國家評等上限
跨業別評等準則報告

範疇
本報告針對惠譽評估新增與現行之國家評等上限的評等準則進行說明，並取代原先於 2015 年 8月 20 日發佈之「國家評等上限」報告。本評等準則未有重大變動。主要差異在於新版本的非洲貨幣安排採取類似於歐元區的處置方式，適用於相關安排的個別成員國之國家評等上限得以彼此區別。

國家評等上限反映了資本及/或外匯管制風險，該等管制的實施將防止或實質妨礙私人部門將當地貨幣轉為外國貨幣之能力，以及將獲益轉予非居民債權人之能力，也就是匯兌風險。就發行人外匯評等及主權管轄地內發起之交易而言，國家評等上限並非評等，而是一項重要分析變數暨限制。

重要考量
匯兌風險：惠譽衡量各國當局實施該等管制的動機與所涉及之成本與效益，據以評估管制實施之可能性，包括資本及/或外匯管制，或延遲正式或非正式私人部門外債償付。

重要匯兌因素：惠譽所評估的國家匯兌風險，涵蓋了以下因素：

- 經濟整合程度：就全球經濟而言，因干預私人部門合約所導致之潛在貿易及投資損失；
- 財務整合水準：包括現有限制與控制資本流動的程度；
- 限制國際貿易與資金流量之機構管制，例如歐盟、OECD 及 WTO 會員國；
- 法律與治理規範；
- 偏低而穩定的通膨紀錄，致使總體經濟穩定，不易受到外部衝擊的影響，並降低非常態性政策 (如外匯管制) 效應產生的可能性；以及
- 外匯機制的信譽與穩定性。

與 IDR 的緊密關聯性：國家評等上限是從外匯發行人違約評等 (IDR) 得出的「評級」，反映出匯兌風險與主權風險間的關聯性一般較強。相關的評等委員會可決定將 IDR 調升至多三個評級，若該上限涉及貨幣聯盟或超國家貨幣協定，則至多可調升六個評級。

國家評等上限模型：惠譽根據匯兌風險重要因素，使用具有 18 個指標的簡單評分模型。模型的評分範圍是 0 至 3，代表高於主權 IDR 時評級調升所適用的可能範圍。

本報告包含中文摘要與英文全文，譯文若與英文有出入，請以英文為準。
This report contains of summary Chinese translation and English full report. In the event of any dispute / misinterpretation, the English version shall prevail.
Country Ceilings Criteria
Cross-Sector Criteria Report

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This Criteria Report replaces the previous report, Country Ceilings, published on 16 August 2016. The criteria have not significantly changed.

Scope
This report describes Fitch Ratings’ criteria for reviewing new and ongoing Country Ceilings, and applies to all countries with Fitch-rated sovereign issuers.

Country Ceilings capture the risk of capital and/or exchange controls being imposed that would prevent or significantly impede the private sector’s ability to convert local currency into foreign currency and transfer the proceeds to non-resident creditors – transfer and convertibility (T&C) risk. Country Ceilings are not ratings, but rather a key analytical input and constraint on the foreign-currency ratings of entities and transactions originating in the sovereign’s jurisdiction.

Key Drivers
Transfer and Convertibility Risk: Fitch assesses the likelihood of the imposition of capital and/or exchange controls or a formal or informal moratorium on private-sector external debt by evaluating the incentives faced by the individual country’s authorities to impose such controls and the costs and benefits involved.

Key T&C Factors: Fitch’s assessment of a country’s T&C risk incorporates the following factors:

- degree of economic integration in the global economy and, therefore, the potential trade and investment losses arising from intervening in private-sector contracts;
- level of financial integration, including the extent of existing restrictions and controls on capital flows;
- institutional constraints on restricting international trade and financial flows, such as membership of the EU, OECD and WTO;
- rule of law and governance risks;
- record of low and stable inflation, rendering macroeconomic stability less vulnerable to external shocks and reducing the likelihood of unorthodox policy responses such as exchange controls; and
- credibility and the character of the exchange rate regime.

Close Link to IDR: The Country Ceiling is “notched” from the sovereign’s Foreign-Currency Issuer Default Rating (IDR), indicating the generally strong correlation between T&C risk with sovereign risk. The relevant rating committee can decide a maximum uplift over the IDR of three notches, unless the ceiling concerns a member of a currency union or supranational monetary arrangement – when the maximum uplift is six notches.

Country Ceiling Model: Fitch uses a simple scoring model with 16 input indicators, based on the key factors for T&C risk. The model score ranges from zero to three, indicating the potential range of upward notching that could be applied above the sovereign’s IDR.

Related Criteria
Sovereign Rating Criteria (July 2017)
Rating Non-Financial Corporates Above the Country Ceiling (February 2017)
Distressed Debt Exchange (June 2016)
Criteria for Country Risk in Global Structured Finance and Covered Bonds (September 2016)

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Defining Sovereign, Country and T&C Risk

The terms “sovereign risk” and “country risk” are often used interchangeably, but are not the same. The former is an assessment of the risk that the government of a sovereign nation will fail to honour its debt obligations. Country risk is a broader concept that covers the risk to cross-border foreign-currency lending and investment from events in a particular country outside the control of the private sector.

This risk to doing business can include a volatile operating environment, for instance due to the outbreak of war, or expropriation. “T&C risk” is a specific country risk: that of the imposition by the authorities of exchange controls that prohibit the transfer overseas of foreign currency to service foreign debt and the risk that the FX market will close. Sovereign, country and T&C risks are highly correlated, as the government is often the key actor in all three, but country and T&C risk apply primarily to the private sector.

Government actions and policies directly affect the rest of the economy (unlike individual private-sector entities that generally have no influence over the performance of the economy as a whole), but government policy is greatly influenced by broader economic developments. Governments may pursue policies that are detrimental to their own creditworthiness, but which they believe are appropriate from a broader economic and political perspective (such as using scarce FX reserves to defend the exchange rate even if this puts at risk the government's ability to service its foreign debt).

Governments may also in effect nationalise the foreign debt obligations of the banking sector or even key companies because of their importance to the continued functioning of the economy, even if by doing so the government's own creditworthiness is imperilled (as was the case in Korea in 1997-1998).

Constraints on Imposing Capital Controls

As international trade and investment have become more important in recent decades, the cost-benefit calculus faced by policymakers has shifted against the imposition of exchange controls, rendering invalid the sovereign ceiling assumption that all governments in all instances of financial distress will impose a formal or informal moratorium on private-sector external debt service. Global private-sector trade and capital flows have increased dramatically, and private-sector capital flows have replaced official flows as the primary source of international capital for developing and emerging economies. In addition, in recent years authorities in emerging markets have implemented measures to deepen local capital markets, including easing access for non-resident investors.

Local financial systems are increasingly integrated into global networks as international banks consolidate and expand their presence. More and more financial institutions and companies from emerging markets are accessing international capital markets to invest abroad as well as domestically. Many countries have removed restrictions on capital flows in recent decades. However, the tide of globalisation is not uniform, and some governments have imposed greater political and domestic control over strategic industries, highlighting the significant country risks faced by investors in many jurisdictions.

Nonetheless, as economies have generally become more open to trade and integrated into global production and financial networks, the cost of imposing wide-ranging exchange controls has become greater in terms of reputation, trade losses, commercial and legal sanctions, lack of international credit and lower foreign and domestic investment, and therefore weaker long-run growth prospects. Greece’s experience in 2015 illustrates that authorities may try to postpone the imposition of capital controls as long as possible. Highly restrictive capital controls were imposed there only when the government was running out of options to support the banks when deposits were being withdrawn rapidly. Even if country authorities do impose capital controls, the likelihood that these measures will be selective has increased.
Restrictions on capital flows in advanced industrialised economies have been virtually eliminated, and the capacity of the authorities in countries with complex free markets and open economies to impose capital controls has decreased greatly since the 1970s and 1980s (see Appendix 1).

The Country Ceiling Approach

Fitch’s approach in determining the degree of T&C risk is derived from an analysis of the evidence regarding sovereigns’ resort to exchange controls in sovereign crises dating back to the mid-1990s. This approach reflects the impact of globalisation and the experience of recent sovereign crises.

Fitch conducts a reasonable investigation of the factual information that it relies upon, and obtains reasonable verification of that information from independent sources to the extent such sources are available. However, assignment of Country Ceilings inevitably involves a degree of judgement. The policy reactions of sovereign nations in future crises will also not necessarily conform to the previous experience of a particular country or of countries in general.

A direct link between the Country Ceilings and the sovereign Long-Term Foreign-Currency IDR is retained because of the close correlation between sovereign and country risk. Specifically, the Country Ceiling is notched from the Long-Term Foreign-Currency IDR of the sovereign up to a maximum of three notches. Broad definitions for each of the potential notching outcomes are as follows:-

0 = no material incentives against the imposition of capital controls relative to peers
+1 = moderate incentives against the imposition of capital controls relative to peers
+2 = strong incentives against the imposition of capital controls relative to peers
+3 = very strong incentives against the imposition of capital controls relative to peers

The exception to this approach is where the Country Ceiling is partly determined by membership of a currency union, such as the eurozone, or common monetary arrangements. In that case, the maximum notching rises to six, with the notching reviewed if the Foreign-Currency IDR is downgraded, especially to low-sub-investment grade.

Conversely, the Foreign- and Local-Currency IDRs of the sovereign are not directly affected by the Country Ceiling. This is because sovereign creditworthiness is not constrained by the risk of exchange controls, but rather by fiscal and external solvency and the risk that the FX market effectively closes (all of which are directly affected by government policies). As the experience of recent sovereign crises demonstrates, governments have defaulted while allowing the private sector to service its own obligations, local and foreign.

An Outlook is not formally assigned to a Country Ceiling because it is not a rating. Nonetheless, due to the notching approach, it is likely that if the Long-Term Foreign-Currency IDR were upgraded, the Country Ceiling would also be revised upwards; similarly for negative sovereign rating actions. Consequently, where the Country Ceiling is above the sovereign rating, those entities and transactions with ratings at the Country Ceiling may have greater volatility than would normally be associated with ratings at that level.

Exceptionally strong private entities and structured transactions that incorporate enhancements that mitigate the T&C risk can be rated above the Country Ceiling. A Country Ceiling above the sovereign rating does not imply that the private sector as a whole is a better credit than the government. Rather, it means that some especially strong entities are not likely to be affected

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1 The further down the scale where a rating lies, generally the greater the likelihood that the rating will move to another rating level, higher or lower.
by potentially imposed capital controls or a formal moratorium, as their ability to service their foreign debt obligations would be unaffected.

The Country Ceiling Model

The Sovereign Rating Committee is responsible for assigning and maintaining Country Ceilings for all Fitch-rated sovereigns. The committee’s assessment is aided by the Country Ceiling Model (CCM), a simple risk model that attempts to capture the costs and benefits – and therefore the incentives faced by authorities in deciding whether to impose exchange and capital controls.

The CCM scores more highly countries that are open in terms of international trade and capital, including the absence of restrictions on trade and capital flows, without a recent history of hyper or chronic inflation, with flexible exchange rate regimes and with a banking and corporate sector that is not heavily leveraged in foreign currency (and therefore a source of further exchange rate weakness). Relatively closed, less developed economies with fixed or managed exchange rate regimes and a record of high inflation and capital controls, correspondingly score poorly under the model.

### Analytical Pillars of the Country Ceiling Model

<table>
<thead>
<tr>
<th>Analytical Pillar</th>
<th>Weight (%)</th>
<th>Input Variable</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule of law and governance risks</td>
<td>10</td>
<td>World Bank indicators of rule of law and control of corruption.</td>
<td>Countries with weak civil institutions and rule of law are more likely to adopt measures including capital controls.</td>
</tr>
<tr>
<td>Institutional constraints</td>
<td>10</td>
<td>Membership of international institutions such as the OECD and EU, and of common monetary and trade areas; membership of the WTO.</td>
<td>The potential benefits in a crisis situation of imposing severe exchange and capital controls are at least partially offset by the costs incurred in violating the letter or spirit of treaty commitments and membership of supranational institutions.</td>
</tr>
<tr>
<td><strong>International trade</strong></td>
<td>20</td>
<td>International trade as a share of GDP; share of world trade; the extent of restrictions on current account transactions.</td>
<td>The more open to international trade and integrated into global production networks, the greater the damage to the economy of imposing indiscriminate exchange and capital controls that prevent the private sector honouring debt contracts.</td>
</tr>
<tr>
<td><strong>International financial integration</strong></td>
<td>20</td>
<td>Stock of foreign assets and liabilities as a share of GDP and extent of restrictions on capital account transactions.</td>
<td>The greater the degree of financial integration and openness to international capital, the greater the costs of imposing exchange controls (as well as the greater the difficulty in enforcing such controls).</td>
</tr>
<tr>
<td>Inflation risks</td>
<td>20</td>
<td>Inflation record over the last 10 years; number of years since an episode of chronic inflation; ratio of (local currency) broad money to GDP.</td>
<td>For countries that have a relatively poor record on inflation and where the exchange rate is a key reference price, the incentive to impose controls on capital flows during a sovereign crisis can be strong.</td>
</tr>
<tr>
<td>Exchange rate risks</td>
<td>20</td>
<td>Net external debt of the bank and non-bank private sectors; exchange rate regime.</td>
<td>The more heavily indebted the private sector, the greater the outflow of capital to service and repay external debt, especially during a crisis when international creditors are less willing to roll over maturing claims. Moreover, a heavily indebted private sector also implies a greater exposure to exchange rate risks.</td>
</tr>
</tbody>
</table>

Source: Fitch

Fixed weights are assigned in the CCM to the areas discussed in the table above. Governance and institutional components are given a weight of 10%; the other four components are weighted at 20%. The variable components are generally calibrated to place each country into one of five risk buckets. The weighted result is then calibrated based on historical experience and Fitch’s analytical judgement to generate the notching from the sovereign IDR.

The CCM generates for each sovereign a model score ranging from zero to three. This score is the indicative notching above the Long-Term IDR that may be assigned to the Country Ceiling.
The Sovereign Rating Committee may assign a different Country Ceiling, for example if a country is a currency union member (see the section below), if the likelihood of capital controls has increased due to a looming crisis, or if a sovereign is rated ‘AA’ or above, constraining potential uplift as the headroom between the IDR and the maximum ‘AAA’ Country Ceiling is limited. As of end-June 2017, 99% of rated sovereigns have a Country Ceiling within one notch of the CCM score, excluding sovereigns in currency unions and those where the actual Country Ceiling is at the AAA rating ceiling and the Long-Term Foreign-Currency IDR is ‘AA’ or above (the model performance cannot be accurately verified at that rating level).

Currency Unions

Country Ceilings for countries in currency unions or supranational currency arrangements tend to have a higher notching uplift. In these cases, institutional, political and practical constraints considerably reduce the risk of exchange and capital controls being imposed, but do not wholly eliminate them, as the imposition of capital controls in Greece in 2015 illustrates.

Fitch imposes a maximum Country Ceiling uplift of six notches above the Foreign-Currency IDR for each member country of the eurozone, the Central African Economic and Monetary Community (CEMAC), the West African Economic and Monetary Union (WAEMU) and the Common Monetary Area (CMA).

In determining the uplift for individual member countries, rating committees take into account the risks related to the country leaving the arrangement or imposing sector-wide bank closures in times of stress. Specifics of the monetary arrangement also play a role in determining the uplift, and can include: the extent to which convertibility risk is limited by an arrangement’s reserve currency status; arrangement-wide institutional provisions restricting the imposition of capital controls at the country level; the strength of support provided by the monetary arrangement in the case of stress; and existing arrangement-wide capital controls.

The risks of an exit from the currency union or the imposition of capital controls would generally be expected to be higher for lower-rated sovereigns, and the notching is therefore reviewed whenever a country is downgraded, especially to low-sub-investment grade.

In the eurozone, Fitch introduced differentiation in Country Ceilings among members after it revised Greece’s Country Ceiling from ‘AAA’ to ‘B-’ in May 2012. The Country Ceilings of eurozone members generally reflect the euro’s reserve currency status, which renders convertibility risk very low, and the eurozone’s strong external balance sheet. The maximum uplift of six notches from the Foreign-Currency IDR means that eurozone sovereigns rated in the ‘BBB’ category or below are unable to achieve a ‘AAA’ Country Ceiling.

Fitch believes the likelihood of a country leaving the euro is significantly lower than a sovereign default within it. For example, Greece (2012) and Cyprus (2013) defaulted in the eurozone. Nevertheless, the two risks are correlated, supporting differentiation in notching among member countries (rather than a common Country Ceiling). Likewise, and in common with countries outside a currency union, there is a correlation between the risks of sovereign default and imposition of capital controls. Nonetheless, Fitch judges the risk of imposition of a wide and effective private-sector debt moratorium that prevented even the strongest private-sector entities servicing their foreign debt to be lower than a sovereign default within the eurozone.

Fitch changed the criteria for the three African arrangements in 2016, reflecting the agency’s view that T&C risk can also differ among their member countries. The Country Ceilings of all member countries of these monetary arrangements had previously been linked to the Foreign-Currency IDR of the dominant sovereign in the grouping – France for CEMAC and WAEMU, and South Africa for CMA. The Country Ceiling was already limited to a maximum of six notches above the Foreign-Currency IDR of the other members of each grouping, consistent with Fitch’s approach to the eurozone.
Data Sources and Limitations

The sources for the information used to derive Country Ceilings are both the sovereign issuer and the public domain. This includes relevant publicly available information on the issuer, such as financial, economic and institutional data published by national authorities and international agencies (see the table Analytical Pillars of the Country Ceiling Model). The key assumptions in these criteria are also informed by discussions with different parties, such as governments, central bank officials and independent analysts.

While key data and information are subject to critical review by Fitch, such as cross-checking with third-party sources where available, the agency relies on the accuracy and reliability of information published by national authorities and international agencies, as well as the veracity of the information provided directly by representatives of the sovereign.

Ratings assigned by Fitch – including Rating Watches and Outlooks – are subject to limitations specified in Fitch’s Ratings Definitions, and are available at https://www.fitchratings.com/site/definitions/fundratings.

In addition, Country Ceilings within the scope of these criteria are subject to the specific limitation that the CCM has not been derived from a statistical analysis of historical data, as the experience with events of imposed capital and exchange controls is relatively limited.

Variations from Criteria

Fitch’s criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch’s rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.
Appendix 1
Evidence from the Past

This Appendix presents Fitch’s experience with the Country Ceiling approach since its introduction in 2004 and with sovereign crises (sovereign default and near-default events) since the mid-1990s. Appendix 2 provides more detailed historical evidence regarding the use of capital and exchange controls in previous sovereign crises, which provided the practical underpinning to the introduction of the Country Ceiling approach in 2004. The Appendices are updated annually to bring more recent evidence to bear on the Country Ceiling criteria.

The reasons for changes in Country Ceiling notchings, particularly in sovereign crises, help examine the robustness of the criteria. If Country Ceilings were to collapse to the level of the sovereign Foreign-Currency IDR as sovereign default approached, this would suggest the Country Ceiling approach was too relaxed. Apart from the eurozone crisis, the evidence from external crises and near-crises since the Country Ceiling criteria were introduced in 2004 has not led Fitch to make any changes to the criteria.

Country Ceilings Approaching Default

There have been 10 Fitch-rated sovereign foreign-currency defaults since 2004 (see Appendix 2): Argentina (2014), Republic of Congo (2016), Dominican Republic (2005), Ecuador (2008), Greece (2010), Jamaica (2010 and 2013), Mozambique (2016), the Seychelles (2008), and Ukraine (2015)². However, the Seychelles was not rated at the time of its default, and Dominican Republic was not assigned a Country Ceiling at the time of its default.

Of the remaining eight default episodes, only for Greece did Fitch feel it necessary to change the Country Ceiling notching (see Currency Unions above)³. In the cases of Ecuador and Jamaica (twice), not only did the Country Ceiling remain at ‘B−’ while the sovereign moved into default, but there was also no reduction in Country Ceiling notching as the default approached. Furthermore, once the default was cured, the original Country Ceiling notching was restored, at zero for Ecuador and +1 for Jamaica. Ukraine’s Country Ceiling remained stable at ‘CCC’ in the run-up to, during and after a distressed-debt exchange that caused the rating to be downgraded to ‘RD’ in October-November 2015.

The two defaults in 2016 followed the same pattern. Mozambique’s Country Ceiling remained stable at ‘B−’, while the IDR was gradually lowered from ‘CCC’ to ‘RD’ between April and November 2016. The Republic of Congo’s Country Ceiling remained unchanged at ‘BBB−’ in the run-up to and throughout the nine-day period of the ‘RD’ rating in early August 2016. This was in line with the uniform Country Ceiling level for the entire CEMAC, based on the contemporary Country Ceiling criteria. The Republic of Congo’s Country Ceiling was lowered to ‘B+’ after the treatment of the African monetary arrangements became country-specific in the updated Country Ceiling criteria of 16 August 2016.

The case of Argentina is more complicated, as the country has experienced two periods of default in the last 15 years. A Country Ceiling of ‘B−’ was first assigned in June 2004, when the sovereign was already in default. When the default was cured in 2010, the Country Ceiling remained at ‘B’, its level since 2008, reducing the notch uplift to zero to reflect the increased FX controls that had been implemented to preserve foreign-exchange reserves.

In the run-up to Argentina’s most recent default in July 2014, Fitch lowered the Country Ceiling to ‘B−’ (November 2012) and then to ‘CCC’ at the time of default – its lowest ever level. Following the removal of exchange controls and increased flexibility of the peso, Fitch raised Argentina’s Country Ceiling to ‘B’ in March 2016.

² Cyprus’s default in June 2013 was a local-currency default.
³ Fitch increases the Country Ceiling of new eurozone joiners to up to six notches above the sovereign Foreign-Currency IDR.
Country Ceilings in Non-Default Crises
Post-2004 episodes under this heading include Iceland and Latvia. In Iceland, controls were imposed and Fitch reduced the Country Ceiling notching from +1 to zero alongside a sovereign downgrade. Countries with large bank net external liabilities like Iceland are penalised with lower notching, resulting in a relatively conservative +1 notching before the crisis, although hindsight suggests that zero notching would have been more appropriate.

Latvia did not introduce blanket controls in 2008. However, a deposit freeze at one troubled bank did prompt a reduction in the Country Ceiling by one notch from +3 to +2, alongside a sovereign rating downgrade.

Other Country Ceiling Changes
Country Ceiling notching reductions also occurred outside a crisis context. In Aruba, alongside the recent sovereign downgrade, Fitch reduced the Country Ceiling from +2 to +1 in July 2014 due to some slight intensification of FX controls associated with some increased external stress. In July 2014, Fitch equalised Russia’s Country Ceiling with the sovereign Foreign-Currency IDR due to uncertainties associated with the Russia/Ukraine crisis and the imposition of sanctions.

Fitch revised the Country Ceiling of the CMA in southern Africa to ‘BBB’ from ‘A-’ in December 2015, in combination with a one-notch downgrade of the Foreign-Currency IDR of the dominant sovereign in the grouping, South Africa, to ‘BBB’-’. This reduced the difference in the number of notches between the Foreign-Currency IDR and Country Ceiling for Namibia and Lesotho.

In several cases, Country Ceilings have remained unchanged while a sovereign Foreign-Currency IDR was downgraded, leading to an increase in notching. These included Austria (2015), Bermuda (2012), El Salvador (2009), Finland (2016), Japan (2012), New Zealand (2011), San Marino (2009), Saudi Arabia (2016) and the United Kingdom (2013; 2016). Sometimes a country’s Foreign-Currency IDR is upgraded but without a change in Country Ceiling, for example with Cote d’Ivoire (2015), reflecting its membership of the CFA franc zone.

The criteria changes of August 2016 for members of the African monetary arrangements led to lower Country Ceilings for three publicly rated sovereigns. The Country Ceilings for CEMAC (BBB-), WAEMU (BBB-) and CMA (BBB) were withdrawn and new, individual Country Ceilings were assigned to its rated members. Of the CEMAC members, Gabon’s Country Ceiling remained at ‘BBB-’, while those of Cameroon (BB+) and the Republic of Congo (B+) were assigned below the old CEMAC level. Cote d’Ivoire, as the only Fitch-rated sovereign in WAEMU, already had its own Country Ceiling of ‘BBB-’. The anchor country of CMA, South Africa, also already had its own Country Ceiling of ‘BBB’, while Namibia’s Country Ceiling remained unchanged at ‘BBB’ and Lesotho’s was lowered to ‘BBB+’.

Conclusions from Previous Sovereign Debt Crises
The experience of sovereign crises (sovereign default and near-default events) since the mid-1990s provides support for the view that governments are now less likely to impose FX controls and private-sector moratoria to prevent a sovereign default. Of the sovereign crises reviewed, starting with Mexico in 1994-1995 and briefly summarised in Appendix 2, only Russia in 1998-1999 imposed a formal 90-day moratorium on repayments on private-sector external debt (several Russian companies and banks circumvented the moratorium and made payments to foreign creditors).

In Argentina in 2000-2001, the authorities imposed exchange controls that hindered but did not prevent private-sector borrowers making payments to foreign creditors. Payments of principal and interest by Argentine entities to foreign creditors were permitted under the exchange controls imposed, albeit subject to central bank approval, which at the height of the crisis was difficult to obtain.
However, it was the severity of the economic and financial crisis in 2000-2001 – including the collapse of the exchange rate, deposit freeze, forced peso-ification, sovereign intervention in price setting, and repudiation of contracts – that precipitated private-sector default rather than exchange controls. Several Argentine banks and corporates remained current on their foreign debt obligations through the crisis. Nevertheless, the experience of Argentina underscores that a sovereign debt crisis is often associated with severe financial and economic dislocation that can result in systemic private-sector default even in the absence of a formal moratorium on private-sector external debt service.

The imposition of a deposit freeze or other restrictions on the operation of banks is a common feature associated with sovereign debt crises. This even applies in the cases of Korea (1998), Mexico (1994-1995), Iceland (2008) and Latvia (2008 – applied to one bank only), where a sovereign default was avoided. In contrast, in most instances the non-bank private sector was not prevented from servicing its foreign-currency obligations by exchange controls, moratoria or other direct sovereign intervention. However, the incidence of corporate default was much higher in the crises reviewed because of the associated economic crisis (the most notable examples being Indonesia and Argentina, where corporate balance sheets were hit by currency maxi-devaluations).

Malaysia and Thailand (1997-1998) offer further examples of countries with strong international financial links having a lower propensity to impose controls on remittance of foreign currency even in balance-of-payments stress. Malaysia’s controls were aimed mainly at tightening restrictions on cross-border use of the Malaysian ringgit. The authorities sought to avoid impeding remittances of investment income or foreign debt service. Thailand only briefly imposed controls, principally on transactions in Thai baht, between May 1997 and January 1998, before removing controls under its IMF programme.

The Dominican Republic defaulted in May 2005 following what Fitch judged to be a distressed-debt exchange. Yet despite deposit and capital flight and huge pressure on the peso precipitated by a banking crisis, the authorities did not impose capital and other controls to prevent the private sector servicing more than USD1 billion of foreign debt.

More recent defaults in Ecuador (2008) and Jamaica (2010) confirm the reduced propensity of governments to resort to imposing foreign exchange controls. In neither case was there any imposition of additional capital and exchange controls.

The case of the Seychelles, which defaulted in 2008, demonstrates the importance of the exchange rate regime as a factor in a sovereign’s decision to introduce FX controls. As its crisis developed, already-extensive exchange controls were tightened, resulting in restrictions on private-sector profit repatriation, in defence of a rigid-exchange rate peg. The attempt by the sovereign to monopolise FX was ultimately unsuccessful, and the eventual default was followed by a major devaluation and subsequent float, and the scrapping of essentially all exchange controls.

FX pressures in Nigeria and Angola in 2008-2009, triggered by a sharp fall in oil prices, were similarly exacerbated by the defence of ultimately untenable exchange rates. Neither sovereign came close to default, but existing exchange controls were intensified in both cases. The tightening was fairly short-lived in Nigeria, as oil prices rebounded. In Angola, the consequences were more serious, with the sovereign building up substantial domestic FX arrears to domestic contractors. These were only eliminated in 2011.

The case of Iceland shows the importance of pressures on the exchange rate emanating from the banking sector. Unlike Korea, Iceland’s FX reserves were small compared with its external financing need when the global financial crisis struck in 2008. The sovereign concluded that supporting its banks was untenable, and they suffered widespread defaults. Extensive exchange controls were imposed to alleviate pressure on the exchange rate, and substantial non-resident holdings of local currency remain locked in. The sovereign itself averted default by preserving FX resources in this way and also because sovereign FX needs were quite small.
Latvia’s external finances came under immense pressure in 2008, but its membership of the EU precluded the introduction of FX controls. However, a freeze on deposit withdrawals from one troubled bank was introduced.

The eurozone crisis demonstrates both the power of institutional restraints in preventing currency controls, even in a stress situation, and at the same time the potential risk of controls being introduced as stress increases. The free movement of capital embodied in EU and national law, and institutional and political constraints, considerably reduce – but do not wholly eliminate – the risk of exchange controls being imposed by a member of the EU. The difficulty in imposing capital and exchange controls in a common currency area further implies that T&C risk within the eurozone is relatively low.

Nevertheless, the Country Ceilings of two eurozone members – Greece and Cyprus – were lowered to the ‘B’ category in 2012 and 2013, and again in Greece to ‘CCC’ in 2015. For Greece, this also reflected the substantial and rising risk of Greece exiting the eurozone, with the consequence of a forcible redenomination of sovereign and private debt into a new Greek currency, in all probability accompanied by the imposition of exchange controls. At end-June 2015, capital controls were imposed, and individuals could no longer withdraw more than EUR60 in cash per day from their bank accounts or move money to accounts abroad. The downgrade of Cyprus reflected the imposition of bank deposit transfer restrictions – a de facto imposition of capital controls.

The following conclusions can be drawn from sovereign crises since 1994-1995:

- A tightening of exchange and capital controls is often, but not always, part of the policy response to a sovereign crisis. However, T&C risk in terms of directly preventing the private sector from honouring its external debt obligations has become less pronounced, especially for the non-bank private sector.

- In contrast with the traditional explanation that exchange controls are imposed so the sovereign can prioritise its access to scarce FX in an effort to meet its own obligations, the primary motivation for exchange controls has been to stabilise the exchange rate following the collapse of the previous currency regime, to avoid hyper-inflation and to prop up banking systems.

- The risk of direct sovereign intervention in the banking system remains high, reflecting the political importance of the sector (the depository of household savings and source of government funding), and its often primary role in transforming shocks into a wider country crisis through a deposit run, as well as its exposure to government debt.

- Sovereign crises are usually accompanied by economic crises that significantly affect the ability of the private sector to service its external debt. The risk of a sovereign debt crisis (captured in the sovereign rating) remains highly correlated with broader country risk.
## Overview of Sovereign Crises

<table>
<thead>
<tr>
<th>Crisis country</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>1994-1995</td>
<td>No</td>
<td>Crawling peg</td>
<td>Additional exchange and capital controls were not imposed during the crisis, although there was a major banking crisis and bank failures.</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1994-1995</td>
<td>Yes. Domestic debt only.</td>
<td>Managed</td>
<td>Extensive controls on current and capital account transactions were imposed, including export-surrender requirements and restrictions on the availability of FX for imports. Capital outflows were prohibited except for foreign debt repayments. Banks had their FX dealer licences revoked except for four state-owned banks. Limits were placed on bureaux de change. Consequently, the inter-bank FX market effectively closed and the private sector had difficulty obtaining FX.</td>
</tr>
<tr>
<td>Romania</td>
<td>1996-1997</td>
<td>No</td>
<td>Managed</td>
<td>Additional exchange and capital controls were imposed during the crisis. However, foreign exchange controls were gradually eased from 1999.</td>
</tr>
<tr>
<td>Korea</td>
<td>1997-1998</td>
<td>No</td>
<td>Managed</td>
<td>Additional exchange and capital controls were imposed mainly on cross-border transactions denominated in Malaysian ringgit while avoiding impeding FDI or trade. Investors were required to repatriate ringgit held offshore. Licensed offshore banks were prohibited from trading ringgit assets. Residents were prohibited from granting or receiving ringgit-denominated credit to or from non-residents. Some additional controls were imposed on FX transactions, including a one-year lock-in period for investors seeking to repatriate proceeds of security sales and a prior approval system for residents seeking to transfer capital abroad. The ringgit was pegged at 3.8 to the US dollar from September 1998 until 2005. Corporate defaults increased sharply in 1998 during a steep currency depreciation. Controls were gradually eased from 1999.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1998</td>
<td>No</td>
<td>Managed</td>
<td>Additional capital controls were imposed during the crisis. Nonetheless, there were widespread bank and corporate defaults following the collapse of the rupiah. Bank Indonesia provided a US dollar guarantee in support of a swap of inter-bank debt owed to foreign banks for medium- and long-term obligations. The government also supported a voluntary restructuring of external obligations of the corporate sector, providing an FX guarantee.</td>
</tr>
<tr>
<td>Thailand</td>
<td>1997-1998</td>
<td>No</td>
<td>Managed</td>
<td>Thailand briefly imposed additional capital controls between May 1997 and January 1998 in response to steep falls in the Thai baht and foreign reserves. Controls were lifted as the country embarked on an IMF programme.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1998</td>
<td>Yes. London Club and Paris Club debt was restructured. Single sovereign Yankee bond unaffected.</td>
<td>Managed</td>
<td>The Indonesian authorities did not impose additional exchange and capital controls during the crisis. Nonetheless, there were widespread bank and corporate defaults following the collapse of the rupiah. Bank Indonesia provided a US dollar guarantee in support of a swap of inter-bank debt owed to foreign banks for medium- and long-term obligations. The government also supported a voluntary restructuring of external obligations of the corporate sector, providing an FX guarantee.</td>
</tr>
<tr>
<td>Russia</td>
<td>1998-1999</td>
<td>Yes. Rouble-denominated government securities; “Soviet-era” foreign currency-denominated debt owed to official and private creditors. Remained current on Russian Federation Eurobonds.</td>
<td>Crawling peg</td>
<td>A 90-day moratorium on private-sector external obligations (including FX forward contracts) was announced by the authorities, suspending payments by residents to non-residents of principal on loans with a maturity exceeding 180 days. According to the authorities, only USD400 million in payments of non-bank debt were due over this period compared with USD2.7 billion of bank obligations. Moreover, many corporates and even some banks circumvented the moratorium to make payments to foreign creditors by using foreign assets or earnings, or making deposits with the Russian branches of foreign creditor banks.</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1999</td>
<td>Yes. Brady bonds, Eurobonds and official bilateral debt were all rescheduled.</td>
<td>Fixed</td>
<td>A bank holiday was imposed, followed by a deposit freeze. Capital controls were imposed, including export-surrender requirements and advance deposits for import payments. However, the servicing of private-sector external debt was not prohibited.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1999</td>
<td>Yes. Official bilateral debt was rescheduled. Sovereign Eurobond debt was also restructured.</td>
<td>Fixed</td>
<td>Controls on capital account transactions were imposed, particularly with respect to capital outflows (such as on foreign investment abroad, and loans to non-residents) as well as export-surrender requirements and controls on import financing. US dollar bank deposits were frozen.</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1998-2000</td>
<td>Yes. Selective restructuring of domestic public debt followed by external debt restructuring.</td>
<td>Fixed</td>
<td>Additional exchange controls were imposed, including-export surrender requirements and controls on import financing. However, controls did not cover private external debt service, and there were no indications that the private sector incurred arrears to foreign creditors due to capital controls.</td>
</tr>
</tbody>
</table>
### Overview of Sovereign Crises (Cont.)

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<td><strong>Argentina</strong></td>
<td>2001</td>
<td>Yes, Fitch judged an exchange of domestic and external sovereign debt held by private creditors, concluded in December 2001, to be a distressed debt exchange and therefore an event of default. The Argentine authorities announced a moratorium in January 2002 on debt not previously exchanged.</td>
<td>Fixed</td>
<td>Restrictions on bank deposit withdrawals imposed in December 2001 – the “corralito”. All currency transfers abroad had to be approved by the central bank, including payments to foreign creditors. The central bank was selective in granting permission to the private sector to transfer FX abroad to foreign creditors, but this was relaxed after several weeks. Exchange control regulations were subject to many ad hoc changes in the months following the abandonment of “convertibility”, although generally exporters and those companies with offshore assets were not prevented from meeting their obligations. In January, dollar deposits were forcibly “peso-ised”, and the maturity of time deposits extended. Following the moratorium on sovereign external debt, surrender requirements on export proceeds were also imposed, along with strict limitations on inter-bank currency trading. There were widespread bank and corporate defaults due to direct sovereign intervention (deposit freeze/peso-ification/tariffs) and the huge depreciation of the peso and contraction of the economy. Nonetheless, some Argentine corporates and banks did manage to remain current on their external obligations during this period.</td>
</tr>
<tr>
<td><strong>Uruguay</strong></td>
<td>2002</td>
<td>Yes</td>
<td>Crawling Peg</td>
<td>One-week bank holiday imposed to stem deposit flight. Subsequently, US dollar-denominated time deposits of state banks were forcibly restructured. Access to deposits in foreign banks was unrestricted following the end of the bank holiday. Additional exchange and capital controls were not imposed. There was a severe banking crisis but corporate-sector debt payments were largely unaffected. The authorities did not impose additional capital and exchange controls as a result of the restructuring of the sovereign Eurobond and official bilateral debt. The sovereign bond restructuring, which was expected, had few macroeconomic ramifications.</td>
</tr>
<tr>
<td><strong>Dominican Republic</strong></td>
<td>2005</td>
<td>Yes</td>
<td>Managed</td>
<td>The banking crisis that began with the collapse of the second-largest commercial bank, Baninter, in the first half of 2003 eventually led to a restructuring of public external debt owed to official and private creditors (a distressed-debt exchange of USD1.1 billion in global bonds was completed on 5 May 2005). Yet despite deposit and capital flight and the associated pressure on the peso, which more than halved in value through 2003 and early 2004, the authorities did not impose additional capital and exchange controls that would have prevented the continued servicing of around USD1 billion of external debt owed by the private sector.</td>
</tr>
<tr>
<td><strong>Seychelles</strong></td>
<td>2008</td>
<td>Yes. Default on US dollar bond coupon payments in July (promissory note) and October 2008 (Eurobond). All private external debt restructured beginning January 2010.</td>
<td>Peg to a basket</td>
<td>The Seychelles operated extensive exchange controls before the crisis, resulting in a large parallel FX market premium. As the crisis deepened, private-sector profit repatriation was restricted. Controls were essentially scrapped and the exchange rate floated in December 2008.</td>
</tr>
<tr>
<td><strong>Iceland</strong></td>
<td>2008</td>
<td>No. Country Ceiling reduced from 1 notch to 0 in October 2008.</td>
<td>Managed Float</td>
<td>Sovereign debt service was maintained throughout the crisis, facilitated partly by the imposition of capital controls in late November 2008. The controls effectively locked in ISK88 billion (USD750 million) of non-resident holdings of short-term króna assets. The controls required króna-denominated instruments to be settled in króna, while withdrawals from króna-denominated accounts for the transfer of capital were restricted. Since 2016 capital controls on outward investment by residents have been lifted. Controls remained on non-resident holdings of króna assets amounting to ISK88 billion (around USD750 million).</td>
</tr>
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<tr>
<td>Ecuador</td>
<td>2008</td>
<td>Yes. The sovereign defaulted on coupon payments for 2012 and 2030 global bonds in late 2008 and early 2009, respectively, alleging that these two securities were illegitimate. The government then made a distressed debt exchange offer for the outstanding 2012s (USD510 million) and 2030s (USD2,700 million) at 35% of face value. The buyback had a 91% participation rate.</td>
<td>Dollarised</td>
<td>The authorities did not impose additional capital controls. Country Ceiling remained at ‘B−’.</td>
</tr>
<tr>
<td>Angola</td>
<td>2008-2009</td>
<td>No, but substantial FX arrears to domestic contractors accumulated and were only eliminated in 2011.</td>
<td>Heavily managed</td>
<td>Existing controls intensified as falling oil revenues caused FX shortages and the authorities intervened to resist exchange rate depreciation. The currency was eventually allowed to devalue and restrictions relaxed. The Country Ceiling was always the same as the Foreign-Currency IDR.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2008-2009</td>
<td>No</td>
<td>Managed float</td>
<td>Existing controls intensified as falling oil revenues caused FX shortages and the authorities intervened to resist exchange rate depreciation. The currency was eventually allowed to devalue and restrictions relaxed. Country Ceiling was always the same as the Foreign-Currency IDR.</td>
</tr>
<tr>
<td>Jamaica</td>
<td>2010</td>
<td>Yes. Domestic debt only, representing 52.9% of total government debt, in early 2010. Foreign-currency denominated securities issued in the local market were included. Fitch regarded this operation a distressed debt exchange (achieving a participation of close to 99%).</td>
<td>Managed float</td>
<td>The authorities did not impose additional capital and/or exchange controls. Country Ceiling remained at ‘B−’.</td>
</tr>
<tr>
<td>Greece</td>
<td>2010-2012</td>
<td>Yes. Multiple downgrades brought the Foreign-Currency IDR to Restricted Default (RD) in March 2012. The Country Ceiling was revised from ‘AA’ to ‘B−’ in May 2012.</td>
<td>Eurozone</td>
<td>There has been no interference with private-sector external transactions either before or since the default. The revision of the Country Ceiling instead reflects the heightened risk of Greece exiting the eurozone, an event with unpredictable consequences but which would be highly likely to be accompanied by restrictions on banks and other private entities.</td>
</tr>
<tr>
<td>Jamaica</td>
<td>2013</td>
<td>Yes. Distressed debt exchange of both local-currency and foreign-currency denominated domestic debt resulted in a downgrade of the Local- and Foreign-Currency IDRs to ‘RD’.</td>
<td>Managed float</td>
<td>As a precondition for a new IMF agreement the authorities did not intensify exchange controls. Country Ceiling remained at ‘B−’.</td>
</tr>
</tbody>
</table>
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<tr>
<td>Greece</td>
<td>2015</td>
<td>No. But temporarily in arrears on IMF arrangement. Local- and Foreign-Currency IDR downgraded to ‘CC’ from ‘CCC’ and later upgraded to ‘CCC’ after agreement on a third bailout programme.</td>
<td>Eurozone</td>
<td>Capital controls imposed in the form of international bank transfer restrictions. Country Ceiling revised to ‘CCC’ from ‘B−’, and later changed to ‘B−’ after agreement with the European institutions on a third bailout programme.</td>
</tr>
<tr>
<td>Congo, Republic of</td>
<td>2016</td>
<td>Yes. Foreign-Currency IDR downgraded to ‘RD’ on 3 August 2016 after the government failed to make a capital and coupon payment on its US dollar notes. The IDR was upgraded again to ‘CCC’ on 11 August 2016, after payment on the notes was resumed.</td>
<td>CEMAC monetary union, pegged to the euro</td>
<td>The authorities did not impose additional capital and/or exchange controls. Country Ceiling remained at ‘BBB−’ in the run up to and during the default, but was revised to ‘B+’ after the criteria changed allowing for sovereign-specific Country Ceilings for members of African monetary arrangements (16 August 2016).</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2016</td>
<td>Yes. Foreign-Currency IDR downgraded to ‘RD’ in November 2016, after the government failed to make a capital and coupon payment on a guaranteed loan to state-owned enterprise Mozambique Asset Management.</td>
<td>Floating</td>
<td>The authorities did not impose additional capital and/or exchange controls. Country Ceiling was revised down by one notch to ‘B−’ on 29 April 2016, but has remained stable since then.</td>
</tr>
</tbody>
</table>

Source: Fitch
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