

# IMPACT OF DEMONETIZATION OF CURRENCY ON BANKING SECTOR AND INDIAN ECONOMY BIDAR-KARNATAKA

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**Abstract:** The study of Demonetization helps to know the recent changes adopted by banks and how the cashless transactions are maintaining. And the most important is the impact on banks customers in maintaining cashless transaction methods. The study on “impact of demonetization of currency on banking sector” is undertaken to know how the Banks managed its financial transactions after the move of demonetization act. And to know Whether the bank took this move as positive impact or negative impact. And to identify what problems are faced by the banking professionals and the customers of bank.

**KEYWORDS:** DEMONETIZATION, CASHLESS PAYMENTS, CORRUPTION, ETC.

## INTRODUCTION

Demonetization is an activity of particular country where the old currency value is changed (i.e not considered as legal tender) and new currency will be introduced. Demonetization of currency means that reserve bank of India will withdrawn the previous Rs.500 and Rs. 1000 notes as a official mode of payments. And arrange the new currency note for movement.

## REASON FOR DEMONETIZATION:

1. The main reason is to tackle black money in the economy.
2. To decrease the cash flow which is straightly related to the Corruption in the Economy.
3. To remove bogus currency and terror fund activity in India.

## ADVANTAGES AND DISADVANTAGES OF DEMONETIZATION:-

### Advantages:-

- The major decision which is made by the government will help us to eradicate black money, corruption to some extent.
- By this, a lot of money would be deposited thereby making it easier for banks to give away Loans.
- When there is lack of funding the smuggling and all the terrorist activities will be stopped.
- The government has proposed the new limits on ATM withdrawals being restricted to Rs.2000 per day, withdrawal from bank account is Rs.10000 a day and Rs.20000 a week. It indicates that card transactions will slowly replace the cash transactions in our daily prone activities.

- Exchanging of money from banks can be done only by producing a valid identity cards like PAN, electoral card and aadhar cards from 10 to 24 November with a daily limit of Rs.4000. By doing so it will be easy for the government to track the amount which is going to be exchanged in banks. There is no limit if the amount which we are exchanging is legal amount.
- The step helps to increase in the banking interest rate.
- We will move one step towards a cashless economy.
- Terror fund activities can be stopped.
- Better society can be built in the country

#### **Disadvantages:-**

- It cost high to the RBI and the government.
- The move will cause a deflation in the economy due to illegal money taken by the people.
- It will be very difficult to the people who are not aware about the card transaction.
- This effect more on the people who kept the black money in the form of foreign currency, property and gold. Because they have to bear huge tax payment.
- Highly cause on business sectors and real estate industry effect badly.
- Deaths occurred due to non availability of required cash.
- There is a economic slowdown so it is not as effective.

#### **Long Term Effects**

In the long run, Indians would reap several benefits due to this move.

1. Once the black money is reduced, taxes would leapfrog.
2. Developmental activities would pick up significantly as the tax revenue increases.
3. Government can reduce rates of taxes since they can raise significantly more revenue with lower rates.
4. Corruption would reduce since there would be little black money to pay bribe to government officials.
5. Dowry and other social practices like extravagant marriages would reduce due to white economy.
6. Illegal activities like murder, kidnapping, drug-paddling, prostitution, terrorism etc. would reduce since all these activities need black money.
7. The honest people would live life of much more respect as dishonest would no longer be displaying their wealth for long time to come.

**DIGITAL METHODS/ CASHLESS METHODS ADOPTED IN INDIA:-**

1. UPI
2. POS
3. AEPS
4. USSD
5. E-WALLETS

**UPI- Unified Payment Interface:-**

A unified payment interface is like a email ID for customer or your money. It will be an unique identifier that a bank uses to transfer money and make payment using the IMPS (Immediate payment service).

- IMPS is an initiative of NPCI and UPI is a advanced version of IMPS.
- UPI app is based on immediate payment service technology and the user need not to fill details like full name, bank name, Branch and IFSC code.
- It just needs a virtual payment address (VPS) to transfer funds and is similar to having an email address.

**How to use UPI?**

To use unified payment interface method one should need to use an app and it works only on smart phone and needs internet connection.

**Requirements for registration:-**

- Bank account Details.
- Smart phone with internet facility.

**POS- Point of Sale:-**

A point of sale is generally means any location or place where a sale or transaction may take place. A sale point can be a mall, a market or a city on a macro level and on a micro level it is a locale where a client completes a transaction like checkout counter. And this is also called as point of purchase.

**AEPS- Aadhaar enabled payment system:-**

AEPS (Aadhaar enabled payment system) is a way or method to get money from the bank account. Under this system for getting money it doesn't require your signature or debit card. Don't even need to visit a bank branch for getting money through the AEPS.

At the time of Aadhaar enrolment the photo copy and fingerprint will be taken. and this biometric data is linked to the Aadhaar number given by customer. And is a unique to a person.

**Aadhaar enabled services are as below:**

- Cash withdrawals.
- Making balance enquiry.
- Cash deposit service.
- Purchasing at shops.
- Aadhaar to Aadhaar fund transfer.

**U.S.S.D-****Unstructured supplementary service data:-**

It is a type of cashless method which is used to check out account balance, producing mini statements, and fund transfer using MMID, IFSC code or Aadhaar number. And is an interface between the telecom operator and your bank.

USSD based payment system is called as national unified unstructured supplementary service data payment.

#### **Transaction limit and charges for using USSD:**

- The user of USSD system can send a minimum amount of INR 1 and maximum Rs. 5000 per transaction.
- This service is accessible 24 hours a day and all days of the week.
- Per transaction charge is NR 0.50.
- To use unstructured supplementary service data it requires a registration of mobile number with bank account. If already have an account but not registered with mobile number, the customer need to fill form at the branch bank and should submit the request to link account with mobile number. After that the bank will issue a seven digit mobile money identifier number mobile pin which is a 4 digit PIN number.

#### **E-WALLETS:-**

E- Wallets is a type of electronic card which is used to make transaction online through a computer or a smart phone. The method of using these cards is like using credit or debit cards. And e-wallets should to be connected with the individual bank account to compose payments.

- E-wallets are used in purchasing items online basis. to avail this service an Individuals account is to be linked with the digital wallets.
- A kind of pre-paid account in which customer can store money for any future online transaction and it includes a password by that it will be protected from misuse.
- It helps for making payments for online purchase, flight tickets and among others.

#### **OBJECTIVE OF THE STUDY:**

- To understand the concept of demonetization.
- To know the impact of demonetization in the economy.
- To study about the effect of demonetization on banks customer.
- To study about cashless transaction methods.
- To identify the problems of bank peoples and as well common people.
- To understand about the new cashless methods in India.

#### **RESEARCH METHODOLOGY**

##### **Primary data**

Survey through questionnaires

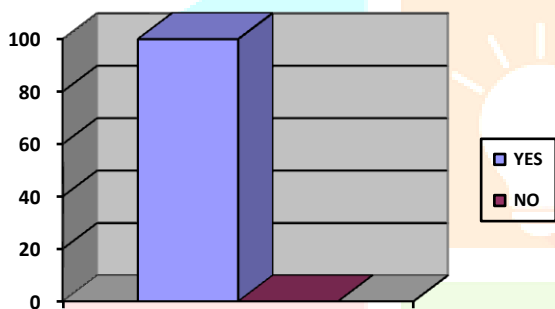
Sample = 100

## DATA ANALYSIS AND INTERPRETATION

TABLE NO: 1. Demonetization Effect On Banking Sector?

SL. NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
1	YES	100	100%
2	NO	0	0%
TOTAL		100	100%

CHART NO: 1. Demonetization Effect On Banking Sector?



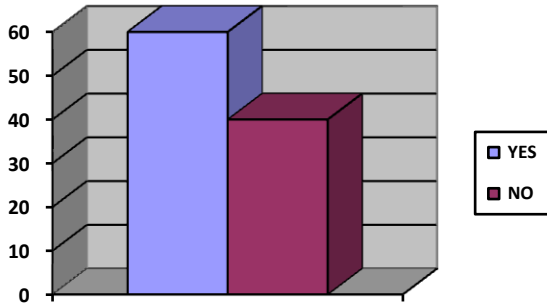
**Analysis:** The above diagram shows that all 10 respondents said that they have fully got effect on demonetization move.

**Interpretation:-** By the analysis it is found that there is 100% effect was on banks. As all respondents are said yes.

TABLE NO: 2. Impact On Interest Rate?

SL. NO	PARTICULARS	NO.OF RESPONDENTS	PERCENTAGE
1	YES	60	60%
2	NO	40	40%
TOTAL		100	100%

**CHART NO: 2. Impact On Interest Rate?**



**Analysis:-**In the diagram it is seen that 40% of banks got effect on interest rate and 60% are said no effect on interest rate.

**Interpretation:-** Majority of respondents said there is no effect on interest rate. Then it is a good sign that no more effect on interest rate.

**TABLE NO: 3. Currency Demonetization Satisfied By the Bankers?**

SL. NO	PARTICULARS	NO.OF RESPONDENTS	PERCENTAGE
1	SATISFIED	60	60%
2	HIGHLY SATISFIED	30	30%
3	NOT SATISFIED	10	10%
TOTAL		100	100%

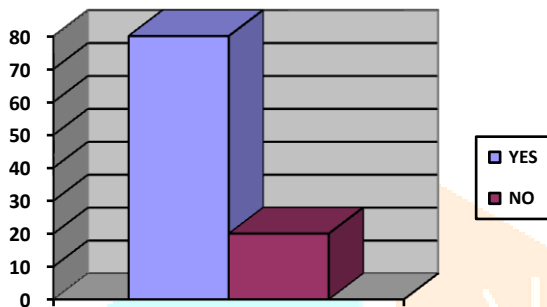
**CHART NO: 3. Currency Demonetization Satisfied By the Bankers?**

**Analysis:-** The above diagram tells that out off 100 respondents 60% of total respondents said that it is satisfied, 30% highly satisfied and 10% of total respondents said it is not satisfied.

**Interpretation:-** By the analysis made it is found that more number of respondents are satisfied.

**TABLE NO: 4. Cashless Transaction Helps To The Customer?**

SL. NO	PARTICULARS	NO. RESPONDENTS	OF PERCENTAGE
1	YES	80	80%
2	NO	20	20%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

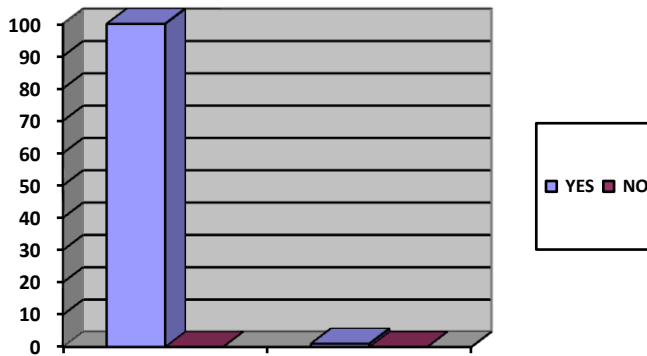


**Analysis:-** Here in the above diagram its showing that 80% of respondents said that the cashless transaction will help a customers. But other 20% stated that the cashless method will not help the customer much.

**Interpretation:-** Majority of respondents stated that the cashless method will definitely help the customer. It will be a advantage to both banker and customer as the process includes less time to transact.

**TABLE NO: 5. Does Bank Have Adopted Any Digital Methods**

SL. NO	PARTICULARS	NO. RESPONDENTS	OF PERCENTAGE
1	YES	100	100%
2	NO	00	0%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>



**Analysis:-** By the above diagram we can know that all 100 bank respondents stated that they have adopted many digital methods in their banks

**Interpretation:-** Majority of banks have adopted digital methods to provide banking facilities without physical money. So the adoption of new digital cashless methods result is 100%.

**TABLE NO: 6. Customers Are Using Any Cashless Methods, like?**

SL. NO	PARTICULARS	NO. RESPONDENTS	OF PERCENTAGE
1	UPI	10	10%
2	AEPS	20	20%
3	POS	20	20%
4	OTHERS	50	50%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

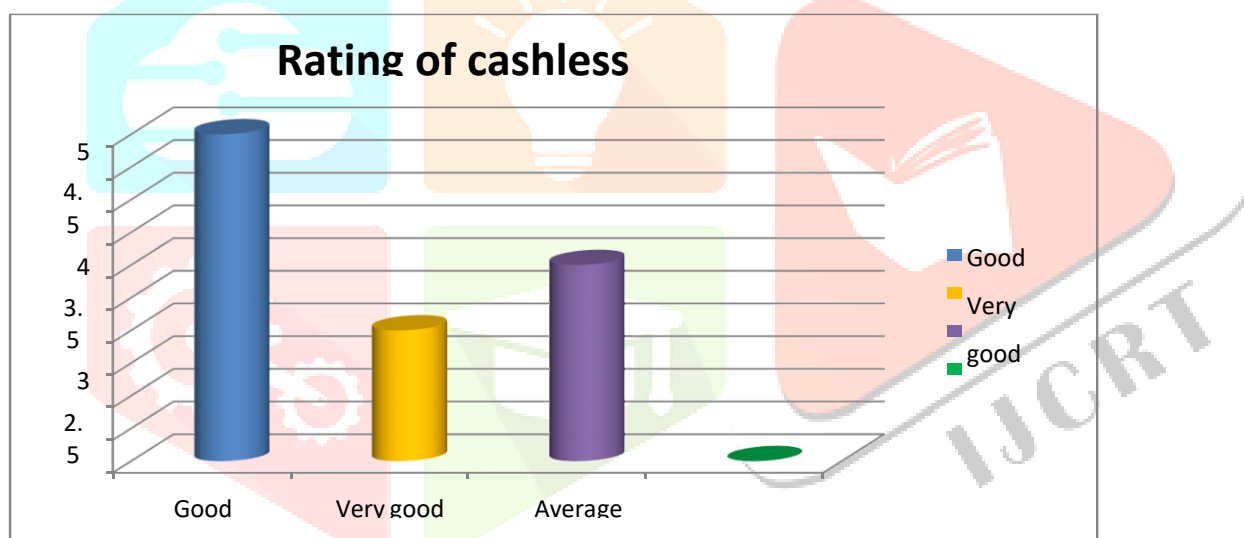
**Analysis:-** The above table shows that 10% of total respondents are using UPI, 20% are AEPS and other 20% are POS and rest 50% are using other different methods.

**Interpretation:-** Majority of respondents are using different other methods for availing banking services. It means the other cashless methods like E-wallets, cards, etc are in more use.



**TABLE NO: 7.How You Are Rate Cashless Transaction Method/New Digital India?**

SL. NO	PARTICULARS	NO. RESPONDENTS	OF PERCENTAGES
1	GOOD	50	50%
2	VERY GOOD	20	20%
3	NORMAL	30	30%
4	BAD	00	0%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

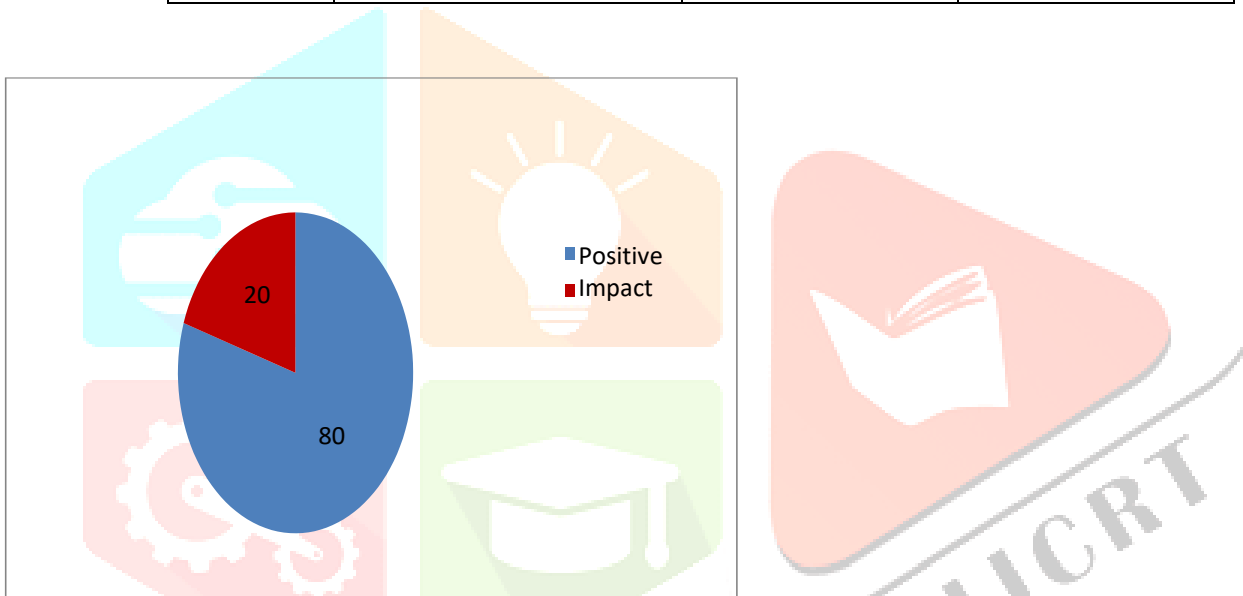


**Analysis:-** By the above diagram we can analyze that 50% of total respondents stated that the cashless method is too good and 20% rated as very good and other 30% rated as average.

**Interpretation:-** It shows that more respondents said it's a good method to develop the economy as we can see the more percentage is of good.

**TABLE NO: 8. How Will Demonetization Effects In India?**

SL. NO	PARTICULARS	NO.OF RESPONDENTS	PERCENTAGE
1	POSITIVE IMPACT	80	80%
2	NEGATIVE IMPACT	20	20%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

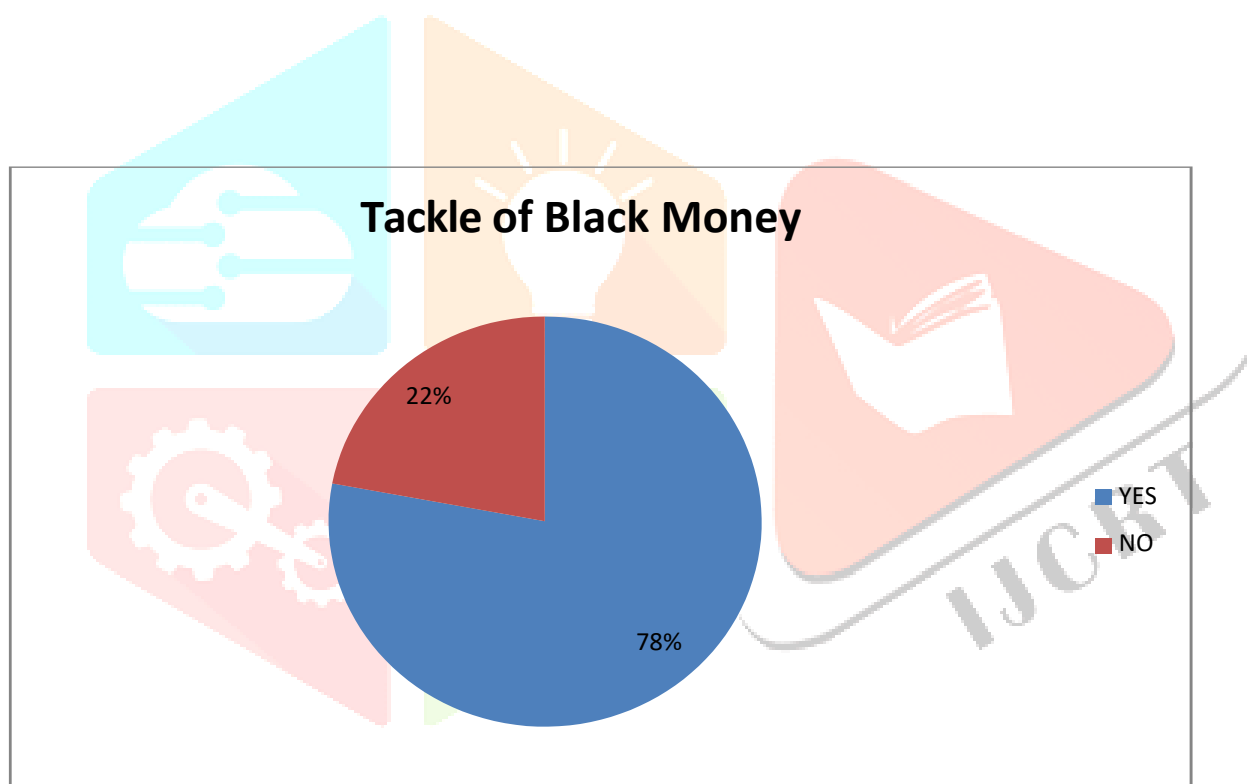


**Analysis:-**In the diagram its showing 80% of respondents stated demonetization is positive impact. And 20% of respondents given their opinion as it is a negative impact.

**Interpretation:-**As there is highest percentage is about positive impact .the result shows there will be increase in the development of new digital methods and by this development of economy is be posible.

**TABLE NO: 9. Does Demonetization Move Helps To Tackle Black Money In Economy Fairly?**

SL. NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
1	YES	78	78%
2	NO	22	22%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

**Analysis:-**

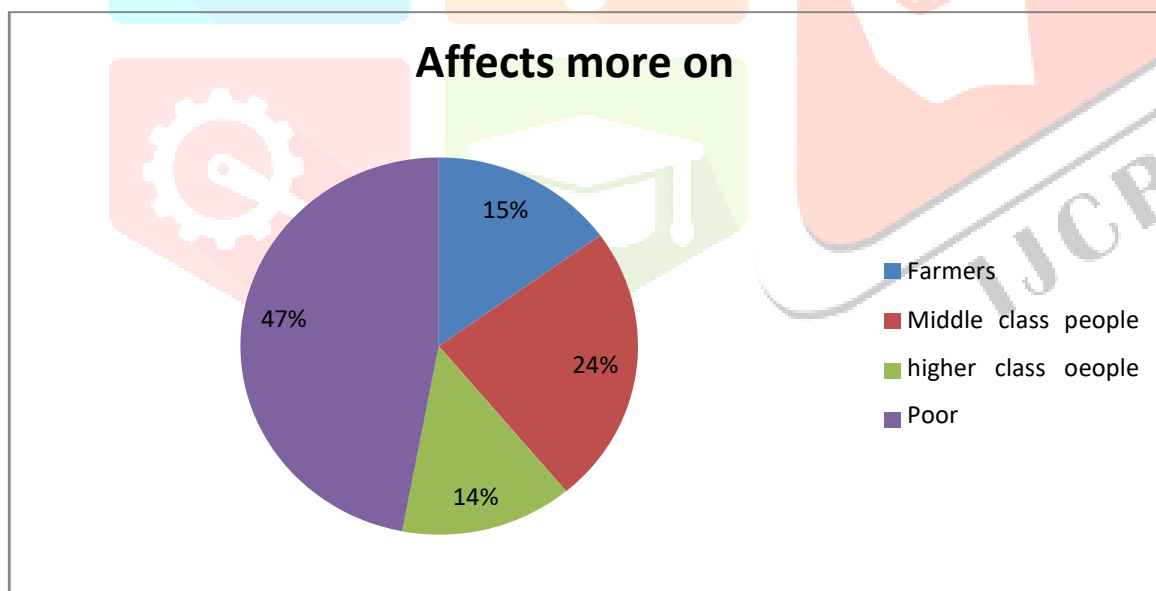
The above diagram displays that 78% of total respondents said, the demonetization will helps to tackle black money in the economy fairly. And other 22% are given negative reply.

**Interpretation:-**

It can be interpreted that demonetization will definetly helps more to reduce black money activities.

**TABLE NO: 10. On Whom The Act Affected Much?**

S. NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
1	FARMERS	15	15%
2	MIDDLE CLASS PEOPLE	24	24%
3	HIGHER CLASS PEOPLE	14	14%
4	POOR	47	47%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

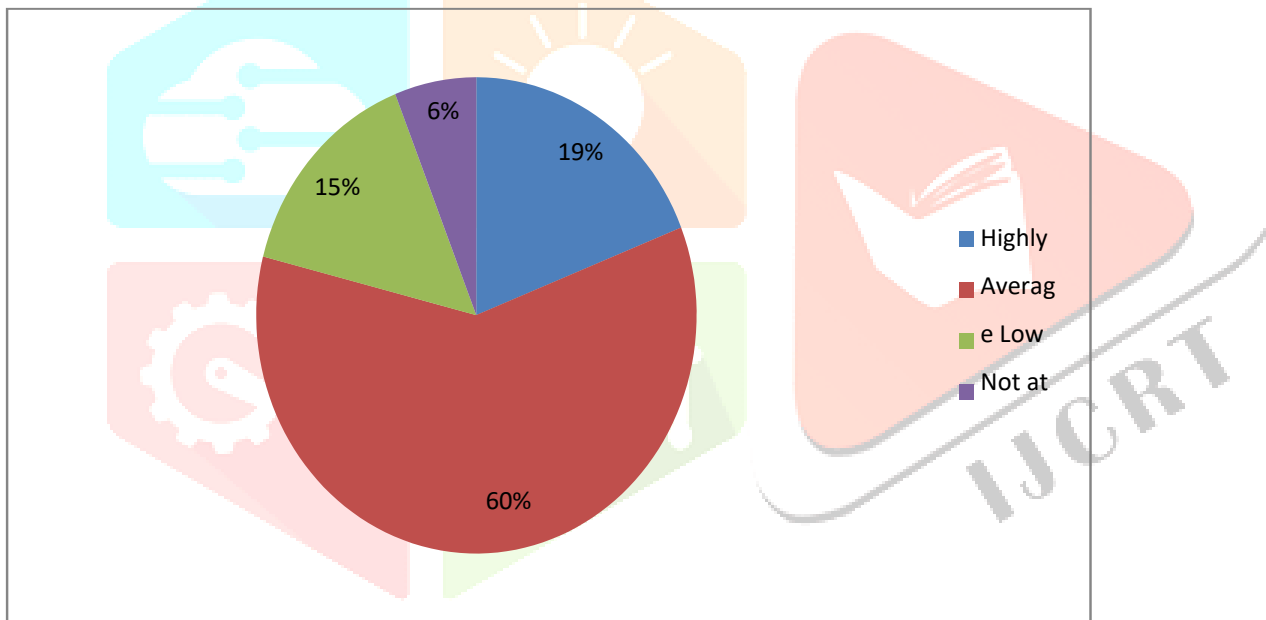


**Analysis:-**Here in the above diagram its showing 47% effect is on poor and 24% effect is on middle class people, 15% is on farmers and other 14% is on higher class.

**Interpretation:** It is found that more effect of demonetization act is on poor people.

**TABLE NO: 11. Does Corruption Stopped After Demonetization?**

S. NO	PARTICULARS	NO. RESPONDENTS	OF PERCENTAGE
1	HIGHLY	19	19%
2	AVERAGE	60	60%
3	LOW	15	15%
4	NOT AT	06	6%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

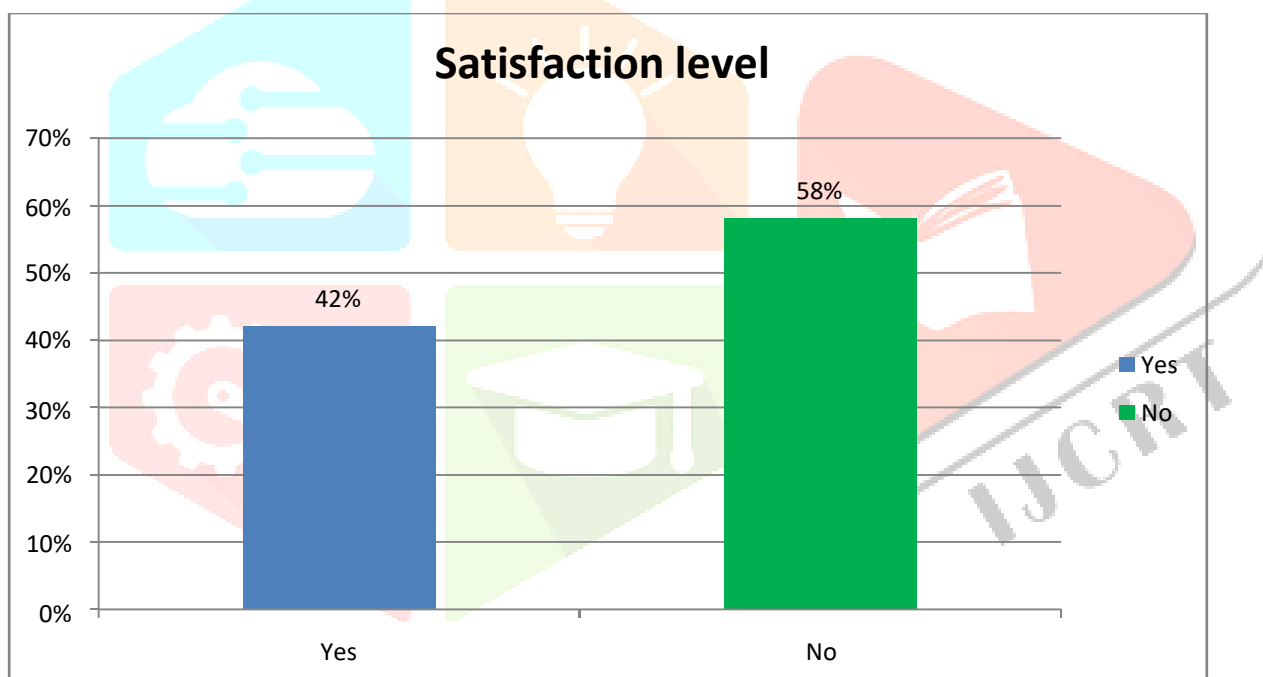


**Analysis:-**By the above diagram the analysis made that 60% of the respondents given their opinion as the corruption activity is in average, 19% are as highly stopped. 15% are given its in a low. And 6% of respondents said as the corruption is not at stopped.

**Interpretation:-**Majority of people stated that the stoppage in corruption after demonetization is average.

**TABLE NO: 12.Do You Think Demonetization Move Is Satisfactory To All People?**

S. NO	PARTICULARS	NO.OF RESPONDENTS	PERCENTAGE
1	YES	42	42%
2	NO	58	58%
TOTAL		100	100%



**Analysis:-**The above diagram shows that out of 100 respondents 58% of people are satisfied and remaining 42% peoples are not satisfied by the demonetization move.

**Interpretation:-** It is found that majority of people are satisfied by the demonetization move.

**TABLE NO: 13. What Do You Think About Economy At Present? Is It In Good Condition?**

S. NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
1	GOOD	25	25%
2	VERY GOOD	29	29%
3	AVERAGE	40	40%
4	BAD	06	6%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>

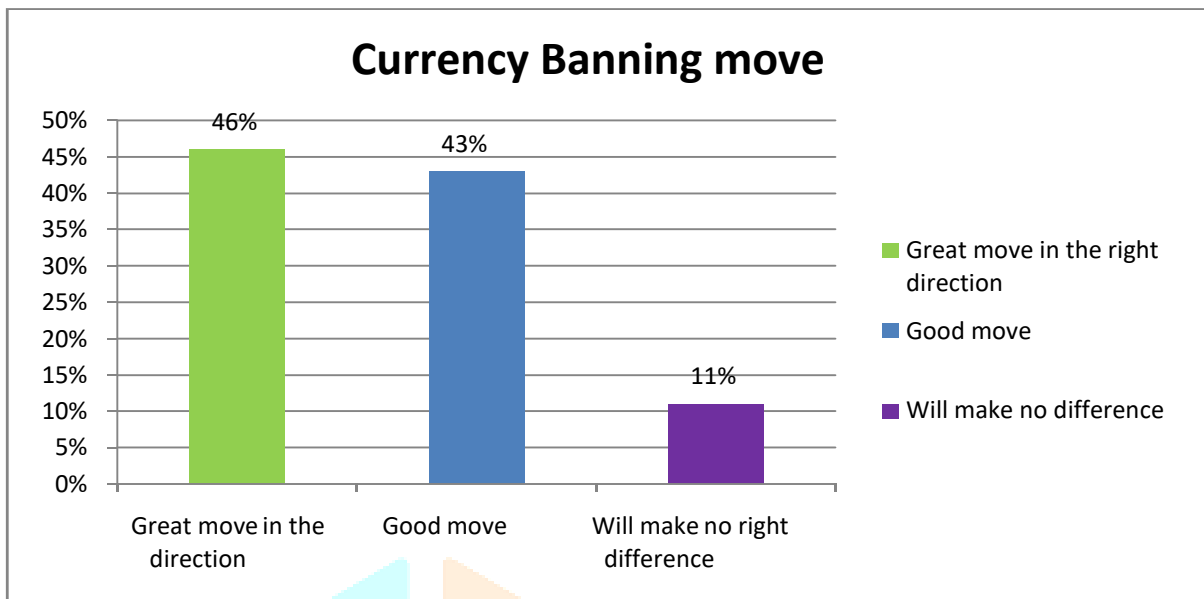
**Analysis:-**

In the above diagram it is showing that 40% respondents stated the economy condition is average. 29% as very good and 25% of respondents stated as good but 6% of total respondents are said that the economy condition.

**Interpretation:-** By the analysis made it is found the economy condition is showing average level.

**TABLE NO: 14. What is your opinion regarding Move Of Banning Old 500 And 1000 Notes?**

SL. NO	PARTICULARS	NO. OF RESPONDENTS	PERCENTAGE
1	REAT MOVE IN THE RIGHT DIRECTION	46	46%
2	GOOD MOVE	43	43%
3	WILL MAKE NO DIFFERENCE	11	11%
<b>TOTAL</b>		<b>100</b>	<b>100%</b>



**Analysis:-** In the above diagram 46% of respondents said it is a great move in the right direction. 43% of people are saying it is a good move but the rest are said it doesn't make any difference in the economy.

**Interpretation:-** By the analysis it is interpreted that demonetization is a great move in the right direction which helps to increase the growth of economy.

### **FINDINGS, SUGGESTION AND CONCLUSION**

#### 1. Demonetisation has hit employment hard

The recent decline in the labour force participation rate should be a matter of deep concern for the Indian economy Thu, Nov 16 2017. 04 35 AM IST

#### 2. 300% jump in PAN applications post demonetisation, says CBDT

The number of PAN applications jumped to 7.5 lakh per month from 2.5 lakh per month after the government announced demonetisation last year, says CBDT chairman Sushil Chandra Tue, Nov 14 2017. 09 27 PM IST

#### 3. Tue, Nov 14 2017. 07 37 AM IST

One year after demonetisation: Where did all that cash go?

Banks dumped the excess deposits into government securities, bringing down interest rates on them and helping the government borrow at cheaper rates.

#### 4. Fri, Nov 10 2017. 10 24 AM IST

Jewelers say business yet to recover from slump following note ban a year ago

While liquidity has improved since demonetisation, jewellers are not happy as continuing efforts to curb the vast cash economy have hurt their business the most.

#### 5. Wed, Nov 08 2017. 01 05 PM IST

Markets since demonetisation, in three charts



A year from the demonetisation of high-denomination currency on 8 November last year, benchmark equity index Sensex has gained more than 21%

6. Tue, Nov 07 2017. 04 47 PM IST

E-filing of income tax returns register 17% growth post demonetisation

The e-filing of income tax return (ITRs) went up by 17% post demonetisation, while the rise in the 'individual filers' category was over 23%, according to official data.

7. Mon, Oct 09 2017. 07 23 AM IST

The impact of demonetisation on interest rates

In the year after demonetisation, even though the RBI repo rate reduced by just 0.25 percentage points, the fall in weighted average lending rate on outstanding loans has been 0.50 points.

8. Sat, Nov 18 2017. 05 34 PM IST

Demonetisation not an appropriate response to black money: Manmohan Singh Former PM Manmohan Singh suggests that the government simplify tax and administration systems to address black money.

- There is 100% effect on banks by demonetization of currency.
- Demonetization will have a major long term impact on the economy in the long run.
- It is found that there is increase in the inflation and also effect on interest rate.
- The satisfaction level of Bidar people is low because many problems are faced at the time of banning notes.
- The cashless methods will help customer more. it includes electronic way for transacting and is easy to adopt, also provides quick service.
- There is 100% adoption of cashless methods in banks.
- Increase in the digital transaction.
- Rating of cashless method is high as it is less time consuming and quicker way to avail every banking services without dealing in physical money.
- By the study it is understood that the act of demonetization has bought a positive impact. That 80% of total respondent are familiar with this move.
- There is increase in the digital methods users.
- It is found that the act was effected much on poor and middle class people.
- It is a great move at the right time in the economy.
- Economy condition is good at present as compared to previous year.
- The most important is found that is decrease in corruption level.
- There should be proper plan before taking direct action.
- Government banks/NGOs have to conduct awareness campus to educate the people about digital banking.
- There should be less transaction charge should be charged by the banker for online transaction availing methods.
- Financial literacy to be improved so that awareness will be created among the citizens of India.
- Training specially to the rural peoples who are unknown to this new area of availing cashless operation and

should provide tools.

- About demonetization it can be suggest that it's a right step at right point of time and it benefits will be seen in long run.
- It is a positive step taken by the government and will give good response in future.
- Banks should be aggressive in adopting new changes.

### **Conclusion:-**

By the study it is found that more number of banks employee and customers have faced a problem on sudden decision of taking demonetization move. I conclude that the government should have planned well before taking any action towards economy so that there would not be any wrong impact.

The deaths occurred due to unavailability of cash showing a negative effect in the economy which then leads to a big crisis. So Satisfaction level was low.

The DCC bank departmental professionals and employees are very supportive. They helped me in learning about the concept and given the required information.

Finally I conclude that there should be an awareness program and training for people to give them knowledge about new digital operations and cashless methods. Then only it helps for smooth functioning of banks and development of economy.

International journals Banking Annual Magazine

### **WEBSITES**

[www.investopedia.com](http://www.investopedia.com)

[www.quora.com](http://www.quora.com)

[www.rbi.com](http://www.rbi.com)