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India's Rating Unaffected by Budget: S&P, Fitch (also see in Jpeg)

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Bureau

International rating agencies Standard & Poor's and Fitch today said their sovereign rating on India is unaffected by the Budget and warned that policy execution and controlling subsidies would be the key risks to look out for during the year.

Both the agencies, which had last year threatened to downgrade the sovereign rating to junk status, however, hailed the Budget that has projected fiscal deficit at 5.2 and 4.8 per cent respectively for this fiscal and next, given the weak economic environment and the upcoming elections.

"With elections due in a little more than a year, the adherence to fiscal consolidation remains encouraging," Fitch stated even as S&P termed it as "prudent".

However, domestic rating agencies, including Icra, Care and India Ratings were more convinced by Chidambaram's speech and said the government would meet the targets.

While S&P hinged its future readings on the outlook to factors like economic growth, external position, fiscal reforms like the introduction of goods and services tax and action on subsidy reduction and the political climate, Fitch said delivery of subsidy reforms, growth and uncertainty about proceeds from divestment were key risks areas.

"The future trajectory of the rating will be determined by factors like economic growth prospects, external position, fiscal reforms like the introduction of the goods and services tax and action on subsidy reduction and the political climate," S&P said.

Fitch said: "Delivery of subsidy reforms, GDP growth and uncertain proceeds from the privatisation process (are) the key risks for the government's policies."

S&P also warned that there is little progress in structural reforms to reduce the vulnerability of the government's fiscal position, adding there is a potential that the government may exceed its budgeted expenditure target.

"India is still vulnerable to spikes in oil and other commodity prices. Although the government allowed a gradual increase in diesel prices earlier this year, the timing and the extent of such increases are uncertain," S&P said.

The US-based agency further warned that the government will also find it difficult to contain subsidies at the targeted 2 per cent of GDP in FY'14 as the pressure from food subsidy will increase.

The "large fiscal deficits and debt, and its lower middle-income economy are the drags on the rating," S&P said.

Fitch felt that "policy execution will be challenging, and the country's public finances are vulnerable to any further growth slowdown."

Meanwhile, agency Icra said the Budget "has made a commendable attempt to restrict the fiscal deficit to 4.8 per cent in 2013-14".

It described exclusion of big ticket announcements and attempts at rationalisation of centrally sponsored schemes as a "key positives in terms of fiscal prudence".

Like S&P, it also said the regular revision in diesel prices remains "crucial to curtail fuel subsidies within the budgeted level".

The lack of clarity on a timeline to introduce two of the biggest reforms in taxation-- the goods and services tax and the direct tax code-- was a disappointment from the Budget, Icra said.

Stating that the fiscal deficit target of 4.8 per cent "looks credible", Care's managing director and chief executive DR Dogra said "Sectors such as power, cement, bricks, coal, electronics would be positively impacted, though the net impact of the higher freight rates due to the railway budget would finally determine the end impact,".