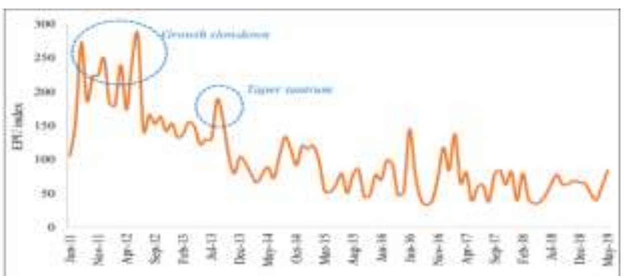
Reducing of Economic Uncertainty during Recession in India

By: Ayush Agarwal (UGC Net,)

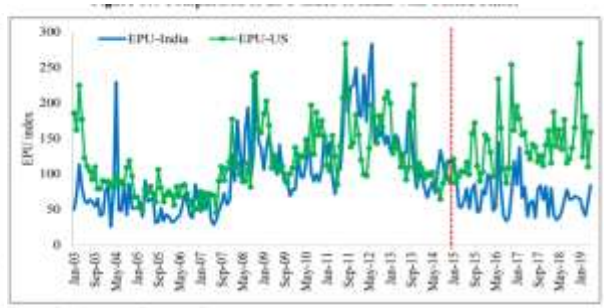
Economics Department CCS University Meerut

The uncertainty of India's economic policy has reduced considerably in recent decades. During the years of policy paralysis, the uncertainty of economic policy was highest in 2011–2012. Since then, the uncertainty of economic policy has become secular. India's economic uncertainty has declined since 2015, opposing the increase in uncertainty of economic policy in major countries during this period, including the United States. Economic policy uncertainty is also associated with the macroeconomic environment, trade conditions, and other economic variables that come with investment. The pace of uncertainty in economic policy increases systemic risk, and hence the cost of capital in the economy. Thus, greater uncertainty in economic policy affects investment, particularly through the irreversibility of investment .Investment in India has increased by about five quarters due to increasing uncertainty in economic policy.



Unlike general economic uncertainties, which cannot be controlled, policy makers can reduce the uncertainty of economic policy for the development of the country's future investment climate. The following policy changes are recommended. First, policy-makers must take pioneering measures, provide pre-oriented policies and reduce ambiguity in policy implementation. Second, it is "really". Thus, the Economic Policy Uncertainty Index should be monitored on a quarterly basis at the highest level. Finally, quality assurance procedures in government policy making must be implemented through the International Quality Certificate.

1. Uncertainty can dominate investors and ruin the investment climate in the economy. The uncertainty of this type of economic policy can be avoided. On the other hand, a nation-state that provides the ability to anticipate political action, promotes political action, maintains broad political coordination with previous guidelines, reduces ambiguity and arbitrariness in policy implementation, economic policy makes a degree of Investors can benefit from this environment and invest in stocks.
2. In order to examine this important issue and establish an appropriate policy framework, it is important to understand the difference between risk and uncertainty. Both have a profound influence on economic activity. However, while it is a quantitative measure of risk, uncertainty is inherently complex. Because policy determination is based on decisions - within the framework of constitutional rules and other legal restrictions - this is often at our discretion. Such discretion can create uncertainty that can affect economic performance. The uncertainty of economic policy between different sources of economic uncertainty is important as it relates to the extent to which decision-makers can control and thereby influence other activity. For example, although the monsoon affects economic activities, politicians do not fully control it. However, economic policy uncertainty becomes uncertain, which can be controlled by policy makers.



3. Since ambiguity is not quantitative, it is difficult to measure the uncertainty of economic policy. However, with the advancement of data analysis in particular, and text analysis in particular, and the uncertainty of economic policy in particular, can be quantified. According to Bakar et al. (2016), who develop the Economic Policy Uncertainty Index (UPE) for various countries including India.
4. The UPE Index reflects the uncertainty of economic policies, such as the 2013 crisis and other volatility indicators such as inflation, stock market volatility, business confidence index and other macroeconomic volatility indicators responds very well to.
5. The impact of uncertainty on economic policy on investment as it builds cooperation through the economic development process. Two salient features highlight the main role of investment decision uncertainty. First, investment represents progress. Second, it is irreversible (Pindyck and Salimano, 1993; Caballero and Pindyck, 1993; Chen and Funke, 2003; Bloom; Flotto and Jayamovich, 2009). As investment is one step ahead, future expectations play an important role in investment decisions. Specifically, an investor invests in a project if the previous cost is less than the present value of the expected return on investment. Since uncertainty affects these expectations, regardless of their source, it affects investment decisions. Ideologically, the fixed asset pricing model establishes assumptions.
6. Webster Dictionary defines risk as "the probability of loss or damage; danger" and uncertainty as "uncertain, and "unknown". Knight (1921), who did a decisive job of separating risk from uncertainty, separates risk and uncertainty as follows: "There is a risk when future events will occur with a measurable probability, and uncertainty is when The possibility of future events is uncertain. "Return on investment is positively related to systematic risk of investment. Increasing uncertainty in the economy increases this systemic risk and thus increases the rate of return required to justify investment. As a result, under-desired projects are unimaginable when economic uncertainty increases. Furthermore, since stable investments are irreversible, uncertainty increases risk mitigation, increases the required risk premium, and ultimately impedes investment. According to this thesis, the analysis showed that rising economic policy uncertainty has been holding back investment growth in India for nearly five quarters. The standard deviation of uncertainty reduces investment growth by approximately one percentage point. Thus, the uncertainty of economic policy has a significant impact on a country's investment climate.
7. Economic Policy Uncertainty, as measured by the UPR Index, was the highest in 2011–12, accompanied by policy paralysis. The uncertainty of India's economic policy has reduced considerably in recent decades. That economic policy uncertainty has declined worldwide since July 2012, including uncertain episodes. As expected, episodes of greater uncertainty as tart rate declined in 2013, a higher level of the economic policy uncertainty index. According to the Federal Reserve, investors in emerging markets have faced uncertainty about the policy to be adopted in these countries to control the impact of policy changes on monetary easing. Thus, the EPU index captures the uncertainty of this economic policy as expected.
8. India's Economic Policy Uncertainty Index shows a political paralysis of a period characterized by large shortages of twins and high inflation problems over several months of 11 and 2012, thus intensifying them. The indicator was also high in the second half of 2013, when the economy experienced an episode of blue tantrum, which led to volatile capital flows, depreciating the rupee against the US dollar. The peak of GST is not so well organized as it could be because the discussion on GST policy in July 2017 was pending for its effective implementation.
9. UPE is associated with very macroeconomic stability. To test for this correlation, we use the measure of vulnerability that was created and used in economic research in 2014–2015. This measure is the sum of double deficit, i.e. budget deficit and current account deficit and inflation. The magnitude of this vulnerability at 0.8, which is strongly correlated with the UPE index. Over time both indices show almost equal speed. It also points to the weakness of the economic policy uncertainty indicator, which will be used to measure investment uncertainty.

10. Furthermore, the EPU is strongly correlated with exchange rates, stock market and inflation, and other macroeconomic variables. There is a correlation of about 0.7 between exchange rate volatility and EPU. The EPU closely monitors the decline of the futures index and the VIX index, which control stock market volatility. It also strongly correlates with inflation levels and indicators.
11. Economic policy uncertainty reached India in late 2011 and early 2012, and the temporary recession narrowed. Economy's uncertainty India's policy shifted in 2014 in the context of global uncertainty. However, it has started to go off since the beginning of 2015 and seems to have completely dissolved in 2018. Recently, as the uncertainty of economic policy has increased, the world has evolved along with America. , United Kingdom and China; The uncertainty of India's economic policy is diminishing. In the case of India in recent years, uncertainty has stabilized at a lower level due to recent uncertainty efforts in the world, partly due to increased trade tensions between the US and China, uncertainty of Brexit results and slower growth in the world because of. In 2018, there was a sharp decline in India's economic policy uncertainty index, a rapid increase in the global uncertainty index. The same year the global uncertainty index fell from 112 to 341, while the incidence rate for India was below 100. However, the two series have been different since then Huh. Since then, the uncertainty of economic policy in India has been lower than in the United States. The gap has widened rapidly since mid-2018, likely due to increased tensions in US trade with China. The uncertainty of India's low economic policy over the past year is a sign of a strong economy, even in times of global trade uncertainty.
12. That after a decline of nearly a decade in 2008, investment activity moved from the second quarter of 2017–2018. In fact, gross stable capital formation, a ratio of GDP, commonly known as the fixed investment rate, increased from 37% in 2007-08 to 27% over the next ten years, but reached about 28%. Since then, if the slowdown in investment in 2017–2018 has been assisted by a number of factors, including the double-balance sheet problem discussed in detail in Economic Studies 2016–17, we suggest that the uncertainty of economic policy A secular trend towards reducing it may contribute to return on investment.
13. The double balance problem continued to be resolved with the implementation of the Insolvency and Bankruptcy Code 2016 and the repatriation of banks, which contributed to the growth of investment. By focusing on improving the business environment through trade facilitation measures, a clear focus on liberalization of FDI policies can help reduce uncertainty in the economy.

Uncertainty about the economic policy of investment in India

14. Internationally, several studies show a significant dynamic link between economic policy uncertainty and real macroeconomic variables. The uncertainty of economic policy, as measured by the UPR index, indicates a decline in economic growth since the banking crisis (Baker et al. 2016). Anand et al. (2014) found that high uncertainty and decline in business confidence play a role in reducing investment in India. Bloom et al. (2018) it has been found that uncertainty shocks can reduce GDP in companies by around 2.5%. Glenn and John (2013) using UNR found that political uncertainty was negatively correlated with firm and industry investment, while the economic magnitude of the effect was significant. There can be two relations between uncertainty and investment in economic policy. The first is a direct correlation of economic policy uncertainty with investment growth, and the second is the correlation of UNR with other variables, which have a profound effect on investment.

15. That there is a strong negative relationship between the UPE index and investment growth. The correlation between the two variables is (-) 0.30 (Q1 2005-2006 - 2018-2019 fourth quarter). However, relations have been weak for some time, for example, from the third quarter of 2009–2010 to the fourth quarter of 4 to 4 years, when economic uncertainty

declined and even investment growth declined. The vector autoregressive regression model (VAR) impulse response task shows shocks after shocks, that is, the greater the uncertainty stimulus speed decreases, then the effect decreases over time. The standard deviation shock effect on the UPE index is about 1 percent and persists for several quarters. In fact, one could say that this is sufficient to ensure that the effect remains at least five-quarters (the 95% confidence threshold remains below zero for five-quarters).

16. Foreign investment is also likely to be negatively correlated with the degree of economic policy in the economy, as well as data. Foreign direct investment (FDI) and foreign institutional investment (MIF) flows are negatively correlated with EPUs, meaning that not only short-term capital flows, but also long-term capital flows are affected by rising economic policy uncertainty. The VAR impulse response function also shows a significant negative effect of approximately three to four quarters. However, it should be noted that the initial effect is more noticeable for FDI flows.
17. Investment is influenced by many other factors. Borrowing money is the first important factor influencing investment decision. Borrowing costs are likely to be negatively associated with investment because they reflect higher input costs. Fixed investment repo, as expected, is negatively correlated with average weighted lending rate and interest rate on debt. The second important factor growth and investment in the UPE index are the values that manufacturers obtain for their products.
18. Price increases should lead to more investment, as companies consider it desirable to do so as long as consumption is strong enough to offset the effects of inflation. This is evident because the increase in investment is possible theoretically wholesale prices are related to inflation, but have a negative impact on consumer price inflation. This may be because manufacturers are aware of producer prices close to wholesale prices when selling goods, and consumers have to pay consumer prices and higher prices may reduce demand. The third important factor affecting investment is the use of opportunities. The use of opportunities in any quarter is likely to positively impact investment growth in the next quarter, as excess capacity in the previous quarter may reduce the need for new investment in the next quarter. The data indicate a positive relationship between investment growth and capacity utilization in the previous quarter.
19. The foreign component of fixed investment, FDI and FDI will be negatively correlated with exchange rate volatility and will be measured by its volatility coefficient. Indeed, the remuneration actually received by foreign investors is expressed in foreign currency at the exchange rate. If the currency fluctuations are high, the increase in foreign exchange flows may decrease. The link between FDI growth and exchange rate volatility appears weak, indicating that foreign investor projects have other considerations. On the other hand, there is a negative relationship between MFI earnings and exchange rate volatility. Negative relationships indicate that portfolio investment, which is typically a short-term investment, has a greater impact on exchange rate volatility than FDI flows, which are typically longer.
20. Can UPE be a proxy for all variables tested for continuous investment in the economy? If it strongly correlates with these variables, it may mean that it is indeed true. PPP is positively correlated with all of the factors discussed above - repo rate, PPI inflation, exchange rate fluctuations and opportunity utilization.

Conclusions and policy proposals

21. The fact that economic uncertainty remains beyond the control of politicians due to uncontrollable factors may control the uncertainty of economic policy. Reducing uncertainty in economic policy is important, as domestic and foreign investment are strongly driven by increasing uncertainty in domestic economic policy.
22. India has reduced the uncertainty of domestic economic policy since 2012 and is an exception to reduce this uncertainty from 2015 in terms of global growth. However, policy makers should double the uncertainty of domestic economic policy.

Describe steps to reduced the uncertainty of domestic economy

23. First, high-level policy makers should ensure that they plan their policy actions, ensure a positive political orientation, keep the policy consistent with the general policy as per previous guidelines and the ambiguity / arbitrariness in policy implementation Reduce. To provide forecasts, a policy horizon should not be set to guarantee future policy clarity to the investor. While this poses some policy constraints, such voluntary meetings of political leaders are held repeatedly, especially in matters of budgetary responsibility and budgetary management within the monetary policy of the Reserve Bank of India. Ensuring some security and politics. The government can also use labels such as "stop" versus "rotate" to classify various categories for future confidence.
24. Furthermore, according to the statement that "what is done through measurement is valid", the Economic Policy Uncertainty Index should be an important indicator for high-level policy makers on a quarterly basis. However, according to the scientific literature developed in this field, the government should contribute to the creation of the Economic Policy Uncertainty sub-index to overcome the uncertainty of fiscal policy arising from fiscal policy, fiscal policy, monetary policy,

trade policy and banking policy. . By observing these sub-indices, you will be able to monitor and control the uncertainty of economic policy.

25. Ensuring the quality of political processes that reflect "what you do, you have documented what you have done, but more importantly, what you have documented!" True policy implementation is at a lower level, where ambiguity is created and developed by economic policy uncertainty. As private sector organizations compete and seek high quality certificates, departments should be equally required to obtain quality certificates. This certification process requires staff training following the quality assurance process and will reduce the uncertainty of economic policy.
26. The uncertainty of India's economic policy has reduced considerably in recent decades. The reduction in economic policy uncertainty in India since 2015 is particularly significant, as it strongly opposes the increase in this period of economic policy uncertainty in major countries, including the United States. Increasing uncertainty in economic policy has been holding back investment growth in India for nearly five quarters. Contrary to general economic uncertainties, which cannot be controlled, policy makers The future investment of the country can reduce the uncertainty of economic policy for the development of climate. Leadership in government agencies with pre-orientation and quality assurance processes, substantive policy compliance will help reduce the uncertainty of economic policy.

Key Word:-MIF:-Micro Irrigation Fund. VAR:- Vector Auto regression Analysis. UPE:-Economic Policy Uncertainty Index.

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