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# Global Business Risk Report

Q2 2022

## Key Global Risks for Businesses

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

Our latest GBI score increased to 315 in Q2 2022, following a marked worsening in the risk environment, indicating that the outlook for doing cross-border business remains challenging.

- The Dun & Bradstreet Global Business Impact score for Q2 2022 indicates that the risks confronting businesses have increased considerably from already-elevated levels.
- The latest GBI score highlights that supply-chain disruptions and geopolitical conflicts have surpassed the Covid-19 pandemic as the biggest challenges to the global business operating environment.

## Methodology

Our top ten risks are based on the expertise of Dun & Bradstreet's team of economists, who monitor 132 countries - 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 Significantly Over Q1 2022

In Q2 2022, Dun & Bradstreet's GBI score increased to 315, up from 297 in Q1 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 269.8; businesses operating cross-border continue to face high levels of uncertainty.

## Supply-Chain Shocks, Geopolitics and Inflation Feature Among Top Risks

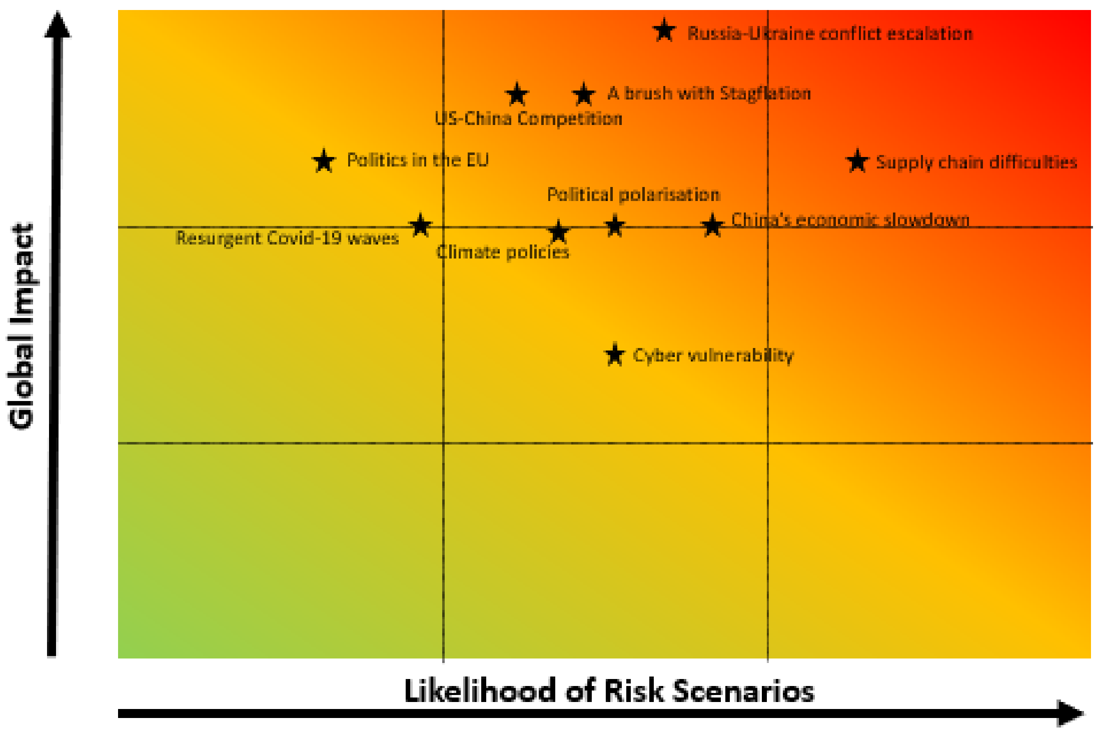
Of the top ten risks identified for this quarter, supply-chain disruption is the most pertinent one for the global risk environment. This risk has worsened over the quarter, as two closely associated risk scenarios- the Russia-Ukraine conflict and China's Covid-19 strategy- materialized over the past few weeks.

> The widespread basis of the risks highlighted in this report reinforce the fact that finance, procurement and supply-chain teams across all business sectors need to combat the impacts of an increasingly complex and globalised world, which is where Dun & Bradstreet can help.

The Russia-Ukraine conflict scenario, which was highlighted as a key risk in the last two editions of GBRR, is playing out. What should worry businesses from here on is a risk of further escalation, which could take distinct forms, each with its own set of challenges for business. We are now tracking this risk under the theme titled 'Russia-Ukraine conflict escalation'.

Global inflation, which was our top concern before the beginning of 2022, has now become entrenched. With the Fed rate hike cycle underway, the key question moving forward is if the world will get more of this inflation without growth. We are tracking this under a new theme titled 'A brush with Stagflation'.

### Top Ten Risk Themes



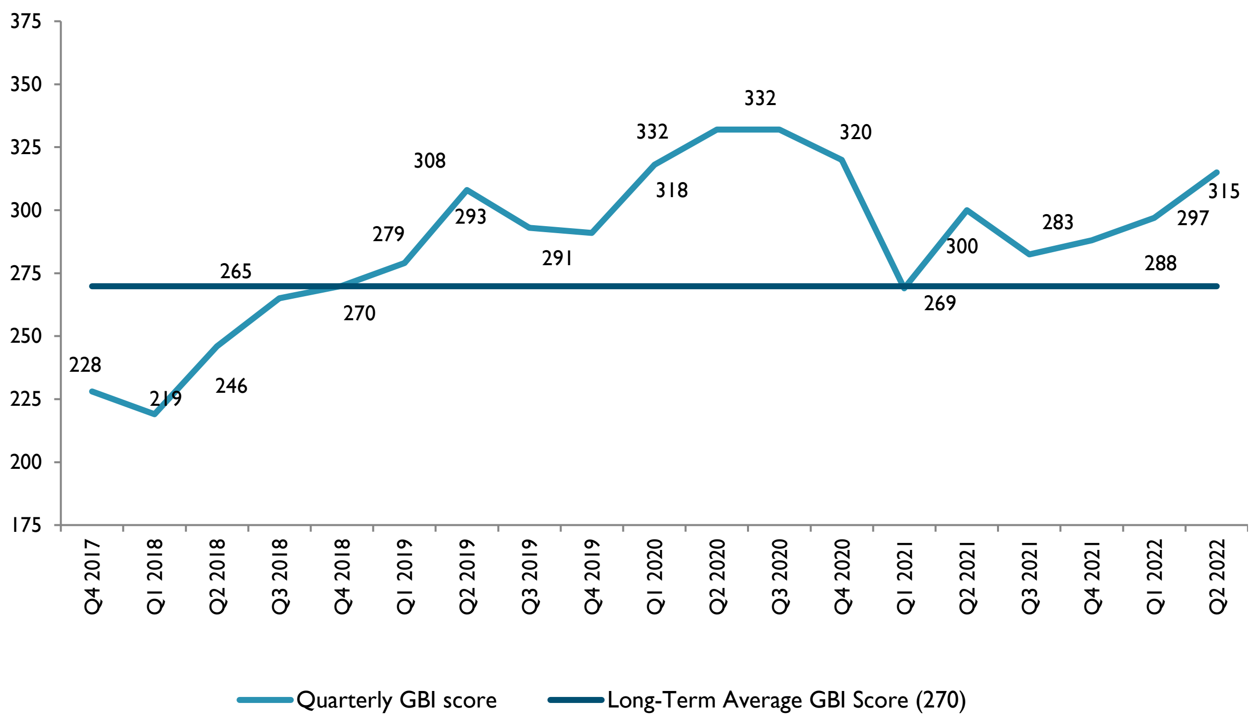

Source: Dun & Bradstreet

Cyber vulnerability entered the list of our top ten worries in the previous quarter. This was driven by rapid digitalisation and higher geopolitical tensions. Cyberspace is seen as an effective way of gaining strategic advantage in ongoing geopolitical competitions. This risk has worsened, as geopolitical competition between Russia, China and the West has intensified.

Entering its third year, the Covid-19 pandemic continues to remain an important risk theme. The role of vaccines, new and experimental rules of inoculation, and the pursuit of zero-Covid by some countries means that supply-side bottlenecks, growth scarring and rising prices will continue to feed a yawning gap among global populations. However, more recent evidence suggests that countries and businesses are finally becoming adept at dealing with surging cases. This may not remain true if a new, more deadly variant emerges, but for now, we have lowered the risk from this scenario.

Similarly, the risk of fragmentation that we are tracking under the theme of EU politics has passed two significant tests over the past few weeks - a swift agreement on collective action against Russia over its invasion of Ukraine, and the French Presidential elections, where the centrist leadership thwarted a strong challenge from the far-right to hold on to power. A failure on either would have been a significant blow to EU unity. There is nothing to say the next test would not reverse this, but for now, the evidence supports that this risk is more benign than it was previously.

## Global Business Impact Score




Source: Dun & Bradstreet

## Supply Chain: a Confluence of Shocks

Since the start of the year, we have witnessed a remarkable reversal of the baseline expectation of easing supply-chain disruptions in 2022. At the heart of this is a confluence of two shocks, which were identified as risk scenarios previously, but have since materialized.

The world is witnessing a military conflict between two key commodity-exporting countries. As a result, the global supply of necessities such as food grains, oil and natural gas have been upended. The conflict, associated sanctions, and follow-up policy actions by countries to keep domestic supplies intact, have erected physical and non-physical barriers to global trade, upsetting price and supply expectations for both consumers and businesses.

At the same time, China's pursuit of zero-Covid has triggered largescale shutdowns of important manufacturing centres and shipping hubs, including the economically important trade centre of Shanghai. There are two associated risks, under the following themes:

1) **Supply Chain difficulties:** The disruption to food, energy and fertilizer supplies due to the Russia-Ukraine conflict has hit economies around the world. It has already forced commodity exporters in Asia, Africa and LatAm to impose their own export and price controls. Our risk scenario assumes a continuation an intensification of this, specifically if Russia chooses to escalate by cutting off gas supplies to more European countries. In addition, intermittent shuttering of ports and factories in China means supplies from the global factory remain broken, extending goods and commodities shortages well into 2022. Lead times are likely to remain long and unpredictable, producer prices high, and consumers are likely to suffer a blow to their purchasing power. The risk scenario has the highest GBI score of 53 (the score ranges between 1-100; a higher score indicates a higher global impact).

2) **China's economic slowdown:** China's insistence on a zero-tolerance policy to Covid-19 has necessitated sealed borders and on-off disruption to business activity. As the highly transmissible omicron variant of Covid-9 takes hold in China, the backlog of goods, ranging from auto parts to kitchen equipment, worsens. This poses the biggest risk to the economy, which continues to show signs of a slowdown. China now has an ambitious growth target to meet, while ensuring the hard-earned gains on deleveraging are not undone and that it does not set itself up for a series of mini financial crises by creating asset bubbles domestically as its monetary policy moves in the opposite direction to those in the developed markets. As the only large economy to avoid a recession in 2020, and as the driver of global growth for the past two decades, an economic slowdown in China is a risk to global recovery. The GBI score for this risk is 36.

## Geopolitics: a Move Towards Multipolarity

For over two months now, continental Europe has been in the grip of a full-blown military conflict between two large countries. The world, including businesses, have been forced to pick sides. The obvious costs for businesses include loss of markets, and higher costs of inputs and compliance to keep up with the ever-changing sanctions regime. From here on, the biggest risk to monitor is how far will President Putin escalate, and how the West will react to that escalation. One thing is clear though: the longer it takes to achieve ceasefire, the more difficult President Putin's climb down will be.

While Russia-Ukraine is front and centre of everyone's mind, it is hard to ignore the undercurrents of the US-China competition even while analysing this conflict. Almost all analyses of the impact of Western sanctions on Russia converge on two things: the role that China plays in the success or failure of these sanctions and the role that these sanctions, in turn, play in signalling to China against any potential actions in Asia. For now, China has realized that, despite rhetoric, its partnership with Russia is not 'limitless', while US is only beginning to realize the limits of its most potent non-military deterrence (sanctions). In the short term, both sides will continue to take a measured approach. However, in the medium to long term, this equilibrium may not hold.

In Europe too, the overhang of the ongoing conflict is likely to linger. While member states have found a way to quickly cooperate on actions against Russia for now, the longer the conflict persists, the more challenging it would be to sustain this cohesion, especially in the face of a serious challenge to sovereignty and energy security. France has withstood a far-right populist surge in the recently concluded elections but given the prominence of the economic block on global economic affairs and the range of issues at play, this risk remains one to watch.

Finally, the success or failure of nuclear agreements in the Middle East and the Korean peninsula are small, but noteworthy risks within the same gamut of geopolitical risks. Since the start of January, North Korea has resumed its missile program, purportedly testing a long-range, intercontinental ballistic missile. At the same time, high global energy prices have given Iran more leverage in its ongoing negotiations with the US. The role of participant countries in the global economy is small, but there is a risk that a few missteps could worsen the existing supply side shocks to oil and semi-conductors. The five risks to watch on geopolitics are as follows:

1. **Russia-Ukraine conflict escalation**: Ukraine's resistance in the war has surprised many, including Russian President Putin. For now, Russia has diverted the military effort to the Eastern parts of Ukraine with a more limited objective. But with no diplomatic off-ramp in sight, the conflict could escalate. There are a few visible channels, including the use of tactical nuclear weapons, widening the theatre of war to newer territories or the use of Russia's most potent economic weapon: turning off the gas supply to the European block. Of particular concern would be an escalation of military conflict to bring a NATO member into the war, as it has the potential to plunge

a large section of the global economy into direct war. The overall GBI score for this risk scenario is 50.

2. **US-China competition:** The US and the EU are closely watching China's role in the current geopolitical landscape. There is a possibility that China's tacit support to Russia via trade relations and ambivalence to North Korea's renewed missile program further hardens western views against the country. The US is already committed to decouple technologically. Under this scenario, we expect the US to deploy more hard sanctions on Chinese tech giants, which prompts retaliatory action from China including harsh rhetoric, and a doubling down of military manoeuvres *vis a vis* Taiwan Region and in the South China Sea, elevating tensions and triggering capital flight to safe havens. The GBI score for this scenario is 32.
3. **Climate policies:** The war-led energy crunch has sparked a renewed push for renewables as more countries commit to attaining energy independence from Russia. This will hasten the global push to energy transition. On the other hand, highly vulnerable countries will be forced to prioritize keeping the lights on, even with stop-gap arrangements which will disregard or reverse progress on climate action targets. While governments figure out priorities, businesses will continue to suffer under uncertainty. The GBI score for this risk is 27.
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 the cyberspace. It is also noteworthy that pace of digitalization during the pandemic has far outstripped the pace of upgrading organizations' 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 post-Merkel leadership on Intra-EU cohesion, immigration, energy security and climate policies continues. For Q2 2022, we were particularly watching the French elections, which yielded an expected victory for the centrist incumbent, but were noteworthy for how close the populist challenger had come. In turning off gas supplies for a select few countries, Russia is already tugging at the block's fault lines. Refugees, cyberwarfare, and populist propaganda can hammer at those very fault lines as the crisis lingers. As cost of living soars and remains high, a populist surge in European countries could return with Eurosceptic, pro-Russian populist leaders riding the wave in upcoming elections. The GBI score for this risk is assessed at 14.

## Inflation: Hard Landing Ahead?

For over a decade following the global financial crisis, central banks in developed markets have been grappling with a lack of healthy price increments. The pandemic disrupted that dynamic, with consumer and producer prices hitting multi-decade highs. These price rises are now entrenched by the conflict in Europe. The US Fed has begun tightening but is playing catch up with runaway prices.

There is a rising risk that the Fed may find it hard to engineer a soft landing for the economy. In fact, with real interest rates remaining in the negative territory, the risk of a more drastic monetary policy action down the road increases. At the same time, consumption baskets have been hit where it hurts the most. Food prices were a key trigger for the Arab spring movements. We could see protests in countries where the social contract is based on ensuring a certain degree of welfarism. Implications will be political suppression, social stability, or even higher levels of public debt. Sustained price rises remain a common driver of at least two risks in our list of ten risks:

1. **A brush with Stagflation**: With the US Fed embarking on tightening as an afterthought, the chances of a policy mistake are high. At the same time, Europe is likely to witness an output shock. Emerging market sovereigns and corporates will see a sudden surge in their debt servicing costs as international liquidity recedes and domestic rates rise to keep the risk premium intact. As we see defaults rise, nascent growth recovery will be at risk. Amid job losses and rising prices, parts of the world may experience what stagflation looks like. This is a key risk with a GBI score of 36.
2. **Political polarisation:** A combination of food and fuel inflation, together with a significant rise in long-term unemployment may prompt anti-government protests, especially in authoritarian countries. The street protests in Kazakhstan and Sri Lanka at the start of 2022 may herald more such unrest ahead. Businesses should prepare for more such disruption to economic activity. Such protests would be even more disruptive if they were to hit economically-important urban centres. Additionally, high prices eating into people's incomes could turn incumbents facing elections in emerging markets into populists, worsening public debt and increasing policy risks for businesses. The GBI score for this risk is assessed as 30.

## Covid-19: Overcoming the Fatigue

In the third year of the pandemic businesses are still struggling to define normality. There are still uncertainties, including the risk of resurgent waves, emergence of deadly variants from countries lagging in vaccinations, rising defaults and insolvencies, a possible change in politics and divergent economic trajectories on the path to recovery. However, businesses and governments seem to have found a way to work around the pandemic.

Around the world, most countries have learnt to ignore swelling case numbers if they do not lead to higher hospitalisations. On the other hand, China remains committed to achieving zero-Covid cases by keeping its borders shut, even with little evidence that it will work against the highly transmissible omicron variant. This lack of synchronisation in handling the pandemic will keep businesses guessing, mostly on supplies (covered in sections above) but the risk of resurgent waves, epidemiologically, looks less threatening for now:

1. **Resurgent Covid-19 waves**: In its third year, Covid-19 is still not over but the world is learning to live with the disease as masks are coming off and people are enjoying freer movements. Africa, with its low vaccination rate, could become the source of another variant or mutation. Also, not all vaccinations offer the same degree of protection. This vaccination divergence among populations could widen further, leaving the world at risk of another harmful mutation. Another level of divergence in countries with implications for businesses is in response to subsequent waves of infections. As the appetite for domestic movement restrictions is decreasing, countries are opting to abruptly shut international borders instead; China is pursuing zero-Covid cases. This means that global recovery could be still slower, tourism-dependent economies may continue to suffer and supply chain disruptions will persist. We assign a GBI score of 18 to this risk.

## What This Means for Businesses

Dun & Bradstreet's *Global Business Impact* score for Q2 2022 shows that the risks confronting businesses remain elevated, with the score rising significantly from Q1 2022. All risks- except for two - resurgent Covid-19 waves and EU politics - have either worsened, or stayed at the same levels, with some new risks emerging on the horizon. Geopolitical conflicts and attempts to control the spill overs of the pandemic 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 Q2 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 geopolitical developments. Furthermore, the geographical spread and diversity of the impacts in our top ten underline the importance of taking a broad approach to mitigating these risks.

## How Dun & Bradstreet Can Help

Dun & Bradstreet, a leading global provider of B2B data, insights and AI-driven platforms, helps companies around the world grow and thrive. Dun & Bradstreet's Data Cloud contains data and insights on over 455 million businesses from around the world, fuelling solutions that help customers to accelerate revenue, lower cost, mitigate risk, and be better corporate citizens. As this report highlights, risks are ever-evolving in terms of types and geographies, and can be unexpected. The impacts are felt across the business spectrum - from sole proprietors to multi-national corporations. What is different is the magnitude to which these businesses are affected. The key to being able to sustain, grow and thrive during these times is to leverage data to turn risks into opportunities. We recommend that business leaders:

1. Assess macro- and micro-level risks:
    - Monitoring country, sector and counter-party risks through reports such as this one can help businesses create better strategic plans to limit payment delinquency, guide cash-flow management decisions, and strengthen supply chain resilience.
    - Dun & Bradstreet's Finance Analytics and Risk Analytics solutions help automate some risk decisions, as well as accelerate supplier due diligence and help with compliance screening.
    - Our Covid-19 Recovery Index can also help gauge recovery in consumer demand and business stability while highlighting potential growth areas.
2. Maximise profitability with data, insights and automation:
    - Dun & Bradstreet's Finance and Risk solutions can help businesses to use rich, actionable data to drive growth while improving efficiency, agility and decision-making capabilities.

- Dun & Bradstreet’s Covid-19 Impact Index can help businesses identify the pandemic’s changing effects on locations, industries, and supplier and customer networks to improve cash-flow management and plan for post-pandemic profitability.

3. Pivot nimbly:

   - Our enterprise-wide range of software solutions to address various business-use cases leverage data and insights from our Data Cloud and bring automated intelligence to help with agility, even in challenging environments. These solutions offer the following:

     a. the ability to identify and engage with the right sales targets.

     b. the opportunity to drive intelligent action to manage credit-to-cash and third-party risk.

     c. help with managing small/medium-sized business processes.

     d. insights to advance public sector missions and help citizens thrive.

4. Keep pace with fundamental changes in your industry:

   - The pandemic has accelerated changes that were already underway, such as remote working, the expansion of e-commerce and an increase in cashless transactions. Staying connected to meaningful changes is crucial in a climate of ongoing volatility and uncertainty.

   - D&B Hoovers helps sales teams select the best targets and then understand those companies’ evolving needs and rapidly-changing environments.

5. Maintain an integrated global perspective:

   - A global view enables mitigation of emerging cross-border risks, and the ability to grasp growth opportunities, wherever they are, in a timely way.

   - Dun & Bradstreet’s Country Insight Reports provide forecasts and business recommendations for 132 economies, allowing businesses to monitor and respond to economic, commercial and political risks in the markets in which they operate.

Dun & Bradstreet’s global data and analytical insights and our AI-driven software platforms can help businesses navigate short-term crises and support long-term growth efforts. Please contact your Dun & Bradstreet Account Manager today to learn how our solutions can help you manage risk and find opportunity.

## Top Ten Potential Risks

| Ranking | Potential Risk | Potential Risk Scenario | Likelihood of Event (%) | Global Impact (1-5) | Global Business Impact Score (1-100) |
|---|---|---|---|---|---|
| 1 | Supply chain difficulties | The disruption to food, energy and fertilizer supplies due to the Russia-Ukraine conflict continues to hit economies around the world, forcing commodity exporters in Asia, Africa and LatAm to impose and persist with their own export and price controls. In addition, intermittent closure of ports and factories in China means supplies from the global factory remain broken, extending goods and commodities shortages well into 2022. Lead times remain long and unpredictable, producer prices remain high and consumers suffer a blow to their purchasing power. | 75 | 3.5 | 53 |
| 2 | Russia-Ukraine conflict escalation | As Ukrainian resistance proves stronger than anticipated, President Putin is faced with a choice to either escalate or back down. With no diplomatic off-ramp, escalation follows. It could take two forms - intensification, including the use of tactical nuclear weapons, or expansion of the war theatre to target NATO members, creating a refugee crisis to increase social instability, targeting western supplies to Ukraine or bolder cyberattacks on government and private infrastructure. | 55 | 4.5 | 50 |

| Ranking | Potential Risk | Potential Risk Scenario | Likelihood of Event (%) | Global Impact (1-5) | Global Business Impact Score (1-100) |
|---|---|---|---|---|---|
| 3 | A brush with Stagflation | Price rise expectations come unhinged and developed market central banks struggle to play catch up with inflation. In Europe, output loss from difficulty in securing energy supplies leads to a sharp growth slowdown. Mass layoffs follow. In the US, hopes that supply strains will ease are dashed and through the coming months, the risk of a monetary policy induced hard-landing builds up. Unemployment starts rising and businesses are forced to scale back investments in anticipation of an eventual demand slump brought about by a painful but necessary, sharp hike in Fed interest rates. | 45 | 4 | 36 |
| 4 | China's economic slowdown | China's insistence on zero tolerance to Covid-19 necessitates 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. It becomes increasingly clear that the lowest growth target in three decades will not be met. Asian markets and commodity-dependent economies feel the pain. | 60 | 3 | 36 |
| 5 | US-China competition | China's tacit support to Russia in retaining trade ties and ambivalence to North Korea's renewed missile program worsens its ties with the West. The US deploys secondary sanctions on some Chinese tech entities, with a view to further decouple technologically. China retaliates with strong rhetoric; concerns about its military maneuvers vis-a-vis Taiwan Region and in the South China Sea keep tensions in the region high. | 40 | 4 | 32 |

| Ranking | Potential Risk | Potential Risk Scenario | Likelihood of Event (%) | Global Impact (1-5) | Global Business Impact Score (1-100) |
|---|---|---|---|---|---|
| 6 | Political polarisation | Business disruptions resulting from public protests increase as elevated food and energy prices intersect with Covid-19 fatigue. Cost of living issues dominate political discourse around the world. In food importing developing countries of Africa and LatAm, frustrations simmer and erupt on the streets as incumbents facing elections and autocratic regimes watch on nervously. Implications will be political suppression, social instability or even higher public debt. | 50 | 3 | 30 |
| 7 | Climate policies | The energy crunch and soaring prices of gas and oil split countries in 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 on climate commitments and differential trade treatment based on climate action becomes yet another cause of geopolitical strain. | 45 | 3 | 27 |
| 8 | 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 |
| 9 | Resurgent Covid-19 waves | New variants of Omicron and rising cases continue to make headlines across cities and regions. Governments avoid domestic lockdowns if swelling numbers do not translate to higher hospitalisation. Tourism-dependent economies continue to hurt, China finds credence in its containment approach, and business uncertainty remains high with the possibility of existing and new variants disrupting economic activity intact. | 30 | 3 | 18 |

| Ranking | Potential Risk | Potential Risk Scenario | Likelihood of Event (%) | Global Impact (1-5) | Global Business Impact Score (1-100) |
|---|---|---|---|---|---|
| 10 | Politics in the EU | Despite a loss for Marine Le Pen, the big takeaway from French presidential elections are the gains her far right party was able to make against the incumbent President Macron. Other populists will be watching. In the meantime, differences over energy security, lack of coordination over response to Russia and sustained frictions between Brussels and Poland/Hungary continue to strain European cohesion, threatening to undo the remarkable cooperation shown in the face of Russia-Ukraine conflict. | 20 | 3.5 | 14 |

**Total score may have some rounding error*