

BlackRock  
Sovereign Risk Index

Newcomers and Movers

BlackRock Investment Institute  
Quarterly Update – April 2012

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## First Words and Summary

The BlackRock Sovereign Risk Index (BSRI) provides investors with a framework for tracking sovereign credit risk. Drawing on a pool of financial data, surveys and political insights, the BSRI assesses sovereign credit risk of 48 countries. In this quarterly update, we highlight newcomers and discuss the biggest movers. Our main findings are:

- ▶ Newcomers **Singapore** and **Taiwan** parachuted into the top 10 thanks to their sterling debt profiles. Two other newcomers, **Slovakia** and **Slovenia** joined many of their eurozone colleagues in the bottom half of the index.
- ▶ Moving up in the BSRI rankings were **Germany**, **Peru** and **Colombia**. Germany improved the most, thanks to an increase in perceived government stability. **South Korea**, **Belgium** and **Croatia** declined the most, dropping two notches each.

The BSRI uses more than 30 quantitative measures, complemented by qualitative insights from third-party sources. The index breaks down the data into four main categories that each count toward a country's final BSRI score and ranking: Fiscal Space (40%), Willingness to Pay (30%), External Finance Position (20%) and Financial Sector Health (10%).

**Fiscal Space** includes metrics such as debt to GDP, the debt's term structure, tax revenues and dependency ratios.

**Willingness to Pay** measures a government's perceived effectiveness and stability, and factors such as corruption.

**External Finance Position** includes exposure to foreign currency debt and the state of the current account balance.

**Financial Sector Health** gauges the strength of the banking system. For complete descriptions, see [Introducing the BlackRock Sovereign Risk Index](#).

A health warning: The BSRI's inputs are updated at irregular intervals, meaning some ratings changes may only reflect the timing of data releases. Small changes in ratings can spur big changes in rankings as many issuers are bunched together in the index. Lastly, the BSRI is not meant to forecast the creditworthiness of countries.

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### Asian Tigers and Eurozone Stragglers

	Country	BSRI Ranking	5 Year CDS	S&P Rating and Outlook
	Singapore	2	–	AAA / Stable
	Taiwan	6	–	AA- / Stable
	Slovakia	34	216	A / Stable
	Slovenia	38	323	A+ / Negative

Sources: BlackRock, Bloomberg and Standard & Poor's.  
Notes: Data as of March 31, 2012. CDS in basis points.

### About Us

The BlackRock Investment Institute leverages the firm's expertise across asset classes, client groups and regions. The Institute's goal is to produce information that makes BlackRock's portfolio managers better investors and helps deliver positive investment results for clients.

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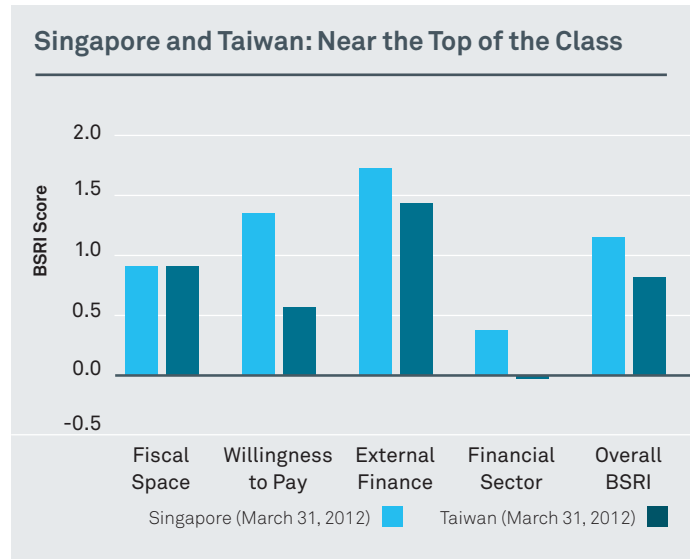
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## Coming in With a Bang

The BSRI now tracks an additional four countries, bringing the total to 48. **Singapore** and **Taiwan** (added for reasons outlined in our earlier publication *A Rapidly Changing Order – The Rising Prominence of Asian Debt Markets*) both debuted in the top 10. We also included **Slovakia** and **Slovenia** in light of the enfolding eurozone debt crisis. See the table on the previous page.

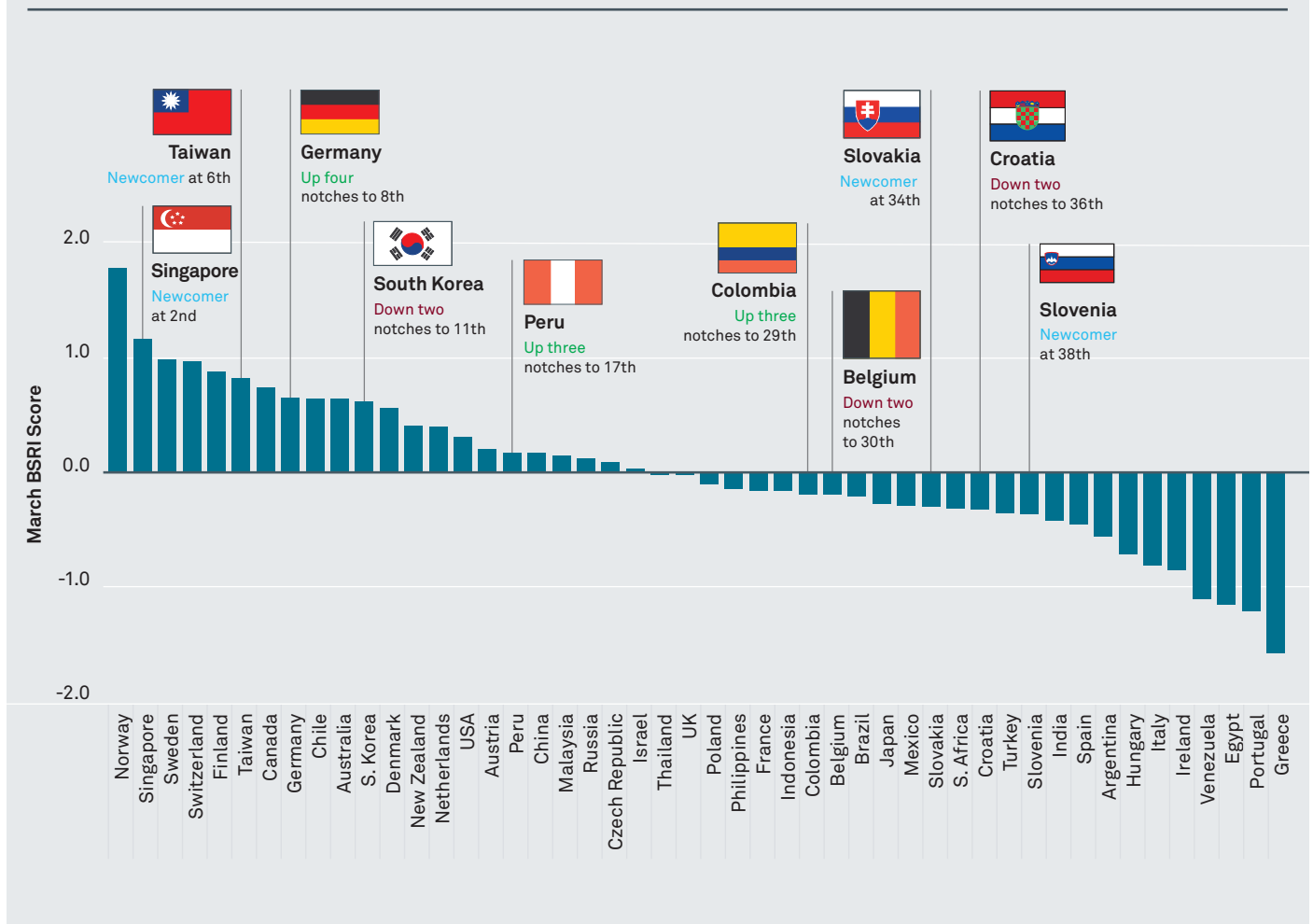
**Singapore** and **Taiwan** are model citizens when it comes to their net debt levels (negative); they run tight budget ships; and their debt is held almost exclusively by domestic players. Singapore has no foreign currency debt to speak of while Taiwan has very little. Singapore scores higher in the Willingness to Pay category because of its perceived government stability. It also beats Taiwan on the Financial Sector front due to higher bank capital. See the chart at right.



Source: BlackRock.

## Who's New, Who's Up and Who's Down

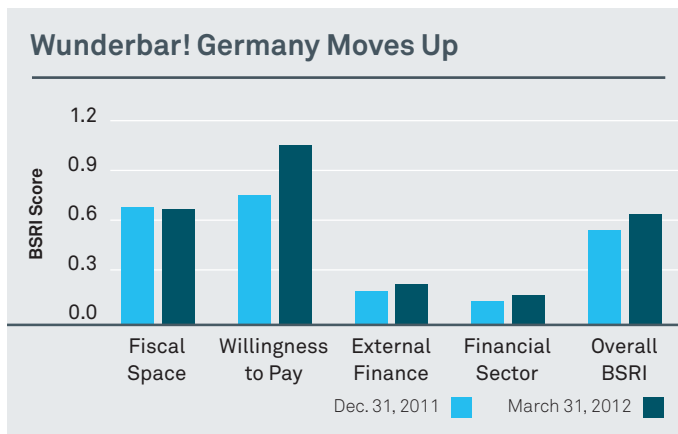
BlackRock Sovereign Risk Index Rankings March 31, 2012



Sources: BlackRock, Bloomberg, IMF, World Bank, central banks, Eurostat, BIS, Consensus Economics, UN, Moody's, Standard and Poor's, Fitch, PRS Group and [www.euromoneycountryrisk.com](http://www.euromoneycountryrisk.com). Notes: Ranking changes based on movement from the index at Dec. 31, 2011. Current rankings based on enlarged index as of March 31, 2012.

## Up and Down the Ladder

Germany jumped four notches to 8<sup>th</sup> place in the quarter, making it the BSRI's biggest mover. The eurozone's powerhouse overtook Denmark, Australia, Chile and South Korea. Germany's upgrade was triggered by higher ratings for government stability and popular support by one of our third-party sources, consultancy Political Risk Services. See the chart below.



Source: BlackRock.

Chancellor Angela Merkel's approval ratings jumped in January, reflecting popular support for her firm handling of the eurozone debt crisis. Merkel did suffer a setback when her CDU party lost power in the state of Baden-Württemberg. The May 13 elections in North Rhine-Westphalia, Germany's most populous state, are the next touchstone.

Peru's BSRI ranking rose for the second quarter in a row, up three notches to 17<sup>th</sup> place. The driver was a higher Willingness to Pay score as new President Ollanta Humala kept economic policy on course. This pragmatic approach appears to have alleviated investor concerns about nationalisations and other radical policies. Colombia also rose three notches, to 29<sup>th</sup> place, because its short-term debt decreased significantly.

South Korea, Belgium and Croatia were the biggest decliners, dropping two notches each. South Korea's change was primarily driven by movements of other countries around it. Belgium's ailments included a worsening maturity profile and outlook for the cost of debt servicing. Croatia's external debt-to-GDP ratio increased while its short-term debt-to-GDP ratio more than tripled.

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