# India's growth, external profile buffers against turbulence: S&P

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India's strong economic growth and sound external balance sheet are expected to provide a buffer against a "treacherous global environment", said ratings agency Standard and Poor's (S&P) on Wednesday.

A few factors, under more severe conditions, could, however, apply downward pressure on India's sovereign credit ratings on (BBB-/Stable/A-3).

"We expect these strengths to help neutralize the risks inherent in the treacherous global environment", S&P said in a 'Frequently Asked Questions' on factors likely to impact credit rating.

India faces a mixture of factors that may shake its sovereign credit metrics. Amid external turbulence, its foreign exchange reserves are falling, and the current account deficit is rising. The economy is battling faster inflation and tightening financial conditions both at home and globally, it said.

India is a modest net external creditor currently, but it may return to a small net external debt position. However, this contingency alone is unlikely to add material downside pressure to S&P's sovereign ratings on India.

India is also likely to continue benefiting from the active use of its currency in international transactions and the government's ability to fund itself via deep local currency debt market.

**India is likely to continue benefiting from the active use of its currency in international transactions**

S&P said despite India's strong external balance sheet, it has not been able to escape the difficult landscape the rest of its emerging market peers have faced in 2022. The fall in its foreign exchange reserves to around $533 billion currently, from a peak of about $634 billion in 2021.

This is driven in part by India's growing current account deficit. The CAD is estimated to jump to three per cent of Gross Domestic Product (GDP) in FY23 from just 1.6 of GDP in the fiscal year ended March 2022, as the country's import bill surges.

The fiscal and growth-related strains in a base case scenario are less likely to have a material impact on India's sovereign credit metrics as current forecasts entail relatively fast real and nominal GDP growth.

Capital costs are more now than during the era of record-low rates.

A more worrying increase in its interest rate burden remains improbable without a much higher, and stickier, consumer price inflation trend. However, the forecast for inflation is retained to average 6.8 per cent in fiscal 2023, before falling to 5.0 per cent in fiscal 2024 and 4.5 per cent per year beyond that, S&P added.