

April 2017, Frankfurt am Main.

## METHODOLOGY FOR ASSIGNING SOVEREIGN GOVERNMENT CREDIT RATINGS AND COUNTRY CREDIT ENVIRONMENT RATINGS<sup>1</sup> – SHORT PUBLIC VERSION

**The Methodology presented is a short public version.**

### 1. General definitions

The Agency assigns two types of sovereign ratings:

- Sovereign government credit rating
- Country credit environment rating

**Sovereign government credit rating (SGC):** the level of the rating reflects the Agency's opinion on the ability of the government to meet both its current and future financial liabilities.

SGC ratings are used to determine the level of credit risk on debt obligations of the sovereign governments.

- SGC ratings can be used by the investors who invest funds into public obligations;
- In addition, this type of ratings are used by the Agency to assess the government's ability to support private borrowers related to the government<sup>2</sup> when determining the level of credit rating for individual borrowers. The higher the SGC rating, the higher the credit rating of the government and its ability to support private companies and banks.

**Country credit environment rating (CCE):** this rating is a measure of the systematic credit risk of the country compared with other countries. The level of the rating reflects the

---

<sup>1</sup> While SGC ratings reflect the agency's opinion on the ability of the government to meet both its current and future financial liabilities, CCE ratings measure the overall credit climate of the country, which does not attach a specific risk to any particular issuer or instrument, but rather rates the systematic risk of the country as a whole. Therefore CCE ratings are not to be considered as credit ratings under the Regulation (EC) No 1060/2009 of the European Parliament as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013 (the CRA Regulation) and are not reported to ESMA ERP system, while SGC ratings are considered as credit ratings according to these regulations and are reported to ESMA ERP system.

<sup>2</sup> Related to the government in this case means that the company is owned by the government or by government owned structures. It can also mean that a private borrower has a "friendly relationship" with the government or government structures (e.g. the company participates in government programs, the company is included in the various lists of "key enterprises", etc.).

Agency's opinion about the risk level of repayment on investments in public and private debt in the country.

Based on the country credit environment ratings, the Agency determines the extent to which investors may expect a default on the debt issued by companies from the rated country. This may happen due to a low level of creditworthiness and institutional difficulties such as underdeveloped financial markets, social instability, low level of compliance with the law and insufficient protection of investors' rights.

- Country credit environment ratings are used to rank the countries according to the level of return on investment in public and private debt securities in this country. The higher the rating of credit climate - the lower the level of systemic credit risk of the country compared to other countries;
- Country credit environment ratings are used when assigning credit ratings to borrowers and assessing reliability of their issued securities as one of the factors which affects the final rating score according to the international rating scale.

When assigning country credit environment ratings, the following indicators are taken into account:

- Macroeconomic indicators reflecting the creditworthiness of business entities in the country;
- Indicators reflecting the level of creditworthiness of the sovereign government.

*Country credit environment ratings reflect two factors. On the one hand, the government (in broad sense<sup>3</sup>) is one of the major macroeconomic agents in the country. Therefore, credit risks of its obligations should be assessed in order to get the overall picture of the reliability of investing in debt instruments inside the country. On the other hand, the government can affect the creditworthiness of businesses in the country, imposing regulatory restrictions on their operations and cash flows. This risk is also taken into account.*

- Indicators which reflect the level of institutional development of the country.

---

<sup>3</sup> Including federal level, regional and local authorities, its subdivisions and the Central Bank of the country.

*These figures reflect the operational, political, regulatory and reputational risks faced by investors who decide to invest in debt securities issued by the private sector or by the government of the country.*

Both types of country ratings are assigned in national and foreign currency.

**Ratings in national currency** define the capability to meet liabilities denominated in national currency.

**Ratings in foreign currency** define the capability to meet liabilities NOT denominated in the national currency. Ratings in foreign currency, in contrast to the ratings in national currency, include an assessment of the currency risks related to changes of foreign economic operations resulting from fluctuations in the exchange rate and restrictions on foreign exchange transactions, as well as the depreciation of foreign currency assets of the government and economic agents of the country.

## **2. Sources of information**

2.1 In case of SGC and CCE ratings the Agency uses only publicly available sources of information. The following sources of information are used for assigning a rating score:

- International Monetary Fund (World Economic Outlook Database);
- International Monetary Fund (Country Report (Article Consultation));
- International Monetary Fund (Annual Report);
- World Bank Statistics Database (Economy & Growth, External Debt, Financial Sector, Private Sector);
- World Bank (Global Financial Development Database);
- World Bank (Public Sector Debt Database);
- World Bank - International Finance Corporation (Annual Doing Business Report);
- World Federation of Exchanges (Statistics Database);
- World Economic Forum (Annual Global Competitiveness Report);
- Transparency International (Annual Corruption Perceptions Index Brochure);
- Edelman Trust Barometer (Annual Global Study);

- United Nations Development Program (Annual Human Development Report);
- United Nations Office of Drugs and Crime (Annual Homicide Statistics);
- Statistics database of country's Ministry of finance;
- Statistics database of country's Central Bank;
- Statistics database of country's Official statistical service;
- Statistics database of country's stock exchanges;
- Other public sources if information.

### 3. Structure of the rating analysis

3.1 The Agency assigns two types of sovereign ratings: Sovereign government credit rating (SGC) and Country credit environment rating (CCE) (see Part 1).

3.2 While assigning both types of ratings the following sections are assessed (but with different weights for SGC and CCE): *condition of the national economy, level of development and risks of the country financial system, characteristics of government policy, structure and competitiveness of the economy, institutional development of the country.*

3.3 Both ratings depend on the financial position of the country's borrowers including the government, the development of financial markets, levels of social and political instability, and characteristics of the legal system of the country. However, the financial position of the government and its debt load are more important for the SGC-ratings. Credit environment ratings (CCE) mostly focus on the institutional development of the country and the condition of its financial system. Additionally, the following indicators are added to the analysis of CCE ratings: *level and dynamics of real interest rates, debt load of the private sector, quantity and quality of instruments in the financial markets of the country, weighted change in the main stock index over the last 6 years, policy of the government in financial markets, quality of investor protection in the country, time from the moment of default until decision on the distribution of defaulted company's assets* (see Part 4 and Annex 1).

3.4 To assess the ratings (both SGC and CCE) in foreign currency, the initial rating score must be adjusted for **currency risks** (see Part 5).

3.5 On the final stage, the ratings (both SGC and CCE) in foreign and national currency can be adjusted for **support- and stress-factors** (the list of support- and stress-factors is provided in Part 5). Different lists of support- and stress-factors can be included in the calculation of the final rating scores for SGC and CCE. In addition, the strength of support- and stress-factors can be different for SGC and CCE (weak, medium or strong).

#### 4. System of indicators

4.1 Section “**Condition of the national economy**” includes the following factors:

- Debt load of the government

The purpose of the factor analysis is to assess the risks associated with the level of government debt, issued guarantees, and other potential liabilities (pensions, infrastructure expenses, etc.) relative to gross domestic product produced by the economy, income of the government’s budget and the level of foreign exchange reserves (including gold). High government debt load, constant increase in obligations and a substantial amount of contingent liabilities combined with a low level of government revenues, could affect the government creditworthiness by diminishing its debt repayment ability. However, low and stable levels of debt and contingent liabilities can be translated into fiscal room for the government and a better perspective for the future debt levels.

- Structure of government debt

The purpose of the factor analysis is to assess the risks associated with the debt maturity, the interest rates on the debt and other factors that make the order of payments for liabilities more stringent. High share of short-term debt may exert pressure on the sovereign government to repay debt in less than one year. Furthermore, when combined with high interest rates and an unfavorable creditor structure, the risk of default increases. On the other hand, positive debt structure, such as low FX debt, and debt held by international institutions, alleviate repayment pressures of the government.

- Condition of the government budget

The purpose of the factor analysis is to assess the risks associated with excessive deficit or surplus of the government budget. Excessively high fiscal deficit may crowd out private borrowing, manipulate capital structures and interest rates, decrease net exports and lead to higher taxes, higher inflation, more government borrowing which will in the end induce more credit risk. On the other hand, a very high fiscal surplus may indicate inefficiency in the management of the government budget expenses.

- Level and dynamics of production

The purpose of the factor analysis is to assess the ability of the government to raise funds from taxation and other fees based on the current level and dynamic of production. Low and declining level of country productivity, as well as low and declining value of goods and services produced by the economy may limit the country's ability to raise funds.

- Inflation rate and its dynamics

The purpose of the factor analysis is to assess the risks associated with inflation and its dynamics. Low and stable inflation rate is considered to be a benefit to the country's creditworthiness since it results in a continued economic growth, while excessive inflation has very negative economic consequences since it can create lack of trust in the domestic currency and cause monetary policy inefficiencies. At the same time the negative consequences of deflation can be as negative, as it also hampers the effectiveness of monetary policy tools and could impact the levels of government debt since real GDP would stall.

- Unemployment rate and its dynamics

The purpose of the factor analysis is to assess the risks related to the unemployment and its dynamics. Higher levels of unemployment translate into an increased credit risk of the sovereign as it is a proxy for economic growth. At the same time, low unemployment levels, correctly reported, might also be a sign of problems in the labor market, e.g., scarceness of high-skilled labor.

4.2 Section "***Level of development and risks of the country financial system***" includes the following factors:

- Banking system

The purpose of the factor analysis is to assess the risks related to the development of the banking system, the value of credit load in the economy and stability of the banking system. A high and moderately increasing level of bank assets and volume of private credit relative to GDP implies a better development level of the economy. On the other hand, very high and elevated growth rate levels of banks' assets and private credit volume may indicate excessive debt load in the economy, which would cause an important spike of credit risk in the banking system and increase the probability of a government intervention. A similar effect would happen when we have high and growing NPLs, as well as low and decreasing amount of bank capital and profitability.

- Stock market

The purpose of the factor analysis is to assess the level of development of the stock market and its ability to be a source of financing for companies in the country. High market capitalization as well as a considerable amount of listed companies on the national exchange relative to the size of the economy means that there is a developed market for private financing and reduces the probability of government interventions (subsidies, directed lending, etc.). Additionally, high concentration of issuers in the trading volume for the year may cause further volatility in total yearly trading, inducing additional market risks and, thus, contributes to evaporation of confidence in the stability of the stock market.

- Bond market

The purpose of the factor analysis is to assess the development of the bond market and its ability to be a source of financing for the country's companies and for the government. High value of outstanding bonds, as well-developed and highly liquid corporate and government bond markets are positively evaluated given that, similar to the previous factor, they produce additional sources of financing for private institutions and sovereign entities.

- Investment potential

The purpose of the factor analysis is to assess the risks of the growth of the economy related to the investment potential. Excessively low rate of foreign direct investments, net inflows indicates a low investment potential and therefore negatively contributes to the country's credit assessment.

4.3 Section “***Characteristics of government policy***” includes the following factors:

- Fiscal policy

The purpose of the factor analysis is to assess the risks and opportunities related to the government's fiscal policy. Adequate management of government income and expenses for the last 1-3 years according to the state of the economic cycle, sufficient plans to manage them in the medium term positively influence the creditworthiness of a sovereign.

- Monetary policy

The purpose of the factor analysis is to assess the risks and opportunities related to the monetary policy of the government. Adequate management of monetary policy, which includes matching the state of the economic cycle and sustained stability of the price level, contributes positively towards credibility of the government and the Central Bank.

- Changes in fiscal and monetary policy

The purpose of the factor analysis is to assess the flexibility of the government policy (whether the government can admit its mistakes and change the policy). The fact that the government has implemented serious changes in fiscal and/or monetary policy since the last serious crisis (or default) is believed to have a positive impact on the credibility of the government and the Central Bank.

4.4 Section “***Structure and competitiveness of the economy***” includes the following factors:

- Concentration of the economy on the three largest sectors

The purpose of the factor analysis is to assess the risks related to the country's economy, as well as to the concentration on certain sectors of the economy. Higher concentration of the economy on the three largest sectors results in a higher risk for the sovereign since most tax revenues will be concentrated in a few sectors.

- Population dynamics

The purpose of the factor analysis is to assess the risks related to the outflow or excessive growth of population. A declining population has a negative effect on the sovereign's creditworthiness as it could increase contingent liabilities (e.g. unfunded pension schemes) and potential economic growth prospects.

- Competitiveness of the economy

The purpose of the factor analysis is to assess the risks related to the competitiveness of the country's economy in global markets. A good position of a country in the Global Competitiveness Index ranking is positively evaluated. If imports exceed exports during several periods, this may indicate low competitiveness of the country's goods and services in the global market, which in effect negatively influences the rating by constraining the fiscal room and prompting a reduction international reserves.

- Geographical and geopolitical conditions

The purpose of the factor analysis is to assess the risks related to the geographic and geopolitical position of the country. The fact that the country has access to international waters, has a common border with a country of a high economic development, has a substantial availability of a wide variety of natural resources and has no climatic and environmental threats is assessed positively.

4.5 Section "***Institutional development of the country***" includes the following factors:

- Quality of the political regime

The purpose of the factor analysis is to assess the risks and opportunities related to the government effectiveness, level of corruption, and political stability and absence of violence and terrorism. All these risks make the effective implementation of public policies difficult, and can show structural problems in the economy which might be impossible to overcome and hence have a negative impact on the creditworthiness of the sovereign.

- Quality of the business environment

The purpose of the factor analysis is to assess the risks and opportunities related to the quality of the business environment and doing business in the country. Business,

among other things, is a source of tax revenues for the Government, therefore a good position in the Doing Business ranking contributes positively to the level of creditworthiness.

- Level of investment in human capital

The purpose of the factor analysis is to assess the risks and opportunities associated with the level of human development in the country. A high level of human development can be translated into well-functioning government policies and structural reforms which produce higher levels of economic stability.

- Rule of law

The purpose of the factor analysis is to capture perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Higher levels of Rule of Law Index positively contribute to the credit rating of the sovereign.

- Level of information transparency of the government and government policymaking

The purpose of the factor analysis is to determine whether the government discloses information about its activities and to which extent, whether it has organizational capabilities for the analysis of its activity (the statistical services of the country as a whole and of individual institutions in particular) and whether information published by the government is trustworthy. Additionally, the factor considers the extent to which it is easy for the businesses to obtain information about changes in government policies and regulations affecting their activities. A greater degree of government and government policy transparency positively contributes to the rating level.

#### 4.6 *Additional factors for country credit environment rating:*

- Level of development and risks of the country financial system:

- ✓ Level and dynamics of real interest rates in the country

The purpose of the factor analysis is to assess the risks, measured in terms of the real interest rates. Higher rates - higher the risk, negative rate – country is unattractive for domestic investors (other better alternatives in terms of

risk/return are available). Volatile rates indicate unstable situation in the country, reassessment of the risk level, inability to predict future rates, all of which reduces the investment attractiveness of the country. Significant difference between rates on credits and deposits shows that banks may evaluate the risks of domestic borrowers as very high (the expert should also pay attention to this).

✓ Debt load of the private sector

The purpose of the factor analysis is to assess the debt load of the private sector in the country. The higher the debt load of the private sector, the worse is the rating for the systemic risk in the country. On the other hand a low level of private sector debt indicates that lending in such countries is very weak, therefore there may be risks of deception and non-payments, associated with low levels of debt financing service in the country. Additionally, bankruptcies or big financial problems of companies and banks can reflect the overall low creditworthiness of borrowers or the tendency to its decline.

✓ Quality and quantity of instruments in the financial market of the country

The purpose of the factor analysis is to determine the extent to which the financial market is developed, through considering the quantity and quality of the instruments utilized. The factor is negatively assessed if there are no important financial instruments in the country's financial system and/or existing instruments are less developed.

✓ Weighted change in the main stock index over the last 6 years

The purpose of the factor analysis is to analyze the overall economic situation and financial market situation of the country based on the expectations of investors. Dynamic of the main stock indices is an important variable for modeling defaults on corporate bonds. It reflects the macroeconomic situation of the country and investors' expectations. If the main stock exchange index is on average growing during the past 6 years, than the factor is assessed positively.

- Characteristics of government policy:

✓ Policy of the government in financial markets

The purpose of the factor analysis is to assess the risks and opportunities related to the government policy on financial markets. The extent to which regulation of the financial markets is stringent and whether the government attempts to develop markets and minimize the risks inherent in these markets at the moment analyzed. The fact that the government plans contradict the state of the financial markets has a negative impact on the systemic risk of the country.

• Institutional development of the country:

The purpose of the factor analysis is to assess the level of security for investors in the country in case of failure by the borrower on the obligations. Also, this section includes the assessment of risks of impairment assets even if they were refunded during bankruptcy (if the process was very long).

✓ Quality of investor protection in the country.

Depending on the position of the country in the ranking of investor protection the systematic risk of the country is assessed up or down.

✓ Time from the moment of default until the decision on the distribution of defaulted company's assets.

The more time it takes from the moment of default until the decision on the distribution of the assets of the defaulted company to the creditors, the stricter is the systemic risk assessment.

## 5. Rating score adjustments

5.1 To assess the ratings (both SGC and CCE) in foreign currency, the initial rating score must be adjusted for **currency risks**. Such adjustment includes the analysis of the risks, related to currency restrictions and/or monetary losses due to the devaluation of foreign exchange assets. This can happen if the country has a weak currency, low foreign exchange reserves and limited sources of their funding and depends on external financing as well as imports of goods or services. The following factors are used to assess the currency risk:

- Volume of foreign currency debt / GDP

- Volume of foreign currency debt / government revenues
- Volume of foreign exchange reserves / foreign currency debt
- Import/ GDP
- Currency status
- Balance of payments / GDP
- Whether the country is a member of economic and trade organizations/zones
- Access to financing from international organizations
- Restrictions on operations in foreign currency
- Exchange-rate regime
- Net foreign assets / GDP
- Exports of goods and services / GDP
- Total reserves in month of imports
- Foreign exchange rate volatility

5.2 As a result of the currency risk assessment, the rating score can be reduced by 1-2 sub-levels when assigning a rating in foreign currency. The reduction of the scores can only occur in two cases:

- Risk of foreign currency shortage on repayments of the government debt (foreign exchange restrictions by the government indicate such risk; limited access to international financing and stable capital outflow can lead to shortage of foreign currency);
- Risk of significant foreign exchange losses due to the volume of currency transactions with a weak local currency.

5.3 Both types of ratings (SGC and CCE) can be adjusted on the final stage for the following support and stress-factors:

#### 5.3.1 *Support-factors:*

- Exceptionally high level of foreign exchange reserves

- Participation in currency/ political union
- The country has an extremely strong financial system which affects other countries
- The country has a very strong and important reserve currency

### 5.3.2 *Stress-factors:*

- Significant changes of dates/rates/other terms and conditions of payment on the debt have been announced and could negatively affect the status of creditors
- High probability of significant political changes in the short run
- High probability of war/ war at the moment
- Natural disasters, constant exposure to difficult natural conditions
- The sum of the volume of domestic corporate debt (loans + bonds) and foreign corporate debt (if there is data on it) is five times more than the volume of GDP
- Risk of the need to support other related country
- Increased dependence on another country
- Evidence of large contingent liabilities, such as debt of state-owned enterprises or large pension or other off-budget liabilities or evidence for hiding government debt in off-budget funds or state-owned enterprises
- Concentration of tax revenues on one industry
- Increased level of dollarization

5.4 Support-factors can increase the rating by 1-3 sublevels.

5.5 Stress-factors can reduce the rating by 1-3 sublevels.

5.6 Expert can introduce other support and stress-factors if there is a sufficient justification to include them.

## Annex 1. List of indicators and corresponding weights

Factor	Weight for the SGC	Weight for the CCE
<b>I. Condition of the national economy</b>	<b>50,0%</b>	<b>34,0%</b>
Debt load of the government		
Structure of government debt		
Condition of the government budget		
Level and dynamics of production		
Inflation rate and its dynamics		
Unemployment rate and its dynamics		
<b>II. Level of development and risks of the country financial system</b>	<b>22,0%</b>	<b>22,0%</b>
Banking system		
Stock market		
Bond market		
Investment potential		
<b>III. Characteristics of government policy</b>	<b>9,0%</b>	<b>9,0%</b>
Fiscal policy		
Monetary policy		
Changes in fiscal and monetary policy		
<b>IV. Structure and competitiveness of the economy</b>	<b>11,0%</b>	<b>11,0%</b>
Concentration of the economy on the three largest sectors		
Population dynamics		
Competitiveness of the economy		
Geographical and geopolitical conditions		
<b>V. Institutional development of the country</b>	<b>8,0%</b>	<b>12,0%</b>
Quality of the political regime		
Quality of the business environment, position in Doing Business Ranking		
Level of investment in human capital, adjusted for inequality		
Rule of law		
Level of information transparency of the government and government policymaking		
<b>VI. Additional indicators for the CCE</b> (factors reflecting the creditworthiness of the private sector, because all other parts (institutional environment and the creditworthiness of government) are already assessed in the SGC)	<b>0%</b>	<b>12,0%</b>
<b>Level of development and risks of the country financial system</b>		
<i>Level and dynamics of real interest rates in the country</i>		
<i>Debt load of private sector</i>		
<i>Quality and quantity of instruments in the financial market of the country</i>		
<i>Weighted change in the main stock index over the last 6 years</i>		
<b>Characteristics of government policy</b>		
<b>Institutional development of the country</b>		
<b>VII. Assessment of currency risk<sup>4</sup></b>		
<i>Volume of foreign currency debt / GDP</i>		
<i>Volume of foreign currency debt / government revenues</i>		
<i>Volume of foreign exchange reserves / foreign currency debt</i>		
<i>Import/ GDP</i>		
<i>Currency status</i>		
<i>Balance of payments / GDP</i>		

<sup>4</sup> There is no weights for currency risks in methodology, additional coefficients are used in this section

<i>Whether the country is a member of economic and trade organizations/zones</i>		
<i>Access to financing from international organizations</i>		
<i>Restrictions on operations in foreign currency</i>		
<i>Exchange-rate regime</i>		
<i>Net foreign assets / GDP</i>		
<i>Exports of goods and services / GDP</i>		
<i>Total reserves in months of imports</i>		
<i>Foreign exchange rate volatility</i>		
<b>VIII. Support factors*</b>		
<i>Exceptionally high level of foreign exchange reserves</i>		
<i>Participation in currency/ political union</i>		
<i>The country has extremely strong financial system, which affects other countries, and the country has a large economy</i>		
<i>The country has very strong and important reserve currency</i>		
<i>Other</i>		
<b>IX. Stress factors*</b>		
<i>Significant changes of dates/rates/other terms and conditions of payment on the debt are announced, that could negatively affect the status of creditors</i>		
<i>High probability of significant political changes in the short run</i>		
<i>High probability of war/ war at the moment</i>		
<i>Natural disasters, constant exposure to difficult natural conditions</i>		
<i>The sum of the volume of domestic corporate debt (loans + bonds) and foreign corporate debt (if there is data on it) is five times more than the volume of GDP</i>		
<i>Evidence of large contingent liabilities, such as debt of state-owned enterprises or large pension or other off-budget liabilities or evidence for hiding government debt in off-budget funds or state-owned enterprises</i>		
<i>Risk of the need to support other related country</i>		
<i>Concentration of tax revenues on one industry</i>		
<i>Increased dependence on another country</i>		
<i>Increased dollarization level</i>		
<i>Other</i>		

\*See Point 5 “Rating score adjustment” in the description above.

## **Annex 2. List of rating classes**

When assigning sovereign governments creditworthiness ratings (SGC) and country credit environment ratings (CCE) the following rating scales are used. Scales ranks the sovereign borrowers in accordance with the opinion of the Agency about the level of their creditworthiness and quality of credit environment in their countries.

### **Rating scale of the creditworthiness of sovereign governments (SGC):**

#### ***AAA - Highest level of creditworthiness***

Capability to meet obligations in the long run is at the highest level. Lowest level of credit risk on obligations.

#### ***AA - Very high level of creditworthiness***

Capability to meet obligations in the long run is very high. Very low level of credit risk on obligations.

#### ***A - High level of creditworthiness***

Capability to meet obligations in the long run is high. Low level of credit risk on obligations.

#### ***BBB - Moderately high level of creditworthiness***

Capability to meet obligations in the long run is moderately high. Moderately low level of credit risk on obligations.

#### ***BB - Sufficient level of creditworthiness***

Capability to meet obligations in the long run is sufficient. Moderate level of credit risk on obligations.

#### ***B - Moderately low level of creditworthiness***

Capability to meet obligations in the long run is moderately low. Moderately high level of credit risk on obligations.

#### ***CCC - Low level of creditworthiness***

Capability to meet obligations in the long run is low. High level of credit risk on obligations.

#### ***CC - Very low level of creditworthiness (possible delay in execution of some commitments)***

Capability to meet obligations in the long term is very low, possible delay in execution of some commitments. Very high level of credit risk on obligations.

#### ***C - Lowest level of creditworthiness (part of the commitments are not executed)***

Capability to meet obligations in the long run is in the lowest level. Highest level of credit risk on obligations.

The government doesn't execute a part of financial obligations, and it is expected that in the long run the government will not be able to fulfil its obligations completely.

#### ***D - Default***

The country does not fulfil any financial obligations / government declared default on its financial obligations.

## **Rating scale of the country credit environment (CCE) rating**

### ***AAA - Highest quality of credit climate***

Credit climate of the country is characterized by minimum risk.

### ***AA - Very high quality of credit climate***

Credit climate of the country is characterized by very low risk.

### ***A - High quality credit climate***

Credit climate of the country is characterized by low risk.

### ***BBB - Moderately high quality of credit climate***

Credit climate of the country is characterized by moderately low risk.

### ***BB- Sufficient quality of credit climate***

Credit climate of the country is characterized by moderate risk.

### ***B - Moderately low quality of credit climate***

Credit climate of the country is characterized by moderately high risk.

### ***CCC - Low quality of credit climate***

Credit climate of the country is characterized by high risk.

### ***CC - Very low quality of credit climate***

Credit climate of the country is characterized by very high risk.

### ***C - Lowest quality of credit climate***

Credit climate of the country is characterized by very highest risk.

### ***D - System shock***

Rating of this level is assigned to countries which are in a state of extreme systemic shock (for example: overall nationalization and suspension of payments on all private and public debt obligations incurred prior to the shock).

One of the above rating levels that can be assigned to the country, excluding AAA and ratings below CCC, may be supplemented with (+) or (-) sign depending on the value of the rating score.