

**Government of India  
Ministry of Finance  
Department of Economic Affairs  
(Capital Market Division)**

**Press Release**

**Subject: Moody's upgrades India's sovereign credit ratings**

India's sovereign debt is rated by six international sovereign credit rating agencies (SCRAs) namely Standard and Poor's (S&P), Moody's Investors Service, Dominion Bond Rating Service (DBRS), Fitch Ratings, Japanese Credit Rating Agency (JCRA) and Rating and Investment Information (R&I). These agencies normally visit the Ministry of Finance and the Reserve Bank of India before making their credit assessment.

2. The Government on its part has begun a structured interaction process with SCRAs. The Department of Economic Affairs (DEA) presents Government's perspectives to SCRAs about the strengths of the Indian economy and recent initiatives taken by the Government. DEA provides detailed data-based supporting documentation such as the 'India Factsheet,' 'Wealth in PSUs,' and a cross-country comparison of long-term economic, fiscal and financial indicators to SCRAs. During their visit to India, a number of structured meetings with senior officials of the Government of India are organized. Regular follow-up interaction is maintained with SCRAs to provide them with statistical updates and the latest information about Government's policy initiatives.

3. Today, Moody's Investors Service released a credit rating update for India. They have upgraded the rating on long-term government bonds denominated in domestic currency from Ba1 to Baa3 (from speculative to investment grade). The long-term country ceiling on the foreign currency bank deposits has been upgraded from Ba1 to Baa3 (from speculative to investment grade). The last time Moody's had upgraded any Indian long-term sovereign debt instrument from speculative to investment grade was in 2004.

4. In addition, Moody's have upgraded the short-term government bonds denominated in domestic currency from NP to P-3 (from speculative to investment grade). This short-term rating have been upgraded for the first time since it was newly assigned in 1998.

5. In their report, Moody's have recognized that the "diverse sources of Indian growth have enhanced its resilience to global shocks." They state that "[India's] growth, product mix and destinations of Indian exports reflect improved international competitiveness, another source of economic resilience." The present slowdown in growth rates "could reverse some time in FY2012/13, as inflation cools from current 9% levels." They have emphasized that the structural drivers of India's growth momentum will not be damaged by the present cyclical downturn.

6. Recognizing some of the structural strengths of the Indian economy, Moody expects that "supported by current levels of savings and investment, growth will revive over the medium term thanks to continued productivity enhancements in the private sector, increased infrastructure investment boosting potential output, policies to alleviate poverty and income inequality that will support domestic demand growth and demographic trends raising the working age population while keeping the dependency ratio low."

7. Moody's have underlined some of the Government's efforts at fiscal consolidation, by appreciating that the "[Government] eliminated petrol subsidies and changed the way fertilizer subsidies are calculated, which may yield some budgetary savings. There have also been initiatives on the revenue front - involving simplification (and hence hoped-for improvements in compliance) of indirect and direct taxes."

8. While taking note of the depreciation of Rupee in the last three months, Moody's note that "while global conditions may limit portfolio flows in the coming months, other debt and direct investment flows appear to have compensated for them somewhat thus far. Foreign exchange reserves have risen by about \$4 billion since end December 2010."

9. Moody's concludes that "In terms of economic size, diversity, growth as well as savings and investment rates, India is stronger than Baa3 rated peers." Further, that India's "official foreign exchange reserves are ample enough to finance the deficit as well as maturing external debt when external flows are volatile."

10. Moody's upgrade follows a positive rating action by DBRS. They had been rating India's debt since June 2007. For the first time, in June 2011 they upgraded the trend of India's Long Term foreign and local currency debt ratings from BBB (low) Negative to Stable outlook. In their ratings report, DBRS appreciated the Government's efforts towards fiscal consolidation. They



pointed out that "India's fiscal and monetary policy response to the global credit crisis helped restore the economy to a path of higher growth. The economy has weathered the global credit crisis relatively well, and a strong private sector-led recovery has returned India's growth rates to pre-crisis levels." They recognized that India has adopted a more responsible medium-term fiscal policy and commitment to debt reduction which bodes well for the ratings.

11. Similarly, in their June 2011 report, where Fitch affirmed the credit ratings issued last year, it appreciated the management of the economy by India. Fitch noted, "India's medium-term economic growth prospects remain strong, as potential GDP growth remains greater than 8%, well above the 'BBB' - range median."

12. DEA will continue to engage rating agencies on regular basis to impress upon them the long-term structural strengths and sound fundamentals of the Indian economy.

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The Press Information Bureau is requested to give wide publicity to this Press Release.



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