WHAT IS COUNTRY RISK ALL ABOUT?

IN AN AGE OF GLOBALIZATION & GEOPOLITICAL THREATS?



CIFE SEMINAR ROMA-NICE 2026-27

MICHEL-HENRY BOUCHET

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«YESTERDAY'S» COUNTRY RISK

▶ Cross-border risk =

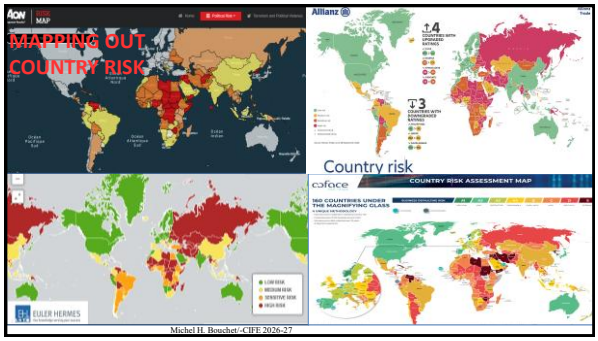
Assessment of a foreign country's ability and willingness to meet its external obligations in full and on time

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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MAPPING OUT COUNTRY RISK



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THE ABRUPT RISE IN CDS PRICES APRIL 2020



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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

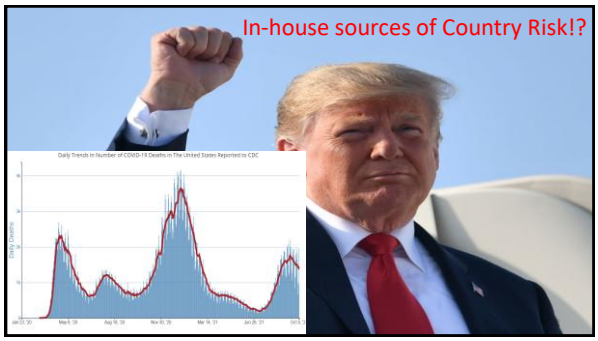
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WHAT COUNTRY RISK IS **NOT**

- 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 goverment 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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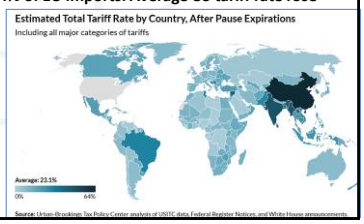
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COUNTRY RISK AND TRUMP ELECTION?

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%**



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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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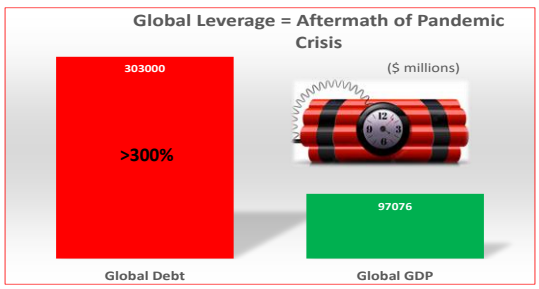
CRUDE OIL PRICES 2000-2026 = WINNERS & LOSERS



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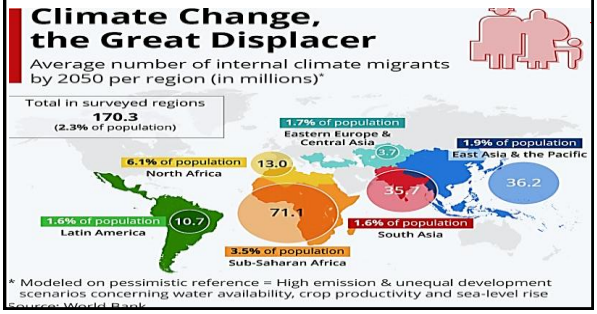
RISING GLOBAL DEBT THREAT



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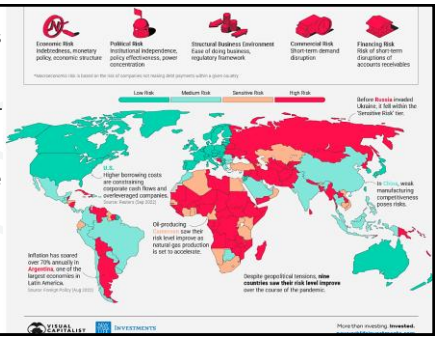
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« INDIRECT » COUNTRY RISK SOURCE



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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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WORLD BANK
GLOBAL GOVERNANCE INDICATORS 2026



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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

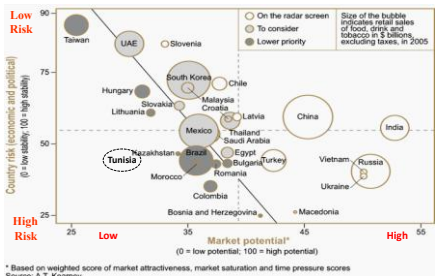
1. **Qualitative « macro » approach**: financial, macroeconomic, legal, regulatory, environmental (incl. sanitary) and political parameters
2. **Balance of payments and external debt analysis**: Liquidity + solvency ratios
3. **Quantitative approach** : rating, ranking, and scoring
4. **Market signals**: inflation, exchange rates, yields, spreads, CDS, Vix
5. **Econometric approach** (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 fully transparent predictions using the SHAP (SHapley Additive exPlanations) framework. With rolling statistics for key lagged variables to show trends and volatility + ChatGPT, Perplexity, NotebookLM…

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MOST ATTRACTIVE MARKETS?

= COMBINING RISK EXPOSURE + MARKET OPPORTUNITIES



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AT KEARNEY FDI CONFIDENCE INDEX

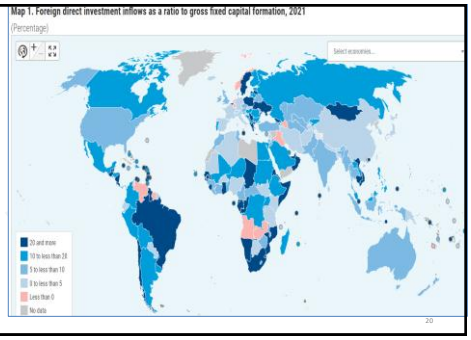
GOVERNANCE MATTERS!

Ranking 2017	2018	2019		Score
1	1	1	United States	2.31
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

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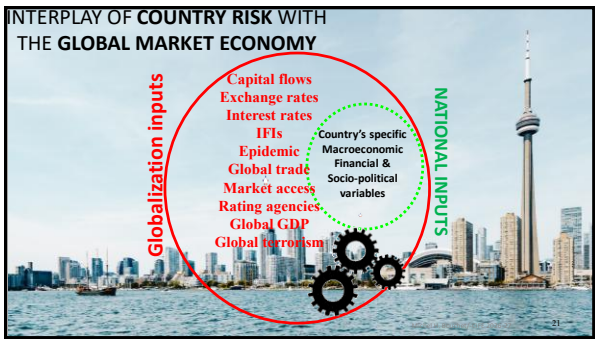
UNCTAD

TRADE AND FDI FLOWS & STOCKS



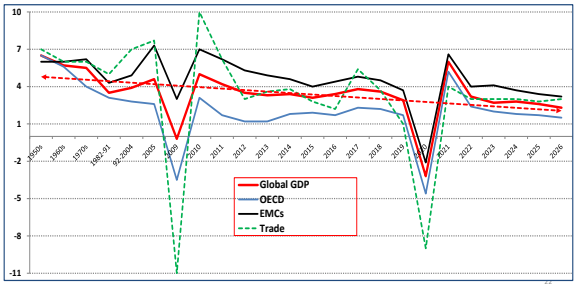
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INTERPLAY OF **COUNTRY RISK** WITH THE **GLOBAL MARKET ECONOMY**



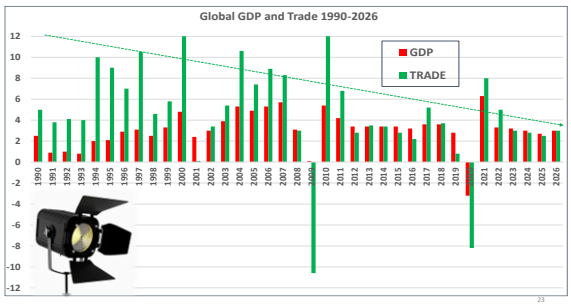
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1950-2026 Secular stagnation: Two full decades of GDP and trade growth slowdown



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PANDEMIC + GEOPOLITICAL CRISIS = GLOBAL MACROECONOMIC IMPACT



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FitchRatings

GLOBAL SECULAR STAGNATION INCREASES COUNTRY RISK!

Appendix: Macroeconomic Forecasts and Commodity Price Assumptions

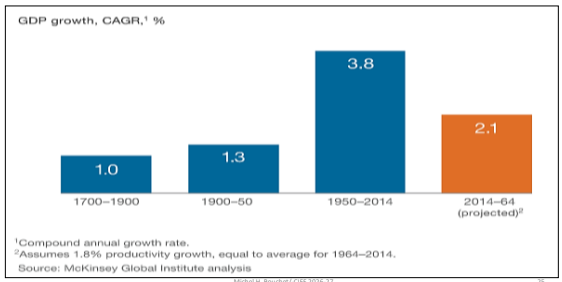
Real GDP growth (%)	2023	2024F	2025F	2026F
US	2.9	2.7	2.1	1.7
Eurozone	0.4	0.8	1.2	1.3
China	5.2	4.8	4.3	4.0
Japan	1.7	-0.2	1.2	0.5
India[a]	8.2	6.4	6.5	6.2
UK	0.3	0.9	1.8	1.5
World	3.0	2.8	2.6	2.3
DM[b]	2.0	1.8	1.7	1.5
EM[c]	4.7	4.3	3.9	3.6
EM ex China	4.1	3.7	3.4	3.2

Inflation (% yoy, end of period)	2023	2024F	2025F	2026F
US	3.4	2.9	2.8	2.7
Eurozone	2.9	2.3	2.2	1.9
China	-0.3	0.5	1.0	1.3
Germany	2.6	2.4	2.0	2.0
Germany	3.8	2.4	2.0	2.0
India[a]	5.7	4.6	4.0	4.0
UK	3.9	2.4	2.8	2.2
France	4.1	2.5	2.0	2.0
Italy	0.5	1.3	1.7	1.8
Canada	3.4	2.1	2.0	2.0

Unemployment (end of period)	2023	2024F	2025F	2026F
US	3.6	4.1	4.5	4.5
Eurozone	6.6	6.4	6.5	6.4
Japan	2.6	2.5	2.5	2.5
Germany	3.0	3.5	3.6	3.6
UK	4.0	4.2	4.3	4.1
France	7.3	7.5	7.6	7.6
Italy	7.7	6.4	5.9	5.7
Canada	5.4	6.3	6.6	5.8
Australia	3.7	4.1	4.5	4.2
Spain	12.2	11.4	11.0	10.6

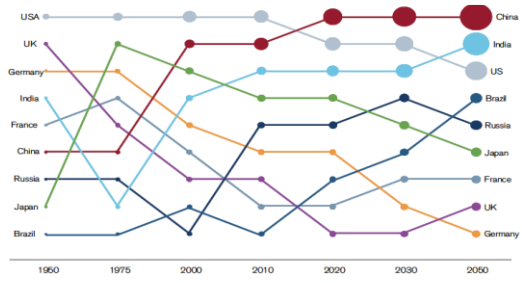
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PROSPECTS: ECONOMIC SLOWING DOWN IN THE NEXT 50 YEARS



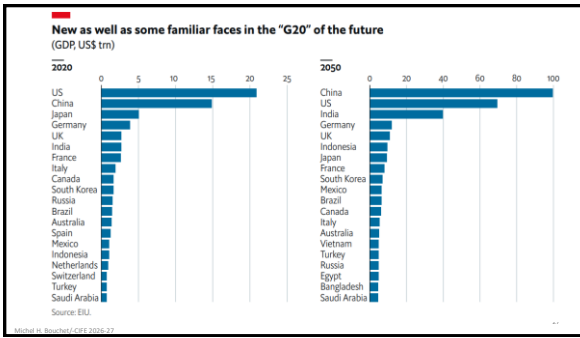
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THE TOP GLOBAL GDP 1950-2050?



World Bank, PWCs, Credit Suisse

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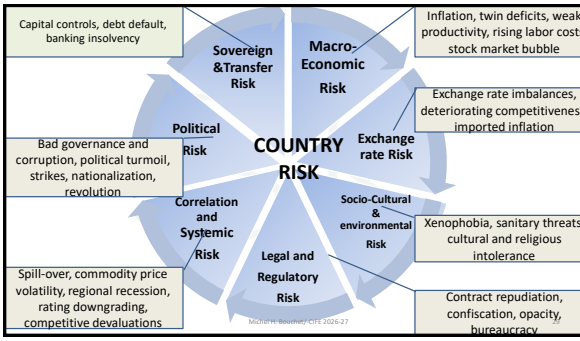


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THE KEY COMPONENTS OF COUNTRY RISK?



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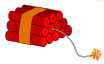
MAIN COMPONENTS OF GLOBAL RISK

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

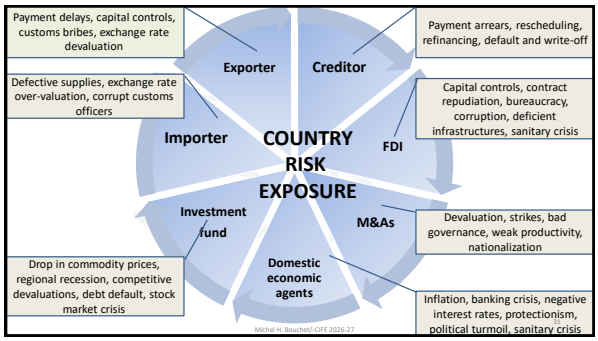
Quantifiable but ultimately judgmental

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

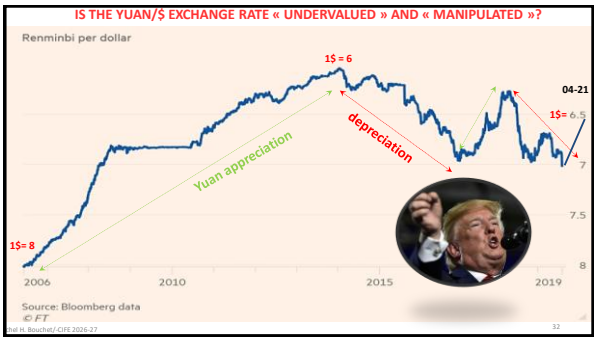
Subjective, insurable and diversifiable?



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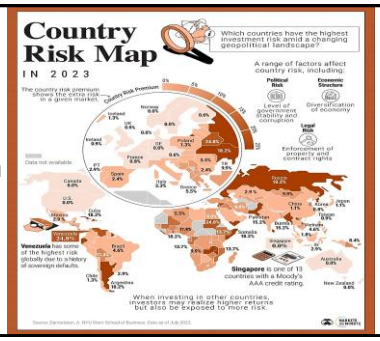


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Country Risk must be assessed, anticipated, and measured regarding its current and upcoming cost!

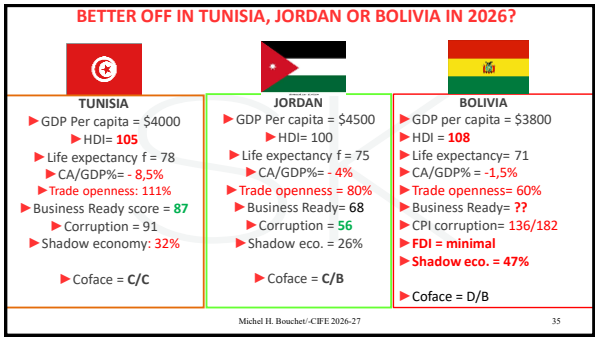


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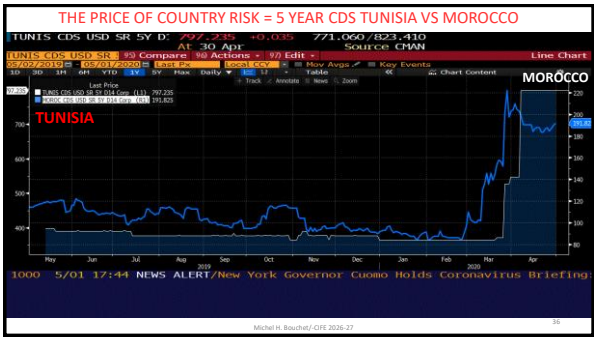


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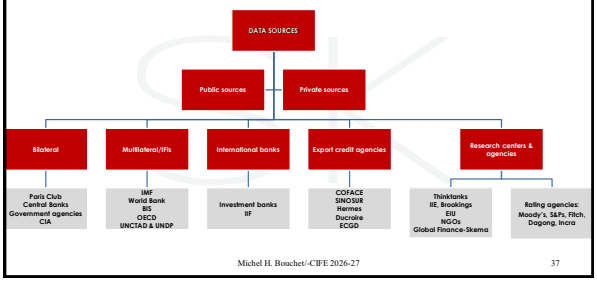


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MAJOR SOURCES OF COUNTRY RISK INTELLIGENCE



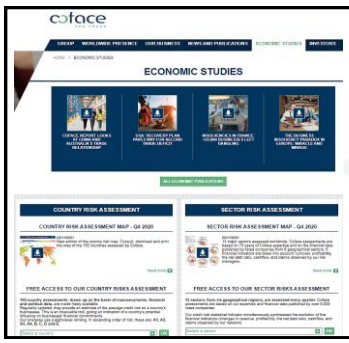
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ANALYSIS AND INFORMATION SOURCES

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



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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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COFACE: 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
GERMANY	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
ITALY	135%	B/A2+	Very high youth unemployment, hence brain drain Prevalence of small, low-productivity companies Strong exposure to pandemic-sensitive sectors Strong regional disparities
GREECE	180%	A4/A2	Poorly diversified industry, overwhelming tourism dependence, Increasing security concerns vis-à-vis Turkey, low productivity L/Y

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