

Demonetization on Banking Sector – A Case Study

Demonetisation in a common language is the act of replacing the old currency/notes with the new currency/notes. In other words, it means opening door for the new currency. The goal of demonetisation is to encourage cashless system, online banking system, counterfeit currency and to eradicate corruption/black money. After 1946 and 1978, the government announced the third demonetisation on 8 November, 2016. Reserve bank of India has withdrawn the legal identity of ₹500 & ₹1,000 and introduced new ₹2,000 currency notes on the same date.

- Marginal Cost of Lending Rate has been introduced by RBI and those who are under MCLR scheme may enjoy the benefits of lower lending rate due to demonetisation.

- As of December 30, demonetisation made up to 97% of the old bank notes deposited into banks which have received a total of ₹14.97 trillion out of the ₹15.4 trillion that was demonetised.
- Cash withdrawals by the customer from their bank accounts were restricted to ₹10,000 per day and ₹20,000 per week per account from 10th to 13th November, 2016. Later on, this limit was increased to ₹24,000 per week from 14th November, 2016
- There was limit on daily withdrawals from ATMs and was changing from ₹2,000 per day till 14 November 2016 and ₹2,500 per day till 31 December 2016. This limit was again changed to ₹4,500 per day from January 1, 2017 and again to ₹10,000 from January 16, 2017. Limits were imposed vide the circulars cited above on cash withdrawals stand withdrawn with immediate effect later on. RBI increased the withdrawal limit from Savings Bank account to Rs 50,000 from the earlier Rs 24,000 on 20th February, 2017 and then it removed all withdrawal limits from Bank Accounts on 13 March, 2017.
- The total expenditure of the Reserve Bank of India has increased by 107.84 % or by Rs 16,165 crore to ₹ 31,155 crore in 2016-17 primarily due to an increase in expenditure on printing of new currency notes as part of remonetisation of currency and provisions.
- Income Tax department (IT) official revealed that since November 9, 2016 more than Rs 10,700 crore cash was deposited in different bank accounts in North Eastern states. IT official said that more than Rs 2,00,000/- as deposited in over 60 lakh bank accounts, post demonetisation.
- As per the statement of Finance Minister Arun Jaitley (Business Standard, September 11, 2017) demonetisation had decelerated economic activity and put the common man at much problem, was aimed at flushing out black money, removing fake currency, changing non-formal economy into formal one to expand tax base and employment and giving a big upturn to digitisation of payments to make India a less cash economy.
- As per BJP president statement (Business Standard, September 7, 2017), the demonetisation has not had any negative impact on economic growth. Fall in GDP is due to some other technical reason and not because of demonetisation.

Answer the following questions:

- 1) What is meant by demonetization?
- 2) Elucidate the marginal cost of lending rate due demonetization.
- 3) What is limit on daily withdrawals from ATMs during demonetization period?
- 4) Identify the effect on economic growth due to demonetization.