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IMPACT OF COVID-19 ON BANKING INSTITUTIONS AND INDIAN ECONOMY IN 1ST QUARTER 2020

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Abstract - The Covid-19 Pandemic had affected financial markets and investors a lot; and financial institutions will also face several problems due to this ongoing liquidity problems and lockdown situations. It is very important in today's situation to anchor the economic situation by the banking industry as fast as they can. The bank must provide necessary support to the industries and company to which are required for their survival as well as to maintain economic stability. It should their first and important task. To save the economy from free fall it is required that bank should act as a safety net. The pandemic of covid-19 cannot be predicted to its max till now but the worst can be prevented. During this pandemic to minimize the loss of the customers, banks should interact with their customers and guide them as and when required. It is very crucial position for the bank to meet out the expectation of their customer and society. At the end of the day the most important thing is to reduce the effect of pandemic on the majority and try to bring them back to normal life.

Key Words: **- NBFCs, Banking, Economy, Coronavirus, Digitalization.**

I. INTRODUCTION

COVID-19 has taken the world into a state of emergency. A sudden chaos occurs across the globe when the World Health Organization declared the Novel Corona virus outbreak a pandemic. The companies and entrepreneurs become turbulent and the economies are becoming formless. Investors start behaving panicle and pulling out their money from the market. The stock markets of throughout the world crashed drastically. All the annual planning and economic forecasts are crumbled due to this coronavirus within weeks.

The coronavirus outbreak has affected both financial markets and consumer sentiments; and with the ongoing liquidity crunch and lockdown situations it seems there's more trouble brewing for financial institutions. This global economic crisis can be overcome only with the help of banks and financial services providers as they can contribute significantly in this situation in the best possible way. Off cycle cuts and liquidity were injected by the central bank to let economy move with ease.

II. IMPACT ON THE ECONOMY

Economists and experts all around the world predicted that the sudden economic halt caused by covid-19 containment measures will lead to a global recession this year. Sudden decrease in the demand leads to cash flow slums. The Central bank try to maintain the liquidity in the economy by cutting the rates from zero to lower. They tried to maintain liquidity in the country to reduce the risk.

Unorganized and SME sector will be adversely affected due to production breakdown in some large companies which are involved in production. Due to a severe slowdown in demand, many sectors may experience payment interruptions, extended accounts receivable cycles and contract disputes, all of which will strain the liquidity situation and may lead to increased delays in debt repayment unless tolerance is extended. To avoid large scale cases of covid-19 the government has started taking fiscal measures for maintaining the health situation. A slow credit growth below 6% is expected in the economic year 2021.Banks in the country will come in the profitability pressure as there will be slow credit growth and likely increase in credit provisions as asset quality stress likely to go up.

III. IMPACT ON NBFCs

Liquidity crisis is faced by NBFCs of India. Commercial Banks act as an important source of liquidity for NBFCs and any weakness in commercial banks deposit funding can constrict liquidity available for lending to the shadow banking sector.

Job losses, in all the industrial sectors especially of those employees who are having contractual jobs like in contraction industries, in manufacturing as well as retail sectors may increase which will hit banks adversely. Job loss results in the loss of incomes which may result fall in consumption pattern, some rise in defaults on personal loans, and could emerge as a risk for microfinance institutions.

NBFC sector has started facing more issues with the outbreak of coronavirus. In this pandemic situation risks to non-bank financial institutions' asset quality and economic growth will increase, when MSME, a major customer and an important pillar of our economy, cannot operate as usual, it will be difficult for the non-banking industry to meet its asset quality requirements. The economic slowdown caused by the corona virus will also affect loan demand, which in turn will affect the further profit of NBFCs.

IV. IMPACT ON BANKS

Indian banks have also been swift in responding to the potential impact of coronavirus on the banking sector and the economy. The RBI has requested banks to grant a moratorium on EMI payments for the next 3 months when they recognized the financial difficulties of big business houses as well as of individuals. On April 17, 2020 after the announcement, the regulatory agency has extended the three-month suspension period for all standard borrowers starting March 1, 2020 tenor extension has been extended to February 29 2020 for those borrowers whose promises had fallen due.

State-owned lenders, such as Indian Bank, Union Bank of India and Bank of Baroda have come together with other public sector banks and SBI, the country's largest lender to offer emergency credit lines to businesses affected by the pandemic. Indian Bank, Managing Director Padmaja Chunduru recently released a statement, saying "In these challenging times, the bank is committed to stand by its customers. Projects have been launched for the liquidity requirements of business and retail customers. These are launched to overcome the hardships of various sectors in economy."

During crises times, banks really have the capacity to rescue the economies and maintain its growth rate. With the pandemic becoming a global crisis of huge magnitude, banks will need to take the initiative, and help their countries tide over this crisis, with easy disbursement of loans and access to credit lines at relatively easy terms.

Bankers and economist expect significant spike in NPAs going ahead. RBI has extended regulatory regulatory relaxations because of which the pain is not visible immediately. But when the moratorium period will end and companies and individual borrowers will have to resume repayments from June the actual situation came into the picture. Analysts are in the view that with no business happening, workforce availability remaining an issue and rampant pay cuts, it is doubtful that borrowers will have repayment capacity.

According to the ICRA report, about 328 companies requested suspension of banking operations. This tells us their financial situation. A senior banker said: "Obviously, we will not see improvement soon. The worst is that we did not assess the possible impact." After a long period of non-performing loan clean-up activities, as of the end of December last year, the total non-performing loans of Indian banks the total loan amount was Rs 79.7 crore, compared with Rs 80.02 crore a year ago. Siddarth purohit an analyst at SMC Global Securities said "A big spike in bad loans is expected to be seen in industry. A number of companies are feeling the heat. Due to the relaxations by RBI like moratorium on loan payments the stress is not being reflected. But, once this is lifted, the real picture will emerge,"

In March according to RBI's credit growth data, particularly in the last fortnight of March in some sectors like non-banking finance companies and industries; there was a spike in bank lending. But this growth is only due to earlier sanctions done by these financial institutions.

A new wave of loans for retail customers are introduced by the Indian banks. During the covid-19 pandemic when the economy is on a halt, India is predicting that bad loans could double at its banks. At the end of September 2019, the Indian banks were already grappling with 9.35 trillion rupees. The value is equivalent to almost 9.1 of their total assets.

The government believes that by the end of this fiscal year, banks' non-performing assets (NPA) may double to 18-20%, because 20-25% of outstanding loans face the risk of default. "The increase in bad debts may hit credit growth. And delay India's recovery from the coronavirus pandemic.

Measures adopted by RBI to overcome this pandemic

To help the banks and borrowers in this tide of crisis, RBI has announced a slew of measures In the first round of measures, the Reserve Bank of India announced that it would cut interest rates by 75 basis points, and liquidity measures of 37.4 crore rupees, including a targeted long term repurchase business (TLTRO) worth 1 crore rupees, which includes working capital. The deferral of interests, all term loans provided by lending institutions is suspended for three months. Specifically targeting small companies' RBI in its second round of measures announced TLTRO 2.0 worth Rs 50000 crore.

The only way to stop the steep rise in bad debts is if the RBI significantly relaxes bad asset recognition rules. Banks have asked the central bank to allow all loans to be categorized as NPAs only after 180 days, which is double the current 90-day window. The lockdown is like riding the tiger, once we get off it we'll be in a difficult position. The banking industry has been trapped in a decade of low credit growth and will be hit by the new asset quality dilemma, because companies large and small will be locked in for 21 days to prevent the spread of corona, so loan collection will be hit. Virus, rating agency ICRA NSE -0.10% said.

Banks should keep a check on the development of applications to keep a check on the loans of countless small and medium sized enterprises.it should be processed as fast as possible, and the money from dedicated funds needs to be distributed. Security should be balanced by banks on one hand. Fast and efficient help should be balanced by bank by other hand when they are completing the loan granting process .Dynamic financing models, suspension of mortgage payments, postponement of loan repayments, and the implementation of further support and stabilization measures by the government will be issues that financial institutions need to solve.

Coronavirus challenges traditional banking habits

As community spread of coronavirus proliferates, in person banking and physical exchange are becoming risky and other alternatives of physical banking become more attractive. Paper money is being viewed and treated as a potential coronavirus carrier. Banks, Consumers and government are weighing the risk of in person banking and opting for digital channels when they have the choice. Digital banking becomes more urgent due to this coronavirus. During this phase of pandemic bank personal provide timely guidance to the customers by phone and helping them by providing all the needed information and telling them about entire online process. Customers need not to have a stress to visit the branch physically to complete any transaction either for opening an account or to apply for a loan.

It is being a big challenge in front of all the financial institutions to maintain their own moderate operations and provide an optimal solution of the problems to their customers. After all, the financial sector is also intensely affected by the measures taken against the spread of the Covid-19. To reduce the personal contact and for safety reasons physical movement in bank branches are being reduced and they are being shut down to reduce the personal contacts between bank advisors and customers**.** Entire departments of banking industries are temporarily working from home, which confronts banks with unprecedented has administrative challenges often paper based.

Digitalization becomes the need of the hour for all the financial institutions in the current situation to survive. Due to the far-reaching restrictions of public life, banks are forced to create appropriate offerings as fast as possible with which they can reach their business partners under the given circumstances and encourage and support them to use these. The main motive of digitalization is to reduce dependence on the branch by quickly extending the services available over the net. Now financial institutions can prove their worthiness and can be relied upon by providing better customer service**.**

The banks want to be on ease in asset classification norms and different provision norms which have to be maintained by the financial institutions. The money movement has come to a halt across the world due to this pandemic: The customers who have absolute payment record also encounter cash flow issues much beyond the stated moratorium period which is possible because of these ripple effects of disruption and dislocations in this intertwined world. Due to these drawbacks there are chances that all the business will be affected very badly.

V. CONCLUSION

All financial institutions play a central role is by performing a task like payment transactions, deposit collection and lending, for the running of the global economy. Banks provide eminent services to their different customers like companies, individuals and so on. It is very crucial to maintain the continuity of banks operations and stability in their performance to handle the impact of the Covid-19 crisis. Right decisions should be taken by the financial institutions quickly. It's a challenge for all of us to not only to manage the operations of banking industry but also to provide sufficient support to those whose economic existence is massively endangered.

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