

India's investment story stronger than it looks: RBI dy gov

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India's growth story is being underestimated, and the country's investment contribution to growth is being overlooked, Poonam Gupta, deputy governor of the Reserve Bank of India (RBI), argued on Tuesday. She said India was habitually described as a consumption-driven economy and investment's contribution to growth was routinely undercounted or ignored.

Speaking at the National Council of Applied Economic Research joint seminar and discussion on "India's Inflation Targeting Framework" and "Regional Economic Outlook for Asia and Pacific", Gupta said the economy might have a much higher non-inflationary growth potential than conventional estimates suggest. She said the country had seen "a healthy rate of growth of more than 7 per cent with inflation being benign", adding that this points to the fact that India's growth potential was high. Gupta also cited capacity utilisation at around 75 per cent, and said this was "nowhere near the levels" that would suggest the economy had run out of room.

Her broader argument was that India should not be judged through a mechanical long-term average. In her view, the standard way of estimating potential output by smoothing out past trends does not fully capture India. "Perhaps that's not the right way to think about India, which is creating a whole lot of capacity every single day. Be it public investment, private investment, skills, digital journey, infrastructure creation, or entrepreneurship," she said, noting that perhaps a structural model will do better justice to explain it.

Further, Gupta defended the 4 per cent inflation target with a tolerance band of 2 percentage points on both sides. She said the headline Consumer Price Index (CPI) should remain the formal target because it is clearer to communicate, better anchored to expectations, and more closely linked to the cost of living than core inflation. On the band, she said the current range still offers the flexibility India needs to absorb food, fuel, and other supply shocks.

The deputy governor believes that "there is very little reason to be moving away from this



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target for now". She also warned that changing the target could weaken credibility, and said the RBI's preference for the headline target is reinforced by the fact that more than 90 per cent of the respondents to a discussion paper put out by the central bank backed headline CPI as the formal anchor.

In the same set of discussions, Krishna Srinivasan, director of the Asia and Pacific Department (APD) at the International Monetary Fund (IMF), highlighted that Asia, including India, is entering a fresh energy shock after the tariff shock, and that fiscal space across countries has shrunk following successive crises. Srinivasan warned that rising youth unemployment, tighter financial conditions, and uneven artificial intelligence adoption could become bigger structural issues for the region, while also saying that India should do more to attract foreign direct investment and keep investing in reform.

He argued that given that corporate balance sheets and bank balance sheets are both in good shape right now, investment should be running higher than it is. Pointing out that net FDI flows have recently gone close to zero, he said India could do "much better" in attracting foreign investment.

On the other hand, Gupta pointed out that India has already been "very prudent" on fiscal policy and that the country's growth path remains strong enough to justify policy continuity, not a reset.