

India's macros mean little to credit rating cos: CEA & team

Criticise 'unilateral measures' by advanced economies to combat climate change

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India's economy, despite rising to the world's fifth-largest from the 12th over 15 years, remains in the lowest investment grade assigned by credit rating agencies. This has dismayed the finance ministry's economic advisors, who attribute the low rating to the over-reliance of rating agencies — Standard & Poor's, Fitch Ratings and Moody's Investors Service — on qualitative parameters.

They have criticised developed nations' "lopsided" approach to financing efforts against climate change and sharing responsibility with developing countries to reduce carbon emissions.

Their views have been expressed in a publication titled *Re-examining Narratives: A Collection of Essays*, authored by Chief Economic Advisor V Anantha Nageswaran and his team.

The report criticised over-reliance on "non-transparent" qualitative factors in sovereign rating

The advisors identified unequal access to education and health as one of the greatest challenges in reducing inequality, even though they acknowledged that the government has initiated several efforts to bridge this gap.

The essays, released on Thursday, discuss the structural changes observed in India's foreign trade, where services now play a crucial role, leading to a decrease in income and price elasticities of exports.

"The rating of India remained static at BBB- during the last 15 years, despite it climbing the ladders from the 12th-largest economy in the world in 2008 to the fifth-largest in 2023, with the second-highest growth rate recorded during the period among all the comparator economies," said the think-tank of the North Block.

This means, the advisors said, any improvement in macroeconomic parameters may virtually mean nothing for a credit rating if qualitative parameters are in need of improvement.



Chief Economic Advisor V Anantha Nageswaran and his team presented their views in a publication titled *Re-examining Narratives: A Collection of Essays*

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The collection of essays criticised over-reliance on "non-transparent" qualitative factors in sovereign rating, including perceptions, value judgements, views of a limited number of experts, and surveys with "loose methodologies", which it argued results in unacceptable outcomes globally.

This, they flagged, has serious implications for developing countries' access to capital markets and their ability to borrow at affordable rates.

The CEA and his team proposed an alternative way to assign credit ratings: A nation that has never defaulted on its external debt and through the vicissitudes of its socioeconomic development should be taken as fool-proof in its "willingness to pay" back.

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WHAT'S ON MIND OF FINMIN ADVISORS

Credit rating agencies:

They apply subjective assessments based on the income group of a country. Home countries of rating agencies, and those economically and culturally similar to their home countries receive more favourable ratings

Climate change:

Developing countries are expected to immediately and completely shift or transition away from fossil fuel-based energy, while developed countries, which peaked several decades ago, still seek a long leash until 2050

Exports:

Services exports have grown by 28% above pre-pandemic levels and are found to be relatively immune to global income fluctuations

Inequality:

As erstwhile economically deprived sections join the ranks of the middle class, policy attention needs to extend beyond the "roti, kapda, makaan" class to keep the growth engine up and running

India's G20 presidency:

India as G20 president delivered results despite the global crises of food, fuel and finance, as well as the fractured geopolitical situation

► Cumulative success of Pathaan and Jawan catapulted Shah Rukh Khan

► Virat Kohli's comeback seen a befitting reply to detractors

► Support for Shubman Gill higher among women, more on his looks than on his game

► Millets adoption may still be lukewarm, but the hype has people interested

► Domestic tourism was a hot topic with Indians

Source: Hits of the Year survey by Rediffusion

Mahua Moitra, who, despite being expelled from the Lok Sabha and battling a defamation case, stood her ground and made an impression in the media for being a formidable opposition leader.

Naatu Naatu provided the pan-India flavour for earning global recognition and deep fake loomed as a new threat.

The social media surprise Hit was the passionate boutique owner, New Delhi's Jasmeen Kaur, making a pitch for her latest collection with the Instagram sensation, "looking like a wow". That is what a lot of people were saying about India this year.

CEA...

"This, if made the benchmark, can form the basis for the treatment of different combinations of debt defaults and the reasons therein on the one hand, and the

assessment of the willingness to pay on the other," opined the economic advisors at the finance ministry.

While this exercise would involve building data on debts, instances of restructuring, defaults and the circumstances leading to such events, the advisors believed it would greatly enhance the credibility of credit ratings. Benchmarking ratings on default history and socioeconomic development of a country would also enable rating agencies to avoid the mechanical application of unconvincing qualitative information and judgements, they argued. Qualitative information can be the last resort when all other options for applying authentic, verifiable information are precluded, they said.

Further, Nageswaran and his team criticised developed nations for proposing "unilateral measures", such as the European Union's Carbon Border Adjustment Mechanism (CBAM), to combat climate change, arguing that these measures would harm developing countries by affecting their competitiveness and hindering their growth pathways. They called upon these nations to engage with their developing counterparts in innovation, research and development, and use their resources — like revenues earned from the CBAM — to facilitate access to climate technologies in developing countries. The publication noted that there had been a decrease in the income elasticity of exports to 3.44 during 2009-2022, from 5.67 during 1991-2008, and the inverse price elasticity of exports to 0.4, from 2.7. The fall in income elasticity of exports means that India's

exports are becoming less vulnerable to changes in world demand and relative prices.

While a decline in elasticities is favourable in the presence of downside risks, such as a fall in global demand and an appreciation of exchange rates, it may not be beneficial during boom periods and could result in exports rising by a lower proportion in response to a rise in global demand or a depreciation of the exchange rate, the advisors pointed out.

In this context, an important step would be to hedge against downside risks emerging from less favourable growth in world demand and relative prices, they prescribed.

Calling skewed access to education and health as bad inequalities, the economic advisors noted the government has initiated steps, such as the Ayushman Bharat and towards improving schools' basic facilities and pupil-teacher ratio, besides the National Education Policy, to mitigate these gaps.

They said a steadfast commitment to these steps shall nurture the human capital in the country, making it the strongest pillar of India@100.

Lauding the role of India in the recent G20 presidency, the economists of the finance ministry said it contributed to advancing global multilateralism by putting in place a clear, ambitious, and pragmatic global agenda despite geopolitical differences.

UK FTA...

In the EV segment, the Indian side has proposed a duty reduction to 85 per cent from 100 per cent for cars priced above \$85,000. The UK has asked for a