Request for comments

Sovereign methodological cycle - March 2019

Rating-Agentur Expert RA GmbH invites market participants to provide comments on the proposed changes in the Methodology of assigning sovereign government credit ratings. During the methodological committee meeting held on the 26th of March 2019 a package of changes in the Methodology of assigning sovereign government credit ratings was discussed and approved by the independent members of the Advisory board. This will lead to the following changes in the methodology:

1) **We propose to change the weights for the factors *1.1.1. Gross government debt /GDP and its dynamics, 1.4.1. GDP per capita and its dynamics, 1.4.2. Real GDP dynamics* and *1.6. Unemployment rate and its dynamics* as follows:**

   - *Gross government debt / GDP* from 5,5% to 6,5%
   - *Weighted change in gross government debt / GDP over the past 6 years* from 2% to 1%
   - *GDP per Capita* from 2% to 3%
   - *Weighted change in real GDP over the last 6 years* from 3,5% to 4%
   - *Unemployment rate* from 3% to 5%

   and to remove factors:

   - *Weighted change in real GDP per capita over the last 6 years*
   - *Weighted change in the rate of unemployment over the past 6 years*

   Rationale:
   During the rating process, it became apparent to the Agency that the current weights of some dynamic factors make the final rating score slightly more sensitive than expected. Thus, based on the results of our tests and calibration, we have decided assign marginally different weights for those factors in order to eliminate the sensitivity of the final score towards these factors. Moreover, our analysis also resulted in showing that the two above shown factors (*Weighted change in real GDP per capita over the last 6 years* and *Weighted change in the rate of unemployment over the past 6 years*) were not significant enough to keep them in our methodology.

2) **We propose to change the name of the factor *5.5.2 Level of information transparency of the government policymaking* to *5.5.2 Government ensuring policy stability*.**

   Rationale:
   The name of the factor was changed in the primary information source, which is the "Global Competitiveness Report". In order to be in line with the source the same renaming shall be done in our methodology. We did, however, make sure the new factor has the same impact on the rating as the old factor.

3) **We propose to change benchmark intervals for the factor *4.3.1 Competitiveness index* from (0 to 6) to (0 to 100).**

Rationale:
The scale of the source "Global Competitiveness index 4.0" was changed due to the new way of assessing microeconomic and macroeconomic foundations of national competitiveness. New scale from 0 to 100 (Best) has been implemented. Therefore, the corresponding change in our methodology is required.

4) **We propose to change the name of the following factors in the Section *2.1.2. Level of financial intermediation*:**

- *From Volume of private credit / GDP, %* to *Domestic credit provided by financial sector / GDP, %*
- *From Weighted change in the volume of private credit / GDP over the last 6 years to Weighted change in the Domestic credit provided by financial sector / GDP, %*

Rationale:
The names of the factors were changed in order to correspond with the data source (World Bank indicator).

Please submit your comments to: info@raexpert.eu or compliance@raexpert.eu by the 26th of April 2019. Your response to this consultation will be published unless confidentiality is requested.