Economist Intelligence Unit

Country Risk Service

Sovereign risk ratings and analysis for 120 countries

Now, more than ever, financial institutions and companies require authoritative and trusted assessments of credit risk to pursue profitable opportunities in difficult markets. In addition, banks need to upgrade their risk management systems to comply with the evolving Basel regulations governing capital adequacy and liquidity.

Country Risk Service monitors both emerging and highly indebted markets on a continuous basis, producing two-year and five-year forecasts for the economic variables that are most important for risk assessment. Data is presented in a consistent format across all reports making country-by-country comparisons easy.

Use Country Risk Service to:

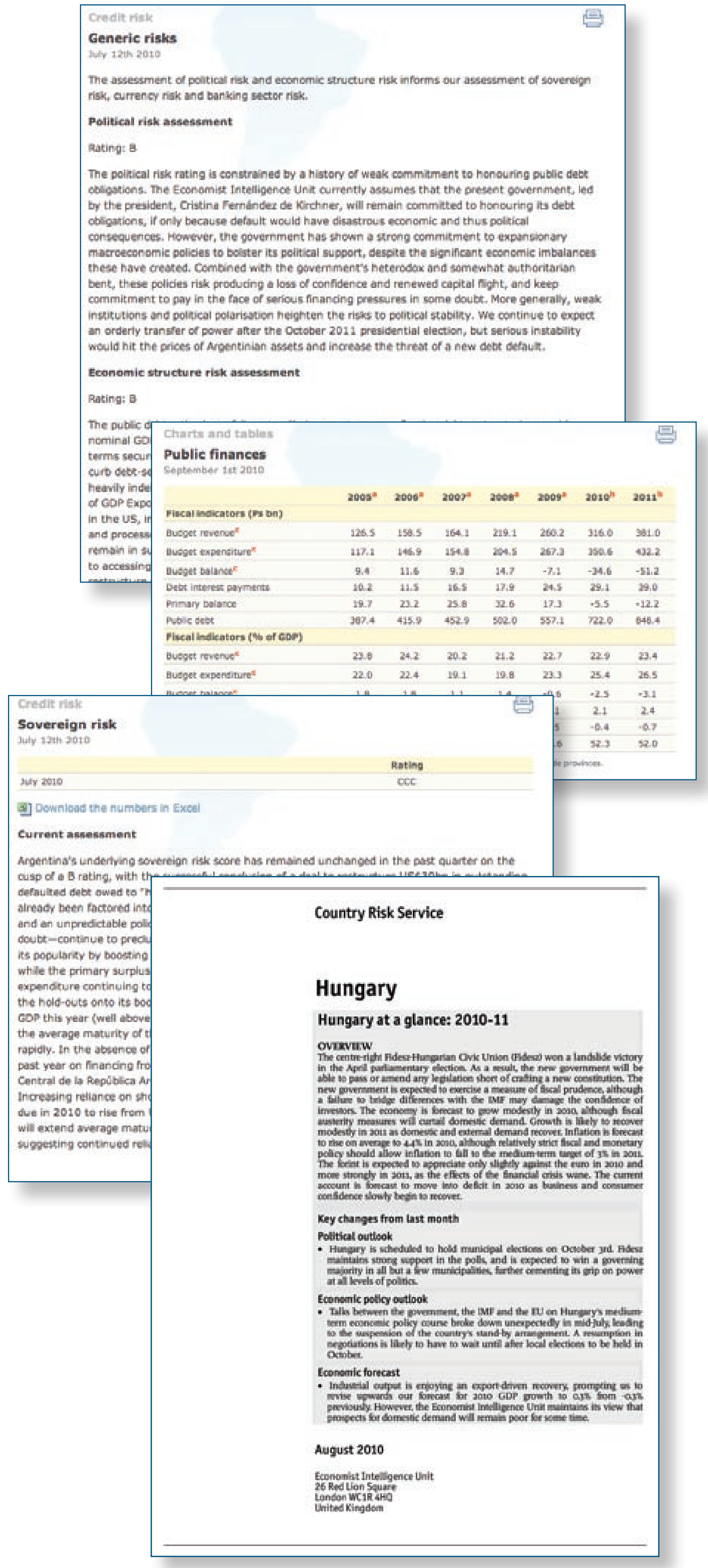
- Assess sovereign, currency, and banking sector risk in 120 markets.
- Analyse credit risks posed by the political and economic situation in each country.
- Compare risk across countries, using a standardised risk and forecasting methodology.
- Assess the risks to your business, with up to 220 macroeconomic variables provided in each report.
- Download, manipulate, and analyse data in your own financial and risk-rating models.
- Limit your risk in global markets with the help of timely warnings of likely rating downgrades.

EIU Country Risk analysts, country experts, and economists are on hand to answer your questions about the risk ratings model and sovereign risk.

What does a Country Risk Service report contain?

Each Country Risk Service report includes a one-page summary of each of the five main rating categories (sovereign, currency, banking, politics, economic structure). Extensive analysis and explanation of the ratings, including any grade changes, positive and negative factors, and the ratings outlook over the next six months.

- **Sovereign risk analysis:** assessing the risk of default on public, domestic, and external debt.
- **Currency risk analysis:** assessing the risk of a maxi devaluation.
- **Banking risk analysis:** assessing the risk of a systemic banking crisis.
- **Analysis** of political risk (as it pertains to credit risk) and economic structure risk (indicators of a structural nature which tend not to trend with the economic cycle).
- **Our central forecast** for the political, economic, and external payments situation over the next five year period.
- **Data tables** containing back series and forecasts for a wide range of macroeconomic data relevant to risk assessment, encompassing the public finances, exchange rates, the banking sector, and the external payments position.
- **Statistical appendices** containing a complete, rigorous and up-to-date presentation of nearly 220 economic variables used in every report's risk analysis. It provides a consistent seven-year historical and forecast data sequence plus historical quarterly data.



Credit risk

Generic risks

July 12th 2010

The assessment of political risk and economic structure risk informs our assessment of sovereign risk, currency risk and banking sector risk.

Political risk assessment

Rating: B

The political risk rating is constrained by a history of weak commitment to honouring public debt obligations. The Economist Intelligence Unit currently assumes that the present government, led by the president, Cristina Fernández de Kirchner, will remain committed to honouring its debt obligations, if only because default would have disastrous economic and thus political consequences. However, the government has shown a strong commitment to expansionary macroeconomic policies to bolster its political support, despite the significant economic imbalances these have created. Combined with the government's heterodox and somewhat authoritarian bent, these policies risk producing a loss of confidence and renewed capital flight, and keep commitment to pay in the face of serious financing pressures in some doubt. More generally, weak institutions and political polarisation heighten the risks to political stability. We continue to expect an orderly transfer of power after the October 2011 presidential election, but serious instability would hit the prices of Argentinian assets and increase the threat of a new debt default.

Economic structure risk assessment

Rating: B

Charts and tables

Public finances

September 1st 2010

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]
Fiscal indicators (Ps bn)							
Budget revenue	126.5	158.5	164.1	219.1	260.2	316.0	381.0
Budget expenditure	117.1	146.9	154.8	204.5	267.3	350.6	432.2
Budget balance	9.4	11.6	9.3	14.7	-7.1	-34.6	-51.2
Debt interest payments	10.2	11.5	16.5	17.9	24.5	29.1	39.0
Primary balance	19.7	23.2	25.8	32.6	17.3	-5.5	-12.2
Public debt	387.4	415.9	452.9	502.0	557.1	722.0	848.4
Fiscal indicators (% of GDP)							
Budget revenue	23.8	24.2	20.2	21.2	22.7	22.9	23.4
Budget expenditure	22.0	22.4	19.1	19.8	23.3	25.4	26.5

Credit risk

Sovereign risk

July 12th 2010

	Rating
July 2010	CCC

Download the numbers in Excel

Current assessment

Country Risk Service

Hungary

Hungary at a glance: 2010-11

OVERVIEW

The centre-right Fidesz-Hungarian Civic Union (Fidesz) won a landslide victory in the April parliamentary election. As a result, the new government will be able to pass or amend any legislation short of crafting a new constitution. The new government is expected to exercise a measure of fiscal prudence, although a failure to bridge differences with the IMF may damage the confidence of investors. The economy is forecast to grow modestly in 2010, although fiscal austerity measures will curtail domestic demand. Growth is likely to recover modestly in 2011 as domestic and external demand recover. Inflation is forecast to rise on average to 4.4% in 2010, although relatively strict fiscal and monetary policy should allow inflation to fall to the medium-term target of 3% in 2011. The forint is expected to appreciate only slightly against the euro in 2010 and more strongly in 2011, as the effects of the financial crisis wane. The current account is forecast to move into deficit in 2010 as business and consumer confidence slowly begin to recover.

Key changes from last month

Political outlook

- Hungary is scheduled to hold municipal elections on October 3rd. Fidesz maintains strong support in the polls, and is expected to win a governing majority in all but a few municipalities, further cementing its grip on power at all levels of politics.

Economic policy outlook

- Talks between the government, the IMF and the EU on Hungary's medium-term economic policy course broke down unexpectedly in mid-July, leading to the suspension of the country's stand-by arrangement. A resumption in negotiations is likely to have to wait until after local elections to be held in October.

Economic forecast

- Industrial output is enjoying an export-driven recovery, prompting us to revise upwards our forecast for 2010 GDP growth to 0.3% from -0.3% previously. However, the Economist Intelligence Unit maintains its view that prospects for domestic demand will remain poor for some time.

August 2010

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Country risk ratings explained:

Country Risk Service uses quantitative and qualitative indicators covering 6 categories of sovereign risk.

- **Sovereign risk** measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign.
- **Currency risk** measures the risk of devaluation against the reference currency (usually the US dollar, occasionally the Euro) of 25% or more in nominal terms over the next 12-month period.
- **Banking sector risk** gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors.
- **Political risk** evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. This rating informs the first three.
- **Economic structure risk** is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for economic structure risk will tend to be relatively stable, evolving in line with structural changes in the economy. This rating informs the first three.
- **Overall country risk** is derived by taking a simple average of the scores for sovereign risk, currency risk, and banking sector risk.

Which variables are included in the model?

Politics/institutions

- External conflict
- Governability/social unrest
- Electoral cycle
- Orderly transfers
- Event risk
- Sovereignty risk
- Institutional effectiveness
- Corruption
- Corruption in the banking sector
- Commitment to pay

Economic policy

- Quality of policymaking/ policy mix
- Monetary stability
- Use of indirect instruments
- Real interest rates
- Fiscal balance/GDP
- Fiscal policy flexibility
- Transparency of public finances
- Domestic debt
- Unfunded pension and healthcare liabilities
- Exchange-rate regime
- Black-market/dual exchange rate

Economic structure

- Income level
- Official data (quality/timeliness)
- Current-account balance, 48 months
- Volatility of GDP growth
- Reliance on a single goods export
- External shock/contagion
- Public debt/GDP
- Gross external debt/GDP
- Default history
- Financial regulation and supervision

Macroeconomic

- Real OECD GDP growth
- Credit as % of GDP, growth
- Real GDP growth, 48 months
- Real GDP growth, 12 months
- Inflation, 48 months
- Inflation, direction
- Trade-weighted real exchange rate
- Exchange-rate misalignment
- Exchange-rate volatility
- Export receipts growth, 12 months
- Current-account balance, 12 months
- Asset price bubble

Financing and liquidity

- Transfer and convertibility risk
- IMF programme
- International financial support
- Access to financing
- Gross external financing requirement
- Debt-service ratio
- Interest due/exports
- External short-term debt/ foreign exchange reserves
- Change in foreign exchange reserves
- Net external debt/exports
- FDI/gross financing requirement
- Import cover
- OECD short-term interest rates
- Non-performing loans
- Banks' credit management
- Banks' foreign asset position

*report data tables show two-year forecasts. Five-year forecast data available using the Data Tool for certain series.

Which countries are covered?

How Country Risk Service compares with the ratings agencies

Unlike the ratings agencies, we update our risk assessments regularly (every month for emerging markets, every three months for developed countries. Thus we are able to catch deteriorating or improving trends before the ratings agencies issue formal warnings.

Risk Ratings Review

Every month we publish a combined summary of risk ratings for all 120 countries. The Risk Ratings Review helps you spot global trends and identify countries whose risk profiles are changing. Risk Ratings Review is available for a separate fee.

Monthly countries:	2010		2009		2010		2009
Sovereign risk ratings	May	Apr	May		May	Apr	May
Algeria	BB	BB	BBB	Malawi	B	CCC	CCC
Angola	B	B	BB	Malaysia	BBB	BBB	BBB
Argentina	CCC	CCC	CCC	Mauritius	B	B	BB
Australia	BBB	BBB	BBB	Mexico	BB	BB	BBB
Azerbaijan	BB	BB	BB	Moldova	CCC	CCC	CCC
Bahrain	BBB	BBB	BBB	Morocco	BB	BB	BB
Bangladesh	BB	BB	B	Mozambique	BB	BB	B
Bolivia	B	B	B	Myanmar	C	C	C
Bosnia and Hercegovina	CCC	CCC	CCC	Namibia	BBB	BBB	BBB
Botswana	BBB	BBB	A	New Zealand	BBB	BBB	BBB
Brazil	BB	BB	BB	Nicaragua	CC	CC	CC
Bulgaria	BB	BB	BB	Nigeria	B	B	B
Cambodia	CCC	CCC	CCC	Oman	A	A	A
Cameroon	B	B	B	Pakistan	CCC	CCC	CCC
Chile	A	A	A	Panama	BBB	BBB	BB
China	BBB	BBB	BBB	Papua New Guinea	BB	BB	B
Colombia	BB	BB	BB	Paraguay	B	B	B
Costa Rica	BB	BB	B	Peru	BBB	BBB	BBB
Côte d'Ivoire	CCC	CCC	CC	Philippines	B	B	B
Croatia	B	B	B	Poland	BB	BB	BB
Cuba	CCC	CCC	CC	Qatar	A	A	A
Czech Republic	BBB	BBB	BBB	Romania	BB	BB	BB
Dominican Republic	B	B	CCC	Russia	BBB	BBB	BBB
Ecuador	CCC	CCC	CC	Saudi Arabia	BBB	BBB	BBB
Egypt	BB	BB	BB	Senegal	B	B	B
El Salvador	BB	BB	BB	Serbia	CCC	CCC	CCC
Equatorial Guinea	BB	BB	BB	Singapore	A	A	A
Estonia	BB	BB	BB	Slovakia	BBB	BBB	A
Ethiopia	CCC	CCC	CCC	Slovenia	A	A	A
Gabon	BB	BB	BB	South Africa	BBB	BBB	BB

Country Risk Service delivers:

- Monthly reports for 100 emerging markets.
- Quarterly scores for 20 developed economies.

Access options:

- Enterprise access via IP control or username at eiu.com

Enterprise subscribers also receive

- HTML and PDF viewing.
- Excel® downloadable tables.
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- Country Risk Alerts by e-mail, keeping you informed of our views on topical risk issues.

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20 industrialised countries with quarterly ratings

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Countries available upon request

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