

Note

# Real-Time Sovereign Ratings Update

## 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>

The key points of the update are:

- A. There is no change in the implied ratings for 60% of the countries in our sample since the last update (which was dated 22-05-2020).
- B. The rest of the countries have higher ratings.
- C. Ratings for only 3 countries based on 1-year PDs (China, Czech Republic and Philippines) have deteriorated since the previous update.

## 2. Sovereign Rating Changes

Table 1 shows the rating changes since the last update.

Based on the 1-year implied historical PDs, the ratings of 40 countries are the same as the last update, 14 countries are higher by 1 notch, 6 countries are higher by 2 notches and 3 countries are lower by 1 notch.

Rating increase by 1 notch is for Australia, Bahrain, Dominican Republic, Egypt, France, Hong Kong, Indonesia, Israel, Panama, Qatar, Saudi Arabia, South Africa, South Korea and Spain. Rating increase by 2 notches is for Colombia, Greece, Italy, Portugal, Russia and Vietnam.

Countries for which ratings dropped are China, Czech Republic and Philippines.

Based on the 5-year implied historical PDs, the ratings of 38 countries are the same as the last update, 20 countries are higher by 1 notch and 6 countries by 2 notches. Rating increase by 1-notch is for Australia, Bahrain, Finland, Germany, Indonesia, Ireland, Israel, Italy, Japan, Malaysia, Mexico, Portugal, Qatar, South Africa, South Korea, Spain, Thailand, U.K., Uruguay and Vietnam. Rating increase by 2-notch is for Belgium, France, Greece, Ireland, Russia and Saudi Arabia.

Table 2 shows the comparison of regional average ratings as of 12/06/2020 and 20/05/2020. Based on 1-year PDs, the average rating has improved for Africa, Europe, Middle East, North America and South & Latin America. Based on 5-year PDs, the average rating has improved for Middle East and North America.

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<sup>1</sup> This is and 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 Since Last Update**

12th 20th				12th 20th				12th 20th				12th 20th			
Country	Jun	May	Change	Country	Jun	May	Change	Country	Jun	May	Change	Country	Jun	May	Change
Australia	AA	AA-	1	Jamaica	B-	B-	0	Australia	AA+	AA	1	Jamaica	B	B	0
Austria	AA	AA	0	Japan	AA	AA	0	Austria	AAA	AAA	0	Japan	AA+	AA	1
Bahrain	B	B-	1	Jordan	B-	B-	0	Bahrain	B	B-	1	Jordan	B	B	0
Belgium	AA	AA	0	Kazakhstan	BB+	BB+	0	Belgium	AA+	AA-	2	Kazakhstan	BBB-	BBB-	0
Brazil	BB-	BB-	0	Latvia	A-	A-	0	Brazil	B+	B+	0	Latvia	A-	A-	0
Chile	BBB+	BBB+	0	Lithuania	A-	A-	0	Chile	BBB	BBB	0	Lithuania	A-	A-	0
China	A+	AA-	-1	Malaysia	A	A	0	China	A	A	0	Malaysia	BBB+	BBB	1
Colombia	BBB-	BB	2	Mexico	BB+	BB+	0	Colombia	BB	BB	0	Mexico	BB	BB-	1
Costa Rica	B-	B-	0	Netherlands	AA	AA	0	Costa Rica	B-	B-	0	Netherlands	AAA	AAA	0
Côte d'Ivoire	B	B	0	Norway	AA	AA	0	Côte d'Ivoire	B-	B-	0	Norway	AAA	AAA	0
Croatia	A	A	0	Panama	BBB-	BB+	1	Croatia	BBB+	BBB+	0	Panama	BBB-	BB+	1
Cyprus	BBB-	BBB-	0	Peru	BBB+	BBB+	0	Cyprus	BBB	BBB	0	Peru	BBB	BBB	0
Czech Republic	AA-	AA	-1	Philippines	A	A+	-1	Czech Republic	A+	A+	0	Philippines	BBB+	BBB+	0
Denmark	AA	AA	0	Poland	A	A	0	Denmark	AAA	AAA	0	Poland	A-	A-	0
Dominican Republic	B+	B	1	Portugal	A	BBB+	2	Dominican Republic	B	B	0	Portugal	A-	BBB+	1
Egypt	B	B-	1	Qatar	BBB	BBB-	1	Egypt	B-	B-	0	Qatar	BBB+	BBB	1
El Salvador	B-	B-	0	Romania	BB	BB	0	El Salvador	B	B	0	Romania	BB+	BB+	0
Estonia	A-	A-	0	Russia	BBB	BB+	2	Estonia	A-	A-	0	Russia	BBB	BB+	2
Finland	AA	AA	0	Saudi Arabia	BBB-	BB+	1	Finland	AAA	AA+	1	Saudi Arabia	BBB	BB+	2
France	AA	AA-	1	Slovakia	A+	A+	0	France	AA+	AA-	2	Slovakia	A	A	0
Germany	AA	AA	0	Slovenia	BBB+	BBB+	0	Germany	AAA	AA+	1	Slovenia	BBB+	BBB+	0
Ghana	n.a.	n.a.	n.a.	South Africa	B+	B	1	Ghana	CCC	CCC	0	South Africa	B+	B	1
Greece	BBB-	BB	2	South Korea	A+	A	1	Greece	BB+	BB-	2	South Korea	AA	AA-	1
Guatemala	B-	B-	0	Spain	A-	BBB+	1	Guatemala	B	B	0	Spain	A-	BBB+	1
Hong Kong	A+	A	1	Sweden	AA	AA	0	Hong Kong	A+	A+	0	Sweden	AAA	AAA	0
Hungary	BBB	BBB	0	Thailand	AA-	AA-	0	Hungary	BBB+	BBB+	0	Thailand	A	A-	1
Iceland	BBB	BBB	0	Trinidad	BB-	n.a.	n.a.	Iceland	BBB+	BBB+	0	Trinidad	BB+	n.a.	n.a.
India	A	n.a.	n.a.	Turkey	B-	B-	0	India	BBB+	n.a.	n.a.	Turkey	B-	B-	0
Indonesia	BBB	BBB-	1	U.K.	AA-	AA-	0	Indonesia	BB+	BB	1	U.K.	AA	AA-	1
Iraq	B-	B-	0	Ukraine	B-	B-	0	Iraq	CCC	CCC	0	Ukraine	B-	B-	0
Ireland	AA	AA	0	United States	AA	AA	0	Ireland	AA	A+	2	United States	AAA	AAA	0
Israel	A-	BBB+	1	Uruguay	BB-	BB-	0	Israel	A-	BBB+	1	Uruguay	BB-	B+	1
Italy	BB+	BB-	2	Viet Nam	BBB-	BB	2	Italy	BB+	BB	1	Viet Nam	BB	BB-	1

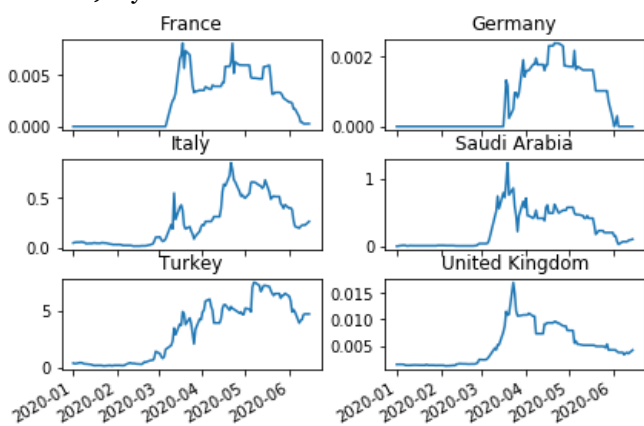
Note: Some default probabilities differ slightly from those contained in the previous version of the note dated 22/05/2020 because we have changed the filtering of underlying CDS contracts here employed.

**Table 2: Comparison of Regional Averages**

	1-Year		5-Year	
	12/06/2020	20/05/2020	12/06/2020	20/05/2020
Africa	B+	B	B-	B-
Asia & Pacific	A	A	A-	A-
Europe	A	A-	A	A
Middle East	BB-	B+	BB-	B+
North America	AA	A	AAA	AA
South/Latin America	BB	BB-	BB-	BB-

**Figure 1: Implied Historical PDs (%) since the Beginning of 2020**

Panel a) 1-year PDs



Panel b) 5-year PDs

