

CAD pegged at 3–3.2% of GDP in FY23: CEA

'India's annual import cover comfortable; IMF does not consider external sector to be in a zone of vulnerability'

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With rising domestic economic activity and an uptick in oil import bills, India's current account deficit (CAD) was expected to be 3-3.2 per cent of gross domestic product (GDP) for FY23, said Chief Economic Advisor (CEA) V Anantha Nageswaran. But he stressed the country's external sector remained robust. India's current account balance recorded a deficit of 1.2 per cent of GDP in 2021-22, against a surplus of 0.9 per cent in 2020-21.

The Reserve Bank of India expects CAD to have widened modestly in the first half (April-September 2022) but shrink in the second half (October 2022-March 2023). Overall, CAD is expected to be under 3 per cent of GDP for FY23.

Speaking at State Bank of India's economic conclave, Nageswaran said India's annual import cover remains quite comfortable and the International Monetary Fund (IMF) does not consider India's external sector to be in a zone of vulnerability.

According to the RBI's assessment (in the state of economy report), India's foreign exchange reserves at \$530.0 billion, as on November 4, covered 8.6 months of imports projected for 2022-23. The foreign exchange reserves' cover of imports (on a balance of payments basis) declined to 10.4 months at end of June 2022, from 11.8 months at the end of March 2022.

On drivers of economic growth, he said there has been a threefold increase in capital expenditure of the public sector in the past 10 years. The Union government has the ability to spend ₹7.5 trillion for 2022-23. Capex by the private sector also has been improving and it touched ₹3 trillion in the first half of this year. And if the pace is maintained, it should be ₹6 trillion in FY23, which would be a substantial improvement over any of the past six-seven years, Nageswaran said.

If you look at the non-financial corporate sector, there has been a reduction in the leverage ratio, which means balance sheets are capable of expanding again based on corporate profitability, he said. Capacity utilisation is also reaching the levels that in the past have triggered capex, the CEA said.

He said the challenges for future growth may rather turn out to be catalysts. One is the financing for energy transmission and also technology for battery storage, and aligned to that would be a continuous and affordable energy supply for India's manufacturing.



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On economic growth for FY23, Nageswaran said estimates by the RBI and international participants are in the ballpark of 6.5-7.0 per cent. This appears to be reasonable at this point. The growth numbers for the second quarter of FY23 would be available in a few days and give clarity on estimates, and whether they need to be revised. By and large, the projections for FY24 coming from international agencies are converging around 6.0-6.2 per cent, he said.

As for revenues of the Union government, he said the buoyancy is holding up. It is not coming as a one-off phenomenon and has been in the making due to many factors. It is not something that is going to wane in the second half of FY23.