

**Country Risk Analysis**

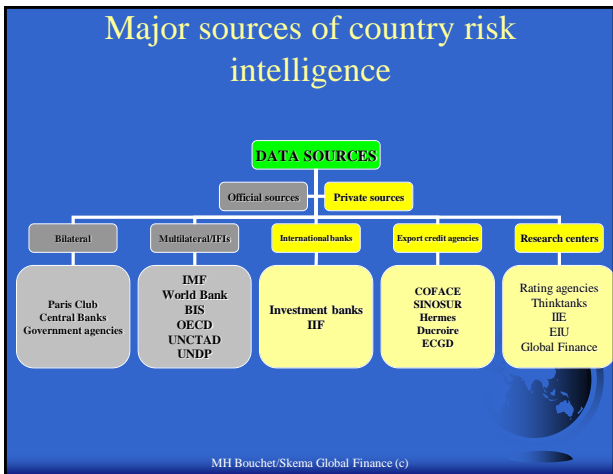
Economic Intelligence and Information Sources on Country Risk  
Sept-Dec 2014

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MH Bouchet/Skema Global Finance (c)

Country risk assessment

Economic intelligence + reliable and updated information sources = **robust risk analysis**

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Financial, macroeconomic and socio-political information and intelligence sources

Official sources	Private sources
1. Multilateral sources <ul style="list-style-type: none"> <li>IMF</li> <li>World Bank</li> <li>BIS, OECD</li> <li>RDBs</li> </ul>	1. Insurance agencies (Coface, OPIC)
2. Official bilateral sources <ul style="list-style-type: none"> <li>Country governments (CBs, CIA)</li> <li>ECAs (DREE, Hermes, Eximbank, ECGD)</li> </ul>	2. Research institutes (IIE, IIF)
	3. Thinktanks (Cato, Heritage, Freedom House)
	4. Magazines (Euromoney...)
	5. Academic centers (CforGD, Global Finance...)
	6. Rating agencies (S&Ps)

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## Official Information sources

- 4 IFIs = IMF + World Bank + BIS + OECD
- 4 RDBs= AsDB, AfDB, EBRD, IADB
- 2 UNs= UNCTAD, UNDP
- Export credit agencies (Coface, EFIC, Hermes...)
- Paris Club
- Central Banks
- Governments and Intelligence agencies  
([https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region\\_eur.html](https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region_eur.html))

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## 1. IMF as source of risk information

International Financial Statistics (monthly)

### 1. Global tables:

- IMF Credits
- Official reserves and MS
- Exchange rates (nominal and real effective rates)
- CPI and interest rates
- Trade Flows (M/X)
- Commodity prices

### 2. Country data

- Balance of payments
- Government budget
- National accounts (GDP/GNP)
- International liquidity
- Monetary survey (bank credit, money and quasi-money)
- Interest rates

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## IMF as source of macro-economic information

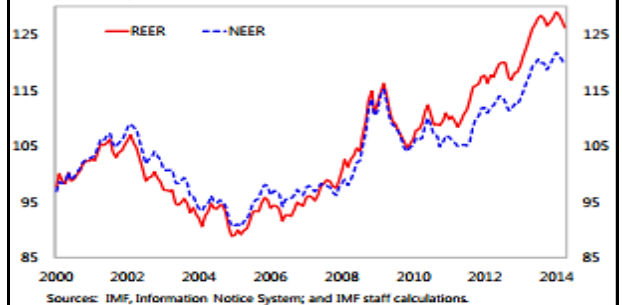
China: Selected Economic Indicators

	2009	2010	2011	2012	2013	2014	2015
						Projection	
<i>(In percent, year-on-year growth, unless otherwise noted)</i>							
National accounts and employment							
Real GDP	9.2	10.4	9.3	7.7	7.7	7.4	7.1
Total domestic demand	13.9	10.5	10.2	8.2	8.3	7.6	7.0
Consumption	9.4	9.2	10.9	8.6	7.9	7.5	7.1
Investment	19.2	12.0	9.5	7.7	8.8	7.7	6.9
Fixed	22.6	11.5	9.1	9.1	9.2	8.1	7.2
Inventories 1/	-0.7	0.5	0.4	-0.4	0.0	0.0	0.0
Net exports 1/	-3.4	0.4	-0.4	-0.2	-0.3	0.0	0.3
Consumer prices							
End of period	1.9	4.6	4.1	2.5	2.5	1.9	2.5
Average	-0.7	3.3	5.4	2.6	2.6	2.0	2.5

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## The IMF as source of exchange rate and monetary data: China

Real Effective Exchange Rate (2000=100)



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## 2. World Bank as source of risk information

### Global Development Finance (annual)

- ☞ Vol. 1 = global tables
- Total debt stock and flows of EMCs broken down by creditors & maturities
- ☞ Vol.2 = country tables
- Total debt and debt servicing payments

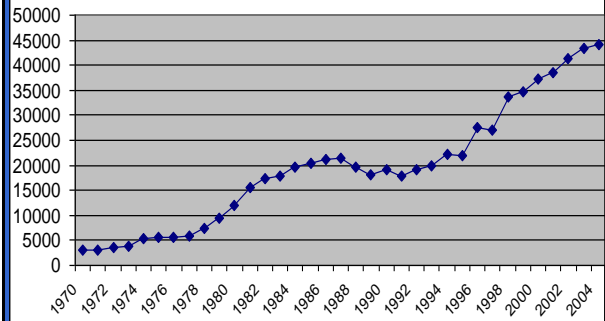
### Country economic reports

- ☞ Structural indicators
- ☞ Economic policy issues
- ☞ WB project lending
- ☞ Debt sustainability analysis
- ☞ Governance analysis

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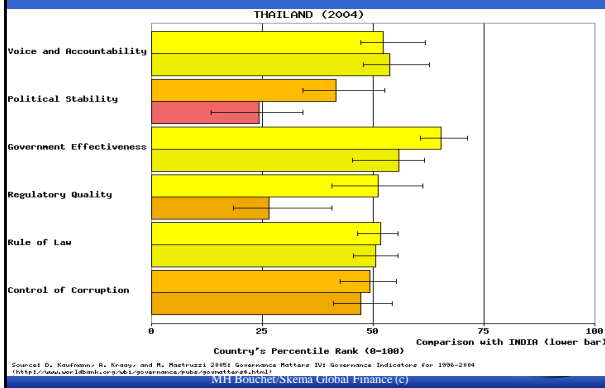
## WB's Global Finance tables

CHILE's Total DEBT Stock in US\$ million



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## Cross-country comparison of Governance quality indicators: Thailand vs. India



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## 3. BIS as source of risk information

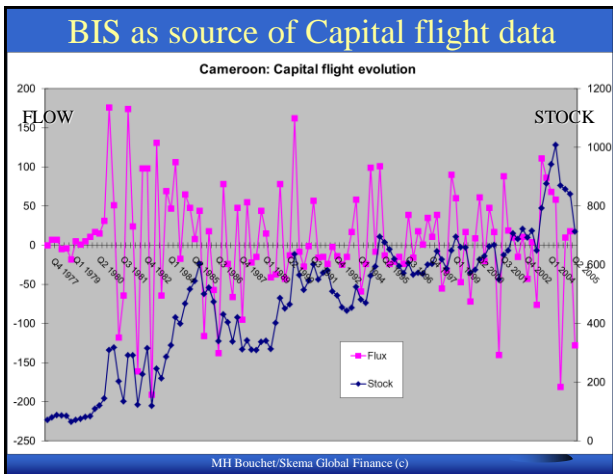
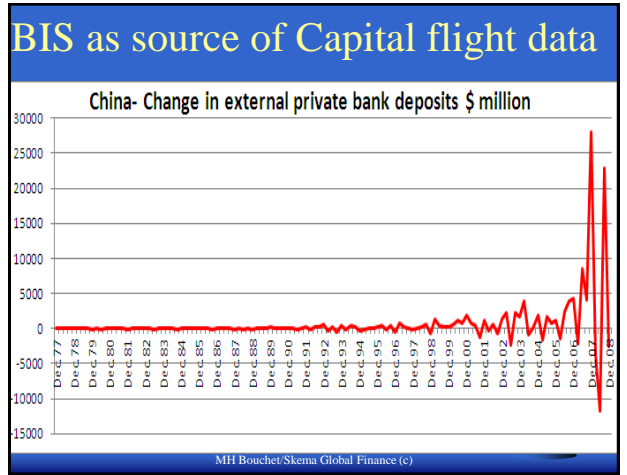
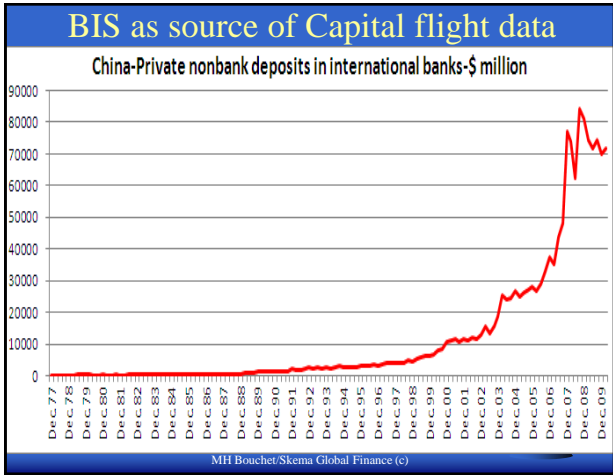
### Global tables

- International Banking statistics (quarterly)
- + Annual BIS report
- ☞ International banking market
- ☞ International debt securities market
- ☞ Derivatives market

### Country Tables

- ☞ External positions of BIS reporting banks: assets (claims) and liabilities (deposits) vis à vis all sectors and the non-bank private sector
- ☞ Breakdown by creditor banks and by maturities

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## 4. OECD, Central Banks and Treasuries

- ☞ Ex. FFIEC: US Federal Financial Institution Examination Council
- ☞ **US banks' claims on CHILE = US\$ 3.22 billion o/w**
  1. On banks= \$ 903 million
  2. On public sector= \$320 million
  3. On private sector= \$1970 million
  4. Total ST debt < 1 year loans= 51%



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## 5. Paris Club as source of debt-related information

- There are no established institutionalized mechanisms for dealing with **private** sector cross-border debt in arrears! This is not the case of **official-source** debt that is renegotiated under the auspices of the Paris Club since 1956! Cf. Argentina's debt crisis
- The Paris Club? A confidential ad-hoc forum of debt negotiations between OECD country creditors and sovereign debtors.
- It only deals with official or officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...). Consensus-based agreements.



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## The Paris Club: description

- The first meeting with a debtor country was in 1956 when Argentina agreed to meet its public creditors in Paris. Since then, the Paris Club has reached 430 agreements concerning 90 debtor countries. The total amount of debt covered in these agreements has been \$583 billion.
- The Paris Club has remained strictly informal. It is the voluntary gathering of creditor countries willing to treat in a co-ordinated way the debt due to them by the developing countries. It can be described as a "non institution".

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## The Paris Club: Functioning

- The creditor countries meet on a monthly basis, for negotiation sessions or to discuss among themselves the situation of the external debt of debtor countries or methodological issues on the debt of developing countries.
- 19 creditor countries belong to the Paris Club (incl. Russia)
- These meetings are held in Paris. The Chairman is a senior official of the French Treasury. Deputies to the Chairman in the French Treasury serve as co-president and vice-president. 15 people part-time staff.

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## The Paris Club: a key forum of debt restructuring negotiations with EMCs

### Key numbers

Total amount of agreements	430
Total amount of debtor countries	90
Total amount of debt	583 Billion \$
Total amount of countries in "Classic Terms"	60
Total amount of countries in "Houston Terms"	21
Total amount of countries in "Naples Terms"	36
Total amount of countries in "Cologne Terms"	33

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**Paris Club's claims as of 31 December 2013, excluding late interest (in USD million) - Outstanding Debt**

ODA: Official Development Assistance  
NODA: Non-Official Development Assistance

DEBTOR COUNTRIES	ODA claims	NODA claims	TOTAL
Afghanistan	-	1 110	1 110
Albania	514	32	546
Algeria	973	8	981
Angola	138	221	359
Antigua and Barbuda	4	94	98
Argentina	877	5 459	6 336
Armenia	460	-	460
Azerbaijan	732	105	837
Bangladesh	2 073	37	2 111

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**Paris Club restructuring terms**

Restructuring Terms	Eligibility	Rescheduling term (T/Grace)	Debt Reduction Terms		Debt Conversion	
			ODA	Non ODA		
Houston 09/90	GDP per capita <\$2995 and debt/GDP>50%	ODA: 20/10 Non ODA: 15/2-3	Rescheduled at an interest rate at least as favourable as the original concessional interest rate applying to these loans	Repayment periods are lengthened	ODA: no limit Non ODA: up to 20% of the outstanding amount or 15-30 million SDR	
Toronto 10/88	Poorest countries	ODA: 25/14 Non ODA: 14/8				33,33%
London, 12/91	23 countries	ODA: 30/12 Non ODA: 23/6				50%
Naples 12/94	Poorest countries	ODA: 25/14 Non ODA: 14/8				67%
Lyon 11/96	Poorest countries	ODA: 40/16 Non ODA: 23/6				80%
Cologne 11/99	41 HIPC	ODA: 40/16 Non ODA: 23/6				90%

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**NIGERIA: 10/2005 Paris Club debt restructuring**

- Total stock of public sector debt= US\$ 36.2 billion, o/w US\$ 30 billion due to the Paris Club
- Debt agreement follows the IMF's Policy Support Instrument (PSI) on 17 October 2005, including a debt reduction under Naples terms on eligible debts and a buy back at a market-related discount on the remaining eligible debts after reduction. Two conditional phases:
  - 1. Nigeria undertakes to pay arrears due on all categories of debts and Paris Club creditors grant a 33% cancellation of eligible debts;
  - 2. After the first review of the PSI, planned for March 2006, Nigeria will pay amounts due under post-cut off date debt, and Paris Club creditors will grant a further tranche of cancellation of 34%, and Nigeria will buy back the remaining eligible debts.
- Total debt cancellation of **US\$ 18 billion** (including moratorium interest) representing an overall cancellation of about 60% of Paris Club debt. Paris Club creditors will be paid an amount of US\$ 12.4 billion, representing regularization of arrears.

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**6. UNDP and UNCTAD**

<p><b>UNDP</b></p> <ul style="list-style-type: none"> <li>➤ <b>HDI</b></li> <li>➤ <b>Social and development indicators</b></li> </ul>	<p><b>UNCTAD</b></p> <ul style="list-style-type: none"> <li>➤ <b>Trade, FDI and development indicators</b></li> <li>➤ <b>Role of MNCs in EMCs</b></li> </ul>
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## Globalization is not be be blamed for low HDI

1	Norway
2	Australia
3	United States
4	Netherlands
5	Germany
6	New Zealand
7	Ireland
8	Sweden
9	Switzerland
10	Japan
11	Canada
12	Korea
13	Iceland
13	Hong Kong
15	Denmark

HDI-UNDP 2013

170	Malawi
171	Sudan
172	Zimbabwe
173	Ethiopia
174	Liberia
175	Afghanistan
176	Guinea-Bissau
177	Sierra Leone
178	Guinea
178	Burundi
180	Central African
181	Eritrea
182	Mali
183	Burkina Faso
184	Chad
185	Mozambique
186	Niger
186	Congo (DR)

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## 7. CIA

- ☞ The World FactBook
- ☞ [https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region\\_eur.html](https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region_eur.html)



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## 8. Specialized country risk analysis institutions

- ☞ IIF (Washington) The Institute for International Finance
- ☞ IIE (Washington), EIU (London)
- ☞ Bond rating agencies: Dun and Bradstreet, Moody's, S & P, FITCH IBCA
- ☞ BERI (Business Environment Risk Index)
- ☞ Institutional Investor, Euromoney
- ☞ Frost & Sullivan
- ☞ Transparency International
- ☞ Heritage Foundation, Davos-WEF, Cato Institute, IMD, AT Kearney, Global Finance-CERAM




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## RATING AGENCIES

- ☞ 1. Bond rating: Moody's, Fitch, S&Ps
- ☞ 2. Risk rating: COFACE
- ☞ 3. Country risk rating: BERI, Euromoney, Institutional Investor



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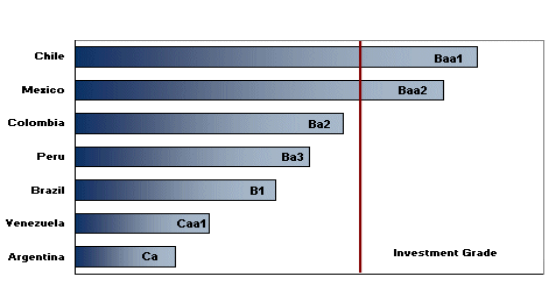
 Governments are bypassed by market forces and under the scrutiny of IFIs and rating agencies

**Rating Distribution of Sovereign Issuers on Selected Dates**

Rating	1983	1990	1995	2000	2005	2010	2011	2012
Aaa	79%	33%	16%	12%	19%	15%	14%	13%
Aa	21%	28%	25%	15%	7%	15%	11%	12%
A	0%	17%	18%	10%	22%	13%	14%	8%
Baa	0%	8%	18%	21%	14%	18%	21%	26%
Ba	0%	8%	16%	19%	15%	16%	15%	16%
B	0%	6%	5%	18%	17%	23%	23%	22%
Caa-C	0%	0%	0%	5%	5%	1%	2%	3%
Investment-grade	100%	86%	78%	59%	63%	61%	59%	59%
Speculative-grade	0%	14%	22%	41%	37%	39%	41%	41%

Moody's-Summer 2013      MH Bouchet/SKEMA (c) 2013

**MOODY'S**  
Moody's Investors Service Long-Term Foreign Currency Ratings

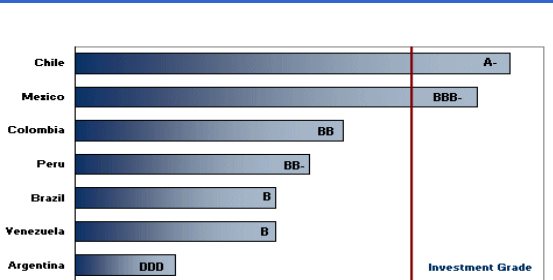


Country	Rating
Chile	Baa1
Mexico	Baa2
Colombia	Ba2
Peru	Ba3
Brazil	B1
Venezuela	Caa1
Argentina	Ca

Investment Grade

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**FITCH IBCA**  
Fitch IBCA, Duff and Phelps Long-Term Foreign Currency Ratings

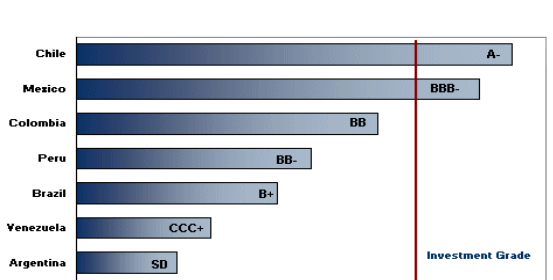


Country	Rating
Chile	A-
Mexico	BBB-
Colombia	BB
Peru	BB-
Brazil	B
Venezuela	B
Argentina	DDD

Investment Grade

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**S&Ps**  
Standard and Poor's Long-Term Foreign Currency Ratings



Country	Rating
Chile	A-
Mexico	BBB-
Colombia	BB
Peru	BB-
Brazil	B+
Venezuela	CCC+
Argentina	SD

Investment Grade

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**Information sources: Standard & Poor's**

**STANDARD & POOR'S**      **SOVEREIGNS**

**Sovereign Risk Indicators: External Debt Data**

Country	Foreign Currency Rating	Sovereign Risk Indicators: External Debt Data															
		Net External Liabilities/		Gross External Debt/ Exports		Net External Debt/ Exports		Narrow Net External Debt/		Net Public Sector External		Net Investment Payments/		Net Interest Payments/			
		1998-2002	2002	1998-2002	2002	1998-2002	2002	1998-2002	2002	1998-2002	2002	1998-2002	2002	1998-2002	2002		
Korea	BBB-	42	19	81	61	20	-11	21	-10	6	-18	1.8	0.8	1.8	0.8		
China	BBB	73	69	65	50	-33	-42	-32	-41	-41	-46	8.6	8.6	(0.9)	(1.5)		
Malaysia	BBB	46	40	43	40	5	-1	8	2	-8	-9	5.4	5.4	2.0	2.0		
Oman	BBB	-25	-45	76	64	-19	-39	-1	-19	-29	-53	6.1	5.5	2.0	3.5		
Mexico	BBB-	180	181	136	116	70	50	93	74	41	29	11.8	11.1	7.3	5.5		
Slovak Republic	BBB-	45	49	75	64	21	13	30	21	2	1	1.8	1.9	1.6	1.7		
South Africa	BBB-	40	35	103	109	47	28	66	54	38	37	9.1	9.7	4.8	2.7		
Thailand	BBB-	80	46	120	99	60	33	62	36	2	3	3.4	0.0	3.4	0.0		

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## 9. The Institute of International Finance (IIF)



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### The IIF's role

- ☞ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions. Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ☞ Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms. Associate members are multinational corporations, trading companies, export credit agencies, and multilateral agencies.
- ☞ Approximately half of the Institute's members are European-based financial institutions, and representation from the leading financial institutions in emerging market countries is also increasing steadily.
- ☞ **Today the IIF has more than 320 members headquartered in more than 60 countries.**

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### The IIF

- ☞ The IIF has three primary goals:
  - \* to support members' risk management, asset allocation, and business development in emerging markets.
  - \* forum for engaging the private financial community in discussions with official national and international institutions.
  - \* to provide a vehicle for exchanging views on international financial supervision issues with regulatory authorities.

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## The Institute of International Finance

Activities fall broadly into three areas:

- (1) **analyzing risks** in emerging market economies;
- (2) **serving as a forum** for member firms on key policy issues in emerging markets finance and regulatory matters; and
- (3) **promoting collaboration** between members and multilateral financial institutions.



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## IIF

Two primary goals beyond that of serving as a discussion forum:

- 1. To support members' **risk management, asset allocation, and business development in emerging markets**. To this end, the IIF provides members with reliable data and analysis of economic and financial developments and prospects;
- 2. To provide **economic intelligence on emerging market economies**: The IIF has established a robust reputation for the quality of its macroeconomic and financial analysis of risks in emerging markets and for its database. In addition to coverage of individual economies, the Institute publishes reports on regional and global financial issues.

[www.iif.org](http://www.iif.org)

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## The IIF: a key source of macrodata on EMCs

Emerging Market Economies: Capital Flows				
\$ billion				
	2009	2010	2011f	2012f
<b>Capital Inflows</b>				
<i>Total Inflows, Net</i>	<i>715</i>	<i>1053</i>	<i>1092</i>	<i>1098</i>
Private Inflows, Net	644	990	1041	1056
Equity Investment, Net	490	571	574	610
Direct Investment, Net	357	371	423	435
Portfolio Investment, Net	133	200	151	175
Private Creditors, Net	154	419	467	446
Commercial Banks, Net	-10	172	194	191
Nonbanks, Net	164	247	273	256
Official Inflows, Net	71	63	51	41
International Financial Institutions	47	38	23	10
Bilateral Creditors	25	25	28	31
<b>Capital Outflows</b>				
<i>Total Outflows, Net</i>	<i>-1073</i>	<i>-1411</i>	<i>-1487</i>	<i>-1392</i>
Private Outflows, Net	-453	-573	-654	-751
Equity Investment Abroad, Net	-268	-269	-296	-321
Resident Lending/Other, Net	-185	-305	-358	-430
Reserves (- = Increase)	-620	-837	-833	-641
Memo:				
<i>Current Account Balance</i>	<i>358</i>	<i>358</i>	<i>395</i>	<i>294</i>

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## IIF's analysis of Peru's debt (12/2005)

External Debt and Debt Service				
	2003	2004	2005f	2006f
	(millions of dollars)			
External debt	29663	31090	30305	31017
% GDP	48.8	45.3	39.5	38.7
% exports <sup>1</sup>	267.0	209.2	166.3	175.5
Medium/long-term	27103	28440	27405	27916
Short-term	2561	2650	2900	3100
International financial	7422	8062	8122	8189
Official bilateral creditors	9226	8964	6847	6641
Commercial banks	2273	1954	1899	1838
Other private creditors	10742	12110	13437	14349
Reserves excluding gold	9777	12176	13626	14356
Months of imports <sup>1</sup>	8.8	8.9	8.4	8.6
	(percent exports) <sup>1</sup>			
Debt service	29.3	25.3	30.1	23.7
Interest payments due	12.2	9.8	9.2	9.6
Amortization paid	17.1	15.6	20.9	14.1
f = IIF forecast				

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## IIF's analysis of Capital Flows

### Emerging Market Economies: Capital Flows

\$ billion

	2012	2013	2014	2015
<b>Capital Inflows</b>				
<i>Total Inflows, Net</i>	<i>1269</i>	<i>1188</i>	<i>1029</i>	<i>1164</i>
<b>Private Inflows, Net</b>	1232	1156	1032	1112
Equity Investment, Net	668	626	657	675
Direct Investment, Net	545	548	540	560
Portfolio Investment, Net	124	78	117	114
Private Creditors, Net	564	530	375	437
Commercial Banks, Net	118	193	124	151
Nonbanks, Net	446	338	251	287
Official Inflows, Net	37	32	47	53
International Financial Institutions	5	-3	19	27
Bilateral Creditors	31	35	28	25
<b>Capital Outflows</b>				
<i>Total Outflows, Net</i>	<i>-1299</i>	<i>-1360</i>	<i>-1348</i>	<i>-1332</i>
Private Outflows, Net	-946	-825	-981	-950
Equity Investment Abroad, Net	-332	-403	-368	-381
Resident Lending/Other, Net	-614	-422	-613	-570
Reserves (- = Increase)	-352	-534	-367	-388
<i>Memo:</i>				
<i>Net Errors and Omissions</i>	<i>-246</i>	<i>-65</i>	<i>0</i>	<i>0</i>
<i>Current Account Balance</i>	<i>278</i>	<i>236</i>	<i>262</i>	<i>174</i>

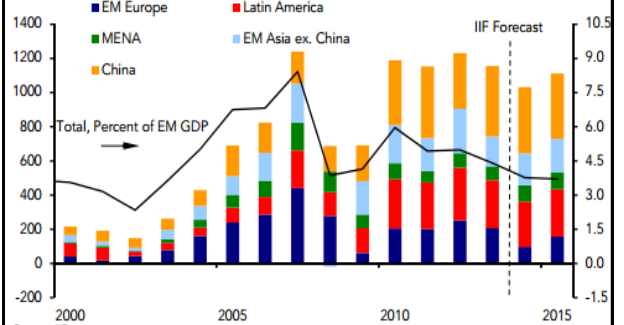
Source: IIF

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## IIF macro research on capital flows

### Emerging Market Private Capital Inflows, Net

\$ billion



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## 10. COFACE

(Compagnie Française d'Assurance pour le Commerce Extérieur)

☞ The Coface Group facilitates and secures trade throughout the world. The Group offers a range of solutions spanning rating, protection and services, including country risk data and analysis.

☞ Country risk analysis is expressed in a rating/ranking format but based on a qualitative analysis aimed at integrating the socio-political and economic specificities of each country.

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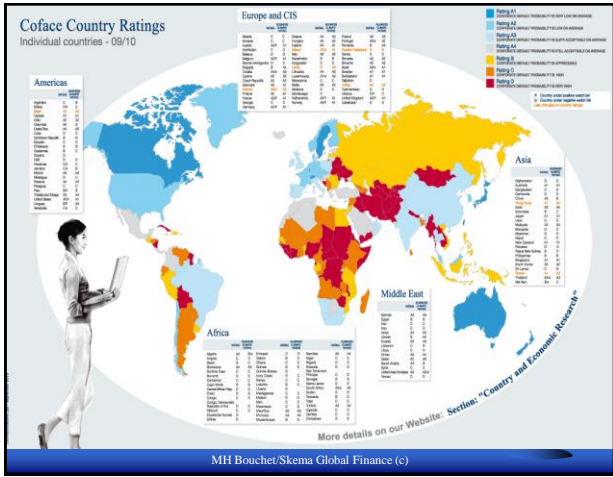
## COFACE

☞ Coface takes into account and assessing several types of risk around six different analytical modules:

1. Political risk;
2. liquidity and non-transfer risk;
3. sovereign risk;
4. market crisis risk;
5. systemic banking crisis;
6. macroeconomic growth risk.

☞ [www.coface.org](http://www.coface.org)

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### Coface's analysis of China 2010

#### CHINA-Major macro economic indicators

	2007	2008	2009(e)	2010(f)
Economic growth (%)	14.2	9.6	9.1	10.5
Public sector balance (%GDP)	0.6	-0.4	-2.8	-3.3
Current account balance (%GDP)	11.0	9.4	6	4.9
Foreign debt (%GDP)	11.1	8.3	8.1	7.9
Foreign exchange reserves (in months of imports)	17.3	19	29.9	22.8

(e) Estimate (f) Forecast

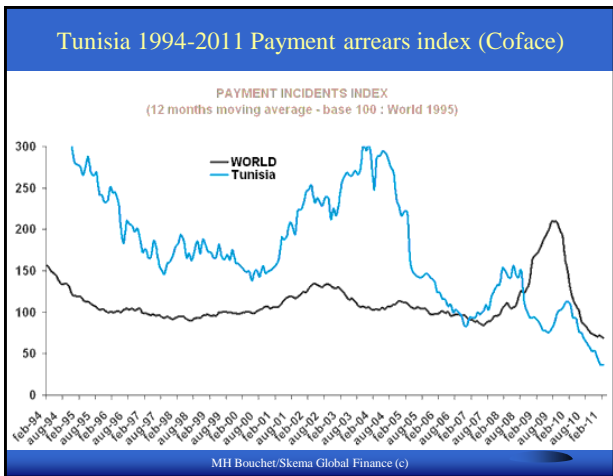
#### STRENGTHS

- External accounts buoyed by industrial competitiveness and diversification
- Gradual move upmarket
- Infrastructure development spurred by the economic stimulus programme
- Very high corporate savings rate that funds most investment
- China's growing influence on the international scene

#### WEAKNESSES

- Increasing social tensions associated with the growth of inequality
- Industrial and commercial overcapacity
- Weakness of Chinese banks considering the dynamism of credit and the uncertainty
- Environmental problems
- Uncertainty over the Taiwan issue

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### EFIC-Australia

<http://www.efic.gov.au/COUNTRY/COUNTRYPROFILES/Pages/countryprofiles.aspx>

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## 11. EIU

- ☞ London-based Economic Intelligence Unit

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## EIU's 5 risk analysis services

- ☞ **Country analysis**—Political and economic analysis, business environment analysis, cross-country benchmarking and market-trends tracking.
- ☞ **Risk assessment**—Sovereign debt risk assessment and operational risk analysis on 190 countries
- ☞ **Market entry and sizing**—Market entry strategies, market sizing, market potential and pricing data.
- ☞ **Strategic industry analysis**—Industry benchmarking, strategic trend analysis and global commodities analysis.
- ☞ **Economic modelling and forecasting**—Data customisation, demand forecasts and econometric analysis of industry drivers.

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## EIU's Outlook of Peru

- ☞ Overall Rating = C
- ☞ Political Risk = D

- ☞ « The weak position of the President Toledo, in Congress, and his lack of popularity, will heighten political uncertainty. However, with steady economic growth and rising employment, the government does not appear to be at risk ».
- ☞ Forecast : « losing ground because of less efficient political institutions and some likely populist legislation ».

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## PRS Group/Peru Risk Forecast

**18-month forecast: « High risk of political turmoil but economy immune to Toledo's poisoned touch »**

The economic recovery remains **largely on track**, but President Toledo's approval rating remains stuck below 15%—Even more embarrassing, polls show Toledo's performance compares unfavorably with that of Fujimori, who fled the country in disgrace in 2000, and was recently added to Interpol's list of most wanted fugitives. Effectively a lame duck with more than three years still to go on his term of office, Toledo faces risk of an **early end to his presidency**.

Three alternative regimes: **Center-Left Coalition, Divided Government, and Military regime.**

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<p><b>Business Environment Risk Intelligence (BERI)</b> provides a Political Risk Index, assessing the social and political environment of a country. It is built on the opinion and scores provided by a hundred experts with a diplomatic or political science background. Governance quality is included into political risk analysis along with government effectiveness and social indicators. <a href="http://beri.com">http://beri.com</a></p>	<p><b>Political Risk Services (PRS)</b>. The PRS analyses cover a hundred countries and are updated on a quarterly basis. <b>International Country Risk Guide</b> measures and tracks corruption perception in government, law and order, expropriation risk, as well as the quality of bureaucracy. These measures stem from the subjective assessment of experts around the world. <a href="http://prsgroup.com">http://prsgroup.com</a></p>	<p>Thanks to its unique policy dialogue with more than 180 countries, the <b>World Bank</b> has developed a comprehensive database of composite governance indicators, measuring perceptions of voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and corruption. <a href="http://www.worldbank.org/wbi/governance/">www.worldbank.org/wbi/governance/</a></p>
<p>The London-based <b>Economist Intelligence Unit (EIU)</b> provides a comprehensive 6-year forecasting country risk analysis on some 100 EMCs, on a quarterly basis. The EIU method flows from expert's answers to a series of 77 predetermined qualitative and quantitative questions. <a href="http://eiu.com">http://eiu.com</a></p>	<p>To look upon governance and corruption, Moody's takes into consideration the structures of social interaction, social and political dynamics, as well as the economic fundamentals. Moody's relies on the judgment of a group of credit risk professionals to weigh the various risk factors as well as the impact of each of these factors upon business prospects. <a href="http://moody.com">http://moody.com</a></p>	<p><b>Standard and Poor's</b> rating approach is both quantitative and qualitative. It is based on a checklist of 10 categories, including governance and political risk. The political risk factors gauge the impact of politics on economic conditions, as well as the quality of governance and the degree of government support in the population. S&amp;P assigns short term and long-term ratings. <a href="http://standardandpoor.com">http://standardandpoor.com</a></p>
<p><b>Euromoney</b> publishes ratings of some 180 countries since 1984 on a semi-annual basis. The methodology is built from a blend of quantitative criteria and qualitative factors coming from surveys with about 40 political analysts and economists. Political risk receives a 25% weighting, as much as economic performance. Countries are graded on scale from 0 (worst) to 100 (best). <a href="http://www.euromoney.com">www.euromoney.com</a></p>	<p><b>Institutional Investor's</b> ratings are published twice a year since 1979 to assess the creditworthiness of about 150 countries, based on a survey of some 100 international bankers' perception of creditworthiness, including economic, financial and socio-political stability criteria. The resulting score scales from zero (very high chance of default) to 100 (least chance of default). <a href="http://www.institutionalinvestor.com">www.institutionalinvestor.com</a></p>	<p><b>Transparency International</b>, a non-profit non-governmental organization in Berlin, provides an annual survey of corruption practices in nearly 90 countries since 1995. The <b>Corruption Perception Index</b> is based on a wide network of informants: sources with local NGOs, domestic and foreign corporations, investors, and business contacts. <a href="http://www.transparency.org">www.transparency.org</a></p>

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<p><b>Heritage Foundation</b> established since 1985, in partnership with the WSI, an economic freedom index for some 160 countries, both industrialized and developing. The ranking is based on the various socio-political and economic criteria, including political stability, state interference, regulatory framework, institutional strength, and corruption scope. <a href="http://www.heritage.org">www.heritage.org</a></p>	<p><b>PriceWaterhouseCoopers' Opacity Index</b> measures the lack of clear, accurate, formal and widely accepted practices in a country's business environment. As such, it focuses on the relative state of corrupt business practices, the transparency of the legal system and the regulatory framework. It represents a quantitative approach to measuring opacity and its resulting extra risk premium that stems from the additional business and economic costs. <a href="http://www.opacityindex.com/">www.opacityindex.com/</a></p>	<p>The <b>Institute for Management Development's World Competitiveness Report</b> analyses 49 industrialized and emerging economies around the world based on a far-reaching survey since 1989. Its analysis of the institutional framework addresses issues such as state efficiency, transparency of government policy, public service's independence from political interference, bureaucracy as well as bribery and corruption. <a href="http://www.imd.ch">www.imd.ch</a></p>
<p><b>Freedom House</b> focuses since 1972 on corruption levels in a number of developing and transition economies around the world. FH publishes an annual assessment of state of freedom in various countries on the base of political rights and civil liberties. Political stability and civil liberties are ranked on a scale of 1 (best) to 7 (worst). <a href="http://www.freedomhouse.org/ratings/index.html">www.freedomhouse.org/ratings/index.html</a></p>	<p><b>The Political and Economic Stability Index</b> of Lehman Brothers and Eurasia measures relative stability in around 20 EMCs by integrating political science theories with financial markets developments. The monthly evaluation uses both quantitative and qualitative criteria, including institutional efficiency, political legitimacy, economic performance, and government effectiveness. <a href="http://www.lehman.com">www.lehman.com</a></p>	<p><b>Political and Economic Risk Consultancy (PERC)</b> specializes in strategic business information and analysis in East and Southeast Asia, with emphasis on corruption and business costs. Annual risk reports survey over 1,000 senior expatriates living in to obtain their perceptions of corruption, labor quality, intellectual property rights risks and other systemic shortcomings. <a href="http://www.asiarisk.com">www.asiarisk.com</a></p>

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## Country Risk Analysis

- Further readings:
- Bouchet, Clark & Gros Lambert, Country Risk Assessment: A guide to global investment strategy, Wiley, 2003.
- Risk Magazines (Euromoney, Institutional Investor, RISK...)
- Managing Risk: Alan Waring and Ian Glendon (International Thomson Business Press) 1998
- Assessing Financial Vulnerability: Early Warning System for EMCs, Goldstein, Kaminsky & Reinhart, IIE, June 2000
- Multinational Finance, Adrian Buckley, Prentice Hall, 1996-2000
- Bouchet: The political Economy of International Debt, Greenwood/Praeger
- Against the Gods, Peter L. Bernstein, John Wiley & Sons, 1998
- Bouchet & alii: The Market-Based Menu Approach (World Bank-DMFAS)
- International Debt and the Developing Countries, WB Symposium, edited by Smith and Cuddington

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### Standard Country Risk Assessment Fact Sheet

(prescribed format for country risk assessment work)

- 1. Introduction: Map and graphs**  
(History, political system, ethical features, culture and religion)
- 2. Survey of geographical features, raw material, human and natural resources**  
[UNDP www.unindp.org](http://www.unindp.org)  
[World Bank www.worldbank.org](http://www.worldbank.org)
- 3. Macro-economic analysis**  
Sector analysis, adjustment, trade strengths and weaknesses (partner/product composition), Inflation, savings/investment ratios  
GDP growth... relative importance of underground economy...  
IMF/WB/regional development banks: IADB/AFDB/AsDB/EBRD  
<http://www.imf.org/external/np/ctd/ctd.htm>
- 4. Balance of payments analysis**  
Trade balance, current account, reserves, E&O  
[www.imf.org](http://www.imf.org)  
IMF/IFS
- 5. Debt Flows & Stock Analysis**  
Liquidity and solvency indicators  
World Bank/OECD/BIS/IMF  
  
Secondary market discounts: Bradynet, EMTA/IFR
- 6. Legal and regulatory framework conducive to private investment**
- 7. Ratings**  
[www.euromoney.com](http://www.euromoney.com)  
[www.institutionalinvestor.com](http://www.institutionalinvestor.com)  
[www.moody.com](http://www.moody.com)  
[www.standardandpoor.com/ratings](http://www.standardandpoor.com/ratings)  
Institutional Investor  
Transparency International  
UNDP/HDI Index
- 8. CONCLUSION: risk and opportunity assessment**  
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