THE REGRESSION MODEL FOR COUNTRY RISK ASSESSMENT

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Extended Abstract:

The globalization of the world economies, and in particular the internationalization of financial markets in the last decades, have dramatically expanded and diversified investment possibilities, leading to numerous new opportunities, accompanied by new risks. Consequently, there has been growing interest in obtaining reliable estimates of the risk of investing in different countries. These concerns have led to the development of the concept of country risk, and even to the regular publication of country risk ratings by various agencies.

Country risk has become a topic of major concern for the international financial community over the last few decades. Various risk rating agencies employ different methods to determine country risk ratings, combining a range of qualitative and quantitative information regarding alternative measures of political, economic and financial risk into associated composite risk ratings.

The main objective of this paper is to develop a transparent and a consistent country risk rating system, closely approximating one of the major existing ones. The proposed model uses economic-financial and political variables, is non-recursive (i.e., it does not rely on the previous year's ratings) and is constructed using multiple regression.

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