India Ratings raises FY24 growth forecast, flags fiscal challenges

Says fiscal deficit may touch 6% of GDP against 5.9% target

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New Delhi, 3 January

India Ratings and Research (Ind-Ra) on Wednesday revised India's GDP growth estimate for FY24 to 6.7 per cent from 6.2 per cent projected earlier.

The rating agency, however, said that meeting the fiscal deficit target for the current financial year would be challenging due to higher-than-budgeted revenue expenditure.

In its report, the rating agency said the upward revision in GDP growth projection for FY24 is due to the resilience of the Indian economy, which grew 7.6 per cent in Q2FY24, sustained government capex and deleveraged balance sheet of corporates and banking sector.

The prospect of a new private corporate capex cycle along with sustained momentum in software services exports and remittances from the rest of the world despite global headwinds is the other factor for the higher projection, it said.

"Higher-than-budgeted revenue expenditure triggered through the first and likely second supplementary demand for grants in combination with lower-than-budgeted nominal GDP will push the fiscal deficit to 6 per cent of GDP, 10 bps higher than budgeted 5.9 per cent," it said.

The report said it expects retail inflation to cool off to 5.1 per cent and 4.7 per cent in the third and fourth quarters respectively of this financial year.

The rating agency also expects a pick-up in investment demand with green shoots visible in private capex. Ind-Ra expects gross fixed capital formation to grow 9.5 per cent in FY24.

"Fiscal challenges faced by the government mainly due to lower nominal GDP growth (9.6 per cent) than the budget assumption (10.5 per cent) may lead to lower capital expenditure by the union government and may also reflect in gross fixed capital formation growth in FY24," the report said.

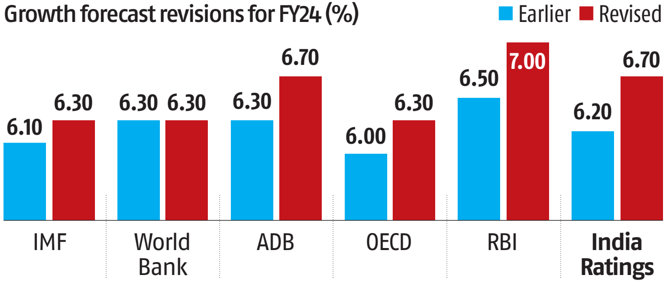
The rating agency also said that weaker global trade and economic growth are reflected in Indian export growth. While Indian merchandise exports declined 6.5 per cent year-on-year in April-November of FY24, services trade surplus grew 18.1 per cent for the same period.

The report also said that the current consumption demand is skewed in favour of the goods and services consumed largely by households belonging to the upper-income bracket.

"Sustained real wage growth of the households belonging to the lower income bracket is an imperative for a sustainable and broad-based recovery in consumption demand," the report said.

UPWARD REVISION

Growth forecast revisions for FY24 (%)



Source: Respective agencies

Fitch: APAC growth to remain strong in '24

The economic growth in Asia Pacific (APAC) will remain strong in 2024 and GDP is expected to grow by about 5 per cent in India and a host of emerging market countries, Fitch Ratings said in its report titled 'APAC Cross-Sector Outlook 2024'. It said the outlooks for the banking sectors in India and Indonesia move to improving in 2024. **PTI**