MOODY SAYS INDIA'S DEBT AT 70% OF GDP IS 'CONSTRAINT' TO HIGHER RATING

Moody's Investor's Service said that India's public debt at 70 percent of its gross domestic product is preventing Asia's third-bigest economy from securing an investment-grade rating. Atsi Sheth, who is a sovereign analyst at Moody's said in a telephone interview from Mumbai yesterday, that the nation's fiscal deficit and ''the debt burden, which is high relative to similarly rated countries,'' are among the constraints. ''For the ratings to be improved, we will have to be comfortable that India's government debt is at a level that can be sustained over the medium term.'' A day later, R. Gopalan, who is the secretary for the Department of Economic Affairs, said that India's finance ministry pitched for a higher rating in a meeting with Moody's officials on Nov. 14. The government raised its planned borrowing for the six months through March 31 by 32 percent as revenue collections fell just a little short of the target. On October 4, Finance Minister Pranab Mukherjee said that it may be hard to meet his goal of cutting the budget deficit to a four-year low of 4.6 percent of GDP. Moody's rates India's rupee sovereign debt a Ba1, which is the highest junk grade, a level shared by Indonesia and Morocco. India's foreign-currency debt is rated a Baa3, which is the lowest investment grade. Sheth, who actually declined to comment on the lobbying by the finance ministry, expects the budget gap to be as high as 5.5 percent sometime during the year ending March 31. Yesterday, Mukherjee said that the government isn't revising its deficit target yet. The yield on the benchmark 10-year government bond has risen almost 96 basis points just this year, the most its been in Asia, to 8.88 percent, as the inflation remained untamed above 9 percent for a 11th consecutive month in October, while increased supply dampened demand. The Reserve Bank of India has increased borrowing costs 13 times starting in March of 2010, to slow the pace of price gains, and expects the inflation will cook to 7 percent sometime before the end of March. ''It might be optimistic to expect a rating upgrade at this juncture when there are significant risks.'' on account of the deficit, says Suvodeep Rakshit, who is an economist at Kotak Securities Ltd. in Mumbai. ''The government's finances are under severe pressure this year due to slowing growth and higher rates.'' Sheth said that the slowing economic growth might also exacerbate the deficit. According to the central bank, the $1.7 trillion economy is likely to expand 7.6 percent in the fiscal year to March 2012, slower than 8.5 percent in the previous year. ''The deficit is going to be higher due to growth slowdown,'' said Sheth. ''Growth and profitability have been lower than the government had assumed and that will be reflected in revenue growth.''