

EFFECT OF DEMONETISATION ON BANKING SECTOR

***SUMALATHA .R**
****Dr. HENA NAQVI**

*Research Scholar, Kalinga University, Raipur, Chhattisgarh

**Professor, Kalinga University, Raipur, Chhattisgarh

Abstract - On 8 November 2016, the Government of India demontized Rs.500 and Rs.1000 currencies in an effort to deal with corruption, counterfeiting, black cash, and terrorist financing. The value of the demonizing currency was approximately Rs. 15,4 billion, approximately 86,9 percent of the total currency in circulation. The research carried out in the present paper shows that demonetization had a significant effect on various economic sectors. Especially during November and December 2016, the period affected by demonetization was great. In January 2017 this effect was substantially reduced and in a longer period of time by mid-February 2017. As a result of the demonetization in India, the financial statements of planned business banks are positively changed. The deposit in the banks increased and produced excess liquidity conditions. As well as the sum deposited into this account, the number of accounts opened under the Pradhan Mantri Jan Dhan yogna scheme has greatly increased. An significant effect of demonetization has also been tracked in the use of electronic bank transfers. This analysis is descriptive and data have been collected for the period before and after demonetization.

Index Terms – Demonetization, Banks, Liquidity, Digitalization, PMJDY, Currency in circulation.

INTRODUCTION

Indian Prime Minister Narendra Modi announced on 8 November 2016 that the notes Rs. 500 (\$7.5) and Rs. 1.000 (\$15) were demonetized with a stated tri-flection objective of combatting corruption, eliminating black cash and counter-laundering by night of 86 per cent (by value) of cash in circulation. 3 New notes in the monetary system were added, in place of the current Rs.500s and Rs.1000s, and the old Rs.500s were replaced with a new Rs.500s, Rs.1000s were stopped, and a new Rs.2000series was then introduced. 4 In order to swap all old bills for new bills on the banks the Government imposed a deadline of 31 December 2016 and put various restrictions to withdraw money from banks and ATMs in that move. 5 In the three to four months following the announcement, there has been a significant currency shortage⁶, whereby banks are unable to meet their customers' monetary demand. The RBI has fallen short of printing new notes on a timely basis for deliveries to banks which have left empty ATMs and crowded banks at 7. The present study , led by IFMR LEAD, seeks to contribute to the ongoing debate on the short and long-term effects, owing to its socio-economic, demographic and occupational profiles, of demonetization on low-income households, which are officially banked. The goal of this study is to evaluate trends and patterns of post demonetization financial and economic behaviour, and to understand the difference between the adoption and usage of digital financial services before and after demonetization. We also aim to explain how demonetization has had a significant effect on their daily lives in terms of loss of labor, inability to reimburse loans and savings. Lastly, we seek to gain insights into the view of people that demonetization is beneficial and fit for policy and their shift in currency. We conducted three rounds of regular intervals over a 9-month period to assess the changing patterns and trends of financial behavior before and after the demonization in order to assess both short and long-term effects.

Six months after demonetization, evidence from many studies in India shows that Indian economies are suffering greatly as a result of over-dependence on cash among the poorest and financially excluded. Similarly, for the first two months that have been following demonetization, the informal economy comprising 82 percent of total employment and mainly dealing in cash has been reported to be seriously affected by the liquidity crunch. 10 The Government encountered unexpected turmoil across various sectors of the economy¹¹ and the private sector projected a deceleration of the GDP rate of growth ¹² The Government stressed its decision to demonetize currency on a long-term basis, pave the way for the digital economy¹³ and give Indians the requisite impetus to implement digital financing methods. 10

The following is the organization of this report. The literature survey in Section II. Section III describes the Significance of using technology in HRM. Section IV describes about the Research sketch, section V describes the Scope of IT in HRM. Section VI describes the Opportunities for implementing IT with HR function. Section VII describes the Challenges associated with HR technology and the work is concluded in section VIII.

II. RELATED WORK

Mr Brijesh Singh and Mr N. Bobitha Thimmaiah (January 2017) analysed the effects of demonetization as 'going or missing.' The analysis was conducted using the secondary method of data, namely papers. The research had tried to clarify by referring to Woodford (2003) the idea of the cashless economy. You can pay by any bank card or transfers no matter how much money you get in your pocket. In this study, the consequences of demonetization were revealed in areas like cash rush, finance, transport, agriculture, banking, industry, income tax, trains etc.

Sweta Singhal (2017) has performed demonetization research and e-banking research in India. It was a case study to explore the knowledge of rural Indians of e-banking facilities and the increase following demonetization. With the ANNOVA test, 100 samples showed that the level of awareness of the rural people and the use level of e-banking are very different from the level of urban people. She also believed that the study would help banks improve their e-banking facilities.

The payment banks and demonisation research by Chabi Gupta (December 2016). First she explained about the Indian banking sector to explain her research point. Payment banks are generally RBI-created niche banking, payment banks are mainly offering low-income households, small businesses, etc. with little saving and payment services. Then she explained how demonetization moves had an overall impact. A number of banks, such as HDFC, ICICI and AXIS, are looking to initiate a lower debit / credit card contact. The customers will be able to use the card without swipe.

This work was conducted on the effect of demonetization in the banking sector by Abhani Dhara K(2017). The research deals with the banking sectors of Veraval City in particular. In total 13 banks of the veraval city had been selected for the study. He chose the standardized questioner for further analysis, which was completed by bank staff. Through analyzing the information obtained, almost 55% of employees agreed with the positive impact of demonetization. Save a / c and current accounts were greatly affected. Seeing all the above areas, he concluded that in comparison with two previous demonetization in 2016, demonetization was more efficient and successful.

Demonetisation: a step towards changed India: demonetisation, while creating positive and some negative impacts in various fields, would undoubtedly have a positive effect in controlling black money and fake money in the long term.

III. INFLUENCES OF DEMONETIZATION

- **Increase in Deposits:** The demonetization of deposits at banks has increased. Uncompared money flowed to the banks as Rs.500 and Rs.1000 and deposit sizes were increased. It helped banks to collect and increase deposits.

- **Demand for Government Bonds:** With the sharp increase of deposits after demonetization, the banks began to lend these excess deposits under the reverse repo options to RBI. In particular, PSU banks invested excess funds in state bonds.

Opening of Jan Dhan Account

The Pradhan Mantri Jan Dhan Yojana (PMJDY), of which (80%) were with public-sector banks, opened 23.3 million new accounts after their demonization. PMJDY accounts deposits have dramatically risen since demonetisation.

Push to Digital Banking

A cash free economy does not exist in the cash flow of a single economy, and all transactions must be carried out via electronic channels, e.g. direct debit, credit and debit cards, electronic clearing, immediate payment systems such as IMPS, the national electronic money transfer system, and the real-time gross payment system.

III. RESEARCH METHODOLOGY

This analysis is focused on primary and secondary sources of data, which are collected using modular questionnaire from the employees of various banks of Raipur area and the required secondary data were sourced from various reports, books, periodicals, journals and websites. This paper is empirical in nature and is regarding post effects of demonetization. The research seeks to investigate the impact of demonetization in ordinary banking transactions.

RESEARCH DESIGN:

Research design states the overall strategy adopted by the researcher where by overall components of the study are set out in the logical way. That effectively presents the problem of the study moreover it constitute the collection, measurement and analysis of the data in the systematic way. For the study of impact of demonetization I had used descriptive research method. Motive behind choosing this tool is that this method is useful in describing the data that analyzed through study. Moreover descriptive study can provide you the overall knowledge about the specific sector in an analytical way.

SAMPLE DESIGN:

If researcher is going through the total population for the research then it may take the huge amount of time. So it is convenient to take the sample from the population. Sampling is the tool of selecting the sample from population. Research done over here is by using the Convenient Sampling Method. For the research purpose I had focused over Raipur city as the area of the sampling.

DATA COLLECTION:

Data collection is the most important part of any of the research. Generally primary as well as secondary ways are available for data collection. The primary collection of data was used for this analysis. I've been using this questionnaire form. Wherein I personally approached the respondents with the view to gather the information from them.

SAMPLING TECHNIQUE:

A rough draft, taking into account the aim of the research, was originally prepared. In order to know the precision of the questionnaire, a pilot study was done. Just after some significant changes were made did the final questionnaire arrive. This led to a relaxed sampling of the test sample.

SAMPLING UNIT:

The survey units are the interviewees who are asked to fill out questions. The sample units are the respondents that submit the surveys. These are employees from 12 Raipur banks selected.

SAMPLE SIZE :

The study's overall sample size is 50.

HYPOTHESIS

Responses

H0-There are good effects on the banking sector of demonetization.

H1-It has a detrimental impact on the banking sector of demonetization.

IV. DATA ANALYSIS AND INTERPRETATION

1. Do you believe demonetisation has led to reducing black currency in India, corruption and terrorism?

| Option | Responses | In % |
|------------|-----------|------|
| Not at all | 10 | 20 |
| Somewhat | 20 | 40 |
| Yes | 20 | 40 |

By answering this question we will understand that the answers of two different choices, i.e. a little bit and yes, have similar responses, implying that people agree that demonetization has led in a certain way to the reductions of Black money, corruption and fear. This move is helpful, as it has helped to reduce to some extent the funds for Indian black money, corruption and terror. This also contributed to the digital economy of India by reducing cash use. In addition, the use of plastic cards has increased. This reform did not succeed any more, as Black wealth holders, tax evaders, and the corrupt officials would not keep their money in their pockets, for now they are investing it in the market was their old idea. It may also be presumed that the change from government does not yield desired results and gives the average human being unpleasant results.

2. Have you heard of the drawbacks of demonetization

| Option | Responses | In % |
|------------|-----------|------|
| Not at all | 15 | 30 |
| Somewhat | 15 | 30 |
| Yes | 20 | 40 |

By addressing this question we can understand why people feel why demonetization has caused them discomfort. For hours and even days, people had to stand in long queues. Among all those affected by the demonization bank employees are most stressed because of the rising workload. If this could be calculated, we can see an unprecedented degree of stress in banking workers across India because they have to serve an incessant horde of terrified customers. The banking workers have been forced to work all day long due to demonetization and their lunch breaks are missing. They worked even all night long. Some of them suffered major health issues and were worried a lot.

3. Why does it affect the use of online banking through demonetization?

| Option | Responses | In % |
|-----------|-----------|------|
| Increased | 40 | 80 |
| Decreased | 5 | 10 |
| No impact | 5 | 10 |

This question helps us to understand that the use of online banking has increased after demonetization. Citizens in India have always relied on currency, but less citizens use online banking and paying for their daily post-demonetisation expenses. And we may assume that the use of online banking has increased since demonetization.

4. What is the effect on the use of plastic cards of demonetization?

| Option | Responses | In % |
|-----------|-----------|------|
| Increased | 50 | 100 |
| Decreased | 0 | 0 |
| No impact | 0 | 0 |

By answering this question, we can understand that everybody feels that with demonetization, the use of plastic card is increased. Because of the reduction in cash supply due to demonetization, most people have used online banking, plastic cards, mobile banking, etc.

5. What were consequences of demonetization for ATM's functioning?

| Option | Responses | In % |
|-----------|-----------|------|
| Increased | 40 | 80 |
| Decreased | 10 | 20 |
| No impact | 0 | 0 |

If we answer this question, we can see that the activities of the ATM have increased following demonetization. The government has put in a position cap after demonization on withdrawal of cash, which means consumers visit the ATM many times to collect their cash in order to fulfill their cash requirement.

6. Do you think Demonetization is having a positive impact over banking sector?

| Option | Responses | In % |
|------------|-----------|------|
| Not at all | 0 | 0 |
| Somewhat | 10 | 20 |
| Yes | 40 | 80 |

The answers to this question clearly show that for bank employees who have filled out this questionnaire, the effect of demonetization is on the banking sector. The result shows that after demonetization the level of use of online banking is higher than before demonetization.

FINDINGS

Demonetization contributed to the reduction in Indian black cash, corruption and terrorism, because the two options are equally responsive: somehow and yes. People feel the downside of demonetization because as many people as possible opt for the option yes. This includes bank employees also as their workload increased and they had to work overtime. After demonetization, the use of online banking increased because of the decline in monetary circulation and long queues outside the ATM and banking branches.

Thanks to the lower movement of money on the market the use of plastic cards increased. ATM has increased because the ATM is used progressively to withdraw cash, and several times because of its withdrawal cap, it fulfils the cash requirement. 80% of the people believe that demonetization has a positive effect on banking.

EFFECTS OF DEMONETIZATION ON BANK OPERATIONS

The problem already faced by banks is further challenged by demonetization. Short and long-term effects also occurred. In the short term, it distracted the banks, strained bank transactions and helped them pool their deposits at no long-term expense.

Four demonetization effects on banks are here.

Increase in Deposits: Deposits in banks have been boosted by demonetization. Uncounted funds were transferred to banks in the form of Rs.500 and Rs.1000 and the volume of deposits increased. It helped the banks attract and increase deposits.

Fall in cost of Funds: In recent months, deposits were boosted. This resulted in most of the deposits being kept by the banks as cash deposits. PSU banks have a lion's share (over 70 percent) and the highest deposit gains resulting in lower funds costs.

Demand for Government Bonds: After a sharp rise in deposits post demonetisation, the banks began lending these excess deposits to RBI under the options of a reverse repo. In particular, excess funds were invested in government bonds by the PSU banks. The bond return would potentially raise bank revenues by 15 to 20 percent.

Sagginess in Lending: Even after demonetization and its effect on production of government deposits, banks' lending growth is considerably lower. The banks wanted to lend the money to poor people by their interest rates, but have dropped in recent months.

RESULTS OF POST DEMONETIZATION ON BANK OPERATIONS

Effects on banking operations are both positive and negative after demonetization. The liquidity, competitiveness and employees of the banks were affected by both. Positive demonetization results are as follows.

Free flow of deposits: After demonetization, banks earned large deposits that can be invested in enhancing liquidity and profitability.

Improved digital Interface: Improving automated instruments and banking facilities avoided cash losses due to numerous reasons including theft, dacoits and abuses.

People's surplus at Bank: Cash, when held in a bank, is an idle asset that yields no profit. Therefore, demonetization allowed people in a bank hold their excess cash for a kind of revenue.

Increased number of Customers: The public was influenced by demonetization in the running of banking transactions. It also took a group of non-income persons to the bank and to an account. The number of bank account holders has increased while the corpus of deposits has been increasing.

Likewise, demonetization brought other operational problems to banks. It disrupts the bank's staff, operating costs and profits. Those are negative effects of demonetization.

Cash Reserve Requirement: The consequence that banks received no interest on Rs. 3 Lakh crore of deposits for almost a two-week period is 100 per cent CRR on incremental deposits.

Waived off ATM Charges: During the prohibited bill exchange, ATM fees were suspended, and each transaction was avoided by banks with a loss of Rs. 20.

Waived off Merchant Discount Rate: Banks charged 1% off the cost of using merchants to purchase a card.

Non Selling of Loans: Banks relied and didn't sell credit products on the money markets. Banks were therefore called upon to curtail their loans.

1. Sales of small enterprises and their impact on NPAs reduced: Many SMEs saw their profits fall by between 50% and 80% during demonetization and were able to default on their payments to the banks. The banks treated it as an NPA, impacting their amount of banks.
2. Stress on Employees: Overtime and pressure on employees of the bank was applied. They were unhappy and they kept their life style unbalanced. Few reports of suicides by workers due to work pressure have been reported.

VI. SUGGESTIONS

1. Education all about email and debit and credit card use. Education all. Each office, agency, company, etc., be it private or government must take appropriate classes on the use of the e-wallet and cards. At each and every corner, camps may be conducted at village and city levels. Social workers, members of panchayat, members of the municipal society. The use of digital media to purchase goods on the market should be clarified by & personnel.
2. Give any businessman with banks to swipe the computer as soon as possible. Tragedy is that many banks do not yet provide their customers with the facility to provide swipe machinery. The authorities concerned shall take immediate measures to equip banks with these devices to distribute them to traders. Traders should also be adequately equipped for their use.

VIII. CONCLUSION

This article is basically empirical in nature and is regarding post effects of demonetization. Demonetization is a means of combating corruption and black money by central government. It shaped and turned the entire corner of the economy on the same course. Banks are major demonetized institutions. Although it greatly affected bank transactions, the economy's growth and development through financial institutions such as banks was helped. After analyzing the data collected in this report, we can conclude that demonetization has led to the reduction of Black money, bribery and terror in Indian countries. People faced drawbacks and are not pleased with demonetization. This did not benefit the employees of the bank, as their workload also increased. The demonetization of the plastic cards , online banking, new accounts opening, the number of customers in the branches, and the ATM application led to an increase. We may also conclude that the demonization of banking sector has had a positive effect.

REFERENCES

- 1) Mr Brijesh Singh and Dr. N. Babitha Thimmaiah (January 2017) : *Demonetization-Win or Lost. International journal of management, social science and technology.* ISSN-2320-2339, 2320-2793
- 2) Dr. Sweta Singhal (2017). *Demonetization and EBanking in India. International Journal of New Technology and Research (IJNTR).* ISSN: 2454-4116. Volume3. Issue1. January 2017. Pp 20-25.
- 3) Chabi Gupta (December 2016). *Payment banks and Demonetization. International Journal of Research and Science.* ISSN: 2454-2024(online)
- 4) Abhani Dhara K (2017), "A Study On Impact Of Demonetization Over The Banking Sector With Reference To Veraval City", *International Journal of Marketing & Financial Management*, ISSN: 2348 – 3954 (online) ISSN: 2349 – 2546 (print), Volume 5,(Issue 3, Mar-2017), pp 21-26,
- 5) Vedashree Mali in *International Journal of Commerce and Management Research (Volume 2; Issue 12; December 2016; Page No. 35-36)*
- 6) Ms. Sapna Kumari and Ms. Nida Zaidi (2017) *Impact Of Demonetization on the Banking Sector With Reference to the Meerut Region Vol-3 Issue-4 , IJARIII-ISSN (O)-2395-4396*
- 7) Dr. M. Prabhu, Girish V, Mamatha R, "Demonetization and its effect on Banking Sector" *IOSR Journal of Business and Management (IOSRJBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668 (April, 2017) PP 20-22*
- 8) Office of the Development Commissioner (2016). *Demonetization and Promoting use of digital payment system.*
- 9) *Economic Consequences of demonetization of Rs. 500 and Rs. 1000 notes. (2016). Care Ratings: Professional Risk Opinion.*
- 10) *Suggestions to tackle demonetization - CAclubindia [https:// www.caclubindia.com](https://www.caclubindia.com) , Articles , Income Tax*