

Indian economy not facing stagflation, growth is picking up: Raghuram Rajan

The Indian economy is not facing stagflation, and there are signs that growth is picking up, Chief Economic Advisor Raghuram Rajan has said, pointing out that 5% GDP growth, while low in comparison with India's recent performance, could not be described as stagflation, a term used to describe a stagnant economy that is also facing rapid price increases.

"Stagflation is a very broad term. My sense is that when economy is growing at 5%, it is not stagnating. My own worry, of course, is about slow growth, which I think is Dr Rangarajan's worry also," he said in an interaction with reporters.

ET had cited a paper co-authored by C Rangarajan, chairman of the PM's Economic Advisory Council, where he had talked about stagflationary signs in some emerging countries, including India.

Not a Stagflationary Situation, says Rajan

"In this regard, it is pertinent to note that stagflationary tendencies have already reared their head in emerging markets, like India," said the paper where financial inter-mediation was never a problem," said the paper titled 'Growth or Austerity: The Policy Dilemma' published in ICRA's February bulletin.

The term was widely used to describe the performance of some major Western economies, notably the US, in the 1970s.

India's growth is projected to drop to 5% for the year ended March 31, 2013, and is expected to improve only marginally in the next financial year while retail inflation has climbed to nearly 11% in February.

Though India is still among the fastest-growing economies, 5% growth is well below the average of the last decade, and high inflation and fiscal deficit have made it difficult for the country to cut rates to stimulate the economy.

"I think we have put in place conditions for an improvement in growth and I don't see any reason the economy should be stagnating at what in Indian parlance is very low level of growth at 5%," Rajan said.

"There are some signs with IIP numbers, export data, PMI numbers that the economy is starting to pick up."

He added though inflation was a worry, it did not suggest a stagflationary situation.

"Stagflation connotes a permanent inflation. There also I am hopeful we are not stuck in a high inflationary environment," he said, adding a good Rabi crop will help cool food prices.

"Dr Rangarajan is a very wise economist and so when he says something, we should understand what he's trying to convey. I think we need to be careful in the longer run not to create a high-inflation economy."

Rajan warned that if we index too many things to inflation, it may be difficult to check price rise.

"If you index wages, prices, support prices to inflation, then it's impossible to contain inflation. So you have to be careful with the extent of indexation," he said.

(Economic Times)