

<https://www.udemy.com/country-risk-in-the-age-of-global-turbulences/learn/lecture/11307282>

SK

SKEMA BUSINESS SCHOOL Country Risk Assessment

"Turning uncertainty into opportunity"

Introduction Sophia Campus

Michel Henry Bouchet
Global Finance –SKEMA

www.developingfinance.org



skema
BUSINESS SCHOOL

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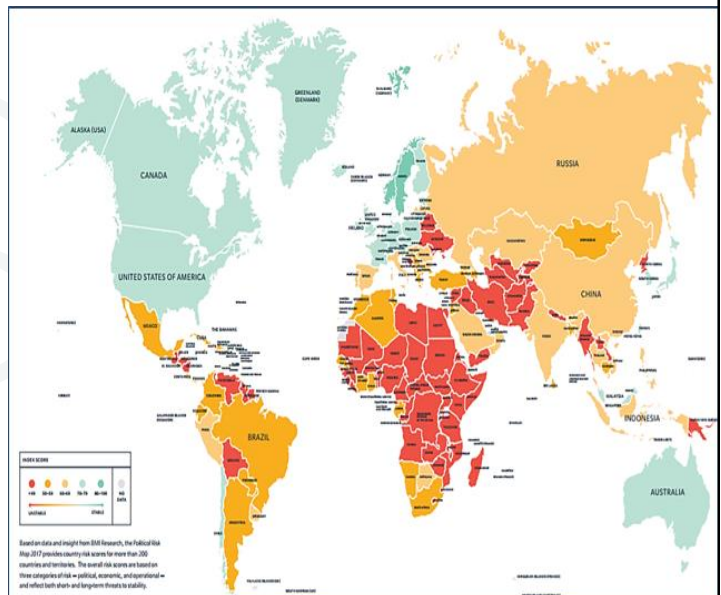
AACSB
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ASSOCIATION
AMBA
ACCREDITED

WHY IS COUNTRY RISK ON THE FRONT BURNER IN FALL 2019?

- Political upheaval in Tunisia, Spain, Ukraine, Turkey, Brazil, Greece, Venezuela
- Debt default in Cuba?
- Trade protectionism China-US
- Geopolitical turmoil US-Iran-North Korea
- European export headwinds
- Soft/Hard landing in China? Bubble bursting?
- Ongoing QE = Looming bond crisis?
- Risk of currency crisis in EMCs + Capital flight + Currency war?

Risk of spill-over is permanent!



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TOP COUNTRY RISKS 2019-2020?

US-Iran-Saudi Arabia
 EMCs currency volatility
 Turkey-NATO
 Trade protectionism + Currency war
 Erosion of institutions
 Wealth gaps between/within countries
 € Zone fragmentation?
 Brexit
 Africa: governance & corruption, debt

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FMI = BEYOND THE TECHNICAL STUFF AND THE COOKBOOK!



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Next financial crisis!



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Brent crude prices spike on Saudi disruption

\$ per barrel

An oil geopolitical risk premium!

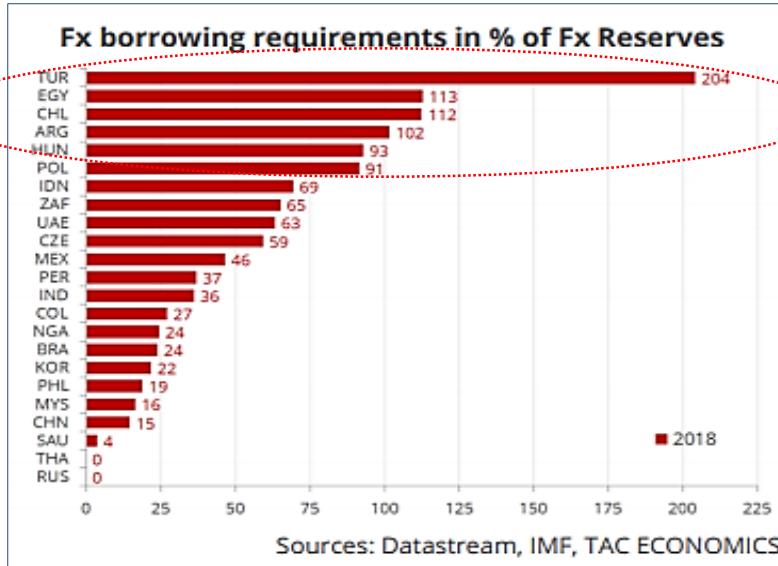


Source: Bloomberg
© FT

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TURKEY'S VULNERABILITY =

EXCESSIVE BORROWING REQUIREMENTS IN FOREIGN CURRENCY + LARGE ST DEBT TO BE ROLLED-OVER + LARGE AMORTIZATION ON LT EXTERNAL DEBT (\$170BN DUE) + SUBSTANTIAL CURRENT ACCOUNT DEFICIT

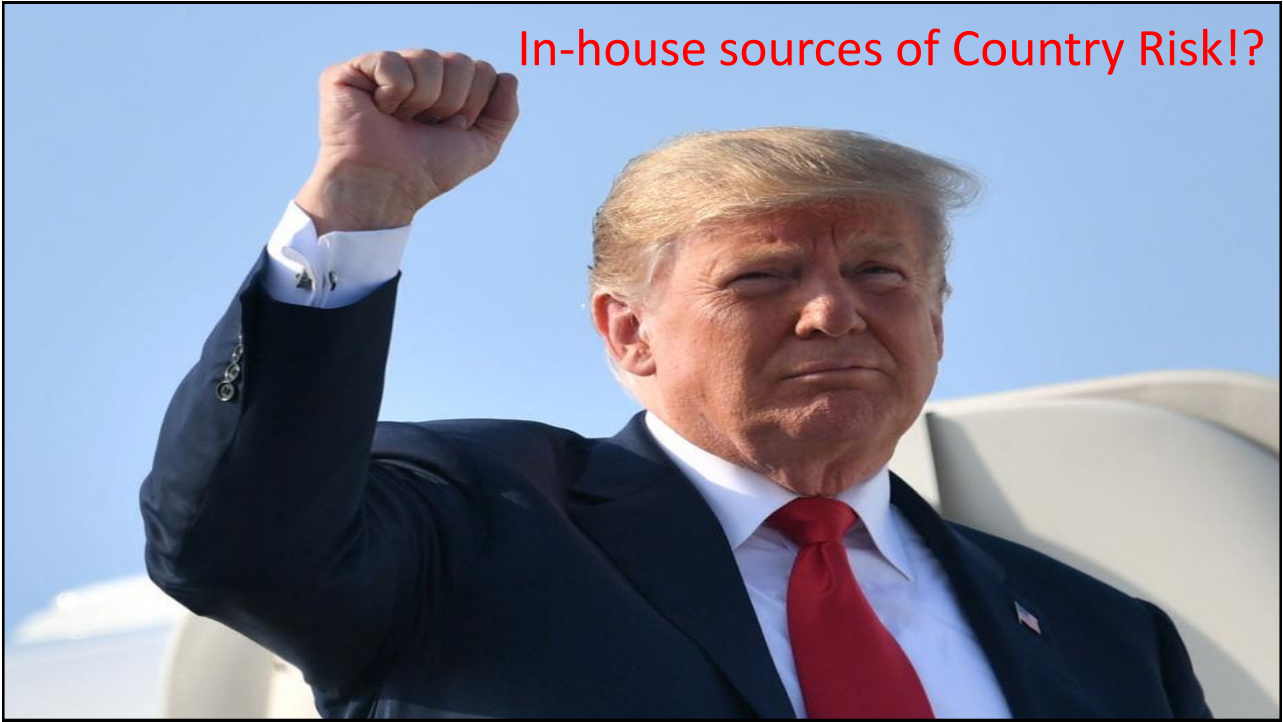


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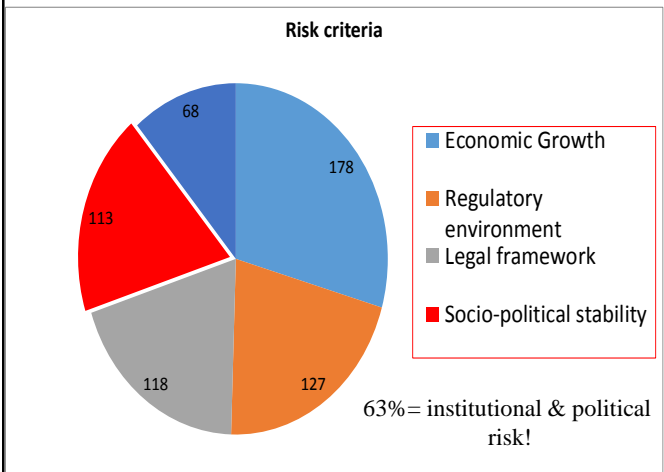
FRANCE'S 10 YEAR AVERAGE RATE OF BORROWING 1999-2019



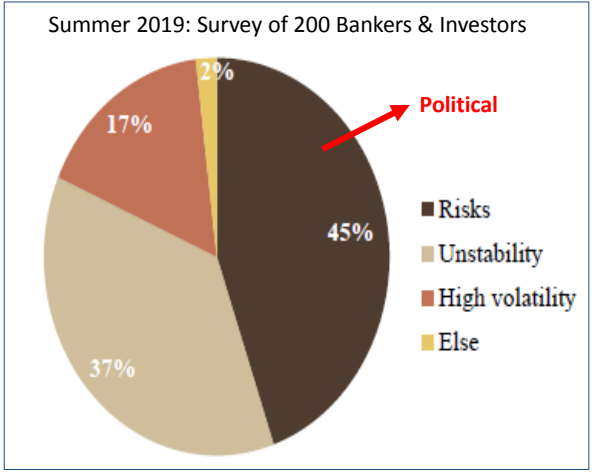
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WHERE DOES RISK COME FROM?



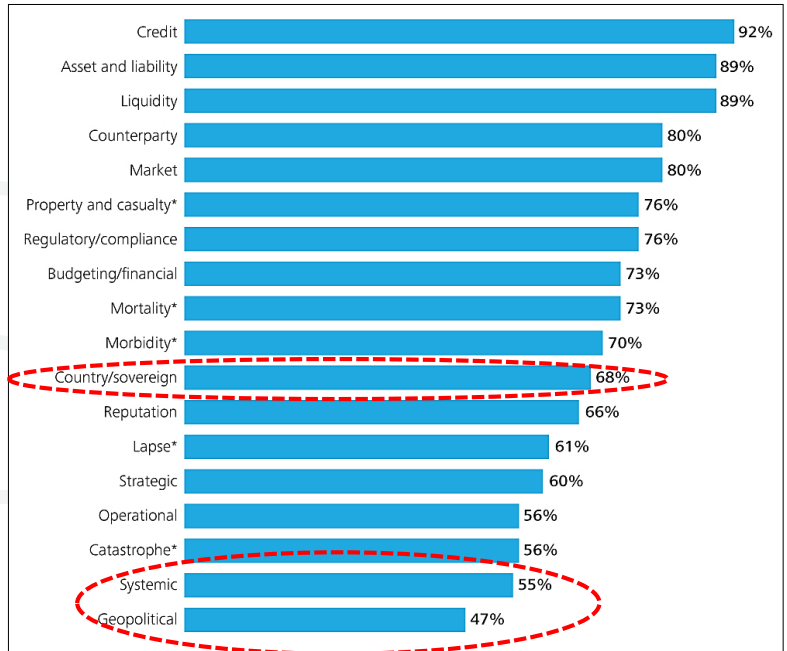
Source: The Banker Global Risk Asset Management Survey - FT



Source: Skema-FMI- Coillot & Marlier

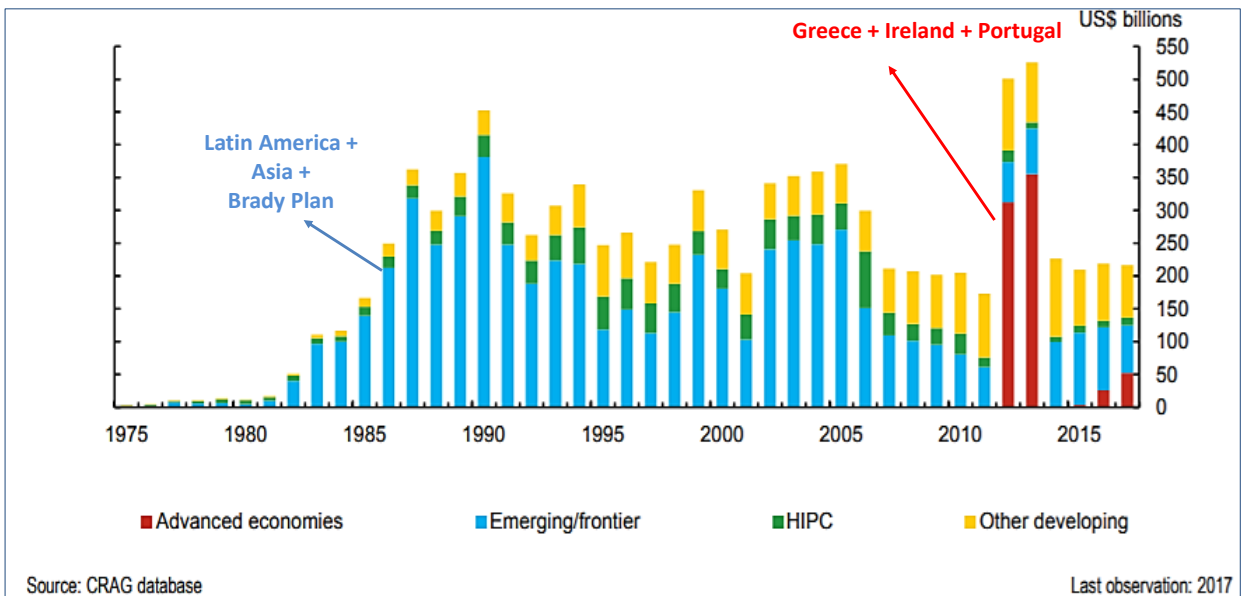
DELOITTE'S SURVEY OF RISK MANAGEMENT:

« IS YOUR ORGANIZATION EFFECTIVE IN MANAGING RISKS? »



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SOVEREIGN DEBT IN DEFAULT, BY DEBTOR (EMCS OR OECD?)



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SOME OF THE BIGGEST SOVEREIGN DEFAULTS SINCE 2000:

- 1. Argentina, \$82 billion, December 2001:** Insolvency cycles since 1827. New partial default in end-2014
- 2. Ecuador, \$3.2 billion, December 2008:** Default on \$31 million interest payment, in the wake of Ecuador's 1999 default. In June 2014, \$2 b. of 10-year bonds in return to capital markets
- 3. Jamaica, \$7.9 billion, February 2010:** Public debt as a share of GDP (both domestic and external) reached 130% in 2010.
- 4. Greece, \$138 billion, March 2012:** (first sovereign default in the 4th century BC, by 10 Greek municipalities). Greece failed to record a budget surplus since 1973. **€110 billion** bailout from the European Union and IMF in May 2010 + **€86 billion** bail-out in mid-2015

Many defaults in EMCs in 2017-2019, including Mozambique and Congo and China's corporate bond market

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CHINA'S LOCAL CURRENCY CORPORATE BOND MARKET

Yields near 7% flag danger for corporate refinancing

■ China AA- Corporate Bond Yield



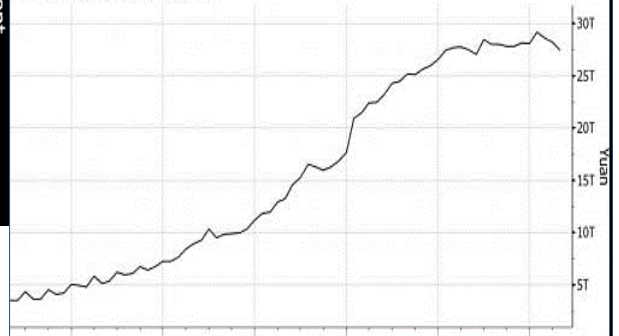
Source: ChinaBond



Just Off Peak

Banks' lending to other financial firms drops to one-year low

■ Chinese banks' claims on other financial firms



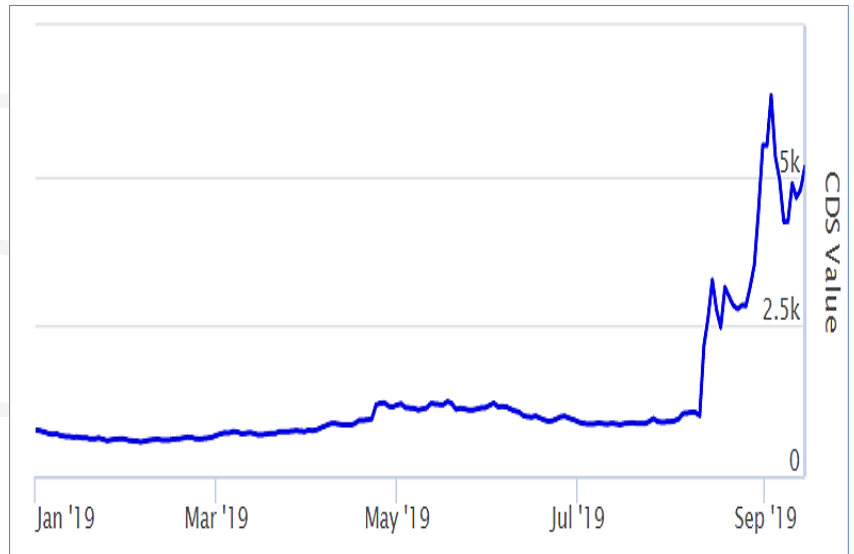
Source: Bloomberg, PBOC

Bloomberg

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SEPT. 2019: ARGENTINA'S FREE FALL STOCK MARKET AND RISING DEFAULT PROBABILITY

The Argentina 5 Years Sovereign CDS reached a maximum value of 19387 (06/2016) and a minimum yield of 218 (01 2018) before jumping to 5000 in 09/2019, hence a 85% implied probability of default, on a 40% recovery rate



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COUNTRY RISK SEMINAR

► Five key objectives:

1. **Identifying** the key components of country risk (economic, financial, socio-political, regional)
2. Grasping the new challenges of country risk in the global economy (**spill-over and contagion!**)
3. Identifying the **sources of information** and economic intelligence
4. Exploring the various techniques for **risk analysis** and **risk mitigation**
5. Focusing on both **EMCs ...** and **OECD**

► 5 Academic tools

ME

1. A Book (McMillan-Palgrave 2018)
2. 12 course sessions with lectures and debates
3. A Mooc (15 videos + slides + quiz)
4. Background documents
5. A website: <http://www.developingfinance.org>

ME & YOU

1. Students' group work: **breaking news**
2. **Solvencia Case study**
3. **Country Risk Research report**

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WHAT IS RISK?

▶ “Risk means more things **can** happen than will happen.”

Elroy Dimson

Risk is always related to **uncertainty**, i.e.,
a deficit of **information!**

“It is always wise to look ahead, but difficult to look further than you can see.”



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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, Euler-Hermes, SACE
Moody's, S&P, Fitch, Dagong
Euromoney, Institutional Investor
CIA & US State Dept, ICRG
Transparency International
Hiscox, AON, Control Group, Marsh
DEFI www.developingfinance.org

The collage includes the following elements:

- DEFI DEVELOPING FINANCE** logo
- OXFORD ECONOMICS** logo
- Book cover: **Country and Political Risk**, 2nd Edition, Edited by Sam Wilson
- Book cover: **La globalisation**, Introduction à l'économie du nouveau monde, Michel-Henry Bouchet
- Book cover: **Country risk assessment**, A Guide to Global Investment Strategy, Michel-Henry Bouchet, Ephraïm Clark, Bertrand Gros Lambert
- Control Risks** logo
- AON** logo with tagline "Empower Results"
- Euler-Hermes** logo with tagline "Our knowledge serving your success"
- coface** logo with tagline "FOR SAFER TRADE"
- INTERNATIONAL MONETARY FUND** logo
- THE WORLD BANK** logo

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TEXTBOOKS & RESEARCH PAPERS

1. Bouchet, Goguel, Fishkin: **Country Risk Management**, Palgrave, 2018
2. Bouchet & Goguel: **The shortcomings of country risk models**, 2019
3. Bouchet, Clark & Gros Lambert, « **Country risk assessment** », N.Y. Wiley
4. Bouchet, M & Gros Lambert, B: « **Governance & Country Risk** », in Governance and Risk in Global and Emerging Markets, Palgrave
5. Bouchet MH, « **In search of a country risk barometer?** », World Financial Review, Summer 2013
6. Bouchet MH: « **Capital Flight as early warning indicator of country risk** »: Oxford Economics-2015
7. Peter Bernstein, « **Against the gods- The history of Risk** », Wiley 1998

ALL FILES on : www.developingfinance.org
 + Skema Knowledge K2 + UDEMY MOOC

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- What we shall **not** do: learning a few techniques and using tools just for the sake of making abstract calculations!
- What we shall do : Using a wide range of methods of risk analysis to enhance the quality of economic intelligence
- Don't present breaking news but instead break the news down while keeping a close eye on the markets (FT, Reuters, Bloomberg, EIU, The Economist, CIA reports, IMF...)

Get access to key websites with reliable sources of risk information:
 Bloomberg, S&Ps, Moody's, CIA, BIS, IMF, WB, IIF, Paris Club, WEF,
 Coface, DEFI: www.developingfinance.org

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ORGANIZATION OF THE COURSE

10 groups of 3-4 students

1. 10 sessions with *concise* “**Country Risk Hot Spots**” =< 15 minute oral interventions focused on country risk topics: **what is on the front burner?** Random calls!
2. Each group works on a specific **Country risk strategy report** (Word or PPT : to be submitted on final session October 14) **25 slides or 10 pages**
3. Case study: **Solvencia**

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COURSE ORGANIZATION FMI SOPHIA CAMPUS

TUESDAY SEPT 25	MONDAY SEPT 30	WEDNESDAY OCT 1	MONDAY OCT 2	MONDAY OCT 7	TUESDAY OCT 14
SESSION 1	SESSION 3	SESSION 5	SESSION 7	SESSION 9	SESSION 11
Introduction: What is Risk? Quiz	Group 1 BOP Liquidity Solvency	Group 3 Debt restructuring analysis	Group 5 Political Risk PRINCE MODEL	Group 7 Political Risk	Group 9 Capital Flight
SESSION 2 What is Country Risk?	SESSION 4 Group 2 Debt Analysis	SESSION 6 Group 4 Ratings & rankings	SESSION 8 Group 6 Assessing Governance And corruption	SESSION 10 Group 8 Assessing Governance in OECD countries	SESSION 12 Group 10 Assessing Governance Wrap up! SOLVENCIA

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COUNTRY RISK STRATEGY REPORT - METHODOLOGY:

- 1. WHERE?** In which **country**?
- 2. WHAT?** Define your “**risk exposure**” : *MNC, FDI, investment fund, banking? Lending, investing, trading, exporting?*
- 3. WHEN?** Time horizon
 - Specify the main **types of risks** (economic or socio-political, financial, labor costs, infrastructure, institutions...)
 - Identify a wide range of information sources
 - Think “global” : never lose sight of the global environment (regional contamination and spill-over effects)
 - Work burden sharing in each team
 - Conclude with specific strategy decisions

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COUNTRY RISK STRATEGY REPORT - METHODOLOGY:

A **Country Risk Report** is NOT a country report (population, climate..)

Aim 1: Students decide implementing a **specific country risk strategy/exposure** (fund, investment, export, FDI, loan, import...)

Aim 2: Identify the **main country risk features** (devaluation, inflation, strikes...)

Aim 3: Analyze the range of **hedging options** (including not investing or not lending!)

Aim 4: Concluding: **Yes/No**

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COUNTRY RISK RESEARCH TOPICS ?

1. Portfolio investment in Vietnam: the HCMV stock market
2. Venezuela's bond yields
3. Secondary market trading in West Africa?
4. CDS : Brazil versus Lebanon
5. Greece: real estate investment bonanza?
6. Cocoa market : Ghana-Ivory Coast agreement
7. Tunisia's debt structure vs Morocco
8. Political risk turmoil in Brazil
9. Spain-Portugal: tourism investment target?
10. FDI project: China versus Cambodia/Bangladesh/Vietnam

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COUNTRY RISK RESEARCH PROJECT?

« Success » or « horror » stories in country risk

11. Suez in Argentina pre- and post peso devaluation
12. SIEMENS in China
13. Total's strategy in Angola
14. Oil companies in Chad
15. LVMH in China (Yuan?)
16. Repsol in Argentina and Bolivia (nationalization)
17. Lafarge-Holcim in North Korea between 2008 and 2018 (Sangwon Cement)

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GETTING READY FOR SEASONED COUNTRY RISK ANALYSIS!

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COUNTRY RISK ANALYSIS¶ Republic of Solvencia and the International Capital Markets¶

MICHEL HENRY BOUCHET¶

Annex¶

Background Information for Solvencia's Eurobond Request to
CASINO BANK¶

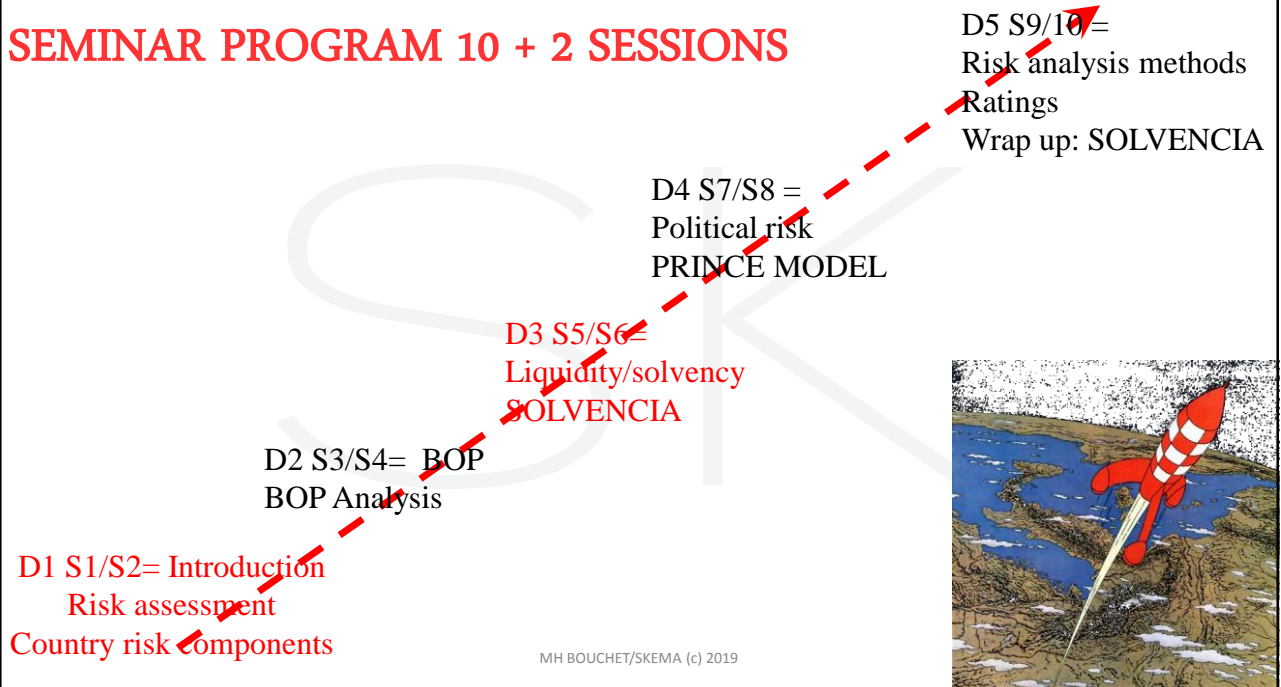
For further information:¶

www.developingfinance.org¶

Fall 2016		Source: Solvencia National Statistics Agency SNSA - October 2016													
COUNTRY RISK ANALYSIS		SOLVENCIA													
A	DOMESTIC ECONOMY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	DOMESTIC ECONOMY (constant prices)														
	Real GDP (local currency billion)	5 055	5 300	5 785	6 350	7 000	7 150	7 100	7 300	7 600	7 865	8 250	8 750	9 350	9 250
	Nominal GDP (local currency billion)	51 125	53 000	57 000	63 000	72 000	85 000	88 000	91 000	96 000	103 000	116 000	130 000	148 000	170 000
	GDP deflator % change	5,00%	3,67%	7,55%	10,53%	14,29%	18,06%	3,53%	3,41%	5,49%	7,29%	12,62%	12,07%	13,85%	14,86%
	Nominal GDP (\$ billion)	51,13	51,21	52,05	54,55	51,80	50,00	49,44	49,19	49,23	50,74	57,00	63,73	72,20	68,00
	Nominal GDP per capita \$	8 521	8 351	8 323	8 550	7 960	7 533	7 317	7 151	7 031	7 118	7 863	8 643	9 628	8 917
	Exchange Rate	1 000	1 035	1 095	1 155	1 390	1 700	1 780	1 850	1 950	2030	2035	2040	2050	2500
	Rate of ER depreciation														
B	BALANCE of PAYMENTS (\$ million)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Trade Balance	-1 130	-411	-1 577	-2 494	-4 000	-1 050	1 040	1 270	300	-500	-1 500	-4 000	-3 850	750
	Merchandise exports	4 882	6 151	7 910	8 061	9 000	10 500	11 000	12 000	13 800	14 000	13 500	12 000	13 650	15 000
	Merchandise imports	-6 012	-6 562	-9 487	-10 555	-13 000	-11 550	-9 960	-10 730	-13 500	-14 500	-15 000	-16 000	-17 500	-14 250
	Balance on Services, Income & Transfers	-699	-529	-1 044	-2 201	-3 281	-2 107	-75	629	403	465	-184	-1 967	-3 010	-1 263
	Services & income receipts	824	1 008	1 464	1 652	1 447	1 629	2 251	2 594	2 730	2 590	2 769	2 244	2 150	2 750
	Exports of services	697	879	1 130	1 152	1 286	1 500	1 571	1 714	1 800	1 750	1 929	1 714	1 500	1 850
	Interest receipts	124	120	317	486	146	70	650	850	900	800	800	500	600	850
	Other services & income receipts	2	9	17	15	15	59	30	30	30	40	40	30	50	50
	Services & income payments	-1 737	-1 832	-3 133	-4 448	-5 197	-4 352	-3 077	-2 796	-3 207	-2 825	-3 452	-4 611	-5 385	-4 913
	Imports of services	-902	-984	-1 423	-1 583	-1 950	-1 733	-1 494	-1 610	-2 025	-2 175	-2 250	-2 400	-2 625	-2 138
	Interest payments	-831	-835	-1 681	-2 831	-3 197	-2 460	-1 433	-1 006	-992	-450	-802	-1 711	-2 235	-2 224
	Other services & income payments	-4	-12	-29	-33	-50	-160	-150	-190	-200	-400	-500	-500	-525	-551
	Transfers, net	214	295	625	594	489	616	750	830	880	700	500	400	225	900
	Private transfers, net	103	182	320	394	269	565	600	630	630	450	400	300	125	650
	Official transfers, net	111	113	305	200	200	51	150	200	250	250	100	100	100	250
	Current Account	-1 829	-940	-2 621	-4 695	-7 281	-3 157	955	1 899	703	-35	-1 684	-5 967	-6 860	-513

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SEMINAR PROGRAM 10 + 2 SESSIONS



GRADING SYSTEM

- ✓ CR Oral Presentations and participation = 20%
(random calls + debates)
- ✓ Solvencia Case study= 20% (last session)
- ✓ Research projects = 25% (last + 10 days)
- ✓ Final exam = 35%

Σ 100% !



ORGANIZATION

- ▶ ✉ Michelhenry.bouchet@skema.edu
- ▶ Appointments ☎ 0493954596
- 1. Urgency 1: ☎ 0033-658176702
- 2. Urgency 2: ☎ 0034-633335422
- 3. Urgency 3: ☎ 00216-21016000
- ▶ Course slides on Skema-K2
- ▶ **Web site of Global Finance Center:**
<https://www.developingfinance.org>



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COUNTRY RISK QUIZ!



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