

Impact of Demonetization on Performance of Banks (With Special Reference to Uttarakhand)

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ABSTRACT- Demonetization is the strongest policy that is used against many illegal elements such as corruption and inflation to reform the economy. The concept of Demonetization is not new almost across the globe has adopted Demonization to upgrade their financial system. India adopted the Demonetization three times: first in January 12, 1946, and second January 16, 1978. But the term Demonetization became well known on November 8, 2016 when P.M. Narendra Modi suddenly demonetized the Rs. 500 and Rs.1000 bank notes of Mahatma Gandhi series with the prime objective to curb the black money and counterfiet currency. This monetary step shaked each segment of economy in which banking performance was significantly affected. Their depositposition, Advance Policy, NPAs and Liquidity were impacted at some or large scale. Therefore, the present study has analysed the impact of demonetization on the performance of banks (with special reference to Uttarakhand) and found that there is no significant impact of demonetization on the overall performance of banks in Uttarakhand State.

KEYWORD- Demonetization, Bank, Performance, Deposit, Advance, NPAs.

JEL CLASSIFICATION- D53, E42, E52, G21

I. INTRODUCTION

Demonetization is a monetary step in which certain denomination of bank notes rendered invalid as legal tender either by issuing authority or by the government of that particular nation to clean up the economy from corruption and undeclared income and banks are the integral part of the economy. Banks put the crucial effort to upgrade the country's financial system by all the financial services at large scale. Hence, the sudden attack on black money known as Demonetization of all Rs. 500 and Rs. 1000 bank notes which constituted 86% (15.43) Lacks corer of the total circulation in the economy was also entacted to the nation through banks. Banks performed a key role in the entire phase of demonetization and brought numerous changes in their performance. Demonetization on november 8, 2016 gave a immense impact on bank's liquidity due to accepting the flood of old currency notes, management

effeciency and credit policy. So, evalutaing the performance of banks is not only essential to ensure the depositeors protection but also to maintain the gleam nation's economy. Demonetization on November 8, 2016 led by hourable P.M. Mr. Narendra Modi was third, already on prior two occassion India has faced the demonetization, first on January 12, 1946 Rs. 1000 and 10000 currency notes were demonetize by RBI and second on January 16, 1978 of Rs. 1000, 5000, and 10000 bank notes were rendered invalid by the then PrimeMinister Morarji desai.

II. LITERATURE REVIEW

MONAR GIRNARA, (2020). Concluded that within the two months it had, the RBI could have appropriately replaced up to 75 percent of the demonetized value with the new 500 and 1000 notes. **MaitySudarshan (2019).** The present study concludes that during post-demonetization period efficiency of banks have been degenerating compare to pre-demonetization period, though there is no significant difference in efficiency of banks. **Sharma Priyanka (2018).** Economists are analysing the advantages and disadvantages of demonetization, but the government feels the benefits outweigh Last but not least, there are the drawbacks.

PRIYADHARSHINLS UMA, Dr. LOURTHURAJ S. A., (2019). Banks are major institutions affected by demonetization. This move has pulled a large mass of first time users to bank. As the deposits with the banks have increased, the net earnings of banks have also increased.

III. MAIN CONCERN OF STUDY

1. To know about demonetization.
2. To study the need and process of demonetization.
3. To assess the impact of demonetization on banks.
4. To Measures the performance of banks in pre and post demonetization.

IV. RESEARCH METHODOLOGY

A. Collection of Data

The entire study is based on the secondary data which have been taken from the annual of STATE LEVEL BANKERS

COMMITTEE (SLBC) Uttarakhand to examine the performance of selected banks in pre and post demonetization.

B. Sample size

For the purpose of study total six, three public sectors (SBI, PNB, BOB) and three Pprivate Sectors (HDFC, ICICI, Axis Bank) has taken as sample. Included Period of study–To obtain the objectives the present study has covered the six financial years from (2014 to 2019) of selected banks.

C. Tools and Techniques

To quantify the impact of demonetization on performance of public and private sector banks in Uttarakhand, Some financial term and T- test have been applied which is stated as under-

- Total Deposit Position
- Total Advance Position
- Non-Performing Assets (NPAs) Position
- Overall Performance of Banks.

D. Data Analysis

Table 1: Total deposit of Banks for Pre and Post Demonetization in Uttarakhand

Bank	Pre Demonetization Period				Post Demonetisation Period				change in avg. (A-B) = C	% change in Mean C/A*100
	2014	2015	2016	Mean (A)	2017	2018	2019	Mean (B)		
SBI	19958	22696	25897	22850	31212	35232	39744	35396	12546	55
PNB	13458	16522	17961	15980	21980	21674	23090	22248	6268	39
BOB	3906	4352	4356	4205	5355	6092	6736	6061	1856	44
HDFC	1028	1334	1620	1327	2055	2559	3734	2783	1456	109
ICICI	5037	1615	1876	2843	2253	2123	2579	2318	525	18
Axis	1195	1479	1911	1528	2227	2356	2867	2483	955	63

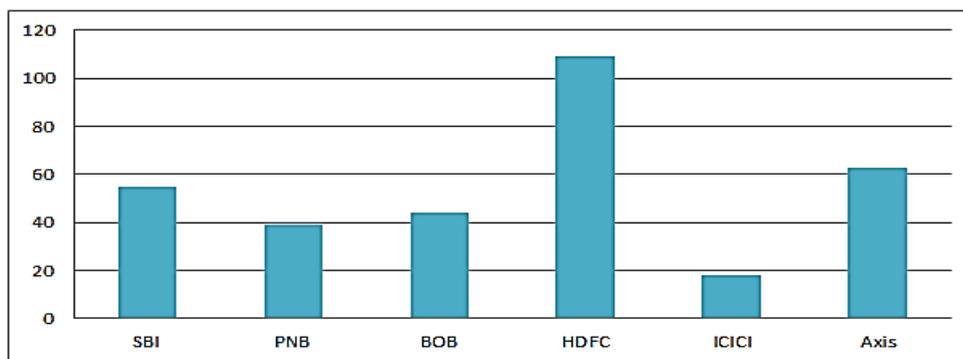


Figure 1: Impact of Demonetization on Deposit of Banks

As per the above Table No.1 it can be seen that the total deposit growth rate of HDFC bank has been changed by 109 percent in post demonetization among the selected banks which shows positive change in its deposits while Axis Bank growth rate has been changed by 63 percent in post demonetization than pre demonetization and SBI has changed its total deposit position by 55 percent in the post

of demonetization. Whereas BOB stands in the fourth position among the selected bank to change its total deposit by 44 percent, PNB increased its total deposit by 39 and ICICI has the least position to increase its total deposit only by 18 percent in the post of demonetization than pre demonetization period.

Table 2: Total Advance Position of Banks for pre and post Demonetization in Uttarakhand

Bank	Pre Demonetization Period				Post Demonetization Period				change in avg. (A-B) = C	% change in Mean (C/A*100) = D
	2014	2015	2016	Mean (A)	2017	2018	2019	Mean (B)		
SBI	11835	12563	14304	12900	15017	16782	19988	17262	4366	34
PNB	7886	8887	9551	8775	9229	10102	11661	10331	1556	18
BOB	4095	2863	2679	3212	2682	3206	3680	3189	23	0.71
HDFC	1009	1173	1558	1247	2329	2894	3997	3073	1826	146
ICICI	1771	557	797	1042	1250	1357	1775	1461	419	40
Axis	949	744	856	850	1675	1584	1748	1669	819	96

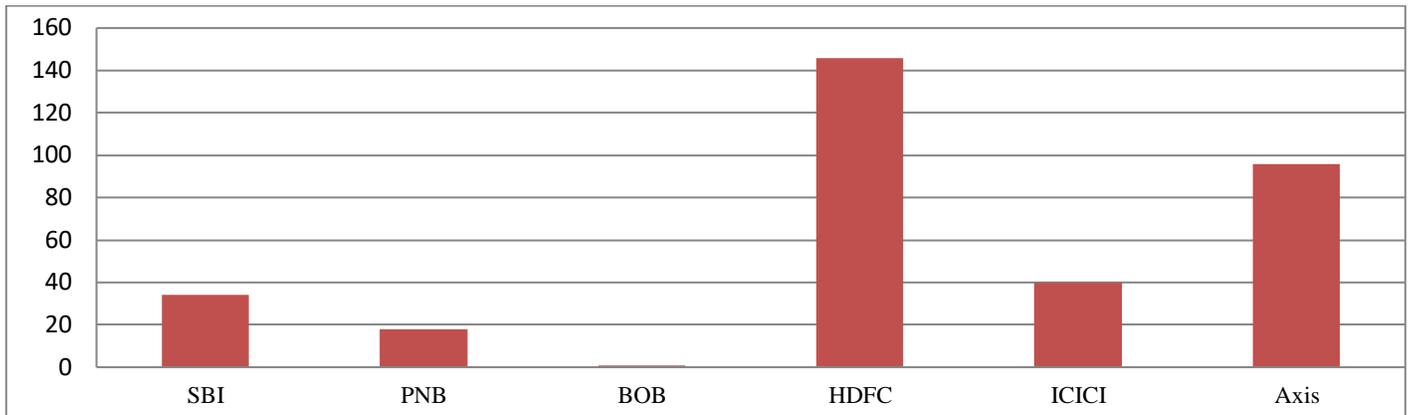


Figure 2: Impact of Demonetization on Advance of Banks

As per the above Table 2 and Figure 2, it can be seen that the total advance growth rate or percentage change in Total Advance of selected banks, HDFC bank advance growth rate increased by 146 percent in post-demonetization period than pre demonetization, while the total advance of Axis bank has been changed by 96 percent, and ICICI bank's

total advance has been changed by 40 percent while SBI growth rate is 34 percent in term of total advance and PNB growth rate is 18 percent whereas BOB has least growth rate by 0.71 percent only in post demonetization than pre demonetization period.

Table 3: Non Performing Assets (NPAs) position of Banks for Pre and Post Demonetization in Uttarakhand

Bank	Pre Demonetization Period				Post Demonetization period				Change in Mean (A-B) = C	% change in avg. (C/A*100) = D
	2014	2015	2016	Mean (A)	2017	2018	2019	Mean (B)		
SBI	13226	20645	18881	17584	22982	35749	31456	30062	12478	71
PNB	10370	52425	66227	43007	77280	93544	105983	92269	49262	114
BOB	10787	13711	22871	15790	27024	26916	28374	27438	11648	74
HDFC	0.00	935	1544	826	4465	4465	10356	6429	5603	678
ICICI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Axis	0.00	0.00	4708	1569	4290	2210	3976	3492	1923	122

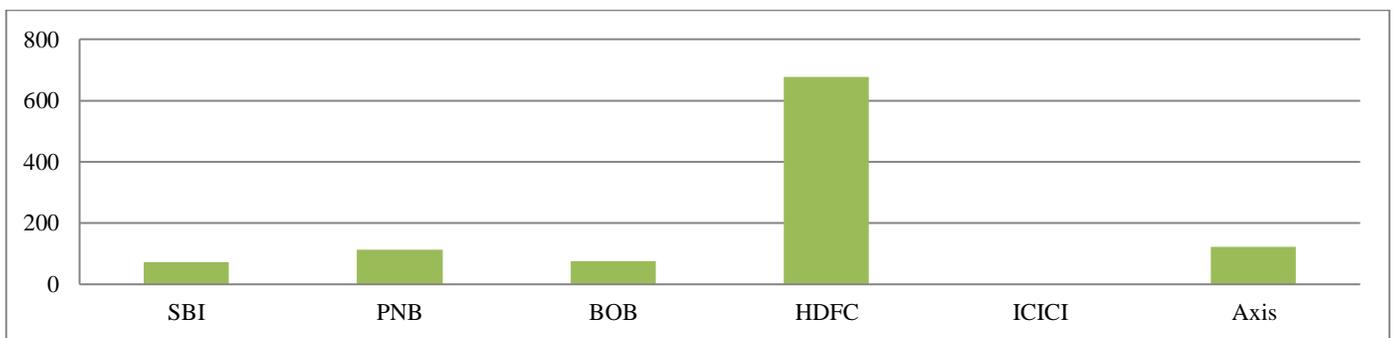


Figure 3: Impact of Demonetization on Advance of Banks

The above table 3 and figure 3 Shows the growth in NPAs position of selected banks for the post-demonetization period in which the NPAs of HDFC bank has been increased by 678 percent that indicating a decline in its profitability, Axis bank shows also a significant change in NPAs position by 122 percent, PNB comes at the third position by increasing 114 percent NPAs in the post of

demonetization than pre demonetization period. BOB stands at a fourth position to have 74 percent growth rate of NPAs in post demonetization while SBI has only 71 percent NPAs in post demonetization than pre demonetization and ICICI has top rank among the selected banks with 0 percent NPAs in Post of demonetization.

Table 4: Liquidity Position of Banks in pre and Post Demonetization in Uttarakhand

Banks	Pre Demonetization Period				Post Demonetization Period				Change in Mean (A-B) = C	% change in Mean C/A*100
	2014	2015	2016	Mean (A)	2017	2018	2019	Mean (B)		
SBI	59	55	55	56	48	48	50	49	7	13
PNB	59	54	53	55	42	47	51	47	8	15
BOB	105	66	62	78	50	53	55	53	25	32
HDFC	98	88	96	94	113	113	107	111	17	18
ICICI	35	34	43	37	55	64	69	63	26	70
Axis	79	50	45	58	75	67	61	68	10	17

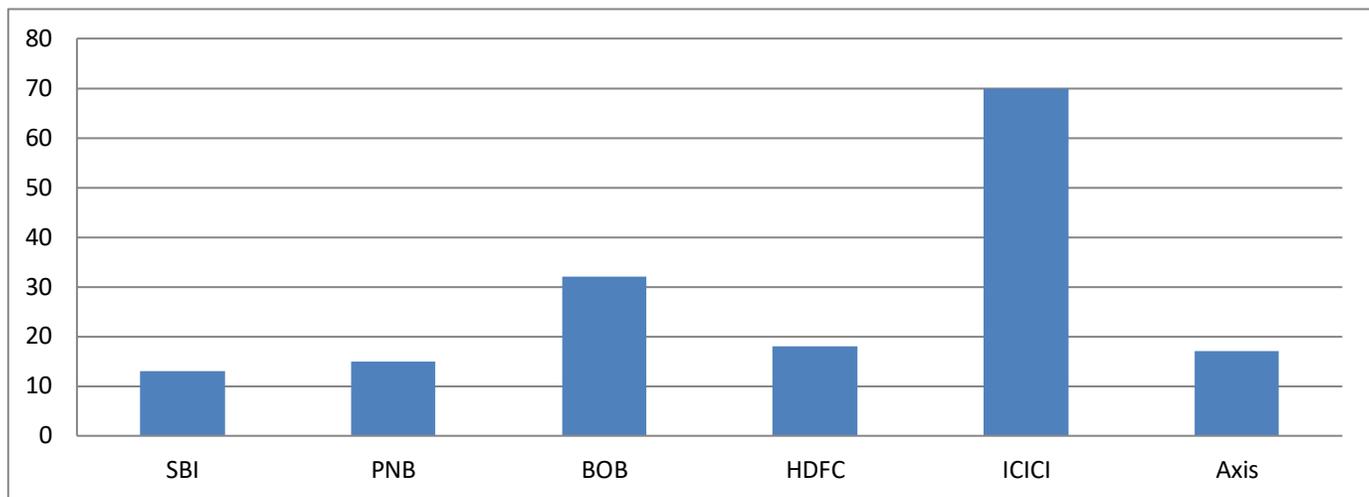


Figure 4: Impact of Demonetization on Liquidity Position of Banks

The above table and figure 4 indicates the growth rate of liquidity in post demonetization of selected banks among of them ICICI bank is showing the highest liquidity position on having 70 percent growth in post demonetization, BOB is on the second position to have less liquidity by showing 18 percent. While HDFC bank comes at third rank to

maintain the liquidity by 18 percent, Axis Bank has sufficient liquidity in post demonetization which is shown by 17 percent. Whereas, PNB and SBI have the strong liquidity position by 15, 13 percent in post demonetization period.

Table 5: Overall Performance of Banks in Post Demonetization in Uttarakhand

Bank	Change in Total Dep.	Change in Total Advance	Change in Total NPAs	Change in Liquidity	Mean	Rank
SBI	12546	4366	12478	7	7349	5
PNB	6268	1556	49262	8	14274	6
BOB	1856	23	11648	25	3388	4
HDFC	1456	1826	5603	7	2223	3
ICICI	525	419	0.00	8	238	1
Axis	1528	819	1923	25	1074	2

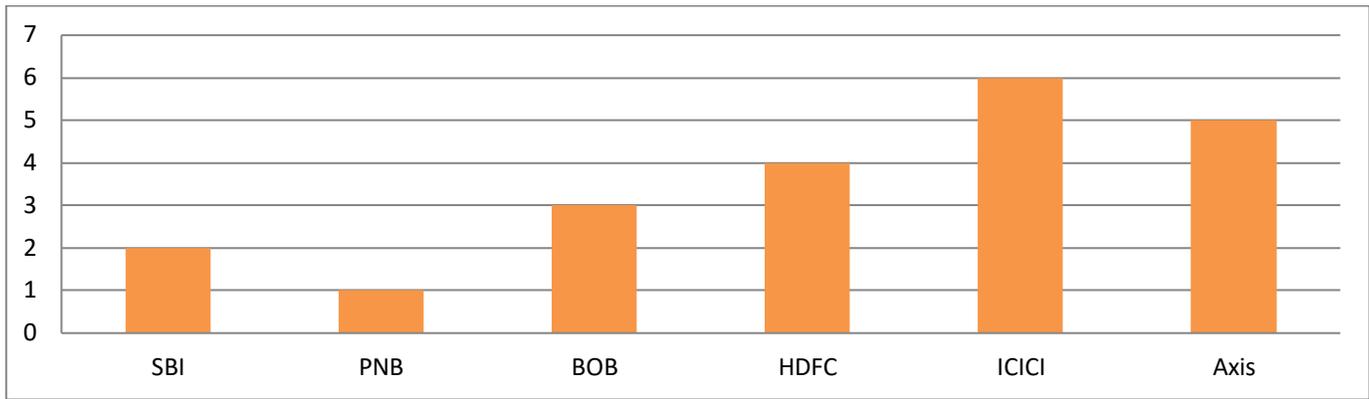


Figure 5: Impact of Demonetization on Overall Performance of Banks

Through the above table and figure 5, it is reflected that in terms of the overall performance of banks in pre and post of demonetization ICICI has the top rank, Axis Bank has secured the second rank and HDFC comes at third rank based on overall performance. Whereas, BOB covers the fourth rank, SBI stands at the fifth rank and PNB has the least performance by raking at six positions in the post-demonetization period.

Hypothesis

H0 = There is no significant difference in overall performance between public and private sector bank in post demonetization

H1= There is no significant difference in overall performance between public and private sector bank in post demonetization

Table 6: T-Test Analysis for Overall Performance of Banks in Uttarakhand

T-Test: Paired Two Sample for Means	Variable 1	Variable 2
Mean	8337	1178.333333
Variance	30358357	993220.3333
Observations	3	3
Pearson Correlation	-0.555308387	
Hypothesized Mean Difference	0	
Df	2	
t Stat	2.026124618	
P(T<=t) one-tail	0.089997139	
t Critical one-tail	2.91998558	
P(T<=t) two-tail	0.179994279	
t Critical two-tail	4.30265273	

In the above table 6 is the result of the T-test analysis for the Overall Performance of the selected bank post-demonetization period which shows that P two-tail value 0.17 is greater than alpha value 0.05(p-value 0.17 < alpha value 0.05). Therefore, the null hypothesis is accepted and

no significant difference in overall performance between public and private sector bank in post demonetization.

V. CONCLUSION

Banks are the strongest pillar of any economy by channelizing all financial services in the country. Government executes most of the monetary policies in the nation through banks. The financial decision Demonetization of Rs.500 and 1000 banknotes on November 8, 2016, were also implemented to the nation via Banks which made a vibration in their performance. Therefore, the study analyzed the performance of some selected in Uttarakhand State and reveal the conclusion based on banks deposit position, Advance Policy, NPAs management, and Liquidity position that there is no significant difference in the performance of selected public and private sector banks in the post of demonetization. It is also found that in the Private Sector HDFC and ICICI bank is performing well while in Public Sector BOB and SBI has adequate performance than PNB.

CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest.

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