Impact of Demonetisation on Loans and Advances Provided to MSME Sector by Bank of India

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Abstract: Demonetization refers to the action where government proclaimed openly that the presently running cash notes are unlawful to be tended after the revelation is made. Demonetization involves getting crisp cash, coins or note of indistinguishable currency or absolutely changing the past currency with a new currency. The India’s Prime Minister Narendra Modi on November eighth, 2016, reported that the nation's two biggest currency notes (Rs1000 and Rs 500) would stop to be legitimate delicate different parts that have felt the warmth incorporate the ones that depend for the most part on currency; outstanding among them is the MSME section. MSMEs basically depend on bank fund for their activities and in that capacity guaranteeing auspicious and sufficient progression of credit to the area has been a superseding open approach objective. In a profoundly serious condition, fund is required not just for running an endeavor and operational necessities yet in addition for modernization/up degree of innovation, limit development, promoting and so forth. Deficient access to fund is the main driver of poor mechanical and advertising execution of MSMEs. Besides, high security prerequisites and complex strategy followed by banks in loaning, MSMEs like to utilize possess reserves or get from casual sources. In barely any locales helpful banks have been dynamic in loaning to MSMEs, yet the higher pace of premium charged by these banks pushes the expense of creation. As per the MSME online official gateway, the fragment is the significant business giving division in India, utilizing more than 60 lakhs individuals in India. At present, the division has surfaced as the most dynamic segment displaying uncommon development by providing 10% of offer in GDP of India, contributing 40% to add up to economy trades delivering around 7500 things and including in Technology Up degree and execution (55% of MSMEs engaged with) specific (ASSOCHAM report, 2010)

I. INTRODUCTION

India risks its position of being the fastest growing largest economy, this can already be seen by the landslide in business activities by at least 25% which may reduce India’s GDP growth as the liquidity impact itself may last three -four months and recovery specially for the MSMEs will take a much longer time India is predominantly a cash based economy and the proportion of black money is estimated to be rather inconspicuous as compared to the total cash. Also what one should note is that only a small portion of black money is actually stored in the form of cash. Generally, black income is converted to physical assets like gold, land, buildings etc. The Micro, Small & Medium Enterprises (MSME) sector plays a pivotal role in India’s economic development making significant contributions to GDP, employment and exports. It is estimated that in terms of value the sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. It is, only appropriate that public policy accords high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country. Demonetisation is surely hampering the current economy and will continue to do so in the near term and will also impact India’s growth for the coming two quarters. The question that arises is why demonetisation was required at this point of time and how does it plan to regain lost ground.

II. PROFILE OF BANK OF INDIA

Bank of India was established on 7th September, 1906 by a gathering of prominent representatives from Mumbai. The Bank was under private possession and control till July 1969 when it was nationalized alongside 13 different banks. Starting with one office in Mumbai, with a paid up capital of Rs.50 lakh and 50 workers. The Bank has made a quick development throughout the years and bloomed into a powerful foundation with a solid national nearness and sizable international organization. In business volume, the Bank possesses a premier position among the nationalized banks. The Bank has more than 5000 branches in India spread over all states/union territories including specialised branches. These branches are controlled through 54 Zonal Offices and 8 NBG Offices. There are 60 branches/workplaces and 5 Subsidiaries and 1 joint venture abroad. The Bank turned out with its maiden public issue in 1997 and pursue on Qualified Institutions Placement in February 2008.While firmly adhering to an approach of prudence and caution, the Bank has been in the forefront of presenting different creative administrations and frameworks. Business has been directed with the effective mix of conventional qualities and morals and the most present day framework. The Bank has been the first among the nationalized banks to build up a completely automated branch and ATM office at the Mahalaxmi Branch at Mumbai path in 1989. The Bank is likewise a Founder Member of SWIFT in India. It spearheaded the presentation of the Health Code System in 1982, for assessing/rating its credit portfolio. Presently Bank has overseas presence in 22 remote nations spread more than 5 mainland’s – with 60 workplaces including 5 Subsidiaries, 5 Representative Offices and 1 Joint Venture, at key banking and budgetary focuses viz., Tokyo, Singapore, Hong Kong, London, Paris and New York.

III. REVIEW OF LITERATURE

1. “Study on Impact of loans on MSME sector”

According to Negara, Reddy and Satihal (2017) majority of the sanctions by Bank of India is to MSME which nearly accounts to 33.78% respectively. The schemes introduced by them shows a positive and significant growth. They conclude that financial institutions like NABARD should take a step
forward in providing financial assistance for establishing agro based industries in the backward regions.

2. “Study on Growth due to demonetization”
According to chief operating officer and chief economist at BSE Brokers Forum V Aditya Srinivas during a discussion on the after effects, in India and world economy, of the demonetization policy (April 2017) said that National GDP will fall below 6% in the aftermath of the demonetization. Srinivas said this will happen because a large sum of money has been removed from circulation, inhibiting purchases of fast moving consumer goods, which are usually purchased in hard cash. SOURCE: THE TIMES OF INDIA Nov 18, 2016.

3. “Innovative Financial Solution To MSME Sector”
According to Jyothi Prakash Gadiya in his study ( October 2018) said that Credit growth in the micro, small and medium enterprise (MSME) sector, which had started slowing even before demonetisation, declined further during the demonetisation phase. However, bank credit to MSMEs increased on average by 8.5% year on year during the June quarter of fiscal year 2018-19, mirroring the level of growth seen during April-June of FY16.

STATEMENT OF THE PROBLEM
Demonetization impact is felt to a greater extent by MSME sector. MSME borrowers are mainly small businessmen, traders, shopkeepers etc. . . . They suffered from temporary liquidity crisis during demonetization. It has a short-term impact on repayment and credit disbursal .As experienced till now; demonetization has posed challenges to both banks and the borrowers. Demonetization has brought in various changes with regards to policies, procedures, interest rates, credit limits etc... In granting credits to MSME sectors. The main aim is to find out the impact of demonetization on various types of loans provided by the bank to MSME sector.

SCOPE OF THE STUDY
Bank of India was found on 7 September 1906 whose core activity is to provide financial assistance to set up tiny, small, medium and large scale industrial units. This study is conducted at Bank of India and the data is confined to the loans and advances provided to MSME category to find out the impact of demonetization. The scope of study strictly focuses on loans and advances provided to MSMEs sector at Bank of India.

**OBJECTIVES**
- To study the impact of demonetization on loans and advances provided to MSME sector by Bank of India.
- To know the growth of credit supply by the bank pre and post demonetization.
- To study the interest rates charged by the bank pre and post demonetization.

**RESEARCH METHODOLOGY**
The research design is a descriptive design. To examine the impact of demonetization on loans and advances provided to MSME sector by Bank of India.

**DATA COLLECTION:** The study incorporates the collection of secondary data only for the research. The data taken for the purpose of the study is to understand the impact of demonetization on loans and advances provided by the bank to MSME sector.

**SECONDARY DATA:** Secondary data was collected by:
- Various websites and online data.
- Referring different books and previous project reports in the college library.
- Annual reports, operational statistics, brochures and magazines of the bank.
- Referring various articles, journals, reports, magazines.

**LIMITATIONS OF THE STUDY:**
1. The data which has been collected from the bank is assumed to be accurate.
2. Lack of previous studies in the research area.
3. The decision of the bank to maintain confidentiality of some facts and figures was also a constraint.
4. Lack of sufficient time forms another limitation for this research.

**Analysis and Interpretation**
Analysis and interpretation covers a complete analysis of the findings from the research and shows the results from the analyzed data and will be represented on tables, pie charts and bar graphs. This research aims at finding out the impact of demonetisation on loans and advances provided to MSME sector by Bank of India.

**On the basis of objective (1)**
- To study the impact of demonetization on loans and advances provided to MSME sector by Bank of India.

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Credit Flow Amt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2014</td>
<td>7583.78</td>
</tr>
<tr>
<td>March 2015</td>
<td>8526.89</td>
</tr>
<tr>
<td>March 2016</td>
<td>8205.48</td>
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<td>March 2017</td>
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<td>March 2018</td>
<td>8645.98</td>
</tr>
<tr>
<td>March 2019*</td>
<td>9367.24</td>
</tr>
</tbody>
</table>

Source: As reported by Bank of India to RBI
Note: Figures in parenthesis indicate Y-o-Y % growth/decline * Data for March 2019 is provisional

**Credit Flow to MSME sector**

<table>
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<th>Year ended</th>
<th>(Amount in Lakhs)</th>
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<td>March 2014</td>
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Source: As reported by Bank of India to RBI
Note: Figures in parenthesis indicate Y-o-Y % growth/decline * Data for March 2019 is provisional
The above graph shows amount of credit flows in Bank of India. There was an increase in the credit granted to MSME sector by BOI during the year 2013-2014 of Rs.7583.78 lakhs and in the year 2014-2015 the amount has increased to Rs.8526.89 lakhs. In the year 2015-2016 there was a fall in the credit flow to Rs.8205.48. In the year 2016-2017 there was an increase of Rs.8289.33 lakhs and further increased to Rs.8645.98 lakhs in the year 2017-2018. In the year 2018-2019 there was an increase up to Rs.9367.24 lakhs.

On the basis of objective (2)
To know the growth of credit supply by the bank pre and post demonetization.

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Growth Rate in Credit Flow in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2014</td>
<td>13.08%</td>
</tr>
<tr>
<td>March 2015</td>
<td>12.44%</td>
</tr>
<tr>
<td>March 2016</td>
<td>3.77%</td>
</tr>
<tr>
<td>March 2017</td>
<td>1.02%</td>
</tr>
<tr>
<td>March 2018</td>
<td>4.30%</td>
</tr>
<tr>
<td>March 2019*</td>
<td>8.34%</td>
</tr>
</tbody>
</table>

Source: As reported by Bank of India to RBI
Note: Figures in parenthesis indicate Y-o-Y % growth/decline * Data for March 2019 is provisional
Interpretation
The above graph shows growth percentage of credit flows in Bank of India. There was an increase in the percentage of credit granted to MSME sector by BOI during the year 2013-2014 of 13.08% and in the year 2014-2015 the percentage has increased to 12.44%. In the year 2015-2016 there was a fall in the percentage of credit flow to -3.77%. In the year 2016-2017 there was an increase of 1.02% and further increased to 4.30% in the year 2017-2018. In the year 2018-2019 there was an increase up to 8.34%.

On the basis of objective (3)
To study the interest amount earned by the bank pre and post demonetization.

<table>
<thead>
<tr>
<th>BASIS</th>
<th>Interest percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre- demonetisation</td>
<td>6%-10%</td>
</tr>
<tr>
<td>Post demonetisation</td>
<td>8.30%-16.25%</td>
</tr>
</tbody>
</table>

Finding
The above graph shows the percentage of interest rates pre and post demonetisation. The interest rates before demonetisation was 6%-10% which was less when compared to the interest rates post demonetisation which was 8.30%-16.25%.

Findings, Suggestion and Conclusion
1. The total credit flows declined during demonetisation due to the shortage of new currencies.
2. Post demonetisation the trend of credit flow increased from 2017-2019. The study reveals that there are more loans sanctioned to micro and small enterprises post demonetisation.
3. The Growth rate of credit outflows with the aid of loan post demonetisation is positive.

Suggestions
1. Banks must be urged to open increasingly specific schemes to give money related help and different administrations for commencement, task and restoration of MSMEs.
2. Bank has to allocate a part of its reserves to MSME sector, which doesn’t affect the lending’s even at the unfavorable situations like demonetisation.
3. The interest rates has to be decreased in order to provide better financing to MSME sector.

IV. CONCLUSION
The study that has been done ideally makes mindfulness on the way. This is an entrenched proclamation that viable circumstances dependably contrast from hypothetical clarification as an administration bank, Bank of India is attempting it’s best to stretch out their support of general society. An extremely working condition was staying in Bank of India. Credit is an essential component for development and maintainability of MSMEs. Thusly, there is an open door for banks to upgrade credits to MSMEs in light of the fact that in financing expansive corporate, the hazard is concentrated among couple of units, while if there should arise an occurrence of same measure of credits to the MSME area, the hazard would be spread over countless. Appropriate foundation is required for the MSME area to encourage access, accessibility and utilization of assets which would give MSMEs an equivalent stage to MSMEs an equivalent stage to contend, oversee and continue in the period of globalization.

V. REFERENCE
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