



Inflationary Pressures and Their Effect on Bank Credit in India after Covid-19

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Abstract:

The Covid-19 pandemic has deeply affected economies across the world and India is no exception. Coming out of this crisis, the country is facing several challenges, especially inflation and its effects on economic growth are very visible. Inflation has increased significantly. That is, there has been a large increase in the general level of prices of goods and services. Inflation has become a serious problem in the post-pandemic situation. Rising inflation reduces purchasing power, affects consumer behaviour and complicates monetary policy, all of which have a significant impact on economic recovery.

In India, various factors, including supply chain disruptions in the post-Covid era, increased demand as the economy reopens and rising global commodity prices have led to renewed inflationary pressures. These inflationary trends have raised concerns about the impact on bank credit, which is crucial to fuel economic growth. Bank credit acts as an important lifeline for businesses and consumers, enabling investment, consumption and overall economic activity. However, high inflation can lead to tighter monetary policies, which can limit the availability of credit and increase borrowing costs. The objective of this research paper is to study the inflation rate in India post-Covid-19 pandemic and its subsequent impact on bank lending. We will analyse how inflation affects lending patterns, borrower behaviour and the overall economic environment. By examining recent data and trends, we hope to provide a clear understanding of the relationship between inflation and bank credit in India. The study will also explore possible policy measures that would help mitigate the adverse effects of inflation on credit availability and thus promote sustainable economic growth in the country. .

Keywords: *Inflation, Bank Credit, Post-Covid Economy, Monetary Policy etc.*

Introduction:

The Covid-19 pandemic brought a sudden shock to the Indian economy, leading to disruptions in production, job losses and a slowdown in demand. As the country slowly moved towards recovery, another challenge emerged in the form of rising inflation. Prices of essentials such as food, fuel and raw materials started increasing mainly because of supply chain breakdowns, rising input costs and global uncertainties. These inflationary pressures posed

a serious concern not only for ordinary citizens who faced higher living costs, but also for the financial system, especially the banking sector. In India, banks play a very important role in providing credit to industries, businesses and individuals, which fuels economic growth. However, when inflation rises sharply, the Reserve Bank of India (RBI) usually intervenes by tightening monetary policies, such as increasing policy interest rates, to control price levels. This directly affects the cost and

availability of loans, as borrowings become more expensive and sometimes harder to access.

In the period after Covid-19, Indian banks found themselves in a delicate position. On one side, they needed to support the recovery process by encouraging credit growth and financing productive activities in the economy. On the other side, they had to respond to regulatory changes, higher interest rates and the risks that come with rising inflation, such as defaults on loan repayments and reduced demand for new credit. The balance between controlling inflation and ensuring enough credit flow is therefore critical in shaping the post-pandemic recovery of the Indian economy. Studying these pressures helps us understand how inflation influences banking activities, how credit distribution is managed and how effectively policies can support sustainable growth in a challenging environment.

Objectives of the Study:

- 1) To study the impact of rising inflation on the economy in India in the post-Covid-19 pandemic.
- 2) To study the changes in consumer borrowing patterns and bank lending patterns due to rising inflation and bank credit flows.
- 3) To suggest necessary measures to control rising inflation after the Covid-19 pandemic.

Hypothesis of the Study:

- 1) H₁: Rising inflation in post-Covid India has had a negative impact on bank lending, leading to increased borrowing costs and reduced credit demand.
- 2) H₂: Implementation of appropriate policy measures can reduce adverse effects of inflation on bank credit availability and promote sustainable economic growth.

Research Methodology:

Descriptive and analytical research methods have been adopted for this study.

Secondary data has been used to understand the post-COVID-19 inflation in India and its impact on bank credit supply.

Collection of Data:

The information required for this research has been collected from secondary sources. Data on inflation rate, monetary policy and bank lending have been taken from Reserve Bank of India reports, Ministry of Finance reports, journals and reports, RBI Bulletin, Economic Survey Report of the Government of India.

Impact of rising inflation on the economy in India in the post-Covid-19 pandemic:

- 1) **Decline in Household Purchasing Power:** Rising prices of food, fuel, housing and healthcare directly eroded people's purchasing power. Since wages did not grow at the same pace as inflation, families were forced to reduce discretionary spending and cut down on savings. Middle- and lower-income groups were the worst affected.
- 2) **Pressure on Savings and Investments:** Even though banks increased interest rates, the real return on savings turned negative, because inflation was higher than deposit rates. This discouraged traditional saving habits and pushed people towards riskier investments like stocks, gold and real estate.
- 3) **Rising Costs in the Manufacturing Sector:** Industries faced higher input costs due to expensive raw materials, transport and energy. To maintain profit margins, many firms increased product prices, which further reduced consumer demand. Small and medium enterprises (SMEs) suffered the most, as they lacked financial strength to absorb cost shocks.
- 4) **Employment Challenges:** To manage rising costs, businesses became cautious in hiring. Job creation slowed down and in some cases wages were frozen. This aggravated the

unemployment problem, especially for youth and semi-skilled workers.

5) Stress on Agriculture and Rural Economy:

Farmers faced higher input costs for fertilizer, diesel and seeds, but their crop prices did not rise proportionately. This reduced farm incomes. In rural areas, higher living costs for essentials like food and fuel strained household budgets, weakening rural demand.

6) Fiscal Burden on Government: The government had to expand subsidies on food, fuel and fertilizers to reduce inflation's impact on citizens. This increased fiscal pressure. At the same time, the Reserve Bank of India (RBI) raised interest rates to control inflation, which made borrowing costlier for businesses, slowing down private investment.

7) Widening Social Inequality: Inflation hits poor and middle-class families harder because most of their income goes to basic needs. Wealthier groups with assets and diversified income sources were less impacted. This widened the economic gap between rich and poor.

8) Shift in Consumer Behaviour: Households reduced non-essential spending and focused only on necessities. Luxury goods and lifestyle products saw lower demand, while cheaper substitutes and durable items gained popularity. This forced businesses to redesign their product and pricing strategies.

9) Long-Term Growth Challenges: If inflation remains high for a long period, it can reduce economic growth. Lower savings, reduced investments and weaker consumption can all slow down GDP growth. Persistent inflation also damages investor confidence and makes long-term economic planning difficult.

Post-Covid-19, India's economy has faced widespread stress from inflation. Families lost purchasing power, industries struggled with rising costs, job creation slowed and rural incomes stagnated. Inflation also increased fiscal

pressure on the government and deepened social inequality.

Changes in consumer borrowing patterns and bank lending patterns due to rising inflation and bank credit flows:

1. Changes in Consumer Borrowing Patterns:

Rising inflation has directly altered the borrowing behaviour of consumers. As the Reserve Bank of India increased policy rates to control inflation, the cost of loans for housing, vehicles and education went up significantly. This discouraged many households from taking long-term loans, as the repayment burden became heavier. Instead, a noticeable shift has taken place towards short-term borrowing such as credit cards, personal loans, or small-ticket loans meant to cover every day needs. Families, particularly in the middle-income segment, have been using credit more as a survival tool than as a means to build assets. The trend indicates that borrowing has become more consumption-driven rather than investment-driven. This change reduces the scope of wealth creation for individuals and may create repayment stress if inflation continues at elevated levels.

2. Changes in Bank Lending Patterns and Credit Flows:

On the supply side, banks have also adjusted their lending behaviour in response to rising inflation and higher interest rates. With the cost of borrowing going up, banks have become more selective in granting credit. Lending has increasingly favoured large, well-established corporates and government-backed infrastructure projects, where the risk of default is relatively low. In contrast, small and medium enterprises (SMEs) and individual borrowers have faced stricter eligibility norms, higher collateral demands and tighter repayment conditions.

This has slowed credit flows to riskier segments of the economy. At the same time, banks have expanded credit in areas like

Table No. 1: GDP Growth of India

| Years | GDP (US \$) | India GDP Annual change (%) |
|-------|-------------|-----------------------------|
| 2014 | \$2.039 T | 7.41 |
| 2015 | \$2.104T | 8.0 |
| 2016 | \$2.295T | 8.26 |
| 2017 | \$2.651T | 6.8 |
| 2018 | \$2.703T | 6.45 |
| 2019 | \$2.836T | 3.87 |
| 2020 | \$2.675T | -5.78 |
| 2021 | \$3.167T | 9.69 |
| 2022 | \$3.353T | 6.99 |
| 2023 | \$3.568T | 8.15 |

Source: <https://www.macrotrends.net>

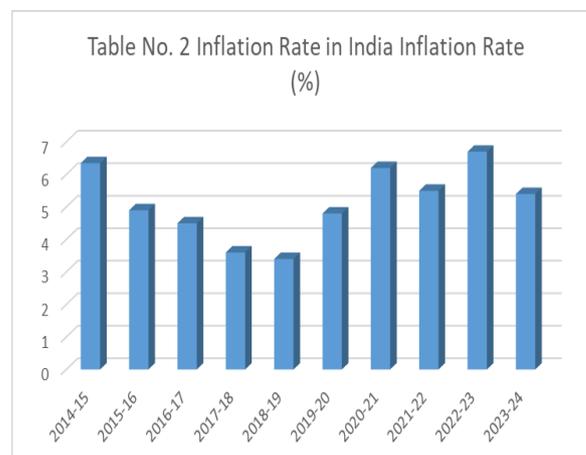
Between 2014 and 2016, India's economy experienced robust growth, with GDP increasing steadily and the annual growth rate reaching a high of 8.26% in 2016. Growth slowed gradually in 2017 and 2018 and dropped sharply to 3.87% in 2019. The Covid-19 pandemic caused a significant contraction in 2020, with the economy shrinking by 5.78%. Following this, India bounced back strongly in 2021, achieving a growth rate of 9.69% and continued to grow at a healthy pace of 6.99% in 2022 and 8.15% in 2023. This pattern shows a clear cycle: a period of strong growth, a slowdown, a pandemic-induced shock and a rapid post-crisis recovery, reflecting both the challenges and resilience of the Indian economy.

Table No. 2: Inflation Rate in India

| Years | Inflation Rate (%) |
|---------|--------------------|
| 2014-15 | 6.35 |
| 2015-16 | 4.90 |
| 2016-17 | 4.50 |
| 2017-18 | 3.60 |
| 2018-19 | 3.40 |
| 2019-20 | 4.80 |
| 2020-21 | 6.20 |
| 2021-22 | 5.50 |
| 2022-23 | 6.70 |
| 2023-24 | 5.40 |

working capital loans for corporates and secured loans, while being cautious about unsecured lending.

Source: <https://cleartax.in>



India's inflation rate declined steadily from 6.35% in 2014-15 to 3.40% in 2018-19, reflecting controlled price pressures. It rose again to 4.80% in 2019-20 and further to 6.20% in 2020-21 due to Covid-19-related supply disruptions. Post-pandemic, inflation fluctuated, reaching 6.70% in 2022-23 before easing to 5.40% in 2023-24, showing gradual stabilization in the economy.

Impact of bank credit on inflation: Credit significantly impacts inflation by increasing aggregate demand (more borrowing means more spending), which pushes prices up, especially when the economy nears full capacity; conversely, high inflation can increase borrowing costs (interest rates), potentially slowing credit growth but also reducing borrower purchasing power, creating complex feedback loops where credit expansion fuels inflation, while inflation's effects on interest rates and default risk influence the credit market itself, with monetary policy trying to balance these forces.

1. The Direct Link: Money Creation: In modern banking, when a bank grants a loan, it doesn't just lend out existing cash; it creates a new deposit in the borrower's account. This

process, known as credit creation, increases the total money supply.

- **High Credit Growth:** If bank credit grows faster than the economy's ability to produce goods and services, it leads to "too much money chasing too few goods," causing Demand-Pull Inflation.
 - **Credit Contraction:** Conversely, when banks tighten lending (due to high interest rates or risk), the money supply shrinks, which helps cool down rising prices.
- 2. Interest Rates as the "Brake" and "Accelerator":** Central banks manage the impact of bank credit on inflation by adjusting interest rates (like the Repo Rate or Federal Funds Rate).
- **Expansionary Phase:** When rates are low, bank credit is "cheap." Consumers borrow more for houses and cars, and businesses borrow to expand. This stimulates demand and typically pushes inflation upward.

Table No. 3: Impact of bank credit on inflation

| Year | Bank Credit Growth (%) | Inflation Rate (CPI %) |
|------|------------------------|------------------------|
| 2013 | 14.5% | 10.9% |
| 2014 | 13.9% | 6.4% |
| 2015 | 9.7% | 5.9% |
| 2016 | 9.1% | 5.0% |
| 2017 | 4.8% | 3.3% |
| 2018 | 10.5% | 3.9% |
| 2019 | 13.2% | 3.7% |
| 2020 | 6.1% | 6.6% |
| 2021 | 5.6% | 5.1% |
| 2022 | 11.5% | 6.7% |
| 2023 | 15.6% | 5.7% |

Source: Handbook of Statistics on Indian Economy.

Between 2013 and 2023, higher bank credit growth generally coincided with higher inflation, while slower credit growth helped moderate price rises. For example, credit growth

- **Contractionary Phase:** To fight high inflation, central banks raise rates. This makes bank credit "expensive," reducing the demand for loans. Less borrowing leads to less spending, which eventually slows down inflation.
- 3. Purpose of Credit: Productive vs. Consumption:** The type of credit also determines whether it will be inflationary:
- **Consumption Credit:** Loans for vacations, electronics, or everyday spending increase immediate demand without increasing supply, which is highly inflationary.
 - **Investment Credit:** Loans to build factories, buy machinery, or develop technology can be disinflationary in the long run. By increasing the economy's productive capacity (supply), these loans help meet demand without forcing prices up.

was high in 2013 and 2023, pushing inflation up, whereas low growth in 2017 kept inflation low. This shows a positive correlation, though other factors like production and policy also influence inflation.

Suggestions to control rising inflation:

- 1) The Reserve Bank of India should regulate interest rates and money supply in a balanced way to control inflation without harming growth.
- 2) Domestic supply chains need to be strengthened through better logistics, storage and transport facilities to avoid price disruptions.
- 3) Agricultural productivity must be improved by promoting modern farming techniques, irrigation facilities and fair market access for farmers.

- 4) Local manufacturing should be encouraged under “Make in India” to reduce dependence on expensive imports and global price shocks.
- 5) The government should provide targeted subsidies to poor households and small farmers instead of broad subsidies that burden public finances.
- 6) Fiscal management needs to be efficient, with reduced wasteful expenditure and increased investment in infrastructure, technology and renewable energy.
- 7) Prices of essential goods should be monitored strictly and buffer stocks of food grains, fuel and fertilizers must be used to stabilize markets.

Conclusion:

In conclusion, the post-Covid-19 period has revealed both the vulnerabilities and

resilience of the Indian economy. Rising inflation has affected household purchasing power, shifted consumer borrowing toward short-term needs and led banks to adopt more cautious lending practices. GDP growth, while experiencing a sharp contraction during the pandemic, demonstrated a strong recovery in 2021 and continued positive momentum in subsequent years. These trends highlight the critical importance of balanced economic policies that address inflation control, strengthen supply chains and support sustainable growth. Going forward, a combination of prudent monetary measures, targeted fiscal support and investments in infrastructure, agriculture and renewable energy will be essential to ensure stable prices, boost consumer confidence and maintain steady economic development in India.

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Abstract:

Islamic ethics offers a comprehensive moral framework that upholds human dignity, justice, and social responsibility as foundational principles essential for individual and societal well-being. Rooted in the Qur'an, the Sunnah of the Prophet Muhammad (peace be upon him), and the broader objectives of Islamic law (Maqāsid al-Sharī'ah), Islamic ethics presents a holistic vision of humanity grounded in moral accountability, compassion, and social balance. This paper examines the ethical foundations of human dignity (karāmat al-insān), emphasizing Islam's recognition of the inherent worth of every human being irrespective of race, gender, class, or cultural background. It further explores the Islamic conception of justice ('adl and qisṭ) as a multidimensional principle encompassing legal, social, economic, and moral domains, positioning justice as a divine mandate and a cornerstone of social harmony.

The study also highlights the concept of social responsibility (mas'ūliyyah ijtimā'iyah), through institutional mechanisms such as zakāt, ṣadaqah, and waqf. By engaging with contemporary challenges including social inequality, human rights discourse, globalization, and moral crises. The analysis situates Islamic ethics within the broader humanities discourse, arguing that its value-based and integrative approach can contribute meaningfully to interdisciplinary debates on justice, dignity, and social cohesion in the 21st century. The paper concludes that Islamic ethics provides a timeless and universal moral vision capable of guiding humanity toward a more just, compassionate, and responsible global society.

Keywords: Islamic Ethics; Human Dignity; Justice in Islam; Social Responsibility; Qur'anic Values; Maqāsid al-Sharī'ah; Social Justice; Contemporary Humanities; Islamic Moral Philosophy.
