Journal DOI: 10.36713/epra1013|SJIF Impact Factor (2021): 7.473 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 8 | Issue: 7| July 2021 -Peer-reviewed Journal

# COVID-19, INDIAN ECONOMY, BANKING SECTOR: A PERSPECTIVE ON PERFORMANCE OF INDIAN BANKING SECTOR

**Dr.Mayur Subhash Punde**
*Assistant Professor, AISSMS Institute of Management Pune, Maharashtra, India*

**ABSTRACT**
***The COVID-19 outbreak is a significant shock to the Indian economy .It has affected all the sectors at macro level across the country. In India, impact is resulting to a negative growth rate in economy. Many sectors were performing good before the pandemic but now they have been pulled down by this pandemic. The economy was already in an unstable stage before covid-19 outbreak and after the shutdown of economic activities and nationwide lockdown the economy is likely to face prolonged period of slowdown. One of the most important sector of Indian economy is banking sector which is responsible for all the financial activities going on in the country and working as a supporting hand to all of the industries in term of financing, credit, transactions, collection and payment and so on. The intensity of the economic slowdown depends upon the nature and duration of the lockdown across the country. With large number of population and more dependence on the informal labour and unsystematic banking practices has turned the economy into a disruptive situation. The current article gives an overview of the impact of COVID-19 situation on Indian economy and its banking sector. The study is the analyses of data which is secondary in nature and based upon various research article published on the COVID-19 pandemic outbreak. The research paper also analyses the various policy measures taken by Reserve Bank of India and Indian Government at centre level and state level to improve the current economic situation of the country.***

**KEYWORDS:** ***Indian economy, COVID-19, RBI, Indian Banking, Banks, GDP***

## I. INTRODUCTION

Indian economy basically depends on the three sectors namely primary sector, secondary sector and tertiary sector and all the three sectors are being majorly supported by banking sector.

Banking sector is providing the financial support to all these sectors by disbursing loans, advances, short term credits, issuing letter of credit, bank guarantees etc as its traditional work. Apart from it the new phase of Indian Banking resembles in work like providing forex support, digital banking, e-commerce, telebanking, e-kiosk and many more. You cannot imagine rapid growing economy without banking support.

If banking sector get impacted by any obstacle its consequences will definetly be borne by all these three sectors which are pillar of the Indian economy.The first case of COVID-19 in India was reported in the month of January 2020 and after that covid cases started increasing in India day by day. Ministry of Health and Family Welfare (MoHFW) issued travel advisory restrictions which were quite similar to the previous pandemics which were spread same like covid-19 virus such as SARS, Ebola, and bubonic plague, including the imposition of self-quarantine rules for 14 days to all international travellers entering the country.

Moreover, Indian Govt restricted travel visas until 15th April for other countries and after that other measure like social distancing is proposed by Ministry of Health and Family Welfare (MoHFW) to minimize the spread of this disease. On 22nd of March Prime Minister Sh. Narender Modi proposed Janta Curfew to curb the spread of COVID-19 this activity resulted to shut the business activities and transportation services across the country3.On 24th March 2020 complete 21 days lockdown was announced by the Prime Minister Narendra Modi to 14th of April, 2020 and further it was extended by the Indian Govt. time to time to break the chain to spread of COVID-194.

However these kind of measures taken by Indian Govt. to curb the spread of covid-19 pandemic impacted the GDP of the country in disruptive way. The IMF global growth projection reveals global economy is expected to plunge into the worst recession since the Great Depression in the 1930s, which might be far worse than the Global Financial Crisis. IMF made a projection of 1.9 per cent growth in GDP for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s.

### A) Objectives of the Study

- To find out the key challenges faced by Indian banking sector due to COVID 19 pandemic.
- To find out the policy measures taken by Government of India to recover the economic crisis.
- To study various measures taken by RBI for faster recovery from Pandemic.

### B) Research Methodology

This research is entirely based on secondary data to assess the impact of COVID-19 on Indian Banking Sector & other financial Institutions. This secondary data has been collected from the reputed English newspapers, magazines, various sites on the internet and other published research journal in this area and authorities of international institutions like World Bank, IMF and so on. The information available on various sites and newspaper, magazines and on other sites have been scanned and understood carefully while drawing the right conculsion for this article. The nature of the study is completely descriptive

## II. IMPORTANT POINTS DRAWN FROM THE STUDY

1. The non-performing loans to shoot up to 13-14 per cent of total loans in the fiscal year ending March 31, 2021, compared with an estimated 8.5 per cent in the previous fiscal year," Moreover she added banks may also be saddled with a huge stock of bad loans next year.
2. Due to fall of economic activities & tax revenues in India it will make public debt rise from 17 % points to 90% of GDP because public spending has increased in response to COVID-19.
3. Indian economy will recover soon with emerging rate 8.8 percent in next fiscal year earlier it was predicted 4.5 percent de-growth in the World Economic outlook report June 2020.
4. The banking sector of India is badly broken especially the public sector banks. These banks have been struggling to deal the mounting losses from their non-performing assets on their balance sheet.
5. This type of problem has adversely affected the credit growth in India and while the pandemic hit India this problem started to hurt debt market in India.
6. India has been dealing with twin balance sheet over the last year because of high level of non-performing assets (NPAs) in an inadequately capitalized banking system.
7. However Reserve Bank of India (RBI) took some remedial action to address the financial crisis and kept 10 weakest banks in a Prompt Corrective Action framework.
8. The pandemic has created a deep routed impact on the Indian economy, negatively affecting its GDP, unemployment rate, inflation rate, domestic and international trade, financial markets, government budget and various other macro-economic factors.
9. The most vulnerable sector of the economy at this time, the MSME sector, has witnessed a disturbing phase in its functioning due to this crisis.
10. The banks have a risk of facing an increasing number of bad loans or non-performing assets (NPAs) if the borrowers are unable to generate sufficient cash.

## III. RBI MEASURES

1. RBI has reduced cash reserve ratios of all banks by 100 point basis to 3% net demand and time liability w.e.f 28 March 2020.
2. The requirement of minimum daily CRR balance maintenance has been reduced from 90% to 80% w.e.f 28 March 2020 and this one-time dispensation is available up to 26 June 2020.
3. Under the Marginal Standing Facility (MSF), RBI has permitted banks to borrow overnight at their discretion by dipping up to 2% into the Statutory Liquidity Ratio.
4. The central bank has widened the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 basis points (bps) lower than the policy repo rate.

5. The MSF rate would continue to be 25 bps above the policy repo rate. Further, consequent upon the widening of the LAF corridor, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0%.
6. The widening of the corridor between the reference rates is expected to ease short-term volatility and bring stability to money markets.
7. Policy repo rate has also been reduced under the LAF from 5.15% to 4.40% (i.e., by 75 basis points) with immediate effect. Accordingly, the MSF rate and the bank rate to stand reduced from 5.40% to 4.65%.

## IV. CONCLUSION

The covid-19 pandemic has negatively affected the Indian economy and its banking sectors and to know the exact span and depth of the impact of this virus is still not possible. The situation will be clear after the pandemic is over. However Govt. and RBI has taken some initiative to minimize the effect of this virus on the economy but still there are lots of things yet to do they are not sufficient till the virus doesn't over. This pandemic situation calls for strong and resilient leadership to the Indian economy to protect it from long term damage.

## REFERENCES


1. *The Economic Times, 2020. URL: https://bfsi.economictimes.indiatimes.com/blog/potential-implications-of-covid-19-on-thebanking-sector/4227.*
2. *Hindustan Times, 2020. URL: https://www.hindustantimes.com/indianews/70-of-banking-sector-debt-affected-bycovid- 19-s-impact/story- MAYiYZWz5NE6Pijm7XQNSJ.html.*
3. *S. M. Dev, R. Sengupta, Covid-19: Impact on the Indian economy, Indira Gandhi Institute of Development Research(2020), Mumbai April.*
4. *B. Rakshit, D. Basistha, Can India stay immune enough to combat COVID-19 pandemic? An economic query. Journal of Public Affairs (2020), 20(4), p.e2157.*