COUNTRY RISK 2025: THE STORY BEHIND THE NUMBERS

Politics, Economics and Business!

MY ERP DATA: MIXED FEELINGS!

- At the start of July 2025, I updated my estimates of equity risk premiums for countries, in a ritual that goes back almost three decades. As with some of my other data updates, I have mixed feelings about doing so.
  - On the one hand, I have **no qualms about sharing these estimates**, which I use when I value companies, because there is no secret sauce or special insight embedded in them.
  - On the other, I worry about people using these premiums in their valuations, without **understanding the choices and assumptions that I had to make to get to them.**
- Country risk, in particular, has many components to it, and while you must ultimately capture them in numbers, I wanted to use this post to draw attention to the many layers of risk that separate countries. I hope, and especially if you are a user of my risk premiums, that you read this post, and if you do

COUNTRY RISK DIMENSIONS

Political Structure
- The degree of political freedom/democracy affects business risk, but the effects can cut both ways (good and bad).
- Democracies expose businesses to more continuous risk, as laws and regulations can change, when elections create government changes.
- Authoritarian regimes often offer the promise of predictability, and less risk on a period-to-period basis, but face more discontinous risk, since regime change is often violent and significantly disruptive.

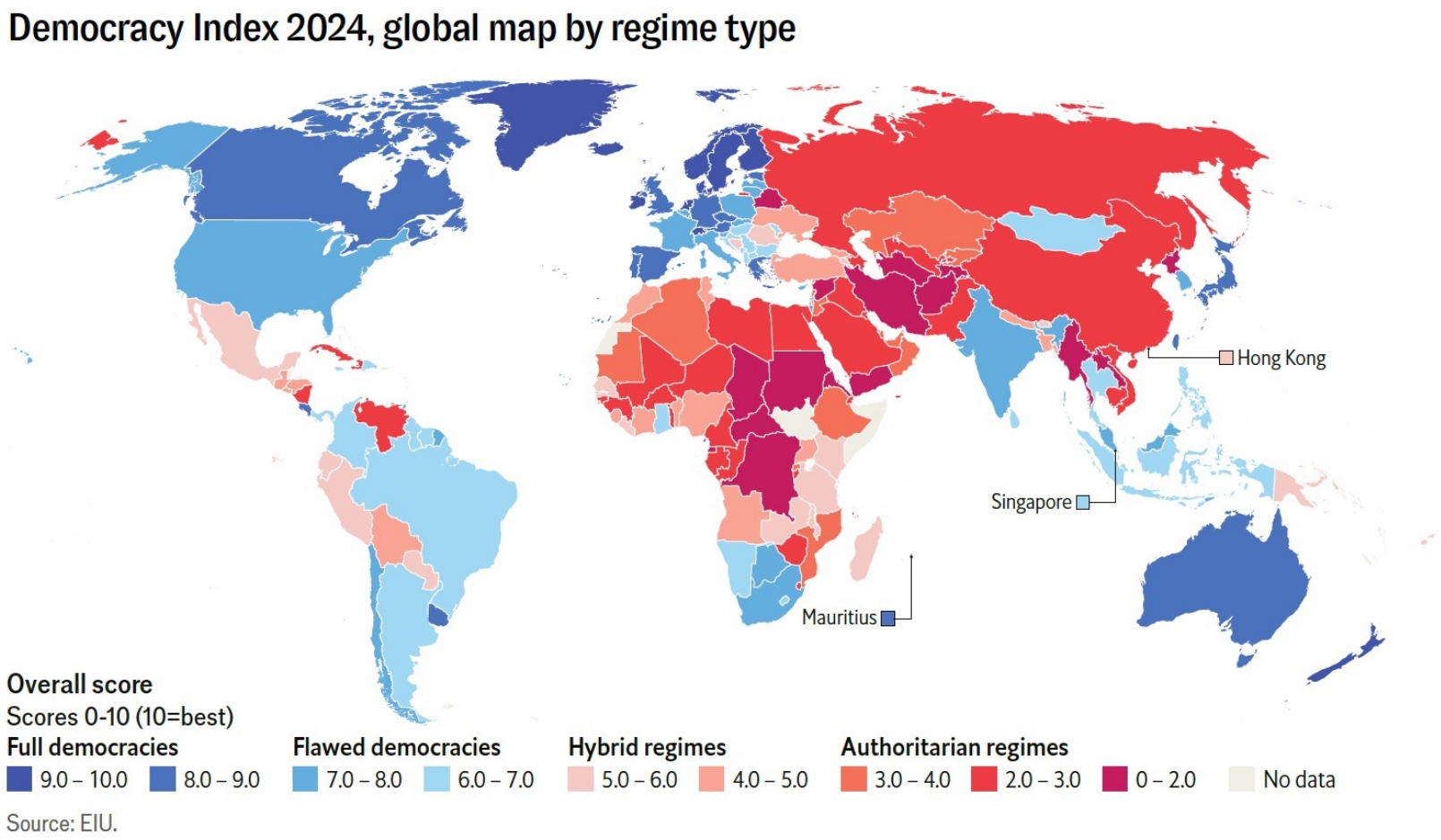
Corruption
- Corruption operates as a hidden tax, reducing profitability and value for private businesses
- Businesses operating in corrupt locales face a choice of either accepting corruption as part of the cost of doing business or operating at a disadvantage to competitors who are less scruplous.

Country Risk

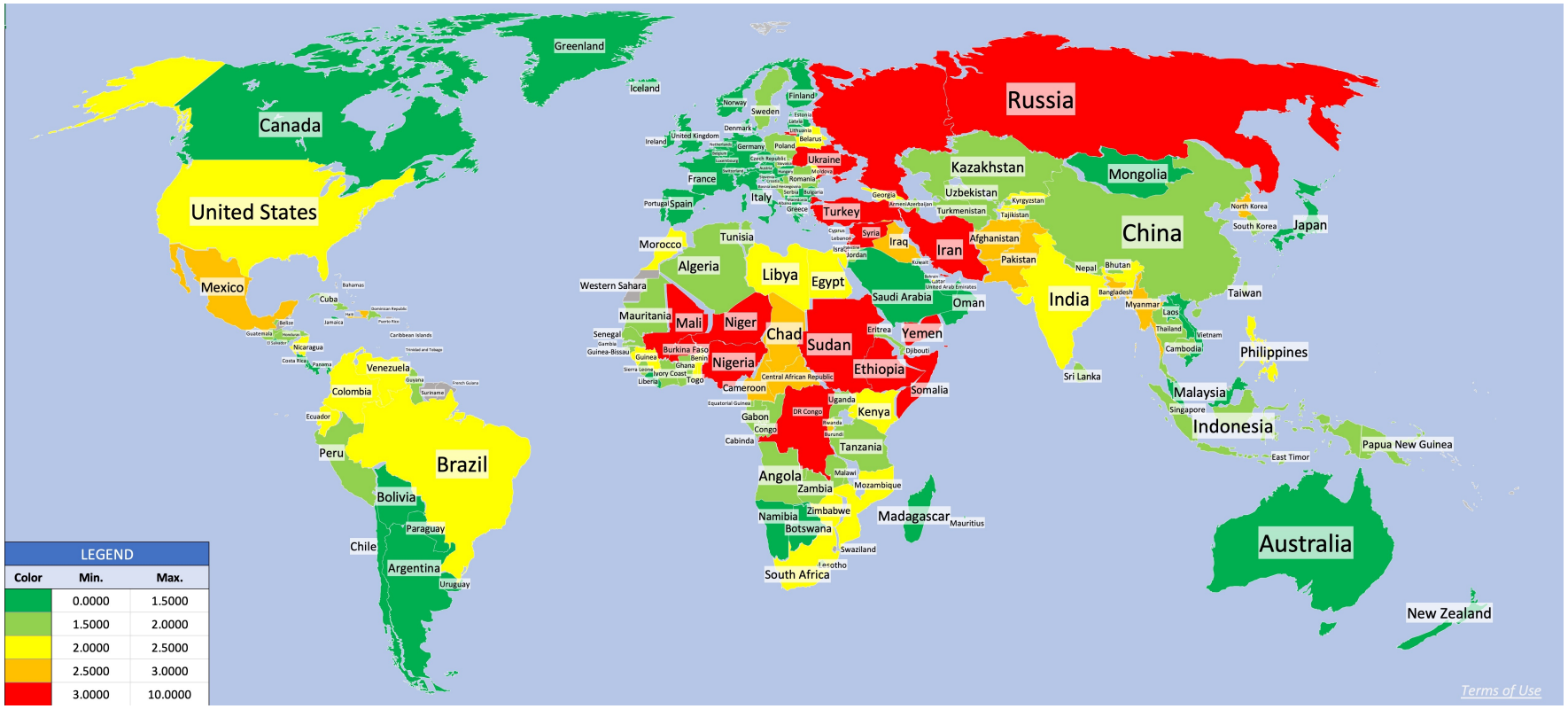
War & Violence
- Operating a business in a country that is more exposed to violence, from war, terrorism or internal strife, is more difficult than operating that business in a more peaceful environment.
- Businesses will face higher costs in operations and/ or from trying to insure themselves against violence.

Legal & Property Rights
- The value of a private business is dependent on a legal system that respects property rights and enforces those rights.
- In a country where there are no or weak property rights or that has a legal system that does not enforce those rights, businesses face more risks and have less value.
- Timeliness in enforcing legal rights matters as much as the due process, since rights not enforced in a timely manner provide weak protection.

1. POLITICAL STRUCTURE

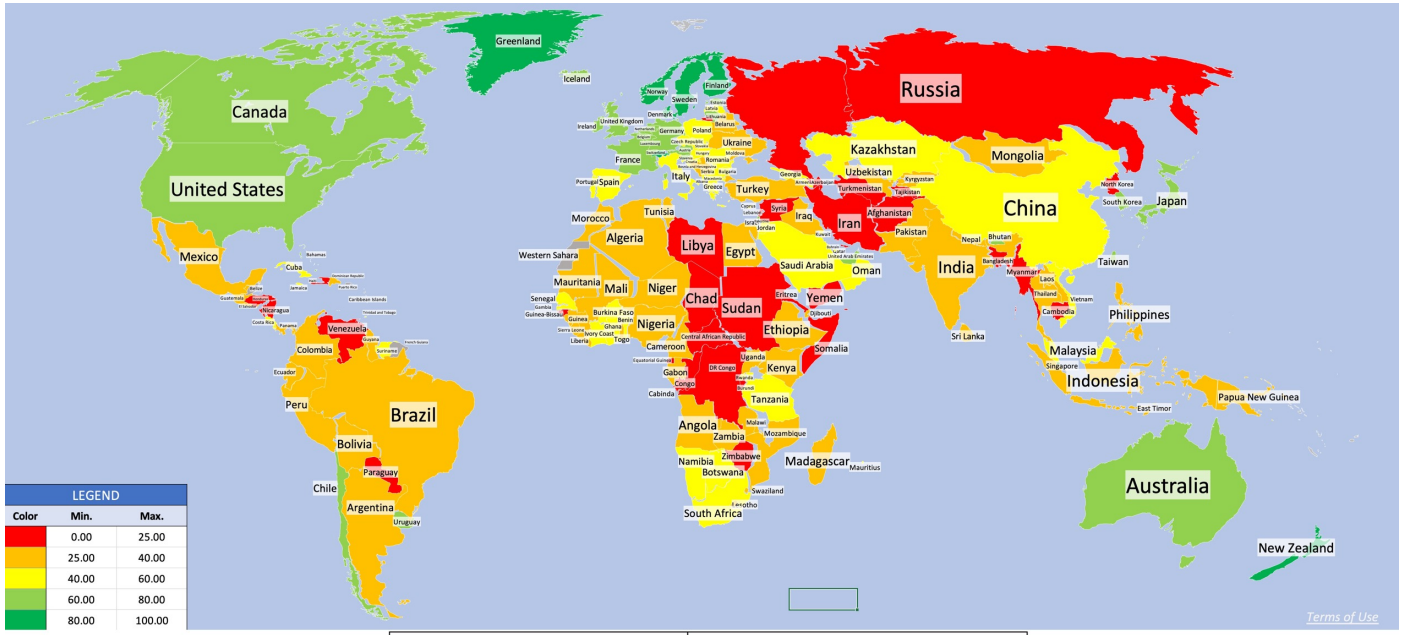


2. EXPOSURE TO VIOLENCE



Aswath Damodaran

3. CORRUPTION



Least corrupt		*Most corrupt*	
Country	*Corruption score*	*Country*	*Corruption score*
Denmark	90	South Sudan	8
Finland	88	Somalia	9
Singapore	84	Venezuela	10
New Zealand	83	Syria	12
Luxembourg	81	Equatorial Guinea	13
Norway	81	Eritrea	13
Switzerland	81	Libya	13
Sweden	80	Yemen	13
Netherlands	78	Nicaragua	14
Australia	77	Korea, North	15

4. LEGAL SYSTEMS

STRONG
[Figure 25.]

TOP 20%	2ND QUINTILE	3RD QUINTILE	4TH QUINTILE	BOTTOM 20%
FINLAND	JAPAN	ROMANIA	SOUTH AFRICA	ARGENTINA
NETHERLANDS	ICELAND	COSTA RICA	BRUNEI DARUSSALAM	BENIN
SWEDEN	CANADA	POLAND	KAZAKHSTAN	CÔTE D'IVOIRE
LUXEMBOURG	FRANCE	HUNGARY	BAHRAIN	TUNISIA
DENMARK	TAIWAN	UNITED ARAB EMIRATES	ALBANIA	UKRAINE
NORWAY	CZECH REPUBLIC	QATAR	MALAYSIA	BOSNIA & HERZEGOVINA
GERMANY	KOREA, REP.	JAMAICA	GEORGIA	KENYA
AUSTRIA	SINGAPORE	CHINA	SERBIA	BURKINA FASO
UNITED KINGDOM	PORTUGAL	CROATIA	MEXICO	UGANDA
UNITED STATES	LITHUANIA	BULGARIA	THAILAND	ZAMBIA
SWITZERLAND	SPAIN	RWANDA	GHANA	NICARAGUA
NEW ZEALAND	URUGUAY	CHILE	BRAZIL	TANZANIA
AUSTRALIA	LATIVA	PANAMA	PARAGUAY	HONDURAS
BELGIUM	MALTA	GREECE	KUWAIT	ESWATINI
IRELAND	ITALY	BOTSWANA	PERU	GABON
	SLOVENIA	AZERBAIJAN	NORTH MACEDONIA	MOZAMBIQUE
	ISREAL	MONTENEGRO	VIETNAM	PHILIPPINES
	CPYRUS	TRINIDAD AND TOBAGO	COLUMBIA	EGYPT
	SLOVAKIA	SAUDI ARABIA	INDIA	ALGERIA GABON
		DOMINICAN REPUBLIC	JORDAN	SRI LANKA
		MOLDOVA	TURKEY	ZIMBABWE
		ARMENIA	MOROCCO	MADAGASCAR
		OMAN	SENEGAL	BOLIVIA
			INDONESIA	BURUNDI
			MALAWI	MALI
			EL SALVADOR	BANGLADESH
			NEPAL	ANGOLA
			ECUADOR	LEBANON
				PAKISTAN
				NIGERIA
				ETHIOPIA
				IRAN
				CONGO, DEM. REP.
				HAITI
				CHAD
				MAURITANIA
				CAMEROON
				VENEZUELA, BOL. REP
				. YEMEN, REP.

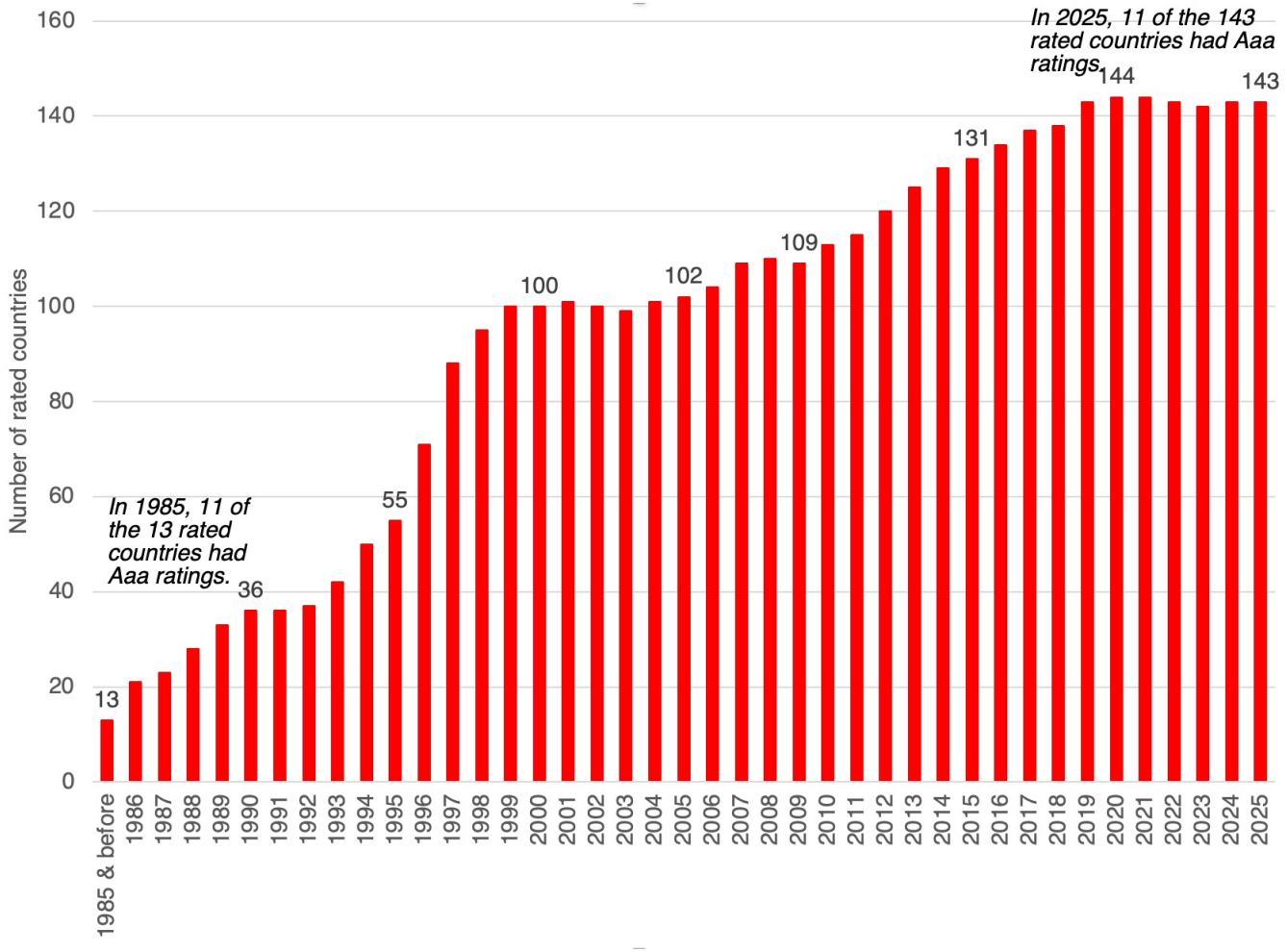
WEAK

**Following Russia's war of aggression against Ukraine, Belarus and Russia were excluded from the fifth edition of the SIGI.*

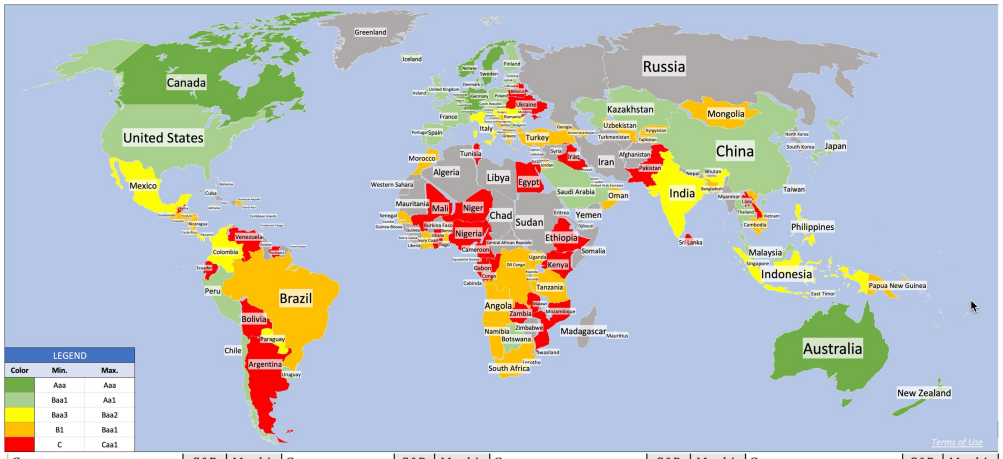
COUNTRY RISK - MEASURES

1. **Sovereign Default Risk**: The most widely accessible measures of country risk focus on just default risk.
   a. Sovereign Ratings: The ratings agencies that rate companies for default risk also rate governments with sovereign ratings, using the same alphabet ratings from Aaa to D.
   b. Sovereign CDS spreads: You can buy insurance against default risk in the sovereign CDS market, when you invest in the government bonds issued by a subset of countries.
2. **Composite Country Risk**: There are services that measure country risk, looking at all the dimensions of country risk, and converting them into scores. The services vary in what they look at and the scores are neither standardized nor comparable.

1A. SOVEREIGN RATINGS – THE RISE

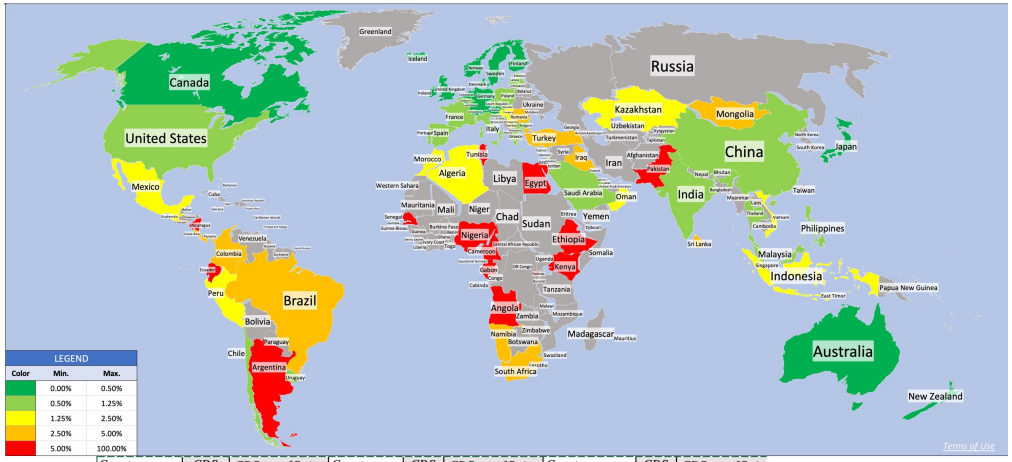


AND THE RATINGS IN JULY 2025



Country	*S&P*	*Moody's*	*Country*	*S&P*	*Moody's*	*Country*	*S&P*	*Moody's*	*Country*	*S&P*	*Moody's*
Abu Dhabi	NR	Aa2	Curacao	BBB-	NR	Laos	NR	Caa3	Russia	NR	NR
Albania	BB	Ba3	Cyprus	A-	A3	Latvia	A	A3	Rwanda	B+	B2
Andorra (Principality of)	A-	Baa1	Czech Republic	AA-	Aa3	Lebanon	D	C	Saudi Arabia	A+	Aa3
Angola	B-	B3	Denmark	AAA	Aaa	Liechtenstein	AAA	NR	Senegal	B	B3
Argentina	CCC	Caa3	Dominican Republic	BB	Ba3	Lithuania	A	A2	Serbia	BBB-	Ba2
Armenia	BB-	Ba3	Ecuador	B-	Caa3	Luxembourg	AAA	Aaa	Sharjah	NR	Ba1
Aruba	BBB+	Baa3	Egypt	B-	Caa1	Macao	NR	Aa3	Singapore	NR	Aaa
Australia	AAA	Aaa	El Salvador	B-	B3	Macedonia	BB-	NR	Slovakia	A+	A3
Austria	AA+	Aa1	Estonia	NR	A1	Malaysia	A-	A3	Slovenia	AA	A3
Azerbaijan	BB+	Baa3	Ethiopia	NR	Caa2	Maldives	NR	Caa2	Solomon Islands	NR	Caa1
Bahamas	B+	B1	Fiji	B+	B1	Mali	NR	Caa2	South Africa	BB-	Ba2
Bahrain	B+	B2	Finland	AA+	Aa1	Malta	A-	A2	Spain	A	Baa1
Bangladesh	B+	B2	France	AA-	Aa3	Mauritius	BBB-	Baa3	Sri Lanka	NR	Ca
Barbados	B	B2	Gabon	NR	Caa2	Mexico	BBB	Baa2	St. Maarten	NA	Ba2
Belarus	NR	C	Georgia	BB	Ba2	Moldova	NR	B3	St. Vincent & the Grenadines	NR	B3
Belgium	AA	Aa3	Germany	AAA	Aaa	Mongolia	B+	B2	Suriname	CCC+	Caa1
Belize	B-	Caa1	Ghana	CCC+	Caa2	Montenegro	B+	B1	Swaziland	NR	B2
Benin	BB-	B1	Greece	BBB	Baa3	Montserrat	BBB-	NR	Sweden	AAA	Aaa
Bermuda	A+	A2	Guatemala	BB+	Ba1	Morocco	BB+	Ba1	Switzerland	AAA	Aaa
Bolivia	CCC-	Ca	Guernsey (States of)	A+	-	Mozambique	CCC+	Caa3	Taiwan	AA+	Aa3
Bosnia and Herzegovina	B+	B3	Honduras	BB-	B1	Namibia	NR	B1	Tajikistan	B	B3
Botswana	BBB+	A3	Hong Kong	AA+	Aa3	Nepal	NR	NR	Tanzania	NR	B1
Brazil	BB	Ba1	Hungary	BBB-	Baa2	Netherlands	AAA	Aaa	Thailand	BBB+	Baa1
Bulgaria	BBB	Baa1	Iceland	A+	A1	New Zealand	AA+	Aaa	Togo	B+	B3
Burkina Faso	CCC+	NR	India	BBB-	Baa3	Nicaragua	B+	B2	Trinidad and Tobago	BBB-	Ba2
Cambodia	NR	B2	Indonesia	BBB	Baa2	Niger	NR	Caa3	Tunisia	NR	Caa1
Cameroon	B-	Caa1	Iraq	B-	Caa1	Nigeria	B-	B3	Turkey	BB-	B1
Canada	AAA	Aaa	Ireland	AA	Aa3	Norway	NR	Aaa	Turks and Caicos Islands	BBB+	Baa1
Cape Verde	B	NR	Isle of Man	NR	Aa3	Oman	BBB-	Ba1	Uganda	B-	B3
Cayman Islands	NR	Aa3	Israel	A	Baa1	Pakistan	CCC+	Caa2	Ukraine	NR	Ca
Chile	A	A2	Italy	BBB+	Baa3	Panama	BBB-	Baa3	United Arab Emirates	AA	Aa2
China	A+	A1	Jamaica	BB-	B1	Papua New Guinea	B-	B2	United Kingdom	AA	Aa3
Colombia	BB	Baa3	Japan	A+	A1	Paraguay	BB+	Baa3	United States	AA+	Aa1
Congo (Democratic Republic of)	NR	B3	Jersey (States of)	AA-	-	Peru	BBB-	Baa1	Uruguay	BBB+	Baa1
Congo (Republic of)	NR	Caa2	Jordan	BB-	Ba3	Philippines	BBB+	Baa2	Uzbekistan	BB-	Ba3
Cook Islands	NR	B1	Kazakhstan	BBB-	Baa1	Poland	A-	A2	Venezuela	NR	C
Costa Rica	BB-	Ba3	Kenya	B-	Caa1	Portugal	A	A3	Vietnam	BB+	Ba2
Côte d'Ivoire	BB	Ba2	Korea	NR	Aa2	Qatar	AA	Aa2	Zambia	NR	Caa2
Croatia	A-	A3	Kuwait	A+	A1	Ras Al Khaimah (Emirate of)	A-	A3			
Cuba	NR	Ca	Kyrgyzstan	NR	B3	Romania	BBB-	Baa3			

1B. SOVEREIGN CDS SPREADS



Country	*CDS*	*CDS net of Swiss*	*Country*	*CDS*	*CDS net of Swiss*	*Country*	*CDS*	*CDS net of Swiss*
Abu Dhabi	0.68%	0.51%	Greece	1.04%	0.87%	Pakistan	7.64%	7.47%
Algeria	1.40%	1.23%	Guatemala	2.21%	2.04%	Panama	2.96%	2.79%
Angola	7.16%	6.99%	Hong Kong	0.59%	0.42%	Peru	1.39%	1.22%
Argentina	8.37%	8.20%	Hungary	1.83%	1.66%	Philippines	1.15%	0.98%
Australia	0.18%	0.01%	Iceland	0.47%	0.30%	Poland	1.10%	0.93%
Austria	0.32%	0.15%	India	0.84%	0.67%	Portugal	0.55%	0.38%
Bahrain	2.79%	2.62%	Indonesia	1.34%	1.17%	Qatar	0.68%	0.51%
Belgium	0.50%	0.33%	Iraq	4.05%	3.88%	Romania	2.67%	2.50%
Brazil	2.55%	2.38%	Ireland	0.38%	0.21%	Russia	NA	NA
Bulgaria	1.12%	0.95%	Israel	1.39%	1.22%	Rwanda	5.43%	5.26%
Cameroon	8.03%	7.86%	Italy	0.98%	0.81%	Saudi Arabia	1.12%	0.95%
Canada	0.37%	0.20%	Japan	0.36%	0.19%	Senegal	7.83%	7.66%
Chile	1.04%	0.87%	Kazakhstan	1.46%	1.29%	Serbia	2.30%	2.13%
China	0.75%	0.58%	Kenya	6.34%	6.17%	Slovakia	0.61%	0.44%
Colombia	3.48%	3.31%	Korea	0.37%	0.20%	Slovenia	0.70%	0.53%
Costa Rica	2.50%	2.33%	Kuwait	0.87%	0.70%	South Africa	3.01%	2.84%
Croatia	1.24%	1.07%	Latvia	0.98%	0.81%	Spain	0.64%	0.47%
Cyprus	0.82%	0.65%	Lebanon	NA	NA	Sri Lanka	4.86%	4.69%
Czech Republic	0.54%	0.37%	Lithuania	0.90%	0.73%	Sweden	0.25%	0.08%
Denmark	0.21%	0.04%	Malaysia	0.81%	0.64%	Switzerland	0.17%	0.00%
Dubai	0.98%	0.81%	Mexico	1.86%	1.69%	Thailand	0.72%	0.55%
Ecuador	12.42%	12.25%	Mongolia	4.38%	4.21%	Tunisia	7.42%	7.25%
Egypt	6.61%	6.44%	Morocco	1.60%	1.43%	Turkey	3.80%	3.63%
El Salvador	4.47%	4.30%	Namibia	3.65%	3.48%	Ukraine	NA	NA
Estonia	0.93%	0.76%	Netherlands	0.25%	0.08%	United Kingdom	0.37%	0.20%
Ethiopia	NA	NA	New Zealand	0.23%	0.06%	United States	0.50%	0.33%
Finland	0.32%	0.15%	Nicaragua	6.37%	6.20%	Uruguay	1.19%	1.02%
France	0.68%	0.51%	Nigeria	6.05%	5.88%	Venezuela	NA	NA
Gabon	7.86%	7.69%	Norway	0.22%	0.05%	Vietnam	1.57%	1.40%
Germany	0.24%	0.07%	Oman	1.66%	1.49%	Zambia	NA	NA

2. COUNTRY RISK SCORES (PRS)

PRS	Country	PRS	Country	PRS	Country	PRS	Country	PRS	Country
<50	Lebanon	63-65	Iran	68-70	Nicaragua	72-75	El Salvador	77-80	Italy
	Sudan		Zimbabwe		Algeria		Guatemala		Portugal
	Yemen, Republic		Jordan		Brazil		Azerbaijan		Finland
	Syria		Togo		Papua New Guinea		Bulgaria		Hong Kong
50-55	Korea, D.P.R.		Moldova		Argentina		Latvia		Kuwait
	Malawi		Iraq		Mexico		Israel		Botswana
55-60	Ethiopia		Sri Lanka		Indonesia		Croatia		Oman
	Niger		Bangladesh		Peru		Albania		New Zealand
	Somalia		Suriname		United States		Hungary		Saudi Arabia
	Myanmar		Colombia		Bahrain		Kazakhstan		Austria
	Mozambique		Cote d'Ivoire		Ecuador		Cyprus		Japan
	Haiti		Ghana		Estonia		France		Czech Republic
	Venezuela		Madagascar		Namibia		Spain		Australia
	Congo, Dem. Republic	65-68	Angola		Gabon		Malaysia		Qatar
	Guinea		Armenia		Greece	75-77	Chile	80-85	Sweden
	Pakistan		Honduras	70-72	Libya		Poland		Korea, Republic
	Liberia		Zambia		Thailand		Slovenia		Netherlands
	Mali		Belarus		Mongolia		Trinidad & Tobago		United Arab Emirates
	Ukraine		Slovakia		Russia		Belgium		Iceland
	Bolivia		South Africa		China, Peoples' Rep.		Lithuania		Brunei
	Cuba		Tanzania		Morocco		Costa Rica		Germany
	Sierra Leone		Gambia		Dominican Republic		Uruguay		Canada
	Burkina Faso		Serbia		Vietnam		Uzbekistan		Taiwan
60-63	Senegal		Romania		Panama		Jamaica		Luxembourg
	Turkey				India		Guyana	>85	Ireland
	Uganda				Paraguay		Bahamas		Singapore
	Kenya				Philippines		Malta		Norway
	Guinea-Bissau						United Kingdom		Switzerland
	Nigeria								Denmark
	Cameroon								
	Egypt								
	Tunisia								
	Congo, Republic								

COUNTRY RISK: EQUITY RISK PREMIUMS

- Start with a mature market premium, i.e., the equity risk premium you would charge in a mature equity market.
  - For decades, the standard approach has been to use the US as the base mature market and use the historical risk premium earned by stocks over treasuries as the mature market premium.
  - This approach is flawed for two reasons.
    - The historical premium is backward-looking, noisy and reflective of a vry different global economy (from the twentieth century_). I think that we get better estimates with forward-looking and implied premiums.
    - In May 2025, Moody's downgraded the US from Aaa to Aa1, implying that it is now riskier than other Aaa rated countries.
- Adjust that equity risk premium by estimating an added premium for markets that are not mature.
  - The default approach used by many analysts is to add the default spread for the country to the mature market premium.
  - In my modified approach, I scale up the default spread for the higher risk of equity, relative to government bonds.

1. IMPLIED ERP FOR THE S&P 500

In the trailing 12 months, across all companies in the index.

Base year cash flow (last 12 mths)
Dividends (TTM): 75.82
+ Buybacks (TTM): 117.98
= Cash to investors (TTM): **193.81**

Expected earnings/cashflow growth in next 5 years
Earnings growth rate of 8.61% based upon analyst estimates for 2025 and 2026 and growth dropping to 4.24% over the following years.

Modified Payout
This computation assumes that the payout ratio changes over time to reflect a sustainable payout ratio = g/ROE, in the stable growth. The resulting ERP is 4.00%

Actual numbers | Forecasted numbers

	Last 12 months	2025	2026	2027	2028	2029	*Terminal Year*
Earnings	246.19	267.39	290.42	315.43	342.60	372.10	387.88
Cash Payout (%)	82.14%	82.14%	82.14%	82.14%	82.14%	82.14%	82.14%
Cash Return	193.81	219.65	238.57	259.11	281.43	305.66	318.62

Earnings and Cash flows grow @4.24% (set equal to risk free rate) a year forever.

S&P 500 on 7/1/25= **6204.95**

$$6204.95 = \frac{219.65}{(1+r)} + \frac{238.57}{(1+r)^2} + \frac{259.11}{(1+r)^3} + \frac{281.43}{(1+r)^4} + \frac{305.66}{(1+r)^5} + \frac{318.62}{(r-.0424)(1+r)^5}$$

The last term in this equation is the expected index level at the end of year 5 (capturing price appreciation)

Solve for r

r = Implied Expected Return on Stocks = 8.45%

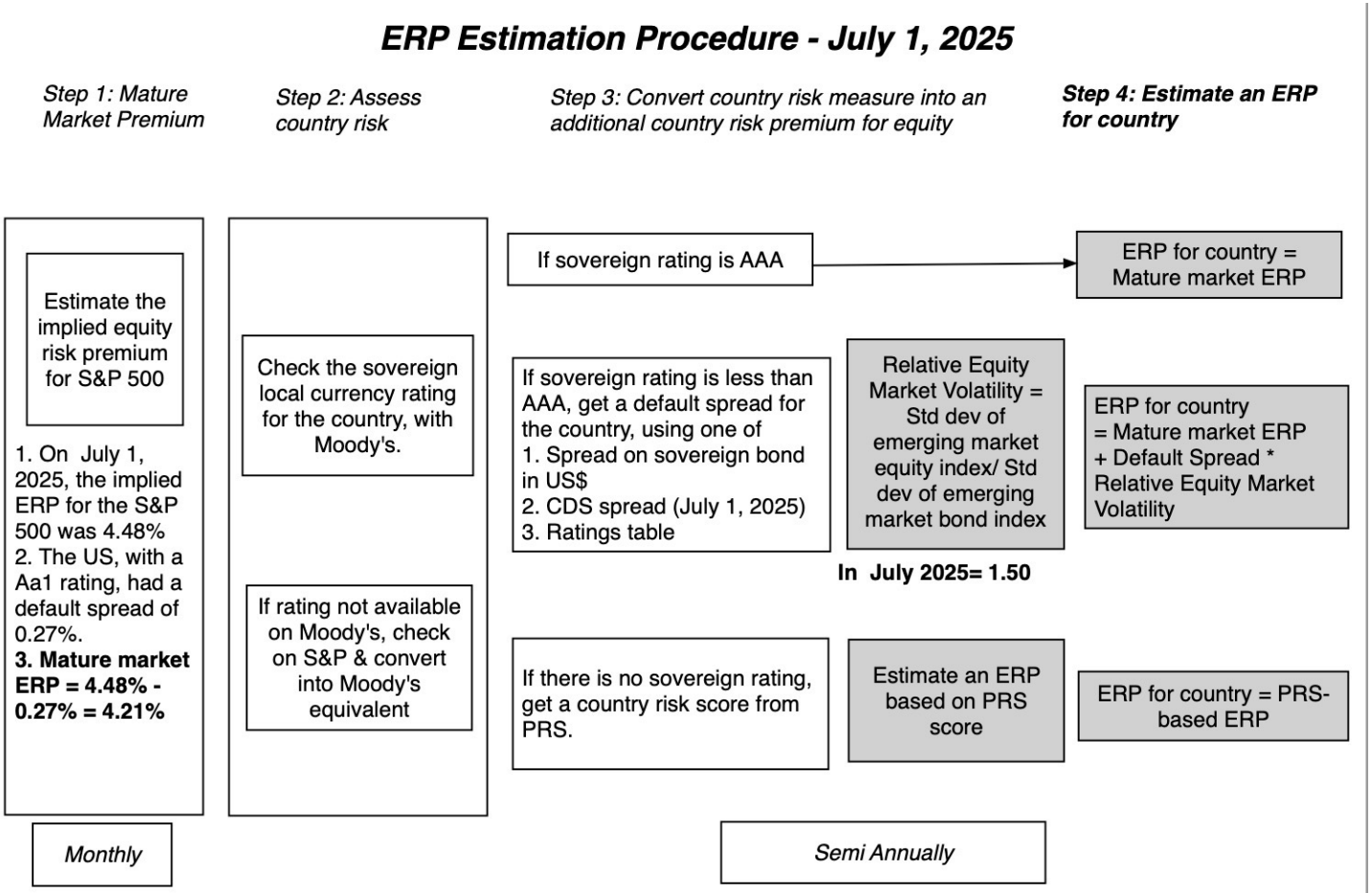
Minus

US $ Risk free rate =10-yr T.Bond rate on 7/1/25 minus Default Spread for Aa1 rating= 4.24% - 0.27% = 3.97%

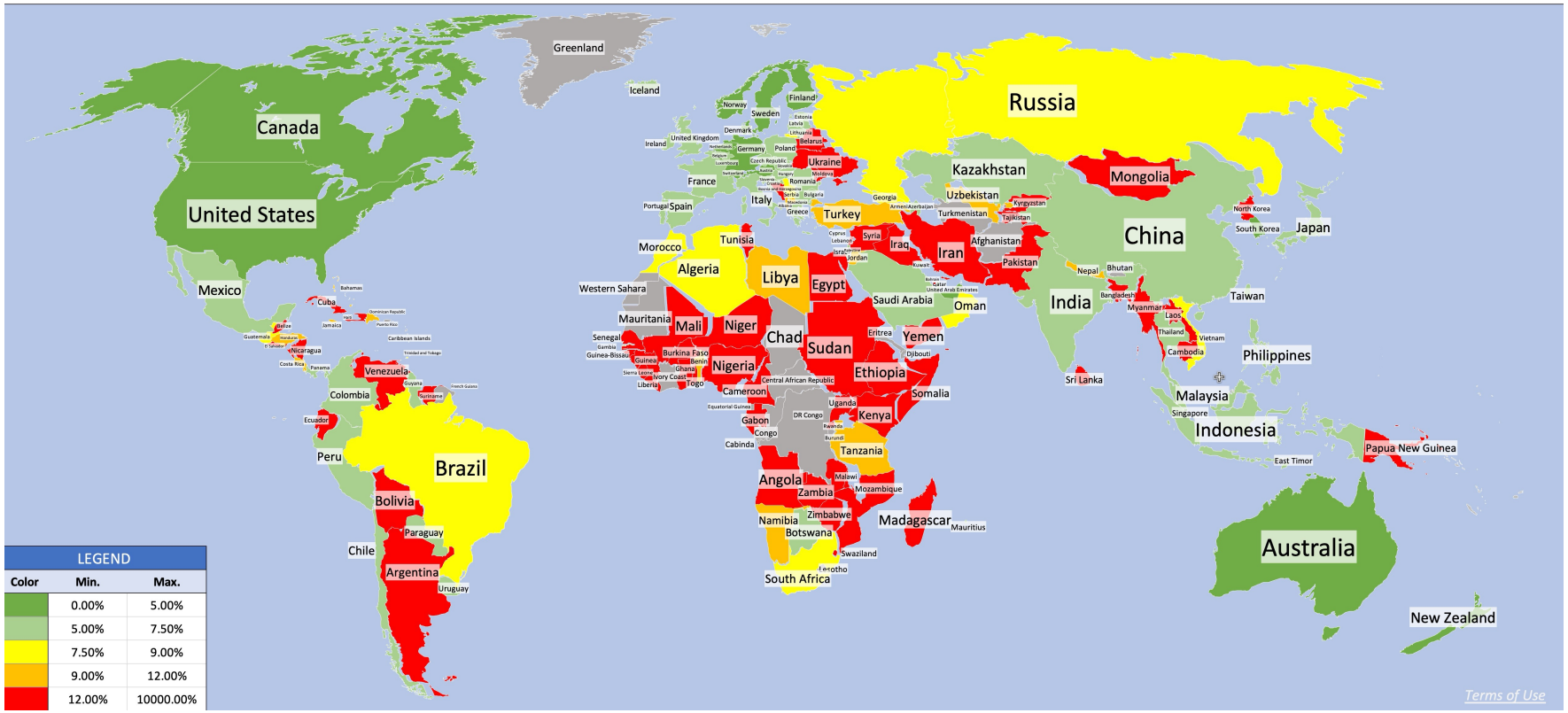
Equals

Implied Equity Risk Premium (7/1/25) = 8.45% - 3.97% = 4.48%

2. ERP, BY COUNTRY - THE PROCESS



THE ERP HEAT MAP IN JULY 2025



WITH COUNTRY-SPECIFIC NUMBERS

Country	*Rating*	*CRP*	*ERP*	*Country*	*Rating*	*CRP*	*ERP*	*Country*	*Rating*	*CRP*	*ERP*	*Country*	*Rating*	*CRP*	*ERP*
Abu Dhabi	Aa2	0.73%	4.94%	Denmark	Aaa	0.00%	4.21%	Latvia	A3	1.77%	5.98%	Rwanda	B2	8.14%	12.35%
Albania	Ba3	5.32%	9.53%	Dominican Republic	Ba3	5.32%	9.53%	Lebanon	C	26.33%	30.54%	Saudi Arabia	Aa3	0.89%	5.10%
Algeria	NR	5.32%	9.53%	Ecuador	Caa3	14.80%	19.01%	Liberia	NR	13.32%	17.53%	Senegal	B3	9.61%	13.82%
Andorra (Principality of)	Baa1	2.36%	6.57%	Egypt	Caa1	11.09%	15.30%	Libya	NR	4.45%	8.66%	Serbia	Ba2	4.45%	8.66%
Angola	B3	9.61%	13.82%	El Salvador	B3	9.61%	13.82%	Liechtenstein	Aaa	0.00%	4.21%	Sharjah	Ba1	3.70%	7.91%
Argentina	Caa3	14.80%	19.01%	Estonia	A1	1.04%	5.25%	Lithuania	A2	1.25%	5.46%	Sierra Leone	NR	13.32%	17.53%
Armenia	Ba3	5.32%	9.53%	Ethiopia	Caa2	13.32%	17.53%	Luxembourg	Aaa	0.00%	4.21%	Singapore	Aaa	0.00%	4.21%
Aruba	Baa3	3.25%	7.46%	Fiji	B1	6.66%	10.87%	Macao	Aa3	0.89%	5.10%	Slovakia	A3	1.77%	5.98%
Australia	Aaa	0.00%	4.21%	Finland	Aa1	0.41%	4.62%	Macedonia	Ba3	5.32%	9.53%	Slovenia	A3	1.77%	5.98%
Austria	Aa1	0.41%	4.62%	France	Aa3	0.89%	5.10%	Madagascar	NR	8.14%	12.35%	Solomon Islands	Caa1	11.09%	15.30%
Azerbaijan	Baa3	3.25%	7.46%	Gabon	Caa2	13.32%	17.53%	Malawi	NR	17.75%	21.96%	Somalia	NR	14.80%	19.01%
Bahamas	B1	6.66%	10.87%	Gambia	NR	6.66%	10.87%	Malaysia	A3	1.77%	5.98%	South Africa	Ba2	4.45%	8.66%
Bahrain	B2	8.14%	12.35%	Georgia	Ba2	4.45%	8.66%	Maldives	Caa2	13.32%	17.53%	Spain	Baa1	2.36%	6.57%
Bangladesh	B2	8.14%	12.35%	Germany	Aaa	0.00%	4.21%	Mali	Caa2	13.32%	17.53%	Sri Lanka	Ca	17.75%	21.96%
Barbados	B2	8.14%	12.35%	Ghana	Caa2	13.32%	17.53%	Malta	A2	1.25%	5.46%	St. Maarten	Ba2	4.45%	8.66%
Belarus	C	26.33%	30.54%	Greece	Baa3	3.25%	7.46%	Mauritius	Baa3	3.25%	7.46%	St. Vincent & the Grenadines	B3	9.61%	13.82%
Belgium	Aa3	0.89%	5.10%	Guatemala	Ba1	3.70%	7.91%	Mexico	Baa2	2.82%	7.03%	Sudan	NR	26.33%	30.54%
Belize	Caa1	11.09%	15.30%	Guernsey (States of)	A1	1.04%	5.25%	Moldova	B3	9.61%	13.82%	Suriname	Caa1	11.09%	15.30%
Benin	B1	6.66%	10.87%	Guinea	NR	13.32%	17.53%	Mongolia	B2	8.14%	12.35%	Swaziland	B2	8.14%	12.35%
Bermuda	A2	1.25%	5.46%	Guinea-Bissau	NR	11.09%	15.30%	Montenegro	B1	6.66%	10.87%	Sweden	Aaa	0.00%	4.21%
Bolivia	Ca	17.75%	21.96%	Guyana	NR	1.25%	5.46%	Montserrat	Baa3	3.25%	7.46%	Switzerland	Aaa	0.00%	4.21%
Bosnia and Herzegovina	B3	9.61%	13.82%	Haiti	NR	14.80%	19.01%	Morocco	Ba1	3.70%	7.91%	Syria	NR	26.33%	30.54%
Botswana	A3	1.77%	5.98%	Honduras	B1	6.66%	10.87%	Mozambique	Caa3	14.80%	19.01%	Taiwan	Aa3	0.89%	5.10%
Brazil	Ba1	3.70%	7.91%	Hong Kong	Aa3	0.89%	5.10%	Myanmar	NR	14.80%	19.01%	Tajikistan	B3	9.61%	13.82%
Brunei	NR	0.89%	5.10%	Hungary	Baa2	2.82%	7.03%	Namibia	B1	6.66%	10.87%	Tanzania	B1	6.66%	10.87%
Bulgaria	Baa1	2.36%	6.57%	Iceland	A1	1.04%	5.25%	Nepal	Ba3	5.32%	9.53%	Thailand	Baa1	2.36%	6.57%
Burkina Faso	Caa1	11.09%	15.30%	India	Baa3	3.25%	7.46%	Netherlands	Aaa	0.00%	4.21%	Togo	B3	9.61%	13.82%
Cambodia	B2	8.14%	12.35%	Indonesia	Baa2	2.82%	7.03%	New Zealand	Aaa	0.00%	4.21%	Trinidad and Tobago	Ba2	4.45%	8.66%
Cameroon	Caa1	11.09%	15.30%	Iran	NR	9.61%	13.82%	Nicaragua	B2	8.14%	12.35%	Tunisia	Caa1	11.09%	15.30%
Canada	Aaa	0.00%	4.21%	Iraq	Caa1	11.09%	15.30%	Niger	Caa3	14.80%	19.01%	Turkey	B1	6.66%	10.87%
Cape Verde	B2	8.14%	12.35%	Ireland	Aa3	0.89%	5.10%	Nigeria	B3	9.61%	13.82%	Turks and Caicos Islands	Baa1	2.36%	6.57%
Cayman Islands	Aa3	0.89%	5.10%	Isle of Man	Aa3	0.89%	5.10%	Norway	Aaa	0.00%	4.21%	Uganda	B3	9.61%	13.82%
Chile	A2	1.25%	5.46%	Israel	Baa1	2.36%	6.57%	Oman	Ba1	3.70%	7.91%	Ukraine	Ca	17.75%	21.96%
China	A1	1.04%	5.25%	Italy	Baa3	3.25%	7.46%	Pakistan	Caa2	13.32%	17.53%	United Arab Emirates	Aa2	0.73%	4.94%
Colombia	Baa3	3.25%	7.46%	Jamaica	B1	6.66%	10.87%	Panama	Baa3	3.25%	7.46%	United Kingdom	Aa3	0.89%	5.10%
Congo (Democratic Republic of)	B3	9.61%	13.82%	Japan	A1	1.04%	5.25%	Papua New Guinea	B2	8.14%	12.35%	United States	Aa1	0.41%	4.62%
Congo (Republic of)	Caa2	13.32%	17.53%	Jersey (States of)	Aa3	0.89%	5.10%	Paraguay	Baa3	3.25%	7.46%	Uruguay	Baa1	2.36%	6.57%
Cook Islands	B1	6.66%	10.87%	Jordan	Ba3	5.32%	9.53%	Peru	Baa1	2.36%	6.57%	Uzbekistan	Ba3	5.32%	9.53%
Costa Rica	Ba3	5.32%	9.53%	Kazakhstan	Baa1	2.36%	6.57%	Philippines	Baa2	2.82%	7.03%	Venezuela	C	26.33%	30.54%
Côte d'Ivoire	Ba2	4.45%	8.66%	Kenya	Caa1	11.09%	15.30%	Poland	A2	1.25%	5.46%	Vietnam	Ba2	4.45%	8.66%
Croatia	A3	1.77%	5.98%	Korea	Aa2	0.73%	4.94%	Portugal	A3	1.77%	5.98%	Yemen, Republic	NR	26.33%	30.54%
Cuba	Ca	17.75%	21.96%	Korea, D.P.R.	NR	17.75%	21.96%	Qatar	Aa2	0.73%	4.94%	Zambia	Caa2	13.32%	17.53%
Curacao	Baa3	3.25%	7.46%	Kuwait	A1	1.04%	5.25%	Ras Al Khaimah (Emirate of)	A3	1.77%	5.98%	Zimbabwe	NR	9.61%	13.82%
Cyprus	A3	1.77%	5.98%	Kyrgyzstan	B3	9.61%	13.82%	Romania	Baa3	3.25%	7.46%				
Czech Republic	Aa3	0.89%	5.10%	Laos	Caa3	14.80%	19.01%	Russia	NR	4.45%	8.66%				

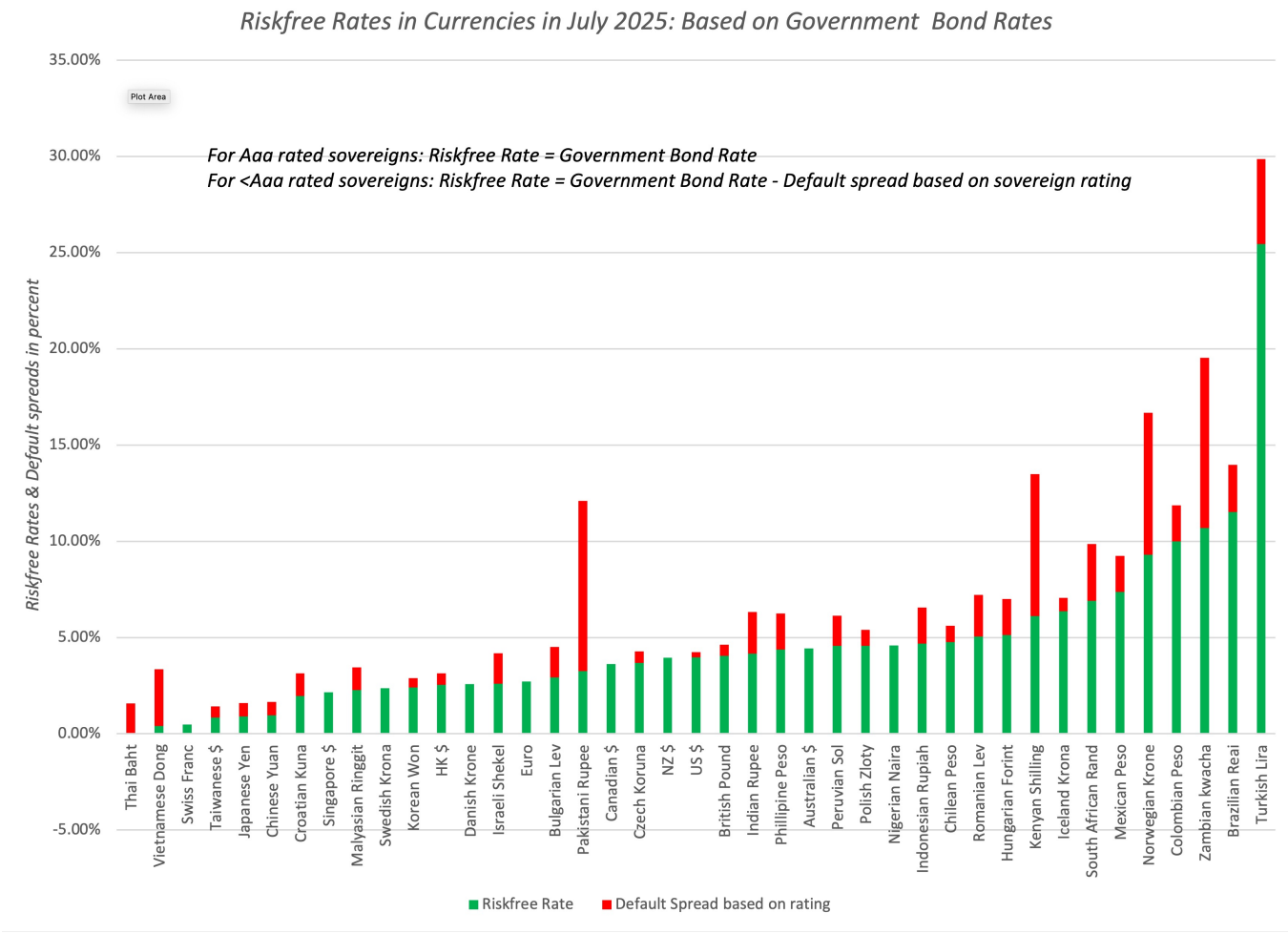
A USER'S GUIDE

- I have shared my equity risk premiums, by country, and I am flattered that there are analysts that have found use for it.
- One reason may be that it is free, but I do have concerns sometimes that they may be misused, and the fault is mine for not clarifying how they should be used.
- In this section, I will lay out steps in using these equity risk premiums in corporate finance and valuation practice, and if I have still left areas of grey, please let me know.

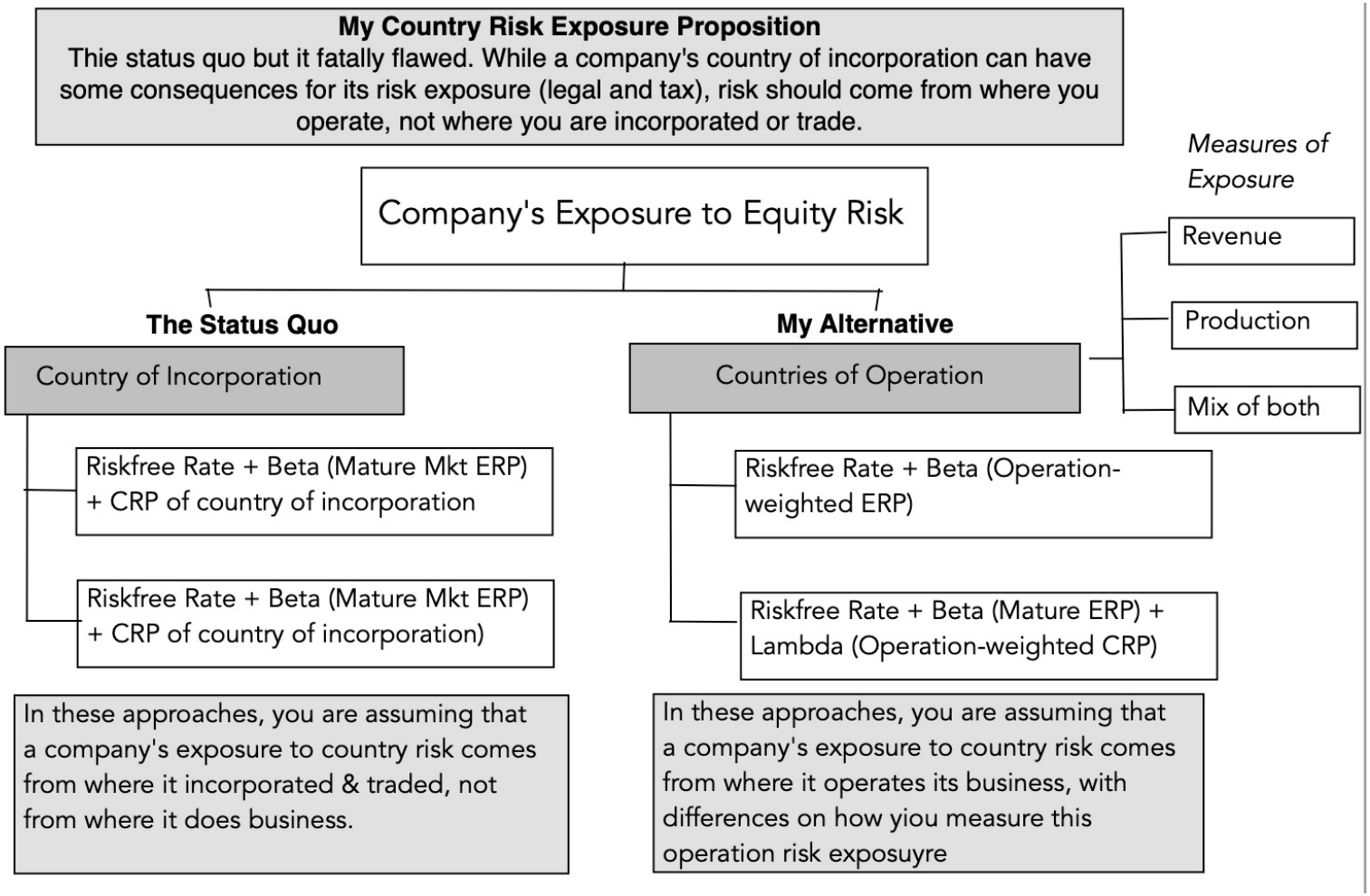
STEP 1: UNDERSTAND WHAT ERP MEASURES

- The equity risk premium is a measure of the "extra" return that investors need to make, over and above the riskfree rate, to compensate for the higher risk that they are exposed to, on an equity investment.
- In the context of country risk, it implies that investments in riskier countries will need higher returns to beat benchmarks in safer countries.
- It is also worth recognizing how equity risk premiums play out investing and valuation. Increasing the equity risk premium will raise the rate of return you need to make on an investment, and by doing so, reduce its value.

STEP 2: MAKE A CURRENCY CHOICE



STEP 3: ESTIMATE ERP



STEP 4: ESTIMATE COMPANY-SPECIFIC RISK EXPOSURE NUMBERS

- Not all companies or projects are average risk, for equity investors in them, and you need a measure of this relative risk. The beta is one measure, but as I have argued elsewhere, I am completely at home with alternative measures of relative equity risk.

  Cost of equity = Riskfree rate + Beta × Equity Risk Premium

  The beta (relative risk measure) measures the risk of the business that the company/project is in, and for a diversified investor, captures only risk that cannot be diversified away.

- For the cost of debt, you need to estimate the default spread that the company will face. If the company has a bond rating, you can use this rating to estimate the default spread, and if it is not, you can use the company's financials to assess a synthetic rating.

- Cost of debt =Riskfree Rate + Default spread

  Harking back to the discussion of riskfree rates, a company in a country with sovereign default risk will often bear a double burden, carrying default spreads for both itself and the country.

STEP 5: ENSURE CASHFLOW CURRENCY CONSISTENCY

- The currency choice made in step 2 determines not only the discount rates that you will be using but also the expected cash flows, with expected inflation driving both inputs.
  - Thus, if you analyze a Turkish project in lira, where the expected inflation rate is 15%, you should expect to see costs of equity and capital that exceed 20%, but you should also see growth rates in the cash flows to be inflated the same expected inflation.
  - If you assess the same project in Euros, where the expected inflation is 2%, you should expect to see much lower discount rates, high county risk notwithstanding, but the expected growth in cash flows will also be muted, because of the low inflation.

YOU WANT MORE?

- My Annual Update on country risk
  - This is a long and boring paper, but it provides the details of everything that I know about country risk.
  - Country Risk Determinants: Determinants, Measures and Implications - The 2025 Edition
- Datasets on beta and ERP
  - This spreadsheet contains the gory details of my ERP calculations.
  - Equity Risk Premiums, by country - July 2025
- Spreadsheets
  - If you are interested in seeing the mechanics of computing a forward-looking premium, try this spreadsheet.
  - Implied Equity Risk Premium for S&P 500 on July 1, 2025