Credit Rating Upgrade for India

Why in news?

\n\n

International ratings agency Moody’s Investors Service has upgraded India’s sovereign bond rating for the first time in more than a decade.

\n\n

What does it mean?

\n\n

\n
- Bond credit rating represents the credit worthiness of corporate or government bonds.
\n
- In investment, the ratings are used by investment professionals to assess the likelihood of repayment of the debt.
\n
- Moody’s has upgraded Indian government’s rating as a local and foreign currency issuer from Baa3 with a positive outlook to Baa2 with a stable outlook.
\n
- Obligations rated Baa2 are subject to moderate credit risk and are considered medium grade.
\n
- The earlier Baa3, by contrast, was the lowest investment grade rating.
\n

\n\n

What is the rationale?

\n\n

\n
- The credit upgrade comes as recognition to India's high growth potential in the years to come, following the recent economic and institutional reforms.
\n
- These include -
\n

\n\n

\n

i. The GST, demonetisation, Insolvency and Bankruptcy Code, etc
\n
ii. Steps taken to enlarge the formal economy by mainstreaming more and more businesses from the informal sector
\n
iii. Steps taken to broaden the tax base
\n
iv. Measures aimed at improving spending efficiency through better targeting of welfare measures
\n

\n\n

\n

- The reforms are expected to provide a stable financing base for the government debt.
\n
- Besides, they are prospective of improving business climate, enhancing productivity, stimulating investment, and fostering sustainable growth.
\n
- Steps to enhance the efficiency of government spending would contribute to a gradual narrowing of the deficit over time.
\n
- These developments are thus likely to result in a gradual decline in the general government debt burden over the medium term.
\n
- Also, viewed in conjunction with the sizeable foreign exchange reserves, India’s overall capacity to absorb shocks is much better.
\n

\n\n

What is the macroeconomic implication?

\n\n

\n

- Notably, some recent reforms have ‘undermined’ growth in the near term as reflected by the slower GDP growth of 5.7%.
\n
- However, it is believed that the disruption effect of these reforms will fade with small course corrections.
\n
- These include helping the small and medium enterprises and exporters with compliance issues under the new indirect tax regime.

\n

- Besides, the credit upgrade is a boost for bettering the confidence of local businesses and overseas in the economy.
\n
- Thus, resultantly, India's real GDP growth is expected to moderate to 6.7% in this fiscal year and subsequently to 7.5% in 2018-19, and remain robust thereafter.
\n

\n\n

What lies ahead?

\n\n

\n

- For the government, the upgrade comes as an acknowledgment for India’s improved macroeconomic situation.
\n
- However, the government has a range of issues to address to capitalise on this upgrade. These include:
\n

\n\n

\n

1. GST’s implementation challenges
\n
2. Weak private sector investment
\n
3. Slow resolution of banks’ bad loans
\n
4. Land and labour market reforms
\n

\n\n

\n

- It must also be cautious of fiscal deficit target, given the immediate effect of farm loan waivers by states, the implementation of the pay commission’s award, etc.
\n

\n\n

Quick Facts

\n\n

Credit Ratings

\n\n

It is an assessment of the creditworthiness of a borrower or with respect to a particular debt or financial obligation.

\n\n

\n
1. Credit scores - individuals
\n
2. Corporate credit ratings - solely to corporations
\n
3. Sovereign credit ratings - national governments
\n
4. Credit ratings in general - businesses and government
\n

\n\n

\n\n

Source: The Hindu, Economic Times

\n

SHANKAR
IAS PARLIAMENT
Information is Empowering