ABSTRACT

The Indian government revealed the demonetization of ₹500 and ₹1,000 currency notes on November 8, 2016, therefore eliminating more than 86% of the coins in circulation. Designed to fight black money, fake currency, and promote a move toward a digital and open economy, this abrupt and important policy change sought to do so. The statement resulted in quick turbulence in all industries, but particularly in the banking sector, which had to handle the operational load of currency conversion and a sharp increase in digital transactions. Although much research has been done on how demonetization affects cash flow, credit disbursal, and liquidity in the banking industry, its influence on non-fund-based income (NFBI), a main source of income for banks, is still somewhat unknown. The goal of this study is to close the gap between what we know and what we need to know by looking at how demonetization affected the NFBI of Public Sector Banks (PSBs) in India.

NFBI is the money banks make from things besides interest, such as fees for using ATMs, sending money, keeping things in lockers, and other banking services, as well as commissions and service fees. Banks, particularly PSBs, are depending more and more on NFBI to preserve profitability and guarantee financial stability as competition gets tougher and interest margins drop. Given this backdrop, knowledge of how NFBI changes following a policy event like demonetization can help to direct future banking plans and reforms.

Using a comparative and analytical method, this research looks at how NFBI trends altered both before and after demonetizing. It looks at a small number of big government-owned banks in India and uses data from yearly financial reports, performance reviews, and regulatory papers for the years 2013-14 to 2019-20. The data has been classified into two distinct phases: the pre-demonetization period (2013-14 to 2015-16) and the post-demonetization period (2016-17 to 2019-20). The aim is to determine whether the NFBI of these banks was significantly affected by the demonetization policy and to what degree the change in income patterns could be ascribed to this policy intervention.

The study looks at the variation in NFBI throughout the chosen time range using quantitative techniques including ANOVA (Analysis of Variance) and paired t-tests. These methods allow for a robust statistical analysis of whether observed changes in NFBI are significant or due to random fluctuations. Ratio analysis is another feature of the study whereby NFBI is computed as a percentage of total income for every bank. This permits a relative comparison that takes into account differences in general income levels.