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THE ROLE OF SOVEREIGN CREDIT RATINGS AND THE PLACE OF UZBEKISTAN IN IT

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Abstract:

The article describes the sovereign credit rating and its specific features. Also, assessment of ratings by three credit rating agencies namely, Moody's, Fitch Ratings and Standard & Poor's is given to determine the position of country. Moreover, the most urgent issues of state finance, such as strengthening Uzbekistan's position in the sovereign credit rating, thereby increasing the international image of our country, attracting foreign investments to the country, and financing the budget deficit from foreign sources, were studied.

Keywords: Rating, credit, sovereign credit rating, foreign debt, foreign investments, international rating agencies.

INTRODUCTION

The development of the country's economy is a process that takes a lot of money and takes a long time, and it requires attracting foreign debt funds and a large amount of foreign direct investment to the national economy. Attracting foreign debt funds and foreign investments to the country is a very complicated process, first of all it is necessary to convince the lender that they will return their loans with interest, and investors that they will receive the profit from their investment. In this case, lenders must first of all make sure that the borrower is financially stable. A comprehensive study of this process is important for the credit ratings of lending and investment organizations. International sovereign credit rating agencies evaluate the economic and financial capabilities of the borrower and give them a rating. Based on these ratings, lenders decide whether or not to lend to the applicant.

Standard&Poory's, Moody's and Fitch rating agencies are the world's largest rating agencies, which study the financial condition of almost all countries, large multinational corporations, banks, insurance and investment organizations, various funds and organizations that do not engage in financial activities, and assess their rating level. In recent years, the sovereign credit rating of Uzbekistan has been assessed by the world's most prestigious rating agencies.

LITERATURE REWIEV

In general, the researches of many economists were studied, in particular, as a result of the scientific researches of Western economists Periklis Boumparis, Costas Milas, Theodore Panagiotidis, 6 of the macroeconomic indicators were selected as the most important factors determining the rating in the evaluation of the sovereign credit rating, and GDP per capita, GDP annual growth, current payment balance, inflation rate, unemployment rate, and finally, a combination of several individual variables (investment and financial freedom, business environment, transparency of financial institutions, openness of the public sector to foreign partners, favorable for creating new types of business important formation) is one of them. [1]

Also, the economist Fatih Bahadir Haspolat, researching the methodology of Moody's rating agency based on in-depth analysis, cites the following as the main factors in determining the sovereign credit rating: GDP per capita, government management policy, current account balance, macroeconomic growth indicators and forecasts, gold- foreign exchange reserves and the degree of industrialization of the country are considered positive factors determining the sovereign credit rating, while the volatility of exchange rates, interest payments, and high external debt are considered negative factors that lead to default.[2]

Noted economists Cantor R. and Packer F were among the first to study sovereign credit ratings and their key determinants, and this 1996 article published in the Economic Policy Review magazine identified the following economic factors as highly influential in determining ratings: included. Average GDP per capita; GDP growth; inflation; fiscal balance; external balance; external debt; economic development is considered one of its main factors. High per capita GDP, low inflation and low external debt are said to support the high rating. [3]

According to Gabriel Caldas Montes, Diego S. P. De Oliveira And Helder Ferreira De Mendonça, Moody's Investors Service, Standard&Poor's and Fitch rating agencies are the world's largest agencies that assess sovereign credit ratings. and use a combination of quality indicators .[4]

According to the American economists João C.A. Teixeira, Francisco J.F. Silva, Manuel B.S. Ferreira, and José A.C. investigation, the main factors influencing the

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evaluation of sovereign credit ratings were divided into three separate groups. The first group is macroeconomic factors, including GDP per capita, GDP growth, unemployment rate, inflation and investment rate. The second group consists of external factors, which include foreign debt, budget deficit and liquidity risks. The third group is the government financial policy factor, the level of public debt is its main factor. [7]

Local economists A. Burkhanov [5,8], B.Usmonov [6,9] also proposed a number of indicators for increasing the financial security and economic efficiency of the country along with the assessment criteria of rating agencies for sustainable economic development, and these indicators contribute to the sustainable economic growth of the country have emphasized that it will have an impact.

RESEARCH METHODOLOGY

A sovereign credit rating is a special rating given to a country or an independent entity that tells investors the probability of recovery of their investments in the economy of a particular country or the risks of factors affecting it, as well as the government's ability to pay public debt and interest payments on time and to what extent it is willing to pay debts. is an estimator. A country's sovereign credit rating has a significant impact on its borrowing capacity, meaning it can negatively or positively affect how much interest payments will be made on any bonds issued by the government. At the request of a country, credit rating agencies evaluate its economic and political environment in order to assign a rating. Obtaining a high sovereign credit rating is typically critical for developing countries seeking to raise funds from international bond markets.

Standard & Poor's (S&P), Moody's and Fitch Ratings agencies are the largest agencies, and most participants of the financial market use rating information issued by these agencies.

Standard&Poor's Global Rating agency currently operates in 26 countries. S&P assesses the rating of the issuers, covering 99% of the world's market capitalization, with an in-depth analysis of financial data of around 135 billion per year. The S&P rating agency performs a number of functions, such as monitoring, collecting information, regulating it and making predictions based on it.

Standard & Poor's (S&P), Moody's Fitch Ratings and other rating agencies make calculations on more than 100 indicators using available information based on the method developed by them. The results are combined to determine sovereign credit rating indicators and are expressed using special letters, numbers and plus (+), minus(-) signs.

Also, rating agencies divide the rating into long-term and short-term ratings depending on the period of validity.

Table 1
Rating scales of credit rating agencies

T/p	S&P		Moody's		Fitch		**Status**	
Level of reliability of investments	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**	**Risk level**	
100	AAA	A-1+	Aaa	P-1	AAA	F1+	The highest class	Investment grade
95	AA+		Aa1		AA+		High class	
90	AA		Aa2		AA			
85	AA-		Aa3		AA-			
80	A+	A-1	A1		A+	F1	Upper middle class	
75	A		A2		A			
70	A-	A-2	A3	P-2	A-	F2		
65	BBB+		Baa1		BBB+		Lower middle class	
60	BBB	A-3	Baa2	P-3	BBB	F3		
55	BBB-		Baa3		BBB-			
50	BB+	B	Ba1	Without rank	BB+	B	Speculative category	Speculative
45	BB		Ba2		BB			
40	BB-		Ba3		BB-			
35	B+		B1		B+		Юқори спекулятив	
30	B		B2		B			

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25	B-		B3		B-			
20	CCC+	C	Caa1		CCC	C	High risk	
15	CCC		Caa2				Extremely speculative	
10	CCC-		Caa3				Close to default	
5	CC		Ca					
	C							
0	D	/	C		DDD	/	By default	
					DD			
					D			

Ratings are divided into long-term and short-term ratings depending on the validity period.

The ratings are divided into two large groups depending on the level of risk:

- **Investment grade.** Trust in issuers with this rating level is considered high, and the level of possibility of meeting financial obligations is considered high.
- **Speculative grade.** The confidence in the issuers with this rating level is considered low, and the ability to fulfill their financial obligations is considered low. That is why creditor organizations are cautious in allocating financial resources to countries with this rating level.

The highest class: the highest level of reliability. Minimum credit risks, 100% reliability.

High class: High level of ability to fulfill debt obligations. Reliability level 85-95%.

Upper middle class: The ability to meet financial obligations is high, but at the same time there is a dependence on unfavorable economic conditions and other negative changes in the external environment. Confidence level is 70-80%.

Lower Middle Class: Has sufficient ability to meet financial obligations, but adverse economic conditions or business environment may reduce this ability. Reliability level 55-65%.

Speculative Category:. In case of adverse changes in economic conditions and business environment, the risk will increase compared to usual. The level of reliability is 40-50%.

Highly Speculative: More sensitive to negative changes, but has the ability to repay its debts. Reliability level 25-35%.

High risk: Credit and debt risk is high and can be repaid if there is a favorable economic, financial and business environment. Confidence level is 20%.

Extremely Speculative: The risk of default on loans and debt obligations is very high. Confidence level is 15%.

Near Default: The issuer is in bankruptcy but can meet its financial obligations. Confidence level is 5-10%.

In Default: In Bankruptcy. Confidence level is 0%.

Also, rating agencies evaluate the financial condition of the issuer on 4 levels.

- Positive: means that the rating may increase.
- Negative: Rating may be downgraded.
- Stable: unlikely to change rating.
- Developing: May rise or fall.

Although the tasks of these rating agencies are similar, the rating evaluation methods and methodologies of all three agencies are different. While S&P and Fitch rating agencies assess the probability of default, Moody's agency assesses the amount of losses in case of default. All three agencies value tens of trillions of dollars worth of securities around the world.

ANALYSIS AND RESULTS

In general, the level of establishment of international economic and financial relations can indicate the position of the countries in the economic growth. Such significant indicators are determined by international sovereign rating agencies by studying the impact of sovereign rating assessments. It is worth mentioning that the sovereign credit rating of Kazakhstan was the first among the Central Asian countries to be evaluated in 1996 and is regularly evaluated by rating agencies every year. Since the last few years, the sovereign credit rating of all countries in Central Asia, except Turkmenistan, has been evaluated. The table below shows the ratings of the Central Asian countries for the last 3 years.

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Table 2
Sovereign credit ratings of Central Asian countries in 2018-2020 [1].

Agencies	S&P			Moody's			Fitch		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Uzbekistan	BB stable	BB positive	BB- negative	-	B1 stable	B1 stable	BB stable	BB stable	BB- stable
Kazakhstan	BBB positive	BBB- positive	BBB- negative	Baa3 positive	Baa3 positive	Baa3 negative	BBB stable	BBB stable	BBB stable
Kyrgyzstan	-	-	-	-	-	B3 салбий	-	-	-
Tajikistan	-	B- positive	B- negative	B2 stable	B2 stable	B2 negative	-	-	-

As can be seen from the above Jalwal data, the sovereign credit rating of Kazakhstan among the Central Asian countries is higher than the rating level of other countries and is rated at the investment level. The ratings of Kyrgyzstan and Tajikistan are highly speculative.

In recent years, Central Asian countries have been issuing sovereign Eurobonds on European stock markets.

"In October 2018, Kazakhstan issued sovereign Eurobonds on the London Stock Exchange with a total value of 1.05 billion euros: 525 million euros for 5 years at 1.55%, and 525 million euros for 10 years at 2.375%." "September 26, 2019 in cooperation with the London Stock Exchange and the Astana International Financial Center Stock Exchange with a total value of 1.115 billion euros: 500 million euros for a 7-year term with a 0.6% coupon rate, 650 million euros and a 15-year term with a 1.5% coupon rate issued a Eurobond"[2].

Analyzing the rating levels in Table 2 together with the interest rates of sovereign international bonds issued by the governments of Kazakhstan, Tajikistan and Uzbekistan, we can see how important a high sovereign rating is for a country. Kazakhstan's sovereign credit rating in 2020 was assessed by S&P as BBB-negative, Moody's Baa3 negative, and Fitch as BBB stable, while Uzbekistan's rating was assessed as BB-negative, B1 stable, BB- stable, respectively, that is, the rating level of Kazakhstan is several notches higher than the rating of Uzbekistan. . That is why Kazakhstan's sovereign bonds are sold at much lower interest rates than Uzbekistan's. Also, Tajikistan's rating is several notches lower than Uzbekistan's, and therefore their severe bonds are sold at higher interest rates.

On September 7, 2017, Tajikistan placed 500 million dollars of 10-year 7.125% government sovereign Eurobonds on the London Stock Exchange to finance the construction of the Rogur HPP.

Taking into account the increase in the investment attractiveness of the country by entering the sovereign credit rating, the creation of opportunities for attracting external debt funds by placing bonds in the international financial markets, in February 2019, for the first time in the world financial markets, "The total volume of the Republic of Uzbekistan in the amount of 1 billion US dollars 5 and 10 years issued sovereign international bonds for the term. In this case, the 5-year 500 million dollar bond was sold at 4.75 percent, and the 10-year 500 million dollar bond was sold at 5.375 percent on the London Stock Exchange. [3].

The rating of the rating agencies is based on various macroeconomic indicators provided by the country being evaluated, international economic institutions and the data base obtained from the countries, corporations, banks, insurance and various investment organizations that have trade-economic relations with the country, as well as information collected as a result of the monitoring of global processes in the world economy by the rating agencies. assesses the country's sovereign credit rating. In

[1] This table was formed by the author of the article based on the research results
[2] https://strategy2050.kz/en/news/kazakh-finance-ministry-issues-eurobond-worth-1-150-million-euros-/
[3] http://dmo.mf.uz/wp-content/uploads/2019/07/Uzbekistan-Eurobond-coverage-book-by-APCO_2019.pdf

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addition, factors such as the activity of the country's political institutions, the level and transparency of citizens' participation in political processes, legislation, and the political stability of the government are also taken into account.

Table 3
Average values of macroeconomic variables by agencies and credit rating.

		Rating							
№	**Indicators**	**Agencies**	**AAA/Aaa**	**AA/Aa**	**A/A**	**BBB/Baa**	**BB/Ba**	**B/B**	**CCC-DDD,SD/Caa-C**
1	**Average GDP per capita**	Fitch	24.909.4	22.920.3	9.596.0	3.767.6	1.731.9	717.9	4410.5
		S&P	24.838.4	19.773.0	9.823.3	3.026.3	1.780.3	2.837.8	5034.8
		Moody's	24.657.1	12.829.0	5.622.7	3.248.8	2.042.5	1.691.3	5034.8
2	**Average annual GDP growth**	Fitch	2.178	2.489	3.869	3.622	4.101	3.638	-1.840
		S&P	2.197	1.954	3.355	4.289	4.001	2.284	-2.087
		Moody's	2.197	2.988	3.636	3.307	3.609	3.386	-2.087
3	**Consumer price index growth**	Fitch	2.240	2.392	3.204	3.202	4.140	9.648	15.933
		S&P	2.291	2.379	3.240	2.360	4.140	10.060	20.290
		Moody's	2.379	2.540	3.096	2.677	4.140	10.219	20.290
4	**Fiscal balance / GDP**	Fitch	-0.320	0.253	-2.319	-3.661	-2.865	-2.614	-3.520
		S&P	0.557	-0.660	-3.250	-2.893	-3.037	-4.468	-3.000
		Moody's	0.167	-1.551	-4.154	-2.191	-3.940	-3.369	-3.000
5	**Current account balance / GDP**	Fitch	1.784	1.991	-1.611	-3.842	-1.509	-2.363	-1.173
		S&P	1.926	2.650	-4.355	-3.733	-1.137	-1.407	0.197
		Moody's	0.487	5.722	-4.450	-1.080	-1.137	-0.055	0.197
6	**Current account receipts from gross external debt / balance of payments**	Fitch	273.917	232.749	105.468	90.211	128.265	159.561	196.779
		S&P	261.173	241.082	125.229	83.588	128.319	209.053	284.297
		Moody's	260.792	76.459	85.708	96.027	128.319	168.369	284.297
7	**Public internal debt / GDP**	Fitch	46.231	39.001	30.851	24.561	10.807	25.636	20.483
		S&P	46.231	47.453	31.406	23.218	11.483	54.451	24.392
		Moody's	46.231	23.040	26.981	23.218	28.217	25.314	24.392
8	**Liquidity level**	Fitch	55.839	40.831	131.395	114.36	145.501	120.638	87.756
		S&P	55.839	36.247	132.506	129.97	145.146	68.207	76.441
		Moody's	45.414	198.508	132.506	98.759	145.146	103.513	76.441
9	**Industrialized country or not**	Fitch	1	1	0	0	0	0	0
		S&P	1	1	0	0	0	0	0
		Moody's	1	0	0	0	0	0	0

Rating agencies use a country's various macroeconomic variables considered to be the most important as a clear criterion for determining a country's sovereign rating. This table shows the average value of the 9 most important variables that rating agencies use to evaluate a country's rating. The level of these variables is considered the most important factor in assessing the sovereign rating.

Description of variables in Table 3:

1. Average GDP per capita: The results are given in US dollars, taking into account the average changes in exchange rates in the market.
2. Annual average growth of GDP: Annual change in constant prices, in %.
3. Consumer price index growth: Annual change, in %.

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4. Fiscal balance/GDP: Consolidated balance of central government, regional and local authorities, social welfare funds and other off-budget funds in relation to GDP, in %.
5. Current account balance of payments / GDP: Current account balance of payments in relation to GDP, in %.
6. Current account receipts from the gross external debt / balance of payments: Debt obligations of residents to non-residents are income of the balance of payments on the current account, in %. These liabilities can be expressed in local and foreign currency.
7. Public debt/GDP: Total public debt issued in the country's domestic capital market, in % of GDP.
8. Liquidity level: Ratio of external assets to liquid external liabilities, in %. The ratio of external assets to liquid external liabilities, in %. Assets include international reserves, gold and bank foreign assets. Liabilities include external debt, current year external debt service costs and short-term external debt
9. Industrialized country or not: according to IMF definition: 1 for industrialized countries and 0 for non-industrialized countries.

Table 3 presents the average values of macroeconomic variables by agency and credit rating.

1 and 2. "Average GDP per capita" and "Average annual growth of GDP". These indicators are the most important indicators in assessing the country's sovereign credit rating, as they indicate the economic potential of the borrowing country.

3. "Consumer price index growth" is used to measure the level of inflation in the country. A high consumer price index is seen as the result of structural problems in the economy, and it may be a consequence of financing the public budget deficit by expanding the monetary base rather than by raising taxes or borrowing public debt.

4 and 5. "Fiscal balance/GDP" and "Balance of payments on current accounts/GDP" mean the surplus and deficit in the general government budget and the balance of payments on current accounts, respectively. If the budget is in deficit, in theory this could lower the rating of the borrowing country.

6 and 7. "Gross external debt/current account receipts from the balance of payments" and "Government domestic debt/GDP" show changes in the level of indebtedness of the country. A high coefficient of these indicators indicates a low solvency of the state. 8 and 9. "Liquidity ratio" indicates the technical or short-term solvency of the borrowing country. The IMF indicates whether a country is classified as "Industrialized" or not.

CONCLUSIONS AND SUGGESTIONS

From this we can conclude that it is very important to obtain a high sovereign credit rating for any country that wants to attract financial capital in large amounts and at low interest rates for the development of the country's economy from the world financial markets. It is necessary to get a place in the international credit ratings not only to artificially increase the international reputation of the country, but also to accelerate the economic development of the country. First of all:

It is necessary for the state to define a national development model and a long-term economic strategy after studying the path of development of rapidly developing countries whose economy is similar to the economy of Uzbekistan.

it is necessary for humumat to fulfill its contractual obligations to economic partner countries, international organizations, banks and various investors on time and in full, because if the state does not fulfill such contractual obligations, it may cause a decrease in trust in the government of our country in the international arena.

increase the volume of GDP by increasing the amount of GDP by increasing the amount of foreign debt and spending of foreign investment funds attracted to the country, improving the balance of payments by increasing the export potential, providing employment to the population by creating many jobs, and most importantly, by doing this, the well-being of the population if we can increase it, in our opinion, Uzbekistan can take its rightful place in various rankings of the world.

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