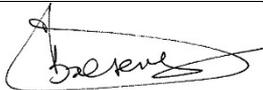# CELSA - Collaborative research project - Application form - COVER PAGE

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3. Non confidential and public friendly summary (max. 2000 characters)

Project title:
The content analysis perspective of sovereign credit ratings and corporate spillover effects

Summary:
Credit ratings reflect the opinion of specialised rating agencies on the creditworthiness and likeliness of default of a borrower. Rating agencies play a crucial role in the financial landscape because their ratings have an impact on several economic agents. For the borrower, the credit rating determines the borrowing cost and the ease of access to credit. For the investor, the credit rating reflects the riskiness of an investment opportunity and hence is an indicator for the expected return. For financial institutions, credit ratings play a crucial role in the determination of the capital requirements. Finally, regulators use credit ratings in financial regulation. The question whether this central role of credit rating agencies reduces uncertainty and risk taking behaviour is highly debated. Not the least because credit ratings were essential to the financial crisis of 2007. Rating agencies were key players in the creation of extremely complex debt-based securities and enabled financial institutions to sell these products to ignorant investors.

In this research project we will use the so-called content analysis to investigate the information content of (sovereign) credit ratings. We will also add to the debate on the desirability of the central role of credit rating models in financial regulation. More specifically, we aim to address the following questions: (1) Can we identify subjectivity in credit rating reports and how does it influence a country's credit rating, (2) How does credit risk and financial distress at the corporate level affect sovereign credit risk?, and (3) Is it possible to predict early signals of forthcoming sovereign default risk by using corporate data next to data on the country level?

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4. List 5 key words

Sentiment
Sovereign credit ratings
Content analysis
Artificial intelligence
Financial regulation