RESILIENT INDIAN BANKING SYSTEM POST-PANDEMIC AND ECONOMIC RECOVERY

Dr. SREEJA S

ABSTRACT

Indian Banking Sector is seeing a drastic change in its operations post-pandemic situation. The COVID-19 outbreak has challenged Indian Banking Sector in multiple ways - from business continuity issues and operational considerations to the overall financial outlook. Now the challenges in the banking sector and the changes in people's lives have become the new normal. The first case of COVID-19 was reported on January 30, 2020, bringing the entire world to a standstill, and the number took a steep rise during the second wave, also caused by another mutant variant of covid-19. The economic impact of the novel coronavirus has been substantial and broad-based due to Covid-19 induced market instability and lockdown. Most significant GDP contraction ever in Q2 (April-June) FY2020-21 at -24%, sharp rise in unemployment, stress on the supply chain, decrease in government income, and reduced economic activity.

Keywords: Indian Banks, Covid-19, Reserve Bank of India, GDP, Economic Recovery

INTRODUCTION

From 2010, India has risen from the ninth-largest to the fifth-largest economy by nominal GDP in 2019, surpassing the UK, France, Italy, and Brazil.

India's GDP Growth rate in the last ten years has been at an average Growth rate of 6-7 percent. From 2013 to 2023, India averaged 6.84 percent, with a high of 8.7 percent in 2022 and a low of -6.6 percent in 2021.

COVID-19, A virus that first emerged in Wuhan city of China, created havoc in the entire globe in the year 2019-20, forcing people to stay indoors, cities under lockdown, burdening the entire healthcare system, economic development, and cross-boundary trade relations under threat. This virus had touched every corner and every person's life. Till now, in the year 2023 also, the slow economic recovery is in progress, and the indisputable fact is that the virus has not disappeared from our lives; it is frequently emerging in different mutations and affecting our lives with its new variants. Countries are adopting different measures to tackle the economic slowdown. In India, RBI has brought in different policies to reduce the impact of COVID-19 on the economy and to make a solid and resilient banking system. The Impact of COVID-19 in Terms of Short Term and Long Term

- **Short-term disruption in Indian Banking due to COVID-19 Pandemic.**

1. Inability to access data/infrastructure, leading to reduce serviceability
2. Temporary correction in the valuation of FIs, with an expected reduction in returns
3. Difficulty in accessing branches for routine operations
4. Default in loan payment

5. Scaling down of nonessential operations
6. Significant reduction in domestic and cross-border trade

➢ **Prolonged crisis in Indian Banking due to COVID-19 Pandemic**
1. Increasing preference for distributed workforce shared services
2. Raising need and preference for digital transaction
3. Growing preference for health and life insurance policies
4. Accumulation of surplus capital due to limited deployment opportunities
5. Increase loan defaulters due to reduced revenue and margin

Research Methodology

The study focuses on a novel coronavirus's impact on our banking system. Hence, the methodology adopted for data collection is secondary data as relevant information is collected from Reserve Bank of India publications, Indian Bankers Association Publications, the internet, journals, magazines, and newspapers.

Objectives of the study

1. To study the change in policy reforms introduced by RBI to reduce the impact of COVID-19 on the economy

2. To study the challenges faced by Indian Banking System due to the COVID-19 outbreak

3. To study the effectiveness of measures the Reserve Bank of India took to recover from the pandemic and re-stabilize the Indian economy towards its growth path.

Review of Literature

Dr. Nilam Panchal (2021) "Impact of Covid-19 on Banking in India: An Empirical Analysis". A research paper focusing on covid-19 outbreak and challenges faced by the banking sector. An attempt to analyze the relationship between NPAs, Advances, and profitability due to Covid-19 and also the impact of measures taken by RBI and the Government in the Indian Banking Sector.

Poonam Sharma & Dr. Neha Mathur (2021) "Covid-19 Impact of Banking Sector". The impact of the corona like pandemic on banks in India has left some banks to struggle due to deposits, as loans are protected by deposits. The condition of private banks may force customers to lend less, which may lead to poor liquidity. The RBI has given a 3-month grace period to all banks due to corona, which has brought some relief from the rules governing bad credit recognition, but banks' NPA has increased.

Dr. Neeraj K Gupta (2022) The Government of India and RBI have introduced various economic and monetary stimulus measures to bridge the COVID-19 crisis. To navigate through these unprecedented times, the BFSI needs to focus on liquidity, credit risk, the well-being of its employees, along with the quality of financial reporting and disclosures.

Measures Taken by RBI in March 2020 to Counter Covid-19 Impact on Economy

- **Repo Rate** - RBI announced that it cut the repo rate by 75 bps, or 0.75%, to 4.4. The Repo Rate was earlier 5.15, last being cut in October 2019.
- **Reverse Repo** - The regulator announced that it would cut the Reverse Repo rate by 90 bps, or 0.90%. On a daily average, banks had been parking Rs 3 lakh crore with the RBI. The current reverse repo rate was 4%
- **Loan Moratorium** - In a massive relief for the middle class, the RBI also announced that lenders could give a moratorium of 3 months on term loans outstanding as on March 1, 2020. This applies to All Commercial Banks, including Regional, Rural, Small Finance, Co-op banks, All India Financial Institutions, and NBFCs, including Housing Finance and Microfinance.
- **Cash Reserve Ratio** - The RBI announced that the Cash Reserve Ratio (CRR) would be reduced by 100bps to 3% of Net Demand and Time Liabilities (NDTL), which results in liquidity enhancement of about INR 1.37 lakh cr.
- **Long-Term Repo Operations** - The RBI undertakes Long-Term Repo Operations (LTRO), allowing further liquidity with banks. The banks, however, specified that this liquidity would be deployed in commercial papers, investment-grade corporate bonds, and non-convertible debentures.
- **Ease of Working Capital Financing** - Lenders were allowed lending to recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. The RBI also specified that such a move would not result in an asset classification downgrade.
- **Working Capital Interest** - A three-month interest moratorium was permitted for all lending institutions.
- **Deferment of NSFR** - The introduction of the Net Stable Funding Ratio (NSFR), which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding, was postponed to October 1, 2020, further again postponed to April 1, 2021. The NSFR was earlier supposed to be implemented by April 1, 2020.
- **Marginal Standing Facility** - The limit of the banks for borrowing has also been increased from 2% to 3% into the Statutory Liquidity Ratio (SLR), available till June 30, 2020. “this measure provides comfort to the banking system by allowing it to avail an additional 1,37,000 crore of liquidity under the LAF window in times of stress at the reduced” said the RBI
- **Fresh Liquidity** - The impact of all the announcements is to inject almost 3.2% of GDP, the Governor said in his brief. The RBI also added that since February 2020, it had injected Rs 2.8 lakh crore of liquidity, equivalent to 1.4 percent of GDP.

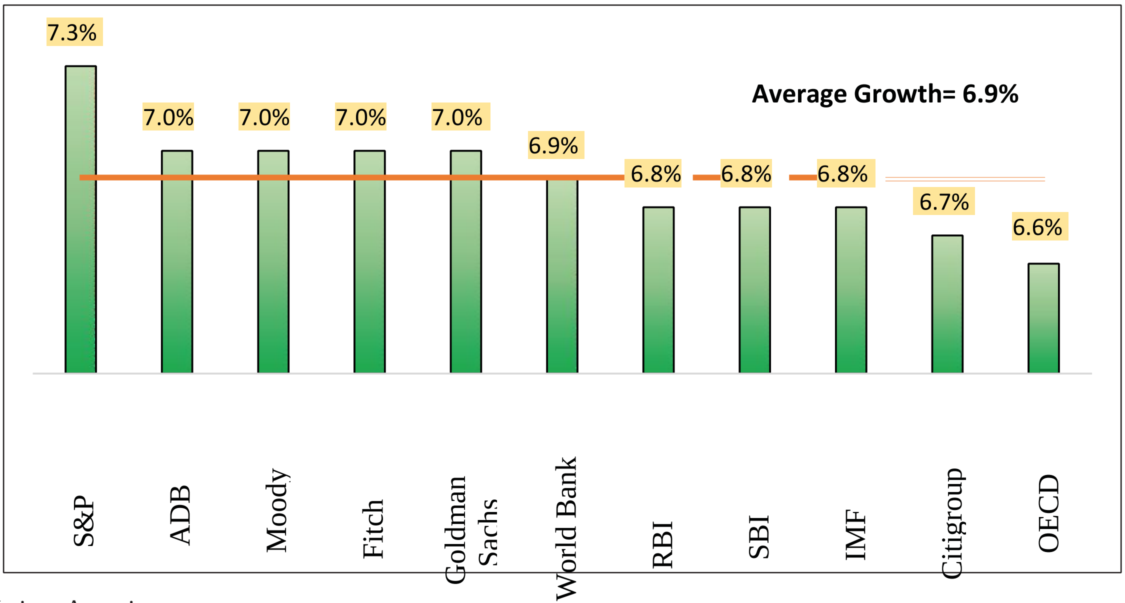
India’s Economic Resilience and Growth Drivers

Monetary tightening by the RBI, the widening of CAD, and the plateauing growth of exports have essentially been the outcome of geographical strife in Europe. These developments posed downward risks to the growth of the Indian economy in FY23. The growth estimate for FY23 is higher than for almost all major economies. The IMF estimates India to be one of the top two fast-growing significant economies in

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 07 Issue: 06 | June - 2023 SJIF Rating: 8.176 ISSN: 2582-3930

2022. Despite strong global headwinds and tight domestic monetary policy, India is still expected to grow between 6.5 and 7.0 percent, and that too without the advantage of a base effect; it is a reflection of India's underlying economic resilience; of its ability to recoup, renew and re-energize the growth drivers of the economy.

Figure 1: India's growth projections by various agencies for fy23



Source: Various Agencies
Note: ADB stands for Asian Development Bank, IMF is International Monetary Fund

Monetary Management and Financial Intermediation : Economic Survey Highlights of 2022-23

- The RBI initiated its monetary tightening cycle in April 2022 and has since raised the repo rate by 225 bps, leading to moderation of surplus liquidity conditions.
- Cleaner balance sheets led to enhanced lending by financial institutions.
- The growth in credit off-take is expected to sustain, and combined with a pick-up in private capex, will usher in a virtuous investment cycle.
- Non-food credit off-take by scheduled Commercial Banks (SCBs) has doubled since April 2022
- Credit disbursed by Non-Banking Financial Companies (NBFCs) has also been on the rise.
- The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a seven-year low of 5.0.
- The Capital-to-Risk Weighted Assets Ratio (CRAR) remains healthy at 16.0.
- The recovery rate for the SCBs through Insolvency and Bankruptcy (IBC) was highest in FY22 compared to other channels.

CONCLUSION

The impact of COVID-19 on the Indian banking sector was huge, and bringing back the economy on a progressive path was arduous. However, the timely intervention by the Reserve Bank of India and the Government at the right time has put our country on the progression track again. A massive shift in people's preferences in banking activities was witnessed from pre-pandemic to post-pandemic economic activities.

According to IMF (International Monetary Fund), World Economic Outlook, April 2023, India's projected share of global growth in 2023 is 15.4%, just after China which is expected to contribute 34.9% to global growth. China and India together are forecast to generate about half of global growth in the year 2023.

India surpassed the United Kingdom to become the world’s fifth-largest economy. The only countries with economies larger than India’s are the United States, China, Japan, and Germany. In an uncertain world, real GDP growth of 6-6.5% is the new normal, and India is on track to become the third-largest economy by 2029.

India's positive outlook towards the banking sector and identifying its contribution to economic progress ensured. Government to maintain stability and sustainability in the baking sector during the Pandemic.

To conclude, the economy's stability is the stability government provides to the banking sector with its reforms and support.

REFERENCES

1. Dr. Neeraj K Gupta (2022). A Study on Impact of Covid-19 on Indian Banking Sector. International Journal Of Applied Science And Technology Volume 8 Issue 2, March 2022. Retrieved from https://www.researchgate.net/publication/360106482_A_STUDY_ON_IMPACT_OF_COVID-19_ON_INDIAN_BANKING_SECTOR

2. Dr. Priyanka Bobade & Prof. Anu Alex. (2021). Study The Effect Of Covid-19 In Indian Banking Sector. *JournalNX - A Multidisciplinary Peer Reviewed Journal*, pp. 179–184. Retrieved from https://repo.journalnx.com/index.php/nx/article/view/541

3. State of The Economy 2022-23: Recovery Complete” Chapter 01. Retrieved from https://www.indiabudget.gov.in >doc>echap01

4. Economic Survey 2022-23: Highlights. Retrieved from https://pib.gov.in > pressReleasePage

5. Brijesh C Purohit (2022). Impact of COVID-19 on Indian Banking Sector. Economic & Political Weekly vol. 57, issue no 27, May 21, 2022, updated November 28, 2022. Retrieved from https://www.epw.in/journal/2022/21/insight/impact-covid-19-indian-banking-sector.html

6. Dr. Nilam Panchal (2021). Impact of Covid-19 on Banking in India: An Empirical Analysis. Retrieved from Towards Excellence: An Indexed, Refereed & Peer Reviewed Journal of Higher Education June 2021. VOL.13. ISSUE NO. 2, pages 446-459

7. Thomas Helbling, Shanaka J. Peiris, Krishna Srinivasan. Asia Poised to Drive Global Economic Growth, Boosted by China's Reopening. Article retrieved from IMF Blog on May 1, 2023. imf.org

8. https://www.wikipedia.org/wiki/Economy_of_India

9. https://www.wikipedia.org/wiki/Economic_impact_of_the_COVID-19_pandemic_in_India

10. Poonam Sharma & Dr. Neha Mathur (2021). Covid-19 Impact of Banking Sector. Retrieved from the book chapter -23 (pp 155-159), JPS Scientific Publications

11. https://www.imf.org/en/Blogs/Articles/2023/05/01/asia-poised-to-drive-global-economic-growth-boosted-by-chinas-reopening

12. https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0

13. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582

14. https://www.studyiq.com/articles/indias-gdp-growth-rate/

15. https://bfsi.economictimes.indiatimes.com/news/policy/10-decisions-taken-by-rbi-to-counter-coronavirus-impact-on-economy/74844644