



SUMMARY

The new risks of globalisation

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The end of the classical approach to 'Country Risk'

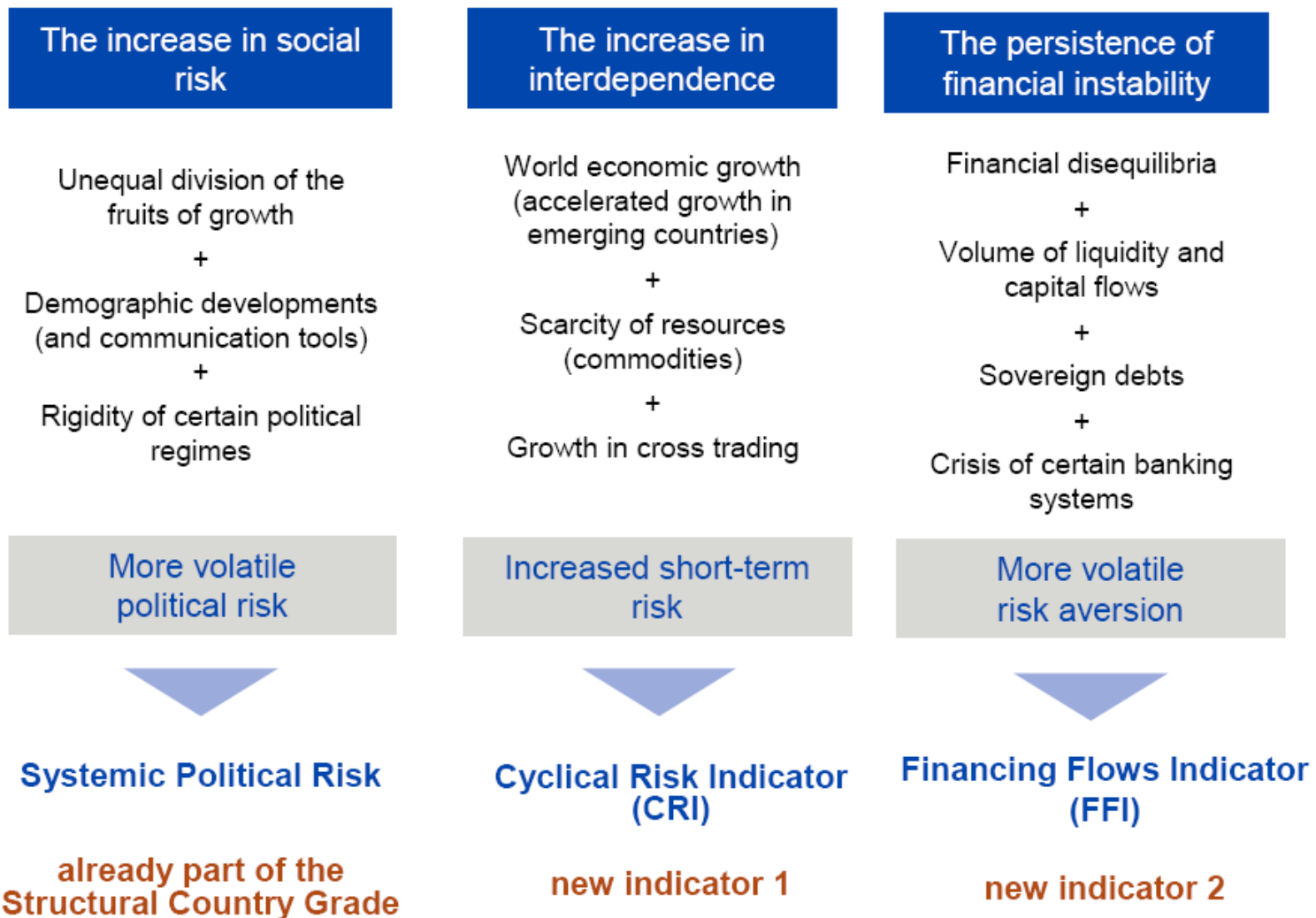
The purely structural measure of the economic and political risk of transfer and of convertibility

An inevitable and gradual mutation:

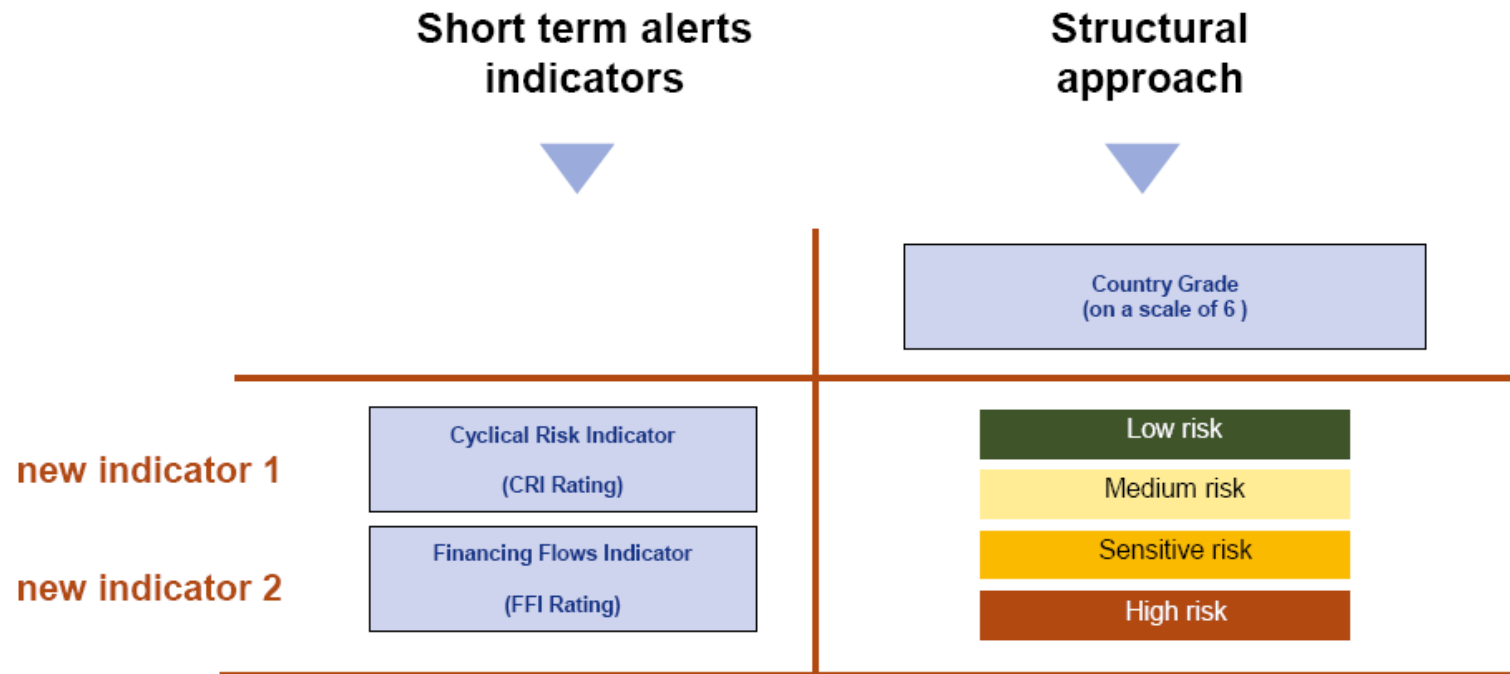
- A structural factor: the globalisation process, which is accompanied by a steady shift in the dividing line between the emerging and the developed countries, and an increase in the economic and financial exchanges between the emerging and the developing countries
- A double accelerator factor: the economic and financial crisis and the heterogeneous character of the world economic recovery, with no rapid decrease in global imbalances, which are accompanied by an increase in volatility

▶ The difficulties of some are the problems of everyone

3 major mutations => 2 new indicators



The new approach: a combination of the structural approach and of short term alerts indicators (1)



In the end, 4 major categories of country risk policy

The new approach: a combination of the structural approach and of short term alerts indicators (2)

<p>Macro-economic imbalances (Macroeconomic Rating)</p>		<p>Institutional/ structural factors (Structural Business Environment Rating)</p>		<p>Systemic weaknesses and government effectiveness</p>					
<p>Systemic Economic Risk (Economic Risk Rating – E)</p>				<p>Systemic Political Risk (Political Risk Rating – P)</p>					
<p>Country grade</p>									
		AA	A	BB	B	C	D	Total	
<p>Financing Flows Indicator (FFI Rating)</p>	<p>Short Term Alerts Indicator (CRI - FFI combinaison)</p>	without	15	32	6	7	36	79	175
		L1	3	4	8	8	2	0	25
		L2	15	0	5	1	2	0	23
		M1	0	0	1	0	1	1	3
		M2	3	0	0	0	1	0	4
		L3	2	0	0	0	0	0	2
		H1	0	0	0	0	1	0	1
		M3	1	0	0	3	4	0	8
		H2	0	0	0	0	0	0	0
		H3	4	0	0	0	0	0	4
Total		43	36	20	19	47	80	245	

Source : Euler Hermes

In the end, 4 major categories of country risk policy

Low risk
Medium risk
Sensitive risk
High risk

How to understand the new country risk matrix?

- The **Country Grade** is a long-term (structural) indicator.

It refers to the purely structural measure of the economic and political risk of transfer and of convertibility.

- **Financial Flow Indicator (FFI)** and **Cyclical Risk Indicator (CRI)** are short-term (cyclical) indicators.

FFI is an indicator of a country's vulnerability to exogenous shock and of its capacity to resist or avoid systemic shock, in particular with regard to its sensitivity to capital flows. It has a 3-level scale of risks, by increased order of risk: low, medium and high (L, M and H).

CRI measures the risk of worsening payments (payment periods, non-payments) in relation to macroeconomic developments, irrespective of structural transfer and convertibility risk. It has a 3-level scale of risks, by increased order of risk: low, medium and high (1, 2 and 3).

- The new risk classification, with 4 majors categories, is the synthesis of the 3 indicators.

Better risk assessment

FFI and CRI rating per country, by Structural Country Grade subindicator

AA	FFI	CRI	A	FFI	CRI	B	FFI	CRI
Australia	L	1	Chile	L	1	Bahrain	M	3
Austria	L	2	Hong Kong	L	1	China	L	1
Belgium	L	2	Malaysia	L	1	Colombia	L	1
Canada	L	1	Taiwan	L	1	Costa Rica	L	1
Cyprus	M	2				Croatia	M	3
Denmark	L	2				Guatemala	L	2
Estonia	L	3				India	L	1
Finland	L	2				Morocco	L	1
France	L	2				Panama	L	1
Germany	L	2				Philippines	L	1
Greece	H	3				Thailand	L	1
Ireland	H	3				Tunisia	M	3
Italy	M	2						
Japan	M	3						
Luxembourg	L	2						
Malta	L	2						
Netherlands	L	2						
New Zealand	L	2						
Norway	L	2						
Portugal	H	3						
Singapore	L	1						
Slovak Republic	L	2						
Slovenia	L	3						
Spain	H	3						
Sweden	L	2						
Switzerland	L	2						
UK	M	2						
USA	L	2						

BB	FFI	CRI	C	FFI	CRI
Brazil	L	1	Algeria	L	1
Czech Republic	L	2	Bulgaria	L	2
Israel	L	1	Dominican Republic	M	1
Korea (South)	L	1	Egypt	M	3
Kuwait	L	2	Hungary	M	2
Mexico	L	2	Indonesia	L	1
Oman	L	1	Latvia	M	3
Peru	L	1	Lithuania	M	3
Poland	L	1	Romania	M	3
Qatar	L	1	Russia	L	2
Saudi Arabia	L	1	Turkey	H	1
South Africa	M	1			
Trinidad & Tobago	L	2			
U.A.E.	L	2			

D	FFI	CRI
Argentina	M	1

Low risk
Medium risk
Sensitive risk
High risk

Source : Euler Hermes

Example :

Spain is classified as 'Sensitive Risk' since there is no structural risk of transfer and convertibility (Country Grade is AA) but the country is experiencing high cyclical risk (CRI is 3) and high financial fragility (FFI is 3).

The 3 operational conclusions

- Country risk is evolving, and is simultaneously more complex, volatile and global, but is no less strong than before
- Businesses are more vulnerable than before, facing a multiplicity of risks
- The indispensable and increasing importance of risk managers

Developed and emerging countries to watch...

	Grade	CRI - FFI	Number of countries
Low risk	AA to BB	all	92 countries
	B	all	16 countries
Medium risk	AA to BB	L3	2 Estonia, Slovenia
Sensitive risk	AA to BB	M3	1 Japan
		H3	4 Greece, Ireland, Portugal, Spain
	B	M3	3 Bahrain, Croatia, Tunisia
	C	L1	2 Algeria, Indonesia
		L2	2 Bulgaria, Russia
High risk		M1	1 Dominican Republic
		M2	1 Hungary
		H1	1 Turkey
	C	M3 without	4 Egypt, Latvia, Lithuania, Romania
			36 countries
	D	M1 without	1 Argentina
			79 countries

Source : Euler Hermes

... with geopolitical and other issues

Middle East Israel-Palestine, Iraq and Iran
 North Korea Unpredictable regime
 China-US Economic tensions, global rivalry

Terrorism, global/regional pandemic, natural disasters...

APPENDIX : Definition and methodology

1 – Country Grade

The Macroeconomic Rating (ME) and the Structural Business Environment Rating (SBE) are combined to determine the Economic Risk Rating (E) on a scale of 6 (E1, E2, E3, E4, E5, E6)

	SBE 1	SBE 2	SBE 3	SBE 4	SBE 5	SBE 6
ME1	E1	E2	E3	E4	E5	E6
ME2	E2	E3	E4	E5	E6	
ME3	E3	E4	E5	E6		
ME4	E4	E5	E6			
ME5	E5	E6				
ME6	E6					

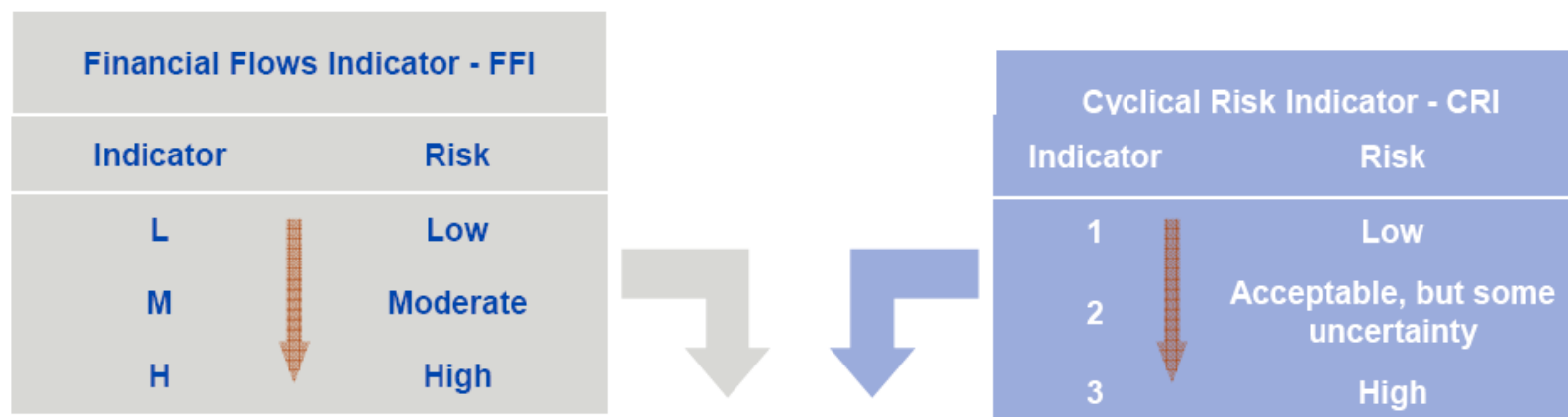
The Economic Risk Rating (E) and the Political Risk Rating (P) are combined to determine the Country Grade on a scale of 6 (AA, A, BB, B, C, D)

	P1	P2+	P2-	P3+	P3-	P4
E1	AA	A	BB	B	C	D
E2	A	BB	B	C	D	
E3	BB	B	C	D		
E4	B	C	D			
E5	C	D				
E6	D					

Political Risk Rating (P)

AA	Very low external transfer & convertibility risk and very strong business environment
A	Low external transfer & convertibility risk and strong business environment
BB	Moderate external transfer & convertibility risk and sound, above average business environment
B	Significant external transfer & convertibility risk and below average business environment
C	High external transfer risk convertibility risk and well below average business environment
D	Very high external transfer & convertibility risk and weak business environment

2 – Short Term Alerts Indicator



FFI and CRI are combined to get the Short Term Alerts Indicator

The table below brings the two indicators together to help interpret the level of risk associated with the nine possible combinations. The table is arranged according to levels of risk.

L1	Low vulnerability risk. Low cyclical risk
L2	Low vulnerability risk. Acceptable cyclical risk, but some uncertainty
M1	Significant vulnerability risk. Low cyclical risk
M2	Significant vulnerability risk. Acceptable cyclical risk, but some uncertainty.
L3	Low vulnerability risk, but high cyclical risk
H1	High vulnerability risk. Low cyclical risk
M3	Significant vulnerability risk and high cyclical risk
H2	High vulnerability risk. Acceptable cyclical risk, but high uncertainty
H3	High vulnerability risk and high cyclical risk



Thank you for your attention

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