



# 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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