



POLITICAL RISK ASSESSMENT III

MEASURING POLITICAL RISK

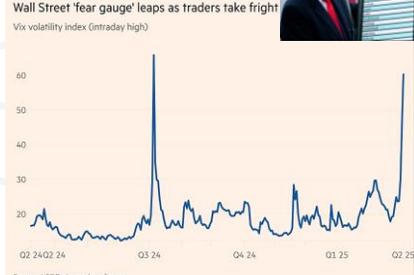


MICHEL-HENRY BOUCHET
 CIFE SEMINAR ROMA-BERLIN-NICE 2024-25

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IN SEARCH OF EARLY WARNING SIGNALS OF POLITICAL RISK INCREASE?

There is no Canary in the Coal Mine:
 Vix, rating agencies, bond yields, CDS...
 All react and overshoot EX POST
 Gold is a reliable risk barometer, though for Global Risk turmoil!



Source: I SEG via marketbeta.com

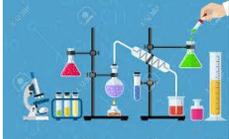
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HOW TO ASSESS & MEASURE POLITICAL RISK?

1. Economic intelligence: in-depth socio-political analysis (Huntington)
2. Checklist approach & Power structure: key political forces that affect a country's risk:
3. the **Prince Model**
4. Delphi technique
 - establish surveys
 - collect information and independent opinions
 - analyze results and make predictions
5. Ratings of country's political turmoil
6. Consultants on political risks
7. AI-based assessment models
8. Early warning signals?



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1. INFORMATION SOURCES ON POLITICAL RISK: THE KEY ROLE OF ECONOMIC INTELLIGENCE

<ul style="list-style-type: none"> • MIG (UK) • HISCOX • PLATUS • AON • Global Risk Assessments • S&P Global • COFACE, OPIC & MIGA, EULER • Howell International • Control Risks Group: www.crg.com • WMRC • Freedom House • FGS Global https://fgsglobal.com/what-we-do 	<ul style="list-style-type: none"> • Frost & Sullivan • US State Department + CIA • Marsh Crisis Consulting • University of Maryland Center for Conflict Management • Muir Analytics (Threat Watch) • NYA International • PRS-ICRG • TAC (France) • DragonFly Intelligence https://dragonflyintelligence.com/#content
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POLITICAL DIS/ORDER IN RAPIDLY CHANGING SOCIETIES

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2. POLITICAL RISK ANALYSIS

Mapping out the **economic and political power roots** and identifying the base of political legitimacy:

- ▶ ideological & repressive (North Korea, Russia, China)
- ▶ charismatic (Cuba, Venezuela, Nicaragua, Bolivia)
 - ▶ economic/financial (Brunei)
- ▶ authoritarian populism (Thailand, Morocco, Tunisia)
 - ▶ ethnic (Ivory Coast, Ghana)
 - ▶ religious (Iran)
 - ▶ military (Burma, North Korea, Algeria)
- ▶ patron-client relationships (Togo, Congo, Gabon, RCI)

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3. POLITICAL RISK ANALYSIS: PRINCE MODEL

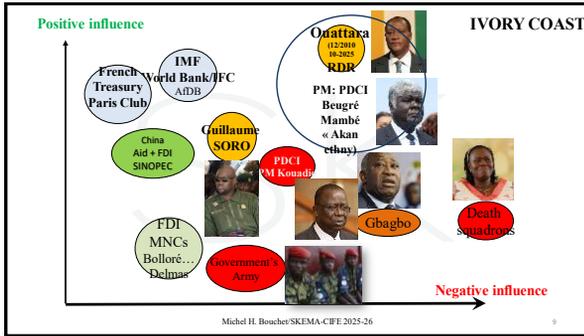
Frost & Sullivan: William D. Coplin and Michael K. O'Leary of the firm Political Risk Services.
PRINCE = Probe, Interact, Calculate, and Execute

Emphasis on the **power structure** of a nation by identifying key individuals or groups that can influence a specific risk outcome: destabilization, nationalisation, expropriation...

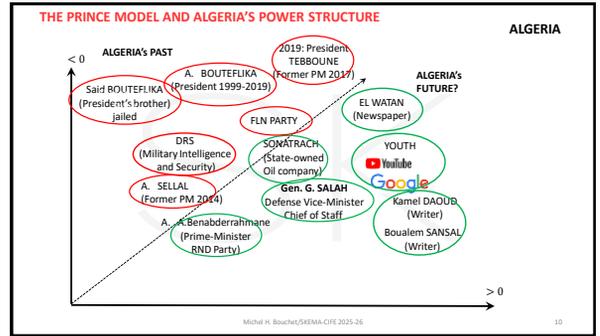
Political risk forecasting model to produce probability of loss from political instability by relating relative importance in decision-making and relative political orientation towards radical or incremental change (+/-)

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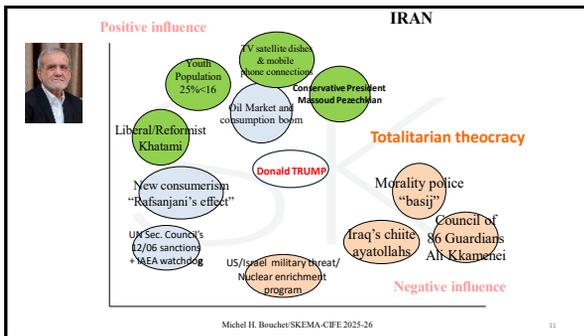
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4. QUANTIFYING COUNTRY RISK

Rating, scoring and Ranking:

- ▶ Can one boil things down to numerical indices, when dealing with culture, politics, and ethnic tensions?
- ▶ Problem of "usability" of rankings: number fetishism leads astray by focusing on statistical Delphi-based analyses that are often subjectively biased, misleading and overly narrow. Lack of insight and qualitative research? (www.useit.com Jakob Nielsen)

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QUANTITATIVE APPROACH: RATING

- ▶ Means: Transforming a number of observations (Delphi method, surveys) or quantitative indicators into **one** single number.
- ▶ The various indicators can be weighted regarding their impact on creditworthiness and risk.
- ▶ **End-product**: one single grade to assess past and current country risk situation with cross-country comparisons across time

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QUANTIFYING COUNTRY RISK: RISK WEIGHTING

Political Risk Rating

Transfer Risk Rating

Overall Country Risk Rating

Political Factors		Weights
Political factor A	30%	30%
Social factor B	50%	50%
Political factor C	20%	20%

Financial Factors		Weights
Economic factor A	30%	30%
Financial factor B	40%	40%
Financial factor C	30%	30%

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EX. : S&P'S COUNTRY RISK ASSESSMENT FRAMEWORK

Sovereign Issuer Credit Rating Framework

Five key areas to determine a sovereign's creditworthiness

Institutional and governance effectiveness score

Economic score

External score

Fiscal score

Monetary score

Institutional and governance effectiveness and economic profile

Flexibility and performance profile

Sovereign indicative rating level

Supplemental adjustment factors and one notch of flexibility, if applicable

Foreign-currency sovereign rating

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DIFFERENT AND DIVERGENT COUNTRY RATINGS REQUIRE IN-DEPTH ANALYSIS OF THE METHODOLOGY

Sovereign Ratings List			
	Moody's ratings [★]	S&P ratings [★]	Fitch ratings [★]
United States [★]	Aaa	AA+	AAA
United Kingdom [★]	Aa3	AA	AA-
Germany [★]	Aaa	AAA	AAA
France [★]	Aa3	AA-	AA-
Japan [★]	A1	A+	A
Spain [★]	Baa1	A	A-
Italy [★]	Baa3	BBB+	BBB
Portugal [★]	A3	A-	BBB+
Greece [★]	Baa3	BBB	BB+
Ireland [★]	Aa3	AA	AA-
Andorra [★]	A-	A-	A-
United Arab Emirates	Aa2	AA	AA-

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SHRINKING SELECT CLUB OF TRIPLE-A RATING COUNTRIES

	S&P	Moody's	DBRS
Australia	AAA	Aaa	AAA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
Liechtenstein	AAA		
Luxembourg	AAA	Aaa	AAA
Netherlands	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
Norway	AAA	Aaa	AAA
Sweden	AAA	Aaa	AAA
European Union	AA	Aaa	AAA
Singapore	AAA	Aaa	AAA
United States	AA+	Aaa ↓	AAA

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COUNTRY RISK RATING ?

Advantages/ Pros

- ▶ simple
- ▶ shrinks a large number of variables into one single grade
- ▶ cross-country comparison
- ▶ comparison across time
- ▶ reliable for smooth risk evolution
- ▶ useful for statistical and econometric analysis

Shortcomings/Cons

- ▶ "reductionist"
- ▶ simplistic
- ▶ risk of self-fulfilling prophecy
- ▶ little predictive value
- ▶ weighted average tends to bury salient trends
- ▶ gives "market consensus" often made of herd instinct

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SHORTCOMINGS OF RATING AGENCIES?

- Power without accountability + conflict of interest
- Conformity bias and herd behavior
- Sociocultural bias
- Punishment of disobedient firms/countries that do not request a rating
- Procyclical bias, hence following the majority opinion of market participants without any early warning signals nor predictability track record
- Spill-over effect!

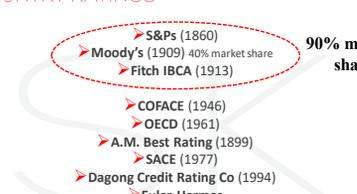


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MAIN COUNTRY RATINGS



90% market share

- ▶ S&Ps (1860)
- ▶ **Moody's (1909) 40% market share**
- ▶ Fitch IBCA (1913)
- ▶ COFACE (1946)
- ▶ OECD (1961)
- ▶ A.M. Best Rating (1899)
- ▶ SACE (1977)
- ▶ Dagong Credit Rating Co (1994)
- ▶ Euler-Hermes
- ▶ INCRA (2012)
- ▶ Thomson Reuters
- ▶ EIU
- ▶ Scope-Berlin

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THE OCDE IMPLEMENTS A RATING AND RANKING OF COUNTRY RISK FOR PROVIDING A LEVEL PLAYING FIELD TO EXPORT GUARANTEE COMPANIES WITHIN THE GROUP OF 38 DEVELOPED COUNTRIES AND FOR THE PURPOSE OF SETTING MINIMUM PREMIUM RATES FOR EXPORT CREDIT TRANSACTIONS

THE COUNTRY RISK ENCOMPASSES:
 1. **TRANSFER AND CONVERTIBILITY RISK** (I.E. THE RISK THAT A GOVERNMENT IMPOSES CAPITAL OR EXCHANGE CONTROLS THAT PREVENT AN ENTITY FROM CONVERTING LOCAL CURRENCY INTO FOREIGN CURRENCY AND/OR TRANSFERRING FUNDS TO CREDITORS LOCATED OUTSIDE THE COUNTRY),
 2. **CASES OF FORCE MAJEURE** (E.G. WAR, EXPROPRIATION, REVOLUTION, CIVIL DISTURBANCE, FLOODS, EARTHQUAKES).

Country Code (Official)	Country Name**	Previous	Current	Notes	
1	AFG	Alghanistan	7	7	
2	ALB	Albania	5	4	
3	DZA	Algeria	3	5	
4	AND	Andorra	-	-	(8)
5	AGO	Angola	6	6	
6	ATG	Antigua and Barbuda	7	7	
7	ARG	Argentina	7	7	
8	ARM	Armenia	6	6	
9	ARE	Aruba	4	4	
10	AUS	Australia	-	-	(8)
11	AUT	Austria	-	-	(8) (7)
12	AZE	Azerbaijan	4	4	
13	BHS	Bahamas	4	4	
14	BHR	Bahrain	4	6	
15	BGD	Bangladesh	5	5	
16	BRB	Barbados	-	-	(5)
17	BLR	Belarus	7	7	
18	BEL	Belgium	-	-	(8) (7)
19	BIZ	Belize	-	-	(5)
20	BLN	Benin	6	6	
21	BTN	Bhutan	6	6	
22	BOL	Bolivia	7	7	
23	BH	Bosnia and Herzegovina	6	6	
24	BWA	Botswana	5	3	
25	BRA	Brazil	4	4	
26	BRN	Brunei Darussalam	-	-	(5)
27	BGR	Bulgaria	4	4	

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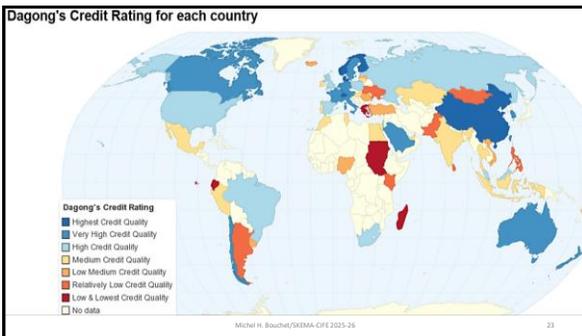
DAGONG (SET UP IN 1994)
 LACK OF INDEPENDENCE AND GEOPOLITICAL BIAS

- Japan A-
- Spain BBB+
- Italy BBB-
- Greece CC
- Chile AA-
- China AAA
- France A+
- Brazil A6
- Germany AA+
- Russia A stable
- USA A- and BBB+ 2018

- Argentina CC-
- Nigeria BB+
- Venezuela BB-
- Turkey BB-
- Ecuador B-
- Malaysia A+
- Thailand BBB-
- Vietnam B+
- Morocco BBB-
- Korea AA-

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RATING = POOR EARLY WARNING SIGNAL?

1997 Asia risk ? « *It's like growth stocks... sovereign risk has never looked better!* »

- Institutional Investor (March 1997)

▶ South Korea was rated as Italy and Sweden until October of 1997... but was abruptly downgraded to junk bond status!

« *There were no early warnings about Korea from us or, to the best of our knowledge, from other market participants, and our customers should expect a better job from us!* » FITCH IBCA January 14, 1998

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EUROMONEY'S RISK RATING

THE HIGHER THE SCORE, THE LARGER THE RISK

	1996	1997	1998	1999	2000	2005	2009	2010
Korea	28	30	42	44	29	28	40	25
Thailand	45	51	54	49	65	49	60	45
Philippines	55	57	55	53	78	75	77	58
Malaysia	33	35	56	46	46	46	45	60
Indonesia	45	49	91	98	107	81	76	61

Agencies were blind for too long then hammered the countries with abrupt downgrading!



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WAS THE 1998 ASIAN CRISIS ANTICIPATED BY RATING AGENCIES?

	Credit Ratings			
	Standard & Poor's		Moody's	
	June 1996	June 1997	June 1996	June 1997
Indonesia	BBB	BBB	Baa3	Baa3
Korea	AA-	AA-	A1	A1
Malaysia	A+	A+	A1	A1
Philippines	BB	BB+	Ba2	Ba1
Thailand	A	A	A2	A2

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ASIA-1998: LESSONS OF THE CRISIS

▶ “Any agency which rated the Republic of Korea at the high investment grade rating of AA- (in the case of Fitch IBCA and S&Ps) or A1 (Moody's) before the crisis, and which now rates Korea at a speculative grade B-, was clearly either wrong initially or subsequently”

Fitch IBCA January 13, 1998

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RATING = POOR EARLY WARNING SIGNALS?

ENRON's collapse in December 2001

- ▶ The credit agencies were still tipping the energy firm as an investment-grade credit four days before it filed for bankruptcy protection on 12/2/2001.
- ▶ Moody's and S&Ps finally downgraded Enron to junk status on 11/28/01
- ▶ « *The credit raters - despite their unique position to obtain information unavailable to other analyst- were no more astute and no quicker to act than others* »
 - Senator Joe Lieberman

Source: Credit-October 2006, Vol7, Issue 09

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TUNISA 2011- 2026

THE 2011 "JASMIN REVOLUTION": MOODY'S DOWNGRADES TUNISIA'S TO BAA3 NEGATIVE

► **January 2011:** Moody's Investors Service downgraded to Baa3 from Baa2 the local and foreign currency government bond ratings of the Tunisian government.

Main drivers for the rating action:

- (1) The country's instability due to the unexpected recent regime change, which resulted from the ongoing political crisis that first began as social unrest.
- (2) The significant uncertainties surrounding both the economic and political outcomes.
- (3) The ongoing unrest and the fluidity of the political situation

► **May 2013: new downgrading to Ba2**

- **October 2017: B1 -**
- **August 2019: B2 -**
- **May 2022: Caa1 -**
- **May 2025 Caa1 stable**

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POLITICAL RISK INDICES

<ol style="list-style-type: none"> 1. Heritage Foundation 2. Freedom House 3. Fraser Institute 4. AT Kearney 5. Cato Institute 6. Fund for Peace FSI 7. Transparency International CPI 8. PWCs: Opacity Index 9. LB: Legsi 10. Asiarisk 11. Marsh 	<ol style="list-style-type: none"> 12. World Bank (Governance) 13. Euromoney (25%) 14. Institutional Investor 15. IMD 16. ICRG-PRS 17. MIG 18. WMRC 19. University of Maryland Ibrahim Index of Governance 20. WTIW - Political Risk Survey Report 21. Global Peace Index 22. Internal Violence Index 23. DEF1-SKEMA-CIFE
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ASSESSING COUNTRY GOVERNANCE AND SUSTAINABILITY?

► <https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital> ► Governance Index: World Map

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GLOBAL PEACE INDEX (INSTITUTE FOR ECONOMICS AND PEACE)

A composite index measuring the peacefulness of countries made up of 23 quantitative and qualitative indicators each weighted on a scale of 1-5. The lower the score the more peaceful the country.

3 sub-indicators:

1. level of Societal Safety and Security,
2. extent of Ongoing Domestic and International Conflict,
3. degree of Militarization

4. 163 countries

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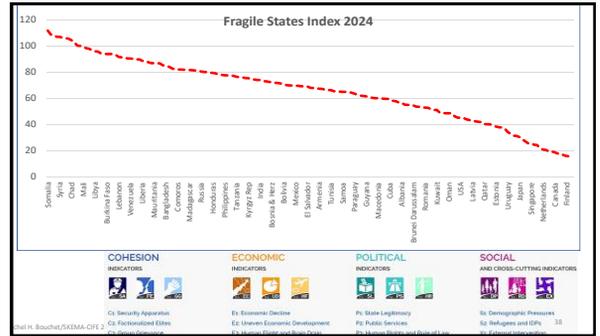
THE FRAGILE STATES INDEX (FUND FOR PEACE)

The Fragile States Index = critical tool in highlighting not only the **normal pressures** that all states experience, but also when those pressures are outweighing a states' **capacity to manage** those pressures: assessing the vulnerability of states to collapse.

Annual ranking for 178 countries with 12 political, economic and social indicators and >100 sub-indicators, coupled with qualitative analysis and expert validation:
 Economic decline, uneven development, brain drain, state legitimacy, public services, human rights, demographic pressures, refugees, external intervention, rule of law...

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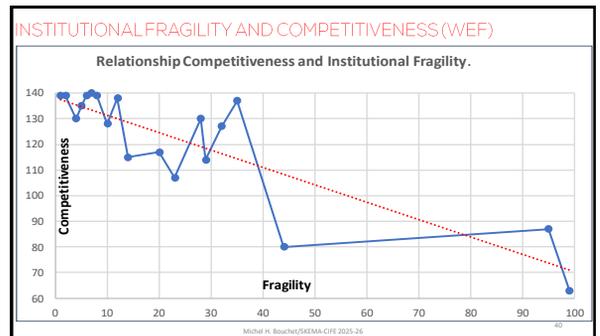
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KEY FEATURES OF FAILED AND FRAGILE STATES

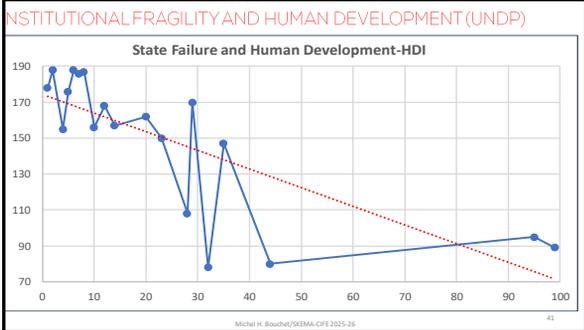
Weak States	Ranking	Corruption**	HDI**	GNI	Competit	Capital flight	Human flight**	%	Invest/GDP	Ext Debt/GDP
Yemen	1	176	178	38	139	2%	7,3	35	12	30%
Somalia	2	180	188	39	139	1%	9,5	6	10	75%
Syria	4	178	155	36	130	3%	8,4	50	10	16%
Congo DR	5	165	176	49	135	39%	7	15	12	20%
CAR	6	149	188	44	139	4%	7,1	7	13	36%
Chad	7	165	186	43,3	140	2%	8,5	6	16	27%
South Sudan	8	178	187	35	139	1%	6,5	15	11	111%
Zimbabwe	10	160	156	43	128	5%	7,6	10	12	77%
Haiti	12	161	168	61	138	3%	8,4	15	25	30%
Nigeria	14	144	157	49	115	3%	6,9	23	15	70%
Uganda	20	149	162	42	117	3%	7,3	5	24	40%
Pakistan	23	117	150	33,5	107	1%	6,8	6	16	31%
Libya	28	170	108	42	130	22%	6,3	20	15	20%
Côte d'Ivoire	29	105	170	42	114	2%	7,3	5	16	37%
Venezuela	32	168	78	40	127	23%	6,1	35	14	83%
Angola	35	165	147	43	117	11%	6,9	9	24	57%
Lebanon	44	138	80	32	80	17%	5,6	9	20	200%
Tunisia	95	73	95	40	87	5%	5,9	16	21	90%
Peru	99	105	89	44	63	5%	7,1	10	21	35%

* Nonbank private deposits in international banks/BIS AG-1
 ** The higher, the worse
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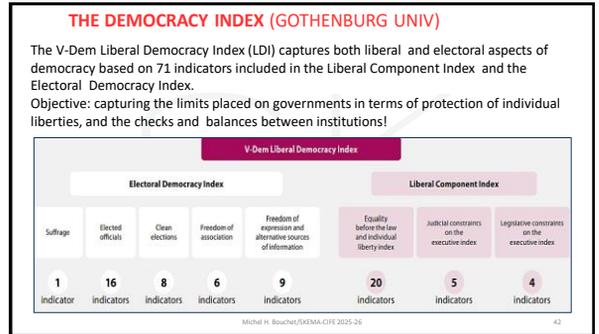
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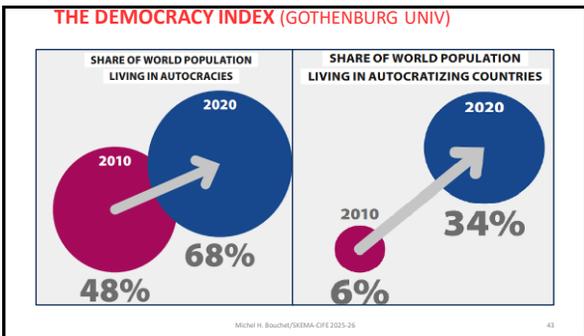
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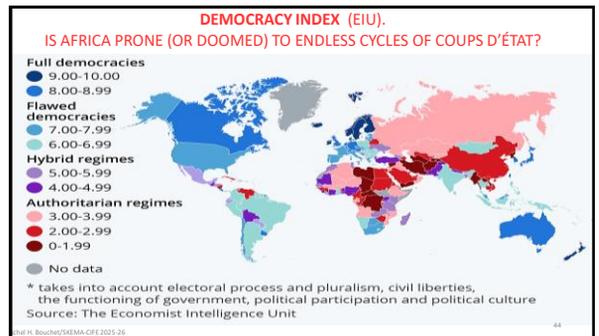
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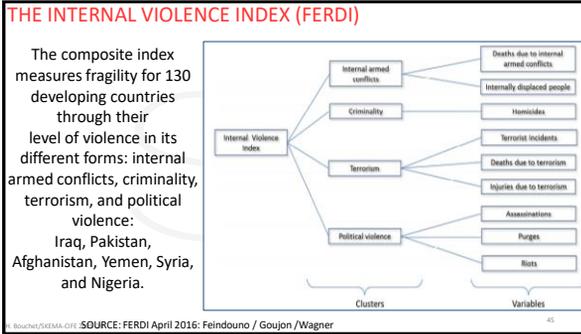
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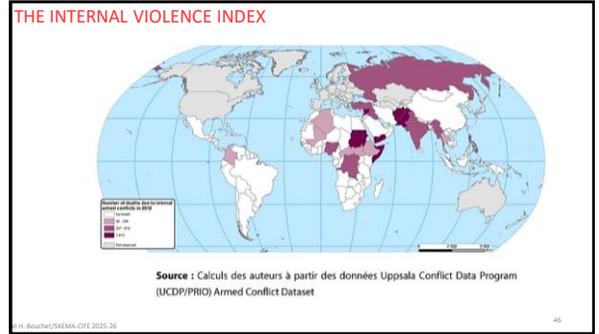
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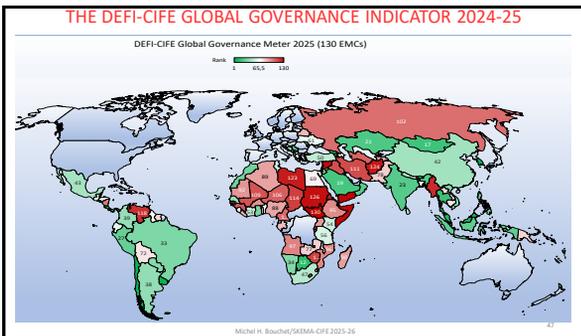
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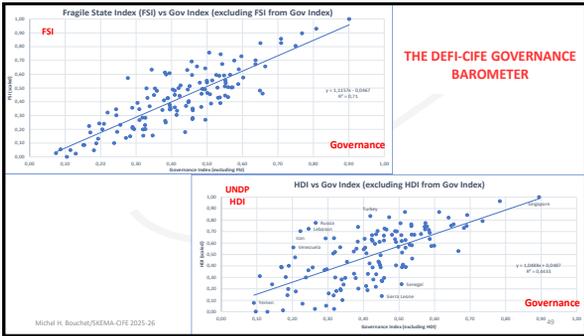
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FOUR MAIN GOVERNANCE CATEGORIES

Reliable transparency & governance-enhancing frameworks	Regulatory opacity and institutional corruption	Weak governance standards & socio-political tensions	Deeply rooted corruption and authoritarian regimes
Singapore 1	Paraguay 35	Qatar 67	Libya 100
South Korea 2	Vietnam 36	Sierra Leone 68	Nicaragua 100
Uruguay 3	Costa Rica 37	Egypt 69	Ghana 101
Chile 4	Argentina 38	Mali 70	Russia 102
Mauritius 5	Colombia 39	Cambodia 71	Cameroon 103
Costa Rica 6	Senegal 40	Bolivia 72	Lebanon 104
Latvia 7	Ecuador 41	Lebanon 73	Turkmenistan 105
Malaysia 8	China 42	Finland 74	Niger 106
Georgia 9	Mexico 43	Suriname 75	Laos 107
Russia 10	Sri Lanka 44	Principles of Governance 76	Guinea 108
Bhutan 11	St Vincent 45	Zambia 77	Mali 109
Burkina Faso 12	Venezuela 46	Pakistan 78	Iraq 110
Panama 13	South Africa 47	Gambia 79	Iran 111
Jamaica 14	Nepal 48	Togo 80	Cuba 112
Albania 15	Grenada 49	Liberia 81	Zimbabwe 113
Thailand 16	Turkey 50	Guam 82	Chad 114
Mongolia 17	Madagascar 51	Belarus 83	Equatorial Guinea 115
Armenia 18	Peru 52	Belize 84	DR Congo (Kinshasa) 116
Saudi Arabia 19	Cote d'Ivoire 53	Andorra 85	Russia 117
Dominican Rep 20	Kenya 54	Tajikistan 86	Venezuela 118
Kazakhstan 21	Tanzania 55	San Tomé 87	Myanmar 119
Serbia 22	Tanzania 56	Nigeria 88	Haiti 120
India 23	Guatemala 57	Algeria 89	DR Congo (Kinshasa) 121
Oman 24	Ecuador 58	Madagascar 90	Ethiopia 122
Indonesia 25	Honduras 59	Uganda 91	Libya 123
Moldova 26	Uzbekistan 60	Mauritania 92	Afghanistan 124
Peru 27	Ukraine 61	Burkina Faso 93	CAR 125
Tanzania 28	Dominica 62	Cabo Verde 94	Russia 126
Jordan 29	Namibia 63	Ethiopia 95	Syria 127
Morocco 30	Azerbaijan 64	Madagascar 96	Somalia 128
Philippines 31	Bangladesh 65	Angola 97	Yemen 129
Chad 32	Bangladesh 66	Togo 98	South Sudan 130
Brazil 33	Norway 67		
Norway 34			

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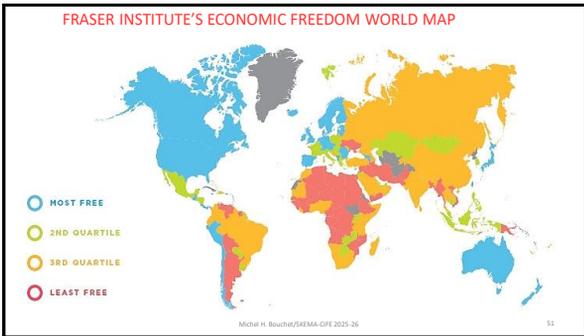


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FRASER INSTITUTE- ECONOMIC FREEDOM

- ▶ Since 1975, annual Indices of Economic & Human Freedom in the world: reliable measure of cross-country differences in economic freedom, using third-party data to help ensure objectivity
- ▶ **Criteria:** government quality, legal structure, security of property rights, access to sound money, personal choice, freedom to exchange with foreigners and to compete in markets, quality of regulations and institutional strength...
- ▶ **The Economic Freedom Annual Report** is the measurement of economic freedom, ranking countries based on five areas: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. The report compares 165 countries and territories

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RANK	COUNTRY/AREA	YEAR	INITIAL SCORE	2022 SCORE	ECONOMY		POLITICS		TOTAL
					GOVERNMENT	PROF. ASSETS	LEGAL	DISORDER	
1	Hong Kong SAR, China	2022	8.50	7.54	7.49	8.92	8.88	8.88	
2	Singapore	2022	8.50	7.22	8.40	8.71	8.86	8.71	
3	Switzerland	2022	8.42	7.60	8.82	8.86	8.11	7.98	
4	New Zealand	2022	8.29	8.29	8.08	8.82	8.84	8.74	
5	United States	2022	8.09	7.58	7.78	8.82	8.11	8.64	
6	Ireland	2022	8.02	8.23	7.88	8.82	8.88	8.29	
7	Denmark	2022	8.02	8.54	8.18	8.78	8.84	7.94	
8	Canada	2022	7.99	8.44	8.28	8.88	8.82	8.14	
9	Australia	2022	7.98	8.14	8.88	8.88	8.18	8.23	
10	Luxembourg	2022	7.98	8.29	8.64	8.78	8.87	8.19	
11	Japan	2022	7.98	8.88	7.78	8.88	8.88	7.91	
12	United Kingdom	2022	7.88	8.18	8.01	8.71	8.75	7.75	
13	Finland	2022	7.87	8.06	8.86	8.82	8.87	8.22	
14	Iceland	2022	7.84	8.02	8.77	8.88	8.41	7.22	
15	Malta	2022	7.82	8.81	8.77	8.79	8.02	7.88	
16	Germany	2022	7.80	8.78	8.18	8.88	8.72	7.78	
17	Mauritius	2022	7.79	7.88	7.88	8.28	8.78	8.38	
18	Netherlands	2022	7.74	8.82	8.88	8.34	8.18	7.81	
19	Taiwan	2022	7.73	8.47	7.88	8.88	8.28	7.82	

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181	Chad	2022	5.05	7.04	2.45	5.66	5.22	4.27
182	Congo, Dem. Rep.	2022	5.02	5.98	2.89	5.95	5.61	4.34
183	Central African Republic	2022	4.92	6.65	2.03	6.02	5.15	4.76
184	Congo, Rep.	2022	4.89	6.02	2.78	5.29	5.74	4.52
185	Angola	2022	4.79	7.50	3.17	5.00	2.97	5.20
186	Yemen, Rep.	2022	4.69	5.21	2.40	4.98	4.61	2.11
187	Libya	2022	4.65	3.62	2.90	7.01	5.75	4.22
188	Iran, Islamic Rep.	2022	4.61	6.99	2.26	5.95	2.48	4.47
189	Argentina	2022	4.58	6.22	4.85	2.85	4.22	4.80
190	Myanmar	2022	4.54	6.75	2.02	4.77	2.48	4.67
191	Algeria	2022	4.48	4.45	2.82	6.27	5.14	4.91
192	Syrian Arab Republic	2022	4.28	6.21	2.26	6.57	2.12	2.15
193	Sudan	2022	4.11	8.04	2.03	1.25	5.24	2.89
194	Zimbabwe	2022	2.51	5.63	2.54	1.25	3.02	4.20
195	Venezuela, RB	2022	2.02	4.80	2.29	0.74	5.02	2.54

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HERITAGE FOUNDATION:
INDEX OF ECONOMIC FREEDOM

- ▶ **Economic freedom** = *absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself*
- ▶ 12 freedoms in 184 countries
- ▶ Broad array of institutional factors determining economic freedom: corruption, non-tariff barriers to trade, fiscal burden of government, rule of law, regulatory burdens, restrictions on banks, labor market regulations, black market activities...

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THE HERITAGE FOUNDATION: ECONOMIC FREEDOM INDEX

We measure economic freedom based on 12 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom:

1. Rule of Law (property rights, government integrity, judicial effectiveness)
2. Government Size (government spending, tax burden, fiscal health)
3. Regulatory Efficiency (business freedom, labor freedom, monetary freedom)
4. Open Markets (trade freedom, investment freedom, financial freedom)

Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100. A country's overall score is derived by averaging these twelve economic freedoms, with equal weight being given to each. More information on the grading and methodology can be found in the appendix.

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CRITERIA OF ECONOMIC FREEDOM

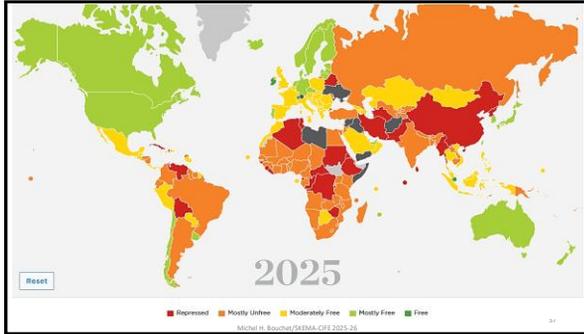
- ▶ To measure economic freedom and rate each country, the *Index* is based on 50 independent economic variables, with **four key aspects** of the economic and entrepreneurial environment:
 1. Rule of law,
 2. Government size,
 3. Regulatory efficiency
 4. Market openness

And 12 broad categories of economic freedom:

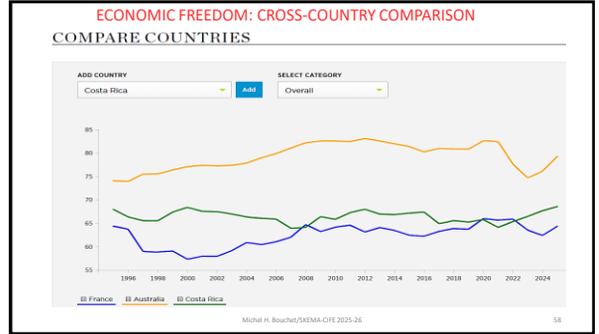
1. Trade policy,
2. Fiscal burden of government,
3. Government intervention in the economy,
4. Monetary policy,
5. Capital flows and foreign investment,
6. Banking and finance,
7. Wages and prices,
8. Property rights,
9. Regulation, and
10. Black market activity
11. Public Services
12. Government integrity

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INDEX OF ECONOMIC FREEDOM

« THE BEST »

Rank	Country	Overall	Change
1	Singapore	83.9	-0.5 ↓
2	Switzerland	83.8	-0.4 ↓

Rank	Country	Overall	Change
3	Ireland	82.0	0.0 →
4	Taiwan	80.7	+0.6 ↑

MOSTLY FREE (70-79)

Rank	Country	Overall	Change
5	New Zealand	76.9	-1.7 ↓
6	Estonia	76.6	-1.4 ↓
7	Luxembourg	76.4	-2.2 ↓
8	Netherlands	76.0	-1.5 ↓
9	Denmark	77.6	-0.4 ↓
10	Sweden	77.5	-0.4 ↓
11	Finland	77.1	-1.2 ↓
12	Norway	76.9	0.0 →
13	Australia	74.8	-2.9 ↓
14	Germany	73.7	-2.4 ↓
15	South Korea	73.7	-0.9 ↓
16	Canada	73.7	-2.8 ↓

Rank	Country	Overall	Change
17	Latvia	72.8	-2.0 ↓
18	Cyprus	72.3	-0.6 ↓
19	Iceland	72.2	-4.8 ↓
20	Lithuania	72.2	-3.6 ↓
21	Czech Republic	71.9	-2.5 ↓
22	Chile	71.1	-3.3 ↓
23	Austria	71.1	-2.7 ↓
24	United Arab Emirates	70.9	+0.7 ↑
25	United States	70.6	-1.5 ↓
26	Mauritius	70.6	-0.3 ↓
27	Uruguay	70.2	+0.2 ↑

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INDEX OF ECONOMIC FREEDOM 2025

« THE WORST »

Name	Year	Overall Score	Property Rights	Government Integrity	Judicial Effectiveness	Gov. Burden	Government Spend
Bolivia	2025	44.1	19.9	27.3	29.4	88.8	61.8
Burma	2025	43.7	12.3	19.7	4.2	88.6	84.0
Guinea-Bissau	2025	43.6	25.5	20.4	14.0	88.9	84.5
Central African Republic	2025	42.8	6.9	19.6	4.0	65.5	89.8
Iran	2025	42.5	23.3	16.3	18.6	81.3	94.0
Burundi	2025	39.7	26.6	14.2	7.4	76.1	71.1
Belarus	2025	38.6	6.1	14.3	3.9	80.3	62.5
Sudan	2025	35.3	12.0	15.6	4.0	84.7	95.7
Zimbabwe	2025	35.1	20.7	20.7	15.8	73.6	82.6
Venezuela	2025	27.6	0.7	6.7	4.1	75.9	93.8
Cuba	2025	25.4	29.9	33.4	14.3	59.9	0
North Korea	2025	3.0	15.7	4.0	5.9	0	0
Afghanistan	2025	N/A	7.4	14.1	2.7	N/A	N/A
Iraq	2025	N/A	6.3	19.9	7.1	N/A	N/A
Libya	2025	N/A	5.7	11.7	3.6	N/A	N/A
Liechtenstein	2025	N/A	94.4	82.4	86.7	N/A	N/A
Somalia	2025	N/A	0	8.2	1.6	N/A	N/A
Tyva	2025	N/A	2.6	3.3	3.7	N/A	N/A
Ukraine	2025	N/A	21.5	35.4	29.9	N/A	N/A
Yemen	2025	N/A	5.1	6.1	3.0	N/A	N/A

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HERITAGE FOUNDATION

INDEX OF ECONOMIC FREEDOM

Trade + Fiscal Burden, + Government Intervention, + Monetary Policy, + FDI + Inflation + External Competitiveness + Banking sector

Rank	Country	Overall	Change
28	United Kingdom	69.9	-2.9
29	Barbados	69.8	-1.5
30	Dominica	69.5	-1.3
31	Japan	69.3	-0.6
32	Bulgaria	69.3	-1.7
33	Slovakia	69.0	-0.7
34	Israel	68.9	+0.9
35	Georgia	68.7	-3.1
36	Qatar	68.6	+0.9
37	Slovenia	68.5	-2.0
38	Samoa	68.3	0.0
39	Jamaica	68.1	+0.7
40	Poland	67.7	-1.0
41	Malta	67.5	-4.0
56	Northern Macedonia	63.2	-2.0
57	France	63.0	-2.3
58	Serbia	63.5	-1.7
59	Saint Vincent and the Grenadines	63.5	-2.2
60	Indonesia	63.5	-0.9
61	Mexico	63.2	-0.5
62	Colombia	63.1	-2.0
63	Bosnia and Herzegovina	62.9	-0.5
64	Guatemala	62.7	-0.5
65	Dominican Republic	62.6	-0.4
66	Micronesia	62.6	+1.6
67	The Bahamas	62.6	-6.1
68	Bahrain	62.5	-0.2
69	Italy	62.5	-3.1

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ECONOMIC FREEDOM

Dimmed! Hello GEGPA students! How can you explain that the US Economic Freedom Index is worse than Chile?

Hello GEGPA Students! How can you explain that Italy's index of Economic Freedom is worse than Guatemala?

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Freedom House **POLITICAL FREEDOM INDEX**

- ▶ Since 1972, Freedom House has published an annual assessment of the state of freedom in 195 countries, based on a checklist of questions on **political rights and civil liberties** (Universal Declaration of Human Rights).
- ▶ A country/territory is awarded 0 to 4 points on each of 25 indicators, for a maximum score of 100 points.
- ▶ These indicators, which take the form of questions, are grouped into the categories of Political Rights (0–40) and Civil Liberties (0–60).
- ▶ The two score totals are then weighted equally to determine a country/territory's status of Free, Partly Free, or Not Free.

<http://www.freedomhouse.org/ratings/index.htm>

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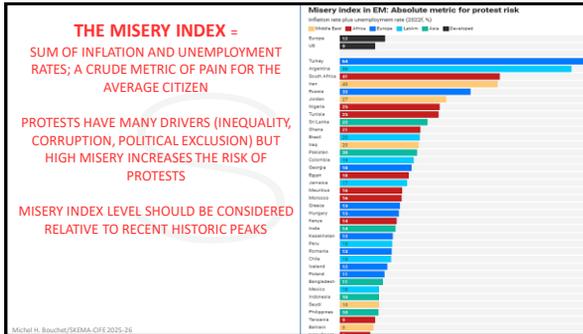
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FREEDOM IN THE WORLD: SEVEN CATEGORIES

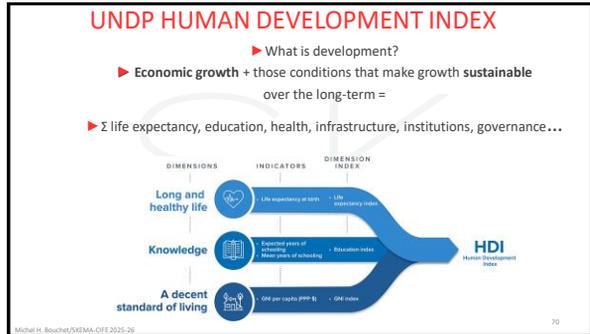
<p>Political institutions</p> <ol style="list-style-type: none"> 1. Electoral Process: executive and legislative elections, and electoral framework 2. Political Pluralism and Participation: party system, competition, freedom to exercise political choices, and minority voting rights 3. Functioning of Government: corruption, transparency, and ability of elected officials to govern in practice 	<p>Civil liberties</p> <ol style="list-style-type: none"> 4. Freedom of Expression and Belief: media, religious freedom, academic freedom, and free private discussion 5. Associational and Organizational Rights: free assembly, civic groups, and labor unions 6. Rule of Law: independent judges and prosecutors, due process, crime and disorder, and legal equality 7. Personal Autonomy and Individual Rights: freedom of movement, property rights, personal and family rights, and freedom from economic exploitation
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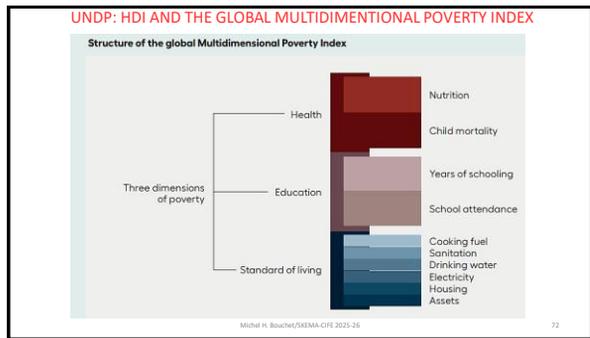


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HDI RANK	Country	HDI	Low human development
1	Iceland	0.972	157 Mauritania 0.546
2	Norway	0.970	158 Benin 0.545
2	Switzerland	0.970	159 Uganda 0.544
4	Denmark	0.962	160 Rwanda 0.543
5	Germany	0.959	161 Nigeria 0.539
5	Sweden	0.959	162 Côte d'Ivoire 0.538
7	Australia	0.958	163 Tanzania (United Republic of) 0.529
8	Hong Kong, China (SAR)	0.955	164 Madagascar 0.528
8	Netherlands	0.955	165 Togo 0.525
10	Belgium	0.951	166 Lesotho 0.527
11	Ireland	0.949	166 Djibouti 0.524
12	Finland	0.948	167 Togo 0.525
13	Singapore	0.946	168 Senegal 0.512
13	United Kingdom	0.946	169 Afghanistan 0.511
15	United Arab Emirates	0.940	170 Haiti 0.500
16	Canada	0.939	170 Sudan 0.500
17	Liechtenstein	0.938	172 Gambia 0.496
17	New Zealand	0.938	173 Ethiopia 0.485
17	United States	0.938	174 Malawi 0.483
20	Korea (Republic of)	0.937	175 Congo (Democratic Republic of the) 0.480
21	Slovenia	0.931	175 Guinea-Bissau 0.480
22	Austria	0.930	175 Liberia 0.480
23	Japan	0.925	178 Guinea 0.477
24	Malta	0.924	179 Yemen 0.470
25	Luxembourg	0.922	180 Eritrea 0.459
			381 Mozambique 0.456
			182 Burkina Faso 0.452
			182 Sierra Leone 0.452
			184 Mali 0.434
			318 Burundi 0.431

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