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ANALYSIS OF MOODY'S SOVEREIGN CREDIT RATINGS: CRITICISMS TOWARDS RATING AGENCIES ARE STILL VALID?

Abstract:

With the increasing international financial and economic integration, sovereign credit ratings have become one of the most important elements in directing global capital flows. Effects of credit rating agencies on both sovereign economies and the global economy have increased. On the other hand, CRAs have been heavily criticized for their poor performance in the crises of 1990s and the recent global financial crisis that started in 2008.

The aim of this study is to examine the systematic and consistency of sovereign credit ratings given by CRAs and to identify the determinants of sovereign credit ratings. As a result of panel data analysis conducted by reverse engineering methodology within this context, GDP per capita, governance quality, current account balance, growth performance and growth expectations, being an industrialized country and having a reserve currency were identified as factors affecting sovereign credit rating positively. On the other hand; exchange rate volatility, interest payments, debt stock and default occurrences were the factors effecting credit ratings negatively.

The findings of the analyses support the critiques against CRAs about being unable to foresee the economic crises and about deepening the existing crises by making sudden rating cuts.

Keywords:

sovereign credit ratings, credit rating agencies, Moody's, credit risk

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