

# Country Risk Service

Sovereign risk ratings and analysis for 131 countries

Now, more than ever, financial institutions and companies require authoritative and trusted assessments of credit risk to pursue profitable opportunities in difficult markets. In addition, banks need to upgrade their risk management systems to comply with the evolving Basel regulations governing capital adequacy and liquidity.

**Country Risk Service** monitors emerging and developed markets on a continuous basis, with updated two-year forecasts for the economic variables that are most important for risk assessment. Data is presented in a consistent format across all reports making country-by-country comparisons easy. Subscribers also receive frequently published articles on recent events that may impact our forecasts.

Key risk indicators	Argentina	Median of CCC-rated	Median of Latin America	Median of emerging markets
(% unless otherwise indicated)				
Largest single goods export (2-digit SITC code)/total goods exports	12.9	24.0	30.6	33.2
Gross public debt/GDP	66.3	50.6	39.8	46.2
Gross external debt/GDP	26.7	33.0	30.3	30.4
Interest & principal arrears (if any)/gross external debt	17.8	0.3	0.3	0.0
Net external debt/exports	81.4	56.5	56.2	43.0
Primary fiscal balance/GDP required to stabilise public debt/GDP ratio	-0.1	-0.1	-0.4	-0.9
Foreign-exchange reserves/gross external financing requirement	80.9	82.0	88.7	87.9
Foreign-exchange reserves/external short-term debt	121.9	252.6	270.1	311.3
Foreign-exchange reserves (change over last 6 months)	-13.9	-0.4	2.9	2.4
Banks' net foreign asset position/total foreign assets (percentage points)	-12.8	-0.8	-0.3	16.2
Banks' credit to private sector/GDP (change over last 36 months)	5.4	1.8	3.8	2.5
Equity market (change over last 24 months)	94.2	+4.7	14.4	18.1
Over last 12 months				
Average real money-market interest rates	-5.9	1.5	1.3	0.6
Fiscal balance/GDP	-3.2	-4.4	-2.8	-2.7
Interest payments on public debt/government revenue	9.6	6.3	8.5	6.5
US export receipt growth	3.5	1.9	1.3	2.0
Current-account balance/GDP	-6.8	-6.0	-3.3	-2.5
Debt-service due/exports	10.8	6.0	11.0	7.4
Interest due/exports	3.7	2.3	3.4	3.7
Average import cover (months)	3.7	3.6	4.5	5.0
Banks' loan-deposit spread (percentage points)	1.8	-4.5	6.8	4.8
Change in bank credit to private sector	32.8	11.8	15.0	13.4
Over last 48 months				
Average current-account balance/GDP	-5.3	-6.9	-2.8	-2.2
Average GDP growth	5.8	3.0	4.4	4.2
Average inflation rate	23.4	6.2	5.1	4.8
Change in real trade-weighted exchange rate	37.2	3.4	5.1	5.2

## Use Country Risk Service to:

- Assess sovereign, currency, and banking sector risk in 131 markets.
- Analyse credit risks posed by the political and economic situation in each country.
- Compare risk across countries, using a standardised risk and forecasting methodology.
- Assess the risks to your business, with up to 220 macroeconomic variables provided in each report.
- Download, manipulate, and analyse data in your own financial and risk-rating models.
- Optimise your risk/reward profile in global markets with the help of rating outlooks citing triggers for rating upgrades and downgrades.

EIU Country Risk analysts, country experts, and economists are on hand to answer your questions about the risk ratings model and sovereign risk.

# What does a Country Risk Service report contain?

Each Country Risk Service report includes a one-page summary covering the five main rating categories (sovereign, currency, banking, politics and economic structure). Analysis and explanation of the ratings, including any grade changes, positive and negative factors, and the ratings outlook over the next twelve months.

- **Sovereign risk analysis:** assessing the risk of default on public (domestic and external) debt.
- **Currency risk analysis:** assessing the risk of a maxi devaluation.
- **Banking risk analysis:** assessing the risk of a systemic banking crisis.
- **Political risk analysis** (as it relates to credit risk)
- **Economic structure risk** (encompassing indicators of a structural, non-cyclical nature)
- **Our central forecast** for the political, economic, and external payments situation over the next two-year period.
- **Data tables** containing back series and forecasts for a wide range of macroeconomic data relevant to risk assessment, encompassing the public finances, exchange rates, the banking sector, and the external payments position.

\* The sovereign ratings produced by The EIU are regulated under EU law by The European Securities and Markets Authority (ESMA). For more information visit [eiu.com/regulatoryaffairs](http://eiu.com/regulatoryaffairs)

Ongoing analysis and updates to our forecast are provided by means of event-driven articles published regularly for each country.

**Credit risk**  
**Generic risks**  
 July 12th 2010  
 The assessment of political risk and economic structure risk informs our assessment of sovereign risk, currency risk and banking sector risk.

**Political risk assessment**  
 Rating: B  
 The political risk rating is constrained by a history of weak commitment to honouring public debt obligations. The Economist Intelligence Unit currently assumes that the present government, led by the president, Cristina Fernández de Kirchner, will remain committed to honouring its debt obligations, if only because default would have disastrous economic and thus political consequences. However, the government has shown a strong commitment to expansionary macroeconomic policies to bolster its political support, despite the significant economic imbalances these have created. Combined with the government's heterodox and somewhat authoritarian bent, these policies risk producing a loss of confidence and renewed capital flight, and keep commitment to pay in the face of serious financing pressures in some doubt. More generally, weak institutions and political polarisation heighten the risks to political stability. We continue to expect an orderly transfer of power after the October 2011 presidential election, but serious instability would hit the prices of Argentinian assets and increase the threat of a new debt default.

**Economic structure risk assessment**  
 Rating: B  
 The public...

**Public finances**  
 September 1st 2010

	2005*	2006*	2007*	2008*	2009*	2010*	2011*
<b>Fiscal indicators (% of GDP)</b>							
Budget revenue*	126.5	138.3	164.1	218.1	200.2	216.0	201.0
Budget expenditure*	117.1	140.9	134.6	104.3	107.0	100.0	102.1
Budget balance*	9.4	-2.6	29.5	113.8	93.2	116.0	98.9
Debt interest payments	33.2	11.5	16.5	17.5	24.3	29.1	30.0
Primary balance	39.7	29.2	13.0	96.3	68.9	86.9	68.9
Public debt	367.4	413.9	451.9	502.3	557.1	732.0	844.4
<b>Fiscal indicators (% of GDP)</b>							
Budget revenue*	23.8	24.2	20.2	23.2	22.7	22.9	23.4
Budget expenditure*	22.8	22.4	19.1	15.8	15.3	15.4	15.5
Budget balance*	1.0	1.8	1.1	7.4	7.4	7.5	7.9
Debt interest payments	1.1	1.1	1.4	1.4	1.4	1.4	1.4
Primary balance	0.1	0.7	-0.3	6.0	6.0	6.1	6.5
Public debt	5.1	5.2	5.3	5.3	5.3	5.3	5.3

**Sovereign risk**  
 July 12th 2010  
 Rating: CCC  
 Argentina's underlying sovereign risk score has remained unchanged in the past quarter on the cusp of a B rating, with the defaulted debt owed to it already been factored into and an unpredictable political doubt—continue to preclude its popularity by boosting while the primary surplus expenditure continuing to the hold-outs onto its GDP this year (well above the average maturity of 1 rapidly. In the absence of past year on financing the Central de la República. Increasing reliance on the due in 2010 to rise from will extend average maturity suggesting continued risk.

**Country Risk Service**  
**Hungary**  
**Hungary at a glance: 2010-11**  
**OVERVIEW**  
 The centre-right Fidesz Hungarian Civic Union (Fidesz) won a landslide victory in the April parliamentary election. As a result, the new government will be able to pass or amend any legislation short of creating a new constitution. The new government is expected to enact a measure of fiscal prudence, although a failure to bridge differences with the IMF may damage the confidence of investors. The economy is forecast to grow modestly in 2010, although fiscal austerity measures will curtail domestic demand. Growth is likely to recover modestly in 2011 as domestic and external demand recovers. Inflation is forecast to rise on average to 4.4% in 2010, although relatively strict fiscal and monetary policy should allow inflation to fall to the medium-term target of 3% in 2011. The forint is expected to appreciate only slightly against the euro in 2010 and more strongly in 2011, as the effects of the financial crisis wane. The current account is forecast to move into deficit in 2010 as business and consumer confidence slowly begin to recover.

**Key changes from last month**  
**Political outlook**  
 Hungary is scheduled to hold municipal elections on October 3rd. Fidesz maintains strong support in the polls, and is expected to win a governing majority in all but a few municipalities, further cementing its grip on power at all levels of politics.
**Economic policy outlook**  
 Talks between the government, the IMF and the EU on Hungary's medium-term economic policy course broke down unconcretely in mid-July, leading to the suspension of the country's stand-by arrangement. A resumption in negotiations is likely to have to wait until after local elections to be held in October.
**Economic forecast**  
 Industrial output is enjoying an export-driven recovery, prompting us to revise upwards our forecast for 2010 GDP growth to 0.5% from -0.5% previously. However, the Economist Intelligence Unit maintains its view that prospects for domestic demand will remain poor for some time.
**August 2010**  
 Economist Intelligence Unit  
 26 Red Lion Square  
 London WC2R 0NH  
 United Kingdom

## Country risk ratings explained:

Country Risk Service uses quantitative and qualitative indicators to assess six categories of risk.

- **Sovereign risk** measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign.
- **Currency risk** measures the risk of devaluation against the reference currency (usually the US dollar, sometimes the euro) of 25% or more in nominal terms over the next 12-month period.
- **Banking sector risk** gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors.
- **Political risk** evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. This rating informs the first three.
- **Economic structure risk** is derived from a series of macroeconomic variables of a structural (non-cyclical) nature. Consequently, the rating for economic structure risk tends to be relatively stable, evolving in line with structural changes in the economy.
- **Overall country risk** is derived by taking a simple average of the scores for sovereign risk, currency risk, and banking sector risk.

## Which variables are included in the model?

### Politics/institutions

- External conflict
- Governability/social unrest
- Electoral cycle
- Orderly transfers
- Event risk
- Sovereignty risk
- Institutional effectiveness
- Corruption
- Corruption in the banking sector
- Commitment to pay

### Economic policy

- Quality of policymaking/policy mix
- Monetary stability
- Use of indirect instruments
- Real interest rates
- Fiscal balance/GDP
- Fiscal policy flexibility
- Transparency of public finances
- Domestic debt/primary budget balance
- Unfunded pension and healthcare liabilities
- Exchange-rate regime
- Black-market/dual exchange rate

### Economic structure

- Income level
- Official data (quality/timeliness)
- Current-account balance, 48 months
- Volatility of GDP growth
- Reliance on a single goods export
- External shock/contagion
- Public debt/GDP
- External solvency indicator
- Default history
- Financial regulation and supervision

### Macroeconomic

- Real OECD GDP growth
- Credit as % of GDP, growth
- Real GDP growth, 48 months
- Real GDP growth, 12 months
- Inflation, 48 months
- Inflation, direction
- Trade-weighted real exchange rate
- Exchange-rate misalignment
- Exchange-rate volatility
- Export receipts growth, 12 months
- Current-account balance, 12 months
- Asset price bubble

### Financing and liquidity

- Transfer and convertibility risk
- IMF programme
- International financial support
- Access to financing
- Gross financing requirement
- Debt-servicing indicator
- Interest charges indicator
- Debt term structure
- Foreign exchange reserves/public debt currency structure
- Debt liquidity indicator
- FDI and external financing
- Import cover/government deposits as % of interest charges
- OECD short-term interest rates
- Non-performing loans
- Banks' credit management
- Banks' foreign asset position

\*report data tables show two-year forecasts. Five-year forecast data available using the Data Tool for certain series.



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## Which countries are covered?

- Albania • Algeria • Angola • Argentina • Australia
- Austria • Azerbaijan • Bahrain • Bangladesh • Belarus
- Belgium • Bolivia • Bosnia and Hercegovina • Botswana
- Brazil • Bulgaria • Cambodia • Cameroon • Canada
- Chile • China • Colombia • Congo Brazzaville • Costa Rica
- Côte d'Ivoire • Croatia • Cuba • Cyprus • Czech Republic
- Denmark • Dominican Republic • DRC • Ecuador • Egypt
- El Salvador • Equatorial Guinea • Estonia • Ethiopia
- Finland • France • Gabon • Germany • Ghana • Greece
- Guatemala • Honduras • Hong Kong • Hungary • Iceland
- India • Indonesia • Iran • Iraq • Ireland • Israel • Italy
- Jamaica • Japan • Jordan • Kazakhstan • Kenya • Kuwait
- Latvia • Lebanon • Libya • Lithuania • Luxembourg
- Macedonia • Malawi • Malaysia • Malta • Mauritius
- Mexico • Moldova • Mongolia • Morocco • Mozambique
- Myanmar • Namibia • Netherlands • New Zealand
- Nicaragua • Nigeria • Norway • Oman • Pakistan
- Panama • Papua New Guinea • Paraguay • Peru
- Philippines • Poland • Portugal • Qatar • Romania
- Russia • Saudi Arabia • Senegal • Serbia • Seychelles
- Sierra Leone • Singapore • Slovakia • Slovenia
- South Africa • South Korea • Spain • Sri Lanka • Sudan
- Sweden • Switzerland • Syria • Taiwan • Tanzania
- Thailand • Trinidad and Tobago • Tunisia • Turkey
- Turkmenistan • Uganda • Ukraine • United Arab Emirates
- United Kingdom • Uruguay • US • Uzbekistan • Venezuela
- Vietnam • Yemen • Zambia

## How Country Risk Service compares with the ratings agencies

The CRS provides more regular updates than the large ratings agencies. We issue three new ratings on all 131 countries each year. These rating reports are supplemented with updaters reports which detail any changes in our analysis and forecasts.

## Risk Ratings Review

Every month we publish a combined summary of risk ratings for all 131 countries covered in the standard service. The Risk Ratings Review helps you spot global trends and identify countries whose risk profiles are changing. The Risk Ratings Review is available for a separate fee.

Monthly countries: Sovereign risk ratings	2010		2009		2008		2007	
	May	Apr	May	Apr	May	Apr	May	Apr
Algeria	BB	BB	BBB	BBB	BBB	BBB	BBB	BBB
Angola	B	B	B	B	B	B	B	B
Argentina	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Australia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Azerbaijan	BB	BB	BB	BB	BB	BB	BB	BB
Bahrain	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Bangladesh	BB	BB	BB	BB	BB	BB	BB	BB
Bolivia	B	B	B	B	B	B	B	B
Bosnia and Hercegovina	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Botswana	BBB	BBB	A	A	A	A	A	A
Brazil	BB	BB	BB	BB	BB	BB	BB	BB
Bulgaria	BB	BB	BB	BB	BB	BB	BB	BB
Cambodia	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Cameroon	B	B	B	B	B	B	B	B
China	A	A	A	A	A	A	A	A
Colombia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Costa Rica	BB	BB	BB	BB	BB	BB	BB	BB
Côte d'Ivoire	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Croatia	B	B	B	B	B	B	B	B
Cuba	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Czech Republic	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Dominican Republic	B	B	B	B	B	B	B	B
Ecuador	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Egypt	BB	BB	BB	BB	BB	BB	BB	BB
El Salvador	BB	BB	BB	BB	BB	BB	BB	BB
Equatorial Guinea	BB	BB	BB	BB	BB	BB	BB	BB
Estonia	BB	BB	BB	BB	BB	BB	BB	BB
Ethiopia	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
France	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Germany	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Ghana	B	B	B	B	B	B	B	B
Greece	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Hong Kong	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Hungary	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Iceland	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
India	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Indonesia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Iran	B	B	B	B	B	B	B	B
Iraq	CCC	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Ireland	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Israel	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Italy	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Japan	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Jordan	B	B	B	B	B	B	B	B
Kazakhstan	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Kenya	B	B	B	B	B	B	B	B
Kuwait	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Latvia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Lebanon	B	B	B	B	B	B	B	B
Libya	B	B	B	B	B	B	B	B
Lithuania	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Luxembourg	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Macedonia	B	B	B	B	B	B	B	B
Malawi	B	B	B	B	B	B	B	B
Malaysia	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Malta	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Mauritius	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Mexico	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Moldova	B	B	B	B	B	B	B	B
Mongolia	B	B	B	B	B	B	B	B
Morocco	B	B	B	B	B	B	B	B
Mozambique	B	B	B	B	B	B	B	B
Myanmar	B	B	B	B	B	B	B	B
Netherlands	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
New Zealand	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Nicaragua	B	B	B	B	B	B	B	B
Nigeria	B	B	B	B	B	B	B	B
Norway	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Oman	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Pakistan	B	B	B	B	B	B	B	B
Paraguay	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Peru	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Philippines	B	B	B	B	B	B	B	B
Poland	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Portugal	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Qatar	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Romania	B	B	B	B	B	B	B	B
Russia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Saudi Arabia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Senegal	B	B	B	B	B	B	B	B
Serbia	B	B	B	B	B	B	B	B
Singapore	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Slovakia	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Slovenia	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
South Africa	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
South Korea	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Spain	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Sri Lanka	B	B	B	B	B	B	B	B
Sudan	B	B	B	B	B	B	B	B
Sweden	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Switzerland	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Syria	B	B	B	B	B	B	B	B
Taiwan	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Tanzania	B	B	B	B	B	B	B	B
Thailand	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Trinidad and Tobago	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
Tunisia	B	B	B	B	B	B	B	B
Turkey	B	B	B	B	B	B	B	B
Turkmenistan	B	B	B	B	B	B	B	B
Uganda	B	B	B	B	B	B	B	B
Ukraine	B	B	B	B	B	B	B	B
United Arab Emirates	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
United Kingdom	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Uruguay	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
US	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
Uzbekistan	B	B	B	B	B	B	B	B
Venezuela	B	B	B	B	B	B	B	B
Vietnam	B	B	B	B	B	B	B	B
Yemen	B	B	B	B	B	B	B	B
Zambia	B	B	B	B	B	B	B	B

## Country Risk Service delivers:

- Three rating reports and nine updaters reports a year for 76 markets.
- Three rating reports and one updaters report a year for 52 markets.
- Frequent articles published between reports on recent events that may impact on our regular forecasts.

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