## THE HOME BIAS IN SOVEREIGN RATINGS

## **Andreas Fuchs**

Heidelberg University Research Center for Distributional Conflict and Globalization

## Kai Gehring

University of Zurich and University of Goettingen

## Abstract

Using data on 143 sovereigns provided by nine agencies based in six countries, we estimate the determinants of sovereign ratings to test whether agencies assign higher ratings to their respective home countries, as well as to economically, geopolitically, and culturally aligned countries. Our regression results show that the respective home country, culturally more similar countries, and countries to which home-country banks have a larger risk exposure receive higher ratings than justified by their economic and political fundamentals. Cultural proximity, as measured by linguistic similarity, is shown to be the main transmission channel that explains the advantage of the home country. Further empirical tests which control for the existence of foreign offices and rated countries' levels of information transparency suggest that a more optimistic perception of risks rather than informational advantages drives this cultural home bias. (JEL: G24, F34, H63, F65, G15)

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E-mail: mail@andreas-fuchs.net (Fuchs); mail@kai-gehring.net (Gehring)

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