

## Impact Analysis of Demonetization on Cooperative banks in India

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**Abstract:** The reason for this move was simple: India's Ministry of Finance claimed that 500 and 1,000 rupee notes are being used to finance terrorism, fund illegal drug sales, fuel the black market, drive counterfeiting, and pay bribes. This so-called "black money" had reputedly built up to such epic proportions that Prime Minister Modi declared that enough was enough, that he would take it upon himself to wash his country's currency supply in one fell swoop.

Demonetization can be said as a „Surgical Strike“ on Black Money, Terrorism, Fake Currency, Unorganized trading, Real Estate, Share market etc. on the other hand if we talk about the Indian industry on a broader way it can be categories in three parts Manufacturing sector, Service sector and Agriculture sector. After demonetization only Agriculture sector shows some positive improvement while if we talk about the manufacturing and service sector both were crashed down and these will affect the whole Indian market in 2017 also.

As of December 28, official sources said that the Income Tax department detected over Rs. 4,172 crore of undisclosed income and seized new notes worth 105 crore as part of its country-wide operations. The department carried out a total of 983 search, survey and enquiry operations under the provisions of the Income Tax Act and has issued 5,027 notices to various entities on charges of tax evasion and hawala-like dealings. The department also seized cash and jewelry worth over 549 crore out of which the new currency seized (majority of them 2000 notes) is valued at about 105 crore. The department also referred a total of 477 cases to other agencies like the CBI and the Enforcement Directorate (ED) to probe other financial crimes like money laundering, disproportionate assets and corruption.

**Key word:** Surgical Strike, Black Money.

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### I. Introduction

With effect from 8<sup>th</sup> Nov. 2016 Tuesday Midnight PM Shri Narendra Modi Ji Banned the Currency notes of 500 and 1000. It is a strict decision of banning regular 500 and 1000 rupee notes from circulation which is a result of finding 1.25 lakh crore black money. Within 3 days of that striking decision: -Rs. 35000 Crore deposited in banks and approximate Rs. 1500 Crore Black Money were destroyed.

According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces.

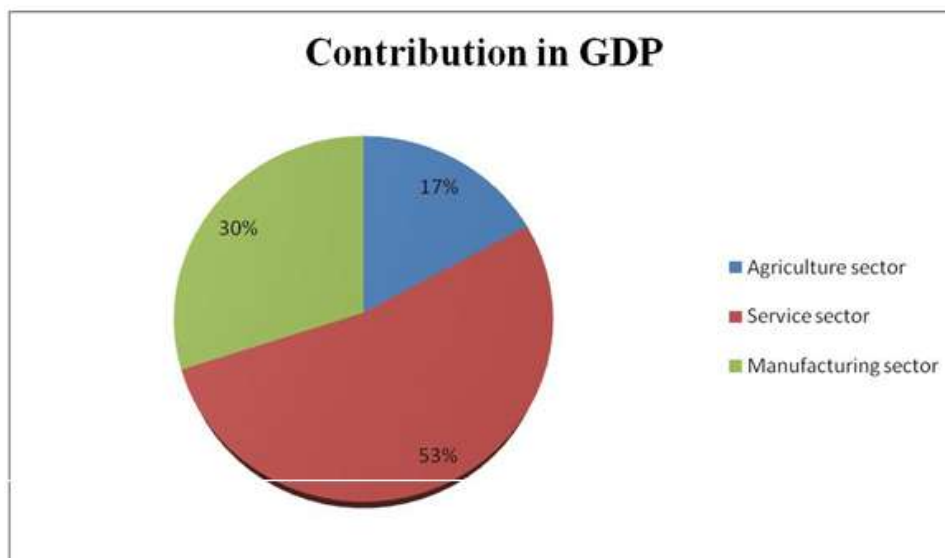
First economy can be bifurcated in three broad segments Agriculture Sector, Manufacturing Sector and Service sector all these three sectors contributed in Indian GDP.

Agriculture Sector Contribute 17% in GDP

Manufacturing Sector Contribute 30% in GDP

Service Sector Contribute 53% in GDP

After Demonetization all the three sectors faces negative impacts



**CONCEPTUAL FRAMEWORK**

**Reasons behind Demonetization:**

As per my study Following is the main reasons behind Demonetization.

**Black Money:-**

A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. So now after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

**Fake Currency & Terrorism: -**

—Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes. This has been going on for years.¶

**Economy:-**

The Major impact of this decision is on the economy because it gives highly positive impact on the economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see significant pain in the near time.

**Election: -**

We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections.

Now in upcoming UP election which was held in January neither of the parties can purchase the vote of poor people and Some drastic change in the elections going to be seen by everyone.

**Unorganized Trading:-**

- 1.) Prices hike in Real estate sectors is mainly because of the involvement of black money, but after taking this decision the prices of property will surely come down to their real value.
- 2.) Unorganized dealing in share market will also be eliminated after this decision and this will gain positive result in the economic condition of the country.
- 3.) The problem of inflation will get solved with this step as the government will get more money in its pocket in form of taxes and undisclosed income.
- 4.) Banking system will also get strengthened as banks will be flooded with huge amount of money. This will also result in more economic development in the nation as the money will be channelized properly through banks.

**Less Cash Economy: -**

It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency.

**IMPACT ON COOPERATIVE BANKS**

Farmers accustomed to decades of government policy failure are willing to bear the pain caused by the government's decision to recall Rs 500 & 1000 bills, but engineering a systematic failure of the rural cooperative banking sector would be an unpardonable desecration.

Earlier rural bank branches were given a step motherly treatment: Rural cooperative bank branches were not replenished with lower denomination currency, while the newer higher denomination notes were issued to bank branches in cities. Now all district cooperative banks have been directed not to exchange or even accept Rs 500 & 1000 bills from account holders. It will have a multiplier impact. Most small farmers deal with such banks and primary agriculture societies (PAX). Farmers receive most direct credit for farm inputs from PAX. Possibly the establishment did not fully grasp the extent of the implications of the notification.

Farmers operate through these institutions for their kisan credit card. New rules won't allow them to deposit money in their own accounts, but they will continue to be charged interest by the bank for the loan availed. Cooperative banks will start to collapse as they fail to recover loans. Being the sowing season, PAX stores are filled with fertilisers, they will be unable to supply these to their own farmers as per rules because past loans remain unpaid. PAX aren't even allowed to operate with public sector banks, so are in a Catch-22 situation on what to do.

Many farmers have also availed of revolving cash credit limit which needs to be deposited at harvest time. When bank refuse to accept payment, these deposits will become NPA in the books of the bank and bank balance sheets will be decimated. People are starting to withdraw deposits from cooperative banks and good capital will flow to private or public sector banks, never to return again. Wherever rural cooperative banks branches have online facility this draconian notification should not have been evoked at all.

In one stroke, all rural banking transactions have been brought to a standstill. Problems were inevitable but the extent of mismanagement is astounding. Timing of the currency recall itself is intriguing. Exploitive traders are refusing to accept the old notes. Shopkeepers are demanding 30% higher value for same inputs if purchase is with older notes. Villagers are being forced to exchange one `500 note for four bills of Rs 400.

The ideal window for sowing wheat is about 21 days. Resourceful farmers may manage but at a higher cost. Delayed sowing can reduce yield drastically. Furthermore, farmers who take perishable fruits and vegetables to the wholesale market are being squeezed like lemons. Traders reason small street vendors and shopkeepers do not have money to purchase perishables. Sales are down about 20% and even prices received by farmers for their produce are down 25%. Truck drivers get paid on delivery for their transport cost by the commission agent where delivery of perishables is made. Now traders at sabzimandi insist on paying with old denomination currency which truck drivers refuse to accept. This is having a cascading effect.

Possibly over a third in rural areas don't operate a bank account in a cash-based rural economy. Specifically hurt are rural women who will have to reveal their savings to their husbands. The secret stash however small took years to build. It is improbable that husbands will return the savings to the wife. It appears the consequences of this policy aren't even gender neutral. Additionally moneylenders & traders are making dependent gullible farmers to deposit old currency on their behalf. This will create interesting statistics which will be interpreted as proof of black money hoarded by farmers and make a case for taxing farmer incomes.

A society which loses faith in its own currency is in a dangerously precarious situation. The economy is slowly grinding to a stop. Majority of the masses believe this bold reform is about striking at the root of the black money menace and still support the PM. "But, it's simply turning into a race where on one end the government has to logistically make available cash in banks for people to exchange / withdraw or the repercussions of a badly executed transition may not only force the government to dilute the provisions of the de-notification, but could be the tipping point moment in the political lifespan of the leader." Leaders need to be responsive but a responsive leader is not necessarily a responsible PM. Unresponsive and irresponsible Opposition may not be able to save the day.

**II. Fact And Findings**

**A.) Impact of Demonetization on Agriculture Sector:-**

Agricultural growth in India contracted 0.2% in 2014-15 and grew no more than 1.2% in 2015-16, largely because of back-to-back droughts.

It was expected to grow at 4% in this year as per **CRISIL** Report, but due to Demonetization this forecast is proven wrong because Farmers are running out of Cash to buy Seeds, Fertilizer, Equipments, and Wages payment to workers and Commission to Agents etc.

Because of Cash shortage daily supply transport system has also suffered which was result in 25 to 50 % reduction in sales. Following is the main reasons;

- I. Farmers are not educated and aware about how to work on E-Payment System, Recent study by RBI Says 78% of the population do not use internet in which almost 80 to 85 % are Farmers.
- II. In most of the Villages Proper Banking system is not Developed yet and Villagers are need to go to the cities for the same because of that Farmer's most of the time is engaged in exchanging the old notes in Banks.

Co-operative banks across the country are feeling the ripple effects of demonetisation. These banks seem to be choking as they are not getting adequate cash from the currency chests of public and private sector banks to service their customers, who either want to exchange/deposit demonetised high-denomination ₹ 500 and ₹ 1,000 notes or withdraw money from branches/ATMs.

Underscoring the acute shortage of small-denomination notes being experienced in rural and semi-urban areas, SatishMarathe, Patron, SahakarBharati, said cash should be provided on top priority basis to the branches of urban co-operative banks (UCBs), district central co-operative banks (DCCBs) and state co-operative banks (StCBs).

“As supply of cash in all denominations is grossly inadequate, co-operative banks are forced to advise that their ATM services will remain closed till availability of currency notes of ₹ 100 and ₹ 500 denominations.

“Hence, we have requested the Finance Ministry to make special arrangements for providing cash to UCBs, DCCBs, and StCBs,” said Marathe.

SayaliBhoir, Chief Executive and Secretary, The Maharashtra Urban Co-operative Banks' Federation, observed that prior to the November 8 announcement on demonetisation, public and private sector banks used to provide handsome support to UCBs. However, post-announcement, these banks refused to provide currency support to UCBs on November 10, treating the latter as ‘general customers’ and agreeing to give only ₹ 10,000. She explained that later on, despite the RBI issuing a circular that this ₹ 10,000 limit is not applicable to cash withdrawals from a bank account by one bank from another bank, public sector banks refused to give cash.

“As a result, our member banks are facing acute problems regarding supply of currency needed to either exchange against the demonetised notes and/or for honoring customer requests for withdrawal of cash from ATMs/cash counters. Our member banks' efforts to seek supplies from currency chests of public/private banks have been infructuous,” said the Federation chief.

UCBs. According toBhoir, UCBs are facing an embarrassing situation as, on the one hand, there is a huge crowd in the branches of public and private sector bank branches, which are smoothly serving the public by providing new currencies and exchanging the old notes, while, on the other, there is no queue at all in front of UCB branches as they don't have cash.

“Through electronic and print media, the RBI is assuring the public constantly about sufficient availability of cash in small denomination at the RBI and banks, while UCBs are forced to return their customers empty handed due to paucity/non-availability of funds. This has created great resentment among the general public against UCBs,” said Bhoir.

Marathe noted that since currency chests across the country are full due to the inflow of old notes, large banks are refusing to accept notes from co-operative banks and societies.

**The Nikkei India Services Purchasing Managers' Index (PMI)**, which tracks services sector companies on amonthly basis, stood at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory for the first time since June 2015 and pointed to the sharpest reduction in output for almost three years.

On other hand if we talk about Banking Sector this is the only sector which was benefited by that decision in many aspects, this move will pull a large chunk of first time users to banks, who will have to use the system at least once to exchange their old notes for new ones. According to a study conducted by **Modi's**, people tend to continue using banking services once they have crossed the 'first-time user' mark.

This development will increase bank deposits by 1 to 2 percent compared to what they were before the demonetization scheme.

### **III. Conclusion**

The government and Reserve Bank of India (RBI) are set to bring out tougher norms for cooperative banks, which have come under scanner for alleged discrepancies and irregularities in the wake of the demonetisation drive.

According to a recent report by the income tax department, most banks have indulged in money laundering after the Narendra Modi government announced ban on high-value bank notes of Rs 500 and Rs 1,000 from November 8 midnight.

Many banks accepted and exchanged the old currency notes at a premium and parked large deposits in multiple accounts, the report added. Moreover, several accounts have been opened without following Know-Your-Customer norm, the report pointed out.

A senior government official said these banks could become conduits for black money in the future.

At present, the scrutiny and vigilance on these banks is not as stringent as that on scheduled commercial banks.

“These banks need to be monitored as carefully as any other scheduled commercial banks have been used for a large number of inappropriate activities in the past and these can be used for the same purpose in the future,” the official, who did not wish to be identified, said.

“The demonetisation drive has been used as an excuse by several of these lenders to make quick money,” the official added.

The report also pointed out that a cooperative bank in Alwar was used to launder personal unaccounted cash of Rs 2 crore by the management.

Similarly, in another bank in Jaipur, Rs 1.5 crore was found stashed away in a cupboard in a “cleaning” room.

Besides, more than 2,000 new currency notes of Rs 2,000 were withdrawn from the bank illegally.

While the cooperative banks have played a chief role in financial inclusion and many farmers and people categorised as low-income group are still dependent on these lenders, they have also indulged in illegal activities.

As on March 31, 2015, there were 32 state cooperative banks, besides 370 district central cooperative banks.

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