

Methodological Update of the Cost of Capital for Emerging Markets

May 2026



Why an adjustment?

Our country risk premium is typically based on endogenous factors: economic, political, and structural vulnerabilities specific to each country.

In the face of global exogenous shocks, we may conduct targeted adjustments: this is what we did during the 2008 global financial crisis and during Russia's war in Ukraine.

The current conflict in Iran fully meets these criteria of a shock with global economic & financial implications: sustained disruptions in the Strait of Hormuz, destruction of significant energy infrastructure (6.2% of global LNG liquefaction capacity damaged), and ongoing structural geopolitical realignment.

TAC ECONOMICS is enhancing its quantitative models to more quickly incorporate global geopolitical shocks and their impact on the cost of capital.

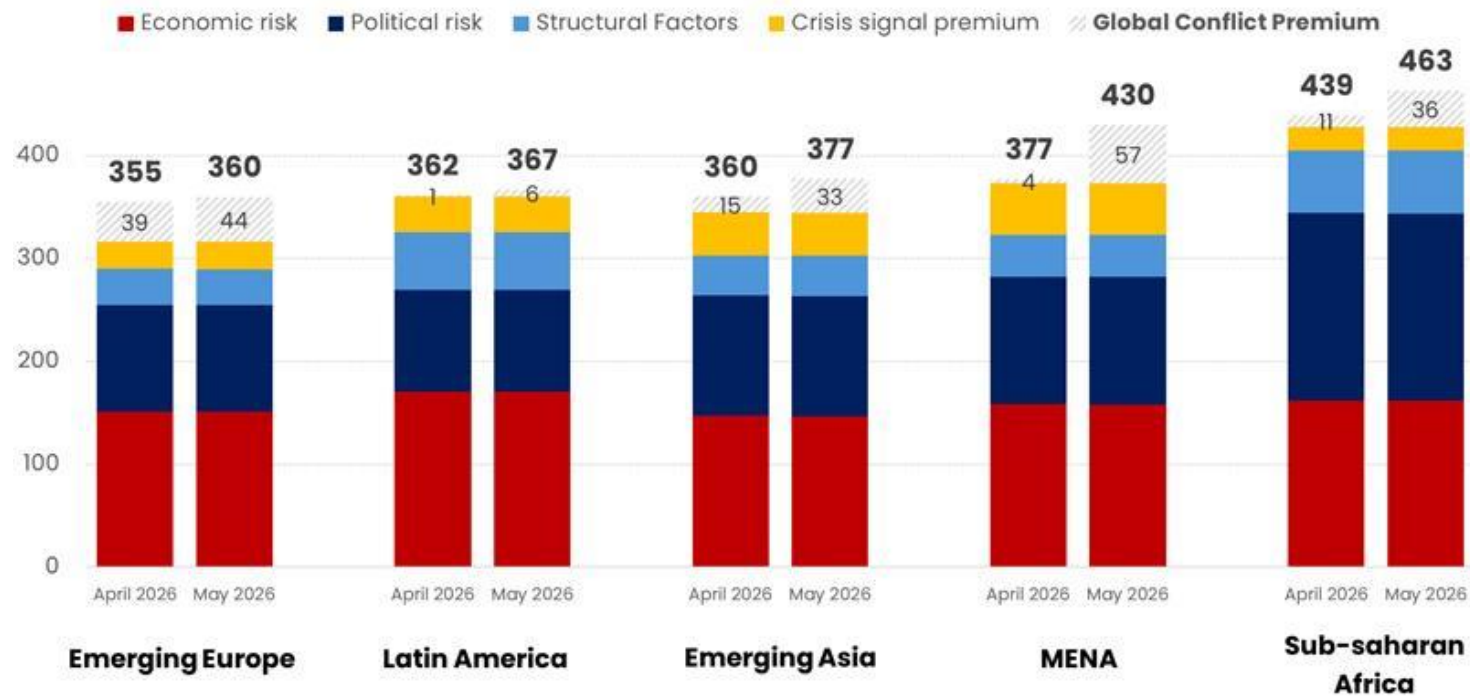
We have developed the **Iranian Conflict Sensitivity Index (ICSI)**, a proprietary composite indicator comprising 20 standardized variables, weighted across five dimensions: energy exposure, dependence on maritime transport, trade intensity, geopolitical position, and macro-financial resilience.

The conversion to a risk premium follows a **rigorous quantitative standardization**:

- a maximum ICSI (100) is equivalent to a full “Crisis Signal” risk premium of 200 basis points;
 - an ICSI below 25 does not result in any additional premium.
 - This premium is then combined with the premium resulting from the Russia War in Ukraine into a single Global Conflict Premium, using the higher of the two, and applied to all emerging markets.
- **Client benefit: greater visibility into your areas of vulnerability, better-calibrated financing costs, and more reliable investment decisions.**

Illustration of risk premium adjustments:

Regional averages for the latest available quarter (Q4 2025)



Source: TAC ECONOMICS Datalab

April 2026 = previous version (Global conflict premium based exclusively on the geopolitical spillover of Russia's war in Ukraine)

May 2026 = Risk premiums adjusted according to the updated methodology

Free Trial – Try our cost of capital calculations!

Our subscription offer includes:

- A scientific and robust method for calculating risk premiums.
- A quarterly publication incorporating economic and financial risk ratings, political risk ratings, our crisis signals, risk premiums in basis points and their conversion to local currency, as well as average inflation rates and depreciation (or appreciation) rates of long-term nominal exchange rates.
- Geographic coverage: over 130 emerging and developed economies
- Access to TAC ECONOMICS ClientGate: access to all resources, data, capital cost model results, and publications at <https://app.taceconomics.com>.
- Opportunity for consultation/interactive discussion with the TAC ECONOMICS team regarding the interpretation and analysis of results.
- **Decision-making tools for investors, banks, and companies.**

Any questions?

Morgane Lohéziec

Sales & Communications Manager
morgane.lohezic@taceconomics.com

Tel: 33 2 99 39 31 40

