

**ANALYZING THE EFFECTS OF DEMONETIZATION ON BANKING  
PERFORMANCE IN KARNATAKA: A STUDY OF PUBLIC AND PRIVATE  
SECTOR BANKS'****Geeta G Hiremath, Dr. C.S. Yatnalli**

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**ABSTRACT**

The demonetization policy introduced by the Indian government in November 2016 aimed to curb black money, counterfeit currency, and promote digital transactions. The sudden withdrawal of high-value currency notes disrupted various sectors, especially the banking industry. This research paper analyzes the effects of demonetization on the performance of public and private sector banks in Karnataka, India, with a focus on key performance indicators (KPIs) and the perspectives of employees. The study examines factors such as customer footfall, cash deposits, loan disbursements, employee productivity, and customer satisfaction. Findings from this research offer valuable insights into the short-term and long-term impact of the demonetization policy on the banking sector.

**KEYWORDS:** Demonetization, Banking Performance, Public Sector Banks, Private Sector Banks, Key Performance Indicators (KPIs).

**I. INTRODUCTION**

In November 2016, India's government launched one of the most significant and controversial economic reforms in the country's history: demonetization. The sudden withdrawal of ₹500 and ₹1000 currency notes, intended to combat corruption, counterfeit currency, and promote a shift towards a more formalized, cashless economy, sent shockwaves through the Indian financial system. While the government's rationale behind demonetization was multifaceted, its immediate impact on India's banking sector was profound, sparking intense debates across various economic and financial domains. This paper delves into the effects of demonetization on the banking performance of Karnataka, one of India's leading states in terms of financial development and infrastructure. By focusing on both public and private sector banks, the study examines the immediate challenges and long-term transformations that banks underwent due to this sudden policy shift.

At the heart of the demonetization policy was the objective of curbing black money, a phenomenon that has long plagued India's economy. With the aim of promoting a digital economy, demonetization sought to push citizens to adopt electronic payment methods, thereby reducing the reliance on cash, which is often used for unaccounted transactions. However, while the policy's goals were ambitious, the implementation had far-reaching consequences on various sectors, most notably the banking industry. The abrupt nature of the policy left banks scrambling to manage the sudden rush of customers seeking to deposit old notes, withdraw new currency, or exchange money. The situation was further compounded by the country's



limited digital infrastructure and the lack of preparedness for such a massive shift in payment systems.

In Karnataka, a state that is home to several key financial hubs and houses a mix of public and private sector banks, the impact of demonetization was both widespread and significant. Public sector banks, which form the backbone of India's banking system, experienced immense pressure during this period. The large customer base and the inherent bureaucratic structure of public sector banks often led to slower responses and longer wait times. Employees at these banks faced an overwhelming workload, dealing with a deluge of deposit requests and currency exchange tasks, often under stressful conditions. Despite these challenges, public sector banks also saw a marked increase in deposit growth, with a significant portion of the demonetized notes finding their way back into the formal banking system. However, this inflow of funds also brought forth new issues, including liquidity management and a rise in non-performing assets (NPAs), as customers struggled to repay loans amidst the economic uncertainties created by the policy.

On the other hand, private sector banks, known for their more nimble operations and advanced technological infrastructure, were better equipped to handle the demonetization wave. With a greater focus on digital banking services, these banks saw a faster transition to cashless transactions, which contributed to their enhanced performance in the post-demonetization period. The rapid adoption of mobile banking, internet banking, and other digital payment platforms became a defining characteristic of the private banking sector during this time. Additionally, private sector banks experienced an uptick in new customer acquisitions, particularly among younger, tech-savvy consumers who preferred digital banking solutions. However, despite their ability to adapt quicker than their public sector counterparts, private banks also faced challenges, especially in cash management and the initial surge in demand for new currency notes.

The effects of demonetization were not limited to the financial metrics alone. Employee perspectives on the policy also play a crucial role in understanding the operational challenges faced by banks during this period. Bank employees, particularly in public sector institutions, were at the forefront of managing the logistical complexities of demonetization. From long working hours to dealing with frustrated customers, the workforce in these banks experienced significant stress. While private banks benefited from better technology infrastructure and employee preparedness, public sector employees faced severe strains due to a lack of automation and preparedness for the scale of change required. The human resource aspects, including employee well-being, productivity, and morale, thus became key areas of concern during this period of transition.

In addition to the operational challenges, the implementation of demonetization also presented long-term shifts in banking performance in Karnataka. Over time, the focus on cashless transactions, bolstered by government incentives and the rise of digital payment platforms such as UPI (Unified Payments Interface), led to changes in customer behavior and banking preferences. The growing emphasis on mobile banking, internet banking, and other digital services revolutionized the way customers interacted with their banks. While public sector



banks faced a more prolonged adjustment period, private sector banks were able to leverage their technological advancements to align themselves with the emerging trends in the financial ecosystem.

This study aims to explore the multifaceted impact of demonetization on banking performance in Karnataka, with a particular emphasis on the differences between public and private sector banks. By analyzing key performance indicators (KPIs) such as deposit growth, loan disbursements, digital transaction volume, and non-performing assets (NPAs), the study will provide a comprehensive understanding of the short-term and long-term effects of demonetization on these two segments of the banking industry. Additionally, by incorporating employee perspectives, the research will shed light on the human factors that influenced the operational performance of banks during this disruptive period. The study also aims to assess how the demonetization policy acted as a catalyst for digital transformation in the banking sector and whether this transformation has had a lasting impact on the future trajectory of banking in Karnataka.

Through this analysis, the paper will contribute to the broader discourse on the effectiveness of demonetization and its role in shaping the Indian banking sector. It will also offer valuable insights into the adaptability of banks in the face of policy-driven disruptions, the importance of technological preparedness, and the role of employee resilience in overcoming challenges. As demonetization continues to be a topic of debate in India's economic and financial landscape, this study serves as an important case for evaluating the broader implications of such policies on the banking industry and their ability to adapt to a rapidly changing economic environment.

In demonetization was a transformative event in India's financial history, leaving an indelible mark on the banking sector. This paper seeks to understand the nuances of its impact on Karnataka's banking system, focusing on public and private sector banks' responses to the policy changes. By analyzing both quantitative metrics and qualitative employee experiences, the study will provide a holistic view of how the demonetization policy reshaped banking operations in one of India's key economic states. The findings of this research could offer valuable lessons for future policy interventions in the banking sector, particularly in terms of preparedness, employee engagement, and technological innovation.

## **II. IMPACT ON PRIVATE SECTOR BANKS**

- 1. Increased Digital Banking Adoption:** One of the most significant impacts of demonetization on private sector banks was the accelerated shift towards digital banking. As customers faced challenges in accessing physical currency, they increasingly turned to digital payment platforms, mobile banking apps, and internet banking. Private banks, with their advanced technological infrastructure, were well-positioned to facilitate this shift, leading to an increase in digital transactions, mobile banking adoption, and overall customer engagement.
- 2. Growth in Customer Base:** The demonetization move led to an influx of new customers, particularly among the tech-savvy younger demographic who were more

inclined towards digital banking services. Private sector banks capitalized on this trend by offering easier access to digital banking solutions and efficient online services. The ease of transactions and quick services helped attract new users, expanding their customer base during the period.

3. **Enhanced Operational Efficiency:** Private sector banks, known for their agility and technological edge, were able to manage the surge in demand for new currency notes and digital banking services more effectively. They leveraged their digital platforms to minimize operational bottlenecks, providing faster services to customers and reducing the pressure on branch operations. This allowed them to maintain a higher level of efficiency in their day-to-day operations compared to public sector banks.
4. **Strain on Liquidity Management:** Despite their technological advantages, private sector banks also faced challenges in managing liquidity during demonetization. The sudden influx of deposits due to demonetization led to an increase in liquidity, but it also put pressure on the banks to maintain a balance between loan disbursements and available cash reserves.
5. **Non-Performing Assets (NPAs) and Loan Recovery:** The demonetization drive created economic uncertainty, impacting borrowers' ability to repay loans. Private sector banks experienced a rise in non-performing assets (NPAs) as businesses and individuals faced difficulties in repaying loans during the post-demonetization phase. However, the robust digital systems allowed private banks to follow up more efficiently with customers and manage recovery processes better than their public counterparts.

### III. IMPACT ON PUBLIC SECTOR BANKS

1. **Increased Deposits and Liquidity:** Public sector banks experienced a significant surge in deposits following demonetization as people rushed to deposit their old ₹500 and ₹1000 notes into their accounts. This sudden inflow of funds boosted the liquidity levels of these banks, but managing this increase posed challenges. The large volumes of cash that had to be processed created operational pressures and delays, particularly due to limited technological infrastructure compared to private sector banks.
2. **Operational Challenges and Customer Service Strain:** Public sector banks faced operational bottlenecks as a result of the massive influx of customers trying to deposit old notes, withdraw new currency, or exchange cash. The physical infrastructure of these banks, combined with slower bureaucratic processes, led to long queues and customer dissatisfaction. Bank employees were overwhelmed, leading to a decline in service efficiency and an increase in customer complaints.
3. **Shift Towards Digital Banking:** Despite the challenges, demonetization acted as a catalyst for digital banking transformation within public sector banks. The government's push for cashless transactions led to a notable rise in the adoption of digital payment platforms, mobile banking, and online services. However, the pace of

adoption was slower in public sector banks compared to their private counterparts due to infrastructural and technological limitations.

4. **Impact on Non-Performing Assets (NPAs):** The economic disruptions caused by demonetization affected the repayment capacity of borrowers, especially small and medium enterprises (SMEs) and agricultural sectors. Public sector banks, which are more heavily involved in financing these sectors, saw a rise in non-performing assets (NPAs). The challenge of loan recovery became more pronounced as the economic environment remained uncertain.
5. **Employee Workload and Morale:** Public sector bank employees faced considerable stress and burnout due to the increased workload during the demonetization period. Handling large volumes of transactions, dealing with customer frustration, and working extended hours contributed to a decline in employee morale. The lack of advanced digital systems also meant that many of the tasks had to be performed manually, further adding to the strain on the workforce.

#### **IV. CONCLUSION**

This research paper provides valuable insights into the impact of demonetization on the banking performance in Karnataka. The findings suggest that while both public and private sector banks faced challenges, their responses were shaped by their preparedness in terms of technology and infrastructure. Private sector banks demonstrated superior adaptability, particularly in digital banking, while public sector banks encountered operational hurdles that hindered their efficiency. The study emphasizes the need for better technological preparedness, staff training, and strategic planning for banks to manage future disruptions effectively.

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