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PERFORMANCE OF BANKS IN INDIA DURING THE COVID-19 PANDEMIC

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Abstract: India was facing an economic slowdown, when the pandemic broke out. It dealt a cruel blow to all sectors of the economy. How was the banking sector affected?

This research paper analyses the impact in all dimensions, including the financial health of banks. It also critically evaluates the measures taken by the Government of India and RBI to assist the banks tide over this crisis. The study relies largely on secondary sources for data – reports of RIB, annual reports of banks, impact studies by rating agencies and newspaper reports. The findings reveal that banks have shown resilience. During 2020-21, deposits with banks grew at a higher pace than usual, partly reflecting perception of their safe haven status. Banks' credit growth declined during the pandemic. The outstanding credit deposit (CD) ratio in Indian banks has also declined during this period. The banking sector will have to use the existing and emerging new technologies to get out of the difficult situation arising out of the epidemic.

Index Terms **- COVID-19, Banking Sector, CD ratio, Credit offtake, GDP, NPA, NRI deposits.**

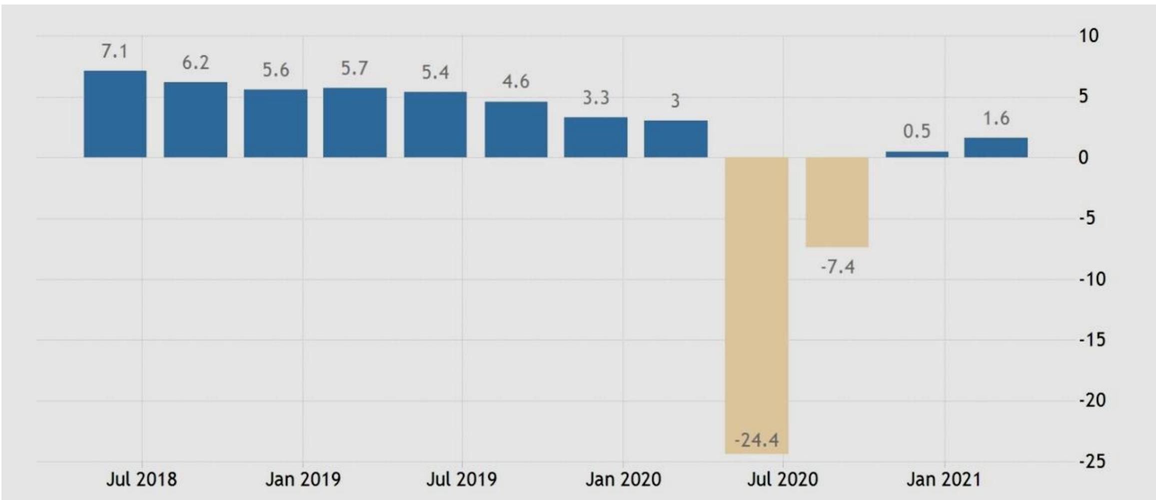
I. INTRODUCTION

Banks are like the heart of a country's economy. It gets affected by problems faced by different sectors of the economy. A slowdown in one sector will negatively impact the repayment of loans of units in that sector. Greater the exposure of a bank to that sector greater will be the impact. The magnitude becomes much larger when all sectors of the economy are negatively affected which is what happened during the COVID.

The impact of COVID was seen in the form of a historic decline in India's GDP. Along with GDP, there was a significant increase in unemployment rate, inflation rate, dip in domestic and international trade. The saving grace was agriculture whose growth rate was not greatly affected.

The GDP growth rate had started falling even before the pandemic broke out. The pandemic only accelerated this development sending the economy into a tail spin, leading to a contraction in the economy in the first half of 2020-21.

Chart 1 :



GDP growth rate of India ((MOSPI), 2021)

Observation: There is a continuous fall from 2018. The economy contracted in Q1 of 2020-21. The contraction continued into the Q2 but was less severe. The growth rate came into positive territory in Q3 and Q4..

The pandemic arrived like a thunder storm, compelling the Government to take extraordinary precautionary measures. It ordered a national lockdown for an extended period from March 2019 to contain the pandemic. Repayment in banks were affected because the industries were closed, and people lost jobs or had to take steep cuts in salaries. Unemployment reached its peak. The labourers were forced to migrate to their home towns. The expenditure of the general public on medical expenses shot up. Against this background, RBI and the Government announced measures in a bid to manage the crisis.

RBI announced a moratorium initially for 3 months and then extended it for another 3 months, covering all borrowers for EMIs due between March and September 2020. At the same time, the Government had announced a stimulus package of ₹ 20 lakh crore, which was 11% of GDP. (RBI, Reserve Bank of India - Publications, 2020).

In August 2020, RBI appointed an expert committee headed by Mr KV Kamath, former chairman of ICICI Bank to look into restructuring of loans, impacted by the pandemic. The committee identified 26 sectors – including power, construction, iron and steel, roads, real estate, wholesale trading, textiles, consumer durables, aviation, logistics, hotels, restaurants, tourism and mining – for restructuring. (RBI, Reserve Bank of India - Publications, 2020).

The biggest challenge for the banks was to keep all their outlets up and running in the face of a raging pandemic. They had to quickly put in place all COVID protocols – social distancing, providing hand sanitizers and wearing of masks. All the outlets had to made safe for both customers and its employees. Visits to customers' places got severely curtailed, be it for new business or collection and recovery of loans.. It gave work from home option to the employees working in the administrative offices, while a rostering system was employed in branches. Still there were causalities – according to IBA 1.5 lakh employees got infected even as the banks continued their services. (Nag, 2021).

2.Review of Literature

1. (Vikash kumar, 2021)The paper points out that the covid-19 pandemic has negatively affected the Indian economy and the banking sector and that it will not be possible to gauge the exact span and depth of the impact of this virus. The situation will be clearer after the pandemic is over.
2. (Thakori,2020) The research paper highlights the decrease in productivity of corporates, supply chain disruption, manufacturing hindrances & crippled health systems, increase in bad loans in banks, reduced income of tourism and entertainment sectors etc. It mentions two implications for the future of banking. First, banks will operate in a financial system that is awash with liquidity and interest rates are extremely low. Second, the Government will be a key player in the financial sector, both as a borrower (to fund its deficit) and as a 'risk absorber' providing guarantees, back-stops and more direct fiscal support for borrowers whose businesses and cash flows bore the brunt of the virus.
3. (Dr. Priyanka Bobade, 2020) The paper concludes that financial institutions facilitate a conducive environment for the employees and reskilling of the employees on new processes. They are enhancing customer centric approach through digital channels.
4. (Perwej, 2020) The paper highlights the fact that the COVID impacted every industry across the globe in recent months. Banks and financial services sector are facing multiple challenges. Banks must continue to leverage technology and build flexibility in their infrastructure to navigate these challenges.
5. (Das, 2020) (Desk, 2020) "Forbearance is masking asset problems arising from Covid-19," says Deepali V Seth Chhabria, a banking analyst at S&P Global. "With loan repayment moratoriums having ended, we expect to see a jump in NPAs." There would have been more bad loans till now if there hadn't been a Supreme Court order or central bank moratorium, she adds.
6. (Mulye,2021)"The banking way of handling NPAs is typically by increasing lending. As the book size increases, the older NPAs become smaller in terms of percentage of book value and can be written-off," explains Dr Vidhu Shekhar, assistant professor of finance at Bhavan's SP Jain Institute of Management and Research in Mumbai.
7. (Mulye,2021)"The challenge facing banks is not merely to stop the surge of NPAs, but also to be cautious while lending in 2021. One must remember that Covid-19 still remains an uncertain threat so the key challenge for banks would be to grow prudently. How banks handle Covid-19 will be key to addressing the issue of bad loans," says Rajiv Mehta, lead analyst (institutional equities) at Mumbai-based brokerage firm, Yes Securities.
8. (PTI, 2020) "We have seen that there is a steady uptick in the credit growth. The retail loan, home loan and agriculture loans have picked up and MSME, again, with the intervention of the government through the ECGLS and other similar schemes also has picked up," says Financial Services Secretary Debasish Panda.

3. Purpose of the study

The pandemic posed an unprecedented challenge to banks in India and had an all pervasive impact. on its functioning. Fitch Ratings predicted increased risk for banks in the financial year FY2022 (rating, 2021). This paper aims to study the impact of the pandemic on following parameters of banks in India

- Growth of deposits and credit
- CD ratio trend
- Net Interest Margin
- NPA level
- Digital usage

- Volume of NRI deposits

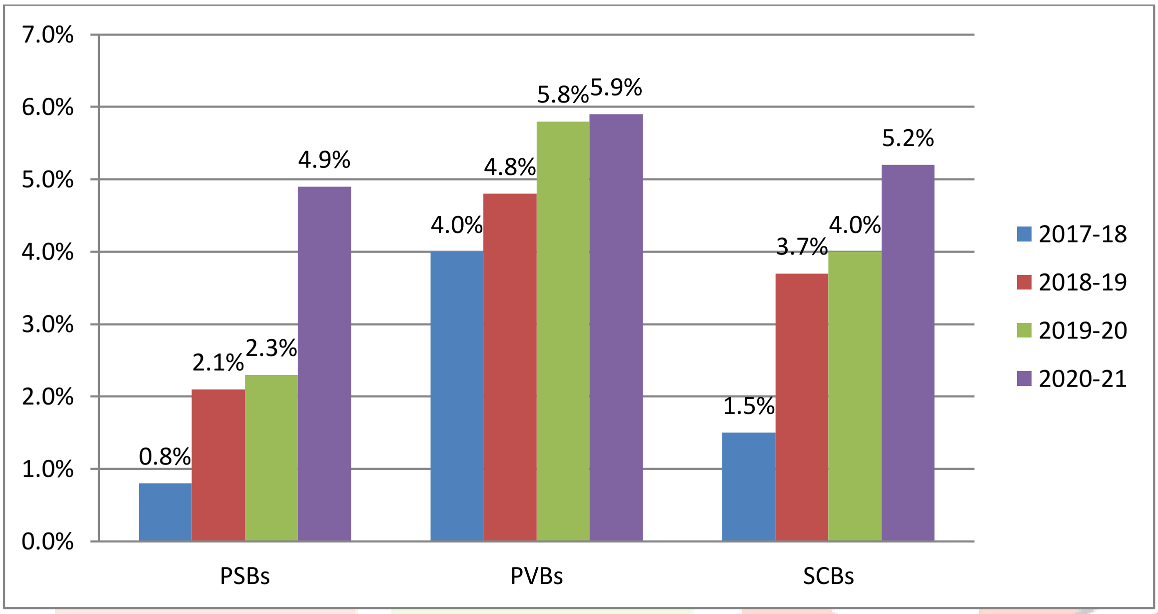
4.Research Methodology

This research paper is based on secondary sources – various published research papers, RBI website, RBI's Annual, Half-Yearly, Quarterly, Bi-Monthly, Monthly, Weekly reports, Press Releases of RBI, speeches of RBI Governor, reports of rating agencies and reports in newspapers and magazines. Metrics pertaining to key parameters listed above were collected mainly for the period 2018-19 to 2020-21 to get a 'before and after' picture. Bar or line graphs were developed. The changes were analysed to capture a quantitative impact of the pandemic on the performance of banks in India.

5. Major findings/Analysis

5.1 Growth of Deposits of Indian Banks

Chart 2: Growth of Deposits of Indian Banks

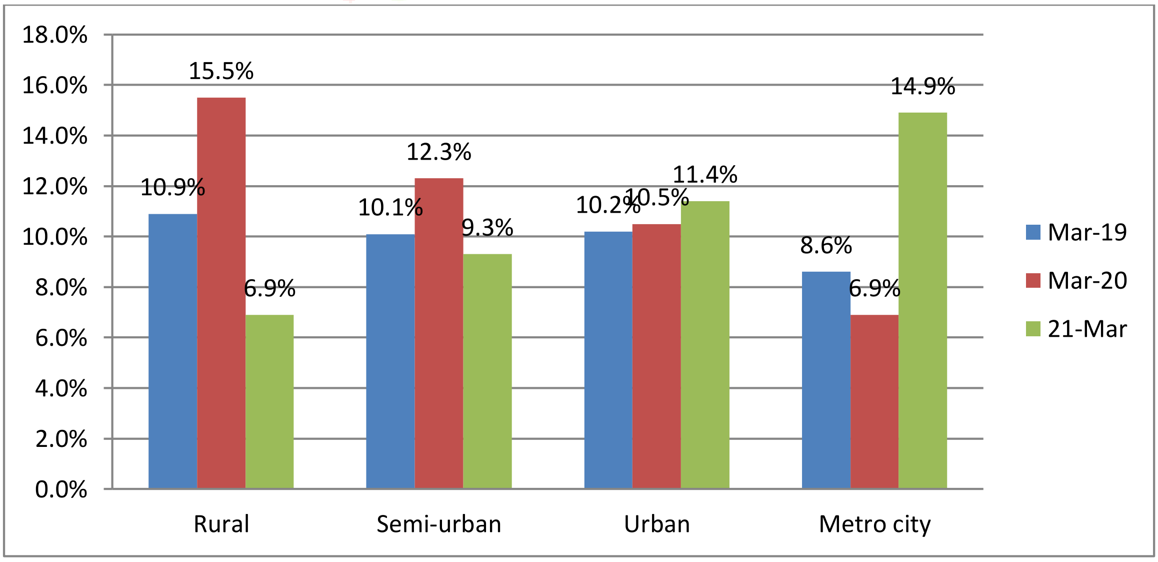


(Source: Prepared by authors based on data from RBI - Operation and performance of commercial banks, 2021)

Observation: The growth rate in deposits of scheduled banks has shown a progressive improvement through the pandemic. Both public sector banks and private sector banks reflect the same trend, with the latter doing better than the former.

5.2 Aggregate deposit in Banks (Area-wise)

Chart 3: Aggregate deposit in Banks (Area-wise)



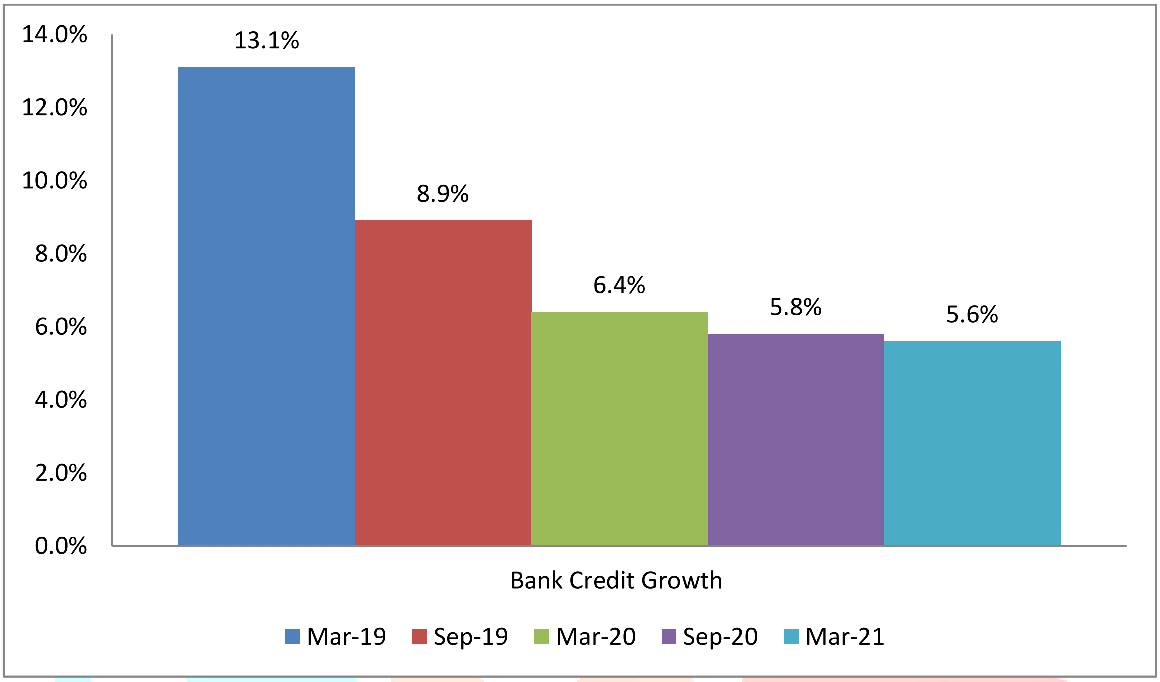
Yes ← Covid 19 Impact → **No**

(Source:Developed by authors using data from RBI- Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, 2021)

Observation: Deposits have grown in all the regions between 2018 and 2021. However, the year-on-year growth differs from region to region reflecting impact of the pandemic. The growth rate in 2020-21 has fallen sharply in the rural area, dipped a little in semi-urban, marginally increase in the urban area and substantially increased in the metros.

5.3 Growth of bank credit (Y-O-Y growth %)

Chart 4: Growth of bank credit (Y-O-Y growth %)

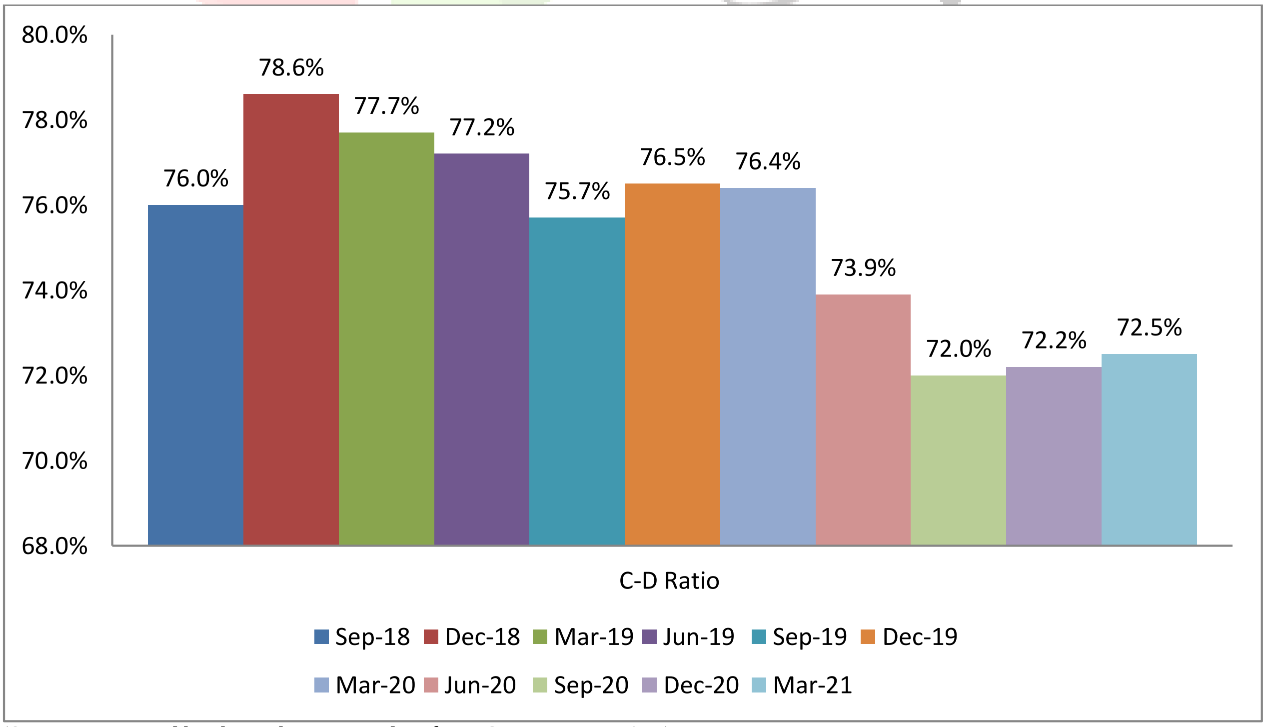


(Source : Prepared by authors on the basis of data from RBI - Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, 2021)

Observation: Bank credit growth has declined from 2019 to 2021 reaching an all-time low in March 2021: the lowest in 59 years. The total credit offtake in the FY 2020-21 stood at ₹109.51 lakh crore. According to the RBI report, the pandemic had an impact on credit offtake in the first half of 2020-21 as the economy was at a standstill. The second half recorded some growth after November 2020.

5.4 Trends in C-D ratio

Chart 5: Trends in C-D ratio

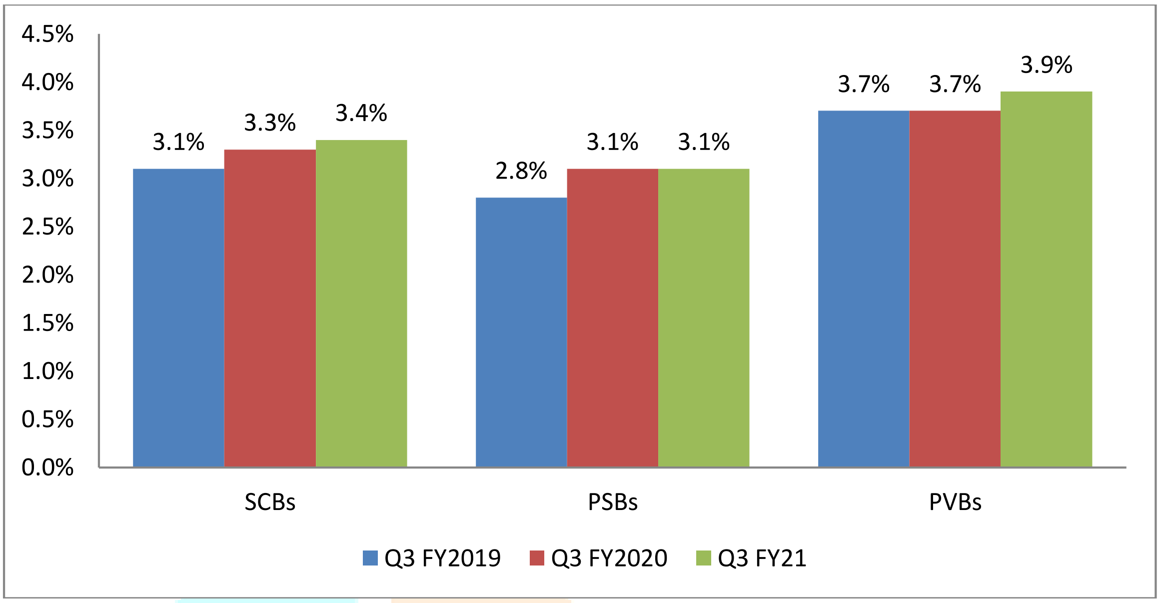


(Source : Prepared by the authors using data from Care_Rating, 2021)

Observation: The C-D ratio shows a fall after March 2020 with the onset of the pandemic, clearly showing the onslaught of the pandemic and seems to have stabilized at the level of 72%.

5.5 Net Interest Margin

Chart 6: Net Interest Margin

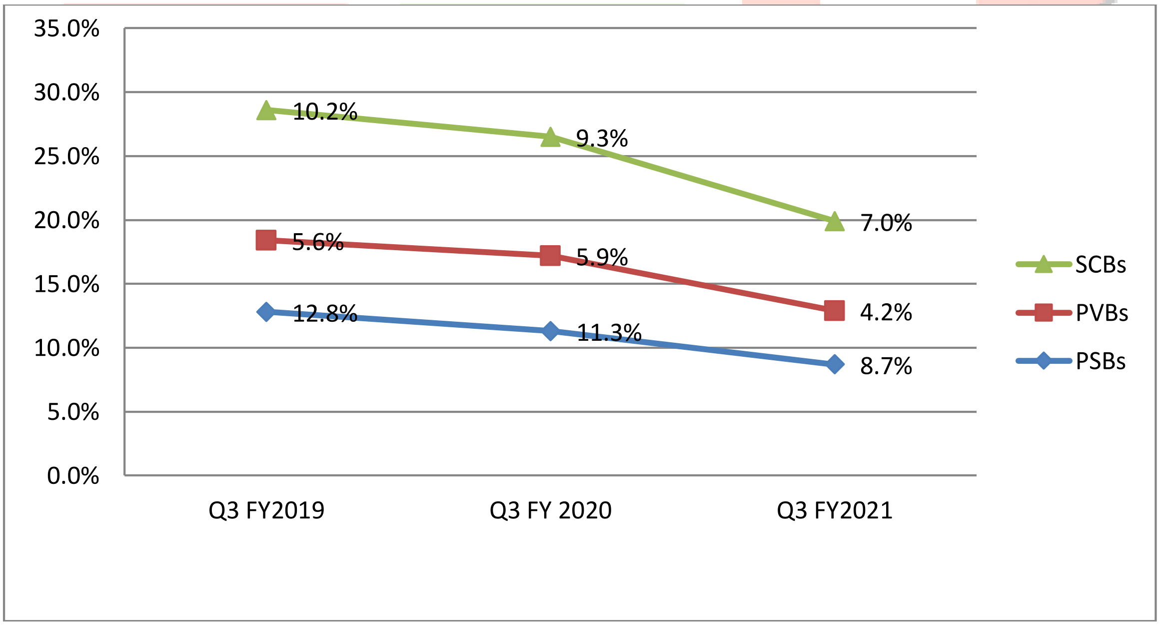


(Source : Prepared by authors based on data from Team, 2021)

*Observation:*There has also been a slight improvement in the net interest margin of banks between FY 2019 and FY 2021. PVBs show a slight uptick but for PSBs it was flat.

5.6 Gross NPA Ratio

Chart 7: GNPA Ratio



(Source : Prepared from data obtained fromTeam, 2021)

Observation: Gross NPAs have declined significantly from FY 2019 to FY 2021. The NPA level in PVBs is markedly lower than that in PSBs in any year.

5.7 Digital Usage

The pandemic induced the common customer to migrate to digital channels for payments.

The challenge before the banking sector is to deal with the fear of digital fraud among the customers. For this, banks need to run awareness campaigns. Customers need to feel that digital payments are simple, safe and convenient.

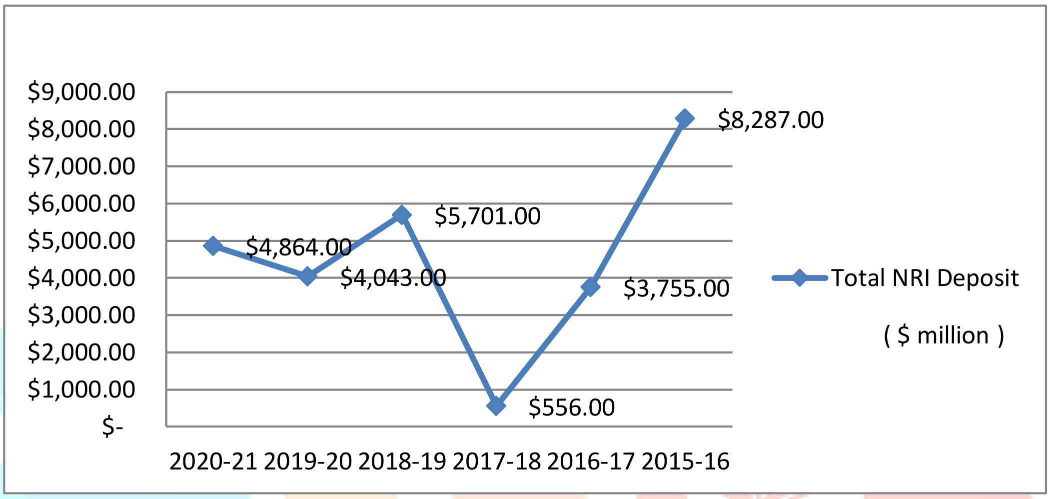
Let us look at volume and value of digital payments.

- In FY 2018-19, transactions worth Rs 16,37,13,413 crore were made through 2,32,602 lakh transactions.
- In FY 2019-20, transactions worth Rs 16,20,89,413 crore were done 3,41,240 lakh transactions,.
- In FY 2020-21, transactions worth Rs 14,14,85,173 crore were done through 4,37,118 lakh transactions. Number of transactions has increased by a whopping 28%. In value terms there is a fall of around 13%. This was due to the slowdown in industries as digital payments also witnessed a decline as business activities came to a halt.

(Reserve Bank of India - Annual Report, 2021)

5.8 NRI Deposits

Chart 8: NRI Deposits



(Source : Prepared by authors using data from Saha, 2020)

*Observation:*The NRI deposits have been falling sharply from 2015-16 till 2017-18 then followed a zig zag trajectory, moving up in 2018-19, falling in 2019-20 and then increasing by 20%.

6. Summary

COVID-19 was an unprecedented event that sent shock waves through all sectors of the economy. It triggered fears that it would have a devastating impact on the functioning of the banks. But the study shows that banks have shown resilience and the position in banks is not alarming.

- Deposits have shown a sluggish growth from FY 2017-18. But banks have recorded the highest growth rate during the pandemic– FY 2020-21. Deposits have grown across areas – rural to metro. During the pandemic, the growth rate was highest in the metro areas and lowest in the rural areas. The impact of the pandemic has thus been positive, clearly reflecting the desire of people to keep more money in a safe and liquid form.
- With respect to credit, there has been no contraction, but the growth rate has shown a downward trajectory after March 2019. The growth rate during the pandemic slumped to the lowest figure in 59 years. With the economy coming to a standstill, following the lockdown, credit offtake dropped particularly between April and November 2020.
- In conjunction with the slump in credit, the CD ratio fell after March 2020. But the fall is not too sharp and has stabilized at around 72% from Q2 to Q4 of FY 2020-21.
- There has been no fall in the Net Interest Margin.
- The Gross NPA ratio has fallen significantly during the pandemic.
- The pandemic has aided digital migration as reflected by a sharp 28% increase in the number of digital transactions in FY 2020-21 over FY 2019-20.
- The NRI deposits has grown by 20% during the pandemic.

7. Implications

- The Credit Deposit ratio has dropped to 72%. Banks need to step up its credit but do it cautiously as capacity utilization in industries has also come down and unemployment has increased. It should use the Emergency Credit Line Guarantee Scheme to increase lending to MSME units.
- Banks need to closely monitor their bad loans and prepare themselves for higher provisioning as advised by RBI due to
  - The impact of the second COVID wave
  - The Supreme Court order lifting the ban on classification of non-performing assets

  Banks should restructure loans, going by the criteria set by the Kamath committee.
- Banks will have to reduce cost of funds. The welcome sign is the increased use of digital channels which involve reduced cost. Waiver of compound interest on all loan accounts where borrowers opted for moratorium during March-August 2020 will also have an impact on Net Interest Margin which has remained flat.

8.Ideas for future studies

This study evaluated the impact of the pandemic on select key parameters of banks in India. There is scope to examine impact in other areas – customer service, man power recruitment, sale of third party products, relationship banking.

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