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Article

Anchored to the Sovereign: How National Frameworks Compress Subnational Credit Signals Evidence from Published Standalone Credit Profiles in 20 Countries

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Abstract: International credit ratings of local and regional governments (LRGs) are read as summaries of subnational credit quality. This paper shows that they are close to a relabelling of the sovereign rating, and measures how much local information they discard. The measurement is possible because Fitch publishes, for every rated LRG, the Standalone Credit Profile (SCP) — the rating absent the sovereign constraint — together with the support notches, the rating cap and the rating floor, so the counterfactual that the sovereign-ceiling literature must estimate is observed directly, and information destruction can be computed as *wedge* = notch(SCP) − notch(IDR). In a panel of 169 rating actions covering 97 entities in 20 countries, 66 per cent of rated LRGs sit exactly at their sovereign and 86 per cent within one notch. The pooled figure understates the result: capped entities sit there by construction, and among **uncapped** entities — with no ceiling forcing anything — 51 per cent are still rated exactly at the sovereign, while standalone profiles span five to fourteen notches inside a single country. Four published instruments drive the convergence: ceiling compression, support uplift, an explicit rating floor, and framework dominance - where all national entities receive identical sub-factor assessments without triggering a cap, floor, or support. The agency's published rules and exceptions explicitly identify this mechanism, elevating eleven entities above their sovereign via a framework eligibility category grounded in constitutionally protected fiscal autonomy. This enables a direct comparison within Italy under a single agency, criteria document, and rating quarter.

Keywords: subnational credit ratings; sovereign ceiling; standalone credit profile; information content of ratings; fiscal decentralisation; local and regional government finance

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1. Introduction

An international credit rating assigned to a local or regional government is used, by investors and by regulation alike, as a statement about that government. It enters investment mandates and collateral rules as an independent measure of subnational credit quality, and it enters the academic literature as an outcome variable reflecting local fiscal standing [1].

This paper asks how much of that rating is in fact the country it sits in. The answer is that in the great majority of cases — and, crucially, even where no formal ceiling

applies — the published rating is the sovereign's, and the local information the agency itself computes is discarded before the headline rating is published.

The methodological opening is that the counterfactual is published. Under its *International Local and Regional Governments Rating Criteria*, Fitch discloses every term of its own rating function for each rated entity:

IDR = clamp(SCP + support notches , Rating Floor , Rating Cap) SCP = f(Risk Profile, Financial Profile) + asymmetric-risk notches + peer adjustment

The Standalone Credit Profile is the rating the entity would carry absent the sovereign constraint. Almeida, Cunha, Ferreira and Restrepo identify the real effects of the ceiling on corporations precisely because the constraint is applied by rule and is therefore separable from firm fundamentals, but the unconstrained rating itself is never observed and must be proxied. In the subnational segment it is printed. Information destruction can therefore be computed directly as

wedge = notch(SCP) − notch(IDR)

with wedge > 0 indicating an entity rated below its own published fundamentals, and wedge < 0 an entity lifted above them by support or a floor. Because support, cap and floor are separately published, the wedge decomposes into a *support uplift* and a *ceiling bite* that are both observed rather than inferred. That this is an accounting relation rather than the author's reconstruction is testable: IDR = clamp(SCP + support, floor, cap) reproduces the published rating in 91 of 94 checkable records (97 per cent).[2]

The paper makes three contributions. First, it converts "how much does the sovereign constraint matter for subnational ratings?" from an estimation problem into a measurement problem, extending the ceiling channel of Almeida et al. from corporations to subnational governments and supplying the measurement instrument the corporate setting lacks. Second, it documents a taxonomy of four instruments, one of which — framework dominance — is not named in the existing literature and matters most for low-income and transition jurisdictions, where the framework is uniform and the ceiling is slack. Third, it uses an agency-published assignment rule to identify the mechanism rather than describe it. Relative to Liu and Sun the closest predecessor, the object is different: not what determines the *level* of a subnational rating, but how much of the local signal it retains. This paper departs from their approach — if the rating is substantially a relabelling of the sovereign, it is a problematic dependent variable in the way their design uses it.[3]

2. Materials and Methods

The panel is built from Fitch Ratings' public rating action commentaries and entity disclosure pages. A document is retained if and only if its text cites *International Local and Regional Governments Rating Criteria* — a document-internal inclusion rule rather than a name-based heuristic, since corporates and banks are rated under different criteria and never cite it. Because no public list of Fitch-rated LRGs exists, discovery is a snowball: sixteen seed entities, each entity page's full rating history, and the peer names each commentary lists as the seeds of the next round. Every document's text is retained on disk, so any cell can be traced to the sentence that produced it.

Two extracted values carry their own provenance fields. The SCP is captured by patterns tried in a fixed priority order — anchored on the entity's own name first — because peer paragraphs quote *other* issuers' profiles and a naive match assigns a peer's SCP to the subject. The contemporaneous sovereign is taken from statements inside the commentary and then joined as-of against an independent panel of 56 Fitch sovereign rating actions. A circularity guard is essential here: for a capped LRG the Rating Cap *is* the sovereign, so using an entity's own cap as its own benchmark would force a zero gap

by construction. The join therefore excludes each entity when dating its own sovereign.[4]

Table 1. Ratings map to a 22-point notch scale. The wedge is defined only where both terms are observed and is never imputed; three of the 97 entity rows lack an SCP, which is why the wedge denominator is 94.

Table 1. Panel coverage against design target

Dimension	Design target	Achieved
Entities	250–400	**97**
Countries	25–35	**20**
Period	2000–2026	**2023–2026**
Rating actions	5,000–9,000 observations	**169**

Four limits bound every claim below and are stated here rather than left to be discovered. The panel is **not frozen**: it grew from 105 to 169 rating actions within a single day, and completing the sovereign column moved the headline share rated exactly at the sovereign from 88 to 74. Subsequently to 66 per cent as the panel expanded — each correction in the direction the project predicted. Time coverage is 2023–2026 against a 2000–2026 design, so no staggered design over first-rating dates is estimable and none is attempted. The sample is a **peer-network snowball**, which threatens the dispersion statistic specifically: if Fitch compares like , the crawl may over-sample similar entities and *understate* true within-country dispersion. And the entity count is inflated by instrument releases and currency-variant duplicates, so the Argentine, Canadian and Ukrainian dispersion figures are not yet trustworthy. All magnitudes reported here are provisional pilot figures and must be regenerated from a single frozen extract before submission.[5]

3. Result and diuscussion.

3.1 The rating is, in the main, the sovereign

The Table 2. denominator is 95 rather than 97 because the two Ukrainian rows carry an RD sovereign, which has no position on the notch scale.

Table 2. Distance from the sovereign, split by cap status

Statistic	Value	N
Rated exactly at the sovereign — pooled	63 (66%)	95
— capped group	38/46 (83%) — *mechanical, true by construction*	46
— uncapped group	**25/49 (51%) — the informative statistic**	49
Within one notch — pooled	82 (86%)	95
— uncapped group	40/49 (82%)	49
Mean absolute distance from the sovereign	0.56 notches	95
Entities rated **above** their sovereign	11	95

The Table 3. pooled figure must never be quoted undivided. A capped LRG whose cap binds *is* rated at its cap, and its cap *is* the sovereign; that is a definition, not a finding. The informative statistic is the uncapped one, and it is the paper's central result: **half of the entities under no formal ceiling are nonetheless rated exactly at their sovereign**, and four in five within a notch of it. Nothing in the criteria compels that outcome for an uncapped entity. It is produced by support, by a floor, or by the framework scoring every entity alike.[6]

3.2 The standalone profiles are not

Table 3. Within-country dispersion, in notches (selected countries)

Country	n	IDR range	SCP range	IDR sd	SCP sd
Brazil	8	**0**	**11**	0.00	3.16
Germany	10	**0**	**5**	0.00	1.47
Poland	6	1	7	0.37	2.67
Türkiye	10	1	6	0.30	1.54
France	5	1	5	0.40	1.62
Italy	13	3	**12**	1.15	3.93
Portugal	4	3	**14**	1.09	5.67
Spain	7	5	**14**	1.68	5.07

Standalone profiles span 5 to 14 notches within a single country in the nine countries whose SCP range reaches five, while IDRs span 0 to 5. Brazil is the extreme case: the State of Rio de Janeiro (ccc-) and the Municipality of São Paulo (bbb+) carry the same BB. In Italy, eight ordinary-statute entities sit within a single notch at BBB/BBB+ while their SCPs run from bb- (Lazio) to a+ (Busto Arsizio) — eight notches apart. **An investor comparing Brazilian states, or ordinary Italian cities, by their Fitch IDRs learns nothing about their relative fiscal standing.**

Ranges are order statistics and increase mechanically in cell size: Italy's SCP range moved from 7 to 12 notches as its cell grew from 6 to 13 entities. Cross-country comparison of ranges is therefore descriptive, not a test.

3.3 The pull is two-sided, and the mean is the wrong summary statistic

The mean wedge across the 94 entity rows with both terms is **+0.41 notches**, with 40 per cent strictly positive and a range of −7 to +6. Entities whose fundamentals exceed the sovereign's are compressed downwards — Porto (aaa → A), Warsaw (aaa → A-), Muğla (bbb+ → BB-) — while entities whose fundamentals fall short are lifted upwards: Naples (bb → BBB+), Rio de Janeiro (ccc- → BB), Valencia (b → BBB). The right description is not a ceiling but a **gravitational pull to the sovereign**, which collapses within-country dispersion from both directions and is strictly wider than the concept the corporate literature works with.[7]

The unconditional mean is close to zero because the two halves nearly cancel: the capped-group mean is **+2.45** and the uncapped-group mean **−1.38**. Reporting the unconditional mean alone would understate the compression by roughly a factor of six, and the gap between the two subsample means has widened as the panel has grown. That is a finding about how the literature's usual summary statistic behaves in this setting, not merely a presentational choice.

3.4 Four instruments, one destination

Ceiling compression strips notches from a profile stronger than the sovereign. Thirty-seven entities show a positive ceiling bite, mean 3.19 notches, maximum 6. Fitch articulates the mechanism itself: a frontier LRG rated BB- is "at the same level as the City of Yerevan (Armenia) and Konya Metropolitan Municipality (Turkiye), **both of which have stronger SCPs but are constrained by their respective sovereign ratings of 'BB-'**". Three cities on three different fundamentals, one rating.

Support uplift is the mirror image and is equally destructive of dispersion. Nineteen rows (seventeen distinct issuers) receive a published uplift, mean +3.26 notches, maximum +7. In Spain the regularity is close to arithmetic: five supported entities with SCPs of a, bb+, bb-, b, b receive support notches of exactly 1, 3, 5, 5, 6 — monotonically non-increasing in standalone strength. Spain is therefore not a counterexample to

compression but compression executed with a different instrument. *This is a pattern in five data points, not an estimated relationship.[8]*

The rating floor is a third instrument the literature does not treat separately. In Germany, the equalisation of all Länder with the federation is implemented through an explicit floor: "We apply a rating floor of 'AAA' to all Laender, reflecting the strong solidarity system enshrined in the constitution, **irrespective of key risk factors and financial profile assessment**." Bremen's SCP is a, Berlin's aa, Hamburg's aaa; all are rated AAA. The phrase "irrespective of key risk factors" is close to a literal statement of this paper's thesis, made by the agency.

Framework dominance is the fourth, and it is not in the literature. Neither cap, floor nor support is engaged, yet dispersion still vanishes, because the national framework drives every entity to the same assessment on every published sub-factor. Uzbekistan is the pure case: cap, floor and support all N/A for both rated entities, and every published assessment is identical for both." None of the six sub-factors assesses a discretionary decision taken at regional level. **A rating built this way cannot, by construction, distinguish two regions of the same country** — and indeed the two rated Uzbek entities carry identical BB- IDRs and identical bb- profiles despite roughly a fourfold gap in output per head. This is the mechanism most likely to dominate in frontier jurisdictions, precisely where the demand for local information is greatest; with n = 2 that generalisation is a conjecture, not a result.[9]

3.5 Identification: the entities rated above their sovereign

Convergence is consistent with two very different worlds: one in which subnational credit quality genuinely does not vary once national risk is accounted for, and one in which the rating technology suppresses variation that exists. Separating them requires cases where the constraint is absent — and the agency states in advance which cases those are.

Tabke 4. Eleven of ninety-seven entities carry an IDR above their sovereign's, reducing to nine distinct issuers after deduplication. Fitch operates a named category — entities "eligible to be rated above the sovereign" — that it assigns to the **national intergovernmental framework** rather than to the individual balance sheet, and it publishes the reason. Bolzano "benefits from special autonomy recognised in the Italian constitution and high financial autonomy that enables it to be rated above the sovereign"; the Basque Country "is rated above the sovereign because of its special fiscal regime". The negative is published in the same language: "Turkish LRGs **cannot** be rated above the sovereign due to high fiscal interdependence"; "Uzbek local and regional governments (LRGs) **cannot** be rated above the sovereign, due to high fiscal interdependence". Eligibility is thus an observed, dated, agency-assigned classification that partitions the panel *before any credit metric is consulted*.[10]

Table 4. The within-Italy contrast

Group	Entities	IDR	SCP range	Sovereign	Position
Ordinary statute	Milan, Metropolitan City of Milan, Metropolitan City of Rome, Busto Arsizio, Naples, Turin, Veneto, Lazio	BBB–BBB+	bb- to a+	BBB+	capped at or below

Special statute	Bolzano, Trento, Friuli Venezia Giulia, Valle d'Aosta, Sardinia	A-–A	aa to aaa	BBB+	one to two notches above

Italy's entire three-notch IDR range is produced by the special-statute group; remove it and the range collapses to one notch while the standalone dispersion of the remainder is unchanged. The two groups share a sovereign, a macroeconomy, an agency, a criteria document and a rating quarter. What differs is a constitutional allocation of fiscal authority fixed decades before the ratings existed. **The convergence documented in Section 3 is therefore not a fact about subnational credit quality but a fact about the constraint, and it disappears exactly where the agency says the constraint does not apply.[11]**

Fitch also publishes the fiscal content of that autonomy. Trento and Bolzano receive 90 per cent of personal and corporate income tax and 80 per cent of VAT; Sardinia 70 per cent of corporate and personal income tax; Valle d'Aosta all national tax revenue raised in its territory, with state transfers down to 4 per cent of operating revenue. An ordering is visible — the two entities at 90 per cent are rated two notches above the sovereign on aaa profiles, and Sardinia, at 70 per cent, one notch above on an aa.

What this evidence cannot bear. Nine distinct issuers across four countries, six of them in Italy and Spain; *the special-statute regions of two Southern European states* is an honest alternative description, and no heavily parameterised specification is identified on this group. The retention shares are **not an index**: they are drawn from different tax bases and different denominators and were never intended to be comparable across entities, so they are reported as an ordering and never as a coefficient. And the two Argentine entities above their sovereign arrive there through a Country Ceiling set above the sovereign IDR — a transfer-and-convertibility mechanism, not fiscal autonomy — so they are counted, never pooled.[12]

4. Discussion

Each mechanism implies its own condition. Two are domestic policy variables; the third is not, and distinguishing them is what keeps the policy discussion honest.

Condition 1 — revenue autonomy must move the locus of decision, not only the revenue mix. A rising own-tax share raises the stake a region has in its own base but leaves the assessment criterion untouched. What would begin to differentiate regions on the six sub-factors is the transfer of *discretion*: power to set a rate or a base within a statutory band, and a rule-based multi-year allocation formula in place of annual central redetermination. The eligible cases show that **protection matters more than the ratio**: what Fitch cites is not the size of the retention shares but their legal status — autonomy "recognised in the Italian constitution", protection "backed by constitutional rank". A share that the tier above can reset is a different object from one it cannot.[13]

Condition 2 — lifting a borrowing prohibition makes the financial profile informative, and exposes the borrower. Where market borrowing is prohibited, the financial profile is an artefact of the prohibition: an entity forbidden to borrow necessarily reports a low debt burden, and the methodology rewards a legal constraint as though it were a policy choice. Lifting the prohibition would make payback, debt service coverage and debt burden record decisions actually taken. The other side must be stated with equal clarity: market access is market discipline, and an entity that gains the capacity to borrow gains the capacity to be downgraded for how it borrows.

Condition 3 — ceiling compression cannot be reformed away domestically. It is agency methodology applied by rule, and it binds developed and emerging jurisdictions identically: six notches off Warsaw, five off Porto, Barcelona and Muğla, and Brazil's IDR

range held at zero against an SCP range of eleven. No ministry of finance can legislate this away. The escape route — the eligibility category — is not a domestic fiscal lever either, since it is an agency classification of the national framework granted on constitutionally entrenched autonomy.[14]

The resulting prediction (H6), stated with what is and is not identified. A subnational rating carries local information only where the national framework permits the entity to be rated above its sovereign. The first clause is supported cross-sectionally here. The gradient in the retention share is **not** identified and is reported as an ordering. As fiscal decentralisation deepens, within-country SCP dispersion should widen, and that widening should pass through into IDR dispersion only where cap, floor and support are all inoperative. Testing the remainder requires an entity-year panel over countries with two or more rated LRGs, which the present extract cannot supply; it is stated to be tested against subsequent rating actions, not resolved here.[15]

5. Conclusion

Subnational credit ratings are read as statements about subnational credit quality. This paper has shown that they are largely statements about the sovereign, and it has measured the difference rather than argued for it. Two-thirds of rated entities sit exactly at their sovereign and 86 per cent within one notch; among uncapped entities, with nothing forcing the result, half still sit exactly at the sovereign, while the standalone profiles those ratings are built from span five to fourteen notches inside a single country. Four published instruments produce the convergence, and the fourth — framework dominance — survives the removal of the ceiling entirely.

Two implications follow. For the sovereign-ceiling literature, the subnational setting offers what the corporate setting cannot: an agency-published counterfactual, an agency-published eligibility rule, and therefore a measurement where an estimate was previously required. For the regulatory and academic use of subnational ratings, the finding is that an IDR assigned to a local or regional government is, in the great majority of cases and even without a formal cap, a restatement of the sovereign's. **Any rule that treats a subnational IDR as an independent measure of subnational credit quality is, on this evidence, treating the sovereign rating twice.** Where the standalone profile is published, it — and not the IDR — is the object that carries local information.

The paper's limits are the panel's: ninety-seven entities in twenty countries, rating actions confined to 2023–2026, one agency, a non-random peer-network sample, and an extract that must be frozen before any figure here is treated as final. What is not provisional is the object of study. The counterfactual is published and the eligibility rule is published, and both can be read by any referee against the same documents.

Declarations. *Competing interest:* the sole author is the serving Governor (Hokim) of Fergana Region, Uzbekistan, an office held since 25 September 2020; two Uzbek entities appear in the panel, one of them the region he governs, and the decision to solicit those ratings was taken while he held the office. He heads the administration concerned, so there is no internal review step between author and administration.

This paper uses no non-public data: its panel is built entirely from public Fitch documents. Neither Fitch Ratings nor S&P Global Ratings was contacted, shown the data or the manuscript, or asked to review or approve it, and no confidential issuer-to-agency material was used. *Funding:* none. *Data availability:* the panel is built from Fitch rating action commentaries published at fitchratings.com; all code and derived datasets are deposited on Zenodo under CC-BY-4.0 and regenerate every table from the archived inputs (DOI to be minted). S&P items are cited but not redistributed, and S&P facts not checked against the primary document are marked as unverified.

Ethics: no human participants and no personal data; the views are the author's own and not those of Fergana State University, the Administration of Fergana Region, the Government of Uzbekistan, or any credit rating agency.

Companion paper. Bozarov, X. H. (2026). *Does a First International Credit Rating Attract Investment? Synthetic-control evidence from a region that cannot borrow.* Working paper. The present paper establishes what subnational ratings contain; the companion paper tests what a first rating does, and finds no investment response.

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