ISSUE 7 – DATE 21 JULY 2015

TOPIC 7 – COUNTRY RISK ANALYSIS METHODOLOGY

1. INTRODUCTION AND OBJECTIVE

This article attempts to discuss some common techniques that an analyst could use in analysing the country risk, and this is especially important in investing in power plants in emerging markets. These risks analysis comprises of both qualitative and quantitative measures and requires an analytical mind and creative thinking in application of the process. Most of these indexes could be obtained from public domain in the web.

COMMON MEASURES THAT COULD BE OBTAINED FROM WEB DOMAIN

TYPES OF INDEXES	INTEPRETATION	
Gini Coefficient	0 = total social equality	1 = total social inequality
Global Peace Index	An attempt to measure the relative position of nations' and regions' peacefulness. [	
Human Development Index	Is a composite statistic of life expectancy, education, and per capita income indicators, which is used to rank countries into four tiers of human development.	
Youth Unemployment	Is the unemployment of young people, defined by the United Nations as 14–28 years old. An unemployed person is defined as someone who does not have a job but is actively seeking work. It provides insight of the possibility of trouble on the road.	

ECONOMIC MEASURES

	Indicators	Measurement	Interpretation	
1	Fiscal deficit / GDP, %	Fiscal and monetary policy that measures ability of government in emerging economies in managing their annual spending.	Persistently:-	
			> 4%	Alert / Concern
			2% - 4%	Acceptable but needs monitoring
			< 2%	Doing well
2	Annual GDP%	Annual growth prospect	Persistently:-	
			< 4%	May mean that per capita income is growing slowly or falling given a certain level of population growth
			4% - 6%	Reasonable
			6% - 8%	Doing well
3	Current account / GDP, %	It measures the degree of competitiveness. A negative current account may be caused by imports that are greater than exports. Longer term this may mean that a country is facing an issue with its level of competitiveness. This is negative to a country under evaluation. However, if the current account deficit is due to increase in investment (foreign inflows) into a country, this is positive factor that leads to a growing economy. As a general rule, persistent negative current account requires monitoring.	Persistently:-	
			Current account deficit over GDP > 4%	May mean uncompetitive to some degree.
			Current account deficit over GDP between 1% to 3 %	Probably sustainable, provided economy is growing
4	External debt / GDP, %	This is a measure of debt burden in a country.	Persistently:-	
			> 50%	High debt burden which signifies potential inability to sustain external borrowings at reasonable rates.
			25% - 50%	No clear conclusion. Continue to monitor
5	Reserves / short tem debt (maturing in less than 12 months)	If a healthy economy is defined as low level of debt and high reserves, then a healthy economy should have high reserves / short term debt. Conversely, a low reserves / short term debt is considered a risky economy. This measurement can also be stated in short term debt / reserves.	<100%	Or if Short term debt / Reserves is increasing and exceeding 100 %, it is termed as a risky economy as there is not sufficient reserves to meet the short term obligations of debt providers.
			> 200%	Sufficient healthy reserves to meet short term obligations

THANKS FOR READING.

This article is prepared by Ong Tee Chin, CFA, FRM, and represents the view of the author. He can be contacted at ong@atlantiscapital.org for any further enquiries on the contents of this article.