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Global Sovereign Rating Trends 2015

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(Editor's note: Standard & Poor's Ratings Services publishes a global sovereign ratings outlook twice a year, which includes rating and outlook trends. In conjunction with this report, we publish regional outlooks for emerging markets, Asia-Pacific, Latin America, Central and Eastern Europe, the Commonwealth of Independent States (CIS), the eurozone, the Middle and East North Africa, and Sub-Saharan Africa. We will publish the next sovereign outlooks in July 2015.) You will find the current set of sovereign trend publications and videos on www.spratings.com/sovereignoutlook.)

Rating Trends

Global sovereign creditworthiness has declined slightly since the onset of the global financial crisis in 2008. The average long-term sovereign credit rating has fallen by just over one notch to between 'BBB-' and 'BBB', compared with just below 'BBB+' in 2008. Nevertheless, the average rating as weighted by countries' GDP has been more stable, currently standing marginally above 'A+'. This is comparable with sovereign ratings a decade ago, but is slightly lower than the 'AA-' peak in mid-2008. Negative outlooks still outnumber positive outlooks, although this balance is improving. (For more details, watch the related CreditMatters TV segment titled, "Global Sovereign Ratings Outlook For 2015," published on Jan. 21, 2015.)

Overview

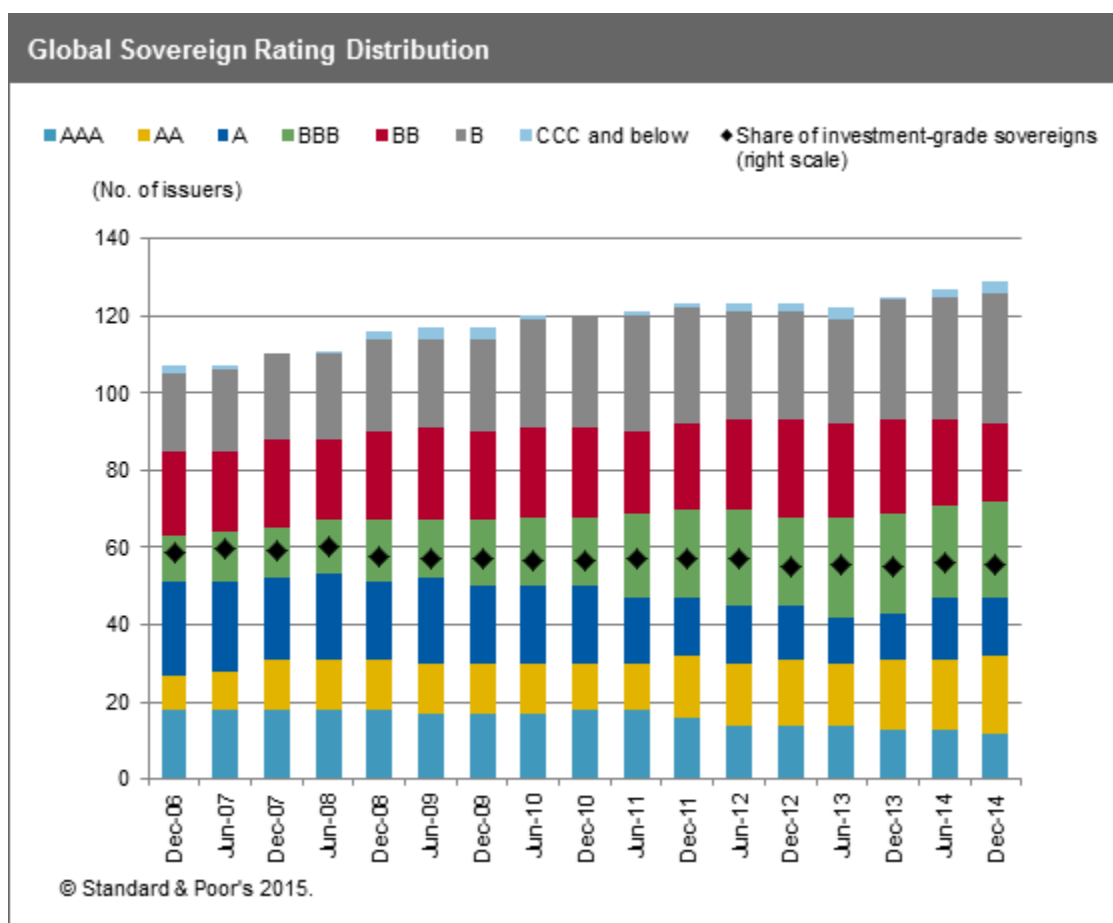
- The average sovereign rating had fallen by about one notch by mid-year 2014 since 2008, to between 'BBB' and 'BBB-'.
- Negative outlooks outnumber positive outlooks, indicating that downgrades are likely to outnumber upgrades over the coming 12 months.
- The Middle East, Africa, and the CIS account for most negative outlooks globally. These are also the regions most negatively affected by the drop in oil prices since mid-2014.

On Dec. 31, 2014, the cut-off date for this report, Standard & Poor's Ratings Services rated 129 sovereigns globally. Sovereign securities remain the most important asset class globally in terms of borrowing (see "Global Sovereign Debt Report 2014: Borrowing To Increase By 2.7% To \$7.1 Trillion," published on Feb. 27, 2014, on RatingsDirect). All ratings referred to in this report are long-term foreign currency ratings. For an updated list of all sovereign ratings assigned by Standard & Poor's, see our monthly updated "Sovereign Ratings And Country T&C Assessments," last published on Jan. 14, 2015. For historical information on these ratings and assessments, please see "Sovereign Rating And Country T&C Assessment Histories," published monthly.

About 56% of all rated sovereigns are investment grade ('BBB-' or above). This ratio is virtually unchanged from five years ago (see chart 1). Since 2009, sovereigns rated in the 'B' category have made up the single-largest cohort, currently 34, up from 24 five years ago. At the other end of the spectrum, the number of 'AAA' rated sovereigns has declined to 12 from 18 in December 2008, mostly due to downgrades in the eurozone, but also as a result of us

lowering the long-term rating on the U.S. to 'AA+' in August 2011. The share of 'AAA' ratings in the total universe of rated sovereigns has gradually dropped during that period to 9% from 15% (2009), which is the lowest percentage on record. The last sovereign to lose its 'AAA' rating was Finland in October 2014 (see "Finland Long-Term Ratings Lowered To 'AA+' On Weak Economic Growth; Outlook Stable," published on Oct. 10, 2014). Currently, all 'AAA' sovereign ratings carry a stable outlook and we therefore do not, at this stage, expect a further reduction in their numbers this year.

Chart 1

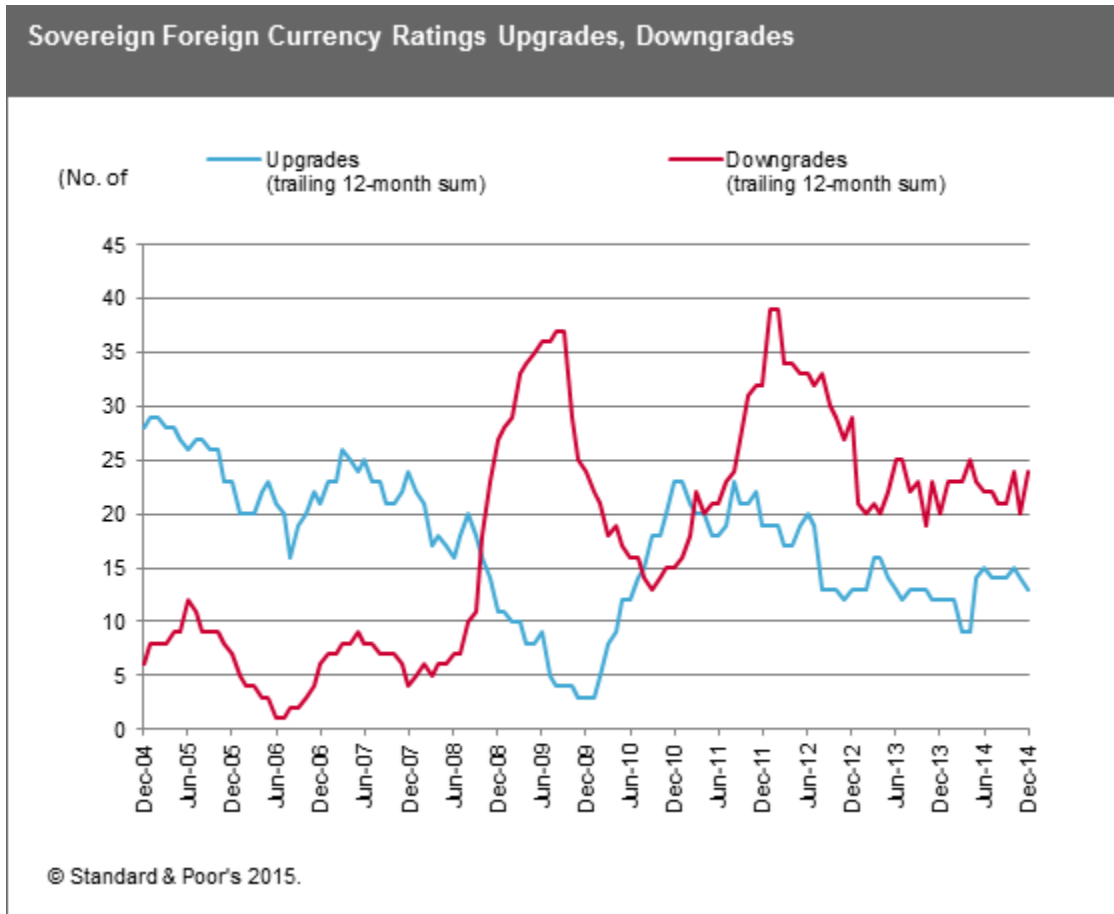


Argentina is currently the only sovereign in selective default (see "Argentina Foreign Currency Ratings Lowered To 'SD' After Holders Of Discount Bonds Did Not Receive Interest Payment," published on July 30, 2014). At the time of the withdrawal of our rating on Grenada in October 2014, it too was in selective default, but we no longer include this in our analysis (see "Grenada 'SD' Issuer Credit Ratings Affirmed And Then Withdrawn," published on Oct. 31, 2014).

The eroding credit quality of rated sovereigns goes some way to explain the mild decline we have seen in the unweighted average sovereign rating. Since mid-2008 sovereign downgrades have generally outnumbered upgrades (see chart 2; for further details see "Sovereign Rating And Country T&C Assessment Histories," published Dec. 30, 2014). Over the past five years, we have lowered two sovereign ratings per month on average, but raised only one--a pattern that also held true in 2014. However, another reason for the decline in the unweighted average rating is that

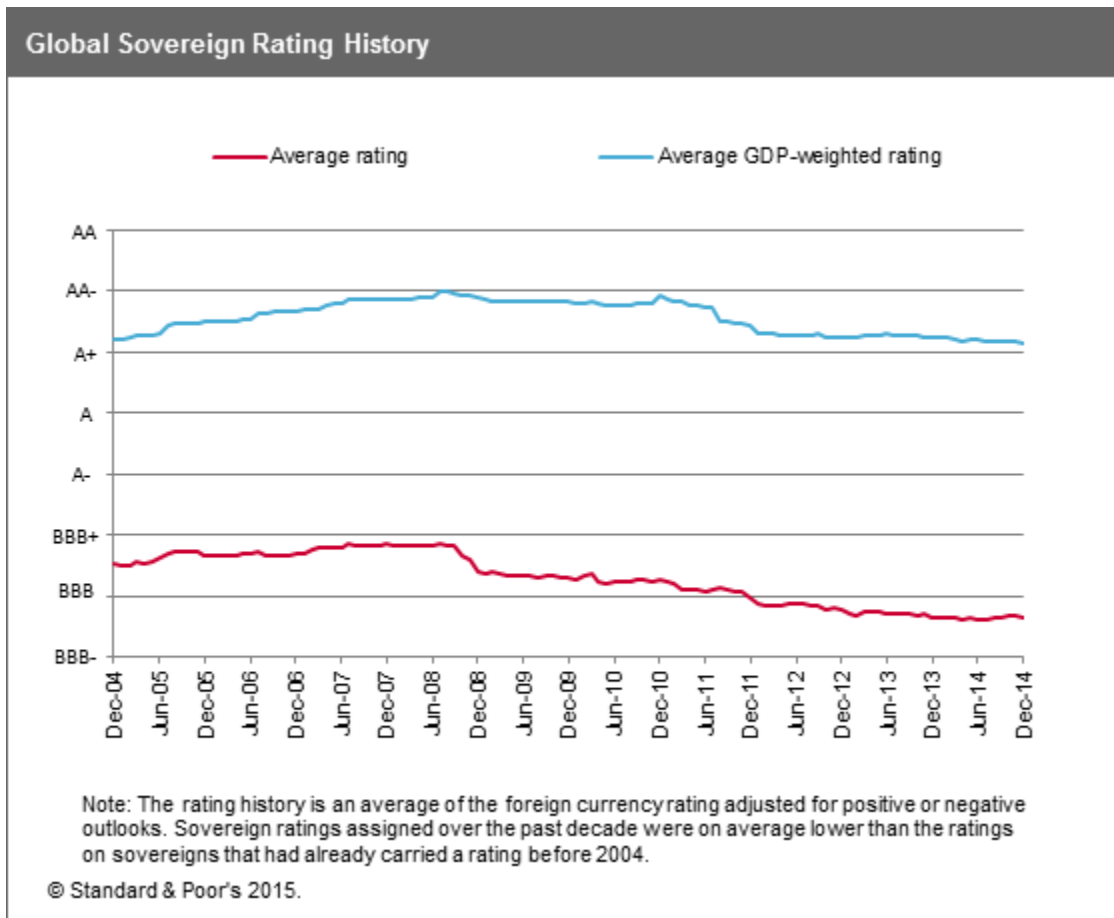
most of the new sovereign ratings we have assigned to countries in emerging or frontier markets have been in the lower rating categories. For example, our new ratings on sub-Saharan African sovereigns have predominantly been in the 'B' category.

Chart 2



Sovereigns with larger and wealthier economies, and therefore higher ratings, have experienced greater ratings stability. The GDP-weighted average rating currently stands at marginally above 'A+', which is in line with ratings a decade ago, but slightly lower than the 'AA-' peak in mid-2008. The downgrade of the U.S. in August 2011 clearly sticks out in chart 3, as the U.S. is the world's largest economy. The three successive upgrades of China are also easily visible, as are the downgrades of several eurozone sovereigns, including France, Italy, and Spain, in January 2012. Since then, however, the GDP-weighted ratings on global sovereigns have remained almost unchanged.

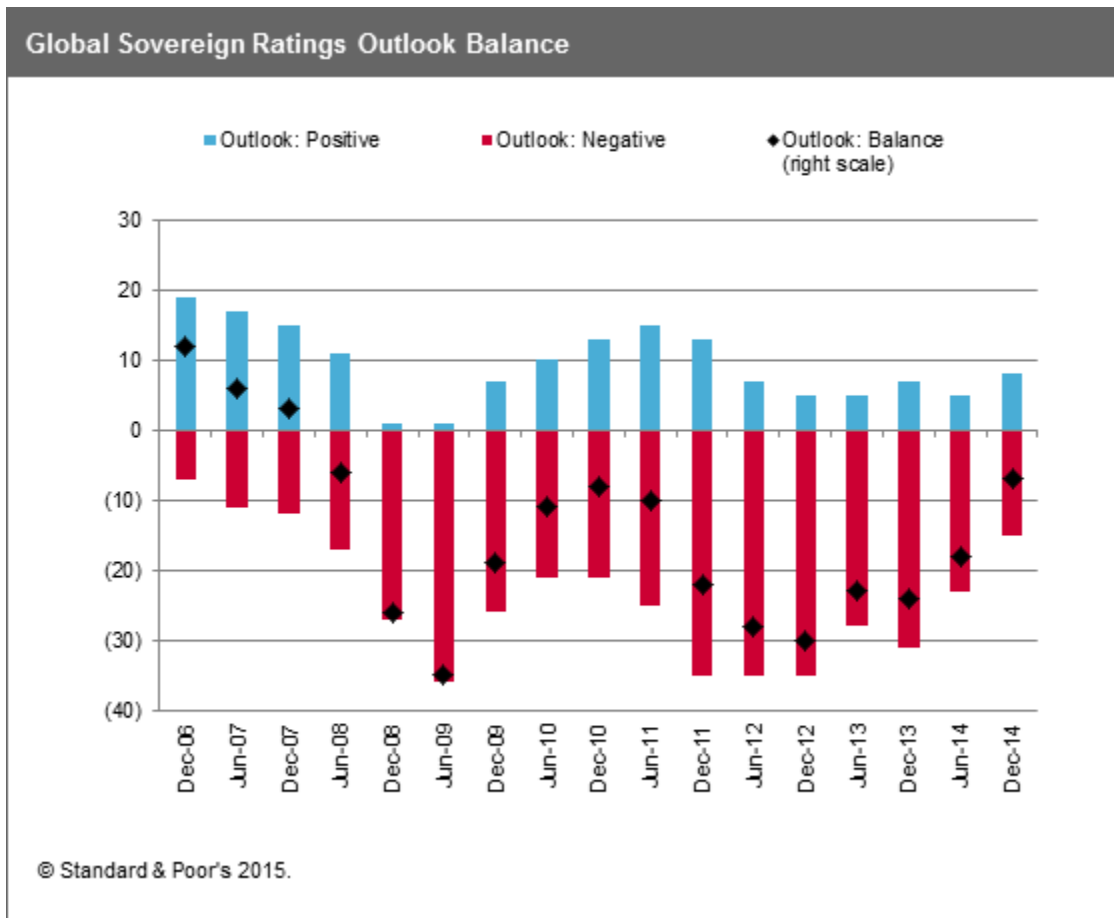
Chart 3



The Outlook Balance Remains Negative, But Is Improving

Negative outlooks still outnumber positive outlooks by seven sovereigns, with eight positive outlooks versus 15 negative outlooks on Dec. 31, 2014 (see chart 4 and table 1 for a list of sovereigns that do not have stable outlooks). This outlook distribution suggests that negative rating actions are likely to continue to outnumber positive actions over the coming 12 months. Our rating outlooks are intended to indicate our view of the potential direction of a long-term credit rating, typically over six months to two years for investment-grade ratings ('BBB-' and higher) and six months to one year for speculative-grade ratings ('BBB+' and lower). A positive or negative outlook is intended to designate at least a one-in-three likelihood of a rating change in the indicated direction (see: "Outlooks: The Sovereign Credit Weathervane, Year-End 2013 Update," published on Feb. 4, 2014).

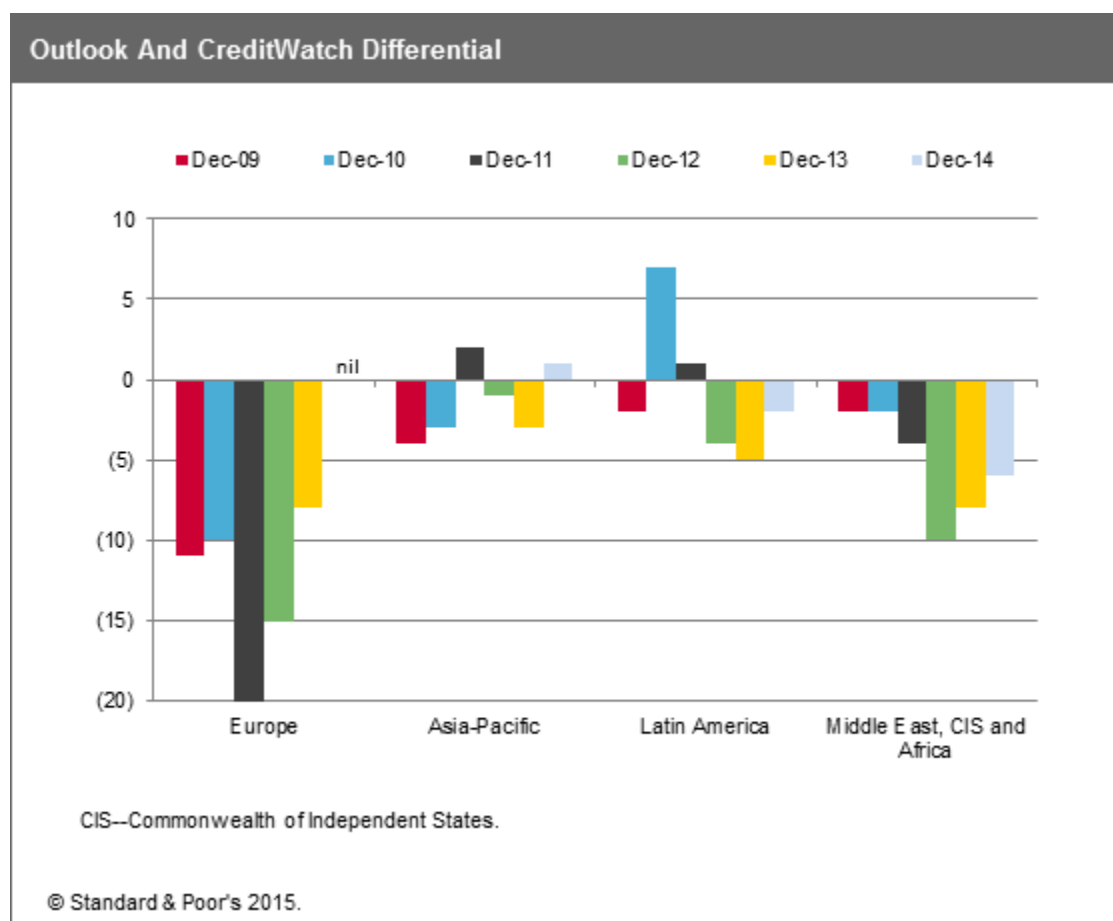
Chart 4



This negative outlook balance has continued since the first half of 2008, peaking in June 2009 when negative outlooks totaled 35. A fall in the number of negative outlooks since December 2012 (to 15 from 36) has been behind an improving outlook trend. On the other hand, the number of sovereigns with positive outlooks has remained broadly unchanged at between five and eight.

Over the past year, the outlook balance by region has become more diverse. In December 2013, negative outlooks on sovereign ratings characterized all major regions. Although this has improved in all regions during 2014, the regional picture is now more mixed (see chart 5).

Chart 5



Asia now has a moderately positive outlook balance, with the two positive outlooks on South Korea and Fiji outnumbering the one negative outlook on Japan. Currently, the Middle East, the CIS, and Africa have the weakest outlook balance (minus six), followed by Latin America and the Caribbean. Over the past few years, Asia-Pacific has been the most stable region in terms of outlooks.

Europe has seen the strongest improvement among all regions in its outlook balance since 2011, when the region accounted for almost the entire global negative outlook bias. This can largely be attributed to the crisis in the eurozone. Having overcome the acute phase of the crisis, outlooks on members of the common currency are now more stable than at any point since the crisis first broke out. At year-end 2014, we had only one positive outlook in the eurozone (Slovakia) and one negative one (France).

For more details on rating and outlook trends in individual regions, see the respective regional mid-year sovereign rating outlooks referenced in "Related Research."

Table 1

Sovereigns With A Positive Or Negative Outlook Or CreditWatch Placement As Of Dec. 31, 2014

	Positive	Negative
Africa	Rwanda	Nigeria

Table 1**Sovereigns With A Positive Or Negative Outlook Or CreditWatch Placement As Of Dec. 31, 2014 (cont.)**

		Zambia
Americas	Belize	Barbados
	Jamaica	Bermuda
		Venezuela
Asia-Pacific	Fiji	Japan
	Korea	
Europe	Albania	France
	Iceland	Serbia (CW)*
	Slovakia	Turkey
Middle East & CIS		Bahrain
		Kazakhstan
		Oman
		Russia (CW)
		Ukraine

CW--CreditWatch. *We removed the CreditWatch on our rating on Serbia on Jan. 16, 2015, and assigned a negative outlook on the same date.

Related Research

- Asia-Pacific Sovereign Rating Trends 2015, forthcoming on Jan. 22, 2015
- Emerging Markets Sovereign Rating Trends 2015, Jan. 21, 2015
- Central and Eastern Europe Sovereign Rating Trends 2015, forthcoming on Jan. 21, 2015
- Eurozone Sovereign Rating Trends 2015, Jan. 21, 2015
- Latin American And Caribbean Sovereign Rating Trends 2015, Jan. 21, 2015
- Middle East And North Africa Sovereign Rating Trends 2015, forthcoming
- Sub-Saharan Africa Sovereign Rating Trends 2015, forthcoming
- Sovereign Ratings And Country T&C Assessments, Jan. 14, 2015
- Sovereign Rating And Country T&C Assessment Histories, Dec. 30, 2014
- Seven Assumptions About Highly Rated Sovereigns And Multilateral Lending Institutions, Dec. 30, 2014
- Top Geopolitical Risks For Sovereign Ratings In 2015, Dec. 2, 2014
- Global Sovereign Debt Report 2014: Borrowing To Increase By 2.7% To \$7.1 Trillion, Feb. 27, 2014
- Outlooks: The Sovereign Credit Weathervane, Year-End 2013 Update, Feb. 4, 2014

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