

Impact of Russia Ukraine War on Returns of Banking Stocks in India

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Abstract

Banking is the lifeline of an economy. India as an emerging economy aspiring to achieve the status of a developed economy needs robust and inclusive banking sector. Russia Ukraine war has impacted global supply chain and currency exchange rate. This paper examines the impact of war between Ukraine and Russia on the performance of banking stocks. Secondary data is collected from National Stock Exchange. Data is analysed using paired T- test. The findings have implications for banking sector, policy makers and investors.

Key words: Russia, Ukraine, Banking, India, Investors, NSE, Nifty, Nifty Bank

1. Introduction

India has a properly regulated and diversified banking system. The financial stability of Indian banks has been witnessed in the global financial crisis of 2008. Indian banks could manage to face the global financial crisis with little impact on profitability and solvency. The banking sector plays a significant role in the economy. The stock market index has maximum contribution of banking and financial services. Banking and financial services constitute 35.6% of the Nifty 50 index (Sen, 2022). as shown in figure 1. The regular reforms and technology adoption has made Indian banks stronger to manage the disruptions. The economic shock of Covid-19 pandemic was tolerated well by the Indian banking system. Fintech and digital payments have opened up new avenues for Indian banks. The reforms and technology adoption coupled with creation of new category of banks like small finance banks and payment banks have enhanced the reach of Indian banks to a larger section of the society.

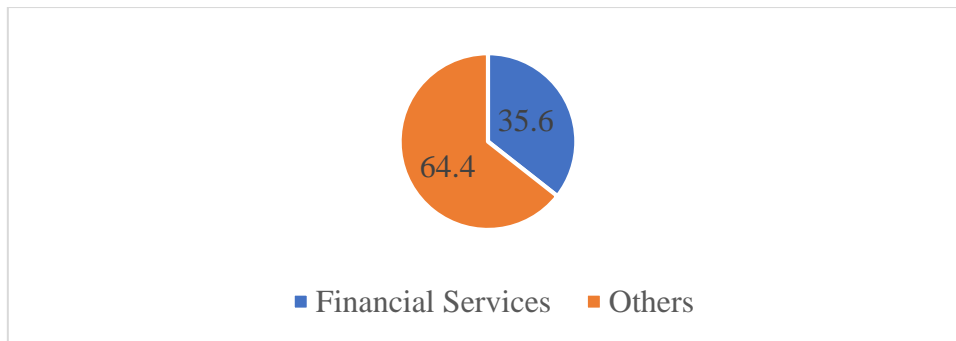


Figure 1. Share of Financial Services in Nifty 50
Source: Sen, 2022

The potential of banking sector is exhibited in terms of returns to investors. Nifty bank has given returns of 17.6% in price terms over a period of 2000 to 2021. In the same period Nifty 50 has yielded returns of 11.5%. Nifty bank has outperformed the market benchmark significantly. In total terms basis also, Nifty Bank has outperformed Nifty 50. Nifty bank has outperformed Nifty 50 in six out of ten years between 2011-12 to 2020-21 as shown in figure 2 (Sen, 2022).

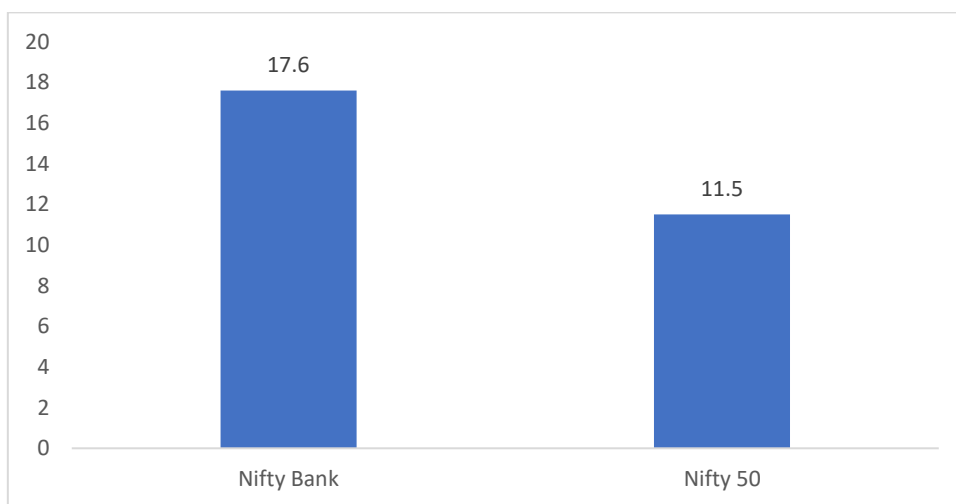


Figure 2. Returns (%) of Nifty Bank and Nifty 50 on Price terms from 2000 to 2021
Source: Sen, 2022

The deposits of Indian banks have grown from USD 1149.19 billion in 2016 to USD 2101.39 in 2022 (IBEF, 2022) as shown in figure 3.

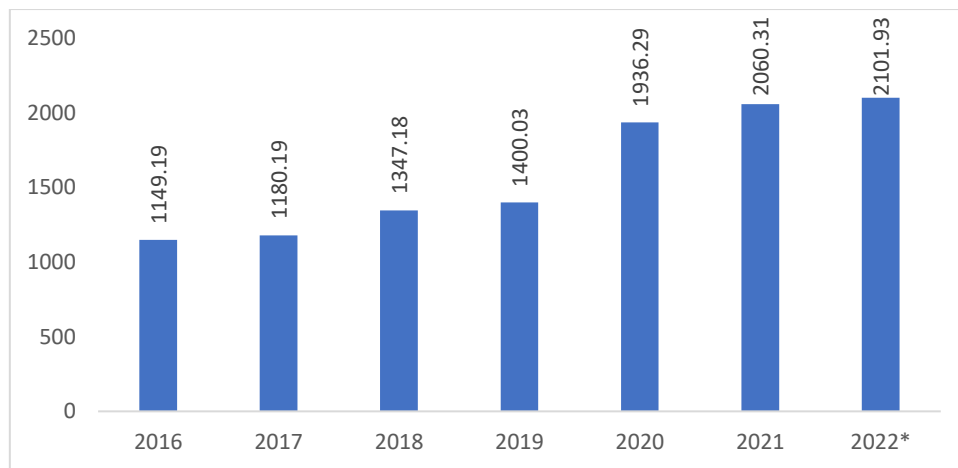


Figure 3. Deposits Growth of Indian Banking (Billion USD)

The total assets of private sector Indian banks have grown from USD 721.34 billion in 2018 to USD 878.56 billion in 2021 as shown in figure 4 (IBEF, 2022).

Though Indian banks have low exposure to Russia and Ukraine, the adverse impact of crude oil prices due to war will impact economy (Business Standard, 2022). Chortane and Pandey (2022) found that Russia Ukraine war has impacted currencies differently. Pacific region currencies have appreciated.

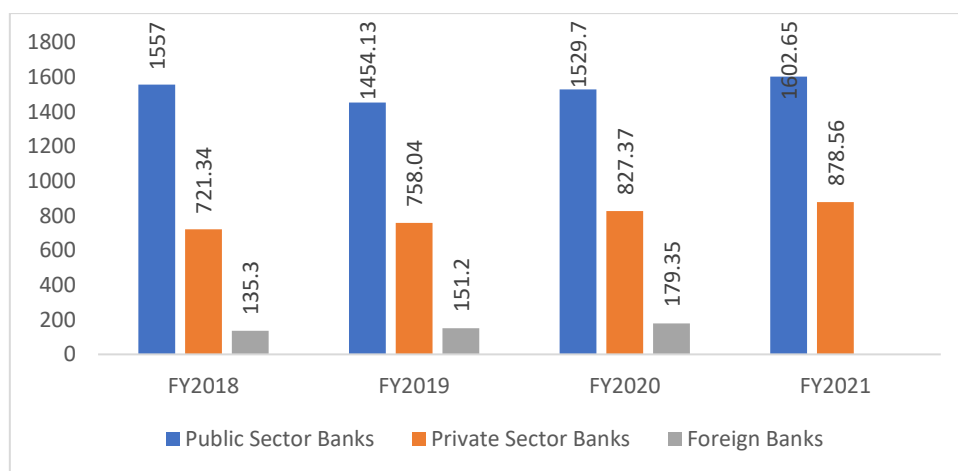


Figure 4. Assets of Banking Sector in India (USD Billion)

Inorganic changes in banking are not likely to be sustainable. Organic changes are more sustainable (Tiwari et al, 2019). There has been adverse impact of war on stock markets (Kumari et al. 2022). Private sector has the potential to create growth with sensibility (Tiwari et al. 2013). War creates a perception of fear and uncertainty. Perception influences behaviour (Chand et al. 2022). The paper reviews the impact of war between Russia and Ukraine on banking stocks.

2. Literature Review

Cohen & Ewing (2022) argued that the war has resulted in the disruption of supply chain. Ivanovna (2022) has observed that oil prices has surged ahead and it will have adverse impact on the economy. The sanctions have also led to an adverse effect on the world supply chain. Enforcement of governance from outside is not sustainable (Tiwari et al. 2022). Engagement of employees of banking sector is crucial for profitability of banking sector in India (Nandan, 2022). Autonomy is crucial for better outcomes (Sharma et al. 2013). Banking sector can diversify into education sector to reduce the NPA (Tiwari and Anjum, 2013). The war will have adverse impact on Indian economy due to rise in inflation (Dole, 2022). Good governance needs involvement of stakeholders (Tiwari et al. 2020). Inflation in developed economies has reached alarming levels (Egan,2022). Human capital needs to be explored to resolve potential problems (Tiwari et al. 2017). Metal segment has also been affected due to war (Cohen & Ewing, 2022). The tightening of monetary policy will have implications for the banking sector (Lea, 2022). Agriculture sector needs political will to come out of crisis (Tiwari et al. 2021). Titanium and palladium supply is affected due to Russia Ukraine conflict (Wiseman, 2022). The war is likely to have adverse impact on the bilateral relations between India and China (Markey and Larsen, 2022). Rupee exchange rate has been adversely affected by Russia Ukraine war (Tiwari et al. 2022). The war will impact the financial stability (Dua, 2022). Banking sector needs to optimise cost for profitability. Low cost and simplicity are tried and tested way to generate sustainable profits (Tiwari et al. 2018). India needs to rethink about its relations with Russia in the emerging geo political scenario (Popovski et al. 2022).

3. Method

This study has employed a descriptive research design. Secondary data of stock indices were obtained from National Stock Exchange. The stock indices considered were Nifty 50, Nifty Bank. Closing values of 75 trading days before and after start of Russia Ukraine War was considered for the study. Data was analysed using paired t test.

4. Findings

Nifty 50 has shown significant decline after the start of Russia Ukraine War as shown in figure 5.

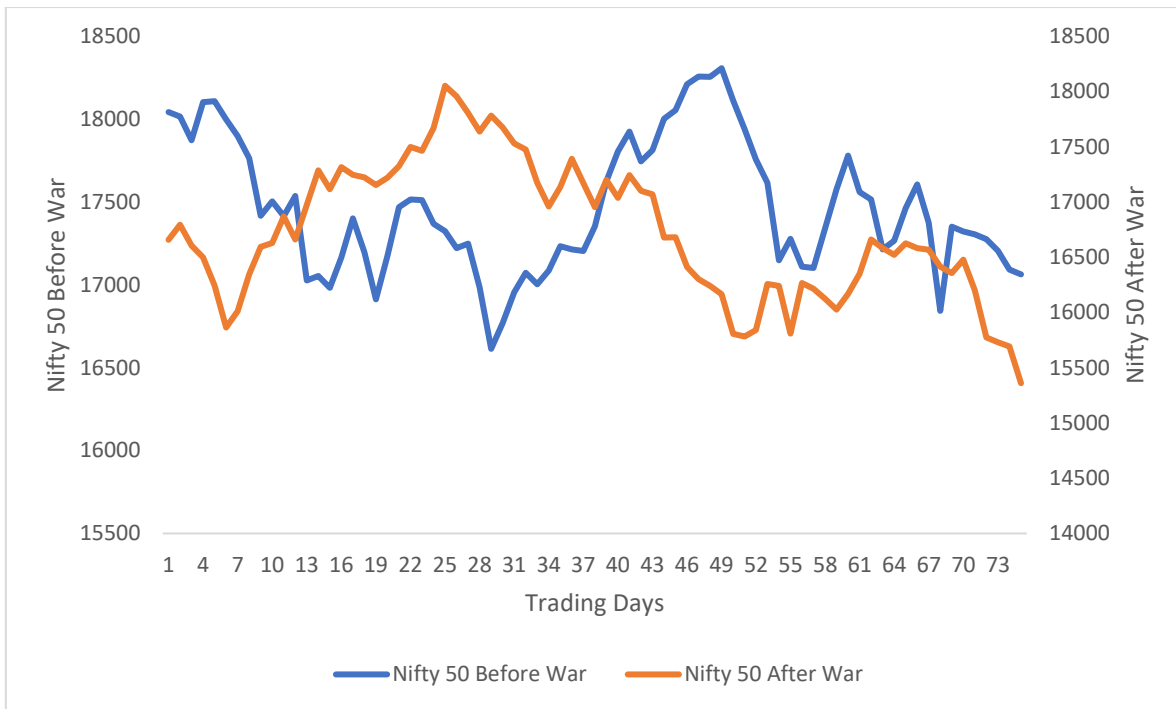


Figure 5. Trend of Nifty 50 75 Trading Days Before and After Start of Russia Ukraine War

Nifty Bank has also shown a significant negative trend after start of Russia Ukraine War as depicted in figure 6.

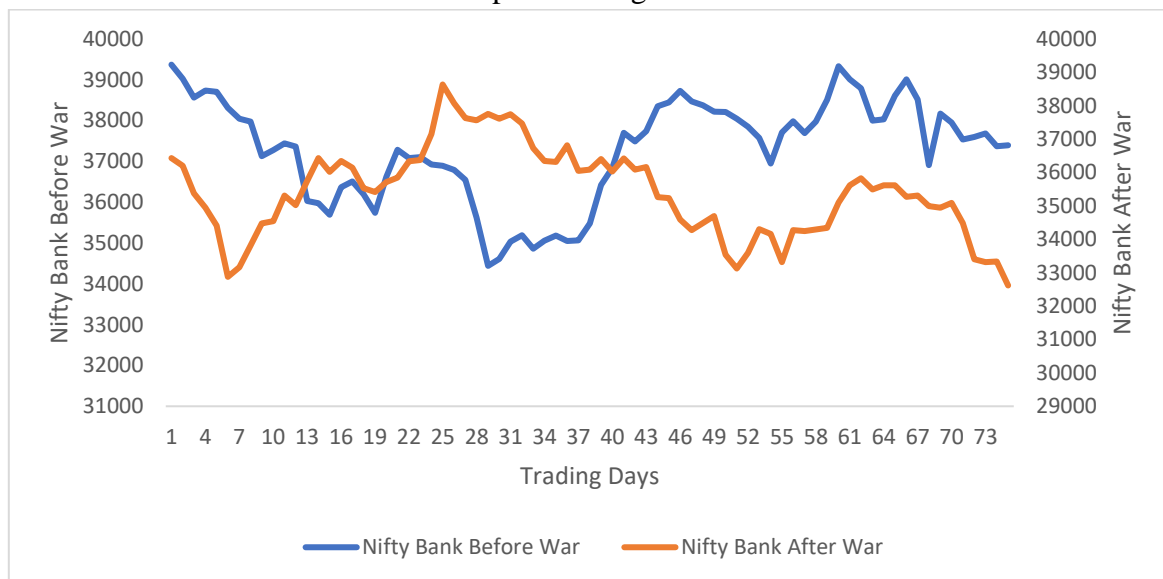


Figure 6. Trend of Nifty Bank 75 Trading Days Before and After Start of Russia Ukraine War

A significant difference (P=0.000) was found between Nifty 50 before and after start of Russia Ukraine war as shown in results of paired t test (table 1).

Table 1. Paired T Test for Nifty 50

Particulars	Mean	N	Std. Deviation	t	Df	Sig.
NiftyBank75DaysBeforeWar	37285.33	75	1253.213	7.1141	74	0.000
NiftyBank75DaysAfterWar	35403.52	75	1342.82			

A significant difference (P=0.000) was found between Nifty bank before and after start of Russia Ukraine war as shown in results of paired t test (table 2).

Table 2: Paired T Test for Nifty Bank

Particulars	Mean	N	Std. Deviation	t	Df	Sig
Nifty5075DaysBeforeWar	17466.45	75	400.5485	7.507	74	0.000
Nifty5075DaysAfterWar	16727.81	75	619.3006			

5. Conclusion

The Russia Ukraine war has not only disrupted the global supply chain but also created geopolitical uncertainty. India government has tried to remain neutral, but war has created an adverse impact on the Indian economy. The study found that the stock market, benchmark Nifty 50 had a significant negative impact of Russia Ukraine war in first seventy-five trading days. The stock market benchmark represents overall impact on the economy. Banking sector is a lifeline for the industry. Adverse impact on industry will increase the stress in the banking sector. It was found that the sectoral index, Nifty bank has a significant negative impact of Russia Ukraine war. The Indian policy makers need to diversify their source of defence equipment, fertilisers, sunflower oil, semiconductor and other strategic inputs. It is an opportunity for policy makers to develop a vibrant manufacturing sector and farm sector to reduce the dependence on imports and emerge as a global player.

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