'India's forex chest enough to cushion stress'

SHOCK-PROOFED. Fitch sees limited risks to India's sovereign rating from external headwinds; expects CAD to be contained

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Amid criticism on India losing forex reserves to the extent of $100 billion in a year, Fitch said India's external buffers appear sufficient to cushion risks associated with rapid monetary policy tightening in the US and high global commodity prices.

Fitch has assigned 'BBB-' sovereign rating with stable outlook. This is the last investment-grade rating.

Even as the current account deficit (CAD) as a percentage of GDP stood at 2.8 per cent, the highest in nearly four years, Fitch said, "Reserve cover remains strong at about 8.9 months of imports in September. This is higher than during the taper tantrum in 2013, when it stood at about 6.5 months, and offers the authorities scope to utilise reserves to smooth periods of external stress. Large reserves also provide reassurance about debt repayment capacity. Short-term external debt due is equivalent to only about 24 per cent of total reserves.".

PUBLIC FINANCES

Fitch noted that gross external debt stood at 18.6 per cent of GDP in Q2 CY22, which is low compared with the median of 72 per cent for 'BBB' rated sovereigns in 2021. Sovereign exposures are small, with only about 4 per cent of GDP in primarily multilateral financing.

Foreign investor holdings of domestic sovereign debt represent under 2 per cent of the total, reducing risk of spillovers to the wider market should they seek to reduce their exposure. The agency said external finances are becoming less strong in India's credit profile, but "we expect foreign-exchange reserves to remain robust and India's current account deficit to be contained at a sustainable level."

Moreover, public finances remain the key driver of the rating and are only modestly affected by these developments, particularly as India is relatively insulated from global volatility due to the sovereign's limited reliance on external financing.

IMMEDIATE WOES

- Says recession in key European and US export markets will weigh on near-term export prospects
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SURGING IMPORTS

Imports have surged on strong domestic demand growth and high oil and coal prices. Meanwhile, export growth has moderated from the fast pace seen in January-June 2022, amid declines in prices of steel, iron ore and agricultural products.

Recession in key European, US export markets will weigh on near-term export prospects. However, "we forecast the CAD to narrow in FY24, to 2 per cent of GDP, as easing energy prices will also dampen imports. Our robust medium-term growth outlook on India should facilitate financing of the deficit, particularly from FDI," it said.