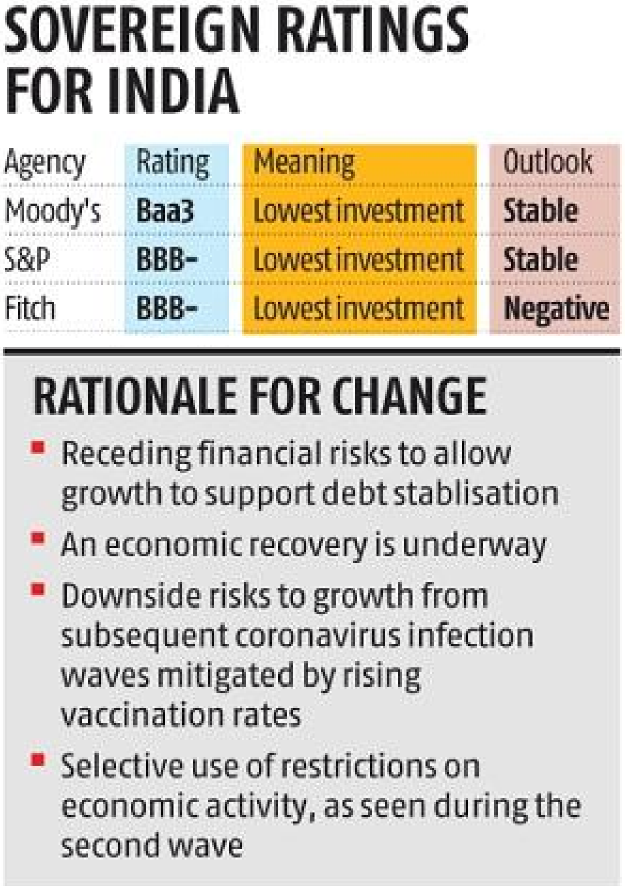
Sovereign Credit Ratings

Why in News

Ratings agency Moody's has changed India's sovereign rating outlook to **“Stable" from “Negative"** and affirmed the country's rating at **“Baa3".**

- “Baa3" rating is the lowest investment grade, just a notch above junk status (Speculative).



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Key Points

- **Sovereign Credit Rating (SCR):**
    - SCR is **an independent assessment of the creditworthiness of a country or sovereign entity.**
    - It can **give investors insights into the level of risk associated with investing in the debt of a particular country,** including any political risk.
    - In addition to issuing bonds in external debt markets, another common motivation for countries to obtain a sovereign credit rating is **to attract** Foreign Direct Investment (FDI).

        - At the request of the country, a credit rating agency will evaluate its economic and political environment to assign it a rating.
            - Moody's considers a Baa3 or higher rating to be of investment grade, and a rating of Ba1 and below is speculative.
            - S&P gives a BBB- or higher rating to countries it considers investment grade, and grades of BB+ or lower are deemed to be speculative or "junk" grade.
    - **Economic Survey's Stance on SCRs:**
        - India has consistently been **rated below expectation as compared to its performance** on various parameters **during the period 2000-20.**
            - India remained a clear outlier on several parameters such as **GDP growth rate**, **inflation**, general government debt, political stability, rule of law, control of corruption, investor protection, **ease of doing business**, sovereign default history, etc.
        - India's ability to pay can be gauged not only by the extremely low foreign currency-denominated debt of the sovereign **but also by the comfortable size of its** foreign exchange reserves that can pay for the short term debt of the private sector as well as the entire stock of India's sovereign and non-sovereign external debt.
        - India's fiscal policy **should be guided by considerations of growth and development** rather than be restrained by "biased and subjective" sovereign credit ratings.
        - It recommended that **developing economies must come together to address this bias** and subjectivity inherent in sovereign credit ratings methodology to prevent exacerbation of crises in future.

Credit Rating

- A credit rating is a quantified assessment of the **creditworthiness of a borrower** in general terms or with respect to a particular debt or financial obligation.
- A credit rating can be assigned to any entity that seeks to borrow money—an individual, corporation, state or provincial authority, or sovereign government.
- **A rating agency** is a company that assesses the financial strength of companies and government entities, especially their ability to meet principal and interest payments on their debts.
- **Fitch Ratings, Moody's Investors Service and Standard & Poor's (S&P)** are the big three international credit rating agencies controlling approximately 95% of global ratings business.
- In **India,** there are six credit rating agencies registered under **Securities and Exchange Board of India (SEBI)** namely, **CRISIL, ICRA, CARE, SMERA, Fitch India and Brickwork Ratings.**

Source: TH