

Country Risk Ratings: Methodological Convergence and the Push for Greater Transparency

تصنيفات مخاطر الدول: التقارب المنهجي والدفع نحو شفافية أكبر

Mohamed Khalil BOUHELALIS*, University of Constantine2
mohamed.bouhelais@univ-constantine2.dz

Antara BERBACHE, University of Constantine2
antara.berbache@univ-constantine2.dz

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Abstract:

Differences in the evaluation methodologies adopted by global rating agencies contribute to significant disparities in the risk ratings of the same country, causing confusion and diminishing investor confidence. Each agency relies on different models and criteria in its risk assessments, leading to variations in the country's ratings depending on the agency. This inconsistency weakens the objectivity of these evaluations, making it difficult for investors to rely on them for decision-making.

This study aims to conduct a comparative analysis of the current methodologies used by rating agencies to highlight their differences and similarities. The study concludes that adopting unified and shared methodologies could enhance the accuracy and consistency of ratings, thus boosting global investor confidence. It also emphasizes the importance of adopting transparent practices in the evaluation process and information disclosure. Additionally, the study proposes the need for methodological convergence in rating by establishing an international regulatory framework aimed at standardizing rating criteria and enhancing transparency, which would contribute to making risk assessments more consistent and reliable, thereby strengthening confidence in global markets.

* Author corresponsdeant

Keywords: Country risk; Country Risk Ratings; Rating agencies; Methodologies of evaluation; Transparency in Ratings.

ملخص:

تُساهم اختلافات منهجيات التقييم المعتمدة من وكالات التصنيف العالمية في حدوث تباينات كبيرة في تصنيفات المخاطر للدولة الواحدة، مما يثير الحيرة ويؤدي إلى تراجع ثقة المستثمرين. إذ تعتمد كل وكالة على نماذج ومعايير مختلفة في تقييمها للمخاطر، ينتج عن ذلك تباين في تصنيفات الدولة نفسها وفقاً للوكالة. هذا الاختلاف يـضعف من موضوعية التقييمات ويجعل من الصعب على المستثمرين الاعتماد عليها لاتخاذ قراراتهم.

تهدف هذه الدراسة إلى إجراء تحليل مقارنة للمنهجيات الحالية المستخدمة من قبل وكالات التصنيف، لتبسيط الضوء على أوجه التباين والتشابه فيها. توصلت الدراسة إلى أن اعتماد منهجيات موحدة ومشاركة يمكن أن يعزز دقة التقييمات وتناسقها، مما يساهم في تعزيز ثقة المستثمرين العالميين. وتشدّد الدراسة كذلك على أهمية تبني ممارسات شفافة في عمليات التقييم والإفصاح عن المعلومات. كما تقترح ضرورة العمل على تقارب منهجي في التصنيف، من خلال وضع إطار تنظيمي دولي يهدف إلى توحيد معايير التصنيف وتعزيز الشفافية، بما يساهم في جعل تقييمات المخاطر أكثر اتساقاً وموثوقية ويعزز الثقة في الأسواق العالمية.

الكلمات المفتاحية: مخاطر الدولة؛ تقييمات مخاطر الدولة؛ وكالات التصنيف؛ منهجيات التقييم؛ الشفافية في التقييمات.

1. Introduction

In recent decades, investors have witnessed an enormous expansion and diversification in investment opportunities due to the rapid globalization of the economy. Alongside these new opportunities come new risks, creating a need to assess the advantages and threats associated with investments in specific countries. These concerns have prompted both private and institutional investors to pay close attention to the concept of Country Risk and to the methodologies of Country Risk Ratings. Global rating agencies provide key insights into the political, economic, and financial stability of countries. These ratings impact everything from sovereign bond yields to foreign direct investment (FDI), as investors heavily rely on them to gauge the

likelihood of financial and economic risks in foreign markets. Additionally, these ratings offer critical data for governments to secure international financing at competitive interest rates, facilitating economic development and financial stability.

1-1 Research problem

Despite the widespread use of Country Risk Ratings, the lack of transparency and significant methodological differences among rating agencies have raised concerns among investors and policymakers. Each agency employs distinct frameworks and weights to assess factors such as political stability, GDP growth, debt levels, and financial performance. As a result, the same country may receive significantly different ratings from various agencies, leading to inconsistency and confusion among international stakeholders. These methodological disparities and the opaque nature of some rating processes have come under increasing scrutiny. This brings us to the core issue we aim to explore with the following main question:

How do current Methodologies of evaluation reflect the reality of Country Risk Ratings, and what are the limits of transparency in the rating outcomes provided by global rating agencies?

Under this primary question, we explore the following sub-questions:

- What are the main differences between the methodologies of Country Risk Rating agencies, and how do these differences impact the consistency of ratings?
- To what extent do Country Risk Ratings reflect the actual economic and political conditions of rated countries?
- What role does transparency in rating methodologies play in enhancing investor confidence, and what challenges do agencies face in achieving comprehensive transparency?
- How might standardization through the adoption of an international regulatory framework contribute to greater comparability and consistency in Country Risk Ratings?

1-2 Research Hypotheses

- The methodological convergence among Country Risk Rating agencies increases the comparability and consistency of ratings across different agencies.
- Transparency in the evaluation methodologies used by global rating agencies enhances investor confidence and reduces ambiguity in assessing Country Risk.
- Standardizing rating criteria across agencies positively impacts the facilitation of Foreign Direct Investment (FDI) flows by providing clearer risk assessments.

1-3 Significance of the Study

This study highlights the need for methodological convergence among Country Risk Rating agencies and advocates for greater

transparency in the risk rating process. By addressing these issues, this paper aims to emphasize the importance of enhancing the credibility of Country Risk Ratings, strengthening investor confidence, and improving global financial stability.

1-4 Study Methodology

To address the study's problem statement and test the hypotheses, a comparative analysis methodology was adopted, comparing the different methodologies used by prominent rating agencies. Additionally, the study utilized both qualitative and quantitative data analysis to examine the impacts of ratings on global financial markets and the sustainability of sovereign debt. Theoretical and applied analyses were employed to explore the importance of transparency and how methodological convergence can enhance public trust in ratings and support international financial stability.

1-5 Literature Review

The field of Country Risk Ratings has garnered significant attention in recent years, especially amidst the increasing complexity of global financial markets. Numerous studies have examined the methodologies employed by rating agencies and the impact of their ratings. Montes and de Oliveira (2019) analyzed the relationship between central bank transparency and sovereign risk ratings, indicating that greater transparency can lead to improved ratings and reduced inflation levels. This underscores the direct effect of institutional transparency on the perception of Country Risk (Montes & de Oliveira, 2019).

Additionally, Rafat and Farahani (2019) explored the link between Country Risk and Foreign Direct Investment (FDI), showing that negative risk ratings can significantly deter foreign investment. They argue that understanding the factors contributing to these ratings is essential for policymakers aiming to attract FDI (Rafat & Farahani, 2019).

Further research by Szetela, Mętel, and Brożyna (2019) on sovereign default probabilities demonstrated how incorporating political and economic factors can enhance the accuracy of risk assessment. Their findings suggest that rating agencies should adopt a comprehensive view of Country Risk that accounts for both economic and political indicators. (Szetela et al., 2019).

Another notable contribution is the study by Chari et al. (2024), which found that less transparent countries are more likely to receive divergent ratings, with political risks being a major influencing factor. This highlights the need for agencies to provide clearer methodologies and disclose evaluation criteria to reduce uncertainty (Chari et al., 2024).

Overall, the literature reveals a pressing need for methodological convergence among rating agencies and calls for greater transparency in the risk evaluation process. These developments are essential to bolster the credibility of Country Risk Ratings, which play a fundamental role in global finance and investment decisions.

2. The Concept of Country Risk, Its Sources, and Its Relationship with Related Risks

2.1 The Concept of Country Risk

Country Risk is not a new concept. Its origins can be traced back to Gamal Abdel Nasser's nationalization of the Suez Canal in 1956. During the 1960s and 1970s, it became closely associated with "political risks," primarily linked to nationalization events in the oil industry, particularly in the Middle East and Algeria. In the 1980s, the concept expanded to include "sovereign risk," referring to the potential for borrowing countries, such as Brazil or Argentina, to default on their external debts. By the 1990s, Country Risk evolved into the "emerging market crisis" (e.g., the Mexican crisis in 1994, the Asian crisis in 1997, the Russian crisis in 1998), alongside the impact of armed conflicts, which increased towards the end of the century (e.g., Kuwait, African civil wars, Kosovo, etc.) (thématique, 2003).

There have been numerous attempts to define Country Risk. According to Shanmugam (1999), it is defined as "the overall level of political and economic uncertainty in a country that affects the value of its investments"(Asiri, 2014). It is also defined as "the risk of a catastrophic event stemming from the economic and political context of a foreign country where a company conducts part of its activities" (Bernard, 1990). Under this definition, "loss" could result from the freezing of a multinational company's assets (such as the confiscation of property abroad), a sovereign state's default on debt owed to a bank, the loss of a company's export market, or threats to personal security (such as the kidnapping of an expatriate).

Country Risk analysis stems from the question that combines different levels of analysis: the project, the company, and the country(Sophie NIVOIX, 2012). If we consider that a project's performance is primarily a microeconomic calculation (such as net present value or internal rate of return, in a certain or potential world), then the quality of partners (client companies, suppliers, co-financiers, affiliated companies) already represents an additional scope of potential risks. However, the ultimate risk is evidently shaped by the macroeconomic, institutional, social, and political environment in which the project will operate over its lifespan. As we observe here, the complexity of the issue extends beyond the financial analysis of a company issuing securities, the solvency of a given operator (including

those in the public sector), or even the possibility of sovereign debt default.

Country Risk encompasses all risks related to the country, which include, in addition to macroeconomic risks, those associated with legislative, social, political, corruption, and socio-economic factors, such as income inequality and social stratification. Alongside these issues, certain differences between countries may also contribute to influencing the evolution of Country Risk factors.

2-2 Sources of Country Risk

The variation in Country Risk levels from one country to another can partly be attributed to differences in these sources of risk (Damodaran, 2020):

- The country's position in the economic growth lifecycle: countries in an early growth phase are generally more vulnerable to risks than more mature economies.
- Some of these risks can be explained by political differences, a category that includes everything from the nature of governance (democratic or dictatorial) to the stability of political power transitions.
- Certain differences may be due to the legal system, including both structure (such as protection of property rights) and efficiency (the speed at which legal disputes are resolved).
- Country Risk can also arise from an economy's disproportionate reliance on a specific product or service. Thus, countries that derive most of their economic output from a single commodity (such as oil) or service (like insurance) may suffer significant impacts when the price of that commodity or demand for that service declines.

2.3.3 The Relationship Between Country Risk and Related Risks

The Country Risk literature distinguishes between risks associated with lending to a sovereign government and risks associated with lending or investing in the country as a whole, including individual borrowers residing within the country. The latter type refers to Country Risk, while the former is known as Sovereign Risk, which is the exposure to risk posed by a sovereign government (Hoti, 2009). Furthermore, there is variation in the use of other concepts related to Country Risk, such as the following (Constantin & György, 2018).

2.3.1 Transfer Risk: Country Risk is also influenced by transfer risk, which arises when a country's government imposes restrictions at a given time that prevent the transfer of funds related to debt obligations. This risk stems solely from the political factors within that

country, unlike broader risks that encompass other issues affecting debt repayment capacity. These broader risks include imminent political and social instability, such as the nationalization of private property, foreign military occupation, civil war, or any form of conflict in the region impacting the country.

2.3.2 Market Risk: It is a comprehensive description of the country's economic and financial framework, considering market stability and predictability from an investment perspective.

2.3.3 Natural Risk: Some analysts believe that Country Risk also includes natural risk factors related to the geographical area in which investment is intended. This falls within the insurance domain, where regions prone to natural disasters, such as earthquakes, hurricanes, landslides, and wildfires, are regarded as specific risk factors. These natural risks can significantly impact investment viability, necessitating careful consideration in risk assessments for projects in vulnerable areas.

2.3.4 Systemic Risk: Another element recently incorporated into the concept of Country Risk is systemic risk. This factor envisions a particular social, political, or economic condition that could substantially impact a sector of the economy. For example, a policy decision by the government or central bank could affect several interconnected banking institutions, potentially triggering a major crisis. Systemic risk thus highlights how interconnectedness within the economy can magnify the effects of policy changes or economic shifts.

2.3.5 Sovereign Risk: Sovereign risk reflects a country's ability to meet its obligations to external partners. It is a critical component of Country Risk, tied to the government's solvency and liquidity in fulfilling its commitments. This risk is often analyzed through the country's budget and public debt profile, as these indicators are fundamental to understanding the country's financial health and capacity to maintain economic stability. Sovereign risk is thus a core element in assessing overall Country Risk.

3. The Concept of Country Risk Ratings by Rating Agencies and Key Criticisms

3.1 The Concept of Country Risk Ratings

The need for investors and lenders to bridge the information gap between themselves and potential investment locations led to the creation of agencies that provide qualitative and quantitative Country Risk Ratings. These ratings offer concise, accessible insights into the risk levels associated with lending to governments, institutions, corporations, and individuals. Rating agencies compile economic, financial, and political risk factors into a composite risk rating, which

is particularly valuable for developing countries where limited information is available.

Country Risk Ratings aid developing nations in accessing capital markets and provide essential tools for economic, financial, and political decision-makers to assess these risks effectively. By presenting a composite measure of risk, these ratings help stakeholders make more informed decisions about investment and lending in countries with varying levels of transparency and stability.

3.2 Importance of Country Risk Ratings

Country Risk Ratings, along with forecasts of changes in these ratings, play a central role for a variety of stakeholders, including international businesses, lending institutions, insurance companies, and government offices. These stakeholders include top executives, such as the President, Vice President, Business Manager, Project Manager, Project Risk Manager, Director, Strategic Planner, Financial Officer, International Officer, Corporate Security Officer, Economist, and Market Analyst. Each of these roles utilizes Country Risk Ratings and forecasts differently to anticipate and plan for the political, economic, and financial risks involved in international business operations (Hoti, 2009).

Furthermore, Country Risk Ratings provide investors, governments, and financial institutions with a comprehensive view of a country's ability to meet its financial obligations. These ratings encompass evaluations of economic, political, and financial stability, as compiled by global rating agencies (Cosset et al., 1992; Levich et al., 2002). Country Risk Ratings are crucial in mitigating uncertainties in cross-border investments, particularly in emerging markets, where political risks can be volatile (Kiymaz, 2009).

These ratings hold significant value in assessing sovereign debt sustainability and guiding decisions in foreign direct investment, which affects capital costs and bond spreads (Arat et al., 2023). However, transparency and accuracy in these ratings remain points of contention, especially during financial crises, highlighting the need for continuous methodological improvements (Hoti & McAleer, 2004).

3.3 Criticisms of Country Risk Rating Agencies

In recent years, rating agencies have faced significant criticism, with some analysts suggesting that these agencies played a role in the 2008 financial crisis. Their delayed downgrading of mortgage-backed securities misled investors into believing these securities were safer than they actually were. Consequently, when the housing market collapsed, the value of these securities plummeted, leading to widespread losses among investors. Various aspects of the effectiveness of Country Risk Ratings and the methods and applications

of these ratings have faced scrutiny for several reasons (P.L, A, & M.A, 2006):

3.3.1 Lack of Transparency: Rating systems often appear as “black boxes,” where the actual meaning of ratings is hard to interpret. Many agencies do not disclose the factors they consider in their ratings or the “aggregation rules” used to compile a single rating from multiple factors.

3.3.2 Failure to Predict Crises: Rating agencies were particularly criticized after the Tequila Crisis and the Asian financial crises for their inability to foresee these economic downturns.

3.3.3 Regional Bias: Some rating agencies have been accused of regional favoritism. For example, Haque et al. (1997) suggest that Euromoney generally gives higher ratings to Asian and European countries compared to Latin American or Caribbean countries, while Institutional Investor is often more generous to Asian and European countries than to African ones.

3.3.4 Latency: Rating agencies have been criticized for their delayed response to new developments, which means their ratings may not reflect current realities promptly.

3.3.5 Overreaction: The IMF criticized rating agencies for their panicked responses during the Asian financial crisis. After failing to predict the crisis, agencies swiftly and drastically downgraded countries like Thailand and South Korea, accelerating capital flight. In such situations, rating agencies often appear to overreact, contributing to market instability rather than stability.

Despite these criticisms, Country Risk Ratings remain a valuable tool for investors seeking informed decisions on where to allocate their funds. By considering factors like objectivity, accuracy, transparency, and alternatives, investors can better understand the role of rating agencies in assessing risks they face.

4. Comparative Analysis of Country Risk Rating Methodologies by Various Rating Agencies

4.1 Profile of Major Country Risk Rating Agencies

Country risk ratings play a critical role in informing governments, decision-makers, bankers, foreign investors, and exporters. Specialized organizations in country risk ratings hold considerable strategic influence in disseminating information globally. Their mission is to develop and publish concise data in the form of “ratings,” which are easily interpretable through press releases, publications, or online services.

These entities primarily consist of rating agencies (such as Fitch Ratings, Political Risk Services, Moody’s, and Standard & Poor’s). Other contributors include credit insurance companies (e.g., the French

Export Credit Insurance Company, Coface), consulting firms (such as Business Environment Risk Intelligence and Nord Sud Export), research bodies (like the Economist Intelligence Unit), and financial publications (e.g., Institutional Investor and Euromoney Publications) (GUESSOUM, 2004).

Below is a summarized profile of the leading country risk rating agencies, as outlined in Table 01:

Table 1. Profile of Major Country Risk Rating Agencies

Agency Name	Date and Place of Incorporation	Classification Area	Number of countries Evaluated	Start of Evaluations	Frequency of Evaluation	Number of Indicators Used
Standard & Poor's(S&P)	1860, USA	Corporate, Financial, Sovereign	Over 100	1966	Annual/ Regular Updates	7
Moody's	1909, USA	Sovereign, Corporate	100+	Early 1900s	Quarterly	10
Fitch Ratings	1913, USA	Corporate, Sovereign	100+	1920s	Regular	15
Coface	1946, France	Country and Corporate Risk	140	1948	Quarterly	20
Economist Intelligence Unit(EIU)	1946, UK	Country Risk	Over 100	1946	Regular	5
International Country Risk Guide(ICRG)	1980, USA	Country Risk	Over 100	1980	Monthly	22
Business Environment Risk Intelligence (BERI)	1966, Switzerland	Country Risk	Over 50	1972	Semi-Annual	15
Political Risk Services(PRS)	1979, USA	Political Risk, Country Risk	Over 140	1980	Monthly	17
Euromoney Publications	1969, UK	Country Risk	180	1982	Semi-Annual	09

Source: prepared by researchers.

Table 01 showcases the diversity and specialization of global *Rating agencies* in assessing *Country Risk*, highlighting their pivotal role in the

international financial landscape. Leading agencies such as Standard & Poor's, Moody's, and Fitch focus on sovereign and investment risk assessments, covering over 100 countries with established methodological approaches. Differences in the number of indicators used (ranging from 7 to 22) underscore these methodological distinctions, with some agencies emphasizing financial factors while others incorporate political and macroeconomic variables. Institutions like Coface and PRS also integrate corporate and political risks into their models, reflecting the multidimensional nature of *Country Risk*. The frequency of assessments, which ranges from monthly to quarterly, underscores the importance of timely ratings in helping investors manage risks. Although these agencies' *Methodologies of evaluation* can sometimes lack transparency, they remain crucial for informed investment decisions, influencing global capital flows and economic stability.

4.2 Criteria for Country Risk Ratings Adopted by Rating Agencies

The assessments provided by these various international actors are not necessarily comparable. This observation leads us to describe the primary Methodologies of evaluation used by the services responsible for Country Risk Ratings. Methods for rating Country Risk vary among Rating agencies, with a relatively significant weight given to the financial domain in the overall evaluation of Country Risk. Among the 24 components of Country Risk, thirteen are related to economic and financial aspects, while the remaining eleven variables are of a political nature. Table 02 illustrates the criteria for Country Risk Ratings adopted by Rating agencies.

Table 2. Criteria for Country Risk Ratings Adopted by Rating Agencies

Ratings agencies factors	BOA	BERI	CRIS	FII	IICR	Moody's	PRS (ICRG)	PRS (COPL)	S & P	R��currence of Factor
Current account and balance of payments	�	�		�	�	�	�	�	�	8
Debt level	�	�		�	�	�	�	�	�	8
Deficit level	�	�		�	�	�		�	�	7
Economic structure and growth	�	�		�	�	�		�	�	7

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Exchange rate and currency convertibility	✓	✓		✓		✓		✓	✓	6
GDP and GDP per capita	✓	✓		✓		✓		✓	✓	6
Labor cost and productivity		✓				✓		✓	✓	4
Reserve levels	✓			✓	✓	✓			✓	5
Interest rates				✓		✓		✓	✓	4
Access to capital markets		✓			✓	✓			✓	4
Liquidity level		✓		✓			✓			3
Parallel markets						✓	✓			2
Inflation rate		✓						✓	✓	3
Agent behavior and expectations		✓		✓	✓	✓	✓	✓	✓	7
Political environment		✓	✓	✓	✓	✓	✓	✓	✓	8
International agreements and regional integration		✓			✓	✓	✓	✓	✓	6
Policy, ethnic, and religious heterogeneity		✓	✓	✓	✓	✓	✓		✓	7
Corruption level and law flexibility		✓	✓	✓		✓	✓		✓	6
Crime rate and military security		✓	✓			✓	✓		✓	5
Legislation		✓				✓	✓			3
Nationalization		✓				✓	✓		✓	4
Regional policies		✓				✓	✓		✓	4
Infrastructure and local governance management		✓				✓			✓	3
Coercive regimes and law compliance		✓				✓				2

Source (Boujedra, 2006,P20)

Table 02 highlights the multifaceted nature of Country Risk Ratings, which encompass economic, political, and social factors. High scores in the current account balance and debt levels (8) indicate these as critical determinants of a country's financial stability. The substantial weight given to the political environment (8) reflects the paramount importance of governance and institutional integrity in attracting investment. Additionally, moderate scores for inflation (3) and liquidity (3) reveal potential vulnerabilities in economic management. The presence of a parallel market (2) and high corruption levels (6) can undermine investor confidence, underscoring the need for structural reforms. Overall, the nature of the Country Risk criteria used by Rating

agencies varies between quantitative and qualitative; however, Table 02 shows that most agencies rely on quantitative criteria, enhancing Transparency in Ratings.

4.3 Nature and Sources of Data Used by Country Risk Rating Agencies

Country Risk Rating agencies rely heavily on a diverse set of sources to assess the economic, financial, and political risks of countries. Among these sources are international institutions such as the International Monetary Fund, the World Bank, and the Organization for Economic Co-operation and Development (OECD), as well as local data from national statistical agencies. Agencies like Moody's, S&P, and Fitch also use qualitative analyses and political and economic reports provided by sources such as the Economist Intelligence Unit (EIU) and the International Country Risk Guide (ICRG). These agencies combine quantitative and qualitative data to form a comprehensive view of the risks associated with investing in these countries

Table 3. Nature and sources of data adopted by country risk rating agencies

Agency Name	Data Source	Nature of Data Sources	Details
Moody's	IMF, World Bank, Bloomberg, Reuters	Quantitative & Qualitative	Uses proprietary models based on confidential financial information and economic indicators.
S&P (Standard & Poor's)	IMF, OECD, Bloomberg, EIU	Quantitative & Qualitative	Combines economic data with market variables and expert analysis.
Fitch	IMF, World Bank, IHS Markit	Quantitative & Qualitative	Relies on multiple market data providers and combines economic indicators.
Economist Intelligence Unit (EIU)	EIU proprietary data, EIU Market Monitor	Quantitative & Qualitative	Combines economic forecasts with market sentiment and qualitative risk signals.
Institutional Investor	National and international data	Quantitative & Qualitative	Emphasizes quantitative economic indicators along with expert opinions.

Political Risk Services (ICRG)	Proprietary, IMF data, expert surveys	Quantitative & Qualitative	Relies on expert panel surveys to evaluate political and social risk factors, in addition to financial data.
International Country Risk Guide (ICRG)	IMF, World Bank, expert panels	Quantitative & Qualitative	Provides detailed monthly data using a comprehensive combination of political, financial, and economic factors.
Business Environment Risk Intelligence (BERI)	National, IMF data	Quantitative & Qualitative	Utilizes a variety of political and social variables, tailored for regional insights such as Asia.
Euromoney	IMF, World Bank, expert opinions	Quantitative & Qualitative	Integrates economic and financial data with political risk assessments.

Source: prepared by researchers.

Key Insights from Table 03 Analysis:

- **Diverse Data Sources:** Most Rating agencies combine quantitative and qualitative data in their risk assessments. This approach highlights the need for an integrated understanding that encompasses both rigorous economic factors (quantitative) and political and social factors, which may rely on estimates or expert interpretations (qualitative).
- **Proprietary Models and Expert Analysis:** Agencies like Moody's and Standard & Poor's rely on proprietary models and use confidential financial information, indicating a strong focus on in-depth financial analysis that is not accessible to the general public. The integration of expert analysis alongside these models enhances the agencies' ability to interpret data in ways that align with changing economic and political conditions.
- **Use of Expert Surveys:** Political risk services like PRS and the International Country Risk Guide (ICRG) depend heavily on expert surveys, emphasizing the importance of qualitative assessments, especially political and social factors that can shift quickly.
- **Regional Diversity and Local Focus:** Agencies such as BERI focus on region-specific factors, like evaluations in the Asian

context, underscoring the importance of local understanding and regional differences in risk assessment.

- **Combination of Forward-Looking Data and Market Sentiment:** The Economist Intelligence Unit (EIU) combines economic forecasts with market sentiment, enhancing its ability to provide forward-looking risk assessments that consider potential shifts in market perceptions and sentiment.

Relying on diverse data sources can lead to differences in Country Risk Ratings across agencies, as economic, political, and environmental risk factors are assessed in varying ways. For this reason, experts highlight the need for standardizing criteria and reducing methodological disparities among Rating agencies, which would enhance Transparency in Ratings and improve their accuracy.

5. The Need for Methodological Convergence in Country Risk Ratings by Global Rating Agencies

In pursuing methodological convergence in Country Risk Ratings by Rating agencies, two critical areas for reform stand out: the standardization of methodologies and the proposal of global standards.

5.1 Standardization of Methodologies

Standardizing Methodologies of evaluation is an essential requirement to ensure consistency in assessing country risk across different agencies. Current practices, as demonstrated by agencies such as Fitch, Moody's, and Standard & Poor's, often vary in their criteria, weighting systems, and models, resulting in divergent ratings for the same country (GUESSOUM, 2005). To achieve convergence, efforts should focus on aligning the key variables used in risk assessments, such as political stability, economic performance, and debt sustainability, across all agencies. This requires establishing a unified framework that harmonizes approaches to measuring both quantitative and qualitative factors, ensuring Transparency in Ratings and comparability ((GUESSOUM, 2005; Laura Feinland Katz, 2008)). This approach can draw inspiration from existing international financial regulatory bodies like the International Monetary Fund, fostering the integration of national markets into the global financial system.

5.2 Proposed Global Standards for Country Risk Ratings

Adopting unified global standards for Country Risk Ratings will enhance Transparency in Ratings and aid investors in making more informed decisions (Alexe et al., 2003). This requires aligning the primary indicators used to evaluate political and economic factors with internationally recognized standards, such as those provided by international organizations like the World Bank (Hoti & McAleer, 2002).

To achieve methodological convergence in Country Risk Ratings, we propose several core standards on which the rating process should be based:

5.2.1 Incorporation of Political Stability Metrics: Numerous studies, including that of Rivoli & Brewer (1997), indicate that political stability is a fundamental factor in assessing country risk. Global standards should include the uniform assessment of political variables, such as governance quality and the stability of the legal system.

5.2.2 Enhancement of Transparency and Disclosure Requirements: Rating agencies should commit to clearly disclosing their Methodologies of evaluation, including the weights assigned to various variables in their models. This would facilitate comparisons between agencies and promote Transparency in Ratings (Gholipour et al., 2020).

5.2.3 Periodic Adjustment of Evaluation Models: Rating agencies should periodically update their risk rating models based on recent data and evolving risks, as highlighted by previous financial crises (Bhatia, 2002).

5.2.4 Multivariate Analysis of Country Risks: Rather than relying on historical data or static indicators, Rating agencies should adopt multivariate analysis models that account for the full complexity of country risks (Hoti & McAleer, 2002).

5.2.5 Establishment of an International Regulatory Body: To reinforce objectivity and prevent conflicts of interest, consideration should be given to creating an international regulatory body to oversee Rating agencies. This body would implement standardized methodologies and ensure that agencies adhere to global standards (Hochbaum & Moreno-Centeno, 2008).

6. Conclusion

The methodological convergence among global Rating agencies is essential for enhancing the reliability and accuracy of Country Risk Ratings, which play a crucial role in guiding investors and policymakers in the financial world. The current methodological discrepancies among these agencies can lead to confusion and exacerbate risks in investment decision-making. Therefore, establishing standards for Country Risk Ratings will promote Transparency in Ratings and objectivity.

Reforms in global rating practices are vital to ensure the accuracy of ratings in light of rapidly evolving global economic and political developments. For instance, introducing an international regulatory body to oversee these agencies could enhance transparency, reduce conflicts of interest, and bolster the credibility of the ratings. Additionally, multidimensional analysis that integrates economic,

political, and social indicators can provide a more comprehensive and accurate assessment of risks.

In the future, the international financial system will remain in urgent need of reliable and comparable Country Risk Ratings to foster global financial stability. These reforms will empower governments to access international financing on better terms and direct investments toward emerging markets, contributing to sustainable economic development. Moreover, increased transparency in ratings will enhance trust in the ratings, thereby mitigating risks that may arise from inaccurate or inconsistent evaluations.

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