Fitch says India's growth prospects have brightened

Rating agency says robust growth outlook offset by weak public finances

ARUP ROYCHOUDHURY
New Delhi, 9 May

Global ratings agency Fitch reiterated its BBB- rating with a stable outlook on India's long-term sovereign debt, saying that growth prospects have brightened as the private sector appears poised for stronger investment growth.

This is on the back of improvement in corporate and bank balance sheets in the past few years, supported by the government's infrastructure drive, the rating agency said.

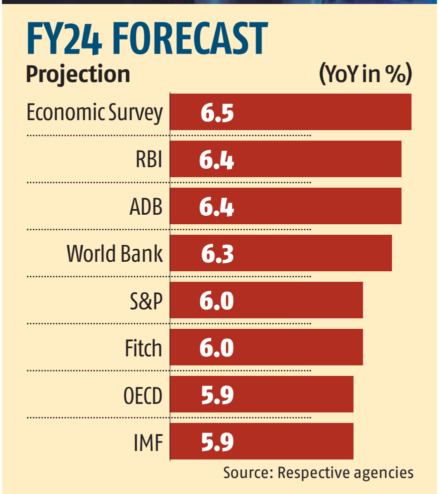
Late on Monday, Fitch said India would be one of the fastest-growing sovereigns globally, with a forecast of 6 per cent gross domestic product (GDP) growth for FY24 supported by resilient investment prospects. It, however, said there were headwinds from elevated inflation, high interest rates, and subdued global demand, along with fading pandemic-induced pent-up demand.

"India's rating reflects strengths from a robust growth outlook compared with peers and resilient external finances, which have supported India in navigating the large external shocks over the past year," Fitch said.

"These are offset by India's weak public finances, illustrated by high deficits and debt relative to peers, as well as lagging structural indicators, including World Bank governance indicators and GDP per capita," it said, and added that growth was expected to rebound to 6.7 per cent by FY25.

The report said that the financial sector was in a very healthy position. "Sustained improvements in asset quality and profitability have led to a strengthening of bank balance sheets on the back of the economic recovery. This has created headroom to absorb risks as pandemic-related forbearance measures continue to unwind in FY24. Banks appear well-positioned to support sustained credit growth if capitalisation is well-managed."

Fitch said while inflation was expected to decline, it would remain near the upper end of the RBI's target band, and was expected to average 5.8 per cent in FY24.



The agency pointed out that while the Centre is committed to reaching a fiscal deficit target of 4.5 per cent of GDP by FY26, there is no road map on how that will be achieved. "We believe it will be challenging to achieve this target, which would require accelerated consolidation of 0.7 percentage points per year in FY25 and FY26, compared with 0.3 bps in FY23 and 0.5 bps in FY24," it said.

Fitch also cut its estimate of FY23 current account deficit to 2.3 per cent of GDP from 3.3 per cent, and forecasts a 1.9 per cent deficit in FY24. "The improvement is driven by robust services exports and buoyant remittances, combined with a moderating goods deficit from declining oil prices. Services exports have boomed as domestic technology firms have moved up the value chain and multinationals have offshored back-office operations to India."