



THEIR VIEW

MINT CURATOR

# India's economic performance is pretty robust on most counts

The economy's back on its high-growth path and fiscal consolidation is on track but our labour market remains a concern



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The National Institute of Public Finance and Policy's (NIPFP) mid-year macro-economic review forecasts India's annual economic growth in the range of 6.9-7.1%, similar to most other forecasts, such as the International Monetary Fund's (7%), World Bank's (7%) and Reserve Bank of India's (7.2%). Thus, the economy is expected to grow by around 7% in 2024-25 on top of 7% and 8.2% in 2022-23 and 2023-24 respectively. India is back on the high growth path that prevailed before growth decelerated from 2017-18 onwards due to repeated shocks culminating in a sharp contraction in 2020-21 on account of the covid pandemic.

However, there has been some growth moderation in the first quarter of 2024-25 due to a large trade deficit and also contraction in government consumption on account of restrictions under the election code-of-conduct. On the supply side, there has been a contraction in mining and electricity and a slowdown in construction, capital goods, consumer durables, tourism, travel and financial services.

Headline inflation fell below the 4% target in August but has increased again in September due to high inflation of food prices. NIPFP's annual inflation forecast at 4.3% is marginally lower than the Reserve Bank of India (RBI) forecast of 4.5%. The upside risk factors include persistent high food price inflation and a rebound of core inflation.

India's high growth performance has prevailed despite a very fragile external environment. Not surprisingly, the country is often described as the world's fastest growing major economy. However, a large goods trade deficit more than offsets a substantial trade surplus in services, thus leading to a large net trade deficit. Notwithstanding a net outflow in September 2024, large financial inflows on the external account have raised India's stock of foreign exchange reserves to around \$700 billion. Despite this, largely thanks to RBI interventions, the exchange rate has not appreciated. The nominal exchange rate has remained almost flat and the real effective exchange rate even depreciated a little in August and September.

On the monetary policy front, following a massive expansionary stance to help the post-pandemic recovery, RBI switched to a "withdrawal of accommodation" stance in June 2022 while raising the policy rate by 250 basis points to 6.5% between May 2022 and February 2023. This helped bring down the inflation rate, which had been hovering above RBI's 6% upper limit, within its tolerance band and eventually down to its 4% target in August 2024, though it has inched up again in September as noted earlier. The repo rate has been retained at 6.5%, but earlier this month, the central bank changed its stance to neutral.

As a consequence of these policies, along with active liquidity management, the repo rate, call



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rate and all sovereign bond yields across maturities have converged between 6.5% and 7%. Corporate bond yields have also converged across maturities at under 8%, pricing in the risk margin above sovereign bonds. RBI has also raised the risk weight on personal loans and loans to services, thereby curbing their exuberant growth. As a result, credit growth has slowed and the credit-deposit gap, which has been causing concern, has also narrowed. But deposit growth still trails credit growth, presumably because of low interest rates on bank deposits.

On the fiscal front, consolidation is well on track. Most tax revenues have been buoyant, barring excise and customs duties, as duty rates have been lowered. Fortunately, *ad hoc* increases in customs duties seen in recent budgets were largely absent this year. Buoyant tax revenues, together with a large increase in non-tax revenues (mainly due to a substantial transfer of RBI's surplus) and compression of revenue expenditure, have enabled the central government to budget a large reduction in the fiscal deficit to 4.9% of GDP, despite a planned 17% increase in capital expenditure. Barring some outlier states, fiscal consolidation has also progressed well for most states, mainly on account of their own tax revenues, with their average fiscal deficit at 3.1%, which is close to the 3% target. The debt-to-GDP ratios of the states, the Centre and all combined at 27.4%, 55.7% and 80.2% respectively, are

also all well within the limits prescribed by the 15th Finance Commission.

High inequality and tardy employment growth have been the two weak features of the Indian growth story, the latter mainly attributable to poor conditions of informal employment, which accounts for around 90% of total employment. But even here, data from the latest quarterly urban Periodic Labour Force Survey (PLFS), by 'current weekly status,' points to some mild improvement. The overall labour participation rate (LFPR) rose from 49.9% in October-December 2023 to 50.2% and 50.1% respectively in January-March and April-June 2024. Similarly, the employment rate, or workforce participation rate (WPR), improved from 46.6% in October-December 2023 to 46.9% and 46.8% in January-March and April-June 2024 respectively.

However, this marginal overall improvement conceals the fact that the LFPR and WPR for women both declined slightly in April-June 2024. Moreover, these aggregate numbers do not reveal the ongoing dynamics of a very complex labour market. Especially so because the PLFS uses a very loose definition of 'usual status' employment under which anyone would be treated as employed if s/he was employed for just 30 days in the preceding year, even if s/he was unemployed during the remaining 11 months.

Broadly, though, the economy has done well.

# We need to invest in nature for the sake of humanity's future

Money must flow into what saves rather than harms biodiversity



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It is easy to think of humans as existing separately from nature. But the greatest threats to humanity come from crises affecting nature, not least climate change, biodiversity loss and rampant pollution. We cannot address any of these until we stop taking nature for granted and start investing more in it.

'Nature-positive' investments in marine conservation, sustainable land management, water security and afforestation could deliver around 30% of the emissions abatement needed to limit global warming to 1.5° Celsius, the Paris pact target. Moreover, such investments not only improve our resilience to climate change; they also would help to prevent future pandemics.

As the 16th Conference of the Parties to the UN Convention on Biodiversity holds deliberations in Cali, Colombia, we must remember that crises affecting nature also pose structural risks to the global economy, our collective well-being and prosperity, and the UN Sustainable Development Goals. Fully 55% of global GDP is highly or moderately dependent on nature.

In Cali, delegates from nearly 200 countries are discussing how to accelerate action to protect 30% of the planet's land and maritime areas, reduce pollution and restore degraded ecosystems by 2030. One of the key obstacles to meeting these ambitious targets is financing. Not only do we currently invest far too much in activities that harm nature and make our problems worse; we invest only one-third of what is needed to meet the 2030 targets for climate, biodiversity and land degradation.

To scale up nature-positive investment, we need to do four things. First, we must build more effective public-private partnerships between countries and public development banks, as well as with nature organizations, companies and private financial institutions. This would help de-risk investments, prepare projects and deliver impact at scale for climate, nature and inclusive economic development.

Second, we need to revive and mainstream regenerative practices and stewardship of biodiversity, particularly in the agriculture, forestry and fishing sectors.

Third, we need common principles, standards, and disclosure mechanisms to track nature-positive finance and its impact, and to disclose more information on the nature-related footprints, dependencies, and risk exposure of companies and financial institutions.

Finally, to take nature into consideration in all policies and investment decisions, we must decrease the flow of financing to



Biodiversity is under discussion at a UN conference in Cali, Colombia

activities that are harmful to nature.

Multilateral development banks will play a key role in scaling up green investments. The European Investment Bank and others are already stepping up support for the protection, restoration, and sustainable use of nature with the launch of common principles for tracking nature-positive finance. This is essential for measuring and incorporating nature into multilateral lenders' operations, as well as informing other investors about what constitutes a nature-positive investment.

At the European level, the EIB is working closely with the European Commission to support the implementation of the EU's 2030 Biodiversity Strategy worldwide. We strive to ensure that all the projects we finance cause 'no loss' of biodiversity, and we are factoring biodiversity and ecosystem considerations into all our activities.

As a big challenge in scaling up nature-positive investments lies in structuring projects, we are providing advisory services to help nature-restoration and biodiversity initiatives get off the ground. In Morocco, the EIB advised and lent €100 million to preserve and restore more than 600,000 hectares of forest. In Ivory Coast, we are gearing up to support sustainable cocoa farming in which forests are preserved, rather than cut down. And to support marine conservation, we are working with partner institutions on the successful Clean Oceans Initiative, which is ahead of schedule in providing €4 billion for projects to limit plastic waste.

Innovative financial instruments that transfer risk can help mobilize more public and private finance for such investments. The EIB-financed Land Degradation Neutrality Fund, for example, provides finance and technical assistance for sustainable agriculture and forestry around the world, and the EcoEnterprises Fund supports pro-biodiversity businesses in Latin America. The EIB is also exploring a new investment in a fund that supports afforestation, forest management and conservation projects in the region. We expect to build on these initiatives.

We urgently need to reduce the flow of finance to activities that harm nature. It will help us overcome the triple planetary crisis of climate change, pollution and biodiversity loss. ©2024/PROJECT SYNDICATE

MY VIEW | BEHAVIOUR BY BRAIN

# We should be more receptive to paradigm-shifting ideas

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What is the most paradigm-shifting idea you have encountered? What idea forced you to relook at all that you believed until then, and subsequently shifted your thinking?

Much new information is now being developed every day. So, it is not surprising that many of us would frequently encounter new ideas. Some of them might be contrarian to our existing beliefs. These occasional encounters with new and varied ideas are a good sign. It shows that we are not stagnant in our learning journey. But a bigger question follows. How comfortable are we in absorbing these new ideas we bump into?

A few months ago, the book *Determined: Life Without Free Will* by Stanford University neuroscientist Robert Sapolsky was published. Like fellow neuroscientist V.S. Ramachandran's *The Tell-Tale Brain* (2010), it establishes the fact that human behaviour is not the outcome of a conscious decision-making process in its lead-up. To quote Sapolsky: "[Behaviour] is indeed a mess, a

subject involving brain chemistry, hormones, sensory cues, prenatal environment, early experience, genes, both biological and cultural evolution, and ecological pressures, among other things." The core idea of Sapolsky's book is that human behaviour is created by biology, over which one has no control, interacting with an environment over which one has no control either.

In other words, there is no free will. It is just an illusion. The book also examines what society might look like if we were to recognize that free will does not exist.

The concept of free will is at the core of the existing paradigm of our human behaviour understanding. The thought of 'no free will' is very difficult to digest. Just imagine what would happen to our judicial process if those accused of murder or any other crime argue in court that their actions were not determined by them, but by the environment and their evolutionary history. Until now, such an argument would have left mostly everyone incredulous. But with the publication of Sapolsky's book, such arguments now have a scientific basis.

Rarely do we come across books that provide paradigm-shifting views. Famously, we had *On the Revolutions of Heavenly Spheres* (1543) by Nicolaus Copernicus and *The Ori-*

*gin of Species* (1859) by Charles Darwin, which offered views that went against the time's prevailing beliefs. But how did the intellectual world react to Sapolsky's book? There were no debates in the public sphere. Even a casual discussion could have forced people to grapple with what the book says. But the truth is that very few of us will voluntarily broach topics that might threaten our existing beliefs. So the book went largely ignored.

With the convergence of various new technologies like artificial intelligence, smartphones and the internet, a vast quantity of new information is produced and disseminated. But how much of this newly created information is put to good use? Is the absorption of new information keeping pace with the development of new information, more so information that is contrarian to our existing beliefs? The pin-drop silence in response to arguments put forth by books like Ramachandran's and Sapolsky's shows newly created information is not easily

absorbed. Much like unharvested rainwater, much of this new information will go waste if humans are not equipped to absorb it.

But is the human brain equipped to easily absorb new information? Not really, and especially not when it comes to absorbing material that challenges the *status quo*. The human brain performs all its processes using just 13 watts of electricity. This organ is the most energy-efficient machine in the universe. It optimizes its energy consumption by reducing the amount of cognition it indulges in at a conscious level.

That is why our brains tend to be most comfortable repeating past actions without much thinking. As much as possible, our brain avoids the need to absorb new information. This bias in favour of the *status quo* is a biological reality of the human brain. It is also why continual learning over a life-span is such a challenge.

As India prepares to change its orbit and start moving towards world leadership, while it is important to create knowledge

and share new learnings with citizens, it is equally or perhaps more important to increase people's ability to absorb that new information. The first step in that direction is for policymakers to acknowledge that this absorption is not an automatic outcome of new information being made available. Much needs to be done to tackle the human brain's basic reluctance to accept what goes against prior beliefs.

American writer F. Scott Fitzgerald said, "The test of a first-rate intelligence is the ability to hold two opposing ideas in the mind at the same time, and still retain the ability to function."

Learning to live with contrarian ideas without letting their divergence hinder our actions is an art we must all perfect. Debates and discussions were primary methods of teaching in the traditional Indian educational system. Debates on various ideas can generate feelings of uncertainty, making us unsure of what we think. This could even make us feel ignorant. But then, a constant sense of not knowing enough is the greatest quality one could possess in this Information Age. This feeling would make us far more receptive to paradigm-shifting ideas of the kind propounded by contrarian thinkers like Copernicus, Darwin and others.

**Do we really have free will? Our brains are not wired to accept radical thoughts easily but we must try**