

Sovereign & Country Risk

A two-day case study based workshop for those without a formal economics background. The intensive workshop will offer a structured approach to the analysis of country and sovereign risk in both emerging and mature markets and will review lessons learned from both the current and previous crises.

TARGET AUDIENCE

Analysts, fixed income, banking, insurance and other professionals with exposure to sovereign and country risk but lacking a formal economics background.

COURSE OBJECTIVES

The overall goal of this two day intermediate level workshop is for participants to have a structured approach to the analysis of sovereign and country risk in both mature and developing markets. Specifically, the workshop will equip participants to:

- Understand the key drivers of country and sovereign risk in both mature and emerging markets
- Identify qualitative, quantitative and market indicators of vulnerability
- Recognise the impact of sovereign support and country risk on other exposures, including public sector entities
- Review the lessons learned from the current and previous crisis in various regions of the world.

CONTENT

ANALYTIC OVERVIEW

Section Aims: To distinguish between sovereign and country risk and understand how the rating agencies and other analysts assess these risks.

To review the causes and effects of past and recent sovereign crises. To use market prices to indicate credit perception. To apply a structured approach to understand sovereign debt issuance and payback.

HISTORICAL CONTEXT

- History of sovereign default and crisis
- Case study:* Analysing the differing causes of two major sovereign defaults
- Current and previous economic crises: causes, effects and differing impact on mature and emerging markets
- Sovereign issuer analysis vs. country risk encompassing private sector
- Role of IMF and other multilateral bodies.

Perspectives on analysis

- Rating agency sovereign methodology, capacity and willingness to service debt, foreign and local currency ratings
- Transfer and convertibility risk: FX and local currency ratings, country ceilings
- Market indicators: CDS, bond and equity indicators
- Exercise:* determining implied ratings from bond prices
- Structured approach to analysis: purpose, payback, risks and structure
- Exercise:* Review of varying sovereign and country risk exposures.

RISK ANALYSIS

Section Aims: Use a structured approach to assess macro economic, sovereign debt exposures, political and financial sector factors in assessing sovereign risk.

Macro-economic policies and performance

- Economic growth, inflation, income levels
- Monetary and fiscal policies
- Foreign exchange regime risk profiles
- Exercise* assessing the relative risks and benefits of dollarization pegged or floating foreign exchange regimes
- Market rates and purchasing power parity
- Key performance indicators: benchmarks in mature and emerging economies
- Exercise* reviewing the macro economic strengths ,weaknesses and policy options for a highly rated, intermediate and lower rated sovereign.

Public finances

- Fiscal policy and budgetary flexibility; primary budget balance; public sector balance
- Exercise* assessing the financing flexibility of various sovereigns
- Sustainable debt and debt service burdens
- Contingent risks: pension and health care, infrastructure
- Exercise;* reviewing the public finance strengths, weaknesses and policy options for a highly rated, intermediate and lower rated sovereign.

External finances

- Balance of payments: trade, current a/c
- Export and import composition and trends
- Case Study;* identifying early warning external debt problems of a vulnerable sovereign
- Reliance on volatile receipts e.g. commodities or remittances
- External financing needs: exposure to volatile capital flows (portfolio capital and short term debt)
- Net external debt burden relative to GDP and current account receipts
- Central bank reserves and liquidity ratio
- Exercise;* reviewing the external finance strengths ,weaknesses and policy options for a highly rated, intermediate and lower rated sovereign
- Exercise;* identifying strong and weak performers across four regions from key economic data.

Structural, political and governance risks

- Savings and investment, capital flows
- Business environment, trade and economic diversity and stability
- Political risk: regime effectiveness and legitimacy, income disparity, conflict risk
- International trade and political links
- Governance: legal system, property rights, judicial process and corruption
- Exercise;* assessing the impact of political factors on the overall economic and credit assessment of different countries.



Financial sector

Section Aims: To identify how economic factors and regulation can affect the financial sector and how a weak financial sector can negatively affect a sovereign.

- Macro-prudential and financial strength indicators
- Size and strength of banking system
- Financial sector and overall intermediation levels, debt and equity capital markets
- Regulatory responses to banking crisis
- *Exercise;* reviewing the policy options for a failing banking system and systemic risk.

Public sector entities (PSE)

- Types of PSE: Government agencies; autonomous public bodies, state owned companies, not for profit companies fulfilling social missions
- Rating criteria and notching down from sovereign or up from stand alone: dependent and non dependent PSE's
- Types of support: statutory guarantee, specific guarantee, written commitment, no written commitment
- Criteria for analysis: legal status, integration, strategic importance, control, ability to support
- *Case study;* Assessing the risks in having exposure to a major public sector entity in an economically challenged country.

STRUCTURE

Section Aims; To review the losses that have occurred in sovereign crises and how they have been and can be mitigated by appropriate structures and risk management techniques.

- Default and restructuring events, distressed debt exchanges
- Private claims vs. official and multilateral creditors e.g. Paris club, IMF
- Export credit agency buyer and supplier credit
- Transfer risk and country risk insurance
- Setting country limits
- *Case study;* Applying the framework and tools of country risk analysis in various types of country/sovereign exposure.

Learning Paths



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