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FITCH RATINGS RELY ON OLDER DATA, IGNORE RECENT POSITIVE TRENDS IN INDIAN ECONOMY : FM

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Following is the text of the statement made by the Union Finance Minister, Shri Pranab Mukherjee after Fitch Ratings issued a press release on India's sovereign credit rating:

"Today, Fitch Ratings have issued a press release on India's sovereign credit rating. Fitch has reaffirmed India's long-term Foreign and Local Currency Issuer Default Rating (IDR) at BBB(-). It has, however, revised India's outlook to Negative from Stable.

In their press release, Fitch mentions various positive factors about the Indian economy, such as India's "strong economic and credit fundamentals," "diversified economy," "high domestic savings," very low "net external debt," "high foreign exchange reserves," and that "underlying drivers of the last decade of rapid economic growth remain in place – a fast growing pool of educated workers and an innovative private services sector."

While the markets had already anticipated that Fitch would revise the outlook and so there is no surprise in the announcement, it must be pointed out that Fitch has primarily relied on older data, and has ignored the recent positive trends in the Indian economy. In particular, it has not taken note of many recent structural reforms initiatives taken by the Government – such as UIDAI, fertilizer subsidy reform, capping subsidies as a fraction of GDP, new manufacturing policy, new telecom policy etc. It has missed the process of strengthening of public finances in India as is evident by, inter-alia, a gradual reduction of government debt/GDP ratio in the last few years, as compared to an increase in this ratio for most of the major economies in the world.

The concerns expressed by Fitch on the economic growth potential, inflationary pressures, and weak public finances are based on earlier data. Government has already taken note of such concerns.

There are several positives for the Indian economy. RBI has reversed the interest rate cycle by announcing a cut of 50 basis points in April 2012; core inflation has declined significantly from 8.7% in May 2011 to less than 5% in May 2012; progress has been made on fuel linkage for coal based power projects; and the quarterly investment growth rate has become positive in the fourth quarter of 2011-12.

The decline in international oil prices in recent weeks and absence of any major adverse results on corporate performance in the last quarter of 2011-12 are all factors that would have a positive impact on the government's fiscal position and more generally on India's economic growth.

The Foreign Institutional Investors (FII) have reposed renewed faith in the Indian economy and have already invested a net USD 12.3 billion in the first five months of the current calendar year as compared to USD 8.3 billon in the full calendar year 2011. This is the highest net FII inflows in the corresponding period in the last ten years. The Foreign Direct Investment has also witnessed an impressive growth. In the fiscal year 2011-12 India received a gross FDI inflow of USD 46.8 billion, a growth of 35% as compared to a gross FDI inflow of USD 34.8 billion in the fiscal year 2010-11. The recently launched scheme for the Qualified Foreign Investors (QFIs) is also expected to help bring in additional overseas funds to the Indian capital markets. A road show held recently in five Gulf countries revealed a high degree of interest and enthusiasm amongst the overseas investors in the medium and long-term economic growth of India and in the QFI scheme in particular.

Initiatives taken recently to improve the growth prospects include a seven-pronged strategy to increase exports and the new thrust given to the infrastructure sectors by the Prime Minister, by inter-alia significantly scaling up the targets in the Road, Railway, Port, Civil Aviation, and Power sectors and reviewing the progress at the highest level.

All these factors should help in the recovery of domestic growth momentum.

In view of the above, although Government welcomes the observations made by Fitch Ratings regarding the strong fundamentals of the Indian economy, its concerns about the economic growth, inflationary pressures, and weak public finances are not placed in the context of the present state of the global economy and are based on older data."

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