

Comparative Rating Index for Sovereigns (CRIS): An update using Standard and Poor's Ratings Data

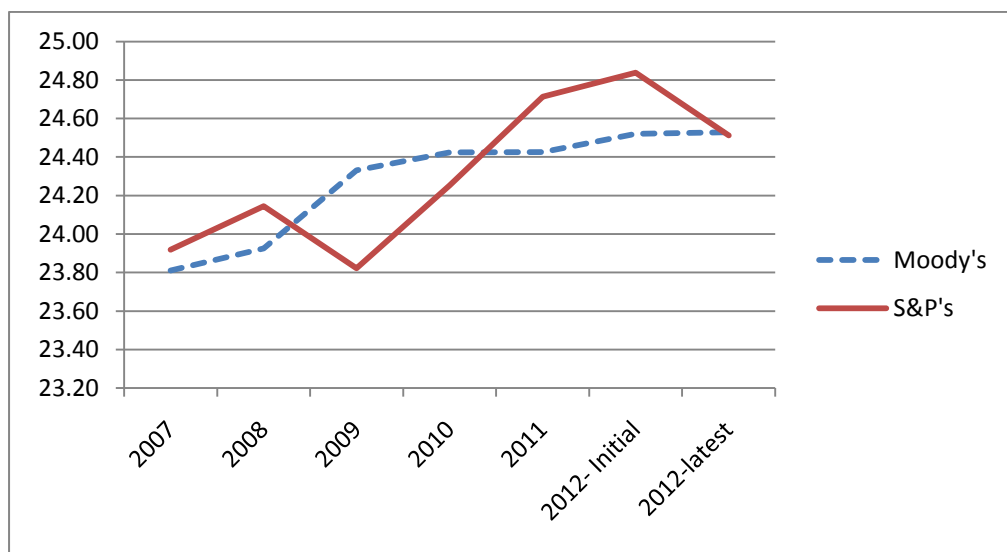
[From the Economic Division, Ministry of Finance: This is the latest update on the comparative credit ratings scores of nations, using Standard and Poor's ratings data following the outlook revision, and using a formula developed by our researchers. The detailed work and the formula (classified) occur in a paper by Kaushik Basu, Anil Bisen, Supriyo De, Rangeet Ghosh and Shweta.]

Introduction

Researchers in the Economic Division, Ministry of Finance, had developed a relative performance index based on sovereign credit ratings. The rationale was that while credit rating agencies give out the sovereign credit rating of each nation as an absolute grade, investors are more concerned with comparative rating, that is, how each nation performs vis-à-vis other nations. This led to the concept of CRIS (Comparative Ratings Index for Sovereigns). Initially, the CRIS formula was applied to Moody's sovereign ratings¹. Henceforth, we will refer to that as 'Moody CRIS.'

Following the recent release of Standard and Poor's (S&P's) outlook of India, we embarked on an exercise of applying CRIS to S&P's data² and obtained a new set of comparative scores that will be referred to as CRIS-SP (we recommend it be pronounced CRISPY).

Results



The CRIS-SP for India rises from a value of 23.92 in 2007 to 24.84 in early 2012. Subsequent to the outlook revision by S&P's, it drops slightly to 24.51. Interestingly, even after the drop, India's CRIS-SP value now is higher than what it was in 2007—23.92, and in 2010—24.25 and, in fact, virtually all earlier available values. Hence, *in comparative terms*, India is a better destination for investment today than it was in 2007-2010.

¹ Available at http://finmin.nic.in/WorkingPaper/CRIS_report_SCR28032012.pdf

² Fortunately, a numerical conversion of S&P's letter grades is available. See Cantor, R. and F. Packer, 1996, "Determinants and Impact of Sovereign Credit Ratings", *Federal Reserve Bank of New York Economic Policy Review*, October 1996, pp. 37-53

In contrast, Moody CRIS has an initially lower value (23.81) but rises more slowly to its latest value of 24.53.³ Curiously enough the two CRIS values for India (Moody and S&P) are now almost converging. For India, the CRIS-SP is more volatile than Moody CRIS.

Here are the CRIS-SP scores of some other nations. Greece had a score of 27.93 in 2007 and now has a score of 7.51. Brazil also lost score from 26.33 in 2007 to 26.00 now. Indonesia had a score of 20.40 in 2007 and now has a score 24.13. Indonesia has improved steadily over the last five years according to both Moody CRIS and CRIS-SP but, while Moody's now puts Indonesia on par with India, S&P's rates it slightly below India.

³Given in "Comparative Rating Index for Sovereigns (CRIS): An Update with Data Available until 4th April 2012", http://finmin.nic.in/WorkingPaper/CRIS_report_SCR_Update04042012.pdf.