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CREDIT RATING – INDICATOR OF NEW ECONOMIC PROSPECTIVE AND CHALLENGES

Abstract

Credit rating is a credit rating of the state. The process of awarding rating is based on a detailed qualitative and quantitative analysis of the creditworthiness of countries, including: political risk, income and economic structure, the prospects for future economic growth, fiscal and monetary flexibility, general government debt, external liquidity, and by the public and private sector .

Generally, a high credit rating certainly has a positive impact on its position in the international capital market, the movement of interest rates and the inflow of foreign investment.

Last economic crisis from 2008 causes huge problems in many advanced and developing economies. Rating agencies were faced with a problem of being blamed for not early warning of difficulties in banks and investor's funds. The economic crisis in US and Euro zone, decline economic growth and credit rating in the most of them

Key words: credit ratings, credit rating agencies, economic crisis, rating crisis, creditworthiness.

JEL classification: G21

Introduction

New economy order after the world crisis announced in 2008 open a wide field of different attitudes about reasons and consequences of the economic crash and measures for overcoming. The ratings of many countries, cities, companies and governments were decreased. Whatever, publicity blames credit rating agencies for overdue reaction and absence of early warning reacting.

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The world's largest rating agencies employ top experts in finance who determine credit rating for the countries (sovereigns and sub-sovereigns) and financial institutions. Credit rating is a primary criterion for approving loans, as well as the conditions under which these loans are approved. Criteria for obtaining loans are an important indicator for investors, but also for the country's reputation or financial institutions in international financial surroundings. The credit rating includes evaluation of economic and financial characteristics of individual countries such as level of debts, assets and other macroeconomic indicators.

The last "rating crisis" caused by the decision of the agency "Standard and Poor's," which lowered the credit rating of France, Austria, Slovenia, Slovakia, Malta, Italy, Spain, Portugal and Cyprus. This decision provoked a negative reaction from officials of the EU and the Euro-zone, particularly Germany and France, because this decision is very unfavorable for the Euro-zone countries, faced with a serious debt crisis. Again emphasizes the fact that the world's strongest rating agencies are private companies from the United States, and that such decisions are not only economic but also a serious political dimension.

SOVEREIGN CREDIT RATING – EXPLANATION OF RATINGS

Credit rating is the rating of general creditworthiness of a borrower or debit instruments - securities or other financial obligations, based on appropriate risk factors. In that sense, credit ratings provide an international framework for comparing the credit quality of individual borrowers and debt instruments (securities). It should be noted that the rating in any case does not give an opinion on how a lender (i.e. bank) or investment "good" or "bad", a profitable, successful, and the like, but only and exclusively the probability of return credited funds within the agreed period .

Credit rating provides an assessment of the ability and willingness of government to a country in full and on time services its debt. This is a descriptive rating of creditworthiness. In evaluating the credit rating takes into account : the economic (estimated ability to repay the debt) and political factors (willingness to return the debt). In relation to the country risk, as well as from the standpoint of narrow political risk, credit rating is an important indicator of the level of confidence in the functioning of the government of a state. Based on the credit ratings of the investors are able to directly compare the credit risk countries and thus decide whether and under what conditions to redeem government bonds or state grant loans.[1)]

Any country that wants to independently borrow in international capital markets and issue bonds or borrow as a state commercial banks in the world, should have a

1) Ljubic, Marijana (2008): Analysis, evaluation and rating of commercial entities, Proceedings - May Conference on Strategic Management, 7-8. June 2008., University of Belgrade, Technical Faculty at Bor, p. 224.

credit rating. What is more favorable rating, the country has a better borrower. This means you will be able to borrow at favorable market and at a lower interest rate, higher loan amount or a longer repayment period.

The process of awarding credit rating is a complex, lengthy and continuous. In allocating the first sovereign rating, the rating agencies in the first phase of the country requires a series of economic and political indicators and information. Usually it required series of economic data for a period of five years, as well as the short and medium term projections. An integral part of the rating process and rating agency analysts coming into the country where the ground, in detailed discussions with representatives of all relevant institutions and authorities collected additional information about the political and economic situation and trends in the country. After awarding the first rating, the rating agencies once a year coming into the country and to review rating, with publication of regular annual reports on the rating of the country. In addition to the annual report, the rating agency publishes quarterly information on the rating of the country (Credit Opinion). The process of credit rating is a continuous process that requires continuous delivery of updated data and good cooperation and coordination among all levels of government and institutions in the country.

Rating agencies, in addition to data submitted to them by the state, in the process of monitoring and updating of the situation in the country, using a variety of other

Table 1

EXPLANATION OF RATING CATEGORIES

	Moody's	Explanation of rating categories
AAA	Aaa	Financial position of the country is very strong
AA	Aa	The financial position of the country is very strong, but in the long term risks are higher than the highest ranked category
A	A	Country's financial position is strong with some clues to this position in the future could be impaired
BBB	Bbb	The country has adequate capacity to meet its obligations, but the negative economic or political events may impair the ability of future debt service
BB	Bb	In the short-term financial ability is good, but in the future may lead to a sharp drop capabilities ispunavanja obligations
B	B	Currently the state is unable to meet obligations to its creditors, but the medium is extremely sensitive and the compliance in the long term is questionable
CCC	Ccc	The state is very sensitive to the negative economic, political and financial developments, and the fulfillment of obligations in foreign currency depends on a favorable external environment
CC	Cc	The state is very sensitive to the negative economic, political and financial development
C	C	The state is not fulfilling its obligations and the possibility of recovery is extremely low

Source: Baric, Renata (2006): The credit history of BiH, the BiH Central Bank, age 9, No. 5, p. 3

data sources that are available to them, for example. world media reports. Therefore, in the case of new countries and developing countries that often accompanies a negative image, very important that representatives of the country's continuous rating agency informed of the positive trends in the country.

Countries that are unable to meet their debt obligations and debt service which is interrupted marked with SD (Selective Default) or simply D (Default). Fitch and Standard & Poor's rating categories A, B and C can add a plus sign (+) or minus (-) to show the status of the country within a given category. Moody's modifies A, B and C category added by adding a numeric sub-categories[2)]: 1 indicates a strong position in the country within a given category 2 means that the status of the average and 3 shows that the weakest country in a given category. In addition to letter grades, the agency gives its predictions for the future in the form of descriptive marks: stable prediction, positive and negative predictions.

Table 2

COMPARATIVE OVERVIEW OF MOODY'S AND S&P/FITCH RATINGS

Moody's	S&P / Fitch	Explenation of rating categories
		Investment scale
Aaa	AAA	Outstanding credit rating
Aa1	AA+	A high credit rating
Aa2	AA	
Aa3	AA-	
A1	A+	Strong possibility of servicing its obligations
A2	A	
A3	A-	
Baa1	BBB+	Adequate serviceability of its obligations
Baa2	BBB	
Baa3	BBB-	
		Uninvestment level
		Speculative level
Ba1	BB+	Service obligations is likely to
Ba2	BB	
Ba3	BB-	Conditioned
B1	B+	High risk for fulfilling obligations
B2	B	
B3	B-	
		The level of potential failure - Default
Caa	CCC+	The high probability of failure or the debt service for vulnerable
	CCC	
	CCC-	
Ca	C	Bankruptcy or debt service is interrupted
D	DDD-D	

Source: Baric, Renata (2006): The credit history of BiH, the BiH Central Bank, age 9, No. 5, p. 4.

2) Baric, Renata (2006): The credit history of BiH, the BiH Central Bank, age 9, No. 5, p. 2.

Agency's credit rating companies carefully measure, and six-month intervals, usually in published evaluations of the risk exposure of individual countries, so called -credit rating.

Large international financial institutions and non-profit character development, as well as large institutional investors have to follow strict rules not to invest in countries with low credit ratings. These institutions have established periodic monitoring of country risk and reporting on identified risks, which provides risk monitoring of each country based on the rating determined by external agencies. The weakening credit position has a profound effect on the loans are made in the financial markets, as investors use ratings of specialized agencies when making investment decisions.

One of the parameters that are considered when determining the country's credit rating are the interest rates on Treasury bills. The relationship between interest rates on these bills and credit rating is the reverse direction - lower interest rates mean a higher credit rating. The growth of the credibility of the country influences to a significant reduction in interest rates and other international financial institutions, foreign government bodies in charge of borrowing abroad. Thus, greater government transparency, and improving the country's credit rating further influence its future costs by new taken loans. Also, credit rating affects the interest rates charged by foreign lenders to the commercial and financial loans to domestic companies and financial institutions that are state owned.

Use of the credit rating of the country is numerous. Credit rating greatly influences the amount of risk premium in the interest rate, at which banks can borrow domestic markets abroad. Any improvement of credit rating reduces the premium and allows cheaper sources of banking resources.

If we observe the economic aspect of country risk rating of the country's credit rating is important because it affects: the flow of foreign direct and portfolio investment, increase interest rates on foreign loans, as well as increasing interest rates in the country. Macroeconomic risk of these trends was to significantly reduce the inflow of foreign investment, and therefore the possibility of occurrence of high and growing balance of payments deficit, which is covered by this investment. The end result would be a violation of macroeconomic stability and reducing the level of economic activity.

THE THREE BIGGEST CREDIT RATING AGENCIES

Not, so long ago, the three most influential rating companies: "Standard and Poor's", "Fitch" and "Moody's", were called witches who settled in the world of finance, when in August 2010, decided to reduce the credit rating of the United States. This decision caused concerns at official Washington on one side and the public attacks on the rating agencies on another. Some reviewers and experts have stressed that the rating agencies were just one of the causes of the global financial crisis which

started in America 2008th year. Especially was emphasized, "Moody's", because of the assigned high rating of the company, "Freddie Mac", which had the support of US government, and then fell into difficulties due to problems with secondary loans. Reviews have been addressed and to the account of the agency "Standard and Poor's," because, as critics have argued, their ratings helped to "inflate" a balloon.

The three most influential global rating agencies at the beginning of 2012 were the subject of criticism and anger in the EU's due to the decision to reduce the rating for the nine member states, including France and Austria.

"Standard and Poor's" (S&P) is a privately held financial services company with 150 years of tradition, which annually publishes 870 000 ratings and covers 2,000 stock markets. It was founded by Henry Pur Varnam who published "The history of railways and canals in the United States," which was a document whose purpose was an ode to gather information on financial and technical status of American railroad companies. In 1906. Luther Lee Blake founded the "Standard Statistics Bureau", and in 1941st year the two companies were merged and established the "Standard & Poor's Corp.”..

"Moody's" was founded 1900th by John Moody, but the company did not survive the credit crunch in 1907th year. The company was re-established in 1909. According to official data in 2010 this credit rating agency had revenue of about two billion dollars, with about 4,500 employees in 26 countries worldwide.

"Fitch Ratings" was founded in New York 1913 by John Knowles Fitch. The company has headquarters in Paris, New York and London and has 51 offices worldwide.

The "rating crisis", which started by the decision of Standard & Poor's to lower the credit rating of France and Austria, has seen the culmination with the same agency decision to lower the credit rating of the European Fund for financial support from the highest triple A rating to AA +. The decision by Standard & Poor's to downgrade of the European Fund is expected, because the score of this mechanism depends on the financial rating of euro-zone countries to guarantee it, especially those with the highest rating.

Again, hear the argument that the credit agencies could be triggers of new, more severe financial crisis that Europe would be plunged into decline. It is therefore all the more advocates of the idea of forming an independent European rating agency. This idea was particularly sported by the German which clearly confirms the thesis that the EU does not want to tolerate decisions of "independent" rating agencies from the United States, how much they are based on economic indicators. Solving the debt crisis in the euro - zone is becoming a first-rate political objective, on which depend the survival of the EU. It is therefore more and more advocates for the idea of forming an independent European agency, although the situation was somewhat mitigated by the agency "Moody's", which confirmed the superior grade rating of AAA France, although he still is considering whether to keep "stable" outlook for the country.

CREDIT RATING IN EURO-ZONE AND OUTLOOK

France and Austria's credit rating lowered from the maximum AAA to AA + with a negative outlook, meaning that the two countries in the medium term could face another reduction.

In the case of Austria, such a decision was made because of "the Austrian banking sector vulnerability", which is extensively involved in the countries of Eastern Europe and Hungary, countries hard hit by the financial crisis.

France has given a negative outlook because of "deteriorating political, financial and monetary indicators" in the euro area with which the country is closely connected.

France's credit rating lowered for the first time since 1975 This is not good news, but not a disaster, as well.

Maximum credit rating maintained by Germany, the Netherlands, Finland and Luxembourg.

However, Germany has only received such a grade with a stable perspective, while the other three countries it is negative.

One level lowered the ratings of Slovenia (on A +), Slovakia (in A) and Malta (the A-). Slovenia and Malta have given it a negative outlook, while Slovakia has remained stable.

Spain's credit rating downgraded two levels from AA to A, and with a negative outlook or with 33 percent in the midterm to be reduced again if the government fails into implementation of reforms in the labor market.

Italy has also lowered the rating two levels, from A to BBB + with a negative perspective, and 33 percent in the midterm to be lowered again.

Cyprus's credit rating lowered to BB +, or the speculative level, with a negative outlook. Portugal was lowered to BB, also the speculative level, and with a negative outlook.

Belgium (AA), Estonia (AA-) and Ireland (BBB +) are retained in this revision of the existing ratings, but with a negative a perspective

Credit implications of recent worldwide news events

At the beginning of 2012, euro area heads of state or government announce the finalization of Treaties on Stability, Coordination and Governance in the Economic and Monetary Union and on the European Stability Mechanism (ESM). The ESM treaty was subsequently signed on 2 February.

Agreement on these treaties is credit positive for European sovereigns. However, the treaties leave unresolved a number of important areas of concern that will

obstruct a sustained improvement in investor sentiment or in sovereign credit risk. Specifically, they provide no new information on the resources that will be made available to deal with the crisis, or on the prospects for fundamental change to the euro area economic and fiscal framework.

The Treaty on Stability, Coordination and Governance sets out the terms of the 'Fiscal Compact', which will promote sound fiscal governance by requiring euro area governments to preserve strict budgetary controls in national law using provisions 'of binding force and permanent character, preferably constitutional. These will limit structural deficits to 0.5% of GDP and government debt to 60% of GDP other than in 'exceptional circumstances'.

The agreement, which requires ratification by 12 member states to come into force, will allow the European Court of Justice to impose fines on transgressors, unless a qualified majority of euro area states oppose such fines. It also contains measures to improve economic policy coordination and mechanisms to promote economic convergence by strengthening the governance of the euro area, and embraces the European Commission's recent proposal for heightened economic and budgetary surveillance.

The ESM Treaty provides for the ESM's introduction in July 2012 rather than in 2013 as originally planned, with governance changes intended to accelerate decision-making.

The finalization of these Treaties, have an important achievement. The policy initiatives they contain are politically significant, and by reaffirming policy makers' collective commitment to resolve the crisis, their agreement will bolster investor confidence. The Fiscal Compact is a necessary step towards reforming the fiscal architecture of the euro area, which may be bolster by parliamentary support in the stronger states, like Germany, for further financial support to the weaker states.

However, the two treaties provide investors with no new information on the resources that will be deployed to manage the crisis, or on the prospects for more fundamental change to the economic and fiscal framework in the euro area, which are two key areas of concern for investors. While the Fiscal Compact will strengthen collective oversight, the fiscal policy remains substantially the prerogative of national governments. Measures to discourage and penalize rule-breakers have been bolstered, but fall short of automatic correction mechanisms. They are, in effect, a strengthened version of the Stability and Growth Pact, which failed to prevent excessive borrowing by governments during the first decade of the euro's existence. While the authorities have reaffirmed their commitment to move towards closer fiscal and economic integration, no concrete steps have been set to achieve that objective, or to provide clarity over the role that common debt issuance might play in that framework.

Similarly, substantial uncertainty remains over the funds that will be available to the European Financial Stability Fund (EFSF) and the ESM. Net of the €44 billion committed to the Irish and Portuguese programmes and €110 billion intended for Greece, the EFSF has around €286 billion remaining of its €440 billion capacity, while the ESM will have €500 billion. It remains uncertain whether the funds available to the two entities while they coexist will be the sum of the two or a lower amount. Nor is it yet clear how far it will be possible to leverage those funds as policy makers proposed in October. The amount of IMF funding likely to be available remains similarly uncertain.

As a result, there remains considerable uncertainty about the firepower available to the authorities to deal with the crisis. This will continue to weigh on investor sentiment, despite the restatement that private sector involvement in Greece is 'unique'. We believe that private sector involvement remains an option for improving the debt sustainability of any member state that suffers prolonged loss of access to private debt markets.

In short, whatever the summit's achievements, its outcome illustrates the challenges the authorities continue to face in developing the crisis management framework and instituting long-term institutional reforms, given the union's decentralized governance and the tensions inherent in its policy objectives. The need to make collective financial support available for weaker states while maintaining pressure on those states to consolidate their finances, to demand austerity while seeking to promote growth and most fundamentally to achieve more effective collective control over nations' finances while preserving national sovereignty all continue to pose a significant challenge to policy makers. So long as that remains the case, the credit quality of many sovereigns and banks in the region will remain pressured. In the meantime, a high risk of further shocks persists, including 1) economic shocks emanating from a further deterioration in global growth, 2) political shocks arising from electoral opposition to austerity programs, and 3) financial shocks given fragile confidence in the European banking sector. In this environment, negative pressure on sovereign and bank creditworthiness, and ratings, will remain.

As 92% of Greece's marketable debt is governed by Greek law, the government has wide latitude in dealing with its outstanding debt. The exhibit below shows that many other euro area sovereigns have a higher proportion of their respective debt governed by domestic law. Although the deterioration in Greece's credit profile is markedly worse than that of other stressed euro area countries, were another euro area sovereign to require a debt write-down in the future, the substantial proportions of domestic law debt suggest a similar path could be taken to coerce 100% participation from private creditors. Governing Law of Outstanding Sovereign Debt

Table 3

GOVERNING LAW OF OUTSTANDING SOVEREIGN DEBT

Issuer	Proportion of Outstanding Debt Governed by Domestic Law	Proportion of Outstanding Debt Governed by Foreign Law
Germany	100%	
France	100%	
Netherlands		
Belgium	99.8%	0.1% English law
Spain	98.9%	1.1% English law
Italy	97.5%	1.8% US law 0.2% English law 0.5% Other/Not known
Portugal	97.4%	2.6% English law
Greece	92.0%	6.4% English law 0.1% Italian law 1.4% Other/Not known
Ireland	90.8%	0.1% English law 9.1% Other/Not known
Finland	89.4%	9.9% English law 0.4% US law
Austria	88.1%	9.5% English law 1.6% German law 0.1% Italian law

Note: As of 16 January. Short-term debt is not included .
Source: Moody's Report.

Remaining countries with AAA credit ratings

As a result of the weakening economy, and following the ratings agency actions, 24/7 Wall St. has decided to re-examine the entire global triple-A landscape. This was taking due to the fact that some nations already seemed to be far less deserving of the triple-A rating category than others. The key assumption here is that the U.S. is no longer a true triple-A-rated nation. This implies that other nations with similar conditions are also at risk of losing their triple-A rating, and that there are really far fewer than 16 true nations in the triple-A club now. The review below includes updated figures from Standard & Poor's and Moody's along with revised statistics from the CIA World Fact-book. Some of the data are sourced from the Economist Intelligence Unit, Fitch, Egan Jones, and elsewhere.

S&P still has a triple-A rating on Australia, Austria, Canada, Denmark, Finland, France, Germany, Netherlands, Norway, Singapore, Sweden, Switzerland, and the United Kingdom. "Other triple-A nations like Liechtenstein and Luxembourg are left out due to their small size and dependence upon other nations. Moody's ratings were also used to make sure that the discrepancies are not overlooked".[3)]

[3)] www: world business on msncc,.com

1. Australia

GDP per capita: $39,699.358

Australia was a solid AAA earlier this year and nothing has changed. The country faces pressure from floods earlier this year, but the country is rich in natural resources that have to be used to build the world whenever the economy rises again. The low population of 21.5 million, an $882.4 billion GDP in 2010 projections, vast resource reserves, lower labor costs, and a low unemployment rate all act as a shield of global woes. Its public debt for 2010 was only projected to be 22.4 percent of GDP. The AAA rating given by S&P is stable, and at Moody's it's AAA with a stable outlook.

2. Canada

GDP per capita: $39,057.444

Canada has a solid triple-A rating, and its deep trading ties to the U.S. doesn't jeopardize it, even if the U.S. has a troubled triple-A with a negative outlook. Canada has huge natural resources and its citizens mostly avoided the real estate and debt bubble that hurt the U.S. The population is under 34 million, its GDP is about $1.33 trillion, and public debt at the end of 2010 was a mere 34 percent or projected GDP. Neither Moody's nor S&P have any issues with the triple-A ratings and stable outlook, and the expert's take is that Canada is perhaps the safest triple-A rating of all nations in the Western Hemisphere.

3. Denmark

GDP per capita: $36,449.554

Denmark has a relatively strong economy and claims a well-educated population. The nation has a large dependence on foreign trade for goods and services and a small population of just over 5.5 million. Revised GDP data was put at $201.7 billion. What helped Denmark so much is that it had a surplus in its balance of payments before the government started spending to drive the economy. Its high property prices are a concern, as is a slowing trade environment. S&P has given a solid AAA with a stable outlook and Moody's has a AAA with a stable outlook. The country has kept the Danish Kroner rather than officially joining the euro. Low birth rates, an aging population, taxation, immigration trends, and climate change are all risks for the small country longer-term by the count of rating companies. However, Denmark has a sub-5 percent unemployment rate and a 2010 debt to GDP of only 46.6 percent. Denmark's triple-A status remains firm here unless its services sector gets hit too hard with land prices all over again.

4. Germany

GDP per capita: $36,033.284

Germany is still what it call "King of the Euro" with what is now just an under-valued Deutsche mark. With a population of 81.4 million and having the No.5 global economy, it cannot avoid leading the euro zone bailouts. GDP was $2.94 trillion in 2010 and its unemployment rate is healthy for a European nation. It also has a highly skilled labor force. The growing pains of absorbing East Germany are behind it and the ratings agencies bring no quarrel with its triple-A rating. Budget deficits, subsidies, tax cuts, aging population trends, immigration and the obvious leadership in euro-zone bailouts do pose a risk. Still, public debt is tolerable at 78.8 percent of 2010 GDP. While any continued spending would pose longer-term risks, rating companies take is that Germany will keep a triple-A rating longer than most nations.

5. Holland

GDP per capita: $40,764.548

Holland, or The Netherlands, is in better shape than many euro-zone countries. Its population is nearly 16.8 million and GDP is roughly $676.9 billion. A solid labor force, a surplus to its current account, and strong global industry all make it appear better than many euro-zone sister nations. High-tech exports, financial firm's dominance, and its trade are all lags if and when the next recession takes hold. Budget deficits were high at 4.6 percent of 2009 targets and 5.6 percent of GDP in 2010 per earlier CIA data this year. Public debt is now projected at 64.6 percent of GDP and the ratings agencies have no current issues with the Dutch. They take that the triple-A rating has no severe risk as long as those dikes holding back the sea continue to work just fine.

6. Norway

GDP per capita: $52,012.506

Norway has one of the best ratings going for it and the Economist Intelligence Unit gave it the only true AAA in earlier reports. The nation is rich in resources with a low population of almost 4.7 million people. GDP is highly dependent on the price of oil and was about $255.3 billion, and unemployment remains very low. Public debt was 47.7 percent of GDP. Norway is just about self-sufficient even if the climate of 'welfare capitalism' exists with close to 50 percent of exports being in oil. It also has the world's second largest sovereign wealth fund valued at more than $500 billion. S&P and Moody's have no issue with the triple-A ratings.

7. Singapore

GDP per capita: $56,521.731

Singapore is the sole Southeast Asian nation with a solid triple-A rating. Despite a reliance on foreign trade exports, investors consider Singapore the safest place today for Asia. Its population is tiny at 4.74 million and its revised GDP is $291.9 billion. Singapore did not avoid the recession, but it also proved to bounce back the most. Public debt is artificially high at 102.4percent of GDP but that is a government tie of the Central Provident Fund. Imagine this for austerity measures: Singapore has actually not borrowed to finance any government deficits since the 1980s. S&P and Moody's give AAA rating and positive outlook. The only obvious risks are military action, climate change, or an unknown geological event. Barring those, Singapore has as solid of a triple-A status as they come.

8. Sweden

GDP per capita: $38,031.484

Sweden is the largest of Scandinavian nations with nearly 9.1 million people. GDP was $354.7 billion per revised 2010 CIA data. Public debt in 2010 was 40.8 percent of GDP, shockingly low for Europe and Scandinavia. The nation was also not wrecked by World War II due to its neutral-nation status. Still, the country does rely heavily on exports; it was not immune from the recession; and it has reformed some financial policies while recovering. Immigration and population trends have been an issue, but the ratings agencies actually have no issue with its triple-A status.

9. Switzerland

GDP per capita: $41,663.047

Switzerland has only grown in standing since the woes of Europe and the world have grown in 2011. The solid triple-A status appears to be immune to the happenings around its border nations. The world's banking center has actually had to warn that it might intervene if its currency strengthens too much more because it cannot export if other currencies keep falling. The mountain nation has a population of just over 7.6 million and 2010 revised GDP of about $324.5 billion. Unemployment is shockingly low; public debt is still at 38.2 percent per revised 2010 data; its taxation is rather low; its healthcare system is a blended mechanism; there are barriers to getting citizenship; and a sensible retirement model all combine to offer no real threats at all to the triple-A rating here.

CONCLUSION

Country risk is the possibility that the borrower can not reconcile its commitment to the foreign creditor for political, social, legal and economic upheaval that is happening in his country. He basically has three components: political risk, transfer risk and sovereign risk, risk assessment methodology of one country includes qualitative and quantitative analysis of political, economic, social and natural environment in the country where the loan is approved. The analysis of country risk typically results in a kind of index that includes a variety of weighted variables derived for each country. As an indicator of the country risk, most commonly is used the ratio of differences between the export earnings (Ee) and import costs (Ic), on the one hand and the amount of mandatory debt service, on the other.

Credit rating is a credit rating of the state. The process of awarding rating is based on a detailed qualitative and quantitative analysis of the creditworthiness of countries, including: political risk, income and economic structure, the prospects for future economic growth, fiscal and monetary flexibility, general government debt, external liquidity, and by the public and private sector . Most financial institutions use the country risk rating numerical scale (usually from 1 to 10) or letters of rating agencies (ie, AAA to D) used for the ranking of credit risk. Some of the biggest agencies involved in the ranking of countries according risks are Moody's Investor Service, Standard and Poor's and Euromoney. These countries assigned ratings ranging AAA/Aaaa/A3 to C / D, which indicates the willingness of the state to repay its commercial debt in full, and on time. Credit rating has an impact on its position in the international capital market, the movement of interest rates and the inflow of foreign investment. Should be distinguished rating of the subject and I rating of the country in which the same is, where it should be noted that the impact of the two ratings made on one another.

Generally, a high credit rating certainly has a positive impact on its position in the international capital market, the movement of interest rates and the inflow of foreign investment.

Credit rating is very important for potential foreign investors on the basis of getting a kind of assessment of the economy of the country you intend to invest, which is important information for the government to be able to properly assess the situation and take necessary steps to his promotion.

A bad credit rating is a central obstacle to future economic growth, which is why all the reform measures is largely dependent on success in improving the quality of these dimensions of the macroeconomic environment.

Reviews and assessments by rating agencies are particularly important for countries that are potential new markets, as investors respect the assessment by rating agencies. On the basis of credit assessments investors have access to credit risk and the ability of states, which directs and assists them in investment strategies. Rating contributes to better transparency and better information about the country.

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