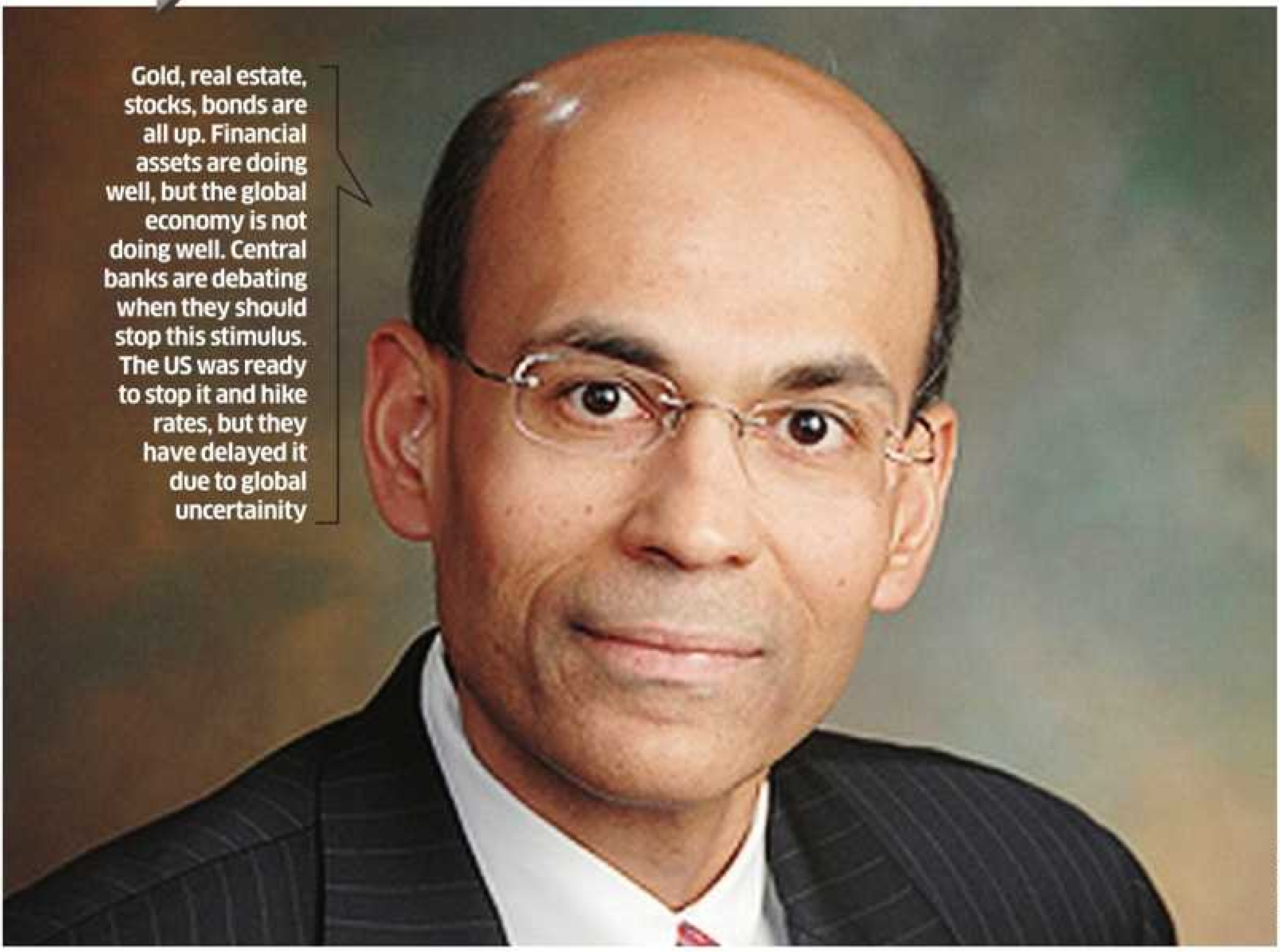
ET Q&A

**GLEN BAPTIST**
CEO, Pramerica International Investments




# Monetary Stimulus is What's Driving Markets

Continuous stimulus and negative interest rates will have an impact on the financial sector which will not be good for growth, **Glen Baptist**, CEO, Pramerica International Investments, said in an interview with ET's **Prashant Mahesh**. Baptist said India's GDP will rise about 0.5-0.75% as a result of the GST being implemented. Edited Excerpts:

**Post Brexit, one expected the markets to weaken. However, we have seen a rally across markets and asset classes be it equities, gold or bonds. How do you explain that?**
Nobody expected the Brexit to happen. The reason points to some underlying issues that are global in nature. It's the same kind of populism we are seeing in a number of countries that tend to arise due to the slow-growth environment. All global markets crashed when Brexit happened and nobody expected the markets to recover subsequently. However, there was a sharp recovery and the UK stock market itself is higher over 10%. I believe this is due to monetary stimulus, which continues to drive the current markets, as it has for the past several years. Most expected a negative impact from Brexit on UK and Europe, because there is uncertainty about what will happen. Subsequent to Brexit, since growth will be slow, the stimulus will continue from central banks, which will probably continue to drive the markets higher.

**How long will this stimulus continue?**
Many like us are already wondering if the effectiveness of the central banks is running out of steam. It seems it is running out of steam and it has not been all that effective from an economic growth standpoint. However, it has been effective in boosting financial assets. So all the liquidity has found its way into a variety of markets. Gold, real estate, stocks, bonds are all up. Financial assets are doing well, but the global economy is not doing well. Central banks are debating when they should stop this stimulus. The US was ready to stop it and hike rates, but they have delayed it due to global uncertainity. Now, we are seeing negative interest rates and it seems central banks don't have a problem. However, all this will have an impact on the financial sector which will not be positive for growth.

**ON GROWTH**

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**ASSURED BENEFITS**

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**Do you think growth will be back?**
For growth to come back you need a couple of things to happen. You need structural reforms to take place. In most countries around the world, there is over reliance on central banks and the governments have not done enough. In the US, the government has not encouraged growth ever since the financial crisis. It has in fact introduced more and more regulations trying to limit risk taking in the financial sector, which has limited growth. European regulators and EU have also done the same thing. You really need countries to reverse that process. However, as of now, I don't see any country doing that. The second thing you need to see is a reduction of global uncertainty.

**Where's India in global picture?**
India is a much liked space by foreign investors. The rupee is stable. There is a steady decline of interest rates. Equity markets are rising and the reforms process is on. Foreign investors feel much better about India than they do about Brazil, Russia or China. Investors have been interested in India, for the past two to three years and will continue to be. The pace of reform changes in India, has been higher than the US or Eurozone in the past five years. There are no structural reforms in the US – be it education or social security. On the other hand, there are reforms in India and it is trending in the right direction.

**What is your assessment for India with GST set to be implemented?**
The passage of the GST bill is a big accomplishment as it is a demonstration that India is committed to reforms and will have a tangible positive effect on the government's fiscal budget. The GST bill can be expected to increase the market share of companies in the organised sector, away from those in the unorganised sector; due to increased taxes for the unorganised sector and lower warehousing and logistics cost for the organised sector. Larger, more integrated players will gain market share at the expense of scattered and marginal players. It encourages tax compliance, because there is a fiscal incentive for everybody in terms of claiming set offs of taxes already paid. As a result, due to an increase in productivity and inclusion of unaccounted income from the unorganised sector, India's GDP will rise about 0.5 to 0.75%.