● CITES EXTERNAL FINANCE, FISCAL CREDIBILITY

Fitch maintains India's credit rating, outlook

Moody's raises GDP growth forecast to 7.2% for 2024

FE BUREAU
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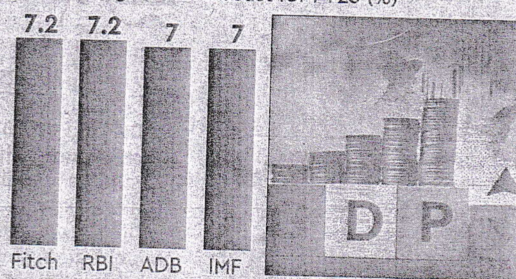
GROWTH PREDICTIONS

India GDP growth forecast for FY25 (%)



■ Fitch says India is set to remain among fastest-growing sovereigns globally

■ Moody's notes that the Indian economy is in a sweet spot

GLOBAL RATING AGENCY Fitch on Thursday affirmed India's sovereign credit rating at 'BBB-' with a stable outlook citing its strong medium-term growth prospect, solid external finance position and strengthening fiscal credibility.

In May 2024, Standard & Poor's Global Ratings revised India's credit outlook from stable to positive while maintaining the long-term sovereign credit rating at the lowest investment grade of 'BBB-' indicating that an upgrade in the credit rating could occur if India's fiscal deficit narrows, and if the central bank effectively controls inflation over time. Moody's currently rates India as 'Baa3' with a stable outlook.

Separately, Moody's upgraded its economic growth forecast to 7.2% for the calender year 2024 from 6.8% estimated earlier. For 2025, it has estimated growth to improve to 6.6% from 6.4% projected earlier.

Fitch said India is set to remain among the fastest-growing sovereigns globally with 7.2% growth in the fiscal year ending March 2025 (FY25) and 6.5% in FY26, compared with 8.2% in FY24.

India's economy likely grew at a five-quarter low of 6.7% in Q1FY25, mainly due to slower manufacturing and agricultural activity, coupled with a decline in government expenditure, the median of an *FE* poll of 17 economists showed.

At 6.7%, growth will be the lowest in five quarters. The Reserve Bank of India (RBI) had projected the gross domestic product (GDP) to grow at 7.1% in the April-June quarter, and at 7.2% in the entire fiscal year.

"We estimate India's potential GDP growth at 6.2%, underpinned by the infrastructure push, strong services sector, and solid private investment outlook. The improved health of bank and corporate balance sheets in recent years should pave the way for a positive investment cycle," Fitch noted. "A key risk is if this private investment cycle does not materialise as a result of subdued consumption, which would weigh on job creation and dampen potential benefits from India's demographic dividend," it said.

Fitch said the central government will achieve its FY26 deficit target of 4.5% of GDP or below, which was set in the FY22 budget, as it forecast a 4.4% deficit.

"After FY26 we forecast steady deficit reduction of 0.2% of GDP per year to about 3.8% in FY29, assuming sustained strong revenue growth and a slight reduction in capex spending," it said.

Fitch said the improved deficit outlook puts government debt/GDP on a modest downward medium-term trajectory, although debt remains high compared to peers. "We forecast debt to fall to 81.6% of GDP in FY25 (BBB median: 58.3%) from an estimated 82.4% in FY24," it said. By FY29, it expects debt to reach just under 78% of GDP, based on 10.5% trend nominal growth.

Fitch said fiscal metrics remain a credit weakness, with deficits, debt and debt service burden all high compared to 'BBB' range peers.

From a macroeconomic perspective, Moody's said the Indian economy is in a sweet spot, with the mix of solid growth and moderating inflation. While employment generation and skill development are government priorities, the extent to which India reaps a demographic dividend will depend on whether and how well these policies succeed, Moody's said. Nevertheless, 6%-7% growth should be possible for the economy sheerly on the basis of present conditions, it added.