

## BUSINESS ENVIRONMENT RISK: UPGRADES DOMINATE ON THE BACK OF TOURISM RECOVERY IN LATIN AMERICA AND HIGH COMMODITY PRICES



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In the framework of its regular review of business environment risk classifications, Credendo has upgraded 24 countries and downgraded 9 countries. In spite of the darkening global economic environment and outlook, upgrades continue to prevail – reflecting the gradual reversal of Covid-19-related downgrades for tourism-reliant economies in Latin America and the benefit of high commodity prices for commodity exporting countries.

## Business environment risk

Upgrades	From	To
Algeria	F	E
Anguilla	F	E
Antigua and Barbuda	F	E
Aruba	D	C
Congo (Democratic Republic of)	G	F
Congo (Republic of)	G	F
Dominica	F	E
Grenada	F	E
Guyana	E	D
Jamaica	E	D
Mauritius	F	E
Mexico	E	D
Montserrat	F	E
New Zealand	D	C
Niger	F	E
Norway	B	A
Peru	F	E
Puerto Rico	F	E
Saint Lucia	F	E
Saint Martin (French part)	F	E
Sao Tome and Principe	G	F
Sint Maarten (Dutch part)	F	E
Trinidad and Tobago	F	E
Uruguay	D	C
<b>Downgrades</b>		
Estonia	C	D
Finland	C	D

Luxembourg	C	D
Mali	E	F
Netherlands	C	D
Solomon Islands	E	F

➤ **Caribbean islands:** a wave of upgrades

Economic growth finally rebounds in the Caribbean. In 2020, a dramatic drop of tourism arrivals led to deep recessions, as the crucial tourism activity easily accounts for 70% of GDP on most Caribbean islands. Since the second half of 2021, tourism arrivals have rebounded sharply, as travel bans due to the Covid-19 pandemic were largely lifted, and despite a surge in Covid-19 cases. As a result, strong economic growth has been recorded in the past months. That being said, tourism arrivals have not yet recovered to their pre-pandemic levels. As business cycle is an important element in the assessment of business environment risk, Credendo decided to upgrade the business environment risk ratings of various Caribbean islands with one notch. Nevertheless, other indicators put pressure on business environment risk. Inflation is rising quickly given most islands are large fuel and food importers, as global food and energy prices have climbed rapidly in the past months. Hence, a (further) tightening of the monetary policy and higher lending rates and/or a lower amount of bank loans to the private sector are in the cards. Moreover, Caribbean islands are generally vulnerable to hurricanes, and according to forecasts, the hurricane season (June - December) is expected to have above-average hurricane activity for the seventh consecutive year..

➤ **Estonia and Lithuania:** downgrade from category C/G to D/G

The Baltic countries are in the forefront of the impact of the invasion of Ukraine. Real GDP growth is expected to significantly slow down this year, particularly in Estonia (where it could tumble from 8.3% in 2021 to 0.2% in 2022), while the decrease could be more moderate in Lithuania (from 4.9% to 1.8%). In addition to being impacted through trade, both countries – being important trade partners of Ukraine and Russia (especially via transport services for Lithuania) – are experiencing the highest rates of inflation (owing largely to high energy and food prices) in the Eurozone, which weigh on real wages, consumer confidence and investment. Latvia, the third Baltic country, already in category D, has not been downgraded.

➤ **Niger:** upgrade from category F/G to E/G

Niger's business environment risk rating has been upgraded from category F/G to E/G thanks to very strong growth projections for 2022 and 2023 (6.9% and 7.2%). Economic growth has mainly been driven by Niger's strong recovery in the agriculture sector and the accelerating implementation of large investment projects related to an oil pipeline to Benin. Other members of the West African Economic and Monetary Union (WAEMU) are mostly classified in category E/G, with the Union providing a durable monetary policy and currency stability. However, there are important downside risks related to the global volatility of food prices; the country is highly vulnerable to climate shocks; and political stability is increasingly endangered by jihadist activity and organised crime. In fact, millions of people have been facing food insecurity during the lean season this year as a result of these very adverse external factors.

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