Domestic demand to keep growth up: Moody's

RUCHIKA CHITRAVANSHI
New Delhi, 9 November

Strong domestic demand is likely to sustain India's economy in the near term, said Moody's on Thursday as it kept the country's growth forecast for 2023 and 2024 unchanged at 6.7 and 6.1 per cent.

"Robust goods and services tax collections, surging auto sales, rising consumer optimism and double-digit credit growth suggest urban consumption demand will likely remain resilient amid the ongoing festive season," said the rating agency's 'Global Macro Outlook 2024' report.

Domestic demand after the festive season will depend on inflation and the lagged impact of monetary policy tightening by the Reserve Bank of India (RBI). "With exports remaining weak amid an unfavorable global economic backdrop, strong domestic demand will likely sustain growth in the near-term," said Moody's. While rural demand has shown signs of improvement, it remains vulnerable to uneven monsoons that could affect crop yields and farm income.

Moody's said that on the supply side, expanding manufacturing and services and core industries growth add to the evidence of solid economic momentum. High-frequency indicators show that the economy's strong second-quarter momentum continued in the third quarter.It expected growth of Group of 20 (G20) countries to moderate in 2024 to 2.1 per cent from 2.8 per cent in 2023 and then accelerate in 2025 to 2.6 per cent. "Geopolitical, cyber and climate risks add uncertainty to the outlook; and high interest rates could weaken economic strength and financial stability more than we expect." Israel's war in Gaza is a source of economic and geopolitical risks, as is the military conflict between Russia and Ukraine, said the report. The rating agency also said that although core inflation in India has moderated to 4.5 per cent, down from 4.8 per cent in August, upside risks to headline Consumer Price Index (CPI) inflation from potential spikes in food and energy prices amid erratic weather and geopolitical uncertainty will keep the RBI vigilant. India, Brazil, Mexico and Indonesia are well positioned to take advantage of the shifting of supply chains away from China amid geopolitical tensions and could emerge as engines of global growth, said Moody's.

The report noted that headline and core inflation rates in advanced and emerging market economies have retreated from 2022 peaks. "We expect inflation to fall back to target in most G-20 economies by year-end 2025. Climate or geopolitical events could inject volatility from spikes in energy and food prices," it said. It also said that the RBI will keep rates on hold until the US Fed rate cuts are more clearly in sight. "Ample reserves, solid domestic growth and largely contained inflationary pressures offer the [Indian] central bank maneuverability of monetary policy calibration."

WHAT THE REPORT SAYS

- **Urban consumption demand will likely remain resilient on robust goods and services tax collections,** surging auto sales, rising consumer optimism
- **Rural demand remains vulnerable to uneven monsoons** that could lower crop yields and farm income
- **Expanding manufacturing and services PMI and healthy core industries' output growth** add to evidence of solid economic momentum