

TAC

Country Risk Analysis on India

Presentation to the EU Trade Counsellors Meeting

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1. Introduction: TAC and our tools

2. Country Risk Analysis on India



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Introduction to TAC

- TAC is a fully independent European research group providing advisory services on international economic and financial issues for financial investors and industrial companies. TAC also provides policy advisory services through research funded by multilateral or bilateral donors / institutions.
- TAC has been operating since 1991, and is able to show an exceptional track-record for correct analysis and early warning signals over more than 20 years. A specific “production process” for research implying specialization of tasks for a staff of around 20 persons.



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Introduction to TAC

A large range of advisory services related to international economic and financial issues and risks:

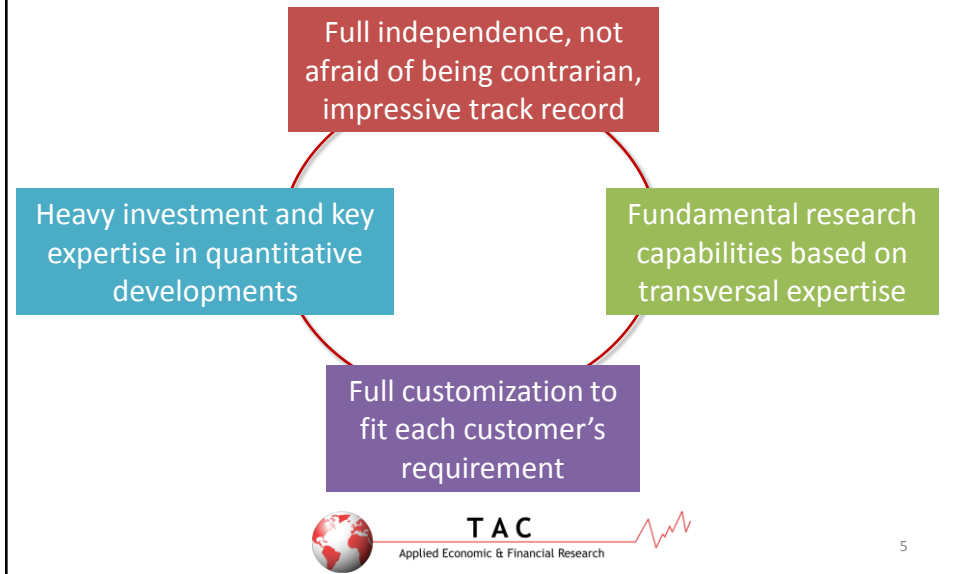
- Country risk service: RiskMonitor
- Design and implementation of country-risk ratings and systems
- Support to strategic investment decisions in emerging economies
- Exchange Rates Projections for Emerging Markets
- Cyclical / Interest Rate / Exchange Rate Scenarios for mature economies
- Oil price model
- Analysis and measure of diversification effects on portfolios of emerging market exposure
- Bank Mapping Tool (BMT)

TAC also provides ad hoc quantitative and analytical research through “on-demand” research assignments



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Introduction to TAC



RiskMonitor Methodology

- A significant investment (4 man-years project) in the very early 90s into new methods able to better capture sudden changes (initial academic research in signalling tools) in developing countries' development path
- Our ex-ante objectives: a fundamental economic research based risk measurement tool
 - Defining targets (XR, cyclical, external payments), and a political / governance aspect
 - Constructing / using precise databases for both inputs and targets, with a thorough review of sources and limiting the choice of indicators to be able to rely on the "most trusted sources"
 - Existing / actual information and no forecasts or estimates

RiskMonitor Methodology

- Research based on the following principles:
 - ✓ Need for a limited number of indicators
 - ✓ Research into the construction of specific indices or variables able to “illustrate” or measure a more complex concept
 - ✓ Major focus on the combinatorial aspect of a limited number of indicators, with threshold effects and “regime changes”, i.e. The non-linear aspect of risk materialization.
 - ✓ Differentiation between risks in “normal circumstances” and “systemic crises”, with an even more critical aspect of non-linearity for the latter: Country Ratings (0-100 and A to D) and Crisis Signals
 - ✓ Three horizons (<1 year, 1-3 years, 3-5 years) and three types of difficulties: cross-border payments, exchange rate, cyclical




RiskMonitor Methodology

- **Political Risk Ratings** based on World Bank KKZ indicators. A large in-depth project currently undergoing to refine the approach to political risk in the broadest sense.
- **Risk-Related Cost of Capital** through econometric modelling and including smoothed market price measures
- Data and models’ outputs updated on 75 countries on a monthly basis.



RiskMonitor Methodology

Economic Risk	Political Risk	Country Groups
<p>Growth Balance Real GDP, current account,...</p> <p>Debt Balance External debt, FDI</p> <p>Liquidity Balance Short-term debt, rfx level</p> <p>Exchange Rate Balance Currency overvaluation, rfx dynamic</p> <p>Cyclical Balance Business cycle, monetary policy</p> <p>Banking System Balance Domestic credit, intern. refinancing</p>	<p>KKZ Methodology</p> <p>Voice & Accountability</p> <p>Political Stability</p> <p>Regulatory Quality</p> <p>Government Effectiveness</p> <p>Rule of Law</p> <p>Control of Corruption</p>	<p>Three groups</p> <p>Major arbitrage markets</p> <p>Commodity exporters</p> <p>High number of past restructuring</p>


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RiskMonitor Methodology

Economic & Financial Risk	Political Risk	Country Groups
<p>Statistical Calibration</p> <p>Combination of 6 Fundamental Balances</p>	<p style="color: red;">Data Mining</p> <p style="color: red;">5 non parametric models (e.g. Neural Networks)</p>	<p>Statistical Normalization</p>

Economic Risk Ratings	Crisis Signals	Political Risk Ratings	Group Premium
↓	↓	↓	↓

Overall Country Risk Premium, calibrated on JPMorgan's EMBI+


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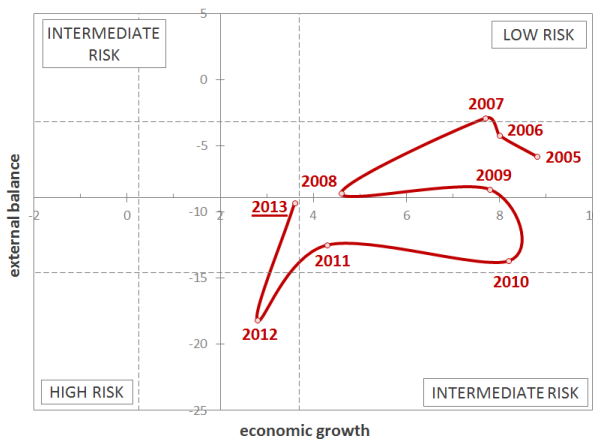
1. Introduction on our tools

2. Country Risk Analysis on India



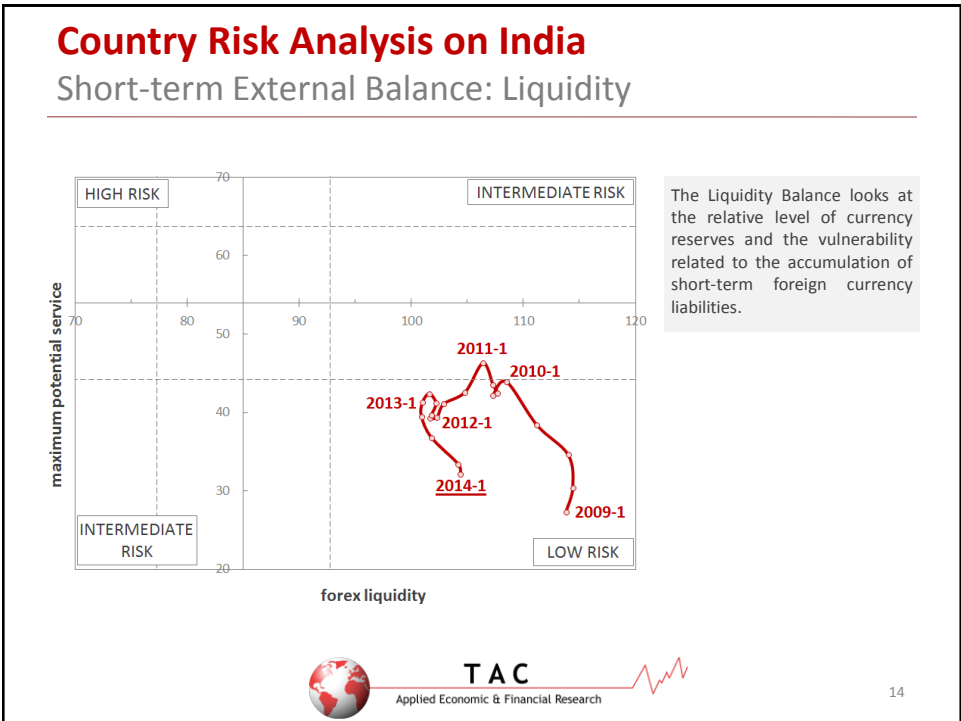
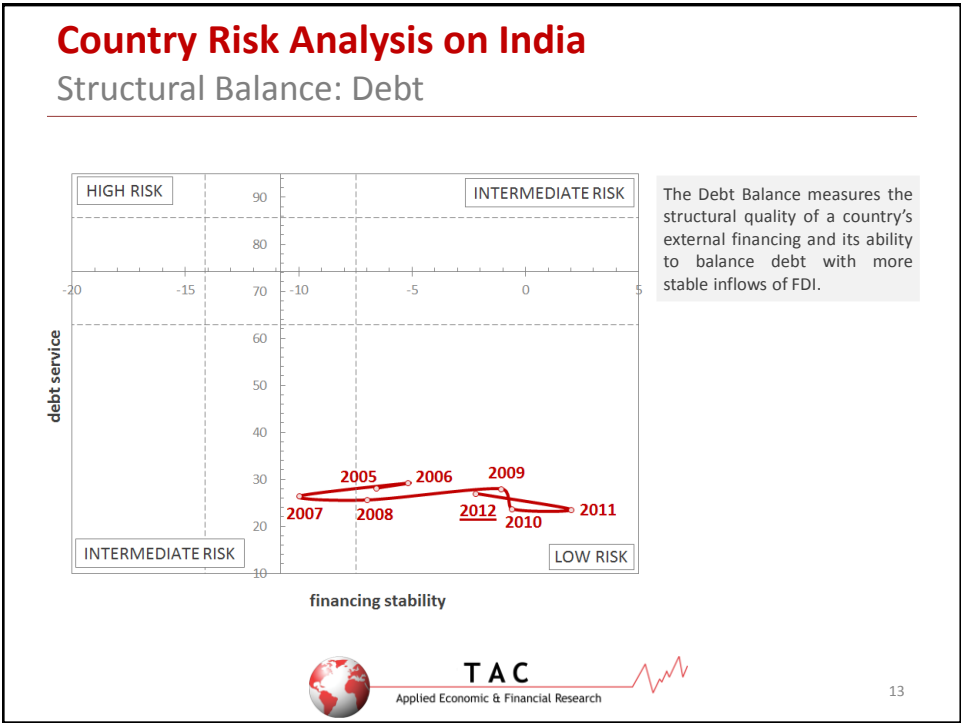
Country Risk Analysis on India

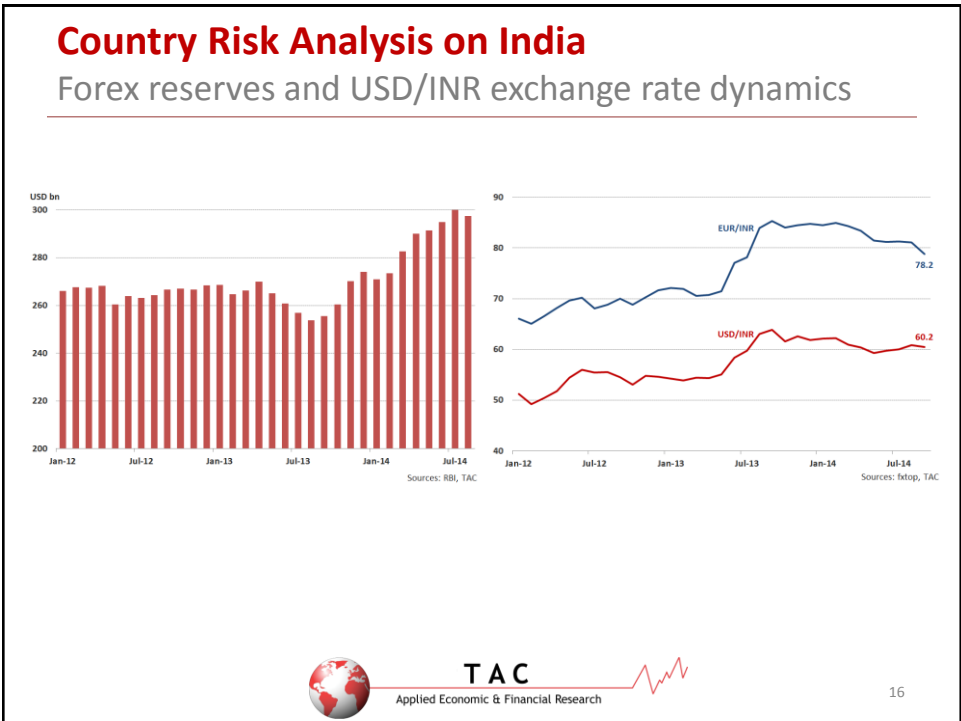
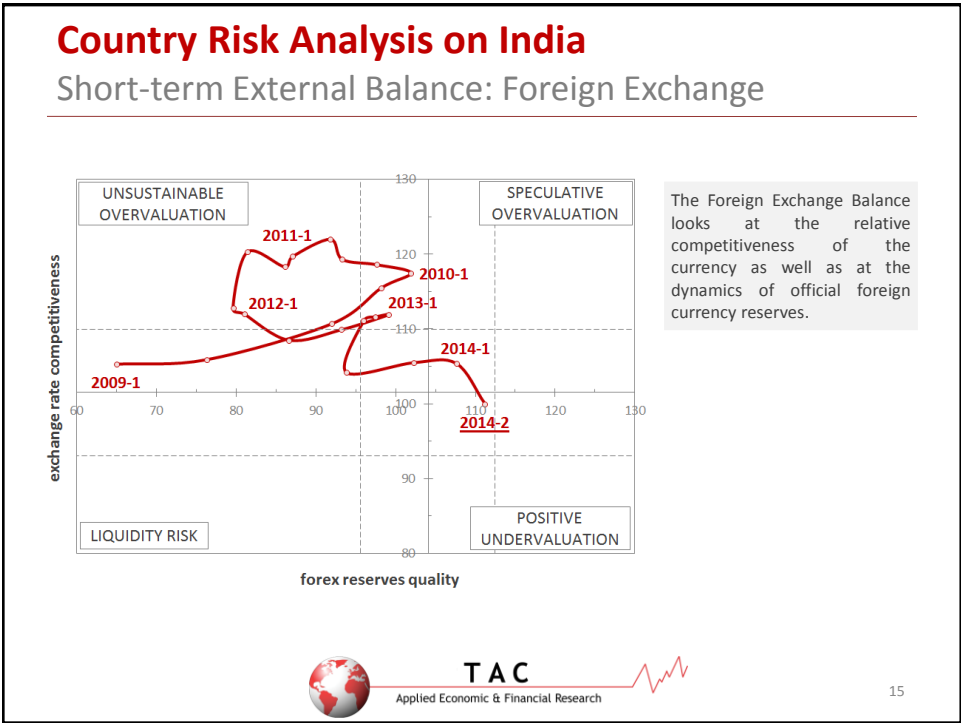
Structural Balance: Growth

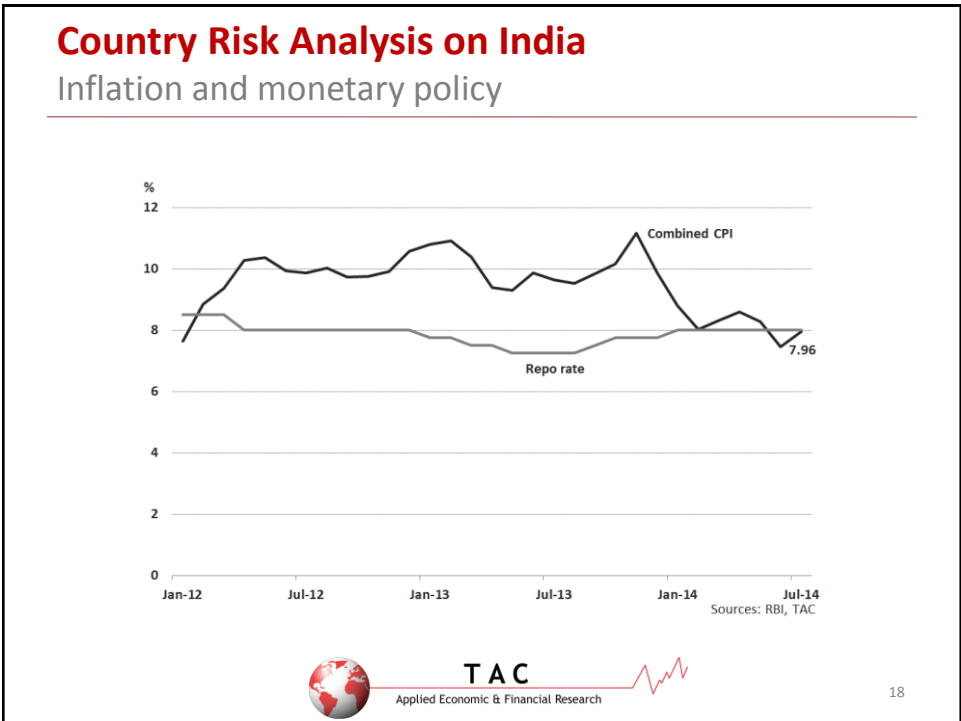
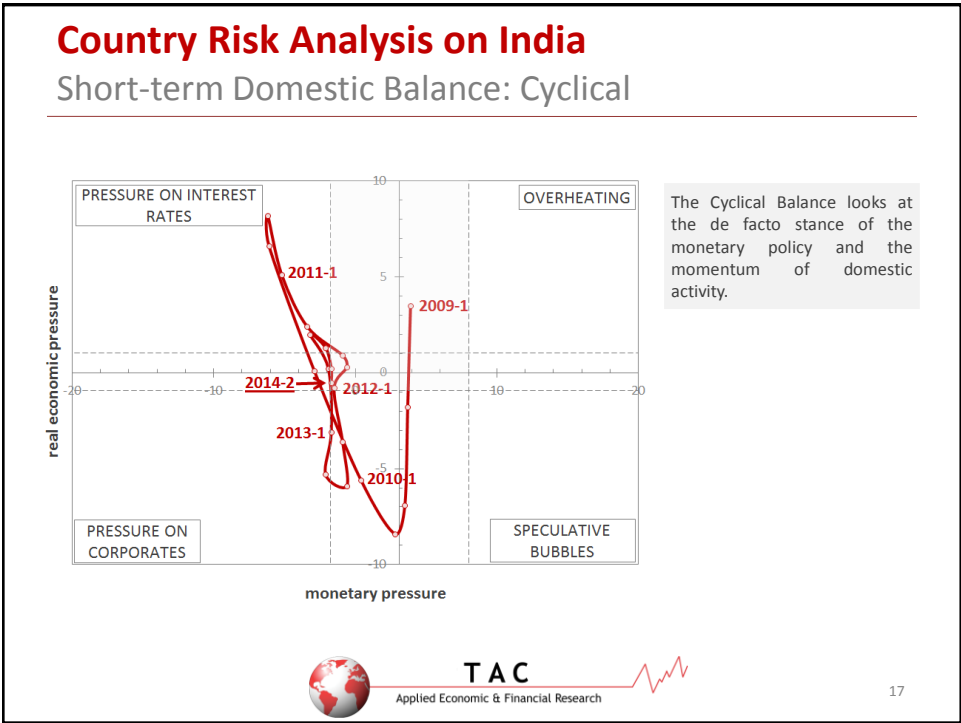


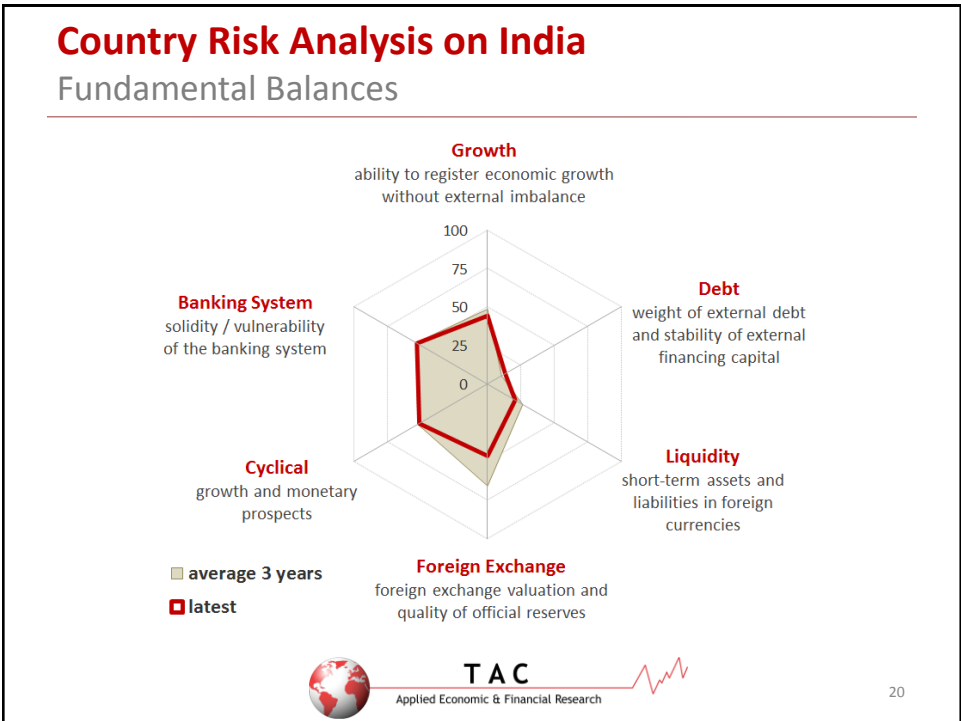
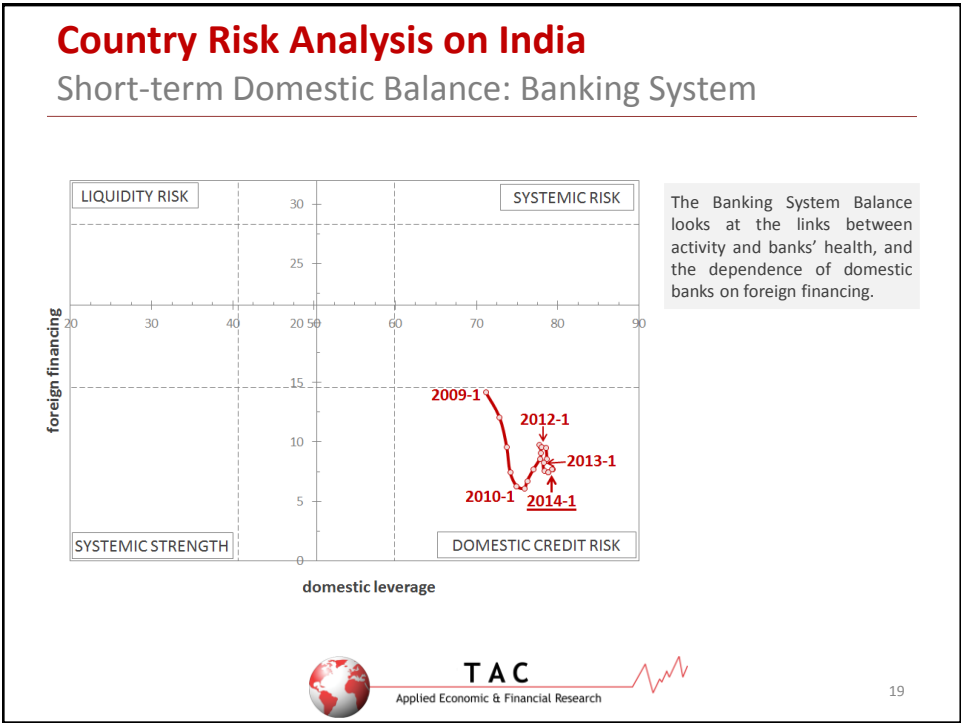
The Growth Balance measures the ability of a country to register a sufficient economic growth without triggering unsustainable external imbalances.











Country Risk Analysis on India

Economic and Financial Risk Ratings

Country Ratings are a normative appreciation of the macroeconomic and financial qualities of the country regarding three types of difficulties (solvability, exchange rate depreciation, poor cyclical performances).

The Ratings are graduated from 0 (best quality) to 100 (worst quality) and classified in four categories: A : 0-30 / B: 30-40 / C: 40-60 / D: 60-100

Economic Risk Ratings (Averages)	
From 0 (lowest risk) to 100 (highest risk)	
Overall Economic Rating	C - 43.4
Less than 1 year	C - 46.5
1 to 3 years	C - 43.4
3 to 5 years	C - 40.3
Payment Rating	B - 39.7
Exchange Rate Rating	C - 44.0
Activity Rating	C - 46.5



Thank you

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