

“Demonetization and its effect on Banking Sector”

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Abstract: *Demonetization is a tool to battle Inflation, Black Money, Corruption and Crime, discourage a cash dependent economy and help trade. Its policy of the government by banning Rs. 500 and Rs.1000 currency notes has influenced all almost all the corner of the economy. Its effect on Banking Sector is significant as Bank is a center for channeling the legal tender money to all needs of the society. The biggest beneficiaries of demonetization are Banks. It made the banks to accept the deposits without any cost of promotion and drastically increased liquidity position of the banks. The present study is made out of available literature on post demonetization. It portrayed the effect of demonetization on Banking Sector. It encompassed the recent decision of the central government on Demonetization and its gradual effect on Indian banking sector.*

Key Words: *Demonetization, Banks, Liquidity, digitization.*

I. Introduction

Banks are core part of any economy. They channelized the money to the smooth functioning of different sectors. Initiatives of Green Banking, made the banks to transform conventional banking services into modern banking services. The products and services are offered through electronic devices with the help of internet. Now a day, bank services are catered at the finger tip of customers. Surgical Strike on Black Money called ‘Demonetization’ brought enormous changes in all the sectors of the country. Banks are not exceptional from the influence of Demonetization and it made vibrations in the operations as well as products and services of Banks. It created greater demand to digital banking services where cashless transactions are prioritized. Day to day operations of Banks are affected and found tough in Management of liquidity and Employees. It made greater influence on Management of liquidity and its demand raised by customers in exchanging of their banned currency notes while minimizing risk and maximizing quality of service. At the same time meeting the guidance of Reserve Bank of India was challenging. Demonetization has disturbed the bank operations and made the employees to work under unconditional stress in extended working hours of a day. Most of the banks were not able to discharge other banking services while exchanging the banned currency notes. Hence, the present study is made to figure out the influence of demonetization on banking sector. It showcases post demonetization effect on banks and its operations.

II. Review Of Literature

Nithin and Sharmila (2016) studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy. They also argued that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

Nikita Gajjar (2016) deliberated a study on Black Money in India: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be faced by the Government.

Vijay and Shiva (2016) examined demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

Manpreet Kaur (2017) conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

Lokesh Uke (2017) researched on demonetization and its effects in India. He studied positive and negative impact of demonization in India. The study was based on secondary data available in newspaper, magazines etc. The main purpose of demonetization is to eradicate the black money and diminish the corruption. He expressed

that Government of India has become success to some extent. Demonetization had negative impact for a short duration on Indian financial markets. But he said that the real impact will be shown in future.

Sweta Singhal (2017) carried out research on Demonetization and E Banking in India. It was a case study to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization. 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. She felt that the study shall also helpful for banks to improve their e-banking facilities.

Objectives Of The Study

1. To study the influence of demonetization on Banks operations.
2. To find out positive and negative results of post demonetization on Bank operations.

III. Methodology Of The Study

The study is based on Secondary Sources of data. It includes available published literatures such as books, journals, newspapers and relevant government websites. The study tries to look at the extent of demonetization influence on normal banking operations.

IV. Demonetization And Bank Operations

Demonetization has brought plethora of challenges in additions to the challenges which are already facing by Banks. The influences were short-term and long-term views. In short-term, it disrupted the banks and stressed strongly to carry out bank operations and in long run it helped the banks to pool the deposits without incurring of any cost. Here are four influences of demonetization on Banks.

1. **Increase in Deposits:** demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.
2. **Fall in cost of Funds:** Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.
3. **Demand for Government Bonds:** After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.
4. **Sagginess in Lending:** lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

Results of Post Demonetization on Bank Operations

There are positive and negative results of Post Demonetization on Bank operations. Both have influenced Banks' liquidity and profitability and employees too. The following are positive results of demonetization.

1. **Free flow of deposits:** Banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability.
 1. **Improved digital Interface:** Improvement in digital tools and equipment to execute bank transactions has avoided cash loss for various reasons like theft, dacoits and misappropriations.
 2. **People's surplus at Bank:** cash is an idle asset which does not yield any income unless kept in a bank. So, demonetization made the people to keep their surplus money in a bank to earn some sort of income.
 3. **Increased number of Customers:** Demonetization has influenced public to come and execute transactions with banks. It made even a non income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus.
- Similarly, Demonetization has brought some operational issues to Banks. It disturbed Banks' Employees, Operational Costs and Profitability. The following are negative influences of Demonetization.
1. **Cash Reserve Requirement:** 100% CRR on incremental deposits meant that banks did not earn any interest on Rs. 3 Lakh crore of deposits for nearly a fortnight.
 2. **Waived off ATM Charges:** ATM charges were waived off during banned note exchange and banks incurred a loss of Rs. 20 in every transaction.
 3. **Waived off Merchant Discount Rate:** Banks incurred loss of 1% discount charges from merchants on using of every card transaction.
 4. **Non Selling of Loans:** Banks were focused on exchanging currency notes and they were not able to sell any loan products. This made banks to curb their lending activities.

5. **Reduced SMEs’s Sale and influence on NPAs:** During demonetization, some SME businesses had seen their sales drop by 50-80 percent and could default in their installments to banks. This led the banks to consider it as NPA and affected its level in banks.
6. **Stress on Employees:** Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced life style. Few cases were found where the employees committed suicide due to work pressure.

V. Conclusion

Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. Banks are major institutions affected by demonetization. Banned denominations were ploughed back and allowed the citizens to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Though it 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.

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