Purva Mimaansa
A Multi-discipinary Bi-annual Research Journal
(Refereed Peer Reviewed)

Vol. 10, Special Issue March 2019
ISSN : 0976-0237
UGC Approved Journal No. 40903
Impact Factor 3.765

PRE & POST DEMONETISATION PATTERN OF DEPOSITS

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Abstract

Title: *Pre & Post Demonetisation Pattern of Deposits*

Purpose/ Objective of study: *The study analyses that deposits rose during demonetisation in most of states and now people prefer savings deposits compared to term deposits. Shifts in ownership and tenor of deposits provide valuable insights into payment habits, saving propensities and liquidity preferences. This article has the position of studying these patterns under the impact of a shock – in this case, demonetisation – and its backwash. This event appears to have produced a permanent shift in deposit behaviour with households' preference shifting to savings deposits and away from term deposits. This suggests a premium on liquidity induced by the shock, partly incentivised by lower rates of returns on term deposits and alternative avenues of saving which combine the benefits of liquidity and returns. They point to the fact that deposit and payment habits are inflexible across most states/ UTs in India and tend to return to steady state, even after large shocks. This has implications for banks' deposit mobilisation strategies and business models.*

Findings of the study: In the financial sector of the economy, there was a sharp reduction in interbank deposits, which shows efficient cash management by banks aided by rapid strides in the real-time funds transfer technology commencing from 2013- 14. Secondly, in the foreign sector, the declined fall of deposits growth have been seen. The study depicts that Deposit of specified bank notes (SBNs) in their savings bank accounts generated a sudden jump in their share of savings deposits in 2016-17 and 2017- 18. At 41.7 per cent, the share of savings deposits in the total deposits of households reached a new high in March 2018. The share of individuals within the household sector jumped to a new high on March 2017 before reducing marginally by March 2018. The study shows Growth in households' deposits was generally the lowest for rural branches across population groups till 2010-11 but became faster than urban/ metropolitan areas during 2011-16. In 2016-17, the growth pattern shifted in favour of metropolitan and semi-urban centres, followed by an across the board moderation in the following year.

Introduction:

Demonetisation of high value currency notes in November 2016 seems to be affecting banking business, adversely now. Bank growth rate fell to its lowest since 1963 in the financial year ending March 2018. The bank deposit grew by 6.7 per cent in 2017-18, according to the data available on the Reserve Bank of India (RBI) website. This is the lowest growth rate in bank deposits since fiscal 1963.

The fall in bank deposit growth might be attributed to the withering away of demonetisation bonanza coupled with the lure of other savings instruments like mutual funds and insurance. The twin

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ISSN : 0976-0237
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factors seem to have eroded competitiveness of the banks. Post-November 2016 demonetisation of 86 per cent of the currency in circulation, banks had seen a huge surge in deposits. Now the banking sector is now doing a reversal trend as there is a steady away movement of money from the banks. Much of the money that came into the banking system after demonetisation has moved out of the system. Shortage of cash from various parts of the country was also blamed on the ongoing trend of withdrawal of excessive money from the banks.

Banks had total deposit of Rs 15.28 lakh crore after demonetisation -- almost the entire value of demonetised currency. This had pushed the aggregate deposits in the banks by 15.8 per cent for the fiscal ending March 2017 to Rs 108 lakh crore. The fiscal ending in March 2018, there was total deposit of Rs 114 lakh crore. This translated into an increase of 6.7 per cent over the last fiscal. Now the question is- where is the withdrawn money going? The reason could be found in the growth of other financial instruments. For example, the mutual funds assets have reported a growth of about 22 per cent between March 2017 and March 2018 -- the period during which bank growth rate touched the lowest in five decades. However, there is a catch. The mutual fund assets had grown by 42 per cent - from Rs 12.33 lakh crore to to Rs 17.55 lakh crore - the previous fiscal, that is, between March 2016 and March 2017.

Similarly, the first premiums (for new policies) for insurance investments have increased from Rs 1.75 lakh crore in March 2017 to Rs 1.93 lakh crore in March 2018. The corresponding figure for fiscal ending March 2016 was Rs 1.38 lakh crore. Meanwhile, deposit in banks growth may bring some good news for the customers. The banks are likely to increase the rate of interest on deposits. The process has already begun. HDFC Bank has already announced a hike in interest rate by upto 100 basis point on fixed deposits for certain tenures. The public was given time to deposit the invalidated notes in banks, which saw nearly 99 per cent of banned notes coming back into the system. The latest disclosure in this regard, people had returned Rs 15.28 lakh crore as on June 30, 2017, of the Rs 15.44 lakh crore banned currency, or 98.96 per cent, of the scrapped notes to the banking system. Since then, the RBI has introduced new denominations of Rs 2,000 and Rs 200, among others, besides a new Rs 500 note. After the recent crunch of cash, the government had announced that printing of Rs 500 notes would be stepped up.

The study examined short term changes in financial behaviour post-demonetization in terms of bank account usage, credit and savings patterns and use of digital financial services. The study results suggest that demonetization might have nudged people to tweak their financial behaviour depending on the availability of cash, causing substantial discomfort in terms of making necessary expenditures and investments and causing them to resort to alternate payment systems such as bartering and taking credit.

Objectives of the study:

1. To know the growth of institutional sectors in deposits from pre and post demonetisation period.
2. To study the composition of household deposits from pre and post demonetisation period.
3. To study the growth of population group in household's deposits from pre and post demonetisation period.

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Review of Literature:

In the months following the demonetization announcement, various attempts have been made to study and capture the impact of this sudden shock. It is necessary to contextualize these attempts by highlighting that the Indian economy was heavily cash based with a GDP-to-cash ratio of 12%, and arguably continues to be so, even post demonetization (though the ratio has fallen dramatically to 9%, this is also due to the decreased cash in circulation). This is correlated to India's substantial informal economy, which contributes a substantial 46% to non-agricultural Indian GDP and encompasses 84% of the non-agriculture jobs **(see ILO, 2013).** It is common knowledge that many entrepreneurs in the agricultural and retail sector do not have bank accounts and do not primarily transact digitally, do not have the annual income that would qualify for income tax payments and run their daily business solely based on cash transactions. To put this into further perspective, 97% of retail transactions in India were cash-based **(USAID, 2016).** This is despite the huge increase in the number of account holders with the government's flagship financial inclusion program, PMJDY which by default is a digital account (though under 5% of PMJDY account holders utilized services such as online/mobile banking and wallets). In other words, 98% of the account holders preferred to transact using cash, while 40% of the account holders surveyed reported using debit/ credit cards **(Intermedia, 2015).** Even 70% of the online shopping was paid for in cash in the 2011-14 period16 in India. Given this situation, it is natural to expect sizeable negative effects due to the cash crunch caused by demonetization in the short run. Thus, the immediate focus of a majority of the studies on the topic largely revolves around understanding how the major disruption in payments and the sale of goods and services reliant on cash transactions affected people's income and livelihoods, across different sections of the society. Additionally, researchers also try to capture the experience of various segments of the society with regards to their uptake, perception and usage of cashless modes of transacting. Initial findings suggest that the demonetization had a significant, but highly varied impact across different segments **(Microsave, 2017).** Among those adversely affected include farmers/ allied sector workers and informal sector workers (including daily wage labour, artisans, etc.). The cash crunch that followed the demonetization prevented these segments from conducting their everyday transactions – including paying wages, and demonetization buying and selling goods. A drop in household incomes immediately post-demonetization was observed, and the largest decrease in terms of employment was seen in the number of days of work, for daily wage labour **(IFMR LEAD, 2017).** A recovery of income levels to pre-demonetization levels was only seen about three to four months later **(IFMR LEAD, 2017).** Anecdotal information available suggests that among the various coping strategies used for the exchange of goods and services in this situation included the use of promissory notes, and even resorting to a barter system. As expected, self-employed and salaried employees were among the least affected. With regards to the uptake and usage of non-cash modes of transacting, an immediate impact was seen. A 2017 CDFI study reports that in the months after demonetization, fewer consumers report —always relying on cash in transactions with kirana shops and local vendors. The use of cheques increased, since it allowed people to withdraw larger amount using it vis-à-vis using debit cards. People have also started using cheques for smaller transaction ticket size than they otherwise did due to its high acceptability. Furthermore, the usage of Mobile Wallets and E-transactions also increased **(Microsave, 2017).** While the number of debit cards issued went up by a large number (peaking at 60 million new cards

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being added in Jan2017), the long queues at ATMs proved to be a disincentive for people to rely on this method of transacting. The usage of the Immediate Payment Service (IMPS) declined in November 2016, but increased thereafter. Lastly, between October 2016 and Jan 2017, the number and volume of transactions using Prepaid Instruments (PPI) increased by over 80% **(Medianama, 2017 – based on RBI data).** It was also found, that 66% of the people using digital solutions are likely to transition permanently, given sufficient access points, and training are provided **(Microsave, 2017).**

Analysis and Interpretation:

A. Sector-wise Deposits Growth:

Table 1

Table 1: Deposits Growth – Institutional Sectors

(per cent)

Institutional Sector	Compound Annual Growth Rate		Annual Growth	
	2002-09	2009-16	2016-17	2017-18
I. Government Sector	25.0	12.2	23.4	1.5
II. Non-Financial Private Corporate Sector	37.2	8.9	5.8	4.8
III. Financial Sector	24.5	9.9	-13.7	14.6
IV. Household Sector	17.8	14.4	14.1	7.2
V. Foreign Sector	6.3	23.5	-2.2	12.7
Total Deposits	20.0	13.6	11.2	6.9

Source: RBI.

Table 1: depicts that the demonetisation-driven jump, aggregate deposit growth moderated during 2016-18 in relation to the pre-demonetisation years. This counter-intuitive development needs to be viewed on the basis of two factors which were simultaneously at work. Firstly, in the financial sector of the economy, there was a sharp reduction in interbank deposits, which shows efficient cash management by banks aided by rapid strides in the real-time funds transfer technology commencing from 2013- 14. Secondly, in the foreign sector, the declined fall of deposits growth have been seen.

B. Composition of Household's Deposits:

Table 2

Table 2: Composition of Households' Deposits – Type of Deposits

(per cent)

Type of Deposits	2001	2006	2011	2016	2017	2018
Current	9.0	10.2	8.9	5.4	5.9	5.8
Savings	30.8	39.0	37.1	36.9	41.1	41.7
Term	60.3	50.7	54.1	57.7	53.0	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
of which, Individuals	83.5	80.2	75.4	84.1	86.7	86.6

Source: RBI.

Table 2: exhibits the share of the household sector increased significantly during 2016-17 and stayed at the same level up to March 2018, although the growth of its deposits moderated in 2017-18 from the demonetisation-induced growth. The household sector holds more than half of its deposits in term deposits and over one-third in savings deposits. However, deposit of specified bank

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notes (SBNs) in their savings bank accounts generated a sudden jump in their share of savings deposits in 2016-17 and 2017- 18. At 41.7 per cent, the share of savings deposits in the total deposits of households reached a new high in March 2018. The share of individuals within the household sector jumped to a new high on March 2017 before reducing marginally by March 2018.

C. Growth in Household's Deposits:

Table 3

Table 3: Growth in Households' Deposits – Population Groups

(per cent)

Population Group	Compound Annual Growth Rate			Annual Growth Rate	
	2001-06	2006-11	2011-16	2016-17	2017-18
Rural	8.8	15.7	17.3	9.5	9.2
Semi-urban	9.9	18.7	16.5	16.4	8.1
Urban	14.1	19.5	15.7	5.4	7.9
Metropolitan	18.8	21.9	11.3	20.2	5.7
Total	14.0	19.8	14.1	14.1	7.2

Note: Populations group classification for the period 2002-2005 is based on Census 1991, from 2006-2016 is based on Census 2001, after which it is based on Census 2011.
Source : RBI

Table 3: shows that Growth in households' deposits was generally the lowest for rural branches across population groups till 2010-11 but became faster than urban/ metropolitan areas during 2011-16. In 2016-17, the growth pattern shifted in favour of metropolitan and semi-urban centres, followed by an across the board moderation in the following year.

Findings of the study:

There is no evidence to suggest that there was any change in financial behavior post demonetization in terms of bank account usage, credit and savings patterns, expenditure patterns and adoption and use of digital financial services in the long term. Our study results suggest that in the short-term, demonetization might have forced people to tweak their financial behaviour depending on the availability of cash, causing substantial discomfort in terms of making necessary expenditures and investments. In the financial sector of the economy, there was a sharp reduction in interbank deposits, which shows efficient cash management by banks aided by rapid strides in the real-time funds transfer technology commencing from 2013- 14. Secondly, in the foreign sector, the declined fall of deposits growth have been seen. The study depicts that Deposit of specified bank notes (SBNs) in their savings bank accounts generated a sudden jump in their share of savings deposits in 2016-17 and 2017- 18. At 41.7 per cent, the share of savings deposits in the total deposits of households reached a new high in March 2018. The share of individuals within the household sector jumped to a new high on March 2017 before reducing marginally by March 2018. The study shows Growth in households' deposits was generally the lowest for rural branches across population groups till 2010-11 but became faster than urban/ metropolitan areas during 2011-16. In 2016-17, the growth pattern shifted in favour of metropolitan and semi-urban centres, followed by an across the board moderation in the following year.

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