



Impact of Economic Slowdown Due to Covid-19

Why in News

Amid the ongoing economic slowdown due to Covid-19 pandemic,

- the government witnessed a fall in tax collections.
- foreign investors sold over ₹1 lakh-crore securities in a month (March), for the first time in history.
- the [Reserve Bank of India \(RBI\)](#) has decided to shorten trading hours for foreign exchange and money markets products.

Fall in Tax Collections

▪ Direct Tax Collections

- Direct tax is a tax paid directly by an individual or organization to the imposing entity. For example, income tax is a direct tax.
- The government's net direct tax collections have **missed the downward revised target** for 2019-20 by Rs 1.42 lakh crore. The overall collection stood at Rs 10.27 lakh crore.
- This is a **decline of over 8%** from previous year's receipts.
- The contraction in direct tax collections in a financial year has been witnessed after a **gap of 20 years**. The Centre's direct tax receipts had last seen a year-on-year decline in 1998-99, when collections recorded a contraction of 3.5% in that financial year.

▪ Indirect Tax Collections

- **Indirect tax** is a tax collected by one entity in the supply chain and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. GST is an indirect tax.
- The government has missed its [Goods and Services Tax \(GST\) collections target](#).
- The **reasons** that led to the fall in GST collections in March below the Rs 1 lakh crore mark are:
 - A drop of 7.8% in returns filing over last month.
 - 4% fall over last year in domestic revenue.
 - A sharp 23% fall in revenue from imports.

▪ Consequences

- The government is likely to miss its revised [fiscal deficit](#) target of 3.8% for 2019-20.
- The government's fiscal deficit during April-February increased to 135.2% of the revised estimate for the fiscal year 2019-20.

Foreign Portfolio Investors (FPIs) Sell Securities

- For the first time in the history of the Indian capital markets, [Foreign Portfolio Investors \(FPIs\)](#) have sold securities worth over ₹1 lakh crore in a single month (March 2020).
- As per data from **the National Securities Depository Limited (NSDL)**,
 - The cumulative net outflow from the debt and equity segments was pegged at ₹1.18 lakh

crore in March

- This is more than double the previous high of ₹44,000 crore witnessed in June.

▪ **Reason:**

- According to market participants, the ongoing **COVID-19** pandemic that has affected stocks worldwide is the primary reason for such record outflows as foreign investors move away from **riskier assets and emerging markets.**

▪ **Impact of the sales on Sensex:**

- **Sensex** registered its worst monthly fall in over 11 years.
- In March, the Sensex lost a little over 23% which was the highest since October 2008 when it fell 23.89%.
- Currently, the Sensex after falling.
- However, buying by **Domestic Institutional Investors (DIIs)** has been acting as a strong counter force to the selling by foreign investors.

National Securities Depository Limited

- The enactment of **Depositories Act in August 1996** paved the way for establishment of NSDL in August 1996.
- It handles most of the securities held and settled in dematerialized form in the Indian capital market.
- NSDL works to support the investors and brokers in the capital market of the country.
- It aims at ensuring the safety and soundness of Indian marketplaces by developing settlement solutions that increase efficiency, minimize risk and reduce costs.

Domestic institutional investors

DIIs are those institutional investors which undertake investment in securities and other financial assets of the country they are based in.

- DIIs include:
 - Banks
 - Insurance companies
 - Mutual funds
 - Domestic financial institutions.

Shortening of Trading Hours

- The **Reserve Bank of India (RBI)** has decided to shorten trading hours for foreign exchange and money markets products in the light of challenges posed by lockdown imposed to curb the spread of coronavirus (Covid-19).
- The shortened hours, from 10 am to 2 pm (earlier 9 am to 5 pm), will be in place from April 7-17.
- The new hours will be applicable to
 - Call/term money.
 - Market **repo in g-secs.**
 - Tri-party repo in g-secs.
 - Commercial Paper
 - Certificates of Deposit
 - Repo in corporate bonds.
 - Foreign currency and rupee trades.

Note:

- **Call Money** refers to the borrowing or lending of funds for 1 day.
- **Term money** refers to borrowing and lending of funds for a period of more than 14 days.
- **Commercial Paper (CP)** is a short-term debt instrument issued by companies to raise funds generally for a time period up to one year.
- A **Certificate of Deposit (CD)** is a product offered by banks and credit unions that provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a predetermined period of time.

Source: IE

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