

Impact of volatility and spillover effects over banking sector”- Abdullah Shadab -Jamia Millia Islamia, India Abdullah Shadab

Abstract

It is significant for banking institutions to comprehend the challenges associated with volatility and spillover, which the present study intends to identify and offer a significant recommendation on the basis of the Indian Economic sector. In relation to the context, this study highlights the impact of volatility and spillover the banking sector studies them on the context of Indian Economy in a comprehensive way. In addition, the use of qualitative and quantitative analysis through a case study approach has been considered for the study in order to accomplish the overall objective of the study. This study would contribute towards the economy of the India in terms of the banking industry by analyzing the impact of volatility and spillover in a detailed manner. In relation to the scope of the present study, certain objectives of the research are sorted out. It will help to explore the requisite challenges associated with volatility and spillover on the Indian banking sector. It will also help to comprehend the influence of volatility and spillover on the banking sectors of India towards the Indian economy. It will offer related recommendations to the Indian banking institutions for mitigating the impact of volatility and spillover.

Volatility and spillover are referred to as the process and magnitude through which instability in one market affect other markets. It has been well stated by Akhtaruzzaman *et al.* (2014), that an understanding of inter-market volatility spillovers assists regulators of the banking sector in formulation effective policies as well as strategies to manage financial stability. In addition, such financial stability is significant to maintain specifically when the stress of the market gets transmitted to other markets leading to the risk of systematic instability. Other than that, Alemany *et al.* (2015) volatility spillovers assist international portfolio managers and international investors in the pricing of securities and deciding significant strategies for diversification and trading of their investment portfolios. Furthermore, exchange rate volatility highly contributes towards increasing uncertainty of the rate of return, which affect economies of both home and foreign markets.

On the other hand, Allen *et al.* (2013) argued that there positive volatility and spillover effect on the banking sector, however, the term is applied to the negative effect of a home country has on other parts of the world. In addition, the

spillover and volatility effects of the larger economy are relatively high towards the global economy compared to the lesser economy. Hence, it is significant for banking institutions to comprehend the challenges associated with volatility and spillover, which the present study intends to identify and offer a significant recommendation. In relation to such context, this study highlights the impact of volatility and spillover over the banking study in a comprehensive way. In addition, the use of qualitative and quantitative analysis through a case study approach has been considered for the study in order to accomplish the overall objective of the study.

In relation to the academic area, the present study would assist future researchers to develop in-depth understanding and knowledge about the impact of volatility and spillover over the banking sector. In addition, the information that has been shared through the study would also offer a new dimension for the banking sector to mitigate the challenges associated with volatility and spillover. Other than that, this study would contribute towards the economies of the global world in terms of the banking industry by analyzing the impact of volatility and spillover in a detailed manner.

In relation to the scope of the present study, the following are the objectives of the research-

- To know about Volatility and spill over
- To know about the effect of volatility and spill over towards banking sector influencing Indian economy.
- To identify the solutions to mitigate the challenges associated with volatility and spillover

To analysis the current gap in the literature

In conclusion, it can be stated that the influence of volatility and spillover over banking sector is critical which in turn directly affect economies of the India. Due to globalization, the integration of Indian economy has been extensive; however, has created volatility and spillover effect on the financial market. In other words, these kinds of challenges can be beneficial for one market but can create an adverse impact on other markets. It has been also comprehended that the opportunities associated with volatility and spillover, which the larger economies or developed economies are exploring in terms of the financial market. However, the need for

stabilization for lesser or developing economies is significant in terms of the stock exchange rate and interest rate.

Other than that, the challenges including instability, vulnerability, inflation as well as issues in exchange rates are created due to volatility and spillover effects in the financial sector. This, in turn, certainly creates issues for financial development as well as economic growth. Furthermore, it is also significant for risk managers and portfolio investors to cope up with the global integration by focusing on appropriate strategies and policies in stock markets. Hence, the impact of volatility and spillover over banking sector is critical due to the global integration of financial market specifically affecting the Indian economy. In relation to the *limitation* of the study, the study is entirely based on financial sector of India. The integration of global and Indian data has offered distinct results that can have impact on the qualitative and quantitative results. limited time and budget for the study has critically affected the attainment of qualitative results along with limited sources of information

For *future scope*, researchers can use both qualitative and quantitative analysis for delivering more appropriate results and findings of the study in specific Indian banking sectors. In addition, other than the financial or banking sector, the economy of the India can be evaluated based on volatility and spillover effect. Hence, more in-depth and relevant evidence can be gathered through the use of both inductive and deductive approach in future studies.

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