

A PROJECT REPORT ON  
***“A STUDY ON IMPACT OF  
DEMONETISATION ON INDIAN BANKING  
AND FINANCE SECTOR.”***

A Project Submitted to  
University of Mumbai for Partial Completion of the Degree  
of Bachelor in Commerce (Banking and Insurance)

Under the Faculty of Commerce

By

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**Dr. R.T. Doshi College of Computer Science**

**NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)**

**Sector-19, Airoli, Navi Mumbai, Maharashtra 400708**



***FEBRUARY, 2024.***



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**CERTIFICATE**

This is to certify that **MS.**\_\_\_\_\_ has worked and duly completed his Project work for the degree of Bachelor in Commerce (Banking and insurance) under the Faculty of Commerce in the subject of **Banking** and her project is, “\_\_\_\_\_”.

Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

**ASST. PROF. DR. KISHOR CHAUHAN.**

**Date of submission:**

## **DECLARATION**

I the undersigned **MS.SWASTI CHETAN PARKAR** here by, declare that the work embodied in this project work titled “***A STUDY ON IMPACT OF DEMONETISATION ON INDIAN BANKING AND FINANCE SECTOR***”, forms my own contribution to the research work carried out by me under the guidance of **ASST. PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

(SWASTI CHETAN PARKAR)

Certified by:

**ASST. PROF. DR. KISHOR CHAUHAN.**

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## LIST OF ABBREVIATIONS

<b>Sr. No.</b>	<b>Abbreviation</b>	<b>Full Form</b>
1	CASA	Current Account Savings Account
2	NPA	Non Performing Asset
3	SBI	State Bank of India
4	US	United States
5	GDP	Gross Domestic Product
6	RBI	Reserve Bank of India
7	NBFC	Non Banking Financial Company
8	PSU	Public Sector Undertaking
9	DHFL	Dewan Housing Finance Corporation Ltd.
10	PMJDY	Pradhan Mantri Jan-Dhan Yojana
11	CSO	Central Statistics Office
12	PSB	Public Sector Banks
13	MCLR	Marginal Cost Of Funds Based Landing Rate
14	ATM	Automated Teller Machine
15	SME	Small And Medium-Sized Enterprises
16	LAP	Loan Against Property
17	CRR	Cash Reserve Requirement
18	NRI	Non Resident Indian
19	SCB	Standard Chartered Bank
20	E-banking	Electronic Banking

21	UPI	Unified Payments Interface
22	BHIM	Bharat Interfere For Money
23	NPCI	National Payments Corporation of India
24	IMPS	Immediate Payment Service
25	ICRA	Investment Information and Credit Rating Agency of India Limited
26	KCC	Kisan Credit Card
27	AUM	Asset Under Management
28	PPI	Prepaid Payment Instrument
29	WALR	Weighted Average Lending Rate
30	LIC	Life Insurance Corporation
31	WACR	Weighted Average Call Money Rate
32	CBLO	Collateralized Borrowing and Lending Obligation
33	CD	Certificate Of Deposit
34	CP	Commercial Paper
35	MPCFD	Monetary Policy Committee
36	FD	Fixed Deposit
37	NSE	National Stock Exchange
38	BSE	Bombay Stock Exchange
39	FMCG	Fast Moving Consumer Goods
40	EMI	Equated Monthly Installment
41	CRM	Customer Relationship Management

# **CHAPTER 1:- INTRODUCTION CHAPTER 1:-**

## **1.1. KEY POINTS :-**

### **1.1.1 WHAT IS DEMONETISATION?**

Demonetisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

The opposite of demonetisation is demonitisation, in which a form of payment is restored as legal tender. A currency unit is what we would commonly refer to as physical money such as bank notes and coins. When demonetisation occurs, the country's currency unit is essentially worthless and can be no longer be used to carry out day to day transactions.

Furthermore, the replacement of this form of money occurs with new notes or coins. Sometimes, a nation completely introduces a new currency in place of old currency. Demonetisation is a move in which a government bans the notes or coins of a certain denomination.

### **1.1.2 UNDERSTANDING DEMONETISATION**

Removing the legal tender status of a unit of currency is a drastic intervention into an economy because it directly effects the medium of exchange used in all economic transactions. It can help stabilize existing problems, or it can cause chaos in an economy, especially if undertaken suddenly or without warning. That said, demonetisation is undertaken by nations for a number of reasons.

### **1.1.3 DEFINITION OF DEMONETISATION**

Demonetisation - ending something, termination, conclusion as no longer the legal tender of a country. The act of ending something; "the termination of the agreement". "There is a famous saying in Telugu, the one who gets caught doing a mistake is a thief, and the one who doesn't get caught, and doing the same mistake is a king".

1. The numbers and calculations for this are mind-boggling. According to the RBI press conference, there are 16.5 billion '500-rupee' notes and 6.7 billion '1000-rupee' notes were circulated. Which according to the government would be limited in circulation.
2. Of this Rs 500 notes constituted almost 45% of the currency in circulation while 39% of the notes were of the Rs 1,000 denomination. In value terms. However, Rs 10 and Rs 100 notes constituted 53% of the notes in circulation.
3. The Financial Action Task Force, a global body that looks at the criminal use of the international financial system.
4. In two words: black money. Unaccounted money, often used in any form of corruption or illicit deals, usually takes the form of high-value notes, which in this case are the Rs 500 and 100 bills.

CASA: -

CASA is abbreviation of current Account Savings Account. It is the ratio which indicates how much of the total deposits with bank in the current account and savings account. In a simple language, the deposits with the bank are in the current account and savings account. Banks do not pay interest on the current account deposits and pays a very low% of interest on savings on account deposits. Hence, it is a good measure to get deposits at no or very low cost.

### **1.2 INTRODUCTION TO DEMONETISATION:-**

### **1.2.1 The process of demonetisation**

Although there have been no official government announcements, analysts and experts have said that the process of demonetisation probably started 10 – 8 months prior to the announcement of demonetisation; i.e., early January or March 2016. This process included the printing of notes, the alteration of ATM machines to process the new currency, information given to key people so that a smooth transition could be affected, etc. Since all of the Mahatma Gandhi New Series carry the signature of Urjit Patel, we can conclude that process of printing the new notes was probably started after September 2016 when Urjit Patel had taken over.

During the time of the start of the process, Raghuram Rajan was the Governor of the RBI, however, all notes of the Mahatma Gandhi New Series bear the signature of Urjit Patel, who took over in September 2016. Whether this is due to Rajan’s strong opposition to demonetisation in general or because of good organization by the government is a matter of debate. Another aspect this brings up is that the initial phases of the process of demonetisation may have been carried out without the knowledge of Rajan due to his staunch opposition to demonetisation. If this is indeed true, it makes sense that all notes of the Mahatma Gandhi New Series bear Urjit Patel’s signature rather than that of Raghuram Rajan. (Check whether unconstitutional)

When demonetisation was announced, Rs.15.44 lakh crore worth of notes stopped being legal tender. However, only Rs 1.36 lakh crore had been issued by 18 November 2016. This resulted in the cash shortages and long queues that come to most Indians’ mind when we think of the 2016 demonetisation. The entire process of demonetisation was kept a closely guarded secret. Information was given to the people involved in the process only on a need-to-know basis. Due to this only around 10 people had the big picture. This level of security and secrecy ensured in extremely few leaks and even those were swept under the mat. The notable exceptions to this include a news report in the Hindi daily.

### **1.2.2 Objective of demonetisation**

The main objective of government was to curb the black money, which included income from corruption, tax which had not been reported and thus

untaxed, money earned from illegal goods sales and illegal activities i.e., human trafficking, drugs. Another objective included expanding tax base and increasing the number of tax payer, reducing the number of transactions carried out by cash; money laundering, to stop the finance to terrorists and radical group such as Maoists and Naxalites; and integrating the formal and informal economies. The following are the objectives of demonetisation in India

### **Black money**

The government estimated that ₹5 lakh crore, or approximately 20%, of the demonetised banknotes would be permanently removed from circulation. However, according to a 2018 report from the RBI, approximately 99.3% of the demonetised banknotes, or ₹15.30 lakh crore of the ₹15.41 lakh crore that had been demonetised, were deposited with the banking system. The banknotes that were not deposited were worth ₹10,720 crore. Commentators concluded that the government failed in its aim of purging black money from the economy.

### **Evasion**

A jewellery store in a shopping mall with a notice "We accept ₹500 and ₹1,000 notes", even after they were no longer valid banknotes. There were reports of people circumventing the restrictions imposed on exchange transactions by conducting multiple transactions at different bank branches, and by sending hired people, employees, and followers in groups to exchange large amounts of demonetised banknotes at banks. In Gujarat, Delhi and many other major cities, sales of gold increased post-demonetisation, surging the price as much as ₹45,000 (US\$630) from the ruling price of ₹31,900 (US\$450) per 10 grams (0.35 oz). The enforcement directorate raided several forex establishments making backdated entries. Money laundering using backdated accounting was carried out by co-operative banks, jewellers, sellers of mobile phones, and several other businesses.

### **Counterfeit banknotes**

After demonetisation, there was an increase in the number of counterfeit

₹100 and ₹50 banknotes. The number of counterfeit ₹500 and ₹1,000 banknotes saw an increase in 2016–17 and subsequently a decline in 2017–18.

But in 2017–18, there was an increase in counterfeit ₹500 and ₹2,000 banknotes than the previous year. There has been no significant change in the number of counterfeit banknotes detected. In 2017–18, the number of detected counterfeit banknotes was close to the number before demonetisation, after demonetisation, only 0.0035% of the ₹1,000 banknotes were found to be counterfeit.

### **Tax collection**

The number of income tax returns filing increased from 43.3 million to 52.9 million between the financial year of 2016 and 2017, which was not a significant increase compared to the increase between 2015 and 2016. The tax compliance had increased with a number of income tax returns filing increased but the majority of them were from salaried and non-business class. The income tax collections increased in the financial year of 2017 due to Income Disclosure Scheme 2016. If adjusted for it, the increase in tax collection was modest. The tax to-GDP ratio has increased due to expanding tax base. An analysis of the economic data shows that there has been no substantial increase in the number of new tax payers or direct tax collection due to demonetisation. Indirect tax/GDP ratio also remained on the trend path and had no visible impact

### **Digital payments**

The push for digital payments was one of the stated intentions of demonetisation. There was immediate and sharp jump in digital payments in November–December 2016 owing to shortages of cash. The debit card point of sales transactions was twice the size of value suggested by trends before demonetisation. The value of credit cards increased but no sharp growth was seen. The mobile wallet transactions picked up immediately after demonetisation, followed by a dip in mid-2017 due to easing cash shortages.



### **Current scenario-**

Before I state anything, a reasonable photo of the considerable number of banks and ATMs is available which delineates today's existence. In any case, unquestionably this is for a brief timeframe.

Numerous enterprises will be profited because of the demonetisation strategy and many will endure. Be that as it may, by and large the request is going to or rather has effectively diminished by 30%-40% because of absence of cash with the customers. As the request goes down, the benefits for the quarter finishing December'16 will fall. The request will get the force as the clean settles down. The economy will balance out when there is sufficient new money in the hands of individuals

### **Effect on public sector as well as private sector Bank-**

The shares of open segment banks have risen the real gainers from demonetisation. When benchmark records have declined around 5%, noteworthy state possessed banks' stock costs have climbed 6-22%. For example, the Union Bank of India stock has increased 21% since November 8, when Prime Minister Narendra Modi declared the choice to demonetize Rs 500 and Rs 1,000 cash notes. It is trailed by Baroda with 18.6% additions, Bank of India with 11.4%, while Canara Bank and State Bank of India have enrolled 10% expansion in their scrip.

### **Banking sector in a flux-**

On the off chance that the point concede has been shaken by the money crunch post the Centre's demonetisation move, banks that have been on the terminating line, are up against a large group of new difficulties. In the wake of three monotonous years of log jam, the keeping money part had been sticking its expectations on recuperation of sorts. With monetary record repair in progress, post the RBI's advantage quality survey; banks were just about preparing the pitch for the following leg of loaning.

### **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. Surplus liquidity conditions have helped facilitate the transmission of monetary policy to market interest rates. Post demonetisation, several banks lowered their domestic term deposit rates and lending rates. The median term deposit rates of SCBs declined by 38 bps during November 2016-February 2017, while the weighted average term deposit rate of banks declined by 24 bps (up to January 2017). Combined with the sharp increase in low-cost CASA deposits, the overall cost of borrowings declined, allowing banks to reduce their lending rates. In the course of recent months, with bank stores swelling; store rates have fallen by a generous 50- 75 premise focuses crosswise over banks and residencies. While such a lofty fall is far-fetched once more, banks holding a bit of the stores (as CASA and term stores), will keep on trimming store rates.

This ought to prompt diminishment in banks' cost of assets through the following financial (2018). The uptick in stores will be equivalent with the piece of the overall industry of banks. PSU Banks that charge a lion's share (more than 70 for each penny) of the stores will be the greatest gainers of the ascent in stores, prompting lower cost of assets.

#### **Good appetite for government bonds-**

After the sharp ascent in assets post demonetisation, banks started loaning such surplus to the RBI under the switch repo alternative. PSU Banks, specifically, forcefully conveyed abundance finances in government bonds as well. The fall in security yields is probably going to include 15-20 for every penny kicker to banks' income in FY17. As withdrawal tops are lifted, and banks can gage liquidity situation better, stopping enormous wholes under the turnaround repo window will probably end. Banks rather will hope to convey these assets for a more drawn-out term. Given the slackness in credit development, especially in PSU Banks, an extensive bit of abundance assets will keep on finding its way into the administration security advertise. This ought to knock up banks' treasury salary in FY18 and help profit to some degree. In any case, after the sharp rally in securities a year ago, treasury increases will probably direct in FY18. In the time of November, PSU Banks

have been net purchasers in government securities to the tune of about Rs 25,900 crore. Private Banks excessively purchased (net) around 20,000 crores in November. In the time of December, the purchasing binge proceeded for PSU Banks, who made net buys of an incredible Rs 61,000 crore, even as private banks turned net merchants.

### **Opening of Jan Dhan Account**

Post-demonetisation, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 per cent) were with public sector banks. Of the new Jan Dhan accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas. Deposits under PMJDY accounts increased significantly post demonetisation. The total balance in PMJDY deposit accounts peaked at Rs. 746 billion as on December 7, 2016 from Rs. 456 billion as on November 9, 2016 - an increase of 63.6 per cent. As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

### **No big recovery-**

The Central Statistics Office, as of late put out its report to evaluate for GDP development for 2016-17, which has been addressed by numerous financial analysts. The CSO's 7.1 for every penny development in genuine GDP in 2016-17, have been pegged around most financial experts to 6.8 for every penny levels. With the trade maelstrom the economy anticipated that would standardize by the second 50% of 2018 monetary, numerous business analysts assess a 7.6-odd per penny development in genuine GDP for 2017-18. On the off chance that we apply 1.2-1.4 times various to this, bank credit can, best case scenario, develop by 10-11 for each penny in 2017-18. Likewise, while bank credit develops at a specific various to genuine GDP development, the ostensible.

## **1.3 IMPACT OF DEMONETISATION ON INDIAN BANKING SECTOR:-**

### **1.3.1 Impact of demonetisation on bank deposit**

In an exceptional and notable move, the Government of India declared the demonetisation of high demonetisation bank notes of 500 and 1,000 from November 9, 2016. The goal was to control the hazard of a parallel economy. According to the World Bank, the span of the shadow economy is assessed at ~25% of the formal economy. This activity is relied upon to help control defilement, fake cash course, fear financing, tax evasion, and so on. The extraordinary sum under 500 and 1000 divisions was ~| 15 lakhs crore, adding up to ~86% of the aggregate exceptional money available for use then. In the underlying days of demonetisation until November 18 2016, 544571crore was saved in the banks at every day normal of | 54457 crore. This got diminished to 22500crore for each day by December 10, 2016 (see show underneath). The official number for aggregate sum got by banks by December 30, 2016 is not yet out.

**Table 1.1 Shows amount of deposit made by people post demonetisation**

DATE	AMOUNT DEPOSIT	DEPOSIT PER DAY
8/NOV/16	DEMONETISATION ANNOUNCED	
18/NOV/16	544571	54457
27/NOV/16	844982	33379
6/DEC/16	1150000	33891
10/DEC/16	1240000	22500
30/DEC/16	1552608	15630
SOURCE: www.moneycontrol.com		

**Increased Deposits-** The BJP-led government's turn will pull an expansive piece of first-time clients to banks, which should utilize the system at any rate once to trade their old notes for new ones. As indicated by a review led by Moody's, individuals tend to keep utilizing managing an account benefit once they have

crossed the 'first-time client' stamp. This improvement will expand bank stores by 1 to 2 percent contrasted with what they were before the demonetisation plot, the report guaranteed. This, obviously, will occur after the underlying surge of deposits inflows, trailed by sharp outflows, settles in around three months from now.

**Payment Banks to Benefit-** Payment banks and others elements which are a piece of the exchange environment are probably going to be long term recipients, as more money discovers its way into the formal managing an account channel. We trust the total measures taken to reign in black cash will enhance managing an account propensity, make money related and valuebased history of the casual and money subordinate fragments and could, over the long term, make them 'bankable'.

**Investment in Financial Products-** Investors in the short term and now will trust that Cash is not the most secure resource and there is little point in accumulating it. This will move them from physical advantage for money related resources where returns are likewise higher.

### **1.3.2 Impact of demonetisation on balance sheet of banks**

- Decline in currency in circulation on account of demonetisation led to a surge in bank deposits.
- Total currency in circulation declined by about ₹ 8,800 billion (₹8.8 lac crores). This, in turn, was largely reflected in sharp increase of about ₹ 6,720 billion (₹ 6.72 lac crores) in aggregate deposits of the banking system even after outflows in NRI deposits during the period.
- Between end-December 2016 and early March 2017, there was a net increase in currency in circulation by about ₹ 2,600 billion. During this period, deposits with banks also declined moderately.
- As per data for October 28, 2016 (prior to demonetisation) and February 17, 2017 (latest available), aggregate deposits of SCBs increased by ₹ 5,549 billion during the period.

- Bulk of the deposits so mobilized by SCBs have been deployed in: (i) reverse repos of various tenors with the RBI; and (ii) cash management bills (CMBs) issued under the Market Stabilization Scheme (which is a part of investment in government securities in the balance sheet of banks).
- Loans and advances extended by banks increased by ₹ 1,008 billion. The incremental credit deposit ratio for the period was only 18.2 per cent.
- Additional deposits mobilized by commercial banks have been largely deployed in liquid assets. This may be due to the expected transitory nature of the bulk of such deposits and weak demand as reflected in the subdued growth of credit.

**Table 1.2:- Change in major asset and liabilities of SCBs-**

**October 28,2016 and February 17,2017**

(₹ in billion)					
Liabilities			Assets		
1.	Aggregate Deposits	5549	1.	Bank Credit	1008
2.	Borrowing	(-56)	2.	Investment in govt. securities	4506
			3.	Net other assets	(-75)
Total		5493	Total		5493

Note:- Data are provisional

Source:- RBI

### **1.3.3 Impact of demonetisation on profitability of banks**

- Banks' net profits essentially reflect the difference between interest earned on loans and advances and investments, and interest paid on deposits and borrowings, adjusted for operating costs and provisions.
- Loans and advances and investments, which are the main sources of interest income, together constitute more than 85 per cent (61 per cent accounted for by loans and advances and 25 per cent by investments).
- The sharp increase of 4.1 percentage points in the share of CASA deposits in aggregate deposits to 39.3 per cent (up to February 17, 2017) resulted in a reduction in the cost of aggregate deposits.
- Banks have also lowered their term deposit rates; the median term deposit rate declined by 38 bps during November 2016-February 2017.
- The decline in the cost of funding resulted in decline in the 1-year median marginal cost of funds is based lending rate (MCLR) by as much as 70 bps post-demonetisation (November 2016-February 2017).
- Banks earned return of around 6.23-6.33 per cent under reverse repos and market stabilization scheme (MSS) as against the cost of CASA deposits of around 3.2 per cent.
- Accordingly, for an average deployment of about ₹ 6 trillion in a quarter under reverse repos and MSS securities, banks' net interest income from increased deposits is estimated at about ₹ 45 billion in a quarter after demonetisation.
- Banks continue to enjoy the increased share of low-cost CASA deposits, although it is gradually declining with the increase in currency in circulation.
- The increase in net interest income would need to be adjusted for the cost of managing withdrawal of SBNs and injection of new bank notes (such as calibration of ATM machines, staff overtime, security arrangements, lower fees/waiver of fees on digital modes of payments), the exact details of which are not available at this stage.

- The biggest beneficiary from the demonetisation policy in the banking sector is due to increase in CASA ratio this is mainly due to queues of people depositing cash in the banks which will result in substantial liquidity with the banks. As the deposits with the bank will the increase in the CASA, which will increase the net interest income and the net earnings of the banks.

### **1.3.4 Impact of demonetisation on e-banking**

Online banking is also known as Internet banking (or) virtual banking is an electronic payment any uses with use of personal computer and a browser can get connected to his banks websites to perform any of the virtual banking function the term E-banking electronic banking covers both computer and mobile. When the customer decided to make payment through E-banking. The customer needs to register with particulars instructions and setup password and others credential for customer verification.

#### Scenario of E-Banking after demonetisation in India:-

After demonetisation the E-banking the major role of E-banking become an essential component to “improve economic growth” now Bank of India recently implemented cashless withdrawal service. This concept helps to customer to send money through ATM.

The government implemented 24\*7 service basis in India and they provide integrated delivery channels like Internet. Due to demonetisation this will replace the traditional clearing system. There are three different types of wallets available in current scenario to make payment:-

- Generic online
- E wallet oxygen
- Paytm

According to current scenario the government is planning to brings out its own E-wallet like Paytm to move towards cashless transactions. Special in villages the government planning to give subsidy on smartphone in able to use cashless transaction.



Even Airtel implemented new rule. It's any customer opening a savings account Airtel payment bank for cashless transaction. And then the main things e commerce majorly Snapdeal announced the launch of at home. After demonetisation there is a change in purchasing Trends of goods and services in market.

### **Following are the various Digital transaction platforms**

**UPI:** Unified Payment Interface (UPI) allows you to make payments using your mobile phone as the primary device for transactions, through the creation of a 'virtual payment address', which is an alias for your bank account. UPI was launched by the National Payment Corporation of India (NPCI).

**BHIM App:** The Bharat Interface for Money (BHIM) is an initiative by the Govt to enable fast, secure and reliable cashless payments through mobile phones. BHIM is Aadhar-enabled, inter-operable with other Unified Payment Interface (UPI) applications and bank accounts, and has been developed by the National Payments Corporation of India (NPCI). This seals the government's push towards digital payments after the demonetisation that resulted in the scrapping of high-value Rs 1,000 and Rs 500 currency notes.

**Aadhar Pay:** There are lots of payment apps in the market. These are the UPI apps, SBI Pay, Paytm, Phone pe, Free charge, mobile wallets etc. But, the Aadhar Payment App is special as you can pay through the Aadhar Payment App without phone. It is possible because you the customer does not require the app. The merchant or a person, who want money, have to arrange a smartphone, app, etc. The payer does not require anything. This app is made for the merchants and shopkeepers. Customer would only enjoy its benefits. The Aadhar Payment App uses your fingerprints for the authentication. On the basis of this authentication, the money is paid from your Aadhar linked account.

**IMPS:** Immediate Payment Service (IMPS) is an instant interbank electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM, Internet Banking, etc.

**POS terminals:** A point-of-sale (POS) terminal is a computerized replacement for a cash register. Much more complex than the cash registers of even just a few years ago, the POS system can include the ability to record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory. Generally, a POS terminal has as its core a personal computer, which is provided with application-specific programs and I/O devices for the particular environment in which it will serve.

**USSD:** USSD (Unstructured Supplementary Service Data) is a Global System for Mobile (GSM) Communication technology that is used to send text between a mobile phone and an application program in the network.

Applications may include prepaid roaming or mobile chatting.

- The operating cost per unit services is lower function to the bank.
- It offers convenience to as they are not required to go the banks premises.
- Lower handling cost.

#### **Benefits to customer**

- E banking helps as a less waiting time.
- It easy and convenient to use.
- It provides 24×7 service.
- E-Banking saves time.
- It unable to help make transaction at any time of the day and as many times as you want.

#### **Benefits to banks**

- It improves customer relation with banks.
- It helps to cost effective to increase profitability. ○ E-Banking helps as a reduction of burden to branch banking.

#### **Features of e banking**

- Easy electronic fund transfer facility.
- E-Banking brings door step service.

- It can be to view balance of account and statements.
- It's a better efficiency in CRM.

### **Challenges of a cashless rural economy**

- **Currency dominated economy:**

High level of cash circulation in India. Cash in circulation amounts to around 13 per cent of India's GDP.

- **Transactions are mainly in cash:**

Nearly 95 per cent of transactions take place in cash. Large size of informal/unorganized sector entities and workers prefer cash-based transactions. They don't have required digital literac.

- **ATM use is mainly for cash withdrawals and not for settling online transactions:**

There are large number of ATM cards including around 21 crore Repay cards. But nearly 92 per cent of ATM cards are used for cash withdrawals. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

- **Limited availability of Point-of-Sale terminals:**

According to RBI, there are 1.44 million PoS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/semi-urban areas.

- **Mobile internet penetration remains weak in rural India:**

For settling transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale. This is being overcome by application BHIM (Bharat Interface for Money) launched by the Prime Minister which will work on USSD i.e., without mobile internet.

➤ **Demonetisation crippled rural bank lending**

The note ban hurt rural India; loan growth was far below its predemonetisation levels. Indeed, in the second half of FY2017, bank lending to rural Haryana, Punjab, Goa, Maharashtra and Kerala contracted. Lending to rural Maharashtra fell by as much as 9.2%. Putting that in perspective, bank loans in the second half of FY16 to rural Haryana increased by 18% and to rural Punjab by 12.2%, while rural Maharashtra saw an increase in lending of 5.8%. Not a single state had showed a contraction in rural lending in the second half of FY16. In other words, the slowdown in rural lending in the second half of FY17 was very abnormal and may be attributed largely to demonetisation.

The rural parts of western India bore the brunt, with credit growth falling by 5.1% in the second half of FY17. Rural northern India and metropolitan western India also saw very low credit growth.

Nationalized banks' credit growth was 2.7% in the FY17 second half, compared to 8.8% growth in second half FY16. SBI and its associates saw their credit growth fall to 7.8% in the second half of FY17 compared to 13.7% in the second half of the previous year. Private banks' credit growth was 10.1% in the second half of FY17 compared to 18.8% in the year-ago period.

Clearly, every category of banks was affected.

**1.3.5 Impact of demonitization on bank employees**

Demonetisation affected the liquidity aspects. All the citizens of India were affected by demonetisation. 86% of the Indian currency was in the form of Rs. 500 and Rs 1000 notes. When all of that were withdrawn, a huge gap was created between Rs 100 and Rs 2000 notes and the absence of high denomination currencies in between Rs 100 and Rs 2000 led to the reduction in the utility of Rs 2000 as a transaction currency. Demonetisation jammed the purchasing power of people, affected the production of goods in factories, thereby leading to reduced employments, Daily wage earners, small traders, and labour had no other option than to wait in long queues in front of the banks.

As customers of the bank had to suffer by standing in long queues for withdrawals of their money, bank employees had to patiently suffer the pain of extended working hours and the angry customers. They had to toil day and night to serve the customers and were often abused by the dissatisfied customers out

of anger. They were not able to focus their operations on credit disbursement since majority of the time were captured in the exchange of currency notes and there was a fall in the incomes of the banks too as a result of this. Bank employees were the ones mostly affected with the demonetisation. As, a result of demonetisation the bank employees had to work throughout the day. Most of them had to work throughout the night and even had to miss lunch breaks. They were asked whether they had to work extra as a result of demonetisation.

32% of bank employees opined that they had to work above 5hrs extra as a result of demonetisation. 46% of bank employees has done extra work ranging between 1 and 5hrs, and 16% of employees work below 1hr extra .6% employees worked as usual. Increased working hours in banks as a result of demonetisation were beyond the normal prescribed limits fixed for workplaces. After demonetisation, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana alone and for all these account openings, customers were visiting banks and the volume of work in banking sector has increased manifold increasing huge work pressure for the employees. Respondents were then asked about their stress levels as a result of demonetisation. Though stress is normal in life. If it exceeds the limit, it can affect the health, job efficiency and family life of the respondents. Self-report opinion of the bank employees about their stress levels has been depicted in the table below.

Credit growth in Nationalized banks declined to 2.7% during the second half of FY17 compared to 8.8% growth rate in the second half of FY16. Credit growth in SBI and its associates fell to 7.8% during the second half of FY17 while it was 13.7% during second half of FY16. Credit growth for Private banks was only 10.1% in the second half of FY17 while it was 18.8% during the previous year. We can understand from the figures that there is a tremendous decline in the credit growth of banks post demonetization.

Along with the declining profitability issue, demonetisation has placed extra stress upon the banking officials for regulatory compliances to be made to the government of India and RBI. Health issues, Family issues, Mental stress, Job security issues, physical stress, vigilance stress and angry customers also poised a serious concern for the bank employees.

### **1.3.6 Impact of demonetisation on risk of asset quality**

The asset quality problems for banks and finance companies are rising as small customers continue to struggle with the adverse effect of demonetisation. But it might show up only in the fourth quarter numbers, as the Reserve Bank of India (RBI) has given an additional 60 days for lenders to classify accounts as non-performing.

According to public sector bank executives, the work pressure from managing deposits and cash withdrawal is coming down and banks have begun to assess the impact of demonetisation on the loan side – both asset quality and demand for credit. Risks of slippages have increased and a picture will be clear at the end of the financial year. Karthik Srinivasan, senior vice-president of ICRA, said delinquencies have increased as collections have gone down. The loss of income has severely dented the loan repayment ability of small borrowers. Also, many of those bankers who were deployed for loan recovery were put on the job of managing a sudden surge in activity at branches after demonetisation. The combined effect will be a rise in stressed loans by at least 100 basis points, said Abhishek Bhattacharya, director and co-head (financial institutions) at India Ratings.

According to global rating agency Standard and Poor's (S&P), many advances on banks' watch lists could also slip due to the cash crunch and a slowdown in business. Companies are also affected by rising working capital cycles since they have to support the supply chain, which often deals in cash. Therefore, borrowers at the margin could turn delinquent.

## **1.4 Impact of Demonetisation on Indian Financial Sector:-**

On November 8, 2016, currency notes of denominations of 1000 and 500 (specified bank notes or SBNS) valued at 215.4 trillion and constituting 86.9 per cent of the value of total notes in circulation, were demonetised. Demonetisation led to several changes for the financial sector which can be summarised below.

- a) Shift in currency demand: There has been a significant shift in the income elasticity of currency demand in the post-demonetisation period to 0.9 from more than 1 in the pre demonetisation period, reflecting a reduction in cash intensity in retail transactions
- b) Significant growth in bank deposits. The excess' low-cost bank deposit growth, a mirror image of the decline in currency in circulation (CIC), following demonetisation has been estimated in the range of 3.0-4.7 percentage points,
- c) Greater financial Inclusion: Since demonetisation, 50 million new accounts were opened under Pradhan Mantri Jan Dhan Yojana (PMJDY) by October 2017.
- d) Detection of suspicious transactions. The amount of unusual cash deposits in special types of accounts (such as the Basic Saving Bank Deposit, PMJDY, Kisan Credit Card (KCC), loan accounts and the like) is estimated in the range of 1.6-1.7 trillion.
- e) Improved monetary transmission in an environment of a surge in low-cost current account and saving account (CASA) deposits, banks announced a large cut in their marginal cost of funds-based lending rates (MCLR) with a 100 basis points (bps) reduction in the 1-year MCLR.
- f) Increase in mutual fund investments by households A sizeable expansion in the collections of debt/income-oriented mutual funds occurred after demonetisation i.e., during November 2016 to March 2017. The assets under

management (AUM) by mutual funds increased from about 16 trillion to 21 trillion between end-October 2016 and end-October 2017.

- g) Higher collections under life insurance. schemes: The cumulative insurance premium collections during November 2016 to January 2017 increased by 46 per cent over the same period of the previous year.
- h) Accelerated digitisation of retail payments: The latest data reveal that prepaid payment instrument (PPI) volumes increased by 54 per cent between November 2016 and August 2017. as also mirrored in the significant drop in the income elasticity of currency demand referred to earlier.
- i) Higher rate of detection of fake Indian- currency notes (FICNS) In the post demonetisation period, the rate of detection. of FICNS rose to 6 pieces and 12 pieces for 500 and 1000 notes, respectively, for every million pieces of notes processed-more than twice during the pre-demonetisation period.

As per the monetarist view, the effect of demonetisation on economic activities and stock market is attached to the fall in interest rate. This phenomenon creates the scope for attractive cash flows, in turn resulting into rise in stock prices. Thus, a positive relationship between money supply and stock prices are expected. Further, a change in the interest rate also affects the discounting process and thus, accentuates this positive relationship. However, the real side impact of any demonetisation move will also depend upon the relative share of connected and unconnected sectors of the economy (Waknis, 2017). Demonetisation has led to increase of cash flows in banking system. This liquidity is also expected to move to Mutual Fund as Investment.

The previous experiences of India related to demonetisation had produced mixed response in terms of impact on Indian stock market. The stock market reacted negatively to the 1946 demonetisation move however, shown the positive move during the 1978 move. An event study utilized the daily data of BSE 200 stock index and revealed a 9 percent reduction in the shareholders'



wealth during eight trading days immediately after the announcement of the demonetisation. The market perceived the move negatively. The short-run impact of demonetisation on creating volatile market is intuitive. However, the long-run impacts are well aligned to the economic theories. Figure 1 highlight that the Indian stock market has moved stably in the past two years. At the time of demonetisation, a marginal decline was noticed but after that stock market has shown consistent upward trend. The line for currency with public indicates the gradual rise in public currency since November 2015, but reported a substantial decline during demonetisation and again surged however the value is lower than its peak level of July September 2016. The narrow money has also witnessed similar trend in past couple of years.

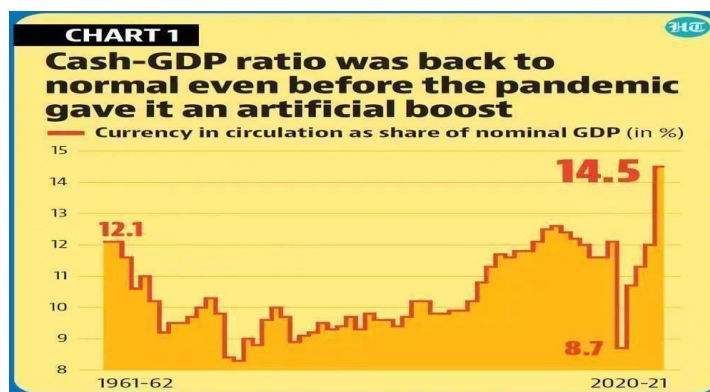
Prior to demonetisation, the Indian public held cash equal to 62% of India's M1 money supply. In Contrast, the U.S. public held less than 0.1% cash relative to M1. This phenomenon also speaks the intention of Government to reduce the public cash ratio through demonetisation. The ratio of public currency to narrow money (M1) had declined to 40 percent by the month of December 2016, after that the ratio increased but still the value was much lesser in the month of May 2017 as compared to its previous peak level of more than 60 percent during mid-2016. Even the demand deposits had witnessed the jump quickly and gradually came down but still higher than the pre demonetisation level. It can be inferred that demonetisation has helped in reducing the cash in hands and improved the deposits base which may be fruitful for banking sector to maintain the capital requirements amid the new accord of Basel III

#### **1.4.1 Impact of Demonetisation on Currency Demand**

Following demonetisation, there has been a decline in CIC. The demonetised notes were accepted at bank counters till December 30, 2016. Between November 4, 2016 to January 6, 2017 (i.e., between weeks immediately prior to and the lowest level of CIC witnessed after demonetisation), total CIC Declined by about `9 trillion.

While digital payments have increased significantly since demonetisation (more on this later), whether or not India has become a cashless economy post demonetisation is a different question. The best metric to answer this question

is to look at the ratio of currency in circulation (at the end of a fiscal year) and the nominal GDP (in that fiscal year). Currency in circulation was 12.1% of India's nominal GDP in 2015-16, the year before demonetisation. It plummeted to 8.7% in 2016-17 as the banking system was struggling to put cash back into the system after demonetisation. Since then, this ratio has climbed steadily and it reached 12% in 2019-20. A restoration of currency in circulation to nominal GDP ratio shows that there was no significant impact of demonetisation until 2019-20. Reserve Bank of India data show that the cash in circulation as on October 8 this year reached an all-time high of Rs 28.3 trillion, proving that cash is still the king. This figure is 57% higher than the level seen right before demonetisation. The demand for cash also increased ahead of the festival season. The currency in circulation has been growing in line with nominal GDP growth.



This number reached an all-time high of 14.5% in 2020-21. The latest number is more a result of the pandemic's economic disruption; 2020-21 saw an annual contraction of 3% in India's nominal GDP, which pushed up the cashGDP ratio, than a sudden increase in preference of cash in the Indian economy.

### **1.4.2 Impact of demonetisation on monetary transmission**

As banks credited the depositors' accounts with the value of surrendered demonetised bank notes. CASA deposits of banks rose sharply in the post demonetisation period. The share of the low-cost CASA deposits in total bank deposits increased from 35.2 per cent in October 2016 to 40.6 per cent in March 2017. before declining to 38.6 per cent in June 2017. With credit demand remaining sluggish, banks reduced their term deposit rates significantly towards

end-December 2016/early January 2017: interest rates on saving deposit accounts. however, were left in an environment of surplus liquidity, weak credit demand, lower cost of term deposits and a surge in lowcost CASA deposits, banks announced a large cut in their MCLRS in January 2017. The median term deposit rates of SCBS declined by 62 bps during November 2016 August 2017 , while the weighted average term deposit rate of banks declined by 69 abps.

The weighted average lending rate (WALR) of banks in respect of fresh rupee loans declined by nearly 100 bps during November 2016-August 2017 . The 1-year median MCLR has declined by a cumulative 80 bps since November 2016. This is significant considering that the 1-year median MCLR declined by only 15 bps during the preceding seven months (April-October 2016) when the policy repo rate was reduced by 50 bps. The WALR on outstanding rupee loans declined by 50 bps during November 2016-August 2017. Thus. a large part of the transmission was facilitated by the surplus liquidity on account of demonetization.

### **1.4.3 Impact of demonetisation on financial instruments of savings**

Demonetisation also resulted in gains for the non-banking financial intermediaries such as debt/income oriented mutual funds and insurance companies. In fact, the aggregate balance sheet of the non-banking financial companies (NBFCs) expanded by 14.5 per cent during 2016-17. The financial instruments of saving can be broken up under three non-banking financial intermediaries: mutual funds, insurance companies and NBFCs.

#### **▪ Mutual Funds**

Moderation in interest rates on bank deposits after demonetisation and decline in the price of gold enhanced the relative attractiveness of both debt and equity oriented mutual funds. Reflective of this. AUM by mutual funds increased to 17.5 trillion by end-March 2017 and further to 21.4 trillion at end October 2017. The buoyant equity market also improved the attractiveness of equity oriented mutual funds. Resource mobilisation under equity schemes more than doubled during this period. There were also net inflows in the income/debt schemes during November 2016-June 2017 in contrast to net outflows during

November 2015-June 2016. This was reflected in a sharp increase in the overall resources mobilised by mutual funds during November 2016 June 2017 as compared with the same period last year. Higher resource mobilisation by mutual funds after demonetisation has mainly been driven by retail and high net worth individual investors.

▪ **Life Insurance Companies**

Collections of premiums by life insurance companies more than doubled in November 2016 . Premium collected by Life Insurance Corporation (LIC) of India increased by 142 per cent (y-o-y) in November 2016, whereas collection by private sector life insurance companies increased by nearly 50 per cent. About 85 per cent of the total collections by LIC of India in November 2016 were under the 'single premium policies, which are paid lump sum, unlike the non-single premium policies that can be paid monthly, quarterly or annually. The LIC of India revised downward the annuity rates of its immediate annuity plan Jeevan Akshay VI purchased from December 1. 2016, which might have created a spurt in collections in the month of November 2016. The cumulative collections during November 2016 to January 2017 increased by 46 per cent over the same period of the previous year. the premium collections still witnessed an average growth of 22 per cent during November 2016 to September 2017

▪ **Non-Banking Financial Companies (NBFCs)**

Loans disbursed by all categories of NBFCs declined significantly in November 2016 as compared with the monthly average disbursements during April October 2016. especially by micro finance companies (NBFC MFIs) whose business is cash Intensive . Disbursements by Asset Finance Companies (AFCs) and Loan Companies (LCs) generally contracted up to February 2017.

Disbursements turned positive from March 2017 and grew generally at a higher rate than the monthly average disbursements recorded during April October 2016. In the case of MFIs. however, disbursements continued to contract in comparison with the monthly average of disbursements during April-October 2016 in view of the uncertainty surrounding loan waivers by state governments. In contrast to disbursements, growth in collections (i.e., repayments of loans due) of AFCs and

LCs during November 2016-June 2017 increased significantly over the monthly average collections during April-October 2016. Collections by NBFC-MFIs declined during November 2016-February 2017 vis-à-vis April-October 2016, but witnessed an improvement during the months of March, May and June 2017.

Bank credits from NBFCs Declined from 5.1% in October 2016 to 1.3% in November 2016: however, it subsequently improved to 10.9 per cent in March 2017. In terms of the returns submitted by the reporting NBFCs. Loans and advances by NBFCs increased broadly at the same rate in the year ending March 2017 (16.4 per cent) as in the year ending March 2016 (16.6 per cent). In summary, demonetisation appears to have led to the acceleration of the financialisation of savings in India.

#### □ **Impact of Demonetisation on Digitisation of Payments**

Another important outcome of demonetisation has been the considerable increase in use of digital transactions. The pattern of digital transactions in March 2017 over November 2016 showed that growth rates surged in both value and volume terms compared to the corresponding period last year. The behaviour of electronic payments suggests that the surge in digital activity has been sustained. The latest data reveal that Prepaid Payment Instrument (PPI) volumes increased by 54 per cent between November 2016 and August 2017 and the transactions under the Immediate Payment Service (IMPS) more than

In addition, there appears to be a structural break in the volume and value of retail electronic payments. Coinciding with the onset of demonetisation and the special measures put in place to promote digital payments. The trend in the volume of retail electronic payments points to a structural shift having taken place after November 2016 doubled during the same period. Debit and credit card payments at point of sale (PoS), the familiar and time-tested mode of digital payments, also recorded a sharp pick-up.

Two recent developments have rekindled the debate on the long-term gains of demonetisation. The value of transactions through the Unified Payments Interface (UPI) crossed \$100 billion in October 2021. UPIs were only introduced in the post demonetisation period in the country and their rapid growth is truly stellar. This is an innovation of global scale and quality.

#### **1.4.4 Impact of Demonetisation on Money Market**

Despite large surplus liquidity, active liquidity management by the Reserve Bank ensured that the weighted average call money rate (WACR) –the operating target of monetary policy – traded around the repo rate (during November 8 to November 25), but with a softening bias (23 bps on an average). With the announcement of the incremental CRR of 100 percent on November 26, banks borrowed aggressively on November 28 (November 26 and 27 being holidays) from both the Reserve Bank and money markets to meet the additional reserve requirement. This pushed up the WACR above the repo November 28. However, this impact was short-lived and the WACR started trading again with an easing bias (21 bps on an average) from December 1, reflecting the persisting surplus liquidity conditions. Overnight MCLR, overnight CBLO, overnight market repo, notice money rate, 91 days T Bills, 182days T Bills and 364 days T Bills rates are also decreased by 14 to 90 bps after demonetisation which is represented in the chart. 3-month CD rates softened by about 22 bps while the 3-month CP rate declined by 9 bps post demonetisation.

The 10-year gilt yield softened from 6.80 per cent (November 8, 2016) to as low as 6.18 per cent (November 24, 2016). It rose to 6.33 per cent on November 28 with the announcement of the incremental CRR effective November 26, which helped maintain integrity of the yield curve. Following the MPC's decision to pause on December 7, the 10-year benchmark yield hardened by 21 bps and traded in a range-bound manner but with a hardening bias up to end-December. This was also supported by global developments, including US monetary policy tightening and subsequent hardening of US yields driving FPI outflows from EMEs, including India, and higher crude prices. Between end-December 2016 and early February 2017. However, the benchmark yield traded with a softening bias on continuing surplus liquidity conditions and the reduction in the government borrowing programme for January-February 2017. Bond yields firmed up significantly over two successive days after the announcement of the change in the monetary policy stance from accommodative to neutral on February 8, 2017 by the Monetary Policy Committee (MPC). Yields have remained firm thereafter. The spread between 30-year and 10-year yields

declined from 41 bps on November 8, 2016 to 35 bps on November 30 and further to 23 bps on March 7, 2017.

#### **1.4.5 Impact of demonetisation on banking credit**

Under normal conditions bank credit generally picks up in November for agriculture, manufacturing and services sectors as well. Last year in November bank credit had gone up, compared with the previous month. However, with demonetisation being announced in the beginning of November this year, bank credit growth has been affected. The gross Bank credit has gone down in November 2016 over October 2016. Almost major sectors excluding housing have shown a contraction in Bank Credit in November 2016.

Credit in services sector was affected adversely, particularly credit for retail trade. This was more due to the backward effect of lower household consumption on account of the non-availability of cash which affected the purchasing pattern. The contraction seen in Services in November 2016 was significantly larger than the reduction seen in the corresponding period last year. Personal Loans including education, vehicle loans, etc. also were impacted as demand in these sectors declined same happened with Farm loans too.

#### **1.4.6 Impact of demonetisation on bank's interest rates**

##### **Bank's Lending Rate**

To understand the impact of demonetisation on lending rate, instead of taking any specified loan rates, MCLR is taken here for comparing pre demonetisation (7 November, 2016) and post demonetisation (7 January, 2017) interest rates of various Banks. MCLR Marginal Cost of Lending Rate is the benchmark lending rate at which a bank prices all its loans.

Banks have cut their MCLR ranging from 15bps to 90bps. No rate cuts were given in this period by RBI in the monetary. Policy. So, we can say that excessive deposits due to demonetisation have influenced banks to cut their lending rates.

##### **Bank's Borrowing Rate**

To understand the impact of demonetisation on borrowing rate, one-year Fixed Deposits rates are taken here for comparing pre demonetisation (7<sup>th</sup> November, 2016) and post demonetisation (7<sup>th</sup> January, 2017) interest rates of various banks. Banks have cut their FD rates ranging from 5bps to 30bps. No rate cuts were given in this period by RBI in the monetary policy. So excessive deposits due to demonetisation have influenced banks to cut their borrowing rates.

#### **1.4.7 Impact of demonetisation on equity market**

Demonetisation coincided with the US presidential election results announced on November 8, 2016. The victory of Donald Trump amplified concerns surrounding more protectionist trade policies in the US, on top of expectations of tightening of US monetary policy, and possibly looser US fiscal policy. Reflecting these developments, the Indian equity market plummeted with the BSE Sensex declining by 3.5 percent (up to December 30, 2016) from its level on November 8, 2016. Disappointing quarterly earnings results from some blue-chip companies also impacted the equity market.

Although the equity market was affected by both domestic and global factors, the impact of demonetisation alone can be gauged from the movement in indices of cash sensitive sectors such as FMCG, consumer durables, auto and really vis-a-vis the overall index. As against the decline of 3.5 per cent in the BSE Sensex (from November 9 to December 30), the BSE realty index declined by 14.4 per cent, followed by consumer durables (-9.9 per cent), auto (-9.0 per cent) and FMCG (-5.3 per cent) indicating market expectation of a sharp fall in demand for these products, as they were disproportionately driven by cash transactions. However, the impact on sectoral indices was transitory as they have since recovered most of the lost ground. As against the overall increase of 8.9 per cent in the BSE Sensex between March 7, 2017 and December 30, 2016. the BSE consumer durables index increased by 23.0 per cent, followed by realty (18.8 per cent), FMCG (8.7 per cent) and auto (7.2 per cent) during this period. On the whole, while consumer durables, FMCG and really indices are now higher than their pre-demonetisation levels, the auto sector is marginally lower.



The equity market was buoyed by the encouraging corporate sector results for Q3. The results of the listed companies for Q3 of 2016-17 suggest that the corporate sector remained resilient as sales and net profits improved at an aggregate level as also for manufacturing companies. Within manufacturing, sales of cash intensive sectors such as FMCG and motor vehicle companies got impacted in Q3 vis-à-vis the previous quarter. However, the companies in the real estate sector registered positive sales growth in Q3 in contrast to the sharp contraction in the previous quarter.

The share prices of most of the large listed NBFCs also registered a significant decline between November 8, 2016 and December 30, 2016 mainly due to the cash intensive nature of their businesses and delayed repayment. However, the share prices of most of such companies have recovered fully/partially after December 2016.

## **CHAPTER 2:- RESEARCH METHODOLOGY**

### **2.1 Introduction:-**

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his Research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/technique but also the methodology. Researchers not only need to know how to Develop certain indices or test, how to calculate the mean, the mode, the median or the standard deviation or chi-square, how to apply particular research techniques, but they also need to know which of these methods of technique, are relevant and which are not, and what would they mean and indicate and why. Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedure will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem. For example, an architect, who designs a building, as a consciously evaluate the basis of the decision that Is, he has to evaluate Why and on what basis he selects particular size, number and location of doors, windows and ventilators, user is particular material and no other and the like. Similarly, in research scientist has to expose the research decisions to evaluate before they are implemented. He has to specify very clearly and precisely what decisions he selects and why he selects them so that they can be evaluated by others also.

The scope of research methodology is wider than that of research method. Thus, when one talk of research methodology he not only talks of research methods but also consider the logic behind the methods He uses in the context of our research study and explain why he is using a particular method or technique and why he is not using other so that research results are capable of being evaluated either by the researcher himself or by other.

Why a research study has been undertaken how the research problem has been defined in what way and why the hypothesis has been formulated, what data have been collected and what particular methods have been adopted,

## **2.2 Objective of the study:-**

- To study the impact of demonetisation on banking sector.
- To know the pre-post demonetisation scenario of bank.
- To study the impacts of Demonetisation on Indian Financial Market.□  
To analyze the impacts of demonetisation on Money Market, Long term Govt.-sector and Bond's market, Banking, Stock Market, Mutual Funds, Insurance, foreign exchange and on cash less transactions.

## **2.3 Hypothesis of the study:-**

It is an exploratory form of research. The investigation is loose and flexible with hypothesis. Findings are might be topic specific or might not have much relevance outside of researcher's domain.

**H1:-** There was a positive impact of demonetisation on banking and finance sector.

**H0:-** There was a negative impact of demonetisation on banking and finance sector.

## **2.4 Scope of the study: -**

1. The purpose of the research is to study the impact of demonetisation on Indian banking and financial sector.
2. To study the change in shares of banks after demonetization.

3. To understand the post demonetisation impact on various financial sectors.
4. The purpose of research is to know what difficulties faced by bank during demonetization.
5. To study the working hour of employees during the demonetization.
6. The study also reviews the various online banking facilities and its advantages and disadvantages.
7. The study also reviews how it was a small step towards cashless India.
8. The study is done through mixture of primary and secondary data with a total of 100 respondents.
9. The study mainly focuses on the Indian banks and bank employees.
10. The duration of study was from December to march.

## **2.5 Limitations of the study: -**

Due to constraints of time and resources the study is likely to suffer from certain limitations. Some of them are mentioned below so that the findings of the study are understood in proper perspective. The limitations of the study are as follows:-

- (1) People were not sure that is online survey was safe and would not leak their information.
- (2) Area of the study is limited to the thane city.
- (3) The research was carried out in a short period of time. Therefore, the sample size was selected accordingly so as to finish the work within the given time frame.
- (4) The research was conducted through limits sample size i.e., of 100 respondents.

## **2.6 Research Methodology:-**

Research methodology is the path through which researchers need to conduct their research. It shows the path through which these researchers formulate their problem and objective and present their result from the data obtained during the study period. This research design and methodology chapter also shows how the research outcome at the end will be obtained in line with meeting the objective of the study. This chapter hence discusses the research methods that were used during the research process. It includes the research methodology of the study from the research strategy to the result dissemination. For emphasis, in this chapter, the author outlines the research strategy, research design, research methodology, the study area, data sources such as primary data sources and secondary data, population consideration and sample size determination such as questionnaires sample size determination and workplace site exposure measurement sample determination, data collection methods like primary data collection methods including workplace site observation data collection and data collection through desk review, data collection through questionnaires, data obtained from experts opinion, workplace site exposure measurement, data collection tools pretest, secondary data collection methods, methods of data analysis used such as quantitative data analysis and qualitative data analysis, data analysis software, the reliability and validity analysis of the quantitative data, reliability of data, reliability analysis, validity, data quality management, inclusion criteria, ethical consideration and dissemination of result and its utilization approaches. In order to satisfy the objectives of the study, a qualitative and quantitative research method is apprehended in general. The study used these mixed strategies because the data were obtained from all aspects of the data source during the study time. Therefore, the purpose of this methodology is to satisfy the research plan and target devised by the researcher.

### **2.6.1 Universe of the region:-**

Thane city was the research universe. The responses were gathered from investors and bank staff.

### **2.6.2 Method of sampling-**

Samples have been taken using simple random sampling. In simple random sampling, every component of the population has an equal chance and likelihood of being chosen for the sample. Here, the choice of items is entirely determined by chance or probability, hence this sampling methodology is also occasionally referred to as a method of chances.

### **2.6.3 Sample size:-**

The size of the sample for my study was determined to be 100 while taking into consideration all the limitations. Based on the respondents' age, gender, level of education, and occupation, the sample size was broken down.

### **2.6.4 Method of data collection:-**

Data plays an important role in research. Data forms the basis of the study. It provides The facts and figures or information which is collected systematically in order to draw conclusion or answer to particular problem. Data was collected by using two methods i.e. Primary Data and Secondary Data.

#### **2.6.4.1 Primary Data:-**

There are number of sources of primary data from which the information can be collected. I choose the following resources for my research.

**Questionnaire:** I have done my research by using a set of some simple questions and requested the respondents to answer these Questions with correct information. The questionnaire was prepared by using Survey Heart mobile application. This questionnaire was send to the respondents through various social networking applications such as WhatsApp, Facebook, Telegram, Gmail etc.

#### **2.6.4.2 Secondary Data:-**

Secondary data relevant to the study is gathered from books, research papers, articles published in Journal and literature from websites. The secondary data collected is aimed for the reference purpose.

#### **2.7 Method of data analysis:-**

The data analyzing techniques used were bar graphs, pie charts, percentage method and column method. The data collected from primary source is represented by using bar diagrams, graphs, pie charts, etc.

## CHAPTER 3:- LITERATURE REVIEW

### **3.1 Review of Research Papers:-**

#### **1. Bharat (2017)**

In his research paper he had a study on Impact of Demonetisation on NPA Position of Indian Bank. This paper is an attempt to highlight the short term as well as the long-term effects of demonetisation on NPA levels of Indian Banks. Both the positive and negative aspects of demonetisation related to NPAs are discussed in this paper. The study showed that, Pre & Post Demonetisation impact on the Balance Sheet of RBI.



## **2. Ms. Sapna & Ms. Nida (2017)**

In their research paper they observed that, this study on impact of demonetisation on the banking sector, by collecting sample size of 30 by using the primary methods such as Interviews, Questionnaires and Surveys Observations, Focus group Interviews, Ethnographies, Oral History, and Case Studies. By this study responses believed that there was an impact of demonetisation on banking sector, resulted with bank employees and helped to reduce black money, bribery and terrorism in India.

## **3. Ashish & Mary (2017)**

In this research paper they examined to evaluate An Empirical Study on Quality of Banks' Service during the demonetisation in India – highlighting the objective of Reliability, Tangibility, and Responsiveness by using statistical tools like, IBM SPSS, Reliability analysis and ANOVA are statistical tool, random sampling - study observed negative impact on some aspects which may lead to poor performance of quality of banks service during demonetisation period.

## **4. Sweta Singhal (2017)**

In her research paper she carried out research on Demonetisation 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 demonetisation. 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.

## **5. Dr. Bhupal and Dr. Harendra(2017)**

In their research paper they examined Impact of Demonetisation on the Financial Sector concentrated Demonetisation & Currency demand, Bank deposit growth, Monetary transmission, Savings, digitalization payments, fake currency notes the study has conducted by Regression, time series, ARMA

model, root test, Correlation, ARCH - Increased no. of accounts and deposits, increase in low of equity & debt, NBFC improved collections, expansion in digital economy - Increased no. of accounts and deposits, increase in low of equity & debt, NBFC improved collections, expansion in digital economy.

#### **6. Bharat Kumar Meher (2017)**

In his research paper he conducted the study on impact of demonetisation in NPA position of Indian banks. He concluded that Demonetisation of Rs. 500 and Rs.1000 notes on 8th Nov, 2016, is the boldest step ever taken by any government. This step is proved as a helpful tool for complete revival of banking industry. For the last few decades, the public sector banks were facing a lot of problems and in the verge of economy crisis due to the problem of NPAs. But this demonetisation step followed by Indra Dhanush scheme, provided a big opportunity for the banks to re-organize the banking system to uplift the economy. The face of the other side of the coin should also be studied. Though it brings many opportunities for the banking industry, many challenges have also created in front of the banks. The banks should handle these challenges tactfully. A short-term positive impact of demonetisation can be seen in which the existing NPAs have reduced a little. A few amounts of recoveries have been made from wilful defaulters after this demonetisation. But in the long run, impact may be adverse if proper steps would not be taken by the banks as soon as possible. There may be more chances of faulty evaluation and improper borrowers' appraisal as the targets for bankers in lending loans will increase. The banks should use more preventive management strategies in order to control the NPAs in future. This strategic step of demonetisation will have a major contribution towards the establishment of a sound and effective banking system in the country.

#### **7. Abhani (2017)**

In this research paper the author had research in the area of demonetisation, to study the impact of the demonetisation over the banking sector. The study covers the banking sectors of specially Veraval city. For the study he had selected total 13 banks of Veraval city. The study has been done

on the structured questioner; target respondents were bank employees. By analysing the data collected almost 55% employees agreed with the view of positive impact of demonetisation. He highlighted there was a highly affected accounts were saving a/c and current account. Almost 51% employees had opinion that customers are changing towards online banking. 52% employees said black money which is in form of cash has been curbed by government. 69% employees were positive about customer behaviour on keeping money at bank.

#### **8. Ritika (2017)**

In her research paper she examined the effect of demonetisation on banking sector and its Evidence from the Indian stock market, study examines the impact of demonetisation on the returns of 40 (private and public) listed banks in India. The study has found there was a modest rise in the banking sector returns but with short run. There was a huge expectation in the long run return as well. Study highlighted both private and public sector has different impacts after demonetisation. The public sector banks witnessed an immediate positive effect on the returns.

#### **9. IFMR lead (2018)**

In their research paper they conducted the study on Understanding the Impact of Demonetisation on Bank. The study examined Short - term effect on consumers, long term effect on digital payments & savings behaviour by using the Primary data. Study conducted the area covered with North, South, East, and West India with quantitative, qualitative analysis. It was found that effect on employment, temporary employment, no change in savings behaviour, lack of knowledge on digital services - employment, savings, and digital service.

#### **10. Mrs. Suman et al. (2018)**

In her research paper she had conducted a Study on Impact of Demonetisation on E banking India. A study analysed the impact of demonetisation on E-Banking (Pre and Post Demonetisation) using variables like NEFT, RTGS and POS & to analyses the growth of EBanking and bring out the issues and challenges faced in effective utilization of E-Banking services in

India. Study based on dummy Regression Analysis, with the findings of Positive effect on financial inclusion, leading to increase E- banking facilities.

**11. Dr. Anand (2018)**

In his research paper he conducted the survey on Effect of Demonetisation on Banking Sector: A comparative study of Public and Private Sector Bank. Paper tried to explore positive and negative impact of demonetisation increased profit margin - AXIS bank, Decreased result - SBI bank.

**12. Anjalv & Dr. Malabika (2018)**

In this paper they had examined An Empirical Investigation of the Impact of Demonetisation in Indian banking sector with positive impact of demonetisation in both public and private listed banks after the and there is no much impact in private banks after the demonetisation because many of the banks had impacted the market much before the announcement date in over all the private banks not having an impact of demonetisation. This is an event study based on efficient market theory CAPM model, market return model .

**13. Dr. M. Prabhu et al (2018)**

In this research paper the researcher analysed that, Demonetisation and its effect on Banking Sector, the study concentrated Influence on bank operations, positive & Negative, results of post demonetisation on bank operations by conducting Secondary research like Newspapers, journals, websites. Study showed the both type of results, Positive results like increase in deposits, low cost of funds, demand for govt bonds. Negative results turned in to CRR, waived off ATM charges bank operations, growth in economy and financial institutions.

**14. Dr. Lilesh (2018)**

In this research paper he examined Impact of Demonetisation on

Banking Services “Among All forms of mistake, prophecy the most gratuitous.”

– Study objective is to find out positive and negative impact of post demonetisation on bank operations & to know after effects of it. Study observed that, 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 - Effect on electronic payment system, Positive& Negative impact on banking service, Excess liquidity in banks, Slower credit demand.

15. **Nitin (2019)**

In this research paper he had a study on Impact of Demonetisation on Indian Banking Sector. It highlighted financial statements of commercial banks, deposits trends under PMJDY, negative & positive outcomes on demonetisation, GDP ratio through secondary research. It has focused on liquidity concern, profitability, Improved liquidity position, profitability, PMJDY - Digital services, minimization of NPA, etc.

16. **Ayushi Rastogi/Madhavi Damle (2020)**

In this research paper they said that the main aim of the digitalization of the payment system is to make India a digitally educated and aware. The dynamic payment system is expanding and evolving and digital payment channels are continuing to grow robustly. Owing to this fact, this industry has seen lots of transitions in the trends in the past few years that makes India the fastest adopting digital payments country in the world. UPI has become the top player in the digital payment market in recent years in India and has changed the definition of transactions with the ease of use and making banking services more accessible. The growth is contributed majorly to the mobile phone and internet explosion and technology advancement and awareness. However, the factors which restrained the growth of digital payments are lack of trust and security, charges levied by the government, and the lack of technical knowhow, especially in the rural areas.

It was demonetisation which gave rise to many digital payments but the current pandemic situation of COVID-19 has given a boost to the digital payments industry like never before. Most of the people from a vegetable vendor

to the common man are sceptical about exchanging cash as payments and adopting the usage of digital wallets in their day to day lives. Digital payment methods are also used for donations and contributions to the government released funds. It can be concluded that in this industry, many fintech companies and financial institutions around the world are innovating the fastest ways of making payments, but the security of payments is more crucial. Hence the security of the payment system will determine its success in the future.

### **3.2 Review of book:-**

#### **“Demonetisation Analysis And Impact” by Vipin Malik**

It is an insightful book that delves into the effects of the Indian government's decision to demonetize high-value currency notes in November 2016. It is divided into several chapters, each of which covers a different aspect of the topic. The author provides an in-depth analysis of the changes that occurred in the Indian banking sector as a result of demonetisation, highlighting the increased adoption of digital payment methods and the boost to financial inclusion. The book also explores the impact of the decision on different segments of the Indian population, such as small and medium enterprises, rural areas, and the informal sector. It is recommended for anyone interested in understanding the effects of this major policy decision on the Indian economy and society.

### **3.3 Review of thesis:-**

**Saika Das (2018)**

In her study, she examined the impact of demonetisation on the Indian stock market using the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) as proxies. The study found that demonetisation had a negative impact on the stock market, with the BSE and NSE experiencing a decline in stock prices immediately after the announcement. However, the study also found that the impact was short-lived, and the stock market rebounded soon after.

## **CHAPTER 4:- ANALYSIS AND INTERPRETATION OF DATA**

### **Analysis and Interpretation of Data**

In this chapter, I will analyse and interpret the data which I have collected from the respondents.

**Data analysis** is a process of inspecting, cleansing, transforming and modelling data with the goal of discovering useful information, informing conclusions and supporting decision making. Data analysis has multiple facts and approaches, encompassing diverse techniques under a variety of names, while being used in different business, science and social science domains. In today's world of business, data analysis is playing a role in making decisions more scientific and helping business achieve effective operations

**Data interpretation** refers to the implementation of processes through which data is reviewed for the purpose of arriving at an informed conclusion. The interpretation of data assigns a meaning to the information analysed and determines its signification and implications.



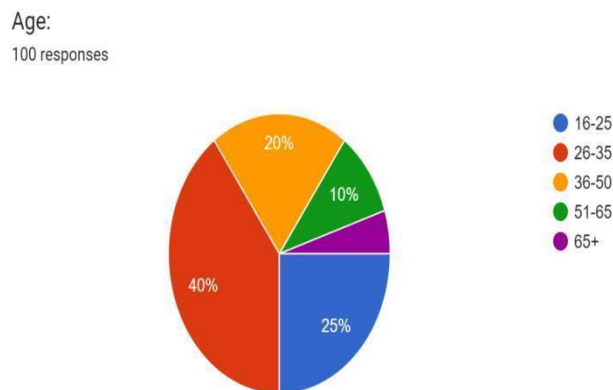
## 1. What is the age of respondent?

**Table 4.1 Age group of the respondents**

Category	Count	Percentage
16-25	25	25%
26-35	40	40%
36-50	20	20%
51-65	10	10%
65+	5	5%
Total	100	100%

**Source: Primary data**

**Chart 4.1 Age group of the respondents**



**Source: Primary data**

### **Interpretation-**

According to the survey conducted, it is observed that most responses are from age group of 26-35years i.e., 40%, represented by red color. 25% responses are from 16-25 years of age group represented by blue color. There is only 5% of age group of 65+. 20% and 10% of responses are from age group of 36-50 and 51-65 respectively.

## 2. What was the respondent's position during demonetisation?

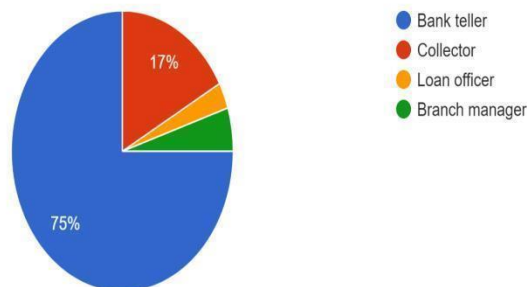
**Table 4.2 Positions of the respondents**

Positions	Number	Percentage
Bank Teller	75	75%
Collector	17	17%
Loan Officer	3	3%
Branch Manager	5	5%
Total	100	100%

**Source: Primary data**

**Chart 4.2 Positions of the respondents**

What was the respondent position during demonetization?  
100 responses



**Source: Primary data**

### **Interpretation-**

Most of the responses are from the bank teller which 75%. 17% Responses were from bank collector. 3% of Responses is from branch manager which help this survey to get good insight knowledge. Only 3% respondent is from loan office.

### 3. Do you think there was an impact of demonetisation on your workload?

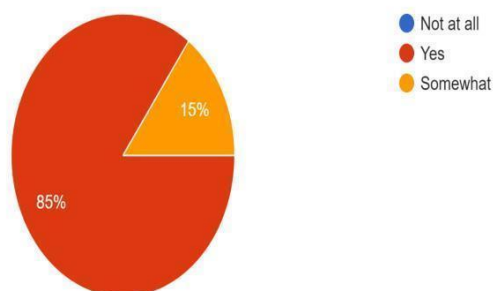
**Table 4.3 Shows impact on workload of the respondents**

Options	Count	Percentage
Not at all	0	0%
Yes	85	85%
Somewhat	15	15%
Total	100	100%

**Source: Primary data**

**Chart 4.3 Shows impact on workload of the respondents**

Do you think there was an impact of demonetization on your workload?  
100 responses



**Source: Primary data**

#### **Interpretation-**

85% of respondent had impact on their work load during demonetisation as the working hours were increased and lot of customers to look after. 15% felt

impact but not fully due to demonetisation. There were 0% responses which not felt that demonetisation impacted their work load.

#### 4. During demonetisation was there an advantage to bank employees in terms of exchanging old currency to new currency?

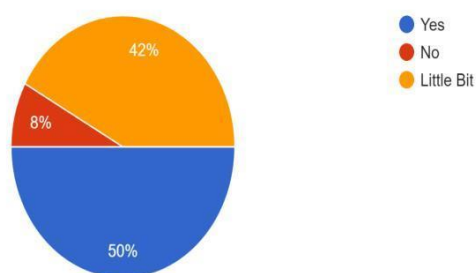
**Table 4.4 Shows advantage to bank employees**

Options	Count	Percentage
Yes	50	50%
No	8	8%
Little Bit	42	42%
Total	100	100%

**Source: Primary data**

**Chart 4.4 Shows advantage to bank employees**

During demonetization was there an advantage to bank employees in terms of exchanging old to new currency  
100 responses



**Source: Primary data**

#### **Interpretation-**

50% of responses got an advantage to exchange their old currency with new currency. 8 respondent i.e., 8% felt no advantage in terms of exchanging their currency and 42% felt little advantage.

## 5. What is the impact of demonetisation on the opening of new account?

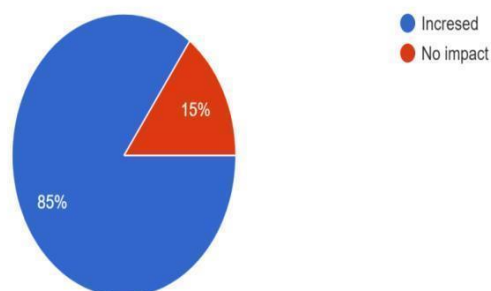
**Table 4.5 Shows impact on opening of new account**

Options	Count	Percentage
Increased	85	85%
No Impact	15	15%
Total	100	100%

**Source: Primary data**

**Chart 4.5 Shows impact on opening of new account**

What is the impact of demonetization on the opening of new account  
100 responses



**Source: Primary data**

### **Interpretation-**

Through the responses of this question, we can see that bank employees believe that new accounts are opening post demonetisation. For depositing money in the banks account during demonetisation new accounts are opened. 85% of responses said that there was increased in opening of new account.

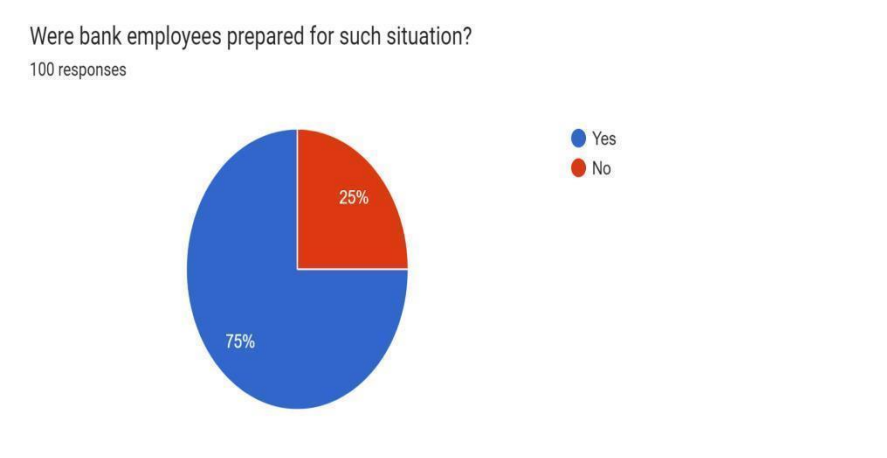
## 6. Were bank employees prepared for such situation?

**Table 4.6 Shows preparation of the employees**

Options	Count	Percentage
Yes	75	75%
No	25	25%
Total	100	100%

**Source: Primary data**

**Chart 4.6 Shows preparation of the employees**



**Source: Primary data**

### **Interpretation-**

Through this question we can know that 75% of bank employees were not prepared for such kind of situation. Where else the rest 25% of employees were prepared for such kind of situation that is demonetisation.

## 7. Were bank employees offered any bribe?

**Table 4.7 Shows bribe offered to employees**

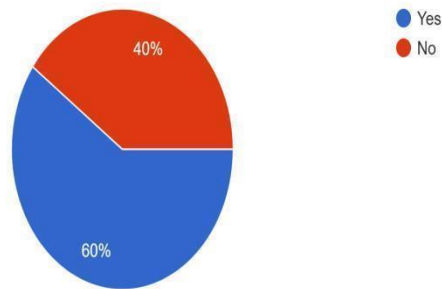
Options	Count	Percentage
Yes	60	60%
No	40	40%

Total	100	100%
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Source: Primary data

### Chart 476 Shows bribe offered to employees

Were bank employees offered any bribe?  
100 responses



Source: Primary data

### Interpretation-

Through this it is clear that most of the people have offered bribe to bank employees for exchanging their currency from old to new. Out of 100 Respondents, 60 have been offered bribe by customer during demonetisation.

### **8. Did bank employees were having any idea that govt. was planning to demonetisation?**

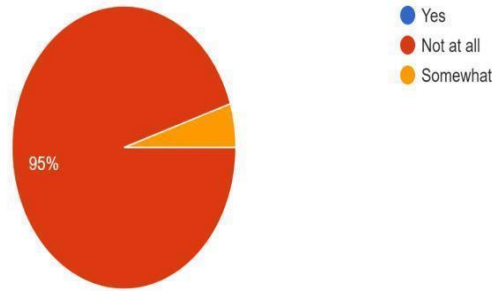
#### **Table 4.8 Shows employees foreknowledge about demonetisation**

Options	Count	Percentage
Yes	0	0%
Not At All	95	95%
Somewhat	5	5%
Total	100	100%

Source: Primary data

### Chart 4.8 Shows employees foreknowledge about demonetisation

Did bank employees were having any idea that govt was planning to demonetization?  
100 responses



Source: Primary data

#### Interpretation-

It is clear that government had made this decision very confidentially. No bank employees were aware about demonetisation was going to take place. 5% of respondents were aware about it as some news was linked up.

### 9. How was the cash flow during demonetisation?

Table 4.9 Shows cash flow information

Options	Count	Percentage
Increase	87	87%
Decrease	13	13%
Total	100	100%

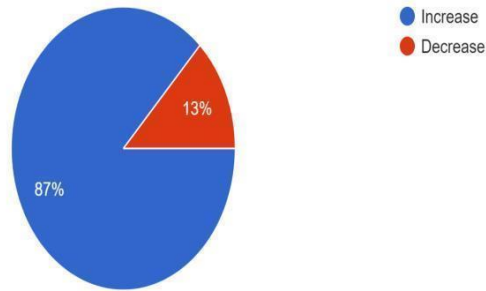
Source: Primary data

### Chart 4.9 Shows cash flow information



How was the cash flow during demonetization?

100 responses



**Source: Primary data**

### **Interpretation-**

Through the responses we can see that there is huge increase in cash flow as there was huge deposits made during demonetisation which in turn were good for banking sector.

### **10. Were banks ready with the new currency?**

**Table 4.10 Shows banks condition related to new currency**

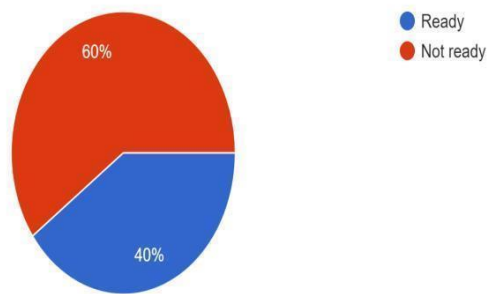
Options	Count	Percentage
Ready	40	40%
Not Ready	60	60%
Total	100	100%

**Source: Primary data**

**Chart 4.10 Shows banks condition related to new currency**

Were banks ready with the new currency?

100 responses



**Source: Primary data**

### **Interpretation-**

As per the respondents 60% has respond that banks were not ready with new currency. As it was clear that RBI were not ready with currency to meet customer's needs.

### **11.What was the impact of demonetisation on functioning of ATM machines?**

**Table 4.11 Shows impact on ATM functioning**

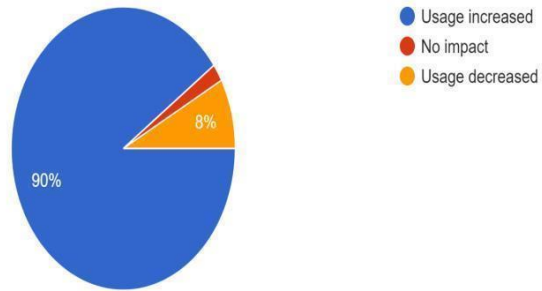
Options	Count	Percentage
Usage Increased	90	90%
No Impact	2	2%
Usage Decreased	8	8%
Total	100	100%

**Source: Primary data**

**Chart 4.11 Shows impact on ATM functioning**

What was the impact of demonetization of functioning of ATM

100 responses



**Source: Primary data**

### **Interpretation-**

Through the responses of this question, we can clearly see that the functioning of ATM has increased after demonetisation. After demonetisation the government had imposed a limit to the withdrawal of cash because of which the customers were visiting the ATM n number of times to withdraw the cash so as to meet their cash requirement.

## 12. Were there any difficulties of ATM machine running out of cash?

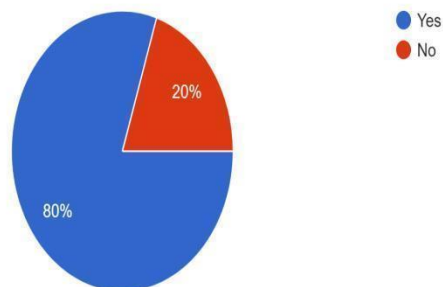
**Table 4.12 Shows difficulties of ATM machine**

Options	Count	Percentage
Yes	80	40%
No	20	20%
Total	100	100%

**Source: Primary data**

**Chart 4.12 Shows difficulties of ATM machine**

Were there any difficulties of ATM machine running out of cash?  
100 responses



**Source: Primary data**

### **Interpretation-**

As per the survey conducted it seen that most of the ATM machine ran out cash as there was a massive demand of ATM during demonetisation and banks were not ready with such amount of cash to meet the customers demand for cash. Govt. had also put limit on withdrawal of cash from ATM.

## 13. Was there any glitch in working of ATM machine?

**Table 4.13 Shows glitch in ATM functioning**

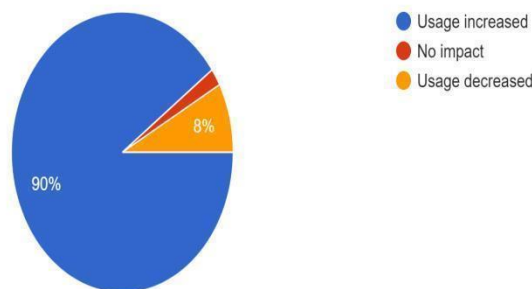
Options	Count	Percentage
Yes	40	40%
No	30	30%
Sometimes	30	30%
Total	100	100%

**Source: Primary data**

**Chart 4.13 Shows glitch in ATM functioning**

What was the impact of demonetization of functioning of ATM

100 responses



**Source: Primary data**

**Interpretation-**

There is mix response it is clear that there was or sometimes little glitch in ATM machine, but some places there was not even a single glitch in running of ATM machine.

**14. Have interest rate increased or reduced?**

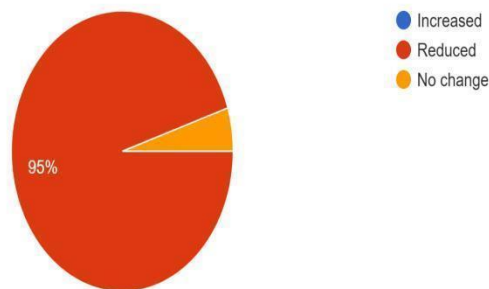
**Table 4.14 Shows impact on interest rates**

Options	Count	Percentage
Increased	0	0%
Reduced	95	95%
No change	5	5%
Total	100	100%

**Source: Primary data**

**Chart 4.14 Shows impact on interest rates**

Did interest rate increased or reduced?  
100 responses



**Source: Primary data**

**Interpretation-**

Through the responses of this question, we can see that the Interest Rate has Decreased post demonetisation. SBI Chairman Arundhati Bhattacharya said that all the rates will fall post demonetisation. There are high inflows of

deposits in banks but the demand of credit has decreased. Thus, resulting in the fall of rates after a period. Though the fall in the rates is not large but it still helps.

### 15. What was the impact of demonetisation on e-banking?

**Table 4.15 Shows impact on e-banking**

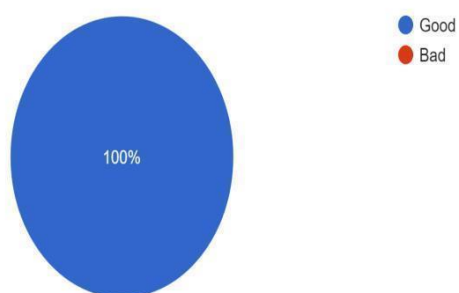
Options	Count	Percentage
Good	100	100%
Bad	0	0%
Total	100	100%

**Source: Primary data**

**Chart 4.15 Shows impact on e-banking**

What was the impact of demonetization on e-banking?

100 responses



**Source: Primary data**

### **Interpretation-**

Through this question we can understand that the use of online banking has increased after demonetisation. In India people were mostly dependent on cash transactions but after demonetisation when the supply of money was less, people started resorting to the use of online banking and online payments to meet their daily expenses. Thus, we can say that the use of ebanking has increased after demonetisation.

### **16. Was any fraud reported during demonetisation?**

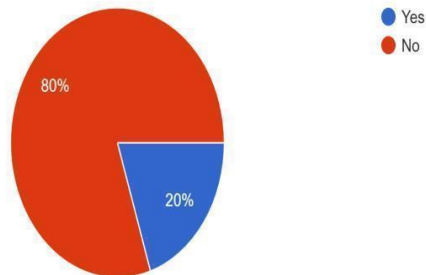
**Table 4.16 Shows information about fraudulent activities**

Options	Count	Percentage
Yes	20	20%
No	80	80%
Total	100	100%

**Source: Primary data**

**Chart 4.16 Shows information about fraudulent activities**

Was there any fraud reported during demonetization?  
100 responses





**Source: Primary data**

**Interpretation-**

As it is seen due to increase in e-banking there have also been increased in e-banking fraud due to which the reports have been increased during demonetisation many people use wrong way to make their money white and to convert the money. Due to lack of awareness about online fraud many have been looted by e- banking.

## 17. How was the demand of plastic money during demonetisation?

**Table 4.17 Shows demand for plastic money**

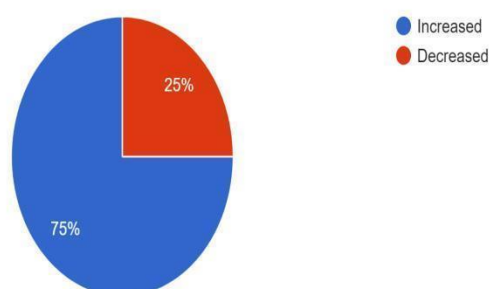
Options	Count	Percentage
Increased	75	75%
Decreased	25	25%
Total	100	100%

**Source: Primary data**

**Chart 4.17 Shows demand for plastic money**

What was the demand of plastic money during demonetization?

100 responses



**Source: Primary data**

### **Interpretation-**

Through the responses of this question, we can interpret that most of the bank employees believe that demonetisation has increased the use of plastic cards. Due to the decrease in the supply of cash because of demonetisation most of the people have resorted to the use of online banking, plastic cards, mobile banking, etc.

### 18. Does demonetisation helped to improve profitability of bank?

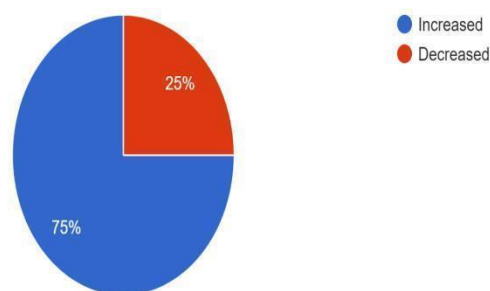
**Table 4.18 Shows impact on profitability of banks**

Options	Count	Percentage
Increased	95	95%
Decreased	5	5%
Total	100	100%

**Source: Primary data**

**Chart 4.18 Shows impact on profitability of banks**

What was the demand of plastic money during demonetization?  
100 responses



**Source: Primary data**

### **Interpretation-**

It can be interpreted that the profitability of bank have been increased due to massive cash deposit which resulted in increase of casa ratio the more the casa the cheaper the funds for bank. The profitability directly affected the share price of the banking sector.

### **19. What was the impact of demonetisation on CASA ratio of banks?**

**Table 4.19 Shows impact on CASA ratio of bank**

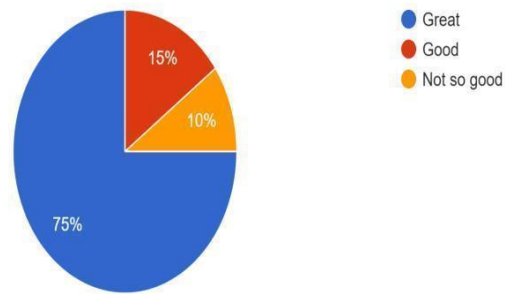
Options	Count	Percentage
Great	75	75%
Good	15	15%
Not so good	10	10%
Total	100	100%

**Source: Primary data**

**Chart 4.19 Shows impact on CASA ratio of bank**

What was the impact of demonetization on CASA ratio of bank?

100 responses



**Source: Primary data**

### **Interpretation-**

The CASA has improved drastically as there have been increased in deposits. It was great thing in terms of banking sector as casa indicates the cheaper funds which bank can lend at higher interest rate.

## 20. Did shareholders of banking sector were benefited from demonetisation?

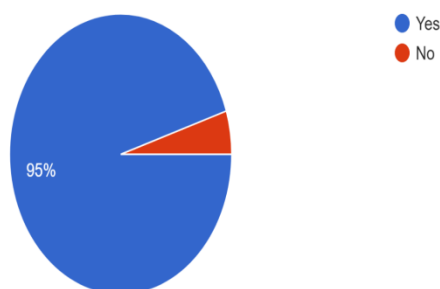
**Table 4.20 Shows impact on CASA ratio of bank**

Options	Count	Percentage
Yes	95	95%
No	5	5%
Total	100	100%

**Source: Primary data**

**Chart 4.20 Shows impact on CASA ratio of bank**

Did Shareholders of banking sector were benefited from demonetization?  
100 responses



**Source: Primary data**

### **Interpretation-**

As everything is in favour of banking sector the market price of banking sector increased as profitability of bank rises. The casa indicates the future profit for the banking sector. There was a great demand for e- banking too which in terms a good for banking sector.

## 21. Should have govt. informed bank prior to demonetisation?

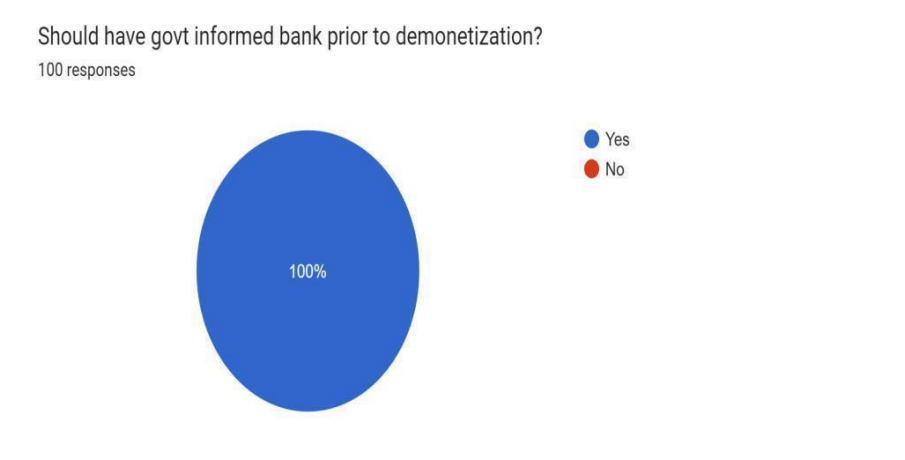
**Table 4.21 Shows employee opinion about govt. should give prior information to banks about demonetisation**

Options	Count	Percentage
Yes	100	100%

No	0	0%
Total	100	100%

**Source: Primary data**

**Chart 4.21 Shows employee opinion about govt. should give prior information to banks about demonetisation**



**Source: Primary data**

**Interpretation-**

As it can be seen that all the responses were not informed about the demonetisation , as government had planned the demonetisation very confidentially. Government wanted to give no time to people to change their money as if it was informed earlier then many people would have done fraud and would have gotten rid of black money prior to Demonetisation.

**22.Do you think, demonetisation helped to reduce black money, corruption, terrorism?**

**Table 4.22 Shows impact on black money, corruption, terrorism activities**

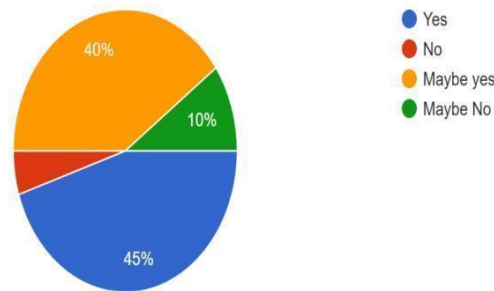
Options	Count	Percentage
Yes	45	45%
No	5	5%
Maybe Yes	40	40%

Maybe No	10	10%
Total	100	100%

**Source: Primary data**

### **Chart 4.22 Shows impact on black money, corruption, terrorism activities**

Do you think demonetization helped to reduce black money, corruption, terrorism?  
100 responses



**Source: Primary data**

### **Interpretation-**

Through the responses from this question, we can interpret that the responses for two options i.e. yes have higher percentage of answers which means that people believe that Demonetisation has helped reduce black money, corruption and terrorism to some extent. This move is helpful because it has helped reduce black money, corruption and terror funding in India to some extent. It also helped in making India a digital economy by reducing the usage of cash. Usage of plastic cards has also increased to some extent. This move has not been more helpful because the Black money holders, tax evaders and corrupt officials may not necessarily keep their money in bags at home as it was the old concept now, they invest this money in the market. Hence it can be said that this move by the government has not produced desired results and has cause inconvenience to common man.



## 23. What do you think about how demonetisation decision was in term of banking and finance sector?

**Table 4.23 Shows impact on banking and finance sector**

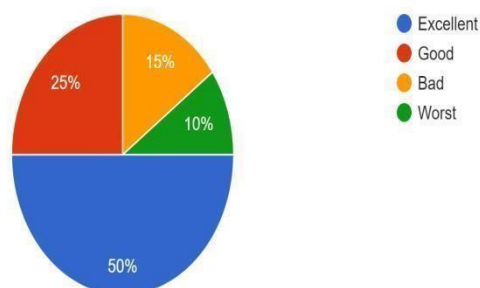
Options	Count	Percentage
Excellent	50	50%
Good	25	25%
Bad	15	15%
Worst	10	10%
Total	100	100%

**Source: Primary data**

**Chart 4.23 Shows impact on banking and finance sector**

What do think how demonetization decision was in term of banking and financial sector

100 responses



**Source: Primary data**

### **Interpretation-**

Through my research, I have observed that 50% of the respondents felt that demonetisation had an excellent impact on banking and finance sector, 25% felt it was a good decision, whereas 15% and 10% felt that there was a bad or worst impact of demonetisation on banking and finance sector respectively. For more than 50% it can be seen that it was the great move by the government as banks were benefited the most, their profitability increased, the price of shares increased, the number of transactions increased. There was an overall improvement in cash flow and e-banking.

## **CHAPTER 5:- FINDINGS & CONCLUSION, SUGGESTIONS**

### **5.1 Findings:-**

The findings of the research are as follows:-

1. Just 5% of respondents are above 65 years old, making up 40% of the total respondents that the majority of respondents are between the ages of 26 and 35.
2. It is found that out of all respondents majority of respondents are belonging to position of 'bank teller' i.e. 75% and 17% are 'collector' and 5% are 'branch manager' and only 3% of the respondents are 'loan officer'.
3. Most of the respondents said that due to demonetisation there was very huge impact on their work that their workload increased due to demonetisation.

Because bank was the only source to change their old currency with new currency.

4. More than 90% of the respondents said that bank employees had an advantage for exchanging their old currency with new currency (50% for yes and 42% for little bit). Only 8% of the respondents denied about this statement.
5. During demonetisation, it is observed that there is increase in the opening of new bank account. The main reason behind this is that a person can change his currency only when that person has bank account.
6. Out of all respondents, 75% respondents said that bank employees were prepared for the situation of demonetisation and 25% of the respondents said no for bank employee preparation about the demonetisation.
7. Out of all respondents, 60% said that the bank employees offered bribe to do exchange of old currency more than their specified limit and 40% of the respondents said no for offering bribe to them.
8. Most of the respondents (95%) said that bank employees did not have any idea about govt. planning for demonetisation.
9. 87% of the respondents said yes that there was increase in the cash flow during demonetisation and only 13% of the respondents said there was decrease in the cash flow during demonetisation. The main reason behind increase in the cash flow of bank is that people has got to know the importance behind keeping their cash in bank.
10. It is found that 60% of the respondents said that banks were ready with new currency while 40% of the respondents denied about position of the banks about new currency.
11. It was observed that the usage of ATM machines has increased during the period of demonetisation.
12. It is observed that 80% of the respondents said that there were so much of times that the ATM machines were running out of cash during demonetisation period and 20% of the respondents denied about this statement.
13. As due to there was increase in use of ATM machines, 70% of the respondents (40% for yes and 30% for sometimes) said that there was glitch

- happens in the working of ATM machines and 30% of the respondents said that there were no any glitches happens in the working of ATM machines.
14. As it was observed that post demonetisation the interest rate on deposits made with bank increased. During demonetisation, the cash flows of banks has increased which leads to more and more funds with banks to give as loan and to make investment which increases the return of banks which banks give to their customers.
  15. All 100% of the respondents said that there is good impact on e-banking services offered by banks due to demonetisation.
  16. Almost 80% of the respondents said that there is no any fraud reported during the time of demonetisation and only 20% of the respondents agreed about fraudulent activities happen during demonetisation.
  17. It was observed that the use of plastic money has increased during the time of demonetisation.
  18. There was increase in the profitability of banks during the time of demonetisation because of the increase in the cash flows of bank which leads to more returns.
  19. Out of all respondents, 75% of the respondents said that there was great impact on the CASA ratio of banks and 15% respondents said there was good impact and remaining 10% said there was bad impact on CASA ratio of banks due to demonetisation.
  20. Most of the respondents (95%) said that the demonetisation is very beneficial to the shareholders of banking sector.
  21. All 100% of the respondents said that govt. should pre-informed to banks about crucial decisions like demonetisation which are closely related to banking sectors.
  22. Out of all respondents, 85% (45% for yes and 40% for maybe yes) of respondents said that demonetisation was very helpful to reduce black money, corruption and terrorism and remaining 15% (5% for no and 10% for maybe no) respondents denied with this statement.

23. Most of the respondents said that demonetisation is an excellent decision for banking and finance sector and 25% said it was a good decision but 15% respondents said it was bad decision and remaining 10% respondents said it was worst decision for these two sectors.

## **5.2 Conclusion:-**

According to the research conducted, H1 is more relevant as it stat that, “there was a positive impact of demonetisation on banking and finance sector.” Therefore, after surveying a total of 120 respondents, the following can be proving the hypothesis.

1. The impact of demonetisation on banking sector is significant and positive.
2. The profitability of banking sector was increased as the CASA ratio increased and the rate of interest decreased and Interest rate was decreased which in term decreased the cost of funds for banking.
3. The deposits were increased as many people deposited their money in bank and still many people keep their money in bank as there is fear of govt. may do demonetisation again which leads to increase in cash flows of bank.
4. Demonetisation led to rise in E-banking in India many platforms like Paytm and use of UPI India increased drastically after demonetisation and it still increasing at a very fast rate.
5. Shareholders were benefited from the demonetisation the financial of bank got positive impact and it was good step by govt. for banking sector for long term which led to investment in banking stocks my many people as people can see positivity in banking share.
6. Many white transactions started taking place after as people fear of having black cash nowadays which in turns a positive impact on banking sector.

### **5.3 Suggestion:-**

- The government should take necessary measures to remove the negative impact of demonetisation on Indian economy and for this, the government can formulate a special committee which comprise of experts from various sectors.
- The government should from time to time publish the data regarding demonetisation to develop awareness among the people about the progress.
- Educate everyone about the use of e-wallets and debit card and credit cards so that the purpose of making our economy to be a cashless economy turns into reality.
- Workshops and seminars should be organized for people of rural areas who are not aware of net banking system.
- More branches should be opened in rural areas where there is no banking facility.
- Zero balance bank account should also be opened up in private banks so that it can attract low-income groups or people of rural areas.
- RBI should have been more prepared as there were many responses that govt. was not that ready.

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### **ANNEXURE:- Questionnaire:-**

This question is part of an educational research on the impact of demonetisation on Indian banking and financial sector. We would appreciate your honest opinions. Please specify your appropriate answer in the right circle.

1. Name:- \_\_\_\_\_

2. What is the age of respondent?



- 16-25
- 26-35
- 36-50
- 51-65
- 65+

3. What was the respondent position during demonetisation?

- Bank Teller
- Collector
- Loan Officer
- Branch Manager

4. Do you think there was an impact of demonetisation on your workload?

- Not At All
- Yes
- Somewhat

5. During demonetisation was there an advantage to bank employees in terms of exchanging old to new currency?

- Yes
- No
- Little Bit

6. What is the impact of demonetisation on the opening of new account?

- Increased
- No Impact

7. Were bank employees prepared for such situation?

- Yes
- No

8. Were bank employees offered any bribe?

- Yes
- No

9. Did bank employees having any idea that govt. was planning to demonetisation?

- Yes
- Not At All
- Somewhat

10. How was the cash flow during demonetisation?

- Increase
- Decrease

11. Were bank employees ready with the new currency?

- Ready
- Not Ready

12. What was the impact of demonetisation on functioning of ATM machines?

- Usage Increased

- No Impact
- Usage Decreased

13. Were there any difficulties of ATM machine running out of cash?

- Yes
- No

14. Was there any glitch in working of ATM machine?

- Yes
- No
- Sometimes

15. Did interest rates increased or reduced?

- Increased
- Reduced
- No Change

16. What was the impact of demonetisation on e-banking?

- Good
- Bad

17. Was there any fraud reporting during demonetisation?

- Yes
- No

18. How was the demand of plastic money during demonetisation?

- Increased
- Decreased

19. Did demonetisation helped to improve profitability of bank?

- Yes
- No

20. What was the impact of demonetisation on CASA ratio of banks?

- Great
- Good
- Not So Good

21. Did shareholders of banking sector were benefited from demonetisation?

- Yes
- No

22. Should have govt. informed bank prior to demonetisation?

- Yes
- No

23. Do you think, demonetisation helped to reduce black money, corruption, terrorism?

- Yes
- No
- Maybe Yes
- Maybe No

24. What do you think about how demonetisation decision was in term of banking and financial sector?

- Excellent
- Good

- Bad
- Worst