

## The Politics and Pragmatism of Sovereign Credit Ratings

*Mains: GS Paper | Economy*

### Why in News?

Following Union Commerce Minister Piyush Goyal's recent address at a business conference in London, India's historical friction with global credit rating agencies has once again stepped into the spotlight.

### What do credit rating agencies measure?

- Sovereign Credit Rating Agencies (CRAs) ***evaluate a country's economic and political environment*** to determine its creditworthiness.
- **Core role** - To measure the ability and willingness of an entity to repay its debt.
- These entities can be companies, municipal corporations, states, and, in the case of sovereign ratings, Central or Union governments.
- **Components**
  - **Ability to Repay**- A highly quantitative metric.
  - It evaluates hard economic data such as Gross Domestic Product (GDP) growth, fiscal deficit, foreign exchange reserves, and external debt obligations.
  - **Willingness to Repay**- A heavily qualitative metric.
  - It gauges a government's political commitment, institutional robustness, and historical track record in honoring debt obligations during economic distress.
- **Regulation** - Credit rating agencies (CRAs) are regulated by national and regional authorities to ensure the accuracy, transparency, and objectivity of their financial evaluations.
  - **In India** - Regulated primarily by the Securities and Exchange Board of India (SEBI) under the SEBI (Credit Rating Agencies) Regulations.

### What is the Scale and Impact?

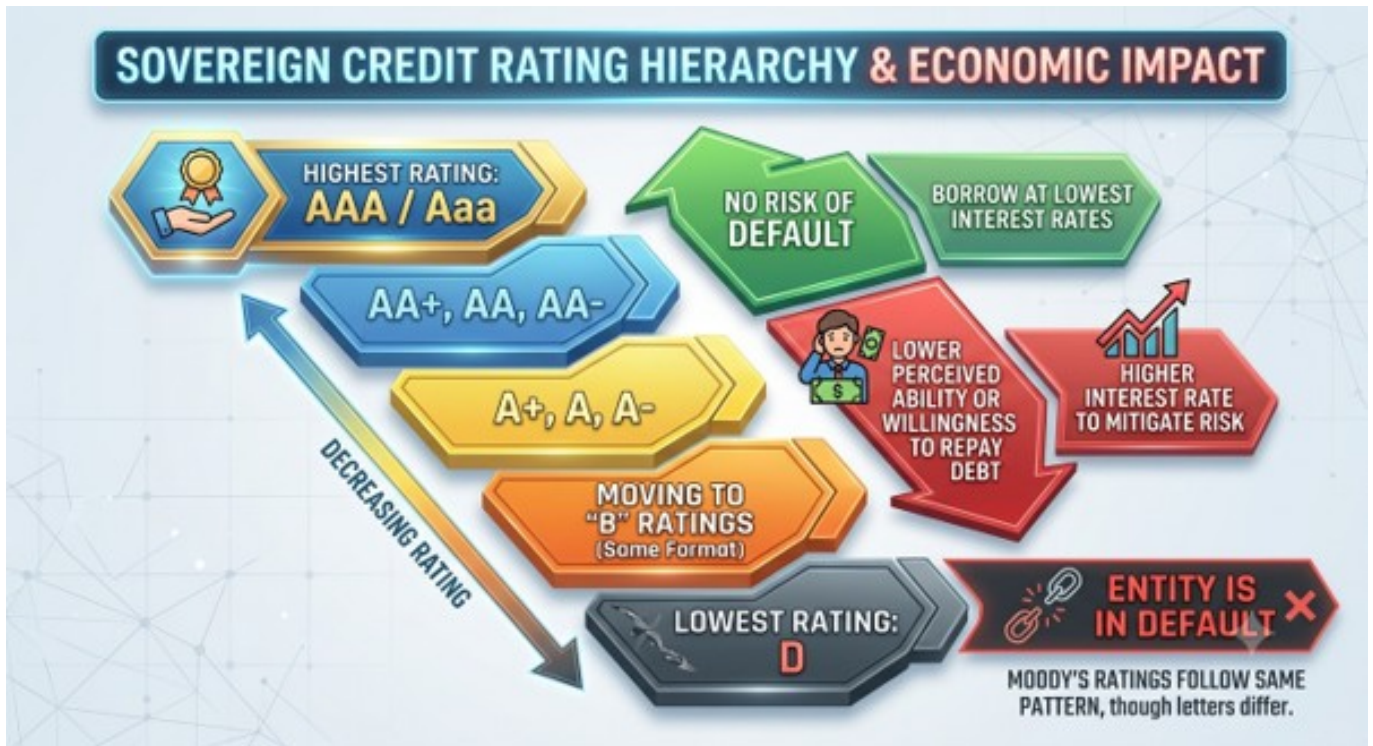
- **International Rating Agencies** - India is rated by 7 international

sovereign credit rating agencies

- Standard and Poor's (S&P),
- Moody's Investors Service,
- Morningstar DBRS,
- Fitch Ratings,
- Japanese Credit Rating Agency (JCRA) and
- Rating and Investment Information (R&I), and
- CareEdge Ratings.

- **The "Big 3" agencies**

- Standard & Poor's (S&P),
  - Fitch, and
  - Moody's, dominate the global market.
- The rating spectrum determines a nation's borrowing costs in international markets.
  - Ratings are assigned on an alphabet scale, with Fitch and S&P assigning **AAA** to their highest rating and Moody's assigning Aaa to it.
  - The next lower scales are AA+, AA, AA-, A+, A, and A-, before moving on to the 'B' ratings in the same format.
  - The lowest rating is D, implying the entity is in default. Moody's ratings follow the same pattern, though its letters differ.
  - If an entity is rated AAA, then that means there is no risk of a default and so that entity can borrow at the lowest interest rates.
  - However, the lower the rating, the lower the perceived ability or willingness to repay debt, and so higher the interest rate to mitigate that risk.



### Where does India Stand in Credit Rating?

- Historically, India has been anchored at the absolute *lowest tier of "investment grade"* just a notch or two above speculative or junk status.
- While India's economic fundamentals surged over the last two decades, rating adjustments remained stagnant, prompting immense domestic frustration.



### What are India's issues with the ratings?

- Despite the recent upgrades, India's ratings still remain just above junk grade.
- The structural disconnect in global methodologies centers on 3 primary arguments
- **Size vs. Rating Anomalies** - India is the fifth-largest economy in the world, yet it holds ratings usually shared by significantly smaller economies with far weaker macroeconomic indicators.
- **Underestimated "Willingness"** - India holds a flawless sovereign repayment track record.
- Despite severe balance-of-payments crises in the past (such as in 1991), India has never defaulted on its external debt.
- The government argues this concrete history should render any "willingness to pay" concerns void.
- **The Subjectivity of the "Expert Consensus"** - Global CRAs weigh qualitative institutional indicators heavily such as perceived governance quality, political stability, and institutional efficacy.
- The Indian government argues these parameters rely on the subjective opinions of a small pool of Western-centric experts, resulting in a systemic bias that fails to capture ground realities.

### What is the CareEdge Alternative?

- The appreciation of CareEdge Ratings by Indian policy leaders stems directly from its revised, transparent approach to emerging market realities.
- As the first global sovereign rating agency headquartered in India, its framework directly addresses the flaws New Delhi has highlighted for years.

Evaluation Pillar	Primary Nature	Methodological Alignment
<b>1. Economic Structure &amp; Resilience</b>	Quantitative	Combined with Fiscal Strength, these two pillars command 50% of the total rating weightage.
<b>2. Fiscal Strength</b>	Quantitative	Focuses heavily on hard data indicators rather than subjective perceptions.
<b>3. External Position &amp; Linkages</b>	Quantitative/Analytical	Evaluates forex reserves, trade structures, and debt-to-GDP ratios.

<b>4. Monetary &amp; Financial Stability</b>	Quantitative/Policy	Monitors inflation control, banking health, and central bank efficacy.
<b>5. Institutions &amp; Quality of Governance</b>	Qualitative	Used primarily as a secondary enhancement layer rather than the driving force of the rating.

### **What is the way forward?**

- By shifting the foundational 50% weightage entirely onto objective, quantitative metrics (Pillars 1 and 2), frameworks like CareEdge minimize the impact of qualitative biases.
- For a country like India boasting robust growth rates, controlled inflation, and a flawless default record this methodology yields a far more accurate reflection of modern economic sovereign capability.

### **Reference**

[The Hindu | Credit ratings agencies](#)

