

# WHAT IS COUNTRY RISK ALL ABOUT?

## IN AN AGE OF GLOBALIZATION, PANDEMIC & GEOPOLITICAL THREATS?



CIFE SEMINAR ROMA-NICE 2025-26  
MICHEL-HENRY BOUCHET

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## «YESTERDAY'S» COUNTRY RISK

► Cross-border risk =

**Assessment of a foreign country's ability and willingness to meet its external obligations in full and on time**

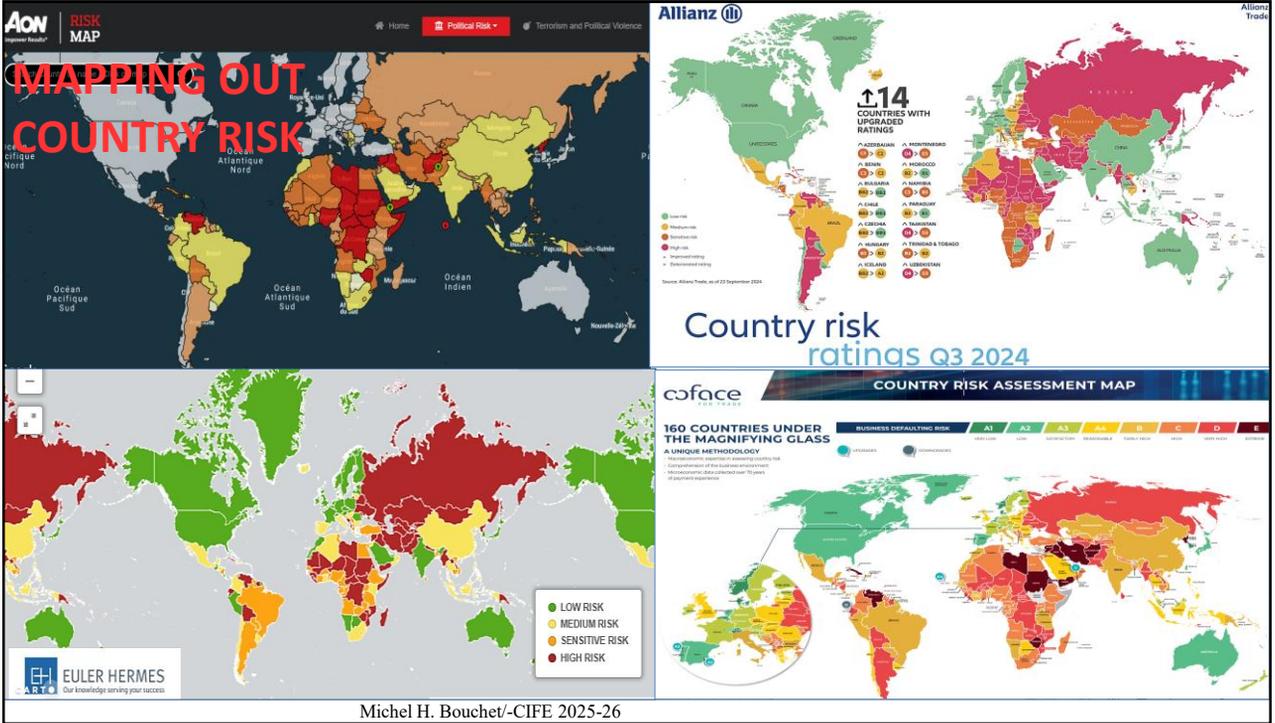
Foreign country? Private firm, government, bank, investment fund, supplier, client, partner...

Country risk is composed of a complex combination of  
**political, financial and macro-economic risk**

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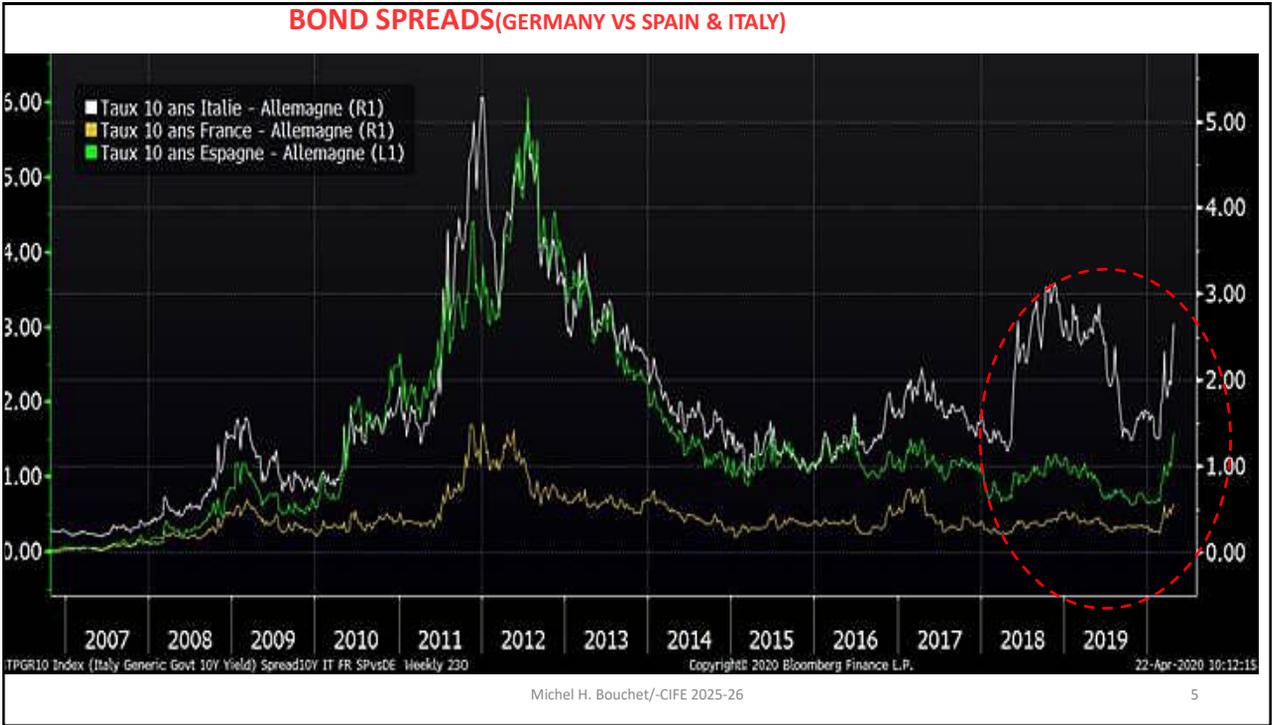
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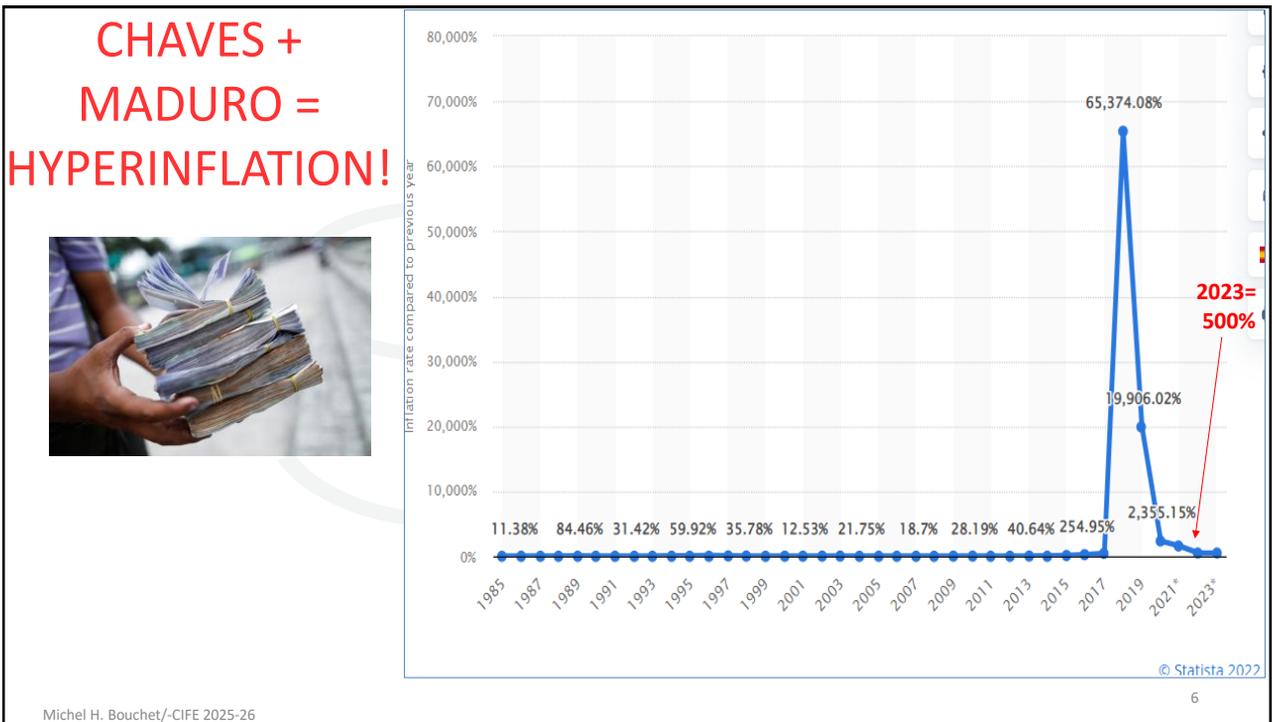
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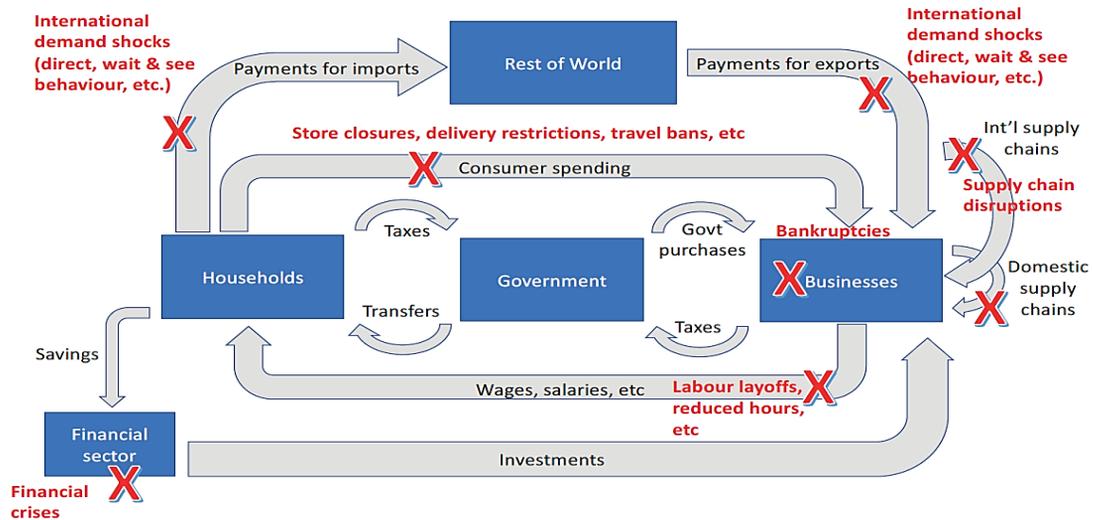


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**GLOBAL PANDEMIC = SYSTEMIC + COUNTRY RISKS DEPENDING ON THE GOVERNMENT'S RESPONSE TO THE SANITARY THREAT:  
COVID19'S MULTIPLE STRIKES IN THE CIRCULAR FLOW OF INCOME DIAGRAM**



Source: Based on Baldwin (2020b).

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

Operational definition:

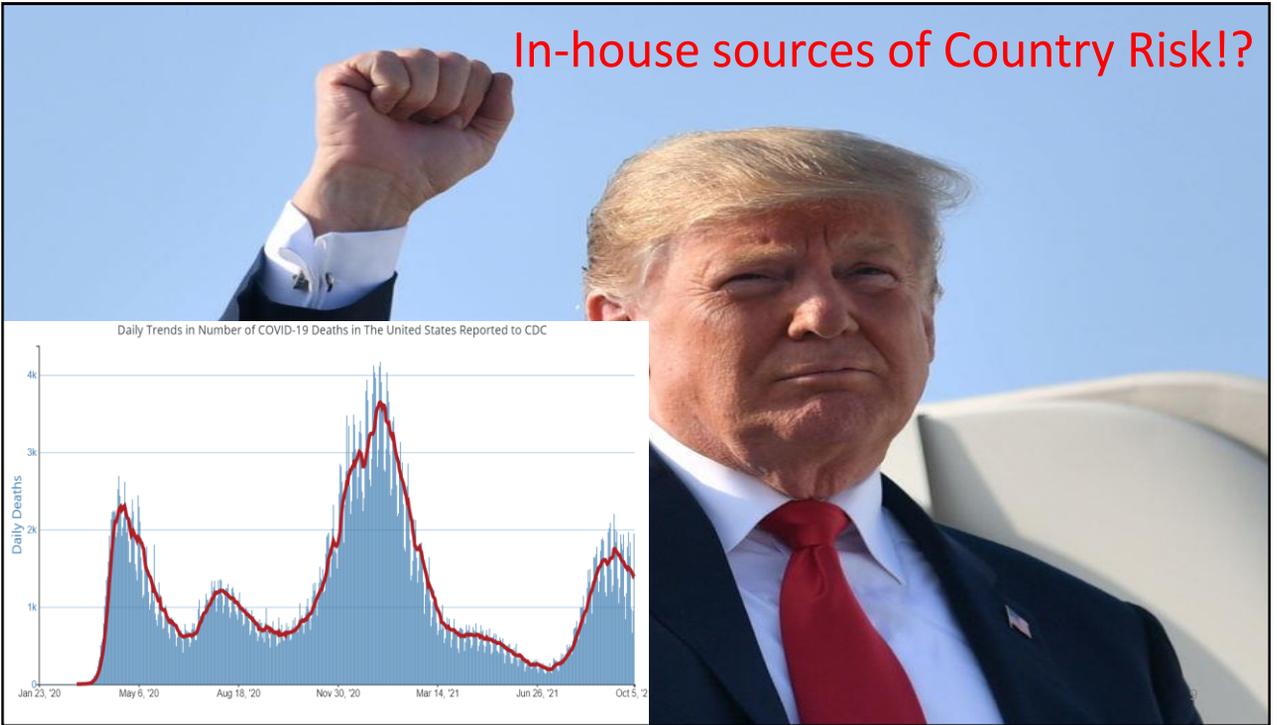
**Set of interdependent factors, specific to a country in the global economy, which can affect both foreign and domestic agents**

- Factors? Economic, financial, environmental, sanitary and socio-political
- Domestic agents? Private firms, households, banks, merchants, fund managers, exporters and importers, students...
- Foreign agents? Debtor country government, central bank, bank, supplier, client, partner...
- Country risk is composed of a complex combination of threats that must be assessed in the globalized system

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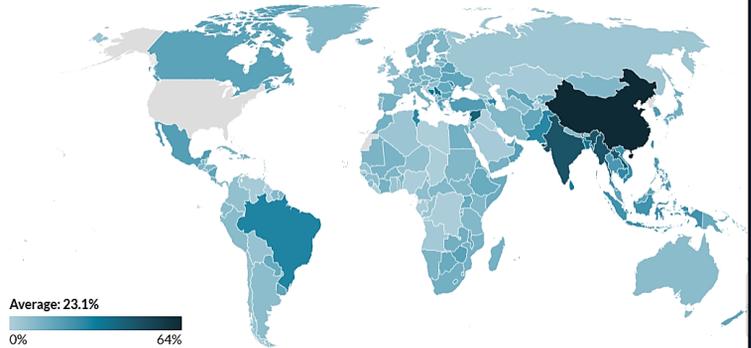
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## COUNTRY RISK AND TRUMP ELECTION?

Trump's election was pivotal for the rest of the world, with the future of European security and global trade in the balance.

The United States are among the largest trade partners of the EU: **20% of the EU exports of goods (\$530 b) and 14% of EU imports. Average US tariff rate rose from 2.5% to an estimated 27%**

Estimated Total Tariff Rate by Country, After Pause Expirations  
Including all major categories of tariffs



Source: Urban-Brookings Tax Policy Center analysis of USITC data, Federal Register Notices, and White House announcements.

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## COUNTRY RISK IN THE AGE OF DONALD TRUMP



### Direct «Hard Risks»

- **Risk materialization directly hurts US business:** outbreak of a military conflict US-North Korea; sharp rise in interest rates and fall in bond prices; fall in oil prices; pandemic corona crisis; 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 Corona virus crisis; stalemate between White House and Congress regarding budgetary policy and National Security Strategy; ongoing saber-rattling with North Korea, Iran, and Pakistan; regional crisis in the Western Hemisphere and in the Middle East; protracted failed NAFTA renegotiations

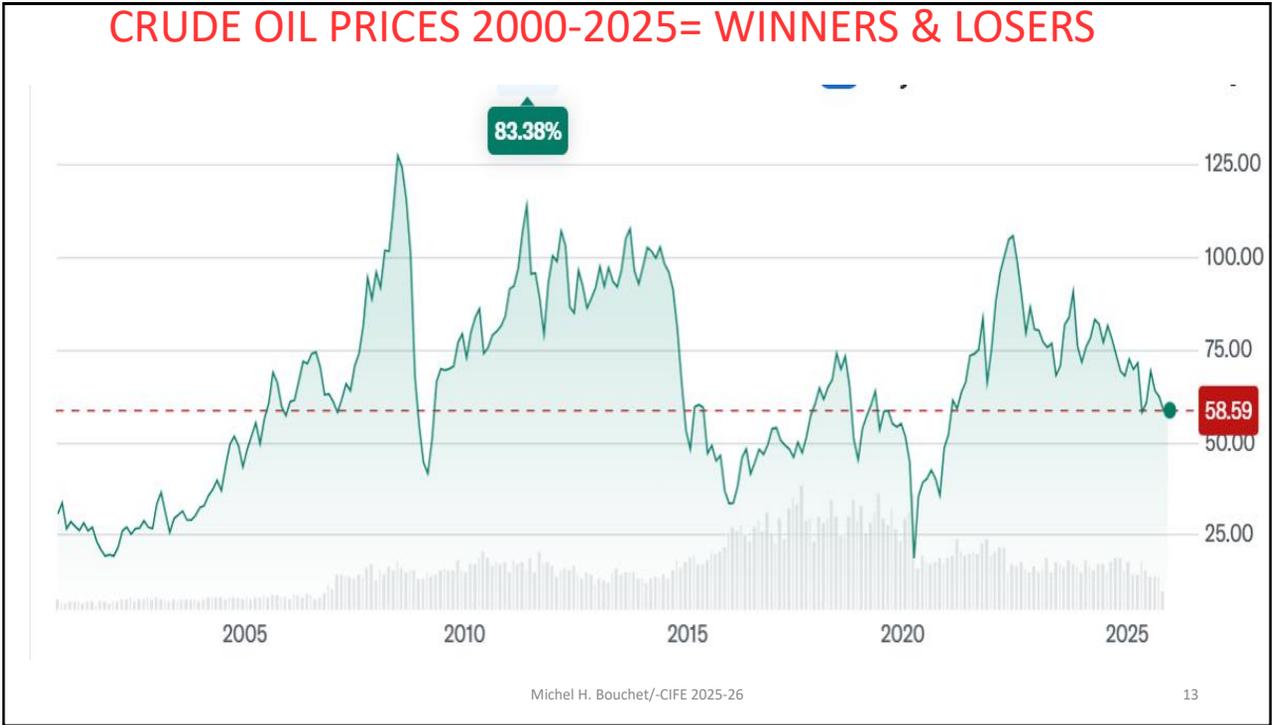
### Collateral «Soft Risks»

- **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; lagged institutional reaction to covid-19 crisis

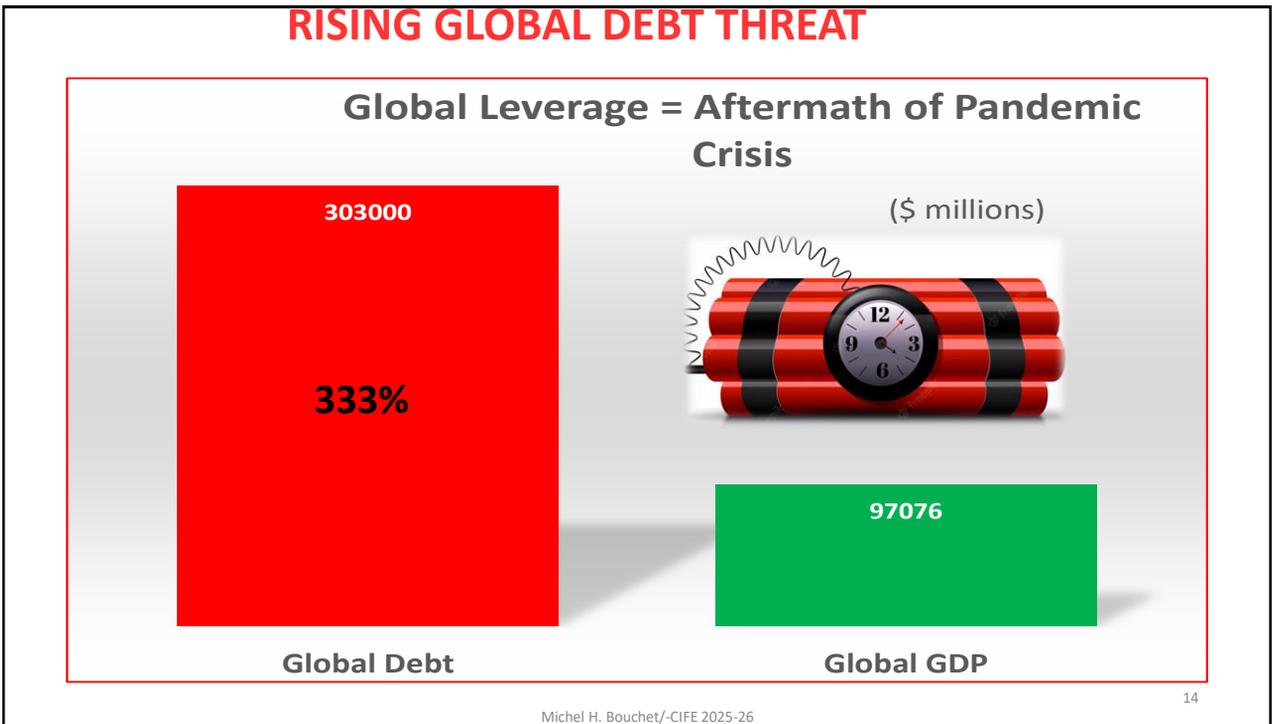
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## « INDIRECT » COUNTRY RISK SOURCE

# Climate Change, the Great Displacer

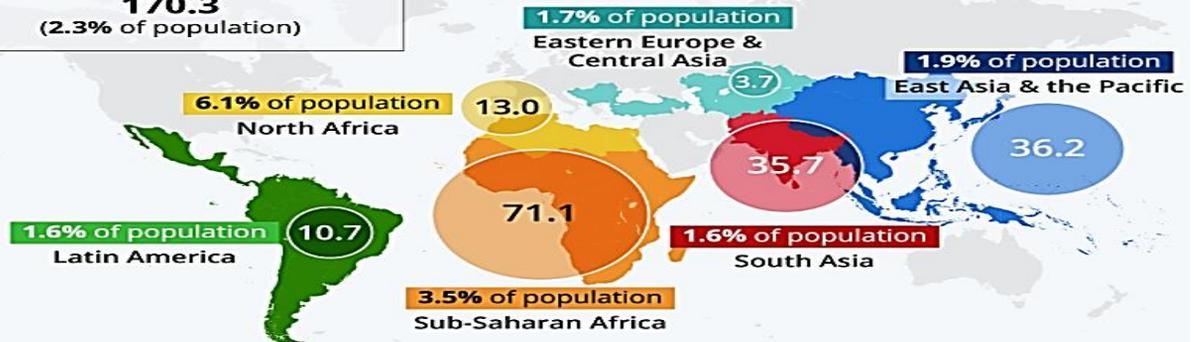
Average number of internal climate migrants by 2050 per region (in millions)\*



Total in surveyed regions

**170.3**

(2.3% of population)



\* Modeled on pessimistic reference = High emission & unequal development scenarios concerning water availability, crop productivity and sea-level rise  
Source: World Bank

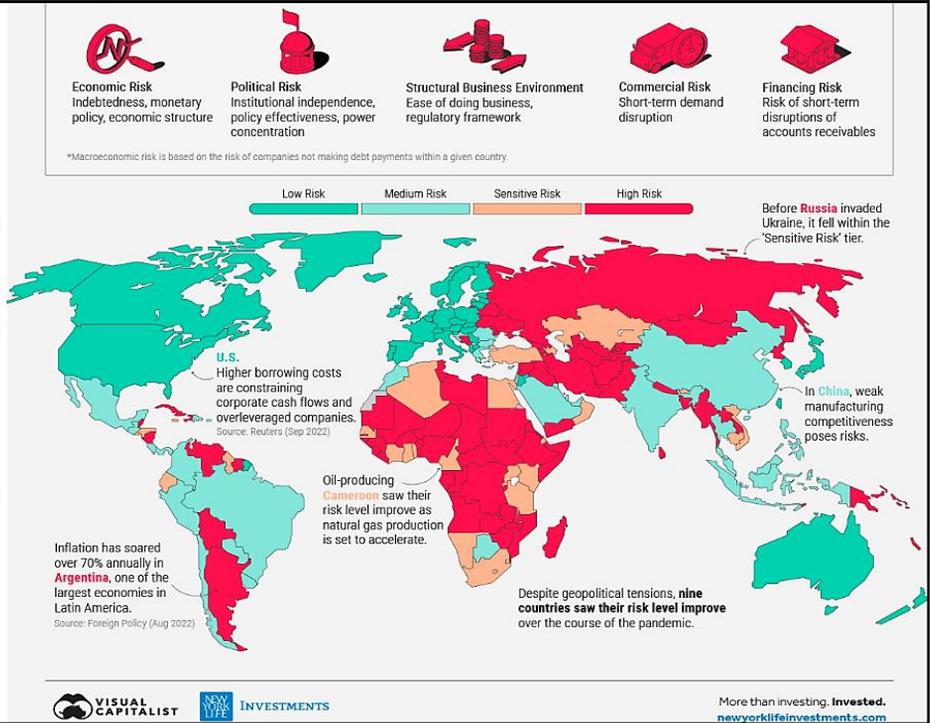
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## WHAT COUNTRY RISK IS NOT

- 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!

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Country risk stems from a complex mix of institutional, socio-political, and economic inputs where **governance** plays a key rôle!



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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



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## 6 MAIN APPROACHES TO COUNTRY RISK ASSESSMENT

1. **Qualitative « macro » approach:** financial, macroeconomic, legal, regulatory, environmental (incl. sanitary) and political parameters
2. **Balance of payments and external debt analysis:** Liquidity + solvency
3. **Quantitative approach :** rating, ranking, and scoring
4. **Market signals:** inflation, exchange rates, yields, spreads, CDS, Vix
5. **Econometric approach** and modelization (early warning signals, incl. Capital flight!)
6. **AI-driven modelization :** machine learning framework for risk assessment. For instance, XGBoost model trained on a 25-year panel dataset for 32 emerging markets, with its predictions rendered fully transparent using the SHAP (SHapley Additive exPlanations) framework. With rolling statistics for key lagged variables to show trends and volatility

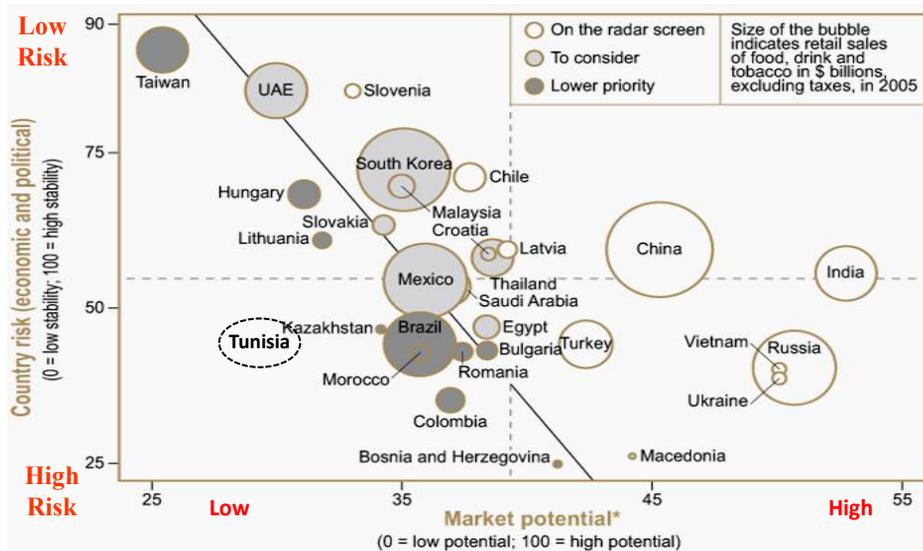
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## MOST ATTRACTIVE EMERGING MARKETS?

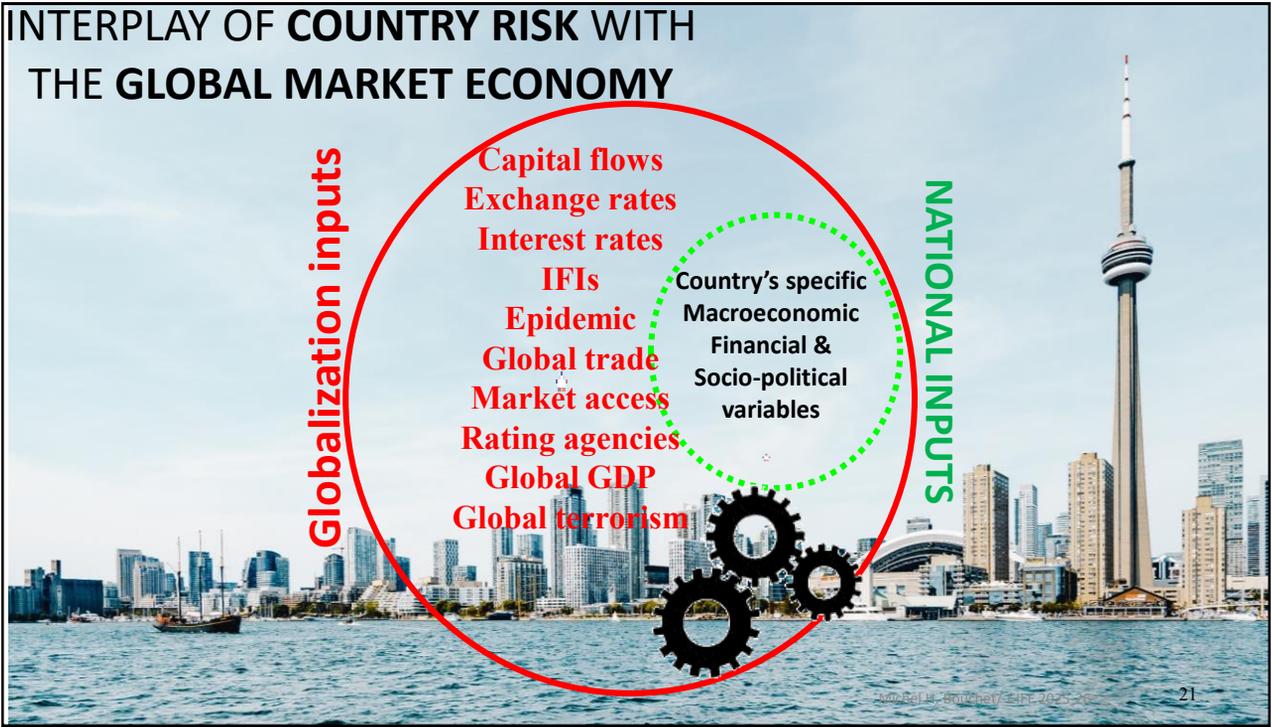
= COMBINING RISK EXPOSURE + MARKET OPPORTUNITIES



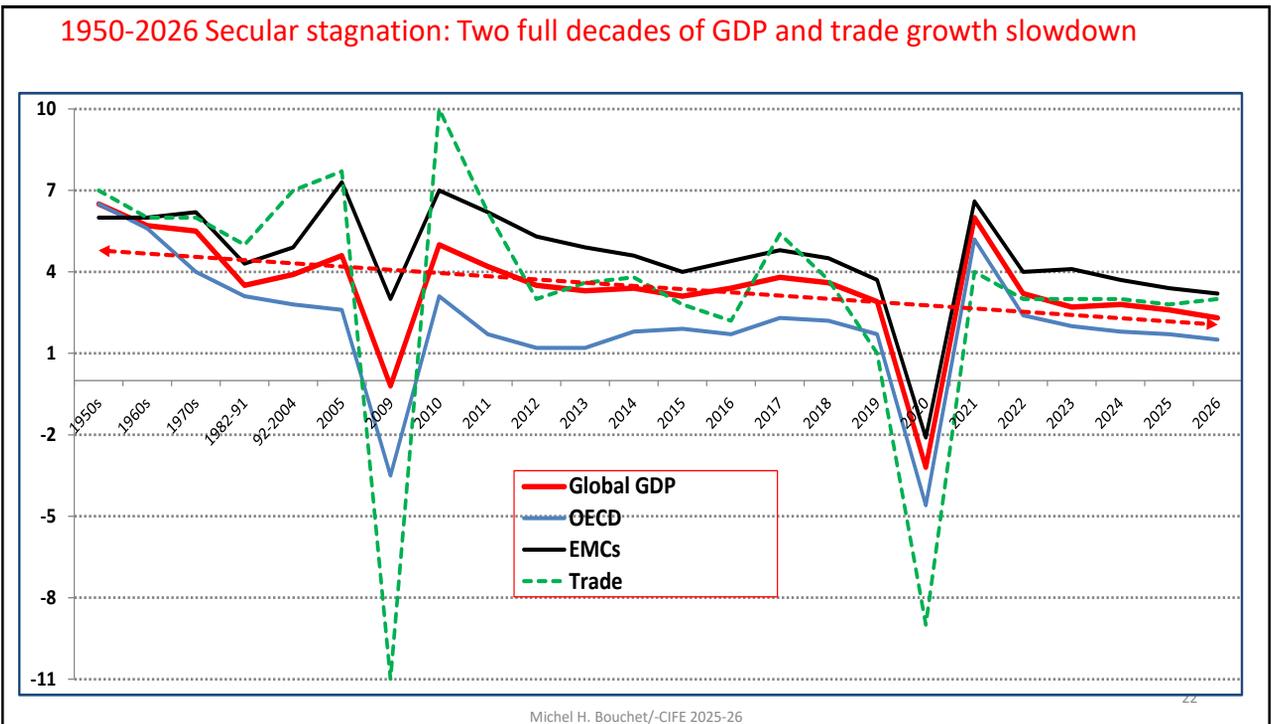
\* Based on weighted score of market attractiveness, market saturation and time pressure scores  
Source: A.T. Kearney

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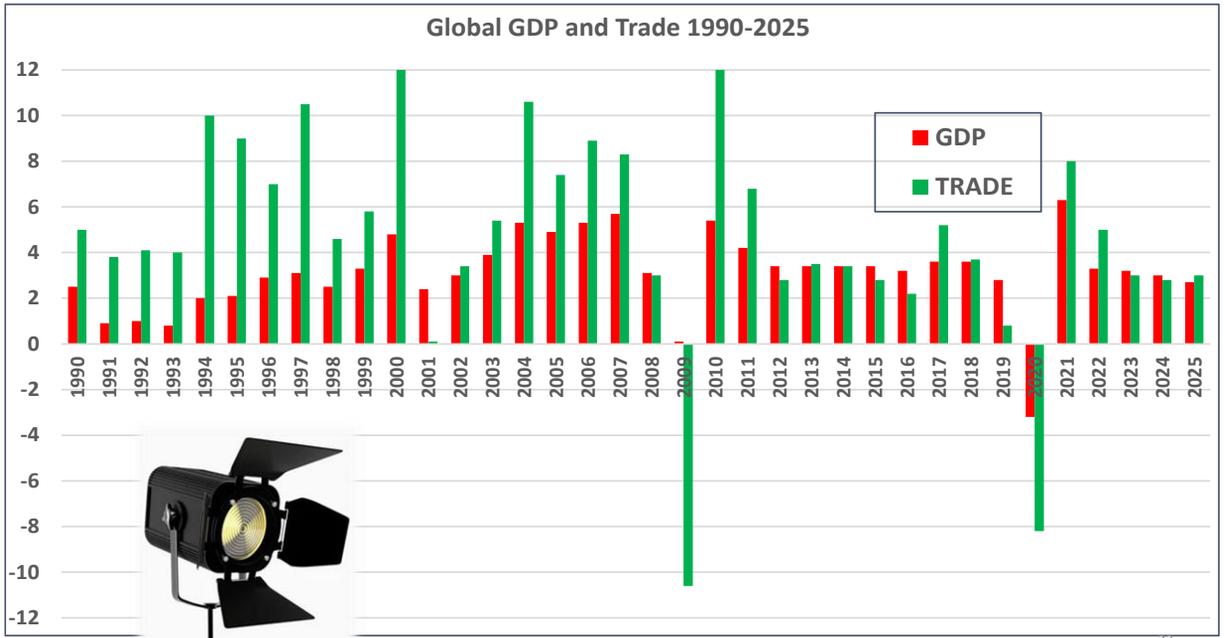


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**PANDEMIC + GEOPOLITICAL CRISIS = GLOBAL MACROECONOMIC IMPACT**



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**GLOBAL SECULAR STAGNATION INCREASES COUNTRY RISK!**

**Appendix: Macroeconomic Forecasts and Commodity Price Assumptions**

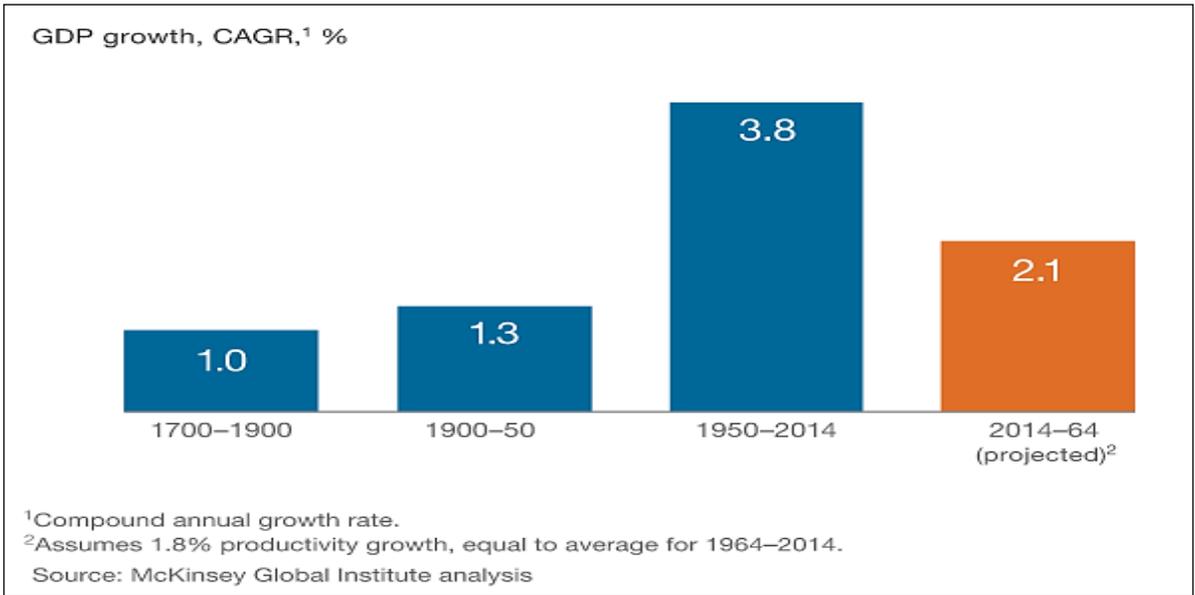
Real GDP growth (%)	2023	2024F	2025F	2026F	Inflation (% yoy, end of period)				Unemployment (end of period)					
					2023	2024F	2025F	2026F	2023	2024F	2025F	2026F		
US	2.9	2.7	2.1	1.7	US	3.4	2.9	2.8	2.7	US	3.6	4.1	4.5	4.5
Eurozone	0.4	0.8	1.2	1.3	Eurozone	2.9	2.3	2.2	1.9	Eurozone	6.6	6.4	6.5	6.4
China	5.2	4.8	4.3	4.0	China	-0.3	0.5	1.0	1.3	Japan	2.6	2.5	2.5	2.5
Japan	1.7	-0.2	1.2	0.5	Japan	2.6	2.4	2.0	2.0	Germany	3.0	3.5	3.6	3.6
India <sup>a</sup>	8.2	6.4	6.5	6.2	Germany	3.8	2.4	2.0	2.0	UK	4.0	4.2	4.3	4.1
UK	0.3	0.9	1.8	1.5	India <sup>a</sup>	5.7	4.6	4.0	4.0	France	7.3	7.5	7.6	7.6
World	3.0	2.8	2.6	2.3	UK	3.9	2.4	2.8	2.2	Italy	7.7	6.4	5.9	5.7
DM <sup>b</sup>	2.0	1.8	1.7	1.5	France	4.1	2.5	2.0	2.0	Canada	5.4	6.3	6.6	5.8
EM <sup>c</sup>	4.7	4.3	3.9	3.6	Italy	0.5	1.3	1.7	1.8	Australia	3.7	4.1	4.5	4.2
EM ex China	4.1	3.7	3.4	3.2	Canada	3.4	2.1	2.0	2.0	Spain	12.2	11.4	11.0	10.6

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**PROSPECTS: ECONOMIC SLOWING DOWN IN THE NEXT 50 YEARS**

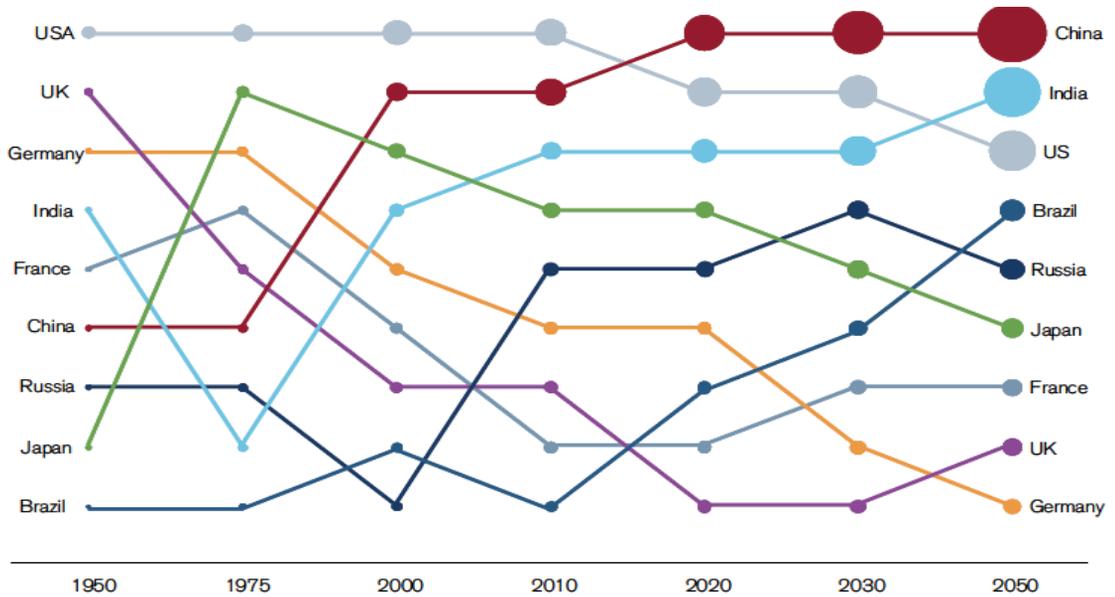


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**THE TOP GLOBAL GDP 1950-2050?**



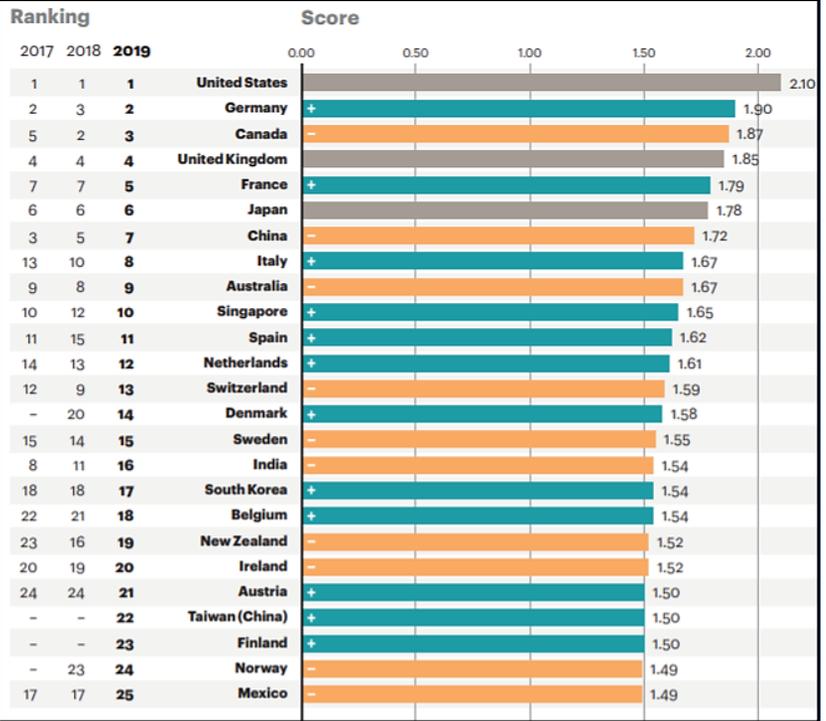
World Bank, PwCs, Credit Suisse

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# AT KEARNEY FDI CONFIDENCE INDEX GOVERNANCE MATTERS!

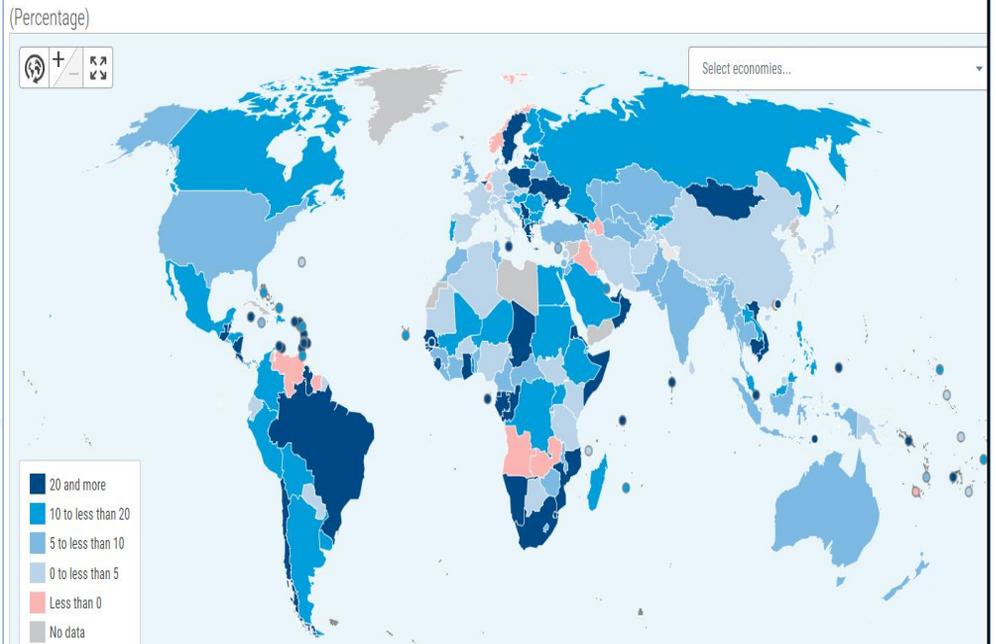


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# UNCTAD TRADE AND FDI FLOWS & STOCKS

Map 1. Foreign direct investment inflows as a ratio to gross fixed capital formation, 2021



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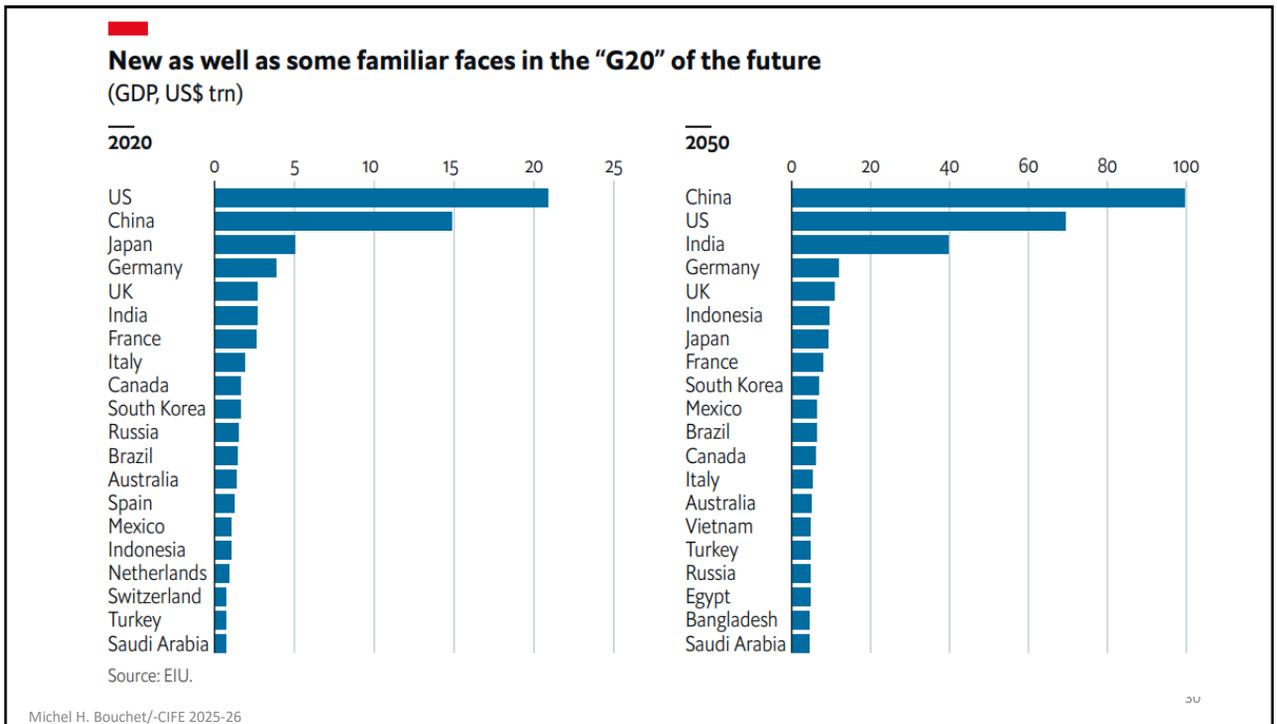
**Table 1. Foreign direct investment flows by group of economies**

Group of economies	Inflows				Outflows			
	Value		Annual growth rate		Value		Annual growth rate	
	(Billions of US\$)		(Percentage)		(Billions of US\$)		(Percentage)	
	2020	2021	2020	2021	2020	2021	2020	2021
<b>World<sup>a</sup></b>	963	1 582	-35.0	64.3	780	1 708	-30.6	118.8
Developed economies	319	746	-58.2	133.6	408	1 269	-44.6	210.9
Developing economies	644	837	-10.1	29.9	372	438	-3.8	17.8
Developing economies: Africa	39	83	-14.7	113.1	-1	3	-112.7	-526.2
Developing economies: Americas	86	134	-45.7	56.0	-5	42	-110.0	-995.6
Developing economies: Asia and Oceania	519	619	1.4	19.3	378	394	12.6	4.3
<b>Selected groups</b>								
Developing economies excluding China	495	656	-14.0	32.6	219	293	-12.6	34.1
Developing economies excluding LDCs	621	811	-10.4	30.5	371	439	-4.5	18.3
LDCs	23	26	0.6	13.1	2	0	-250.1	-109.4
LLDCs	14	18	-35.9	30.7	-1	2	-271.4	-231.6
SIDS (UN-OHRLLS)	82	107	-28.9	30.5	31	48	-42.7	51.3
HIPCs (IMF)	24	32	-12.1	33.6	1	2	-44.0	65.3
BRICS	255	355	-13.3	39.2	157	247	-19.3	57.9
G20	757	1 104	-34.7	45.9	596	1 496	-38.8	150.9

**Table 2. Foreign direct investment stock by group of economies**

Group of economies	Inward stock				Outward stock			
	Value		Share in world total		Value		Share in world total	
	(Billions of US\$)		(Percentage)		(Billions of US\$)		(Percentage)	
	2020	2021	2020	2021	2020	2021	2020	2021
<b>World<sup>a</sup></b>	41 728	45 449	100.0	100.0	39 546	41 798	100.0	100.0
Developed economies	29 967	33 119	71.8	72.9	31 113	33 009	78.7	79.0
Developing economies	11 760	12 330	28.2	27.1	8 433	8 790	21.3	21.0
Developing economies: Africa	988	1 026	2.3	2.3	331	301	0.8	0.7
Developing economies: Americas	2 070	2 143	5.0	4.7	708	741	1.8	1.8
Developing economies: Asia and Oceania	8 732	9 160	20.9	20.2	7 394	7 747	18.7	18.5
<b>Selected groups</b>								
Developing economies excluding China	9 841	10 266	23.6	22.6	5 852	6 208	14.8	14.9
Developing economies excluding LDCs	11 367	11 915	27.2	26.2	8 410	8 767	21.3	21.0
LDCs	393	414	0.9	0.9	23	22	0.1	0.1
LLDCs	421	431	1.0	0.9	51	52	0.1	0.1
SIDS (UN-OHRLLS)	2 120	2 182	5.1	4.8	1 292	1 373	3.3	3.3
HIPCs (IMF)	379	403	0.9	0.9	25	26	0.1	0.1
BRICS	3 577	3 866	8.6	8.5	3 681	3 704	9.3	8.9
G20	32 394	35 756	77.6	78.7	32 883	34 919	83.2	83.5

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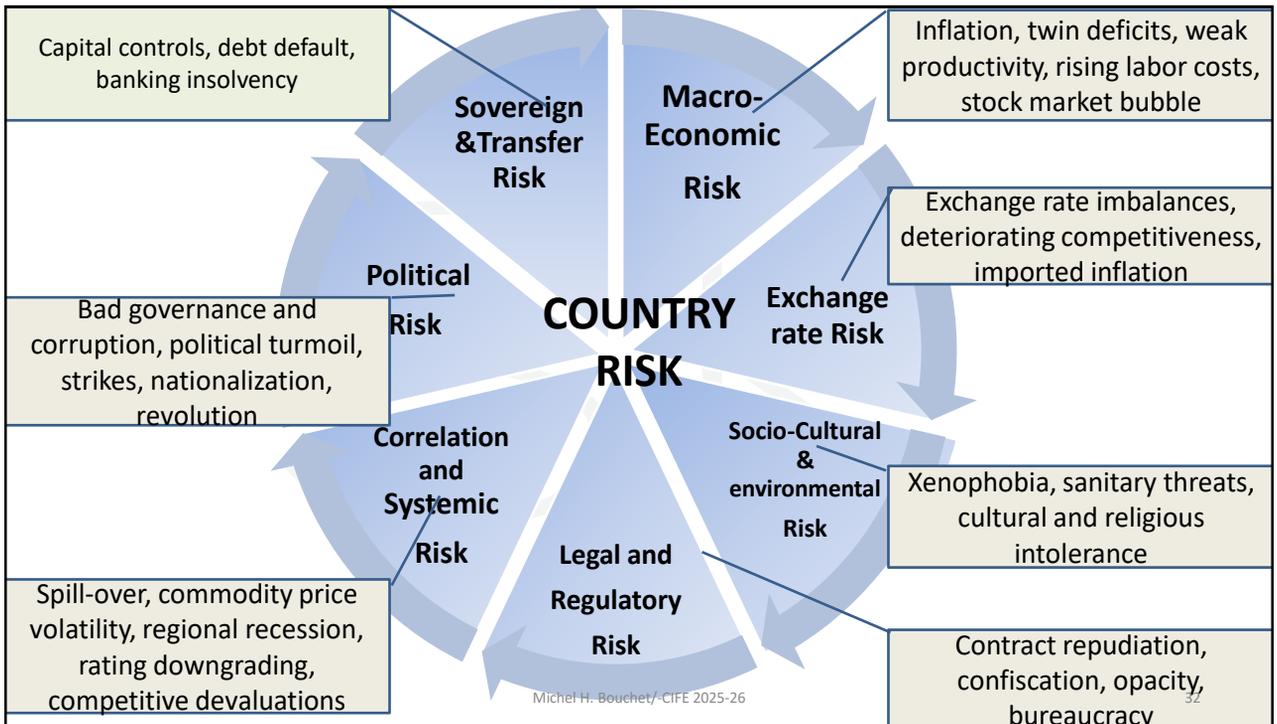
# THE KEY COMPONENTS OF COUNTRY RISK?



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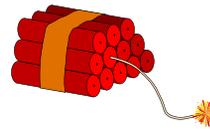
# MAIN COMPONENTS OF GLOBAL RISK

- Economic risk
- Financial and transfer risk
- Exchange risk
- Commodity risk
- Sanitary threats

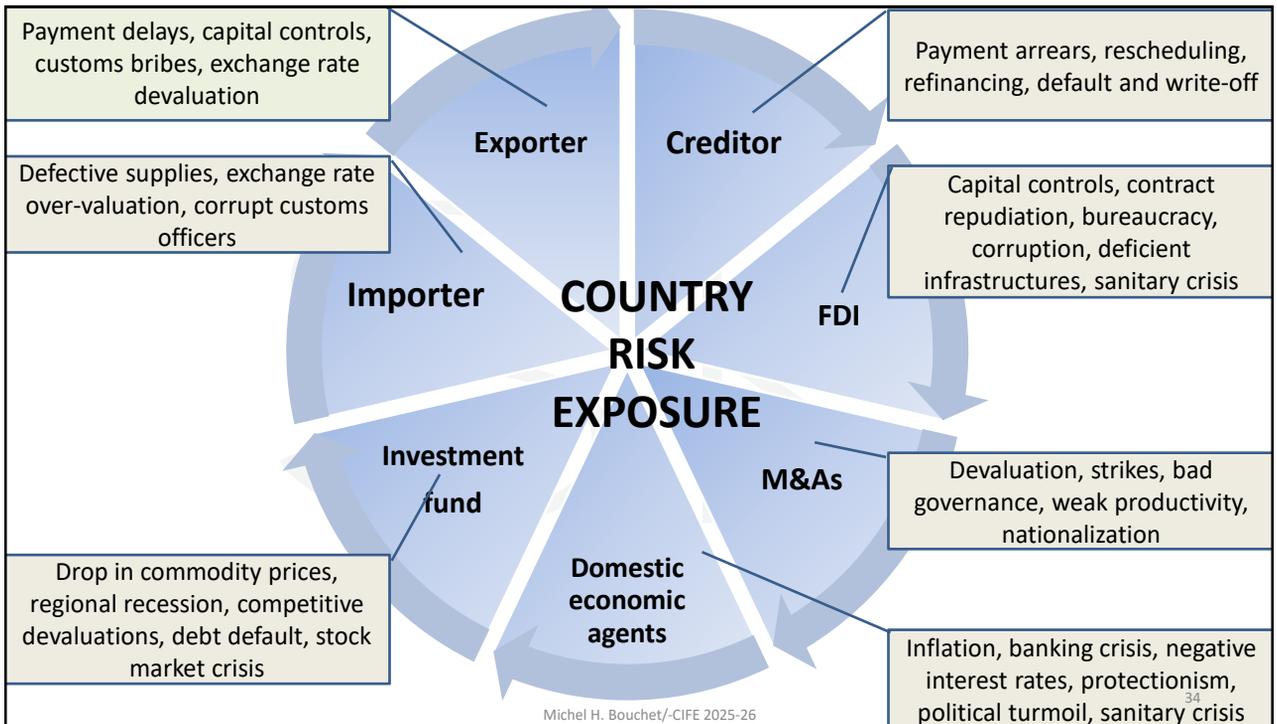
- Political risk
- Cultural environment risk
- Operational risk
- Legal and contractual risk (repudiation, confiscation, bribes...)
- Regional contamination risk (spill-over effect)
- Systemic risk (global crisis)

Quantifiable but ultimately judgmental

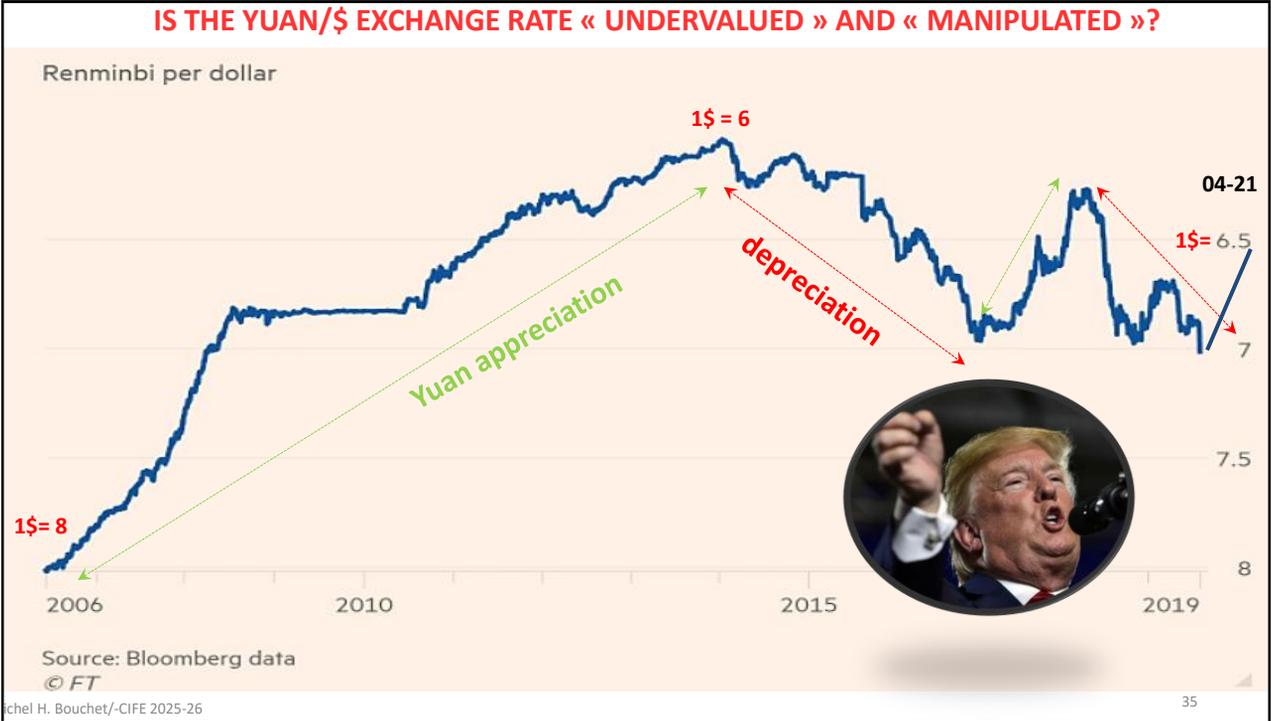
Subjective, insurable and diversifiable?



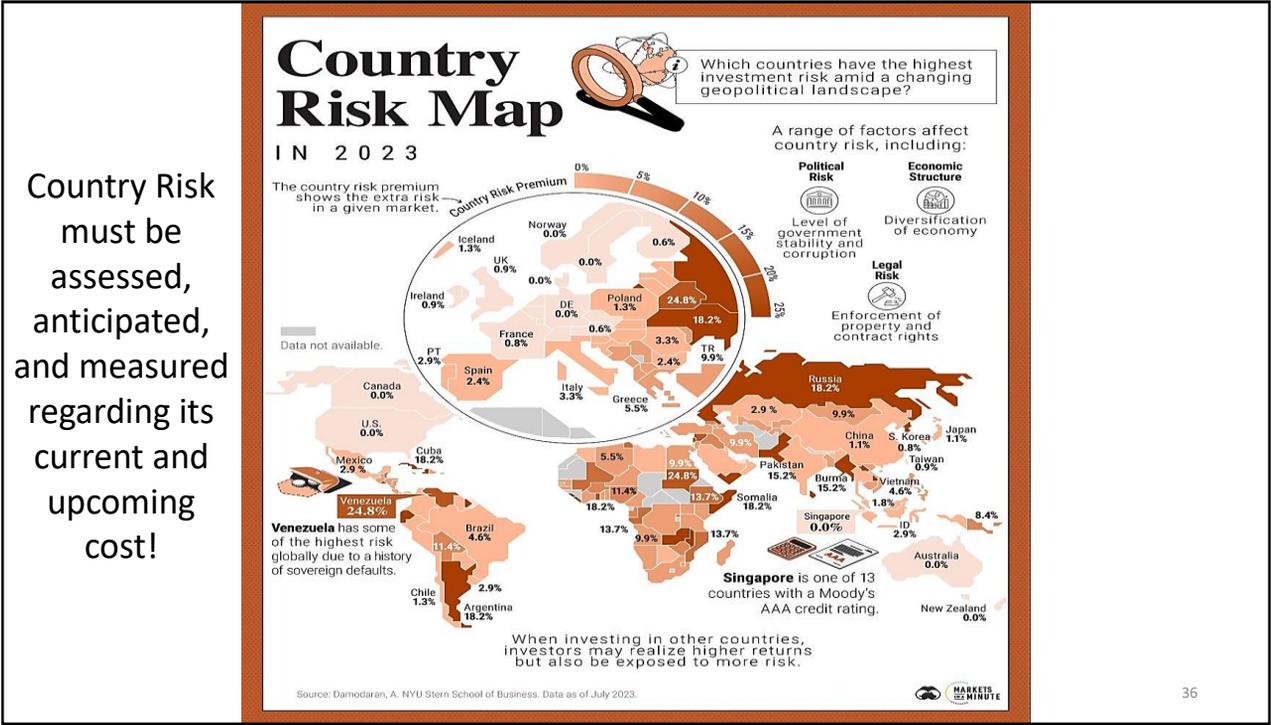
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## BETTER OFF IN TUNISIA, JORDAN OR BOLIVIA?



### TUNISIA

- ▶ GDP Per capita = \$4000
- ▶ HDI= **105**
- ▶ Life expectancy f = 78
- ▶ CA/GDP%= - 8,5%
- ▶ Trade openness: 111%
- ▶ Doing Business= **78**
- ▶ Corruption = 92
- ▶ Shadow economy: **31%**
- ▶ Coface = **C/C**



### JORDAN

- ▶ GDP Per capita = \$4500
- ▶ HDI= 100
- ▶ Life expectancy f = 75
- ▶ CA/GDP%= - 4%
- ▶ Trade openness = 80%
- ▶ Doing Business= **75**
- ▶ Corruption = 59
- ▶ Shadow eco. = 15%
- ▶ Coface = **C/B**



### BOLIVIA

- ▶ GDP per capita = \$3800
- ▶ HDI = **108**
- ▶ Life expectancy= 71
- ▶ CA/GDP% = -1,5%
- ▶ Trade openness= 60%
- ▶ Doing Business = **150/190**
- ▶ CPI corruption= 133
- ▶ **FDI = minimal**
- ▶ **Shadow eco. = 46%**
- ▶ Coface = **D/B**

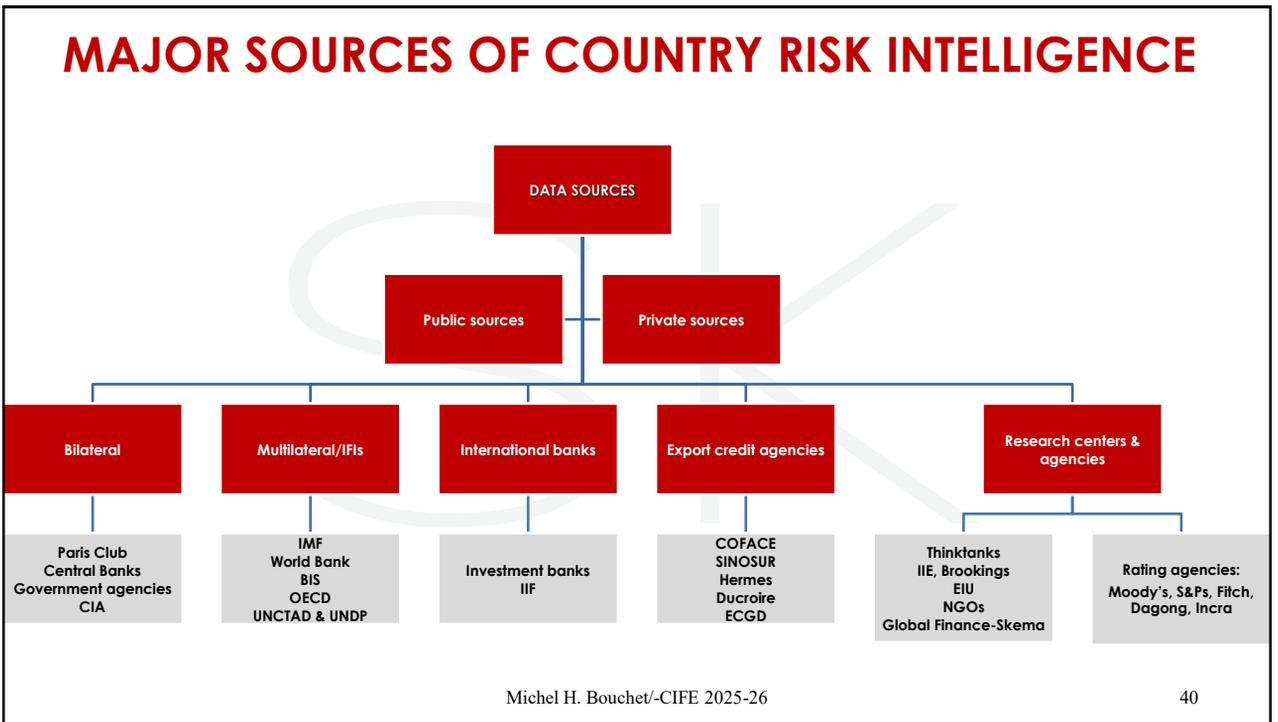
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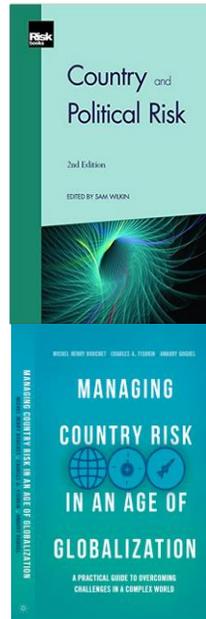


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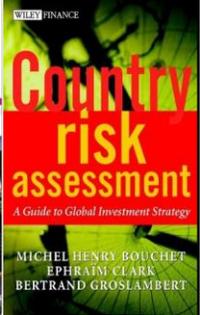
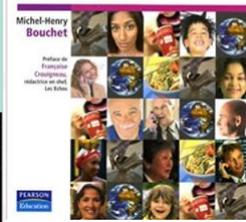
# ANALYSIS AND INFORMATION SOURCES

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



Control Risks



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The screenshot shows the COFACE website interface. At the top, there are navigation tabs: GROUP, WORLDWIDE PRESENCE, OUR BUSINESS, NEWS AND PUBLICATIONS, ECONOMIC STUDIES, and INVESTORS. Below this, the 'ECONOMIC STUDIES' section features four featured articles with download icons: 'COFACE REPORT LOOKS AT CHINA AND AUSTRALIA'S TRADE RELATIONSHIP', 'USA: RECOVERY PLAN PAVES WAY FOR RECORD TRADE DEFICIT', 'INSOLVENCIES IN FRANCE: +22,000 BUSINESSES LEFT DANGLING', and 'THE BUSINESS INSOLVENCY PARADOX IN EUROPE: MIRACLE AND MIRAGE'. Below these is a link for 'ALL ECONOMIC PUBLICATIONS'. The 'COUNTRY RISK ASSESSMENT' section includes a 'COUNTRY RISK ASSESSMENT MAP - Q4 2020' with a download icon and a 'FREE ACCESS TO OUR COUNTRY RISKS ASSESSMENT' section. The 'SECTOR RISK ASSESSMENT' section includes a 'SECTOR RISK ASSESSMENT MAP - Q4 2020' with a download icon and a 'FREE ACCESS TO OUR SECTOR RISKS ASSESSMENT' section. Both assessment sections have a 'Select a country/sector' dropdown and an 'OK' button.

A QUICK AND RELIABLE  
 ACCESS TO COUNTRY RISK  
 INTELLIGENCE?  
**COFACE!**

Short case study:  
 Compare the ratings and debt ratios of ...  
 Italy, Germany, and Greece  
 as well as socio-political prospects

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## RATINGS AND DEBT RATIOS OF ... ITALY, GERMANY, AND GREECE AS WELL AS ECONOMIC AND SOCIO-POLITICAL PROSPECTS

COUNTRY	DEBT/GDP	RATING COFACE	Economic & Socio-Political
<b>GERMANY</b>	69%	A3/A1	Decline in the working population from 2020 onwards, despite immigration! Prominence of the automotive and mechanical industries, particularly in exports Capacity constraints, insufficient investment
<b>ITALY</b>	125%	B/A2+	Very high youth unemployment, hence brain drain Prevalence of small, low-productivity companies Strong exposure to pandemic-sensitive sectors Strong regional disparities
<b>GREECE</b>	192%	B/A2	Poorly diversified industry, overwhelming tourism dependence, Increasing security concerns vis-à-vis Turkey, low productivity L/Y

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