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India's FY15 Growth Estimated at 5.2-5.5 Per Cent: Care Ratings

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Mumbai: Even as the markets continue to cheer the higher-than-expected GDP data in the fiscal first quarter, Care Ratings on Tuesday advised caution as the economy has moved up due to social sector spends, which cause a fiscal strain.

The ratings agency estimates growth in the current fiscal year (2014-15) at 5.2-5.5 per cent.

"The current optimism needs to be viewed with caution... while growth has been robust in Q1, sustaining it at this level would be a challenge," it said in a note in Mumbai.

Official data released last week pointed to a surprising 5.7 per cent growth in the April-June period. The GDP expansion - the highest in nearly two years - boosted investor sentiment and propelled equity markets to new highs.

The government spends on the social sector, visible through growth in "community, social and personal services", was a key driver for the Q1 GDP numbers, the rating agency said, adding that with the fiscal situation being where it is, the expansion is unlikely to be sustained.

"With the commitment to a 4.1 per cent fiscal deficit, there is little room for substantial contribution from this end (social sector) for the remainder of the year," it said.

Additionally, the poor monsoon, which has resulted in a 3.2 per cent dip in the sown area for the summer crops, will also drag down growth, Care said highlighting its impact on inflation.

"Inflation continues to be a problem, especially on the food side. This means the Reserve Bank will not be lowering rates any time soon."

The base effect coming from a low growth last year will, however, pull up the GDP expansion rate during the current fiscal year, it said.

"As the low base effect will persist in the next two quarters, there is room for optimism this year. We expect GDP growth in the range of 5.2-5.5 per cent for FY15," Care said.

The latest forecast comes a day after analysts and brokerages upwardly revised their FY15 estimates, with some pegging it even at 5.8 per cent.

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