



# Country Risk Assessment

## Introduction

September -October 2014

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### Five main objectives:

- 1. Grasping the new challenges of **country risk in the global economy (spill-over of global crisis!)**
- 2. **Identifying** the key components of country risk (economic, financial, socio-political, regional)
- 3. Identifying the key **sources of information** and EI
- 4. Exploring the various techniques for **risk analysis and risk mitigation**
- 5. Focusing on both **OECD** and **EMCs**



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## What is Risk?

☞ “Risk means more things **can** happen than will happen.” Elroy Dimson

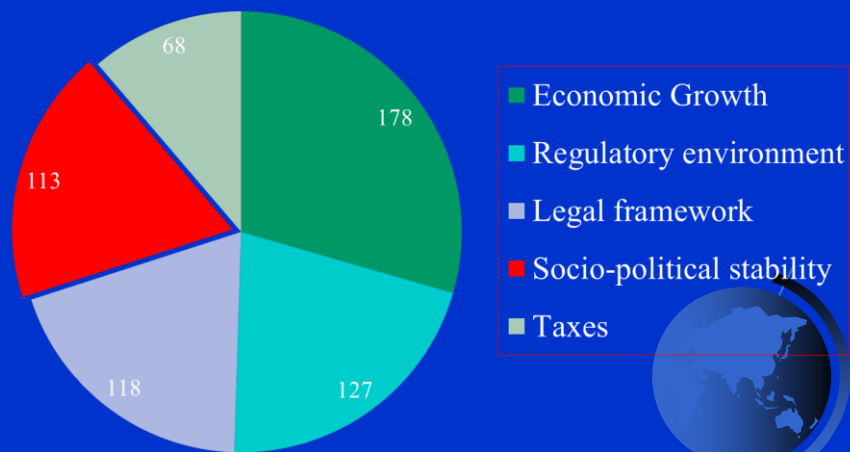
Risk is always related to **Uncertainty!**



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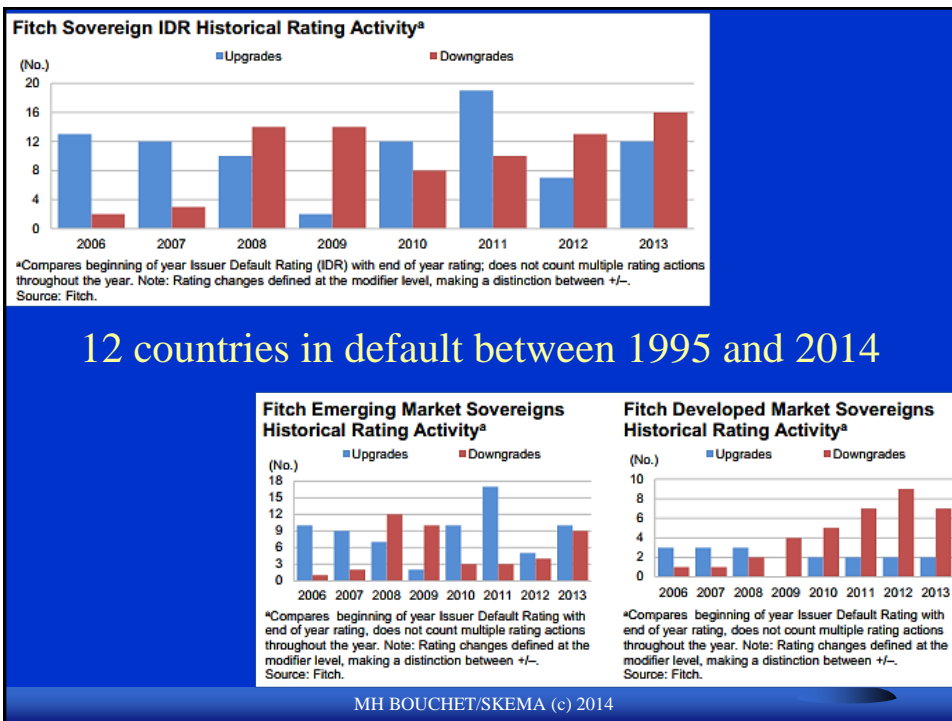
## The Banker Global Risk Asset Management Survey

Risk criteria



Source: FT October 22, 2012-13

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### Some of the biggest sovereign defaults since 2000:

- 1. Argentina, \$82 billion, December 2001:** Insolvency cycles since 1827. New partial default in end-2014
- 2. Ecuador, \$3.2 billion, December 2008:** Default on \$31 million interest payment due in December 2008, the vestige of debt restructurings made after Ecuador's 1999 default. In June 2014, \$2 b. of 10-year bonds in a return to the capital markets
- 3. Jamaica, \$7.9 billion, February 2010:** Public debt as a share of GDP (both domestic and external) nearly doubled from 70% in 1997 to 130% in 2010.
- 4. Greece, \$138 billion, March 2012:** (first sovereign default in the 4th century BC, by 10 Greek municipalities). The biggest sovereign default in history. Greece failed to record a budget surplus since 1973. **€110 billion** bailout from the European Union and IMF in May 2010

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## Why **country risk** is on the front burner in Fall 2014?

- Political upheaval in Syria, Libya, Iraq, Tunisia, Spain, Greece ....
- Trade and currency wars looming! \$ versus € and Yuan
- Global economic slowdown in 2008-2014
- Soft/Hard landing in China?
- Looming bond crisis?
- Risk of currency crisis in EMCs + Capital flight
- Impact of shale gas on OPEC's geopolitical position?

Global economy = **risk of spill-over** is permanent!



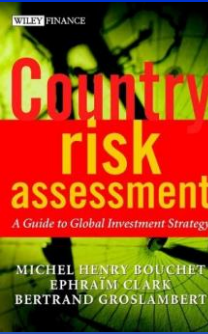


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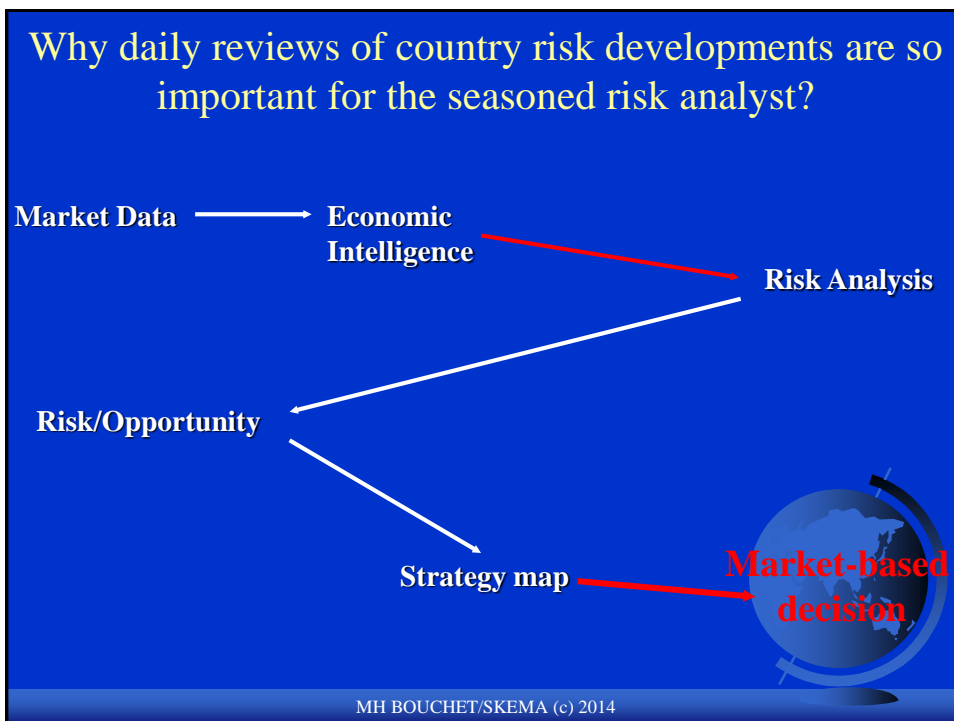
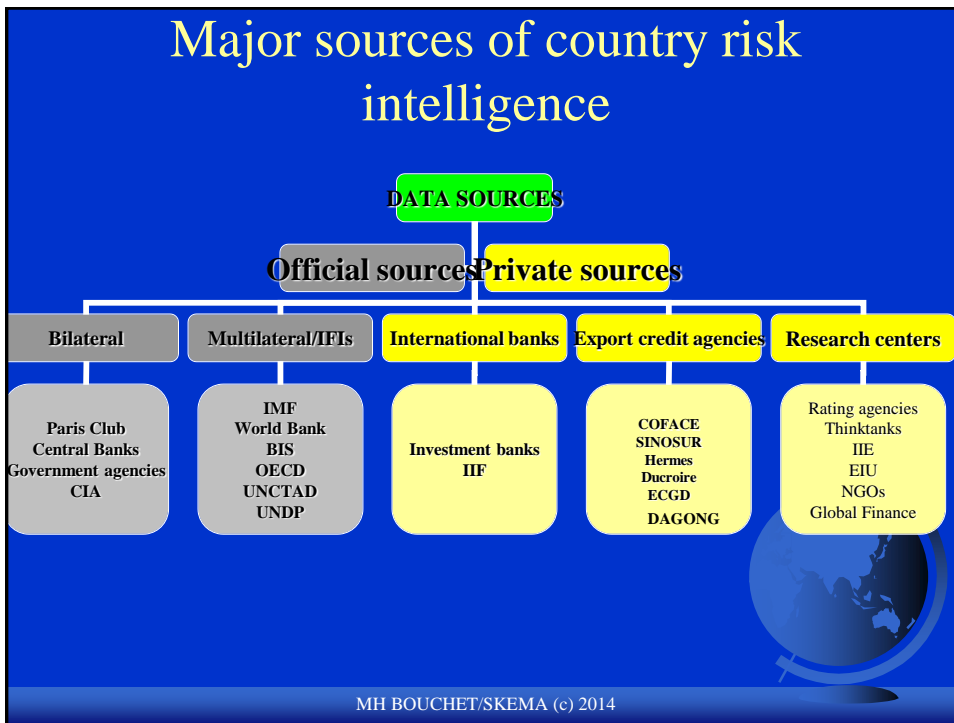
## Analysis and key information sources

IMF & World Bank  
EIU  
UNCTAD  
BIS & Paris Club  
OECD, IIF  
EBRD, AfDB, AsDB  
Coface, Hermes, Ducroire  
Moody's, S&P, Fitch, DAGONG  
CIA  
Transparency International

<http://www.euromoneycountryrisk.com/>

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- What we shall **not** do: learning a few techniques and using tools just for the sake of making abstract calculations!
- What we shall do : Using a range of approaches and methods of risk analysis
- Keeping a close eye on the markets (FT, Reuters, EIU, The Economist, CIA reports, IBRD news, IMF + IIF...)
- Get access to key websites with reliable sources of risk information: S&Ps, Moody's, CIA, BIS, IMF, WB, IIF, Paris Club, Coface, DEFI...

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## Organization of the course

- 16 groups of 5 students
- 10 sessions with *concise* “Country Risk Hot Spots” < 15 minute oral interventions focused on country risk topics: **what is on the front burner?** Random calls!
- Each group works on a specific **Country risk strategy report** (Word or PPT : to be submitted on October 26th) **20 slides or 12 pages**
- Class discussion.
- Enhanced participation is strongly encouraged!

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<b>Course organization and unfolding</b>				
<u>MONDAY</u> <u>Sept 29</u>	<u>WEDNESDAY</u> <u>Oct 1</u>	<u>MONDAY</u> <u>Oct 6</u>	<u>WEDNESDAY</u> <u>Oct 8</u>	<u>FRIDAY</u> <u>October 24</u>
<b>SESSION 1</b>  Introduction: What is Risk?  Quiz	<b>SESSION 3</b>  Group 1 BOP Liquidity Solvency	<b>SESSION 5</b>  Group 3 Debt restructuring analysis	<b>SESSION 7</b>  Group 5 Political Risk PRINCE MODEL	<b>SESSION 9</b>  Group 7 Country Risk Ratings  Group 8
<b>SESSION 2</b> What is Country Risk? SOLVENCIA	<b>SESSION 4</b> Group 2 Debt Analysis	<b>SESSION 6</b> Group 4 SOLVENCIA	<b>SESSION 8</b> Group 6 Assessing governance	<b>SESSION 10</b> Groups 9-10 SOLVENCIA
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## Country Risk Strategy Report - Methodology:

1. **WHERE?** In which **country**?
2. **WHAT?** Define your “**risk exposure**” : *MNC, FDI, investment fund, banking? Lending, investing, trading, exporting?*
3. **WHEN?** **Time horizon**
  - Specify the main **types of risks** (economic or socio-political, financial, labor costs, infrastructure, institutions...)
  - Identify a wide range of information sources
  - Think “global” : never lose sight of the global environment (regional contamination and spill-over effects)
  - Work burden sharing in each team

## Country Risk Research Topics ?

1. Portfolio investment in Vietnam: the HCMV stock market
2. China: **Paul** and French croissants
3. LVMH strategy in Asia (China-India)
4. Greece: Investment opportunities in tourism market
5. Greece/Spain: real estate investment bonanza?
6. Cocoa market : Ghana-Ivory Coast-Malaysia
7. Investing in Tunisia versus Morocco: LOOK?
8. FDI and biofuels in Brazil
9. Spain-Portugal: investing in Madrid stock exchange
10. FDI project: China versus Cambodia/Bangladesh/Vietnam

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## Country risk research project?

« **Success** » or « **horror** » stories in country risk

11. Suez in Argentina pre- and post peso devaluation
12. SIEMENS in China
13. Total's strategy in Angola
14. Oil companies in Chad
15. LVMH in China (Yuan?)
16. Repsol in Argentina

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# Getting ready for seasoned risk analysis?

## COUNTRY RISK ANALYSIS 2013-14

Republic of Solvencia and the International Capital Markets

## SOLVENCIA's Eurobond Request to CASINO Bank



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COUNTRY RISK ANALYSIS		SOLVENCIA 2013-14													
A	DOMESTIC ECONOMY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
<b>DOMESTIC ECONOMY (constant prices)</b>															
	Real GDP ( local currency billion )	692	719	770	835	780	725	700	725	750	780	820	870	925	
	Nominal GDP ( lc billion )	50 000	58 000	67 000	89 000	105 000	122 000	135 000	148 000	166 000	185 000	217 000	265 000	343 000	
	GDP deflator % change	12,00%	16,00%	15,52%	32,84%	17,98%	16,19%	10,66%	9,63%	12,16%	11,45%	17,30%	22,12%	29,43%	
	Nominal GDP ( \$ billion )	39,18	40,00	40,61	44,50	43,75	40,67	30,00	29,60	29,64	29,37	29,32	30,11	32,67	
	Exchange rate, end period (lt/\$)	1 276	1 450	1 650	2 000	2 400	3 000	4 500	5 000	6 600	6 300	7 400	8 800	10 500	
B	BALANCE OF PAYMENTS (\$ million)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
	<b>Trade Balance</b>	-1 130	-411	-1 577	-2 494	-5 100	-1 061	1 040	1 270	-500	-500	-2 500	-4 000	-3 850	
	Merchandise exports	4 882	6 151	7 910	8 061	8 500	9 850	11 000	12 000	13 000	13 500	12 500	12 000	13 650	
	Merchandise imports	-6 012	-6 562	-9 487	-10 555	-13 600	-10 911	-9 960	-10 730	-13 500	-14 000	-15 000	-16 000	-17 500	
	Balance on Services, Income & Transfers	42	178	114	-385	-1 331	-261	896	1 333	1 164	1 218	211	-778	-1 554	
	Services & income receipts	845	1 013	1 262	1 277	1 404	1 716	2 251	2 594	2 787	2 789	2 576	2 244	2 152	
	Exports of services	697	879	1 130	1 162	1 214	1 407	1 571	1 714	1 857	1 929	1 786	1 714	1 500	
	Interest receipts	150	125	115	110	175	250	650	850	900	800	750	500	600	
	Other services & income receipts	-2	9	17	15	15	59	90	30	30	40	40	30	50	
	Services & income payments	-1 022	-1 130	-1 773	-2 255	-3 155	-2 993	-2 105	-2 091	-2 603	-2 550	-2 865	-3 423	-3 920	
	Imports of services	-462	-984	-1 423	-1 983	-2 040	-1 637	-1 484	-1 610	-2 023	-2 100	-2 250	-2 400	-2 625	
	Interest payments	-116	-134	-321	-439	-1 065	-797	-461	-302	-288	-250	-215	-523	-779	
	Other services & income payments	-4	-12	-29	-33	-50	-160	-150	-180	-190	-200	-400	-500	-525	
	Transfers, net	214	295	625	593	419	616	750	830	860	1 000	500	400	225	
	Private transfers, net	103	162	320	394	269	565	600	630	630	650	400	300	125	
	Official transfers, net	111	113	305	199	150	51	150	200	250	350	100	100	100	
	<b>Current Account</b>	-1 088	-233	-1 463	-2 879	-6 431	-1 322	1 936	2 603	664	718	-2 289	-4 779	-5 404	
	Foreign investment, net	14	416	396	600	642	1 960	1 480	1 600	3 650	1 800	470	470	250	
	Foreign Direct Investment (disbursed, net)	87	341	417	600	500	1 900	1 400	1 500	3 500	1 650	350	350	300	
	Portfolio equity investment, net	-73	75	-21	0	142	60	80	100	150	150	120	120	-50	
	International financial institutions	137	434	-7	-236	550	1 400	1 050	150	25	25	-150	225	280	
	IMF	0	216	-315	-356	500	250	-100	-100	-75	-75	-75	-300	100	
	World Bank Group	0	100	100	0	0	500	500	50	0	0	-50	-50	150	
	Other multilateral creditors	137	118	208	120	50	650	650	200	100	100	-25	-25	30	
	Paris Club and other bilateral creditors	85	69	348	132	-128	-68	-50	-56	-56	-65	100	150	200	
	London Club	95	601	277	726	1 639	-1 754	-210	-297	-300	-300	350	725	400	
	Credit flows	70	601	222	641	139	-254	-210	-347	-350	-350	200	200	100	
	Interest arrears	0	0	0	0	0	0	0	0	0	0	0	0	50	
	Short-term credits	25	50	55	85	1 500	-1 500	0	50	50	50	150	525	250	
	Other private creditors (bond markets)	-4	10	1 000	1 500	200	-378	-860	-143	-143	-250	-200	-150	0	
	Resident lending abroad, net	541	-683	430	-19	481	450	929	975	975	850	825	825	-20	
	Errors and omissions, net	152	93	-150	-250	-350	500	100	100	100	0	-250	-650	-750	
	Gold reserve variation	50	86	38	47	-91	-46	978	475	2 100	750	-1 500	-150	60	
	Reserves excluding gold (- = increase)	-7	-893	-924	294	1 988	758	-5 353	-5 457	-7 065	-3 578	2 494	2 809	4 734	

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# Program

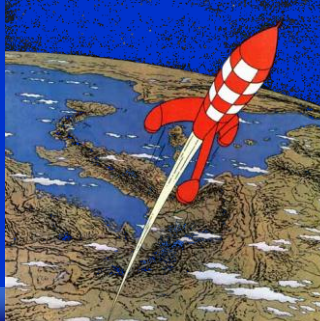
D5 S9/10  
Risk analyses methods  
Wrap up: SOLVENCIA

D4 S7/S8 = Ratings  
PRINCE MODEL

D3 S5/S6=  
Liquidity/solvency  
SOLVENCIA

D2 S3/S4= BOP  
BOP Analysis (GREECE)

D1 S1/S2= Introduction  
Globalization & country risk




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# TextBooks

1. Bouchet, Clark & Gros Lambert, « Country risk assessment », Wiley
2. Bouchet, M & Gros Lambert, B: « Governance & Country Risk », in Governance and Risk in Global and Emerging Markets, Palgrave
3. Bouchet MH, « In search of a country risk barometer? », World Financial Review, Summer 2013
4. Peter Bernstein, « Against the gods- The history of Risk », Wiley 1998
5. L. van Efferink, Country risk analysis, FMS, NIBESVV, Amsterdam

**ALL FILES on :** [www.developingfinance.org](http://www.developingfinance.org)

**Skema Knowledge**



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## Grading System

- ☞ Oral Presentations and participation = 20%  
(random calls + last session)
- ☞ Research projects = 35%
- ☞ Final exam = 45%



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## Organization

- ☞ ✉ Michelhenry.bouchet@skema.edu
- ☞ Appointments ☎ 0493954596
- ☞ Course slides on Skema-Knowledge
- ☞ **Web site of the Global Finance Center:**  
**[www.developingfinance.org](http://www.developingfinance.org)**  
<http://globalfinance.org>



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