Mike Liu: mike.liu@countryinsights.com
Paul Domjan: paul.domjan@countryinsights.com

Quantitative Country Analytics Select Indicators

MSCI Emerging Market country quick scanner

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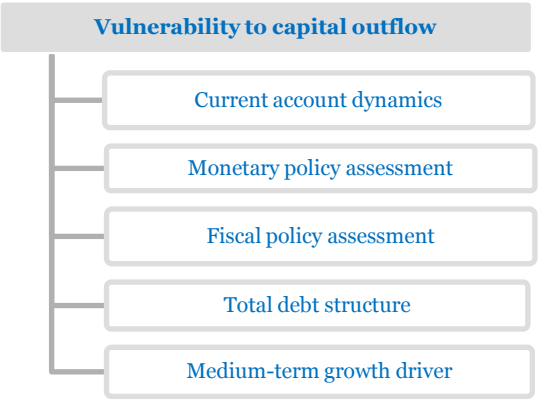
- Quantitative Country Analytics (QCA) indicators reveal a holistic picture of macro-financial risk, economic growth and social-political stability. In this quick scanner report, we have selected six from our 19 proprietary dashboard indicators. The six indicators analyse the countries':
  - Vulnerability to capital outflow
  - Banking sector vulnerability
  - Quality of infrastructure
  - Business environment and regulatory quality
  - Medium-term growth potential
  - Political risk
- QCA indicators highlight risks and opportunities among the 21 MSCI emerging market economies:
  - **India, Egypt** and **Brazil** faces significant risk of sharp capital outflow relative to other EM economies. Indeed, capital outflows have already triggered a sharp depreciation of the Indian rupee.
  - Domestic banks in (and banks have significant exposure to) **China, Morocco** and **South Africa** warrant close scrutiny as balance sheet risks are building up and wider economic developments also threaten the banking sector.
  - **Korea, Taiwan*, Malaysia** and **Thailand** have the best infrastructure and/or business environment among the EM economies, which puts them a better position to benefit from the increasing trade and investment flows *between* EM economies.
  - **Malaysia, China** and **Thailand** enjoy the strongest medium-term growth potential among countries at similar levels of development. It gives a sign of relief to those who fear that the Asian countries' growth would quickly lose steam next year.
  - When it comes to risk of political instability, **Russia, China** and **Turkey** warrant much closer scrutiny than other EM countries, due to relatively weak political rights and significant multi-dimensional inequality. The socio-political risks could materialize should political transition and domestic economic problems, such as unemployment, be improperly addressed. Indeed, we have recently seen a sharp rise in protests and public political dissent in Russia.
- QCA provides a dashboard indicators that enable quick comparison of fundamentals:

Macro Financial Risk	Economic Growth	Socio-Political Stability
Trade vulnerability	Innovation potential	Political risk
Financial stability and banking crisis vulnerability	Business environment and regulatory quality	Social stability
Vulnerability to capital outflow	Medium-term growth potential	Multi-dimensional poverty
Government stimulus ability	Economic flexibility	Inequality
Total debt	Quality of infrastructure	Risk of resource curse
Economic heat gauge	Quality of governance	
Currency medium term strength	Property rights and corporate governance	

**Taiwan's QCA scores may be distorted due to incomplete hard data in major international databases.*

Macro-financial risk

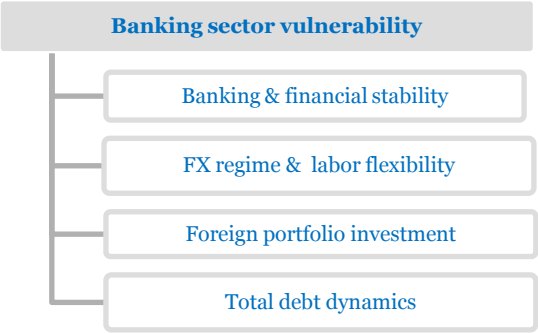


QCA Vulnerability to capital outflow indicator measures the risk of sharp capital outflow and loss of investor confidence amid economic distress. It considers the linkage between the country's balance of payment, domestic policies and sustainable growth drivers.

Countries facing risks of sharp capital outflow include those running a persistently high current account (CA) deficit that is financed by portfolio investment rather than more stable foreign direct investment. The risk becomes more serious when the government and the private sector have engaged in excess borrowing to boost short-term economic growth. Moreover, if medium-term drivers such as human capital and technology are not strong enough and hence are not expected to reduce the CA deficit and fiscal deficit, countries with the above traits may face the loss of foreign investor confidence should economic growth slow.

QCA Vulnerability to capital flow indicator (10 being lowest risk, 0 being highest risk)

9.0	Taiwan	8.0	Indonesia	7.1	Korea	6.3	Hungary	5.7	Turkey
8.7	Chile	7.4	Czech Rep.	6.8	Malaysia	6.2	Poland	5.6	Brazil
8.4	Philippines	7.3	Colombia	6.6	Russia	6.1	China	3.5	Egypt
8.3	Mexico	7.1	Thailand	6.6	South Africa	5.9	Morocco	3.0	India
8.3	Peru								



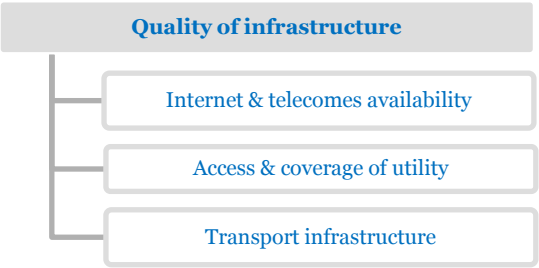
QCA Banking sector vulnerability indicator not only analyses the risks embedded in the banks' balance sheet, but also looks at the impact of the broader economy on banks' profitability and capital.

Banks are vulnerable to loss of confidence and higher financing cost if they have low capital adequacy, high leverage, excess lending to private sector and heavy reliance on the wholesale lending market. In addition, QCA takes a further step by analysing those particular aspects of the health of the broader economy that are crucial to banks' profitability and stability. QCA particularly looks at the foreign exchange regime flexibility, productivity, labour flexibility, balance of payment position and total debt dynamics of the economy. Countries performing poorly under these criteria may see sharp slowdown in growth and higher borrowing cost amid the current difficult environment, which in turn erodes the banks' asset quality and increases their financing cost.

QCA Banking sector vulnerability indicator (10 being lowest risk, 0 being highest risk)

8.6	Czech Rep.	7.6	Brazil	7.1	Chile	6.0	Thailand	5.6	Hungary
8.3	Peru	7.4	Colombia	6.9	Taiwan	5.9	Malaysia	5.6	South Africa
8.2	Philippines	7.3	Mexico	6.6	Turkey	5.8	Korea	5.3	Morocco
8.2	Indonesia	7.3	Poland	6.2	Egypt	5.6	India	5.1	China
7.7	Russia								

Economic growth

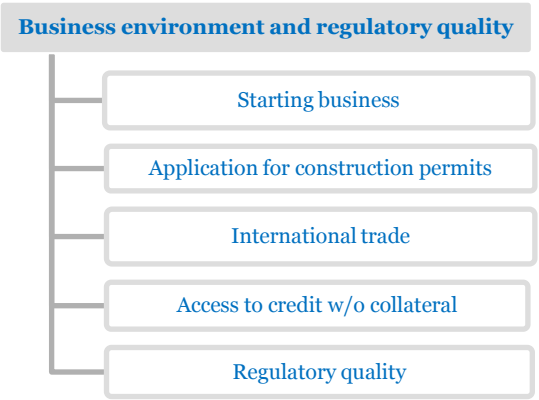


QCA Quality of infrastructure indicator gives a holistic picture of a country's infrastructure coverage and quality by considering a wide range of hard data and survey results that complement the hard data.

Broadly speaking, the Quality of infrastructure indicator looks at three categories of infrastructure: The ICT category looks at the coverage of landline, mobile phone, internet and broadband in the country. The utility category assesses the coverage of and ease of getting connected to electricity, improved drinking water sources and sanitation. The transport category analyse the quality and efficiency of rail, road and air transport.

QCA Quality of infrastructure indicator (10 being highest quality, 0 being lowest quality)

9.3	Korea	8.1	Hungary	7.1	Russia	6.3	Egypt	5.9	Peru
9.0	Taiwan	7.6	Poland	7.0	Brazil	6.3	China	5.3	Philippines
8.6	Malaysia	7.6	Turkey	6.7	Mexico	6.1	South Africa	4.7	Indonesia
8.4	Chile	7.3	Thailand	6.3	Morocco	6.0	Colombia	3.8	India
8.2	Czech Rep.								

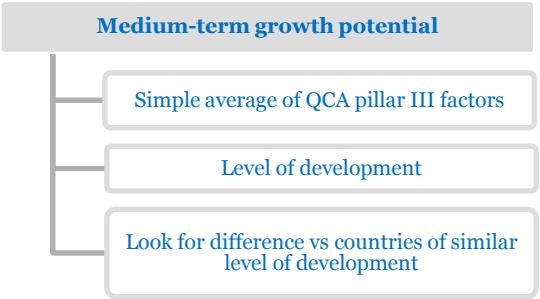


QCA Business environment and regulatory quality provides a detailed assessment of the quality of business environment both to facilitate business activities, which in turn drives robust economic growth, and to enable the real economy to reorient, which improves resilience to shocks.

To boost SMEs' activities is the top priority in many countries facing slowing growth and high unemployment. However, excessive time and cost in starting a new business and difficulty in obtaining funding without large collateral by small start-ups definitely limits the growth of SMEs. Regulatory obstacles to getting construction permits and international trade also prevent countries from fast recovery as manufacture and export are important pillars in many economies, particularly emerging markets.

QCA Business environment and regulatory quality indicator (10 being most business friendly, 0 being least business friendly)

7.3	Korea	6.3	Hungary	5.6	South Africa	4.9	Indonesia	3.8	Brazil
7.2	Taiwan	6.0	Colombia	5.4	Morocco	4.6	Turkey	3.4	China
6.8	Thailand	5.9	Peru	5.3	Czech Rep.	4.5	Poland	2.6	India
6.7	Chile	5.7	Mexico	4.9	Egypt	4.2	Philippines	2.3	Russia
6.5	Malaysia								



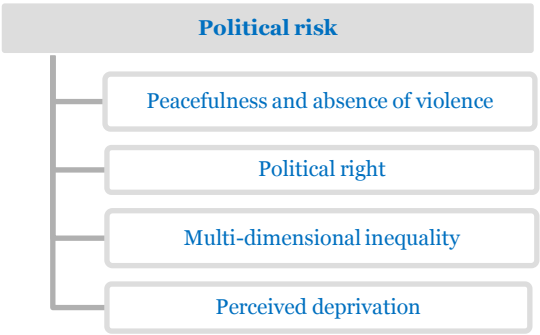
Rather than looking at a single GDP growth figure, QCA Medium-term growth potential indicator assesses the fundamental drivers of economic growth and figures out whether the economy is able to embark on a sustainable growth track amid the current difficult environment. It includes demography, human resource, technology, infrastructure, business environment and corporate governance.

The indicator then adjusts a country's performance in these areas by its level of development. This allows 1) the "catch-up" effect of poor countries in their early development stage; and 2) the well-established infrastructure and technology in developed countries are the result of high economic growth in the past, which does not necessarily indicate the same level of growth in the future.

QCA Medium-term growth support indicator (10 being best growth prospect, 0 being worst growth prospect)

7.1 Malaysia	6.0 Peru	5.7 Indonesia	5.3 India	4.8 Czech Rep.
6.7 China	6.0 Taiwan	5.7 Morocco	5.1 Egypt	4.7 Hungary
6.4 Thailand	5.8 Brazil	5.6 Chile	4.9 South Africa	4.5 Poland
6.4 Korea	5.8 Colombia	5.4 Mexico	4.8 Turkey	4.5 Russia
6.0 Philippines				

Social-political stability



QCA Political risk indicator provides a comprehensive picture of a country's social-political stability and manages to put the country into a comparative picture.

As a starting point, QCA looks at the stability of the current political regime and the quality and breadth of political rights. Furthermore, QCA assesses inequality, which is a fundamental driver of political instability from a multiple angles, such as material/income inequality and discrimination against minorities and cultural groups. Perceptions of life quality can also indicate the potential for political/social turmoil, and QCA looks at this element by measuring the gap between perception and reality of the quality of public services.

QCA Political Risk indicator (10 being lowest risk, 0 being highest risk)

9.0 Taiwan	6.2 Indonesia	5.7 India	5.0 Brazil	4.6 Colombia
7.0 Czech Rep.	6.1 Korea	5.6 Malaysia	5.0 Egypt	3.9 Turkey
6.8 Chile	6.0 Philippines	5.3 Morocco	4.9 Mexico	3.7 China
6.8 Poland	5.9 South Africa	5.3 Thailand	4.7 Peru	2.7 Russia
6.2 Hungary				

Country Insights and Quantitative Country Analytics

Our perspective

The established ways of analysing **country risk and growth fundamentals** have failed most market participants and risk takers over the last five years. Established analysis is often focused on a limited number of economic variables and therefore is unable to adequately assess the many complex interrelationships between economic fundamentals. As a result, such analysis is often too slow to capture rapidly changing **broad fundamentals** across a country's socio-economic structure. Country Insights developed its totally quantitative country analytical model, Quantitative Country Analytics (QCA), to address these issues.

What does our analysis focus on?

QCA answers three questions:

1. How much risk is a country exposed to?
2. How able is it to manage these risks?
3. What is the growth potential of the country?

It does this by analysing four fundamental aspects of the economy. These are:

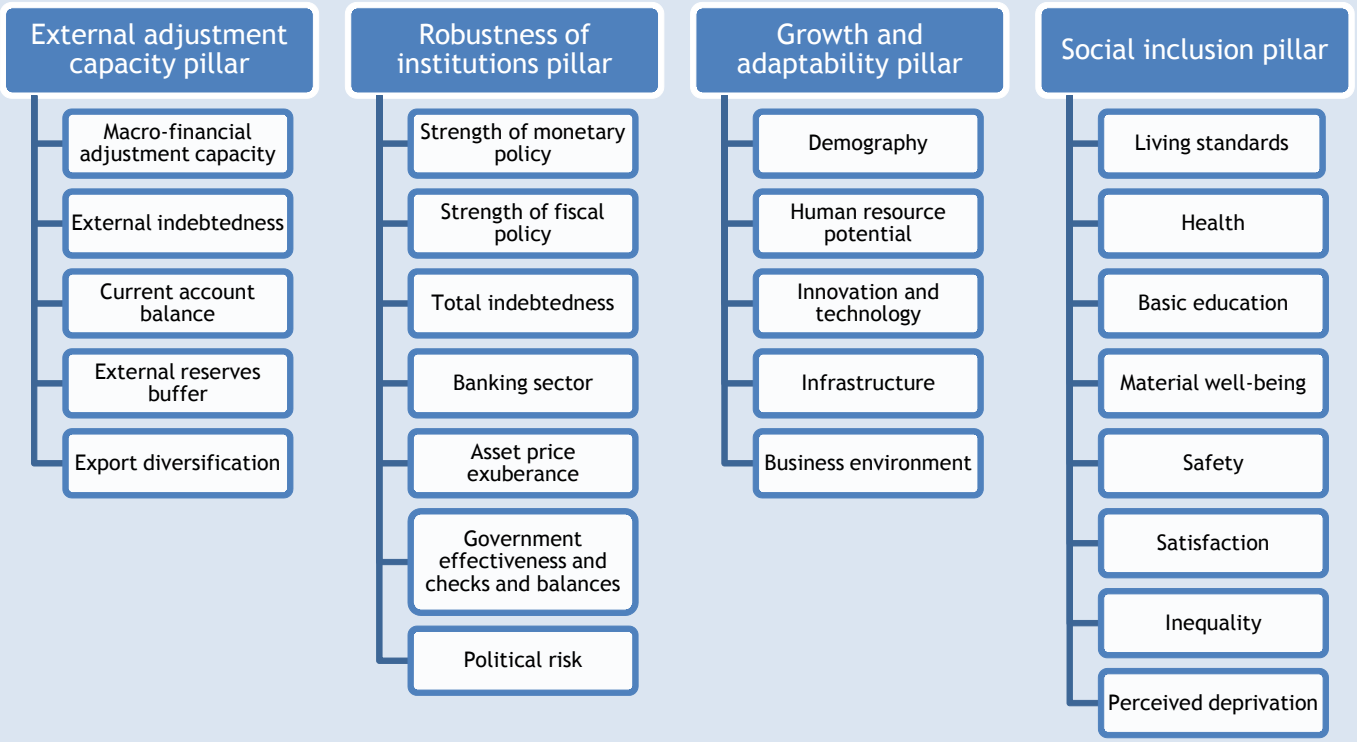
1. How exposed is the economy to external shocks?
2. How strong are its institutions?
3. How adaptable is the economy, and how able is it to continue growing?
4. How does the country share the benefits of growth across society?

How is the analysis conducted?

Country Insights believes that analysis should be as objective as possible and always up to date with publically available data. QCA is a totally quantitative model that replicates the qualitative analysis of its architects, Max Watson and Paul Domjan, through a quantitatively-driven analytical scoring system. Its uniqueness is not the inputs themselves, but the way that they are scored.

Technical features

- In-depth analytical reports can be delivered in three working days
- Covers 174 countries in equal depth with quarterly updates
- Recursive model that shows the impact of interactions between different parts of the economy (e.g. productivity growth, wage flexibility and the exchange rate system all impact on macro-financial adjustment capacity)
- Methodology is reviewed every six months to capture newly available data and seek improvements
- Produces one score that is supported by four pillars, 25 factors, 72 sub factors and over 150 data series
- Cumulatively the model has over 1000 data inputs per country



OUR HISTORY

Country Insights was spun-off in 2011 from John Howell and Co Ltd, an advisory firm focusing on financial and economic policy and regulation. Country Insights was established to capitalise on the success of Quantitative Country Analytics (QCA), the analytical model that drives our research and consulting. QCA was developed in 2007 in response to demand from our investor clients who wanted a rigorous, consistently, transparent and low-cost means of comparing risk and strength across countries. Since 2007, QCA has grown to cover 174 countries, with more than 100 types of data for each country. As well as supporting advice to private equity firms, sovereign wealth funds, asset managers and investment banks, QCA also support policy and regulatory advice to national and regional governments. We believe that QCA is the most sophisticated and comprehensive model of its kind available.

We synthesise policy, regulatory, micro and macro economic and financial expertise, which gives us a unique understanding of the underpinnings of market performance.

Contact details:

Address: 8 Percy St, London, W1T 1DJ, United Kingdom

Company tel: +44 207 079 9206

www.countryinsights.com

Mike Liu; Email: mike.liu@countryinsights.com

Tel: +44 207 0799210

Paul Domjan; Email: paul.domjan@countryinsights.com

Tel: +44 207 079 9209

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