ISSN: 2278-4632

Vol-10 Issue-5 No. 11 May 2020

Indian Economy in Post Covid Era

Prof. Prashant Sawant

Bahrain Training Institute, Bahrain.

The COVID-19 pandemic is affecting emerging markets through an unprecedented combination of domestic and external shocks. Among the latter, the pandemic has led to a sharp increase in global risk aversion and a sharp decline in foreign capital flows. Based on historical experience, these types of global financial shocks can have a major effect on the macroeconomic conditions in emerging markets.

Macroprudential regulation involves a wide range of measures designed to strengthen financial stability. This could include capital requirements to protect bank balance sheets; caps on loan-to - value ratios to minimize risk-taking; and limitations on foreign currency mismatches. In the chapter, we ask if tighter macroprudential regulation, while at the same time improving financial stability, can also be dampened.

India's near-term growth outlook has deteriorated sharply, the governor of RBI said. He said that this happened initially because of the global spillovers and the amplification of the Covid-19 outbreak, and then because of "the government's much-needed effort to stem the pandemic by declaring a nationwide lockdown."

PM Modi Announces Rs 20 Lakh Crore Package under -5 Pillars which will help India become self-reliant.

1) Economy 2) Infrastructure 3) Technology 4) Vibrant Demography 5) Demand,

Monetary authorities around the world use every resource at their fingertips to protect economies from a growing coronavirus outbreak. Experts have cautioned against income inflation, slow GDP growth, and global recession as the virus tears into economic activity.

Four of the policies being used by central banks and financial authorities to curb virus-driven economic disaster

Rate changes are among the most common tools available to central banks, as lower borrowing rates for consumers also result in increased spending.Such easing often places more stress on demand than on supply issues, and some experts have warned that the virus's toll on global supply chains cannot be resolved through rate cuts alone.

- 1. Long-term repo operations The Reserve Bank of India intends to push borrowing activities through long-term repo operations over rate cuts, Reuters reported on Wednesday. Such actions add new cash to financial systems in order to stabilize markets and encourage bank lending. One official told Reuters the central bank could add as much as 1 trillion rupees (\$13.6 billion) through the repo operations China used similar methods at the beginning of February, adding 1,2 trillion yuan (\$173 billion) to bond repurchase markets. The People's Bank of China also lowered its repo rate to increase its lending activity.
- 2. Anti-epidemic Bond -So far, China's economy has experienced the greatest slowdown as the epidemic has caused tight quarantine orders, plant shutdowns, and travel bans. State-owned banks are now supporting domestic firms by buying up swaths of coronavirus bonds. State-owned lenders helped to make borrowing costs cheaper for those issuing such bonds by buying up large stakes at low interest

Juni Khyat

(UGC Care Group I Listed Journal)

ISSN: 2278-4632 Vol-10 Issue-5 No. 11 May 2020

rates. Operation lets China's government more specifically offer liquidity to companies on default, while bonds are sold as aid to finance virus control measures.

- 3. **Sectoral Package** The funding is targeted at low income and emerging-market nations, and \$10 billion of the total sum will be available at a zero-percent interest rate
- 4. **Capital outflow Restriction** Throughout a number of emerging markets, central banks continue to increase policy rates as global financial conditions intensify, likely due to financial stability issues resulting from capital outflows and exchange rate depreciation. In these situations, monetary policy tends to respond pro-cyclically, potentially exacerbating the effect of global financial shocks on domestic economic activity.

Fiscal policy should have three goal-

The first is to fight against the virus. The first is the battle against infection, investing as much as is required both to cope with infection now and to enable companies to manufacture research, medications and vaccines so that the pandemic can be brought in and kept under control.

The second is to provide disaster relief, to ensure that people do not suffer from poverty and that businesses do not go bankrupt. The second is disaster relief, providing liquidity-restricted funds to households and firms. Many households do not have the cash to live for the next few months without financial assistance. Many firms do not have the cash to avoid bankruptcies without some help. The provision of financial relief is necessary to prevent serious hardship and irreversible harm to the economy.

The third is to change aggregate demand so that it stays as close to potential production as possible. Promoting aggregate demand to ensure that the economy performs as close to capacity as possible, realizing that the capacity is actually deeply compromised by the safety initiatives required to reduce the rate of infection.

Each of these three dimensions has its own collection of obstacles and challenging decisions.

Following Table gives G20 countries data showing the impact of Covid 19

| | l | Parameters | | | | | | | |
|---------------|------------|------------|-----------------------|----------------|-----------------|-----------------------|----------|----------------------------|-----------------------|
| Cour | ntry | Annual GDP | GDP growth in 2019 | Covid cases | Covid deaths | Total Mcap (\$ BN) | Mcap/GDP | Exp GDP Growth (APR) | Benchmark index PE |
| United | States | 20,544.34 | 2.30 | 1527664 | 90978 | 29,149.41 | 1.42 | -5.9 | 16.39 |
| Chi | ina | 13,608.15 | 6 | 82954 | 4634 | 7,199.67 | 0.53 | 1.2 | 13.3 |
| Japa | oan | 4,971.32 | -0.7 | 16340 | 756 | 5,237.09 | 1.05 | -5.2 | 16.91 |
| Germ | nany | 3,947.62 | 0.4 | 176651 | 8049 | 1810.3 | 0.46 | -7 | 18.3 |
| Unit Kingo | ted dom | 2,855.30 | 1.1 | 243695 | 34636 | 2,480.09 | 0.87 | -6.5 | 16.77 |
| Fran | nce | 2,777.54 | 0.9 | 176651 | 28108 | 2,046.90 | 0.74 | -7.2 | 16.41 |
| Ind | lia | 2,718.73 | 4.7 | 96191 | 3029 | 1,570.84 | 0.58 | 1.9 | 18.78 |

Source -https://economictimes.indiatimes.com/wealth/personal-finance-news/impact-of-the-coronavirus-pandemic-on-the-world-economy-and-how-india-is-placed/articleshow/75217253.cms

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Annual GDP as on April 2020





Covid cases Reported as on20-5-20



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Covid deaths Reported as on 20-5-20



Total Mcap (\$ BN)



Mcap/GDP

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ISSN: 2278-4632 Vol-10 Issue-5 No. 11 May 2020



Exp GDP Growth (APR)







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ISSN: 2278-4632 Vol-10 Issue-5 No. 11 May 2020

Emerging markets

The COVID-19 pandemic is affecting emerging markets through an unprecedented combination of domestic and external shocks. Among the latter, the pandemic has led to a sharp rise in global risk aversion and a rapid decrease in international capital flows. Based on historical experience, these types of global financial shocks may have a major effect on the macroeconomic conditions in emerging markets.

Macroprudential supervision requires a wide variety of steps intended to improve financial stability. This could include capital requirements to protect bank balance sheets; caps on loan-to - value ratios to reduce risk-taking; and limitations on foreign currency mismatches. In the chapter, we ask if tighter macroprudential regulation, while at the same time improving financial stability, can also be dampened.

Such adverse effects are becoming less pronounced in countries with higher levels of macroprudential control. Indeed, if the degree of regulation is sufficiently stringent, global financial shocks do not tend to have a major effect on GDP growth in emerging markets. These dampening effects are symmetrical. Macroprudential regulation limits the vulnerability of domestic activity to both positive and negative global financial shocks. As a result, tighter macroprudential regulation avoids sharper economic slowdowns when global financial conditions tighten, which comes at the expense of foregone economic activity when global financial conditions are favorable.

First, the available macroprudential supervision mechanisms suffer from a range of disadvantages, for example, as they usually fail to capture the severity of regulatory changes.

Second, it will be important to check the robustness of results using empirical criteria that allow for a richer interaction of macroprudential regulation with other policy instruments, in particular capital flow.

With interest rates at or near zero in developed economies, there is little room for more traditional rate cuts. But central banks that also use unorthodox monetary policy instruments more intensively — like large-scale asset purchases — to provide additional help, as they have recently done in response to the pandemic. Nonetheless, relying on monetary policy alone to respond to shocks may not be enough.

The current economic shock of the pandemic is unprecedented, because it has impacted both supply and demand. Even though the political will to act has rapidly coalesced in response to the current shock, its unrivaled speed and depth have complicated the design and timely delivery of discretionary fiscal support.

Risky credit market

Risky credit market segments have been expanding rapidly since the Global Financial Crisis. Potential fragilities include lower credit quality lenders, looser underwriting requirements, liquidity risks to investment funds, and increased interconnectivity.

In a severe-adverse situation, total bank losses in volatile corporate credit markets would be manageable, although they may be significant in a few large banks. However, losses at non-bank financial institutions could be more significant. Given that non-bank lenders have played a more prominent role in these markets, this could harm the provision of credit and lead to a longer and more severe recession.

Managing volatile portfolio flows

Since the beginning of the pandemic, emerging markets saw capital outflows of over \$100 billion, nearly twice as big (relative to GDP) as those experienced during the Global Financial Crisis. While

ISSN: 2278-4632 Vol-10 Issue-5 No. 11 May 2020

outflows have since subsided, this dramatic swing underscores the challenges in managing volatile portfolio flows and the risks this may pose to financial stability.



Source -<u>https://blogs.imf.org/2020/05/22/covid-19-worsens-pre-existing-financial-vulnerabilities/?utm_medium=email&utm_source=govdelivery</u>

Emerging markets can control external pressures by allowing their exchange rates to depreciate. If exchange-rate fluctuations are chaotic, the authorities should consider interference in foreign exchange markets. In the face of large outflows, emergency capital flow control steps can often have to be used.

Observation Based Analyse for Indian Economy post Covid 19

- 1. New Policies need to adopt for Capital Flows- precisely restricting capital outflow
- 2. Capital Flows Need to be Tapped Net Asset ratio to profit margin required to tapped capital
- 3. Health Infrastructure need to be created- 4 to 5 % of GDP required for Health sector
- 4. Employment based industries must be promoted. Capital –Employment ratio need to be Assessed
- 5. Assessment must be done before allocation of loans to any sectors. Credit Assessment Committee
- 6. Roadmap for standardize balance development. Migration creates social issues which can be done **Peferonees**

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(UGC Care Group I Listed Journal)

ISSN: 2278-4632

Vol-10 Issue-5 No. 11 May 2020

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