ECRL Transition Matrix

Definition

A transition matrix, based on historical data, reflects the probabilities of transitions between different credit ratings over a specified time period, capturing the likelihood of a credit rating migrating from one category to another or remaining the same. Transition metrics show the percentage of rating changes relative to the total rated entities for a particular period, indicating upward or downward movements in the rating scale. These metrics are useful for managing credit risks, structuring and pricing debt, and assessing the accuracy of rating agencies in forecasting default probabilities.

Methodology

This analysis compares issuer ratings at the beginning of the time period (January 1) with ratings at the end of the period (December 31). An issuer that remains rated for more than one year will continue to be captured year-in, year-out as long as it has not been withdrawn from the rating universe. For example, if ECRL Ratings began rating one issuer in 2018 and if its issue had not been withdrawn from the universe until the end of 2023, then this issuer would appear in 5 consecutive 1-year transition tables from 2018 to 2023. If the rating of the issuer was withdrawn in 2023, it would be categorised as withdrawn in the 1-year transition table for 2023 and excluded from the 1-year transition tables from 2024 onwards. This is the same for a default.

ECRL Transition Matrix 2023

Over the long term (2011–2023), 99.0% of ECRL Ratings' AAA rated corporates maintained their ratings at the end of one year, contrasting with the lower figure of 88.1% for BB rated corporates. This underscores the strong positive correlation between the ratings assigned to investment-grade corporates and the long-term stability. Similarly, for the one-year ratings transition in 2023, higher credit ratings such as A and above demonstrated a consistent trend of lower likelihood of rating migration.

1-year cumulative rating transition matrix

From / To	AAA	AA	A	BBB	BB	B	C	Default
AAA	**99.0%**	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	1.3%	**98.1%**	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	1.6%	**96.4%**	1.9%	0.0%	0.0%	0.0%	0.0%
BBB	0.0%	0.0%	1.8%	**96.8%**	1.4%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	10.7%	**88.1%**	0.7%	0.0%	0.4%
B	0.0%	0.0%	0.0%	0.0%	11.5%	**88.5%**	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**

2-year cumulative rating transition matrix

From / To	AAA	AA	A	BBB	BB	B	C	Default
AAA	**98.0%**	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	2.6%	**96.3%**	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.0%	3.2%	**92.9%**	3.7%	0.1%	0.0%	0.0%	0.1%
BBB	0.0%	0.1%	3.4%	**93.8%**	2.6%	0.1%	0.0%	0.0%
BB	0.0%	0.0%	0.2%	19.8%	**77.9%**	1.3%	0.0%	0.8%
B	0.0%	0.0%	0.0%	1.2%	20.4%	**78.3%**	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**

3-year cumulative rating transition matrix

From / To	AAA	AA	A	BBB	BB	B	C	Default
AAA	**97.1%**	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	3.8%	**94.6%**	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%
A	0.1%	4.7%	**89.6%**	5.3%	0.2%	0.0%	0.0%	0.1%
BBB	0.0%	0.1%	5.0%	**91.1%**	3.6%	0.1%	0.0%	0.0%
BB	0.0%	0.0%	0.5%	27.6%	**69.1%**	1.7%	0.0%	1.1%
B	0.0%	0.0%	0.0%	3.4%	27.0%	**69.4%**	0.0%	0.1%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**

4-year cumulative rating transition matrix

From / To	AAA	AA	A	BBB	BB	B	C	Default
AAA	**96.1%**	3.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	5.0%	**92.9%**	2.0%	0.1%	0.0%	0.0%	0.0%	0.0%
A	0.1%	6.1%	**86.5%**	6.9%	0.3%	0.0%	0.0%	0.2%
BBB	0.0%	0.2%	6.4%	**88.7%**	4.4%	0.1%	0.0%	0.0%
BB	0.0%	0.0%	1.0%	34.1%	**61.5%**	2.0%	0.0%	1.4%
B	0.0%	0.0%	0.1%	6.2%	31.9%	**61.6%**	0.0%	0.2%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**

5-year cumulative rating transition matrix

From / To	AAA	AA	A	BBB	BB	B	C	Default
AAA	**95.2%**	4.7%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	6.1%	**91.3%**	2.5%	0.1%	0.0%	0.0%	0.0%	0.0%
A	0.2%	7.4%	**83.5%**	8.3%	0.4%	0.0%	0.0%	0.2%
BBB	0.0%	0.3%	7.8%	**86.4%**	5.2%	0.2%	0.0%	0.1%
BB	0.0%	0.0%	1.6%	39.6%	**54.9%**	2.2%	0.0%	1.7%
B	0.0%	0.0%	0.2%	9.4%	35.3%	**54.7%**	0.0%	0.4%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**100.0%**