# DIRECTED RISK RESEARCH PROBLEM STATEMENT

| **Risk Theme** | Credit Risk | | **Problem Nr.** | PS16006 |
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| **Client Name** | Jack Yang | | **Client Org.** | FNB |
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| **Designation** | Pricing and Analytics Specialist | | | |
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**PROJECT TITLE:**  Sovereign credit ratings: modelling credit ratings and sovereign default rates

**PROJECT GOAL:**

Analysing the determinants used by the credit rating agencies to determine sovereign credit ratings and to develop a methodology to be used in determining a country's sovereign rating - taking into account a combination of quantitative and qualitative determinants.

**HIGH LEVEL DESCRIPTION OF PROBLEM:**

As emerging markets expands and globalisation increases, the global financial market has become more and more interconnected. This has led to an increase in demand for accurate information across the borders and consequently the demand for sovereign rating. A sovereign credit rating is an assessment of a country's ability and willingness to fulfil their debt obligations on time. This rating is determined by taking into account a combination of qualitative and quantitative determinants.

**PROJECT OBJECTIVES:**

The objective of the project is to analyse the determinants used by the credit rating agencies (S&P and Moody's) in their sovereign ratings and then to provide a transparent methodology of generating sovereign credit ratings

**OUTPUTS REQUIRED:**

- A paper in the academic financial literature
- Practical Guidance to the industry on local / international best practice

**STRATEGIC VALUE TO DIRECTED RISK RESEARCH:**

This research will contribute conceptually and materially towards competency in the financial services industry in South Africa. It will contribute to a better understanding of sovereign credit ratings, which underlies and influences assumptions and decisions in the financial services sectors.