

Sovereign Ratings

VINCENT TRUGLIA

Managing Director, Sovereign Risk Unit

Moody's Investors Service

November 1999

Second Sovereign Debt Management Forum

The World Bank, Washington D.C.



Definitions and Functions of Foreign Currency Ceilings

- ❖ **Foreign Currency Convertibility Risk**
- ❖ **Acts as Ceiling on Other Ratings**
- ❖ **Methods of Sovereign Analysis**

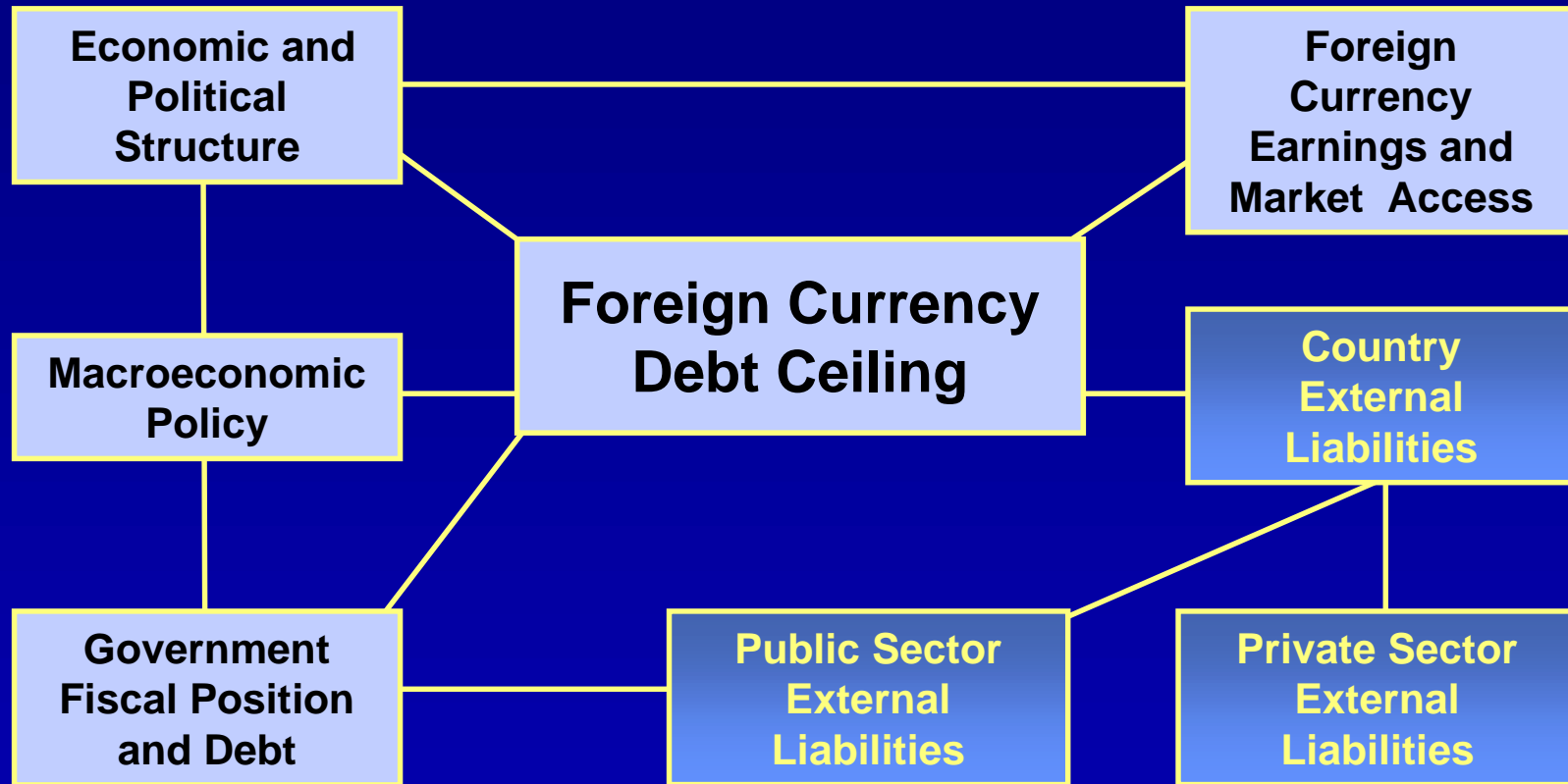


Foreign Currency Debt Ceilings

- ❖ **Shorthand system for limiting ratings on foreign currency obligations subject to acts of state**



Determinants of Foreign Currency Debt Ceiling



Rating Bank Deposits

- ❖ **Foreign Currency Country Ceiling for Bank Deposits**
- ❖ **Higher Risk for Deposits than Bonds**



Foreign and Local Currency Ratings

- ❖ **Local Currency Ratings Can Be Higher**
- ❖ **Risks of Local Currency Government Debt**
- ❖ **Private Sector Ratings Can Be Above Government**

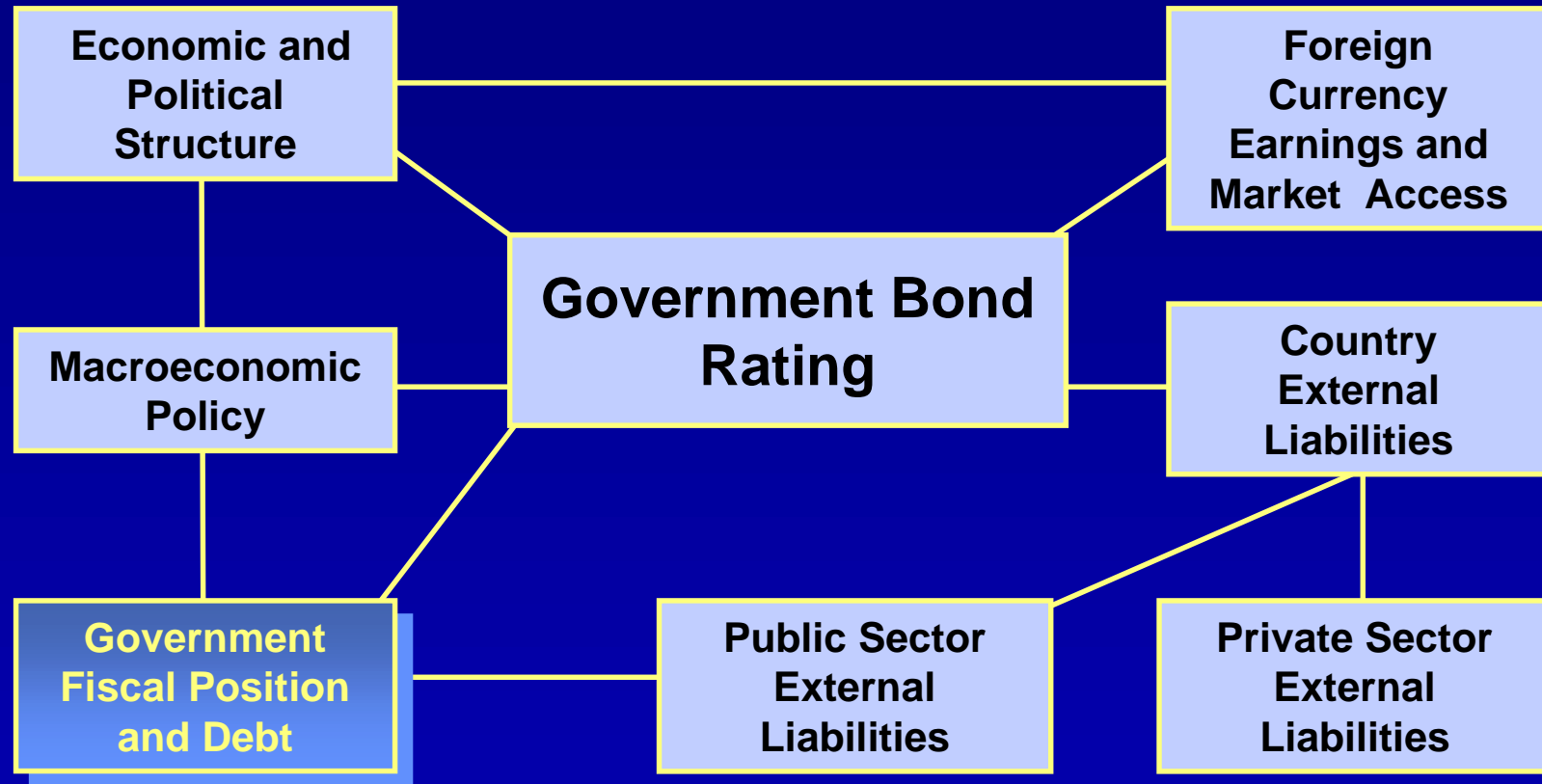


Government Bond Ratings

- ❖ **Ratings of specific instruments - not ceilings**
- ❖ **Foreign currency government debt typically rated at FX ceiling**
- ❖ **Local currency government debt can be rated higher**
 - **Taxes are in local currency**
 - **Possibility of monetization of debt**



Determinants of Government Bond Ratings



Major Issues

- ❖ **V.A.R. Modeling and Contagion**
- ❖ **Sovereign Immunity Issues**
- ❖ **Burden Sharing**

