**-Post Demonetization**

**Emerging Issues and Challenges in Banking and Financial Services on Indian economy**

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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 claimed 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 significant 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 never-before-seen change, this study raises the pro's and con's of currency demonetization in different (related to managing money) and 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. Receivers who choose not to participate were asked to simply return the material. People who responded have appointments in a variety of departments, including Banking, Finance, Capital markets and Insurance parts/areas. People who responded were from 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 unable to list the institutions here or to further identify them. Secondary Data is collected from Internet and Newspapers.**

**With the centre'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.**

**I.INTRODUCTION**

**Demonetization means that 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 to 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 book, the report stated that 24% (i.e. 2,203 crore) of the total 9,026.6 crore paper money were in circulation**

**Its an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBIwill issue Two thousand rupee notes and new notes of Five hundred rupees which will be placedin circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two andone 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 move 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 tackle black money in the (process of people making, selling, and buying things);**

**-To lower the cash circulation in the country which is directly related to (dishonest actions that ruin your trust) in our country?**

**-To eliminate fake currency and sneaky and dishonest money which have been used by terror groups to fund terrorism in India;**

**-The move is guessed (number) to scoop out more than more than Rs 5 lakh crore black moneyfrom the (process of people making, selling, and buying things).**

**Almost the same measures have been taken in the past. In January 1946, currency notes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 rupees wereintroduced in 1954. The Janata Party (supporting) group government had again demonetizednotes of 1000, 5000 and 10,000 rupees on 16 January 1978 as a means to control/to reduce (fake item/making fake items) and 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 reformthat knocked off two zeros from the (the dollar amount 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. Combined with a poorharvest, the measure left the country with extreme food shortages, according to reports at thetime. Surging rice prices (fed a fire/excited) unrest that caused/brought about/reminded anunusual apology from Kim, and -- reports suggested -- the execution of the ruling party's head offinance.**

**Russia: On its last legs, the country under Mikhail Gorbachev in January 1991 withdrew large-ruble bills from circulation in a move to take on the black (process of people making, selling, and buying things). The reform did not halt inflation, and instead served mainly to speed up a slide inpublic confidence in the government. As political internal fighting combined with money-basedcollapse, Gorbachev faced a secret and successful plan attempt that August which destroyed hisauthority 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 Sese Seko faced increasing money-based disruptions in the early 1990s, when his management mounted (one after the other) banknote good changes. A plan towithdraw old and no longer used currency from the system in 1993 saw a sudden rush ininflation and a collapse in the exchange rate against the dollar. After a (war between groups that all live in one country), Mobutu was thrown out in 1997**

**Myanmar: In 1987, the country's military (small group of people ruling a country) (made worthless or meaningless) as much as 80 per cent of the value of money in circulation, accordingto reports at the time -- as in other such attempts (to begin something new), it was directed atcontrolling 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 trigger mass protestsacross 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 ruin your trust) (sudden strict enforcement of rules) that involved issuing new paper money with a different color, forcing the replacement of old ones within a limited period.The move was one of a series that did not fix a debt-weighed down and inflation-ridden (process of people making, selling, and buying things). Buhari, who is now in power again, was eventuallythrew out/thrown out in a secret and successful plan the following year.**

**Ghana: The country in 1982 got rid of its 50 cedi note to crack down on not paying taxes, address(dishonest actions that ruin your trust) and mop up excess liquidity. The move wore awayconfidence 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 (away from cities) residents 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 worthless.**

**II. OBJECTIVES OF PAPER**

**-To study the experience of hit/effect of demonetization in different in Banking and (related to managing money) Parts/areas;**

**-To carefully study the current the immediate hit/effect of demonetization on Indian (process of people making, selling, and buying things);**

**-To workout the probable results of the demonetization.**

**III.RESEARCH METHODOLOGY**

**The paper is based on First (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's move will pull a large chunk of first time users to banks, who will haveto use the system at least once to exchange their old notes for new ones. According to a study done by Moody's, people tend to continue using banking services once they have crossed the 'first-time user' mark.**

**Indian banks saw over Rs 11 lakh crore entering into the system till 30 November after thedemonetization exercise kicked off on 8 November**

**In one fell swoop, the Modi government blocked/forbidden currency notes of Rs 500 and Rs 1,000 worth Rs 14 lakh crore from the (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 a nearly a month to go before the December 30 deadline for deposit of invalid currencynotes expires, the (thing that is suddenly shown or understood) now raises questions whetherthe demonetization drive can successfully target black money collectors (who never throw anything out)," the report added.**

**The development comes close right behind Reserve Bank of India earlier in the week saying thatdeposits to the tune of Rs 8.4 lakh crore were made till 27 November, the report said.**

**Although the government's demonetization decision was welcomed by majority of the peopleacross the country, the Centre, however, came under extreme criticism from different politicalparties for not taking sneaky and unclear (to avoid something) measures to ease common man's concerns.**

**Especially, (continuing to do something hard or annoying) cash shortages at banks and Cash machines across the country has left people disappointed, who are facing extreme (problems, delays, etc.) in carrying out their regular transactions.**

**The government's constant flip-flop on exchanging and depositing old cash notes in the bankbranches, besides changing the limits on cash withdrawals has also created lot of confusionamong 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 dependency on cash in thenear 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.**

**While banks stand to benefit from some parts of demonetization, there could be a negativeresults/argument also.**

**Moody's expects the valuable thing quality of loans against properties to break down/get worseas real estate, which often involves black money transactions, will be hit by demonetization. Eventhe 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 andthe (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 Demonitization**

**Union leaders of Banking part/area have told News18 that post demonetization banks will suffer "extremely terrible losses" because deposits have increased but advances - or loans that keeps abank functioning - have fallen down extremely.**

**C. J. Nandakumar, president of Bank Workers Federation of India, told News18 that banks arereeling under extreme major money-based problem.**

**"After the withdrawal of old high (religious group/category of paper money) notes, there havebeen an increase in deposits by 15% from the last (related to managing money) year when it wasin single digits but advances have fallen to 5.67% this quarter where it was growing at a rate of 14% earlier. There is no scope of advances now. It might lead to an extreme money-based crunchwhich could make the picture/situation extremely terrible," he said.**

**"Banking staff which were (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. Fromwhere will we sanction loans?" Nandakumar asked.**

**Nandakumar added the new pushed to go digital or cashless have proven hard for banks. "Mostof the people are now making even smaller payments by cheque which has led banks to clear 3000 to 4000 cheques a month where the previous figure used to stay around 800. Even thesmall scale sellers who have chosen for POS machines often come to banks as they don't gettheir money. All of this had led to a complete neglect towards the advances part/area," he said.**

**A few bankers feel that demonetization has resulted in not only an increase in deposits but also asudden settlement of loans which would have otherwise given banks a pathway 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 farmerswho got cash from panchayat heads looking to dispose off their large amounts of cash in oldcurrency.**

**"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 accountshelped farmers repay all their gold loans with a promise to be paid later, and in this way theydispose off their cash with farmers being (owes money to) them. This way our advances arereaching 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 tillMarch 2017 which is a very short deadline. Now our staff has been given out to chase aftershopkeepers 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 ofinvestments," 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 thesituation 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 accountswithout any way to circulate the excess deposit by means of loans. On top of that RBI is notpaying 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 paidmoney and change it after the (related to managing money) secretary corrects them. This createsa 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 infront of the RBI to request them to release extra cash but are often disappointed. If the loans andadvances 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. "Weare expecting/looking ahead to that before the budget is announced, government mightannounce 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," hesaid.**

**Back and forth/equal between people Fund Industry**

**(people in charge of something) from (way of investing money) industry say that there is nodoubt 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 theorganized part/area to the organized part/area and the bank deposit levels go up, then some ofthe money comes into (ways of investing money).**

**Now, equity money amount to about 30% of the overall industry's valuable things undermanagement. The question is whether the (in small steps up) inflows can come into equitymoney 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 into 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/moremoney in equity money.**

**Insurance Part/area**

**The insurance part/area will see little hit/effect and for a short length of time. In the last fewyears, especially the (people and businesses that are not part of the government) insurers havediscouraged cash transactions. People who prefer paying cash will have to pay through theirbank accounts. But unbanked customers, like people in areas away from cities, may find it very hard to pay up in the immediate future. However, last minute pains can be avoided if customersare (acting to prevent problems before they happen). For renewals, insurers tell the customers inadvance. For insurance policies even after the due date there is a grace period of 30 days foronce-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 asagents tend to collect premiums in cash. Bancassurance channels collect higher price/higher costonline or through cheques.**

**There are rules to prevent anti-money laundering, even as there no cap on cash transactions. Forinstance, customers who pay premiums in cash more than Rs 50,000 have to furnish theirpermanent 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 benefitof section 80D.**

**The hiccups faced by (service business/government unit/power/functioning) channels will beshort lived. In the (service business/government unit/power/functioning) channel, a lot oftransactions 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 toplastic 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 onehaving a long-term good effect, even though it won't have any immediate hit/effect. Most oftransactions 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 andcould make more people invest in (money paid regularly after retirement) products. People whoare looking for retirement planning have an option of investing in the National (money paid regularly after retirement) System (NPS).**

**V.CONCLUSION**

**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 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 todeposit their cash in banks so that all the unaccounted money has supposed to be deposited inbanking system. The decision of demonitising higher (religious group/category of paper money)notes was never-before-seen and people are still nervous/eager about government move inupcoming days, so they have left with no choice except to declare their unaccounted moneyeither by depositing in to a formal banking system or investing in any (related to managing money) part/area. Definitely the demonetization of 500 and 1000 rupee notes willimprove/increase Banking part/area as well as other (related to managing money) parts/areas.**

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