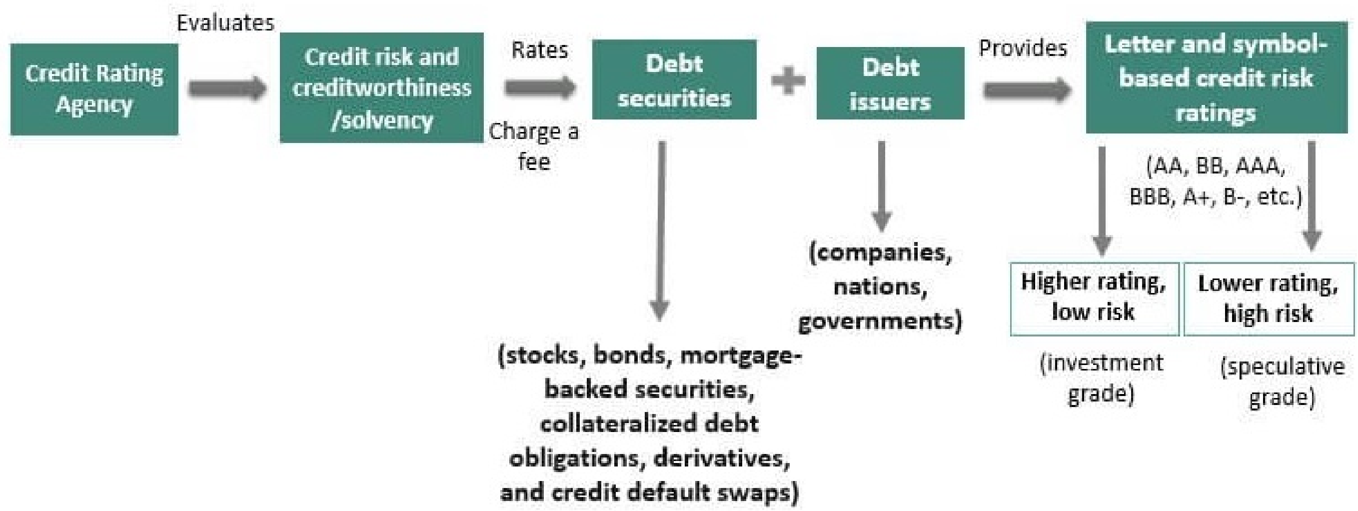
Global Credit Rating Agencies

Why in news?

Recently Fitch, a global rating agency accorded "BBB" ratings to India's sovereign rating.

What is credit rating agency?

- A credit rating agency is an agency that assess the creditworthiness of organisation, individual or entity and assign ratings to it.
- In India, CRAs are regulated by *SEBI (Credit Rating Agencies) Regulations, 1999* of the Securities and Exchange Board of India Act, 1992.
- The global credit rating industry is highly concentrated, with 3 agencies - Moody's, Standard & Poor's, and Fitch.



What is sovereign credit rating?

- A sovereign credit rating is *an independent assessment of the creditworthiness of a country* or sovereign entity.
- By allowing external credit rating agencies to review its economy, a country shows that it is willing to make its financial information public to investors.
- The factors that determine the sovereign credit rating of a country include:
    - Per capita income
    - GDP growth
    - Rate of inflation
    - External debt
    - Economic development
    - History of defaults

- A country with high credit ratings can access funds easily from the international bond market and also secure foreign direct investment.

No	S&P	Moody's	Fitch	Meaning and Color
1	AAA	Aaa	AAA	Prime
2	AA+	Aa1	AA+	High Grade
3	AA	Aa2	AA	
4	AA-	Aa3	AA	
5	A+	A1	A+	Upper Medium Grade
6	A	A2	A	
7	A-	A3	A-	
8	BBB+	Baa1	BBB+	Lower Medium Grade
9	BBB	Baa2	BBB	
10	BBB-	Baa3	BBB-	
11	BB+	Ba1	BB+	Non Investment Grade Speculative
12	BB	Ba2	BB	
13	BB-	Ba3	BB-	
14	B+	B1	B+	Highly Speculative
15	B	B2	B	
16	B-	B3	B-	
17	CCC+	Caa1	CCC+	Substantial Risks
18	CCC	Caa2	CCC	Extremely Speculative

What is the sovereign credit rating of India?

- **India's Rating** - All three global rating agencies accorded *lowest investment grade rating* in India.
- Rating agency Fitch affirmed India's sovereign rating at *''BBB-''* with a stable outlook on robust growth and resilient external finances.
- **BBB ratings** – It indicates that expectations of default risk are currently low.
- The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
- **Reasons for low rating** - India is expected to face headwinds from elevated inflation, high-interest rates and subdued global demand.
- Other concerns include low labour force participation rates and an uneven reform implementation.
- The fiscal consolidation path, under which the fiscal deficit is to be brought down to *4.5 % of GDP by 2025-26*, remains challenging.
- Public finance remains weak while structural indicators are lagging.

What are the positive signs of growth in India?

- **Low forex risk** - Since all debt is exclusively in rupees and even participation of FPIs is in rupee bonds the forex risk is very low.

- So forex situation in India remains strong.
- **Financial growth** - The projected financial growth is 7% for the year 2023 which is quite impressive compared with rest of the countries.
- **India's response during COVID** - The approach was more through the reform and policy route than fiscal deficits in the form of payouts, which was followed by developed countries.
- **Banking system** – It has as rebounded well to pandemic period levels indicating it can provide funds that enable the economy to move on to a higher growth path.
- **RBI** - Ensured a smoother path to normalcy compared with central banks of other nations in after math of the COVID (RBI moved the interest rates without any significant impact on growth)
- **Rupee-Dollar** - Even though the dollar appreciated, the rupee always remained at the median level of depreciation compared with dollar and other currencies.
- **Quality of government spending** - Budget has increased the share of capital expenditure from around 12-13 % pre-pandemic to 22 % for FY24.
- **Rupee trade agreement with Russia** - The strategy to go-domestic is a unique model even though may be slow and time taking.
- **Digitization** - The digitization drive has brought about ***structural changes*** in the economy making systems more efficient.

What lies ahead?

- The rating methodologies need to adapt with the changing times.
- Global credit rating agencies have to do away with the fixed mindset policy where it is believed that emerging markets can never really move up the scale.

References

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