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## Impact of Covid-19 to Indian Financial System

Mrs Serah Sudhin (Assistant Professor)  
New Horizon College Marathahalli Bangalore

### Abstract

*The COVID-19 outbreak has really brought unexpected change to Indian economy, which was already going down before the outbreak hit. The sudden nationwide lockdown for an uncertain period led to the closure of all corporate houses, business, market, events, etc. and disrupted the overall supply chain for businesses. Declining growth rates of various industries also led to huge revenue losses, oil price conflicts, and economic declines. The virus is multiplying at an exponential rate and it has brought a huge fallacy of lockdown. Severity and duration of the crisis, the way the situation gets back to normal after lifting the lockdown and duration of lockdown itself are some of the major factors reflecting the intensity and magnitude of economic impact. This paper discusses the effect of COVID-19 on various financial markets and analyzes the situation in India, while suggesting the possible solutions to deal with ongoing challenges and downturns.*

Keywords – COVID-19, Coronavirus, financial markets, Indian economy

### INTRODUCTION

COVID 19 is an unexpected, undesirable & surprising setback that nature has brought to the globe in the year 2020. This setback has affected almost everyone. Lockdowns in India have resulted in closure of businesses, industries, day to day activities of common man, school, colleges & travel & tourism for a period of time. Due to this pandemic loss of employment is caused up to approximately 15 million. [1]. No assured treatment for COVID, increasing death % due to COVID & uncertainty of the end of COVID has created a great sense of fear in mankind. To sum up the scenario & conclude, whole economy is badly affected by situation raised due to COVID

This paper aims to study parameters that caused badly to Indian financial system during COVID

**Real estate** - Investment in real estate is mainly done by Indian population in order to have good returns on investment & for self-utilization purposes. Due to COVID fear, this investment has reduced badly. Multiple reasons for this to happen are uncertainty of market scenario after COVID ends thus no clarity of good ROI, fear of people to have investment based on their current sources of income considering the situation. To trust builders in such scenarios was also bit difficult & hence can be considered one of the reasons behind reduction in real estate during a pandemic which has aggregately affected Indian economy.

**Crude Oil** – Crude oil prices and Indian equity markets are inversely proportional to each other based on the history available yet. As the prices of crude oil increases, the market decreases & vice versa. It is also being observed that higher reductions in oil prices also tend the market to fall. The reason behind this is India imports crude oil every single year. [2] India imports around 100 million tons of crude oil & petroleum products every year [3]. When oil prices are going up around the globe, this import volume has a great impact on Indian economy. As crude oil does not only act as a source of energy but also it is used as raw material in many industries at various stages of its purity. Hence any variation affects these industries directly. 12% of companies are energy based in the Nifty market. [2] Any variation in oil prices directly affects share prices & thus overall economy.

**US Market-** With the growing globalization & freedom, flexibility of business in most countries, the economies of individual countries are dependent on the economies of the countries around the globe. Dependency mostly depends on how much the particular country is developed. When it comes to India & US markets, both are dependent on each other, rather any change in the US market has a drastic effect on Indian market. Fed rate hike causes the market to react negatively. With a rate hike, people will try to invest in developed countries like the US rather than in developing countries like India. Inflation rates & interest rates are quite higher in India as compared to the US. With this people will tend to invest with lower inflation & gain higher interests in developed countries even after considering currency valuations. During COVID US markets have dropped badly & hence affects directly to Indian market & thus to economy. [4]

**Reduced mobility in banks transactions-** Banks play an important role in accumulating savings of the country's population & making them available as capital for investment. capital as investment is given in terms of loan & interests is gained on it. But during lockdown, mobility of transaction for investment is almost negligible, it has affected the financial market very badly in India.

**Restricted logistics-** As transportation has restrictions during lockdown in COVID situations, It has not only affected industry & construction business but has affected badly to agricultural business too.

**Travel & tourism-** It is playing a role not only in increasing GDP but has a role in gaining foreign currency exchange. It creates employment too. During 2020, tourism companies were only able to earn 24.80% revenue as compared to last year's statistics [5].

## LITERATURE REVIEWS

(S Mahendra, April 2020), Impact of lockdown due to COVID 19 on different pillars on which the whole economy is based are being collectively tried to express in the research paper by the researcher. Since the paper was published in core lockdown, most results of lockdown on the economy are tried to be expressed based on the possible scenarios of health & its cure possibilities. The paper also focuses on the status of economy prior to lockdown, current status & future possible status of Indian economy. It also put a light on the policies being put forth by the central government of India & reserve bank to face the situation raised. With this said, researchers are enlisting the dispute due to COVID as health loss, economic loss of country & global loss. All these are closely dependent on each other & have a great impact though one of them performs low in a country. Inline with this situation, researchers have suggested some policies with current policies by the central government of India for various sectors such as agriculture, banking, business & industrial sector to enhance betterment [6].

(Pawan Kumar, Dec 2020), India being an agricultural country, a countable % of Indian economy is dependent on agriculture directly or indirectly. It not only provides raw food but also plays a vital role in providing raw material to many industries. During lockdown due to COVID, this field is affected badly as everything has almost stopped. Researchers are trying to study how lockdown has impacted agriculture in this paper. It is also being studied for the related decision taken with due consideration of emergency by the state & central government to deal with the situation. Researcher has also tried to discuss the adverse conditions that the migrated workers had to face during COVID. It has also put forth the extreme wages' variation in various areas due to less & extreme high numbers of workers in a particular region of the country. During lockdown, the limitations & restrictions to trade have resulted in a shortage of food. It has not only affected the non-farmer population but itself impacted farmers badly as the supply chain of agriculture medicines, composites to cultivate existing crops was impacted badly. Researcher has brainstormed the situation, its results studying case study & farmers survey & has come up with possible agro policies in future. These policies are suggested in such a way that even if such epidemics happen in future, the situations remain least affected [7].

(Rahmiye Figen Ceylan, June 2020) COVID 19 has affected the world in 2020 badly, Since the pandemic was not limited to a particular region, but proved to be worldwide pandemic. In this paper researchers have studied the ill effects that the whole globe faced due to COVID 19. Researchers are also trying to have a look at the pre-assumed impacts that the globe is going to face in the long run. Old history of regional & global pandemics & their local & global impacts has helped to study the effects of COVID pandemic. Researcher is studying the economical as well as social impacts that the pandemic has brought. This disease has caused loss of existing jobs, unclarity of future growth, income insecurity in all the sectors. As per researcher it is need of time to prevent decline of growth in major sectors like service, retail & industry too by taking some immediate actions to come out of this great fall soon. Simultaneously researchers are also adding sustainable medical facilities in the globe to deal with such situations if rises in future. The major change in procurement of daily

consumables went off from retail to online shopping. This was a great shift that was observed during the COVID. It has affected the service sector badly. Hotels & tourism were almost closed during COVID. Excess supply of agricultural products & less consumption has caused the prices to drop down. It has badly affected the economy of countries where agriculture has a vital role in the uplifting of the economy. To conclude research has suggested Government & financial authorities to have focus on three things, viz economic, controlled market impurities & financial support to service & industrial sector to groom up once again & thus strengthening the economy of the globe. [9]

(S Singh, July 2020) Logistics system that plays an important role in any supply & demand concept of any business. Logistics in any country helps the business outputs to move at the desired destination & thus making the trade successful & enhancing economic growth to the particular country. Due to COVID whole logistic system has collapsed as with existing restrictions to industrial & agricultural based business. In this paper researchers have established how logistics restrictions in COVID lockdown have a great interference in the food supply chain management. Researchers have developed a model considering various factors that impacts supply chain management. The model is about how we can continue successful supply chain management even in restricted situations like COVID lockdown without having fear of spread of diseases. A concept of truck drone is introduced by the researcher to reach out in the infected area buildings. This drone will essentially provide food grain, PPE, medicines & other basic needs required by the citizens. This type of drone not only is helpful in situations like COVID but can be a part of micro logistic at domestic level.

## RESEARCH AIMS

1. How Covid-19 uprooted the Indian financial system?
2. What are the ways and possible solutions to overcome?

## METHODOLOGY

The researchers used secondary data to gather all the important information for this study. They used various trusted sources like public investigations, government records, articles, journals, online publications, etc. The authors used and applied various statistical techniques and tools to analyze the collected information and interpret the result. In this study, the researchers used secondary data to figure out the impact of COVID-19 to the overall financial system in India.

### How Covid-19 uprooted the Indian financial system?

Indian economy depends majorly on the financial market. Along with economic growth, the financial market also helps domestic and foreign investors to understand the global patterns of savings and investment and withstand the existing downturns to secure their future.

The first COVID-19 case was reported around January 30, 2020 in India and there was no change at stock market, i.e. around 40,000. But when the cases started soaring by the end of February, the stock market witnessed a steep decline at around 20% to 30% and touched down to 25,000. The onset of COVID-19 shook the investors' confidence in Indian market. Hence, they planned their exit strategy and booked their profits as they predicted even more decline in the stock market. As a result, Indian stock market witnessed a deep decline. During lockdown, the stock market brought the SENSEX to a little height of 30,000 as investors were getting back to invest seeing India fighting back against Coronavirus. Here is the graph showing SENSEX level for the first three months since the entry of COVID-19 in India.



Source - : <http://www.moneycontrol.com/indian-indices/sensex-4.html>

Since January, Indian rupee had also seen depreciation by around 7% and the average was 72.10 to US\$1 in February 2020. After two months of increasing mortality and active cases, the value of INR shed even further and reached up to Rs. 76 to 1 USD. It further raised investors' worries over COVID-19. It has been the major cause behind the increasing uncertainty among global investors. Till the mid of March, foreign investors withdrew a whopping \$10 billion worth of Indian shares and it caused a lack of USD.

On March 9, the stock market witnessed a slowdown due to the clash between Asian-led OPEC countries and Russia regarding oil prices as well as COVID-19. The number of patients increasing due to COVID-19 and lockdown lifting in India led to fluctuations in the market. Textiles, Aviation, Tourism, Clothing, Insurance, Banking, Finance, and several MSMEs were worst hit by Coronavirus. The government is still trying hard to relieve such sectors. This is why only FMCG NIFTY is going upside and stock prices of other sectors were worst hit.



Source: <https://www.moneycontrol.com/indian-indices/nifty-fmcg-39.html>

The main reason behind such a significant rise of the FMCG market is mindless stock-piling of ration and rapid demand of groceries from the common public due to lockdown. People rushed to the grocery stores and bought food supplies for a few extra months out of panic to avoid the deficiency of food items when the lockdown was suddenly announced by the government.

With the normalcy getting back to businesses and once the pandemic would be over, recovery would be faster as the stock market will be going further towards the positive trend.

### **Possible Solutions to Mitigate the Loss on Indian Economy due to COVID-19**

In this day and age, the world is literally uncertain. Indian economy was already slowing down before the onset of COVID-19 and the uncertainty of an outbreak that didn't happen for over 100 years, had left all the predictions to oblivion. The vulnerability is even worse in a densely-populated country like India. In order to help the affected businesses and households to deal with the sudden and temporary stop, governments must use wage subsidies, fund transfers, and tax relief.

**Financial mechanisms for recovery and resilience** – There are financial mechanisms that can be helpful in resilience and recovery efforts. An economic stimulus has been announced worth Rs. 1.7 trillion by the Indian government and MSMEs may get further bailout for over Rs. 750 billion. Immediate financing must be provided to MSMEs for their wages and the government must also provide capital they need.

Other sectors like automobile and aviation also need recovery with government support. Focusing on fuel efficiency and cleaner technologies may help improve sustainability.

**Focus on Sustainable infrastructure** – Investments on sustainable infrastructures may further boost the economy and generate employment opportunities. In 2009, the US invested in public transport and clean energy through its Great Recession Recovery package and created more jobs than conventional infrastructures.

In 2008-09, South Korea moved to green energy with 70% of its stimulus and rebounded even faster than other economies.

India should learn from these two countries and promote renewable resources, especially solar panels, with appropriate business models and policies. It must revise the import duties on solar power as it can help provide further services in remote areas.

## FINDINGS

The COVID-19 has posed a great threat to the lives of people and a huge challenge to Indian economy. India is no exception to the effects of COVID-19 pandemic, even though it was not much affected like European countries. This paper focuses on the effects of Coronavirus on various aspects of the financial market in India, its unemployment and growth levels.

But there is an opportunity for the country to improve its health services, citizens' well-being, and also invest in better technology amidst the public health crisis and containment of the virus to transform both human and physical resources. A lot of measures have been taken by the government to improve some economic sectors to avoid large downturns and losses in the economy. Government and RBI are also promoting digital and contactless payments with the wake of lockdown.

By ensuring some changes in financial policy, relaxation in credit rates, booster plans to organizations and MSMEs, Indian economy may get a further boost.

## CONCLUSION

Coronavirus pandemic has brought the whole world to a standstill. The current situation is totally different from the recession that happened in 2008. It has changed people's mindset, brought challenges to various sectors, and shook the global economy. It goes without saying that people are eventually learning to live with new normal. A lot of organizations have improved flexibility and allowed their staff to work from home.

These measures are already being followed. But there is a long-term risk in supply chains. So, improving the capabilities is the need of the hour to avoid the consequences. Businesses should look forward to restoring their profits and resume their previous state. Government should also look for certain measures to help boost the economy.

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