

Understanding the Role of Credit Rating Agencies in the Global Economy

Credit rating agencies (CRAs) are companies that provide an independent assessment of the creditworthiness of a debtor, which can be a corporation, a financial institution, a government, or even a country. Their ratings are essentially a "report card" on a borrower's ability to repay their debt obligations in a timely manner and the likelihood of them defaulting.

The "Big Three" global rating agencies—Standard & Poor's (S&P), Moody's Investors Service, and Fitch Ratings—dominate the industry, with a collective market share of over 90%. Their assessments are used by investors worldwide to make informed decisions about where to invest their capital.

The Vital Role of CRAs in the World Economy

- Credit rating agencies play a crucial role in the global financial system in several ways:

Investor Information and Risk Assessment: Ratings provide a simple, easy-to-understand measure of risk for investors. A higher rating indicates a lower risk of default, while a lower rating suggests a higher risk. This information helps investors, from large institutional funds to individual bondholders, to assess the risk associated with an investment and to demand an appropriate rate of return.

- Influencing Borrowing Costs:

A country or company with a higher credit rating is perceived as a safer bet. As a result, they can borrow money at lower interest rates. Conversely, a lower rating leads to higher borrowing costs, as lenders demand a greater premium for the increased risk. This directly impacts a country's ability to finance infrastructure projects, social programs, and other government expenditures, or for a company to fund its operations and expansion.

- Promoting Market Efficiency and Transparency:

By providing independent assessments, CRAs improve the transparency of financial markets. This helps in the efficient allocation of capital by guiding it toward the most creditworthy borrowers. It also encourages governments and corporations to maintain financial discipline and sound economic policies to secure or improve their ratings.

- Capital Market Development:

In developing economies, a credible rating system is essential for building a robust and liquid bond market. It attracts both domestic and foreign investors, which is vital for financing long-term growth.

Why S&P's India's Rating Upgrade is a Big Boost

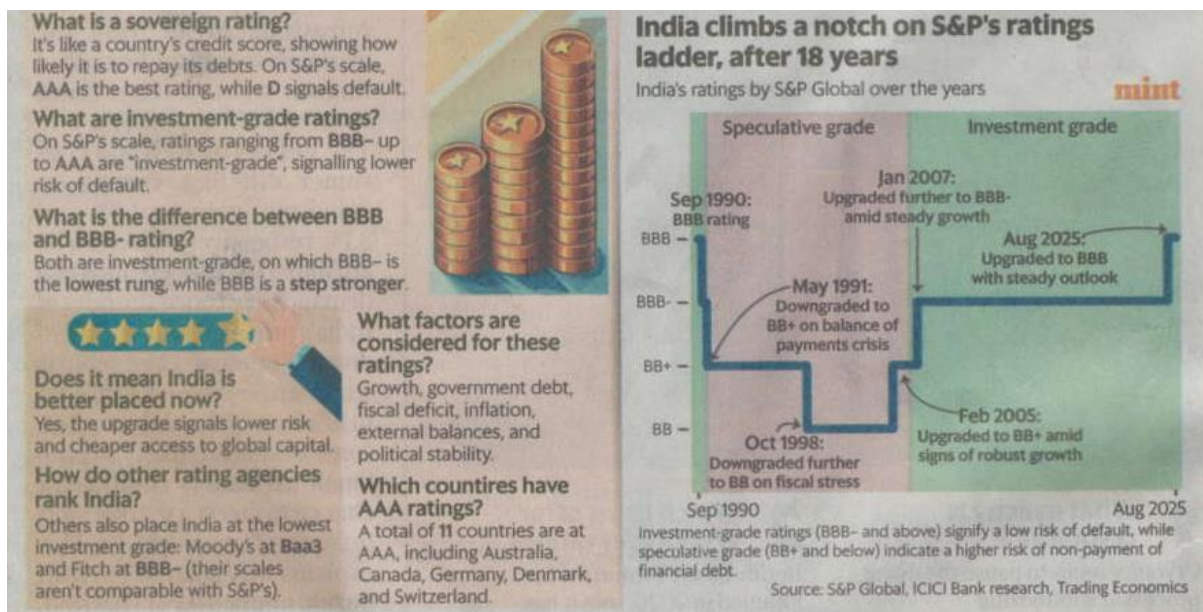
In a significant development for the Indian economy, S&P Global Ratings has upgraded India's long-term sovereign credit rating to 'BBB' from 'BBB-'. This is the first time in 18 years that S&P has upgraded India's rating, making it a landmark event.

The upgrade is a powerful endorsement of India's economic performance and policy management. S&P cited several key factors for the upgrade, including:

- **Robust Economic Growth:** India has been one of the world's fastest-growing major economies, demonstrating remarkable resilience and sustained growth. The agency expects

this strong momentum to continue, which has a positive effect on the country's credit metrics.

- **Fiscal Consolidation:** The government's commitment to improving fiscal discipline and managing its debt has been a key driver. S&P recognized the efforts to consolidate public finances and improve the quality of government spending, particularly on infrastructure.
- **Effective Monetary Policy:** The agency noted that India's monetary policy has become increasingly effective in managing inflation expectations, which enhances the country's credit profile.



The Impact on India's Economy

This rating upgrade is a significant boost for India's economy with far-reaching implications:

- **Lower Borrowing Costs:** The most immediate and tangible benefit is the potential for reduced borrowing costs for both the Indian government and Indian corporations. A higher rating signals lower risk to global investors, which can lead to lower interest rates on sovereign and corporate debt. This frees up resources that can be used for productive investments.
- **Increased Foreign Capital Inflows:** The upgrade enhances India's appeal as a destination for foreign investment. It instils greater confidence in foreign institutional investors and other global capital providers, encouraging them to invest in Indian bonds, stocks, and other assets. This influx of foreign capital can drive further growth and development.
- **Strengthened Investor Confidence:** The upgrade validates the economic policies and reforms undertaken by the government. It boosts confidence among both domestic and international investors, signalling a stable and predictable economic environment. This is crucial for long-term investment planning.

- Positive Ripple Effect: The benefits extend beyond the government. As the sovereign rating improves, it often leads to a similar upgrade for Indian financial institutions and large corporations, making it cheaper and easier for them to raise capital in international markets.

India has fared well on GDP, capex in the past few years, high debt is a concern

Comparison of key indicators

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	2019-20	2024-25
Fared well		
Real GDP growth (%)	3.9	6.4
Inflation (%)	4.8	4.6
Forex reserves (\$ billion)	479.4	673.8
Capital expenditure (as % of GDP)	1.7	3.1
Current account balance (as % of GDP)	-0.9	-0.6
Needs check		
GDP per capita (\$)	2,041	2,697
Fiscal deficit (as % of GDP)	4.6	4.4
General government debt (as % of GDP)	76.4	82.9
General government expenditure (as % of GDP)	26.9	29.6
Exchange rate, year-end (₹/\$)	75.4	86.6

Source: S&P Global, CMIE, Budget documents

The rating upgrade has put India on a par with Indonesia and Mexico

Emerging market economies and their sovereign ratings by S&P

 SOUTH KOREA AA	 CHINA A+	 MALAYSIA A-
 PHILIPPINES BBB+	 THAILAND BBB+	 INDIA BBB
 INDONESIA BBB	 MEXICO BBB	 VIETNAM BB+
 BRAZIL BB	 SOUTH AFRICA BB-	

Source: S&P Global, Emkay Research

In conclusion, the upgrade by a major global rating agency like S&P is not just a symbolic gesture. It is a powerful signal to the world that India's economic fundamentals are sound, its policies are prudent, and its growth story is on a solid footing. This will likely unlock new pools of capital, reduce borrowing costs, and fuel further growth, positioning India as an even more attractive investment destination on the global stage.