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## RATING AGENCIES ON FINANCIAL MARKET

### Abstract

The article deals with genesis of rating agencies, their development and influence on the state of the local economy. This knowledge is crucial while conducting financial operations on any market. The article treats also about the most important issues related to the rating agencies. Article researches historical data based on financial reports published by Polish financial institutions. Conclusions of this research will help to understand the significance of rating agencies acting on financial markets, to judge rules of their operations and the quality of delivered ratings.

### Key words

rating agencies, securities, investment risk

### Introduction

Name of rating agencies comes from English “to rate” – meaning to measure the value or character of someone or something. It means the qualitative measure, based on overall analytical procedures, but covers a subjective opinion of analyst, who executes this procedure. Credit rating is a factor, described based on qualitative and quantitative data, which allow for grouping particular rated subject into one of several previously defined levels of credit capacity. Based on such a grade, lenders are able to estimate the level of risk of their current and potential borrowers. The concept of rating may be described as “including the borrower / issuer or a particular financial operation into one of many classes of credit risk, predefined within organized hierarchy, usually marked by letters and numbers with assigned levels of insolvency or loss”[1]. Rating agencies are autonomous institutions with their operational objective, being measuring and publishing the credit credibility of business entities, by estimating their defaulting risk.

### The genesis of rating agencies

The birth of the credit rating agencies is associated with the trust crisis in United States during the great investments in post-crisis era with the beginning of XIX century. At this time there was a huge demand for objective and professional investment risk analysis that would be delivered by impartial organizations. Since then and until late 20th century, the credit rating sector has developed only in the United States. Enormous national investment projects planned for different fields of economy, delivered by private contractors and financed by government bonds that boosted the economy, became a cradle and natural place of evolution for rating agencies.

The purpose of rating agencies operation was to limit the risk related to investments by estimating and publishing information about the risk. The goal was not only to limit the risk related to investment in some specific single entity but first of all – limit the overall market risk estimated for many securities issuers. This was the reason why the credit rating phenomenon, as a measure of investment risk, appeared in state regulations relevant for economically and socially crucial institutions, such as: banks, insurance companies and pension funds. The bodies, supervising these institutions wanted them to invest only in the safe securities. Regulations forbade the institutions to invest in “speculative securities” [3], as they were defined in “recognized rating manuals”[3]. “Speculative” securities (currently known as junk bonds) were ones below the secure level of investment. Banks, insurance companies and pension funds were obliged to invest only in securities at the investment level – currently these would be securities rated BBB- or higher in Standard & Poor’s scale. With such regulations, institutions were forced to base their decisions on the data published by rating agencies in “recognized rating manuals”[3]. Thereby the rating agencies grades became a standard, which significantly increased the position of commercial companies engaged in rating market. At this time, it became bedrock for safety of the United States financial system.

In the history of rating agencies there are several phases of development to be outlined. At the beginning they acted as commercial inquiry offices, then specialized financial and business press, and finally they became the credit rating agencies of contemporary times. Table 1 shows this chronology.

Table 1. The history of rating agencies

Pre-CRA				
1832	1849	1841	1849	
The American Railroad Journal	„Poor’s Manual of the Railroads of the United States”	First informational agency that rated the financial liabilities of merchants (bought in 1859 by Robert Dun)	John Bradstreet agency	
CRA				
Phase 1 (1909-1943): creation and establishing of rating agencies sector				
1909	1916	1930	1933	1941
Establishing John Moody’s agency	Poor enters the rating sector. John Knowles Fitch established Fitch Ratings	First legal regulations appearance	Dun&Bradstreet (D&B) consolidation	Fusion of Poor Company and Standard Statistics
Phase 2: (1944-1969): economic stabilization – low demand for credit ratings				
1962				
D&B buys Moody’s Investor Services				
Phase 3 (1970-2001): time of great economical turbulences and high demand for credit ratings				
1970	1975	1995	2000	
Penn Central securities insolvency Introduction of <i>issuer-pays</i> model	SEC provides the list of Nationally Recognized Statistical Rating Organization (NRSRO)	Fitch Ratings becomes a part of Fimalac S.A.	Fitch Ratings buys Duff & Phelps Credit Rating Co.	
Phase 4 (2002-today): fast development of financial innovations, rating agencies expand beyond the US market. Financial crisis of 2007/2008 and new legal changes related to rating agencies.				

Source: Langohr H. M., Langohr P. T., *The rating agencies and their credit ratings. What they are, how they work and why they are relevant*, John Wiley and Sons Ltd., Chichester, 2008, page 376.

Today’s rating agencies sector is divided between three agencies of global scope: Moody’s Investor Service (Moody’s), Standard and Poor’s Rating (S&P) and Fitch IBCA (Fitch), which is the smallest of them [4].

### Role of ratings and rating agencies.

Rating agencies can be defined as commercial investment consulting enterprises, which run qualitative classification of entities and financial instruments in order to mark each of them with the financial trust grade, expressed in letter code [2]. Rating agencies describe themselves as independent institutions providing information about financial credibility. To achieve this goal, they provide estimations on current and prospective financial condition of business entities and financial instruments issued by them. However, the grade, yet never free from subjective opinion, might be a reason for a loss caused by misjudged rating. Unfortunately, this is not included in the contract between the evaluator and graded party, so possible loss cannot be fulfilled. Therefore, it can be claimed that there are no legal mechanism to control the ratings, so value and quality of ratings depend on the good will of rating agencies and their motivation to uphold solid reputation on the financial markets. Credit rating is a universal tool to measure the level of investment risk, which allows comparing the financial credibility of entities operating on different markets. The same process applied to different entities constitutes a certain standard for grading the financial risk [6]. It is embraced as a grade of financial credibility, a financial credibility itself, financial standing, current estimation of credit credibility, including the character of obligations and qualitative measure of securities, based on issuer’s reliability in the past and forecasting his future financial condition as well [6].

Table 2. Rating agency functions

	Issuers	Investors	Supporting institutions
Informative function	Informative brokering: <ul style="list-style-type: none"> <li>▪ Production of information</li> <li>▪ Contribution to reputation growth</li> </ul>		
		Economies of scale in information production	
	Public information announcement		
Rating function			Regulations based on credit rating
	Private risk management		
Monitoring and standardization function	Credit / Investment process		
		Risk comparizon	

Source: Dittrich F., *The Credit Rating Industry: Competition and Regulation*, University of Cologne, 4 June 2007, p. 14: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=991821](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=991821), 14.04.2011.

As described in Table 2, there are three roles of rating agencies. First of all, they provide information, which strengthens the financial standing of issuers and allows investor to derive benefits from economies of scale. Secondly, rating agencies have a certification role – rating allows managing private risks and is a regulatory instrument. Thirdly, by standardization, rating provides overall view on issuance of debt securities and allows comparing the risk. There are also some factors, perceived within the economic and political framework that is based on intuition, therefore they cannot be proved.

The credit rating market is an oligopoly of top three agencies: Standard & Poor's, Moody's and Fitch. This is the result of natural accumulation processes, but also entry barriers instituted by NRSRO (Nationally Recognized Statistical Rating Organization), which weakened the competition between agencies. According to The Economist publishers this is caused by the Securities and Exchange Commission (SEC). However, as it was already mentioned, that this situation has also some advantages, because limited competition allows the rating agencies to remain resistant to issuers influence. It also became a principle already that issuers require ratings from all three agencies.

Table 3 shows symbols used by rating agencies. They represent grades – alone or modified with additional marks. Moody's uses symbols starting with AAA up to C for long-term securities and from P-1 to NP for short-term securities. Standard & Poor's classifies ratings from top grade AAA to minimum D for long-term securities, but for short-term securities these are A1 to D. Fitch is very similar to Standard & Poor's for long-term securities, but short-term securities are graded between F1 and F3 (investment category) and between B and D (speculative category).

Table 3. Rating classes

	Moody's		Standard & Poor's		Fitch Ratings		Profile
	long-term	short-term	long-term	short-term	long-term	short-term	
Investment level	Aaa	P-1	AAA	A-1+	AAA	F1+	„Prime”. The highest safety of the investment.
	Aa1		AA+		AA+		High investment quality.
	Aa2		AA		AA		
	Aa3		AA-	AA-			
	A1	P-2	A+	A-1	A+	F1	Average-high rating. Average quality investment.
	A2		A		A		
	A3		A-	A-			
	Baa1	P-3	BBB+	A-2	BBB+	F2	Average low rating. Average-low investment quality.
	Baa2		BBB	A-3	BBB	F3	
Baa3	BBB-	BBB-					
Speculative level	Ba1	Not Prime	BB+	B	BB+	B	Speculative level
	Ba2		BB		BB		
	Ba3		BB-		BB-		
	B1		B+		B+		
	B2		B	B	Highly speculative level		
	B3		B-	B-			
	Caa1		CCC+	C	CCC	C	High investment risk
	Caa2	CCC	CCC		Extremely high investment risk		
	Caa3	CCC-	CCC-		Risk of losing invested capital		
	Ca1	CC+	CC+				
	Ca2	CC	CC				
	Ca3	CC-	CC-				
	C	C	C				
	/						
/		D	SD/D	DDD	RD/D	Issuer's insolvency	
				DD			
				D			

Source: own work, based on Dziawgo D., *Credit Rating na międzynarodowym rynku finansowym*, Polskie Wydawnictwo Ekonomiczne, Warszawa, 2010, page 152-171, Fitch Ratings, *Fitch ratings definitions: International short term ratings*, „Re Library”, March 26, 2007, page 1-3 and data available at Moody's Investors Service [http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004)

### Rating for Poland and Polish financial institutions

In 1997 Polish Bank Association supported by United States Agency for International Development (USAID) initiated establishing of Central-European Center for Rating and Analysis S.A. (CERA). Shortly after it started to operate, CERA was taken over by Thomson Financial BankWatch, and afterwards by Fitch – as mentioned currently one of the biggest rating agencies in the world. Thereby, originally Polish company lost its local nature and became a part of international corporation. A Table 4 below shows reversed chronology of facts related to rating Poland by Fitch. Data indicate slight progression in ratings issued for Poland. The long-term ratings stabilize at BBB+ level and the short-term at F2.

Table 4. History data for rating of Poland by Fitch

Country	Date	Foreign currency rating			Local currency rating	
		Long-term	Short-term	outlook/watch	Long-term	outlook/watch
Poland	18 Jan 2007	A+	F2	stable	A	stable
Poland	23 Mar 2005	BBB+	F2	positive	A	stable
Poland	6 May 2004	BBB+	F2	stable	A	stable
Poland	4 Nov 2003	BBB+	F2	positive	A+	stable
Poland	21 Sep 2000	BBB+	F2	stable	A+	stable
Poland	19 Nov 1998	BBB+	F2	-	A+	-
Poland	7 Jun 1996	BBB	F3	-	A-	-
Poland	29 Apr 1996	BB+	B	Rating Watch positive	-	Rating Watch positive
Poland	26 Oct 1995	BB+	B	-	-	-

Source: Fitch – Complete Sovereign Rating History 10.11.2012.

Tables 5a and 5b show ratings of Poland against ratings of other countries of European Union, all issued by Standard & Poor's allows picturing economic situation of Poland. Current S&P rating defines Poland as a financially stable country, which for many economists seems to be an overestimated grade. As an argument they point out Poland's high unemployment, low birth-rate, high work emigration, growing foreign and domestic debt and tremendous negligence in developing road infrastructure. As shown in Table 5a Poland has low Gross Domestic Product per capita in relation to other countries of the European Union and quite high, but lowering GDP growth; moderate public debt; high unemployment rate – but not the highest in the EU, and fairly high interest rates comparing to other European countries, but also globally<sup>1</sup>.

Table 5a. Ratings of Poland against ratings of other member states of the European Union

	GDP (bln EUR)		GDP per capita EU=100		Public debt (% GDP)		Unemployment rate (%)		S&P country rating	
	2006	2011	2006	2011	2006	2011	2006	2011	2006	2012
Austria	259	301	126	126	62,3	72,2	4,4	4,1	AAA	AA+
Belgium	319	368	118	119	88	98,2	7,9	7,1	AA+	AA
Bulgary	26	38	38	44	21,6	16,3	8,2	11,8	BBB+	BBB
Cyprus	15	18	91	99	64,7	71,6	4,4	9,5	A	BB+
Czech Republic	118	155	80	80	28,3	41,2	6,4	6,7	A-	AA-
Denmark	219	240	124	127	32,1	46,5	3,9	7,8	AAA	AAA
Estonia	13	16	66	64	4,4	6	5,7	11,7	A	AA-
EU	11695	12629	100	100	-	-	7,8	10	-	-
EURO zone	8565	9414	109	108	-	-	8	10,6	-	-
Finland	166	192	114	115	39,6	48,6	7,3	7,6	AAA	AAA
France	1798	1997	108	108	64	86	8,8	9,9	AAA	AA+
Germany	2314	2571	115	118	68,1	81,2	9,6	5,6	AAA	AAA
Greece	209	215	92	90	107	165	8,7	21	A	CCC
Hungary	90	101	63	65	65,9	80,6	7,5	11	BBB+	BB+

<sup>1</sup> According to data available on October 2012 basic interest rates in non-European countries were: Australia 3,75; Japan 0,10; Canada 1,0; Norway 1,75; New Zealand 2,50; Switzerland 0,25.

Ireland	178	156	146	128	24,5	108	4,3	14,7	AAA	BBB+
Italy	1493	1580	105	101	106	120	6,3	9,3	A+	BBB+
Latvia	16	20	51	51	10,7	42,6	6,2	14,6	A-	BBB-
Lithuania	24	31	56	57	17,9	38,5	4,9	14,3	A	BBB
Luxemburg	34	43	270	271	6,7	18,2	4,6	5,1	AAA	AAA
Malta	5	6	76	83	64,4	72	6,8	6,7	A	A-
Netherlands	540	602	131	133	47,4	65,2	4	4,9	AAA	AAA
<b>Poland</b>	<b>272</b>	<b>370</b>	<b>52</b>	<b>63</b>	<b>47,7</b>	<b>56,3</b>	<b>11,9</b>	<b>10</b>	<b>BBB+</b>	<b>A-</b>
Portugal	161	171	79	80	69,3	108	9,2	14,6	AA-	BB
Romania	98	136	38	46	12,4	33,3	7,2	7,5	BBB-	BB+
Slovakia	45	69	63	74	30,5	43,3	12	14,1	A	A
Slovenia	31	36	88	85	26,4	47,6	5,4	8,7	AA	A+
Spain	986	1 073	105	100	39,7	68,5	8,3	23,2	AAA	BBB+
Sweden	318	387	123	123	45	38,4	6,4	7,5	AAA	AAA
United Kingdom	1949	1737	120	112	43,4	85,7	5,5	8,3	AAA	AAA

Source. Own work based on: Raport o sytuacji banków w 2011 r. KNF, Warszawa 2012; Monitor konwergencji nominalnej MF DPF AS 9 / 2012; <http://www.money.pl/gospodarka/unia-europejska/statystyka>; Money.pl.

Table 5b. National economy performance indicators of Poland and other member states of the European Union

	GDP growth rate (%)							Inflation	reference rate %	Long-term interest rate %	Inflation HICP y/y	General government deficit (%GDP)
	2007	2008	2009	2010	2011	2012	2013					
								2011	10 /12	06 /12	06 /12	2011
Austria	3,7	1,4	-3,8	2,3	3,1	0,8	1,7	0,7	1,00	2,1	2,1	-2,6
Belgium	2,9	1	-2,8	2,2	1,9	-0,1	0,2	0,5	1,00	2,7	2,0	-3,7
Bulgary	6,4	6,2	-5,5	0,4	1,7	0,6	0,9	0,5	-	4,9	2,4	-2,1
Cyprus	5,1	3,6	-1,9	1,1	0,5	-2,4	-5,4	-1,5	1,00	7,0	3,8	-6,3
Czech Republic	5,7	3,1	-4,7	2,7	1,7	-1	-0,9	-0,7	0,50	2,6	3,3	-3,1
Denmark	1,6	-0,8	-5,8	1,3	1	-0,4	0,4	0,4	0,45	1,1	2,1	-1,8
Estonia	7,5	-3,7	-14	2,3	7,6	3,9	0,8	3,7	1,00	-	4,1	1,0
EU	3,2	0,3	-4,3	2	1,5	0	1,3	2,9	-	4,2	2,5	-
EURO zone	3	0,4	-4,3	1,9	1,5	-0,3	1	2,8	1,00	3,8	2,4	-
Finland	5,3	0,3	-8,4	3,7	2,9	-1	-1,4	1,7	1,00	1,6	3,1	-0,5
France	2,3	-0,1	-3,1	1,7	1,7	0	0,2	0,3	1,00	2,3	2,2	-5,2
Germany	3,3	1,1	-5,1	3,7	3	0,7	0,4	1,2	1,00	1,2	1,9	-1,0
Greece	3	-0,2	-3,3	-3,5	-6,9	-7	-3,9	3,5	1,00	25,8	0,9	-9,1
Hungary	0,1	0,9	-6,8	1,3	1,7	-1,7	1,1	-1,4	7,0	1,5	2,6	-8,3
Ireland	5,2	-3	-7	-0,4	0,7	0,2	-0,3	2,6	1,00	6,1	2,0	-13,3
Italy	1,7	-1,2	-5,5	1,8	0,4	-2,4	-1,9	-1,4	1,00	6,0	3,6	-3,9
Latvia	9,6	-3,3	-18	-0,3	5,5	5,2	4,1	5,6		4,7	1,9	-3,5
Lithuania	9,8	2,9	-15	1,4	5,9	3,7	3,3	4,4		4,8	2,9	-5,5
Luxemburg	6,6	0,8	-5,3	2,7	1,6	-0,2	2,1	0,0	1,00	1,7	2,7	-0,6

Malta	4,3	4,1	-2,7	2,3	2,1	0,6	2,4	-0,4	1,00	4,2	4,2	-2,7
Netherlands	3,9	1,8	-3,5	1,7	1,2	-1,2	-0,8	-0,8	1,00	1,8	2,6	-4,7
Poland	6,8	5,1	1,6	3,9	4,3	2	1,6	3,8	4,75	5,0	4,0	-5,1
Portugal	2,4	0	-2,9	1,4	-1,6	-3,2	-1,4	-2,20	1,00	10,5	2,8	-4,2
Romania	6,3	7,3	-6,6	-1,6	2,5	0,6	3,5	0,8	-	6,5	3,1	-5,2
Slovakia	10,5	5,8	-4,9	4,2	3,3	1,8	0,9	-0,8	1,00	4,4	3,8	-4,8
Slovenia	6,9	3,6	-8	1,4	-0,2	-2,5	-1,1	3,2	1,00	6,3	2,6	-6,4
Spain	3,5	0,9	-3,7	-0,1	0,7	-1,6	-1,2	-0,4	1,00	6,8	2,2	-8,5
Sweden	3,3	-0,6	-5	6,1	3,9	0,9	1,5	1,5	1,5	1,3	0,7	0,3
United Kingdom	3,5	-1,1	-4,4	2,1	0,7	0,3	1,7	-0,2	0,5	7,6	5,7	4,3

Source. Own work based on: Raport o sytuacji banków w 2011 r. KNF, Warszawa 2012; Monitor konwergencji nominalnej MF DPF AS 9 / 2012; <http://www.money.pl/gospodarka/unia-europejska/statystyka>; Money.p

Table 6 shows historical data of ratings for economically weaker European countries, delivered by all three agencies. As it can be seen, regardless of issuer, the ratings are very similar.

Table 6. Ratings of Poland against ratings of selected European countries.

	Moody's			S&P			Fitch		
	2012 July	2010 July	2007 July	2012 July	2010 July	2007 July	2012 July	2010 July	2007 July
Greece	C (Ca)	Ba1 (A3)	A1 (A2)	CCC			CCC (B-)	BBB- (BBB+)	A (A)
Ireland	Ba1 (Baa3)	Aa2 (Aa1)	Aaa (Aa1)	BBB+			BBB+ (BBB+)	AA- (AA+)	AAA (AAA)
Spain	Baa3 (A3)	Aaa (Aa2)	Aaa (Aa2)	BBB+ (A)	AA		BBB (A)	AA+ (AAA)	AAA (AAA)
Portugal	Ba3 (Ba2)	A1 (Aa2)	A1 (Aa2)	BB (BBB-)			BB+ (BBB-)	AA- (AA)	AA (AA)
Italy	Baa2 (A3)	Aa2 (Aa3)	Aa2 (Aa3)	BBB+ (A)			A- (A+)	AA- (AA)	AA- (AA)
Poland	A2 (Baa1)	A2 (Baa1)	A2 (Baa1)	A-	A-	A-	A- (BBB+)	A- (BBB+)	A- (BBB+)
Czech Republic	A1 (Baa1)	A1 (Baa1)	A1 (Baa1)	AA-			A+ (A+)	A+ (A+)	A (A-)
Hungary	Ba1 (Baa3)	Baa1 (A3)	A2 (A1)	BB+ (BBB-)	BBB-		BB+ (BBB-)	BBB (BBB)	BBB+ (BBB+)

Source : Own work based on data available at: <http://www.moodys.com>, <http://www.standardandpoors.com> <http://www.fitchratings.com>.

Ratings shown in Table 6 do not seem to relate to economy performance indicators shown in Table 5b. This might determine that either the ratings were not based on the same indicators or the update of those ratings was delayed significantly.

Table 7 Polish banks' ratings according to Moody's and Fitch

Moody's	Financial strenght rating	Long-term deposit rating	Short-term deposit rating	Forecast
PKO BP	C- (C-)	A2 (A2)	P-1 (P-1)	STA (STA)
Pekao	C- (C-)	A2 (A2)	P-1 (P-1)	STA (STA)
ING Bank Śląski	D+ (D+)	A2 (A2)	P-1 (P-1)	NEG (STA)
BRE Bank	D (D)	Baa1 (A3)	P-2 (P-2)	STA (DNG)
BZ WBK	D+ (D+)	Baa2 (Baa2)	P-2 (P-2)	NEG (NEG)
Bank Millen-nium	D (D)	Baa2 (A3)	P-3 (P-2)	DNG (DNG)
Bank Handlowy	D+ (D+)	Baa1 (Baa1)	P-2 (P-2)	NEG (NEG)
BGŻ	D (D)	A3 (A3)	P-2 (P-2)	STA (STA)
Getin Noble Bank	D- (D-)	Ba2 (Ba3)	NP (NP)	STA (NEG)
BPH	D (D-)	Baa2 (Baa2)	P-2 (P-2)	STA (UPG)
Lukas Bank	D+ (C-)	A3 (A2)	P-2 (P-1)	NEG (STA)
BRE Bank Hipo-teczny	E+ (E+)	Baa3 (Baa3)	P-3 (P-3)	STA (DNG)
Fitch	Individual rating	Long-term rating	Short-term rating	Forecast
Pekao	C (C)	A- (A-)	F2 (F2)	NEG (NEG)
ING Bank Śląski	C (C)	A (A)	F1 (F1)	STA (STA)
BRE Bank	C/D (C/D)	A (A)	F1 (F2)	STA (STA)
BZ WBK	C (C)	BBB+ (BBB+)	F2 (F2)	STA (NEG)
Bank Millen-nium	C/D (C/D)	A (A)	F1 (F1)	NEG (STA)
Getin Noble Bank	D (D)	BB (BB)	B (B)	No indication ( )
BOŚ	D (D)	BBB (BBB)	F3 (F3)	STA (STA)

Source: Own work based on data available at: <http://www.moody.com>, <http://www.standardandpoors.com>  
<http://www.fitchratings.com>.

### Summary

Rating agencies are definitely useful and beneficial for financial markets. Information published by these agencies allows both parties of financial transactions to secure their business. However, there are several issues related to the way rating agencies operate. First, they are not subject to liability. They are able to have significant influence on the market by publishing the credit rating as a protection of investors business, but there is no guarantee of accuracy of such rating and rated entity has no power to appeal. The rating itself becomes a subjective opinion. The evidence for this statement might be historical data, showing that several subjects with high and safe ratings became bankrupt. Another significant issue is excessive rating unanimity. By comparing ratings of the biggest rating agencies (Moody's, S&P's and Fitch) it is obvious that grade differ very rarely when issued to the same subjects. It may raise suspicions of collusion between them. Third problematic area is bias caused by social and cultural conditions. The ratings might be based on preferred economic policy and American originated agencies seem to discriminate issuers that do not follow Anglo-American management and financial policies. This kind of subjective way of granting the ratings might indirectly influence on rated countries or entities. As indicated before – the rating is not always adequate to the condition of rated country. Another issue, worth mentioning is a tendency to grant the ratings without any request from the rated entity.



When the entity stops to order ratings from agency, the free of charge non-requested low quality rating might be a way of retaliation.

It is highly important, that rating agencies describing themselves as independent institutions providing information about financial credibility, provide not only accurate estimations, but also up to date. Credit ratings – when not updated quickly enough – may affect the business cycles. On one hand they may slow down the reaction before the crisis and on the other, they may delay the market boom. The gaps in correlation between significant changes within the national economy of some countries listed in Table 5b and their ratings show that such situations already happened. This may lead to situations when investors decisions are made based on misleading information, which doesn't include changes in the level of risk.

However the rating, when issued, will be considered up to date until publishing the next one. The suggested solution for this issue might be providing each rating with its validity, which will alert the investors, when expired.

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