CASE STUDY OF INDIA’S LOW ECONOMIC POLICY UNCERTAINTY DURING THE COVID-19 PANDEMIC

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Abstract

First, we document the rise in the economic policy uncertainty (EPU) for over 20 countries throughout the world during the COVID-19 pandemic. Though the general rise in EPU is unsurprising, given the uncertainty of government policies in dealing with the pandemic, we discover unusually low uncertainty for India and Greece, despite the two countries facing comparable levels of the COVID-19 cases. Focusing on India, we compare it to other similar BRIC countries and analyze the source of the calmness in its EPU. Our two leading hypotheses for explaining India’s outlier effect are:

H1: India’s strong community system during the pandemic and other crises, as its citizens rely on food and medical aids through non-profit communities and temples, depending less on the government services.

H2: EPU, as measured by Baker, Bloom, and Davis (2016) happens to poorly track true uncertainty of India during the pandemic.

Our initial findings suggest that India’s stable EPU during the crisis is due to its reliance of aid through non-governmental channels. Although the lack of intervention by Indian government (including lockdowns) may weaken overall support received by its citizens,
the benefits of maintaining policy uncertainty must also be considered. Prior literature finds significant adverse effects on corporate decisions (reduced capital investments, increased cash holdings, reduced payouts). Hence, other governments may consider an alternative approach exemplified by India in dealing with crises, in order to mitigate the costs associated with elevated EPU.

**Figure 1.** Economic policy uncertainty during COVID-19 for all available countries measured by Baker et al. (2016)
Figure 2. Economic policy uncertainty for BRIC countries during COVID-19

Panel A: Time period January 2020–March 2021

Panel B: Time period January 2010–March 2021

Source: http://policyuncertainty.com/
Figure 3. COVID-19 cases for BRIC countries

Source: Johns Hopkins University.

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REFERENCES


