

Country risk

Background document

Country risk

Companies that do business internationally rely on the stability of the business environment in the foreign country. Profits and investments are vulnerable to adverse developments in this environment. These risks are broadly termed 'country risk'. The level and change in country risk is therefore an important strategic and operational indicator for international companies.

Country risk covers a wide range of factors such as political developments, the risk of (armed) conflict and sovereign financial situation. These factors relate, for example, to regulatory changes, the risk of confiscation, civil unrest, war, currency controls and devaluations. Country risk takes into account a sovereign's willingness and ability to pay and the impact of this on the ability of public or private entities to meet their cross-border payment obligations. Under its political risk contract, Atradius provides cover against a subset of events that are labeled 'country risk'. This protection allows for companies to safely make transactions across borders.

Table - The STAR rating scale

Grade	STAR rating
Low Risk	1
	2
Moderate-Low Risk	3
	4
Moderate Risk	5
Moderate-High Risk	6
	7
High Risk	8
	9
Very High Risk	10

Source: Atradius Economic Research

The STAR rating

STAR is Atradius' in-house political risk rating. STAR stands for Sovereign Transfer and Arbitrary Risk and represents a rating system for assessing country risk. The STAR rating is designed as a summary measure of political risk relevant under the Atradius insurance contract and explicitly targets the impact on public or private entities with cross-border payment obligations.

The STAR rating runs on a scale from 1 to 22, where 1 represents the lowest risk and 22 the highest risk. The 22 rating steps are aggregated into five broad categories to allow their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk' to 'Very High Risk'.

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