India Well Cushioned to Face External Pressures: Fitch

Our Bureau

New Delhi: India's external buffers appear sufficient to cushion risks associated with rapid monetary policy tightening in the US and high global commodity prices, rating agency Fitch said on Wednesday.

Fitch sees upside risks to its forecast India's repo rate will peak at 6% in FY24 because of rates overshooting estimates in the US, but still sees domestic factors primarily driving the Reserve Bank of India's current monetary policy tightening.

It said, "there is a significant chance of rate hikes in the US beyond those in our assumptions, which could put further downward pressure on the rupee and increase imported price inflation."

The Indian currency slipped to a record low of Rs 83.01 to the dollar on Wednesday before closing at Rs 82.99.

Fitch said reserve cover "remains strong" at about 8.9 months of imports in September which is higher than during the "taper tantrum" in 2013 when it was about 6.5 months.

"The strong cover gives authorities the scope to utilise reserves to smooth over periods of external stress," the rating agency added. "The RBI recently reiterated that it does not have a target level for the exchange rate, but we expect the authorities will continue to use reserves to manage exchange-rate volatility," Fitch said.

FOREX RESERVES

The country's foreign exchange reserves will remain robust, and its current account deficit is expected to remain at sustainable levels, limiting any risk to India's sovereign rating from external pressures, Fitch said in a statement from Hong Kong.

"India's foreign reserves fell by almost USD101 billion in January-September 2022, but are still large at around USD533 billion," the rating agency said.

It attributed the decline in reserves to valuation effects, a widening current-account deficit, and some intervention by the Reserve Bank of India (RBI) to support the Indian rupee's exchange rate.

"The RBI has attributed about two-thirds of the decline to valuation effects," it said.

Public finances remain the key driver of the rating and are only modestly affected by these developments, Fitch said, pointing out India is "relatively insulated from global volatility due to the sovereign's limited reliance on external financing."

CURRENT ACCOUNT DEFICIT

Fitch expects India's current account deficit at 3.4% of gross domestic product (GDP) in the current financial year. It was 1.2% of GDP in FY22. Madan Sabnavis, chief economist at Bank of Baroda expects balance of payments to continue to be pressured this year.