POST DEMONETISATION EFFECT ON BANKING SECTOR, MICRO FINANCING INSTITUTIONS (MFI) AND JOB OPPORTUNITIES

Kandarp Vidyasagar\(^1\), Rajiv Kr. Dwivedi\(^2\)
\(^1\)Research Scholar, University Department of Mathematics, Vinoba Bhave University, Hazaribag, Jharkhand, India;\(^2\)Associate Professor, and Head, University Department of Mathematics, Vinoba Bhave University, Hazaribag, Jharkhand, India.

Email: \(^1\)vidyasagarkandarp@gmail.com, \(^2\)rkdwivedi_vbu@yahoo.com

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Abstract

**Purpose of this study:** This study aims at investigating the effect of demonetisation on the major sectors of the Indian economy i.e. banking sector, micro-financing sector, and employment sector. The government of India claims demonetisation as a tool to tackle inflation, black money, corruption, crime, and terror funding, while others call it harassment attitude.

**Methodology:** In this regard, a survey has been done to collect data from secondary sources. Further data were analysed graphically.

**Results:** The study reveals that there is marginal control over black money. The financial institution RBI suffered a loss due to excess of cash collection and failed to regulate the money properly. The employment sector is affected and a good number of people lost their jobs. Also, micro-financing institutions (MFI’s) business was affected worstly.

**Social Implications/Applications:** The MFIs and SMEs should be promoted and provided with legal financial assistance in order to compensate for their loss so that the 30% of citizens living below the poverty line get relief.

**Novelty/Originality of this study:** This combined study on various sectors gives a clear picture of the effects of post demonetisation in India which can help in predicting Indian economic conditions for the years to come.

**Keywords:** Demonetisation, Banking Sector, Employment Sector, Micro Financing Institution.

INTRODUCTION

Demonetisation is the act of invalidating a legal tender (currency notes). In this, the currency or legal tender loses its relevance and it no more acts as a valid currency and becomes useless. Demonetisation of 2016 was the third time in the history of India. Before 8\(^{th}\) November 2016, demonetisation was imposed on 12\(^{th}\) January 1946 and 16\(^{th}\) January 1978 respectively. On January 12\(^{th}\), 1946 Governor-General of India, Field Marshall Archibald Wavell declared the currency note of Rs 500, Rs 1000, and Rs 10000 as illegal and they were no longer a legal tender. Later on, in 1954 the Indian Government introduced new currency notes of Rs 5000 and reintroduced new currency notes of Rs1000 and Rs1000 (Muthulakshmi, 2017). Again on 16\(^{th}\) January 1978 during the regime of Prime Minister Mr. Morarji Desai and President Mr. Neelam Sanjiva Reddy the currency notes of Rs 1000, Rs 5000, and Rs 10000 were ceased to be legal tender. At that time the Finance Minister was Mr. Hirubhai M Patel and the Governor of RBI was Mr. I G Patel (Mali, 2016). The policies of demonetisation were formulated and implemented by these committee members. The demonetisation of 1978 was carried out for fighting against black money, the result was quite significant. It laid a huge impact against black money and strengthening the economic condition of India (Joshi, 2017).

Further on the 8\(^{th}\) of November 2016, the government of India banned Rs 500 and Rs 1000 currency notes. A study on the impact of demonetisation in India on consumption, production, employment, growth, and tax revenue was done as each one is the backbone of the previous (Shirley, 2017). India took seriously the cause of financial inclusion post demonetisation (Baral, 2017). A comparative study was done on both public and private sector banks after demonetisation. Public sector banks like SBI was decline whereas private sector banks like AXIS bank showed growth (Shrivastava, 2018). Study shows that demonetisation has badly affected the Micro Financing institutions (MFI), the banking sector, and job opportunities across the country (Singh & Panwar, 2017). Micro financing institution (MFI) in India emerged and is operational since 1992. Micro financing institutions are the non-banking institution which avails and grants funding and micro-loans. They operate in cash and are repaid on a daily, weekly, and monthly basis. Micro financing institutions in 2016-17 account Rs 64,000 crore for industry. The clients of MFIs are mainly small businessmen, traders, shopkeepers, etc.

LITERATURE REVIEW

In 1946, the government of India announced the demonetisation of the denominations above Rs 1000. As only 3% of India’s bore such denominations, so the normal life was least affected. After the emergency period 1975 – 1977, in 1978 demonetisation was again imposed by the government of India to encounter inflation. Later in 2016, demonetisation was
imposed to control inflation and make India more investment-friendly (Shashank, 2016). Upasana Thakur (2017) conducted a study on the impact of demonetisation in India which reveals that employment and job market are heavily affected due to demonetisation. Due to the unavailability of cash as well as employment opportunities millions of peoples were rendered jobless. The cash crunch has affected the general people a lot but less affected IT industries as it is less dependent on cash. Banking sectors and postal services are expected to expand as they can provide jobs (Thakur, 2017).

Ayesha Anam Siddiqui & Dr. Riyazuddin Qureshi in their analysis studied opportunities and challenges of big data in banking industries, its risk, and solutions. Big data refers to a very large collection of data that no more remains data but becomes a subject. Big data is more prone to risk which needs data management technologies along with data management officers (Siddiqui & Qureshi, 2017). Ritika Jain (2017) in her study examined the impact of demonetisation on the banking industry. According to the author, there has been a modest rise in the returns in the banking sector which was not long-lasting on the segmentation of the banking sector. Public sector banks witnessed an instant rise on the profit side whereas the private sector banks witnessed a lagged downfall in its profit. Also, the build of NPA was seen considerably (Jain, 2017). The micro finance institution was the main billet to face the effect of demonetisation. Babita Jha in 2017 in her study discussed how micro-finance institution was devastated for last few years due to unavailability of cash and the growth was only 0.2% from 2016 to 2017, as the collection of cash and its further disbursement decreases (Jha, 2017).

Objectives of the study

- To study the impact of demonetisation on the banking sector, employment sector, and MFI's.

Hypothesis

- Demonetisation curbs black money and crime.

Alternate Hypothesis

- Demonetisation affects retail business and employment.

RESEARCH METHODOLOGY

The study is analytical. The secondary data has been collected from newspapers, websites, research papers, and government reports. Total collection in 1946 after demonetisation was Rs 134 crore out of Rs 144 crore available in the market. About 9 crores were not exchanged. In 1978's demonetization about Rs 24 crore of high denominations out of Rs 80 crore (excluding amount held in banks) were not exchanged (Ghosh, 2016). Further in 2016, about Rs 15.41 trillion were exchanged with banks and Rs 107.2 billion were not exchanged (2016 Indian banknote demonetisation, 2016). Due to demonetization in 2016, a problem occurred in the field of the banking sector, employment sector, and MFI's. Data has been shown below.

| Table 1: Loan amount disbursed |
|--------------------------------|
| Loan amount disbursed Direct | Loan amount disbursed Indirect |
| 16-17            | 35705 | 15836 |
| 15-16            | 27572 | 12593 |

| Table 2: Loan amount Outstanding |
|----------------------------------|
| Loan amount Outstanding(in cr.) Direct | Loan amount Outstanding (in cr.) Indirect |
| 16-17            | 10619 | 14062 |
| 15-16            | 20242 | 26931 |

| Table 3: Table showing Labour Force Participation Rate(LFPR), Worker Population Rate(WPR), Unemployment Rate(UR) for male and female in percentage |
|-----------------------------------------------|
| LFPR                                | LFPR                           | LFPR                                | WPR                             | WPR                             | UR                              | UR                             |
| Male                               | Female                         | Male                               | Female                         | Male                           | Female                         | Male                           | Female                         |
| 2016-17 LB                         | 52.8                           | 76.8                               | 26.9                           | 50.7                           | 74.3                           | 25.3                           | 3.9                            | 3.3                            | 6.1                            |
| 2016 CMIE                          | 46.8                           | 74.8                               | 15.6                           | 43                              | 70.7                           | 12.1                           | 8.2                            | 5.5                            | 22.4                           |
| 2017-18 PLFS                       | 49.8                           | 75.8                               | 23.3                           | 46.8                           | -                              | -                              | 6.1                            | 5.8/7.1*                       | -                              |
| 2017 CMIE                          | 43.9                           | 72.6                               | 11.9                           | 41.9                           | 70.1                           | 10.6                           | 4.4                            | 3.5                            | 10.9                           |
RESULTS AND DISCUSSION

The Micro Finance Institution in India is one of the robust tools to fight with poverty. Over the total population of 133.92 crores, the people dependent on micro finance are 9.33 crore. The 30% population of India which lies below the poverty line requires micro-credit for different commercial purposes, agricultural needs, and for personal reasons. But they faced the hard-hit due to demonetisation. Due to cash crunch, the Micro Finance Institution showed a business of 64,000 crore which was quite low i.e. the growth in the micro finance sector was only 0.2% which has right now gone to 68,207 crore, showing a 21.9% growth. The loans to MFIs by the banks and other financial institutes have considerably increased.

![Figure 1: Loan amount disbursed](source)

Source: NABARD report 2016-17

![Figure 2: Loan amount Outstanding](source)

Source: NABARD report 2016-17

The reason behind this was, the daily wage workers could not pay their loans on time due to scarcity of cash.

Demonetisation has influenced each and every section of the Indian economy. The excess amount deposited due to demonetisation in the banks was in the range Rs 2.8-4.3 trillion which was 4% to 4.7% points but up to mid-February this percentage decreased to 3.3% to 4.2%. The high-cost deposits of banks fall down and there was a considerable hike in the current account and saving account ratio (CASA). Demonetisation influenced the banking sector in several ways. Loan and advances provided by the banks rose up to Rs 1008 million. Reverse repo of different tenors with the RBI was deployed. There was a fall in the cost of funds. After demonetisation, most of the banks decreased their domestic lending rates and...
deposit rates. The average term deposit rates of Scheduled Commercial Banks (SCBs) were reduced by 38 basis points (bps) between November 2016 to February 2017 and that of banks delivered by 24 bps between November 2016 to January 2017.

At that time banks were engaged in changing old currency to new currency. About 3 million thousands of deposits remained with the banks on the behalf of which bank did not earn any interest for about 2 weeks, so banks started lending the surplus money to RBI on the behalf of the reverse repo. Public sector banks started investing their excess funds in government bonds which constituted a 15% to 20% rise in their profit. PSB started reducing their interest rate on term deposits. HDFC, ICICI banks, and Canara banks reduced their fixed deposit rates by 1%. Even SBI reduced its interest rates on fixed deposits by 0.15% on some selected maturities. United Bank of India decreased its interest rate by 1% on short term deposits.

About 23.3 million new Jan Dhan accounts were opened under PradhanMantri Jan DhanYojna (PMJDY). Out of these, 80% were with PSBs. 53.6% of these were opened in the urban areas and remaining in the rural areas. The amount which was 456 billion in November 2016 rose up to Rs 746 billion till December 2017. There were many reports against these amounts on the issue of converting black money into white. So the government warned the misuse of such accounts.

There was a deep push to digital banking due to the scarcity of liquid cash. So the idea of the cashless economy was deployed which suggested the payment directly by debit and credit cards, and other electronic channels like electronic learning, Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT) and Immediate Payment service (IMPS).

There were several benefits of a cashless economy. Tax avoidance is reduced as footprints of transactions are left. This will decline the black money generation. Also in several welfare programmes, it is useful as money is directly send to the accounts of the customer. The cashless economy can end the story of counterfeit currency. Customer satisfaction is also achieved due to speed and no direct dealing with the bank employees by standing in long queues. Even the operational cost of ATM is reduced. But there were several limitations on the scarcity of point of sale (POS) terminals. As per RBI, 1.44 million POS was installed by several banks till July 2016 in which most of them were in urban and semi-urban areas. Also, the low literacy rate and poor internet connection in rural areas were a big challenge against a cashless economy. Lastly, the bank frauds increased which made the people threatened to keep their money with the bank.

Bank lending in rural areas was crippled due to demonetisation. PSB which serves the mass population in rural areas was worst affected.

The negative impact was due to the 100% cash reserve requirement (CRR) which meant that the bank did not earn any profit for a fortnight for about 3 lakh crore. As banks were busy in Currency exchange, they could not sell any of their loan products. The business of Small and Medium Enterprises (SMEs) fell down to 50% to 80% which could not be right now claimed as NPAs, but with the time being if no action is taken then the NPA might worsen.
So the money value reduced to 1.8% compared to dollar and RBI governor Urjit Patel resigned on December 10, 2018.

Since November 8, 2016 i.e. post demonetisation about 50 lakh people lost their job says a report ‘A State of Working India(SWI)’ of Azim Premji University. Periodic Labour Force Survey (PLFS) prepared a report in 2017-2018, but due to controversy, it was not released. P. C. Mohanan, who protested against the centre for the release of the report, resigned from National Statistical Commission in his protest. Unemployment in 2018 rose to 6% which has doubled with respect to 2011. Of the total victims of unemployed due to demonetisation, 80% were of the age group of 15-29 years. Among which 77% is from urban areas. As the official data from the National Sample Survey Office (NSSO) was not disclosed. Hence centre for sustainable employment (CSE) relied on consumer pyramidal centre (CMIE-CPDX) for monitoring the post demonetisation employment status in India.

![Figure 4: Labour Force Participation Rate (LFPR), Worker Population Rate(WPR), Unemployment Rate(UR) for male and female in percentage](image)

As the working women in urban areas are 10% of which 34% were unemployed.

![Figure 5: Year-wise Labour Force Participation Rate for Urban and Rural area](image)
In the urban and rural areas, labour force participation has declined. The SWI report matches with the various media outlets published.

CONCLUSION

The main aim behind demonetisation was to curb the menace of black money. This was not achieved as most of the black money is in the form of land; gold and rest are deposited in foreign banks like the Swiss Bank. Rather it gave a platform to the wilful defaulters to convert their black money to white and many of them were the reasons behind the increase of NPA percentage. The main corners of the economy like SMEs and MFIs felt the heat of demonetisation. The youth population of the country suffered a lot in the run of unemployment and RBI was hard hit due to the downfall of currency value. GDP fell down to 2% and the banking sector was disturbed.

LIMITATIONS

The main limitation of the study is that the exact data is not available from the NSSO, so exact figures could not be calculated. Also, the effect of demonetisation is literally decreasing, but it is hard to calculate the total loss that occurred.

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RECOMMENDATIONS

The MFIs and SMEs should be promoted and provided with legal financial assistance in order to compensate for their loss so that 30% of citizens living below the poverty line get relief. Also, the wilful defaulters should be strictly taken into action so as to reduce NPA percentage. To face the situation of unemployment, fiscal policies and industrial policies should be transformed to create new jobs. Other government employment guarantee scheme should be prepared and implemented. For instance, a program for maintenance of government buildings, mass plantation, and environment maintenance work with a guarantee of 150-day work at a fixed wage of 400.

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