



# A STUDY ON IMPACTS OF DEMONETIZATION ON BANKING SECTOR

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**Abstract:** The main aim of the research is to know the effect of demonetization on the banking sector. Demonetization is a tool to battle inflation, black money, corruption and demoralize a money subordinate economy and help exchange. The approach of the legislature by restricting RS. 500, RS 1000 and RS. 2000 cash notes have affected all the sides of the economy. Its impact on the banking sector is critical. The bank employees suffered a lot due to demonetization as there was a stressed work pressure on employees over time. The customers faced inconvenience due to demonetization near banks and ATMs as there were no replaced denomination notes. Cash crunch was seen. This has shown positive impact on the banking sector. Due to this there was increase in deposits in banks. Demonetization has shown positive as well as negative impact in Indian market. Data was collected from 150 bank employees through questionnaire. Data were analysed using tools like descriptive statistics, and Chi-square Test. The study finds out that the majority of respondents there were changes, pre-demonetization and post demonetization. They said that they faced inconvenience due demonetization. They opinioned that there is no change in the black money, corruption, demonetization has shown minimal impact on it. The result of the analysis indicated that 68.8% of the bank employees supported the positive impact of demonetization.

**Index Terms -** Demonetization, Impact, Banks, Black Money, Corruption, Circulation of Currency, Digitization, Currency.

## I. INTRODUCTION

Demonetization is the process of removing a currency from general usage or circulation of money in a country. It is an act where the old unit of currency gets retired a replaced with a new currency unit. The concept of demonetization is not new in the modern era as Indian government had demonetized the bank notes twice i.e., in 1946 and 1978 respectively with a motive to combat tax evasion through black money. In 1946, RS 1000 and RS 10,000 notes were demonetized where as in the second instance i.e., is in 1978 the government withdrew RS10000, RS 5000 and RS 1000 notes.

On 8<sup>th</sup> November 2016 demonetization was announced by the prime minister Mr. Narendra Modi to strip of RS 500 and RS 1000 notes from circulation. Which forms 86% of the cash currency in the market with the objective to eradicate corruption, black money, terrorism and counterfeit notes and to make India a cashless economy as it makes the spending convenient and increases the transparency of the transactions.

Recently, Reserve Bank of India (RBI) on May 19 decided to withdraw RS. 2,000 denominations banknotes from circulation in pursuance of its "Clean Note Policy". However, the RS. 2,000 notes will continue to be legal tender. A similar withdrawal of notes from circulation was undertaken in 2013-2014.

The sudden implementation of demonetization had an impact of various sectors of Indian economy including banks, as banks forms the core sector of Indian economy. Banks played vital role in implementation of demonetization.

Demonetization has bothered the bank tasks and made the employees to work under lot of stress with the extended working hours on all days. The public queue to deposit old notes and there is a less availability of new cash, which made an imbalanced scenario over banking network.

Demonetization ends up fundamental at whatever point there is an adjustment in the national money. The old unit of cash must be removed and supplied with another money unit. It includes either presenting new notes or coins of a similar division or totally replacing the old sections with the new group which is typically done.

## II. REVIEW OF LITERATURE

Nithin and Sharmila (2016) their research on demonetization and its effect on Indian economy. They discovered that demonetization has a negative effect on various areas of the economy. Those effects can be settled when new notes are generally distributed in the economy. Due to this online retail locations in India like Flipkart, Amazon, Snapdeal and other online retailers incidentally quit offering cash on delivery services. This move briefly effected their benefits since cash on delivery is the most main stream technique for payment for the customers in the nation. They asked the consumers to use debit/credit cards for making payments.

M. Angel Jasmine Shirley, in her research she analysed the impact of demonetization in India. According to her report 50 stock exchanges had got a fall near about 6% on the next day itself. Not only these but the nation felt the shortage of cash in the economy. There is also a decrease of sales due to lack of cash availability which lead to decrease in the level of production. Demonetization effected the overall trade badly. It also affected export and imports of the nation due to shortage of cash. A major impact was seen on the areas such as real estate, fishing, farming, jewellery, bank deposits etc.

It was a good initiative to capture the black money but it has been felt but majority of black money resides in the form of gold, land, real estate etc. People were exposed so much of risk and tension due to improper implementation of plans. A lot of time was wasted by standing in the lines to exchange their notes.

Dr. K. Mariappan 2016, in his paper on issues and challenges of demonetization faced by the government in the year 2016. This influenced poor people, middle and upper middle classes individuals in higher rate.

Dr. M. Prabhu done examination in demonetization and its impact on banking sector. It has depicted the impact of demonetization and saving money part. It has incorporated the ongoing choice of the central government on demonetization and its steady impacts on Indian banking region. The employees were asked to overtime work, there was no training provided to the employees regarding demonetization.

Swetha Singhal 2017, did a study on demonetization and e-banking in India. Her major goal is to check the awareness level of individuals of rural regions in India about e-banking services and the amount it has expanded after demonetization. The urban youth have higher awareness and utilization of e-banking.

## III. RESEARCH METHODOLOGY

### 3.1 NEED FOR THE STUDY:

The need of the study is to know about how the demonetization impacted on the banking sector.

### 3.2 SCOPE OF THE STUDY:

Demonetization has brought enormous changes on the Indian economy especially on the banking sector. Banks are core part of economy. Demonetization has brought a lot of challenges for the banking sector in short span however in long term banks are sustained to be the real beneficiary of demonetization. The influence of demonetization on banks is depicted as Increase in deposits, currency in circulation, digital payments, etc has been increased.

### 3.3 OBJECTIVES:

- To understand the pros and cons of demonetization.
- To find out the impacts on banking sector after post demonetization.

**3.4 DEPENDENT AND INDEPENDENT VARIABLE:**

Dependent variable: Impacts on Banks

Independent variable: Demonetization

POPULATION: 150

SAMPLE: 112

TYPE OF RESEARCH: Descriptive and Analytical

RESEARCH DESIGN: Qualitative and Quantitatively in nature

RESEARCH INSTRUMENT: Questionnaire

TYPE OF QUESTIONNAIRE: Open ended and closed ended questions

SAMPLING TECHNIQUE: Random Sampling Technique

DATA COLLECTION:

The study is based on both primary and secondary data Primary data is collected from the bank employees through questionnaire

Secondary data is collected from the journals, website.

HYPOTHESIS:

H0 – There is no significant impact on Banking sector.

H1 – There is significant impact on Banking sector.

**3.5 LIMITATIONS OF THE STUDY:**

- The period of research was short period.
- The research sample was limited.
- The applicants responded to the questionnaire. The questionnaire was collected among bank employees.
- As it is a recent topic not much research papers are there for the purpose of reference.
- Demonetization is huge concept itself, which may not efficient to study the complete effect of demonetization on the overall banking sector.

**IV. DATA ANALYSIS & DATA INTERPRETATION:**

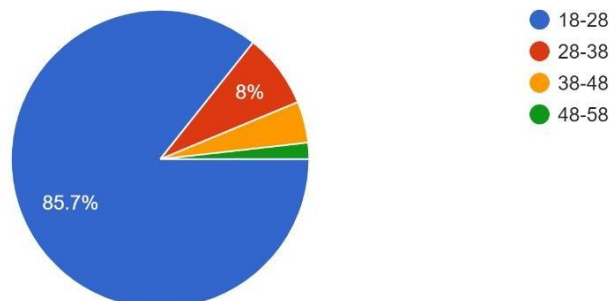
1. Employees Age a) 18-28      b) 28-38      c) 38-48      d) 48-58

Table 1

| SL.NO | DETAILS | RESPONDENTS | PERCENTAGE |
|-------|---------|-------------|------------|
| 1     | 18-28   | 96          | 85.7       |
| 2     | 28-38   | 9           | 8          |
| 3     | 38-48   | 5           | 4.5        |
| 4     | 48-58   | 2           | 1.8        |

Age

112 responses

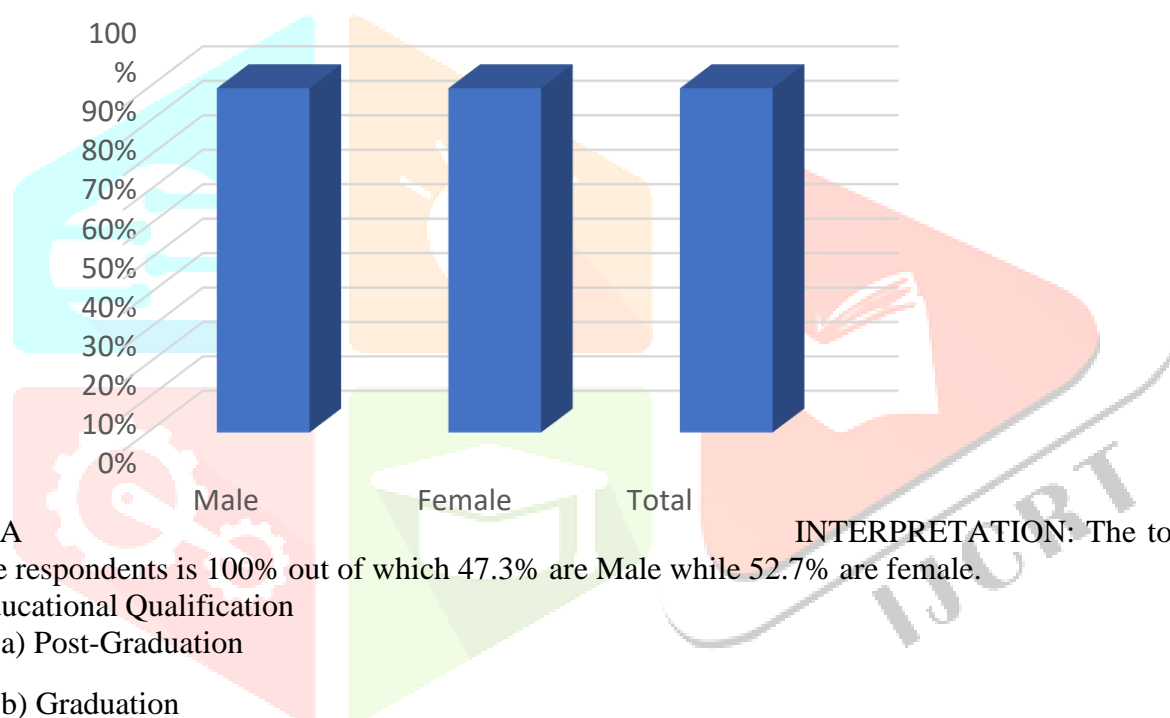


DATA INTERPRETATION: Age: 85.7% of the respondents are from 18-28. 8% of the respondents are from the ages 28-38.4.5% of the respondents are from the ages of 38-48.1.8% of the respondents are from the ages of 48-58.

2. Gender a) Male b) Female

Table 2

|        | Male | Female | Total |
|--------|------|--------|-------|
| Gender | 53   | 59     | 112   |

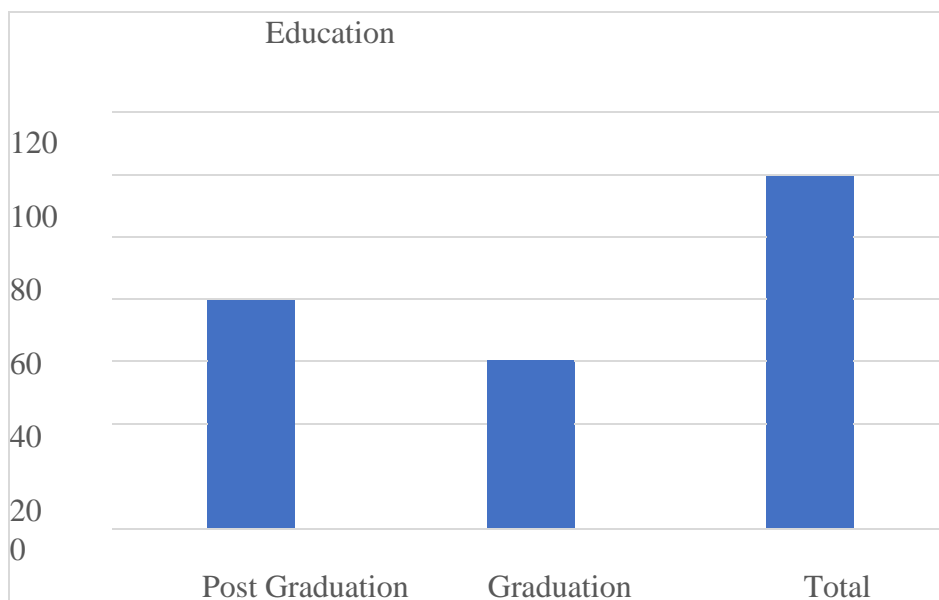


DATA INTERPRETATION: The total no of the respondents is 100% out of which 47.3% are Male while 52.7% are female.

3. Educational Qualification  
 a) Post-Graduation  
 b) Graduation

Table 3

|           | Post-Graduation | Graduation | Total |
|-----------|-----------------|------------|-------|
| Education | 58.9            | 41.1       | 100   |



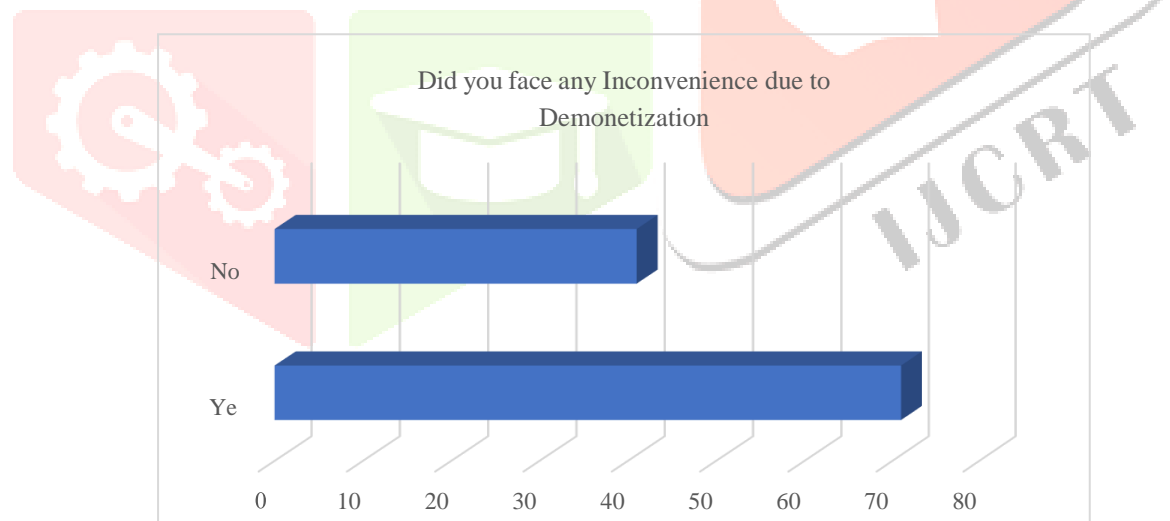
DATA INTERPRETATION: The total no of respondents is 100 %. Among them 41.1% of the respondents are graduated,58.9% of the respondents are post graduate.

4. Did you face any Inconveniences due to Demonetization

- a) Yes
- b) No

Table 4

|  | Yes | No |
|--|-----|----|
| Did you face any Inconvenience due to Demonetization | 71  | 41 |



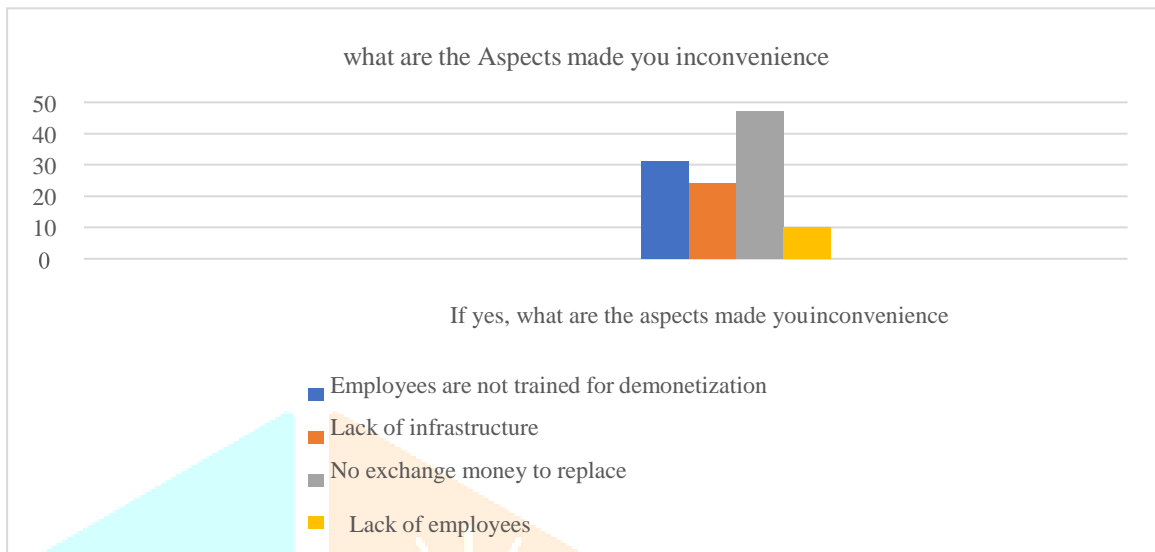
DATA INTERPRETATION: 63.4% of the respondents said that they have faced inconveniences due to demonetization,36.6% of the respondents claim that they have not faced any inconvenience due to demonetization.

5. If yes, what are the aspects made you inconvenience

- a. employees are not trained for demonetization
- b. lack of infrastructure
- c. no exchange money to replace
- d. lack of employees

Table 5

|   | Employees are not trained for demonetization | Lack of infrastructure | No exchange money to replace | Lack of employees |
|---|--|------------------------|------------------------------|-------------------|
| If yes, what are the aspects made you inconvenience | 31   | 24                     | 47                           | 10                |



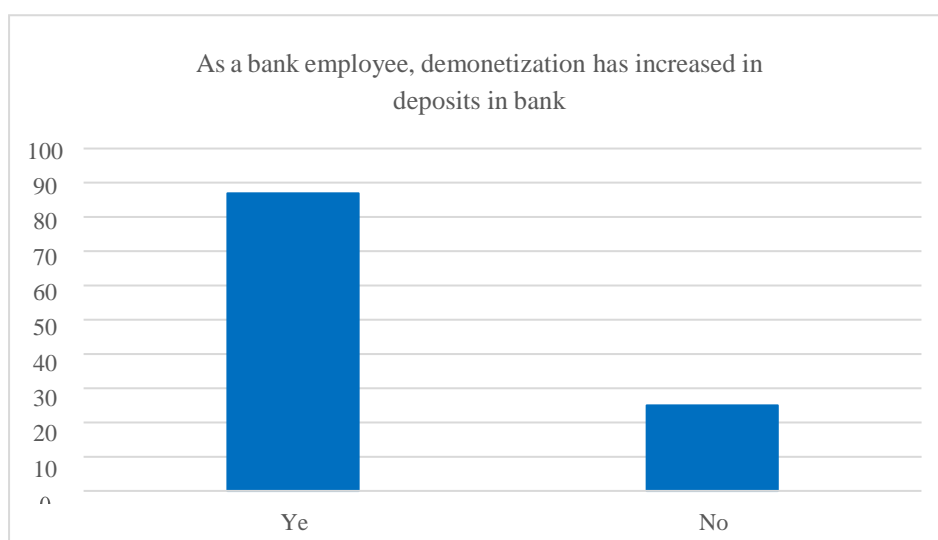
DATA INTERPRETATION: The total no of respondents is 100%. Among them 31% of respondents say that the employees are not trained for demonetization. 24% of respondents say that there is lack of infrastructure. 47% of respondents said that there is no exchange of money to replace. 10% of respondents say that there was lack of employees. Those are the aspects made them inconvenience.

6. As a bank employee, demonetization has increased in deposits in bank?

- a. Yes
- b. No

Table 6

|  | Yes | No |
|--|-----|----|
| As a bank employee, demonetization has increased in deposits in bank | 87  | 25 |



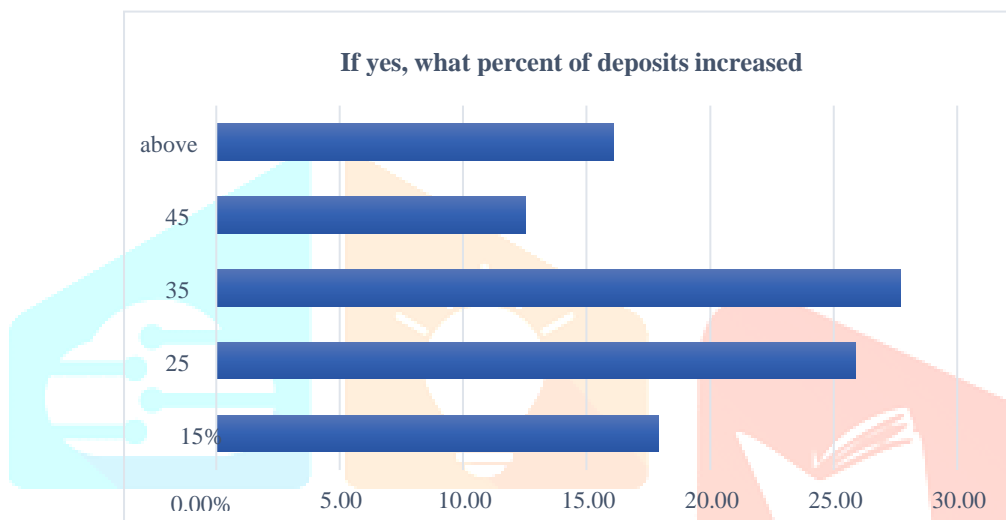
DATA INTERPRETATION: 77.7% of respondents say yes while the 22.3% say no.

7. If yes, what percent of deposits increased

- a) 15%
- b) 25%
- c) 35%
- d) 45%
- e) above

Table 7

|  | 15%   | 25%   | 35%   | 45%   | above |
|--|-------|-------|-------|-------|-------|
| If yes, what percent of deposits increased | 17.9% | 25.9% | 27.7% | 12.5% | 16.1% |



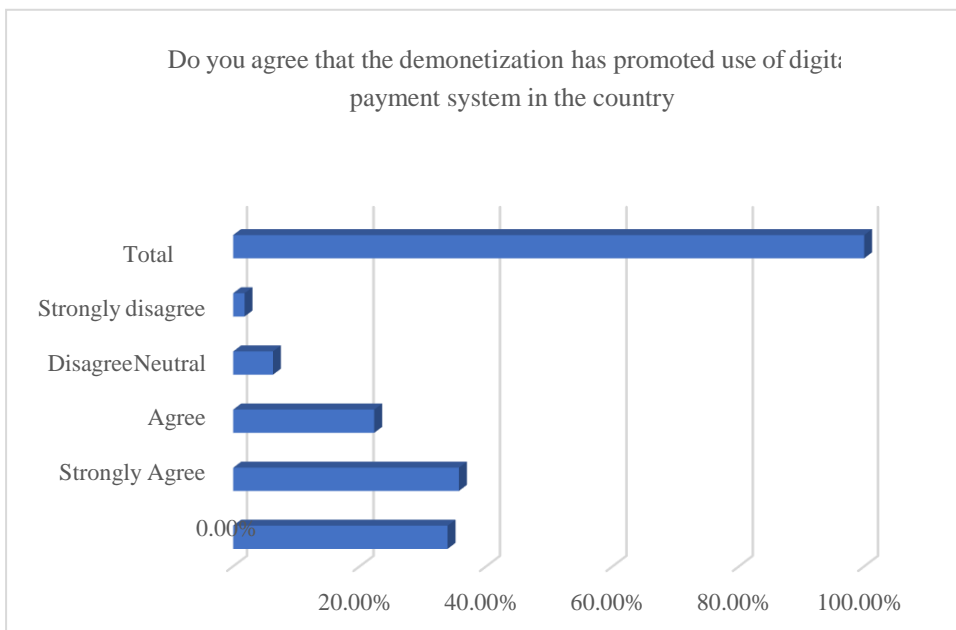
DATA INTERPRETATION: 17 respondents say that the deposits increased 15%. 25.9% of respondents say that the deposits increased up to 25%. 27.7% respondents say that the deposits increased up to 35%. 12.5% respondents say that the deposits increased up to 45%. And the remaining 16.1% respondents say that the deposits have increased more than 45%.

8. Do you agree that the demonetization has promoted use of digital payment system in the country?

- a. Strongly agree
- b. Agree
- c. Neutral
- d. Disagree
- e. Strongly disagree

Table 8

|  | Strongly Agree | Agree | Neutral | Disagree | Strongly disagree | Total |
|--|----------------|-------|---------|----------|-------------------|-------|
| Do you agree that the demonetization has promoted use of digital payment system in the country | 33.9%          | 35.7% | 22.3%   | 6.3%     | 1.8%              | 100%  |



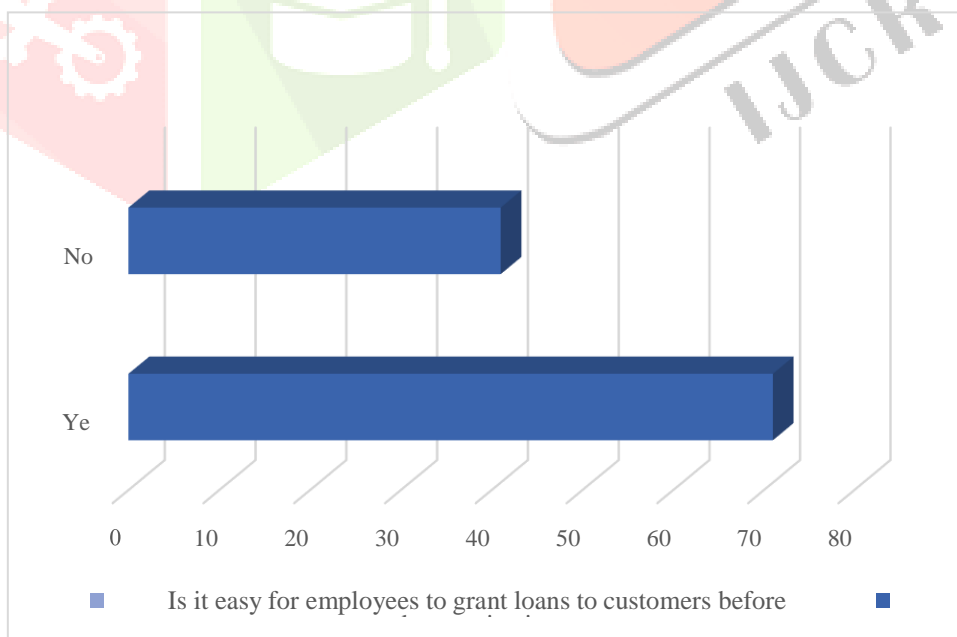
**DATA INTERPRETATION:** 33.9% of the respondents strongly agree while 35.7% of the respondents agree. 22.3% are neutral and 6.3% of the respondents disagree. 1.8% of the respondents strongly disagree.

9. Is it easy for employees to grant loans to customers before demonetization?

- a. Yes
- b. No

Table 9

|  | Yes | No |
|--|-----|----|
| Is it easy for employees to grant loans to customers before demonetization | 71  | 41 |



**DATA INTERPRETATION:** 63.4% respondents say yes, while 36.6% of respondents say no.

10. If yes, which segment has highest granted loans by Bank.

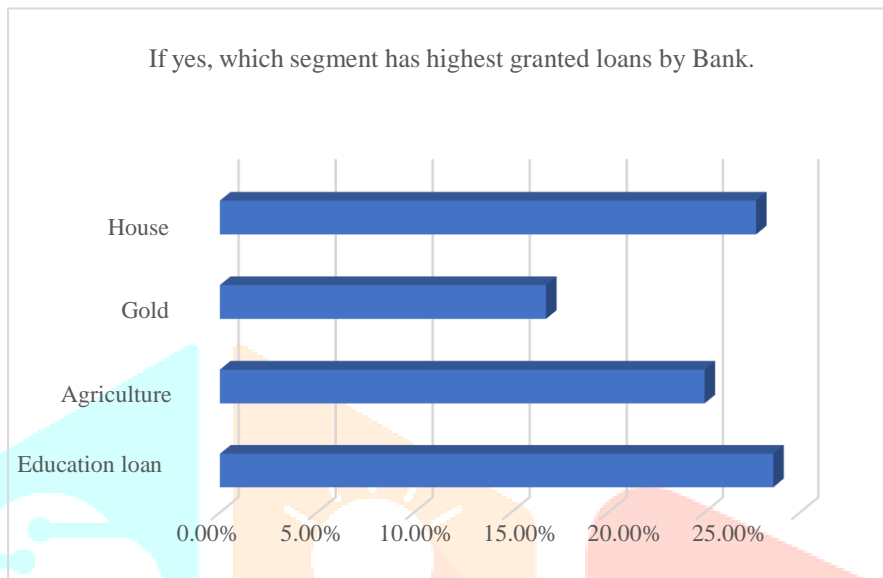
- a. Education loans
- b. Agriculture loans
- c. Gold loans



## d. House loans

Table 10

|  | Education loan | Agriculture loans | Gold loans | House loans |
|--|----------------|-------------------|------------|-------------|
| If yes, which segment has highest granted loans by Bank. | 28.6%          | 25%               | 16.8%      | 27.7%       |



**DATA INTERPRETATION:** 28.6% of respondents say that education loans were granted by banks, 25% of respondents say that agricultural loans were granted by banks, 16.8% say that the gold loans were granted, and the 27.7% of respondents say that the house loans were granted by the banks.

11. How much interest rates are charged on granted loans, for different segments.

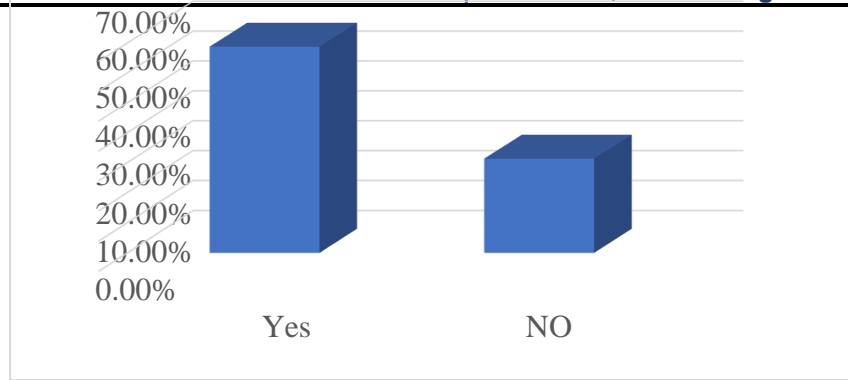
**DATA INTERPRETATION:** As it is open ended question, most of the respondents said that 10% -12% of interest rates are charged on granted loans for the different segments.

12. Did the customer paid their loans (interest) on due date?

- Yes
- No

Table 11

|  | Yes   | No    |
|--|-------|-------|
| Did the customer paid their interest on due date | 68.8% | 31.3% |



DATA INTERPRETATION: 68.8% of the respondents say yes , while 31.3% say no .

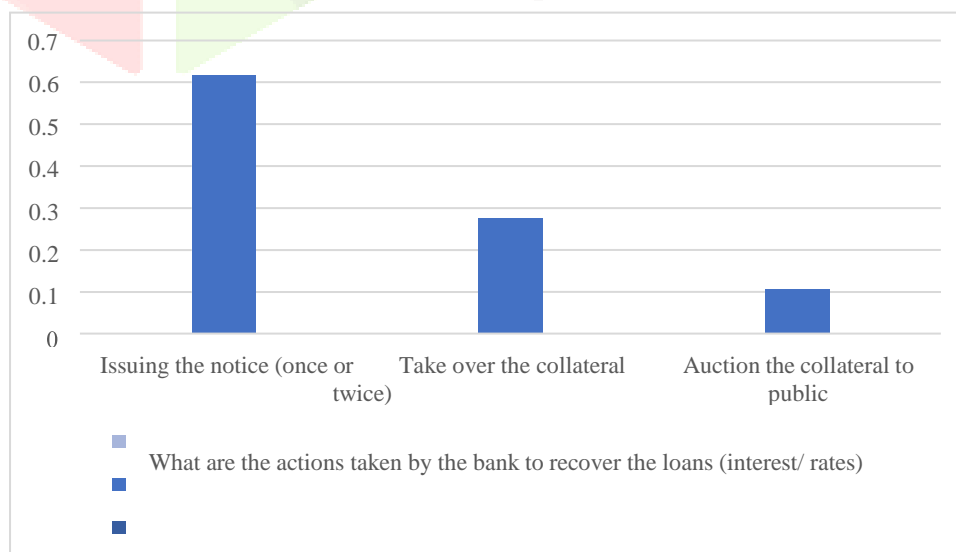
13. If No, what are the reasons to pay the interest rates back to the bank on duedate.

DATA INTERPRETATION: As it is open ended question most of respondents answered that lack of money, and insufficient amount etc, different answers were given by the respondents so we cannot predict the reason for it.

14. What are the actions taken by the bank to recover the loans (interest/ rates)?

- a) Issuing the Notice (once or twice)
- b) Take over the collateral
- c) Auction the collateral to public

Table 12



|  | Issuing the notice (once or twice) | Take over the collateral | Auction the collateral to public |
|--|------------------------------------|--------------------------|----------------------------------|
| What are the actions taken by the bank to recover the loans (interest/ | 61.6%                              | 27.7%                    | 10.7%                            |

|        |  |  |  |
|--------|--|--|--|
| rates) |  |  |  |
|--------|--|--|--|

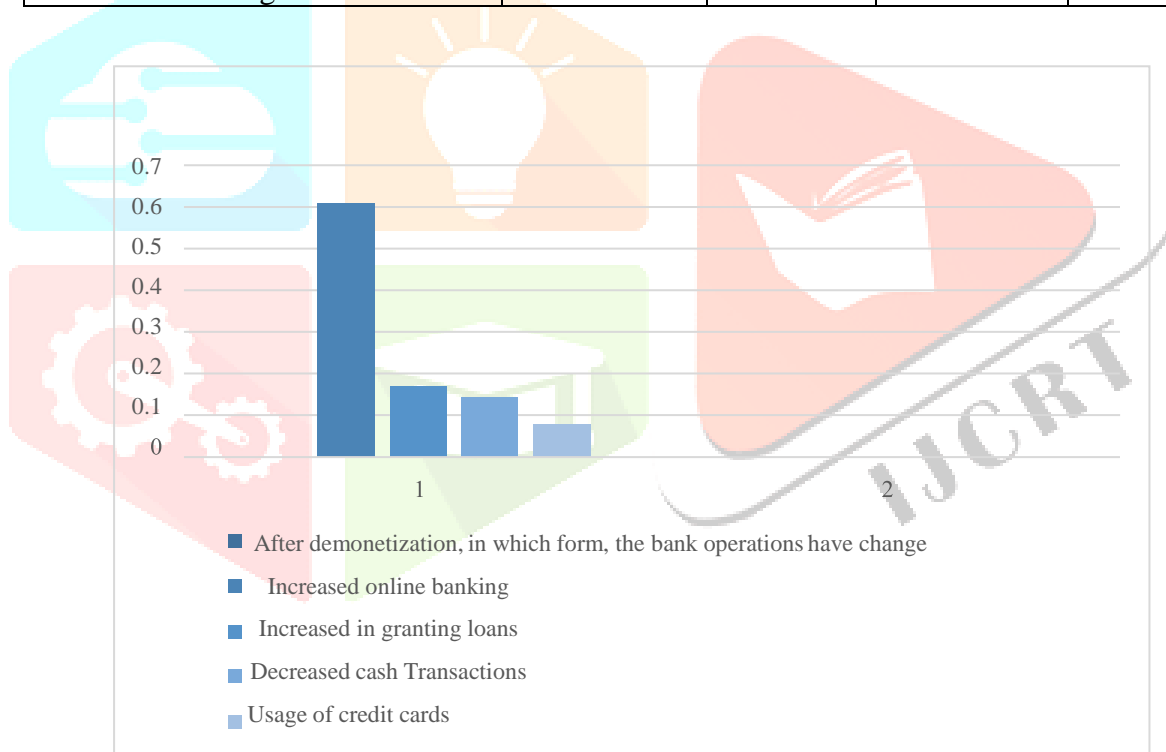
DATA INTERPRETATION: 61.6% of respondents say that by issuing the notice, 27.7% of the respondent say that takeover the collateral remaining 10.7% of respondents say auction the collateral to the public.

15. After demonetization, in which form, the bank operations have change

- a. Increased online banking
- b. Increased in granting loans
- c. Decreased cash Transactions
- d. usage of credit cards.

Table 13

|  | Increased online banking | Increased in granting loans | Decreased cash Transactions | Usage of credit cards |
|--|--------------------------|-----------------------------|-----------------------------|-----------------------|
| After demonetization, in which form, the bank operations have change | 60.7%                    | 17%                         | 14.3%                       | 8%                    |



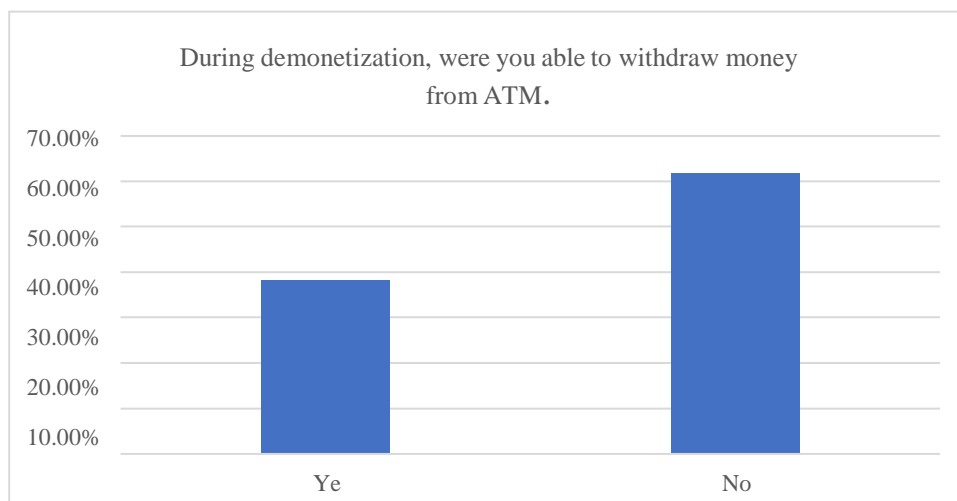
DATA INTERPRETATION: 60.7% of the respondents say that there was increased in online banking ,17% of the respondents say that increased in granting loans ,14.3% of the respondents say that decreased in cash transactions ,8% of the respondents say that usage of the credit cards.

16. During demonetization, were you able to withdraw money from ATM.

- a. Yes
- b. No

Table 14

|  | Yes   | No    |
|--|-------|-------|
| During demonetization, were you able to withdraw money from ATM. | 38.2% | 61.8% |



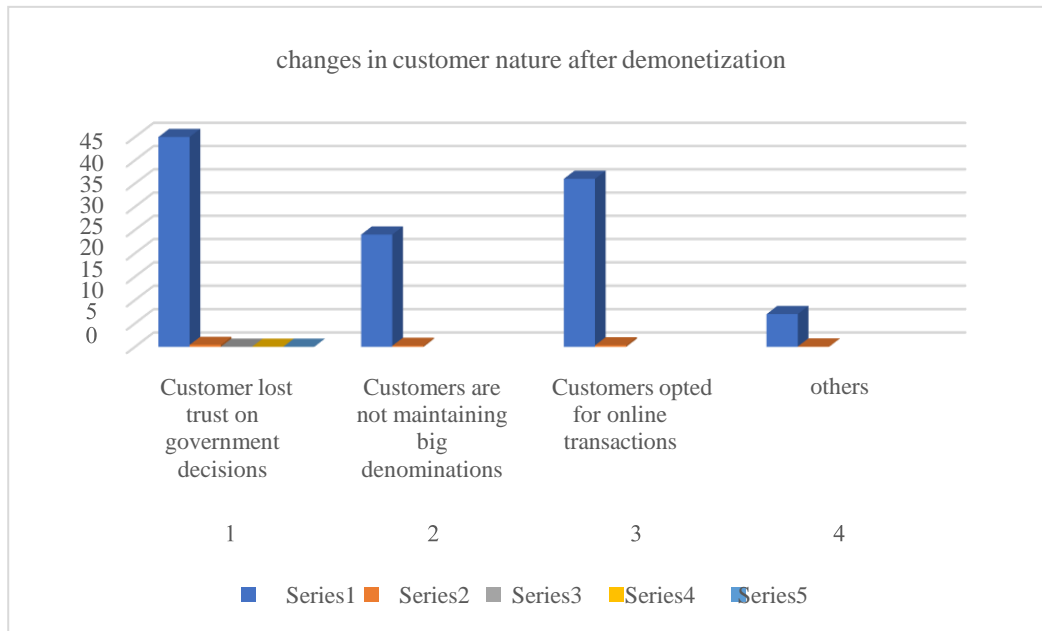
DATA INTERPRETATION: The no of respondents is 100%, Among them 61.8% of the respondents say NO, while the 38.2% of the respondents say Yes.

17. Changes in customer nature after demonetization (Post demonetization).

- a. customer lost trust on government decisions
- b. customers are not maintaining big denominations.
- c. customers opted for online Transactions
- d. others

Table 15

| Sl.no | Changes in customer nature after demonetization (Post demonetization) | Respondents | Percentage |
|-------|---|-------------|------------|
| 1     | Customer lost trust on government decisions                           | 45          | 40.2%      |
| 2     | Customers are not maintaining big denominations                       | 24          | 21.4%      |
| 3     | Customers opted for online transactions                               | 36          | 32%        |
| 4     | others  | 7           | 6.3%       |



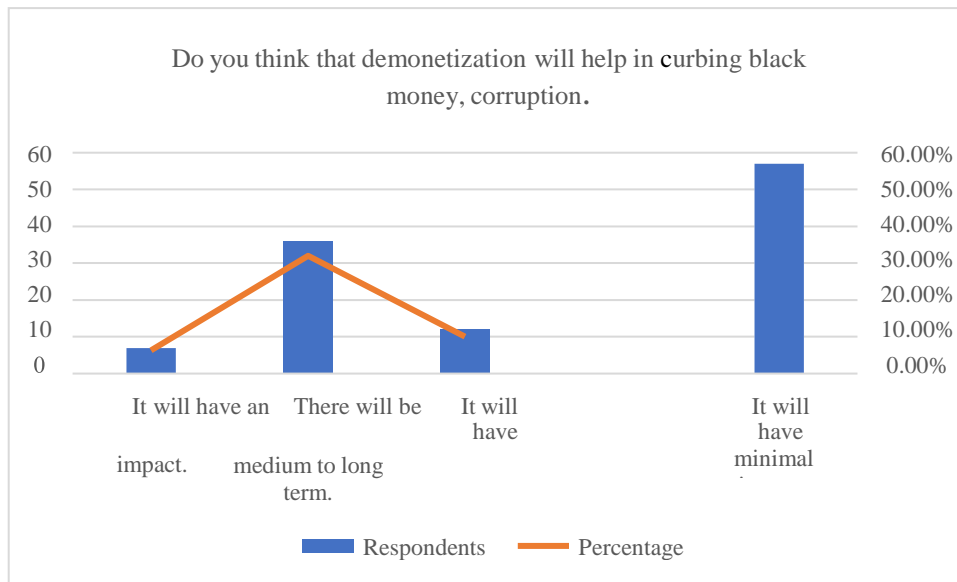
**DATA INTERPRETATION:** 40.2% of respondents said that customer lost trust on government decisions, 21.4% of the respondents said that customers are not maintaining big denominations, 32.1% of the respondents said that customers opted for online transactions, while 6.3% of the respondents say others.

18. Do you think that demonetization will help in curbing black money and corruption?

- It will have an immediate impact.
- There will be impact in medium to long term.
- It will have more impact.
- It will have minimal impact.

Table 16

| Sl.No. | Do you think that demonetization will help in curbing black money and corruption? | Respondents | Percentage |
|--------|---|-------------|------------|
| 1.     | It will have an immediate impact.   | 7           | 6.3%       |
| 2.     | There will be impact in medium to long term.                                      | 36          | 32%        |
| 3.     | It will have more impact.   | 12          | 10%        |
| 4.     | It will have minimal impact.  | 57          | 51.7%      |



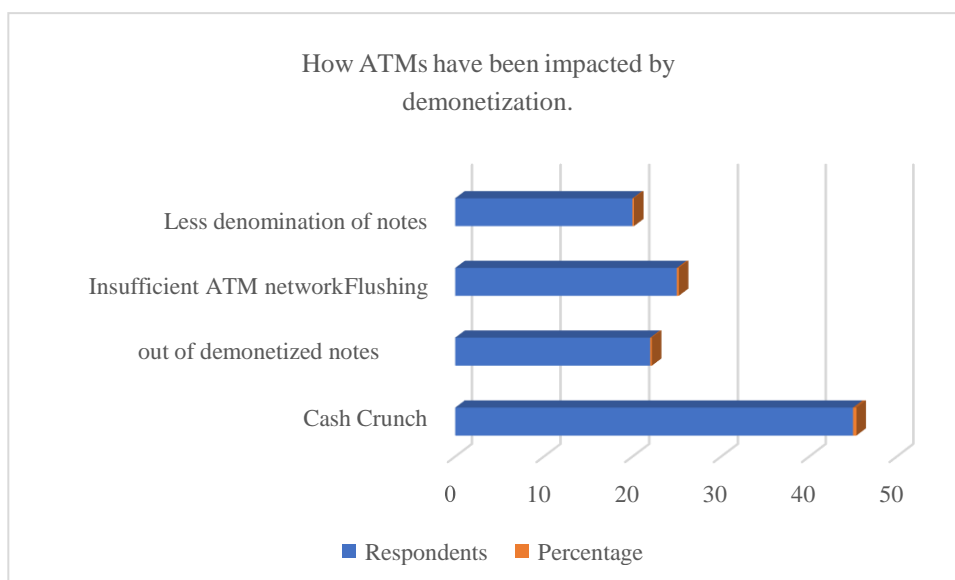
DATA INTERPRETATION: 51.7% of respondents say it will have minimal impact, 32% of the respondents say there will be medium to long term impact, 10% of the respondent say will have more impact, while 6.3% of respondents say there will be immediate impact.

19. How ATMs have been impacted by demonetization?

- a. Cash crunch
- b. Flushing out of demonetized notes
- c. Insufficient ATM network
- d. Less denomination of notes

Table 17

| Sl.no | How ATMs have been impacted by demonetization | Respondents | Percentage |
|-------|---|-------------|------------|
| 1     | Cash Crunch                                   | 45          | 40.2%      |
| 2     | Flushing out of demonetized notes             | 22          | 19.1%      |
| 3     | Insufficient ATM network                      | 25          | 23.3%      |
| 4     | Less denomination of notes                    | 20          | 17.4%      |



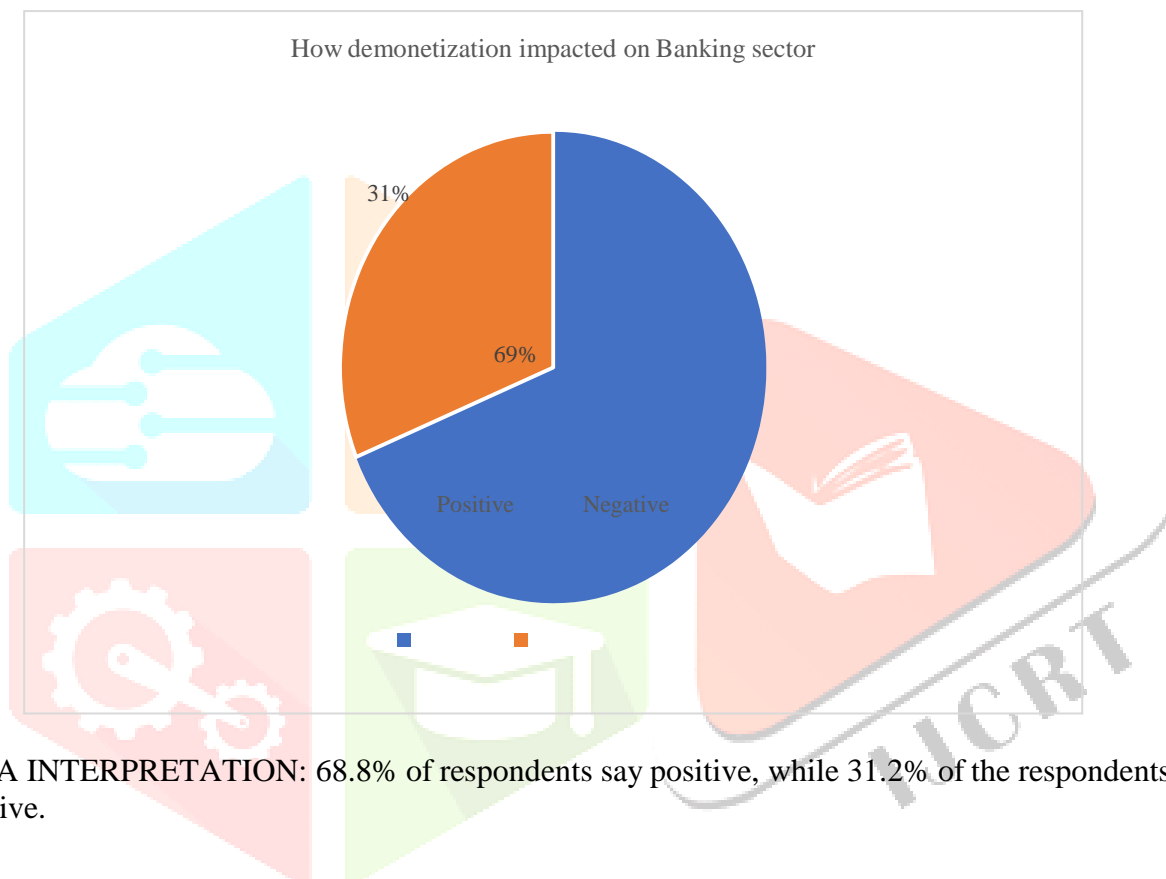
DATA INTERPRETATION: 40.2% of respondents say impact of cash crunch ,23.3% of respondents say insufficient ATM network. 19.1% of the respondents say flushing out of demonetized notes have been impactedwhile 17.4% of the respondents say there is less denomination of notes.

20. How demonetization Impacted on Banking sector.

- a. Positive
- b. Negative

Table 18

|   | Positive | Negative |
|---|----------|----------|
| How demonetization impacted on Banking sector | 68.8%    | 31.2%    |



DATA INTERPRETATION: 68.8% of respondents say positive, while 31.2% of the respondents say negative.

**STATISTICAL ANALYSIS:**

TABLE -19: Observed Value

| Gender | positive responses | negative responses | total |
|--------|--------------------|--------------------|-------|
| Male   | 53                 | 17                 | 70    |
| Female | 24                 | 18                 | 42    |
| Total  | 77                 | 35                 | 112   |

**HYPOTHESIS:**

H0: There is no significant impact on Banking sector.H1: There is significant impact on Banking sector.

**CHIA SQUARE TEST:**

HOW TO REPORT CHIA SQUARE RESULT:

**Table-20: Chi Square Test:**

| OBSERVED | EXPECTED | (O-E) | (O-E) <sup>2</sup> | (O-E) <sup>2</sup> /E |
|----------|----------|-------|--------------------|-----------------------|
| 53       | 48.1     | 4.9   | 24.01              | 0.499                 |
| 17       | 21.9     | -4.9  | 23.71              | 1.084                 |
| 24       | 28.8     | -4.8  | 23.04              | 0.8                   |
| 18       | 13.2     | 4.8   | 23.81              | 1.81                  |

Calculated value  $\sum = (O-E)^2/E$   
= 4.1977.

Significant level = 0.05 X<sup>2</sup> tabular  
value = 3.841

X<sup>2</sup> calculated value > X<sup>2</sup> Table value  
4.19 > 3.84 then Reject N.H(H<sub>0</sub>)

- Hence, we conclude that factors in the contingency table are not Independent i.e., It is Dependent.
- When the calculated value is greater value then the tabular value accepts the alternative hypothesis.
- But in this case the calculated value is greater than the tabular value so accepts the alternative hypothesis and reject the Null hypothesis.

**V. FINDINGS, SUGGESTIONS, CONCLUSION****FINDINGS:**

- Total population taken '150', sample size 112 and the total respondents are 112 of this study.
- The study has given a Maximum Female respondent (59) and remaining are Male respondents (53).
- The maximum respondents say they faced inconvenience due to demonetization as there is no exchange money to replace.
- The respondents as a bank employee's they say that there was increase in deposits in banks.
- Among 100% of respondents ,40% of respondents say demonetization has promoted use of digital payments in the country.
- The most of the respondents say Before demonetization the grant in loans were high, the interest rates were 12%, mostly the education loans were granted.
- The maximum respondents choose After demonetization, bank operations have changed to increase in online Banking.
- The maximum respondents say they were unable to withdraw money from ATMs during demonetization, due to cash crunch.



- The maximum respondents choose due to demonetization there will be minimal impact in curbing black money, and corruption.
- The maximum respondents i.e., 68.8% choose demonetization has impacted positive on banking sector.

### **SUGGESTIONS:**

- According to this study, I would like to suggest that the demonetization was a measure step taken by the government of India to deal with black money, which was in abundance in Indian market.
- Educate everyone about the use of online payments.
- Camps should be organised at village levels and city levels at each and every corner to bring awareness.
- Banks should initially build up a far-reaching circulation framework that will empower clients to contact them at various focuses. So that we can reduce stress of the employees.

### **CONCLUSION:**

Demonetization is when a currency note of a particular denomination ceases to be a legal tender. Our government replaced the old Rs 500 notes and Rs 1000 notes with the newer ones of Rs 500 and Rs 2000. Recently the government has taken decision regarding the denomination of Rs 2000 notes. The massive move taken by the government to lash out the problems like corruption, counterfeiting, black money from the economy. Through this study and data collected it is concluded that, demonetization has brought positive impact on Banking sector. People have developed towards online banking and the bank employees helping the people regarding their needs. It is a move towards cashless economy. However according to the survey, majority of the applicants responded that demonetization hasn't reduce the corruption, black money it has shown minimal impact. Demonetization influenced and brought changes in all the corner of the economy. Banks are the major institutions affected by demonetization. Banned denominations were ploughed back and allowed the citizens to exchange with the banks, this led to crowds near banks and queues ATMs, and stressed employees, overtime work pressure. Demonetization effect is of almost 86% of currency value in circulation was withdrawn without replacing bulk of it.

### **REFERENCES**

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