‘Expect India’s GDP to moderate to 6% in FY24’

Rating agency CRISIL expects a moderation in India's gross domestic product (GDP) growth in 2023–24 (FY24), from 7 per cent growth expected earlier in its latest India Outlook Report. Its Managing Director and Chief Executive Officer **AMISH MEHTA** discusses the factors behind this downgrade and the road ahead for the Indian economy in conversation with **Krishna Kant** and **Vishal Chhabria**. Edited excerpts:

CRISIL now expects India's GDP to grow by 6 per cent in FY24. This is a downgrade of about 100 basis points. Which led to this downgrade?
The Indian economy has shown resilience in the face of heightened uncertainty in the global economy, but we expect India's economic growth to moderate to 6 per cent next year, from 7 per cent expected earlier.

One, a slowing world economy due to elevated inflation and aggressive rate hikes by major central banks will create downside risks to India's growth. We can see its adverse impact on India's merchandise export which has begun to decline. Domestic demand will have to do the heavy lifting in FY24.

Q&A

AMISH MEHTA
MD & CEO, CRISIL

Two, the full impact of rate hikes by the Reserve Bank of India (RBI) will manifest next fiscal year (FY24). Monetary moves typically impact growth with a lag of three to four quarters.

Three, the tricky geopolitical situation implies that India will continue to reckon with volatility in crude and commodity prices that will have implications for domestic inflation and corporate margins.

On the bright side, we have seen a huge rebound in the services sector, driven by discretionary spending by consumers. We expect this to support GDP growth next year as well.

Inflation is likely to moderate to 5 per cent next year, from 6.8 per cent on average this year. The corporate sector is also likely to continue to do well, driven by higher volumes. The urban economy continues to do well due to faster income growth and we expect it to continue to do well in FY24.

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What factors can push up or pull down India's GDP growth from your baseline projection of 6 per cent growth next year?
If any of the three major growth headwinds — global slowdown, monetary tightening, and geopolitical situation — turns out to be stronger or worse than expected, there could be further moderation in India's GDP growth in FY24. Conversely, India's GDP growth would be higher than 6 per cent if these headwinds turn out to be much weaker than expected. Regardless, we expect India to grow at 6.8 per cent, driven by investment and productivity growth over the medium term. The initial push for investment will come from government capital expenditure (capex), followed by corporate capex. One of the key downside threats is climate risk that can affect food, inflation, and labour productivity.

How will the rate hikes by the RBI and rise in lending rates affect private consumption?
There has been a rise in lending rates on retail credit, such as home and vehicle loans, which may have some impact on demand. However, interest rates are still lower than pre-pandemic highs. The overall impact on consumers will be less than what many expect. We expect most of the impact in the lower segment of the consumer market and limited or no impact in the upper segment, such as passenger cars and demand for new homes.

Urban consumption has been more buoyant, compared to rural consumer demand, driven by higher income growth. We expect the urban segment to continue to do well

Companies have reported a sharp rise in their interest expenses and a decline in earnings in the past two quarters. Will these be factors in slowing down corporate earnings and companies' growth plans in FY24?
We don't think so. The corporate balance sheets are in good shape and we have seen deleveraging by corporates. There has been improvement in the median gearing ratio (gross debt/earnings before interest, tax, depreciation, and amortisation, or Ebitda) in the past year and a half, thanks to a big rise in operating profit.

We expect some moderation in Ebitda margins for non-banking, financial services, and insurance companies in FY24. But overall operating profits are still expected to grow in double digits in FY24. If you look at the demand drivers, they remain intact and higher volume and revenues will allow companies to absorb higher lending rates.

GDP growth has been less than 5 per cent in two of the past four quarters (fourth quarter of 2021-22 and third quarter of 2022-23) despite a favourable base. Should this worry us about a further downgrade in India's GDP growth?
We don't expect GDP growth to fall below 6 per cent in FY24. The government has announced a big scale-up in public investment in infrastructure projects in FY24. The positive multiplier effect of government capex will more than offset any negative multiplier effect of lower revenue expenditure and cut in subsidies. Besides, the services sector will continue to do well, aiding overall GDP growth.

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