

OUR VIEW

GUEST VIEW



This looks like the last gasp of the pandemic

Unless we are in for a nasty surprise, India may currently be watching the 'end of covid' as forecast. We have had a harsh run. Let's keep watch and see it through till it goes endemic

Pandemics have no expiry date. Covid has taken over 6.8 million lives globally since its outbreak and is still around three years after it brought the world to a halt. But they do exhaust their menace, eventually, if the bug that's sickening people evolves in line with theory to get both milder and better odds of its own survival. Genes get far by getting around fast, after all, not by killing those who enable their spread. Barring the Delta shock of 2021, the covid virus has by and large stuck to that script with its genetic variants. India's Delta wave of infections was followed by a far less grim Omicron surge, and by the time last summer's swell began to ebb, it was clear that covid was set to finally go endemic: settle down, that is, at a benign rate that's low and stable. What we have struggled to do with inflation, nature has been doing to covid, by and by, helped along by mass vaccination and acquired immunity. A recent upturn in cases, however, suggests it could be a longer haul than we'd expected.

While the Centre has prudently put our healthcare set-up through a covid riddle, even as booster vaccines and Pfizer's Paxlovid pills have seen demand spurt over the past fortnight or so, we have no reason so far to revise our broad reading of a health crisis on its way out. Let's look at data. India's seven-day rolling average of daily cases went above 6,000 on 11 April, up from 1,650 a fortnight earlier, but since last July's upswing had peaked at around 20,000 cases, only if this level is exceeded again would our post-Omicron pattern be broken. Although testing intensity has varied across time to complicate such wave-to-ripple analyses, the going-endemic thesis still holds,

even if we are not there yet. While covid's spread is within a range that doesn't threaten a hospital jam, case-count stability remains elusive. This should remind us that we cannot predict the exact path taken by the evolving covid bug, given its random genetic shifts. Oversight of this is the job of the Indian Sars-CoV-2 Consortium on Genomics (Insacog), under which our gene trackers operate. Going by Insacog's latest slice-up of a viral sample taken 'till the third week of March', a new recombinant strain called XBB.1.16 that has descended from Omicron was about to become dominant in much of India. Its bulletin also flagged a jump in infections across all regions, except the east. If the current spread is led by this variant, we need to know the severity of the illness it could cause. Again, while we await closer studies, the fact that hospitals are far from swarmed is a good sign. As reported, bed occupancy levels in our big cities are reassuringly low. So long as the country can handle an upswell of cases, drastic curbs would not be needed even if it's scary, though masks and other protocols would help in hot-spots. Among the odd things about covid has been how widely the ailment varies from one patient to the next. While it's unclear at this stage how badly XBB.1.16 can infect people, with varied reports in recent days, we do know that the elderly and middle-agers with health conditions are more vulnerable than others. Hence, our social response should be one that signals we care. If the new bug turns out to be mild, of course, we could ease up again.

Unless we have a nasty surprise in store, India may well be watching the last gasp of this pandemic. We've had a harsh run. Let's keep watch and see covid through till endemicity.

We need proactive regulation to fend off SVB-like bank failures

Digital technology enables future-scenario mapping that can help regulators intervene in good time



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On 10 March 2023, US-based Silicon Valley Bank (SVB) failed. It led to a trail of runs on other banks and distress and anguish among customers across geographies. It also highlighted the fragility of the banking system in the US and Europe. As Mervyn King, former governor of the Bank of England, has said: "Most banks are global in life, but national in death."

SVB was known as a 'frictionless' bank. A WhatsApp forward, however, generated panic that led to the digital withdrawal of some \$43 billion worth of deposits between 9am and 10am that fateful day. This equalled 25% of its total deposits. A darling of venture capital funds, private equity players and startups, the bank was built with over 40 years of sweat and toil, but took just 40 hours to collapse.

The fallout of that bank failure has been extensive. The market capitalization of American banks plunged by over \$229 billion within a few days of SVB's failure, as once-robust balance sheets of banks began to look fragile. Policymakers across geographies had to work overtime to calm financial markets and stave off a bigger meltdown. In the US, Treasury Secretary Janet Yellen announced special protection even for uninsured deposits held by depositors with failed banks, a move estimated to cost the US Federal

Deposit Insurance Corp (FDIC) over \$20 billion. The US Federal Reserve opened up a special liquidity window (in the midst of its policy tightening to arrest inflation) against the face value of securities. In Europe, the Swiss banking regulator and government together hatched a shotgun marriage of age-old rivals Credit Suisse and UBS to save the former.

In my last *Mint* op-ed on 23 February 2023, I had concluded: "Regulatory bodies must also dynamize their approach as they cannot afford to be reactive anymore. 'Regulatory slumber' should be consigned to history."

Let's look at the scenario that prevailed at the time of the latest bank failures. As per Federal Reserve data, as of 8 March, the gap in the value of assets and liabilities of US commercial banks stood at \$2.137 billion. Mark-to-market losses of over \$2 trillion were more than 40% of the capital of all banks. Paper losses become real when depositors rush to claim their money. Meanwhile, money market funds (MMFs) grow to the detriment of bank deposits when interest rates rise, as MMFs adjust their returns on investment faster. More than 50% of SVB's long-dated securities were under water, with mark-to-market losses. Its capital ratios were adverse and its customer profile skewed in favour of bulk deposits. It was like an accident waiting to happen.

Tim Scott, a Republican leader on the US Senate Banking Committee during the first round of Congressional Committee hearings, said SVB was "rife with mismanagement" and that a "clear supervisory failure" contributed to its collapse. Regulators, he added, appeared to be "asleep at the wheel."

As for Fed chairman Jerome Powell, when questioned on the SVB failure at his press conference of 17 March after a 25 basis points hike in the US policy rate, he looked embarrassed and said the Fed was "soul searching". The delineated role of this central bank includes promoting financial system

stability and supervising institutions. SVB's failure followed a rapid reversal of the Fed's low-rate policy after a prolonged phase of ultra-low rates as part of America's extra-loose fiscal and monetary policies implemented in response to covid, but financial liberalization after its Dodd-Frank legislation and a failure of bank bailouts were also notable aspects of the backdrop.

The financial-market brewery was heady. The explanation offered to the Congressional Committee by Fed vice-chair and head of bank supervision Michael Barr, that SVB's deficiencies dated back to late 2021 and were impressed upon its management in November 2022, smacks of abdication of responsibility. The unelected in authority can't escape accountability.

Like with other unfortunate events, the regulatory apparatus was reactive. We still don't know if the crisis is over. In a digital ecosystem, with transactions taking place at the speed of data transmission and social media guiding behaviour, a 'reactive' approach cannot prevent disasters. Rather, regulators need to be 'proactive' and 'co-active'.

Regulators should build bridges for real-time flows of hot information on fresh developments, including the use of technology for financial transactions and the behaviour of participants. Constant scanning of big data through advanced analytics, together with machine learning and artificial intelligence, should help model alternate scenarios and solution frames for authorities to intervene in time to avert disasters and minimize large-scale misdemeanours. In hindsight, had some of the measures taken after 10 March (like the US Fed's securities-at-face-value window) been available earlier, SVB and others may well have been able to survive a run on their deposits.

The credibility of the regulatory craft resides in the efficacy of balancing liberalization with the safety of the financial system. And this often requires timely interventions.



THEIR VIEW

Aim for a best-case scenario on catching up with China

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India, like Brazil, has for long been a rising power, a country of the future. Its growth accelerated after 1990, along with that of China. China, however, has left India far behind. Going forward, can India shed its perpetual 'country of the future' image and become a developed economy, escaping the middle-income trap? How might it grow relative to China in the quarter century that will bring up 100 years of independence?

One could look at three scenarios, beginning with a business-as-usual baseline, where the economy trudges along its present growth path. Second, a higher growth trajectory might be achieved through a combination of good policy, leadership and institutional integrity. Finally, there is an optimal 'Goldilocks' growth path that the Indian economy has achieved in the past, but might find difficult to sustain over an extended period. These trajectories are derived from spreadsheet simulations, with the baseline set at the last decadal annual average (2011-2021) of 5.9% in current international

dollars, according to the IMF World Economic Outlook database. Central Statistical Office data shows that India's average nominal GDP growth over this period was 10.6%, with the average GDP deflator at 5.1%, yielding a real average annual growth rate of 5.5%, slightly lower than the growth in current US dollars. The higher growth rate of 5.9% is used for the baseline projections. The current World Bank thresholds for 'upper middle' and 'high income' (\$4,255 and \$13,205 per capita) classification are used for comparisons. For long-range projections, the current thresholds are inflated by 2% annually, the US Federal Reserve's target inflation rate.

This simulation indicates that at India's current rate of growth (5.9%), we would achieve \$5 trillion economy by 2029-30 (in current dollars; its size is already \$10 trillion in terms of purchasing power parity), and a \$10 trillion economy in the 'upper middle-income' bracket by 2041-42. But we would still be far from joining the ranks of high-income countries by mid-century, by when our demographic dividend would be exhausted.

Comparisons between China and India are often made because the two populations are similar in size, both have been prosperous civilizational peers through much of history, and were economically on par till around

1990. Geopolitically, India is seen as the only counterbalance to a rising China. But China has moved so far ahead in three decades that the question of whether India can ever catch up with its civilizational peer is up in the air.

Economic growth accelerated in both countries after 1990, but China's was much faster, and for longer. India's output now is where China's was in 2006-07, while China is on the verge of becoming a high-income country. In 2006-07, India's per capita income was about 38% of China's. Today, it is just 18%. If India were to grow at its average of 2011-12 to 2021-22, it would reach China's current level of \$17 trillion around mid-century. In three decades, from rough parity, China has moved ahead of India by about three decades. How far ahead might it move in the next three?

The past is not always a good guide to the future. Might the gap narrow, as China is slowing while its demographic profile and geopolitical environment turn adverse and its policy framework is increasingly exposed

to the errors of one-person rule? If China's growth were to slow to 4% and India's holds up at 5.9%, our economy would become 40% of China's (up from 18%) by mid-century. It would cross 50% if India grows at 7%.

In view of our low base relative to China's, our economy needs to grow consistently at

8-9% over 2-3 decades for India to gain geopolitical significance on the global chessboard. That would assure New Delhi at least the role of a rook; it would take a higher rate for longer to become a queen (like China). As of now, India is more of a knight or bishop. At 8% annual growth, India would become an upper middle-income country by 2033-34, and reach China's current economic size by 2043-44, but would still not join the ranks of developed countries by mid-century. However, if India were to grow at the Goldilocks (and currently unlikely) rate of 9%, and China slows to 4%, India's economy would exit middle income but still be only 70% of China's size by mid-century. India grew at this higher level briefly

during the first decade of this century, but we have been nowhere near it since. In that stretch of hyper-growth, our three engines—consumption, investment and exports—were firing strongly. Growth began to stall once the investment and export engines stalled. While consumption is seeing a revival, private investment and exports remain weak. India's gross capital formation as a share of national income has declined over the past decade, led down by a private investment drop. Our exports/GDP ratio is also lower. The prospect of regaining a sharp export incline has also dipped with countries turning towards globalization weakens.

Trend-line economic projections are useful as they offer forecasts of geopolitical outcomes. In hindsight, relative movements in income throw some light on why China is no longer willing to accept the geopolitical boundaries it agreed with India in the 1990s when the two economies were roughly on par. Long-range projections, however, often prove wrong, as many non-trend-line factors join the equation. While recent growth trends indicate that our earlier growth potential may have been set back, alternate scenarios and caveats are integral to such projections, since even the baseline scenario is by no means guaranteed.