



Moody's Sovereign Ratings Methodology—Political Risk

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Agenda

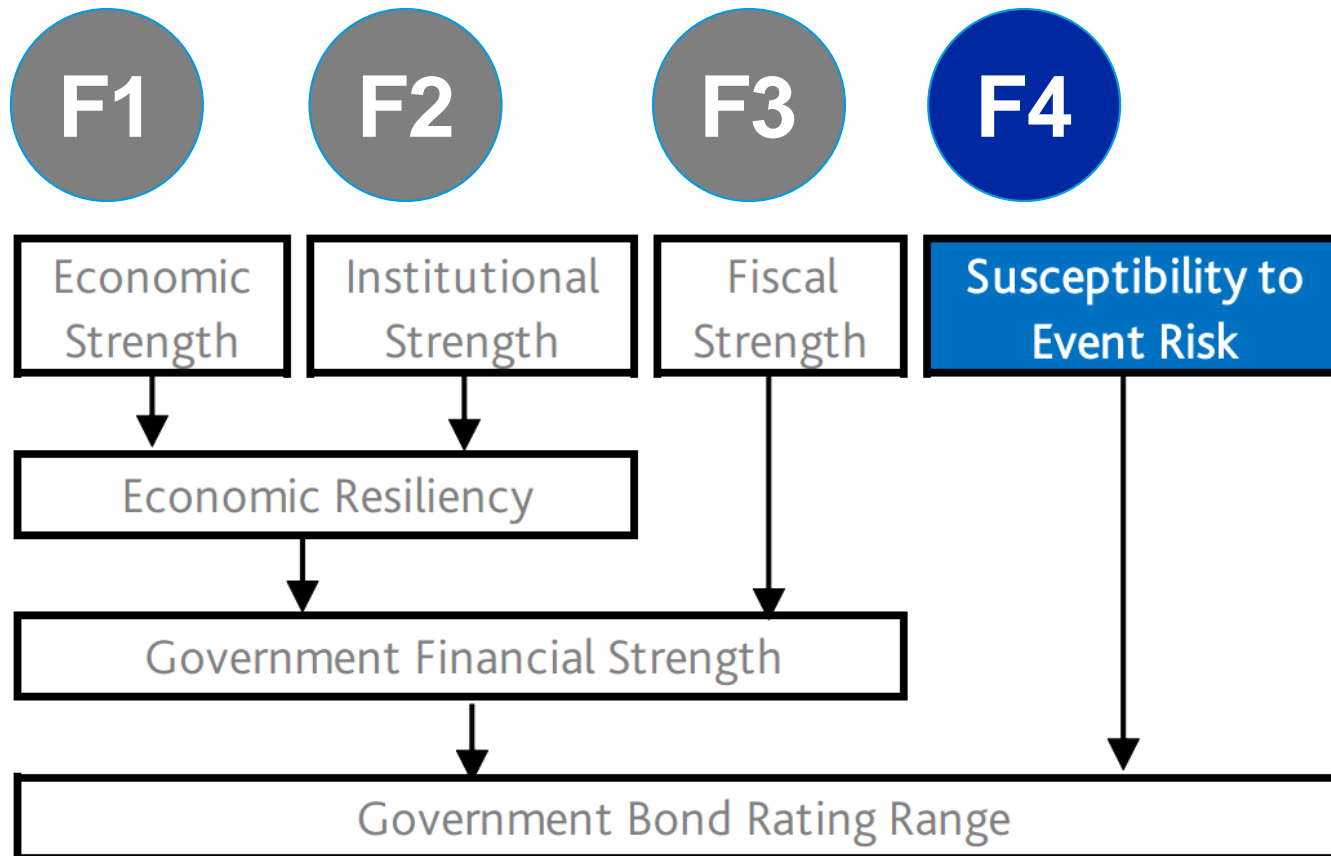
- 1. Moody's Sovereign Bond Ratings Methodology**
Focus on Factor 4 (Susceptibility to Event Risk)
- 2. Moody's Political Risk Assessments**

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Moody's Sovereign Bond Ratings Methodology

Focus on Factor 4 (Susceptibility to Event Risk)

Determining the Overall Grid-Indicated Rating



Source: Moody's Sovereign Bond Ratings Methodology 2013

Factor 4—Susceptibility to Event Risk



Factor 4:
Susceptibility to
Event Risk

Political Risk	Max. Function ²	Domestic Political Risk
		Geopolitical Risk
Government Liquidity Risk	Max. Function ²	Fundamental Metrics
		Market Funding Stress
Banking Sector Risk	Max. Function ²	Strength of Banking System
		Size of Banking System
		Funding Vulnerabilities
External Vulnerability Risk	Max. Function ²	$(\text{Current Account Balance} + \text{FDI}) / \text{GDP}_t$
		External Vulnerability Indicator (EVI) _{t+1}
		Net International Investment Position/GDP _t

² The aggregation of Political Risk, Government Liquidity Risk, Banking Sector Risk, and External Vulnerability

Source: Moody's Sovereign Bond Ratings Methodology 2013

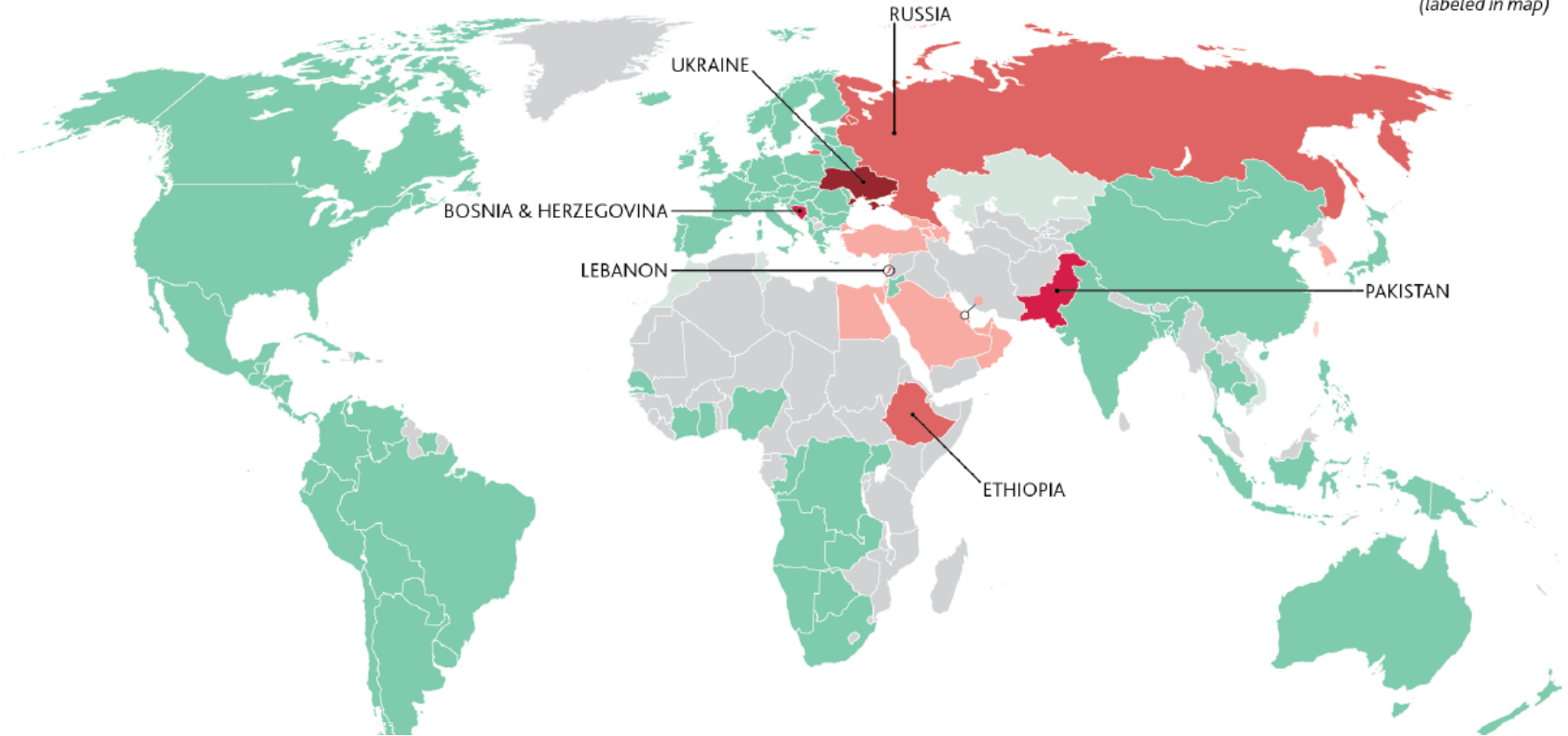
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Moody's Political Risk Assessment

Moody's Geopolitical Risk Assessments

Geopolitical Risks currently concentrated in Middle East and CIS

Susceptibility to geopolitical risk: ■ Very Low ■ Low ■ Medium Low ■ Medium ■ Medium High ■ High ■ Very High (labeled in map)



Source: Moody's Publication [How geopolitical risks affect creditworthiness](#), December 2014

Political Risk

Domestic Political Risk



Geopolitical Risk



Political Risk

» Domestic Political Risk:

Domestic Political Risk is assessed on the basis of two main indicators: the World Bank's Voice and Accountability index, and GDP per capita (as a proxy for the potential of low income-related social unrest). For example, some of the Middle East and North Africa (MENA) crisis countries that were affected by recent turmoil showed poor Voice and Accountability scores. It goes without saying that this is a rather rough two-indicator grid which may only be a starting point of the analysis in cases that involve political factors that go beyond this framework.

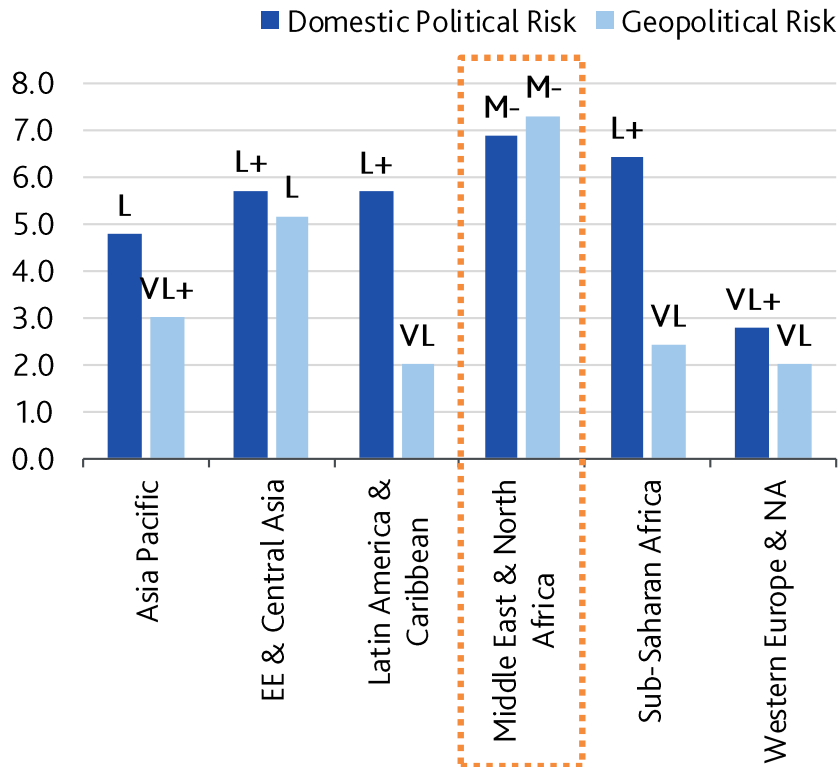
» Geopolitical Risk:

Geopolitical Risk is difficult to score on the basis of quantitative indicators. That said, the set contains very few Moody's-rated countries whose creditworthiness is significantly affected by geopolitical risk concerns. One example is Korea, whose credit standing is influenced by the unresolved issues with North Korea. An escalation of tensions or a disorderly reunification of the peninsula would arguably weigh on the creditworthiness of the country.

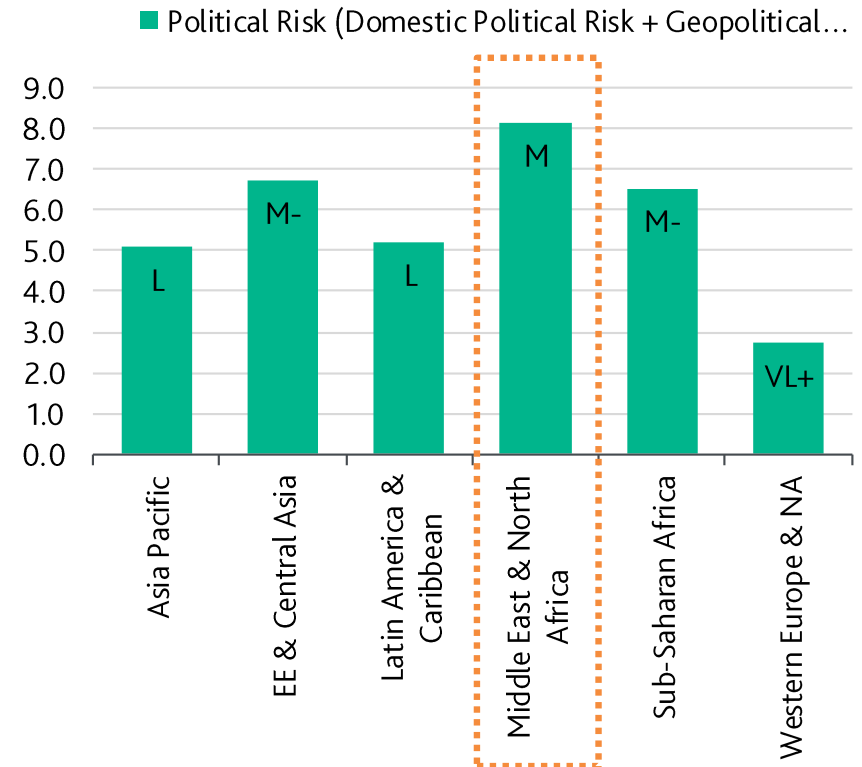
Source: Moody's Sovereign Bond Ratings Methodology 2013

Political Risk Assessment 2015

Domestic and Geopolitical Risk



Political Risk



Source: Moody's Sovereign Scorecard 2015

Related Research

- » [How Geopolitical Risks Affect Creditworthiness](#), December 2014
- » [Sovereign Bond Ratings Methodology](#), September 2013

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