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## Emerging Issues and Challenges in Banking and Financial Services on Indian Economy- Post Demonetization

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### ABSTRACT

*The Government of India announced the demonetization of all Rs 500 and Rs 1,000 paper money of the Mahatma Gandhi Series On 8 November 2016, The government claim that the action would stop the shadow (process of people making, selling, and buying things) and crack down on the use of illegal and (make fake money or goods) cash to fund illegal activity and terrorism. The sudden nature of the announcement and the lengthy cash shortages in the weeks that followed has created noteworthy disruption throughout the (process of people making, selling, and buying things), threatening money-based output. The move was heavily criticized as poorly planned and unfair and was met with protests, lawsuits, and strikes.*

*The purpose of this paper is to describe the changes that are happening in Indian Banking and related to managing money part/area as a hit/effect of demonetization. In trying to (ask lots of questions about/try to find the truth about) factors which may account for the never-before-seen change, this study raises the pro's and con's of currency demonetization in different (related to managing money) Banking parts/areas.*

*Data were collected through surveys that were mailed out to no. of people (who were part of a study, etc.) in Hyderabad. People (who were part of a study, etc.) in the study completed the survey (without revealing his/her name) and filled out a separate permission-related form. People who responded have appointments in a variety of departments, including Banking, Finance, Capital Markets and Insurance parts/areas. People who responded were from a variety of (related to managing money) Institutions from both private and public institutions, the majority being research oriented. To protect the (not knowing or telling someone's name) of the people who responded, we are not capable of listing the institutions here or to further identify them. Secondary Data is collected from Internet and Newspapers. With the center's decision to throw out/cancel old currency notes of Rs 500 and Rs 1,000 on November 8, 2016, the (related to managing money) part/area is now supporting structure itself to deal with the move's hit/effect. Experts say that it is a good move as it will bring more formal money in the (related to managing money) part/area.*

**Keywords:** *Demonetization, Capital Markets, Legal Tender.*

### I. INTRODUCTION

Demonetization means that the Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is the act of stripping a currency unit of its status as legal tender. On 28 October 2016, the total currency in circulation in India was Rs. 17.77 lakh crore (US\$260 billion). In terms of value, the once-a-year report of Reserve Bank of India of 31 March 2016 stated that total bank notes in circulation valued at Rs.16.42 lakh crore (US\$240 billion) of which nearly 86% (i.e. Rs. 14.18 lakh crore (US\$210 billion)) was 500 and 1000 rupee notes. In terms of the book, the report stated that 24% (i.e. 2,203 crores) of the total 9,026.6 crore paper money was in circulation. It's an important move, the Government of India stated that the five

hundred and one thousand rupee notes will no longer be legal tender from Midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to deal with the/to speak to the resolve against (dishonest actions that ruin your trust), black money and (make fake money or goods) notes. This progress is expected to clean the formal money-based system and throw out black money from the same.

**The reasons for it are as under:**

- To deal with black money in the process of people making, selling, and buying things.
- To lower the currency circulation in the country which is honestly related to (dishonest actions that ruin your trust) in our country?
- To get rid of false currency and sneaky and unfair money which has been used by terror groups to finance terror campaign in India;
- The progress is guessed (number) to measure out more than Rs 5 lakh crore black money from the (process of people making, selling, and buying things).

Almost the same measures have been taken in the past.

In January 1946, legal tender (currency) notes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 rupees were introduced in 1954. The Janata Party (supporting) group government had again demonetized notes of 1000, 5000 and 10,000 rupees on 16 January 1978 as a means to control/to decrease (fake item/making fake items) black money.

**THE PAST EXPERIENCES OF DEMONETIZATION FROM VARIOUS COUNTRIES**

North Korea: In 2010, The government in power of then-mean ruler Kim Jong-Il mounted a reorganization that knocked off two zeros from that (the dollar amount is written on it/as something appears to be)of the old currency in an effort to tighten control of the (process of people making, selling, and buying things) and close (where people buy and sell stolen things)s. combine with a poor harvest, the measure left the country with extreme food shortages, according to reports at the time. Surging rice prices (fed a fire/excited) unrest that caused/brought about/reminded an unusual apology from Kim, and -- reports suggested -- the execution of the ruling party's head of finance.

Russia: On its last legs, the country under Mikhail Gorbachev in January 1991 withdraw large-ruble bills from distribution in a move to take on the black ( the process of people making, selling, and buying things). The modification did not stop the progress of inflation and instead served mainly to speed up a slide in public confidence in the government. As political interior fighting combined with money-based collapse, Gorbachev faced a secret and successful plan attempt that August which destroyed his authority and led to the Soviet break-up the following year. Learning lessons, Russia's 1998 redenomination of the ruble, when it removed three zeroes, went completely more smoothly.

Zaire: Mean ruler Mobutu SeseSeko faced rising money-based disruption in the early 1990s when his management mounted (one after the other) banknote good changes. A plan to withdraw old and no longer used currency from the system in 1993 saw a sudden rush in inflation and a fall down in the exchange rate against the dollar. After a (war among groups that all live in one country), Mobutu was thrown out in 1997

Myanmar: In 1987, the country's armed forces (small group of people ruling a country) (made of no value or meaningless) as much as 80 percent of the value of money in circulation, according to information at the time -- as in other such attempts (to begin something new), it was directed at controlling the (where people buy and sell stolen things). One result was the first student (acts of showing or proving) in years. Deepening money-based unease helped prompt mass protests across the nation, the following year that led to a government (sudden strict enforcement of rules) that killed thousands of people.

Nigeria: In 1984, the military government led by Muhammadu Buhari started an anti-(dishonest actions that destroy your trust) (sudden strict enforcement of rules) that involved issuing new paper money with a different color, forcing the alternate of old ones within a limited period. The move was one of a series that did not join a debt weighed down and inflation-ridden (course of action of people making, selling, and buying things). Buhari, who is now in power again, was eventually thrown out/thrown out in a secret and successful plan the following year.

Ghana: The country in 1982 got rid of its 50 credit note to break down on not paying taxes, address (dishonest actions that ruin your trust) and mop up excess liquidity. The move wore away confidence in the banking system

as people turned to foreign currency or physical valuable things instead. The (where people buy and sell stolen things) for currency grew/showed/waved. As (left from cities) people had to walk miles to the nearest banks to exchange their money, and after the deadline passed, there were accounts of bundles of notes left alone as valueless.

## **II. OBJECTIVES OF PAPER**

- To study the experience of punch/effect of demonetization in different Banking and (associated with managing money) Parts/areas;
- To carefully study the current immediate effect/hit of demonetization on Indian's (process of people making, selling, and buying things);
- To work out the possible results of the demonetization.

## **III. RESEARCH METHODOLOGY**

The paper is based on primary (or most important) and secondary data. Secondary data has been collected from internet and News Papers.

## **IV. EFFECT OF DEMONETIZATION ON INDIAN BANKING AND FINANCIAL SERVICES**

### **Increased Deposits in Banks**

The BJP-led government move will pull a large portion of first-time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study done by Moody's, people have a tendency to continue using banking services once they have crossed the 'first-time user' mark.

Indian banks saw more than Rs 11 lakh crore entering into the system till 30 November after the demonetization put in effect kicked off on 8 November. In one fell swoop, the Modi government blocked/prohibited/banned currency notes of Rs 500 and Rs 1,000 worth Rs 14 lakh crore (process of people making, selling, and buying things), accounting for 86 percent of the total types of money available in the system. This means, Rs 11 lakh crore entering into the banking system till 30 November represents 80 percent of the total blocked/forbidden types of money. "With an almost a month to go before the December 30 deadline for deposit of invalid currency notes expires, the (thing that is all of a sudden shown or understood) raises questions whether the demonetization drive can successfully target black money collectors (who never throw anything out)," the report added. The expansion comes close right behind Reserve Bank of India earlier in the week saying that deposits to the tune of Rs 8.4 lakh crore were completed until 27 November, the report said.

Although the government's demonetization termination was welcomed by the bulk of the people across the country, the Centre, however, came under severe disapproval from different political parties for not taking tricky and unclear (to avoid something) measures to relieve common man's concerns. Especially, (long-lasting to do something hard or annoying) cash shortages at banks and Cash machines across the country has left people dissatisfied, who were facing tremendous (problems, delays, etc.) problems in carrying out their regular transactions. The government's constant head-over-heels on exchanging and depositing old currency notes in the bank branches, besides altering the limits on cash withdrawals have also created a lot of confusion among the people. Though the sudden withdrawal of 86 percent of currency (in terms of value) from the (process of people making, selling, and buying things) will not reduce people's need for cash in the near term, bank deposit levels will promote in a "more meaningful fashion" once the (cash transactions that aren't taxed or watched by the government) is brought into the formal (process of people making, selling, and buying things) over the next few years. While banks stand to profit from some parts of demonetization, there could be a negative results/argument/dispute also. Moody's expects the valuable thing quality of loans against properties to break down/get worse as real estate, which often involves black money transactions, will be hit by demonetization. Even the micro-finance part/section will be impacted since it is mostly a cash heavy part/section. With doubts about how long this storm will last, the report warns that the banking system and the (related to big business) part/area (both small and big) will be deeply impacted if the "money-based weakness" wins for a longer period of time. Hit/effect on Loans Part/area after Demonetization Union leaders of Banking part/area has told News18 that post demonetization banks will experience "extremely terrible losses" because deposits have increased but advances - or loans that keep a bank functioning - have fallen down extremely.

C. J. Nanda Kumar, president of Bank Workers Federation of India, told News18 that banks are reeling under the severe major money-based problem. "After the withdrawal of old high currency (religious group/category of paper money) notes, there have been an increase in deposits by 15% from the last (related to managing money) year when it was in single digits but advances or loans have fallen to 5.67% this quarter where it was growing at a rate of 14% earlier. There is no scope of loans now. It might show the way to an extreme money-based crisis which could make the picture/situation extremely terrible," he said. "Banking staff which was (before that/before now) selected/named in (more than two, but not a lot of) divisions are all working round the clock to exchange old currency and pay new ones. From where will we sanction loans?" Nandakumar asked. Nandakumar added the

new short of to go digital or cashless have proven hard for the banks. "Most of the people are now making even lesser payments by cheque which has led banks to clear 3000 to 4000 cheques a month where the earlier figure used to stay around 800. Even the small scale sellers who have chosen for POS machines often come to banks as they don't get their money. All of this had led to a complete neglect towards the advances part/area," he said. A few bankers experience that demonetization has resulted in not only an increase in deposits but also a sudden settlement of loans which would have otherwise given banks a passageway to make (money made/good things received).

D. Thomas Franco Rajendra Dev, senior vice-president of All India Bank Officers Confederation, told News18 that farming-based gold loans were majorly settled after November 8 by farmers who got cash from Panchayat heads looking to organize their large amounts of cash in old currency.

"Farming-based gold loans are a popular thing in the south and other parts of the country. Now, Panchayat heads who could not deposit their old types of money in the available bank accounts helped farmers repay all their gold loans with a promise to be paid later, and in this way, they dispose of their cash with farmers being (owes money to) them. This way our advances are reaching a new low, which can be dangerous for the banking part/area," Dev said. "Now we have extreme pressure on us to meet the needs of digital banking. SBI till now has 3.5 lakh POS machines and they have been given a target of another 2.5 lakh POS machines until March 2017 which is a very short deadline. Now our staff has been given out to chase after shopkeepers to pay the rentals for these machines and choose them. We have no (people in charge of something) left who can begin/try the job of sanctioning loans or take care of investments," said Franco.

Though most (people in charge of something) feel the (too much of one thing and not enough of another) would continue even during the first quarter post the 2017 (related to managing money) budget, they were (every single person agrees) to blame RBI for their low cash payments.

CH Venkatachalam, general secretary, All India Bank Workers Association, told News18 that the situation has only got worse since the last 40 days with RBI not giving them enough cash.

"There have been deposits worth 14 lakh crores and we are giving interests on those accounts without any way to circulate the excess deposit by means of loans. On top of that RBI is not paying enough cash," he said.

Nandakumar blamed the "(something that goes against or disagrees with something else) nature" of RBI circulars which has added to the present troubles. "The believability of RBI is in danger of being lost now. They keep changing statements; first, they will release figures of paid money and change it after the (related to managing money) secretary corrects them. This creates a very negative impression about the central bank," he said. Dev believes that now after 46 days, RBI and the government should at least "release a (map of roads/plan for doing something)" on the future. "Every day our executives are standing in lines in front of the RBI to request them to release extra cash but are often disappointed. If the loans and advances part/area does not pick up, it will add to a lot of problems," he said. Dev feels a big surprise may be in store for the banking part/area in the coming few months. "We are expecting/looking ahead to that before the budget is announced, government might announce a plan stating that since banks have a lot of (more than needed) cash, Mudra loans etc. must be increased and this will again create a lot of stress on the whole banking part/area," he said. Back and forth/equal between people Fund Industry

(People in charge of something) from the (way of investing money) industry say that there is no doubt that money will come in (ways of investing money). Increased inflows into (ways of investing money) are not an expectation; it's bound to happen. If money comes in from the organized part/area to the organized part/area and the bank deposit levels go up, then some of the money comes from (ways of investing money). Now, equity money amounts to about 30% of the overall industry's valuable things under management. The question is whether the (in small steps up) inflows can come into equity money or (money owed) money. Till now, much of this cash used to be channeled towards real estate and gold. So, (people or businesses who give money to help start businesses) have been used to seeing gains at a (mix of stocks, bonds, etc./document collection) level. Now if this money comes from banks, (people or businesses who give money to help start businesses) will not be made happy (by meeting a need or reaching a goal) with earning just 4% interest. While the share of (in small steps up) inflows into capital markets and equity money would go up, (people or businesses who give money to help start businesses) will also invest in liquid and (money owed) money. As deposits will increase in the banking system, the fixed deposits (FDs) rates would start to fall. The inflow of money will lead to deposit rates going down. This also helps giving-out added/more money in equity money.

Insurance Part/area:

The insurance part/area will see little hit/result and for a short length of time. In the previous few years, especially the (people and businesses that are not part of the government) insurers have discouraged cash transactions. People who prefer paying cash will have to pay through their bank accounts. But unbanked customers, like people in areas away from cities, may find it very hard to pay up in the instant future. However, last minute pains can be avoided if customers are (acting to prevent problems before they happen). For renewals, insurers tell the customers in advance. For insurance policies even after the due date, there is a grace period of 30 days for once-a-year

payment policies during which time the policy expires but (uninterrupted, constant quality) benefits are given if the higher price/higher cost is paid within the grace period. (Service business/government unit/power/functioning)-driven policies will be hit the most as agents tend to collect premiums in cash. Back assurance channels collect higher price/higher cost online or through cheques. There are rules to prevent anti-money laundering, even as there has no limit on cash transactions. For instance, customers who pay premiums in cash more than Rs 50,000 have to furnish their permanent account number (PAN).

The other checks and balances against cash transactions are through tax deduction certificates. For instance, in health insurance, if you pay payments in cash you don't get tax deduction benefit of section 80D. The hiccups faced by (service business/government unit/power/functioning) channels will be short lived. In the (service business/government unit/power/functioning) channel, a lot of transactions are cash based. They would be as high as 30-35% of the overall adding/giving higher price/higher cost. (in the end) this would speed up the process of people switching from cash to plastic and using online wallets and banking and in turn be a great boost for (related to people who use a product or service) internet businesses. (Money paid regularly after retirement) Part/area For the (money paid regularly after retirement) part/area, the move is being looked at as one having a long-term good effect, even though it won't have any immediate hit/effect. Most of the transactions in (money paid regularly after retirement) part/area are through cheques.

A lot of cash that now is not part of the formal banking system would come into the system and could make more people invest in (money paid regularly after retirement) products. People who are looking for retirement planning have an option of investing in the National (money paid regularly after retirement) Planning System (NPS).

## **V.CONCLUSION**

The unexpected withdrawal of 86 percent of currency notes (in terms of value) from the process of people making, selling, and buying things will not reduce people's dependency on cash in the near term, bank deposit levels will benefit in a "more meaningful fashion" once the (cash transactions that aren't taxed or watched by the government) is brought into the formal (process of people making, selling, and buying things) over the next few years. People will have no choice except to deposit their cash in banks so that all the unaccounted money has supposed to be deposited in the banking system. The resolution of demonetizing higher religious group/category of paper money notes were never-before-seen and people are still nervous/eager about government move in upcoming days, so they have left with no choice except to declare their unaccounted money either by depositing into a formal banking system or investing in any (related to managing money) part/area. Definitely, the demonetization of 500 and 1000 rupee notes will progress/increase Banking part/area as well as other (related to managing money) parts/areas.

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## **NEWSPAPERS**

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