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## WHAT IS COUNTRY RISK ALL ABOUT IN AN AGE OF GLOBALIZATION, PANDEMIC CRISIS & GEOPOLITICAL THREATS?



CIFE SEMINAR ROMA-BERLIN-NICE 2022-23  
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## «YESTERDAY'S» COUNTRY RISK

▶ Cross-border risk =

**Assessment of a foreign entity's ability and willingness to meet its external obligations in full and on time**

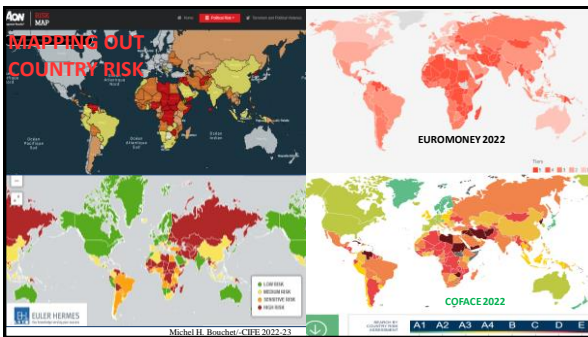
Foreign entity? Private firm, debtor country government, bank, investment fund, supplier, client, partner...

Country risk is composed of a complex combination of **political, financial and macro-economic risk**

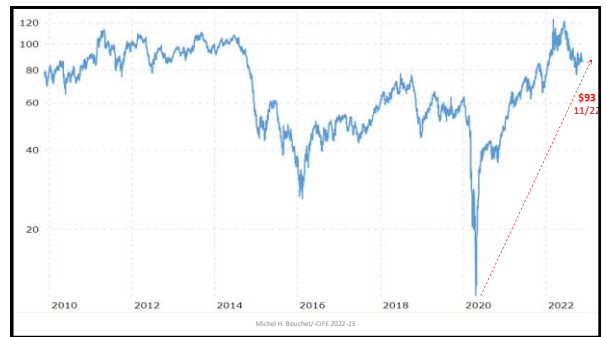
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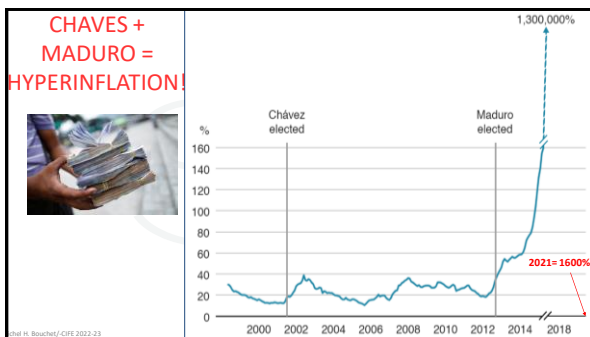
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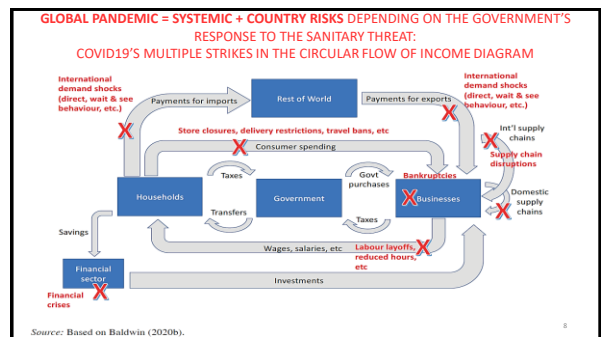
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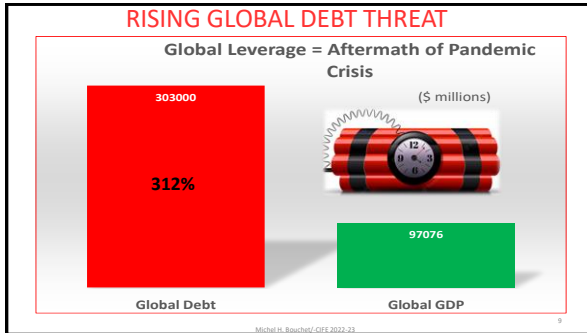
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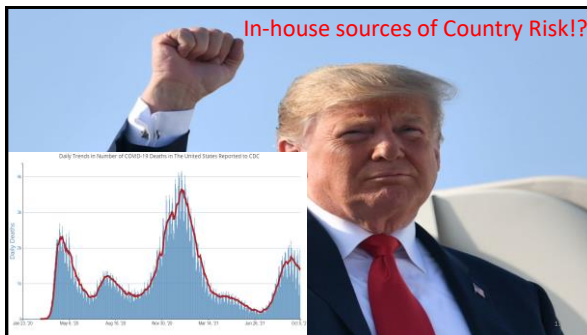
### « TODAY'S » COUNTRY RISK IN THE AGE OF GLOBALIZATION

Operational definition:  
**Set of interdependent factors, specific to a country in the global economy, which can affect both foreign and domestic agents**

- Factors? Economic, financial, environmental, sanitary and socio-political
- Domestic agents? Private firms, households, banks, merchants, fund managers, exporters and importers, students...
- Foreign agents? Debtor country government, central bank, bank, supplier, client, partner...
- Country risk is composed of a complex combination of risks that must be assessed in the globalized system

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### WHAT COUNTRY RISK IS NOT

- Country risk is **not** a monopoly of foreign creditors, exporters, importers, or investors
- Domestic residents (households, investors, corporate sector) also face country risk from their own country's socio-economic and political situation: the country's government can take **arbitrary** decisions that will affect the residents' well-being
- The country can be **contaminated** by adverse regional or global forces
- A deterioration in the risk perception by capital markets and rating agencies will **feedback** on domestic residents' environment = downgrading + capital flight!

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## 3 main country risk triggers:

1. DIRECT "HARD RISKS"
2. INDIRECT "SURROUNDING RISKS"
3. "COLLATERAL DAMAGES"



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### COUNTRY RISK IN THE AGE OF DONALD TRUMP



<b>Direct «Hard Risks»</b>	<ul style="list-style-type: none"> <li>• Risk materialization directly hurts US business: outbreak of a military conflict US-North Korea; sharp rise in interest rates and fall in bond prices; fall in oil prices; pandemic corona crisis; stock market crash; large weakening of USD; trade retaliation by Mexico, China, and Canada; mounting trade and geopolitical tensions with China and Russia</li> </ul>
<b>Indirect «Surrounding Risks»</b>	<ul style="list-style-type: none"> <li>• Risk materialization stems from a more hostile environment: protracted Corona virus crisis; stalemate between White House and Congress regarding budgetary policy and National Security Strategy; ongoing saber-rattling with North Korea, Iran, and Pakistan; regional crisis in the Western Hemisphere and in the Middle East; protracted failed NAFTA renegotiations</li> </ul>
<b>Collateral «Soft Risks»</b>	<ul style="list-style-type: none"> <li>• Risk materialization as byproduct of unfavorable interactions between power groups: Impeachment of Donald Trump; global protectionism; geopolitical volatility; mounting wealth gap; pressure groups and hostile NGOs; lagged institutional reaction to covid-19 crisis</li> </ul>


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### TACKLING COUNTRY RISK

#### COUNTRY + RISK

- ▶ **Country** = sovereign entity, culture and values, geographical distance, national laws and regulations, socio-political parameters
- ▶ **Risk** = lack of perfect information in real time, spill-over effect, abrupt changes



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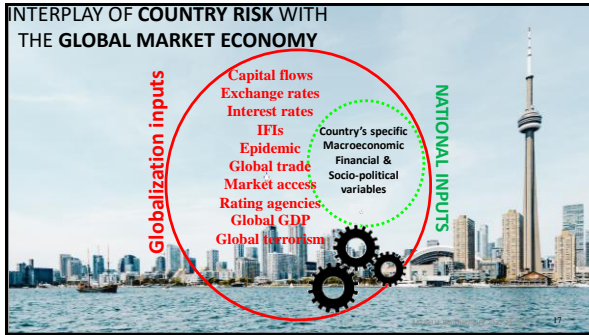
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### 5 MAIN APPROACHES TO COUNTRY RISK ASSESSMENT

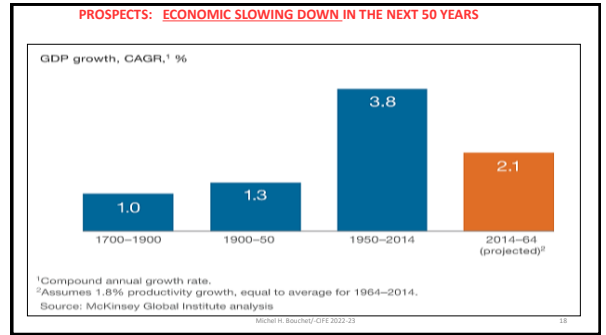
1. **Qualitative « macro » approach:** financial, macroeconomic, legal, regulatory, environmental (incl. sanitary) and political parameters
2. **Balance of payments and external debt analysis:** Liquidity + solvency
3. **Quantitative approach :** rating, ranking, and scoring
4. **Market signals:** inflation, exchange rates, yields, spreads, CDS, Vix
5. **Econometric approach** and modelization

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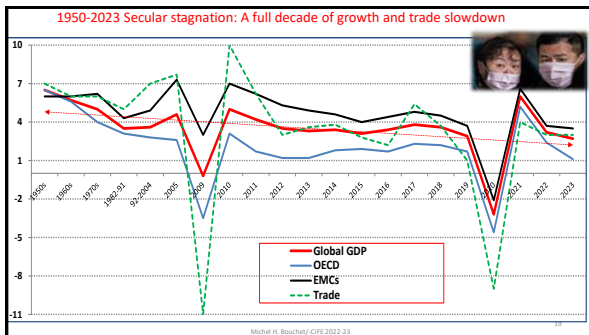
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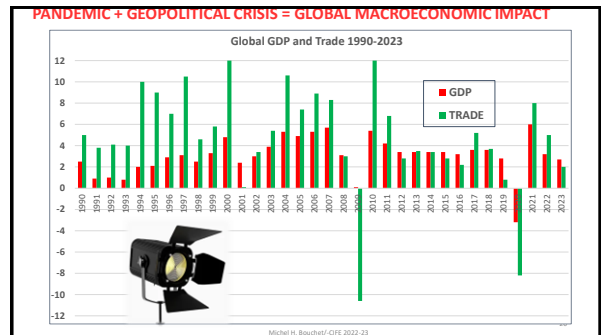
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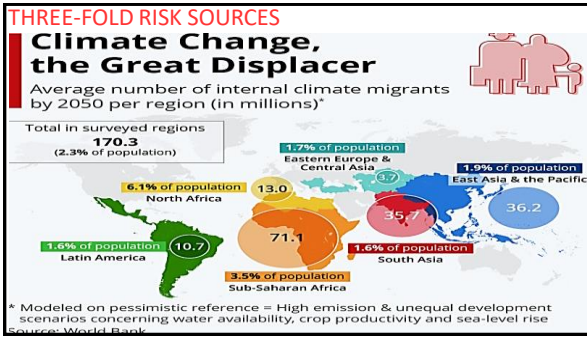
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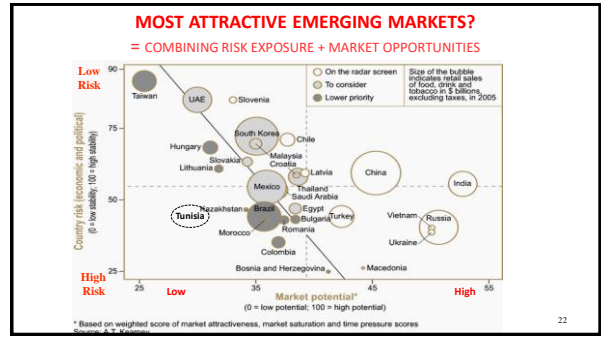
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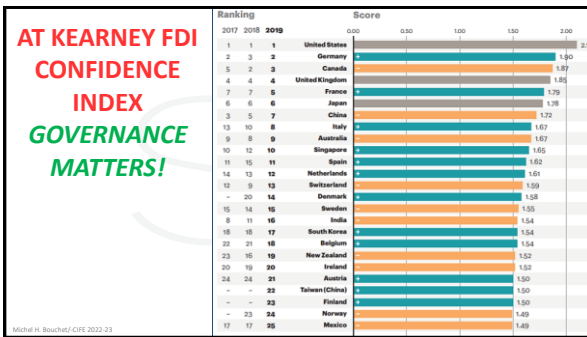
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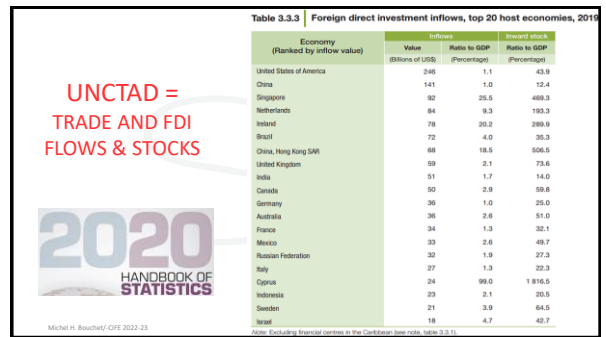
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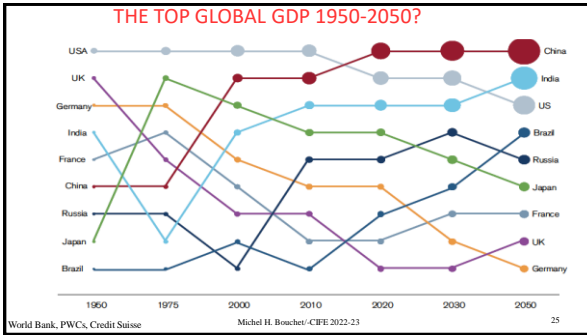
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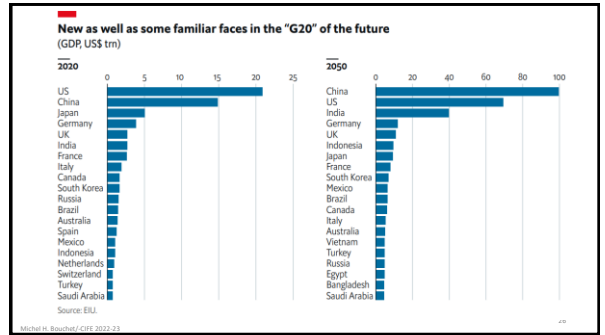
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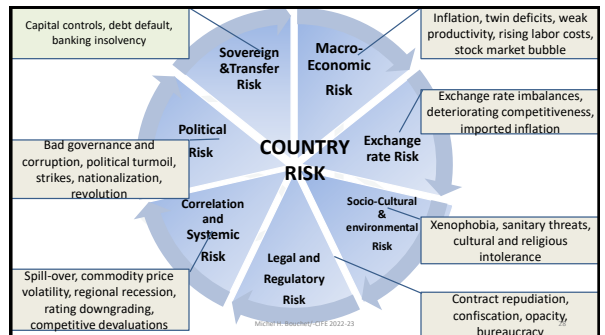


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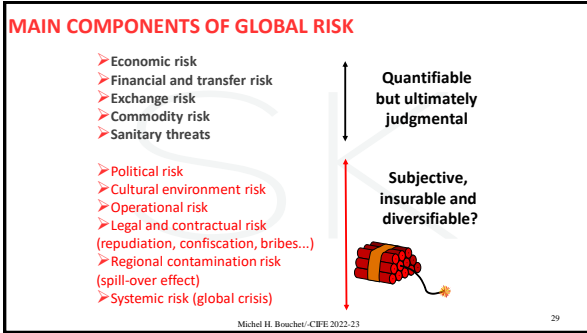
## THE KEY COMPONENTS OF COUNTRY RISK?

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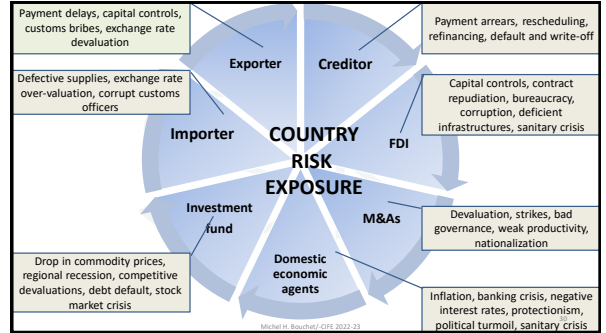
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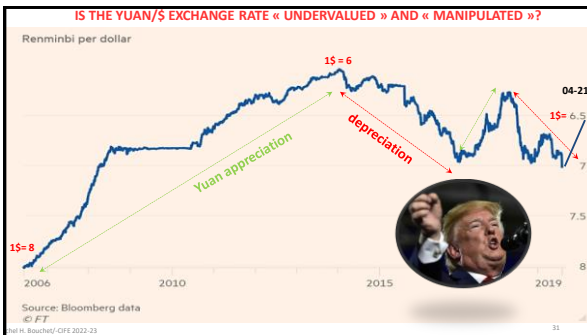
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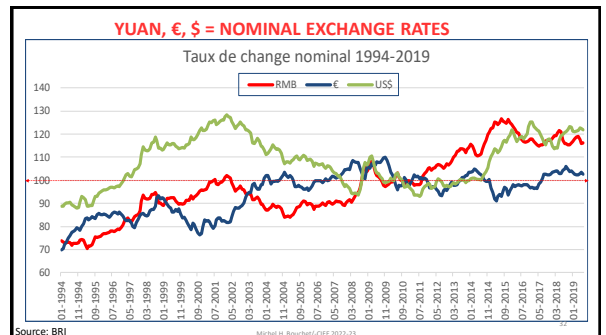
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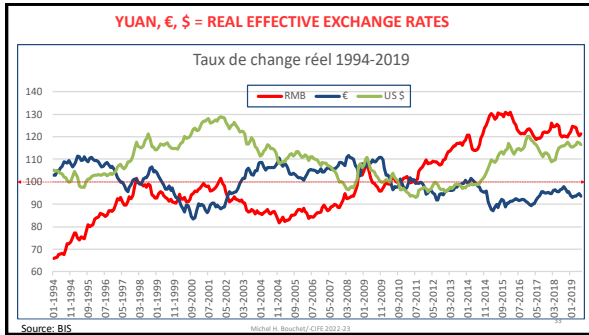
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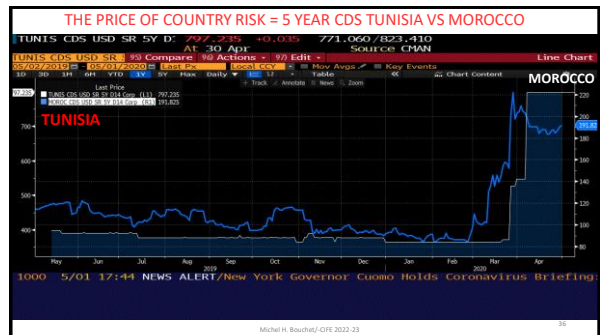
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### BETTER OFF IN TUNISIA, JORDAN OR BOLIVIA?

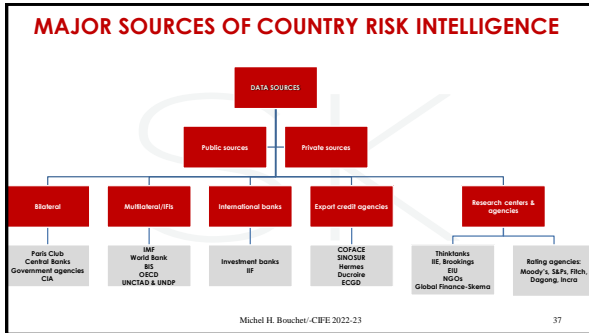
TUNISIA	JORDAN	BOLIVIA
<ul style="list-style-type: none"> <li>▶ GDP Per capita = \$10700</li> <li>▶ HDI= 95</li> <li>▶ Life expectancy f = 78</li> <li>▶ CA/GDP%= - 8,5%</li> <li>▶ Trade openness: 111%</li> <li>▶ Doing Business= 78</li> <li>▶ Corruption = 69</li> <li>▶ Shadow economy: 31%</li> <li>▶ Coface = C/B</li> </ul>	<ul style="list-style-type: none"> <li>▶ GDP Per capita = \$10800</li> <li>▶ HDI= 102</li> <li>▶ Life expectancy f = 75</li> <li>▶ CA/GDP%= - 4%</li> <li>▶ Trade openness = 80%</li> <li>▶ Doing Business= 75</li> <li>▶ Corruption = 60</li> <li>▶ Shadow eco. = 15%</li> <li>▶ Coface = C/B</li> </ul>	<ul style="list-style-type: none"> <li>▶ GDP per capita ppp= \$8900</li> <li>▶ HDI = 107</li> <li>▶ Life expectancy= 71</li> <li>▶ CA/GDP% = -1,5%</li> <li>▶ Trade openness= 60%</li> <li>▶ Doing Business = 150/190</li> <li>▶ CPI corruption= 124</li> <li>▶ FDI = minimal</li> <li>▶ Shadow ec. = 46%</li> <li>▶ Coface = C/B</li> </ul>

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### ANALYSIS AND INFORMATION SOURCES

**IMF, World Bank, IFC & MIGA**  
**UNCTAD & UNDP**  
**Fed Reserve Bk of St Louis**  
**BIS, OECD, EBRD, EIB**  
**Coface, SACE, Euler-Hermes**  
**Moody's, S&P, Fitch, Dagong**  
**Euromoney, Institutional Investor**  
**CIA & US State Dept, ICRG**  
**Transparency International**  
**Hiscox, AON, Control Group**  
**DEFI [www.developingfinance.org](http://www.developingfinance.org)**

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**A QUICK AND RELIABLE ACCESS TO COUNTRY RISK INTELLIGENCE? COFACE!**

Short case study:  
Compare the ratings and debt ratios of Italy, Germany, and Greece as well as socio-political prospects

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### RATINGS AND DEBT RATIOS OF ... ITALY, GERMANY, AND GREECE AS WELL AS ECONOMIC AND SOCIO-POLITICAL PROSPECTS

COUNTRY	DEBT/GDP	RATING COFACE	Economic & Socio-Political
GERMANY	69%	A3/A1	Decline in the working population from 2020 onwards, despite immigration! Prominence of the automotive and mechanical industries, particularly in exports Capacity constraints, insufficient investment
ITALY	155%	B/A2+	Very high youth unemployment, hence brain drain Prevalence of small, low-productivity companies Strong exposure to pandemic-sensitive sectors Strong regional disparities
GREECE	192%	B/A2	Poorly diversified industry, overwhelming tourism dependence, Increasing security concerns vis-à-vis Turkey, low productivity L/Y

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