S&P raises India outlook to 'positive' before poll results

First outlook upgrade in 10 yrs lifts prospects of higher sovereign credit rating in 2 yrs

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New Delhi, 29 May

In a rare move, S&P Global Ratings on Wednesday raised its outlook for India to 'positive' from 'stable' while affirming the lowest investment grade sovereign credit rating (BBB-) ahead of the general election results due on June 4.

In a post on X, Union Finance Minister Nirmala Sitharaman said that S&P Global Ratings' decision reflects the country's solid growth performance and a promising economic outlook for the coming years. "It has been possible due to the series of macroeconomic reforms undertaken since 2014, along with substantial outlay for capex, fiscal discipline, and decisive & visionary leadership," she said.

This is the first outlook revision for the country by S&P, part of the so-called 'Big Three' credit ratings agencies, since September 2014. The other two ratings agencies, Fitch and Moody's, have a 'stable' outlook for India with the lowest investment grade sovereign rating.

While revising its outlook, S&P said that regardless of the election outcome, broad continuity in economic reforms and fiscal policies was expected. "India's robust economic expansion is having a constructive impact on its credit metrics. We expect sound economic fundamentals to underpin the growth momentum over the next two to three years," it added.

S&P, however, cautioned that it could revise the outlook downwards to stable if there was an erosion of political commitment to maintain sustainable public finances, which would signify the weakening of the country's institutional capacity.

"If current account deficits widen 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," it said.

S&P said continued policy stability, deepening economic reforms, and high infrastructure investment, along with cautious fiscal and monetary policy, could lead to a higher rating over the next 24 months. Turn to Page 6

S&P UPGRADES OUTLOOK ON SIX INDIAN BANKS TO POSITIVE P6

S&P FORECAST: ON THE RIGHT PATH

	FY24	FY25	FY26	FY27	FY28
Real GDP growth *(%)*	7.6	6.8	6.9	7.0	7.0
Unemployment rate *(%)*	5.5	5.3	5.2	5.2	5.2
Current account deficit *(% of GDP)*	1.2	1.3	1.5	1.6	1.7
Fiscal deficit: Centre+states *(% of GDP)*	-8.6	-7.9	-7.3	-7	-6.8
Debt-to-GDP *(%)*	84.5	84.3	83.4	82.1	80.8

Source: S&P

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"We may raise ratings if India's fiscal deficit narrows meaningfully such that the net change in general government debt falls below 7 per cent of GDP on a structural basis. The protracted rise in public investment in infrastructure will lift economic growth dynamism that, combined with fiscal adjustments, could alleviate India's weak public finances," it said.

S&P said it might also raise the ratings if it observed a sustained and substantial improvement in the central bank's monetary policy effectiveness and credibility so as to manage inflation at a durably lower rate.

Meanwhile, SBI in a research report on Wednesday said India could see a rating upgrade by FY27, synchronous with the tag of the third-largest economy. "On the brighter side, the slew of macroeconomic reforms initiated in sync with fiscal discipline, along with colossal public capex that is expected to crowd in private capex in a big way, has ensured a robust and virtuous investment and consumption environment that has also been accepted by S&P," it added.

S&P expects India's real GDP growth to expand close to 7 per cent annually over the next three years. "We forecast India's real GDP growth at 6.8 per cent this year (FY25), which compares favourably with emerging market peers amid a broad global slowdown," it said.

While noting that India's weak fiscal settings had always been the most vulnerable part of its sovereign ratings profile, S&P said that with economic recovery now well on track, the Centre was again able to depict a more concrete, albeit gradual, path to fiscal consolidation.

It has projected a general (Centre+states) government deficit of 7.9 per cent of GDP in FY25, which may slowly decline to 6.8 per cent by FY28.

The fiscal deficit and GDP data for FY24 will be released by the government on May 31. The government, under its fiscal glide path, aims to reduce fiscal deficit to 4.5 per cent of GDP by FY26. The FY25 fiscal deficit target has been set at 5.1 per cent of GDP. "The performance of the Indian economy highlights its historical resilience... We believe India's corporate and financial sectors have stronger balance sheets than before the pandemic," S&P said.

QIPs...

Power company JSW Energy, IT services firm Coforge, and broker Angel One have already successfully concluded their large-scale QIPs in the past month. Most of these companies will use the proceeds to expand their operations and venture into new business areas.

Investment bankers indicate that more companies are seeking board approvals to raise fresh capital to capitalise on the buoyant market conditions. In the past, companies usually refrained from launching any share sales ahead of the Lok Sabha elections. However, optimism around the election outcome has led to a departure from this trend.

"Generally, market participants are positive about the market outlook. The QIP issuance is expected to be buoyant, thanks to the continuity in policy and supportive markets," said Chirag Negandhi, managing director, JM Financial. QIPs are getting bunched up now as companies were waiting for the post-result cool off period to end, he added.

According to Sebi rules, firms are not allowed to conduct investor meetings ahead of the declaration of their quarterly financial statements. With the March 2024 and 2023-24 result season ending, companies have a few weeks' window to launch share sales, said industry play-