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Prepared by: Trevis Gangaya, Analyst I (Research and Analytics)
Trevis.Gangaya@firstcitizenstt.com

Moody's upgrades India's government bond rating to Baa2 from Baa3; changes outlook to Stable from Positive

- Moody's upgraded the Government of India's local and foreign currency issuer ratings to Baa2 from Baa3 and changed the outlook on the rating to Stable from Positive.
- The rating agency's move to upgrade the ratings is supported by Moody's expectation that continued progress on economic and institutional reforms will, over time, enhance India's high growth potential and its large and stable financing base for government debt, and will likely contribute to a gradual decline in the general government debt burden over the medium term.
- Additionally, while India's high debt burden remains a constraint on the country's credit profile, Moody's believes that the reforms put in place have reduced the risk of a sharp increase in debt, even in potential downside scenarios.
- Moody's has also raised India's long-term foreign-currency bond ceiling to Baa1 from Baa2, and the long-term foreign-currency bank deposit ceiling to Baa2 from Baa3.
- The government is mid-way through a wide-ranging program of economic and institutional reforms. While a number of important reforms remain at the design phase, Moody's believes that those implemented to date will advance the government's objective of improving the business climate, enhancing productivity, stimulating foreign and domestic investment, and ultimately fostering strong and sustainable growth.
- While Moody's acknowledged that measures will take time for their impact to be seen, and some, such as the GST and demonetization, have undermined growth over the near term, Moody's expects real GDP growth to moderate to 6.7% in the fiscal year ending in March 2018 (FY2017).
- However, as disruption fades, assisted by recent government measures to support SMEs and exporters with GST compliance, real GDP growth will rise to 7.5% in FY2018, with similarly robust levels of growth from FY2019 onward.
- Longer term, India's growth potential is significantly higher than most other Baa-rated sovereigns.

- General government debt stood at 68% of GDP in 2016, significantly higher than the Baa median of 44%. The impact of the high debt load is already mitigated somewhat by the large pool of private savings available to finance government debt.
- Recent announcements of a comprehensive recapitalization of Public Sector Banks (PSBs) and signs of proactive steps towards a resolution of high NPLs through use of the Bankruptcy and Insolvency Act 2016 are beginning to address a key weakness in India's sovereign credit profile.
- The stable outlook reflects Moody's view that, at the Baa2 level, the risks to India's credit profile are broadly balanced.
- However, the high public debt burden remains an important constraint on India's credit profile relative to peers, notwithstanding the mitigating factors which support fiscal sustainability. That constraint is not expected to diminish rapidly, with low income levels continuing to point to significant development spending needs over the coming years.
- Measures to encourage greater formalization of the economy, reduce expenditure and increase revenues will likely take time to diminish the debt stock.
- Currently India is rated as BBB- with a *Stable* credit outlook by both S&P and Fitch.

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