# FitchRatings Criteria Essentials – Sovereign Ratings (1/2)

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	Structural Features	Macro Performance, Policies, Prospects	Public Finances	External Finances	
Sovereign Rating Model (SRM)	<ul> <li>Governance indicators</li> <li>GDP per capita</li> <li>Share in world GDP</li> <li>Years since default or restructuring</li> <li>Broad money supply to GDP</li> </ul>	<ul> <li>Real GDP growth</li> <li>Real GDP growth volatility</li> <li>Consumer price inflation</li> </ul>	<ul> <li>Gross general government (GG) debt to GDP</li> <li>GG interest to revenue</li> <li>GG fiscal balance to GDP</li> <li>Foreign currency GG debt to gross GG debt</li> </ul>	<ul> <li>Reserve-currency flexibility</li> <li>Sovereign net foreign assets to GDP</li> <li>Commodity dependence</li> <li>FX reserves (months of CXP<sup>a</sup>)</li> <li>External interest service to CXR<sup>b</sup></li> <li>CAB<sup>c</sup> plus net FDI<sup>d</sup> to GDP</li> </ul>	Predicted Rating AAA to CCC+
Qualitative Overlay (QO)	<ul> <li>Political stability and capacity</li> <li>Financial sector risks</li> <li>Other structural factors</li> <li>-2 to +2 notch adjustment</li> </ul>	<ul> <li>Macroeconomic policy credibility &amp; flexibility</li> <li>GDP growth outlook (medium term)</li> <li>Macroeconomic stability</li> <li>-2 to +2 notch adjustment</li> </ul>	<ul> <li>Fiscal financing flexibility</li> <li>Public debt sustainability</li> <li>Fiscal structure</li> <li>-2 to +2 notch adjustment</li> </ul>	<ul> <li>External financing flexibility</li> <li>External debt sustainability</li> <li>Vulnerability to shocks</li> <li>-2 to +2 notch adjustment</li> </ul>	Notch Adjustment* -3 to +3
					]

Long-Term Foreign Currency Issuer Default Rating (LT FC IDR) AAA to B-

### Where LT FC IDR is 'CCC+' or below

Fitch does not utilise the SRM and QO. Instead, ratings are directly based on the Fitch's <u>Ratings Definitions</u>: CCC: Substantial credit risk; CC: Very high levels of credit risk; C: Near default; RD: Restricted default

\*The overall notching adjustment relative to the SRM output is generally capped at +3/-3, meaning that the maximum notching adjustments for each of the 4 analytical pillars cannot be applied simultaneously. In certain circumstances (e.g. a crisis), Fitch's sovereign rating committee may extend the range of overall notching to address the inability of the SRM to adjust rapidly to or deal with such circumstances.

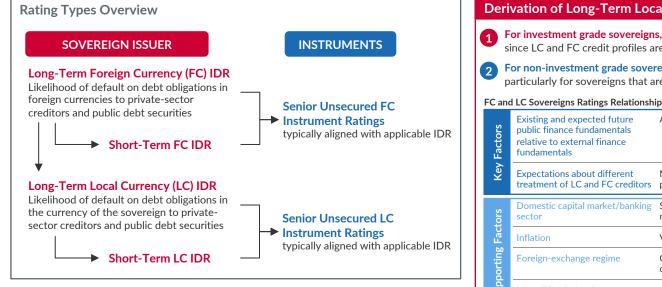
a: CXP current external payments; b: CXR current external receipts; c: CAB current account balance; d: FDI Foreign direct investment

This document is a summary of, and complementary material to, our current Sovereign Rating Criteria report available on Fitch Ratings' public website. It does not replace our criteria and should be used in conjunction with it.

## FitchRatings Criteria Essentials – Sovereign Ratings (2/2)

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#### Sovereign Default Events

Sovereign Default events that would result in the sovereign's IDR being lowered to 'RD':

- Missed coupon or principal repayment on public debt security issued by the sovereign or guaranteed by the sovereign
- Failure to pay debt obligations owed to private creditors by the sovereign or by third parties with a guarantee from the sovereign
- On execution of a distressed debt exchange (DDE)
- Forced redenomination of sovereign debt into a different currency, unless the old currency ceased to exist
- Unilateral or forced change of debt terms initiated by the sovereign on a public debt security that constitutes a material reduction in terms

#### Not sovereign default events:

Reported failure to repay debt owed to official creditors, other than public debt securities, eg World Bank Group, IMF, bilateral development agencies, export credit agencies, publicly-owned development banks, although this could adversely affect ratings

Deri	vation of Long-Term	Local	Curre	ncy (LC	:) IDF	R						
	or investment grade sover ince LC and FC credit prof											
2 p	or non-investment grade s articularly for sovereigns t d LC Sovereigns Ratings Relat	hat are		•		0	nt LC ai	nd FC ci	redit pro	ofiles,		
Key Factors	Existing and expected future public finance fundamentals relative to external finance fundamentals		Average/Weak			Strong			Exceptionally weak			
Key	Expectations about different treatment of LC and FC cred		No expectation of LC preferential treatment			Expectation of LC preferential treatment			Expectation of FC preferential treatment			
Supporting Factors	Domestic capital market/bar sector			iquid, shor expensive		Deep, liquid, long maturities, affordable			Shallow, illiquid			
	Inflation	V	Volatile, indexation			Low, stable			High, volatile			
	Foreign-exchange regime		Currency board, peg, currency union, dollarised			Free float, own currency			n.a.			
Supp	LC vs FC debt burdens	n.	n.a.			Low or neutral LC burden vs FC debt			Heavy LC debt burden vs FC debt			
			Baseline LC = FC IDR			1 or 2 key factors LC = FC IDR + 1 notch can rarely be 2 notches or more			Rarely LC = FC IDR - 1 notch			
	vation of Short-Term				able fo	or instrumo	ents wit	h initial	maturity	y ≤13 m	onths)	
	Term Rating	AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C	<sup>D</sup> RD/D	
T Rat	Lower option	F1+	F1	F1	F2	F2	F3	F3	В	С	C/RD/D	
. na	Higher option		E1 1	E1.	E1	E 4	ED					

**2** For ST Foreign-Currency ratings The higher of the 2 options is applied if either

F1+

F1+

- Reserve-currency flexibility score > 0
- Fitch assesses that the sovereign has a
- robust international liquidity position

Higher option

**For ST Local-Currency ratings:** The higher of the 2 options is applied

Otherwise, lower

option applied