2. Moody downgrades India's Rating

Prelims: Growth, Development, National

Mains: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Why in News?

- Global ratings agency Moody's Investors Service has recently cut India's ratings outlook to 'negative' from 'stable' but affirmed the Baa2 foreign-currency and local-currency long-term issuer ratings.

Reason behind Moody's Rate Cut:

- A crunch that started out in the non-banking financial institutions (NBFIs) spreading to retail businesses, car makers, home sales and heavy industries has made India's growth outlook deteriorated this year,
- Government's policy ineffectiveness in addressing economic weakness has led to an increase in debt burden which is already at high levels.
- A breach of the government's target of 3.3 per cent, as slower growth and a surprise corporate-tax cut affects revenue.

Impact:

- Reduction in outlook is the first step towards an investment downgrade, as India is now just a notch above the investment grade country rating.
- An actual downgrade in country ratings can lead to massive foreign fund outflows.
- However, if the government is able to address fiscal deficit concerns through higher fund raising from stake sales, the rating agencies tend to revise up their outlook.

About Moody's Investor Service:

- Moody's Investors Service, often referred to as Moody's, is the bond credit rating business of Moody's Corporation.
- They provide international financial research on bonds issued by commercial and government entities.
- Moody's, along with Standard & Poor's and Fitch Group, is considered one of the Big Three credit rating agencies.

Credit Rating Categories:

S.No	CREDIT RATING	DESCRIPTION
1.	AAA	Highest credit quality that denotes the lowest expectations of default risk.
2.	AA+/AA/AA-	Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments.
3.	A+/A/A-	High credit quality that denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong, however, vulnerability to adverse business or economic conditions exists.
4.	BBB+/BBB/BBB-	Good credit quality that indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
5.	BB+/BB/BB-	This rating indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
6.	B+/B/B-	This rating indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
7.	CCC+/CCC/CCC-	Substantial credit risk exists in this rating, where the default is a real possibility.
8.	CC	This rating shows a very high level of credit risk with a possibility of defaults.
9.	C	This rating shows that a default or default-like process has begun, or the issuer is in a standstill.
10.	DDD/RD/SD/DD/D	This indicates that the issuer has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or has ceased business.