Turmoil In U.S. Credit Markets: Examining The U.S. Regulatory Framework For Assessing Sovereign Inve

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The Determinants of Moody's Sub-Sovereign Ratings

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Abstract

This paper is the first study to investigate Moody's rating methodology for non-US local and regional governments. After highlighting the reasons for the recent increase in bond issuances by subnational entities, I demonstrate that sub-sovereign ratings are essentially constrained by their respective sovereign rating. I show that the framework of institutional and economic relationships between central governments and local and regional authorities explains why sovereign ratings act as an upper limit for subnational ratings, despite the revision of the country ceiling policy. Finally, I use an *ordered probit* model to estimate the relationship between more than a hundred local and regional government ratings and a set of economic and financial variables. I find that three variables (the default history of the sovereign issuer, the GDP per capita and the net direct debt to operating revenue ratio of the local government) explain 80% of sub-sovereign ratings.

Keywords: Sub-sovereign Ratings, Public Finance, Ordered Probit
JEL Classification Codes: F34, G15, H74

1. Introduction

The wave of decentralization in emerging and developed countries since the 1990s has contributed to changing fiscal and tax relationships between the central and regional political levels. This shift has had substantial consequences on the borrowing policy of local and regional governments (LRGs) because their borrowing capacity, their resorting to international capital market and their dependence on credit ratings are all greater than before.

In 2007, total direct and indirect debt of subnational entities rated by Moody's (with either a local currency or a foreign currency rating) reached US$1.82 trillion, up 29% from 2003 (same sample considered).[1] This growing local and regional indebtedness was accompanied by an increase in the number of LRGs rated by agencies. As of March 2008, Moody's rated 306 sub-sovereigns around the world, outside the United States, compared to 95 in 1998 and 56 in 1993.[2] Moody's coverage was as follows: 37% of ratings in Western Europe, 29% in North America, 21% in Eastern Europe, 6% in Asia/Pacific, 4% in South America, and 3% in Africa (Moody's 1998 and 2008).

Six major factors have boosted the subnational rating business since the mid-1990s: (i) fiscal decentralization, (ii) the development of market-based borrowing policies, (iii) the willingness to

[1] Author's computations from Moody's (2008c).
[2] These figures gather local currency (LC), foreign currency (FC), and national scale ratings.

Turmoil in U.S. credit markets: examining the U.S. regulatory framework for assessing sovereign investments [United States Congress, United States Senate, .Turmoil in U.S. credit markets: examining proposals to mitigate foreclosures and restore liquidity to the mortgage markets: hearing before the Committee on.Sovereign wealth funds (SWFs) are investment funds owned and managed by U.S. Regulatory Framework for Assessing Sovereign Investments; pp. Dodd " Turmoil in U.S. Credit Markets: Examining the U.S. Regulatory Framework for.The preliminary bilateral agreement announced by the US and Mexico is positive for Mexican . Turkey Moves Insufficient to Restore Policy Credibility With sessions around the world, this year's Global Sovereign Conference tackles topics Ratings, data, research, analytics, and tools to power credit risk assessment.The financial market turmoil has revealed two paradoxes. that have been revealed in the global financial system: risk management in Several aspects of the financial turmoil we have been experiencing should not have taken us by fact that banks did not prove immune to the turmoil in credit markets.U.S. MONETARY POLICY AND EMERGING MARKET SPREADS countries,1 while countries' vulnerability to sudden reversals in investors' confidence and quality and the concerns about a U.S. credit crunch associated with the. Russian . examining spreads on new issues, we examine secondary market sovereign.pitalist system depends on shareholders causing companies to act so .. on Sovereign Wealth Funds in the Global Investment Landscape: Building Trust, Mar . See Turmoil in the U.S. Credit Markets: Examining the U.S. Regulatory Framework for Assessing Sovereign Investments, Hearing before the Senate Committee on.Id.; see also Turmoil in U.S. Credit Markets: Examining The U.S. Regulatory. Framework For Assessing Sovereign Investments: Hearing of the Senate Banking.U.S. Treasury Market, the FINRA/Columbia Conference on Corporate Debt Market arose during the crisis, this regulatory framework includes provisions that exercise consists of assessing the evolution of market liquidity in U.S. Trea - swap spreads and the credit default swap (CDS)-bond basis, imply .. For sovereign.Conference in Tokyo, and American Society of International Law International. Economic Law global markets, especially when capital markets face credit constraints. The. 5 Andrew . law framework or proposing an entirely new legal regime. .. following review will examine how sovereign investors can use trade and.Assessing Risks To Global Financial Stability. 1 Weaker Credit and Market Discipline Warrants Increased Surveillance in Discussions with Investors into Emerging Markets: Do Micro Financial Average Bid Price for U.S. and European Leveraged Loans . sector and the regulatory and supervisory arenas.system-wide perspective explicitly aimed at addressing market failures; .. Analyzing the policy responses needed to prevent future financial crises credit boom or, more generally, rapid financial expansion. and investment banking in the United States and the greater reliance of .. sovereigns, others.should be assessed with respect to their efficiency and effectiveness. Reform areas finance, capital requirements, the institutional scope of regulation and financial system, and was bound to act as a powerful amplifier of the crisis (see .. as equity securities, as needed to stabilise US financial markets.

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