

Poonam Gupta, New Director General of NCAER, speaks to the Press Trust of India

1. To begin with, we would like to congratulate you for assuming the position of Director-General of an eminent institution like NCAER. What is the roadmap you envisage for the institution, keeping in view its unique position and strengths, as well as the scholarship it has produced over its 65-year long history?

Thank you for your wishes. My vision for the organisation is to make NCAER a leading think tank in the world where eminent researchers, policymakers, and entrepreneurs can gather to shape India's development journey. A place where pragmatic implementable policy ideas are devised along the lines of global best practices, ideas are generated for enhancing the implementation capacities of the States, and where the next generation of policy research-oriented economists and social scientists are trained and nurtured.

In this journey, NCAER will adhere to the values of objectivity, fact-based narratives, and evidence-based policy research and outreach. It will uphold its ethos of integrity, rigour, and relevance.

I am keen to take forward the rich legacy and historical traditions of empirical evidence-based research that the institution has always been known for. I am also engaging with Government and private stakeholders to forge partnerships that can help in the growth and expansion of NCAER.

2. What are the major problems you foresee for the Indian economy in the coming months and years?

The Indian economy is currently facing two different kinds of challenges. The first, a short-term one, is about the recovery from COVID. And the second one has to do with the need to sustain growth rates post-COVID, to at least about 7-8 per cent. India has done rather well during COVID, primarily because of the rapid pace of vaccination. Currently, ensuring rapid and widespread vaccination is the best pro-growth policy that any country can implement. In parallel, the timely policy packages have helped alleviate economic distress. I can say with some confidence that even as the economy has been recovering reasonably well from the worst impacts of COVID, this recovery will not only continue but accelerate in the coming months. Nonetheless, the challenge of restoring a sustained growth rate of 7-8 per cent or higher for India's economy will soon become apparent.

2. Some economists suggested that V-shape recovery is the only possibility after a sharp dip. Should we be satisfied by that or plan more steps to accelerate the growth?

We are indeed seeing a V-shaped recovery in the economy. This kind of recovery is perhaps inevitable to the extent that after a sharp slowdown, and on a low base, an upward movement is quite plausible. However, even with the steep recovery that we are witnessing, there will likely be two lost years wherein we will cumulatively experience near zero growth. From a sectoral perspective, the following three issues need to be considered: (i) The traditional services sector, which includes activities such as

trade, hotels and restaurants, hospitality, and transport, among others, has experienced a sharper slowdown than other sectors, and is showing slower recovery. While some activities in the sector will likely get a boost in the medium term due to the adoption of technology, overall, complete revival of the sector could take longer. (ii) The manufacturing and modern service sectors seem to have revived faster, and we must ensure that this momentum continues. (iii) Agriculture has overall shown a slightly better than its historic performance.

Further, an even more important question is: Where will the growth rate settle post-COVID? Remember, that even prior to COVID, the economy was going through a deceleration in growth. So, the task before us is not only to revive growth to the pre-pandemic level but to enhance it beyond 7-8 per cent, in the years ahead.

3. Do you agree with the statement of CEA that high quarterly growth cannot be solely attributed to the base effect?

I do agree with this statement. There is nothing pre-ordained about recovering the lost output within a year. A combination of fundamentals, policies, and luck matters in economic outcomes. As far as India's fundamentals are concerned, they continue to be highly resilient. I have discussed them in my research on India's long-term growth potential: India is a large and young economy, with a diversified economic base, coupled with the added advantages of political stability and an unparalleled spirit of entrepreneurship. In addition, the Indian economy happens to be uniquely positioned to achieve large-scale contact-less functioning by fostering increased digital activities, which is a positive repercussion of COVID. Scholars often talk about the phenomenon of 'leapfrogging'. Quite plausibly, COVID is one such leap-frogging moment for India.

4. Is there a fear of K-shaped recovery, meaning that the rich will become richer and the poor poorer?

Yes, the apprehension of K-shaped outcomes post-COVID cannot be ignored. Such fears are not specific to India, but are being felt globally. COVID has impacted large swathes of the population differently; and recovery too is likely to be different across groups. These differential outcomes are already evident between the advanced and developing countries; between rich and poor households; between individuals who are better educated and more technologically savvy versus those who are not; and across different age groups and genders. Thus, the role of public policy in insulating and protecting those more adversely affected by the pandemic and who are unlikely to recover on their own has become more paramount than ever.

5. What kind of growth are you expecting for the current fiscal and also the next financial year?

In my view, growth projections, in general, are not scientific enough, and in the absence of any peer scrutiny or market accountability, they lack credibility. Yet I would hazard a guess that the growth momentum seen during the first quarter of the current fiscal year would not only be sustained but is likely to accelerate. For the entire year, we could see an annual growth in the ballpark range of about 10 per cent. The reasons for this perceived optimism are: (i) fewer supply disruptions, (ii) increased pent-up demand in the traditional and contact-intensive services, and (iii) a buoyant global economy. Even so, if

two pandemic years are taken together, there would be a very small net growth. In other words, the economy at the end of 2021-22 would be only slightly larger than at the end of 2019-20.

During the next year, however, we should be able to revert to the pre-pandemic growth rates. During the three years prior to the pandemic, average growth rate fell below 6 percent. I believe we will be able to do better in coming years.

6. When do you see private investment picking up in India? A lot of capital has come into our economy as a result of the quantitative easing of rich countries' central banks? Will it flow out now as the global economy recovers?

One of the biggest economic challenges that India has faced in the last decade has been an anaemic private investment. The data show that the rate of investment declined from a peak of 36 per cent of GDP in 2007 to 27 per cent in 2020. A large part of this decline is on account of the slowdown in private investment. The 2017-18 Economic Survey showed that the Investment cycles often tend to be long-drawn. Notwithstanding even this cross-country experience, India's downturn in the realm of private investment has been longer drawn than anticipated, as it has now stretched into a second decade.

What is more puzzling is the failure of private investment to show a revival despite ample liquidity in the economy. The reasons for this persistence have to be structural. Since investments, particularly large investments, are usually made while keeping a medium to long term view in mind, reviving it may necessitate adoption of a more holistic approach, such as being able to tap into not just domestic but also global demand, creating a stable, pro-growth, and pro-entrepreneurship policy climate, and promoting competitive input markets. Nurturing an environment of regulatory freedom wherein entrepreneurs can enter, grow, and exit simply on the basis of their own calculations of viability would certainly help.

7. Has the time come for the RBI to tinker the rates further given the need to accelerate growth? Secondly, is there solid empirical evidence to suggest that lower rates definitely result in higher growth?

My research on India's experience with inflation targeting shows that monetary policy has catered to growth concerns, as much if not more than to the inflation concerns. The pro-growth stance has continued even during the pandemic. The RBI has indeed been very supportive of growth, through both its key policy rate as well as the implementation of liquidity measures and regulatory forbearance. These have yielded positive results, so much so that not only do the worst times seem to be behind us, but we have ensured macroeconomic stability while handling the fallout of the pandemic. This is a very delicate and complex balance to attain for any emerging market.

As regards the second part of your question, among the many correlates of growth are the quality and availability at competitive prices of all inputs that are needed to produce goods and services: labour, skills, capital, and land; a conducive regulatory regime, and adequate demand in the domestic and global markets. The price of capital certainly matters in this framework, but it is only one of several other factors. Hence, in order to fully leverage our growth potential, we need the contribution of all the concerned factors.

8. Inflation continues to be a concern. Is there a case for reduction in duties on petrol and diesel at this point of time?

On the contrary, I do not see inflation as a concern. Albeit, COVID has made correct assessment of data a little hard due to large swings and strong base effects. However, if I look at inflation numbers carefully, I do not find them to be an issue of concern. For instance, if we look at the data by stripping it of large swings on account of COVID, and calculate the average rate of inflation over the past two years, we find that headline inflation has averaged at just about 6 per cent a year in the last two years. This level of inflation is consistent with India's inflation targeting band. Besides, while core inflation has grown at an average rate of less than 6 per cent, it's food inflation that has grown at slightly higher than 6 per cent.

From a global perspective, since food prices have increased worldwide, this higher than 6 per cent average food inflation is not an aberration for India. If anything, higher and rather volatile food prices in India are symptomatic of two issues: the low productivity, and seasonality of the agriculture sector. These issues require structural solutions, including augmenting productivity in the agriculture sector, and more integrated markets. Monetary policy or taxation is not the way to bring about these changes.