

## Fitch Affirms India at 'BBB-'; Outlook Stable

### **Fitch Ratings has affirmed India's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook.**

India's strong growth outlook continues to stand out among peers. Fitch expects real GDP growth of 7.8% for the FY19, up from 6.7% in FY18, although this forecast is subject to downside risks from tightening financial conditions, weak financial-sector balance sheets and high international oil prices. Fitch forecasts growth to decelerate to a still-strong 7.3% in both FY20 and FY21 for the same reasons. Average projected growth for the three years through to FY21 would be the highest among 'BBB' peers and the third-highest among all sovereigns rated by Fitch.

Risks to the macroeconomic outlook are significant, and include a drop in credit growth, resulting from further problems in the banking or shadow-banking sector. Recent defaults by a large non-bank financial institution, highlight risks in a sector that in recent years supplied around a third of total credit growth.

As with other emerging economies with current-account deficits, India has been vulnerable to shifts in market sentiment from global trade tensions and the US monetary tightening. The market sell-off in India has been aggravated due to a widening current-account deficit, resulting from a higher oil import bill and accelerating economic activity.

Increase in transaction costs and improvement in the business environment is expected amid implementation of significant structural reforms in recent years, such as the Goods and Services Tax (GST), an Insolvency and Bankruptcy Code, easing of foreign direct investment (FDI) regulations and a reduction in red tape.

Fitch expects inflation to average 3.9% in FY19, still above the 'BBB' range median of 2.8% for 2018. The MPC has

so far decided not to implement aggressive policy rate hikes as a pre-emptive measure to support the exchange rate, as some peer countries, such as Indonesia, have done. Instead, the MPC has maintained a focus on domestic inflationary pressures. Fitch expects up to one more 25bp rate hike by the end of FY19 and a 25bp increase in FY20.

The Indian economy continues to exhibit some structural weaknesses relative to peers and is less developed on a number of metrics. Governance standards continue to be weak, as illustrated by a low score for the World Bank governance indicator (47th percentile versus the 'BBB' median of 59th percentile). India's ranking on the United Nations Human Development Index (31st percentile versus the 'BBB' median of 68th percentile) also indicates relatively low basic human development.

The full list of rating actions is as follows:

- Long-Term Foreign Currency IDR affirmed at 'BBB-'; Outlook Stable
- Long-Term Local Currency IDR affirmed at 'BBB-'; Outlook Stable
- Short-Term Foreign Currency IDR affirmed at 'F3'
- Short-Term Local Currency IDR affirmed at 'F3'
- Country Ceiling affirmed at 'BBB-'

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