Economic Research

COUNTRY RISK METHODOLOGY

The Country Risk Rating by Euler Hermes Economic Research measures the risk of non-payment by companies in a given country. This risk is due to conditions or events outside any company’s control.

The overall evaluation is made of two elements:

- **Country Grade** is a medium-term assessment ranging from AA to D (highest risk)
- **Country Risk Level** provides a short-term rating from 1 to 4 (highest risk level)

The Medium-Term Rating (Country Grade) measures economic imbalances, the quality of the business climate, and the likelihood of political hazards. It is on a six-level scale running from AA to D, in which AA is the lowest risk level and D is the highest risk level.

The Medium-Term Rating is the combination of three scores:

- **The Macroeconomic Rating (ME)** based on the analysis of the structure of the economy, indebtedness, the external balance, the stability of the banking system and the capacity to respond effectively to (emerging) weaknesses;
- **The Structural Business Environment Rating (SBE)** measures the perceptions of the regulatory and legal framework, control of corruption and relative ease of doing business; and
- **The Political Risk Rating (P)**, which is based on the analysis of mechanisms for transferring and concentration of power, the effectiveness of policy-making, the independence of institutions, social cohesion, and international relations.

The Short-Term Rating (Country Risk Level) identifies more immediate threats by focusing on the direction of economic output in the next 6-12 months and those macroeconomic indicators that can signal imminent financial crisis as a result of a disruption to financing flows.

It is measured on a four-level scale running from 1 to 4, in which 1 is the lowest risk level and 4 is the highest risk level. Those four levels of risk are also labelled as low medium sensitive and high in our country risk map. The Short-Term Rating is the combination of two indicators:

- **The Financial Flows Indicator (FFI)**, a measure of short-term financing risks for an economy that can impact payments of trade receivables between companies; and
- **The Cyclical Risk Indicator (CRI)** which measures the short-term disruptions in demand. It includes our macroeconomic and insolvency forecasts.

“Due to our top-notch country risk rating, companies that trade internationally benefit from a clear and up-to-date assessment of non-payment risks”

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