Govt attacks S&P’s rating outlook, questions methodology adopted

The government on Friday shot back at Standard & Poor's reiteration of a possible downgrade of India's sovereign rating, going to the extent of questioning the agency's methodology.

In the afternoon, S&P issued a statement, listing out a series of pressure points while retaining the BBB- rating and a negative outlook, signalling that further deterioration would make investment in Indian government securities junk grade.

"The negative outlook signals at least a one-in-three likelihood of a downgrade within the next 12 months. We may lower the rating if we conclude that slower government reforms than we currently expect would not lead economic growth to recover to levels experienced earlier this decade. Such a conclusion could come from anemic investment growth, reversals on diesel or other subsidy measures, or inability to increase electricity supply to meet increasing demand. Similarly, if India's general government fiscal or current account deficits worsen contrary to our expectations , we may lower the ratings ," the ratings agency's credit analyst Takahira Ogawa said in a statement.

Within hours the finance ministry stormed into action with chief economic adviser Raghuram Rajan challenging S&P's assessment. "It is disappointing that S&P has not seen it fit to improve its outlook for India, especially given that it acknowledges the important steps taken by the Indian government in recent months. International institutional investors, who have invested over $17 billion into India so far this year, do seem to have a different view. The government will continue to do what is necessary to keep India on a stable, sustainable , and strengthening growth path," Rajan said.

Almost taking a cue from the government's chief economist , other officials joined in with some going to the extent of questioning the methodology adopted by the ratings agency. "India's fiscal deficit and debt are not high as compared to the other large economies of the world. In fact, many higher-rated advanced large economies have a much higher level of sovereign debt," said an official, who did not wish to be identified . Another sources said that over-reliance on per capita income as a measure of credit worthiness was proved to be wrong during the financial crisis as the richer countries suffered most of the downgrades. But a bulk of the government's criticism focused on S&P's "refusal to acknowledge" the pick up in economic growth and moderation in the rate of inflation. It also said that investment was picking up and the agency's concerns over red tape and the cabinet committee of investment were incorrect.

There were at least five other areas that, officials said, the agency did not appreciate. One, India's debt is largely dominated in local currency. Two, they said, the government uses flexibility offered by some of the tools to access loans from the domestic markets , and was not be dependent on international markets. Further, they pointed to improvement in shorter-term debt indcators and measures of external debt to make a case that government debt is well within the comfort zone — and better than many peer group countries. Then, India's forex reserves also provide a significant measure of safety to external creditors, a point that "S&P has noted, but not adequately" , said officials.

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