

**INTERNATIONAL JOURNAL OF LAW  
MANAGEMENT & HUMANITIES**  
**[ISSN 2581-5369]**

---

**Volume 4 | Issue 1**  
**2021**

---

© 2021 *International Journal of Law Management & Humanities*

Follow this and additional works at: <https://www.ijlmh.com/>

Under the aegis of VidhiAagaz – Inking Your Brain (<https://www.vidhiaagaz.com>)

---

This Article is brought to you for “free” and “open access” by the International Journal of Law Management & Humanities at VidhiAagaz. It has been accepted for inclusion in International Journal of Law Management & Humanities after due review.

In case of **any suggestion or complaint**, please contact [Gyan@vidhiaagaz.com](mailto:Gyan@vidhiaagaz.com).

---

**To submit your Manuscript** for Publication at **International Journal of Law Management & Humanities**, kindly email your Manuscript at [editor.ijlmh@gmail.com](mailto:editor.ijlmh@gmail.com).

---

# Impact of Covid-19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective

---

VIKAS KUMAR<sup>1</sup> AND SANJEEV KUMAR<sup>2</sup>

## ABSTRACT

*The COVID-19 outbreak is a remarkable shock to the Indian economy .It has affected all the sectors at macro level across the country. The economy was already in an unstable stage before covid-19 outbreak and after the shutdown of economic activities and nationwide lockdown the economy is likely to face prolonged period of slowdown. The intensity of the economic slowdown depends upon the nature and duration of the lockdown across the country. With large number of population and more dependence on the informal labour and unsystematic banking practices has turned the economy into a disruptive situation. The damage to the economy is worse than the current estimates. The current article gives an overview of the impact of COVID-19 situation on Indian economy and its banking sector. The study is the analyses of data which is secondary in nature and based upon various research article published on the COVID-19 pandemic outbreak. The research paper also analyses the various policy measures taken by Reserve Bank of India and Indian Government at centre level and state level to improve the current economic situation of the country.*

**Keywords:** Indian economy, COVID-19, RBI, Banks, GDP

## I. INTRODUCTION

The first case of COVID-19 in India was reported in the month of January 2020 and after that covid cases started increasing in India day by day. Ministry of Health and Family Welfare (MoHFW) issued travel advisory restrictions which were quite similar to the previous pandemics which were spread same like covid-19 virus such as SARS, Ebola, and bubonic plague, including the imposition of self-quarantine rules for 14 days to all international travellers entering the country. Moreover, Indian Govt restricted travel visas until 15th April for other countries and after that other measure like social distancing is proposed by Ministry of Health and Family Welfare (MoHFW) to minimize the spread of this disease. On 22<sup>nd</sup> of

---

<sup>1</sup> Author is a M.Com (JRF) student at Himachal Pradesh University Shimla, India.

<sup>2</sup> Author is an Assistant Professor in Law at Career Point University Hmairpur Himachal Pradesh, India.

March Prime Minister Sh. Narendra Modi proposed Janta Curfew to curb the spread of COVID-19 this activity resulted to shut the business activities and transportation services across the country<sup>3</sup>. On 24<sup>th</sup> March 2020 complete 21 days lockdown was announced by the Prime Minister Narendra Modi to 14<sup>th</sup> of April, 2020 and further it was extended by the Indian Govt. time to time to break the chain to spread of COVID-19<sup>4</sup>. However these kind of measures taken by Indian Govt. to curb the spread of covid-19 pandemic impacted the GDP of the country in disruptive way. The IMF global growth projection reveals global economy is expected to plunge into the worst recession since the Great Depression in the 1930s, which might be far worse than the Global Financial Crisis. IMF made a projection of 1.9 per cent growth in GDP for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s.<sup>5</sup>

Banks are the heart of the economy and they keep the system up and running they perform most of the function to run the country's economy smoothly. Banks play critical role in offering finance to businesses who wish to expand and invest. Loans and business investments are crucial for economic growth. The Black swan event of the century covid-19 has had significant impact on Indian economy. The Indian economy wasn't in great shape before covid-19 outbreak and it has created a great impact on a banking sector of India as well. The Reserve Bank of India's (RBI) expert committee report on a resolution framework which is headed by former ICICI chief K.V Kamath shows that clearly banking debt worth Rs 23.71 lakh crore or 45% of banking sector debt was already under stress before covid-19 hit the economy. This effectively clears that 72% of banking sector debt worth Rs 37.72 lakh crore remains under stress. This is almost 37% of the total non food bank credit<sup>6</sup> some experts believe that bank may have more risk averse to restricting loans this time because they have already suffered big losses previous restricting efforts.<sup>7</sup> Banking sector mainly in India may take long time to recover from the impact of this pandemic.

According to Hindustan Times article published 70% of banking sector debt affect by covid-

---

<sup>3</sup> Janata Curfew <https://www.thehindu.com/news/national/janata-curfew-march-22-live-updates/article31133447.ece>.

<sup>4</sup> Nistula Hebbar, PM Modi announces 21-day lockdown as COVID-19 toll touches 12, THE HINDU (Dec 24, 2020, 11:14 PM), <https://www.thehindu.com/news/national/pm-announces-21-day-lockdown-as-covid-19-toll-touches-10/article31156691.ece>.

<sup>5</sup> Dr. Jitender Singh & Dr. B. S. Bodla, COVID-19 Pandemic And Lockdown Impact On India's Banking Sector A Systemic Literature Review, (Dec. 18, 2020, 06:00 PM), <https://www.researchgate.net/publication/341909544>

<sup>6</sup> Sandeep Singh & George, Mathew, Covid-19 impact: Rs 15.5 lakh crore corporate loans come under stress, THE INDIAN EXPRESS (Dec. 18, 2020, 10:04 AM), <https://indianexpress.com/article/business/banking-and-finance/covid-19-impact-rs-15-5-lakh-crore-corporate-loans-come-under-stress-6587111/>.

<sup>7</sup> Roshan Kishore, 70% of banking sector debt affected by Covid-19 impact, HINDUSTAN TIMES (Dec. 09, 2020, 08:21 PM), <https://www.hindustantimes.com/india-news/70-of-banking-sector-debt-affected-by-covid-19-s-impact/story-MAYiYZWz5NE6Pijm7XQNSJ.html>.

19 impact. It has impacted 19 sectors with 15.5 lakh crore of debt which were not under stress before this pandemic.

### **(A) Review of literature**

The research paper consulted while drafting this research paper includes:

Impact of Covid-19 on Indian Economy an Interim Assessment by S. Mahendra Dev and Rajeswari Sengupta said COVID-19 has posed a great impact on Indian economy and banking sector. With the large population of the country and unstable situation of the economy and more dependence on informal labour, lockdowns and other measures has turned the economy into more disruptive situation. According to them the damage to the economy is likely to be worse than the current estimates. Indian Govt. needs to balance the income support required with the need to ensure fiscal situation doesn't spin out of control and the policy makers need to prepare to scale up the response to minimize the impact of this virus and protect the economy from long term damage.<sup>8</sup>

T. Singhal A review of coronavirus disease-2019 (COVID-19) says this new virus has challenged the economic, medical and public health infrastructure of China and especially its neighbor countries apart from curbing the spread of virus measures should be taken to prevent the future outbreak of this virus.

J.D.Sonkhaskar Impact of Covid-19 on Indian Economy says the already struggling Indian economy with lower GDP growth rates and substantial unemployment rates has faced yet another unprecedented shock due to the Covid-19 outbreak. The four stages of continued countrywide lockdown spanning over two months in conjunction with global slowdown and considerable interruption in the demand-supply chain has dented the economy deeply.<sup>9</sup>

Anya Kumra *Impact of Covid-19 On The Indian Economy* said the corona virus pandemic has negatively affected almost all the macro level variables of Indian economy but it is not possible to know the exact impact of the virus on the economy till the pandemic over. Price increases could occur in sectors like agriculture so measures should be taken to maintain adequate harvest and keep the supply chain operating smoothly. The risk of a rating downgrade and fiscal deficit spike will make it harder to borrow and spend in the future so the govt. and the policy makers in India should carefully weigh the policy options and choose

---

<sup>8</sup> S. Mahendra Dev & Rajeswari Sengupta, Covid-19: Impact on the Indian Economy, (Dec. 09, 2020, 08:21 PM), <http://www.igidr.ac.in/pdf/publication/WP-2020-013.pdf>.

<sup>9</sup>J.D.Sonkhaskar, Impact Of Covid-19 On Indian Economy, Vol. 29, No. 12s. IJAST pp. 432-439, (2020).

only those that have the largest payoffs in the short-run as well as long-run<sup>10</sup>.

### **(B) Objectives of the Study**

- To find out the key challenges faced by Indian banking sector and NBFC's.
- To find out the policy measures taken by govt of India and RBI to improve the economic crisis.
- To know how long will it take India's economy to recovery from this pandemic situation.

### **(C) Research Methodology**

As stated earlier current research is entirely based on secondary data to assess the impact of COVID-19 on Indian Banking Sector & other financial Institutions. This secondary data has been collected from the reputed English newspapers, magazines, various sites on the internet and other published research journal in this area and authorities of international institutions like World Bank, IMF and so on. The information available on various sites and newspaper, magazines and on other sites have been scanned and understood carefully while drawing the right conclusion for this article. The nature of the study is completely descriptive.

## **II. IMPORTANT POINTS DRAWN FROM THE STUDY**

Based on the review of financial experts and reports published by the RBI, World Bank & IMF following findings have been added in this article:

According to S&P Global Ratings credit analyst Deepali Seth-Chhabria. "we expect the non-performing loans to shoot up to 13-14 per cent of total loans in the fiscal year ending March 31, 2021, compared with an estimated 8.5 per cent in the previous fiscal year," Moreover she added banks may also be saddled with a huge stock of bad loans next year.<sup>11</sup>

The Economic Times article published on (Oct 14.2020) Vitor Gaspar, Director of IMF's Fiscal Affairs Department told since 1991 India's public debt ratio was stable at 70% of GDP but due to fall of economic activities & tax revenues in India will make public debt will rise from 17 % points to 90% of GDP because public spending has increased in response to COVID-19.<sup>12</sup>

---

<sup>10</sup> Anya Kumra, IMPACT OF COVID-19 ON THE INDIAN ECONOMY, *Int. J. Adv. Res.*, 8(08), 17-33 (2020).

<sup>11</sup> S&P, COVID-19 may set back Indian banks' recovery by years, I.E, (Dec., 02, 2020, 11:20 AM), <https://www.newindianexpress.com/business/2020/jun/30/covid-19-may-set-back-indian-banks-recovery-by-years-sp-2163443.html>.

<sup>12</sup> PTI, India's public debt ratio to jump to 90 per cent because of COVID-19: IMF, E.T, (Dec. 16, 2020, 09:18 PM),

World Economic Outlook Report released by IMF in the month of October 2020 told many important points about declining rate and recovery rates of India's economy. The report says Indian economy will recover soon with emerging rate 8.8 percent in next fiscal year earlier it was predicted 4.5 percent de-growth in the World Economic outlook report June 2020. Except China being an only exception IMF said in its World Economic Outlook report that all the developing and developed economies will witness contraction this year. IMF also warned for developing economy in its report that unemployment will drastically rise this year.<sup>13</sup>

Monish Shah Partner, Deloitte May 01, 2020, 07.35 PM IST says the pandemic is impacting the financial service sector in multiple ways during this highly uncertain situation due to the pandemic, financial institutions need to stress test their portfolios, for each of the defined scenarios, to better understand the impact and banking sector and other financial institutions must take additional measures.<sup>14</sup>

S. Mahendra Dev and Rajeswari Sengupta said COVID-19 has posed a great impact on the two sectors in India most one is health sector and another one is Indian economy and banking sector. It has turned the Indian economy into a disruptive situation with the large number of population and more dependence on informal labour and precovid-19 period of financial sector. The banking sector of India is badly broken especially the public sector banks. These banks have been struggling to deal the mounting losses from their non-performing assets on their balance sheet. This type of problem has adversely affected the credit growth in India and while the pandemic hit India this problem started to hurt debt market in India.<sup>15</sup> India has been dealing with twin balance sheet over the last year because of high level of non-performing assets (NPAs) in an inadequately capitalized banking system. However Reserve Bank of India (RBI) took some remedial action to address the financial crisis and kept 10 weakest banks in a Prompt Corrective Action framework.<sup>16</sup>

Analyzing the monetary policy committee report by S. Mahendra Dev and Rajeswari

---

<https://economictimes.indiatimes.com/news/economy/indicators/indias-public-debt-ratio-to-jump-to-90-percent-because-of-covid-19-imf/articleshow/78661641.cms?from=mdr>.

<sup>13</sup>Business Today, IMF predicts worse 2020 for India; 2021 way better, B.T, (Dec. 02, 2020, 10:12 PM), <https://www.businesstoday.in/current/economy-politics/covid-19-impact-indian-economy-to-shrink-10-3-percent-in-2020-imf/story/418753.html>.

<sup>14</sup> Monish Shah, Potential implications of COVID -19 on the banking sector, E.T, (Dec. 02, 2020, 10:12 PM), <https://bfsi.economictimes.indiatimes.com/blog/potential-implications-of-covid-19-on-the-banking-sector>.

<sup>15</sup> S. Mahendra Dev & Rajeswari Sengupta, Covid-19: Impact on the Indian Economy, (Dec 02, 2020, 11:00 PM), <http://www.igidr.ac.in/pdf/publication/WP-2020-013.pdf>.

<sup>16</sup>Rajeswari Sengupta & Harsh Vardhan, Policymaking at a time of high risk-aversion, IDEAS FOR INDIA (Apr. 06, 2020). <https://www.ideasforindia.in/topics/money-finance/policymaking-at-a-time-of-high-risk-aversion.html>.

Sengupta said in his research paper said it doesn't rate decision in the context of a revised inflation forecast, or any other element of a macroeconomic forecast. The public does not have the assurance that the rate cuts will be reversed when inflation begins to rise again.<sup>17</sup>

Anya Kumra says in the research article *Impact of Covid-19 on The Indian Economy* It is not possible to know the exact span and depth of the crisis on Indian economy and can't be measured at this point in time. Only renowned economists provide estimates on the likely economic impact of the pandemic on low and middle-incomes countries like India. India's growth in the last quarter of FY20 dropped down to 3.1% according to the Ministry of Statistics, mainly due to the effect of the current pandemic on the economy.

The pandemic has created a deep routed impact on the Indian economy, negatively affecting its GDP, unemployment rate, inflation rate, domestic and international trade, financial markets, government budget and various other macro-economic factors. The most vulnerable sector of the economy at this time, the MSME sector, has witnessed a disturbing phase in its functioning due to this crisis.

Further stated in the research article the covid-19 has created deep rooted impact on the Indian Financial sector on multiple fronts. Only few customers are being served by the bank branches due to covid-19 and practice of social distancing although Reserve Bank of India (RBI) has provided liquidity in the form of reduced rates of cash reserve ratio (CRR) and other liquidity adjustment facilities for lending. Banks have also been asked to "offer a moratorium to borrowers to pay installment and interest for three months," while relaxing the provisioning norms (Money Control).

Despite the measures taken, banking institutions are expecting a long-term negative impact on their economic activities. The banks have a risk of facing an increasing number of bad loans or non-performing assets (NPAs) if the borrowers are unable to generate sufficient cash. There could be an aggregation or accumulation of provisions and losses in the period in which the exemptions are lifted. If the pandemic doesn't end soon, there could be withdrawal of most deposits, resulting in the replacement of low-cost deposits with high cost borrowings. This might have an adverse impact on net interest income, spreads and margins. Banks may not find proper avenues for lending due to the crisis, resulting in either excess funds lying idle or being invested in low yielding investments. There would definitely be many challenges faced by banks. However, if the banks have robust risk management functions and can partner with borrowers who show potential and can adapt to the 'new normal', there

---

<sup>17</sup>S. Mahendra Dev & Rajeswari Sengupta, Covid-19: Impact on the Indian Economy, (Dec 02, 2020, 11:00 PM), <http://www.igidr.ac.in/pdf/publication/WP-2020-013.pdf>.

would be enough positives and benefits. The key would be to identify the right set of borrowers and partner with them to help them through this entire cycle.<sup>18</sup>

Vishwanath Nair Associate Editor at BloombergQuint most of the public sector banks are expected to report a net loss in FY21 moreover in FY 22 public sector banks will need to make provisions buffer because these loans will be converted into non performing assets in the FY23.<sup>19</sup>

The rating agency Fitch said Corona virus impact to bring more worries for Indian banks and therefore revised downside the operating environment score for the critical sector by a notch (ET Market New: March 26, 2020). The agency said Indian banking system is under-capitalized and continues to saddle with bad loans, despite some successes. From a banking perspective, travel, which forms 2.2 per cent of all loans and small business lending that accounts for 5.4 per cent will be the hardest hit, along with sectors such as auto that depend on inputs from China<sup>20</sup>.

J.D. Sonkhaskar described some major challenges to the Indian economy during this covid virus he mentioned in his research paper the Indian growth rate for 2020-21 which was forecasted at 5 - 5.5 per cent is being constantly revised and with the completion of third lockdown it is predicted to grow at 0 to -2% by different credit rating agencies like Moody, the Standard Chartered Bank, India ratings, ICRA, Fitch etc. The manufacturing and services sector were contributing to 80% of the GDP but due to covid-19 pandemic these industries has come to temporarily shut down. According to the UN report, for FY 2020-21, the GDP rate will fall below 1.2% which is still the best among the major economies, better than US, UK or Japan (IANS, 2020). A positive news is that for 2020, China and India may have positive growth rate at about 1.7 and 1.2 % respectively better than the United Kingdom (-5.4 per cent), European Union (-5.5 per cent), Japan (-4.2 per cent) and the US (-4.8 per cent) (IANS, 2020). The share of manufacturing to GDP ratio has still remained same as in 1991 of about 16% , while the workforce is mere 1.2 crores out of the total Indian workforce of 48 crores, which has to be increased further (Editor, 2020).

According to the research paper of JD Sonkhaskar the outward FDI (Foreign Direct Investment) has been reduced to half in March, 2020 i.e 2675.19 USD million as compared to

---

<sup>18</sup> Anya Kumra, IMPACT OF COVID-19 ON THE INDIAN ECONOMY, *Int. J. Adv. Res.*, 8(08), 17-33 (2020).

<sup>19</sup> Vishwanath Nair, India Ratings Cuts Banking Sector Outlook To Negative, B.Q. (Dec., 12, 2020, 11:15 AM), <https://www.bloomberquint.com>.

<sup>20</sup> Dr. Jitender Singh & Dr. B. S. Bodla, COVID-19 PANDEMIC AND LOCKDOWN IMPACT ON INDIA'S BANKING SECTOR: A SYSTEMIC LITERATURE REVIEW/LITERATURE REVIEW, (Dec. 12, 2020, 11:15 AM), <https://www.researchgate.net>.



previous financial year i.e 4112.59 USD million (RBI, 2020). Also financially stresses NBFC's (Non Banking Financial Companies) have restricted their retail lending which has significantly reduced the domestic consumption. On the other hand fiscal deficit (difference between total revenue and expenditure) for FY21 is pegged at 5-6 % or even double for the central government which will be very high due to the extension in tax revenues and the collapse in the nominal GDP (year, 2020). According to SBI research report, this fiscal deficit will be around 7.9% in FY21 which is expected to be due to the Rs 20 lakh crore stimulus package released by the government (PTI, Fiscal deficit to balloon to 7.9% in FY21: Report, 2020). The fiscal deficit for current year has been revised many a times and it is expected to miss the 3.5 % target primarily due to the sharp decline in the revenue collection (Roy, 2020). (Manoj Kumar, 2019).<sup>21</sup>

### **III. RBI MEASURES**

The Reserve Bank of India has taken certain measures to give some relief to the lending institutions. RBI has introduced credit risk assessment under which gives certain waivers to the borrowers which include moratorium to pay principal and interest with relaxation on their classification as a non-performing asset or a restructured asset this has given to borrower to help temporary financial difficulties. Banks will have to find the borrowers who are facing temporary or long-term financial difficulties.

- RBI has reduced cash reserve ratios of all banks by 100 point basis to 3% net demand and time liability w.e.f 28 March 2020.
- The requirement of minimum daily CRR balance maintenance has been reduced from 90% to 80% w.e.f 28 March 2020 and this one-time dispensation is available up to 26 June 2020.
- Under the 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 increased to 3% with immediate effect. This measure will be applicable up to 30 June 2020.
- The central bank has widened the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 basis points (bps) lower than the policy repo rate. The MSF rate would continue to be 25 bps above the policy repo rate. Further, consequent upon the

---

<sup>21</sup> J.D.Sonkhaskar, Impact Of Covid-19 On Indian Economy, Vol. 29, No. 12s. IJAST pp. 432-439, (2020).

widening of the LAF corridor, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0%. The widening of the corridor between the reference rates is expected to ease short-term volatility and bring stability to money markets.

- Policy repo rate has also been reduced under the LAF from 5.15% to 4.40% (i.e., by 75 basis points) with immediate effect. Accordingly, the MSF rate and the bank rate to stand reduced from 5.40% to 4.65%.<sup>22</sup>

#### **IV. CONCLUSION**

The covid-19 pandemic has negatively affected the Indian economy and its banking sectors and to know the exact span and depth of the impact of this virus is still not possible. The situation will be clear after the pandemic is over. However Govt. and RBI has taken some initiative to minimize the effect of this virus on the economy but still there are lots of things yet to do they are not sufficient till the virus doesn't over. This pandemic situation calls for strong and resilient leadership to the Indian economy to protect it from long term damage.

\*\*\*\*\*

---

<sup>22</sup> RBI press release on Statement on Developmental and Regulatory Policies, Seventh Bi-monthly Monetary Policy Statement, 2019-20 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India dated , (Dec. 21, 2020, 04:21 PM), [https:// www.rbi.org.in](https://www.rbi.org.in).