

CCRA

CERTIFIED CREDIT RESEARCH ANALYST

Topic Name – Sovereign Rating



Sovereign Credit Rating

A sovereign credit rating is the credit rating of a sovereign entity, such as a national government. The sovereign credit rating indicates the risk level of the investing environment of a country and is used by investors when looking to invest in particular jurisdictions, and also takes into account political risk

Need of Sovereign Credit Rating....

- To arrive at country's borrowings cost in international capital markets
- Sets a ceiling for ratings assigned to domestic banks and companies and thus affects the private financing cost
- Some institutional investors have lower bound for the risk they can assume in their investment and will choose their portfolio composition taking into account the credit rating



Factors of Sovereign Rating...

- Economic Strength
- Institutional Strength
- Government Financial Strength
- Susceptibility to Event Risk



Economic Strength...

- Wealth- GDP per capita
- Scale of the Economy-Nominal GDP
- Long Term Economic Strength-Qualitative Assessment




Institutional Strength

- Governance-World Bank Government Effectiveness Index
- Rule of Law- World Bank Rule of Law Index
- Transparency- Qualitative Assessment



Government Financial Strength...

- Access to External Liquidity
- Debt Affordability
- Access to Resources



Susceptibility to Event Risk...

- Political Risk
- Economic Risk
- Financial Risk



Different Scores to measure Sovereign Credit Rating...

- Political Score
- Macro Economic Score
- External finance Score
- Fiscal Score
- Monetary & Liquidity Score



Political Score

- Governance
- Ease of doing Business
- Human Development Index
- Corruption Perception Index
- Global Competitiveness Index
- Political & Social Tension
- Debt repayment behaviour



Macro Economic Indicator.

- GDP Growth
- GDP per Capita
- Population
- Unemployment Rate



External Finance Score

- Current Account Balance
- Current Account Balance/GDP • Capital Account Position
- Net Foreign Investment/GDP
- External Debt/Current account receipts
- Official Foreign Exchange Reserves
- Official Foreign Exchange Reserve/Current Account Payment
- Official Foreign Exchange Reserves/External Debt
- Short term payment due/official foreign exchange reserve

Fiscal Sustainability Score...

Fiscal Sustainability score depends on the following:

- Fiscal performance
- Fiscal flexibility
- Debt burden
- Contingent liability

Monetary & Liquidity Score...

Monetary Score:

- Independence of Monetary Policy
- Inflation trends

Effectiveness of Monetary Policy & development of financial sector Liquidity Score:

- Interest Payment/Revenues
- Debt Service Ratio • External Vulnerability Indicato



Thank You
