IMPACT OF COVID-19 ON INDIAN BANKING SECTOR

Even before the advent of Coronavirus (**"COVID-19"**) and its spread globally, the Indian economy was already facing major stress due to the alarmingly high levels of bad loans and degrading creditworthiness of banking and non-banking financial entities. With the rise in number of cases of COVID-19 in India, lockdown and other restrictions relating to movement have been imposed by the Government of India throughout the country, as a measure to restrict the further spread of COVID-19. These restrictions and lockdown have resulted in an adverse impact on key economic segments including manufacturing, services, construction and tourism. Due to the rising crisis in these sectors, the Reserve Bank of India (the **"RBI"**) has taken the following steps to protect the interests of the corporate entities and individual working in these sectors:

(a) The Statement of Development and Regulatory Policies has been issued by the RBI on 27th March 2020, wherein it has announced various measures to protect the Indian economy and public at large. The RBI also issued the COVID-19 – Regulatory Package on the same day (i.e., 27th March 2020).

(b) The measures proposed by the above include granting permission to banks, non-banking financial companies (including housing finance companies and micro-finance institutions) and other financial institutions to allow a three-month moratorium (i.e., from 1st March 2020 to 31st May 2020) on term loan (including personal loans, cred card dues, home loans, education loans, auto or other loans with a fixed tenure) repayments.

(c) Further, for working capital borrowers, recovery of interest for a period of up to 31st May 2020 may also be deferred by lenders. The lenders may also recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers.

(d) The moratorium / deferment / recalculation provided by the lenders will not lead to degradation of loan accounts of the relevant borrowers.

(e) The above measures shall be backed by board approved policies and the criteria for consideration of the reliefs, which should be made public.

While the above measures may seem to be adequate for the coming few months, however, it is unlikely that the benefits of these relaxations shall have a long-lasting effect on the Indian banking sector. This is primarily on account of there being no immediate cure for COVID-19 and lack of foresight in terms of its impact on a global level. As a result, the Indian banking sector, which is yet to face the direct consequences of COVID-19, may also face the impact of the economic stress caused by COVID-19. These may include the following:

(a) Rise in the overall levels of the non-performing assets and slower resolution of stressed loans.

(b) Higher provisioning by banks and financial institutions, resulting into lesser amounts available for lending, and hence, higher interest rates.

(c) Deterioration in the asset quality ratio.

Owing to the above, Moody's Investors Service has also recently changed the outlook for the Indian banking system from stable to negative. Though the RBI and other stakeholders of the Indian banking sector are claiming that the overall sector is and shall remain stable, the coming months shall be crucial as more measures are expected from the government and the RBI to address the aftereffects of COVID-19.

In case of any queries/clarifications, please feel free to contact on bankingfyi@jclex.com.