

EFFECT OF DEMONETISATION ON BANKING BEHAVIOUR - A STUDY AMONG SALARIED

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ABSTRACT

Demonetisation is an act by which the government of a country is scrapping a currency unit of its status as a legal tender. It requires either totally withdrawing currency units or withdrawing currency units and introducing new currency units of same denomination which are being demonetised or completely restore the old currency with new currency. On 8th November 2016, such a move has been initiated in India to combat inflation, corruption and crime, and to discourage a cash-dependent economy. This research paper gives an insight into the effect of demonetisation on banking behaviour of salaried class in Kerala.

KEYWORDS: *Demonetisation, Remonetisation, Motives, Effects*

INTRODUCTION

There are two concepts regarding the changes in the national currency of a country, namely demonetisation and remonetisation. "Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit." Demonetisation may be either in the form of pulling money from circulation or completely replace the old currency with new currency notes or coins. There may be a many reasons behind the demonetization including to fight against inflation, to curb black money and fake currency notes in circulation and to move into a cashless economy. Remonetisation is quite opposite to demonetization in which a payment type is restored as legalized tender.

There are a lot of experiences of demonetisation in different nations. Some of them are demonetisation in Burma (1987), in Australia (1996), in Libya (2012) and in Pakistan (2016). The historical background of demonetisation in India can be seen early during the reign of Akbar. Prior to the latest demonetisation in 2016, there were two instances of demonetisation in India in 1946 and in 1978 when an ordinance was passed to phase out notes with denomination of Rs. 1000, Rs. 5000 and Rs. 10000.

On 8th November 2016 Prime Minister Narendra Modi announced that India's two biggest denomination notes Rs. 500 and Rs. 1000 will cease to be legal tender except for a few purposes. 86 per cent of cash in circulation (Rs. 17.7 lakh crores) was rendered invalid, and these notes had to be deposited in banks by the end of December 2016 or to be exchanged for newly introduced currency notes of Rs.2000 and Rs. 500. Motives for demonetisation in 2016 were to curb black money, check counterfeit currency, crackdown on terrorism, naxalism and black political campaigning and moving towards digital economy.

REVIEW OF LITERATURE

Sunil (2017) found that Indian citizens have suffered a lot from demonetisation and suffering to some extent even today. Most of the sector has its impact but all the issues stand for very short period to short period only. Manju, G. and Kalamani, C. (2017) conclude that one of the biggest criticisms being that the implementation has been quite poor and has caused a lot of inconvenience to the common man. Abda, S. (2017) opines that although demonetization has some advantages and disadvantages in various sectors in short run it hopes that in long run it will have positive impact in controlling black money and fake money. Kumar, A. (2017) concludes that an immediate release of liquidity already with the banks can lead to a reversal before irreversibility sets in. Mohan, R. (2017) viewed that even under certain constraints, Kerala has taken a lead to analyse the issues arising out of the sudden announcement of demonetisation and has taken some bold steps in the state's fiscal policy. Uke, L. (2017) found that demonetization in India is a great effort taken by Indian government to combat with black money and corruption and the government has attained this target to some extent. Shah, A.Y. (2017) in a study revealed that demonetisation has hit the agricultural sector, the backbone of our economy, badly as sale, transport; marketing and distribution of ready produce are dominantly cash-dependent. A study by Dhara, K.A. (2017) unveiled that 52% respondents view demonetisation as a good tool for curbing black money.

STATEMENT OF THE PROBLEM

Demonetisation is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. On 8th November 2016, Indian Government banned the high denomination notes of Rs. 1000 and Rs. 500 as move to curb counterfeiting and money laundering. Demonetisation in 2016 has made a tremendous change in banking behaviour of all categories of population in India. Due to various reasons, people are compelled to do the transactions through their bank accounts and to go digital. One of the major segments of bank customers constitutes salaried people in government, private and other sectors. Many of them are having a salary account with their bank. Demonetisation has changed their banking habits in respect of deposits with bank, holding cash in hand and number of withdrawals from their bank accounts. This study is an attempt to assess the effect of demonetization on banking behavior of salaried class in the state of Kerala.

OBJECTIVES OF THE STUDY

The following are the main objectives of the study.

- To study the level of changes in banking transactions due to demonetisation among salaried class in Kerala.
- To study the effect of demonetisation on usual banking transactions among salaried class in Kerala.

RESEARCH METHODOLOGY

This study is analytical cum descriptive in nature, based on both primary and secondary data. Secondary data relating to the study have been collected from various journals, reports, websites etc. Salaried people in different organisations in the study area are considered as targeted population for this study. The primary data have been collected from the sample respondents through a structured questionnaire (sent by Google Forms). For the collection of primary data 260 salaried persons from different parts of Kerala have been selected as samples, by applying convenience sampling method. Statistical tools like McNemar's test, Chi square test etc. have been used for data analysis.

RESULTS AND DISCUSSIONS

A. Demographic Profile of the Respondents

Table 1: Demographic Profile of the Respondents

Demographic Variables		No. of Respondents	Percentage
Gender	Male	150	57.7
	Female	110	42.3
	Total	260	100
Age	18-25	20	7.7
	25-35	155	59.6
	35-45	60	23.1
	45-55	20	7.7
	55 & Above	5	1.9
	Total	260	100
Nature of Employment	Government	140	53.8
	Private	80	30.8
	Others	40	15.4
	Total	260	100
Annual Income (in Rs.)	Below 2 lakh	64	24.6
	2 lakh – 4 lakh	56	21.5
	4 lakh – 6 lakh	48	18.5
	6 lakh – 8 lakh	79	30.4
	8 lakh & Above	13	5.0
	Total	260	100

Source: Primary Data

It is depicted from Table 1 that there are more number of male (57.7% from 260 respondents) than the female. Respondents of age group between 25 and 35 are found to be 59.6%; only 1.9 %respondents are having the age of 55 and more. It is found that 53.8% of respondents are government employees and 46.2% are employees in private and other organisations. 30.4 % respondents are having an annual income in between Rs. 6 lakh and Rs. 8 lakh and only 5 % belongs to the income group of Rs. 8 lakh and above.

B. Banking Transactions Before and After Demonetisation

Table 2: Banking Transactions Before and After Demonetisation

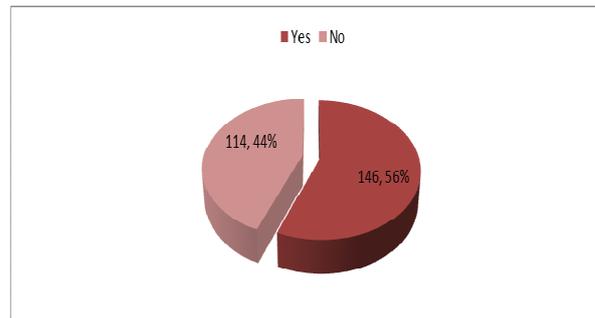
Banking Transactions		Before Demonetisation		After Demonetisation	
		No. of Respondents	%	No. of Respondents	%
Average Amount of Cash in Hand (in Rs.)	Below 2000	6	2.3	79	30.4
	2000 – 5000	153	58.9	111	42.7
	5000 - 10000	66	25.4	27	10.4
	10000 -20000	15	5.8	23	8.8
	20000 - 50000	10	3.8	15	5.8
	50000 - 100000	5	1.9	5	1.9
	100000 & Above	5	1.9	0	0

	Total	260	100	260	100
	Below 10000	75	28.9	80	30.8
	10000 - 20000	60	23.1	71	27.3
Average balance in bank account (inRs.)	20000 - 50000	84	32.3	48	18.5
	50000 - 100000	36	13.8	45	17.3
	100000 & Above	5	1.9	16	6.1
	Total	260	100	260	100
Frequency of cash withdrawals from bank	Once in a month	55	21.2	59	22.7
	Twice in a month	71	27.3	51	19.6
	Three times in a month	30	11.5	35	13.5
	More than three times in a month	104	40.0	115	44.2
	Total	260	100	260	100
Whether increase in number of banking transaction after demonetisation	Yes			148	56.9
	No			112	43.1
	Total			260	100
Increase in banking transactions after demonetization (in percentage)	Below 25			54	36.5
	25 - 50			67	45.3
	50 - 100			21	14.2
	100 & Above			6	4.0
	Total			148	100

Source: Primary Data

Table 2. shows the nature of banking transactions by the respondents before and after demonetisation. 86.6% of respondents were holding cash upto Rs. 10000 at an average in their hand and 84.3% of respondents were keeping an average balance of less than Rs. 50000 in their bank accounts before demonetisation. 51.5% respondents had withdrawn cash from bank accounts for three and more times in a month. It is found that there is an increase in number of banking transactions (56.9% respondents) due to demonetisation.45.3% (out of 148) respondents opine that their number of banking transactions have been increased by 25% to 50% and 4% (out of 148) respondents opine an increase by 100% and more in their banking transactions. 83.5% of respondents hold cash upto Rs. 10000 at an average in their hand and 76.6% of respondents maintain an average balance of less than Rs. 50000 in their bank accounts. 57.7% respondents withdraw cash from bank accounts for three and more times in a month.

C. Anxiety of Further Demonetization

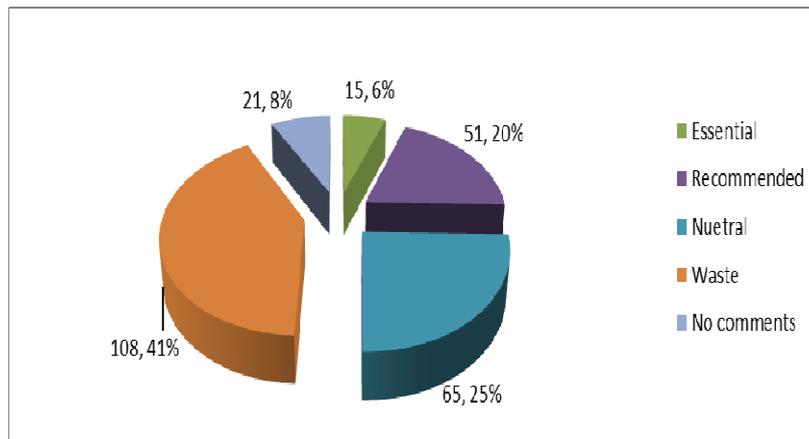


Source: Primary Data

Figure 1. Anxiety of Further Demonetisation

Figure 1. illustrates that 56% of respondents are still in a fear of further demonetisation in the near future. It will affect the confidence level of respondents towards the banking transactions.

D. Opinion on Demonetisation



Source: Primary Data

Figure 2: Opinion on Demonetisation

It is clear from Figure 2. that 41% of respondents consider demonetisation as a waste and 6% are feeling it as an essential step. 8% respondents were not willing to express their views on demonetisation.

E. Hypotheses Testing

Table 3: Average Cash Holdings in Hand Before and After Demonetisation

Cash in Hand Before Demonetization	Cash in Hand After Demonetisation		Total
	Below 10000	10000 & Above	
<i>Below Rs. 10000</i>	200	25	225
<i>Rs. 10000 & Above</i>	20	15	35
Total	220	40	260

Source: Primary Data

H_0 : There is no effect of demonetisation on the average amount of cash holdings by respondents in hand.

Result: McNemar's test has been applied to find the effect of demonetisation on the average amount of cash holdings by respondents in hand. The calculated p value is **0.551**. Hence, the null hypothesis is accepted and it is inferred that there is no effect of demonetisation on the average amount of cash holdings by respondents in hand.

Table 4: Average Bank Balance Before and After Demonetisation

Bank Balance Before Demonetisation	Bank Balance After Demonetisation		Total
	<i>Below Rs. 20000</i>	<i>Rs. 20000 & Above</i>	
<i>Below Rs. 20000</i>	115	20	135
<i>Rs. 20000 & Above</i>	35	90	125
Total	150	110	260

Source: Primary Data

H_0 : There is no effect of demonetisation on the average balance in bank accounts of respondents.

Result: McNemar's test has been applied to find the effect of demonetisation on the average balance in bank accounts of respondents. The calculated p value is **0.058**. Hence, the null hypothesis is accepted and it is inferred that there is no effect of demonetisation on the average balance in bank accounts of respondents.

Table 5: Frequency of Withdrawals Before and After Demonetisation

Withdrawal Before Demonetisation	Withdrawal After Demonetisation		Total
	<i>Maximum 3 Times</i>	<i>More than 3 Times</i>	
<i>Maximum 3 times</i>	105	50	155
<i>More than 3 times</i>	40	65	105
Total	145	115	260

Source: Primary Data

H_0 : There is no effect of demonetisation on the frequency of withdrawals of cash by respondents from bank accounts.

Result: McNemar's test has been applied to find the effect of demonetisation on the frequency of withdrawals of cash by respondents from bank accounts. The calculated p value is **0.343**. Hence, the null hypothesis is accepted and it is inferred that there is no effect of demonetisation on the frequency of withdrawals of cash by respondents from bank accounts.

Table 6: Income Group and Level of Changes in Banking Transactions

Income Group	Level of Changes in Banking Transactions		Total
	<i>Increases</i>	<i>Neutral</i>	
<i>Low Income Group (upto 4 lakh)</i>	85 (70.8%)	35 (29.2%)	120
<i>Middle Income Group (Rs. 4 lakh to Rs. 8 lakh)</i>	56 (44.1%)	71 (55.9%)	127
<i>Higher Income Group (Rs. 8 lakh & Above)</i>	7 (53.8%)	6 (46.2%)	13
Total	148	112	260

Source: Primary Data

From table 6, it is observed that among low income group, 70.8% have an increase in number of their banking transactions. 55.9% of middle income group are neutral and 53.8% of higher income group have an increase in their banking transactions due to demonetisation.

H₀: *There is no significant relationship between income group and level of changes in banking transactions due to demonetisation.*

Result: Chi-square test has been applied to find whether there is any significant relationship between income group and level of changes in banking transactions due to demonetisation. The calculated p value **0.000**. Hence, the null hypothesis is rejected and it is inferred that there is a significant relationship between income group and level of changes in banking transactions due to demonetisation.

CONCLUSIONS

From the light of the analysis and interpretation of this study, it is revealed that 41% of respondents consider demonetisation as a waste and 6% are feeling it was essential. 8% respondents were not willing to express their views on demonetisation. The study itself is concluded that there is no effect of demonetisation on usual banking transactions of salaried class in Kerala, but majority of them have an anxiety of further demonetisation in the near future.

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