

# Fitch Ratings Sovereign 2008 Transition and Default Study

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## Related Research

- *Fitch Ratings Global Corporate Finance 2008 Transition and Default Study, March 5, 2009*
- *Fitch Ratings Global Structured Finance 2008 Transition and Default Study, March 17, 2009*

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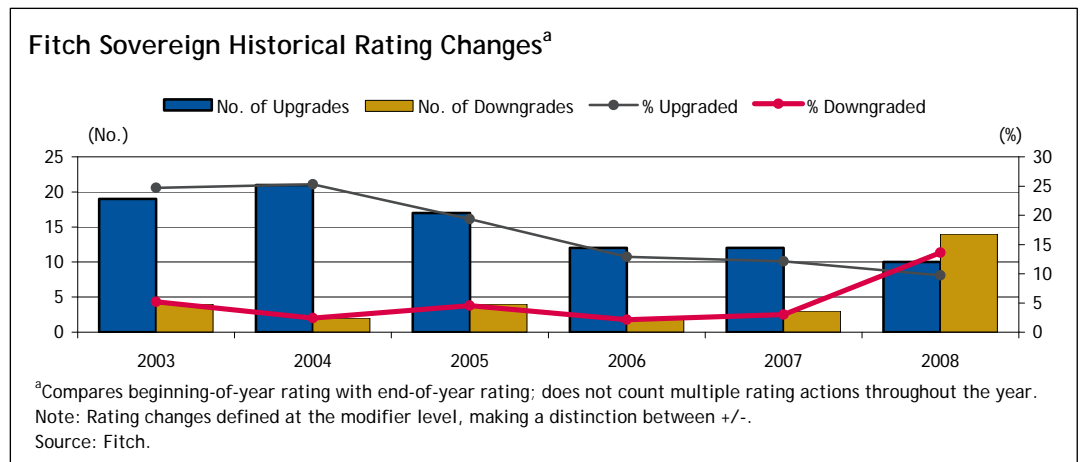
## Summary

This study provides data and analysis on the performance of Fitch’s sovereign ratings, both over the most recent year, 2008, and over the long term, covering the period 1995–2008. Fitch maintains 105 issuer default ratings (IDRs) for sovereigns. This report offers summary statistics on the year’s key sovereign rating and default trends.

Recession in the world’s leading advanced economies, a reversal in capital and financial market flows, and a sudden and sharp decline in commodity prices triggered an abrupt reversal in credit quality among sovereign credits in 2008. The share of issuers downgraded rose to 13.6%, up from 3.0% in 2007, while upgrades fell to 9.7% from 12.1%. Sovereign credit quality took a pronounced negative turn in the second half of the year when downgrades topped upgrades by a margin of 4 to 1; however, even prior to the crisis events of late 2008, some deterioration in emerging market sovereign credit quality was already under way. The number of Fitch-rated emerging market sovereign issuers on Negative Outlook had, in fact, begun to rise in late 2007, especially in Emerging Europe.

Downgrades gravitated to the ‘A’ and ‘BBB’ rating categories, with Iceland and Emerging Europe dominating the scene, as the shock waves from the failure of Lehman Brothers Holdings Co. (Lehman Brothers) and the sobering effect on global economic growth gathered strength in the latter part of the year. A number of sovereigns suffered multiple downgrades — Latvia and Iceland, for example — but only one, Romania, forfeited investment grade status, the first “fallen angel” since Uruguay in 2003. Greater rating volatility was also apparent across the ‘BB’ and ‘B’ range, while the Republic of Ecuador became the first Fitch-rated sovereign to default since the Dominican Republic in 2005; as a result, Fitch recorded a 2008 sovereign default rate of 0.96%.

Sovereign upgrades were mostly concentrated in the first half of 2008 and were broadly distributed across all rating categories. Notable positive rating actions were Brazil and



**Fitch Sovereign Rating Movements Across Major Rating Categories**

(%)

	1995–2007		2007		2008	
	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade
AAA	0.64	N.A.	0.00	N.A.	0.00	N.A.
AA	1.91	4.46	8.33	0.00	0.00	0.00
A	2.40	3.20	6.25	6.25	12.50	6.25
BBB	3.76	9.02	0.00	7.14	6.67	0.00
BB	6.10	9.15	0.00	0.00	16.67	8.33
B	4.39	14.04	5.26	5.26	0.00	0.00
CCC to C	16.67	25.00	0.00	100.00	100.00	0.00

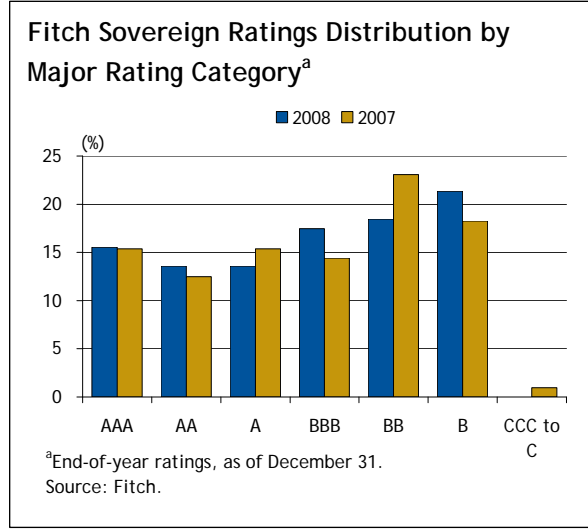
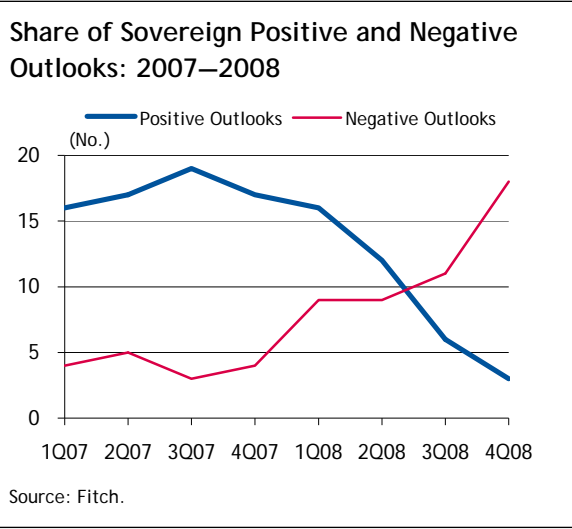
Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics. N.A. – Not applicable.  
Source: Fitch.

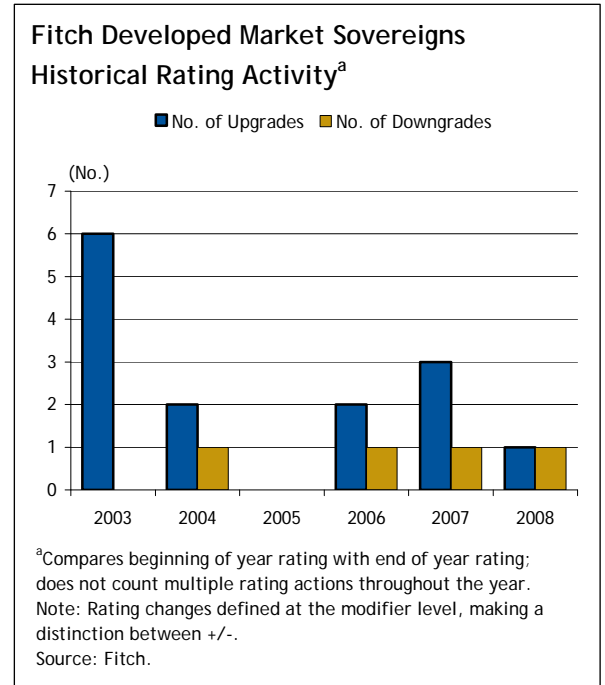
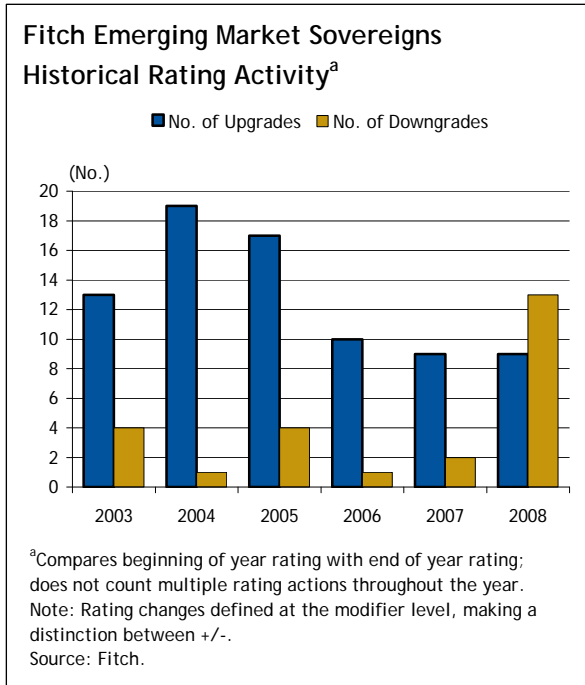
Peru, both of which ascended from speculative to investment grade, while Saudi Arabia and Kuwait cemented their hold on ‘AA’ ratings, reflecting strong external sovereign balance sheets, notwithstanding the fall in oil prices.

Going forward, Fitch believes that among advanced economies, financial sector support and discretionary and cyclical fiscal easing necessitated by economic recessions will substantially add to government debt burdens. Structural deterioration in public finances, if not corrected by policy action, would undermine sovereign creditworthiness and ratings over time. Likewise, the severity of global shocks currently buffeting emerging markets is greater than at any time since the Asian crisis in 1997–1998. Emerging market sovereign balance sheets are much stronger than they were then, but the deepening global recession and continuing stress in financial markets imply that overall sovereign creditworthiness and ratings will remain under downward pressure throughout 2009. At the end of 2008, 18 Fitch-rated sovereign credits were assigned Negative Outlooks, whereas three carried Positive Outlooks.

**Highlights**

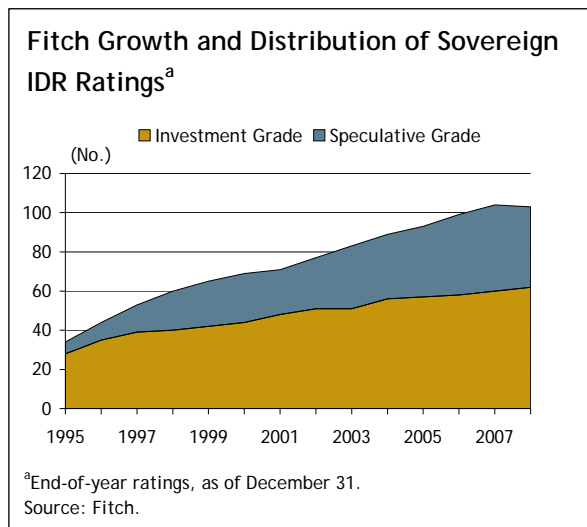
- The sovereign downgrade to upgrade ratio was 1.4 to 1 in 2008, up from the benign 0.3-to-1 margin recorded in 2007. In fact, negative rating activity in 2008 put an end to a long-term trend of credit improvement among Fitch-rated sovereign credits. The negative rating drift in 2008 far exceeded the degree of negative rating activity during the previous U.S.-based recession occurring in 2001 and 2002,





when downgrades were still off the pace of upgrades by margins of 0.7 to 1 and 0.4 to 1, respectively.

- Sovereign rating activity in 2008 remained positive in the first half of the year as downgrades trailed upgrades by a margin of 0.2 to 1. However, late in the year as the financial crisis in developed countries spread to emerging markets, rating activity deviated from this positive course, registering 14 downgrades and no upgrades. As a result, year-over-year activity ultimately displayed negative overtones, as 13.6% of Fitch-rated sovereigns were downgraded in 2008, up from just 3.0% in 2007. Upgrades contracted only slightly year-over-year, to 9.7% from 12.1%, and were concentrated in the first half of 2008.
- Investment grade sovereign issuer downgrades rose year-over-year to 13.3% from 3.4% in 2007, while upgrades fell to 8.3% in 2008 from 12.1% one year earlier. As for speculative grade sovereign issuers, downgrades topped 14.0% compared with a modest 2.4% one year earlier, while



### Fitch Sovereign Rating Actions by Region — 2008<sup>a</sup>

Region	Downgrades	Upgrades
Asia/Pacific	1	2
Europe	10	3
Latin America and Caribbean	3	2
North America	0	0
Middle East and Africa	0	3
<b>All</b>	<b>14</b>	<b>10</b>

<sup>a</sup>Compares beginning-of-year rating to end-of-year rating; does not count multiple rating actions throughout the year. Note: Rating changes defined at the modifier level, making a distinction between +/-.  
Source: Fitch.

upgrades ended the year at 11.6%, just below the 12.2% recorded in 2007. Again, across both investment and speculative grade issuers, credit quality turned in the second half of the year.

- Regionally, Emerging Europe experienced the majority of rating actions with 12 year-over-year — nine downgrades and three upgrades. These countries have large external financing needs, funded largely by bank credit, making them more susceptible to the global credit crunch and the deteriorating economic environment in Europe.
- Following a brief interlude in 2006-2007 that witnessed no sovereign defaults, Fitch-rated sovereigns recorded one default in 2008, the Republic of Ecuador. As a result, Fitch recorded a sovereign annual default rate of 0.96% for 2008 and a long-term average annual default rate of 0.72% over the period 1995-2008.
- Fitch's share of speculative grade sovereign ratings continues to grow as more emerging markets, chiefly in the Middle East and Africa, seek to gain access to international capital markets. The 2008 year-end distribution of Fitch-rated sovereigns recorded 60% as investment grade and 40% as speculative grade. Of note, 44% of rated emerging market sovereigns now claim an investment grade rating, with Brazil heading the list of the highest-profile newcomers.

### Fitch 2008 Sovereign Rating Transition Rates

An examination of the sovereign 2008 one-year rating migration data at the broad or major rating categories pinpoints the movement of ratings both up and down the rating scale from 'A' to 'BBB', for example, as opposed to the modifier level, which counts each notch change or that from 'A' to 'A-'. (Please see the Global Sovereign Transition Rates tables at the modifier level on page 12). The vertical left-hand column identifies ratings outstanding at the beginning of 2008, while the horizontal axis offers information on the migration pattern for those ratings by year's end. The table reads from the top left-hand corner, beginning with 'AAA' at 100.0% and following the diagonal to the right in order to examine the stability of each consecutive rating category. It is important to note that relative to Fitch's universe of corporate or structured finance ratings, the number of sovereign observations by rating is relatively small, and therefore upgrades or downgrades of just a few issuers can have a large effect on the transition results.

A recent multiyear trend of positive rating results for Fitch-rated sovereign credits ended in 2008, with the global economic crisis originating within major advanced economies but having a negative credit impact on emerging economies. The shift in rating activity occurred late in the year and was concentrated in European emerging markets, as the global economic crisis affected both advanced and emerging economies.

#### Fitch Sovereign Transition Rates Across the Major Rating Categories: 2008

(%, One Year)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
AAA	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	6.25	81.25	12.50	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	93.33	6.67	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	8.33	75.00	16.67	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	100.00

Source: Fitch.

In examining the 2008 sovereign transition tables at the broad rating category, there were no downgrades at the highest investment grade level — ‘AAA’ and ‘AA’. However, issuers at the ‘A’ and ‘BBB’ levels recorded downgrade rates of 12.5% and 6.7%, respectively, up from levels seen in 2007, reflecting deteriorating creditworthiness, mostly in Emerging Europe.

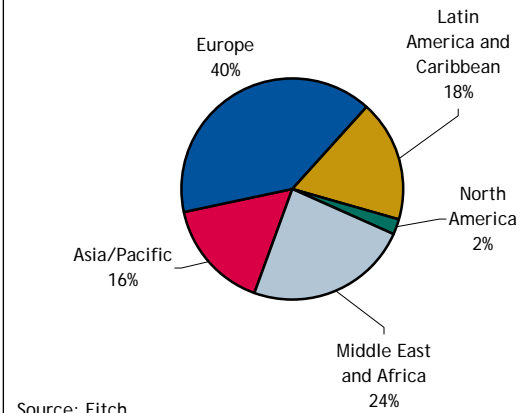
Speculative grade sovereigns also recorded an increase in downgrade rates year-over-year. The ‘BB’ rating category witnessed a downgrade rate of 16.7%, up from no downgrades at the same level one year earlier; Georgia, Sri Lanka, Ukraine and Venezuela suffered this fate. No downgrades were recorded at the ‘B’ rating category in 2008, compared with 5.3% in 2007. The sole issuer rated in the ‘CCC’ to ‘C’ rating category at the beginning of the year, the Republic of Ecuador, defaulted, resulting in a downgrade rate of 100% for 2008.

Sovereign upgrades began 2008 on strong footing, exceeding downgrades in the first three quarters. However, slowing economic growth and a virtual standstill in the credit markets following the failure of Lehman Brothers in September began to erode sovereign balance sheets and creditworthiness, and a wave of mostly emerging market downgrades followed in the fourth quarter of 2008. Upgrade rates at the investment grade level were slim, with only the ‘A’ category observing movements up the rating scale, with 6.3% mirroring the upgrade rate at that level set in 2007.

Upgrades within the speculative rating categories in 2008 were also scarce, with 8.3% of issuers moving up at the ‘BB’ rating level. Outweighing this paucity of upward activity, however, was the elevation of Brazil, a key emerging market, to investment grade. Migration data for 2007 reveals upward rating movements occurred at the ‘B’ (5.3%) and ‘CCC’ to ‘C’ (100%) rating categories.

Comparing the 2008 transition data to average annual historical results for the 1995–2007 period illustrates again that credit quality weakened in the most recent year relative to earlier positive trends. Downgrades, in particular, were considerably higher than historic averages. Downgrades connected to the global financial crisis contributed

**Fitch Sovereign Ratings Distribution by Region — 2008**



Source: Fitch.

### Fitch Sovereign Transition Rates Across the Major Rating Categories: 1995–2008

(%, Average Annual)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
AAA	99.42	0.58	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	4.12	94.12	1.18	0.00	0.00	0.59	0.00	0.00	100.00
A	0.00	3.55	92.91	3.55	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	8.11	87.84	3.38	0.68	0.00	0.00	100.00
BB	0.00	0.00	0.00	9.04	83.51	5.85	0.00	1.60	100.00
B	0.00	0.00	0.00	0.00	12.12	84.09	3.03	0.76	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	23.08	53.85	23.08	100.00

Source: Fitch.

to the decline in rating stability and negative rating drift relative to historical performance. A brief examination of the 2008 transitions at the modifier level reveals the degree of negative rating movements from the 'A' to 'BBB' rating categories at the +/- (see Appendix 3 on page 12).

Examining the average annual data including 2008 (1995–2008) shows that issuers rated investment grade exhibit far more stability than speculative grade level issuers. This stability is particularly evident at the investment grade levels 'AAA' (99.42%), 'AA' (94.12%) and 'A' (92.91%). Ratings display slightly less stability at the 'BBB' (87.84%) level, the lowest investment grade rating category. Moving into speculative grade territory, stability declines for the 'BB' and 'B' rating categories to roughly 84% and even further at 'CCC to C', with 53.85% remaining the same on an average annual basis.

### Fitch Sovereign Default Rates<sup>a</sup>

	Number of Fitch-Rated Defaults	Default Rate (%)
1995	0	0.00
1996	0	0.00
1997	0	0.00
1998	2	3.77
1999	0	0.00
2000	0	0.00
2001	1	1.45
2002	1	1.41
2003	1	1.30
2004	0	0.00
2005	1	1.12
2006	0	0.00
2007	0	0.00
2008	1	0.96

Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics.  
Source: Fitch.

### Fitch Sovereign Ratings Average Cumulative Default Rates: 1995–2008

(%)

	One-Year	Two-Year	Three-Year	Four-Year	Five-Year
AAA	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.75	1.68	2.83	4.21
BB	1.60	3.05	4.20	5.69	6.36
B	0.75	3.51	5.26	7.50	7.94
CCC to C	21.43	15.38	16.67	18.18	25.00
Investment Grade	0.00	0.18	0.39	0.66	1.00
Speculative Grade	2.09	3.78	5.20	7.01	7.73
All	0.72	1.39	1.97	2.69	3.10

Source: Fitch.

### Fitch 2008 Sovereign Default Rates

Fitch recorded a single sovereign default in 2008, resulting in an annual default rate for sovereign issuers of 0.96%.

Sovereign default events remain comparatively rare and none were registered in 2006 or 2007. The lone sovereign default of the Republic of Ecuador in December 2008, marked by a downgrade of its sovereign ratings to restrictive default (RD) upon the missed coupon payment on its 2012 global bonds, was more reflective of unwillingness rather than a reduced capacity to repay. Since the mid-1990s Fitch has recorded seven sovereign defaults including Ecuador; the list includes Indonesia and the Russian Federation both in 1998, Argentina (2001), Moldova (2002), Uruguay (2003), and the Dominican Republic (2005) (for more details, see the section "Fitch-Rated Sovereign Defaults," on the next page).

These defaults contributed to a long-term average annual default rate across Fitch-rated sovereign issuers of 0.72% over the period 1995–2008. The average annual default rate across Fitch investment grade sovereign ratings for 1995–2008 was 0%, while across

### **Fitch-Rated Sovereign Defaults**

**Argentina:** Defaulted on over USD 70billion of sovereign foreign currency bonds in December 2001, most of which were held by non-residents. Debt default partially cured in 2005, but some 'hold-out' investors remain, constraining the rating to 'RD'.

**Dominican Republic:** Distressed debt exchange in 2005 affecting over USD 1.1billion of eligible foreign currency-denominated bond debt.

**Ecuador:** Missed coupon payment on its 2012 global bonds followed by an announcement that the government would selectively default on all global bonds; the rating was lowered to 'RD' in December 2008.

**Indonesia:** Paris and London Club rescheduling operations in June 1998; further rescheduling in 2000 and 2002. Indonesia maintained payments on the single Fitch-rated sovereign bond outstanding at the time.

**Moldova:** USD 75million Eurobond restructured in 2002, followed by a Paris Club deal.

**Russian Federation:** Exceptionally, Fitch dates sovereign default to August 1998. Although this was when the Russian Federation defaulted on its local currency debt, it began to incur arrears on foreign currency debt owed to the Paris Club official bilateral creditors very quickly afterwards. Defaults on foreign currency debt instruments held by private creditors occurred in 1999, although payments on Russian Federation Eurobonds were maintained and honored.

**Uruguay:** Distressed debt exchange in March 2003 affecting over USD 5billion of sovereign foreign currency debt, mostly held by non-residents.

speculative grade ratings Fitch recorded an average annual default rate of 2.09% for the same period. The complete sovereign series of default rates from the one- to five-year periods at the major rating categories is available in the Average Cumulative Default Rates table on page 6. While clearly based on small samples, the default rates show a strong relationship between Fitch's sovereign ratings and the frequency of default.

### **Fitch Transition and Default Methodology**

All Fitch global, publicly rated, sovereign long-term IDRs from 1995 to the present are included in Fitch's transition and default statistics. Fitch employs a static pool approach in calculating default and transition data. The static pools or, alternatively, cohorts are created by grouping issuer ratings according to the year in which the ratings are active and outstanding at the beginning of the year. For example, issuers with ratings outstanding at the beginning of 1995 constitute the 1995 static pool or cohort, with the same true for additional cohorts. Issuers newly rated by Fitch in any given year are included in the following year's cohort. For example, the performance of ratings initiated in mid-1995 would be followed as part of the 1996 and future cohorts. Ratings withdrawn in midyear are excluded from subsequent cohorts since they are no longer active, but they are monitored for defaults.

Fitch's continuing data enhancement efforts may result in slightly different statistics than in previously published studies. Therefore, this most recent study supersedes all prior versions. In addition, comparisons with earlier Fitch sovereign transition and default studies should be viewed within the context of the differing methodologies, whether rating movements were analyzed across the broad rating categories or at both the modifier and flat levels.

### **Transition Rates**

In order to calculate one-year transition rates, Fitch examines the performance of ratings outstanding at the beginning of a calendar year and at the end. Withdrawn

#### **Parameters of the Fitch Sovereign Default Rate**

- Statistical data captured in this study is based on the long-term IDR.
- Includes Fitch worldwide publicly rated Sovereign IDRs.
- Sovereign short-term IDRs, local currency and debt ratings were excluded from the study.
- The restrictive default (RD) rating is a default and counted as such.
- One-year default rates were calculated by dividing the number of defaulted issuers by the number of outstanding rated issuers at the beginning of each respective year.

ratings are excluded from the transition table calculations since they do not fit this criteria, namely that the ratings be outstanding over a full year or over the full period under observation.

Issuer ratings may reside in multiple static pools, as long as their ratings are outstanding at the beginning and end of the year or multiple-year horizons under observation. For example, the annual performance of an issuer rating initiated in 1994, and therefore outstanding at the beginning of 1995, and withdrawn in 1999 would be included in the 1995, 1996, 1997 and 1998 static pools. The rating's performance over multiple-year horizons would also be included in the two-year, three-year and four-year transition rates for each of the cohorts noted but excluded from five-year transition rates since the rating was withdrawn in year five and was not outstanding for five full years as part of any cohort. (In other words, as part of the 1995 cohort, this rating's performance would be monitored over a one-year period, 1995; two-year period, 1995–1996; three-year period, 1995–1997; and four-year period, 1995–1998.) In all, Fitch's transition data contain 14 static pools or cohorts from 1995–2008, allowing for 14 unique one-year transition rates, 13 two-year transition rates, 12 three-year transition rates and so on.

The rating transitions outlined in this study represent a distinct historical period and may not represent future rating migration patterns. Transition rates are influenced by a number of factors, including macroeconomic variables and credit conditions. The statistics presented herein document the performance of Fitch-rated sovereign obligors. It is useful to examine the performance of Fitch's ratings on a relative scale, within each rating category. In addition, it is important to point out that while transition matrices are presented at both the modifier and flat levels in this study, all other statistical analysis was conducted at the modifier level, unless noted otherwise.

### Default Rates

Fitch's default rates are calculated on an issuer basis, as opposed to dollar amounts. First, defaults are examined by year for each static pool and individual rating category. For example, if 25 issuers defaulted in 2002, and that static pool consisted of 2000 issuer ratings, the resulting annual default rate for all ratings in 2002 would be 1.3%. If 10 of these defaults consisted of defaults among issuers rated 'BB' at the beginning of the year and the 'BB' cohort at the beginning of the year totaled 500, the 'BB' 2002 default rate would be 2% (10/500).

From these annual default rates, Fitch derives average annual default rates by weighing each cohort's default rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. In other words, following the example above, the 2002 'BB' annual default rate of 2% might be followed by a 2003 'BB' annual default rate of 1%. A straight average of these two rates would ignore potential differences in the size of the two cohorts. Rather, weighing the results based on the relative number of 'BB' ratings outstanding in 2002 and 2003 gives greater emphasis to the results of the 'BB' cohort with the most observations.

The same technique is used to calculate average default rates over multiple-year horizons. For example, the two-year default rate for the 2002 'BB' rating pool would be averaged with the two-year default rate for the 2003 'BB' rating pool by weighing the default rates by the relative size of each pool.

For instance, any defaults produced by the 2002 'BB' cohort (the static pool) over the two-year time horizon are summed and divided by the number of 'BB' ratings outstanding at the beginning of 2002 to arrive at the simple 2002 two-year CDR for the 'BB' category. If a total of 15 issuers carrying 'BB' ratings at the beginning of 2002

#### Fitch's Definition of Default — Sovereigns

Fitch defines a default as one of the following:

- Failure of an obligor to make timely payment of principal and/or interest under contractual terms of any financial obligation.
- The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.
- Fitch has defined a sovereign default event as comprising any material foreign currency default, including defaults on bank debt.

default over the subsequent two years and 250 issuers were rated 'BB' at the beginning of 2002, 6.0% would be the resulting two-year CDR for the 'BB' rating category, if 10 issuers defaulted in year one and five in year two. The 2002 two-year 'BB' default rate would then be averaged with the 2003 two-year 'BB' default rate (using the same methodology just described) by weighing the results of the two by the relative number of 'BB' ratings outstanding in 2002 and 2003. This is the general approach for calculating average cumulative default rates over multiple-year horizons.

### **Withdrawn Ratings**

With regard to withdrawn ratings, all public ratings are included in the static pool data until the ratings are withdrawn and are then excluded from future static pools.

For the purpose of calculating default rates, however, Fitch tracks withdrawn ratings on a continual basis and includes defaults on withdrawn ratings for the cohorts in which the ratings were active and outstanding. For example, a 'BB' issuer's rating is outstanding in 1995 and is withdrawn in 1997. The issuer defaults in 1999. The default would be included in the 1995 five-year default rate, 1996 four-year default rate and 1997 three-year default rate.

**Appendix 1A: Fitch Sovereign Average Cumulative Default Rates: 1995–2008**

(%)

Modifier Level	One-Year	Two-Year	Three-Year	Four-Year	Five-Year
AAA	0.00	0.00	0.00	0.00	0.00
AA+	0.00	0.00	0.00	0.00	0.00
AA	0.00	0.00	0.00	0.00	0.00
AA-	0.00	0.00	0.00	0.00	0.00
A+	0.00	0.00	0.00	0.00	0.00
A	0.00	0.00	0.00	0.00	0.00
A-	0.00	0.00	0.00	0.00	0.00
BBB+	0.00	0.00	0.00	0.00	0.00
BBB	0.00	0.00	0.00	0.00	0.00
BBB-	0.00	1.96	4.17	6.67	10.26
BB+	2.94	5.08	5.66	6.12	6.67
BB	1.82	3.77	6.25	9.52	10.81
BB-	0.00	0.00	0.00	0.00	0.00
B+	0.00	0.00	0.00	0.00	0.00
B	2.13	5.00	6.06	10.71	14.29
B-	0.00	6.25	11.54	15.00	13.33
CCC to C	21.43	15.38	16.67	18.18	25.00
Investment Grade	0.00	0.18	0.39	0.66	1.00
Speculative Grade	2.09	3.78	5.20	7.01	7.73
All	0.72	1.39	1.97	2.69	3.10

Source: Fitch.

**Appendix 1B: Fitch Sovereign Three-Year Default Statistics**

(%)

	AAA	AA	A	BBB	BB	B
<b>Ten-Year Average of Three-Year Cumulative Default Rates</b>						
1997–2006	0.00	0.00	0.00	1.75	4.38	5.43
<b>Most Recent Three-Year Cumulative Default Rates</b>						
2006	0.00	0.00	0.00	0.00	0.00	6.67
2005	0.00	0.00	0.00	0.00	0.00	0.00

Source: Fitch.

**Appendix 2: Fitch Sovereign Transition Rates Across the Major Rating Categories**

(%)

	AAA	AA	A	BBB	BB	B	CCC to C	D	Total
<b>One-Year: 2008</b>									
AAA	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	6.25	81.25	12.50	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	93.33	6.67	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	8.33	75.00	16.67	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	100.00
<b>Average Annual: 1995–2008</b>									
AAA	99.42	0.58	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	4.12	94.12	1.18	0.00	0.00	0.59	0.00	0.00	100.00
A	0.00	3.55	92.91	3.55	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	8.11	87.84	3.38	0.68	0.00	0.00	100.00
BB	0.00	0.00	0.00	9.04	83.51	5.85	0.00	1.60	100.00
B	0.00	0.00	0.00	0.00	12.12	84.09	3.03	0.76	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	23.08	53.85	23.08	100.00
<b>Average Two-Year: 1995–2008</b>									
AAA	98.72	1.28	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	8.92	88.54	1.27	0.64	0.64	0.00	0.00	0.00	100.00
A	0.00	7.20	87.20	5.60	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	17.29	74.44	6.77	0.75	0.00	0.75	100.00
BB	0.00	0.00	0.00	17.07	70.73	9.15	0.00	3.05	100.00
B	0.00	0.00	0.00	0.88	23.01	69.03	3.54	3.54	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	45.45	36.36	18.18	100.00
<b>Average Three-Year: 1995–2008</b>									
AAA	97.86	2.14	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	14.48	82.76	1.38	1.38	0.00	0.00	0.00	0.00	100.00
A	0.00	11.01	81.65	7.34	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	26.89	62.18	8.40	0.84	0.00	1.68	100.00
BB	0.00	0.00	0.70	23.24	61.27	10.56	0.00	4.23	100.00
B	0.00	0.00	0.00	4.21	29.47	55.79	5.26	5.26	100.00
CCC to C	0.00	0.00	0.00	0.00	11.11	44.44	22.22	22.22	100.00
<b>Average Four-Year: 1995–2008</b>									
AAA	96.77	3.23	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	21.05	75.94	1.50	1.50	0.00	0.00	0.00	0.00	100.00
A	0.00	16.13	75.27	8.60	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	34.91	50.94	10.38	0.94	0.00	2.83	100.00
BB	0.00	0.00	3.28	28.69	53.28	9.02	0.00	5.74	100.00
B	0.00	0.00	0.00	8.75	32.50	47.50	3.75	7.50	100.00
CCC to C	0.00	0.00	0.00	0.00	14.29	42.86	14.29	28.57	100.00
<b>Average Five-Year: 1995–2008</b>									
AAA	96.30	3.70	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	27.27	69.42	1.65	1.65	0.00	0.00	0.00	0.00	100.00
A	0.00	22.37	69.74	7.89	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	41.05	42.11	11.58	1.05	0.00	4.21	100.00
BB	0.00	0.00	5.45	30.91	50.00	7.27	0.00	6.36	100.00
B	0.00	0.00	1.64	14.75	31.15	40.98	3.28	8.20	100.00
CCC to C	0.00	0.00	0.00	20.00	0.00	20.00	20.00	40.00	100.00

Source: Fitch.

**Appendix 3: Fitch Sovereign Transition Rates at the Modifier Level**

(%)

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C	D	Total	
<b>One-Year: 2008</b>																				
AAA	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	0.00	0.00	33.33	66.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A+	0.00	0.00	0.00	16.67	66.67	0.00	0.00	0.00	0.00	16.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	0.00	0.00	28.57	42.86	14.29	14.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	0.00	0.00	0.00	33.33	66.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	66.67	16.67	16.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	40.00	40.00	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	22.22	77.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15.38	53.85	30.77	0.00	0.00	0.00	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	80.00	20.00	0.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14.29	85.71	0.00	0.00	0.00	0.00	100.00
B-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	100.00	

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC to C	D	Total	
<b>Average Annual: 1995–2008</b>																				
AAA	99.42	0.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA+	14.29	81.63	2.04	2.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA	0.00	10.96	86.30	2.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA-	0.00	0.00	16.67	77.08	4.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.08	0.00	0.00	0.00	100.00
A+	0.00	0.00	0.00	17.24	75.86	3.45	0.00	0.00	0.00	3.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A	0.00	0.00	0.00	0.00	18.00	78.00	2.00	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A-	0.00	0.00	0.00	0.00	0.00	16.13	79.03	4.84	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB+	0.00	0.00	0.00	0.00	0.00	2.70	21.62	70.27	2.70	2.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB	0.00	0.00	0.00	0.00	0.00	0.00	5.36	19.64	67.86	5.36	1.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	23.64	67.27	7.27	0.00	0.00	0.00	1.82	0.00	0.00	0.00	0.00	100.00
BB+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.94	17.65	72.06	4.41	0.00	0.00	0.00	0.00	0.00	0.00	2.94	100.00
BB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.82	3.64	18.18	69.09	5.45	0.00	0.00	0.00	0.00	0.00	1.82	100.00
BB-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.54	12.31	69.23	9.23	6.15	1.54	0.00	0.00	0.00	100.00
B+	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.13	23.40	68.09	6.38	0.00	0.00	0.00	0.00	100.00
B	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.38	17.02	61.70	10.64	2.13	2.13	0.00	0.00	100.00
B-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.63	0.00	0.00	2.63	10.53	76.32	7.89	0.00	0.00	100.00
CCC to C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.69	15.38	53.85	23.08	100.00	

Source: Fitch.

Fitch-Rated Sovereign Defaults 1995–2008<sup>a</sup>

Year	Issuer Name	Rating at Beginning of Year	Region
1998	Indonesia, Republic of	BB+	Asia/Pacific
	Russian Federation	BB+	Europe
2001	Argentina	BB	Latin America
2002	Moldova	CC	Europe
2003	Uruguay	B	Latin America
2005	Dominican Republic	CCC+	Caribbean
2008	Ecuador	CCC	Latin America

<sup>a</sup>Rated by Fitch at the beginning of the year in which they defaulted. Note: Data enhancement efforts may lead to slightly different results than previously published. Current study supersedes all prior statistics.

Source: Fitch.

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