

'We're on course to reaching inflation target of 4% in FY25'

V ANANTHA NAGESWARAN, chief economic adviser at the finance ministry, in conversation with Ruchika Chitravanshi and Asit Ranjan Mishra in New Delhi, lists out the big opportunities, as well as challenges, for the Indian economy. Edited excerpts:

You have projected 7 per cent growth for FY25 in the review of the economy...

I would be very clear. We have said it is likely that we will be able to achieve a growth rate closer to 7 per cent.

What gives you confidence that it will be closer to 7 per cent?

Our potential growth rate is somewhere between 6.5 per cent and 6.8 per cent, and it is not 6 per cent as international agencies used to estimate.

First, you have extremely strong financial and corporate balance sheets, which you didn't have last decade. And second, digital infrastructure is going to add formalisation of financial inclusion. Third, the lagged effects of many structural reforms would take time to flow through because they happened while there was a shadow of the financial sector stress and there was a shadow of Covid that followed. And, naturally, you take time for them to filter through in terms of the impact on the economy.

Do you have any per capita goal in mind for the Viksit Bharat target?

If you talk about a population of 1.6 billion, stabilising by 2047, and you have nominal GDP of \$32 trillion, you're talking about \$20,000 per capita income at current prices.

What are the challenges arising from population growth?

There are states which have lower per capita income than the national average but whose median age is also lower than the national average.

So, it is very clear that richer but older states transfer fiscal resources and import labour resources from the states that are poorer but lower in per capita income.



That is how convergence happens, but how to make these things happen so that there is a sense of cohesion?

The second challenge could be: How do you ensure that your population stays healthy enough to be productive? The National Family Health Survey-5 spoke about obesity, trends across income, sex, rural, urban -- all kinds of categories. For youth, you have to talk about sedentary habits, screen time, and junk food consumption.

I am very concerned about the fact that India cannot become unhealthy before it becomes richer. And then you must talk about education and skills, which are appropriate for the 21st century with the advent of artificial intelligence (AI).

Is high population a challenge for us?

Our birth rate has been good and it has been coming down. So, I don't think that is the issue.

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POPULATION CONTROL AND DEMOGRAPHIC CHANGES ARE BOTH CHALLENGES AND OPPORTUNITIES
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The IMF has talked about AI and how it can lead to 30 per cent job cuts in India. What is your assessment of the AI challenge?

These are all useful numbers to start a discussion with. There is no model to estimate this number with any sense of accuracy, at all. But my personal view is that technologists who are excited by this new toy, so to speak, don't fully comprehend the social consequences of this. And I'm not saying the consequences necessarily have to be bad, but you need to acknowledge the fact that you simply don't know. That's a good place to start.

What's an ideal fiscal deficit target in the medium term?

I think it will be too early to come up with this answer. I think we need to take a look at the state of the world and the state of the economy. Answers to these questions should be well thought through or not off the cuff.

Do you think we have won the battle on

inflation? Or, do we have to be watchful?

This is not as if there are finite beginnings and ends. These are continuous exercises. There could be shocks coming from other parts of the world in which case the challenge will come back. At the moment, it does look like we are on course to reaching our inflation target of 4 per cent in the next financial year.

On the employment front, the concern is that the share of self-employment is rising and the share of wage-employment is declining...

In the case where self-employment is rising in rural India, among women, it is very clear that, if you look at the data, it is happening in market-related activities where they are compensated. It is not subsistence employment or disguised unemployment.

Will we push for a rating upgrade after the aggressive fiscal consolidation?

There is no pushing. We present how we view the economy and how we are progressing. We have regular interaction with them (rating agencies). We published a collection of essays where we pointed out a lot of areas, such as lack of transparency on several parameters in their own evaluation. They argued that getting to 4.5 per cent (fiscal deficit) is going to be a challenge. But we are showing that we're committed to getting there by projecting a fiscal deficit of 5.1 per cent now and then 4.5 per cent in FY 26. So, they need to update.

Apart from fiscal deficit, rating agencies look at the debt-to-GDP ratio, which is a bigger concern for them. Do you see it coming down gradually?

If you bring down the fiscal deficit year after year at reasonable percentages, and as long as your nominal GDP growth lies above the cost of borrowing, the debt-to-GDP ratio will begin to decline faster.

Q&A