FitchRatings

Criteria Essentials – Sovereign Ratings (1/2)

Scan QR code or visit https://www.fitchratings.com/criteria/sovereigns to view detailed **Sovereign Rating Criteria**

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

Predicted Rating
AAA to CCC+

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 Ratings Definitions:
CCC: Substantial credit risk; CC: Very high levels of credit risk; C: Near default; RD: Restricted default

Climate Vulnerability Signals (Climate.VS) are used as a screening tool to enhance our ability to identify sovereigns with higher potential exposure to climate-related risks. Those sovereigns are subject to additional analysis and consideration.

*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.

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Criteria Essentials – Sovereign Ratings (2/2)

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Long-Term Foreign Currency (FC) IDR → **LT FC Instrument Ratings**

Likelihood of default on debt obligations in foreign currencies to private-sector creditors and public debt securities

LT FC Instrument Ratings: Likelihood of default on the obligation and expected recovery in the event of default

Short-Term FC IDR → **ST FC Instrument Ratings**

Long-Term Local Currency (LC) IDR → **LT LC Instrument Ratings**

Likelihood of default on debt obligations in the currency of the sovereign to private-sector creditors and public debt securities

LT LC Instrument Ratings: Likelihood of default on the obligation and expected recovery in the event of default

Short-Term LC IDR → **ST LC Instrument Ratings**

Derivation of Long-Term Local Currency (LC) IDR

1. **For sovereign ratings not near distress, typically LC = FC ratings** since LC and FC credit profiles are typically indistinguishable

2. **For sovereigns that are in or approaching distress**, greater potential for divergent LC and FC credit profiles driven by Fitch's expectations of likely preferential treatment of local-currency or foreign-currency debt, and informed by:

- Local- versus foreign-currency debt burdens
- Domestic capital markets development
- Access to foreign currency

Derivation of Short-Term IDRs (typically applicable for instruments with initial maturity ≤13 months)

Correspondence table between Long- and Short-Term Ratings

Long-Term Rating		AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C	RD/D
Short-Term Rating	Lower option	F1+	F1	F1	F2	F2	F3	F3	B	C	C/RD/D
	Higher option		F1+	F1+	F1	F1	F2				

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

2. **For ST Foreign-Currency ratings** The higher of the 2 options is applied if either
   - Reserve-currency flexibility score > 0
   - Fitch assesses that the sovereign has a robust international liquidity position

   Otherwise, lower option applied

Senior Unsecured Debt Instrument Ratings

Senior Unsecured Long-Term Instrument Ratings

1. **If issuer rated BB- or above**
   - Instrument rating aligned with applicable LT IDR
   - Recoveries assumed to be 'average'
   - No Recovery Rating assigned

2. **If issuer rated B+ or below:** Recovery Rating usually assigned to instrument and drives its rating notching relative to applicable LT IDR

Instrument ratings for combinations of Issuer IDRs and RRs

RR*	Recovery prospects	Notching from IDR	Long-Term IDR B+	B	B-	CCC+	CCC	CCC-	CC	C/RD
RR1	Outstanding	+3			BB-	B+	B	B-	CCC+	CCC
RR2	Superior	+2		BB-	B+	B	B-	CCC+	CCC	CCC-
RR3	Good	+1	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
RR4	Average	0	B+	B	B-	CCC+	CCC	CCC-	CC	C
RR5	Below average	-1	B	B-	CCC+	CCC	CCC-	CC	C	C
RR6	Poor	-2	B-	CCC+	CCC	CCC-	CC	C	C	C

* If IDR at B+, RR capped at RR3; if IDR at B, RR capped at RR2

Senior Unsecured Short-Term Instrument Ratings are aligned with applicable ST IDR

Sovereign Default Events

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

- Missed coupon or principal repayment on a public debt security issued by the sovereign
- Failure to pay debt obligations (other than public debt securities) owed to private creditors by the sovereign, provided that Fitch is satisfied that a default has occurred
- Failure to honor a material, unequivocal, irrevocable and unconditional guarantee provided by the sovereign
- On execution of a distressed debt exchange (DDE)
- A forced redenomination of sovereign debt into a different currency, unless the old currency ceased to exist
- A unilateral or forced change of debt terms initiated by the sovereign on a public debt security that constitutes a material reduction in terms even if a DDE does not occur

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

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