



# SK

SKEMA BUSINESS SCHOOL

## What is Country Risk all about?

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### «YESTERDAY'S» COUNTRY RISK

- ▶ Traditional definition of cross-border financial risk:  
**Assessment of a foreign entity's ability and willingness to meet its external obligations in full and on time**
- ▶ Foreign entity? Private firm, country government, bank, supplier, client, partner..
- ▶ Country risk is composed of a complex combination of **political, financial and macro-economic risk**

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

Operational definition:  
Set of interdependent economic, financial and socio-political factors, specific for a particular country in the global economy, which can affect both domestic and foreign economic agents, relating to savings, investment, and credit transactions.

- ▶ Domestic agents? Private firms, households, banks, merchants, exporters and importers, students...
  - ▶ Country risk is composed of a complex combination of **political, financial and macro-economic risk 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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### COUNTRY RISK IN THE AGE OF DONALD TRUMP

**Direct «hard risks»**

- Risk materialization directly hurts US business: outbreak of a military conflict between North Korea and the United States; sharp rise in interest rates and fall in bond prices; stock market crash; sharp weakening of USD; protracted renegotiation of NAFTA ; mounting trade and geopolitical tensions with China

**Indirect «surrounding risks»**

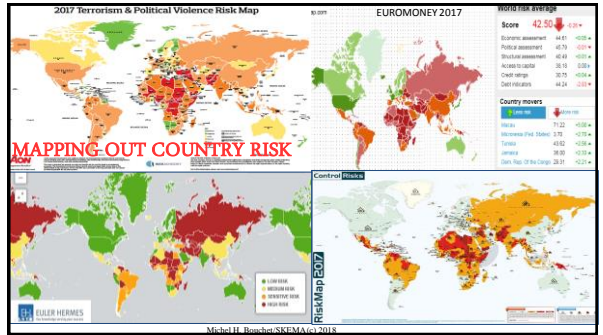
- Risk materialization stems from a more hostile environment: protracted stalemate between White House and Congress regarding budgetary policy; ongoing saber-rattling with North Korea; trade retaliation by Mexico and Canada; regional crisis in the Western Hemisphere

**Collateral «soft risks»**


- Risk materialization as byproduct of unfavorable interactions between power groups: impeachment of Donald Trump; global protectionism, fiscal uncertainty, mounting wealth gap, pressure groups and hostile NGOs



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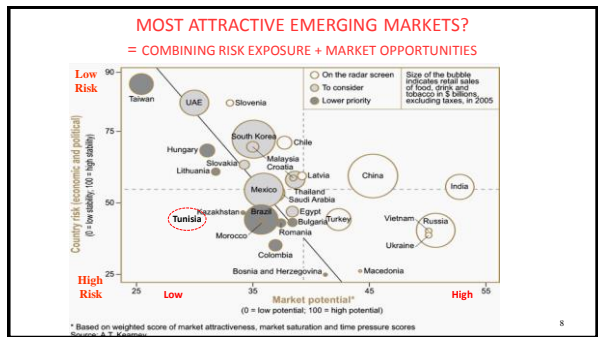
### TACKLING COUNTRY RISK

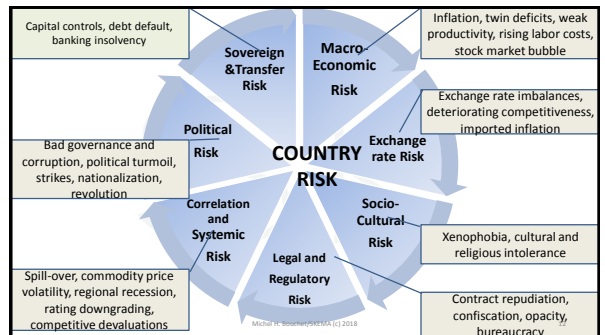
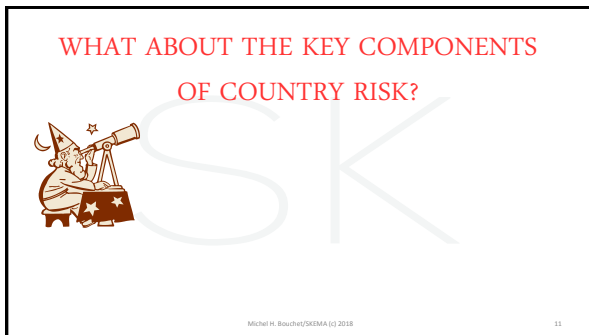
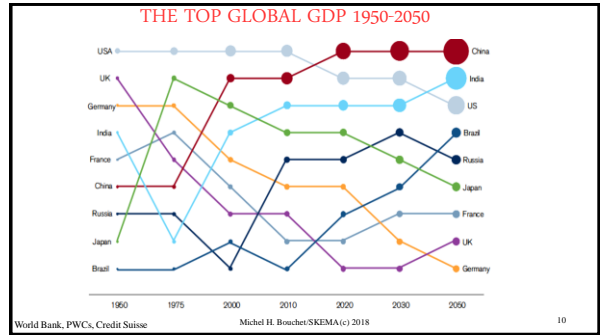
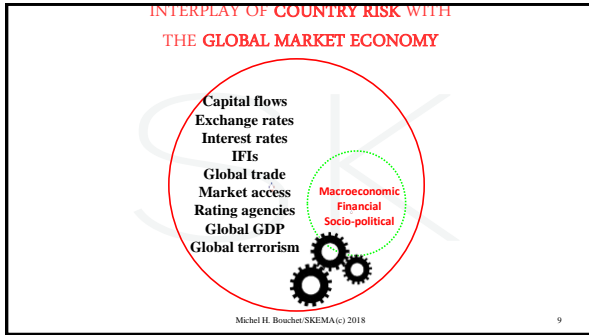


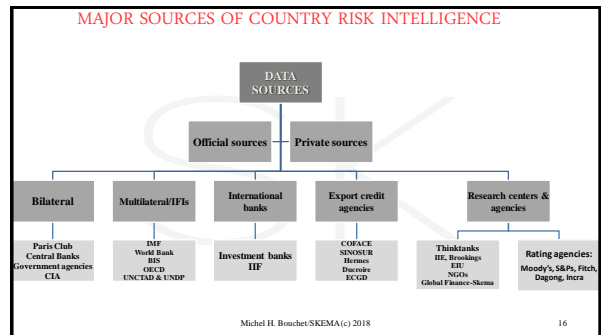
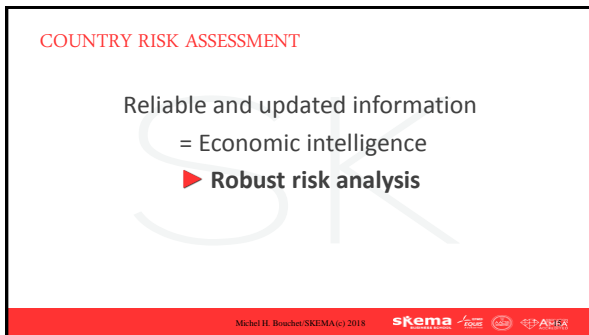
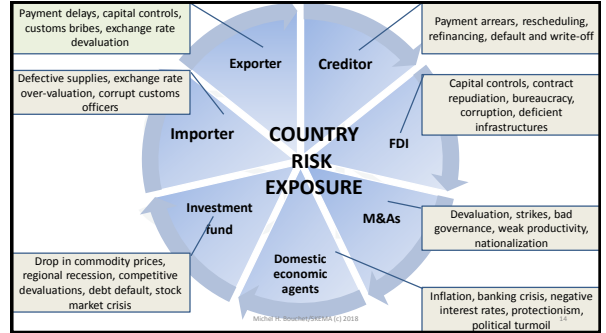
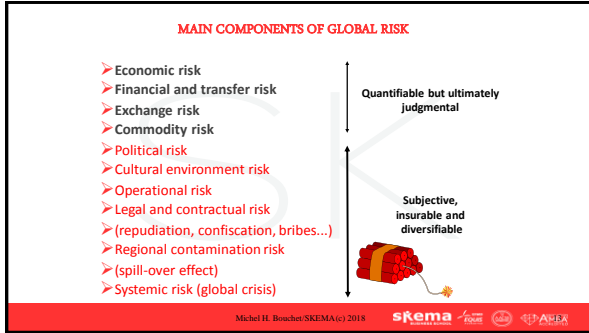
## COUNTRY + RISK

- ▶ **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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#### 4 MAIN APPROACHES TO COUNTRY RISK ASSESSMENT

1. **Qualitative approach:** financial, macroeconomic, legal, regulatory and political parameters
2. **External debt analysis:** Balance of payments + liquidity and solvency
3. **Quantitative approach :** rating and scoring
4. **Econometric approach** and modelization



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