

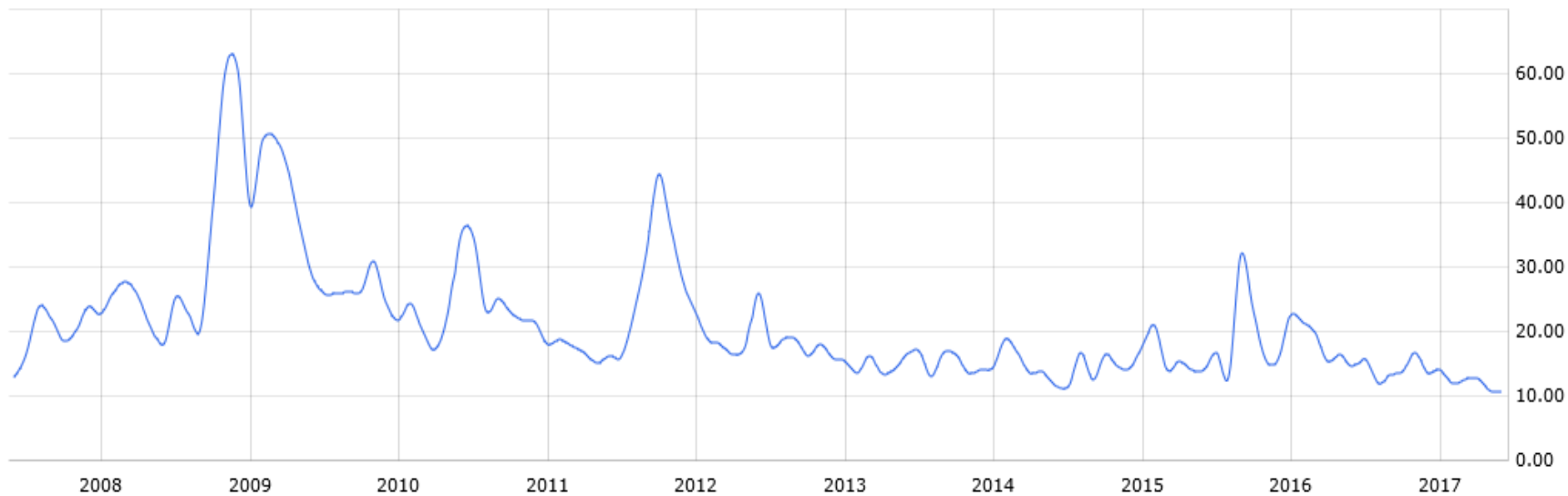
GEOPOLITICAL RISK

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TRADITIONALLY – RISK AS VOLATILITY – VIX



(GEO)POLITICAL RISK

**Many different approaches to define and to measure
Subjective judgement plays important role**

Examples:

Business Environment Risk Intelligence (BERI)

Political Risk Index

**Economist Intelligence Unit (EIU) Political Instability
Index**

EURASIA's Global Political Risk Index

INTERNATIONAL COUNTRY RISK GUIDE – POLITICAL RISK INDEX

Voice and Accountability

- **Military in politics**
- **Democratic accountability**

Political Stability and Absence of Violence

- **Government stability**
- **Internal conflict**
- **External conflict**
- **Ethnic tensions**

Government Effectiveness

- **Bureaucratic quality**

Regulatory Quality

- **Investment profile**

Rule of Law

- **Law and order**

Control of Corruption

- **Corruption**

GEOPOLITICAL RISK – ONE PROPOSAL

Dario Caldora and Matteo Iacoviello, FRB

Definition:

Geopolitical risk as the risk associated with events such as wars, terrorist acts and political tensions that affect the normal and peaceful course of international relations

Proposal – GPR index

GEOPOLITICAL RISK INDEX

GPR index counts the occurrence of words related to geopolitical tensions in leading newspapers

GPR index reflects automated text-search results of the electronical archives of 11 national and international newspapers:

The Boston Globe, Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, The Times, The Wall Street Journal, The Washington Post

GEOPOLITICAL RISK INDEX

The index is calculated by counting the number of articles related to geopolitical risk in each newspaper and for each month (as a share of the total number of articles). The index is then normalized to average a value of 100 in the 2000-2009 decade

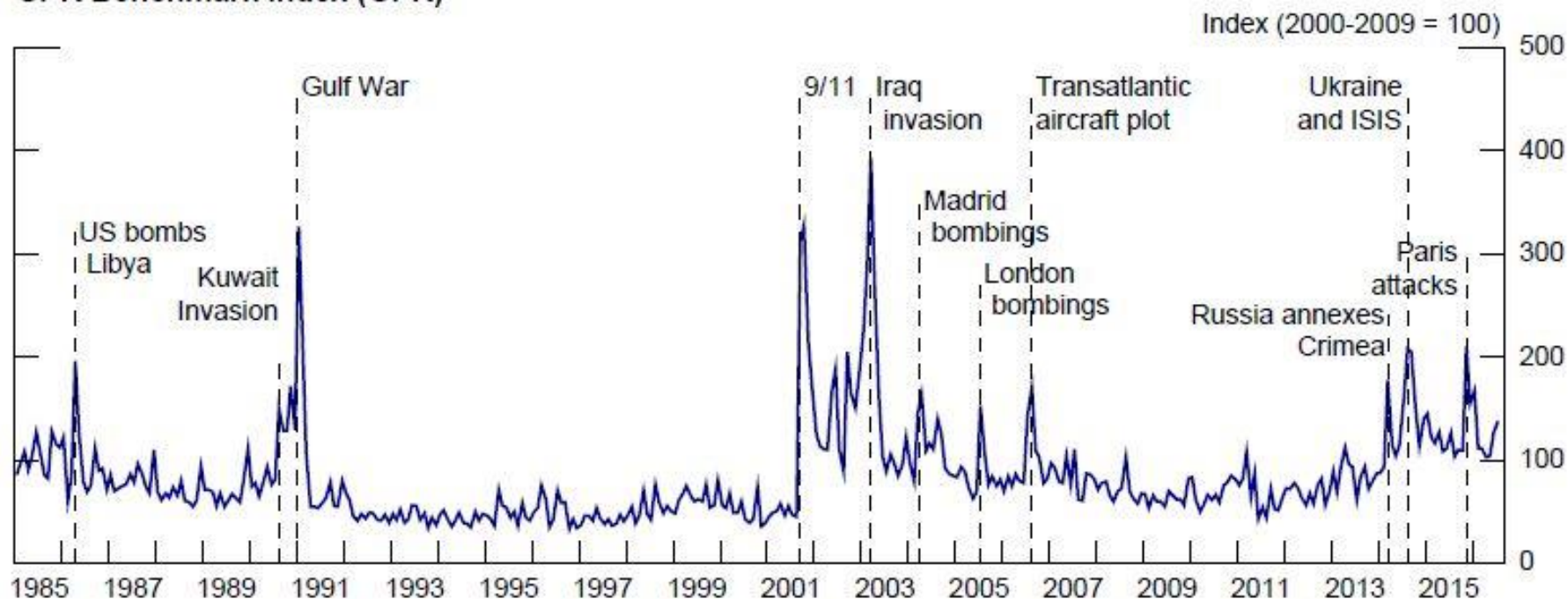
Search categories:

Geopolitical Risks, Bilateral Regional Threats, War or Military Risks, Nuclear Threats, Terrorist Threats, Beginning of War, Life Cost of War, Terrorist Attacks

GEOPOLITICAL RISK INDEX

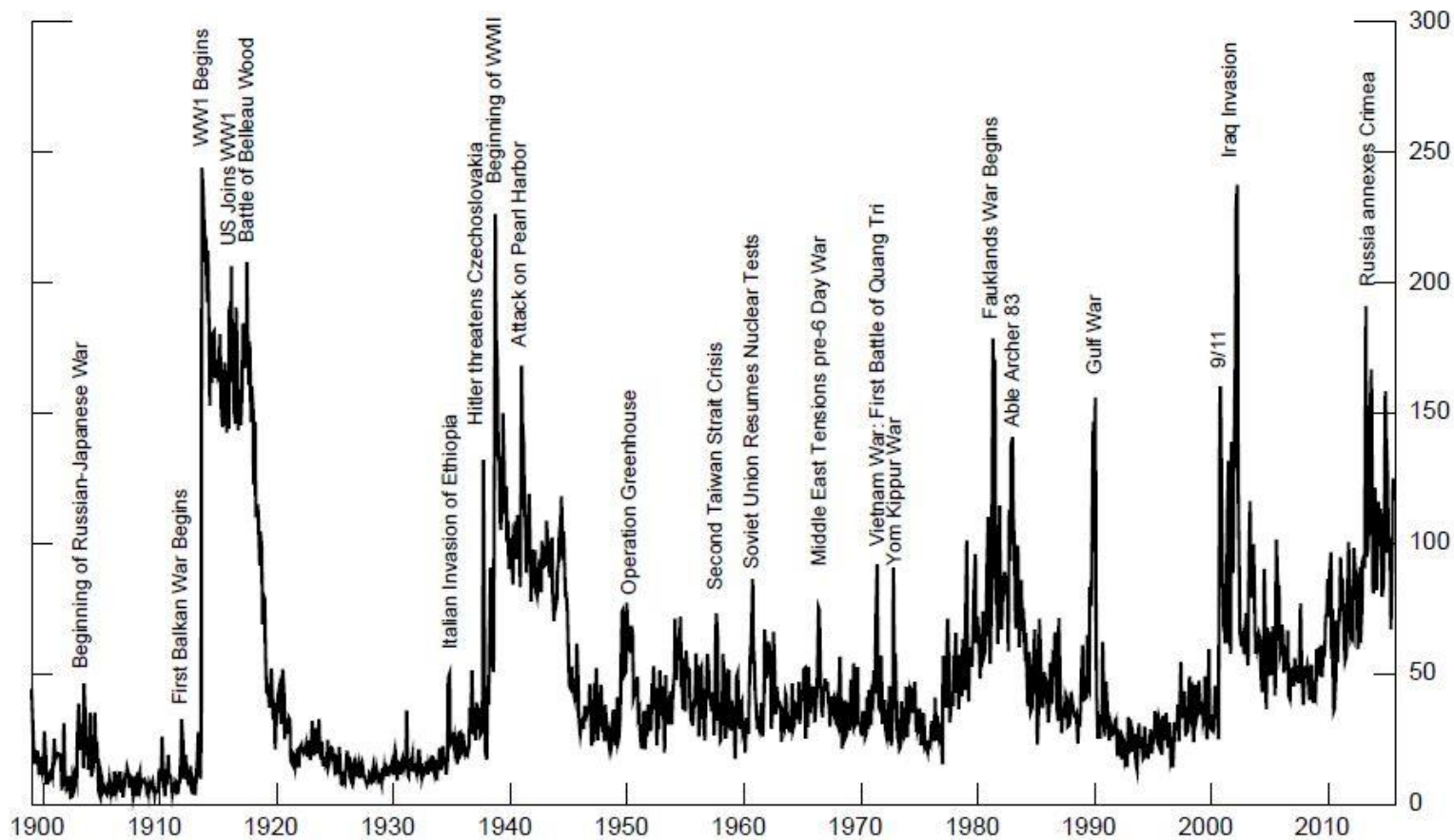
GEOPOLITICAL RISK

GPR Benchmark Index (GPR)



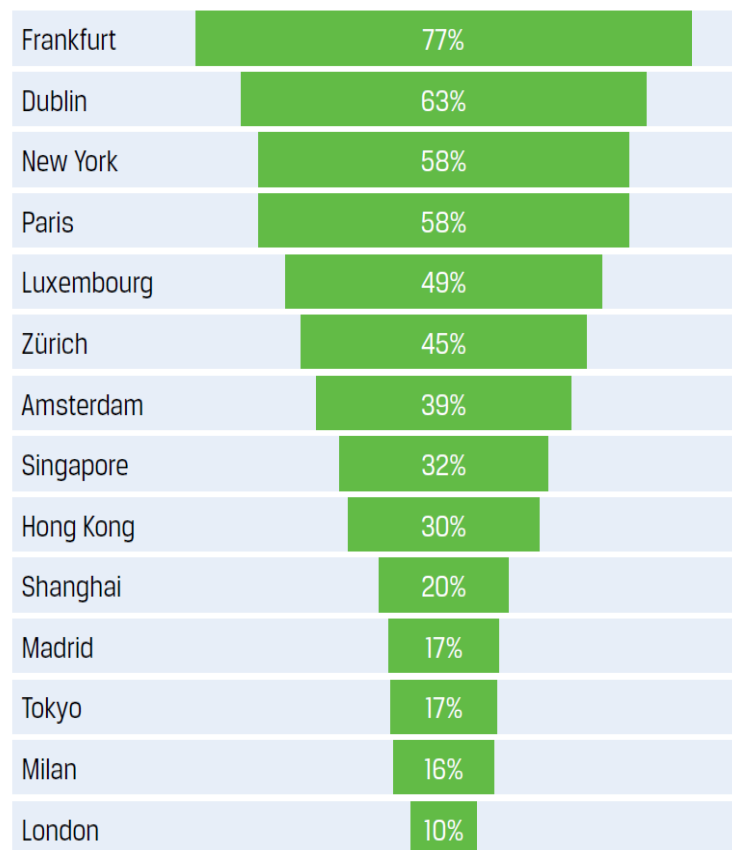
GEOPOLITICAL RISK INDEX

GPR Historical

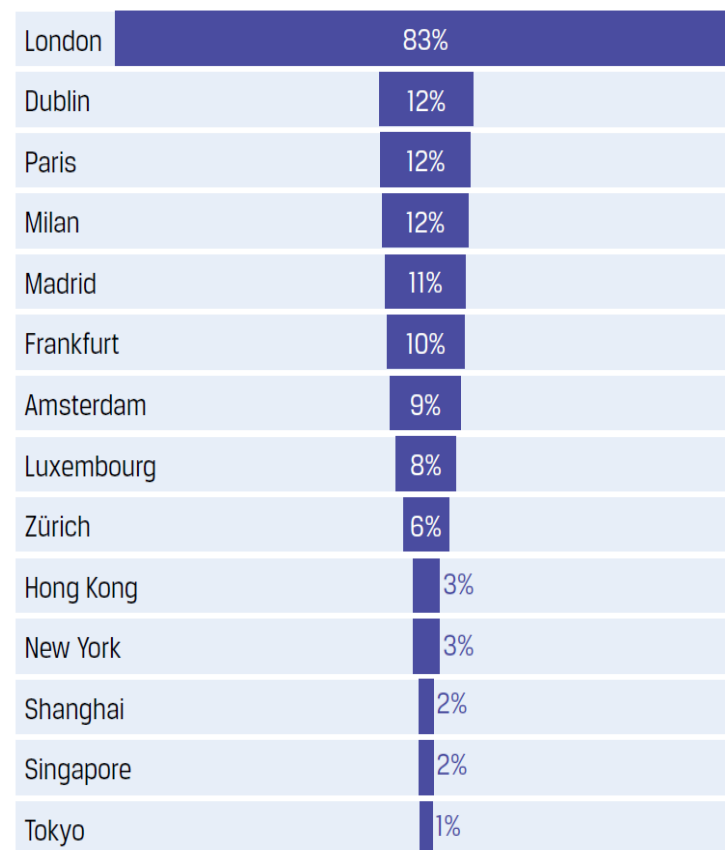


BREXIT – FINANCIAL CENTERS

WINNERS FROM BREXIT



LOSERS FROM BREXIT

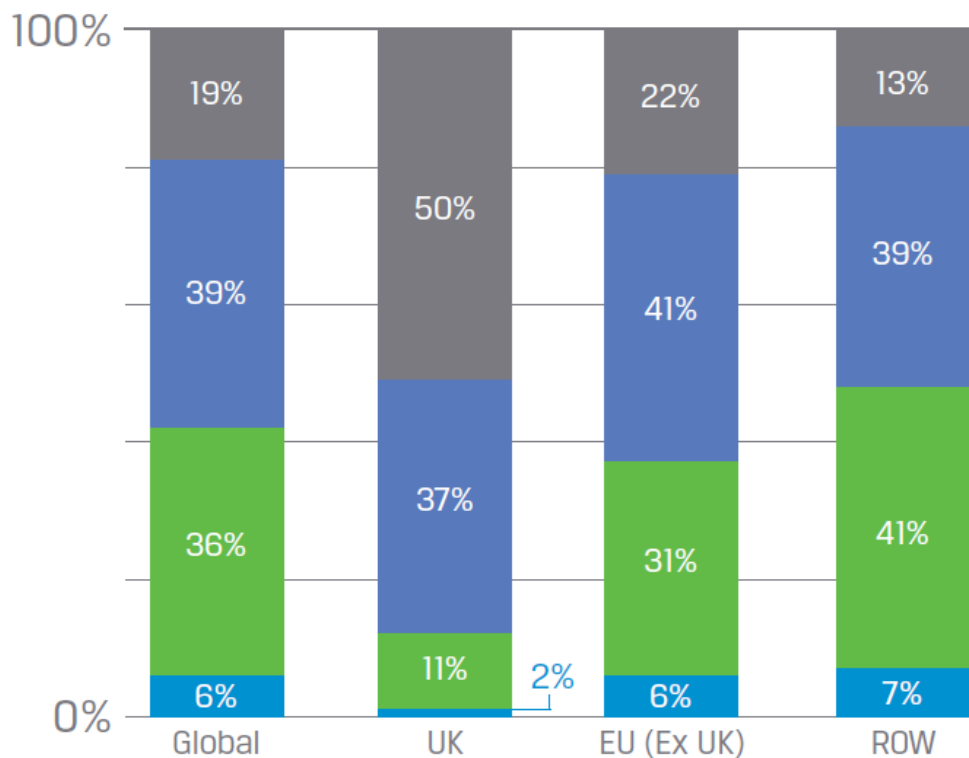


Source: CFA Institute

EXPECTED LENGTH OF MARKET UNCERTAINTY CAUSED BY BREXIT

For how many months do you expect
Brexit uncertainty to remain in the markets?

■ Less than 6 months
 ■ 6-12 months
 ■ 13-24 months
 ■ More than 2 years



THANK YOU !!!!!!!