

Research papers

Authors

Thomas Loussouarn
Thibault Vasse

Sovereign Credit Ratings in Developing Countries

Regional Biases and
Subjectivity Factors

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Sovereign Credit Ratings in Developing Countries: Regional Biases and Subjectivity Factors

Authors

Thomas Loussouarn
Thibault Vasse

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Abstract

Sovereign credit ratings play a critical role in the international financial system and have a tangible impact on countries' fiscal, economic, and development trajectories. Nevertheless, the activity of credit rating agencies continues to generate debate and controversy and has become increasingly criticized by emerging and developing countries (EDCs). What are the regional disparities in sovereign ratings, and if they exist, are they justified?

This study provides an overview of the sovereign rating activities and methodologies of the three main U.S.-based agencies – Fitch, Moody's, and S&P – and analyzes major trends in sovereign ratings since the 1990s. We find that, in general, EDC ratings are lower and less stable than those of advanced economies. Likewise, disparities in default rates among equally rated sovereigns raise questions about the ability of rating agencies to correctly assess sovereign risk in certain cases. This preliminary analysis may suggest that regional rating biases exist at first glance, although such biases are inherently difficult to measure given the available data and the methodologies used by the agencies. We then review the literature on rating biases, which reveals that systematic biases can indeed affect sovereign ratings, particularly biases related to development levels, domestic biases and those related to cultural, economic or geopolitical proximity, as well as those arising from information asymmetries and economic conflicts of interest. Across these factors, clear disparities exist between regions. If these biases are confirmed, it is likely that EDCs are particularly disadvantaged.

We conclude with a review of recommendations aimed at mitigating these risks namely by reducing dependence on external ratings, updating rating methodologies to promote greater transparency and comprehensiveness, strengthening the international financial governance framework, and questioning the proposal of a multilateral public rating agency. Development actors also have a key role to play by contributing to the rating process through improved data availability, supporting EDCs' capacity to engage with private investors and rating agencies, and mobilizing instruments to reduce risk premiums.

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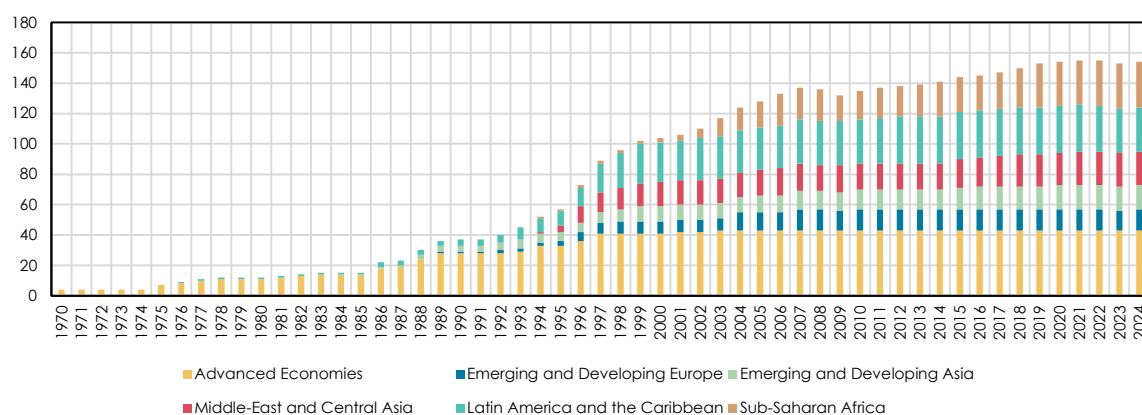
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Introduction

Sovereign credit ratings measure a State's ability and willingness to repay its public debt on time. The most influential ratings are issued by the three major U.S.-based credit rating agencies – Moody's, Fitch, and Standard & Poor's (the "Big Three") – which play a central role in global financial systems. With the power to influence approximately USD 130 trillion in savings invested in bond markets¹, they are critical to determining the financing conditions of sovereign States, notably the interest rates (Afonso, Furceri, and Gomes 2012; Cantor and Packer 1996) and maturities at which they issue debt (Stancu and Minescu 2011). They can also affect the real economy, impacting the financing of private firms and their investment capacity² (Almeida et al. 2017), as well as the flows of foreign direct investment (Cai, Kim, and Wu 2019; Arogundade, Biyase, and Eita 2022).

Long reserved for advanced economies, sovereign ratings gradually expanded during the 1990s (Figure 1) to cover emerging and developing countries (EDCs) seeking to diversify their financing sources through bond issuance, often with the support of multilateral institutions. This period marked the first sovereign bond issuances by EDCs to finance infrastructure projects as alternative sources of funding to concessional loans. At the same time, rating agencies actively sought to expand their coverage of emerging markets in response to growing investor demand for information on these lesser-known economies. As of 2024, EDCs represented 111 of the 154 countries rated by the Big Three. Given the structural impact that sovereign ratings can have on States' financing capacities and therefore their ability to implement economic and human development policies, ensuring their accuracy, reliability, and objectivity is essential.

Figure 1: Countries rated by at least one of the Big Three per region
(number of countries)



Source: Moody's, Fitch, S&P

However, there is no shortage of criticism toward the Big Three from the public, policymakers, and academics. Their business model – particularly the "issuer-pays" model – raises concerns regarding conflicts of interest, the vast majority of the Big Three's revenues coming directly from bond issuers³. Consequently, fearing the loss of market share, rating agencies may hesitate to assign poor ratings (Lynch 2009). They have also been accused of playing a catalytic role in major financial crises (e.g., the East Asian crisis of the 1990s, the 2008 global financial crisis, the 2012 euro area crisis, and the Covid-19 crisis). Several studies suggest that rating agencies exhibit procyclicality characterized by excessive optimism before crises, disproportionate severity during crises, and persistent conservatism afterward (Ferri, Liu, and

¹ As of August 2020, the International Capital Market Association (ICMA) estimated the size of the global bond market at USD 128 trillion, of which USD 89 trillion corresponded to sovereign, supranational, and government agency debt.

² This snowball effect results from the sovereign ceiling policy applied by credit rating agencies. These agencies generally require that the ratings of non-sovereign entities remain equal to or below the so-called "country ceiling", which itself is linked to the sovereign rating of the entity's country of residence.

³ As detailed later in this study, potential sources of conflicts of interest in sovereign ratings are generally indirect in nature, as sovereign rating activities usually represent only a small share of agencies' total revenue. Some sovereign ratings are even issued on an "unsolicited" basis meaning they are not paid for by the rated government.

Stiglitz 1999; Mora 2006; Afonso and Gomes 2011). This procyclicality may amplify economic shocks and contribute to self-fulfilling prophecies (Gärtner and Griesbach 2012; Schumacher 2014).

Leaders from developing countries, particularly in Africa, have also criticized what they perceive as systemic discrimination by the Big Three, a perceived favoritism toward advanced economies and pessimism toward their own. The rating agencies are said to insufficiently account for domestic fundamentals and, due to limited local presence, to lack adequate understanding of national contexts (African Peer Review Mechanism 2023). African governments have accused rating agencies of overly harsh downgrades during recent crises. In October 2020, the African Peer Review Mechanism, a body of the African Union, published its first report monitoring sovereign ratings in Africa following what it considered excessive downgrades during the Covid-19 crisis (United Nations Economic Commission for Africa 2020). In response to perceived shortcomings of the Big Three, African governments have mobilized to promote alternatives. The African Union is currently launching its own rating agency owned and funded by regional governments (African Peer Review Mechanism 2025).

This study provides an overview of major trends in sovereign ratings by the Big Three and reviews the literature on rating biases, examining the potential existence of biases against certain developing regions and, if they do exist, to explain them. The study is structured as follows: the first section briefly outlines the sovereign rating methodologies used by the Big Three and defines the concept of rating bias; the second section analyzes global patterns in sovereign ratings, their movements, and associated default rates to identify preliminary signs of possible bias; the third section presents a literature review of rating biases, their potential underlying causes, and implications for EDCs; finally, the study concludes by exploring several proposals to improve the international financial architecture.

Sovereign rating methodologies

Overview of key rating factors

Table 1: Summary of the Big Three sovereign rating methodologies

Moody's		Fitch		S&P	
Pillars	Key rating factors	Pillars	Key rating factors	Pillars	Key rating factors
Economic Strength	Growth dynamics	Structural Features	Governance Quality	Institutional Assessment	Effectiveness, Stability and Predictability
	Scale of the Economy		Wealth and Flexibility of the Economy		Transparency and Accountability
	National Income		Political Stability and Capacity	Economic Assessment	Income Levels
Institutions and Governance Strength	Quality of Institutions	Macroeconomic Performance, Policies and Prospects	Financial Sector Risks		Growth Prospects
	Fiscal and Monetary Policy Effectiveness		Policy Framework	External Assessment	Economic Diversity and Volatility
Fiscal Strength	Debt Burden		GDP Growth		Currency Status
	Debt Affordability	Public Finances	Inflation	Fiscal Assessment	External Liquidity
Susceptibility to Event Risk	Political Risk		Real Effective Exchange Rate		External Position
	Government Liquidity Risk		Government Debt	Monetary Assessment	Fiscal Flexibility
	Banking Sector Risk	External Finances	Fiscal Balance		Fiscal Trends and Vulnerabilities
	External Vulnerability Risk		Debt Dynamics		Debt Structure and Funding Access
			Fiscal Policy		Contingent Liabilities
			Balance of Payments		Exchange Rate Regime
			External Balance Sheet		Credibility of Monetary Policy
			External Liquidity		
Economic Risk		Public Finance Risk		Financial Stability Risk	
		External Risk		Political and Institutional Risk	

Source: Authors' elaboration

Credit rating agencies determine sovereign ratings, expressed on alphanumeric scales (see [Annex I for reference](#)), based on publicly available methodologies outlining their criteria and modelling techniques. **Table 1** presents an overview of the analytical pillars and key rating factors used by the Big Three. While modeling techniques, selected indicators, and weightings vary, the core determinants are largely similar. They can be grouped into five main categories of risk: i) Economic risk (e.g., growth, income per capita, economic size and diversification, macroeconomic policy effectiveness, etc.); ii) Public finance risk (e.g.,

public debt, budget balances, funding flexibility, etc.); iii) External risk (e.g., balance of payments, external position, exposure to shocks, etc.); iv) Financial stability risk (e.g., banking sector size and resilience, regulatory framework, private debt, financial imbalances); and v) Political and institutional risk (e.g., institutional quality, public governance effectiveness, political stability, and geopolitical risks). Although the Big Three acknowledge the relevance of environmental factors in credit risk, these are not yet integrated systematically or through distinct and explicit analytical components of their sovereign rating methodologies (Gratcheva et al. 2021; Cappiello et al. 2025)⁴.

To analyze these factors, rating methodologies combine quantitative factors (macroeconomic, financial, and governance indicators) with qualitative assessments based on expert judgment. **Table 2** compiles the indicators that are quantitatively assessed by the Big Three. For these indicators, Fitch, Moody's and S&P use different modelling approaches: Fitch applies weighted regression coefficients; Moody's maps indicators to ordinal scales using absolute thresholds; and S&P primarily relies on cross-referenced scoring tables.

Qualitative evaluations help compensate for the limits of purely quantitative approaches. As Fitch notes (Fitch Ratings 2023), "no quantitative model can fully capture all relevant influences on sovereign creditworthiness." Qualitative criteria, based on expert judgment and formalized through rating committees, assess factors such as institutional quality, political systems, policy effectiveness, and economic of fiscal resilience. These qualitative judgments are either added to or combined with quantitative results to produce a final rating. For Moody's and S&P, their quantitative scores can also be adjusted based on qualitative criteria, whereas Fitch's quantitative model does not incorporate subjective judgments.

Table 2: Summary of quantitative sovereign risk indicators used by the Big Three⁵

Risk pillar	Fitch (17 indicators)	Moody's (14 indicators)	S&P (9 indicators)
Economic risk	GDP per capita; Nominal GDP/World GDP; Monetary base/GDP; Volatility of real GDP growth; Inflation; Real GDP growth	Real GDP growth; Volatility of real GDP growth; Nominal GDP; GDP per capita	GDP per capita; GDP per capita growth; Monetary base
Public finance risk	Public debt/GDP; Interest expense/Revenue; Public balance/GDP; Public debt in foreign currency/Public debt	Public debt/GDP; Public debt/Revenue; Interest expense/Revenue; Interest expense/GDP; Δ Public debt/GDP; Public debt in foreign currency/GDP; Other non-financial public sector debt/GDP; Public financial assets	Δ Net public debt/GDP; Net public debt/GDP; Interest burden/Revenue
External risk	Share of currency in global reserves; Raw material exports/Current account receipts; Reserves/Current account payments; Net sovereign foreign assets/GDP; (Current account balance + Net FDI)/GDP; External interest burden/Current account receipts		Net external debt/Current account revenue or Current account payments; External financing requirement/(Current account revenue + official reserves)
Financial stability risk		Total domestic banking assets/GDP	Total bank assets/GDP
Political and institutional risk	World Bank Governance Indicators	World Bank Governance Indicators*	

* For Moody's, governance indicators are assessed in conjunction with other qualitative factors.
Source: Authors' elaboration

Definition of rating bias

In this study, we adopt a broad definition of bias: a systematic deviation from objective judgment influenced by subjective factors such as emotions, experience, preconceived notions, or cognitive shortcuts. It would be a mistake to equate every deviation from a quantitative model's output with bias. Some deviations may be legitimate when justified by well-founded qualitative factors supported by a clear rationale and applied rigorously and consistently across issuers. Thus, we consider bias to arise only when a deviation is simultaneously subjective, systematic, and erroneous. By nature, qualitative assessments rely on rating committees' judgment and therefore involve a degree of subjectivity. Ideally,

⁴ By empirically examining the impact of climate risks on the sovereign ratings issued by DBRS, Fitch, Moody's, and S&P, Cappiello, Ferrucci, Maddaloni, and Veggente (2025) find that only physical risk is reflected in sovereign ratings, while transition risk is not systematically incorporated.

⁵ In this table, we list only the indicators that are quantitatively assessed. The Big Three agencies also use other macroeconomic indicators to inform their qualitative evaluations.

such judgments should be based on clearly defined criteria applied consistently and rigorously across all sovereigns, without discrimination. In practice, however, they may suffer from biases that influence ratings, leading to systematic optimism or pessimism. Quantitative evaluations can also embed bias through indicator selection and modeling choices, though they are *a priori* generally applied uniformly across sovereign issuers.

Stylized facts on global sovereign credit ratings

To better understand the criticisms directed at credit rating agencies, particularly the accusations of discrimination against EDCs, it is necessary to contextualize the debate within an increasingly diverse landscape of sovereign credit ratings and regionally contrasted rating histories. This section provides a descriptive analysis of trends in sovereign ratings for the 161 countries that have been rated by one or more of the Big Three agencies across six world regions (see [Annex II for the country sample and regional classification](#)) over the 1990–2023 period. **Table 3** presents an overview of the number of rated countries and their associated development indicators by region. For the remainder of this study, we focus exclusively on long-term foreign currency sovereign ratings, as these are the benchmarks most widely used by international investors. For comparability purposes, Moody's ratings are converted to the Fitch and S&P rating scale.

Table 3: Overview of the sample used for the stylized facts

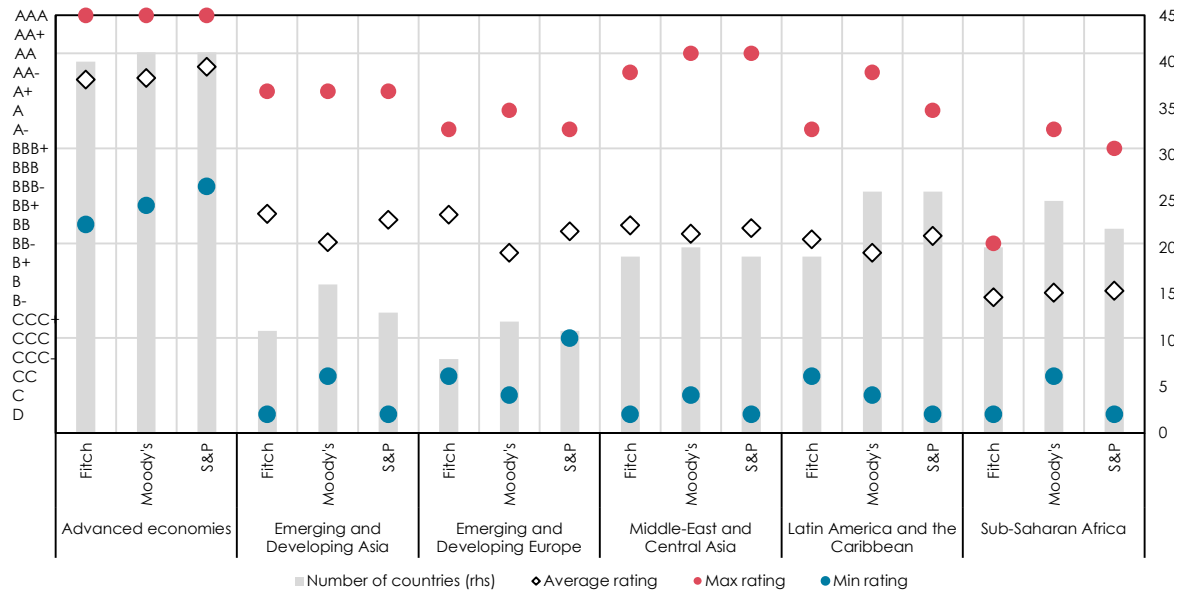
Regions	Number of countries	Average GDP per capita (USD PPP)	Human Development Index
Advanced Economies	43	63 581	0,92
Emerging and Developing Europe	15	28 805	0,81
Emerging and Developing Asia	23	26 844	0,77
Middle-East and Central Asia	32	19 690	0,75
Latin America and the Caribbean	16	14 231	0,70
Sub-Saharan Africa	32	7 386	0,57
World	161	30 102	0,76

Source: IMF, UNDP, authors' calculations

Ratings levels

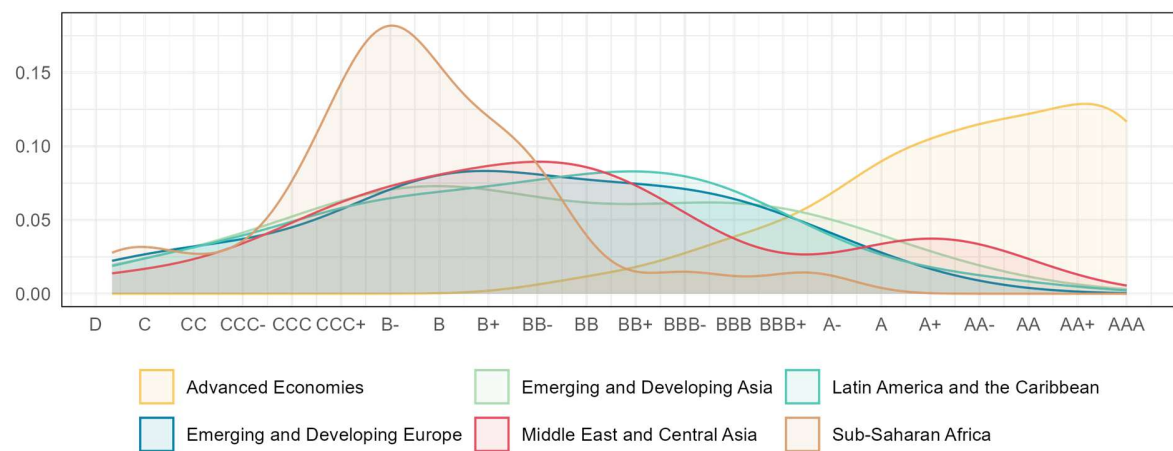
Figures 2 and 3 provide an overview of sovereign credit ratings across world regions as of end-2023. An preliminary analysis of the distribution reveals several key patterns. First, there is strong consistency across the three agencies—average regional ratings differ by no more than two notches, and relative positions among regions are nearly identical. Second, there are pronounced disparities between regions: advanced economies are rated significantly higher than EDCs, with an average gap of roughly nine notches. Among developing regions, Asia, Emerging Europe, Middle East and Central Asia, and Latin America generally hold similar ratings (around BB), while Sub-Saharan Africa averages between B– and B. These disparities, however, do not necessarily indicate bias; they may reflect legitimate structural differences in fundamentals, macroeconomic resilience, and institutional contexts. It is widely recognized that EDCs have more vulnerable economies, less fiscal flexibility, and exhibit shortcomings in governance (Luitel, Vanpée, and De Moor 2016), all of which could explain the observed gaps.

Figure 2: Overview of sovereign credit ratings by agency and region, 2023



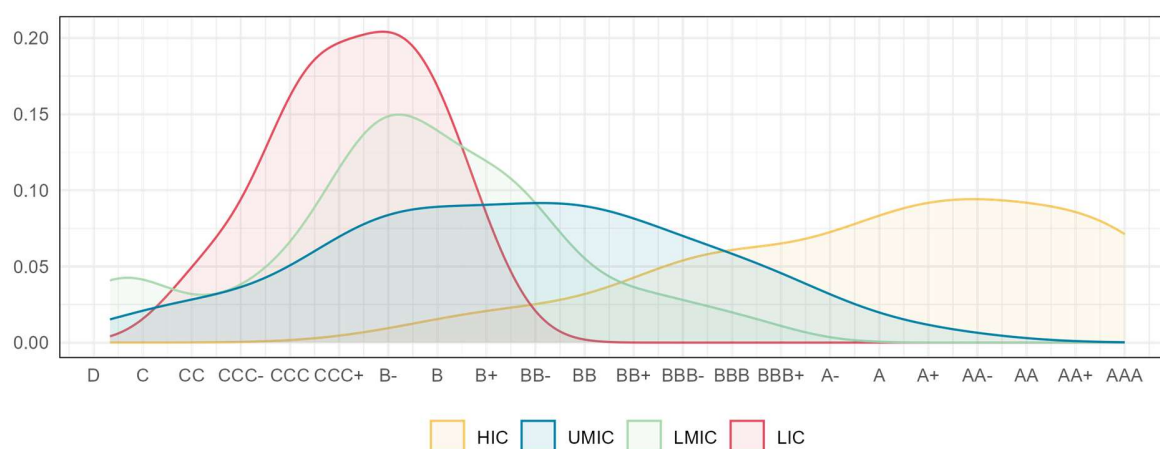
Source: Moody's, Fitch, S&P, authors' calculations

Figure 3: Density plots of average sovereign credit ratings by region, 2023



Note: Average ratings are rounded to the nearest notch.
Source: Moody's, Fitch, S&P, authors' calculations

Figure 4: Density plots of average sovereign credit ratings by income group, 2023



Note: Average ratings are rounded to the nearest notch.
Source: Moody's, Fitch, S&P, authors' calculations

Rating movements

In a second step, we examine rating movements, distinguishing between upgrades and downgrades over a given calendar year, as well as the number of notches involved in each case. **Table 4** reports the distribution of observed interannual rating changes between 1990 and 2023, disaggregated by agency and by region. At the global level, rating stability clearly prevails: for all three agencies, sovereign ratings remained unchanged roughly four times out of five across the full sample period, and multi-notch movements were relatively rare (around 5% for all agencies). Historically, rating changes have tended to be slightly upward-oriented for all three agencies (downgrade/upgrade ratios between 0.85 and 0.95). Once again, marked regional differences emerge. Across agencies, ratings for advanced economies are the most stable and are more frequently subject to upgrades. A similar upward trend is also observed among developing economies in Europe and Asia, while rating movements are relatively balanced in Latin America, and the Middle East and Central Asia. In contrast, rating dynamics in Sub-Saharan Africa are much more often downward-oriented. The downgrade-to-upgrade ratio for Africa is indeed the highest of all regions across the three agencies (between 1.44 and 3.92), and roughly two to three times higher than that of other regions for both Moody's and S&P.

Table 4: Distribution of rating changes by agency and region, 1990–2023

Rating change	World	Advanced Economies	Emerging and Developing Europe	Emerging and Developing Asia	Middle-East and Central Asia	Latin America and the Caribbean	Sub-Saharan Africa
Fitch							
Multi- notch upgrade	1,67%	1,30%	4,26%	0,86%	0,33%	2,49%	1,86%
One- notch upgrade	10,08%	8,95%	15,32%	11,64%	10,49%	12,22%	6,52%
No change	78,26%	82,76%	68,51%	80,17%	74,43%	71,72%	79,50%
One- notch downgrade	6,74%	4,85%	7,23%	5,17%	10,82%	8,60%	8,07%
Multi- notch downgrade	3,26%	2,14%	4,68%	2,16%	3,93%	4,98%	4,04%
Downgrade/upgrade ratio	0,85x	0,68x	0,61x	0,59x	1,36x	0,92x	1,44x
Moody's							
Multi- notch upgrade	2,02%	2,37%	3,02%	0,57%	2,29%	2,32%	0,00%
One- notch upgrade	7,75%	5,99%	11,07%	9,77%	8,03%	9,67%	4,49%

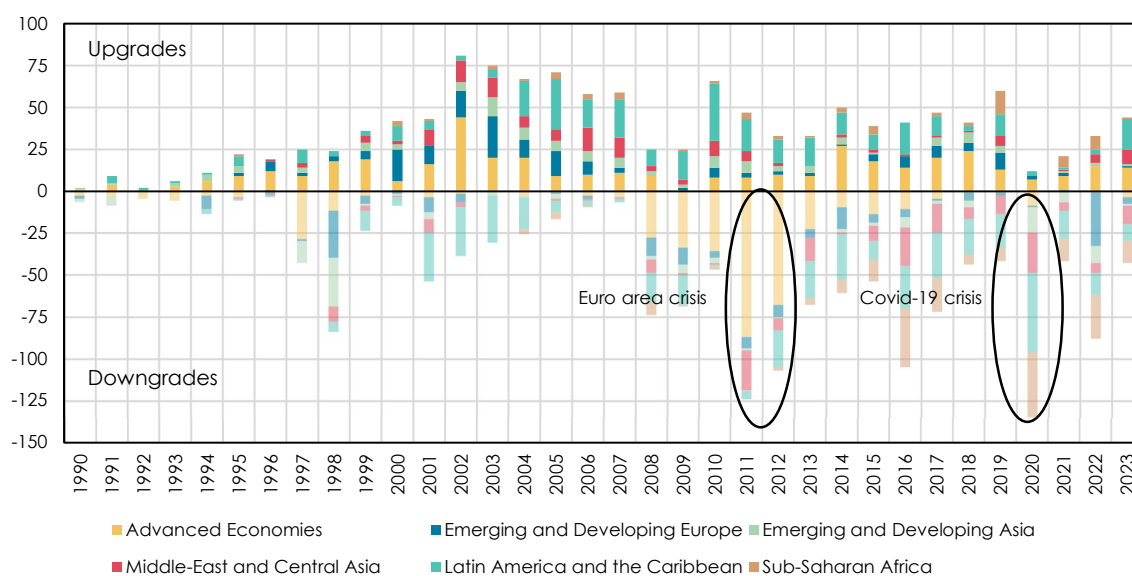
No change	80,99%	86,12%	74,16%	81,03%	79,36%	76,57%	77,90%
One- notch downgrade	5,88%	3,47%	7,38%	5,46%	6,65%	6,54%	13,48%
Multi- notch downgrade	3,36%	2,05%	4,36%	3,16%	3,67%	4,90%	4,12%
Downgrade/upgrade ratio	0,95x	0,66x	0,83x	0,83x	1,00x	0,95x	3,92x
S&P							
Multi- notch upgrade	1,46%	1,31%	3,46%	0,31%	0,80%	2,46%	0,63%
One- notch upgrade	10,31%	8,89%	14,53%	13,19%	10,70%	13,06%	5,31%
No change	77,65%	83,29%	68,17%	77,91%	77,54%	67,90%	79,38%
One- notch downgrade	7,42%	4,64%	9,34%	6,13%	6,42%	11,52%	11,88%
Multi- notch downgrade	3,16%	1,86%	4,50%	2,45%	4,55%	5,07%	2,81%
Downgrade/upgrade ratio	0,90x	0,64x	0,77x	0,64x	0,95x	1,07x	2,47x

Source: Moody's, Fitch, S&P, author's calculations

To better assess whether credit rating agencies apply differentiated treatment across countries, it is useful to examine two contrasting periods characterized by major waves of sovereign downgrades, illustrated in **Figure 5**:

- **Euro area crisis (2011–2012):** An accumulation of macroeconomic imbalances and structural vulnerabilities – exacerbated by the 2008 global financial crisis – triggered a severe balance-of-payments and sovereign debt crisis in several euro area countries, followed by a sharp and rapid series of sovereign rating downgrades. This episode culminated in the sovereign defaults of Greece (2012) and Cyprus (2013). During this period, advanced economies accounted for 67% of the cumulative number of sovereign rating downgrades (measured in notches) across the Big Three agencies.
- **Covid-19 crisis (2020):** An exogenous and asymmetric shock, largely unrelated to pre-existing structural conditions, led to a significant short-term deterioration in macroeconomic fundamentals across the globe. This prompted widespread downgrades among developing countries, while ratings for advanced economies remained broadly stable. In 2020, developing economies accounted for 93% of the cumulative sovereign rating downgrades (in notches) recorded by the Big Three.

Figure 5: Cumulative annual sovereign rating upgrades and downgrades by region
(number of notches)

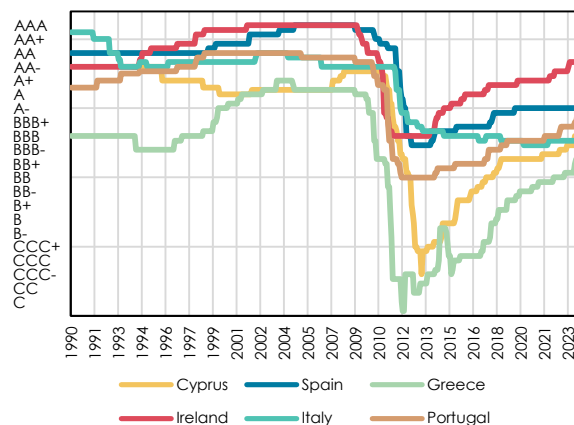


Note: This chart shows the cumulative notch adjustments for all sovereign ratings by the Big Three.
Source: Moody's, Fitch, S&P, authors' calculations

Comparing these two episodes of heightened stress in sovereign ratings raises an important question about the procyclicality of sovereign credit ratings and the potential differentiated treatment across regions. In the case of the euro area crisis, a consensus has gradually emerged regarding its underlying causes, highlighting the inability of credit rating agencies – and financial markets more broadly – to recognize the accumulation of macroeconomic vulnerabilities in European countries. In a review of perspectives from around twenty economists on the causes of the euro area crisis, Baldwin and Giavazzi (2016) reach the following conclusion: "In the case of the EZ crisis, the imbalances were extremely unoriginal. They were the standard culprits that have been responsible for economic crises since time immemorial – namely, too much public and private debt borrowed from abroad."

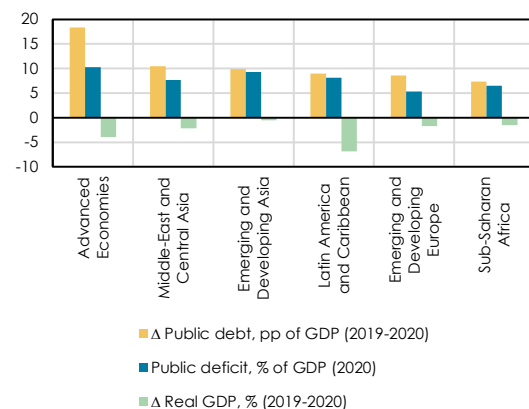
Nevertheless, sovereign ratings for peripheral countries remained remarkably stable (and in some cases were even upgraded) in the years preceding the crisis, before experiencing rapid and pronounced downgrades thereafter (**Figure 6**). Several studies suggest that the speed and magnitude of these downgrades partly reflect excessive optimism in pre-crisis sovereign ratings, despite a clear deterioration in macroeconomic fundamentals (D'Agostino & Lennkh, 2016; Brùha et al., 2017; Polito & Wickens, 2015; Vernazza & Nielsen, 2015). This over-optimism may have stemmed from the general euphoria surrounding the adoption of the common currency and the belief in the sound functioning of the monetary union – despite the structural weaknesses of the European architecture, such as the lack of credibility of the fiscal framework, the fragmentation of regulatory systems, and the absence of a genuine political union (Willett & Srisorn, 2014).

Figure 6: Sovereign credit ratings in the euro area periphery



Note: This chart shows the simple averages of the Big Three's sovereign ratings.
Source: Fitch, Moody's, S&P, authors' calculations

Figure 7: Economic and fiscal impact of the Covid-19 crisis by region



Note: Regions are ranked according to the cumulative increase in the public debt ratio.
Source: IMF, authors' calculations

The Covid-19 crisis presents a sharp contrast with the euro area episode. At first glance, the economic and fiscal impact of the 2020 crisis was generally more severe for advanced economies than for EDCs (**Figure 7**). Advanced economies generally experienced deeper recessions, wider fiscal deficits, and a larger accumulation of public debt than EDCs. However, the incidence of sovereign rating downgrades in 2020 was significantly higher in Sub-Saharan Africa (55% of rated countries experienced at least one downgrade during the year), Latin America (48%), the Middle East and Central Asia (38%), and Emerging and Developing Asia (31%) than in advanced economies (16%) whose sovereign ratings remained largely stable.

This outcome is not entirely unexpected, as EDCs typically exhibit greater volatility in economic performance and are more vulnerable to external shocks. Such volatility reflects, among other factors, a stronger dependence on commodity exports subject to price fluctuations, less reliable access to capital markets as well as pre-existing macroeconomic imbalances. Likewise, their more limited institutional, fiscal and monetary capacity to absorb shocks. These factors can underpin the sharper rating movements observed across these regions.

Default rates

Credit rating agencies explain that sovereign credit ratings represent opinions on the relative risk of default by sovereign issuers, rather than strict statistical estimates of default probabilities. In other words, agencies do not commit to mapping a given rating level to a specific, quantifiable probability of future default although they are required to publish *ex post* default statistics to meet regulatory disclosure requirements (Securities and Exchange Commission, 2014; European Union, 2009). Rating performance may not be directly comparable across different classes of issuers (sovereigns, corporates, structured products, etc.). As a result, the default risk associated with a given rating grade may differ depending on the issuer type (Securities and Exchange Commission, 2017). That being said, we would expect default rates within a given issuer category to satisfy two key conditions: i) default rates should increase gradually as one moves down the rating scale; and ii) there should be no large or systematic regional disparities in default rates for issuers holding equivalent ratings.

Accordingly, an analysis of historical sovereign default rates by rating category and by region can help assess whether systematic differences exist in agencies' judgments. Our reasoning is as follows: if, for a given rating level, countries in Region A consistently exhibit lower default rates than those in other regions, this could suggest that the sovereign ratings of Region A are systematically under-rated relative to the rest of the world. We therefore present below an analysis of sovereign defaults on foreign-currency debt between 1990 and 2023 for Fitch and S&P⁶.

Table 5 – Overview of sovereign defaults on foreign-currency debt, 1990–2023

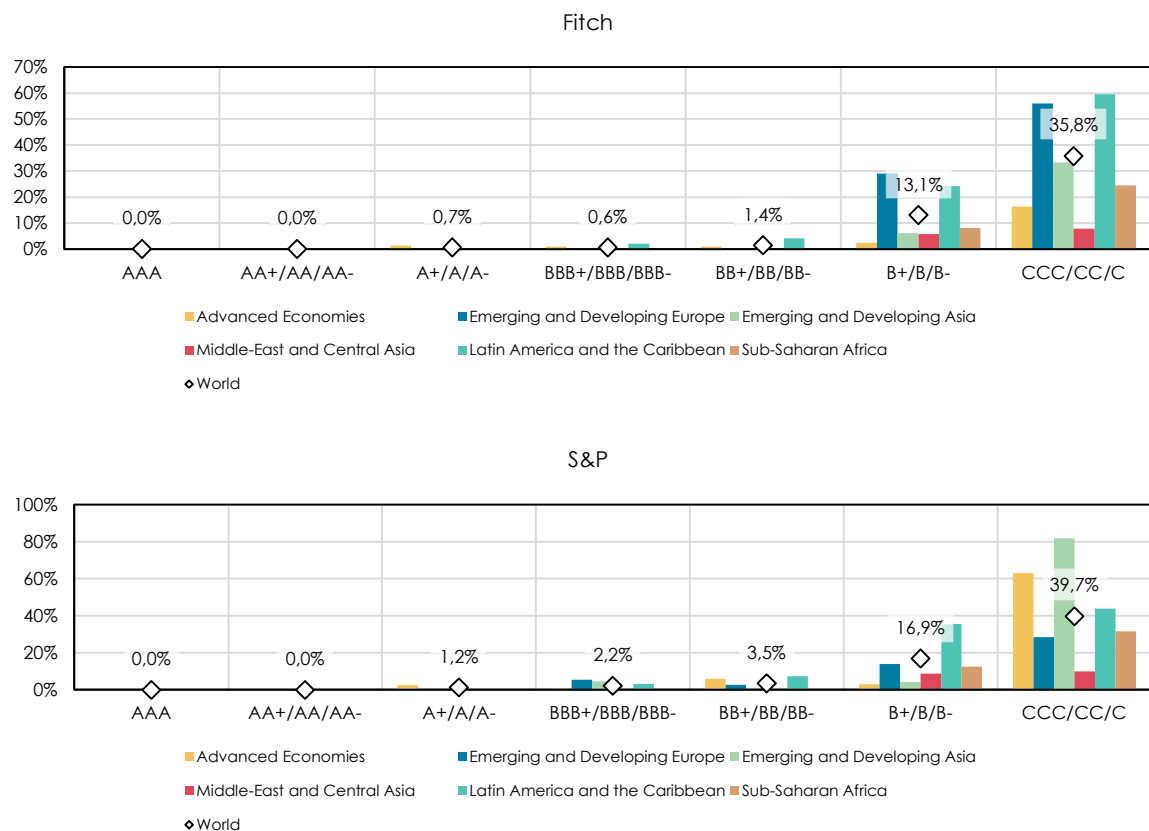
Région	Number of defaults	% of total
Advanced Economies	3	6%
Emerging and Developing Europe	5	10%
Emerging and Developing Asia	4	8%
Middle-East and Central Asia	2	4%
Latin America and the Caribbean	28	55%
Sub-Saharan Africa	9	18%
World	51	100%

Source : Authors' calculations

In total, there were 51 distinct cases of sovereign default involving countries that were rated by at least Fitch or S&P at the time of default during the period under review, most of which were concentrated in Latin America and Sub-Saharan Africa (**Table 5**). **Figure 8** presents cumulative five-year sovereign default rates on foreign-currency debt, disaggregated by agency, rating category, and region over the 1990–2023 period (see [Annex III for the list of default events and the methodology used to compute default rates](#)). The main findings presented here are also confirmed when examining default rates over shorter and longer horizons.

⁶ Moody's is excluded from this analysis, as its rating scale does not include an explicit default category, making it impossible to precisely identify the timing and duration of default episodes.

Figure 8: Cumulative 5-year sovereign default rates by agency, rating category, and region, 1990–2023 (%)



Source: Fitch, S&P, authors' calculations

At first glance, the Big Three appear to perform well in ranking the relative default risk of sovereign issuers globally: the lower the sovereign rating, the higher the observed default rate. While there were no recorded five-year defaults among sovereigns rated AAA, default rates reach 36% and 40%, respectively, for Fitch and S&P in the CCC+ or lower rating categories. The only exception concerns Fitch's default rate for the A+/A/A– category (0.7%), which, according to our calculations, is slightly higher than that of the BBB+/BBB/BBB– category (0.6%).

However, this relative ranking becomes more heterogeneous when examined across regions, revealing significant disparities that also vary by agency, partly reflecting differences in the composition of their respective rating portfolios. For both agencies, default rates for Latin America are almost systematically above the global average, except in the A+/A/A– category. This pattern partly reflects repeated defaults in several countries within the region, such as Argentina (four defaults since 1990), Belize (five), and Ecuador (three). In contrast, default rates for Sub-Saharan Africa and the Middle East & Central Asia are often below global averages. Finally, for both agencies, no region other than advanced economies shows a cumulative five-year default rate above zero for the A–/A/A+ category. The euro area crisis stands out as a unique exception in the recent history of sovereign ratings: Greece, which defaulted in 2012, had been rated A by both Fitch and S&P five years earlier, and Cyprus, which defaulted in 2013, had been rated A+ by S&P in 2008⁷.

While default rate analysis can in principle provide stronger evidence of judgment errors or systematic biases, it must be interpreted with great caution in the case of sovereign ratings. The number of sovereign defaults in the Big Three's rating universe remains very limited, and the historical coverage of sovereign

⁷ S&P downgraded Cyprus's foreign currency sovereign rating to SD following the country's debt swap as part of its financial adjustment program. Fitch did not assign a D rating to Cyprus, considering that Cypriot foreign bonds had not been affected by the swap.

ratings in some regions is shorter than for advanced economies. In particular, several sovereign defaults in Sub-Saharan Africa involved countries that were not rated by the major agencies, notably within the context of the Heavily Indebted Poor Countries (HIPC) Initiative (see **Box 1**). During this period, numerous African countries defaulted on their debt and benefited from substantial debt relief. Consequently, the small size of the sovereign default sample prevents any robust statistical analysis of regional disparities. Based on these results, it is therefore important to avoid drawing premature conclusions about the existence of systematic biases.

Box 1 – The HIPC Initiative: What are the implications for sovereign ratings and default rates?

Launched in 1996 by the World Bank, the IMF, and the Paris Club, the Heavily Indebted Poor Countries (HIPC) Initiative aimed to provide lasting relief from excessive external debt burdens for low-income countries identified as heavily indebted and meeting strict eligibility criteria. Under this initiative, 37 countries – 31 of which are in Africa – received debt relief from the IMF and other creditors. In total, more than USD 76 billion in debt was cancelled, representing between 60 and 90% of the recipient countries' initial debt stocks at the time of completion. When the initiative was launched, it was also intended to involve private creditors in the debt relief process. In practice, however, private sector participation remained limited (International Monetary Fund, 2016), and several countries continued to service privately held debt – one of the main challenges faced by the program.

Importantly, a number of beneficiary countries were not rated during this period, which coincided with a wave of sovereign defaults and debt restructurings across Africa. Moreover, credit rating agencies explicitly incorporate countries' default histories into their sovereign rating methodologies. As a result, sovereign ratings of HIPC countries may still be constrained by the defaults recorded in the 1990s and 2000s, even though many of these default events occurred outside their formal rating histories.

These legacy effects may therefore introduce distortions in the default rates presented in this report and call for caution in their interpretation.

Rating biases and underlying factors

The literature examining potential biases in credit ratings has expanded considerably over the past two decades, particularly since the 2007–2009 global financial crisis (Griffin & Tang, 2011) and the subsequent euro area crisis, both of which renewed attention on the role and practices of credit rating agencies. Concerns regarding potential biases in agency assessments, along with documented cases of rating errors, have prompted researchers to seek to identify such biases empirically and to explore their underlying causes.

Disparities between developing and advanced economies

The literature has first sought to explore potential disparities in rating treatment between advanced and developing economies, with mixed results. Gültekin-Karakaş, Hisarcıklılar, and Öztürk (2011) find evidence of differential treatment between developing and advanced economies, particularly in the weighting of macroeconomic factors. They conclude that the sovereign rating methodologies used by the major agencies are “much more benign to advanced economies”, beyond what would be justified by their fundamentals. Öztürk (2014) argues that the “biases” often identified in the literature as penalizing developing countries may partly stem from differences in institutional quality. Similarly, Amstad and Packer (2015) question the hypothesis that emerging market ratings are systematically lower due to a broad range of macroeconomic factors, although they note that the main agencies may still emphasize certain criteria in ways that disadvantage emerging economies. Focusing on rating movements, Tennant, Tracey, and King (2020) highlight that developing countries must reach higher thresholds of debt quality – understood as the capacity and willingness of a sovereign to meet its financial obligations – compared with advanced economies in order to obtain rating upgrades, even when macroeconomic and institutional conditions improve. Likewise, Jin, Hou, and Yang (2025) use a model that accounts for feedback loops between ratings and interest rates and empirically identify an overestimation of sovereign risk in developing countries by S&P and Moody's relative to financial market assessments over the 1993–2022 period. Several authors also emphasize the role of subjectivity and qualitative adjustments in sovereign ratings. Slapnik and Lončarski (2023) show that agencies' discretionary judgments are

particularly pronounced in emerging markets, where qualitative adjustments tend to be systematically negative.

Other studies have attempted to assess potential regional biases, though their findings remain inconclusive. Some evidence suggests that agencies may weigh certain variables differently across country groups. According to Mutize and Nkhalamba (2021), international rating agencies assign lower weights to economic growth rates when assessing African countries who tend to perform strongly on this metric, lending credence to the argument that the region is generally underrated. Yalta and Yalta (2018), by contrast, find a positive bias toward the United States but no significant negative bias against specific regions. Similarly, Lysenko (2025) examines potential biases toward Sub-Saharan Africa but finds no statistically significant evidence of differential treatment. According to the author, rating gaps are largely explained by structural factors related to levels of development and institutional quality, but the author also questions whether the high weight attributed to these factors is appropriate.

Proximity factors

A growing strand of recent literature has focused on identifying home-country and proximity biases in the calibration of sovereign ratings that go beyond purely economic, financial, and institutional fundamentals. Fuchs and Gehring (2017) show that rating agencies tend to assign more favorable ratings both to their own home country and to countries that maintain close ties with it. Their study, based on data from nine rating agencies, identifies a home-country bias equivalent to roughly one notch of overrating for the agency's country of origin, holding fundamentals constant. They also find that cultural and financial proximity to the agency's home country positively affects sovereign ratings. These findings are consistent with those of Zheng (2012), who suggests that Chinese and Western agencies weigh rating criteria differently for cultural or political reasons. Similarly, Yalta and Yalta (2018) argue that the positive bias toward the United States observed among the Big Three agencies stems from the same proximity effect, which also extends to countries with strong economic or military ties to the U.S. De Moor et al. (2018) corroborate these results, identifying a cultural, geographic, and economic proximity bias toward the United States, and further highlight that lobbying expenditures in the U.S. may serve as an additional factor positively influencing sovereign ratings.

To assess the potential exposure of sovereign ratings to such biases, we construct a Proximity Index covering nine indicators across 187 countries, capturing the main channels of proximity bias identified in the literature as having a statistically significant impact on sovereign ratings. Scores are expressed on a 0–100 scale, calculated using percentile ranks across the underlying indicators identified as statistically significant in prior studies (see [Annex IV for an overview of the indicators and methodology](#)). The overall Proximity Index is computed as the simple average of the following three components:

- **Geopolitical proximity:** The extent to which a country is geopolitically aligned with, or of strategic interest to, the United States.⁸
- **Economic and financial proximity:** The degree of economic and financial integration with the United States, measured through trade, foreign direct investment, and lobbying expenditures.
- **Cultural proximity:** The cultural similarity between the country and the United States, proxied by shared language and religion.

⁸ The current geopolitical context raises questions about the benefits that countries derive from their alignment with the United States. It is worth noting that both the studies on proximity bias and the data used in this report predate the inauguration of the Trump II administration, which may have altered geopolitical alignments going forward.

Figure 9: Overview of global proximity to the United States

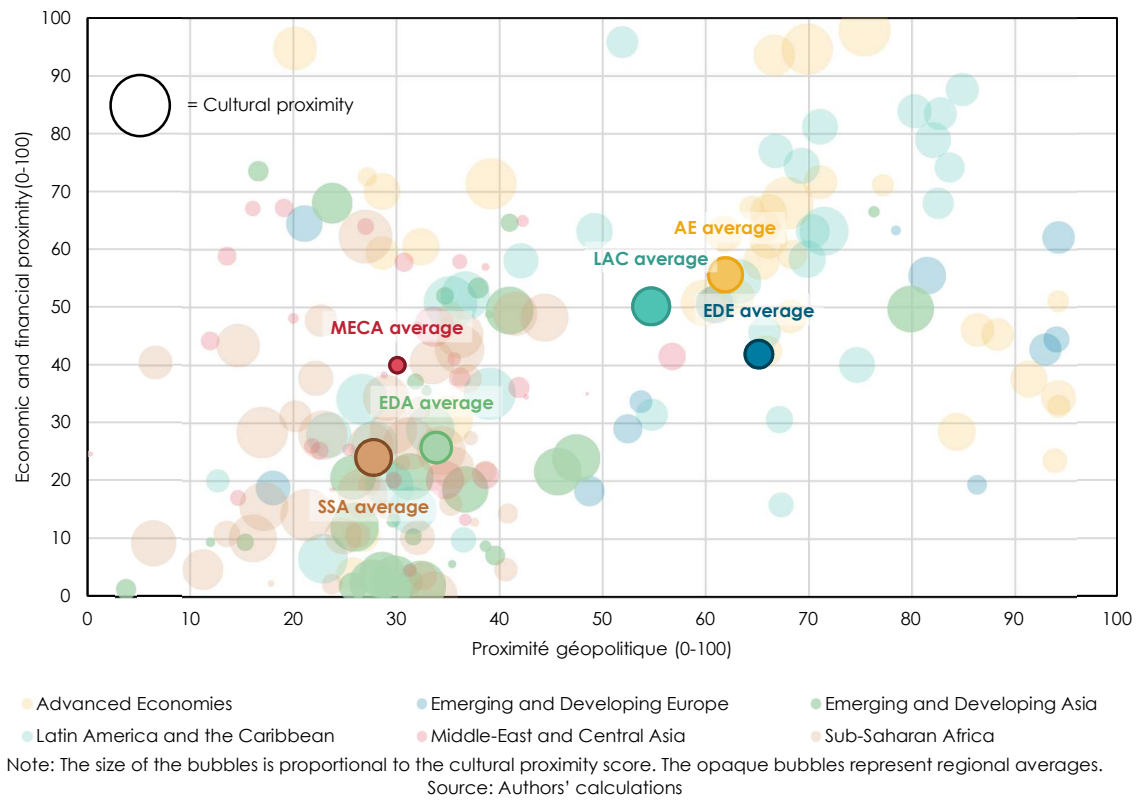
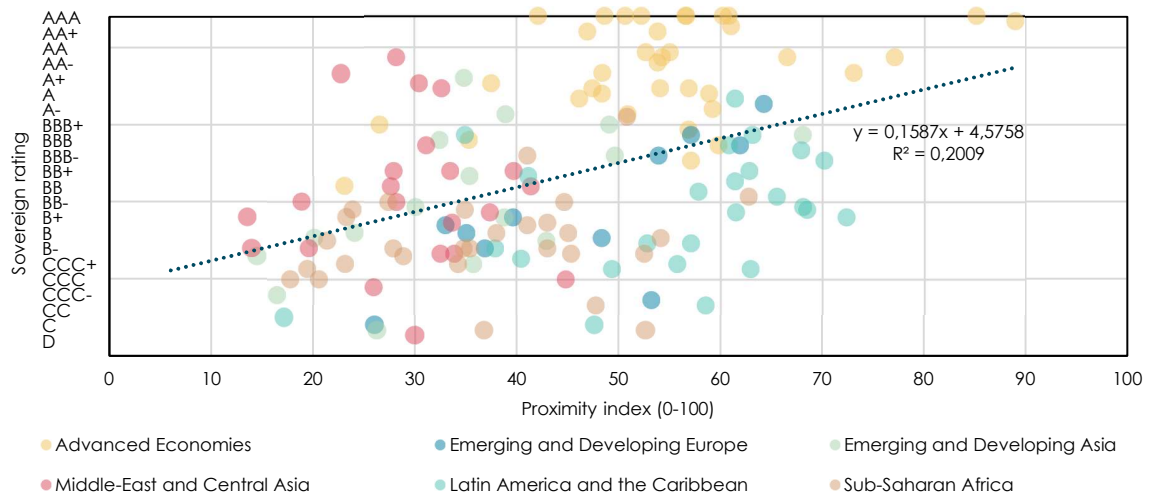


Figure 9 presents the positioning of 187 countries along the three dimensions of the Proximity Index. Although scores vary considerably among countries within the same region, the index shows that advanced economies (with an average overall score of 55/100) are, on average, the most geopolitically, economically, and culturally aligned with the United States. Among EDCs, Latin America (53/100) and Europe (46/100) also exhibit relatively high levels of proximity. In contrast, developing countries in Africa (34/100), Asia (32/100), and the Middle East & Central Asia (27/100) appear less likely to benefit from potential proximity-related biases. It is worth noting that this Proximity Index – which does not include any quantitative indicators explicitly used in the Big Three agencies' methodologies and should *a priori* have no direct influence on sovereign risk – tracks 20% of the variance in sovereign credit ratings (**Figure 10**).

Figure 10 – Relationship between the Proximity index and 2023 sovereign credit ratings



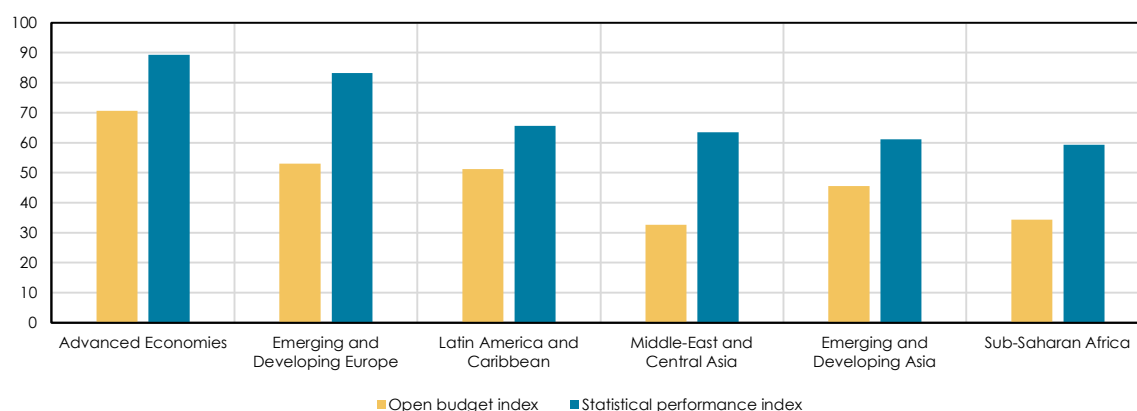
Note: Sovereign ratings are expressed as a simple average of each agency's individual ratings.
Source: Fitch, Moody's, S&P, authors' calculations, see [Annexe IV for underlying sources](#)

Information asymmetries

Information asymmetries can also affect sovereign credit ratings, particularly in the case of developing countries. When the information available for analysis is limited, incomplete, or deemed unreliable, rating agencies may adopt a more conservative stance –resulting in ratings that are lower than those warranted by a country's actual economic fundamentals, if these were fully known. According to Ferri (2004), developing countries are especially exposed to such asymmetries due to the lower quality and accessibility of published data. This phenomenon may be exacerbated by underinvestment by the Big Three in data collection and analysis in developing countries, leading to systematically lower ratings. Ferri and Liu (2005) investigate this issue and suggest that this underinvestment may stem from the fact that agencies generate significantly lower revenues in developing countries than in advanced economies. Arbatli and Escolano (2015) further show that improving fiscal transparency could substantially enhance sovereign ratings for developing countries by reducing uncertainty and strengthening agencies' confidence in the reliability of the information provided. More recently, Klusak et al. (2024) demonstrate that professional connections between senior executives at the Big Three and finance ministers in 38 European countries (e.g., former policymakers serving on agency boards) can reduce information asymmetries and contribute to more favorable subjective assessments by rating agencies.

Hence, the availability and reliability of information play a central role in rating assessments. Rating agency methodologies make this consideration explicit. For instance, Moody's and S&P explicitly incorporate the completeness, reliability, and timeliness of data publication into their assessments of institutional quality (Moody's Investors Service, 2022; S&P Global Ratings, 2017). Fitch (2023) likewise notes that data gaps may result in negative adjustments to sovereign ratings. While such prudence is justified to avoid rating errors in highly uncertain environments, it can also penalize countries with sound fundamentals if those fundamentals are difficult for credit analysts to fully assess due to data limitations.

Figure 11 – Indicators of economic and fiscal data transparency and reliability



Source : World Bank, International Budget Partnership, authors' calculations

How do countries from different world regions perform along this dimension? The [Statistical Performance Index](#) measures the maturity of national statistical systems by assessing data use, service quality, topic coverage, information sources, infrastructure, and resource availability. Complementing this, the [Open Budget Index](#) evaluates the public availability of eight key budget documents that together provide a comprehensive picture of how public resources are collected, planned, and spent over the fiscal year. Once again, substantial regional disparities emerge (**Figure 11**): advanced economies display significantly higher scores on both dimensions, while developing countries and particularly African economies lag behind in terms of data quality and availability. These gaps in access to and reliability of information may in turn lead rating agencies to adopt conservative biases that go beyond what actual fundamentals would imply.

The risk of conflicts of interest

The business model of credit rating agencies, which relies primarily on revenues paid by the issuers themselves, inherently raises the risk of conflicts of interest. Issuers whose financing costs depend on their credit ratings may exert pressure on agencies to produce more favorable assessments, potentially at the expense of the public interest. Several regulatory reforms have been implemented since the 2008 financial crisis in both the United States (the Dodd–Frank Act of 2010) and Europe (the Credit Rating Agencies Regulation of 2009) to mitigate such risks. However, these measures have not entirely eliminated conflicts of interest (Bush, 2022). In fact, Fitch, Moody's, and S&P have all been sanctioned by the European Securities and Markets Authority (ESMA) and/or the U.S. Securities and Exchange Commission (SEC) for violations of conflict-of-interest rules since the adoption of these reforms (see [Annex V for a complete list of sanctions](#)).⁹

Academic research has sought to shed light on this structural challenge. Bolton et al. (2012) propose a theoretical model explaining the inherent conflicts of interest within the agencies' business model, which can exacerbate certain biases – particularly due to the competition among agencies to provide the most favorable rating to issuers (the so-called rating shopping effect). This effect has been empirically confirmed by Vu, Alsakka, and Gwilym (2022). Empirical evidence on solicited versus unsolicited ratings further illustrates the issue. Several studies find that, on average, unsolicited ratings tend to be lower than solicited ones (W.P. Poon, 2001; Klusak, Uymaz & Alsakka, 2024; Poon, Lee & Gup, 2009), while others find no significant difference (Bartels, 2018) or even an inverse relationship (Bernal, Girard & Gnabo, 2016).

It is important to note, however, that analyses of conflicts of interest often focus narrowly on the solicited versus unsolicited status of ratings. This distinction alone may not sufficiently capture the commercial stakes involved in sovereign ratings, as the share of total revenues generated by sovereign rating activities is

⁹ It should be noted, however, that these sanctions primarily concerned structured financial product ratings, rather than sovereign ratings. Following the euro area crisis, the Italian government filed lawsuits against Fitch and S&P, alleging that the agencies had manipulated markets and misused privileged information when they downgraded Italy's sovereign debt rating during the crisis. Italian courts ultimately acquitted the agencies in 2016–2017.

negligible compared to corporate or structured finance ratings for instance. Nevertheless, other asset classes can be directly or indirectly affected by changes in sovereign ratings¹⁰ through two main channels: i) a direct effect, via the adjustment of the country ceiling linked to the sovereign rating; and ii) an indirect effect on the macroeconomic and financial environment in which non-sovereign entities operate. As Moody's (2019) notes: "Sovereign downgrades are often accompanied by downgrades of many issuers in the country, while sovereign upgrades may lead to upgrades of issuers whose ratings were previously constrained by the sovereign ceiling."

Figure 12: Moody's revenue by region

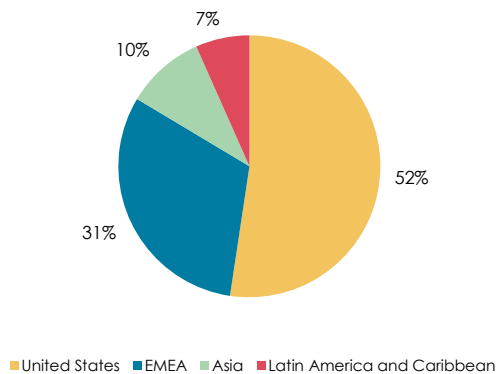
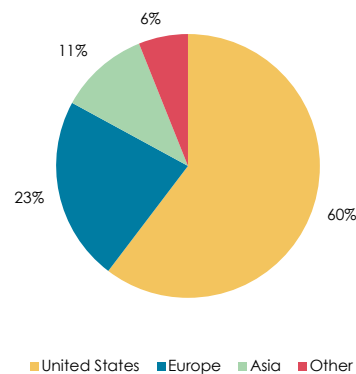


Figure 13: S&P Global revenue by region



Thus, the risks of conflicts of interest may stem not only from the commercial relationship with the rated sovereign itself, but also from the broader business interests that a rating agency maintains within the country. **Figures 12 and 13** show the 2023 regional revenue breakdowns of Moody's and S&P, as reported in their annual financial statements¹¹. For both agencies, the share of revenue generated in the United States overwhelmingly dominates (52% for Moody's and 60% for S&P). The share originating from developing economies remains relatively small: Asia and Latin America account for 10% and 7% of Moody's revenue, respectively, while S&P generates only 11% in Asia and 6% in other regions. The significant commercial stakes represented by large economies with deep financial markets – particularly the United States and the European Union – compared with EDCs may introduce a potential risk of bias, even if difficult to establish empirically. Alternatively, it may translate into uneven analytical capacity, as smaller markets provide fewer financial incentives for in-depth coverage and research.

Conclusion and reform proposals

Despite the reforms undertaken since the early 21st century and the repeated calls over the past decades for greater accountability, controversies surrounding credit rating agencies remain far from resolved. While our analysis of regional rating dynamics stops short of establishing the existence of systematic bias (which would be extremely difficult to measure given data and methodological limitations), the broader literature highlights several persistent challenges within the sector. A business model that, though regulated, remains driven by market logic and relies on issuer-paid revenues; disparities in geopolitical, economic, and cultural proximity to the United States; and persistent information asymmetries can all contribute to systematic disadvantages in the ratings of developing countries. Nevertheless, policymakers and the international community are not without recourse in addressing these issues, and several reform pathways have been progressively outlined in recent years. According to UNCTAD (2025), proposals generally fall into two broad categories: i) those seeking to reduce the financial system's dependency on credit ratings by addressing their conceptual and methodological shortcomings; and ii) those aiming to improve the

¹⁰ Such as ratings of non-financial corporations, banks, project finance issuers, subnational governments, or structured finance products.

¹¹ Fitch is not included here because the agency's financial reports are not publicly available.

accuracy, transparency, and reliability of credit assessments. We conclude this study by exploring a selection of these proposed avenues for reform.

A public and multilateral credit rating agency?

Calls for the creation of public alternatives to private credit rating agencies have multiplied since the beginning of the 21st century. The various economic crises in which rating agencies have been accused of playing a procyclical role such as the 2008 financial crisis, the euro area sovereign debt crisis, and, more recently, the Covid-19 crisis, have given renewed momentum to this idea, not only in the United States and Europe but also across the globe¹². Most recently, the African Union's proposal to establish a continental credit rating agency has gained traction. Governments and regional institutions across the continent are coordinating efforts to operationalize the initiative, and a first draft of the institutional and financing framework was published in February 2025 (African Peer Review Mechanism, 2025). However, the proliferation of regional initiatives risks fragmenting public efforts and may not offer a credible response to the regional bias observed among private agencies.

Following the Covid-19 crisis, UNCTAD (2020) urged the international community to engage proactively in the creation of a public multilateral credit rating agency. Such an initiative could yield several important benefits. First, establishing a non-profit agency could reduce economic conflicts of interest and increase the analytical capacity devoted to smaller markets and sovereign issuers. Second, the emergence of a public alternative could foster greater competition and diversity of opinion in a market still dominated by U.S.-based agencies. Third, roughly fifty countries worldwide – almost all of them EDCs – still lack a sovereign credit rating. A public agency could help fill this gap, enabling some issuers to obtain their first rating and thereby access a broader pool of financing opportunities. It should be noted that some multilateral institutions already conduct similar risk analyses, such as the IMF and World Bank's Debt Sustainability Analyses or the OECD's country risk classifications. However, the reliability and impartiality of these assessments are themselves contested: the IMF has identified optimistic biases in its own macroeconomic forecasts (International Monetary Fund, 2017; 2020). As for the OECD classification, it is primarily designed to harmonize the country risk premia used by export credit agencies in insuring commercial transactions of all kinds (not solely those involving sovereigns) and therefore does not constitute a direct measure of sovereign risk.

The establishment of such a public credit rating agency, however, poses significant challenges. First, the issue of funding – in a context of tight public budgets – remains critical, and was in fact a major obstacle to the creation of a European public agency in the past (Scheinert, 2016). Second, there is a risk that political conflicts of interest might replace economic ones if governance is not properly safeguarded. Moreover, creating a credible public alternative capable of competing with the Big Three in the international financial system is inherently difficult. The barriers to entry are substantial, given the high level of market concentration among three agencies with long-standing global reputations and client bases (Van Breemen, Fabozzi & Vink, 2022), the specialized expertise and human capital required, and the stringent regulatory frameworks in place. These challenges are real and would require determination and institutional rigor to be effectively overcome¹³. In the absence of strong, credible, and coordinated support from the international community and political leadership, such a proposal remains unlikely to materialize in the near term.

Promoting greater use of internal ratings?

In the aftermath of the 2008 financial crisis, regulators sought to reduce the financial system's dependence on external credit rating agencies (Financial Stability Board, 2010). One of the main avenues pursued was the promotion of internal rating models, introduced under the Basel II reforms, which allow financial institutions to assess their own credit risks internally in order to determine their capital requirements. To support this transition, national authorities also sought to limit references to external ratings in legislative and regulatory frameworks (Securities and Exchange Commission, 2023; European Banking Authority,

¹² In 2011, the European Parliament initiated discussions on the potential creation of an independent European Credit Rating Foundation (ECRaF). In 2016, the BRICS governments similarly announced their intention to establish a comparable agency. To date, however, none of these proposals have materialized.

¹³ To illustrate the magnitude of the challenge, it is worth noting that no international agency—whether under the UN system or otherwise—currently exists with a mandate to evaluate sovereign states in a politically independent manner for the benefit of private actors.

2021). The expected benefits were manifold. First, internal models were designed to promote more customized and precise risk assessments, leading to better-aligned capital requirements, more efficient use of capital, and improved risk management. Second, relying on internal models was expected to reduce mechanical dependence on external ratings and mitigate procyclicality risks in times of financial stress. For instance, the Banque de France found that the widespread use of internal models by French banks helped cushion the impact of Big Three downgrades on risk-weighted assets during the COVID-19 crisis (Lecomte & Torres, 2023).

However, internal models may themselves incorporate external ratings as a key variable or as a benchmark for calibration (European Central Bank, 2024). As a result, they may replicate or be influenced by the biases embedded in credit agency ratings. Moreover, several studies show that internal models are not immune to conflicts of interest, as financial institutions have incentives to understate their risk exposure to optimize capital requirements (Plosser & Santos, 2018; Behn, Haselmann & Vig, 2022). The proliferation of internal models has also raised concerns about comparability and robustness, complicating regulatory supervision. These issues were the subject of intense negotiations during the finalization of Basel III, leading the international community to impose tighter constraints on the use of internal models (Gehrig & Iannino, 2021)¹⁴. Thus, while efforts to reduce reliance on external ratings represent a positive step forward, they remain incomplete and must be accompanied by parallel efforts to improve the reliability and transparency of external ratings themselves.

Making qualitative adjustments more transparent?

Sovereign ratings combine quantitative indicators with qualitative judgments. This complementarity is necessary to overcome the limitations of a purely quantitative approach, which cannot fully capture the multifaceted nature of sovereign default risk. However, qualitative assessments are inherently more subjective and therefore more prone to introducing systematic biases. It is therefore important for issuers and investors to better distinguish between these two categories of factors through methodological enhancements. Vernazza and Nielsen (2015), D'Agostino and Lennkh (2016), and Griffith-Jones and Kraemer (2021) propose that each sovereign rating be decomposed into two explicit components:

- **A “fundamental rating”**, calculated exclusively from quantitative indicators; and
- **A “qualitative adjustment”**, reflecting expert judgments made by the rating committee to account for non-quantifiable factors.

The final rating would thus combine these two components, making the expert-driven adjustments explicit and traceable. Among the Big Three agencies, Fitch provides an illustrative example of such an approach. Its final sovereign rating is derived from a “preliminary” quantitative score produced by a statistical model, without any subjective input (Fitch, 2023). This is followed by a series of expert-driven adjustments, which Fitch publicly discloses – reporting both the model-based rating and the number of notches modified through qualitative assessment, along with the rationale behind those adjustments. By contrast, Moody's and S&P integrate quantitative and qualitative factors within a single framework, often blending them even within the same rating component. Updating methodologies to better separate and disclose these two dimensions would represent an important step forward, helping issuers, investors, and regulators understand the degree of subjectivity applied to different ratings.

Incorporating loss given default into credit ratings?

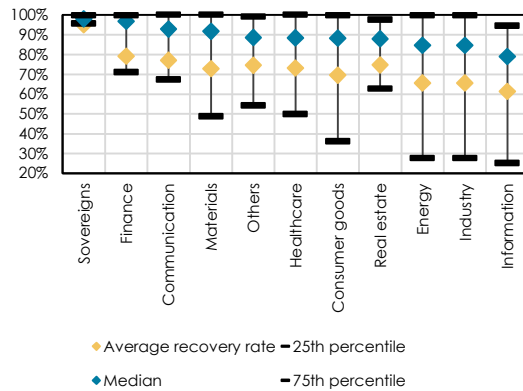
Not all defaults are equal. Beyond the mere occurrence of default, expected losses given default represent a critical factor for assessing the potential financial losses faced by creditors. Recovery expectations can serve as a key differentiating element in assessing credit risk across sectors. According to data from the Global Emerging Markets Risk Database (GEMs) on defaults observed by multilateral and bilateral lenders between 1994 and 2024, sovereign defaults exhibit the highest recovery rates (with a median of 95.6%) compared to any private sector category¹⁵ (Figure 14). Moreover, recovery rates help differentiate among issuers. Significant regional disparities can be observed: recovery rates are

¹⁴ For example, the calculation of risk-weighted assets (RWA) under the internal ratings-based approach is capped at 72.5% of the risk-weighted assets calculated under the standardized approach, in order to limit the risk of distortions arising from overly generous internal models.

¹⁵ It should be noted that the recovery rates reported in the Global Emerging Markets Risk Database (GEMs) may differ from those observed for private creditors, notably due to the preferred creditor status of multilateral lenders.

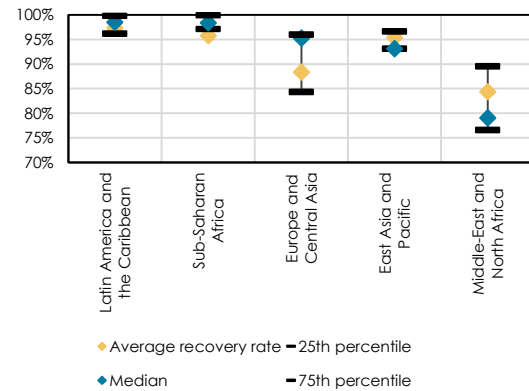
considerably higher in Latin America (median of 98.5%) and Sub-Saharan Africa (98.4%) than in the Middle East and North Africa (79.1%), for instance (Figure 15).

Figure 14: Observed recovery rates in default events, by sector



Source: Global Emerging Markets Risk Database

Figure 15: Observed recovery rates in default events, by region



Source: Global Emerging Markets Risk Database

Among the Big Three agencies, only Moody's explicitly incorporates loss given default into its sovereign credit ratings. Unlike Fitch and S&P, Moody's rating scale does not include a specific rating indicating that a country is in default; instead, it adjusts the ratings of defaulting sovereigns according to its estimated loss rates. As a result, a country in default may hold a Moody's rating significantly higher than the corresponding default ratings assigned by Fitch or S&P. For example, during the Republic of Congo's 2017 default, which resulted in a recovery rate of 81%, Moody's never downgraded the country below Caa2 (Moody's, 2025), four notches above the default ratings assigned by S&P and Fitch. Incorporating expected loss analysis directly into credit ratings could therefore provide greater granularity and differentiation, particularly for lower-rated sovereign issuers.

Integrating environmental risks more explicitly, systematically, and rigorously

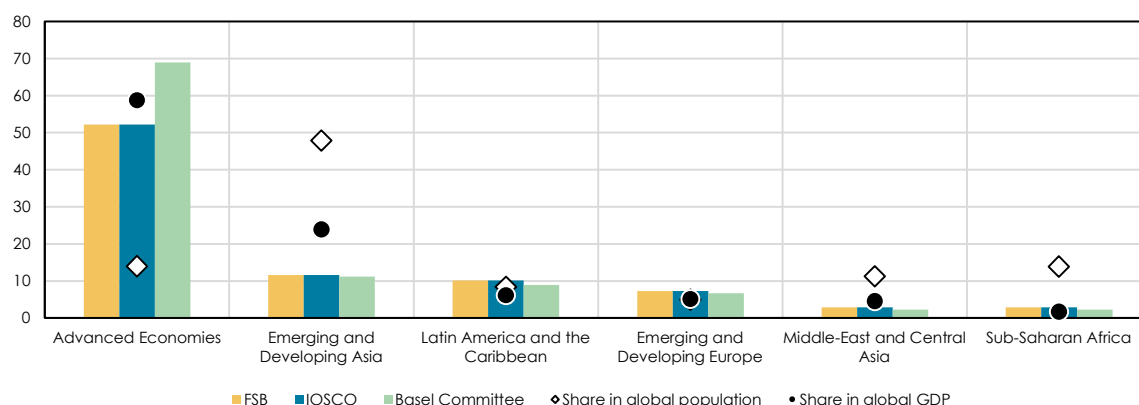
The consequences of climate change and natural capital degradation are profound, multidimensional, and threaten the economic and fiscal trajectories of countries worldwide (IPCC, 2023; Dasgupta, 2021; Stern, 2006; Fahr et al., 2023). Numerous studies show that these factors significantly affect sovereign default risk (Cevik & Jalles, 2020) and sovereign credit ratings (Cappiello et al., 2025; Agarwala et al., 2024). Recognizing their potentially systemic implications for financial stability, calls for their systematic integration and disclosure in financial analysis have multiplied (Financial Stability Board, 2021). However, such integration remains incomplete for climate risks and virtually non-existent for biodiversity-related risks. A 2022 review by the European Central Bank (ECB) of credit rating agencies' methodologies and disclosure practices revealed that, despite recent progress, the current level of information remains insufficient to assess the impact of climate risks on credit ratings (Breitenstein, Ciummo & Walch, 2022). Similarly, the study found that rating methodologies have not yet been explicitly or structurally updated to incorporate such risks – findings consistent with those of the Network for Greening the Financial System (NGFS, 2022).

Several authors argue that climate-related risks can and must be integrated into sovereign rating methodologies, as failing to do so would result in inaccurate assessments of sovereign risk (Bernhofen et al., 2024). Their systematic inclusion through specific and distinct evaluation modules within rating frameworks could help reduce potential biases in how these risks are assessed across countries and improve transparency for third parties. It should be noted that such methodological advances could negatively affect the ratings of developing countries where climate vulnerabilities are particularly pronounced. However, as Griffith-Jones and Kraemer (2021) point out, this could have the positive effect of encouraging governments to adopt less short-termist environmental policies in order to improve their ratings relative to peers.

Rebalancing the global governance of financial supervision

Broadly speaking, there exists a representation imbalance in the global governance of financial supervision. While developing countries account for about 80% of the world's population and of UN member States, their presence in key international bodies responsible for financial governance and regulation remains marginal (**Figure 16**). Deficits in representation among institutions that shape global financial regulation undermine their legitimacy and may reinforce the perception of structural bias within the international financial system (Passarelli & Justino, 2024). As emphasized in a report by Cash and Khan (2024), it is important to include a permanent African representative within Committee No. 6 on Credit Rating Agencies of the International Organization of Securities Commissions (IOSCO)¹⁶, in order to bring new perspectives on key evaluation criteria such as informal economic activity or climate-related risks. The South African presidency of the G20 in 2025 could provide a strategic opportunity to institutionalize this new form of representation, in alignment with the priorities of the African Union and the African Peer Review Mechanism.

Figure 16: Regional representation in the global governance of financial supervision (%)



Notes: FSB = Members of the Financial Stability Board Plenary; IOSCO = Members of the Board of Directors of the International Organization of Securities Commissions; Basel Committee = Members of the Basel Committee.
Source: Financial Stability Board, IOSCO, Basel Committee, IMF, World Bank, authors' calculations

Griffith-Jones and Kraemer (2021) recommend the establishment of a multilateral body for credit rating oversight. According to the authors, such a body would be responsible for ensuring the comparability of ratings, requiring greater transparency from credit rating agencies, and assessing both the quantity and professional adequacy of analytical staff. Complementary to this, regional initiatives have also emerged—such as efforts to establish a continent-wide regulatory framework in Africa, spearheaded by the African Network of National Regulators of Credit Rating Agencies and coordinated by the African Union and the United Nations Economic Commission for Africa.

What role for development finance institutions?

Development finance institutions (DFIs) can play a key role in promoting greater transparency in economic, fiscal, and financial data at the country level. For example, countries participating in the Debt Service Suspension Initiative (DSSI) committed to disclosing all their financial commitments in coordination with their creditors. Similarly, the OECD launched the Debt Transparency Initiative in 2021 to collect, analyze, and disseminate relevant data on the public debt of low-income countries, with tangible achievements already observed (OECD, 2022). Continuing these efforts will be essential to improve data quality in EDCs and to reduce information asymmetries. Expanding technical assistance programs focused on strengthening public debt management teams in EDCs and enhancing their capacity to interact

¹⁶ The International Organization of Securities Commissions (IOSCO) is the global body that brings together securities regulators from around the world and is recognized as the international standard-setter for securities market regulation. It develops, implements, and promotes adherence to internationally recognized standards for the regulation of financial markets and works closely with other international organizations on the global regulatory reform agenda.

effectively with investors and credit rating agencies could also facilitate more accurate sovereign risk analysis. This would particularly benefit the 36 countries (most of them in Sub-Saharan Africa) under the International Development Association that have not yet published a Medium-Term Debt Management Strategy¹⁷.

Beyond the issue of potential rating biases against developing countries, DFIs could also do more to mitigate perceptions and credit risk premia associated with them. Guarantees represent one of the most effective instruments for achieving this. They have proven to be powerful tools to reduce commercial, financial, and political risks and to mobilize private investment, especially in the world's poorest economies (Garbacz, Vilalta & Moller, 2021). Such guarantees can enable governments to demonstrate creditworthiness to investors independently of their sovereign credit ratings (Rothschild & Cie & World Bank, 2016). By leveraging the balance sheets of DFIs, low-income countries can signal fiscal resilience to private investors, resilience that may be underestimated by rating agencies. While the use of guarantees was limited prior to 2017, it has been expanding since. According to the OECD (2023), 26% of private finance mobilized for development between 2018 and 2020 benefited from a guarantee mechanism. Expanding the use of guarantees could thus catalyze private investment in developing economies. However, the necessity and appropriateness of such instruments should be carefully assessed based on the conditions of their issuance, to ensure true additionality (Sial & Chandrasekhar, 2024) particularly in a context where official development assistance budgets are increasingly constrained.

¹⁷ See the World Bank's Debt Reporting Heat Map for an overview of the countries concerned.

Annexes

Annex I. Rating scales

This annex presents the rating scales of the Big Three credit rating agencies. The scales of Fitch and S&P are nearly identical in their alphanumeric structure, whereas Moody's differs slightly: it uses the suffixes "1," "2," or "3" to distinguish ratings within a given category rather than the "+" or "-" signs used by Fitch and S&P. Furthermore, since Moody's ratings incorporate loss-given-default considerations, its scale does not include an explicit "default" grade, unlike those of Fitch and S&P. Where applicable, we use the numerical scale shown in the last column to calculate average ratings.

Table A1: Overview of the Big Three Rating Scales

Type	Fitch	Moody's	S&P	Numeric scale
Investment grade	AAA	Aaa	AAA	22
	AA+	Aa1	AA+	21
	AA	Aa2	AA	20
	AA-	Aa3	AA-	19
	A+	A1	A+	18
	A	A2	A	17
	A-	A3	A-	16
	BBB+	Baa1	BBB+	15
	BBB	Baa2	BBB	14
	BBB-	Baa3	BBB-	13
Speculative grade	BB+	Ba1	BB+	12
	BB	Ba2	BB	11
	BB-	Ba3	BB-	8
	B+	B1	B+	9
	B	B2	B	8
	B-	B3	B-	7
	CCC+	Caa1	CCC+	6
	CCC	Caa2	CCC	5
	CCC-	Caa3	CCC-	4
	CC	Ca	CC	3
	C	C	C	2
	D/RD		D	1

Source: Fitch, Moody's, S&P

Annex II. Country sample

The regional classification of countries used in the analysis presented in this paper is based on the [IMF's economic classification framework](#), extended to include certain UN member States as well as territories with sovereign credit ratings that are not IMF members. Countries marked with an asterisk (*) are those that have been rated by at least one of the Big Three agencies since 1990.

Table A2: Overview of the country sample and regional classification

Advanced economies				
Germany*	Denmark*	Isle of Man*	Luxembourg*	Singapore*
Andorra*	Spain*	Ireland*	Macao, China*	Slovakia*
Australia*	Estonia*	Iceland*	Malta*	Slovenia*
Austria*	United States	Israel*	Norway*	Sweden*
Belgium*	Finland*	Italy*	New Zealand*	Switzerland*
Canada*	France*	Japan	Netherlands*	Taiwan, China*
Cyprus*	Great Britain*	Latvia*	Portugal*	
South Korea*	Greece*	Liechtenstein*	Czech Rep*	
Croatia*	Hong Kong, China*	Lithuania*	San Marino*	
Emerging and Developing Europe				
Albania*	Bulgaria*	North Macedonia*	Poland*	Serbia*
Belarus*	Hungary*	Moldova*	Romania*	Turkey*
Bosnia*	Kosovo*	Montenegro*	Russia*	Ukraine*
Emerging and Developing Asia				
Bangladesh*	Cook Islands	Malaysia*	Papua New Guinea	Tuvalu
Bhutan	Marshall Islands	Maldives*	Philippines*	Vanuatu
Burma	Solomon Islands*	Micronesia	Samoa	Vietnam*
Brunei	India*	Mongolia*	Sri Lanka*	
Cambodia*	Indonesia*	Nauru	Thailand*	
China*	Kiribati	Nepal	Timor-Leste	
Fiji*	Laos*	Palau	Tonga	
Middle East and Central Asia				
Afghanistan	Egypt*	Kyrgyzstan*	Uzbekistan*	Tajikistan*
Algeria	United Arab Emirates	Kuwait*	Pakistan*	Tunisia*
Saudi Arabia*	Georgia*	Lebanon*	Palestine	Turkmenistan*
Armenia*	Iraq*	Libya*	Qatar*	Yemen
Azerbaijan*	Iran*	Morocco*	Somalia	
Bahrēin*	Jordan*	Mauritania	Sudan	
Djibouti	Kazakhstan*	Oman*	Syria	
Latin America and the Caribbean				
Antigua and Barbuda	Brazil*	Ecuador*	Jamaica*	St. Lucia
Argentina*	Chile*	Granada*	Mexico*	St. Vincent and the Grenadines*
Aruba*	Colombia*	Guatemala*	Nicaragua*	St Maarten*
Bahamas*	Costa Rica	Guyana	Panama*	Suriname*
Barbados*	Cuba*	Haiti	Paraguay*	Trinidad and Tobago*
Belize*	Curacao*	Honduras*	Peru*	Uruguay*
Bermuda*	Dominique	Cayman Islands*	Dominican Rep*	Venezuela*
Bolivia*	El Salvador	Turks and Caicos*	Saint Kitts and Nevis	
Sub-Saharan Africa				
South Africa*	Congo*	Equatorial Guinea	Mozambique*	Senegal*
Angola*	Ivory Coast*	Guinea-Bissau	Namibia*	Seychelles*
Benin*	Eritrea	Kenya*	Niger*	Sierra Leone
Botswana*	Eswatini*	Lesotho*	Nigeria*	South Sudan
Burkina Faso*	Ethiopia*	Liberia	Uganda*	Tanzania*
Burundi	Gabon*	Madagascar*	Central African Republic	Chad
Cameroon*	Gambia*	Malawi*	Democratic Republic of the Congo*	Togo*
Cape Verde*	Ghana*	Mali*	Rwanda*	Zambia*
Comoros	Guinea	Mauritius*	Sao Tome and Principe	Zimbabwe

Annex III. List of sovereign defaults and methodology for calculating default rates

The table below presents a list of sovereign defaults on foreign-currency debt between 1990 and 2023 for countries that were rated by Fitch or S&P at the time of default. This list was compiled by tracing the historical long-term foreign-currency issuer ratings of Fitch and S&P. A sovereign that exits the default category is treated as a new issuer once it resumes being rated. A subsequent default is considered a distinct event if the time lapse between two defaults exceeds one month. In total, we identify 51 isolated cases of default among rated issuers – 28 recorded in Fitch's sovereign rating history and 48 in S&P's (**Table A3**). Some default events involve countries rated by both agencies at the time, which explains why we refer to 51 distinct cases rather than 76.

Table A3: Overview of sovereign defaults

Region	Fitch		S&P	
	Country	Year(s) of default	Country	Year(s) of default
Advanced economies	Greece	2012	Cyprus	2013
			Greece	2012 (x2)
Emerging and developing Europe	Belarus	2022	Belarus	2022
	Moldova	2002	Russia	1999
	Ukraine	2015, 2022	Ukraine	2015, 2022
Emerging and developing Asia	Sri Lanka	2022	Indonesia	1999, 2000, 2002
			Sri Lanka	2022
Middle East & Central Asia	Lebanon	2020	Lebanon	2020
			Pakistan	1999
Latin America & the Caribbean	Argentina	2001, 2014, 2019 (x2), 2020	Argentina	2001, 2014, 2019, 2020
	Dominican Republic	2005	Barbades	2018
	Ecuador	2008, 2020	Belize	2006, 2012, 2017, 2020, 2021
	El Salvador	2023	Dominican Republic	2005
	Jamaica	2010, 2013	Ecuador	2000, 2008, 2020
	Suriname	2020 (x2)	El Salvador	2017 (x2), 2023
	Uruguay	2003	Granada	2004, 2012
	Venezuela	2017	Jamaica	2010, 2013
			Paraguay	2003
			Suriname	2020
			Uruguay	2003
Sub-Saharan Africa			Venezuela	2005, 2017
	Congo	2016, 2017	Cameroon	2023
	Ethiopia	2023	Congo	2016, 2017
	Ghana	2023	Ethiopia	2023
	Mozambique	2016	Ghana	2022
	Zambia	2020	Mozambique	2016, 2017
			Seychelles	2008
			Zambia	2020

The default rates shown in **Figure 8** are calculated using a static pool methodology. We form cohorts by grouping issuers by rating category at the end of each month. When a default is observed, we associate the default with all cohorts to which the issuer belonged in the five years preceding the default. The rating history is tracked on a monthly basis to take into account rating movements during the year. We use ratings from 1985 to 2022 to compute five-year cumulative default rates. For example, if a sovereign defaulted in 1990, all of its sovereign ratings issued between 1985 and 1989 are taken into account when calculating the cumulative default rates. We calculate default rates for each cohort by dividing the number of issuers that defaulted within a five-year horizon by the total number of issuers in the cohort. These default rates are aggregated over the entire period, i.e., between 1990 and 2023.

Annex IV. The proximity index

The Proximity Index presented in this paper measures each country's degree of proximity to the United States along three dimensions: i) geopolitical proximity; ii) economic and financial proximity; and iii) cultural proximity. These three dimensions and the nine selected indicators are inspired by the subjectivity factors identified in the academic literature¹⁸ as having a significant impact on sovereign credit ratings.

All indicators are converted into percentile ranks, except for dummy variables, which are simply converted into 0 or 100 scores. A simple average of the indicators is calculated to obtain a score for each component. The overall Proximity Index score is then computed as the simple average of the three component scores. All scores are expressed on a scale from 0 to 100.

Table A4: Overview of the components of the Proximity Index

Component	Indicator	Source	Description
Geopolitical proximity	Alignment of votes at the UN	Authors' calculations; data from the CRAN's "unvotes" library.	The share of the country's votes at the UN General Assembly that are aligned with those of the United States between 2010 and 2019.
	Defence Alliance	U.S. Department of State	A dummy variable that indicates whether the country has signed a collective defense agreement with the United States
	Military aid	ForeignAssistance.gov	The share of military aid received by the country in total US military aid between 2015 and 2024.
Economic and financial proximity	Business integration	U.S. Census Bureau	The country's share in U.S. trade (imports and exports) between 2014 and 2023.
	Free trade agreement	Office of the U.S. Trade Representative	A dummy variable that indicates whether the country has signed a free trade agreement with the United States
	Foreign direct investment	Bureau of Economic Analysis	The country's share of foreign direct investment from the United States.
	Lobbying expenses	OpenSecrets.org	The country's share of foreign lobbying expenditure in the United States.
Cultural proximity	Index of religious proximity	Authors' calculations; Global Religious Landscape data	An index that measures the extent to which the religious composition (Buddhism, Christianity, Hinduism, Islam, Judaism, popular religion, non-affiliated) of the country's population diverges from that of the United States according to the "Manhattan distance" method.
	Common language	CEPII	An indicator variable that indicates whether the country shares English as its official language with the United States.

¹⁸ See Fuchs and Gehring (2017); Yalta and Yalta (2018); De Moor et al. (2018); Slapnik and Lončarski (2023).

Annex V. Overview of SEC and ESMA sanctions against the Big Three

Below is a list of sanctions and penalties imposed on the Big Three credit rating agencies by the European Securities and Markets Authority (ESMA) and the U.S. Securities and Exchange Commission (SEC), as retrieved from the official websites of both regulators. In total, the Big Three agencies have been fined or sanctioned 12 times between 2014 and the end of 2024, with aggregate penalties exceeding USD 130 million. Sanctions explicitly related to violations of conflict-of-interest rules are highlighted in orange.

Table A5: List of SEC and ESMA sanctions against the Big Three

Date	Agency	Regulator	Penalty amount	Description
03/09/2024	Fitch	SEC	8 000 000 \$	Fitch allegedly committed significant errors in the maintenance and preservation of the company's electronic communications and its staff, including discussions on the launch, determination, maintenance, monitoring, modification or withdrawal of a credit rating.
03/09/2024	Moody's	SEC	20 000 000 \$	Moody's allegedly committed significant errors in the maintenance and preservation of the company's electronic communications and its staff, including discussions on the initiation, determination, maintenance, monitoring, modification or removal of a credit rating.
03/09/2024	S&P	SEC	20 000 000 \$	S&P allegedly committed significant errors in the maintenance and preservation of the company's electronic communications and its staff, including discussions on the launch, determination, maintenance, monitoring, modification or withdrawal of a credit rating.
24/03/2023	S&P	ESMA	1 110 000 €	S&P would have published credit ratings before the securities in question were issued by rated entities and advertised on the market. This is due to internal control failures and led S&P to breach its transparency obligations.
14/11/2022	S&P	SEC	2 500 000 \$	S&P would have breached conflict of interest rules designed to prevent commercial and marketing considerations from influencing credit ratings. S&P's commercial employees in charge of managing the relationship with the issuer repeatedly attempted to pressure the analytical employees into valuing the transaction according to a preliminary estimate that the analytical employees had given to the client, which was found to include a calculation error.
23/03/2021	Moody's	ESMA	3 703 000 €	Moody's has allegedly committed the following offences: (i) issuing credit ratings in breach of the prohibition on issuing new ratings to entities whose shareholder of a rating agency exceeds the 10% threshold and/or is a member of the board of directors of the rated entity; ii) lack of disclosure of conflicts of interest related to the 5% ownership threshold; and iii) inadequate internal policies and procedures for managing shareholder conflicts of interest.
28/03/2019	Fitch	ESMA	5 132 500 €	Fitch allegedly infringed the conflict of interest requirements in relation to rating activities carried out between 2013 and 2015, with respect to rated entities where Fitch's shareholder was a member of the board of directors, and due to the absence of adequate internal procedures and controls regarding conflicts of interest until the beginning of 2017.
28/08/2018	Moody's	SEC	16 250 000 \$	Moody's allegedly failed to establish and document an effective internal control structure for models outsourced to an affiliate and used in ratings from 2010 to 2013. Furthermore, Moody's would not have maintained and applied the necessary internal controls. In the end, Moody's corrected more than 650 ratings (nominal value > 49 Mds USD) partly due to errors in the models. Furthermore, in 54 cases, Moody's did not document the reasons why it issued final ratings that deviated significantly from the model's implied ratings.
01/06/2017	Moody's	ESMA	1 240 000 \$	Moody's has allegedly committed two negligent breaches with regard to the public announcement of certain ratings and the public disclosure of the methodologies used. These insolvencies concern nineteen ratings issued between June 2011 and December 2013 for nine supranational entities including the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility and the European Union.
21/07/2016	Fitch	ESMA	1 380 000 \$	Some of Fitch's senior analysts reportedly passed information on upcoming rating shares regarding sovereign ratings to certain key persons in a parent company of Fitch before they were made public. Furthermore, Fitch would not have adequate internal controls in place to ensure that it provided a rated entity with the minimum period of time necessary to review and respond to a rating action before making it public.
21/01/2015	S&P	SEC	58 000 000 \$	S&P allegedly committed fraudulent offences in the rating of certain securities backed by commercial mortgages during the subprime crisis. According to the SEC, S&P placed its own financial interests above investors by relaxing its rating criteria for contracts and then hiding these changes from investors. Note that S&P has also accepted a settlement agreement of USD 1.375 billion to end the legal action initiated in 2013 by the U.S. Department of Justice and actions initiated by 19 states and the District of Columbia related to this case.
03/06/2014	S&P	ESMA	0 \$	S&P would have mistakenly communicated to its subscribers an email indicating a downgrade in France's sovereign rating even though the latter had not been downgraded. ESMA found that this incident was due to a failure by S&P to comply with certain regulatory requirements relating to strong internal control mechanisms, effective control and safeguard arrangements for information processing systems, decision-making procedures and organizational structures.

List of acronyms and abbreviations

AE	Advanced Economies
DFI	Development Finance Institution
DSSI	Debt Service Suspension Initiative
EDA	Emerging and Developing Asia
EDCs	Emerging and Developing Countries
EDE	Emerging and Developing Europe
ESMA	European Securities and Markets Authority
FSB	Financial Stability Board
GDP	Gross Domestic Product (GDP)
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LAC	Latin America and the Caribbean
MECA	Middle East and Central Asia
OECD	Organisation for Economic Co-operation and Development
SEC	U.S. Securities and Exchange Commission
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa

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