

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

SK

SKEMA BUSINESS SCHOOL
Country Risk Assessment

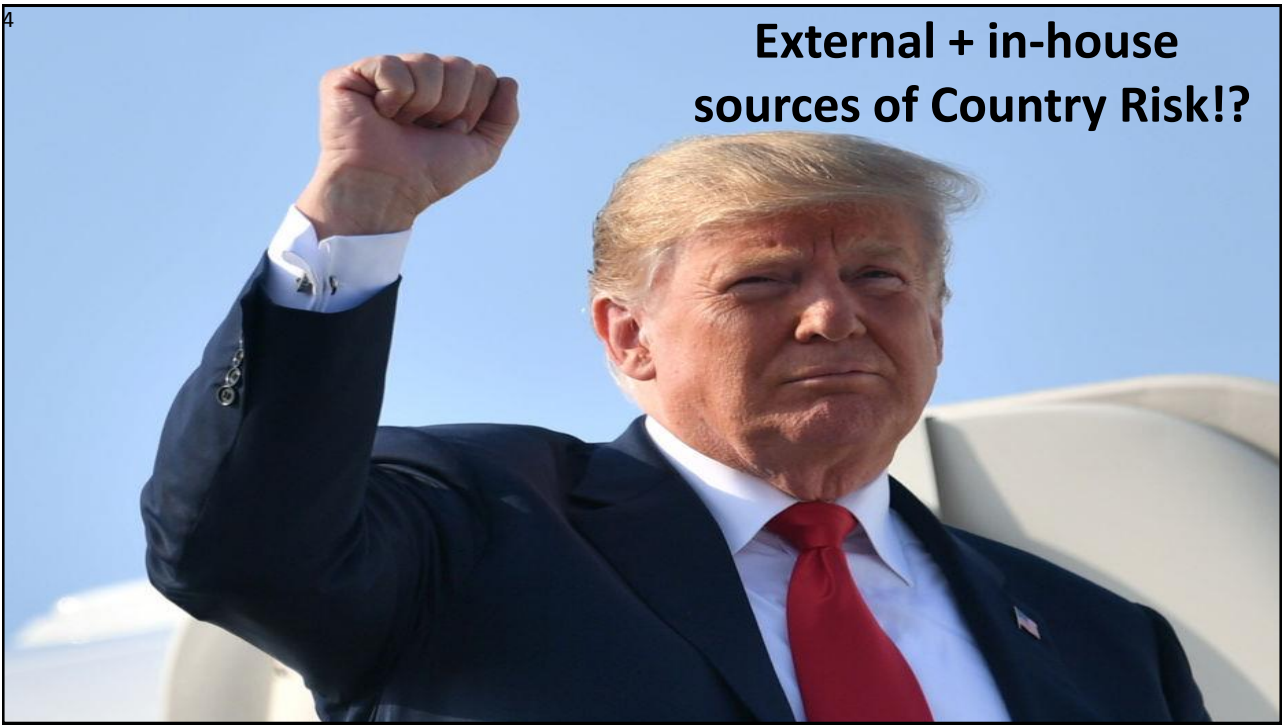
“Turning uncertainty into opportunity”

Introduction Paris Campus

Michel Henry Bouchet
Global Finance –SKEMA

www.developingfinance.org



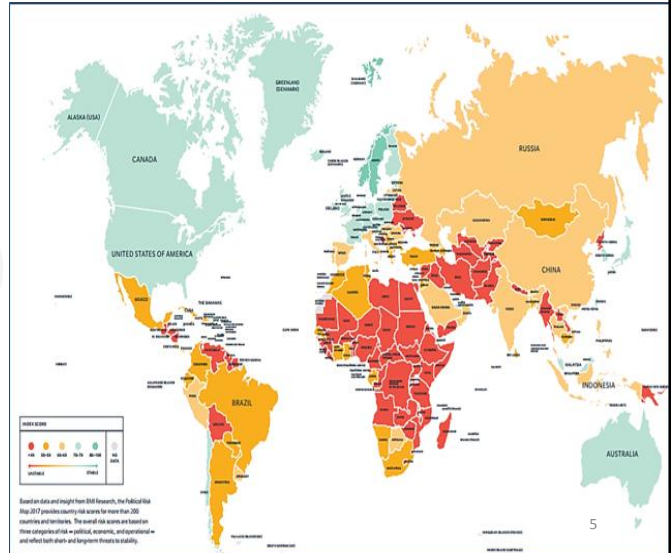


WHY IS COUNTRY RISK ON THE FRONT BURNER IN FALL 2019?

- Political upheaval in Tunisia, Cataluña, Turkey, Brazil, Greece, Venezuela
- Debt default in Cuba or in Argentina?
- Trade protectionism US-China
- European export headwinds from stronger €
- Soft/Hard landing in China? Bubble bursting?
- Upcoming rate hike = Looming bond crisis?
- Risk of currency crisis in EMCs + Capital flight

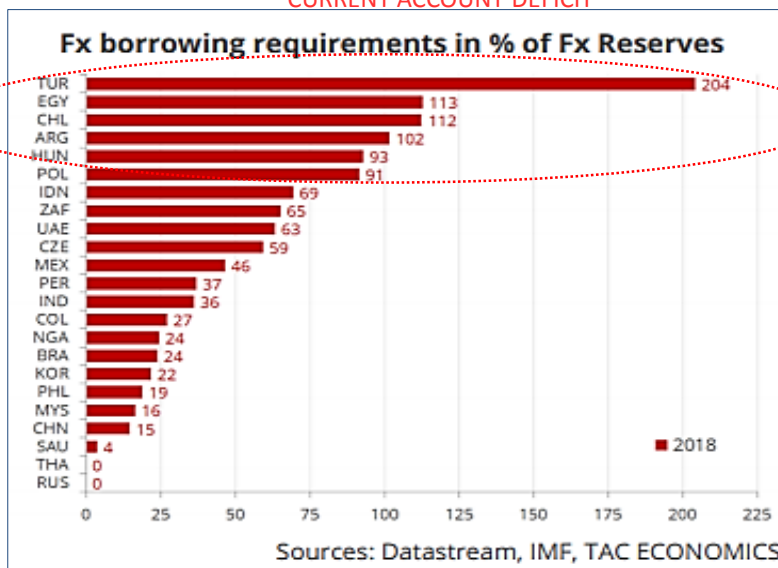
Risk of spill-over is permanent!

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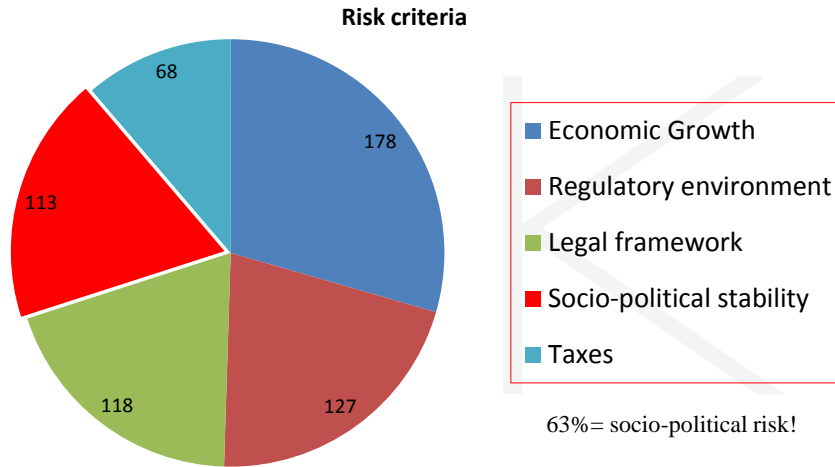
TURKEY'S VULNERABILITY AT END-2018=

EXCESSIVE BORROWING REQUIREMENTS IN FOREIGN CURRENCY + LARGE ST DEBT TO BE ROLLED-OVER + LARGE AMORTIZATION ON LT EXTERNAL DEBT (\$170BN DUE FOR THE WHOLE YEAR 2018) + SUBSTANTIAL CURRENT ACCOUNT DEFICIT



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THE BANKER GLOBAL RISK ASSET MANAGEMENT SURVEY=
WHERE DOES RISK COME FROM?

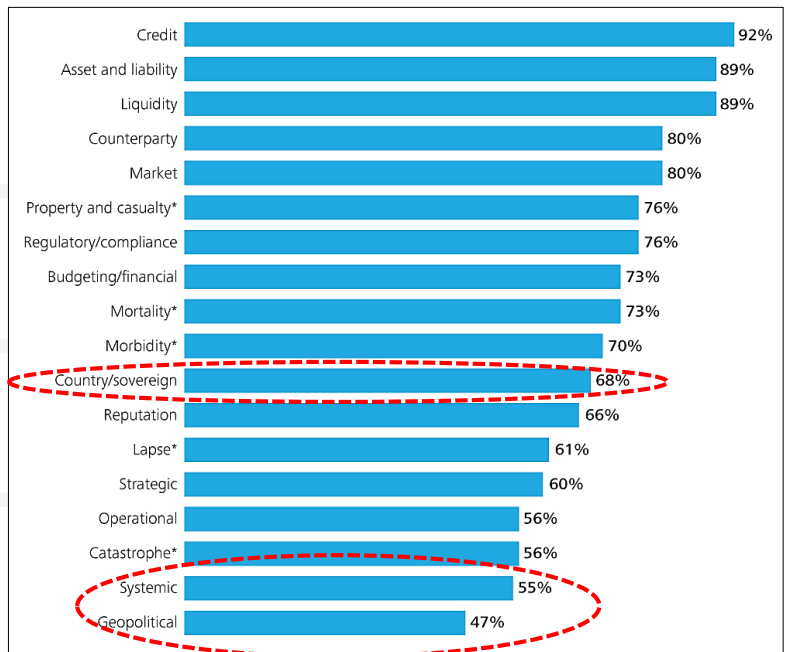


Source: FT



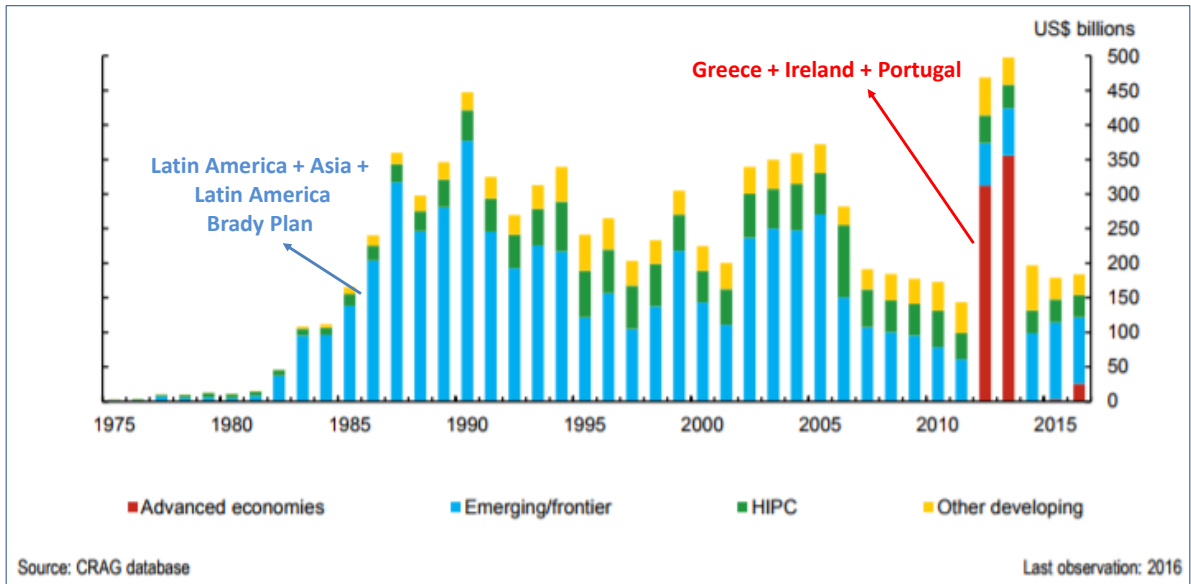
DELOITTE'S SURVEY OF RISK
MANAGEMENT:

« IS YOUR
ORGANIZATION
EFFECTIVE IN
MANAGING
RISKS? »



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SOVEREIGN DEBT IN DEFAULT, BY DEBTOR



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9

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
5. Many defaults in EMCs in 2017-2019, including Mozambique and Congo, and Cuba in 2019?

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TOP COUNTRY RISKS 2019-2020?

EMCs currency volatility: peso, lira, rupee

Turkey-NATO

US-Iran

China-US trade protectionism + currency war!

Erosion of institutions

Wealth gaps

€ Zone fragmentation?

UK Brexit

Africa: governance & corruption, debt

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CHINA'S LOCAL CURRENCY CORPORATE BOND MARKET

Yields near 7% flag danger for corporate refinancing

■ China AA- Corporate Bond Yield



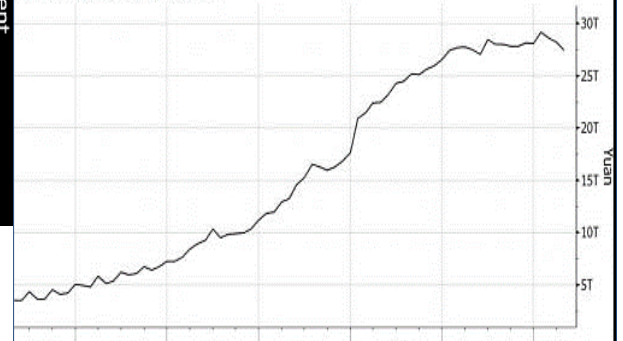
Source: ChinaBond



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

The Argentina 5 Year Sovereign CDS reached a maximum value of 19387 (06/2016) and a minimum yield of 218 (01/2018) before jumping to 2640 in 08/2019, hence a 44% implied probability of default, on a 40% recovery rate



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

1. A Book (McMillan-Palgrave 2018)
2. Country risk Introduction
3. A Mooc (15 videos + slides + quiz)
4. Background documents
5. <http://www.developingfinance>

K2

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.”



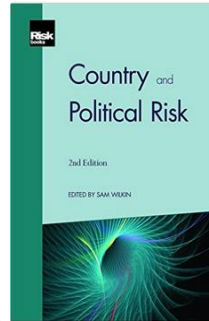
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15

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

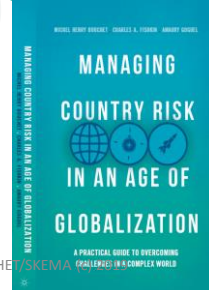
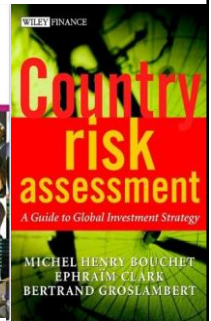
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La globalisation

Introduction à l'économie du nouveau monde

Michel-Henry Bouchet



Control Risks



16

TEXTBOOKS & RESEARCH PAPERS

1. Bouchet & Goguel: « The shortcomings of country risk models »: *Journal of Risk Management*, 2019
2. Bouchet, Goguel, Fishkin: *Country Risk Management*, Palgrave, 2018
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
8. L. van Efferink, *Country risk analysis*, FMS, NIBESVV, Amsterdam

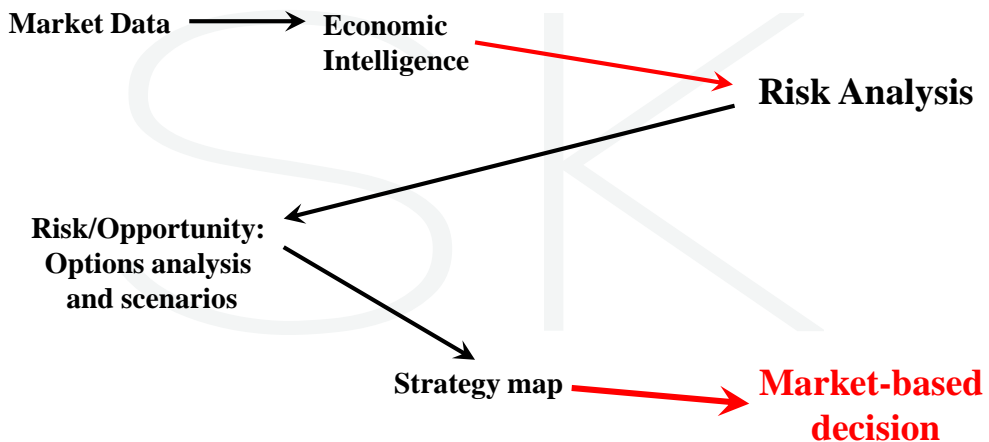
ALL FILES on : www.developingfinance.org

+ Skema Knowledge K2

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17

WHY DAILY REVIEWS OF COUNTRY RISK NEWS ARE SO IMPORTANT FOR THE SEASONED RISK ANALYST?



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18

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

COURSE ORGANIZATION FMI PARIS CAMPUS

T U E S D A Y S E P T E M B E R S E S S I O N 1	MONDAY SEPT 9		W	M	M
	Session 1: Introduction: What is risk all about? quiz		E	O	O
			D	N	N
	Session 2: What is Country Risk about?		N	D	D
			E	A	A
	SESSION 3		S	Y	Y
			D	O	O
	Group 1: Political risk and early warning signals & Case studies		A	C	C
			Y	T	T
	Group 2: Political risk and early warning signals & Case studies		O	7	1
			C		4
	SESSION 3		T		
			2		
	Group 1: Political risk and early warning signals & Case studies		S	S	S
E			E	E	
Group 2: Political risk and early warning signals & Case studies		S	S	S	
		S	S	S	
SESSION 3		I	I	I	
		O	O	O	
Group 1: Political risk and early warning signals & Case studies		N	N	N	
		5	7	9	
SESSION 3		G	G	G	
		G	G	G	

ORGANIZATION OF THE SEMINAR

10 groups of 3-4 students

- Case study: Solvencia
- MOOC on UDEMY
- www.developingfinance.org

COUNTRY RISK STRATEGY REPORT - METHODOLOGY:

A **Country Risk Report** is NOT a Country report

Aim 1: Students propose a solution to implement a specific country risk strategy.

Aim 2: The report is focused on a specific risk exposure in a foreign country (investing, lending, advising, exporting, or importing)

Aim 3: Identify the main country risk features and the range of hedging options (including **not** investing or not lending!)

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

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-Malaysia
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

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 2017 (Sangwon Cement)

GETTING READY FOR
SEASONED COUNTRY
RISK ANALYSIS!

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	7 855	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	145	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	-180	-190	-200	-400	-500	-525	-551
	Transfers, net	214	295	625	594	469	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	965	1 899	703	-35	-1 684	-5 967	-6 860	-513

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27

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>

Country Risk in the Age of Global Turbulences

<https://www.udemy.com/country-risk-in-the-age-of-global-turbulences/learn/v4/overview>

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28

COUNTRY RISK QUIZ TIME!



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29