Syllabus subtopic: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Prelims and Mains focus: about the sovereign credit ratings and their significance

News: Global ratings agency Standard and Poor’s affirmed India’s sovereign rating at ‘BBB-’ with stable outlook.

Reason

- According to S&P, despite a notable deceleration in India’s economy in recent quarters, its structural growth outperformance remains intact. Real GDP growth is therefore likely to gradually recover toward longer-term trend rates over the next two to three years.

- It expects the economic growth rate to improve to 6 per cent during 2020-21, 7 per cent in the next fiscal and 7.4 per cent thereafter.

Suggestions/warnings

- Supportive monetary, fiscal, and cyclical factors should support economic recovery, with real GDP growth averaging 7.1 per cent in fiscals 2020-2024.

- The agency, however pointed out that India’s fiscal position remains precarious, with elevated fiscal deficits and net government indebtedness.

What does BBB rating mean?

‘BBB’ rating refers to adequate capacity of the rated entity to meet its financial commitments.

What Is a Sovereign Credit Rating?
1. A sovereign credit rating is an independent assessment of the creditworthiness of a country or sovereign entity.

2. 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.

3. At the request of the country, a credit rating agency will evaluate its economic and political environment to assign it a rating.

4. Obtaining a good sovereign credit rating is usually essential for developing countries that want access to funding in international bond markets.

Credit Rating Agencies

The global credit rating industry is highly concentrated, with three agencies—Moody’s, Standard & Poor’s and Fitch—controlling nearly the entire market. Together, they provide a much-needed service for both borrowers and lenders, as well as to lenders.

- Standard & Poor's 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.