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EVALUATION OF STRENGTH AND RESILIENCE OF BANKS AND NBFCS DUE TO COVID-19

Sunita Choudhary*

ABSTRACT

As the world economy slowly rises from the ravages of the transition period of the COVID-19 pandemic, economic mechanisms are gaining momentum, not evenly, but unevenly. With crude oil prices rising sharply, inflationary pressures are mounting and global policy uncertainties pose major risks. Domestically, high frequency indicators of activity are forming as the second wave ends. While banks and other financial institutions have flexible capital and liquidity reserves, and balance sheet stress remains moderate despite the pandemic, bank-credit growth across all bank groups within the second half of 2019-20 has decreased. The profitability ratio of scheduled commercial banks has improved. There has been some decline in the second half of Financial Year 2019-20, Financial Year 2019-20 as compared to Financial Year 2018-19 and credit classification has come down due to the effect of the moratorium. The macro-stress test for diposit risk indicates that the gross non-performing asset ratio of NBFCs under the baseline scenario increased from 8.5 per cent in March 2020 to 12.5 per cent by March 2021. The system-level 1 capital to risk-weighted asset ratio fell from 14.7 per cent in March 2020 to 13.4 per cent by March 2021. NBFCs have grown. A diminishing interbank market with a higher capital stop stock minimizes the risk of transmission through the financial network. The present research paper suggests that banks should be given buffers along with closely monitoring the NBFC and retail loan portfolios. Governance needs to be strengthened, reformed and alerted.

Keywords: *Bank Credit, NBFCS, Commercial Banks, Credit Growth, Corporate.*

Introduction

The deteriorating financial environment, both globally and domestically, since the December 2019 FSR impacts on credit demand, asset quality, capital adequacy ratio and profitability of commercial banks prepared for the full impact of COVID-19. NBFCs and co-operative banks have been under increased pressure during COVID-19, creating a problem for risk aversion and security among banks, leading to a lack of funding and a gap in market access. As the pandemic jolts the economy, the customer outlook remains with considerable uncertainty. However, financial markets have stabilized in response to recent policy measures and efforts by and by several financial intermediaries to ease tensions.

An attempt has been made in this research paper to estimate the strength and resilience of banks and NBFCs. An attempt has been made to present the deposit performance, asset quality and capital adequacy of scheduled commercial banks and an assessment of the risks. It assesses

* Research Scholar, Raj Rishi Bhartrihari Matsya University, Alwar, Rajasthan, India.

macroeconomic risks and their resilience through testing for credit risk, through a bank-level single factor sensitivity analysis of credit, interest rate, liquidity, concentration and equity value risks. are complementary. and bottom-up stress test for liquidity as well as derivatives portfolio.

Evaluates the current performance of scheduled co-operative banks, test results for credit and liquidity risks. Discusses the recent disruptions in key financial parameters at the NBFC, sector and system level, as well as the results of testing for individual NBFCs. An analysis of the rating distribution of the underlying assets for particular accounts is presented in the conclusion, presenting a detailed analysis of the network structure and connectivity of the Indian financial system, including inter-bank markets, interactions of various groups of financial institutions. Is. and how adverse conditions affect the results of infection analysis. Has been reported.

Research Methodology

Research is based on secondary information. The RBI website, RBI Manual, RBI has collected information for research on guide information given in their manuscripts, books, internet, magazines and newspapers.

Literature Review

As per Fitch Ratings-Mumbai-April 2021 report: The second wave of COVID-19 infections in India has put India's fragile financial recovery at risk. And putting banks at risk, Fitch expects a poor medium-term environment for the Indian banking sector in 2021, but more measures are needed to address the spread of the virus and its impact on business and economic activity. Is. Active COVID-19 infections are on the rise. India; The number of new infection days increased from 9160 in mid-February 2021 to over 110000 in early April 2021. Fitch has projected India's real GDP growth rate for the fiscal year ending March 2022 at 12%. This includes expectations of a slowdown in 2022 due to the outbreak in new coronavirus cases, but increased infection rates indicate a new risk to predict. Transitions More than 0% of new infections are in six major states and credit accounts for about 45% of total banking sector credit.

What could lead to further disruptions in economic activity in these states could be a major blow to business sentiment, though India-like action is unlikely in 2020. The operating environment of banks will remain challenging during COVID-19. This second qualification will lead to a slower recovery in customer and corporate confidence and lower new business prospects for banks. There is also concern about asset quality as the financial results of banks do not affect the first wave of the 2020 lockdown and the location. Retail loans are considered the most risky. Retail loans are performing better than we expected, but tensions are likely to rise if renewal restrictions on personal income and savings are further extended.

A Reserve Bank of India report said the outbreak has "affected good companies" and before starting business that is otherwise viable. Even before the arrival of COVID-19, the Indian economy was not in good shape, which made the situation worse. An expert committee of Reserve Bank of India headed by former ICICI Bank chairman KV Kamath said in a report.

Scheduled Commercial Banks(SCBs)

The overall non-performing advance ratio (i.e. GNPA as a percentage of gross advances) and the net non-performing advances ratio of scheduled commercial banks declined in 2018-19, a survey said. The GNPA ratio of SCBs has come down from 7.6 per cent in the region of September 2020 to 6.3 per cent at the end of September 2021. The NSPA ratio of scheduled commercial banks stood at 2.1 per cent at the end of September 2021. The restructured standard advance ratio of scheduled commercial banks has increased from 0.3 per cent to 1.4 per cent during the same period. Overall, the growing stressed advance ratio of SCBs increased from 7.8 per cent at end-September 2020 to 8.4% at end-September 2021. The various COVID-19 related manuals provided with respect to the quality of the property have contributed to the development of the reconstruction. The assets and, consequently, the stressed advances ratio for the banking system kept on rising till the end of October 2021.

Performance

The growth of assets and income and debt of SCBs moderated in the first six months of 2019-20, further decelerating to 5.9 per cent by March 2020 and remained stable till early June 2020. This moderation was broad based across banks. The year-on-year deposit growth also decelerated during the second half of 2019-20, mainly on account of PVB, although it reflects the precautionary savings behavior related to COVID-19 in the early months of 2020-21. Commercial banks' earnings

before provisions and taxes were supported by an increase in other operating income and some moderation in the growth of operating expenses. Net interest income declined marginally, bringing net interest margin to September 2019 levels. Return on assets and equity declined across all bank groups in the second half of Financial Year 2019-20.

Scheduled Urban Cooperative Banks

The Reserve Bank of India, presently in compliance with Section 36(2) of the Banking Regulation Act, 1949, has released a statutory publication, 'Trends of Banking in India and Progress Report - 2020-21'. This report presents the performance of the banking sector, including co-operative banks and non-banking financial institutions, during the period 2020-21 and 2021-22 so far.

The highlights of the report are as follows:

During 2020-21, despite the pandemic and the consequent contraction in economic activity, the consolidated balance sheet size of scheduled commercial banks expanded. So far in 2021-22, credit growth is showing early signs of recovery. At the end of September 2021, deposits grew by 10.1 per cent as against 11.0 per cent growth in the previous year.

The capital to risk-weighted assets ratio of SCBs strengthened from 14.8 per cent at end-March 2020, partly due to higher retained earnings, recapitalization of public sector banks and market capital raising by PSBs and private sector banks. 16.3 percent at the end of 2021 and to 16.6 percent at the end of September 2021.

The Gross Non-Performing Assets Ratio of SCBs declined from 8.2 per cent at the end of March 2020 to 7.3 per cent at the end of March 2021 and 6.9 per cent at the end of September 2021.

SCB's on assets increased from 0.2 per cent at the end of March 2020 to 0.7 per cent at the end on March 2021 due to a fall in fixed income and expenditure.

Due to the COVID-19 pandemic, some of the policy measures taken by the RBI reached the pre-announced deadlines in 2021-22. This has resulted in discontinuation of some liquidity measures, while other regulatory measures, including deferment of implementation of net stable, restrictions on dividend payments by banks, deferment of implementation of the last tranche of capital conservation buffer, have been extended to needy sectors. It has been restructured to provide enhanced tolerance for financial stability and aversion to risks while providing targeted support.

Although the initiation of fresh insolvency proceedings under the Insolvency and Bankruptcy Code was suspended for one year until March 2021, it remains one of the major modes of recovery in terms of amounts recovered.

Growth in the balance sheet of urban co-operative banks in 2020-21 was driven by deposits, while weak credit growth led to a pick-up in investment. Their financial indicators, including capital position and profitability, improved.

The profitability of state co-operative banks and district central co-operative banks improved in 2019-20, while their asset quality declined.

The consolidated balance sheet of NBFCs expanded during 2020-21 on account of systemically important non-deposit taking NBFC loans and investments. Their asset quality and capital buffer also improved.

The report also offers some perspective on the evolving prospects for India's financial sector.

Covid19 and Bank Capital

Private Banks Corporate SME Compared to the global financial crisis of 2008, the world was facing the crisis of Covid 19 crisis. The latter provide a motivation for a really strong capital buffer. The Covid19 crisis has led to significant changes in the cost of capital of banks and is a challenge for both banks and prudent executives.

The fall in bank stock prices eased the crisis (BIS, 2020) and subsequent recovery as they generally fell below other world prices and below their own precrisis levels. Similarly, rates outside the E uropean banks fell in price. Less profitable banks in Europe and Japan had lower ratios than in the precrisis period and deteriorated further thereafter. Although the US and European banks have recovered so quickly from the consistent convertible of COVID such devices is still recovering and their preinduced low funding for covid levels Is higher than.

Non-Banking Financial Companies

A total of 9,602 NBFCs were registered with RBI at the end of March, 2020 out of which 66 were deposit acceptors and 279 systemically important non-deposit taking NBFCs Were. All NBFC-D and NBFC-ND-SI, including state-owned NBFCs, are subject to reporting requirements as well as prudential norms such as capital adequacy requirements and provisioning norms. Although the combined balance sheet size of NBFCs is about one-fifth that of SCBs, the importance of the former lies in last mile credit delivery and specific segment support in the Indian financial system.

Monetary Transmission

According to the review, "large surplus systemic liquidity, accommodative-stance futures, external benchmark system for pricing of credit in select sectors aided monetary transmission."

Digital Payment

According to the review, the Unified Payments Interface is currently the largest retail payment system in the country in terms of transaction volume, which delivers its wide acceptance. In December 2021, 4.6 billion transactions worth Rs 8.26 lakh crore were done by UPI. The Reserve Bank of India and the Monetary Authority of Singapore announced a project to link UPI and Pay Now, which is targeted for operation by July, 2022. Bhutan has recently become the first country to adopt UPI standards for its QR codes. It is the second country after Singapore to accept BHIM-UPI at merchant locations.

Credit Enhancement

The Survey said that agricultural credit continued to grow at 10.4 per cent in 2021 as compared to 7 per cent in 2020. Credit to the micro and small scale industries sector registered a growth of 12.7 per cent, as against 0.6 per cent a year ago. These show the effectiveness of various measures taken by the Government and Reserve Bank of India to enhance credit flow to the Micro, Small and Medium Enterprise sector.

Double Digit Growth IN Personal Loans

The Survey noted that personal loans grew by 11.6 per cent as against 9.2 per cent in the previous year. Home loans, the largest component of banking credit, registered a growth of 8 per cent in November, 2021. The growth in vehicle loans improved to 7.7 per cent in November, 2021, from 6.9 per cent in November, 2020.

Post COVID-19 Response

Banks and market borrowings account for over 71 per cent of total outside liabilities of the NBFC sector. Along with easing market confidence, the share of non-convertible debentures in the total borrowings of the long-term market debt sector declined from 49.2 per cent at end-March 2019 to 40.9 per cent at end-December 2019. The resulting fund gap was met through bank borrowings, which increased from 23.2 per cent to 28.8 per cent of total borrowings during the period. This has the potential to increase the liquidity risk for NBFCs as well as the financial system. Small/medium sized and A or low rated/unrated NBFCs have been turned away by both banks and markets, adding to the liquidity stress faced by NBFCs, which is also reflected in the weak response to the targeted long-term repo operation 2.0 happened. 2.50 Post the IL&FS crisis, NBFCs are facing variations in market access and financial conditions, with only highly rated entities being able to raise funds. They have also started maintaining liquidity cover of two to three months despite the high cost. But the risks for the banking sector could intensify during COVID-19. In particular asset quality and provisioning could be impacted.

Financial network analysis addresses questions related to the reasons for the increasing interconnectedness of the financial system. whether the connections increase or reduce systemic shock; And whether the structure of the network matters. It helps to identify structural features relevant to policy making (Glasserman & Young, 2016).

In addition, attempts were made to understand how the network structure interacts with other potential sources of infection. One factor that emerged during the global financial crisis is that the health of individual financial institutions may not ensure the health of the financial system as a whole. Given the interconnectivity, extreme stress could disrupt the normal functioning of markets and asset market liquidity. Thereby giving rise to solvency issues and ultimately the transition from infected to healthy through various forms of contact. Like a virus that spreads. For GFCs, some banks have increased leverage levels, greater reliance on short-term funding and extremely thin capital buffers.

All these factors affect the stability of the financial system to varying degrees. The main issue is how the network of obligations relates to these potential sources of infection. And does it work to increase or decrease them. Network connections can be a net positive for the financial system by providing opportunities for investment, risk diversification and liquidity management. Also, network connections can also have negative effects by creating channels through which the complexion can change, and thus can lead to infection.

Conclusion

The usefulness of urban agglomerations, which have currently turned themselves into epicenters of the COVID-19 pandemic transmission, comes under scrutiny. Urban agglomeration cost savings, along with associated network effects, lead to economies of scale. Elements that, in the natural course of business, allow a seamless flow of expertise and creative input to flow from one domain to another, lead to links to the spread of infection in the context of a pandemic.

Financial institutions facilitate employees in a healthier environment and make it easier for employees to rehabilitate on new processes. They are enhancing the customer centric approach through digital channels. RBI formulates policies to ensure business continuity, optimize processes, engage in partnerships and enhance experience. Reproducing regions and customer segments based on growth and risk profiles.

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