



# 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, investment fund, supplier, client, partner..
- ▶ Country risk is composed of a complex combination of **political, financial and macro-economic risk**

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

### Operational definition:

**Set of interdependent economic, financial and socio-political factors, specific to a country in the global economy, which can affect both domestic and foreign economic agents**

- ▶ 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**

## 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!



## COUNTRY RISK IN THE AGE OF DONALD TRUMP

### Direct «Hard Risks»

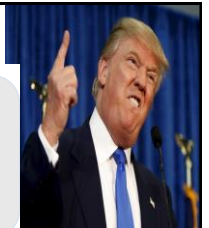
- **Risk materialization directly hurts US business:** outbreak of a military conflict between North Korea and the United States; sharp rise in interest rates and fall in bond prices; stock market crash; large weakening of USD; trade retaliation by Mexico, China, and Canada; mounting trade and geopolitical tensions with China and Russia

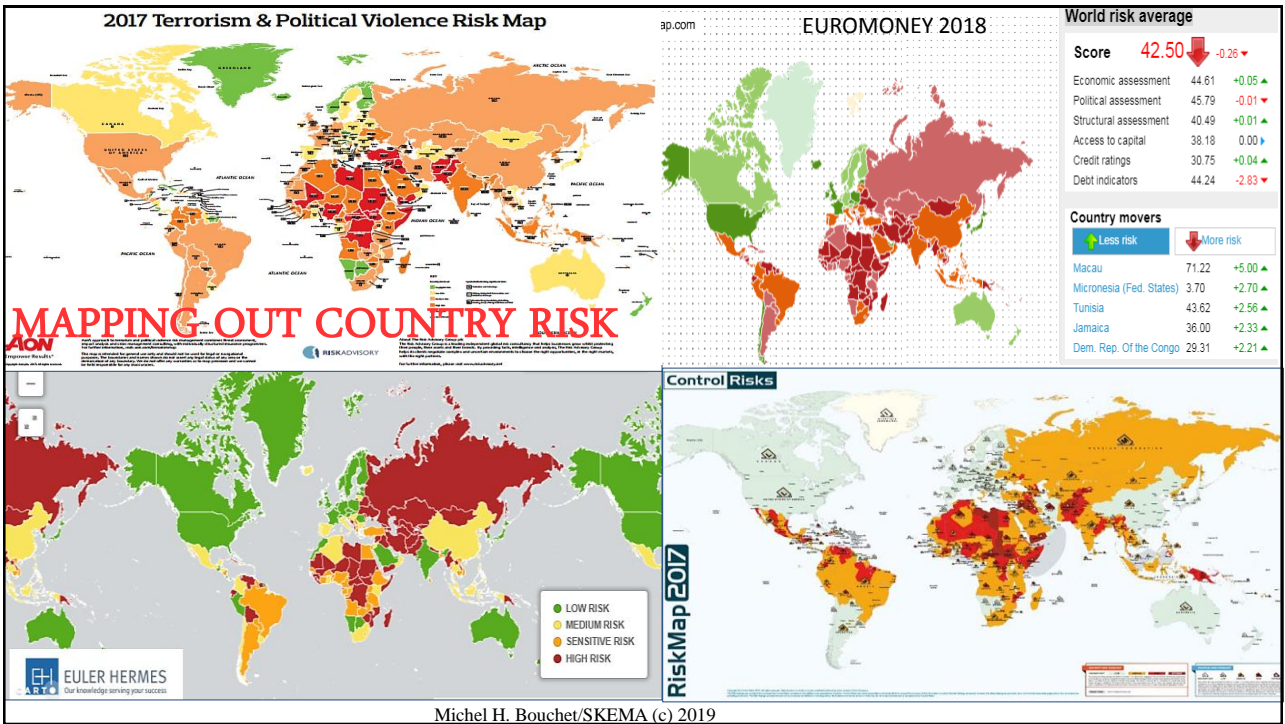
### Indirect «Surrounding Risks»

- **Risk materialization stems from a more hostile environment:** protracted stalemate between White House and Congress regarding budgetary policy and National Security Strategy; ongoing saber-rattling with Iran, Turkey, and Pakistan; regional crisis in the Western Hemisphere and in the Middle East; protracted renegotiation of NAFTA

### Collateral damages

- **Risk materialization as byproduct of unfavorable interactions between power groups:** Impeachment of Donald Trump; global protectionism; geopolitical volatility; mounting wealth gap; pressure groups and hostile NGOs; rising protectionism in OECD





**TACKLING COUNTRY RISK**

**COUNTRY + RISK**

► **Country** = sovereign entity, culture and values, geographical distance, national laws and regulations, socio-political parameters

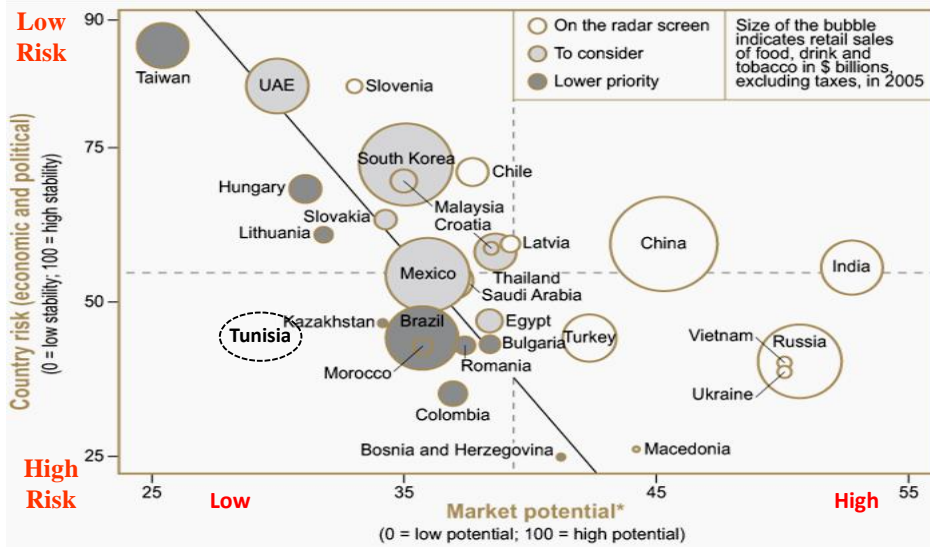
► **Risk** = lack of perfect information in real time, spill-over effect, abrupt changes

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8

## MOST ATTRACTIVE EMERGING MARKETS?

= COMBINING RISK EXPOSURE + MARKET OPPORTUNITIES

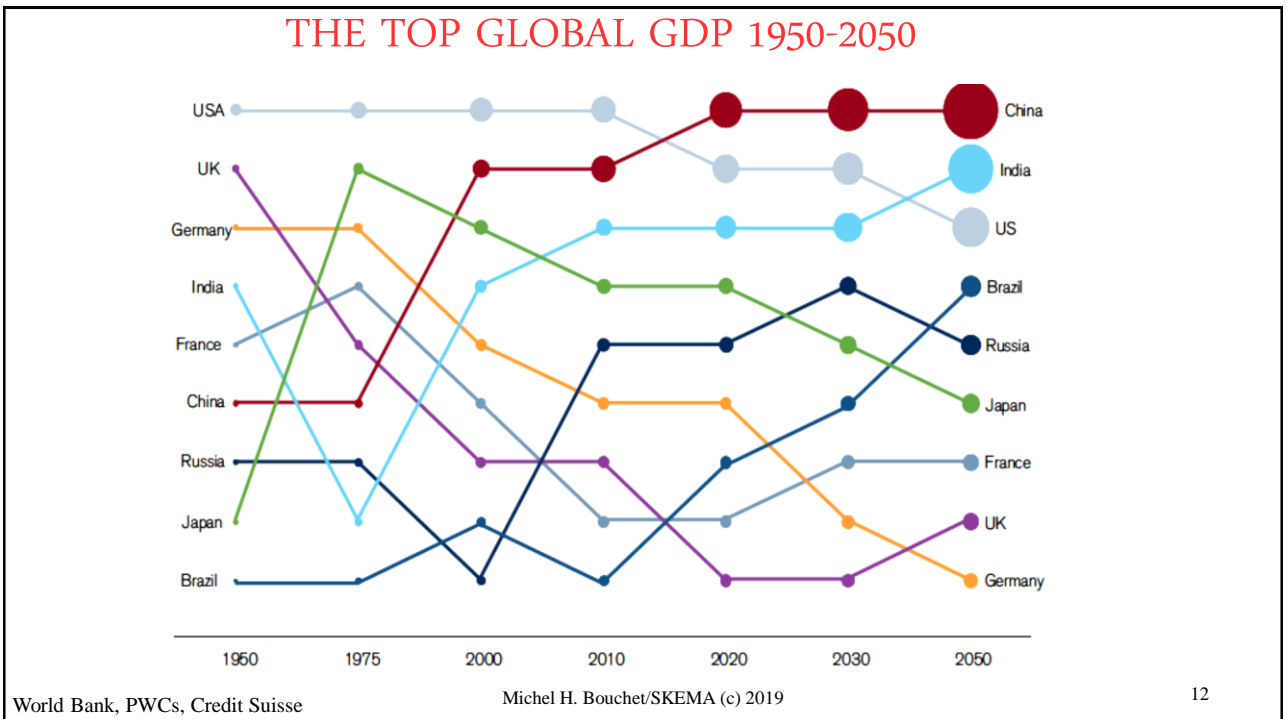
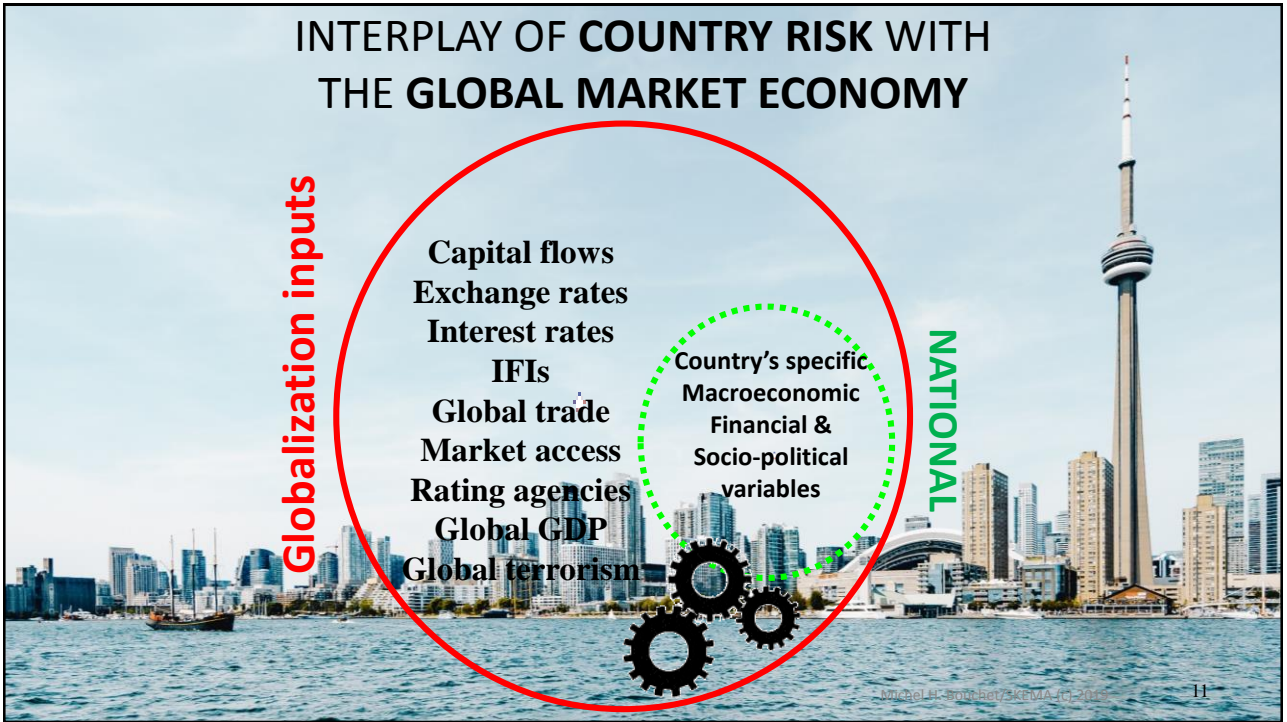


\* Based on weighted score of market attractiveness, market saturation and time pressure scores  
Source: A.T. Kearney

## AT KEARNEY FDI CONFIDENCE INDEX

*GOVERNANCE MATTERS!*

Ranking			Score	
2017	2018	2019		
1	1	1	United States	2.10
2	3	2	Germany +	1.90
5	2	3	Canada -	1.87
4	4	4	United Kingdom	1.85
7	7	5	France +	1.79
6	6	6	Japan	1.78
3	5	7	China -	1.72
13	10	8	Italy +	1.67
9	8	9	Australia -	1.67
10	12	10	Singapore +	1.65
11	15	11	Spain +	1.62
14	13	12	Netherlands +	1.61
12	9	13	Switzerland -	1.59
-	20	14	Denmark +	1.58
15	14	15	Sweden -	1.55
8	11	16	India -	1.54
18	18	17	South Korea +	1.54
22	21	18	Belgium +	1.54
23	16	19	New Zealand -	1.52
20	19	20	Ireland -	1.52
24	24	21	Austria +	1.50
-	-	22	Taiwan (China) +	1.50
-	-	23	Finland +	1.50
-	23	24	Norway -	1.49
17	17	25	Mexico -	1.49



# WHAT ABOUT THE KEY COMPONENTS OF COUNTRY RISK?



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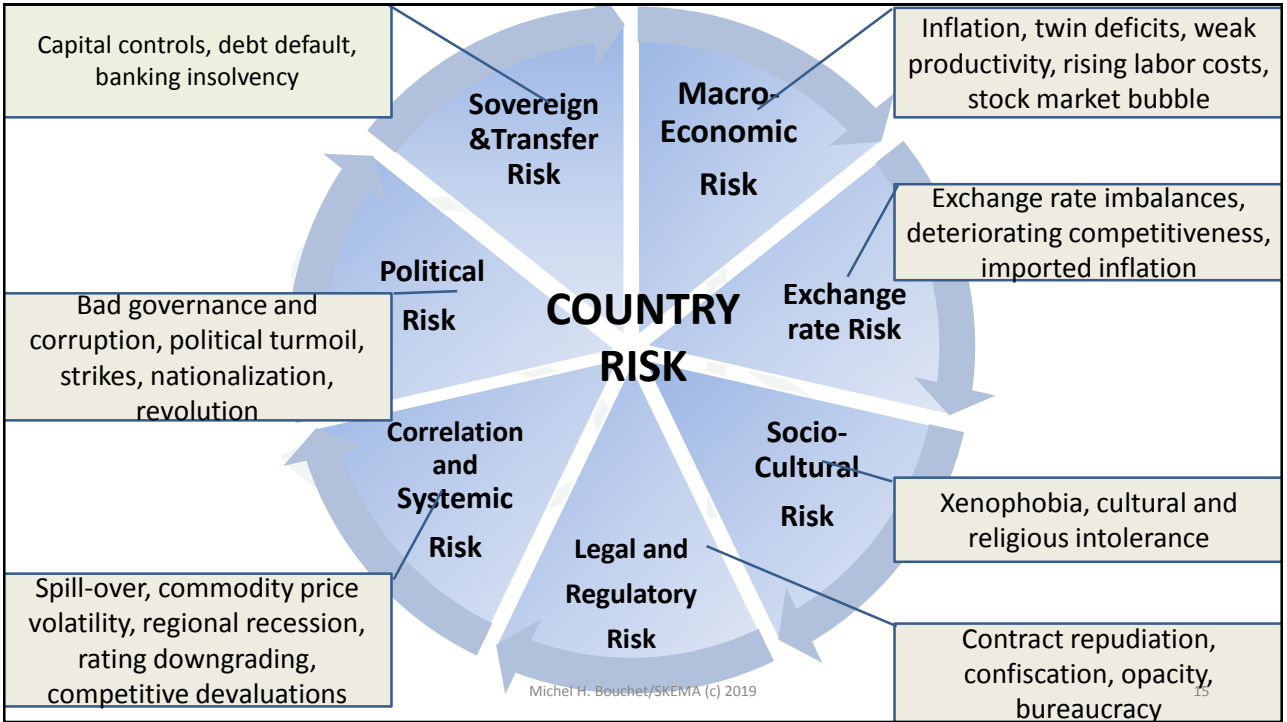
13

## 4 MAIN APPROACHES TO COUNTRY RISK ASSESSMENT

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

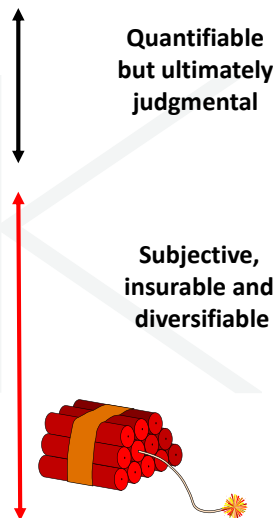
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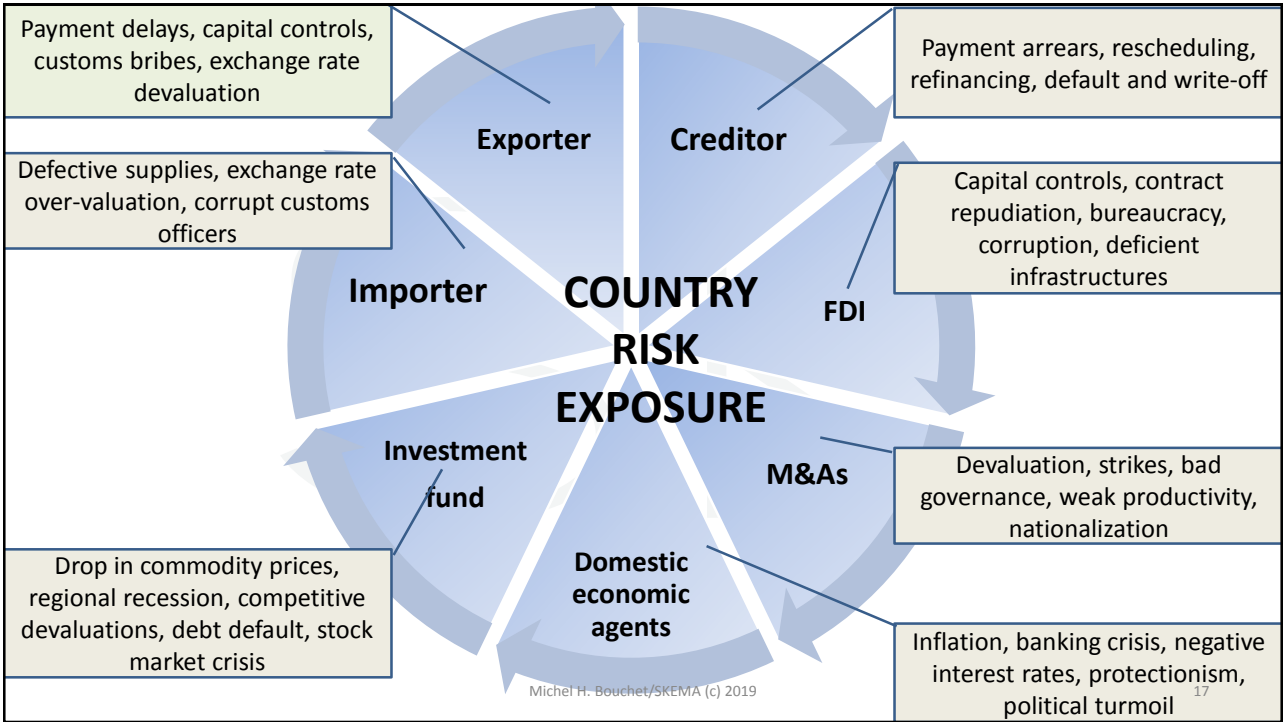
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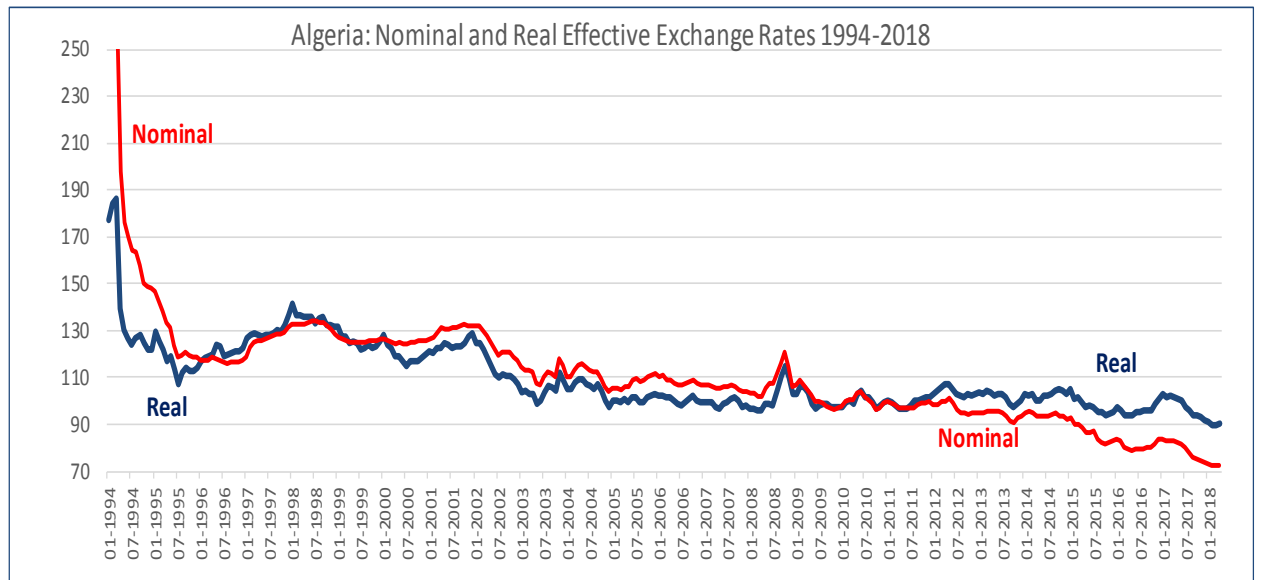
## MAIN COMPONENTS OF GLOBAL RISK

- Economic risk
- Financial and transfer risk
- Exchange risk
- Commodity risk
- Political risk
- Cultural environment risk
- Operational risk
- Legal and contractual risk (repudiation, confiscation, bribes...)
- Regional contamination risk (spill-over effect)
- Systemic risk (global crisis)





NOMINAL AND REAL EFFECTIVE EXCHANGE RATES



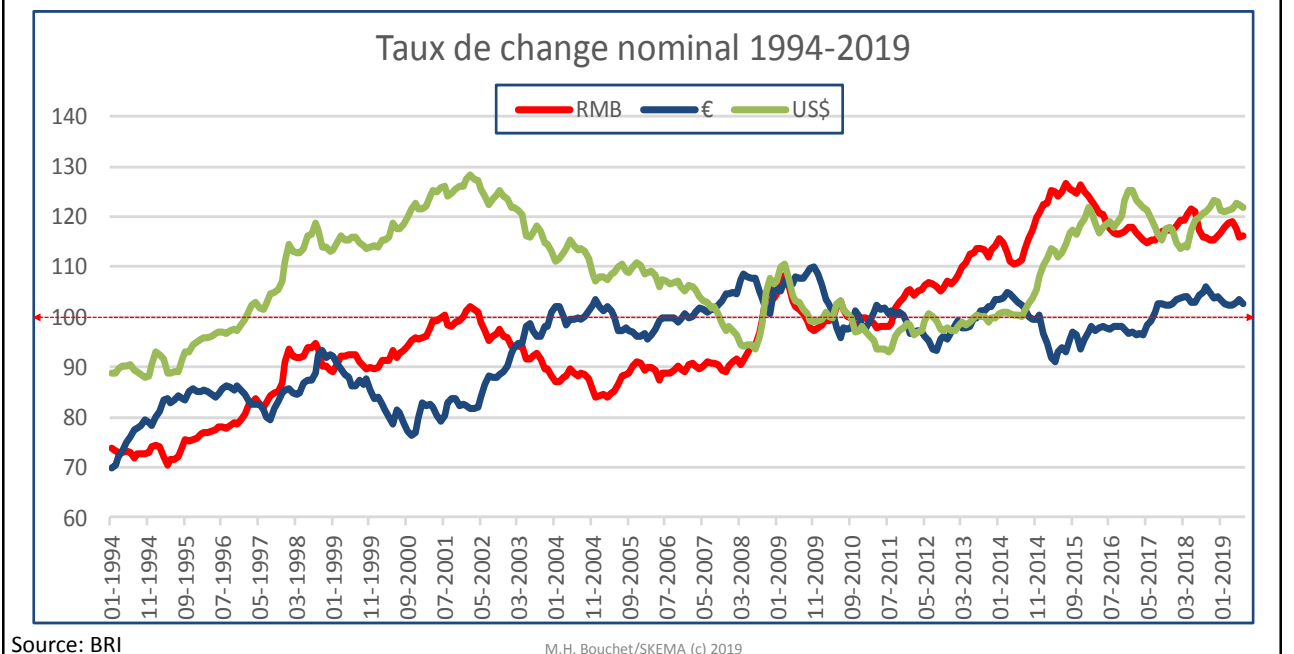
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18

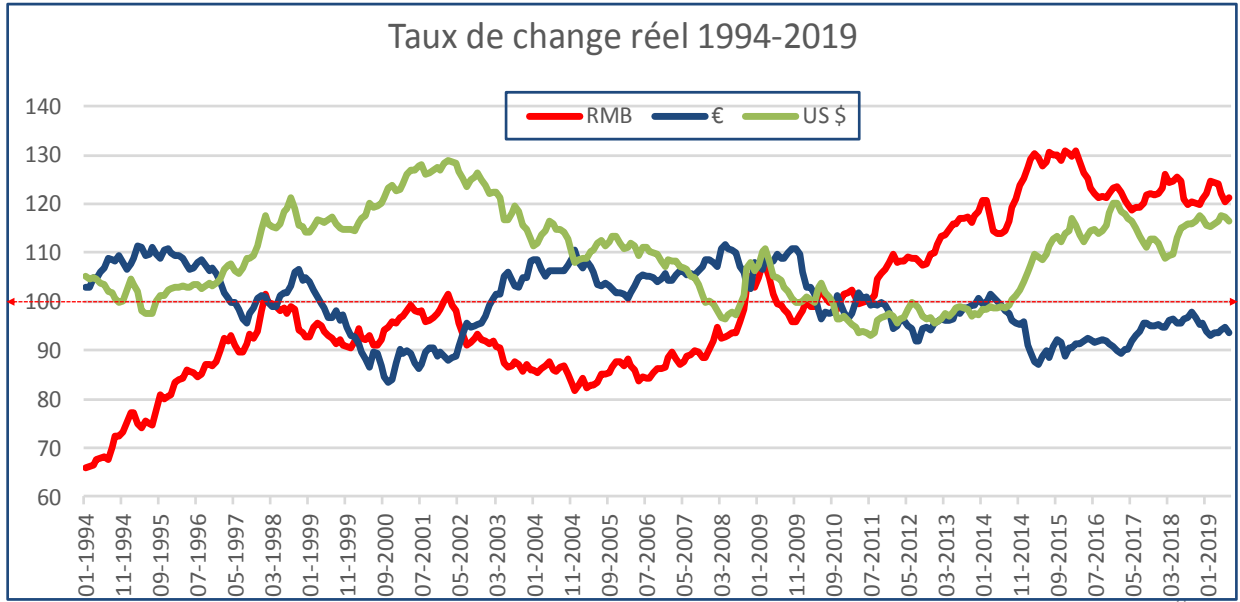
IS THE YUAN/\$ EXCHANGE RATE « UNDERVALUED » AND « MANIPULATED »?



YUAN, €, \$ = NOMINAL EXCHANGE RATES



## YUAN, €, \$ = REAL EFFECTIVE EXCHANGE RATES



## BETTER OFF IN TUNISIA OR IN ALGERIA?



### TUNISIA

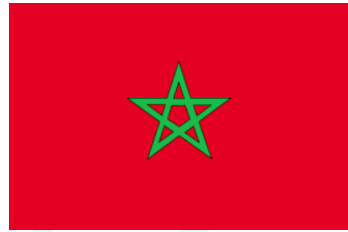
- ▶ GDP Per capita = \$10500
- ▶ HDI= 97
- ▶ Life expectancy f = 78
- ▶ Infant mortality= 13/1000
- ▶ Gender inequality: 0,28
- ▶ Doing Business= **80**
- ▶ Corruption = 74



### ALGERIA

- ▶ GDP Per capita=13500
- ▶ HDI= 83
- ▶ Life expectancy f= 75
- ▶ Infant mortality= 22/1000
- ▶ Gender inequality: 0,43
- ▶ Doing Business= **157/190**
- ▶ Corruption = **112**

## MOROCCO



- ▶ GDP per capita ppp= \$8000
- ▶ HDI = 123
- ▶ Life expectancy= 76
- ▶ CPI corruption= 81
- ▶ Gender inequality = **0,49**
- ▶ Infant mortality= **23,7/1000**
- ▶ Doing Business = **60**
- ▶ **FDI= Tunisia \* 2 (=2,4% GDP)**

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23

## BOLIVIA



- ▶ GDP per capita ppp= \$7500
- ▶ HDI = 118
- ▶ Life expectancy= 68
- ▶ CPI corruption= 112
- ▶ Gender inequality = **0,49**
- ▶ Infant mortality= **30/1000**
- ▶ Doing Business = **156/190**
- ▶ **FDI = minimal**

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24

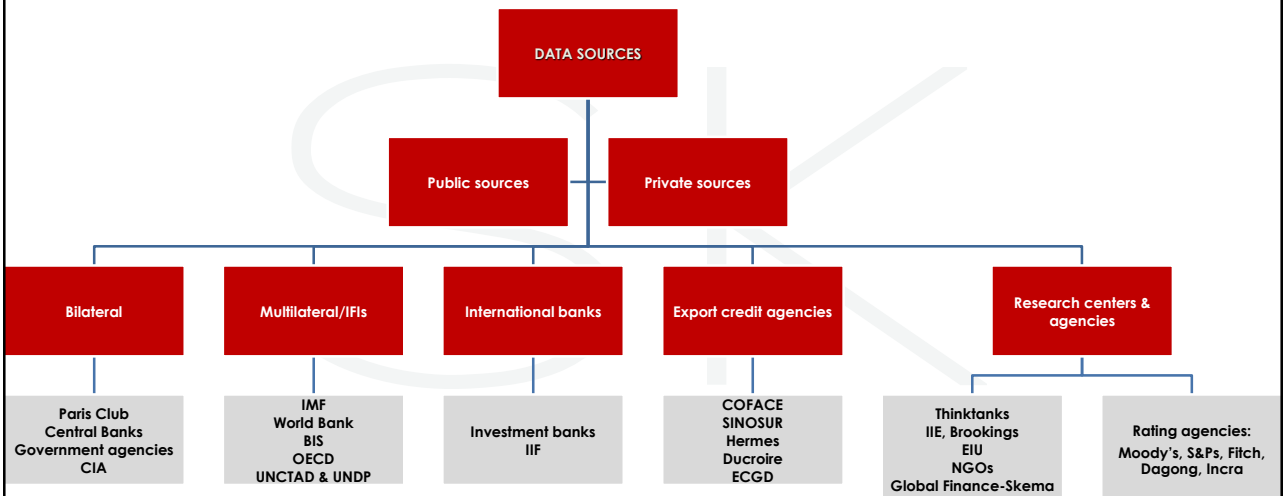
# COUNTRY RISK ASSESSMENT

Reliable and updated information  
= Economic intelligence

➔ **Robust risk analysis**



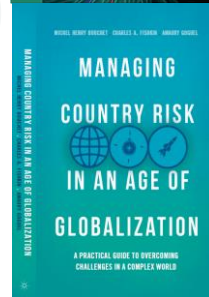
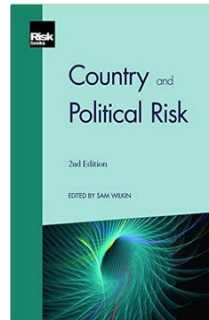
## MAJOR SOURCES OF COUNTRY RISK INTELLIGENCE



## 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)**

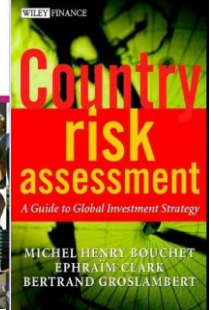
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### La globalisation

Introduction à l'économie du nouveau monde

Michel-Henry Bouchet



### Control Risks



27