

India has forex to withstand stress on creditworthiness: S&P

Inflation forecast raised by 50 bps to 6.8%; growth forecast remains unchanged at 7.3%

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New Delhi, 25 August

India has ample foreign exchange reserves to withstand pressure on creditworthiness, S&P Global Ratings said on Thursday, while raising its inflation forecast by 50 basis points to 6.8 per cent for FY23, citing higher commodity prices, rising interest rates and foreign exchange volatility. It kept its growth forecast unchanged at 7.3 per cent for the financial year.

Speaking at the India Credit Spotlight 2022 webinar, S&P Sovereign & International Public Finance Ratings Director Andrew Wood said the country had a strong external balance sheet and limited external debt, making debt servicing not so expensive.

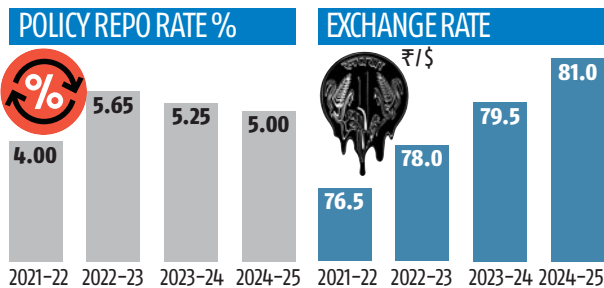
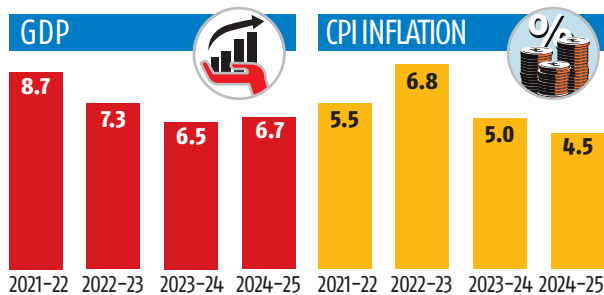
"The country has built up buffers against cyclical difficulties like those, which we are experiencing right now," Wood said.

The Reserve Bank of India (RBI) in its latest policy meeting kept the inflation forecast unchanged at 6.7 per cent for FY23. "Inflationary pressures re-emerged on energy price increases and economic reopening, but the latest July reading showed some stabilisation. Recent global oil price declines will alleviate pressure on energy prices as well as on the current account," said the report.

The Monetary Policy Committee of the RBI in its last policy review raised the policy rate by 50 basis points to 5.4 per cent, remaining focused on withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth.

"The RBI is likely to continue tightening monetary policy to manage inflation

S&P GROWTH FORECASTS



INDIA'S ROBUST GROWTH GIVES RBI ROOM FOR MORE RATE HIKES: DBS

India's strong growth offers room for the Reserve Bank of India to raise rates by another 60 basis points as the central bank seeks to stamp out high inflation, DBS Group Research said in a note on Thursday.

India's gross domestic product (GDP) in the first quarter of current fiscal year likely surged 16 per cent year-on-year based on most leading indicators, the research house estimated. Favourable base effect after the onset of Delta coronavirus variant last year will additionally lift the year-on-year GDP numbers, Radhika Rao, senior economist at DBS Group Research, wrote in the note.

PTI

expectations," said Vishrut Rana, economist at S&P Global Rating. "We predict the benchmark policy rate to rise to 5.65 per cent by end FY23 with upward risks attached," he added.

While providing insights about India's sovereign rating, S&P said India was facing the external pressures of higher commodity prices, US dollar dominance, and tightening financial conditions from a position of relative strength.

"India is expected to witness higher current account deficit for a longer period of time on the back of higher commodity prices, rising import bill and weakening of exports," said Wood, adding, "We are expecting these pressures to cool off over the remaining duration of FY23," he added.

The rating agency said the Indian banking sector will continue to solidify its position despite the headwinds in

'Macroeconomic stability boosted by 8 yrs of reforms'

Eight years of systemic economic reforms under the Modi government have increased India's macroeconomic stability and its capacity to withstand any external shocks, RBI Monetary Policy Committee (MPC) Member Ashima Goyal has said.

Goyal further said appropriate countercyclical macroeconomic policy with continuing supply-side improvements has enabled a growth recovery that is among the best in the world.

"Just before the Modi government came in, the country was facing serious macroeconomic instability after the global

financial crisis."

"After 8 years of systemic reforms, the economy has been able to ride out more severe global shocks with macroeconomic stability, a healthy financial sector, food security and a government and industry that have learnt to work together," she told PTI.

Prime Minister Narendra Modi assumed office on May 26, 2014. He was administered the oath of office for his second term on May 30, 2019.

On the credibility crisis of India's official

numbers on a range of subjects, she said the criticisms are largely erroneous. PTI



ASHIMA GOYAL,
Member, RBI Monetary
Policy Committee

terms of rising interest rates, elevated inflation and exchange rate volatility.

Neel Gopalakrishnan, lead analyst, director, corporate ratings, said the operating environment for the companies still remains supportive and the credit profiles of most rated entities are quite resilient due to comfortable liquidity position and increased revenues.

"There is a deleveraging trend being witnessed in these

rated entities since the last two years. We expect the improvement in earnings of these entities is sustainable and is supportive of deleveraging going forward," he added.

On the infrastructure sector, S&P said rising capital expenditure in the renewable energy sector had exposed it to hardening interest rates. "The airport sector requires limited refinancing but still inflation could bite," the rating agency said.