Credit Rating Upgrade for India

Why in news?

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

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What does it mean?

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- Bond credit rating represents the credit worthiness of corporate or government bonds.
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- In investment, the ratings are used by investment professionals to assess the likelihood of repayment of the debt.
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- 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.
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- Obligations rated Baa2 are subject to moderate credit risk and are considered medium grade.
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- The earlier Baa3, by contrast, was the lowest investment grade rating.
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What is the rationale?

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- The credit upgrade comes as recognition to India's high growth potential in the years to come, following the recent economic and institutional reforms.
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- These include -
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i. The GST, demonetisation, Insolvency and Bankruptcy Code, etc
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ii. Steps taken to enlarge the formal economy by mainstreaming more and more businesses from the informal sector
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iii. Steps taken to broaden the tax base
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iv. Measures aimed at improving spending efficiency through better targeting of welfare measures
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- The reforms are expected to provide a stable financing base for the government debt.
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- Besides, they are prospective of improving business climate, enhancing productivity, stimulating investment, and fostering sustainable growth.
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- Steps to enhance the efficiency of government spending would contribute to a gradual narrowing of the deficit over time.
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- These developments are thus likely to result in a gradual decline in the general government debt burden over the medium term.
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- Also, viewed in conjunction with the sizeable foreign exchange reserves, India's overall capacity to absorb shocks is much better.
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What is the macroeconomic implication?

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

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- Besides, the credit upgrade is a boost for bettering the confidence of local businesses and overseas in the economy.
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- 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.
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What lies ahead?

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- For the government, the upgrade comes as an acknowledgment for India’s improved macroeconomic situation.
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- However, the government has a range of issues to address to capitalise on this upgrade. These include:
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1. GST’s implementation challenges
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2. Weak private sector investment
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3. Slow resolution of banks’ bad loans
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4. Land and labour market reforms
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- 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.
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Quick Facts

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Credit Ratings

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

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1. Credit scores - individuals
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2. Corporate credit ratings - solely to corporations
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3. Sovereign credit ratings - national governments
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4. Credit ratings in general - businesses and government
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Source: The Hindu, Economic Times

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