

## Countries' Credit Ratings and Exchange Rates – The Impact of Economic Development

Patrycja Chodnicka-Jaworska<sup>1</sup>

Piotr Jaworski<sup>2</sup>

### Abstract

The aim of this paper is to verify the impact of countries' credit rating changes on the rates of return of exchange rates, taking into account the level of economic development. A literature review has been made, as a result of which the following hypothesis is proposed: Exchange rates have stronger reaction to the countries' credit rating changes in developed economies. The strongest impact of the credit rating changes is observed for a downgrade, both in developed and developing economies. In order to prepare the analysis daily data from the Thomson Reuters Database from 1980 to 2015 for 225 countries have been collected by using event study methodology. Daily differences between the logarithmized rates of return of exchange rates are taken into consideration as a dependent variable, and long-term issuer credit rating changes proposed by smaller and larger credit rating agencies are treated as independent variables.

**Keywords:** Credit Rating, Rates of Return, Economy Development, Exchange Rates.

**JEL Classification Codes:** G14, G15, G21.

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<sup>1</sup> Dr., University of Warsaw, Poland

<sup>2</sup> Dr., University of Warsaw, Poland