

IMPACT OF DEMONETIZATION ON THE BANKING SECTOR

WITH REFERENCE TO THE MEERUT REGION

AUTHOR 1: MS. SAPNA KUMARI

ASSISTANT PROFESSOR

ACHARYA VISHNU GUPT SUBHARTI INSTITUTE OF MANAGEMENT AND COMMERCE

AUTHOR 2: Ms. NIDA ZAIDI

RESEARCH SCHOLAR

ACHARYA VISHNU GUPT SUBHARTI INSTITUTE OF MANAGEMENT AND COMMERCE

1. ABSTRACT

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 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 Rs1000. 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.

In this paper I want to discuss the impact of demonetization on the banking sector.

2. INTRODUCTION

2.1 WHAT IS DEMONETIZATION

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender.

. The currency was demonetized first time in 1946 and second time in 1978. On Nov. 2016 the currency is demonetized third time by the present Modi government. This is the bold step taken by the govt. for the betterment of the economy and country. For example, gold was

demonetized in this way when it ceased to be used as an everyday currency. The Indian rupee (INR) is the official currency of India. The recent sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data.

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

2.2 REASONS FOR DEMONETIZATION IN INDIA

In a single master stroke, the government has attempted to tackle all three malaise's plaguing the economy, a parallel economy, counterfeit currency and terror financing. The main reasons for demonetization are:

1. To tackle black money in the economy.
2. To lower the cash circulation in the country this “is directly related to corruption in our country,
3. To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism

2.3 WHAT IS BANKING?

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. However, with the passage of time, the activities covered by banking business have widened and now various other services are also offered by banks. The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country / world.

It is well said that banking plays a silent, yet crucial part in our day-to-day lives. The banks perform financial intermediation by pooling savings and channelizing them into investments through maturity and risk transformations, thereby keeping the economy's growth engine revving.

3. OBJECTIVES OF STUDY

To determine:

1. The Impact of demonetization on the banking Sector.
2. The Impact of demonetization on Bank Employees.

4. LITERATURE REVIEW

- Vedashree Mali in International Journal of Commerce and Management Research (Volume 2; Issue 12; December 2016; Page No. 35-36) on **Demonetization: A step towards modified India:** Demonetization though it has created some positive and

some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

- Care Ratings (Professional Risk opinion) on November 09, 2016 on **Economic consequences of demonetization of 500 and 1000 Rupee Notes** : In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run. Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run, short term fall in real estate prices might benefit middle class citizens, and this move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient.
- Dr.S.M.Jayasudha and Dr. M.Thangavel in IOSR Journal Of Humanities And Social Science (IOSR-JHSS) [e-ISSN: 2279-0837, p-ISSN: 2279-0845. PP 18-20] on **An Empirical Study on the Major Problems Faced Due To Demonetization by the Small Retailers in Erode City** : Thus it is clear from the research that due to demonetization most of the small retailers have faced many difficulties while dealing with banks. However, this is not a permanent condition. The economy is expected to recover soon after the circulation of new currency notes.
- Mrs.S.Sangeetha in IOSR Journal Of Humanities And Social Science (IOSR-JHSS)[e-ISSN: 2279-0837, p-ISSN: 2279-0845. PP 29-30] **Benefits of Demonetization: Rich and Poor** : The benefits are much dominating and it will be in the long term interest of our country. Government need to take all the necessary steps so as to ensure that there will be a turn into chaos if government takes no necessary steps to circulate in our economy. We congratulate the entire government and those hidden brains of our democracy that brought this decision.

5. RESEARCH METHODOLOGY

- **Type of research:** Exploratory research: It is an examination into a subject in an attempt to gain further insight. With ER, a researcher starts with a general idea and uses research as a tool to identify issues that could be the focus of future research.
- **Population:** Meerut is a city in the Indian state of Uttar Pradesh. Meerut district covers 2,522 km² (974 sq mi)
- **Sample size:** 30
- **Data collection instrument:** Data can be classified into two types:
 - Primary data: Primary data is the original data collected by researcher himself for a specific purpose.

Primary Data Collection Methods:

- ✓ Interviews
- ✓ Questionnaires and Surveys
- ✓ Observations
- ✓ Focus group Interviews
- ✓ Ethnographies, Oral History, and Case Studies

- Secondary data: Secondary data is not original it is collected by somebody else for some other purpose.

Secondary Data Collection Methods

- ✓ Documents

- ✓ Notes
- ✓ Letters
- ✓ Internet

I have used both primary and secondary data

6. HYPOTHESIS

- **H0 - There is Positive impact of demonetization on the banking sector.**
- **H1 - There is Negative impact of demonetization on the banking sector.**

7. DATA ANALYSIS AND INTERPRETATION

1. **Do you think that Demonetization helped reduce black money, corruption and terrorism in India?**

RESPONSES

OPTION	RESPONSES	%
Not at all	6	20
Somewhat	12	40
Yes	12	40

PIE CHART



DATA INTERPRETATION

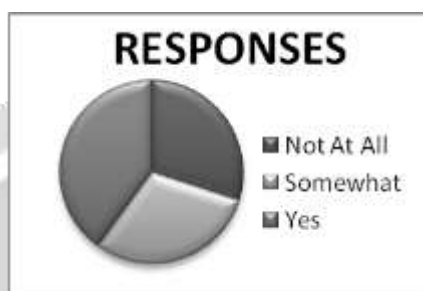
Through the responses from this question we can interpret that the responses for two options i.e. somewhat and yes have equal percentage of answers which means that people believe that Demonetization has helped reduce black money, corruption and terrorism to some extent. This move is helpful because it has helped reduce black money, corruption and terror funding in India to some extent. It also helped in making India a digital economy by reducing the usage of cash. Usage of plastic cards has also increased to some extent. This move has not been more helpful because the Black money holders, tax evaders and corrupt officials may not necessarily keep their money in bags at home as it was the old concept now they invest this money in the market. Hence it can be said that this move by the government has not produced desired results and has cause inconvenience to common man.

2. Did you mind the inconvenience faced through Demonetization?

RESPONSES

OPTION	RESPONSES	%
Not at all	9	30
Somewhat	9	30
Yes	12	40

PIE CHART



DATA INTERPRETATION

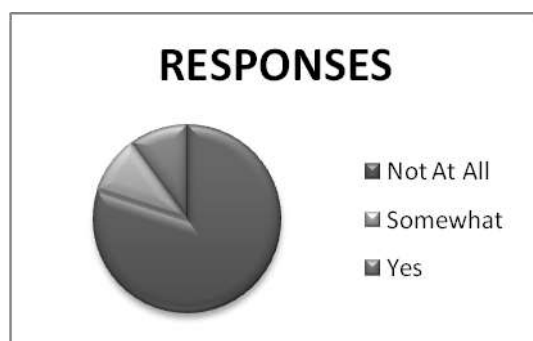
Through the responses from this question we can interpret that the people do believe that demonetization has caused inconvenience to them. There were 47 deaths connected to demonetisation. People were forced to stand in long queues for hours and even days. This move by the government has caused major inconvenience to the daily wage earners as they have to leave their jobs just to stand in these long queues to access their own money. Some of these people did not eat anything for days. Weddings were cancelled due to the non availability of cash. Small businesses suffered huge losses. Farmers were not able to pay for their farming expenses and take loans. Patients were denied treatments as the doctors were not ready to accept the old currency. Sales of the shopkeepers also suffered due to Demonetization.

2. Do you think that Demonetization helped the bank employees?

RESPONSES

OPTION	RESPONSES	%
Not at all	24	80
Somewhat	3	10
Yes	3	10

PIE CHART



DATA INTERPRETATION

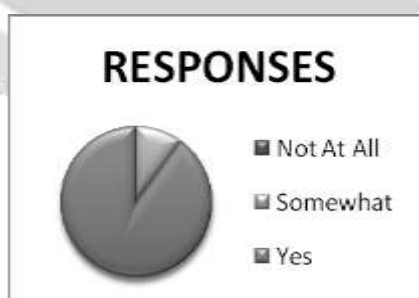
Through the responses of this question we can interpret that through this move the bank employees have not been benefited at all. Due to demonetization the bank employees were made to work throughout the day, missing their lunch breaks. They even worked throughout the nights. They were stressed a lot and some of them even suffered serious health problems.

4. Do you think there was an impact of Demonetization on your workload?

RESPONSES

OPTION	RESPONSES	%
Not at all	0	0
Somewhat	3	10
Yes	27	90

PIE CHART



DATA INTERPRETATION

Most of the people have responded yes in this case as they believe that demonetization has an impact on their workload. Out of all the people affected through demonetization bank employees are the most stressed due to the increase in their workload, if it could be measured we could see alarming level of stress in the bank employees all over India because they have

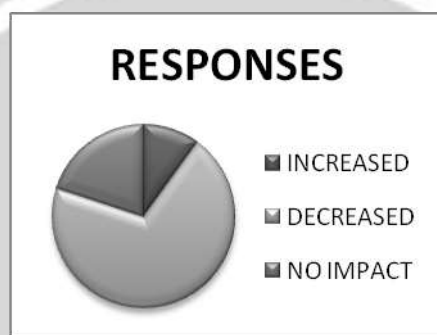
to serve a relentless horde of panicked customers, bank employees are facing what is probably the most challenging period of crisis in their careers.

5. What is the impact of Demonetization on cash flow in banks?

RESPONSES

OPTION	RESPONSES	%
Increased	3	10
Decreased	21	70
No Impact	6	20

PIE CHART



DATA INTERPRETATION

Through the responses of this question we can see that the cash flow in banks has reduced we believe that it has happened because the people are now making cashless transactions and the RBI has not issued enough currency to match the previous flow in cash.

6. What is the impact of Demonetization on interest rate?

RESPONSES

OPTION	RESPONSES	%
Increased	0	0
Decreased	21	70
No Impact	9	30

PIE CHART



DATA INTERPRETATION

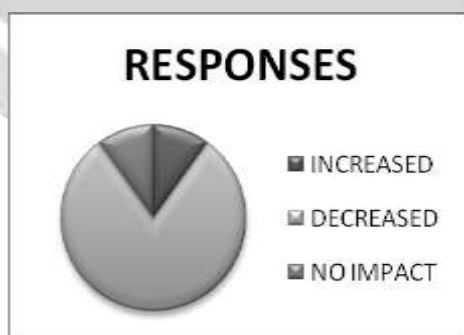
Through the responses of this question we can see that the Interest Rate has Decreased post demonetization. SBI Chairman Arundhati Bhattacharya said that all the rates will fall post demonetization. There are high inflows of deposits in banks but the demand of credit has decreased. Thus resulting in the fall of rates but after a period. Though the fall in the rates is not large but it still helps.

7. What is the Impact of demonetization on money lending?

RESPONSES

OPTION	RESPONSES	%
Increased	3	10
Decreased	24	80
No Impact	3	10

PIE CHART



DATA INTERPRETATION

By analyzing the responses of this question we have noticed that money lending has decreased post Demonetization. Demonetization has lead to cash shortage which has dented the demand for loans. Banks don't have resources to provide these loans. After demonetization banks focused on exchanging currency and were not providing loans. All the

bank staff are busy in exchanging currency they have no time for providing loans. **Arundhati Bhattacharya, Chairperson, SBI** said that all rates will fall. The bank has seen high inflow of deposits but the demand of credit has decreased.

8. What is the impact of Demonetization on the use of online banking?

RESPONSES

OPTION	RESPONSES	%
Increased	24	80
Decreased	3	10
No Impact	3	10

PIE CHART



DATA INTERPRETATION

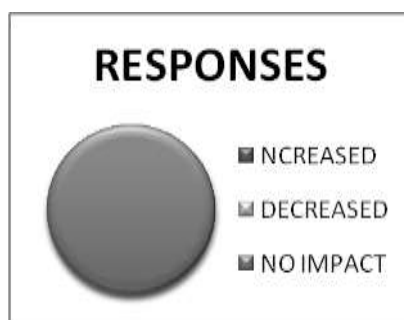
Through this question we can understand that the use of online banking has increased after demonetization. In India people were mostly dependent on cash transactions but after demonetization when the supply of money was less people are resorting to the use of online banking and online payments to meet their daily expenses. Thus we can say that the use of online banking has increased after demonetization.

9. What is the impact of Demonetization on the use of plastic cards?

RESPONSES

OPTION	RESPONSES	%
Increased	30	100
Decreased	0	0
No Impact	0	0

PIE CHART



DATA INTERPRETATION

Through the responses of this question we can interpret that all of the people believe that demonetization has increased the use of plastic cards. Due to the decrease in the supply of cash because of demonetization most of the people have resorted to the use of online banking, plastic cards, mobile banking, etc.

10. What is the impact of Demonetization on opening of new accounts?

RESPONSES

OPTION	RESPONSES	%
Increased	24	80
Decreased	3	10
No Impact	3	10

PIE CHART



DATA INTERPRETATION

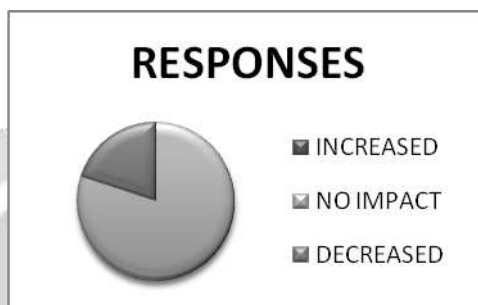
Through the responses of this question we can see that people believe that new accounts are opening post demonetization. For depositing money in the banks account after demonetization new accounts are opened.

11. What is the Impact of demonetization on the functioning of ATM?

RESPONSES

OPTION	RESPONSES	%
Increased	24	80
Decreased	6	20
No Impact	0	0

PIE CHART



DATA INTERPRETATION

Through the responses of this question we can clearly see that the functioning of ATM has increased after demonetization. After demonetization the government has imposed a limit to the withdrawal of cash because of which the customers are visiting the ATM n number of times to withdraw the cash so as to meet their cash requirement.

12. What is the impact of Demonetization on the no of customers in branches?

RESPONSES

OPTION	RESPONSES	%
Increased	27	90
Decreased	3	10
No Impact	0	0

PIE CHART



DATA INTERPRETATION

The responses of this question tell us that the number of customers in the branches have increased after demonetization. Whether it is to deposit the old currency, open new accounts or to collect the new currency all the branches and ATMs are flooded with customers.

13. Do you think that there was an impact of Demonetization on banking sector?

RESPONSES

OPTION	RESPONSES	%
Not At All	0	0
Somewhat	9	30
Yes	21	70

PIE CHART



DATA INTERPRETATION

Through the responses of this question we can clearly see that those bank employees who have filled this questionnaire do believe that there is an impact of Demonetization on the banking sector.

8 FINDINGS

This research was conducted to find the “**IMPACT OF DEMONETIZATION ON THE BANKING SECTOR**”, at the end of this research we can say that Demonetization does have an impact on the banking sector. Through this study we got an Idea about the views of bank employees towards Demonetization. After completing this study we can say that:

- ✓ Demonetization helped reduce black money, corruption and terrorism in India because there are equal responses for the two options i.e. somewhat and yes.
- ✓ People mind the inconvenience faced through demonetization as maximum number of people have opted for the option yes.
- ✓ Demonetization has not at all helped the bank employees.
- ✓ There was an impact of demonetization on the workload of Bank Employees. We all know that the workload of the bank employees increased a lot. They had to work overtime.

- ✓ The cash flow in banks decreased after demonetization. There was not much currency in circulation after demonetization thus the government had restricted the withdrawal amount.
- ✓ Interest rates decreased after demonetization. The interest rates were decreased to increase lending of money.
- ✓ Money lending decreased after demonetization thus the interest rates were decreased to increase the money lending.
- ✓ The use of online banking increased after demonetization due to decrease in the circulation of currency and long queues outside ATM and bank branches people started using online banking.
- ✓ The use of Plastic cards has increased due to less circulation of money in market
- ✓ The number of new accounts have increased because people have to deposit their money in the bank account to have new currency
- ✓ The functioning of ATM has increased because more and more people are using the ATM to withdraw their cash and they are using it n number of times to fulfil their cash requirement because of the withdrawal limit.
- ✓ The numbers of customers in the branches have increased. We have seen long queues of people outside bank branches and ATM after this announcement.
- ✓ 70% of the people believe that there was an impact of demonetization on the banking sector.

9 SUGGESTIONS

- The new 500 and 2000 banknotes should have been printed and kept ready for distribution.
- Rs 100 banknotes should have been increased in circulation.
- The new notes should have been of the same weight, thickness and size as the old ones.
- Permission should have been granted to cooperative banks to except deposits and to exchange notes.
- To solve the problem of black money strong administrative and tax reforms should have been implemented.
- For eliminating fake currency the government should have announced a time period to exchange the currency (say 3 months).
- Promote the use of cashless transactions.

10 CONCLUSION

At the end of this research we can conclude that Demonetization has helped reduce black money, bribery and terrorism in India. People have faced inconvenience because of demonetization and they are not happy with it. It has not helped the bank employees as their workload has also increased because of it. The cash flow in bank has decreased followed by the decrease in Interest Rate and money lending. Demonetization has led to the increase in the use of plastic cards, online Banking, opening of new accounts, number of customers in the branches and the use of ATM.

REFERENCES

- Demonetization and its Impacts in India <https://edupediapublications.org/journals>
- www.investopedia.com/terms/d/demonetization.asp
- History of demonetization in India <https://www.quora.com/what-is-the-history-of-demonetisation-indian-currency>
- https://en.wikipedia.org/wiki/2016-Indian_banknote_demonetisation
- Recent Demonetisation in India www.investopedia.com
- Benefits of Demonetisation in India <http://www.quora.com/what-is-the-reason-behind-recent-currency-demonetisation>
- Benefits of Demonetisation in India timesofindia.indiatimes.com/positive-benefits-of-demonetization-on-our-econom

