



MOODY'S CHANGE RATING: BUT A LONG DUE, WHAT IS NEXT?

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Abstract:

Any decision of the government does widely affect an economy because these decisions are affecting the sentiments of a local investor as well as a foreign investor. The economic and structural reforms to boost the growth of the country were taken by the Indian government from last many years. This is the result of institutionalized reforms, that MOODY'S INVESTOR SERVICE upgrades the rating of Indian sovereign bond from Baa3 to Baa2. MOODY'S also changed the outlook of the Indian economy from positive to stable. The rating agency doesn't upgrade rating of any economy merely some step those are beneficial for a nation in short-term, but rating agency keeps in mind such measure of government that will benefit the economy for a long time. Last time Moody's upgrade Indian rating in 2004. The current upgrade comes after 13 years. So, it is a long overdue. This research paper is based on a conceptual study. Secondary data is used in this paper and the data is collected from newspapers, magazines, and internet. In this research paper, I investigate, why Moody's take a long time? And what is next step for the government to maintain or further upgrade the rating of India?

Keywords: *Moody's; Up Gradation; Credit Rating; Government.*

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1. Introduction

Upgrading of rating by any rating agency is playing an important role in the economy because this (upgrade or downgrade) defines the climate of an economy for not only investment purpose but business purpose also. The rating has done by global rating agency like Moody's, Standard & Poor's and Fitch. Recently Moody's upgrade rating of Indian sovereign bond. The rating agencies follow a process for upgrading or downgrading the rating of any country. The Government of any country invites the rating agency to give the rating to their economy. The credit rating agency evaluates the economic as well as the political environment of the nation than give the rating to the country. Rating is helping the countries for getting fund from the international market. So the government makes continuous efforts to impress the credit rating agency for upgrade the rating of the economy.

The Government of India also takes a lot of economic and institutional reforms to upgrade the rating of the country. This is the result of these economic and structural reforms that credit rating

agency Moody's upgraded the rating of India. It is upgraded from Baa3 to Baa2. Beside it, Moody's also upgrade outlook of the Indian economy from positive to stable.

2. Objective

In this paper, I explain upgraded rating of India's by Moody's. My objective is:

- 1) To investigate the history of India's rating upgraded by Moody's.
- 2) To investigate the level of Grading of Moody's and its parameter.
- 3) To investigate, its (Moody's) grading and Indian scenario.
- 4) To investigate that, why Moody's take a long time for this upgrade.
- 5) To investigate, what is the immediate impact of this upgrade on Indian economy.
- 6) To suggest the government for sustain or further upgrade the rating.

3. Research Methodology

This research paper is based on a conceptual study. Secondary data is used in this paper and the data is collected from newspapers, magazines, and internet.

4. History of Moody's Upgrade of Indian Rating

- 1) Moody's was given first time rating to India in 1988. And it was A2. This rating was new for India.
- 2) Due to Balance of Payment (BOP) crisis in 1990-91 rating agency Moody's downgrade India's rating
- 3) But in 1991 a lot of reformative steps taken by the Narasimha Rav government like LIBERALIZATION, PRIVATIZATION, and GLOBALIZATION. The rating agency further upgrades the rating of India.
- 4) 1998 was the memorable year for all rating agency. Because in 1998 India does the nuclear test in POKHRAN. Due to this test Global rating agency downgrades Indian rating from investment to junk.
- 5) After this, the central government lead by Atal Bihari Vajpayee & Reserve Bank of India headed by Bimal Jalan has taken a lot of structural reforms. Reserve Bank of India also designed two schemes; Resurgent Indian Bond and India Millennium Deposit. From this reform, the rating agency upgrades the rating of India in 2003.
- 6) The government of India takes continue step to make Indian economy more competitive in the world. From this Indian forex reserve crosses \$ 100 billion and the current account was also in surplus. Due to this the rating agency further upgrades Indian rating in 2004 & does the economic outlook stable. (The Indian Express, Tuesday, November 21, 2017)

5. Grading of Moody's

Moody's Investor Service give rating around two hundred countries of the world. For this Moody's adopt nine symbols. There are also subtitles for these symbols. Below table define the symbol those used in grading:

Serial No.	Grade(Symbols)	Particular
1	Aaa	High Quality, Lowest Level of Risk. This rating indicates the best environment for investment.
2	Aa	High Quality, Very Low Credit Risk
3	A	Upper-medium Grade, Low Credit Risk
4	Baa	Medium Grade, Moderate Credit Risk
5	Ba	Speculative Grade, Substantial Credit Risk
6	B	Speculative Grade, High Credit Risk
7	Caa	Speculative of Poor Standing, Very High Credit Risk
8	Ca	High Speculative, Very Near Default
9	C	Lowest Rating, Typically in default.

Source: The Economic Times (18 November 2017 Page No. 4)

For grading or rating, any country Moody's consider the different condition or situation those are prevailing in the economy. Which include:

- 1) The macroeconomic variable of the economy: like GDP Growth, Inflation etc.
- 2) GDP to Debt ratio.
- 3) Forex reserve (Foreign exchange reserve) of the country.
- 4) Leakage of subsidy (not reach the subsidy to target customer).
- 5) Government decision related to the long-term benefit of the economy.
- 6) Fiscal deficit consolidation of the central government as well as state government.

6. Moody's Rating and Indian Scenario

When a rating agency gives rating to any country then, rating agency keeps in mind such measure of government that will benefit the economy for a long time. The government of India also take a lot of decisions which is affecting (positively) the Indian economy in long-term. In India many factors those are affecting the economy in long-term which are

Political Stability

When we are looking in around the world, in many places (countries) have political instability. But in India have political stability. Its impact on the economy in a long time.

Forex Reserve

The forex reserve is an important tool for any country because it settled the Balance of Payment and financial crisis of the country. India's forex reserve has been continuing increase and now it is cross \$ 400 billion. (RBI, 2017)

Review Mechanism of Monetary Policy

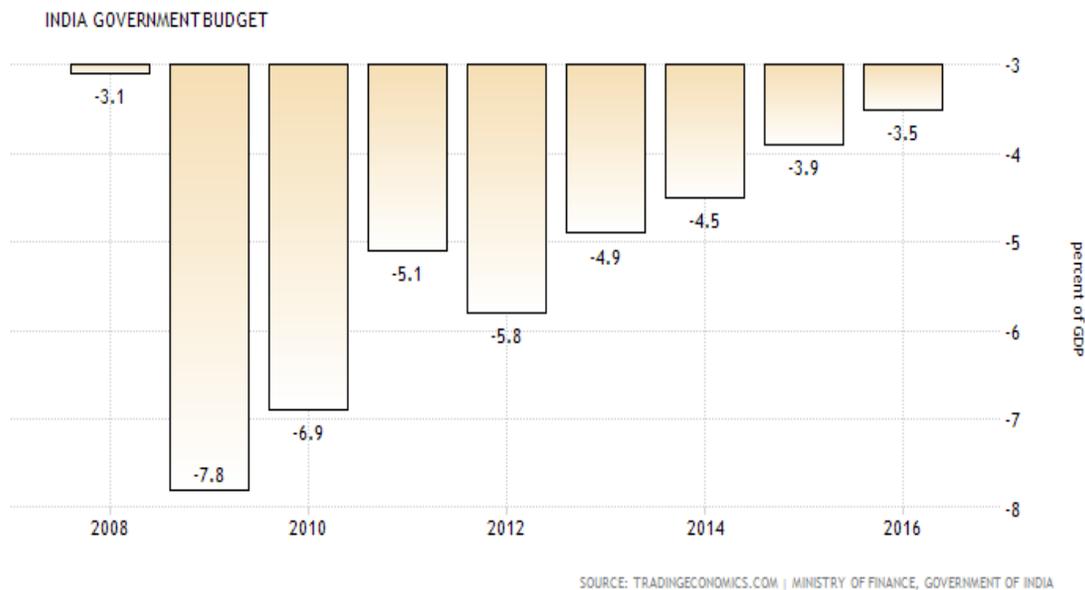
After independence, the monetary policy review by the central bank of the country (RBI). Governor of the central bank has a veto power on monetary policy review. Now in India have a monetary policy committee, which is reviewing the monetary policy. Now no veto power to the governor. Any decision related to review the monetary policy is taken by the monetary policy committee.

GDP To Debt Ratio

Moody's also consider the debt burden on the government to the ratio of GDP. India's GDP to Debt ratio continuously decreases.

Fiscal Deficit

The government of India reduces its fiscal deficit year to year. When we saw previous year's performance of government, it is targeting the fiscal deficit and achieve it. In 2015-16 target was 3.9% of GDP, in 2016-17 it was 3.5% of GDP and in the current year, the target is 3.2% of GDP. The target of fiscal deficit of government is 3.0% of GDP by 2019. (*ministry of finance*)

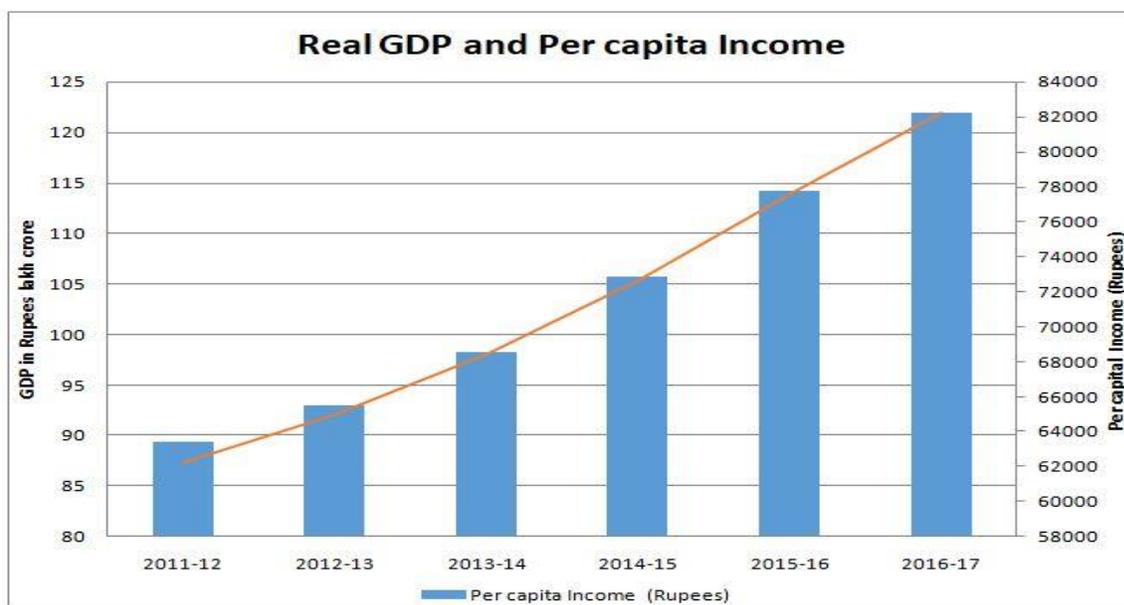


SOURCE: <https://tradingeconomics.com/india/government-budget>

- **INFLATION:** RBI is continuing to make effort for reducing the inflation and keep it at the level of 4% and in the band of +2% and -2%. RBI also take inflation on consumer price index (CPI) instead of wholesale price index (WPI).
- **DIRECT BENEFIT TRANSFER:** Direct Benefit Transfer (DBT) help to reducing the leakage of subsidy. Now the government saves a lot of amount from DBT because now subsidy had been given only eligible people (target people).
- **DEMONETIZATION:** From demonetization, more people come under tax structure. It means due to demonetization tax base of the country are increasing. It is a benefit for the economy in long-term.
- **GOODS & SERVICE TAX (GST):** GST also puts long-term benefit to the Indian economy. It is the major reforms in indirect tax.
- **BANK RECAPITALISATION:** For the solution, the problem of non-performing assets, the government of India infuses Rs 2.11 lakh crore to improving the health of banking sector in the country. (*The Ministry of finance*)
- **IMPROVE POSITION IN EASE OF DOING BUSINESS:** World Bank also improve India's raking in ease of doing business. Last many years the position of India in ease of

doing business was improved continuously. Currently, India takes a huge jump in this raking of 30 points. (world bank)

- **POSITION IN GLOBAL COMPETENCY:** Indian position in global competency has increased in the current year. It also does positively affect Indian economy.
- **GDP GROWTH IN CURRENT AND IN FUTURE:** Growth of India's GDP is increase continue from previous years. IMF also says that the GDP growth of India increasing continuously in upcoming years. It also positively affects the Indian economy and Moody's upgrade the rate of India. Below diagram indicate real GDP growth of India and Per capita Income in rupee:



Source: National Accounts Statistics 2017; Press note on provisional estimates of Annual National Income, 2016-17 dated 31st May, 2017

SOURCE: <http://www.mospi.gov.in/slider/graph3>

7. Why Moody's take A Long Time?

Last time Moody's upgraded India's rating in 2004 from Baa1 to Baa3. Now it is upgraded after 13 years. Here's some reason why Moody's took so much time to upgrading the Indian rating:

Any rating agency keeps in view the long-term benefit of the economy from the government decision. The average growth of the Indian economy is about 8% from 2004 to 2010. But the rating agency does not upgrade the rating of India, because

- 1) The fiscal deficit on those years (2004 to 2010) was so high. it is about 8% to 9% of GDP (as per finance ministry data). The rating agency also holds the fiscal deficit of the central government as well as the fiscal deficit of the state government. On those days the fiscal deficit of both the central government and state government was very high.
- 2) When our GDP Growth was 8% to 9% then the inflation was also very high.
- 3) The ratio of debt to GDP was also high. It was 78% to 80% in those years. Therefore, a huge amount paid in the form of interest.
- 4) Different scams also emerged, hence rating agency did not improve the rating of India's.

- 5) The recession of 2008 affected the whole world together. Due to this recession, the global condition for the business & investment was badly affected. It was also a reason that Moody's hold off the rating of India.
- 6) In the last decade, the coalition government in the country was also an obstacle to upgrading the rating.

When Moody's upgrade Indian rating, then around the country have one noise that "IT IS LONG OVERDUE". But we can say that "BETTER LATE THAN NEVER." Because worth (value) of this upgrade is more important for India.

8. What Is Immediate Impact of This Upgrade For Indian Economy

When Moody's upgrade the rating of India. It is welcome by all economist as well as an investor. The very next day the index of the stock market is increase. The rupee also appreciated against the US dollar. The yield on the government bond (10 years maturity) is also affected it is reduced. It has many immediate impacts on the economy like:

- Boost the positive sentiment on the investor.
- The cost of capital will be reduced.
- Fund borrowing from abroad of large companies become cheaper and easy.
- Saving of households will be increase. And it will helps in private investment.
- Increase in saving rate help for restart the investment cycle of the private sector.
- Debt burden on government will be also reduced because more fund comes from abroad.
- Moody's also upgraded the rating of the banking sector in India. It is helpful in fighting against the problem of non-performing assets.
- Indian rupee appreciates against the global currencies because more fund comes from abroad will increase the demand for the Indian rupee.
- In India, large parts of oils demand met by imported oil or we can say ours import bill is more than ours export bill. Thus, a large amount of money has to be paid in the form of payment of these bills. So, if the Indian rupee will be appreciated than automatically the import bills of India become low.

9. What Does The Government to Further Improve/Sustain This Rating

This upgrade was belated because it comes after 13th years. This does not mean that the government did not take reform step for the economy. In the last decade government also take a lot of decision-related to the economic growth. But Moody's doesn't upgrade the rating of India because rating agency considers the long-time benefit related to the economy.

But we are expecting that this rating sustains in long-time or Indian rating further improve. Thus, some matters related to the economy are solicitousness:

Fiscal Deficit

The fiscal deficit of India's is the major problem of government because every year our budget is in deficit. So, it is the suggestion that the next budget doesn't make more populist.

GDP to Debt Ratio

It is the welcome thing that the government reduces the GDP to Debt ratio in previous years. Now it is 68% of GDP but it not well because 44% GDP is the efficiency ratio. So, the government takes more step towards reducing it continuously.

Non-Performing Assets

Non-performing assets of the bank in India is a major problem. The government also injected to the bank for this problem like recapitalization of the bank. But this problem is so serious because the loan of farmer waiver, loan of businessman those are not recovered by the bank are continue increase. So, the government need take some more decision to fight against this problem.

Ease of Doing Business

In the current year the raking of India in ease of doing business is improving. Now India at 100th rank (*world bank report*). But we are far below from target those are set by the government. So, the government needs to improve the business climate in the country.

Make Gst Simpler

The government needs to make simple the Goods and Service Tax (GST).

Corporate Tax

In India, the rate of corporate tax is so high compared to other countries. It is no doubt that government takes step towards this (corporate tax) in last budget. But it is the suggestion to the government that the tax on corporate sector reduces continue at significance level.

Insolvency Code

The Insolvency and the Bankruptcy Code (IBC) implement soon. Not only make continue this type of law but timely amended these laws so important.

State Contribution

The rating agency doesn't consider only the central government policy but also the policy of state government like the policy related to agriculture. So, the state has to make policy or laws according to policy or laws of central government.

Sustainable Growth

The government has to the sustainable growth of GDP, Investment sector, Employment sector etc.

10. Conclusion

From above, I investigate that this upgrade quite late but it comes it is more important for us. In this research paper we have two questions that are:

- Belated upgrading
- Government solicitousness in future for sustain or further upgrade.

And we are also finding the solution to the above problem. The answer to the first problem is: in those years we have absolutely growth of the economy. In many years our GDP growth was

