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IMPACT OF COVID-19 ON NON-PERFORMING ASSETS OF SCHEDULE COMMERCIAL BANKS OF INDIA

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ABSTRACT

In *present* scenario *whole world is facing an epidemic of corona and every country in the world is a victim of this epidemic. Corona has affected the economy of every country in the world which has brought down the GDP rate of every country whether it is a developed country, a developing country or an underdeveloped country. The agricultural sector and the banking sector are seen as important aspects in the country's economy. An important aspect of any bank's valuation is its NPA ratio.Various measures have been taken to curb the rising NPAs in the banking sector in India but the proportion of NPAs has never been significantly reduced and the NPAs of the banks have also increased depending on the economy affected by this epidemic. The first case of* Covid-19 *in the world was reported in December in China's Wuhan province, and in January* 2020*, the* Covid-19 *epidemic was declared a global pandemic. The first case of* Covid-19 *in India was reported on January* 30, 2020 *and then at the end of March a lockdown was imposed all over India and this lockdown lasted for* 3 *months. That means the lockdown was gradually opened across the country in June. For the last* 3 *months, all the jobs, companies, etc. have been completely shut down and the people's life has become chaotic due to the decline in people's income.As people's income stopped, they became unable to repay their instalments from the bank from which they had taken loans and they could not pay the instalments for* three *consecutive months and this resulted in NPA loans. According to a research, the GNPA ratio will be rice from 8.5% to 12.5%. So,the NPA ratio is expected to increase by* 4% *till March* 2021. *In this article, I want to give an idea about the impact of* Covid-19 *on the banking sector and the impact it will have on NPAs and what steps the RBI and the government have taken to address this.*

KEYWORDS: Covid-19 Pandemic*,* Non-Performing Assets, GDP, RBI*.*

Introduction

Currently the whole world has entered the middle part of the corona epidemic. Many countries in the world have become corona free while many countries have had some success in vaccinating against corona. But when Corona was at the height of its global epidemic, it had a devastating effect on all countries, be it developed countries like the US and Russia, developing countries like India or underdeveloped countries like Bangladesh and Pakistan corona has had a huge impact on the country's economy. Even India could not escape this covid-19 epidemic. Despite the tireless efforts of the Government of India, Covid-19 has had a very negatively effect on our country's economy. In every sector of our country like agriculture, industrial sector, banking sector or business industry, very serious effects of Covid-19 have been seen.

The Corona case was first reported in India on January 30, 2020 and began to have an impact on the entire country in mid-April. But in order to prevent further spread of the Corona epidemic, a lockdown was imposed by the government at the end of March, which led to a three-month shutdown.

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Due to which one of its effects was seen on the banking sector. As a result of the closure of business and employment, the income of the people was cut off and due to this the middle class families were unable to repay the instalments of the money they had borrowed from the bank. As a result, its direct impact surpassed the bank's non-performing assets. Because the income of many able borrowers stopped, they did not pay the instalments for 3 consecutive months and on the basis of which the bank loan started to result in NPA.

Effect of Covid-19 on Indian Economy

Due to Covid-19, our country has witnessed a sharp decline in Gross National Income and its growth in the last 2 quarters. Investors' investment prices have plummeted due to Covid and its impact on the economy as a whole, and this has had an impact on privatization, government and industry. (Dr. Simmi Khurana, May, 2020) Markets, factories, industries, restaurants, flights, schools-colleges, super malls, etc. were completely closed due to the impact of Corona in the country. Fear of corona in the minds of the people prevented people from coming into personal contact and people also stopped taking daily necessities and this had a major impact on the country's income.

The Organization for Economic Co-operation and Development (OECD)reveals that they have cut their expectation for global growth to 2.4% from 2.9%, and warns that it could fall as low as 1.5%. As per the report of Nomura India Business Resumption Index, they would conclude in their reports the indian economy was expected to loss over Rs. 32000 rore every day during first 21 days of complete lockdown. Under complete lockdown, less than a quarter of India's 2.8$ trillion economic movement was functional. According to Hindustan Times 70% of banking sector debt affected by covid-19 impact. As many as 19 sectors were not in a state of tension but after the Corona situation, all these sectors were in a state of tension and their total bank debt was Rs 1.5 lakh crore. The retail and wholesale business has seen the biggest impact with a bank debt of Rs 5.4 lakh crore. In addition, 11 sectors which were already in a state of tension have also been severely affected with a total bank debt of Rs 22.2 lakh crore. In which the bank debt of non-banking financial companies is Rs. 7.98 crore is the highest.

Effect of Covid-19 on Non-Performing Assets of Schedule Commercial Banks

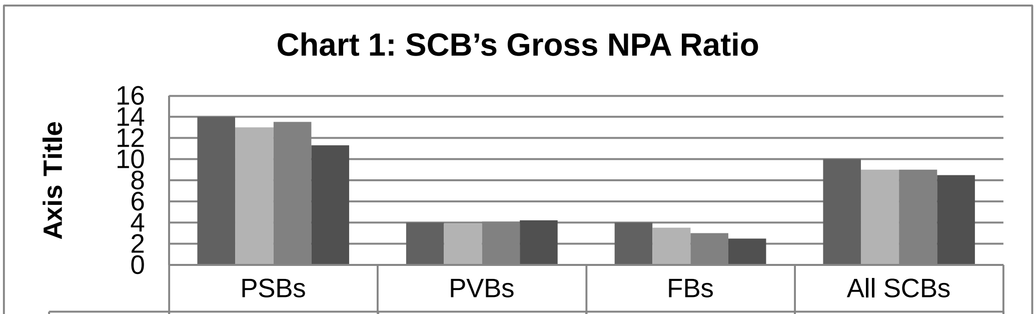
According to an RBI report due to Corona's pandemic in July 2020, the NPA rate could rise from 8.5% to 12.5% by March 2021 if the financial condition of all commercial banks remains sound in the near future and if the financial situation does not remain sound, this rate can also increase up to 14.5% (approx). A relief was given by the Central Government to the loan holders of the bank for the business which was closed during the lockdown. In which the government has stated that if the loan holders do not have to pay the loan instalment, only the amount of interest will have to be paid at the time of lockdown. No additional interest will be charged on the loan even if the instalment amount is not paid. According to an RBI report, more than 50% of the total bank loan holders were chosen this option and this situation was remaining till 31-08-2020. RBI Governor Shaktikant Das said on his press conference held on July, 2020 "Indian financial position is now stable and very sound". But Mr. Das said that in the current environment, the need for financial intermediaries to raise capital and improve its resilience is a high priority.

According to Sri Das the GNPA ratio in public sector banks which was 11.3% in March 2020 is likely to increase to 15.2% by March 2021. The RBI's FSR said."Bank-level stress test results show that out of 23 banks 16 banks with a share of 64.5% in banks total assets might fail to maintain the required CRAR under the scenario of 3 SD shock to the GNPA ratio. In such an extreme shock scenario, the CRAR of all the 18 PSBs is likely to go down to 9%. The quality of bank loans in March 2020 was very poor in the service sector. The ratio of GNAP to retail loan sectors also increased. The NPA ratio in the main sub-sectors of the industry like construction, gems and jewelery grew in March 2020. According to him, the industrial sector has seen a significant decline in NPA ratios of 36.2% of total bank lending, 11% of basic metals and 1.5% of electricity of total bank loan.The RBI has said that the financial situation of the central government is likely to deteriorate in the year 2020-2021. Covid-19 could also lead to a sharp drop in government revenue and an increase in spending due to the stimulus announced by the government.

Bank credit, which had considerably weakened during the first half of 2019-20, slid down further in the subsequent period with the moderation becoming broad-based across bank groups.The capital to risk-weighted assets ratio of commercial banks edged down to 14.8 per cent in March 2020 from 15 per cent in September 2019, while their GNPA ratio declined to 8.5 per cent from 9.3 per cent and the provision coverage ratio PCR improved to 65.4 per cent from 61.6 per cent over this period.

Charts & Analysis

Chart 1

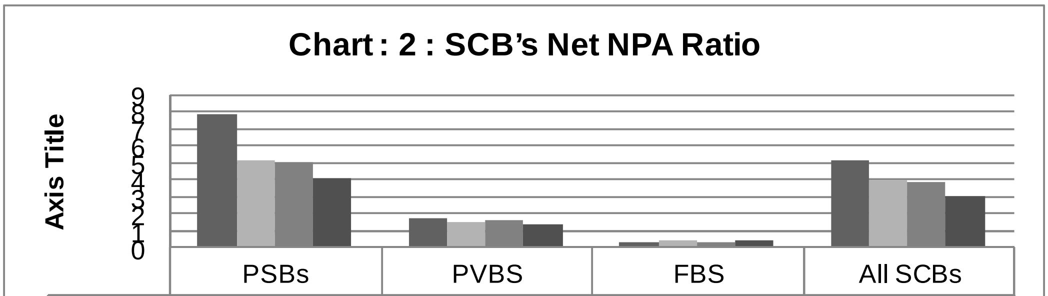


	PSBs	PVBs	FBs	All SCBs
Sep-18	14	4	4	10
Mar-19	13	3.9	3.5	9
Sep-19	13.5	4.1	3	9
Mar-20	11.3	4.2	2.5	8.5

Analysis

Chart 4.1 shows the position of the SCB's GNPA Ratio before the corona pandemic. The PSBs GNPA ratio was 14% in September 2018 which has come down to 13% in March 2019 and will remain at 11.3% by March 2020. While the GNPA ratio in PVBs was 4% in September 2018, it decreased to 3.9% in March 2019 and increased to 4.2% by March 2020. While the FBs GNPA ratio was 4% in September 2018, it has come down to 3.5% in March 2019 and has come down to 2.5 by March 2020. Thus, overall, the GNP ratio in All SCBs, which was 10% in September 2018, declined by 1.5% to 8.5% over a period of 1.5 years.

Chart 2

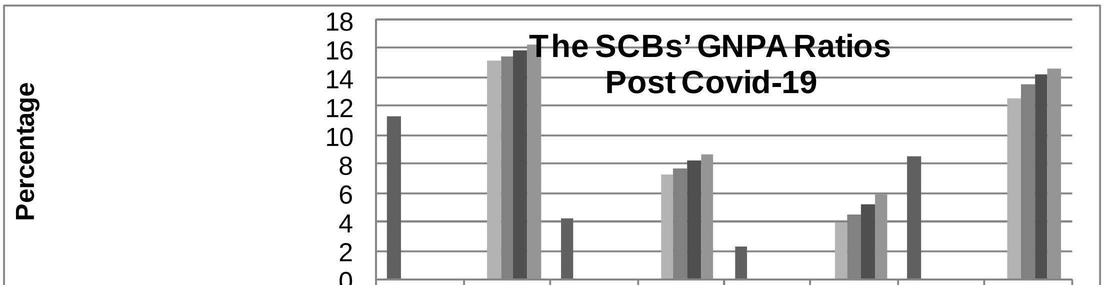


	PSBs	PVBS	FBS	All SCBs
Sep-18	7.8	1.7	0.3	5.2
Mar-19	5.1	1.5	0.5	4
Sep-19	5	1.6	0.4	3.9
Mar-20	4.1	1.4	0.5	3

Analysis

Chart 4.2 shows the position of the SCB's NNPA Ratio before the corona pandemic. The PSBs NNPA ratio was 7.8% in September 2018 which has come down to 5.1% in March 2019 and will remain at 4.1% by March 2020. While the NNPA ratio in PVBs was 1.7% in September 2018, it decreased to 1.5% in March 2019 and it decreased to 1.4% by March 2020. While the FBs GNPA ratio was 0.3% in September 2018, it has increase to 0.5% in March 2019 and has come down to 0.4 by September 2019 but then after it has to increase to 0.5% in March 2020. So, overall the SCBs NNP ratio, which was 5.2% in September 2018, declined by 2.2% to 3% over a period of 1.5 years.

Chart 3



	Mar-20	(Mar-21) PSBs	Mar-20	(Mar-21) PVBs	Mar-20	(Mar-21) FBS	Mar-20	(Mar-21) All SCBs
ACTUAL	11.3		4.2		2.3		8.5	
BASELINE		15.2		7.3		3.9		12.5
MEDIUM STRESS		15.5		7.7		4.5		13.5
SEVERE STRESS		15.9		8.3		5.1		14.2
VERY SEVERE SRETSS		16.3		8.7		5.8		14.7

Analysis

Chart 4.3 shows the approximate position of theSCBs' GNPA ratios post covid-19. The March 2020 data really shows the status of SCBs' GNPA ratios and provides information on what the projected situation will look like in March 2021 if the bank and the government end up in a state of financial stress. The stress test shows that even if the financial condition of all the banks and the government is good by March 2021, the GNPA ratio in PSBs will increase from 11.3% to 15.2% by March 2021 and if the financial situation of the banks and the government is tense, it will be 16.3. %. Similarly, the GNPA ratio in PVBs will increase from 4.2% to 7.3% by March 2021 and could double to 8.7% if the financial situation of the bank and the government becomes tense. And the GNPA ratio in FBs will increase from 2.3% to 3.9% by March 2021 and could rise to about 2.5 times to 5.8% if the financial situation of the bank and the government is strained. Overall the stress tests indicate that the GNPA ratio of all SCBs may increase from 8.5 per cent in March 2020 to 12.5 per cent by March 2021 under the baseline scenario. If the macroeconomic environment worsens further, the ratio may escalate to 14.7 per cent under the very severely stressed scenario.

Steps taken by RBI for controlled NPA Rate

A committee was formed to restructure the structure of the NPA.

The RBI has said in its guidelines that defaulters who have not paid by March 1 will be included in the restructuring as the coming circumstances will have a huge impact on people's income.Since some financial ratios need to be fixed in this restructuring, the RBI An expert committee has been formed under K. V. Kamath. They will require a period of 31 December for restructuring and implementation of the scheme within 90 days of applying for the scheme.The panel identified 26 sectors for which five key financial ratios were identified. The central bank has broadly accepted the panel recommendations.

Conclusion

Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, the precarious situation of the economy, especially of the financial sector in the pre-Covid-19 period, and the economy's dependence on informal labour, lockdowns and other social distancing measures would be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. Policy makers need to be prepared to scale up the response as the events unfold so as to minimise the impact of the shock on both the formal and informal sectors and pave the way for a V-shaped recovery. At the same time they must ensure that the responses remain enshrined in a rules-based framework and limit the exercise of discretion in order to avoid long-term damage to the economy. It is not all possible to have zero NPAs, but management should speed up recovery process to overcome existing problems. Government should also make more provisions for faster settlement of pending cases and it should reduce the mandatory lending to priority sectors as this is the major problem creating area. That's why it needs a lot of serious efforts otherwise NPAS will keep killing the profitability of banks which is not good for growing Indian economy.

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