Sub-Sovereign Rating Methodology

Sovereign and Public Sector

12 September 2025

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1. Scope of application

This methodology provides our updated approach to assigning short-term and long-term issuer credit ratings to sub-sovereigns and to their debt obligations.[1]

The criteria in this methodology are applicable to higher-tier governments (regional governments, states, or communities) and lower-tier governments (cities, districts, and municipalities). Our methodology predominately covers sub-sovereigns in Europe, but it can be applied globally provided reliability of information is adequate and institutional characteristics can be appropriately captured via our framework-driven approach.[2]

Compared to the previous version of the methodology, published 11 October 2024, Scope has introduced the following revisions:

- **Clarify institutional assessment practices** by expanding the definition of public funding practices to encompass all public funding channels. This includes not only direct sovereign lending but also indirect forms such as funding via treasury agencies or development banks. The revised approach also recognises horizontal coordination between sub-sovereigns as part of our analysis of the distribution of revenue powers for sub-sovereign government tiers, ensuring a more comprehensive reflection of the full range of revenue distribution mechanisms available in different jurisdictions.
- **Fully integrate ESG factors into the core analytical framework**. In the revised approach, ESG is now fully embedded in the Individual Credit Profile in a dedicated pillar weighted at 20%: Governance (10%), Social Factors (7.5%), and Environmental Factors (2.5%). The update aligns the treatment of ESG factors more closely with other dimensions of credit risk by distributing relevant risk drivers across core analytical pillars. The update also acknowledges the limited immediate fiscal relevance of environmental factors for many sub-sovereigns due to sovereign-level cost absorption.
- **Refine the Individual Credit Profile (ICP) scoring framework** through:
  - Continued use of the debt-to-operating revenue ratio as the primary quantitative indicator of debt burden, with the payback ratio (gross debt to operating balance) applied qualitatively to provide additional context on debt sustainability.
  - A more structured approach to assessing contingent liabilities, covering both explicit and implicit exposures.
  - Clarified liquidity assessment criteria, allowing high scores where strong central or alternative funding access exists, even with limited cash reserves.
  - Continued use of GDP per capita as the primary indicator of income and tax capacity, with unemployment rate applied qualitatively to provide additional context on labour market strength.
- **Introduce typical score characteristics** for each component within both the Institutional Framework and the ICP, providing clearer definitions of what scores represent. This enhances transparency, analytical consistency, and comparability across assessments.
- **Implement editorial and structural improvements**, including streamlined wording and improved clarity throughout the methodology.

The update has no implications for existing sub-sovereign ratings assigned by Scope.

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[1] For joint debt obligations, we assign an issue rating equal to the weighted average of the participants' ratings when we expect timely liquidity support among the participating entities. If timely liquidity support is not clearly defined in the terms and conditions, the rating defaults to the lowest issuer rating among the participants.

[2] For instance, our methodology does not apply to sub-sovereigns in the United States.

1.1 Core methodological principles

Our sub-sovereign methodology continues to be built on five core principles:

A framework-driven approach. We maintain a framework-driven approach to sub-sovereign ratings. By assessing the degree of intergovernmental integration such as fiscal autonomy, funding arrangements and oversight, we define a rating range from the anchor within which the sub-sovereign's credit profile is assessed. This ensures that key institutional features including budget structures, spending and investment responsibilities, debt management and liquidity are fully reflected in the rating.

Transparent and structured analytical tools. We use transparent scorecards and guidance tables to ensure clarity and comparability across ratings. The methodology sets out the rationale for each factor and provides a consistent framework for assessing both the institutional framework and the individual credit profile of an issuer. The ICP assessment is underpinned by explicit quantitative metrics to support consistent evaluations across jurisdictions.

Balanced use of quantitative and qualitative inputs. Our methodology avoids mechanistic reliance on ratios or thresholds. We combine quantitative peer comparisons with qualitative analysis that reflects each sub-sovereign's institutional context. Differences in accounting standards, budget structures and fiscal responsibilities can distort direct comparisons. This is why we emphasise peer comparisons within the same national framework, where indicators are more meaningful.

Emphasis on liquidity and off-balance sheet risks. Our analysis places emphasis on liquidity management and extended balance sheet risks, recognising that these often drive fiscal stress. We assess a sub-sovereign's capacity to service debt during market disruptions, along with its exposure to off-balance-sheet risks such as contingent liabilities and unfunded policy commitments. This helps identify vulnerabilities not always visible in headline financial metrics.

Full integration of ESG factors. We systematically integrate Environmental, Social, and Governance (ESG) considerations throughout our methodology. Governance is assessed in both the institutional framework and the ICP. Environmental and social risks are now embedded in the core scorecard. Our analysis captures both the exposure to ESG risks and a sub-sovereign's capacity to manage them, making ESG a core component of credit quality.

1.2 Definitions

- **Sub-sovereign**

We define sub-sovereigns as regional or local government entities, such as states, regions, provinces, or municipalities, depending on the specific administrative structure of a country. These entities exercise direct public authority and fiscal responsibility within their jurisdictions. We do not classify public or private entities that merely provide public services on behalf of governments (such as municipally owned utilities, public hospitals, or water authorities) as sub-sovereigns. Instead, public or private entities whose credit quality is linked to national or sub-sovereign governments are assessed under Scope's Government-Related Entities Rating Methodology.

- **Sub-sovereign default**

Our definition of default is applicable to sub-sovereign financial debt obligations owed to both public and private sector creditors**.** We also consider it a default if the sub-sovereign fails to honour financial obligations that are backed by an irrevocable and unconditional guarantee it has issued. However, we do not consider such a failure to constitute a default when the obligations arise from activities undertaken in accordance with a public policy mandate, particularly where the financial responsibility or credit risk is ultimately transferred to, or absorbed by, a higher-tier sub-sovereign[3] or the sovereign. Examples of such mandates include the rollout of affordable housing initiatives or the financing of rural infrastructure. These obligations are undertaken to advance policy objectives rather than to serve for commercial purposes. For clarity, such obligations are excluded from our default definition but are still factored into our risk assessments when evaluating the sub-sovereign's credit profile.

- **Rating anchor**

The rating anchor is the sovereign or higher-tier sub-sovereign whose rating serves as the starting point for defining the rating range of a sub-sovereign issuer. In most cases, the sovereign is the anchor, as it shapes the institutional framework and provides oversight and financial support. In decentralised systems, a state or regional government may serve as the anchor for lower-tier entities. In such cases, the higher-tier sub-sovereign remains analytically linked to the sovereign rating.

[3] Higher-tier sub-sovereign refers to a government entity at a superior administrative or jurisdictional level, such as a county, state or province in relation to a municipality.

- **Intergovernmental integration**

In this methodology, intergovernmental integration refers to the strength of relationships between government tiers, focusing on mutual reliance, burden sharing, policy coordination and support mechanisms between sub-sovereigns and their rating anchor, typically the sovereign or a higher-tier sub-sovereign. Our institutional framework assessment captures the strength of this integration rather than the overall quality of the framework. A highly integrated system, with legally grounded support, strong fiscal rules, oversight and shared policymaking, tends to narrow credit quality differences within a tier. In contrast, a more autonomous and less integrated system increases differentiation and places greater weight on each issuer's fundamentals.

2. Key components and schematic rating approach

Scope's approach to rating sub-sovereigns follows four sequential steps, combining institutional context and issuer-specific analysis through a structured and transparent process:

Step 1: Institutional framework assessment

We begin by assessing the degree of intergovernmental integration between a sub-sovereign and its rating anchor (typically the sovereign or a higher-tier sub-sovereign). This assessment is based on six analytical factors and results in an indicative downward rating range from the anchor. The higher the integration, the narrower the rating range; the lower the integration, the wider the range. The range can extend up to 10 notches and typically applies uniformly to all sub-sovereigns within the same government tier. Further details are provided in Chapter 4.

Step 2: Individual credit profile (ICP)

Next, we assess the sub-sovereign's individual credit profile (ICP) across 11 criteria grouped into four risk pillars: i) Debt and liquidity, ii) Budget, iii) Economy, and iv) ESG. This assessment yields a score from 0 to 100, where a higher score indicates a stronger credit profile. Further details are provided in Chapter 5.

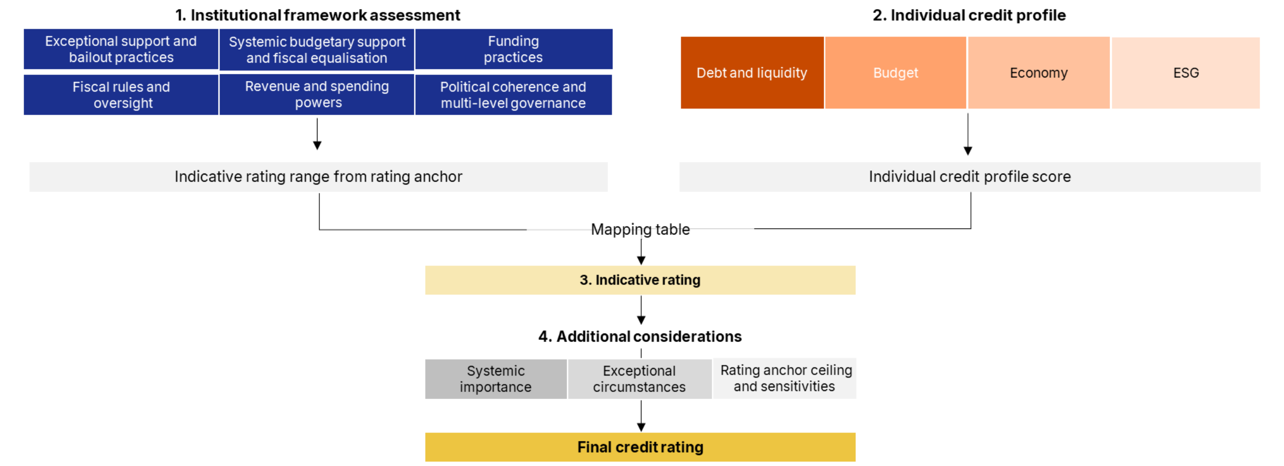
Step 3: Indicative sub-sovereign rating

The ICP score is then mapped to the rating range defined in Step 1 using a structured guidance table. This step ensures a consistent positioning of the sub-sovereign rating relative to the rating anchor. Further details are provided in Chapter 6.

Step 4: Additional considerations

Finally, we consider additional factors that may lead to adjustments within or beyond the indicative rating, including: i) the systemic importance of the sub-sovereign; ii) the sensitivity of the rating to changes in the anchor; iii) the appropriateness of the implied ceiling; and iv) any exceptional circumstances. These factors can affect the final rating level and, in rare cases, may lead to a sub-sovereign being rated above its anchor. Further details are provided in Chapter 7.

Figure 1: Overview of Scope's sub-sovereign rating approach



Source: Scope Ratings

Under this approach, a highly integrated institutional framework may support a rating close to the anchor, even if the sub-sovereign's ICP is moderate or weak. By contrast, in a low-integration setting, only a very strong ICP can justify a rating near the anchor. This reflects three key considerations:

- In times of systemic stress, a sub-sovereign's ability to meet obligations often depends more on the anchor's willingness and capacity to provide support than on its own balance sheet.
- Sub-sovereigns typically operate within national legal and policy systems that can constrain financial autonomy and limit independent market access, particularly when the sovereign faces elevated credit risk. As a result, ratings above the anchor are rare and justified only in exceptional, well-substantiated cases.
- Institutional frameworks shape fiscal capacity through budget structures, spending mandates, debt management and liquidity access.

Our approach captures these differences and benchmarks entities against peers within the same framework.

3. Information and data sources

The institutional framework assessment is underpinned by national legislative and regulatory texts, policy documents, academic research, and other related materials. Our analysis is based on the sub-sovereign's respective statutes and governing documents, annual financial reports and budgetary documents, financial/economic statements/figures, and investor relations presentations. We complement this with centralised financial data provided by national authorities to ensure comparability across sub-sovereigns. We also make use of economic data from national and international sources.

In general, we adopt the presentation of accounts as provided by the issuer and/or national authorities, but in some cases, we may modify some budgetary items to ensure consistency in the quantitative metrics across frameworks. For instance, we may adjust some metrics by depreciation and amortisation effects, unrealised gains or losses on investments which do not directly impact cash flow. These adjustments reflect local accounting standards, which can vary significantly across jurisdictions.

4. Institutional framework assessment

4.1 Overview

The degree of systemic budgetary support and exceptional support from the sovereign or higher-tier government as well as the extent of intergovernmental oversight and shared decision-making are key drivers of sub-sovereign creditworthiness. The rating anchor's capacity to provide support is reflected in its issuer rating, while the extent and nature of support depend on the level of intergovernmental integration between government tiers.

The framework assessment is typically uniform across sub-sovereigns within the same government layer. Exceptions may apply in rare cases where a sub-sovereign operates under a materially different legal framework, with characteristics not fully captured by the ICP. In such cases, the institutional assessment may vary within the same tier.

4.2 Intergovernmental integration – Qualitative Scorecard 1 (QS1)

Qualitative Scorecard 1 (QS1) structures our assessment of intergovernmental integration across six components: i) *exceptional support and bailout practices*; ii) *systemic budgetary support and fiscal equalisation*; iii) *funding practices*; iv) *fiscal rules and oversight*; v) *revenue and spending powers*; and vi) *political coherence and multi-level governance*.

Figure 2: The institutional framework scorecard (QS1)

Analytical component	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Exceptional support and bail-out practices					
Systemic budgetary support and fiscal equalisation					
Funding practices					
Fiscal rules and oversight					
Revenue and spending powers					
Political coherence and multi-level governance					

Integration score	-
Downward rating range	-

Source: Scope Ratings

Each component is scored on a five-point scale: 0 (low integration), 25 (some integration), 50 (medium integration), 75 (strong integration), and 100 (full integration). The institutional framework score is the simple average of the six component scores and determines the rating range from the rating anchor within which the sub-sovereign rating is positioned.

Detailed rationales for each score are provided in the component-specific guidance tables. Where relevant, we may compare frameworks across countries to ensure analytical consistency. Details on how the score maps to the rating range are provided in Chapter 4.3.

- **Exceptional support and bailout practices**

This component assesses the presence, structure, and credibility of extraordinary financial support provided by the rating anchor to lower-tier governments in times of fiscal stress. We consider the degree to which extraordinary support mechanisms are: i) embedded in legislation; ii) part of a formal, transparent, rules-based procedure; or iii) provided on an *ad-hoc* basis, in contrast with systems with a credible history of no-bailouts. Exceptional support can include exceptional budgetary transfers, liquidity assistance, concessional lending, bond buybacks, and comparable schemes. Our assessment pays attention to the rating anchor's record of providing exceptional support in cases of system-wide shocks and individual financial distress. When analysing the exceptional support record of any *ad-hoc* support, we consider the underlying reasons for providing such support and whether it is reasonable to assume that such support will be extended to other sub-sovereigns under similar circumstances.[4]

[4] For instance, if exceptional support were provided to a systemic sub-sovereign entity (such as a capital city) but is unlikely to be extended to other sub-sovereigns, we would consider this instance to have a limited bearing on our assessment of system-wide support.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Strong legal framework with clearly defined bailout responsibilities for the rating anchor, with mandated or enforceable extraordinary support; and/or consistent record of forceful intervention to protect sub-sovereign finances during systemic or individual financial distress	Formal and predictable bailout processes; and/or a stable record of extraordinary support to mitigate the impact of system-wide shocks or individual financial distress, or our expectation thereof	Mostly informal or discretionary bailout processes; and/or inconsistent record of extraordinary support to mitigate the impact of system-wide shocks and/or individual financial distress	Credible preference for no-bailout; and/or extraordinary support granted only in selected instances of system-wide shocks and/or individual financial distress	A consistently applied no-bailout stance. No history of extraordinary support

Source: Scope Ratings

<u>Typical characteristics across the scale:</u>

A score of 100 reflects full integration of exceptional support mechanisms. The sub-sovereign operates within a framework where extraordinary support is legally mandated or procedurally embedded, with a strong and consistent record of timely intervention by the rating anchor in both systemic and idiosyncratic distress scenarios. Compared to international peers, this places the framework among the most supportive and predictable environments for sub-sovereigns.

A score of 75 indicates strong integration. Extraordinary support is governed by formal, transparent rules or long-standing practice. There is a stable track record of support, or a high degree of confidence that such support would be extended if needed. In comparative terms, this reflects a robust support framework, albeit with slightly less institutionalisation or coverage than top-scoring systems.

A score of 50 reflects medium integration. Mechanisms for extraordinary support are largely informal or discretionary, and the historical application is uneven. Sub-sovereigns may face higher uncertainty regarding access to support. Relative to international benchmarks, this reflects a framework that provides some credible support but lacks the institutional depth or consistency of higher-scoring systems.

A score of 25 signals some integration. There is no formal support framework, and any past interventions have been ad hoc and limited to exceptional circumstances. The support environment is uncertain, and the rating anchor typically avoids direct intervention. Compared with international peers, this places the jurisdiction toward the lower end of systemic support expectations.

A score of 0 signals a low-integration environment. The rating anchor maintains a credible no-bailout stance, with no history of extraordinary support. Sub-sovereigns are expected to bear full responsibility for financial distress. This aligns with international frameworks where sub-sovereign default risk is not materially mitigated by central government backstops.

➢ **Systemic budgetary support and fiscal equalisation**

This component examines the degree to which sub-sovereigns benefit from regular, rules-based financial support from their rating anchor. This can include systemic budget transfers and fiscal equalisation schemes aimed at addressing vertical and horizontal imbalances. When making this assessment, we consider whether budgetary transfers and equalisation flows allow sub-sovereigns to adequately cover mandated responsibilities and compensate for differing fiscal capacities. We also consider whether these support systems are predictable, transparent, and institutionalised, rather than discretionary or ad-hoc in nature.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Comprehensive, institutionalised, and highly predictable transfer and fiscal equalisation schemes; and/or fiscal disparities are largely eliminated across sub-sovereigns	Well-established and predictable transfer and fiscal equalisation schemes; and/or fiscal disparities are significantly but not entirely eliminated	Transfer or fiscal equalisation schemes exist but are partial, inconsistently applied, or only moderately effective; and/or fiscal disparities remain	Limited or ad hoc transfer arrangements; and/or fiscal disparities are only marginally reduced	No consistent transfer or fiscal equalisation scheme; and/or sub-sovereigns rely primarily on own-source revenues, resulting in substantial disparities

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 reflects full integration of systemic budgetary support and fiscal equalisation mechanisms. Sub-sovereigns operate within a highly institutionalised and rules-based framework of transfers that largely eliminates vertical and horizontal fiscal imbalances. Transfers are stable, predictable, and aligned with mandated responsibilities, enabling consistent service delivery regardless of local fiscal capacity. Compared to international peers, such arrangements are among the more formalised and comprehensive approaches to intergovernmental redistribution.

A score of 75 indicates strong integration. Transfers and equalisation schemes are well-established and largely predictable, significantly reducing disparities across sub-sovereigns. While some variation in fiscal capacity remains, the structure allows most entities to meet their spending responsibilities without undue reliance on own-source revenues. Within an international context, this reflects a high degree of support, albeit with some room for improvement in scope or targeting.

A score of 50 reflects medium integration. Budgetary transfers and/or equalisation mechanisms are in place but may be partial, formula-based with discretionary elements, or inconsistently applied. Support may not fully compensate for differences in fiscal capacity, and lower-revenue entities may remain exposed to structural underfunding. Relative to international norms, this indicates a moderate level of systemic support with only partial redistribution.

A score of 25 corresponds to some integration. Transfers are provided, but they are typically ad-hoc, politically negotiated, or only marginally redistribute fiscal resources. The system lacks a robust equalisation framework, resulting in persistent disparities between sub-sovereigns. Compared with peers, these arrangements reflect a weak and fragmented support structure.

A score of 0 signals the absence of systemic fiscal support. Sub-sovereigns are fully or almost entirely reliant on own-source revenues, and no meaningful redistribution mechanisms are in place. This often results in large and persistent disparities in service provision and budgetary performance. Relative to international standards, this reflects minimal or non-existent intergovernmental fiscal coordination.

➢ **Funding practices**

In assessing this component, we consider whether sub-sovereigns' funding profiles are mostly reflective of their standalone credit fundamentals or closely tied to the rating anchor's credit and funding profile. The analysis considers whether sub-sovereigns benefit from ordinary funding support, such as sovereign on-lending, access to central credit or liquidity lines (via the sovereign or other public institutions), participation in common debt issuance platforms or other types of joint funding schemes.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Very strong funding support eliminates own exposure to financial markets; and/or funding needs can be fully met through sovereign or public institution on-lending, central liquidity lines, or joint debt issuance	Strong funding support greatly reduces own exposure to financial markets; and/or a large portion of borrowing can be covered through on-lending, or via common debt issuance or other public channels	Funding support is occasionally provided and reduces own exposure to financial markets; and/or access to centralised credit or liquidity lines exists	Funding is mostly autonomous; and/or limited access or case-by-case access to sovereign or institutional liquidity lines	Funding is fully autonomous and reflects idiosyncratic strengths and weaknesses; and/or the sovereign or other public institutions does not provide any tangible funding support

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Full integration) indicates that sub-sovereigns have virtually no direct exposure to commercial borrowing whether through capital markets or private lending channels. Borrowing is fully intermediated through sovereign on-lending, central liquidity mechanisms, or joint debt issuance platforms. Market access, pricing, and refinancing risks are managed at the central level, either by the sovereign or a designated public institution. In international comparison, this reflects a high degree of funding integration and centralised risk management.

A score of 75 (Strong integration) reflects funding structures where most sub-sovereign borrowing is primarily channelled through public institutions, such as development banks, treasury agencies, or centralised debt offices. While some entities may issue debt directly, the majority of financing needs are met through favourable-terms, readily accessible public mechanisms, significantly reducing reliance on private borrowing. Compared to global peers, these systems offer strong central support and reduce heterogeneity in market access.

A score of 50 (Medium integration) applies to systems where public funding access is available but neither universal nor comprehensive. Sub-sovereigns may benefit from partial or selective access to public credit lines or borrowing platforms, but a substantial portion of funding still occurs independently in financial markets. This level of integration is common in hybrid systems where the sovereign plays a facilitative but not dominant role.

A score of 25 (Some integration) is assigned to limited and largely discretionary public funding support. Sub-sovereigns operate primarily on a standalone basis, with only occasional access to central funding mechanisms—typically during periods of stress or for specific project types. From a comparative perspective, this reflects low coordination in funding and higher exposure to market volatility.

A score of 0 (Low integration) characterises fully autonomous funding systems. Sub-sovereigns rely exclusively on their own credit strength, with no access to sovereign credit lines, liquidity facilities, or centralised borrowing platforms. Funding conditions are entirely idiosyncratic, reflecting market perceptions of the individual entity. Relative to international norms, these systems exhibit minimal vertical integration in public sector financing.

➢ **Fiscal rules and oversight**

This component assesses the scope, strength, and credibility of fiscal rules and oversight mechanisms that govern sub-sovereign financial management. We evaluate whether these rules effectively constrain borrowing, and to what extent the rating anchor oversees compliance. Key considerations include whether borrowing is limited to investment purposes, if prior approval is required, and how consistently these restrictions are enforced.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Stringent and credible fiscal rules that ensure fiscal discipline and strictly constrain borrowing with very robust oversight by the rating anchor	Stringent and credible fiscal rules that strengthen fiscal discipline and impose borrowing restrictions; and/or robust oversight by the rating anchor	Fiscal rules are in place and moderately constrain borrowing; and/or oversight by the rating anchor is regular but limited in enforcement or scope	Fiscal rules are largely self-imposed with some coordination over fiscal policy with central or lower-tier governments; and/or the rating anchor imposes little to no restriction on borrowing	No oversight by or coordination with other government tiers over financial management; and/or sub-sovereigns have full discretion over budgetary targets and borrowing

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Full integration) reflects a highly centralised fiscal governance framework in which sub-sovereign borrowing is tightly constrained by legal or constitutional rules. These rules are binding, clearly defined, and typically restrict borrowing to investment purposes. Oversight by the rating anchor is systematic, with ex-ante approval requirements, comprehensive reporting obligations, and effective enforcement mechanisms. In international comparison, these systems exhibit the highest degree of vertical fiscal control and alignment with sovereign macro-fiscal management.

A score of 75 (Strong integration) applies to systems where robust and credible fiscal rules govern sub-sovereign finances, even if legal enforcement is somewhat less automatic. Borrowing is subject to clear limits or purpose-based restrictions, and central oversight, while not universal, is active and institutionally embedded. Relative to peer systems, these frameworks are effective in supporting fiscal discipline but may allow for some decentralised flexibility.

A score of 50 (Medium integration) indicates the presence of fiscal rules that offer some constraint on borrowing, often based on national guidance or framework laws. Oversight by the rating anchor exists but is limited in scope, inconsistent in application, or lacks enforcement effectiveness. Compared with international peers, these systems strike a balance between decentralised discretion and central coordination but may leave gaps in accountability or policy alignment.

A score of 25 (Some integration) is assigned to loosely coordinated fiscal governance. Sub-sovereigns generally operate under self-imposed rules, with limited formal restriction on borrowing and minimal vertical oversight. Central monitoring may occur ex-post or in select cases but lacks binding authority. This level of integration is common in federations or systems with high sub-national fiscal autonomy and weak enforcement structures.

A score of 0 (Low integration) applies to systems in which sub-sovereigns operate with full discretion over borrowing and budgetary policy. There are no externally imposed fiscal rules or oversight mechanisms, and borrowing decisions are entirely driven by local political or economic considerations. In an international context, this represents the lowest level of fiscal coordination and creates significant heterogeneity in sub-sovereign risk profiles.

- **Revenue and spending powers**

This component examines the distribution of revenue and spending powers across government tiers and the degree of coordination required. We consider the rules that govern tax-sharing and rate-setting as well as those defining spending mandates across government tiers, including whether sub-sovereigns have influence on national fiscal arrangements. Higher integration is indicated by shared control over resources and joint decision-making on spending responsibilities between sub-sovereigns and the rating anchor. A stable and coordinated distribution of fiscal powers supports long-term planning and reduces budgetary uncertainty. Conversely, systems where sub-sovereigns operate independently or where the rating anchor unilaterally controls fiscal levers tend to reflect lower integration. Limited revenue-raising capacity can also create fiscal pressure if local or regional responsibilities are not adequately matched by resources.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Control over fiscal arrangements is fully shared across government tiers with joint decision-making on tax sharing, tax base and rate-setting as well as spending responsibilities at national and sub-sovereign levels	Control over fiscal arrangements is largely shared across government tiers with strong coordination on tax-sharing, tax base and/or rate-setting as well as spending responsibilities at the national level	Fiscal arrangements are dominated by the rating anchor, which has control over main decisions regarding tax sharing, tax base and rate-setting and/or spending responsibilities	Fiscal arrangements are largely controlled by the sub-sovereign, which has control over main decisions regarding tax base and rate-setting as well as spending responsibilities; and/or coordination across government tiers is common but there is no joint decision-making on national fiscal arrangements	Sub-sovereigns have autonomy over their fiscal arrangements and decide independently on tax base and rate-setting as well as spending responsibilities with no joint decision-making on national fiscal arrangements

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Full integration) reflects a highly coordinated intergovernmental fiscal system, where revenue and expenditure powers are jointly defined and managed. Sub-sovereigns participate meaningfully in setting national tax policy, including decisions on rate-setting, tax-sharing, and base allocation. Spending mandates are co-designed, ensuring alignment between responsibilities and resources. Compared to international frameworks, these systems rank among the most integrated, supporting fiscal predictability.

A score of 75 (Strong integration) applies to systems with well-established coordination mechanisms across tiers of government. While final control may rest with the rating anchor, sub-sovereigns have a structured role in fiscal decision-making, particularly in areas such as tax-sharing formulas or expenditure responsibilities. Relative to global peers, such systems demonstrate high but not full integration and are generally effective in avoiding vertical or horizontal fiscal imbalances.

A score of 50 (Medium integration) indicates a framework where the rating anchor retains dominant control over core fiscal decisions, such as tax base definition, rate-setting, and expenditure mandates. Sub-sovereign input may occur through consultation or indirect coordination but is limited in scope. In comparative perspective, these systems offer some integration but may face challenges in aligning local needs with central policies or ensuring sufficient revenue autonomy.

A score of 25 (Some integration) corresponds to a system with limited intergovernmental coordination. Sub-sovereigns exercise significant discretion over revenue or spending powers but do so largely independently of national frameworks. Coordination, if present, is informal or ad hoc. These systems tend to experience higher variance in fiscal outcomes across entities and may lack the institutional arrangements needed to correct for misalignments.

A score of 0 (Low integration) reflects a fully decentralised structure where sub-sovereigns determine their own fiscal arrangements without coordination or oversight by the rating anchor. There is no shared decision-making over tax or spending powers, and significant disparities in revenue capacity or service delivery levels are common. In international comparison, these systems represent the least integrated tiered fiscal architectures.

➢ **Political coherence and multi-level governance**

This component assesses the extent of political alignment and coordination between the sub-sovereign government tier and the rating anchor. We evaluate the influence of sub-sovereign governments on national policymaking, the stability and predictability of intergovernmental relations, and the effectiveness of conflict management across levels of government.

Assessment	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Rationale	Policymaking benefits from robust coordination; sub-sovereigns have a strong and consistent impact on national policymaking; the framework is mature, very transparent, and highly predictable; and/or multi-level governance is mostly conflict-free	Policymaking benefits from robust coordination; sub-sovereigns have a material impact on national policymaking; the framework is stable, transparent and predictable; and/or multi-level governance is generally conflict-free	Policymaking is coordinated; sub-sovereigns have a say on national policymaking; the framework is broadly stable and predictable; and/or interjurisdictional conflicts are effectively managed by multi-level governance	Political coherence is moderate; coordination in policymaking is limited with a negligible sub-sovereign impact on national policymaking; and/or multi-level governance is conflict-prone	Political coherence is low with little to no coordination in policymaking; sub-sovereigns have no tangible say on decision-making at national level; and/or ineffective multi-level governance often results in conflict

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Full integration) reflects a high degree of vertical political coherence and institutionalised multi-level governance. Sub-sovereigns are consistently and effectively involved in shaping national policy decisions. Intergovernmental relations are mature, stable, and largely free of friction, with conflict-resolution mechanisms that function predictably. Compared to international peers, these systems are among the most integrated, with strong policy alignment across tiers and effective coordination of shared responsibilities.

A score of 75 (Strong integration) indicates systems with well-established channels for intergovernmental dialogue and collaboration. Sub-sovereigns exert meaningful influence over national policies, especially in their areas of jurisdiction. While some disagreements may arise, mechanisms to manage them are reliable and well-structured. These frameworks are generally transparent and predictable, placing them at the upper end of international comparisons for multi-level governance.

A score of 50 (Medium integration) applies where coordination is present but less formalised or consistent. Sub-sovereigns may participate in consultations or sector-specific policymaking, but their impact is uneven. Intergovernmental relations are broadly functional but may face periodic tensions or unclear division of responsibilities. In peer terms, these systems offer average coherence and coordination.

A score of 25 (Some integration) indicates limited political alignment and coordination. Sub-sovereign influence on national decision-making is minimal, and the governance framework lacks robust conflict-management tools. Tensions between levels of government are more common, and policy implementation may be fragmented. Compared to peers, these systems reflect weak integration and coordination.

A score of 0 (Low integration) describes fragmented governance systems where sub-sovereigns operate with minimal coordination or recognition from the national level. Intergovernmental relations are often adversarial or unpredictable, and policy coherence suffers as a result. These systems rank among the lowest internationally for multi-level integration and political alignment.

4.3 Indicative rating range

The degree of intergovernmental integration between a sub-sovereign and its rating anchor determines the indicative maximum distance the sub-sovereign's rating can deviate from the anchor level. This methodology sets the widest indicative range (up to 10 notches below the anchor) for systems with minimal integration. This reflects the generally strong economic and institutional ties observed in most jurisdictions, which have historically resulted in low default rates and justify a maximum deviation of 10 notches. The narrowest indicative range is between zero and one notch below the rating anchor. This applies to highly integrated systems, where sub-sovereigns benefit from strong support but are still legally distinct entities and retain some exposure to their own credit fundamentals.

Unless the specific conditions outlined in Chapter 7.2.1 are met, we typically consider the rating anchor as the indicative ceiling for sub-sovereign ratings.

The indicative rating range is derived by mapping the institutional framework score (from QS1) to the table below. A higher integration score results in a narrower deviation from the rating anchor, while a lower score implies a wider range.

Figure 3. Mapping the institutional framework scores to indicative rating ranges

Institutional framework score	100 > x ≥ 90	90 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 10	10 > x ≥ 0
Indicative rating range	0-1	0-2	0-3	0-4	0-5	0-6	0-7	0-8	0-9	0-10

Source: Scope Ratings
NB. Notches are indicative downward adjustments from the rating anchor level.

5. Individual credit profile

5.1 Overview

In this second stage, we derive the individual credit profile (ICP) score based on 11 assessments across four risk pillars, supported by quantitative metrics. We benchmark sub-sovereigns against peers operating within the same institutional framework to ensure meaningful comparison, given differences in budget structures, spending and investment responsibilities, debt and liquidity practices.[5] We also incorporate qualitative and forward-looking factors, informed by country- or framework-specific metrics outlined in the guidance tables in the following sections. Outliers with exceptionally strong or weak stand-alone metrics may be excluded from peer benchmarking in cases where their inclusion would materially distort the relative positioning within the framework. Such exclusions apply only to specific metrics, and the outlier remains part of the broader peer group for overall comparative purposes.

5.2 Individual credit profile: Qualitative Scorecard 2

To assess the Individual Credit Profile (ICP), we apply the Qualitative Scorecard 2 (QS2), which evaluates 11 components across four risk pillars: i) *debt and liquidity* (four components); ii) *budget* (three components); iii) *economy* (one component); and iv) *ESG* (three components). Each component is assessed on a three-point scale by benchmarking a sub-sovereign's performance and risk exposures to that of relevant peers operating under the same institutional framework. Scores are 0 for 'weaker', 50 for 'mid-range', and 100 for 'stronger' for each component. The individual credit profile score, ranging from 0 to 100, is calculated as an average of these assessments, with all carrying an equal weight (10%), except for *Environmental factors* (2.5%) and *Social factors* (7.5%).

We base our assessments on relevant quantitative information where available. Several analytical components include explicit quantitative metrics that can be applied consistently across frameworks and sectors. For these, we follow a two-step process, described as follows:

➢ **Preliminary quantitative assessment**

We derive an initial score through peer benchmarking using cross-framework financial ratios. Entities that significantly deviate from the median or average are flagged as 'stronger' or 'weaker'. Additional framework-specific indicators may also be considered where relevant. In instances where an analytical component is underpinned by two quantitative metrics that indicate two different assessments, we would derive the preliminary assessment as follows: 'stronger' and 'mid-range' = 'stronger'; 'stronger' and 'weaker' = 'mid-range'; 'weaker' and 'mid-range' = 'weaker'. If a quantitative metric crosses a category threshold (e.g., mid-range to stronger or weaker) following a data update, the previous assessment may be maintained where changes are assessed as non-structural or not materially sustained.

➢ **Qualitative adjustments**

The preliminary assessments can thereafter be adjusted up or down by one category on the three-point scale, based on qualitative and forward-looking considerations not captured by the metrics. This ensures that assessments reflect both data and contextual judgment.

[5] Should we deem that there are not enough comparable peers operating under the same institutional framework, we will also include international peers that operate under similar institutional frameworks with comparable budget structures, investment, and spending responsibilities. In cases of large peer groups, e.g. on a lower government tier level, we can focus the peer comparison on a selected group of key peers identified via factors such as population or budget size.

In other components where quantitative comparability is limited or risks are inherently qualitative, assessments rely primarily on expert judgment guided by our analytical criteria. This is relevant for i) contingent liabilities, where disclosures and risk materiality vary; ii) liquidity position and funding flexibility, where practices and access differ across frameworks; and iii) environmental and social factors, which are evaluated based on exposure and mitigation capacity using non-financial or less standardised indicators.

In cases where there is no material variation in credit-relevant fundamentals among sub-sovereigns operating within the same institutional setting, for example, regarding revenue or expenditure flexibility, typically observed within highly integrated frameworks, a common assessment category may be assigned across entities for certain components, as observed differences are not sufficiently significant to warrant separate classifications.

In some institutional frameworks, minimum score floors may apply across components where standards are consistently high and systemic weaknesses are structurally unlikely. In such cases, individual sub-sovereigns may not receive lower assessments for specific components, such as governance or liquidity, due to embedded safeguards, formalised procedures, or guaranteed support mechanisms that significantly reduce idiosyncratic risk.

Figure 4: The 'individual credit profile' scorecard (QS2)

Risk pillar		Analytical components	Assessment		
Debt and liquidity	40%	Debt burden & trajectory	Stronger	Mid-range	Weaker
		Debt profile & affordability	Stronger	Mid-range	Weaker
		Liquidity position & funding flexibility	Stronger	Mid-range	Weaker
		Contingent liabilities	Stronger	Mid-range	Weaker
Budget	30%	Budgetary performance & outlook	Stronger	Mid-range	Weaker
		Revenue flexibility	Stronger	Mid-range	Weaker
		Expenditure flexibility	Stronger	Mid-range	Weaker
Economy	10%	Wealth & economic resilience	Stronger	Mid-range	Weaker
ESG	20%	Environmental factors	Stronger	Mid-range	Weaker
		Social factors	Stronger	Mid-range	Weaker
		Governance & transparency	Stronger	Mid-range	Weaker

ICP score	-
Indicative notching	-

Source: Scope Ratings

5.2.1 Debt and liquidity (40%)

We assign the highest weight to this category to reflect the central role that debt and liquidity risks play in a sub-sovereign's capacity to service its obligations.

Our analysis focuses on both the structure and sustainability of debt, evaluating indicators such as interest payments, debt stock relative to revenue, and the maturity and currency composition of liabilities. Liquidity is a key determinant of short-term resilience, particularly in scenarios of stressed market access. We also consider the availability and flexibility of funding sources, including access to credit lines or internal cash reserves.

To capture risks not fully reflected in reported figures, we apply an extended balance sheet approach. This includes an assessment of both explicit contingent liabilities, such as guarantees and off-balance-sheet financing through government-related entities, and implicit liabilities, such as moral obligations or policy-driven commitments.

- **Debt burden and trajectory** (10%)

This component assesses the sub-sovereign's gross direct debt relative to its operating revenue. A high debt burden can limit fiscal flexibility and increase refinancing risks, particularly during periods of economic or revenue stress. The quantitative assessment benchmarks the debt ratio against peers operating under the same institutional framework. In some jurisdictions, we may deem it appropriate to supplement the debt metric with additional indicators, such as the payback ratio (gross debt relative to the operating balance), to better reflect the sustainability of borrowing levels.

We complement this with a forward-looking, qualitative assessment of the debt trajectory over the medium term. This considers factors such as expected investment needs, fiscal consolidation plans, macroeconomic trends, and budget forecasts.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	Low debt burden relative to peers	Moderate debt burden relative to peers	Elevated debt burden relative to peers
Qualitative adjustment	Debt is stable and/or on a firm downward trajectory	Debt is broadly stable	Debt is on a firm upward trajectory

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with a low debt burden compared to peers and a clearly improving or stable debt trajectory. Even if debt levels are rising moderately, the entity may still qualify for this category if the increase is slower than peers, well-managed, and aligned with strong fiscal discipline or strategic investment plans. This typically indicates a prudent borrowing strategy and limited reliance on debt.

A score of 50 (Mid-range) typically represents a moderate debt burden in line with peer norms. The debt trajectory is broadly stable, with no material increase or decrease expected. A score of 50 may apply also where the sub-sovereign's debt burden is low but increasing at a rapid pace, or where debt levels are high but declining at a steady pace, signalling improvement but still reflecting elevated leverage. Sub-sovereigns in this category often manage their debt conservatively but may face periodic borrowing pressures due to investment needs, cyclical revenue fluctuations, or temporary deficits.

A score of 0 (Weaker) indicates a materially higher debt burden and/or an adverse debt trajectory compared to domestic peers. This may stem from persistently high borrowing requirements over time. Sub-sovereigns in this category tend to rely increasingly on debt to fund capital expenditure, diverging negatively from the norms observed within their institutional framework.

- **Debt profile and affordability** (10%)

This component assesses the affordability of a sub-sovereign's debt as well as its exposure to interest rate and foreign currency risks and changing financial conditions. The quantitative assessment focuses on interest payments as a share of operating revenue and the implicit interest rate, which together reflect the cost of debt servicing. We supplement this with a qualitative analysis of structural trends in interest burden and the overall debt profile, considering factors such as the debt's maturity structure, currency composition, and exposure to refinancing risks.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	Low interest payment burden relative to peers	Moderate interest payment burden relative to peers	Elevated interest payment burden relative to peers
Qualitative adjustment	Structurally improving interest burden; and/or favourable debt profile with limited interest rate or foreign exchange risks and high share of long-term debt with a favourable maturity/repayment structure	Stable interest burden and/or balanced debt profile with manageable interest rate or foreign exchange risks and a balanced maturity/repayment structure	Structurally deteriorating interest burden; and/or weak debt profile with material interest rate or foreign exchange risks and an unfavourable maturity/repayment structure

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with a low interest burden relative to peers and a favourable debt structure. The debt profile is typically long-term, stable, and denominated in the local currency, with limited exposure to interest rate or currency fluctuations. In addition, the interest burden is structurally improving, suggesting enhanced debt affordability over time.

A score of 50 (Mid-range) applies to entities with a moderate interest burden, broadly in line with peers. The debt profile is generally balanced, with manageable exposure to refinancing, interest rate, or currency risks. The interest burden is stable, with no major upward or downward trend expected.

A score of 0 (Weaker) signals significant affordability pressures relative to domestic peers. This may stem from a high and rising interest burden or an unfavourable debt structure, such as a predominance of short-term, variable-rate, or foreign currency debt. Sub-sovereigns at this level often face high debt costs, and possibly elevated refinancing risks and limited capacity to absorb financial shocks, placing them in a materially weaker position relative to domestic peers.

- **Contingent liabilities** (10%)

This component assesses the potential fiscal risk from explicit and implicit contingent liabilities that could impair the sub-sovereign's financial position. The analysis considers both the size of these exposures and the likelihood of their crystallisation. Key factors include the financial health and oversight of related public entities, the scope of financial guarantees, and the presence of implicit liabilities such as pension obligations, legal risks, public-private partnership commitments, and other policy-related exposures. Transparency, disclosure practices, and the effectiveness of risk management frameworks are also integral to the assessment.

Our assessment of contingent liabilities covers five categories, prioritised by their materiality to the sub-sovereign's balance sheet and likelihood of crystallisation. We start with contractual liabilities, which are legally binding and quantifiable. These include guarantees, on-lending exposures, and public-private partnership (PPP) commitments like minimum revenue guarantees or termination clauses. Next are quasi-contractual or institutional liabilities, such as unfunded pensions, litigation risks, or exposures to public entities without formal guarantees. While not always legally enforceable, these often imply fiscal support due to reputational or political considerations. Policy-based or implicit obligations follow, including expectations to support essential services like utilities or hospitals, or to intervene in lower-tier governments. These are assessed based on past practices and systemic importance. We then consider financial sector exposures, such as potential support for municipally owned banks or finance institutions. Finally, we examine event-driven risks, including unforeseen liabilities related to infrastructure failure or public health emergencies. While difficult to quantify, they are relevant where sub-sovereigns are exposed to physical risks or have a history of responding financially to such events.

Across all categories, we assess the quality of disclosure, oversight, and risk management practices. This extended-balance sheet perspective allows us to identify hidden vulnerabilities that may not be reflected in core financial ratios.

	Stronger (100)	Mid-range (50)	Weaker (0)
Qualitative assessment	Limited share of contingent explicit and implicit liabilities relative to sub-sovereign's revenue base; and/or very low risk of crystallisation on the sub-sovereign balance sheet	Sizeable but manageable contingent liabilities relative to sub-sovereign's revenue base with a moderate risk of crystallisation on the sub-sovereign balance sheet	Large contingent liabilities relative to sub-sovereign's revenue base and/or elevated risks of crystallisation on the sub-sovereign balance sheet

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) signals that the sub-sovereign faces limited exposure to contingent liabilities relative to its revenue base, and/or that the likelihood of crystallisation is very low. The entity demonstrates strong oversight of public entities, limited or well-managed guarantees, and effective frameworks for monitoring and disclosing risk.

A score of 50 (Mid-range) applies where contingent liabilities are sizeable but manageable. The risks of crystallisation are moderate, often due to indirect obligations or exposures to public entities without formal guarantees. The sub-sovereign may have some vulnerabilities but generally maintains a reasonable level of transparency and control.

A score of 0 (Weaker) indicates significant exposure to large contingent liabilities and/or a high risk of crystallisation. This includes extensive guarantees, weak oversight, underfunded obligations, or poor transparency. Such entities are more likely to experience fiscal pressure from off-balance-sheet risks.

➢ **Liquidity position and funding flexibility** (10%)

This component examines the sub-sovereign's capacity to meet short-term financial obligations through internal and external sources of liquidity. Internal liquidity includes budgetary buffers and cash holdings, while external sources may comprise access to capital markets, public or private credit lines, and short-term financing instruments. We also consider the diversification and reliability of the creditor base.

	Stronger (100)	Mid-range (50)	Weaker (0)
Qualitative assessment	Access to external liquidity is strong with a diversified and reliable creditor base; and/or internal liquidity clearly exceeds 12-month debt service needs	Internal and external liquidity is adequate; and/or internal liquidity broadly covers upcoming debt service	Internal liquidity buffers are insufficient; and/or high reliance on short-term or concentrated funding sources

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with very strong short-term liquidity resilience. This is typically supported by substantial cash holdings and financial or budgetary buffers that cover at least 12 months of debt service with significant margins. Liquidity may include cash, bank deposits, and other readily available financial assets such as money market funds. In some cases, resilience stems from certain, timely, or institutionalised access to liquidity, for example, centralised treasury arrangements or backstop mechanisms that ensure uninterrupted debt service even with limited cash on hand. Additional strengths include stable, well-diversified funding sources, reliable access to domestic and international markets, and formalised liquidity planning and monitoring.

A score of 50 (Mid-range) reflects a sound liquidity position, but one characterised by more limited internal buffers or narrower access to diversified funding sources. Internal and external resources are generally sufficient to cover debt service needs for the next year, with cash and budgetary buffers broadly matching short-term obligations. However, funding access may be more concentrated, often limited to domestic lenders or a narrower set of financing instruments.

A score of 0 (Weaker) points to a vulnerable liquidity position. Internal resources are insufficient to meet upcoming obligations, with cash and budgetary buffers covering significantly less than 12 months of debt service. The sub-sovereign may depend heavily on short-term or uncommitted external credit lines, with limited diversification of lenders. In such cases, the absence of a formal liquidity strategy can signal elevated refinancing risk.

5.2.2 Budget (30%)

This category receives a high weight to reflect the importance of sustained fiscal performance and flexibility in maintaining debt sustainability and shock absorption capacity.

We assess a sub-sovereign's ability to generate sufficient revenue and adjust resources to meet debt and interest payments. Persistent imbalances raise default risk, particularly in downturns. Our evaluation focuses on a sub-sovereign's ability to maintain balanced budgets, the availability of budgetary buffers for investment and debt service, and the predictability of operational and capital revenue and expenditure flows.

➢ **Budgetary performance and outlook** (10%)

This component evaluates the sub-sovereign's ability to generate sufficient and sustainable budgetary margins to finance debt obligations and capital expenditure without excessive reliance on new borrowing. The analysis focuses on the quality and resilience of budgetary outcomes, informed by both historical and forward-looking perspectives.

The quantitative assessment primarily draws on the i) operating balance relative to operating revenue and ii) balance before debt movement relative to total revenue ratios. These indicators reflect the underlying budgetary space available to support investment and/or absorb fiscal shocks.

We complement this with a forward-looking assessment that considers expected investment needs, revenue and expenditure trends, the likelihood of fiscal consolidation, and the sub-sovereign's capacity to adjust its fiscal stance if needed. Where applicable, we also take into account reliance on volatile or cyclical revenue sources.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	Strong budgetary performance relative to peers	Average budgetary performance relative to peers	Weak budgetary performance relative to peers
Qualitative adjustment	Strong fiscal outlook; and/or ample operating margins to cover investments with limited recourse to debt in coming years	Moderate fiscal outlook with broadly stable operating margins; and/or operating margins providing limited room to increase investments without recourse to debt in coming years	Weak fiscal outlook with deteriorating operating margins; and/or operating margins that are insufficient to fund investments or signal long-term fiscal imbalances in coming years

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) indicates a sub-sovereign whose budgetary performance ranks well above peers within the same institutional framework. It typically maintains structurally high and stable operating surpluses, enabling it to fund investments and absorb fiscal shocks with minimal reliance on new borrowing. Its fiscal outlook is robust, supported by prudent financial management and a track record of consolidation when needed.

A score of 50 (Mid-range) reflects a sub-sovereign with budgetary performance broadly in line with peers. Operating margins are typically positive but limited, offering some capacity for investment financing, though often requiring supplementary borrowing. The fiscal outlook is stable, with moderate flexibility to respond to changing budget dynamics.

A score of 0 (Weaker) signals a sub-sovereign whose budgetary performance consistently lags behind peers. Operating margins are narrow or negative, pointing to structural fiscal weaknesses and a high dependence on debt to cover both investment and, in some cases, recurrent expenditure. The outlook is constrained by limited buffers to manage shocks.

➢ **Revenue flexibility** (10%)

This component assesses the sub-sovereign's ability to increase its revenues through higher tax rates, an expansion of the tax base or asset sales. Our quantitative assessment is underpinned by the share of transfers and grants in operating revenue, an indicator of fiscal autonomy. A lower reliance points to greater control over revenue streams and ability to raise additional resources if needed. We also assess the portion of revenue that can realistically be adjusted, existing tax policy levers (such as local rate-setting powers), and any political or legal constraints on revenue mobilisation.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	Low reliance on transfers and grants relative to peers	Average reliance on transfers and grants relative to peers	High reliance on transfers and grants relative to peers
Qualitative adjustment	Ample room to increase revenue if needed with little to no political impediment	Limited share of adjustable revenue with some room to increase revenue if needed	Little to no room to increase revenue; and/or political commitments that constrain ability to raise tax rates

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with superior revenue autonomy relative to peers. It has typically a high share of own-source revenues and retains effective control over rate-setting or tax policy. The entity may face minimal legal or political constraints in mobilising additional revenues and may also benefit from assets that can be monetised in a fiscally responsible manner. This strong position enables proactive fiscal management during stress scenarios.

A score of 50 (Mid-range) indicates a sub-sovereign with moderate revenue flexibility in line with peers. It relies partially on intergovernmental transfers but maintains some own-source revenue levers. While limited scope exists for raising additional revenue, political or legal constraints may hinder full utilisation of this capacity.

A score of 0 (Weaker) signals limited or no revenue-raising capacity compared to peers. The sub-sovereign is typically highly dependent on transfers and has little to no control over key revenue instruments. Political resistance, legal limits, or lack of administrative capacity may further constrain its ability to generate additional fiscal resources.

➢ **Expenditure flexibility** (10%)

This component examines the sub-sovereign's expenditure structure and ability to manage or reduce expenditure. Our quantitative assessment is underpinned by the share of personnel costs in operating expenditure (as a proxy for rigidity) and the share of capital expenditure in total expenditure (as a proxy for potential adjustability).

We complement this with a qualitative review of structural constraints and adjustment capacity. This includes the share of essential or mandated services (e.g. healthcare, education, social transfers), the ability to defer investment without harming service delivery, and the presence of legal or political barriers to spending cuts. We also consider the sub-sovereign's track record in expenditure consolidation and whether high fixed or pro-cyclical spending contributes to budgetary volatility.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	High expenditure flexibility relative to peers	Average expenditure flexibility relative to peers	Low expenditure flexibility relative to peers
Qualitative adjustment	Ample room and political willingness to lower operating expenditure, good record of lowering operating expenditure under stressed scenarios; and/or sizeable capital expenditure can be postponed without major economic or social consequences	Some room and political willingness to lower operating expenditure; and/or capital expenditure provides an additional buffer if needed	Very limited room and/or political space to cut spending and/or very high reliance on non-discretionary or mandated items

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with significantly greater spending flexibility relative to peers. It typically maintains the ability and political will to adjust operating expenditure when needed, including under stress scenarios. A substantial portion of spending is discretionary or deferrable (e.g. capital expenditure), and the entity has a credible record of past expenditure control or consolidation.

A score of 50 (Mid-range) reflects average expenditure flexibility within the peer group. While some non-essential or discretionary spending exists, mandated service delivery and political pressures may limit the scope for adjustment. Nevertheless, capital spending may still provide a buffer in the event of fiscal stress.

A score of 0 (Weaker) reflects a sub-sovereign with structurally rigid expenditure dynamics and materially constrained adjustment capacity relative to peers. A high share of non-discretionary or mandated spending, such as personnel costs or legally required service delivery, significantly limits the ability to realign expenditure in response to fiscal or economic shocks. In addition, the absence of a demonstrated record of expenditure rationalisation or reform further underscores weak operational flexibility.

5.2.3 Economy (10%)[6]

We assign a lower weight to economic factors, recognising that sub-sovereigns typically operate within national economic frameworks and have limited influence over broader macroeconomic outcomes. This is especially true for entities in highly integrated frameworks, where material transfer-dependency may weaken the link between the sub-sovereign's ICP and the performance of the regional/local economy. Still, structural economic strengths or vulnerabilities can affect revenue stability and long-term budgetary performance. In addition, the rating anchor level already captures critical elements related to the overall macro-economic environment.

➢ **Wealth and economic resilience** (10%)

This component evaluates the sub-sovereign's capacity to generate stable revenues based on its economic fundamentals. The assessment includes both a primary structural indicator (GDP per capita) as well as secondary indicators incorporated in our qualitative assessment. These include unemployment levels, the degree of economic diversification, the presence of high-value or innovation-driven sectors, and the region's ability to adapt to structural challenges such as industrial transitions or global economic disruptions.

[6] For ratings at the local level, we can use socio-economic data for the surrounding region if local level economic data is not available.

The quantitative assessment considers GDP per capita relative to the national average, which serves as a proxy for income levels and the underlying tax capacity. As a structural and stable indicator, GDP per capita provides insight into a region's long-term economic strength and fiscal potential. It more accurately reflects the size and resilience of the tax base and is less susceptible to short-term economic volatility compared to cyclical indicators.

The qualitative assessment focuses on the size and diversification of the local economy, its exposure to local, regional, or global shocks, and its ability to adapt to structural changes such as industrial transitions or technological shifts. We supplement the primary structural indicator with secondary metrics, such as the unemployment rate, which is used qualitatively to assess labour market health and resilience.

	Stronger (100)	Mid-range (50)	Weaker (0)
Quantitative assessment	High wealth levels: GDP per capita exceeds 120% of national GDP per capita	Moderate wealth levels: GDP per capita is between 120% and 80% of national GDP per capita	Low wealth levels: GDP per capita is below 80% of national GDP per capita
Qualitative adjustment	Diversified economic base and effective adaptation capacity that underpin strong resilience to shocks and stability of the tax base. Labour market conditions are supportive of resilience, including low unemployment.	Moderate economic diversification and adaptation capacity leading to modest economic resilience in the case of shocks or structural shifts. Labour market conditions are mixed, with average unemployment levels and/or signs of sectoral pressures.	Narrow or highly concentrated economic base and weak adaptation capacity, leading to economic fragility and high vulnerability to shocks. Labour market performance is weak, with high unemployment.

Source: Scope Ratings

Typical characteristics across the scale:

A score of 100 (Stronger) reflects a sub-sovereign with high structural economic strength, including GDP per capita well above the national average and low unemployment relative to domestic peers. The local economy is broad-based and resilient, with strong capacity to absorb external or structural shocks. We also account for cases where the entity is an outlier within its country due to sustained economic outperformance, recognising its above-average revenue-generating potential.

A score of 50 (Mid-range) indicates average or mixed structural conditions. The economy typically shows moderate wealth and labour market indicators, in line with national norms. Economic diversification and adaptability are present but limited, exposing the sub-sovereign to some volatility in the face of cyclical or structural pressures. Entities assessed here generally reflect the national average and do not materially deviate from peers.

A score of 0 (Weaker) signals structural economic vulnerabilities. GDP per capita is well below the national average and/or unemployment is persistently high. The economy may be reliant on a narrow set of industries or face structural decline, such as industrial contraction. In these cases, the sub-sovereign's capacity to sustain revenue stability is limited, and it may lag peers in resilience and adaptability to shocks.

5.2.4 ESG (20%)

We apply a moderate overall weight to ESG considerations (20%) to reflect their increasing importance for long-term credit risk. This includes governance quality, demographic and social developments, and exposure to environmental and transition risks. Governance carries a weight of 10%, given its direct influence on institutional strength, policy effectiveness, and financial management. Social factors are weighted at 7.5%, reflecting their relevance to fiscal sustainability through demographic trends, labour market dynamics, and social cohesion. Environmental risks are assigned a weight of 2.5%, recognising that although climate-related exposures can be material, their immediate budgetary impact is typically limited at the sub-sovereign level. In many cases, especially within highly integrated frameworks, major environmental costs are usually absorbed by the sovereign, reducing the direct relevance for sub-sovereign creditworthiness.

Our analysis of environmental, social and governance (ESG) factors focuses on credit-relevant aspects that are not already captured in the rating of the anchor[7], the institutional framework assessment, or other components of the individual credit profile (ICP). Governance, in this context, refers to the sub-sovereign's political and institutional strengths, particularly as they relate to the quality of financial management and the credibility of its broader policy direction.

[7] Our assessment of a sovereign's credit quality, a key input for our sub-sovereign ratings, incorporates ESG risks as detailed in our Sovereign Rating Methodology.

➢ **Environmental factors** (2.5%)

This component assesses a sub-sovereign's exposure to physical and transition climate risks, and the extent to which adaptation or mitigation policies reduce their impact. Reliance on fossil fuels or energy-intensive industries may expose regions to transition risks that exceed national averages, while physical risks such as floods or wildfires can lead to concentrated fiscal and economic losses. However, in many jurisdictions, the rating anchor (e.g. the central government) typically assumes much of the financial burden from major environmental events. This limits the direct credit impact on sub-sovereigns and helps explain the lower weighting of this component. Still, a strong local policy response, through effective environmental planning and climate resilience strategies, can play a critical role in mitigating these risks and supporting long-term credit stability.

	Stronger (100)	Mid-range (50)	Weaker (0)
Qualitative assessment	Low exposure to physical and transition climate risks (e.g. floods, droughts); low reliance on carbon-intensive sectors; and/or high renewable energy share; and/or comprehensive environmental policy and planning; effective climate adaptation/mitigation strategies; high use of green finance instruments to address environmental challenges	Moderate exposure to physical and transition climate risks; some reliance on carbon-intensive sectors; moderate renewable energy share; and/or some environmental planning and resilience frameworks but limited integration into fiscal or investment frameworks	High exposure to physical and climate transition risks; high reliance on fossil fuel-based sectors and/or low renewable energy share; and/or limited environmental strategy; minimal planning or mitigation capacity

Source: Scope Ratings

<u>Typical characteristics across the scale:</u>

A score of 100 (Stronger) reflects a sub-sovereign with low exposure to physical and transition climate risks and/or robust mitigating capacity. The entity demonstrates a comprehensive and forward-looking environmental strategy, including effective adaptation and mitigation frameworks, integration of climate considerations into fiscal and investment planning, and use of green finance instruments. This score typically applies to sub-sovereigns that materially outperform domestic peers on both risk exposure and policy response.

A score of 50 (Mid-range) indicates moderate environmental risk exposure and/or a developing policy response. While adaptation or mitigation strategies may be in place, they are often incomplete, fragmented, or not fully integrated into fiscal management. Sub-sovereigns in this category generally demonstrate performance in line with national peers, without demonstrating significant relative strengths or weaknesses.

A score of 0 (Weaker) signals elevated exposure to physical and/or transition risks, typically coupled with limited institutional capacity to manage them. These sub-sovereigns tend to lag domestic peers, lacking coherent climate strategies, with minimal integration of environmental risk into financial planning, and high dependence on carbon-intensive sectors or assets.

➢ **Social factors** (7.5%)

This component examines the quality and resilience of a sub-sovereign's social conditions, including current outcomes and expected demographic shifts. It considers key indicators such as population dynamics, poverty levels, employment and education outcomes, and broader living standards. The assessment also considers disparities within the region, such as gaps between urban and rural areas or social groups, which may indicate fragmentation and cause strain on public services and cohesion. We also assess the scope and effectiveness of local social policy, particularly with regard to inclusion, labour market resilience, and preparedness for ageing or shrinking populations.

	Stronger (100)	Mid-range (50)	Weaker (0)
Qualitative assessment	Favourable or stable demographic trends; low poverty/inequality; strong employment and education outcomes. Well-developed and forward-looking social policies; strong capacity to manage demographic change and maintain cohesion.	Moderate demographic risks; average outcomes on poverty, employment, and education. Partial or uneven social policies; some planning for ageing or labour market adjustment, but gaps remain.	Ageing or shrinking population; high poverty and inequality; weak labour market and education outcomes. Social pressures are high and policy response is weak or absent; limited planning or fiscal capacity to adjust over time.

Source: Scope Ratings

<u>Typical characteristics across the scale:</u>

A score of 100 (Stronger) reflects a sub-sovereign with highly favourable or stable demographic dynamics and strong socioeconomic outcomes relative to domestic peers. Indicators such as low poverty and inequality, robust employment and education levels, and high living standards are complemented by well-developed, proactive social policy frameworks. These entities demonstrate institutional capacity to effectively manage demographic shifts, such as ageing or population decline but also a rapid population increase, thereby supporting long-term social cohesion and fiscal sustainability.

A score of 50 (Mid-range) applies to sub-sovereigns with moderate social risks and broadly average performance compared to peers. While socioeconomic indicators may not point to acute stress, underlying vulnerabilities or emerging demographic challenges may exist. Social policy responses are typically partial or uneven, with some forward-looking measures in place but limited integration or effectiveness. Entities in this category neither materially outperform nor underperform the domestic benchmark.

A score of 0 (Weaker) signals a sub-sovereign facing elevated social pressures, often characterised by ageing or shrinking populations, persistent poverty or inequality, and underperforming education and labour market outcomes. These entities tend to lag national peers and show limited policy capacity or fiscal space to address social risks, raising concerns about long-term cohesion and economic participation.

- **Governance** (10%)

This component examines the quality of a sub-sovereign's governance. It considers institutional capacity, political stability, transparency, accountability, and the effectiveness of policymaking. This includes a review of recent political events that may influence a sub-sovereign's policy, the frequency of changes in governing and management bodies, implementation of financial and ESG strategies, the quality of internal and external controls, and the credibility of long-term planning. We regard instances of - or tangible concerns related to - corruption to be a strong indication of weak governance.

	Stronger (100)	Mid-range (50)	Weaker (0)
Qualitative assessment	Strong governance quality resulting in high transparency and accountability; prudent long-term planning; extensive public reporting on financial and ESG matters. Strong integration across government tiers, with clear reporting framework; very stable and predictable political environment leading to effective and consistent policymaking.	Medium governance quality resulting in moderate institutional capacity, financial and ESG reporting; some gaps in transparency or strategic coherence. Some policy fragmentation across departments. Broadly stable political environment, with transparent policymaking.	Weak governance quality resulting in weak public financial management and institutional capacity; reactive planning; incomplete financial and ESG reporting; limited transparency. Lack of strategic policy direction; governance disputes or legal concerns. Unstable political environment leading to limited policy predictability.

Source: Scope Ratings

<u>Typical characteristics across the scale:</u>

A score of 100 (Stronger) signals consistently high institutional quality, transparent and accountable financial management, and credible long-term planning. A stable political environment and/or smooth transitions of power enables effective policy implementation and continuity. In systems where all entities exhibit such high-quality governance, a top score may be uniformly applied across peers.

A score of 50 (Mid-range) indicates governance that is broadly sound. Institutional frameworks and financial oversight are functional reliable, but strategic planning, transparency, or interdepartmental coordination may show moderate gaps. In jurisdictions where these characteristics are the norm, most or all sub-sovereigns may receive a mid-range score.

A score of 0 (Weaker) is typically assigned to sub-sovereigns whose governance capacity and institutional performance are demonstrably weaker than that of domestic peers. This may include limited financial transparency or a lack of credible long-term planning. Frequent political turnover or governance disputes may undermine policy consistency.

6. Indicative sub-sovereign rating

We derive the indicative sub-sovereign rating by mapping the result of the institutional framework assessment (i.e. the indicative rating range) to the ICP score, as depicted in **Figure 6** below. Based on our approach, a strong ICP score is enough for a high rating, regardless of the framework assessment, while a strong framework supports the ratings of sub-sovereigns with weak ICP scores. When the mapping table provides two indicative notching possibilities, we consider the historical position of the sub-sovereign, its expected future performance and peer comparisons to determine the indicative notching.

Figure 6: Deriving the indicative sub-sovereign rating

Institutional framework assessment		Individual credit profile score							
Score	Downward rating range	100 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 ≥ x > 0
100 > x ≥ 90	0-1	0	0	0	0	0	0	-1	-1
90 > x ≥ 80	0-2	0	0	-1	-1	-1	-1	-2	-2
80 > x ≥ 70	0-3	0	-1	-1	-1	-2	-2	-3	-3
70 > x ≥ 60	0-4	0	-1	-1	-2	-2	-3	-3	-4
60 > x ≥ 50	0-5	0	-1	-1	-2	-2	-3	-4	-5
50 > x ≥ 40	0-6	0	-1	-1/-2	-2/-3	-2/-3	-3/-4	-4/-5	-6
40 > x ≥ 30	0-7	0	-1/-2	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-7
30 > x ≥ 20	0-8	0	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-6/-7	-8
20 > x ≥ 10	0-9	0	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-7/-8	-9
10 > x ≥ 0	0-10	0	-1/-2	-2/-3	-3/-4	-5/-6	-7/-8	-9/-10	-10

Source: Scope Ratings

7. Additional considerations

The combination of the rating anchor level, the institutional framework assessment and the ICP score provides an indicative sub-sovereign rating. Given the idiosyncratic nature of the sub-sovereign universe, however, we include additional considerations when determining the final rating. These include: i) potential adjustments to reflect a sub-sovereign's systemic importance; ii) a review of whether the sub-sovereign can be rated above the rating anchor level and its sensitivity to changes in rating anchor levels; and iii) a review of exceptional circumstances that could lead to additional adjustments. Although these adjustments have no defined limit, each assessment that causes deviation from the indicative rating will be explicitly communicated and justified.

7.1 Systemic importance

While the institutional framework assessment described in Chapter 4 gives a comprehensive view of the degree to which a sub-sovereign's credit quality is tied to that of the rating anchor, some entities may have intrinsic qualities that make the rating anchor more willing to provide support in cases of financial distress.

For example, a systemically important sub-sovereign is more likely to benefit from extraordinary support than typical entities of the same government tier. Where relevant, we make this judgment by considering the relevance of the sub-sovereign's economy, debt, expenditure, and population relative to other sub-sovereigns within the same government tier, as well as its standing in capital markets as a public sector issuer. This may be different, for instance, for very large cities or capitals. The *systemic importance* assessment can lead to an upwards indicative rating adjustment from the indicative sub-sovereign rating resulting from the mapping table by up to two notches.

7.2 Rating anchor ceiling and rating sensitivity

In this part of the analysis, we assess whether i) the sub-sovereign can be rated above the rating anchor; and ii) the sensitivity of the sub-sovereign's ratings to changes in the rating anchor level, that is, the degree of automaticity between the rating anchor and sub-sovereign rating changes.

7.2.1 Criteria to be rated above the rating anchor

Under our approach, a sub-sovereign rating is indicatively capped by the rating anchor level. Exceptions can exist but are unlikely. The indicative cap reflects our view that there is a minimum degree of default interdependence between sub-sovereigns and rating anchors, even among highly autonomous entities. Sub-sovereigns are typically not shielded from the jurisdictions of national courts and consequently their ability to honour debt obligations depends on the functioning of their national legal system, regulation and/or policy framework. Recent crises confirmed that a sub-sovereign's (even those whose autonomy is enshrined in the national constitution) ability to gain capital market funding will be strongly impaired if the rating anchor faces financial distress. Consequently, we would only pierce the rating anchor level in exceptional circumstances, justified on a case-by-case basis.

A sub-sovereign rating above the rating anchor can be justified if two conditions are fully met: i) the extent to which a special legal status or fiscal autonomy shields the sub-sovereign from central government intervention regarding its tax revenues, expenditures, and treasury accounts; and ii) an exceptionally strong ICP score among peers.

The two factors in combination must ensure exceptional liquidity and financing profiles as well as budgetary flexibility and resilience. We define these factors as: i) autonomous access to liquidity with a very strong debt profile, typically reflected by very low financing needs, substantial cash buffers, and exceptionally high autonomy to incur debt without rating anchor interference, i.e. sub-sovereign finances are fully protected from political interference by the constitution or public law; ii) very high budget flexibility, reflected by very low transfer-dependency and a sub-sovereign's control over the tax payment system with no obligation to forward tax receipts to other government tiers or to redistribute them, enabling it to withstand long periods of macro-economic and financial stress, as well as exceptional revenue resilience to external shocks, also in cases of rating anchor stress/default. A positive assessment of these factors indicates a sub-sovereign that can consistently service debt obligations, even if the rating anchor defaults and can thus result in a sub-sovereign rating above the rating anchor level.

7.2.2 Sensitivity to rating anchor level changes

To assess the sensitivity of a sub-sovereign's rating to a change in the rating anchor level, we analyse on a case-by-case basis: i) the drivers of the rating action on the rating anchor, specifically, their effect on the rating anchor's ability to provide support; ii) any possible implications for the institutional framework; and iii) the expected impact on a sub-sovereign's ICP score relative to peers.

In general, sub-sovereigns operating in less aligned institutional frameworks, coupled with a strong ICP score, are less affected by a change in the rating anchor level. Conversely, sub-sovereigns that are institutionally highly integrated with the rating anchor and/or have a weak ICP score are usually more affected by a change in the rating anchor level. This reflects our view that institutional frameworks with low intergovernmental integration typically dampen the direct impact of a change in the rating anchor level. A change in the rating anchor level does not automatically trickle down to all entities equally and will depend on their individual credit strengths.

7.3 Review of exceptional circumstances

Our rating approach indicatively limits the maximum distance to the sovereign rating, or alternatively to the higher-tier government level, as established by our framework assessment. The indicative rating range reflects that there is always some degree of intergovernmental integration between the sub-sovereign and the rating anchor, also in very decentralised frameworks. However, in exceptional circumstances that cannot be captured by the quantitative and qualitative scorecards, we may adjust the indicative sub-sovereign rating further downwards, that is, below the indicative rating range.

Certain additional factors that might not be fully captured by our scorecards can carry important rating considerations for sub-sovereigns. In exceptional circumstances, we may thus adjust the indicative sub-sovereign rating further downwards, even below the indicative rating range. Additional factors can lead to a one-notch adjustment to the rating, but extreme circumstances may warrant multiple notches. Additional factors can include the following (non-exclusive) considerations:

- Excessive debt (downward adjustment)
- Sizeable, growing and very risky contingent liabilities (downward)
- Excessive budget deficits after capital accounts (downward)
- Very weak and deteriorating liquidity, limited to no market access, or access to alternative liquidity sources and substantial re-financing needs (downward)
- Very weak financial management, consistent weaknesses in fiscal practices, debt management and transparency (downward)
- Highly concentrated and narrow economic base with weak economic fundamentals (downward)
- High political risk and/or acute political interference undermining the ability and/or willingness to service debt (downward)
- Political conflict with a higher-tier government, increasing the uncertainty around the latter's willingness to provide timely support (downward)
- Event risk, such as wars, natural disasters, cyber-attacks or global economic and financial crises, undermining the ability to service debt (downward)

- Recent history of default or debt restructuring (downward)
- Significant, ring-fenced cash buffers (upward)

8. Long-term and short-term issuer and debt ratings

Our Rating Definitions apply to sub-sovereign issuers and their long-term and short-term debt obligations.

See our Rating Definitions for more information on long-term and short-term rating scales. The long-term issuer rating is a measure of a sub-sovereign's fundamental credit quality, which also includes the consideration of short-term risks related to the liquidity position and funding flexibility. Short-term ratings are correlated with the long-term ratings but also emphasize risks and considerations related to liquidity aspects, including an assessment of available cash, liquid assets, access to external short-term liquidity and flexibility in borrowing.

Our evaluation of short-term credit quality is typically highly correlated with our assessment of a sub-sovereign's liquidity position (see Chapter 5.2.1) as well with our framework assessments for 'funding practices' and/or 'extraordinary and bailout practices' (see Chapter 4.2). When two short-term ratings can be derived from the long-term rating as per the correspondence in our rating definitions, the higher of the two short-term ratings will typically be assigned when our assessment of the sub-sovereign's 'liquidity position and funding flexibility' is either 'stronger' or 'mid-range' and/or we deem that the 'funding practices' and/or 'exceptional support and bailout practices' in the institutional framework benefit from 'strong' or 'full' integration with the sovereign (or higher-tier government).

We assign local currency (LC) and foreign currency (FC) ratings using our long-term and short-term rating scales. Typically, our issuer and issue ratings apply uniformly to liabilities in both local and foreign currencies unless otherwise specified. In instances when the respective sovereign issuer is rated non-investment grade, transfer and convertibility risks may play a greater role in determining our local and foreign currency ratings compared to issuers rated investment-grade (BBB- and above).

In rare cases, we may assign a higher LC rating than the FC rating to non-investment-grade sub-sovereigns if the default risk differs between FC and LC debt obligations. This divergence can reflect the issuer's specific credit strengths and weaknesses, the depth and liquidity of local capital markets, and/or the potential risk of government-imposed restrictions on foreign-currency payments. Such restrictions may elevate the risk of default on FC liabilities relative to LC debt. Finally, in exceptional circumstances, where debt sustainability challenges are more concentrated on LC, we may assign a lower LC rating relative to FC debt.

9. Case study: Stylised sub-sovereign rating

In this section, we provide a stylised example of a sub-sovereign rating, detailing each analytical step and rating drivers. This example refers to a hypothetical sub-sovereign entity at the local government level.

➢ **Rating anchor**

In this example, we assume that the rating anchor for the sub-sovereign's government tier is the sovereign, hypothetically rated at AA. However, if we deem that, due to a highly decentralised federal system, the higher-tier regional government is in charge of defining the institutional framework characteristics, independently conducting oversight of local finances, setting revenue and spending powers, and thus is ultimately responsible for the finances of its local authorities, we are likely to adopt that regional government rating as the rating anchor, which itself has the sovereign rating as its own anchor.

➢ **Step 1: Institutional framework assessment**

Figure 7: Application of QS1

Analytical component	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Exceptional support and bail-out practices	○	◉	○	○	○
Systemic budgetary support and fiscal equalisation	○	◉	○	○	○
Funding practices	○	○	◉	○	○
Fiscal rules and oversight	○	◉	○	○	○
Revenue and spending powers	○	○	○	◉	○
Political coherence and multi-level governance	○	◉	○	○	○

Integration score	**63**
Downward rating range	**0-4**

Institutional framework score	100 > x ≥ 90	90 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 10	10 > x ≥ 0
Indicative rating range	0-1	0-2	0-3	0-4	0-5	0-6	0-7	0-8	0-9	0-10

Source: Scope Ratings

As a first step, we assess the intergovernmental integration between the rated sub-sovereign's government tier and its rating anchor, typically the sovereign, based on the relevant institutional framework, as detailed in Chapter 4. The outcome of this assessment is the indicative rating range from the rating anchor level, within which the sub-sovereigns operating under that framework can be positioned. An integration score of 63 indicates a sub-sovereign rating range of between zero notches and negative four notches from the sovereign rating, namely between AA (the sovereign rating) and A- (four notches downward).

- **Step 2: Individual credit profile or ICP**

Figure 8: Application of QS2

Risk pillar		Analytical components	Assessment		
Debt and liquidity	40%	Debt burden & trajectory	Stronger	Mid-range	**Weaker**
		Debt profile & affordability	**Stronger**	Mid-range	Weaker
		Liquidity position & funding flexibility	Stronger	**Mid-range**	Weaker
		Contingent liabilities	Stronger	**Mid-range**	Weaker
Budget	30%	Budgetary performance & outlook	Stronger	**Mid-range**	Weaker
		Revenue flexibility	Stronger	**Mid-range**	Weaker
		Expenditure flexibility	**Stronger**	Mid-range	Weaker
nomy	10%	Wealth & economic resilience	Stronger	Mid-range	**Weaker**
ESG	20%	Environmental factors	Stronger	**Mid-range**	Weaker
		Social factors	Stronger	Mid-range	**Weaker**
		Governance & transparency	**Stronger**	Mid-range	Weaker

ICP score	51
Indicative notching	-2

Source: Scope Ratings

We then assess the rated entity's standalone credit fundamentals, to position its rating within the range determined by the framework assessment. This analysis follows the guidance tables as detailed in Chapter 5. We start with preliminary assessments based on the quantitative metrics linked to the assessments (as per the guidance tables). For financial ratios, we benchmark based on peers operating under the same (or a similar) framework. We then complement preliminary assessments incorporating additional qualitative, quantitative, and forward-looking factors that require analyst judgment, as outlined in the guidance tables.

In this example, the rated sub-sovereign has an ICP score of 51 out of 100.

➢ **Step 3: Mapping and indicative rating**

Figure 9: Mapping of rating range and ICP score

Institutional framework assessment		Individual credit profile score							
Score	**Downward rating range**	100 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	60 > x ≥ 50	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 ≥ x > 0
100 > x ≥ 90	0-1	0	0	0	0	0	0	-1	-1
90 > x ≥ 80	0-2	0	0	-1	-1	-1	-1	-2	-2
80 > x ≥ 70	0-3	0	-1	-1	-1	-2	-2	-3	-3
70 > x ≥ 60	0-4	0	-1	-1	-2	-2	-3	-3	-4
60 > x ≥ 50	0-5	0	-1	-1	-2	-2	-3	-4	-5
50 > x ≥ 40	0-6	0	-1	-1/-2	-2/-3	-2/-3	-3/-4	-4/-5	-6
40 > x ≥ 30	0-7	0	-1/-2	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-7
30 > x ≥ 20	0-8	0	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-6/-7	-8
20 > x ≥ 10	0-9	0	-1/-2	-2/-3	-3/-4	-4/-5	-5/-6	-7/-8	-9
10 > x ≥ 0	0-10	0	-1/-2	-2/-3	-3/-4	-5/-6	-7/-8	-9/-10	-10

Source: Scope Ratings

We map the results of Step 1 and Step 2 according to the table above to derive the sub-sovereign's indicative rating. In this example, an ICP score of 51 in a downward rating range of 0-4 notches results in an indicative rating for the sub-sovereign of two notches below the rating anchor. In this example, the sub-sovereign indicative rating is thus 'a+', two notches below the sovereign rating of AA.

➢ **Step 4: Additional considerations**

As a final step, we capture any additional considerations as outlined in Chapter 7. In this example, we assume that no such considerations apply to this entity and make no additional adjustments. As such the final rating for this hypothetical sub-sovereign corresponds to its indicative rating of A+.

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