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Policy Brief

Governance Developments Shaping Sovereign Credit Assessments

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Key insights and recommendations:

- Governance structures that extend beyond credit rating agency methodologies – including debt disclosure frameworks, restructuring architecture, fiscal oversight institutions and multilateral finance frameworks – shape the environment in which sovereign creditworthiness is assessed. Policymakers and multilateral institutions engaging with sovereign credit outcomes should direct attention to these structures, not only to credit rating agency methodologies themselves.
- Strengthening sovereign debt disclosure frameworks and reporting standards improves the informational foundations on which credit assessments are built. Where reporting is fragmented or opaque, agencies price uncertainty as well as risk. Reforms that extend structured disclosure architecture to sovereign reporting – drawing on frameworks long established in corporate securities markets and banking regulation – reduce that uncertainty and improve evidentiatry basis for assessment.
- Expanding the independence and analytical capacity of fiscal oversight institutions provides markets and credit rating agencies with credibility signals that go beyond sovereign self-reporting. Multilateral technical assistance can support this capacity where institutional baselines remain limited, particularly across emerging market and developing economies where the gap between reform effort and assessed creditworthiness tends to be widest.
- Maintaining and developing the institutional interfaces through which governance reforms transmit into rating methodology ensures that governance progress is reflected in credit assessments rather than absorbed without effect. The channels between multilateral development bank capital frameworks and agency criteria illustrate how such interfaces function when clearly defined. Equivalent interfaces in other governance domains warrant similar attention.

Challenge

Sovereign credit ratings shape the cost and availability of capital for emerging market and developing economies, yet debate about their governance has focused primarily on the methodologies and market structure of credit rating agencies themselves. The broader institutional environment that determines what agencies observe, how risk is modelled and which factors carry weight in credit assessments receives comparatively little systematic attention.

Approach

This brief examines four concrete governance developments that have altered the environment in which sovereign credit assessments are formed. Drawing on the Global Governance Innovation Platform institutional mimicry framework, it shows how governance tools developed in other policy domains have been adapted to address coordination and information problems in sovereign credit markets. Together these developments illustrate how sovereign credit formation occurs across a distributed governance system rather than within credit rating agencies alone.

Section 1

The governance layer of sovereign credit

Sovereign credit ratings play an increasingly important role in shaping the cost and availability of capital for emerging market and developing economies. As debt vulnerabilities have intensified across many jurisdictions, attention has often focused on the methodologies and market structure of credit rating agencies themselves.

Sovereign credit assessments emerge from a broader process of sovereign credit formation shaped by governance structures that determine how information is generated, verified and interpreted. Data regimes, legal frameworks, fiscal oversight institutions and debt restructuring mechanisms all influence the environment within which sovereign creditworthiness is assessed. This governance layer receives less sustained attention than it warrants. The governance structures that condition how rating methodologies are applied have a direct bearing on the informational and legal environment in which sovereign risk is assessed. This brief examines four developments that clarify how sovereign credit governance is distributed across multiple institutional domains rather than concentrated in any single one.

Governance improvements in complex policy domains frequently occur through the adaptation of institutional tools developed in other contexts. Disclosure standards, creditor coordination rules, and independent oversight mechanisms have each been applied across governance systems where they address analogous information or coordination problems. The developments examined below illustrate how this process of institutional adaptation operates within the sovereign credit environment – each representing a governance mechanism transferred or extended from an adjacent domain.

Section 2

Governance developments affecting sovereign credit assessments

International Monetary Fund-World Bank debt transparency and data governance reforms

Credit rating agencies rely heavily on the quality, completeness and verifiability of sovereign debt data. Where reporting is fragmented, inconsistent or opaque agencies must work with incomplete information – with direct consequences for assessments of fiscal credibility and institutional capacity, two dimensions that carry significant weight in sovereign risk frameworks.[1]

The International Monetary Fund (IMF) and World Bank have undertaken a series of coordinated reforms

[1] Moody's, *Rating Methodology: Sovereigns* (2025). Available at https://www.moodys.com/research/Rating-Methodology-Sovereigns-Rating-Methodology--PBC_1346995; S&P Global, *Sovereign Rating Methodology* (2026). Available at https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/10221157.

to address structural weaknesses in sovereign debt disclosure. The Debtor Reporting System is being redesigned to capture a broader range of debt instruments, including debt owed to non-traditional creditors.[2] Standardized templates for restructuring data have been introduced to improve consistency and comparability across jurisdictions. Debt sustainability framework guidance was updated to reflect evolving debt compositions in emerging market and developing economies, with revisions consolidated through the joint IMF-World Bank debt transparency initiatives advanced between 2017 and 2020.

The governance mechanism at work is structured data standardization, applying disclosure architecture to sovereign reporting that mirrors frameworks long established in corporate securities markets and banking regulation, where standardized reporting requirements reduce information asymmetry between issuers and investors and form a verifiable basis for risk assessment. For credit rating agencies, improved debt transparency reduces the informational gaps that can generate downward pressure on assessments of governance quality and institutional strength.

These reforms introduce a structured sovereign debt disclosure architecture that reduces informational gaps and improves the evidentiary basis for sovereign credit assessments.

Enhanced collective action clauses in sovereign bond markets

Legal frameworks governing how sovereign debt can be restructured form part of the environment in which credit rating agencies assess default risk and recovery prospects. Where restructuring mechanisms are fragmented or creditor coordination is uncertain, agencies must factor a wider range of adverse outcomes into their analysis. Changes to the legal architecture of sovereign debt therefore carry direct implications for how risk is modelled.

The International Capital Market Association's 2014 single-limb collective action clause framework introduced a restructuring coordination mechanism that allows a qualified majority of bondholders to bind all creditors to a restructuring agreement, removing the capacity of holdout creditors to obstruct outcomes. This mechanism adapts collective decision-making rules developed in corporate insolvency and restructuring law to the sovereign bond context, extending a governance tool from a domain where credit coordination has long been formalized. These clauses have since been adopted across a large share of post-2014 sovereign bond issuances and have been deployed in several recent restructuring processes, demonstrating their operational relevance beyond a standard-setting exercise.[3]

The governance mechanism is structured creditor coordination – importing collective decision processes from other debt governance settings into the sovereign bond context. For credit rating agencies, the presence of effective collective action clause provisions alters the legal environment within which default and restructuring scenarios are evaluated. The availability of a clear, enforceable coordination mechanism reduces some of the legal uncertainty that can amplify sovereign risk assessments.

The adoption of enhanced collective action clauses has introduced a structured creditor coordination framework that directly affects how credit rating agencies evaluate restructuring risk and model recovery scenarios.

Growth and formalization of independent fiscal institutions

Credit rating agencies evaluate the credibility of fiscal policy commitments as a core component of sovereign risk assessment. That evaluation depends in part on whether credible external oversight of fiscal policy exists within a jurisdiction. Where fiscal commitments are unverified, agencies rely more heavily on historical track record and discount forward-looking projections. The presence of independent institutional capacity to verify fiscal frameworks strengthens the evidentiary basis for assessments of policy credibility.

Fiscal councils and parliamentary budget offices have expanded significantly in number and mandate over the past two decades. The IMF reports that more than 50 independent fiscal institutions now operate globally (54), many under strengthened legal bases that formalize their

[2] World Bank, "Update of the Debtor Reporting System (DRS)", n. d. Available at https://www.worldbank.org/en/programs/debt-statistics/drs-update#:~:text=Over%20time%2C%20the%20DRS%20has,coverage%20using%20more%20granular%20data.

[3] The IMF reports that, post-2014, almost every new sovereign bond issuance has included a Collective Action Clause. Approximately 79 per cent of the total stock of outstanding international sovereign bonds include enhanced CACs. See IMF, *A Stocktaking of the Current International Architecture for Resolving Sovereign Debt involving Private Sector Creditors* (Washington DC, IMF, 2025). Available at https://www.imf.org/-/media/files/publications/pp/2025/english/ppea2025034.pdf.

verification function and provide statutory protection for their independence.[4] Their analytical outputs – assessments of budget compliance, medium-term fiscal projections and fiscal risk analysis – provide a layer of external oversight analogous to audit and assurance mechanisms in other domains. The model draws directly on oversight architectures developed in public audit and parliamentary accountability systems, extending independent verification functions into the fiscal policy domain.

The governance mechanism is institutional verification, independent external monitoring of fiscal frameworks that provides credit rating agencies with a structured basis for evaluating policy credibility beyond the claims of the sovereign issuer alone. Where fiscal oversight institutions are well-established and operationally independent, they contribute to the informational environment in which sovereign fiscal assessments are formed.

The formalization of independent fiscal institutions across a growing number of jurisdictions has expanded the institutional verification layer available to credit rating agencies assessing fiscal policy credibility.

Multilateral development bank capital adequacy reforms and credit rating methodology adjustments

Multilateral development banks (MDBs) occupy a distinct position within sovereign credit assessments. Their capacity to provide financing to Member States – particularly under stress – is factored into how credit rating agencies assess sovereign risk in jurisdictions where MDB engagement is significant. Changes to MDB capital frameworks therefore have a downstream effect on sovereign creditworthiness assessments, mediated through the methodology adjustments credit rating agencies make in response.

The G20 Capital Adequacy Framework review prompted a series of balance sheet reforms across MDBs. These included adjustments to the treatment of hybrid capital and callable capital, changes designed to improve MDB lending headroom without requiring additional paid-in capital from shareholders.[5] S&P Global subsequently updated its supranational rating methodology to reflect these adjustments, incorporating revised treatments of preferred creditor status and MDB support capacity into its analytical framework.[6] This adjustment reflects a replication logic familiar from other regulated financial sectors, where capital adequacy frameworks are periodocially updated to reflect evolving institutional roles and risk-sharing arrangements. On 27 February 2026, Moody's issued a Request for Comment on proposed updates to its MDB and supranational rating methodology, signalling a potential methodological alignment with S&P Global's recent revisions.[7]

The governance mechanism here is a formal interface between multilateral governance rules and credit rating agency criteria. Where MDB capital governance changes, those changes translate, through a defined methodological pathway, into adjustments in how sovereign creditworthiness is assessed for Member States that rely on MDB financing. This is among the clearest illustrations of how governance activity outside credit rating agencies directly shapes analytical outcomes within them.

MDB capital adequacy reforms have established a direct methodological link between multilateral governance decisions and the sovereign credit assessments applied to Member State borrowers.

Governance innovations that impact sovereign credit governance

These four developments originate in different governance domains. Debt transparency reforms sit within multilateral financial architecture. Collective action clauses are a product of international debt market standards. Fiscal institutions reflect the expansion of national oversight capacity. MDB capital adequacy changes emerge from multilateral governance rules and their translation into rating methodology. None were designed primarily as a credit ratings-focused intervention. Each was driven by its own institutional logic and policy rationale.

4 IMF, "Fiscal Rules and Fiscal Councils: Recent Trends and Revisions Since the Pandemic", IMF Working Paper WP/25/198 (Washington DC, IMF, 2025). Available at https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025198-source-pdf.pdf.

5 G20, *Boosting MDBs' Investing Capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks* (2022). Available at https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf.

6 S&P Global, *Multilateral Lending Institutions and Other Supranational Institutions Ratings Methodology* (2025). Available at https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/101641447.

7 Moody's, *Request for Comment: Multilateral Development Banks and Other Supranational Entities: Proposed Methodology Update* (2026). Available at https://www.moodys.com/research/doc--PBC_1465268.

What connects them is their shared effect on the environment in which sovereign credit assessments are formed. Each introduces or strengthens a governance mechanism – a rule structure, a coordination process, a verification function or a legal framework – that shapes what credit rating agencies observe, how they model risk and which institutional factors carry weight. Sovereign credit assessments are not produced in isolation from these structures. They are produced within them.

Reform conversations have traditionally focused primarily on the number of credit rating agencies, their methodological convergence or the concentration of market share. The governance structures that condition the informational and legal environment in which those agencies operate are equally consequential for understanding how sovereign creditworthiness is assessed and where leverage for change may exist.

Section 3

Constraints on adoption and diffusion

The governance developments examined here have not diffused uniformly across sovereign borrowers. Each mechanism depends on institutional conditions that vary significantly across jurisdictions, and the benefits of these reforms have accrued unevenly. Debt transparency initiatives require integrated reporting systems and sustained coordination between finance ministries, central banks and statistical authorities – capacities that remain limited in a significant number of emerging market and developing economies. Independent fiscal institutions depend on legal mandates and sustained political commitment to operational autonomy, conditions that can be difficult to establish and maintain. Legal reforms to restructuring frameworks require market-wide contract adoption and creditor coordination, which are processes that tend to advance gradually through issuance cycles rather than through deliberate multilateral decisions.

A further constraint operates at the level of recognition. Governance reforms may be implemented before their implications are fully reflected in sovereign credit assessments. Credit rating agencies and investors integrate new institutional information cautiously, typically requiring evidence of consistent implementation across multiple jurisdictions and over time before adjusting analytical approaches. This creates a lag between the introduction of governance improvements and their recognition within sovereign risk analysis, a structural feature of the environment that shapes how quickly improvements in the governance layer translate into changes in assessed creditworthiness.

These dynamics influence the pace at which progress in sovereign credit formation is likely to occur. Governance innovations in this domain tend to diffuse gradually rather than uniformly, with smaller and lower-rated sovereign borrowers often among the last to benefit from improvements in the informational and legal environment that conditions their assessment. Continued coordination among multilateral institutions, national authorities and market participants is therefore important to ensure that governance developments of the kind examined here translate into measurable improvements in the conditions under which sovereign creditworthiness is assessed.

These developments illustrate that sovereign credit assessments are produced within a wider governance environment rather than by credit rating agencies alone. Understanding sovereign credit formation therefore requires attention not only to rating methodologies, but also to the legal frameworks, disclosure regimes and institutional oversight mechanisms that shape the information available to markets. As these governance structures continue to evolve, they will shape how sovereign risk is interpreted and priced across global capital markets.

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