MANAGEMENT OF FINANCIAL DISTRESS& MORATORIUM IN INDIAN BANKING SECTOR DUE TO COVID-19

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ABSTRACT:

At present, the world is suffering due to the hardships caused by the CoVid-19 pandemic. While some countries are battling the 4th wave of CoVid-19, India still awaits the 3rd wave of CoVid-19. The pandemic has led Indian banking sector towards a crisis whose effects are going to be long lasting. Our government took various steps like PM's Care Fund, moratorium offered by RBI, other measures for small/medium enterprises in order to minimize the ill effects of the crisis caused by the deadly virus. The question here arises is that whether these measures have actually cured the problems are or they just a partial cover. No one knows how is the economy going to behave in coming few years as no actual cure for the virus is yet formulated, medicines are being made, people are being vaccinated but there no evidence as to how beneficial will these medications be against the coming waves of the virus. The current paper examines what hazards has the CoVid-19 pandemic caused in the Indian banking sector with respect to the buildup of NPAs. The study is based on various secondary sources of data and the paper is conceptual in nature.

Keyword: CoVid-19, Indian banking sector, Non-Performing Assets, moratorium, Information Technology, Reserve Bank of India.

INTRODUCTION

The bankruptcy of Lehman brothers, US, left the world economy to face the greatest depressions of all time in the year 2008. India also faced the adversities caused by the crisis and was still under recovery from the catastrophe from a decade. NPAs in the Indian commercial banks (public, private & foreign) were on a rise since 2010 to 2018 i.e., 2.51 % to 11.89% GNPA to Gross Advances ratio respectively which improved in the year 2019 when the ratio fell to 9.08%. The onset of 2020 brought about another major catastrophe called the Covid 19 pandemic, that has robbed every sector of its financial progress. The banking sector was also hit very hard by this disaster. The primary cases were found in a little group in Wuhan, China and it has proceeded to develop and spread all around the world from that point forward (Rugani and Caro, 2020). The infection drove to a pandemic, which has devastatingly affected the worldwide medical care framework and has disturbed each and every human existence on the planet (Nicola et al., 2020).As per WHO, Coronavirus sickness or CoVid-19 is a seriously infectious illness brought about by a newfound infection i.e., severe acute respiratory syndromeCoronavirus 2 (SARS 2). As time passes, various nations are revealing the ascent of cases with no conviction as of when the pandemic will end. Therefore, nations announced cross country lockdown to control the infection from spreading further. This has prompted supply chains being upset, disturbance in amounts of consumption as well as production, shuttingdown of many organizations, staff losing their positions, driving the world towards a major depression of all times (Fernandes, 2020). In India a cross country lockdown was reported by our fair Prime Minister, ShriNarendraModi on 24th of March 2020 to check the profoundly irresistible infection from spreading. However, the lockdown was basic for control of the sickness, yet it has brought about genuine worries relating to the monetary wellbeing of the economy. Our Finance Minister, Mrs.NirmalaSitharaman reported different measures so the residents would not confront any sort of monetary issues. Presently, the inquiry emerges whether these actions are adept over the long haul for in general wellbeing of the Indian economy or not. It is being assessed that the financial business will confront serious difficulties because of this pandemic and ensuing lockdown. As per an official statement by RBI on 22nd May, 2020, every one of the commercial banks, co-operative banks, all-India financial institutions and NBFCs were allowed to permit a moratorium on instalment of portions of all term-advances up till 31st August, 2020 for the first time. On May 5, 2021 the RBI governor announced yet another moratorium for individuals and small businesses. The borrowers were given an opportunity to avail for a moratorium of 2 years or less for which they last date of application was till Sept 31, 2021. The greater part of the borrowers in India are hard-headed defaulters and stay away from paying instalment of the credit portions either on schedule or not in the slightest degree. By giving the arrangement of conceded instalment of credit portions the RBI has in a manner given a free pass to the borrowers and they might keep on defaulting now like never before. The pandemic continues, and a third wave is expected in the near future. So, the world economy is still completely not recovered. Indian economy especially, was hard hit by the second wave of CoVid-19. However, the vaccination drive being successful has given a hope of revival to different sectors and it is being expected that the disease is now under control as maximum population has been vaccinated. The current paper is an attempt to discuss the financial implications of CoVid-19 on the banking sector and how it has contributed to the amplification of NPAs.

Paper contribution:

The paper aims at contributing to the existing studies in the following way:

- Explaining the causes and impact of NPAs on Indian banking sector.
- Discussing the management of NPAs during the CoVid-19 pandemic by banks.

LITERATURE REVIEW

The profound recession superseded by the CoVid-19 emergency is going to affect the balance sheets of banks by rising number of NPAs (Ari et al., 2021). In European countries, the lending norms were seen to be relaxed during pandemic for the banks to recover. This relaxation of norms didn't help the small/medium capital banks to improve, rather they acted as a cover to hide their miserable plight in terms of rising NPAs (Neef&Schandlbauer., 2021). Ozili&Arun (2020) recorded an expansion in the NPAs on a global level, with private sector being exposed to highest credit hazard during the pandemic. They highlighted those various sectors like aviation services, hoteliers, travel industry, realters and construction business, small enterprises are going to be worst hit and therefore greatest numbers of NPAs are going to arise from their side. Benassy-Quere et al. (2020) opine NPAs are going to be elevated in the CoVid era and suggested European Central Bank to make moves like briefly surrendering the utilization of Basel Norms without aggressively influencing banks' financial reports as the banks are needed to be fit as a fiddle post pandemic to assist with reviving the European economy. They felt that European Investment bank ought to extend protection to the banking industry as well as support the SMEs by providing credit assistance. Dev&Sengupta (2020) recognize that the Indian Banking System is so down and out right since the pandemic began, that it has started to influence the debt market also. They accept that endless firms that would not be able to clear their dues, prompting ascend in NPAs. They even think that with many individuals being terminated from their jobs, NPAs from the retail sector are probably going to witness an increment.

RESEARCH METHODOLOGY

The present paper is conceptual in nature. It is descriptive based on various research papers, articles, reports & schedules from RBI and web-based sources.The study is conceptual in nature due to paucity of time and data required to conduct it. It is based on secondary sources of information. Further studies could be conducted using empirical methods and tools of analysis. The possibility of subjectivity also exists.

DISCUSSIONS

Since the end of 2019, the coronavirus rapidly spread all over the world. A small sized virus created huge ripple effects encapsulating the whole world. Past two years have been very tough for many business organizations. Banking sector particularly suffers the most because it connects different businesses. It helps in provision and receipt of finance through these firms. Banking is linked to all other industries like tourism, aviation, telecom, agriculture, real estate and construction, education, etc., If these businesses, especially those who took huge loans and advances from the banking industry are unable to carry on their business efficiently, they would be unable to pay back the loaned amount. Also, the individuals who work in such organization are mostly out of jobs and they too indulge in huge amount of borrowing via personal loans, educational loans, automobile loans, housing loans, etc., causing difficulties for them to pay back those loans.

Another aspect to be considered is that people who used to invest in banks or borrow fresh loans are now very discouraged due to do so because of the fear created by the pandemic. Also, the buying-selling equilibrium has been disturbed. People who lost their jobs in the pandemic are using their savings not for investment but for fulfilling needs of routine nature, children's education, medical bills, etc. Hence, the savings-investment cycle has also been disrupted as savings are not being infused in the economy as they used to be earlier. The flourishing businesses in the pandemic are Information Technology (IT) and telecom as work-from-home became the new normal during the pandemic. Office meetings, conferences, seminars, classes of schools/colleges/universities, etc., were conducted through online mode. E-commerce websites like amazon, myntra, urbanic, derma co., nykaa, etc., have been providing services in these tough times as well only through good internet connectivity and proper infrastructure in place. Banks through their internet monetary assistances also have aided ease in carrying on such businesses. The term 'cashless-delivery' gained a lot of popularity during the pandemic and helped in lower contraction of the CoVid-19 disease. This was possible through the internet banking facilities. Such services helped different firms maintain their business in these tough times. As far as statistics are concerned, the Trends & Progress Report of RBI, 2020, conveyed that NPAs have declined from 9.1% in 2019 to 8.2% in 2020. However, the figures are dubious because of the fact that more than 40% of borrowers have opted for the two-year moratorium. Without knowing the actual figures of recovery from these borrowers' accurate conclusions can't be made. Thus, the current Gross NPA ratio doesn't reflect the real pressure the Indian Banking sector is facing. In my opinion, the moratorium is going to have a detrimental impact on the economy in the long run. Another measure the government took was to infuse Rs. 20,000 Crore into public sector banks for their revival. The private banks on the other hand have been self-dependent in arranging for the finance to maintain stability during and after the CoVid-19 crisis. Banks themselves also need to incorporate measure to avoid piling of NPAs due to CoVid-19. With the assistance of legitimate innovation and joint effort with the IT sector Indian banks can limit the impact of CoVid-19 on taking off NPAs. For example, BCT Digital presented the very first continuous Early Warning System (EWS) to control the troubles cause by NPAs in India. With the assistance of creative advancements like artificial intelligence (AI), machine learning (ML) and streaming, the banks and different moneylenders can now recognize questionable exchanges in advance records on a constant or a close to continuous premise, which will work on the general wellbeing and state of the financial framework overall. Along these lines, leap forwards like this should be accomplished by the financial sector in the hour of this pandemic to keep away from shattering totally. Financiers need to create better habits by which the bad loans could be limited. In the coming time they need to assess the advances significantly more forcefully by placing in tough advance examination standards. The screening process of the advances should bedeepened all the more intently so that defaults are least. This should be possible with the assistance of most recent advances along with help of IT firms. Lastly, banks must find the right market for selling bad loans to recover appropriate amount of money lost in

NPAs. For this purpose, some kind of foreign intervention would prove to be very beneficial. Foreign investment in the sector could increase in the near future, but this could be another far sighted assumption which can hold to be true or not.

Conclusion

The exact figures related to the actual defaults are not in existence due to the moratorium and other reforms of government. These reforms have not actually reduced the NPAs, but deferred them. Also, the pandemic still continues and we don't exactly know what pitfalls is the banking sector going to face in future. For now, they need to upgrade their technologies and offer solutions that cover up the financial distress people have undergone due to the CoVid-19 pandemic. Plus, they need better screening and surveillance systems to reduce defaults to a minimum. This is possible only through tie ups with IT & Engineering firms, that will offer real time money-based solutions to revive banks and thus other sectors of the economy.

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