



Impact of COVID-19 Outbreak

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Why in News

Stock markets in India crashed on 9th March, 2020 as **Sensex** and **Nifty** indices saw their biggest ever fall in absolute terms.

- The Sensex dropped 1,942 points or 5.17% to 35,635 and the Nifty dropped 538 points to 10,451, wiping out as much as Rs 6.8 lakh crore of investor wealth.
- According to the **Securities and Exchange Board of India (SEBI)**, volatility in stock market is due to **perceived economic fallout from COVID-19** and **steep fall in global crude prices**.
 - Oil prices also crashed on the same day after the collapse of the Organization of the Petroleum Exporting Countries (OPEC) supply cut agreement with Russia.
 - The price of Brent crude oil fell almost 30% to \$31.14 a barrel, its biggest single fall since the start of the first Gulf war (1990-91).

Sensex

- Sensex, otherwise known as the S&P BSE Sensex index, is the **benchmark index of the Bombay Stock Exchange (BSE)** in India.
- It comprises **30** of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. The index's composition is reviewed in June and December each year.
- Initially compiled in 1986, the Sensex is the **oldest stock index in India**.

Nifty

- Nifty is primarily an **equity benchmark index** which was introduced in **1996** by the **National Stock Exchange**.
- The term Nifty is derived from the combination National and Fifty as Nifty consists of **50 actively traded stocks**. Nifty is an abbreviation of National Stock Exchange Fifty.

Perceived Economic Fallout From COVID-19

- **Fall in economic activities globally:** Falling Chinese exports, faster than expected pace of shrinking of the Japanese economy, increasing cases of Coronavirus outside China, and disruption of global supply chains, have contributed to the panic in the financial markets worldwide.
- **Investment Outflow:** Selling of securities by foreign institutional investors have contributed to the sharp selloff in Indian markets.
 - A sell-off occurs when a large volume of securities are sold in a short period of time. This leads to decline in the price of the security.
 - **Foreign Institutional Investors (FIIs)** refer to outside companies investing in the financial markets of India.
- **Yes Bank Crisis:** The **Yes Bank crisis** has raised concerns over the stability of the country's banking system, adding to the woes of domestic investors.

Fall in Global Crude Prices

- Top crude oil producers Saudi Arabia and Russia have begun a price war. Saudi Arabia slashed its oil prices after it failed to convince Russia to support sharp crude oil production cuts.
- A three-year supply pact between members of the **Organization of the Petroleum Exporting Countries (OPEC)** and Russia collapsed after Russia refused to support deeper oil cuts to cope with the substantial fall in demand caused by the impact of coronavirus on travel and economic activity.
- **Immediate Impact**
 - In the Sensex pack, the Oil and Natural Gas Corporation Limited (ONGC) was the worst performer, losing over 16%.
 - State-owned Oil Marketing Companies (OMCs) have reduced the prices of sensitive petroleum products such as petrol and diesel by 30 paise and 25 paise a litre respectively across major cities.
- **Long-Term Impact**
 - The fall in the prices of crude oil goes well for the Indian economy as **India imports more than 80% of its oil requirements.**
 - The savings on oil imports is estimated to be around US \$30 billion in the Financial Year 2021 if there is no significant uptick in global demand. This will help in arresting the rising inflation in the country.
 - However, according to some experts, very low prices imply less growth for emerging countries like India, thus impacting negatively.

Government's Move to Boost Agri-exports

- The central government has identified **21 agricultural products**, including honey, potatoes, grapes, soya beans and groundnuts, in which Indian exports could benefit from trade restrictions against Chinese goods.

Some countries have imposed restrictions on Chinese goods in response to the outbreak of COVID-19.

- The total value of China's global exports of these products amounted to \$5488.6 million in 2018. India exported \$4,445.9 million worth of these commodities in the same period and could now have a chance to grab part of China's market share.

Source: TH