

After 10 years, S&P raises India's outlook to 'positive'

UPBEAT. Regardless of poll outcome, the agency sees continuity in reforms, fiscal policies

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Taking note of the robust growth and the rising quality of government spending, S&P Global Ratings on Wednesday revised its outlook on India's economy to 'positive' from 'stable'.

However, it retained the sovereign rating at 'BBB Minus'. The rating has been BBB- since January 30, 2007 (when it was upgraded from BB+). It has been on BBB-/stable since September 26, 2014 (it was placed on negative outlook on April 25, 2012). It is the first agency to revise the outlook.

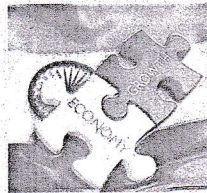
In January, relying on a robust medium-term GDP growth outlook and sound external finances, Fitch had affirmed India's sovereign rating at 'BBB-Minus' with stable outlook. 'BBB-Minus' is the lowest investment grade rating offered.

RATING UPGRADE

The change in outlook means there is a possibility of rating upgrade in the next two years.

LOOKING UP

- Robust economic growth, pronounced improvement in the quality of government spending, political commitment to fiscal consolidation
- Growth dynamics to continue to play out in the medium term, with GDP expanding close to 7% annually over the next three years
- Improvements in infrastructure and connectivity in India will remove chokepoints
- Government deficit seen dipping to 6.8% of GDP by FY28 from 7.9% in FY25



In a statement, S&P Global Ratings said: "The positive outlook reflects our view that continued policy stability, deepening economic reforms and high infrastructure investment will sustain long-term growth prospects. That, along with cautious fiscal and monetary policy that diminishes the government's elevated debt and interest burden while bolstering economic resilience, could lead to a higher rating over the next 24 months."

On the prospect of an upgrade, the agency said that it

might raise ratings if India's fiscal deficit narrows meaningfully to the extent that the net change in general government debt falls below 7 per cent of GDP on a structural basis.

However, the agency could revise the outlook to 'stable' if it observes an erosion of political commitment to maintain sustainable public finances which, in turn, signifies a weakening of the country's institutional capacity. "If the current account deficit widens materially to weaken India's external

position such that the country becomes a narrow net external debtor, we could also revise the outlook to stable," the S&P said.

Commenting on the upgrade, Achala Jethmalani, Economist with RBL Bank, said while S&P Global mentioned that India's weak fiscal settings had always been the most vulnerable part of its sovereign ratings profile, this weak link is now becoming the strongest, inasmuch as moving positively towards getting India its long due sovereign rating upgrade.

OUTLOOK ON BANKS

S&P Global also revised its rating outlook on six Indian banks to positive from stable. This follows a similar action on the sovereign (BBB-/Positive/A-3). The global agency affirmed its 'BBB-' long-term and 'A-3' short-term ratings on Axis Bank, ICICI Bank, State Bank of India, HDFC Bank Ltd, Kotak Mahindra Bank and Indian Bank.

Similarly, the rating outlook for EXIM Bank, NTPC, Oil and Natural Gas Corp Ltd, and Power Grid Corp of India was revised to positive from stable.