Peering into the post-pandemic recovery

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Looking back at health and economics in the pandemic period

Broad difficulties of state capacity

- The world's most sweeping lockdown
- Low extent of contact tracing

Pathways to immunity

- Policy decisions in vaccination that retarded the pace
- Spread of the disease

Macro policy did not counteract the downturn

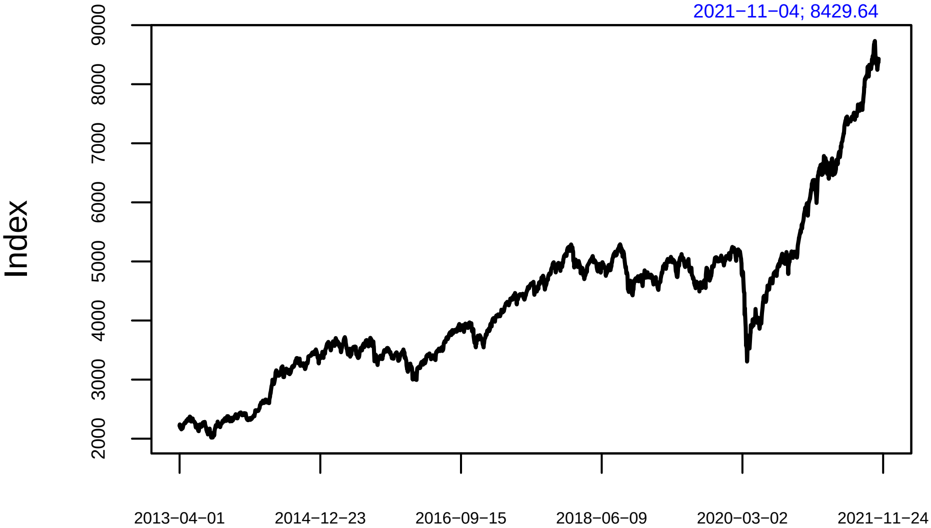
- Monetary policy responded, but transmission is weak
- Fiscal policy was not able to do much.

In some ways, a rather nice economic recovery

- Google mobility data shows that we're mostly back to pre-pandemic conditions
- In some respects the economy is faring well.
- But there are some concerns.

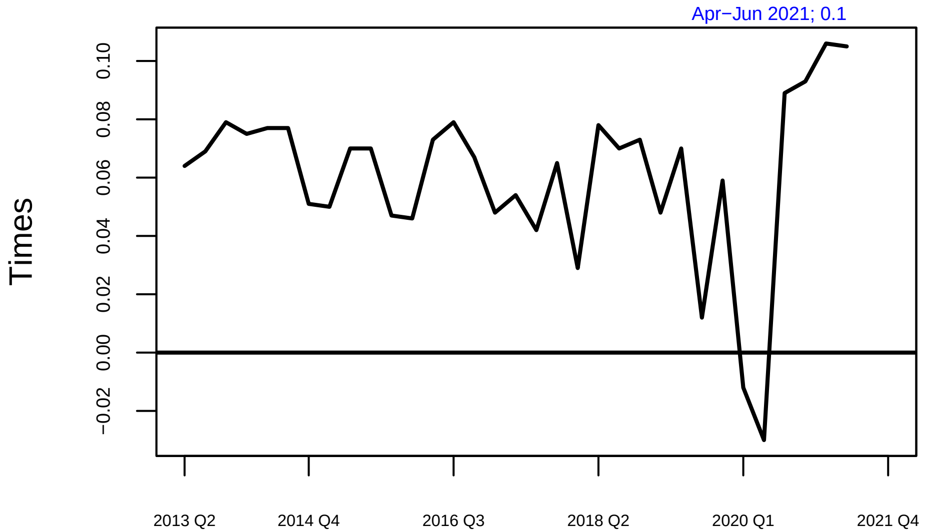
Broad stock market index

The CMIE Cospi index



Net profit margin

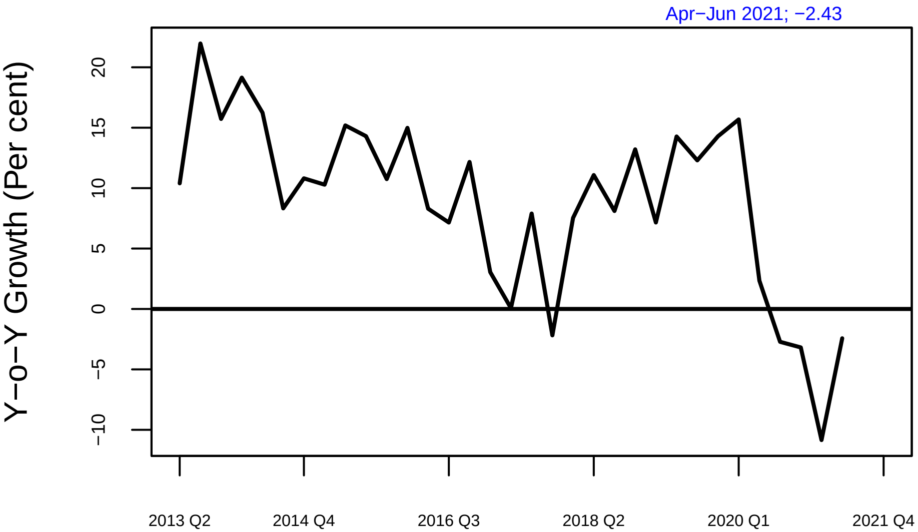
of the non-finance non-oil listed companies



What came of the credit stress?

Interest payments of the non-financial firms

Year-on-year growth of interest payments of listed non-finance non-oil firms



Share of large private non-financial firms that are stressed

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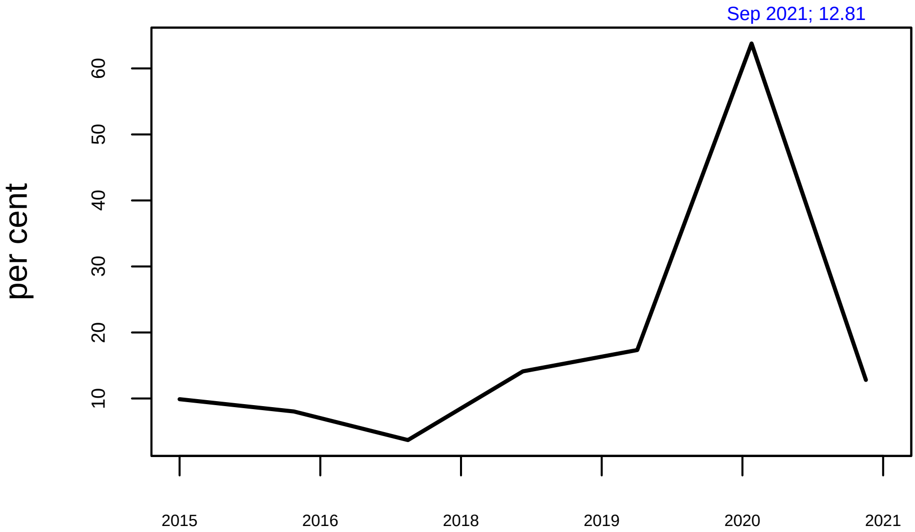
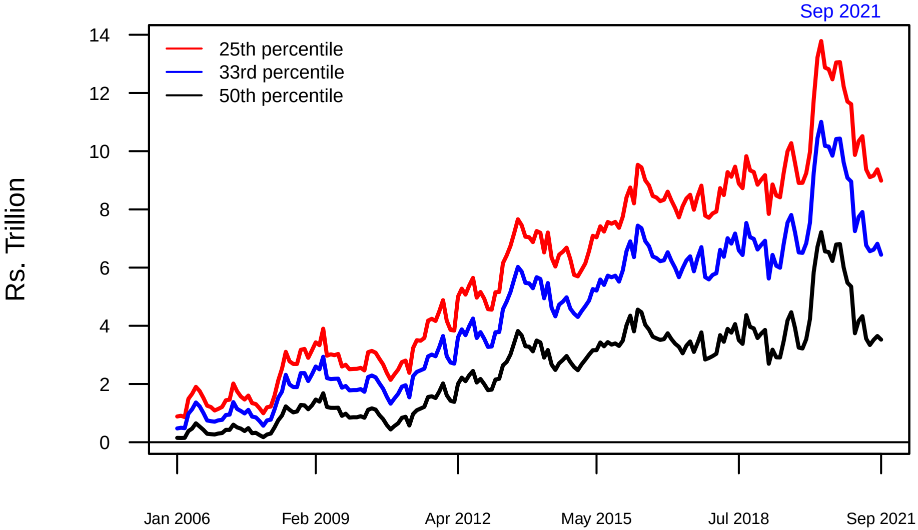


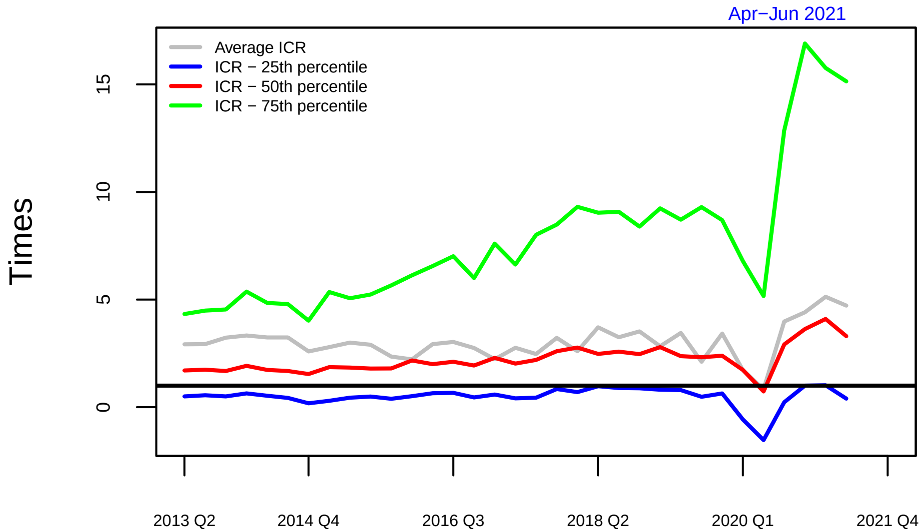
Estimated equity capital shortfall of the banking system

Methods based on normative deposits/mcap ratios



A two speed economy

ICR in ICR quartiles

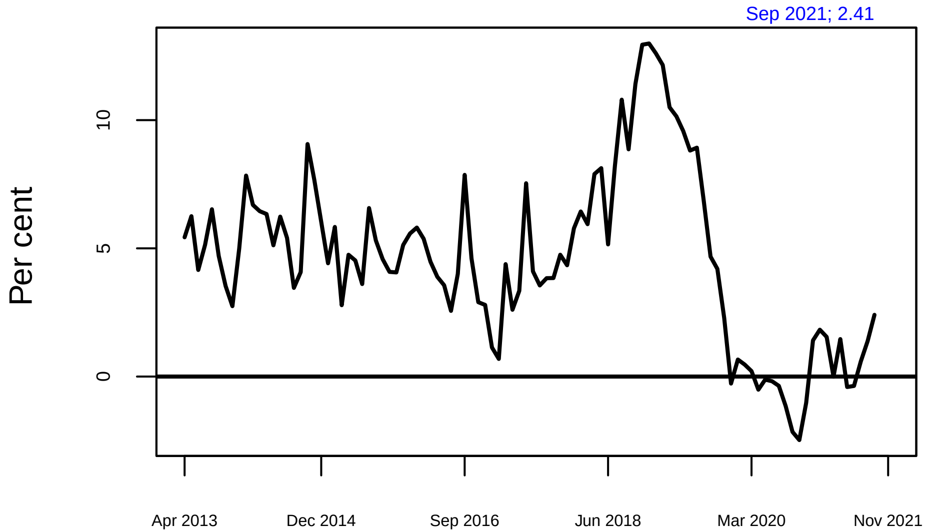


The question

- Did defaults go up post-pandemic?
- Are lenders just accepting defaults?
- Is IBC back in action?
- But the stock market based credit risk measures are faring well!

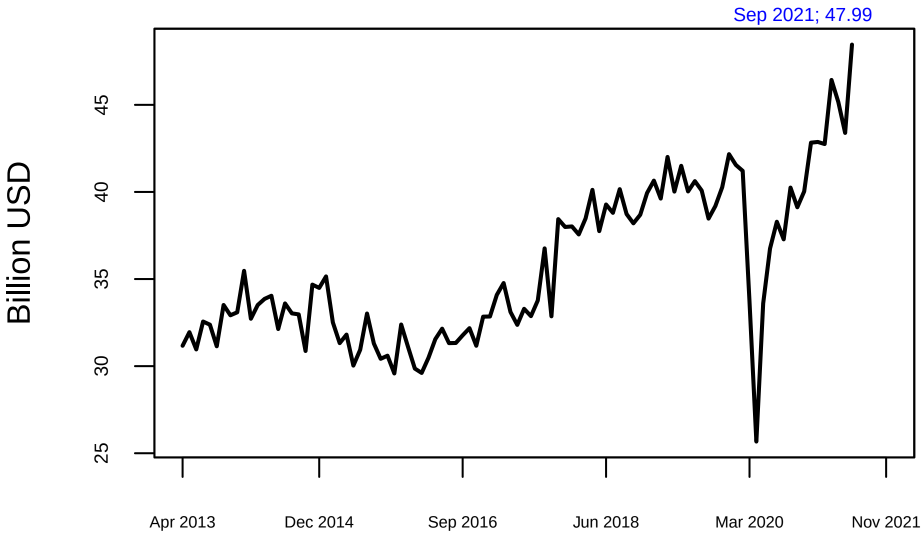
Bank credit is not back to high growth

Year-on-year growth of “non-food credit”, real



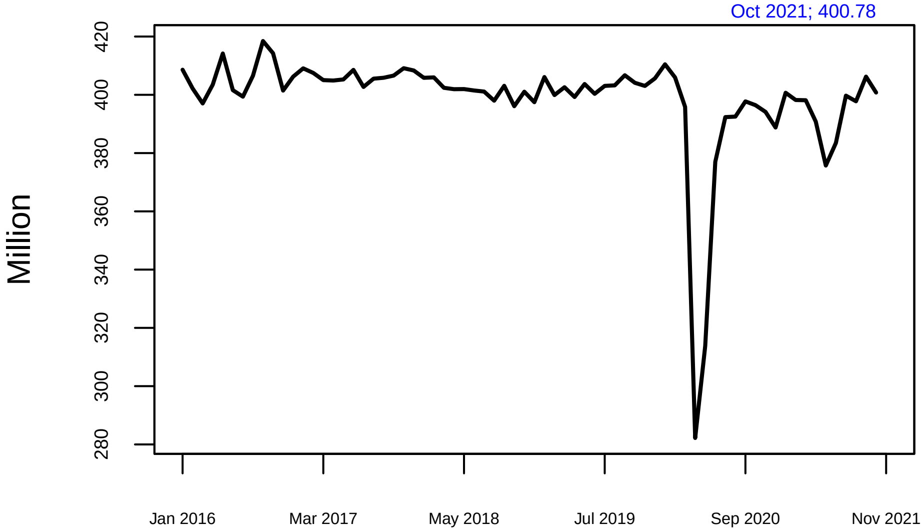
The forces at work

A nice exports boom



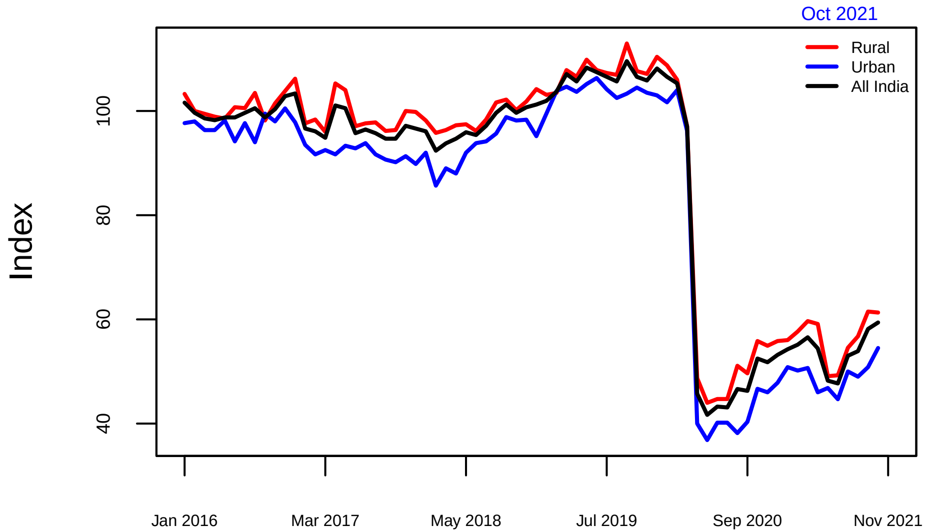
Number of persons working

Million



Consumer sentiment

Index, LP average = 100

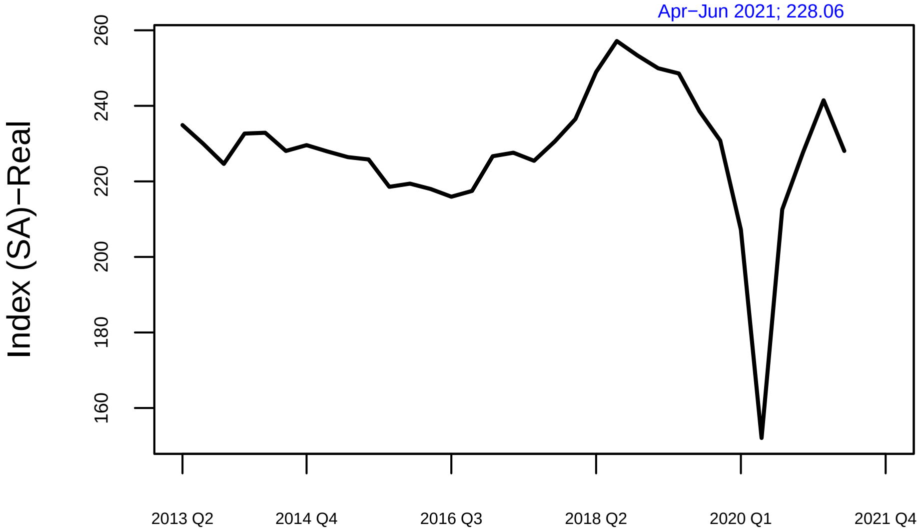


Factors influencing the large firms

1. Exports boom
2. Gain in share vs. smaller firms
3. Gain in pricing power
4. Weak wage growth
5. BUT softness on domestic consumption.

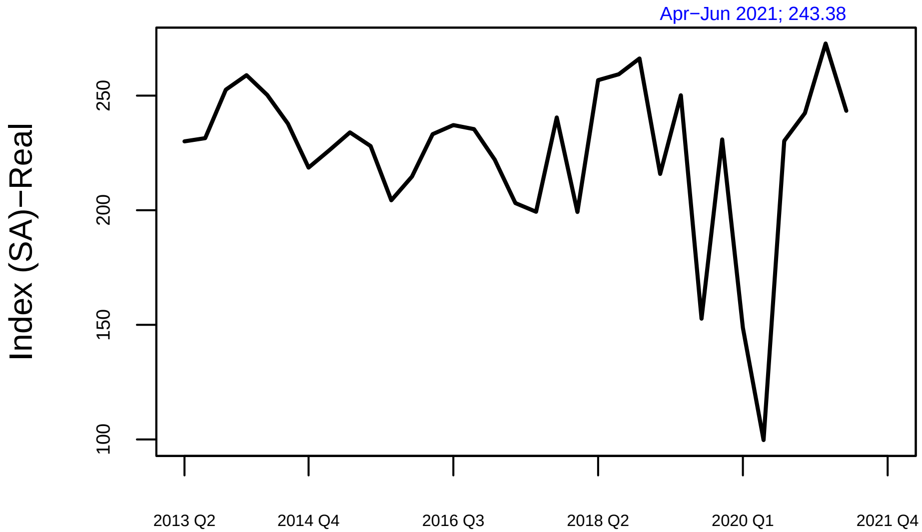
Net sales of the listed companies

Index, real, seasonally adjusted, for non-finance non-oil



Operating profit of the listed companies

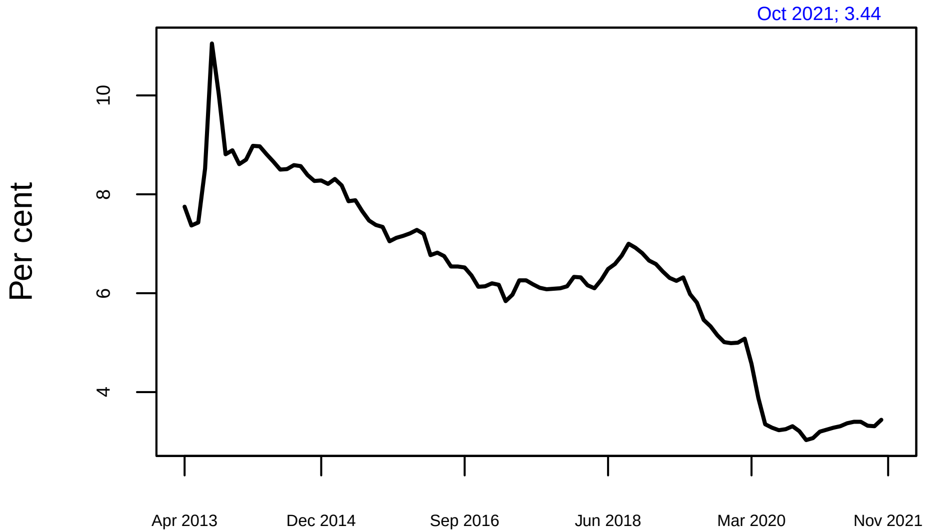
Index, real, seasonally adjusted, for non-finance non-oil



What will happen with DM macro policy normalisation?

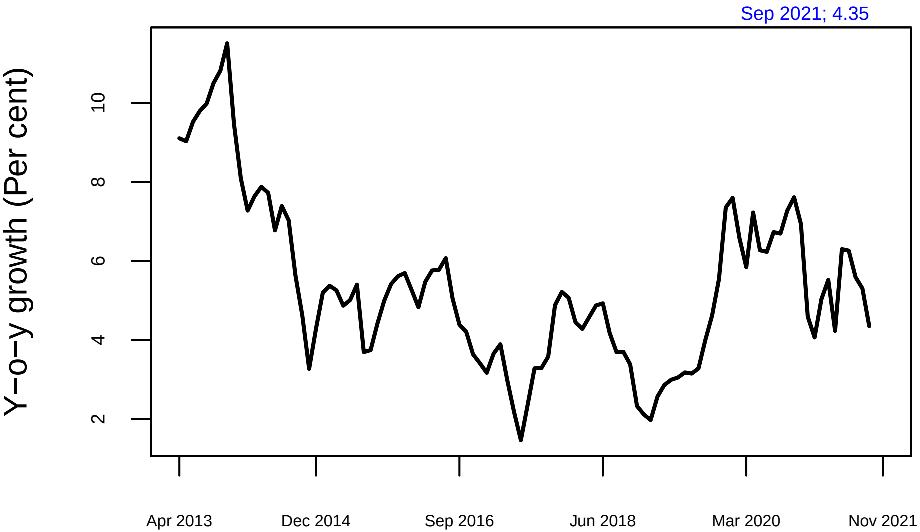
Monetary policy

The 91 day Tbill rate



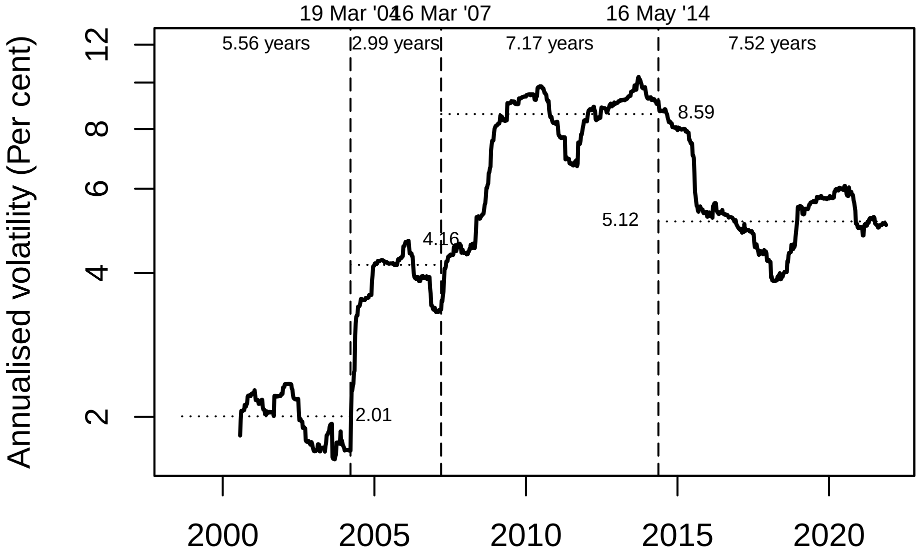
Headline inflation

Yoy CPI inflation, the target is 4%



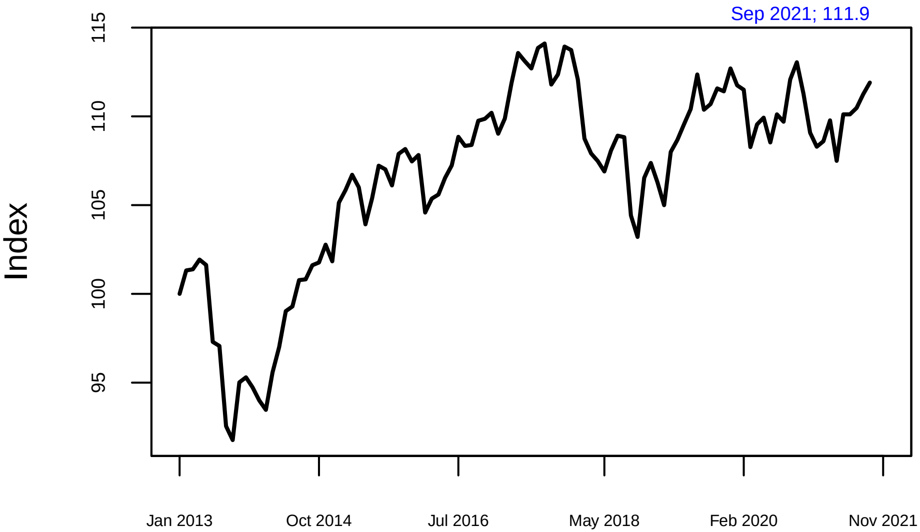
Exchange rate flexibility

Annualised vol over the latest 2 years



REER stabilisation?

BIS index of INR REER



Under DM macro policy tightening?

1. DM consumers will switch back from goods to services: By and large this is not a problem for India.
2. DM fiscal and monetary policy will pull back: This will diminish the Indian export boom
3. DM interest rates will rise: Will RBI choose exchange rate or inflation?

The problem of resource reallocation

Peering beyond the pandemic

- Our intuition, it's a shock, it subsides
- The world will come back to normal
- Example: SARS-Cov-1 left us with only the residue of mask-wearing in Hong Kong.
- If anything, the 'Roaring 1920s', after the Spanish flu.

Or will it?

Long-term phenomena

- Consumer-facing services: restaurants, gyms, movie halls.
- Work from home, the role of video meetings. Impact on CRE, RRE, travel, learning-by-doing of the young.
- Location of employees. Women working from home.
- The cost cutting, digital transformation, reduced hierarchical layers of management
- University campuses as club/social experiences vs. transmission of knowledge
- Supply chain resilience

An example: offshoring to India

- At first, global companies established operations in India, e.g. G E Capital.
- Then, Indian companies became experts, and obtained contracts from end-users.
- Could a 3rd path become important: An individual, living in India, with an employer overseas, WFH?

A time of modifications in the resource allocation

- Post-pandemic, we won't just go back to *status quo ante*. We will go back into a period of microeconomic and macroeconomic turbulence.
- In every country, this is hard.
- There is destruction of tangible and intangible capital
- Bankruptcy costs, retraining, migration, shifts in the list of goods and services produced.

Implications

- Resource reallocation is friction; it impedes growth
- What management teams are best retooling for this new world?
- What industries will fare well, what industries are shrinking in importance?

Thank you.

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