



## IMPACT OF COVID-19 ON BANKING SECTORS

S. K. Pande

Mahila Mahavidhyala, Amravati.

\*Corresponding Author: shalinipande06@gmail.com

### ABSTRACT:

The society is observing a very strange time and fighting an invisible enemy that is novel COVID-19 corona virus. Initially it was observed in Wuhan province of china but now it was fastly spreading around the world. As this disease is new and very less scientific material is available on the topic various journals and companies are offering free material published about the corona virus. Here in this short review we are going to discuss the article about corona virus that effect the Banking system. Banking industry earning had dropped down in the short term period as interest and non interest activity had shrinked. Banking is business who convert deposit into loan and investment. The difference of interest rate is the main source of earning of the banks where certain safety rules are introduced to limit the growth of COVID-19 such as order sanctioned by law to remain in home quarantine, temporarily close of certain types of stores, close restaurants, hotels, meseums , city parks, theaters, cinemas, other cultural centers etc. consumption of normal people had drop down and therefore credit purchase had also fall. Many enterprises had limited the investment project so the demand for business loans is falling which is the main source of income from the core business of commercial bank. So in this research paper we are going to discuss impact on banking sector due to COVID-19 , facilities givem by banks and government to the people and had suggested some measures how we can come out from this problem. There is denying fact that this pandemic is affecting and going to affect banking industry worldwide. But we can hope that everything will be normal .

**Keywords:-** Banking system, COVID-19 ,Quarantine, pandemic

### INTRODUCTION:

A bank is a financial institution which involved in borrowing two and lending money. Bank accept deposit from customer and in return pay annual interest on it. The bank uses the majority of deposits to lend to the other customer for a variety of loans. The difference between the two interest rates is the profit margin of banks. the main purpose of bank is to keep money safe, lend money to firm , offer financial advice etc.

A deterioration of global economic condition and lockdown imposed by government had slow down the spread of coronavirus but there is great effect on market demand and supply. The stress among non- bank financiers will limit their capacity which will further effect indian economic growth.

As for the impact of COVID-19 on banking , during the covid of the banking sector , it is experienced that there is financial turbulence where the economy did not work and needed relaxation for creditors so that the money market was not too eroded, this happened because the velocity of money was very less , the income of the people is very low and there expenditure are high , so bank need to be very careful while lending to the people.

It is observed that there is reduction in both retail borrowing and saving on account as customers withdraw significantly more cash than regular. This may lead to decrease in liquidity for the banking sectors .In many countries in accordance with the guidelines of anti crisis government had announced economic policy where borrowers have the option of

postponing loan installment for a period of several month without additional cost. Due to this decision the revenue from sale of loan and other financial instrument strongly decreases. Bank profit are also falling to a large extent. On the other hand due to the increase on COVID-19 the digitization process of the economy are accelerating. In many sectors more and more companies are developing their activities through internet and selling their product through e-commerce. The importance of internet marketing including viral marketing, real time marketing conducted on social media portals is increasing.

#### **OBJECTIVES :**

1. To study about the banking system.
2. To find the impact of COVID-19 on banking system.
3. To understand the problem faced by bank as well as normal people due to lockdown.
4. To analysis the new emerging trends that take place during lockdown.
5. To provide conclusion and some suggestions how to overcome from the problem faced by banking system.

#### **Impact of COVID-19 on banking system**

COVID-19 is an unfolding event that brings uncertainty to every aspects to the society. Safety of people is utmost priority along with the development in the country. It is also important to provide continuity of business and transparent financial reporting to stakeholder. The government of india and RBI had announced various economic and fiscal measures to overcome this crisis .at this time bank needs to focus on liquidity, credit risk, well- being of its employees along with the quality of financial reports.

1) With the effect of COVID-19 total slippages in the banking system may rises up Rs.5.5 lakh crore in the current financial year according to the report.

2) According to the indian rating and research corporate sector may rise by 3.4 lakh cr. And non- corporate sector may raise upto 2.1 lakh cr. In FY21.

3) The credit costs for the system may raise upto 2.7 lakh cr. In FY21.

4) According to the report, capital requirement expect for PSBs in the range of Rs. 30000-55000 cr. In FY21.

5) Banking earnings are going to be decrease in the short period because it is based on interest and non-interest activities.

6) Loans and NPL of the banking industry is effected due to COVID-19 which also effect the earnings of this sector.

7) Monetary measures to lower SRR, overnight interest rates and re-classification of NPLs will have positive effect on banking earnings.

8) Many enterprises restricted their investment projects , so the demand for loan is falling which is the main source of income from the core business of commercial bank.

9) The value and numbers of investment banking transactions are also decreases if the lockdown last for few months.

10) In some countries according to the guidelines of government , borrower have the option of postponing loan installment for the period of few months without any additional cost. Which effect bank profit to a large extend.

11) Digitization process in the economy is increasing rapidly.

12) Many industry and sectors are developing their activities through internet, remotely providing their services and selling their products under e-commerce.

13) The banks profit will be low and NPA's will be high as the money is not rotating in the market and borrowers will not be able to repay loans.

### Facilities given by banks and government

- 1) The RBI has given certain waivers to the borrowers which include moratorium to pay principal and interest with relaxation.
- 2) This is done to help borrowers tide over temporary financial difficulties.
- 3) The requirement of minimum daily CRR balance maintenance has been reduced from 90% to 80%.
- 4) Reduction of CRR of all the banks by 100 basis points to 3%.
- 5) Under Marginal standing facility (MSF) , RBI has permitted banks to borrow overnight at their discretion by dipping up to 2% into the Statutory Liquidity Ratio. This limit has been raised up to 3% and it is applicable up to 30 june 2020.
- 6) The central bank has widened the existing policy rate corridor from 50bps to 65 bps.
- 7) The MSF rates would be continue to be 25bps above the policy rate.
- 8) Policy repo rate has been reduced under the LAF from 5.15% to 4.40%.
- 9) In respects of all term loans all commercial banks , co-operative banks, all-india financial institutions and NBFCs are permitted to grants a moratorium of 3 months on the payments of all installments falling due between march 1,2020 and May 31, 2020.

### CONCLUSION :

- 1) In these research paper we concluded that due to this situation of COVID-19 not only the banking sector even over all whole economy is suffering.
- 2) RBI and government of india is trying to overcome this situation of contraction in the economy by providing various scheme to the people.
- 3) But it is tough period which may take time to overcome.
- 4) It is situation where country is shifting towards the pharse of depression of the business cycle.

- 5) RBI and banks and other financial institutions are also facing tough period because there is less demand of money in the market at this time , nobody is liking to take risk at this time to start new business.
- 6) Earnings of bank through interest has been decreased due to lockdown , which is the main source of banks.

### SUGGESTIONS :

- 1) RBI should restore stability in financial market.
- 2) There should be more cut of in the rate of interest, so that there will be easy flow of money in the market.
- 3) RBI could cancel the first state auction and immediately increased theWMA limits.
- 4) RBI can even waive mark to market accounting for bound purchased in the auction during lockdown.
- 5) RBI can buy bonds directly from the government.
- 6) At least Rs. 2000 for all the 30 cr. Jan Dhan holders should be warranted.
- 7) All the people should use online transaction for payment, so that there should be regular flow of money.
- 8) RBI should reduced the interest rate on loan and even the time period of payment. Even extra charges should not be imposed on late payment of interest.
- 9) Even public should use these opportunity for increasing the growth in the economy and do not mislead this opportunity.
- 10) Government should work to increase demand in the country , this is the only way through which economy can become stable.

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