Statistical Properties of Country Credit Ratings

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ABSTRACT

The country credit rating is a key covariate of the cost and availability of international financing for an economy. This paper models ratings as a function of expected repayment capacity, derives refutable propositions, and tests them using the most comprehensive consistent series of sovereign credit ratings. These are the Institutional Investor ratings which have been widely used in the international finance literature. We report several previously undocumented stylized facts: volatility clustering, asymmetric adjustments, serial correlation in credit revisions, and lower revision predictability for oil exporters. We show that these features are consistent with rational rater behavior.

JEL classifications: G15, F34

Key words: Sovereign risk, default risk, credit rating modeling, forecasting.