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INDIA’S RATINGS DON’T REFLECT ECONOMY’S FUNDAMENTALS: CEA

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

Krishnamurthy Subramanian

India’s sovereign credit ratings do not reflect the economy’s fundamentals, Chief Economic Adviser Krishnamurthy Subramanian said on Friday, while pitching for sovereign credit ratings methodology to be made more transparent and less subjective.

“Never in the history of sovereign credit ratings has the fifth-largest economy in the world been rated as the lowest rung of the investment grade (BBB-/Baa3). Reflecting the economic size and thereby the ability to repay debt, the fifth-largest economy has been predominantly rated AAA. China and India are the only exceptions to this rule,” the CEA said.

The Economic Survey, tabled in Parliament on Friday, added that while sovereign credit ratings do not reflect the Indian economy’s fundamentals, “noisy, opaque and biased credit ratings” damage FPI flows.

“Sovereign credit ratings methodology must be amended to reflect economies’ ability and willingness to pay their debt obligations by becoming more transparent and less subjective.

‘Must address bias’

“Developing economies must come together to address this bias and subjectivity inherent in sovereign credit ratings methodology to prevent exacerbation of crises in future,” it said.

The CEA also pointed out that the problems of India’s administrative processes derive less from lack of compliance to processes or regulatory standards, but from over-regulation.

‘India overregulates’

“It is not possible to have complete regulations in a world which has uncertainty as it is not possible to account for all possible outcomes. The evidence, however, shows that India over-regulates the economy.

“This results in regulations being ineffective even with relatively good compliance with process,” Dr. Subramanian said in the Survey.

The Chief Economic Adviser also pitched for simplification of regulatory processes by avoiding substitution of supervision with more complex regulation, along with transparent decision-making processes.

The CEA also highlighted that given the problem of asymmetric information between the regulator and the banks, which gets accentuated during the forbearance regime, an Asset Quality Review exercise must be conducted immediately after the forbearance is withdrawn.

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