Moody's negative rating for India

Why in News?

Rating agency Moody's has revised the outlook on its sovereign rating for India from stable to negative.

Why this rating for India matters?

- Moody's India rating is a **notch higher** than that of Standard & Poor's (S&P).
- The outlook revision of the rating now may well be to compensate for its past optimism on India.
- Yet, the outlook revision has to be seen as a **warning** that if the economy fails to bounce back soon enough, the sovereign rating could be up for an unfavourable review.
- With due respect to Moody's, none of the issues that it has highlighted is unknown.

What are the concerns?

- The growth slowdown and its effects on the fiscal deficit and borrowings are the main worries.
- Tax revenue growth is nowhere near budgeted levels.
- With the slowdown extending into the third quarter of 2019, it is clear that tax revenues will undershoot by a wide margin.
- The government has been forced to spend more to give a leg up to the economy.

What are the projections?

- **Efforts** - The government pushed its expenditure on capital projects.
- In October 2019, it gave away corporate tax concessions amounting to a whopping ₹1.45 lakh crore.
- Even with the boost from the dividend payout of ₹1.76 lakh crore from the Reserve Bank of India, the budget arithmetic is optimistic.
- **Fiscal deficit** - It now appears certain that the government will miss the

fiscal deficit target of 3.3% of GDP.
- Moody's has projected that the deficit will slip to 3.7% of GDP this fiscal year 0f 2019-2020.
- Rating agencies are ultra-sensitive to fiscal deficit overruns but the positive factor here is that India's borrowings are wholly domestic.
- **External debt to GDP** - It is just 20% but the ratings do have an impact on investor sentiment.

When will the revival take place?

- Moody's outlook revision comes when there are faint signs of a revival in the economy.
- It may be **another quarter or two** before growth picks up - the second-quarter numbers due in November 2019 may show GDP growing at less than 5%.
- But the festive season uptick in sales of automobiles and white goods does point to the return of the consumer to the market.
- Of course, the possibility that it was an artificial boost driven by the big discounts that were on offer cannot be ruled out.
- There are other positive signals such as the increase in bank credit off-take reported by the RBI for the second successive fortnight.

What could be done?

- The government needs to press the pedal harder on **reforms** and in **debugging GST**.
- It may also have little option than to go big on **disinvestment** in the remaining 4 months of this fiscal.
- The target of ₹1.05 lakh crore that it set for itself in the budget has to be bested by a wide margin if the fiscal deficit slippage is to be contained.
- The supportive measures announced in the last 2 months should be closely monitored for implementation.

Source: The Hindu