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The Impact Of Covid-19 On Indian Banking Sector

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ABSTRACT

The COVID-19 epidemic is a terrible chapter in human history and one of the worst difficulties facing the financial services sector in almost a century. Not a single country—developed, developing, or boasting the strongest economy in the world—has escaped its effects. The economy was already on the verge of collapse before the outbreak, so the statewide lockdown and consequent cessation of business operations have sparked a protracted period of economic contraction. The banking industry is experiencing substantial drops in demand, lower incomes, and production halts as a result of COVID-19, all of which have a negative influence on banks' operations. As the nation's top bank, the Reserve Bank of India, has implemented the required policy changes and sought advice from specialists to meet the problems presented by the pandemic. The Reserve Bank of India has lowered the REPO rate as one of several measures taken in response to liquidity problems that have beset the entire Indian banking industry. The Reserve Bank of India has eased the load on consumers by extending concessions for loan payback periods in recognition of the difficulties faced by individuals in generating money.

This study aims to assess the broader impact of the pandemic on the Indian banking sector and the policy changes implemented by the Reserve Bank of India in reaction to the COVID-19 pandemic. This article summarizes the effects of the COVID-19 pandemic on the Indian economy and banking sector, drawing attention to the considerable difficulties encountered by the country's financial system as a result of the outbreak, according to reports from Indian banks.

Keywords: *Banking, NPA, Covid-19, Net Profit, Economy, COVID-19, Pandemic, Finance, Reserve Bank of India, Indian economy, Indian Banking system.*

INTRODUCTION

The new coronavirus that causes COVID-19 is a highly contagious disease that is mostly spread by respiratory droplets released when an infected person coughs, sneezes, or exhales. Its global proliferation has caused severe damage to almost every economy on the planet and sparked an extraordinary global health catastrophe that has completely changed the way we live. In a brief amount of time, the planet has experienced significant changes.

Governments all throughout the world implemented lockdowns during the COVID-19 pandemic from March 2020 to August 2020, which resulted in a large-scale shutdown of enterprises and the loss of a large number of jobs. Nonetheless, banks were allowed to function with fewer employees and in smaller spaces. People found it difficult to obtain traditional banking services as a result, which led banks to recommend online banking to its clientele. Banks pushed this shift to online banking in order to improve client satisfaction and convenience. Since some consumers are unable or unwilling to switch totally to digital channels, it is clear that traditional banking services— including some limited in-branch operations—remain necessary despite the growing emphasis on digital banking.

As the supreme regulatory authority in India, the Reserve Bank of India (RBI) is in charge of setting monetary policies and advising banks in the public and private sectors. Its responsibilities include printing banknotes, keeping reserves in order to guarantee monetary stability, and controlling the credit and currency systems in order to promote economic expansion while upholding price stability. The RBI unveiled a regulatory package in reaction to the COVID-19 epidemic that applies to a range of financial organizations, including non-banking financial enterprises, commercial banks, cooperative banks, and financial institutions. Due to shutdowns, import restrictions, and labor shortages, COVID-19 has had a severe negative impact on India, with an estimated 1.5 trillion rupees in lost revenue and notable declines in refinery utilization, production output, and trade activity.

The government and RBI have responded to these difficulties by acting proactively to help the impacted people and businesses. A relief package worth 1.7 trillion rupees has been announced, aimed at providing livelihood and food security help to disadvantaged communities. Concerns about unemployment are also being addressed through economic approaches and assistance for important industries like services, healthcare, and education. Furthermore, the government is collaborating closely with welfare organizations and local governments to pinpoint and resolve core causes at the community level and offer support that is required for the advancement of society. Priority industries like healthcare and education, which depend on bank loans for funding and need extra assistance to get through the crisis, are receiving extra attention.

RESEARCH OBJECTIVES

1. To research the RBI policy change brought on by COVID-19.
2. To investigate the impact of COVID-19 on the banking industry in India.
3. To determine how the Indian banking system can combat the COVID-19 pandemic.
4. To ascertain the main battles the Indian banking industry faces.
5. To find out how long it will take for India's economy to recover from this outbreak?

RESEARCH METHODOLOGY

To accomplish this goal, some choices have been made based on the current literature that is accessible on a number of websites, as well as the highlights of interviews with prominent fund and economic managers, financial and economic advisors, and senior representatives of economic bodies, chambers of commerce, and trade. As of right now, only an imprecise estimate of the number of positive cases is available, and there is no reliable data on the effect of COVID-19 on banks or other economic sectors. The lack of quantitative data made it impossible to employ statistical tools. As a result, a descriptive paper about the effects of the ongoing endemic has been put together with the assistance of expert comments found online.

ACTIONS MADE BY RBI TO REACT TO THE ECONOMIC DAMAGE CAUSED BY CORONA VIRUS

In order to provide liquidity to the system in the midst of the new coronavirus crisis, the RBI instructed all lending institutions to impose a three-month freeze on EMI payments. Governor of the Reserve Bank of India Shaktikanta Das stressed the need for extraordinary steps to support the faltering economy in the face of a total shutdown of economic activity.

Repo Rate: The RBI declared a 75-basis point (0.75%) drop in the repo rate to 4.4%. The rate that was last changed in October 2019 was 5.15%; this rate modification represents a decrease from that rate.

Reverse Repo: In addition, the regulator announced a 90-basis point (0.90%) modification to the reverse repo rate. With the reverse repo rate at 4%, banks have been depositing an average of Rs. 3 lakh crores with the RBI every day.

A huge boon to the middle class, the RBI governor said that lenders may put a three-month hold on term loans that were due as of March 1, 2020. This relief applies to all commercial banks with the following

exceptions: all financial institutions in India, microfinance and home finance institutions, and NBFCs (non-bank financial enterprises).
Reducing the cash reserve requirement by 100 basis points (1%) to 3%, the Reserve Bank of India also announced that an extra Rs. 137,000 crore will be deposited into the system commencing on March 23.
LTRO: The Reserve Bank of India will ease long-term repo operations so that banks have access to more cash. This liquidity is to be used by banks for commercial papers, investment-grade corporate bonds, and non-convertible debentures.
Problem-Free Working Capital Financing: Lenders might adjust their drawing capacity by reducing margins and/or reassessing the working capital cycle of their borrowers without suffering a loss in asset categorization.
The interest on working capital might be delayed for three months by any lender.
Capital Interest Deferral: The net stable funding ratio will now be put into effect on October 1, 2020, rather than April 1, 2020, as first planned.
In times of stress, the marginal standing facility (MSF) would give an additional Rs. 137,000 crore in liquidity under the LAF window, which would enhance it to 3% of the statutory liquidity ratio (SLR) till June 30, 2020.

FINDINGS

- The government shows initiative by announcing a relief package of Rs. 1.7 trillion that includes cash transfers and food security measures to help needy folks.
- Financial firms reveal enlarged corporate assistance plans.
- To maintain economic viability, the government takes drastic steps.
- Governmental organizations in India set up administrative systems to effectively disperse the advantages of social programs.
- The Indian government gives local organizations more power to improve crisis management in times of emergency.
- The government facilitates bank lending in order to support the primacy sector.
- Term loan repayment grace is granted by the Reserve Bank of India for a period of three months.
- The Reserve Bank of India loosens the guidelines for classifying assets for banks in the public and private sectors.
- To support structural stability, the RBI publishes recommendations for establishing operational restrictions for clients.
- The REPO Rate is lowered by 90 basis points by the Reserve Bank of India.
- The RBI reduces the REPO Rate by an additional 2-3%.
- The REPO Rate is being lowered by the Reserve Bank of India to almost zero levels.
- Long Term Repo Operations (LTRO) of 25,000 crores are carried out the RBI.
- The Reserve Bank of India engages in further domestic liquidity infusion.

CONCLUSION

The COVID-19 pandemic has caused severe disruptions to banking operations worldwide. Worldwide sectors are facing hitherto unheard-of difficulties as a result of the pandemic, which calls for new strategic initiatives and increased readiness for recovery. The long-lasting effects of COVID-19 are posing a significant challenge to banks and the financial services industry as a whole, which has shocked the Indian economy. In-depth analysis of COVID-19's effects on the Indian banking system, including how Indian banks are responding to the epidemic and its implications for the financial services industry, are the main goals of this report. The current COVID-19 situation will provide valuable insights that will help with the much-needed shift towards digitizing and streamlining backend operations for banks.
In order to maintain safe distances of at least one-meter, traditional banking procedures like cash deposits and withdrawals—which generally require face-to-face interactions—have had to be redesigned. Currently

performing fundamental banking operations, both public and private Indian banks are putting more of an emphasis on fully digitizing all jobs, procedures, and organizational structures. In the end, this article offers a succinct summary of how COVID-19 has affected the banking industry.

The global banking industry as well as operations in India have been impacted by the COVID-19 pandemic. Because of the impact on all industries, recovery calls for strong actions and well- thought-out plans. In light of the difficulties presented by COVID-19, the Reserve Bank of India (RBI) must take all appropriate steps to provide sufficient liquidity in the financial sector. Furthermore, the government must move decisively and take measures to reduce economic uncertainty and financial strain. Sustaining the efficient operation of the money and capital markets requires constant work. The banking industry has been severely impacted by the COVID-19 failure, and until the extended moratorium term expires, actual non-performing assets (NPAs) are probably going to be hidden. We expect the road to recovery to be especially difficult for growing markets such as India. The introduction of vaccines may contribute to an economic comeback in 2021, although it might take more than a year to reach full recovery. The recovery's course is still unclear, which highlights the significance of putting systematic measures in place to boost profitability and guarantee market liquidity.

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