India GDP to grow 6-7.1% during 2024-2026: S&P

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India's economic growth prospects remain robust over the medium term, with its gross domestic product (GDP) expected to grow between 6 per cent and 7.1 percent annually in 2023-24 (FY24) through 2025-26, S&P Global said in its latest report on Thursday.

"Economic growth momentum to continue. India's economic growth prospects should remain strong over the medium term, with GDP expanding 6-7.1 per cent annually in 2024-2026," S&P said.

The report by the global credit rating agency also mentioned that bad loans in the banking sector will likely decline to 3-3.5 per cent of gross advances by the end of 2024-25 (FY25). This improvement is attributed to structural enhancements such as healthy corporate balance sheets, tighter underwriting standards, and improved risk-management practices.

Furthermore, the report emphasised that interest rates in India are unlikely to rise significantly, limiting the risk for the banking industry. Global uncertainties are expected to have a lesser impact on the Indian economy. "Unsecured personal loans have grown rapidly and could contribute to incremental non-performing loans. We believe underwriting standards for retail loans generally remain healthy, and the overall level of delinquencies remains within acceptable limits for this product category," said S&P Primary Credit Analyst Deepali Seth Chhabria. Given India's domestic orientation, the credit rating agency expects economic growth to be less affected by slower global growth and external demand. However, the agency warns that this could fuel inflation.

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- Bad loans likely to decline to 3-3.5% of gross advances by the end of FY25
- Interest rates unlikely to rise materially
- Being domestically oriented, India's economic growth to be less affected by slower global growth and external demand

The report also noted that State Bank of India and the leading private-sector banks have largely addressed their asset-quality challenges. "Many public-sector banks still carry relatively high volumes of weak assets, which will result in higher credit losses and hit profitability; their performance lags that of the industry's," it added.

Earlier this week, Morgan Stanley forecasted the Indian economy to grow at around 6.5 per cent for FY24 and FY25, citing strong domestic fundamentals. Domestic demand is being supported by strength in corporate and financial sector balance sheets and the follow-through of policy reform measures amid a global slowdown. However, any surprise outcome in the upcoming general elections could have implications for growth and macroeconomic stability."A strong political mandate supporting reform measures alongside improvement in external demand would drive faster growth," it said.

With inputs from PTI