

# FRENCH REPUBLIC

Rating Analysis - 8/31/21

\*EJR Sen Rating(Curr/Prj) A+/ A+

\*EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.3%

A slow and uneven recovery risks entrenching the initial negative distributional consequences of the COVID19 crisis and widening inequalities of opportunities. The EUR 100 billion recovery plan targeting investment in skills and green technologies provides an opportunity to respond to some of the country's longstanding challenges. The government pursued a broad reform agenda to improve the labour market, the education system and business taxation, as well as the pension system. The recovery plan rightly increases public spending in the short term to boost aggregate demand and tackle medium-term structural issues.

The ongoing reform of unemployment insurance (legislated in July 2019) increased social security contributions and labour costs for short-term and derogatory contracts in some sectors. In 2021, the reform is set to reduce unemployment benefits for workers on repeated short-term contract. Economic activity is projected to rebound by 5.8% in 2021 and 4.0% in 2022. After a weak H1 2021, activity is expected to strengthen as the vaccine rollout accelerates and sanitary restrictions are lifted. A faster global growth will raise export prospects and an improving global demand, accommodative financing conditions and government capital spending in line with the recovery plan will support investment. We are affirming.

## CREDIT POSITION

	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	120.9	123.2	145.9	142.3	139.5	130.7
Govt. Sur/Def to GDP (%)	-2.1	-2.6	-8.8	-10.6	-11.7	-11.0
Adjusted Debt/GDP (%)	120.9	123.2	145.9	142.4	139.7	130.8
Interest Expense/ Taxes (%)	5.6	4.8	4.2	4.4	4.6	4.6
GDP Growth (%)	2.9	3.1	-5.5	2.3	2.5	2.5
Foreign Reserves/Debt (%)	1.4	1.5	1.4	1.3	1.1	1.0
Implied Sen. Rating	A	A	BBB	BBB+	BBB+	A-

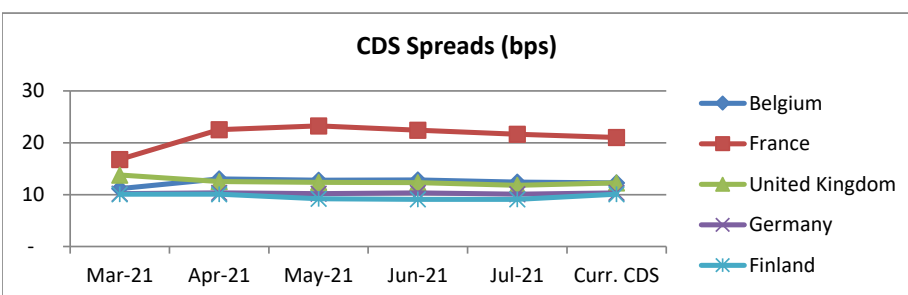
Annual Ratios (source for past results: IMF)

## INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

## PEER RATIOS

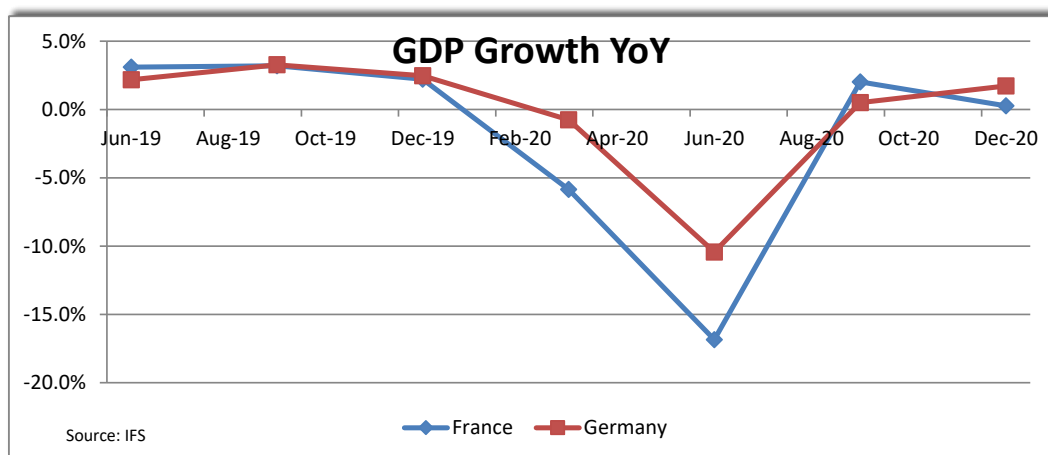
	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
Kingdom Of Sweden	AAA	63.5	-1.3	63.5	0.8	-1.4	AA+
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB+
Republic Of Finland	AA+	82.0	-4.3	82.0	2.2	-1.6	AA-



Country	EJR Rtg.	CDS
Belgium	BBB	12
France	A+	21
United Kingdom	A+	12
Germany	AA	10
Finland	AA	10

**Economic Growth**

Economic activity is projected to reach its pre-crisis level around the spring of 2022. Some sectors, such as transport and hospitality, which represent around 9% of pre-crisis GDP, will be durably affected by the pandemic. After a weak H1 2021, the slow improvements of sanitary conditions and the rollout of the vaccination campaign will support consumption, with households reducing their high saving, notably among low and middle-wealth groups. The French economy expanded 0.9% QoQ in Q2 2021, after showing no growth in Q1, as the economy emerged from the COVID-19 related lockdowns and approached its pre-pandemic level. Both household consumption (0.9% vs 0.2% in Q1) and fixed investment jumped (1.1% vs 0.4%) while government spending rebounded strongly (0.6% vs -0.4%). Domestic demand contributed 0.9 points (vs 0.1 points in Q1), while inventory changes added 0.2 points (vs 0.4 points).



**Fiscal Policy**

The French recovery plan is set to provide well-balanced fiscal support and the current flexible approach of adapting policies to the evolution of the pandemic should be maintained. Allowing an efficient reallocation of workers in the aftermath of the crisis is another key challenge, as gross corporate debt has soared and unemployment and bankruptcies are set to rise. Fiscal Expenditure in France increased to EUR 259.26B in May 2021. The implementation of the EUR 100B medium-term recovery plan (France Relance) is set to lead to discretionary fiscal spending worth 1.7% of GDP in 2021 and 1.8% of GDP in 2022. While activity in some industries was already above a pre-crisis level, some are lagging behind, such as tourism.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
France	-8.79	145.87	21.00
Germany	-4.19	79.69	10.34
Sweden	-1.32	63.50	9.09
Belgium	-8.97	142.45	12.27
Finland	-4.35	82.03	10.09
United Kingdom	-12.82	187.83	12.28

Sources: Thomson Reuters and IFS

**Unemployment**

The unemployment rate in France inched down to 8.0% in the second quarter of 2021 from 8.1% in the previous period but above market expectations of 7.9%, as the number of unemployed people decreased by 16,000 to 2.4 million. It was almost identical (- 0.1 points) to its end of 2019 level, before the health crisis. In Q2 2021, the unemployment rate declined for people aged 15-24 (-0.8 points), and those aged 25 to 49 (-0.2 points) and increased by 0.4 points for those aged 50 or more.

	Unemployment (%)	
	2019	2020
France	8.43	8.62
Germany	3.20	4.31
Sweden	6.77	8.29
Belgium	5.36	5.55
Finland	6.80	7.90
United Kingdom	3.74	4.34

Source: Intl. Finance Statistics

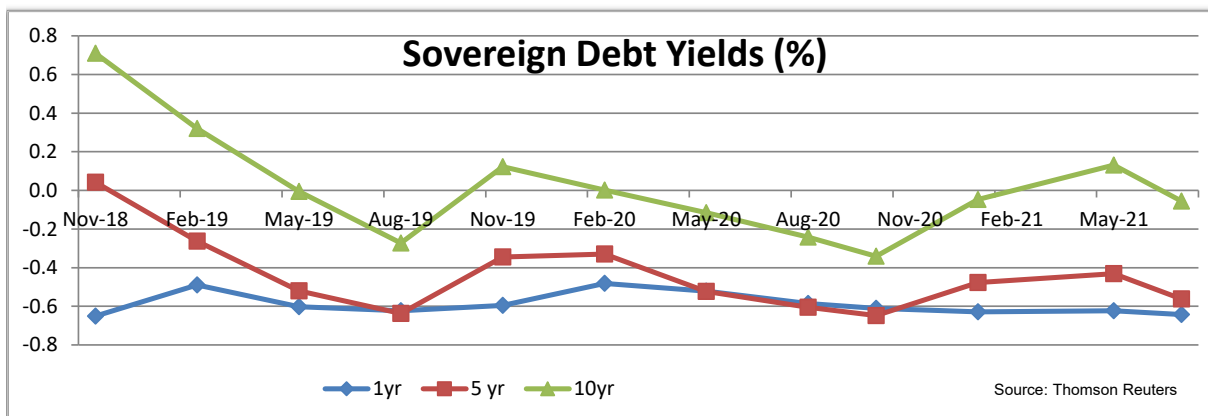
**Banking Sector**

The size of the banking sector, increased sharply between 1999 and 2019, swinging from EUR2.7 Trillion to EUR 8.7 Trillion, while the number of banking groups fell sharply, dropping from 100 to 56 over the same period. The ECB's accommodative monetary policy continues to support aggregate demand. The French authorities have also prolonged to 2021 emergency measures for hard-hit sectors and firms to alleviate corporate costs.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BNP Paribas	2,488.5	2.69
Credit Agricole	1,961.1	1.80
Societe Generale	1,462.0	1.55
NATIXIS	495.3	2.55
<b>Total</b>	<b>6,406.8</b>	
EJR's est. of cap shortfall at 10% of assets less market cap		503.1
France's GDP		2,302.9

**Funding Costs**

The benchmark interest rate in France is set by the European Central Bank. France 10Y Bond Yield was -0.15% in the beginning of August 2021, and is expected to trade at 0.01 percent by the end of this quarter, according to Trading Economics global macro models. France's consumer price inflation rate was confirmed at 1.2% in July 2021, down from the previous month's one-and-a-half-year high of 1.5%, mainly due to a decline in cost for manufactured goods.



**Ease of Doing Business**

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 32 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
<b>Overall Country Rank:</b>	<b>32</b>	<b>32</b>	<b>0</b>
<b>Scores:</b>			
Starting a Business	37	37	0
Construction Permits	52	52	0
Getting Electricity	17	17	0
Registering Property	99	99	0
Getting Credit	104	104	0
Protecting Investors	45	45	0
Paying Taxes	61	61	0
Trading Across Borders	1	1	0
Enforcing Contracts	16	16	0
Resolving Insolvency	26	26	0

\* Based on a scale of 1 to 189 with 1 being the highest ranking.

**Economic Freedom**

As can be seen below, France is not good in its overall rank of 37.0 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2021 Index of Economic Freedom</b>				
<b>World Rank 37.0*</b>				
	<b>2021 Rank**</b>	<b>2020 Rank</b>	<b>Change in Rank</b>	<b>World Avg.</b>
<b>Dealing with Construction Permits</b>	<b>52.0</b>	<b>52.0</b>	<b>0.0</b>	<b>95.4</b>
<b>Getting Electricity</b>	<b>17.0</b>	<b>17.0</b>	<b>0.0</b>	<b>95.5</b>
<b>Registering Property</b>	<b>99.0</b>	<b>99.0</b>	<b>0.0</b>	<b>95.5</b>
<b>Getting Credit</b>	<b>104.0</b>	<b>104.0</b>	<b>0.0</b>	<b>90.3</b>
<b>Protecting Minority Investors</b>	<b>45.0</b>	<b>45.0</b>	<b>0.0</b>	<b>93.0</b>
<b>Paying Taxes</b>	<b>61.0</b>	<b>61.0</b>	<b>0.0</b>	<b>95.5</b>
<b>Trading Across Borders</b>	<b>1.0</b>	<b>1.0</b>	<b>0.0</b>	<b>94.9</b>
<b>Enforcing Contracts</b>	<b>16.0</b>	<b>16.0</b>	<b>0.0</b>	<b>95.5</b>
<b>Resolving Insolvency</b>	<b>26.0</b>	<b>26.0</b>	<b>0.0</b>	<b>94.2</b>
<b>0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>#DIV/0!</b>

\*Based on a scale of 1-100 with 100 being the highest ranking.  
 \*\*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).  
 Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**

FRENCH REPUBLIC has seen a decline in taxes of 4.2% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 4.2% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**

FRENCH REPUBLIC's total revenue growth has been less than its peers and we assumed no decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(5.1)	(4.2)	<b>(4.2)</b>	<b>0.5</b>
Social Contributions Growth %	(1.0)	(3.7)	<b>0.5</b>	<b>0.5</b>
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(13.7)	<b>(13.7)</b>	<b>(13.7)</b>
Total Revenue Growth%	(2.9)	(5.0)	<b>(5.0)</b>	<b>(4.5)</b>
Compensation of Employees Growth%	2.9	2.3	<b>2.3</b>	<b>2.3</b>
Use of Goods & Services Growth%	4.0	2.2	<b>2.2</b>	<b>2.2</b>
Social Benefits Growth%	6.9	8.0	<b>8.0</b>	<b>8.0</b>
Subsidies Growth%	71.9	17.2		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.9	<b>0.9</b>	
Currency and Deposits (asset) Growth%	26.8	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	10.8	1,163.5	<b>10.8</b>	<b>10.8</b>
Shares and Other Equity (asset) Growth%	5.0	(158.8)	<b>2.0</b>	<b>2.0</b>
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	6.7	9.9	<b>(4.2)</b>	<b>(4.2)</b>
Other Accounts Receivable LT Growth%	15.1	8.0	<b>8.0</b>	<b>8.0</b>
Monetary Gold and SDR's Growth %	0.0	0.0	<b>5.0</b>	<b>5.0</b>
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	14.3	3.8	<b>3.0</b>	<b>3.0</b>
Currency & Deposits (liability) Growth%	1.2	0.3	<b>0.3</b>	<b>0.3</b>
Securities Other than Shares (liability) Growth%	17.0	14.4	<b>10.1</b>	<b>10.1</b>
Loans (liability) Growth%	6.8	(0.2)	<b>0.5</b>	<b>0.5</b>
Insurance Technical Reserves (liability) Growth%	10.2	78.5	<b>10.2</b>	<b>12.0</b>
Financial Derivatives (liability) Growth%	14.7	5.5	<b>5.5</b>	<b>5.5</b>
Additional ST debt (1st year)(billions EUR)	0.0	0.0		

**ANNUAL OPERATING STATEMENTS**

Below are FRENCH REPUBLIC's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT  
(BILLIONS EUR)**

	2017	2018	2019	2020	P2021	P2022
Taxes	681	715	741	709	680	651
Social Contributions	430	425	408	393	395	397
Grant Revenue						
Other Revenue						
Other Operating Income	<u>119</u>	<u>121</u>	<u>126</u>	<u>109</u>	<u>109</u>	<u>109</u>
Total Revenue	1,230	1,261	1,275	1,211	1,183	1,156
Compensation of Employees	291	294	297	304	311	318
Use of Goods & Services	115	117	120	123	126	128
Social Benefits	590	600	616	666	719	776
Subsidies	57	62	67	78	78	78
Other Expenses				131	131	131
Grant Expense						
Depreciation	76	78	80	81	81	81
Total Expenses excluding interest	<u>1,256</u>	<u>1,270</u>	<u>1,302</u>	<u>1,384</u>	<u>1,446</u>	<u>1,513</u>
Operating Surplus/Shortfall	-26	-9	-28	-173	-263	-357
Interest Expense	<u>40</u>	<u>40</u>	<u>35</u>	<u>30</u>	<u>30</u>	<u>30</u>
Net Operating Balance	-65	-49	-63	-202	-293	-387

**ANNUAL BALANCE SHEETS**

Below are FRENCH REPUBLIC's balance sheets with the projected years based on the assumptions listed on page 5.

**ANNUAL BALANCE SHEETS  
(BILLIONS EUR)**

**Base Case**

**ASSETS**

	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	64	71	77	154	154	154
Securities other than Shares LT (asset)	44	39	39	35	35	35
Loans (asset)	-2	-1	0	4	4	5
Shares and Other Equity (asset)	1	8	4	-3	-3	-3
Insurance Technical Reserves (asset)	5	5	5	6	6	6
Financial Derivatives (asset)	7	8	8	9	9	8
Other Accounts Receivable LT	297	293	293	317	342	370
Monetary Gold and SDR's						
<b>Other Assets</b>					672	672
<b>Additional Assets</b>	<u>636</u>	<u>601</u>	<u>669</u>	<u>672</u>		
<b>Total Financial Assets</b>	1,052	1,023	1,097	1,194	1,219	1,246

**LIABILITIES**

Other Accounts Payable	279	273	280	291	300	309
Currency & Deposits (liability)	38	41	46	46	46	46
Securities Other than Shares (liability)	2,223	2,258	2,393	2,737	3,013	3,317
Loans (liability)	284	285	285	284	577	964
Insurance Technical Reserves (liability)	0	0	0	1	1	1
Financial Derivatives (liability)	10	11	12	12	13	14
Other Liabilities	0					
<b>Liabilities</b>	2,835	2,869	3,016	3,371	3,690	4,104
<b>Net Financial Worth</b>	<u>-1,782</u>	<u>-1,845</u>	<u>-1,919</u>	<u>-2,178</u>	<u>-2,471</u>	<u>-2,858</u>
<b>Total Liabilities &amp; Equity</b>	1,052	1,023	1,097	1,194	1,219	1,246

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**Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.**

**Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period is "BBB"; the median rating for the peers is significantly higher than the issuer's rating.

**Changes in Indicative Ratios**

We have not made any adjustment in the indicative ratios at this time.



**SEC Rule 17g-7(a) Disclosure (Non-NRSRO)**

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issuer FRENCH REPUBLIC with the ticker of 223727Z FP we have assigned the senior unsecured rating of A+. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.****10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	6.0	10.0	2.0	BBB	BBB	BBB
Social Contributions Growth %	7.0	10.0	4.0	BBB	BBB	BBB
Other Revenue Growth %	0.0	3.0	(3.0)	BBB	BBB	BBB
Total Revenue Growth%	7.0	9.0	5.0	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB	BBB	BBB

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

**Today's Date**

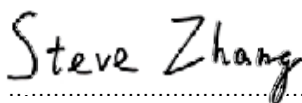


.....  
Subramanian NG  
Senior Rating Analyst

August 31, 2021  
.....

**Reviewer Signature:**

**Today's Date**



.....  
Steve Zhang  
Senior Rating Analyst

August 31, 2021  
.....

**(Note, see our senior report for additional disclosures.)**

## **Sovereign Rating Methodology (Non-NRSRO)**

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.**

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:**

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*