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Commentary

The Prospect and Challenge of Establishing Stock Market in India

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DESCRIPTION

The Indian economy was already going through a tough time last year with its real GDP growth being lowest in six years and to make the matters worse the outbreak of COVID-19 posed fresh challenges for the economy in terms of higher uncertainty and fear of global recession. The shock of COVID-19 is severe even compared to the financial crisis in 2007-08 and the rapid spread of the disease has a dramatic impact on financial markets all over the world. Hence, to control the spread of the disease the Government implemented nationwide restrictions for 21days at first which brought economic activities to stand still and hit consumption as well as investment. Indian businesses especially major sectors took the brunt from global supply chain disruption and shutdown of production in the economy. It also led to investors losing out a lot of money in the short term because of the unprecedented risk created as a result of the pandemic. The present study is undertaken to investigate the risk associated with the worst hit sectors of the Indian stock market *via*. Bombay stock exchange and National stock exchange through the various phases of lockdown imposed by the Government. It also studies the correlation between the sectoral indices and the benchmark index in different phases of lockdown.

On December 31 2019, the outbreak of Novel Coronavirus came to light when China informed to the World Health Organization (WHO) about the cluster of cases of pneumonia of an unknown cause in Wuhan city in Hubei province. By mid-January 2020, the disease spread quickly to other parts of China. The WHO declared a global emergency on 30th, January 2020, which was only the sixth time that such type of global emergency had been announced by the WHO. By assessing the risk of spread and severity, the WHO declared the outbreak to be a global pandemic on March 11 2020 and the virus has been named SARS-CoV-2 or COVID-19. As, of June 24 2020 over 176 countries have been affected and the number of cases in the world has increased to approximately 92 lakhs, with a fatality of more than 4 lakhs. As the COVID 19 spread from a regional crisis to global pandemic it not only affected economic activities and production but also impacted financial markets worldwide. Equities plummeted and market volatility shot upwards the World over. In the United States, the stock market hit in the circuit breaker mechanism four times in ten days and the volatility levels had surpassed to those last seen in December 2008, October 1987 and early 1930s. While the U.S. market fell 14% and the European market fell 20%, China where the virus originated fell just 3% from February to April. Therefore, the governments across these countries have initiated fiscal and monetary stimulus programs to cope with the detrimental impact of the circumstances on their economies. For instance, China government announced special purposed loans to companies facing liquidity constraints and financial support to sectors hit by the virus. In the same lines, U.S. Federal Reserve cut rates to zero and followed a quantitative easing program. Alternatively, the European Central Bank announces measures to support bank lending and expand its asset purchase program while holding its rates. Likewise, the Indian stock market hit the circuit breaker twice in March and the market fell sharply first after almost twelve years. Both the indices of Indian stock market Bombay stock exchange and National stock exchange's benchmark index S&P Sensex. 500 and Nifty 50 saw their worst decline in March as they tumbled by 28.57% and 29.3% respectively. Thus, in the short term, the outbreak came as a shock to market participants and created an unprecedented level of risk. This has led the investors to suffer huge losses in a very short period of time. The long- term consequences however may see mass unemployment, business failures, and huge debt.

Along with these measures its infused liquidity by reducing the liquidity coverage ratio for scheduled commercial banks from 100% to 80% and reduced the fixed repo rate under liquidity adjustment facility by 25 basis points from 4% to 3.75%. These were not the only measures taken by the RBI, there was further reduction in the repo rate by 40 basis points in May and the three-month moratorium on repayment of loans to bank which was initially extended for up to three months was again extended until the end of August 2020. In conjunction with the RBI, the Government of India in May 2020 announced a five- part package of 20.97 lakh crore.

At as much as 10% of GDP, the package did not appear to leave any major sphere untouched as the Indian Government brought out the fiscal artillery to complement RBI's monetary ballast,

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putting India firmly in the league of biggies that have gone all out against the virus. This package aims at focusing on land, labour, liquidity and laws, and deal with such sectors as cottage industries, MSMEs, the working class, middle class and industry. Along the above cited stimulus package, on March 24 2020, the Government of India under Prime Minister Narendra Modi ordered a nationwide lockdown for 21 days, limiting movementof the entire 1.3 billion population o f India as a preventive measure against the COVID-19 pandemic in India. This situation was worsened with the imposition of nationwide lockdown which leads to pause in the economic activity and production in the economy which hurt the investment and consumption of the nation. However, the Indian economy has matured over the years, therefore, it should be able to absorb shocks. Thus, the medium run effects will not be deleterious.