

Impact of Lockdown Announcement on Stock Prices of Banking Sector: An Event Study of Indian Stock Market

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Abstract

Corona Virus has substantially influenced global economic infrastructure, and Banking in India is no different. COVID 19 has caused extraordinary structural alterations. The breakout of COVID 19 and subsequent nationwide shutdown announcements have wreaked havoc on India's financial system. The current research employed analytical review as a technique to explore the consequence of the bank's nifty lockout announcement. According to the research, the pandemic and following lockdown pronouncements negatively impacted stock values in the Indian banking industry. The study emphasised the understanding of lockdown effect on share market price with special reference to the banking sector and how lockdown adversely affected banking stock prices in India.

Keywords: COVID 19, Lockdown, Banking sector, Stock Market Price, Pandemic, Indian Stock Market

Introduction

The "COVID-19 outbreak is unique and unusual in many ways and has put healthcare systems to the test." This epidemic has touched 212 nations throughout the world, and so many nations are now dealing with the 2nd wave of COVID-19. The Indian market was already in poor shape well before COVID-19 pandemic, which has further exacerbated the situation. It's possible that banks will be more hesitant to restructure loans this time since they have already lost a lot of money in past attempts. In fact, several rating organisations, such as Standard & Poor's, forecast that the Indian financial industry would only revive until 2023. The benchmark Sensex and Nifty have recovered most of their losses from February and March in the previous 6 months. However, one crucial industry — banking — continues to underperform on the stock market.

The bank index and Sun utilised an event research technique to investigate the finance index, which is down by 21% and 19% from the effect of the Covid-19 on the Chinese stock market and their January 31 levels, respectively. Aside from metal, electricity, and telecom responses

in many sectors. It was discovered that the indexes are also down between 10 percent and 15 percent. We analyse the implications of COVID-19 government actions on the financial system in this research, adding to the field in three ways. Firstly, researchers examine the influence of government initiatives on the market in a global context[1]. Secondly, researchers examine market connectivity and look for regional learning impacts. This is in keeping with Dima's findings, which reveal that the VIX index was neither somewhat effective in 2020 than in other eras.

Using an extensive “OECD and BRICS” nation panel data for the period of January 21 to May 21, 2020, we conduct a multi-country business panel assessment in conjunction with just an occasion research layout in the vein of Kaplanski as well as Levy to examine the effect of lockdown stringency on unusual investment returns. On a daily level, this architecture enables us to adjust for the scheduling of government initiatives and group specific days together. Our dataset begins on “January 22, 2020 (the first big Corona limitation: the lockdown in Wuhan), and ends on May 20, 2020”. It is believed that the timing of adjustments in limitations to control the epidemic is responsible for the anomalous national stock market performance, which are by-products of a supplementary regression of local profits on their delays and leads, as well as worldwide market returns. Our study looks at how well financial markets in a number of nations, from developing markets to advanced economies, are performing[2], digested information before, during, and after the global financial crisis to the same extent as Edmans and national stock exchanges in the United States did before, during, and after the global financial crisis. According to Becchetti and Ciciretti (2011), they get to the conclusion that understanding previous occurrences may lead to a rethink of the data that is now accessible.

Researchers discovered that nationwide COVID-related metrics led to a typical under or over response trend in the national share market performance, consistent with previous research. The tightening of national lockup restrictions corresponds with a decline in the stock market's performance, although the impacts are not immediately apparent (initial underreaction). An overreaction triggers a

negative response, for the first half of our time sequence, this is somewhat inverted. The Australian stock market, according to Rahman, overreacted to the proclamation of a national emergency and the imposition of fiscal stimulus. This substantiates their claims. We can also predict future reactions since our model incorporates the OxCGR index change's leads and lags rather than cumulative abnormal returns. Even after excluding the impact of the global stock returns impact from the information, researchers show that the first big regulatory measures have a distinct impact on the economy of a nation and the wider area. Furthermore, when taking the full sample period into account, the loosening of lockup limitations has a positive mirror effect on stock market performance equivalent to that of the restriction. Whenever researchers divide the sample into two groups, we find some interesting distinctions between the two groups. The markets were initially unappreciative of the relaxation of limitations, which was understandable.

We have a relationship with Askitas, a multi-country board occasion investigation on the influence of various closures limitations on coronavirus contagion counts and movement shapes. We are looking at the impact of Corona's lockdown. On the subject of the financial market ramifications of the COVID-19 outbreak, Ru and demonstrate that nations hit by the “SARS epidemic of 2003” were speedier and more conclusive in their policy measures, which resulted in a faster stock market responses[3]. Alfaro and colleagues (2020) demonstrate that variations in the number of coronavirus cases, particularly those that are unexpected, impact the share market in the United States. Ramelli and Wagner look at the presentation of specific shares at the start of 2020, and their findings are compelling. Initially, companies' stock values with links to China were the most adversely impacted. Still, subsequently, the shares of companies with significant debt and little liquidity were the most adversely exaggerated. Following the pandemic, according to Beirne, fiscal markets in developing countries in “Asia and Europe” were more harshly affected than the financial system in established nations, owing to the sudden and significant capital outflows that occurred. After making comparisons with past pandemics, Baker and colleagues (2020) believe

that the far higher government reaction to COVID-19 is responsible for the significantly high levels of market volatility in the United States.

Banks Crisis During Pandemic

In response to the Covid-19 epidemic, a severe worldwide economic crisis has erupted. In the midst of the financial turbulence that has engulfed the world in recent months, banks have shown to be a source of strength and stability. Because of considerable changes implemented in the aftermath of the worldwide economic catastrophe of 2007-2009, banks that were much better capitalised and much more liquid did not face imminent danger. In reality, banks are regarded as beneficial in meeting the financial requirements of the real estate industry. They will, however, be put under pressure. Large-scale insolvencies can occur among businesses. A wave of household bankruptcies may follow. Banks might be caught in the crossfire at some point, with stress levels exceeding those predicted in several assessments.

The impact of the crisis is compounded by the combination of chronically low interest rates, structural changes, and rivalry from financial institutions and modern electronic entrants that undermined the old bank business model before the implementation of Covid-19 throughout the previous decade[4]. The paper addresses these critical concerns, the competitive reactions of the various stakeholders – both incumbents and newcomers – and the resulting legislative and regulatory implications. It makes the following argument.

In the near term, banks may benefit from a resurgence in credit facilities as they channel cash to clients to get them through the crisis while also benefiting from the security net's safety and availability to deposit funding. The Covid-19 problem, on either extreme, will aggravate pre-crisis patterns since weak development and low rates will persist for a long time. It will put the financial system's resilience, as well as the regulatory changes adopted after the global financial crisis, to the test, as well as the limitations of central bank involvement. While banks may benefit from short regulatory and supervisory respite, digitalization will significantly boost new entrants to compete with

established players. Even if digitalization boosts the competitiveness of financial services, the long-term consequences of this will be determined by the market structure that prevails. A system with a few dominating systems that limit access to a fragmented client base may replace the old oligopoly in banking. A few BigTech companies and some platform-transformed institutions monopolising the interaction with consumers.

Because they are unable to manage the cost savings and IT investment that are critical in the new climate, medium-sized banks will suffer. As troubled banks want to consolidate, political impediments to cross-border mergers may re-emerge in the post-Covid-19 world as nations become more defensive of their country's banking heroes, particularly when it comes to institutions deemed important[5]. To react to technological transformation, authorities must strike a balance between promoting competition and permitting the advantages of innovation while also maintaining financial stability. It will be necessary for them to harmonise prudential supervision and competitive policy with data laws, negotiating difficult trade-offs in the process.

In the first place, trades that have stopped processes lose income and may thus be incapable of paying back debts. The same is true for families whose income has decreased as a result of job losses or furloughs. These families may find themselves unable to payback their debts. This will lead to not just income losses, but also setbacks, which will adversely influence both returns and bank capital. In addition, since a quick recovery becomes less possible, banks should anticipate greater losses, leading to the need for increased reserves, which will further erode their strong financial position in the long run.

Secondly, banks have suffered due to the decline in the value of bonds and other tradable investment vehicles, which has resulted in more losses for the banks. It is also possible that losses may result from open imitative fortunes that have shifted in unforeseen behaviors due to the disaster.

Thirdly, banks see an increase in the request for credit; subsequently, dealings, in particular, need better cash flow to cover their expenses even during areas of low or non-existent income. A manifestation of this

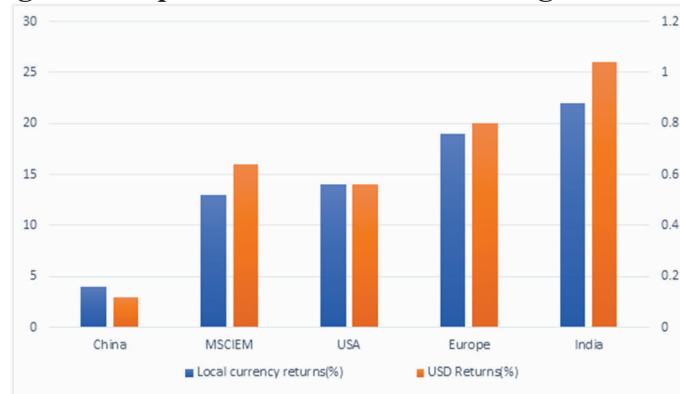
enlarged request has been the drawing down of lines of credit by debtors in a number of instances[6]. Fourth, banks are experiencing decreased non-interest income as a result of a decrease in demand for their various services. When there is less economic activity, fewer transactions and procedures are to be completed. When there are fewer security problems by corporations, the fee money earned by financial institutions is reduced.

It is possible for losses and smaller capital buffers in banks to have adverse spillover effects, which might worsen the solvency situation of the bank and possibly destabilise the larger economy. Banks may issue debt and other traded investment vehicles to enhance their liquid assets or make up for losses, causing the values of these instruments to decrease as a result and adversely impacting the performance of other banks that hold these securities. Banks may decide to decrease credit availability to the economy, which would negatively impact enterprises that depend on credit buffers and might jeopardize their viability. "During the global financial crisis of 2008/09, we saw a similar cascade of consequences". This has the potential to exacerbate the economic catastrophe.

Stock Market at the Time of Lockdown

The pandemic of coronavirus has resulted in an outbreak of respiratory illness, for which there are now no vaccinations or embattled treatments presented for therapy. The epidemic was a significant source of worry for both public health and the global financial system at the time. COVID 19, also known as COVID-19, is an abbreviation that stands for Corona Virus Infection 2019. Infection with this virus results in pneumonia of unidentified origin, originally discovered in Wuhan, China, and was initially notified to the WHO on December 31, 2019. On February 11, 2020, the WHO declared that this lethal virus had been officially designated as such. In a statement released on March 11, the Globe Health Organization designated COVID-19 a disease outbreak, citing more than 118,000 instances of the coronavirus infection in 110 nations and territories throughout the globe, as well as the persistent danger of additional worldwide spread.

Figure 1: impact on Stock Market during COVID 19



India is the planet's second most populous nation, with a population of over 1.2 billion people. According to World Bank statistics, India is home to 176 million impoverished individuals and has the lowest rankings globally for sanitation and medical services. If COVID-19 spreads to India's population, the country will face a humanitarian crisis. However, India was not far behind, with the first case recorded on January 30, 2020, and the final death toll reached 14,376 on April 17, 2020. Improved living conditions and public health[7] were major concerns for the Indian government under PM Narendra Modi, who proclaimed and instructed a nationwide lockdown for 21 days on the 24th of March, 2020, to prevent the spread of the disease. On the 14th of April, he stretched the national lockdown till the 3rd of May, 2020.

World economy was devastated by the Outbreak COVID-19, and the disease hit India. As a result of the government-ordered lockdown, everything in the world's most populous nation came to a grinding standstill. The COVID-19 virus, which spread to virtually every country on the planet and caused enormous destruction, had a number of implications, including the collapse of the worldwide economy, a sharp drop in energy costs, and an increase in unemployment. India, like the United Kingdom, was not far behind in analysing the impact of COVID-19 on its economy, growth, business, and equities markets.

India has a strong financial market that responds and reacts well to changes in the global economy. A gap of roughly 53 days existed between the first case reported in India on 30th January and the lockdown being imposed on 24th March,

2020, which was another cause for worry; what if the Administration had imposed the lockdown earlier? It is possible that it has halted the spread of the virus in the community[8]. How did it react when the share market was closed down throughout the country? In this event study, the semi-strong variant of the market efficiency theory is used to explain the impact of the lockdown caused by COVID-19 on the stock market. They are referred to as event studies. When the lockout due to COVID-19 is announced, this event research measures how quickly the price of securities responds to the notification.

As per the semi-strong Efficient Market Hypothesis, existing stock prices fully reflect knowledge about previous stock markets and represent knowledge that is readily accessible to the general public, such as news. The price may not completely represent all information available in a semi-strong type of market effectiveness for a period of time before the price completely represents all existing knowledge. The time lag might vary significantly when it comes to the market, individual security, and how information is exchanged[9]. The purpose of this research is to collect evidence in favour (if any) of the semi-strong version of EMH in the Indian stock market, which is currently under investigation. The writers of this research aimed to investigate the influence of the stock market lockout and the effect of that lockdown on the Average Abnormal Performance of different equities in the stock market.

Stock Prices of Banking Sector During Covid-19 Lockdown

Authorities employed social distancing to prevent the spread and shutdown of non-essential industries as mitigating strategies to restrict the spread of the novel coronavirus. The business sector was severely damaged by the economic crisis as a consequence of the revenue gap, forcing it to scramble for funds to pay operational expenses. The financial sector, particularly banks, is likely to play a critical role in absorbing the damage by providing much-needed capital. National banks and governments used a variety of policy approaches in response to such unusual situations[10]. While some suitable measures were taken to

ease the short-term tightness of economic circumstances, others aimed to promote the flow of credit to businesses, either by direct financial sector involvement or by lowering bank capital protection standards.

Despite the fact that credit organisations are expected to serve a crucial countercyclical part in boosting the financial sector, their actions have a variety of implications for the financial industry's long term stability. When lenders exhaust their existing buffers, capital adequacy may worsen, putting the system's reliability at risk. The ultimate impact of such policy decisions on the banking industry is largely unclear since the crisis is projected to continue long after the closures are removed, and countries begin to recover.

Table 1: Performance of various indices during COVID-19

BSE Indices	31,January 2020	21 October 2020	Change (%)
finance	6846	5575	-18.6
telecom	1178	1042	-11.5
FMGC	11641	11001	-5.5
helthcare	13957	19748	41.5
teck	7911	9982	26.2
IT	15871	21943	38.3
Auto	18161	17813	-1.9

This study makes a two-fold contribution. To begin, we look at bank share prices throughout the globe to see how the outbreak would affect the banking industry. Second, we use a worldwide database of financial sector policy actions during the epidemic to combine bank share prices. We evaluate the stock market's reaction to the introduction of various policy measures using an occasion research technique. To better understand the effect of financial and legislative initiatives, we look at cross-sectional volatility in bank share prices. To put it another way, we're interested in the overall reaction of bank shares to a specific announcement as well as the variances in impact among banks of various sizes, soundness, administration, and other factors.

We used bank data from 52 nations, comprising 896 commercial banks, including share prices, accounting records, and management. Between March and April of 2020, at the outset of the COVID-19 crisis, we first show a continuous underachievement of bank stocks. Bank equities underperform in most nations compared to other openly listed corporations in their native nations and other financial organisations[11]. Although bank underachievement throughout declines is frequent because of their large betas, we demonstrate that banks' stock returns were particularly low initially in the outbreak when measured against a valuation model with mixed components, such as global and local market returns in Bekaert. Following the COVID-19 shock, Acharya estimated a dangerous premium on bank equities in the United States. During our evaluation period, we demonstrate that negative anomalous returns amongst banks are common in both developed and developing nations, and that they are resistant to numerous model settings. We also demonstrate that institutions with lesser liquidity injections witnessed bigger price declines than usual.

Researchers uncover finance industry actions by government agencies from February 2 to April 17 to investigate the share price response to numerous measures. The World Bank collected the information and made it openly available. In all, 389 finance industry policy declarations from 45 countries were included in our final sample. Authorized actions aimed at the banking industry are divided into four categories. Financial institutions utilise liquidity assistance to increase bank short-term financing in domestic and international currencies. Prudential strategies, such as capital buffers, cope with the interim easing of regulation and supervision restrictions[12]. Borrower support might involve government-sponsored lines of credit or liability assurances to help families and businesses get credit. Ultimately, monetary easing and policy rate reduction are part of fiscal policy. Our experimental technique entails measuring the anomalous returns of banks on the day of the disclosure. The following is a summary of our findings:

- Declarations of borrower aid proved to have the most instant influence on bank share prices, both collective and cross-sectionally. Following the introduction of these rules, banks saw huge anomalous returns. Furthermore, bigger banks appear to gain more than smaller financial institutions. This is according to the fact that big banks are more inclined to employ additional government loan ranks, interest rate incentives, as well as obligation assurances[13]. Borrower aid programs, which usually entail the provision of government backing, move risks from banks' account balances to the sovereign. As a result, these policies need substantial financial commitments. In a related finding, we discover that the constructive relationship between additional share returns and debtor aid programmes is unique to industrialised nations. Debtor assistance pronouncements have little influence on stock prices in emerging nations, where fiscal growth is limited. In such circumstances, the market reaction seems to imply that the scope of borrower aid measures is restricted.
- Liquidity assistance programmes help to reduce the liquidity premium by causing shares of banks with much fewer financial cash to react more aggressively to these statements. When liquidity support policies were revealed, smaller banks also saw big anomalous gains.
- Countercyclical prudential measures, on the other hand, are connected to negative excess returns in bank stocks. Banks may use prudential measures to deplete part of their reserves. They also convey a strong signal that officials are willing to mitigate the pandemic's economic effect. Nevertheless, the reality that financial assets prices fall when these measures are announced implies that markets are pricing in the negative risk of capital cushions being depleted and the increase of riskier loans on banks' financial statements.
- The outcomes of fiscal policy pronouncements are less clear. Though such statements were not linked to a rise in overall bank stock prices, policy rate decreases did diminish the liquidity premium, resulting in greater stock market returns all around the release window for banks with lesser liquidity[14]. This finding

demonstrates that interest rate regulation maintained a crucial instrument during the start of the crisis.

The independent variable of policy interventions, which might distort our estimates, is the most serious danger to our identification technique. Whereas the COVID-19 was exogenous, monetary regulators do not select a policy mix at random[15]. To alleviate this fear, we undertake three experiments that validate the majority of our results. Firstly, in our collection, we evaluate the behaviour of big cross-border banks' share prices when regulations are published in nations where they have affiliates. Secondly, we look at how much foreign influences, rather than local ones, impact the introduction of finance industry policy in different jurisdictions. Third, we look at bank share prices in Euro area nations when the European Central Bank makes broad cross-country policy statements.

Conclusion

Coronavirus spread has created a global upset, with both the sickness and countermeasures to mitigate it – including such societal isolation and regional or national lockdown initiatives– having a significant economic impact. In the early stages, it was expected that the financial sector, particularly banks, would play a crucial role in absorbing the impact by delivering essential credit to firms and people. National banks and administrations throughout the world have undertaken several measures to improve liquidity and stimulate the availability of money to assist with this. The impact of such countercyclical underwriting standards on future financial stability studies and the extent to which their increased capital levels because the international financial catastrophe has enabled them to survive this impact without compromising their robustness is a major policy concern.

To take a preliminary look at this problem, we utilise daily share prices and other financial statement data for a selection of banks in 53 countries in this article. We make a commitment in two ways. We start by looking at the impact of the pandemic on the banking sector, and if the shock had a particularly significant impact on financial vs. corporate banks, as well as institutions with distinct characteristics. Second, we evaluate the effect of various policy measures

in resolving bank strain as viewed by markets, both in the collective and across individual banks, using a worldwide database of finance industry policy measures as well as an event research technique.

Our results reveal that the coronavirus impact had a stronger and longer-lasting negative impact on banks than on corporations as well as other non-bank financial enterprises, implying that banks are anticipated to bear at least a part of the banking sector's upset; additionally, bigger banks, including PSBs continued to suffer bigger share price declines, mirroring their larger expected part in dealing with the situation. Financial institutions with lesser pre-crisis liquidity saw larger return reductions, implying that they were more vulnerable to such a shock.

We next examine the impact of funding, prudential actions, debtor assistance, and fiscal policy indicators on bank irregular yields, examining over four hundred policy statements from February to April 2020. Our findings indicate that liquidity assistance and borrower aid had the largest beneficial influence on bank irregular yields. Liquidity backing helped the least liquid institutions the most, while the disclosure of borrower aid initiatives enhanced anomalous returns for bigger banks. However, since they depend on fiscal spending, these policies have had little beneficial influence on bank stock values in emerging nations where fiscal growth is limited. Prudential measures seemed to have an adverse effect on bank returns, implying that markets had priced in the possibility of capital buffers being depleted. Furthermore, policy rate decreases benefitted largely less liquid banks, indicating that the financial system was once again a major weapon in this crisis.

Consequently, our results suggest that the emergency and banks' putative counter-cyclical funding function has put banking institutions around the world under pressure, with varying consequences relying on every system's characteristic, including pre-crisis weaknesses. Although different regulatory initiatives, such as financing, debtor assistance, and monetary easing, assisted certain banks in managing the adverse effects, it was not the scenario for all organizations or scenarios. Borrower support programmes, for example, worsened the burden on banks operating in

countries with limited budgetary headroom. As the epidemic proceeds to wreak havoc on the global economy, these weaknesses would need to be closely watched.

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