India to drive Apac growth; China's fortunes wane: S&P

Apac growth broadly resilient but susceptible to energy shocks from West Asia

SHIVA RAJORA
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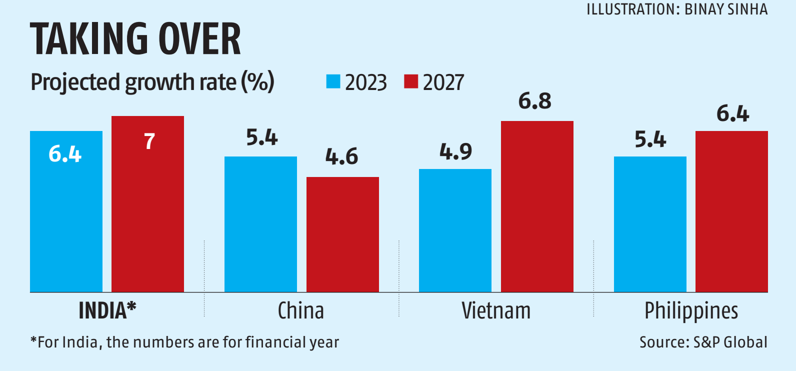

India will drive growth in the Asia-Pacific (Apac) region as the growth engine is likely to shift from China to South and Southeast Asia in the coming years, S&P Global Ratings said in a report on Tuesday.

The rating agency's report projected China's growth to slow down to 4.6 per cent by 2026 from an estimated 5.4 per cent in 2023. India is likely to clock 7 per cent economic growth from 6.4 per cent estimated for 2023.

"We expect Asia-Pacific's growth engine to shift from China to South and Southeast Asia. This shift could constrain the upside over the next few years for China's [bond] issuers while improving those of issuers in India, Vietnam, the Philippines, and Indonesia," the report says. Also, other countries in the region like Vietnam are expected to grow by 6.8 per cent in 2026 from 4.9 per cent in 2023; Philippines by 6.4 per cent from 5.4 per cent and Indonesia at a steady rate of 5 per cent in the same period.

The report further mentions that Apac's central banks are likely to keep interest rates high for longer and the region's borrowers, particularly the highly indebted, could rack up higher interest expenses from financing needs as a widening conflict in West Asia could risk affecting global supply chains and increase energy costs, fanning inflation.

"We expect regional interest rates to likely stay high, given the US Federal Reserve will maintain a tight monetary policy to bring inflation within target. Policy rate differentials between the Fed and regional central banks could cause capital outflows for the region's economies to put pressure on domestic currencies. For those borrowers with impending or sizeable refinancing needs, high borrowing costs and tighter credit availability from lenders are prominent risks," the report noted.

The rating agency said India's retail inflation is projected to moderate to 4.7 per cent by FY27 from 5.5 per cent in FY24, as the policy rate is expected to fall to 5 per cent from 6.5 per cent in the corresponding period.

Also, even as Apac's economic growth remains broadly resilient, buoyed by robust labour markets and services sectors, S&P said the growth momentum is susceptible to risks of energy shocks from a widening West Asia conflict and slower global demand.

"We lowered our growth projection for the region (excluding China) to 4.2 per cent in 2024. Prospects for industries also differ, with export-centric manufacturing faring worse. The region's net ratings outlook bias stands at -1 per cent," the report said.

The latest official gross domestic product (GDP) data released last week by the National Statistical Office (NSO) showed that India grew by 7.6 per cent in the second quarter of FY24, which prompted several analysts to raise their full-year growth estimates closer to 7 per cent.