

Sovereign Risk Analysis Techniques of Evaluation

Techniques

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Key Variables

■ Financial Position

- ◆ International Reserves
- ◆ Current Account
- ◆ Exchange Rate
- ◆ Internal/External Liquidity
- ◆ Inflation
- ◆ Interest Rates

Debt Position

- Debt burden
- Debt structure
- Debt management
- Impact of exchange rate
- Impact of economic growth
- Impact of interest rate

International environment/regional setting

■ International environment

- ◆ Global interest rates in creditor countries
- ◆ Economic growth in export markets
- ◆ International liquidity
- ◆ Export portfolio characteristics
- ◆ Regional contagion
- ◆ Herding

Economic policy fundamentals

■ Monetary Policy

- ◆ Type of Central Bank
- ◆ Stability – Inflation Culture
- ◆ Management quality
 - ◆ Fiscal Policy
 - Tax efficiency
 - Control of expenditures

Long-term economic fundamental

- Degree of export orientation
- International competitiveness
- Degree of import dependence
- Degree of innovation
- Open markets
- Market structures

Governance

- Transparency
- Validity of rules
- Political participation
- Wealth orientation
- Political maturity
- International cooperation
- Efficiency and reliability of bureaucracy

Critical limits: money and fiscal position

- Inflation rate: 2 % to 4 %,
 - ◆ Critical: over 5 %
 - ◆ Highly critical over 8 %

- ◆ Budget deficit: up to 3 %
 - Critical: over 4 %
 - Highly critical: over 6 %

Critical limits: External position

- Current account deficit: 2 % to 4 %
 - ◆ Critical: over 5 %
 - ◆ Highly critical: over 6 %

- ◆ Global real interest rate: 2,5 – 3,5 %
 - Critical: over 4 %
 - Highly critical: over 5 %

Short-term debt position

- R/STD ratio of international reserves to short term debt: one year
 - ◆ Critical: less than a year
 - ◆ Highly critical: less than 6 months

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