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INVESTMENTS

# SEE Rating Monitor: Detecting Investment Opportunities

Trieste, 26 May 2017

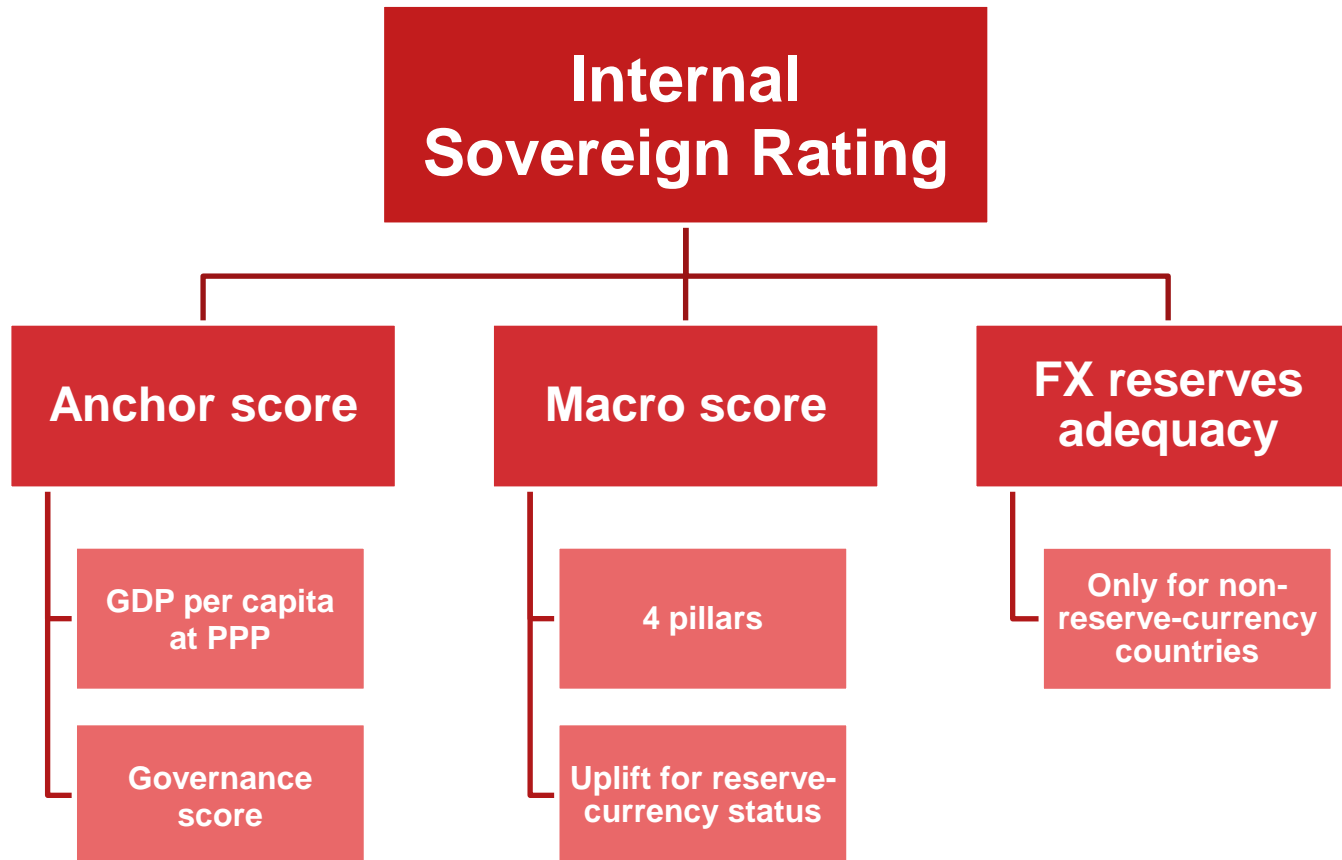
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Completed on: May 22, 2017

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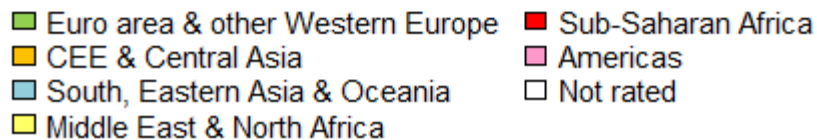
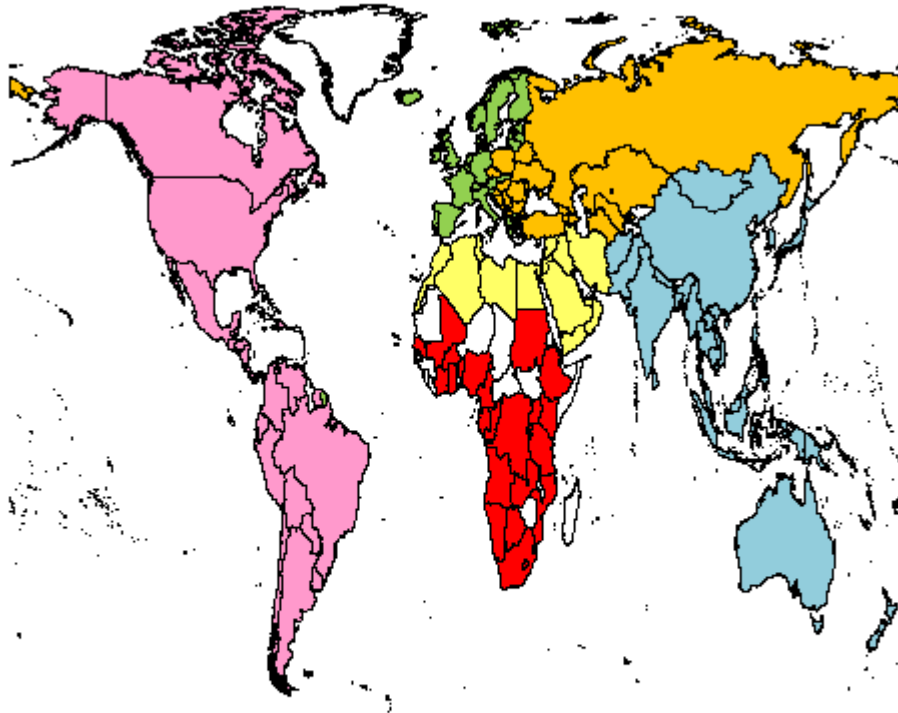
# INTERNAL SOVEREIGN RATING METHODOLOGY

A visual representation



# INTERNAL SOVEREIGN RATING METHODOLOGY

## Geographical coverage



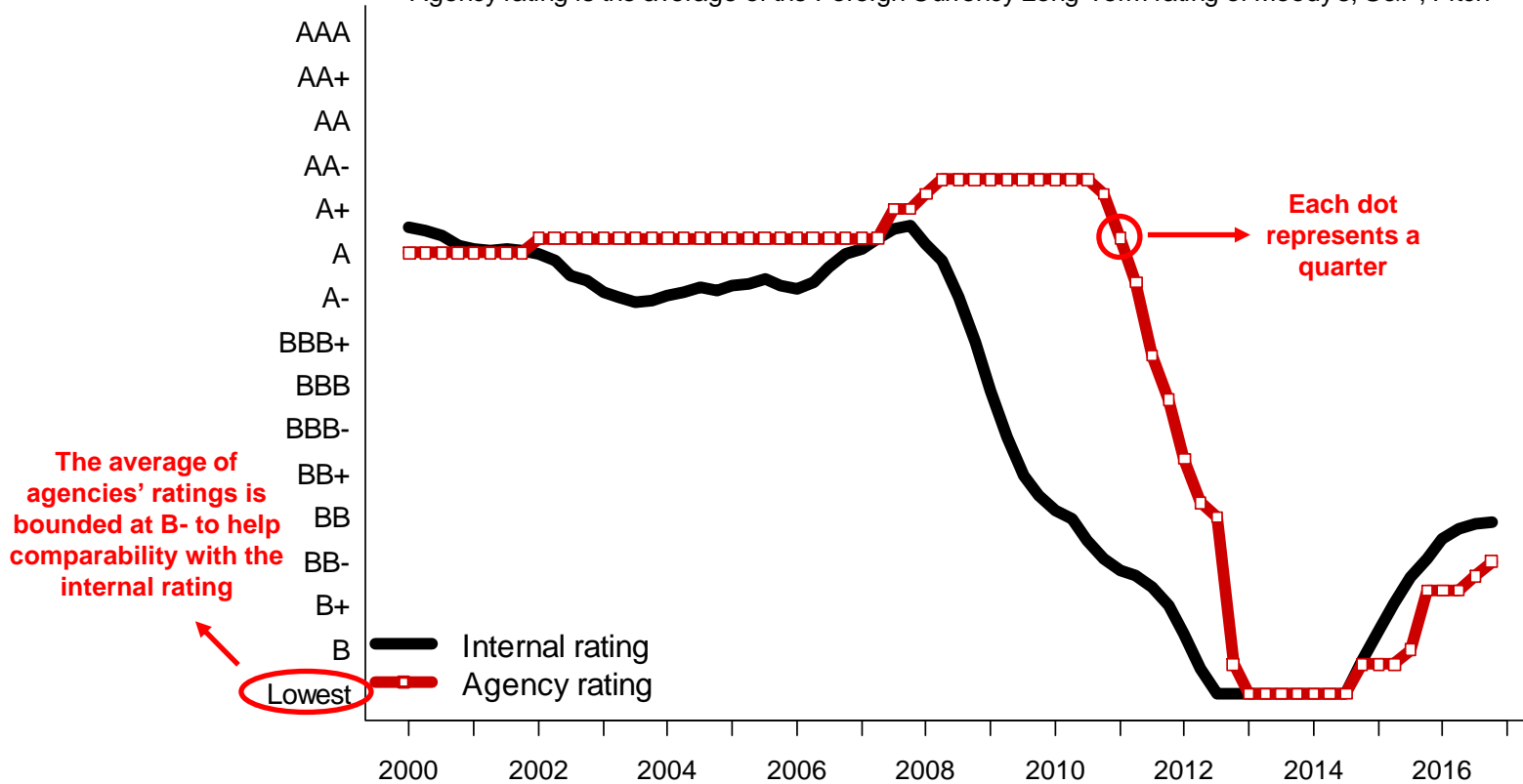
- **144 countries included**
- Division by geographical areas:
  - Euro area & other Western Europe (25 countries covered)
  - CEE & Central Asia (22)
  - South, Eastern Asia & Oceania (26)
  - Middle East & North Africa (18)
  - Sub-Saharan Africa (27)
  - Americas (26)

# INTERNAL SOVEREIGN RATING METHODOLOGY

Model output: Comparison with rating agencies

## Cyprus: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



# INTERNAL SOVEREIGN RATING METHODOLOGY

Model output: Country risk profile

## Cyprus: Country fundamentals

Internal rating: BB / Agencies avg. rating: BB-

Average of long-term foreign currency ratings

It is the combination of the GDP per capita, Governance score, Macro score and FX reserves adequacy

**INTERNAL RATING**

GDP per capita

Governance score

Macro score

i. Growth prospects

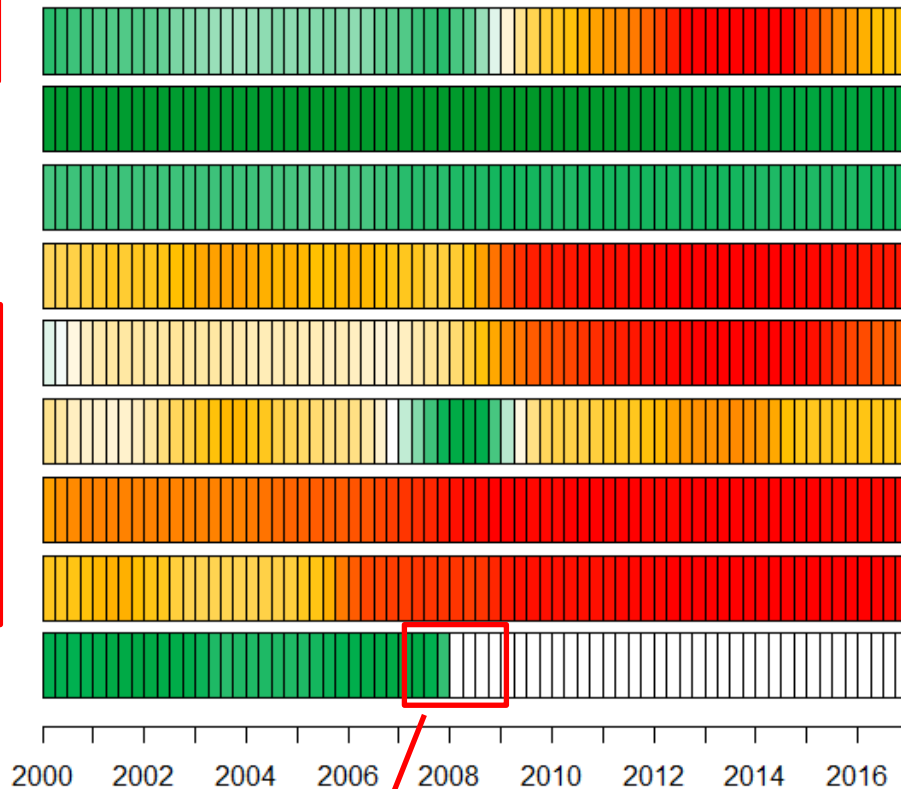
ii. Fiscal metrics

iii. External accounts

iv. Banking system

FX reserves adequacy

4 pillars included in the Macro score

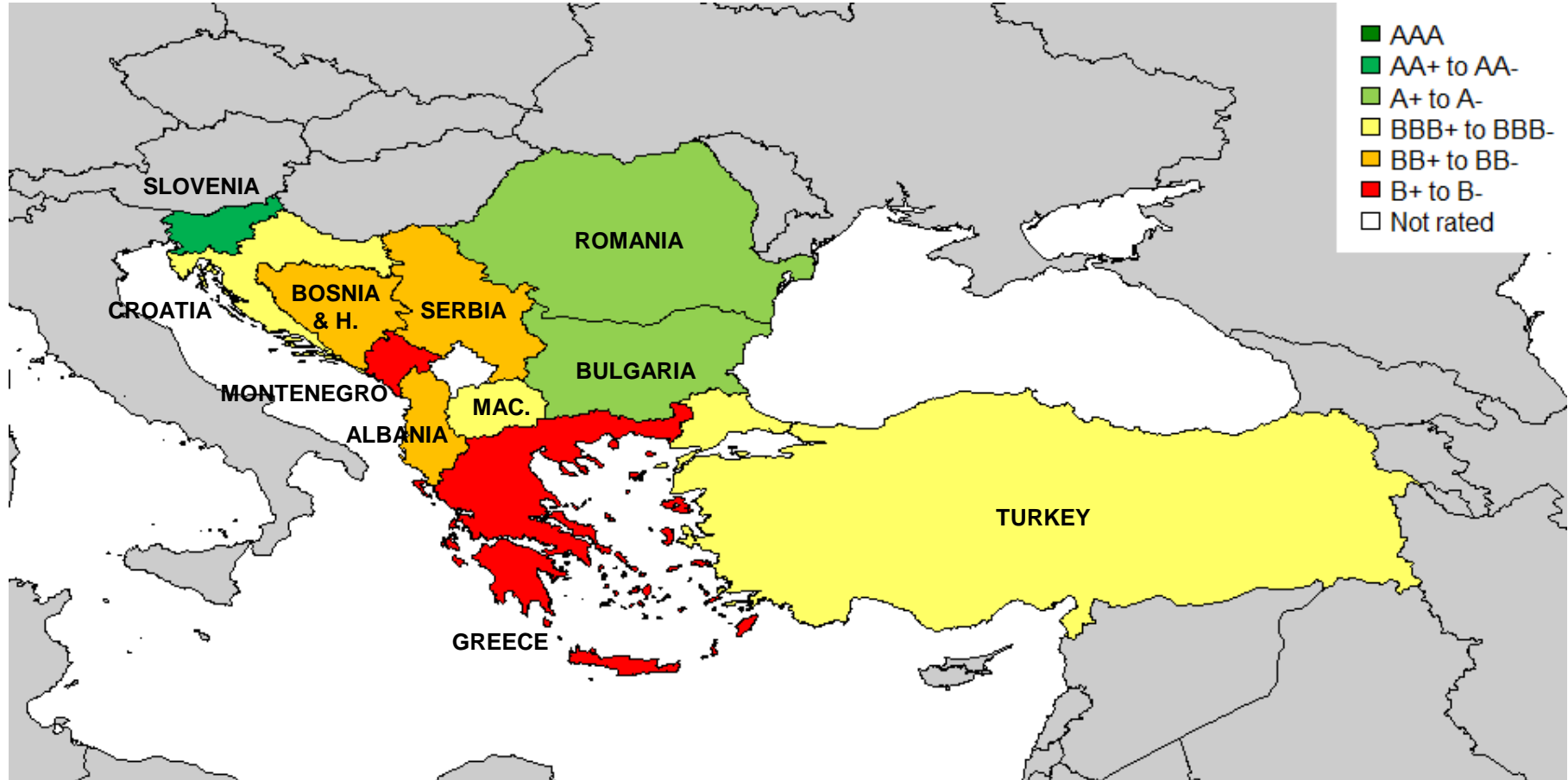


Cyprus adopted the euro from Jan 2008 and the FX reserves adequacy framework is no longer applicable



# SOUTH EASTERN EUROPE: REGIONAL OVERVIEW

Internal rating map (end Q1 2017)



# SOUTH EASTERN EUROPE: REGIONAL OVERVIEW

Change in the internal rating over the last 5 years





# SOUTH EASTERN EUROPE: REGIONAL OVERVIEW

Change in the internal rating over the last year

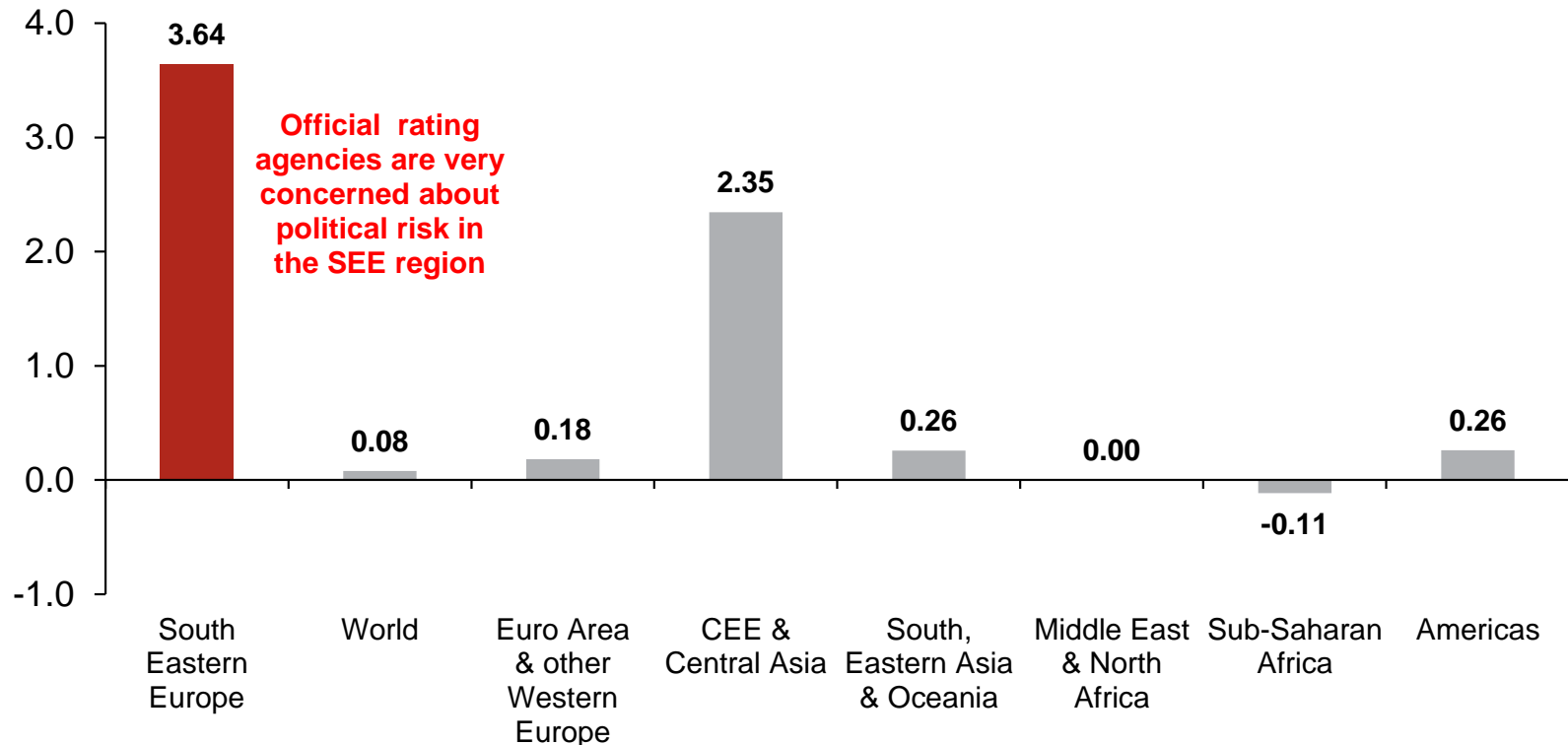


# RATINGS AND FINANCIAL MARKET VALUATION

Why the assessment on official agencies looks so unfavorable? Political risk the key reason

## Median rating difference vs Official agencies

positive numbers indicate that the internal rating is higher than the average of Official Rating Agencies' ones (Moody's, S&P, Fitch)

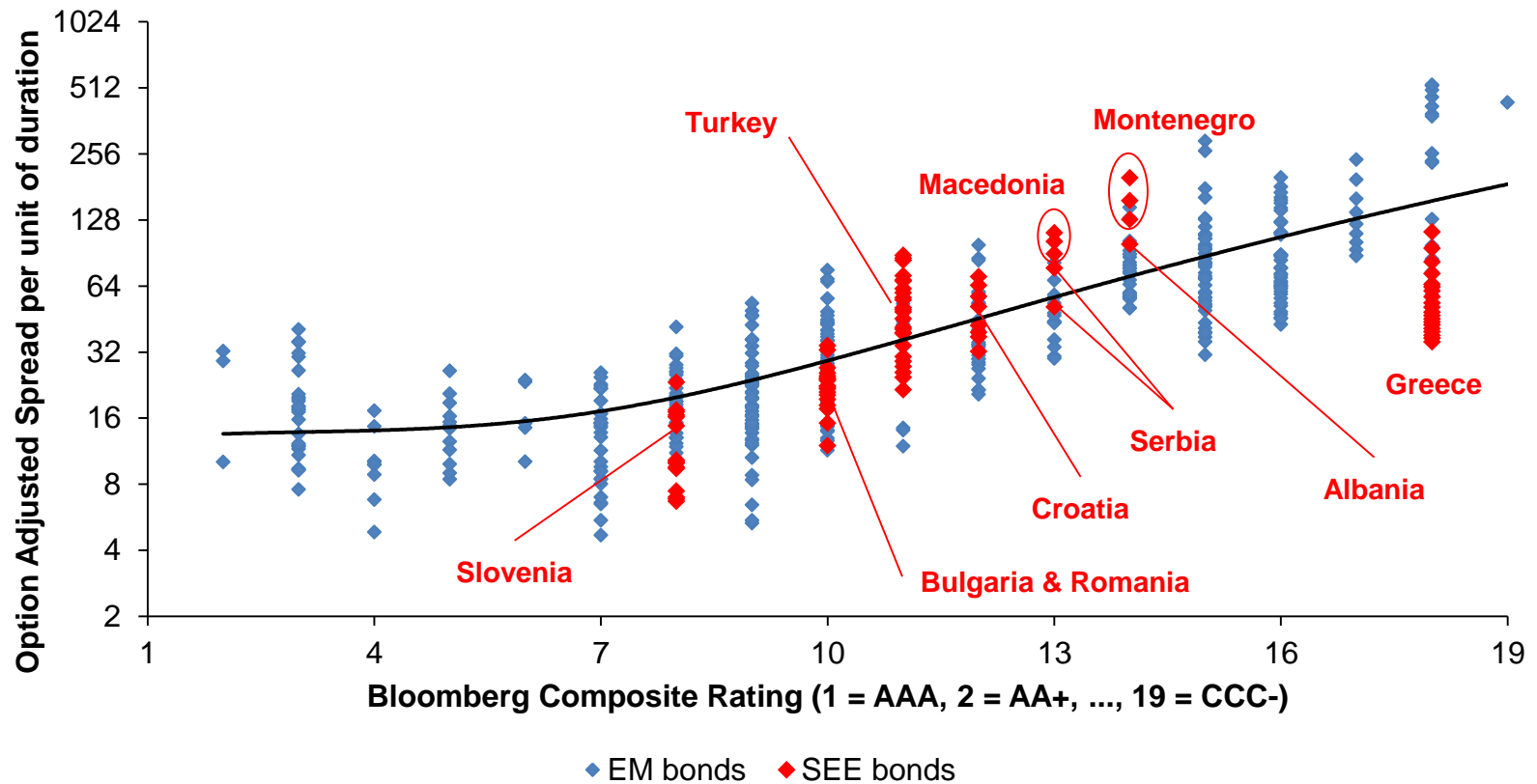


# RATINGS AND FINANCIAL MARKET VALUATION

Turkey, Macedonia and Montenegro's spreads above rating-implied fair values

## EM bonds: Spread per unit of duration & rating

Source: Bloomberg, data as of May 19, bonds with maturity  $\geq 2$  years





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**Thank You.**

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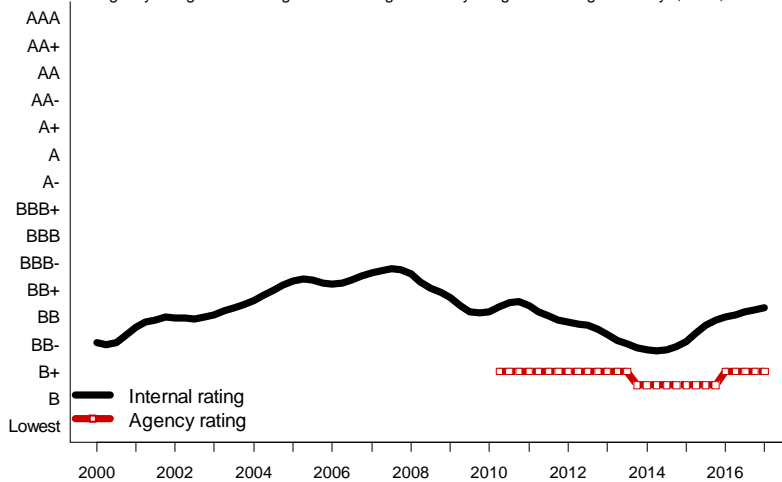
Public

# APPENDIX – COUNTRY RISK PROFILES

## Albania

### Albania: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

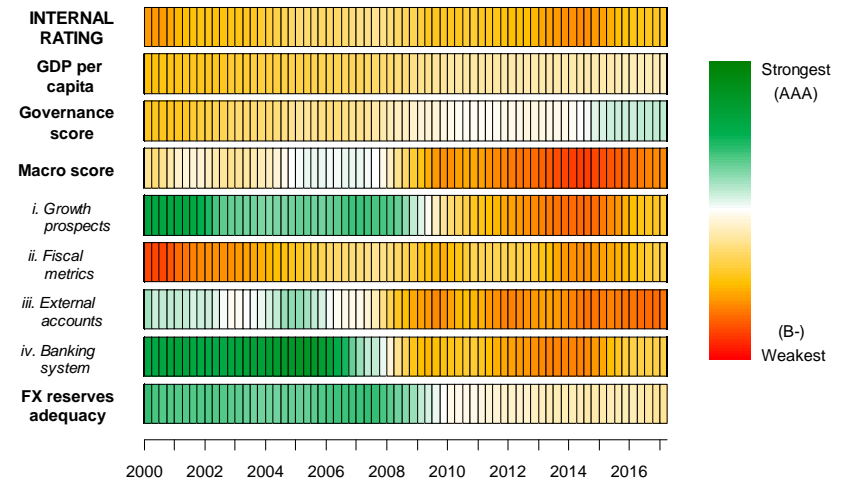
- BB, stable outlook
- Improving Governance Score and reduced stress on fiscal metrics support the upward trend in the internal rating seen since 2014

#### Official rating agencies:

- Moody's: B1, stable outlook
- S&P: B+, stable outlook
- Fitch: not rated
- Recent developments: no change in the last year

### Albania: Country fundamentals

Internal rating: BB / Agencies avg. rating: B+

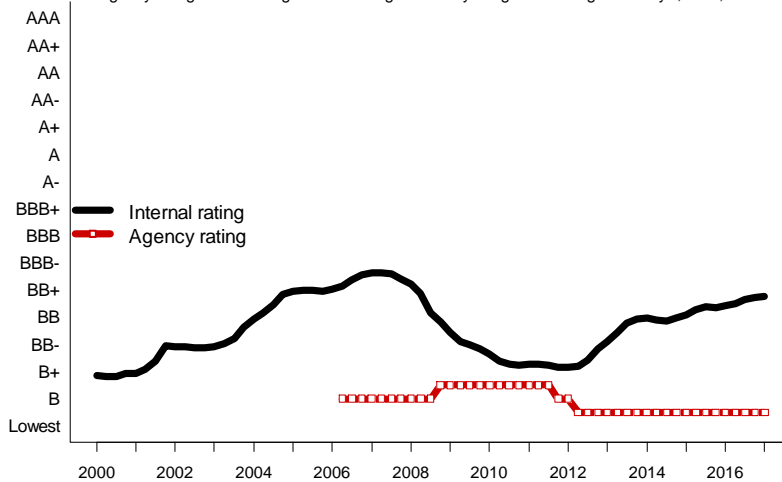


# APPENDIX – COUNTRY RISK PROFILES

## Bosnia and Herzegovina

### Bosnia & Herz.: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

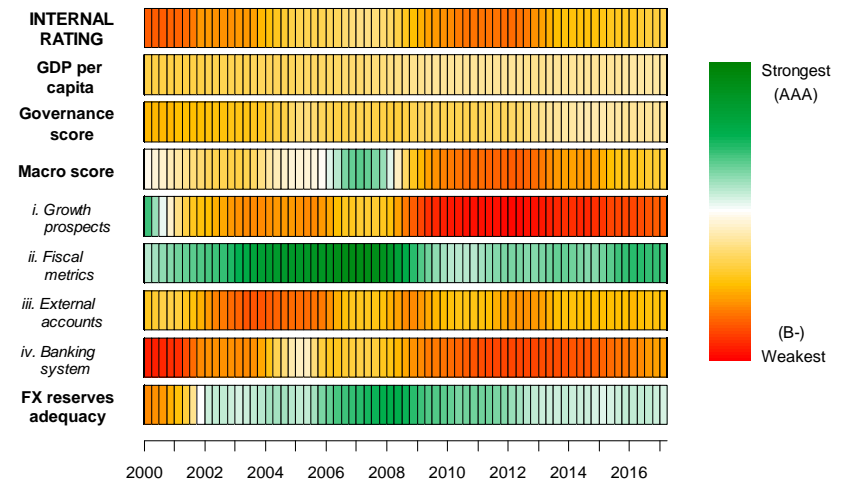
- BB, positive outlook
- The positive trend reflects the restored fiscal discipline after the 2008/09 crisis
- Rating agencies assign a higher political risk to the country amid strong ethnic divisions

#### Official rating agencies:

- Moody's: B3, stable outlook
- S&P: B, stable outlook
- Fitch: not rated
- Recent developments: no change in the last year

### Bosnia & H: Country fundamentals

Internal rating: BB / Agencies avg. rating: Lowest

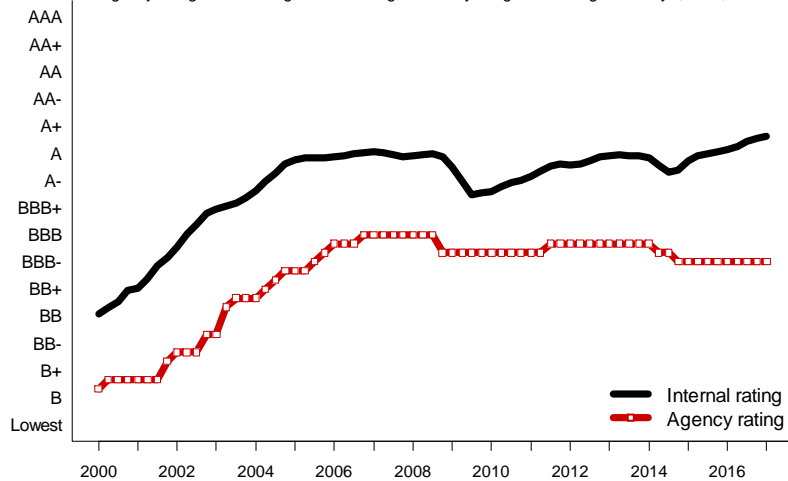


# APPENDIX – COUNTRY RISK PROFILES

## Bulgaria

### Bulgaria: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

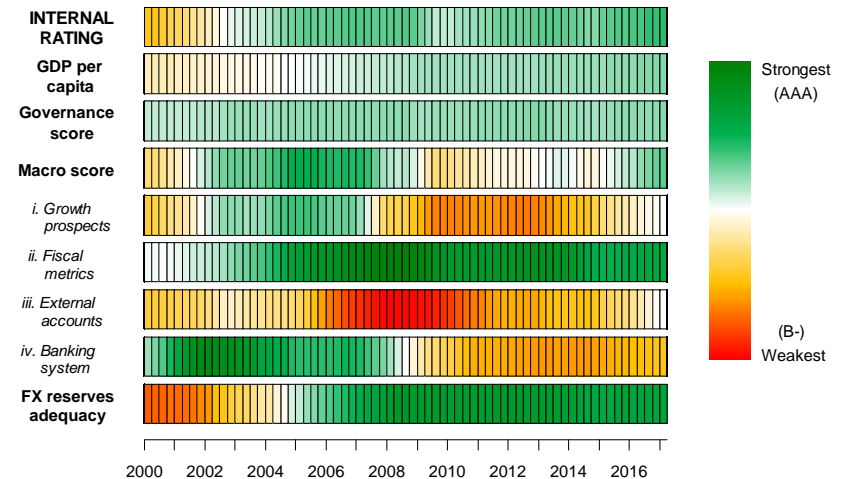
- A, positive outlook
- Steady improvement supported by reduced external imbalances, strong fiscal discipline
- Steady gap with agencies amid their poorer governance score

#### Official rating agencies:

- Moody's: Baa2, stable outlook
- S&P: BB+, stable outlook
- Fitch: BBB-, stable outlook
- Recent developments: no change in the last year

### Bulgaria: Country fundamentals

Internal rating: A / Agencies avg. rating: BBB-

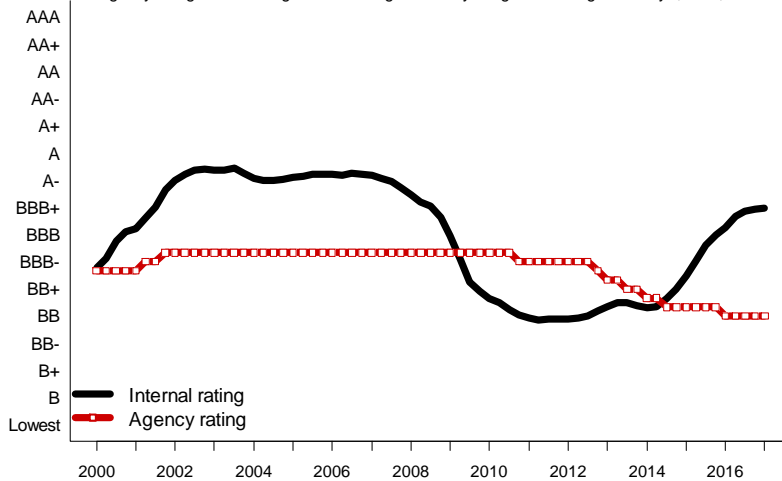


# APPENDIX – COUNTRY RISK PROFILES

## Croatia

### Croatia: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

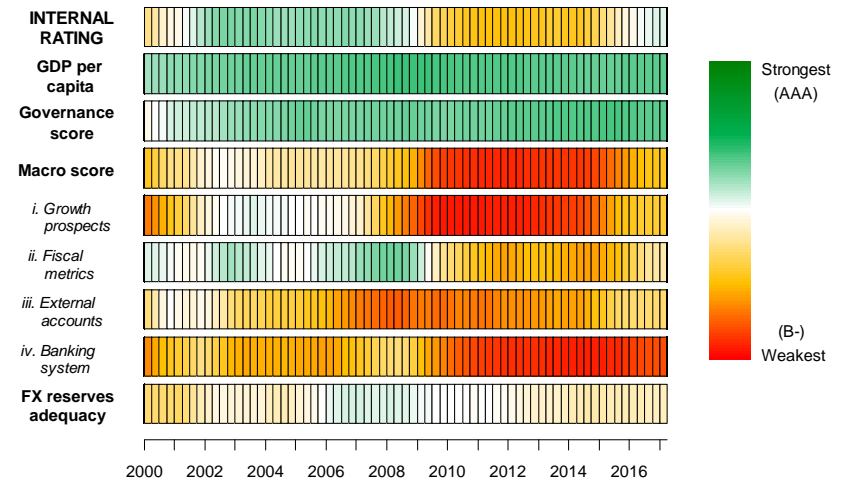
- BBB+, stable outlook
- The strong improvement is driven by a convincing exit from a 6-year long recession and the restored fiscal discipline
- High fragmentation in the parliament is a source of risk better captured by official rating agencies

#### Official rating agencies:

- Moody's: Ba2, stable outlook
- S&P: BB, stable outlook
- Fitch: BB, stable outlook
- Recent developments: all the three major rating agencies have revised the outlook to stable from negative starting from December 2016

### Croatia: Country fundamentals

Internal rating: BBB+ / Agencies avg. rating: BB



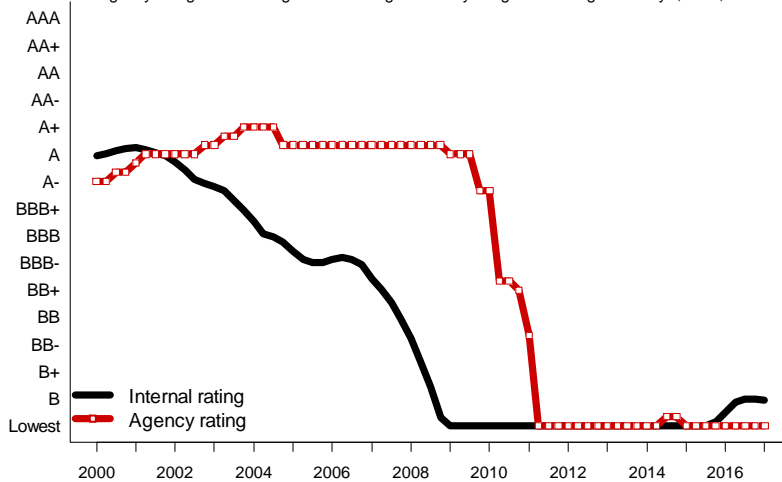


# APPENDIX – COUNTRY RISK PROFILES

## Greece

### Greece: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

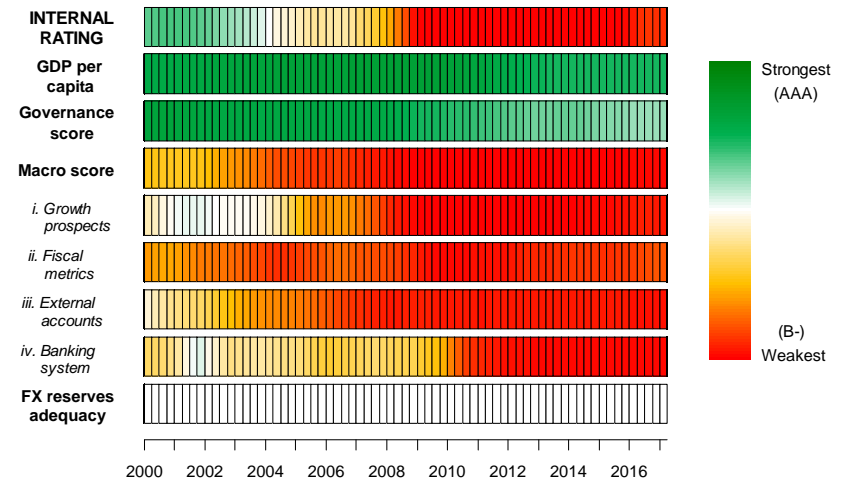
- B, stable outlook
- Strong fiscal consolidation under the third bailout programme was the major driver for the increase in the internal rating
- The country, however, is likely to remain dependent on concessional finding for the years to come

#### Official rating agencies:

- Moody's: Caa3, stable outlook
- S&P: B-, stable outlook
- Fitch: CCC, stable outlook
- Recent developments: no change in the last year

### Greece: Country fundamentals

Internal rating: B / Agencies avg. rating: NA

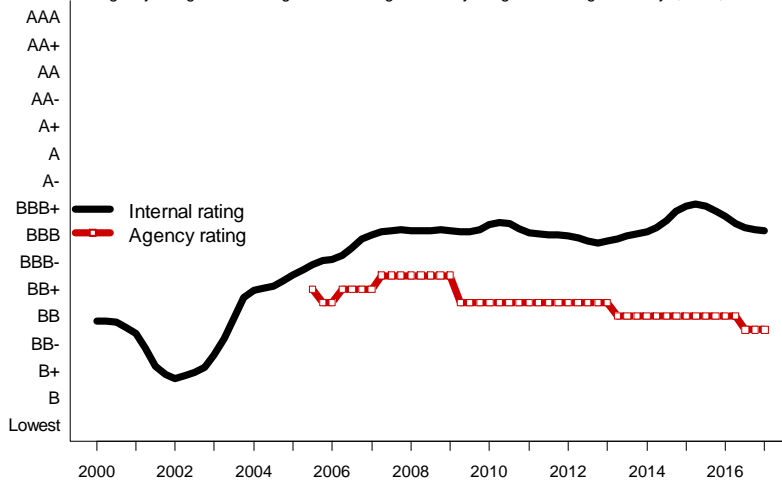


# APPENDIX – COUNTRY RISK PROFILES

## Macedonia

### Macedonia: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

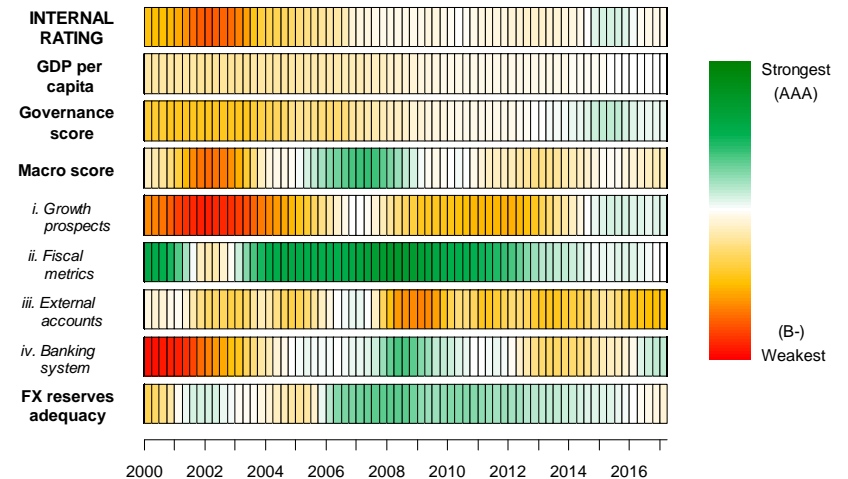
- BBB, stable outlook
- We recently lowered the internal rating to BBB from BBB+ amid weakening fiscal discipline and worsening external account metrics
- The prolonged institutional crisis is also weighing on market sentiment

#### Official rating agencies:

- Moody's: not rated
- S&P: BB-, stable outlook
- Fitch: BB, negative outlook
- Recent developments: downgrade by Fitch in August 2016 (from BB+ to BB), which also maintained the negative outlook

### Macedonia: Country fundamentals

Internal rating: BBB / Agencies avg. rating: BB

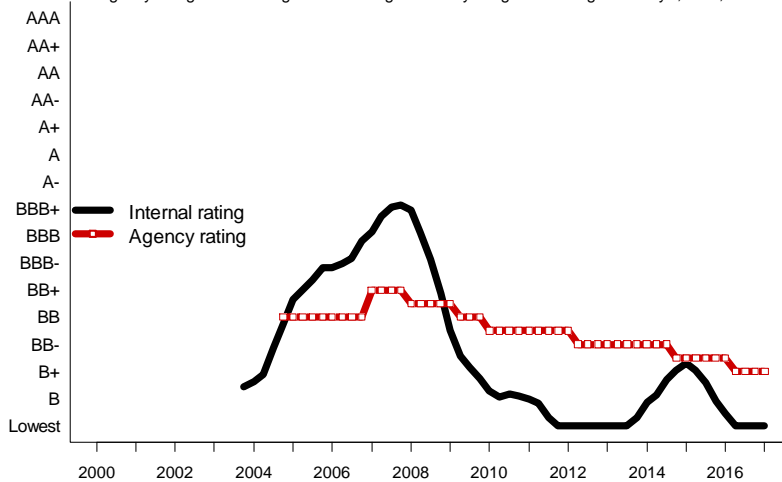


# APPENDIX – COUNTRY RISK PROFILES

## Montenegro

### Montenegro: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

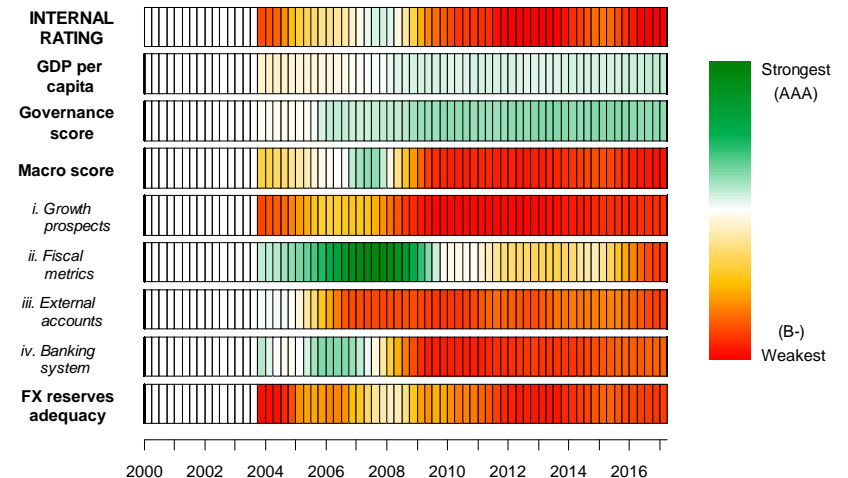
- B- (lowest score), stable outlook
- Severe deterioration in fiscal metrics and double-digit current account deficit are key constraints to the country's creditworthiness
- Montenegro is the only country in the SEE region where our internal rating is lower than those of official agencies

#### Official rating agencies:

- Moody's: B1, negative outlook
- S&P: B+, negative outlook
- Fitch: not rated
- Recent developments: downgrade by Moody's in May 2016 (from Ba3 to B1); also S&P initiated the negative outlook in May 2016

### Montenegro: Country fundam.

Internal rating: Lowest / Agencies avg. rating: B+

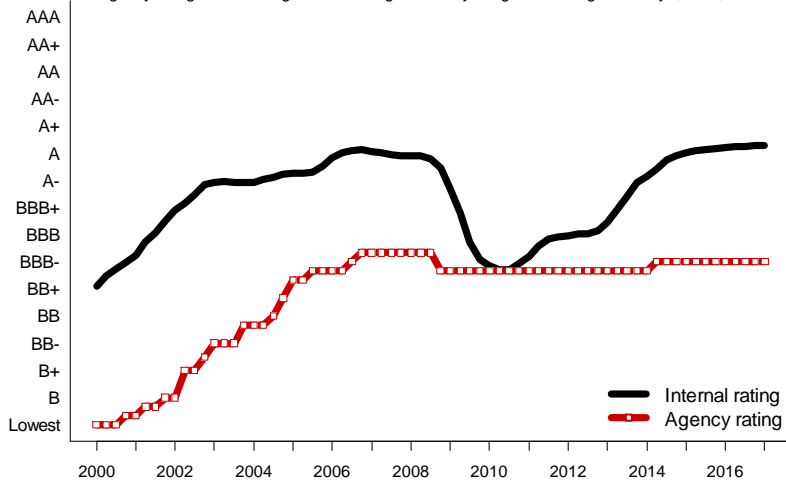


# APPENDIX – COUNTRY RISK PROFILES

## Romania

### Romania: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

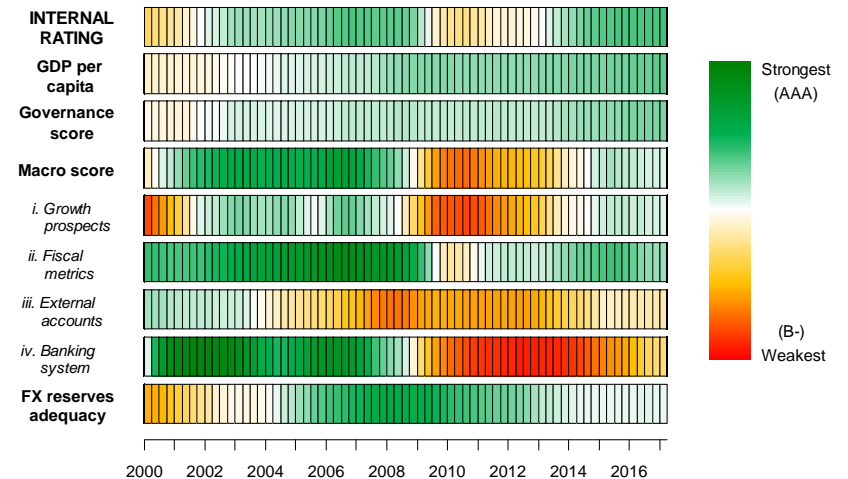
- A, stable outlook
- Upward trend thanks to rising GDP per capita, though there are increasing signs that the economy is overheating due to the large fiscal stimulus in place
- Deterioration in fiscal metrics is closely monitored by rating agencies

#### Official rating agencies:

- Moody's: Baa3, stable outlook
- S&P: BBB-, stable outlook
- Fitch: BBB-, stable outlook
- Recent developments: Moody's revised its outlook to stable from positive in April 2017

### Romania: Country fundamentals

Internal rating: A / Agencies avg. rating: BBB-

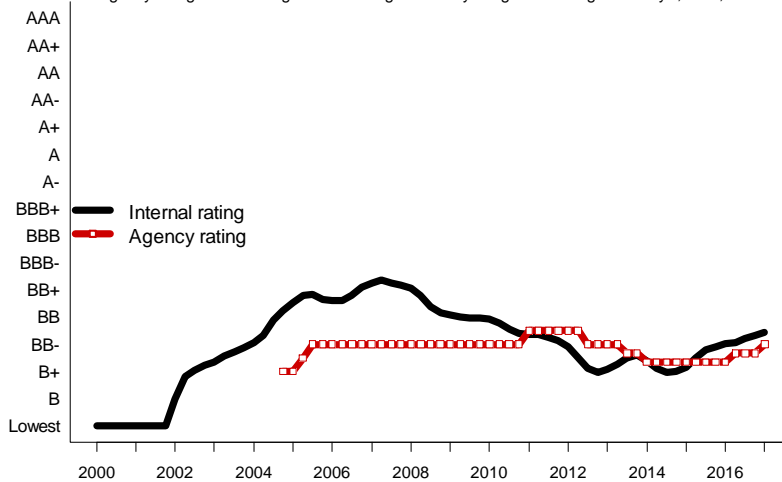


# APPENDIX – COUNTRY RISK PROFILES

## Serbia

### Serbia: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

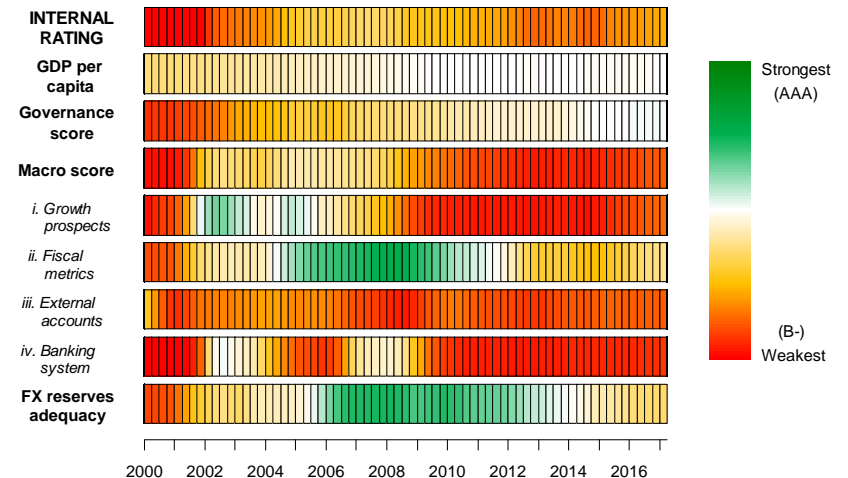
- BB-, stable outlook
- Upward trend supported by improving fiscal metrics and better Governance Score
- Landslide victory by Mr. Vučić in the presidential elections held in April 2017, combined with large parliamentary majority by SNS, should help political stability.

#### Official rating agencies:

- Moody's: Ba3, stable outlook
- S&P: BB-, positive outlook
- Fitch: BB-, stable outlook
- Recent developments: upgrade by Moody's (from B1 to Ba3) in March 2017, positive outlook from stable by S&P since Dec 2016

### Serbia: Country fundamentals

Internal rating: BB- / Agencies avg. rating: BB-

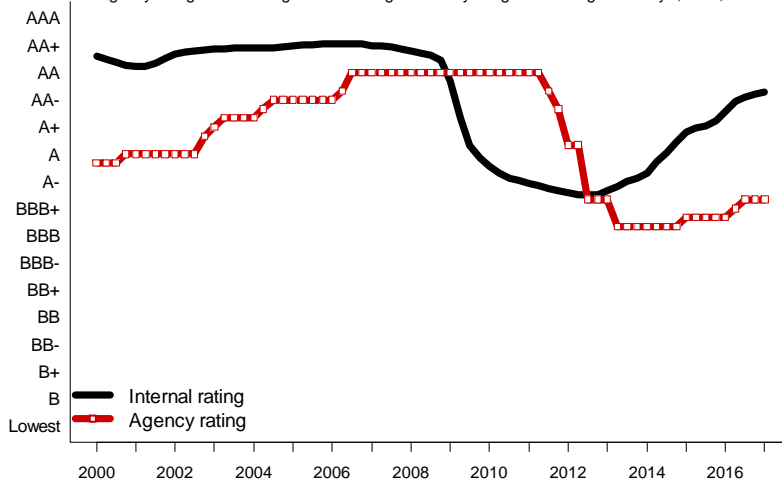


# APPENDIX – COUNTRY RISK PROFILES

## Slovenia

### Slovenia: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

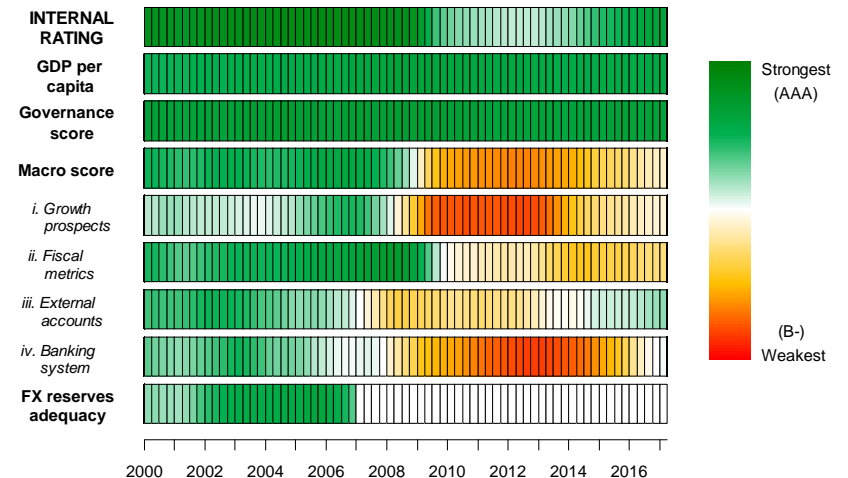
- AA-, stable outlook
- Strong economic recovery, successful clean-up of the banking system and record-high current account surplus all supported the upward trend in the internal rating
- Also fiscal metrics are gradually improving

#### Official rating agencies:

- Moody's: Baa3, positive outlook
- S&P: A, positive outlook
- Fitch: A-, stable outlook
- Recent developments: upgrade by Fitch in Sep 2016 (from BBB+ to A-), positive outlook by Moody's and S&P, respectively since Sep and Dec 2016

### Slovenia: Country fundamentals

Internal rating: AA- / Agencies avg. rating: BBB+

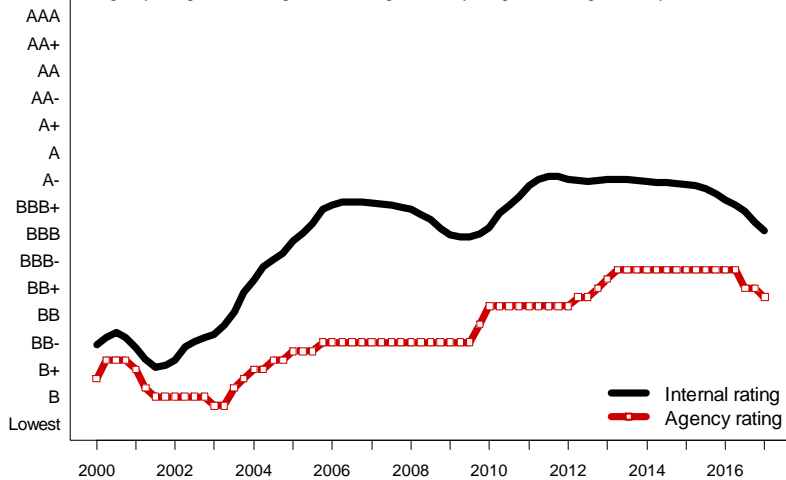


# APPENDIX – COUNTRY RISK PROFILES

## Turkey

### Turkey: Internal rating vs Agencies' rating

Agency rating is the average of the Foreign Currency Long-Term rating of Moody's, S&P, Fitch



#### Internal rating:

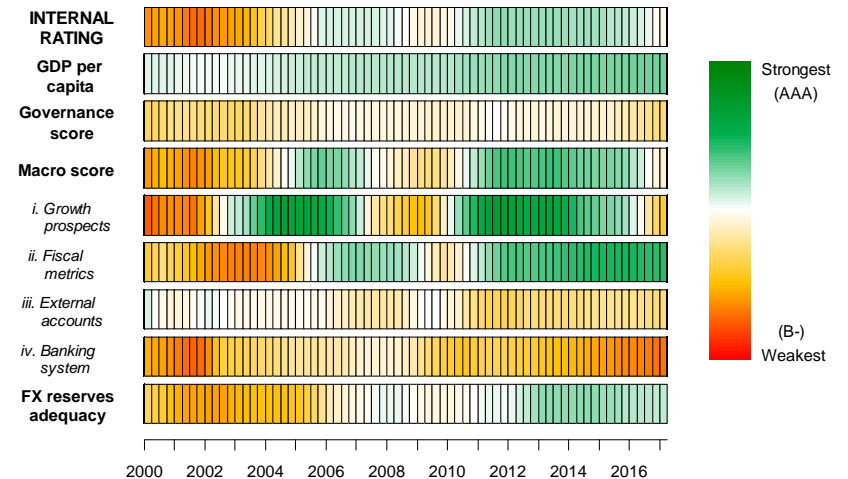
- BBB, stable outlook
- The trend in the internal score is on a downward trajectory amid worsened growth prospects and banking system fragilities (e.g. high dependency on external funding). Budget metrics are still well above average though
- Political risk dominates market sentiment

#### Official rating agencies:

- Moody's: Ba1, negative outlook
- S&P: BB, negative outlook
- Fitch: BB+, stable outlook
- Recent developments: multiple negative rating actions since the failed coup in July 2016. The last was the negative outlook by Moody's in March 2017

### Turkey: Country fundamentals

Internal rating: BBB / Agencies avg. rating: BB+



# APPENDIX – IMPRINT

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### Sources for charts and tables:

Thomson Reuters Datastream, Bloomberg, own calculations, fsi.fundforpeace.org, info.worldbank.org/governance/wgi/#home

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