

Country Risk Model

An interactive tool for analysing country and sovereign risk

Country Risk Model is a customisable model designed to measure and compare credit risk across countries. An interactive tool, Country Risk Model allows you to quantify the risk of cross-border transactions such as bank loans, trade finance, and investments in securities.

Country Risk Model is the model which our analysts use to rate more than 128 countries covered in our Country Risk Service. The model is an ideal tool for analysing country credit risk, as input into your in-house risk assessment process, or as a benchmark for your own institution's country risk assessments. The Model was back-tested to 1997 and performs to a high standard in terms of predictive power.

In addition to its use by credit risk departments of commercial banks, Country Risk Model is a useful tool for asset managers and hedge funds interested in entering today's emerging and rapidly changing markets.

The screenshot displays the EIU Country Risk Model interface. It includes a navigation menu on the left with options like 'Data selection', 'Presets', 'View tables', 'View ratings', 'Compare ratings', 'Modify weights', 'Save ratings', and 'Export Table Help User Log out'. The main content area is titled 'Welcome to the Economist Intelligence Unit's Country Risk Model' and provides instructions on how to use the tool. Below this, there are sections for 'Select and view risk data' and 'Risk rankings - August 2010: EIU ratings'. A table of risk ratings is shown, with columns for Country (rank), Rating (Current and Previous), and Score (Current and Previous). The table lists countries such as Albania, Algeria, Angola, Antigua and Barbuda, Argentina, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, and Belgium.

Country (rank)	Rating (D=most risk)		Score (100=most risk)	
	Current	Previous	Current	Previous
Albania (104)	B	B	55	58
Algeria (66)	BB	BB	46	47
Angola (100)	B	B	54	55
Antigua and Barbuda (95)	BBB	BBB	38	41
Argentina (111)	B	B	58	57
Australia (51)	BBB	BBB	41	41
Austria (17)	A	A	29	29
Azerbaijan (95)	B	B	50	49
Bahamas (34)	BBB	BBB	36	36
Bahrain (45)	BBB	BBB	39	39
Barbados (81)	BB	BB	49	49
Barbados (26)	BBB	A	33	30
Belgium (18)	BBB	A	30	29

How do banks, corporations, and governments use Country Risk Model?

The Model provides valuable support both to banks with cross-border credit or financial exposure and to large corporations with cross-border treasury operations. Given the growing interest in emerging and frontier markets,

asset managers increasingly require the kind of country risk assessment provided by the Country Risk Model.

- Banks use Country Risk Model to set or review their country credit limits.
- Asset managers use the model to assess risks to their global asset portfolio stemming from exposure to foreign governments, financial institutions, and currencies.
- Treasury departments use the Model to understand and evaluate the risks of keeping cash and profits in a country.

The EIU advantage

- **Objectivity** — As part of The Economist Group, we pride ourselves on our objectivity and independence: unlike the international ratings agencies we are not compensated by governments for our country ratings.
- **Constant vigilance** — EIU analysts run our model and update our ratings regularly. Monthly or quarterly updates ensure that we catch deteriorating or improving trends early; often before the large ratings agencies issue formal rating or outlook changes.
- **Deep expertise** — Our analysts are country experts who are responsible for tracking no more than two or three countries. They pay regular visits to the countries they cover and have the benefit of a large network of contacts, enabling them to provide timely insights into economic and political developments.
- **A modern approach to risk management** — The Model reflects changes in the structure of the global economy and global capital markets in the past decade. In addition to assessing sovereign risk, the model provides an assessment of the soundness of each country's financial system and the risk of a currency devaluation.
- **A rich data set** — The Model encompasses a wide range of macroeconomic data relating to economic performance, financial markets, public finances, external accounts, and external debt. It includes monthly and quarterly data.

How does Country Risk Model work?

The service has two modules:

1. The **Country Risk Model** module allows you to view the individual scores for each indicator in the model for all of the countries. You can modify the scores of any of the indicators in the Model and see how this changes the overall scores and ratings for each of the six risk categories. You can also adjust the weightings of any of the indicators to create a model tailored to your needs. In addition to the ratings, a textual country risk overview summarises the main assumptions and forecasts.

Score (4=high)	Currency	Sovereign debt	Banking sector	Political	Economic structure
52	61	60	57	52	

Score (4=high)	Currency	Sovereign debt	Banking sector	Political	Economic structure
2	10.9	12.3	11.5	57.1	0.0

Country risk ratings

2. A **data selection** module allows you to view, graph, and download the underlying dataset, including historical data going back to 1997 for most countries. The dataset encompasses scores for each variable in the model as well as overall scores for each of the six risk categories.

Select and compare ratings across countries

Using Country Risk Model

Country Risk Model is an easy-to-use web-based service. It provides risk scores (on a scale from 0-100) and ratings of six risk categories (sovereign debt, currency, banking sector, political, economic structure, and overall country risk). The scores can be compared across countries and over time.

Risk scores	Score (4=high)	Weighted risk score				
		Currency	Sovereign debt	Banking sector	Political	Economic structure
01. risk to baseline assumptions	2					
POLITICS/INSTITUTIONS		10.9	12.3	11.5	57.1	0.0
02. external conflict	1	0.5	0.5	0.4	2.4	0.0
03. governability/social unrest	3	1.4	1.4	1.3	7.1	0.0
04. electoral cycle	1	0.5	0.5	0.0	1.2	0.0
05. orderly transfers	2	0.9	0.9	0.9	4.8	0.0
06. event risk	2	0.9	0.9	0.9	4.8	0.0
07. sovereignty risk	1	0.5	0.5	0.0	2.4	0.0
08. institutional effectiveness	3	1.4	1.4	1.3	10.7	0.0
09. corruption	3	1.4	1.4	1.3	7.1	0.0
10. corruption/state intervention in banks	2	0.9	0.9	2.6	2.4	0.0
11. commitment to pay	3	2.7	4.1	2.6	14.3	0.0
ECONOMIC POLICY		9.1	11.7	8.1	0.0	0.0
12. quality of policymaking/policy mix	4	0.9	0.9	1.3	0.0	0.0
13. monetary stability	3	1.4	0.7	2.0	0.0	0.0
14. use of indirect instruments	2	0.5	0.0	1.3	0.0	0.0
15. real interest rates	1	0.5	0.5	0.7	0.0	0.0
16. fiscal balance/GDP	3	0.7	2.0	0.7	0.0	0.0
17. fiscal policy flexibility	3	0.7	1.0	0.3	0.0	0.0
18. transparency of public finances	3	0.7	1.7	0.3	0.0	0.0
19. domestic debt	4	0.9	2.3	0.9	0.0	0.0
20. unfunded pension and healthcare liabilities	4	0.9	2.3	0.0	0.0	0.0
21. exchange-rate regime	3	2.0	0.3	0.7	0.0	0.0
22. track-market/real exchange rate	0	0.0	0.0	0.0	0.0	0.0

View and change scores

The Model provides “point-in-time” rather than “through-the-cycle” ratings. It works on a rolling 12-month time horizon, serving as an early warning system of financial crises.

The model covers 128 countries with each country updated three times a year (the maximum allowed under EU regulations governing credit ratings).

Understand rating components

Which variables are included in the Model?

Country risk ratings explained:

Country Risk Model uses quantitative and qualitative indicators covering 6 risk categories.

- **Sovereign risk** measures the risk of a build-up in arrears of principal and/or interest on foreign and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign.
- **Currency risk** measures the risk of maxi-devaluation against the reference currency (usually the US dollar, sometimes the euro) over the next 12-month period.
- **Banking sector risk** gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors.
- **Political risk** evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign exchange market.
- **Economic structure risk** encompasses a series of macroeconomic variables of a structural rather than a cyclical nature.
- **Overall country risk** is derived by taking a simple average of the scores for sovereign risk, currency risk, and banking sector risk.

Politics/institutions

- External conflict
- Governability/social unrest
- Electoral cycle
- Orderly transfers
- Event risk
- Sovereignty risk
- Institutional effectiveness
- Corruption
- Corruption in the banking sector
- Commitment to pay

Economic policy

- Quality of policymaking/ policy mix
- Monetary stability
- Use of indirect instruments
- Real interest rates
- Fiscal balance/GDP
- Fiscal policy flexibility
- Transparency of public finances
- Public finance/debt indicator
- Unfunded pension and healthcare liabilities
- Exchange-rate regime
- Black-market/dual exchange rate

Economic structure

- Income level
- Official data (quality/timeliness)
- Current-account balance, 48 months
- Volatility of GDP growth
- Reliance on a single goods export
- External shock/contagion
- Public debt/GDP
- External solvency indicator
- Default history
- Financial regulation and supervision

Macroeconomic/cyclical

- Real OECD GDP growth
- Credit as % of GDP, growth
- Real GDP growth, 48 months
- Real GDP growth, 12 months
- Inflation, 48 months
- Inflation, direction
- Trade-weighted real exchange rate
- Exchange-rate misalignment
- Exchange-rate volatility
- Export receipts growth, 12 months
- Current-account balance, 12 months
- Asset price bubble

Financing and liquidity

- Transfer and convertibility risk
- IMF programme/Excessive deficit procedure
- International financial support
- Access to financing
- Gross financing requirement
- Debt servicing indicator
- Interest charges ratio
- Debt term structure
- Foreign exchange reserves/Public debt currency structure
- Debt liquidity indicator
- FDI and external financing
- Import cover/Government deposits as a percentage of interest charges
- OECD short-term interest rates
- Non-performing loans
- Banks' credit management
- Banks' foreign asset position/ Yield curve

Which countries are covered?

Country Risk Model delivers:

- A **Data Selection** module allows you to manipulate and download the underlying dataset.
- 128 countries (emerging and developed markets).
- A textual **Risk Overview** of five risk categories.
- Ratings and data can be **compared** across countries and over time.
- Model weighting adjustment tools to create ratings tailored to your organisation's needs.
- 6 categories of risk ratings and scores.
- 61 indicators with historical scores to 1997 (a full set is not available for all countries).
- Custom data feeds on request. Model details upon request.

Access choices:

- Enterprise Access via IP control or username:
- Bureau van Dijk at euu.bvdep.com

Interface features:

- Website interactive model.
- Adjustable weightings.
- Compare countries and ratings.
- Saved weightings.
- Excel® downloadable data.
- Interactive charting.
- Which variables are included in the model?

• Albania • Algeria • Angola • Argentina • Australia
• Austria • Azerbaijan • Bahrain • Bangladesh • Belarus
• Belgium • Bolivia • Bosnia and Herzegovina
• Botswana • Brazil • Bulgaria • Cambodia • Cameroon
• Canada • Chile • China • Colombia • Congo Brazzaville
• Costa Rica • Côte d'Ivoire • Croatia • Cuba • Cyprus
• Czech Republic • Denmark • Dominican Republic • DRC
• Ecuador • Egypt • El Salvador • Equatorial Guinea
• Estonia • Ethiopia • Finland • France • Gabon
• Germany • Ghana • Greece • Guatemala • Honduras
• Hong Kong • Hungary • India • Indonesia • Iran • Iraq
• Ireland • Israel • Italy • Jamaica • Japan • Jordan
• Kazakhstan • Kenya • Kuwait • Latvia • Lebanon
• Libya • Lithuania • Macedonia • Malawi • Malaysia
• Mauritius • Mexico • Moldova • Mongolia • Morocco
• Mozambique • Myanmar • Namibia • Netherlands
• New Zealand • Nicaragua • Nigeria • Norway • Oman
• Pakistan • Panama • Papua New Guinea • Paraguay
• Peru • Philippines • Poland • Portugal • Qatar • Romania
• Russia • Saudi Arabia • Senegal • Serbia • Seychelles
• Sierra Leone • Singapore • Slovakia • Slovenia
• South Africa • South Korea • Spain • Sri Lanka • Sudan
• Sweden • Switzerland • Syria • Taiwan • Tanzania
• Thailand • Trinidad and Tobago • Tunisia • Turkey
• Turkmenistan • Uganda • Ukraine • United Arab Emirates
• United Kingdom • Uruguay • US • Uzbekistan
• Venezuela • Vietnam • Yemen • Zambia • Zimbabwe

Americas

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