



Covid-19 and Financial Markets of Indian Economy- A Review

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Abstract

This research paper focuses on the effect of corona pandemic on the financial markets of Indian economy. The pandemic has created unpredictable situation for stock markets globally. Business performances have been adversely affected. Absence of proper vaccination to this contagious disease has created havoc worldwide. To control the death rates rising out of this virus, social distancing and self quarantine methods were adopted so as to have least possible contact with the disease. All the states and the central government have issued the orders to stay at home leading to the slowdown of the Indian financial market and temporary closure of the establishments till the lockdown period. It has turned to a disruptive financial condition which demands government and regulatory bodies for policies which can help to overcome financial loss. This paper highlights the uncertain situation and macro factors affecting the economy. Literature has been reviewed in order to provide insights to the effects of pandemic on economy. It has also highlighted various packages adopted by the Central government in order to cope up with such an alarming situation.

Key Words: Covid-19, Financial Markets, Pandemic and WHO

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1. INTRODUCTION

India is the second-largest populated country in the world. More than half of the population belongs to rural India or non-metro cities. Many people from rural areas are working in different metro cities for their earning and livelihood. The outbreak of Coronavirus disease has brought unexpected shock to the entire nation. It has impacted financial markets severely. The spread of deadly Coronavirus has affected all the economies of the world, which has led to poverty, unemployment, labor migration, etc. The world has witnessed various epidemics in previous decades, such as HIV, Spanish flu, SARS, MERS, and Ebola. In December 2019, Wuhan province in China got few cases of Coronavirus and gradually spread to different countries of the world. It was declared as the COVID-19 pandemic by the World Health Organization (WHO)^[1]. Coronavirus was given the name of the Novel Corona Virus. It is a highly contagious virus that belongs to the SARS virus family. Novel Coronavirus started at Wuhan, the capital city of Hubei province in China. After that, it spread to South Korea and European countries.

The outbreak of this deadly virus also created a dangerous condition in India, and the first case got confirmed on 30 January from Kerala. It was so infectious that it was spreading by touching, sneezing, and even by the articles on which it could stay for many hours. The Government of India adopted social distancing as the prevention of disease. The main challenge was how to control such a large population during this pandemic, as this was contagious. Initially, public curfew was announced on 22 March, and the federal of India supported the Government. Subsequently, as the condition started deteriorating Government decided lockdown. Initially, the first period of lockdown was determined till 31 March, which later got extended thrice until 31 May. The total number of cases in India as of 26 May 2020 went up to 1, 45,380, which included 80,722 active claims, 60,490 cured or discharged. Among all other states in India, Maharashtra emerged as the worst affected state with over 50,000 patients. Other countries and territories such as Delhi, Gujarat, Rajasthan, Tamil Nadu, and others are also registering many positive cases of COVID-19 on a day-to-day basis. As the vaccine is not available for this disease, stay in isolation and social –distancing are the steps adopted by the Government. Due to total lockdown, factories are unable to run their business due to which labors were not paid, and it became difficult for them to survive in big cities where they shifted to work. As a result, they began to migrate from metro cities such as Delhi, Gurugram, Hyderabad, and Mumbai to their villages and towns, which created another havoc to handle the contagious pandemic. Travel also got shut down. There were no buses or flights to prevent the spread of the virus.

2. REVIEW OF LITERATURE

(COVID-19 potential implications for the banking and capital markets sector, 2020), this article stated the continuous shocks brought by the pandemic to the supply and demand side, has been forecasting further market disruption. This could further imbalance the liquidity of money and access to credit. It could have a probability of defaulters and increase the number of NPA's with the bank also. Capital markets and banking institutions of different countries around the globe are taking steps to counter the after-effects of a pandemic. Enterprises and firms are coming up with contingency plans to keep the pace of the market in such an alarming period. Allowing work from home and rotating shifts by following social distancing method.

(Dayong Zhanga, 2020) in their paper, "Financial markets under the global pandemic of COVID-19" provided the analysis based on the statistics. The outbreak of pandemic kept the stock market out of predictions. It has made stocks highly volatile. The patterns of particular

country markets have affected the exchange of other countries due to global lockdown and pandemic. Researchers also forecasted the consequence of the epidemic. Due to prolonged shut down of the business could result in unemployment and business failure [4].

(India under COVID-19 lockdown, 2020) This article stated the primary threat to India with the response to COVID-19, which is the result of miscommunication and ambiguousness of information-driven out of fear, stigma, and rumors [8].

(Jha, 2020) in his paper entitled, "**COVID-19: A nightmare for the Indian Economy**" noticed through their study that the developing countries such as China, America, and European countries hit the hardest because of the large number of population and higher population density and high level of poverty. The absence of the vaccine made the situation uncontrollable [5].

(RAJESH, 2020) in his paper entitled "**Impact of COVID 19 Virus Cases and Sources of Oil Price Shock on Indian Stock Returns. Structural VAR Approach**" found that initially there was no adverse effect of a pandemic on the stock returns of oil sector; however, the shock of COVID -19 on oil exports hurt stock returns. It shows that the stock returns got indirectly affected [2].

(S. Mahendra Dev, 2020) in their paper entitled "**COVID-19: Impact on the Indian Economy**," stated that after the financial crisis of 2008 and demonetization, the Indian economy was still facing different inflationary pressures, and the outbreak of COVID -19 has brought another set of predicament. Lockdown with its extensions and slow down of economy resulted in turmoil in demand and supply [6].

3. STATEMENT OF THE PROBLEM

The global crisis has resulted in the financial and stock markets due to the Coronavirus pandemic. Every country was facing problem to tackle the growing number of deaths. Without a vaccine, the situation was getting worse, and the Government came up with the idea of lockdown to save lives, but on the other hand, this was adversely hitting the source of finance and markets.

4. THE OBJECTIVE OF THE RESEARCH

- To review the effects caused by COVID -19 pandemic on Indian financial markets.

4.1 Financial Markets

Reserve Bank of India has played a crucial role in the development of the financial market in India. There are different types of financial markets, such as the money market, foreign exchange market, and the government securities market [3]. The fusion of financial markets took place during the late 1980s and 1990s. The vital aspect of this was the new economic policy, which brought globalization, privatization, and liberalization in India. It allowed investments with higher rates of returns. It encouraged and enabled investors from other countries to invest in the Indian market. There has been transformed in the money market, government securities market, and capital market [7]. Financial markets aim towards the economic growth and development of a nation. They focus on the efficient utilization of funds and resources. It manages interest rates, exchange rates, and liquidity. Well developed financial market adheres to the need and growth of the infrastructure of the nation.

4.2 Effect on Financial Markets

Corona pandemic has caused a sudden crash of the stock market, which was not even at the time of market meltdown during 2008. The nation-wide lockdown got prolonged after public curfew,

which disrupted the supply and demand chain in the market. The economy went into the slowdown phase. In March 2020, the G7 meet took place, and the concern was the sensitivity of the stock market concerning the COVID pandemic. There was no policy announced in the event, but it was observed a few days later that the stocks started falling and eroded the vast wealth of the investors.

On the other hand, for budding investors, it was the time to put money on the reduced amount of shares of big companies. SENSEX and NIFTY fall to the lowest unpredictably that the foreign investors started withdrawing their money from Indian markets. The pandemic COVID-19 outbreak has been referred to as a global health emergency. Globally, the number of positive cases were continued to grow with more suspect cases and death rates. It became one of the escalating situations, which furthermore affected all industries, whether financial markets, healthcare, and tourism. Imbalanced demand and supply resulted in financial loss.

4.3 Economic Packages by the Government

The Government of India announced various packages from 12^{May} to 20 May 2020. On 12 May, Prime Minister of India announced an overall economic package worth 20 lakh crore (US\$280 billion). This Rs 20 lakh crore includes the previous government packages (Rs 1.7 lakh crore) as well as the RBI decisions (Rs 5-6 lakh crore). They make up about 40% of the box. This package was announced on 20 May 2020. After analyzing the contagious situation worldwide, policies have been published by the Central Government and the Reserve Bank of India to provide support against the economic shock.

5. RESULTS AND DISCUSSIONS

To recover with an alarming situation of the pandemic, the Indian economy has to adopt various measures to meet the demand and supply of the population. The money market or capital market has to be appropriately managed. Subsequent home quarantine measures have to be followed with the action of proper work schedules such as work from home and flexible work schedules to get an appropriate pace with economic growth. There should be an appropriate channel of communication with unambiguous information, which can help the economy to recover. Adequate financing should be done to the health care units so that they can also provide better medical facilities to the infected people. Short term and long term plans should be adopted to boost economic development. Money which has been allocated through the packages should be checked appropriately from time to time whether the actual is meeting the anticipated need nation-wide. There should be the adoption of proper corrective measures to bridge the gap of allocation of the financial package by the Government.

6. CONCLUSION

The fast spread of the Coronavirus has created adverse effects on the financial markets of the Indian economy and of the world at large. The study has revealed that even though demand and supply got affected due to slow down and lock down but as far as the stock market is concerned, for the time being, due to the fluctuations in the stock market, budding investors have invested in the stocks whose prices got reduced. Still, it could not be so in the future run. Promising investors got a chance to invest in the stock market; however, those who had already spent huge money on stocks were facing crisis kind of situation due to rigorous slipping of the shares of the companies.

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