

TAC
ECONOMICS



MEASURING THE COST OF CAPITAL

A specific and proprietary methodology
developed by TAC ECONOMICS

Cost of capital and project risks

- The cost of capital is a crucial element in corporate financial decision-making, as it determines whether an investment is profitable by comparing its expected return with the cost of financing it.
- There is relative consensus on measuring the cost of capital for a company operating in a developed country. However, in the case of emerging and developing economies, the issues of data availability and market liquidity mean that the valuation methods usually used for mature economies cannot be transposed.

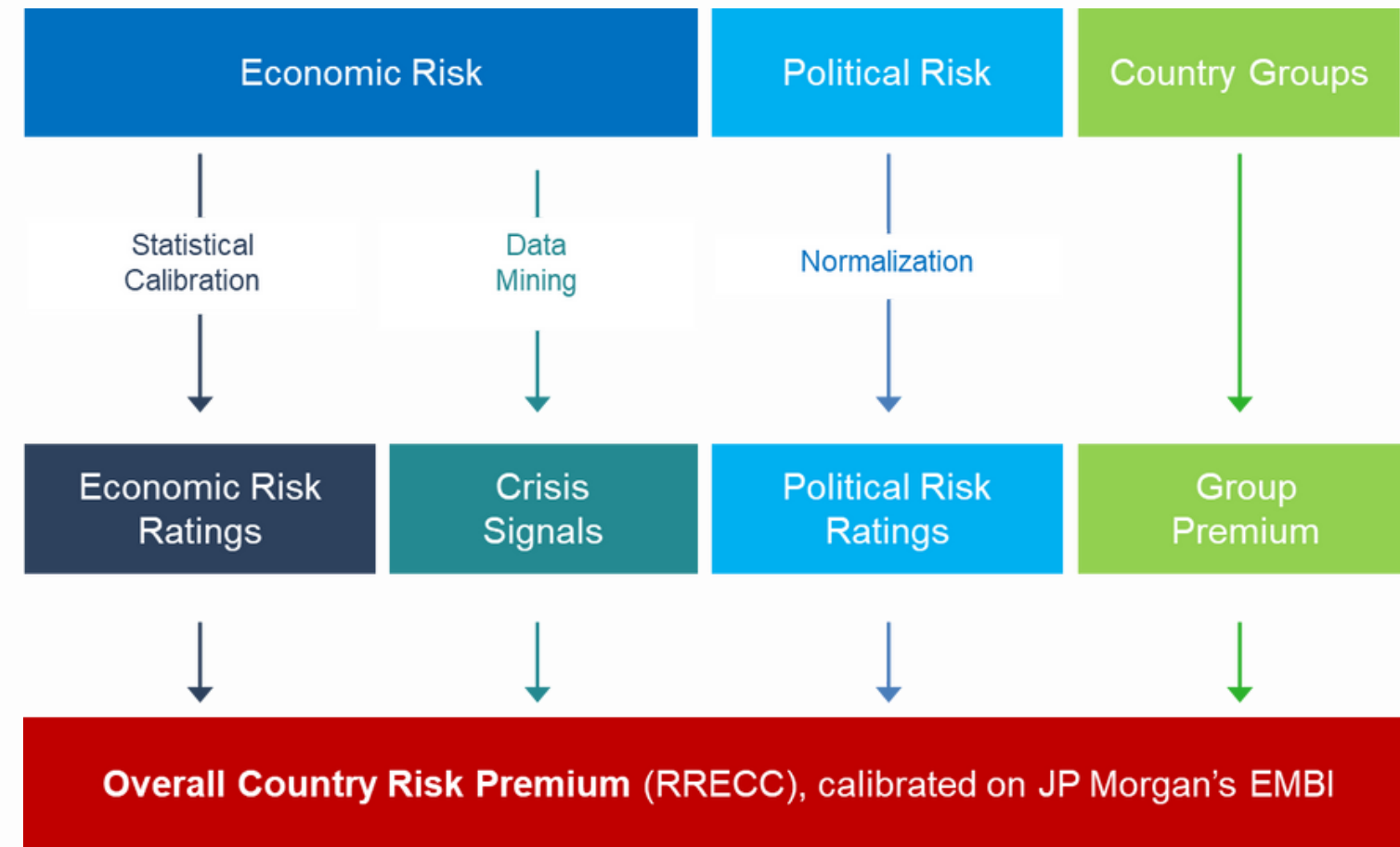
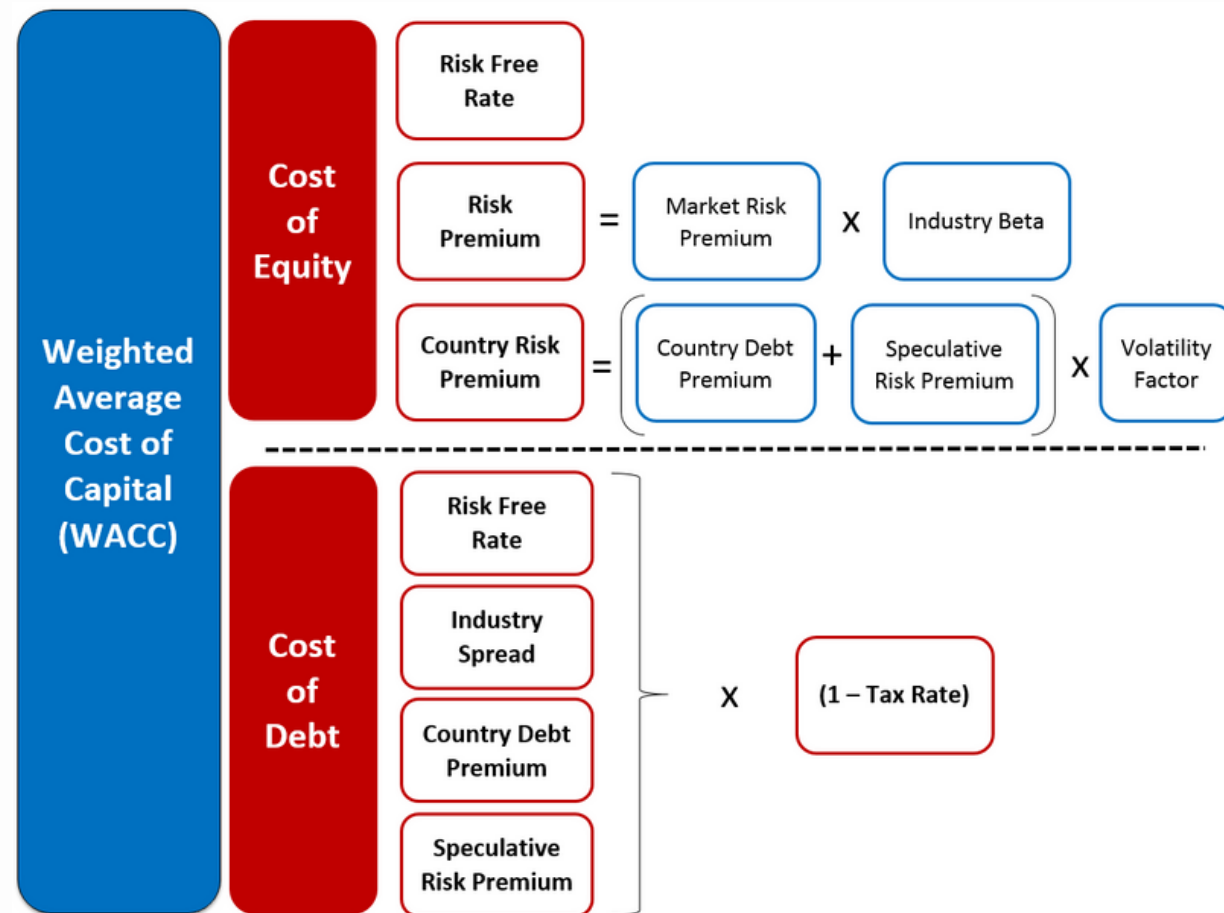


Cost of capital: our approach

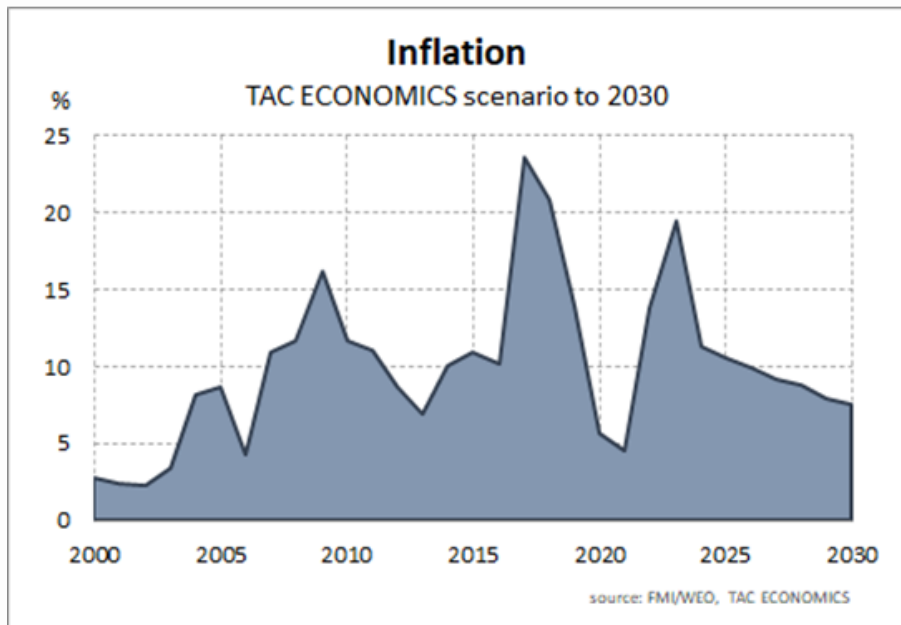
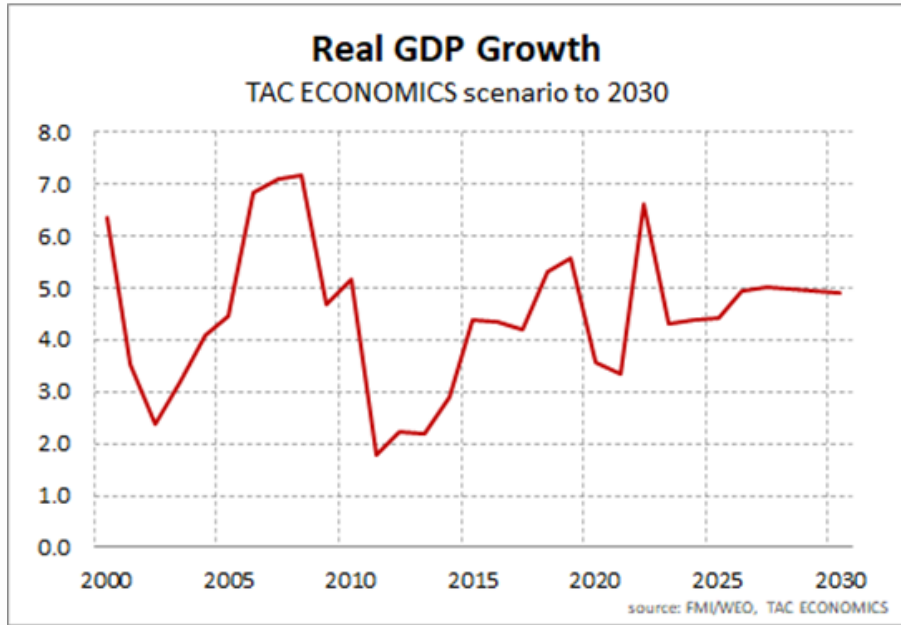
- Our methodology is based on a **country risk rating** and **economic and financial crisis signal** approach, which makes it possible to calculate the cost of capital and adjust these measures by taking into account a country-specific risk premium.
- Country risk premiums, expressed in basis points and to be added to the traditional elements of the US cost of capital, are calculated on a set of more than **100 countries, both developed and emerging.**
- The resulting premium (Risk-Related Extra Cost of Capital, RRECC, expressed in basis points) incorporates **specific structural elements** (extra premiums applied to commodity exporters and countries that have undergone major financial restructuring, and a reduction in the premium applied to countries with a better-developed domestic financial infrastructure) and, since 2022, **additional uncertainty measures relating to the impact of the ongoing war in Ukraine** for some countries.



Cost of capital: our approach

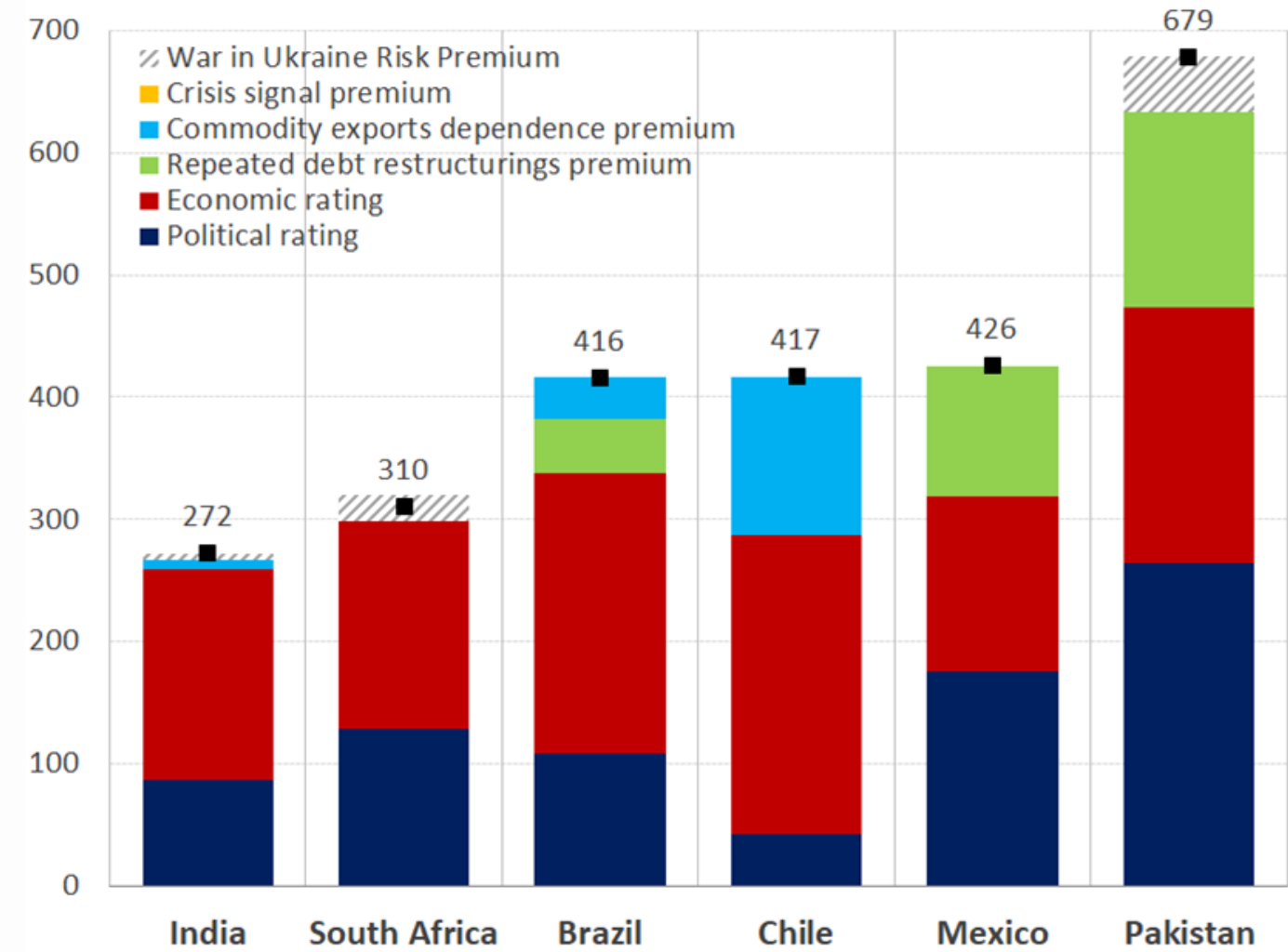


Quarterly measures of more than 100 emerging countries and major developed countries



Country Risk Premium

TAC RRECC, basis points





Monitor our country risk premium and long-term forecasts
on TAC ECONOMICS Datalab
<https://app.taceconomics.com/>

Get in touch by emailing:
info@taceconomics.com

www.taceconomics.com

