

The Determination of the Risk Premium for Sovereign Debt : A Multicriteria Approach. Application to Emerging Countries.

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Abstract - Résumé

In the case of developing countries, a country's financial risk refers to the ability of the national economy to generate enough foreign exchange to meet payments of interest and principal on its foreign debt. The debt crisis of some developing countries in the 1980's and later (for instance, in the case of Argentina in 2002) is an excellent example of financial risk. Because of overborrowing and unproductive use of the resources that were borrowed, the crisis countries were unable to honor their debts to the banks that had lent to them, thereby causing massive losses for the banks and economic sacrifices from the defaulting countries. We propose a new multicriteria outranking approach towards ranking government bonds and towards the evaluation of interest rate risk premium for public sector bond instruments. Using a new modified multicriteria outranking method of the ELECTRE family, several criteria, including both macroeconomic and criteria, are taken into account in the model, which finally leads to a possibility of ranking the creditworthiness of emerging and developing countries.