India’s Credit Rating

Why in news?

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India’s credit rating has recently been upgraded to Baa2 by a global rating agency.

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What is a credit rating?

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- A credit rating is an assessment of the creditworthiness of a borrower.
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- Individuals, corporations and governments are assigned credit ratings, whoever wants to borrow money.
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- Individuals are given ‘credit scores’, while corporations and governments receive ‘credit ratings’.
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- National governments, not countries, are assigned credit ratings by agencies like Standard & Poor’s, Moody’s and Fitch.
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How this rating is calculated?

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- Governments require ratings to borrow money, they are given ratings on their worth as investment destinations.
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- This is done to position itself as a destination for foreign direct investment.
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- A country requests a credit rating agency to evaluate its political risks and economic environment such as taxation, currency value and labour laws.
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- Another is sovereign risk where a country's central bank can change its

foreign exchange regulations.
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- These risks are taken into account and ratings assigned accordingly.
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What does the ratings implies?

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- **Baa1 -** The highest rating of speculative grade Moody's Long-term Corporate Obligation Rating.
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- Obligations rated Ba1 are judged to have speculative elements and are subject to substantial credit risk.
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- **Baa2 -** Obligations rated Baa2 are subject to moderate credit risk.
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- They are considered medium grade and as such may possess certain speculative characteristics
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What is the rating for India?

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- Moody's Investor Service upgraded the Government of India's local and foreign currency issuer ratings by two notches, to Baa2 stable from Baa3 positive.
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- Baa2, a term that means that they consider the economy stable.
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- In simple terms, it means the cost of capital will reduce and more FDI is expected to flow in, as certain investors don't invest in countries rated below Baa3.
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- The last upgrade had happened in 2004, when Moody's had upgraded India's

status to Baa3, which is the lowest investment grade and just a notch above junk status.
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- Other rating agencies Standard & Poor’s and Fitch too have a ‘stable’ rating for the country BBB+ and BBB-, respectively.
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Source: The Hindu, Business Times

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