

## **Comparative Rating Index for Sovereigns (CRIS): An update following recent rating events using both Moody's and S&P's ratings.**

[From the Economic Division, Ministry of Finance: This is the latest update on the comparative credit ratings scores of nations, using Moody's as well as Standard and Poor's ratings data following recent ratings events, and using a formula developed by our researchers. The detailed work (not for dissemination) occurs in a paper by Kaushik Basu, Anil Bisen, Supriyo De, Rangeet Ghosh and Shweta.]

### **Introduction**

The Comparative Ratings Index for Sovereigns (CRIS) was developed as 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. Conceptually, if a highly rated economy falls down the ratings ladder, other economies would improve their 'relative' desirability as investment destinations, even if their ratings remain unchanged. The effects would be larger in the case of downgrades of bigger economies. The CRIS formula was applied to Moody's sovereign ratings and referred to as 'Moody CRIS.'<sup>1</sup> Subsequently, this was applied to Standard and Poor's (S&P's) ratings and a new set of comparative scores referred to as CRIS-SP was produced.<sup>2</sup>

Following recent rating events, including Moody's downgrades of major European economies (Luxembourg, Germany and Netherlands) a fresh round of computations was carried out using both Moody's and S&P ratings.<sup>3</sup>

### **Results**

According to the Moody's ratings, between May 2012 and July 2012, 10 countries suffered rating/outlook downgrades: Belize, Croatia, Cyprus, Pakistan, Romania, Netherlands, Luxembourg, Germany, Italy and Spain. However, 5 countries experienced rating/outlook upgrades: Azerbaijan, Mauritius, Philippines, Turkey, and Bolivia.

As per S&P's, across the same period, 4 countries suffered rating/outlook downgrades: Barbados, Lebanon, Paraguay, and Tunisia. On the other hand, 9 countries experienced rating/outlook upgrades: Belarus, Bolivia, Ecuador, Greece, Honduras, Oman, Panama, Philippines and Vietnam.

In the rankings based on the Moody CRIS, India's position improved from 61<sup>st</sup> with a score of 23.81 in 2007, to 55<sup>th</sup> in 2010 with a score of 24.42. This rank remained steady till recently. But in July 2012 it has improved to 54<sup>th</sup> position with a score of 24.65.

On calculating the CRIS-SP we see that India moved from 58<sup>th</sup> rank and a score of 23.92 in 2007 to 53<sup>rd</sup> place (score – 24.25) in 2010. It went down to 57<sup>th</sup> position in May 2012, with a

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<sup>1</sup> Available at [http://finmin.nic.in/WorkingPaper/CRIS\\_report\\_SCR28032012.pdf](http://finmin.nic.in/WorkingPaper/CRIS_report_SCR28032012.pdf) with an update at [http://finmin.nic.in/WorkingPaper/CRIS\\_report\\_SCR\\_Update04042012.pdf](http://finmin.nic.in/WorkingPaper/CRIS_report_SCR_Update04042012.pdf)

<sup>2</sup> Available at [http://finmin.nic.in/WorkingPaper/CRIS\\_report\\_SCR\\_Update15052012.pdf](http://finmin.nic.in/WorkingPaper/CRIS_report_SCR_Update15052012.pdf)

<sup>3</sup> Moody's ratings available up to 23 July 2012 and for S & P ratings up to 26 July 2012 are used.

score of 24.51. It has maintained that position in July 2012 with a virtually identical score of 24.49.

Between May 2012 and July 2012, as per Moody CRIS, Brazil improved from 48 to 47, Russia improved from 42 to 40, China remained stable at rank 21 and South Africa maintained rank at 37. Turkey improved from 71 to 65, Mexico from 42 to 40, Indonesia moved up from 55 to 54 while Korea remained stable at 27. Spain and Italy suffered a 17 and 13 point loss in rank, respectively, and came down to 54<sup>th</sup> and 50<sup>th</sup> ranks.

As per latest calculations, between May 2012 and July 2012, the CRIS-SP keeps the BRICS at stable rank positions. Besides the case of India discussed above, Brazil remained stable at 43, China remained at 20, Russia at 43 and South Africa at 39. Turkey improved its rank from 67 to 66, Indonesia improved from 61 to 59 while Mexico and Korea remained stable at 43 and 29 respectively. Spain and Italy maintained their ranks at 39.

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