

ET INTERVIEW

'More Direct Funding Push will Aid India Recovery'

Govt needs to expand schemes to include urban poor, migrants; deficit monetisation not advisable

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New Delhi: More direct funding support that includes the urban poor and migrant workers within its fold can help India speed up economic recovery, but monetisation of the deficit is not advisable, said Gita Gopinath, chief economist of the International Monetary Fund (IMF). She's also concerned about "overheating" in the financial markets.

India's new farm and labour laws are a step in the right direction and have the potential to strengthen the supply side and also help boost demand, along with some level of direct support, she told **ET** in an exclusive interview.

Gopinath, 48, John Zwaanstra Professor of International Studies and of Economics at Harvard University, took over as chief economist of the IMF in January 2019. In the October update of its flagship World Economic Outlook earlier this week, the IMF said India's economy could contract 10.3% in FY21.

India, Gopinath said, has deployed a fiscal package of around 7% of GDP, which is really sizable by comparison with its peers but has focussed more on liquidity measures such as loan and credit guarantees. Only about 2% has taken the form of direct spending. The Centre had offered direct cash transfers and free food to the rural poor after it imposed what is now regarded as the most severe lockdown anywhere beginning March 25.

"You could think of extending the timelines for these schemes, because some of these schemes have already expired and some are projected to expire very soon," Gopinath said. "So, extend the duration of the scheme and also expand it to the urban poor or migrant workers."

GITA GOPINATH

CHIEF ECONOMIST, IMF

On Atmanirbhar Bharat

Such a rebalancing towards more direct spending will help quicken the turnaround, she said. India's economy shrank a record 23.9% in the June quarter.

However, Gopinath does not favour monetisation to fund such direct spending, an idea that's been proposed to the government to kickstart the economy.

"That (monetisation) 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," Gopinath said, adding that it's not a strategy that countries should rely on for any significant amount of support. Direct monetisation can become selfdefeating with loss of market confidence, she said.

There's unease about the markets surging although only select sectors that had done well during the pandemic had seen movement. "We are concerned about overheating. We are concerned about stress valuations. The global financial stability report has gone into this in greater detail," Gopinath said. There are worries about corporate debt going up and non-bank finance corporations. "So we are asking to keep very close supervision of these build-up of risks," she said.

On Atmanirbhar Bharat, she said it is important to keep in mind that if a country wants to be part of the global economy and to sell to the rest of the world, it will have to make sure to use goods from the rest of the world because a lot of exports are also imported.

"And, it's hard to be very successful exporter or a productive exporter, without being able to access the global supply chain," she said, adding that measures such as the new labour laws and farm bills will help create jobs and prosperity and at the same time increase India's impact across the world.