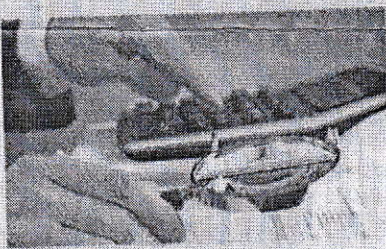
S&P expects RBI to further hike rates to tame inflation

Strong forex reserves acting as good buffer against cyclical difficulties



KR SRIVATS

New Delhi, August 25

S&P Global Ratings on Thursday said that it expects Indian economy to grow robust 7.3 per cent this fiscal amid rising inflation and global headwinds.

The growth rate of the economy is, however, expected to moderate to 6.5-6.7 per cent levels in the next couple of years, the rating agency said at the India Credit Spotlight 2022 webinar. It also said that India has a strong external balance sheet and limited external debt besides ample forex reserves to withstand pressure on the country's credit worthiness.

"We are observing higher current account deficit this year. The country is facing all the challenges from a position of strength. The country has built up buffers against cyclical difficulties like those, which we are experiencing right now," Andrew Wood, Director, S&P Sovereign & International Public Finance Ratings, said.

Wood added that the global rating agency expects the India's forex reserves to recover to $600 billion by this year-end. India's forex reserves stood at $570.74 billion as of August 12. While there has been a decline in forex reserves, reserves are still high, he noted. Wood highlighted that the rupee exchange rate movement against the US dollar has been moderate although the greenback had gained lot of strength this year.

Inflationary pressure

Vishrut Rana, S&P Global Ratings Economist Asia Pacific, said that Inflation is going to be a key concern for this year and the rating agency expects CPI inflation at 6.8 per cent over the course of the year. "Risks are to the upside. Food inflation has moderated a bit in last couple of months. Strong monsoon is helping that. Inflationary expectations will depend on monetary policy. We expect RBI to hike interest rates from here. We expect repo rate to be 5.65 per cent. There are upward risks to that," Rana added.

Dipali Seth Chhabria, Associate Director, Financial Institutions Ratings, said the weak loans in the banking system are expected to come down below 5 per cent (as percentage of advances) by March 2024.