Sovereign Credit Rating Report of 50 Countries in 2010

Dagong International Credit Rating Company

The global financial crisis exacerbated further the contradictions in the international credit system, which has caused crisis in sovereign credit, posted the most sensitive and important part of the global credit chain. Historical sovereign credit crisis challenges to the world economy and security of human society. As a responsible credit rating agency, Dagong International Credit Rating Company ("Dagong") is committed to revealing credit risk and provide impartial and professional advice to investors. Here, Dagong will present its reports on the sovereign credit ratings of 50 countries, which is useful for investors to make scientific judgments on risks from the most complicated sovereign credit relations and take appropriate measures correspondingly. The 50 countries selected this time are located in every continent of the world, and the combined value of their gross domestic product accounts for 90 percent of the world economy total. These countries contain the typical regional characteristics of credit risk, and represent the distribution and development of credit risks in the world.

Dagong's sovereign credit ratings are based on the new sovereign credit rating standard created by Dagong, and basically demonstrate the internal connections of sovereign credit risk factors and the principle of credit rating. Therefore, the ratings reflect the actual debt solvency of these countries. The rating results of 50 countries are as follows:

I. Basis in evaluating the Sovereign Credit Ratings Methodology of Dagong

In order to uncover the sovereign credit risk objectively and precisely, Dagong has carried out in-depth research into the intrinsic rules of the formation of sovereign credit risk under the context of the globalization of credit risk, and has so far set up a brand new system of sovereign credit rating theories as well as the rating standards, with reference to the empirical outcomes from the rating experiences of international rating agencies. The main elements involved in the rating standards are such issues as the national management capability, the economic strength, the financial strength, the fiscal strength and the foreign exchange strength, and the core of the rating ideas is as follows: it is the newly-created social wealth that supports the national funding capacity and constitutes the primary source of debt repayment. On the basis of the general principles of the formation of credit relations, Dagong firstly conducted studies on the internal links of related elements, and then referred to specific circumstances of individual countries. After a complex process of analysis, the final assessment of each country's credit rating can then be reached. In actual operation, we firmly grasp to the following five key principles.

1.1 The sovereign credit rating of Dagong undertaken is always based on a combined assessment of both the institutional strength and the government fiscal conditions

Dagong holds that there are mainly two groups of elements that affect the sovereign credit rating, namely the comprehensive institutional strength and the fiscal conditions of the sovereign government. The comprehensive institutional strength reflects the institutional support of the economy to create new material wealth, indicating the potentials in both the future economic incremental wealth in a steady manner and fiscal revenue. It is the fundamental factor that determines the medium and long-term fiscal situation of a country; fiscal condition refers to the short-term adequacy as well as liquidity of the debt repayment resources, which is acquired by comparing the government revenue and the debt service obligations.

Countries with relatively low level of debt burdens are bound to have higher credit ratings, and they must have more stable prospects and potentials on the future growth of national wealth and government revenues. For some emerging market economies, with the rapid economic development, the continuous improvement in both the institutional strength and the government fiscal conditions will inevitably bring about upgrading of their ratings; while for some developed countries, due to the long-term stagnation of economic growth, there are obvious declines in their comprehensive institutional strength, and their fiscal conditions turn to be fragile. As a result, their positions in the credit rating sequence are to be adjusted downwards inevitably.

1.2. The Fiscal Situation is the Direct Factor to Determine the Government’s Capacity of Debt Repayment

Government’s fiscal situation is of the direct determinant of government’s capacity of debt repayment. Throughout the government’s default history, no matter it is caused by political, economic, financial or social problem, it should be reflected as the deterioration of fiscal situation. Therefore, the level of government’s solvency will be reflected by the coverage of fiscal revenue on its debt service in a specific period of time.

The various countries’ economic development realities show that the fiscal situation in a certain period of time was not necessarily consistent with their comprehensive strengths. Although the countries with strong strength could have more fiscal adjustment space and debt tolerances, but their fiscal adjustment spaces will be restricted and debt pressure will become prominent after the governments' debt and current fiscal deficit reached to a certain extent due to the continuous expansionary fiscal policies to enhance national economic management and social functions. In the reality, for the countries with higher strength but worsening fiscal and debt situation, it is quite difficult for their strengths to provide an effective guarantee for the fiscal adjustment, in which the growth rate of debt are continuous higher than that of GDP and fiscal revenue, therefore their sovereign credit risks warrant attention and concerns.

1.3. The Creation Capacity of Government's Fiscal revenue should be the Fundamental Basis for Debt Repayment, while the Financing Income is not.

In the normal credit and debt relationship, the cash flow newly created by the debtor, rather than that newly borrowed, should the fundamental of debt repayment, on the basis of which, the credit relation can exist and develop stably. The way of over-reliance on financing income and debt roll-over will ultimately lead to a strong reaction of bond market, thus when the borrowing costs and difficulties increase, the credit risks will burst dramatically.

Therefore, Dagong holds that the countries with current fiscal revenue sufficient to cover the debt service, have stronger fiscal strength than those countries which mainly depend on financing income to repay debts in the same circumstance, even sometimes the financing incomes of latter seem stable in the short term.

1.4. With the More and More Serious and Frequent External Shocks on the Sovereign Credit, the Comprehensive Strength Plays a Prominent Role in Protecting the Stability of Sovereign Credit Level.

The unfavorable economic, financial or political event may threaten the debt environment, while the countries with different comprehensive strengths will be different in resistance, and therefore there are differences among their sovereign credit qualities. The comprehensive strength should include national governance capacity, economic strength and fiscal strength. Due to the better external environment and continuous economic growth, some countries' fiscal and debt situation have improved rapidly, but under the sudden external shock, the countries' debt environment will be deteriorated rapidly and their sovereign credit risks will soar subject to their weak strengths such as single economic structure, high foreign dependence ratio, unstable politics and weak ability to resist crisis in financial system.

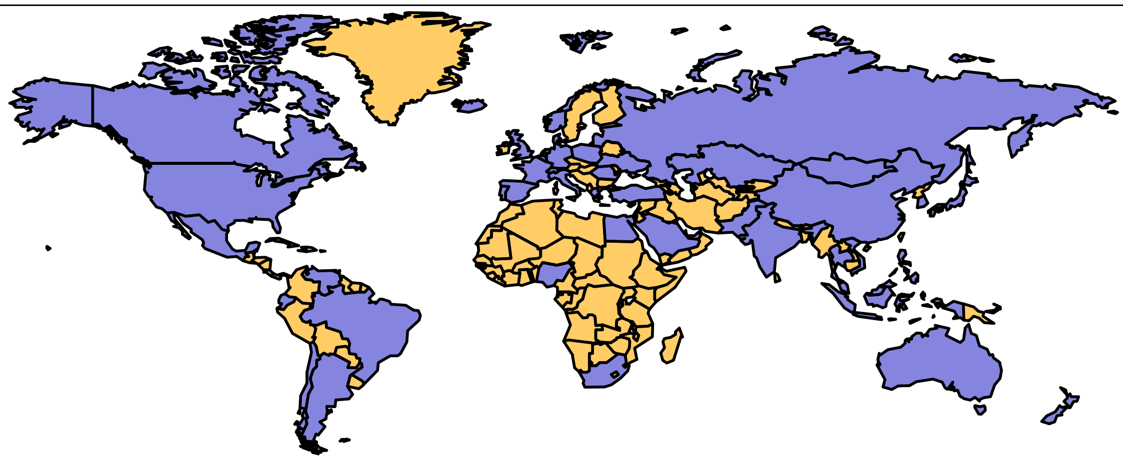
1.5 Information, Data Sources and Use Principles

Dagong follows the fundamental principles of truthfulness, timeliness and consistency in the use of information and data. Authenticity of the information requires the use of first-hand material as much as possible, when second-hand information is used, they must be confirmed by other information and data. As credit rating is to forecast the risk of future, the timeliness of data and information is very important. Dagong carefully follows the latest data released by the countries and international organizations, and some important data will be estimated based on the understanding information. Consistency is to address inter-country comparability issues, so the rating operating system of Dagong uses mostly data released by authoritative international institutions, such as International Monetary Fund, World Bank and the Bank for International Settlements.

2. Credit Rating Results of 50 Countries

It is the first time for Dagong to assign sovereign credit rating of 50 countries throughout the major regions in the world, and the specific distribution is 20 European countries, 17 Asian countries, 2 North American countries, 6 South American countries, 3 African countries and 2 Oceania countries as shown in Table 1.

Table 1 Regional Distribution of 50 countries



Regions	Europe	Asia	North America	South America	Africa	Oceania
Number of countries	20	17	2	6	3	2
Shares	40%	34%	4%	12%	6%	4%

Note: The countries that Dagong Gave ratings this time are marked in Dark-gray

In terms of overall credit level, investment grade of local currency credit rating accounts for 72%(BBB- and above), and speculative grade (BB+ and below) accounts for 28%; investment grade of foreign currency credit rating accounts for 74%, and speculative grade accounts for 26%. On the respect of consistency of the foreign currency rating and local currency rating, there are 38 countries getting the same ratings, and 3 countries have higher foreign currency rating than local currency rating, 9 countries have higher local currency ratings. Followings are the detail result.

Table 2 sovereign credit ratings of 50 countries

No.	Sovereigns	Local currency		Foreign currency	
		ratings	outlooks	ratings	outlooks
1	Norway	AAA	stable	AAA	Stable
2	Denmark	AAA	Stable	AAA	Stable
3	Luxembourg	AAA	Stable	AAA	stable
4	Switzerland	AAA	Stable	AAA	Stable
5	Singapore	AAA	Stable	AAA	Stable
6	Australia	AAA	Stable	AA+	Stable
7	New Zealand	AAA	Stable	AA+	Stable
8	Canada	AA+	Stable	AA+	Stable
9	Netherlands	AA+	Stable	AA+	Stable
10	China	AA+	Stable	AAA	Stable
11	Germany	AA+	Stable	AA+	Stable
12	Saudi Arabia	AA	Stable	AA	Stable
13	United States	AA	Negative	AA	Negative
14	South Korea	AA-	Stable	AA-	Stable
15	Japan	AA-	Negative	AA	Stable
16	Britain	AA-	Negative	AA-	Negative
17	France	AA-	Negative	AA-	Negative
18	Belgium	A+	Stable	A+	Stable
19	Chile	A+	Stable	A+	Stable
20	South Africa	A	Stable	A	Stable
21	Malaysia	A	Stable	A	Stable
22	Estonia	A	Stable	A	Stable
23	Russia	A	Stable	A	Stable
24	Poland	A	Stable	A-	Stable
25	Spain	A	Negative	A	Negative
26	Israel	A-	Stable	A-	Stable
27	Brazil	A-	Stable	A-	Stable
28	Italy	A-	Negative	A-	Negative
29	Portugal	A-	Negative	A-	Negative
30	India	BBB	Stable	BBB	Stable
31	Thailand	BBB	Stable	BBB	Stable

32	Mexico	BBB	Stable	BBB	Stable
33	United Arab Emirates	BBB	Negative	BBB	Negative
34	Kazakhstan	BBB	Stable	BBB-	Stable
35	Hungary	BBB	Negative	BBB-	Negative
36	Indonesia	BBB-	Stable	BBB-	Stable
37	Egypt	BB+	Stable	BBB-	Stable
38	Venezuela	BB+	Stable	BB+	Stable
39	Nigeria	BB+	Stable	BB+	Stable
40	Romania	BB+	Negative	BB	Negative
41	Greece	BB	Stable	BB	Stable
42	Turkey	BB	Stable	BB-	Stable
43	Iceland	BB	Negative	BB-	Negative
44	Vietnam	BB-	Stable	BB-	Stable
45	Mongolia	B+	Stable	B+	Stable
46	Philippines	B+	Stable	B+	Stable
47	Argentina	B	Stable	B	Stable
48	Ukraine	B	Stable	B-	Stable
49	Pakistan	B-	Negative	B-	Negative
50	Ecuador	CCC	Stable	CCC	Stable

3. comparative analysis of credit ratings of the 50 countries

In order to explain the basis of ratings by Dagong, and to reflect the core analysis idea of Dagong's rating method, and to show the scientific conclusion of the ratings, this section will take comparative analysis from two aspects. On the one hand, compare the fundamental rating features by rating groups; On the other hand, compare the rating results with those of Moody's, Standard & Poor's and Fitch's, and hence reflect the different ideas.

3.1 Comparative analysis of Dagong's sovereign credit ratings

In this part, we select the countries in three ratings from A-level of local currency as the analysis objectives to interpret their differences in the level of sovereign credit risks.

3.1.1 Countries with AAA local currency rating

AAA for local currency sovereign credit rating countries are Norway, Australia, Denmark, Luxembourg, Switzerland, Singapore and New Zealand. AAA countries have strong performance on every core factor and have no defect on any factor, which can assure their insolvency at any foreseeable circumstances. Their main characteristics are: political institutions are mature and well-functioning; national development strategies are clear and implemented vigorously with obvious effect; the national security situation is stable; economic strength is strong, and they have powerful global competitive advantage; as the world economic recovery, their growth prospects are assured; they have well-developed financial systems and strong resistance to impacts; the Government maintains a stable fiscal records in long term; although the economic crisis yields the government deficit and debt increasing, the fiscal sustainability are maintained; the internal value of currency is stable; their debts are mainly denominated in local currency, or they have good external liquidity and ample foreign exchanges; the external value of the currency is stable.

3.1.2 Countries with AA local currency rating

AA countries are: China, Canada, Netherlands, Germany, the United States, Saudi Arabia, France, Britain, South Korea and Japan. AA countries have at least three to four excellent factors, but the other one or two factors have some flaws, so that their solvency is lower than AAA countries.

The above AA countries can be divided into two categories in general by their risk features. One category contains the developed countries in the crisis center of Europe and America. Because the core factors are already weak, their fiscal position deteriorated significantly under the financial crisis. Including Germany, the United States, Britain, France, Netherlands and Canada, all of them have fiscal pressures, but the advantages of a comprehensive institutional system will help them gain the rooms for adjusting finance and debt.

The countries belonging another category have sustainable fiscal strength, and have more optimistic economic outlook, they are facing the adjustment of economic structures or the geopolitical risk of practical problems. Compared with AAA countries, their resistances are weaker. These countries include China, Saudi Arabia and South Korea.

3.1.3 Countries with A-level local currency credit rating

Countries with A-level local currency credit rating are: Belgium, Chile, Spain, South Africa, Malaysia, Estonia, Russia, Poland, Israel, Italy, Portugal and Brazil.

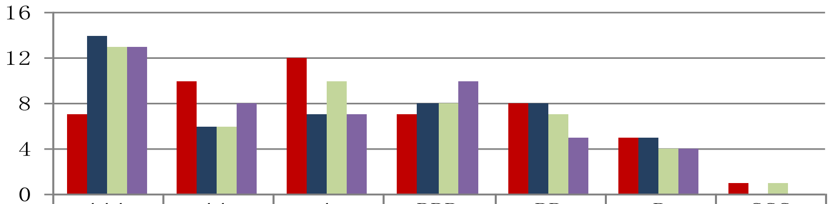
A-level countries are often strong in only two or three rating factors, and their shortcomings are more obvious than that of the AA-level. Their overall debt solvency declines further.

A-level countries generally showed characteristics of two types. One is such developed countries as comprehensive system power falling down and the fiscal situation facing severe challenges; the other is the emerging-market economies that are developing at a fast speed, but some instability existing in their economies.

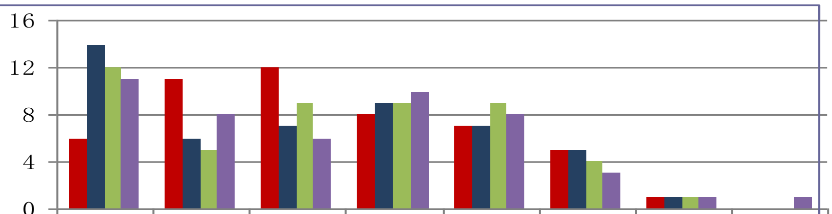
In this hierarchy, for the developed countries such as, Spain, Portugal, Italy etc., the decline in strength of an integrated system has severely restricted their economic growth potential and prospects. Besides, their debt or fiscal deficit problem has been outstanding. If economic or revenue growth rates still lag behind the debt growth speed, a sudden and relatively big external or internal shock will make the financing and debt repayment face great risks. For the emerging-market countries, such as Chile, Russia, Poland, Brazil etc., they are committed to economic structural reforms and enjoy a rapid economic growth. Their economic scale is expanding continually together with a satisfactory fiscal situation. However, there are still some problems in their economic structure, shock-resistance capacity and growth stability should be further enhanced.

3.2 Comparison with the three credit rating agencies: Moody's, Fitch and S & P

In terms of the big ratings assessment (without regard to + / - differences), there is a significant difference between Dagong and the three rating agencies, and the difference in between the three credit rating agencies is small. As shown in Figure 2.



	AAA	AA	A	BBB	BB	B	CCC
Dagong	7	10	12	7	8	5	1
Moody’s	14	6	7	8	8	5	0
S&P’s	13	6	10	8	7	4	1
Fitch	13	8	7	10	5	4	0



	AAA	AA	A	BBB	BB	B	CCC	RD
Dagong	6	11	12	8	7	5	1	0
Moody’s	14	6	7	9	7	5	1	0
S&P’s	12	5	9	9	9	4	1	0
Fitch	11	8	6	10	8	3	1	1

Figure 2 Local (above) and foreign currency Credit ratings Comparison between Dagong and international rating agencies

Notes: 1. In the 50 countries that Dagong gave credit rating, only 49 were given ratings by Moody's, Standard & Poor's and Fitch. Moody's did not comment Nigeria, Standard & Poor's and Fitch did not comment the UAE. Moody's and Fitch only comment Ecuador foreign currency sovereign credit rating, not the local currency rating, so the rating number that the two bodies gave is 48.

2. Moody's rating is based on the results that it announced at June 21, 2010.; Standard & Poor's rating is based on the results that it announced on May 31, 2010;; Fitch's rating is based on the results that it announced on June 18, 2010.

Taking the local currency credit rating as an example, the situation that Dagong’s rating is higher than the other three credit agencies unanimously takes place for 9 times; and the situation that Dagong’s rating is lower than the other three agencies unanimously for 19 times; exactly the same rating or in between their ratings for 22 times. (To simplify comparison, this report uses the following several key words as comparison conclusion: "the unanimously high" means that the rating that Dagong gave is higher than all the other three bodies; "the unanimous low" means that the rating that Dagong gave is below the ratings of all the other three agencies).

In Table 2, the reason for Dagong gave higher ratings than the other 3 international credit rating agencies is mainly based on the idea and methods of the Dagong. Dagong holds that the national management capacity of these countries continues to improve, the economic growth potential is stable in the long term, fiscal stability and the resistance capacity against external shocks are getting better increasingly. Especially after the global financial crisis, the performance of these countries prove that they are more likely to turn the disadvantage into advantage in a short time, which could ensure the increase of national credit level.

Table 2 Cases in which Dagong's sovereign credit ratings are higher than the international rating agencies

No.	country	Dagong	Moody's	S&P	Fitch
1	China	AA+	A1	A+	AA-
2	Saudi Arab	AA	Aa3	AA-	AA-
3	Russia	A	Baa1	BBB+	BBB
4	Brazil	A-	Baa3	BBB+	BBB-
5	India	BBB	Baa3	BBB-	BBB-
6	Indonesia	BBB-	Ba1	BB+	BB+
7	Venezuela	BB+	B2	BB-	B+
8	Nigeria	BB+	-	B+	BB
9	Argentina	B	B3	B-	B-

Cases in which Dagong's sovereign credit ratings are higher than the three international rating agencies mainly fall in developed countries, and there are altogether 13 of them, accounting for 68% of the total samples (table 3). This shows that Dagong holds a relatively modest position under the context of the global financial crisis. Dagong's sovereign credit rating methodology emphasizes the economy's capability of ensuring the sovereign credit on the basis of newly–created social wealth rather than the government's financing incomes. As a result of the discordance among the growth rate of government debt, the growth rate of the economic output, and that of the fiscal revenue, this group of countries can only maintain their sovereign credit level on the basis of external financing. Since the beginning of 2010, fiscal risks in these countries have not only become the biggest source of systemic risk domestically, but also possibly the main source of the risk of a double dip for the world economy. Once the fiscal risk in this sort of countries get out of control, they will have to face even more financing difficulty. Up to then the interest rate attached to the debt instruments will be running up rapidly, and the default risk in these countries will grow even larger; the fiscal fragility may badly threaten the successful recovery of their economic and financial conditions, and may even plague these countries in a relatively long run.

Table 3 Cases in which Dagong's sovereign credit ratings are lower than the international rating agencies					
No.	country	Dagong	Moody's	S&P	Fitch
1	Canada	AA+	Aaa	AAA	AAA
2	Netherland	AA+	Aaa	AAA	AAA
3	Germany	AA+	Aaa	AAA	AAA
4	U.S.	AA	Aaa	AAA	AAA
5	U.K.	AA-	Aaa	AAA	AAA
6	France	AA-	Aaa	AAA	AAA
7	Belgium	A+	Aa1	AA+	AA+
8	Spain	A	Aaa	AA+	AAA
9	Israel	A-	A1	AA-	A+
10	Italy	A-	Aa2	A+	AA-
11	U.A.E.	BBB	Aa2	-	-
12	Thailand	BBB	Baa1	A-	A-
13	Mexico	BBB	Baa1	A	BBB+
14	Romania	BB+	Baa3	BBB-	BBB-
15	Iceland	BB	Baa3	BBB	BBB+
16	Greece	BB	Ba1	BB+	BBB-
17	Philippine	B+	Ba3	BB+	BB+
18	Ecuador	CCC	-	CCC+	-

For the 23 countries including Norway, Australia, Denmark etc, the credit ratings that Dagong assignes are either between or the same as the credit ratings assigned by Moody's, Standard & Poor's and Fitch. These countries did not show too much inconsistencies between fiscal conditions and the integrated institutional strength, the AAA countries have a common views of the overall advantage, the other investment grade countries has a multi-degree of risks, while the speculative-grade countries, the various defects are more obvious, Dagong made the similar judgment with Moody's, Standard & Poor's and Fitch rating on the credit risk of those countries.

Table 4 Cases in which Dagong's sovereign credit ratings are the same with or in the middle of those of the international rating agencies					
No.	country	Dagong	Moody's	S&P	Fitch
1	Norway	AAA	Aaa	AAA	AAA
2	Australia	AAA	Aaa	AAA	AAA
3	Denmark	AAA	Aaa	AAA	AAA
4	Luxembourger	AAA	Aaa	AAA	AAA
5	Switzerland	AAA	Aaa	AAA	AAA
6	Singapore	AAA	Aaa	AAA	AAA
7	New Zealand	AAA	Aaa	AAA	AAA
8	Korea	AA−	A1	A+	AA
9	Japan	AA−	Aa2	AA	AA−
10	Chile	A+	Aa3	AA	A+
11	South Africa	A	A3	A+	A
12	Malaysia	A	A3	A+	A
13	Estonia	A	A1	A−	A−
14	Poland	A	A2	A	A
15	Portugal	A−	Aa2	A−	AA−
16	Kazakhstan	BBB	Baa2	BBB−	BBB−
17	Hungary	BBB	Baa1	BBB−	BBB+
18	Egypt	BB+	Ba1	BBB−	BBB−
19	Turkey	BB	Ba2	BB+	BB+
20	Vietnam	BB−	Ba3	BB+	BB−
21	Mongolia	B+	B1	BB−	B
22	Ukraine	B	B2	B+	B−
23	Pakistan	B−	B3	B−	

In short, Dagong assigned different ratings from the three major Credit Rating Agencies for a total of 27 countries, accounting for 54% of the total countries. The countries that are assigned with higher ratings than the three major credit rating agencies' are emerging market countries with political stability and outstanding economic performance. The countries that are assigned with lower ratings than the three major Credit Rating Agencies' are developed countries with slow economic growth and heavy debt burden.

The specific reasons for the above-mentioned differences are from the concept and methodology of rating. The fundamental reasons are as follow: Firstly, it reflects Dagong's fundamental position that Dagong does not to apply ideology as demarcation and fairly maintains interests of various circles in the national credit relationships; Secondly, it reflects that Dagong is nimble to grasp the pulse of the times, with forward-looking and predictive judgment; Finally, it also reflects Dagong’s courage to meet the course of epoch and a high sense of historical responsibility.

Dagong will continue to pay close attention to the sovereign credit risks of these countries that have been newly assigned ratings, and at the same time further expand the rating scope, so as to make full use of its function of risk early-warning. Dagong will try its best to serve the global capital market by providing timely, objective and precise judgment on the credit risk conditions in individual countries.