

Demonetization of Currency Notes in India, Submitted to International Journal for Multidisciplinary Research

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Abstract

Banking has been a part of the economy which leads to a whole structure of banking services to the public. It is a way of getting utility services and other services from one person to another without any struggles. In the present era, the effects of demonetization has a significant place, now itself many of the people were carrying and holding old currency notes even in the form of black money or as a result of speculation or hoarding activities. Some of people are not aware of the procedures for exchanging these old ones by new currency notes. The main importance of this topic is to eliminate evil of corruption and demolish the usage of black money. By this work it is pointing out upto what extend the Tamilnadu Mercantile Bank Ltd can control these activities and it is relevant to not how they manage their affairs during the time of demonetization. The main aim of the study included what extend the bank had served the ultimate goal of demonization and was they successful in implementing the procedures in the bank. The participation of employees, customers and other faculties in the bank, their feedbacks and opinion about the scheme and how they crossed the risk at the time of demonization.

INTRODUCTION

Banking has been a part of the economy which leads to a whole structure of banking services to the public. It is a way of getting utility services and other services from one person to another without any struggles. On 8 November 2016, the Government of India announced the demonetisation of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes. Prime Minister Narendra Modi claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism.

Demonetisation means an act of stripping the legal tender status of currency units. It happens whenever there is a change of any national currency. It involves the withdrawal of the current form or forms of money from being circulated usually replaced with new notes or coins. Seldom, a country entirely replaces the old currency with new currency. Remonetisation is the opposite of demonetisation, wherein a payment form is restored as a legal tender. Pulling down the legal tender status of a unit of currency is a drastic interference into an economy since it directly affects the day-to-day banking business.

It can help in bringing stability to the existing problems or may cause chaos in an The Nadar Bank Ltd. The bank initially known as ‘The Nadar Bank Ltd.’ Became a Scheduled Bank under the Reserve Bank of India Act on May 1 1, 1935. The Nadar Bank Ltd., changed its name to the Tamilnad Mercantile

Bank Ltd., on Nov 26, 1962. Ever since the bank stands pre-eminently among the galaxy of banks in the private sector depicting scientific and sound functioning.

The bank has been fortunate in having very eminent and honest men of vision and great talent as Board of Directors and Executives. The ever increasing profit figures of the bank depicts the efficiency of the management. The bank, which was opened with a small capital of < 5 Lakhs, has an impeccable record of having crossed a net worth of (1000 Crores as economy if it goes wrong. The move can negatively impact the economy, especially when introduced abruptly without warning. That said, demonetisation is taken up by countries for various reasons. Uses of the demonetisation are as follows: - To stabilise the currency and fight inflation, - To promote trade and access to markets - To bring transparency in informal economic activities, away from black and grey markets.

Initially, the move received support from several bankers as well as from some international commentators. The move was also criticised as poorly planned and unfair, and was met with protests, litigation, and strikes against the government in several places across India. Debates also took place concerning the move in both houses of Parliament. 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.

STATEMENT OF THE PROBLEM

Banks had faced so many struggles and impediments at the time of introducing demonization of currency notes in India. Major problems faced were inadequate supply of currency notes and rush in banks. Many of the struggles were successfully fought out by most of the banks, but some problems are being existing in the present situation also. In order to remove the problems and risks banks had put forward certain rules and regulations with the consultation of Reserve Bank of India. With reference to Tamilnad Mercantile Bank Ltd, some of the problems were noted which includes why this demonization had introduced in India, what was it is main agenda and how common people react to this criterion. The cooperation of employees and customers with the rules and regulations were also tried out. It was not much easy to resolve and consolidate the whole information and protocols of demonetization in India. Bank had made a significant role in implementing such procedures.

IMPORTANCE OF THE STUDY

In the present era, the effects of demonetization has a significant place, now itself many of the people were carrying and holding old currency notes even in the form of black money or as a result of speculation or hoarding activities. Some of people are not aware of the procedures for exchanging these old ones by new currency notes. The main importance of this topic is to eliminate evil of corruption and demolish the usage of black money. By this work it is pointing out upto what extend the Tamilnadu Mercantile Bank Ltd can control these activities and it is relevant to not how they manage their affairs during the time of demonetization.

OBJECTIVES OF THE STUDY

1. To study the conditions of Bank before and after demonetization.
2. To study employee behaviour and customer participation at the te of demonetization.

3. To determine whether the Bank had fulfilled the real motive of implementing demonetization in India.
4. To know about the structure of banking facilities at the time of demonetization.
5. To study about the saving habit of customers after 2016.
6. To determine whether the Bank had gone with all reasonable restrictions and regulations at the time of demonetization.
7. To study about the risk factor on Bank during the year of 2016.
8. To ascertain whether the demonetization has affected the present economy.

DEMONETISATION IN INDIA

Demonetisation in India has taken place three times till now, namely in the years of 1946, 1978 and 2016. Let us have a look at all the three events.

Demonetisation 1946

The first demonetisation event happened in 1946, at that time the denominations of Rs.1000 and Rs.10000 were removed from circulation. There was a visibly low impact of the demonetisation as the higher denomination currencies were not available to the common people. In 1954, these notes were again introduced with an additional denomination of 5000.

Demonetisation in 1978

The second demonetisation in India took place in 1978, at that time the Prime Minister was Morarji Desai. During the second demonetisation the denominations of 1000, 5000 and 10000 were taken out of circulation. The whole purpose of demonetisation was to reduce the circulation of black money in the country. The announcement was made by Morarji Desai over the radio

Demonetisation in 2016

The latest demonetisation was announced on 8th of November, 2016 by the Prime Minister Narendra Modi. During this demonetisation the notes that were taken out of circulation were the denominations of 500 and 1000. PM Modi also introduced new currency of denominations 500 and 2000 s.

Demonetisation was tried as a tool to modernise a developing economy that is cash-dependent and to fight crime and corruption involving counterfeiting and tax evasion. Accordingly, the Indian government demonetised the Rs 500 and Rs 1000 face-valued currency notes in 2016, the two most prominent denominations in its currency system.

These notes accounted for 86% of the country's circulating cash. With no indications, India's Prime Minister Narendra Modi announced to the country's citizens on 8th of November 2016, that those notes would have no value with immediate effect. As an alternative arrangement, citizens could deposit or exchange these old notes for newly introduced Rs 2000 and Rs 500 bills by the end of the year.

Few facts about Demonetisation which are important.

1. 500, 1,000 notes were declared legally invalid on January 12, 1946.
2. Rs.1000, Rs.5000 and Rs.10000 new notes were brought to the economy in 1954.
3. On 16 January 1978, the party under the leadership of Morarji Desai gave notice of demonetising 1,000, 5000 and 10000 rupees notes, and at that time Finance Minister was HM Patel.
4. RBI had introduced new notes of Rs. 500 in 1987 so that the economy could be reduced to the point of inflation.
5. On November 8, 2016, demonetisation of 500 and 1000 rupees were closed legally once.

6. When 500 rupees and 1000 rupees were banned and PM Modi had given a limit to Rs4000 only to exchange money from the bank. And at that time, ATMs could only run 2000 in a day.
7. After banning 500 and 1000 rupees notes, the RBI after some time issued new notes of rupees 2000 and 500.
8. After demonetization GDP decreased by 6.1%.
9. The number of digital transactions increased by 56% to 1.1 billion between October 2016 and May 2017 with the outcome that Reserve Bank will have to print a lesser quantity of new notes. Government has launched BHIM App and UPI App to increase the number of digital transactions.
10. The motive behind this move was to end corruption and it reduced to a certain degree of corruption.

IMPACTS ON VARIOUS STREAMS

Impact On Bank Deposits And Interest Rate

Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

Impact On Black Money

Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depends upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

Impact On Counterfeit Currency

The real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise. Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

Impact on Parallel Economy

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to - remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks, - Temporarily stall the circulation of large

volume of counterfeit currency and - curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

□ Impact on Money Supply

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

□ Impact on Demand

The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly: Consumer goods, Real Estate and Property, Gold and luxury goods, Automobiles (only to a certain limit), All these mentioned sectors are expected to face certain moderation in demand from the consumer.

GOVERNMENT INITIATIVES TO MAKE DEMONETIZATION A SUCCESS

The government has taken a number of steps to curb black money. Searches, seizures, surveys, and scrutiny of income tax returns are being done by the Income Tax Department. Amendments have also been made to the Finance Act 2004 to intensify efforts to curb black money. For the success of demonetization and smooth functioning of the economy, the Government has taken the following initiatives:

1. Controlling the election expenses.
2. Find out the root cause of generation of black money and make emphasis to stop it. Unless this problem is tacked the menace of black money will continue to increase.
3. PAN Card is essential for all tax payers but many transactions especially those related to property and conducted in cash and are unlikely to be reported. For this it is better to create a property and wealth account in the name of an individual.
4. Government has also taken initiative in the last two years to open Dhanajan Account, which is essential to judge individual source of income.
5. Government has also taken initiatives and also motivated the people towards cashless transactions, which help to make a proper record about transactions between parties.
6. Government has also taken initiative to aware the people through mass media about the cashless transactions and income tax, etc.

There is certain reviews relating to demonetization in various speeches and articles, According to our Prime Minister, Narendra Modi “Demonetization is a step which will strengthen the hands of the common man in the fight against corruption, black money and fake currency. To minimize the difficulties of citizens in the coming days several steps are being taken. Therefore all banks will be closed to the public on 9th November. This may cause some hardships to you. I have full faith that banks and post offices will successfully carry out this great risk of national importance.

“Demonetization: Impact on the economy”, by Tax Research Team, working paper number 182,NIPFP (2016)- this paper has elucidated the impact of demonetization in the availability of credit spending, level of activity and Government Finances.

“The economic consequences of Demonetization of 500 and 1000 rupee notes” by M. Sabnavis, A. Sawarkar and M. Mishra in Economic Policy View November 09, 2016- this paper suggested that in spite of the initial hiccups and disruptions in the system of Demonetization today, eventually this change will be well assimilated and will prove positive for the economy in the long run.

“Black Money and Demonetization” by Rahul Prakash Deodhar, SSRN, November 2016: This paper has emphasized and highlighted towards control of black money, corruption and terrorism through demonetization.

According to Prof. Govinda Rao, former member of the Prime Minister’s Economic Advisory Council, said, “There were a number of factors besides demonetisation which hit the informal sector very hard... these included introduction of a new GST system of taxes with a lot of hiccups, a slowdown of the MSME sector, higher transaction costs etc., but demonetisation was the starting point.”

A study done by Gita Gopinath of IMF, Prachi Mishra of Goldman Sachs and others entitled 'Cash and the Economy: Evidence from India's Demonetisation', estimates there was a 2.2 per cent decline in economic activity in November and December 2016 and a 2-3 per cent reduction in jobs in the quarter after the note ban.

In an interview to NDTV, Nobel Laureate and eminent economist Amartya Sen said, "The demonetisation of currency was a despotic act as the government broke the promise of compensation that comes with a promissory note." "Demonetisation goes against trust. It undermines the trust of entire economy,"

Prof. Arun Kumar, the Malcolm S. Adiseshiah Chair at the Institute of Social Sciences, New Delhi. “The fact is that the demonetisation compounded by the flawed introduction of GST and the NBFC crisis, besides an overall global slowdown has meant that the jobs lost and demand slowdown which occurred as a fall-out of the note ban has not only not been reversed but continues”.

Merriam Webster defines demonetization as “to stop using (metal) as a monetary standard, to deprive of value for official payment.”

Leading economist Kaushik Basu wrote in The New York Times, “Demonetization was ostensibly implemented to combat corruption, terrorism financing and inflation. But it was poorly designed, with scant attention paid to the laws of the market, and it is likely to fail. So far its effects have been disastrous for the middle- and lower-middle classes, as well as the poor. And the worst may be yet to come”.

According to our former Prime Minister Manmohan Singh in his speech quoted “In my opinion that the way the scheme has been implemented will hurt agricultural growth in our country, will hurt small industry, will hurt all those people who are in the informal sector of the economy. And my own feeling is that the national income, that is the GDP, can decline by about 2 per cent as a result of what has been done. This is an underestimate”.

Reserve Bank of India's (RBI) former governor Raghuram Rajan has said he had made it quite clear to the government that the demonetisation was "not a good idea" and that its implementation was "not well-planned" since 87.5 per cent of the currency was being demonetised. Rajan rejected the claim that the RBI had not been consulted by the government before it went ahead with the demonetisation.

According to Amartya Sen: Demonetisation is ‘unguided missile’, fired ‘unilaterally’ and termed note ban as an unguided “missile” fired “unilaterally” by the government without adhering to the democratic conventions. Every now and then we get missiles fired by the government unilaterally. Demonetisation

one fine morning is of course just such a missile where there are reports coming in of hardships and suffering though it is not quite clear where the missile has landed,”

Chairman of the Economic Advisory Council to Prime Minister (EAC-PM) and economist, Bibek Debroy, admits that demonetisation was a temporary shock on growth but asserts that the economy has now climbed back. Debroy says the worst is over and there are signs that things are improving now. He also says demonetisation should not be seen through a narrow cost-benefit calculus but as a move aimed at "institutional cleansing".

DEMONETIZATION OF CURRENCY NOTES IN INDIA

Demonetisation is referred to as the process of stripping a currency unit of its status to be used as a legal tender. In simple words, demonetisation is the process by which the demonetised notes cease to be accepted as legal currency for any kind of transaction. After demonetisation is done, the old currency is replaced by a new currency, which may be of the same denomination or may be of a higher denomination. The impact of changing the legal tender status of a currency unit has a huge impact on the economic transactions that take place in an economy. Demonetisation can cause unrest in an economy or it can help in stabilizing the economy from existing problems. Demonetisation is usually taken by a country for various reasons.

MONETIZATION

Monetization (also spelled monetisation) is broadly speaking, the process of converting something into money. The term has a broad range of uses. In banking, the term refers to the process of converting or establishing something into legal tender. While it usually refers to the coining of currency or the printing of banknotes by central banks, it may also take the form of a promissory currency.

The term "monetization" may also be used informally to refer to exchanging possessions for cash or cash equivalents, including selling a security interest, charging fees for something that used to be free, or attempting to make money on goods or services that were previously unprofitable or had been considered to have the potential to earn profits. And data monetization refers to a spectrum of ways information assets can be converted into economic value.

Still another meaning of "monetization" denotes the process by which the U.S. Treasury accounts for the face value of outstanding coinage. This procedure can extend even to one-of-a-kind situations such as when the Treasury Department sold an extremely rare 1933 Double Eagle. The coin's nominal value of \$20 was added to the final sale price, reflecting the fact that the coin was considered to have been issued into circulation as a result of the transaction. In some industry sectors such as high technology and marketing, monetization is a buzzword for adapting non-revenue-generating assets to generate revenue.

REMONETISATION

Remonetisation is the restoration of some commodity such as silver or coins or bank notes that are not money as money. It is the reverse of demonetisation.

OBJECTIVES OF DEMONETISATION

The objectives of demonetisation are as follows:

1. To stop the circulation of black money in the market.
2. To help in reducing the interest rates of the prevalent banking system

3. To help in creation of cashless economy
4. To formalise the informal Indian Economy.
5. To remove counterfeit notes from the market.
6. To help reduce anti-social activities and their finances.

This concludes the concept of demonetisation which helps in stabilising the economy and curb the spread of black money in the market.

FEATURES OF DEMONETIZATION

1. Elimination of Black Money: Black money is a household name in India. It refers to unaccounted money. Holders of black money avoid payment of tax on this money. By demonetizing high-value currency notes, the government wants to eliminate the stock of black unaccounted. Cash balances.
2. Eradication of Corruption: High-value currency notes are the commonly accepted medium or bribe. The government wants to strike at the root of corruption by banning these notes.
3. Elimination of Counterfeit Currency: A note ban would have implied the elimination of counterfeit currency. Counterfeit currency enhances money in circulation .
4. Money Laundering: Demonetisation is expected to check money laundering. It refers to the hidden transfer of funds across different regions of the country. With cash transactions coming to a grinding halt, demonetization hurt money laundering in a bit.

REASONS FOR DEMONETIZATION

- Although demonetization is rare, countries around the world have conducted demonetization measures for various reasons.
- Governments may choose to undergo demonetization if the currency gets out of control, due to problems like hyperinflation.
- Demonetization can also be used to prevent criminal actions, such as counterfeiting, terrorism, or tax evasion.
- In other cases, demonetization occurs to implement a new currency standard. For example, in 2002, the European Union introduced the euro, a central currency that would replace the existing currencies of several nations.
- In adopting the common currency, countries across Europe discontinued their currencies and introduced the euro as the standard across the European Union.

ADVANTAGES OF DEMONETIZATION

Through the demonetization of currency, a country can receive benefits ranging from crime prevention to greater currency standardization.

1. Reduces various criminal activities

One of the benefits of demonetization is the reduction of various forms of criminal activity. Through the demonetization process, old banknotes and coins are discontinued and taken out of circulation, and effectively become worthless. For groups conducting criminal activities, such as terrorism, their supply of money effectively becomes worthless, as the currency is no longer legal tender. For those engaged in counterfeiting, the banks will evaluate whether old banknotes are counterfeit before exchanging them, therefore allowing the government to remove counterfeit currency from the system.

2. Prevents tax evasion

Demonetization of currency can also prevent tax evasion, as those that are evading taxes must exchange their existing currency or risk their money becoming worthless. In the currency exchange process, the government can catch those who have evaded taxes and retroactive tax their unreported earnings.

3. Promotes a cashless economy

Demonetization can also further the push towards a cashless economy, as the government can slow the circulation of physical currency and move towards more digital options.

On the other hand, some disadvantages can arise from the demonetization process, including: Incurs costs from printing new banknotes and minting of coins . One of the initial drawbacks is the costs involved with the printing of new banknotes and the minting of coins, as well as the discontinuation of existing currency. May not entirely reduce criminal activity; In addition, demonetization may not reduce criminal activity, as criminals may keep their assets in other forms, such as gold or real estate. Can trigger chaos among citizens. Finally, if the demonetization process isn't implemented successfully, it can result in chaos among the population, as people scramble to exchange their currency before discontinuation.

REAL-WORLD EXAMPLES

1. India (2016)

A recent example of demonetization was India in 2016 when the government announced the discontinuation of all ₹500 and ₹1,000 banknotes. It was done to reduce the presence of counterfeit cash to fund criminal activity.

When the demonetization was announced, there were shortages of cash across the country, as people scrambled to exchange their existing banknotes. It led to disruptions to the economy, reducing India's industrial production and hindering its GDP growth rate.

2. Eurozone (2002)

Another example of demonetization was the European transition to the euro.

To facilitate the process, the European Central Bank needed to ensure that there was enough currency to be circulated and began printing banknotes and minting coins as early as 1998.

When the euro was introduced, the central bank ensured that all citizens were able to access to the new currency and began providing banks with the new banknotes and coins several months in advance.

THE DEMONETIZATION PROCESS

Demonetization is a form of economic intervention, where a country moves to replace one form of currency with another. At the beginning of the demonetization process, the old currency is discontinued and pulled from circulation to be replaced with new forms of money.

During the process, people are given time to exchange their existing banknotes and coins for the new currency before it is officially discontinued. After a currency has been discontinued, it is no longer legal tender and contains no monetary value.

The demonetization process can occur in many different forms – a country can introduce new banknotes or coins or implement a completely new form of currency altogether. However, demonetization is a drastic measure that occurs rarely and can disrupt society if implemented improperly. At times, countries

may also decide to reinstate discontinued currency as legal tender through a process known as remonetisation.

CRIMINAL OFFENCE

As per the Specified Bank Notes (Cessation of Liabilities) Act, 2017, possession of more than 10 pieces of invalidated currency notes by individuals and more than 25 for study, research, or numismatics is deemed a criminal offence attracting a minimum fine of ₹10,000 or five times the cash held, whichever is higher.

The Act was passed with the aim of eliminating the possibility of a parallel economy using the demonetised currency notes. The law also stipulates a minimum fine of ₹50,000 for false declarations by those who were abroad during the demonetisation period but were given time to deposit the scrapped notes with the Reserve Bank of India.

Customs authorities, however, said that they had very rarely come across instances of possession of demonetised notes at the Kochi airport.

Following the announcement by the Prime Minister the governor of the Reserve Bank of India (RBI), Urjit Patel made a press release with details on the procedure for exchanging the 500 and 1000 rupee notes that are currently in circulation. On 8 November, other than the notification that these denomination will be discontinued, there were a few other relevant announcements .

INFLUENCE OF DEMONETIZATION ON BANKS

- Increase in Deposits: Demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits .
- Bulk of the deposits so mobilised 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 Stabilisation Scheme (which is a part of investment in government securities in the balance sheet of banks). Loans and advances extended by banks increased by Rs.1,008 billion. The incremental credit deposit ratio for the period was only 18.2 per cent.
- 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.
- Surplus liquidity conditions: It 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 were declined, allowing banks to reduce their own lending rates.
- Demand for Government Bonds: After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is held.
- Sagginess in Lending: Lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

An overall analysis of the move of demonetization, after four years shows that the banking sector faced the following.

□ **Increase of deposits:**

The banned notes of Rs 500 and Rs 1000 accounted for 86% of the currency circulated in the market. This meant the individuals had to submit their money and in exchange get the money bank. As the individuals who had the money were so many, there was an increase in the deposits in the banks. There was a sudden increase in the bank cash liquidity ratio and the size of public deposits had significantly increased.

□ **Shortage of liquid cash:**

Liquid cash implies the currency notes or coins in the hands of the consumers. After the demonization, the people of the country were squabbling over the lack of cash in their hands. Or even if they had the cash they were unable to use it as it had become illegal. People stood out in lines over hours in front of banks and ATMs to get their money exchanged. In fact this led to widespread protests in the country. A few deaths were also reported in the country due to exhaustion and heat. This had a huge impact on the economy with the stock markets plummeting and big business corporations losing thousands. In addition, several economic problems were created by this move. It disrupted the entire supply and demand chain which is largely a cash based chain. The prices of essential commodities increased and petrol and diesel prices were also impacted. In fact, according to many studies, the worst hit were the small time traders who though didn't have a bank account and now their entire livelihood was threatened.

□ **Demand for government bonds**

People increasingly started investing in government securities and government bonds as the stock markets were in pretty bad conditions and the government bonds acted as safe havens for the investors. Many public sector banks used this opportunity to use the excess cash in their banks to use as government bonds. This would eventually result in huge turnover for the banks. It will result in a likely 20-25% increase in the earnings and revenue of the banks.

□ **Decrease in interest rates:**

There was a surplus of cash reserves at the banks. This meant that the rates set by the RBI, including the CLR and CRR were fulfilled and additional money was left. Thus many banks started giving out loans at a lower interest rate. This, this move resulted in many private and public sector banks significantly increasing their loans capacities. In fact, according to one such study, it had almost increased by 20%.

□ **Increase use of bank accounts:**

Demonetization though had a number of pitfalls, however, it steadily increased in people having a bank account. This move was coupled with the initiatives by the government to engage in people having a bank account. This led many poor families and individuals below the poverty line to open zero bank account, which would help them being connected with government initiatives and providing an avenue for storage of money.

□ UPI and advent of online banking

With a crunch of cash in the economy many people turned to digital payments and plastic money. The online banking platform increased significantly. In fact, people used platforms such as Paytm and Phone Pay more than they were first launched. In cities, there was a 42% increase in the use of credit and debit cards by the consumers in the markets. This thus helped people to engage in digital interface which traditionally do not. There was a steady increase in digital payment and tools.

□ Crippling of rural banking:

The worst affected banks were in fact the rural banking sector. Rural lending is mainly catered by public sector banks. There was a severe falling of credit growth in these banks especially in rural areas predominated by agriculture. There was a fall by 6.1% in the economic year of 2017.

□ Reduction in MSME businesses:

The most impacted sector was the MSME. There was a decline in small and medium enterprises and thus loss was caused to them. This resulted in them missing on the instalments of the banks and thus it caused a crunch in the economy. According to a study there was decrease of about 60% in the business of such companies. Thus, it adversely increased the Non-performing assets of the country.

□ Strain on employees:

Bank employees were kept under stress and they were working overtime for almost two months after the announcement of demonetization. Due the immense pressure, it resulted in a number of problems in lives of bank employees. With witnessing a flurry of customers every day, it was a difficult task. The concept of demonetisation means that the country's currency which was in use was no longer valid and the entire cash currency was to be changed. In India, which is primarily a cash based economy, people have faced immense inconvenience because of demonetization. It caused a number of problems in the economy. However, they have been a pros such as increase in the use of plastic cards, online banking etc. however with the increases cons, it seems that it was a very bad policy decision on the part of the government.

CONCLUSION

To conclude demonetization, the government announcing that ₹500 and ₹1,000 notes will become non-legal tender from December 31, instead of November 8 itself, would have avoided the inconveniences caused to people and businesses. Therefore, we can conclude that the surgical demonetisation has failed in this objective. The government and the RBI also did not do enough preparation and it is the reason for increased pain for individuals and businesses. Finance Minister Arun Jaitley wrote in a recent Facebook post that “the period of pain and inconveniences is getting over, and the economic activity is being restored“. The pain and inconveniences should have gone earlier, not after two months.

However, the failure of surgical demonetisation also had some positive impacts. First, it broke the harsh attitude towards taxation rules. Although it was one of the aims of demonetisation, the digital push has now become the main focus now. Introduction of lottery scheme for digital transactions and launch of Bhim App, which already crossed 1 cr downloads, are the success stories from here. Increased digital awareness and consumers fight against banks levying service charge on credit and debit card

transactions is another positive aspect. Pressure is building on the government and the RBI to remove service charge on debit cards.

Some positive impact is visible on the political front as well. The Election Commission of India has already suggested that the limit for cash donations be reduced from ₹ 20,000 to ₹ 2,000. Hope the government will soon bring a bill in Parliament to implement it. The demonetization of high currency notes by government of India is a very crucial step for Indian economy. There is a mix response of people of India on this. Amidst many protests against this move, people have shown support and the country is getting back to its normal economic activities. So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people of India have been asking for a long time which has finally happened.

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