



## “Better Digital Reach, Targeted Job Support and Affordable Offerings Will Enable Rural Participation in Growth Story”

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### “RBI Should Align Monetary Policy with Supply-Side Measures to Prevent Aggressive Rate Cuts”

**Intro:** India's economy is at a crossroads: record-low inflation, rising household debt, and a widening rural–urban divide. This week at **Socio-economic Voices**, **Dr. Ritwik Sasmal**, Senior Economist and a former RBI MPC member, unpacks the real story behind the numbers. From targeted GST cuts to the creator economy's informal workforce, he offers a roadmap for policymakers aiming to balance growth, equity and stability. This **exclusive interaction** with **Mahima Sharma** of **Indiastat**, is an essential read for anyone and everyone invested and interested in aligning their future with India's economic future.

**MS:** The recent GST rate cuts will probably give consumer demand a short-term lift. But with supply still tight in several sectors, there's a risk this could drive prices higher. How can policymakers best strike a balance between supporting growth and keeping inflation under control?

**Dr. Sasmal:** A GST rate cut will, in all likelihood, give consumption a short-term boost. Household spending makes up nearly 58% (Private Final Consumption Expenditure, NSO) of India's GDP. So even a small rise can move the growth numbers. But the concern is obvious: if supply in some sectors is already stretched - like cement is a good example and so are parts of the car industry. In these cases, extra demand might show up as higher prices rather than higher output.

#### How to strike the balance?

**The relief should be targeted and time-bound.** If tax cuts are applied in areas (where producers still have room to expand output), then the extra demand can be met through higher production rather than higher prices. But if the cuts fall on goods or services already facing supply constraints, demand rises without any increase in supply and the result is simply inflationary.

**There's also a supply-side angle.** If tax relief is combined with quicker clearances for imports, or with calibrated releases from food stocks, then the pressure on prices can be eased. We saw back in 2019-20 that food inflation spiked even though overall demand was weak which shows that bottlenecks, not excess demand, were the real issue.

**Finally, monetary policy has to remain aligned.** The RBI's comfort zone is 4% inflation, with tolerance up to 6%. If cuts are clearly time-limited and paired with supply measures, expectations stay anchored and the central bank doesn't have to offset them aggressively.

In short, the best approach is sequencing: temporary, targeted GST relief in sectors with spare capacity, alongside steps to ease supply, so that growth is supported without losing control of inflation.

**MS: Official CPI dipped to ~1.55% in July 2025. To many households this feels like no relief — how would you explain, in concrete terms, why headline disinflation hasn't translated into visible price relief at the kitchen table?**

**Dr. Sasmal:** India's retail inflation eased to 1.55% in July 2025, the lowest since 2017 (MoSPI). The drop came mainly from food, with the Consumer Food Price Index at 1.76%, led by a steep fall in vegetables (-20.7%) and pulses (-13.8%).

Yet most households do not feel relief. Everyday basics such as cereals, which are up around 3%, milk at nearly 2.7% and prepared foods rising by about 6%, are all still getting more expensive. Since families buy things like rice, wheat and milk week-in-week-out, those price rises matter far more to them than the short-lived relief from cheaper tomatoes or onions. On top of that, service costs remain sticky: housing (+3.2%), education (+4.0%), health (+4.6%) and transport (+2.1%) all moved higher in July and such expenses rarely come down once raised.

In the short run, **this explains the gap between a falling index and household experience.** What really matters over time is the build-up. After three years of inflation running at 6–7%, prices today are still roughly 15–20% higher than they were back in 2022. A fall in the inflation rate just means prices are climbing more slowly; it doesn't wipe out the increases that have already happened. Until wages rise enough to close that gap, many households will carry on feeling the pinch, even if the CPI is showing record lows.

**MS: Food deflation pushed headline inflation down in June–July 2025, but it can compress farm incomes. How should policy balance the immediate consumer welfare gains from lower food prices against the risk of reduced rural incomes and demand? What mix of fiscal transfers or market interventions would you recommend?**

**Dr Sasmal:** Food deflation has pulled down headline inflation, but for farmers it means wholesale/Mandi prices falling below costs in some crops. **Here the role of MSP comes up. India may officially set minimum support prices for 23 crops. But in reality, most of the procurement ends up focused on wheat and rice.** Trying to roll out MSP buying across all crops whenever market prices fall would be very hard to sustain financially and it would almost certainly push up inflation rather than keep it in check.

**That said, targeted MSP procurement can play a useful short-term role.** For crops where the price collapse is steepest, say pulses or oilseeds, agencies like NAFED can step in to procure at MSP levels. This prevents distress sales, assures farmers a minimum return and builds stocks that the government can later release to stabilise prices when supply tightens. Importantly, procurement should be capped and time-bound so it doesn't become open-ended.

Alongside MSP operations, I would lean more on direct transfers, for instance, temporary top-ups through PM-KISAN, because that cushions farmers without driving up consumer prices. MSP is a floor, not a growth strategy; using it selectively in combination with cash support is a better balance.

So, MSP does have a role, but as a shock absorber in a few crops, not as the default tool for every bout of food deflation.

**MS: Given the RBI's recent bulletins highlighting external trade risks, how should monetary policy treat the current sub-2% inflation prints — should the central bank treat this as structural disinflation or a temporary spike downwards because of volatile food items?**

**Dr Sasmal:** Inflation dropping below 2% in June–July 2025 certainly grabs attention, but I wouldn't describe it as structural. Most of the fall is due to food prices tumbling; vegetables are more than 20% lower year on year and pulses nearly 14% - both categories that swing around a lot. Core inflation is below where it was last year, yes, but

still sits in the 3–4% band. But the services such as housing, schooling and healthcare continue to edge upwards. To me, that points to a moderate underlying trend rather than a collapse.

**For monetary policy, the sensible reading is that the RBI should see this as a temporary dip** rather than a permanent change in the inflation landscape. A genuine structural shift would need a much broader and more durable easing across food, fuel, manufactured goods and services, alongside firmly anchored expectations. Right now, what we're looking at is mostly a supply-led correction in food.

**And given the RBI's own concerns** of weaker global trade, unpredictable crude prices, possible tariff shocks, caution looks wise. **Slashing rates on the strength of one or two soft readings would be hasty.** Better, in my view, to welcome the short-term relief for consumers but hold steady until we know whether inflation stays low once food prices settle.

**MS: If we accept that CPI is not fully reflecting "lived inflation" (e.g., housing rents, services, or localised supply shocks), what alternative indicators should policymakers watch to understand: a) real household price pressure and b) create equitable policies for the masses?**

**Dr. Sasmal:** Headline CPI is a benchmark, but it often understates "lived inflation." July's sub-2% print reflected cheaper vegetables, while households still face higher rents, school fees, transport fares and LPG costs. To capture real pressures, policymakers need a broader dashboard.

First, **staple food tracking:** high-frequency mandi and retail prices for cereals, milk and cooking oil, which dominate actual budgets. Second, **wages vs. inflation:** rural and urban wage growth, to see if real incomes are keeping up. Third, **there are services and housing costs:** things like rent, school fees, medical bills and transport which tend to creep up year after year and almost never fall back.

Fourth, we need to **look at regional figures**, since inflation at the state level can be very different from the national average. And finally, there's the question of expectations: household surveys that capture how people think prices are moving and what they expect next, which often shapes both demand and wage talks.

When you put all of this together, you get a truer sense of the pressure on households. The CPI gives the headline number. But then you have to read it alongside wages, service costs, the price of basics and people's expectations. Then only a policy can really respond to what families are experiencing day to day at the kitchen table.

**MS: Premiumisation is fueling luxury growth even as lower-income households cut back on essentials. What does this divergence reveal about India's socio-economic structure in 2025 and how might it affect long-term demand sustainability?**

**Dr. Sasmal:** What we're seeing in 2025 is really a **two-speed economy**. At the top, the most affluent 10–15% of households are driving growth in SUVs, luxury goods and premium services. But the larger base of rural and lower-income families is still cutting back even on staples because wages have not kept pace with prices. In the short run, this divergence flatters company earnings, premium categories carry high margins and wealthy consumers are relatively price-insensitive. **But for the economy, it points to a narrowing consumption base.** A small affluent class cannot keep demand momentum going on its own.

If India wants sustained growth, the mass market has to recover too. That means raising rural incomes, creating more stable jobs and supporting real wage growth. Otherwise, we risk an economy that looks strong at the top, but fragile at the base - a classic two-speed story.

**MS: Families increasingly feel pressured to spend beyond means to "keep up" with premium consumption. How should policymakers and economists account for the hidden social costs — like rising debts — when assessing**

## economic growth quality?

**Dr Sasmal:** This is where headline growth misses the story. Families are stretching budgets and taking on debt just to “keep up” with premium consumption. On paper, it looks like robust demand, but underneath it’s fragile because it’s fuelled by borrowing, not income.

For policymakers, that means we shouldn’t just track GDP or FMCG sales. We also need to watch early warning signs of unsustainable consumption:

- household debt-to-income ratios
- small-ticket loan defaults
- microfinance stress.

**There’s a social side to this as well.** Families under strain often end up with growing debt, borrowing informally and living with constant financial pressure. Many feel trapped in a cycle of spending they can’t really escape. **The policy answer, to my mind, has two strands.**

- One is closer monitoring of easy credit — things like BNPL schemes and small quick loans.
- The other is shoring up safety nets in areas such as healthcare, schooling and housing, so people don’t have to borrow just to cover the basics.
- In the end, the quality of growth shows through when households spend because their incomes are improving, not because they’re being pushed deeper into debt.

**MS: The shift toward premium goods is heavily urban-centric. This accelerates the socio-economic gap between rural and urban India. What strategies could bridge aspirational divides without deepening inequality?**

**Dr. Sasmal:** I genuinely believe the premium shift we’re witnessing is heavily urban-led and that worries me. **It’s not just an income gap anymore; it’s turning into an aspirational gap between rural and urban India.**

- Urban households are trading up into premium goods,
- While rural families are struggling with essentials yet they still want to be part of that story. **If we don’t address this, the divide will only deepen.**

For me, the answer lies in two things.

- First, **raising rural purchasing power** through better non-farm job creation, stronger wage growth and targeted income support when shocks hit. Aspirations have to be backed by incomes, not by rising debt.
- Second, we need to **bridge access smartly**. That means companies offering affordable premium variants, smaller pack sizes and using digital platforms to reach rural consumers, rather than keeping premiumisation confined to metros.

If we’re serious about inclusive growth, we can’t let premiumisation become a symbol of exclusion. Rural India has to feel it has a stake in the consumption story too.

**MS: While premium Indian brands can command higher margins abroad, at home they may amplify inequality. How can India balance the economic benefits of exporting premium products with the socio-economic imperative of keeping essentials affordable and inclusive domestically?**

**Dr. Sasmal:** I wouldn’t argue that India should turn its back on premium products. They clearly have a role — they strengthen the country’s reputation abroad. These bring in valuable export earnings and prove that Indian firms can hold their own on the global stage. The challenge, though, is in keeping a sense of proportion. If too much focus goes on luxury goods at home, while many families are still struggling to cover basic needs, the problem is not only

greater inequality on the charts but also a sense of being left out. When people feel cut off from the growth story, the frustration can build up and weaken the social fabric over time.

**So how should India approach this?** I think the way forward is to move on both fronts. Premium and high-end brands should have room to grow, especially in overseas markets. But this has to be matched by a clear effort at home to keep everyday essentials within reach for ordinary families. **That means ensuring fair prices for staples, supporting robust public distribution and pushing for steady wage growth.**

It's also important not to think of it simply as a choice between luxury goods and the cheapest options. **A vibrant middle ground — with accessible, good-quality mid-range brands —** is vital if the domestic market is to stay inclusive. For me, the key point isn't to stop premiumisation. But to make sure it does not race ahead of basic needs and leave too many people behind.

**MS: India's creator economy is booming, yet more than 90% of creators remain outside formal labour contracts and social security nets. How should policymakers reconcile the tension between celebrating "digital entrepreneurship" and the reality that most creators are essentially informal workers with precarious incomes?**

**Dr Sasmal:** India's creator economy is impressive. It has an estimated size of \$350–400 billion. It reflects digital penetration and new entrepreneurship, but it is uneven. More than 90% of creators have no contracts or social security. Out of 2–2.5 million active or monetised creators, only about 8–12% earn regularly. Most of them rely on platforms for less than three-quarters of their income. So, while the sector looks dynamic, many remain informal workers with fragile livelihoods.

The real challenge is how to add some protection without suffocating growth.

1. One step could be a voluntary Aadhaar–PAN linked registry. This makes it easier to build portable social security accounts. Even basic health or pension cover, with small matching contributions for the lowest earners, would create some stability.
2. Access to finance matters too: simple credit lines, cooperatives and fairer contracts can help smooth out volatile income cycles.
3. On the platform side, transparency is vital. Clear rules on payout timelines, disclosure of terms and a quick way to settle disputes would make a big difference.
4. Small creators also need lighter taxation, like presumptive tax and GST thresholds that account for production costs.

Therefore, the way forward is not to regulate heavily, **but to let the sector grow while gradually adding safety nets.** That balance keeps the dynamism but makes it socially sustainable.

**MS: Platforms like YouTube or Instagram take commissions overseas, while many Indian creators under-report or remain untaxed. Should India design a creator-specific tax framework to capture this growing digital income stream? How would you avoid discouraging participation from small or rural creators?**

**Dr Sasmal:** I wouldn't call for a new "tax" on creators, because the word itself can create deterrence and risk slowing the organic growth of this creator economy. Global estimates roughly point for a \$127 Billion market in 2024–25. Whereas Indian market signals a strong CAGR growth around 2027–30. But as the creator economy expands, it's only natural that the union government builds some structure around it. Right now, platforms are global, money flows overseas and many creators, especially the bigger ones may not be fully reporting their earnings. The result is a loss of revenue on one side and an unfair advantage on the other.

What the government ought to do here is keep things even and transparent. Smaller or rural creators should not be burdened with complex compliance, but larger creators earning significant incomes should be brought clearly into

the system. A light-touch, progressive structure from the Finance Ministry: one that ensures big players contribute while protecting the entry of new ones would strike the right balance. In short, the aim should be to support the sector's growth, while making sure success at the top also comes with responsibility.

**MS: India has the advantage of both a strong formal economy and a vast informal one led by MSMEs. We saw during COVID-19 how quickly the informal side could bounce back, while the formal side provides stability and long-term growth. Do you think this mix can give India an edge in becoming a global economic power?**

**Dr Sasmal:** I see India's dual economic structure as a blessing in disguise. On the one hand, we have a strong formal economy that anchors long-term growth, while on the other - a vast informal economy. The latter is largely through MSMEs that have shown remarkable resilience.

**The informal sector in particular has the capacity to bounce back very quickly after setbacks,** as we saw during the COVID-19 pandemic. That gives India a unique mechanism where, even if there is a shock, the economy doesn't stay down for long — it springs back within a short period.

Now, whether this alone will make India a global superpower is a million dollar question. **But one thing is certain: this dual characteristic pushes our growth numbers forward in a way that many purely formal economies do not enjoy.** If we compare with Western economies like Germany, France or Austria, their recovery post-COVID has been much slower. The growth seems stuck at a lower equilibrium. In contrast, India's ability to rebound demonstrates the strength of having both the formal and informal sectors working in tandem. This is a very valuable feature for any developing economy aspiring for sustained growth.

#### **About Dr Ritwik Sasmal**

*Dr. Ritwik Sasmal is a Senior Economist at IFB Industries Ltd and an academic researcher with 14 years of applied economics experience. He holds a PhD in Economics and double master's degrees in Economics and in Politics & Public Administration. He spent over seven years in Germany in academic and professional roles, bringing a strong international perspective. His research on public expenditure, growth, and poverty alleviation is published internationally. His applied work focuses on economic forecasting models linking macroeconomic trends with sectoral dynamics in manufacturing, automotive, metals, and mining. Skilled in econometrics, time-series modeling, and machine learning, he blends academic rigor with industry insight. He also mentors young professionals on turning research expertise into industry-ready skills.*

#### **About the Interviewer**

*Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at [media@indiastat.com](mailto:media@indiastat.com)*

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