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Standard & Poor's Noninvestment Grade Sovereign Debt Recovery Ratings: 2011 Update

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Standard & Poor's Noninvestment Grade Sovereign Debt Recovery Ratings: 2011 Update

Standard & Poor's Ratings Services currently has sovereign foreign currency recovery ratings on the debt of 33 noninvestment grade sovereign issuers. We do not assign recovery ratings to the foreign currency debt of investment grade issuers. This is because our research shows that the default rate for investment grade issuers is small; between 1975 and 2010, the average default rate for 'BBB' rated sovereigns over a three-year time horizon was 1.45%. For sovereigns rated 'A' and above, the figure was zero. We therefore believe that assigning recovery ratings to investment grade debt would have limited relevance in the market (see "Related Criteria And Research" at the end of this article).

Since we published our last sovereign recovery rating report on Jan. 8, 2008, we have assigned recovery ratings to the foreign currency debt of eight new sovereigns. Five of these sovereigns, Albania, Belarus, Georgia, Jordan, and Senegal, issued their first foreign currency bonds. We also assigned recovery ratings to the debt of Greece, Romania, and Latvia because we had lowered the sovereign credit ratings on these three entities to noninvestment grade. In contrast, we withdrew the recovery ratings on five sovereigns, Peru, Brazil, Morocco, Colombia, and Panama at the same time as raising their sovereign credit ratings to investment grade.

Our sovereign recovery ratings currently range from '2' to '4', and those with a '2' have issue ratings one notch above their issuer credit ratings (see table 1). Two sovereigns, Costa Rica and Uruguay, have '2' recovery ratings.

To date, we have revised five sovereign recovery ratings since they were first assigned. We lowered the recovery rating on Ghana and Macedonia at the same time as we downgraded these two entities, while we lowered the recovery rating on Grenada due to changes in the default scenario on which our recovery rating is based. In contrast, we raised the recovery rating on Jamaica following the Jamaican government's debt restructuring in early 2010. We also revised the recovery ratings on Ecuador's foreign currency debt prior to and after the government's 2009 default.

In February 2009, Standard & Poor's also introduced its methodology and assumptions regarding recovery ratings for senior unsecured debt issued by speculative grade local and regional governments (LRGs). Since then, we have assigned recovery ratings to the senior unsecured debt of 23noninvestment-grade LRGs in Central and Eastern Europe and Latin America (see "Related Criteria And Research" at the end of this article).

Table 1

Standard & Poor's Global Sovereign Recovery Rating Scale

For Noninvestment-Grade Issuers

Recovery rating	Recovery expectations	Recovery range	Issue rating*
1+	Highest expectation, full recovery	100%	+3 notches
1	Very high recovery	90%-100%	+2 notches
2	Substantial recovery	70%-90%	+1 notch
3	Meaningful recovery	50%-70%	0 notches
4	Average recovery	30%-50%	0 notches
5	Modest recovery	10%-30%	-1 notch
6	Negligible recovery	0%-10%	-2 notches

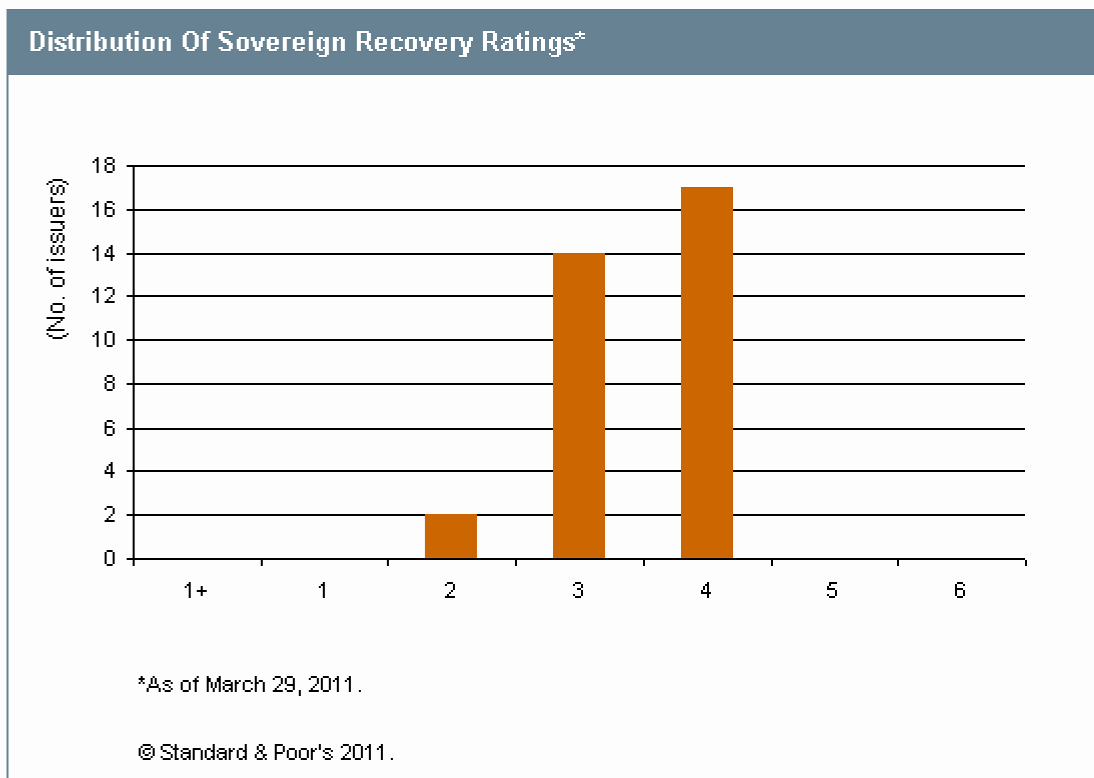
Table 1

Standard & Poor's Global Sovereign Recovery Rating Scale (cont.)
*Indicates "notching" relative to Standard & Poor's issuer credit rating.

Ratings Distribution Mirrors Historical Recovery Levels

The distribution of Standard & Poor's sovereign recovery ratings does not extend to the strongest and the weakest ends of the recovery rating scale (see chart 1). One reason for this is that, because there is no insolvency regime for sovereigns or assets on which to foreclose, the likelihood of very high recovery is low unless the default scenario is a liquidity crisis. At the other end of the scale, the fact that there is no equivalent to corporate liquidation and sovereigns usually continue to exist implies that at least some recovery may be provided. In addition, all the issuers included in our sample are to a considerable extent market-oriented. Therefore, we would not normally expect recovery rates at the bottom end of the scale as a result of debt repudiation. Furthermore, the average recovery estimate implied by our recovery ratings coincides with the historical average sovereign recovery rate observed since the mid-1990s. (Our estimate of the historical average sovereign recovery rate is 50%-60%. This is based on Federico Sturzenegger and Jeromin Zettelmeyer, "Haircuts: Estimating Investor Losses in Sovereign Debt Restructurings, 1998–2005," IMF Working Paper WP/05/137, July 2005.)

Chart 1



Recovery Ratings Reflect Analysis Of Simulated Default Scenario

Standard & Poor's starts its recovery analysis by identifying the likely default scenarios, including distressed exchanges, which we include in our definition of default (see Appendix in "Sovereign Credit Ratings: A Primer," published May 29, 2008, on RatingsDirect). These scenarios set the relevant parameters for the subsequent recovery analysis because they envisage the economic, fiscal, and political conditions surrounding the default. The default scenarios underlying the recovery analysis are typically derived from the key rating constraints that affect the sovereign issuer credit rating. It is important to point out that the recovery analysis is performed under a hypothetical assumption that the default scenarios have occurred. (The sovereign issuer credit rating, which is not affected by the recovery analysis, addresses the likelihood of default.) The recovery analysis is fundamentally based on the issuer's payment ability and recovery incentives following a default, and takes into account the impact of official creditors, including potential assistance (see table 2).

Table 2

Factors Involved In Sovereign Recovery Analysis*		
Ability to make payments after default	Incentives to make payments after default	Influence of official creditors
Comparison of stressed debt levels with debt capacities	Default and restructuring history	Proportion of official bilateral lending
Impact of default crisis on financial system and economic activity in general	Recent recovery precedents of other sovereign defaulters	Proportion of existing IMF debt
Potential for currency depreciation	Importance of access to global goods and capital markets	Extraordinary assistance
Fiscal and external flexibility	Exposure of domestic financial sector to sovereign debt	
Nature of financial inflows	Proportion of resident to nonresident debtholders	
Potential for additional debt to be added to that of the sovereign	Expected postdefault political situation	
	Bargaining power	

*After the identification of the specific sovereign default scenario.

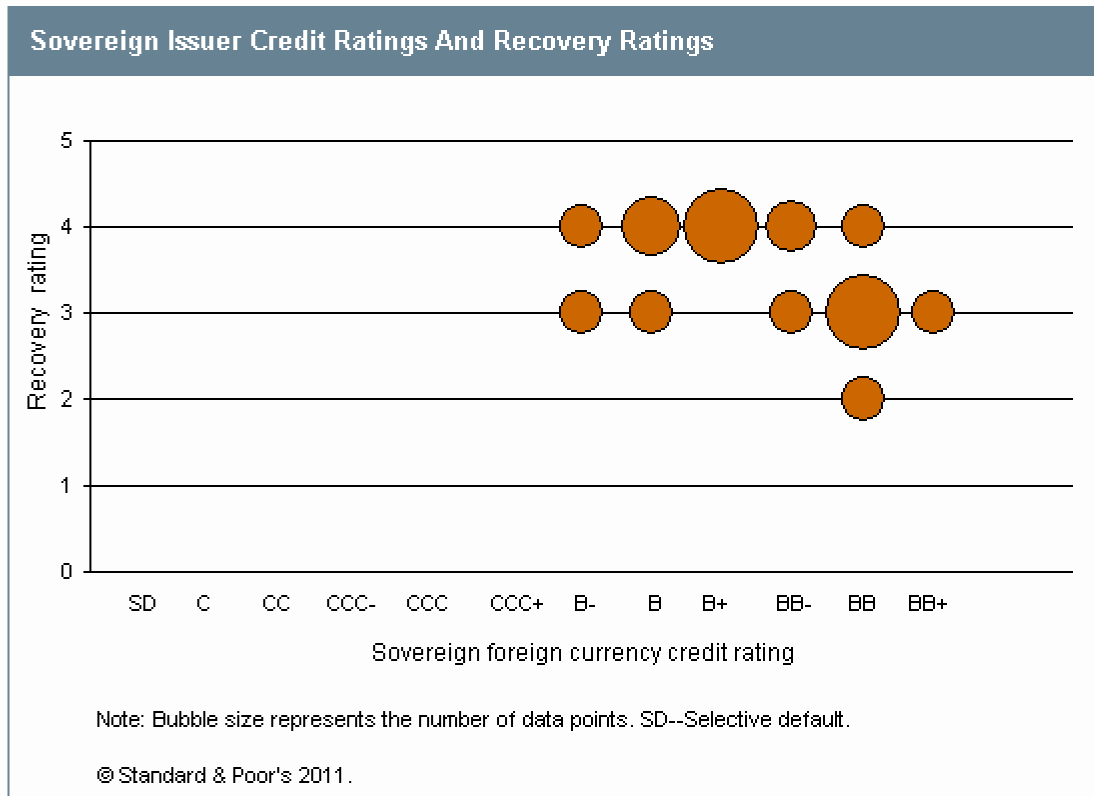
Weak Correlation Between Issuer Credit And Recovery Ratings

Arguably, a number of factors that we have identified for our sovereign recovery rating analysis could play a role for the sovereign to default in the first place. Nevertheless, crisis dynamics and knock-on effects following the default scenario (including currency depreciation, economic contraction, and political instability) may lead to conclusions on debt service payment ability and recovery incentives in the event of default that are distinct from those in a pre-default situation. In general, these distinctions will grow as the sovereign issuer credit rating approaches investment grade. Our empirical research, for example, shows that historical sovereign recovery rates have been more closely correlated to the debt burden that built up during the crisis that led up to the default than to debt levels just prior to the crisis.

In fact, the correlation between Standard & Poor's issuer credit ratings and recovery ratings is fairly weak (see chart 2). Although a trend line would have some positive slope, the dispersion of data points around the trend line indicates a very weak correlation. If issuer credit ratings and recovery ratings were presented on a linear scale, R^2 would currently be at a very weak 0.17. Although this is a simplified approach because the default probabilities implied by issuer credit ratings are not linear, even when recovery ratings are charted against default probabilities

the correlation is still very weak.

Chart 2



Sovereign Debt Recovery Ratings

Table 3 presents the recovery ratings assigned to senior unsecured debt of 33 sovereign issuers, together with the rationale on which they have been determined.

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Table 3

Speculative-Grade Sovereign Recovery Review*

		Recovery analysis				
Issuer	**Foreign Currency Issuer Credit Rating (LT/Outlook/ST)**	**Recovery Rating¶**	**Foreign Currency Issue Rating¶**	**Default Scenario**	**Recovery Factors**	**Analyst**
Republic of Albania	B+/Stable/B	4	B+	The recovery analysis assumes that Albania would default due to a sudden stop in capital inflows including those from parent banks to their Albanian subsidiaries, amid a sharp decline in remittances and export receipts.	Under this scenario, the recovery rating is constrained by our consideration of Albania's default history with private creditors in 1991-1995. We have also taken into account structural challenges to Albania's key export sectors, as well as the country's limited fiscal flexibility. Total government debt includes a high proportion of multilateral and bilateral debt. This factor would increase the risk of effective subordination of private creditors.	Marko Mrsnik
Argentina (Republic of)	B/Stable/B	4	B	The recovery analysis assumes that Argentina would default following a failure to take timely and effective policy steps during a global downturn. This would result in sharply lower economic growth and possibly high inflation, and a market perception that exchange controls would be imposed.	Under this scenario, the recovery rating is somewhat supported by a diversified economy with foreign currency earnings that would be resilient to the crisis. It is also supported by our expectation that, contrary to the country's last default episode, there is no foreign exchange regime in place that may abet the build-up of large external imbalances. Constraining factors weigh more heavily, however, and include the expectation of strong capital outflows and a significant debt burden as simulated under our default scenario. Furthermore, Argentina's last default episode involved an aggressive restructuring approach.	Sebastian Briozzo
Belarus (Republic of)	B/Negative/B	4	B	The recovery analysis assumes that Belarus would default due to the running down of reserve assets that would put financing the current account at risk. A disruption in the inflows of external funds would translate into the inability to service the government's external debt, despite the moderate levels of government debt	Under this scenario, the recovery rating takes into consideration the country's structural challenges in its key export sectors, as well as relatively high external debt and external debt servicing levels. It also takes into account the absence of a default history, although there is only a short track record since independence in 1991. The recovery rating is supported by low levels of net government debt and by our expectation that Belarus would continue to pursue policies to increase the attractiveness for foreign investors, as underlined by recent reforms.	Ana Mates

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Belize	B/Stable/B	3	B	The recovery analysis assumes that Belize would default on its commercial foreign currency obligations in an effort to reduce debt stocks, potentially triggered by an extreme adverse external event such as a hurricane.	Under this scenario, the recovery rating is supported by Belize's "best efforts" approach to restructuring taken in late 2006, a stance we believe would be employed again. This is balanced, however, by constraining factors, which include relatively high levels of both public sector debt (domestic and external) and external debt (public and private sector) under the default scenario. The recovery rating is also constrained by Belize's low fiscal and external flexibility.	Roberto Sifon Arevalo
Costa Rica (Republic of)	BB/Stable/B	2	BB+	The recovery analysis assumes that Costa Rica would default as a result of a banking or balance of payments crisis, ultimately leading to sovereign default.	Under this scenario, the recovery rating is strongly supported by a moderate debt burden--even under our simulated stress scenario--and in particular by the expectation of political stability and continuously strong institutions under default. The recovery rating is somewhat constrained by the high level of dollarization of deposits and loans in the banking sector, which suggests a significant impact on private sector balance sheets under default.	Joydeep Mukherji
Dominican Republic	B/Positive/B	3	B	The recovery analysis assumes that Dominican Republic would default due to a balance of payments and ensuing currency crisis, arising from a terms of trade shock or capital account vulnerabilities.	Under this scenario, the recovery rating is supported by a significant stream of remittances into the country that we view as largely countercyclical, and low debt levels even under our default stress simulations. Recovery incentives would be boosted by the Dominican Republic's small open economy and reliance on global debt markets. Under the last default episode (albeit different from the scenario assumed for the recovery rating), the Dominican Republic offered an exceptionally high recovery. These supporting factors are offset by weak institutions and poor policy implementation, which we would expect to be prominent factors in the default scenario.	Olga Kalinina
Ecuador (Republic of)	B-/Stable/C	4	B-	The recovery analysis assumes that Ecuador would default as a result of two scenarios that cover a fall in oil prices and/or a proactive stance by the government promoting default. These events call for a restructuring of Ecuador's debt and the subordination of timely debt service to other political priorities, possibly at a time of weakening oil prices. Crucial aspects of the recovery analysis are similar under both default scenarios.	Under this scenario, although Ecuador's debt burden would be only moderately high, the recovery rating is constrained by Ecuador's weak payment culture and the possibility that the government would insist on significant debt relief as part of a restructuring.	Richard Francis

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Egypt (Arab Republic of)	BB/Negative/B	3	BB	The recovery analysis assumes that Egypt would default due sharp increases in the fiscal deficit trigger a debt restructuring or default. We assume this would follow a surge in government spending against the background of rapid growth in the public debt burden.	Under this scenario, the recovery rating is supported by Egypt's low external debt--even under our default stress scenario--and the country's history of cooperation with external creditors and the relatively modest share of bond debt.	Mike Noone
El Salvador (Republic of)	BB-/Stable/B	3	BB-	The recovery analysis assumes that El Salvador would default due to an increase in the fiscal deficit, which could be due to a combination of events such as a large natural disaster, or public finance mismanagement that would result in an unsustainable debt increase. This could also be accompanied by more market-hostile policies.	Under this scenario, the recovery rating is supported by the high level of remittances, which we would expect to remain at least stable under default. The recovery rating is also supported by El Salvador's traditionally cooperative approach with the outside world, and the fact that the country regularly receives external financial assistance following natural disasters. The risk that the default scenario may imply a political change balances these supporting factors.	Olga Kalinina
Gabonese Republic	BB-/Stable/B	4	BB-	The recovery analysis assumes that Gabon would default due to a drop in oil prices, combined with decreasing production, accompanied by a worsening fiscal situation and deteriorating payment culture. This could go in hand with political instability, given the tense socio-political climate in the country.	Under this scenario, the recovery rating takes into consideration Gabon's default history, which has lowered the sovereign's debtor reputation cost in case of determining recovery in a hypothetical future default, and its low reliance on capital markets given its relatively strong public finances. While the government has been paying an annual $50 million into a sinking fund account held offshore at the U.S. Federal Reserve and managed by the World Bank for its 2007 $1 billion global bond, the amounts dedicated to the sinking fund are in our view insufficient to support higher recovery expectations under a default scenario. Nevertheless, we expect that Gabon would continue to pursue market-friendly policies even under a default scenario, mainly due to the economy's relatively high level of integration with global trade.	Christian Esters
Georgia (Government of)	B+/Positive/B	4	B+	The recovery analysis assumes that Georgia would default due to a sharp depreciation in the Georgian lari as a result of increased political instability. The subsequent running down of reserves and capital flight would put financing the large current account deficit at risk, leading to a balance of payments crisis driven default.	Under this scenario, the recovery rating is constrained by the fact that 75% of Georgia's external debt will be owed to multilateral or bilateral creditors, raising the risk of effective subordination of commercial creditors.	Ana Jelenkovic

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Ghana (Republic of)	B/Stable/B	4	B	The recovery analysis assumes that Ghana would default due to a sharp terms of trade shock against the backdrop of an already poor fiscal situation, coupled with a change of government or distraction of an election which coincides with Ghana's bullet repayment on its international bond. The events would lead to a sudden deterioration in fiscal and balance of payments performance and eventual default.	Under this scenario, we expect that Ghana would continue to pursue market-friendly policies, mainly due to the economy's dependence on trade with industrialized countries. Nevertheless, it would have limited capacity to repay debt in full. Moreover, we expect that debt owed to multilateral and official lenders would continue to be a relatively large proportion of the total external debt stock, raising the risk of effective subordination of commercial creditors. In addition, one of the main concerns is that the country is not a frequent issuer in the private market—therefore it will not feel obliged to quickly resolve a default (something that is required in order to re-issue on the market).	Ravi Bhatia
Hellenic Republic	BB-/Watch Neg/B	4	BB-	The recovery analysis assumes that Greece would default on its commercial foreign currency debt as a result of refinancing difficulties. These could result from the sovereign's ongoing inability to access commercial funding; a decision by official lenders not to disburse fully the funds committed or not to extend additional funds to the sovereign without market access following the conclusion of the EU/IMF programme; or a decision to trigger a debt restructuring, subject to conditions of the European Stability Mechanism.	Under this scenario, we expect that debt owed to multilateral and official lenders would continue to be a relatively large proportion of the total government debt stock, which given the likelihood of effective subordination of commercial creditors, would imply a significant reduction in the recovery rate in order to reduce the total government debt stock.	Marko Mrsnik
Grenada	B-/Stable/C	4	B-	The recovery analysis assumes that Grenada would default due to fiscal stress resulting from lower-than-expected economic growth or insufficient fiscal discipline. We also take into account a scenario in which a natural disaster could trigger default.	Under this scenario, the recovery rating is supported by the country's membership in the Eastern Caribbean Currency Union (ECCU), which makes a currency crisis and related knock-on effects less likely. The recovery rating is also supported by the last default episode, in which Grenada made significant efforts to restructure its debt quickly. The main constraint on the recovery rating, which balances the above supporting factors, is Grenada's very high public sector debt, which would further increase under our default stress simulation.	Richard Francis

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)

Guatemala (Republic of)	BB/Stable/B	3	BB	The recovery analysis assumes that Guatemala would default due to a financial sector crisis accompanied by a political crisis and social unrest. This could not only produce a run on deposits, but also a significant depreciation of the currency.	Under this scenario, the recovery rating is supported by debt that would remain moderate--even under our default stress scenario--and by a continued strong inflow of remittances. The recovery rating is also supported by Guatemala's openness to international capital and goods markets. A constraint on the recovery rating is the expectation that the government might be inclined to support the domestic banking sector to the detriment of government creditors. The recovery rating is also limited by a high proportion of debt owed to multilateral institutions, which we expect would benefit from preferential treatment by the government, to the detriment of commercial creditors.	Roberto Sifon Arevalo
Indonesia (Republic of)	BB/Positive/B	3	BB	The recovery analysis assumes that Indonesia would default due to a political crisis or policy errors, and social unrest. These would engender a sustained high interest rate environment, coupled with a falling currency and reserves that would put pressure on domestic and foreign debt, respectively.	Under this scenario, the recovery rating is supported by simulated debt levels which, while high under default, remain well below Indonesia's past crisis levels. Government policies are not expected to radicalize under the default scenario. But the recovery rating is constrained by Indonesia's Paris Club-induced rescheduling of commercial loans in the recent past and the expectation that official loans would remain significant in a default scenario. The scenario assumes that, in this case, both official and commercial creditors, including bondholders, would face a moderate haircut of principal.	Agost Benard
Jamaica	B-/Stable/C	3	B-	The recovery analysis assumes that Jamaica would default on its commercial foreign currency debt as a result of a natural disaster that causes significant damage to the country's tourist infrastructure.	Under this scenario, the recovery rating is somewhat supported by strong institutions and a relatively strong debt payment culture. Nevertheless, the recovery rating is substantially constrained by very high levels of fiscal and external debt under our default stress simulations, and by the potential for a contemporaneous banking crisis.	Roberto Sifon Arevalo

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Jordan (Hashemite Kingdom of)	BB/Negative/B	4	BB	The recovery analysis assumes that Jordan would default due to severe external shocks such as a recession in key trading partners such as the Gulf Cooperation Council countries, resulting in a sharp recession, inflation, and higher unemployment.	Under this scenario, the recovery rating is constrained by the consideration of Jordan's default history with both public and private creditors in 1989-1993. We have also taken into account Jordan's limited access to capital markets, the structural challenges to its key export sectors, and its relatively high external debt and external debt servicing levels, in particular those that would occur under a default scenario. In our view, total government debt includes a large share of multilateral and bilateral debt. We also believe social expenditures are likely to increase in periods of economic downturn. Both factors would increase the risk of effective subordination of private creditors.	Luc Marchand
Latvia (Republic of)	BB+/Positive/B	3	BB+	The recovery analysis assumes that Latvia would default on its foreign currency commercial debt as a result of a disorderly change in the nation's exchange rate regime, resulting from protracted economic contraction and increased political uncertainty.	Under this scenario, the recovery rating is constrained by our expectation that 85% of Latvia's government debt is likely to be multilateral or bilateral at the end of 2010, so that the brunt of any adjustment of public sector debt would in our view fall on commercial and bilateral creditors.	Frank Gill
Lebanon (Republic of)	B/Stable/B	4	B	The recovery analysis assumes that Lebanon would default on its commercial foreign currency debt as a result of refinancing difficulties. These difficulties would arise from a political crisis that causes domestic banks and the Lebanese non-resident depositors to lose confidence in the government.	Under this scenario, the recovery rating is somewhat supported by the country's debt payment culture. Constraining factors outweigh this, however, and include very high levels of fiscal and external debt under our default stress simulations, and the financial stress that could result if a default led to the loss of the exchange-rate peg.	Mike Noone
Macedonia (Republic of)	BB/Stable/B	3	BB	The recovery analysis assumes that Macedonia would default on its commercial foreign currency debt following political instability (potentially due to inter-ethnic tensions) and the loss of momentum for reform.	Under this scenario, the recovery rating is strongly supported by Macedonia's EU candidate status, which creates incentives for the government to treat creditors fairly, and our expectation that inflows of remittances would remain relatively robust in the crisis. The recovery rating for commercial debt is somewhat limited by a high proportion of debt owed to multilateral institutions, which we expect would benefit from preferential treatment, to the detriment of commercial creditors.	Marko Mrsnik
Nigeria (Federal Republic of)	B+/Stable/B	4	B+	The recovery analysis assumes that Nigeria would default due to a prolonged period of adverse terms of trade that deepened the country's regional tensions.	Under this scenario, the recovery rating is constrained by our assumption that Nigeria's multilateral creditors would maintain their preferred creditor status and bilateral creditors would resist a debt reduction.	Christian Esters

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Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Pakistan (Islamic Republic of)	B-/Stable/C	3	B-	The recovery analysis assumes that Pakistan would default on its commercial foreign currency debt following a political crisis that precipitates capital flight and endangers the financing of a large current account deficit.	Under this scenario, the recovery rating is supported by the relatively limited impact of a default on the wider economy and a stable flow of remittances. External assistance may also be provided owing to Pakistan's geopolitical importance. On the other hand, the recovery rating is constrained by a relatively high level of debt under our default stress simulations. It is also constrained by a high proportion of debt owed to multilateral institutions, which we expect would benefit from preferential treatment by the government, to the detriment of commercial creditors.	Agost Benard
Philippines (Republic of)	BB/Stable/B	3	BB	The recovery analysis assumes that the Philippines would default on its commercial foreign currency debt as a result of a loss of investor confidence and ensuing exchange rate pressures. The latter could be triggered by the weakening of fiscal austerity measures, a terms of trade shock, or political turmoil.	Under this scenario, the recovery rating is supported by the Philippines' inflows of remittances, which we expect would remain relatively stable in the crisis. The country's still relatively high reliance on external creditors also indicates high incentives to offer favorable restructuring terms following default. External assistance may be provided owing to the geopolitical importance of the Philippines. Nevertheless, these supporting factors are balanced by constraints that include vulnerability to the confidence-sensitive peso and limited fiscal flexibility.	Agost Benard
Romania	BB+/Stable/B	3	BB+	The recovery analysis assumes that Romania would default due to a disorderly adjustment in the country's exchange rate resulting from a protracted economic contraction and increased economic policy uncertainty.	Under this scenario, the recovery rating is supported by Romania's moderate general government debt levels even under a stressed scenario; its expected increased export capacity due to past inflows of foreign direct investment; its flexible exchange rate, which supports export competitiveness; and the government's willingness to pursue market-oriented economic policies and to accept the validity of international investor claims.	Marko Mrsnik
Senegal (Republic of)	B+/Negative/B	4	B+	The recovery analysis assumes that Senegal would default due to a combination of prolonged external shocks (e.g. remittances, FDI inflows, tourism), resulting in a long period of weak economic growth, leading to a deterioration of fiscal performance and further increasing debt levels . This could be combined with severe public finance mismanagement, exacerbated by lower donor support.	Under this scenario, the recovery rating takes into consideration Senegal's default history, over 1981-1998 to Paris Club creditors and 1981-1989 to London club creditors, the country's limited access to capital markets and global trade, as well as high fiscal debt, and low fiscal and external flexibility under the default scenario. The large share of multilateral debt in total debt would in our view increase the risk of effective subordination of private creditors.	Christian Esters

Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)						
Serbia (Republic of)	BB/Stable/B	4	BB	The recovery analysis assumes that Serbia would default on its commercial foreign currency debt as a result of substantial depreciation of the local currency, which could be at the same time accompanied by a greater influence of populist attitudes on government policies and the willingness to service foreign currency debt.	Under this scenario, the recovery rating is somewhat supported by inflows of remittances, which we would expect to remain relatively stable during the crisis. The recovery rating is substantially constrained by high external debt indicators under our stress simulations, and the expectation that external creditors' claims would receive a relatively low priority following default.	Ana Jelenkovic
Sri Lanka (Democratic Socialist Republic of)	B+/Stable/B	4	B+	The recovery analysis assumes that Sri Lanka would default on its commercial debt obligations as a result of separatist conflict where disabling attacks on key economic targets would cause a sharp and sudden impairment of foreign exchange inflows, or if the conflict results in the break-up of Sri Lanka into separate entities.	Under this scenario, the recovery rating would be supported by the inflow of remittances, and the likely forbearance extended by creditors sympathetic to Sri Lanka’s significant post-war reconstruction and development needs. The recovery rating is constrained by the continued high reliance on, concessional multilateral external debt and the expectation that such creditors would enjoy priority over commercial creditors under a default scenario.	Agost Benard
Turkey (Republic of)	BB/Positive/B	3	BB	The recovery analysis assumes that Turkey would default on its commercial foreign currency debt following a balance of payments crisis that pushes the sovereign's short-term financing requirement to an unsustainable level.	Under this scenario, the recovery rating is supported by the country's good debt payment record, its EU aspirations, and its economic dependence on inflows of capital. These factors give the government high incentives to offer the best possible restructuring terms following default. External assistance may also be provided owing to Turkey's geopolitical importance. Even so, the recovery rating is constrained by relatively high levels of fiscal and external debt under our default stress simulations.	Frank Gill
Ukraine	B+/Stable/B	4	B+	The recovery analysis assumes that Ukraine would default on its commercial foreign currency debt following a combination of a political crisis and economic stresses, such as pressure on the currency from a terms of trade shock.	Under this scenario, the recovery rating is somewhat supported by low levels of fiscal debt, even under our default stress simulations. The recovery rating is substantially constrained, however, by low external flexibility under the default scenario and a political environment in which the claims of external creditors post-default may not be a high priority.	Frank Gill

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Table 3

Speculative-Grade Sovereign Recovery Review* (cont.)

Uruguay (Oriental Republic of)	BB/Stable/B	2	BB+	The recovery analysis assumes that Uruguay would default on its commercial foreign currency debt following a reduction in economic growth that increases refinancing pressures beyond a sustainable level.	Under this scenario, the recovery rating is supported by Uruguay's small, open economy that is reliant on global capital markets. The high level of post-default recovery in the most recent restructuring is also a positive factor, as is a strong local credit culture. That said, the recovery rating is somewhat constrained by high external debt levels under our default stress simulations.	Sebastian Briozzo
Venezuela (Bolivarian Republic of)	BB-/Stable/B	4	BB-	The recovery analysis assumes that Venezuela would default on its commercial foreign currency debt as a result of a sharp fall in oil prices that leads to a political decision to default rather than cut back on social expenditure programs.	Under this scenario, the recovery rating is somewhat supported by still-moderate levels of fiscal and external debt under our default stress scenario. The recovery rating is substantially constrained by the country's weak institutions and our expectation that concerns of international creditors would not be a high political priority following default.	Roberto Sifon Arevalo
Vietnam (Socialist Republic of)	BB-/Negative/B	3	BB-	The recovery analysis assumes that Vietnam would default on its commercial foreign currency debt following a drop in capital inflows (possibly triggered by policy missteps along the transition path to a market economy) that increases fiscal and balance of payments pressures.	Under this scenario, the recovery rating is supported by an economy (and the export sector in particular), that is relatively resilient after default. On the other hand, the recovery rating is constrained by reduced foreign direct investment inflows and, under an alternate (and less likely) scenario, the fiscal costs associated with a possible financial sector crisis.	KimEng Tan

*All ratings and data as of March 29, 2011. ¶For rated foreign currency senior unsecured debt.

Table 4

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Related Criteria And Research

Criteria

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