Keep all options open to regain growth: CEA

Once Pandemic Is Over, We Have To Wean Away From Debt Recast: Subramanian

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Chief economic adviser (CEA) Krishnamurthy Subramanian says the focus right now should be on growth and not on debt sustainability. In an interview to TOI, Subramanian says loan restructuring should be a one-time move and cannot be continued indefinitely. Excerpts:

Most growth projections are suggesting a contraction of 8-10% this year. What is your assessment?

The first quarter decline was primarily due to the lockdown. India’s Q1 (GDP) decline is in line with the intensity of the lockdown. GDP will recover and the evidence is clearly showing that. We have our internal assessments, but it would be good to watch the recovery that’s happening in this quarter. Especially in manufacturing, there is clearly a recovery that’s happening. If you look at the high frequency indicators such as e-way bills, railway freight, cement and steel production, power generation, exports or the Purchasing Managers’ Index, recovery in manufacturing is very much on. In the services sector, there is still uncertainty as social distancing is affecting travel and, given the Indian economy’s large reliance on the services sector, that is an aspect that is worrying.

What about building up of inflationary pressures?

Food items contributed significantly to inflation, especially during the lockdown, when all of us went and bought cereals, pulses and edible oil. The demand increased, while supply did not change in the short run. That explains significant inflation in months of the lockdown. If you look at the difference between CPI and WPI, WPI is quite benign, and in CPI, it’s mainly food items that are contributing. If there was a problem on the supply side, in terms of production, it would have been seen in WPI, which is not the case. Local lockdowns are affecting the transit from the wholesale to retail.

You talked about delaying the stimulus till things normalise. Given that vaccine is still some months away, won’t that delay a recovery?

What I had said was that the full extent of recovery will happen after the vaccine and we can start normal lives. Just giving cash will not start discretionary consumption. That does not mean we should not be focusing on other aspects of government spending. I have said that if you look at the period after the Asian financial crisis, GDP growth was about 4% or thereabouts for 12 quarters. We spent on infrastructure and we did reforms on small-scale sector, focused on disinvestment and all these helped bring growth at 8% for years.

What is your view on monetisation of the deficit?

If you look at crises across the world over the last 100 years, you see that in periods like these we have to focus on growth. That is the key. It is times like these when growth has to be the focus and not necessarily debt sustainability. We just have to keep all options open to ensure to get growth back.

Is there any economic merit in waiving off interest on interest?

Practical suggestions in times like pandemic, debt-restructuring is indeed recommended. But what is very important to keep in mind is that lessons from what we did after the global financial crisis, where we
created the restructuring option but we kept continuing that indefinitely, and provided licences to banks to
keep that non-performing assets, calling them as restructured assets. The lesson from the global financial
crisis period is to actually avoid that. Once the pandemic is over we have to wean away from restructuring.