

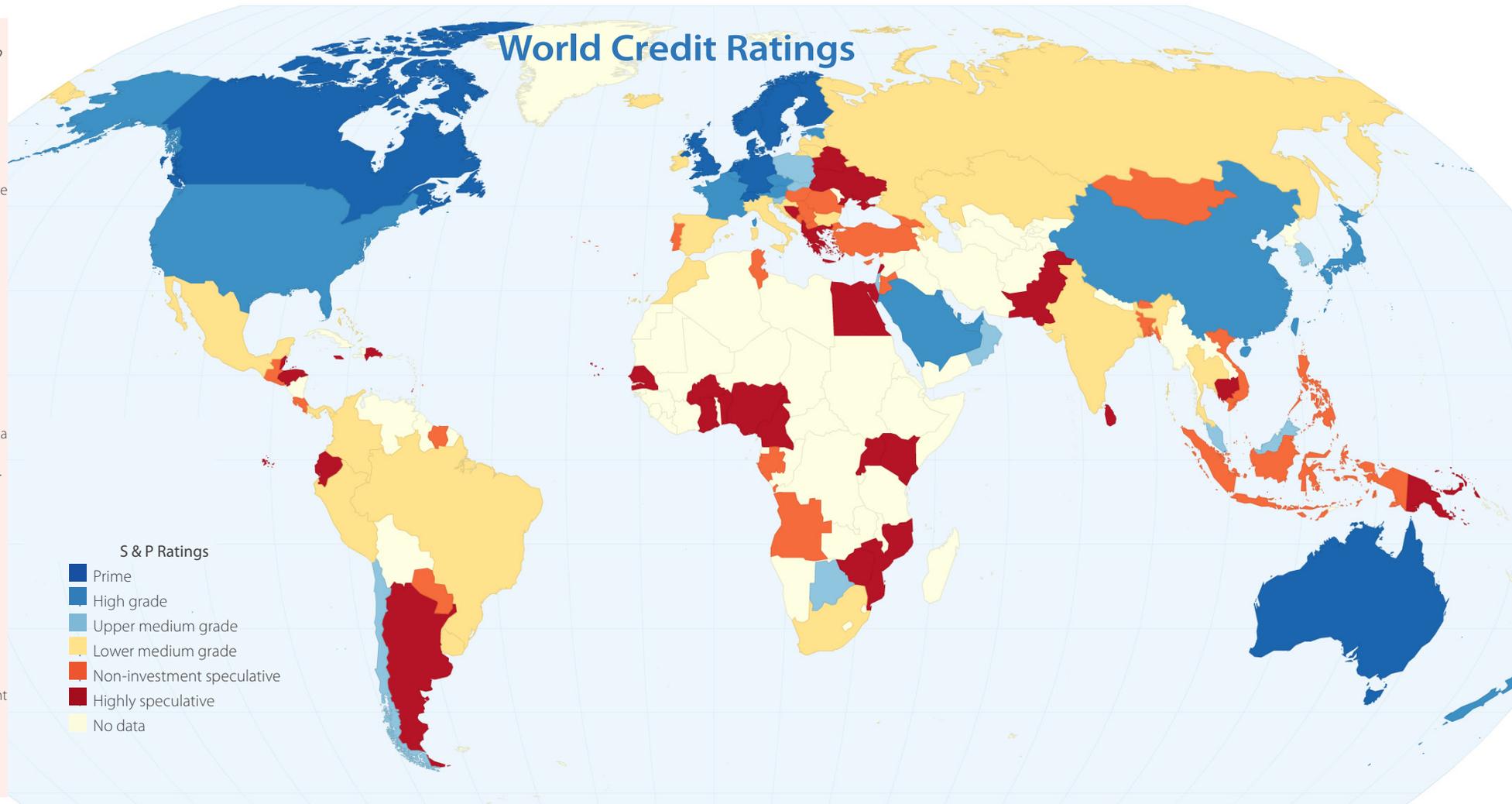
Don't invest in India?

The S&P rating agency not only retained the lowest investment grade on the economy, but also warned of downgrading these to junk in a year if reforms were not expedited to reverse the slide in economic growth.

S&P had assigned India BBB- long-term and A-3 short-term sovereign ratings, a notch above junk grade.

S&P and Fitch had cut the outlook on ratings to negative from stable in April last year, due to worsening public finances, a slowing economy and persistent political gridlock. Moody's had retained it at stable.

Such a conclusion could come from anaemic investment growth, reversals on diesel or other subsidy measures, or inability to increase electricity supply to meet increasing demand. "Similarly, if India's general government fiscal or current account deficits worsen contrary to our expectations, we may lower the ratings."



What is a credit rating?

A credit rating is an opinion of the general creditworthiness of individuals, companies and countries. Lower credit ratings result in higher borrowing costs because the borrower is deemed to carry a higher risk of default. A downgrade for America would mean US bond investors would want to get paid more to compensate for the risk of holding government debt.

What are sovereign credit ratings?

Sovereign credit ratings measure the risk of investing in countries – political as well as economic risk. For instance, Standard & Poor's lowered its AAA credit rating for the US government partly because the talks that led to last week's deal on hiking the borrowing limit "took too long" and were "at times too divisive".

What is the role of credit rating agencies?

Credit rating agencies assess the risk of investing in corporations and governments. The largest are Moody's, Standard and Poor's and Fitch Ratings. They also provide a wide array of financial data and information on bonds, equities and mutual funds.

How do they make money?

Agencies typically receive payment for their services either from the borrower that requests the rating or from subscribers who receive the published ratings and related credit reports.

How much weight does a rating carry?

A lot of investment, such as corporate and government bonds, must carry a credit rating. This has resulted in credit rating agencies becoming very influential. However, their role in the sub-prime crisis, when they rated various mortgage-backed financial instruments that have subsequently been branded "toxic", has damaged their reputation.

What do Standard and Poor's "letter" ratings mean?

- AAA - Extremely strong capacity to meet financial commitments. Highest rating
- AA - Very strong capacity to meet financial commitments
- A - Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions

- and changes in circumstances
- BBB - Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
- BBB- (minus) - this is the lowest rating before non-investment grade
- BB: Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- B: More vulnerable to adverse business, financial to meet financial commitments
- CCC: Currently vulnerable and dependent on meet financial commitments
- CC: Currently highly vulnerable
- C: A bankruptcy petition has been filed or similar continued
- D: Payment default on financial commitments

Ratings in the 'AAA', 'AA', 'A' and 'BBB' categories are regarded by the market as investment grade. Ratings in the 'BB', 'B', 'CCC', 'CC' and 'C' categories are regarded as having significant speculative characteristics. Ratings from 'AA' to 'CCC' may be modified by the addition of a

plus (+) or minus (-) sign to show relative standing within the major rating categories. NR indicates that no rating had been requested, there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

What is an outlook definition?

- An S&P rating outlook assesses the potential direction in which a rating will move over the next six months to two years.
- Positive - may be raised
 - Negative - may be lowered
 - Stable - unlikely to change
 - Developing - may be raised or lowered
 - NM - not meaningful

Lowering an outlook is generally considered to be the first step towards a downgrade.