International Country Risk Guide Methodology

The International Country Risk Guide (ICRG) rating comprises 22 variables in three subcategories of risk: political, financial, and economic. A separate index is created for each of the subcategories. The Political Risk index is based on 100 points, Financial Risk on 50 points, and Economic Risk on 50 points. The total points from the three indices are divided by two to produce the weights for inclusion in the composite country risk score. The composite scores, ranging from zero to 100, are then broken into categories from Very Low Risk (80 to 100 points) to Very High Risk (zero to 49.5 points).

The Political Risk Rating includes 12 weighted variables covering both political and social attributes. ICRG advises users on means of adapting both the data and the weights in order to focus the rating on the needs of the particular investing firm.

ICRG incorporates a "Type II" forecast (see Chapter 1, Introduction, of PRS textbook *The Handbook of Country and Political Risk Analysis*) in which its experts provide a current assessment, a one-year assessment, and a five-year assessment. The projections of future conditions are framed in "best" case and "worst" case scenarios. This provides managers with a probabilistic future in which to make judgments about risk management or insurance needs.

Country analyses in ICRG include descriptive assessments and economic data (listed on this site under "Historical Analyses"). ICRG provides ratings for 140 countries on a monthly basis, and for an additional 21 countries on an annual basis under a different title.

---Llewellyn D. Howell, Ph.D.

BACKGROUND OF THE ICRG RATING SYSTEM

The ICRG model for forecasting financial, economic, and political risk was created in 1980 by the editors of International Reports, a widely respected weekly newsletter on international finance and economics. To meet the needs of clients for an in-depth and exhaustively researched analysis of the potential risks to international business operations, the editors created a statistical model to calculate risks and backed it up with analyses that explain the numbers and examine what the numbers do not show. The result is a comprehensive system that enables various types of risk to be measured and compared between countries. In 1992, ICRG, its editor and analysts moved from International Reports to The PRS Group, becoming an integral part of the company's services to the international business community. In September 2001, PRS launched ICRG online.

One advantage of the ICRG model is that it allows users to make their own risk assessments based on the ICRG model or to modify the model to meet their specific requirements. If particular risk factors have greater bearing on business or investments, composite risk ratings can be recalculated by giving greater weight to those factors. Used by institutional investors, banks, multinational corporations, importers, exporters, foreign exchange traders, shipping concerns, and a multitude of others, the ICRG model can determine how financial, economic, and political risk might affect their business and investments now and in the future.

The system is based on a set of 22 components grouped into three major categories of risk: political, financial, and economic, with political risk comprising 12 components (and 15 subcomponents), and financial and economic risk each comprising five components. Each component is assigned a maximum numerical value (risk points), with the highest number of points indicating the lowest potential risk for that component and the lowest number (0) indicating the highest potential risk. The maximum points able to be awarded to any particular risk component is pre-set within the system and depends on the importance (weighting) of that component to the overall risk of a country.

The ICRG staff collects political information and financial and economic data, converting these into risk points for each individual risk component on the basis of a consistent pattern of evaluation. The political risk assessments are made on the basis of subjective analysis of the available information, while the financial and economic risk assessments are made solely on the basis of objective data. In addition to the 22 individual ratings, the ICRG model also produces a rating for each of the three risk factor groups plus an overall score for each country.

After a risk assessment (rating) has been awarded to each of the 22 risk components, the components within each category of risk are added together to provide a risk rating for each risk category (Political, Financial, or Economic). The risk ratings for these categories are then combined on the basis of a formula to provide the country's overall, or composite, risk rating. As with the risk component ratings, the higher the rating computed for the political, financial, economic, or composite rating, the lower the risk, and vice versa.

Consequently, the ICRG system presents a comprehensive risk structure for the country with ratings for its overall, or composite, risk, for its political, financial, and economic risk and for the risk components that make up these broad risk categories. This approach enables the user to track the effect of a single risk component, or group of components, on the overall risk of a country.

In addition, ICRG also produces the information and data on which the ratings for the individual risk components are determined, together with its interpretation of that information or data. This enables the user of the system to balance his/her own interpretation of the information and data against that of the ICRG staff.

THE POLITICAL RISK RATING

The aim of the political risk rating is to provide a means of assessing the political stability of the countries covered by ICRG on a comparable basis. This is done by assigning risk points to a pre-set group of factors, termed political risk components. The minimum number of points that can be assigned to each component is zero, while the maximum number of points depends on the fixed weight that component is given in the overall political risk assessment. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk.

To ensure consistency, both between countries and over time, points are assigned by ICRG editors on the basis of a series of pre-set questions for each risk component.

THE POLITICAL RISK COMPONENTS – Table 3B

The following risk components, weights, and sequence are used to produce the political risk rating:

POLITICAL RISK COMPONENTS		
Sequence	**Component**	**Points *(max.)***
A	Government Stability	12
B	Socioeconomic Conditions	12
C	Investment Profile	12
D	Internal Conflict	12
E	External Conflict	12
F	Corruption	6
G	Military in Politics	6
H	Religious Tensions	6
I	Law and Order	6
J	Ethnic Tensions	6
K	Democratic Accountability	6
L	Bureaucracy Quality	4
Total		100

Government Stability – 12 Points

This is an assessment both of the government's ability to carry out its declared program(s), and its ability to stay in office. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Government Unity
- Legislative Strength
- Popular Support

Socioeconomic conditions – 12 Points

This is an assessment of the socioeconomic pressures at work in society that could constrain government action or fuel social dissatisfaction. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:

- Unemployment
- Consumer Confidence
- Poverty

Investment Profile – 12 Points

This is an assessment of factors affecting the risk to investment that are not covered by other political, economic and financial risk components. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:
- Contract Viability/Expropriation
- Profits Repatriation
- Payment Delays

Internal Conflict – 12 Points

This is an assessment of political violence in the country and its actual or potential impact on governance. The highest rating is given to those countries where there is no armed or civil opposition to the government and the government does not indulge in arbitrary violence, direct or indirect, against its own people. The lowest rating is given to a country embroiled in an on-going civil war. The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:
- Civil War/Coup Threat
- Terrorism/Political Violence
- Civil Disorder

External Conflict – 12 Points

The external conflict measure is an assessment both of the risk to the incumbent government from foreign action, ranging from non-violent external pressure (diplomatic pressures, withholding of aid, trade restrictions, territorial disputes, sanctions, etc) to violent external pressure (cross-border conflicts to all-out war).

External conflicts can adversely affect foreign business in many ways, ranging from restrictions on operations, to trade and investment sanctions, to distortions in the allocation of economic resources, to violent change in the structure of society.

The risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk.

The subcomponents are:
- War
- Cross-Border Conflict
- Foreign Pressures

Corruption – 6 Points

This is an assessment of corruption within the political system. Such corruption is a threat to foreign investment for several reasons: it distorts the economic and financial environment; it reduces the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability; and, last but not least, introduces an inherent instability into the political process.

The most common form of corruption met directly by business is financial corruption in the form of demands for special payments and bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans. Such corruption can make it difficult to conduct business effectively, and in some cases my force the withdrawal or withholding of an investment.

Although our measure takes such corruption into account, it is more concerned with actual or potential corruption in the form of excessive patronage, nepotism, job reservations, 'favor-forfavors', secret party funding, and suspiciously close ties between politics and business. In our view these insidious sorts of corruption are potentially of much greater risk to foreign business in that they can lead to popular discontent, unrealistic and inefficient controls on the state economy, and encourage the development of the black market.

The greatest risk in such corruption is that at some time it will become so overweening, or some major scandal will be suddenly revealed, as to provoke a popular backlash, resulting in a fall or overthrow of the government, a major reorganizing or restructuring of the country's political institutions, or, at worst, a breakdown in law and order, rendering the country ungovernable.

Military in Politics – 6 Points

The military is not elected by anyone. Therefore, its involvement in politics, even at a peripheral level, is a diminution of democratic accountability. However, it also has other significant implications.

The military might, for example, become involved in government because of an actual or created internal or external threat. Such a situation would imply the distortion of government policy in order to meet this threat, for example by increasing the defense budget at the expense of other budget allocations.

In some countries, the threat of military take-over can force an elected government to change policy or cause its replacement by another government more amenable to the military's wishes. A military takeover or threat of a takeover may also represent a high risk if it is an indication that the government is unable to function effectively and that the country therefore has an uneasy environment for foreign businesses.

A full-scale military regime poses the greatest risk. In the short term a military regime may provide a new stability and thus reduce business risks. However, in the longer term the risk will almost certainly rise, partly because the system of governance will be become corrupt and partly because the continuation of such a government is likely to create an armed opposition.

In some cases, military participation in government may be a symptom rather than a cause of underlying difficulties. Overall, lower risk ratings indicate a greater degree of military participation in politics and a higher level of political risk.

Religious Tensions – 6 Points

Religious tensions may stem from the domination of society and/or governance by a single religious group that seeks to replace civil law by religious law and to exclude other religions from the political and/or social process; the desire of a single religious group to dominate governance; the suppression of religious freedom; the desire of a religious group to express its own identity, separate from the country as a whole.

The risk involved in these situations range from inexperienced people imposing inappropriate policies through civil dissent to civil war.

Law and Order – 6 Points

Law and Order are assessed separately, with each sub-component comprising zero to three points. The Law sub-component is an assessment of the strength and impartiality of the legal system, while the Order sub-component is an assessment of popular observance of the law. Thus, a country can enjoy a high rating – 3 – in terms of its judicial system, but a low rating – 1 – if it suffers from a very high crime rate of if the law is routinely ignored without effective sanction (for example, widespread illegal strikes).

Ethnic Tensions – 6 Points

This component is an assessment of the degree of tension within a country attributable to racial, nationality, or language divisions. Lower ratings are given to countries where racial and nationality tensions are high because opposing groups are intolerant and unwilling to compromise. Higher ratings are given to countries where tensions are minimal, even though such differences may still exist.

Democratic Accountability – 6 Points

This is a measure of how responsive government is to its people, on the basis that the less responsive it is, the more likely it is that the government will fall, peacefully in a democratic society, but possibly violently in a non-democratic one.

The points in this component are awarded on the basis of the type of governance enjoyed by the country in question. For this purpose, we have defined the following types of governance:

Alternating Democracy

The essential features of an alternating democracy are:

- A government/executive that has not served more than two successive terms.
- Free and fair elections for the legislature and executive as determined by constitution or statute;
- The active presence of more than one political party and a viable opposition;
- Evidence of checks and balances among the three elements of government: executive, legislative and judicial;
- Evidence of an independent judiciary;
- Evidence of the protection of personal liberties through constitutional or other legal guarantees.

Dominated Democracy

The essential features of a dominated democracy are:

- A government/executive that has served more than two successive terms.
- Free and fair elections for the legislature and executive as determined by constitution or statute;
- The active presence of more than one political party
- Evidence of checks and balances between the executive, legislature, and judiciary;
- Evidence of an independent judiciary;
- Evidence of the protection of personal liberties.

De-facto One-Party State

The essential features of a de-facto one-party state are:

- A government/executive that has served more than two successive terms, or where the political/electoral system is designed or distorted to ensure the domination of governance by a particular government/executive.
- Holding of regular elections as determined by constitution or statute
- Evidence of restrictions on the activity of non-government political parties (disproportionate media access between the governing and non-governing parties, harassment of the leaders and/or supporters of non-government political parties, the creation impediments and obstacles affecting only the non-government political parties, electoral fraud, etc).

De jure One-Party state
The identifying feature of a one-party state is:

- A constitutional requirement that there be only one governing party.
- Lack of any legally recognized political opposition.

Autarchy
The identifying feature of an autarchy is:

- Leadership of the state by a group or single person, without being subject to any franchise, either through military might or inherited right.

In an autarchy, the leadership might indulge in some quasi-democratic processes. In its most developed form this allows competing political parties and regular elections, through popular franchise, to an assembly with restricted legislative powers (approaching the category of a de jure or de facto one party state). However, the defining feature is whether the leadership, i.e. the head of government, is subject to election in which political opponents are allowed to stand.

In general, the highest number of risk points (lowest risk) is assigned to Alternating Democracies, while the lowest number of risk points (highest risk) is assigned to autarchies.

Bureaucracy Quality – 4 Points
The institutional strength and quality of the bureaucracy is another shock absorber that tends to minimize revisions of policy when governments change. Therefore, high points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. In these low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training. Countries that lack the cushioning effect of a strong bureaucracy receive low points because a change in government tends to be traumatic in terms of policy formulation and day-to-day administrative functions.

ASSESSING POLITICAL RISK
In general terms if the points awarded are less than 50% of the total, that component can be considered as very high risk. If the points are in the 50-60% range as high risk, in the 60%-70% range as moderate risk, in the 70-80% range as low risk and in the 80-100% range as very low risk. However, this is only a general guideline as a better rating in other components can compensate for a poor risk rating in one component.

Overall, a political risk rating of 0.0% to 49.9% indicates a Very High Risk; 50.0% to 59.9% High Risk; 60.0% to 69.9% Moderate Risk; 70.0% to 79.9% Low Risk; and 80.0% or more Very Low Risk. Once again, however, a poor political risk rating can be compensated for by a better financial and/or economic risk rating.

THE ECONOMIC RISK RATING

The overall aim of the Economic Risk Rating is to provide a means of assessing a country's current economic strengths and weaknesses. In general terms where its strengths outweigh its weaknesses it will present a low economic risk and where its weaknesses outweigh its strengths it will present a high economic risk.

These strengths and weaknesses are assessed by assigning risk points to a pre-set group of factors, termed economic risk components. The minimum number of points that can be assigned to each component is zero, while the maximum number of points depends on the fixed weight that component is given in the overall economic risk assessment. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk.

To ensure comparability between countries the components are based on accepted ratios between measured data within the national economic/financial structure. It is the ratios that are compared, not the data themselves. The points assigned to each component (ratio) are taken from a fixed scale.

ASSESSING ECONOMIC RISK

As noted above, points are awarded to each risk component on a scale from zero up to a pre-set maximum. In general terms if the points awarded are less than 50% of the total, that component can be considered as very high risk. If the points are in the 50-60% range as high risk, in the 60%-70% range as moderate risk, in the 70-80% range as low risk, and in the 80-100% range as very low risk. However, this is only a general guideline as a better rating in other components can compensate for a poor risk rating in one component.

Overall, an economic risk rating of 0.0% to 24.5% indicates a Very High Risk; 25.0% to 29.9% High Risk; 30.0% to 34.9% Moderate Risk; 35.0% to 39.9% Low Risk; and 40.0% or more Very Low Risk. Once again, however, a poor economic risk rating can be compensated for by a better political and/or financial risk rating.

THE ECONOMIC RISK COMPONENTS – TABLE 5B

GDP per Head – Table 7

The estimated GDP per head for a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the average of the estimated total GDP of all the countries covered by ICRG. The risk points are then assigned according to the following scale:

GDP Per Head % of average	Points
250.0 plus	5.0
200.0 to 249.9	4.5
150.0 to 199.9	4.0
100.0 to 149.9	3.5
75.0 to 99.9	3.0
50.0 to 74.9	2.5
40.0 to 49.9	2.0
30.0 to 39.9	1.5
20.0 to 29.9	1.0
10.0 to 19.9	0.5
Up to 9.9	0.0

Real GDP Growth – Table 8

The annual change in the estimated GDP, at constant 1990 prices, of a given country is expressed as a percentage increase or decrease. The risk points are then assigned according to the following scale:

Real GDP Growth Change (%)	Points
6.0 plus	10.0
5.0 to 5.9	9.5

Real GDP Growth	
Change (%)	**Points**
4.0 to 4.9	9.0
3.0 to 3.9	8.5
2.5 to 2.9	8.0
2.0 to 2.4	7.5
1.5 to 1.9	7.0
1.0 to 1.4	6.5
0.5 to 0.9	6.0
0.0 to 0.4	5.5
-0.1 to -0.4	5.0
-0.5 to -0.9	4.5
-1.0 to -1.4	4.0
-1.5 to -1.9	3.5
-2.0 to -2.4	3.0
-2.5 to -2.9	2.5
-3.0 to -3.4	2.0
-3.5 to -3.9	1.5
-4.0 to -4.9	1.0
-5.0 to -5.9	0.5
-6.0 plus	0.0

Annual Inflation Rate – Table 9

The estimated annual inflation rate (the unweighted average of the Consumer Price Index) is calculated as a percentage change. The risk points are then assigned according to the following scale:

Annual Inflation Rate	
Change (%)	**Points**
0.0 to 1.9	10.0
2.0 to 2.9	9.5
3.0 to 3.9	9.0
4.0 to 5.9	8.5
6.0 to 7.9	8.0
8.0 to 9.9	7.5
10.0 to 11.9	7.0
12.0 to 13.9	6.5
14.0 to 15.9	6.0
16.0 to 18.9	5.5
19.0 to 21.9	5.0
22.0 to 24.9	4.5
25.0 to 30.9	4.0
31.0 to 40.9	3.5
41.0 to 50.9	3.0
51.0 to 65.9	2.5
66.0 to 80.9	2.0
81.0 to 95.9	1.5
96.0 to 110.9	1.0
111.0 to 129.9	0.5
130.0 plus	0.0

Budget Balance as a Percentage of GDP – Table 10

The estimated general government budget balance (excluding grants) for a given year in the national currency is expressed as a percentage of the estimated GDP for that year in the national currency. The risk points are then assigned according to the following scale:

Budget Balance % GDP	Points
4.0 plus	10.0
3.0 to 3.9	9.5
2.0 to 2.9	9.0
1.0 to 1.9	8.5
0.0 to 0.9	8.0
-0.1 to -0.9	7.5
-1.0 to -1.9	7.0
-2.0 to -2.9	6.5
-3.0 to -3.9	6.0
-4.0 to -4.9	5.5
-5.0 to -5.9	5.0
-6.0 to -6.9	4.5
-7.0 to -7.9	4.0
-8.0 to -8.9	3.5
-9.0 to -9.9	3.0
-10.0 to -11.9	2.5
-12.0 to -14.9	2.0
-15.0 to -19.9	1.5
-20.0 to -24.9	1.0
-25.0 to -29.9	0.5
-30.0 plus	0.0

Current Account as a Percentage of GDP – Table 11

The estimated balance on the current account of the balance of payments for a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the estimated GDP of the country concerned, converted into US dollars at the average rate of exchange for the period covered. The risk points are then assigned according to the following scale:

Current Account % GDP % GDP	Points
10.0 plus	15.0
8.0 to 9.9	14.5
6.0 to 7.9	14.0
4.0 to 5.9	13.5
2.0 to 3.9	13.0
1.0 to 1.9	12.5
0.0 to 0.9	12.0
-0.1 to -0.9	11.5
-1.0 to -1.9	11.0
-2.0 to -3.9	10.5
-4.0 to -5.9	10.0
-6.0 to -7.9	9.5
-8.0 to -9.9	9.0
-10.0 to -11.9	8.5
-12.0 to -13.9	8.0

Current Account % GDP	
% GDP	Points
-14.0 to -15.9	7.5
-16.0 to -16.9	7.0
-17.0 to -17.9	6.5
-18.0 to -18.9	6.0
-19.0 to -19.9	5.5
-20.0 to -20.9	5.0
-21.0 to -21.9	4.5
-22.0 to -22.9	4.0
-23.0 to -23.9	3.5
-24.0 to -24.9	3.0
-25.0 to -26.9	2.5
-27.0 to -29.9	2.0
-30.0 to -32.5	1.5
-32.5 to -34.9	1.0
-35.0 to -39.9	0.5
-40.0 plus	0.0

THE FINANCIAL RISK RATING

The overall aim of the Financial Risk Rating is to provide a means of assessing a country's ability to pay its way. In essence, this requires a system of measuring a country's ability to finance its official, commercial, and trade debt obligations.

This is done by assigning risk points to a pre-set group of factors, termed financial risk components. The minimum number of points that can be assigned to each component is zero, while the maximum number of points depends on the fixed weight that component is given in the overall financial risk assessment. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk.

To ensure comparability between countries the components are based on accepted ratios between measured data within the national economic/financial structure. It is the ratios that are compared, not the data themselves. The risk points assigned to each component (ratio) are taken from a fixed scale.

ASSESSING FINANCIAL RISK

As noted above, points are awarded to each risk component on a scale from zero up to a pre-set maximum. In general terms if the points awarded are less than 50% of the total, that component can be considered as very high risk. If the points are in the 50-60% range as high risk, in the 60%-70% range as moderate risk, in the 70-80% range as low risk and in the 80-100% range as very low risk. However, this is only a general guideline as a better rating in other components can compensate for a poor risk rating in one component.

Overall, a financial risk rating of 0.0% to 24.5% indicated a Very High Risk; 25.0% to 29.9% High Risk; 30.0% to 34.9% Moderate Risk; 35.0% to 39.9% Low Risk; and 40.0% or more Very Low Risk. Once again, however, a poor financial risk rating can be compensated for by a better political and/or economic risk rating.

THE FINANCIAL RISK COMPONENTS – TABLE 4B

Foreign Debt as a Percentage of GDP – Table 12

The estimated gross foreign debt in a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the gross domestic product converted into US dollars at the average exchange rate for that year. The risk points are then assigned according to the following scale:

Foreign Debt % GDP Ratio (%)	Points
0.0 to 4.9	10.0
5.0 to 9.9	9.5
10.0 to 14.9	9.0
15.0 to 19.9	8.5
20 to 24.9	8.0
25.0 to 29.9	7.5
30.0 to 34.9	7.0
35.0 to 39.9	6.5
40.0 to 44.9	6.0
45.0 to 49.9	5.5
50.0 – 59.9	5.0
60.0 to 69.9	4.5
70.0 to 79.9	4.0
80.0 to 89.9	3.5
90.0 to 99.9	3.0
100.0 to 109.9	2.5
110.0 to 119.9	2.0
120.0 to 129.9	1.5
130.0 to 149.9	1.0
150.0 to 199.9	0.5
200.0 plus	0.0

Foreign Debt Service as a Percentage of Exports of Goods and Services – Table 13

The estimated foreign debt service, for a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the sum of the estimated total exports of goods and services for that year, converted into US dollars at the average exchange rate for that year. The risk points are then assigned according to the following scale:

Debt Service % XGS Ratio (%)	Points
0.0 to 4.9	10.0
5.0 to 8.9	9.5
9.0 to 12.9	9.0
13.0 to 16.9	8.5
17.0 to 20.9	8.0
21.0 to 24.9	7.5
25.0 to 28.9	7.0
29.0 to 32.9	6.5
33.0 to 36.9	6.0
37.0 to 40.9	5.5
41.0 to 44.9	5.0
45.0 to 48.9	4.5

Debt Service % XGS Ratio (%)	Points
49.0 to 52.9	4.0
53.0 to 56.9	3.5
57.0 to 60.9	3.0
61.0 to 65.9	2.5
66.0 to 70.9	2.0
71.0 to 75.9	1.5
76.0 to 79.9	1.0
80.0 to 84.9	0.5
85.0 plus	0.0

Current Account as a Percentage of Exports of Goods and Services – Table 14

The balance of the current account of the balance of payments for a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the sum of the estimated total exports of goods and services for that year, converted into US dollars at the average exchange rate for that year. The risk points are then assigned according to the following scale:

Current Account as % XGS Ratio (%)	Points
25.0 plus	15.0
20.0 to 24.9	14.5
15.0 to 19.9	14.0
10.0 to 14.9	13.5
5.0 to 9.9	13.0
0.0 to 4.9	12.5
-0.1 to -4.9	12.0
-5.0 to -9.9	11.5
-10.0 to -14.9	11.0
-15.0 to -19.9	10.5
-20.0 to -24.9	10.0
-25.0 to -29.9	9.5
-30.0 to -34.9	9.0
-35.0 to -39.9	8.5
-40.0 to -44.9	8.0
-45.0 to -49.9	7.5
-50.0 to -54.9	7.0
-55.0 to -59.9	6.5
-60.0 to -64.9	6.0
-65.0 to -69.9	5.5
-70.0 to -74.9	5.0
-75.0 to -79.9	4.5
-80.0 to -84.9	4.0
-85.0 to -89.9	3.5
-90.0 to -94.9	3.0
-95.0 to -99.9	2.5
-100.0 to -104.9	2.0
-105.0 to -109.9	1.5
-110.0 to -114.9	1.0
-115.0 to -119.9	0.5
Below -120.0	0.0

Net International Liquidity as Months of Import Cover – Table 15

The total estimated official reserves for a given year, converted into US dollars at the average exchange rate for that year, including official holdings of gold, converted into US dollars at the free market price for the period, but excluding the use of IMF credits and the foreign liabilities of the monetary authorities, is divided by the average monthly merchandise import cost, converted into US dollars at the average exchange rate for the period.

This provides a comparative liquidity risk ratio that indicates how many months of imports can be financed with reserves. The risk points are then assigned according to the following scale:

Net Liquidity in Months	
Months	**Points**
15 plus	5.0
12.0 to 4.9	4.5
9.0 to 11.9	4.0
6.0 to 8.9	3.5
5.0 to 5.9	3.0
4.0 to 4.9	2.5
3.0 to 3.9	2.0
2.0 to 2.9	1.5
1.0 to 1.9	1.0
0.6 to 0.9	0.5
0.0 to 0.5	0.0

Exchange Rate Stability – Table 16

The appreciation or depreciation of a currency against the US dollar (against the euro in the case of the USA) over a calendar year or the most recent 12-month period is calculated as a percentage change. The risk points are then assigned according to the following scale:

Exchange Rate Stability		
Appreciation Change, plus	**Depreciation Change, minus**	**Points**
0.0 to 9.9	-0.1 to -4.9	10.0
10.0 to 14.9	-5.0 to -7.4	9.5
14.5 to 19.9	-7.5 to -9.9	9.0
20.0 to 22.4	-10.0 to -12.4	8.5
22.5 to 24.9	-12.5 to -14.9	8.0
24.9 to 27.4	-15.0 to -17.4	7.5
27.5 to 29.9	-17.5 to -19.9	7.0
30.0 to 34.9	-20.0 to -22.4	6.5
35.0 to 39.9	-22.5 to -24.9	6.0
40.0 to 49.9	-25.0 to -29.9	5.5
50 plus	-30.0 to -34.9	5.0
	-35.0 to -39.9	4.5
	-40.0 to -44.9	4.0
	-45.0 to -49.9	3.5
	-50.0 to -54.9	3.0
	-55.0 to -59.9	2.5
	-60.0 to -69.9	2.0
	-70.0 to -79.9	1.5
	-80.0 to -89.9	1.0
	-90.0 to -99.9	0.5
	-100 plus	0.0

THE COMPOSITE RISK RATING – TABLE 2B

The method of calculating the **Composite Political, Financial, and Economic Risk Rating** remains unchanged. The political risk rating contributes 50% of the composite rating, while the financial and economic risk ratings each contribute 25%.

The following formula is used to calculate the aggregate political, financial and economic risk:

CPFER (country X) = 0.5 (PR + FR + ER)
where
CPFER = Composite political, financial and economic risk ratings
PR = Total political risk indicators
FR = Total financial risk indicators
ER = Total economic risk indicators

The highest overall rating (theoretically 100) indicates the lowest risk, and the lowest rating (theoretically zero) indicates the highest risk.

As a general guide to grouping countries on the basis of comparable risk, the individual risk of individual countries can be estimated using the following fairly broad categories of Composite Risk.

Very High Risk	00.0 to 49.5 points
High Risk	50.0 to 59.5 points
Moderate Risk	60.0 to 69.5 points
Low risk	70.0 to 79.5 points
Very Low Risk	80.0 to 100 points

RISK FORECASTS

In addition to the current forecasts of Political, Financial, Economic, and Composite Risk, the ICRG team also produces one- and five-year forecasts for each of the risk categories, produced using the same methodology that is used for the current risk forecasts.

Two forecasts are produced for each time period – a Worst Case Forecast (WCF) and a Best Case Forecast (BCF).

The WCF is produced by extrapolating the worst-case trend for each risk component in each risk category to produce a WCF for Political, Economic, and Financial Risk.

The BCF is produced by extrapolating the best-case trend for each risk component in each risk category to produce a BCF for Political, Economic, and Financial Risk.

Such trends could be an accelerating build-up of debt, political fragmentation, worsening ethnic or religious tensions, inadequate arrangements for government takeover in the case of the death or assassination of a leader, and so on.

In approaching the forecasting exercise we make a judgment as to the "reasonableness" of the trend or event identified and the ability of the government to counteract such trends.

Consequently, the WCF and BCF do not represent the possible extremes of risk, but a "reasonably possible" outcome if the trends identified are allowed to persist.

Presentation
The risk forecasts are presented in the following tables.

- Table 2C: One- and Five-year forecast of the Composite Risk (WCF and BCF) and their Risk Stability.
- Table 3C: One- and Five-year forecasts of Political Risk (WCF and BCF) and their Risk Stability.
- Table 4C: One- and five-year forecasts of Financial Risk (WCF and BCF) and their Risk Stability.
- Table 5C: One- and five-year forecasts of Economic Risk (WCF and BCF) and their Risk Stability.

In addition, the one- and five-year WCF and BCF for the Composite Risk are presented in Table 2B, along with the current CRR.

Tailoring the System

The ICRG system as it stands is produced for the general user, that is, it looks at the overall risk of country in terms of the general risk it represents.

Some users may require a more specific risk assessment that is geared to their own particular interests. For example, a company engaged in international tourism will be interested in country risk as it applies to its desirability as a vacation destination. In this case the general risk assessment may not be of much help - it is possible for a country to present a High Risk in its Composite Risk Rating, but not present a significant risk to holiday makers because its composite risk is pulled down by such factors as low financial or economic risk, a poor investment climate, and other non-threatening factors. On the other hand, a different country might enjoy a Moderate Risk in its Composite Risk Rating because it has a stable government and acceptable economic/financial management, but still present a risk to tourists because of high crime, religious conflict, and so on.

In such cases, a better understanding of the specific risk presented can be the ascertained by looking at the assessments for individual risk components, such as internal conflict, external conflict, law and order, religious tensions, etc.

Another approach to making ICRG more specific to a particular user needs is for the user to change the weighting (Total Risk Points) of the components he/she is interested in, while reducing the weight of components of lesser interest. For example, keeping with the international travel company, one could increase the weighting of the Religious and Ethnic tensions components from 6 to, say 12, while reducing the weighting of, say, the Investment Profile, Bureaucracy Quality, and Democratic Accountability components to compensate.

CROSS-CHECKING

ICRG provides not only the risk ratings for the countries it covers, but also the political information and financial and economic data on which those ratings are based. It is therefore possible for the user to check through the information and data so as to assess the ratings given against his or her own assessments or against some other risk rating system.

CONCLUSION

This, then, is the working system by which ICRG assesses the possibilities of a successful venture into a foreign market. Learning to apply either the ICRG or Political Risk Services system can play a vital role in your investment and business decisions. Know the risks and you will be miles ahead of the competition as you seek business opportunities around the globe.

For more information on ICRG, please contact The PRS Group, Inc., by telephone at +1-315-431-0511, fax at +1-315-431-0200, or e-mail custserv@prsgroup.com.