

'6.5% growth plausible in FY24'

Amid growing concern over the Centre's elevated public debt-to-GDP ratio, **BIBEK DEBROY**, chairman of the Economic Advisory Council to the Prime Minister (EAC-PM), says the government's debt is not difficult to manage, though a medium-term fiscal strategy is required. In an interview, Debroy tells **Asit Ranjan Mishra** that he is concerned about the delay in conducting the census and, in general, about the quality of Indian data. Edited excerpts:

Divergent views are emerging as we head for the Budget. The IMF has called for a more ambitious fiscal consolidation path for the Centre, while some analysts believe that supporting growth amid global headwinds should be the priority. What's your view?

This government has always been fiscally conservative. It never resorted to fiscal profligacy. This government has never got enough credit for the fact that the macro (public finance) has been managed remarkably well. Partly because of Covid, the Union government's debt has gone up a little bit. The more important question is whether you are in a position of repaying the debt and whether you are adding incrementally to the debt. I don't think the Union government's debt is difficult to manage.

Fiscal marksmanship of this finance minister has been very

good. So there will be no difference between the BE (Budget estimate) and the RE (revised estimate), and at the end of the fiscal year, we will get (a fiscal deficit of) 6.4 per cent of GDP (gross domestic product). From 6.4 per cent, we need to reduce it to 4.5 per cent, which means that in the next Budget, we need to reduce it to something like 5.8 per cent to stick to the timeline. This is difficult because much of revenue expenditure is frozen in the short run. A medium-term fiscal strategy is required because high debt has its costs including the fact that it crowds out private borrowing.

Global headwinds apart, there is consensus that the Indian economy this year (FY23) will grow 6.8-7 per cent. In FY24, I may have doubts, I personally think we will do 6.5-7 per cent. Then where is the call for me to increase expenditure?

Q&A



“ THERE WILL BE NO DIFFERENCE BETWEEN THE BUDGET ESTIMATE AND THE REVISED ESTIMATE, AND AT THE END OF THE FISCAL YEAR, WE WILL GET (A FISCAL DEFICIT OF) 6.4 PER CENT OF GDP ”

BIBEK DEBROY,
Chairman, Economic Advisory Council
to the Prime Minister

'Hope Budget will incentivise people to move to exemption-less system'

But a lot of experts are saying the Indian economy may not be able to achieve even 6 per cent growth in FY24?

Let it happen. What these people want is exactly what has got countries in trouble. These are the people who wanted India also to do this. The trouble with this gratuitous advice is they are not penalised. They are not taken to task. They rarely will say mea culpa (my fault). Capital expenditure has certain absorptive capacity. What they really mean is to increase revenue expenditure and reduce taxes.

What gives you confidence that GDP growth next year will be 6.5-7 per cent, given global headwinds?

There is a medium term and then there is next year. In the medium term, we are in a band of 6.5-7 per cent growth. Next year, the chief economic adviser (V Anantha Nageswaran) has said, 6.5-7 per cent growth is fine. I would say next year, probably it will be 6.5 per cent because since May 2014, this government has put in place many things that can broadly be called supply-side reforms, which lead to an impact with a time lag. You can already see

consumption expenditure recovering, even the discretionary part. There is uncertainty globally – the Russia-Ukraine war or Covid in China – we don't know what is going to happen. Domestically, however, there is no uncertainty or instability in policy which gives consumers the confidence to spend. On investment, there was excess capacity. But there is already evidence that private investment in some sectors is beginning to recover. If demand

is picking up, then the rest of the investment will also happen. Then you have PLIs (production-linked incentives), which are making India part of

global supply chains. Because of all these, 6.5 per cent growth next year is plausible.

How far should the government go in the next fiscal year while increasing capex? Is there enough absorptive capacity?

Capex in state governments is not going up. Even when there is no shortage of funds, the expenditure is not happening. Don't ask me why, I don't have a very clear answer. Perhaps the administrative machinery has not quite completely recovered

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from the consequences of Covid.

So far as the Central government is concerned, there is not much point saying increase the capex to X, if I know there are constraints in terms of projects being available, in terms of delivery capacity, timeline, in terms of the fact that land acquisition will be an issue. So

there is no point aspiring for X if I know I won't be able to deliver it. What that figure is, I don't know. The finance minister will tell us. I don't think it can be an open-ended case to increase beyond all limits.

You have advocated moving towards an exemption-less tax

system. But don't you think the savings rate may come down if incentives to save are withdrawn?

These are not incentives to saving; they pretend to be. They are tax-reduction schemes. Simple. If you see the number of people submitting income-tax returns and the number of

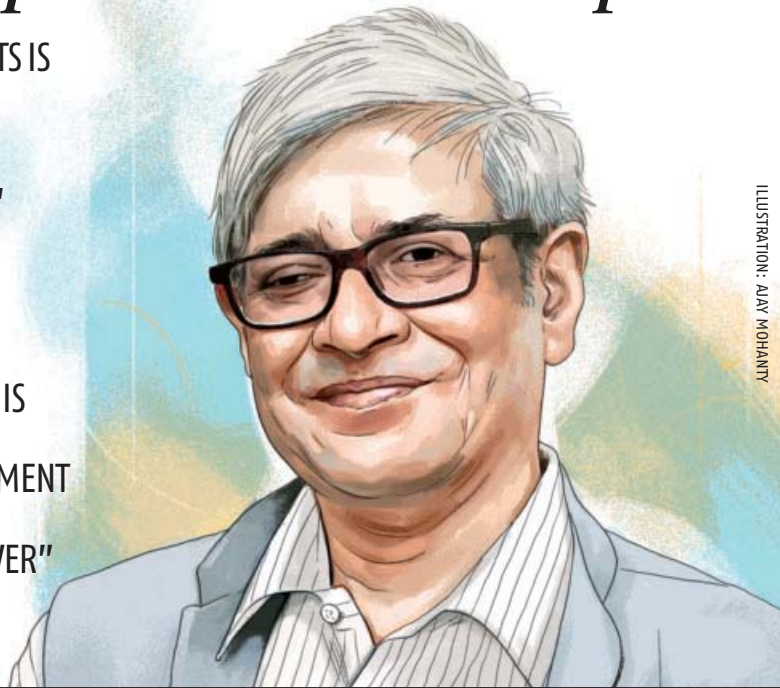


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people who pay income taxes, there is a big difference. The bulk of it is tax avoidance, which means I am using legitimate exemptions to reduce my taxes I have to pay. The incentive structure is such that I don't have any incentive to move to the exemption-less system. I hope the Budget will incentivise people to move to the exemption-less system.

There is delay in conducting the census, partly because of Covid. But do you think is it a matter of worry?

I am not competent to answer why the census has been delayed. But there is an issue about the quality of Indian data and the time lag. Macro data is reasonably sound except for the time lag. But for any other data, there is a serious issue about the frequency and quality of data. The last consumption expenditure survey is 2011-12! Is this a reason for worry? Of course, it is a reason for worry. Much of the data comes from surveys. The only satisfactory data which is complete enumeration is really the census. So am I concerned that the census is delayed, the answer, of course, is 'yes'.

