Fitch Affirms India at 'BBB-' with a Stable Outlook and forecast GDP growth at 4.6% in FY2020, 5.6% in FY2021 & 6.5% in FY2022

Fitch Ratings has affirmed India's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB-‘ with a Stable Outlook. According to Fitch Ratings, India's rating balances a still strong medium-term growth outlook compared with 'BBB' category peers and relative external resilience stemming from solid foreign-reserve buffers against high public debt, a weak financial sector and some lagging structural factors, including governance indicators and GDP per capita.

Its outlook on India's GDP growth is still solid against that of peers, even though growth has decelerated significantly over the past few quarters, due mainly to domestic factors, in particular a squeeze in credit availability from non-banking financial companies (NBFC) and deterioration in business and consumer confidence. Fitch expects growth to slow to 4.6% in the financial year ending March 2020 (FY20), from 6.8% in FY19, which is still higher than the 'BBB' median of 2.8%. It expects growth to gradually recover to 5.6% in FY21 and 6.5% in FY22 with support from easing monetary and fiscal policy and structural measures that may also support growth over the medium term.

The affirmation of the ratings incorporates Fitch Rating’s expectations of moderate fiscal slippage relative to the central government's deficit target of 3.3% of GDP in FY20. The government is again facing a trade-off between stimulating the economy and reducing the deficit in the medium term. Some fiscal slippage has occurred in recent years against government targets, even during periods of sustained stronger growth. The FY20 deficit target had already been exceeded by end-October due to a weak revenue intake, and a deceleration of nominal quarterly growth suggests further revenue pressure for the rest of the financial year. The government has indicated that its corporate tax rate cut could lower revenue by 0.7% of GDP in FY20. Fitch believes there is a risk of more significant fiscal loosening in the event of continued weak GDP growth, for example, in the context of lingering problems in the NBFC sector.

The government is likely to remain focused on reforms as it has announced some structural measures over recent months to counter the growth slowdown, including efforts to reduce red tape and boost foreign direct investment. It also plans to consolidate the state-owned banks. The positive impact of these reforms on growth is likely to materialise in the medium term, rather than the near term, and will depend on the details and implementation. India has been less affected so far by global trade tensions than many of its peers - given the comparatively closed nature of its economy, which is not part of the Asian supply chain, and comparatively lower export commodity dependence.

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Warm Regards,

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