S&P ups FY25 GDP forecast to 6.8%

Rating agency says lower fiscal deficit will dampen India's growth

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S&P Global Ratings on Tuesday raised India's FY25 gross domestic product (GDP) forecast by 40 basis points to 6.8 per cent, but stressed that lower fiscal deficit would dampen economic growth.

While projecting a GDP growth rate lower than the Reserve Bank of India's estimate of 7 per cent, S&P Ratings said it expected growth in FY25 to moderate from the better than expected 7.6 per cent in FY24.

In a press statement, the rating agency said restrictive interest rates were likely to weigh on demand next fiscal year while regulatory actions to tame unsecured lending would affect credit growth.

"For Asian emerging market (EM) economies, we generally project robust growth, with India, Indonesia, the Philippines, and Vietnam in the lead," S&P said in its 'Economic Outlook for the Asia Pacific' report.

S&P also expects consumer inflation to decline further to 4.5 per cent on average in fiscal year 2025.

The Finance Ministry, in its latest monthly economic report, had also said it was expecting a broad-based moderation in inflationary pressures aided by the pick-up in summer sowing that is likely to help reduce food prices.

For FY26 and FY27, S&P Global ratings has kept its growth projections unchanged at 7 per cent. It said there are always upward risks around inflation. "But, barring major global shocks, we generally think those risks are now moderate. The upward price pressure from recent international shipping problems appears insufficient to meaningfully affect overall inflation."

In its report titled 'Economic Outlook Asia-Pacific Q2 2024: APAC Bides Its Time On Monetary Policy Easing', the ratings agency said that in domestic demand-led economies such as India, Japan, and Australia, the impact of high interest rates and inflation on household spending had reduced sequential GDP growth in the second half of FY24.

The report said that India is likely to see rate cuts of up to 75 basis points in calendar year 2024. "In India, slowing inflation, a smaller fiscal deficit, and lower US policy rates will lay the ground for the RBI to start cutting rates. But we believe more clarity on the path of disinflation could push this decision at least to June 2024, if not later," the S&P report said.