

**Criteria | Governments | Sovereigns:**  
**Credit FAQ: Sovereign Foreign  
Currency Recovery Ratings**

**Primary Credit Analysts:**

David T Beers, London (44) 20-7176-7101; david\_beers@standardandpoors.com  
Christian Esters, CFA, Frankfurt (49) 69-33-999-242; christian\_esters@standardandpoors.com

**Secondary Credit Analysts:**

John Chambers, CFA, New York (1) 212-438-7344; john\_chambers@standardandpoors.com  
Ping Chew, Singapore (65) 6239-6345; ping\_chew@standardandpoors.com

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# Credit FAQ: Sovereign Foreign Currency Recovery Ratings

On June 12, 2007, Standard & Poor's Ratings Services assigned its recovery ratings to the debt of 25 speculative-grade sovereign issuers (see table at end of this article). (See article titled "Standard & Poor's Speculative-Grade Sovereign Debt Recovery Ratings," published on RatingsDirect.) This followed the publication of our sovereign recovery rating methodology (see article titled "Introduction Of Sovereign Recovery Ratings," also published on RatingsDirect on June 12, 2007). To shed greater light on our sovereign recovery ratings, we address some frequently asked questions regarding the rationale behind their introduction.

## Frequently Asked Questions

### What are sovereign recovery ratings?

Standard & Poor's recovery ratings reflect our current opinion about the expected recovery of principal and interest due under the original terms of a security in the event of default. This opinion is expressed using a numerical scale, where '1+' indicates the highest expectation of full (that is, 100%) recovery and '6' indicates an expectation of negligible (0% – 10%) recovery.

Given that sovereign debt is very rarely secured or subordinated, our analytical approach to sovereign foreign currency recovery ratings focuses on the issuer rather than on specific debt instruments. The recovery ratings also reflect our opinion on the extent to which a sovereign government will be willing and able to repay creditors after a default on commercial foreign currency debt obligations.

As we discuss in our sovereign criteria article titled "Introduction Of Sovereign Recovery Ratings," a number of factors are considered in arriving at a sovereign recovery rating. Typically, the same recovery rating will be assigned to all of a sovereign's rated foreign currency debt. At this time, we are assigning recovery ratings only to speculative-grade sovereigns.

### Why is Standard & Poor's introducing sovereign recovery ratings now?

Sovereign recovery ratings are part of an expanded recovery ratings initiative that we announced to the market last October. This initiative includes the introduction of recovery ratings to sovereign debt, as well as a wider range of debt instruments beyond the secured loan and note ratings that we have traditionally provided.

We introduced recovery ratings for corporate debt in 2003, and our expanded coverage is in response to the market's broad acceptance of our more than 2,000 corporate recovery ratings in place today. The market is increasingly focused on post-default recovery prospects, and it demands greater clarity and specificity with respect to recovery prospects on different debt instruments of all types of issuers worldwide.

### Standard & Poor's rates 114 sovereigns, yet recovery ratings have been assigned to the debt of only 25 such issuers. Why?

At this time we are only assigning recovery ratings to the debt of speculative-grade sovereigns. Among this sovereign population, most of the 25 to which we have assigned recovery ratings have issued significant amounts of foreign currency denominated debt. We plan to assign recovery ratings to speculative-grade sovereign issuers with smaller

amounts of debt outstanding in due course. Sovereign issuers selling foreign currency debt for the first time will be assigned recovery ratings when the debt is issued.

### Why do sovereign recovery ratings use a net present value approach?

Political considerations, as well as difficulties in obtaining and enforcing judgments against sovereign governments, create the possibility of protracted workout periods. Given the potential for significant accumulation of past due interest in some sovereign defaults and the prevalence of maturity extension in sovereign workouts, Standard & Poor's expresses the expected recovery rate for sovereigns in terms of net present value (NPV). Our approach is equivalent to discounting both the remaining scheduled payments under the original debt instrument and the recovery given default at a post-restructuring discount rate.

### Why does Standard & Poor's discount the remaining scheduled payments under the original debt instrument for sovereigns?

By measuring the value of the restructured debt on an NPV basis, we believe that the overall recovery ratio is more consistent if the remaining scheduled payments under the original debt instrument are also measured on an NPV basis, using the same discount rate to discount both. If the remaining scheduled payments under the original debt instrument are at par value, then the discount rate itself (as well as the terms of the restructuring) plays a crucial role in the overall recovery ratio. Take a case where the details of the restructured terms are identical to those of the original debt (in which case a recovery ratio of 100% would seem logical), for example. If the remaining scheduled payments under the original debt instrument are measured at par and the post discount rate exceeds the coupon rate, then recovery will be less than 100%.

### Do recovery ratings affect the pricing of securities?

In general, the pricing of securities can reflect a broad range of factors. The probability of default and prospects for recovery are among those factors.

### Will sovereigns with lower recovery ratings have a harder time selling their debt?

The probability of default and recovery prospects can affect the price at which an issuer can sell its debt. To the extent that recovery ratings change market expectations on recovery--for better or for worse--this may accordingly have an effect on prices.

Speculative-Grade Sovereign Recovery Ratings			
Sovereign	L-T FC sovereign credit rating	Recovery rating	FC sr unsecd debt
Argentina (Republic of)	B+	4	B+
Belize	B	3	B
Brazil (Federative Republic of)	BB+	3	BB+
Colombia (Republic of)	BB+	2	BBB-
Costa Rica (Republic of)	BB	2	BB+
Dominican Republic	B	3	B
Ecuador (Republic of)	CCC	4	CCC
Egypt (Arab Republic of)	BB+	3	BB+
El Salvador (Republic of)	BB+	3	BB+
Grenada	CCC+	3	CCC+
Guatemala (Republic of)	BB	3	BB
Indonesia (Republic of)	BB-	3	BB-

Speculative-Grade Sovereign Recovery Ratings(cont.)			
Jamaica	B	4	B
Lebanon (Republic of)	B-	4	B-
Macedonia (Republic of)	BB+	2	BBB-
Pakistan (Islamic Republic of)	B+	3	B+
Panama (Republic of)	BB	3	BB
Peru (Republic of)	BB+	3	BB+
Philippines (Republic of)	BB-	3	BB-
Serbia (Republic of)	BB-	4	BB-
Turkey (Republic of)	BB-	3	BB-
Ukraine	BB-	4	BB-
Uruguay (Oriental Republic of)	B+	2	BB-
Venezuela (Bolivarian Republic of)	BB-	4	BB-
Vietnam (Socialist Republic of)	BB	3	BB

L-T--Long term. FC--Foreign currency.

[Click here to see other articles discussing Standard & Poor's expanded recovery ratings scale and issuer ratings framework.](#)

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**Additional Contact:**

Sovereign Ratings; SovereignLondon@standardandpoors.com

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