Indian Capital Market and Covid19

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World Economy and Impact

With what was first identified as a flu epidemic in late 2019 in China's Wuhan city of Hubei province, the corona virus crisis is wreaking havoc worldwide and has brought all of civilization to a standstill. Although having a low mortality rate of about 4% (global average), this pandemic – as announced by World Health Organization has shaken the entire world with its unprecedented contagion rate; spreading rapidly through more than 190 countries in a short period of just four months, causing severe deaths in many nations. While the crisis has taken a tremendous toll on lives and livelihoods, the world's economies have just started to suffer devastating collateral harm. The International Monetary Fund (IMF) and big Wall Street giants, including Morgan Stanley and Goldman Sachs, warn 'a global recession is imminent' is predicted to be similarly or much worse than the global financial crisis of 2008.

The stock market around the world has a tradition of crash and recovery, and the Indian stock market is no different from that. SENSEX plummeted 53 percent into "Harshad Mehta Scam" (1992) in one year but recovered 127 percent in 1.5 years. SENSEX plunges 40 percent in four years during the "Asian Crisis" (1996) but recovered 115 percent in one year. SENSEX crashed 56 percent during "Tech Bubble" (2000) in 1.5 years but recovered 138 percent in 2.5 years. SENSEX collapsed 61 percent in a year when the US faced the "Real Estate – Lehman" crisis (2008) but recovered 157 percent in 1.5 years. In less than three months, the existing market has collapsed at about 30 percent. No-one knows when the economy will be back on track due to COVID-19. Some analysts also equate this economic meltdown with 20th-century "Great Depression." The "Great Depression," which was started in 1929, and lasted until the late 1930s. The worldwide Gross Domestic Product (GDP) fell by an estimated 15 percent between 1929 and 1932. In contrast, during the Great Depression, the worldwide GDP fell by less than 1 percent from 2008 to 2009.

Indian Economy and Impact

The economic effect of the corona virus pandemic in India during the period 2019–2020 was largely disruptive. World Bank and credit-rating agencies have downgraded India's 2021 fiscal year growth with India's lowest estimates in three decades since India's LPG era started in the 1990s. India's former chief economic advisor to the government has said India should be planning for a negative growth rate in FY21, and the country will need Rs 100 lakh crore stimulus to resolve the contraction. Nevertheless, India's estimate of 1.9 percent GDP growth for the financial year 2021-22 by the International Monetary Fund is the highest among G-20 nations. Unemployment rose from 6.7 percent on March 15, 2020 to 26 percent on April 19, 2020 within a month. An estimated 14 crore people lost their jobs during the lockdown. More than 45 percent of households across the nation registered a decrease in income compared to the year before.

During the first 21 days of full shutdown, which was announced following the corona virus outbreak, the Indian economy was projected to lose over Rs 32,000 crore per day. Less than a quarter of India's Rs 211 lakh crore economic activities functioned under full lockdown. It was estimated that up to 53 percent of the country's companies would be significantly affected. Supply chains were put under stress with the lockout constraints in place; initially, there was a lack of consistency in streamlining what a "normal" is and what is not the most at risk for those in the informal sectors and daily wage classes. There is also confusion facing a large number of farmers across the nation who cultivates perishables. Various firms, such as hotels and airlines, are cutting pay and laying off workers.

Larsen and Toubro, Bharat Forge, High Tech Cement, Grasim Industries, Aditya Birla Company, BHEL, and Tata Motors, major companies in India have temporarily suspended or substantially reduced operations. Young start-ups were impacted as funding dropped. The country's fast-moving consumer goods companies have dramatically reduced operations and are concentrating on the critical. Some security transactions, such as the production of Dassault Rafale fighter jets, were affected/delayed due to the pandemic. On March 23, 2020, financial markets in India reported their worst losses in history. However, one day after the Prime Minister declared a full 21-day lockdown on March 25, 2020. SENSEX and NIFTY reported their biggest gains in 11 years, adding Rs 4.7 lakh crore value to investor capital. Some industries which are adversely affected are as follows:

- Apparel and Textile will be adversely affected due to instability in the supply of labour, unavailability of raw materials, constraints on working capital, and reduced demand due to restricted movement of people and willingness to purchase.
- The automotive sector (which includes cars and automotive parts) will continue to face challenges due to lack of demand, global recession, and declining income rates.
- Aviation and Tourism is one industry that has the greatest risk of going under without direct interference from the government. It's extremely doubtful that people will fly for pleasure in the next 12 months other than a very important fly.
- Shipping and Non-Food Retail – Non-food supermarket chains and major shipping firms will consider this 12-month span highly difficult.
- Building and Construction undertakings are generally leveraged and will, therefore, face the dual challenges of high-interest payments and sales shortages.
- Digital and Internet Economy: New takers will be sought online by the goods and services companies

- Ed-tech and online education, along with the online skills growth companies
- Online groceries
- There will be a massive increase in consumer demand, with more than ever digital content on sale.
- The benefits of FMCG and Retail would be enormous. With continued fear, food-based supermarket outlets would emerge as champions, and companies catering to demand low ticket consumption.
- Specialty Chemicals: Chemicals companies will see a jump due to increased demand for disinfectants, drugs, and medicinal products.
- Pharma: Pharmaceutical companies are set to see near-term growth.

India's government has proposed a range of steps to resolve the crisis, ranging from food security and extra healthcare funds to sector-related incentives and extensions of the tax deadlines. A host of economic relief initiatives for the poor totalling over 170,000 crore was declared. The Reserve Bank of India also took the number of measures that would make Rs 374,000 crore available to the financial system of the country. During the lockdown, the government allowed the movement of both necessary and non-essential goods. The World Bank (WB) and the (ADB) Asian Development Bank have provided India assistance in combating the coronavirus pandemic.

India's Prime Minister extended the lockdown to May 3, on April 14, 2020. Also in place was a new set of instructions for adjusted economy opening and lockout relaxation that would take effect from April 20, 2020. On April 17, the RBI Governor announced further steps to combat the pandemic's economic impact, including Rs 50,000 crore Special Finance to NABARD, SIDBI, and NHB on April 18, 2020 to protect Indian corporate during the pandemic, the government changed India's foreign direct investment policy. All capital expenditure has been put on hold by the Department of Military Affairs for the start of the financial year. India will also reduce costly defence imports and give domestic production a chance; also, ensure that "operational requirements are not misrepresented."

From an economic point of view, the lockout definitely looks expensive right now, but it's nothing compared to the lives of Indian people. Globally, 67 percent of the 13,200 + people surveyed in an Edelman Confidence Barometer poll agreed that "the highest priority of the government should be to save as many lives as possible even if it means that the economy must grow more slowly;" that is, life should come before living. The poll showed the ratio of 64% to 36% for India, where 64% of the population agreed that saving life was the first priority, and restarting the economy was second priority.

The debate on life versus livelihood also played out in India, with the government first declaring that life would be prioritized over livelihood, which later shifted to give equal priority to life and livelihood. By mid-May, the centre was keen to resume economic activities. Four stages in which the lockdown journey of India can summarise till now.

March 24: Jaan hai toh jahaan hai (Only if there is life there will be livelihood)

- On March 24, Prime Minister Modi declared India's first 21 days of lockdown. During this address to the nation, he said, "Jaan hai toh jahaan hai" (translation. There will be prosperity only if there's life).

April 11: Jaan bhi jahaan bhi (Both lives and livelihood matter equally)

- On April 11, in a meeting with India's chief ministers, the prime minister said "Our slogan was jaan hai toh jahaan hai earlier but now it's jaan bhi jahaan bhi (transl. All, life and livelihood matter equally)." On April 14, Modi made another address to the nation in which he extended the lockout, with modifications, to May 3.

May 11: Jan Se Lekar Jag Tak (From an individual to the whole of humanity)

- In the fifth meeting of the Prime Minister with the chief ministers on May 11, the Prime Minister said Indians had to brace for the post-coronavirus pandemic era, just as the world changed after the world wars. During the meeting, Modi said that the new philosophy and way of living with this covid19 virus would be "Jan se lekar jag tak" (translation from a person to all humanity).

May 12: Atmanirbhar Bharat,

- In this interaction, Prime Minister announced an overall economic package worth Rs 20 lakh crore, adding that the fourth phase of the lockdown will be different with new rules. This package includes the previous government packages as well as the RBI decisions for liquidity infusion in the Indian capital market. The stimulus provided by the Indian government are as follows

- Liquidity injection in economy through RBI measures; Rs 2.8 lakh crore (1.4% of GDP) on February 6, 2020.
- Liquidity infusion in economy through RBI announcement Rs 3.74 lakh crore (1.8% of GDP) on March 27, 2020.
- Rs 1.7 lakh crore fiscal package announced by Finance Minister Nirmala Sitharaman (0.85% of GDP) ON March 27, 2020

This all package which was already given by the Indian government constitute 4.8 % of GDP; Rs 9.74 lakh crore. However, an additional Rs 10.23 lakh crore (5.2% of GDP) package was announced on May 12, 2020, this whole package since beginning constitute 10 percent of GDP.

Post COVID-19 Indian Economic Challenges and Recovery

Former RBI governor Duvvuri Subbarao said India should look forward to a V-shaped recovery. In a paper entitled 'A roadmap for economic recovery,' the Confederation of Indian Industry (CII) outlined three steps to be taken by the government, such as cash transfers to JAM account holders, a credit security scheme for micro, small and medium-sized enterprises

(MSMEs) and the development of a special purpose vehicle (SPV/SPE) to restrict 'government exposure while providing adequate liquidity to industry.' Besides this government should concentrate on building "green pools of workers, not green zones" as part of efforts to re-calibrate lockdowns. Mahindra group chairman Mr. Anand Mahindra said the reopening of the lockdown would make economic recovery 'painfully slow;' with the economy being so tightly intertwined, the lockdown should be lifted comprehensively once the optimum lockdown time as per research is over.

Task forces: The Technology Information, Forecasting and Assessment Council (TIFAC), Science and Technology Department, is preparing a White Paper on India's Economy Revival. TIFAC has a "mandate to think ahead" The Government of Punjab has formed an expert group led by Montek Singh Ahluwalia. Dr. Manmohan Singh, the former Prime Minister, will provide guidance.

State income and expenditure: State governments have suffered massive losses to the point of having to slash capital spending, budget plans in the immediate future, and new forms of paying salaries. The government in Delhi has fallen 90 percent short in tax collection compared to 2019 and expects to take out loans and increase taxes in certain sectors. Maharashtra kept all new capital works until March of next year; expenditure under government development schemes for current fiscal year was reduced by 67 percent.

Liquor: Both the government of Delhi and the government of Andhra Pradesh levied an extra tax on the liquor of 70 percent -75 per cent "corona." Excise duty on liquor is for a number of states the third-largest source of revenue, almost 10-15 percent of the overall tax collection for some states. Alcohol sales were impacted by the prohibition during the lockout, which in turn had a significant impact on state revenues.

Make in India: In May, General Bipin Rawat, Chief of Defence Staff, again stressed India's need to reduce costly defence imports and improve domestic production. "Covid-19 has affected everyone with a major rethink of our operational priorities and what we really need to boost 'Make in India' by holding our domestic industry even if they deliver arms with only 70 percent of the GSQRs (general qualitative staff requirements) at the outset, given the opportunity, they will eventually deliver cutting-edge technology.