

ET Q&A

'Farm, Labour Bills are Steps in Right Direction'

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The new farm and labour laws are important steps in the right direction that have the potential to provide greater social security to workers and more formalisation of the labour market, said International Monetary Fund chief economist Gita Gopinath. In an interview with **Deepshikha Sikarwar**, she said it has the potential to strengthen the supply side and help with demand. Edited excerpts:

Is India erring too much on side of caution and fiscal prudence when it should be spending more to revive the economy?

India has deployed a sizeable fiscal package, around 7% of GDP, which is really sizeable by comparison to its peers. The mix has been different, though. They have focussed much more on liquidity measures like loan guarantees, credit guarantees, and only about 2% has taken the form of direct spending, which is direct support – income support to low-income households, direct support to SMEs (small and medium enterprises).

So that is where we think that can be increased some, which is the more direct spending aspect of the support – more will be needed. You could think of extending the timelines for these schemes, because some of these schemes have already expired and some are projected to expire soon... Also expand it to the urban poor or migrant workers. So this kind of rebalancing towards more direct spending will help quicken the recovery.

And monetisation?

Let's be clear about what we mean when we say monetisation. What we're seeing happening with central banks around the world is that because inflation in many countries is below target, because you have large output gaps, they are doing considerable asset purchases, including government securities on the secondary market. And, because they've been doing that they've kept borrowing costs low for governments everywhere in the world. I would not call that as monetary financing. I would say that's exactly what they should be doing given their mandate. The trickier question is of monetary financing, which you take into more direct kind, which is directly buying on the primary market or basically lending directly to the government. That is far trickier because that has implications in terms of confidence effects on the market. It has implications in terms of inflation, lack of central bank independence. So you know, what countries are trying this, and you can do this on a very limited basis for a very short time. It's just not a strategy that they should rely on for any significant amount of support.

Food inflation in India is rising. Is there a case for tolerating higher inflation?

Yes, because if food inflation is going up, you've seen that shows up in both the headline numbers, but also the numbers that the RBI focuses on. One has to be cautious. RBI has paused the interest rates, its cuts, appropriately for now because of these pressures. But, given the large output gaps that we're projecting for

India, and that there's going to be overall weakness in demand relative to potential, we see inflation coming back within the band of 4% plus or minus 2%.

And so we see space for cutting interest rates after that. Food inflation itself is not something that the RBI can target but the effect that has on inflation expectations, and through that, on core inflation, is something that central banks do worry about.

India has enacted what can be termed supply-side structural reforms in agriculture, labour and so on. Some critics say a boost to demand is more important...

I don't see this being an either-or. Supply-side reforms are great, because they boost potential for the economy... The farm bills and the labour bills are very important steps in the right direction. They have the potential to have more labour market flexibility, providing greater social security to workers and more formalisation of the labour market. In the case of agriculture, having a much more integrated market, creating competition, having farmers getting a greater share of the price that finally the retail price that's paid. So that helps with rural incomes. That is a big positive in terms of demand.

It's important that one gets the implementation right. It has a potential to be good on the supply side and also help with demand. Now, at the same time as of now, again, this goes back to my previous point: you would want to couple that with some more direct spending.

Do you anticipate a rapid recovery in India next year or does this also depend on a vaccine becoming available?

When people say rapid recovery, they look at the growth numbers. The growth numbers, of course, are coming off a very low base. What we are seeing in many countries is only a partial recovery. The world economy is not coming back to 2019 levels until 2022, and in some countries not until 2023. So you're seeing partial rebounds, but you're not really seeing full recovery. What that will take, you can get much faster if you can bring about a much quicker end to this health pandemic. You can have a faster recovery that doesn't necessarily (depend) exclusively on vaccines, you could have better treatments. And even better testing – all of this can make people live with the virus much better. But one of the issues that we flag is that, while the science in terms of the prospects of vaccines and treatments and testing looks really good... we're concerned that there won't be enough production to ensure there is sufficient distribution to all parts of the world at the same time or as quickly as possible. That's where we are calling for much greater global collaboration.

What is your take on India's Atmanirbhar programme, which has been seen by many experts as protecting local industry?

Many countries are looking at their landscape, at jobs, at the needs of their people, and you're seeing a significant push in this direction. What's important to keep in mind is that if you want to be a part, a big part, of the global economy, and you want to sell to the rest of the world, then you also want to make sure that you use goods from the rest of the world because a lot of exports are also imported. And they're part of global supply chains. It's hard to be a very successful exporter or a productive exporter, without being able to access the global supply chain. So the measures that India is taking, for instance, in the labour laws and with the farm bills, those are steps that will help create jobs, will help create prosperity. And at the same time increase India's print on the world.

Stock markets are at record highs. Does this suggest a build-up of risks across financial markets?

What we are seeing in terms of financial markets are a reflection... of the considerable central bank support that was needed to prevent a financial crisis. So on one hand, interest rates are coming down, but more importantly, the compression of risk premia... these have been very important factors.

A second important factor is that some sectors have actually done very well in this crisis. So if you're in the tech sector, you're in the pharma sector, you are doing very well.

Even in India, in terms of the stock market – most of the climb has been because of tech, pharma and I guess Reliance. While for everybody else, they are below their (levels at the) start of the year. We are concerned about overheating. We are concerned about stress valuations. The global financial stability report has gone into this in detail. So as of now, given how well capitalised the banking systems are, at least (relative) to when they came into this crisis, we are less worried about the banking system problem under the baseline. But there are concerns about corporate debt going up – non-bank, financial corporations. So we are asking to keep very close supervision of these build-up risks.

World Economic Outlook has spoken of pre-pandemic GDP levels coming back by 2022. But there is a second wave in Europe. Could there be another downturn?

Indeed, we are seeing a resurgence of the virus in parts of the world... As long as the impact of this resurgence of virus is more like what we saw in the summer in the US, as opposed to what we saw in spring in many countries, then that would be within our baseline. The downside would come if it turns out that it's actually far more severe, and it's having a much bigger hit on activity, more like what we saw in March and April. That's not in our baseline. That would be a downside risk.

IMF has called for multilateral cooperation and resolving trade & tech tension but what is happening is the reverse with rising protectionism. How do you see this?

First, let's just call the glass half full in terms of how multilateralism has worked in this crisis – there are positives. For instance, the IMF is a multilateral institution. We're having the IMF-World Bank meetings as we speak, where we have central bank governors and finance ministers all in close conversation. On your specific question on protectionism, yes, we are worried that the number of trade and investment restrictions are going up. If that escalates, that is going to make it much harder for the world to recover.

For full interview, go to www.economictimes.com

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