



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

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## Monthly Bulletin for January 2020

The Reserve Bank of India today released the [January 2020](#) issue of its monthly Bulletin. The Bulletin includes two speeches by the Top Management, two Articles, Press Release of Working Papers and Current Statistics.

The [Report on Trend and Progress of Banking in India 2018-19](#) and [Financial Stability Report – December 2019](#) are being issued with the Bulletin as Supplements.

The two Articles are: I. An Assessment of India's External Debt Sustainability and Vulnerability II. Efficacy of Credit Ratings in Assessing Asset Quality: An Analysis of Large Borrowers.

### I. [An Assessment of India's External Debt Sustainability and Vulnerability](#)

The article examines recent developments in India's external debt profile and external vulnerability indicators.

#### Highlights

- India's external debt has increased since 2017-18 primarily on account of external commercial borrowings (ECB), non-resident deposits, and short-term trade credit.
- As at end-September 2019, India's external debt was placed at US\$ 557.5 billion – recording an increase of US\$ 14.3 billion (i.e., 2.6 per cent) over its level at end-March 2019.
- Notwithstanding an increase in absolute value terms, India's external debt has remained at about 20 per cent of GDP since 2017-18.
- India's foreign exchange reserves have provided adequate cover for external financing requirement [i.e., financing requirement for short-term debt on residual maturity basis and current account deficit] and imports. India's external vulnerability, hence in terms of reserve adequacy indicators, has remained low in recent years.
- Empirical analysis suggests that the movements in the US dollar against Indian rupee and major currencies influence the size of India's external debt while the impact of current account deficit is not found to be statistically significant.

## II. Efficacy of Credit Ratings in Assessing Asset Quality: An Analysis of Large Borrowers

Credit rating agencies (CRAs) are important stakeholders in the implementation of the modern-day financial sector regulatory framework. Agency/external credit ratings are prescribed as part of the regulatory framework for assessing the riskiness of assets and estimating the corresponding capital requirements in banks. Mapping the NPA exposure drawn from the Central Repository of Information on Large Credits (CRILC) with Prowess, the present article analyses the efficacy of external credit ratings in facilitating a sound and timely assessment of the asset quality of large borrowers. Although preliminary, the findings suggest: (a) ratings do not always reflect the underlying asset quality of borrowers in a timely manner; and (b) the ability of ratings to capture the asset quality varies across CRAs.

### **Highlights:**

- About one-fourth of the sampled exposure was in the investment grade one quarter before it slipped into the NPA category;
- There was a variation across CRAs in the extent of exposure in the investment grade one quarter before slipping into the NPA category; three out of the six accredited CRAs covered in the study showed a relatively high concentration of such exposure in the investment grade.

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