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Headwinds on Banking Margins

Who is the Arthi?

Understanding the Commission Agent's Role
in the Agriculture Supply Chain

Building with the BITS

Process of Delegation



AAA

**Sovereigns that still have
Triple A Credit Rating**

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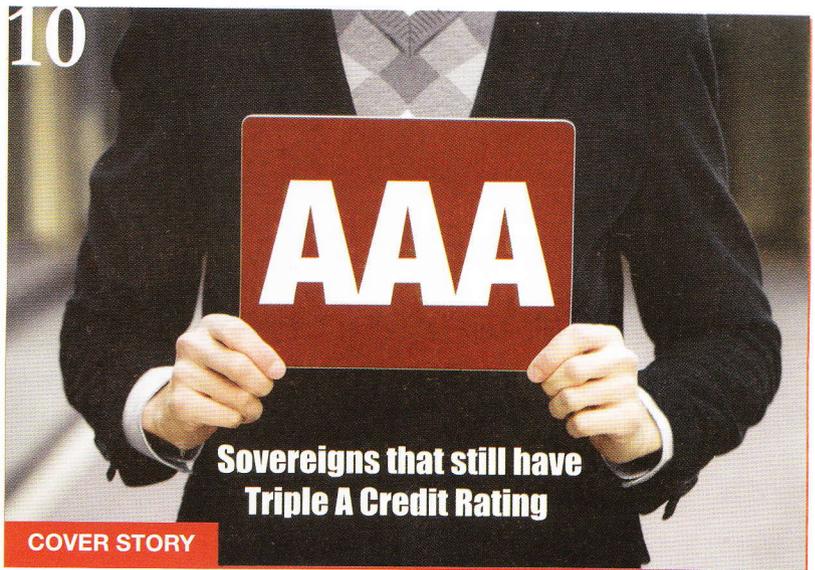
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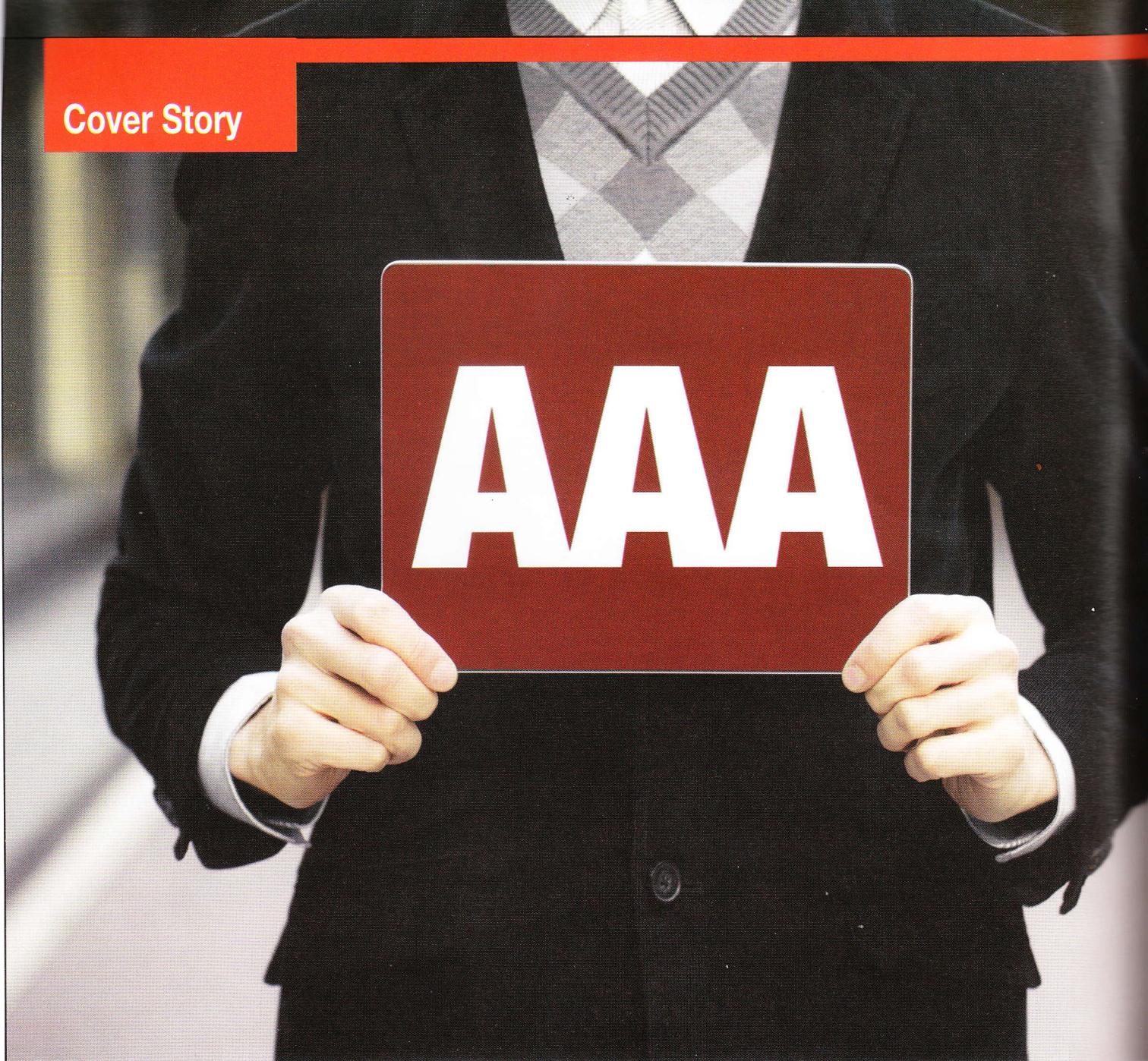
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AAA

SOVEREIGNS **A**
that still have TRIPLE
CREDIT RATING

By Humaira Jamil

The downgrade reflects our opinion that the Netherlands' growth prospects are now weaker than we had previously anticipated, and the real GDP per capita trend growth rate is persistently lower than that of peers," said Standard & Poor's (S&P) in a statement on November 29, 2013, stripping yet another euro zone member country of its Triple A 'AAA' credit rating. This whittles down the number of euro zone members with a top-notch credit rating to just three - Germany, Luxembourg and Finland.

SOVEREIGNS THAT ARE STILL AAA

	S&P	MOODY'S	FITCH	DAGONG
	<i>"The Big Three" US Rating Agencies</i>			<i>China</i>
Australia	AAA	Aaa	AAA	AAA
Austria		Aaa ▼	AAA	
Canada	AAA	Aaa	AAA	
Denmark	AAA	Aaa	AAA	
Finland	AAA	Aaa	AAA	AAA ▼
Germany	AAA	Aaa ▼	AAA	
Hong Kong	AAA			AAA
Isle of Man		Aaa		
Luxembourg	AAA	Aaa ▼	AAA	AAA
Netherlands		Aaa ▼	AAA ▼	
New Zealand		Aaa		
Norway	AAA	Aaa	AAA	AAA
Singapore	AAA	Aaa	AAA	AAA
Sweden	AAA	Aaa	AAA	AAA
Switzerland	AAA	Aaa	AAA	AAA
UK	AAA ▼			
USA		Aaa	AAA	

[Rating Watch Negative]¹

¹ In October 2013, amid a partial government shutdown and an impasse over the debt ceiling, Fitch placed the US's 'AAA' rating on negative watch, citing "political brinkmanship" that increases the risks of a U.S. default.

Source: *Sovereign Rating Lists of S&P, Moody's, Fitch & Dagong (As of December 4, 2013)*

Two of these mentioned AAAs are weak AAAs considering the fact that Moody's still rates Germany and

Luxembourg as AAA, but with a negative outlook. An outlook is a rating refinement which indicates the probability of a change in rating in the direction of the outlook.

How many Sovereigns are still 'AAA': According to S&P, there are twelve (12) AAAs with one weak AAA - UK. According to Moody's, there are fifteen (15) AAAs with four carrying a negative outlook - Austria, Germany, Luxembourg and Netherlands. Fitch has thirteen (13) AAAs with one carrying a negative outlook - Netherlands.

The debacle in 'AAA' sovereign ratings in the post-2008 credit meltdown era is phenomenal. After USA and France, it was UK, having a 'AAA' credit rating since 1978 from both Moody's and S&P, losing it in February 2013. In announcing the ratings cut, Moody's cited the "challenges that subdued medium-term growth prospects pose to the government's fiscal consolidation programme."

Sovereign credit ratings are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and

on time. Sovereigns are assigned two credit ratings: the local-currency sovereign rating reflects the likelihood of default on debt issued (and payable) in the currency of the sovereign, while the foreign-currency rating is an assessment of the credit risk associated with debt issued in foreign currencies.

Typical characteristics of 'AAA' Sovereigns include:

- World's richest and often most diverse economies, with highest levels of human development (SEE FIGURE I). It is

“SOVEREIGNS ARE ASSIGNED TWO CREDIT RATINGS: THE LOCAL-CURRENCY SOVEREIGN RATING REFLECTS THE LIKELIHOOD OF DEFAULT ON DEBT ISSUED (AND PAYABLE) IN THE CURRENCY OF THE SOVEREIGN, WHILE THE FOREIGN-CURRENCY RATING IS AN ASSESSMENT OF THE CREDIT RISK ASSOCIATED WITH DEBT ISSUED IN FOREIGN CURRENCIES.”

noteworthy that Luxembourg, by virtue of its growing financial services industry is forecasted to generate GDP per capita almost 50% greater than the USA.

- Entrenched political stability reflected in the form of a legitimate government equipped with a clear process for the orderly transfer of power.
- Strong institutional and governance structure, including respect for property rights and the rule of law, all reflected in a good business climate (SEE FIGURE II).
- Free and unhindered market access, underpinned by deep (large in absolute size with ease of buying and selling) local capital markets.
- Unmarked debt service record post-1930 depression.
- Credible and well-structured policy framework, consistent with a sustainable and balanced macro-economic position; and shock resilience.

- Track record of low and stable inflation.
- Deep and stable tax revenue base.
- Robust Creditworthiness in the face of plausible extreme events.
- High debt tolerance.

Even though low levels of government debt are positive for creditworthiness and sovereign ratings, 'AAA' Sovereigns defy logic as they do not necessarily have low or even moderate levels of government debt (SEE TABLE A).

AAAs' other credit strengths compensate them for the potential drag on creditworthiness from public debt. They typically have debt denominated in their own currency and can issue at long maturity; while low interest rates hold down service costs. Hence, they enjoy what is termed financial flexibility.

Financing flexibility refers to the capacity that these sovereigns have

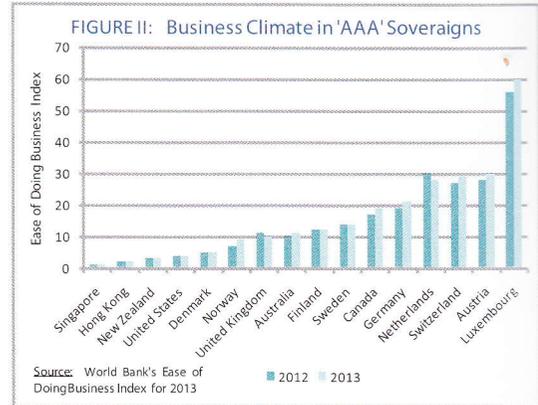
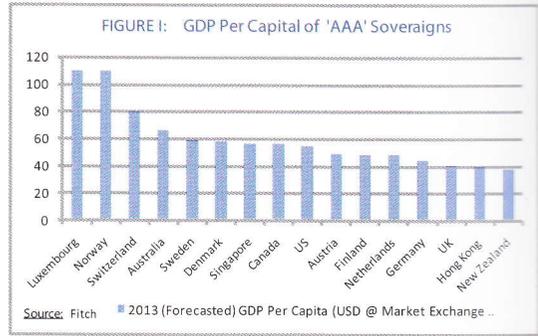


TABLE A: PUBLIC INDEBTEDNESS & RISE AND FALL OF AAAs

Country	Rating Action Date	Rating Action ¹	GGGD ² - % GDP @ Rating Action Date
Finland	Aug 1998	Upgrade	48
Ireland	Dec 1998	Upgrade	54
Japan	Sep 1998	Downgrade	110
Singapore	May 2003	Upgrade	41
Denmark	Nov 2003	Upgrade	47
Spain	Dec 2003	Upgrade	49
Sweden	Mar 2004	Upgrade	50
Canada	Aug 2004	Upgrade	74
Ireland	Apr 2009	Downgrade	65
Spain	May 2010	Downgrade	62
Australia	Nov 2011	Upgrade	26
UK	Apr 2013	Downgrade	93
France	Jul 2013	Downgrade	94
Netherlands ³	Nov 2013	Downgrade	75
USA ³	Aug 2011	Downgrade	94

¹ Upgrade to 'AAA' OR Downgrade from 'AAA'
² GGGD stands for General Government Gross Debt. The indicator is defined (in the Maastricht Treaty) as consolidated general government gross debt at nominal value outstanding at the end of the year in various categories of government liabilities
³ Netherlands & USA downgraded from 'AAA' by S&P

Source: Fitch, S&P

“ THE DEBACLE IN 'AAA' SOVEREIGN RATINGS IN THE POST-2008 CREDIT MELTDOWN ERA IS PHENOMENAL. AFTER USA AND FRANCE, IT WAS UK, HAVING A 'AAA' CREDIT RATING SINCE 1978 FROM BOTH MOODY'S AND S&P, LOSING IT IN FEBRUARY 2013 ”

AAA SOVEREIGN CREDIT RATING DENOTES THE HIGHEST CREDIT QUALITY, HENCE, LOWEST EXPECTATION OF DEFAULT RISK.

to inflate their balance sheets sharply in the short-term to respond to economic and fiscal shocks. One reflection of this is non-resident holdings of their assets, which signify non residents' desire to invest in safe haven benchmark assets and reserve currencies of such sovereigns. Another is the reserve currency

status. A strong reserve currency status makes it easier for these sovereigns' central banks to buy their own government debt, for instance, for quantitative easing or potentially to step in as buyers of last resort to prevent a run on the local currency (SEE TABLE B).

In the final analysis, a 'AAA' sovereign credit rating denotes the highest credit quality, hence, lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

TABLE B: FINANCIAL FLEXIBILITY ENJOYED BY AAAS

Countries	GGGD- %GDP	Capital Market Size (USDbln)	Average Maturity of Public Debt (Years)	Non-Resident Holdings (% total)	Reserve Currency Status (Rank) ²
US	107	53,823	5.3	55	3
UK	90	8,702	14.4	31	3
Germany	81	5,841	6.4	59	3
Canada	86	4,117	5.1	21	2
Netherlands	72	2,988	6.7	54	2
Austria	74	748	7.5	71	2
Australia	27	3,301	5.2	77	2
Sweden	38	1,335	5.6	43	1
Denmark	50	1,145	8	43	1
Singapore	111	708	3.2	n.a.	0
Finland	53	439	5.8	95	2
Switzerland	45	1,310	8.1	11	2
Norway	34	788	3.5	38	1
Hong Kong	33	1,369	n.a.	2	0
New Zealand	38	161	4.9	36	1
Luxembourg	21	808	3.6	n.a.	2

¹ All data in this table pertains to 2012

² Reserve Currency Status Ranks are from Fitch Sovereign Rating Model ['3' is the strongest]

Source: Fitch, IMF