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This paper estimates transition matrices for the ratings on financial institutions, using an unusually informative data set. We show that the process of rating migration exhibits significant non-Markovian behavior, in the sense that the transition intensities are affected by macroeconomic and bank specific variables. We illustrate how the use of a continuous time framework may improve the estimation of the transition probabilities. However, the time homogeneity assumption, frequently done in economic applications, does not hold, even for short time intervals. Thus, the information provided by migrations alone is not enough to forecast the future behavior of ratings. The stage of the business cycle should be taken into account, and individual characteristics of banks must be considered as well.

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