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India less susceptible to external shocks, credit positive: Moody's

By Vinay Pandey, ET Bureau | Apr 07, 2016, 11.05 AM IST

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Ratings agency **Moody's** has said India's rising foreign direct investment provides stable financing of its **current account deficit** and is a credit positive, implying that it would count positively towards a **ratings** upgrade at the time of the review.

Net **FDI** inflows hit an all-time high in early 2016, the ratings agency said, more than financing the current account deficit for the first time since 2004.

"The strength of inflows reflects India's relatively strong growth prospects and government efforts to liberalize foreign investment regulation," Moody's said. It expects FDI inflow to continue to rise and will continue to provide stable source of financing of current account deficit.

In a report released on Thursday, the ratings agency says low commodity prices will keep India imports in check. The decline in imports has been a bigger contributor to the lower trade deficit than higher exports. "We expect domestic demand to gradually pick up in the fiscal year ending March 2017 (FY2017), which could push up import volumes to some degree. However, with commodity prices - particularly oil - likely to remain depressed, we do not expect a marked renewed widening of India's trade deficit," the report said.

In the report "Rising Foreign Direct Investment Provides Stable Financing of Current Account Deficit, a Credit Positive" Moody's says weakening remittances and services exports, two of the biggest source of **forex** inflow, could weigh on the current account deficit.

Worker remittances dropped 30% year-on-year in October-December 2015, albeit from unusually high levels, the report says.

"Against a backdrop of subdued global economic activity — in particular in the Gulf, the origin of more than half of remittances to India — **remittance** inflows could weaken further in the coming months. A significant and prolonged slowing of remittance inflows could lead to a renewed widening of the current account deficit," it cautioned. "Persistent weakness in services exports could add to these pressures."



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