India’s Business Rating Upgrades

What is the issue?

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- Government has suggested that Moody’s rating upgrade for India reflects the impacts of structural reforms and fiscal discipline.
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- The rating agency’s optimistic view of India should be seen in perspective.
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What were the reforms & acknowledgements?

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- The structural reforms ushered in include - implementing GST, constituting the Monetary Policy Committee (MPC), and setting up an Insolvency & Bankruptcy code (IBC).
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- Moody (rating agency) had stated that the transition to GST involves a short-term growth trade-off for medium-term gains.
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- It hence expects India to grow at just about 6.7% in 2017-18, but pick up in the subsequent years.
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- Notably, India also saw a rankings jump of 30 places in the World Bank’s ‘Ease of Doing Business Index”.
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- For all this, a streamlined indirect tax system, ease of sale and purchase of business assets and macroeconomic stability are essential.
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- Formalising the economy by promoting cashless transactions and extending the Aadhaar platform are also integral to these reforms.
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- Along with GST, such steps are expected to expand the tax-to-GDP ratio beyond the current level of 16%.
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What are the challenges ahead?

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- Despite the optimistic outlook, there are immediate concerns on the macroeconomic front for India.
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- **Oil Prices -** Rising oil prices and hiccups in the transition to GST can affect tax collection and put the fiscal and current account deficits under strain.
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- Passing on the higher fuel prices to the consumer looks politically difficult currently, when the Centre is already dealing with rising retail inflation.
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- **Fiscal Targets -** The pressure to not deviate from the fiscal deficit target of 3.2%, notwithstanding uncertain revenues is immense.
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- Notably, many committed expenditures such as Pay Commission disbursements and bank recapitalisation are pending.
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- The finance minister’s emphasis on fiscal targets suggests that growth may have to depend more on bank lending than public spending.
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- **Rating Fallacy -** The Centre, should not get carried away by rating assessments which often take a one-size-fits-all view on market assessments.
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- Notably, their failure to call out toxic mortgages in 2008 that precipitated in the sub-prime crisis dented their credibility.
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Source: Business Line

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