

## **DEMONETIZATION AND ITS IMPACT ON BANKING AND INDIAN ECONOMY: AN ANALYTICAL REVIEW**

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### **ABSTRACT**

*The Impact on Banks Deposit and Interest rates are Positive, as increased deposits would lead to reduced interest rates and inflation. This policy would help to fight with black money and it will also reduce corruption. The demonetization move could boost government revenue to the extent that helps to move economic activity from the informal to the formal sector. The demonetization drive has the potential to raise government revenue and encourage bank lending. The conclusion is the bold decision taken by Indian government has affected the economy to fight against corruption and black money. It has more positive affect than negative in long run. Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all are declined for a short time but its fruitful effects in long run. This paper highlights about An Analytical Review on Demonetization and its Impact on Banking & Indian Economy.*

**KEYWORDS:** *FMCG Sector, Demonetization, Indian Economy, Indian Financial Market, Black Money.*

### **Introduction**

Demonetization has brought major influences like there is more deposit in bank, as more deposit which they lend to low rate. Bank has more liquidity therefore started lending to RBI. All this resulted in free flow of cash which improved their liquidity. There is increase in digital banking. As more increase in the customer more CASA (Current Account Saving Account) in banks. There were demerits also like waived off ATM charges and waived off merchant discount rate due to which bank incurred losses. However, during November and December bank work was largely centered on accepting and exchanging specified bank notes. As a result other activities like lending during busy season is affected which will reduce their earnings for the next quarter and profitability.

### **Review of Literature**

The article "demonetization and its impact on Indian banking system" (with special reference to e-cash) by Manpreet Kaur, highlights the present government on Indian Banking system. It begins with the history of demonetization in India. It shows the impact of demonetization on India and how India's banking sector moved from physical to digital banking. The research showed the impact of demonetization on India. It has effect on the black money, terror funding, real estate, Political parties in crisis ahead of polls. Worse, for a transitory period it disrupts the lives of innocent people, making them leg around ATMs/banks and wait in serpentine queues. The biggest beneficiary from this policy will be the banking sector because there will be more depositing in the bank so there will be increase in the current and saving account. As banks have more liquidity they will lend to people with less interest rate, eventually benefit common people. After demonetization there is immediate Effect on Digital Industry, E-Wallets bagged big business.

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The major conclusion of the study is that it drives the nation towards a cashless economy ensuring transparency, increasing circulation money in an erstwhile highly transactional economy, improving Direct Benefit Transfers (DBT), leading to progress, curbing black money and allied illegal activities. The article "Demonetization and its effect on Banking Sector" by Dr. M. Prabhu, Girish V and Mamatha R showcased the study to show India from demonetization to digitalization. It affected the whole economy but banking sector is majorly affected by demonetization. The biggest beneficiaries of demonetization are Banks. It shows how decision of demonetization by the government affect banking sector. The paper began with introduction that how bank works and how demonetization made changes in the working of banks. Conclusion of this study is how demonetization is used by the government as a tool to fight against corruption and lead to economic growth. Banks were majorly affected by this policy. Banks have gained deposits substantially after demonetization which they can invest for improving their profitability. Thus demonetization is not an unmixed blessing but merits are more than demerits and the economy will move forward with less cash holdings by banks.

The study titled "Demonetization and its effects in India" by Lokesh Uke is based on the area of economy affected by the decision of demonetization policy taken by Indian government. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. This historic decision was taken to fight against black money and terror attacks. The main objective of the study was to show the positive and negative impact of demonetization policy in different areas of economy. This report is based on the secondary data available like magazine newspapers etc. according to this report demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, & to encourage the country towards the cashless economy. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India's Gross Domestic Product, and approximately 80% of India's employment depends upon IT sector. It affected real estate's it fell by 40% in top states.

The auto industry negatively impacted on Indian auto-assets backed loan. FMCC industry had gone down by 1.5% or Rs 3,840 crores in November, compared to October. Demonetization has created so many hurdles for the citizens of India. They faced queue problems in the banks and ATM'S for depositing and withdrawing money and problem of less consumption of goods due to the lack of cash liquidity. The study titled "Demonetization and its impact on Indian Economy" by Nithin Kumar & Sharmila shows how government took the historical step of demonetization to fight against black money and corruption on 8th November 2016 by banning 500 and 1000 rupee notes. This is not for the first time Government is demonetizing the currency. It happened twice once in 1946 banning 1000 and 10000 rupee notes. On 1978 government once again banned 1000,500, 10000 notes to fight against black money. This report show how different sectors of economy got affected by this policy. This report is based on the secondary data. The major effects of demonetization is on parallel economy, with the demonetization the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents.

Money supply will be reduced in the market due to withdrawal of currency notes from circulation. Due to decrease in money supply production decreases and it affect the consumption negatively. Prices for different goods will fall with demonetization of currency. The prices of consumer goods and the prices of real estate sector are expected to fall. There will be increase in bank deposits and increase in alternative mode of traction people will move from physical to digital banking. GDP will Decrease in the Short Run. There will be a negative effect on other small units of the economy like agriculture and small traders etc. Because the deal in small commodity, not having other mode of payment other than cash transactions and lack of demand will affect them negatively. It can be concluded from the report that the historic decision has affected different area of economy in negative way for a short run. But if the government take the measure on timely bases it can have fruitful benefit for the economy in the long run.

The study titled "Impacts of Demonetization on Indian Economy-Issues &Challenges" by E.Kamatchi Uthulakshmi shows what are the different type of issues and challenge faced by the government and citizen of India by the demonetization policy. What are the different sector of economy were affected by demonetization. The positive effect of this policy and short and long term impact of the policy. The article discussed the challenges faced by the country. The scarcity of cash due to demonetization led to chaos and most people holding old banknotes faced difficulties exchanging them

due to endless queues outside banks and ATMs across India. India's GDP growth rate for the financial year 2016-17 has been decreased by 0.5 to 3 per cent due to demonetization. Reduced consumption, income, investment etc. may reduce India's GDP growth. Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetization of 500 and 1,000 bank notes. The amount of black money countered by demonetization depends upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect.

Prime Minister Modi's demonetization move will have far reaching implications. Black money is nothing but a plunder of the nation. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. Demonetization will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. Money will either be deposited into the banks with heavy penalty or be simply destroyed. The pulling out of the old Rs 500 and Rs 1,000 currency notes will help make the election process clean and transparent. The real estate sector is likely to see a significant negative impact in the medium-to long-term, particularly in the repurchase market. An estimate at least 40 percent of real estate transactions in Delhi -NCR are in black. Demonetization move will curtail the flow of black money into the real estate sector. Demonetization has crippled the hawala rackets Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. Terror financing is sourced through counterfeit currency and hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.

### Conclusion

The major conclusion drawn by this report is that the overall economic activities will be dampened in the short term .The immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits .In short run agriculture sector, small vendor ,labour force ,small retail store (kirana stores)etc. will get affected. But in long run demonetization will help the economy to grow more as it help to control corruption and black money circulation in the economy.

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