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COUNTRY RISK RATING: ASSESSING INSTITUTIONAL SUSTAINABILITY?



CIFE SEMINAR NICE APRIL 2021
MICHEL-HENRY BOUCHET

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5 OBJECTIVES

1. Observing the role of rating agencies
2. Looking at the pitfalls of rating agencies: Poor track record and shortsightedness!
3. Analyzing rating methodology
4. Focusing on specific country risk ratings
5. Addressing the challenge of governance rating as well as institutional resilience

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QUANTITATIVE APPROACH: RATING

- ▶ Means: Transforming a number of observations (Delphi method, surveys) or quantitative indicators into **one** single number.
- ▶ The various indicators can be weighted regarding their impact on creditworthiness and risk.
- ▶ **End-product**: one single grade to assess past and current country risk situation with cross-country comparisons across time

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RISING NUMBER OF RANKINGS AND RATINGS SINCE THE 1980S SOMETIMES WITH SHAKY NUMBERS, INCLUDING SUBJECTIVE JUDGMENTS AND DIFFERENT CALCULATION METHODOLOGIES ACROSS COUNTRIES



Year	Active	Discontinued*	Total
Pre-1974	0	0	0
75-79	5	0	5
80-84	10	0	10
85-89	15	0	15
90-94	20	0	20
95-99	30	0	30
2000-04	50	0	50
05-09	100	0	100
10-14	150	0	150
As of 2011	180	20	200

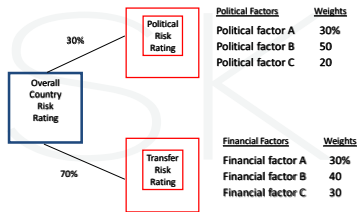
Source: Kelley and Simmons

*As of 2011

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QUANTIFYING COUNTRY RISK: RISK WEIGHTING



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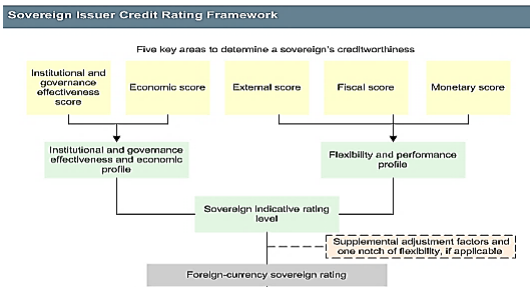
MAIN COUNTRY RATING AGENCIES

- S&Ps (1860)
 - Moody's (1909) 40% market share
 - Fitch IBCA (1913)
- 90% market share**
- COFACE (1946)
 - A.M. Best Rating (1899)
 - Dagong Credit Rating Co (1994)
 - Euler-Hermes
 - INCRA (2012)
 - Thomson Reuters
 - EIU
 - Scope-Berlin

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EX. : S&P'S COUNTRY RISK ASSESSMENT FRAMEWORK



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COUNTRY RISK RATING ?

- | Advantages/ Pros | Shortcomings/Cons |
|--|--|
| <ul style="list-style-type: none"> ➤ simple ➤ shrinks a large number of variables into one single grade ➤ cross-country comparison ➤ comparison across time ➤ reliable for smooth risk evolution ➤ useful for statistical and econometric analysis | <ul style="list-style-type: none"> ➤ "reductionist" ➤ simplistic ➤ risk of self-fulfilling prophecy ➤ little predictive value ➤ weighted average tends to bury salient trends ➤ gives "market consensus" often made of herd instinct |

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SHORTCOMINGS OF RATING AGENCIES?

- ☞ Power without accountability + conflict of interest
- ☞ Conformity bias and herd behavior
- ☞ Sociocultural bias
- ☞ Punishment of disobedient firms/countries that do not request a rating
- ☞ Procyclical bias, hence following the majority opinion of market participants without any early warning signals nor predictability track record
- ☞ Spill-over effect!



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THE OECD IMPLEMENTS A RATING AND RANKING OF COUNTRY RISK FOR PROVIDING A LEVEL PLAYING FIELD TO EXPORT GUARANTEE COMPANIES WITHIN THE GROUP OF 34 DEVELOPED COUNTRIES AND FOR THE PURPOSE OF SETTING MINIMUM PREMIUM RATES FOR EXPORT CREDIT TRANSACTIONS

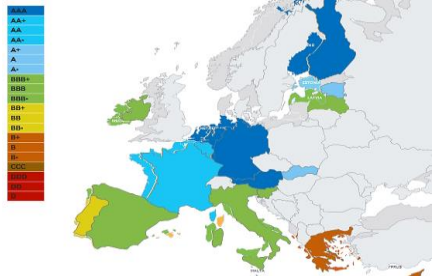
Country Risk Classifications of the Participants in the Arrangement on Officially Supported Export Credits
Valid as of: 23 June 2018

Country Code (ISO Alpha 3)	Country Name ⁽¹⁾	Classification		Notes	
		Previous	Current		
01	ARG	Argentina	7	7	
02	ALB	Albania	6	6	
03	DZA	Algeria	4	4	
04	AND	Andorra	-	-	(R)
05	AGO	Angola	6	6	
06	ATG	Antigua and Barbuda	7	7	(R)
07	ARG	Argentina	6	6	
08	ARM	Armenia	6	6	
09	ABW	Aruba	4	4	
10	AUS	Australia	-	-	(R)
11	AUT	Austria	-	-	(R) (S)
12	AZE	Azerbaijan	5	5	
13	BEL	Belgium	3	3	
14	BHR	Bahrain	4	4	
15	BGD	Bangladesh	5	5	
16	BRB	Barbados	-	-	(S)
17	BEL	Belgium	6	6	
18	BEL	Belgium	-	-	(R) (S)
19	BEL	Belgium	7	7	
20	BEN	Benin	6	6	(R)
21	BTN	Bhutan	6	6	
22	BOL	Bolivia	5	5	
23	BIH	Bosnia and Herzegovina	7	7	
24	BWA	Botswana	2	2	
25	BRA	Brazil	5	5	
26	BRA	Brazil	5	5	(S)
27	BRA	Brazil	3	3	
28	BFA	Burkina Faso	7	7	(R)
29	BUR	Burundi	7	7	
30	CPV	Cape Verde	6	6	(S)
31	CAN	Canada	6	6	

SOURCE: [HTTP://WWW.OECD.ORG/TAD/XCRED/CRC-HTML](http://www.oecd.org/TAD/XCRED/CRC-HTML)

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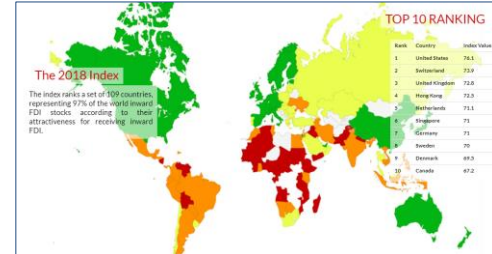
FITCH SOVEREIGN RATING SNAPSHOT 10-2013



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FDI ATTRACTIVENESS INDEX:

[HTTP://WWW.FDIATTRACTIVENESS.COM/](http://www.fdiattractiveness.com/)



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RATING DOWNGRADES AFTER THE GLOBAL FINANCIAL CRISIS 10-2014

- | | |
|--|---|
| <p>FITCH</p> <ul style="list-style-type: none"> ➤ Tunisia = BB ➤ Egypt = B- ➤ Greece = CCC | <p>MOODY'S</p> <ul style="list-style-type: none"> ➤ USA = AAA ➤ Egypt = Caa1 ➤ Tunisia = Ba3 ➤ Greece = Caa1 |
| <p>S&P's</p> <ul style="list-style-type: none"> ➤ USA = AA+ ➤ Egypt = B- ➤ Tunisia = B- ➤ Greece = B <p>« selective default »</p> | <p>DAGONG</p> <ul style="list-style-type: none"> ➤ Tunisia = B- ➤ Greece = CC ➤ USA = A- |

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DAGONG 2017-19

- | | |
|---|--|
| <ul style="list-style-type: none"> ➤ Japan A- ➤ Spain BBB+ ➤ Italy BBB- ➤ Greece CC ➤ Chile AA- ➤ China AAA ➤ France A+ ➤ Brazil A6 ➤ Germany AA+ ➤ Russia A stable ➤ USA A- | <ul style="list-style-type: none"> ➤ Argentina CC- ➤ Nigeria BB+ ➤ Venezuela BB- ➤ Turkey BB- ➤ Ecuador B- ➤ Malaysia A+ ➤ Thailand BBB- ➤ Vietnam B+ ➤ Morocco BBB- ➤ Korea AA- |
|---|--|

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MOODY'S 15 TRIPLE-A RATING COUNTRIES

Sovereigns	Foreign Currency Debt	
Australia	Aaa	ST A
Austria	Aaa	NEG
Canada	Aaa	ST A
Denmark	Aaa	ST A
Finland	Aaa	ST A
Germany	Aaa	NEG
Isle of Man	Aaa	RUR-
Luxembourg	Aaa	NEG
Netherlands	Aaa	NEG
New Zealand	Aaa	ST A
Norway	Aaa	ST A
Singapore	Aaa	ST A
Sweden	Aaa	ST A
Switzerland	Aaa	ST A
USA	Aaa	ST A

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RATING = POOR EARLY WARNING SIGNAL?

1997 Asia risk ? « *It's like growth stocks... sovereign risk has never looked better!* »

• Institutional Investor (March 1997)

➤ South Korea was rated as Italy and Sweden until October of 1997... but was abruptly downgraded to junk bond status!

« *There were no early warnings about Korea from us or, to the best of our knowledge, from other market participants, and our customers should expect a better job from us!* » FITCH IBCA January 14, 1998

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ASIA-1998: LESSONS OF THE CRISIS

► *“Any agency which rated the Republic of Korea at the high investment grade rating of AA- (in the case of Fitch IBCA and S&Ps) or A1 (Moody’s) before the crisis, and which now rates Korea at a speculative grade B-, was clearly either wrong initially or subsequently”*

Fitch IBCA January 13, 1998

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WAS THE 1998 ASIAN CRISIS ANTICIPATED BY RATING AGENCIES?

	Credit Ratings			
	Standard & Poor's		Moody's	
	June 1996	June 1997	June 1996	June 1997
Indonesia	BBB	BBB	Baa3	Baa3
Korea	AA-	AA-	A1	A1
Malaysia	A+	A+	A1	A1
Philippines	BB	BB+	Ba2	Ba1
Thailand	A	A	A2	A2

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EUROMONEY'S RISK RATING

THE HIGHER THE SCORE, THE LARGER THE RISK

	1996	1997	1998	1999	2000	2005	2009	2010
Korea	28	30	42	44	29	28	40	25
Thailand	45	51	54	49	65	49	60	45
Philippines	55	57	55	53	78	75	77	58
Malaysia	33	35	56	46	46	46	45	60
Indonesia	45	49	91	98	107	81	76	61



Agencies were blind for too long then hammered the countries with abrupt downgrading!

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RATING = POOR EARLY WARNING SIGNALS?

ENRON's collapse in December 2001

- The credit agencies were still tipping the energy firm as an investment-grade credit four days before it filed for bankruptcy protection on 12/2/2001.
- Moody's and S&Ps finally downgraded Enron to junk status on 11/28/01
- « *The credit raters - despite their unique position to obtain information unavailable to other analyst- were no more astute and no quicker to act than others* »
 - Senator Joe Lieberman

Source: Credit-October 2006, Vol7, Issue 09

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RATING = POOR EARLY WARNING SIGNALS?

- ▶ 2007-2008 US Subprime crisis: from Triple A rating of MBS (mortgage backed securities) to junk bonds
 - ▶ 06/2010: Dagong downgrades the US
- ▶ 08/2011: US downgrading to AA+: Political Risks, Rising Debt Burden
 - ▶ Fall 2011: Italy-Spain downgrading
 - ▶ 2012: Greece's multiple downgradings
 - ▶ October 2012: Spain downgrading by S&Ps
- ▶ November 2013: S&Ps downgrading of France: Political Risks, Rising Debt Burden
 - ▶ Summer 2019: Tunisia = Moody's B2 & Fitch B+

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06/2013: US GOVERNMENT VERSUS S&PS

- ▶ Civil lawsuit against Standard & Poor's: the US Department of Justice accuses the credit-rating agency to have defrauded federally insured financial institutions... The US complaint alleges that S&P's presented overly optimistic credit ratings as objective and independent when, in truth, S&P's downplayed and disregarded the true extent of credit risk...
- ▶ According to the plaintiff, Standard & Poor's catered rating favors in order to maintain and grow its market share and the fee income generated from structured debt ratings.

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09/2013: S&P SUES US GOVERNMENT OVER ALLEGED RETALIATION FOR AAA CREDIT DOWNGRADE



- ▶ "Plaintiff [Justice Department] commenced this action in retaliation for S&P's exercise of their free speech rights with respect to the creditworthiness of the USA"

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TUNISA 2011- 2019

THE 2011 "JASMIN REVOLUTION": MOODY'S DOWNGRADES TUNISIA'S TO BAA3 NEGATIVE

- ▶ **January 2011:** Moody's Investors Service downgraded to Baa3 from Baa2 the local and foreign currency government bond ratings of the Tunisian government.

The main drivers for the rating action were as follows:

- (1) The country's instability due to the unexpected recent regime change, which resulted from the ongoing political crisis that first began as social unrest.
- (2) The significant uncertainties surrounding both the economic and political outcomes.
- (3) The ongoing unrest and the fluidity of the political situation which further endangers the country's future stability.

- ▶ **May 2013:** new downgrading to Ba2
- ▶ **October 2017:** B1 -
- ▶ **August 2019:** B2 -

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COUNTRY RISK SPECIFIC INDICES: ASSESSING SOCIO-POLITICAL SUSTAINABILITY?



ICRG
Euromoney
Institutional Investor
Heritage Foundation
Freedom House
FRASER INSTITUTE
UNDP/HDI

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ICRG




- ▶ The *ICRG* model for forecasting financial, economic, and political risk was created in 1980 by the editors of *International Reports* (weekly newsletter)
- ▶ To meet the needs of clients the editors created a statistical model to calculate risks and backed it up with analyses that explain the numbers and examine what the numbers do not show.
- ▶ the *ICRG* model allows users to make their own risk assessments based on the *ICRG* model or to modify the model to meet their specific requirements.

Source: www.icrg.com Michel H. Bouchet/SSEMA-CFE 2021 26

INTERNATIONAL COUNTRY RISK GUIDE (ICRG)

- ▶ Monitors 140 countries
- ▶ The *International Country Risk Guide (ICRG)* rating comprises 22 variables in three subcategories of risk: political, financial, and economic.



- ▶ Testing has proven *ICRG's* reliability and its uniqueness:
 - Claim to have the longest history of country risk data for analysis
 - Easy to customize and merge with in-house systems
 - Useful for multinational firms, banks, and equity and currency traders

Source: www.icrg.com Michel H. Bouchet/SSEMA-CFE 2021 27

ICRG: POLITICAL RISK COMPONENTS

Weights	ICRG's Political Risk Assessment Criteria
12	Government Stability
12	Socio-Economic conditions
12	Investment Profile
12	Internal Conflict
12	External Conflict
6	Corruption
6	Military in Politics
6	Religious Tensions
6	Law and Order
6	Ethnic Tensions
6	Democratic Accountability
4	Bureaucratic Quality
100	Total number of points for weighted influence

Source: www.icrg.com Michel H. Bouchet/SSEMA-CFE 2021 28

ICRG: ECONOMIC RISK COMPONENTS (50 MAX)

GDP Per capita	10 points
Real GDP Growth	10 points
Annual inflation rate	10 points
Budget Balance	10 points
Current account/GDP	10 points

Source: www.icrg.com

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ICRG: FINANCIAL RISK COMPONENTS (50 MAX)

Foreign debt	10 points
Debt service/XGS	10 points
Current account	15 points
Net liquidity	5 points
Exchange rate stability	10 points

Source: www.icrg.com

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EUROMONEY : RATING METHODOLOGY

- ▶ 186 countries
- ▶ 15 criteria
- ▶ Delphi Technique: Panel of 250 leading economists in international financial institutions evaluating performance in the financial markets (market access, bond issue, spreads, sell-down, terms and maturity...)
- ▶ Scoring between **100** (excellent) and **0** (high risk)
- ▶ Panel of political analysts to measure short-term risk of destabilization

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EUROMONEY: RATING WEIGHTS

1. Growth performance: 25% (GDP projection)
2. Political risk: 25%
3. External debt indicators: 10% (debt/GDP and debt/X)
4. External payment default and rescheduling: 10%
5. Credit rating Moody's or S&P: 10%
6. Short-term credit market access: 5%
7. Commercial bank MT credit: 5%
8. Capital markets access: 5%
9. Spread over US Treasury bills: 5%

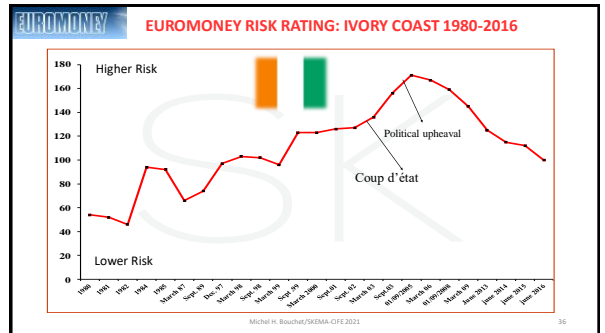
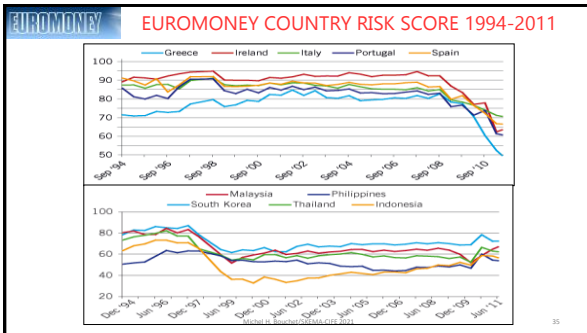
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EUROMONEY COUNTRY RISK RATINGS 2001-2016

End-2001	End-2005	End-2006	End-2012	End-2016
14= Singapore	9= Ireland	20= Singapore	11= Singapore	1= Singapore
28= Taiwan	19= Singapore	41= Hungary	15= USA	
30= HongKong	22= New Zealand	44= Poland	19= Chile	
40= Chile	24= Taiwan	52= China	41= Hungary	
39= Hungary	35= Hungary	62= Russia	44= Poland	
40= Brunei	58= China	77= Algeria	46= China	
41= Greece	73= Iran	79= Iran	49= Russia	18= Taiwan
42= Poland	74= Vietnam	82= Vietnam	76= Indonesia	
45= China	77= Russia	85= Indonesia	79= Vietnam	
56= Malaysia	85= Algeria	167= Ivory Coast	100= Greece	
89= Romania	96= Indonesia	178= Congo	127= Algeria	
93= Bulgaria	127= Ivory Coast	182= Cuba	141= Ivory Coast	
163= Congo	182= Cuba	185= North Korea	178= Congo	

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Institutional Investor magazine

SCORING/RATING OF COUNTRY RISK

- ▶ 0-100 semi-annual Rating of 179 countries' creditworthiness based on survey of 100 leading **international bankers**
- ▶ **Best** : Switzerland, Finland, Norway, Germany, Netherlands, France, US, UK, Luxembourg... Singapore, Australia, Taiwan, Chile
- ▶ **Worst**: Cuba, Myanmar, Cambodia, Nicaragua, Rwanda, Sudan, Iraq, Congo, Sierra Leone, North Korea, Liberia

Global average risk rating as of 03/2000 = 41
Global average risk rating 03/2015 = 45

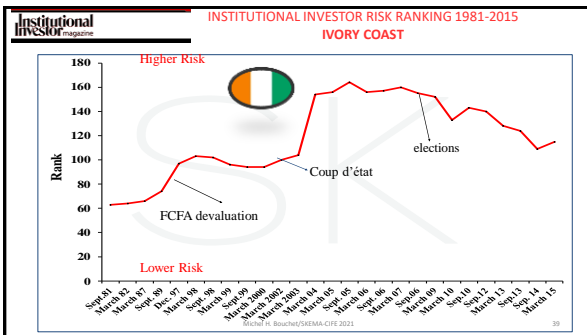
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Institutional Investor magazine

INSTITUTIONAL INVESTOR RISK RATING

- Information provided by leading international banks.
- Bankers are asked to grade each of the countries on a scale from 0 to 100 (100 = best creditworthiness)
- Sample updated every six months, ranges from 75 to 100 banks, each of which provides its own ratings. The names of all participants in the survey are kept strictly confidential. Banks are not permitted to rate their home country.
- Individual responses are weighted using an *Institutional Investor* formula that gives more importance to responses from banks with greater worldwide exposure and more sophisticated country analysis systems.

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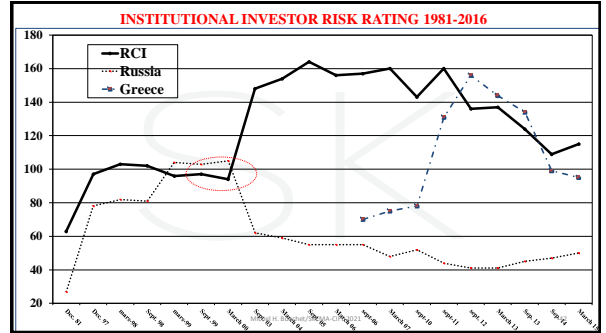
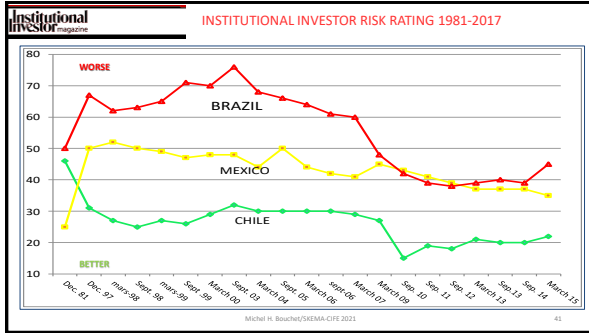


Institutional Investor magazine

INSTITUTIONAL INVESTOR RISK RATING OF ASIA

<ul style="list-style-type: none"> ▶ Switzerland = 1 ▶ Norway = 2 • Singapore = 6 • Australia = 11 • HK = 17 • Japan = 19 • South Korea = 20 • Taiwan = 21 • China = 26 • Malaysia = 37 • Thailand = 47 • India = 48 	<ul style="list-style-type: none"> • Philippines = 49 • Indonesia = 57 • Vietnam = 73 • Sri Lanka = 103 • Bangladesh = 111 • Cambodia = 119 • Pakistan = 128 • Laos = 136 • Myanmar = 150 • East Timor = 153 • North Korea = 173
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COUNTRY RISK: GOVERNANCE MATTERS!

- ▶ Corruption
- ▶ Regulatory framework
- ▶ Business conditions
- ▶ Transparency
- ▶ Corporate and sovereign governance

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WORLD BANK: « DOING BUSINESS » RANKING

189 Countries
10 Parameters

Singapore	1
New Zealand	2
Denmark	3
Korea, Rep.	4
Hong Kong SAR	5
United Kingdom	6
United States	7
Sweden	8
Norway	9
Finland	10
Taiwan, China	11
Macedonia, FYR	12
Australia	13
Canada	14
Germany	15
Estonia	16
Ireland	17
Malaysia	18
Iceland	19
Lithuania	20

Nigeria	169
Yemen, Rep.	170
Djibouti	171
Cameroon	172
Timor-Leste	173
Bangladesh	174
Syria	175
Congo, Rep.	176
Afghanistan	177
Guinea-Bissau	178
Liberia	179
Equatorial Guinea	180
Angola	181
Haiti	182
Chad	183
Congo, Dem. Rep.	184
Central Af Rep	185
Venezuela	186
South Sudan	187
Uganda	188
Eritrea	189

Russia= 51
 South Af= 73
 China= 84
 Brazil= 116
 India= 130

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DOING BUSINESS IN CHINA?

TOPICS	DB 2016 Rank
Starting a Business ✓	128
Dealing with Construction Permits	179
Getting Electricity	124
Registering Property	37
Getting Credit	71
Protecting Minority Investors	132
Paying Taxes ✓	120
Trading Across Borders	98
Enforcing Contracts	35
Resolving Insolvency	53

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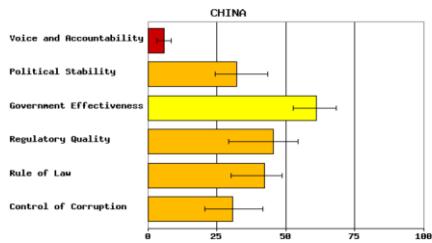
BLOOMBERG DOING BUSINESS RANKING

2014 Rank	Country	Less tangible costs score	Readiness of local consumer base score
1	Hong Kong	88.8	75.2
2	Canada	91.5	76.2
3	United States	79.7	71.1
4	Singapore	89.5	71.9
5	Australia	83.3	71.6
5	Germany	86.2	74.7
7	United Kingdom	85.2	71.1
8	Netherlands	88.8	70.7
9	Spain	76.0	68.5
10	Sweden	87.1	72.9

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GOVERNANCE =
TRADITIONS AND INSTITUTIONS BY WHICH AUTHORITY IS EXERCISED
= OVERALL QUALITY OF PUBLIC AND PRIVATE MANAGEMENT PROCESS



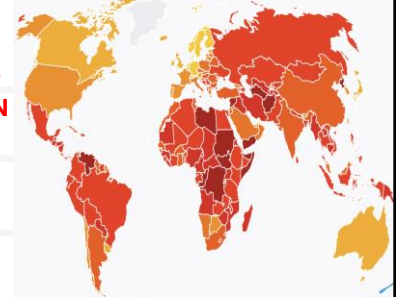
Source: World Bank

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TI WORLD MAP OF CORRUPTION 2020

South Africa = 73
India = 78
China = 87
Brazil = 105
Russia = 138




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MEASURING CORRUPTION?
TRANSPARENCY INTERNATIONAL CPI

1	Denmark	160	Zimbabwe
2	New Zealand	161	Cambodia
3	Finland	162	DR Congo
3	Singapore	163	Haiti
3	Sweden	164	Turkmenistan
3	Switzerland	165	Angola
7	Norway	166	Chad
8	Netherlands	167	Congo
9	Canada	168	Iraq
9	Luxembourg	169	Venezuela
11	Germany	170	Burundi
11	United Kingdom	171	Libya
13	Australia	172	Afghanistan
14	Austria	173	Equ. Guinea
14	Hong Kong	174	Guinea Bissau
14	Iceland	175	Sudan
17	Belgium	176	N. Korea
18	Estonia	177	Yemen
18	Ireland	178	South Sudan
18	Japan	179	Syria
21	France	180	Somalia



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UNDP HUMAN DEVELOPMENT INDEX

► What is development?

► **Economic growth** + those conditions that make growth **sustainable** over the long-term

=

► Σ life expectancy, education, health, infrastructure, institutions, governance...

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HUMAN DEVELOPMENT INDEX

► HDI developed by UNDP

► A composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living, as measured by real GDP per capita on a purchasing power parity basis.

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1. Norway	170. Malawi
2. Australia	171. Sudan
3. United States	172. Zimbabwe
4. Netherlands	173. Ethiopia
5. Germany	174. Liberia
6. New Zealand	175. Afghanistan
7. Ireland	176. Guinea-Bissau
8. Sweden	177. Sierra Leone
9. Switzerland	178. Guinea
10. Japan	178. Burundi
11. Canada	180. Central African
12. Korea	181. Eritrea
13. Hong Kong	182. Mali
14. Iceland	183. Burkina Faso
15. Denmark	184. Chad
16. Israel	185. Mozambique
17. Belgium	186. Niger
18. Austria	186. Congo (DR)
19. Singapore	
20. France	



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HERITAGE FOUNDATION: INDEX OF ECONOMIC FREEDOM

- ▶ **Economic freedom** = *absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself.*
- ▶ The Index includes a broad array of institutional factors determining economic freedom: corruption, non-tariff barriers to trade, the fiscal burden of government, the rule of law, regulatory burdens, restrictions on banks, labor market regulations, black market activities...

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CRITERIA OF ECONOMIC FREEDOM

- ▶ To measure economic freedom and rate each country, the *Index* is based on 50 independent economic variables within 10 broad categories of economic freedom:

1. Trade policy,
2. Fiscal burden of government,
3. Government intervention in the economy,
4. Monetary policy,
5. Capital flows and foreign investment,
6. Banking and finance,
7. Wages and prices,
8. Property rights,
9. Regulation, and
10. Black market activity

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HERITAGE FOUNDATION'S INDEX OF ECONOMIC FREEDOM

- ▶ 1. HongKong
- ▶ 2. Singapore
- ▶ 3. Luxemburg, New Zealand
- ▶ 5. Ireland
- ▶ 6. Denmark, Estonia, USA
- ▶ 9. Australia, UK
- ▶ 11. Finland, Iceland, Netherlands, Sweden
- ▶ 15. Switzerland
- ▶ 16. Chile
- ▶ 18. Canada
- ▶ 19. Austria, Belgium, Germany
- ▶ 40. France

- ▶ Trade + Fiscal Burden, + Government Intervention, + Monetary Policy, + FDI + Inflation + External Competitiveness + Banking sector

WORST:

Argentina, Colombia, Venezuela, China, Russia, Vietnam, Romania, Ukraine, Nigeria, Iran, Syria, Cuba...

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FREEDOM HOUSE: POLITICAL FREEDOM IN THE WORLD ANNUAL REPORT (1972-2011)

- ▶ Since 1972, Freedom House has published an annual assessment of the state of freedom in all countries in the world, based on a checklist of questions on political rights and civil liberties that are derived from the Universal Declaration of Human Rights. Each country is assigned a rating for PR and a rating for CL based on a scale of 1 (best) to 7 (worst).
- ▶ <http://www.freedomhouse.org/ratings/index.htm>

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FREEDOM HOUSE: FREEDOM IN THE WORLD ANNUAL REPORT

Free countries (89)	Not Free countries (47)
▶ Australia	▶ Cameroon
▶ Finland	▶ Congo
▶ Malta	▶ Haiti
▶ Slovenia	▶ Iran
▶ Uruguay	▶ China
▶ Bulgaria	▶ Vietnam
▶ Chile	▶ Burma
▶ Costa Rica	▶ Cuba
▶ Mauritius	▶ Saudi Arabia
▶ Poland	▶ Syria
	▶ Turkmenistan

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FRASER INSTITUTE

- ▶ Since 1975
- ▶ Annual Indices of Economic & Human Freedom in the world: reliable measure of cross-country differences in economic freedom, using third-party data to help ensure objectivity
- ▶ **Criteria:** government quality, legal structure, security of property rights, access to sound money, personal choice, freedom to exchange with foreigners and to compete in markets, quality of regulations and institutional strength...
- ▶ **The Economic Freedom Annual Report** is the measurement of economic freedom, ranking countries based on five areas: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. The report compares 159 countries and territories

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FRASER INSTITUTE'S ECONOMIC FREEDOM WORLD MAP

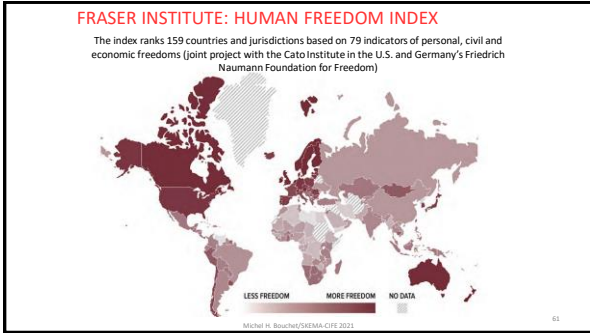
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Economic Freedom of the World: 2017 Annual Report

— Sep 28, 2017

- MOST FREE
- 2ND QUARTILE
- 3RD QUARTILE
- LEAST FREE

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- ### CONCLUSION: ASSESSING COUNTRY RISK?
1. Market consensus: rating agencies
 2. Macroeconomic analysis
 3. Balance of payments analysis: liquidity & solvency
 4. Socio-political analysis
 5. Business environment: corruption, bureaucracy, institutions, transparency
 6. Economic Intelligence!
- Michel H. Bouchat/SXEMA-CIFE 2021

