

# A STUDY ON THE IMPACT OF DEMONETIZATION ON THE BANKING SECTOR WITH SPECIAL REFERENCE TO MYSORE CITY

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## ABSTRACT

Demonetization is the act of making the existing currency invalid from particular date and that currency cannot be circulated for further transaction and it is replaced by new currency note or coin. The government of India introduced demonetization to curb corruption and fake currency, to disclose black market and to control terrorism. There has been a significant improvement in saving flows to bank branches.

In this context the present study is going to analyse the impact of the demonetization process on banking sector in India in general and Mysore city in particular. The present study has used the following methodology,

- Type of research: both descriptive and analytical
- Sample size : 130
- Study area : Mysore city
- Data : both primary and secondary
  - This study is based on both primary and secondary data.
  - For analysis purpose primary data has been used.
  - Both schedule and questionnaire methods have been used.
- Sampling technique : Convenient sampling method

Demonetization would bring positive effects for banking sector both in short and long term and It also improves tax compliance, brings down inflation, hinders corruption, checks fake currency. Banks have received huge deposits after demonetization. There are even bigger impacts on rural economy. Ruralites usually deal with landlords and unorganized sector for their financial crisis but due to the implementation of demonetization they also rushed towards banks and started to transact through banks.

**Keywords-** Demonetization, Saving Flows, Mysore City, NBFIs, Circulation of Currency

## 1.1. INTRODUCTION

As we know, the main intention behind this demonetization is to uproot parallel economy and to reap more tax revenue in the country. William Murray of the IMF expressed his opinion last year that "We see salutary benefits from the demonetisation that took place a year ago and there are potential benefits going forward," he also said that "demonetisation did cause some temporary disruptions in economic activity, primarily, private consumption and small businesses due to cash shortages But the effects are dissipating".

Demonetization is the act of making the existing currency invalid from particular date and that currency cannot be circulated for further transaction and it is replaced by new currency note or coin. The government of India introduced demonetization to curb corruption and fake currency, to disclose black market and to control terrorism. Our Government put an end to the circulation of Rs 500 and Rs 1000 on 8 November 2016 by redesigning Rs 500 and Rs 2000 notes. Demonetization induced household to move towards formal channels of savings and created noticeable increase in the number of accounts in Indian banking sector. There has been a significant improvement in saving flows to bank branches.

## 1.2. REASONS FOR DEMONETIZATION IN INDIA

There was sudden increase cash deposits of all banks in India , people rushed to banks to exchange currency notes and some of them did not have accounts in banks but due to this new trend they opened new accounts. Government introduced demonetisation to bring possible effects on economic activities and to motivate efficient digital payment system.

**Chart no -1 Reason for Demonetization in India**

There is no doubt that, it has helped the government of India to track black money transactions and to pour light on tax evaders. This process has brought unaccounted cash assets bank accounts. Government has also motivated its citizens to go for cashless transactions. Demonetization has also acted as an effective tool to curb money circulation for funding terrorism, gambling and prostitution.

**1.3. OBJECTIVES**

The present study is based on the following objectives. They are as follows,

- To study the impact of demonetization on Indian economy
- To analyse the opinion of customers of banks on demonetization process

**1.4. METHODOLOGY**

The present study has used the following methodology,

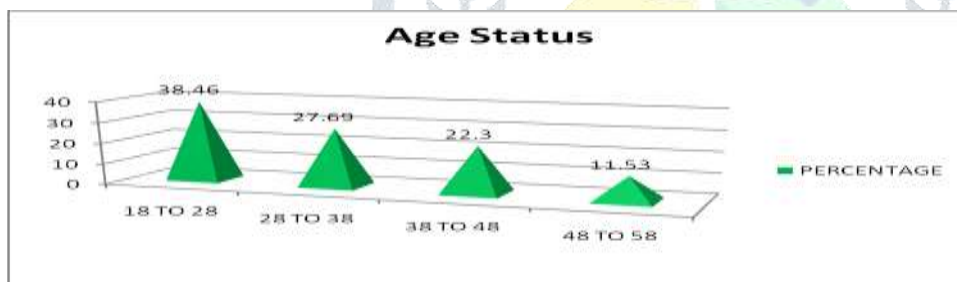
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**Table: 1.1 Age Status**

Status of Age	Numbers of Respondents	Percentage
18 - 28	50	38.46
28 - 38	36	27.69
38 - 48	29	22.30
48 - 58	15	11.53
<b>TOTAL</b>	<b>130</b>	<b>100</b>

Source : Filed Survey

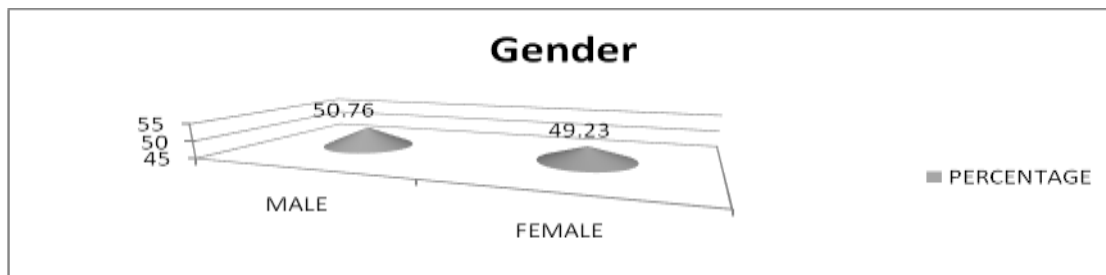
**Figure: 1.2 Age Status**

The table 4.1 shows that 38.46 percent of respondents are in the age between 18 and 28 years. 27.69 percent of respondents belong to the age group of 28 to 38 years. 22.30 percent of respondents are from the age group of 38 to 48 year. 11.53 percent of respondents are in the age group between 48 to 58 years.

**Table: 1.2 Gender Status**

Gender Status	Numbers of Respondents	Percentage
Male	66	50.76
Female	64	49.23
<b>Total</b>	<b>130</b>	<b>100</b>

Source: Filed Survey

**Figure : 1.2 Gender Status**

According the above table, 50.76 percent of respondents are male. 49.23 percent of respondents are female in the study area.

**Table :1.3 Qualification Status**

Qualification Status	Numbers of Respondents	Percentage
Post Graduation	25	19.23
Graduation	50	38.46
Pre- University Level	24	18.46
SSLC	18	13.84
Illiterates	13	10
<b>Total</b>	<b>130</b>	<b>100</b>

Source: Filed Survey

**Figure:1.3 Qualification Status**

The table 4.3 shows that 19.23 percent of respondents have the qualification in post graduation degree. 38.46 percent of respondents have graduation. 18.46 percent of respondents have pre university level education. 13.84 percent of respondents have SSLC. 10 percent of respondents are illiterates

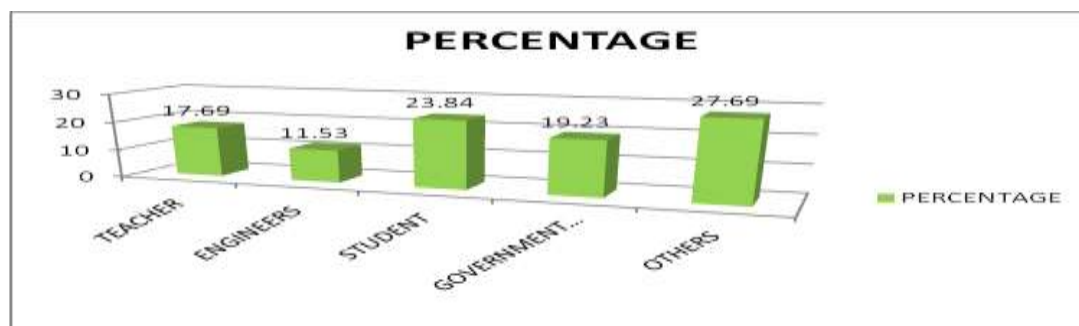
**Table : 1.4 Job Status**

Job Status	Numbers of Respondents	Percentage
Teacher	23	17.69
Engineers	15	11.53
Student	31	23.84
Government Officials	25	19.23

Others	36	27.69
<b>Total</b>	<b>130</b>	<b>100</b>

Source: Filed Survey

**Figure: 1.4 Job Status**



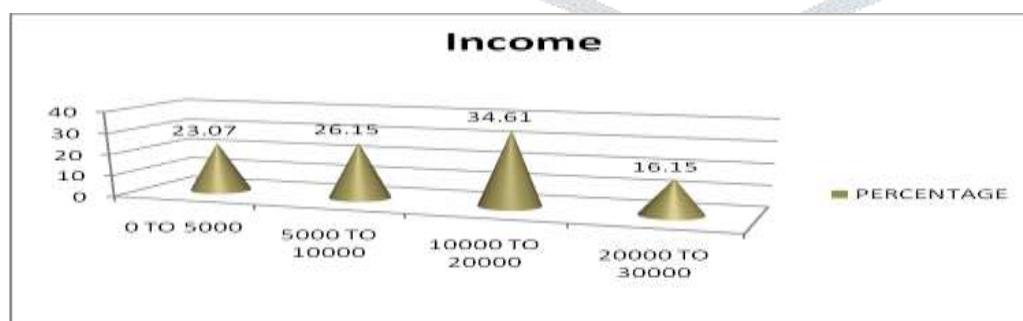
The table 4.4 imply that the job of the respondents. As per the table 17.69 percent of respondents are teachers. 11.53 percent of respondents are engineers. 23.84 percents of respondents are students. 19.23 percent of respondents are government officials. 23.69 percent of respondents of others in the study area.

**Table :1.5 Monthly Income**

Monthly Income Of The Respondent	Numbers Of Respondent	Percentage
1000 to 5000	30	23.07
5000 to 10000	34	26.15
10000 to 20000	45	34.61
20000 to 30000	21	16.15
<b>Total</b>	<b>130</b>	<b>100</b>

Source: Filed Survey

**Figure: 1.5 Monthly Income**



The above table 4.5 shows that 23.07 percent of respondents are having monthly income between 1000 and 5000. 29.15 percent of respondents are having income between 5000 and 10000. 34.61 percent of respondent are having income between 10000 and 20000. 16.15 percent of respondents are having in income between 20000 -30000 in study area.



## 1.5. ANALYSIS AND INTERPRETATION

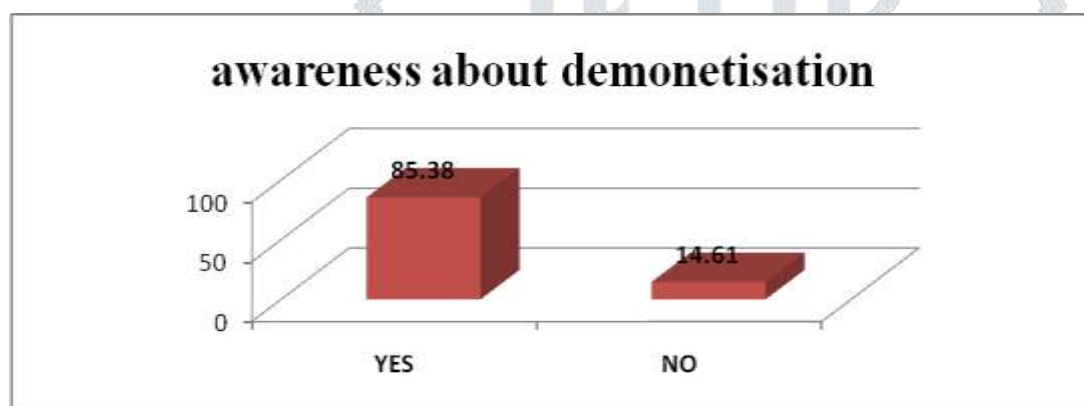
Media in India showed that demonetization had caused loads of inconvenience to our people. There were more than 60 deaths all over India due to the implementation of demonetization. People had to stand in long queues for hours together and many daily wage earners left their jobs to exchange their notes. Many auspicious programmes were cancelled due to the non availability of cash. Many inconveniences took place due to demonetization. In this connection the present study has collected the opinions of customers of banks and analysed their perceptions.

**Table : 1.6 Do you Know about the Introduction of Demonetization ?**

Opinion of Respondents	Numbers of Respondent	Percentage
Yes	111	85.38
No	19	14.61
<b>Total</b>	<b>130</b>	<b>100</b>

Source : Filed Survey

**Figure : 1.6 Awareness about Demonetization**



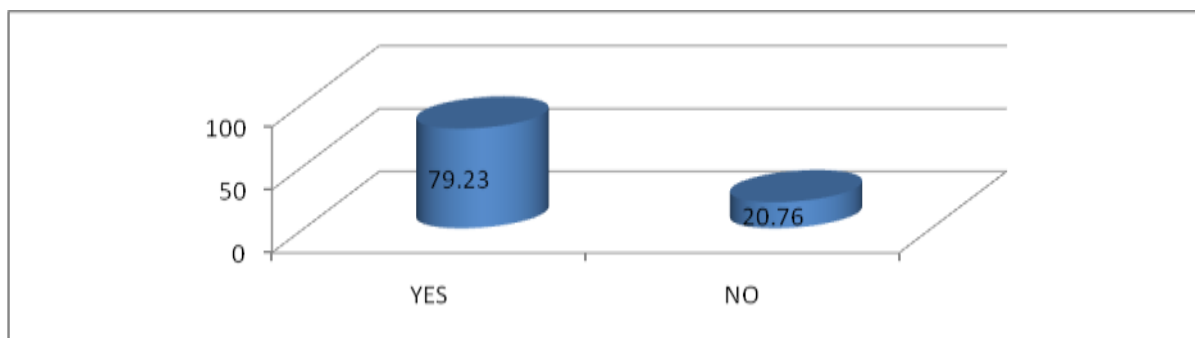
The above table and diagram depict that out of 130 respondents, 85.38 percent of respondents know about the introduction of demonetization and remaining 14.61 percent of respondents do not know about the process of demonetization in the study area.

**Table : 1.7 Do You Say that Demonetization Has Curbed Illegal Economic Activities ?**

Opinion of Respondents	Numbers Of Respondent	Percentage
Yes	103	79.23
No	27	20.76
<b>Total</b>	<b>130</b>	<b>100</b>

Source : Filed Survey

**Figure - 1.7 Demonetization Has Curbed Illegal Economic Activities ?**



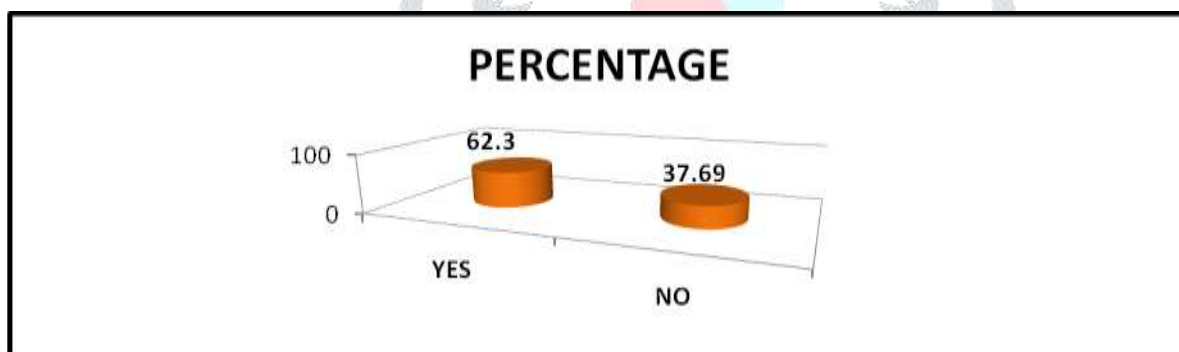
It is clearly stated in the diagram that, 79.23 percent of respondents have expressed positive opinion about demonetization and 20.76 percent of respondents are not in favour of demonetization and they have opined that, it has not reduced any illegal activities in the economy.

**Table- 1.8. Did You Notice Any Inconveniences Took Place Due To Demonetization?**

Opinion of Respondents	Numbers Of Respondent	Percentage
Yes	81	62.30
No	49	37.69
<b>Total</b>	<b>130</b>	<b>100</b>

Source : Filed Survey

**Figure : 1.8 Any Inconveniences Took Place Due To Demonetization?**



The table and diagram show that 62.30 percent of respondents have faced inconveniences and stood in long queues for currency exchange and 37.69 percent of respondents have not considered it as a problem.

## 1.6. FINDINGS AND CONCLUSION

Demonetization would bring positive effects for banking sector both in short and long term and It also improves tax compliance, brings down inflation, hinders corruption, checks fake currency.

### • Findings

The study has found the following issues and they are as follows,

- People went to ATM for cash withdraws and opted even online payments because of the withdrawal limit.



- People faced the inconvenience due to demonetization and 62.30 of respondents have said YES and they also opined that that inconvenience was only for few days.
- 79.23 percent of respondents have expressed positive opinion about demonetization.

Banks in any country play a significant role in any economy. They ensure the smooth functioning of various sectors and boosts financial activities. The Surgical Strike of Government of India on black market has made considerable changes in banking sector. Banks have received huge deposits after demonetization. There are even bigger impacts on rural economy. Ruralites usually deal with landlords and unorganized sector for their financial crisis but due to the implementation of demonetization they also rushed towards banks and started to transact through banks.

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