



SUMMARY

The new risks of globalisation

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A company of Allianz 



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Business insured. Success ensured.

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 increase in social risk

Unequal division of the fruits of growth
+
Demographic developments (and communication tools)
+
Rigidity of certain political regimes

More volatile political risk

The increase in interdependence

World economic growth (accelerated growth in emerging countries)
+
Scarcity of resources (commodities)
+
Growth in cross trading

Increased short-term risk

The persistence of financial instability

Financial disequilibria
+
Volume of liquidity and capital flows
+
Sovereign debts
+
Crisis of certain banking systems

More volatile risk aversion

Systemic Political Risk

already part of the Structural Country Grade

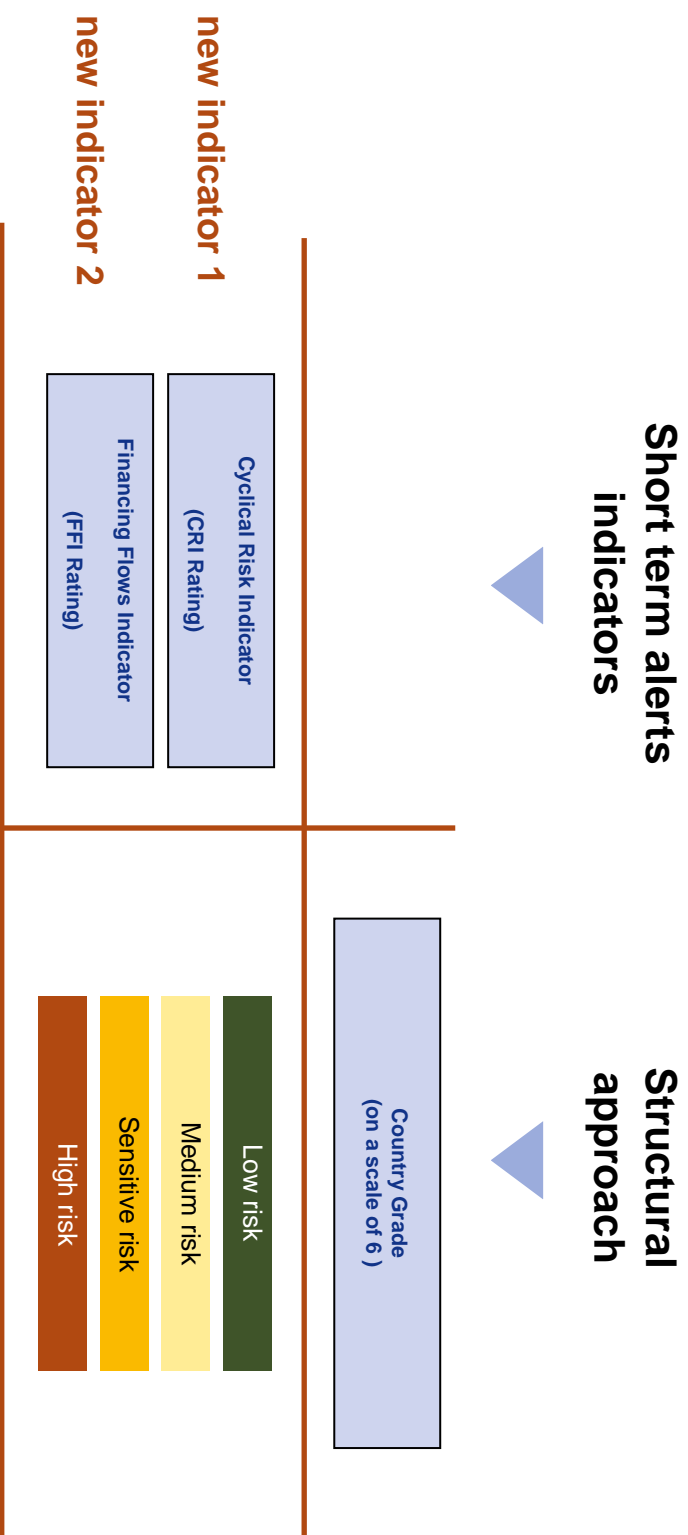
Cyclical Risk Indicator (CRI)

new indicator 1

Financing Flows Indicator (FFI)

new indicator 2

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)

	Macro-economic imbalances (Macroeconomic Rating)		Institutional/ structural factors (Structural Business Environment Rating)		Systemic weaknesses and government effectiveness		Systemic Economic Risk (Economic Risk Rating – E)		Systemic Political Risk (Political Risk Rating – P)			
	AA	A	BB	B	C	D	AA	A	BB	B	C	D
without	15	32	6	7	36	79						
L1	3	4	8	8	2	0						
L2	15	0	5	1	2	0						
M1	0	0	1	0	1	1						
M2	3	0	0	0	1	0						
L3	2	0	0	0	0	0						
H1	0	0	0	0	1	0						
M3	1	0	0	3	4	0						
H2	0	0	0	0	0	0						
H3	4	0	0	0	0	0						
Total	43	36	20	19	47	80						

	Country grade					Total
	AA	A	BB	B	C	
without	15	32	6	7	36	79
L1	3	4	8	8	2	0
L2	15	0	5	1	2	0
M1	0	0	1	0	1	1
M2	3	0	0	0	1	0
L3	2	0	0	0	0	0
H1	0	0	0	0	1	0
M3	1	0	0	3	4	0
H2	0	0	0	0	0	0
H3	4	0	0	0	0	0
Total	43	36	20	19	47	80

Short Term Alerts Indicator (CRI - FFI combinaison)		Total
Financing Flows Indicator (FFI Rating)	Cyclical Risk Indicator (CRI Rating)	245

Source : Euler Hermes

In the end, 4 major categories of country risk policy



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

Country	AA	FFI	CRI	A	FFI	CRI	BB	FFI	CRI	B	FFI	CRI	C	FFI	CRI	D	FFI	CRI
Australia		L	1	Chile	L	1	Brazil	L	1	Bahrain	M	3	Algeria	L	1	Argentina	M	1
Austria		L	2	Hong Kong	L	1	Czech Republic	L	2	China	L	1	Bulgaria	L	2			
Belgium		L	2	Malaysia	L	1	Israel	L	1	Colombia	L	1	Dominican Republic	M	1			
Canada		L	1	Taiwan	L	1	Korea (South)	L	1	Costa Rica	L	1	Egypt	M	3			
Cyprus		M	2				Kuwait	L	2	Croatia	M	3	Hungary	M	2			
Denmark		L	2				Mexico	L	2	Guatemala	L	2	Indonesia	L	1			
Estonia		L	3				Oman	L	1	India	L	1	Latvia	M	3			
Finland		L	2				Peru	L	1	Morocco	L	1	Lithuania	M	3			
France		L	2				Poland	L	1	Panama	L	1	Romania	M	3			
Germany		L	2				Qatar	L	1	Philippines	L	1	Russia	L	2			
Greece		H	3				Saudi Arabia	L	1	Thailand	L	1	Turkey	H	1			
Ireland		H	3				South Africa	M	1	Tunisia	M	3						
Italy		M	2				Trinidad & Tobago	L	2									
Japan		M	3				U.A.E.	L	2									
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															



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

Source : Euler Hermes

... with geopolitical and other issues

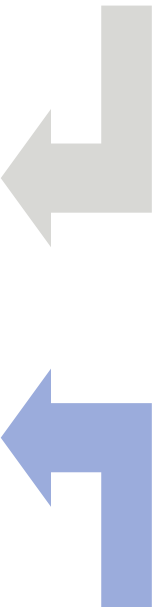
Middle East Israel-Palestine, Iraq and Iran
 North Korea Unpredictable regime
 China-US Economic tensions, global rivalry
 Terrorism, global/regional pandemic, natural disasters...

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	E2	E3	E4	E5	E6
ME3	E3	E3	E3	E4	E5	E6
ME4	E4	E4	E4	E4	E5	E6
ME5	E5	E5	E5	E5	E5	E6
ME6	E6	E6	E6	E6	E6	E6

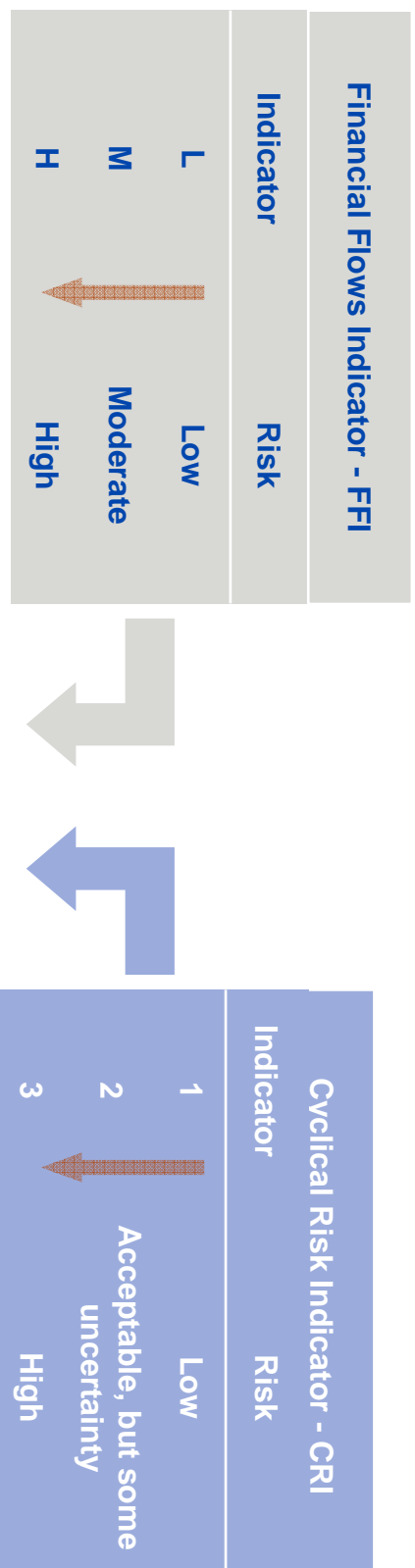


The Economic Risk Rating (E) and the Political Risk Rating (P) are combined to determine the Country Grade on a scale of 6 (AA, A, BB, B, C, D)

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

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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