

India's sovereign rating to remain at current level for next 2 years: S&P



[S&P](#) Global Ratings on Friday said India's [credit rating](#) would be retained at the current level for the next two years, and the country will see a slightly faster pace of growth in the next couple of years that will support its sovereign rating.

S&P, which had in March seen the Indian economy growing by 11 per cent in the fiscal year to March 2022, saw GDP growth rate dropping to 9.8 per cent under the 'moderate' scenario, where infections peak in May, and falling to as low as 8.2 per cent in 'severe' scenario under which caseload would peak only in late June.

Speaking at a webinar on 'What A Drawn Out Second COVID Wave Means For India', [S&P](#) Global Ratings Director - Sovereign and Public Finance Ratings - Andrew Wood said in the moderate downside scenario there would not be any major impact on the government's fiscal position.

There could be upside pressure on general government fiscal deficit forecast of 11 per cent as revenue generation would be weaker, but debt stock would remain roughly stable just above 90 per cent of GDP, Wood added.

In the severe scenario, there could be more additional fiscal spending from the government and revenue growth would be weaker. This would mean that debt stock would stabilise only in the next financial year, he noted.

"India's rating remains stable on a 'BBB-' rating. We do not expect there to be a change in the rating level over the next 2 years...Of course, there are going to be some near term ramifications on India's economy stemming from the severe second wave of COVID-19 and that may seep through into our sovereign credit metrics..." Wood said.

[S&P](#) had last year retained India's rating at the lowest investment grade 'BBB-', with a stable outlook for the 13th year in a row.

"We are still forecasting GDP growth at 11 per cent for the current fiscal. It is a baseline scenario with some downside risk. But if we do see the number creeping lower, most likely it will not go too far in our current downside scenario.

"You will have positive growth this fiscal year in all likelihood and we do have the potential for a lower rate of growth this financial year owing to the current health crisis.

We would more likely see a slightly faster pace of growth in the ensuing two years," Wood added.

In the 'moderate' and 'severe' scenarios, S&P projected the Indian economy to grow 7.8 per cent and 9.6 per cent, respectively, in the next fiscal (2022-23).

Another global rating agency Fitch Ratings last month said the resurgence of COVID-19 infections may delay India's economic recovery, but won't derail it, as it kept the sovereign rating unchanged at 'BBB-' with a negative outlook.

Fitch projected a 12.8 per cent recovery in GDP in the fiscal year ending March 2022, moderating to 5.8 per cent in FY23, from an estimated contraction of 7.5 per cent in 2020-21.

India reported a record 4,14,188 new COVID-19 cases on Friday, and 3,915 deaths, as a ferocious second wave engulfed its healthcare infrastructure. Over the past two-and-a-half months, the outbreak in India has exploded, with reports of superspreader gatherings, oxygen shortages and medicine shortages.

COVID infections have crossed 2.14 crore since the virus surfaced in China more than a year ago, with a death toll of 2,34,083.

S&P further said that high growth in the long term helps uplift and gives support to the sovereign rating. Besides, a faster, healthy real and nominal GDP growth is going to help the government to fund the high fiscal deficit and stabilise debt stock, which on a net basis is currently estimated to be just above 90 per cent of GDP.

Wood said that a steeper and more acute longer-term downturn in the Indian economy would have a concomitant impact on the fiscal settings of the government, which would entail a higher fiscal deficit and a rising debt stock from the current level. And if it becomes acute enough on a sustained basis, then we may begin to have more concern about the sustainability of the public financial position of the government.

"So that's the worry that we have over the foreseeable future," he added.

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