AN IMPACT STUDY OF COVID-19 ON CREDIT AND AGGREGATE DEPOSITS OF COMMERCIAL BANKS IN KARNATAKA

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1. ABSTRACT:

Covid-19 pandemic, indeed, is one of the most disruptive events in world history. It started off as a localised infection but later spread at geometric proportions engulfing the whole world. The destruction caused by the pandemic on all walks of life cannot be put into words. Also, successive lockdowns enforced by the governments in almost all the countries to contain the pandemic have left an indelible mark on World economy. As it was essentially a trade off between protecting public health and saving economies from going to the dogs, many governments responsibly chose to save lives. Understandably, it has resulted in economies getting shattered and desperate governments terribly short of funds. Hence, the impact of COVID-19 is many folds. The pandemic besides being responsible for affecting person to person interaction is also the culprit for breaking the neck of traditionally run businesses. India, being a country of paradoxes, was terribly hit by the pandemic in terms of its business profits and traditional economy. Hence, this paper is aimed at understanding the supposed impact of the Covid-19 pandemic on credit and aggregate deposits of commercial banks of Karnataka.

Key words: Covid-19, Credit, Aggregate Deposits, Karnataka, Commercial Banks, Lockdowns.

2. INTRODUCTION:

India is a developing economy with its majority population living in villages and small towns. Despite several measures and programmes undertaken by successive governments after independence towards achieving balanced regional development and overall economic development, efforts have not bore fruits along expected lines. One of the major hurdles faced by India is the lack of banking access and financial literacy among masses.

A commercial bank is a sort of bank that undertakes the functions such as accepting deposits, loaning advances, and contributing resources. Countless institutional organizations like Co-operatives Banks, Regional Rural Banks (RRBs), Scheduled Commercial Banks (SCBs), Non– Banking Financial Institutions (NBFIs), and Self-help Groups (SHGs), and so forth are engaged with meeting the present moment and long haul needs of the clients. The Commercial banks play an imperative and dynamic job in the financial advancement of a nation, if the banking framework in a nation is successful, productive and judicious.

The activities of an intermediary credit institution such as a commercial bank primarily focus on receiving deposits and providing loans, which are two aspects of credit operations. Among other things, receiving deposits (or fund mobilisation) is considered as an 'input' activity of the bank, while lending (or fund utilisation) is considered an 'output' activity. On one hand, since more deposits allow for more loans, banks want to mobilise more funds but also minimize their interest payments. On the other hand, since more loans contribute to economic development, increase revenues, and create more (potential) deposits, banks also want to utilise more funds while maintaining low leverage and low risks. Concurrently, the efficiency of fund mobilisation and utilisation at banks should have causal impacts on each other. The interdependent relationship between bank loans and deposits has long been acknowledged in the banking literature. Because of liberalization, privatization and globalization the job of banking area changed significantly. The credit is one of the basic contributions for agrarian advancement.

Months-long lockdowns and restrictions being put for availing banking have resulted in long queues of customers before the banks. Also, jobs were lost and businesses were destroyed. Financial security which every man hopes for in life was in doubt. This also led to depletion of deposits in the bank and loans being availed to meet the needs of life. Therefore, the study tries to relate the impact of Covid-19 pandemic on the banking operations of the country with respect to Aggregate deposits and credit disbursal.

3. REVIEW OF LITERATURE:

Kalluru Siva Reddy (2009) led study on "Ownership structure, Performance and Risk in Indian Commercial Banks" This study looks at the impact of possession on performance and risk of business banks in India amid the period 1995-2007. Bank capital and demand deposit are emphatically related and loans are contrarily connected with bank profitability, where as size of bank and growth rate of economy are adversely connected with bank.

Singh Sultan and Komal (2009) in the Business Intelligence Journal exhibited a paper titled, "Effect of ATM on customer satisfaction a comparative study of SBI, ICICI and HDFC bank. This paper displayed the effect of ATM on customer satisfaction. This was a comparative study of three noteworthy banks i.e. state bank of India, ICICI and HDFC bank.

Kunjukunju Dr. Benson (2010) "Reforms in Banking Sector and Their Impact in Banking Services" In this study it has been examined that the methodologies followed by the Indian Banks are still a long way from sufficient and have not acquired the normal outcomes. The systematic arranging and presentation of client situated and tweaked products and services by the Indian Banks will assist them with competing and prevail in the contemporary aggressive banking condition. In a focused business condition keeping in mind the end goal to hold and enlarge the client base, the banks should start ventures to better close to home contacts with their clients. The banks must focus on improving nature of its work force and endeavor to create it further.

N. S. Varghese (2010) is of the feeling that new generation private sector banks with their most recent innovation can actualize e-banking and are exceptionally favored by speculators in the share trading system. He likewise brings up that unmistakable new generation private sector banks like HDFC and ICICI have gone into web banking through which more prominent accommodation is offered with lower transaction cost.

Ghosh and Das (2015) directed an observational examination on depositor train in the banking sector in India. This examination follows the determinants of depositor train in Indian banking. If there should be an occurrence of private and foreign banks, arrangement declarations have an essential bearing on the reliant variable. For state-claimed banks, bigger resource converts into higher deposit growth, recommending that depositors are delicate to the 'to-enormous to-fall' impact. At last, guaranteed depositors tend to practice teach by convincing banks to pay a higher cost on deposits.

Bhayani (2015) led an experimental investigation on retail banking mindfulness among 200 clients having their present records with private banks, nationalized and co-agent banks in the Rajkot city of Gujarat. The goal of this investigation was to look at the services given by various private sector banks in the Rajkot city and additionally to know the clients' mindfulness about the services gave and how frequently they used these services.

Roy (2016) directed an investigation on bank lending to need and retail sectors amid the period from 1996-97 to 2004-05. For this examination, 47 Indian planned business banks, which represents around 90-95 percent of bank credit of all booked business banks were chosen. From this investigation, unmistakably there has been an auxiliary move in credit conveyance of booked business banks from need sectors i.e. agriculture, little scale ventures, to services and retail sectors amid the most recent couple of years.

Piyush Khaitan (2019) expressed that over the last two decades, India's non-banking financial companies (NBFCs) have assumed critical importance in the financial system. NBFCs in India can boast of having total asset size of more than $370 billion. They provided nearly 20 per cent of total credit in India till March 2018 as compared to 15 per cent in 2015. The lending book of NBFCs has grown at around 18 per cent annually over

the last five years. The NBFCs are serving the underserved and often ignored retail and MSME segments which are the backbone of India's growth story.

ET Market New (2020) said Indian banking system is under-capitalised and continues to be saddled 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.

Dr. Chanduji P. Thakor (2020) opines that two implications follow for the future of banking. First, banks will operate in a financial system that is awash with liquidity and interest rates are extremely low. Second, the government will be a key player in the financial sector, both as a borrower (to fund its deficit) and as a "risk absorber" providing guarantees, back-stops and more direct fiscal support for borrowers whose businesses and cash flows bear the brunt of the virus. This brings us to the related issue of how banks' loan books are likely to look in the future since major economic upheavals invariably lead to an escalation in risk perception and a flight to quality. This means that banks will prefer to give loans to borrowers whose cash flows are visible and strong, while avoiding borrowers whose cash flows and incomes run the risk of being disrupted.

4. STATEMENT OF THE PROBLEM:

As the literature reviewed suggests, the aggregate deposits and credit disbursed by commercial banks is a function of the banking infrastructure and the policy framework which is in place of a country. As the world economies are recovering yet from the shockwaves of COVID-19 pandemic, banking and financial institutions are also looking out for ways to cope with the challenges and outcomes of the new post pandemic world. As deposits acceptance and credit disbursal are the two basic functions of commercial banks, there is a need to undertake a study on how the shutdowns have hit the financial operations and efficiency of banks.

5. OBJECTIVES OF THE STUDY:

- To identify any changes in aggregate deposits and credit of scheduled commercial banks of Karnataka before and after Covid-19 outbreak and lockdowns.
- To present population segment wise deposits and credit data of banks in Karnataka.

6. SCOPE OF THE STUDY:

The study is restricted only to the scheduled commercial banks of Karnataka State. Data related to two financial quarters only viz., is included for the study.

- The 3rd Quarter of FY 2019-20 (October-December 2019) (Pre pandemic time)
- The 2nd Quarter of FY 2020-21 (July - September 2020). (Post pandemic time)

The study has covered only two aspects of banking statistics i.e., aggregate deposits and credit only.

7. RESEARCH METHODOLOGY:

The study is based entirely on secondary data. For the study, data published by The Reserve Bank of India is utilised. The data is collected for 2 different points of time:

One: Quarterly bulletin for the months of October - December, 2019

Second: Quarterly bulletin for the months of July – September 2020

The data is with respect to Aggregate Deposits with the Scheduled commercial banks of Karnataka state. The quantitative data for different time periods are compared using percentage analysis to make appropriate interpretations.

8. DATA ANALYSIS AND INTERPRETATION

Table 8.1

Table showing Number of reporting offices of Scheduled Commercial Banks in Karnataka before & after Covid-19 outbreak

Segments	No. Of Reporting Offices		Growth / Difference
	FY 2019-20 Q3	FY 2020-21 Q2	
Metropolitan	2333	2370	37
Urban	2117	2128	11
Semi-Urban	2453	2488	35
Rural	3537	3571	34
Total	**10440**	**10557**	**117**

Source: Compiled data from Quarterly bulletins of The Reserve Bank of India.

8.1.1. DATA INTERPRETATION:

The table shows the data related to the number of reporting offices of scheduled commercial banks in the state of Karnataka between two periods - Q3 of FY 2019-20 i.e., October - December 2019 and Q2 of FY 2020-21 i.e., July - September 2020. There is no significant difference in the number of reporting offices between the said periods of time.

Table 8.2.

Table showing Aggregate deposits of Scheduled Commercial Banks in Karnataka before & after Covid-19 outbreak

Segments of Karnataka	Aggregate Deposits (in Crores INR)		Growth / Difference	
	FY 2019-20 Q3	FY 2020-21 Q2	In Amount (In Crores)	In Percentage (%)
Metropolitan	655922	729282	73360	11.1842
Urban	180802	195616	14814	8.190
Semi-Urban	103771	113741	9970	9.6276
Rural	78762	85434	6672	8.4710
Total	**1019257**	**1124073**	**104816**	**10.28**

Source: Compiled data from Quarterly bulletins of The Reserve Bank of India.

8.2.1. DATA INTERPRETATION:

The table shows that despite repeated lockdowns enforced by the governments, there has been a growth in aggregate deposits of scheduled commercial banks of Karnataka across all segments viz., Metropolitan, Urban, Semi-urban and rural segments of the state. The average growth in deposits is recorded at 10.28%. Only Metropolitan areas have recorded a higher growth rate than the average rate, which only implies that metropolitan cities of Karnataka have a better access to banking and financial services. In the other hand, rural segment has only recorded less than 8.5% growth in deposits, which is less than the state average growth rate. Urban segment too, surprisingly has scored less than that of rural segment. This reflects the lack of ease in accessing banking services being one of the reasons for the less than state average growth rates.

Table 8.3

Table showing Credit of Scheduled Commercial Banks in Karnataka before & after Covid-19 outbreak for Q3 FY 2019-20 and Q2 FY 2020-21

Segments of Karnataka	Credit(in Crores INR)		Growth / Difference	
	FY 2019-20 Q3	FY 2020-21 Q2	In Amount (In Crores)	In Percentage (%)
Metropolitan	424723	437327	12604	2.9675
Urban	102606	109066	6460	6.2959
Semi-Urban	76969	83696	6727	8.7398
Rural	70147	75778	5631	8.0274
Total	**674444**	**705867**	**31423**	**4.6590**

Source: Compiled data from Quarterly bulletins of The Reserve Bank of India.

8.3.1. DATA INTERPRETATION:

The table shows the expansion in credit of scheduled commercial banks of Karnataka State after the enforcement of Covid-19 lockdowns in the state. As it is evident from the table, Semi-urban and rural areas have seen a much higher growth rates as compared to those of Metropolitan and urban segments. While the state average is hovering around 4.65%, Urban areas, in stark contrast with growth in aggregate deposits have seen a meagre rise of 2.96%, as compared to 8%+ growth rates in rural and semi-urban segments. This might be reflective of the fact that rural population must have been in a much more financial distress than their urban and metropolitan counterparts of the state.

9. FINDINGS OF THE STUDY:

- There is no considerable increase in the number of reporting offices between the time periods of the study.
- Despite, Covid-19 outbreak and successive lockdowns enforced by the government, there is absolute growth in aggregate deposits of commercial banks in Karnataka across all segments of the population.
- There is a similar growth in credit of commercial banks across all segments of Karnataka
- As it is evident from the data, Rural and semi-urban credit growth is higher than that of metropolitan and urban segments of the population.
- In contrast, Metropolitan segment has recorded a higher growth in aggregate deposits as compared to rural and semi-urban segments.

10. CONCLUSION:

As evident from the study, Covid-19 has had an effect on the aggregate deposits and credit of scheduled commercial banks in Karnataka State. Although, there is a growth in both aspects of banking operations, differences can be seen across several segments of the population. It is clear that the rural population has borrowed more than any other segment during the period of the study (in terms of percentage). It is evident that rural and semi-urban populations have experienced financial distress, much severe than metropolitan and urban populations of the state of Karnataka. Therefore, one can conclude that more comprehensive data and time are needed before making accurate observations about how the pandemic has affected different aspects of the economy.

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