Govt's debt structure supports current ratings: Moody's.

India, facing the threat of a sovereign ratings downgrade due to worsening macro economic parameters, has got some respite from Moody's Investors Service. In its latest report, the rating agency said that the structure of the government debt has supported the current ratings given by it, even as macro-economic factors have worsened.

Moody's, like its two other peers -- Standard & Poor's and Fitch -- assigned lowest investment rating to India and any downgrade will club the economy with junk grade countries.

In its report, titled 'India's Government Debt Structure Mitigates Credit Impact of Macro-Economic Imbalances', the rating agency said the structure of the government debt has mitigated the risks arising from the size of these borrowings as well as high fiscal deficit.

By structure, Moody's meant domination of the rupee debt, low real interest rates and long duration of repayment.

"...Structure of India's government debt -- which is largely owed domestically, in rupees, at relatively low real interest rates and at long tenors -- has mitigated the credit challenges stemming from India's high fiscal deficits and large government debt burden during a period of currency volatility, and rising interest rates," Moody's said.

AtsiSheth, a Moody's Vice President and Senior Credit Officer, said even as macro-economic imbalances have heightened in the last few years, the currency, maturity and interest rate structure of government debt has supported India's sovereign credit profile and Baa3 rating. Baa3 rating is the lowest investment rating given by Moody's to India.

She said,"Interest rates paid on Indian government debt have been significantly lower than India's GDP growth rate, and this interest-growth differential has lowered the government debt-GDP and government interest payments-government revenue ratio over the last decade, despite wide fiscal deficits,"

Atsi further said that as interest rates have increased and growth has slowed in last three years, India's interest-growth differential has narrowed, yet it remains more favorable than in many similarly rated countries, and is a factor underpinning government debt sustainability.
The report highlighted that the government's debt financing profile benefited from an increase in India's domestic savings during previous years of high GDP growth, as well as from capital controls and bank liquidity requirements which channel a portion of private savings into government debt.
India's domestic savings rate has never gone down below 30% of the gross domestic product after 2003-04.

(Business standard)