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Credit rating agencies as policymakers: the different stances in regard to core and peripheral countries during the pandemic

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Abstract

Even during a devastating crisis such as the one provoked by COVID-19, peripheral countries face important restrictions for the implementation of policies aimed at curbing the disaster. In the context of financialization, decisive constraints arise from the protagonist role assumed by the credit rating agencies (CRAs). Contributing to the debates on the lack of autonomy for macroeconomic policies in peripheral countries, this article aims to investigate the evaluation of the anti-cyclical policies in core and peripheral countries carried out by the CRAs during the pandemic, and the impacts on the policy space of the respective countries. The context is propitious for comparative analysis, since the world was hit by a common crisis. Our hypothesis is that the CRAs have different stances in regard to core and peripheral countries. The research methodology involved the scrutiny of 58 reports by three important CRAs, which clearly revealed that even amidst a humanitarian crisis, these agencies exert a strong pressure against expansive monetary and fiscal policies in peripheral countries. The essential conclusion is that in the context of subordinate financialization, CRAs became important policymakers, which is not only a decisive obstacle for the possibilities of socioeconomic development in peripheral countries, but also a fundamental contradiction with the most basic elements of democracy.

Keywords: Pandemic, Peripheral countries, Credit rating agencies, Political economy, Economic policy constraints.

Resumo

Agências de classificação de risco como policy makers: as diferentes posturas em relação aos países centrais e periféricos durante a pandemia

Mesmo durante uma crise devastadora como a provocada pela COVID-19, os países periféricos enfrentam importantes restrições para a implementação de políticas destinadas a combater o desastre. No contexto da financeirização, importantes restrições surgem do papel protagonista assumido por um seleto grupo de Agências de Classificação de Risco (ACRs). Contribuindo para os debates sobre a falta de autonomia de política macroeconômica nos países periféricos, este artigo tem como objetivo investigar a avaliação realizada pelas ACRs, durante a pandemia, das políticas anticíclicas nos países centrais e periféricos, e seus impactos sobre o policy space dos respectivos países. O contexto é propício para análises comparativas, uma vez que o mundo foi atingido por uma crise comum. Nossa hipótese é que as ACRs apresentam posturas diferentes em relação aos países centrais e periféricos. A metodologia de pesquisa envolveu a análise de 58 relatórios de três

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importantes ACRs, revelando claramente que, mesmo em meio a uma crise humanitária, estas agências exercem forte vigilância e pressão contra políticas monetárias e fiscais expansionistas em países periféricos. A conclusão essencial é que, no contexto da financeirização subordinada, as ACRs tornaram-se importantes policy makers, o que não apenas é um obstáculo decisivo para as possibilidades de desenvolvimento socioeconômico nos países periféricos, mas também uma contradição fundamental com os mais básicos elementos da democracia.

Palavras-chave: Pandemia, Países periféricos, Agências de classificação de risco, Economia política, Restrições de política econômica.
Classificação JEL: E65, F33, G11, G24.

1. Introduction

The crisis generated by the propagation of COVID-19 led to a generalized productive paralysis and financial turbulence, with profound economic and social consequences. The abrupt reduction in workers' incomes and corporates' cash flow increased the risk of credit defaults, generating uncertainties in the financial system, with tensions which rapidly spread all over the world (Hofmann et al., 2020).

The world economy was already fragile at the end of 2019 due to structural problems that remained unaddressed after the Global Financial Crisis (GFC), such as rising inequality, accelerated growth of global debt and environmental destruction. With the advent of the coronacrisis, the multiple problems of contemporary capitalism became even more evident (Stevano et al., 2021), aggravating pre-existing inequalities (IMF, 2021), and creating the risk of a 'lost decade' (UNCTAD, 2020).

The coronacrisis further polarized the differences between countries of the core and the periphery of the global economy, given the unequal power dynamics of contemporary capitalism in the spheres of production, reproduction and finance that reinforces the subordinate position of peripheral countries. Additionally, the dependent position in the world economy imposes significant differences in the capacity of peripheral countries to respond to the crisis. While the core countries were able to carry out strong fiscal expansion programs, based on favorable debt ratings and a comfortable performance of their Central Banks in massive purchases of public and private securities, the peripheral countries were limited in their economic policy by the increased credit risk (UNCTAD, 2020). In addition, the high dependence on commodity exports and labor-intensive manufacturing exposed countries to international price volatility, and strong demand shocks occurred in the pandemic (Franz, 2021).

Thus, peripheral countries not only face greater economic and social difficulties derived from the coronacrisis, but also present more restrictions in terms of economic policy compared with core countries. The increasing credit risks, the application of fiscal austerity policies that jeopardize economic recovery, the threats of a tightening of US monetary policy – COVID Tantrum (Kalemi-Ozcan, 2021) – are the main factors of uncertainty and sources of vulnerability for peripheral economies in the post-pandemic era.

Multilateral institutions such as the International Monetary Fund (IMF), the World Bank (WB) and G20 have shown a temporary tolerance regarding increased public spending in both core and peripheral countries to deal with the effects of the crisis. However, as pointed out by Romero (2020), the stirring rhetoric of these institutions has not been translated into coherent public policies, having left disappointing results. Despite the discourses in favor of "doing what is necessary", the

G20 failed to strengthen the Debt Service Suspension Initiative (DSSI) by refusing to impose mandatory participation of global private creditors; and the IMF continues to push peripheral countries into decades of austerity, as shown in the research by Eurodad (Munevar, 2020) and Oxfam (2020). According to these researches, 72 of the 80 countries that have received IMF financing during the pandemic were expected to begin a process of fiscal consolidation starting in 2021, which "could result in deep cuts in public health systems and pension plans, wage freezes, reduction of unemployment benefits and public sector cuts" (Ortiz; Cummins, 2021).

All in all, the fundamental point is that even during a very abnormal – and devastating – crisis, peripheral countries face important restrictions for the implementation of policies aimed at curbing the disaster. In fact, very interesting works have been discussing the restrains in the implementation of macroeconomic policy in peripheral countries arising from their position as "policy takers" (Ocampo, 2001), from the asymmetries of the International Monetary System (IMS) (Cohen, 1998; Carneiro, 1999; Prates, 2002; Ponsot, 2016; Kaltenbrunner, 2017; Fritz, De Paula and Prates, 2018) or from the effects of the so-called subordinate financialization (Bonizzi, Kaltenbrunner and Powell, 2020; Lapavitsas and Soydan, 2020; Alami et al., 2022). Nevertheless, these studies have still not made a detailed analysis on the role of a specific group of agents in the imposition of limits for the implementation of macroeconomic policies in peripheral countries, namely the credit rating agencies (CRAs). After all, the theoretical discussions regarding the current dynamism of the global finance may be enriched by an accurate analysis of the actors involved.

In parallel, many works within the framework of the International Political Economy (IPE) have discussed that the process of financialization engendered a qualitative change in the global political economy that implicates a rising protagonism of new economic actors, such as the institutional investors and the CRAs (e.g. Helleiner, 1994; Strange, 1998; Sinclair, 2005). More recently, stimulating works have been devoted precisely to study the crucial role assumed by CRAs in the contemporary world economy, and the political aspects involved (Paudyn, 2013; Barta and Johnston, 2020; Li, 2021) – some of them with a focus on the so-called emerging/developing economies (Sinclair, 2008; Griffith-Jones; Kraemer, 2021) –, but with no dialogue with some of the important theoretical inputs of the abovementioned literature on the currency hierarchy and the subordinate financialization.

Thence, contributing to both the debates on the constraints for the implementation of macroeconomic policies in peripheral countries, and to the studies on the central role of CRAs for the global finance, this article aims to investigate the process of evaluation of the anti-cyclical policies of core and peripheral countries conducted by the CRAs during the pandemic, and the impacts of these evaluations on the policy space of the respective countries. The context is propitious for comparative analysis, since the whole world was hit by a common crisis, having to respond through anti-cyclical policies. In spite of that, our hypothesis are: i) that the CRAs have different criteria and stances in regard to core and peripheral countries; and ii) that this divergent attitude does not arise from aspects related to the national economic policies, but rather from the field of the political economy. One additional contribution of the article is compiling the macroeconomic policies implemented in both groups of countries during the pandemic, highlighting the differences in terms of the size of the stimulus, the modality, and the timing of the policies.

Besides the examination of the existing literature on this area and the demonstration of the differences in the anti-cyclical policies in core and peripheral countries in 2020-21, the research methodology involved the examination of 58 reports by three important CRAs and relative to some core (US, Germany, France, and Japan) and some peripheral (Brazil, Colombia, Argentina, Chile, and Mexico) countries. The scrutiny of the reports showed very clearly that even amidst a humanitarian crisis such as the one we are currently facing, these agencies make a strong pressure against expansive monetary and fiscal policies in peripheral countries, in addition to the constant lobbying for the approval of tax, labor and pension reforms. And the crucial point is that behind their (allegedly technical) arguments there is a concrete and permanent threat of capital flights due to the huge amount of private (and liquid) wealth allocated in these peripheral countries, associated to the risk of a downgrade in the sovereign bonds. As a result, even if the abovementioned multilateral institutions claimed for a temporary increase in public spending, many peripheral countries were reluctant to do it and/or did it in a very timid way. Not surprisingly, the length and the depth of the economic crises tend to be deeper in these peripheral countries, with dramatic social consequences.

The article is divided into five sections, including this introduction. The second section analyzes the economic policies applied during the pandemic, highlighting the differences between core and peripheral countries. The third section presents the results of the investigation with the CRAs reports. The fourth section provides a theoretical discussion, based on the literature on currency hierarchy and subordinate financialization, on the reasons for the growing role of CRAs and the asymmetric economic policy space between core and peripheral countries. Some final remarks conclude the article.

2. The unevenness on the implementation of the anti-cyclical policies

For a proper understanding of the global context in which the policy responses to the coronacrisis were designed and implemented, it is necessary to consider the world economic situation after the GFC, characterized by high indebtedness, financial fragility and fiscal austerity policies.

Before the COVID-19 crisis erupted, debt was globally rising to record levels: at the end of 2019, it corresponded to more than 320% of world GDP, i.e., USD $255 trillion (ECLAC, 2020). In the first quarter of 2020, after the implementation of the first round of fiscal policies to address the crisis, it reached 331% of GDP (IIF, 2020). In 2019, 72.3% of debt was concentrated in central economies and 27.7% in peripheral economies.

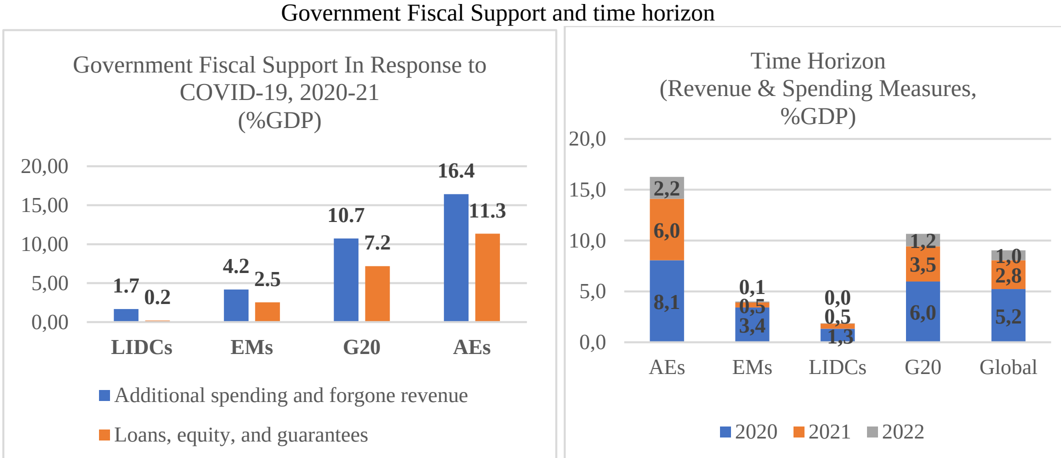
The increase in government indebtedness is also a factor of growing vulnerability, especially when higher debt is not accompanied by high growth, as has been the case since 2013, when the world economy experienced a stagnation of GDP and international trade, in a context of increased geopolitical tensions and tightening of monetary policy in core countries (ECLAC, 2020). This situation is particularly worrisome in some peripheral economies, where the share of external debt is significant and growing.

The application of austerity policies or the withdrawal of fiscal stimulus a few years after the outbreak of the GFC (2008-2009) and the Eurozone crisis (2010-2013) occurred to varying degrees in many economies. Austerity policies had a contractionary effect in terms of GDP growth, contributed to higher private sector indebtedness, and did not reduce the public debt/GDP ratio, given that, in the face of lower growth, tax revenues decrease and unemployment increases. Nor did it generate greater ‘confidence’ in foreign investors, as shown by the examples of Argentina, Brazil, India, Mexico, and South Africa, where austerity measures were applied in recent years, but residents had problems accessing external sources of financing during the first months of the pandemic (UNCTAD, 2020).

In this context of high global indebtedness, financial fragility, and fiscal austerity, the pandemic of COVID-19 has burst into all the economic and social spheres of the world, making it impossible to downplay the active role of the state in capitalism. The massive scale of state intervention increased dramatically during the pandemic, despite the dominant discourses in favor of austerity, but with important differences in core and peripheral countries.

According to information from the IMF in its April 2021 Fiscal Monitor, fiscal actions related to the pandemic amounted to US$ 16 trillion, US$ 10 trillion consisting of additional budgetary expenditures and foregone revenues, and US$ 6 trillion in government loans, guarantees and capital injections (non-budgetary expenditures), among others. Figure 1 shows the differences in the fiscal support provided during the pandemic by governments in peripheral countries (LIDCs and EMEs, in the IMF nomenclature) and central countries (AEs), both in terms of size and time horizon.

Figure 1
Government Fiscal Support and time horizon



Source: IMF (2021). Authors’ elaboration.
Note: LIDCs, EMs and AEs are respectively Low-income developing countries, Emerging markets and Advanced economies.

2.1Monetary policies: differences between core and peripheral countries

The monetary measures deployed by the Central Banks (CB) were focused on preventing the abrupt fall in economic activity from becoming a financial or credit crisis of greater proportions. To this end, they applied expansionary policies to contain the liquidity difficulties faced by households, companies, and financial institutions, in addition to contributing to the coordinated financing of expansionary fiscal policies (ECLAC, 2020). According to Cantú *et al* (2021), monetary policies can be classified into five types of tools: interest rate measures, reserve policies, lending operations, asset purchase programs, and foreign exchange operations.

In the core economies, the objectives were focused on stabilizing the world financial markets through massive purchases of public assets and the provision of liquidity through quantitative easing, which generated an exponential growth in the balance sheets of the CBs of the main economies. A second objective was to cushion the contraction of real activity by providing credit to the private sector under favorable conditions, despite the increase in credit risk (op. cit., 2021).

According to the same authors, policy measures in core countries were mainly lending operations (40% of the total), asset purchases (25%), exchange rate, and interest rate policies (15% each), while reserve policies were rare (5%). CBs in these countries established untargeted lending operations to address liquidity shortages, increased the amount of repurchase agreements (repos), and lengthened maturities. The purchase of private assets (mainly commercial paper or corporate bonds) was used to provide credit flows to non-financial companies. Public asset purchase programs were extended not only to government securities but also to public agencies, provincial and municipal securities. To address the lack of liquidity in households and firms, CBs combined the role of lender of last resort to the financial sector with the role of direct liquidity providers to the non-financial private sector. Regarding the interest rates, when they approached zero, CBs complemented the cuts with forward guidance to indicate that rates would remain low for an extended period of time through the purchase of long-term government securities. The foreign exchange liquidity measures were taken to alleviate tensions in global currency markets, generated by the sharp appreciation and increase in dollar-denominated liabilities.

In the case of the peripheral economies, most of which were experiencing reduced economic growth, they were constrained by capital flight and intense exchange rate devaluation. After the Fed intervened in global foreign exchange markets and the dollar stabilized, peripheral CBs were given a greater degree of maneuverability, but within certain limits imposed by their subordinate status. As financial and exchange rate tensions eased, CBs were able to focus more on domestic objectives, such as supporting aggregate demand. Yet, unlike core countries CBs, monetary policies were distributed among lending operations (35%), interest rate policies (20%), foreign exchange (20%), reserves (15%) and asset purchases (10%) (Cantú et al., 2021). Several countries established direct loans to the private sector to facilitate financing conditions and provide liquidity to the financial sector, including relaxing prudential regulations to expand banks' capacity to grant credit (Aguilar; Cantú, 2020).

Interest rate policies in peripheral economies were initially constrained by the capital outflows and exchange rate depreciation. After a while, CBs were able to cut their rates as exchange rate volatility decreased (Aguilar; Cantú, 2020). In addition, they accompanied the reduction in rates by expanding eligible collateral and increasing counterparties to increase liquidity through repo operations, including new players such as pension funds. One of the novel lines in peripheral CBs is the credit policies aimed at the private sector to finance payroll and working capital, channeled to SMEs in coordination with the ministries of finance (op. cit.).

Asset purchases in peripheral economies are a novelty, but their scope is very limited. In Latin America, only Chile and Colombia participated in private sector asset purchase programs, restricted to commercial bank bonds in small amounts. The purchase of government securities varied regionally: in Asia, Eastern Europe and Africa, CBs actively bought government securities. In Latin America, CBs were cautious in buying government debt (Cantú et al., 2021).

As for foreign exchange market intervention, peripheral CBs had to face strong volatility in their exchange rates due to a strong capital flight, greater demand for financing in dollars, lack of foreign exchange hedges, and the liquidation of portfolio positions by foreign investors. This situation was especially risky for dollar-indebted companies, as they had to service their external debt while their dollar revenues decreased. Attempts were made to control exchange rate volatility through the purchase or sale of foreign currency, forward contracts, swaps, changes in interest rates, and exchange rate regulation (ECLAC, 2020).

2.2Fiscal policies: differences in size, timing, and austerity requirements

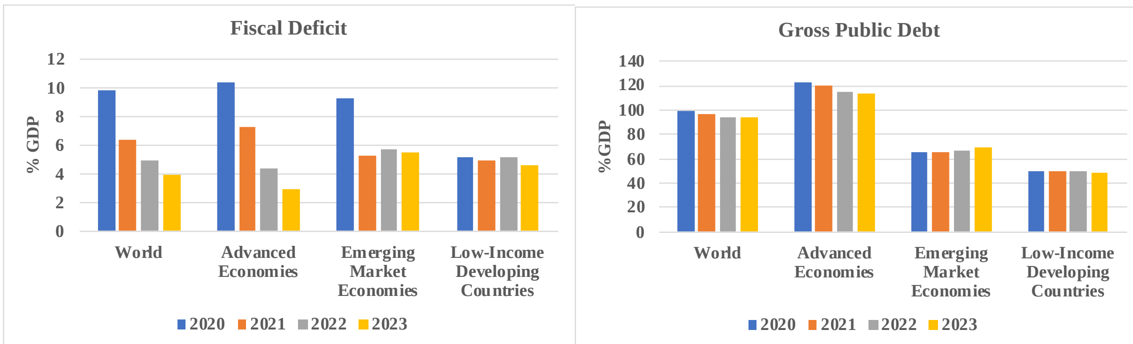
Fiscal policies have played a central role during the COVID-19 pandemic, given the nature of the crisis, which required unprecedented measures to address the health emergency. While fiscal measures were relatively similar across countries, there are significant differences in size between core and peripheral countries. In general, fiscal actions have been aimed at securing the cash flow of companies and, in some cases, household incomes to avoid bankruptcy. Most of the measures include spending on health care, transfers to firms and households, wage and unemployment subsidies, and tax cuts or deferrals (Arbeloa et al., 2020).

As already mentioned, there is a four-fold difference in the size of fiscal measures between central and emerging countries in terms of GDP (16.4% *vs.* 4.2%) and a nine-fold difference with respect to low-income countries (16.4% *vs.* 1.7%) (IMF, 2021). These differences, according Arbeloa et al. (2020) are a function of the higher financing costs of peripheral countries and a hindered access to external financing in times of financial stress, which limits the fiscal response. Indeed, financing costs, measured by 10-year government bond yields, averaged 5.7% in peripheral countries (excluding Argentina) while in central economies it was only 0.7% in early 2020 (*op. cit.*). This cost of borrowing became even higher during the crisis in peripheral countries, given the capital flight and the liquidation of foreign investors' positions in these markets. In addition, peripheral countries dependent on commodity export revenues were more affected. Another factor of differentiation in the sizes of fiscal packages is associated with social safety nets: in most core countries these are widespread which allows for buffers that guarantee greater protection and the survival of households, as well as the recovery of companies (Arbeloa *et al*, 2020). In peripheral countries, social safety nets are generally privatized and have suffered for several years from austerity measures (Ortiz; Cummins, 2021).

Another significant difference between the core and peripheral countries has to do with the nature of the fiscal packages. The formers have announced additional measures to stimulate economic recovery, influenced by a technological race between the major powers. Thus, innovation (France), training (Australia, France), green growth (France, Germany, Italy, Japan, Korea, United Kingdom) and extended digital infrastructure (Germany, Korea, Japan) plans have been launched (IMF, 2020). In the case of the US, an unprecedented jobs plan estimates spending US$2.65 trillion over 10 years (Committee for a Responsible Federal Budget, 2021). In turn, the peripheral countries, with limited budgets and financing restrictions, dealt with the crisis reactively, i.e., through defensive responses to the difficulties that arose.

As a result of higher expenditures and lower revenues, fiscal deficits have widened significantly in all countries, albeit asymmetrically, as shown in Figure 2 in terms of fiscal deficit and public debt. Yet, the way through which fiscal deficit and public debt growth are treated in core and peripheral countries is completely different.

Figure 2
Fiscal deficit and public debt (%GDP)



Source: IMF (2021). Authors' elaboration.
Note: Data for 2022 and 2023 are estimations.

It is therefore clear that peripheral countries not only suffer stronger effects from the crisis, but they also face more limits dealing with this situation. In the current context of financialization, one of the most important actors in the imposition of these limits for anti-cyclical policies are the CRAs, whose actions during the pandemic are discussed in the next section.

3. CRAs during the pandemic: evaluating core and peripheral countries

In this section we will present an illustrative summary of the reports of three CRAs during the pandemic, considering their different diagnosis and 'expectations' regarding the two groups of countries we analyzed in section 2, namely, the core and the peripheral ones. In the group of core economies, four countries from different regions have been selected, namely the United States, Japan, France, and Germany. Among the peripheral economies, we focus on Latin America, since it is one of the regions which are most severely affected by the ongoing sanitary and economic crises. Within the region, five of the most relevant countries were selected, in a sample which tries to cover very diverse situations in terms of CRAs grades: Brazil, Colombia, Mexico, Chile and Argentina.

A total of 58 reports[4] were collected from the public information of three CRAs, of which 32 related to the group of peripheral countries and 26 to the core ones, for the years 2020 and 2021. These reports refer to the long-term sovereign debt securities issued by each country, presenting the assigned rating[5], commenting on the current scenario and future expectations.

The global CRAs market is heavily concentrated in three companies, Fitch Ratings, Moody's Investors Service, and Standard & Poor's, the so-called 'big three' of the industry, all based in New York City. The behavior of these three agencies is quite convergent with respect to the ratings assigned to the sovereign debt securities of countries, with occasional differences[6]. For our analysis,

(4) See Table 1 in the Appendix. All reports are listed in the References.

(5) For the assigned rates for these countries, see Table 2 in the Appendix.

(6) This concentration and high convergence may create a problem of "home bias" in the analysis and ratings.

seeking to contemplate possible diversities in the agencies' analyses, we selected one of the 'big three', Fitch, and added two other agencies, DBRS Morningstar, the fourth largest CRA in the world, based in Toronto, and the Japan Credit Rating Agency (JCR), the largest Japanese agency, based in Tokyo.

Rating agencies are private companies that play an important role in the global dynamics of capital allocation among multiple economic sectors, asset types, and countries, as they provide signals to international investors regarding the credit quality associated with various financial assets – details in section 4. The ratings are assigned according to the CRA's own methodologies – which are normally not so transparent –, with the purpose of providing investors with the alleged quality of the financial asset and its associated level of default risk. Assets with higher ratings are considered safe and therefore designated 'investment grade', while assets with lower ratings lose their investment grade and can be treated as speculative financial assets or junk bonds.

In the case of public bonds, the evaluation by CRAs takes into account several factors related to the country's economy, such as economic structure, balance of payments, capacity to generate hard currency, level of economic activity, national institutional framework, monetary policy, and, among others, political factors. Nevertheless, fiscal policy and public indebtedness play central roles in the agencies' analyses and, as we intend to emphasize, there are relevant differences between core and peripheral economies in this respect.

3.1. Core economies

The position regarding fiscal policy and the quality of sovereign debt assets of central economies is relatively similar among the three analyzed agencies, with some minor differences that will be highlighted.

The case of US fiscal policy is quite particular and this is reflected in the positioning of the CRAs regarding the rating of US debt securities (DBRS, 2021a, 2021g, 2020c, 2020i; FITCH, 2021b, 2020h; JCR, 2021c). The US fiscal deficits in the years of the sanitary crisis (2020 and 2021) are high in international comparison, around 14% of GDP for each year. By mid-2021, the level of public debt as a proportion of GDP was already 20 pp higher than before the pandemic. In the face of colossal programs to tackle the crisis, high debt, abundant public spending, and strong state action to revive the economy, without a clear plan to deal with "mounting spending pressures" (DBRS, 2021g), the CRAs continue to assign top ratings to US debt assets (AAA). The justification for this position is the international credibility placed on the US economy, which gives it high "government's financing flexibility" sustained by the dollar's status as the world reserve currency. On the other hand, the agencies resignedly expose concerns about the rising debt and the possibility of rising inflation, which sounds like a performative speech in their reports. In short, the agencies emphasize the importance of fiscal packages for the recovery of the economy and jobs in the country, while recognizing the ease in which the US can finance itself without suffering external pressures. These positions of the agencies are explicit in their reports and can be summarized in a few statements:

> The U.S. sovereign rating is supported by structural strengths that include the size of the economy, high per capita income and a dynamic business environment. The U.S. benefits from issuing the U.S. dollar, the world's preeminent reserve currency, and from the associated extraordinary financing flexibility, which has been highlighted once again by developments since

> March 2020. Fitch considers U.S. debt tolerance to be higher than that of other 'AAA' sovereigns (FITCH, 2021b).

> In spite of the challenges ahead, DBRS Morningstar continues to view the ratings as underpinned by the extraordinary resilience of the U.S. economy, dollar, and financial system. […] The U.S. dollar and U.S. financial markets remain at the center of world trade and capital flows. Supportive policies from the Federal Reserve have absorbed most of the increased debt issuance from the coronavirus response, enabling the Treasury to finance the increased borrowing at zero net cost for now. Rising indebtedness could ultimately have an impact on growth prospects for the U.S. economy, but U.S. financial flexibility is unlikely to diminish within the foreseeable horizon (DBRS, 2021g).

> The [US] government debt may rapidly increase, but it will be financed smoothly to be kept at manageable levels given the confidence in the U.S. dollar as the key currency and the effect of the proactive monetary ease. Based on these, JCR has affirmed the ratings with a Stable outlook. […] JCR holds that the debt can be financed without difficulty and will be kept under control (JCR, 2021c).

The other economic power that stands out because of its uniqueness is Japan, which, like the US, has implemented massive fiscal packages, avoiding the collapse of companies and sustaining the population's income and employment quite effectively. In 2020, the fiscal deficit was 11.7% of GDP, and in 2021 it was nearly 8.0%. The exceptionality of the Japanese case refers to the public debt-to-GDP ratio, which in 2019 was at 232%, rising to over 255% after the government's fiscal stimulus that began in the first half of 2020, featuring as the highest debt as a proportion of GDP among all advanced economies. Nevertheless, CRAs rate Japanese government bonds with very high grades. Although some apprehensions are smoothly outlined in the agencies' reports (DBRS, 2020b; FITCH, 2021a, 2021k, 2020i; JCR, 2021c), such as the aging population, the weak pace of investment and economic growth, inflationary expectations, the deteriorating fiscal situation, among others, the CRAs find justification in the Japanese economy's 'fundamentals' to 'tolerate' such an eloquent case of public indebtedness. Moreover, the agencies recognize the difficulty of any reduction in the debt/GDP ratio even in the long term, and point resignedly to an expectation of stabilization in the medium term. Regarding economic fundamentals, the CRAs highlight (i) the external financial position supported by current account surpluses, the external creditor position and the role of the yen as a reserve currency; (ii) the large and diverse economy, with a robust macroeconomic policy framework and strong government institutions, and (iii) the high domestic absorption of government bonds and ample household savings (FITCH, 2021a; DBRS, 2020b; JCR, 2021c). Therefore, even though the diagnosis of the fiscal situation of difficult 'consolidation' on the part of the Japanese state is present and manifests itself with some concern in the CRAs' reports, and that a few words are dedicated to follow up on the possibility of reforms in the social security system, Japan seems to be 'allowed' to combine, on the one hand, little prospect of public debt reduction, high debt/GDP ratio, low growth, robust counter-cyclical policies and, on the other hand, the high ratings that give the sovereign bonds high investment quality.

In Europe, France's public debt is seen as a problem for CRAs, since the level that was already high before the pandemic has increased with the anti-cyclical economic stimulus policies (sustaining income, employment, and payment flows between agents), accompanied by moderate economic growth in the last decade and a large contraction in 2020 of -8.2%. There is an expectation around the government's ability to 'consolidate' the public deficit in the period following the coronavirus shock and implement measures to control the public debt/GDP ratio, which rose from 97.6% in 2019 to 115.7% in 2020. According to Fitch (2021g), continued indebtedness in the medium term could lead to a downgrade, as has already occurred in the case of DBRS in October 2020, from AAA to AA, while still retaining the seal of high quality for France's government bonds. JCR (2021a), however, shows more optimism: 'government will be able to return its fiscal deficit again to a declining trend and maintain the debt-GDP ratio at a manageable level in the medium term, given its fiscal management up to the present time and the EU's monitoring system'. Despite the concerns raised by the agencies, they argue that France's high rating is sustained by its rich economy and diversified industrial structure, effective institutions, macro-financial stability, low interest rates that allow cheap financing, and its membership in the euro zone (DBRS, 2021h, 2020d, 2020j; FITCH, 2021g, 2020b, 2020m; JCR, 2021a, 2020d). Unlike the US and Japan, no advantage is directly pointed out in France for issuing reserve currency, certainly because of the limits imposed by a currency which is not national. Further, regarding the robust French social protection system, although it is recognized as responsible for softening the social impact of the crisis on the economy and households (DBRS, 2021h), it is criticized for its high cost and therefore 'structural reforms' would be important (IDEM) to reduce the burden on firms and individuals (JCR, 2021a).

Regarding Germany, despite the strong economic impact of the coronavirus crisis and generous fiscal packages of counter-cyclical policy, the rating agencies consider the country to be a model in terms of fiscal management, which, in conjunction with its economic fundamentals, gives German government bonds top ratings. Germany's position as a primary benchmark issuer in the Eurozone allows for advantageous 'financial flexibility' (FITCH, 2020e) and, on the fiscal side, the German government used its 'ample fiscal space' to deal with the economic and health challenges of the pandemic (DBRS, 2021e). Thus, because it is a core economy with a leading position in the euro zone, highly diversified, high value-added, and with a solid external position, the CRAs hardly raise any questions about the German public debt or an agenda of 'structural' reforms to control the debt/GDP trajectory (DBRS, 2021e, 2020a, 2020g; FITCH, 2020e, 2020k; JCR, 2020a).

3.2. Latin American peripheral economies

The imperative of fiscal austerity and the threat of loss of 'investment grade', even before the pandemic is overcome, are placed much more intensely and widely in CRA reports concerning the selected Latin American peripheral economies.

For Brazil, CRAs place the fiscal issue and the "structural reform" agenda as central concerns (DBRS, 2021b, 2020e; FITCH, 2021d, 2021e, 2021h, 2021l, 2020a, 2020j; JCR, 2020b). There is no possible comparison in the frequency and forcefulness in which these themes appear when it comes to Brazil in comparison with the advanced economies analyzed. High primary deficit and public debt, high debt burden, fiscal fragility, fiscal imbalance, rigid fiscal structure are terms repeatedly used in agencies' reports on the fiscal issue in the country. As summarized by DBRS (2021b): 'The most important policy issue facing Brazil's sovereign credit profile is consolidating fiscal accounts'. Public debt rose from 88% to 99% of GDP between 2019 and 2020, due to the economic impacts and the anti-cyclical policy carried out by the government. As responses to the "fiscal imbalances", the CRAs praise the public spending cap law and other fiscal anchors, while expressing the imperative need for "fiscal consolidation" and stabilization or reduction of the public debt/GDP ratio as soon as possible.

To achieve the ‘sustainability’ of the public debt, the agencies recommend advancing on the ‘agenda’ of structural reforms, which would enable the country to regain the market’s confidence, obtain higher rates, and receive more investments. CRAs’ expectations for reforms are diverse and between 2020 and 2021 have centered around tax reform, reforms that address the ‘rigidity’ of public spending, and reforms that improve the efficiency of the public sector. Also, political uncertainty is weighted with concern, as the ‘political window’ or ‘momentum’ to pass reforms in the legislature might be closing. At the same time, poor prospects for economic growth, high unemployment, and a serious health crisis are pointed out as challenges for Brazil. Positive mentions are made to the comfortable foreign currency reserves accumulated over the past two decades, and to the fact that the federal public debt is denominated in domestic currency. One can notice, therefore, a greater emphasis on the upper part of the debt/GDP ratio, that is, to control the trajectory of this ratio, the pressure exerted by the CRAs focuses more on the issue of public spending (fiscal policy) than on economic growth.

The case of Colombia is similar to Brazil’s in terms of the pressure exerted by CRAs on the imperative need for public debt control, fiscal consolidation, and structural reforms (DBRS, 2021d, 2021i, 2020k; FITCH, 2021c, 2020d, 2020q). Public debt rose from 44.7% to 58.3% of GDP between 2019 and 2020, due to the economic impacts and the fiscal policy carried out by the Colombian government, although it should be noted that this level of debt is considerably low. The ‘necessary reforms’ are presented, in general, as fiscal reforms that would enable the Colombian government to increase its tax collection capacity beyond non-oil revenues. Nevertheless, labor and social security reforms are also demanded. The necessity of reforms is postulated as essential to maintain the ratings assigned by the CRAs, as noted, for example, in a DBRS report (2021d): “Colombia’s ratings could be upgraded if fiscal reforms narrow the structural deficit and reduce the public debt burden. […] The Duque administration presented a fiscal reform to Congress on April 15. We stated in our previous rating review (published April 6, 2021) that passage of the reform was critical to maintaining the BBB ratings. In our view, the reform would have limited the deterioration in public finance metrics, helped anchor market confidence, and enabled authorities to rebuild fiscal space over time”. Moreover, from a structural point of view, the composition of Colombia’s public debt can be a problem, since a considerable part is denominated in foreign currency, which makes the economy more susceptible to external shocks.

The case of Mexico is quite particular in comparison to the other selected peripheral countries. The second largest economy in Latin America suffered a severe contraction of 8.2% in 2020, and the poor outlook for resumed economic growth is the primary concern in the CRAs’ reports, and the absence of fiscal policy rescue and economic stimulus is seen as a triumph of the Mexican government (DBRS, 2021f, 2020h; FITCH, 2021f, 2020c, 2020o; JCR 2021b, 2020e). In fact, the country’s fiscal policy has moved in the opposite direction of its peers. At the same time that the ‘austere’ policy was praised by the CRAs as a commitment on the part of the Mexican government to macroeconomic stability and fiscal responsibility, the surveillance for this posture to be maintained is evident in the reports, with the possibility of abandonment of the ‘fiscal commitment’ by the country’s current administration always being considered as a downgrade factor. On the one hand, therefore, the agencies celebrate the reduced impact of the pandemic in terms of public debt, and warn of the need for continued austerity; and on the other hand, the concern lies in the prospects for economic activity, as if the two issues were unrelated. One cannot avoid therefore to realize the contradiction of the fragmented analysis of the CRAs.

Chile, whose three reports analyzed were all produced by Fitch (2021, 2020, 2020), has the best credit rating among countries in the region, with public debt rising from 28% to 32.7% as a proportion of GDP between 2019 and 2020, respectively. The fiscal deficit was 7.3% of GDP in 2020 as a result of the social and economic support packages for families, workers and businesses, and the economy contracted 5.8%. Notwithstanding the relatively low level of public debt compared to its peers, Fitch insists on noting that it is a risk factor for downgrading the Chilean sovereign bond rating: 'persistent large fiscal deficits that lead to markedly higher government debt/GDP and/or depletion of sovereign assets', and that, on the other hand, the rating could improve if there were a 'credible fiscal consolidation consistent with a declining trajectory of government debt/GDP and/or a rebuilding of fiscal buffers through increases in its stabilization funds' (FITCH, 2021i, 2020f, 2020r).

Argentina is one of the most critical cases in the region in economic terms, in view of the recession, the high inflation (54% in 2020), the dollarization process of the economy, the low level of foreign reserves, and the debt payment agreements with the IMF. This complicated scenario is reflected in the sovereign debt credit risk rating itself, the lowest among all the countries analyzed (CCC). Despite being a particularly complex case, fiscal policy appears in the agencies' reports as a target of strong concern, considering that, even in the face of the economic crisis, the country managed to make politically feasible aid and economic stimulus packages for companies, families and workers during the health crisis (DBRS, 2021c, 2020f; FITCH, 2021j, 2020g, 2020l, 2020n, 2020p). Thus, the primary deficit of 6.5% in 2020 resulted in the increase of the public debt/GDP ratio from 90.2% in 2019 to 104.6% in 2020. In this scenario, the agencies emphasize the seriousness of 'fiscal decontrol', the lack of a credible plan for stabilizing and reducing public debt as a proportion of GDP, and, consequently, the need for structural reforms (DBRS, 2021c).

Considering the ratings assigned between 2020 and 2021 by Fitch, which is the agency with the best comparison parameter in terms of rating among the nine countries selected for the health crisis period, we note that, on the one hand, the US, Japan, France and Germany had their high quality ratings maintained unchanged and, on the other hand, only the rating for the Brazilian sovereign debt security was maintained, with the difference, in relation to the core economies, of being treated as a speculative asset (BB-), while the other four Latin American countries had their ratings downgraded in the pandemic period. Among these, the cases of Colombia and Mexico stand out. The former for losing its investment grade rating in the middle of the pandemic, going from BBB in 2019, to BBB- in 2020 and BB+ in 2021. In the case of Mexico, with its rating being reduced from BBB to BBB-, the country is in the uncomfortable position of being the target of pressure and bargaining by the CRAs, since the BBB- rating is the last one to consider the asset as being of 'good quality' (investment grade). Thus, under the threat of losing its investment grade rating, the Mexican government suffers the stronger pressure from the CRAs, tending to be currently the most "obedient" country in the region – what may be an explanation for the fact that the Lopez-Obrador government did not implement anti-cyclical policies. In this sense, one can see that the uncomfortable position of the peripheral economies that oscillates between having or not investment grade assigned to their sovereign debt bonds, is a position in which three of the largest economies in the region, Brazil, Mexico and Colombia, are recurrently placed. Paradoxically, Argentina, hopeless of regaining good rates, seems to have had more policy space during the pandemic than Mexico, for instance.

In the light of this analysis of the CRAs reports, in the next section we will develop some theoretical debates aimed at elucidating the role of these agencies in contemporary capitalism and the consequent limits for the economic policy in peripheral countries.

4. Financialized capitalism: CRAs as policymakers

At this point of the reasoning, the divergent attitude of the CRAs in regard to the core and peripheral countries is already clear. Nevertheless, some questions are still to be answered: i) what explains this dissimilar attitude of CRAs in regard to peripheral countries? ii) what are the reasons compelling the governments of peripheral countries to be obedient to the precepts of the CRAs?

These two questions cannot be properly answered if we do not consider the main elements of the current phase of capitalism, characterized by financialization – which is understood in this article as a systemic pattern of capital accumulation in which finances take a central role. Moreover, it is necessary to highlight that financialization developed in a direct association with the overthrow of the national financial borders, i.e., with financial globalization[7].

First of all, as extensively discussed in the literature (e.g., Strange, 1986; Chesnais, 2005; Guttmann, 2016), in this context of financialization and financial globalization, the share of financial wealth in relation to the total wealth is increasingly high. Additionally, this financial wealth is extremely concentrated in the institutional investors (e.g., pension funds, investment funds, and insurance companies). In the end, massive amounts of resources, that would otherwise be pulverized in the hands of many actors are currently centralized in these big institutional investors – the most important ones being located in the core countries, especially in the USA.

A second element to be highlighted, which is also widely discussed in the literature, is the tendency of these international investors to diversify their portfolios. This movement has a twofold (and imbricated) objective: reducing the correlation between the assets' returns, and – most importantly – searching for extraordinary yields in the system's periphery. In line with the portfolio choice theory (Hicks, 1962), investors face the trade-off between risk and yield, and the portfolio diversification allows them to detain assets providing high liquidity and other assets providing high yields. The crucial point is that these two attributes are provided by two different classes of assets, and to apprehend this distinction, we have to understand the asymmetries of the International Monetary System (IMS) – as in Cohen (1998), Carneiro, (1999), Prates (2002), Kaltenbrunner (2017), Fritz et al (2018), among others.

In fact, the IMS is completely hierarchized, with some currencies (the central ones) maintaining in the international scenario their character of representants of general wealth, and other currencies (the majority) which may have this qualification at the national levels where they are issued, but not at the global one (the peripheral currencies). As a consequence, the central currencies are liquid at the international level, whilst the peripheral ones, even being liquid inside their countries, do not possess, at the international plane, the liquidity which is inherent to money. After all, as soon as they cross the national borders of the countries they are issued, they are simply not money anymore, being dispossessed of what De Conti (2011) names as the 'international currency liquidity'.

(7) Bortz and Kaltenbrunner (2017) refer to an 'international financialization'.

Returning to the perspective of the international investors, the assets denominated in the central currencies – especially the public bonds – offer low yields, but high liquidity. On the other hand, assets denominated in peripheral currencies have a low liquidity, but become very attractive – at least in some moments, as we will discuss below – due to the high returns they can provide[8]. It is therefore undisputable that these two classes of assets are demanded by international investors for different reasons. In other words, they play distinct roles in what Lima (2013) names as 'International Division of Finance'.

This perception is decisive for a proper comprehension of the different lenses used by the CRAs in regard to the two categories of assets. In regard to the core countries' public bonds, since their role for the international investors is providing liquidity, the analysis is devoted to investigate if they will keep this task in the near future. Not surprisingly, the CRAs reports analyzed in section 3 are eloquent in showing the frequent mentions to the 'US dollar as the key-currency' of the world, to the 'extraordinary resilience of the US dollar', to the Japanese yen as a 'reserve currency', and so on. Even if in these core countries' reports the fiscal deficits and the debt/GDP levels are cited, the negative comments are more than compensated by the positive tints brought by observations that in last resort allude to the central position these countries occupy in the world economy. Very interestingly, for Japan the current account surpluses are brought up to justify the high rates, but the recurrent and extremely high current account deficits are not highlighted for the case of the USA. All in all, what really matters is that both US dollar and Japanese yen – as well as the public bonds they issued – will keep their roles as safe havens of the world's financial markets. Especially for the USA, the CRAs reports are very revealing when they state that this gives them 'extraordinary financing flexibility'. Since the positions of the different currencies in the world economy are defined by structural factors, not sensible to short run oscillations, the IMS is characterized by an inertia, allowing CRAs and investors to be confident that in this regard nothing will change in the near future[9].

On the other hand, peripheral currencies – and assets denominated in these currencies – have a very clear function for the global investors, i.e., providing extraordinary returns. As a consequence, in the scrutiny of the bonds issued by peripheral countries, CRAs are observing if the holders of the respective assets have high possibilities of losses or high chances of rich returns. Nevertheless, when investigating the possibilities of losses related to bonds denominated in the peripheral currencies, the focus is not on the risk of defaults, which is insignificant – or even inexistent – in sovereign bonds issued in national currencies[10]. Instead, the main focus is on the risk of sudden changes in the two

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(8) In the case of bonds issued in peripheral currencies, the return for international investors is given by the interest rates, but also by the exchange rate variation of the national currency in relation to the US dollars (Andrade; Prates, 2013).

(9) Another reason alleged by the CRAs to justify that the fiscal deficits in the core countries do not result in risks for the debt sustainability is the cost of financing, which tends to be zero in the current context. It is indisputable that these costs are indeed important for an evaluation of the debt trajectory – and thence, the risks of instability promoted by these deficits. Nevertheless, it is important to understand that this very low financing costs derive also from the position of the respective currencies at the IMS. As extensively discussed in the literature (e.g Carneiro, 2008; De Conti, 2011; Bortz and Kaltenbrunner, 2017), the interest rates tend to be higher in assets denominated in peripheral currencies. Hence, our argument is that the crucial point for the different stances of CRAs in regard of core and peripheral countries relate rather to the position of the respective currencies in the IMS – which is the result of geopolitical and geoconomic aspects, as discussed above.

(10) For public bonds issued by peripheral countries, but in central currencies, the risk of defaults is indeed relevant. This is the case also for countries of the Eurozone's periphery, since they are indebted in a currency which they do not issue.

macroeconomic prices which are decisive for the returns offered by these assets, namely, exchange rate and interest rate. Hence, the CRAs keep their eyes on the fiscal deficits, the trajectory of the debt/GDP ratio, and some other alleged 'market-friendly measures' (such as reforms in the labour market or pension system) as indicators of the probable direction of the exchange and interest rates in the near future. Unlike the tolerance which is demonstrated in regard to the core countries, for peripheral countries, eventual development plans aimed at diversifying the economy or obtaining current account surpluses are not taken into consideration, because for peripheral assets, the long-term is totally irrelevant. For international investors – and hence, for CRAs –, the function fulfilled by peripheral assets is inherently related to the short-term, i.e., granting rapid and exorbitant returns to their holders.

Hence, the first question raised in the beginning of this section is already answered: CRAs have different attitudes in regard to core and peripheral countries because the assets they issue have different functions for the world financial community, and the monitoring of each class of assets is devoted to the observation of the fulfilment of these divergent functions.

In order to respond to the second question – that is, what are the reasons compelling the governments of peripheral countries to be obedient to the precepts of the CRAs? – we have to recuperate the discussions about financialization and financial globalization. As indicated above, in a monetary economy, liquidity is an important attribute of assets, and liquidity preference is very relevant for the understanding of the financial markets' mode of operation (Keynes, 1936). Nevertheless, in the context of financialization, the development of the secondary markets, along with financial innovations made liquid some markets which were formerly illiquid. In this context of increasing market liquidity conjugated with the decompartmentalization of markets and the opening up of the national financial markets, the international investors are not only operating in a 'world money market' (Plihon, 2001), but with the possibility of very quick and recurrent reallocation of their portfolios.

In concrete terms, what happens is that when there is a moment of 'appetite for the risk', international investors massively invest in peripheral assets, searching for exorbitant returns. Nonetheless, whenever there is a change in the 'market sentiments' – for whatever reason, normally alien to the peripheral countries domestic dimension –, peripheral assets are immediately abandoned in a classic movement of 'search for quality'. Since these movements are massive (given the financial market's propensity for a 'herd behavior'), they tend to be very harmful to peripheral countries, frequently resulting is exchange rate overshooting, inflation pressure, and so on. Hence, in the current context of financialization and an asymmetric IMS, the international liquidity cycles tend to be more recurrent and intense, with important destabilizing effects on peripheral economies.

The important point to grasp is that these cycles may be either generated or at least deeply intensified by the CRAs. In the ascendant phase of the cycle, generalized optimism is normally endorsed by these agencies. More importantly, CRAs may provoke (or reinforce) a reversion in the cycle, generating (or aggravating) capital flights from peripheral countries. In a context in which the conventional behavior reaches its paroxysm (Orléan, 1999), international investors don't really care about the fundamentals of peripheral economies. As discussed above, they temporarily hold these assets only in the search for extraordinary yields and they are prone to keep them in their portfolios as long as their peers are behaving the same way – allowing the maintenance, for a while, of these exceptional gains (which are normally related to both the high interest rates and the appreciation of the given currency). Nevertheless, whenever there is a signalization that the CRAs will downgrade these assets – or even indicate the possibility of a downgrade –, these investors quickly abandon these assets. As emphasized by Griffith-Jones and Kraemer (2021) and Li (2021) the CRAs can therefore trigger a 'self-fulfilling prophecy'. In the end, the protagonism of the CRAs in the dynamism of the global finance is intensified during economic crises.

It is worth mentioning that the CRAs do their evaluation from within the markets – embedded in the markets –, so it is not so easy to discriminate if these agencies *form* the market sentiments or if they just *echo* these sentiments[11]. Whoever is the triggering agent, the important point is that these downgrades (and downgrade signalizations) are undoubtfully harmful for the peripheral countries' access to the international capital. As stated in section 3, credit ratings are currently taken in the global financial markets as a 'universal language'. And this language is neither innocuous, nor neutral, being the fruit of judgements made by pseudo-experts working in the world financial centers (Heinemann, 2016), but with immense consequences for the world's periphery[12].

As stated by Griffith-Jones and Kraemer (2021, p. 12),

> A vast body of investment guidelines, such as of institutional investors typically are forbidden to invest in non-investment grade paper, and official regulation, such as the Basel Capital Accord focuses on this artificial divide [investment *vs*. non-investment grade]. By doing so a cliff effect is introduced. By losing investment grade status, an issuer may face a wave of forced selling as investment mandates of many asset managers and funds only allow for investment in 'investment grade'. This can lead to disruption, financial distress and, in the worst case, to self-fulfilling prophecies of a downgrade across the investment grade divide. Such a move can lead to refinancing problems and weaker credit fundamentals, which in turn would call for further downgrades, thereby increasing difficulties for countries to recover.

As a consequence, peripheral countries' governments tend to attentively follow the credit rate their sovereign bonds receive from CRAs. Especially when the rates are around this edge of having or not the "investment grade", they (secretly) fear the evaluations of the CRAs and rarely enter into open disputes with them. On the contrary, the historical experience is quite eloquent in showing the despair of some governments in showing to the CRAs that they are obedient to their lessons[13]. Among the countries studied in this research, Obrador's government in Mexico is unequivocally abstaining from the socially needed anti-cyclical policies in order to maintain the investment grade. In Brazil, the most important emergency policy to deal with the pandemic was implemented by the Congress – and not by the central government –, but the Minister of Finance (Paulo Guedes) was since mid-2020 vociferously declaring that in 2021 the austerity policy would be even stronger than the one pursued before the pandemic, in a clear and open dialogue with the CRAs.

Hence, much beyond the economic policy restrictions that are normally raised for the implementation of anti-cyclical policies, the imperative aspect when discussing the policy space for peripheral countries in the context of financialization and currency hierarchy is the existence of heavy

(11) Needless to say, it creates an important problem of 'ideological bias' (Li, 2021).

(12) Alami (2019) refers to the 'relational geographies of money-power'.

(13) Sinclair (2008) refers to a 'governance without government'.

constraints arising from another sphere, the sphere of the political economy. After all, the decisive aspect in the definition of the rates of peripheral countries' assets is normally not related to the risks of default, but rather to the potential returns for the assets' holders, which are deeply linked to the trajectories of the exchange and (basic) interest rates in the given country. Given the protagonist role of these CRAs in the current functioning of the world financial markets, their pressure is not harmless, resulting in concrete constraints for peripheral countries.

To conclude, one may argue that there is no reason for objections to the posture of CRAs, since they are just doing their job, i.e., providing information to support the investment decisions of the international agents. Many contentions could be raised to this argument – especially regarding the conflict of interests and the use of technical allegations to expose political opinions –, but deepening these debates would require further research. The essential conclusion of this research is that in the context of subordinate financialization, CRAs have become important policymakers – at least in their relation with peripheral countries which are financially integrated into the world economy. In the context of the pandemic, the result is that the length and the depth of the economic crisis tend to be deeper in these peripheral countries, with dramatic social consequences[14]. In a broader – and structural – context, having the CRAs as policymakers is not only a decisive obstacle for the socioeconomic development of this group of countries, but also a fundamental contradiction with the most basic elements of democracy.

5. Final remarks

This article aimed at contributing to the discussions related to the restraints in the implementation of macroeconomic policies in peripheral countries, with particular attention to those related to the asymmetries of the IMS, in the framework of the so-called subordinate financialization. With this aim, the investigation focused on the attitude of the CRAs during the pandemic, highlighting the striking difference in the mode of evaluation of core and peripheral countries' anti-cyclical policies.

Initially, the article showed the exorbitant discrepancies in the volume and characteristics of the anti-cyclical policies implemented in the core and peripheral countries in 2020-21. In spite of the declarations by some multilateral institutions that, in this emergency context, countries should not refrain from implementing expansionary fiscal and monetary policies, the analysis is very eloquent in showing that most peripheral countries were not able to pursue policies analogous to those performed in the core countries.

Following the research, we made a watchful scrutiny of 58 reports from three of the most important CRAs in the world, for a group of selected countries (USA, Japan, Germany and France in the group of core countries; Brazil, Mexico, Colombia, Argentina and Chile for the group of peripheral countries). This investigation showed very clearly that the stance of CRAs in respect of these two groups was extremely different. In Japan, the public debt increased from 232% to 255% in only one semester (end 2019 to mid-2020), whilst in Chile it has gone from 28% to 32.7% from 2019 to 2020, but the reports very openly indicate that the risk of downgrading is higher in Chile. In the USA, the fiscal deficits in 2020 and 2021 were around 14% of the GDP, whilst in Mexico no

(14) Li (2021) criticizes the CRAs for the lack of social indicators in their analysis.

expansionary policy was implemented, but the reports highlight on one hand the resilience of the US economy, and on the other hand the vigilance of the Mexican situation, because if they fall in the temptation of increasing fiscal deficits it will be considered as a downgrade factor.

We propose that this difference in the posture of CRAs comes from the fact that the assets issued in these two groups of countries fulfil very different functions in the so-called International Division of Finance. In general, assets issued in core countries and denominated in central currencies serve to provide liquidity to their holders, whilst assets denominated in peripheral currencies attend to the will or necessity of extraordinary returns for the investors. The CRAs' analysis of the core countries is thus aimed at verifying if their assets will keep this role of 'safe havens' in the world financial market, which derives from the position of their currencies in the IMS – which, in last resort, is related to geopolitical and geoeconomics aspects, being therefore non sensible to short run fluctuations. As for the peripheral assets, CRAs are at the same time capturing, echoing and influencing the market sentiments in regard to the potentially offered returns. In this task, one of the main efforts is to foresee (and sometimes try to influence) the direction of two very important macroeconomic prices, the exchange rate and the (basic) interest rate of the countries – which are, at the end, extremely important in the determination of the returns offered by these assets. Accordingly, the lenses of the CRAs in regard to the core countries are focused in the long-run, and to the peripheral countries are stuck in the short-run.

Finally, the paper discussed the *modus operandi* of the financial system in the context of financialization, currency hierarchy and financial integration, highlighting the importance of international liquidity cycles and the impacts they may have on peripheral economies. Thereupon, peripheral countries' governments are effectively constrained in their policy space by the pressure exerted by the CRAs. Hence, in addition to possible economic policy constraints, peripheral countries which are financially integrated to the world economy suffer from violent hindrances arising from the sphere of *political economy*.

Lastly, our investigations shed light on an extremely serious political distortion of the current system, namely, the tacit demarcation of CRAs as policymakers. This is not a prerogative which may be changed by combatting the CRAs themselves, but rather through a proper understanding of the financial dynamics in the contemporary capitalist system, notably in what regards the hierarchical integration of this system.

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Appendix

Table 1
Number of analyzed CRAs' reports (long-term sovereign debt securities), selected countries

Country	FITCH		DBRS		JCR		Total
	2020	2021	2020	2021	2020	2021	
United States	1	1	2	2	1	0	7
Japan	1	2	1	0	0	1	5
France	2	1	2	1	1	1	8
Germany	2	0	2	1	1	0	6
Brazil	2	4	1	1	1	0	9
México	2	1	1	1	1	1	7
Argentina	4	1	1	1	0	0	8
Colombia	2	1	1	2	0	0	6
Chile	2	1	0	0	0	0	3
Total	18	12	11	9	5	3	58

Source: authors' elaboration.

Table 2
Ratings assigned for long-term sovereign debt securities, selected countries, 2000-2021

Year	US			Japan			France			Germany		
	JCR	FITCH	DBRS	JCR	FITCH	DBRS	JCR	FITCH	DBRS	JCR	FITCH	DBRS
2000	AAA	AAA			AA+		AAA	AAA		AAA	AAA	
2001		AAA			AA			AAA			AAA	
2002	AAA			AAA	AA		AAA			AAA	AAA	
2003	AAA	AAA		AAA	AA		AAA	AAA		AAA	AAA	
2004	AAA	AAA		AAA			AAA	AAA		AAA	AAA	
2005	AAA	AAA		AAA	AA		AAA	AAA		AAA	AAA	
2006	AAA	AAA		AAA	AA		AAA	AAA		AAA	AAA	
2007	AAA	AAA		AAA	AA		AAA	AAA		AAA	AAA	
2008	AAA	AAA			AA		AAA	AAA		AAA		
2009	AAA				AA		AAA			AAA	AAA	
2010	AAA	AAA		AAA			AAA	AAA		AAA	AAA	
2011		AAA	AAA	AAA	AA			AAA	AAA		AAA	AAA
2012	AAA	AAA	AAA		A+		AAA	AAA	AAA	AAA	AAA	AAA
2013	AAA	AAA		AAA	A+	A (h)	AAA	AA+	AAA	AAA	AAA	AAA
2014	AAA	AAA	AAA		A+	A (h)	AAA	AA	AAA	AAA	AAA	AAA
2015		AAA		AAA	A	A (h)	AAA	AA	AAA	AAA	AAA	AAA
2016	AAA	AAA	AAA	AAA	A	A		AA	AAA	AAA	AAA	AAA
2017	AAA	AAA	AAA	AAA	A		AAA	AA	AAA		AAA	AAA
2018		AAA	AAA	AAA	A	A	AAA	AA	AAA	AAA	AAA	AAA
2019	AAA	AAA	AAA	AAA	A	A (h)		AA	AAA	AAA	AAA	AAA
2020	AAA	AAA	AAA		A	A (h)	AAA	AA	AA (h)	AAA	AAA	AAA
2021		AAA	AAA		A		AAA	AA	AA (h)	AAA	AAA	AAA

Year	Brazil			Mexico			Colombia			Argentina			Chile		
	JCR	FITCH	DBRS	JCR	FITCH	DBRS	JCR	FITCH	DBRS	JCR	FITCH	DBRS	JCR	FITCH	DBRS
2000		BB-			BB+			BB+			BB			A-	
2001		BB-			BB+						DDD			A-	
2002		B+			BBB-			BB							
2003		B+			BBB-			BB						A-	
2004		BB-		A-	BBB-			BB						A-	
2005				A-	BBB			BB			RD			A	
2006		BB	BB	A		BBB		BB	BB (h)				A (h)	A	
2007	BBB-	BB+	BB (h)	A	BBB+	BBB		BB+	BB (h)			B (l)	A (h)	A	
2008		BBB-	BBB (l)	A+	BBB+	BBB		BB+	BB (h)		RD	B (l)	A (h)	A	
2009	BBB-			A+	BBB	BBB		BB+	BBB (l)				A (h)	A	
2010		BBB-	BBB (l)	A+		BBB		BB+			B	B (l)	A (h)	A	
2011	BBB	BBB	BBB	A+	BBB	BBB		BBB-	BBB (l)		B	B	A (h)	A+	
2012	BBB			A+	BBB			BBB-	BBB (l)		CC			A+	
2013	BBB		BBB		BBB+	BBB		BBB	BBB		CC	B	AA (l)	A+	
2014			BBB	A+	BBB+	BBB (h)		BBB	BBB		RD	CCC(h)	AA (l)	A+	
2015	BBB	BB+			BBB+	BBB (h)		BBB	BBB		RD	SD	AA (l)	A+	
2016	BBB-	BB	BB	A+	BBB+	BBB (h)		BBB	BBB		B	B	AA (l)	A+	
2017		BB	BB	A+	BBB+	BBB (h)		BBB	BBB		B	B	AA (l)	A	
2018	BBB-	BB-	BB (l)	A+	BBB+	BBB (h)		BBB	BBB		B	B		A	
2019	BBB-	BB-	BB (l)	A+	BBB	BBB (h)		BBB	BBB		CC	CC		A	
2020	BBB-	BB-	BB (l)	A+	BBB-	BBB		BBB-	BBB		CCC	CCC		A-	
2021		BB-	BB (l)	A-	BBB-	BBB		BB+	BBB (l)		CCC	CCC		A-	

Source: Authors' elaboration.