

# 5 things smart civil servants should know about Indian macroeconomics

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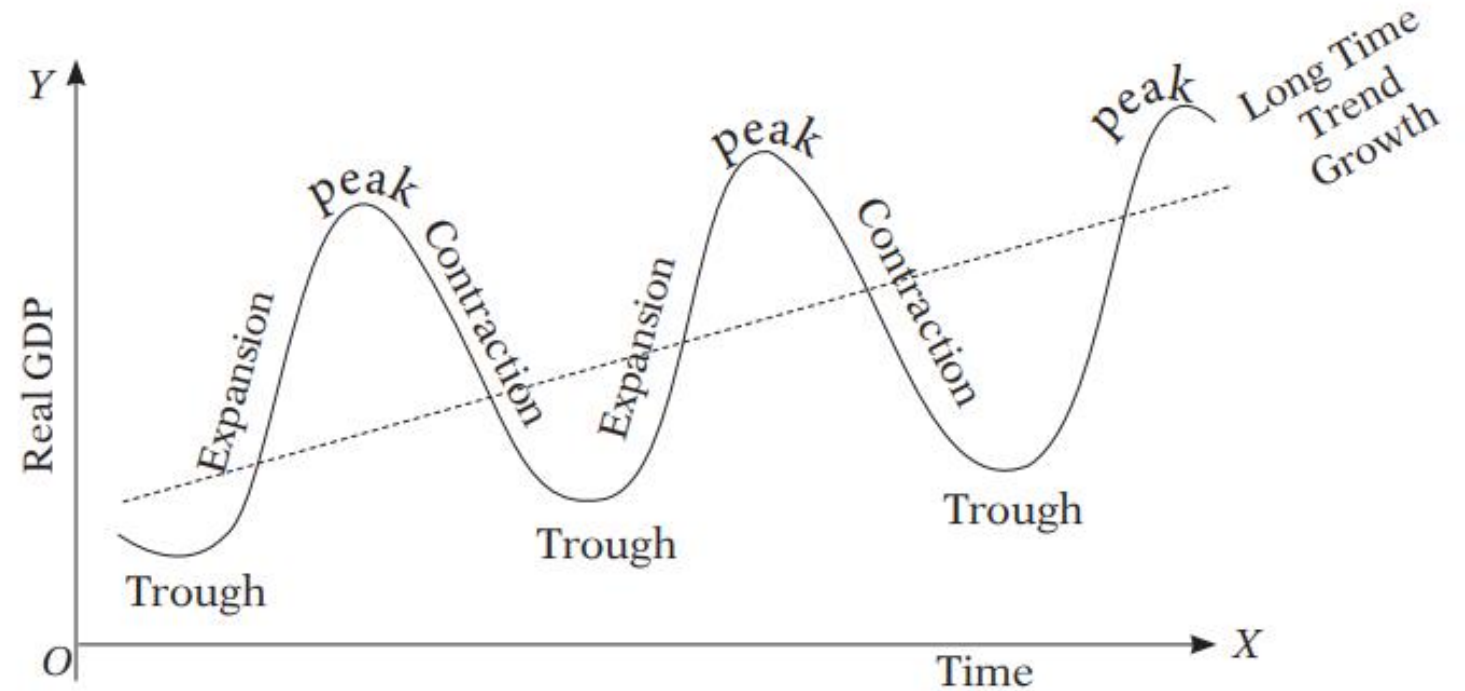
# 5 things

- Logic of inflation targeting
- Growth vs stabilisation: cycle vs trend
- Indias public debt- the good the bad the beautiful and the ugly
- The irrelevance of poverty- supply creates its own demand
- “Rupee must find its own level”

# Logic of inflation targeting

- What is the relationship between changes in the repo rate and inflation that underpins RBI's framework
- Why does this not work for “core “ inflation
- Inflation vs inflationary expectations
  
- Takeaway: don't let economists fool you with false modelling

# Growth vs stabilisation: cycle vs trend



# Growth vs stabilisation: cycle vs trend

- Assumptions underlying the business cycle known as Solow- Romer steady state
- What about emerging economies?
- The cycle is the trends?
- Policy implications#
- Aguiar, Mark and Gita Gopinath (2007): Emerging Market Business Cycles: The Cycle is the Trend, Journal of Political Economy, Vol 115, No. 1, February, pp 69-102.

# Indias public debt- the good the bad the beautiful and the ugly

- The good: Domestic vs foreign
- The bad The uniquely Indian savings paradox
- The beautiful: growth and autonomy
- The ugly: Inequality and sovereignty

Think point: Consols (perpetuals)

# The irrelevance of poverty-supply creates its own demand

- Poverty is a drag on macroeconomic performance hence its alleviation (as opposed to alleviation) is critical#
- <https://www.nipfp.org.in/media/medialibrary/2019/12/06122019.pdf>
- <https://economictimes.indiatimes.com/opinion/et-commentary/india-shows-all-the-signs-of-a-failed-middle-income-country-first-face-them-to-fix-things/articleshow/115189279.cms>

# Rupee must find its own level”

“

- Capital controls vs a free economy
- The Marshall Lerner conditions that India does not meet (India vs China productivity neutralising FX rate)
- Managed depreciation:  $CAD \pm \text{relative inflation} \Rightarrow \text{target depreciation}$
- Shorting
- Investor considerations and their management



THANK YOU FOR YOUR TIME

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