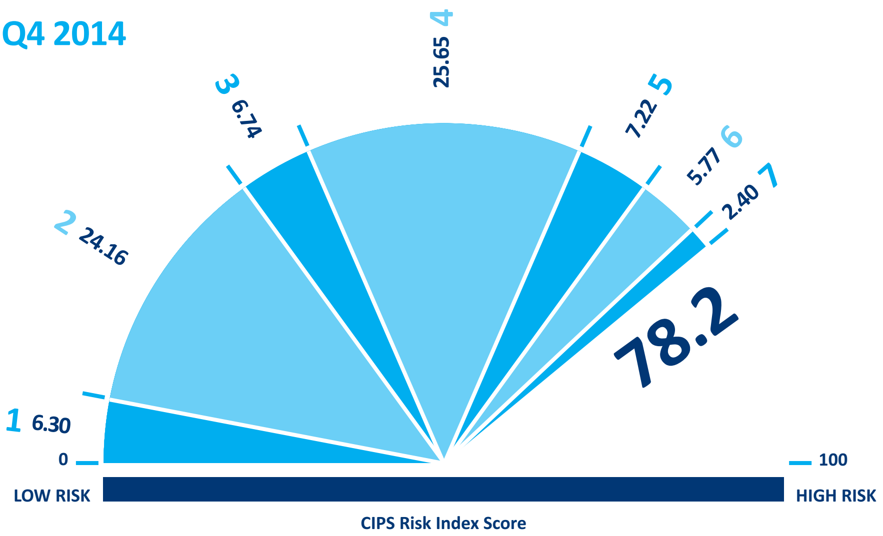
1. NORTH AMERICA
2. WESTERN AND CENTRAL EUROPE
3. EASTERN EUROPE AND CENTRAL ASIA
4. ASIA PACIFIC
5. MIDDLE EAST AND NORTH AFRICA
6. LATIN AMERICA
7. SUB-SAHARAN AFRICA

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

Q1 2015



Q4 2014



Regional Risk Summaries

North America

TREND*

Since the previous report, D&B has not downgraded or upgraded our country risk ratings for Canada or the USA. Nevertheless, the underlying trend in risk is downward for North America, indicating that the operating environment is improving slowly but surely, as Canada continues its economic expansion while the US economy seems poised on the verge of faster, self-sustaining growth.

In Canada, the sharp fall in global oil prices since mid-2014 will take its toll on business investment and employment in the economically-important oil and gas sector and supporting industries in 2015. Firms are expected to scale back their investment projects, while fiscal budgets in oil-dependent provinces are under pressure and the federal deficit is unlikely to be eliminated in 2014-15 or ahead of the legislative election (scheduled for October) as the government had previously hoped. On the other hand, Canadian consumers and non-oil businesses should benefit from lower fuel prices, while the export sector should receive a boost from currency weakness and stronger expected consumer demand in the US. Real GDP growth is currently forecast at 2.1% in 2015 (down from an estimated 2.4% in 2014), before improving slightly to 2.4% in 2016. High levels of household indebtedness, an over-valued housing market, low consumer price inflation and weak job creation are our current major concerns. Nevertheless, we continue to rate Canada DB2b, with only six countries in the D&B universe ranked higher.

The Bank of Canada (BoC) cut its target for the overnight rate to 0.75% (a reduction of 25 basis points) in January, a pre-emptive move to address concerns about the impact of lower global oil prices on inflation and growth. The BoC opted against another rate cut at its subsequent meeting in March, and appears confident that the easing of interest rates across the yield curve and a weaker Canadian dollar will support household spending, business investment and non-energy exports in 2015. High household indebtedness, low inflation and weak job creation remain major concerns for the BoC, as it considers when and how to shift to monetary policy tightening. Such a move does not appear likely anytime soon and not until H1 2016 at the earliest. Consumer price inflation has fallen sharply in recent months and was last recorded at 1.05% year on year (y/y) in February, well below the BoC's medium-term target of 2.0%.

The Canadian dollar was trading around CAD1.24 to the USD in Q1 2015, its lowest level since Q1 2009, driven by lower oil prices and investor preference for US dollars. The Canadian dollar is expected to remain under downwards pressure in the short-term, owing to the diverging economic growth rates and direction of monetary policy between Canada and the US. Similarly, FX reserves are expected to be under pressure in 2015 as lower energy-related exports contribute to a widening of the current account deficit from USD39bn (2.2% of GDP) in 2014 to USD41bn (2.5% of GDP) in 2015. However, oil-related losses will be offset partly by an increase in demand in the US for Canadian consumer goods, industrial goods, building materials and transport equipment.

Operational risk in the United States is even lower at DB2a, and the underlying trend points to further improvement in the near term, although there are some headwinds. The slowdown in US economic activity in late 2014 is now expected to carry over and even intensify into early 2015. Dun & Bradstreet now forecasts real GDP to grow 3.0% in 2015, a slight downgrade from our previous forecast of 3.3%. The third and final revision to Q4 real GDP failed to deliver the marginal acceleration that had been expected by the consensus; the Bureau of Economic Analysis (BEA) reported that real GDP grew 2.2% Seasonally Adjusted Annual Rate (SAAR) in Q4 2014, an unchanged rate compared to the second estimate. This is a measurable deceleration following growth of 4.6% and 5.0% in Q2 and Q3 respectively. The strong US dollar left its mark on the Q4 numbers in more than one way; net exports' contribution to GDP was negative, subtracting 1.03% from growth. Corporate profits also disappointed as foreign earnings of corporations fell due to the appreciation of the greenback. Corporate profits fell USD30.4bn in Q4 compared to an increase of USD16.1bn in Q3. The rest-of-the-world component of profits dropped by USD36.1bn in Q4 compared with an increase of USD16.5bn in Q3. For 2014 as a whole, corporate profits were USD17.1bn, below 2013 levels – the first time annual corporate profits have fallen since 2008.

The drop in corporate profits, particularly foreign profits, is a significant downside risk for business spending in 2015. In particular, new investment is likely to fall most in the manufacturing sector, which has itself been a casualty of the US dollar appreciation. More recent monthly data shows that new orders for durable goods slumped by 1.4% from a month ago in January; orders have fallen in three of the last four months. More worrisome, orders for non-defence capital goods, excluding aircraft, also known as core capital goods and a reliable leading indicator for business spending, fell 1.4%, marking the sixth consecutive monthly drop. Business spending has been weaker than history suggests following the latest recession, and we expect it to be sluggish in the near term.

In recent months, the strong dollar has moved up the list of risks to our baseline outlook. The biggest headwind from the strong dollar will come via its effects on international trade, as it makes US exports more expensive for foreigners and imports cheaper for US businesses. Since July 2014, the nominal trade-weighted US dollar has appreciated 15% against a broad basket of major foreign currencies. As the US economy continues to pull ahead of its peers in terms of growth, and the US Federal Reserve stays on course to raise interest rates this summer while central bankers in other parts of the world continue to drive down rates, global investors have sought safety in the US dollar, prompting its significant appreciation. We expect the dollar to keep gaining ground over its peers in the near term. A return to the longer run trend of depreciation is not expected until the global economy fires on all cylinders in 2016. The strength of the US dollar and related FX risk have also made their way up to the list of headwinds being watched by the Federal Reserve, as it stays on course to raise interest rates later this year. At its latest meeting in the last week of March, the Federal Open Market Committee (FOMC) went a step further toward its first rate hike since it cut interest rates to near zero in December 2008. The FOMC signalled that it would no longer be "patient" in raising rates; the removal of the word "patient" introduces the possibility of a rate hike as early as the June monetary policy meeting. However, we would like to caution that this does not imply the Fed will be "impatient" in raising rates after the first lift-off. In fact, new projections from FOMC members signal that the trajectory of interest rates will be much shallower than previously intimated, i.e. the pace and extent of rate hikes will be more subdued. We expect the Federal Funds Rate to reach 0.5% by end-2015 and 1.75% by end-2016.

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

TREND*

Western and Central Europe

Western and Central Europe received only one risk rating change in Q1: Switzerland was downgraded from DB2a to DB2b in February, as the country's central bank caught markets by surprise and lifted the exchange rate ceiling against the euro that had been in place since 2011. The abrupt and sharp appreciation of the franc against the euro that followed has in our view severely undermined the price competitiveness of Swiss companies when exporting to the euro zone (the country's key export market) and dented its short-term growth outlook.

In the wake of the downgrade, Dun & Bradstreet has also adjusted a range of macro-economic forecasts (such as real GDP growth and unemployment rates) which also resulted in the higher risk score. We believe that payments performance and insolvency risk in export orientated sectors of the economy (such as tourism and manufacturing) will be hit hard over the remainder of 2015 and 2016. Nonetheless, the country will continue to display healthy public finances and low (albeit slightly increased) unemployment rates, and will move closer to its long-term growth potential after the initial adjustment pain has receded. Positively, exporters to the country, especially if based in the euro zone, will benefit from increased import demand (caused by the increased purchasing power of the franc) in 2015-16.

Meanwhile, the outlook for the euro zone remains conflicted. While Greece was able to repay an IMF loan in April, it remains to be seen whether the country will be able to repay debt to its international creditors in the months ahead, especially as reserves are depleting quickly. Dun & Bradstreet maintains its view that the Greek government urgently needs to implement the EU-set reform packages to qualify for further financial assistance. At the same time, we also acknowledge that under the current political climate, the chances of closer cooperation between Brussels, Frankfurt (the seat of the ECB) and Washington (the seat of the IMF) on one side, and Athens on the other, remain challenging. Hence we see a rising risk of Greece being forced out of the euro zone in the next few months. Positively in this context, such an event is already priced into our relatively poor operational risk score of DB5c for Greece (by far the lowest in the region). Latest government bond yields (which remain low) show that markets support our view that economies like Spain, Portugal and even Cyprus are on a stronger footing. Having said that, a total collapse of the euro zone in the aftermath of a Grexit cannot be ruled out completely, despite being fairly improbable.

Meanwhile, the outlook for Central European economies has improved modestly as growth forecasts for Germany (with which economies like Slovakia, Czech Republic and Poland are deeply integrated) were revised upwards. Simultaneously, geo-political risks have eased as the situation in eastern Ukraine has stabilised somewhat and a low oil price helps to keep the region's import bill low. For the remainder of the year and into 2016, Hungary is a country to watch as sound growth rates grapple with a plethora of business unfriendly reforms. After its re-election last year, the Hungarian government has introduced disadvantageous legislation for large, foreign-owned retailers (without breaching EU law though) and curtailed Sunday opening hours. Over the medium term, a downgrade seems to be a possible scenario but for the time being, our real GDP growth of around 3% supports the current operational risk score.

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

TREND*

Eastern Europe and Central Asia

Our country risk rating scores for the region were stable in Q1 2015, but this comes in the wake of sharp deteriorations in the second half of 2014. While the violence in eastern Ukraine has abated somewhat, we have not as yet upgraded the countries involved in the conflict. Our decision is based on the fact that while the February ceasefire appears to be taking hold, progress on the other terms of the peace agreement is slow, and it is by no means certain that sanctions on Russia will be lifted (a decision will be taken in June, with sanctions lifted at the earliest in July).

Despite western support, the Ukrainian economy is faring the worst in this conflict, having contracted by 5.7% in 2014, with an 8.4% shrinkage expected in 2015. The IMF bailout is preventing an outright collapse of the economy, but production capacities and domestic demand are severely impaired by the conflict. Meanwhile, the low oil price and the compromised trade links with Russia (due to the depreciation of the rouble, which prices imports out of the Russian market) remain major problems for most of the countries in the region. Positively, some of the risks that appeared prevalent earlier in the year have receded, such as the risk of NATO military involvement in Eastern Ukraine, and financial meltdown in Russia.

In Q4 2014, our country risk rating fell for the largest economy in the region, Russia, from its already-low level. Indeed, Russia's economic indicators have been dismal since the start of 2015, with household consumption and private investment strongly affected by the depreciation of the rouble, limited access to external financing and collapsing business and consumer confidence. The main positive news is that the threat of complete financial meltdown has receded: the rouble has recovered some of the lost ground and debt repayment schedules together with FX reserves data suggest Russia is in no immediate danger of default. In June we are likely to find out if the sanctions imposed against Russia will be extended, but even if the EU/US decide against it, the low oil price and accumulated damage from the Ukraine conflict have derailed the economy for the next two years at least. We now believe that Russia's recession will be more prolonged than initially forecast, and we have revised our GDP growth forecast for 2016 to -1.0%, down from 0.5%.

Ukraine has secured a bailout package from the IMF, and while this may help the country avoid outright collapse, the situation is still near-desperate. Ukraine's economy was poorly reformed even before the war, and now much of the country's industrial and export potential is compromised. Production facilities in the war zone account for 8% of GDP and 12% of exports. Domestic demand has collapsed and the financial sector is suffering from high levels of non-performing loans, large deposit withdrawal, and no external financing. We see a contraction of 8.4% in 2015, and, provided the conflict is settled and reforms implemented, the start of a recovery in 2016 (with GDP growth at 2.3%).

We expect Eastern Europe and Central Asia overall to be the worst performing region globally in 2015. We estimate real GDP growth in the region at just -0.6%, where the best performer will be the Baltics, whose growth will also be the highest in 2016. Latvia and Lithuania (both at DB3b) are suffering from the export ban to Russia, their largest external market, and are struggling to find offsetting outlets; for these two countries a growth downgrade is more likely than an upgrade. In general, despite the already dismal outlook, we caution that risks to our baseline scenario are skewed to the downside.

FURTHER INFORMATION

Country Heatmap

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

www.cips.org/risk-index

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

Asia-Pacific

TREND*

The Asia-Pacific region kept close to its Q4 2014 risk level in Q1 as the score improved marginally to 3.32 from its 3.33 Q4 level, the mildest net decrease in risk the score can signal. This reflected offsetting country rating changes in the region since Q4. The countries impacting the aggregated quarterly score were Australia, Indonesia, Fiji and Sri Lanka. However, none of the changes were spurred by direct threats to business continuity or supply chain integrity, with national politics and economic fortunes, rather, constituting the main drivers of change.

Regional behemoths China and Japan, with their considerable power to change the regional score, were absent from the fray as policymakers in both countries scrambled to keep output growth stable. China's downgrade to DB4b in April, which occurred after the cut-off point for the Q1 score, should tell on the index in the forthcoming Q2 assessment. Note that China's forthcoming downgrade overwhelmingly reflected credit risks in the manufacturing and upstream heavy-industry sector, although the stress on smaller firms with weaker links to local government and the state-owned banking system could also increase supply chain risks.

The main drag on the region's score emanated from Australia, with its 1.4% weighting in the overall index still eclipsing Indonesia's 0.9%, despite the latter's population being much larger by an order of magnitude. Slumping iron ore prices and fractured economic growth by geography remain challenges to the Australian economy through 2015. Outside of Sydney and its house price boom, households are struggling with declining income, tax increases and a softer labour market. Western Australian and Queensland rely heavily on mining, and have suffered recently due to declining levels of investment. The labour market continues to weaken, with unemployment rising to its highest rate in 13 years in Q1. Employment conditions in mining operations and regions played an evident part.

Manufacturing is still under pressure to restructure, especially the automotive sector where leading players have all decided to end local production by 2017 after years of enduring an over-strong Australian dollar. In the meantime, as Chinese property and construction is stagnating or contracting, we believe the outlook for Australian resource export pricing continues to be poor in 2015.

Fiji's successfully executed election, after several years of military rule, contributed to its ratings recovery to DB4d in late Q4. US, Australian and New Zealand sanctions were lifted, the country was re-admitted to the Commonwealth and the EU was likely to commit to financing the restructuring of the long-beleaguered sugar industry. However, the sub-1m population islands have a low weighting in our regional index.

In Indonesia, newly-elected President Joko Widodo has demonstrated to investors his commitment to wide-ranging economic reforms. Lower fuel subsidies, a key pledge delivered early and eased by falling oil prices, will improve the government's budgetary position, saving at least USD8bn in 2015's budget. This could boost spending in more productive areas such as infrastructure, education and healthcare and lower demand for oil product imports, a key structural contributor to Indonesia's current account deficit. The improvement in the score from DB4b to DB4a in late Q4 put Indonesia at a safer risk level, one it had not attained since May 1998, on the eve of the worst of the Asian financial crisis, and went ahead despite moderate rupiah volatility in Q1.

D&B upgraded Sri Lanka's country risk indicator to DB5b from DB5d in Q4 as the economy continued to see a prolonged and broad recovery from the country's long civil war that ended in 2009. Sri Lanka's economy will expand strongly in the short term (we expect annual GDP growth in 2015 to reach 7.1%) amid continued post-war investment in infrastructure, recovering demand for key exports such as textiles, tea and manufactured goods, and a tourism boom.

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

Middle East and North Africa

The Middle East and North Africa's (MENA) regional risk score worsened slightly at end-Q1 2015 at 4.407, up from 4.404 at end-Q4 2014, after having improved slightly in Q4 2014 from 4.405 at end-Q3 2014. Although no changes were made to the risk ratings in the MENA region in Q1 the momentum effects of the changes made in the previous quarter impacted the overall score. In November we upgraded Egypt by one quartile to DB6b (very high risk category) on the back of an improved economic outlook. However, in the same month we downgraded Bahrain from DB4a to DB4c (moderate risk category) because of the impact of the falling oil price on the macroeconomic outlook and Yemen by one quartile from DB6d to DB7 (highest risk and lowest possible rating) due to the rapid deterioration in the already-poor security situation. The weak overall score reflects the poor security situation in relation to Iraq, Syria, Libya and Yemen, weak oil prices, and the historically poor business environment in many countries.

The situation in Yemen continued to deteriorate throughout Q1 with the Shi'ite Houthi rebels continuing to make advances across the country. The success of the Houthi saw President Abd-Rabbu Mansour Hadi flee the country and provoked the intervention by a coalition led by Saudi Arabia to bomb Houthi positions. The security situation is further weakened by the presence of al-Qaeda-linked and IS-linked groups, which have reportedly been fighting against the Houthi, as well as a secessionist element in the south of Yemen. Meanwhile in Iraq, despite progress made by forces associated with central government against Islamic State (IS, formerly known as ISIS or ISIL), the security situation remains very weak with areas of the country outside the control of Baghdad. Similarly, fragmentation of the state is also present in Syria and Libya, where two governments are competing for power against a background of militia-controlled areas. IS are also widening the scope of their activities from their core Syrian-Iraqi base into countries such as Yemen and Libya, where they are building a base of support. We expect a further deterioration of the security situation across the region in the coming months.

The other downward pressure on the region in Q1 has been the weak, albeit relatively stable, oil price: the annual average oil price was USD98.9/b in 2014 and we are forecasting it to be USD61.7/b in 2015. Although the impact of the price fall on growth has been limited to date as governments continue with massive expenditure programmes, we expect austerity measures to be implemented from late-2015 in the oil-rich countries. This will curtail growth and impact negatively on the business environment impacting cash flows, profitability and payment performance as many companies rely on government contracts. More positively, it will lead to new policies which see a 'roll-back' of the state, including a renewed emphasis on privatisation, and the increased opportunities for cross-border investment in the medium term. Furthermore, although oil-poor countries will benefit from lower energy import bills and lower inflation, these will be offset by reduced job opportunities in, trade with, investment from, and economic assistance from the oil-rich countries.

Going forward, we expect the MENA score to remain relatively static in Q2 2015, as oil prices remain weak undermining the economic outlook for the oil-exporting states and the security situation across the region remains fraught. On the positive side, the signing of the framework agreement between the P5+1 and Iran at the start of Q2 2015 on 2nd April, may finally lead to the resolution of the nuclear stand-off with Tehran. Any easing or, in the longer term, lifting of sanctions will provide significant opportunities for cross-border commerce with Iranian companies. However, a number of significant domestic actors, such as the Revolutionary Guards (whose economic wealth has been built on the sanctions regime), and external actors such as Israel, Saudi Arabia and the Republican Party in the US, remain intransigent to any deal.

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

Latin America

Our regional risk score rose to 4.427 in Q1 from 4.385 as macroeconomic conditions broadly weakened. Still-soft commodity prices, a stronger US dollar and sluggish global demand contributed to a less supportive external environment. Simultaneously, business and consumer expectations remained largely muted, depressed by cuts in planned government spending, low wage growth and planned investment expenditure. Upward price pressures in some economies prompted monetary tightening which had a further cooling effect on aggregate demand. An uneven growth pattern is continuing: Colombia, Peru, Chile and Mexico are exhibiting more resilience in direct contrast to Brazil which is decelerating more sharply than expected, while Argentina's and Venezuela's fiscal and external imbalances are now more deeply entrenched. Overall, we maintain our dour near-term outlook for the region.

In Q1 we downgraded Brazil, Latin America's largest economy, which we now expect to contract by 1% this year. A historic drought has heightened supply chain risks in the south-eastern region of the country, in particular Sao Paulo, the country's commercial centre which is struggling with worryingly low reservoir levels. Moreover, there are growing fears of an energy crisis as hydroelectric power accounts for around 70% of Brazil's electric supply; the country is the second-largest producer of hydroelectric energy globally after China. In addition, the government's implementation of austerity measures to defend its investment-grade credit rating will result in lower infrastructure investment, which precludes any relief from the existing supply-side bottlenecks faced by businesses. Negatively, political roadblocks and public discontent are likely to result in watered-down versions of the legislative and fiscal reforms needed to enable sustainable positive growth.

For Venezuela, the commercial environment is coming under growing pressure on account of elevated political risks as well as FX shortages. The recent implementation of a new exchange rate tier has effected a 70% devaluation of the bolivar to VEF172 per dollar and, together with worryingly low foreign reserves, has contributed to elevated cross-border payment risks for firms; default risks on foreign currency denominated government debt have also risen in the last few quarters. A steady rise in the inflation rate to 70% y/y by the end of Q1 has pushed up production costs and squeezed margins, given government-mandated price freezes. Relatedly, already-high expropriation risk is on the rise.

Entrenched corruption poses compliance risks for firms operating in the region's economic powerhouses of Brazil, Mexico and Chile. An investigation into leaders of the two houses of Brazil's congress and 32 active politicians (almost all of whom are from the ruling coalition) was recently launched as the Petrobras scandal unfolded. Similarly, Mexico's President Enrique Pena Nieto is attempting to keep his reform agenda on track and restore public confidence in his presidency with the recent announcement of new anti-corruption measures. Despite the relative prosperity of the economy, general public sentiment is one of scepticism toward the president given his own scandal-related troubles and the public's lower tolerance for real or perceived corruption by government officials. Surprisingly, Chile's reputation as one of the 'cleanest' countries in the region is now threatened as parties on both sides of the political divide have been implicated in recently-revealed scandals.

While we expect the Chilean economy to expand by 2.8% this year (from 1.8% in 2014) on the back of higher mining output, rising fiscal spending and supportive monetary policy (which will help to offset a still-flat investment environment), business continuity is under pressure. Firms are facing challenges linked to a series of damaging natural disasters. These include an 8-year long drought which has negatively impacted hydroelectric generation, agricultural production and contributed to forest fires, as well as earthquakes, a volcanic eruption and 'freak' rainfall. We have advised businesses to undertake contingency planning for the short term as the government pursues longer-term solutions, including new desalination plants and reservoirs as well as investment in gas and wind power.

Overall, we are adhering to our previous position that near-term risks are tilted to the downside for the region on the back of weaker external and domestic conditions, as export commodity prices are expected to remain at historic lows and investment sentiment will continue to be generally subdued.

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

Sub-Saharan Africa

The region's overall risk score worsened over the first quarter of 2015 (to 5.52 from 5.44 in Q4 2014) as the individual scores for Angola, Gabon, Nigeria and Sierra Leone were downgraded. Furthermore, the underlying trend in operational risk is deteriorating, as the drop in global commodity prices weighs especially on the fiscal positions of key countries within the region and escalates FX volatility. The Ebola risk, fortunately, has receded to the backburner for now.

Growth for the region in 2015 is now forecast to be 4.2%, falling short of the 4.6% achieved in 2014. Lack of support from commodity prices could widen fiscal deficits and hamper public sector spending on necessary categories like 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.

Nevertheless, growth in Sub-Saharan Africa will still be healthy and faster than most other regions in the world. However, data available in the first few months of the year suggest that the region started 2015 on a weaker than anticipated note, primarily due to the burst 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.

Revenue and fiscal outlooks of a large number of regional economies face downside risks due to the double whammy of the drop in commodity prices and reduced demand from the rest of the world, mainly emerging Asia. Many of these countries depend on commodity exports for a disproportionately large share of their revenues. A sustained low in commodity prices could thus weigh on their budget deficits and lead to an eventual uptick in their debt-to-GDP ratios. As the US Federal Reserve embarks on the next leg of monetary policy tightening by starting to raise interest rates in H2 2015, local currencies of regional economies could see large, sometimes uncontrolled depreciations. This risk is amplified in economies with a poor record of structural improvements during the last few years of easy money. In other words, tightening global financial conditions will be accompanied by volatility and increased risk aversion on the part of investors. This, in conjunction with the FX risk, could lead to episodes of reversal in foreign capital flows. Countries with large external financing requirements, namely those with large current account deficits, or budget deficits, or both will be the hardest hit.

While the Ebola virus outbreak has receded to the back burner for the region as a whole, it has made a comeback in Sierra Leone and continues to threaten mining and non-mining activity as a result of quarantined areas, border closures, suspended flights and travel restrictions. The economy is expected to contract by around 4% in 2015, reflecting the failure to contain the spread of Ebola and the fall in world prices for iron ore over the past twelve months, which are impacting mining sector investment. In view of these factors, D&B has downgraded Sierra Leone by two quartiles to DB6c (very high risk category).

D&B has downgraded Nigeria's country risk rating by one quartile from DB6a to DB6b and maintained the rating trend at "deteriorating". There are two broad drivers of this downgrade; first, a long-running, continued escalation in insecurity/civil disorder risk, and secondly, a more recent, short-term slippage in macroeconomic performance precipitated by external and domestic challenges. Further, risks to D&B's baseline outlook for the Nigerian economy are weighted firmly to the downside. Growth in 2015 is forecast to slow sharply to around 5% from the 6.2% pace set in 2014, primarily due to the drop in global prices of crude oil, Nigeria's key export. On the plus side, the country just completed largely free, fair and peaceful elections; fed up with the mismanagement of the economy and the failure to resolve the terrorist threat in North-eastern Nigeria, the people voted out the incumbent president and elected his challenger.

The large fall in global oil prices during Q4 2014 prompted the Angolan government to revise its 2015 budget and cut back spending by around USD14bn from previous proposals. The fall in global oil prices will put pressure on public spending plans during 2015 and possibly 2016, as well as feed through to more difficult trading conditions in other areas of the economy, including possible project cancellations and build-up of arrears. Real GDP is forecast to slow to 3.5% in 2015 (from an estimated 4.4% in 2014), the current account to shift into deficit of USD5.3bn (almost 4% of GDP) and the fiscal deficit will widen to around 7.5% of GDP. In this context, we have revised our country risk rating for Angola by one quartile from DB5c to DB5d.

The fall in global oil prices, once again, is taking its toll on the Gabonese economy, which is highly dependent on oil for export earnings and fiscal revenues. The fall in prices will put pressure on public spending plans in 2015 (and possibly 2016), and feed through to more difficult trading conditions in other areas of the economy, including possible project cancellations and build-up of arrears. The current account is expected to slip into deficit of around USD0.7bn (or 4.1% of GDP) and the fiscal deficit is expected to widen to 4.2% of GDP in 2015. Real GDP is forecast to decelerate to 1.2% in 2015 before recovering slightly to 3.0% in 2016. In this context, we have revised our country risk rating for Gabon down by one quartile from DB5c to DB5d.

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

Commentary

Dr. John Glen

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

The increasing trend in global risk that was observed towards the end of 2015 and predicted to increase in the early part of 2015 has materialised. A reduction in the growth rates of the emerging economies of east Asia coupled with the continued economic malaise of the Eurozone have contributed to an increase in the overall risk index. Volatility in oil prices and as a result, FX rates, has also impacted the risk inherent in main oil-producing economies.

The CIPS Risk Index continues to reflect tepid growth conditions in many emerging and advanced economies. While the QE policy of Draghi and the ECB have been well received, the economic impact has not yet taken place. Oil exporting economies have been hit by the significant reduction in oil prices in the last nine months, although at the time of writing there are signs of recovery in oil prices. Political risks remain significant in many emerging economies, while elections in the UK and later this year in the US are bound to lead to increased levels of uncertainty with regard to government economic policy post-elections.

Andrew Williamson

Global Leader and Leading Economist, Dun & Bradstreet

The CIPS Risk Index is on a deteriorating trend, after successive quarters of rising global risk. The continued sluggish and uneven pace of the global economic recovery is edging our risk score uncomfortably close to its historical high recorded in Q3 2013. Most of the deteriorating operational risk environment globally originates in less robust than hoped for economic activity in the US in Q1, a revival of jitters in the Euro-Zone and elevated geopolitical risk almost everywhere, just as several major emerging markets continue to splutter and lose traction growth-wise.

Bright spots in the first quarter of 2015 include our upgrade to Indonesia, where newly-elected President Joko Widodo continues to demonstrate to investors his government's commitment to wide-ranging economic reforms, and in Egypt on the back of an improved economic outlook, largely driven from the manufacturing sector. But these were eclipsed by downgrades in several key trading nations (our global risk index is trade-weighted). The operational environments in Australia, Nigeria and Angola are deteriorating as the impacts of the sharp-drop in commodity prices permeate through these economies. Our downgrade to Brazil is multi-dimensional, including rising supply-chain risks from the drought, falling public trust in the country's political class and enforced fiscal austerity.

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

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

CIPS Asia Pacific 31 Rochester Drive, Level 24, Singapore, 138637
T +65 6808 8721 F +65 6808 8722 E infosg@cips.org

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

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

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