

Current account deficit may be lower at 3% this fiscal: SBI report

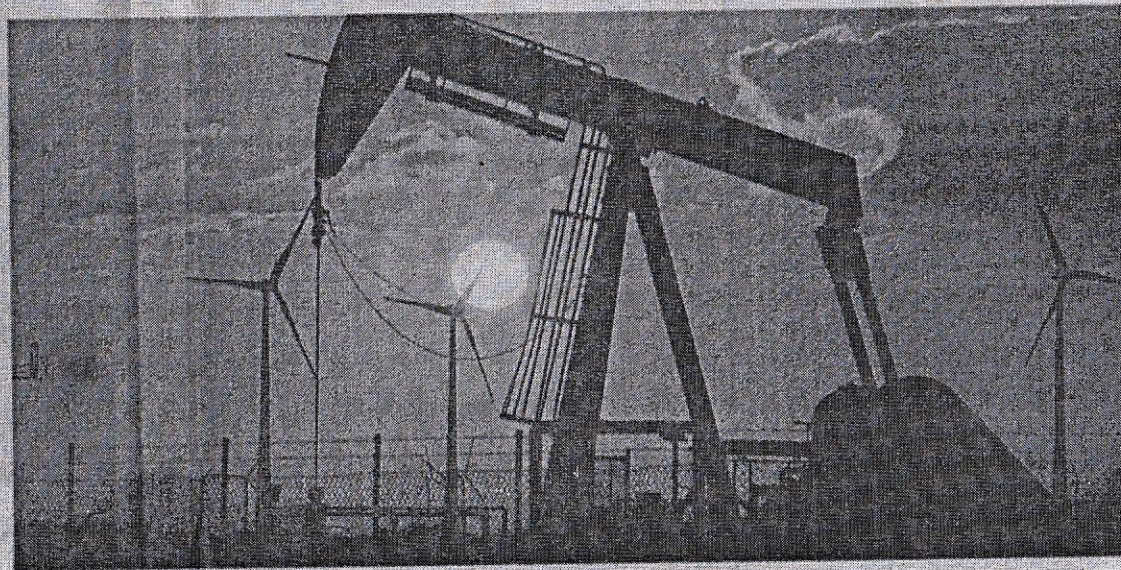
IN THE LEAD. Software exports, remittances rise; \$5-billion jump in forex reserves likely via swap deals

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State Bank of India has pencilled in lower current account deficit at 3 per cent for this fiscal against the minimum consensus of 3.5 per cent, citing rising software exports, remittances and a likely \$5-billion jump in forex reserves via swap deals.

Every \$10 increase in crude prices impacts the CAD to the tune of 40 basis points, while the same on fuel inflation is 50 bps and also results in 23 bps decline in growth, according to Soumyakanti Ghosh, chief economic advisor at SBI.

CAD has a counter-cyclical shock absorber, he said in a report on Thursday. Exchange rate is the major contributor to software exports growth and 40



POWER OF OIL. Every \$10 increase in crude prices impacts CAD to the tune of 40 bps, while the effect on fuel inflation is 50 bps; this also results in 23 bps decline in growth, said the report

per cent of its variation is explained by exchange rates. "If we translate these numbers in

actual terms, every ₹1 fall against the dollar leads to an increase in software exports by

\$250 million." This, along with an expected \$5-billion forex reserve accrual by way of swap

transactions and higher remittances, will cap CAD at 3 per cent of GDP, against the average lowest level projected for the year at 3.5 per cent, said Ghosh.

Strong remittances and software exports lowered CAD by 60 bps in the June quarter, adding that if this trend continued in the September quarter, CAD would be below 3.5 per cent in the second quarter and at 3 per cent in the full fiscal. Even otherwise, the chances of it exceeding 3.5 per cent of GDP are minimal, he added.

FOREX RESERVES

According to Ghosh, forex reserves, which have declined from \$642 billion in September 2021 to just about \$531 billion last week, are expected to rise by \$5 billion as swap transactions reverse.