Don't see another US Fed rate hike soon: CEA

Steel, cement sectors in India ready for greenfield investment, says Nageswaran

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The United States Federal Reserve is not expected to go for further liquidity tightening anytime soon, a signal that the most aggressive actions against inflation might be over for now in the Western economies, Chief Economic Advisor V Anantha Nageswaran said on Thursday. At the Confederation of Indian Industry (CII) Annual Session 2023, Nageswaran said he expects the US Congress and President Joe Biden to reach an agreement before June 1. If the US fails to raise its ₹35.1-trillion debt ceiling, it will trigger a debt default.

"They (US Fed) have given the indication that there would be on pause in June. I don't believe that in the US case, rate hikes are imminent. Unless of course there are further financial accidents like we saw in March and April, because if you look at the macro data, they are still holding up pretty well. So I think stability for longer might be more likely than looser policy, but that's my personal view," Nageswaran said.

With just seven days left for the June 1 deadline, Biden's Democrats and the Republican Party have not yet reached an agreement on extending the debt ceiling, and on Wednesday, rating agency Fitch placed the country's 'AAA'-rated sovereign debt on negative watch.

"I still think that they will be able to reach an agreement. Even in the past these things have gone down to the wire. Maybe this time it is getting closer, but I still believe that given the gravity and enormity of the situation, they will reach an agreement," Nageswaran said.

A debt default will impact all emerging economies, including debt, equity, and foreign exchange markets in India.

"WHEN TIMES ARE GOOD, PROFITABILITY IS GREAT AND INCENTIVES AND BONUSES ARE FLOWING, IT IS IMPORTANT TO ENSURE THAT THE FINANCIAL INSTITUTIONS AVOID MIS-SELLING OF FINANCIAL PRODUCTS"

V Anantha Nageswaran
Chief Economic Advisor

While there have been shutdowns in the US federal government before, due to a lack of consensus on budget proposal, the breaching of the debt limit is seen as a more serious event. The US will, simply put, run out of money.

Turning to India, Nageswaran said there were signs of a private sector investment cycle unfolding and sectors such as steel and cement have reached a stage where greenfield investment will take place.

"We do see signs of the corporate sector beginning to make investments. There are some new investment announcements," he said, and added that based on the data available for the first six months of the last three years, he said new private investment announced was ₹2.1 trillion in 2020-21, it was ₹2.7 trillion in 2021-22 and ₹3.3 trillion in 2022-23.

"So, it has been rising and once we get the full year data, the picture will be clear. We know that internal resource generation of the companies is at a very high level. Therefore, they may not necessarily have to tap either the capital market or the banking channel," he said.

Expressing optimism about the private sector capital formation cycle in the country, he said, "We have been waiting for it. It is unfolding at a steady pace which is good enough for us." Nageswaran also said India's financial sector was well capitalised and past the twin balance sheet concerns of the past decade, it must focus on internal reforms and business practices.