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CIPS
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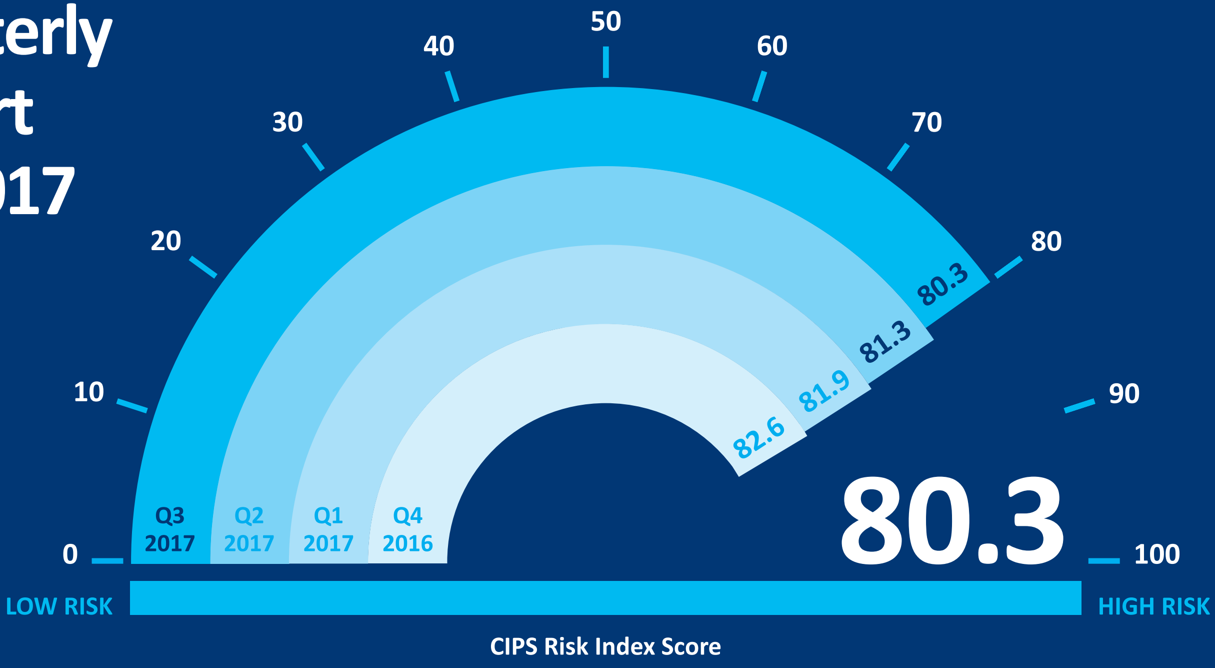
CIPS RISK INDEX

Quarterly Report Q3 2017



CIPS RISK INDEX (CRI) KEY POINTS Q3 2017

The CRI score improved again, as cross-border supply chain risks abated in response to synchronous global growth. The remaining risks are mostly political in nature.

As per last quarter, the improvement in the CRI score was again driven by lower risk and by rating upgrades in heavyweight economies, outweighing downgrades in a handful of less impactful countries.

The biggest near-term risk to supply chains will stem from the spillover of political risk into policy and cross-border operational conditions.

Nine countries were upgraded in Q3 in terms of our operational risk assessments, while five were downgraded; momentum effects of upgrades/downgrades from Q2 2017 also impacted the CRI.

Supply chain risks moderate again with improvements in the global economy.

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 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). For consistency, the trade shares were originally anchored to data for 2010, but in 2017 these were rebased to export rates from 2015. The regional scores are completed in the same way, aggregating across all countries in the region based on their rebased contribution to total exports.

Country risk scores

Dun & Bradstreet 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

Third straight CRI improvement in 2017

132 country markets assessed for the period Jun – Sep 2017

As overall global growth picked up, beating expectations, supply chain risk also saw an improvement, and our CRI dropped to 80.3 in Q3 2017 from 81.3 in Q2.

Thanks to a broadly based pick-up in global economic activity, operational risks for global businesses declined for the third time in 2017. The CRI score, however, still remains close to its all-time high, and there are still significant underlying risks despite the improving trend.

Contribution to global risk by region

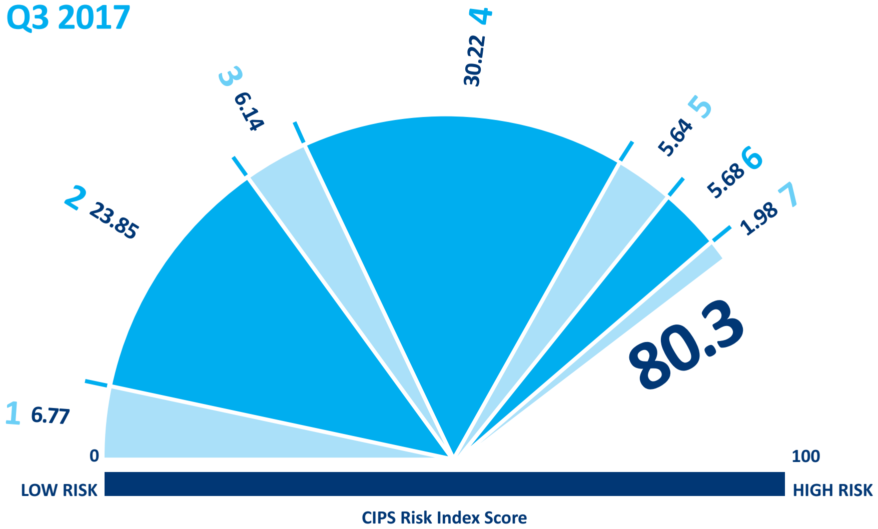
(Q3 2017 vs Q2 2017)

REGIONS

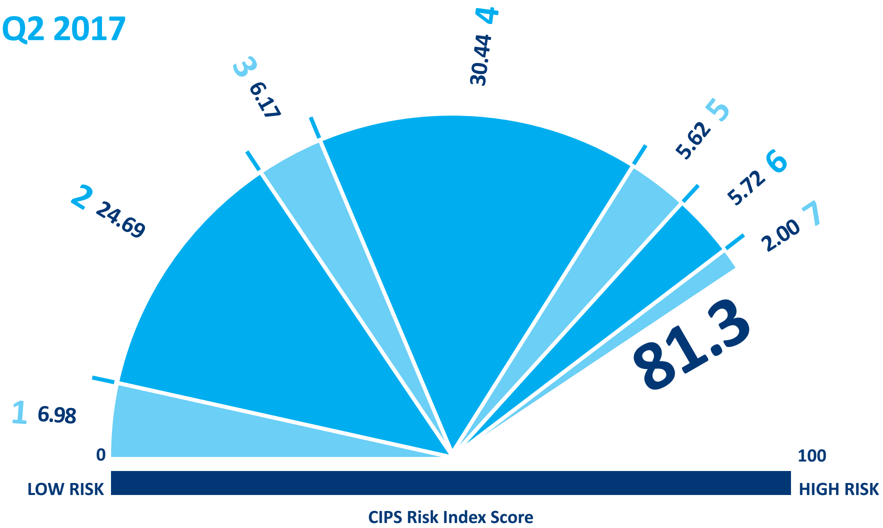
1. NORTH AMERICA
2. WESTERN AND CENTRAL EUROPE
3. EASTERN EUROPE AND CENTRAL ASIA
4. ASIA PACIFIC
5. MIDDLE EAST AND NORTH AFRICA
6. LATIN AMERICA
7. SUB-SAHARAN AFRICA

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.

Q3 2017



Q2 2017



Regional Risk Summaries

North America

Supply chain risk in North America, as measured in the CIPS Risk Index (CRI), powered by Dun & Bradstreet, score reduced in Q3 2017 from 6.98 to 6.77 despite political risk increasing and lower than expected economic growth.

Dun & Bradstreet has held the US's country risk rating at DB2a, but has downgraded its rating outlook from 'stable' to 'deteriorating'. Persistent political uncertainty, both domestic and cross-border, is impeding the execution of growth-friendly policies and restricting investment by businesses, prompting the downgrade. The fundamentals of the economy remain robust, justifying the overall rating of DB2a; only three countries are ranked higher than the US in the 132-country Dun & Bradstreet universe. However, the Political Environment Outlook component of the overall rating remains firmly at red (downgraded from amber in March). The economy received a short-term reprieve from Congress on 8 September, when the House overwhelmingly voted to approve a package to provide more than USD15b in disaster aid for victims of Hurricane Harvey, raise the debt ceiling, and fund the government for three months. On the surface, this looks like progress in Washington, and averted a government shutdown in October; however, this only postpones the debt-ceiling debate (and the threat of a government shutdown) to December.

Note also that the measure passed by a vote of 316-90, with every one of the 90 opposing members being Republicans. This exposes divisions within the President's own party and highlights the difficulties with smooth passage of pro-growth reform – despite a Republican majority in both houses of Congress. Republicans are particularly unhappy with this package on account of President Trump negotiating a deal with Democrats to get the short-term debt limit compromise; leaders of the Republican Study Committee, a collection of more than 150 conservative House members, openly opposed the deal as 'fiscally irresponsible'. More importantly, this significantly reduces the chances of a quick or smooth passage of tax reform measures that the White House is keen on implementing. Republicans are likely to argue about how low to cut the tax rate (the President has proposed 15%) and how to offset the fiscal cost of the consequent drop in revenues.

Geopolitical uncertainty also threatens to spill over into the US's longer-term trade policies, especially in the Asia-Pacific region. The US was able to secure support on a UN Security Council resolution on North Korea that imposes new, more stringent economic sanctions on the regime, aimed at cutting off its sources of economic support. A UN report recently found that sanctions on North Korea have so far had limited impact due to non-compliance from other member countries. Against this unsettled regional backdrop, President Trump has proposed pulling out of a major trade deal with South Korea, alleging that the US ally has benefited disproportionately from the deal amid limited gains for US companies. It is likely that the administration will soften its stance and work toward a renegotiation of the trade pact, but a complete withdrawal could undermine US hegemony in the region, especially given the threat from North Korea. In fact, officials from the US, Canada and Mexico have just begun renegotiating NAFTA, which the President had initially threatened to quit, but later opted in favour of a rewrite of the rules. The NAFTA discussions will also be watched closely by the rest of the world, as they will offer signals on the eventual trade policy stance of the Trump administration.

With only a quarter left to go in 2017, Dun & Bradstreet has held the United States' growth forecast unchanged at 2% for the calendar year. We forecast growth to accelerate to 2.3% in 2018, on the back of strengthening fundamentals, post-hurricane rebuilding, and the promise of tax reform.

Like other developed nations, Canada has recorded lacklustre inflation growth in 2017, and inflation remains below the Bank of Canada's 2% target. All three measures of inflation monitored by the Bank have slowed in recent months, with overall CPI inflation recording a 1.2% gain in July, down from 2.1% in January. However, with growth continuing to gather pace, Canada's output gap has fallen significantly.

Given Canada's strengthening growth momentum, the Bank of Canada reacted by again raising the overnight rate by 25 basis points in September to 1.0%, the second hike in three months. These hawkish moves by the central bank raise concerns about financial stability risks due to the rapidity of the rate hikes. Additionally, Canada's quickly-improving economic outlook and rising interest rate environment have made it an attractive investment destination, attracting capital flows and driving up the value of the Canadian dollar. While growth momentum remains strong, higher interest rates have translated into higher lending rates, which will drag on household spending and limit housing-related contributions to overall GDP. Additionally, we expect Canada's currency strength to limit exporter contributions in the months ahead.

Against expectations, the strong growth momentum seen in Canada earlier this year has not persisted into Q3, with real GDP growth staying flat during July and shrinking 0.1 per cent during August. It is the first time in almost a year that Canada's GDP has declined and can partly be attributed to shutdowns in manufacturing and falling oil holding prices. In Q2 we reported that Canada's real GDP growth rate was forecast to hit 3.0% in 2017 thanks to a strong first half, however it is now anticipated to continue to slow. There are also uncertainties around cross-border trade policies, including the NAFTA negotiations.

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

Western and Central Europe

TREND*

Positively, risk levels in Western and Central Europe fell from 24.69 to 23.85, with the region seeing five upgrades and only one downgrade.

Note that the momentum effect is key for Macedonia which was downgraded in June; Macedonia's economic performance has been weak in 2017 due to the political crisis, with GDP falling by 1.8% y/y in Q3 as much of the region booms. With a calming of the political crisis, the outlook for the economy is now improving and growth will probably come in at a moderate 2.9% in 2018 and 3.2% in 2019, creating new opportunities for sales to the country. However, the underlying political problems in Macedonia are not resolved and the danger remains of a relapse into instability that derails the country's growth trajectory.

The momentum effect is again important for Albania which was also upgraded in June; following the upgrade, Dun & Bradstreet has raised its growth forecast for 2018 and 2019 to 3.7% and 4.0% respectively, on the back of data for Q2 in which GDP expanded by 4.1% year on year (y/y). Growth will be broad-based. Consumption and investment are steadily expanding, helped by a favourable monetary and financial environment, high levels of business and consumer confidence, stable balance sheets and an improving external environment. Meanwhile, respectable growth in the euro zone will provide a strong boost to Albanian exports. However, there are risks to this otherwise positive forecast. As a small, open economy which relies heavily on trade with a small group of countries in a narrow range of sectors, Albania is highly sensitive to negative external developments, including the latest risk of renewed economic and financial stress in Italy and Greece.

In keeping with a gradually improving macroeconomic environment in the euro zone, we have upgraded Greece's country risk rating from DB5c to DB5a on the back of data showing that macroeconomic conditions are slowly (but steadily) improving. Real GDP growth of 0.5% q/q (or 0.8% y/y) in Q3 augurs well for a continued expansion of economic activity, but risks remain – above all the still unsustainable unemployment levels, uncertainty around the bailout talks, and the magnitude of the Greek debt. Scarce bank lending will also work to keep risks tilted to the downside, as will the tapering of the ECB's bond-buying programme.

We have also upgraded our country risk rating for Portugal from DB4c to DB4b amid continued firm economic growth and very good employment figures. GDP strengthened by 2.8% y/y in Q3, leading us to raise our forecast for growth in 2017 from 2.5% to 2.8%. This forecast may be subject to further upwards revision. Although seasonally-adjusted growth weakened to 0.2% q/q (from 1.0% in Q2), the 15th consecutive quarter of growth, we do not consider this to be the start of a trend. Growth was driven by firm domestic demand. As with Q2, fiscal restraint meant that flat government consumption growth was more than offset by a very strong increase in investment and private consumption growth.

Most importantly (given the country's size) Dun & Bradstreet also upgraded Germany's risk rating in Q3, changing it from DB1d to DB1c in August. The country is now our best-ranked economy (before the upgrade, it shared this position with Sweden and Norway), supported by ultra-low insolvency risk, excellent payments performance and a generally improving macroeconomic outlook (including a labour market that is near full employment). Worryingly, however, the federal elections in late September increased political risk and we have revised our risk rating outlook from 'improving' to 'stable'. The formation of a government will likely take until the end of the year, and the four parties involved in coalition talks will struggle to reach alignment on several key issues such as migration, euro-zone policies and environmental protection.

Encouragingly for trading with the EU from overseas, the free-trade agreement (FTA) with Canada came into preliminary force in September (certain chapters are still awaiting ratification), eliminating the overwhelming majority of import taxes and duties. At the same time, the EU is making progress in talks with Indonesia, where negotiations took place in mid-September. Simultaneously, the European Commission has proposed negotiation directives for the upcoming talks with Australia and New Zealand. In early October, officials met in Beijing to continue talks about an EU-China investment deal that will eventually replace the bilateral agreements China has signed with individual EU member states.

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

Western and Central Europe continued

The only downgrade in the region took place in August, when we altered Poland's risk rating from DB3b to DB3c as the government continued to press ahead with a controversial judicial reform that would severely undermine the independence of courts. Although the Polish president eventually vetoed some of the proposals, the recent developments again highlight the weakening rule of law in Poland, a trend that started in late 2015. As relations with the EU are also stressed over the handling of the migrant crisis, Poland is at risk of losing EU funding in the next multi-year framework, which would strip the country of funding for infrastructure investment.

Further downside risks to the integrity of supply chains in the region remain visible. In terms of Brexit, the fourth round of talks between the UK and the EU ended without noteworthy results (similar to the first three rounds) and it seems unlikely that the EU will allow talks to move on to the post-Brexit trade relationship in October (as initially planned). With the UK's long-term vision for Brexit still completely unclear, given the fragmentation of the parliament and differences within the governing Conservative Party, more and more business federations are recommending that firms prepare for a hard Brexit. Under such a scenario, EU-UK trade and investment would drop significantly, as market access would be severely impaired. Dun & Bradstreet still expects both sides to eventually agree on a deal, but risks have certainly increased again, thereby endangering supply chains involving the UK.

Simultaneously, political risk is rising in Spain. Popular support for independence in Catalonia culminated in a referendum on 1 October, when some 42% of the region's 5.3 million eligible voters went to the poll, and 90% voted in favour of independence, potentially plunging Spain into one of the worst political and constitutional crises since the country's return to democracy in the 1970s. Suspending Catalan autonomy by triggering article 155 of the constitution, arresting Catalan senior government figures, or giving Catalonia greater financial autonomy are among the options available to the central government (led by the Popular Party) to stem an escalation of political tensions that would inevitably impact on the Catalan (and Spanish) economy, and could ultimately undermine the country's political unity. Although Dun & Bradstreet believes that Catalonia will remain part of Spain, tensions between the Catalan leaders and the central government look likely to persist well beyond the date of the vote. As such, we recommend that our customers constantly monitor short- to medium-term political developments.

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

Eastern Europe and Central Asia

Our risk rating score for Eastern Europe and Central Asia saw a slight improvement in Q3 2017, with risk reducing to 6.14 (from 6.17 in Q2). However, the trend continues to reflect that, on average, supply chain risk in EECA is greater than in any other global region except Sub-Saharan Africa.

The overall change in the regional risk score was driven by one downgrade in the Eastern Europe sub-region and one upgrade in Central Asia: Dun & Bradstreet downgraded Romania's country risk rating by one quartile to DB4b in July as the political environment deteriorated again. The government had announced the introduction of a corporate income tax, a universal tax on households, and a solidarity tax for high earning individuals, all without any prior consultation with stakeholders, while also continuing to pursue the policy of weakening the rule of law by undermining anti-corruption efforts. The fiscal policy measures that led us to downgrade the country in July were subsequently abandoned, but the policy reversal does not end the wider risk to business from a government that has a track record of erratic and arguably detrimental policy-making. Moreover, despite the country's enviable economic growth rates in recent quarters (among the highest in the world), Romania's economic growth trajectory over the last decades has been one of boom and bust, and everything points to history repeating itself in the current business cycle.

In a positive development, Dun & Bradstreet upgraded Uzbekistan's country risk rating from DB6c to DB6b at the end of Q3 following the government's decision to float the currency in September. Under the previous arrangement, the official value of the som was determined by a crawling peg mechanism, which saw it steadily decline against the US dollar as a means of promoting exports. However, in an attempt to crack down on black market trading, the authorities announced that from 5 September the som would be allowed to float. While the currency lost almost half its value on the day of the float, the negative impacts of the move will be limited by various factors, including low government debt, a strong stock of FX reserves, and a relatively sound fiscal position. Currency convertibility should encourage greater foreign investor interest in Uzbekistan, particularly as the repatriation of hard currency profits becomes easier. Moreover, the liberalisation of the som suggests that, unlike his predecessor, President Shavkat Mirziyoyev is serious about economic reform, boding well for long-term growth prospects.

Supply chain risk remains elevated for the region as a whole, despite GDP growth strengthening and broadening across sectors. The lower-for-longer oil price environment, banking sector stresses in a number of CIS countries, the rising incidence of cyber threats, domestic political instabilities and geopolitical tensions all remain contributing factors.

In Russia, two big private lenders were rescued by the central bank within the space of a month towards the end of Q3. The failure of two major banks in such quick succession has increased concerns over the health of Russia's banking sector. In the near term, large privately-owned banks are likely to remain under extreme liquidity pressure (with further rescues a possibility) as depositor/creditor confidence in their stability remains shaky. However, we continue to believe that a systemic banking sector crisis is unlikely, especially as the authorities appear to have sufficient resources to support all of Russia's systemic banks so as to prevent a financial crisis. Across the region more generally, already-elevated levels of non-performing loans in a number of states have been rising further as businesses continue to contend with cash flow difficulties, heightening cross-border payment risks. More positively, however, an ongoing disinflationary trend across much of the region is allowing central banks to continue to bring down headline interest rates in an effort to lower borrowing costs. In addition, authorities in some oil-exporting nations are stepping up efforts to liberalise their economies, which should improve supply chains over the medium term by generating new opportunities for cross-border investment and trade.

Meanwhile, in line with the wider global trend, private businesses, government institutions, and infrastructure networks across Eastern Europe and Central Asia are facing a rising incidence of cyber threats. With such threats not only rapidly increasing in terms of frequency, but also evolving in terms of both scale and scope, it is more crucial than ever that businesses do all that they can to mitigate their risk exposure and ensure that they have adequate response strategies in place.

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

Eastern Europe and Central Asia continued

Finally, geopolitical risks in the region remain high, as they have done for some time, continuing to threaten supply chains, and business continuity. Relations between the US and Russia slumped to new lows in Q3 as US President Trump signed a bill into law in August which imposes sweeping new sanctions on Russia. The move has triggered a diplomatic tit-for-tat between Washington and Moscow, and appears to have landed what appears to be a fatal blow to hopes of a significant rapprochement between the two powers under the Trump administration. Domestically in Russia, opposition leader Alexei Navalny's anti-corruption and presidential campaigns have galvanised pent-up social and political grievances among the electorate, prompting a spate of anti-Kremlin protests in recent months. With further protests to be expected in the run up to the March 2018 presidential election, firms should be prepared for potential business and supply chain disruptions. Meanwhile, in Ukraine the commercial environment remains hampered by rising political turmoil, which threatens to thwart the government's pro-market reform agenda and complicates near-term business planning.

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

Asia-Pacific

TREND*

The Asia-Pacific region's risk score sits at 30.22, reducing from 30.44 in Q2. Overall, the 23 countries contributing to the regions risk score were stable with fairly static scores, although the situation in India requires continued monitoring.

Dun & Bradstreet downgraded India's country risk indicator in Q1 2017, though the country outlook trend is upgraded to 'stable' in Q3, from a previous 'improving' as credit, investment and industrial output data all began to suggest that the recovery from the shock was being held back by other negatives for the economy.

Earlier this year we saw India enter a policy induced demand shock from demonetisation since the November 2016 order to withdraw 86% of cash in circulation. The new Goods and Service Tax (GST), introduced in July, despite a few deadline extensions for tax submissions, has delayed the post-demonetisation recovery of industrial supply chains and the rural North of the country, which is predominantly cash-based as well as the real estate and construction sectors continue to be hit. Technical (including IT) demands on small businesses are unprecedented and have proved disruptive in the short term, resulting in another shock to business less than a year after the Q4 2016 demonetisation order.

The new GST has been beset by attempts at organised non-compliance, a sequence of confusing last-minute rate changes and formidable technical challenges for small businesses. Destocking by companies in the run-up to implementation and delayed consumer purchases in anticipation of retail price cuts may also have dragged on economic growth in Q2. Last-minute changes to rates for different products, although reflecting a desire to placate the business community, have disrupted business planning and investment. To address the grievances of small-scale industries, traders and exporters, the GST council announced measures to support exporters and small businesses, exempted certain goods from taxes, and amended the GST rates of various goods.

In any case, the national IT infrastructure for GST, able to handle 100,000 simultaneous users, seems potent, but the new tax is still causing disruption to companies and supply chains. Ultimately, India's numerous smaller warehouses, located in myriad locations for tax efficiency under the old regime, are expected to be consolidated, resulting in operational efficiencies as India gains a truly national internal customs union.

There have been no major natural disasters that had any discernible impact on Dun & Bradstreet's proprietary risk scores or economic forecasts since the cyclone season in Australia and New Zealand wound down during April. None of the four typhoons that struck the coasts of China and Japan in Q3 had major business impacts or other lasting consequences at the country level. However, flooding in India during another unevenly spatially distributed monsoon did cause widespread disruption. Flooding exposed poor drainage, flood readiness and urban planning in Mumbai, with flooding there and across four states, Assam, Bihar, Gujarat and Rajasthan, of which Gujarat is the most industrialised.

The extreme tension between North Korea and the US and its allies had little practical consequences for Asian supply chains outside of North Korea's exports to China. First, North Korea's seafood exports were stilled and then its textile exports, as two successive UN Security Council votes ramped up sanctions on its highly advanced missile and thermonuclear weapons programme. However, North Korea's textile/apparel exports account for a tiny fraction of the global cross-border trade, with the value of its apparel exports to China in 2016 less than 0.1% of total US apparel imports in the same year.

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

TREND*

Middle East and North Africa

The Middle East and North Africa's (MENA) regional risk score worsened for a second consecutive quarter in Q3 2017, recording a score of 5.64 (from 5.62 in the previous quarter). The change in the risk comes following our one-quartile downgrades of Iran and Qatar in the previous quarter (both in June). In addition, in this quarter we applied a three-quartile downgrade to Oman in August and a one-quartile upgrade to Egypt in September. Downward pressure on regional country risk ratings is coming from three sources. First, the on-going high levels of insecurity, particularly in Iraq, Libya, Syria and Yemen. Second, the diplomatic spat between the Quartet (Saudi Arabia and its allies - the UAE, Bahrain and Egypt) and Qatar. Third, Washington's continuing pressure on Iran. However, pressure has eased in economic terms as the oil price strengthened in the quarter.

In August, we downgraded Oman's risk rating from DB4a to DB4d on the back of increased tensions within the Gulf Co-operation Council (GCC). The crisis among fellow GCC members, with Saudi Arabia, the UAE and Bahrain on one side, and Qatar on the other, has raised our concerns about the viability of the GCC as a political bloc. Previously, although we were concerned about the unsustainable nature of the deficits on Oman's current account (18.6% of GDP in 2016) and the fiscal account (22.1% of GDP in 2016), we believed that the richer GCC members would help support Oman with financial packages. However, in the current environment this is unlikely to happen. Add to this the lack of clarity over succession to the popular 76-year-old Sultan Qaboos, who is reportedly suffering from ill-health, and risk has increased rapidly.

Positively, we made a one-quartile upgrade to Egypt's rating – to DB6a – due to significant improvements in key macroeconomic indicators, notably real GDP growth and the current-account deficit, and in response to a perceptible increase in business confidence among investors. However, Egypt remains in our 'very high risk' category, reflecting the tough economic challenges still facing the government as it seeks to reduce the fiscal deficit and bring down inflation. Furthermore, high levels of political risk also remain, stemming from Islamist militancy, repressive security policies and high poverty levels.

In the past quarter, supply chains in the Persian Gulf have undergone a period of realignment because of the Quartet-Qatar dispute that broke out in early June. The closure of the land border between Qatar and Saudi Arabia, as well as the suspension of flights and maritime links between the Quartet countries and Qatar, has forced the latter to build new supply routes. In particular, Qatar has built closer ties with Oman, Iran and Turkey to bypass the blockade. However, this has added to costs in the supply chains. Significantly, it appears that the oil trade is not being affected, as VLCC-category oil tankers continue to take on crude in combined shipments from both sides in the dispute.

Meanwhile, levels of insecurity remain high across the region despite the headline-grabbing territorial losses by the radical group Islamic state in Iraq, Libya and Syria. These developments enabled the border between Jordan and Iraq to be opened in late August, for the first time since 2015, although the border between Jordan and Syria remains closed. However, we are concerned that, in the face of these setbacks, Islamic State will launch more lone-wolf missions across the region to try and rebuild its support base. In addition, groups affiliated to al-Qaeda are rebuilding in the region, with a resultant upsurge in activity. Both elements have the potential to disrupt supply chains within and between regional countries.

More specifically, in relation to the RAG statuses of the supply environment outlook for the individual MENA countries, there have been no changes in Q3 2017, which means that still just two countries in the region, Israel and the UAE, remain in the Green category. Six countries – Iraq, Jordan, Lebanon, Libya, Syria and Yemen – are now assigned a Red status, either because they border countries that are wracked by civil war or are themselves experiencing civil war. However, we upgraded the outlook for Jordan to 'improving' because of the opening of the border with Iraq. The remaining countries are in the Amber category.

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

TREND*

Latin America

Our Q3 Risk Score Index for Latin America's supply chain reduced to 5.68 from 5.72 in Q2, as the region's economic recovery broadly augurs well for regional supply chains.

Notably, Argentina's economic recovery remains on track. Immediately on assuming the presidency in December 2015, Mauricio Macri began to implement crucial pro-market reforms aimed at closing structural gaps and improving business confidence and expectations. However, given the domestic backlash (largely in the form of strident public protests against austerity measures and market reforms) as well as economic contraction in 2016, we delayed adjusting our risk scores. Now, with a more sanguine outlook being adopted by voters, and amid firmer investor confidence and a return to growth, we have initiated a quarter-point reduction in our risk score to DB6a, with an 'improving outlook'.

Dun & Bradstreet is now forecasting real GDP growth of 2.1% for Argentina in 2017 following an estimated contraction of 3.0% in 2016. The main growth drivers include ongoing implementation of the government's USD33bn infrastructure programme, higher household spending as consumer confidence gradually improves and disinflation lifts purchasing power, as well as anticipated improvements in regional export demand as Brazil, Argentina's single largest trade partner, returns to positive growth (albeit projected at a weak 0.3% in 2017). Added to this is Argentina's successful return to international capital markets. In June, the government sold USD2.75bn of a 100-year bond with a yield of 7.9%. The issuance of government paper on the international market allows for restructuring of public debt and a significant reduction in debt-service ratios.

Looking ahead, President Mauricio Macri's Cambiemos (Let's Change) coalition appears set to win two seats in October's Buenos Aires senatorial election, signalling policy continuity. Significantly, former president Cristina Fernandez, of the Peronist party, is facing off in the election against the ruling coalition's Esteban Bullrich (the former education minister) as she seeks to re-enter active politics and possibly run for president in 2019. The contest is being viewed as a test of voters' confidence in the policies of the centre-right coalition versus Fernandez's populist left-leaning approach to economic management. At the time of writing, surveys of voters put Fernandez in second place, possibly due to the former-president's battle against corruption allegations; public tolerance for graft in public office is on the decline and has become a trigger point for recent mass demonstrations.

Troublingly, the constitutional crisis in Venezuela continues unabated with continued anti-government protests and demonstrations. We took a decision to keep the score and trend at this level given that an increase in the risk score will take Venezuela to DB7 – i.e. our lowest rating, currently assigned to countries that are failed states. Nevertheless, it is important to note that the situation in Venezuela is very fluid and one that we continue to monitor closely. Ultimately, we have not ruled out a downgrade in the risk score, if deemed appropriate.

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

TREND*

Sub-Saharan Africa

Supply chain risk remained largely unchanged in sub-Saharan Africa in the three months to September (shifting only from 2.00 to 1.98), as none of the regional countries were upgraded or downgraded.

The region continues its slow, steady trajectory back to plus-3% growth for the first time in three years, helped by a synchronous improvement in global growth which adds upside to the region's outlook. The region's economies are likely to suffer from the US Federal Reserve's continued rate rises, the impact of which could be periods of higher than usual capital outflow and weakening of regional currencies. Political unrest and episodes of civil disorder hinderfast return to growth and put strain on supply chains in these countries.

On the plus side, the region is benefitting from the synchronous improvement in global growth. Most countries, and most regions of the global economy are currently performing measurably better than they were a year ago. Further, growth prospects are also marginally brighter for all regions, due to a variety of factors. On the minus side, there are underlying risks that could weigh on growth; as in the rest of the global economy, much of the disruption in sub-Saharan Africa could stem from increased political risk. A prominent example of this is Kenya, one of the best performers of the region, which is passing through a soft patch owing to election-related uncertainties and the associated impact on confidence levels. Real GDP expanded by 4.9% y/y in H1 2017 (compared with an expansion of 5.8% in the same period a year earlier). Private sector activity has been unsettled by the disputed elections, as highlighted in the Stanbic Bank Purchasing Manager's Index (PMI), which fell from 42.0 in August to 40.9 in September (scores below the 50 threshold indicate contracting activity), the lowest reading since the survey began in 2014. The holding of the disputed August presidential election – and the decision by the Supreme Court to void the outcome and order a re-run – will weigh heavily on the economy in H2 2017, particularly as businesses and investors are unclear about future political stability and the direction of public policy. Currently, we expect real GDP growth of 5.1% in 2017 followed by a slightly faster 5.6% in 2018 as election-related issues abate.

The largest regional economy, South Africa, is passing through a period of intense political in-fighting and subdued economic growth. Consumer and business confidence is low and investor sentiment is downbeat. President Jacob Zuma faces growing dissent in the ruling ANC over his presidency and allegations of corruption, which could result in a further vote of no-confidence, matched by cabinet reshuffles. Zuma will vacate his role as president of the ANC at the party's summit in December, but will attempt to remain national president until the 2019 elections, although the risk is growing that his ANC critics will oust him. The central bank cut its benchmark interest rate by 25 basis points to 6.75% in July but may have little room to implement further cuts in the short term. Slightly higher prices for South Africa's major export commodities and a recovery in agriculture will create some breathing space for the authorities but growth will remain fragile.

In Nigeria, a group known as the Indigenous People of Biafra (IPOB) has escalated its campaign to establish an independent Biafra republic and may take steps to provoke another armed struggle for independence. Previous attempts to create the Biafra Republic led to Nigeria's civil war from 1967 to 1970. The IPOB secessionist movement adds to other security concerns in the country, which includes calls for independence by militants in the Niger Delta region, inter-communal unrest and violence in the centre of the country, and attempts to carve out an Islamic state in the northeast by Boko Haram. The Nigerian president and his administration will continue to take a hard line against secessionist movements, while seeking some compromises for marginalised communities. At present, the unity of the country does not appear to be under threat, but insecurity and bouts of civil unrest will remain a disturbing factor affecting various parts of the country.

Ethiopia is one region where we see a fast growing economy. In Q2 we mentioned that international firms are taking up positions there, and the government is investing heavily in transport, power infrastructure, and export-oriented industrial parks. These include projects that seek to improve connectivity and access to sea ports in East Africa. The government has recently lifted the state of emergency imposed (amid civil unrest) in late 2016. There remains a risk of renewed disruptive protests and demonstrations, while drought conditions in some parts of the country are adding to a sense of social instability. The birr is expected to lose further ground against the US dollar, which will involve a pattern of gradual currency depreciation and intermittent larger adjustments by the central bank.

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

Commentary

Duncan Brock
Group Director, CIPS

Though the Index may have remained relatively unchanged, there is still nothing inert about the underlying conditions supporting global supply chains, as risk remains close to 2016's Q4 all-time high.

For example, the USA, a global leader in the world's economy is experiencing challenges to its elevated position, potentially dragging down the global economy's performance after recent stabilisation. Though the data shows risk is down in the region, political uncertainty still has us all in anxious suspense. Without unfettered trade policies, a decision about the North American Free Trade Agreement (NAFTA), and a strong growth agenda, the US is descending slowly into riskier territory as the future becomes more uncertain. These plans are currently hampered by President Trump's own party amidst disagreements about how progress should be facilitated so any breakthrough is likely to be hard won.

Should Trump follow through on his threat to kill the trade deal with South Korea on the grounds of being 'bad' for US interests, then US influence in the region is also likely to become severely curtailed. North Korea is still watching in the wings, ready to take advantage of any opportunity, though it's likely that Trump will become more conciliatory as the reality of political isolation bites.

FURTHER INFORMATION

CIPS has developed a knowledge partnership with Dun & Bradstreet to allow CIPS members access to insight and information to help identify and mitigate supply chain risk.

www.cips.org/dunandbradstreet

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

BODHI GANGULI

Global Leader and Leading Economist
Dun & Bradstreet

Dun & Bradstreet's Global Risk Index score improved for the third straight quarter, falling from 81.3 in Q2 2017 to 80.3 in Q3. While the sustained improvement in the CRI is a positive for global supply chains, the index remains in high-risk territory. The Q3 reading is only slightly below the CRI's all-time high of 82.64 in Q4 2016. To put this in perspective, the average CRI score over the last four quarters (Q3 2016 to Q3 2017) was 81.5, while the average for the ten years 2006-15, which included the Great Recession, was 62.25.

Political risk is the common theme in supply chain risks across most of the world in Q3, and will remain so in the near term. Increased political risk brings with it impediments to the implementation of the right growth-friendly policies. While it is true that global growth is on a much firmer footing globally than it was a year ago, government policy will be ever more important, particularly as central banks across the advanced economies begin/continue their slow but steady withdrawal of monetary stimulus.

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 Dun & Bradstreet country reports.

www.cips.org/risk-index

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