

High fiscal borrowings won't crowd out private sector: CEA

SEBI member asserts 'no doubt' borrowings are crowding out corporate bonds

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Concerns about high government borrowings crowding out the private sector's fundraising efforts were misplaced and not based on evidence, Chief Economic Advisor **Krishnamurthy Subramanian** asserted on Thursday reacting to comments made by a member of the Securities and Exchange Board of India (SEBI).

"It's a very tempting argument to make but the data does not support it," he said.

On the contrary, the government's increased capital spending would impart a 'crowding-in effect' spurring more investment, Dr. Subramanian contended.



Lending a leg-up: Infrastructure, especially government-led spending has a crowding-in effect: CEA. ■ E. LAKSHMI NARAYANAN

Earlier, addressing an ASSOCHAM event on the productive use of financial resources, SEBI whole-time member G. Mahalingam stressed that bond markets had an important role in supporting the economy's

rebound at a time when banks were 'overburdened from the overhang of non-performing assets'.

"No doubt, a good part of the bond market gets crowded out by the government issuances of close to about ₹14-

15 lakh crore," asserted Mr. Mahalingam. "That crowds out all the corporate bond market, no doubt about it all," he added.

"The flaw with this argument is that it relies on the pool of savings being static," the CEA responded. "There is now evidence that savings are pro-cyclical with growth. When you have a pool that is growing and the government takes a rupee out today for capital expenditure, and thereby push growth and increase savings, the pro-cyclical behaviour of savings kicks in. So this is the crowding-in effect of infrastructure, especially government-led, capital spending," Dr. Subramanian observed.