

## **Impact of Demonetisation on Share Price of Selected Private Sector Banks and Public Sectors Banks Listed in NSE**

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### **Abstract**

*The study focuses on the impact of demonetisation on the Indian stock market. The role of cash transactions in an informal economy is critical thus the present study throws light as how announcement of demonetisation has an impact on banking sector share price. With 86 percent of the monetary base being washed off, economic activity in the short run is likely to be adversely impacted. The sample size of the study is top five private sector banks and five public sector banks listed in NSE. The test result reveals that the public banks perform better than private sector bank after the demonetization.*

**Keywords:** Demonetization, Banking, NSE.

### **Introduction**

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from the market. To check undisclosed black money, corruption and fake currency the Government of India on the 8 November 2016 announced demonetization of high denomination currency notes Rs 500 and Rs.1000. A new redesigned series of Rs. 500 and Rs. 2000 banknote is in circulation since 10 November 2016. Banking can be defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit. The implication of demonetisation announcement on banking sector

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share price (public & private banks) is not measured, thus the present study aims to find the impact of demonetisation on banking sector share price.

### **Review of literature**

**Sunita (2014)** undertook a study to understand the reasons and steps taken by the government on the major demonetizations that took place in India. The study was further aimed at examining the implications of depreciation of rupee on Indian economy. The author also studied the impact of depreciating rupee on Indian economy and concluded that in long run with weakening rupee, Indian economy has more to lose and less to gain. The paper also threw light on the importance of the central bank's intervention to control the situation.

**Raja Mohan and Muthukamur (2014)** conducted a comparative study between bank Index and other sectorial indices using Pearson correlation coefficient. It was found that Bank index positively influenced almost all the other sectorial indices. Investors, before investing in any sector, need to check the patterns in the banking sector as it could influence the behaviour of other sector stocks.

**William and Vimala (2015)** examined the volatility of equity share price of five select private banks listed in the National Stock Exchange. Considering that banks play an important role in the economy of India, an attempt was made to analyse the market volatility of the selected banks by using mean, standard deviation and beta values using the opening and closing prices. It was concluded that the volatility of the closing prices was similar for all the five banks selected for the study.

**Sherline(2016)** has undertaken the research on “Demonetization as a prelude to complete Financial Inclusion”. The main objective of the study was to understand the importance of demonetization as a measure of financial inclusion. Financial inclusion mainly stands for, the delivery of the financial services at the affordable cost to the low income segments of society.

### **Objectives**

- To analyse the share price of private sector bank and public sector bank before demonetization.
- To analysis the share price of private sector bank and public sector bank after demonetization.
- To study the post demonetisation impact on share price of both private and public sector banks.

## Methodology

**Sample:** Top Ten banks (5 private sector banks and 5 public sector banks) listed in NSE. i.e. State bank of India, Bank of Baroda, Punjab Union Bank, IDBI Bank, Canara Bank, HDFC Bank, Kodak Mahindra Bank, ICICI Bank, Axis Bank and Yes Bank. The closing share prices of selected banks listed in NSE are considered for the study.

**Data:** Secondary data has collected from NSE website. The daily closing shares prices of banks (private & public) are considered for study. The data divided into two segments: i.e. pre demonetization period from 18<sup>th</sup> Oct 2016 to 08<sup>th</sup> Nov 2016 and post demonetization period from 9<sup>th</sup> Nov 2016 to 30<sup>th</sup> Nov 2016.

**Sampling type:** Purposive Sampling.

**Analytical tools:** Descriptive statistics, Mean, Correlation and paired sample t-test SPSS software is used to find correlation and paired sample t test

### Hypothesis:

**H<sub>0</sub>:** There is no significant relationship between pre & post share prices of private & public sector banks.

**H<sub>1</sub>:** There is significant relationship between pre & post share prices of private & public sector banks.

**Mean:** The statistical mean refers to the mean or average that is used to derive the central tendency of the data in question. It is determined by adding all the data points in a population and then dividing the total by the number of points. The resulting number is known as the mean or the average.

**Correlation:** Correlation coefficient is a measure that determines the degree to which two variables' movements are associated. The range of values for the correlation coefficient is -1.0 to 1.0. A correlation of -1.0 indicates a perfect negative correlation, while a correlation of 1.0 indicates a perfect positive correlation.

**Paired sample t test:** The paired t test provides a hypothesis test of the difference between population means for a pair of random samples whose differences are approximately normally distributed. Subjects are often tested in a before-after situation or with subject as alike as possible. The paired t-test is actually a test that the difference between the two observations is 0.

**Analysis and Results:****Table1: Closing prices of selected private sector bank and public sector bank descriptive statistics of Pre and Post Demonetization.****PRIVATE SECTOR BANK**

BANKING		MEAN	N	SD	STD ERROR MEAN
AXIS BANK	PRE	5.0189	15	25.14251	6.49177
	POST	4.7710	15	12.06097	3.11413
HDFC BANK	PRE	1.2543	15	7.95670	2.05441
	POST	1.2164	15	36.61613	9.45424
ICICI BANK	PRE	2.5166	15	6.06891	1.56699
	POST	2.4262	15	9.09848	2.34922
KODAK	PRE	7.9633	15	15.18729	3.92134
MAHINDRA	POST	7.7442	15	26.47106	6.83480
YES BANK	PRE	2.5256	15	8.75087	2.25946
	POST	2.3390	15	9.21081	2.37822

**PUBLIC SECTOR BANK**

BANKING		MEAN	N	SD	STD ERROR MEAN
BANK OF BARODA	PRE	1.5300	15	4.66941	1.20564
	POST	1.6579	15	6.75239	1.74346
CANARA BANK	PRE	3.0145	15	11.38653	2.93999
	POST	3.0405	15	7.77035	2.00629
IDBI BANK	PRE	72.5367	15	2.59247	.66937
	POST	69.3733	15	1.72677	.44585
PUNJAB NATIONAL BANK	PRE	1.4164	15	4.77875	1.23387
	POST	1.4393	15	8.00116	2.06589
SBI BANK	PRE	2.5543	15	5.64054	1.45638
	POST	2.6557	15	10.19604	2.63261

**SOURCE: Secondary data authors calculation**

From the above table, the closing share prices of selected banks in private sector bank and public sector bank that are listed in NSE are considered. The Axis bank, HDFC bank, ICICI bank, Kodak Mahindra Bank and Yes Bank shares prices are decreased in post demonetization period. Bank of Baroda, Canara bank, Punjab National bank and State bank of India shares prices increased in post demonetization period. IDBI Bank is only public sector bank shares prices are decreased in post demonetization period.

**Table: 2 – Testing Significance of difference in Closing prices values in Pre and Post demonetization periods**

**PRIVATE SECTOR BANK**

Banking	T test values	Significant values	Interpretation
AXIS BANK	5.179	.000	Ho: Rejected
HDFC BANK	4.412	.001	H1:Accepted
ICICI BANK	2.824	.014	H1:Accepted
KODAKMAHINDRA	2.154	.049	H1:Accepted
YES BANK	7.852	.000	Ho: Rejected
<b>PUBLIC SECTOR BANK</b>			
BANK OF BARODA	-6.660	.000	Ho: Rejected
CANARA BANK	-.865	.402	H1:Accepted
IDBI BANK	5.641	.000	Ho: Rejected
PNB	-1.280	.221	H1:Accepted
SBI	-4.802	.000	Ho: Rejected

The above table shows the Testing Significant of Closing shares prices values in Pre and Post demonetization periods in selected private sector bank and public sector bank that are listed in NSE. The p value is more than the level of significance ( $p > 0.05$ ), for Axis bank, Bank of Baroda, IDBI bank, SBI Bank and Yes bank there is no significant relationship between on shares prices performance of pre and post demonetization period thus null hypothesis accepted, while the p value is less than ( $p < 0.05$ ), for Canara Bank, HDFC bank, Kodak Mahindra Bank, ICICI bank and Punjab National Bank there is no significant relationship between on shares prices performance on pre and post demonetisation period Alternate hypothesis accepted.

**Table 3: Closing sharesprice of mean values of private sector bank and public sector bank pre and post demonetization.**

SECTOR		MEAN	N	SD	SD ERROR
PRIVATE BANK	PRE	9.1703	5	6353.95331	2841.57430
	POST	8.8332	5	6214.40115	2779.16468
PUBLIC BANK	PRE	2.7721	5	1384.37930	619.11324
	POST	2.8461	5	1422.58887	636.20108

The above table shows the closing shares price mean values of the selected private sector bank and public sector bank before and after demonetization. The private sector banks closing price is decreased in post demonetisation than the pre demonetisation. The public sector bank is showing moderately increased during the post demonetization period than the pre demonetization.

**Table 4: Testing Significance of difference in Closing prices values of Private sector bank and Public sector bank in Pre and Post demonetization period**

Banking		T test values	Significant values	Interpretation
Private bank	Pre & Post	4.78	.009	H1: Accepted
Public bank	Pre & Post	-1.707	.163	H1: Accepted

The above table shows the Testing Significant of closing shares prices values of private sector bank and public sector bank. Although the mean values shows increase in share price of public sector banks compared to private sector banks but it was not found to be statistically significant ( $p > 0.05$ ).

## CONCLUSION

This study has been undertaken to analyse the demonetization effect on share prices of selected banking sector in India. The closing shares price of private sector banks reduced after demonetization period compared to public sector banks. Thus the results reveal that demonetization sentiments negatively impacted private sector banks compared to public sector banks. The overall performance of the shares prices is high in public sector bank than the private sector bank in post demonetization.

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International Journal of Marketing & Financial Management, Volume 5, Issue 3, Mar-2017, pp 21-26 ISSN: 2348 –3954 (Online) ISSN: 2349 –2546 (Print)

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