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# **S&P's approach to factor financial sector contingent liabilities into sovereign ratings**

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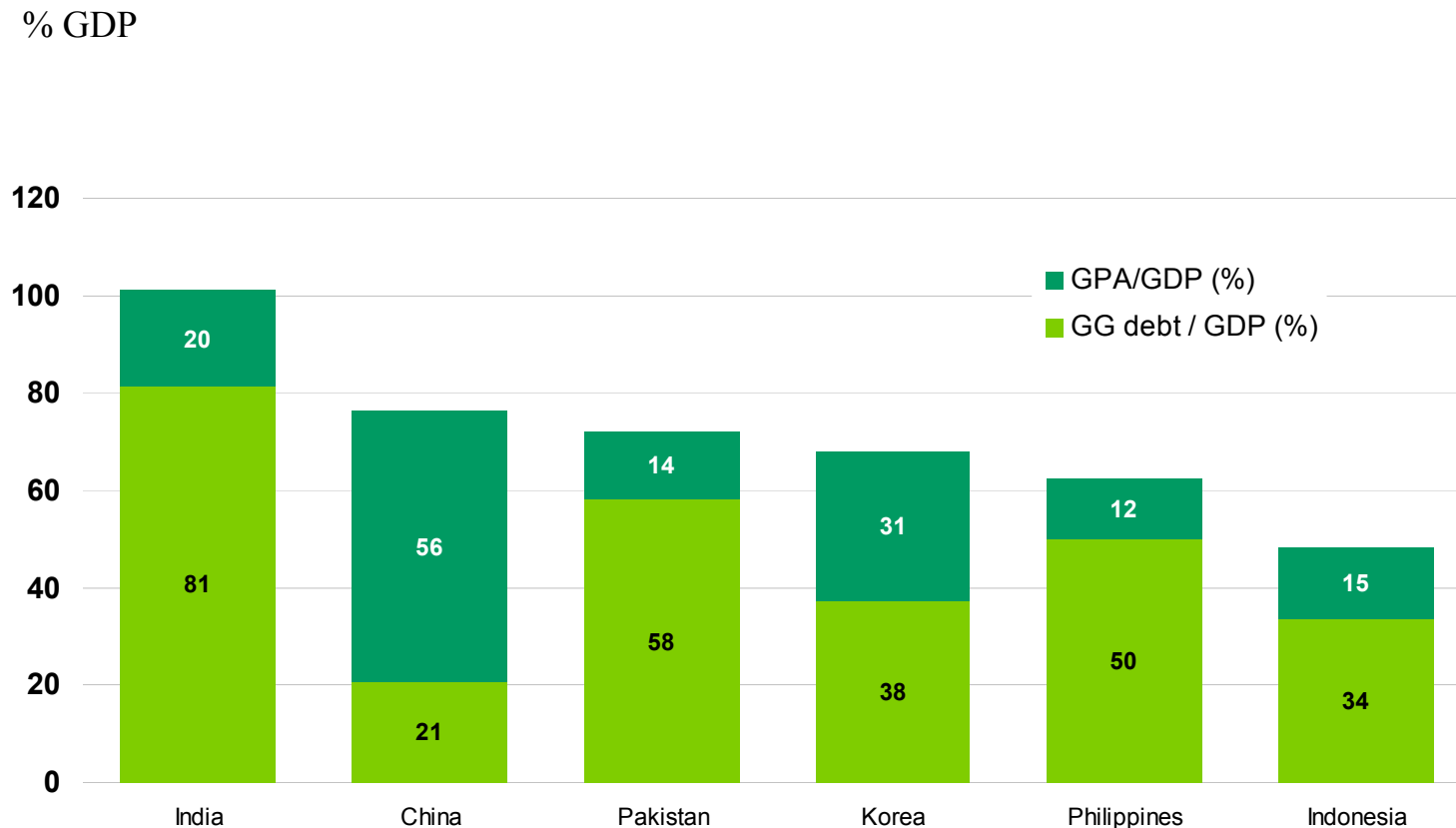
# A simple methodology to estimate contingent liabilities

- **Step 1:** estimate the potential proportion of credit to the private sector and nonfinancial public enterprises that could become problematic during the full course of a recession. We produce such estimates of **gross problematic assets (GPAs)** as a % of total credit for the banking systems of 82 countries.
  - **5-15%** Belgium, Denmark, France, Germany, Ireland, NL, Switzerland, UK, US....
  - **10-20%** Austria, Greece, Italy, Japan, Portugal....
  - **15-30%** Czech, Estonia, Hungary, Israel, Lithuania, Slovenia...
  - **25-40%** Bulgaria, Croatia, Latvia, Poland, Turkey...
  - **35-50%** Kazakhstan, Romania, Russia
  - **50-75%** Ecuador, Egypt, Ukraine
- **Step 2:** Once a financial system is categorized in a GPA range, this estimate is then **multiplied by domestic credit as a % of GDP** to measure the potential contingent liability in relation to the size of the economy.

# Gross General Government Debt & Gross Problematic Assets/ GDP (%)

## Asia

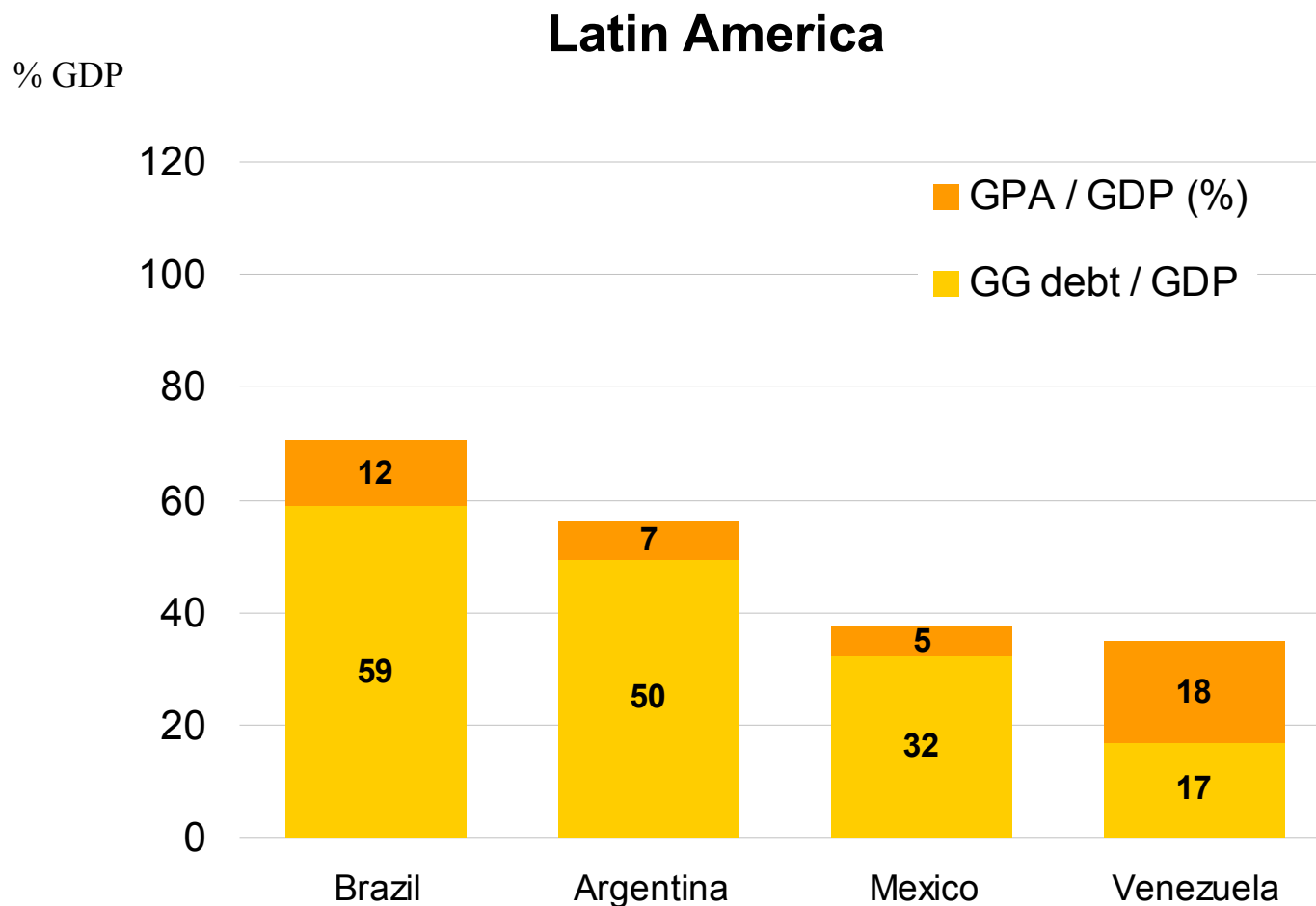
S&P 2008  
Estimates



Gross Problematic Assets: Upfront fiscal costs reflect gross problematic assets, including nonperforming loans, other real estate owned, and restructured credits, and not ultimate losses, which will be reduced by recoveries, proceeds from realized collateral, and loans that resume payment.

# Gross General Government Debt & Gross Problematic Assets/ GDP (%)

S&P 2008  
Estimates



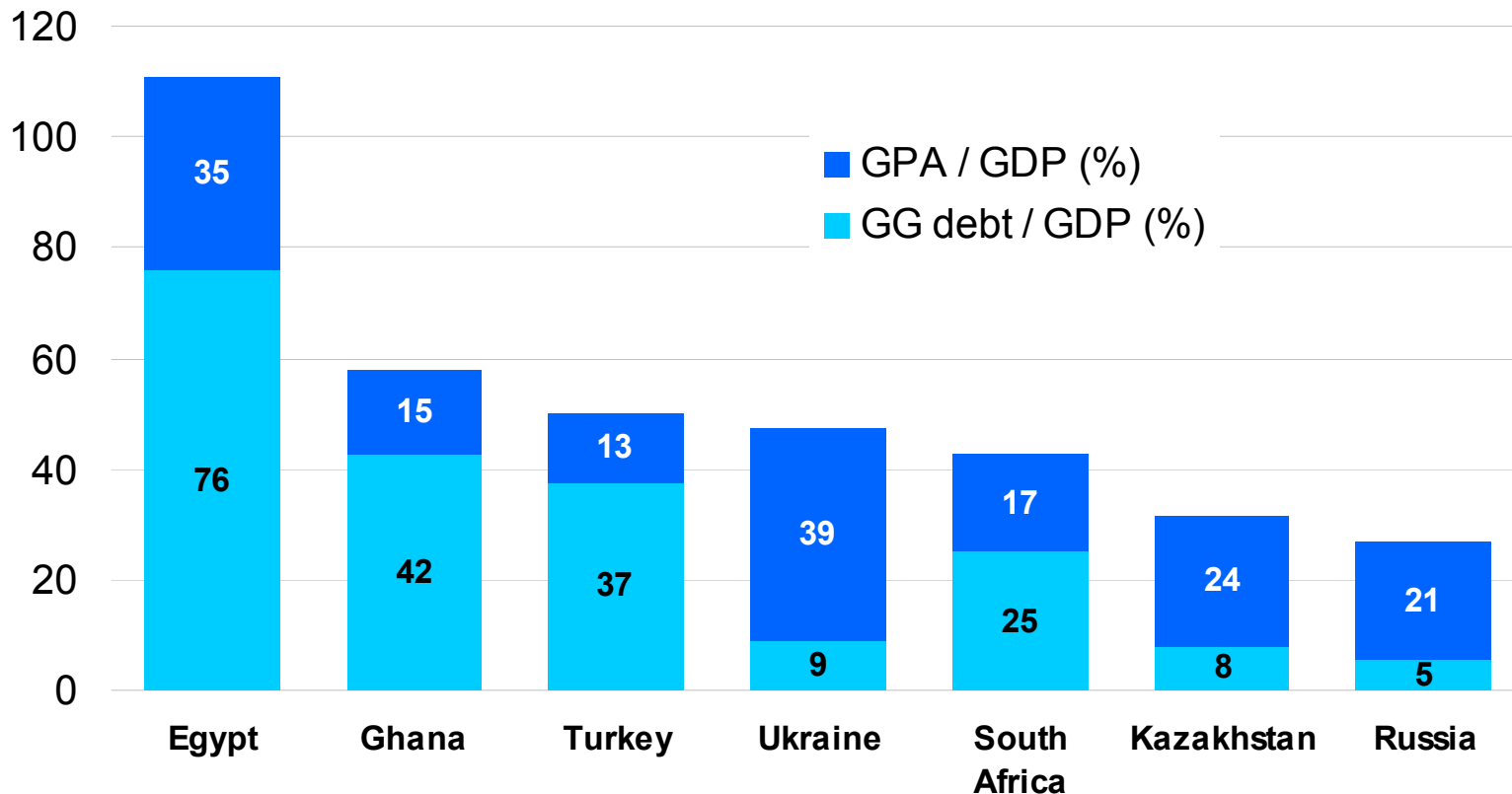
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# Gross General Government Debt & Gross Problematic Assets/ GDP (%)

S&P 2008  
Estimates

## EMEA

% GDP



EMEA; Europe, Middle East and Africa

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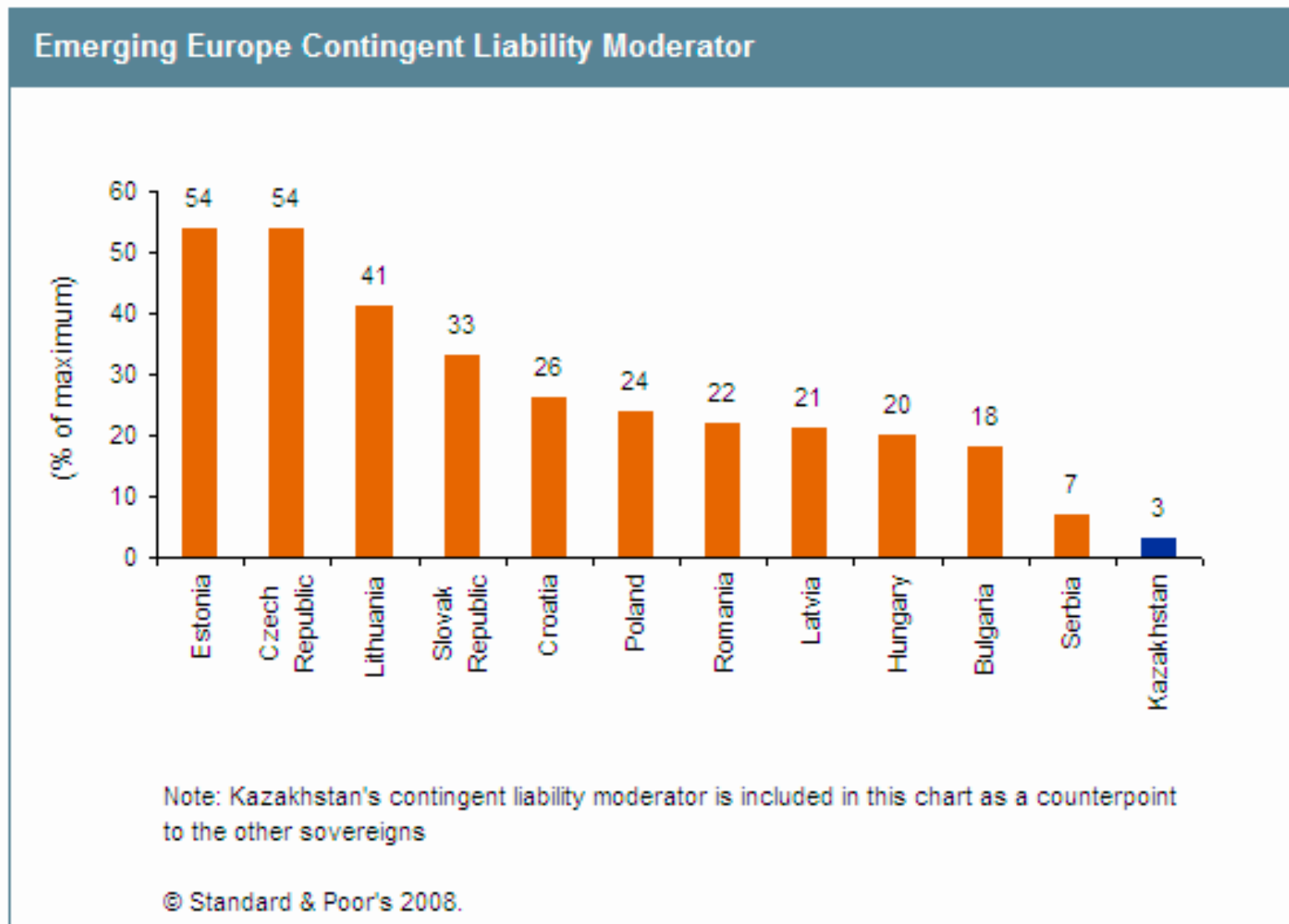
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# **In EM foreign ownership can mitigate cont. liabilities**

**We assess three factors:**

- 1. Share of foreign ownership in banking system (higher +)**
- 2. Willingness of parent to support (core investment?)**
- 3. Ability of parent to support (parent rating)**

# Eastern Europe: Effective Parent Bank Support Can Differ



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