dun & bradstreet

Global Business Risk Report

Q3 2022

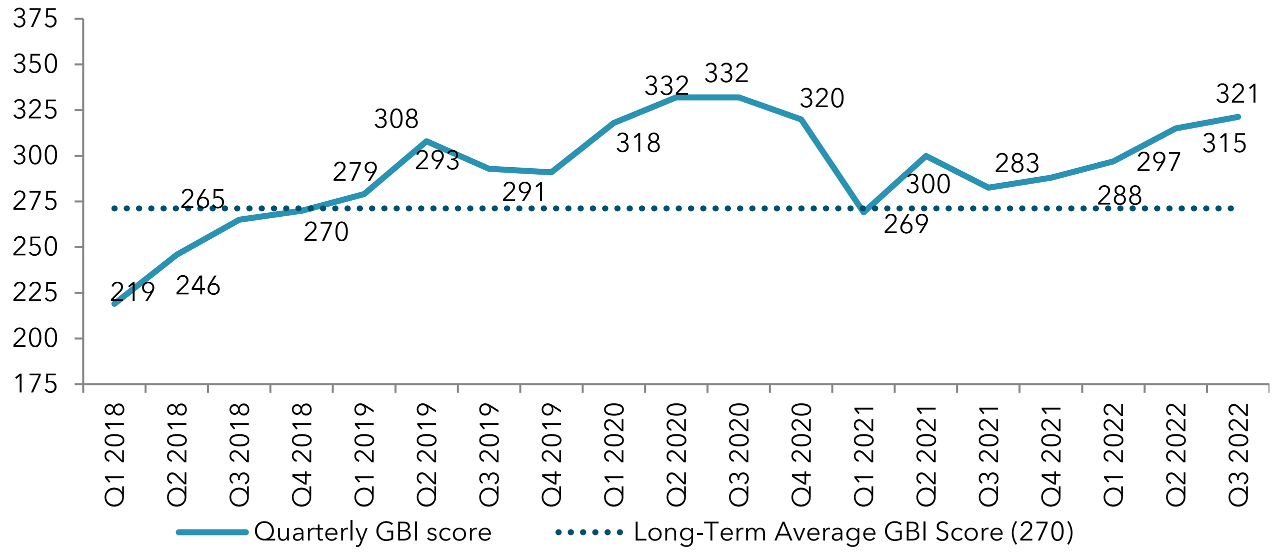
KEY GLOBAL RISKS FOR BUSINESSES

The Dun & Bradstreet *Global Business Risk Report* (GBRR) ranks the biggest threats to businesses. Based on its potential impact on companies, a score is assigned to each risk scenario. The scores from the top ten risks are used to calculate an overall *Global Business Impact* (GBI) score.

Our latest GBI score increased to 321 in Q3 2022, following a worsening of the risk environment, indicating that the outlook for doing cross-border business has become even more challenging.

- The Dun & Bradstreet Global Business Impact score for Q3 2022 indicates that the risks confronting businesses have increased from already-elevated levels.
- The latest GBI score highlights that a risk of sustained stagflation and risks emanating from changes to the geopolitical order pose the biggest challenges to the global business operating environment.

GLOBAL BUSINESS IMPACT SCORE



Source: Dun & Bradstreet

METHODOLOGY

Our top ten risks are based on the expertise of Dun & Bradstreet's team of economists, who monitor 132 countries/regions - accounting for over 99% of global GDP. They assess the key risk scenarios emanating from their region or pan-regionally. The Global Business Impact (GBI score) of each risk scenario is calculated by combining an assessment of: (i) the magnitude of the scenario's probable effect on the global business operating environment, on a scale of 1 to 5 (where 1 is the smallest impact and 5 is the largest); and (ii) the likelihood of the event/s happening (out of 100). The maximum GBI score for each of the ten risk scenarios is 100, and therefore the maximum possible score for the overall GBI is 1000. In the report, each risk scenario is categorised into a broad Risk Theme for both the purpose of tracking and ease of presentation.

Global Business Risk Environment has worsened further in Q3 2022

In Q3 2022, Dun & Bradstreet's GBI score increased to 321, up from 315 in Q2 2022 but lower than the recent highs of 332 experienced in Q2 and Q3 2020, due to the pandemic taking hold. Although the GBI score is below the peak levels seen in 2020, it is above the long-term average of 271; businesses operating cross-border continue to face high levels of uncertainty.

RISK OF STAGFLATION AND GEOPOLITICS ARE DOMINATNG THE GLOBAL RISK ENVIRONMENT

We had identified 'stagflation' (low growth and high inflation) as a new risk theme in our Q2 2022 version of GBRR. That risk has become more material in terms of likelihood and impact, especially in the US and Europe. It is a top risk to watch for businesses moving forward, especially if stagflation is sustained.

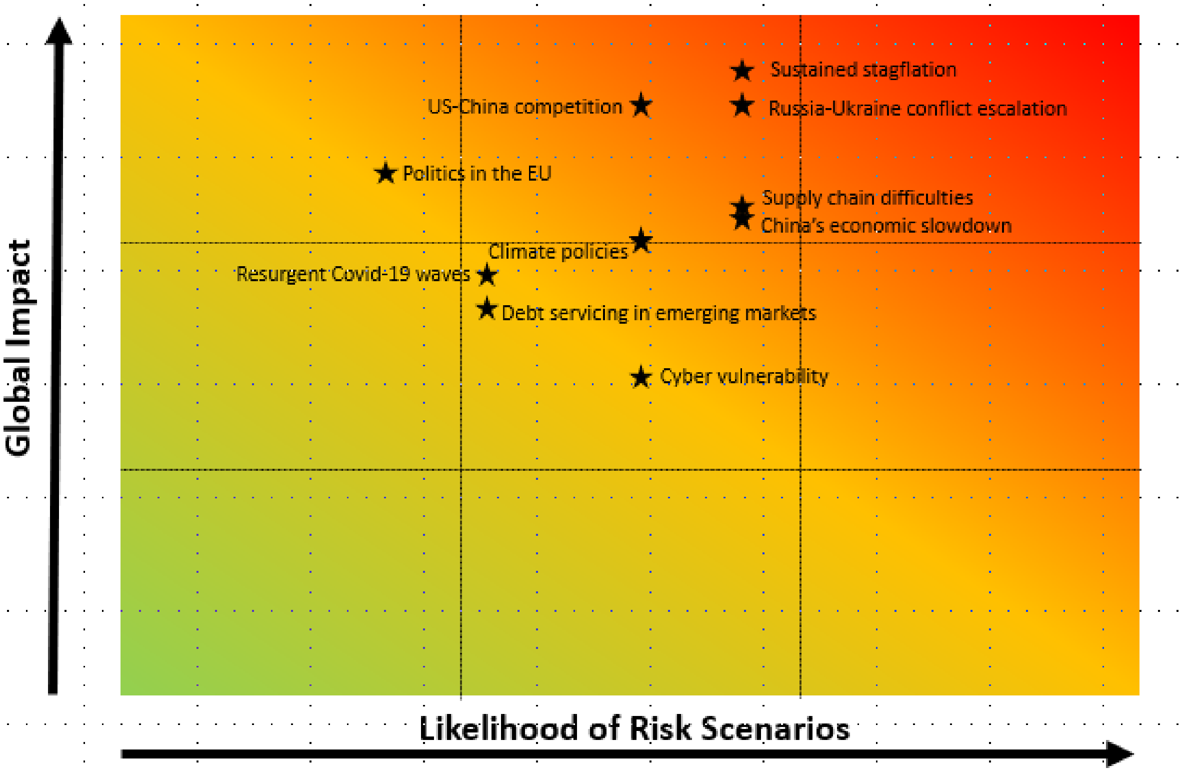
Separately, the risk scenario under US-China competition, a recurrent theme in our top risks radar, also increased in likelihood over this quarter due to renewed tensions.

We continue to monitor the business consequences of the Russia-Ukraine conflict. The gains of the first diplomatic breakthrough - a wheat export agreement - were partly offset by recent sabotage incidents targeting Russia, keeping the risk of an escalation high. We are now worried about Russia's increasing use of its leverage on energy supplies to Europe. This is a more likely, but also a more benign, scenario compared to the expansion of the war highlighted in our last report.

China's economic slowdown continues to be a pertinent risk; we have marginally increased the impact of the scenario: a Chinese economic slowdown is bad news for the global economy, but a Chinese slowdown in the current economic environment is even worse.

Two other themes, politics in the EU, and climate policies, saw the likelihood of their risk scenarios increase; resurgent Covid-19 saw offsetting moves on likelihood and impact, leading to a marginal increase in risk materiality for scenarios highlighted under these three themes.

TOP TEN RISK THEMES



Source: Dun & Bradstreet

Cyber vulnerability entered the list of our top ten risks earlier this year. This risk remains key to watch as geopolitical competition intensifies.

In the previous quarter, we had identified political polarisation, specifically, a risk of street violence over cost-of-living concerns, as a top risk to monitor. The crisis in Sri Lanka was a manifestation of that. Now, in the next phase, we have identified debt-servicing in emerging markets as a new risk theme to monitor. Sri Lanka's experience and its sovereign default have put focus on other similarly-vulnerable emerging markets. This risk is underpinned by the manifold pressures on fiscal accounts, the rising cost of debt and a worsening global growth outlook.

Supply chain difficulties, which was our top risk in Q2 2022, is now a lower likelihood and marginally lower impact risk scenario. The strains on supply chains, including the Russia-Ukraine conflict, shutdowns in China over Covid-19 cases and even labour shortages, persist. However, as price pressures on commodities have begun easing and central banks globally engineer a slowdown, demand concerns are likely to take priority and the pain felt by businesses due to supply chains is likely to come down.

STAGFLATION: THE CENTRAL BANKS' FIGHT FOR CREDIBILITY

The biggest challenge for developed market central banks is maintaining credibility as they are struggling to convey their ability to contain inflation and keep it at, or near, their stated target. Even after consecutive and large rate-hikes, inflation-adjusted real rates remain deep in negative territory. In the case of the US, real rates are in fact lower than the stagflationary period of 1974-82. And while inflation showed its first signs of easing, it remains way above the target level. In parts of Europe, prices are still rising at a double-digit pace.

Central banks' inability to control inflation credibly could stifle demand while supply pressures that have significantly contributed to inflation remain unabated. The longer it takes for inflation to normalise, the greater the expectation that successive rate hikes will have to be even more dramatic. The risk for businesses is not that event itself, but the uncertainty in the intervening period where growth could remain choked, and inflation could remain at record-high levels. We are monitoring the following five related risk themes:

1. **Sustained stagflation:** Having misinterpreted the signals on inflation through most of 2021, we could now be entering a phase where central banks give in to the temptation of false starts on inflation containment or rising unemployment, and reverse course or halt too quickly. In this phase, businesses will stay on the fence with regards to hiring and investment decisions, prolonging a period of sluggish growth and intermittently-high inflation. The risk that we may be entering a phase of sustained stagflation has considerably risen and is now our top risk with the highest GBI score of 51 (the score ranges between 1-100; a higher score indicates a higher global impact).
2. **China's economic slowdown:** The risk of China's economic slowdown is becoming more pertinent with each passing quarter. Even with the reopening of economic centres, leading indicators on consumer spending and manufacturing have returned to a poor performance (barring an initial spurt). The risk of similar lockdowns is intact. Meanwhile, the slow-moving crisis in the economically-important property sector continues. With the 2022 growth target of 5.5% looking increasingly out of reach, focus has moved to damage control. Fiscal and monetary policy support has, so far, been unable to re-fire growth engines, while the global economic environment has also worsened. China's slowdown now is likely to hurt Asian emerging markets and commodity exporters even more. The GBI score for this risk has increased to 39 (vs. 36 in Q2 2022).
3. **Supply chain difficulties:** Last quarter's top risk, supply chain difficulties, has become more benign as a risk in this quarter, not because of any improvements in the underlying factors (the Russia-Ukraine conflict, or Covid cases in China), but because demand considerations have now begun taking precedence. In fact, new pressure points - droughts in parts of the world and geopolitical impediments to chip supplies - are also visible. But the first signs of easing have come from the lowering of prices on commodities. The GBI score for the risk under the theme is at a still-high 39.
4. **Resurgent Covid-19 waves:** Covid-19 cases around the world are on the rise again. Reopening has led to a strong tourism rebound in parts of the world. This may lead to more waves of infection as the winter season approaches, just like in Q3 2021, which led to

widespread shutdowns globally. Even with an expectation of a smaller than previous impact on business operations, we see a greater likelihood of this risk in Q3 2022 with a GBI score of 19.

5. **Debt servicing in emerging markets:** Following Sri Lanka's sovereign default, investor attention has turned to similarly-vulnerable emerging markets. Sovereign balance sheets are reeling under multiple pressures with a weakening currency, rising interest servicing and refinancing costs, and higher subsidy bills on food and fuel. Public sector debt in emerging markets is particularly vulnerable to a domestic or external trigger event that could precipitate capital flight, moving closer to the next default event. Even in the absence of a trigger event, a weak economic outlook and a poor credit environment will keep financing costs for businesses high, hurting medium-term prospects. We assess the GBI score for this risk scenario to be at 18.

GEOPOLITICS: GROWING DIVISIONS IN A MULTI-POLAR WORLD

The ongoing period in geopolitics is marked by events that signal growing divisions among nations. The first signs of a diplomatic breakthrough in the Russia-Ukraine conflict (now in its sixth month), emerged with an agreement over wheat shipments. There was also an agreement among European countries on a mechanism for voluntary reduction of Russian gas dependence. However, these gains proved short-lived. Russia's increasing use of its leverage against the European block - significantly reduced gas supplies before winter – played to the sense of energy insecurity, triggering a rush among EU countries to meet their gas storage targets. Similarly, the diplomatic efforts in the war have received a setback as a series of sabotage activities targeting Russian assets has potentially widened the theatre of action, offering scope for further escalation.

Meanwhile, US-China competition, which had receded into the background in the face of the ongoing war in Europe, received a fresh impetus over the US house speaker's visit to the Taiwan Region. The high-profile visit was accompanied by heightened rhetoric, and then followed by military activities. A show of resolve and military might between the two global powers could potentially set into motion a series of actions with security implications in the Asia-Pacific region. We are monitoring five risk themes related to geopolitics:

1. **Russia-Ukraine conflict escalation**: Russia could use the pretext of Ukraine's use of proxy forces on its territory to justify a massive military escalation, reversing the gains of the diplomatic breakthrough achieved in allowing wheat exports from Ukraine. Simultaneously, Europe's small steps to decouple from Russian gas supplies could prompt Russia to inflict significant short-term pain on EU members by sharply cutting gas supplies. This could put energy supplies to businesses, in several European countries particularly, at risk. We assign a high GBI score of 48 to such a risk scenario.

2. **US-China competition:** The fresh round of tensions that have followed the US house speaker's visit to the Taiwan Region could keep temperatures high. Attempts at maintaining and reinforcing maneuverability in the surrounding seas could prompt larger and longer military drills in the region. Meanwhile, technology decoupling would gather pace through

legislations and a series of secondary sanctions and counter-sanctions. A lack of cooperation over North Korea's renewed missile programme could trigger a small arms race in the region, with South Korea and Japan working to boost their own capabilities. Together with a lack of cooperation in trade and climate matters, it could increase security/continuity risks and compliance costs for businesses. The GBI score for this scenario is assessed as 40.

3. Climate policies: The rising energy insecurity in Europe will hasten the global push to energy transition among developed countries with access to resources. On the other hand, highly vulnerable countries will be forced to prioritise keeping the lights on, with stop-gap arrangements such as coal. Increasingly, countries will fall in one of two groups: those that disregard or have reversed progress on climate targets, and those that have accelerated towards it. While governments figure out priorities, businesses will continue to suffer uncertainty. The GBI score for this risk is 30.
4. Cyber vulnerabilities: The cyberspace is a lower-cost and convenient battle ground for nation states at war with each other, and private companies can often become collateral damage in this battle. As geopolitical tensions soar, so do the threat levels in cyberspace. It is also noteworthy that pace of digitalisation during the pandemic has far outstripped the pace of upgrading organisations' cyber security capabilities. Also, under sanctions, many businesses are shut out from access to critical technologies, which makes intellectual property theft a matter of strategic importance. We assess the GBI score for this risk scenario to be at 20.
5. Politics in the EU: The test of European leadership on Intra-EU cohesion, immigration, energy security and climate policies continues. In Italy, Mario Draghi's departure has paved the way for fresh elections, with the far-right Brothers of Italy party now leading the polls. Their electoral success is unlikely to change the country's pro-Atlantic orientation, but could put the Italy-EU relationship under strain for a while. Added to this, in France, President Macron's lack of parliamentary majority will continue to act as an impediment to his legislative priorities. As the cost of living remains high, a populist surge in European countries could return with eurosceptic, pro-Russian populist leaders riding the wave in upcoming elections. With its likelihood increasing over the previous quarter, we now assess the GBI score for this risk scenario at 18.

WHAT THIS MEANS FOR BUSINESSES

Dun & Bradstreet's Global Business Impact score for Q3 2022 shows that the risks confronting businesses remain elevated, with the score rising from Q2 2022. Most risk scenarios have either worsened, or stayed at the same level, with some new risks emerging. Attempts to control the spill overs of geopolitical conflict and supply chain shocks while mitigating the impact on business activity, sovereign finances, and societal tensions have elevated risks, illustrating how unexpected events can suddenly worsen the risk environment for businesses operating cross-border.

The Q3 2022 score highlights that business decision-makers need to have contingency plans in place for the sudden disruption of seemingly-secure supply chains, and increase awareness of the global economic environment and of geopolitical developments. Furthermore, the geographical spread and diversity of the impacts in our top ten risks underline the importance of taking a broad approach to mitigating these risks.

TOP TEN POTENTIAL RISKS

Ranking	Potential Risk	Potential Risk Scenario	Likelihood of Event (%)	Global Impact (1-5)	Global Business Impact Score (1-100)
1	Sustained stagflation	Developed market central banks struggle to play catch up with inflation. In the US, hopes that supply strains will ease remain unmet. While inflation peaks, it remains uncomfortably high. Consumer sentiment takes a hit, unemployment starts rising and businesses are forced to scale back investments in anticipation of an eventual demand slump brought about by another painful, but necessary, sharp hike in Fed interest rates. Across the Atlantic, in Europe, output losses are even more acute as recession expectations in Germany and the UK firm up while inflation fails to ease.	60	4.25	51
2	Russia-Ukraine conflict escalation	A series of sabotage activities targeted at Russia prompt Russia to escalate militarily against Ukraine, undoing the benefits of the recent wheat export deal between the two warring nations. Russia simultaneously ramps up the use of its leverage - cutting gas supplies - against Europe, while Europe works out a long-term plan to reduce its energy dependence. Several countries struggle to meet gas storage targets before this year's winter, putting energy supplies to business establishments at risk.	60	4	48
3	US-China competition	The fresh round of hostilities triggered by the US house speaker's visit to the Taiwan Region keeps tensions high. China aims to establish a new status quo with regards to its military manoeuvres in the surrounding seas, and the US doubles-down on showcasing the strength of its own security alliances in the region. Attempts at technology decoupling gather pace through legislations and a series of secondary sanctions/counter-sanctions. Lack of cooperation over North Korea's renewed missile programme triggers a mini arms race in the region. Similarly, lack of cooperation in trade and climate matters elevates compliance costs for businesses.	50	4	40
4	China's economic slowdown	Rising instances of Covid-19 waves necessitate sealed borders and business disruptions. Economic policy support is ramped up, but proves inadequate in the face of newer challenges from the global economy, lockdowns and sustained property sector distress. Focus shifts from achieving the 2022 growth target to avoiding a deep economic slump. Asian markets and commodity-dependent economies feel the pain.	60	3.25	39
5	Supply chain difficulties	The disruption to food, energy and fertiliser supplies due to the Russia-Ukraine conflict continues. As global economic weakness acts as a price depressant, commodity exporters in Asia, Africa and LatAm reduce, but do not abandon, export controls. Intermittent shuttering of ports and factories in China means supplies from the global factory remain broken, extending goods and commodities shortages well into H2 2022. At the same time, energy supplies in Europe and semiconductor supplies from Asia come under renewed pressure. Lead times remain long and unpredictable, and producer prices remain high.	60	3.25	39
6	Climate policies	The energy crunch and soaring prices of gas and oil split countries into two groupings - one doubling down on fossil fuels, and others doubling down on renewables. Confusion over the direction of energy policy in Europe and Asia leaves businesses in the lurch on investment decisions. Backtracking	50	3	30

Ranking	Potential Risk	Potential Risk Scenario	Likelihood of Event (%)	Global Impact (1-5)	Global Business Impact Score (1-100)
		on climate commitments and differential trade treatment based on climate action becomes another cause of geopolitical strain.			
7	Cyber vulnerabilities	Geopolitical scores are increasingly settled in cyberspace. Beyond governments, private businesses that serve critical national infrastructure are targeted. Smaller businesses realise that in the digitalisation push from the pandemic, they have left gaping holes in their cyber security.	50	2	20
8	Resurgent Covid-19 waves	New variants of omicron and rising cases continue to make headlines across cities and regions. A fresh wave of cases around the world follows months of rising tourism activity, sparking fresh concerns that several restrictions, if not outright lockdowns, may return. Amidst comparisons with Q3 2021 lockdowns, the possibility of existing and new variants disrupting economic activity remains intact.	35	2.75	19
9	Debt servicing in emerging markets	Following Sri Lanka's sovereign default, the rising cost of debt servicing turns investor focus to the next debt distress event. Multiple pressures on public balance sheets in emerging markets make them a likely candidate. Commodity exporters also start to see revenues fall as global economic cues turn negative. Amidst this investor unease, a domestic or international trigger initiates risk-off sentiment, setting the stage for the next default event. Regardless, higher financing costs and currency weakness trickle down. The credit environment worsens and investments takes a hit, hurting medium-term business prospects.	35	2.5	18
10	Politics in the EU	Mario Draghi's resignation opens the door to elections in Italy in September and drastically reduces the probability that certain structural reforms will be implemented. At the same time, with the far-right party Brothers of Italy leading the polls, the next government could contribute to a different (more antagonistic) diplomatic stance of Italy vs Europe.	25	3.5	18

**Total scores may have some rounding error*

How Dun & Bradstreet Can Help

Dun & Bradstreet's Country Insight Solutions provide forecasts and business recommendations for 132 economies, allowing businesses to monitor and respond to economic, commercial, and political risks. To learn more, visit dnb.com/country-insight