

India's overall macroeconomic situation on recovery mode but facing stagflation: Kaushik Basu

Synopsis

While India's GDP is estimated to grow 9.2 per cent in 2021-22, Basu said since this comes after a contraction of 7.3 per cent in 2019-20 due to the pandemic, the average growth rate over the last two years is 0.6 per cent per annum.



On cryptocurrencies, Basu said he believes what India is doing on cryptocurrencies is right.

India's overall macroeconomic situation is in a recovery mode but the growth is concentrated at the top end, which is a worrying trend, according to former [World Bank](#) Chief Economist [Kaushik Basu](#).

Amid the rising inflationary trends, including the sharp increase in retail [inflation](#) last month, Basu, who has also served as Chief Economic Advisor to the Indian government during the UPA rule, said the country is facing [stagflation](#) and "very carefully curated policy interventions" are required to address the situation.

Currently, Basu is a professor of Economics at the Cornell University in the United States.

While the aggregate economy is growing, "the bottom half of [India](#)" is in recession, he said and noted that it was sad the country's policy over the last few years has been largely focused on big businesses.

"India's overall macroeconomic situation is in recovery mode... The worry stems from the fact that this growth is concentrated at the top end," Basu told PTI in an interview.

He also said the youth unemployment rate in the country touched 23 per cent, among the highest globally, even before the COVID-19 [pandemic](#) started. Workers, farmers and small businesses are seeing negative growth, he added.

While India's GDP is estimated to grow 9.2 per cent in 2021-22, Basu said since this comes after a contraction of 7.3 per cent in 2019-20 due to the pandemic, the average growth rate over the last two years is 0.6 per cent per annum.

The National Statistical Office (NSO) in its first advance estimate has projected a GDP growth of 9.2 per cent in April 2021 to March 2022 fiscal year while the Reserve Bank of India has forecast 9.5 per cent expansion during the same period.

The World Bank has been the most conservative projecting 8.3 per cent growth while Organisation for Economic Cooperation and Development (OECD) has pegged GDP expansion at 9.7 per cent.

On whether the government should be going for fiscal consolidation or continue with stimulus measures in the upcoming Budget, Basu said the current situation in India is a big challenge to Finance Minister Nirmala Sitharaman and the entire fiscal policy apparatus.

The Indian economy is facing stagflation, which is much more painful and requires very carefully curated policy interventions, he said, adding that 15 years ago, inflation was even higher, close to 10 per cent, but there was one big difference.

"At that time, India's real growth was close to 9 per cent... so, even with the inflation, the average household was becoming better off per capita by 7 or 8 per cent," he pointed out.

According to Basu, what makes the current situation so grim is that the near 5 per cent inflation is occurring over a fall in real per capita income over the last two years.

"Since this is a stagflation situation, the big task is to create jobs and help small business... the task now is to create jobs while at the same time increasing output," he observed.

Retail inflation rose to 5.59 per cent in December 2021, mainly due to an uptick in food prices, while the wholesale price-based inflation bucked the 4-month rising trend and eased to 13.56 per cent last month, as per latest official data.

Stagflation is defined as a situation with persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

While the standard Keynesian policy of making workers do any work, even unproductive, and paying them, works in boosting the economy during deflation, Basu said it is a mistake to do this during stagflation.

"For this reason, the ongoing work on the Central Vista project in the middle of a pandemic and with so much economic suffering, with the enormous expenditure -- by some estimates this will cost the government around USD 2 billion -- is an embarrassment," he said. It does not enhance productivity.

Basu suggested that the aim should be to direct money into the hands of the poor and even some of the middle classes but it needs to be ensured that there is a simultaneous increase in output, strengthening of infrastructure, and easing of supply bottlenecks.

"I know India's finance Ministry has enough expertise to design these changes but I do not know if it has the political space to do them," he opined.

Asked about the impact of 'taper tantrum' or withdrawal of monetary stimulus by the US Federal Reserve on India, Basu said he does not think the US Fed policy will be that worrying for India because "we have enough foreign exchange reserves now to be able to weather this".

On cryptocurrencies, Basu said he believes what India is doing on cryptocurrencies is right.

"I have no doubt that ultimately -- and in the not too distant a future -- the whole world will stop using paper currency," he said, adding that blockchain technology will be used even by central banks and cryptocurrency will become widespread.

"This is a complex subject and to do this hastily, with politicians doing the design, would be a mistake. I am glad the government is showing awareness of this," he noted.

India is planning to bring a bill in Parliament to deal with the challenges posed by unregulated cryptocurrencies.

Currently, there are no particular regulations or any ban on use of cryptocurrencies in the country.