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Navigating Policy Trade offs and Mitigating Output Losses in Asia

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The following is an edited and revised transcript from the event. It has been generated by human transcribers and may contain errors. Please check the corresponding video for the original version.

Good afternoon, everyone.

(Break in audio till 2:40)

Jaimini Bhagwati: I would like to also welcome Dr Amita Batra. Professor of economics at JNU. Please excuse me if I pronounce your name wrong. Dr Shanaka Peiris, Division chief in IMF. And we also have Jean Marc, Deputy divisional chief in IMF. A very warm welcome to CSEP. A little token of our appreciation for you to take your time in this heat to come to CSEP. What are the rules of the game today? The way it is structured is that we will request the presenters, I hope everybody has had a chance to look at their slides. Then you will be able to absorb more from what they are going to explain. But even if you haven't you will see the slides, maybe 30 to 35 minutes the slide presentation with explanations and then after that without any pause I will request Dr Nageswaran to give his comments. And followed by Dr Batra's comments. At some point of time after that I will try to summarize a little bit. Then we move on to Q&A and then hopefully all of us will join for a cup of tea in the lobby out there at the back from here. Before we get on to the presentation, I think it says a difficult year ahead is the title of the presentation. My sense, correct me if I am wrong during your presentation, it might be a difficult decade ahead given the backlog of negative news that we have received from all around the world and it is not just economic. I am also referring here to the war and the attendant consequences. If you compare from 2000 to 2020, those two decades and what decade we are going to get now from 2020 to 30, I think in 2031, I don't know whether I will still be around. Most of the young people here will be. One might come to the conclusion that this title should perhaps have been a difficult decade ahead. Anyway, your presentation is brilliant. But may I request since we are in India and Delhi and we have someone from the ministry of finance and I have another colleague from the ministry of finance, Sashank Saxena… (frozen screen from 5:30 to 6:28) Over to you Dr Peiris.

Dr Shanaka Peiris:

Thank you very much. I will start with a good afternoon to everyone. It is a pleasure to be here in CSEP and in Delhi. It is the first day in Delhi. We have been doing some presentations in the region. I will be starting with the global and the regional economic outlook. The slides will be up shortly. I will start with the global and the regional economic outlook and some of the policy issues we see for the region. Then Jean Marc my colleague will talk a bit about the analytical projects we have and the world economic outlook presentation which was published in the spring meetings. It was 10 days ago in Washington DC. And we had our reports out and our forecast. Just to say the title for our Asia outlook is 'the year of difficult tradeoffs'. It was meant to be difficult policy tradeoffs. I think it is more the policy tradeoffs could be one year. But we may have much more challenges through the decade. I somewhat agree. If we go to the next slide, we will start off with the big shock which we have seen since our last forecast. We had our forecast in January. So, most of the deviations I talk about is since January, but they are also since October when we had our big report in last October. What has really changed in the last three to six months is the Ukraine war. There are many other changes, but I want to focus on that at the beginning. We call and think of it as bit of an economic earthquake. Why, because we have this epicenter where we had significant growth downgrades, if you can see. Ukraine obviously by more than 35%, but even Russia where 14% decline at least projected in output. That is the epicenter but it is not only Ukraine or Russia, eastern Europe and some central Asian economies also are at the epicenter and have significant growth downgrades. But

beyond the epicenter you still have these seismic waves from the earth quake which is the sharp spike in commodity prices, disruption in trade flows, we really mean more what is happening in eastern Europe because of supply disruptions, but it adds to the supply disruptions we were having post covid, tightening of financial conditions which we saw initially with the invasion. Now we are seeing the volatility more driven probably by the fed. But I will get to that a bit later on. Then we also have these shifts in tectonic plates which we expect, right? Here I am referring to which was already mentioned is the potential risk of fragmentation of supply chains and trade and investment and finance. I think that is a big risk but we see that as a medium to long term, that is why we have as shifting tectonic plates. We much agree that it might be something we might see over this decade. If we go to the next slide, given this big shock what we did in January, the world economic outlook is that, we downgraded our forecast. In 2022 significantly, especially for 2022 driven mainly by Russia and the EU. Declining revisions in growth. But you can see that inflation projection for this global inflation is significantly higher than what we were just projecting in January. So that is a big change. That is our outlook a lower growth, higher inflation. That is why sometimes we refer to it as stag-flationary but although it is not technically stag-flationary yet. So, lower growth, but we think the downside risk to global growth is still more negative. So, you could have escalation of the war, greater supply disruptions, but also, we could have a covid variant, you never know. But also, a big risk given this big increase in inflation what we are projecting there is a risk of de-anchoring of expectations, monetary policy having to do a lot more and that could be much more negative for global growth. So, this also is a careful calibration of monetary policies, particularly given that our recovery is still very anemic in most of our part of the world. So, you have high inflation with a response your growth is anemic. So that is the difficult policy trade off. We have to prioritize those reforms but we also have fiscal much higher debt today than we had a decade ago, even a few years ago. The fiscal has to also consolidate at some point, needs to be anchored in medium-term framework. So, finally given the tectonic shifts keeping the multilateral cooperation going will also be key in the medium to long term. So, let me go into the details now in the next slide. This is the global forecast just to quickly catch up. We have revised down our global growth by 0.8 for the world. US not by much. European union by 1.1 that is driving a big large decline in our growth forecast for the global economy. Japan also quite a big decline of 0.9 but that is because of omicron wave also lasted there much longer had some supply disruptions. But as you see other advanced Asia is not that largely affected except that I will get back to you more on China very soon when we focus on the regional economic outlook. So, let us move to the next slide. Just to kind of recap where we are in Asia. Omicron wave we are past the peaks in most of our countries except China. Some other countries lingering as if but China is the key issue where we have a lockdown on Shanghai which is hopefully easing. But potential for lockdowns elsewhere. So, mobility in Asia returned to nearly normal pre-pandemic levels by end 2021. But has seen some weakness lately because of China mainly. Go to the next slide. The picture is that, you know we had strong manufacturing in Asia partly driven by strong export demand particularly in Europe and US. But recently greater weaknesses in services. Partly also due to China and others where there are weaknesses due to Omicron. But also, we having this rise in inflation. The important point here is, already in Asia even though inflation was lower last year for very idiosyncratic factors like lower food prices, this year we are seeing not only headline inflation shoot-up but also core inflation starting to pick up. That is more of a worry because it could be explaining demand pressures as well. If you go to the next slide we just get into the real potential impacts as to

how this war could affect us. You have a surge in commodity prices, it is not only oil, it is also wheat, it is also metals. Luckily for us rice prices affect Asia more. It has not gone up so much. But it has an impact. For now, if you look at the terms of trade effects, there is negative terms of trade for many of our oil importing countries like India. If you look at the terms of trade changes, we are forecasting in our world economic outlook, what you have seen in the external front on exchange rates movements it kind of tracks what you would expect. Negative terms of trade leads to more depreciation. Japan is outlier because Japan's journey is driven by the interest rate differentials because of a different monetary policy regime. But the important point is at least maybe a week ago we hadn't seen big major tightening in financial conditions. If you look at interest rates, even in the US it is roughly __of the long-term average. Even in Asia Ems interest rates are around roughly whereabouts in the long terms. So, we haven't really seen a tightening yet. So, if you go to the next slide. We look at the forecasts in more detail for Asia. I think what is striking is that we are downgrading Asia by 0.5. if you remember, the world is 0.8. So, we are in the middle of the pack. Europe more affected, we are in the middle, commodity exporters like the middle east and Africa actually have seen upgrades in forecast. Including countries like Indonesia which are commodity exporters and Australia. India, we downgrade our forecast from 9 to 8.2 from what I understand it is even our forecast is still greater than maybe some forecasts in India. The reason we have a fairly strong forecast for India is also partly because we think there is a strong carryover effect from last year. So, this 8.2 is not that strong. It actually is going to feel quite weak. The sequential growth of 8.2 is actually quite weak. So, it is going to feel more like much lower growth. It is not going to feel like 8.2 growth from a sequential growth sense which is what you will feel. ASEAN only a 0.2 decline partly because as I said Indonesia and Malaysia wasn't downgraded so much as they are commodity exporters. Go to the next slide. How do we see the impact? The global food prices are higher, global fuel prices are higher. When you think of a global food price shock, we have re done the historical correlations. When you think about Asia, food prices affect the emerging markets more. Higher global food prices affect the emerging markets more. Higher CPI weight. But also, food is more important in many ways. But when it comes to oil prices actually higher oil prices affect advanced Asia even more for the same shock. Why? Because they don't actually have administrative prices and subsidies. So, some of the oil price shock is turning up in emerging markets as high subsidies or administrative prices leading to higher losses at state owned enterprises. So, there is a challenge across these two regions. But advanced Asia and emerging Asia is somewhat different. Let us go to the next slide. We have our projections for all commodity prices. These are the terms of trading impact on Asia. You see, Australia, Malaysia, actually also Indonesia are the only ones getting a positive terms of trade shock. Most of us in Asia like India faces a negative terms of trade shock. Quite a sizeable negative terms of trade shock. We have done some empirical work. When there are negative terms of trade shock, if you look at the growth impacts controlling for many factors, advanced Asia is largely unaffected. Growth in advanced Asia doesn't go down even though you have a negative terms of trade shock. But emerging Asia has a negative growth effect. It stands to reason. Even emerging markets find it harder to smooth out these shocks. Space, fiscal space, many reasons. If you go to the next slide, the largest impact, we think is happening right now from the shock we are seeing is through external demand. As I showed you Europe is down 1.1 downgrade just in three months. Value added exports to Russia and Ukraine is quite small. But value-added exports to EU is quite large. One of the largest trading partners. That's going to have a big effect. Tourism also matters to some of our countries in the region including Sri

Lanka and Maldives. We re run our growth beta, what happens if growth declines by 1% point in the rest of Asia, Europe or US, what happens to Asia. Let us say India, if the rest of Asia's growth goes down by 1%, we say India could go down by 0.5. this is for Asia. India is probably less because India is closer than the rest of Asia. but Europe goes down by 1% we think it is about 0.3 decline in Asia. Again, India might be slightly lower. Rest of the world is US mainly goes down roughly 0.3 but US and EU often move together except in this particular case. So, you can think of it if there is a synchronized downturn in the US and EU maybe 0.5. So, this is just the Beta to think about what happens. What is driving the growth declines now is partly this. If you go down to the next slide. Financial conditions to date we haven't really seen big declines in equity prices or increases in borrowing spreads. Marginal increases as I said, the local currency before. But it is really, China and Hong Kong mainly reducing credit factors due to regulatory reasons. Effects borrowing costs has really only gone up in Mongolia and Sri Lanka. In Sri Lanka you know what is going on there. If you go to the next slide, it is really about the risk. What are the risks? That is the more dominant theme here. Here I want to get into the real point about how it could affect us. Global real interest rates have been coming down forever since the last two three decades. And including in Asia. It is a global phenomenon but including in Asia. So, we benefited a lot in the last 20 years. But US, there is an issue in the US now. Inflation is very high. Way above their target. So, inflation expectations have gone up. Real rates are still very low. Real interest rates, the 10 year real rate is very low. You need to raise the ten year real rate to slow down the economy to bring down inflation. You have already seen the yield curve in the US move up a lot. But after tomorrow I think you might see higher because expectations on the real rate, if you want to slow down inflation the fed is going to have to raise the real rate. So, we think the risk is really that you are going to see higher real rates, quantitative tightening because you have to do quantitative tightening in the US to raise your real ten year yield. If you go to the next slide, you will see that if you have a US monetary policy shock maybe tomorrow or sorry, today but kind of tomorrow India time, historically if you have a hundred basis points US monetary policy shock, global real rates and Asian real rates go up by about 0.3. Now that may sound low but you know it is significant. Real rates are real rates. So, what we did is we looked at these for Asia. If you have a 100 basis points increase in US monetary policy shock, investment in Asia is about 2% lower. That is actually quite significant. On top of that we looked at some firm level data. What is the transmission channel? What is different? These are historical correlations. What is different today post covid is that the corporate leverage is much higher in Asia. Asia is the largest debtor in the world now. We are the largest saver but we are also the largest debtor, more because of China, but corporate leverage is very high. We have the strong result that when firms with high leverage have a much larger downturn when you have a US interest rate shock or any kind of interest rate shock. So, those firms are going to cut back on investments. We might see those happening a lot going forward. So, I think this real interest rate is something to look for. You mentioned about how you see India and this is relevant for India. I mean, corporate sector investment is important for the cycle. Interest rates are going to go up both for US and local because of the fact that you are fighting inflation which is going to go up. That is going to bring down investment strongly and slow down the growth even though our economy might still be having a negative output gap. Let me go to the next slide. The second biggest risk we see for the region is China. China growth I told you is being downgraded by 0.4% to 4.4. It is on the low end of the global consensus. That is taking into account lockdowns in Shanghai till May. But including the fiscal stimulus already mentioned. So, if lockdowns continue more than May and maybe

China Beijing lockdowns, our growth forecast will be lower than 4.4. So, there is a downside risk. We think the real estate sector in China, everybody is focusing on zero covid strategy and risk but we think the real estate sector and weaknesses that hasn't been resolved that could be as big a risk as the zero covid strategy. But obviously the zero covid strategy could impact us a lot particularly in India and Asia because if they shut down some ports, supply chains will be disrupted much more than what you saw over the last one and half year. If you go to the next slide, I am going to talk about what are the implications for the policies and the tradeoffs we may face. Why do you say difficult tradeoff? Output gaps are still generally negative. Output gets negative probably in India as well. Headline inflation is going up everywhere. So is core. There is strong evidence even today that core inflation going up with output gaps increasing we are having a recovery but inflation is rising both the headline and the core. So, we have this problem that inflation is going up but we are still having this negative output gaps. If you go to the next slide, you see that we are generally expecting… the left-hand side, these are our inflation forecast for the region, on this left-hand side chart and also the consensus forecast. In many countries inflation is already above their target range. That is where the problem lies. Even in India you see the inflation is above target range. That is where you expect interest rates to go up. On the right side chart, the bars are what we at the IMF expect interest rates to go up by and the dots are how much the market implied, using the swap curves in the market where they expect to go. So, we do expect interest rates to go up in all the countries in the region. And the markets are even expecting to go up a bit more than us. We don't have India here because India is one of the few countries, we didn't in our world economic outlook have interest rates forecast but we forecast rates to go up everywhere. So, we could assume we were expecting India to go up as well. I would know that it has gone up. But the markets are expecting significant rises. More than even what we are forecasting in the next one or two years. These are significant increases. Not crazy but significant. But there is even more downside risk that you had to raise higher. If you go to the next slide, higher rates mean fiscal position is also going to be more difficult, right? Slow growth, higher R minus G is not looking good. Debt dynamics is much harder. Already most of Asia is consolidating including India but you can see on the middle chart that debt ratios are going to be much higher than pre-pandemic levels. China is going to continue to go up. India hopefully will stabilize at a much higher level. If real interest rates go up, our growth is weak, R minus G is… if interest rates go up 100 basis points every country has to increase their fiscal position by what you have in those bars. Like India, you can see, if R goes up by 100 basis points, India will have to raise its current account… sorry, it's primary balance by nearly 2%. To just stabilize the debt for that increase in 100 basis points. So, what you need to do on the fiscal is very sensitive to real interest rates. Next slide. Those are the short term. Medium term scarring. What do you mean by scarring from the pandemic? Our output or the GDP we expected in 2025, pre-pandemic and now we are expecting output to be 8% less. 8 to 9% less in emerging Asia excluding China than we had pre-pandemic. So, there is output scarring partly due to the high debt. Debt is a big drag. Yes, the pandemic, but also debt is going to be a drag. Higher firms with higher debts mean we are going to have a bigger drag. And they are going to have big impact on Asia including India. But it is also China. China has much higher corporate debt than just three years ago. It is the biggest corporate debtor in the world now. Next slide. We have now that kind of debt parties. I am now going to hand in to Jean Marc particularly on the scarring and the debt. And go into more details. I know it is very fast but I wanted to get through it quickly so that we can leave room for discussions. Thank you.

Jean Marc Natal:

Thank you, Jay. Thank you again for the pleasure to be here and for the interest in our chapter. As Jay said the WEO is usually the focus of the first chapter is on the short-term tradeoff and Jay went through them. The two other chapters that I will present here look at what we can learn from the pandemic for medium term outlook and in particular what we can learn in terms of policy from the pandemic. Because it is important to be able to avoid them to avoid the big scarring. I will present quickly two chapters. The first one is on private debt and growth. First slide. Everything started with this basically. When you look at this chart you can see clearly that it is the biggest peak, we have like the biggest spike that we had in recent history. Debt, private debt increases by 15% of GDP and that is half of the total which is 30% of GDP. So, we have talked about public debt a lot and I think here it is time to also look at private debt. It has been widespread, all countries I have seen this and also across household and firms. The focus today, I will just look at corporate because of time limit but what we will find is basically also valid for household. We find the exact same kind of implication. Before I go to the next slide, the key insight of this chapter is that debt is important, private debt is important, but what is more important is who holds it. And what we want to show here is that the distribution of debt really matters. Slide. Here you have an example of what I was talking about. You can see here for firms on the left hand side the share of vulnerable firms and you can see the wide dispersion depending on whether you are in a sector that is dealing with personal activity, contact intensive, which is what we call the worst hit sector. You see the share of vulnerable firm went up a lot during the pandemic. Went down a little bit but stays pretty high and that is in large contrast with the yellow and orange curves, where the other sectors you have only a temporary increase in the share of vulnerable firms. But you went back to before the pandemic. And that is important and what is even more important is that for these sectors that were really hit during the pandemic contact intensive this is where also debts increased the most. This is on the right hand side. You can see that the share of debt in vulnerable firm by sector is pretty high. It is extremely high actually in the worst hit industry. I also here have Asia, its 17 countries in Asia, it is the purple line, dotted line on the left and bar. You see the situation is basically the same. So, this matters because what we see and this is based on millions of data, firms' data, it matters because that is where for the vulnerable firm this is where the action is. So, what you see here is that after an increase in debt, large increase in debt, you have an impact on investment that is much more persistent for vulnerable firms which is the red line than it is for the others. What you see is that for a non vulnerable firm the impact on the capital stock is only temporary. For the other ones it is permanent. That is where why you want to focus on where the debt is. On the right hand side another finding of the paper is that it is where the insolvency regime is the less efficient that you find the most effect. That is pretty intuitive because when you deal with distressed firms, whether or not you are able to reallocate capital to other firms will have huge impact on the final impact on GDP on investment. What you can see here is that where in countries where the insolvency regime is well prepared the impact is only temporary of buildup in debts. Where it is not, then it is permanent. Slide. One last thing that the paper does is look at the importance of balance sheets for the transmission of policy. A counter cyclical policy and on the left-hand side what you see is the impact of a fiscal consolidation and what is clearly visible is that household that are the most affected are the ones here depicted as a low-income household. It is the first bar on the left. This is where the fiscal consolidation is felt the most. I see a large contraction. For the other household that are less constrained financially you see much less of an effect. So, this is where the action is where

households are financially constrained. On the right hand side, it is for firms and we look at the tightening of monetary policy and here again what you see is that the firms that are the most affected are the ones that are the most financially stretched, on the right hand side the most leveraged and you see here that again it is negative everywhere. But it is most negative for these firms. That matters when we think now about exiting the ultra lose policies. You will need to know how to calibrate these policies based on that as well. Because this is where you will see the action. Next slide. That drives me to the main policy conclusion of this chapter is that when you think about exiting policies it will very much depend country by country. It will depend on whether debt has been accumulated with financially stretched household and firms or not. You may see two different types of policy as optimal for countries where the recovery is well underway, typically balance sheets are in good shape that you can think that fiscal policy can consolidate faster. When you look at all the countries, we look at its mainly Europe, European countries that are in this situation and that would help them with inflation. Elsewhere you may want to see a more gradual exit from these policies. Of course, the tradeoffs within the fiscal sustainability limits. So, you want to target your support to the financially constrained household and the vulnerable but viable firms. If possible, you want to design these policies so that the tax payer profit also is on the upside so you can improve revenue mobilization and you can improve revenue mobilization by many means. Long term this has shown that it is important to be able to measure firm's balance sheet and household and we are far from that position now. It is also important to improve the insolvency regime and in many countries, it is ongoing work. But still not there. Probably something that we have been at the IMF advocating for a while is address the debt bias and taxation. There are many countries, most of them large incentive for debt that should be removed. So that is the first chapter. Let us switch gear to the next one. Very different. Here are the people who collaborated on that. This chapter is about trade and it is about understanding the driver of trade during the pandemic and with the focus on value chains. In particular we want to see how flexible they have been and what you can do to improve the resilience of value chain. Slides please. Starting with some quick stylized facts, we all know that trades deteriorated very quickly during the pandemic but it rebounded very fast. That is probably less well known or discussed. It rebounded much faster in other recessions. That is probably the first stylized fact. This is in contrast to services on the right hand side you see services remain quite sluggish following basically the stringency of lockdown and containing measures. Next slide. This picture was even more pronounced for value chains. You can see on the left hand side even more of a V shape but maybe not all of the global value chain goods. You see the automotive sector, the blue line on the right-hand side dropped fast, rebounded but not as much. If you were to continue the line it would go down again. So, what you see here is that is in contrast with the other sectors. Even the electronic goods and other goods in the global value chain you see a sharp rebound as well and a lot of the focus of discussion recently about reassuring and how do you deal with value chain is based on what happened in the automobile sector. So, that is something to keep in mind. Next slide. The chapter does four things. It asks four questions. And it uses micro data for the empirical part and also look at some model based exercise for policy in the last point. We ask four questions. First, we want to understand how trade behave during the pandemic. We want to see whether the manufacturer can explain fully the observed patterns we saw in the pandemic. Then we want to see the particular role of containment measures and whether there were spillovers or not. Third question is how value chains were able to adjust. If they were able to adjust then by how much. The fourth point is what we can do to make them more resilient if

another crisis like this happens or something else. Slide. So, the first question, this is based on a traditional import equation. Cross country data. So, what you see on the left hand side is that the equation works pretty well until 2019 and then it collapsed for both goods and services. On the left hand side what you see is error around the estimate. On the goods side the error was positive and, on the services, it was negative meaning we import less services than was expected by the equation and we import more goods. Both declined, but we imported more goods. So, we try to understand, I mean they tried my colleagues, why this was the case and they looked different indicators and what you can see on the right hand side is that for goods lot of the explanatory power is on indicators that look at the seriousness of the pandemic. What you can see is that where the pandemic was the most serious with consequences on lockdown and mobility, then there was more import which is kind of intuitive. If you cannot produce you import more. But for services the only factor that really worked is that the countries that were the most affected were the ones and not surprisingly that were the most dependent on import of service, travel services before the pandemic. Travel was shot and you had the large shock. So, the pandemic really mattered to explain what is going on there. Another factor that is interesting is that it is the one before last blue column is that this is where the preparedness in terms of the health sector was the best. In trading partners that you see that goods importing increased the most. What it means is that if you have a trading partner that is doing well in terms of how it deals with the pandemic you will be able to import more. That is a sign that basically there were some spillovers going on and we will look at them a bit more in the next slide. Here we look at bilateral trade data. This is thousands and thousands of points at the six-digit level. What you see on the left hand side is that indeed containment policies had big impact on imports. That is on the left hand side, you see these are estimate coefficient of a relationship between import and stringency index. So, there was a big impact at the beginning of the pandemic and then it faded away. Basically, the containment measures had an impact on imports but they were short lived. They were large and short lived. What we look on the right hand side is you focus on the first six months and we try to quantify what was the exact impact of this containment measures and it is pretty high. What you see on the right hand side is that more than half, 60% of the impacts of drop in imports were due to containment measures. That is very large. But again, temporary. Slide please. One of the factors that can explain that it was temporary is that what has not been discussed much is that value chains despite the fact that the disruptions have been pretty flexible in dealing with the pandemic. You see on the left hand side the change in market shares across countries for imports of GVC related products. What it says is that on the left hand side it shows the beginning of the pandemic, the first six months. Asia typically increases its market share. It is the green color and the increase in Europe by 4.6% which is a pretty large increase. 2.3 in the US. So, there were lockdowns in Europe, Asia could takeover, that was reversed when things improved after that in Europe, North America and rest of the world. You see on the right hand side after the first half of 2020. This process went in reverse, not completely in reverse. The increase in market share is still there but it is a sign that there is some flexibility going on. Slides. But of course, they are still disrupted. The last point of the chapter is trying to use a computable general equipment model to simulate various scenarios and look at two different policies to see how you can enhance resilience of the value chain. The two policies that are looked at is more diversification across your suppliers and the other one is more substitutability trying to have more substitutable goods in your suppliers. So, these are the two charts here. What they simulated here is a large shock in one country, large supply shock. It is calibrated to be basically a shock in China. These are the GDP

effect, blue bars for each of the regions. What we look at is this little squares. One the left hand side what happened when you have more diversification, you are able to here offset half of the impact of the shock. On the right hand side more substitutability between your inputs, you are able to offset 80% basically of the shock. These two policies are seen to be effective. Of course, after that you know, the devil is in the details. There are not small details but this is how it would look out in a model. Next slide. The main policy takeaways that the chapter highlights can be separated in two parts. The first one is how you mitigate the negative spillover effect and the second part is how you make your value chain more resilient. Not surprisingly the first policy that is recommended is to vaccinate. Because, this is clearly a driver of spillover through lockdowns. But also enhance infrastructure both digital and physical. If you can improve teleworking capacity, you can upgrade and modernize trade infrastructure it is all going to mitigate shocks. The second type of recommendation is on how do you make your value chain more resilient. One important element is information. Firms very often don't know who are their suppliers and it can get very complicated. So, one potential contribution of governments or authorities is to try to generate more information which would be available for firms one way and I know it has been done in India. It is to increase information through digital filing of Vat tax, so that allows you to map out the whole network of suppliers. Another way to do this is to of course, reduce trade costs and trade uncertainty which is a big factor for firms when they think about diversifying their suppliers or looking for more substitutions. Let me stop here. Hope that was not too long.

Jaimini Bhagwati:

Thank you so much both the representatives from IMF for their brilliant presentations. Before I hand the floor over to the chief economic advisor Dr Nageswaran, I just want to reflect on something very, very basic which is the price of money. I am sure IMF would agree we need to get prices right. What is more basic than the price of money. Today the internal price of the rupee has gone up by 40 basis points. The RBI in a somewhat sort of unusual move raised it for obvious reasons. Because inflation is high in India both CPI as well as WPI. The other price which is the external price of the rupee which is the exchange rate. I noticed in one of the slides, the slide that you presented Dr Peiris was that the rupee is undervalued. If I remember right. But my own sense and it is shared by two former chief economic advisors Dr Shankaracharya and Dr Rakesh Mohan who is here, since they have said it publicly, I can refer to their views. And for that matter Montek Ahluwalia also another distinguished fellow in this particular think tank. I personally feel, if you look at six currencies the real effective exchange rate of the rupee is over valued by as much as 20% if you look at time period between 2004-05 till today. But I will leave that to you to think about. I will hand the floor over to the CEA. If at some point of time during the Q&A you wish to talk about the price of the rupee both domestic as well as external IMF with the geo-policies and with great respect always finds that most currencies are undervalued vis-à-vis the dollar for the obvious reasons because the US doesn't want countries to accumulate too much by way of FX reserves. They are always a little squeamish and uncomfortable with countries trying to accumulate trillions of dollars of reserves. With those few words may I now hand over the floor to Dr Nageswaran. Please.

Dr Nageswaran:

Good afternoon, ladies and gentlemen. My thanks to the CSEP for inviting me to share my thoughts on the IMF regional economic outlook. Ambassador Bhagwati said initially when he

saw the title – difficult year ahead, of the presentation, he thought it should have been – a difficult decade ahead. I looked at it differently and I thought that it was a very optimistic statement. Maybe in 2031 we might look back and say how difficult a decade it was. But that is for another day. It is obviously, stating the obvious that it is a challenging year for policy makers because shocks are following one after the other and decisions are being made with imperfect information. The range of outcomes is fairly wide. Wider than it could ever be. That makes decision making all the more hazardous. Lots of luck is needed to get it right. For India in particular, although the regional economic outlook presented here was more focused on the global picture. Understandably so. For India the fund has an 8.2% growth forecast. And I take the point that it wouldn't feel like a very strong growth rate. It would feel weaker but definitely it would feel lot better than how it would feel at 7.2% which is what the RBI has. So, I would rather take it that your forecast of 8.2% is more likely closer to reality than 7.2%. so, I hope that is the case indeed. This afternoon I had a conversation before coming here with Fitch ratings. Although they have a negative outlook on India, with a triple B-rating, outlook is negative. But they do have a forecast of 8.5% real GDP growth for 2022-23 as far as India is concerned. So, the reality may in fact pan out to be somewhere between this range of 7 to 8.5. and I think we would take that in the current circumstances because the uncertainty as to how long this current conflict in Europe would last and the impact it would have not only on the price of hydrocarbon fuels but also on fertilizer prices, food prices, etc. is quite difficult to guess at this point. And as you correctly pointed out there are spillover effects likely to come from the monetary policy tightening by central banks in advanced countries as well. In this regard I would like to read out a sentence from the RBI's monetary policy statement yesterday. By the way, if any of you have not gone through the RBI governor's monetary policy statement, I would advise that you do so. Because, it is a very good demonstration of comprehensibility and simplicity for a central bank communication that even non-economists can follow that. That is the message for the younger members of the audience. Let me read out this particular paragraph that he spoke about. 'In making our decisions over coming months we need to navigate through considerable uncertainties. Globally it remains uncertain, how the supply side problems will be resolved and development in Ukraine are unpredictable. Another source of uncertainty is how household spending in advanced economies responds to the decline in real wages as wage growth has not kept pace with the high inflation. Also, we have no contemporary experience to guide us with how labor costs and prices in Australia will behave at an unemployment rate below 4%. It is also relevant that households have much more debt than previously and many households have never experienced rising interest rates. This is another aspect that we will be watching carefully, notwithstanding these uncertainties I expect that further increases in interest rates will be necessary over the months ahead'. And so on. I leave it there. The important thing that I want you to pay attention to is he says many households in developed countries have not experienced rising interest rates. And therefore, what it would do to their mortgage payments, what it would do to their credit card payments etc. While that is a big question mark, in a way ironically that also contains a silver lining for developing countries. Because central banks in the developed world today are breathing fire and brimstone with respect to how much they would raise interest rates in the course of 2022. But should the households in developed countries react to this stress adversely, there will be a limit on how far central banks of advanced nations can go with respect to their interest rate increases. And if their rate hikes therefore stop at a point well below that they would like it to be to bring inflation down to manageable levels then it means the tightening of the financial conditions

that financial market are pricing in today or have not yet priced in, may not necessarily materialize. To that extent that might turn out to be a silver lining in the clouds for emerging economies. If developed countries cannot go through with their anticipated or currently planned rate increases. The second silver lining I would highlight with respect to India is coming from slide number 18 of the presentation that we saw earlier. On the right panel of that presentation of that slide we saw that investment of high leverage firms relative to low leverage firms falls much more as one would expect in an environment of rising US real rates. That is where I think in a way the fact that India paid its dues with respect to balance sheet repair last decade might stand the country in good stead. Just to remind you based on the statistics put out by the bank for international settlements with their spread sheets on non-financial credit, if you look at the ratio of non-financial private sector credit to GDP for India it stood at 105% of GDP in December 2013. By September 2021 that ratio had come down to 87.7 a drop of around 17.3% points. So, what India did especially in the second half of last decade was to repair both financial and non-financial corporate sector balance sheets. And to that extent the kind of reactions that highly leveraged firms would have with respect to the fed tightening, if it is able to go through with its planned series of rate increases, India might be relatively better off than other countries where the percentage of highly leveraged firms might slightly be higher. So that is also a partial silver lining and of course, the third silver lining I would allude to is that while all these things have to be done in a general equilibrium model and I am only quoting a partial equilibrium analysis here I concede that. If developed countries financial markets and households react negatively to the rate increases to that extent it brings down aggregate demand and to that extent it would bring down demand for crude oil as well. That would also lower the price of crude oil and the assumption is that IMF has made or we are fearing of a persistent triple digit level of the crude oil may not come to pass. But as I said these are all silver linings in clouds and the clouds are there a plenty. I would also like to draw your attention to the fact that on page 30 of the presentation that was made a few minutes ago, there are a couple of very sensible recommendations in the global context and it may not be irrelevant to developing countries as well. One is the sort of an implicit call for a larger social compact with respect to taxation of even higher taxation for corporates and for rich individuals in order to mitigate the effect of lower growth and the higher prices of food and energy. And the second recommendation that is equally worthwhile and sensible both in a global context and emerging markets is the incentive, perverse incentive given to debt through the interest rate deductibility, tax deductibility of interest payments. So, the fund is quite right to at least raise the discussion on these two issues. Certainly, to get through those recommendations into policy proposals and policy decisions will naturally have political and economic spillovers. So, it might take a long time to generate the consensus required to implement those proposals. But they are definitely are worthwhile proposals for consideration. Since I have Luis and quite a few of the fund's colleagues here, I would like to leave them with one thought. I looked at on the April 19th when the WEO was released, world economic outlook, I was in Washington DC. And I immediately went to the underlying spreadsheets and looked at India's growth forecast for the next five years. All the way up to 27 – 28 which is what the fund does. Both in terms of Indian rupee terms, in dollar terms, both nominal and real, the implied GDP deflator and therefore the implied rupee-dollar exchange rate that falls from those forecasts. Because, the fund doesn't make direct exchange rate forecast. And naturally as curiosity would have it, I compared the same with respect to China. Because the fund assumes constant real exchange rate and unchanged terms of trade when it makes these dollar GDP forecast from the local currency

forecast. What is interesting is that yesterday business standard picked it up and they said according to the IMF India's goal of 5 trillion dollar GDP has become even more elusive to 28-29. And they cited me, the chief economic advisor said on February 1st or January 31st whenever that was, that it could be possible to achieve in 25-26 or 26-27 at the latest whereas even by 28-29 it is going to remain elusive as per the fund. Of course, I didn't respond to it. I could have said for example by the end of this financial year march 23 if India's nominal GDP is let us say 258 billion trillion dollar rupees. 258 lakh crores. If you assume an exchange rate of 50 you would be there. Okay? By next end of march 23 itself. So basically, it boils down to the exchange rate. And the fund of course, while it has upped the India's nominal GDP growth in rupee terms, unfortunately the Indian rupee depreciation now in April 22 with the WEO is even stronger, even sharper, than what it was in April 21 and October 21 and it is much more than what is implied by the US India inflation differential that the fund is forecasting. In contrast, China's local currency GDP and dollar GDP behave completely differently. The inflation rate in China is projected to be lower than that of the US in the forecasting horizon which is fine. But the Yuan appreciates much more than what is implied by the inflation differential in the fund's projections. In the case of India, the rupee depreciates much more than what is implied by the inflation differential. In the case of China, the Yuan appreciates much more than what is implied by the inflation differential. As a result, the gap between China's dollar GDP and India's dollar GDP widens even further before it stabilizes. I did bring it to the attention of some of the people I met with in the fund. And I found it somewhat difficult to understand that why the rupee has to necessarily overshoot the inflation differential and vice versa. But anyway, the point is many of these things are going to be very difficult. It is easy for all of us to comment on some of the forecasts because it is always easy to be a commentator than it is to be the person who is actually making the cause. That way while we may all talk about how difficult this decade is going to be for countries and policy makers, for one set of people this decade is going to be boom time. That is for commentators. Because policy makers are going to be acting with imperfect, inadequate, imprecise information, making decisions in real time with a range of outcomes as wide as we could ever have experienced in the last 30, 40 years. And therefore, it will always be possible with the benefit of hindsight and working from home to criticize them and to find fault with what they do. So, at least one set of people are going to be very busy. Thank you very much.

Jaimini Bhagwati:

Thank you, Dr Nageswaran, I will hand the floor over now to Prof Batra.

Prof Amita Batra:

Thank you. Very briefly, ___ (audio disruption) ___ and restrict my comments on that. I have few short points that I will make as far as this particular chapter on trade and global value chains is concerned. Starting with the initial points that have been made as far as the impact of the pandemic on trade is concerned. No surprises here, I don't really have an issue with whatever has been presented here and I think most of what has been stated is consistent with what one would intuitively expect as far as the impact of pandemic on trade as well as GVC is concerned. Pandemic, lockdowns, trade decline, dramatic fall, recovery, it is going to be the most GVC intensive sectors because the GVC intensive sectors are also the most trade intensive sectors. You can only expect the maximum decline to be in such sectors. The recovery would also be specifically in the sectors that are most GVC intensive, trade intensive. Also, in this

case the differentiation that has been brought out as far as electronics and automobiles is concerned, again very obvious as far as the evolution of the pandemic is concerned. Work from home, office equipment, electronics, all of that is what really gains in comparison with automobiles, restricted mobility etc. So as far as the first couple of slides are concerned, I also happen to read the background chapter. You know the large forecast errors that have been made in that context. I don't really think there is much for me to say or comment. Even as far as market shares are concerned, it is apparent Asia being among the earlier ones to have been hit, also have been the ones as far as Asian economies are concerned to have been in control as far as the pandemic is concerned. Early measures, that they were able to recover sooner and hence the larger market shares that they were able to attain. Also, electronics being the most intensive as far as trade for the east Asian economies is concerned you would naturally find them to be the largest market gainers as far as trade is concerned. What I have as a fundamental problem or fundamental issue as far as this chapter is concerned is the manner in which the questions have been asked. Policy recommendations have been made and the framework within which it has been… the analysis has been carried out. The analysis has been framed in terms of the debate between diversification and reassuring. To me the question should really have been in terms of whether it is going to be regionalization versus localization. Given the kind of global trends that we see today, in terms of localization being the dominant characteristic of restructuring as far as value chains are concerned. That is one. But even as far as within diversification is concerned when we are talking about how diversification should happen, I think there is a detailed definition that has been given in the sense of understanding diversification in terms of substitutability of inputs and how to pick as far as inputs diversification among, moving away from single source dependency is concerned. Here also my point would be or to me the important thing would be as far as diversification is concerned, it is something that's been going on since the 2000s. 2010 onwards one has seen the change whether it was the earthquake as far as east Asia is concerned, the floods, subsequently the global financial crisis or the global financial crisis and after, we have seen diversification as a mode of restructuring global value chains as something that has been evident for a long enough time for us to know that this has happened, this is the solution that most companies, firms are going to be looking at. The evidence by the way as far as diversification in China plus one in concerned is limited in the sense of how many substitutes of most firms been able to find in terms of being able to relocate their subsidiaries or their operations away from China to other countries. I don't think we have yet been able to see evidence of complete overtaking or substitutability as far as imports from other countries relative to the imports from China is being concerned. The question here is I would like to draw focus upon is one could say that is the impact of the Ukraine crisis but even otherwise it is the choice of how you bring about the substitution as far as inputs are concerned. Particularly so as far as critical inputs are concerned which I will come to in a minute. But how is it that you choose your partners when we are picking out substitutes for inputs. Because the world has changed today as a consequence of what we have seen, both in terms of US China trade war earlier and Ukraine crisis, the consequent sanctions most prominently in trade. Trade has become highly strategic in nature. And the choice of partners therefore or choice of locations from where you are going to get your inputs, substitutable inputs are therefore going to be a strategic choice rather than a choice that is going to be purely economic. Which by the way, it was prior to majorly so prior to what we had as far as the Ukraine crisis is concerned. Today everybody is looking for safer more secure, making value chains safer and more secure, so that it becomes a strategic question

whether you can really be importing a substitute input from a particular country or not. That is one point. I think a most significant point or a most significant aspect that leads to is the debate that should have really been at the center of this chapter. Which is, in terms of substitution versus efficiency. If you are going to be substituting inputs from one country to another country particularly in a context which is going to be dominated by strategic choices, then, is there going to be a trade cost that is going to be larger than in terms of non-availability as far as impact on a certain country is concerned of by a certain limited event. Disaster, natural disasters, otherwise. But if it is going to be a strategic choice then the trade cost in terms of efficiency may be much higher. How does that play into the restructuring as far as global value chains are concerned? Or how does that play into the stability as far as value chains are concerned, I think should have been the central focus or the central question with which this chapter should have started or within which the framework of analysis should have been placed as far as this chapter is concerned. The global context has changed and hence I see the kind of conclusions or the kind of policy recommendations, policy takeaways that have been mentioned here to be slightly limited A and B even when they are applicable to be longer term than to be relevant in the immediate context. To say that one should probably reduce non-tariff barrier, yes there is a huge potential as far as reduction of non-tariff barriers is concerned but we also need to accept the fact that the world has moved towards greater protectionism. The tendency is towards protectionism. The number of non-tariff measures that increased, the increase that came about in terms of the number of non-tariff measures during the pandemic and after has been huge. Many of these non-tariff measures were removed but one also needs to keep in mind which is what would impact the first policy recommendation that has been made that the NTM, which is the vaccine technology, vaccine distribution. So, to be able to say vaccinate widely across countries, yes, of course. But when there are NTMs that have been placed and have stayed as far as vaccine distribution and technology is concerned, there is a huge question mark as to how they can be a more equitable distribution or equitable distribution both as far as vaccines is concerned as well as technology to produce vaccination is concerned. This brings me to my third and last point which is that all of this needs to be done not at the level of firms. The recommendations or the analysis which has been carried out at the level of firms should have been brought in at some level the necessity of government stepping in, in order to assist firms to be able to take the largest steps that are required in terms of coordinating substitution of inputs, but also in terms of regional and multilateral cooperation that is absolutely necessary to be able to coordinate the steps towards making GVCs more stable or more resilient. I think I will stop here and come back to say more or answer more questions if there are any. Thank you.

Jaimini Bhagwati:

Thank you so much professor Batra. We had two presenters two discussants and I will not try to summarize what they have said for a very obvious reason that this entire discussion is being taped and correct me if I am wrong, it is going to be on YouTube as well as on the website of CSEP. So those among you or those who are listening virtually from somewhere, have missed something, they can always go back to the recording. So, it is pointless for me to try. I think, just a couple of observations, not trying to summarize at all and then we will hand it over to the person who is going to facilitate Q&A part of today's discussion. The trade offs are very, very difficult. So, I can imagine RBI agonizing yesterday as to what to do with the repo rate, how much… say 40 basis points is not, it is a strange number. It is usually 25 or 50. 50 is very

rare for RBI because they are skittish, they are conservative like all central banks. Every central bank is conservative and doesn't want to roil the markets domestic and foreign. So, one thing which is obvious from the presentations as well as what the discussants have said and this is meant for the audience at large, is the extremely difficult tradeoffs that both governments and central banks and other authorities within countries have to take decisions on… tradeoff means you do this, this is good up to this point but there is a negative fallout also and you are not quite sure ex ante whether the positives outweigh the negatives. Bloated central bank balance sheets, we were talking before the discussion started as to how the US feds starting with about 800 billion on its balance sheet in 2008 is now sitting at roughly 9 trillion. What is going to happen as it stops buying and tries to contract its balance sheet because it has implications for countries around the world and definitely for India. So, the range of uncertainties and on top of all this we have a war going on which is creating all kinds of issues as far as commodities are concerned. For India which is an oil importing country and we won't get into the politics of whether it should or should not import from Russia. But the scarcities which this brings about may be for commodity exporters wherever they are this is a good time. But for on a net, net basis for India it is a commodity importer, there might be some odd commodity that we export. We have exported some coal at one point of time but right now we don't do that. So, I will stop here. I think the two things which are coming out in a very stark manner are the tradeoffs and the uncertainties. And a lot of economic uncertainty, financial sector uncertainty and on top of that are these hostilities which are going on. Is this world going to become two camps again? Is this going to become some kind of a not cold but coldish kind of war going on between Russia and the west broadly defined including Europe. Not a happy thought. One doesn't want any kind of war, cold or hot. Right now, it is hot with Ukraine. There are people dying there. So, I will stop there. Maybe I will ask the person concerned to tell us if there are any questions online. But before we get to the online, I am throwing it open to everyone present here to ask their questions. Maybe somebody can give you a mic. Please be short and brief with your question. Less comments, more questions. Ask for who is the person who is going to answer that question. Or you could say that this is for the entire panel.

Audience 1 (Aditi Phadnis):

Good afternoon. My name is Aditi Phadnis and I am from business standard. We don't work from home. I am here. Facts are sacred. Comment is free. Just to state, I am not an economist. Please forgive me for my stupid question. But are you really expecting the rupee to go to 50?

Dr Nageswaran: I just used it as an example to point out that you could have a 5 million dollar GDP number at any given year depending on the assumption you make on the exchange rate. I just used it as a placeholder so to speak to argue that ultimately the fund does indeed have a rising nominal GDP of India which is faster than what it forecasted in the previous two

episodes. April- October 2021. It is just that the dollar conversion gets pushed out because the exchange rate forecasts have also gone in the direction of a weaker rupee. It was just a point to illustrate the argument. That is all.

Audience 2 (Abhishek):

I am Abhishek. I work here. I was expecting that question to come. Because I had a similar question that I understand that politicians make the argument that okay, I will make 5 trillion economy, 10 trillion economy because it is easy to communicate to their voter. But how wise

it is for economist especially for the fund to start kind of advocating how to achieve 5 trillion or how you are deviating from the 5 trillion given the fact that we know these are likely to bring ill advised policies. Because people might kind of work in haste because they have target which is not very economic but they want to achieve.

Jaimini Bhagwati:

Can we get one more question?

Audience 3 (Rana):

I am Rana from Asian development bank. Actually, I have several questions. Let me just go ahead and start. The first one is really for anyone and everyone. It concerns the Indian growth projections that you have. In a sense maybe more for the IMF. I am just wondering what you see as the drivers both on the expenditure side and the production side. Is it more public investments, private investments driven and then on the production side are you expecting to see manufacturing to start booming? The next set of question are not for India. Sri Lanka. You have talked a lot about debt. If anywhere in the region we see a huge debt issue it is Sri Lanka. So, just wondering what your cross-country experience tells you about how long it is going to take to actually start to see some growth in a country where 125% GDP debt almost I think 50% external. You talked a little bit about the banking sector also. Just wondering about your take on that. We understand that the private sector banks are doing ok but the state-owned banks in Sri Lanka are a lot more exposed including to external debt. Final question on Bhutan. It is huge terms of trade shock. So, anything you could say about that. I just found it puzzling given how much Bhutan's trade is linked to India. If India is not going to be seeing such a huge terms of trade shock, why are we seeing this in Bhutan? I had questions on India actually for both Dr Nageswaran and Dr Batra. But I will in the interest of time give somebody else a chance.

Jaimini Bhagwati:

He seems to be leaning towards you as you spoke about Sri Lanka. Let Dr Peiris address that and if he brought in another question is of political five trillion etc. Politics I think you referred to politicians saying things about five trillion, ten trillion, because it sounds good. There is no real answer to those kinds of questions. You have very specific questions. So maybe you would like to address them.

Dr Peiris

Thank you for those questions. Just to say on the growth, we don't necessarily have targets. We are just doing a target. So, this 5 trillion I don't think we have those kinds of targets in mind. We just forecast based on what we think is happening globally and domestically. On the India growth rate, I want Luis to answer the question because India's growth rate whether it is the drivers of it, since he is the Res Rep on India. On Sri Lanka I can answer actually as a Sri Lankan myself but more importantly from our forecast Sri Lanka's debt levels are very high. They basically have a standstill right now. They just announced a standstill. Normally debt restructuring they will take some time to agree on how to restructure the debt. That is required to get financial assurances for the IMF and others to move ahead on financing. So, I think that is the first biggest challenge to agree on some kind of framework for debt restructuring so it looks sustainable and then international community can help support the economy more. That

is to come out of the immediate doldrums of scarcity because of lack of foreign exchange. The second element of how long will it take to overcome the problems and grow faster, that creates your second point. There is leverage across many sectors. It is across more sectors except households. There don't have leverage. Those are going to be difficult to resolve. The important point here to think about is that Sri Lanka's problem is also largely FX. So, the FX that dealing how that is dealt with is going to be the key issue immediately. Domestic, if the FX problem and things can be sorted out, domestic that is a bit more manageable potentially. The external debt which might have to be restructured. If there are some domestic entities holding it of course can take a hit. But those are not necessarily that large. From the country's balance sheet point of view. From the country's balance sheet point of view what matters is the restructuring of the total external debt, large chunk to international bond holders. The issue of Sri Lanka is that there is debt to a lot of bond holders. There is debt to Paris club and there is non-Paris club. There is no real restructuring framework to cover all these things. So, it is going to be one of the most complex debt restructurings of recent times. That is going to be the biggest challenge. On Bhutan actually we had a presentation or a discussion this morning with the Bhutanese authorities and south Asian authorities outside India in the morning. Bhutan is going to go through a tough time. They are facing external pressures like everybody else. Inflation is going up, external pressures are coming high because of their importing oil and so external pressure. But I think their reserve position is a bit stronger than some of others. But again, I think Luis covers Bhutan as well as Res Rep. maybe Luis can answer the question with a bit of India-Bhutan. Thank you.

Jaimini Bhagwati:

Would you like to?

Luis Breuer:

Only if you let me ask you a question. Is it possible to ask the moderator a question?

Jaimini Bhagwati:

You are setting the rules. You are IMF.

Luis Breuer:

We have heard a complicated story about the world. War in Ukraine with the spill overs, inflation, US monetary policy, slope China. They haven't talked too much about covid which was such a big deal and so many other things have come up. We have heard about uncertainty and policy making with a lot of fog and information that comes in with a lag, many times imperfect. We have heard about strategic choices in trade and global value chains. What does this mean for India as a former diplomat, as a thinker of India, looking at it from outside and being a participant with India being a systemic country which means that what happens here affects the rest of the world. With India being in the middle of many of the big problems the world faces. And by that I mean that the world needs Indian leadership in covid and climate change, maintaining technology, in SDG. India is a big chunk of the world. What does this mean for your country?

Jaimini Bhagwati:

Brilliant. I am sure you would make a fantastic politician somewhere or the other. Because you have skilfully turned around the question to me. You know, moderator will try to answer. This is a huge question you have asked. Various people including Mr Kishore Mahbubani, I am sure many of you are familiar with the name who lives in Singapore and is a Singapore national, is in fact even exhorting India to take the lead in somehow resolving these issues in which you have this one block of Russia and to some extent China. China I am sure is going to be very clever about it. All doesn't want to get bracketed with Russia. Then you have the west and it says India should somehow reconcile the differences between these two sides. I don't think India has the fire power. Fire power here not referring to military firepower or the economic firepower. We can do somethings below the radar screen, behind closed doors we are trying as our prime minister is trying right now. He is in Europe, I don't know whether he has come back. He was in Germany and Paris and so on and also in Denmark trying to advocate a little bit of calm to both sides. So that is at the political diplomatic level. We can discuss this ad infinitum as to what can or cannot be done. On the economic side we are very vulnerable because we are essentially a commodity importer. Oil like 85% of our oil requirements are imported. But one must look at the numbers carefully because a small percentage of that is exported. Because reliance imports oil, refines and sends it out. So, you must net that out. But by and large we are a commodity importer. So, to that extent we have trouble. Inflation is high here as you know. WPI 14 point something, CPI 6... It depends as the economist here all know. When somebody talks about consumer price inflation you better break it down. There are various consumer prices depending upon what is being consumed. Is it industrial workers, is it rural workers, what is it? But I would think that on most counts like that we have some trouble here. Now RBI has acted today to raise interest rates. It is a very difficult trade-off. You raise interest rates to try and make money more expensive to that extent but some time back given covid, we took more of the initiative on the monetary side. The RBI unleashed or should we say opened up its coffers in terms of raising money supply to some extent that was forced because government of India has constraints in terms of its fiscal deficit and to that extent it couldn't do something like the west has done. I believe it is something like 15 trillion USD that the west, most of it the US has spent in two bouts. I am told something like 1% of it is fraud which is like 150 billion. Or 15 trillion. So, fraud, outright fraud. Here again we are between the devil and the deep sea. I would think that we need very careful manoeuvring, quick decision making whenever you see something coming up. I am not really answering your question because I really have no answers. You will have to sit down, look at each and everything that various economic ministries that is commerce and finance specifically. The foreign office is going to look at the other stuff. So, this is where it is. Basically caution, care, ability to react very quickly. Within government without telling the wide world you need core groups of civil servants and ministers who are in close touch to be able to take decisions quickly. And titrate them. Those of us who have done a little bit of chemistry in school understand what is titration. You do a little bit to see whether the colour of the litmus changes to blue or red. You keep checking. Is it turning pink? So then pink might go to red which is danger. So, you go back. So, some of this kind of little bit checking, putting your toe into the water to check how hot the water is before you plunge in and be scalding. But now I have answered your question as diplomatically as possible without saying much. I hand the floor back to you to answer the questions that were asked of you. We may be running short of time. And I am sure you are always pushed for time. So, we must remember to have tea and coffee there because that is

when the rest of the group here can approach people and ask them their odd questions. Over to you.

Luis Breuer:

(Audio disruption) … this is like many countries in the world. And the big question is, is this oil shock permanent or is it transitory and how high will prices go? Will they remain at a 100, 105? Now Nepal has an arrangement with the fund. So, it has escape valve for financing, that may be other countries don't do. But ultimately if the shock is permanent countries need to adjust. And that is a reality that is sometimes very painful for small open economies like these neighbouring countries.

Jaimini Bhagwati:

Thank you. Any concluding comments from the panel? Do you have questions online?

Online question 1:

The first question is from Aroop Roy Chowdury. Journalist from business standard. The question is for Dr Nageswaran. Why does Dr Nageswaran feel India's FY 2023 growth will be closer to IMF's projection of 8.2% than RBI's forecast of 7.2%?

Dr Nageswaran:

I didn't say that. I said it would be the… I take this as a range. I have no basis to say 8.2 is more likely to be true than 7.2 or vice versus for that matter. That is why we spoke about the range of uncertainties we have at this point. I just said that I felt that this range is quite realistic and 7.2% at this moment looks like a reasonable floor. I didn't express preference for one or the other forecast.

Online question 2:

The second question is from Shankar Iyer who is a political economist and a visiting fellow at IDFC. The question is how critical is timing of choice in any trade off? It is also directed for Dr Nageswaran.

Dr Nageswaran:

It was too cryptic for me to understand the question in the first place.

Online question 2:

I understand it is a little cryptic. I am not entirely sure about the context.

Dr Nageswaran:

You can tell him I will call him tonight.

Online question 2:

All right I will do that. But let me just repeat the question. The question is how critical is timing of choice in any trade off.

Dr Nageswaran:

Even the second attempt I am still failing.

Online question 2:

Ok. We will write to him. Thank you.

Jaimini Bhagwati:

Then it is sort of my pleasant job to say that we are delighted. We had so many people here. We are delighted to have our friends from the IMF, CEA, professor Batra and my colleague from yesteryear, more than two decades back Shashank Saxena and of course my colleagues here in CSEP. With thanks to everybody I would invite you all to have a cup of tea, coffee, in the hall there at the entrance of CSEP. Thank you.