S&P: External channels unlikely to put serious near-term pressure on India

FE BUREAU
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GLOBAL RATING AGENCY S&P on Thursday said India's creditworthiness is unlikely to witness any "material near-term pressure" from cyclical difficulties caused by external channels, given its robust foreign exchange reserves and limited external debt.

S&P has maintained its sovereign rating for India at the lowest investment grade of BBB-, with a "stable" outlook. The other global agencies, Moody's and Fitch, too, have retained similar ratings and outlooks for the country.

"Emerging markets are facing broad-based external pressures from higher commodity prices, US dollar dominance, and tightening financial conditions. India is no exception, with hallmarks of these factors including a higher current account deficit and higher domestic inflation rates," the agency said.

"However, India is facing these trends from a position of relative strength. In particular, India is a net creditor to the world (narrow net external debt basis), meaning that it has some buffer built up against cyclical difficulties such as these. We do not therefore see material near-term pressure to India's creditworthiness on this basis," it added.

Speaking at the India Credit Spotlight 2022 webinar, S&P Sovereign & International Public Finance Ratings director Andrew Wood expected the Indian economy to grow 7.3% this fiscal, against 8.9% (albeit on a contracted base) in FY22. However, the growth could moderate to 6.5% or so in the subsequent couple of years.

The rupee movement against the dollar, too, has been relatively moderate, he added. The rupee has weakened by about 7% against the greenback so far in 2022, but it has performed better than its emerging market peers.

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India has built up ample forex buffer and the kitty will likely recover to $600 billion by the end of this year, Wood said. Forex reserves stood at $571 billion as of August 12, having dropped from the record level of $642 billion in September 2021, partly due to its defence of the domestic currency.

"This is pretty ample buffer considering somewhat limited external indebtedness of the Indian economy on the whole," Wood said.

Wood didn't expect "very powerful fiscal consolidation" in India over the next few years. The stock of general government debt, roughly about 90% of GDP, and interest burden remain elevated. While fast economic growth will help prevent further deterioration of the government finances, any "material sharp downturn" in the economy or the GDP expanding at a "much lower rate of growth" for a sustained period would make it difficult to ensure debt sustainability, he said.