Moody changed Outlook on India's Baa2 rating from stable to negative (i.e. Rating may be lowered)) on risk of lower economic growth (08-11-2019)

Moody's Investor Services (A Global Credit Rating agency) said that Despite government measures to help reduce the depth and duration of India's slowdown in economic growth, prolonged financial stress among rural households, weak job creation, and a credit crunch among non-bank financial institutions have increased the probability of a more entrenched slowdown.

If nominal GDP growth does not return to higher rates, the government will face significant constraints in narrowing its budget deficit and preventing a rise in debt.

About Credit rating

Credit rating is an assessment of the **probability of default** on payment of interest and principal on a debt instrument. It is **not a recommendation** to buy, sell or hold a debt instrument. Rating only provides an additional input to the investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision.

Big Three credit rating agencies of the World controlling approximately 95% of the ratings business

Standard and Poor's (S&P) (based in US)
Moody's Investor Services, (based in US)
Fitch Ratings, (based in US & UK i.e dual HQ)

These Credit ratings agencies were criticized after the global financial crisis of 2008, when they were exposed after the collapse of highly rated banks and other institutions.

Uses and Impact of Credit Rating

Sovereign ratings gives investors insight into the level of risk associated with investing in a particular country including political risks.

Ratings play a critical role in determining the interest rate on loan. High credit rating means an assurance about the safety of the money and that it will be paid back with interest on time. Higher the credit rating, lower will the rate of interest.

From a company's or a government's perspective, a **better rating helps raise funds at a cheaper rate**. The agencies do this on a continuous basis, either upgrading or downgrading the rating based on performance, prospects, or events likely to have an impact on the balance sheet of a company or on the fiscal position of a government.

Rating upgrade will improve foreign debt inflows and in turn strengthen the rupee, instilling confidence in the economy.

Rating upgrade would reduce the cost of capital for Indian companies and that investors who were earlier restricted would be able to invest in India.

The rating upgrade indicates that the international rating agencies are viewing country's macro economic management in a positive light. It will send a positive signal about Indian economy to all the potential investors across the globe.

Rating downgrade may influence foreign investors to pull out of money from Indian Market. Rupee will weaken. Borrowing cost will be increased for Indian companies.

Credit Rating Scale-Investment Grade

Moody's	S&P	Fitch	Credit worthiness
Aaa	AAA	AAA	Extremely strong capacity to meet financial commitments. Highest rating.
Aa1	AA+	AA+	Very strong capacity to meet financial commitments
Aa2	AA	AA	
Aa3	AA−	AA−	
A1	A+	A+	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
A2	A	A	
A3	A−	A−	
Baa1	BBB+	BBB+	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions. Considered **lowest investment-grade** by market participants.
Baa2	BBB	BBB	
Baa3	**BBB−**	**BBB−**	

A bond is considered investment grade if its credit rating is BBB- or higher by Fitch Ratings or S&P, or Baa3 or higher by Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

Speculative Grade (Vulnerable to adverse business, financial and economic conditions)
Ba1, BB+, B1, B+, Caa, CCC, C, D etc

Bonds that are not rated as investment-grade bonds are known as high yield bonds or as junk bonds.

India's Credit Rating
India is in lowest investment-grade. On 16th November,2017 Moody upgraded the Government of India rating from Baa3 to Baa2 with stable outlook. S&P rating is BBB- with Stable outlook from 26-09-2014. Fitch rating is BBB- with Stable outlook from 12-06-2013.

Finance Ministry responds to Moody's change in outlook
India continues to be among the fastest growing major economies in the world, India's relative standing remains unaffected. IMF in their latest World Economic Outlook has stated that Indian Economy is set to grow at 6.1% in 2019, picking up to 7% in 2020.

As India's potential growth rate remains unchanged, assessment by IMF and other multilateral organizations continue to underline a positive outlook on India.

The Government has undertaken series of financial sector and other reforms to strengthen the economy as a whole.

Government of India has also proactively taken policy decisions in response to the global slowdown. These measures would lead to a positive outlook on India and would attract capital flows and stimulate investments.

The fundamentals of the economy remain quite robust with inflation under check and bond yields low. India continues to offer strong prospects of growth in near and medium term.

India has become a better place to do business now, which can be reflected in the latest rankings released by the World Bank in its latest Doing Business Report (DBR, 2020). India has recorded a jump of 14 positions against its rank of 77 in 2019 to be placed now at 63rd rank among 190 countries assessed by the World Bank.

What India should do to improve its Rating
The growth slowdown and its effects on the fiscal deficit and borrowings are the main worries.

- Improve the Tax collection.
- Stimulate GDP Growth
- Reduce Debt to GDP ratio (Target for 2019-20 is 48%. As per FRBM Act Target is 40%)
- Reduce the Fiscal Deficit (Target for 2019-20 is 3.3% of GDP. As per FRBM Act Target is 3%)

BRICS Rating Agency
At 8th BRICS Summit held in Goa in 2016, BRICS nations agreed to set up an independent BRICS Rating Agency based on market-oriented principles, in order to further strengthen the global governance architecture. India had first mooted the idea of having such an agency for the BRICS (Brazil, Russia, India, China, South Africa) grouping, which could solve impediments for the emerging market economies posed by the present credit rating agency market dominated by S&P, Moody's and Fitch.

India expressed concerns over methodologies of the big three global agencies saying that these are constraining growth in emerging nations.