

# **Demonetisation effect on Banking loans & Advances-A Case Study**

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# **Demonetisation Introduction**

- **Demonetisation was the milestone in the Indian economy history. India's Prime Minister Mr. Narendra Modi made an unexpected decision of demonetisation and announced on 8<sup>th</sup> November 2016.**
- **The term “Demonetisation” refers to a particular currency notes circulation ceases to be a legal tender, it is termed as demonetisation.**
- **Legal tender refers to money which can be legally used to make payments of debts or other obligations.**

# **Demonetisation Introduction continue**

- **Due to the demonetisation the Indian government stated that the 500 and 1000 rupee notes were stripped of their status as legal tender effective from midnight in order to terminate the dark economy and crack down funding of illegal activities.**
- **The Indian government's ambition was to deterioration of fake currency and appropriate footsteps against tax evasion, curb inflation, eliminate black money and terror-funding, and to promote a cashless economy.**

# **Demonetisation Introduction continue**

- **These notes worth maximum of 86 per cent of the country's cash circulation in the total value of currency.**
- **People were given time to checkout 31<sup>st</sup> December 2016 and deposit their old currency notes and exchange them for the new currency notes of rupee 500 and 1000.**
- **Government of India ambition to make a cashless economy and it is implemented by banks through the flow of cash within an economy is not-existent.**

# **OBJECTIVES OF THE STUDY**

**The present study constitutes the following objectives:**

- 1. To study the demonetisation effect over the banking sector.**
- 2. To study the demonetisation effect over the bank loans and advances of SBI.**
- 3. To find out the results of pre demonetisation and post demonetisation circumstances of SBI on loans and advances.**

# **HYPOTHESIS OF THE STUDY**

**In order to prove the study objectives and demonetisation effect on loan and Advances is examined by way of the critical observation of State Bank of India loan and Advances. In this regard formulated the following hypothesis:**

**$H_0$ : There is no significant difference over the pre demonetisation and post demonetisation of SBI Banks loans and Advances.**

# **DATA ANALYSIS AND RESEARCH METHODOLOGY**

- The present research is a case study approach is selected to execute demonetisation effect on banking sectors loans and advances.**
- In addition, it is an exploratory study designed for examine pre-demonetisation and post demonetisation period loans and advances.**
- The study is conducted for a period of 4 years and additionally which is divided as pre demonetisation period from 2014-15 to 2015-16 financial years and in the view of post demonetisation period from 2016-17 to 2017-18 financial years.**

## **DEMONETISATION EFFECT ON BANKING SECTOR**

- ❖ **Demonetisation remained created multifaceted effect on Indian economy. It was agreed immense disappointment to the small, medium enterprises and influenced to real estate and construction business and merely those corporate entities with strong financial performance had survived the worst conditions.**
- ❖ **Besides, demonetisation effect pointedly over the banking essential activities too also they are: (i) Bank Deposits,**
- ❖ **(ii) Bank Interest Rates and (iii) diminishing asset quality.**

**Table 2: Analysis of Loans & Advances of SBI during the Pre Demonetisation and Post Demonetisation period:|**

Loans & Advances Particulars	Pre Demonetisation Period				Post Demonetisation Period			
	As on 31.03.2015 (2014-15)	As on 31.03.2016 (2015-16)	Total	Average	As on 31.03.2017 (2016-17)	As on 31.03.2018 (2017-18)	Total	Average
(A).I. Bills purchased and discounted	95605,93,62	94360,70,33 (-0.0131)	1899666395	949833197.5	73997,86,42 (-0.2751)	67613,55,55 (-0.0944)	1416114197	708057098.5
II. Cash credits, overdrafts and loans repayable on demand	538576,40,18	589442,33,19 (0.09444)	11280187337	5640093669	605016,33,99 (0.0264)	746252,38,11 (0.2334)	13512687210	6756343605
III. Term loans	665844,05,49	779897,38,23 (0.1462)	14457414372	7228707186	892064,17,70 (0.1257)	1121014,25,25 (0.2042)	20130784295	10065392148
<b>TOTAL</b>	<b>1300026,39,29</b>	<b>1463700,41,75</b> (0.1118)	<b>27637268104</b>	<b>13818634052</b>	<b>1571078,38,11</b> (0.0683)	<b>1934880,18,91</b> (0.1880)	<b>35059585702</b>	<b>17529792851</b>
(B). I. Secured by tangible assets (includes advances against Book Debts)	988275,84,14	1086206,36,64 (0.0990)	20744822078	10372411039	1206185,33,70 (0.1104)	1505988,72,17 (0.2485)	27121740587	13560870294
II. Covered by Bank/ Government Guarantees	52640,93,65	61714,99,56 (0.1470)	1143559321	571779660.5	82006,91,83 (0.2474)	68651,16,60 (-0.1945)	1506580843	753290421.5
III. Unsecured	259109,61,50	315779,05,55 (0.2187)	5748886705	2874443353	282886,12,58 (-0.1041)	360240,30,14 (0.2734)	6431264272	3215632136
<b>TOTAL</b>	<b>1300026,39,29</b>	<b>1463700,41,75</b> (0.1259)	<b>27637268104</b>	<b>13818634052</b>	<b>1571078,38,11</b> (0.0733)	<b>1934880,18,91</b> (0.2315)	<b>35059585702</b>	<b>17529792851</b>

<b>(C). I. Advances in India</b>								
(i) Priority Sector	288952,35,26	328551,49,99 (0.1205)	6175038525	3087519263	341257,50,06 (0.03723)	448358,95,60 (0.2388)	7896164566	3948082283
(ii) Public Sector	99444,50,78	144401,91,16 (0.3113)	2438464194	1219232097	121630,62,69 (-0.1872)	161939,24,46 (0.2489)	2835698715	1417849358
(iii) Banks	261,94,79	1473,74,93 (0.8222)	17356972	8678486	1404,44,69 (-0.0493)	2845,19,97 (0.5063)	42496466	21248233
(iv) Others	678592,56,54	725604,44,16 (0.0647)	14041970070	7020985035	823349,18,79 (0.1187)	1023464,39,00 (0.1955)	18468135779	9234067890
<b>TOTAL</b>	<b>1067251,37,37</b>	<b>1200031,60,24</b> (0.1106)	<b>22672829761</b>	<b>11336414881</b>	<b>1287641,76,23</b> (0.06803)	<b>1636607,79,03</b> (0.2132)	<b>29242495526</b>	<b>14621247763</b>
<b>II. Advances outside India</b>								
(i) Due from banks	49656,27,37	71628,62,37 (0.3067)	1212848974	606424487	87802,75,38 (0.1842)	77109,63,56 (-0.1386)	1649123894	824561947
(ii) Due from others								
(a) Bills purchased and discounted	28459,86,93	15179,05,89 (-0.8749)	436389282	218194641	11672,61,58 (-0.3003)	14539,04,35 (0.1971)	262116593	131058296.5
(b) Syndicated loans	73482,21,58	88579,38,30 (0.1704)	1620615988	810307994	101077,74,18 (0.1236)	120685,86,16 (0.1624)	2217636034	1108818017
(c) Others	81176,66,04	88281,74,95 (0.0804)	1694584099	847292049.5	82883,50,74 (-0.0651)	85937,85,81 (0.0355)	1688213655	844106827.5

<b>TOTAL</b>	<b>232775,01,92</b>	<b>263668,81,51</b> (0.1171)	<b>4964438343</b>	<b>2482219172</b>	<b>283436,61,88</b> (0.0697)	<b>298272,39,88</b> (0.0497)	<b>5817090176</b>	<b>2908545088</b>
GRAND TOTAL [C (I) and C (II)]	<b>1300026,39,29</b>	<b>1463700,41,75</b> (0.1118)	<b>27637268104</b>	<b>13818634052</b>	<b>1571078,38,11</b> (0.0683)	<b>1934880,18,91</b> (0.1880)	<b>35059585702</b>	<b>17529792851</b>

Source: Financial Reports

# TEST OF HYPOTHESIS RESULT

## t-Test: Two-Sample Assuming Equal Variances

	<i>Variable 1</i>	<i>Variable 2</i>
	949833197.5	708057098.5
<b>Mean</b>	5321144732	6777805159
<b>Variance</b>	2.70719E+19	4.49704E+19
<b>Observations</b>	18	18
<b>Pooled Variance</b>	3.60211E+19	
<b>Hypothesized Mean Difference</b>	0	
<b>df</b>	34	
<b>t Stat</b>	-0.728116664	
<b>P(T&lt;=t) one-tail</b>	0.23576367	
<b>t Critical one-tail</b>	1.690924255	
<b>P(T&lt;=t) two-tail</b>	0.471527339	
<b>t Critical two-tail</b>	2.032244509	

# CONCLUSION

The results of t-Test revealed at 34 degree of freedom at 5% significance level that the calculated value with one tail is 0.23576367 and two tail value is 0.471527339 whereas, Critical values of one tail 1.690924255 and two tail 2.032244509. Hence, null hypothesis is accepted because the calculated value is less than the critical value. Therefore, it can be concluded that there is no significant difference over the pre demonetisation and post demonetisation of SBI Banks loans and Advances. Hence, it is the evidence reveals that there is no impact of demonetisation over the supply of bank loans and advances to their customers.