

# 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

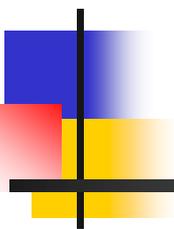
Externality



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

# Raghu's Poll

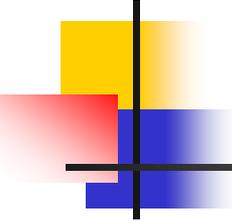
1. Much of the commentary in the press is about the dire state of the economy in the industrialized world.  
Are emerging markets as a group having a "better" crisis?
  - a. Yes
  - b. No
  - c. Don't know
2. India's growth averaged around 7 percent over the last 25 years.  
Compared to the US, its growth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



# Emerging Markets (especially India) and the Coronavirus

---

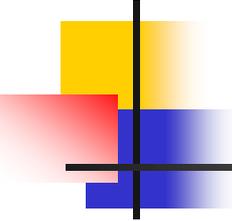
Raghuram G. Rajan  
University of Chicago



# The Economic Playbook

---

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



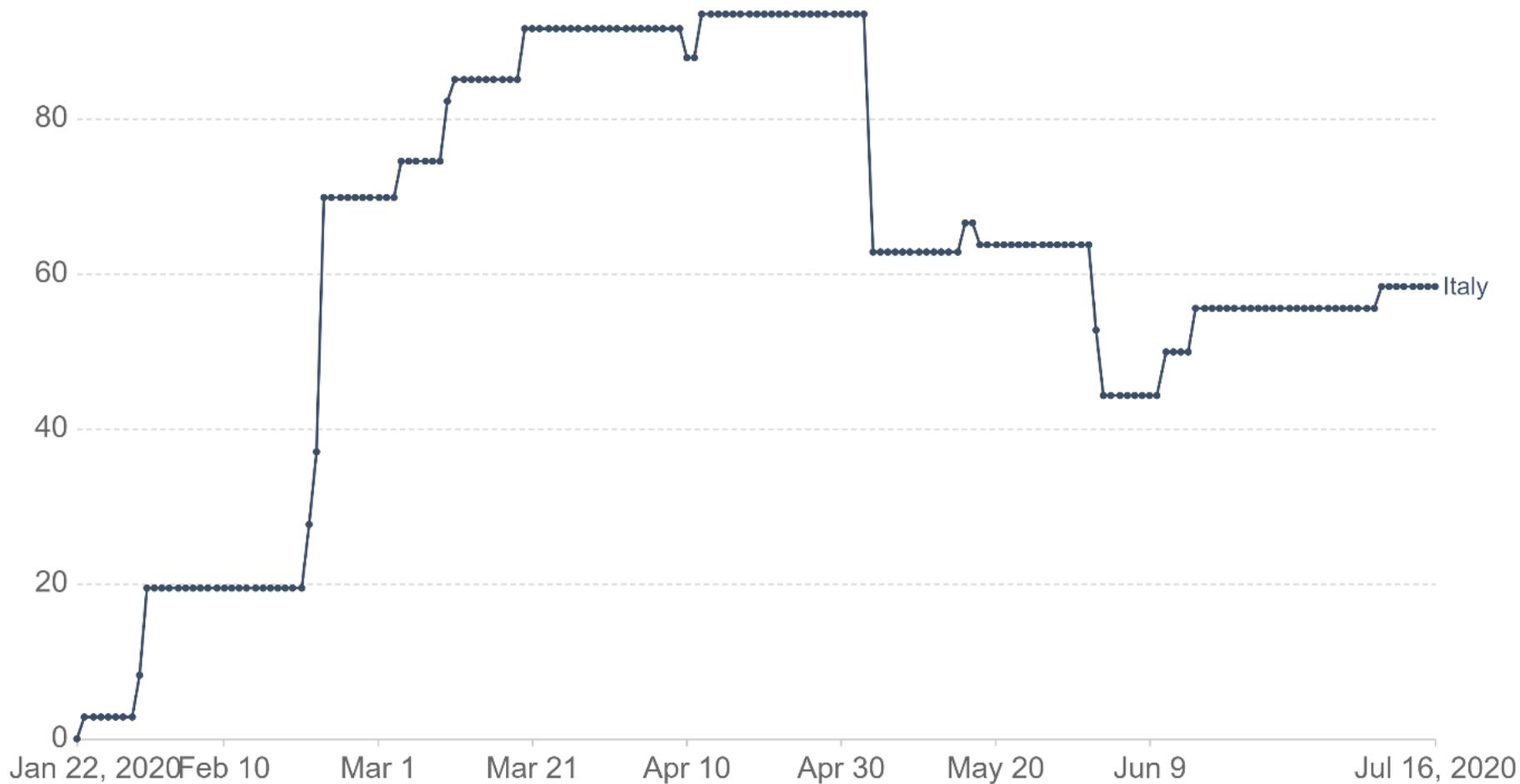
# Containment

---

- 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).



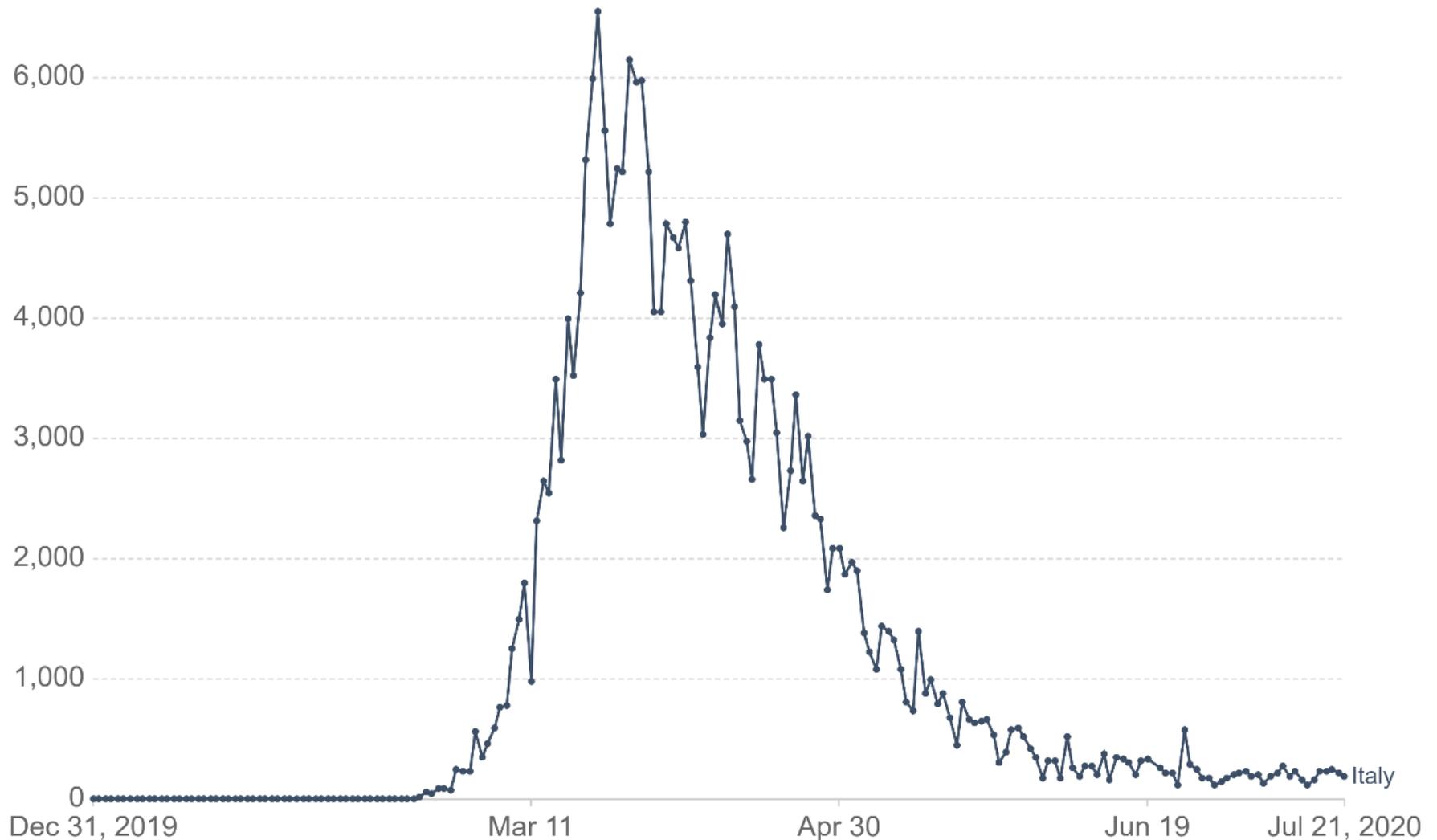
Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last Updated 21st July.

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.



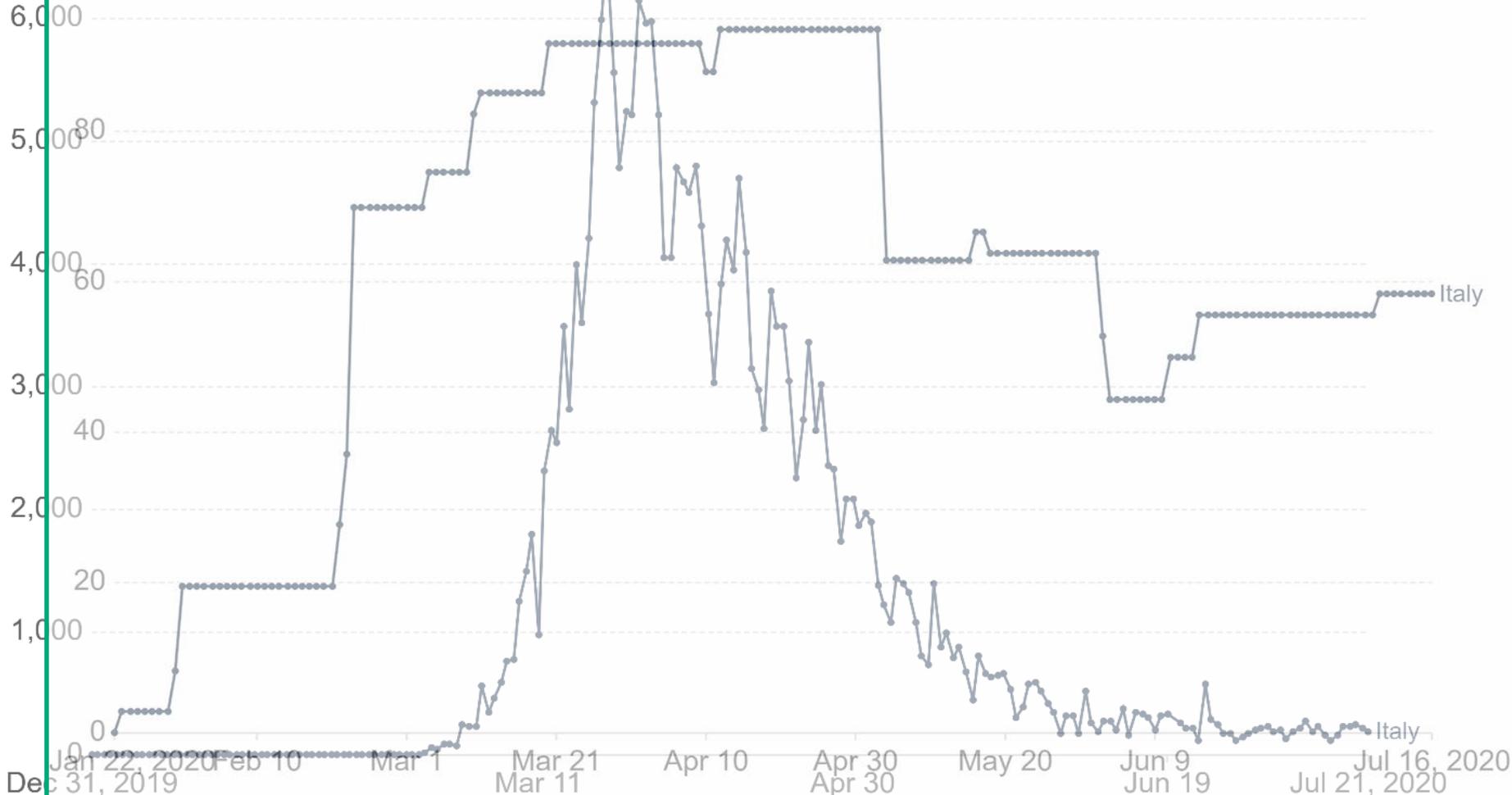
Source: European CDC – Situation Update Worldwide – Last updated 21 July, 14:37 (London time)

# 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.

## 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).

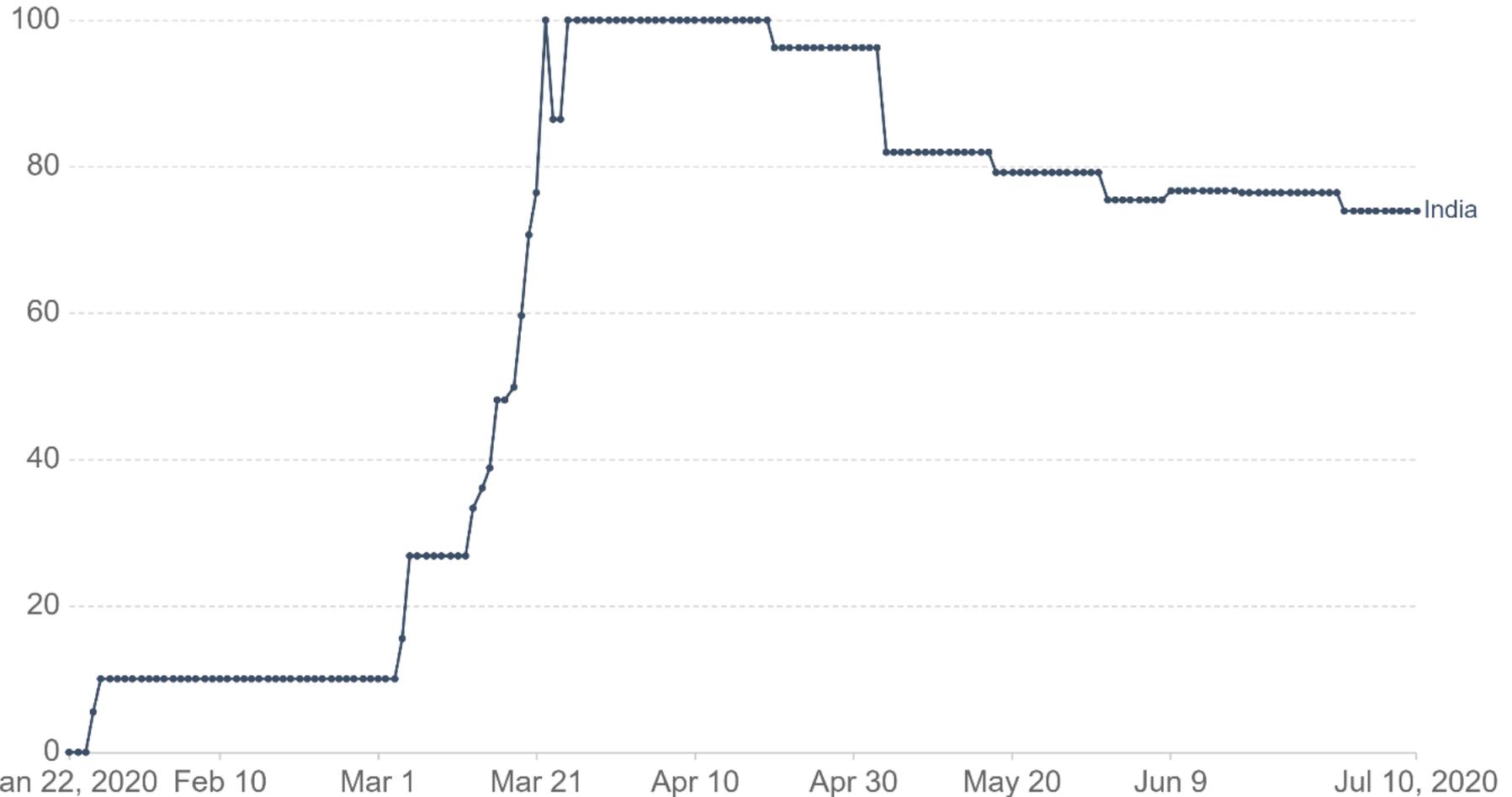


Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last Updated 21st July.

Source: European CDC. Situation Update: Worldwide – Last updated 21 July, 14:37 (London time). Note: This index simply records the number and stringency of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.

# 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.



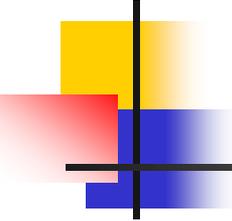
# Daily new confirmed COVID-19 cases

Our World in Data

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



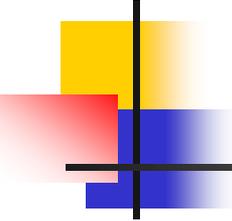
Dec 31, 2019 - Hale, Webster, Petherick, Phillips and Kira (2020). Oxford COVID-19 Government Response Tracker - Last updated: 21 July 2020. Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response. Source: European CDC - Situation Update Worldwide - Last updated 21 July, 14:37 (London time) OurWorldInData.org/coronavirus • CC BY



# Differences?

---

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



# Why containment less effective in India?

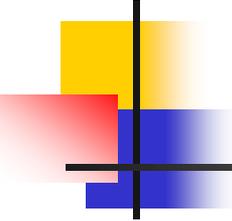
---

- 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?





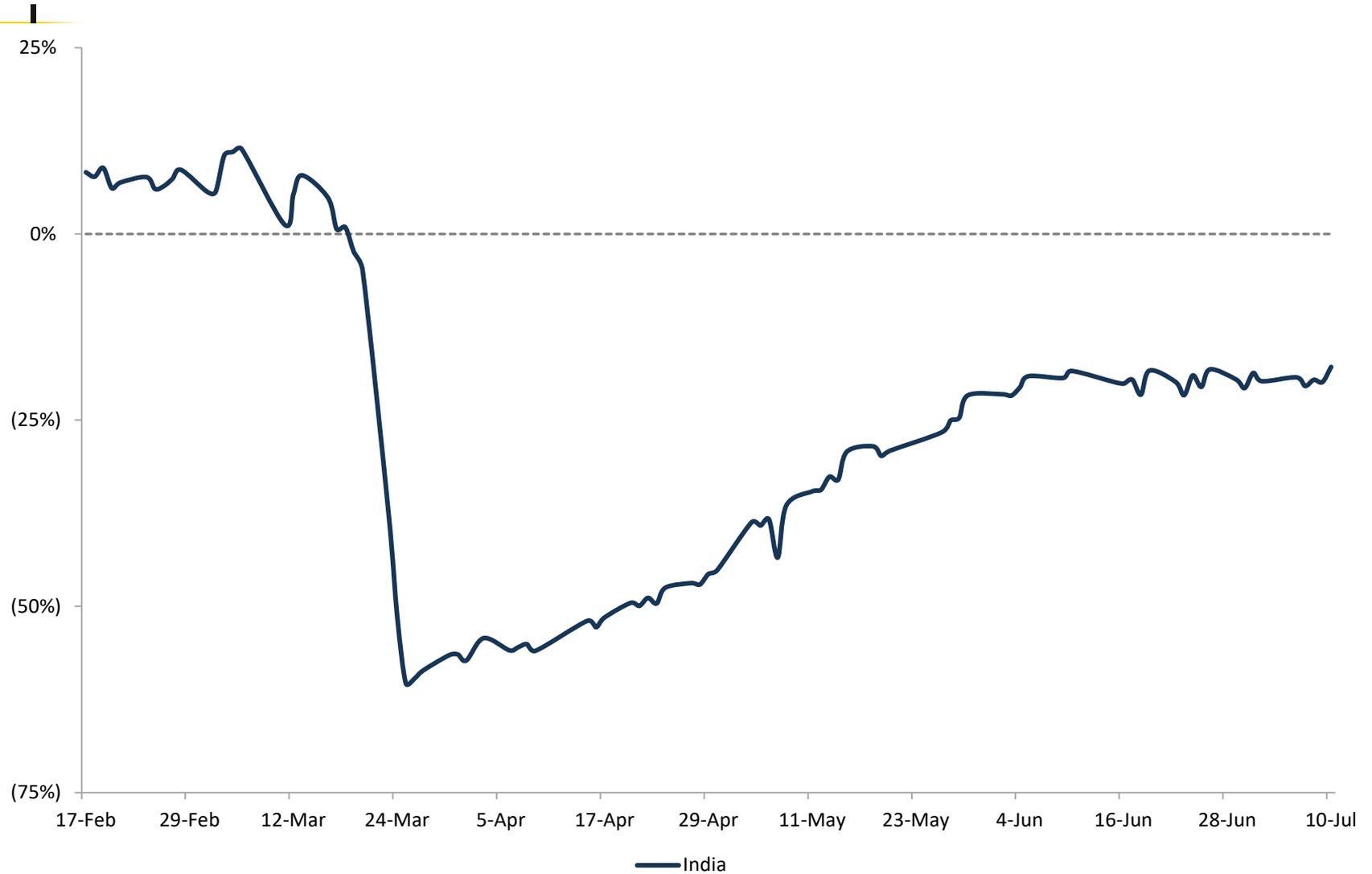
# Why containment less effective in India?

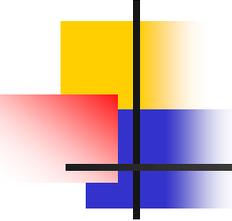
---

- 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)

# Workplace Mobility Data

## India



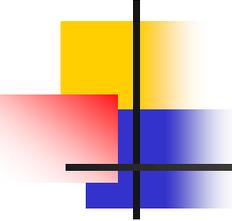


# Yet the stringent lockdown did not stem infections. Why?

---

- 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)

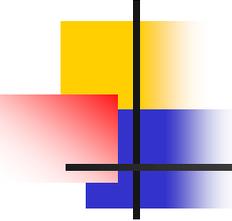




# Whatever the reason... exacerbated by mismanagement

---

- 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

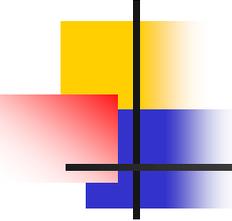


# Why shorter lockdown?

---

- 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

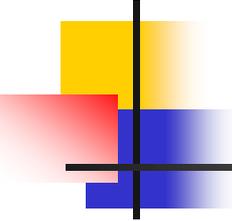




# Why shorter lockdown?

---

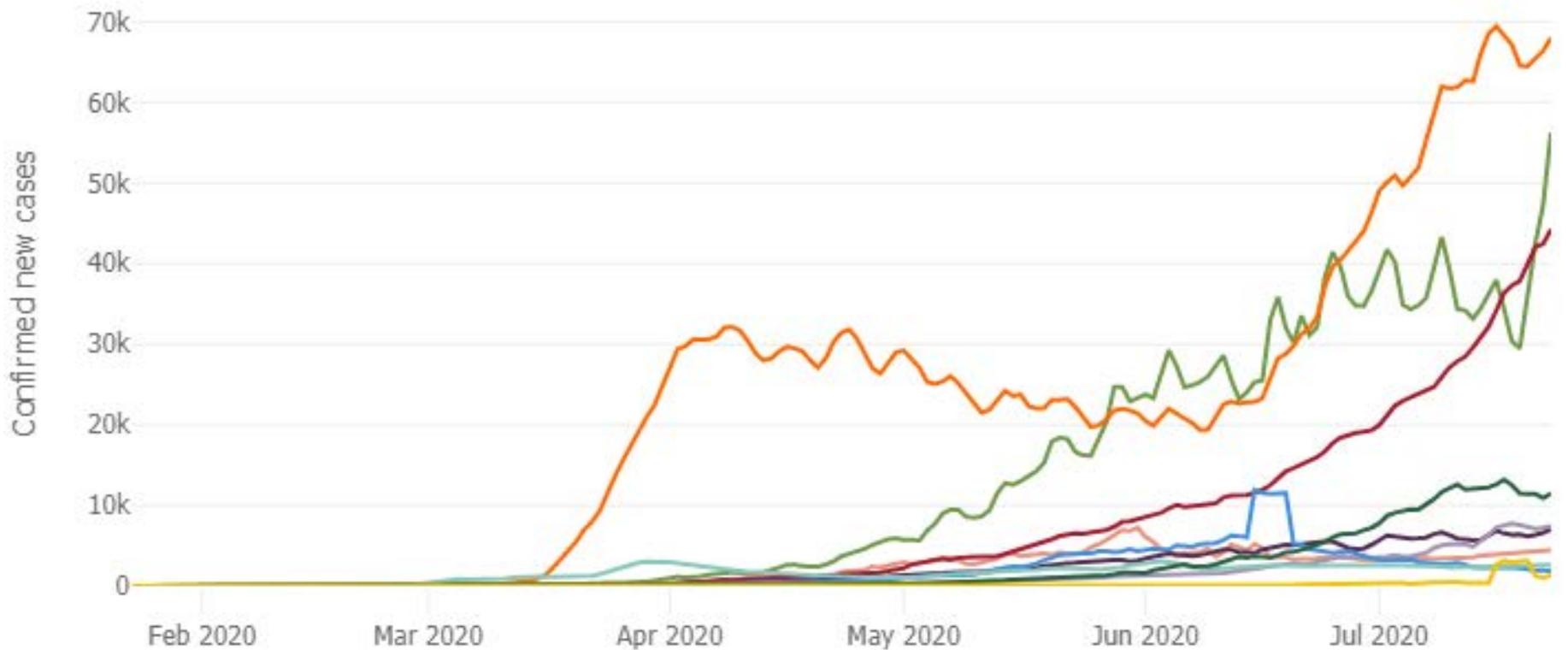
- Fewer jobs can be done at home (except agriculture)
  - Less ability to bear sustained lockdowns
- Stringent lockdown was unsustainable
  - Need effective essential services
- No discernible break in growth of infections



# Consequences

---

- 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

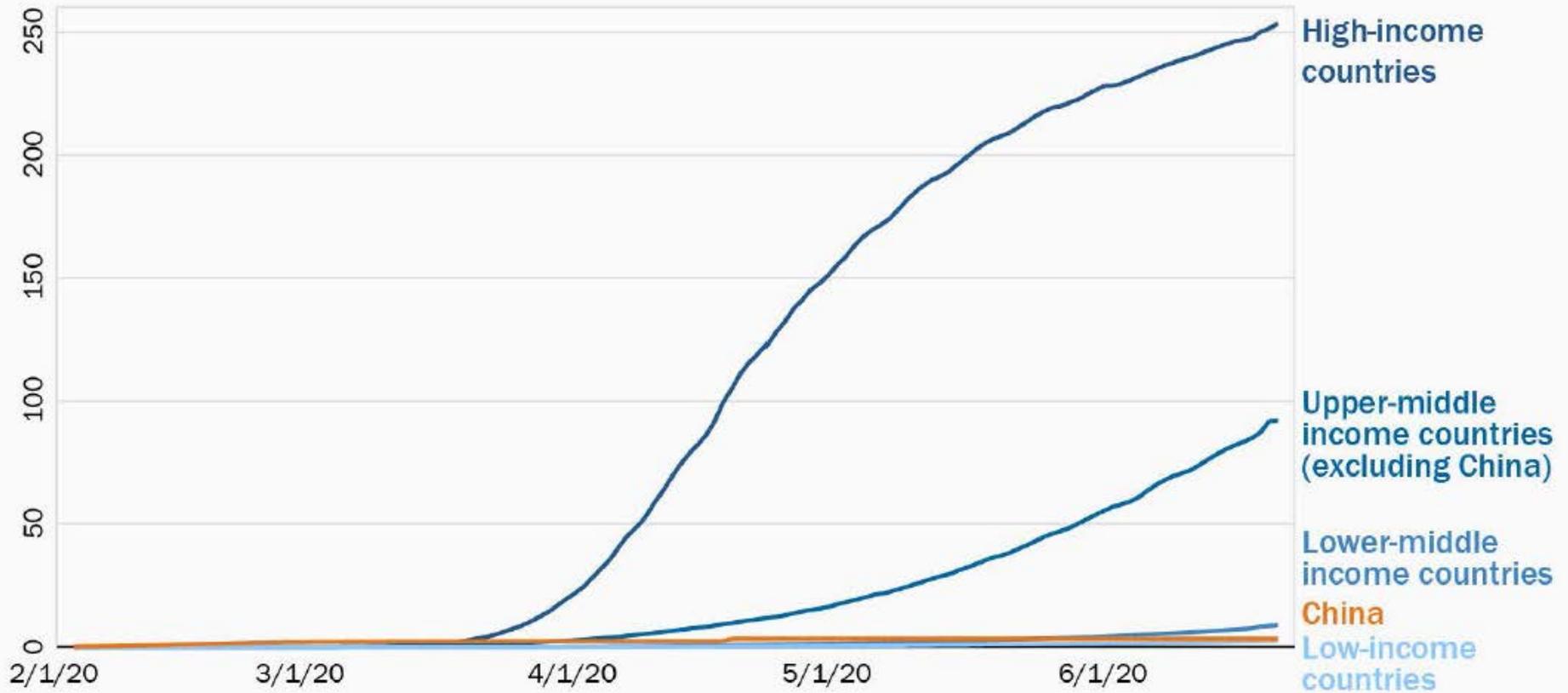


Click any country below to hide/show from the graph:

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

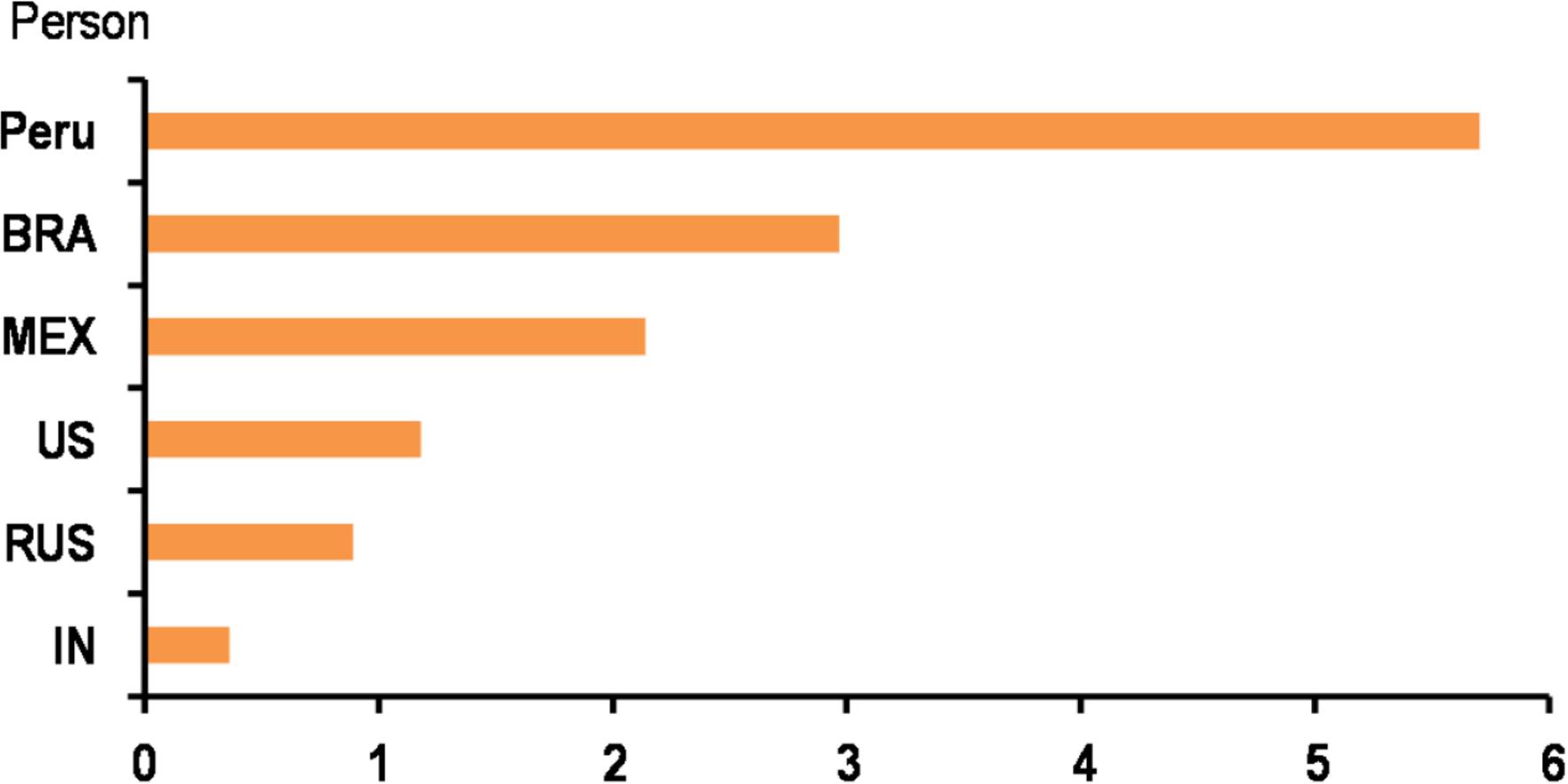
# Higher income countries had higher Covid death rates

Total Covid-19 deaths per million people



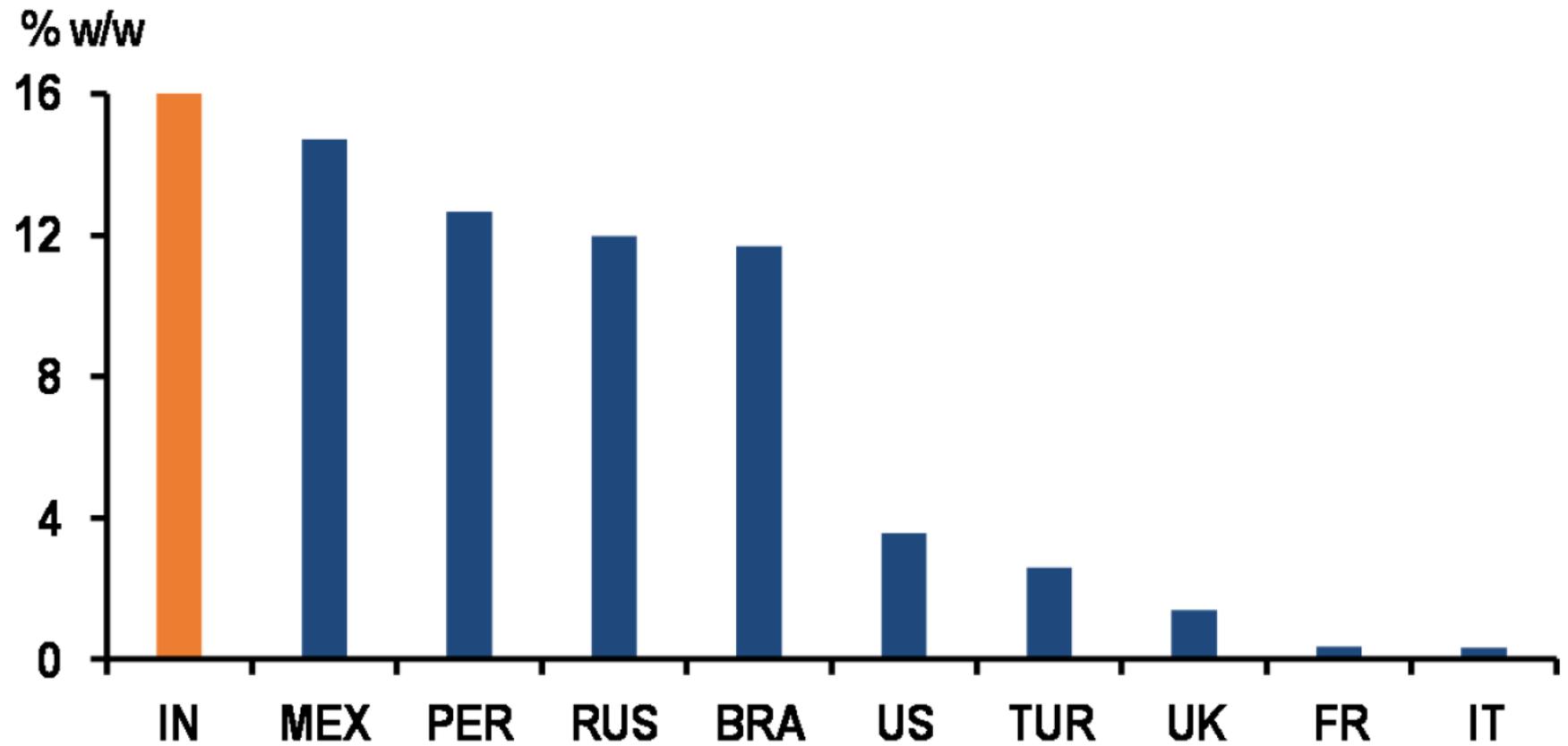
Source: Goldberg and Reed 2020

# Daily deaths per million

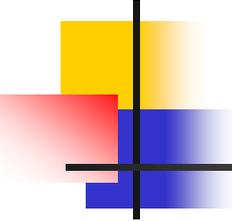


Source: Our World in Data, J.P. Morgan

# Growth in deaths, week on week (July)



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

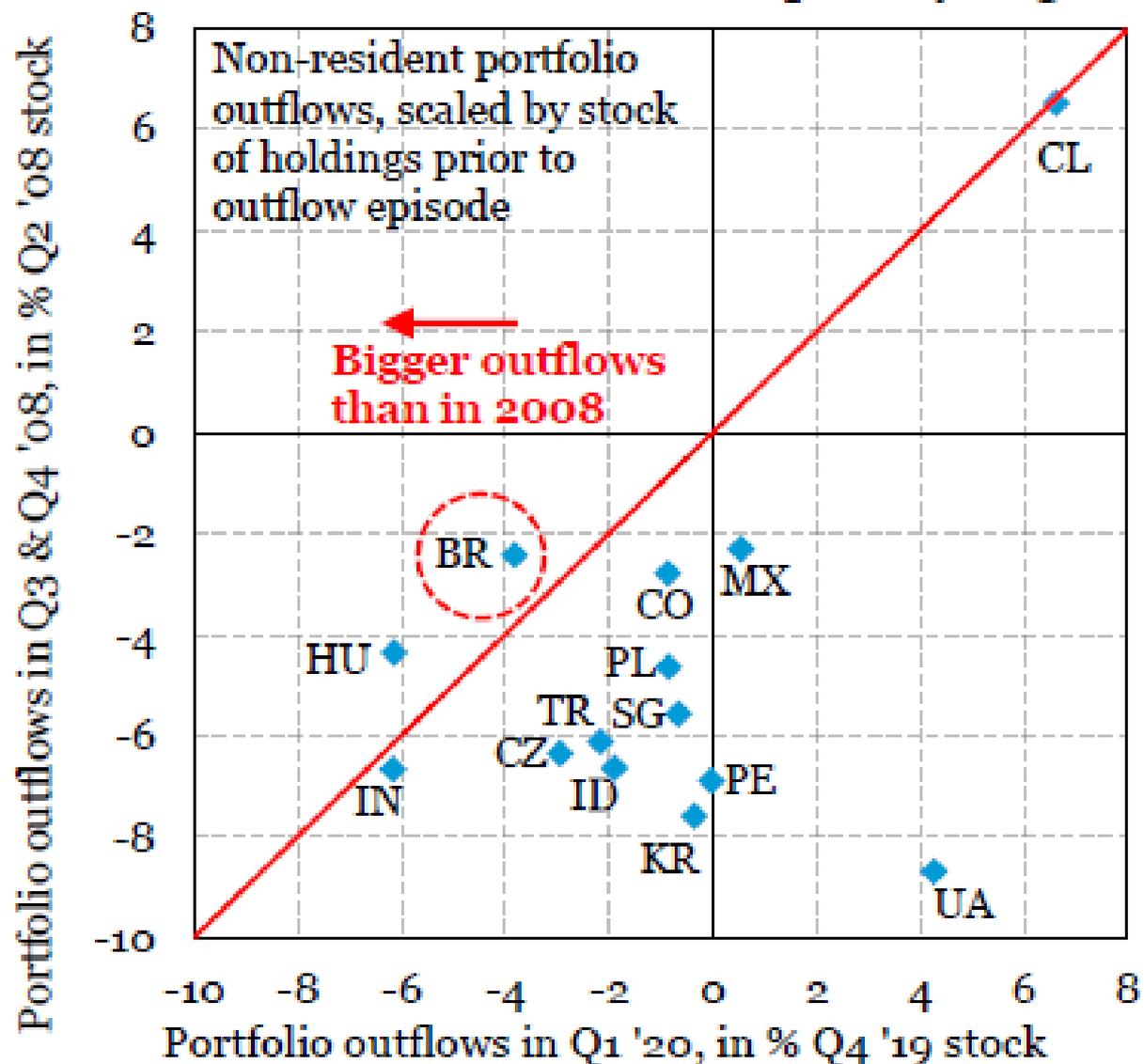


# Has the virus spared EMs economic damage?

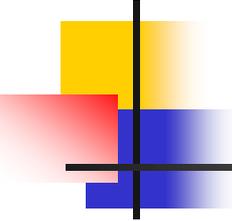
---

- 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



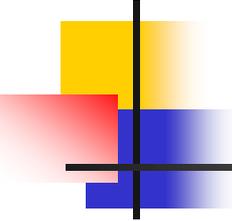
Source: Haver, IIF



# What about relief?

---

- 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.

---

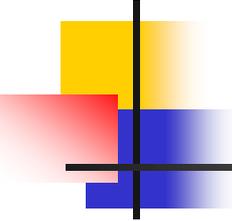
- With inflation less of a concern for most, EM central banks have show a willingness to expand their balance sheets.
  - Is this QE?
  - Intermediating between banks and government to finance expanded deficits.
  - Easier when the central bank has some inflation credibility and inflation is low.
- The 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



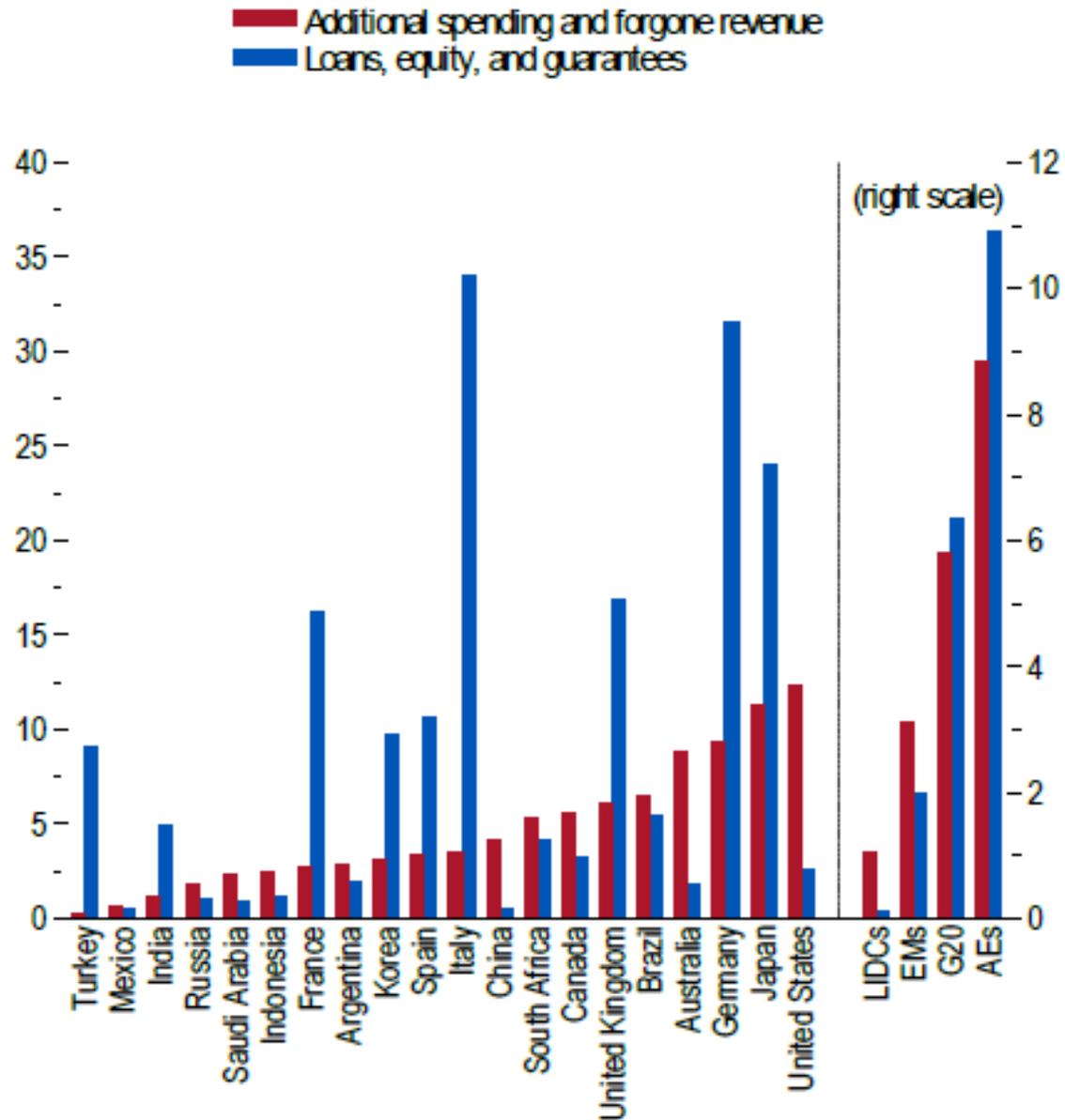


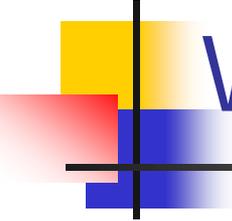
# With central bank support...

---

- 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

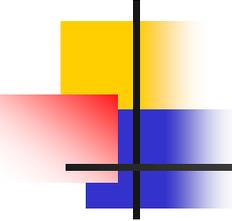




# Why so little relief?

---

- 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

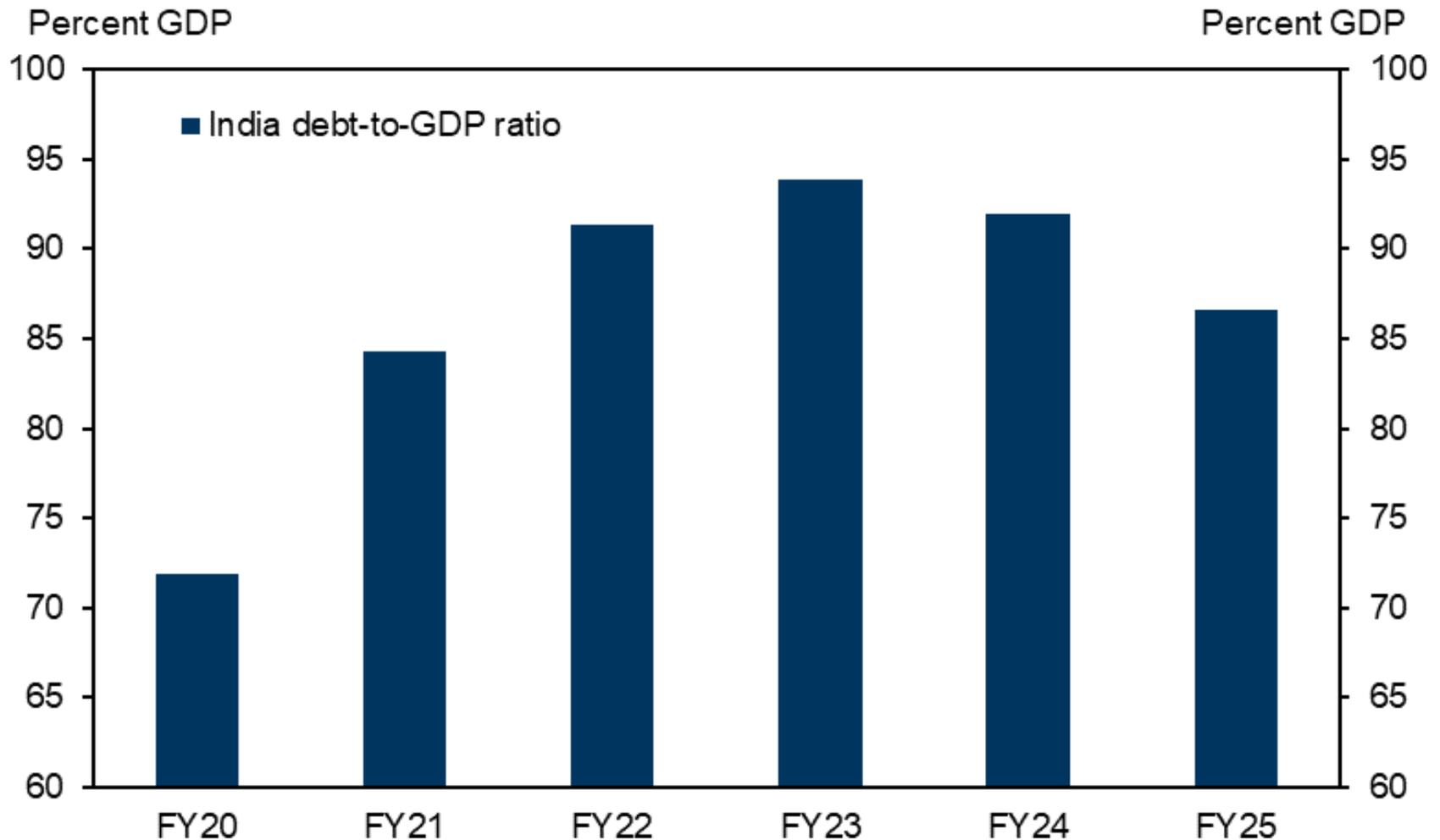


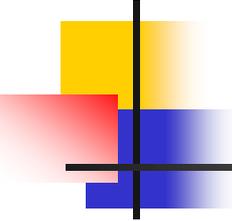
# Is this a mistake?

---

- 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)

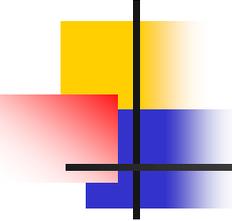




# Squaring the concerns: An alternative approach

---

- 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.



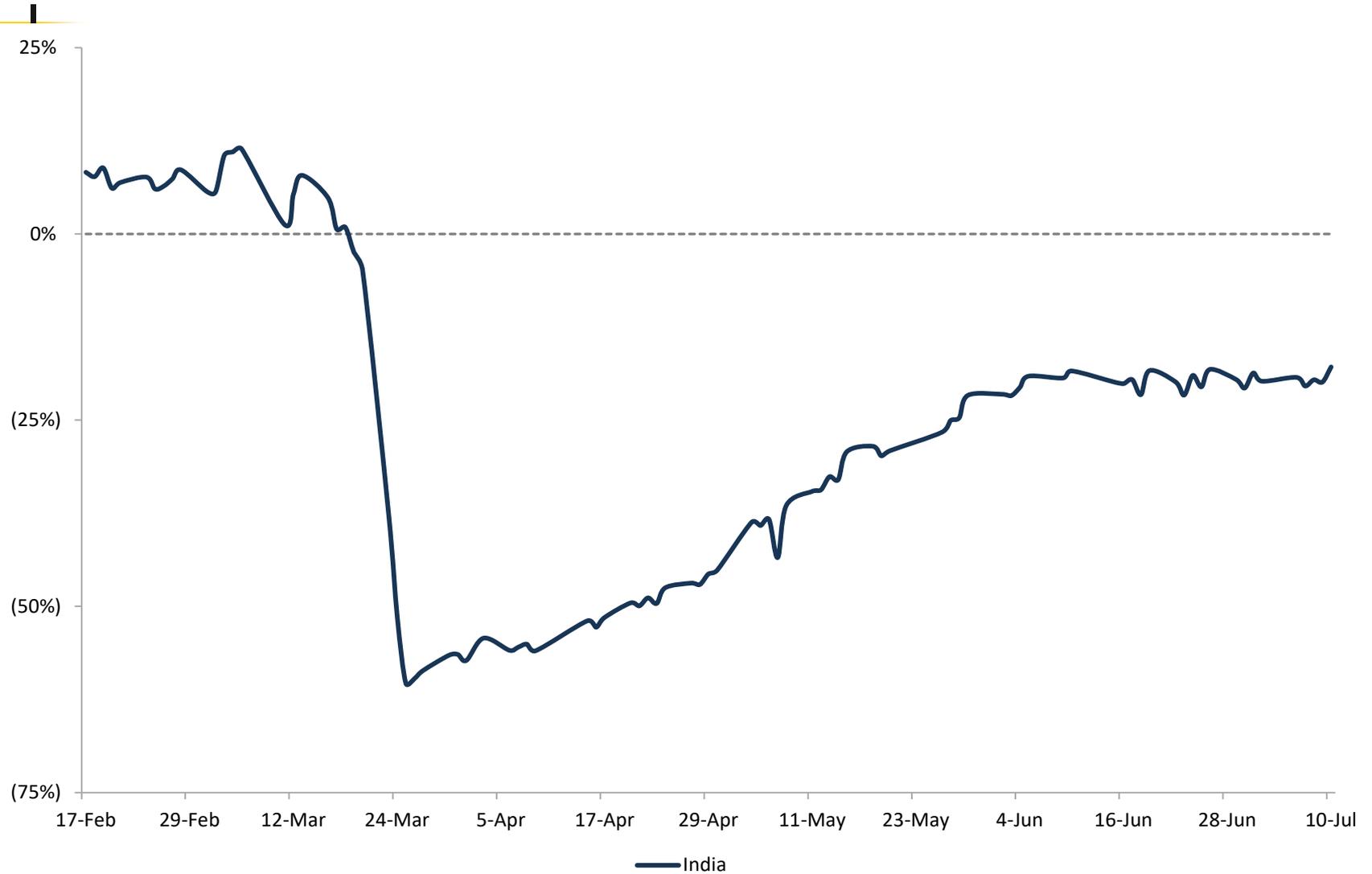
# Thus far, relief has been modest

---

- 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.

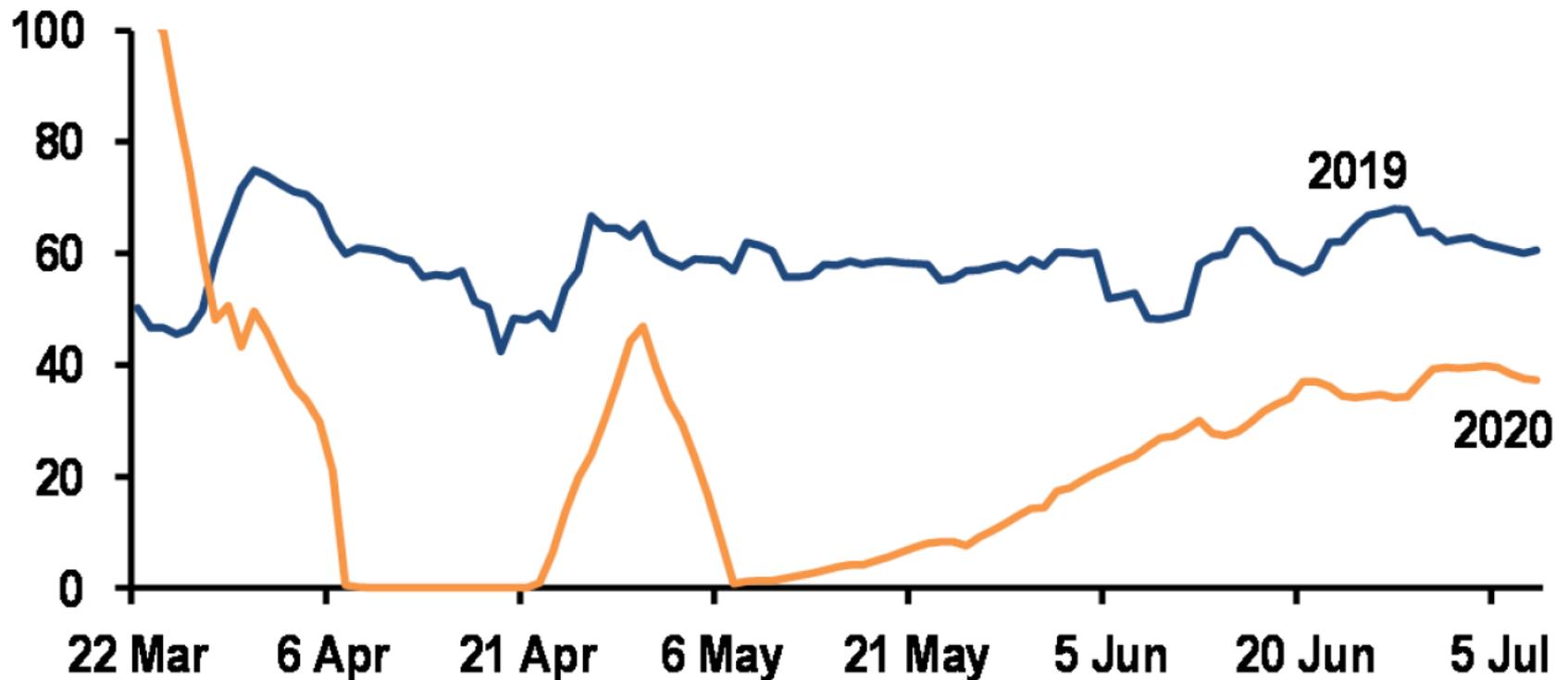
# Workplace Mobility Data

## India

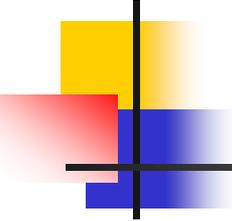


# India: vehicle registrations

Number, Th, 1week MA



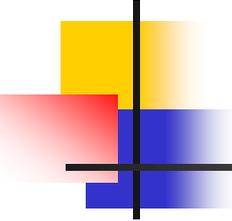
Source: VAHAN AND JP MORGAN



# If not relief, repair

---

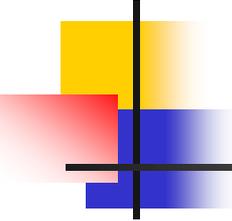
- As demand slowdown is prolonged, corporate distress is a big concern in EMs
  - Restructuring of existing debts plus new funding is key to preventing lasting damage.
    - Effectiveness of restructuring process
  - Recapitalizing financial system
- Less working capital/investment/zombies if do nothing



# What is India doing on repair?

---

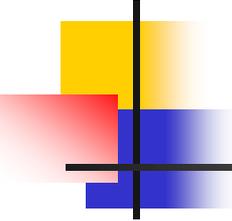
- Private sector banks are raising capital
- But banking sector is dominated by public sector banks
  - Loan repayment moratoria
  - Rising NPAs over and above large legacy level
- Regulator urged to forbear
  - What we don't see can't hurt us?
  - Delay makes problems go away?
- New distressed cases 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

---

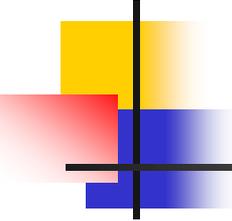
- Potential growth will be hit severely
  - Viable firms will close
  - Debt-overhang-hit & funding-starved corporations
  - Capital-short financial sector
- Fiscal restraint and financial sector constraints => Domestic-demand-led recovery difficult



# What next for EMs?

---

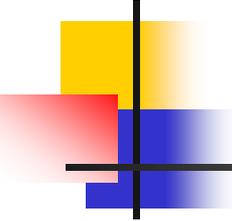
- Will need external demand for growth
  - Global trade recovery is critical.
  - Cross-border investment helpful
- Unfortunately, global order is in an unholy mess and likely to get worse



# Why is India not doing better?

---

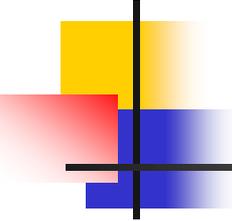
- Bad starting point
  - Declining growth, policy mistakes, poor fiscal situation, legacy NPAs in Modi's first term
  - Yet resounding election win
  - Modi's second term focused on BJP's majoritarian objectives rather than repairing an impaired economy



# Why is India not doing better?

---

- 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?

---

- 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?