

2. COVID – 19 and impact on Indian financial system

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Abstract

Covid-19 has significantly affected the financial system. It has imprinted the impact on the every walks of life of the world. In the early stage of pandemic the highest priority of the Government was to save human lives. Honb'le Prime Minister said "JAN HAI TO JAHAN HAI". But with the passage of time, it has been realized that economic activities cannot be shut down for a long time and the equal importance should be given to life and livelihood both. Therefore, Honb'le Prime Minister has changed the slogan to "JAN HAI TO JAHAN HAI". In the light of these, the Government has taken various measures for revival and support for Commercial and Industrial activities. Further, the pandemic has also significantly affected the working and performance of Banks, Capital Market, Insurance sector, Government's Revenue and above all People's Income. It may be said that if the banks, capital market and other financial institutions could respond to the challenges of the financial crisis in an effective manner, this will not only help the society and business but also enhance the trust and image of these institutions and consequently strengthen the hands of the Government.

Keywords : Covid-19, CRR, MSME, Financial System

1. INTRODUCTION:

Covid-19 has made a significant impact on the financial system. The world economy was observing recession since 2019 and has also significantly affected the Indian economy India was trying to fight back with this pre-pandemic recession but unforeseen event i.e. Covid-19 has made it more stringent. This pandemic has affected the whole world on every walks of life in the form of complete lockdown of human, economic and country activities. In other words, it has shut down whole world and has also changed the way of life and led a significant structural and behavioral changes in the form of social distancing, drive for economic rejuvenation and increasing government interventions. In the early stage of

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pandemic the highest priority of the government was to save human lives as much as possible. Honb'le Prime Minister said "JAN HAI TO JAHAN HAI". It means the economy will recover with the passage of time but lives cannot be recovered, therefore, highest priority to saving of lives. But later on, it has been realized that economic activities cannot be shut down for a long period. Therefore, equal importance should be given to life and livelihood both. Keeping in mind this, Honb'le Prime Minister has again said "JAN BHI JAHAN BHI". Thus, apart from addressing health crisis at priority level, the subsequent need is to boost the economy at every front and put the wheel of the economy on the road. This has necessitated that long-term measures at sub-national, national and international level should be taken. Hence, the government should also be active on commercial/ industrial front along with societal front so that revenue objective of the government could also be achieved. The government has to evaluate the commercial and industrial activities which are adversely affected and positively affected due to pandemic. Accordingly, revival and supporting actions are be taken by the government.

2. Adversely Affected or Shutdown Commercial Sectors

The following commercial activities were adversely affected during Covid-19:

- Textile Sector
- Readymade Garments Sector
- Automobile Sector
- Transport Sector
- Tourism Sector
- Real Estate
- Non – food Retail Sector i.e. Capital Goods
- Financial Sector
- Agriculture Sector
- Insurance Sector

3. Positively Affected Commercial Sectors

The following commercial activities have shown positive affect during Covid-19:

- E-commerce
- FMCG
- Pharmaceuticals Sector

- Chemical Sector
- Healthcare Sector
- Digital Sector

4. Impact on Financial System

Covid-19 has not only affected Indian financial system adversely but also affected international transactions. Financial system is the heart of the economy. The pandemic effect on this sector has significantly affected the working and performance of:

- Banks
- Capital Market
- Insurance Sector
- Government's Revenue
- Above all People's Income

In view of the above, we can say that the Pandemic is an acid test for financial sector /Institutions. In order to keep the economy alive, there is an urgent need to take immediate measures on the following to meet the financial requirements of the industry, Government and the Society as a whole.

A. Banking Sector

The bank has three basic functions i.e. Acceptance of Deposits, Lending of Money / Credit Creation and Investment of surplus Fund if any. The Pandemic has significantly affected all these functions of the banks adversely.

A.1 Negative Impact

The following negative effects are observed during the pandemic:

- Negative credit growth
- Reduction in demand of funds from SMEs due to lockdown
- Increase in NPA due to increase in default rate
- Negative impact on liquidity
- Extension of moratorium period by Reserve Bank of India
- Reduction in Deposits due to lowering of interest rate on savings of public

- Reduction in revenues due to lower interest rates and reduced business activities .Hence, income slips into steep mode
- Reduction in clients i.e. Depositor and Borrower

A.2 Action Taken by Reserve Bank of India and Government

In order to overcome negative effects on financial/ banking sectors, various measures have been taken to fuel the economy by the government with the help of Reserve Bank of India through the Monetary Policy. These measures are:

1. Accelerate Credit Creation

To accelerate credit creation, lending rates have been cut by the Reserve Bank of India and banking sector will pass on rate cuts to the borrower. Further, collateral free loans should be made available to MSMEs for reviving their business activities which were slow down due to Pandemic.

2. Credit Risk Management

Following actions have been taken by the Reserve Bank of India for credit risk management:

- Waiver has been granted to the borrowers from the payment of loan installments by the extension of moratorium on loans
- Relaxation on the classification of NPA to the banks
- Banks have been also advised to classify their borrowers on the basis of facing temporary and long-term financial difficulties

3. Liquidity Management

For the liquidity management of the banks, monetary policy has been revised by the RBI from time- to- time. For this purpose, reduction in CRR, SLR, Repo Rate and Reverse Repo Rate has been done to make the availability of funds for banking activities smoothly

B. Capital Market

The COVID-19 has also left its footprints in the form of negative effect on the various components of capital market i.e. stock market, Bond market and other products of financial

markets. Demand of these products has been badly affected due to the liquidity crisis with the institutions as well as individuals.

B.1 Effect on Capital Market

- Negative impact on equity market due to low risk bearing capacity of the investors
- Positive impact on Debt market due to low risk bearing capacity of the investors, lower interest rate on bank deposits and low lending rates
- Uncertainty and extreme distress in the market
- Reduction in number of buyers and sellers due to distressed market

B.2 Measures Adopted

Various measures have been adopted by the Government to fuel the capital markets :

- Lowering the banks' lending rates
- Calibrated opening of the economy in the second Lock down
- Rejuvenate the economy by introducing economic packages with the objective to address the liquidity basically of SMEs and revive the confidence of the industries

C. Insurance Sector

Covid-19 has not only affected banks and financial institutions and capital market but also has the impact on insurance sector i.e. .life and non-life business both significantly. The effects are in the form of:

- Reduction in new business
- Increase in mortality claims
- Contraction of investment activities
- Increase in lapse rate
- Decrease in general insurance business due to significant adverse effect on Automobile Sector
- Positive effect on Health Insurance

In the light of the above, it is broadly suggested that all insurers should review the financial and operational risk and take remedial actions accordingly under current scenario.

D. Government Finance / Revenue

The economy of the country generates the income/revenue for the government. The negative effect on the various commercial and financial sectors of the economy due to Covid-19 has badly affected the revenue of the government. Government is supposed to finance immediate buffer to push the economy having no income generation. Apart from this, the government has announced step by step financial packages for revival and speeding up the recovery of all sectors.

Impact on Government Revenue

It is said that Karta has to sacrifice and therefore, the following actions of the government have adversely affected the revenue:

- ✓ Delay in tax payment allowed
- ✓ Reduction in VAT temporarily
- ✓ Delay in filing GST returns permitted
- ✓ Permitted delay in filing Income Tax returns

Actions of the Government

In spite of the reduction in the revenue, the government has extended financial support immediately to the following:

- Health Care
- Cash transfer to self employed
- Cash transfer to farmers
- Cash transfer/support to most vulnerable sections of the society by providing free of cost grains, food etc.
- Special support package to SMEs
- Transfer of salaries to staff
- Free transportation

E. Individual Finance

The Covid-19 has also adversely affected the individuals' liquidity significantly. It has put the individual and his family life under crisis specially middle and lower middle class. The shrinkage in the income has thrown the life under uncertainty. Under such situation, the individuals are required to manage their hard savings and expenditure in a prudent way.

Actions Required

The following actions are suggested to meet unprecedented crisis and ensure Family financial wellness:

- i) Manage the funds in disciplined way.
- ii) Investment should be made keeping in mind short-term goals.
- iii) Long-term view should be avoided in making investment under such prevailing situation.
- iv) Avoid taking risk for earning higher income.
- v) Adequate liquidity should be maintained to meet any contingency.
- vi) Debt/loan servicing i.e. payment of EMIs, insurance premium should be done prudently.
- vii) Financial plan should be made taking into account future priorities and income generation.
- viii) Financial monitoring should be done on regular basis
- ix) Avoid unproductive expenditure.

5. Conclusion and Suggestions

Keeping in view of the above, positive and negative impact of Covid-19 on the various sectors of the economy like industrial, commercial, financial sectors and the Government revenues and individual finance, the following suggestions are note worthy for meeting the challenges of the current pandemic situation as well as years to come:

- The hammer of Covid-19 has put the whole world under certain economic crisis which has not only burden the society but also foreseeable in years to come.
- The most urgent priority before the government is to save the life and boost the health of the society along with livelihood – JAN BHI JAHAN BHI.
- The financial insecurity of the households and entrepreneurs should be addressed on an urgent basis.
- Ambitious co-operation of the society and the business community is solicited in this regard to assist the Government as helping hand.
- Promote faster digital transformation i.e. more use of technology in managing finance.

It may, thus, be concluded that if the banks, capital market and other financial institutions

could respond to the challenges of the financial crisis in an effective manner, this will not only help the society and business but also enhance the trust and image of these institutions and consequently strengthen the hands of the Government.

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