

Demonetisation exercise could hit banks' profits in third quarter

K Ram Kumar / G Naga Sridhar

Incremental CRR, recalibrating ATMs, overtime payments to staff may hurt bottomline



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Banks' profitability could take a hit in the October-December quarter due to a host of factors linked to the high denomination ₹ 500 and ₹ 1,000 bank notes being rendered invalid.

The reasons include the requirement that banks park 100 per cent of their incremental deposits temporarily with the Reserve Bank of India at zero interest rate, slowdown in loan growth due to resources getting diverted for the ongoing demonetisation exercise, and operational expenses incurred in recalibrating ATMs.

To suck out the liquidity generated by copious inflow of deposits in the wake of the demonetisation exercise, which was kick-started with effect from November 9, the RBI has imposed an incremental cash reserve ratio (CRR) of 100 per cent on the increase in deposits between September 16 and November 11. However, this deposit with the RBI will not fetch banks any return though they will have to pay interest (4 per cent) on the savings bank deposits.

NS Venkatesh, Executive Director, Lakshmi Vilas Bank, said: "Liquidity-wise, I don't think there is any issue for banks in meeting the incremental CRR. But there will be some negative impact on profitability because of the fact that the banks will end up paying the savings bank rate on the deposits of ₹ 3.2 lakh crore (parked with RBI), whereas they don't get any interest on the CRR balance.

"To that extent this will have a negative impact on the net interest income (difference between interest earned and interest expended)."

CRR is the slice of deposits that banks are required to park with the RBI. It currently stands at 4 per cent of deposits.

Credit rating agency ICRA, in a report, observed that while banks were making some positive spread on the deposits garnered even by offering them under reverse repo window (deploying surplus liquidity with RBI), these gains will largely be offset by the RBI move to increase CRR as they will not earn anything on the additional CRR, though they continue to bear the cost of the increased deposits.

ICRA estimates that due to these changes, banks will lose ₹ 700-900 crore every fortnight till such time the RBI reverses its temporary measure.

Bankers feel that slowdown in booking new (loan) business too could impact the bottomline as the entire bank machinery has been pressed into the demonetisation exercise.

Then there are higher employee expenses too. According to BS Rama Rao, Executive Director, Vijaya Bank, expenses related to overtime remuneration of the bank's employees since the announcement of demonetisation amounted to about ₹ 12 crore.

Assuming a near-parity in salary structure of employees of different banks, staff overtime expenses alone could total around ₹ 200 crore for all banks.

Frequent replenishing of ATMs would involve more trips by cash management service vehicles, the cost of which have to be borne by banks, Rama Rao said.

ATM recalibration charge to provide for dispensing of new notes is around ₹ 2,000 per ATMs. There are 2.30 lakh ATMs in the country.

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