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THE STUDY ON IMPACTS OF ECONOMICAL FLUCTUATIONS ON WORKING POPULATION OF BANKING SECTOR.

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Abstract— **“**A nation’s prosperity can be evaluated by its economic growth and sustainability. The economic growth of a nation is supplemented by several sectors and variables. In the same line, the economical disorder (fluctuation) cannot be avoided and at the same time can be downsized. The reactions and reflections of economical fluctuation can be seen and influenced in all the sectors. As we knew and understood that banking sector is one of the predominant sector and contributing a plenty towards the economic growth of a nation. In fact, the banking sector is acting as a middleman and mirrors i.e. all the signs of an economy can be seen through the banking sector. The economical fluctuations can be monitored and controlled with the help of following two basic controlling mechanisms and they are;

1. Ensure a balanced as well as proportionate growth between demand and supply.

2. Trade- off the bank rates. (Lending and borrowing rates)

Among the two mechanisms, the first one requires high amount of energy and consume lengthy duration however, it will fetch a permanent solution to the economical fluctuations. Whereas, the properties of the second mechanism are indicate that, it can be a temporary remedy and its outcome would be applicable for a shorter duration alone. However, the second mechanism is commonly used by most of the countries to check the economical fluctuations, especially inflation of their own countries. When a country and its central bank are try to deploy the second mechanism, the proper as well as careful strategies must be followed by the apex bank, otherwise the implementation will be put under herculean task and create abnormal amount of stress. Due to these frequent changes on bank rates, the bankers are struggling to implement the above said changes among their customers. Because, the major portions of banking customers are unaware of all these frequent changes, though very few they are understood, however, they are not ready to co-operate. This article looks in to the consideration of how the economical fluctuations and the corrective actions proposed by the apex bank and how they are influencing the banking personnel in a negative way. Further this article is tried to explore the possible suggestions to safeguard the target audience (banking personnel) from the unwanted stress due to the above said problems”.

Key words: Economical fluctuation – Inflation- Bank rates – Repo rate – Reverse Repo rate – Cash Reserve Ratio- Statutory Reverse Ratio.

1 INTRODUCTION

Banking sector is playing a vital role in the economic development of countries across the world. Because banking sector constitutes a predominant component of the financial services industry and the performance of any economy to a large extent depends on the performance of banks. The efficient and diversified banking system is must for promoting savings and channelizing them into healthy investment, so as to achieve a faster rate of economic growth. Thus the good health of any economy is reflected by the good health of its banking system. In the Modern economy, the banker not only as the dealers in money, but also as the lenders of developments. Indian Banking sector has emerged as one of the strongest drivers of Indian’s economic growth. Banking sector in recent times have been faced numerous challenges and despite that, it is constantly providing better services towards controlling the inflation. Inflation is a major economic factor that influences the country’s economy.

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One of the prime tasks of any government is to control the inflation possibly it can be two to three percentages. Such low inflation is beneficial for the economy, as it encourage consumers to buy goods and services. It also makes more appealing to borrow money, since interest rates are usually low during low inflation periods. Maintaining low inflation is, therefore, in India, an important goal for the government and the central bank of any nation. The Reserve Bank of India executes two measures to controlling the inflation i.e. monetary measures and liquidity measures. Monetary measures are repo rate, reserve repo rate; cash reserve ratio and bank rate. Liquidity measure is statutory liquidity ratio. These measures are put under frequent changes made by the Reserve bank of India. So the banking personnel facing some unwanted stress like to accelerating the volume of deposits when the rates on deposits are decreased. In contrary, when the rate of lending is increased they are under pressure to voluntarily approach the customers to avail the loan. This article attempts to highlight the difficulties counted by bankers and provide some remedial measures to downsize the amount of stress of the banking personnel.

2. Objective of the study:

To study the impacts of economical fluctuations on working population of banking sector.

3. Review of Literatures:

This is limited research on wider implications of economical fluctuations, such as how it has already impacted on banking sector, Bayraktar and Wang (2005) have stated that, RBI has increased the CRR rates, which means withdrawal of more free flow of funds started to from the banking sector and their lending source of funds come down, there by price rice can be controlled. Fry (1988) and Gleb (1989) have opined that "High inflation rates also tend to be volatile and the associated negative and unpredictable real interest rates discourage domestic financial savings. Unanticipated high inflation erodes the real value of financial assets and the volatility of inflation increases the risk associated with holding them. Conversely, low-to-moderate inflation, particularly at stable rates, encourages financial savings".

Tishampati sen (2008) have stated that, the RBI to tackle inflation include a rise in repo rates (the rates at which banks borrow from the RBI), a rise in Cash Reserve Ratio and a reduction in rate of interest on cash deposited by banks with RBI. The signals are intended to spur banks to raise lending rates and to reduce the amount of credit disbursed. The RBI's measures are expected to suck out a substantial sum from the banks. In effect, while the economy is booming and the credit needs grow, the central bank is tightening the availability of credit. As per the Rangarajan committees report (1998), the question, in essence, presupposes a possible trade-off between price stability and growth either in the long or short run. The new endogenous growth theories, for instance, surmised that inflation has an adverse impact on growth because of its harmful effects on productivity and efficiency.

Barro, R. J. (1995) stated that for instance, if the primary reason for inflation of a nation is the excessive demand for goods and services, then the economic policy on governmental level should find out the causes of such unnecessary rise and undertake measures to decrease the overall level of collective demand. Sometimes, if it is seen that Cost-Push inflation is responsible for the rise in the demand for goods and services, then the cost of production must be checked, to handle the inflation-related problems. Study of literature on economical fluctuations mainly incorporated on monetary policies and inflation rates, how varies studies have reported.

4. Research Design:

This study descriptive in nature because it describes the role of economical fluctuations and its impacts on working population of banking sector. Banking personnel are the target audience of this study. This study is based on secondary data. The secondary data was obtained from the report of RBI, magazines, journals, newspapers and different banks websites.

5. Banking and Inflation:

Banks have played major role in the economic development of the country and most of the credit- related schemes of the government to uplift the poorer and the under-privileged sections have been implemented through the banking sector. The role of the banks has been important, but it is going to be even more important in the future. Banks are now spending a lot more of their time on supporting foreclosure prevention than they did prior to the economic crisis and this recession. These activities include loan restructuring and financially supporting efforts of non-profits and government agencies engaged in foreclosure prevention activities. In its broadest sense, policies of economic development encompass three major areas

Government is responsible for meet out the broad economic objectives such as price stability, high employment, and sustainable growth and such effort include a monetary policies. Controlling inflation is a significant part of the economic activities of a nation. Inflation is an economic condition characterized by a general rise in the prices. Thus, controlling inflation is important as unrestrained increase of the prices may culminate in hyperinflation, and an excessive fall in the prices may lead to deflation. Both the situations are not healthy and sound for the overall growth and development of a country's economy. In fact, keeping a strong control over inflation has turned out to be one of the primary objectives of the government of different countries across the globe. To this effect, efficacious economic policies are being formulated, which mainly concentrate on the fundamental causes of inflation in an economy, and try to improvise methods to keep the inflationary conditions under control.

6. Monetary Policy:

- Federal Reserve Bank of Boston stated that, in today's enhancement the primary tool for controlling inflation is monetary policy. Many of the central banks are asked with keeping their inter-bank lending rates at low level. A low positive inflation is usually targeted, as deflationary conditions are seen as dangerous for the health of the economy.

- There is more number of methods that have been suggested to control inflation. High interest rates and slow growth of the money supply are the traditional ways through which central banks fight for lowering the inflation, though they have different approaches. For instance, some follow a symmetrical inflation target while others only control inflation when it rises above a target, whether express or implied.

- Monetarists emphasize keeping the growth rate of money steady, and using monetary policy to control inflation (increasing interest rates, slowing the rise in the money supply). Keynesians emphasize reducing aggregate demand during economic expansions and increasing demand during recessions to keep inflation as stable. Control of aggregate demand can be achieved using monetary policy (increased taxation or reduced government spending to reduce demand).

Inflation can be administered with help of several mechanisms like strengthening the domestic supply, fair control over abnormal demand (the hoarding of stocks, unnecessary and unwanted online transactions etc.) and corrective measures on bank rates.

6.1Repo Rate (RR)

Repo (Repurchase) rate is the rate at which the RBI lends shot-term money to the banks. This rate usually less than the interest rate on bonds as the borrowing is collateral.

EXHIBIT: 1

Repo Rate w.e.f	Rate %	Changes incorporated by (on date wise)
12.06.2008	8.00	RBI circulated dated 11.06.2008
25.06.2008	8.50	RBI circulated dated 24.06.2008
30.07.2008	9.00	RBI circulated dated 29.07.2008
20.10.2008	8.00	RBI circulated dated 20.10.2008
03.11.2008	7.50	RBI circulated dated 03.11.2008
08.12.2008	6.50	RBI circulated dated 06.12.2008
05.01.2009	5.50	RBI circulated dated 02.01.2009
05.03.2009	5.00	RBI circulated dated 04.03.2009
21.04.2009	4.75	RBI circulated dated 21.04.2009
19.03.2010	5.00	RBI circulated dated 19.03.2010
20.04.2010	5.25	RBI circulated dated 20.04.2010
02.07.2010	5.50	RBI circulated dated 02.07.2010
27.07.2010	5.75	RBI circulated dated 27.07.2010
16.09.2010	6.00	RBI circulated dated 16.09.2010
02.11.2010	6.25	RBI circulated dated 02.11.2010
17.03.2011	6.75	RBI circulated dated 17.03.2011
03.05.2011	7.25	RBI circulated dated 03.05.2011
16.06.2011	7.50	RBI circulated dated 16.06.2011
26.07.2011	8.00	RBI circulated dated 26.07.2011
16.09.2011	8.25	RBI circulated dated 16.09.2011
25.10.2011	8.50	RBI circulated dated 25.10.2011
23.04.2012	8.00	

It is noticed from the above table that, if the repo rate increases, their borrowings from RBI becomes more expensive. Therefore, we can say that in case, it RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate; similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate. When the repo rate is being increased the number as well as volume of borrowings will decreased correspondingly. We can accept these many changes are made to control over the inflation as well as boost-up the economy at the same time as a banking employee cannot be digest these many frequent changes because the banking employees are the ambassadors between government and customers(general public). If the banking employees are unable to convince their customers due to these frequent changes on repo rate which, certainly they must lose their business volume.

6.2 Reverse Repo Rate (RRR)

Reverse Repo Rate is the rate at which Reserve Bank of India (RBI) borrows money from banks. Banks are always happy to lend money to RBI since their money is in safe hands with a good interest. An increase in Reverse Repo Rate can cause the banks to transfer more funds to RBI due to these attractive interest rates. It can cause the bankers for drawn out more money from the banking system.

EXHIBIT: 2

Reverse Repo rate w.e.f	Rate %	Changes incorporated by (on date wise)
05.01.2009	4.00	RBI circulated dated 02.01.2009
05.03.2009	3.50	RBI circulated dated 04.03.2009
21.04.2009	3.25	RBI circulated dated 21.04.2009
19.03.2010	3.50	RBI circulated dated 19.03.2010
20.04.2010	3.75	RBI circulated dated 20.04.2010
02.07.2010	4.00	RBI circulated dated 02.07.2010
27.07.2010	4.50	RBI circulated dated 27.07.2010
16.09.2010	5.00	RBI circulated dated 16.09.2010
02.11.2010	5.25	RBI circulated dated 02.11.2010
25.01.2011	5.50	RBI circulated dated 25.01.2011
17.03.2011	5.75	RBI circulated dated 17.03.2011
03.05.2011	6.25	RBI circulated dated 03.05.2011
16.06.2011	6.50	RBI circulated dated 16.06.2011
26.07.2011	7.00	RBI circulated dated 26.07.2011
16.09.2011	7.25	RBI circulated dated 16.09.2011
25.10.2011	7.50	RBI circulated dated 25.10.2011
23.04.2012	7.00	

It is noticed from the above table that, frequent changes have been incorporated on Reverse Repo Rate. The RBI is using this tool when it feels there is a too much money flow in the banking system. An increase in the reverse repo rate means that the RBI will borrow money from the banks at a higher rate of interest. As a result, banks would prefer to keep their money with the RBI. At the same time bankers face many problems to keep on their customers because when the customers are approaching the banks for borrowings naturally the bankers must have the lessor volume of money, though it they are ready to lead the interest rate is comparatively very high. So bankers

can't be satisfy their customers leading interest rate automatically they will be put under tremendous pressure (stress).

6.3 Cash Reserve Ratio (CRR)

Cash reserve Ratio (CRR) is the amount of funds that the banks have to keep with RBI. If RBI decides to increase the percentage of CRR, the available amount with the will banks naturally will come down. RBI is using this method (increase of CRR rate), to drain out the excessive money from the banks.

EXHIBIT: 3

Cash Reverse Ratio w.e.f	CRR as percentage of NDTL	Changes incorporated by (on date wise)
18.09.2004	4.75	RBI circulated dated 11.09.2004
02.10.2004	5.00	RBI circulated dated 11.09.2004
22.06.2006	5.00	The statutory minimum CRR requirement of 3% of total demand and time liabilities removed with effect from 22.06.2006.
23.12.2006	5.25	But CRR continued to be at 5%
06.01.2007	5.50	RBI circulated dated 11.12.2006
17.02.2007	5.75	RBI circulated dated 11.12.2006
03.03.2007	6.00	RBI circulated dated 01.03.2007
14.04.2007	6.25	RBI circulated dated 01.03.2007
28.04.2007	6.50	RBI circulated dated 20.04.2007
04.08.2007	7.00	RBI circulated dated 20.04.2007
10.11.2007	7.50	RBI circulated dated 31.07.2007
26.04.2008	7.75	RBI circulated dated 30.10.2007
10.05.2008	8.00	RBI circulated dated 21.04.2008
24.05.2008	8.25	RBI circulated dated 21.04.2008
05.07.2008	8.50	RBI circulated dated 29.04.2008
19.07.2008	8.75	RBI circulated dated 26.07.2008
30.08.2008	9.00	RBI circulated dated 26.07.2008
11.10.2008	7.50	RBI circulated dated 30.07.2008
25.10.2008	6.00	RBI circulated dated 06.10.2008
08.11.2008	5.50	RBI circulated dated 15.10.2008
17.01.2009	5.00	RBI circulated dated 03.11.2008
13.02.2010	5.50	RBI circulated dated 03.11.2008
27.02.2010	5.75	RBI circulated dated 02.01.2009
24.04.2010	6.00	RBI circulated dated 29.01.2010
28.01.2012	5.50	RBI circulated dated 20.04.2010
		RBI circulated dated 24.01.2012

It is noticed from the above table that, frequent changes have been incorporated on Cash Reserve Ratio. The Reserve Bank of India (Amendment) Bill, 2006 has been enacted and came into force with its gazette notification. Consequent upon amendment to sub-Section 42(1), the Reserve Bank, having regard to the needs have securing the monetary stability in the country, can prescribe Cash Reserve Ratio (CRR) for scheduled banks without any floor rate or ceiling rate. [Before the enactment of this amendment, in terms of Section 42(1) of the RBI Act, the Reserve Bank could prescribe CRR for scheduled banks between 3 per cent and 20 per cent of total of their demand and time liabilities].

Thus, when a bank's deposits increase by Rs100, and if the cash reserve ratio is 6%, the banks will have to hold additional cash of Rs 6 with RBI and Bank will be able to use only Rs 94 for investments and lending / credit purpose. Therefore, higher the ratio (i.e. CRR), the lower is the amount that banks will be able to use for lending and investment. The effectiveness and efficiency became the buzzword of the success of banking operation and proper functioning particularly in respect of providing loans and advances when the customers are demanded. So if the banking employees are unable to convince their customers due to these frequent changes on cash reserve ratio, then they are unable to maintain the targets and automatically they will be put under unwanted stress.

6.4 Statutory Liquidity Ratio (SLR)

This term is used by bankers and indicates the minimum percentage of deposits that the bank has to maintain in the form of gold, cash or other approved securities. Thus, we can say that it is ratio of cash and some other approved liabilities (deposits) it regulates the credit growth in India. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

EXHIBIT: 4

Statutory liquidity ratio w.e.f	SLR in %	Changes incorporated by (on date wise)
09.01.1993	38.25	RBI circulated dated 03.04.1992
06.02.1993	38.00	RBI circulated dated 03.04.1992
06.03.1993	37.75	RBI circulated dated 03.04.1992

21.08.1993	37.50	RBI circulated dated 03.04.1992
18.09.1993	37.25	RBI circulated dated 03.04.1992 SLR on net DTL as on Sep 17, 1993. In addition there was 25% SLR on the increase in net DTL over Sep 17, 1993 Level.
16.10.1993	34.75	
20.08.1994	34.25	RBI circulated dated 17.09.1993
17.09.1994	33.75	RBI circulated dated 17.09.1993
29.10.1994	31.50	RBI circulated dated 30.09.1994 In addition there was 25% SLR on the increase in net DTL over Sep 30, 1994 Level
25.10.2005	25.00	
08.11.2008	24.00	
07.11.2009	25.00	RBI/2009-10/195 DBOD.Ret.BC.51/12.02.001/2009 – RBI circulated dated 28.10.2009
18.12.2010	24.00	Announced on 16/12/2010 Mid-Quarter Monetary Policy Review : December 2010

It is noticed from the above table that, frequent changes have been incorporated on statutory liquidity ratio. If RBI increases the SLR deposits it will affect the bankers to provide volume of loan amount to the customers. Bankers are facing a fierce competition and more demands from customers and these changing climates which are lead to an unprecedented set of challenges. Bankers cannot cater the needs of customers. So it is inevitable to stop customers switch over to the other banks.

7. Remedial measures:

The changes of monetary measures as well as liquidity measures are not only affecting the public, and also affect the working population of the banking sector by way of lost their business volume. The following remedial measures must be taken by the authorities of the banking sector to keep up their existing customers as well as to keep away of their worker's from unwanted stress.

- Establishment of information desk.
- Consistency in updating the recent changes (policy level) to the customers' vision in their respective vernacular languages.
- To conduct awareness camp to the public.
- Improved service quality(high-touch strategy)
- Consistent development programs
- Frequent counselling

8. Conclusion

The responsibility of administering the economical fluctuations is spread over or rationally distributed among all the sectors of the nation. That means, the economical fluctuations influencing all the sectors according to its characteristics and weightage. In the same line the nature of banking sector is closely associated with the money transactions hence; it can't be keep away from the stream lining the economical fluctuations. With connection to this article, the banker must contribute significantly to revamp the economical fluctuations, at the same time they must safeguard their employees from possible threats of hiperstress.

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