# India’s Sovereign Rating

## Why in News

According to the **S&P Global Ratings, India’s sovereign rating will remain unchanged at the current level of BBB**- for the next two years despite the potential adverse impact of surging **pandemic** on its economy.

- S&P is one of the **largest credit rating agencies**, assigning letter grades to companies and countries and the debt they issue on a scale of AAA to D, indicating their degree of investment risk.

## Key Points

- **Sovereign Credit Rating:**
    - A sovereign credit rating 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.
        - 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.
        - Moody’s considers a Baa3 or higher rating to be of investment grade, and a rating of Ba1 and below is speculative.
- **Sovereign Credit Ratings and India:**
    - **The Economic Survey 2020-21** has called for sovereign credit ratings methodology to be made more **transparent, less subjective and better attuned to reflect an economy’s fundamentals.**
    - Within its sovereign credit ratings cohort – countries rated between A+/A1 and BBB-/Baa3 – India is a clear outlier on several parameters i.e. a sovereign whose rating is significantly lower than mandated by the effect on the sovereign rating of the parameter.
        - These include GDP growth rate, inflation, general government debt (as % of GDP), cyclically adjusted primary balance (as % of potential GDP), current account balance (as % of GDP), political stability, rule of law, control of corruption, investor protection, ease of doing business, short-term external debt (as % of reserves), reserve adequacy ratio and sovereign default history.
        - The outlier status remains true not only now but also during the last two decades.
    - The Survey observes that India’s willingness to pay is unquestionably demonstrated through its **zero sovereign default history.**
    - 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.

**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**