

Country Default Spreads and Risk Premiums

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This table summarizes the latest bond ratings and appropriate default spreads for different countries. While you can use these numbers as rough estimates of country risk premiums, you may want to modify the premia to reflect the additional risk of equity markets. To estimate the long term country equity risk premium, I start with a default spread, which I obtain in one of two ways:

(1) I use the local currency sovereign rating (from Moody's: www.moody.com) and estimate the default spread for that rating (based upon traded country bonds) over a default free government bond rate. For countries without a Moody's rating but with an S&P rating, I use the Moody's equivalent of the S&P rating. To get the default spreads by sovereign rating, I use the CDS spreads and compute the average CDS spread by rating. Using that number as a basis, I extrapolate for those ratings for which I have no CDS spreads.

(2) I start with the CDS spread for the country, if one is available and subtract out the US CDS spread, since my mature market premium is derived from the US market. That difference becomes the country spread. For the few countries that have CDS spreads that are lower than the US, I will get a negative number.

You can add just this default spread to the mature market premium to arrive at the total equity risk premium. I add an additional step. In the short term especially, the equity country risk premium is likely to be greater than the country's default spread. You can estimate an adjusted country risk premium by multiplying the default spread by the relative equity market volatility for that market (Std dev in country equity market/Std dev in country bond). I have used the emerging market average of 1.12 (estimated by comparing a emerging market equity index to an emerging market government/public bond index) to estimate country risk premium. I have added this to my estimated risk premium of 5.08% for mature markets (obtained by looking at the implied premium for the S&P 500) to get the total risk premium.

Country	GDP (in billions)	Moody's rating	Adj. Default Spread	Equity Risk Premium	Country Risk Premium (added to mature market premium)
Abu Dhabi	390.00	Aa2	0.51%	5.65%	0.57%
Albania	11.86	B1	4.62%	10.27%	5.19%
Algeria	159.05	NA	6.67%	12.58%	7.50%
Andorra (Principality of)	2.86	Baa2	1.95%	7.27%	2.19%
Angola	102.60	B2	5.64%	11.42%	6.34%
Anguilla	1.50	NA	5.61%	11.39%	6.31%
Antigua & Barbuda	1.46	NA	5.61%	11.39%	6.31%
Argentina	545.48	B2	5.64%	11.42%	6.34%
Armenia	10.57	B1	4.62%	10.27%	5.19%
Aruba	2.60	Baa1	1.64%	6.92%	1.84%
Australia	1204.62	Aaa	0.00%	5.08%	0.00%
Austria	390.80	Aa1	0.41%	5.54%	0.46%
Azerbaijan	37.85	Ba2	3.08%	8.54%	3.46%
Bahamas	11.26	Baa3	2.26%	7.62%	2.54%
Bahrain	32.18	B1	4.62%	10.27%	5.19%
Bangladesh	221.42	Ba3	3.69%	9.23%	4.15%
Barbados	4.53	Caa3	10.25%	16.60%	11.52%
Belarus	47.41	Caa1	7.69%	13.72%	8.64%
Belgium	467.96	Aa3	0.62%	5.78%	0.70%
Belize	1.74	B3	6.67%	12.58%	7.50%
Benin	8.58	NA	4.86%	10.47%	5.46%
Bermuda	5.60	A2	0.87%	6.06%	0.98%
Bolivia	33.81	Ba3	3.69%	9.23%	4.15%
Bosnia and Herzegovina	16.91	B3	6.67%	12.58%	7.50%
Botswana	15.58	A2	0.87%	6.06%	0.98%
Brazil	1796.19	Ba2	3.08%	8.54%	3.46%
British Virgin Islands	0.20	NA	5.61%	11.39%	6.31%
Brunei	11.40	NA	0.87%	6.06%	0.98%
Bulgaria	53.24	Baa2	1.95%	7.27%	2.19%
Burkina Faso	11.69	B2	5.64%	11.42%	6.34%
Cambodia	20.02	B2	5.64%	11.42%	6.34%
Cameroon	32.22	B2	5.64%	11.42%	6.34%
Canada	1529.76	Aaa	0.00%	5.08%	0.00%
Cape Verde	1.90	B2	5.64%	11.42%	6.34%
Cayman Islands	3.20	Aa3	0.62%	5.78%	0.70%
Channel Islands	NA	NA	0.82%	6.01%	0.93%
Chile	247.03	Aa3	0.62%	5.78%	0.70%
China	11199.15	A1	0.72%	5.89%	0.81%
Colombia	282.46	Baa2	1.95%	7.27%	2.19%
Congo (Democratic Republic of)	31.93	B3	6.67%	12.58%	7.50%
Congo (Republic of)	7.83	Caa2	9.23%	15.46%	10.38%
Cook Islands	1.20	B1	4.62%	10.27%	5.19%
Costa Rica	57.44	Ba2	3.08%	8.54%	3.46%
Côte d'Ivoire	36.37	Ba3	3.69%	9.23%	4.15%
Croatia	50.71	Ba2	3.08%	8.54%	3.46%
Cuba	77.20	Caa2	9.23%	15.46%	10.38%
Curacao	1.00	A3	1.23%	6.46%	1.38%
Cyprus	20.05	Ba3	3.69%	9.23%	4.15%
Czech Republic	195.31	A1	0.72%	5.89%	0.81%
Denmark	306.90	Aaa	0.00%	5.08%	0.00%
Dominican Republic	71.58	Ba3	3.69%	9.23%	4.15%
Ecuador	98.61	B3	6.67%	12.58%	7.50%
Egypt	332.79	B3	6.67%	12.58%	7.50%
El Salvador	26.80	Caa1	7.69%	13.72%	8.64%
Estonia	23.34	A1	0.72%	5.89%	0.81%
Ethiopia	72.37	B1	4.62%	10.27%	5.19%
Falkland Islands	0.00	NA	3.16%	8.63%	3.55%
Fiji	4.70	Ba3	3.69%	9.23%	4.15%
Finland	238.50	Aa1	0.41%	5.54%	0.46%
France	2465.45	Aa2	0.51%	5.65%	0.57%
Gabon	14.21	B3	6.67%	12.58%	7.50%
Gambia	0.96	NA	9.23%	15.46%	10.38%
Georgia	14.38	Ba2	3.08%	8.54%	3.46%
Germany	3477.80	Aaa	0.00%	5.08%	0.00%
Ghana	42.69	B3	6.67%	12.58%	7.50%
Gibraltar	0	0.82%	6.01%	0.93%	25.51%
Greece	192.69	Caa2	9.23%	15.46%	10.38%
Greenland	NA	NA	0.82%	6.01%	0.93%
Guatemala	68.76	Ba1	2.56%	7.96%	2.88%
Guernsey (States of)	0.50	Aa3	0.62%	5.78%	0.70%
Guinea	8.20	NA	9.23%	15.46%	10.38%

Guinea-Bissau	1.16	NA	6.67%	12.58%	7.50%
Guyana	3.50	NA	3.69%	9.23%	4.15%
Haiti	8.02	NA	7.69%	13.73%	8.65%
Honduras	21.52	B1	4.62%	10.27%	5.19%
Hong Kong	320.91	Aa2	0.51%	5.65%	0.57%
Hungary	125.82	Baa3	2.26%	7.62%	2.54%
Iceland	20.05	A3	1.23%	6.46%	1.38%
India	2263.79	Baa2	1.95%	7.27%	2.19%
Indonesia	932.26	Baa3	2.26%	7.62%	2.54%
Iran	418.98	NA	1.95%	7.27%	2.19%
Iraq	171.49	Caa1	7.69%	13.72%	8.64%
Ireland	304.82	A2	0.87%	6.06%	0.98%
Isle of Man	7.40	Aa2	0.51%	5.65%	0.57%
Israel	317.74	A1	0.72%	5.89%	0.81%
Italy	1858.91	Baa2	1.95%	7.27%	2.19%
Jamaica	14.06	B3	6.67%	12.58%	7.50%
Japan	4940.16	A1	0.72%	5.89%	0.81%
Jersey (States of)	1.00	Aa3	0.62%	5.78%	0.70%
Jordan	38.65	B1	4.62%	10.27%	5.19%
Kazakhstan	137.28	Baa3	2.26%	7.62%	2.54%
Kenya	70.53	B1	4.62%	10.27%	5.19%
Korea	1411.25	Aa2	0.51%	5.65%	0.57%
Korea, D.P.R.	NA	NA	10.25%	16.60%	11.52%
Kuwait	110.88	Aa2	0.51%	5.65%	0.57%
Kyrgyzstan	6.55	B2	5.64%	11.42%	6.34%
Laos	15.90	NA	1.06%	6.27%	1.19%
Latvia	27.57	A3	1.23%	6.46%	1.38%
Lebanon	49.60	B3	6.67%	12.58%	7.50%
Liberia	2.10	NA	12.30%	18.91%	13.83%
Libya	NA	NA	7.69%	13.73%	8.65%
Liechtenstein	6.70	Aaa	0.00%	5.08%	0.00%
Lithuania	42.74	A3	1.23%	6.46%	1.38%
Luxembourg	58.63	Aaa	0.00%	5.08%	0.00%
Macao	44.80	Aa3	0.62%	5.78%	0.70%
Macedonia	10.90	Ba3	3.69%	9.23%	4.15%
Madagascar	10.00	NA	5.64%	11.42%	6.34%
Malawi	5.43	NA	7.69%	13.73%	8.65%
Malaysia	296.54	A3	1.23%	6.46%	1.38%
Mali	14.03	NA	7.69%	13.73%	8.65%
Malta	11.00	A3	1.23%	6.46%	1.38%
Mauritius	12.17	Baa1	1.64%	6.92%	1.84%
Mexico	1046.92	A3	1.23%	6.46%	1.38%
Moldova	6.75	B3	6.67%	12.58%	7.50%
Mongolia	11.18	Caa1	7.69%	13.72%	8.64%
Montenegro	4.37	B1	4.62%	10.27%	5.19%
Montserrat	1.50	Baa3	2.26%	7.62%	2.54%
Morocco	103.61	Ba1	2.56%	7.96%	2.88%
Mozambique	11.01	Caa3	10.25%	16.60%	11.52%
Myanmar	63.23	NA	6.67%	12.58%	7.50%
Namibia	10.95	Ba1	2.56%	7.96%	2.88%
Netherlands	777.23	Aaa	0.00%	5.08%	0.00%
Netherlands Antilles	NA	NA	5.61%	11.39%	6.31%
New Zealand	184.97	Aaa	0.00%	5.08%	0.00%
Nicaragua	13.23	B2	5.64%	11.42%	6.34%
Niger	7.53	NA	12.30%	18.91%	13.83%
Nigeria	404.65	B2	5.64%	11.42%	6.34%
Norway	371.08	Aaa	0.00%	5.08%	0.00%
Oman	66.29	Baa2	1.95%	7.27%	2.19%
Pakistan	278.91	B3	6.67%	12.58%	7.50%
Palestinian Authority	NA	NA	1.43%	6.69%	1.61%
Panama	55.19	Baa2	1.95%	7.27%	2.19%
Papua New Guinea	20.21	B2	5.64%	11.42%	6.34%
Paraguay	27.42	Ba1	2.56%	7.96%	2.88%
Peru	192.21	A3	1.23%	6.46%	1.38%
Philippines	304.91	Baa2	1.95%	7.27%	2.19%
Poland	471.36	A2	0.87%	6.06%	0.98%
Portugal	204.84	Ba1	2.56%	7.96%	2.88%
Qatar	152.45	Aa3	0.62%	5.78%	0.70%
Ras Al Khaimah (Emirate of)	5.20	A2	0.87%	6.06%	0.98%
Reunion	NA	NA	4.86%	10.47%	5.46%
Romania	187.59	Baa3	2.26%	7.62%	2.54%
Russia	1283.16	Ba1	2.56%	7.96%	2.88%
Rwanda	8.38	B2	5.64%	11.42%	6.34%
Saint Lucia	1.67	NA	5.61%	11.39%	6.31%
Saudi Arabia	646.44	A1	0.72%	5.89%	0.81%
Senegal	14.68	Ba3	3.69%	9.23%	4.15%
Serbia	38.30	Ba3	3.69%	9.23%	4.15%
Sharjah	5.00	A3	1.23%	6.46%	1.38%
Sierra Leone	3.74	NA	12.30%	18.91%	13.83%
Singapore	296.98	Aaa	0.00%	5.08%	0.00%
Slovakia	89.77	A2	0.87%	6.06%	0.98%
Slovenia	44.71	Baa1	1.64%	6.92%	1.84%
Solomon Islands	1.20	NA	1.06%	6.27%	1.19%
Somalia	6.22	NA	12.30%	18.91%	13.83%
South Africa	295.46	Baa3	2.26%	7.62%	2.54%
Spain	1237.26	Baa2	1.95%	7.27%	2.19%
Sri Lanka	81.32	B1	4.62%	10.27%	5.19%
	1.50	Baa2	1.95%	7.27%	2.19%

St. Maarten					
St. Vincent & the Grenadines	0.77	B3	6.67%	12.58%	7.50%
Sudan	95.58	NA	18.00%	25.32%	20.24%
Suriname	3.28	B1	4.62%	10.27%	5.19%
Swaziland	3.72	B2	0.00%	5.08%	0.00%
Sweden	514.46	Aaa	0.00%	5.08%	0.00%
Switzerland	668.85	Aaa	0.00%	5.08%	0.00%
Syria	NA	NA	18.00%	25.32%	20.24%
Taiwan	970.90	Aa3	0.62%	5.78%	0.70%
Tajikistan	6.95	B3	2.56%	7.96%	2.88%
Tanzania	47.34	NA	6.67%	12.58%	7.50%
Thailand	407.03	Baa1	1.64%	6.92%	1.84%
Togo	4.40	NA	7.69%	13.73%	8.65%
Trinidad and Tobago	21.89	Ba1	2.56%	7.96%	2.88%
Tunisia	42.06	B1	4.62%	10.27%	5.19%
Turkey	863.71	Ba1	2.56%	7.96%	2.88%
Turks and Caicos Islands	1.50	Baa1	1.64%	6.92%	1.84%
Uganda	24.08	B2	5.64%	11.42%	6.34%
Ukraine	93.27	Caa2	9.23%	15.46%	10.38%
United Arab Emirates	348.74	Aa2	0.51%	5.65%	0.57%
United Kingdom	2647.90	Aa2	0.51%	5.65%	0.57%
United States	18624.48	Aaa	0.00%	5.08%	0.00%
Uruguay	52.42	Baa2	1.95%	7.27%	2.19%
Venezuela	250.00	Caa3	10.25%	16.60%	11.52%
Vietnam	205.28	B1	4.62%	10.27%	5.19%
Yemen, Republic	27.32	NA	18.00%	25.32%	20.24%
Zambia	21.06	B3	6.67%	12.58%	7.50%
Zimbabwe	16.62	NA	9.23%	15.46%	10.38%

For more details, download the excel spreadsheet that contains this data on my website: <http://www.stern.nyu.edu/~adamodar/pc/datasets/ctryprem.xls>

If you are interested in my approach to computing the equity risk premium, download my magnum opus (just kidding):

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2742186

And my paper on measuring country risk

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2812261

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