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Sovereign Rating Model

Model Summary Document (MSD)

1. Model Purpose and Description

The purpose of the Sovereign Rating Model (SRM) is to assign a predicted Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR) for Sovereign entities, by applying model parameters (a set of coefficients and an intercept term) to data for the input variables. The parameters are the output of the associated Criteria Model: Sovereign Rating Regression Model (SRRM). The SRM is a regression-based, point-in-time Rating Model rather than a probability of default model. It provides the starting point for assigning sovereign ratings and is used in conjunction with Qualitative Overlay notch adjustments to determine LT FC IDRs.

The same model is used for all sovereigns.

2. Model Assumptions

The assumptions in the model are informed by the underlying criteria model

- Sovereign Rating Regression Model

and/or described in Fitch's criteria

- Sovereign Rating Criteria

3. Model Inputs

The variables in the model span the four analytical pillars referenced in the Sovereign Rating Criteria: (1) structural features; (2) macroeconomic performance, policies and prospect; (3) public finances; & (4) external finances.

There is one variable for each of the concepts listed below. The model uses annual data for these variables. The data is mix of single year datapoints and three-year centred averages. It incorporates recent historical data, and Fitch's own estimates and forecasts. The specific indicator derivation is described in the Sovereign Rating Criteria.

Pillar I - Structural features:

- Composite governance indicator
- GDP per capita
- Share in world GDP
- Years since default or restructuring event
- Money supply

Pillar II - Macroeconomic performance, policies and prospects**:**

- Real GDP growth volatility

- Consumer price inflation
- Real GDP growth

Pillar III - Public finances:

- Gross general government debt
- General government interest payments
- General government fiscal balance
- General government foreign-currency debt

Pillar IV - External finances:

- Reserve currency flexibility score
- Commodity dependence
- Official international reserves (for non-reserve-currency sovereigns only)
- Sovereign net foreign assets
- Current account balance plus net foreign direct investment
- External interest service

4. Model Development Data

See Model Summary Document for the associated Criteria Model: Sovereign Rating Regression Model (SRRM).

5. Model Limitations

Limitations include, but are not limited to, the following: The model is intended only to analyse sovereign issuers within the scope of Fitch's "Sovereign Rating Criteria".

6. Material Changes

The current model version is 3.14.x. Any future material changes will be disclosed in this section.

Contact Information

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