

DEMONETIZATION-BANKING SECTOR'S VIEWPOINT

MADHUSHREE SUR

Assistant Professor

St. Hopkins College of Management, Bangalore University

Postal Address: Flat No. 206, Parkland Apartments, 13 Eagle Street, Langford Town,
Bangalore 560025, Karnataka

ABSTRACT: Money as a medium of exchange of goods and services has played a very important role throughout the years. Demonetization is not a new word in the history of world economy. As the word states, Demonetization has been derived from the word De-monetize which is an act of stripping a currency from its legal status. It occurs when due to any reason, there is a change in a national currency. The world economy first experienced Demonetization in the year 1946 followed by 1978. The reason behind the past activities was abolishing of notes of Rs 1000, Rs 5000 and Rs 10000 denominations. Indian economy again faced Demonetization which was initiated by present Prime Minister Mr Narendra Modi on 8th November 2016. The process started from 9th November and ended on 30th December 2016. The major reason behind the surgical implementation of this activity was to eliminate 3 kinds of money from the Indian economy- Black money, Unauthorized money and Fake money. The aftermath consequences of Demonetization which has taken place is in large scale. However the results and the conclusions drawn from different sections of the society are different along with different effects. In the current paper a detailed analysis of the effects of Demonetization on the banking sectors have been taken into consideration.

KEYWORDS: Demonetization, Banking Sector, Digitization, UPI.

Subject under study: Finance

INTRODUCTION

Demonetization is an act by which an old currency is removed from the circulation and a new currency is simultaneously introduced. The 2016 Demonetization has visualized the abolition of Rs 500 & Rs 2000 notes. The main objectives of the current Demonetization are -

- Eliminate the corruption from the economy.
- Reduce the amount of Black money.
- Introduce cashless transactions in the economy.
- Fight terrorism funded by counterfeit notes.

The year 2016 is a very crucial year in various terms to the Indian economy. Before 8th November 2016, there were continuous warnings given by the present Prime Minister regarding the payment of proper income-tax within the due date. Although the world observed the sudden announcement of Demonetization, but reports clearly show that it was a well planned attempt. It was only kept confidential within the Prime Minister, Finance Minister and RBI governor of India. The economical initiative was followed by consequences leading to cash shortages, exchange problems, long queues in the banks and ATMs. However as the gradual developments are taking place, the picture which seemed to be opaque, is getting clearer day by day. A lot of changes has been introduced especially by the banking sector as developmental approaches towards demonetization.

Literature Review: Demonetization has crossed 1 year due to which very few research has been done on this basis. As the objective of the current paper is to draw the effects of demonetization as per the viewpoint of the banking sector community, the data and information provided are solely based on papers linked directly or indirectly to 2016 demonetization. In this respect an overview of demonetization has been given in the work- Rajat Singhal, S.K., Jain, S. and Nagar, R., Demonetization in India. The main objective in this paper was to draw the attention of the nation facing the problems relating to fake currency, funding of terrorism, making of black money and simultaneously reducing of corruption in the economy. A different approach towards demonetization has been introduced by Mali, V., 2016. Demonetization: A step towards modified India. *International Journal of Commerce and Management Research*, 2(12), pp.35-36. In this work, the author has discussed about the life cycle of money in details. However the feedbacks obtained by different parts of the society are quite mixed and hence misleading to an extent. Thus the objective of this paper is to clarify the effects of demonetization based on the banking sector which is one of the major pillars of Indian economy.

RESEARCH METHODOLOGY & MATERIALS

The data collected is based on both Primary data and Secondary data. Although newspapers and journals are providing necessary informations, direct feedbacks of different banking personnels have been a great source of authentic data.

According to TOI January 11 2017, a chain of reactions have been observed in the banking sector as consequences of demonetization. According to author Mr Shyam Sunder, the sudden announcement and implementation of demonetization might appear to be devastating. But the results are to be noticed in the long run. The report focuses on the prediction of a sharp increase

in the bank transactions, accounts & balances simultaneously. Another half of the report stresses on the implementation of new procedures within the banking sector and educate the new customs according to the new changes.

Another significant report by Asiamoney 5th April 2017 describes the economic activity as a strategic shock. As per interview of Mr Rana Kapoor, CEO and MD of Yes Bank- Demonetization is a shock treatment to which India reacts positively sometimes. As per the report, India is facing the problem not due to demonetization but due to too much dependence on cash. In a brief interview to the newspaper, Ex-SBI chairman Arundhati Bhattacharya said that Demonetization will lead ultimately to digitalization which has come in the best way. She has also proudly expressed her thoughts of increase in many works to be introduced to the banking sector. The concept of demonetization has been also wholeheartedly greeted by HDFC bank's Managing Director Aditya Puri.

India country head at Shanghai- based financial consultancy Kapronasia, Mr Anshuman Jaiswal has appreciated the surgical attempt of Mr Modi as it will have huge impact on the corrupt individuals. However his views also include more responsiveness of the Central Bank in the procedure of removing old notes & replacing by the new ones.

In a paper by Oliver Wyman, the author has focused on the opportunities for Indian banks in the post- demonetization phase. In his report, the forthcoming time will view huge opportunities & changes in the banking sector with regards to liquidity, deterioration of asset value and Digitization of payments.

A special report given to Moneylife Digital Team 15 November 2016, by Indian National Bank Employees' Federation (INBEF) has explained the whole process of demonetization as a huge suffering of the bank employees. INBEF has also requested Mr Arun Jaitley, finance minister to resolve the impasse in an uninterrupted way. The reason behind this being is huge workloads on the banking personnels also affecting their personal lives.

However as we say, a coin has two sides. In case of Demonetization, along with excited critiques were also there. As per the same report Deepak Abbot, senior vice president at Paytm as shown a dissenting review. According to him Demonetization could have better results if planned systematically.

Reports say that the following problems are faced during implementation of Demonetization:

1. Non-supply of enough of new Rs 500 notes.
2. Insufficient no.of counters to take the queue.
3. Non-availability of sufficient bank personnels.
4. Female candidates were also asked to stay back to work late night which is another serious problem.
5. Non-availability of scanning machines to detect fake notes.

TABLE 1: Impact on growth rate by lead indicators of Economic activity

Macro Indicators	April-Oct 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017
M3	6.40%	10.40%	8.50%	6.60%	6.40%	6.50%
Currency in Circulation (CIC)	6.9	17.2	-23.6	-39.9	-37.8	-28.2
Bank Credit \$	1.8	8.4	6.2	4.9	4.7	4.5
Indirect tax collection	24.7	23.4	36.5	20.2	13.9	15.3
Service tax collection by centres	25.2	29.6	43.9	13.1	12.1	5.3

Interpretation: The table clearly shows a pre and post demonetization effect from April 2016 to Feb 2017. Post demonetization, there was a sudden fall accompanied by rise in the later half i.e from January 2017 onwards.

CHART 1: Effects on different parameters of Banking Sector Post- Demonetization

Parameters	Change with respect to Pre-demonetization phase
Digital Transactions	400-1000% increase in digitization
Transactions on e-wallets	Increased from 17 lakhs per day to 63 lakhs per day
Value of Transactions	Increased from Rs 52 crore to Rs 191 crore
Rupay card transactions	Increased from Rs 3.85 lakhs per day to Rs 16 per day

From the above chart we get an overall view of the parameters which has gained momentum due to demonetization. The figures are fetched from reports given by different banking personnels while interaction.

TABLE 2: Net Comparison between volume & value of transaction for the month of Jan, Feb and March 2016 & 2017.

Parameters	2016			2017		
	January	February	March	January	February	March
Volume of Transaction(in million)						
Debit Cards	817.51	796.69	844.59	1040.97	944.32	981.28
IMPS	22.48	23.86	25.98	62.42	59.75	67.41
PPIS	65.25	65.37	72	295.8	280.02	342.09
Value of Transactions(in Rs million)						
Debit Cards	2327.99	2259.57	2342.82	2006.48	2286.82	2616.45
IMPS	165.59	169.67	198.73	491.25	482.21	564.68
PPIS	49.09	49.98	59.72	110.01	96.28	106.77

Source: RBI

TABLE 3: Net charges recorded (with respect to 2016)

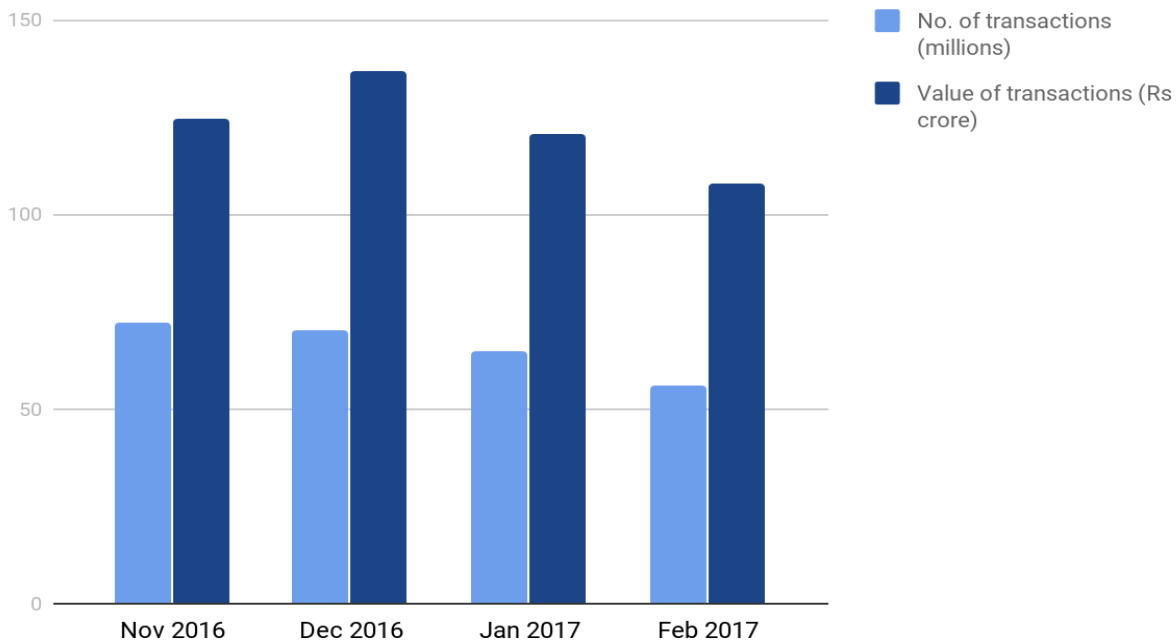
Parameters			
Volume of Transactions(in million)	January 2017	February 2017	March 2017
Debit Cards	27.33%↑	18.53%↑	16.18%↑
IMPS	177.66%↑	150.42%↑	159.46%↑
PPIS	353.33%↑	328.36%↑	375.13%↑
Value of Transactions(in Billion)	January 2017	February 2017	March 2017
Debit Cards	-13.81%↓	1.20%↑	11.67%↑
IMPS	196.66%↑	184.20%↑	184.14%↑
PPIS	124.09%↑	92.64%↑	78.78%↑

Interpretation: The calculations drawn from the Table 2 & 3 clearly indicates a positive movement in the banking sector in terms of volume & value of transactions. Although in 2017, January there is a decrease in the value of transactions, it has been supplemented by a rise in the month of Feb 2017 backed by a 10.47% increase in March 2017. The other models of transactions also show extraordinary performances in the month of January, February, March 2017 in comparison to pre- demonetization phase of the month's discussed before.

An urge made by the Prime minister towards the citizens of India is the introduction of mobile banking. The diagram below provides the details of no. of transactions & value of such transactions from November 2016-Feb 2017.

TABLE 3: No. of Transactions along with their values from Nov 2016-Feb 2017

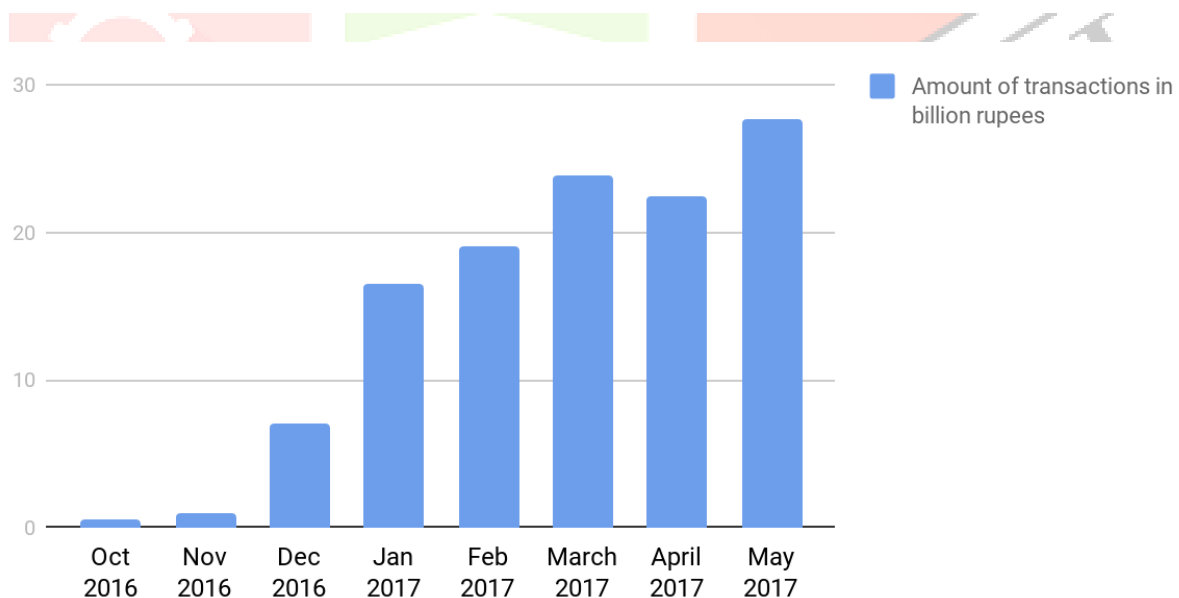
Parameters	November 2016	December 2016	January 2017	Feb 2017
No.of Transactions(in million)	72.3	70.2	64.9	56.2
Value of Transactions(in Rs cr)	124.49	136.59	120.67	108



Interpretation: The chart clearly shows an increase in the no. of transactions through mobile banking during the month of Dec 2016. However it has been followed by an approximate decrease of 7.54% in the month of Jan 2017 & 13% in the month of Feb 2017. This indicates that people are again back to the traditional method of cash transactions.

According to the current trends: The Unified Payment Interface (UPI) in banking sector has shown a huge growth rate in terms of volume of transactions and amount of transactions.

Among the current developments taking place in the banking sector of the economy, auction of Non-performing assets (NPA) is a significant one. As observed, banks including private & public sector's toxic loans on their balance sheets has amounted to Rs 9.5 lakh crores. In such a situation, banks are in the desire of setting down the selling price with Asset Reconstruction Companies (ARC) instead of long government's actions.



FINDINGS

The results drawn from various changes implemented in the banking sector shows that, an overall development has taken place in terms of no. of transactions and simultaneously in the monetary value of such transactions. However the growth is slow but shows a positive trend. UPI shows a much recent trend in which the highest growth in the transactions have been recorded in the month of May 2017.

CONCLUSION

Like any other economic movements, Demonetization is another developmental initiative to get a corruption-free economy. Since we have crossed only a year, the changes are yet to be noticed. It should be a continuous process which is to be accomplished. It should not be considered as an one-night turnover procedure. Moreover to make the process effective, systematic approaches have to be made along with collaborative association of the states and the central government. As per the current topic is considered, banking sector has to take the initiative to introduce innovative changes, which will be beneficial for the Indian economy. Last but not the least, Demonetization is a non-exhaustive topic which has to be researched and used in an opportunistic way.

REFERENCES

- [1] Ansari, M.N., 2017. List of Recently Published Quality Research Papers. *Imperial Journal of Interdisciplinary Research*, 3(8).
- [2] Mahajan, P. and Singla, A., 2017. Effect of demonetization on financial inclusion in India. In *International Conference on Recent Trends in Engineering, Science & Management* (pp. 1282-1287).
- [3] Mali, V., 2016. Demonetization: A step towards modified India. *International Journal of Commerce and Management Research*, 2(12), pp.35-36.
- [4] Shirley, M.A.J., 2017. Impact of Demonetization in India. *International Journal of Trend in Research and Development*, pp.20-23.

