

Sovereign risk assessments require a fresh approach in the context of changing macro-economic realities: CareEdge

CareEdge Launches Sovereign Risk Assessment Framework

Kolkata, August 7: CareEdge Ratings believes that Sovereign Risk Assessments in the post pandemic world have gained added importance and require a holistic approach. Continued rise in government debt, changing composition of global GDP, sustained low global GDP growth and expectation of higher interest rates for longer periods on the back of stubborn inflation are fundamentally altering the credit profiles of sovereigns.

Government debt, which had spiked during the pandemic, is expected to remain high. Both advanced and emerging markets will witness significant growth in government debt even as the share of emerging economies in global GDP increases. Emerging economies are projected to contribute 45% to global GDP by 2027 compared to ~29% in 2007. These changes will have an impact on the way economic structures are assessed. On the back of subdued GDP growth and high interest rates, debt affordability of sovereigns will be dented, hence impacting the fiscal assessment. The effectiveness of monetary policy to control inflation and its co-ordination with fiscal policy will gain prominence in sovereign credit assessment.

In this backdrop, CareEdge has launched Sovereign Risk Assessment framework which will address the above changes. **Mehul Pandya, MD and CEO, CareEdge Ratings**, said, *“CareEdge is uniquely positioned to comprehensively assess the sovereign risk. With our expertise of three decades in analyzing companies across the spectrum and our vast experience in rating of sub-sovereigns, we firmly believe that our Sovereign Risk Assessment framework will provide valuable insights to diverse strata of stakeholders, enabling them to make informed decisions.”*

Najib Shah, Chairman, CareEdge Ratings, said, *“As a full service Credit Rating Agency, CareEdge keeps on evolving and exploring new analytical dimensions. Sovereign Risk Assessment framework is a part of that process. Going forward, we shall endeavour to augment our analytical insights in areas hitherto untapped by us after due statutory approvals.”*

CareEdge’s Sovereign Risk Assessment framework is based on five key pillars namely, **Economic Structure, Fiscal Strength, External Linkages, Monetary and Financial Stability, and Institutions and Quality of Governance**. These categories are assessed based on factors which are both quantitative and qualitative in nature.

Speaking of the launch of the Sovereign Risk Assessment framework, **Sanjeev Sanyal, Member of the Economic Advisory Council to the Prime Minister**, said *“With the growing importance of emerging economies in the global landscape, it is important to better understand the nuances*

of these countries while doing the sovereign credit assessment. I am glad that CareEdge, one of the leading rating agencies of India has come up with a comprehensive framework for sovereign risk assessment. The purpose of any sovereign risk assessment should be the ability to accurately assess the credit worthiness of the country and I believe that CareEdge with its vast experience in the ratings business is well poised to take up this challenge.”

Disclaimer

CARE Ratings Limited is currently licensed to offer ratings on scale as specified in SEBI regulations to corporates/other entities in India. As of date, the agency does not have the license to offer a sovereign rating product in different geographies. The agency may decide to approach relevant regulatory authorities for approvals to launch Sovereign Rating product in due course. Currently, there are no commercial aspects related to the launch of the said risk assessment framework.

About CareEdge

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory Research & Training Ltd, which offers advisory/consulting and customised research services to corporates, policy advisory, infrastructure advisory and ESG advisory (II) CARE Risk Solutions Private Ltd, which offers cutting-edge solutions in the area of risk management in the BFSI segment.

The other subsidiaries are CARE Ratings Africa (Private) Limited which provides credit rating services in Mauritius and CARE Ratings Nepal Limited which provides credit rating services in Nepal.

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