

The Determinants of Country Risk Analysis

An Empirical Approach

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Abstract

The paper examines the effect of various economic and political factors on country risk ratings published by *Euromoney* and *Institutional Investor*. As global competition drives corporations, managers frequently rely on country risk analysis as a crucial aspect of strategic decision-making. The purpose of this paper is to investigate the extent to which country risk measures can help in predicting country ratings. We examine seven widely used measures of country risk across sixty-one countries. Results from the empirical analysis indicate that country risk ratings can be replicated to a significant degree with a few available political and economic indicators. Political risk was found to exert a significant influence on country ratings. The results also confirmed that both *Euromoney* and *Institutional* ratings predicted similar outcomes.

Keywords: Country Risk Analysis, Gross National Product, Gross Capital Formation

I. Introduction

Recent years have witnessed an unprecedented interest and research in identifying the determinants of country risk analysis. Institutions engaged in managing global investment strategies are exposed to country risk — the risk that economic, social and political events in a foreign country would adversely affect an institution's financial interest. Managers frequently rely on country risk analysis while formulating their strategies. Moreover, empirical researchers have agreed that country risk is the result of political, social and economic factors (Oetzel, et. al. 2001). Practitioners of country risk analysis face a daunting task in their selection of variables and evaluation systems to represent and interpret the various economic and social-political factors (Burton and Inou, 1985).

Research on the extent to which country risk measures predict country risk ratings flourished in

the 1990s. These ratings are an important component of country risk management because they provide a framework for establishing country exposure limits that reflect the institution's tolerance for risk. Various empirical studies (for example, Feder and Uy 1985; Brewer and Rivoli, 1990) have developed quantitative models to replicate the country risk ratings published by banking magazines such as *Euromoney* and *Institutional Investor*. These ratings, which are considered to provide a measure of the credit worthiness of sovereign borrowers, affect the cost of capital flows to sovereign borrowers because they seem to have been systematically linked to credit pricing in the Euro market (Feder & Ross, 1982).

Feder & Uy (1985) were the first to identify the determinants of country risk ratings. They replicated the creditworthiness ratings reported in the 1979-1983 issues of the *Institutional Investor*. Feder and Uy were able to explain 70 per cent of the variance of *Institutional Investor* ratings for a group of 55 developing countries.

Another study by Brewer & Rivoli (1990) focused on the effects of political instability on perceived

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country creditworthiness of the 30 most heavily indebted developing countries by using the 1987 rating of *Institutional Investor* and *Euromoney*.

Saini and Bates (1984) in their survey of the quantitative analysis of country risk analysis discuss the possibility of judgmental change. They argue that given rapid transformation in the economies of developing countries, and the international environment, we could expect structural shifts overtime in the influence of explanatory variables.

Another significant issue here is that rating agencies have been accused of promoting financial excesses. As discussed by Ferri, Lui and Stiglitz (1999), their pro-cyclical behavior, upgrading countries in good times and downgrading them in bad times, may have contributed to magnifying the boom-business pattern in stock markets. Even if rating agencies do not behave pro-cyclically, their announcements may still trigger market filters. Rating changes may unveil new (private) information about a country and they may fuel rallies or down turns. This effect is likely to be stronger in emerging markets where problems of asymmetric information and transparency are more severe. Moreover, changes in rating might act as a wake-up call, with rating changes for one country affecting other countries with similar economies. (Kaminsky, G. and Schmukler, S. 2001)

Given the growing importance of trade in the world economy and also the increasing global economic integration, which started around 1980 and continues till today (World Development indicators, 2002), managers are more concerned about forecasting the various potential economic and political indicators affecting their ratings. Private capital flows to developing economies have increased dramatically from around \$44 billion in 1990 to \$257 billion in 2000, while official flows have decreased from \$57 billion to \$ 39 billion during the same period. Foreign direct investment has become the major form of international finance for developing countries, accounting for about 70 per cent of the private capital flows in 2000 (World Development Indicators, 2002.)

During the last decade, there has been a multitude of economic and political crises — the Mexican peso crashed in 1994, and between 1997-1998 we witnessed widespread default of financial institutions in Bangkok, the collapse of the Indonesian government and the Malaysian economy, and the devaluation of the Brazilian currency (Octzel, et. al. 2001).

Thus, following the series of currency crashes in the 1990s-with the latest crisis in Turkey in February 2001, country ratings will continue to be a crucial area of interest to business managers and researchers in strategic decision making. It is for this reason that managers are interested in determining various measures to forecast political-economic events in a country that may help in their assessment of creditworthiness indicators.

This paper focusses on developing a country risk appraisal model, to identify the various political and economic factors that can help in predicting country risk ratings. To do this, we have examined seven widely-used measures of country risk across 61 countries. The paper employed logistic multiple regression analysis to develop a country risk model to identify the determinants of country risk rating. The model focuses on country risk rating by *Euromoney* and *Institutional Investor* for the year 2001 and the important economic and political variables for the year 2000. The primary purpose of the study is to illustrate an approach to country risk appraisal that can help to identify the important factors that affect country risk perceptions. For most of the empirical work in this area, multiple regression analysis has been employed.

II. The Model

The Logistic Multiple Regression Analysis used in this paper is a technique, which allows us to incorporate multiple independent variables to estimate the dependent variable. The model can be expressed as

$$Y_i = \alpha_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_n X_{ni} + \epsilon_i \quad (1)$$

The notation X_{ni} indicates the values of the n th independent variable for case i . The beta terms are

unknown parameters and the ϵ_i terms are independent random variables that are normally distributed with mean zero and constant variance σ_2 .

Burton & Inou (1985) express country risk as

$$CR_{it} = f(EC_{i(t-1)}, PO_{i(t-1)}) \quad (2)$$

Country risk in equation 2 is assumed to be composed of economic and political related risk. $EC_{i(t-1)}$ is economic-related risk and $PO_{i(t-1)}$ is the political-related risk for country i in the period $t-1$.

A one-year time lag characterizes the assumption that in their assessment of new financial commitment to specific countries, lenders are influenced principally by the most recent economic and political circumstances.

The selection of various independent variables that were used to estimate country risk ratings are as follows:

$$CR_t = f(GNP_{t-1}, GKFORM_{t-1}, FDEXP_{t-1}, RESIMP_{t-1}, CURGNP_{t-1}, EXPGRTH_{t-1}, POLRSK_{t-1}) \quad (3)$$

where

- CR_t = Country risk in period t
- GNP_{t-1} = Gross national income per capita, in period $t-1$
- $GKFORM_{t-1}$ = Gross capital formation in period $t-1$
- $FDEXP_{t-1}$ = Net foreign debt/exports ratio in period $t-1$
- $RESIMP_{t-1}$ = Reserves to imports ratio in period $t-1$
- $CURGNP_{t-1}$ = Current account balance on gross national income in period $t-1$
- $EXPGRTH_{t-1}$ = Exports growth rate in period $t-1$
- $POLRSK_{t-1}$ = Political Instability Indicator in period $t-1$

The above mentioned political and economic risk indicators serve as the independent variables that are used to calculate the predictive power of the dependent variable, CR_t that is the country

creditworthiness rating reported by *Institutional Investor* or *Euromoney* magazine. Also, only seven independent variables are included in the multiple regression model, as including a large number of independent variable in a regression model is never a good strategy, unless there are strong previous reasons to suggest that they all should be included. Including irrelevant variables increases the standard error of all estimates without improving the prediction. To reduce the skewness in the distribution, as also to make the independent variables comparable, logarithmic transformation is applied to all the variables.

III. The Dependent and Explanatory Variables

This section discusses in detail the dependent and explanatory variables that were used in the present study.

The Dependent Variable

1. The dependent variable is the country credit worthiness rating reported in the September 2001 issues of the *Institutional Investor*. Institutional Investor country credit ratings are based on information provided by leading international banks. Responses are weighted by using a formula that gives more importance to responses from banks with greater worldwide exposure and more sophisticated country analysis systems. Countries are rated on a scale of 0 to 100 (highest risk to lowest), and ratings are updated every six months (World Development Indicators, World Bank, 2002, page 287).
2. Eurocurrency country creditworthiness ratings are based on nine weighted categories (covering debt, economic performance, political risk and access to financial and capital markets) that access country risk. The rating on a scale of 0 to 100 (highest risk to lowest risk) are based on polls of economists and political analysts supplemented by quantitative data such as debt ratios and

access to capital markets (World Development Indicators, World Bank, 2002, page 287).

Thus, the dependent variable here is the country credit worthiness ratings from two major international rating services — The *Institutional Investor* and the *Euromoney*. However, risk rating may be highly subjective, reflecting external perceptions that do not always capture the actual situation in a country. But these subjective perceptions are the reality that policy makers face.

The Explanatory Variables

The set of explanatory variable used in the present study is derived from previous empirical researches and from the suggestions of theoretical research on international borrowings.

1. Gross National Income (GNI) per capita (or GNP)

This variable is used by World Bank to classify countries for analytical purposes and to determine borrowing eligibility. The variable measures the level of development of a country. Frank and Cline (1971), and Feder and Just (1977) argue that poorer countries may have less flexibility to reduce consumption than richer countries. The variable is positively related to country credit worthiness rating. Thus, countries with low gross national income per capita will be generally less creditworthy.

2. Gross Capital Formation

This variable consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. The variable captures a country's prospects for future growth and is positively related to its risk rating. This variable is calculated as the ratio of Gross Domestic Investment to Gross Domestic Product and is also known as the propensity to invest.

3. Total External Debt to Exports Ratio

The ratio of total external debt to exports

measures the burden of a country's debt relative to the major source of foreign exchange.

Total external debt is debt owed to nonresidents repayable in foreign currency goods or service. A country with a high external debt to exports ratio is more vulnerable to foreign exchange crises and more likely to default (Frank and Cline 1971, Cline 1984). Thus, the variable is negatively related to country credit ratings as a higher external debt to exports ratio is expected to lead to lower creditworthiness rating (Cosset etc.)

4. Gross International Reserves to Imports Ratio

Reserves provide a short-term safeguard against fluctuations in foreign receipt. Feder, Ross and Just (1981), and Cline (1984), argue that larger the reserves are relative to imports, the more reserves are available to service debt and the lower is the probability of default. Thus, this variable is positively related to a country's creditworthiness rating.

5. Current Account Balance on Gross National Income

This variable is negatively related to the probability of default (Cline 1984), since the current account deficit broadly equals the amount of new 'financing required. Thus, countries with large current account deficits are less creditworthy.

6. Exports Growth Rate

Countries with high export growth rates are more likely to service their debt and hence enjoy better creditworthiness ratings (Feder and Uy, 1985) as exports are the main source of foreign exchange earnings for most countries. This variable is positively related to country creditworthiness rating.

7. Political Risk Indicator

Political instability may indirectly accelerate debt service problems through a decline in long-term

capital flows and a consequent unwillingness of lenders to roll over matured loans. Over a period of time, political instability may slow economic growth, contribute to inflation, domestic bottlenecks and production shortages and create foreign exchange shortage from an imbalance between exports and imports (Burton and Inoue, 1985).

Aliber (1980), and Brewer and Rivoli (1990) have argued that political instability can reduce a country's willingness to service debt.

It has also been suggested in literature (Burton and Inoue, 1985 and Citron and Nicklesburg, 1987) that disruptive political events frequently precede debt rescheduling. Thus, countries experiencing high political turmoil are more likely to default.

Data Sources

The data on the various independent and dependent variables was obtained from the *World Development Indicators, 2002*, a publication of the World Bank. The Political risk indicator was obtained from the Euromoney Journal (November 2002). Sixty-one countries were selected as the sample for this analysis. The names of the countries selected along with their groupings are given in the Appendix.

IV Results

For the same set of independent variables, two equations have been computed – one with Euromoney ranking as the dependent variable and the other with Institutional investor ratings. This has been done so as to find out if any significant differences exist between the two ratings assigned to different countries for the same period. Also, the calculations have been done in two stages. The computation in stage 1 excludes the political risk indicator. In stage II all the variables are included to test the credence of arguments that political risk has an important bearing on country risk.

First Stage Analysis

The two multiple regression analysis equations estimated in the first stage were

$$\begin{aligned} \text{Log CR}_1(\text{euro}) = & 1.671 + .171 (\text{GNP}) + .304 \\ & (\text{GKFORM}) - 0.70 (\text{FDEXP}) + \\ & .117(\text{RESIMP}) - .019 (\text{CURGNP}) \\ & + .079 (\text{EXPGRTH}) \quad (4) \end{aligned}$$

$$\begin{aligned} \text{Log CR}_2(\text{Instit}) = & -.271 + .292 (\text{GNP}) + \\ & .592 (\text{GKFORM}) - .074 \\ & (\text{FDEXP}) + .167 (\text{RESIMP}) - \\ & .033 (\text{CURGNP}) + .104 \\ & (\text{EXPGRTH}) \quad (5) \end{aligned}$$

For the time period analyzed, equation 4 explains about 84% (R square=.84) while equation 5 explains about 83% (R square=.83) of the variance in country risk.

Thus, the predictability of the equation does not change significantly whether we consider the Euromoney or Institutional Investor ratings. This is once again proved in stage two analysis. It can therefore be concluded that the rating assigned by the two institutions, Euromoney and Institutional Investor, are generally always in the same direction and any of the two ratings can be used for analysis. One of the important purposes of this paper was to evaluate any significant difference in ratings by the two institutions. It can thus be safely concluded that for the time period analyzed, both the ratings will give the same result. Our results are also in agreement with the conclusions of Cosset and Roy (1991) who found that both ratings could be replicated to a significant degree with only a few widely available economic statistics and both models predicted similar outcomes.

Gross capital formation seems to be the most important factor in evaluating country risk followed by Gross National Product or Income per capita. Both these variables are positively related to country risk. The reserves to imports ratio and exports growth rate are positively related to country risk while the external debt to exports ratio and the current account balance on GNI bear their hypothesized negative sign

Second Stage Analysis

$$\begin{aligned} \text{Log CR (Instit)} &= .735 + .180 (\text{GNP}) + .383 (\text{GKFORM}) - .075 (\text{FDEXP}) + \\ &.210 (\text{RESIMP}) - .039 (\text{CURGNP}) - .076 (\text{EXPGRTH}) + .214 (\text{POLTRIS}) \quad (3) \end{aligned}$$

$$\begin{aligned} \text{Log CR (Euro)]} &= 2.270 + .105 (\text{GNP}) + .180 (\text{GRFORM}) \\ &- .071 (\text{FDEXP}) + .143 (\text{RESIMP}) \\ &- .023 (\text{CURGNP}) - .061 (\text{EXPGRTH}) \\ &+ .127 (\text{POLTRIS}) \quad (4) \end{aligned}$$

The effects of political instability indicator were examined by the addition of the political risk variable to the equations in the first stage. The results are presented in equations 3 and 4.

As discussed in stage one, the predictability of the equation remains nearly the same whether we use Euro money ratings (R Square = .861) or Institutional Investor ratings (R Square = .862). The two important variables in equations 3 and 4 are gross capital formation and political risk. Both are positively related to country risk ratings. The other variables with a positive sign are gross national product and reserves to imports ratio. As observed in stage one also, the foreign debt to exports ratio and the current account balance on GNP show a negative sign.

Stepwise Analysis

The stepwise analysis technique is also employed in this paper. This technique helps to select variables in the order of their importance in

explaining the equation. The first variable is selected which best explains the dependent variable. In the next step, in combination with this variable, the second variable is selected. This procedure goes on till the remaining variables cease to contribute in a significant manner towards the predictability of the equation.

Results

Tables 1 and 2 present the result of the stepwise analysis when political risk was not considered as an independent variable. Table 1 indicates that the most powerful variable is the gross national product per capita. The importance of this variable is consistent with the theoretical literature as GNP per capita measures the level of development of a country. The variable has the maximum correlation with the dependent variable and the predictability of the dependent variable with only GNP per capita as the independent variable is 58%. Gross capital formation is the second most important independent variable and when this variable, along with GNP per capita is used, the predictability of the equation increases to approx. 74%. In both the cases the F values are found to be significant (1% and 5%, respectively).

Table 2 summarizes the result when the dependent variable is the Institutional Investor rating. The results once again confirm the importance of the two variables, GNP per capita and Gross capital formation. The F values and t values are also significant.

Table 1: Stepwise regression analysis (excluding political risk)

Model	β	Std. Error	t	Sig.	R square	Significance
1. (Constant)	2.255	.427	5.284	.000		
LGNP	.219	.059	3.713	.004	.580	.004
2 (Constant)	.747	.718	1.040	.325		
LGNP	.258	.051	5.044	.001	.744	.040
LGKFORM	.409	.170	2.406	.040		

Dependent variable: Euromoney

Table 2: Stepwise Regression Analysis (Excluding Political Risk)

Model	β	Std. Error	t	Sig.	R square	Significance
1. (Constant)	1.338	.670	1.993	.074		
LGNP	.314	.093	3.388	.007	.534	.007
2 (Constant)	-1.232	1.062	-1.160	.276		
LGNP	.381	.076	5.026	.001	.739	.022
LGKFORM	.696	.251	2.770	.022		

Dependent Variable: Institutional Investor

Table 3: Stepwise regression analysis (Including Political Risk)

Model	β	Std. Error	t	Sig.	R square	Significance
1. (Constant)	2.315	.299	7.748	.000		
LPOLTRIS	.515	.117	4.390	.001	.658	.001

Dependent variable: Institutional Investor

Table 4: Stepwise regression analysis (Including Political Risk)

Model	β	Std. Error	t	Sig.	R square	Significance
1. (Constant)	2.997	.210	14.249	.000		
LPOLTRIS	.336	.083	4.064	.002	.789	.002

Dependent variable: Euromoney

Table 5: Correlation between the Dependent and Independent Variables

	LGNP	LGKFORM	LFDEXP	LRES-IMP	LCUR-GNP	LEXP-GRTH	LPOLTRIS	LINSTIT	LEURO-MONEY
GNP	1.000	.279*	-.384*	-.109	.209	-.117	.810**	.790**	.906**
Pearson Correlation Sig. (2-tailed)									
GKFORM	.279*	1.000	-.139	-.206	.089	.133	.470**	.357**	.435**
Pearson Correlation Sig. (2-tailed)									
LFDEXP	.384*	-.139	1.000	.001	-.364	.319	-.471**	-.417**	-.506**
Pearson Correlation Sig. (2-tailed)									
LRESIMP	.109	-.206	.001	1.000	.231	-.195	-.175	-.179	-.265*
Pearson Correlation Sig. (2-tailed)									
LCURGNP	.209	.089	-.364	.231	1.00	-.227	.196	.130	.144
Pearson Correlation Sig. (2-tailed)									
LEXPGROT	-.117	.133	.319	-.195	-.227	1.000	-.032	-.173	-.159
Pearson Correlation Sig. (2-tailed)									
LPOLTRIS	.810*	.470**	-.471**	-.175	.196	-.032	1.000	.852**	.877**
Pearson Correlation Sig. (2-tailed)									
LINSTIT	.790**	.357**	-.417**	-.179	-.130	-.173	.852**	1.000	.829**
Pearson Correlation									
LEUROM	.906**	.435**	-.506**	-.265*	.144	-.159	.877**	.829**	1.000
Pearson Correlation									

* Correlation is significant at the .05 level (2 tailed)

** Correlation is significant of at the .01 level (2 tailed)

Similarly, a stepwise analysis was performed by including political risk as one of the independent variables. Tables 3 and 4 present the results. In both the cases, political risk exerts a significant influence on the ratings and is the single most crucial factor driving country risk analysis. The F values and the t values are also significant.

Finally, a correlation analysis was conducted between all the dependent and independent variables taken together. Table 5 presents the results.

GNP per capita, gross capital formation and political risk show a high positive correlation in the *Institutional Investor* and *Euromoney* ratings and are significant at 1% level of significance. Both net foreign debt to exports and exports growth rate show a negative correlation with the two ratings and net foreign debt to exports is significant at 1% level of significance.

Comparison Across Countries

The principal purpose of country risk evaluation is also to set country exposure limits. In this part of our study we divided the countries into seven groups based on the classification given by the World Bank. Then, for each country group, a stepwise analysis was carried out to find out if there are significant differences in factors across the countries. Table 6 summarizes the results.

We will briefly comment on the results of the stepwise multiple regression analysis for each country classification.

East Asia and the Pacific

GNP per capita seems to be the most important factor in evaluating country risk. The coefficient of determination (R square) is .756 and both the F values and t values of the equation are significant. Political risk gets excluded in the stepwise analysis and is not significant.

South Asia

For South Asian countries the two factors, which significantly affect the rating of a country are,

political risk and gross capital formation. Once again the F values and t values are significant at 1% level.

Latin America and Caribbean

The political risk factor seems to be the most important variable here and the power of this variable lends support to empirical research (e.g. Ingram, 1974) that countries tend to experience political instability before expropriation measures are imposed. Most findings have been drawn from experiences in Latin America.

Europe and Central Asia

The influence of political risk once again seems to be the most important discriminating variable for countries in Europe and Central Asia and is highly significant. However, in the stepwise analysis, if the political risk factor was excluded from our analysis, then gross capital formation seems to become more relevant (R square = .684, F value is significant).

Middle East and North Africa

Political risk is the relevant variable in this group and is highly significant.

Sub-Saharan Africa

A stepwise analysis here picks up political risk and GNP per capita as the two most significant variables that improve the predictability of the equation. Once again both the F values and t values are significant.

High Income

For countries in this group political risk is the most important variable (R square = .769) and the beta values are significant at 1% level. GNP per capita is the second most important variable and the two variables together explain approximately 89% of the variation (R square = .892) in the dependent variable. In the next stage, reserves to imports ratio is the relevant variable (R square = .960)

Table 6: Country Classification Results

	B	S.E.	R square
East Asia and Pacific			
Constant	2.410*	.361	
LGNP	.219*	.049	.756*
South Asia			
Model 1 (Constant)	2.234*	.209	.939*
LPOLTRSK	.665*	.098	
Model 2 (Constant)	2.979*	.087	
LPOLTRSK	.756*	.020	.999*
LGKFORM	-.301*	.032	
Latin America & Caribbean			
Constant	1.973**	.620	
LPOLTRSK	.756**	.235	.775**
Europe and Central Asia			
Constant	2.335*	.160	.927**
LPOLTRSK	.615*	.071	
Middle East & North Africa			
Constant	2.126*	.215	
LPOLTRSK	.718*	.087	.945*
Sub Saharan Africa			
Model 1 (Constant)	2.532*	.132	.916*
POLTRSK	.542*	.067	
Model 2 (Constant)	2.170	.083	
LPOLTRSK	.352	.043	.989*
LGNP	.116	.021	
High Income			
Income			
Model 1 (Constant)	2.727*	.244	.769*
LPOLTRSK	.5666*	.077	
Model 2 (Constant)	2.452*	.184	
LPOLTRSK	.473*	.059	.892*
LGNP	.056*	.014	
Model 3 (Constant)	2.259*	.123	
LPOLTRISK	.521*	.039	.960*
LGNP	.062*	.009	
LRESIMP	.011*	.002	

* significant at 1% level

** significant at 5% level

*** significant at 10% level

V Conclusion

This paper examines the effect of various economic and political factors on country risk ratings published by Euromoney and Institutional Investor. Some of the conclusions, which can be drawn from the analysis have been discussed below.

1. Political risk exerts a significant influence on the country rankings. It is the single most crucial factor influencing country risk analysis when stepwise multiple regression analysis is employed for all the countries taken together.
2. When a stepwise analysis was performed excluding political risk, GNP per capita and gross capital formation are the two economic factors, which significantly explain country risk ratings. The other variables for the period either contribute less to an explanation of the variance, contradict the expected sign as a consequence of multicollinearity or have a weak significance level.
3. The country group indicators also seem to indicate the importance of political risk for all regions except for East Asia and Pacific. The influence of GNP per capita is particularly important here. For high-income countries, the ratio of foreign exchange reserves to imports is the third most important variable (after political risk and GNP per capita). For other country groups the ratio is not significant. This finding contradicts the earlier finding of Burton &

Inou (1985) who found foreign exchange reserves to imports to be the most critical factor among country risk economic related variables.

4. In this paper, we focussed on identifying the effects of various economic and political factors on changes in ratings of a country. We also tested for any differences in ratings given by Euromoney and Institutional Investor. We found that no significant differences exist and any one of the two ratings can be used to explain the effects of credit ratings on financial markets.
5. The evidence suggests that country risk rating can be replicated to a significant degree with a few available political and economic indicators. The results also indicate the dominating influence of GNP per capita on country risk ratings. The other determinants of country risk rating are gross capital formation, the ratio of net foreign debt to exports, the ratio of reserves to imports, the ratio of current account balance on GNP and the exports growth variable. All these variables show a high correlation with both the Euro Money and Institutional Investor ratings.
6. The political risk approach is of greater relevance since most of the government decisions affect the economic factors directly and it is difficult to define an accurate measure to predict cross border risks.

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APPENDIX
List of 61 Countries

Group	Countries
East Asia and the Pacific	China, Indonesia, Malaysia, Papua New Guinea, Philippines, Singapore, Thailand, Vietnam
South Asia	Bangladesh, India, Nepal, Pakistan, Sri Lanka
Latin America and Caribbean	Argentina, Brazil, Chile, Colombia, Mexico
Europe & Central Asia	Bulgaria, Hungary, Poland, Romania, Russian Federation, Turkey, Uzbekistan, Yugoslavia
Middle East & North Africa	Algeria, Egypt, Iran, Iraq, Jordan, Libya, Oman, Saudi Arabia, Tunisia
Sub-Saharan Africa	Ethiopia, Ghana, Kenya, Mauritius, Nigeria, South Africa, Sudan, Tanzania
High Income	Australia, Austria, Canada, Hong Kong, (China) Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal Sweden, Switzerland, United Kingdom, United States

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