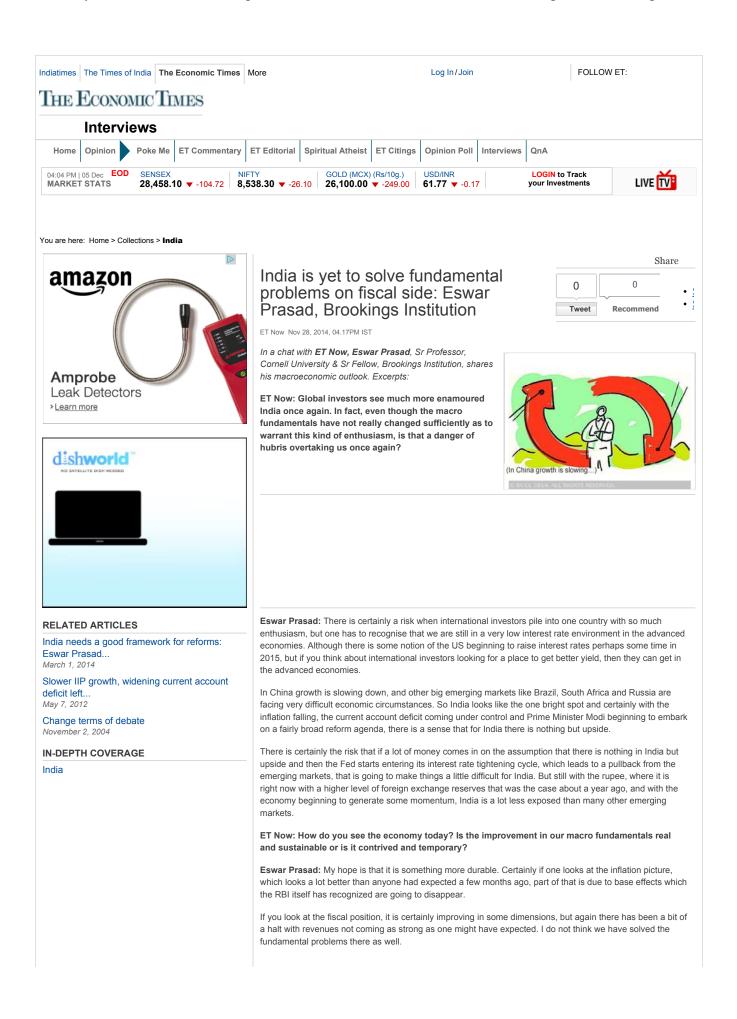
India is yet to solve fundamental problems on fiscal side: Eswar Prasad, Brookings Institu... Page 1 of 3



## SPOTLIGHT



## Obama to have a three-layered security during India visit

The USSS experts will hold consultations with a team of Delhi Police besides senior officials on the route that the president will take from airport.

- Obama praises PM Modi for shaking India's 'bureaucratic inertia'
- 'Obama administration to focus next 2 years on India-US trade ties'



And then as one starts looking at other issues of macro reforms on subsidies, on infrastructure, on labour laws, on all of these, there is certainly a positive momentum, but we are a long way yet from saying that India has a durable recovery or is on a path towards sustained high growth.

ET Now: There has been a talk of a Modi dividend. Has the dividend played itself out completely and how long will this change in sentiment alone see us through?

**Eswar Prasad:** Now Mr. Modi has certainly been very reluctant to lay out a very broad and sweeping agenda and I, among others, felt that that would have been useful that he could have started out by laying out a broad agenda and by beginning to pluck some low-hanging fruits in terms of reforms.

ET Now: Yes, the Modi government does seem to be opting for slow and gradual reforms rather than any big bang reform yet. There are many areas where we do need root and branch reform. So is this a luxury that we really cannot afford?

**Eswar Prasad:** The masses have to be convinced that this is in their interest. So getting governance right dealing with the corruption problem, there is some logic to making sure that those elements are in place before you embark on very broad reforms because in a country like India or for that matter China, there is always the concern that economic reforms, although they might benefit everybody in the long run, in the short run the benefits are largely going to go to the political and economic elite.

Bringing the masses on board, convincing them that the reforms are going to be in their interest even in the short run, there is a lot to be said for that. Now having said that there is still the issue that unless some of these reforms are put in place fairly quickly, all the other aspects the macroeconomic stabilisation and so forth will not really put India on a high growth track.

## ET Now: So could there be a case for a stimulus -- either monetary or fiscal -- to get us out of this lowgrowth trap?

**Eswar Prasad:** My sense is that the focus on macroeconomic stabilization, ie. bringing deficits and the level of public debt under - apart from inflation -- under control, is really the best contribution that the macroeconomic policy can play in terms of boosting growth. That is because ultimately even though fiscal and monetary policies might provide a short-term boost to growth, unless the structural problems in the Indian economy are sorted out -- that lead to higher productivity growth, better allocation of resources to the financial system -- we would not have really a strong and durable growth.

So my sense is, rather than relying on short-term macroeconomic stimulus, we really need to focus on the structural reforms and taking the eye of structural reforms while focusing on macroeconomic stability might not serve the country that well either.

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