



The Merits of Accrual Reporting in Sovereign Credit Analysis

International Public Sector Accounting Standards Board
IMF HQ, Washington, DC
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DBRS Sovereign Ratings Universe

Europe

Austria: AAA, Stable
 Denmark: AAA, Stable
 France: AAA, Stable
 Germany: AAA, Stable
 Luxembourg: AAA, Stable
 Netherlands: AAA, Stable
 Norway: AAA, Stable
 Sweden: AAA, Stable
 Switzerland: AAA, Stable
 United Kingdom: AAA, Stable
 Belgium: AA (high), Stable
 Finland: AA (high), Stable
 Ireland: A (high), Stable
 Slovakia: A (high), Stable
 Malta: A, Stable
 Poland: A, Negative
 Spain: A (low), Stable
 Italy: BBB (high), Stable
 Portugal: BBB (low), Stable
 Cyprus: B, Stable
 Greece: CCC (high), Stable

Americas

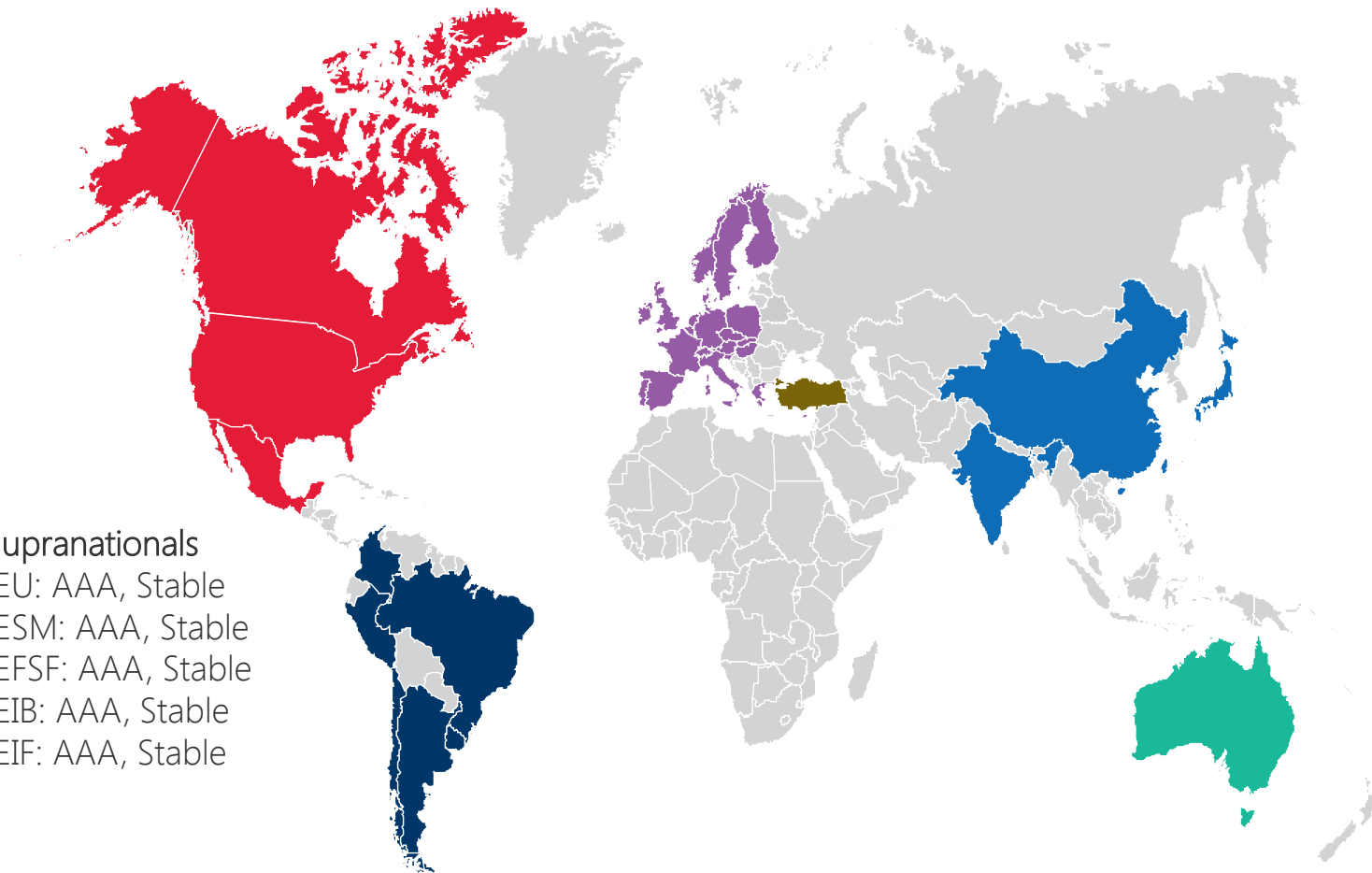
Canada: AAA, Stable
 United States: AAA, Stable
 Chile: AA (low), Stable
 Mexico: BBB (high), Stable
 Peru: BBB (high), Stable
 Colombia: BBB, Stable
 Uruguay: BBB (low), Stable
 Brazil: BB, Negative
 Argentina: B, Stable

Asia, Eurasia

Australia: AAA, Stable
 Singapore: AAA, Stable
 China: A (high), Stable
 Japan: A, Stable
 India: BBB, Stable
 Turkey: BB (high), Negative

Supranationals

EU: AAA, Stable
 ESM: AAA, Stable
 EFSF: AAA, Stable
 EIB: AAA, Stable
 EIF: AAA, Stable



Sovereign Scorecard

	Scorecard results																								
	Fiscal Management and Policy			Debt and Liquidity				Economic Structure and Performance			Monetary Policy and Financial Stability			Balance of Payments			Political Environment			Foreign Currency Score	Scorecard FC rating	Local Currency Score*	Scorecard LC rating*		
	Overall fiscal performance	Policy management & budget control		Debt Stock	Maturity structure and liquid assets	Susceptibility to debt shocks		Economic growth and productivity	Economic resilience and flexibility		Policy Credibility	Financial risks		External imbalances	Capacity for external adjustment		Institutional quality	Political commitment to address economic challenges and service debts							
Current	4.1	5.2	2.9	4.5	6.7	3.6	1.4	2.3	3.5	1.2	0.5	0.0	1.1	1.6	1.1	2.2	1.0	0.0	2.0	14.0	AA (high)	14.0	AA (high)		
H1 2014	4.2	5.3	3.1	5.0	6.6	4.3	2.7	2.3	3.5	1.2	0.9	0.4	1.4	2.1	2.6	1.7	1.0	0.0	2.0	15.5	AAA	11.9	AAA		
H2 2013	4.2	5.3	3.2	4.3	6.3	4.2	1.0	2.2	3.2	1.3	1.2	0.5	1.9	2.1	2.7	1.5	1.0	0.0	2.0	15.0	AAA	11.9	AAA		

Sovereign Scorecard: Fiscal Section

FISCAL MANAGEMENT AND POLICY	
<p>1. Overall fiscal performance</p> <p>Overall fiscal balance (% GDP)</p>	<p><i>The fiscal balance is typically the major driver of changes to the debt stock. Large fiscal adjustment needs can have consequences for growth, political cohesion, and market confidence.</i></p> <p>Simple average calculated from 10 years of historical data plus 3 years of projections.</p>
<p>2. Policy management & budget control</p> <p>Budget management & quality of fiscal rules (qualitative)</p> <p>Fiscal flexibility (qualitative)</p>	<p><i>Of equal importance to recent fiscal outcomes is a strong capacity to respond to shocks and restore fiscal balances over the medium term.</i></p> <p>Focuses on budget transparency and accountability mechanisms, strength of medium-term fiscal framework, and quality of macroeconomic and fiscal projections.</p> <p>Focuses on capacity to raise new revenue or reduce expenditure.</p>

Sovereign Scorecard: Debt Section

DEBT AND LIQUIDITY

1. Debt Stock

General government gross debt (% GDP)

The debt stock is typically the single largest source of financing needs.

Projected stock of debt as of the end of the next calendar year.

2. Maturity structure and liquid assets

Short-term public debt (% GDP)

Large short-term financing needs can potentially overwhelm financing capacity, even if the overall debt stock appears manageable.

Latest available data.

Average maturity of public sector debt (years)

Latest available data.

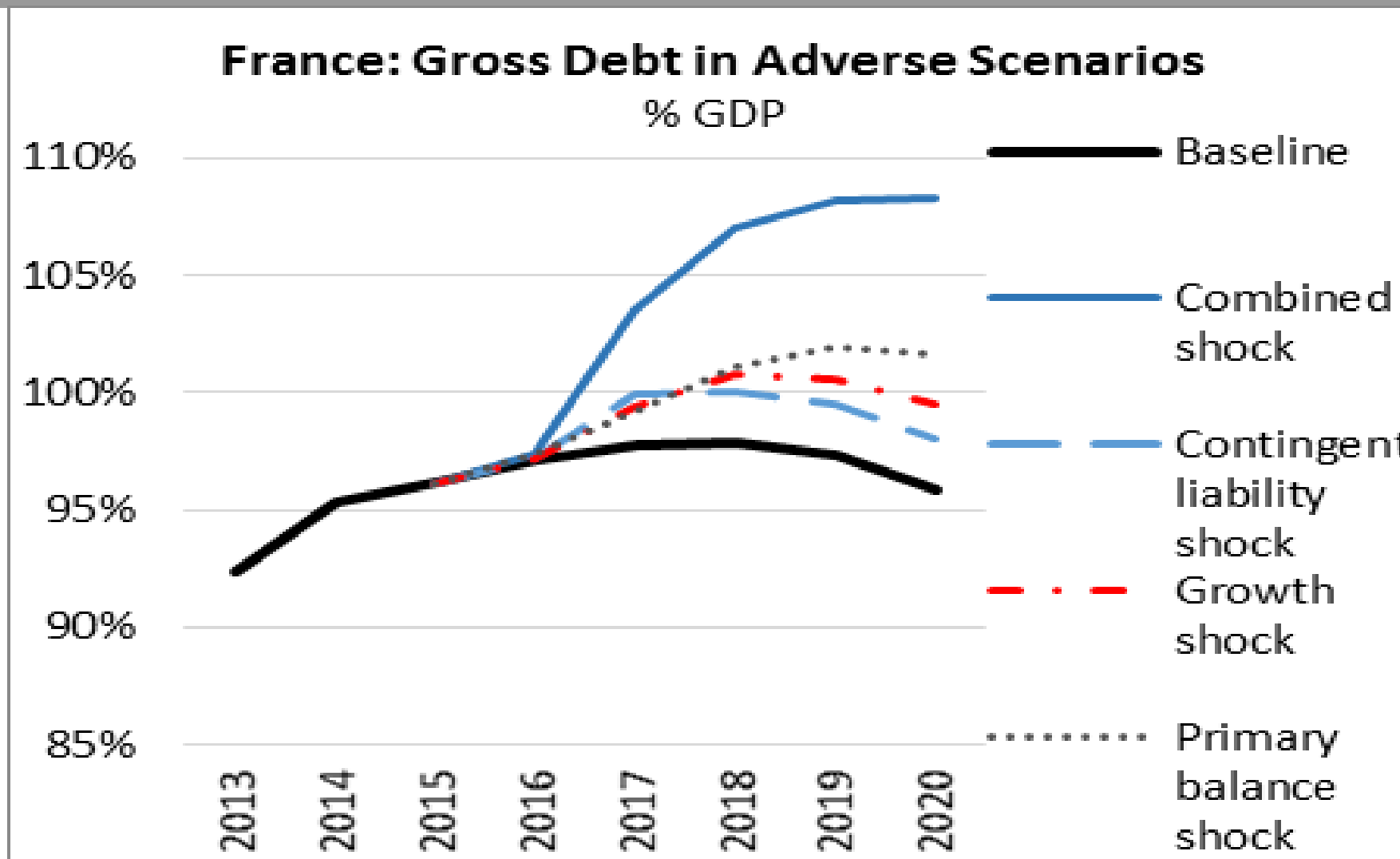
3. Susceptibility to debt shocks

Change in debt stock associated with adverse combined shock scenario (% GDP)

A country's vulnerability to debt shocks is one of the primary risks to debt sustainability.

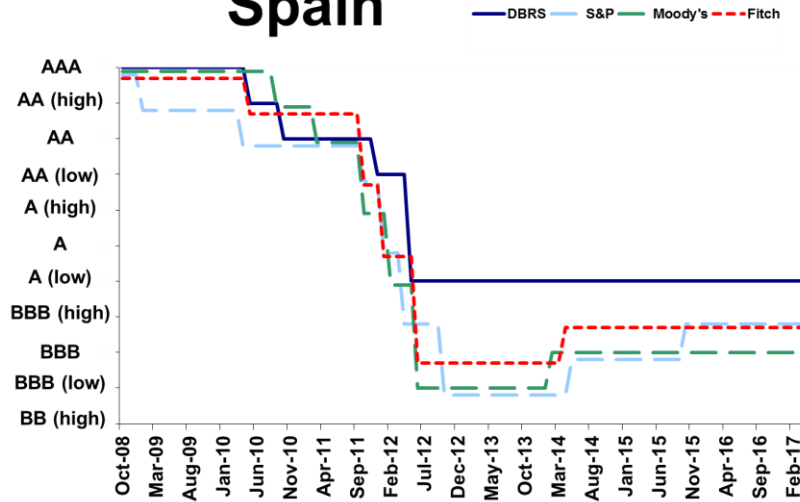
Result of analyst-designed combined shock scenario from DBRS's debt sustainability analysis, measured as the total net change in the debt stock from the base year (time t) to the end of a five year time period (t+5).

Debt Sustainability Analysis

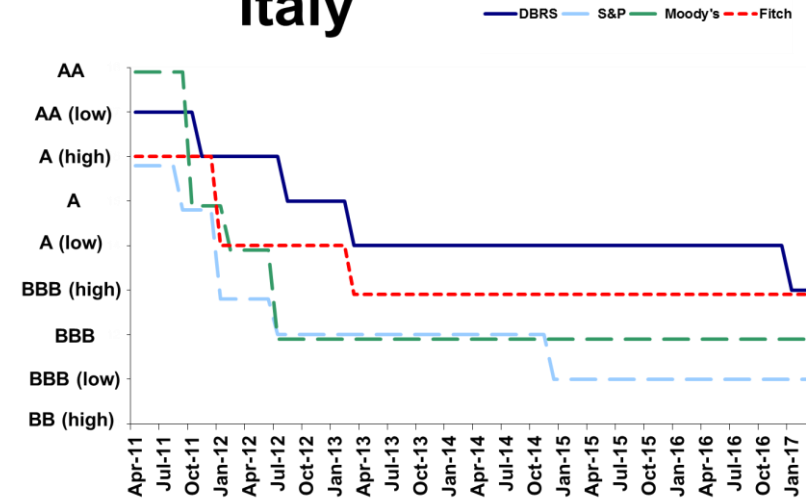


Our Approach: Take the Long View

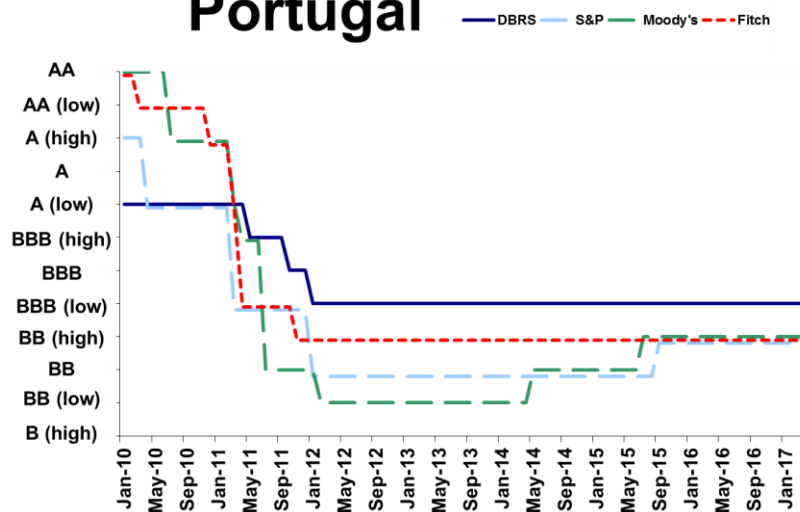
Spain



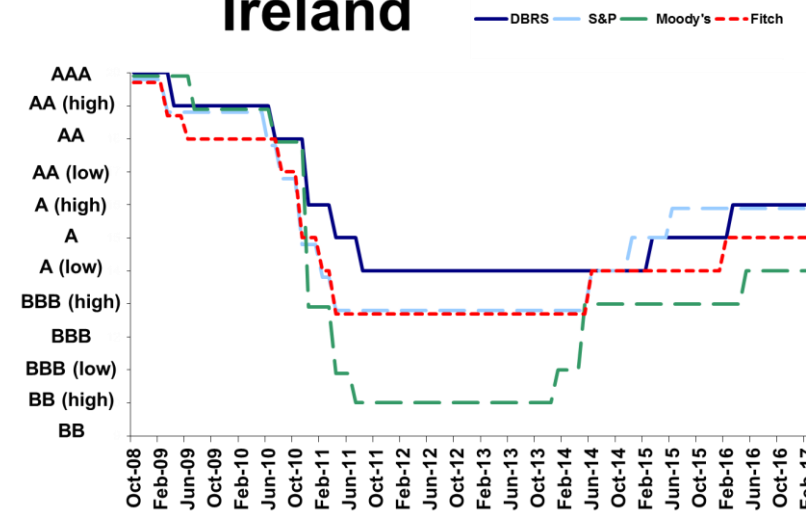
Italy



Portugal



Ireland



The Merits of Accrual Accounting

The data we use

- Cash or accrual data from central governments, general governments, non-financial public sectors, public sectors
- We are compelled to rely on comparable data – this is improving but still limited.
- Sources are national governments, multilateral institutions, private sector.

The data we lack

- Comprehensive data on liabilities
- Standardized accounting of assets
- Insufficient attention on management of assets

Merits of accrual accounting

- Strengthens management of public sector assets and liabilities, increases transparency and efficient delivery of public goods
- Makes public sector accounting consistent with national accounts, balance of payments, monetary & financial reporting
- Step toward better recognition of public sector assets and liabilities



Thank You

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