PRINT MONEY, SAVE ECONOMY

Introduction

The Major global economies are responding to the COVID-induced recession by adopting unorthodox stimulus measures, including printing money.

The US, the European Central Bank, Japan, and even emerging economies such as Turkey and Indonesia are printing money to bring economies back to life. So, can India.

What is Printing Money?

- Central bank directly buys Govt. debt/bonds
  - This injects cash into economy
  - Akin to printing new money, though done electronically
- Central bank buys bonds from corporates, lenders
  - Seller is able to get rid of illiquid assets and deploy funds elsewhere

What are Major Economies Doing?

- US Fed Reserve: Used it extensively to counter 2008 crisis. Same template in use for COVID crisis.
- European Central Bank: Has removed the limit on bonds it can buy from any single Eurozone country.
- Bank of England: Ready to temporarily lend money to govt., if needed
- Bank of Japan: Will buy unlimited amount of govt. bonds.

What did India do Earlier?

- Debt monetisation by RBI was the norm in 1980s, and up to late 1990s
- Govt deficits were monetised through ad hoc treasury bills
- In 1994, curbs were imposed under a pact between RBI and govt
- Arrangement phased out after 1997
- But this continued in another form — with RBI picking up unsubscribed public debt auction
- FRBM Act, 2003, barred RBI from buying primary issuances of govt debt

What India Can Do?

- Economy needs massive fiscal stimulus
    - -ET estimates 9-10% of GDP must be spent
    - -This translates into Rs 18-20 lakh crore
    - -Budgeted borrowing in FY21 is Rs 8 lakh crore
- Market cannot support this borrowing.
- Interest rates will rise sharply.
- Pvt., sector/other borrowers will be denied credit.
- High interest rates/lack of credit will kill economic activity.
- So, only RBI can provide such funds by printing money.

Returns much higher than Risk

Some economists say injection of fresh demand can distort macro-balance. They point to possibility of:

1. High inflation
2. High current account deficit
3. Currency depreciation
4. Reckless spending could fuel NPAs

But massive economic contraction makes these unlikely

- Deflation, not inflation, is real risk with demand crashing
- Current account not a concern as there's barely any trade

- Crude prices are low, and are likely to remain so
- Risk of credit binge low in current environment of caution