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Global Sovereign Rating Trends Mid-Year 2014

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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 the Asia-Pacific, Central and Eastern Europe, the Commonwealth of Independent States, emerging markets, the eurozone, Latin America, the Middle and East North Africa, and Sub-Saharan Africa. We plan to publish the next sovereign outlooks in January 2015.)*

Rating Trends

Global sovereign creditworthiness has declined slightly overall since the onset of the global financial crisis in 2008. The average long-term rating is now 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 the 'A+'. This is comparable with the ratings a decade ago, but slightly down from the 'AA-' peak in mid-2008. Negative outlooks still outnumber positive outlooks, although the trend is improving.

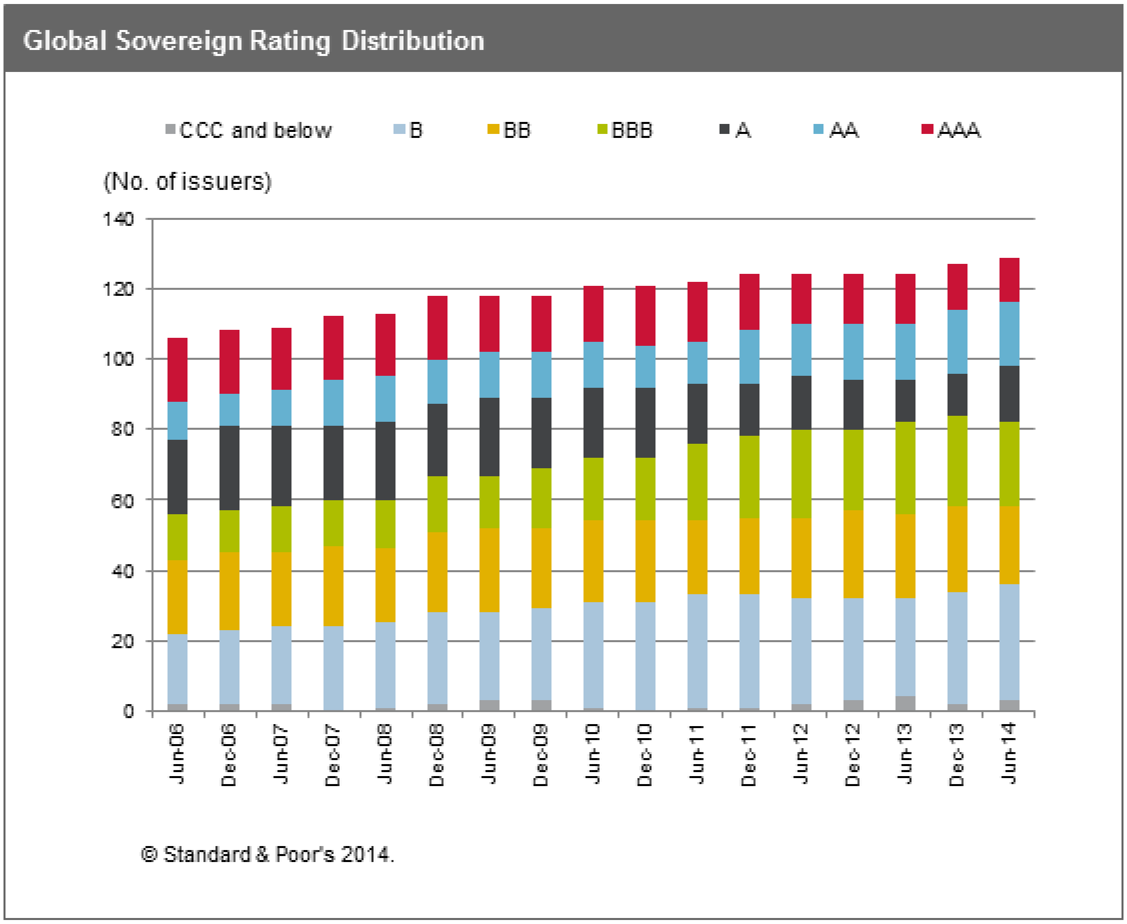
Overview

- The average sovereign rating has fallen by about one rating notch by mid-year 2014 from 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.
- Nevertheless, the negative outlook balance eased in the first half of 2014 in all regions except Latin America.

On June 30, 2014, the cut-off date for this report, Standard & Poor's Ratings Services rated 129 sovereigns globally. This record number increased to 130 on July 1, 2014, when we assigned sovereign ratings to Turks and Caicos Islands (for further details see: "Turks and Caicos Islands Assigned 'BBB+/A-2' Ratings; Outlook Is Stable," published on RatingsDirect). 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). 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 July 3, 2014.

About 55% of all rated sovereigns are investment grade ('BBB+' or above). This is marginally down from 56% five years ago when we rated 118 sovereigns (see chart 1). Since 2007, sovereigns rated in the 'B' category have made up the single largest cohort, currently 33, up from 25 five years ago. At the other end of the spectrum, the number of 'AAA' rated sovereigns has declined to 13, from 18 in December 2008, mostly due to downgrades in the eurozone (European Economic and Monetary Union), but also to the lowering of 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 10% from 15%, which is the lowest percentage on record.

Chart 1

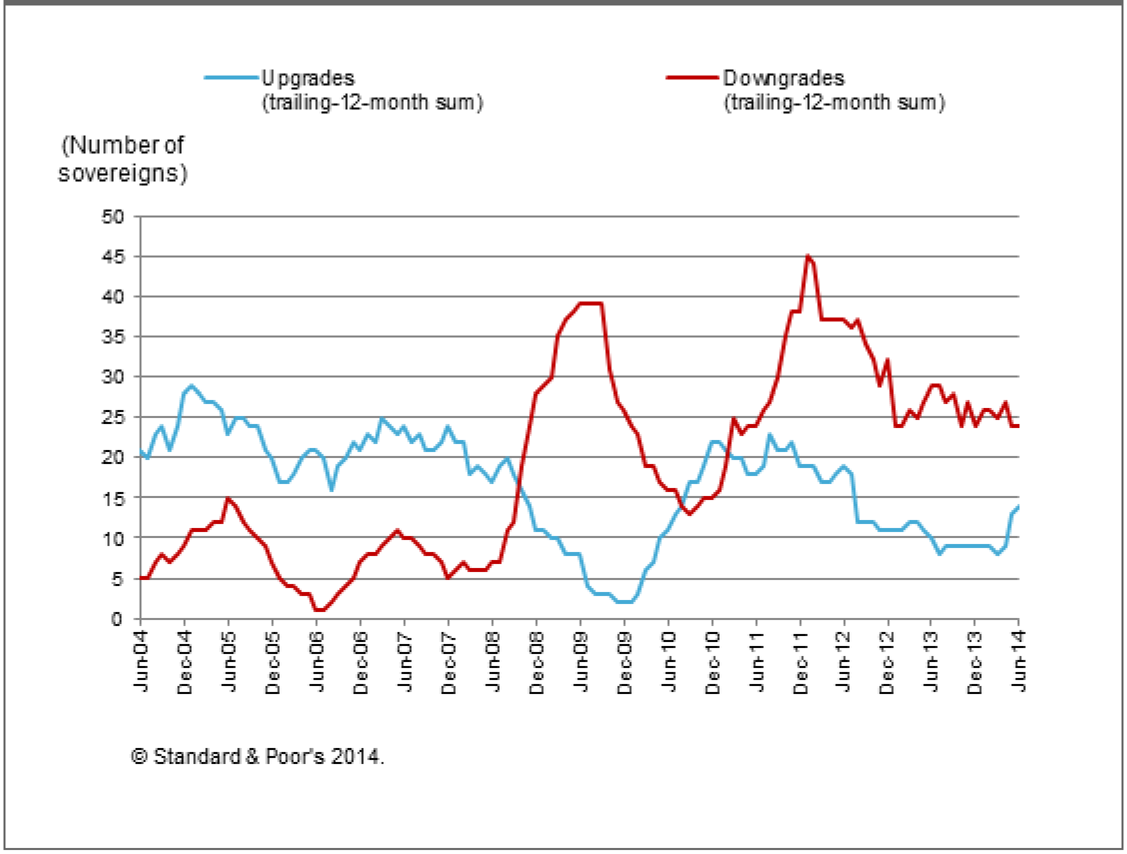


Currently one sovereign, Grenada, is in selective default. However, our decision to place the 'CCC-' rating on Argentina on CreditWatch with negative implications on July 1, 2014, signals our expectation that the default-free period may be coming to an end once the grace period on payments on Argentina's restructured bonds lapses in late July.

The mildly declining trend of the unweighted average sovereign rating can be explained partly by eroding credit quality of rated sovereigns. 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 July 3, 2014). However, another reason for the decline in unweighted average ratings is that most of the new sovereign ratings we have assigned tend to be in the lower rating categories in the so-called emerging markets or frontier markets, such as in sub-Saharan Africa, whose sovereigns predominantly carry ratings in the 'B' category.

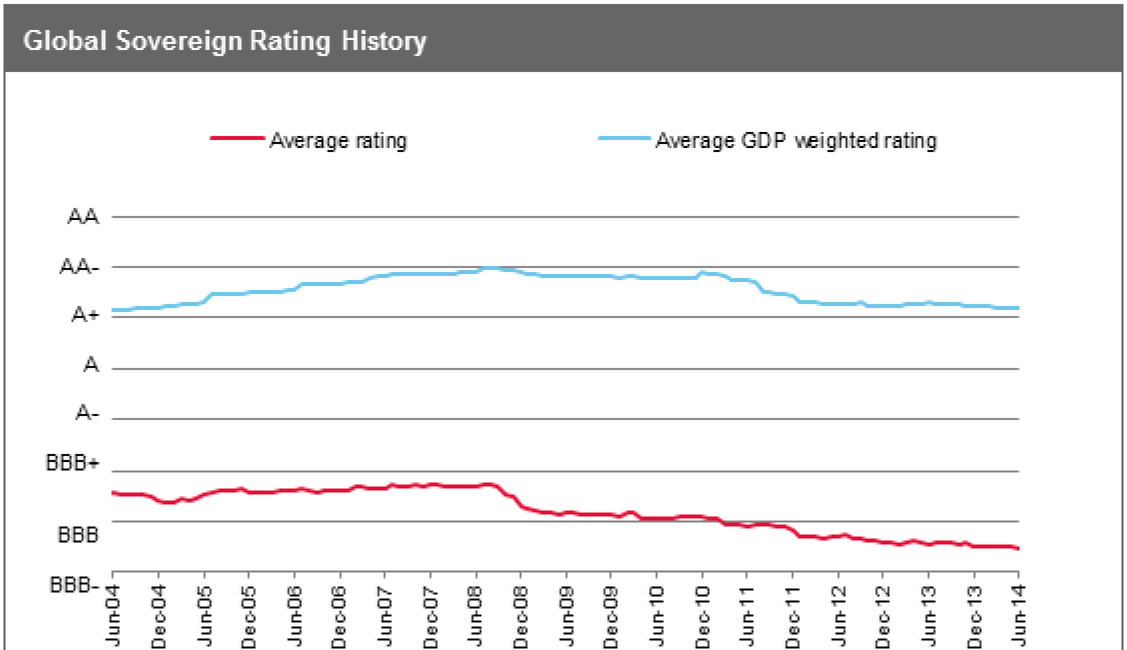
Chart 2

Sovereign Foreign Currency Rating Upgrades, Downgrades



Sovereigns with higher ratings and larger economies have experienced greater ratings stability. The GDP-weighted average rating currently stands marginally above 'A+'. This is comparable to the ratings a decade ago, but slightly down from the 'AA-' peak in mid-2008. The downgrade of the rating of the United States in August 2011 is easily detectable in chart 3, as the U.S. is the largest economy globally. The three successive upgrades of China are also traceable, as is the lowering of several eurozone sovereigns, including France, Italy, and Spain, in January 2012. Since January 2012, however, the GDP-weighted ratings of global sovereigns have remained unchanged.

Chart 3

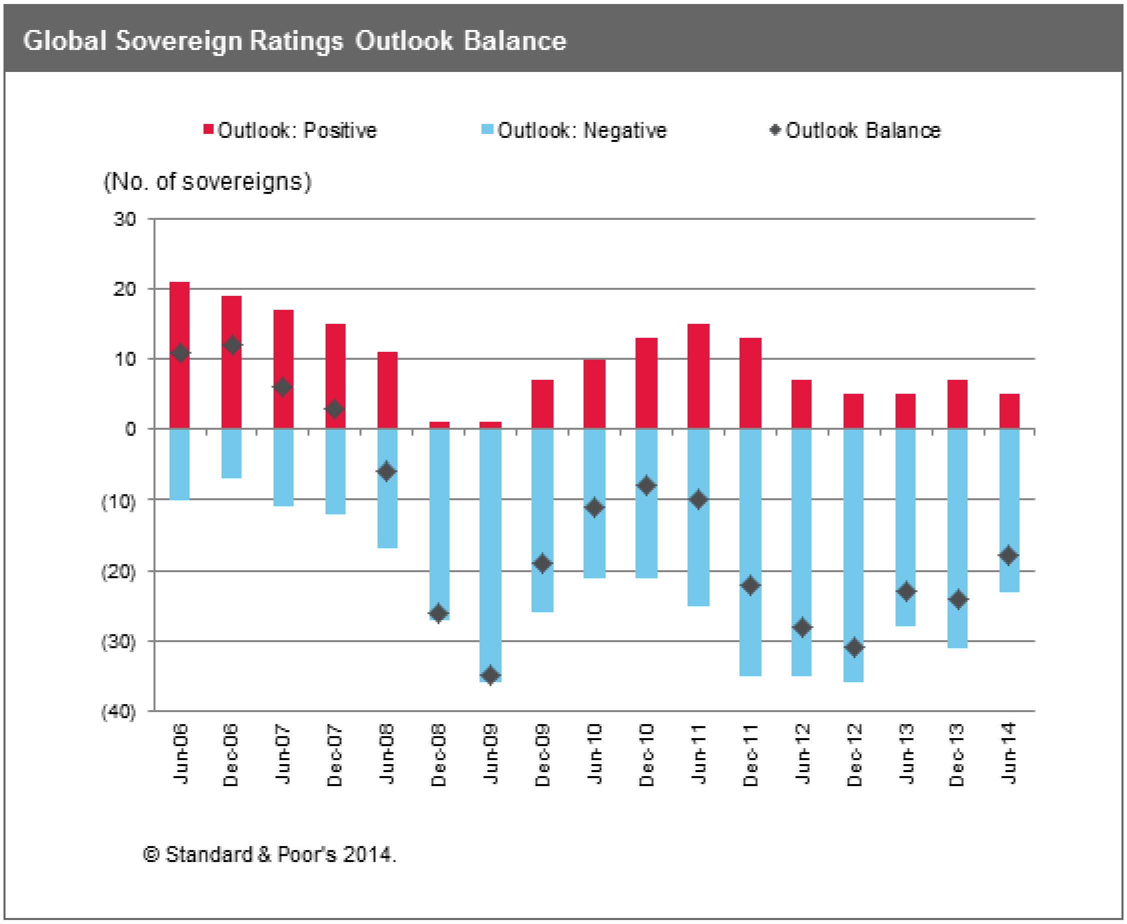


Note: Sovereign ratings assigned over the past decade were on average lower than the ratings on sovereigns that had already carried a rating before 2004.

The Outlook Balance Remains Negative, But Is On An Improving Trend

Looking ahead, negative outlooks still outnumber positive outlooks by 18 sovereigns, with five positive outlooks against 23 negative outlooks on June 30 (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 ('BB+' 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 Feb. 4, 2014).

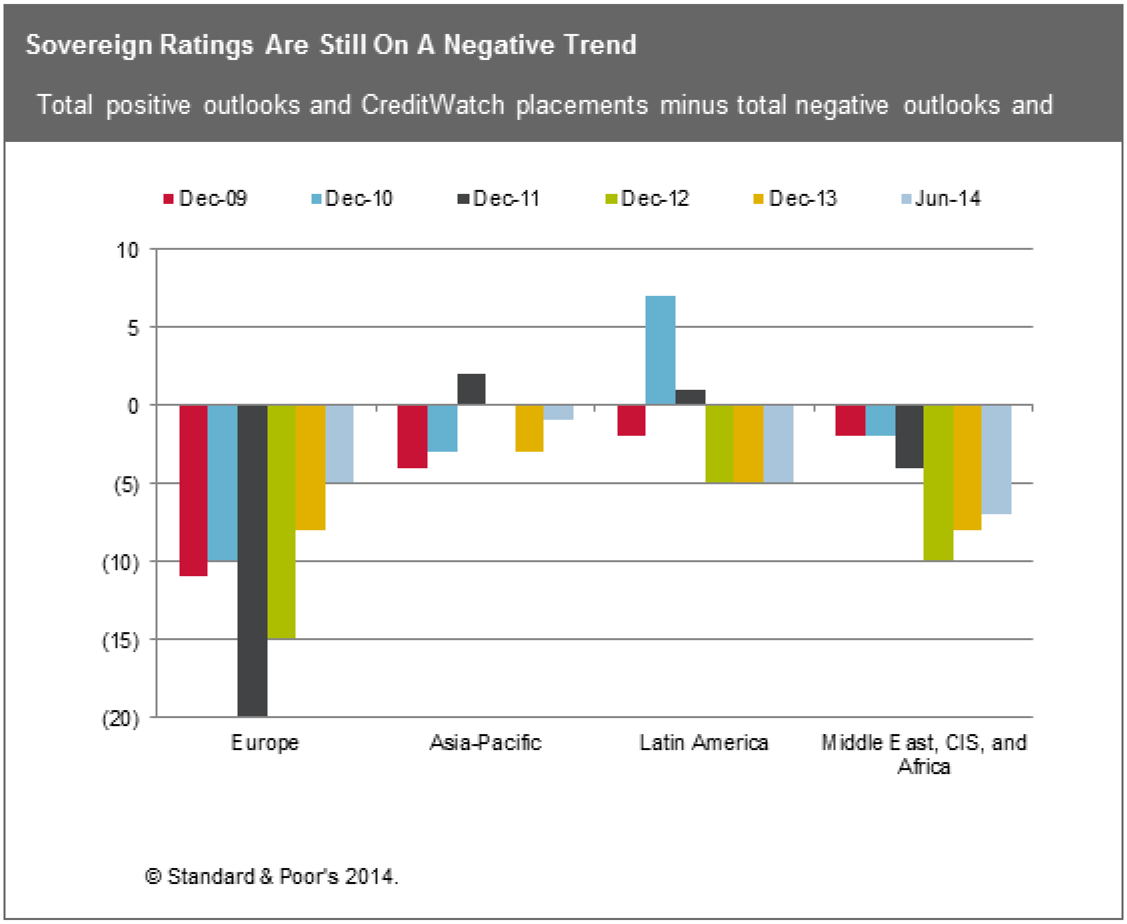
Chart 4



The outlook balance has been negative since the first half of 2008, peaking in June 2009 when the negative balance was 35. The improving outlook balance since December 2012 is due to the falling number of negative outlooks (to 23 from 36), while the number of sovereigns with positive outlooks has remained broadly unchanged at between five and seven.

All world regions displayed a negative outlook balance at the end of the first half of 2014 (see chart 5). At the same time, all regions have seen improving trends in their respective outlook balances, with the exception of Latin America (including the Caribbean), where the negative balance (minus five) has remained unchanged since December 2012. In that region, one single positive outlook (Ecuador) is outnumbered by six negative ones (Argentina, El Salvador, and Venezuela, and the island nations of Bahamas, Barbados, and Bermuda).

Chart 5



Currently, the Middle East, Commonwealth of Independent States (CIS), and Africa have the weakest outlook balance (minus seven), followed by Europe and Latin America and the Caribbean. Over the past few years, Asia-Pacific has been the most stable region in terms of rating outlooks and currently displays the lowest negative balance of minus one. Nevertheless, the two negative outlooks are on very large economies (Japan and India) versus one positive outlook of the small Pacific island of Fiji.

Europe has seen the strongest improvement among all regions in its outlook balance since 2011, when the region accounted for almost the totality of the global negative outlook balance. Much of the negative development up until 2012 had been due to the crisis in the eurozone. In light of the stabilization of the economic and financial situation in the euro area, the outlooks on members of the common currency are now balanced: two positive outlooks (Cyprus and Ireland) and two negative outlooks (Finland and Italy).

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

Table 1

Sovereigns With Positive Or Negative Outlook Or CreditWatch Placement (June 30, 2014)

	Positive	Negative
Africa		Ghana
		Nigeria
		Zambia
Americas	Ecuador	Argentina*
		Bahamas
		Barbados
		Bermuda
		El Salvador
		Venezuela
Asia-Pacific	Fiji	India
		Japan
Europe	Cyprus	Andorra
	Ireland	Finland
		Italy
		Montenegro
		Serbia
		Slovenia
		Turkey
Middle East & CIS	Saudi Arabia	Jordan
		Kazakhstan
		Ras Al Khaimah
		Russia
		Ukraine

*The sovereign rating on Argentina was placed on CreditWatch with negative implications on July 1, 2014.

Related Research

- Asia-Pacific Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Central and Eastern Europe Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Emerging Markets Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Eurozone Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Latin American And Caribbean Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Middle East And North Africa Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Sub-Saharan Africa Sovereign Rating Trends Mid-Year 2014, July 9, 2014
- Sovereign Ratings And Country T&C Assessments, July 3, 2014
- Sovereign Rating And Country T&C Assessment Histories, July 3, 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
- Global Sovereign Credit Trends: Downgrades Are Likely To Outnumber Upgrades Again In 2014, Dec. 17, 2013

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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