



# SK

SKEMA BUSINESS SCHOOL

## What is Country Risk all about?

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## WHAT IS COUNTRY RISK ALL ABOUT?

- ▶ **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, central bank, exporter and supplier, client, partner...

International banks and global investors seem to have the monopoly of facing country risk ?!

## **COUNTRY RISK IN THE AGE OF GLOBALIZATION**

**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**

▶ **Country risk is composed of a complex combination of political, financial and macro-economic risk that must be assessed in the globalized system**

## COUNTRY RISK AND THE FEEDBACK EFFECT OF GLOBALIZATION

- ✓ 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' wellbeing
- ✓ The country can be **contaminated** by negative regional or global forces
- ✓ A deterioration in the risk perception by capital markets and rating agencies will **feedback** on domestic residents' environment = lower investment + capital flight!



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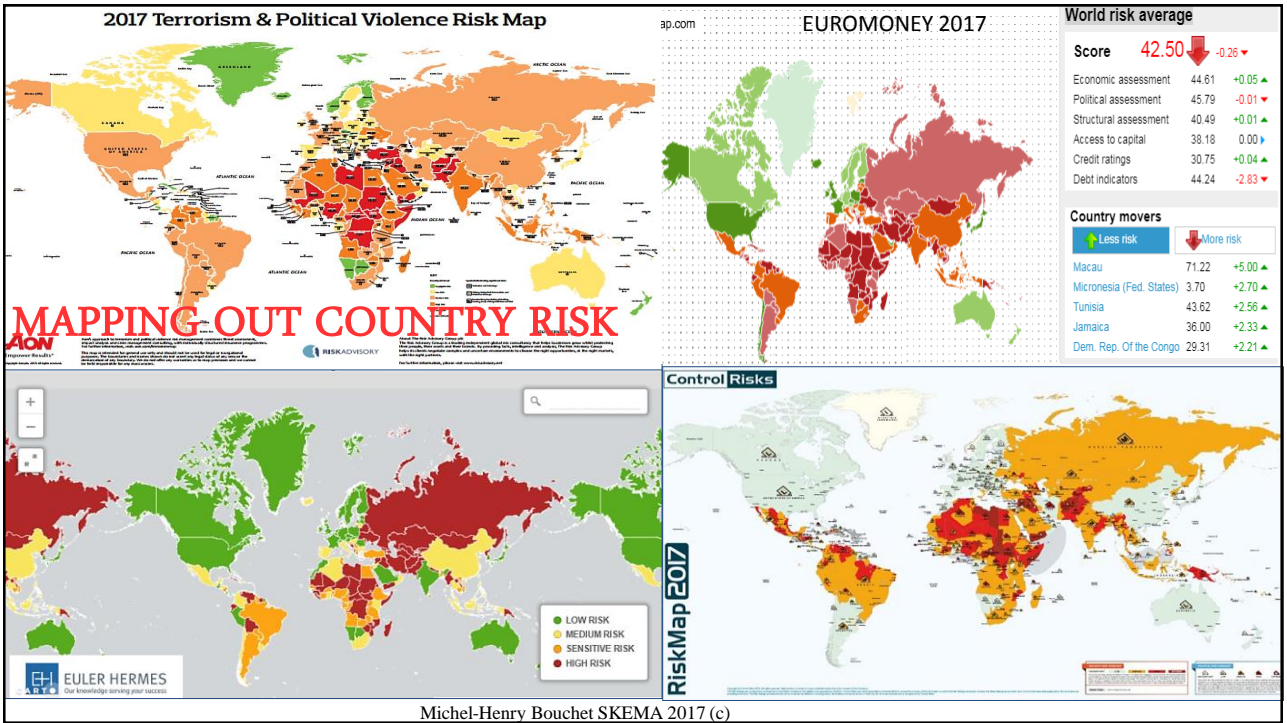
## THE « CATALONIA EFFECT »:

INCREASING YIELD AND DECLINING PRICE OF 10-YEAR SPANISH BONDS IN OCTOBER OF 2017

SHARP FALL IN THE SPANISH STOCK MARKET INDEX IBEX IN OCTOBER 2017



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## TACKLING COUNTRY RISK

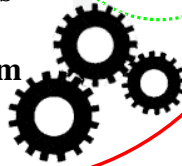
### COUNTRY + RISK

- ▶ **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 and volatility

## INTERPLAY OF COUNTRY RISK WITH THE GLOBAL ECONOMY

**Demography**  
**Capital flows**  
**Exchange rates**  
**Interest rates**  
**IFIs**  
**Global trade**  
**Market access**  
**Rating agencies**  
**Global GDP**  
**Global terrorism**

**Macroeconomic**  
**Financial**  
**Socio-political**

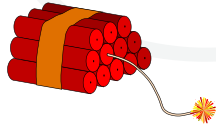


## GLOBAL RISK I

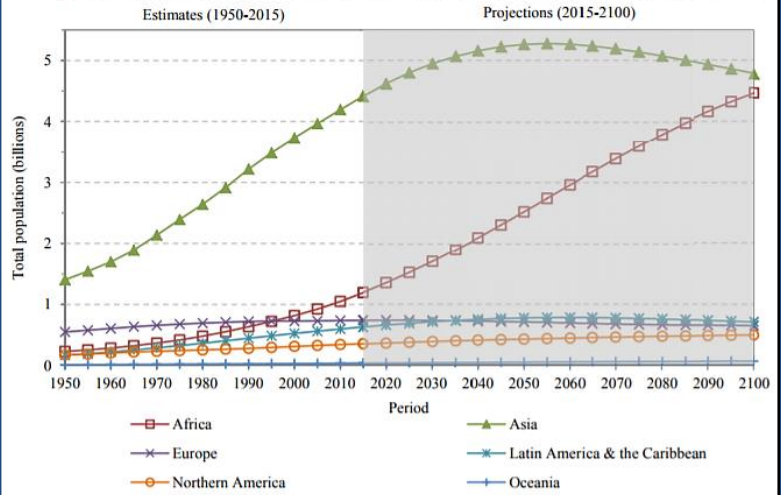
### THE GAP BETWEEN DEMOGRAPHIC GROWTH AND DOMESTIC SOCIO-ECONOMIC RESOURCES

Region	Population (millions)			
	2017	2030	2050	2100
World.....	7 550	8 551	9 772	11 184
Africa.....	1 256	1 704	2 528	4 468
Asia.....	4 504	4 947	5 257	4 780
Europe.....	742	739	716	653
Latin America and the Caribbean .....	646	718	780	712
Northern America .....	361	395	435	499
Oceania.....	41	48	57	72

Source: United Nations, Department of Economic and Social Affairs, Population Division (2017).  
 World Population Prospects: The 2017 Revision. New York: United Nations.



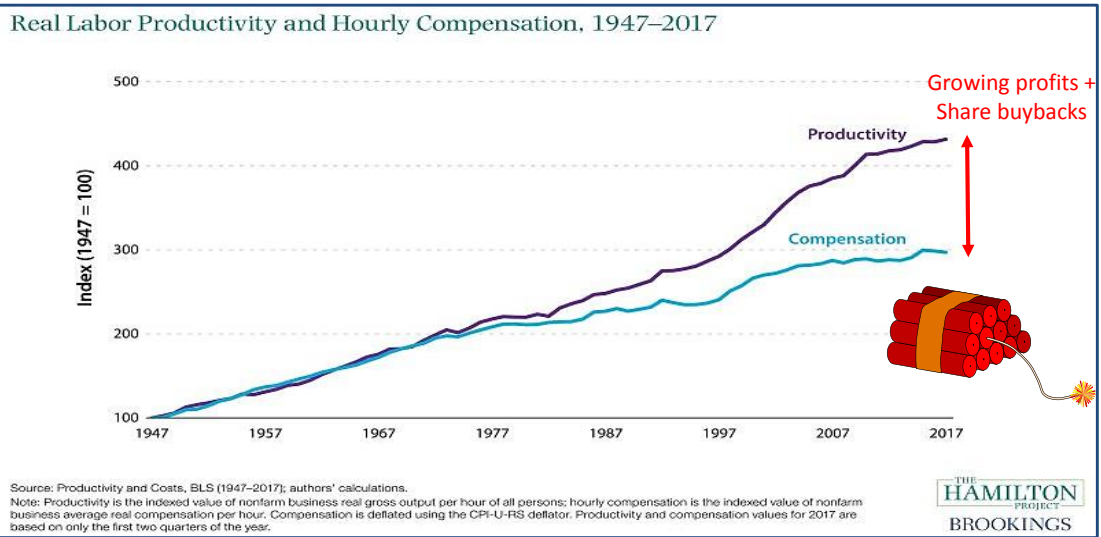
**Figure 3. Population by region: estimates, 1950-2015, and medium-variant projection, 2015-2100**



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017).

## GLOBAL RISK II

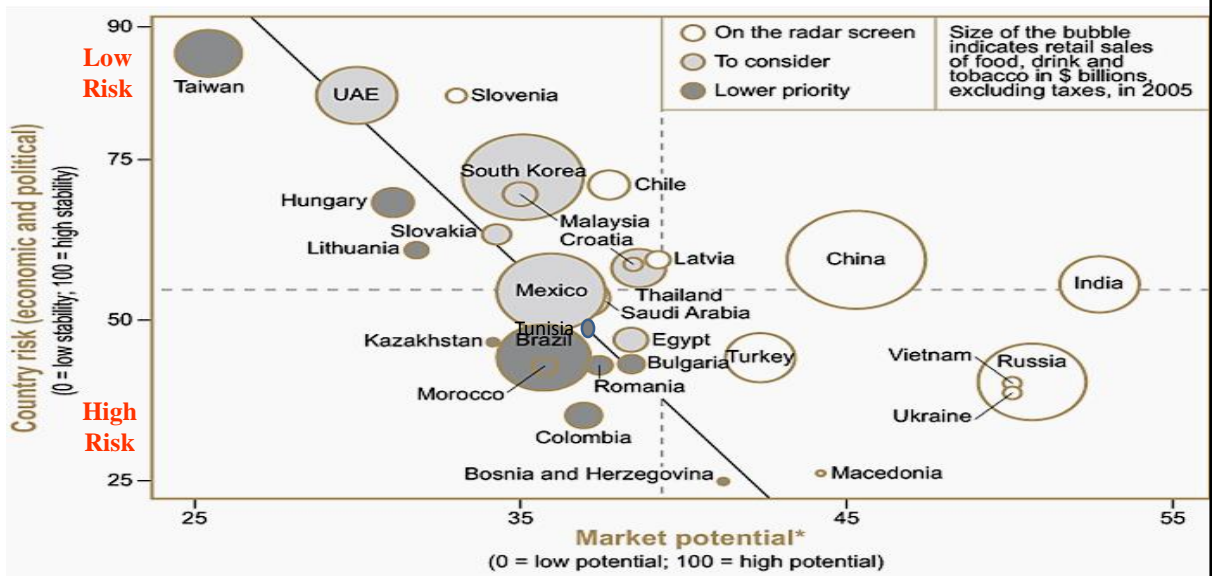
### WAGE STAGNATION AND WEALTH GAPS WITHIN AND BETWEEN COUNTRIES



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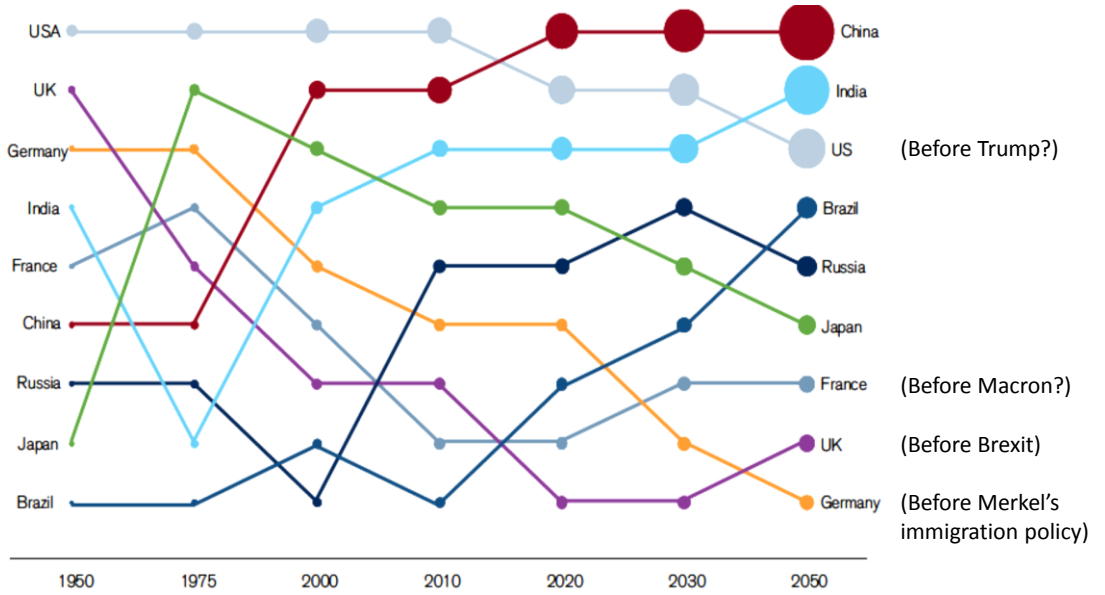
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## MOST ATTRACTIVE MARKETS?



\* Based on weighted score of market attractiveness, market saturation and time pressure scores  
 Source: A.T. Kearney

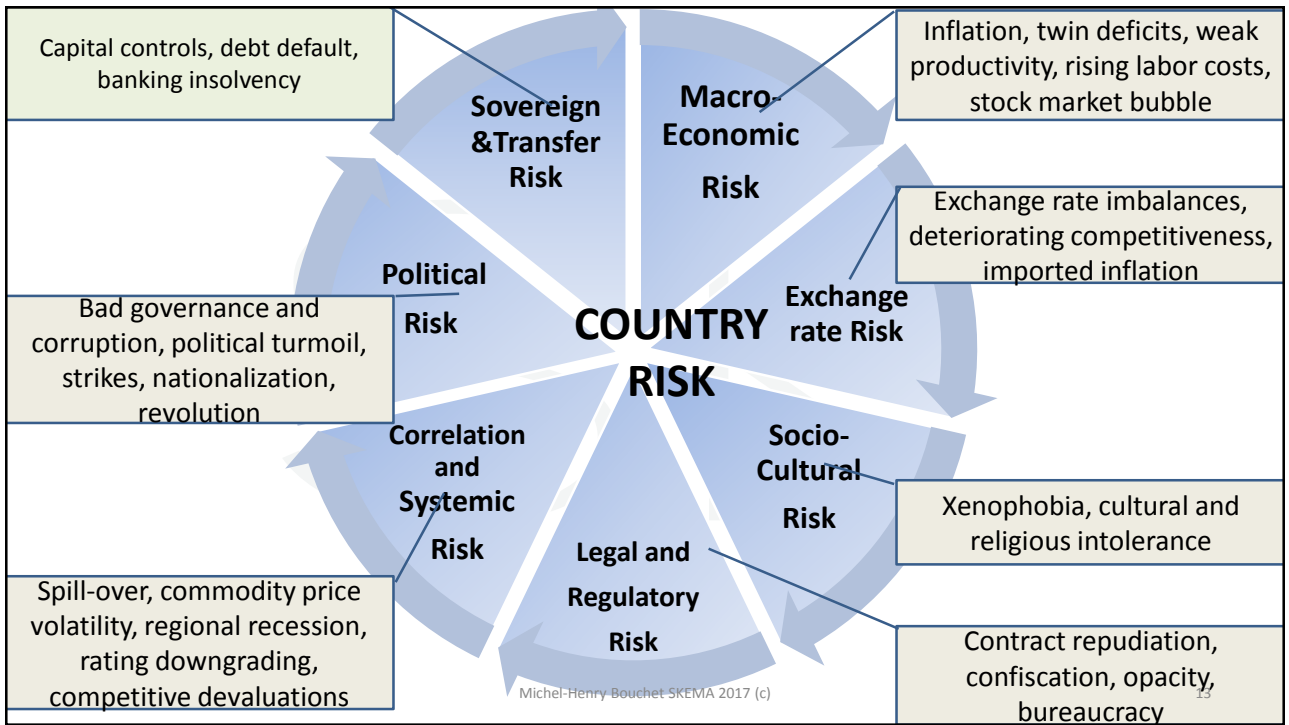
### THE TOP GLOBAL GDP 1950-2050 ?

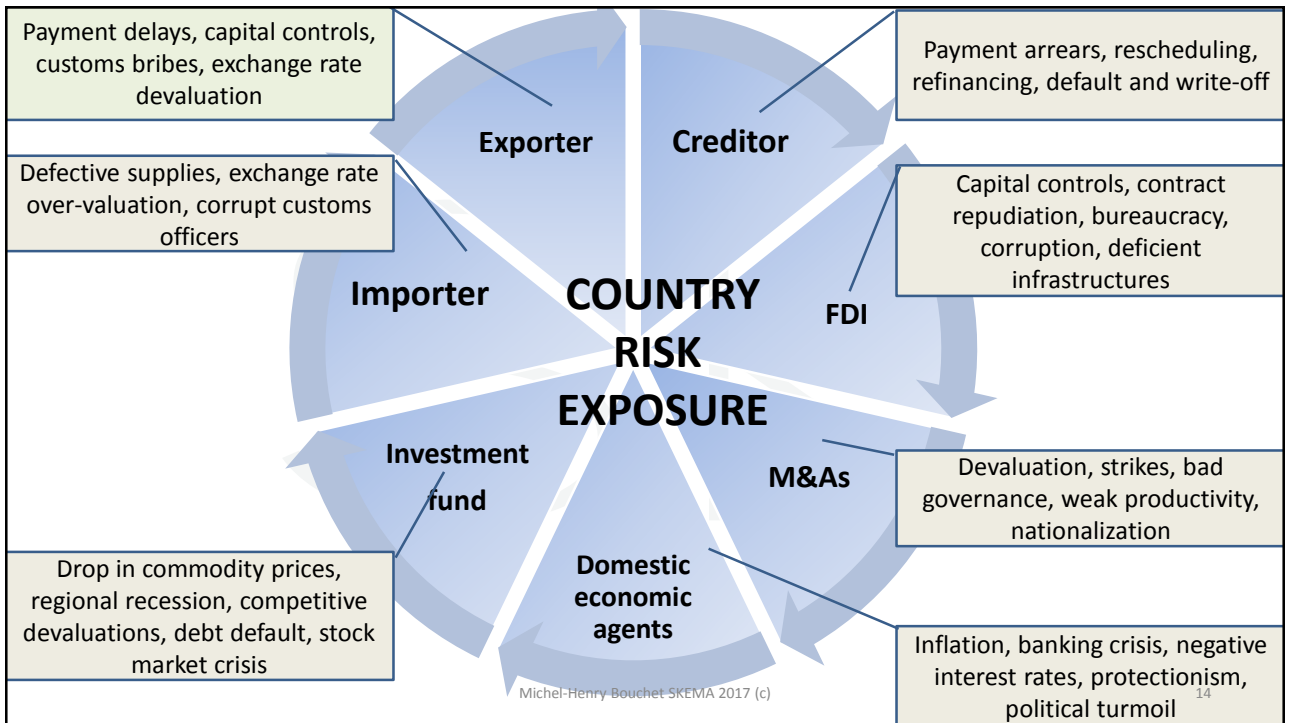


World Bank, PWCs, Credit Suisse

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## COUNTRY RISK ASSESSMENT

Reliable and updated information

= Economic intelligence

▶ **Robust risk analysis**

## ANALYSIS AND INFORMATION SOURCES

**IMF, World Bank, IFC & MIGA**  
**UNCTAD & UNDP**  
**Fed Reserve Bk of St Louis**  
**BIS, OECD, EBRD, EIB**  
**Coface, 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)**

