July 26, 2018

RBI Working Paper No. 4/2018:
Economic Activity and its Determinants: A Panel Analysis of Indian States

The Reserve Bank of India today placed on its website today a Working Paper titled "Economic Activity and its Determinants: A Panel Analysis of Indian States" by Garima Wahi and Muneesh Kapur under the Reserve Bank of India Working Paper Series*.

This paper assesses the impact of both monetary and fiscal policy along with other macroeconomic determinants on economic activity using state-level Indian data. Since economic activity can vary across states due to local factors and state government policies, a state-level empirical analysis, by providing more variability in both the dependent variable and the potential explanatory variables, can help better identify the underlying economic relationships. The empirical analysis confirms the role for a countercyclical monetary policy in stabilising economic activity. Bank credit expansion supports economic activity, suggesting the operation of credit channel of transmission in addition to the interest rate channel. Public investment is found to crowd-in economic activity, while other fiscal spending crowds out economic activity. Thus, a prudent fiscal policy, in conjunction with spending oriented towards capital outlays, can boost output.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

Ajit Prasad
Assistant Adviser

Press Release : 2018-2019/233