

Note

# Real-Time Sovereign Ratings: What Happened in July?

## 1. Introduction

This note presents an update of Risk Control's analysis of the sovereign ratings and PDs implied by CDS spreads. Risk Control's earlier analysis was contained in the note: "Real Time Sovereign Ratings in the Covid-19 Crisis," 20-65a.<sup>1</sup> We focus on the question: What happened to Sovereign Credit Quality in July?

The key points of the update are:

- A. Overall, sovereign credit quality improved.
- B. There is no change in the 1-year PD implied ratings for 71% of the countries and 5-year PD implied ratings for 76% of the countries in our sample in July.
- C. The rest of the countries have higher ratings.
- D. Ratings for only 3 countries based on 1-year PDs (Greece, Slovakia, Uruguay) have deteriorated in July. Based on 5-year PDs, ratings of Greece and Hong Kong have deteriorated in July.

## 2. Sovereign Rating Changes

Table 1 shows the rating changes in July 2020. Key findings are:

- Based on the 1-year implied historical PDs, the ratings of 47 countries remained unchanged in July, 16 countries increased and 3 countries decreased.
- Rating increase by 1 notch is for Brazil, Chile, China, Indonesia, Kazakhstan, Malaysia, Portugal, Saudi Arabia, South Korea, Spain, UK and Vietnam. . Rating increase by 2 notches is for Australia, Panama and Philippines. Rating increase by 3 notches is for Qatar.
- Countries for which ratings dropped are Greece, Slovakia and Uruguay.
- Based on the 5-year implied historical PDs, the ratings of 50 countries increased in July, 14 countries increased and 2 countries decreased. . Rating increase by 1-notch is for Australia, Colombia, Indonesia, Ireland, Japan, Malaysia, Panama, Peru, Portugal, Qatar, Saudi Arabia, Thailand, U.K. and Vietnam. Rating decrease by 1 notch is for Greece and Hong Kong.

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<sup>1</sup> This is available at: <https://www.riskcontrollimited.com/wp-content/uploads/2020/05/Real-Time-Sovereign-Ratings-in-the-Covid-19-Crisis-20-65a-15-5-20-FINAL.pdf>.

Table 1: Changes in July 2020  
Panel a) 1-year PD implied ratings

Country	1st	31st	Change	Country	1st	31st	Change
	July	July			July	July	
Australia	AA	AAA	2	Jamaica	B-	B-	0
Austria	AAA	AAA	0	Japan	AAA	AAA	0
Bahrain	B	B	0	Jordan	B-	B-	0
Belgium	AAA	AAA	0	Kazakhstan	BB+	BBB-	1
Brazil	BB	BB+	1	Latvia	A-	A-	0
Chile	A-	A	1	Lithuania	A-	A-	0
China	A+	AA-	1	Malaysia	A+	AA-	1
Colombia	BBB	BBB	0	Mexico	BBB	BBB	0
Costa Rica	B-	B-	0	Netherlands	AAA	AAA	0
Côte d'Ivoire	B+	B+	0	Norway	AAA	AAA	0
Croatia	A-	A-	0	Panama	BBB	A-	2
Cyprus	BBB-	BBB-	0	Peru	A-	A-	0
Czech Republic	AA-	AA-	0	Philippines	A	AA-	2
Denmark	AAA	AAA	0	Poland	A+	A+	0
Dominican Republic	B+	B+	0	Portugal	A	A+	1
Egypt	B	B	0	Qatar	BBB+	A+	3
El Salvador	B-	B-	0	Romania	BB	BB	0
Estonia	A-	A-	0	Russia	BBB-	BBB-	0
Finland	AAA	AAA	0	Saudi Arabia	BBB-	BBB	1
France	AAA	AAA	0	Slovakia	A+	A	-1
Germany	AAA	AAA	0	Slovenia	BBB+	BBB+	0
Ghana	CCC	CCC	0	South Africa	B+	B+	0
Greece	BBB	BBB-	-1	South Korea	A+	AA-	1
Guatemala	B-	B-	0	Spain	A-	A	1
Hong Kong	A+	A+	0	Sweden	AAA	AAA	0
Hungary	BBB	BBB	0	Thailand	AA-	AA-	0
Iceland	BBB	BBB	0	Trinidad	BB	BB	0
India	A	A	0	Turkey	B-	B-	0
Indonesia	BBB	BBB+	1	U.K.	AA-	AA	1
Iraq	B-	B-	0	Ukraine	B-	B-	0
Ireland	AA	AA	0	United States	AAA	AAA	0
Israel	A	A	0	Uruguay	BB	BB-	-1
Italy	BB+	BB+	0	Viet Nam	BBB-	BBB	1

Panel b) 5-year PD implied rating

Country	1st	31st	Change	Country	1st	31st	Change
	July	July			July	July	
Australia	AA+	AAA	1	Jamaica	B	B	0
Austria	AAA	AAA	0	Japan	AA+	AAA	1
Bahrain	B	B	0	Jordan	B	B	0
Belgium	AAA	AAA	0	Kazakhstan	BBB-	BBB-	0
Brazil	BB-	BB-	0	Latvia	A-	A-	0
Chile	BBB+	BBB+	0	Lithuania	A-	A-	0
China	A	A	0	Malaysia	BBB+	A-	1
Colombia	BB	BBB-	2	Mexico	BB+	BB+	0
Costa Rica	B-	B-	0	Netherlands	AAA	AAA	0
Côte d'Ivoire	B-	B-	0	Norway	AAA	AAA	0
Croatia	BBB+	BBB+	0	Panama	BBB-	BBB	1
Cyprus	BBB	BBB	0	Peru	BBB	BBB+	1
Czech Republic	A+	A+	0	Philippines	A-	A-	0
Denmark	AAA	AAA	0	Poland	A-	A-	0
Dominican Republic	B+	B+	0	Portugal	A-	A	1
Egypt	B-	B-	0	Qatar	BBB+	A-	1
El Salvador	B	B	0	Romania	BB+	BB+	0
Estonia	A-	A-	0	Russia	BBB-	BBB-	0
Finland	AAA	AAA	0	Saudi Arabia	BBB-	BBB	1
France	AAA	AAA	0	Slovakia	A	A	0
Germany	AAA	AAA	0	Slovenia	BBB+	BBB+	0
Ghana	CCC	CCC	0	South Africa	B+	B+	0
Greece	BBB-	BB+	-1	South Korea	AA	AA	0
Guatemala	B	B	0	Spain	A-	A-	0
Hong Kong	A+	A	-1	Sweden	AAA	AAA	0
Hungary	BBB+	BBB+	0	Thailand	A	A+	1
Iceland	BBB+	BBB+	0	Trinidad	BB+	BB+	0
India	BBB+	BBB+	0	Turkey	B-	B-	0
Indonesia	BB+	BBB-	1	U.K.	AA	AA+	1
Iraq	CCC	CCC	0	Ukraine	B-	B-	0
Ireland	AA	AA+	1	United States	AAA	AAA	0
Israel	A-	A-	0	Uruguay	BB-	BB-	0
Italy	BB+	BB+	0	Viet Nam	BB	BB+	1

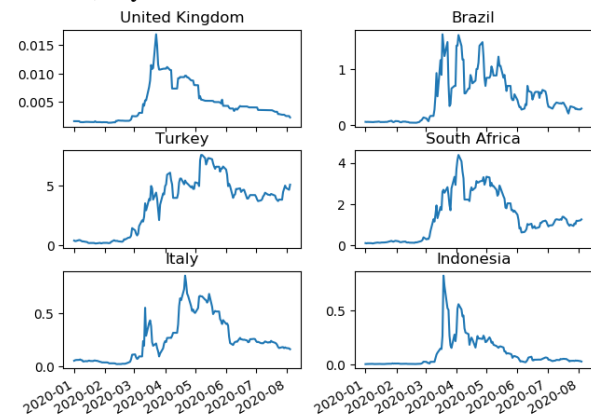
Table 2 shows the comparison of regional average ratings as of 1/07/2020 and 31/07/2020. Based on 1-year PDs, the average rating has improved for Asia & Pacific and Middle East. Based on 5-year PDs, the average rating has improved for Asia & Pacific.

Table 2: Comparison of Regional Averages

	1-Year		5-Year	
	01/07/2020	31/07/2020	01/07/2020	31/07/2020
Africa	BB-	BB-	B	B
Asia & Pacific	AA-	AA	A	A+
Europe	AA-	AA-	A+	A+
Middle East	BB+	BBB-	BB	BB
North America	AA	AA	AA+	AA+
South/Latin America	BBB-	BBB-	BB+	BB+

Figure 1: Some Implied PDs (%) since the Start of 2020

Panel a) 1-year PDs



Panel b) 5-year PDs

