Rating agencies and sovereign risk: Moderator's introduction

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Good afternoon everybody. Let me start by thanking the organisers, thanking the BIS for inviting me to be here. For me it's a pleasure to attend this event and learn; for me it's an opportunity to learn a lot on so many interesting issues.

Broadly speaking and according to the literature on the subject, sovereign risk, or, as many prefer to call it, political risk, is expropriation by a sovereign state. The most common method of expropriation is inflation. Perhaps less common is pure repudiation. I guess that in the late 1970s and early 1980s, when academics like Jonathan Eaton and Mark Gersovitz extensively wrote about sovereign risk, they essentially had in mind examples of expropriation coming from emerging economies. It's possible that these authors were surprised by the developments observed in mature economies over the last five years or so. Anyway, today I think everybody or almost everybody is aware that political risk is all over the place, no matter the stage of the economy in terms of development.

In this, let me say, new world, rating agencies have put major AAA-rated sovereigns on notice that they need to bring their finances onto a more sustainable path to retain those ratings. Downgrades of the United States and of France have followed.

In this panel, we may get answers to or insights into several interesting questions. For example, do sovereign ratings, like corporate ratings, have a stable relationship to probability of default? Do or should the ratings of the US, UK and Japanese sovereigns benefit from their having their own central banks? What do the rapid downgrades of Korea in 1997 and, more recently, of Greece, Ireland and Portugal, imply about sovereign ratings transitions? How does a sovereign downgrade affect economy-wide borrowing costs?

To answer these four questions and to provide us with many other insights, we have on this panel four specialists. We have Richard Cantor from Moody's, as well as John Kiff from the International Monetary Fund, Andrew Powell from the Inter-American Development Bank, and Donato Masciandaro from Bocconi University.

So without delay, I ask Richard from Moody's to stand.

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