DEMONETIZATION AND ITS IMPACT ON INDIAN BANKING SYSTEM (WITH SPECIAL REFERENCE TO E-CASH)

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ABSTRACT:
The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. In this research paper the main focus is to study the advantages and disadvantages of demonetization and its impact on Indian banking sector. It finds out the alternatives of physical cash payments such as online bank transfer, e-clearing, and E-KYC.

Key Words: CASA, money, e-cash, Banks

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

INDIA’S DEMONETIZATION:
It India also it is not for the first time that the government of India has gone for demonetisation of high value currency. First time it was put into operation in 1946 when Reserve Bank of India demonetised the then circulated Rs. 1000 and Rs. 10000 value currency notes and government then introduced higher denomination bank note of Rs.1000, Rs.5000 and Rs. 10000 value notes in 1954 and in 1978 then prime minister Shri Morarji Desai demonetised these notes in 1978. After 38 years again India witnessed demonetisation of bank notes in November, 2016 and this time government demonetised Rs. 500 and Rs. 1000 notes and replaced it with new designed 500 notes and for the first time Indian government introduced 2000 value note

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country’s circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

OBJECTIVES
The main objective of this paper is to study the impact of demonetization (8th Nov.2016) by the present government on Indian Banking system with special reference to e-cash.

METHODOLOGY
The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and the like etc.

IMPACTS OF DEMONETIZATION IN INDIA:
Black Money: Black money stored in the form of Rs 500 and Rs 1000 notes will be taken out of our system. As predicted by ICICI Securities Primary Dealership the government's plan to scrap 500 and 1,000 notes will uncover up to 4.6 lakh crore in black money.

Terror funding: Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN’s, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.

Real estate may see significant course correction The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant
cash component as it reduces incidence of capital gains tax. Black money was responsible for sharp appreciation of properties in metros; real estate prices may now see a sharp drop.

**Political parties in crisis ahead of polls** With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". In one stroke, big parties will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely rejig campaign strategies in light of expected cash crunch.

**Moving towards digital payments** Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc.: This behavioural change could be a game changer for India.

**Temporary chaos and confusion** Public will face minor problem for a few days owing to the scarcity of lower denomination notes in the system.

**DEMONETIZATION IMPACT ON BANKS:**

**“Bank as Biggest Beneficiaries”**

Yes, the biggest beneficiary from this policy will be the banking sector. The reason behind being called the beneficiary is very obvious because as lot of people are depositing cash in the banks; there will be a lot of liquidity with the banks.

As the deposits with the banks will increase so will increase the CASA, which will increase the Net Interest Income and the Net earnings of the banks.

CASA is abbreviation of Current Account Savings Account. It is the ratio which indicates how much of the total deposits with the bank are in the current account and savings account. In a simple language, the deposits lying in the savings and current account are CASA.

**How a higher CASA does indicate “acche din” for bank?**

As stated above higher CASA means large amount of deposits are in current and savings account. This way the banks get funds at no or very low cost (interest). Banks do not pay interest on the current account deposits and pays a very low % of interest on savings account deposits. Hence, it is a good measure to get deposits at no or very low cost.

**The banks are expected to make a good profit which would eventually benefit the common man:**

As the banks get a lot of liquidity in their hands, they will lend the money to the people at a lower rate of interest. Hence, the interest rate on borrowing will lower down. RBI data now reflect the initial impact of demonetisation on monetary indicators.
Chart 1 shows that currency in circulation plunged a huge 20.18% in the week to 18 November, after falling marginally in the previous week. This effect is likely to be even larger in the next few weeks. 

Chart 2 shows how year-on-year growth has slowed in money supply (M3) and bank credit in the week to 11 November (the latest date for which data is available), while bank deposit growth has increased sharply. Note that growth in bank credit and in money supply has been slowing down even before the demonetisation was announced. These trends will be further reinforced in the next few weeks, as the deflationary shock ripples through the economy.

**Moving From Physical Cash to Digital Cash**

One of the main motivating factors for this study is that, despite major developments in paperless currency over the past decade, physical cash remains widely used throughout the world. As such, the entry barrier for adoption of alternate proposals is extremely high. An appealing aspect of physical cash is that people can trade it without the assistance of computing devices. People expect that simple visual and tactile inspection reveals fake bills. On the other hand, paperless, cryptographic digital cash offers numerous benefits like more streamlined and integrated tax system.

**E-wallet firms could gain good business:** A digital wallet is an electronic device which allows an individual to make electronic commerce transactions like payment of bills or online bookings etc. An individual's bank account can also be linked to the digital wallet. The examples of wallet in India are- Paytm, PayU India, MobiKwik, and Freecharge and so on. Such E-wallets are expected to be the biggest beneficiaries of the decision of demonetization taken by central government.

**CONCLUSION:**

So far, it can be said that this is a historical step by the Modi Govt. and should be Supported by all. This decision of govt. Will definitely fetch results in the long term. From an equity market perspective, this move would be positive for sectors like Banking and E-wallet firms. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

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