

# Moody's keeps India's rating at Baa3, with stable outlook

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Moody's Investors Service has affirmed India's long-term local and foreign-currency issuer ratings at Baa3 and retained a stable outlook, the agency said in a statement on Friday.

In a meeting with Moody's representatives in June, the government had made a strong pitch for a sovereign rating upgrade. Baa3 is the lowest investment grade rating. "The affirmation and stable outlook are driven by Moody's view that the Indian economy is likely to continue to grow rapidly by international standards, though potential growth has come down in last 7-10 years."

The credit rating agency said India's high gross domestic product (GDP) growth would contribute to gradually rising income levels and overall economic resilience. This, it said, would in turn support gradual fiscal consolidation and government debt stabilisation, albeit at high levels. Moody's expects India's economic growth to outpace all other G20 economies through at least the next two years, driven by domestic demand.

"While this also reflects an improved assessment of India's potential growth to around 6 per cent to 6.5 per cent from less than 6 per cent during much of the pandemic, it remains lower than estimates in excess of 7 per cent in the

middle of the last decade," it said. Moody's also said India's strengthening financial sector had alleviated much of the economic and contingent liability risks that had previously driven downward rating pressure. India's long-term local and foreign-currency issuer ratings and the local-currency senior unsecured rating remains at Baa3, while the other short-term local-currency rating stands at P-3, it said. "Moody's would likely upgrade the ratings if progress on India's fiscal consolidation leads

to a material decline in the government's debt burden and an improvement in debt affordability that materially and durably enhances fiscal strength," the statement said.

A lasting upward shift in global and

domestic interest rates highlights the risks stemming from a high debt burden and weak debt affordability, which have been longstanding features of India's sovereign rating and Moody's expects them to remain, it said. An escalation of political tensions or a further weakening of checks and balances that would undermine India's long-term growth potential would likely contribute to a downgrade. Referring to the unrest in Manipur, Moody's noted that the curtailment of civil society and political dissent, compounded by rising sectarian tensions, support a weaker assessment of political risk and the quality of institutions.

**Rating agency said domestic demand would drive India's economic growth to outpace all other G20 economies in at least next two years**