Credit Ratings

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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 **sovereign credit rating** is an independent assessment of the creditworthiness of a country or sovereign entity.
- Sovereign credit ratings can give investors insights into the level of risk associated with investing in the debt of a particular country, including any political risk.

Credit Rating Agencies

- 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.
- **The Big Three Credit Rating Agencies** globally are Fitch Ratings, Moody's Investors Service and Standard & Poor's (S&P) control approximately 95% of global ratings business.
- In India, six credit rating agencies registered under SEBI are CRISIL, ICRA, CARE, SMERA, Fitch India and Brickwork Ratings.

Benefits

- Investors rely on the ratings given by the credit rating agencies to make investment decisions.
- The ratings help emerging and developing countries to issue bonds to domestic and international investors. These governments sell bonds to obtain financing from other governments, the World Bank and the International Monetary Fund.
- Many countries sell their securities in the international market, and a good credit rating can help them access high-value investors and FDIs.
- The ratings also serve as a benchmark for financial market regulations.

Concerns

- The big three agencies came under heavy criticism after the global financial crisis of 2008 for giving favourable ratings to insolvent institutions like Lehman Brothers.
- In India too and also faced regulatory action, besides a probe by central investigating agencies after they had assigned top ratings to borrowings by firms that were part of the IL&FS group in 2018.
- The **primary source of revenue of credit rating agencies is the fees paid by the company being rated by them,** which creates a situation of conflict of interest.
- India often complains that countries with higher levels of debt and a weak fiscal have managed better ratings, thus implying a biasness of credit rating agencies.

Way Forward

- India has not issued a bond or raised money directly in the international market so far, which means that to a good extent, a downgrade in the rating has limited impact.
- However, India should take the ratings seriously and should engage proactively with the financial market stakeholders to allay their fears and boost the confidence of investors to invest in Indian economy.

For TTP

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