

Country Risk Premium as an Indicator of Investment Attractiveness and the Russian-Ukrainian War Effect

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ABSTRACT: One of the significant areas of financial management is investment management. To assess the investment attractiveness of a country, a sufficient number of different indicators are known, which is determined by the complexity of the concept under consideration. The assessment can be made on the basis of long-term statistics, e.g., of attracted foreign capital. It is also possible to use a composition of several statistical data reflecting different aspects related to investments. Considering the problem, along with the above approaches, it would like to have an indicator that would reflect the current state of the investment process, that is, based on short-term (day, week, month) data. It should not be composite, so as not to introduce additional error into the calculation. This article is devoted to the presentation of just such an indicator for investment attractiveness of a country, called the Country Risk Premium, CRP, which is well-known in business valuation. The article describes experience in calculating the CRP for different countries. The influence of the Russian-Ukrainian War on the magnitude of this indicator is demonstrated. The article is intended for financial consultants, appraisers, teachers, and scientists in the fields of finance, investment and valuation, as well as for specialists in related fields of economics.

KEYWORDS: country risk premium, investment attractiveness, Russian-Ukrainian war, Belarus, business valuation.

JEL Classification: E22, F51, G32.

1. INTRODUCTION

One of the significant areas of financial management is the investment management. Assessing the investment attractiveness of a country can be complex and multifaceted. **Lowy Institute (2024)** made the assessment on the basis of long-term statistics of attracted foreign capital. It is also possible to use simultaneously several statistical data reflecting different aspects related to investments. An example would be Global Attractiveness Index in **European House – Ambrosetti (2024)** which is based on a reclassification in the several sub-indices. Indicators of the attractiveness of investments in certain specific industries are also considered. Such an example is the Investment Attractiveness Index in **Fraser Institute (2024)**, calculated under the auspices of the European Commission, ranks countries by mining investment and is constructed by combining two sub-indices: one that ranks regions based on their geological attractiveness and the other that measures the influence of government policies on attitudes towards investment in exploration. In a related area, attempts are being made to predict the possibility of a real estate price bubble in a particular city as in **UBS Group (2024)**. The UBS Global Real Estate Bubble Index traces the valuation of housing markets and the valuation of cities in relation both to their country and to economic distortions (lending and building

booms) on the base of year statistics. The index score is a weighted average of the following five city sub-indices: price-to-income and price-to-rent ratios (fundamental valuation), change in mortgage-to-GDP ratio and change in construction-to-GDP ratio (economic distortion), and city-to-country price ratio. Of course, this is not the only indicator of this kind. It will note, among others, the CAPE ratio of **Campbell, and Shiller (1998)**, which means the cyclically adjusted price-to-earnings ratio of companies in a certain country. But it should be pointed that the accuracy of index calculations depends on the accuracy of the data used, and an increase in the number of source data in composite indexes should negatively affect this parameter.

Considering the problem of assessing the investment attractiveness of a country, along with the above approaches, it would like to have an index that would reflect the current state of the investment process, that is, based on short-term (day, week, month) data. It should not be composite, so as not to introduce additional error into the calculation. This article is devoted to the presentation of just such an index, called the Country Risk Premium, CRP.

In the income approach to valuation of various assets how **IVS (2024)** are interpreted, especially capital-intensive ones, such as business and real estate, when calculating not value in exchange but value in use: investment value or user

value **Trifonov (2010)**, one of the key concepts is the concept of capitalization/discount rate. **Sharp (1998)**, **Damodaran (2012)**, **Trifonov (2021a, 2025a)** consistently argue that if the valuation is made in a currency not issued by the country where the valuation asset is located (for example, the value of an Indian enterprise in US dollars), then this is taken into account in the calculations by introducing a CRP. Similarly, the CRP is included in the formulas for assessing the effectiveness of investment projects, such as net present value, internal rate of return, etc. - see **Boer (1999)**, **Ehrhardt & Brigham (2016)**. Knowing the size of the CRP is also essential for characterizing the country's public debt and its investment attractiveness for a foreign investor.

2. BACKGROUND OF COUNTRY RISK PREMIUM

Country risk premium, CRP, is a premium for the risk of investing foreign funds in a valuation asset (or investment project) in the country, associated with the loss (full or partial) of value of the valuation asset (or investment project) due to general economic, financial and socio-political factors which present in the country, regardless of such a valuation asset (or investment project).

Sharp (1998), **Damodaran (2012)**, **Trifonov (2021a, 2025a)** have consistently found out that the CRP appears in business valuation formulas or investment project ones when the calculation is carried out in some foreign currency, in other words, when the valuation asset (or investment project) is located in a country that does not issue the currency chosen for calculation. Thus, the magnitude of the CRP significantly depends on the monetary unit (currency) used in the calculation (see, for example, **Damodaran (2012)**, **Trifonov (2021a, 2025a)**). In the case of valuation against another currency, the CRP should generally have a different magnitude.

The Country Risk Premium can be considered as the cross-country difference in the investment returns of the currency of valuation **Trifonov (2021a, 2025a)**, that is, as the difference in the investment returns of the monetary unit in the country in question and the country issuing this monetary unit.

A straightforward way to calculate the magnitude of the CRP is to relate it to the yield R_{pr} of long-term government bonds issued by the government of the country in question and denominated in the currency used. The yield is determined based on data from trading of these bonds on international stock exchanges, see **Damodaran (2012)**, **Trifonov (2021a, 2025a)**. Such information provides a market view of the attitude towards investment in a country, aggregating all the risks included in the CRP.

If a country government has issued several bonds with different maturities, then, based on the purpose of the calculation (characteristics of investments in real estate and enterprises, that is, subjects with a fairly long economic life), the longest-lived security should be selected. In this case, the magnitude of the yield on long-term government bonds of the country issuing the monetary unit (currency) used should be used as the risk-free rate R_0 in the calculations. In this case **Trifonov (2021a, 2025a)** showed, that the expression for calculating the CRP the following form:

$$CRP = (1 + R_{pr}) / (1 + R_0) - 1. \quad (1)$$

Note that an expression similar to (1) was used almost 30 years ago in the fundamental reference book of **Ibbotson (1996)**, however, for other purposes.

3. INITIAL DATA

This article examines the monthly time dynamics of the CRP of Ukraine, Russia, Belarus against the US dollar in the period from the end of 2021 to determine on it the impact of military actions in the territories of Ukraine and Russia, as well as neighboring Belarus, which is not formally participating in the military conflict.

Information on the yield R_{pr} of the corresponding Eurobonds from the Bloomberg agency was initially used as initial data for calculation, then, in 2022, for two months, information from the Frankfurt Exchange, and finally, due to the cessation of quotation of Russian and Belarusian securities on Western European exchanges, information from Asian stock exchanges platforms.

As the risk-free rate R_0 , the calculations used data from the US Federal Reserve System **Fed (2025)** on the current yield on long-term US government treasury bonds. The lifespan of the US government treasury bonds was chosen to be comparable to the remaining lifespan of the obligations of the country under study, see **Trifonov (2023, 2025a)**.

4. UKRAINE: RESULTS

The Ukrainian government issued long-term bonds with maturities in 2026, 2030, 2034, 2035, and 2041 denominated in US dollars, as well as bonds denominated in euros and short-term obligations. The calculation of the CRP, based on the set goal, was based on monthly information on the yield of the longest-lived dollar bond of the government of Ukraine – with a maturity of August 2041 and a coupon payment of 7.75% per annum. Data on the yield on 20-year US Treasury constant maturities were used as the risk-free rate. The results of computation are presented in Fig. 1.

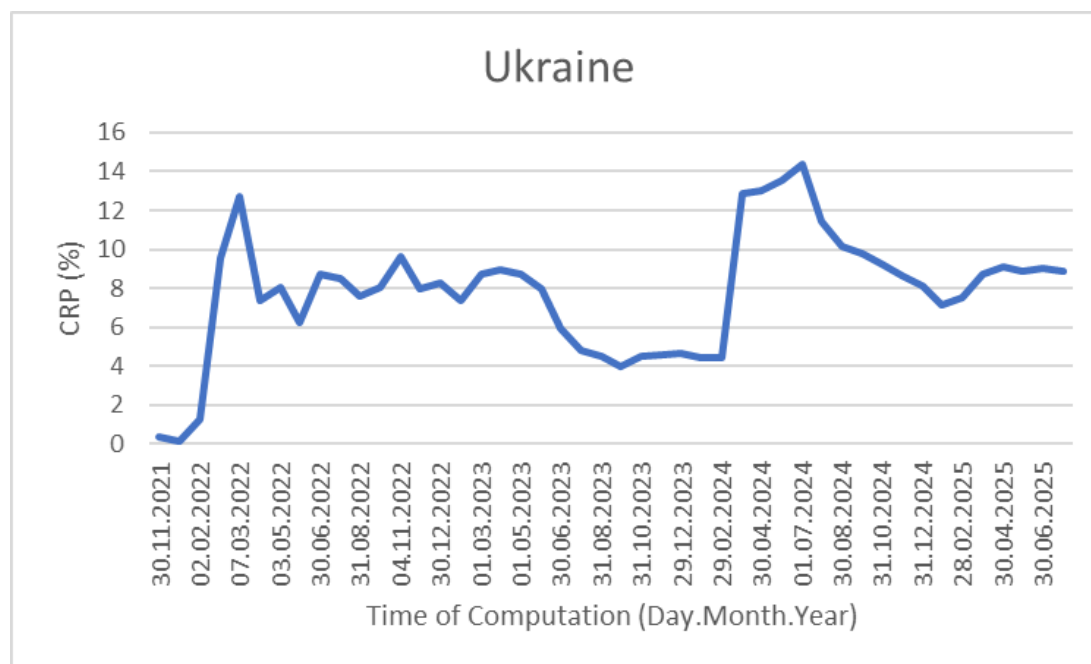


Figure 1. Dynamics of the country risk premium for Ukraine from Nov 2021 till Jul 2025. Source: own work.

As of November 30, 2021, the magnitude of the Ukrainian CRP was equal to 0.39% per annum. Further on the graph (Fig. 1) we can roughly distinguish five characteristic periods: initial War shock (March 2022), reaction (April 2022 – June 2023), stabilization (July 2023 – February 2024), second shock (March – August 2024), and relative relaxation (September 2024 – July 2025). The magnitudes of the most significant local maximums are as follows: 12.7% on March 7, 2022, 9.59% on November 4, 2022, 14.4% (absolute maximum) on July 1, 2024. The most significant local minimums on the graph are as follows: 8.21% on May 31, 2022, 4.00% on September 30, 2023. Ukrainian country risk

premium decreased to 7.12% by the end of January 2025. In July 2025 CRP for Ukraine was 8,90%.

5. RUSSIA: RESULTS

Quite a lot of Russian government bonds with maturities in 2025-2030, 2042, 2043 and 2047 are quoted on international stock exchanges. The calculation of the CRP, based on the set goal, was based on monthly information on the yield of the longest-lived bond of the government of the Russian Federation – with a maturity date of June 23, 2047 and a coupon payment of 5.25%. Data on the yield on 20-year US Treasury constant maturities were used as the risk-free rate. The results of computation are presented in Fig. 2.



Figure 2. Dynamics of the country risk premium for Russia from Nov 2021 till Jul 2025. Source: own work.

As of November 30, 2021, the magnitude of the CRP for Russia was equal to 2.08% per annum. After the start of the Russian-Ukrainian War the CRP jumped to 47.24% (as of March 3, 2022). By March 31, 2022, there was a decline to 19.49%, followed by a rise of 26.41% on May 23 and a decrease to values of about 10% with a local peak of 15.80% on January 30, 2022. Another local maximum of 14.77% was noted on November 30, 2023. At the beginning of July 2024, the value of the Russian CRP decreased to 7.14%, by January 31, 2025, it had risen to 14.2% per annum, and by the end of July 2025 it rose to the level of 15.1%.

6. BELARUS: RESULTS

Republic of Belarus has issued several government long-term obligations denominated in US dollars, known as

xs2120091991 (due maturity in 2026, BLR-26), xs1760804184 (due 2030, BLR-30) and xs2120882183 (due 2031, BLR-31). Initially, information from the Bloomberg agency about BLR-31 was used for the calculation, but in February 2022 this information became unavailable to the author. When searching for stock exchange data on the World Wide Web, we were able to find only the quotation of BLR-30 (on the Frankfurt Exchange). From this month, the calculation of the country risk premium for Belarus is based on information about the yield of this particular bond. Data on the yield on 7-year US Treasury constant maturities were used as the risk-free rate. The results of computation are presented in Fig. 3.

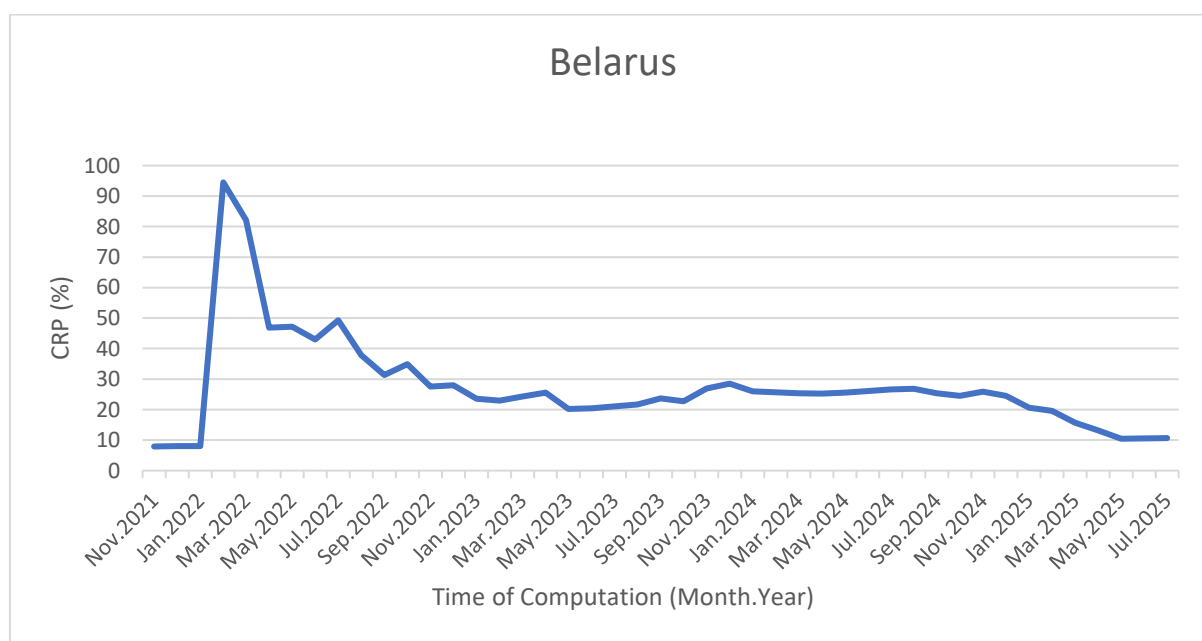


Figure 3. Dynamics of the country risk premium for Belarus from Nov 2021 till Jul 2025. Source: own work.

In December 2021, the magnitude of the country risk premium for Belarus was at the level of 8.0% per annum. Country risk premiums calculated for comparison for countries with similar ratings according to the Bloomberg classification (B and B-) in December 2021 were: for Tajikistan is 8.1%, for Mongolia is 2.8%. In 2022, the sanctions consequences of the beginning of the Russian-Ukrainian War led to sharp changes in the sale of Belarusian government long-term bonds, which affected the magnitude of country risk. In February 2022, the value of the CRP for Belarus, calculated on the basis of information from the Frankfurt Exchange, jumped to 94.5% (!). This explains, in particular, the fact that later European exchanges refused to admit Belarusian bonds to their platforms. But in the rest of the world (and especially in Asian stock markets), Belarusian government bonds are still quoted, which makes it possible to calculate current data on the magnitude of the CRP for

Belarus. This magnitude gradually decreased and at the end of 2022 (according to data calculated as of January 4, 2023) became equal to 28.0%. In May 2023, the CRP reached a local minimum of 20.2%. Subsequently there was a slight increase. As of January 31, 2025 for Belarus CRP = 20.6%, and by the end of July 2025 it dropped to 10.7%.

7. DISCUSSION

It is interesting to conduct a comparative analysis of the dynamics of the behavior of the CRP in these countries based on the data presented in Fig. 1-3. The Russian-Ukrainian War influenced the external investment attractiveness of not only the countries directly involved in it, but also the neighboring Belarus. Moreover, considering the initial reaction to the events at the end of February 2022, it should be noted that this had the greatest impact on the magnitude of the CRP of Belarus, which increased from 8% to 94.5% (!), despite the

fact that the affected this country only indirectly. The range of changes for this period in Russia is significantly smaller: from 5.99% to 47.2%. The initial reaction in Ukraine was least noted: its CRP changed from 1.28% to 12.7%.

But the further behavior of this indicator of investment attractiveness for the countries under consideration was different. The dynamics of the country risk premiums for Belarus and Russia can generally be characterized as decreasing, and since the middle of last year as stabilizing. Apparently, this can be explained by the fact that, firstly, the economies of the countries are quite closely connected with each other, especially in new conditions, and, secondly, by the fact that these countries have largely adapted to the difficult situation. We also note the decrease in the CRP magnitude for Belarus during 2025. And starting in April, the indicator for Belarus for the first time in the entire observation period became lower than that for Russia.

The CRP of Ukraine, based on the data in Fig. 1, after an initial shock in the spring of 2022, he dropped by about a third, and remained at this level about a year, from the summer of 2022 to the summer of 2023. At the beginning of summer 2023, the CRP dropped by another third and fluctuated at this level until the end of winter 2024. Then, after the second shock in the spring-summer of 2024, relaxation begins, which continues to this day.

For comparison Table 1 shows the current magnitudes of the CRP, calculated by the author for some countries, monthly published for public use in Trifonov (2025b).

Table 1. Current summary of country risk premiums for selected countries (against USD)

Country	CRP (%)
Armenia	5,11↓
Belarus	10,7↑
Czech Republic	0,35↑
Dominican Republic	4,35↓
Egypt	7,54↓
Finland	2,39↑
Georgia	4,43↓
Hungary	3,81↑
Indonesia	2,79↓
Italy	1,72↑
Kazakhstan	3,37↓
Latvia	3,09↓
Mongolia	5,00↓
Montenegro	4,34↓
Poland	3,29↓
Romania	4,54↓
Russia	15,1↑
Serbia	3,56↓
Slovenia	2,76↑
South Africa	5,57↓

Spain	3,57↑
Sweden	2,85↑
Tajikistan	6,46↑
Turkey	5,46↓
the UAE	2,77↓
Ukraine	8,90↓
Uzbekistan	4,50↓

Source: Trifonov (2025b).

8. CONCLUSIONS

The Country Risk Premium was originally used as one of the parameters included in the valuation formulas of the income approach when using foreign currency. It was also needed when assessing the effectiveness of investment projects. But, as experience in its calculation and use accumulated, it became obvious that the country risk premium can serve independently as an indicator of the investment attractiveness of a country, quite sensitive to the economic and political situation. Based on current stock market data, it reflects the current situation in the country. Due to the simplicity of calculation, it has a relatively small error.

As an example, the influence of the Russian-Ukrainian War on the dynamics of the CRP magnitude for the countries involved (including indirectly) in it is considered. Based on the data obtained, from April 2025 the relative adaptation of the economies of Ukraine, Russia and Belarus to the current situation can be noted.

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