Budget 2015: Rating firms flay fiscal consolidation delay; rule out upgrade

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MUMBAI: Ruling out any immediate upgrade in India's sovereign ratings, global and domestic agencies have red-flagged the country's delayed fiscal consolidation roadmap and have warned against any slippages from the "ambitious" disinvestment plan proposed in Budget.

It can be noted that a majority of the major international rating agencies have warned the country about the high fiscal deficit in the past.

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The rating agencies also cautioned that the higher borrowings should be used only for productive capacity of the economy while they also expressed concern about fiscal consolidation proving difficult despite an accelerated GDP growth and fall in oil prices.

The agencies have said that Union Budget, wherein Finance Minister Arun Jaitley yesterday said fiscal deficit target of 3 per cent would be now achieved in 3 years as against 2 years targetted earlier, is a 'credit-neutral' event as of now.

Global agency Moody's said the credit profile still faces a constraint from the fiscal side, while the government has decided to focus more on growth than the fiscal consolidation.

In the Budget announced yesterday, Finance Minister Arun Jaitley had said the government would achieve the 4.1 per cent fiscal deficit target in FY'15, but increased the FY'16 target to 3.9 per cent as against 3.6 per cent set earlier, as part of the fiscal consolidation roadmap.

"This is a deviation from the earlier announced fiscal consolidation roadmap. We believe a higher fiscal deficit as such is not harmful, so long as the borrowed money is used for expanding the productive capacity of the economy," India Ratings said in a statement.

It, however, said that the fine-print in the Budget does not support this.

In the run-up to Budget, S&P and Moody's had said high fiscal deficit was among the factors that "constrain" the country's rating.

Meanwhile, domestic agency Care Ratings termed the fiscal targets as "pragmatic" given the need to grow faster and stressed that the glide path to the medium term target of 3 per cent has been maintained.

The Budget is pro-growth and government seems to be keen to expedite the growth story with public investment, it said.

Jaitley forecast that GDP growth would accelerate to 8-8.5 per cent in the fiscal year starting in April, up from 7.4 per cent this year.

"The creditable part of this exercise is that it has been accomplished by being pragmatic with the level of fiscal deficit which will be at 3.9 per cent for the year even though the glide path to 3 per cent is still on the agenda," Care Ratings Managing Director DR Dogra said.

He, however, pointed out that in his calculations, Jaitley has pegged an ambitious divestment target of Rs 69,500 crore, even though the previous fiscal's target of Rs 43,425 crore is expected to fall short by 49 per cent.

"Hence, it remains to be seen if the optimistic target is realised in FY16," it said.

Crisil said the 3.9 per cent fiscal deficit target is realistic, but warned of slippage because of a possible trouble in achieving the divestment target.

In such a scenario, and if the government does not introduce expenditure cuts, the deficit can go up to 4.2 per cent, it said.

"The measures in the budget...doesn't change our view on India's sovereign credit profile," Moody's Sovereign Ratings Analyst Atsi Sheth told PTI.

Moody's has a 'Baa3' rating on India, with a stable outlook. The current rating is closest to junk status or below investment grade.

"The delayed reduction of the fiscal deficit to 3 per cent of GDP simply underscores our view because fiscal consolidation is proving difficult even as economic growth is accelerating and oil prices are benign," Sheth said.

"The budget clearly prioritized growth over fiscal consolidation," she said, adding, the budget contains several measures that are positive, such as clarity around GAAR, a simplification of the corporate tax regime and reiteration on introduction of GST.

However, there was no significant reduction of current expenditures, and the fiscal roadmap announced last year was changed and fiscal consolidation delayed, she added.

The Finance Minister had said that the Corporate Tax rate would be brought down to 25 per cent over four years and the Goods and Services Tax (GST) would be rolled out by April 2016. Besides, implementation of General Anti Avoidance Rules (GAAR) had been deferred by two years to April 2017.