

A LITERATURE REVIEW ON DEMONETISATION EFFECT ON INDIAN BANKING SECTOR

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Abstract:

On 8 November 2016, the Government of India announced the demonetization of all ₹500 and ₹ 1,000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes. The Prime minister of India Narendra Modi claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism. Finance Minister Nirmala Sitharaman said the notes in circulation as on November 4, 2016 were worth Rs 17, 74,187 crore which have increased to Rs 22, 35,648 crore as on December 2, 2019. The objective of this study is to examine the Demonetisation effect on Indian banking sector with increased account holders, positive effect on returns, E- banking facilities, liquidity, and impact on GDP growth.

Key words: Bank Notes, GDP, Economy, deposit.

Introduction

On 8 November 2016, the Government of India announced the demonetization of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes. The Prime minister of India Narendra Modi claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism.

Recent developments

Since October 2014 till October 2016 circulation rates increased at an average rate of 14.51 per cent. Notes in Circulation would have increased to Rs25,40,253 crore as on December 2, 2019. Demonetisation followed by digitalisation and reduction of cash use in informal economy has succeeded in reducing NIC by as much as Rs 3,04,605 crore. Government had taken the decision on banned Currencies Rs1000 and Rs 500 denomination with aim to check black money and to eliminate fake Indian.

Counterfeit Notes: RBI data on counterfeit notes were detected in the banking system during 2016-17, 5, 22,783 in 2017-18 and 3,17,389 counterfeit notes in 2018-19. This resulted in curbing the counterfeit currency.

Digital Transaction There is an also increased digital transaction since last few years. Total number of transactions increased from 2,071 crore in 2017-18 to 3,134 crore in 2018-19.

The government has made budgetary provision of Rs 70,000 crore for recapitalisation of public sector banks in 2019-20 and has so far infused Rs 60,314 crore.

Reasons for Demonetization in India

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The main reasons for demonetization are:

1. To fight against black money in the economy.
2. To reduce the cash circulation in the country this is directly related to corruption in our country.
3. To control fake currency or funds have been used by terror groups for terrorism activities.

Affect of Demonetisation various sectors of economy:

Demonetisation changed across the Indian economy. Many sectors had been affected by the sudden change in the economic system. It is predicted that this surgical strike on black money will also increase cashless transactions in the country economy system and untie all knots in tax collection. The sectors in India were majorly impacted by Demonetization like Agriculture, Real Estate, Construction, Manufacturing, Financial, Aviation, Tourism and Hospitality, Telecom, Healthcare and Automobile. The most severely affected sectors like, Financial and Real Estate, Construction, Tourism and Hospitality. On the other hand, rural households and elder citizens have been worst hit due to the sudden monetary reform. The decisions to scrap all Rs.1000 and Rs.500 notes have made it to headlines all over the world, attracting both positive and negative comments.

Literature Review

Sweta (2017) carried out research on Demonetization and E Banking in India. This paper has highlighted about the awareness system of E – banking facilities in rural sectors and how it's increased after demonetisation. The research had a sample size of 100 was used with ANNOVA test to show that rural people differ much with urban people in their awareness level as well as usage level of e-banking. It was found that urban male youth have higher awareness and usage of e-banking. Even author felt that the study will also helpful for banks to improve their e-banking facilities.

Padmavathi & B. Bhagavan (2016) , researcher analysed the demonetisation and its effect on banking sector, Study observed Increased deposits, reduction in lending, free flow of deposits , By conducting secondary research through Newspapers, journals, websites and also highlighted with Increased use of digital tools, increased account holders - Liquidity, profitability.

Dr. Bhupal and Dr. Harendra(2017) examined Impact of Demonetisation on the Financial Sector concentrated Demonetisation & Currency demand, Bank deposit growth, Monetary transmission, Savings, digitalisation payments, fake currency notes the study has conducted by Regression, time series, ARMA model, root test, Correlation, ARCH - Increased no. of accounts and deposits, increase in low of equity &debt, NBFC improved collections,

expansion in digital economy - Increased no. of accounts and deposits, increase in low of equity & debt, NBFC improved collections, expansion in digital economy.

Abhani (2017) Author had an research in the area of demonetisation, to study the impact of the demonetization over the banking sector. The study covers the banking sectors of specially veraval city. For the study he had selected total 13 banks of veraval city. The study has been done on the structured questioner, target respondents were bank employees. By analysing the data collected almost 55% employees agreed with the view of positive impact of demonetization. He highlighted there was a highly affected accounts were saving a/c and current account. Almost 51% employees had opinion that customers are changing towards online banking. 52% employees said black money which is in form of cash has been curbed by government. 69% employees were positive about customer behaviour on keeping money at bank.

IFMR lead (2018) conducted the study on Understanding the Impact of Demonetization on Bank. The study examined Short - term effect on consumers, long term effect on digital payments & savings behaviour by using the Primary data. Study conducted the area covered with North, South, East, and West India with quantitative, qualitative analysis. It was found that effect on employment, temporary employment, no change in savings behaviour, lack of knowledge on digital services - employment, savings, and digital services.

Mrs. Suman et al. (2018) had conducted a Study on Impact of Demonetization on E-banking India. A study analysed the impact of demonetization on E-Banking (Pre and Post Demonetization) using variables like NEFT, RTGS and POS & to analyse the growth of E-Banking and bring out the issues and challenges faced in effective utilization of E-Banking services in India. Study based on dummy Regression Analysis, with the findings of Positive effect on financial inclusion, leading to increase E- banking facilities.

Dr. Anand (2018) conducted the survey on Effect of Demonetization on Banking Sector: A comparative study of Public and Private Sector Bank. Paper tried to explore positive and negative impact of demonetisation increased profit margin - AXIS bank, Decreased result - SBI bank.

Nitin (2019) had a study on Impact of Demonetization on Indian Banking Sector. It highlighted financial statements of commercial banks, deposits trends under PMJDY, negative & positive outcomes on demonetisation, GDP ratio through secondary research. It has focused on liquidity concern, profitability, Improved liquidity position, profitability, PMJDY - Digital services, minimisation of NPA, etc.

Dr. Nidhi, & Dr Gupta. (2018) examined A Study on Demonetization of Currency & its impact on banking sector. This paper studies a role of demonetization in banking sector; make a comparative study of cash deposits with banks in FY 2015-16 and 2016-17 & to make a comparative study of total cash deposits in different types of accounts

Anjaly & Dr. Malabika (2018), This paper had examined An Empirical Investigation of the Impact of Demonetization in Indian banking sector with positive impact of demonetization in both public and private listed banks after the and there is no much impact in private banks after the demonetization because many of the banks had impacted the market much before the announcement date in over all the private banks not having an impact of demonetization. This is an event study based on efficient market theory CAPM model, market return model

Ritika (2017) examined the effect of demonetisation on banking sector and its Evidence from the Indian stock market, study examines the impact of demonetisation on the returns of 40 (private and public) listed banks in India. The study has found there was a modest rise in the banking sector returns but with short run. There was a huge expectation in the long run return as well. Study highlighted both private and public sector has different impacts after demonetisation. The public sector banks witnessed an immediate positive effect on the returns.

Dr. M. Prabhu et al (2018) researcher analysed that, Demonetization and its effect on Banking Sector, the study concentrated Influence on bank operations, positive & Negative .results of post demonetisation on bank operations by conducting Secondary research like Newspapers, journals, websites. Study showed the both type of results, Positive results like increase in deposits, low cost of funds, demand for govt bonds. Negative results turned in to CRR, waived off ATM charges bank operations, growth in economy and financial institutions.

Dr. Lilesh(2018) examined Impact of Demonetization on Banking Services “Among All forms of mistake, prophecy are the most gratuitous.” – Study objective is to find out positive and negative impact of post demonetisation on bank operations & to know after effects of it. Study observed that, affected badly to major extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like Banks - Effect on electronic payment system, Positive& Negative impact on banking services, Excess liquidity in banks, Slower credit demand.

Ashish & Mary(2017) examined to evaluate An Empirical Study on Quality of Banks’ Service during the demonetisation in India – highlighting the objective of Reliability, Tangibility, and Responsiveness by using statistical tools like, IBM SPSS, Reliability

analysis and ANOVA are statistical tool, random sampling - study observed negative impact on the some aspects which may lead to poor performance of quality of banks service during demonetization period.

Ms. Sapna & Ms. Nida (2017) observed that, this study on impact of demonetization on the banking sector, by collecting sample size of 30 by using the primary methods such as Interviews, Questionnaires and Surveys Observations, Focus group Interviews, Ethnographies, Oral History, and Case Studies. By this study responses believed that there was an impact of demonetisation on banking sector, resulted with bank employees and helped to reduce black money, bribery and terrorism in India.

Sandeep and Madhu (2017) researchers examined Demonetization 2016 -Its impact on Indian bank employees. The Study showed the Effects of demonetisation on bank employees from different perspective, to study the challenges faced by bank staff during demonetisation, to understand scenario of Indian Banking industry after demonetization. This study observed with, Banks' staff served the public and worked overtime to keep their duties, but felt helpless when they did not receive enough cash to meet amount of money required by the customers.

Bharat (2017) had an study on Impact of Demonetization on NPA Position of Indian Bank. This paper is an attempt to highlight the short term as well as the long term effects of demonetisation on NPA levels of Indian Banks. Both the positive and negative aspects of demonetisation related to NPAs are discussed in this paper. The study showed that, Pre & Post Demonetization impact on the Balance Sheet of RBI.

Objectives of the Study

This study pertains to review of research articles on demonetisation impact on Indian Banking sector. Each research articles highlighted its impact in different way, Such as increased account holders, positive effect on returns, E- banking facilities, liquidity, and impaction GDP growth. Study also includes, tax base and increasing the number of taxpayers; reducing the number of transactions carried out by cash; reducing the finances available to terrorists and integrating the formal and informal economies.

Methodology

The method of literature review adopted for this study is simple random search for related articles on Demonetisation impact on Indian Banking sector. This propagation gave seventeen different articles. But this survey found with the too many similar ideas and findings. After collecting these articles, we summarized their major findings and adoption of methodologies. Since we concentrated only on banking sector changes after demonetisation

in relate to increased account holders, positive effect on returns, E- banking facilities, liquidity, and impact on GDP growth. This paper is an attempt to collecting various ideas and findings in banking sector after demonetisation.

Findings & Conclusion

Demonetisation in India is an excellent step taken by government of India to fight against black money, corruption, tax evasion etc. Overall study observed there is a positive change in respect of digitalisation in banking operations, increased number of deposits i.e. savings & current account, Cash less transactions, etc. Study examined even changes in profitability, liquidity, NPA of Banking sector. Hence the study directed more towards the digitalization and cash less society by which rural area people get educated and motivated. Post demonetization the bank has sufficient liquidity and which they reduce the rate of interest this will benefited by the public. After studying all these articles we can clear that there is Positive impact and negative impact on all these related areas as mentioned. Further research should aim to identify potential use of digital services amongst all groups of people across the country. E- Banking system should facilitate the illiterate people by just adopting simple programmes over the Mobile Phones.

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