

# Emerging Market (esp. India) and COVID-19



Raghuram  
Rajan  
Chicago Booth

Introductory  
remarks by

Markus  
Brunnermeier  
Princeton

# Past and Future Speakers

- Past



Richard Zeckhauser  
"Climate Policy"

- Today



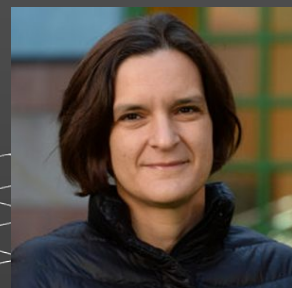
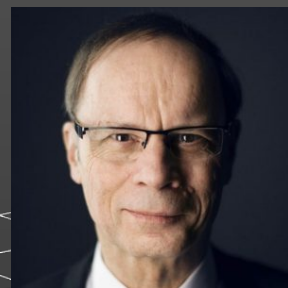
Raghu Rajan  
"EMDE/India"

- Next Monday



Eric Schmidt  
"Tech & Society"

- September:



- Related



Ramanan  
Laxminarayan



Armino Fraga  
"Brazil"

# EMDE

vs.

# Advanced Countries

- Trade-off is fundamentally different
  - Health vs. Health
    - COVID death vs. starvation
      - Visible lives vs. invisible lives  
(Ray & Subramaniam, NBER 2020)  
Power of measurement/accounting
    - Pressure for re-opening/lockdown is different
  - Health vs. Economy
    - COVID death vs. GDP (?)
    - no real trade-off?
- Limited fiscal/policy space
- Distribution/dispersing resources
  - Limited Gov. infrastructure
- “Technology leapfrogging”
- Credibility of statistics (besides visibility)

# Spreading of COVID in EMDE

- COVID – starts as a crisis of the rich/travelers airport in big cities (connection to China)
- COVID spread first in big cities
- Lock-down: migrant workers returned to home (to country side)
  - Spreading across regions to the poor who are especially hard hit

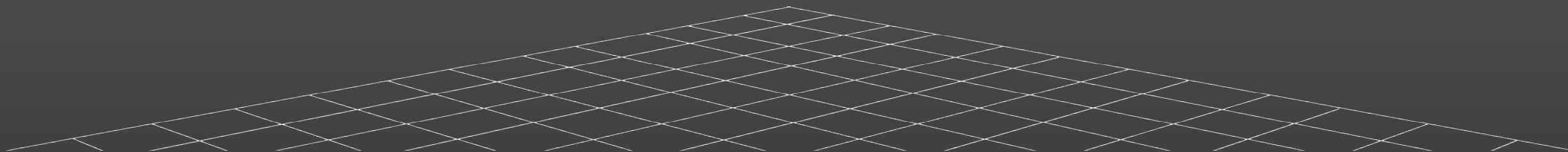
Externality



- Implications:
  - Regional lockdowns? Lock into cities?
  - “Relaxed lockdown” only, age-dependent?

# Raghu's Poll

1. Much of the commentary in the press is about the dire state of the economy in the industrialized world.  
Are emerging markets as a group having a "better" crisis?
  - a. Yes
  - b. No
  - c. Don't know
2. India's growth averaged around 7 percent over the last 25 years.  
Compared to the US, its growth rate in 2020 will be
  - a. higher
  - b. lower
  - c. don't know.





# Emerging Markets (especially India) and the Coronavirus

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Raghuram G. Rajan  
University of Chicago



# The Economic Playbook

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- Four phases of the pandemic (assuming no relapse)
  - Containment and Relief
  - Recovery and control
  - Repair/Reallocation
  - Reform



# Containment

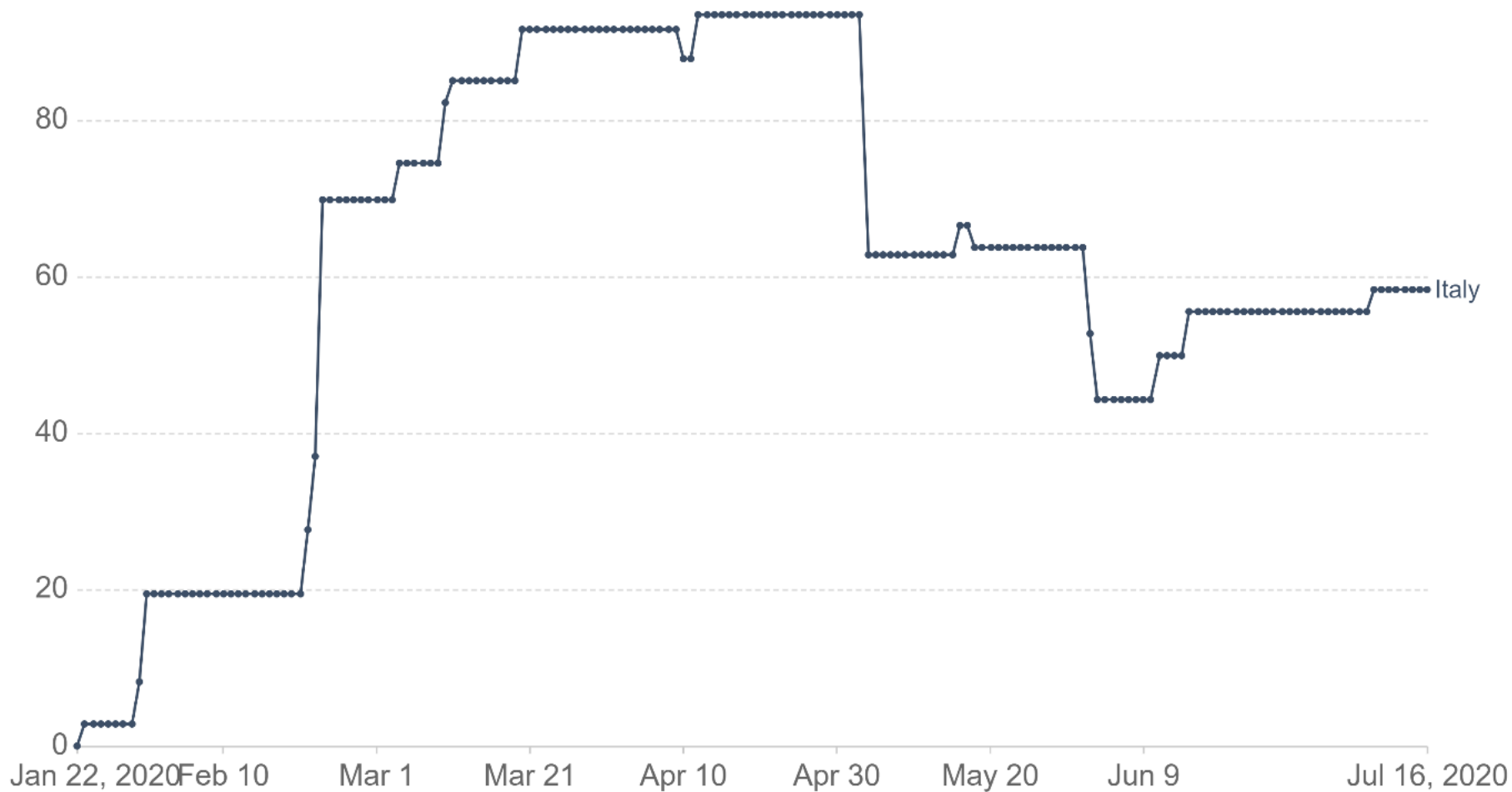
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- Many tried the same playbook as industrial countries – total lockdown – but outcomes differ
- A tale of two countries: Italy and India



# COVID-19: Government Response Stringency Index

The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).



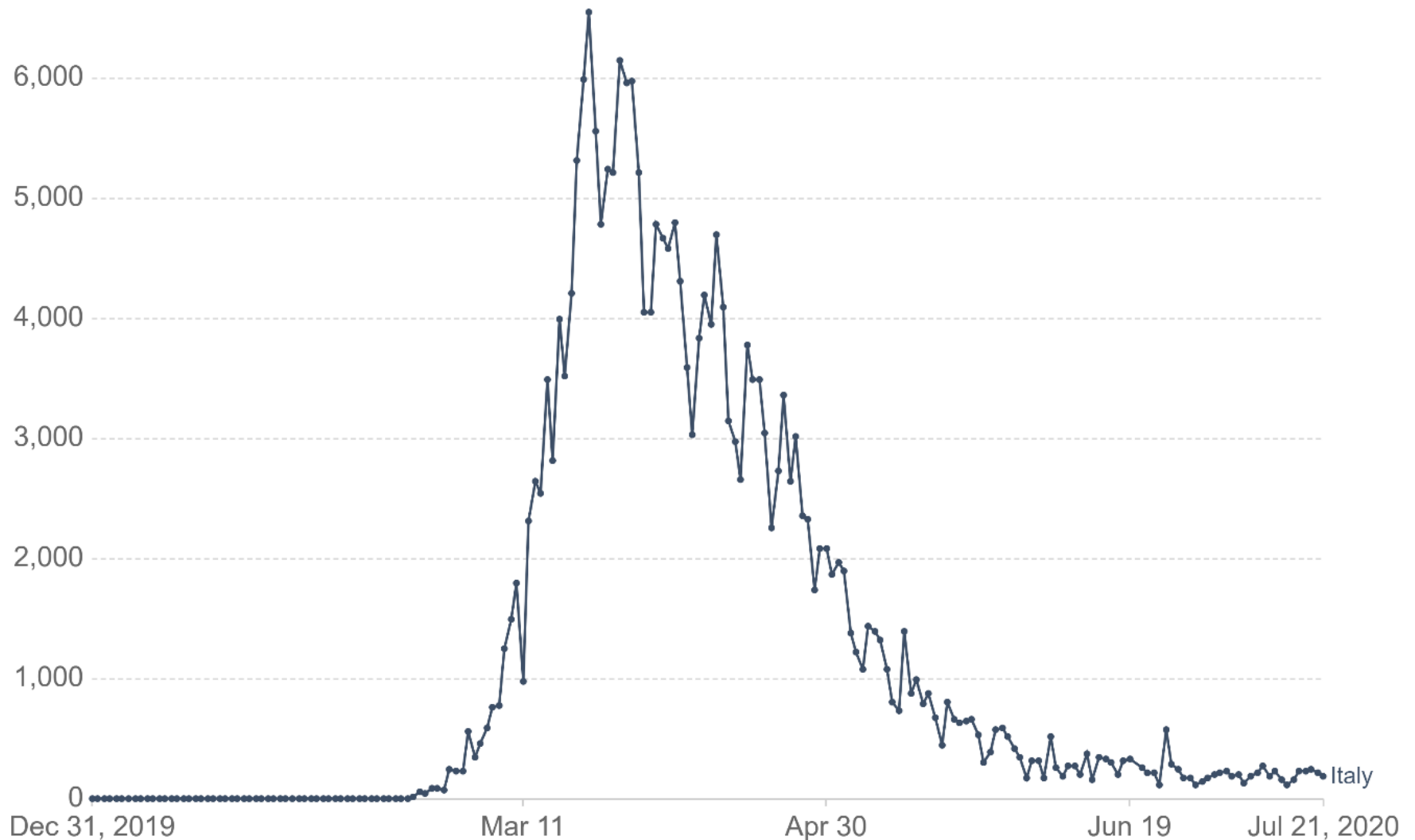
Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last Updated 21st July.

Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.

OurWorldInData.org/coronavirus • CC BY

# Daily new confirmed COVID-19 cases

The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



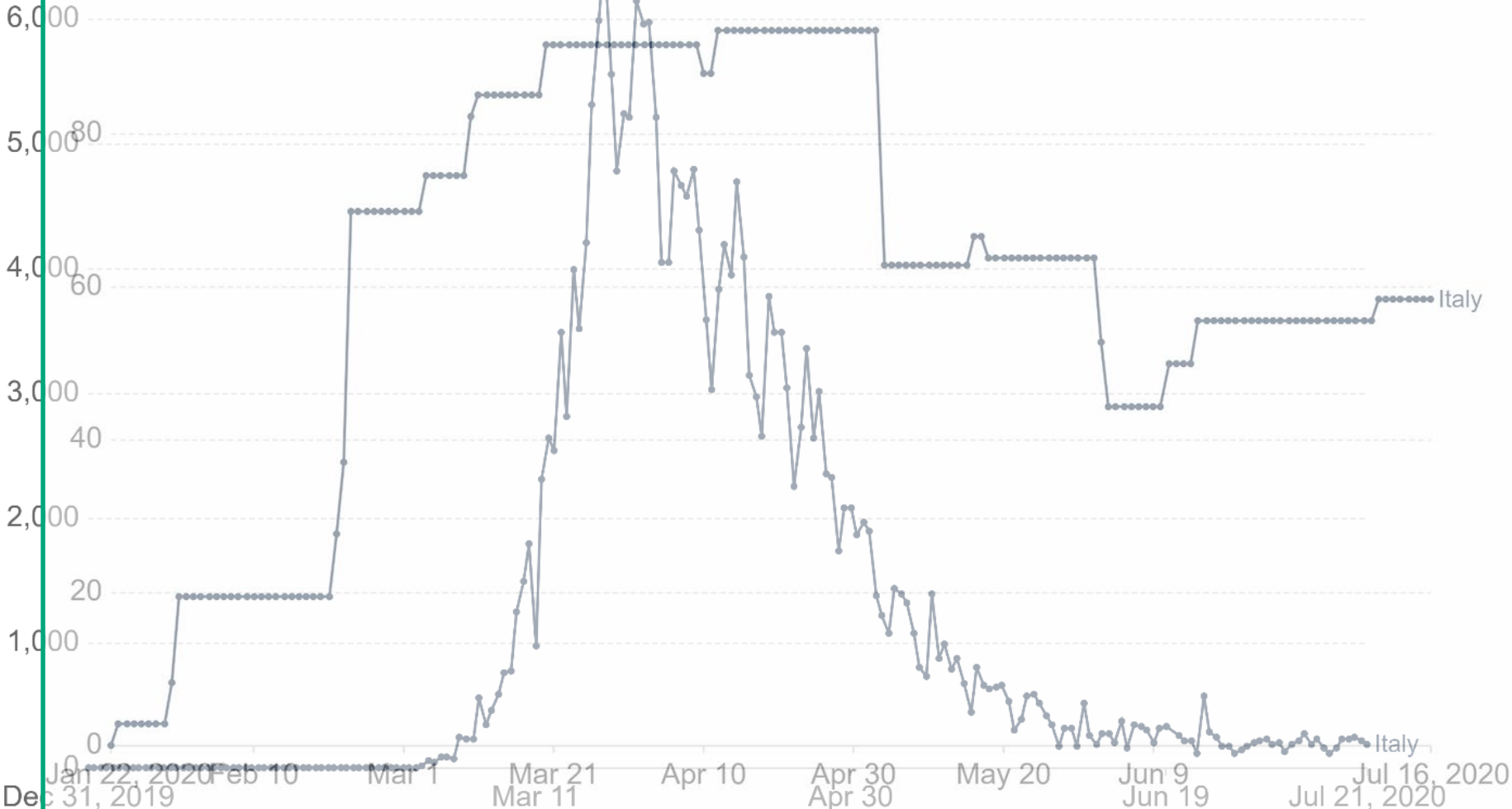
Source: European CDC – Situation Update Worldwide – Last updated 21 July, 14:37 (London time)

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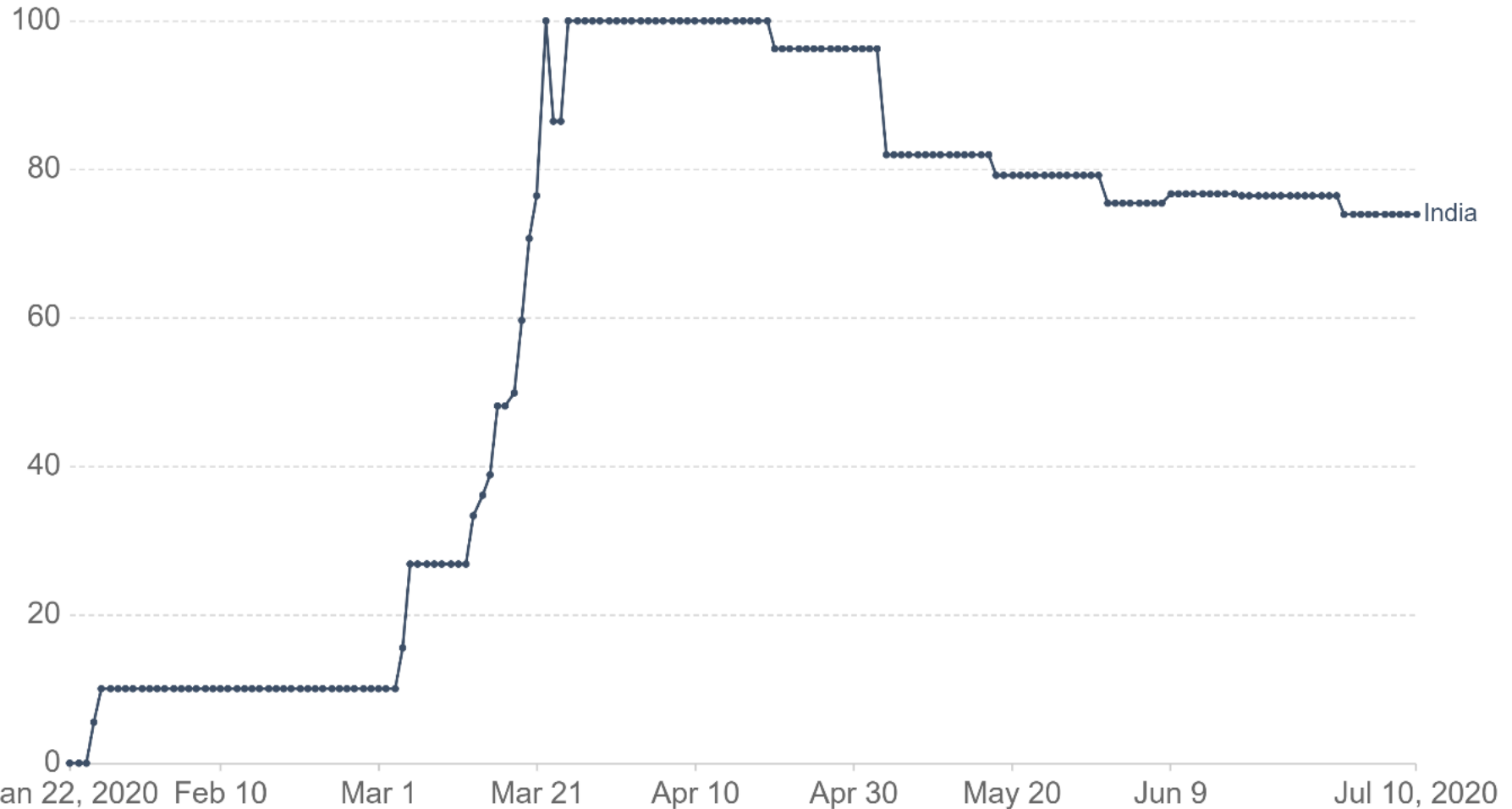
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Our World in Data

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Dec 31, 2019 - Source: Our World in Data. Last updated 21 July, 14:37 (London time).  
 Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.  
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# Differences?

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- Restrictions more strict in India
- Shorter in duration
- Relaxed even as infections growing rapidly



# Why containment less effective in India?

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- Attitudes?

- Authorities initially suggested they had everything under control.
  - Low infection rates, travel bans on foreigners, fully prepared
  - Public believed them
- Severe lockdown needed to convey seriousness (unlike Goolsbee and Syverson (2020))
  - Glaeser and Shleifer (2001)



# Social distancing, India style?





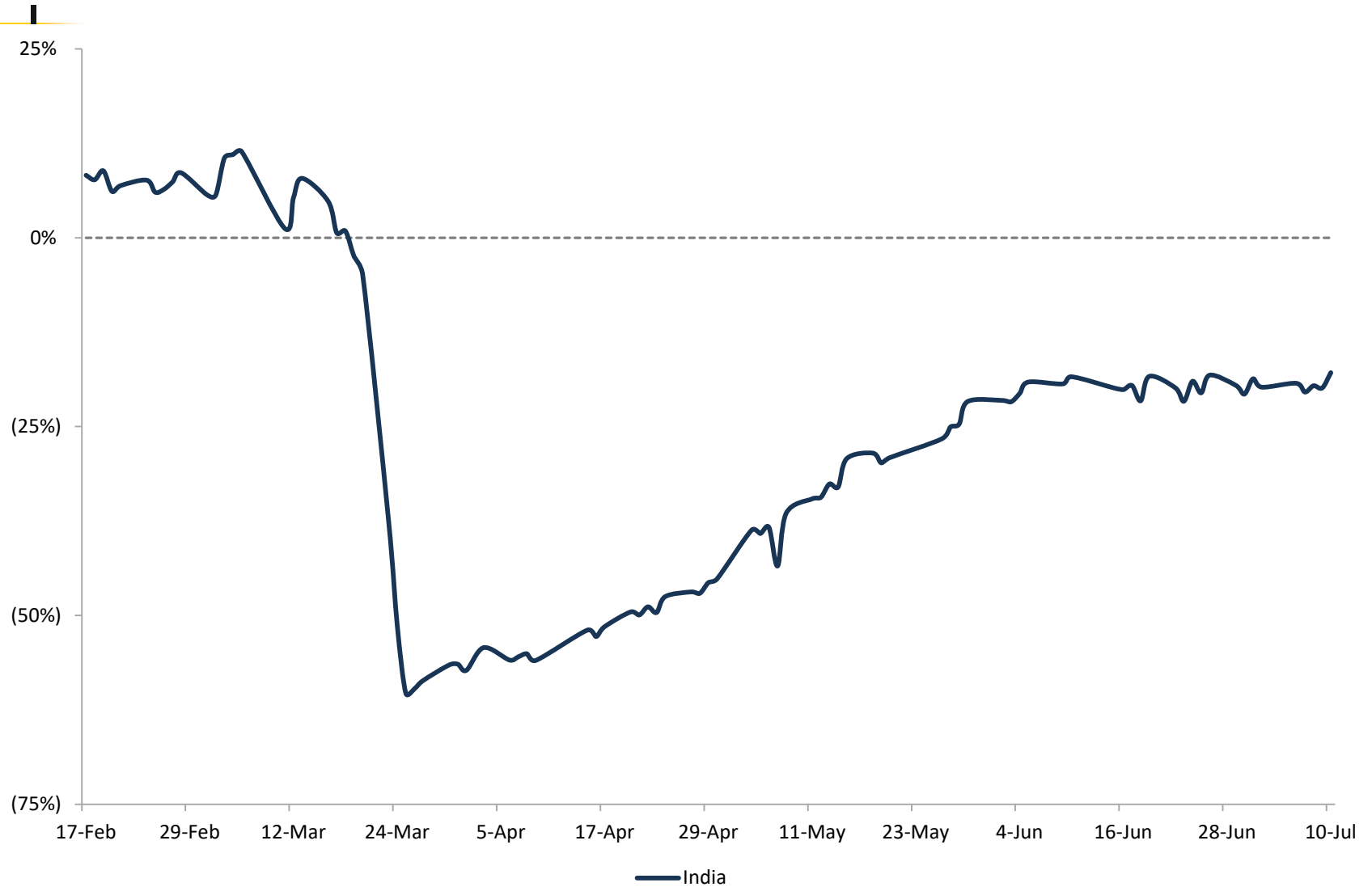
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# Workplace Mobility Data

## India





# Yet the stringent lockdown did not stem infections. Why?

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- Social distancing more difficult – slums, dependence on public transport
  - Dharavi shows how to do it right
- Worse medical facilities
  - But India ramped up testing – 300,000 per day today
  - Has produced PPE in large quantities
  - Vietnam has no deaths (?)
- Households have lower buffers, need income support
  - Migrants with no safety nets (Colombia, India)





# Whatever the reason... exacerbated by mismanagement

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- Lack of policy transparency and predictability
  - No arrangements/support for migrants
  - First authorities stopped them (ineffectively), then transported them to their villages as infection rates rose in cities
  - They may have carried the virus everywhere
- Bureaucratic mindlessness
  - Private hospitals and super-speciality hospitals
- India is complicated but not impossible to do it right.
  - Kerala in the early stages

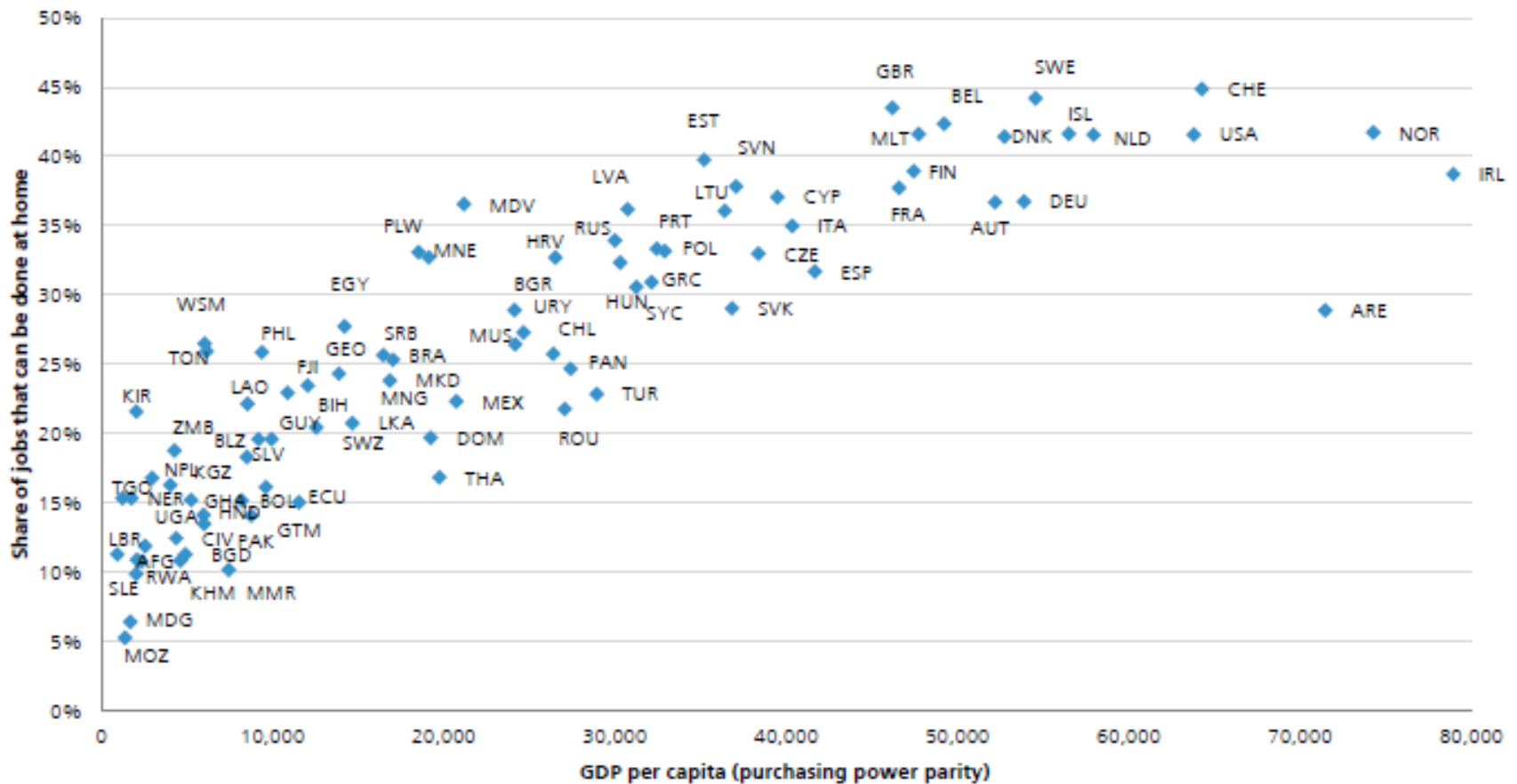


# Why shorter lockdown?

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- Fewer jobs can be done at home (except agriculture)
  - Less ability to bear sustained lockdowns
- Stringent lockdown was unsustainable
- No discernible break in growth of infections

# Share of jobs that can be done at home



Source: Dingel, J. I., & Neiman, B. (2020). *How many jobs can be done at home?* (No. w26948). National Bureau of Economic Research (<https://www.nber.org/papers/w26948>), UBS. Note: The chart excludes Luxembourg (x=116,152, y=53.4%).





# Why shorter lockdown?

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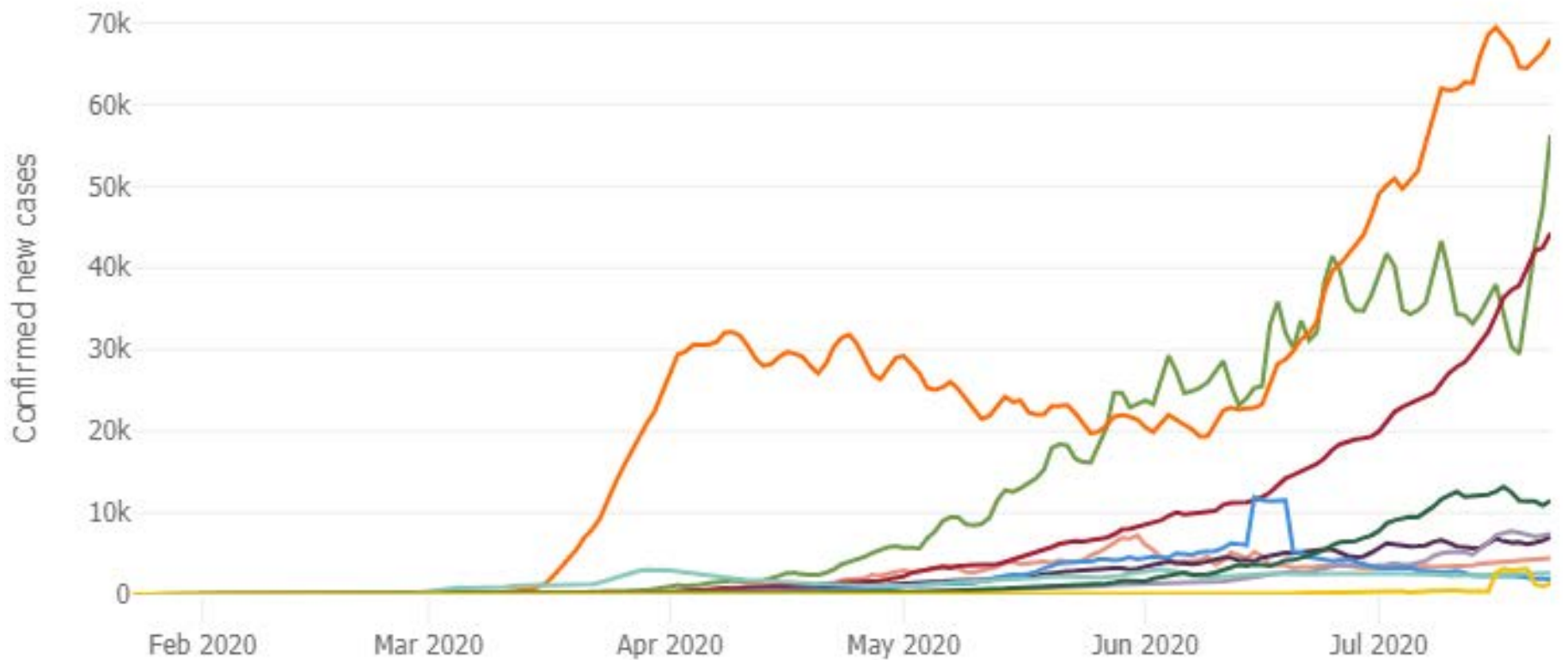
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  - Less ability to bear sustained lockdowns
- Stringent lockdown was unsustainable
  - Need effective essential services
- No discernible break in growth of infections



# Consequences

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- EMs outside east Asia have found it harder to bend the virus curve in a reasonable time.
- Some have relaxed lockdowns before containing the virus.
- Fortunately, deaths are still low...but climbing

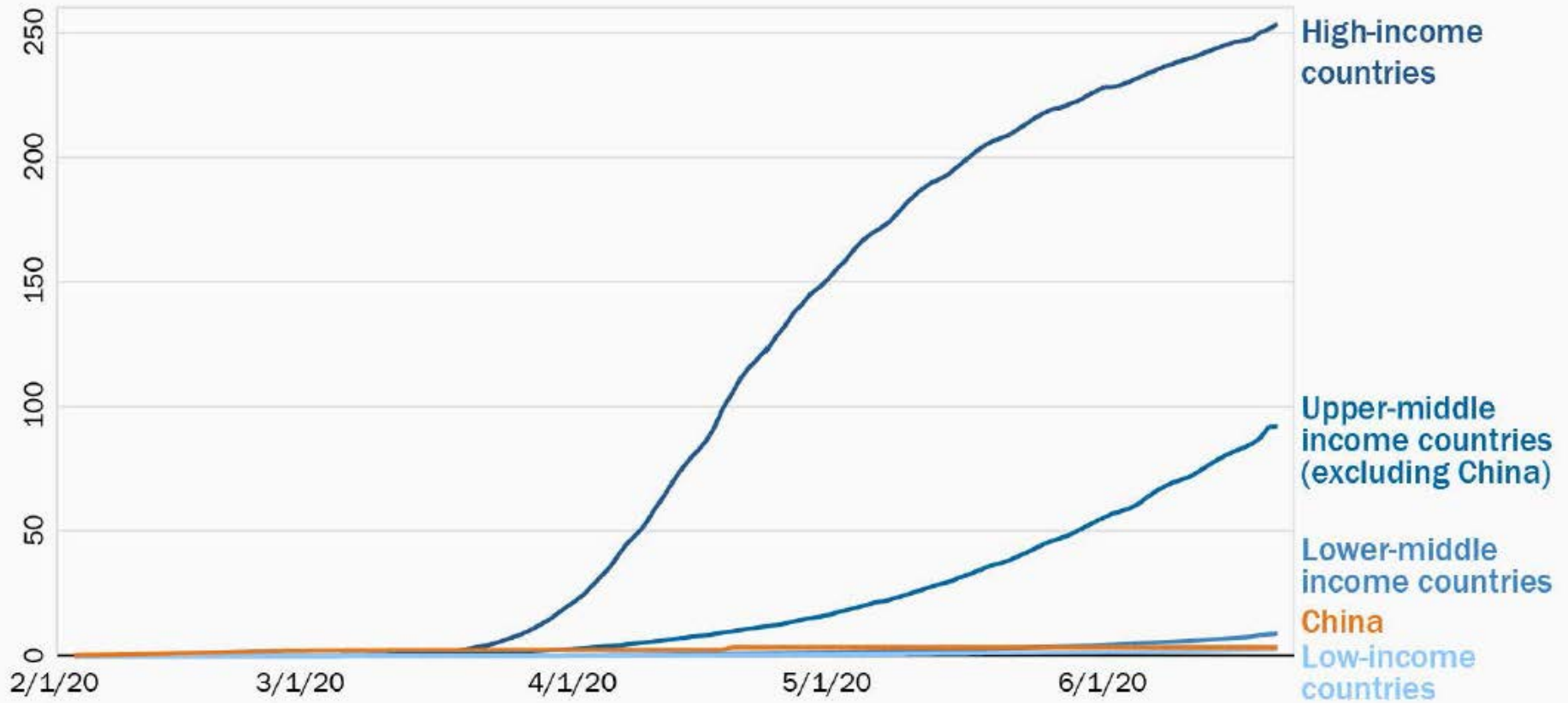


Click any country below to hide/show from the graph:

- |          |       |      |              |            |
|----------|-------|------|--------------|------------|
| Brazil   | US    | Peru | India        | Mexico     |
| Colombia | Chile | Iran | South Africa | Kyrgyzstan |

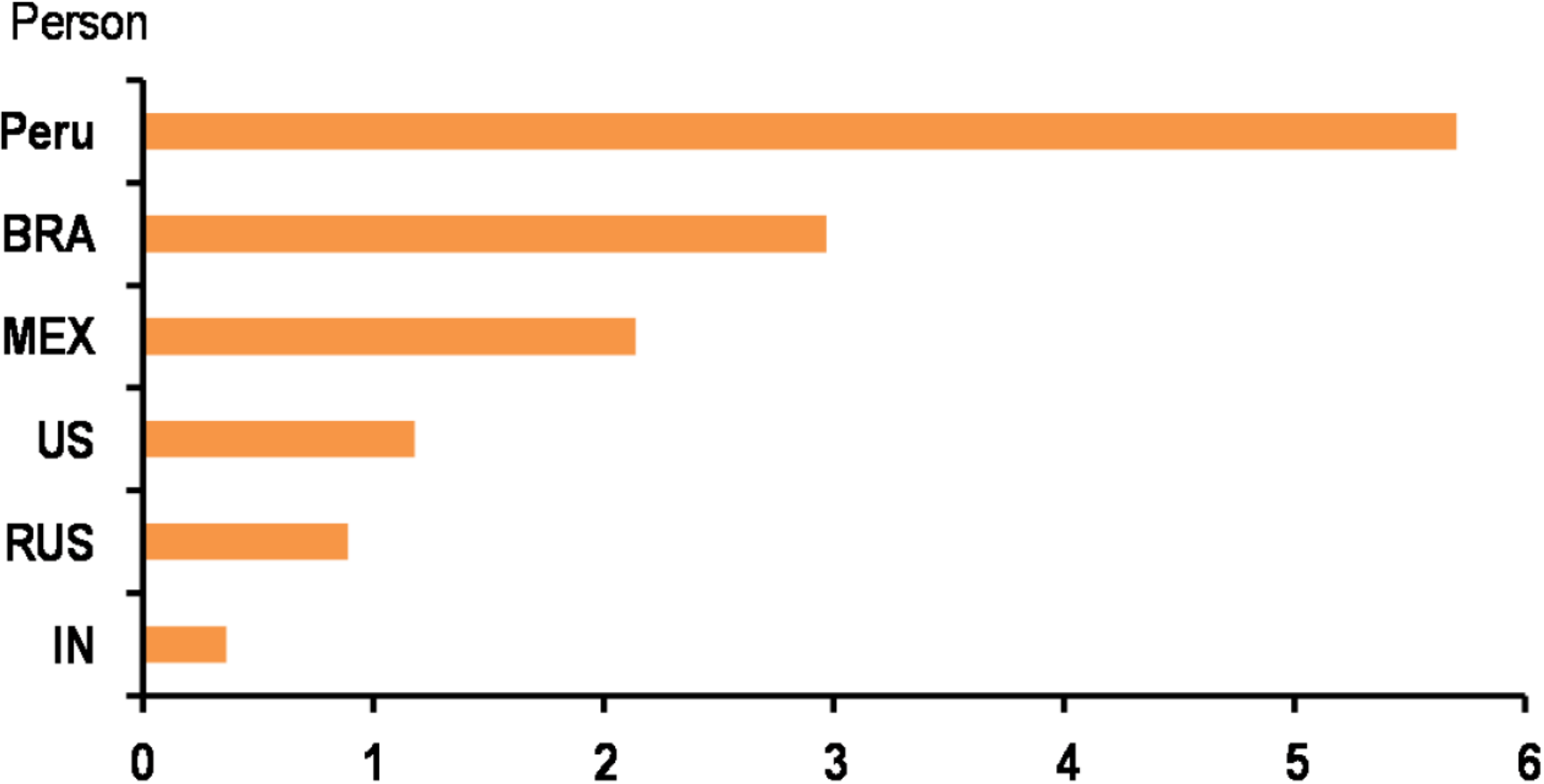
# Higher income countries had higher Covid death rates

Total Covid-19 deaths per million people



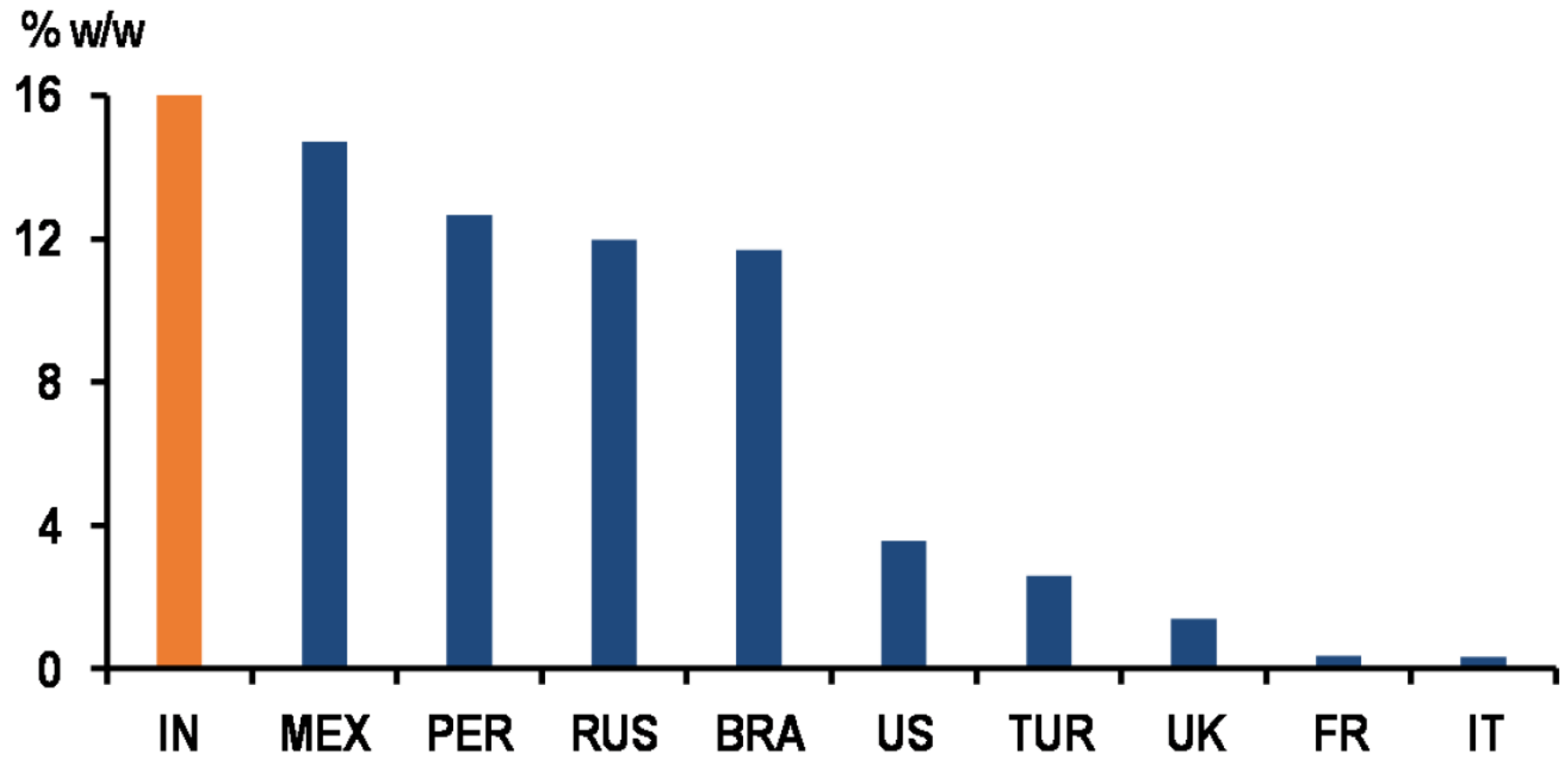
Source: Goldberg and Reed 2020

# Daily deaths per million



Source: Our World in Data, J.P. Morgan

# Growth in deaths, week on week (July)



\*Countries with more than 10k deaths considered Source: Our World in Data, J.P. Morgan

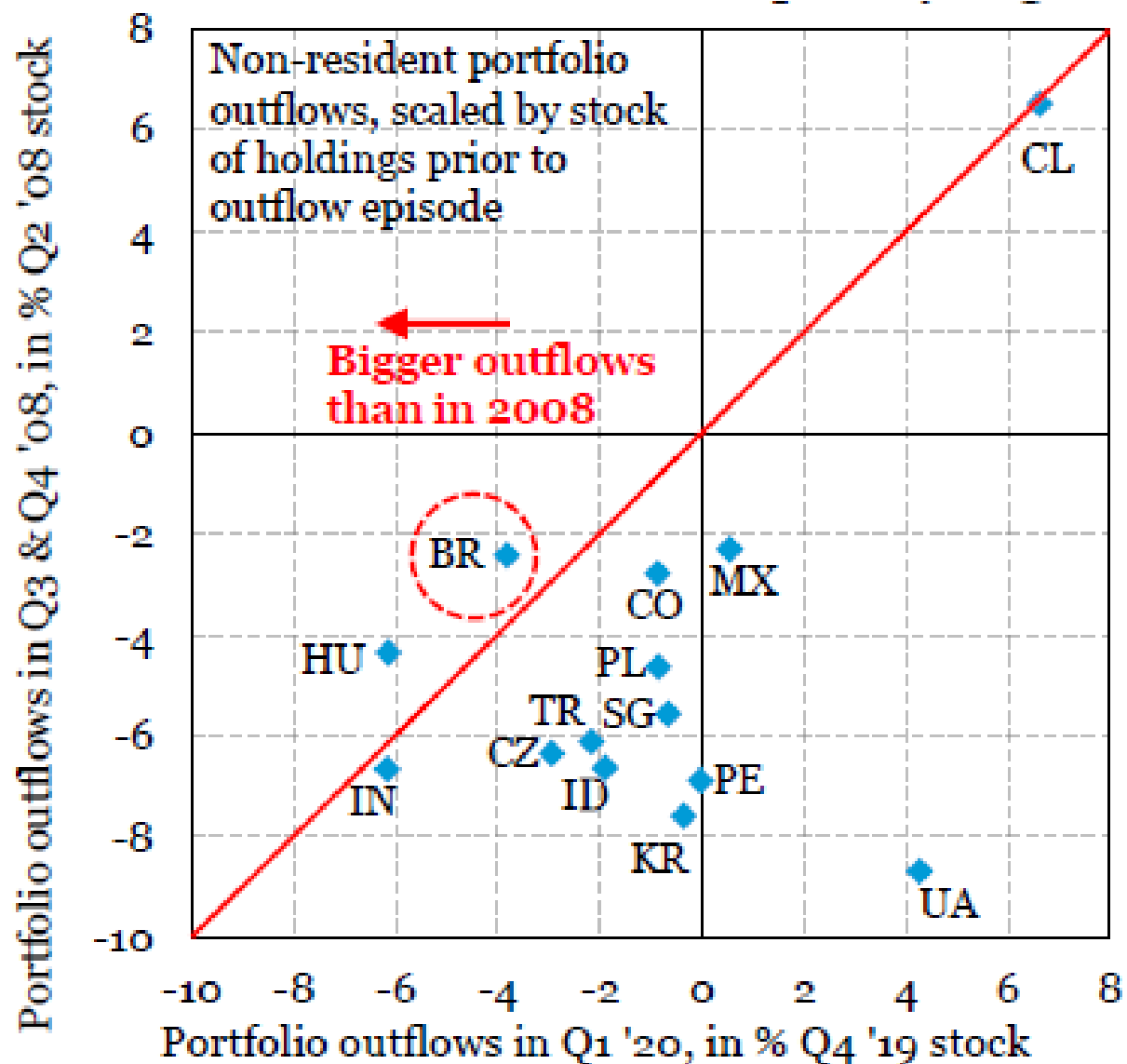


# Has the virus spared EMs economic damage?

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- No, regardless of the lower death rate, many of the economic consequences of the virus have hit them.
  - “Bent the wrong curve”: Rajiv Bajaj
- On the external front:
  - Trade, especially commodities and manufactured goods
  - Tourism
  - Remittances
  - Capital outflows initially

# Portfolio flows Q1 2020 relative to Q3 & Q4 2008



Source: Haver, IIF





# What about relief?

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- Households, SMEs, and even large corporations need relief.
  - The consequence of keeping a poor child out of school, keeping a small firm from folding
  - Relief may contribute much more than the usual Keynesian multiplier
    - Preserves capital stock



# Central banks have stepped up.

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- With inflation less of a concern for most, EM central banks have show a willingness to expand their balance sheets.
  - Is this QE?
  - Intermediating between banks and government to finance expanded deficits.
  - Easier when the central bank has some inflation credibility and inflation is low.
- The Reserve Bank of India moved to inflation targeting since 2014 and has acquired some credibility (Eichengreen and Gupta (2020))

# India – CPI Headline Inflation



# India 10 year government bond rate



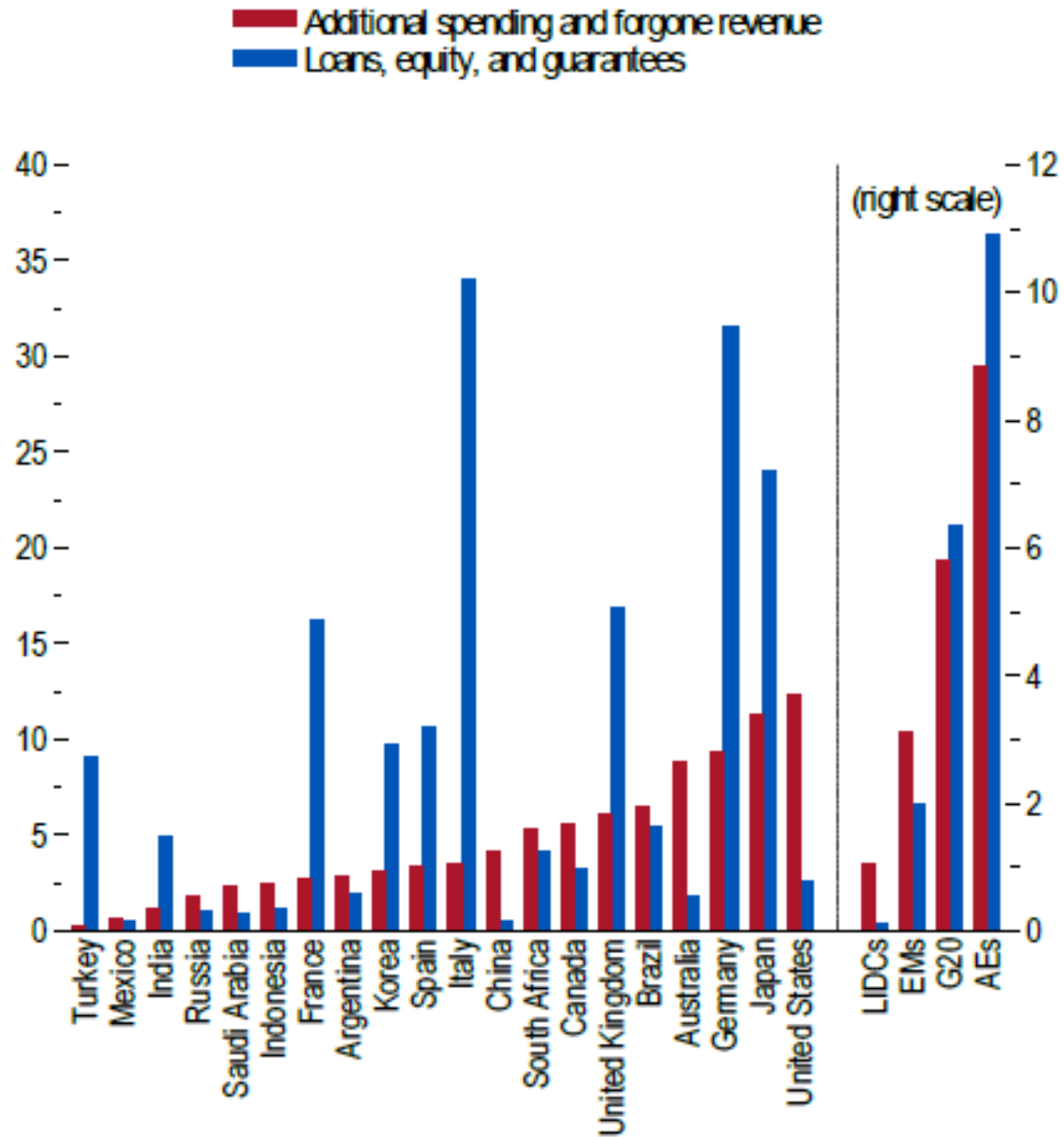


# With central bank support...

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- The government could have spent more on relief, financed in the short term by the central bank.
  - Not unlimited, of course...
- Many emerging market governments did not!

# Large difference in fiscal outlays and credit easing





# Why so little relief?

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- India entered the crisis with a fiscal deficit of 9 percent or so of GDP, and slowing growth.
- With pandemic-related revenue shortfalls and the decline in GDP, this could rise to 13-15 percent of GDP even without additional spending.
- Government focused on credit rating:
  - Fear of downgrades



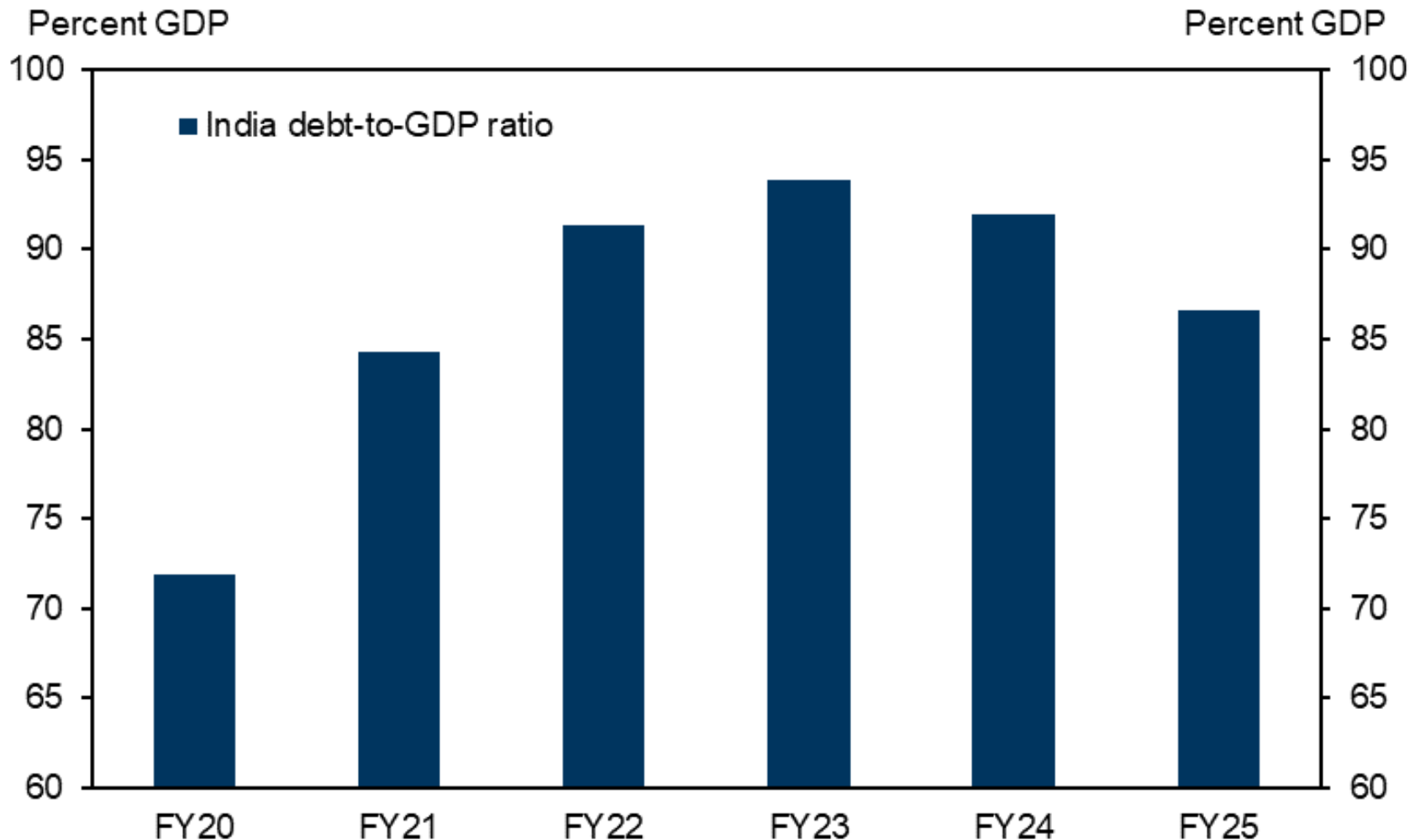
# Is this a mistake?

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- Yes: Following the wrong playbook.
  - This is not the typical EM crisis.
  - Relief versus stimulus
  - Exception: Brazil and augmented Bolsa Familia
- No: EMs cannot ignore fiscal sustainability unlike industrial countries.
  - Markets give them less rope.



# Possible path for India's debt (Goldman Sachs)





# Squaring the concerns: An alternative approach

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- Spend what is necessary for relief (and repair).
  - Preserve growth potential.
- Enhance commitment to fiscal transparency and rectitude over the medium term.
  - Enact debt target
  - Set up independent fiscal commission
- Would, however, make it harder for the government to control the narrative.
  - Independent institutions make it harder to paint the picture you want.



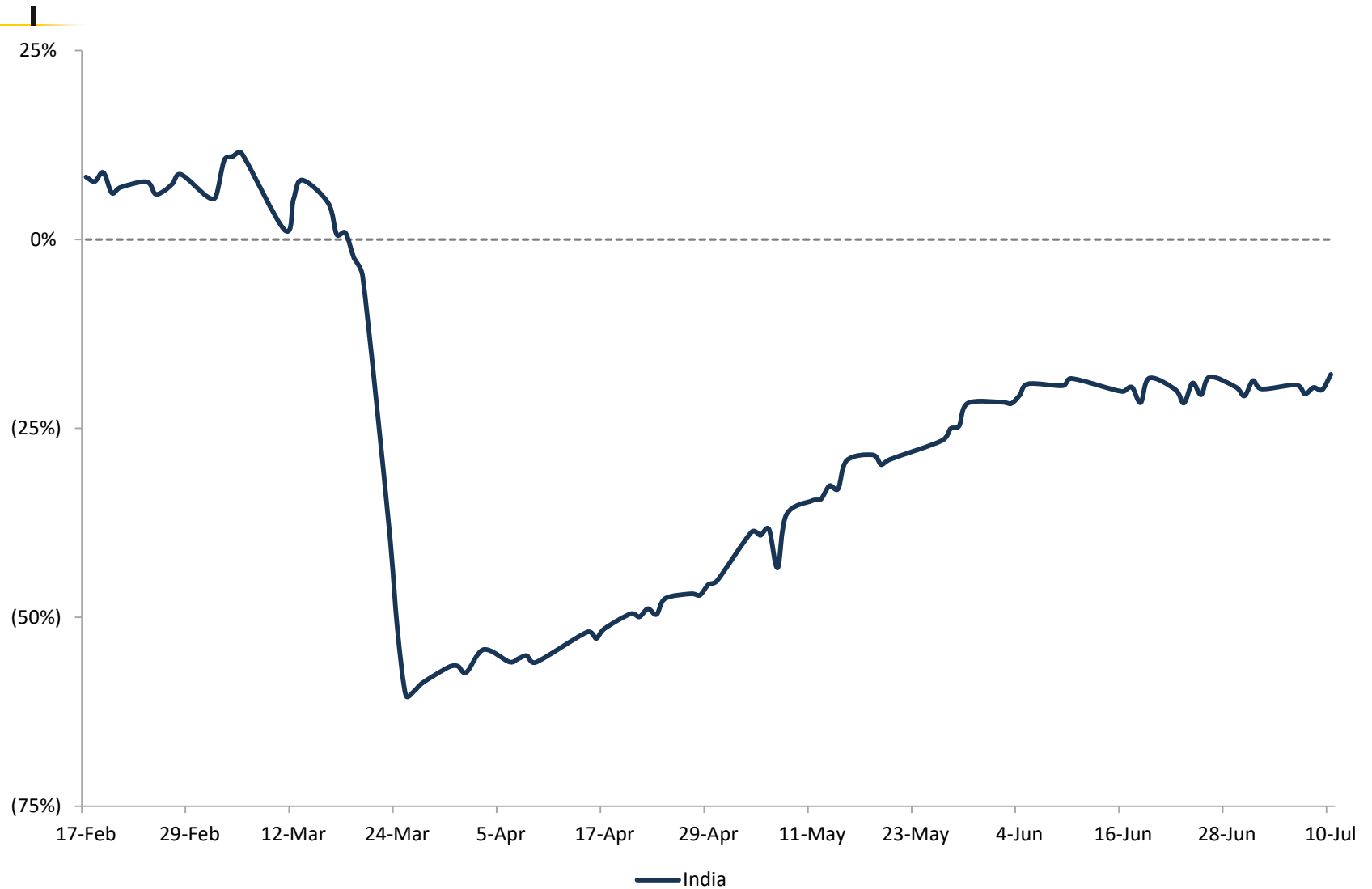
# Thus far, relief has been modest

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- Modest relief => significant damage to poorer households and SMEs => growth and potential growth lower
  - If growth potential is impaired, downgrades will happen anyway
- With little relief and much damage, demand is less likely to spring back up when restrictions lifted
  - Growth will be lower for much longer because of a damaged economy.

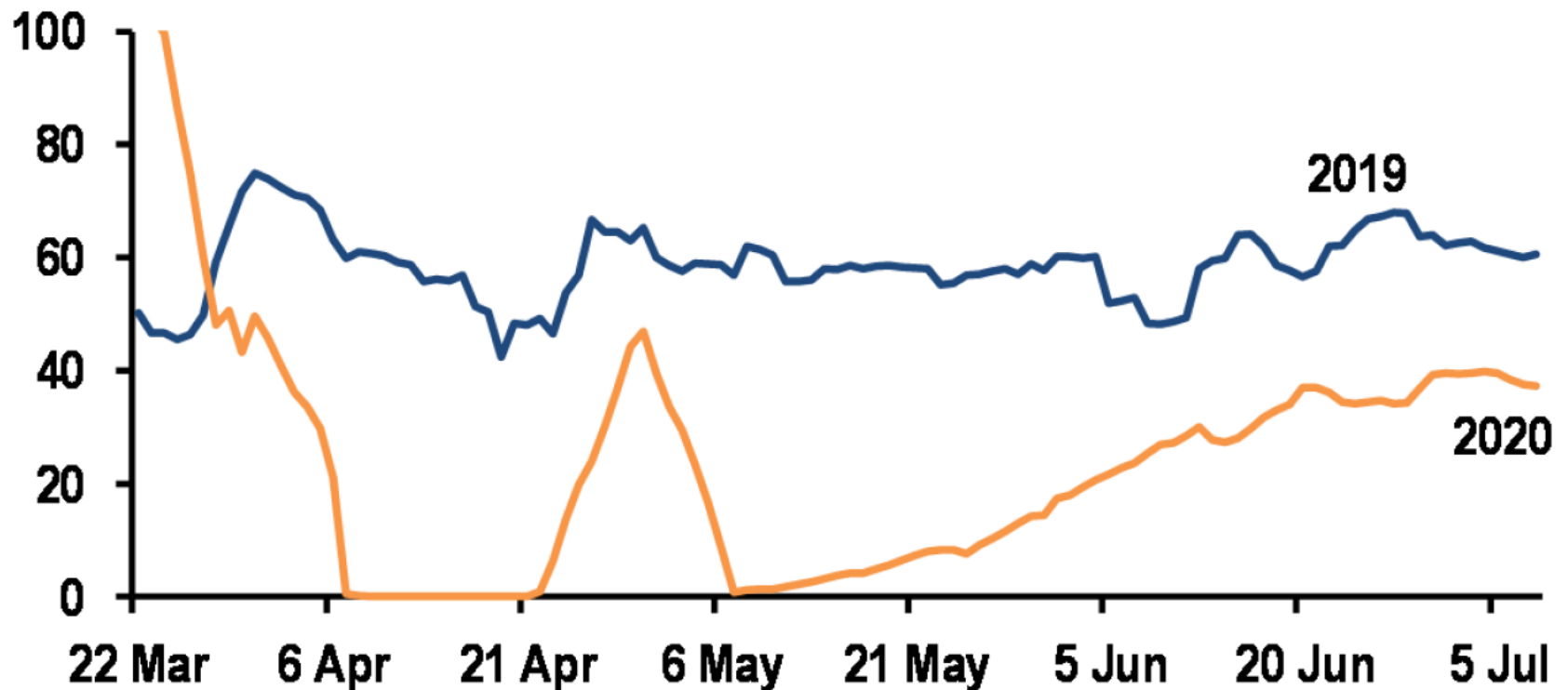
# Workplace Mobility Data

## India



# India: vehicle registrations

Number, Th, 1week MA



Source: VAHAN AND JP MORGAN



# If not relief, repair

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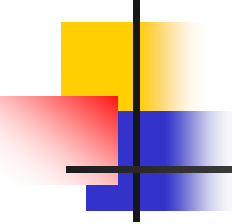
- As demand slowdown is prolonged, corporate distress is a big concern in EMs
  - Restructuring of existing debts plus new funding is key to preventing lasting damage.
    - Effectiveness of restructuring process
  - Recapitalizing financial system
- Less working capital/investment/zombies if do nothing



# What is India doing on repair?

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- Private sector banks are raising capital
- But banking sector is dominated by public sector banks
  - Loan repayment moratoria
  - Rising NPAs over and above large legacy level
- Regulator urged to forbear
  - What we don't see can't hurt us?
  - Delay makes problems go away?
- New distressed cases no longer can be referred to bankruptcy tribunal
  - Bankruptcy as punishment, not as a necessary restructuring of capital structure and ownership
- Distress is accumulating in the system.



# Recovery will be tepid if no further action taken

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- Potential growth will be hit severely
  - Viable firms will close
  - Debt-overhang-hit & funding-starved corporations
  - Capital-short financial sector
- Fiscal restraint and financial sector constraints => Domestic-demand-led recovery difficult





# What next for EMs?

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- Will need external demand for growth
  - Global trade recovery is critical.
  - Cross-border investment helpful
- Unfortunately, global order is in an unholy mess and likely to get worse



# Why is India not doing better?

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- Bad starting point
  - Declining growth, policy mistakes, poor fiscal situation, legacy NPAs in Modi's first term
  - Yet resounding election win
  - Modi's second term focused on BJP's majoritarian objectives rather than repairing an impaired economy



# Why is India not doing better?

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- Past problems in decision making highlighted in pandemic
  - Excessive centralization, all decision making in PMO
  - Dramatic actions, inadequate preparation
    - Lockdown did not seem to account for Indian conditions
- Misguided prioritization – to mesh with a continuing narrative of competence rather than the reality
  - Credit rating as stamp of approval
  - Data selectively cited: Patient recovery rate as a measure of success



# What next for India?

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- Transformational economic reforms seem the only way out.
  - Ruling BJP has the political power to enact them.
- Does it have the vision?
  - Or is it a prisoner of India's statist, mercantilist past
- Does PM Modi have the inclination?
  - Works through the bureaucracy rather than trusting the private sector
  - Tinkering at the margins will not do it.
  - Are authoritarianism and pro-market reforms compatible?