

SOVEREIGN RATING OF A COUNTRY



## SOVEREIGN RATING OF A COUNTRY



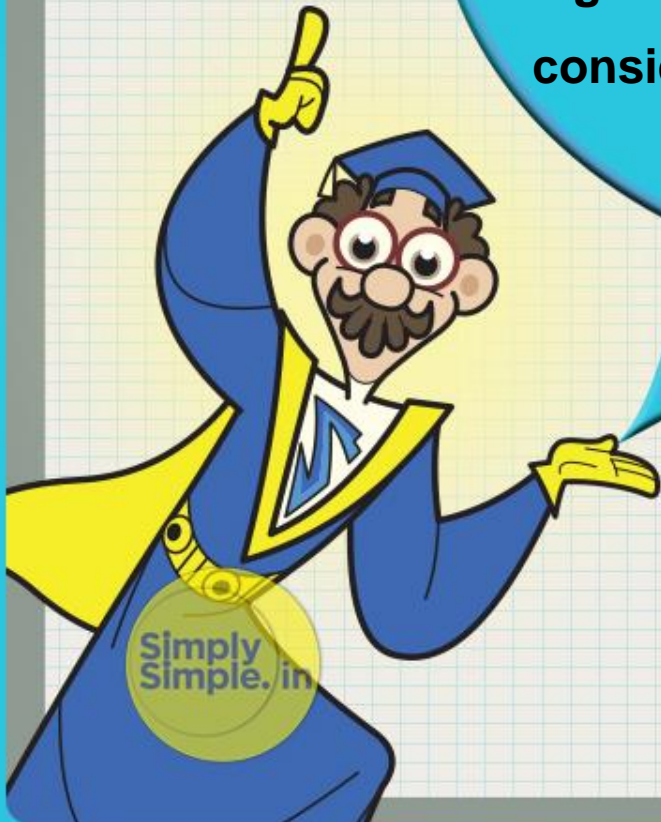
**Just like companies are rated by rating agencies so are countries rated.**

**Let's understand how this is done.**



## SOVEREIGN RATING OF A COUNTRY

**Sovereign ratings are needed for those who plan to invest in a foreign country. If the country does not enjoy a good rating, such investments are considered risky.**



## SOVEREIGN RATING OF A COUNTRY

Till recently sovereign default was not considered a real concern. But the recent news flows from Greece, Portugal, Ireland, Spain and Dubai has shown that countries themselves can come to the brink of default.



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**So how are countries rated.  
This process is a little different  
from how companies are rated.**

## SOVEREIGN RATING OF A COUNTRY

Just as in the case of a company, even for a country there are several quantitative parameters that suggests the health of the economy.

However, unlike a company rating, in the case of rating a country, higher weightage is given to other qualitative parameters.



## SOVEREIGN RATING OF A COUNTRY

Some quantitative parameters which indicate the countries abilities to pay its debt are :-

1. Debt/GDP
2. Current account deficit
3. Interest amount/Expenditure
4. Economic growth rate
5. Savings rate
6. Investment rate



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The countries ability to withstand financial shocks are also investigated – whether banks have been subjected to stress tests and how they have emerged from such tests.





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Besides quantitative measures the rating agencies interview policymakers to assess the policies being planned and the countries outlook towards financial reforms.



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Analysts also make a judgment of the political risks that prevails such as probabilities of an external war, internal unrest, terrorism threats etc.



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Thus while the quantitative parameters become the inputs into some sort of “mathematical model” to assess the country’s credit worthiness while the qualitative parameters which examines risk environment prevailing there.

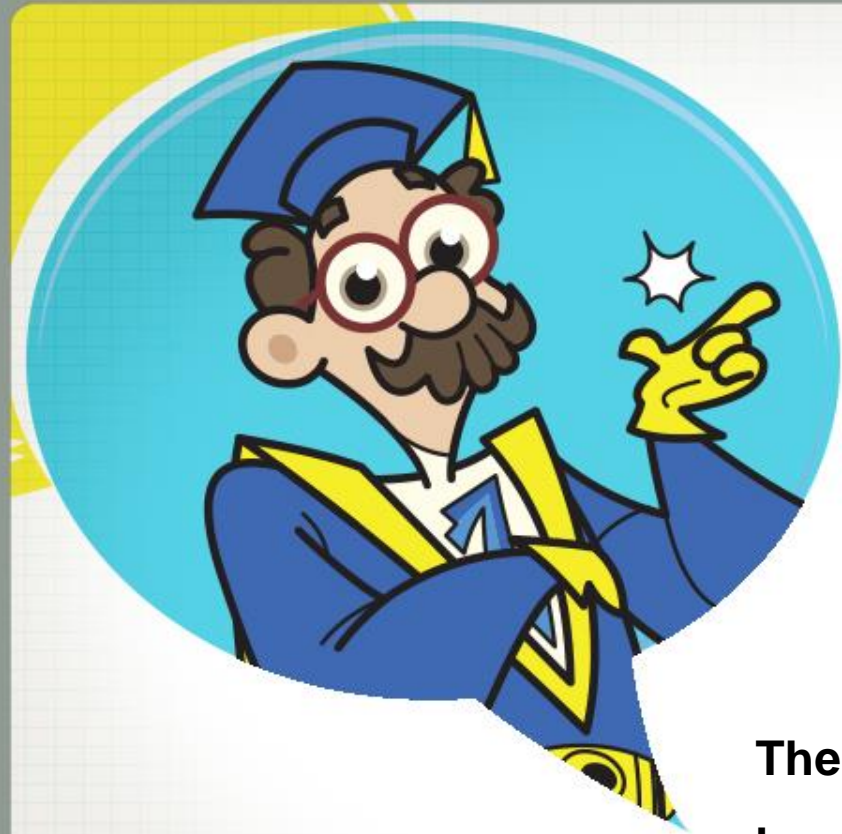


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Thus sovereign rating essentially assesses the country's government. In this context its interesting to note that US has a AAA rating and India's rating is BBB- while the outlook is 'stable' for both of them (S&P Rating dt. 23 Aug, 2010).



## SOVEREIGN RATING OF A COUNTRY



The rating given to a country becomes the benchmark for ratings granted to other financial instruments like corporate bonds etc.



## SOVEREIGN RATING OF A COUNTRY

Since granting rating to a country has massive implications for the subject country, a large element of mature judgment is needed.



## SOVEREIGN RATING OF A COUNTRY

We hope you got some idea about  
sovereign rating from this presentation.



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**Mutual Fund investments are subject to market risks,  
read all scheme related documents carefully.**

