COVID-19 Impact on Banking Sector of India

Dr. Manohar Das Somani
Professor, Department of Commerce, MJB Government P.G. Girls College, Moti Tabela, Indore
Kaushal Kumar
Research Scholar, Department of Commerce, Devi Ahilya Vishwavidyalaya, Indore

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Abstract

COVID-19 has created global disruptions to economic activity due to lock-down imposed by the government in effort to slow down the spread of the virus but its consequences for the global economy and financial sector in particular are to a large extent still unpredictable. The study is descriptive in nature and based on secondary data only. This research study aims at to identify the COVID-19 impact on Banking Sector of India and founds that Moody's have changed the outlook of Indian Banking System to Negative, there is rise in Credit Costs and Non-Performing Asset (NPA) of Indian banks, the profitability of Indian banks is continue remain muted, there is deceleration in Credit Growth of banks in India, there is substantial increase in e-banking vested with cyber crime challenges, and the Indian banks are going to have weaken asset quality. These are major areas where Indian banks are getting hurt due to corona-virus outbreak.

Keywords: *COVID-19, Banking System Outlooks, Credit Growth, Indian Banking Sector.*

Classification-JEL : *A 11, N35, H54*

1. INTRODUCTION

COVID-19 which stands for Corona Virus Disease -2019 takes its root from Wuhan city in Hubei Province of China first detected as pneumonia of unknown cause. China first reported to the World Health Organisation (WHO) country office on 31 December 2019. Subsequently the disease spread to more Province of China and some other parts of the world. Later the Director-General of WHO declared the outbreak as Public Health Emergency of International Concern on 30 January 2020. The International Committee on Taxonomy of Viruses (ICTV) named the new virus as SARS-CoV-2 which stands for Severe Acute Respiratory Syndrome Coronavirus 2 and the disease is called as COVID-19 by WHO on 11 February 2020. On 11 March 2020 the COVID-19 outbreak is declared as global pandemic by the WHO.

In India eyeing at outbreak the Government of India (GOI) in January started taking protective measure and began the thermal screening of passengers arriving from China. Later on the passengers' thermal screening extended and made compulsory for all international passengers coming to India. On 30 January 2020 India reported its first case of COVID-19 in south-western coastal state Kerala which was confirmed to the government by the National Institute of Virology (NIV). By mid-march, the GOI drawn up plans to deal with world outbreak and issued an advisory urging to all Indian state to take social distancing measures as a preventive strategy. The outbreak has been declared as epidemic and in all states and union territories provisions of the Epidemic Diseases Act (EDA), 1897 have been invoked along with shut down of all educational institutions and many commercial establishments and also suspended all tourist visas. India observed a 14 hour voluntary Janta Curfew on 22 March 2020 at the instance of the PM Narendra Modi. With the announcement of 14 hour of voluntary Janta Curfew, Ministry of Railway also announced the complete shut of all Indian passenger train and later on, the PM Narendra Modi on 24 March 2020 ordered the nationwide lock-down for 21 days. On 14 April 2020, the lock-down extended till 3 May 2020 and it further extended by two more weeks till 17 May 2020 and then again extended till 31 May 2020. Due to the nationwide lock-down all economic activities slows down and the Indian economic has been disruptive largely. The World Bank and other rating agencies had initially downgraded India's growth for fiscal year 2021 with the lowest figure of three decades. The Indian banking sector has been also largely affect by the lock-down and due to economic disruption Moody's Investors Service On 2 April 2020 changed the outlook for Indian banking system to negative from stable and expects deterioration in bank's asset quality.

The banking system in India originated in last decade of the 17th century. The first bank was the Bank of Hindustan, established in 1770. Later , the three presidency banks- Bank of Calcutta, Bank of Bombay and Bank of Madras was established in 1809, 1840, 1843 respectively under Presidency Bank's Act 1876 which laid the foundation for modern banking in India. In 1921, all the presidency banks merged to form Imperial bank of India which carried out limited central banking functions prior to establishment of Reserve Bank of India (RBI). In 1955, with the recommendation of A. D. Gorewala committee the Imperial Bank of India nationalized and renamed as State Bank of India (SBI). India's central bank RBI was first constitute as an apex body without major government ownership under RBI Act, 1934. Later, in 1949 Banking Regulation Act was passed which brings the RBI under the direct control of Govt. of India. RBI is vested with wide range of functions which includes-regulation of monetary policy, regulator and supervisor of the financial system, manager of foreign exchange, issuer of currency, regulator and supervisor of payment and settlement system, bankers to government and banker to banks

2. STRUCTURE OF BANKING SECTOR IN INDIA

Banking sector in India functions under the shed of RBI-the central regulator and classified into – Schedule Commercial Banks, Schedule Co-operative Banks and Development Finance Institutions.

The schedule commercial banks are the bank which has been included in the second schedule of RBI act, 1934 and for the purpose of assessment of its performance, the RBI further classifies into Public Sector Banks, Private Sector Banks, Foreign Banks, and Regional Rural Banks (RRB).

Co-operative banks are the bank which provides financial assistance to weaker section of society and operates in rural and urban area at state and district level.

A development finance institutions are the specialized development organization that provides financial assistance for economic development projects on non-commercial basis.

3. RESEARCH OBJECTIVE

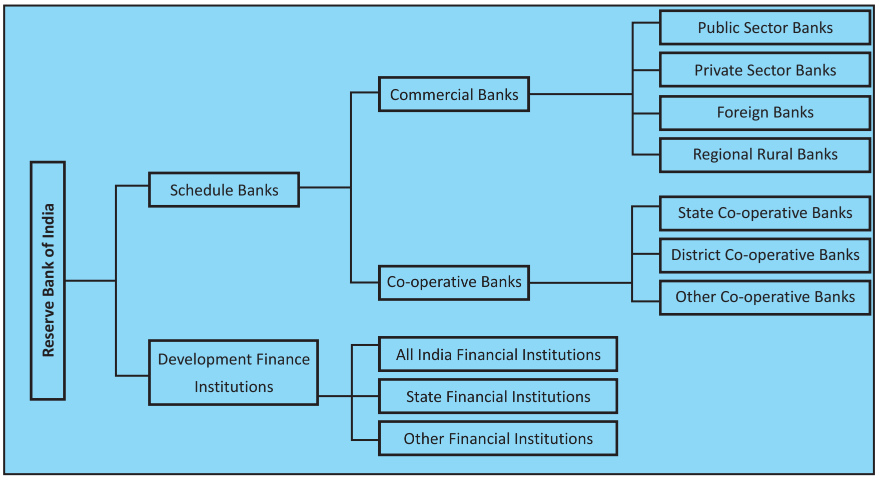
To identify the COVID-19 impact on banking sector of India.

4. LITERATURE REVIEW

The literature on the pandemic and it impacts on various sector on Indian and world economy have been summarised below:

Lagaorde-Segot & Leoni (2013) developed a theoretical model that shows that the likelihood of a collapse of the banking industry of developing country increases, as the joint prevalence of large pandemic such as AIDS

Figure 1 : Structure of Banking Sector in India



and malaria increases. They also shows that the optimal bank reserve increases as the prevalence increases.

Agarwal & Rastogi (2018) conclude that the employee satisfaction and customer satisfaction can give the major impact directly towards the achievement of the organization. From the employees standpoint, encouraging working environment coupled with others incentives such as increment in salary and frequent training will uplift the organization to the success. Hence, it appears reasonable to state that understanding of employee role is extremely important for the success of modern organization.

Pallavi (2020) concluded that COVID-19 has well-grounded of new difficulties with business condition that require a deliberate, viable and educated methodology from political and business pioneers. COVID-19 is the emergency with a dubious consummation and is probably going to prompt another typical-monitoring and planning that support organisation and economies in the post COVID-19 world.

McKibbin & Fernando (2020) through their working paper demonstrated that in all seven scenarios even a contained outbreak could significantly impact the global economic in the short run and the scale of costs that might be avoided by greater investment in public health systems in all economies but particularly in less developed economies where health care system are less developed and population density is high.

Zhang et al. (2020) founds that the risk in the global financial markets have been increase substantially in response to the pandemic. Individual stock market reactions is linked to the severity of the outbreak throughout the globe. Markets become highly volatile and unpredictable caused due to the great uncertainty of the pandemic and its associated economic losses.

Goodell (2020) concludes that "natural disasters can inflict economic damage on previously unprecedented scale. Unlike events such as global nuclear war, which is not survivable and so of no relevant cost, or events such as climate change that are much slower moving, or localized disasters that create spillover and market reactions, the COVID-19 pandemic is causing a direct global destructive economic impact that is present in every area of the globe".

5. METHODOLOGY

The study is descriptive in nature and based on secondary data only which has been collected from various source such as books, websites, newspaper, reports, journals, magazine etc. to identify the impact of COVID-19 in banking sector of India.

6. RESULT AND DISCUSSION

Global disruptions to economic activity

due to lock-down imposed by the government in effort to slow down the spread of the virus. COVID-19 has exacerbated a slowdown in India's economic growth and also the credit supply has hampered by volatility in global financial markets and heightened risk aversion among Indian banks and debt market participation.

7. COVID-19 IMPACT ON BANKING SECTOR OF INDIA

a) Moody's have changed the outlook of Indian Banking System to Negative: According to Moody's Invest or Services the five key drivers namely operating environment, asset risk, capital, profitability and efficiency, government support will deteriorate but funding and liquidity will remain stable due to public trust in the public sector bank whereas smaller private sector bank will face funding and liquidity pressure due heightened risk aversion among depositor and creditor.

Table 1 : Moody's Banking System Outlooks and Key drivers for India

Key Drivers	Moody's Banking System Outlook (BSO)
Overall BSO	Negative
Operating Environment	Deteriorating
Asset Risk	Deteriorating
Capital	Deteriorating
Profitability and Efficiency	Deteriorating
Funding and liquidity	Stable
Government Support	Deteriorating

Source: Moody's Investor Services , Updated on 28 April 2020

b) Rise in Credit Costs and Non-Performing Asset (NPA) : S&P Global Rating, in its report titled "For Asia-Pacific Banks, COVID-19 Crisis Could Add USD 300 Billion To Credit Costs estimated that "Asia-Pacific in 2020 will be hit with US$600 billion in additional NPA, and additional credit costs of about US$300 billion". The report also said that comparing to China the NPA in ratio in India will be increased by 1.9% equivalents to 2% of China but India's credit costs, increasing by about 130 basis points is worse than China, increasing by about 100 basis points.

c) Profitability to continue remain muted: Due to COVID-19 Indian banks are grappling with slow economic and credit growth, slipping interest rates, along with increase in loan loss charges and decline in revenue with high credit costs will not only hurt the banks' profitability but also leads to deterioration of capital.

d) Deceleration in Credit Growth: As per weekly statistical supplement data released by RBI entitled Schedule Commercial Banks-Business in India on 29th May, 2020 as shown in Table2, the outstanding bank credit for schedule commercial bank including Regional Rural Banks and small finance banks as on 8th May 2020 stood at ₹102.5 lakh crore. On fortnight basis the credit growth has decline by 0.2%. The bank credit growth on (year-on-year) basis has decelerated to 6.5% in 2020, compared to 13.0% in 2019, whereas on Financial Year (FY) basis it's decelerated to -1.1% in FY 2020-21 from -1.5% of FY 2019-20 amid a slowdown economy, lower demand and risk aversion among banks.

e) Increase in e-banking and its challenges: The trend toward e-banking has been massively accelerated out of necessity as a result of health concerns and social restrictions. The e-banking services provided by banks in India have created a surge demand for contact less payments and digital cash transfer amid social distancing. The challenge that may arise due to increase in e-banking uses is the cyber crime and scam that needs to handle with strict supervision and heed.

f) Weaken Asset Quality: Asset quality for Indian banks is expected to deteriorate as a result of the COVID-19 pandemic. According to Moody's Investor Service "a sharp decline in economic activity and a rise in unemployment will lead to a deterioration of household and corporate finances, which in turn will result in increases in delinquencies. Growing solvency stress among non-bank financial institutions will increase risks to banks' asset quality because banks have large exposures to the sector".

Table 2 : Bank Credit of Scheduled Commercial Bank in India (₹Crore)

Item	Outstanding as on 8th May, 2020	Fortnight		Variation over							
				Financial Year so Far				Year-on Year			
				2019-20		2020-21		2019		2020	
	Amount	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Credit growth	10252405	-21010	-0.2	-146966	-1.5	-118455	-1.1	1104112	13	627649	6.5

Source: Reserve Bank of India, Weekly Statistical Supplement- Extract, Dated- 29th May 2020.A

8. CONCLUSION

The COVID-19 pandemic consequences for the global economy and financial sector in particular are to a large extent still unpredictable as it not clear about the end of this outbreak through the world, how long it exits is still unanswerable. The Indian Government has already resorted to inducement measure to sustain the economy, people and banking system such as 20 lakh crore stimulus packages by GOI, COVID-19 regulator package by RBI etc. This study has an objective to identify the COVID-19 impact on banking sector of India and founds that Moody's have changed the outlook of Indian Banking System to Negative, there is rise in Credit Costs and Non-Performing Asset (NPA) of Indian banks, the profitability of Indian banks is continue remain muted, there is deceleration in Credit Growth of banks in India, there is substantial increase in e-banking vested with cyber-crime challenges, and the Indian banks are going to have weaken asset quality. These are major areas where Indian banks are getting hurt due to corona-virus outbreak.

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