



## Country Risk Ratings

Empower your investment decisions with insights into a country's long-term prosperity and economic development

**A country's long-term prosperity influences its ability to service debt and supports the growth of businesses within its borders. Traditional sovereign credit assessments can be enhanced with additional insights beyond macro-economic analysis. Morningstar Sustainalytics' Country Risk Ratings integrate environmental, social, and governance (ESG) profiles and ongoing ESG-related events for a deeper understanding of country risk.**

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## Comprehensive ESG Insights



Morningstar Sustainalytics' Country Risk Ratings leverage national wealth data and over 35 ESG metrics to assess the risks to a country's economic development and prosperity through an ESG lens. Our qualitative, proprietary analyst-driven overlays reflect ongoing material events, providing subscribers

with an enriched view of sovereign risk.

Aligned with the Morningstar Sustainalytics ESG Risk Ratings, the Country Risk Ratings allow seamless comparisons between corporate and sovereign bonds, enhancing portfolio analysis and reporting.

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## Methodology and Framework

Our Country Risk Ratings assess a nation's ability to manage its wealth sustainably through three main capitals: Natural & Produced Capital, Human Capital, and Institutional Capital. This approach is built on the World Bank's concept of capitals and incorporates ESG factors to evaluate wealth management. Our three-step framework includes:

### **1. Determining a Country's Assets (Natural Wealth):**

We evaluate a country's wealth by examining its three Capitals:

- **Natural & Produced Capital**
- **Human Capital**
- **Institutional Capital**

### **2. Assessing Capital Utilization and Management:**

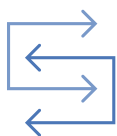
We analyze how effectively a country utilizes its capitals, identifying risks using ESG pillars and more than 35 ESG performance metrics and data trends. The focus of the three ESG pillars are:

- **Environment Pillar:** Energy, climate change readiness, resource use, and governance.
- **Social Pillar:** Basic needs, health and well-being, equity, and opportunities.
- **Governance Pillar:** Institutional strength, regulations, rights, and freedoms.

### **3. Calculating Scores, Signals, and Ratings:**

We combine our wealth and ESG assessments to generate ratings and scores at the indicator, capital and country level. Our quantitative research covers all Country Event severity categories, and our qualitative research focuses on events classified as significant, high and severe.

## Key Features



### Modular and Flexible Integration into Investment Analysis

The modular nature of the ratings provides flexibility, enabling analysis of a sovereign's ESG profile on its own or combined with wealth risks for a comprehensive view of ESG risk from short-term to long-term perspectives.

The product covers 164 countries, offering data points in scores, letter grades, and indicator breakdowns, representing 97% of all issuable sovereign debt.



### Transparent, Simple, and In-House Methodology

Built on in-house research and methodology, our ratings provide transparency and consistency. The Country Event Classification system offers a cohesive assessment of risks through a streamlined approach.



### Curated and Granular Insights

Our ratings are highly correlated with industry standards, yet our curated data points focus on the most impactful insights. The scoring framework distinguishes true leaders and laggards, based on demonstrated performance rather than arbitrary metrics.

Our approach ensures clear assessment of risk management, offering a balanced view regardless of wealth and income disparities.



### Qualitative Event Analysis Across All Severity Levels

Our coverage includes over 300 events, with qualitative analysis that overlays ongoing material events, helping to identify the impact of diverse risk factors.



### Full Integration for Comprehensive Portfolio Analysis

Designed to complement our ESG Risk Ratings, this product facilitates complete portfolio ESG risk exposure analysis.



### Dynamic Ratings Reflecting Real-Time Events

Updated quarterly, the ratings offer a forward-looking perspective, enabling clients to track evolving risks. Our analysts continuously adjust ratings in response to critical events, keeping you informed on the impact of news and developments.

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## Use Cases



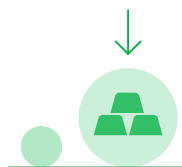
### ESG Integration in Credit Analysis

Enhance traditional credit assessments by evaluating a country's wealth and its management through an ESG perspective, uncovering risks often missed by standard credit ratings.



### Investment Screening

Leverage scores, letter grades, and risk categories to screen portfolios for exposure to high- and severe-risk countries.



### Holistic Macroeconomic Analysis

Combine ESG, wealth, and economic indicators for a more holistic assessment of country risk. This integrated approach provides a comprehensive view of a country's economic health and potential risks.



### Proactive Risk Anticipation

Utilize forward-looking Country Risk Ratings to identify and manage emerging risks. Regular updates on country-specific events support proactive decision-making.



### Enhanced Portfolio Analysis & Reporting

Integrate Sustainalytics' ESG Risk Ratings for corporate and sovereign bonds to perform comprehensive risk assessments. This unified approach bolsters transparency and strengthens fixed income portfolio management.



## About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. Morningstar Sustainalytics has analysts around the world with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit [www.sustainalytics.com](https://www.sustainalytics.com).



To learn more about Country Risk Ratings, visit <https://www.sustainalytics.com/country-risk>

### Europe:

Amsterdam (+31) 20 205 00 00    Paris (+33) 1 184880642  
London (+44) 20 3514 3123    Stockholm (+46) 8 505 323 33  
Frankfurt (+49) 69 3329 6555

### Americas:

Boston (+1) 617 603 3321  
New York (+1) 212 500 6468

### Asia Pacific:

Sydney (+61) 2 8320 9436  
Tokyo (+81) 3 4510 7979

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